State of New Mexico
CLEAN WATER STATE REVOLVING FUND
ANNUAL REPORT

STATE FISCAL YEAR (SFY) 2013
(July 1, 2012 - June 30, 2013)

Rio Rancho – WWTP Basin for the Treatment Membranes

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ANNUAL REPORT
CLEAN WATER STATE REVOLVING FUND PROGRAM

Carlsbad - Secondary Clarifier Rehabilitation

I. INTRODUCTION

Federal Legislation produced The Clean Water Act (CWA) 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 over $317 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) 2013. 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, 2012 - June 30, 2013, as identified in the SFY 2013 Intended Use Plan (IUP). 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 2013 to the US Environmental Protection Agency (EPA), after soliciting public comments from May 25 – June 15, 2012. The IUP laid out the Program goals, activities and intended use of funds for SFY 2013 and was approved on July 24, 2012. This Annual Report details the results of the SFY 2013 plan.

A. Financial Highlights for State Fiscal Year 2013

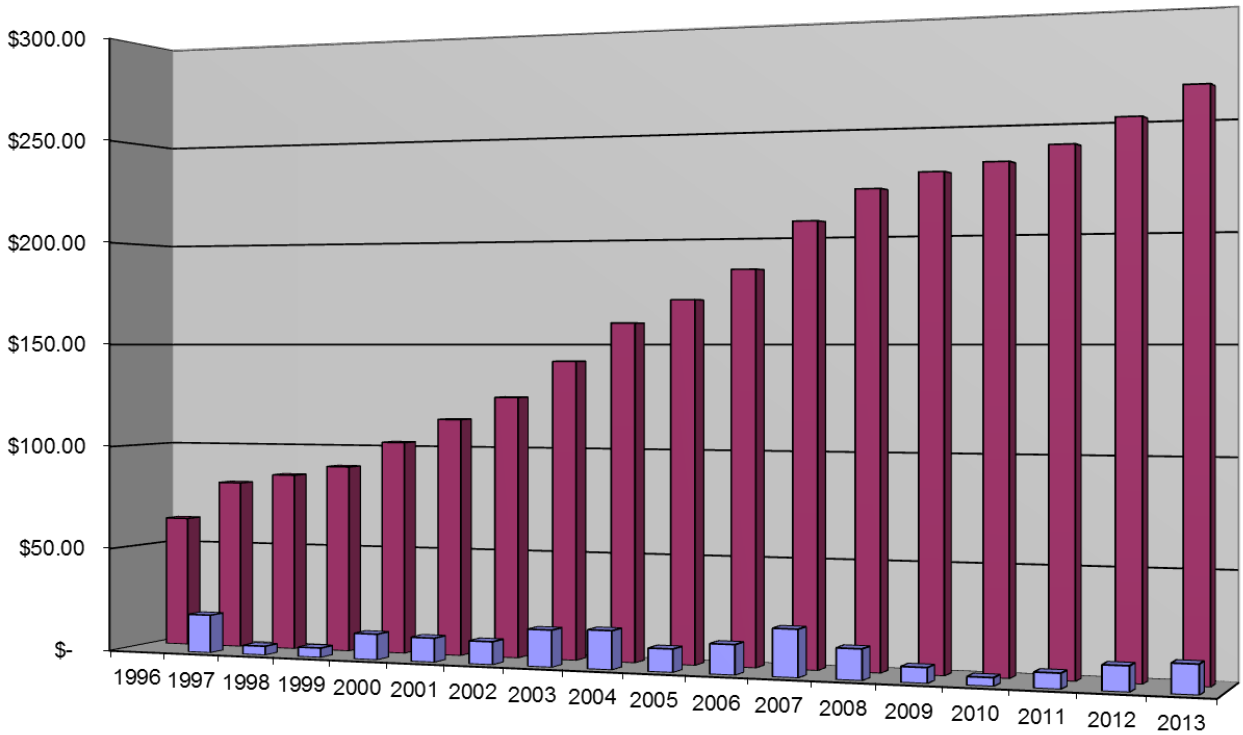
- As of the close of SFY 2013, NM CWSRF reports a total net position of $265,367,823, an increase of $13,756,988 in comparison with the prior year for the CWSRF Fund 121 and CWSRF Admin Fund 327 combined. This 5.5% annual growth demonstrates a growing, healthy fund (see attached draft audit).
- The Program was awarded one cap grant for the Federal Fiscal Year (FFY) 2012 allotment of $6,908,000. Cumulative grants since inception total $189,654,548 (see Exhibit 2 and Exhibit 3).
- The Program collected $11,360,094 in loan repayment principal and $3,029,068 in loan repayment interest. The Program also collected $381,614 in administrative fees from 16 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 $14,770,776 (see Exhibit 4).
- The Program earned $204,633 of interest income on overnight funds deposited at the State Treasurer's Office for the CWSRF Fund 121 and CWSRF Admin Fund 327 combined. This is a 75% increase over the amount earned in 2012.
- The Program disbursed $11,431,222.60 for construction projects in SFY 2013 (see Exhibit 5).

Sandoval County – Cuba Wastewater Treatment Plant Site

B. Increasing Strength of the CWSRF Fund 121

The Program's financial position continued to improve in SFY 2013. Over the past ten years Fund 121's net position has been increasing at an average of $12.2 million annually as shown in Figure 1 below. The fund's total net position at fiscal year end (FYE) 2013 was $264,248,074, an increase of $13.4 million from FYE 2012.

