

**New Mexico Finance Authority
207 Shelby St.
Santa Fe, NM 87501
(505) 984-1454**

**Minutes of Board Meeting
April 25, 2013
Room 322 – State Capitol**

Present:

Nann M. Winter, Chair	Stelzner, Winter, Warburton, Flores et al
Tom Clifford, Treasurer	Dept. of Finance & Administration
Brett Woods	Designee, NM Energy & Minerals Dept.
Vince Lithgow	Designee, NM Environment Department
Blake Curtis	CEO, Curtis & Curtis Seed
Antoinette Vigil	Designee, NM Economic Development Dept.
Terry White	CEO, Sunwest Trust, Inc.
Katherine Ulibarri	Central NM Community College
Regina Romero (<i>telephonically</i>)	Designee, Executive Director, NMML
Santiago Chavez	Designee, Executive Director, NMAC

Absent:

Jerry Jones	CEO, Stolar Research
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Finance Authority Staff:

Adam Johnson	Bryan Otero
Connie Marquez-Valencia	Dan Opperman
Darlaina Chapman	Donna Trujillo
Dora Cde Baca	E.J. Peinado
Gloria Castillo	John Brooks
John Gasparich	Jolene Meadows
Leslie Medina	Mark Chaiken
Mark Lovato	Marquita Russel
Michael Zavelle	Robert Brannon
Rick Martinez	Ryan Helton
Sanjiv Doreswamy	Yolanda Valenzuela
Zach Dillenback	

Guests:

Dale Lehman	Piper Jaffray
Dan Boyd	Albuquerque Journal
Dan Smith	J.P. Morgan
Danielle Bradford	Piper Jaffray
Frank Lauterbur	Merrill Lynch
Helen Atkeson	Hogan Lovells

Isaac Montez	DFA
Jack Chatfield	CRRRP
Janet Slowman Chee	FHB
Jill Sweeney	Brownstein Hyatt
Jimmy Rodriguez	DFA
Leo Valdez	HSE for Pecos Schools
Linda M. Kehoe	LFC
Loren Hatch	NMDOT
Matt Schaefer	BBVA Compass
Paul Cassidy	RBC Capital Markets
Peter Del Moral	Merrill Lynch
Robbie Heyman	Sutin, Thayer, Browne
Susan Ellis	Bank of Albuquerque
Susan Rodriguez	DFA

1. Call to Order and Roll Call.

The meeting was called to order at 9:40 a.m. Roll was called and a quorum established.

2. Approval of Agenda

Mr. John Gasparich asked for the removal of agenda items #6, #29, #30, #33, and #34. He said Item #6 was being removed because the audit has not been received from the State Auditor's Office.

3. Mr. Gasparich also asked to move item #25 and Secretary Clifford asked to remove item #35.

Mr. Brett Woods moved, seconded by Ms. Kathy Ulibarri, to approve the agenda. The motion was unanimously approved.

4. Approval of March 22, 2013 Board Minutes

Mr. Blake Curtis moved, seconded by Mr. Vince Lithgow, to approve the March 22, 2013 minutes. The motion was unanimously approved.

5. Report from Chief Executive Officer

Mr. John Gasparich, CEO, reported on the following:

- a) Introduction of NMFA staff.
- b) Special Board Meeting on May 7th to hear the audit report by REDW.
- c) Ralph Anderson & Associates has scheduled meetings with the Task Force on the CEO search. Meetings are scheduled the latter part of May. Chairman Winter encouraged Board members to attend the task force interviews with Ralph Anderson & Associates on May 21, 2013.

6. Travel Policy and Amended and Restated Bylaws (*Information Item Only*) Mr. Bryan Otero and Mr. Dan Opperman presented the proposed changes to the Travel Policy for Board review and

comment. Mr. Santiago Chavez asked if staff comments have been received. Mr. Otero noted some initial comments have been submitted which are being taking into consideration with final approval expected by the end of May. A discussion ensued on the Per Diem Act and prepayment of cost by staff as outlined in the rule.

Restated Bylaws: Mr. Opperman briefly reviewed the proposed changes to the By-laws. Secretary Clifford asked for clarification on the role of the Treasurer since it appears reference to the Treasurer is being removed. Mr. Opperman explained the section of the Treasurer's role appeared to be inconsistent with the role of the NMFA Board's treasurer. It was felt the role should be supported by internal staffing, such as the NMFA's Chief Financial Officer. Secretary Clifford felt the Board's Treasurer should take special responsibility with regard to financial controls. Mr. Opperman offered to meet with Secretary Clifford for further discussion to develop a definitive role.

Responding to questions on potential problems with the Bylaws based on the audit findings, Mr. Opperman did not recall any specific issues but would research the audits to confirm. Secretary Clifford suggested including a section that details matters outlined in the audit process in general. Mr. Opperman said the current proposal notes the Audit Committee would have its own charter as a governing document and guidance for the committee. Chairman Winter would like to see that both staff and the bylaws are more proactive.

Secretary Clifford asked that the Board be allowed to annually review and approve the budget and requested the review be included in the bylaws. The CFO has reviewed the audit findings to ensure the bylaws are aligned with the travel policy and any proposed revisions.

Mr. Opperman referred to the task force interviews with Ralph Anderson & Associates and reminded the Board that a quorum should not be established.

7. Presentation of Fiscal Year 2012 Audit Report. Item deleted from agenda.

25. Consideration for Approval of the Authorizing Resolution for the New Mexico Finance Authority Senior Line PPRF Revenue Bonds, Series 2013A Preliminary Official Statement, Eighty-Fourth Supplemental Indenture of Trust and Related Documents.

