STATE OF NEW MEXICO
CLEAN WATER STATE REVOLVING FUND
ANNUAL REPORT
STATE FISCAL YEAR 2019
July 1, 2018 - June 30, 2019

City of Farmington Treatment Basins

New Mexico Environment Department
Water Protection Division
Construction Programs Bureau
1190 St. Francis Drive Rm. S2072
P.O. Box 5469
Santa Fe, New Mexico 87502
(505) 827-2806
EPA Region 6
<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. INTRODUCTION ..................................................................................</td>
<td>3</td>
</tr>
<tr>
<td>II. PROGRAMMATIC DISCUSSION ................................................................</td>
<td>3</td>
</tr>
<tr>
<td>A. Financial Highlights for State Fiscal Year 2019 .......................</td>
<td>3</td>
</tr>
<tr>
<td>B. Fund 12100 – The Loan Fund ....................................................</td>
<td>3</td>
</tr>
<tr>
<td>C. Factors Affecting the Fund .......................................................</td>
<td>4</td>
</tr>
<tr>
<td>D. Interest Rate Structure ...........................................................</td>
<td>5</td>
</tr>
<tr>
<td>E. Activities of the Program .......................................................</td>
<td>5</td>
</tr>
<tr>
<td>F. Cash Flow Model ..........................................................................</td>
<td>6</td>
</tr>
<tr>
<td>III. GOALS, OBJECTIVES, AND ACCOMPLISHMENTS ..................................</td>
<td>8</td>
</tr>
<tr>
<td>A. Long-term Goals ..........................................................................</td>
<td>8</td>
</tr>
<tr>
<td>B. Short-term Goals .........................................................................</td>
<td>11</td>
</tr>
<tr>
<td>IV. FUND ADMINISTRATION AND OPERATIONS .........................................</td>
<td>14</td>
</tr>
<tr>
<td>A. Sources and Uses of Funds .......................................................</td>
<td>14</td>
</tr>
<tr>
<td>B. Administrative Portion ..................................................................</td>
<td>14</td>
</tr>
<tr>
<td>C. CWSRF Administrative Fund Activity ..........................................</td>
<td>14</td>
</tr>
<tr>
<td>D. Assistance Activity .....................................................................</td>
<td>15</td>
</tr>
<tr>
<td>E. Criteria and Method Established for Distribution of Funds (Title VI)</td>
<td>16</td>
</tr>
<tr>
<td>F. Environmental Reviews ..................................................................</td>
<td>18</td>
</tr>
<tr>
<td>G. American Iron and Steel (AIS) ....................................................</td>
<td>18</td>
</tr>
<tr>
<td>H. Davis-Bacon ..................................................................................</td>
<td>18</td>
</tr>
<tr>
<td>I. Generally Accepted Accounting Principles (GAAP) ..........................</td>
<td>18</td>
</tr>
<tr>
<td>J. Use of Fees ..................................................................................</td>
<td>18</td>
</tr>
<tr>
<td>K. Expanded Eligibilities and Borrowers ........................................</td>
<td>19</td>
</tr>
<tr>
<td>L. Loan Terms Up to 30 Years .......................................................</td>
<td>19</td>
</tr>
<tr>
<td>M. Fiscal Sustainability Plans (FSP) ...............................................</td>
<td>19</td>
</tr>
<tr>
<td>N. Administrative Costs .....................................................................</td>
<td>19</td>
</tr>
<tr>
<td>O. Definition of 212 Projects .......................................................</td>
<td>19</td>
</tr>
<tr>
<td>P. Provisions of the Operating Agreement/Condition of Grant Agreement</td>
<td>19</td>
</tr>
<tr>
<td>V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ..........................</td>
<td>23</td>
</tr>
<tr>
<td>VI. ACCRUED INTEREST RECEIVABLE ON CONSTRUCTION LOANS .............</td>
<td>23</td>
</tr>
<tr>
<td>VII. DISCUSSION OF ADMINISTRATIVE REIMBURSEMENT PROCESS ..........</td>
<td>23</td>
</tr>
<tr>
<td>VIII. FINANCIAL INDICATORS ..........................................................</td>
<td>23</td>
</tr>
<tr>
<td>IX. CONCLUSION ...................................................................................</td>
<td>25</td>
</tr>
</tbody>
</table>
FIGURES

1. New Mexico CWSRF Increase in Fund 12100 Net Position .............................................................. 4
2. CWSRF Funds Disbursed 2010-2019 ..................................................................................................... 6
3. New Mexico CWSRF Cash Flow Projection Five Year Chart ............................................................ 7
4. New Mexico CWSRF Cash Flow Projection Twenty Year Chart ....................................................... 7
5. New Mexico Clean Water Admin Fund 32700 ...................................................................................... 15
6. CWSRF New Loan/Subsidy Agreements Signed per State Fiscal Year ............................................. 16

