MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
January 18, 2012

A Regular Meeting of the New Mexico State Board of Finance was called to order on this
date at 9:15 a.m. in the Governor’s Cabinet Room, Fourth Floor, State Capitol Building, Santa
Fe, New Mexico.

1. ROLL CALL

A quorum was present:

Members Present:
The Hon. John Sanchez, Lt. Governor [leaving at 9:45 a.m.]
The Hon. James B. Lewis, State Treasurer [leaving at 11:25 a.m.]
Mr. Robert J. Aragon, Public Member
Mr. Michael Brasher, Public Member
Mr. John Gasparich, Public Member, Secretary
Mr. Sam Spencer, Public Member

Members Excused:
The Hon. Susana Martinez, President

Legal Counsel Present:
Mr. Zack Shandler, Attorney General’s Office

Staff Present:
Dr. Thomas E. Clifford, Secretary, Department of Finance & Administration
Ms. Stephanie Schardin Clarke, Director, State Board of Finance

Others Present:
[See sign-in sheets.]
2. **APPROVAL OF AGENDA**  
**NEXT REGULAR MEETING FEBRUARY 21, 2012**  

Treasurer Lewis moved for approval. Mr. Brasher seconded the motion, which passed 6-0 by voice vote.

3. **APPROVAL OF MINUTES:** December 20, 2011 (Regular Meeting)  

Mr. Aragon moved approval of the December 20, 2011 Minutes, as submitted. Mr. Brasher seconded the motion, which passed 6-0 by voice vote.

**STATE TREASURER’S OFFICE**  
Presenters: James B. Lewis, State Treasurer; T. Spencer Wright, Interim Chief Investment Officer; Linda Roseborough, incoming Chief Investment Officer

4. **Monthly Investment Reports for Month-ended November 30, 2011**  

Mr. Wright reviewed the executive summary for the month of November 2011, with the following highlights:

- US Treasury yields across all maturities were virtually unchanged during November.
- Equity markets were relatively tame, declining less than 1%.
- US economy showed some signs of improvement as housing statistics, pending home sales and building permits, jumped unexpectedly.
- The November unemployment rate dropped from 9.0% to 8.6%.
- Federal Reserve is still on hold with regard to monetary policy until 2013, keeping the Fed Funds rate close to zero for the foreseeable future.

Mr. Wright stated that the November report does not contain performance numbers because they are currently being revised to reflect the write-down of the remaining holdings in the Reserve Primary Fund, which are now almost completely liquidated. He said the restated numbers will be provided once they are available to STO.

As background, Mr. Wright said the state was an investor in the Reserve Primary Fund when the fund was frozen due to its exposure to Lehman Brothers during Lehman’s bankruptcy in 2008 and the subsequent market dislocations. At the time of the Lehman filing, STO had approximately $760 million in investments in the Reserve Primary Fund. In addition, the LGIP had approximately $380 million invested. Since the Fund was frozen, distributions have been
periodically made to the STO account, and to date STO has received a return of $0.9904 per dollar invested in 2008.

Mr. Wright noted that, in late 2010, STO took a write-down in its audit of approximately 25% of the remaining amount. In consultation with the LFC, DFA and the Attorney General’s Office, STO has concluded that the remaining amount is unlikely to be collected, and STO therefore will propose to the auditors that the remaining amount be written down.

Mr. Wright stated that about $115 million remains, for which there are claims of approximately $100 million, so potentially about $10 million could be distributed. In that case, STO would treat it as an extraordinary income item in the year the distribution is made.

Mr. Wright continued with his report:

--- General Funds had unrealized gains of $6.0 million, and the Bond Proceeds Funds had unrealized gains of $4.9 million. Gains were not meaningful in the LGIP and Severance Tax Bonding Fund.

--- STO has been more aggressively investing the General Fund Liquidity portfolio as local banks continue to opt out of rolling over CD maturities and there is no appetite for adding new relationships.

--- International Bank for Reconstruction and Development, rated AAA/Aaa, 13-month maturity, callable quarterly, was added in November.

--- Other investments that make sense for the liquidity fund include high coupon callable agencies that have a high probability of being called.

--- US Government Agency floating rate notes that reset over the 3-month LIBOR will also work for this portfolio. As the situation in Europe has worsened, the rate has come up, so STO has seen a very good return for LIBOR-based investments.

--- The General Fund Core portfolio is fully invested as STO has added several US Government Agency bullet and callable issues with varying terms.

--- Investment earnings were as follows: General Funds, $882,261; Bond Proceeds Funds, $887,416; LGIP, $192,395; and Severance Tax Bonding Fund, $35,107.

--- Average collected balance with Wells Fargo, the fiscal agent bank, was about $175 million. STO earned 50 basis points (about $72,000) on the balance as a credit against its monthly bill.