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



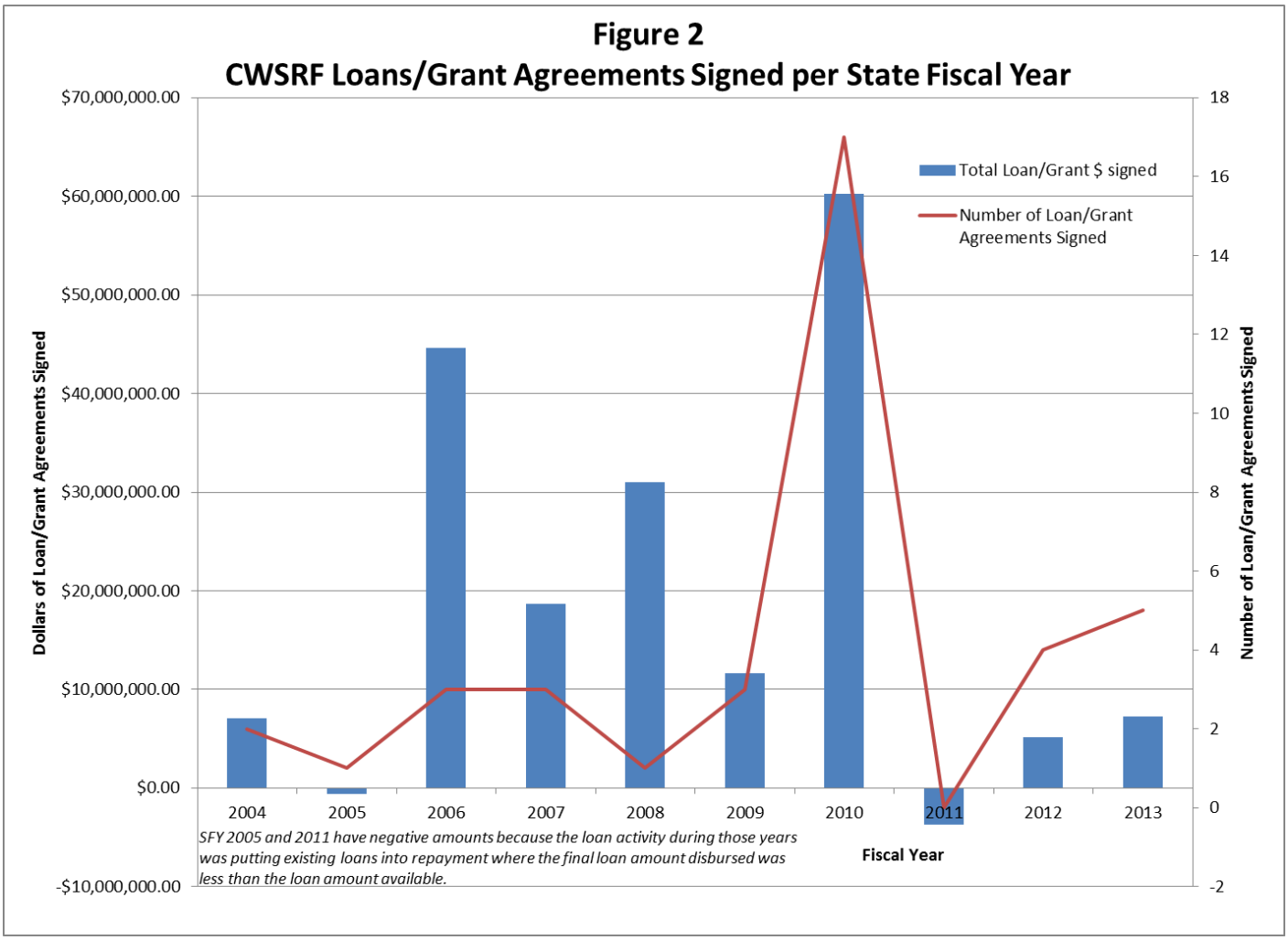
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Incr in Net Position in $ millions		$18.3	$4.3	$4.6	$12.2	$11.5	$10.9	$17.4	$18.2	$10.8	$14.0	$22.0	$14.3	$7.1	$3.9	$7.1	$11.5	$13.4
Net Position in $ millions	63.0	81.3	85.6	90.1	102.4	113.8	124.7	142.1	160.2	171.0	185.0	207.0	221.3	228.4	232.3	239.4	250.9	264.2

C. Political and Economic Factors Effecting the Fund

As the economy rebounds, the state is increasing grant funding for capital projects through oil and gas revenues. Grant funding for water and wastewater projects has jumped from less than $1 million in SFY 2010 and SFY 2011, to $3.3 million in SFY 2012, and over $18 million in SFY 2013. However, each year's increase in grant funding also results in greater numbers of recipients. In SFY 2013, 90 communities received an average of $201,000 in water and wastewater grant funding. On the federal side, there have been no new special appropriation earmark grants for water or wastewater projects since FFY 2010. Although communities would like to fund their projects with grants, the likelihood of receiving enough grant funds to build a complete project seems improbable.

The NM CWSRF has been allowed to offer a small portion of each of the last three annual federal allotments of funds as subsidy in the form of grants. Combining grants when available along with low-interest loans is allowing the NM CWSRF to reach new borrowers each year and is helping NM communities build fully-functional projects that small annual grant amounts do not provide.

The Program signed 5 new loan/grant agreements totaling $7,230,454.80 in SFY 2013 (see Exhibits 1 and 6-A). Figure 2 below shows the amount and number of agreements signed over the last 10 years. The SFY 2013 number of new agreements is more than any other year, outside of ARRA, in the history of the NM CWSRF.