ATTACHMENTS

1. SFY 2019 Detail of Binding Commitments to Date
2. Federal Awards and State Match Through SFY 2019
3. Binding Commitments With-in One Year of Increase to EPA-ACH as of June 30, 2019
4. SFY 2019 Repayment Principal/Interest/Construction Interest/Admin Fee Receipt Register
5. SFY 2019 Schedule of Disbursements
6. SFY 2019 Summary of Projects under Construction
7. SFY 2019 Summary of Projects in Repayment
8. Projects That Support Sustainability Criteria
9. Identified Green Project Reserve for FFY 18 Allotment – 2018 CG
10. Identified Subsidy for FFY 18 Allotment – 2018 CG
11. Cash Flow Projections
12. SFY 2019 Draft Financial Statements
I. INTRODUCTION

The Federal Water Pollution Control Act more commonly called the Clean Water Act (CWA) was enacted by Federal Legislation in 1972. The amended Clean Water Act of 1987 created the Clean Water State Revolving Fund (CWSRF). The State of New Mexico CWSRF Program (Program) was established in 1986 pursuant to the New Mexico Wastewater Facility Construction Loan Act, Section 74-6A-1 et seq, and as amended the New Mexico Statutes Annotated (NMSA) 1978.

The Program provides eligible borrowers in New Mexico with low-cost financial assistance for the construction of wastewater facilities or other eligible water quality projects. The loan program is maintained into perpetuity by adding repayment principal, interest, and investment interest to the fund. The Program has provided over $445 million in funding for water quality protection to date (Attachment 1).

The State of New Mexico hereby submits the CWSRF Annual Report for state fiscal year (SFY) 2019. This report addresses how New Mexico worked toward the goals and objectives of the CWSRF Program identified in the approved SFY 2019 Intended Use Plan (IUP). This report describes the actual uses of CWSRF funds and the financial position of the Program.

II. PROGRAMMATIC DISCUSSION

The following sections report the financial activities and other elements impacting the CWSRF during SFY 2019.

A. Financial Highlights for State Fiscal Year 2019

- At the close of SFY 2019, fund 12100 reported a total net position of $332,360,451, an increase of $13,234,729. This represents an increase of 4.1%. (Attachment 12).
- The Program was awarded one capitalization grant (Cap Grant) for state fiscal year 2019 (Federal Fiscal Year 2018) of $7,859,000 (Attachment 2).
- The Program collected $9,404,660 in loan repayment principal, $1,652,897 in loan repayment interest, and $525,753 in administrative fees for a total of $11,583,310 (Attachment 4) in SFY 2019.
- Fund 12100 earned $4,808,377 and Fund 32700 earned $85,576 (Attachment 12) of interest income on overnight funds deposited at the State Treasurer’s Office for a total of $4,893,953 in earned interest during SFY 2019.
- The Program disbursed $16,009,065 for projects in SFY 2019 (Attachment 5).

B. Fund 12100 – The Loan Fund

The loan fund 12100 statement of net position shows that the fund grew by $13.2 million during SFY 2019. The chart represented in Figure 1 represents the cumulative growth of the fund.
C. Factors Affecting the Fund

Multiple factors impact the performance of the Fund including competing programs, additional subsidization, and investment earnings.

The Program competes with and complements the Capital Outlay Special Appropriation Program (CO SAP) and the Rural Infrastructure Revolving Loan Program (RIP). The CO SAP provides communities with 100% grant funding via legislative appropriations. In 2019, the legislature appropriated $20,439,872 million to the CO SAP program for 29 wastewater projects. The RIP program provides loan and subsidy funding to rural communities. This program has an open application cycle and quick loan execution but has population restrictions and a maximum loan amount of two million dollars per year. The RIP program funded $2,000,000 in wastewater projects for SFY 2019. CO SAP and RIP provide some opportunities for co-funding with the CWSRF, but also compete with the CWSRF.

The Water Resources Reform and Development Act (WRRDA) allows the Program to provide communities with up to 30% of the federal Cap Grant awarded to NMED as additional subsidization. The FFY 2018 allotment, utilized in SFY 2019, also mandated an additional 10% of the award for use as additional subsidization not subject to WRRDA restrictions. The Program provided total additional subsidization of $1,485,000 in SFY 2019 (Attachment 1) to new and amended loans, this was $86,800 less than was allowed. Subsidy not awarded in SFY 2019 was saved for future projects. Additional subsidization, combined with low interest rates, allows the Program to provide funding packages for projects that may otherwise be too expensive for the rural and economically challenged communities of New Mexico.
D. Interest Rate Structure

The NM CWSRF’s base rate is 2.375%. The State has three hardship rates; 1.2% for entities with a per capita income (PCI) less than the statewide average; 0.6% for entities with a PCI less than three-fourths of the statewide average; and 0% when the PCI is less than three-quarters of the statewide PCI and the average sewer user rate is greater than 1.82% of the PCI. The rate for private entities is 2.375%. Low rates allow the Program to provide affordable financing to New Mexico entities.

E. Activities of the Program

As of June 30, 2019, the Program had 41 projects in process. The Program drew down all the FFY 2018 Allotment and disbursed a total of $16,009,065 (Attachment 5 and Figure 2) in SFY 2019.
F. Cash Flow Model

A cash flow model is used as a management tool for the Program by tracking cash reserves after adjusting revenues and expenses. The cash flow model is reviewed and updated annually to reflect economic and programmatic changes projected through twenty-year projections (Attachment 11).

