

State of New Mexico
CLEAN WATER STATE REVOLVING FUND
ANNUAL REPORT
STATE FISCAL YEAR (SFY) 2012
(July 1, 2011 - June 30, 2012)



(Carlsbad – Construction of the UV Disinfection Building)



New Mexico Environment Department
Water and Wastewater Infrastructure Development Division
Construction Programs Bureau
P.O. Box 5469
Santa Fe, New Mexico 87502
(505) 827-2806
for EPA Region 6

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ANNUAL REPORT CLEAN WATER STATE REVOLVING FUND PROGRAM



Eagle Nest – Completed Lagoon

I. INTRODUCTION

Federal Legislation produced The Clean Water Act of 1972. This legislation was amended many times, resulting in the Clean Water Act of 1987. This amended Clean Water Act created the Clean Water State Revolving Fund (CWSRF). **The State of New Mexico CWSRF Program has provided almost \$310 million in construction funding for water quality protection to date** (see Exhibit 1).

The State of New Mexico presents the following Annual Report for state fiscal year (SFY) 2012. This Annual Report is for the State of New Mexico Clean Water State Revolving Fund Program (Program) which assists local authorities in financing the construction of critical wastewater facilities and non-point source projects. The revolving nature of this loan fund provides that the loan repayments be recycled *with interest* and loaned again to communities perpetually. The Program was established in 1986 pursuant to the New Mexico Wastewater Facility Construction Loan Act, Section 74-6A-1, et. seq. New Mexico Statutes Annotated (NMSA) 1978 and the Federal Clean Water Act of 1987, as amended. This report describes how New Mexico has been working toward meeting the goals and objectives of the CWSRF Program for the state fiscal year July 1, 2011 - June 30, 2012, as identified in the SFY 2012 Intended Use Plan (IUP) and the American Recovery and Reinvestment Act (ARRA) IUPs. Also, included in this report are the actual uses of CWSRF funds and the financial position of the Program.

II. EXECUTIVE SUMMARY

The New Mexico Environment Department (NMED) submitted an Intended Use Plan for the CWSRF SFY 2012 to the US Environmental Protection Agency (EPA), after soliciting public comments from May 23 – June 10, 2011. NMED submitted five (5) IUP amendments from March 2009 to May 2010 to address ARRA requirements and the transfer authority between the CWSRF and Drinking Water State Revolving Fund (DWSRF) and to detail the uses of the additional transferred funds. In these IUPs, the Program goals, activities and intended use of funds were provided. This Annual Report provides the status of those goals, the use of the funds and the activities Program management undertook to strengthen the Program.

A. Financial Highlights for State Fiscal Year 2012 (Fund 121 and 327 combined)

- As of the close of SFY 2012, NM CWSRF reports total net assets of \$251,610,835, an increase of \$11,657,116 over the prior year. This 4.9% annual growth demonstrates a growing, healthy fund (see attached draft audit).
- The Program was awarded \$7,222,000 (FFY 2011 allotment) from one federal capitalization grant. Cumulative grants since inception total \$182,746,548 (see Exhibit 2 and Exhibit 3).
- The Program collected \$12,877,947 in loan repayment principal and \$3,477,895 in loan construction and repayment interest. The Program also collected \$397,669 in administrative fees from 15 projects. The fees were deposited into the CWSRF Admin Fund (Fund 327) outside of the CWSRF Fund (Fund 121). The CWSRF Admin fund supports the administrative functions directly related to the CWSRF. Total principal, interest and administrative fees received were \$16,753,510 (see Exhibit 4).
- The Program received \$106,354 of interest income on overnight funds deposited at the State Treasurer's Office. This continues to reflect the low rate of return the state has experienced on investments over the last few years.
- The Program disbursed \$12,917,791 for construction projects in SFY 2012 (see Exhibit 5).

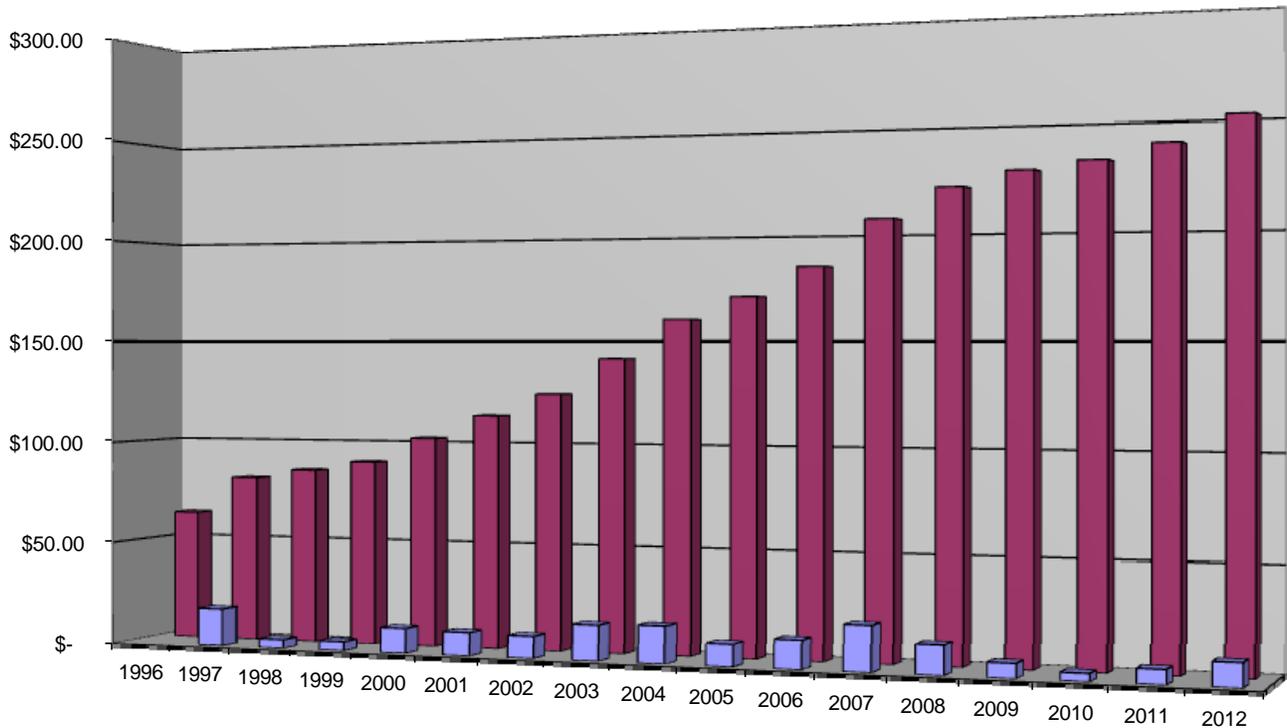


Questa – Blower building

B. Increasing Strength of the CWSRF Fund 121

The Program’s financial position continued to improve in SFY 2012 despite the continued economic downturn. Over the past ten years Fund 121’s net assets have been increasing at an average of \$12.6 million annually as shown in Figure 1 below. The fund’s total net assets at fiscal year end (FYE) 2012 were \$250,866,496, an increase of \$11.5 million from FYE 2011.