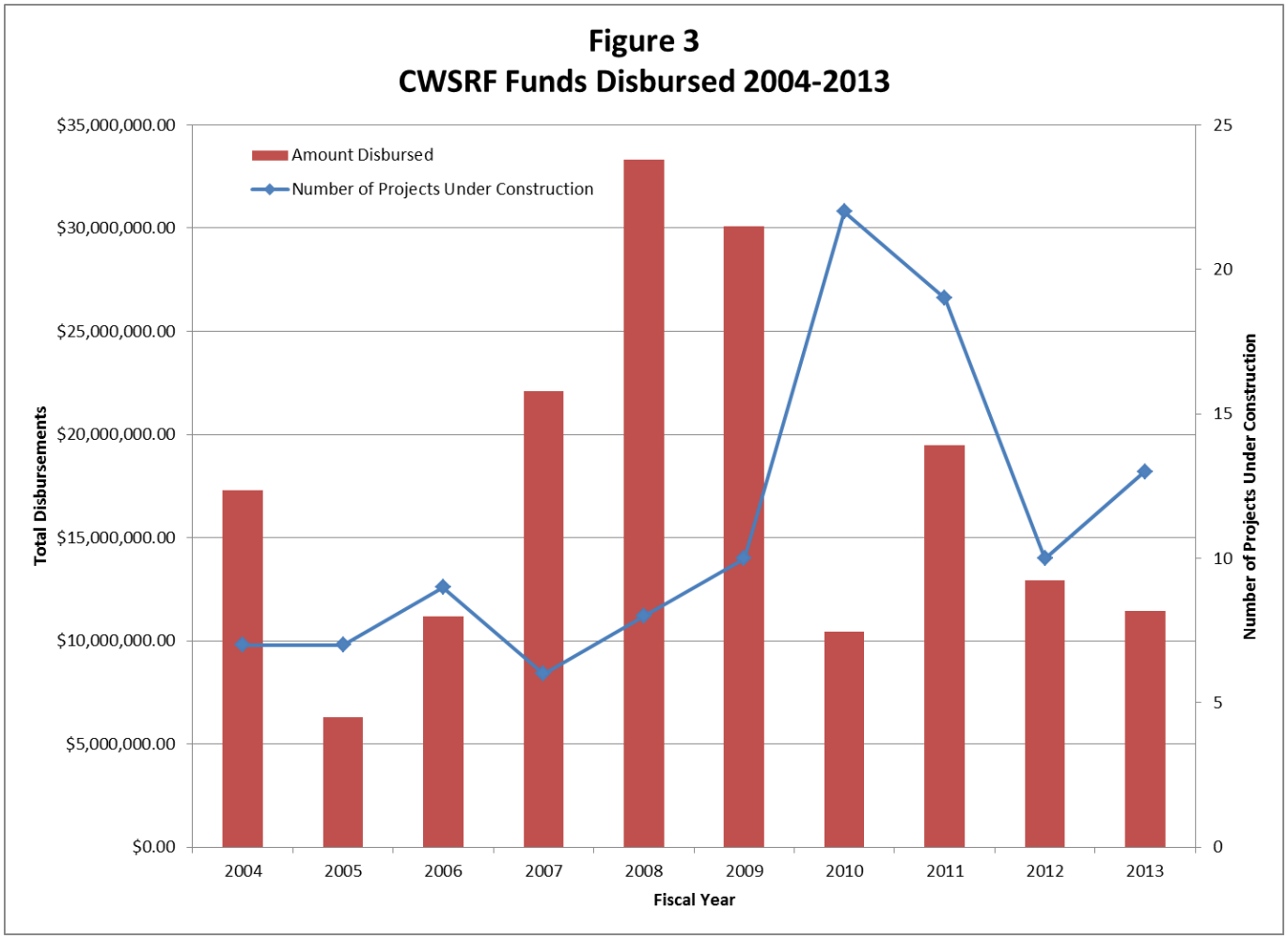
D. Interest Rate Structure

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 per capita income is less than the statewide per capita income, based on the most current decennial U.S. Bureau of Census statistics.

A rate of 1% is available for those communities whose per capita income is less than three-fourths of the statewide per capita income. A 0% rate is available for those communities that have a per capita income less than three-fourths of the statewide per capita 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.

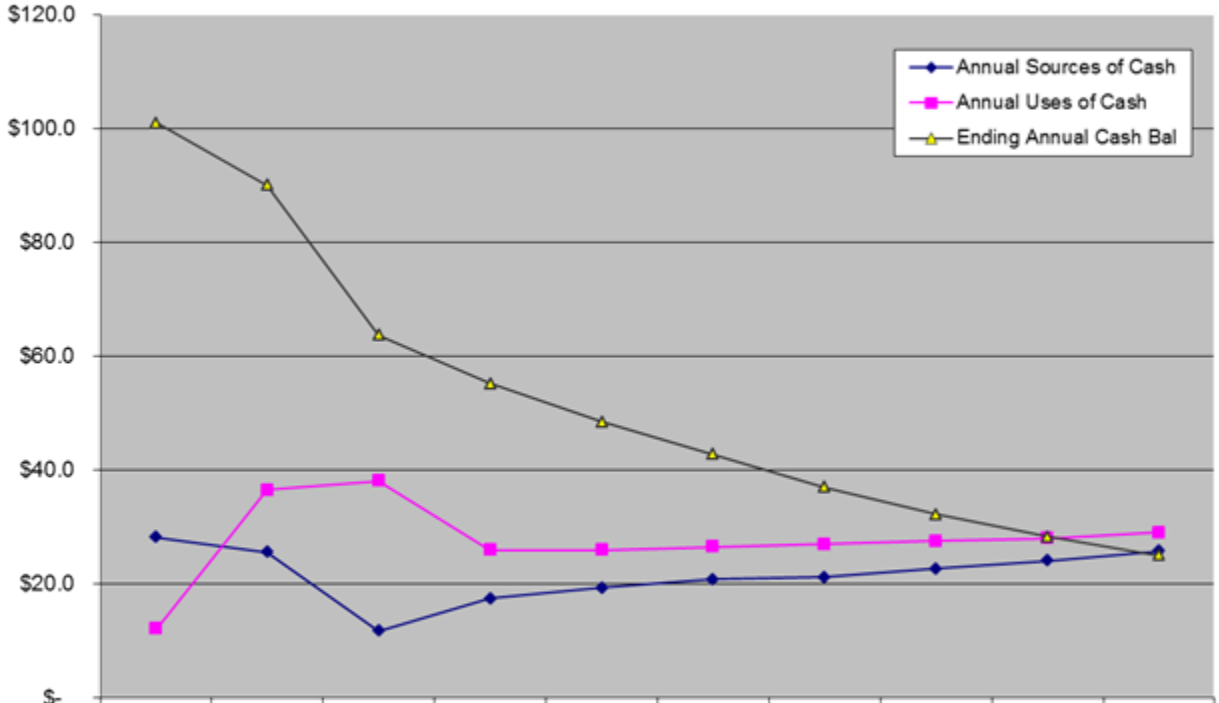
E. Activities/Pace

EPA put an un-liquidated obligation expenditure stretch goal in place for the NM CWSRF in November 2011 that covered FFY 2012, which includes the first quarter of SFY 2013. The Program met and exceeded the expenditure stretch goal by September 30, 2012, closing two grants along the way. As of the end of SFY 2013, the NM CWSRF has fully expended a third grant for the FFY 2010 allotment and expended 96% of the FFY 2011 allotment. Figure 3 below shows that during SFY 2013, the NM CWSRF had 13 projects in process. Historically, this number has only been exceeded in activity by the ARRA peak in SFY 2010. The fund disbursed $11,431,222.60 to projects during SFY 2013. Please see Section IV below for the discussion of Sources and Uses of Funds that shows how the Programs funds are committed.



