

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

Minutes of Board Meeting
December 20, 2013
Room 322 – State Capitol

Present:

John McDermott, Chair
William Fulginiti, Secretary
Katherine Ulibarri, Treasurer
Tom Clifford
Blake Curtis (*telephonically*)
Santiago Chavez
Brett Woods
Ryan Flynn
Antoinette Vigil
Jerry Jones
Terry White

McDermott Advisory Services, LLC
Executive Director, NMML
V/P for Finance/Operations, Central NNMCC
Secretary, Dept. of Finance & Administration
CEO, Curtis & Curtis Seed
Designee, NMAC
Designee, NM Energy & Minerals Dept.
Secretary, NM Environment Department
Designee, Economic Development Dept.
CEO, Stolar Research
CEO, Sunwest Trust, Inc.

Finance Authority Staff:

Adam Johnson
Charles Parker
Darlaina Chapman
Donna Maestas
Dora Cde Baca
Gloria Castillo
John Brooks
Jolene Meadows
Mark Dalton
Marquita Russel
Rachael Lujan
Rick Martinez
Theresa Garcia

Bryan Otero
Dan Opperman
David Mahooty
Donna Trujillo
E.J. Peinado
Jana Amacher
John Gasparich
Leslie Medina
Mark Lovato
Michael Zavelle
Robert Brannon
Sanjiv Doreswamy
Zach Dillenback

Guests:

Dana Bahar
Danielle Bradford
John Archuleta
Kalvin Martin
Kwali Forbes
Linda Kehoe

NMEDD-PSTB
Piper Jaffray
George K. Baum & Company
NMED-PSTD
Brownstein Hyatt
LFC

Rachel King
Richard Virtue
Susan Rodriguez

Sutin, Thayer & Browne
Virtue, Najjar & Brown
DFA - LGD

1. Call to Order and Roll Call.

The meeting was called to order at 9:36 a.m. Roll was called and a quorum established.

2. Approval of Agenda. Staff requested removal of item 12 from the agenda.

Mr. William Fulginiti moved, seconded by Mr. Terry White, to approve the agenda as amended. The motion was unanimously approved.

3. Approval of November 20, 2013 Board Minutes.

Ms. Katherine Ulibarri moved, seconded by Mr. Jerry Jones, to approve the November 20, 2013 minutes. The motion was unanimously approved.

4. Report from Chief Executive Officer.

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

- ◆ Presented the 2014 Board & Standing Committee Schedule

Mr. William Fulginiti moved, seconded by Secretary Tom Clifford, to approve the schedule as presented. The motion was unanimously approved.

- ◆ Mr. Gasparich noted this would be his last Board meeting and expressed his gratitude for the opportunity to serve as interim CEO for the last 16 months. He thanked the Board and staff for the support and assistance.

Chair McDermott and Secretary Clifford commended Mr. Gasparich for his exemplary support and leadership. Mr. Fulginiti also expressed his gratitude noting that he would continue to see Mr. Gasparich at the Capitol during the upcoming legislative session.

5. Review of Fiscal Year 2013 External Audit

Mr. Bruce Bleakman and Mr. Javier Machuca presented the 2013 Audit. Mr. Bleakman thanked Secretary Clifford in his role as Committee Chair, and Mr. John Gasparich and Ms. Donna Trujillo for their assistance in completing the 2013 Audit, which was released yesterday by the State Auditor.

Mr. Javier Machuca briefly reviewed the audit highlights noting that in 13 months, REDW provided three separate reports. The opinion is unmodified with the standard opinion being that it is a clean report. Findings in the past are mainly due to timeliness. The EPA program has no findings at all. Mr. Machuca continued that the two findings are from the 2011 audit regarding financial reporting oversight. He noted the finding was considered a material weakness which has been downgraded to a significant finding.

Ms. Trujillo and Mr. Gasparich responded to questions regarding reversions to the General Fund, special line items, and audit costs. Ms. Trujillo offered to provide a breakdown of all costs; Secretary Clifford said that would be helpful.

