

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

**Minutes of Board Meeting
August 28, 2014
State Capitol – Room 322**

Present:

John McDermott, Chair
Katherine Ulibarri, Treasurer
David Martin
Ryan Flynn
Antoinette Vigil
Terry White
Tom Clifford
Blake Curtis
Jerry Jones (*telephonically*)
Santiago Chavez

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

Absent:

William Fulginiti, Vice-Chair

Executive Director, NMML

Finance Authority Staff:

Adam Johnson
Bryan Otero
Connie Marquez-Valencia
Donna Maestas
Dora Cde Baca
Jim Perry
Mark Dalton
Marquita Russel
Mona Killian
Theresa Garcia
Todd Johansen

Angela Quintana
Carmela Manzari
Dan Opperman
Donna Trujillo
Gloria Castillo
Leslie Medina
Mark Lovato
Michael Zavelle
Rick Martinez
Robert Coalter
Zach Dillenback

Guests:

Alex Tafoya
Charlie Deans
Eric Harrigan
Les Montoya
Linda Kehoe
Patrick W. Snedeker

San Miguel County
NMMS
RBC Capital Markets
San Miguel County
LFC
San Miguel County

Richard Virtue
Susan Rodriguez
Suzanne Bruckner
Tracy Hofmann

Virtue & Najjar
DFA – LGD
Sutin, Thayer & Browne
Sutin, Thayer & Browne

1. Call to Order and Roll Call.

Chair John McDermott called the meeting to order at 9:00 a.m. A roll call vote established a quorum.

2. Approval of Agenda.

Mr. Santiago Chavez moved, seconded by Mr. Blake Curtis, for approval of the agenda. The motion passed.

3. Approval of July 24, 2014, Board Minutes.

Ms. Antoinette Vigil moved, seconded by Mr. Terry White, for approval of the July 24, 2014 minutes. The motion passed.

4. Report from Chief Executive Officer.

- ◆ Mr. Robert Coalter provided an update on the NMFA's systems project. He noted that due to past audit findings, NMFA decided to look into a new software program that will assist the entire organization. NMFA hired Kemtah in July 2014 to assist with the project. Since that time, Kemtah has met with each staff member to review their job duties and responsibilities. Kemtah will now begin to review the gathered information and send reports back to staff, the managers and the CEO. Mr. Coalter asked Chair John McDermott, Ms. Katherine Ulibarri, and Mr. Jerry Jones to serve as members of the Steering Committee to assist in the review process. The Committee will bring updates to the Board on the progress. Mr. Coalter reported that the first phase of the project is 40% complete.

Chairman McDermott suggested that the schedule presented to the Board also include Steering Committee meeting dates and requested that Mr. Coalter update the Board at each meeting on the progress of the project.

Mr. Santiago Chavez asked if there were changes being made to the policies. Mr. Coalter replied that there are no changes being made to the policies. They are being documented in one area, so they are easier to locate.

- ◆ Mr. Coalter reported that NMFA received a deviation from the U.S. Environmental Protection Agency for the Bradner Reservoir Enlargement Project. He explained that the deviation is essential because federally funded programs prohibit funding reservoir or dam projects. The \$32 million project will be funded with capital outlay, Water Trust Board, and Drinking Water loans. Mr. Coalter and Secretary Tom Clifford commended Ms. Marquita Russel, Mr. Todd Johansen, the Drinking Water staff, and NMED for their time and effort on the project.

Chair McDermott requested that staff review the project, addressing any audit questions and/or findings prior to Board presentation.

5. **Report from Finance & Loan Committee.** Ms. Katherine Ulibarri reported on the August 20, 2014 Finance & Loan Committee meeting. The Committee reviewed and recommended approval of the projects that are to be presented next on the agenda.
6. **Consideration and Approval of Cuba Independent School District (Sandoval County – School Improvement Project – 3210-PP.** The Cuba Independent School District (“District”) applied for a PPRF loan for \$1,000,000 to finance the costs associated with various school improvements.