The five-year cash flow model (Figure 3), and the twenty-year cash flow model (Figure 4) demonstrate that the CWSRF has the funds to support projected projects, and to increase funding where possible through enhanced outreach, expanded eligibilities and other funding opportunities. The projected cash flow shows the CWSRF can continue to effectively execute loans for environmentally important projects needed in New Mexico.

Annual sources of cash include Cap Grant, state match, loan repayments for principal, and interest and overnight interest on investments. Annual uses of cash include loan and subsidy disbursements and administrative expenses.
III. GOALS, OBJECTIVES, AND ACCOMPLISHMENTS

The Intended Use Plan for the SFY 2019 listed specific goals, objectives, and accomplishments; the following is a summary on the success of our efforts.

A. Long-term Goals

1. Provide local authorities, state agencies, interstate agencies and other qualified borrowers in New Mexico with low-cost financial assistance for the construction of wastewater facilities or other eligible water quality projects by maintaining a self-sustaining Clean Water State Revolving Fund (CWSRF).

   This is an on-going goal for the Program. Low interest rates and full utilization of additional subsidization allow the Program to offer New Mexico entities affordable financing. Changes to state statute in 2018 allow for expanded eligibilities and borrowers. In SFY 2019, the Program solicited a wider range of projects and non-traditional borrowers in an effort to fund more eligible water quality projects.

2. Maintain the CWSRF into perpetuity by adding repayment and investment interest to the Fund.

   The State tracks fund balances that include interest revenue, principal repayments, and investment activity with the intent of maintaining the Fund into perpetuity. Annual increases in net position, no loans in default, a growing loan portfolio, low expenses, and average annual increases in Net Position help to achieve this goal (Attachment 12).

   At the end of SFY 2019, there were 49 loans in repayment (Attachment 7). Loan repayments help provide funds that ensure a robust NM CWSRF program into perpetuity.

   Cash balances are invested by the New Mexico State Treasurer’s Office (NM STO). The NM STO investment policy ensures that the CWSRF investments are sound and adequately positioned for the best return at limited risk. The NM STO website is http://www.nmsto.gov.

3. Maintain the fiscal integrity of the CWSRF.

   The NMED CWSRF is committed to transparency and accountability. In SFY 2019, the New Mexico Environment Department (NMED) contracted with Clifton Larson Allen, LLP (CLA) to conduct the SFY 2019 audit. CLA provides performance recommendations, a formal opinion on the CWSRF’s financial statements, and guidance on conformance to Generally Accepted Accounting Principles and federal guidelines. The SFY 2019 draft financial statements (Attachment 12) for the CWSRF have been completed. The final CWSRF audit will be issued when the NMED audit is completed and will be forwarded to the EPA upon completion.
4. **Make funding available to potential borrowers who meet the criteria of one of the eleven CWSRF eligibilities found in Section 603(c) of the CWA as amended and as it applies to New Mexico.**

NMED expanded outreach activities in SFY 2019 to reach projects representing expanded eligibilities and borrowers. Specific outreach activities included:

- Creating and maintaining a web page with links to pertinent documents;
- Utilizing an email platform to announce funding opportunities to the Program’s email list;
- Customizing the email solicitations for the intended recipient list. Examples include:
  - Wastewater Treatment contacts;
  - Storm Water project contacts;
  - Petroleum Storage Tank replacement contacts;
  - Solid Waste project contacts;
- Attending the New Mexico Infrastructure Finance Conference, the Local Government Division Conference, and the New Mexico Municipal League Conference;
- Utilizing NMED’s Twitter account;
- Placing legal notices in newspapers statewide announcing application cycle;
- Creating an open year-round application cycle.
5. Encourage green projects by providing funding opportunities for eligible projects that support energy efficiency, water efficiency, green infrastructure, and environmentally innovative works.

The Program encourages Green Projects by awarding 25 points in the ranking process to any project that incorporates one or more of the four green categories into their project.

6. Provide available subsidy to eligible entities.

In SFY 2019, NMED provided $1,485,000 in subsidy to eight borrowers. Seven new entities received $1,335,000: Village of Cimarron, Village of Cloudcroft, City of Bloomfield, Anthony Water and Sanitation District (WSD), Village of Angel Fire, Town of Edgewood, and City of Eunice. Subsidy of $150,000 was provided for an amendment to El Valle de Los Ranchos WSD. Additional subsidy not awarded was saved for future projects.

7. Utilize the opportunities afforded by recent legislative changes to fully maximize funding opportunities.

NMED amended state statute 74-6A to expand the type of projects and borrowers eligible for CWSRF funding. These changes allowed the Bureau to consider more projects and borrowers in alignment with the CWA.

The 2019 Priority List reflected the legislative changes and included applications from five private entities, the Middle Rio Grande Conservancy District (a special district), and Santa Fe Community College (a state agency). While only one application from this group became a project, the more diverse application pool informs us as we move forward to conduct more effective and targeted outreach.
B. Short-term Goals

1. Completion of the annual audit, the intended use plan, and the annual report in a timely manner. CWA Sec. 606 (b, c, d).