The process for issuing up to \$50 million in Senior Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2013 is moving forward as planned. This agenda item includes approval of an Authorizing Resolution for issuance of the bonds, approval of the Preliminary Official Statement (POS), and approval of Underwriters as the bonds will be issued on a negotiated sale basis rather than on a competitive sale basis. The 2013A bonds will be priced during the week of May 20th, with approval by the Board of the pricing at the May 23 Board meeting. The bonds will be closed on or about June 13th. Counsel will guide the Board through both the Authorizing Resolution and the POS.

The Authorizing Resolution is typical of such resolutions previously passed. The POS contains up-to-date information about the PPRF program. Worth noting is the Recent Developments section (pages 30 – 31), a section that has been modestly updated since it was approved by the Board in October 2012 for inclusion in the NMDOT 2012A GRIP POS and Official Statements. Those bonds were closed in December 2012. The PPRF 2013A POS will include both the 2011 and 2012 Finance Authority audits. Typically, only the 2012 audit would be included but, as Recent Developments

revolve around the 2011 audit, including the 2011 audit in the POS has been deemed beneficial by the underwriters and others directly involved in marketing the bond issue.

Selection of underwriters is governed by the Publicly Distributed Bond Issuance and Underwriter Policy adopted by the Board in May 2012. The policy contains a Negotiated Transaction Scoring System, which is the basis for selecting underwriters for a negotiated bond sale. As part of scoring, a Request for Information was issued to gather pricing, marketing and structuring information specific to the 2013A issue. Eight of the eleven pre-qualified underwriters responded. Two of the other firms were not eligible to be underwriters as they are serving as Financial Advisors for simultaneous borrowers that are being funded by the 2013A bonds.

Based on scoring and assuming Board approval, the senior manager will be Bank of America Merrill Lynch and the co-managers will be Piper Jaffray and JP Morgan Chase. All three of these banks have been active and competitive bidders on past Finance Authority competitive sale transactions and have provided the Finance Authority with substantial input and ideas on market conditions, on refunding opportunities, and on paths to reach investors over the past year, and have demonstrated their ability to place Finance Authority paper at aggressive pricing. The Finance Authority has chosen to issue the PPRF 2013A bonds on a negotiated rather than a competitive sale basis as pre-marketing by underwriters in advance of the bond sale is deemed prudent for reasons addressed in the Recent Developments section of the POS.

Attached for your review and approval is the Authorizing Resolution that authorizes the issuance and sale of the Series 2013A Bonds for the purposes of providing funds to (a) reimburse the Finance Authority for loans previously made to certain 2013A Governmental Units and to provide funds to purchase securities from Chaves County, New Mexico, El Dorado Area Water and Sanitation District, Pecos Independent School District No. 21 and Western New Mexico University; and (b) to reimburse the Finance Authority for and to finance Costs of Issuance of the Series 2013A provides that:

- ◆ the actual principal amount of the Series 2013A Bonds is to be determined, but the aggregate maximum principal amount shall not exceed \$50,000,000;
- ◆ provides for a Sale Resolution to be subsequently adopted specifying details of the Series 2013A Bonds, including, without limitation, the dates, denominations, maturities, redemption provisions, interest rates and payment terms;
- ◆ authorizes the execution of a Eighty-Fourth Supplemental Indenture of Trust, a Bond Purchase Agreement, a Continuing Disclosure Undertaking, and if advisable, a Disclosure Dissemination Agent Agreement in connection with the sale of the Series 2013A Bonds all substantially in the forms presented and approved by the Board at the time of adoption of the Sale Resolution
- ◆ authorizes the use of a Preliminary Official Statement in substantially the form attached to the Authorizing Resolution and Official Statement with respect to the Series 2013A Bonds; and
- ◆ authorizes staff to take all other actions necessary to complete the transaction contemplated by the Authorizing Resolution.

Relevant Dates:

- ◆ Review of form of POS and Disclosure Responsibility Memorandum relating to the proposed issuance of the Series 2013A Bonds on April 25, 2013.
- ◆ Series 2013A Authorizing Resolution to be presented to the Board for consideration on April 25, 2013.
- ◆ Series 2013A Sale Resolution to be presented to the Board for consideration on May 23, 2013.
- ◆ Closing date for the Series 2013A Bonds anticipated for June 13, 2013.

Secretary Clifford asked for clarification on the co-manager's role. Mr. Zavelle explained the co-manager serves as part of a group of underwriters that includes senior managers. This group helps obtain the best price possible. Chairman Winter asked if the analysis changes because this is a negotiated transaction. Mr. Zavelle said it did not since the advance of a negotiated pre-market sale gives the underwriters an opportunity to reach out to potential investors. The compensation of the co-managers does not increase the overall compensation for the bond issue.

Secretary Clifford commented on the bonds being sold for a longer term than the loans that will be funded and asked if the size of the loan justified the term of the bonds. Mr. Zavelle said that was correct and explained the bond and cash flow are matched to service the bond with the revenue coming in that year.

A discussion ensued on the debt service, the pledged GGRT as coverage, and how it can be pledged as multiple issues. Secretary Clifford requested a work session to help the Board better understand the financing mechanism.

Secretary Clifford referred to the POS and the debt service fund established to pay debt service on the bonds initially created in 2011. Mr. Zavelle outlined how the overall structure of NMFA's portfolio was enhanced to attract investors and rating agencies.

