

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

Minutes of Board Meeting
September 25, 2014
State Capitol – Room 322

Present:

John McDermott, Chair
William Fulginiti, Vice-Chair
Katherine Ulibarri, Treasurer
Brett Woods
Butch Tongate
Antoinette Vigil
Terry White
Tom Clifford
Jerry Jones (*telephonically*)
Steve Kopelman

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

Absent:

Blake Curtis

CEO, Curtis & Curtis, Inc.

Finance Authority Staff:

Adam Johnson
Carmela Manzari
Dan Opperman
Donna Maestas
Gloria Castillo
John Brooks
Mark Chaiken
Mark Lovato
Michael Zavelle
Rick Martinez
Robert Coalter
Zach Dillenback

Bryan Otero
Connie Marquez-Valencia
David Mahooty
Donna Trujillo
Jim Perry
Leslie Medina
Mark Dalton
Marquita Russel
Mona Killian
Theresa Garcia
Todd Johansen

Guests:

Alfonso E. Ortiz, Jr.
Ann M. Gallegos
Brad Patterson
Cindy Mitchell
Dale Lehman

City of Las Vegas
City of Las Vegas
Ballard Spahr
Bank of Albuquerque
Piper Jaffray

Danielle Bradford
Danielle Shuryn
Elias Espinoza
Epimenio Montoya
Elmer J. Martinez
Gene Parson
Jennifer Horton
Jill Sweeney
Ken Garcia
Kenneth Abeyta
Linda Kehoe
Richard Virtue
Sheila Hudman
Susan Rodriguez
Susen Ellis
Suzanne Bruckner
Tracy Hofmann

Piper Jaffray
NMED DWB
Lower Des Montes & Valdez MDWCA
Lower Des Montes & Valdez MDWCA
City of Las Vegas
West Las Vegas Schools
Doña Ana MDWCA
Sherman & Howard
City of Las Vegas
West Las Vegas Schools
LFC
Virtue & Najjar
Village of Santa Clara
DFA – LGD
Bank of Albuquerque
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. William Fulginiti moved, seconded by Ms. Antoinette Vigil, for approval of the agenda. The motion passed unanimously.

3. Approval of August 28, 2014, Board Minutes.

Mr. William Fulginiti moved, seconded by Mr. Terry White, for approval of the August 28, 2014 minutes. The motion passed unanimously.

4. Report from Chief Executive Officer.

- ◆ Mr. Robert Coalter, CEO, presented the Board with an update on the System Review Timeline. He reported that the policies and procedures portion of the project is 60% complete and all is going well and on target. Kentah has completed the first round of interviews with NMFA staff and are producing reports for review. He noted that he is happy with those reports and has found them to be useful. Mr. Coalter informed the Board that the Steering Committee is scheduled to meet on October 8, November 12, and December 10. Chair John McDermott requested distribution of a brief agenda defining the objectives prior to the meeting and asked that if any member of the Steering Committee has a conflict with those meeting dates, they should contact Mr. Coalter so the meetings can be rescheduled.
- ◆ Mr. Coalter reported that NMFA had a productive Oversight Committee Meeting in Belen and Los Lunas. The Committee discussed the restructure of NMFA from 2008 to date where he was able to

speaking about the importance of the processes that are taking place. He noted that the Committee members were very engaged.

5. **Report from Finance & Loan Committee.** Mr. William Fulginiti reported on the September 17, 2014 Finance & Loan Committee meeting. The Committee reviewed and recommended approval of the projects that follow.
6. **Consideration and Recommendation for Approval of Time Extensions for Local Government Planning Fund Commitments.** Staff recommends approval of extensions of funding commitments for the following Local Government Planning Fund (LGPF) applications.

In January 2013, the NMFA Board revised the LGPF Project Management policies requiring that any entity approved for an LGPF grant must close on the grant within 12 months of Board approval, unless explicitly provided otherwise by the NMFA. Further, the revised policies require approval prior to closing on the planning documents developed in accordance with NMFA Board-adopted guidance documents. Several projects require additional time to complete the document, seek approval, and close on the grant.

- **Ancones MDWCA (2935-PG)**

The Board approved Ancones MDWCA (2935-PG) on May 23, 2013 for a 100% grant up to \$25,000 to fund an Environmental Information Document (EID). Although the EID received approval, the closing is taking longer than expected due to technicalities needing resolution; however, the planning grant is now in closing. The first request expired on August 28, 2014; Ancones is seeking a second extension to October 28, 2014.

- **Buena Vista MDWCA (3021-PG)**

The Board approved Buena Vista MDWCA (3021-PG) on July 26, 2013 for a 100% grant up to \$50,000 to fund a Water Preliminary Engineering Report (PER). System complexities requiring attention delayed the process. The PER was approved and is slated to close October 24, 2014. The funding commitment expired on July 26, 2014; the MDWCA is seeking a retroactive deadline extension to October 24, 2014.