Chair McDermott asked if action has been put in place to correct deficiency. Mr. Machuca said with the processes in place now, it should be eliminated. Secretary Clifford added that the deficiency could have been removed had processes been in place. Mr. Machuca said internal controls are now in place to address findings relative to IRS taxable fringe benefits and vehicle being used for personal use. Mr. Machuca also addressed questions regarding the disaster recovery plan which is scheduled for final testing in January.

Secretary Clifford commented that a timely report from the auditor is a major accomplishment for the staff.

6. Presentation Regarding PSFA Oversight

Mr. Zach Dillenback commented that school districts continue to be part of the NMFA's portfolio. He introduced Mr. Robert Gorrell, Executive Director, Public School Finance Authority (PSFA) who will be presenting on the PSFA organizational structure and the services provided by their Department. Mr. Gorrell briefed the Board on the phases of school projects and the construction oversight the PSFA provides to ensure efficient spending so that funds are optimized.

In response to a question from Chair McDermott, Mr. Gorrell said he reports to Secretary Tom Clifford with the Department of Finance and Administration. Secretary Clifford noted that the program that seems most analogous is the Water Trust Board in reporting to a diverse group ensuring consistency in type of projects, adjusting standards to local projects, and developing a standardized approach to projects. Secretary Clifford said PSFA is a good program with good lessons for New Mexico; he asked NMFA staff to work closely with PSFA who has a consistent set of criteria that can be utilized. Mr. Gorrell indicated that he and his staff are available to the Board or staff. Chair McDermott supported Secretary Clifford's request noting that capturing those lessons would result in a better outcome and return.

7. Report from Finance & Loan Committee. Mr. William Fulginiti reported on the December 13, 2013 Finance & Loan Committee meeting. The Committee reviewed and recommends approval of the projects that follow.

8. Consideration for Approval of Pojoaque Valley School District (Santa Fe County) – School Improvements – 3087-PP. The Pojoaque Valley School District applied for PPRF loan financing for 4,000,000 for various school improvements.

In September 2013, the District received voter approval for \$6M to erect, remodel, make additions to and furnish school buildings, purchase or improve school grounds, or any combination of these purposes within the District. The District will issue its General Obligation Bonds which the NMFA will purchase with the PPRF loan fund. The NMFA processing fee has been included in the interest rate at an additional .16692% above the market rate. This will yield a fee of \$30,201 (NPV of \$30,000) over the term of the loan. The District is up-to-date with audits and financial reporting.

Mr. William Fulginiti moved, seconded by Mr. Jerry Jones, for approval of Pojoaque Valley School District Project #3087-PP. The motion was unanimously approved.

- 9. Consideration for Approval of City of Anthony (Doña Ana County) - Building and Property Acquisition – 3088-PP.** The City of Anthony applied for PPRF loan financing for \$1,790,102 for building and property acquisition.

The City is seeking financing to acquire a building and property to be used as the municipal government center replacing the current facility that does not adequately meet their needs. The facility consists of a 14,786 sq. ft. building, parking lot, and multi-use field and office furniture. The new facility will allow the City to expand and improve municipal services.

The City enacted 5, or 1.25%, Municipal Local Option GRT increments since incorporation on July 1, 2010. The security for this financing is the 1st and 2nd increments of MGRT. The 2-year average used for revenue capacity includes 2 quarters of FY 2012 during which only .625% had been enacted and has not been pledged to any debt. The City qualifies for 0% disadvantaged rates which has been applied to \$200,000 of the loan amount. The City is current with its Audits and financial reporting.

Mr. William Fulginiti moved, seconded by Ms. Katherine Ulibarri, for approval of City of Anthony Project #3088-PP.

Secretary Clifford voiced concern over committing 20% of the operating budget to be taken from the General Operations fund. Mr. Johnson said the revenue is currently being used for lease payments. He further noted that the 2013 audit is under review with the finding in the 2012 as result of the City's reliance on auditors to prepare their financial statements. He added that the finding is not considered a significant material weakness.

The motion was unanimously approved.

- 10. Consideration for Approval of Taos County – Solid Waste Equipment Project – 3083-PP.** Taos County applied for PPRF loan financing for \$358,544 to purchase 2 Mack GU713 trucks and 1 pick-up truck to replace aging equipment in the County's solid waste department.

