MINUTES OF THE

NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Santa Fe, New Mexico

November 15, 2011

A Regular Meeting of the New Mexico State Board of Finance was called to order on this date at 9:10 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. Susana Martinez, President [present from 9:20 to 1:10 and 2:15 to 3:15]
The Hon. John Sanchez, Lt. Governor
The Hon. James B. Lewis, State Treasurer [leaving at 2:15]
Mr. Robert J. Aragon, Public Member
Mr. John Gasparich, Public Member, Secretary
Mr. Sam Spencer, Public Member
Mr. Thomas P. Tinnin, Public Member [present 9:20 to 9:30]

Members Excused:
None.

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.]
Presenter: David Paul, Financial Advisor, Fiscal Strategies Group


Lt. Governor Sanchez stated, “Now is the time and this is the place for publicly examining bids for the purchase of the State of New Mexico Severance Tax Bonds, Series 2011A-1 and Refunding Series 2011A-2 in accordance with a Notice of Bond Sale that has been published in the Albuquerque Journal, a newspaper of general circulation in the State of New Mexico, and also in The Bond Buyer, a recognized financial journal outside the State of New Mexico, one time at least five business days prior to the date of this meeting.”

Mr. Paul reported that nine bids were received, which he read as follows:

<table>
<thead>
<tr>
<th>Bidder Name</th>
<th>TIC</th>
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</thead>
<tbody>
<tr>
<td>Hutchinson, Shockey, Erley &amp; Co.</td>
<td>2.196%</td>
</tr>
<tr>
<td>Bank of America Merrill Lynch</td>
<td>1.940%</td>
</tr>
<tr>
<td>RBC Capital Markets</td>
<td>1.917%</td>
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<tr>
<td>Piper Jaffray</td>
<td>1.897%</td>
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<tr>
<td>Citigroup Global Markets, Inc.</td>
<td>1.881%</td>
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<tr>
<td>Morgan Stanley &amp; Co., Inc.</td>
<td>1.864%</td>
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<tr>
<td>Barclays Capital, Inc.</td>
<td>1.824%</td>
</tr>
<tr>
<td>Wells Fargo Bank, National Association</td>
<td>1.72%</td>
</tr>
<tr>
<td>J.P. Morgan Securities, LLC</td>
<td>1.688%  – apparent winning bidder</td>
</tr>
</tbody>
</table>

Mr. Paul noted that, based upon the bid received, there will be a savings of $4.256 million to the state, or 5.16%.

Dr. Clifford asked Mr. Paul if the payment schedule, ranging from $14 million to $17 million per year over a 5-year period, could create a “cliff of debt service obligations” in the fund during that period.

Mr. Paul responded that the schedule mirrors the structure of the bonds being refunded, and there is a level savings structure. He stated that the most important constraint on refunding, and a best practice, is not to extend the term of refunding, as it can be a red flag to the investor community and rating agencies that there are fiscal issues people are trying to work through by restructuring liabilities. He said the structure is very similar to amortization of a home mortgage, with principal and interest payments at the same level throughout the life of the loan.

Mr. Paul clarified that the debt policies of the Board stipulate that there not be a back loading of debt, and that debt structure be aggressively frontloaded. He said the Board has a very conservative debt profile that allows for significant declines in debt service payable after the first few years; that allows the Board the ability to continually raise new capital without significantly increasing the actual cost of capital.
Dr. Clifford said there has been discussion about managing debt service given the decline in revenues to the state over the past couple of years. He asked if that imposes constraints on the state’s issuances going forward.

Mr. Paul responded that the Board has traditionally had a number of practices that have sustained high ratings and improved ratings recently; for instance, Moody’s increased the ratings on the Severance Tax bonding program from Aa to Aa1 about 18 months ago. He said two fundamental legal constraints that support the credit quality are the Anti-Dilution test and the additional bonds test, which says the state cannot issue more senior Severance Tax Bonds unless the debt service payable on all of the Severance Tax bonds that will be outstanding after the issuance of new bonds provide at least two times coverage from the prior fiscal year actual revenues into the Severance Tax Bonding Fund. He said the other constraint is a 10-year maximum maturity. He said both constraints are important because of the nature of the revenue stream, which is driven by private sector activity and is not a broad base tax revenue stream.

Mr. Paul said the rating agencies are now focusing on whether the coverage levels on the program going forward show close to three times actual coverage, and the agencies are generally looking for coverage that is higher than the legal minimum threshold. He said Moody’s looked at it in terms of just above three times coverage of the maximum annual debt service from all Severance Tax Bonding Fund revenues, while the S&P was looking only at revenues coming from the natural resource extraction tax. In both cases, they were really focusing on the fact that the state’s revenue stream has declined substantially since the 2005 to 2008 period from $500 million to about $400 million, a 32% decline from the peak – so for the first time, they have looked at the level of dilution.

[Governor Martinez joined the proceedings.]

[Mr. Tinnin joined the proceedings.]

Mr. Paul said that the state has employed a management practice for the past 15 years of only issuing long-term bonds at a rate that is sustainable for 10 years. Today, he said the state could legally issue somewhere around $1.5 billion of bonds, but the state has taken 10% of what is doable, i.e., has calculated an amount that could be sustainable in each of the 10 years. He commented that this has been a proven prudent practice.

Dr. Clifford asked Mr. Paul to comment on the bankruptcy of Jefferson County in terms of impact on New Mexico’s debt in the near term.

Mr. Paul responded that two of the more notable events in the bond market – and translated into the municipal bond market, which is a derivative of the U.S. Treasury market – have been when Moody’s downgraded the United States, which was followed by a substantial bond market rally rather than a sell-off, which speaks to the disconnect between the concept of ratings on the sovereign debt of the U.S. and the factors that drive the trading levels of U.S. securities. Similarly, the filing of charges in Jefferson County has really had no material effect. He commented that one of the things people have seen across markets is that the quality spreads in
the debt markets are substantially higher and have been sustainably higher since 2008 than they were prior to then. He said there is a significant reward paid by the market to higher quality credit, such as to the State of New Mexico. He added that Jefferson County, Harrisburg and, to a lesser extent Vallejo, were not indicators of a broad-based trend toward bankruptcy in the municipal market, but rather that people who are behaving badly are going to be punished.

Dr. Clifford noted that Moody’s did express a concern about New Mexico’s rating because its economy is heavily dependent on the federal budget relative to other states; and since they have concerns about the federal budget and the federal rating, that concern spills over to New Mexico. He said he understands Moody’s hasn’t yet resolved how it will work this out.

Mr. Paul responded that Moody’s is grappling with two issues, and S&P as well, which is that there has been a notion of a sovereign ceiling across global markets, i.e., that no subordinate jurisdiction, no state, could have a credit rating that was higher than the federal rating of that country. As soon as they downgraded the U.S., all of a sudden all of the AAA state ratings were put on notice because they had to figure out how to answer that question, and they haven’t resolved that. He said their difficulty is that they have acknowledged that the downgrade of the U.S. is more related to politics than to financing, notwithstanding the long-term issues they are grappling with. After the downgrade, the dollar remains the global currency and the U.S. retains the printing press – that might be a bad thing, but it still reflects the reality.

Mr. Paul said the second issue Moody’s is dealing with is that for states like New Mexico, that through the National Labs and military presence have high levels of federal investment, changes to the structure of funding in the federal budget will have impacts on state financings. He said Fiscal Strategies Group has spent quite a bit of time with them describing the extent to which both Severance Tax revenues and the property tax sequestering related to general obligation debt do not affect the general fund. New Mexico is a state where the quality of debt is fairly well insulated from general economic and demographic trends that might well have significant general fund impacts.

Mr. Spencer asked Mr. Paul to comment on the apparent winning bidder’s strategy in using such a high premium on the refunding bonds.

Mr. Paul responded that, for the first time, the coupons on the back end are closer to being current coupons, which may well have to do with the fact that that is where the bonds are refundable. He said Fiscal Strategies Group expected production coupons for the 5% coupons all the way through the scale. He noted that most of the bidders had that traditional bidding structure. He said that, Interestingly, it creates a higher likelihood of those bonds being refunded in the future, because they are refunded against the coupons rather than the yields of maturity at time of issuance.
3. **APPROVAL OF AGENDA**

   **NEXT REGULAR MEETING: DECEMBER 20, 2011**

   The agenda was reprioritized.

   Upon motion by Mr. Aragon, seconded by Mr. Spencer, the Agenda was approved, as amended, 7-0 by voice vote.

4. **APPROVAL OF MINUTES: October 18, 2011**

   Upon motion by Mr. Tinnin, seconded by Lt. Governor Sanchez, the Minutes of the October 18 meeting were approved, as submitted, 7-0 by voice vote.