The NMED draft SFY 2019 IUP was submitted to the EPA on September 21, 2018 and was approved on October 3, 2018.

This goal will be met with the submission of this report and the SFY 2019 audit when completed.

2. Identify recipients from the SFY 2019 project priority list (PPL) to receive funding from the Federal Fiscal Year (FFY) 2018 Allotment. The public comment period ended June 24, 2018.

The applicants receiving funding from the FFY 2018 allotment were: City of Bloomfield, Village of Angel Fire, Anthony WSD, El Valle de Los Ranchos WSD, Village of Cimarron, Village of Cloudcroft, City of Santa Rosa, City of Grants, Town of Edgewood, and Los Alamos County. All funds from the FY 2018 Allotment have been awarded.

This goal was met.

3. Draw-down and complete the FFY 2018 Allotment of $7,859,000.

The draw down for FFY 2018 Allotment began August 27, 2018 and concluded on January 30, 2019.

This goal was met.

4. Execute binding commitments equal to 120% of FFY 2018 Cap Grant payment within one year after receipt of that payment. NMED considers a Binding Commitment to be when the loan documents are signed by both parties.

In SFY 2019, eight new loans were executed for $21,550,000 and four loans were amended for $1,775,000 totaling $23,325,000 (Attachment 1). The binding commitments equaled 296% of the Cap Grant.

The goal was exceeded.

5. Identify green projects for the SFY 2019 equal to 10% of awarded FFY 2018 Cap Grant.

Four projects were identified as green projects: Village of Angel Fire, Los Alamos County, City of Eunice, and Middle Rio Grande Conservancy District. The estimated green portion of the four projects is $4.9 million (Attachment 9).

This goal was met.
6. **Apply for the current FFY’s allotment in the first year that it is appropriated.**

   The application for FFY 2019 allotment was submitted on May 30, 2018.

   This goal was met.

7. **Execute loan repayment agreements for: City of Farmington and City of Santa Rosa.**

   The City of Santa Rosa and City of Farmington repayment agreements were not executed until SFY 2020.

   This goal was not met.

8. **Complete the environmental benefits in the Clean Water Benefits Reporting System (CBR) by the end of the quarter in which a loan agreement is signed.**

   In SFY 2019, binding commitments (Attachment 1) were secured for eight new CWSRF loans. The Environmental Benefits were entered in the CBR database by the end of the quarter for each loan agreement signed (Attachment 13).

   This goal was met.

9. **Work to meet or exceed the national average of financial indicators that are reported and compiled in the National Information Management System (NIMS): federal return on investment; executed loans as a percentage of funds available; percentage of funds disbursed to executed loans; retained earnings excluding subsidy; change in Net Position.**

   Based on cumulative 2019 financial indicators, New Mexico CWSRF did not meet or exceed national averages:
   - The Federal return on investment for New Mexico was 174% compared to the 2018 national average of 279% (most current data available).
   - The percent of executed loans as a percentage of funds available was 83% versus the 2018 national average of 99%.
   - New Mexico achieved 86% of funds disbursed to executed loans compared to the 2018 national average of 88%.
   - Retained earnings as a percentage of contributed capital, excluding subsidy, were 36.4%.
   - The Net Position was 4.1% compared to the national average of 4.0%.

   New Mexico will continue to work on increasing the averages comparative to the national averages.

   This goal was not met.
10. Implement the April 26, 2018 memorandum regarding new financial indicators: Ratio of Undisbursed Project Funds to Disbursements; Total Net; Net Interest Margin.

- The Ratio of Undisbursed Project Funds to Disbursements was 7.4. The ratio evaluates how SRF funds are revolving by examining the program's disbursement rate over a three-year period and comparing it to the amount of cash on hand.
- Total Net indicator was $15,865,937. The Total Net indicator measures the extent by which internal growth is generating additional funding for new projects.
- Net Interest Margin reported a 2% return. The Net Interest Margin measures the percentage rate of return the SRF is generating.

The goal was met.

11. Complete the rulemaking process necessary to implement statutory changes.

Revisions are still pending for 20.7.6 NMAC - Wastewater Facility Construction Loan Policies and Guidelines and 20.7.7 NMAC – Review Procedures for Wastewater Construction Loans.

This goal was not met.
IV. FUND ADMINISTRATION AND OPERATIONS

A. Sources and Uses of Funds

<table>
<thead>
<tr>
<th>Table 1 Sources and Uses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuals for SFY 2019</td>
<td></td>
</tr>
</tbody>
</table>

| Ending cash balance 6/30/2018 | $147,523,942 |
| Sources during SFY 2019:       |             |
| FFY 2018 Allotment            | $7,859,000  |
| FFY 2018 Allotment State Match (Laws 2018) | $1,100,000 |
| 2019 Repayment Principal (see Attachment 12) | $9,404,660 |
| 2019 Repayment Interest (see Attachment 12) | $1,652,897 |
| 2019 Overnight Interest       | $4,808,377  |
| Total Sources:                | $172,348,876 |

| Uses during SFY 2019:          |   |
| Admin Expense (see Attachment 12) | $578,330 |
| Disbursements for SFY 2019 (see Attachment 5) | $16,009,065 |
| Remaining balance to be disbursed from loans & subsidy in construction as of 6/30/19 (see Attachment 6) | $50,803,452 |
| Balance available for use on future projects¹ | $104,958,029 |
| Total Uses:                   | $172,348,876 |

B. Administrative Portion

In SFY 2019 NMED chose to use 1/5 percent of the valuation of the CWSRF fund for the costs of administering the fund. As of June 30, 2017, the audited valuation (Total Net Position) of the CWSRF fund was $309,327,889 allowing NMED to budget $618,656 for administrative uses. The amount expended in SFY 2019 was $578,330 from fund 12100.