The County is pledging its County Environmental Services GRT as security for the loan. There is currently one other outstanding NMFA loan that utilizes the Environmental Services GRT revenue as the pledge. Environmental Services GRT revenue has increased over the past 3 years with staff utilizing a 3-year average to determine debt service coverage.

The County qualifies for the 3% disadvantaged rate; however, market interest rates are below the disadvantaged rate so the lower rate will be utilized. If the market interest rates rise above 3%, at closing, staff will utilize the 3% disadvantaged rate to benefit the County. The County is current on its audits and financial reporting.

The County's 2012 audit received a qualified opinion due to the lack of supporting documentation from the Taos County Housing Authority, a component of the County. However, of the 24 audit findings, only one finding related to capital asset inventory which directly dealt with the County.

Mr. William Fulginiti moved, seconded by Mr. Santiago Chavez, for approval of Taos County Project #3083-PP.

In response to a question from Secretary Clifford, Mr. Leandro Cordova explained the audit situation noting timing issues, specifically the Housing Authority audit not being prepared on time. Mr. Cordova reported that 23 of the 24 findings were related to the Housing Authority. The one finding for Taos County was on the reconciliation of assets which has been cleared. Regarding the environmental GRT, Mr. Cordova said the County utilizes it for equipment needs. Mr. Santiago Chavez commended Mr. Cordova for the work accomplished since moving to Taos County as the County's Finance Director.

The motion was unanimously approved.

- 11. Consideration for Approval of Village of Tularosa (Otero County) –Infrastructure Project – 3085-PP.** The Village of Tularosa applied for PPRF loan financing for \$251,890 to construct a fire station.

The Village currently has one main station to provide fire protection for approximately 3,000 residents. The additional station will improve Tularosa's fire protection services and increase the amount of fire protection funds the Village is eligible to receive.

The Village will pledge its state fire protection funds as the revenue stream for this loan. Currently the Village has an ISO class rating of 7, with one Main Station, and receives a base distribution of \$55,501 per year. Additionally, the State Fire Protection Funds are not pledged to any outstanding debt. The Village is current with its Audits and financial reporting. Mr. Brett Woods asked about the anticipated increase in ISO funding. Mr. Johnson noted the increase could be as much as \$55,000.

Mr. William Fulginiti moved, seconded by Mr. Terry White, for approval of Village of Tularosa Project #3085-PP. The motion was unanimously approved.

- 12. Consideration for Approval of Claunch-Pinto SWCD (Torrance County) Change of Scope.** Item was deleted from agenda.

- 13. Consideration for Approval of Upper Hondo MDWCA (Taos County) – Water Project – 3084-DW.** Upper Arroyo Hondo applied for Drinking Water State Revolving Loan Fund (DWSRLF) financing for \$96,455 to finance the first phase of its water system project identified in a 5-year comprehensive plan.

The first phase consists of the purchase and installation of 70 new radios read water meters, a meter reader, and corresponding software. The completion of this first phase will also serve as

the match for the Association's 2014 Water Trust Board application. The other phases listed within the plan include a removal system to mitigate uranium content in the water, (which exceeds the EPA and State of NM drinking water standards) storage tank repairs, construction of a pump house over Well 2, and installation of a new fire hydrant. The Association has been working closely with the Construction Programs Bureau, and the Rural Community Assistance Corp.

Upper Arroyo Hondo has pledged the net system revenues of its water utility as security and repayment of this loan. They recently completed a PER which included a rate study on its water utility in order to raise rates to support this loan, as well as create capacity for future critical projects. The study was completed in January 2013 with the new water rates taking effect on December 1, 2013. Using the projected revenues and expenses provided by the rate study, staff prepared an analysis using a 3-year average in determining the Association's debt capacity. Staff used the Median Household Income (MHI) data from a survey of the actual water users within the Association, performed in 2012, with a 90% return rate at that time. This data was also used for the approval of their PER planning grant award 2764-PG.

Mr. William Fulginiti moved, seconded by Mr. Brett Woods, for approval of Upper Arroyo Hondo MDWCA Project #3084-DW. The motion was unanimously approved.