**STATE TREASURER’S OFFICE**

Presenters: James B. Lewis, State Treasurer; T. Spencer Wright, Interim Chief Investment Officer

5. **Monthly Investment Reports for Month Ended September 30, 2011**

   **Executive Summary**

   -- Continued choppy market conditions during September and October have made investing difficult.

   -- Unresolved difficulties in European economies clouded prospects for US growth.

   -- The Federal Reserve began the first operations in “Operation Twist,” selling shorter maturities of treasury securities and purchasing longer bonds.

   -- The short end of the market, which is the focus of STO’s investing, maintained at extremely low levels.

   -- The portfolios all reported gains on a mark-to-market basis. The general fund had an unrealized gain of $7.1 million, and bond proceeds funds gained $5.5 million. Unrealized gains in the LGiP and Severance Tax Bonding Fund were not meaningful.

   -- Monthly performance on the portfolios was positive, although several portfolios lagged slightly behind their benchmark indices. The LGiP has continued to outperform its benchmark through STO’s strategy of leveraging local bank relationships. This strategy has made the New Mexico LGiP one of the strongest state investment pools in the nation.
-- Changes to the LGIP investment policy, through conforming to the recently adopted rating agency guidelines, will decrease STO’s ability to use this bank strategy. STO expects this will decrease the relative performance of New Mexico’s LGIP to other state funds and put it in “the middle of the pack.”

Responding to Mr. Gasparich, Mr. Wright said STO has leveraged its New Mexico banking relationships in the past, allowing it to return better returns than its peers; however, Standard & Poor’s, which has given the LGIP an AAA rating, has now placed a limit on the amount STO can invest in local banks. In order to maintain that rating, he said the LGIP will now have to invest in more traditional security structures. He noted that some state investment pools are not rated, and they typically invest in corporate bonds and more credit quality instruments, which the LGIP is precluded from investing in.

Mr. Wright said other factors also impact performance: STO’s management fee is only 5 basis points, which is low; STO is constrained by the rating agencies into investing in higher credit quality investments, which yield less; and STO is limited by a weighed average maturity restriction, which means it cannot invest farther out on the yield curve.

Treasurer Lewis commented that he has had discussions about how meaningful it is to essentially pay the cost of a rating, given questions raised about the validity of the rating agencies in light of the 2008 financial debacle. He said he does not plan to pursue the necessary statutory changes at this time, however, and STO is working with its investment advisor to determine what investments make the most sense in light of the new constraints.

-- Investment earnings for each of the funds were as follows: General Fund, $1.4 million; Bond Proceeds Funds, $995,000; LGIP, $207,000; and Severance Tax Bonding Fund, $240.

-- During September, STO maintained Average Daily Collected Balances at the Fiscal Agent Bank of approximately $50 million. This balance earned a “soft dollar” credit against processing fees assessed by the bank.

-- The short-term fixed income markets maintained considerable stability over the past month.

-- Consistent with the investment policy articulated over the past months, STO has continued to take “gains” in the shorter end of the curve and extend into longer maturities. STO believes this strategy will enable it to take advantage of the relative steepness in the yield curve while meeting its goals of safety, liquidity and, finally, return.

-- With regard to the yield curve, STO sees opportunities in the longer end of the maturity range; as such, STO’s investment activities have continued to focus on the 5-year area with treasury and agency purchases during the month.
6. **Quarterly Investment Reports for Quarter Ended September 30, 2011**

Mr. Wright summarized the quarterly report, prepared by Davidson Fixed Income Management (DFIM), and noted the following projects undertaken by STO:

-- Standard biweekly meetings were established to provide for guidance and accountability of projects to be completed by STO staff and management. Custodial bank reporting versus QED reporting continues to be a priority.

-- Benchmarks were reviewed to determine if the current benchmarks are the best based on portfolio constraints and market outlook. It was determined by DFIM and STO staff that more standard treasury benchmarks possibly would be more appropriately with the goals of cash management versus total return funds. DFIM will provide a report to the STIC committee, reviewing alternatives benchmarks, next quarter.

-- The Investment Policy was reviewed.

[Mr. Tinnin left the proceedings.]

7. **Approval of Proposed Changes to Investment Policy**

Mr. Wright stated that the Investment Policy has been changed to conform to the new guidelines for the Local Government Investment Pool, imposed by Standard & Poor’s and effective November 1.

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

[The Agenda was reprioritized.]

**GENERAL SERVICES DEPARTMENT**
Presenter: Charles Gara, Director, Property Control Division


Mr. Gara reported financials for the CBRF Fund, with a beginning balance as of September 1 of $16,948,372. After cash receipts and cash disbursements, the ending balance at September 30 was $16,939,076. Subtracting encumbrances, the uncommitted cash balance as of September 30 was $1,104,476. Year to date revenues total $1,435,034.
Mr. Gara said there was one emergency declaration in September in the amount of $3,516, to do radon testing in the Wendell Chino Building.

12. General Services Department, Property Control Division – Requests Approval of Third Amendment to Agreement to Purchase and Trade Real Property to and from Paseo Nuevo, Ltd. Co (Purchaser conveys $5,948,226.80 and Real Property worth $1,938,855.60)

Mr. Gara requested approval to extend the due diligence period of the purchase agreement until May 15, 2012, as GSD is still awaiting approval from the Federal Highway Administration on the Railrunner stop at I-25.

Board legal counsel Zack Shandler requested that the same contingencies be applied as to previous approvals, as reflected in previous minutes.

Ms. Clarke explained that staff has not yet received a final copy of the title binder and will also need full-sized versions of some of the exhibits to the agreement.

Mr. Aragon moved for approval, with the contingencies as described. Treasurer Lewis seconded the motion, which passed 6-0 by voice vote.

**HIGHER EDUCATION DEPARTMENT**

Presenters: Lisa Martinez; Capital Projects Coordinator, HED; Vahid Staples, UNM Budget Officer, Office of Planning, Budget & Analysis

14. University of New Mexico Hospital – Requests Approval to Replace Domestic Soil Pipes ($4,400,000)

Ms. Martinez requested approval for the removal of all existing domestic soil piping at the Main Hospital. The hospital was built in the 1950s and is still using the original pipes for sewer, hot water, cold water and hot water recirculation, and the condition of the cast iron pipes for sewer removal and vent has deteriorated significantly, which has resulted in several breakages requiring emergency repairs.

Ms. Martinez stated that the project will include removal and replacement of all patient and staff bathroom fixtures, janitors’ closets, sinks and mixing valves, and replacement of all miscellaneous hand sinks. Minor demolition is required to obtain access to the plumbing chase and will require new wall construction in plumbing walls only, to include framing, drywall, tape, texture and paint.

Responding to Dr. Clifford, Mr. Staples said the project will be fully paid for with UNM Hospital Capital Initiative Funds. He said UNMH sets aside a small amount of operating funds every year to cover deferred maintenance costs and replacement of facilities and equipment.
Mr. Aragon moved for approval. Mr. Spencer seconded the motion, which passed 6-0 by voice vote.

SEVERANCE TAX BONDS AND NOTES (Cont’d)
Presenters: Robbie Heyman and Rachel King, Bond Counsel, Sutin, Thayer & Browne; David Paul, Financial Advisor, Fiscal Strategies Group; David Buchholtz, Disclosure Counsel, Brownstein Hyatt Farber Schreck, LLP

Mr. Heyman reported that the winning bidder has been confirmed as JP Morgan Securities LLC.

Mr. Heyman reviewed the resolution, with the following highlights:

-- The bonds will be issued on December 6, when the money will become available to the state for the projects and refunding.

-- The winning bid produced a total of $50,943,000 for the projects being financed with the tax-exempt bonds. Some additional projects approved by the Legislature will be financed through a taxable note and sold to the State Treasurer (Item 9 on agenda).

-- The adjusted principal amount of the Series 2011A-1 bonds is $47,790,000, and is $75,715,000 for the Series 2011A-2 refunding bonds.

-- JP Morgan’s bid is for the $47,790,000 of the A-1 bonds plus a bid premium of $3,153,343.02. This adds up to the amount needed for the project size.

Mr. Heyman read the maturity schedule.

Mr. Heyman stated that staff, counsel and the Attorney General’s Office have reviewed each of the projects for readiness, whether there are any legal problems, and whether the people who have asked for the money are prepared to spend it for the proper purposes.