5. WITHDRAWN.
SEVERANCE TAX NOTES

Presenters: Robert Gorrell, Director, Public School Facilities Authority; Jeff Eaton, Chief Financial Officer, Public School Facilities Authority

6. Presentations on Supplemental Severance Tax Bond Program and Severance Tax Permanent Fund

Also present: PSCOC Chairman David Abbey, and Public School Capital Outlay Oversight Task Force member Joe Guillen.

Mr. Gorrell made a presentation, with the following highlights:

-- Since 1999, Supplemental Severance Tax Bond (SSTB) proceeds have been the principal source of funding for the Public School Capital Outlay Council (PSCOC) for Deficiencies Correction and then the current standards-based process. The SSTB as a source was enacted as a result of the Zuni lawsuit.

-- PSCOC programs funded annually are: SB-9 (state match for capital asset purchases, facility maintenance & construction) at 13%, lease assistance at 7% (primarily utilized by charter schools) and 75% for public school construction.

-- Since 1999, over $2 billion of SSTBs have been allocated to PSCOC programs.

Mr. Gorrell described the structure of the PSCOC and its role. He said the Public School Capital Outlay Council is governed by the Public School Capital Outlay Oversight Task Force, an interim committee with 23 members that oversees the PSCOC and recommends legislation. He said the PSCOC acts as administrator to the law and processes in place. He said the awards are given in a mechanical and dynamic process, with school project applications reviewed annually based on various measures, including the ability to get matching funds (which can be federal monies), with the highest needs at the top. He said this year’s applications will be reviewed and analyzed by the PSCOC in March. Between March and July each year, the awards subcommittee reviews the information, which culminates in awards in July.

Mr. Guillen stated that he represents the New Mexico School Boards Association on the PSCOC, and chairs the awards subcommittee. He said a condition index sets out the priorities, but they also try to ensure that the award money has the greatest impact possible.

Mr. Gorrell said the local match is based on a formula overseen by the Public Education Department. He said the formula initially was intended to be 50% state money and 50% local money, but it has become more lopsided over time, with the state contributing a higher share. He said districts are encouraged to help themselves, if they can afford it – the wealthier districts pay for 90% of a project, and the poorer districts (e.g. Zuni) receive 100% from the state. He stated that, when the program began, the poorer districts had higher needs, so the percentages of the state match for the poorer districts were greater for the first 10 years, with over 60% being the state’s share. He said the formula has a three-year rolling average, so changes over time.
[Lt. Governor Sanchez excused himself from the proceedings and turned the chair over to Mr. Gasparich, Board Secretary.]

-- Most of the approved 2008, 2009 and 2010 projects are expected to be under construction soon. The Public School Finance Authority is in the process of identifying projects whose long construction horizon may allow proceeds to be reallocated to other projects that are more “ready to go.”

-- PSCOC employs a two-phase approach to awarding funds: phase 1 is the design phase, and phase 2 is construction. At the design award stage, PSCOC certifies to the Board of Finance the need to sell SSTBs for both phases; after the bonds are sold, they are budgeted to the fund.

-- Projects typically commence construction soon after the design work is complete. Three factors that can prolong construction are project size, multiple phase projects, and district funding difficulties/failed bond elections.

Dr. Clifford asked how often a local match fails and the award made by the PSCOC canceled, and Mr. Gorrell said he would estimate less than 5% of the time.

Mr. Abbey added that, in general, they are mostly successful. He said that awards for an elementary school project in Raton and a high school project in Deming were reallocated because of failed bond issues.

Mr. Gorrell stated that the PSFA is authorized to do all of the purchasing on projects and requires standardized contracts and has management oversight with the districts that don’t have the capacity to do the management themselves. When construction is completed, the PSCOC steps out as “co-owner” of the project and turns it over to the district.

Mr. Gorrell said the PSFA does not have contract oversight, but typically sits on the selection committees. He said the oversight task force has directed the PSFA to improve the selection committee process and develop better procedures, which is underway.

-- Percent of 2010 awards committed (encumbered) after 15 months averages 84%.

-- Percent of phase award expended after 15 months averages 22%.

-- PSCOC projects in the pipeline: 149 active statewide, $455.6 million under contract. 106 (70%) will be substantially complete within 12 months; 2012 awards capacity is a projected $75 million.

Responding to Acting Chair Gasparich, Mr. Gorrell said charter schools are the responsibility of the PSCOC and are required to be under the school district’s master plan about what their school facilities will be. He said PSCOC continues to look for space for both district and state charters, and both are eligible for PSCOC funding. He said district charters have to have the
same local match as the district in which they reside, and the PSCOC wants to require state
charters to have a 50% match, as originally intended.

Mr. Gorrell also stated that the Legislature is considering adding the NM School for the Deaf
and NM School for the Blind and Visually Handicapped to the list; if they are added, they would
be expected to seek funding from the Legislature for matching funds, although the PSCOC might
waive the match requirement and provide them with 100% funding.