In February 2014, the District received voter approval for \$2,000,000 to erect, remodel, make additions to and furnish school buildings, purchase or improve school grounds, or any combination thereof within the District. The District will issue General Obligation Bonds which the NMFA will purchase with the PPRF loan fund.

The District qualifies for a PPRF disadvantaged interest rate of 0%, which has been applied to \$200,000 of the loan. The NMFA processing fee has been included in the interest rate at an additional 0.5388% above the market rate. This will yield a fee of \$7,567 (NPV of \$7,500). Including this Series 2014 issue, the District will be bonded to approximately 74% of its allowable debt capacity as approved by the voters. The District is up to date with their audits and financial reporting.

Secretary Tom Clifford questioned the 15% increase in taxable value and asked if there was a sustainable base in the evaluation. In response, Mr. Eric Harrigan, RBC Capital Markets, explained that there was a large increase in the centrally assessed value due to natural gas exploration in the region. From a financial perspective on future projections, the District anticipated that the infrastructure will be around for a period of time. Therefore, to be conservative the District estimated a 50% draw in the centrally assessed value for the year. If there is a substantial drop, there will not be a significant increase in the debt service.

There was further discussion regarding oil and gas taxes, the impact on the Ad Valorem Property tax, and whether customers pay tax in-lieu-of property tax.

Secretary Clifford asked staff to review and present a report to the Finance and Loan Committee on managing pledges against oil and gas taxes.

Ms. Katherine Ulibarri moved, seconded by Mr. Santiago Chavez, for approval of Cuba Independent School District Project 3210-PP. The motion passed.

7. **Consideration and Approval of City of Las Cruces (Doña Ana County) – Equipment Project – 3228-PP.** The City of Las Cruces (“City”) applied for PPRF financing for \$443,325 to finance the costs associated with purchasing a new Spartan ERV Series GPM Pumper.

The City will pledge its State Shared GRT as the revenue source for this loan. The City has a median household income of \$40,318, which is approximately 89% of the State's MHI. The City qualified as a disadvantaged entity and is eligible to receive up to \$75,000 at a 3% interest rate. The market rate was lower than 3% in the eight-year loan term therefore, staff did not apply the disadvantaged funding. At closing, staff will reevaluate the market rate and determine the amount of disadvantaged funding, if any. With the City's Aa3 credit rating from Moody's NMFA waived the Debt Service Reserve Fund requirement.

The City is current with its audits and financial reporting. The NMFA's Chief Financial Officer reviewed the FY 2013 audit report, which received an unmodified opinion.

Ms. Katherine Ulibarri moved, seconded by Mr. Santiago Chavez, for approval of City of Las Cruces Project 3228-PP. The motion passed.

- 8. Consideration and Approval of San Miguel County – Detention Facility – 3226-PP.** San Miguel County ("County") applied for PPRF financing for \$695,288 to plan, design, construct, equip and furnish a community-based housing structure for its inmate population.

Mr. Les Montoya, County Manager; Mr. Patrick Snedeker, Mr. Alex Tafoya, and Mr. Kevin Balzer attended on behalf of San Miguel Detention Center.

The construction project includes dorms, a dining/day room area, offices, storage, training and educational facility, maintenance workshop and installing fire sprinklers in 64 prisoner cells mandated by the State Fire Marshal.

The County will use the County Corrections Facility GRT as the pledged revenue source of the loan thus being the only pledged debt against the GRT. The County qualifies for a PPRF disadvantaged interest rate of 0%. This rate has been applied to \$200,000 of this request. Staff used the average of three years of County Corrections Facility GRT revenue to determine coverage. The County is current with its audits.