- 14. Consideration and Recommendation of Grant County – Scope of Work Change Request – 2750-PG.** Grant County requested a scope of work change from Water Master Plan to Preliminary Engineering Report for project #2750-PG to close the approved grant.

In June of 2012, the NMFA Board of Directors approved a grant from the Local Government Planning fund for Grant County to study water source alternatives for the Ft. Bayard Medical Facility. At the time of approval, the documents provided to the Finance Authority Board labeled the document as a Water Master Plan. However, a Water Master Plan does not accurately identify the type of plan needed for assessing a singular project. The correct type of plan is a Preliminary Engineering Report (PER), which studies the project and makes recommendations based upon the feasibility of different individual options. Project 2750-PG requires a change to the planning document to properly execute the grant agreement once all closing conditions have been met.

Mr. William Fulginiti moved, seconded by Mr. Jerry Jones, for approval of scope of work change request for Grant County Project #2750-PG. The motion was unanimously approved.

- 15. Concurrence and Approval of Town of Mesilla (Doña Ana County) – Request for Extension of Time – 0159-WTB.** The Town of Mesilla requested a contract amendment for a time extension to the Town of Mesilla Water Trust Board Project (WTB) #0159.

On August 24, 2009, the WTB approved funding for the Town for a water storage and conveyance project in an amount not to exceed \$226,096.50 (10% loan/ 90% grant). The approved project was for planning and design of improvements to the water system. The design was to address water line extensions within Mesilla's town limits to unserved residents and loop dead-end water lines for

improved operations, pressure control, fire flow and water quality. This loan/grant funding agreement was secured on May 14, 2010 and has a remaining balance of \$90,426.61.

On May 22, 2013, the WTB approved a change of scope of work to include construction and associated costs for the water system improvement including the purchase of materials needed for the construction phase and a time extension of six months (November 14, 2013) to complete WTB #0159 contingent upon final environmental determination by EPA. Mesilla has been working closely with the Border Environment Cooperative Commission (BECC) to complete the Environmental Information document (EID) for EPA approval. Unfortunately, the EID was submitted after the federal government shut down of 2013. The Town is anticipating approval on the EID from EPA by January 2014.

The Town is requesting a second time extension to use the remaining funds of WTB #0159 along with the funding from BECC (\$713,000) to complete the project.

Secretary Clifford expressed frustration with the frequent requests for time extensions with Water Trust Board projects. He said clear planning is not what it should be on WTB projects. Secretary Clifford said it is a systemic issue with the WTB which needs to be addressed. He voiced support for the project, but also expressed concern. Chair McDermott supported Secretary Clifford's analysis.

Mr. William Fulginiti moved, seconded by Ms. Antoinette Vigil, for approval of the extension of time for Town of Mesilla project #0159-WTB. The motion was unanimously approved.

16. Consideration for Approval of Authorizing Resolution to Appoint Replacement Remarketing Agents for \$135.2 million of NMDOT/STC VRDNs issued by NMFA. Staff recommends approval of the authorizing resolution.

At the December 5, 2013 State Transportation Commission (STC) meeting in Las Cruces, STC passed an authorizing resolution for the replacement of an existing remarketing agent with two new remarketing agents. The replacement remarketing agents were selected through an RFP process conducted by the Finance Authority. To enable the replacement of remarketing agents to take place, the Finance Authority must also pass an authorizing resolution.

The GRIP program has two series of Variable Rate Demand Notes (VRDN) outstanding totaling \$135.2 million (\$100 million in 2008B-1 VRDNs and \$35.2 million in 2008A-1 VRDNs). VRDNs are placed with investors on a weekly basis by the remarketing agent. Goldman Sachs has been the remarketing agent for the past 5 years for all \$135.2 million of these notes. State Street Bank is the liquidity provider and, as such, State Street Bank's rating is what drives placement rates. Goldman charges an annual fee of 7bp to function as the remarketing agent.

By Finance Authority procurement policy, a new RFP was issued for remarketing services. Ideally, at least two remarketing agents should be utilized to reduce counterparty risk though NMDOT has had only one remarketing agent since \$284.8 million of VRDNs were converted to direct placement FRNs in 2011. Seven firms submitted bids to be remarketing agent for NMDOT with an annual fee ranging from 5bp to 7bp. RBC Capital Markets and Bank of America (BoFA) submitted the two 5bp

bids. RBC was selected as remarketing agent for the \$100 million 2008B-1 VRDNs and BofA was selected for the \$35.2 million 2008A-1 VDRNs.