C. CWSRF Administrative Fund Activity

The purpose of Fund 32700 is to support the administration of the Program so that it will function into perpetuity. Fund 32700 is used solely for the NM CWSRF program. At the beginning of SFY 2019, the balance of fund 32700 was $2,653,498 compared to $1,977,693.19, the beginning balance for SFY 2018. The $675,805 increase is due to administrative fees including loan refinancing fees collected. The operating expenses charged to Fund 32700 include payroll, travel, computers, and other office expenses.

Figure 5 shows the FYE 2019 fund balance and the annual amount of fees collected and deposited in Fund 32700 from SFY 2010 through 2019.
In SFY 2019, Fund 32700 had the following activity:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance beginning of SFY 2019</td>
<td>$2,653,498</td>
</tr>
<tr>
<td>Investment interest from the State Treasurer’s Office earned in SFY 2019</td>
<td>$85,576</td>
</tr>
<tr>
<td>Loan Administrative Fees collected SFY 2019</td>
<td>$525,753</td>
</tr>
<tr>
<td>Program operating expenses charged to Fund 32700 in SFY 2019</td>
<td>($200,322)</td>
</tr>
<tr>
<td><strong>Balance end of SFY 2019</strong></td>
<td><strong>$3,064,505</strong></td>
</tr>
</tbody>
</table>

**D. Assistance Activity**

In SFY 2019, the Program signed eight new loan/subsidy agreements totaling $21,550,000 and amended four existing agreements by $1,775,000 for a total of $23,325,000. (Attachment 1). Figure 6 shows the amount and number of new agreements signed over the last 10 years.
E. Criteria and Method Established for Distribution of Funds (Title VI)

Pursuant to the Loan Act, the Water Quality Control Commission (WQCC) adopted regulations defining eligibility requirements for financial assistance, application procedures, priority ranking system and administration of the loan program and fund. The current priority ranking system was approved by EPA and adopted by the WQCC on April 9, 2013 and amended by the WQCC on January 24, 2014. Information on the ranking system can be found at https://www.env.nm.gov/cpb/CWSRFPage.htm under CWSRF Priority Ranking System Guidance.

The CWSRF staff and NMED ground water and surface water staff evaluated and ranked all SFY 2019 applications.

Public notice of the Projects Priority List (PPL) was provided through publication in independent newspapers statewide, the NMED website, and Granicus, a cloud-based email platform. NMED accepted public comments regarding the SFY 2019 Intended Use Plan (IUP) and associated PPL from June 10 – Jun 24, 2018, one comment was received from Santa Fe Community College (SFCC). SFCC commented on being designated a state agency for the purpose of the CWSRF application. We confirmed the definition with the NMED Office of Legal Counsel and provided a response.
A project must be on the current New Mexico state fiscal year PPL to receive a loan. It is the policy of NMED to make loans to entities in order of priority on the current fiscal year priority list to the extent reasonable considering the following:

1. Willingness of the entity to accept a loan;
2. Financial capability of the entity to service the loan;
3. The ability of the community to operate and maintain the proposed project; and,
4. Readiness to proceed.

There were several entities that were ineligible on the SFY 2019 PPL because they were financially incapable of servicing the loan and/or were not ready to proceed with the project.

The New Mexico CWSRF reserves to the right to provide funding for projects which require immediate attention to protect public health on an emergency basis as declared by the Cabinet Secretary of the New Mexico Environment Department or by the Office of the Governor.
F. Environmental Reviews

In compliance with the CWSRF requirements, the Program conducted environmental reviews for all the projects that required such a review and will continue to do so in the future.

NMED followed the State Environmental Review Process (SERP) approved by the EPA and applied the National Environmental Policy Act (NEPA) to all required CWSRF projects.

G. American Iron and Steel (AIS)

In accordance with Section 608 of the Federal Water Pollution Control Act (FWPCA), effective June 10, 2014, construction, alteration, maintenance, and repair of treatment works requires the use of American-made iron and steel products. There were six new projects in SFY 2019 requiring compliance with AIS (Attachment 1). Communities have agreed to the AIS requirements via the execution of their Interim Loan Agreements and through the Supplemental Conditions Form AIS CWSRF 314, unless they can provide a waiver from EPA, or NMED determines that the AIS requirement is not applicable to the project. Project Managers review AIS compliance materials certifications during project inspections and use an AIS specific checklist while on site.