Mr. Gorrell said pre-kindergarten is not currently eligible for funding, so the PSCOC has
allowed districts to include them as part of bigger projects.

Mr. Aragon asked how the Zuni lawsuit has improved the overall quality of education.

Mr. Gorrell said he couldn’t answer that specifically, but could speak to the condition of the
school facilities, which on average are twice as good now as they were ten years ago.

Mr. Abbey added that it is a disappointment that the dramatic and quantifiable improvements
made on school facilities have not improved the graduation rate.

Mr. Aragon questioned why the state wasn’t getting its “bang for the buck” with these
improvements given recent news that New Mexico’s third graders have the worst reading scores
in the country.

Mr. Abbey responded that if one were to roll back the clock ten years, they would find severe
overcrowding in schools, in Gadsden and Rio Rancho in particular.

Mr. Aragon commented that scores haven’t improved since inception of the Zuni lawsuit,
and graduation rates are “pathetic.” He said the focus is on facilities, not on students, and those
benefiting from these expenditures are the lawyers in this ongoing lawsuit and the bureaucracy
supporting it.

Mr. Guillen agreed that it is easier to build a facility than institute a high standard academic
program; nonetheless, these facilities have given districts a better atmosphere for learning. He
said there is a lot of pressure now in the direction of academic achievement, however.

[The Agenda was reprioritized.]

[The remainder of this agenda item is continued on page 9 of the minutes.]
EMERGENCY FUNDING REQUEST
Presenter: Roy Sandoval, Board Chairman

15. **North San Isidro Mutual Domestic Water Consumers Association – Requests Appearance to Address Past Due Emergency Water Loan and Possible Extension or Conversion to Grant ($100,000)**

Sen. Phil Griego appeared before the Board in support of the North San Isidro Mutual Domestic Water Consumers Association, and asked the Board to consider converting the $100,000 owed to the Board into a grant or else to give the Association an extension on the loan.

Sen. Griego commented that small rural communities around the country have been adversely affected by the national economic climate, and residents have been forced to move away from their community, and those who stay have been unable to pay the monthly fee to the rural utility. As a result, mutual domestics are “left hanging out there,” knowing that they have a responsibility to the state. Sen. Griego asked for “mercy” from the Board on behalf of the Association, which is trying to reorganize and come up with a payment plan.

Sen. Griego said he would work with the Association on the legislative side to try to resolve this situation.

Kathy Romero, Secretary/Treasurer of the Association, introduced Association President Roy Sandoval and Vice President Michael Sandoval. She said the Association is experiencing hardship, and membership had declined by almost half since the loan was first made. She noted that the Association has been diligently paying the USDA $285 per month, without a single late payment, to cover the cost of improvements made in 1998. She stated that the Association has to have a certified operator, which is expensive for them, and they also have uncollectible debts.

Ms. Romero asked the Board to convert the $100,000 loan to a grant. She said they are working with Sen. Griego to get the entire amount paid off through a legislative appropriation.

Ms. Clarke stated that this emergency loan was originally approved by the Board in 2004, and was due in 2005 in a lump sum. She was not with the Board at the time, but it would appear that the Board was suggesting that the Association seek a legislative appropriation to repay the loan. Since this entity takes in $6,000 to $7,000 a year, there was no way to think anyone expected repayment other than through a legislative appropriation; however, she has never been able to get any information from the Association about whether that was sought or whether the due diligence was done. She said Board staff has been sending letters to the Association yearly, and sometimes more often than that, since the loan came due; and since last summer, she has unsuccessfully tried to get Association representatives to appear at the meeting almost every month for the last six or eight months.

As far as the request to convert the loan to a grant today, Ms. Clarke said a legislative session is currently underway and it would probably make the most sense to try to request an
appropriation in the current session, and if that fails, conversion to a grant could be sought at a later meeting.

Ms. Clarke stated that she recently had an email exchange with the board treasurer and chairman about doing a rate analysis over the last two-month period to see whether the economy they are working in can support a rate increase to the rate paid, which is currently $22 per member and hasn’t been increased since about 1998. Given the very small number of members, though, any rate increase would essentially be a drop in the bucket. She added that she personally likes the idea of showing a sign of good faith by making nominal payments for a little while, but it is up to the Board to decide that.

Mr. Aragon recommended tabling this request to the March meeting so that Sen. Griego can make an effort during the current legislative session to obtain the funding to repay the loan.

Sen. Griego said he would seek support for at least $75,000, and then he hoped the Association’s ability to repay the $25,000, through quarterly or yearly payments, could be assessed.

Ms. Clarke commented that, after working with the Association staff and the members over the last several months, she was concerned about what appeared to be a potential lack of internal controls within the Association. She said perhaps the Board could request a report from the Association about their internal controls and process for managing inflows and outflows of cash in order to assure the Board, when they return in March, that the Association’s business process has improved and the Board is being fully informed about the Association’s obligation through at least minimal financial reporting.