Mr. Buchholtz stated that, since his detailed presentation at the last Board meeting, disclosure counsel has continued to conduct due diligence, and has met with the representatives of the Retiree Health Care Authority, Educational Retirement Board, PERA, and members of the Department of Taxation and Revenue. He thanked Dr. Clifford for taking the time to meet with counsel during and after the due diligence session and assisting in the preparation of the posting of the POS. He said the Official Statement will be posted at the end of this week or early next week.
Dr. Clifford said the consensus revenue group will be meeting this week and they have been revising their outlook on the energy crisis, and asked Ms. Clarke how that might affect the publication of these documents. He said the revenue hearing is scheduled at the beginning of December.

Ms. Clarke responded that the posting will take place prior to those revenue estimates being released, and she understands that the oil and gas changes are not expected to be significant.

Mr. Buchholtz commented that disclosure is “an art and a moving target,” and counsel continues to work with the staff and the Board on events as they may develop.

Responding to the Governor, Mr. Paul said that, in terms of whether to refund the bonds now versus wait until closer to the call date, bond rates this week are at especially low levels. He said the benefit of waiting in order to reduce the amount of negative arbitrage in the escrow yield was fairly minimal relative to the risk of higher rates down the road.

Mr. Aragon moved for approval. Mr. Gasparich seconded the motion, which passed 6-0 by voice vote.

9. **Approval of Severance Tax Note Resolution, Series 2011S-C**

Ms. King stated that senior Severance Tax Notes are sold as taxable one-day notes for projects that do not qualify to be issued as tax-exempt bonds. She said two projects are being sold as a taxable note: $15 million for the Indian Water Rights Settlement; and a federal matching fund in the amount of $1.4 million to the Wastewater Facility Construction Loan Fund.

Ms. King stated that the interest rate will be set on December 15 as the 30-day LIBOR plus 5 basis points. She said the resolution allows the Executive Officer (Secretary Clifford) to reduce the principal amount should the project number be reduced. She said the note will be sold to the State Treasurer’s Office on December 29 and will be paid off on December 30.

Ms. King stated that the maximum principal amount of the note is $16,444,400. The only factor that might change this amount is that the state is still awaiting certification from the State Engineer Office on the Indian Water Rights Settlement and whether they will want the full $15 million or an amount less than that. She said the final amount will be in hand prior to closing.

Should the State Engineer Office not take the full $15 million, Mr. Gasparich asked if that means the difference would flow into the Severance Tax Permanent Fund. Ms. King responded probably not, because whatever monies are not used for the senior note can be used for the supplemental note (next item).

Dr. Clifford asked if the authorization from the Public School Capital Outlay Council is sufficiently large that it will essentially soak up any capacity that isn’t used on the senior note;
that said, when they made that certification, are they assuring the Board that they will be able to draw down those amounts notwithstanding that they do not know the size of the issue.

Ms. King responded yes. She said the PSCOC always has far more projects than can be covered by the money available from these notes. She said the certified projects total about $129 million, and today’s approval will authorize $78 million, and there will probably be less cash available for that note when it comes time to issue it.

Mr. Gasparich moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.

10. Approval of Supplemental Severance Tax Note Resolution, Series 2011S-D

Ms. King stated that, although the amount set in the resolution is $78 million, she believes the amount of cash available for the note will be less than that; and all of this money, by statute, goes to the Public School Capital Outlay Council for the projects that they have certified.

Ms. King said this one-day note will be sold to the State Treasurer’s Office, and the interest rate will be established on December 15 as the 30-day LIBOR plus 5 basis points. She said the resolution approves the bond purchase agreement and delegates to the Executive Officer the authority to amend the principal amount.

Lt. Governor Sanchez moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.

**HIGHER EDUCATION DEPARTMENT** (Cont’d)

Deputy Secretary Walters stressed to the Board that establishment of a graduate degree program is a ten-step process, beginning with a series of internal approvals, including that of the board of regents. The Graduate Deans Council then reviews the program; if approved, it goes to the Academic Council, and then it goes to HED for review, where it undergoes scrutiny from DFA, the Legislative Finance Committee, and the Office of Workforce Solutions. He stated that HED will be presenting four proposals at this meeting.
15. University of New Mexico – Requests Approval of Master of Science in Biomedical Engineering

Dr. Graves stated that the UNM School of Engineering is proposing to offer a master’s of science degree in biomedical engineering. He said this graduate program effort began in 2007 as a state legislative project that created both a research center and the beginnings of a graduate program. He said this effort was consolidated into the University’s I&G budget in 2009, and a concentration of biomedical engineering within the Ph.D. of Engineering was approved and has been offered since the fall of 2010, with many enrolled students. He said the Ph.D. program is now fully funded at UNM with the I&G funding.

Dr. Graves said the proposed master’s program will be working in concordance with the Ph.D. program, using the same courses, instructors and facilities, thus creating the opportunity to offer a new degree program at no additional cost.

Dr. Graves stated that the program has passed a lengthy evaluation process and it represents the first master’s of science in biomedical engineering in New Mexico. He said they are now collaborating with NMSU, New Mexico Tech and Highlands University, as well as with both national laboratories. He said biomedical engineering is one of the fastest growing engineering fields and a key area of U.S. competitiveness around the globe. He said UNM has numerous collaborations with industrial partners that are interested in graduates from the program.

Responding to Dr. Clifford, Dr. Graves stated that several biomedical companies in the Los Alamos, Santa Fe and Albuquerque areas (IntelliCyt, OsoBio, Darkling Simulations and Caldera Pharmaceuticals, among others) are garnering national interest, and the master’s of science program is to provide a skilled workforce for this industry. As an example, he said Acoustic Cytometry, a successful company which began in Santa Fe, had to leave because of the lack of a skilled workforce. He said many biomedical companies have started up in New Mexico, and at a certain growth stage need to move on if they do not have a skilled workforce. He said the master’s program could provide that workforce, whereas the Ph.D. would provide research leaders that may also be needed for day-to-day research.

Dr. Clifford said he understood the master’s to be a terminal degree that will be earned by taking the coursework for the Ph.D. Dr. Graves responded that one track is all coursework and the other is somewhat less coursework with a thesis option. Both use the same courses that are used for the Ph.D. degree.

Dr. Graves stated that, once fully operational, they anticipate awarding 10-18 degrees per year.
Dr. Clifford asked Deputy Secretary Walters if he anticipates budget consequences from adding new programs going forward, given the formula that HED is working on that will represent a new way of calculating HED budgetary appropriation needs.

Deputy Secretary Walters responded that the new funding formula moves towards things that specifically meet the needs of the workforce in New Mexico, and HED believes this degree does that. He said the financial impact will be small because there is not an actual increase in student enrollment; rather, there is a shifting of students moving into one degree versus another.

Deputy Secretary Walters said degrees in the STEHM field are needed to be globally competitive, so HED will try to move in that direction to the extent possible.

Responding to Lt. Governor Sanchez, Dr. Graves said this program was reviewed against 110 institutions around the country. He said the nearest universities – University of Colorado, Boulder, and University of Utah – have biomedical engineering degrees at the graduate level, as do Arizona State and University of Arizona. He said UNM School of Engineering has modeled its system after theirs as well as that of the University of Washington, and are directly coordinating with Science and Technology Corporation at UNM to make sure they are directly integrating with the local industry.

Mr. Aragon asked if the new formula will result in the contraction of some master’s degree programs at UNM, and Deputy Secretary Walters responded that a thorough review of all graduate programs in the state will be undertaken in the next few months. Dr. Fleddermann added that two master’s programs at UNM School of Engineering are currently being sunsetted and others have been recommended for cancellation or consolidation.

Responding to Dr. Clifford, Dr. Graves said the program’s $200,000 budget is to fund program staff and program instructors and is part of the School of Engineering budget. He said the anticipated first year enrollment of master students is 4, and there are currently 10 Ph.D. students in the first year. He said the Ph.D. students are funded through research funding, so their salaries come from the research faculty mentor. The program does not and will not pay student salaries, which are primarily paid for from the Ph.D. program.

Mr. Aragon moved for approval. Mr. Spencer seconded the motion, which passed 6-0 by voice vote.

Presenters: Dr. Nancy Ridenour, PhD, APRN, BC, FAAN, Dean of Nursing; Dr. Jean Giddens, PhD, RN, Executive Dean

16. University of New Mexico – Requests Approval of Doctorate of Nursing Practice

Dr. Ridenour stated that, around the country in nursing, a doctorate degree is becoming the new requirement for an advanced practice degree. She said there were once only 10 programs in the U.S., and that has grown to 130, which gives an idea of where the market is going in terms of
preparing advanced practice nurses. She commented that the needs for primary care advanced practice nurses in New Mexico is obvious, and demand is increasing to the point where several potential candidates are leaving the state in order to get a degree. She said nurses with such a degree can get a job anywhere in the country, so the fear is that they will not return.