H. Davis-Bacon

NMED ensured Davis-Bacon compliance by requiring Borrower’s for treatment works projects, via execution of an Interim Loan Agreement, to follow Davis Bacon. NMED provided Borrowers with the specific EPA Davis-Bacon contract language for use in bid specifications and/or contracts and confirmed that the correct wage determinations were included in the bid specifications and/or construction contracts.

NMED’s Borrowers agreed to follow Davis Bacon by:
1. Executing an Interim Loan Agreement;
2. Executing a Certification of Compliance (Form XP-315); and,
3. Executing a Contractor Statement of Compliance with Labor Standards (Form XP-214) with each applicable disbursement request.

I. Generally Accepted Accounting Principles (GAAP)

NMED required Borrowers, via the Interim Loan Agreement to maintain project accounts per GAAP as issued by the Government Accounting Standards Board. This requirement also required Borrowers to use standards relating to the reporting of infrastructure assets.

J. Use of Fees

This provision requires States to manage the CWSRF in such a way that the funds will be available into perpetuity for activities under the FWPCA. NMED has achieved compliance with this provision through investing the CWSRF funds with the New Mexico State Treasurer’s Office. The primary objectives are safety of the fund, maximizing return on the fund, and maintaining liquidity of the fund.
K. Expanded Eligibilities and Borrowers

In the SFY 2019 PPL, NMED accepted an application from the Middle Rio Grande Conservancy District (MRGCD) for a $500,000 loan. An offer was made, and the MRGCD accepted. MRGCD plans to use funding to setup a water conservation loan program for farmers to complete on-farm water conservation improvements.

NMED also received five applications from private entities for projects ranging from bio-gas production, connection to county WWTP, sewer extension, and municipal connection.

L. Loan Terms Up to 30 Years

New Mexico statute allows loan terms of up to 30 years.

M. Fiscal Sustainability Plans (FSP)

NMED required Borrowers, via the Interim Loan Agreement to certify that the FSP is in place prior to the final loan disbursement for projects involving repair, replacement, or expansion of treatment works (WRRDA, Section 603(d)(1)(E)).

N. Administrative Costs

NMED implemented the maximum annual amount of CWSRF money that may be used to cover the reasonable costs of administering the fund by budgeting 1/5 percent of the current valuation of the fund. Fund 12100 expended administrative expenses of $578,330; in addition NMED has fund 32700, which expended $200,322 in SFY 2019.

O. Definition of 212 Projects

The expanded definition of “treatment works” is now recognized by NMED to include land temporarily needed for construction. To date, no projects have required this expanded definition.

P. Provisions of the Operating Agreement/Condition of Grant Agreement

Accept Payments: Sec. 602(b)(1). The State certifies that it will accept Cap Grant payments in accordance with the negotiated payment schedule and use those payments for the activities of its established CWSRF.

In SFY 2019 two federal payments were received by the Program via EPA-ACH for the FFY 2018 Allotment Cap Grant totaling $7,859,000.

Provide a State Match: Sec. 602(b)(2). The State certifies that it will deposit into the CWSRF an amount equaling at least 20 percent of the amount of each Cap Grant payment. The State match shall be deposited on or before the date on which the State received each payment from the Cap Grant award.

The Program received an appropriation from the state legislature of $1,100,000 from the Public Projects Revolving Fund, which is administered by the New Mexico Finance Authority to match
the FFY 2019 Cap Grant of $7,859,000. On June 26, 2018, $1,100,000 was transferred to the CWSRF Fund 12100. The $7,859,000 in federal Cap Grant funds required a match of $1,571,800. The shortfall of $471,800 came from excess State Match that was awarded in 2002 ($107,615), 2004 ($206,440), 2005 ($132,920), and 2006 ($24,825).

Binding Commitments within One Year: Sec. 602(b)(3). The State agrees to enter into binding commitments with recipients to provide financial assistance from the CWSRF. The binding commitments shall be in an amount equal to 120 percent of each quarterly Cap Grant payment.

In SFY 2019, the annual binding commitments totaled $23,325,000. Cumulative binding commitments (Attachment 3) as of FYE 2019 were $455,260,777, or 197%, exceeding the required 120% by $200,375,140.

Expeditious and Timely Expenditures: Sec. 602(b)(4).

The State expended all funds in the CWSRF in an expeditious and timely manner.

The State has addressed the issue of expeditious and timely expenditures for the CWSRF funds by having only one Cap Grant open and by drawing down the award within one year of receiving the award.

Subsidized Projects Sustainable Criteria

NM CWSRF tracked projects that support sustainability criteria. These projects focused on system upgrades and replacements in existing entities, studies or plans that improved technical, managerial or financial capacity, and focused on preliminary planning, alternative assessment and eligible capital projects (Attachment 8).

FFATA Projects Reported in FSRS.

The City of Bloomfield, Anthony WSD, Village of Angel Fire, El Valle de Los Ranchos WSD, Village of Cimarron, City of Grants, Village of Cloudcroft, City of Santa Rosa, Town of Edgewood, Los Alamos County were projects reported in FSRS.gov from the FFY 2018 Allotment.