Figure 1
New Mexico CWSRF Increase in Fund 12100 Net Assets
(in \$ Millions)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Incr in Net Assets in \$ millions		\$18.3	\$4.3	\$4.6	\$12.2	\$11.5	\$10.9	\$17.4	\$18.2	\$10.8	\$14.0	\$22.0	\$14.3	\$7.1	\$3.9	\$7.1	\$11.5
Net Assets in \$ millions	63.0	81.3	85.6	90.1	102.4	113.8	124.7	142.1	160.2	171.0	185.0	207.0	221.3	228.4	232.3	239.4	250.9

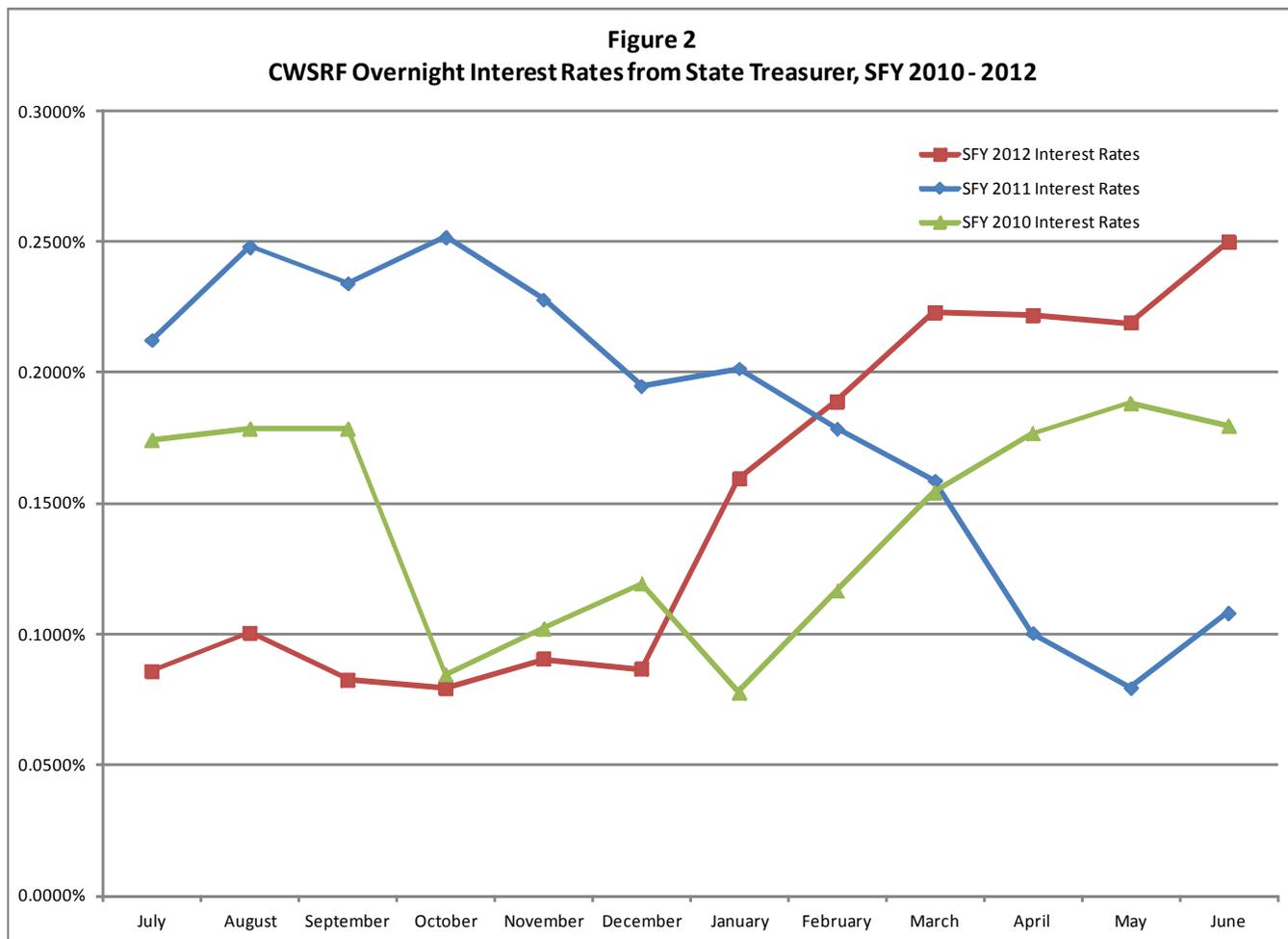
C. Political and Economic Factors Effecting the Fund

The New Mexico State Government uses general fund tax dollars and oil and gas revenues to provide grant funding for capital projects in New Mexico. Over the last five years, the amount of these water and wastewater grant funds has been reduced sharply. As a basis for comparison, in SFY 2007 the state appropriated approximately \$24.6 million for wastewater projects. The amount dropped to \$8.9 million in the SFY 2008 legislative session, \$2.3 in SFY 2009, and \$0.9 in both SFY 2010 and SFY 2011. In SFY 2012, the state appropriations for wastewater projects increased modestly to \$3.3 million, still only 13% of the SFY 2007 peak. Grant funding for projects appears to be a way of the past, highlighting the importance of the low-interest loans available from the CWSRF. The recent CWSRF borrowers were all most likely affected by this reduction in grant funding at the state level and the subsidies mandated in the federal appropriations have allowed their projects to move forward.

The New Mexico Legislature and the New Mexico Department of Finance and Administration recognize the value of the CWSRF program. Though infrastructure projects may continue to receive very little legislative appropriation funding in the near future, both agencies understand the CWSRF program must have state match funds in order to receive the CWSRF capitalization grants. The Program used a banked overmatch of \$2,000,400 to match the SFY 2011 capitalization grant (see Exhibit 2). In SFY 2012, the New Mexico Legislature provided \$1,444,400 to match the SFY 2012 capitalization grant (FFY 2011 allotment of \$7,222,000). An additional \$1,400,000 was also approved to match the FFY 2012 allotment of \$6,908,000 and will be transferred to the fund at the beginning of SFY 2013. As \$1,381,600 is required to match the FFY 2012 appropriation, the remaining \$18,400 will be banked for future state match use.

The CWSRF interest earnings on cash balances deposited with the New Mexico State Treasurer’s Office, following the national trend, experienced a sharp decline in SFY 2009. The CWSRF and the CWSRF Admin Fund earned only marginal amounts in SFY 2012, but did end the year at the peak for the last 3 years. Figure 2 below compares the rate of return earned by month for SFY 2010-2012.

Cash balances are invested by the New Mexico State Treasurer’s Office (NM STO). The NM STO investment policy suggests that the CWSRF investments are sound and adequately positioned for the best return at limited risk. A link to the NM STO investment policy is provided here: <http://www.stonm.org/Investments/PortfolioOverviewsandStrategies>.