Mr. Aragon moved to table this item. Treasurer Lewis seconded the motion, which passed 5-0- by voice vote.

Mr. Aragon moved to direct staff to contact the Association in order to secure and procure the necessary information regarding its financial management and other areas of due diligence that staff deems appropriate, for the March meeting.

Mr. Spencer seconded the motion.

Mr. Brasher commented that these are difficult times, and he wished Sen. Griego the best in his effort to secure funding against this loan.

The motion passed 5-0 by voice vote.
SEVERANCE TAX NOTES (Cont’d)

Presenters: Steven Moise, State Investment Officer; Vince Smith, Deputy State Investment Officer; Stephanie Schardin Clarke, Director, Board of Finance

6. Presentations on Supplemental Severance Tax Bond Program and Severance Tax Permanent Fund

Mr. Moise stated that, several months ago, former legislators John Bigbee and Bob Grant published an op-ed piece in the *Albuquerque Journal* regarding the reduced inflows into the Severance Tax Permanent Fund, which is managed by the State Investment Council. At Council member Lee Rawson’s request, both former legislators addressed the SIC at its November meeting, and Ms. Clarke drafted a document analyzing the topic, which was very helpful background. He said bond counsel Robbie Heyman contributed a memorandum explaining the history of the Severance Tax Bond program, and Vince Smith presented an analysis of the impact of these reduced inflows.

Mr. Moise stated that, when the Severance Tax Permanent Fund was originally set up, the inflows coming into the permanent endowment fund were 50% of severance taxes collected each year. Over the years, that number has decreased to about 5%.

Mr. Smith stated that the Investments and Pensions Oversight Committee had asked the SIC to discuss the health of the STPF in 20 years based on contributions being made, assuming at least the same economic value as it has today, and that presentation has been circulated to the Board members today.

Mr. Smith presented this report, with the following key assumptions in the model:

-- Statutory distribution remains at the current 4.7% of the average trailing 5-year balance of the fund.

-- Contribution rate, which is the variable of the model, is defined as a percentage of total gross receipts tax recipes. Estimates of GRT recipes for years 2012-2015 are sourced from DFA and Fiscal Strategies Group; estimates for 2016-2031 are made by growing those estimates at the assumed rate of inflation.

-- Rate of inflation assumed at 2.5% per annum.

-- Investment return targeted at 7.5% per annum, on average.

Key conclusions of the analysis:

-- The “status quo” of contributing roughly 5% of GRT receipts to the fund leaves the fund stalled in terms of purchasing power. The STPF will likely experience little or no growth in the “real” value of the fund, and consequently the fund stands significant risk if any of the assumptions behind the model prove incorrect.
-- A small change in the contribution rate has only a minor impact on protection of the fund. Moving the rate from 5% of GRT receipts to 10% of gross severance tax receipts only marginally improves the purchasing power protection of the fund.

-- Restoring the contribution rate to half of the original 50% of the gross severance tax receipts from the current 5% in a measured way, however, materially improves the fund’s outlook. A measured move to 25% contribution over the next eight years provides for an estimated 4.91% rate of growth in the balance of the fund – a rate that will very likely exceed inflation over the period. This protects the fund from the effects of inflation, and opens the opportunity to add a small measure of real growth in the purchasing power of the fund.

-- Dollars in the fund are expected to compound at a 7.5% rate of return from the investments of the fund. For this reason, dollars not deposited into the fund or spent from the fund are “expensive” to use.

Mr. Spencer asked how realistic a 7.5% return is today, and Mr. Smith responded that the assumption for domestic stocks is 8.25%, and slightly higher for international, given growth in emerging markets. He said the SIC’s bond return assumption is 4.75%. He said he feels these assumptions are reasonable. He commented that there has been a 10-year period of very low rates of return, primarily due to overvaluation in the stock market in 1999 and 2000 – the P/E ratio in the market was 44x, and that has fallen to 21x, which historically is the average. He said he expects “normal-ish” long-term returns going forward, and the SIC is shifting its asset allocation more toward assets that produce income and can perform better in a higher inflation environment.

Mr. Moise said the point of this analysis is to assure the citizens of New Mexico that, going out 20 years, the permanent endowment funds make essentially the same contributions to the state budget as they are making today. The earnings from the land grant and severance tax permanent funds go to fund education and other programs and also provide somewhere between 10% and 15% of the state’s budget each year. He said New Mexico, with $14.6 billion, is the second largest sovereign wealth fund in the U.S., and he stressed the need to protect and grow this fund to provide for intergenerational equity.

Acting Chair Gasparich asked Mr. Moise if he was suggesting that the state “dial back” Supplemental Severance Tax Bond notes to increase the flow of severance tax monies into the Permanent Fund.