The authorizing resolution passed by STC and to be considered by the Finance Authority Board will enable the Finance Authority to complete contracts and substitute RBC and BofA for Goldman Sachs.

Chair McDermott asked if the Goldman contract runs through DOT or NMFA. Mr. Zavelle said the credit risk is to DOT adding that DOT has retained PFM to advise them. Mr. Marcos Trujillo, NMDOT, noted that all contracts are with NMFA with pledged revenues coming from the State Transportation Fund.

Mr. William Fulginiti moved, seconded by Secretary Tom Clifford, for approval of Authorizing Resolution to Appoint Replacement Remarketing Agents for \$135.2 million of NMDOT/STC VRDNs issued by NMFA. The motion was unanimously approved.

17. Consideration for Approval of Authorizing Resolution to Issue \$80 Million of NMFA/NMDOT/STC2014A Series Fixed Rate New Money Bonds. Staff recommends approval of the authorizing resolution.

Mr. Marcos Trujillo, NMDOT, said their initial intent was to issue bonds; however, it would have required creating another unit which could not be rationalized. He said NMDOT appreciates the relationship with NMFA and is looking at which projects will be funded. Mr. Michael Zavelle said issuance is expected in January. Lead managers and co-managers will also be announced at that time. Secretary Tom Clifford commented that last year there were concerns about NMDOT's ability to meet obligations. Mr. Trujillo said balloon payments in 2025 and 2026 are still a concern; however, the bonds will be paid through restricted highway transportation funds rather than state road funds,

Secretary Clifford commented that the road fund is under a lot of pressure with the potential of an unfunded liability. He asked why the State Transportation Commission is not addressing that issue. Mr. Trujillo said he cannot speak on behalf of the Commission but can take the concern back to them.

In response to a question on why it is so costly for the NMDOT to issue bonds, Mr. Zavelle explained that capacity to issue senior lien is less costly and a new lien would be rated between existing ratings on the subordinate lien and senior lien.

Noting that this is a complex credit analysis, Chair McDermott said he does not feel sufficiently educated to take action at this time and asked if the discussion would be appropriate for a subcommittee. Mr. Zavelle said the NMFA's role is to act at the direction of the State Transportation Commission with requests coming from them. Mr. Loren Hatch, General Counsel for NMDOT commented that the relationship between NMFA and NMDOT is strong. Secretary Clifford said he is encouraged that NMDOT feels comfortable with the NMFA but felt a discussion with both entities would be better.

Mr. William Fulginiti moved, seconded by Secretary Tom Clifford, for approval of Authorizing Resolution to Issue \$80 Million of NMFA/NMDOT/STC2014A Series Fixed Rate New Money Bonds with the caveat that financials be presented and that PFM attend the next meeting. The motion was approved with Chair McDermott abstaining.

18. Consideration and Approval of Amended and Restated Bylaws.

Mr. Dan Opperman briefly reviewed the amended and restated bylaws previously discussed by the Board. Chair McDermott inquired about the interaction between the Finance Committee and Disclosure Committee. Secretary Clifford briefly explained that given the usual lengthy Finance/Loan Committee agenda, a decision was made to separate the two to allow for better review. He then asked for a point of clarification on fiduciary bonds, i.e., insurance for board members. Mr. Opperman responded that the Board members are covered through the General Services Department. Mr. Bryan Otero noted that there are limits as with any insurance policy but there is no prohibition to purchasing higher coverage. Secretary Clifford noted it would be helpful for Board members to know about SIC concerns regarding exposure.

Regarding proxies, Secretary Clifford asked for clarification regarding voting. Mr. Opperman explained that the designee participates and serves as a full board member with full voting privileges but cannot be directed on to how to vote. He then explained that public comment is a discretionary item and can be allowed with the Board setting limits.

Secretary Tom Clifford moved, seconded by Mr. Brett Woods, for approval of the amended and restated Bylaws. The motion was unanimously approved.