- **Upper Holman MDWCA (2893-PG)**

The Board approved Upper Holman MDWCA (2893-PG) on February 22, 2013 for a 100% grant up to \$50,000 to fund a PER. Due to system complexities that needed to be addressed in the PER, it took until recently to have the PER approved. The planning grant is now in closing. Upper Holman is seeking a deadline extension to December 19, 2014.

- **Mora County (2891-PG)**

The Board approved Mora County (2891-PG) on February 22, 2013 for a 100% grant up to \$50,000 to fund an LEDA/Comprehensive Plan. Mora County received an extension but complications prevented finalization until recently. The initial extension expired on September 22, 2014; the County seeks another extension to December 19, 2014.

- **Village of Cloudcroft (2823-PG)**

The Board approved the Village of Cloudcroft (2823-PG) on February 22, 2013 for a 100% grant up to \$50,000 to fund an LEDA/Comprehensive Plan to address and identify strategies, programs, and projects for an improved economy. The grant is now in closing but the extension

expires on September 22, 2014; the Village seeks another extension to November 21, 2014.

- **Vallecitos MDWCA (2894-PG)**

The Board approved Vallecitos MDWCA (2894-PG) on February 22, 2013 for a 100% grant up to \$50,000 to fund a Water PER. Staffing issues at the community water system delayed closing. The PER is complete and ready to close. The first extension expired on July 22, 2014; the MDWCA seeks a second extension to November 21, 2014.

- **Rowe MDWCA (2691-PG)**

The Board approved Rowe MDWCA (2691-PG) on May 23, 2013 for a 100% grant up to \$50,000 to fund a Water Plan. The initial request expired on July 22, 2014. Although closing is scheduled on September 26, 2014, staff recommends an extension to October 24, 2014.

- **Upper Arroyo Hondo MDWCA (2940-PG)**

The Board approved Upper Arroyo Hondo MDWCA (2940-PG) on May 23 2013 for a 100% grant up to \$27,000 to fund an EID. The EID received approval; however, limited staffing of the volunteer board delayed the closing process. The funding commitment initially expired on May 23, 2014 with a retroactive extension granted to August 28, 2014. A closing date of October 17 has now been set and staff recommends a second extension to complete the closing.

- **Doña Ana MDWCA (3033-PG)**

The Board approved Doña Ana MDWCA (3033-PG) on August 28, 2013 for a 100% grant up to \$50,000 to fund a Wastewater PER. Doña Ana was waiting on samples at the Wastewater Treatment Plan. The PER is expected to be corrected and returned to the NMED Construction Program Bureau at the end of September with anticipated completion of the review by the end of October. This PER commitment expired on August 23, 2014; the community requests an extension to December 19, 2014 to close.

- **Doña Ana MDWCA (3034-PG)**

The Board approved Doña Ana MDWCA (3034-PG) on August 28, 2013 for a 100% grant up to \$50,000 to fund a Water PER. The PER has now been approved but the extension expired on August 23, 2014; the water system requests an extension to November 21, 2014.

Chair John McDermott asked if the change in policy will be submitted at a later meeting. Ms. Marquita Russel explained that the committee was hoping to have a draft policy with the final LGPF rules at the September meeting; however, a committee formed under Secretary Ryan Flynn is reviewing items that include water and wastewater financing. Staff is awaiting the committee's recommendation for all funding sources that require asset management and will need approval from the NMFA Board.

There was further discussion regarding changes in policy. It is anticipated that the policy will continue to have a five-month period for procurement and matching fund obligations; however, the requirement for the 12-month period to complete the document in its entirety will be extended. Staff is also anticipating making a change in the application process that will allow time to submit more information to the consulting engineers in the small communities. Other changes will include moving from a quarterly application to a monthly application.

Chair McDermott questioned whether the projects listed were small entities with constraints on planning capabilities that require time extensions. Ms. Russel explained that most of the projects do have constraints but some projects also deal with technical issues.

Secretary Tom Clifford questioned why the entities are missing their deadlines. Ms. Russel explained that it has been a learning process for the communities. In the past, there was more flexibility with deadlines to provide documents. However, due to the changes in the planning grants and policies, the documents must meet the submittal deadline unless the entity has requested an extension prior to its deadline. Ms. Russel also noted that in the past, the contracts with the consulting engineers did not provide a timeline requirement. Staff has asked the Construction Program Bureau (CPB) to ensure that a completion date is included in the contract so that the contractors can be held to the deadline.

Secretary Clifford asked if the Board needs to approve the contracts. Ms. Russel replied that the CPB reviews the pay request and the scope of work and then approves the contract. If there is a LEDA component in the planning grants, the Economic Development Department will review and approve the contract.

Chair McDermott requested that Ms. Russel provide an overview of the projects that have required extensions. The report should include entities with limited capabilities to meet the deadlines and input from the Environment Department. Secretary Clifford asked the Environment Department to provide a report to include mandatory requirements.