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 (Fund 12100), with the resulting decrease in cash, is shown in Figure 4 below:

Figure 4
New Mexico CWSRF Cash Flow Projection (in $ millions)
Actual data 2013, Projected as of 2014



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual Sources of Cash	$28.2	$25.6	$11.8	$17.5	$19.3	$20.8	$21.2	$22.7	$24.1	$25.7
Annual Uses of Cash	$12.2	$36.5	$38.1	$26.0	$26.0	$26.5	$27.0	$27.5	$28.0	$29.0
Ending Annual Cash Bal	$100.9	$90.0	$63.7	$55.2	$48.5	$42.8	$37.0	$32.2	$28.3	$25.0

This model demonstrates that after 2015 and until 2021, the program projects funding levels, which include fund balance, cash inflows and cash outflows, to support projects averaging $27 million annually. After 2021, ending cash balance is projected to be less than projected outlays. 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 2013 listed specific goals, objectives and accomplishments that the Program hoped to achieve in SFY 2013. 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 Clean Water State Revolving Loan Fund 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 $317 million!*** (See Exhibit 1 – SFY 2013 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 $26 to $29 million annually over the next ten years (see Figure 4 above).

El Valle de Los Ranchos - Workers assemble the sewer carrier pipe for a bore under Highway 68

2. **To maintain the fund in perpetuity.**

   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 position, the fund is increasing in size each year (see Figure 1 on page 3). With no loans in default, a growing loan

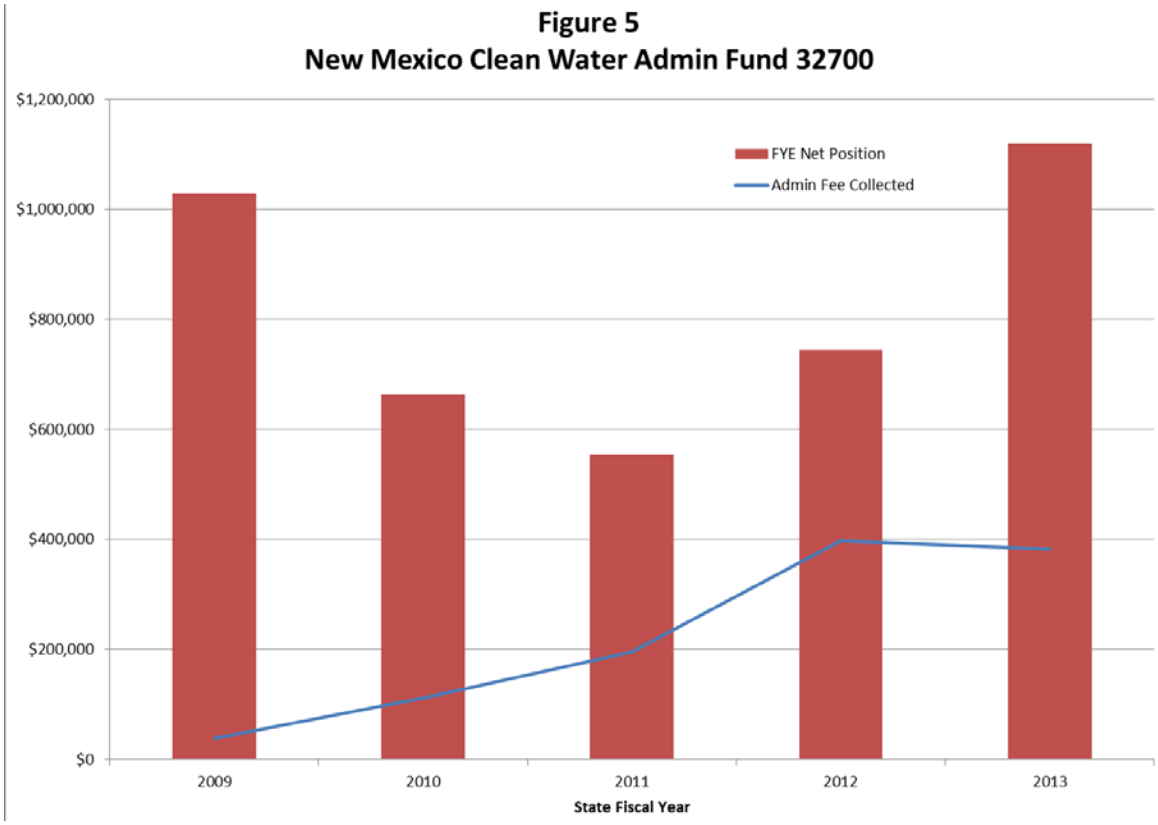
portfolio and relatively low expenses, the fund continues to build upon the federal capitalization grants and state matching funds within the CWSRF.

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.

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 2013, 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 below shows the FYE fund balance and 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 2013 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 2013 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), the Community Services Section of the Drinking Water 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.

SSCAFCA - Existing Montoyas Arroyo

The prioritization system for the development of the annual CWSRF priority list was overhauled during SFY 2013 to better address this goal. The criteria were expanded from 3 scoring factors to 5 scoring factors with 14 subsections. It also adds in a small amount of bonus points for projects that meet the EPA definition of green projects. The revised system was produced using a collaborative approach with NMED's Surface Water Quality Bureau and Groundwater Quality Bureau with assistance from EPA's contractor, Northbridge Environmental Management. The result is a more transparent priority list that takes into account water quality issues while addressing the need for sustainable systems. Please see Attachment 3 for the updated Priority Rating System.

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 an annual report in a timely manner. CWA Sec. 606 (b, c, d).**

   The SFY 2013 IUP was submitted June 29, 2012, amended July 11, 2012 and finalized July 24, 2012.

   <u>This goal will be met with the submission of this report and the audit</u>

2. **Completion of the CS-35000211-0 Capitalization Grant (FFY 2010 Allotment) in the amount of $10,002,000 with the U.S. Environmental Protection Agency. CWA Sec. 602 (a).**

   The Program completed drawing down on the construction portion of the FFY 2010 allotment on September 4, 2012. Administrative expenses for the 4% amount of the allotment were accrued before June 30, 2013 and the final draw was made August 21, 2013. (See Exhibits 5 and 8.)