Dr. Ridenour said there are currently two state-funded colleges, UNM and NMSU, that prepare nurses for advanced nursing practice. She said UNM has collaborated with NMSU and is offering majors in the doctorate nursing practice (DNP) that NMSU is not offering, and vice versa. She said UNM decided to stop offering the master’s major in community health nursing because NMSU is now offering the DNP in community health nursing. She said both institutions have agreed not to duplicate programs.

Dr. Ridenour stated that there are multiple grants available externally to cover the program costs, but they cannot apply for them until the program is approved. In the interim, they are covering costs using research money and revenues from the online education program.

Dr. Ridenour said this is a post master’s entry, which targets existing nurse practitioners who would then take two years of post master’s to receive their DNP. She stated that the program will accommodate 12 new students per year, for a maximum of 24 students in the program.

Mr. Aragon questioned the need to create a Ph.D. program in nursing. He asked if this would help alleviate the lack of teachers in nursing. He said the lack of nursing slots at the school has created a problem in that nurses are going to private institutions and are being required to sign off their student loans to institutions for profit.

Dr. Giddens clarified that this is not a Ph.D. program, but is a doctorate in nursing practice, and is focused on practitioners. In light of the severe nursing shortage nationwide, she said this DNP program will provide potential faculty for the College of Nursing, which is a huge need.

Mr. Aragon asked if there are plans to expand the program in order to generate more nurses, since that is where the dire need is for the state, and Dr. Giddens responded that the College of Nursing turns away several very qualified nursing students because of funding cuts and faculty shortage.

Deputy Secretary Walters said HED has been looking at this issue for several months, and Secretary Garcia has been holding meetings with key people to develop direct plans for addressing this problem.

Lt. Governor Sanchez asked how services can be increased in the rural parts of the state, and Dr. Giddens responded that 90% of their graduates stay in New Mexico, and 40% of those work outside of the Albuquerque area. She said they are working within the curriculum to ensure placements in rural areas.

Mr. Aragon moved for approval. Treasurer Lewis seconded the motion, which passed 6-0 by voice vote.
Presenter: Dr. David Schmidly, President, University of New Mexico

13. University of New Mexico – Financial Presentation Following up on Discussions from September 20, 2011, Board of Finance Meeting

Dr. Schmidly stated that he had submitted a memorandum to the Board, dated November 4, responding to a series of requests from the Board as detailed in the minutes of the September 20 meeting. He said the information provided in his memorandum discusses the number of Vice Presidents/Associate Vice Presidents compared to five years ago; average salaries now and five years ago; rationale justifying tuition increases above the inflation level; and breakdown of administrative expenses.

Dr. Schmidly made a presentation, with the following highlights:

-- UNM has 33,000 students enrolled on all campuses, and enrolls 48% of the students in the state because of its size. It confers 80% of the doctoral and professional degrees awarded in the state.

-- UNM is the second largest employer in Albuquerque and the fifth largest in the state, with a $2.2 billion budget. For every dollar appropriated, UNM leverages five dollars.

-- At the HSC, UNM is following the national pattern of beginning to use the title of Chancellor and Deputy Chancellors (formerly Executive Vice President and Vice Presidents) to differentiate those roles from roles on the main campus. UNM is following the same practice in the academic programs on the main campus, with a Provost and various Assistant and Associate Provosts. For the business functions, there will be the title of Vice President.

-- When he arrived, there were numerous problems with enrollment, registration, students moving through their degree programs in a timely way, student recruitment, and student services in enrollment management. All of that has been consolidated successfully under the Vice President of Enrollment Management. Enrollment has grown 15% and enrollment of National Scholars has grown 1200%. There was a 4% increase in graduation rates last year by Latino students.

-- Before his tenure, the University’s leadership and faculty did not come close to matching the diversity of the student body. Over 50% of UNM students are minorities, and when he arrived the entire leadership team was made up of white males, with a remarkably low diversity of faculty. The position of Vice President for Equity and Inclusion was created to address the issue. UNM is one of 10 universities to receive the Lumina Foundation award to address improving graduation rates of Latino students, and the individual hired to fill the new position, Josie DeLeon, led the efforts to write a $600,000 grant, which will be very important in moving forward to address the success of UNM’s Latino students.
On the Main Campus, UNM executive positions have been reduced from 10.5 to 7, creating a 28% savings; and at UNM Health Science Center, the reduction is from 5.5 to 5, creating an 11% savings, for a total savings of $909,000. All of these executive administrators are on employment contracts and are subject to performance reviews and assessments, and have the highest level of administrative responsibility on campus.

In the 2010 Integrated Postsecondary Educational Data System report, the median peer group total of lower executive-senior administrators such as deans and provosts, as well as business administrators such as associate vice presidents and directors, was 290, while UNM had 140 individuals in this category.

Tuition and fees have averaged a 6% increase over the past five years at UNM, while the tuition credit imposed by the state has been 2.5%; so the UNM tuition increase passed directly to the students has been 3.5%, or 1.1% above the average inflation rate over the five years. Because of the state of the economy, UNM’s state funding has decreased dramatically in a short period of time, while enrollment has substantially increased. UNM has had to cope with a 15% decrease in state appropriations on the Main Campus with a 13.5% increase in enrollment.

Data from the Chronicle of Higher Education (2011) shows that only the University of Wyoming is lower than UNM in instate annual tuition and fees.

The total cost of attendance at UNM versus the national average of four-year public institutions reflects that UNM is 15% below the national average.

UNM has initiated cost containment activities that have allowed it to navigate recent state budget reductions without significant layoffs or mandatory furloughs. These activities include $7 million cost avoidance through its energy conservation program; $10 million in savings in medical and dental insurance costs through the self insurance program; $2.5 million in savings by re-engineering the IT system; and $12.7 million in cost reductions as recommended by the President’s Strategic Advisory Team.

Dr. Clifford asked Dr. Schmidly for his views on how the multiplication of branch campuses and the expansion of student bodies into branch campuses address the state’s educational mission, and what are the cost impacts of that approach.

Dr. Schmidly responded that he has had a lot of experience with branch campuses; he ran one for Texas A&M for five years, and when he was CEO of the Oklahoma State system, there were two branches there. He said they are more costly because they are typically smaller in size, and there is not the economy of scale there is at larger institutions. He said UNM’s management of its branches is much more responsible, though, than it was at the two institutions he served at previously, and the main campus has assisted with many of administrative functions and provision of services with less duplication than he saw at the other two systems.

Dr. Schmidly said New Mexico still has a substantial rural population, and it also has a large population of people in these rural areas that are place-bound. This is particularly true of the
Native American students, and UNM’s branch campuses are primarily serving that population – Gallup has 2,700 Native American students, which is the largest enrollment of Native American students of any public campus in the country. He said Taos has 1,100 Native American students, and the Valencia campus serves a very large population of Latino students, and these are typically people going back to school in their later years in an attempt to find a way to compete in this economy. He added, “What I would say to you is be careful before you throw out the good part of the branches. They are providing access points in areas where it’s difficult for people to either drive to Las Cruces or drive to Socorro or drive to one of these major metropolitan areas and access higher education. And I feel like our branches add a lot to the state, and I feel like they’re adding a lot to the University.”

Dr. Schmidly said his biggest concern is the low transfer rate of students that start two years in the branches and transfer to UNM and graduate. He stated that UNM formerly had a Vice President of Branch Operations to begin to better pull the branches together, share services, reduce costs and improve the pipelines of transfer. When the budget downturn hit, UNM eliminated the position. He said, “I still would argue that, in a viable economy with appropriate funding, UNM should and could be doing a better job of organizing the operations of its branches.”

Dr. Clifford said a long term policy question is whether UNM’s mission is consistent with operating the branches, or whether that is more appropriately thought of as a two-year college function, and perhaps UNM’s mission could be oriented more toward research, higher degrees, etc.

Dr. Schmidly responded that UNM’s branch system is not unlike what other states have. For instance, Pennsylvania has Penn State and 20 branches, and most of the branches were added when access was a real challenge to higher education and before distance education. He noted that, while many states have moved to being almost totally urban, probably 35-40% of New Mexicans live in rural areas and branch campuses are therefore still appropriate – whether they continue to proliferate or not is another matter. He stated that UNM sees its role as not stopping at the two-year end point; rather, they see their role as completing the transfer and moving to a four-year degree and beyond, and this is an area that they need to address.

Noting that HED is working on an output oriented formula for the state general fund appropriation to the institutions, and Dr. Clifford asked for Dr. Schmidly’s assessment of that process and progress.