Secretary Clifford referred to Moody's downgrading certain communities in the state and asked how it affects the outstanding loans to those communities. Mr. Zavelle said it has very little affect since all the loans in the portfolio are individually risk-adjusted and then rated by Moody's.

7. Report from Finance & Loan Committee.

CONSENT AGENDA:

8. **Consideration for Approval of Tucumcari Public School District No. 1 - (*Quay County*) – 2921-PP, G.O. Bond Project.** The Tucumcari Public School District No. 1 has applied for a PPRF loan to make improvements to various school facilities.

The District received voter approval for a bond election in February 2011. The District will issue General Obligation bonds to be purchased by the Finance Authority through the PPRF Loan Fund. The bond proceeds will be used as the District's match for funds from a Funding Participation Agreement with the Public School Facilities Authority (PSFA).

The Finance Authority processing fee has been included in the interest rate at an additional .3076% above the market rate that will yield a fee of \$1,516 (NPV of \$1,500) over the 10-year term of the

loan. The District qualifies for a 0% Disadvantaged Interest Rate that has been applied to the \$200,000. The District is up to date on its annual audits.

Secretary Clifford asked why a GO bond was sold for the NMFA to purchase and how could costs be avoided that are associated with originating the loans. Mr. Dillenback explained the school district held a bond election and the voters elected for the district to issue GO bonds and the PPRF has a pricing structure that has a fixed cost.

- 9. Consideration for Approval of Otero County - (*Otero County*) – 2915-PP, Office of Emergency Services – Building Project.** Otero County has applied for a PPRF loan to purchase, improve and equip a new Office of Emergency Services.

Otero County is establishing a centralized Emergency Operations Center (EOC) to be utilized by all jurisdictions. The loan proceeds will be used to purchase, improve and equip a 12,000 sq. ft. building that will serve as a command center in the event of a natural disaster, wide spread emergencies or training exercise. The Office of Emergency Services is an ISO Class 7 and receives distributions for an administration building for a total yearly base distribution of \$55,501. The County is late in submitting the 2012 audit; however, complies with Finance Authority policy 1.2.vi., (a), (b) and (d).

Mr. Woods asked if Homeland Security is also funding the project. Mr. Dillenback said he was not aware of any Homeland Security funding.

- 10. Consideration for Approval of Otero County – Boles Acres Fire District (*Otero County*) – #2916-PP, Equipment Project.** Otero County has applied for a PPRF loan on behalf of Boles Acres VFD to purchase a Class A Pumper/Tanker truck.

The loan proceeds will be used to purchase a Class A Pumper/Tanker truck for the Boles Acres VFD. The District currently has debt utilizing the State Fire Protection Funds as the pledged revenue maturing in 2022. The Boles Acres VFD is an ISO Class 7 and receives distributions for 2 main stations for a total yearly base distribution of \$111,002. The County is late in submitting the 2012 audit; however, complies with Finance Authority policy 1.2.vi., (a), (b) and (d).

- 11. Consideration for Approval of Pinos Altos Fire District (*Grant County*) - 2907-PP – Equipment Project.** Grant County - Pinos Altos Fire Department has applied for a PPRF loan to finance the purchase of a Water Tanker Truck.

The loan proceeds will be used to purchase a Water Tanker Truck. The loan carries a 6-year term with 3.37 x coverage and is secured by State Fire Protection Funds. The Pinos Altos Fire Department receives a minimum base distribution of \$150,062 per year with an ISO rating of 7. The District currently has no outstanding debt pledged to the Fire Protection Funds and is current with Audits and financial reporting.

- 12. Consideration for Approval of Algodones Fire District (*Sandoval County*) – 2928-PP - Equipment Project.** The Sandoval County Algodones Fire District has applied for a PPRF loan towards the purchase a new fire pumper.

The loan proceeds, combined with \$100,000 of accumulated funds, will complete the purchase. The District is pledging its State Fire Protection Funds as security for the loan. There is currently one outstanding loan utilizing this revenue as the pledge. The District does qualify for \$75,000 of disadvantaged funding at a rate of 3%. At the time of closing, the District will receive this rate or current market rates, whichever is lower. The District has a current ISO rating of 5 and receives a base distribution for two main stations in the amount of \$123,334 annually. The County is current with its Audits and financial reporting.

13. Consideration of Approval of La Madera Fire District, (Sandoval County) – 2929-PP – Equipment Project. Sandoval County's La Madera Fire District has applied for a PPRF loan to purchase a new truck.

The loan proceeds will be used to purchase a new truck to be used as a Command Vehicle. The District is pledging its State Fire Protection Funds as security for the loan. There is currently no outstanding debt utilizing this revenue as the pledge. The District has a current ISO rating of 8 and receives a base distribution for one main station in the amount of \$52,418 annually. The County is current with its Audits and financial reporting.

14. Consideration for Approval of Placitas Fire District (Sandoval County) - 2930-PP – Equipment Project. Sandoval County Placitas Fire District has applied for a PPRF loan to purchase a new brush truck.

The loan proceeds, combined with \$70,000 accumulated funds, will complete the purchase. The District is pledging its State Fire Protection Funds as security for the loan. There is currently one outstanding loan utilizing this revenue as the pledge. The District has a current ISO rating of 6 and receives a base distribution for three main stations in the amount of \$175,752 annually. The County is current with its Audits and financial reporting.

15. Consideration for Approval of Ponderosa Fire District (Sandoval County) – 2931-PP – Equipment Project. Sandoval County Ponderosa Fire District has applied for a PPRF loan to purchase a new fire pumper.