   The Program has eight signed agreements for $4,993,274 in subsidy under this grant:

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
Las Vegas, City of	$840,000	CWSRF 016 WW sludge handling facility project	Las Vegas, NM	grant	$484,000	N
San Juan County	$176,000	CWSRF 015 Engineering and design for the Lower Valley lagoon decommissioning and lift station hookup	Kirtland, NM	grant	$90,000	N
Southern Sandoval County Arroyo Flood Control Authority	$2,000,000	CWSRF 018. Montoya's Arroyo stormwater quality facility	Rio Rancho, NM	grant	$750,000	N
Jemez Springs, Village of	$305,000	CWSRF 019 Additional nitrogen and phosphorous treatment systems at WWTP.	Jemez Springs, NM	grant	$169,274	N
TOTALS	$8,251,000				$4,993,274	

As of June 30, 2013, $1,625,085.60 in subsidy has been disbursed to these projects, which is greater than the minimum amount of subsidy required under this grant ($1,497,982.00). The following table shows the disbursements made through June 30, 2013 for the SFY 2011 cap grant's (FFY 2010 allotment) subsidy:

Community/Project #	DR #	Source of pmt.?	DR paid date	Subsidy amt for equiv. purposes	Subsidy Balance FY11 Cap Grant	Project Balance
				Beginning Balance	$4,993,274.00	
Corrales CWSRF 011	1G	Laws of 2011	8/21/2012	$3,551.46	$4,989,722.54	
Corrales CWSRF 011	2G	FFY11 allotment	9/11/2012	$279,133.54	$4,710,589.00	
Corrales CWSRF 011	3G	Laws of 2012	10/1/2012	$121,859.49	$4,588,729.51	
Sandoval County CWSRF 006	1G	Laws of 2012	11/5/2012	$182,244.83	$4,406,484.68	
Sandoval County CWSRF 006	2G	FFY11 allotment	12/24/2012	$226,587.20	$4,179,897.48	
Sandoval County CWSRF 006	3G	FFY11 allotment	3/4/2013	$459,394.24	$3,720,503.24	
Corrales CWSRF 011	4G	FFY11 allotment	3/18/2013	$96,262.54	$3,624,240.70	
El Valle de Los Ranchos CWSRF 014	1G	FFY11 allotment	4/29/2013	$29,388.63	$3,594,852.07	
El Valle de Los Ranchos CWSRF 014	2G	FFY11 allotment	5/23/2013	$115,443.50	$3,479,408.57	EVdLR $285,167.87 remaining
Corrales CWSRF 011	5G	FFY11 allotment	5/23/2013	$58,479.78	$3,420,928.79	Corrales $440,713.19 remaining
Sandoval County CWSRF 006	4G	FFY11 allotment	6/17/2013	$52,740.39	$3,368,188.40	Sandoval Cty $299,033.34 remaining
Subtotal				$1,625,085.60		

The SFY 2011 cap grant's (FFY 2010 allotment) green project reserve requirement is 20% of the cap grant amount or $2,000,400. 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 also 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 b) Energy Efficiency c) Environmentally Innovative	a) $358,492.50 b) $342,312.75 c) $528,750.00	n/a	a) Furnish and install fine bubblers b) Furnish and install blowers c) UV disinfection	25,625
Rio Rancho, City of	Water Efficiency	$2,943,913.00	n/a	Effluent reuse lines	51,765

As of June 30, 2013, $3,890,967.87 in GPR has been disbursed to these projects, which exceeds the $2,000,400 in required GPR. The following table shows the disbursements made in through June 30, 2013 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	FFY09 Allotment and State match (overmatch previously deposited in cash)	8/26/2011	$54,905.40	$1,945,494.60	
Carlsbad CWSRF 010	5	State match (overmatch previously deposited in cash), FFY10 Allotment and Cash	11/23/2011	$632,062.47	$1,313,432.13	
Rio Rancho CWSRF 008	2	FFY10 Allotment	1/27/2012	$161,159.58	$1,152,272.55	
Carlsbad CWSRF 010	6	FFY10 Allotment	1/30/2012	$40,105.69	$1,112,166.86	
Carlsbad CWSRF 010	7	FFY10 Allotment	3/29/2012	$76,753.35	$1,035,413.51	
Carlsbad CWSRF 010	8	FFY10 Allotment	6/8/2012	$350,582.40	$684,831.11	
Rio Rancho CWSRF 008	3	FFY10 Allotment and State Match from Laws of 2011	8/8/2012	$1,539,155.11	-$854,324.00	
Carlsbad CWSRF 010	9	State Match from Laws of 2011 and FFY11 Allotment	8/23/2012	$25,036.32	-$879,360.32	
Carlsbad CWSRF 010	10	FFY11 Allotment and State match from Laws of 2012	12/21/2012	$29,054.81	-$908,415.13	
Rio Rancho CWSRF 008	4	FFY11 Allotment	12/27/2012	$967,622.68	-$1,876,037.81	Rio Rancho $29,897.77 remaining
Carlsbad CWSRF 010	11	FFY11 Allotment	1/28/2013	$14,530.06	-$1,890,567.87	Carlsbad $6,524.75 remaining
Subtotal				$3,890,967.87		

Future annual reports will include similar tables for each allotment that subsidy and green project reserve funds were disbursed from.

<u>The completion of the CS-35000211-0 Capitalization Grant (FFY 2010 Allotment) goal has been met because:</u>

- **<u>The funds were fully expended in SFY 2013; and</u>**
- **<u>the subsidy requirements were met; and</u>**
- **<u>the GPR requirements were met.</u>**

3. **Identify recipients to receive the subsidy amount from the SFY 2012-0 Capitalization Grant (FFY 2011 Allotment) in the total amount of $2,230,777.**

The Program has five accepted offers for subsidy under this grant, one of which signed their agreement during SFY 2013, three that signed in early SFY 2014, and one that is in process. Two additional offers were made during early SFY 2014, one of which has been accepted as of the date of this report:

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?
Aztec, City of (signed SFY 2013)	$3,949,564	CWSRF 021 Wastewater collection and treatment system upgrades	Aztec, NM	grant	$350,000	N
Belen, City of (signed SFY 2014)	$1,136,364	CWSRF 020 Flood control improvements	Belen, NM	grant	$125,000	N
Portales, City of (signed SFY 2014)	$27,000,000	CWSRF 023 WWTP improvements	Portales, NM	grant	$420,000	N
Socorro, City of (signed SFY 2014)	$1,200,000	CWSRF 020 Wastewater collection system expansion	Socorro, NM	grant	$250,000	N
Truth or Consequences, City of (loan in process)	$9,000,000	Wastewater facility upgrades	Truth or Consequences, NM	grant	$270,000	N
Socorro, City of (accepted offer)	$750,000	WWTP upgrades	Socorro, NM	grant	$170,000	N
San Juan County (made offer – split w FFY 2012 allotment)	$9,100,000	Flora Vista collection system	Flora Vista, NM	grant	$645,777	N
TOTALS	$52,135,928				$2,230,777	

No subsidy was disbursed in SFY 2013. In future annual reports, a table will be included showing how subsidy was spent from each allotment during the fiscal year.