Mr. William Fulginiti moved, seconded by Ms. Katherine Ulibarri, for approval of time extensions for projects 2935-PG, 3021-PG, 2893-PG, 2891-PG, 2823-PG, 2894-PG, 2691-PG, 2940-PG, 3033-PG, and 3034-PG. The motion passed unanimously.

7. Consideration for Approval of West Las Vegas School District (San Miguel County) – School Improvement/Equipment Purchase - 3237-PP. The West Las Vegas School District applied for PPRF financing for \$1,000,000 to finance school improvements and purchase equipment.

Mr. Gene Parson, Superintendent, and Mr. Kenneth Abeyta, Business Manager, attended on behalf of the West Las Vegas School District (“the District”).

The District will use the proceeds of the loan to purchase or improve school grounds, erect and remodel school buildings including but not limited to re-roofing the elementary school, renovating the middle school, implementation of the E-Rate priority infrastructure system and purchasing computer software for the public schools.

The District received voter approval at a bond election in February 2013 for \$5,000,000 with an available debt capacity of \$3,264,977 (68.74%). The District will issue its General Obligation Bonds, which NMFA will purchase with the PPRF loan fund, leaving the available debt capacity at 78.32%. The District is providing matching funds for capital outlay projects funded pursuant to the Public School Capital Outlay Act.

The District qualifies for a 0% Disadvantaged interest rate applied to \$200,000 of this request. Staff capitalized the NMFA processing fee at an interest rate of an additional .1672% above the market rate for the first 10 years of the loan yielding a fee to the NMFA of \$7,500 over the term of the loan. The financing structure includes the NMFA's maintenance fee of 0.100% applied to the entire financing structure as well as a .75% interest rate cap on the loan component for Board approval purposes.

Secretary Tom Clifford stated that there were findings with weaknesses and deficiencies on the School's audit. He noted that the Finance & Loan Committee had a vote against the project with a concern on the audit and the Committee had recommended approval with conditions. Secretary Clifford added that the Board needs to ensure that the commitments are enforced. Mr. William Fulginiti clarified that the Committee did vote 3 to 1 for approval, noting there were no material weaknesses; however, there were significant deficiencies. He added that the letter from the auditor assured that the loan would be secure.

Chair John McDermott suggested that Mr. Robert Coalter work with staff to adopt a uniform vocabulary that appears on the introductory sheet classifying material weaknesses, significant deficiencies, and whether it is a modified or unmodified opinion so there are no misunderstandings.

Mr. Kenneth Abeyta, Business Manager, explained that the major deficiency in reconciling their financial statements was with the capital assets. This past year, the District was able to reconcile both the assets and depreciation.

Ms. Donna Trujillo noted that she reviewed the financial statement, the findings, and the corrective action and determined they were appropriate. She added that the District is on the path to correcting the problems; however recommended that the project have on-going monitoring.

Mr. Gene Parson, Superintendent, explained that the District formed an Audit Committee comprised of the Superintendent, Business Manager, two School Board Members, two parents, and three at large citizens. The guidelines indicate that the Committee must meet twice per year although the Committee has decided to meet once a month and if needed, twice a month. He noted that the District is on a mission to erase as many deficiencies as possible and assured the Board that they are working on fixing the problems.

Mr. William Fulginiti noted that there was lengthy discussion at the Finance & Loan Committee meeting prior to reviewing the projects; also, a matrix for a pilot project was reviewed and discussed at the meeting. He added that in order to adopt the matrix, the language in the policy has to be changed and because that change is forthcoming, the Finance & Loan Committee has based approval of the projects on the information provided. Secretary Clifford commented that in order to feel confident that the funds are being used as authorized; the Board must understand the follow up required for the loan. He suggested that the Audit Committee schedule a work session to prepare a resolution or a policy that addresses material weaknesses and/or deficiencies.

Chair McDermott asked the Superintendent what would happen if the funding was delayed. Mr. Parson responded that delaying the loan will result in the project taking longer with the possibility of further structural damage. He noted that the District needs the funds to continue moving forward.

Mr. Terry White commented that he agrees the deficiencies are important but also believes the Board's purpose is to assure the entity has the ability to repay the loan. According to the audit, the District has the financial ability to repay the loan. Mr. White noted that the Economic Development Committee has similar problems and questioned whether NMFA is in the lending business to make money or to help entities with funding. Chair McDermott explained that the Board's mission is to deliver much needed funds to New Mexico communities at ultra-low cost funds. He noted that the protection of the default rate and the protection of the IRS statutes are critical enablers in the NMFA's AAA rating. Chair McDermott said that if there are no guidelines, it could put everything at risk.

Mr. Steve Kopelman commented that as a Board member he understands the concerns of getting the money out to the communities, to assure there is ability for repayment, and to ensure that NMFA has post issuance compliance. He noted that there are several entities with significant deficiencies and believes that NMFA will continue to see these; however, is concerned that NMFA will be turning away local governments and school districts that will not come back for loans, resulting in those needs not being met.