Mr. Moise responded that, while it is not SIC staff’s role to recommend that to the Board of Finance, the SIC feels it to be a worthy consideration of the Board and Legislature.

This concluded the SIC presentation.
Ms. Clarke made a presentation on the Severance Tax Bonding program and Severance Tax Permanent Fund, addressing the history of Severance Taxes, history of the STB Program and STPF, contributions to the permanent fund, and policy considerations.

Ms. Clarke commented that there has been discussion in several venues recently about whether the STB program should be pared back in some way to allow more severance tax collections to flow into the Permanent Fund versus being used for capital projects. With respect to Acting Chair Gasparich’s comments about paring back the Supplemental Severance Tax Bond program, she said there is no legal reason why the Senior Severance Tax Bond program could also not be pared back. Highlights of the presentation included:

-- Severance taxes have been collected by New Mexico since 1937.

-- New Mexico imposes several different taxes on natural resource production: a school tax, which goes to the general fund; severance tax, which goes into the Severance Tax Bonding Fund; ad valorem taxes imposed by local governments, some of which repay general obligation bonds through the property tax; and a conservation tax that goes to the general fund and reclamation fund.

-- A total of $885 million in taxes was collected in FY11 on estimated oil and gas production value of $11.9 billion.

-- In addition, the state receives royalty payments from production on state and federal lands. Total royalty revenue in FY11 was $830 million.

-- Since 1959, certain severance tax receipts have been deposited into the bonding fund and used to service STBs to fund capital improvements.

-- The modern STB program dates to 1973 (which was when the permanent fund was created), and the diversion of severance taxes started to go into the permanent fund at that time. At that time, statute restricted capacity to issue new Severance Tax Bonds such that debt service could be paid with 50% of prior fiscal year Bonding Fund revenue.

-- Beginning in 1999, as a result of the Zuni lawsuit, the Severance Tax Bond program was expanded so that additional revenue could be used to pay debt service on Supplemental Severance Tax Bonds.

-- Supplemental Severance Tax Bonds finance public school capital improvements. Currently 45% of prior fiscal year Bonding Fund revenue can be used for SSTBs. SSTBs have provided over $2 billion for public school construction statewide. These are funds that would have otherwise gone to the Permanent Fund.

Policy considerations
-- The bonding programs and permanent fund contributions are both worthwhile competing uses for severance tax revenue.

-- STBs and SSTBs finance capital assets that will last for many years. In this sense, capital projects financed with STBs – like permanent fund contributions – are also an investment in the future of New Mexico.

-- But the state must choose projects strategically to ensure the state’s investment in capital assets yields lasting benefits.

-- Capital projects and the Permanent Fund each stimulate the New Mexico economy in their own way.

-- The Permanent Fund contributes to general fund revenue, stimulating the economy through government spending over the long term. For every dollar the state wants to spend, permanent fund distributions to the general fund reduce the amount of taxes that must be collected.

-- Capital projects stimulate the economy in the near term through construction activity and generation of gross receipts.

-- Also, the availability of productive capital assets increases the productivity of the state’s economy.

-- Investing severance tax revenues in the Permanent Fund is not without risk. From 1994 to present, after adjusting for contributions and distributions, annual return on the Permanent Fund has fluctuated from –29% to 22% with an average return over the period of 7.7%.

-- The Permanent Fund contributes between 10% and 15% to general fund revenue and the state’s annual operating budget is financed through the contributions that the general fund receives from the Land Grant Permanent Fund and Severance Tax Permanent Fund; so for every dollar the state wants to spend, it only needs to tax the economy about 90 cents. Whether that results in lower taxes or higher spending, it is less of a burden on the tax base.

This concluded Ms. Clarke’s presentation.

Ms. Clarke stated that the Board might want to consider requesting annual presentations from the PSFA and SIC. If the Board wishes to go that route, she would suggest requesting presentations in October because that is a month ahead of when the Board starts looking at sizing the main supplemental sponge note for December.

Ms. Clarke noted that the Board of Finance adopted a Debt Policy in 2007 that lays out, for the rating agencies, how the Board will manage its bonding programs. If the Board wants to update that policy and include language about what it will take into consideration when sizing the supplemental sponge note, staff could bring that forward at the next meeting.
Treasurer Lewis said the State Investment Council is very concerned about the gradual siphoning off of monies from the Permanent Fund. He said New Mexico is a poor state and businesses and other entities see the need for general obligation bonds and Severance Tax Bonds to generate jobs, etc. He asked if there is any legislation brewing in the current session. He also wondered what the Board’s role is with respect to this overall issue.

Ms. Clarke responded that HB 50 (Rep. Larranaga) would reduce the total amount of severance tax that can be used for bonding from 95% to 90%. This would be done at the expense of two earmarks from senior capacity – currently 5% of senior capacity goes to colonias infrastructure and 5% to tribal infrastructure, and each would be cut in half.