<u>This goal is in process until all loan agreements are signed.</u>

4. **Identify at least $1,444,400 in green projects for the SFY 2012-0 Capitalization Grant (FFY 2011 Allotment).**

The Program approved the entire Southern Sandoval County Arroyo Flood Control Authority (SSCAFCA) signed in SFY 2013 as categorically Green Infrastructure. $1,444,400 of the $2,000,000 project will be reported under the FFY 2011 allotment as the project is constructed.

Assistance Recipient Name	Type of project	GPR amount	Subsidy	Description of project	Population served
SSCAFCA	Green Infrastructure	$1,444,400	$750,000	Restoring hydrology and infiltration to Montoya's arroyo.	89,000

Future annual reports will include similar tables for each allotment that green project reserve funds were disbursed from.

<u>This goal has been met.</u>

5. **Completion of the CS-35000212-0 Capitalization Grant (FFY 2011 Allotment) in the amount of $7,222,000 with the EPA. CWA Sec. 602 (A).**

   The Program disbursed $6,567,881.01 in construction funds and accrued $207,110.75 in admin expenses from the FFY 2011 allotment during SFY 2013. The remaining construction amount was disbursed and drawn from the EPA ACH in early July 2013. The remaining admin amount was expensed by the end of August 2013.

   <u>This goal was met in early SFY 2014.</u>

6. **Execution of at least $25 million in binding commitments.**

   The Program signed $7,230,454.80 in new loan/grant agreements in SFY 2013. Another $38,338,364.00 was in process as of the end of SFY 2013. $28,136,364 of the agreements in process were signed in August 2013.

   <u>This goal was partially met.</u>

7. **Identify recipients to receive the subsidy amount from the SFY 2012-1 Capitalization Grant (FFY 2012 Allotment) in the total amount of $575,882.**

   The Program made offers to two (2) communities in early SFY 2014 for the total amount of FFY 2012 allotment subsidy. As of the date of this report, the offers have not been accepted:

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?
San Juan County (made offer – split w FFY 2011 allotment)	$9,100,000 (same as FFY 2011 allotment)	Flora Vista collection system	Flora Vista, NM	grant	$454,223	N
City of Deming	$1,744,060	Wastewater system improvements.	Deming, NM	grant	$190,000	N
TOTALS	$1,744,060				$575,882	

   No subsidy was disbursed in SFY 2013. In future annual reports, a table will be included showing how subsidy was spent from each allotment during the fiscal year.

   <u>This goal was partially met in SFY 2013.</u>

8. **Identify at least $690,800 in green projects for the SFY 2012-1 Capitalization Grant (FFY 2012 Allotment).**

   The Program approved the entire Southern Sandoval County Arroyo Flood Control Authority (SSCAFCA) project signed in SFY 2013 as categorically Green Infrastructure. $555,600 of the $2,000,000 project will be reported under the FFY 2012 allotment as the project is constructed.

The Program approved $6,882,974 of the Portales project signed in August 2013 as categorically green under Water Efficiency. This amount will be reported under the FFY 2012 and FFY 2013 allotments as the project is constructed.

Assistance Recipient Name	Type of project	GPR amount	Subsidy	Description of project	Population served
SSCAFCA	Green Infrastructure	$555,600	$750,000 (same as SFY 2011 allotment)	Restoring hydrology and infiltration to Montoya's arroyo.	89,000
Portales, City of	Water Efficiency	$1,000,000	$420,000	Construction of effluent reuse system.	12,280

Future annual reports will include similar tables for each allotment that green project reserve funds were disbursed from.

<u>This goal was met in SFY 2013.</u>

9. **Begin draw-down of SFY 2012-1 Capitalization Grant (FFY 2012 Allotment) of $6,908,000.**

   The in-kind portion of this cap grant was fully expended during SFY 2012. The remainder will be spent during SFY 2014.

   <u>This goal has been met.</u>

10. **Execution of 20-year loan agreements (converting loans from construction phase to post construction/repayment phase) for the City of Rio Rancho, City of Carlsbad, Town of Taos, and Village of Questa.**

    The Program executed 20-year loan repayment agreements in SFY 2013 with the Town of Taos and the Village of Questa. Both the Rio Rancho and Carlsbad projects were extended until SFY 2015 due to expansion of the reuse scopes of work. The Carlsbad project will also be able to use the CWSRF funds to leverage Federal SAAP funds; the match for the SAAP funds will either be paid with City funds or with CWSRF repayment funds.

    <u>This goal was partially met in SFY 2013.</u>

11. **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.**

    Five (5) new CWSRF loans were executed with the City of Las Vegas, San Juan County, the Village of Jemez Springs, the Southern Sandoval Arroyo Flood Control Authority and the City of Aztec in SFY 2013 and the Environmental Benefits form for each project is attached.

    <u>This goal has been met.</u>

12. **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. An EPA Region 6 Work Assignment with Northbridge Environmental Management Consultants funded through in-kind funds out of the 4% allowed from the FY 2012-1 Capitalization Grant (FFY 2012 Allotment) for administrative costs will assist with accomplishing this goal.**

The Program did update the Priority List Application Form and the prioritization system during SFY 2013 and completed the in-kind work assignment with Northbridge to assist with the changes (see Attachment 3). This was a significant achievement for the Program as the priority list development process had not been changed for many years. The new system includes specific questions about non-traditional CWSRF projects and awards points accordingly. The statute and administrative code updates were not part of the administration's legislative initiatives in SFY 2013, but are being pursued in SFY 2014.