There was further discussion regarding the score card process and how it will affect the loans.

Mr. Brett Woods moved, seconded by Mr. Butch Tongate, to table West Las Vegas School District Project 3237-PP. The motion passed on a roll call vote with Ms. Katherine Ulibarri, Mr. Steve Kopelman, and Mr. William Fulginiti voting against the motion.

- 8. Consideration for Approval of Village of Cimarron (Colfax County) – Equipment Project – 3230-PP.** The Village of Cimarron applied for PPRF financing for \$191,436 for purchasing a new Class A Fire Pumper to replace aging equipment.

The Village currently has two fire trucks that will be retired. Due to the current drought conditions and the ongoing fire season, the fire pumper is an urgent need for the Village to protect the health, safety, and welfare of the community. The State Fire Marshal has approved this project.

The Village will pledge its State Fire Protection Fund as the revenue source for this loan. Currently the Cimarron Fire Department has an ISO class rating of 5, with one main station and receives a guaranteed annual base distribution of \$61,667. The Village will contribute \$162,104 of accumulated fire funds toward this project. The Village may qualify for 3% Disadvantaged Funding but with current rates below 3%, staff will utilize the Disadvantaged Funding should rates increase.

The Village is current with its FY 2013 audit. The report had an unmodified opinion; however, there are significant deficiencies on their FY2013 audit.

Secretary Tom Clifford noted that there was discussion at the Finance & Loan Committee regarding the audit issues, with approval based on placing conditions on the loan. Mr. William Fulginiti noted that he did not recall any conditions. Ms. Donna Trujillo commented that there were no conditions placed on the loan; but there were health and safety concerns. She will follow-up with the Board and provide conditions on the loan.

Mr. William Fulginiti moved, seconded by Mr. Steve Kopelman, for approval of Village of Cimarron Project 3230-PP. The motion passed unanimously.

- 9. Consideration for Approval of Estancia Valley Solid Waste Authority (Torrance County) – Equipment Project - 3244-PP.** The Estancia Valley Solid Waste Authority (“EVSWA”) applied for PPRF financing for \$418,630 to purchase solid waste equipment.

EVSWA provides solid waste services to its members and their constituents, including Torrance County, Encino, Estancia, Moriarty, Mountainair, Willard, and Vaughn. Their operations have grown in the last year and further expansion is currently underway. EVSWA will use the proceeds of this loan in conjunction with cash to purchase a landfill compactor.

EVSWA is pledging its net system revenues and the Environmental GRT. The combined pledge revenue has increased over the last 3 years; therefore, staff used an average to determine the coverage ratio. EVSWA qualifies for the Disadvantaged rate of 0% applied to \$75,000 of the request and is contributing \$300,000 of reserve cash for the project.

The Authority is current with its Audits and financial reporting.

Mr. William Fulginiti moved, seconded by Ms. Katherine Ulibarri, for approval of Estancia Valley Solid Waste Authority Project 3230-PP. The motion passed unanimously.

- 10. Consideration for Approval of City of Las Vegas (San Miguel County) – Amended & Restated Loan Agreements - 0218-WTB & 0219-WTB.** The City of Las Vegas requests approval to amend and restate two Water Project Fund loans converting the loans from 40% to 10% loans.

Mayor Alfonso Ortiz, Mr. Ken Garcia, Ms. Ann Marie Gallegos, and Mr. Elmer Martinez attended on behalf of the City of Las Vegas

In 2007, the Water Trust Board (“WTB”) approved comprehensive project management policies that, among other things, provided for all applicants supported by rate paying constituencies to accept a portion of their WTB funding in the form of a low-cost loan. The size of the loan varies based upon the historic revenues of the applicants, with a minimum of 10% and a maximum of 40%. In June 2011, the WTB recommended to the NMFA a list of projects for funding from the Water Project Fund, including two projects for the City of Las Vegas: #0218-WTB for \$330,000 and #0219-WTB for \$1,546,162, both structured with the maximum loan of 40% and the remaining 60% as grants. At that

time, the City demonstrated capacity to undertake 40% loans as it had recently passed large rate increases to fund a number of critical water projects across the City. Despite this demonstration of capacity, the City asked the Board to structure the funding with 10% loans because the City needed the revenue capacity to undertake other loans for priority water projects. While the NMFA Board considered the request, it ultimately approved the staff-recommended 40% loans but advised the City it could request a reduced loan at the time the need for revenue capacity became evident. Since this time, the City has taken a number of loans from the NMFA and WTB to fund a variety of water projects.

In August, the City of Las Vegas applied for a \$20 million DWSRLF loan to finance a portion of the Bradner Reservoir Enlargement project. The City is funding this project with \$10 million in Capital Outlay, \$4 million in Water Trust Board grant/loans and the DWSRLF loan. Despite receiving approximately \$3 million of principal forgiveness, the City will be relying on projected income to meet loan coverage requirements. Accordingly, the City requests that the NMFA convert 2011 WTB loans #0218-WTB and #0219-WTB to 10% loans for their remaining terms to help increase the coverage on the DWSRLF loan #3142-DW.