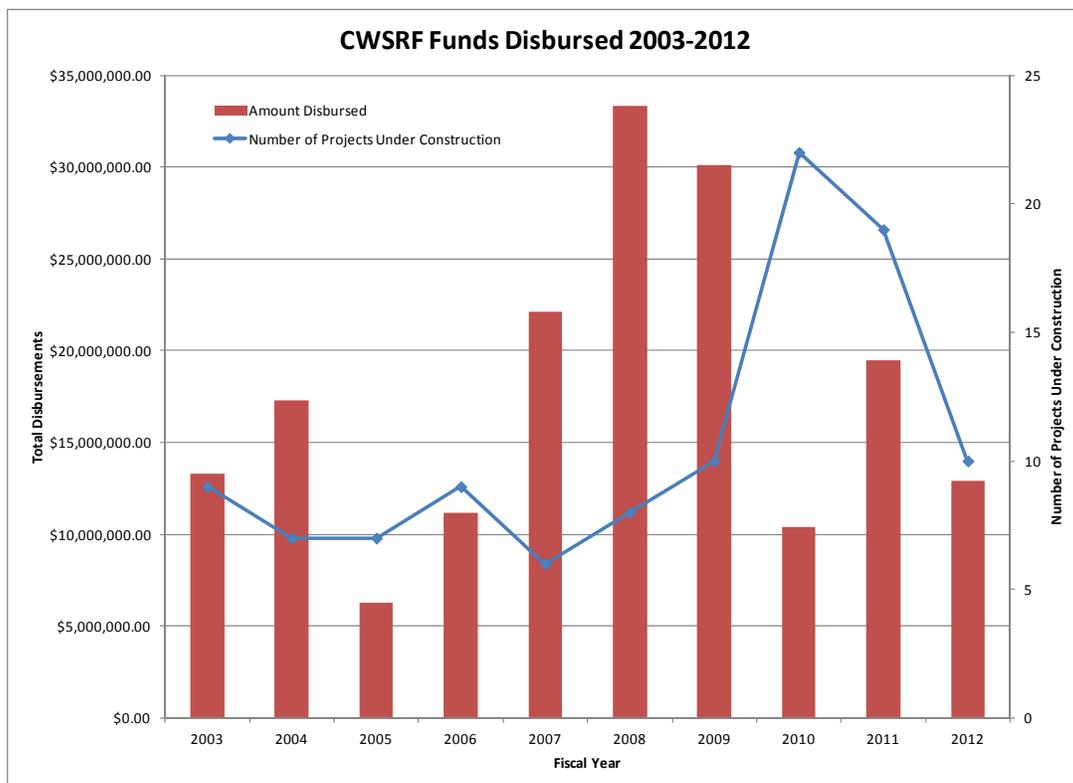
D. Interest Rate Structure

On June 16, 2001, the State amended its Water Quality Control Commission Regulations to allow a lower base interest rate and to allow increased eligibility for CWSRF-hardship rates. The regular base rate of 4% was reduced to 3%. The State has three additional hardship rates available. The CWSRF hardship rate of 2% is available for those communities whose median household income is less than the statewide non-metropolitan median household income, based on the most current decennial U.S. Bureau of Census statistics. A rate of 1% is available for those communities whose median household income is less than three-fourths of the statewide non-metropolitan median household income. A 0% rate is available for those communities that have a median household income less than three-fourths of the statewide non-metropolitan median household income and an average user cost of at least fifteen dollars (\$15.00) per month. We believe that these rates continue to enable us to attract borrowers and place more funds into water quality projects statewide.

E. Activities/Pace

EPA put an un-liquidated obligation stretch goal in place for the NM CWSRF in November 2011. The goal included not only the capitalization grants that were open at that time, but the appropriations that followed. During SFY 2012, the NM CWSRF closed the SFY 2010 and the American Recovery and Reinvestment Act (ARRA) capitalization grants, and spent 75% of the SFY 2011 capitalization grant. The Program is on pace to exceed its goal by the September 30, 2012 deadline.

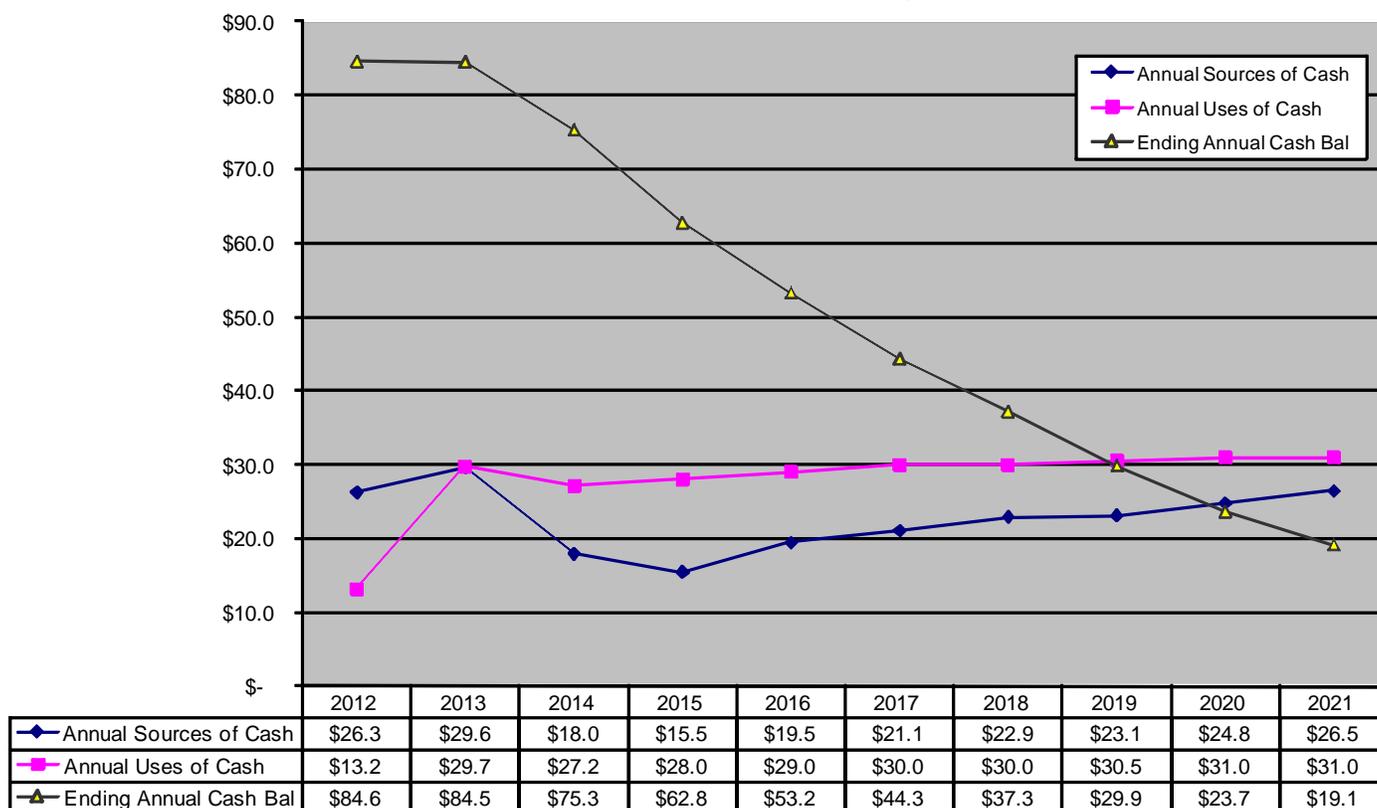
The Program made 4 new loans in SFY 2012 (see Exhibit 6-A). Figure 3 below shows a large spike in the number of projects in construction in SFY 2010 due to the large number of ARRA projects undertaken. In SFY 2012, the CWSRF had 10 projects in construction, which matches the pre-ARRA peak. The Program disbursed \$12,917,791 to projects during SFY 2012. Please see Section IV below for the discussion of Sources and Uses of Funds that shows how the Programs funds are committed.