The loan proceeds, combined with \$60,000 accumulated funds, will complete the purchase. The District is pledging its State Fire Protection Funds as security for the loan. There is currently one outstanding loan utilizing this revenue as the pledge. The District has a current ISO rating of 6 and receives a base distribution for two main stations and one substation in the amount of \$137,723 annually. The County is current with its Audits and financial reporting.

16. Consideration for Approval of Regina Fire District (Sandoval County) – 2931-PP – Equipment Project. Sandoval County Regina Fire District has applied for a PPRF loan to purchase a new fire pumper.

The loan proceeds, combined with \$100,000 accumulated funds, will complete the purchase. The District is pledging its State Fire Protection Funds as security for the loan. The District has a current

ISO rating of 6 and receives a base distribution for two main stations in the amount of \$117,168 annually. The County is current with its Audits and financial reporting.

17. Consideration for Approval of Zia Fire District (*Sandoval County*) – 2933-PP – Equipment Project. Sandoval County Zia Pueblo Fire District has applied for a PPRF loan to purchase a new fire pumper.

The loan proceeds, combined with \$130,000 accumulated funds will complete the purchase. The District is pledging its State Fire Protection Funds as security for the loan. The District does qualify for disadvantaged funding in the amount of \$75,000. At the time of closing, the District will receive 3% or market rates, whichever is lower. The District has a current ISO rating of 9 and receives a base distribution for one main station in the amount of \$39,058 annually. The County is current with its Audits and financial reporting.

Ms. Katherine Ulibarri moved, seconded by Mr. Blake Curtis, for approval of Consent Agenda Items 8 – 17. The motion was unanimously approved.

18. Consideration for Approval of Pecos Independent School District – (*San Miguel County*) - 2925-PP – G.O. Bond Project. The Pecos Independent School District has applied for a PPRF loan to fund improvements to various school facilities.

The District received voter approval for a bond issuance in 2012 for \$5,400,000. The District will issue General Obligation Bonds that the Finance Authority will purchase through the PPRF Loan Fund. The proceeds are to be used for various upgrades and completion of improvements. The District is up-to-date on the annual audits.

Referring to the description of uses for the project, Secretary Clifford requested that in the future staff accurately describe the project. A discussion ensued on the school district securing funding from the NMFA rather than other resources. Mr. Terry White asked if the required coverage would be reduced if the interest rate was higher than the estimated amount. Mr. E. J. Peinado explained the school district would adjust the taxes the year before the debt is due to meet the 1x coverage.

Ms. Antoinette Vigil moved, seconded by Ms. Katherine Ulibarri, for approval of Pecos Independent School District, Project #2925-PP. The motion was unanimously approved.

19. Consideration for Approval of Vaughn Municipal School District – (*Guadalupe County*) - 2922-PP – G.O. Bond Project. The Vaughn Municipal School District has applied for a PPRF loan to make improvements to various school facilities.

The District received voter approval for a bond election in February 2013, which is valid for 4 years. The District will issue the General Obligation bonds that the Finance Authority will purchase through the PPRF Loan Fund. The District plans to use the loan proceeds for various upgrades and the completion of improvements.

The Finance Authority processing fee has been included in the interest rate at an additional .1653% above the market rate. This will yield a fee of \$6,421 (NPV of \$6,374) over the 10-year term of the loan. The above interest rate also includes a .75% interest rate cap on the market rate portion of the loan for credit approval purposes. The District qualifies for a 0% Disadvantaged Interest Rate. This rate has been applied to \$200,000 of this request. The District is up to date on its annual audits.

Secretary Clifford said it would be helpful, as a performance measure, to see a comparison that shows the effective subsidies being provided to the communities.

Mr. Blake Curtis moved, seconded by Ms. Katherine Ulibarri, for approval of Vaughn Municipal School District, Project #2922-PP. The motion was unanimously approved.

- 20. Consideration for Approval of Hagerman Municipal School District – (Chaves County) - 2902-PP – G.O. Bond Project.** The Hagerman Municipal School District has applied for a PPRF loan to make improvements to various school facilities.

The District received voter approval for a bond election on February 2013, which is valid for 4 years. The District will issue General Obligation bonds to be purchased by the Finance Authority through the PPRF Loan Fund. The District plans to use the loan proceeds for various upgrades and completion of improvements. The District is up to date on its annual audit.

Mr. Terry White moved, seconded by Mr. Vince Lithgow, for approval of Hagerman Municipal School District, Project #2902-PP. The motion was unanimously approved.

- 21. Consideration for Approval of Sierra Volunteer Fire Department – (Chavez County) - 2926-PP – Building Project.** Chaves County, on behalf of the Sierra VFD, has applied for a PPRF loan to construct a fire station to include drilling a new well and installing water storage tanks.

The loan proceeds will finance the construction of a 4,800 sq. ft. metal building to include 4 emergency vehicle bays, a fully equipped kitchen, training room, office, decontamination room, and ADA compliant restroom with shower and mechanical room. The project also includes constructing a well and purchasing and installing a 30,000-gallon water storage tank for filling fire suppression vehicles.

Sierra VFD is not currently utilizing the State Fire Protection Funds. The Sierra VFD is an ISO Class 7 and receives distributions for three main stations for a total yearly base distribution of \$166,503. The County is current with its Audits and financial reporting.

Secretary Clifford asked if the fire department was administered by the County. Mr. Johnson said the county is the fiscal agent and oversees the overall management of the fire department. Secretary Clifford asked the New Mexico Association of Counties to encourage other counties to consider utilizing the PPRF program for this type of projects.