Responding to Mr. Spencer, Ms. Clarke said the courts periodically weigh in and tell the state whether or not it is in compliance with the Zuni lawsuit in terms of whether it is contributing a sufficient amount to the process. She said the courts have not set a minimum amount of funding that needs to go annually to the schools; but at some point, if the supplemental program were pared back, there could be a challenge that the state was no longer in compliance.

Bond counsel Rachel King said she could not speak to the Zuni lawsuit; but with respect to the issuance of Supplemental Severance Tax Bonds, it is currently in the Board of Finance’s discretion up to the stated maximum percentage, so it could, on a policy basis, decide that it wants a certain portion to go to the Permanent Fund. She said that would obviously change if the aforementioned legislation were to pass.

Mr. Spencer said he thought the Board should at least consider the idea of increasing the percentage into the Permanent Fund, and asked staff to provide informational materials to assist Board members in educating themselves on this issue.

Board members concurred on the following:

-- Ms. Clarke will bring redlined changes to the Debt Policy at the February meeting so the Board can consider adding language about what it will consider when it sizes the supplemental sponge note.

-- PSFA and SIC staff will be alerted that they will be expected to make a presentation to the Board each October.

[Treasurer Lewis excused himself from the proceedings.]
GENERAL SERVICES DEPARTMENT
Presenter: Charles Gara, Director, Property Control Division


Mr. Gara reported financials for the Capitol Buildings Repair Fund, with a beginning balance as of November 1 of $16,822,014. After cash receipts and cash disbursements, the ending balance at November 30 was $17,016,347. Subtracting encumbrances, the uncommitted cash balance as of November 30 was $154,774. Year to date revenues total $2,346,545.

Mr. Gara said there were no emergency declarations in November.

8. Property Control Division – Notification of Contract with Britton Construction Inc. for Demolition of the Old Surplus Building and T-150 Building ($265,902)

Mr. Gara stated that the Property Control Division has entered into a contract with Britton Construction, Inc. of Albuquerque for the demolition of the Old Surplus Building and the T-150 Building in Santa Fe. He said the Old Surplus Building and attached Quonset hut are in a state of disrepair and an eyesore to the community, and the T-150 building has been vacant for years and is also in a state of disrepair.

PROPERTY DISPOSITIONS

Presenters: Estevan Lopez, Interstate Stream Commission; Clovis Mayor Gayla Brumfield; Amy Haas, General Counsel, Interstate Stream Commission

9. New Mexico Interstate Stream Commission – Requests Approval to Enter into a Perpetual Easement Agreement with Eastern New Mexico Water Utility Authority ($90,000)

Mr. Lopez requested approval to enter into a perpetual easement agreement with Eastern New Mexico Water Utility Authority to allow access to the Ute Reservoir, which is owned and managed by the ISC, for its drinking water project. The Authority will install, maintain, repair and operate a water diversion and pumping facility upon the easement property. The intake structure is part of the Eastern New Mexico Rural Water System, also known as the Ute Pipeline Project, which is intended to deliver 16,000-24,000 acre-feet per year from Ute Reservoir to communities in eastern New Mexico. He said the state has invested over $100 million over more than 50 years to construct and maintain Ute Reservoir in anticipation that the water would ultimately supply drinking water for thousands of eastern New Mexico residents. The $90,000 purchase price was the result of arms-length negotiations between ISC and the Eastern New Mexico Water Utility Authority. He said there is no expiration date to the easement, and ISC reserves the right to intermittently inundate the rural water system that is subject to the easement.
up to certain elevations, as required in certain flood events. He said the ISC is under no
obligation to the Authority to maintain any water level in Ute Reservoir to facilitate use of the
project.

Mr. Lopez said the Commission approved the conveyance of this easement in March 2011.

Responding to Mr. Spencer, Mayor Brumfield said the groundbreaking will take place in
August, and they have the funding available to start the first phase of the intake structure.

Mr. Aragon moved for approval. Mr. Brasher seconded the motion, which passed 4-0
by voice vote.

Presenter: Allen R. Sartin, County Manager
10. Eddy County – Requests Approval of Trade of Real Property with the City of
Artesia (approximate value of county property $81,900)

Mr. Sartin requested approval of trade of real property with the City of Artesia. Eddy County
desires to construct a new satellite office in Artesia. He said the existing satellite office has
limited parking, and they had been struggling with how they would maintain public services
while constructing a new building on that site. He said the City of Artesia came forward and
offered to trade parcels so that the County could continue with public services during the
construction period. He said the City’s property also has additional on-street parking, which will
benefit the County.

Ms. Clarke stated that Board approval of this request includes the Memorandum of
Understanding dated January 10, 2012. She said an earlier version should be disregarded.