During SFY 2012, the Program monitored and inspected the 4 CWSRF ARRA projects with ARRA funds remaining along with the other 6 CWSRF ARRA projects with non-CWSRF funds remaining for compliance with ARRA-specific American made requirements, compliance with federal Davis-Bacon Act wage requirements, and green project reserve activities (see Exhibit 6-B). The Program continuously reported on the compliance and progress of each project to EPA, the House Transportation and Infrastructure Committee, the New Mexico Office of Recovery and Reinvestment, the New Mexico Legislature and others through the end of SFY 2012.

A cash flow model is used as a management tool for the Program. This model is used to plan for future construction projects and to provide the Program the tools to better match supply with demand. A graph of the model, with the resulting decrease in cash, is shown in Figure 4 below:

Figure 4
New Mexico CWSRF Cash Flow Projection (in \$ millions)
Actual data 2012, Projected as of 2013



This model demonstrates that after 2013, the Program projects funding levels to support a consistent funding stream of approximately \$28 to \$31 million annually. Full size graphs for 10 and 20 years are attached to this report. The assumptions for the cash flow model are reviewed and updated annually to reflect economic and programmatic changes, and are included in the cash flow workbook itself.

With this level of funding projected, the Program can continue to execute environmentally effective loans, which fund construction projects that increase the quality of life in New Mexico.

III. GOALS, OBJECTIVES, AND ACCOMPLISHMENTS

The Intended Use Plan for the SFY 2012 listed specific goals, objectives and accomplishments that the Program hoped to achieve in SFY 2012. The following is a report on the success of our efforts.

A. Long-term Goals

- 1. To provide local authorities in New Mexico with low-cost financial assistance in the construction of necessary wastewater facilities through the creation of a self-sustaining State Revolving Loan Program so as to improve and protect water quality and public health.**

This is an on-going goal for the Program. ***The total cumulative assistance to New Mexico communities to date exceeds \$310 million!*** (See Exhibit 1 – FY2012 Detail of Binding Commitments, Total Loan Commitments.) The addition of subsidy has allowed the Program to take the low-cost financial assistance portion of this goal one step further through combination loan and grant funding packages. This has allowed communities who otherwise could not afford their projects to receive funding through the CWSRF. Even with utilizing the maximum additional subsidy allowed under each capitalization grant, the Program is progressing towards self-sustainability and is projected to fund approximately \$28 to \$31 million annually over the next ten years (see Figure 4 above).



*Rio Rancho – Phase 2
Effluent Reuse Line
Installation*

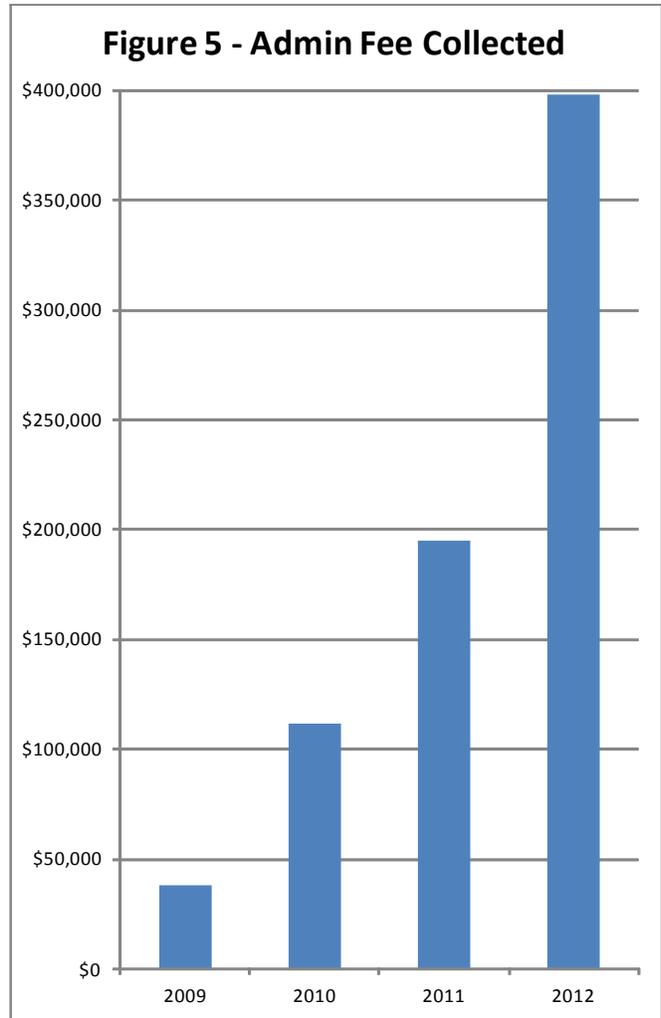
- 2. To maintain the CWSRF into perpetuity. Perpetuity includes maintaining the principal amounts of capitalization grants and state matching funds within the CWSRF.**

The State closely tracks fund balances, sources of revenue, repayment and investment activity to promote and maintain the fund into perpetuity. It is evident that, with the large annual increases in net assets, the fund is increasing in size each year (see Figure 1 above). With no loans in default, a growing loan portfolio and relatively low expenses, the fund continues to build upon the federal capitalization grants and state matching funds within the CWSRF.

With the successful legislative changes introduced in SFY 2007, the State provided the Program the ability to earn administrative fees from borrowers. This administrative fee is set at 0.004356 (0.4356%) and is earned annually on principal amount owed. The administrative fee is subtracted from the interest rate charged to borrowers and as such, does not add to the financial burden of the borrowers. This administrative fee promises to perpetuate the administration of the fund with no fiscal impact on the State's general fund or any material impact on the financial strength of the fund.

As of FYE 2012, there are 16 loans in repayment that include the administrative fee (see Exhibit 7). These loan repayments are beginning to build the funds needed to run the program into perpetuity. This is especially important as the state faces budget shortfalls and is cutting other sources of funding NMED currently relies on.

Figure 5 at the right shows the annual amount of fee collected and deposited in Fund 32700 since SFY 2009, when the first loan that included the fee went into repayment.