Because the spirit of the WTB policies is to size the loan to the capacity of the WTB recipient, staff recommends amending and restating WTB loans #0218-WTB and #0219-WTB to convert the remaining payments to 10% loan components and the remainder to grant.

Secretary Tom Clifford explained that the loan component of the Water Project Funding is an important budgetary item as it funds part of the staff. He then asked for an explanation on the impact on the revenues. Ms. Marquita Russel informed him that there will not be a major impact on the revenues received.

On behalf of the City of Las Vegas, Mr. Ken Garcia thanked the NMFA Board and all others involved for their support noting that the project is thirty years in the making and the loan is significant.

Mr. William Fulginiti moved, seconded by Mr. Steve Kopelman, for approval of City of Las Vegas' Project 0218-WTB and Project 0219-WTB. The motion passed unanimously.

- 11. Consideration for Approval City of Las Vegas – Bradner Reservoir (San Miguel County) – Water System Improvement Project – 3142-DW.** The City of Las Vegas has applied for DWSRLF funding for \$20,200,000 to finance water system improvements.

*The City is eligible to receive up to 75% Base Principal Forgiveness; however, current availability is limited to 17.31%.

On August 18, 2014, the City's deviation request from 40 CFR 35.3520(e)(1) and (3), which prohibits the DWSRLF from financing dams and reservoirs, was approved by the U.S. Environmental Protection Agency (EPA). The approval addresses water supply issues as the City does not have adequate surface water storage to meet the existing water demands where ground water availability is limited, and of

low quality thereby posing a significant public health threat. The Bradner Reservoir is the third national reservoir/dam to receive EPA approval for deviation, but is the first reservoir project to address drinking water supply issues.

The City will use the proceeds of this loan to finance the enlargement of the Bradner Reservoir. The expanded Reservoir will allow the City to provide sufficient drinking water. Upon completion of the project, the Reservoir will have the ability to hold a year's worth or approximately 3,000 acre-feet of water. The enlargement of the Bradner Reservoir is the first identified solution in the City's Preliminary Engineering Report. The City provides water services to a community of 19,000 residents with 6,039 residential and 824 commercial customers.

With MHI of \$24,893 (55.48% vs. the State MHI), the City qualifies as an extremely disadvantaged entity whereby the first \$600,000 of the loan is priced at 0% plus the 0.25% administrative fee as well as loan term up to 32 years, inclusive of a 2-year interest only period for construction. Pricing for the remaining \$16,103,011 of the loan is at 2.00%; the City has opted for a total loan term of 30 years inclusive of the 2-year construction period. The City is eligible to receive principal forgiveness subsidy up to 75% or \$15,000,000. The current remaining subsidy available to the City from eligible capitalization grants is equal to 17.31% or \$3,496,989.

The pledge for this loan will consist of net system revenues of the City's Water Utility Fund. Historical net system revenues, including preliminary FY 2014 figures, reflect an increasing trend. Including a rate increase implemented in 2012, the City provided projections for FYs 2015 through 2017, whereby they estimate sales to increase 3% year over year. Staff used the conservative projected year of FY 2015 to serve as base revenues in determining debt service coverage. DWSRLF policy requires minimum debt service coverage of 1.30xs when utilizing projections. The City meets this requirement with senior debt service coverage of 1.37xs throughout the life of the loan.

The City is current with its audits and financial reporting. The 2013 audit yielded an unmodified opinion with 10 findings.

Mr. William Fulginiti noted that the Finance & Loan Committee discussed the audit findings. Chair McDermott asked how NMFA can assure the revenues will pay the loan using the current system projections. Mr. David Mahooty explained that staff felt comfortable with the projections utilized for 2015 and subsequent years and therefore used those for the life of the term.

Secretary Tom Clifford asked Ms. Ann Marie Gallegos, Finance Director how she addressed the staffing issues and the IT problems. Ms. Gallegos explained that she addressed the problems with the staff and they have converted to a new system. There was further discussion regarding the past audits and how the findings are being addressed. Ms. Gallegos noted that she is fully confident that there will be a significant drop in audit findings with future audits.

Mr. William Fulginiti moved, seconded by Ms. Katherine Ulibarri, for approval of City of Las Vegas Project 3142-DW. The motion passed unanimously.

- 12. Consideration for Approval of Upper La Plata Mutual Domestic Water Users Association (San Juan County) – Water Line Improvements – 3233-DW.** The Upper La Plata MDWUA has applied for DWSRLF funding for \$884,898 to finance waterline improvements.

The Association is a small and rural mutual domestic water association with 751 customers serving a population of over 2,620 residents. The loan proceeds will finance waterline installations and upgrades to meet current demand compliant with American Water Works Association C600 and C601 standards, improve water quality, and address health, safety, and welfare.