<u>Significant progress was made on this goal in SFY 2013.</u>

Sandoval County – Cuba WWTP: (above) UV disinfection structure and (right) UV installed in UV disinfection structure

IV. FUND ADMINISTRATION AND OPERATIONS;

A. Sources and Uses of Funds

The actual sources and uses of CWSRF Fund 121 for SFY 2013 are as follows:

Table 1. Sources and Uses
Actuals for State Fiscal Year 2013

Beginning balance as of 7/1/2012:	
Ending cash balance as of 06/30/12	$84,854,116.54
Unused admin portion of FFY 2010 Allotment Cap Grant as of 06/30/12	$282,423.76
Unused construction portion of FFY 2010 Allotment Cap Grant as of 06/30/12	$2,075,979.57
Unused State Match portion for FFY 2011 Allotment from the Laws of 2011 Severance Tax Bond as of 06/30/12	$1,444,400.00
Unused admin portion of FFY 2011 Allotment Cap Grant as of 06/30/12	$269,680.00
Unused construction portion of FFY 2011 Allotment Cap Grant as of 06/30/12	$6,952,320.00
Sources during SFY 2013:	
State Match for FFY 2012 Allotment from Laws of 2012 Public Projects Revolving Fund	$1,400,000.00
FFY 2012 Allotment Cap Grant (incl 4% Admin and in-kind)	$6,908,000
State Match for FFY 2013 Allotment from Laws of 2013 Public Projects Revolving Fund	$1,400,000.00
SFY 2013 Repayment Principal (see Exh. 4 attached)	$11.360.094.14
SFY 2013 Repayment Interest (see Exh. 4 attached)	$3,029,068.07
SFY 2013 Overnight Interest	$211,272.20
Total Sources	**$120,187,354.28**
Uses during SFY 2013:	
Admin Expense (see Exh. 8 attached)	$423,717.69
Cash Disbursements (see Exh. 5 attached)	$11,431,222.60
Remaining balance to be disbursed from base loans/grants in construction as of 6/30/13 (see Exh. 6A attached)	$30,156,064.02
Balance available for use on future projects *	$78,176,349.97
Total Uses	**$120,187,354.28**

* 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 $43 million in binding commitments in SFY 2013 out of the $78 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 2013 were $278,806 from the FFY 2010 Allotment cap grant and $144,912 from the FFY 2011 Allotment cap grant for a total of $423,718 (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 2013 the difference included $50,869 in expenses incurred in SFY 2012 that weren't drawn until SFY 2013 and $65,817 in expenses incurred in SFY 2013 that weren't drawn until SFY 2014.

Cumulative administration expenses drawn down in the ACH from July 1, 1991 through June 30, 2013 total $6,979,475 (Exhibit 8); this does not exceed the 4% allotment. The allotted four percent (4%) through the ARRA capitalization grant totals $7,339,089 (Exhibit 8). The available banked cap grant administration balance is $359,614 at the end of the SFY 2013 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 2013 was $744,339. In SFY 2013, Fund 327 had the following activity:

Description	Amount
Balance beginning of SFY 2013	**$744,339**
Investment interest from the State Treasurer's Office earned in SFY 2013	+1,754
Loan Administrative Fees collected SFY 2013	+381,614
Program operating expenses charged to Fund 327 in SFY 2013	-7,958
Balance end of SFY 2013	**1,119,749**

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 2013 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 2013, 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 2013 one (1) federal payment (deposit) was made to the Program's EPA-ACH for the FFY 2012 Allotment Capitalization Grant ($6,908,000) less the in-kind portion of $45,093 for a total payment of $6,862,907. 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 received an appropriation from the state legislature for $1,444,400 in severance tax bond (STB) funds in SFY 2012 for the FFY 2011 Allotment 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.

The Program received an appropriation from the state legislature for $1,400,000 from the Public Projects Revolving Fund administered by the New Mexico Finance Authority to match the FFY 2012 Allotment capitalization grant of $6,908,000. The funds were transferred to the CWSRF Fund 12100 on July 2, 2012.

Carlsbad – New return activated sludge (RAS) lift station

The Program received an appropriation from the state legislature for $1,400,000 from the Public Projects Revolving Fund administered by the New Mexico Finance Authority to match the FFY 2013 Allotment capitalization grant of $6,520,000. The funds were transferred to the CWSRF Fund 12100 on June 28, 2013.

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 $222,827,638 for the life of the Program through June 30, 2013. The total binding commitments as of FYE 2013 were $324,118,631 or 171% exceeding the required 120% by $101,290,994 (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 un-liquidated 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.

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 2013 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%	2.70%	Construction	6.47%	0.00%
Equipment	36.69%	0.00%	Equipment	30.65%	0.00%
Services	38.78%	0.00%	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.

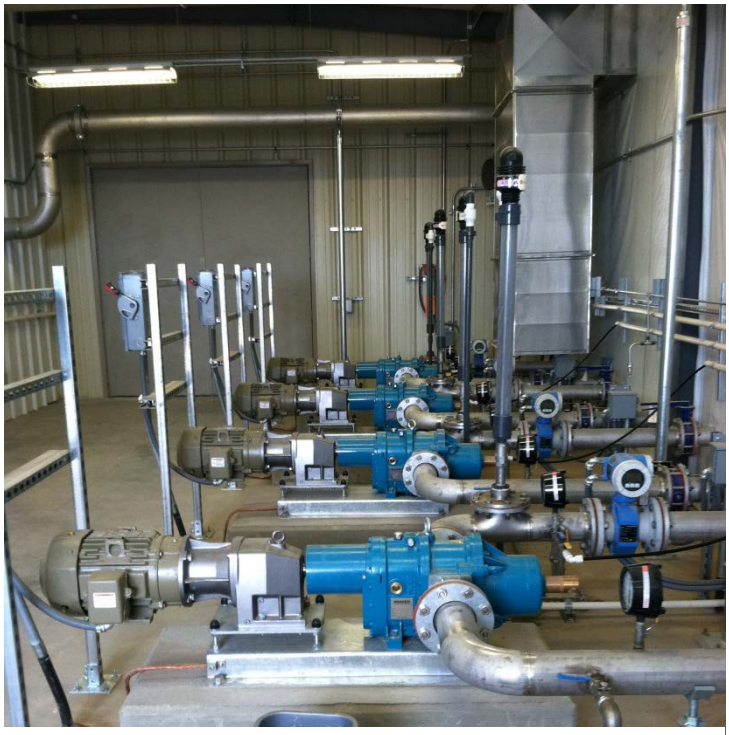
The State confirms compliance with this requirement. The loan fund was examined as a major federal program within the Environment Department's single audit for state fiscal years 1990 through 2013. The draft SFY 2013 Independent Auditor's Report for the CWSRF Program is attached to this report. The final Auditor's Report is expected in late 2013 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 2013 (in July 2013), 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 2013.