Secretary Tom Clifford moved, seconded by Mr. Blake Curtis, for approval of Sierra Volunteer Fire Department, Project #2926-PP. The motion was unanimously approved.

- 22. Consideration for Approval of Town of Carrizozo – (Lincoln County) - 2264-PP – Loan Amendment Request.** The Town of Carrizozo requested an amendment to Loan 2262-PP to allow pre-payment after one year of the loan closing.

In March 2009, the Finance Authority closed on a loan with Carrizozo for \$96,678 to purchase a fire pumper truck secured with an annual distribution of State Fire Protection Funds with a ten-year term and 3.07x coverage.

PPRF Loan Management Policy Section 3.2 states that “All loans approved by the Board except those specifically identified as equity loans, will be structured with the expected “pre-payment” or “call” options of the bonds anticipated to be issued to reimburse the PPRF.” While this loan was not reimbursed by a specific PPRF bond issue, loan revenues are part of the PPRF revenue stream used to pay PPRF bond debt service. The current loan agreement does not allow for any prepayment. Carrizozo intends to purchase a new apparatus with additional debt capacity. The outstanding balance is \$58,517.

Mr. Johnson explained the loan was structured as an equity loan meaning the revenues were not pledged specifically to a bond, therefore, there is no call option.

Mr. Blake Curtis moved, seconded by Mr. Terry White, for approval of an amendment to Loan 2262-PP allowing pre-payment after one year of loan closing. The motion was unanimously approved.

- 23. FY2014 Budget Presentation (Information only).** Staff requested Board review of the proposed 2014 budget with final approval scheduled at the May Board meeting. Mr. John Gasparich, Ms. Donna Trujillo, and Mr. Robert Brannon presented.

Due to the extraordinary costs of the fraudulent audit and subsequent investigations, the FY13 actuals are projected to exceed its budget by approximately 3.4%. The audit costs, including investigations, legal costs, and related operating expenses, totaled \$1,634,317.92 or 18.4% of the 2013 projected operating expenses. Backing out these costs would result in a budget to actual of only 84%. The Finance Authority’s inability to access the bond market and the subsequent need for the PPRF protocol limiting loan size resulted in decreased loan activity. The Finance Authority is activity driven and the projected number of loans closing for PPRF FY13 dropped to 55 from an average of 85 over the last several years. Legal costs for the PPRF and operational costs across the Finance Authority also fell. Overall, the Finance Authority’s FY13 operating expenses were reduced by a lack of activity but also dramatically increased by the cost of the fraudulent audit.

In response to the challenges the Finance Authority has faced in FY13 and the suggestions of the numerous investigational reports, the Finance Authority will look to reorganize resources to areas of compliance and process improvement. One of the previously budgeted attorney positions will be utilized for a Compliance Specialist to help organize and ensure the Authority’s numerous

stakeholder monitoring and reporting responsibilities. The Finance Authority will also hire an Internal Auditor and an IT Systems Analyst to further strengthen these areas bringing the number of budgeted positions to 46. Because of these changes, the Finance Authority will look for a budget expansion for the two aforementioned new positions.

The Finance Authority staff is proposing a budget increase for engineering services resulting from increased activity in the Drinking Water State Revolving Loan Fund (DWSRLF), which has experienced unprecedented demand over the past 13 months resulting in the approval of 223 projects totaling more than \$552.2 million and the Local Government Planning Fund, which was greatly expanded in FY 2013 in response to amendment during the 2012 Legislature. This program expansion, coupled with the Water Trust Board's direction to hire engineers for construction oversight, requires a 62% increase in engineering and construction oversight budgets.

Approximately 75% of the expenses will be contracted through various Memoranda of Understanding with the New Mexico Environment Department Construction Programs Bureau. The engineering contracts for the federally funded DWSRLF projects will be paid from administrative set-asides. The Water Trust Board and Local Government Planning Fund will be paid from their respective funds.

Secretary Clifford inquired about the status of the cost recovery for the Colonias projects. Mr. Gasparich said it is currently zero since a mechanism is not in place to recover costs for the program. As the program develops loan repayments could be considered; however, in the near future the Colonias program will be pro bono. Secretary Clifford asked staff to research the possibility of a statutory change to permit costs recovery.

Secretary Clifford felt the analysis was well done and supported the expansions; however, the matrix may be misleading and could create the impression the work is not proportional to the dollar amount. He requested additional analysis based on loan activity and suggested an external matrix comparing loan activity with dollar volume. Mr. Gasparich noted that Mr. Jerry Jones, Finance & Loan Committee member and former banker, agreed that the loan per employee is on the high side.

A discussion ensued on the budgeted line item of professional services and the personal services. Mr. Brannon explained that the increase in personal services cost is included as if the vacant positions were filled. Secretary Clifford requested a notation on the report to that effect.

Staff provided an explanation on the vacant positions and the timeline of filling those positions. It was suggested the Board receive quarterly updates to include how funds are being spent and what the projections are. Referring to the personal services, Secretary Clifford said he would like to know how they could anticipate the increases or potential vacancy savings. In response, Mr. Gasparich said there were no plans to redirect funds within the budget and any savings will revert to the fund balance. Ms. Trujillo also said dollars are not being spent out of incorrect funds and any budget adjustments will come before the Board.

24. Consideration for Approval of Authorizing Resolution for the NMDOT \$50 Million Escrow Line of Credit – Selection of Credit Provider and Terms of the Facility. Mr. Michael Zavelle, Ms. Rachel King, and Mr. Dan Opperman presented. The Board is requested to pass an authorizing

resolution that will allow the Finance Authority to select Wells Fargo Bank and negotiate final terms and conditions with Wells Fargo consistent with the proposal made by Wells Fargo and the NMDOT agreement with BNSF. The final agreement will be brought to the Board for approval by June with the Facility effective July 1, 2013.