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

19. Update on Activities. Mr. Jerry Jones reported on the December 13, 2013 Economic Development Committee meeting. Due to scheduling conflicts, only two members attended. The items appear on today's agenda as items 20-23.

20. Consideration for Approval of a Modification to Final Loan Terms for \$11 Million New Markets Tax Credit Financing to Staurolite Resources, Inc. Staff recommends modification to final New Markets Tax Credit ("NMTC") loan terms to Staurolite Resources, Inc. with Finance New Mexico agreeing to the modification of terms that reflects that the Staurolite Resources NMTC loans will be secured solely by the assets of the Farmington facility and provides for quarterly interest payments.

Staurolite Resources, Inc., a non-profit subsidiary of Presbyterian Medical Services, received Final Approval in November for NMTC financing to build and equip a new clinic in Farmington and expand an existing clinic in Socorro. As approved, the loans are secured by the Farmington and Socorro facilities and give Finance New Mexico a 91% loan-to-value on its loan. The Socorro facility does not have an updated Phase I Environmental Report. As a result, Wells

Fargo, the investor in the transaction, has requested that the NMTC loans be secured solely with the assets of the Farmington Facility so the project will meet its policies and not delay the closing of the transaction. Presbyterian Medical Services has agreed to subordinate its "A Note" to Finance New Mexico's "B Note" in order for Finance New Mexico to stay within its policies for an acceptable loan-to-value. As proposed, the loan-to-value on Finance New Mexico's B note would be 42%, well within NMTC policies. In November 2013, the Board gave final approval for an \$11 million NMTC financing to Staurolite Resources, Inc., a non-profit subsidiary of Presbyterian Medical Services, Inc. ("PMS"). The financing will be used to build and equip a new clinic on vacant lot in Farmington and expand an existing clinic in Socorro. Additionally, Staurolite Resources has requested that Finance New Mexico allow for quarterly payments, rather than monthly payments as approved in November.

Mr. Jerry Jones moved, seconded by Mr. William Fulginiti, for approval of a modification to final loan terms for \$11 Million New Markets Tax Credit Financing to Staurolite Resources, Inc. The motion was unanimously approved.

- 21. Consideration for Approval of an Extension of a Collateral Support Participation for a \$1,256,000 Construction Line of Credit to MW Holdings, LLC through Wells Fargo Bank.** Staff recommends a 90-day extension for construction line of credit made to MW Holdings, LLC by Wells Fargo Bank.

In June 2012, NMFA purchased a 20% portion of a Construction Line of Credit made by Wells Fargo to MW Holdings, LLC, the real estate holding company of Bicycle Technologies International. The loan had an 18-month term with NMFA's portion of the loan to be taken out by an SBA 504 loan which is funded from the sale of debentures that are sold once per month. The requested 90 day extension ensures that the appraisal can be completed and reviewed and the debentures sold. The Bicycle Technologies International building in Santa Fe was completed in March and the facility has been occupied since spring. Finance Authority terms will remain unchanged during the 90-day extension.

Mr. Jerry Jones moved, seconded by Mr. Terry White, for approval of an extension of a Collateral Support Participation for a \$1,256,000 construction Line of Credit to MW Holdings, LLC through Wells Fargo Bank. The motion was unanimously approved.

- 22. Consideration for Approval of an Extension of a Collateral Support Participation for an \$80,000 Purchase Order Line of Credit for STAR Cryoelectronics, LLC through Los Alamos National Bank.** Staff recommends approval of a 5-month extension for STAR Cryoelectronics purchase order line of credit for \$200,000 that matured in October 2013 for manufacturing purposes.

In October 2012, NMFA purchased a portion of Purchase Order Line of Credit made by Los Alamos National Bank to STAR Cryoelectronics, LLC, a high tech manufacturing company located in Santa Fe. The line of credit had a 12-month term with repayment coming from the sale of a MICA-1600 to an international company. Los Alamos National Bank has requested that NMFA consent to a 5-month extension allowing STAR Cryoelectronics, LLC to complete the

delivery and installation of the machine and receive payment.