The Association's net system revenues will serve as the pledge for this loan. Net system revenues reflect a 3-year decreasing trend; staff used the conservative year (FY 2013) to serve as base revenues in determining debt service coverage. The decreasing trend is a result of required capital expenditures made over the past few years; however, the Association anticipates revenues to reflect a modest improvement for FY 2014. The last rate increase was in July 2012. The 2.00% interest rate, which is inclusive of the 0.25% administrative fee, is based on the Association being a public system.

The Association's FYE 2012 and 2013 financial statements were not prepared in accordance with Section 12-6-3(B) NMSA 1978 and Section 2.2.2.16 NMAC. The Association is currently obtaining a quote from a State approved auditor to perform audits in compliance with the Audit Act for FYs 2012, 2013 and 2014. Because prior financial statement were prepared by an independent auditor, staff deemed the historical audits used in analyzing the loan request as representative of the Association's operations.

Mr. William Fulginiti moved, seconded by Mr. Steve Kopelman, for approval of La Plata MDWUA Project 3233-DW. The motion passed unanimously.

- 13. Consideration for Approval of Doña Ana Mutual Domestic Water Consumers Association (MDWCA) – Amended & Restated Loan Agreement – 2868-DW.** Doña Ana MDWCA requests approval to amend Loan 2868-DW which closed in a senior parity position rather than a subordinate position.

The NMFA Board approved Drinking Water State Revolving Fund Loan 2868-DW for Doña Ana MDWCA to finance the purchase and installation of an Automatic Meter Reading System and Phase II of a SCADA system. The approved loan amount was \$2,059,390, which consisted of a principal forgiveness subsidy portion of \$514,848. The repayment amount of the loan was \$1,544,542 with a loan term 22 years. The pledged revenue source was the Net System Revenues of the Water and Sewer Fund, with a minimum debt service coverage ratio of 2.76x (1.20x minimum coverage required) and a maximum interest rate of 2.00%. The loan closed on May 3, 2013.

During the underwriting process for a new Drinking Water loan, 3227-DW, presented at this Board meeting, it was discovered that the existing loan 2868-DW was presented and closed as a senior lien parity debt to an outstanding USDA loan, RUS Series 2001, maturing in 2041. USDA loan

agreements require that all non-USDA debt must be subordinate therefore the need to change the position of loan 2868-DW from senior to subordinate.

Mr. William Fulginiti moved, seconded by Ms. Katherine Ulibarri, to approve Doña Ana County Project 2868-DW. The motion passed unanimously.

- 14. Consideration for Approval of Doña Ana Mutual Domestic Water Consumers Association – Water Project – 3227-DW.** Doña Ana MDWCA applied for DWSRLF financing for \$2,777,500 to finance two water projects.

Ms. Jennifer Horton, Executive Director, attended on behalf of Doña Ana Mutual Domestic Water Consumers Association.

The Association will use the proceeds of this loan in conjunction with the 2013 Water Trust Board funding award and a 2014 Colonias award for water projects in Fairview Estates and Picacho Hills. The Fairview Estates project consists of replacing the 1.5 inch diameter lines with 6-8 inch diameter lines, and connecting the Fairview lines to the Doña Ana MDWCA water system. The Picacho Hills project consists of replacing an old water tank with two new storage tanks.

The Association has pledged the net system revenues of their water and sewer fund as security and repayment of this loan. Prior to 2013, the Association had approximately 3855 connections. In 2013 the Association purchased three private water systems; Picacho Hills, Fairview Estates, and Fort Selden adding an additional 1352 connections to the system for a total of 5207 connections. The revenues from the new connections significantly increased the Association's total net system revenues.

As the FY2014 financials are not yet available, staff used a four year average of net system revenues to determine debt service coverage. The Association is eligible to receive the base principal forgiveness subsidy of 25%. The Association is current with their audits and financial reporting. The FY 2013 audit has an unmodified opinion with four findings. NMFA's CFO has reviewed the audit reports.

Mr. William Fulginiti moved, seconded by Ms. Katherine Ulibarri, for approval of Doña Ana MDWCA Project 3227-DW. The motion passed unanimously.

- 15. Consideration for Approval of Village of Santa Clara (Grant County) – Water System Improvement Project – 3235-DW.** The Village of Santa Clara applied for DWSRLF financing for \$731,912 to finance the installation of a SCADA system, solar pumps, and meters.

Ms. Sheila Hudman, Treasurer, attended on behalf of the Village of Santa Clara.

*The Village is eligible to receive 75% in Principal Forgiveness 25% Base Forgiveness and 50% for a Severely Disadvantaged Community.

The Village will use the proceeds of this loan to complete the supervisory control and data acquisition (SCADA) system, purchase and install electronic read meters, and install a solar power

system for the wells and booster pumps. The electronic read meters will allow the Village to more accurately determine usage, and save time in the reading process. The solar pump system will reduce the electricity bill for the Village.