3. To maintain the fiscal integrity of the CWSRF.

The Program contracts with an independent Certified Public Accounting (CPA) firm each year. The CPA firm provides a formal opinion on the financial statements presented in the CWSRF's annual audit, as well as the conformity to generally accepted accounting principles. Recommendations for improvement are requested and welcomed from the auditing firm. The SFY 2012 audit for the CWSRF has been completed with a favorable, unqualified opinion. A draft copy is attached. The final audit will be issued when the New Mexico Environment Department audit is completed in late 2012 and will be forwarded to our EPA partners upon completion.

4. To reduce and/or eliminate discharges of pollutants into the State's waters and to improve water quality in all state waters.

The CWSRF Program financial, technical and community services staff continue to assist communities in the prevention of pollutant discharge. To the degree possible, the Program provides technical, managerial and financial assistance to as many communities as possible in the pursuit of reducing and eliminating pollutants from reaching water resources. The

assistance provided by the Construction Programs Bureau (Bureau) and the CWSRF Program to reduce pollution and improve water quality is not limited to individual programs or state agencies. This continues to be a goal of the Bureau and the New Mexico Environment Department. The annual CWSRF priority list is developed to rank applicants according to many criteria which include a severity of pollution factor, population served by the project and the type of project. The priority ranking criteria will be evaluated in SFY 2013 to ensure this goal is met into the future.

The continued inclusion of subsidies in appropriations after ARRA is allowing the Program to reach additional projects that have languished on the priority list and become of increasing concern to the regulatory programs of NMED. Many of these projects are in areas of New Mexico that without loan subsidies could not otherwise afford to make the required improvements.

B. Short-term Goals

1. **Completion of an annual audit, intended use plan, and Section 606(b, c, d) annual report.**

The SFY 2012 IUP was submitted July 1, 2011, amended November 28, 2011 and finalized December 14, 2011.

This goal will be met with the submission of this report and the audit

2. **Completion of the CS-35000210-0 Capitalization Grant (Federal Fiscal Year (FFY) 2009 Allotment) in the amount of \$3,274,300 with the U.S. Environmental Protection Agency, Section 602(a).**

The Program completed drawing down on the FFY 2009 allotment on December 2, 2011. (see Exhibits 5 and 8)

This goal has been met.

3. **Completion of the 2W-96689201-2 Capitalization Grant (American Recovery and Reinvestment Act (ARRA) Allotment) in the amount of \$23,789,100 with the U.S. Environmental Protection Agency, Section 602(a).**

The Program completed drawing down on the ARRA allotment on June 27, 2011. (see Exhibits 5 and 8)

This goal has been met.

4. **Continue reporting on American Recovery and Reinvestment Act (ARRA) projects.**

ARRA project reporting has been completed.

This goal has been met.



Taos – MBR, Lab, Blower and Control building

5. **Execution of at least \$15 million in binding commitments.**

The Program executed \$4,930,000 in new project binding commitments and \$260,000 in loan increases on 2 ARRA projects in SFY 2012. (see Exhibits 1, 6-A and 6-B)

This goal was partially met.

6. **Submit application to EPA for FFY 2011 Allotment in the amount of \$7,222,000 by December 31, 2011.**

The Program applied for the FFY 2011 CWSRF allotment of \$7,222,000 on December 2, 2011 and it was awarded on February 24, 2012 with a project period beginning April 1, 2012.

This goal has been met.

7. **Execution of 20-year loan agreements (converting loans from construction phase to post construction/repayment phase) for the City of Elephant Butte, Incorporated County of Los Alamos, County of San Miguel, Village of Wagon Mound, Village of Eagle Nest, Town of Taos, and Village of Questa.**

The Program executed 20-year loan repayment agreements in SFY 2012 with all of the borrowers listed above with the exception of the Town of Taos and the Village of Questa. The ARRA grant funds were fully expended in SFY 2012 for the Taos and Questa projects, but each needed additional funds to complete their projects. Taos's CWSRF loan was increased by \$200,000 and Questa's CWSRF loan was increased by \$60,000. The loan increases will be expended and put into repayment during SFY 2013.

This goal was partially met in SFY 2012.

8. **The State commits to completing the Environmental Benefits Form and providing these forms with the Annual Report. These forms will help the NMED and the EPA report on the benefits realized by the CWSRF funding activities.**



Corrales – Trench box where the wastewater collection lines will be installed

Four (4) new CWSRF loans were executed with the Village of Chama, Sandoval County, the Village of Corrales and El Valle de Los Ranchos Water and Sanitation District in SFY 2012 and the Environmental Benefits form for each project is attached.

This goal has been met.

9. **Refine the process for soliciting and funding non-traditional CWSRF projects to include future capitalization grant green project reserves. Activities to achieve this goal include a review and update of New Mexico statutes and administrative code; adding appropriate application questions to allow for broader project scope; and a review and update of the NM CWSRF priority rating system.**

The Program's FFY 2012 allotment capitalization grant application submitted June 13, 2012 included contractual in-kind services for assistance with updating the prioritization system and identification of a wider set of CWSRF projects. The allotment was awarded August 21, 2012 and a work assignment under the EPA contract with Northbridge Environmental Management Consultants is being finalized as of the writing of this report.

Progress was made on this goal in SFY 2012.

10. **Begin draw-down of SFY 2011 Capitalization Grant of \$10,002,000.**

The SFY 2011 capitalization grant was 76% expended as of FYE 2012 (see Exhibits 5 and 8).

This goal has been met.

11. **Identify recipients to receive the subsidy amount from the SFY 2011 Capitalization Grant in the total amount of \$4,993,274.**

The Program executed four combination loan and grant funding packages in SFY 2012. Those packages included \$3,500,000 of the subsidy amount from the SFY 2011 capitalization grant (FFY 2010 allotment):

Assistance Recipient Name	Total SRF Assistance Provided	Project ID and Name	Project Location	Type of add sub	Amount of add sub	Could recipient otherwise afford loan?
Chama, Village of	\$950,000	CWSRF 013 Planning and design of new WWTP to meet NPDES permit requirements	Chama, NM	grant	\$850,000	N
Sandoval County	\$1,580,000	CWSRF 006 New WWTP construction to meet NPDES permit requirements	Cuba, NM	grant	\$1,220,000	N
Corrales, Village of	\$1,540,000	CWSRF 011 Phase 2 and 3 wastewater collection and conveyance system	Corrales, NM	grant	\$1,000,000	N
El Valle de Los Ranchos Water and Sanitation District	\$860,000	CWSRF 014 Phase 2B-2 and 2B-3 wastewater system improvements	South of Rio Grande de los Ranchos and west of NM Hwy 68 near the Llano Quemado rim and the river bottom.	grant	\$430,000	N

Funding agreements that include the remaining \$1,493,274 are in process with the City of Las Vegas, San Juan County, the Southern Sandoval County Arroyo Flood Control

Authority and the Village of Jemez Springs as of the writing of this report.

No subsidy was disbursed in SFY 2012. In future annual reports, a table will be included showing how subsidy was spent from each allotment during the fiscal year.

This goal was partially met in SFY 2012.