Mr. Jerry Jones moved, seconded by Mr. Terry White, for approval of an extension of a Collateral Support Participation for an \$80,000 Purchase Order Line of Credit for STAR Cryoelectronics, LLC through Los Alamos National Bank. The motion was unanimously approved.

- 23. Consideration for Approval of Industry Concentration Limitations in the Private Lending Portfolios.** Staff recommends that the Portfolio Concentration Risk Policy be limited to no more than 20% concentration in any one industry.

Ms. Antoinette Vigil provided data regarding the hospitality industry in New Mexico. She also presented a compilation of lodgers' tax receipts and its impact on the lodging industry.

In September 2013, staff presented to the Economic Development Committee an evaluation of the Private Lending portfolios which includes (Smart Money, Collateral Support and New Markets Tax Credit) to determine existing exposure of industry risk, specifically for the hospitality industry. Currently, the total hospitality industry loans in the three programs totals \$25 million against a total portfolio value of \$174.3 million, resulting in 14% of the overall portfolio. Looking at specific programs, Smart Money has a portfolio concentration of 32%, Collateral Support Participation has loans outstanding of 11%, and the New Markets Tax Credits has 14% of its allocation in hotel loans.

As discussed at the Economic Development Committee meeting, staff is concerned about the projected concentration and requests the Committee's guidance on appropriate levels of industry concentration so that staff can communicate to requesting banks the NMFA's capacity to handle certain additional loans in the near future. This policy will give staff the ability to manage the portfolio to ensure the proper portfolio mix to help reduce the amount of risk in the overall portfolio. Staff has also talked to the State's Economic Development Department to ensure that the portfolio concentration policy does not affect any efforts of the Department's effort to attract more businesses in any specific industry.

When staff evaluates the portfolio, considerations of past events that have impacted any portfolio will be part of the decision making of any additional loans. For example, the Smart Money Loan Participation Program originally capped its participation at \$2 million, approximately 16% of the then-capitalized \$12 million fund. Over time, the Legislature reverted funds from the Smart Money, leaving its capitalization at \$5.1 million. This reduction in the fund's corpus has resulted in the first loans made representing a larger portion of the portfolio than intended.

Staff believes setting a limit of 20% concentration in any one industry would be sufficient to continue with its marketing of the programs and manage the risk in any industry in the overall portfolio. Staff will use the broad IRS Business Codes to determine the industries and evaluate the industries based on the IRS Business Codes.

Private Lending Portfolio Concentration

	Loan Amount	Fund Amount
Smart Money		\$ 5,100,000.00
Plaza Hotel	\$ 1,650,000	
Existing Program	\$ 1,650,000	32%
Projected Loans (1)	\$ 362,290	
Existing and Projected Loans	\$ 2,012,290	39%
Permian 1	\$ 1,490,700	
Existing Program	\$ 1,490,700	11%
Projected Loans (4)	\$ 5,270,000	
Existing and Projected Loans	\$ 6,760,700	51%
Hotel Parq Central	\$ 13,846,000	
TMS Gallup I	\$ 8,000,000	
Program Concentration	\$ 21,846,000	14%
Existing Hospitality	\$ 24,986,700	14%
Existing and Projected Concentration	\$ 33,759,690	18%

Discussion ensued on why 20% would be the right number. Secretary Clifford said he is uncomfortable with a policy that would limit one of New Mexico's core competencies adding that he has not seen other industries bringing any other projects, and requested this item be deferred. Mr. Jerry Jones also voiced concern with limiting opportunities, adding it is hard to turn down economic growth.

Mr. Blake Curtis moved that Item #23 be deferred to a subsequent Board meeting so that additional analysis can be provided by staff regarding industry concentration limitations in the private lending portfolio, seconded by Ms. Antoinette Vigil. The motion was unanimously approved.