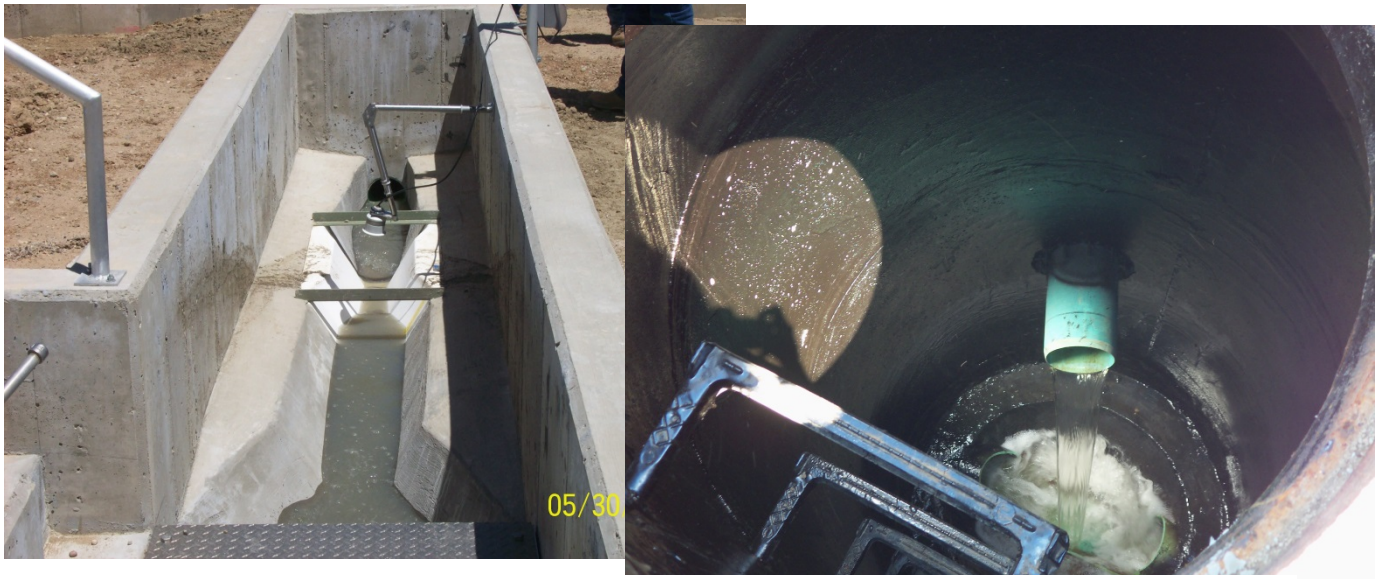
Rio Rancho – New WWTP Blower Pumps

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 2012 was submitted on October 1, 2012, updated November 30, 2012 and finalized January 7, 2013. The State is submitting the SFY 2013 Annual Report on October 1, 2013 to satisfy this requirement.

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 <u>Initial Guidance - State Revolving Fund, Appendix D.</u>

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 December 2005 and an updated SERP was submitted to EPA for approval on March 22, 2013. An environmental review has been conducted on each new CWSRF loan. All reviews comply with EPA implementation regulations contained in 40 CFR Part 6.



Sandoval County – Cuba WWTP: (left) Untreated Influent at inlet works and (right) Treated Effluent

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 making regulation changes, putting the priority list application form online, 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 WateReuse Symposium presented by the WateReuse Association and cosponsored by the Water Environment Federation and the American Water Works Association; the Joint Annual Conference of the Rocky Mountain Section of the American Water Works Association and the Rocky Mountain Water Environment Association; 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 System for Award Management (SAM) 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 SAM system is also searched to insure the engineering firms or contractors are not subject to debarment and suspension from participation on federal contracts.

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 and Ground Water Quality Bureau, Pollution Prevention Section are 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.

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 and non-point source projects. The primary initial funding sources are state general fund appropriations, severance tax bond sale proceeds, public project revolving funds 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.

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 a 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 capitalization 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.

Carlsbad – New Aeration Basin

FINANCIAL INDICATORS

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

NM CWSRF FINANCIAL INDICATORS COMPARISION

(Sources: the draft National Information Management System 'NIMS' Report 9/03/2013 and Draft SFY 2013 Program Audit dated 10/8/2013)

(see # below also)	2008	2009	2010	2011	2012	2013
1. Federal Return	144%	163%	163%	157%	155%	159%
2. Percentage of Executed Loans to Funds Available	89%	89%	99%	91%	86%	85%
3. Percentage of Funds Disbursed to Executed Loans	81%	90%	76%	83%	86%	87%
5. Sustainability (Retained Earnings)	$50,296,815	$53,078,927	$55,483,012	$58,804,066	$62,387,624	$65,627,964
5. Net Position	$221,266,372	$228,401,638	$232,303,468	$239,400,113	$250,866,496	$264,248,074
5. Net Position change in %	7%	3.2%	1.7%	3.1%	4.8%	5.3%

1. Federal Return (ratio of total SRF loan disbursements to federal disbursements.)
   The ratio of total cumulative CWSRF loan disbursements to federal disbursements was 159%. 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 85%.

3. Percentage of funds disbursed to executed loans.
   The cumulative disbursements amount as a % of executed loans is 87%. 87% of the funds committed to the executed loans have been drawn down as of the end of SFY 2013.

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 $62 million in SFY 2012 to $66 million in SFY 2013. In the past ten years, net position increased an average of $12.2 million per year. In SFY 2013, net position increased by $13.4 million, from $250.9 million in SFY 2012 to $264.2 million in SFY 2013. This increase in net assets represents over 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 per capita income is less than the statewide per capita income based on the most current decennial U.S. Bureau of Census statistics, and 1% for those communities whose per capita income is less than three-fourths of the statewide per capita income. A 0% rate is available for those communities that have a per capita income less than three-fourths of the statewide per capita 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. <u>That fee is 0.4356% and is calculated on principal owed</u>.

IX. CONCLUSION

The NM CWSRF funded 5 new projects during SFY 2013, more than under any previous year's annual capitalization grant. Two of the SFY 2013 borrowers are new to the CWSRF and all of the borrowers benefitted from the additional subsidy. The Program successfully updated the prioritization system during SFY 2013. This addressed all of the new requirements added to the CWSRF since ARRA. All of the work done in SFY 2013 has set the program up to have a banner SFY 2014 when we anticipate funding at least $43 million dollars in new projects.

As the Program approaches sustainability, a projected $26 to $29 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.

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, P.E.
Chief, Construction Programs Bureau

DATE 1/8/2014