12. Identify at least \$2,000,400 in green projects for the SFY 2011 Capitalization Grant.

The Program approved \$1,229,555.25 in green project reserve for the City of Carlsbad project currently under construction. Of this amount, \$700,805.25 was approved as categorically green under Energy Efficiency and \$528,750.00 was approved as Environmentally Innovative using a business case. The business case for this project can be found at <http://www.nmenv.state.nm.us/cpb/GreenProjectReserve.htm>.

The Program approved \$2,943,913 in green project reserve for the City of Rio Rancho project currently under construction. This amount is categorically green under Water Efficiency.

Assistance Recipient Name	Type of project	GPR amount	Subsidy	Description of project	Population served
Carlsbad, City of	a) Energy Efficiency	a) \$358,493.50	n/a	a) Furnish and install fine bubblers	25,625
	b) Energy Efficiency	b) \$342,313.75		b) Furnish and install blowers	
	c) Environmentally Innovative	c) \$528,750.00		c) UV disinfection	
Rio Rancho, City of	Water Efficiency	\$2,943,913.00	n/a	Effluent reuse lines	51,765

The following table shows the disbursements made in SFY 2012 for the SFY 2011 cap grant's (FFY 2010 allotment) green project reserve:

Community/Project #	DR #	Source of pmt.?	DR paid date	Green Amt. for equiv. purposes	GPR Balance FY11 Cap Grant	Project Balance
Beginning Balance					\$2,000,400.00	
Carlsbad CWSRF 010	4	State match (overmatch previously deposited in cash) and FY10 CG	8/26/2011	\$54,905.40	\$1,945,494.60	
Carlsbad CWSRF 010	5	State match (overmatch previously deposited in cash), FY11 CG and Cash	11/23/2011	\$632,062.47	\$1,313,432.13	
Rio Rancho CWSRF 008	2	FY11 CG	1/27/2012	\$161,159.58	\$1,152,272.55	Rio Rancho \$2,782,753.73 remaining
Carlsbad CWSRF 010	6	FY11 CG	1/30/2012	\$40,105.69	\$1,112,166.86	
Carlsbad CWSRF 010	7	FY11 CG	3/29/2012	\$76,753.35	\$1,035,413.51	
Carlsbad CWSRF 010	8	FY11 CG	6/8/2012	\$350,582.40	\$684,831.11	Carlsbad \$75,145.94 remaining

Future annual reports will include similar tables for each allotment that green project reserve

funds were disbursed from.
This goal was met in SFY 2012.



Carlsbad – Construction of the aeration basin and outfitting it with fine bubble diffusers



IV. FUND ADMINISTRATION AND OPERATIONS;

A. Sources and Uses of Funds

The actual sources and uses of CWSRF Fund 121 for SFY 2012 are as follows:

**Table 1. Sources and Uses
Actuals for State Fiscal Year 2012**

Beginning balance as of 7/1/2011:

Ending cash balance as of 06/30/11	\$71,559,605
Unused admin portion of SFY 2010 Cap Grant as of 06/30/11	\$19,733
Unused admin portion of ARRA Cap Grant as of 06/30/11	\$134,890
Unused admin portion of SFY 2011 Cap Grant as of 06/30/11	\$400,080
Unused construction portion of 2010 Cap Grant as of 06/30/11	\$386,730
Unused construction portion of ARRA Cap Grant as of 06/30/11	\$1,859,595
Unused construction portion of SFY 2011 Cap Grant as of 06/30/11	\$9,601,920

Sources during SFY 2012:

2012 Repayment Principal (see Exh. 4 attached)	\$12,877,947
2012 Repayment Interest (see Exh. 4 attached)	\$3,463,819
2012 Repayment Construction Interest (see Exh. 4 attached)	\$14,076
2012 Overnight Interest	\$105,663
FY 12 Cap Grant (incl 4% Admin)	\$7,222,000
State Match from Laws of 2011 Severance Tax Bond	\$1,444,400

Total Sources

\$109,090,458

Uses during SFY 2012:

Admin Expense (see Exh. 8 attached)	\$272,279
Cash Disbursements (see Exh. 5 attached)	\$12,917,791
Remaining balance to be disbursed from base loans/grants in construction as of 6/30/12 (see Exh. 6A attached)	\$34,096,832
Remaining balance to be disbursed from ARRA loans in construction as of 6/30/12 (see Exh. 6B attached)	\$260,000
Balance available for use on future projects *	\$61,543,556

Total Uses

\$109,090,458

* NMED plans to use all CWSRF funds not committed to projects in the manner detailed in the Cash Flow Projection charts attached to this report. NMED plans to make at least \$25 million in binding commitments in SFY 2013 out of the \$62 million in available resources.

B. Administrative Portion of Capitalization Grants

Amounts drawn from the EPA-ACH for the 4% admin portion of the capitalization grants in SFY 2012 were \$19,733 from the SFY 2010 grant, \$134,890 from the ARRA grant, and \$117,656 from the SFY 2011 cap grant for a total of \$272,279 (see Exhibit 8). The difference between admin expenses incurred and admin expenses drawn is due to the accrual of admin expenses at the end of one fiscal year that aren't drawn until the following fiscal year. For SFY 2012 the difference included \$29,169 in expenses incurred in SFY 2011 that weren't drawn until SFY 2012 and \$50,869 in expenses incurred in SFY 2012 that won't be drawn until SFY 2013.

Cumulative administration expenses drawn down in the ACH from July 1, 1991 through June 30, 2012 total \$6,555,757 (Exhibit 8); this does not exceed the 4% allotment. The allotted four percent (4%) through the ARRA capitalization grant totals \$7,127,062 (Exhibit 8). The available banked cap grant administration balance is \$552,105 at the end of the SFY 2012 reporting period.

C. CWSRF Admin Fund Activity

As discussed in section III.A.2 above, the Program was authorized by EPA and the New Mexico Water Quality Control Commission in SFY 2007 to establish the CWSRF Admin Fund (Fund 327) outside of CWSRF (Fund 121). Fund 327 was created in SFY 2008. The purpose of Fund 327 is solely to administer the Program into perpetuity. The balance of Fund 327 at the beginning of SFY 2012 was \$553,606. In SFY 2012, Fund 327 had the following activity:

Description	Amount
Balance beginning of SFY 2012	\$553,606
Investment interest from the State Treasurer's Office earned in SFY 2012	+809
Loan Administrative Fees collected SFY 2012	+397,669
Program operating expenses charged to Fund 327 in SFY 2012	-207,745
Balance end of SFY 2012	744,339

The operating expenses charged to Fund 327 include payroll, travel, computers and other office expenses.

D. Assistance Activity

No disbursements were made from CWSRF second-tier funds in SFY 2012 to match a Special Appropriation Act Project (SAAP/STAG). No capitalization grant funds were or will be used to match SAAP/STAG funds on this or any project.

E. Environmental Reviews

The Program conducted environmental reviews for all of the projects with executed loan/grant agreements in SFY 2012, in compliance with CWSRF requirements, and will continue to do so in the future.