As one component of the 2004 NMDOT GRIP infrastructure program, \$50.4 million of taxable Variable Rate Demand Notes (VRDNs) are outstanding. RBC is the liquidity provider with a fee of 62bp. There is a 7bp remarketing fee. The purpose for issuing these VRDNs is to fund a \$50 million cash escrow deposit held by Bank of Albuquerque as Trustee. Investments of the cash escrow are limited to short-term Treasury notes. The deposit was established as one component of the Rail Runner development project. The purpose of the deposit is to cover the cost of additional uninsured liabilities on the part of BNSF related to NMDOT/STC'S operation of the Rail Runner commuter train and related activities. The deposit is available to backstop other appropriate accident funding sources, such as insurance. The deposit has never been drawn and is unlikely to be drawn so NMDOT for some time has had an objective of reducing the costs associated with maintaining the bonds and deposit outstanding.

NMDOT and the Governor's Office have been working with BNSF to change elements of the Rail Runner package including elimination of the \$50 million cash escrow deposit. Eliminating the deposit would allow the outstanding \$50.4 million VRDNs to be retired. As part of a revised agreement between BNSF and NMDOT signed in March 2013, BNSF agreed to substitute a rolling revolving line of credit for the cash escrow deposit. The Finance Authority, which was part of the negotiations with BNSF only in regard to cash escrow substitution, then issued an RFP seeking credit providers for the rolling revolving line of credit. Wells Fargo Bank was the winning bidder providing the lowest cost based on projected usage and best meeting the terms and conditions sought. All five RFP scorers – two from NMDOT and three from the Finance Authority – scored Wells Fargo highest. The State Transportation Commission (STC) has ratified the Wells Fargo selection. Salient terms of the Wells Fargo proposal are a 3-year term with a 3-year term out, a non-utilization fee of 20bp (i.e., commitment fee), rolling renewal at no less than 6-months in advance of expiration, repayment of draws within 6-months, 77bp plus 30-Day LIBOR cost for drawn funds, provisions for turning draws into term loans, consistent out-of-the-ordinary terms per BNSF requirements, and other typical terms and conditions for a credit facility of this type.

Secretary Clifford asked how the three-year term of the agreement was determined. Mr. Zavelle stated the request for proposal asked for terms of 3, 4 and 5 years; however, only 3-year responses were received from bidders. Chair Winter asked if the substitution will realize any savings. Mr. Zavelle said the savings would be approximately \$350,000 to \$1.25 million each year. A discussion ensued on the amount of savings and how the interest rate environment would affect this amount.

Mr. Blake Curtis moved, seconded by Mr. Brett Woods, for Approval of Authorizing Resolution for the NMDOT \$50 Million Escrow Line of Credit – Selection of Credit Provider and Terms of the Facility. The motion was unanimously approved.

26. PPRF Portfolio Management Guidelines (*Information item only*). Mr. Michael Zavelle presented.

The Finance Authority seeks to maximize the capacity of the Public Project Revolving Fund (“PPRF”) to support infrastructure development in New Mexico. Capacity is constrained primarily by the need to meet risk adjusted coverage minimums as specified in the Indentures governing PPRF bond issuance. Capacity is also constrained by the need to meet absolute coverage targets necessary to maintain the PPRF’s excellent credit rating. With adequate coverage, the Finance Authority is able to issue bonds as a well rated entity and to pass the resulting low interest rates on to borrowers in New Mexico.

Mr. Michael Zavelle explained Risk Adjusted Coverage and Absolute Coverage. He also briefly reviewed refunding PPRF Bonds, Callable Bonds, and Replacement Loans. Mr. Zavelle said staff recommends the following guidelines and recommended strategy.

GUIDELINES – The Recommended Strategy

Following the guidelines below will enable the PPRF Portfolio to be managed to best advantage.

1. When PPRF bonds are issued, pre-payment provisions of the underlying loans must be consistent with the call provision of the bonds. This is the case either for new PPRF bonds or for PPRF refunding bonds. This is current PPRF policy.
2. When PPRF bonds are callable or near callable and cash from the Replacement Loan Pool is sufficient to retire those bonds, the bonds should be retired at principal payment dates and the outstanding loans pledged to those bonds should be re-designated as Replacement Loan Pool loans.
3. When cash in the Replacement Loan Pool exceeds the amount that can be used to retire callable or near callable bonds and coverage calculations require additional revenue, the cash can be used to make new PPRF loans into the Replacement Loan Pool. Otherwise, new loans should be funded with new PPRF bonds.
4. PPRF bonds can be refunded if the underlying revenue stream is matched to the call provisions of the refunding bonds and the following two conditions are met: 1) the bonds to be refunded must meet NPV saving targets set by current policy (i.e., at least 3% on a maturity by maturity basis); and, 2) anticipated Replacement Loan Pool cash plus other cash available to retire callable bonds within the next two years must be insufficient to retire the bonds targeted for refunding.

A discussion ensued on the risk adjusted to the GRT, how the debt service is driven on the bond and the pre-payment of loans. Secretary Clifford asked for a red-line version of the guidelines for the Board’s review and comments.