Compliance with Federal Cross Cutting authorities:

The State affirms that all federal cross cutters have been complied with by the State and its subrecipients. NM CWSRF applied all federal crosscutter requirements across all projects funded by the Program in SFY 2019.

In accordance with 40 CFR, Part 33, Subpart D, compliance with the negotiated Disadvantaged Business Enterprise (DBE) "Fair Share" objectives reporting for the State is presented in the table below.

DBE reporting is annualized.
FFY 2018 DBE numbers are the most recent available for reporting. The chart below shows NMED’s negotiated DBE objectives for all EPA Cap Grant funds that NMED received in SFY 2018 and the actual percentages achieved by the CWSRF Program:

<table>
<thead>
<tr>
<th>Total MBE</th>
<th>MBE Negotiated objectives</th>
<th>Actual Percentages</th>
<th>Total WBE</th>
<th>WBE Negotiated objectives</th>
<th>Actual Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>34.39%</td>
<td>7.78%</td>
<td>Construction</td>
<td>11.02%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Equipment</td>
<td>18.87%</td>
<td>0.00%</td>
<td>Equipment</td>
<td>15.40%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Services</td>
<td>33.88%</td>
<td>0.19%</td>
<td>Services</td>
<td>21.72%</td>
<td>0.30%</td>
</tr>
<tr>
<td>Supplies</td>
<td>19.46%</td>
<td>0.09%</td>
<td>Supplies</td>
<td>21.15%</td>
<td>0.01%</td>
</tr>
</tbody>
</table>

Technical staff members verify that DBE requirements are followed for all bids and have worked with funding recipients to encourage more effort during the bidding process to get more participation by DBE firms. While not all the negotiated objectives were met in SFY 2019, the State affirms that all six good faith efforts pursuant to 40 CFR, Section 33.301 were followed.

**State Laws and Procedures: Sec. 602(b)(7).** The State agrees to commit or expend each quarterly Cap Grant payment in accordance with state laws and procedures regarding the commitment or expenditure of revenues.

The State confirms compliance with this requirement. The loan fund was examined as a major federal program within the Environment Department's single audit for state fiscal years 1990 through 2019. The SFY 2019 draft financial statements for the CWSRF Program is attached (Attachment 12). The final CWSRF Audit is expected in late 2019 along with the NMED audit.

**State Accounting and Auditing Procedures: Sec. 606(a).** The State agrees to establish fiscal controls and accounting procedures that are sufficient to assure proper accounting for: (1) payments received by the CWSRF; (2) disbursements made by the CWSRF; and (3) CWSRF balances at the beginning and end of the accounting period. In carrying out these requirements, the State agrees to use accounting, audit, and fiscal procedures conforming to "generally accepted government accounting standards." These standards are usually defined as, but not limited to, those contained in the U.S. General Accounting Office (GAO) publication Standards for Audit for Governmental Organizations, Programs, Activities, and Functions.

The State confirms compliance with this requirement. The Program is managed in compliance with all applicable regulations, and the State is cooperating with EPA oversight efforts. The State has contracted with a CPA firm for an Independent Financial Audit on the CWSRF in addition to the single audit requirement.

**Recipient Accounting and Audit Procedures: Sec. 602(b)(9) as amended.** The State agrees that as a condition of making a loan or other form of assistance, it will require recipients of SRF assistance to maintain project accounts in accordance with generally accepted government accounting standards, including standards relating to the reporting of infrastructure assets and as defined in the section above.
The State confirms that Generally Accepted Government Accounting Standards are required of all CWSRF funding recipients through signed loan agreements. Compliance is confirmed with annual audit reviews.

**Annual Report: Sec. 602(b) (10).** The State agrees to make annual reports to the administrator on the actual use of the funds in accordance with Sections 606(d) of the Act and negotiated State/EPA guidance.

The State is submitting the SFY 2019 Annual Report to satisfy this requirement.

**Compliance with the Environmental Review Requirements: Sec. 602(b)(6) as amended.** The State agrees that it will conduct an environmental review of each project required receiving assistance from the CWSRF and will follow procedures which comply with criteria established by EPA in the Initial Guidance - State Revolving Fund, Appendix D.

The State confirms compliance with this requirement. Environmental review procedures for projects funded through the Wastewater Facility Construction Loan Program are implemented through the Internal Procedures Manual and the New Mexico State Environmental Review Process (SERP). The current EPA SERP Draft dated September 2019 reflects the changes to the SERP is pending EPA approval. All reviews comply with EPA implementation regulations contained in 40 CFR Part 6.

**Legal, Managerial, Technical, and Operational Capabilities:** The State certifies that it has the legal, managerial, technical, and operational capabilities to administer the Program competently.

Currently, the Administrative staff is at full capacity. The Program is seeking to fill Project Engineering positions.

**Debarment and Suspension:** The State agrees that the State and all recipients of CWSRF assistance will comply with 40 CFR, Part 32, Debarment and Suspension.

The State confirms compliance with this requirement. During the funding process and the State’s review of engineering agreements and construction contractors’ bid tabulations, the Program searches the System for Award Management (SAM) to confirm that the funding recipients, engineering firms or contractors are not subject to debarment and suspension from participation on federal contracts and that the annual registration is current.