The Village pledged the net system revenues of their water & sewer fund as security and repayment of this loan. Staff used a three year average of net system revenues to determine debt service coverage. The Village is a severely disadvantaged entity and is eligible to receive a principal forgiveness subsidy of 75% (\$548,934). The Village is current with their audits and financial reporting. The FY 2013 audit has an unmodified opinion; the NMFA's CFO reviewed the audit.

Ms. Donna Trujillo noted that she and Ms. Sheila Hudman had discussed the findings and the Corrective Action Plan, which is appropriate for the audit findings. The Village of Santa Clara is on track for improvement. Secretary Tom Clifford asked if the 2014 financials were reviewed. Ms. Trujillo responded that the 2014 Audit is not due yet; however, in reviewing the information. all the 2013 audit findings are being addressed.

The Board was informed that Ms. Sheila Hudman has been in the position for one year. She has corrected many problems, and made changes with the staff and their segregation. The upgraded IT System now provides an audit trail and has the ability to track which staff member is making adjustments.

Mr. William Fulginiti moved, seconded by Mr. Steve Kopelman, for approval of Village of Santa Clara Project 3235-DW. The motion passed unanimously.

- 16. Consideration for Approval of Lower Des Montes Mutual Domestic Water Consumers Association (Taos County) – Water System Improvement Project – 3239-DW.** Lower Des Montes MDWCA applied for DWSRLF funding for \$318,890 to finance the rehabilitation of the water system.

Mr. Elias Espinoza and Mr. Epimenio Montoya attended on behalf of the Lower Des Montes Mutual Domestic Water Consumers Association.

*The Association is eligible to receive 50% in Principal Forgiveness on the new money loan portion, 25% Base Forgiveness and 25% for a Disadvantaged Community.

This loan consists of a refunding portion and a new money component. The Association will refund \$56,290 of an existing NMED Rural Infrastructure Project (RIP) carrying a higher interest rate. The new money portion of the loan includes the 50% subsidy totaling \$262,600. The loan proceeds will finance the first phase of the rehabilitation of the water system including replacement or repair of water storage tanks, pump station, PRV station, aging waterlines, and new radio read water meters, fire hydrants, and disinfection systems. Lower Des Montes MDWCA and Valdez MDWCA, an adjacent system, plan to merge administrative offices to decrease operational costs.

The Association has pledged the net system revenues of their water system as security and repayment of this loan. Staff used a three year average of the net system revenues to determine debt service coverage.

Secretary Tom Clifford asked whether the list of Readiness to Proceed items is usually long. Ms. Donna Maestas explained that Drinking Water loans usually have more requirements due to the construction period and final closing. Mr. Todd Johansen added that the Federal Government requirements are due before the closing and entities have six months to complete the documents. Secretary Clifford suggested that a timeline on the Readiness to Proceed items be provided.

Secretary Clifford asked whether the Lower Des Montes Mutual Domestic Water Consumers Association is a small entity that does not require an audit. Ms. Maestas replied that the entity is a Tier 2 and they are in compliance.

Mr. William Fulginiti moved, seconded by Mr. Butch Tongate, for approval of Lower Des Montes MDWCA Project 3239-DW. The motion passed unanimously.

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.*

17. **Update on Activities.** Mr. Jerry Jones reported on the Economic Development Committee meeting of September 17, 2014. The Committee reviewed the Private Lending Portfolio, a prioritization of projects for Round 16 NMTC applications and a recommendation of appointment to the Finance New Mexico Advisory Board. These items will follow as items 18-19.

Ms. Katherine Ulibarri departed the meeting.

18. **Consideration for Approval Prioritization of Round 16 New Markets Tax Credit Applications.** The Economic Development Committee and staff recommend approval of prioritization for the Rural Round 16 of the New Markets Tax Credit (“NMTC”) applications.

The NMFA received three complete applications which the review team reviewed and scored. Pursuant to policy, projects appearing on the NMTC priority list must have an average minimum score of 60 points and determined to be at least “moderate” readiness for the project to move forward. All three applications received a score of at least 60 points with two receiving a clear “Moderate or High” readiness determination which allows them to move forward. The third project is not expected to move forward for several months thus staff’s recommendation for not moving forward at this time.

Staff will complete its due diligence to determine if the project complies with NMFA’s underwriting criteria and ability to close within five months. Upon meeting those conditions, staff submits a recommendation to the Finance New Mexico Advisory Board and NMFA Board of Directors for a Preliminary Approval, which sets the parameters for NMTC financing. Projects receiving Preliminary Approval have 90 days to execute a financing term sheet and an additional 60 days to document and close the transaction.