27. Consideration for Approval of Local Government Planning Guidance Document for Asset Management Plan and Energy Efficiency Audits. Consideration and approval of proposed Local Government Planning Fund (LGPF) Guidance Documents for Asset Management Plans and Energy Efficiency Audits

Because of the 2012 legislative amendments to the LGPF, the Finance Authority may now fund various planning documents for qualified entities. The revised rules adopted by the Finance Authority Legislative Oversight Committee and the Finance Authority Board in November require that the Finance Authority establish minimum criteria for each type of plan which occurs through the adoption of guidance documents. Both guidance documents are published on the Finance Authority website.

In February 2013, the Board adopted the first of the guidance documents for the program covering water, wastewater and solid waste projects as well as for Local Economic Development Act plans, Comprehensive Plans and Environmental Information Documents. Additionally, the Board directed staff to seek public comment on proposed guidance documents for Asset Management Plans and Energy Efficiency Audits.

Staff received comments from a group of technical assistance providers and others active in New Mexico who have long advocated the importance of Asset Management Plans and had helped to shape the initial policy recommendations made in February, including Richard Rose from the Office of the State Engineer and representatives from Rural Assistance Community Corporation and the New Mexico Environmental Finance Center (“EFC”). Their comments centered upon the qualifications necessary for various aspects of the Asset Management Plan. The members were consistent in asserting that the value of the Asset Management Plan comes more from the process and less from the product. In February, staff proposed that the Asset Management Plans be developed by Qualified Planning Grant Entity under the guidance of A.M. Kan Work, a manual developed by the EFC, but that planning funds could be used to hire a licensed New Mexico professional engineer to compile asset inventories and to provide technical assistance relative to the operation of the utility as well as to hire facilitators to work through public hearings. The Finance Authority will review and approve the Asset Management Plans. The work group asserted that certain technical assistance providers in the state could also assist the Qualified Planning Grant Entity in the various tasks associated with the establishment of an Asset Management Plan. With these comments, staff proposes that the following minimum requirements for the use of Planning Funds for Asset Management be adopted:

Asset Management Plans developed by the Qualified Planning Grant Entity under the guidance of the A.M. Kan Work developed by the EFC. Planning Funds may be used to contract with a licensed New Mexico professional engineer, New Mexico Rural Water Association, Rural Assistance Community Corporation or Environmental Finance Center, as applicable, to compile asset inventories, determine the condition of the assets, provide assistance relative to the operation of the utility and/or prepare the Financial Plan. Entities may also use Planning Funds to hire facilitators to help gain public input into the plan. Planning Funds cannot be used to pay for staff time to develop the plan.

Given the time required to develop a thoughtful Asset Management Plan, the Finance Authority will not require that 100% of the Plan be completed before paying third party contractors for completed portions of the plan so long as there is demonstrated commitment of the governing body to comply with stated elements and a clear schedule of when the incomplete items or components will be completed.

There were no comments on the proposed guidance documents for Energy Efficient Audits, which are available on the Finance Authority and New Mexico Energy, Minerals and Natural Resources Department (EMNRD) websites. Staff proposes the following guidance be adopted by the Finance Authority as minimum criteria for Energy Efficiency Audits:

- Energy audits shall meet minimum criteria of an ASHRAE Level 2 Energy Audit and will be required to be contracted using the Model Investment Grade Energy Audit and Project Proposal Contract prepared by the EMNRD that contains minimum project scoping criteria. Further, the contractor must be a licensed New Mexico Professional Engineer. Currently, EMNRD reviews energy audits for governmental entities considering energy efficiency projects that are financed by pledging future energy savings pursuant to the Public Facilities Energy Efficiency and Water Conservation Act [NMSA 1978, 6-23]
- Until acceptable guidance documents are established, staff recommends that applicants seeking funds for Economic Development Feasibility Studies and Water Conservation Documents submit the proposed scope of services with their applications for funding. The proposed scope would be approved by the Finance Authority Board on a case-by-case basis.
- Lastly, the policies governing the Local Government Planning Fund calls for a quarterly application cycle for all non-emergency projects. Staff proposes that beginning in FY 2014, the application cycle run on a July, September, January, April schedule.

Ms. Antoinette Vigil moved, seconded by Mr. Vince Lithgow, for approval of the guidance documents and process for the Asset Management Plans and Energy Efficiency Audits, that applicants seeking funding for Water Conservation Plans and Economic Development Feasibility Studies submit with their LGPF applications their proposed scopes of services for the contractors performing the work and that the applications for non-emergency projects be reviewed by the Finance Authority Board at the July, October, January and April meetings. The motion was approved with Secretary Tom Clifford abstaining.

Report from the Chairperson of the Economic Development Committee. *Committee members are: Paul Gutierrez, Chair; Terry White, Vice-Chair; Jerry Jones, Blake Curtis; and Secretary Jon Barela or his designee.*

28. Update on Activities.

29. Consideration for Revised Approval of \$200,000 of a Collateral Support Participation with Western Bank of Alamogordo to Haciendas at Grace Village, LLC (Dona Ana County) – 2874-CSP. Item was removed from the agenda.

30. Consideration for Revised Approval of \$2,700,000 of a Collateral Support Participation with US Bank, NA to TMS Gallup I, LLC (McKinley County) – 2914-CSP. Item was removed from the agenda.

31. Update on the Redeployment of New Market Tax Credit Fund from Investment Series II, LLC. Ms. Marquita Russel presented an update on the redeployment of New Markets Tax Credit (“NMTC”) proceeds arising from the bankruptcy sale of the Fuel 4 Less in July 2012.