Secretary Tom Clifford reported that the Audit Committee had questions on San Miguel County's Plan of Action as well as their Audit. In response to the Committee's questions, Mr. Les Montoya reported that San Miguel County has some long standing audit findings in the Treasurer's Office. The findings are a result of the time required to balance their accounts. In order to address the problem, San Miguel County will upgrade the computer system which will update the funds electronically versus manually. Upgrading the system will provide the Treasurer's Office the means to address the audit findings. Mr. Montoya explained that the County is also addressing operational findings that are on a year-to-year basis.

Secretary Clifford noted that given the problems identified, he would like staff to structure additional compliance around the reimbursements for this project. Secretary Clifford asked if the loan amounts are on reimbursement terms. Mr. Zach Dillenback explained that the trustee holds the loan proceeds.

The County may incur costs and submit the proof of payments for reimbursements or they can submit project related invoices for NMFA to transfer funds to the vendor.

Chair John McDermott asked if previous audit findings triggered the process. Mr. Dillenback explained that NMFA has always operated in this manner. Secretary Clifford inquired if the process is a standard operating procedure. Mr. Robert Coalter noted that NMFA normally holds the proceeds. Moving forward, NMFA will keep all the proceeds from the funding and will pay out upon receiving a reimbursement request or a direct request from the entity to transfer funds to the vendor. The reimbursement process will take no longer than 24 hours.

Mr. Santiago Chavez asked if policy needs amending to change the process for payment requests. Mr. Coalter replied that the process comports with policy. Mr. Chavez commented that the same problem exists in several independent elected treasurer offices which make it difficult to correct audit findings. He commended San Miguel County for taking the first step to work on the problem.

Ms. Katherine Ulibarri moved, seconded by Mr. Santiago Chavez, for approval of San Miguel County Project 3226-PP. The motion passed.

- 9. Consideration for Approval of City of Santa Rosa (Guadalupe County) – Equipment Project - 3222-PP.** The City of Santa Rosa (“City”) applied for PPRF financing for \$61,534 to purchase and equip two police vehicles.

The City currently has seven police vehicles with one in need of repair, one being retired, and five in service for its six police officers. The Law Enforcement Protection Fund distribution for FY 2014 is \$23,000. The MHI for the County is 69.33% of the State's MHI, therefore the County qualifies for disadvantaged entity financing of 0% up to \$75,000. Because the loan amount is under \$100,000, a debt service reserve account is not required. The County is current with its audits.

Secretary Tom Clifford commented that the City of Santa Rosa’s audit finding is serious. Secretary Clifford noted that the Department of Finance and Administration (DFA) staff has reviewed the audit and is working with the City of Santa Rosa to fix the problem. He suggested monitoring the situation.

Ms. Katherine Ulibarri moved, seconded by Mr. Santiago Chavez, for approval of City of Santa Rosa Project 3222-PP. The motion passed.

- 10. Consideration for Approval of Village of San Jon (Quay County) – Amendment to Loan to Change to Subordinate Position from Parity Position with RUS - 3143-DW.** NMFA staff recommends changing the NMFA’s 3143-DW parity position to subordinate position with RUS (USDA).

On June 26, 2014, the Board approved a Drinking Water State Revolving Fund loan for the Village of San Jon (“Village”) to finance the planning and development of the final phase of a water improvement project. The loan was approved for \$50,500 with a loan component of \$37,875 and a principal forgiveness of \$12,625 with a term of 12 years. The pledged revenue source is their Net

System Revenue of the Water Utility Fund with coverage of 1.39x (1.20x minimum coverage required) and a maximum interest rate of 2.00%. The loan was presented with a parity lien structure with an outstanding RUS (USDA) loan, Series 2004 with 28 years remaining.

The Village is ready to move forward with the loan scheduled to close on September 19, 2014; however, the Village's outstanding RUS (USDA) loan agreement requires approval from RUS (USDA) for additional parity loans. RUS (USDA) staff advised that they have never approved a parity lien position and could not provide any information about the length of time needed to reach a decision. Due to the time constraint, the Village is requesting that NMFA amend its lien position from parity to subordinate.