Report from the Chairperson of the Audit Committee. *Committee members are: Secretary Tom Clifford or designee Ricky Bejarano, Chair; Secretary David Martin; Mr. Steve Kopelman; and Ms. Katherine Ulibarri.*

24. **Update on Activities.** Secretary Clifford reported on the November 23, 2013 Audit Committee meeting. Discussion centered on accounting policies, review of accounting software, and presentation on financials.
25. **Audit and Investigation Findings, Recommendations and Actions (Informational Item Only).** Mr. John Gasparich and Ms. Donna Trujillo briefly reviewed the dashboard. Mr. Gasparich reported there was considerable support during the last legislative session on a proposed bill changing the process for appointing the NMFA Board including requiring election of the Chair and Vice-Chair, specific qualifications for designees, attendance, requiring an annual work plan, staffing, board training, and requiring public comment among others. Mr. Gasparich noted that a similar bill has been pre-filed for the 2014 session.

Ms. Trujillo reported the accounting practices have been addressed; however, procedures in processes will finalize upon successfully implementing a loan servicing system. Staff training continues as does monitoring of the loan servicing software; questions and issues continually arise with the contractor who is at a standstill as to what steps to take next. Ms. Trujillo noted staff will be considering various alternative including amending the contract, replacing the contractor or recommending an entirely new system;

26. **Consideration for Acceptance of the Financial Report ending November 30, 2013.** Mr. Robert Brannon briefly highlighted the November financials reviewing the highlights. He noted that loan receivables have decreased primarily with entities prepaying loans and increases in grant portfolios. Secretary Clifford noted that operating expenses are on track with the budget.

Secretary Clifford moved, seconded by Mr. Brett Woods, for acceptance of the Financial Report ending November 30, 2013. The motion was unanimously approved.

Report from the Chairperson of the Contracts Committee. *Committee members are: Secretary Ryan Flynn, Chair; Secretary Jon Barela; Mr. Steve Kopelman; and Mr. Jerry Jones.*

27. **Update on Activities** Secretary Ryan Flynn reported on the Contracts Committee meeting held on December 17, 2013. Because a quorum was not present, Acting Chair Vince Lithgow and member Antoinette Vigil acted as a subcommittee. Staff presented the following items:
- ◆ Marquita Russel, Chief of Programs, presented an amendment to the Memorandum of Understanding (“MOU”) with the New Mexico Environment Department’s Construction Programs Bureau (CPB) for engineering review services for projects funded from the Local Government Planning Fund (LGPF). This item will go back to the Contracts Committee in January for approval when a quorum of members is able to attend.
 - ◆ Dan Opperman, General Counsel, presented the terms of the Employment Agreement for Mr. Robert Coalter, the new CEO of the Finance Authority. The subcommittee recommended the Employment Agreement be presented to the full board with a recommendation to approve.

28. Consideration for Approval of Employment Contract for Chief Executive Officer. The Contracts Committee recommends approval of the employment contract for the Chief Executive Officer.

Mr. John Gasparich and Mr. Dan Opperman reported on the agreement reached with the incoming CEO. The mutually agreed upon terms include compensation of \$160,000/year plus benefits, \$10,000 deferred compensation, relocation expenses, serves at pleasure of the Board, if terminated prior to contract end will receive 3-month severance pay and if terminated for cause receives no compensation.

Chair McDermott asked Mr. Gasparich about allocation of time for training the new CEO upon his arrival. Mr. Gasparich indicated he would be available to assist or respond to questions as needed. Secretary Clifford questioned reimbursements for relocation expenses. Mr. Gasparich said the reimbursement is a flat allowance of \$10,000 not requiring receipts. Secretary Clifford said he would prefer reimbursement for incurred expenses. Mr. Opperman responded to questions regarding sick leave pay out, annual leave and/or compensatory time accrual. Chair McDermott commented that historically big companies reimburse actual expenses; Mr. Jerry Jones noted that in some cases, paying actual expenses is not as cost effective as paying a fixed amount.

Secretary Ryan Flynn moved, seconded by Mr. William Fulginiti, for approval of the employment contract for Chief Executive Officer Robert Coalter. The motion was unanimously approved.

29. Next Board Meeting

Thursday, January 23, 2014

9:00 a.m.

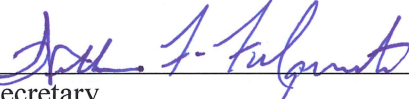
Mabry Hall – Education Building


300 Don Gaspar

Santa Fe, NM

30. Adjournment

The meeting adjourned at 12:46 a.m.


Secretary


Date