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

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

In SFY 2012 two (2) federal payments (deposits) were made to the Program's EPA-ACH from the SFY 2011 (\$10,200,000) and SFY 2012 (\$7,222,000) Capitalization Grants. The State is in compliance with the operating agreement.

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 above the amount of each capitalization grant payment. The State match shall be deposited on or before the date on which the State received each payment from the grant award.

The Program used banked overmatch to provide the match for the SFY 2011 capitalization grant (see Exhibit 2). The state legislature appropriated \$1,444,400 in severance tax bond funds in SFY 2012 for the SFY 2012 capitalization grant of \$7,222,000. The bond was sold in December 2011. The New Mexico State Board of Finance conducted the bond sale and the bonds are repaid with taxes on

oil, gas and other natural resource extractions on state land. The CWSRF is not the source of reserve maintained for the bonds. The CWSRF interest earnings are not the source of repayment for the bonds.

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 grant payment.

The State is required to have binding commitments (loan agreements and administration draws) totaling \$219,295,858 for the period ending June 30, 2012. The total binding commitments as of FYE 2012 were \$316,469,196 or 173% exceeding the required 120% by \$97,173,338 (see Exhibit 3).

Expeditious and Timely Expenditures: Sec. 602(b)(4). The State agrees to expend all funds in the CWSRF in an expeditious and timely manner. At the end of the third quarter of each federal fiscal year after the first capitalization grant award, the State will provide EPA with a schedule of estimated disbursements for the upcoming federal fiscal year.

The State is aggressively addressing the issue of expeditious and timely expenditures for the CWSRF funds. Section E of the Executive Summary above discusses the unliquidated obligation stretch goal EPA put in place in SFY 2012 and the Cash Flow Model (Figure 4) shows how cash will be reduced over the next several years.



Sandoval County project sign for Village of Cuba WWTP project

First Use of Funds for Enforceable Requirements: Sec. 602(b) (5). The State agrees that all funds in the fund as a result of capitalization grants will first be used to assure maintenance of progress, as determined by the Governor, toward compliance with enforceable deadlines, goals, and requirements of the Act, including the municipal compliance deadline.

The State had previously succeeded in bringing its NMP projects into compliance through the 205g-grant program and previous years CWSRF Loans.

Compliance with Federal Cross Cutting authorities.

The State affirms that all federal cross cutters have been complied with by the State and its communities.

In accordance with 40 CFR Part 35.3145(d), compliance with the negotiated Disadvantaged Business Enterprise (DBE) "Fair Share" objectives for the State is presented in the table below.

The chart below shows NMED's negotiated DBE objectives for all EPA grant funds that NMED received in SFY 2012 and the actual percentages achieved by the CWSRF Program:

Total MBE	MBE Negotiated objectives	Actual Percentages	Total WBE	WBE Negotiated objectives	Actual Percentages
Construction	41.03%	13.73%	Construction	6.47%	0.20%
Equipment	36.69%	0.00%	Equipment	30.65%	0.00%
Services	38.78%	7.35%	Services	40.00%	0.00%
Supplies	25.51%	0.00%	Supplies	35.30%	0.00%

Technical staff members do verify that DBE requirements are followed for all bids and have been working with funding recipients to encourage more effort during the bidding process to get more participation by DBE firms. There is no statewide resource to help identify DBEs. While the negotiated objectives were not met, the State affirms that all six affirmative action steps were followed.

State Laws and Procedures: Sec. 601(b)(7). The State agrees to commit or expend each quarterly capitalization 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 2012. The draft SFY 2012 Independent Auditor's Report for the CWSRF Program is attached to this report. The final Auditor's Report is expected in late 2012 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, (2/27/81).

The State confirms compliance with this requirement. The Program is being managed in compliance with all applicable regulations, and the State is cooperating with EPA oversight efforts. The State has contracted with an Independent Auditor for an Independent Financial Audit on the CWSRF in addition to the single audit requirement. Copies of the completed Single Audit will be forwarded to EPA.

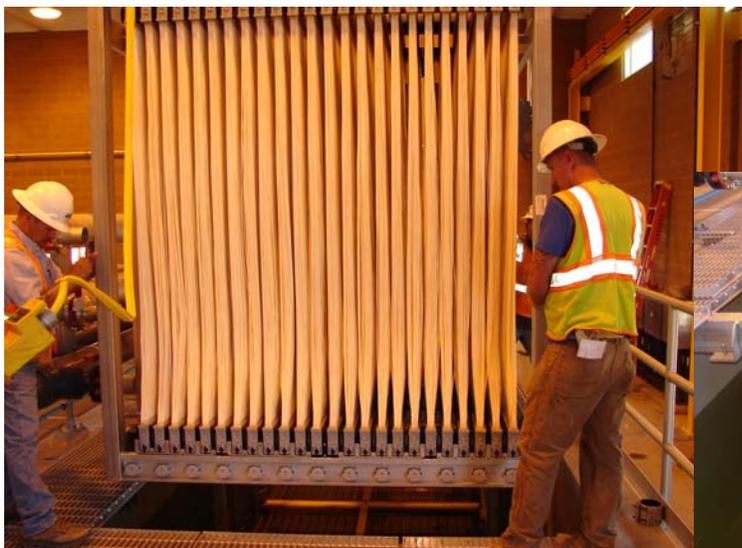
Recipient Accounting and Audit Procedures: Sec. 602(b)(9). The State agrees that as a condition to making a loan or other form of assistance, it will require recipients of SRF assistance to maintain project accounts in accordance with generally accepted government accounting standards, as defined in the section above.

The State confirms that generally accepted government accounting standards are required of all CWSRF recipients through our loan documents. Compliance is confirmed annually in a desk audit

conducted on borrowers' annual audits. Shortly after closing SFY 2012 (in July 2012), an independent audit began for the CWSRF. A copy of the draft independent audit is attached to this Annual Report. The final Audit will be provided when the necessary reviews are completed and the NMED audit is completed, expected late 2012.

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 Annual Report for SFY 2011 was submitted on September 30, 2011, updated November 8, 2011 and finalized March 29, 2012. The State is submitting the SFY 2012 Annual Report on October 1, 2012 to satisfy this requirement.



Taos – Installation of MBRs



Compliance with the Environmental Review Requirements: Sec. 602(b)(6). The State agrees that it will conduct an environmental review of each project receiving assistance from the CWSRF following 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 were adopted on September 8, 1988 and are implemented through the Internal Procedures Manual, Attachment V (New Mexico State Environmental Review Process (SERP)). EPA concurred with these procedures in August 1991. The current EPA approved SERP is dated January 2, 2008. An environmental review has been conducted on each new CWSRF loan. 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.

The Program is fully staffed which enables NMED to administer current loans in construction and repayment as well as to make several new loans in the coming year. The Program is in the process of several ongoing initiatives such as updating the scoring criteria, making regulation changes,

conducting community outreach and providing technical assistance. The Department has held training seminars for Bureau staff development. NMED has sent Program employees to various conferences such as the CIFA Conference and the New Mexico State Infrastructure Finance Conference. The State certifies that it has the legal, managerial, technical and operational capabilities to administer the Program competently.