<u>Rank</u>	<u>Score</u>	<u>Applicant</u>	<u>Readiness</u>	<u>Authority</u>
1	70.29	Tucumcari Mountain Cheese (Quay)	Mod	\$ 4,300,000
2	69.86	Plaza Hotel/Hotel Castaneda (San Miguel)	Mod	4,654,000
3	66.14	Cogenra Solar, Inc.	Low	4,600,000
Total Allocation Requested for Rural Round 16 Projects				\$13,554,000

Secretary Tom Clifford asked for clarification on the term “moderate readiness to proceed.” Ms. Marquita Russel explained that an entity may not have secured the loan or there may be problems with site control issues and the timing of final plans and specs. She noted that New Markets loans cannot close until everything is in place.

Mr. Jerry Jones moved, seconded by Mr. William Fulginiti, for approval of prioritization of Round 16 New Markets Tax Credit applications. The motion passed unanimously.

- 19. Appointment of Finance New Mexico, LLC Advisory Board Member.** Staff recommended approval of the appointment of Chair John McDermott to the Finance New Mexico LLC Advisory Board.

Earlier in 2014, Mayor Andres Silva, a founding member of the Advisory Board succumbed to cancer leaving the Board one member short to be compliant with its Operating Agreement and therefore not compliant with the allocation agreement. In order to stay compliant, Finance New Mexico needs to add one Board member that has a statewide representation. This nomination will keep Finance New Mexico compliant and will allow staff to submit an application by October 1st for additional allocation from the CDFI Fund.

Staff recommends that Chair John McDermott serve as a member on the Finance New Mexico, LLC Advisory Board to fill the vacancy of Mayor Andres Silva.

Secretary Tom Clifford moved, seconded by Mr. Brett Woods, to approve the appointment of Chair John McDermott to the Finance New Mexico, LLC Advisory Board. The motion passed unanimously.

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.*

- 20. Update on Activities.** Secretary Tom Clifford reported on the Audit Committee meeting of September 22, 2014. The Committee reviewed and discussed the Financial Statements for the month ending August 31, 2014. Also discussed were audit findings of potential borrowers. Ms. Donna Trujillo presented the revised criteria and oversight requirements for the Public Projects Revolving Loan Fund (PPRF). There was extensive discussion regarding the criteria. Some members felt that loan applicants perceive it as punitive and others felt that the criteria should be applied on a “test bases” and not presented publicly to the full Board until all members are comfortable with the criteria and its application.

The Board was informed that two proposals for Internal Auditor were received in response to the RFP. The two firms made oral presentations to the RFP sub-committee, with a recommendation submitted to the Contracts Committee for approval of the contract.

21. **Consideration for Acceptance of the Financial Reporting ending August 31, 2014.** Ms. Donna Trujillo, CFO, presented the financial report.

Ms. Trujillo presented the Board with a Financial Report for the month ending August 31, 2014. She briefly gave an analysis of the Balance Sheet, the Revenue and Expense and the Budget to Actuals.

Secretary Tom Clifford moved, seconded by Ms. Antoinette Vigil, for acceptance of the Financial Report ending August 31, 2014. The motion passed unanimously.

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.*

22. **Update on Activities.** Mr. Dan Opperman, General Counsel, reported on the Contracts Committee meeting of September 22, 2015. The one agenda item was consideration for awarding the Internal Auditor contract to McGladrey, LLP.

23. **Consideration for Approval of the Internal Audit Contract.** The Contracts Committee recommended approval of the contract for internal auditor to McGladrey LLP.

Secretary Tom Clifford questioned the RFP process asking if the Board reviewed and approved the scope of work on the RFP. Ms. Donna Trujillo replied that the Board did approve the RFP before issuance. Secretary Clifford further asked if the RFP captured the dashboard components. Ms. Trujillo explained that the external auditor will identify those items. Mr. Robert Coalter added that the scope of work for the internal auditor included review of all the work and the findings of the external auditor to assure compliance.

Secretary Clifford questioned the time it took to find an internal auditor. Mr. Coalter explained that NMFA reached out nationally to attract firms that have the ability to perform the needs of NMFA. Chair John McDermott commented that he is pleased with the process and commended the Audit Committee and NMFA staff for their work.

Secretary Tom Clifford moved, seconded by Mr. Brett Woods, to approve the recommendation. The motion passed unanimously.

24. **Board Training – “Bond Disclosures Responsibilities”**

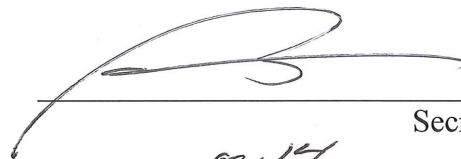
Mr. Dan Opperman, Ms. Jill Sweeney, Mr. Brad Patterson, and Mr. Michael Zavelle presented training on Bond Disclosures Responsibilities.

25. Next Board Meeting

Thursday, October 23, 2014 – 9:00 a.m.
State Capitol – Room 322
Santa Fe, NM

26. Adjournment

The meeting adjourned at 12:45 p.m.



Secretary

10.23.14

Date