Ms. Katherine Ulibarri moved, seconded by Mr. Santiago Chavez, for approval of Village of San Jon (Amendment to Loan to Change to Subordinate Position from Parity Position with RUS) – Project 3143-DW. The motion passed.

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.*

11. **Update on Activities.** Mr. Jerry Jones presented the Economic Development Committee report of August 20, 2014. The Committee reviewed the Private Lending Portfolio, a loan participation proposal, a request to submit an application for allocation from the CDFI Fund and an informational item. These items follow as agenda items 12 and 13.
12. **Consideration and Recommendation of Approval of \$31,875 of a Collateral Support Participation with Century Bank for a Building Purchase.** The Economic Development Committee and staff recommend approval of a request for a 15% subordinated participation with Century Bank for a loan to Bugman, Inc., a pest control business operating in northern New Mexico since 1991.

Projected cash flow from the Bugman, Inc. business is the primary repayment source with estimated minimum debt service coverage of 1.2xs secured by the Priority Interest in the property with an estimated LTV of 85%. Century Bank will originate a permanent term loan to Bugman, Inc., to purchase an existing building in Santa Fe, NM. A Real Estate Mortgage on the property located at the subject property will secure the permanent term loan. Century Bank has asked that NMFA purchase an interest in the permanent term note.

Chair John McDermott asked if the net worth is the multiple of the acquisition price of the building. Mr. John Brooks noted that the multiple is 5x the value.

Mr. Jerry Jones moved, seconded by Ms. Antoinette Vigil, for approval of \$31,875 of a Collateral Support Participation with Century Bank for a building purchase. The motion passed.

13. **Consideration and Recommendation of Approval to submit an application to the Community Development Finance Institution Fund for New Markets Tax Credit Allocation.** The Economic

Development Committee and staff recommend approval of the resolution authorizing Finance New Mexico to submit an application to the Community Development Financial Institution (“CDFI”) for \$100 million additional New Markets Tax Credit allocation.

In July 2013, the NMFA Board approved submittal of an application; however, Finance New Mexico was not successful in receiving additional allocation. The current application is due October 1, 2015.

Secretary Tom Clifford asked why NMFA had not received an allocation for the last two Rounds. Ms. Marquita Russel explained that two years ago the application was strong; however, with previously allocated funds not expended, the CDFI determined there was not an immediate need. Ms. Russel continued that NMFA received a report for the 2013 NMTC Application, which stated the application was well received and ranked in the highest percentile for four out of the five criteria; however, NMFA did not do well on the pipeline request. Ms. Russel said staff will work with Baker Tilley and the Economic Development Department in preparing the 2014 NMTC Application. Ms. Russel noted that the application will have a quality pipeline request with strong projects, strong community impact and community development.

Secretary Tom Clifford requested that staff provide the Board with a summary of funds awarded in the past.

Mr. Jerry Jones moved, seconded by Mr. Blake Curtis, for approval of the resolution authorizing Finance New Mexico to submit an application to the CDFI for \$100 million additional New Markets Tax Credit allocation. The motion passed.

14. Discussion and Support of Rule/Policy Changes to Local Government Planning Fund for Economic Development Purposes. Staff requests the review of and comments on the proposed revisions to the Local Government Planning Fund (“LGPF”) rules.

Mr. Charlie Deans, Urban Planning Program Associate, attended on behalf of New Mexico Main Street.

Ms. Marquita Russel presented proposed revisions to the LGPF rules. She noted that in addition to conforming definitions in rule to the definitions in the template closing documents and some minor clean up language, the proposed amendments address two primary purposes. The first is to put Metropolitan Redevelopment Districts (“MRD”) on parity with Local Economic Development Act projects by eliminating the Local Match requirement for MRD projects and providing a separate \$50,000 limit (per two-year period) for MRD plans, irrespective of whether the community is already at its limit for other planning documents. The second amendment provides explicitly for using Median Household Income studies in place of census data.