Dr. Schmidly responded that he believed in performance-based funding, and this formula is a move in the right direction. He said he felt the 2012 budget should be the baseline budget, given the increase in enrollment along with financial decreases, and felt they would have a hard time rationalizing an additional cut off the 2012 base. He said he hoped any new dollars coming into the system would be driven by the new formula, however. He stated that the HED process has been open and transparent and responsive. He said he understood the new formula would do away with the tuition credit, which he supported, as it has not served the state well – it has made
it very difficult for UNM to ensure tuition costs for its students so their families can do long-term planning for their children’s education.

Dr. Schmidly added that the biggest drive affecting the cost of attendance for students going to college is time to degree. He said that it would cost about $20,000 a year for a UNM student to go to college, or $80,000 if they graduate in four years. If they graduate in six years, it will cost $120,000. He said students should be incentivized to make good choices in their college majors when they come out of high school, and to quit taking 12 and 13 hours and go back to the old way of taking 17-19 hours and graduate in four years.

Governor Martinez said one way of ensuring that is to lock in the tuition rate for four years, and Dr. Schmidly responded that guaranteed tuition has been tried around the country with mixed results. In a secure funding environment, where the state can say it expects a college’s funding to be a certain amount for four years, the school can set a four year tuition plan in place for four years. In the current environment, when at midyear UNM loses 8% and the next year its funding may go down 10%, the problem is tuition has to be raised so much for the next entering cohort that it places a huge burden on them.

Mr. Aragon commented that it would seem to make more sense to begin to emphasize interactive distance education and start looking at constricting the size of the branches at UNM.

Dr. Schmidly responded that UNM uses distance education not only to serve the branches better, but also to advance the graduation rate of students on the main campus, i.e., if a student is taking 14 hours, they are being encouraged to take 6 hours of distance education in order to graduate in four years. He added that, in terms of the population being served in the branches, many of those students are the first in their family to go to college, and they do not have the experience of just going online and taking a course and getting everything out of it that they need to get out of an education that will prepare them to be successful. He said there is one-on-one interaction counseling for those special population students at the branch campuses, making it hard to consider getting rid of this overnight. He said that would not serve the state well right now, although he could see moving in that direction gradually.

Mr. Aragon asked what percentage of Hispanic students have to be enrolled in remedial classes at UNM, and Dr. Schmidly responded that he did not have the numbers and would have to provide them later; however, it is substantially higher than other populations at UNM. He said their retention rates are also lower.

Dr. Schmidly said it is more costly than it is worth for UNM to engage in remedial education, and so UNM has begun the process of ratcheting up its freshman admission requirements and is asking potential students to take courses at CNM; if they achieve a certain level, they are guaranteed transfer admission to UNM.

Responding to Mr. Aragon on what steps UNM has taken to address the deficiency in endowed scholars, Dr. Schmidly said he has stepped up fundraising efforts, and UNM has just had the four best years of fundraising it has ever had. As New Mexico’s economy recovers, he
would suggest that a matching fund for endowed chairs would be a very good investment to consider.

Responding to a request from Governor Martinez as to whether the figures in Chart 1 (UNM Executives Positions and Salaries) for the Main Campus included branch campuses, Dr. Schmidly said he believed these were only Main Campus numbers but would verify that.

Governor Martinez asked Dr. Schmidly to provide a breakdown of branches in Chart 2 (Tuition & Fee Analysis).

Governor Martinez stated to Dr. Schmidly that the Board and HED are looking at duplication in education, and how many buildings, etc. can be eliminated and at least partially replaced with distance learning.

Governor Martinez questioned the need to create a new position of Vice President of Equity and Inclusion.

Dr. Schmidly responded that the goal in creating the position was to improve graduation rates of Latino students, hire Latino faculty, and put Latinos in leadership positions. He said the position is being evaluated this year, however, in terms of whether someone at the executive level can perform these duties and at what salary.

Dr. Schmidly said his position is that every executive role at UNM should be up for evaluation as to necessity and where that role could be filled within the organization. He said he hopes to finish his own portion of this work at the end of the spring term, when he leaves his position as President.

Responding to Governor Martinez, Dr. Schmidly said the graduation rate for students overall has grown from 43% to 45.1%, and next year it is projected at 47%. He said this is the six-year graduation rate, and is the standard used in all federal reporting. He said the four-year graduation rate is less than 20%.

Responding to Mr. Aragon, Dr. Schmidly said UNM is using money provided by the Mexican Consulate through a donation from Mexico City to help people from Mexico who are in the United States illegally. He said UNM received $50,000, which has to be matched by private funds and not institutional or state funds. He said the scholarships are administered through the UNM Foundation, which is a 501(c)(3).

Mr. Spencer stated that he has observed, as a banker, that students graduating from college are carrying so much debt from student loans that it is having an adverse impact on the state’s economy because their income is simply going to pay back the loans.

Dr. Schmidly said he has read that the rate of default on student loans will become the next housing bubble.
[Break.]

[Governor Martinez stepped away from the proceedings.]

Presenters: Dr. Alexander G. “Sam” Fernald, Professor of Watershed Management and Interim Director NM Water Resources Research Institute; Dr. Linda Lacy, Graduate Dean; Dr. Frank Ward, Professor of Water Policy; Dr. Greg Fant, Associate Vice President and Deputy Provost.

17. New Mexico State University – Requests Approval of Master of Science in Water Science and Management

18. New Mexico State University – Requests Approval of Doctorate of Philosophy in Water Science and Management

Dr. Fernald said New Mexico faces critical water scarcity issues, and this program responds with teaching and research to help solve critical water problems that affect New Mexico’s current and future development. For example, the program will train graduates to meet water challenges with solutions, such as improved agricultural water use efficiency, reduced aquifer vulnerability, improved watershed management for community water supplies, affordable urban conservation measures, and other crucial areas.

Dr. Fernald said program graduates will be competitive for professional jobs. An extensive survey of New Mexico and national employers showed high potential demand and numerous potential jobs for graduates. He said employers include 14 federal agencies, 8 state agencies, 7 regional organizations, local and national environmental and engineering consulting firms, private industries, as well as research and teaching jobs.

Dr. Fernald said no additional funding is being requested to initiate this program, and these degrees do not duplicate any degrees at other New Mexico universities.

Dr. Clifford asked where might the people who get these degrees be employed, and Dr. Fernald responded that federal agencies have large PhD research, field extension, outreach and management cores. With the increased level of degrees that people have, it is not uncommon for people in management agencies – Forest Services, BLM, EPA, US Geological Survey – to have PhDs who are on the front lines and in the office or field doing high level research. He said this is not a terminal agree, so students can go on and do more research, but they will be qualified for jobs at the same agencies plus the private sector.

Dr. Fernald said the State of New Mexico also employs people with these degrees, including the NMED, Fish & Wildlife, and others. He said there are eight different agencies that employ graduates with these sorts of skills.

Treasurer Lewis moved approval of Item 17. Mr. Aragon seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]
Treasurer Lewis said this is a key area of importance, and commended NMSU for bringing this program forward.

Mr. Aragon moved approval of Item 18. Mr. Gasparich seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]

PROPERTY DISPOSITIONS

Presenters: Deanna Miglio, Bernalillo County Right of Way Manager; Greta Rosko, Gordon Bernell Charter School Director

19. Bernalillo County – Requests Approval of Third Amendment to Lease Agreement with Gordon Bernell Charter School at 401 Roma NW ($10,768.43 per month)

Ms. Miglio requested approval of the third amendment to the lease agreement between Bernalillo County and the Gordon Bernell Charter School. Under the current lease, payment is to be renegotiated based on school revenue on June 30th of every year following the first year to comply with the statutory formula for charter school lease payments. She said the rent is capped at $10,768.54 per month for 12 months. She said the cap is necessary because although the number of students has increased, the lease reimbursement has not.

Responding to Mr. Gasparich, Ms. Rosko said 300 students are at the Metropolitan Detention Center, and 140 are at a campus downtown. She stated that this is an APS chartered school.

Mr. Aragon stated that this program is doing a lot of good, at least for the people he knows who have participated.

Mr. Aragon moved for approval. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]

20. Bernalillo County – Requests Approval of Third Amendment to Lease Agreement with Gordon Bernell Charter School at 100 Deputy Dean Miera SW ($3,815.85 per month)

Ms. Miglio requested approval of the third amendment to the lease agreement between Bernalillo County and the Gordon Bernell Charter School. The address for this property was formerly 100 John Dantis Drive. Under the current lease, payment is to be renegotiated based on school revenue on June 30th of every year following the first year to comply with the statutory formula for charter school lease payments. She said the rent is capped at $3,815.85 per month for 12 months.