Mr. Brasher moved for approval. Mr. Aragon seconded the motion, which passed 4-0
by voice vote.

Presenter: Stanton L. Riggs, County Manager; Charlotte Andrade, Community
Development Director
11. Chaves County – Requests Approval of Lease of Real Property with New
Mexico Senior Olympics ($400 annually plus at least $26,450 annual
services provided)

Mr. Riggs requested approval of a one-year lease of real property, with the ability to renew
the agreement for three successive one-year terms, to New Mexico Senior Olympics, a nonprofit
corporation that provides services for seniors all over the state. He said Chaves County owns a
small office complex that includes open space for this use.

Ms. Clarke requested that approval be contingent upon Director receipt of the signed copy of
the lease by the Senior Olympics.
Mr. Aragon moved for approval subject to a fully and duly executed agreement between the two parties. Mr. Spencer seconded the motion, which passed 4-0 by voice vote.

Presenter: Martin W. Eckert, Real Estate Director

12. Albuquerque Public Schools – Requests Approval of First Amendment of Lease of Real Property with Crown Atlantic Company LLC (one time payment of $20,000 plus $18,000 per year for first five years with 10% rent escalations every five years)

Mr. Brasher stated that he would abstain from voting on this item inasmuch as he is an employee of APS.

Responding to Acting Chair Gasparich on how Mr. Brasher’s abstention might affect the Board’s ability to vote with a sufficient quorum, Board legal counsel Zack Shandler said the majority view of the Attorney General’s Office is that if someone abstains, it still counts towards the quorum.

Ms. Clarke added that this is consistent with the Board’s practice in the past.

Mr. Eckert requested approval of a first amendment of lease with Crown Atlantic Company, LLC, to extend for an additional 20 years the existing 1996 lease that is set to expire on June 5, 2012. He said the lease is for a cell tower located at the south side of the Rio Grande High School football field/track. He said APS has worked with Ms. Clarke and Mr. Shandler to respond to their questions, and asked for approval.

Mr. Aragon moved for approval. Mr. Spencer seconded the motion, which passed 3-0 by voice vote, with Mr. Brasher abstaining.

HIGHER EDUCATION DEPARTMENT
Presenter: Dr. David Hadwiger, Director of Institutional Finance; Vahid Staples, UNM Budget Officer

13. University of New Mexico Hospital – Requests Approval of 2nd Floor Pathology Renovation ($800,000)

Dr. Hadwiger requested approval of renovation of approximately 2,760 square feet of the second floor to expand the Pathology Department and provide additional working office space for pathologists and residents. He said HED has certified this project, and it has been reviewed and approved by their Capital Projects Committee.

Dr. Hadwiger stated that the project will include, but will not be limited to faculty offices, residents work space and conference rooms. The reconfigured space will provide increased office space for pathologists to sign out clinical casework, consult with other specialty physician
providers, teach clinical trainees and conduct laboratory management meetings to support patient care and medical education requirements for medical students and faculty.

Responding to Acting Chair Gasparich, Mr. Staples said the project's source of funding will be from clinical revenues, which have built up over a period of about ten years.

Mr. Brasher said he realized that this project was not part of the lease agreement with Bernalillo County, but thought as a simple courtesy UNMH should communicate with the County.

Mr. Aragon moved for approval. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.

**EMERGENCY FUND BALANCES**
Presenter: Stephanie Schardin Clarke, Interim Director


<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,191,814.39</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$118,400.00</td>
</tr>
</tbody>
</table>

Ms. Clarke reported these balances.

**PRIVATE ACTIVITY BONDS**
Presenter: Stephanie Schardin Clarke, Director

**16. Private Activity Bond Subcommittee – Updated Recommendations and Allocation for Calendar Year 2012 Private Activity Bond Cap Percentages**

Ms. Clarke stated that at the December meeting, she made an error between the spreadsheet that was presented to the Board (which was correct) and her notes (which were incorrect). As a result, the residual amount of PAB cap available for 2012 after allocating $50 million to single family and $40 million to multifamily should have been $194.56 million rather than $187.82 million.

Ms. Clarke requested that the Board approve the allocation of $194.56 million to the "Other" category to clarify this mistake.

Mr. Aragon so moved. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.
STAFF ITEMS
Presenter: Stephanie Schardin Clarke, Director

17. Adoption of Open Meetings Act Resolution

Ms. Clarke stated that, at its first meeting of each calendar year, the Board of Finance must adopt an Open Meetings Act resolution setting forth how it will provide notice for each regular, special, and emergency meeting, and other information. This Open Meetings Resolution states that regular meetings will be published in 6 newspapers around New Mexico, and that Board agendas will be posted online no less than 24 hours before each meeting.

Ms. Clarke said the one substantive change requested in this year’s resolution is to allow Board of Finance members to participate in meetings via telephone if it is difficult or impossible to attend in person, as required by the Open Meetings Act.