Ms. Russel briefly reviewed the changes that staff expects to present at the September Board meeting. The changes include allowing a monthly application process, providing additional time to approve documents and close grants, eliminating the local match requirements if specific characteristics are

met, including rate studies as a discrete unit of work eligible for reimbursement under the Asset Management Plan, and amending policies to capture approved guidance documents and assigned reviewers for some planning documents.

Secretary David Martin asked what defines an emergency for the reserve fund. Ms. Russel explained that the policy allows for entities with chronic or acute violations under the Safe Drinking Water Act. The entity will qualify if it receives a notification from the Environment Department that states they will not meet the impending Federal Regulations. Secretary Martin asked if the funds are for planning or to address the emergency. Ms. Russel replied that the funds are for planning, not design. There was further discussion regarding how to address emergencies in small communities.

Chair John McDermott noted that the mission of NMFA is to help facilitate the projects, to fund planning of projects, and to fund emergency planning of projects. NMFA's mission may need to expand to have funds to mitigate an existing emergency. Secretary Tom Clifford asked for clarification on the match requirement. Ms. Russel noted that NMFA can waive the match for projects that have an emergency or for Local Economic Development Act projects. Chair McDermott noted that further comments regarding the proposed rule changes to the Local Government Planning Fund should go directly to the staff. The Board requested electronic copies of the proposed changes for review and comment.

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.*

15. **Update on Activities.** Secretary Tom Clifford reported on the Audit Committee meeting of August 25, 2014. The Committee reviewed and discussed the following: An external audit schedule; the monthly Financials; the Internal Audit Process; and the distribution of allotment of funds. The Committee also had discussion regarding the audit findings of potential borrowers and how NMFA should follow up. Secretary Clifford requested that the Board be provided with monthly financial reports.

Report from the Chairperson of the Executive Committee. *Committee members are Mr. John McDermott, Chair; Mr. William Fulginiti; Ms. Katherine Ulibarri; and Secretary David Martin.*

16. **Update on Activities.** Mr. Rick Martinez reported on the Executive Committee meeting of August 22, 2014.

The Committee discussed proposed NMFA legislation for the 2015 Legislative Session. The items will include the Drinking Water Match appropriation, the Water Project Fund, the annual Public Project Revolving Fund authorization, the appropriation for the Local Government Planning Fund and the delegation of bond approval.

Chair John McDermott explained that it is important for all Board Members to advocate for the delegation of bond approval, noting that the approval will increase NMFA's ability to do business

more effectively. He encouraged the Board to explain to the legislators that the Board maintains the guidelines through paper issued in a public market place, and that the Board will continue to provide oversight to delegate appropriate choices. Mr. Robert Coalter noted that the Board members will have a clearer understanding during the process.

Mr. Coalter explained that NMFA needs to retrieve information from the Taxation and Revenue Department regarding the GGRT to explain to investors why the GGRT has declined. Mr. Michael Zavelle explained that NMFA's most important credit enhancement is the GGRT which impacts the NMFA's bond ratings.

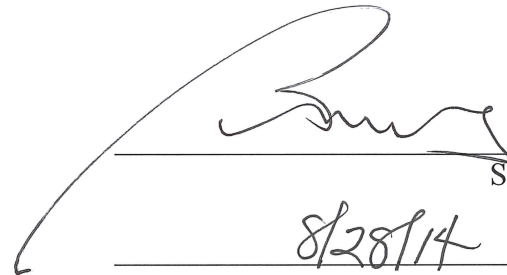
Chair McDermott asked if the request to Taxation and Revenue will require legislation or is it advocacy with the Department. Mr. Zavelle noted that NMFA is still researching what is required. Chair McDermott requested that staff find out if legislative action is required with the findings presented at the September Board meeting for discussion.

17. Next Board Meeting

Thursday, September 25, 2014 – 9:00 a.m.
State Capitol – Room 322
Santa Fe, NM

18. Adjournment

The meeting adjourned at 11:00 a.m.



Secretary
8/28/14

Date