Treasurer Lewis moved for approval. Mr. Aragon seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]
EMERGENCY FUND BALANCES
Presenter: Stephanie Schardin Clarke, Interim Director

22. Emergency Balances – November 2011

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,271,053.12</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$ 118,400.00</td>
</tr>
</tbody>
</table>

Ms. Clarke reported these balances.

Dr. Clifford noted that the Board might submit a request for funding next year in the amount of $2 million, which is $500,000 more than the previous year’s appropriation. He asked Ms. Clarke if she anticipates a lot of claims against this amount.

Ms. Clarke responded that, given the nature of things that qualify for this funding, it is impossible to anticipate claims more than a month or so in advance, although exceptions might be the Jury & Witness Fund from the Administrative Office of the Courts, and the Secretary of State’s Office. In FY 2010, the Board allocated more than the $1.5 million because there was an additional $750,000 made available for state agency shortfalls. She commented that everybody knows anecdotally that state and local agencies and entities have extremely tight budgets and lower reserves than they have had in the past, making the potential pool of entities requiring emergency funding larger.

EMERGENCY FUNDING REQUEST
Presenters: Esther Garcia, Mayor; Marcus Rael, Jr., Village Attorney

23. Village of Questa – Requests Approval for Emergency Loan to RemEDIATE MOLD IN ADMINISTRATION BUILDING AND OTHER BUILDING ($55,336.09 FOR ADMINISTRATION BUILDING AND UP TO $50,000 FOR OTHER BUILDING)

Mr. Rael stated that, on October 10, the Village of Questa detected a very strong smell inside of their administrative building, and toxic mold was then discovered throughout the walls and building. He said OSHA officials had the building evacuated, and the building’s occupants were relocated. He said the New Mexico Department of Health and the Village’s insurance carrier found mold in another building, as well. He said it has been very difficult conducting the Village’s day-to-day business without being able to access their files, and no one can go into the building without a mask and gloves.

Mr. Rael requested an emergency loan from the Board to cover remediation costs.

Responding to Mr. Aragon, Mr. Rael stated that Traveler’s Insurance denied their claim and they are in the process of appealing that, but have been told their chances of collecting on the claim are not good.
Mayor Garcia stated that the other building houses the Head Start program and the senior center, and the occupants in that building were displaced last week.

Responding to Mr. Gasparich, Mr. Rael stated that bids were sought for remediation, with the lowest bid at $55,336.09 for the administration building. He said the same companies are bidding on the other building and while no hard bids have been received at this point, the cost is anticipated at $50,000 or more. The remediation apparently will take three months, but the actual timeframe won’t be clear until they have torn down the walls and determined how much mold is involved. He said the Village is asking that work start on the senior center/Head Start building before moving on to the administrative building. He stated that the administrative offices are located at the volunteer fire department.

Ms. Clarke thanked Mayor Garcia and her staff for doing a commendable job in putting this request together in such short order, and for gathering all of the information she requested.

Ms. Clarke stated that the Village is estimated to have about $31,500 in cash balances available in excess of their 1/12th required reserve that could be applied to the cost of the remediation in the two buildings. She proposed that, if the Board is inclined to approve both, staff could make sure that the excess cash balance is first expended by approving a loan of $50,000 for the other building; and then a loan of $29,238.73 for the administrative building. She said the total loan would be about $79,000 for the two buildings, which would provide for them to expend their own cash reserves first.

Ms. Clarke said she has prepared two resolutions, one that would fund the administration building remediation; and one that would approve both.

Ms. Clarke noted that Mr. Rael indicated that they do not have a hard quote yet for the other building, but Mayor Garcia this morning provided a quote from the same company that would be providing the mold removal and construction on the administration building, and she is basing the funding numbers provided to the Board off of that quote.

If the Board is inclined to approve the request for the other building (Head Start/senior center), Ms. Clarke asked that such approval be subject to: 1) receipt of a letter from the insurer confirming that the claim has been denied for the second building; and 2) if any claim money is received from the Village’s insurer, that money shall be applied to the loan balance.

Ms. Clarke stated that the Village has proposed a repayment plan of $5,000 per year until it is repaid in full. Based on a $79,000 loan balance, the term of the loan would be about 16 years, with payments being due on July 15 of each year beginning in 2012.

Mr. Rael stated that the $31,500 identified by Ms. Clarke is from salary savings incurred after the position of Village Administrator was vacated in July. He said the position has been advertised and interviews begin later this week.
Ms. Clarke responded that her calculations were based on taking the excess cash balance in the Village’s approved budget, which would have been before July, and subtracting $60,000 from that because Village staff indicated that this amount is earmarked for some grant match applications.

Mr. Rael said he had been under the impression that the $31,500 was from salary savings, but may be confused.

Mayor Garcia asked the Board to allow her a few minutes to call the Village finance director.

Ms. Clarke noted that if the $31,500 cash balance is in fact committed, then the size of the loan that the Board could justifiably approve would get bigger and not smaller than the $79,000.

On the question of whether this item should be deferred for another month, Ms. Clarke said that, in a phone conversation with Mayor Garcia last week, she learned that while the Head Start program is closed, the children will have to be bused 25 miles each way to Taos or Amalia.

This item was temporarily deferred to allow Mayor Garcia a few minutes to contact the Village finance director to have the question clarified. [See page 26.]

**PRIVATE ACTIVITY BONDS**

Presenters: Tommie Herrell, Otero County Commissioner; Michael Scott, Managing Director


Mr. Herrell stated that today’s presentation would be for educational purposes only, in order to respond to Board staff’s questions, and he would like to make a formal request to the Board at its December meeting.

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

-- Oswaldo Galarza is the CEO of Advanced Industrial Technologies, a tire recycling facility that will be the first of its kind in the U.S., although the process and plant equipment are being used in other countries, including China, Cyprus, Spain, Thailand and Germany.

-- The technology has existed for more than 20 years, and involves melting tires down and coming up with byproducts, including fuel oil, carbon black and steel.
-- The program consists of the construction and operation of the Tire Recycling Center near Chaparral, New Mexico. Preconstruction activities will coincide with the release of the requested bonds, and will overlap in any fashion that benefits the long-term goal of the program.

-- The New Mexico plant will have 90 employees, and portable units would travel around the state, as well as to West Texas, to grind the tires. There is no shortage of available feedstock.

-- There is an annual $1.50 per-tire surcharge imposed by the Department of Motor Vehicles on new vehicles to pay for recycling, but to date the monies have not been expended for that purpose because there has not been a facility for it.

Mr. Scott stated that the company projects about 5 million tires needed for feedstock, and New Mexico generates approximately 2 million tires per year. He said Juarez has a stockpile of 6 million tires, which the company plans to bring in for processing; however, tires from New Mexico will be prioritized.

Mr. Gasparich asked Mr. Scott if the company has secured the $15 million loan, and Mr. Scott responded yes, and they hoped to have it finalized this week.

Responding to Mr. Gasparich on environmental issues, Mr. Herrell said the pyrolysis system utilized by the company has received EPA approval in Ohio and Texas.

Mr. Herrell asked if a bond could be posted to pay for any environmental cleanup. Mr. Scott responded that they could post a bond, but the only “mess” that might be created would be from one day’s worth of processing, in which case the plant would be shut down and the product taken away. He said a curb would be built around the reactor tanks to contain any spillage.

Mr. Herrell said the Otero County Commission will require a bond.

Responding to Mr. Spencer, Mr. Scott said he is looking at other plants that use the same technology to determine whether they are “quicker, better or faster,” and if they are not, then he will stay with the figures he has provided. In any case, his final numbers will not be higher than what he has already provided.

Mr. Herrell stated that Otero County is especially impressed with the plant in Germany; and if they decide to proceed, they will hire an engineer to accompany them on a fact-finding trip to visit three or four sites. He added, “I know there have been some issues out there with the state getting sucker in on some deals. I’m an elected official and I don’t want a black eye out there, either. I don’t want my name on anything unless I can truthfully say it’s a viable, good project for the State of New Mexico and Otero County.”
Mr. Aragon moved to table this item. Mr. Spencer seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]

**EMERGENCY FUNDING REQUEST (Cont’d)**

Village of Questa – Requests Approval for Emergency Loan to Remediate Mold in Administration Building and Other Building ($55,336.09 for Administration Building and up to $50,000 for Other Building)

Mr. Rael apologized for his confusion. He stated that Ms. Clarke was absolutely correct in her calculations.

Lt. Governor Sanchez said there is consensus among the Board to fund the Administrative Building and the Other Building.