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, the Program searches the Excluded Parties List System (EPLS) to confirm that the funding recipient's certification that they have not been debarred is accurate. During the State review of engineering agreements and construction contractors' bid tabulations, the EPLS system is also searched to insure the engineering firms or contractors are not subject to debarment and suspension from participation on federal contracts. The Program is aware that EPLS is transitioning to SAM in SFY 2013 and will update the search process accordingly.

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. The NMED Surface Water Quality Bureau, Planning Section is offered an opportunity to review the facility plans and environmental information documents in order to assure the project is consistent with applicable requirements.

Compliance with CWSRF Capitalization 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.



San Miguel County – Wastewater pump station

Delinquencies:

There were no delays in the repayments of any loans.

V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CLEAN WATER STATE REVOLVING FUND - This fund is an enterprise fund used to provide low-cost financial assistance to eligible entities to construct or modify wastewater facilities, non-point source projects and brownfields redevelopment projects. The primary initial funding sources are state general fund appropriations, severance tax bond sale proceeds and federal capitalization grants.

This fund is expected to eventually become self-sufficient as the volume of loan repayments and interest on outstanding loans increases.

VI. ACCRUED INTEREST RECEIVABLE ON CONSTRUCTION LOANS

Interest receivable on Clean Water State Revolving Fund Loans is accrued during the construction period. At the end of construction, the interest accrued may be capitalized in the final loan execution or the entity may pay off the accrued interest.



Rio Rancho – Fusing effluent reuse pipe together

VII. DISCUSSION OF ADMINISTRATIVE REIMBURSEMENT PROCESS

The administrative costs for this Program are reimbursed to the state agency as they accrue. Reimbursement is requested at 100% federal cost. Federal Capitalization Grant reimbursement is requested and received into the fund. The fund then reimburses the agency-operating fund. At year-end, all applicable receivables are posted. The state match is attained through an overmatch of legislative appropriation.

The State of New Mexico has proposed and the Environmental Protection Agency Region VI has accepted that New Mexico will expend all of the required State Revolving Fund (SRF) State match funds up-front (first) in disbursements/loans to communities toward addressing the wastewater needs in New Mexico. This was done for the convenience of NMED and not meant to alter any relationship, legal or otherwise, that would have existed had the 83/17 ratio been followed.

Once the total required State match for each SRF Capitalization grant has been expended, the State will draw down, at 100 percent, Federal funds for each respective CWSRF CAP grant. This process commenced with draws on the 1995 CWSRF Capitalization Grant. In accordance with 40 Code of Federal Regulations (CRF) Part 35 Subpart K 35.3120(g), monies in the CWSRF may be used for reasonable costs of administering the CWSRF provided that the amount does not exceed 4 percent of all grant awards received by the CWSRF.

VIII. FINANCIAL INDICATORS

The Table below demonstrates efficient use of funding, as well as the increasing strength of the fund.

NM CWSRF FINANCIAL INDICATORS COMPARISON

(Sources: the draft National Information Management System 'NIMS' Report 9/13/2012 and Draft SFY 2012 Program Audit dated 9/15/2012)

(see # below also)	2007	2008	2009	2010	2011	2012
1. Federal Return	129%	144%	163%	163%	157%	164%
2. Percentage of Executed Loans to Funds Available	84%	89%	89%	99%	91%	88%
3. Percentage of Funds Disbursed to Executed Loans	78%	81%	90%	76%	83%	86%
5. Sustainability (Retained Earnings)	\$44,626,604	\$50,296,815	\$53,078,927	\$55,483,012	\$58,804,066	\$62,387,624
5. Net Assets	\$206,562,738	\$221,266,372	\$228,401,638	\$232,303,468	\$239,400,113	\$250,866,496
5. Net Assets change in %	12%	7%	3.2%	1.7%	3.1%	4.8%

1. Federal Return (ratio of total SRF loan disbursements to federal disbursements.)
The ratio of total cumulative CWSRF loan disbursements to federal disbursements was 164%. The State of New Mexico has proposed and the Environmental Protection Agency Region 6 has accepted that New Mexico will expend all of the required State Revolving Fund (SRF) State match funds up-front (first) in disbursements/loans to communities toward addressing the wastewater needs in New Mexico.
2. Percentage of executed loans to funds available.
The cumulative percentage of executed loans as a % of funds available is 88%.
3. Percentage of funds disbursed to executed loans.
The cumulative disbursements amount as a % of executed loans is 86%. 86% of the funds committed to the executed loans have been drawn down as of the end of SFY 2012.
4. Estimated additional SRF loans made due to leveraging.
The State of New Mexico is currently not leveraging Clean Water State Revolving Funds.
5. Sustainability:
Retained earnings increased from \$59 million in SFY 2011 to \$62 million in SFY 2012. In the past ten years, net assets increased an average of \$12.6 million per year. In SFY 2012, net assets increased by \$11.5 million, from \$239 million in SFY 2011 to \$250.9 million in SFY 2012. This increase in net assets represents almost a 5% increase in fund balance.
6. Estimated subsidy (narrative only).
The State of New Mexico has four rates available, each of which is below market interest rates. The Base rate is 3%. A hardship rate of 2% is available for those communities whose median household income is less than the statewide non-metropolitan median household income based on the most current decennial U.S. Bureau of Census statistics, and 1% for those communities whose median household income is less than three-fourths of the statewide non-metropolitan median household income. A 0% rate is available for those communities that have a median household income less than three-fourths of the statewide non-metropolitan median household income and an average user cost of at least fifteen dollars (\$15.00) per month. The weighted average of effective interest rates charged to borrowers is 2%. In SFY 2008 the State began charging an administrative fee for loans to communities. That fee is 0.4356% and is calculated on principal owed.

IX. CONCLUSION

SFY 2012 continued the Program’s transition from focusing on ARRA back to the base CWSRF program. The Program has incorporated the subsidy and green policies peripherally into the prioritization and funding process and will work with Northbridge Environmental Management Consultants to formally update the prioritization system in SFY 2013. The Program funded 4 new projects during SFY 2012, after funding no new projects in SFY 2011. All of the SFY 2012 borrowers are new to the CWSRF and benefitted from the additional subsidy.

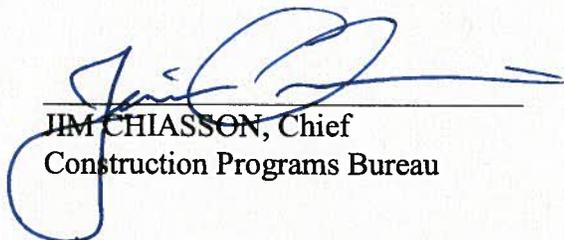
As the Program approaches sustainability, a projected \$28 to \$31 million in clean water infrastructure improvements can be funded each year. The fund can also provide administrative budget, through the collection of administrative fees, without a burden to taxpayers. With an increasing fund balance and improved stability, this fund will continue to play an important role in promoting clean water for the state now and in the years to come.



Taos – Solar Array

**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 III 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.


JIM CHIASSON, Chief
Construction Programs Bureau


DATE