At the March 2013 Board meeting, staff presented an update on the redeployment of NMTC proceeds arising from the liquidation of the Fuels 4 Less project last July. After months of trying to find a suitable new transaction that qualified for New Markets and had the capacity to borrow the market rate debt, VRE proposed to use the redeployed credits to refinance a portion of a 22,000 square foot in line retail project located in Las Vegas, Nevada for its VRE Las Vegas, LLC affiliate. The project resides on 17.5 acres of land leased from the Clark County Board of Commissioners and qualifies as a low-income community census tract. It was recently determined that the financing would require approval by the Clark County Board of Commissioners which may take longer than the financing schedule allows. As a result, VRE is proposing a similar transaction which staff proposes be run on a parallel closing track. The second project is a marina project in Florida undertaken by its affiliate, VRE Pineland, LLC. As with the Las Vegas project, the project has no debt. VRE acquired the marina in September 2011. The marina business offers wet slips and a 33,000 square foot high and dry boat storage building constructed in 2009 with steel supports. Commercial outlets line the building and provide a broad range of amenities for boaters. The site also has surplus land for additional development as well as overflow parking. A recent appraisal gives the proposed financing a loan to-value of less than 50%.

Because the liquidation did not net sufficient funds to recover any New Markets “benefit,” 100% of this loan will be repaid and the terms will be determined by the leverage lender. Staff had expected to present a project approval to the Board at the April meeting; however, an approval for one of these projects will not be forthcoming until May. The approval item for May will be a loan proposal for the redeployed funds as well as supplements to NMTC documents to support the new financing.

32. Consideration of Prioritization of the Fourteenth Round of Competitive Applications for the NMTC Program. The Economic Development Committee and staff recommend approval of prioritization for Round 14 of New NMTC applications.

From February 25th through March 25th, the Finance Authority accepted applications for its round 14 of competitive applications for the unused NMTC allocation totaling approximately \$24 million. The Finance Authority timely received four complete applications that were scored by the review team and are presented for prioritization. Of the four applications received, only one scored at least 60 points, and that project received a moderate readiness determination by the review team. The other three applications are presented as information only.

Once prioritized, staff will complete the due diligence and financial structuring phase and recommend proposed terms of the financing, including the amount of NMTC allocation and the specific, quantifiable economic “deliverables” to be achieved with the financing. Projects receiving preliminary approval from the Finance Authority are given 90 days to execute a financing term sheet and an additional 60 days to document and close the transaction.

Round 14 Projects

<u>Rank</u>	<u>Score</u>	<u>Applicant</u>	<u>Project Readiness</u>	<u>Amount of NMTC Authority Requested</u>
1	68.43	AG – Gas Pecos (Chaves County)	Mod	\$12,500,000
2	53.43	Nova Corporation (Bernalillo County)	Low	11,500,000
3	45.57	DirectNu GoGreen Energy (McKinley Cty)	Low	4,519,479
3	45.57	Esperanza Education Foundation (Bernalillo County)	Low	4,611,000

Total Allocation Requested for Round 14 Projects **\$33,130,479**

Ms. Antoinette Vigil moved, seconded by Mr. Blake Curtis, to approve the prioritization of the fourteenth round of competitive applications for the NMTC Program. The motion was unanimously approved.

Report from the Chairperson of the Contracts Committee. *Committee members are: Secretary David Martin, Chair; Katherine Ulibarri, and Secretary Jon Barela.*

33. Update on Activities

34. Consideration for Approval of Recommendation to Select REDW to Perform FY2013 Audit.
Item removed from agenda.

Report from the Chairperson of the Audit Committee. *Committee members are: Secretary Tom Clifford or designee Ricky Bejarano, Chair; Paul Gutierrez, Vice-Chair, and Secretary John Bemis.*

35. Update on Activities Item removed from Agenda

36. Audit and Investigation Finds, Recommendations and Actions (Information Item Only) Mr. Gasparich and Ms. Donna Trujillo briefly reviewed the updated Finance Authority matrix, which is attached as a part of the minutes.

Secretary Clifford asked for clarification on the notation referring to federal requirements. Ms. Trujillo explained it is a federal grant requirement reported to the federal clearing house, which was an out of compliance item for the Finance Authority.

Chair Winter asked for an update on the audit corrective action plan at the next Board meeting.

OTHER ITEMS

37. Executive Session – Closed meeting to discuss matters subject to attorney-client privilege pertaining to threatened or pending litigation related to audit and employee matters as allowed by NMSA 1978, Section 10-15-1 (H) (7).

Chair Winter entertained a motion for the NMFA Board of Directors to go into Executive Session pursuant to NMSA 1978, Section 10-15-1(H)(7) to discuss matters subject to attorney-client privilege pertaining to threatened or pending litigation related to audit and employee matters.

Mr. Blake Curtis moved, seconded by Mr. Vince Lithgow, to go into Executive Session pursuant to NMSA 1978, Section 10-15-1(H)(7) to discuss matters subject to attorney-client privilege pertaining to threatened or pending litigation related to audit and employee matters. The motion was unanimously approved.

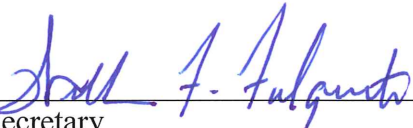
Upon reconvening in open session, Chair Winter said “We are in open meeting. Let the record reflect that no action was taken during the closed meeting and the only things discussed were matters subject to attorney-client privilege pertaining to threatened or pending litigation related to audit and employee matters.”

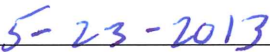
38. Next Board Meetings

May 23, 2013, 9:00 a.m.
Room 322, State Capitol
Santa Fe, NM

39. Adjournment

The meeting adjourned at 1:00 p.m.


Secretary


Date