Ms. Clarke read the following resolution:

"**RESOLVED,** the State Board of Finance (the ‘Board’) determines, pursuant to Section 6-1- 2 NMSA 1978 as amended, that a critical emergency exists that cannot be addressed by disaster declaration or other emergency or contingency funds, and THEREFORE approves a loan to the Village of Questa from the FY 12 General Fund Operating Reserve in the amount of twenty-nine thousand, two hundred thirty-eight dollars, seventy-three cents ($29,238.73) for mold removal and reconstruction to the Village of Questa’s Administrative Building; and in the amount of fifty thousand dollars ($50,000) for mold removal and reconstruction to the building housing the Village of Questa’s Head Start program and senior center. Release of emergency funding for the Head Start/senior center building shall be subject to Board of Finance Director’s receipt of evidence that the cost of the mold remediation and construction is not covered by the Village’s insurance and any other evidence required by the Director to confirm that this situation is an emergency. The loan shall bear no interest and shall be repaid in equal annual installments of $5,000 with payments due July 15, 2012 and each July 15 thereafter until repaid in full. The Village of Questa shall provide quarterly reports, in a form prescribed by the Board, each April 15, June 15, October 15 and January 15 until the loan is repaid in full. If any claim money is received from the Village’s insurer, it shall be applied to the loan balance."

Mr. Aragon moved for approval. Mr. Gasparich seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]
PRIVATE ACTIVITY BONDS (Cont’d)
Presenter: Stephanie Schardin Clarke, Director

25. Approval of Private Activity Bond Cap Allocation Expiration Date

Ms. Clarke stated that, pursuant to Section 6-20-2(a)5 NMSA, the Board must annually select a date on or before December 26, upon which all unexpired Private Activity Bond allocations issued for the calendar year shall expire. The Board’s rule on Private Activity Bond allocations requires that the expiration date be set on or before the Board’s regularly scheduled November meeting.

Ms. Clarke said staff recommends setting the expiration date of December 26, as that is the latest date allowable in statute.

Mr. Aragon moved for approval. Mr. Spencer seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present for the vote.]

Presenters: Jay J. Czar, Executive Director; Gina Hickman, Deputy Director of Finance and Administration; Linda Bridge, Director of Development


Mr. Czar stated that, in anticipation of the Board’s annual allocation of Private Activity Bond cap in December, the New Mexico Mortgage Finance Authority is requesting, for 2012, $180 million in single-family PAB allocation and $40 million in the multifamily allocation. In addition, MFA is requesting that as much as possible of any remaining original 2011 volume cap carryforward from the single family program be added to the 2012 amount.

Mr. Czar stated that the MFA’s interest rate is currently at 4%, and MFA is now the only entity in New Mexico that provides down payment assistance.

With respect to multifamily housing, Mr. Czar stated that the need for rental housing is greater than ever before, because homeownership has slipped 5 percentage points over the last few years from almost 74% to less than 68%. He said there is also a lot more need for rental space for the elderly and those with special needs.

GROSS RECEIPTS TAX INCREMENT
Presenter: Brent Dupes, Chief Financial Officer

27. Mesa del Sol – Presentation on Tax Increment Development District

[Governor Martinez rejoined the proceedings in the course of this presentation.]

Mr. Dupes made a slide presentation. [Slides were in Board packet.]
Mr. Dupes stated that the 2007 Legislature approved $500 million in bonding authority, and currently Mesa del Sol has that split into five separate TIDD districts. In order for the district to issue $500 million worth of bonds, assuming a 25-year bond at 7%, Mesa del Sol would have to generate $23 billion worth of activity, which would generate the necessary amount of gross receipts tax. In October 2009, he said Mesa del Sol issued its first TIDD bond for $3.6 million, and in December they anticipate issuing their second bond for another $1.6 million.

Mr. Dupes presented an overview of existing tenants at Mesa del Sol. He said the commercial tenants are the Aperture Center; CFV (Fraunhofer), which took over the old Advent Solar building; Molina Healthcare data center; Albuquerque Studios; Fidelity Investments; Schott Solar, and DEA. He said a recent sale was made to Nova Corp, which will build a small data center on the site.

Mr. Dupes stated that, in terms of the timeframe for the residential area, they will close on the model lots for the builders in early December, and the grand opening of the model lots will take place in March 2012. He said there are five product types with four builders, and the homes will range from $165,000 to $275,000-$300,000.

Mr. Dupes stated that Mesa del Sol investments to date are $290 million in buildings and infrastructure and $32 million in public infrastructure. He said approximately $84 million has been invested in equity and bank debt.

Mr. Dupes stated that, since inception through December 2010, the net benefit to the State of New Mexico has been $17 million; to the City of Albuquerque, $5.7 million; and to Bernalillo County, $3 million. Based on the current employment base, the annual ongoing revenues would be approximately $1.8 million to the state, $200,000 to the City of Albuquerque, and $300,000 to Bernalillo County.

Noting the foreclosure rate in New Mexico, as well as a surplus of about 2 million homes, Treasurer Lewis asked Mr. Dupes how that figures into Mesa del Sol’s equation in terms of residential housing.

Mr. Dupes responded that a lot of available lots are on the far west side of Albuquerque or in Rio Rancho, and there is a question of when those will ever be developed. He said that, in analyzing the housing market in Albuquerque, Mesa del Sol looked at the availability of affordable lots on the east side of the river, and the builders that have approached them have done so because they have run out of affordable lots on that side of the river. He stated that another advantage of being on “the right side of the river” is that the majority of employment opportunity is there. He stated that Mesa del Sol has a number of homes in the $225,000-$230,000 range and less.

[Treasurer Lewis excused himself from the proceedings.]
Mr. Mourning introduced Mark Shoesmith, attorney for EXPO/Fair; Agnes Maldonado, acting CFO; and Ken Salazar, Director of Operations.

Mr. Mourning stated that, in July 2011, the New Mexico State Fair issued an RFP for approximately 93 acres, where a racetrack and casino are situated. The RFP solicited offers for the current use of the racetrack and casino as well as any other alternative uses of the property. He stated that there were two proposals received, one from Laguna Development Corporation and the other from the Downs at Albuquerque. He said the evaluation committee conducted interviews with both respondents and requested a best and final offer, and the two respondents were ranked based on those offers. The top-ranked proposal was from the Downs at Albuquerque, and staff began negotiations with the Downs, a process that took approximately two months. He said the New Mexico State Fair Commission will be asked to approve the proposed lease in the next week or so.

Mr. Mourning said staff has submitted responses to questions from Board of Finance staff.

Mr. Aragon asked what steps were taken to publicize the RFP to ensure that the bid process was open and transparent.

Mr. Shoesmith responded that the current lease expires on January 11, 2012, and the RFP was published in late July with an August 25 deadline. He said five companies looked at the RFP and registered with the procurement manager, who is a State Fair employee. He stated that three ultimately decided not to submit a bid. During that period, questions were asked and answered before the deadline. He said the RFP was advertised according to state law and was also posted on the State Fair’s website.

Mr. Shoesmith said the State Fair Commission met in late July and was given the RFP and then again on September 1; and each time, they discussed the RFP and staff answered questions. At those same meetings, resolutions confirmed that the Fair Manager would conduct the day-to-day operations, and as required by the procurement code, the central purchasing office issued the RFP. Up until that time, he said the State Fair Commission was not meeting because it did not have a quorum as some commissioners had resigned and had not been replaced; hence, the short timeframe.

Mr. Mourning stated that both meetings had a public comment period, and at the September meeting the chairman held a public forum.

Mr. Aragon asked if there was accommodation made for comments from the surrounding
neighborhoods, and Mr. Shoesmith said there were neighborhood people at the July meeting, but at the September meeting the staff gave direct notice to the neighborhood leadership in addition to the published notice.

Mr. Mourning stressed that there has been a lot of involvement and open dialogue with the neighborhoods long before he came on board in March of this year, and there have been studies conducted by the neighborhoods. He stated that he has attended neighborhood meetings in order to establish dialogue with the residents.

Governor Martinez asked if the law required that an RFP be issued, and Mr. Mourning responded that there is nothing in statute requiring that. He said the State Fair could have issued a sole source lease, as they did before in December, and gotten approval from the Board of Finance. He said the decision was made to have a more open process and issue an RFP instead.

Responding to the Governor, Mr. Mourning said he spoke with Sen. Tim Keller on several occasions, and Sen. Keller indicated that it was the Legislature’s wish that an RFP process be followed if something was going to be done with the lease.

Governor Martinez asked if any general fund monies are allocated to EXPO for State Fair expenses, and Mr. Mourning responded that this is an enterprise fund, so there are no general fund appropriations to EXPO New Mexico.