**Consistency with Planning Requirements: Sec. 603(f).** The State certifies that it will provide financial assistance from CWSRF only with respect to a project, which is consistent with plans, if any, developed under Section 205(j), 208, 303(e), 319, and 320 of the Act.

The State confirms compliance with this requirement. NMED’s Surface Water Quality Bureau, Planning Section and Ground Water Quality Bureau, Pollution Prevention Section are offered an
opportunity to review the facility plans and environmental information documents to assure the project is consistent with applicable requirements.

Compliance with CWSRF Cap Grant, General and Special Conditions:

The State certifies compliance with General Conditions and Special Conditions of EPA Assistance Agreements within the reporting period and within the achievements described above.

Delinquencies:

There were no delinquencies.

V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CLEAN WATER STATE REVOLVING FUND – The Program utilizes an enterprise fund to provide low cost financial assistance through loan and loan subsidy funding to eligible entities for planning, design, and construction of water quality projects. CWSRF funds are available for up to 100% of eligible costs. Loan repayment terms are up to 30 years with interest rates ranging from 0% to 2.375%.

VI. ACCRUED INTEREST RECEIVABLE ON CONSTRUCTION LOANS

Interest receivable on CWSRF loans is accrued during the construction period. At the end of construction, the interest accrued may be capitalized at the time of the final loan execution or the entity may pay the accrued interest in one lump sum at the project completion.

VII. DISCUSSION OF ADMINISTRATIVE REIMBURSEMENT PROCESS

Once the total required State match for each SRF Cap Grant has been expended, the State will draw all Federal funds from the CWSRF Cap Grant. In accordance with Section 603(d)(7) of the CWA, monies in the CWSRF may be used for the reasonable costs of administering the fund and conducting activities under this title. NMED budgets 1/5 percent per year of the most recent valuation of the fund, plus the amount of any fees collected by the State for such purpose regardless of the source.

VIII. FINANCIAL INDICATORS

The Table below demonstrates efficient use of funding and the increasing strength of the fund.
NM CWSRF CUMULATIVE FINANCIAL INDICATORS YEAR TO YEAR COMPARISON

<table>
<thead>
<tr>
<th>Financial Indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Federal Return on Investment</td>
<td>153%</td>
<td>155%</td>
<td>161%</td>
<td>167%</td>
<td>174%</td>
</tr>
<tr>
<td>2. Executed Loans as a Percent of Funds Available</td>
<td>87%</td>
<td>90%</td>
<td>82%</td>
<td>82%</td>
<td>83%</td>
</tr>
<tr>
<td>3. Disbursements as a Percent of Executed Loans</td>
<td>82%</td>
<td>80%</td>
<td>85%</td>
<td>87%</td>
<td>86%</td>
</tr>
<tr>
<td>4. Sustainability (Retained Earnings) Excludes Subsidy</td>
<td>$71,074,151</td>
<td>$73,635,187</td>
<td>$77,959,572</td>
<td>$81,056,674</td>
<td>$87,517,950</td>
</tr>
<tr>
<td>6. Net Position Change in Percent</td>
<td>5.3%</td>
<td>3.2%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>


1. **Federal Return on Investment:**
The ratio of total cumulative federal return on investment was 174%.

2. **Executed Loans as a Percent of Funds Available:**
The cumulative percentage of executed loans as a percentage of funds available is 83%.

3. **Disbursements as a Percent of Executed Loans:**
The cumulative disbursements amount as a percentage of executed loans is 86%.

4. **Sustainability (Retained Earnings) Excludes Subsidy:**
Retained earnings increased from $81.0 million in SFY 2018 to $87.5 million in SFY 2019.

5. **Net Position:**
In the past five years, net position increased an average of $10.9 million per year. In SFY 2019, net position increased by $13.2 million, from $319.1 million in SFY 2018 to $332.3 million in SFY 2019.

6. **Net Position Change in Percent:**
The net position changed by 4.1% compared to the previous year of 3.2%.
IX. CONCLUSION

The NM CWSRF executed over $23 million in assistance agreements in 2019. The Program had more diverse project applications and applicants due to increased marketing and outreach, these were in addition to traditional project applications and applicants. The Program continues to provide the maximum amount of additional subsidization allowed to qualified borrowers. The Program supports itself through administrative fees and without the assistance of tax payer dollars. The Program is well positioned for future funding of water quality projects in New Mexico.
STATE OF NEW MEXICO
WASTEWATER FACILITY CONSTRUCTION LOAN PROGRAM
CERTIFICATION OF ANNUAL REPORT

I certify that this report has been prepared under my supervision and in accordance with Federal Register EPA Part Ill 40 CFR Part 35, the Federal Clean Water Act, and provisions of the Wastewater Facility Construction Loan Act 74-6A-7 NMSA 1978. I also certify that I have reviewed this report and find it to be true and correct to the best of my knowledge.

[Signature]
JUDITH L. KAHL, P.E.
Chief, Construction Programs Bureau

[Date]
10-11-19