Responding to Mr. Brasher, Ms. Clarke said there is a legislative proposal to amend the Open Meetings Act to require 72 hours rather than 24 hours notice of an agenda. She said the Board would probably post the agenda on Friday afternoons; and while this would not pose a hardship on staff, it would reduce the flexibility of the Board to make last-minute changes. With special meetings, which the Board posts 72 hours in advance, it would have to notice the meeting and post the agenda at the same time. She said the Board can also currently hold an emergency meeting with one day’s notice, so wouldn’t be able to do that anymore.

Mr. Aragon moved for approval. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.

18. Adoption of Interest Rate Policy 12-02

Ms. Clarke requested approval of this year’s Interest Rate Policy, which sets forth requirements that certain investments of the State Treasurer be at or above market rate.

Mr. Spencer said he would abstain from voting on this item, as he is a banker and his bank has some state deposits.

Mr. Brasher moved for approval. Mr. Aragon seconded the motion, which passed 3-0 by voice vote, with Mr. Spencer abstaining.

19. Election of Secretary of the State Board of Finance

Ms. Clarke said she was pleased to report that Governor Martinez has nominated Mr. Gasparich for election as Board of Finance Secretary. She said the Secretary plays an important
role on the Board in chairing the meeting if the Governor and Lt. Governor are not present, and in signing many important documents of the Board.

There were no other nominations for Board Secretary, and nominations were closed.

Mr. Spencer moved to approve John Gasparich as Board Secretary. Mr. Aragon seconded the motion, which passed 4-0 by voice vote.

20. **Appointment of Board of Finance Subcommittee Members**

   A. **Private Activity Bond Committee**
   B. **Banking Committee**
   C. **Committee on Reviewing State Treasurer’s Audit Process**

Ms. Clarke said staff is happy to report the Governor’s nominations to the following subcommittees:

-- To the Private Activity Bond Committee, Board Member Aragon as Chairman and Board member Brasher as subcommittee member.

-- To the Banking Committee, Treasurer Lewis as Chairman and Board Member Gasparich as subcommittee member.

-- To the Committee on Reviewing the State Treasurer’s Audit Process, Lt. Governor Sanchez as Chairman and Board Member Spencer as subcommittee member.

There were no other nominations. Nominations were closed.

Mr. Brasher moved approval of the nominations as stated. Mr. Aragon seconded the motion, which passed 4-0 by voice vote.

21. A. **Notice of Request for Proposals for Bond Counsel Services**

B. **Approval of Appointment of Request for Proposals Subcommittee for Bond Counsel Services**

Ms. Clarke informed the Board that staff will soon be issuing an RFP for bond counsel services. The current contract will expire in the coming months, and cannot be extended because it has reached the four-year maximum term.

Ms. Clarke said she has consulted with Board members, and Mr. Gasparich and Mr. Aragon are willing to serve on the subcommittee.
Mr. Brasher moved approval of Mr. Gasparich and Mr. Aragon as subcommittee members. Mr. Spencer seconded the motion, which passed 4-0 by voice vote.

22. A. **Notice of Request for Proposals for Disclosure Counsel Services**

B. **Approval of Appointment of Request for Proposals Subcommittee for Disclosure Counsel Services**

Ms. Clarke informed the Board that staff will soon be issuing an RFP for disclosure counsel services. The current contract will expire in the coming months, and cannot be extended because it has reached the four-year maximum term.

Ms. Clarke said she has consulted with Board members, and Mr. Gasparich and Mr. Aragon are willing to serve on the subcommittee.

Mr. Brasher moved approval of Mr. Gasparich and Mr. Aragon as subcommittee members. Mr. Spencer seconded the motion, which passed 4-0 by voice vote.

23. **Board of Finance Dashboard Report**

Ms. Clarke said the Dashboard Report has been updated over the last quarter. She noted that the average true interest cost on the Board’s outstanding debt has gradually come down to a current rate of 2.5%, which is very competitive and is the result of older higher true interest cost debt maturing on its own, as well as from the refundings done over the last couple of years to take advantage of low rates. She also noted that the average weighted maturity of all of the Board’s outstanding bonds is now down to about 3.5 years.

Ms. Clarke also stated that FY13 general fund reserves, based on December 2011 revenue estimates, are at about 15% of recurring appropriations, so reserves are rebounding very nicely from the low point in FY10.

24. **Fiscal Agent/Custodial Bank Fees**

Ms. Clarke stated that fiscal agent and custody bank services are in line with historic averages, but billings are reduced significantly because the State Treasurer is holding higher balances at the fiscal agent bank to earn soft-dollar earnings credits.

25. **Joint Powers Agreement**

The Joint Powers Agreement report was read into the record.
ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at approximately 12:05 p.m.

Susana Martinez, President

Date 2/21/12

John Gasparich, Secretary

Date 2/21/12