Governor Martinez said any funding received to maintain the State Fair will have to come from the entity selected to lease the property at EXPO New Mexico, and Mr. Mourning said that was correct – this is their anchor tenant, without which it would be virtually impossible to sustain this.

Governor Martinez asked Mr. Mourning what the financial situation was when he first took over as interim manager, and Mr. Mourning responded that he walked into a $2.4 million operational deficit. He said the bulk of the money owed -- $1.9 million -- was to the General Services Department. Since then, steps have been taken with the assistance of CFO Agnes Maldonado to get out of this deficit, which will be accomplished through annual lease payments of $2 million. He said the timing was also a concern, since the lease was on the verge of expiring when he took over.

Governor Martinez said her concern is that the state get the absolute best deal possible, understanding that there are problems that need to be fixed permanently and in very clear language in the lease proposal.

Governor Martinez asked if she understood correctly that the previous lease covered 93 acres, and the current lease would be for 44 acres, and Mr. Mourning said that was correct. The previous lease included the so-called barn quadrant on the northeast corner of the property, which arguably would be the most valuable corner as to EXPO, and he fought hard to maintain control of the property under the proposed lease. Further, there are environmental concerns and
it makes sense that the state be responsible for maintaining the property and following safe practices.

Governor Martinez commented that the previous lease was "a constant moving target" because it was amended on a number of occasions and the language was not always clear. She asked if the Downs is willing to agree that any amendment whatsoever in the future would have to be approved by the Board of Finance.

Mr. Shoesmith responded that the proposed lease includes this stipulation.

Governor Martinez asked what the proposed lease payments will be, and Mr. Mourning responded that the best and final offer was $2 million for the first three years, then $2.5 million after that with participation rents meeting certain financial hurdles. He said that, after negotiation, the lease payment after the third year would be $2.75 million along with a $300,000 marketing clause that would promote not only mutual events, but also the State Fair plus State Fair horse racing meets. If they cannot agree in January when they first meet on these marketing strategies, anything that is not agreed on would be paid in cash after 30 days of invoice at the end of the year, so it has a cash value and is not a rent offset.

Governor Martinez asked if there will be a late payment penalty imposed, and Mr. Shoesmith responded that they have agreed on a late fee concept, and are in discussions about what percentage (1% to 5%) would be appropriate. He said that would be a one-time late fee charge. If the payment is not made, the Fair would give notice of default, and if payment is not made at the end of the 30-day cure period, a rolling fee of prime plus a percentage point would be added on – so there would be two fees.

Governor Martinez commented that enforcement was a problem with the last lease, and the state actually brought suit at one point during the 25-year period. She asked if the proposed contract includes that the Downs would have to cover the state’s legal fees in its efforts to collect.

Mr. Shoesmith responded that this has been a topic of discussion over the past few days, and he believes the Downs will now agree that, if the State Fair has to pursue collections, the State Fair will be entitled to attorney’s fees, and if the State Fair loses that action, the Downs will not be entitled to attorney’s fees. He said a clause has been added requiring mediation followed by arbitration in order to expedite the procedure.

Governor Martinez noted that this RFP was issued with a 32-day window before the deadline, while statute only requires 10 days.

Governor Martinez asked what has changed in terms of the proposed lease, management, language in the lease, etc., so that New Mexicans can be assured that the state doesn’t find itself back in the same hole it was in before.

Mr. Mourning responded that the proposal has provisions in the lease that will hold the
Downs more accountable than before; also, the new proposal asks for a significant capital investment into the State Fair property, which will serve as an incentive for the two entities to work together in a kind of partnership. He said the Downs is also under new management, and they have been very responsive to all of his requests.

Governor Martinez asked if Paul Blanchard will have any role in the day-to-day operations of the facility or have any ability to control the operations going on at the Downs.

Mr. Mourning responded that he has never seen Paul Blanchard or met him personally, and has never seen him at the fairgrounds or anywhere on the property.

Pat Rogers stated that he was attorney for Bill Windham, president of the Downs. He said Mr. Windham replaced the former presidents, and he could assure the members of the Board that Mr. Windham and Mr. Turner are the majority owners of the Downs. He said the former presidents and the person who was operating the Downs previously will have no operational responsibilities and will not be an officer.

Governor Martinez asked if Mr. Windham understands “where the previous operator and manager have gotten us and why there is such hesitation based on all of the loose language and contracts and amendments... that can’t be repeated?” Mr. Rogers responded that the new lease is 70-80 pages and addresses all of the significant and insignificant matters that caused so much trouble before. He said Mr. Windham is very aware of his responsibilities and of the problems that existed previously.

Responding to Governor Martinez about payment of an old debt identified by the LFC, Mr. Mourning said the $215,000 debt has been paid in full.

Governor Martinez said she understood a $400,000 lease payment is also due, and Mr. Mourning said that payment is due in January 2012 and will be made in cash.

Mr. Mourning also stated that part of the Downs’ property renovation will involve separately metering all utilities on the 44 acres, including in the grandstands and casino.

Ms. Clarke said there was mention of the improvements transferring to the state at the end of the 25 years, and asked if there is a form of deed that will be included in the lease. Mr. Mourning responded affirmatively.

Lt. Governor Sanchez asked what provisions there are to address any possibility that the Downs, the anchor tenant upon which the State Fair will rely heavily over the next 25 years, will declare bankruptcy or otherwise be unable to continue operations. He asked how much “skin in the game” the Downs has.

Mr. Rogers responded that the investment of Messrs. Windham and Turner, and the Downs, will exceed $20 million immediately – this will be the cost of the casino and additional improvements. Beyond that, they have a large investment in gaming and racing licenses, and
they have agreed to sponsor a minimum of 12 special events at Tingley plus 4 additional horse events in every calendar year. He said the new lease creates a much more symbiotic relationship in that it requires the success of both entities.

Lt. Governor Sanchez asked if there are any provisions in the lease that give the State of New Mexico a secured position.

Mr. Rogers responded that another provision requires a personal guarantee from anyone owning more than 10%.

Mr. Aragon said one of his concerns is that, while the lease talks about no abatements of rent, there is a provision that allows the Downs to deduct any losses up to $500,000 from racing against their participation, so in fact there is an abatement, although it is not referred to as such. He said that, although there has to be a minimum, there seems to be a conflict in the language as it relates to the prior years’ live racing net loss that may be deducted. He commented that this is misleading.

Mr. Aragon said another issue, with respect to Paul Blanchard, has to do with the tenant’s right to assign or sublet to a third party, and the fact that the State Fair Commission will not do anything unreasonable to withhold the right of the Downs to sublet to a third party. Since this wouldn’t constitute an amendment to the contract and therefore wouldn’t go to the Board of Finance, he recommended that the Board of Finance give final approval to any sublet to avoid the possibility of “unsavory people” being allowed to sublet from the Downs management.

Mr. Aragon said the default provision is ambiguous as to when management would send a 10-day notice, because it doesn’t require management to say that a 10-day notice “shall be sent at the tenth day.” If they are still in default after 30 days, he said there should be some provision in the contract addressing termination – otherwise, the resolution and mediation process could theoretically go on in perpetuity.

Mr. Aragon noted language essentially saying that the Downs “hopes to start” building improvements within 180 days of the proposal “and that if you can’t figure it out, you’ll talk some more.”

Mr. Aragon stated that, under the insurance provision relating to alcohol use, there is only $5 million worth of dram shop liability being requested, which is far too low given the judgments that have exceeded that.

Governor Martinez said “the devil’s in the details,” and stressed the need for strong enforcement “in every section of that lease and that the state at the end of the day gets the best deal.” She said the success of the State Fair is important to her, and she does not want to see any of the soft language that has existed in the past “that allowed shenanigans to take place.” She said she wants all details to be as transparent as possible.
Lt. Governor Sanchez concurred. He said there should be a mechanism in place that ensures the state’s security in this endeavor.

[Governor Martinez excused herself from the proceedings.]

Mr. Gasparich said he understood the number of slot machines would double from 300 to 600, and would be taxed. He stated that some slot machines in Native American casinos are not taxed, and asked if that would be the case here as well.

Mr. Mourning responded that the percentages are higher on the racetrack casino as far as the amount paid to the state. He said the state is paid 26%, and he understood it to be considerably less with Indian gaming.

Mr. Gasparich said that, with Indian gaming, class 3 machines pay taxes but class 2 machines do not. He wondered if there was any chance that this casino would have such a loophole.

Mr. Mourning responded that he understood the casino was only entitled to class 3.

Mr. Rogers stated that the Downs currently only has type 3 gaming, and there are no present plans for type 2, which would have to be approved by the Racing Commission and State Gaming Control Board.

**GROSS RECEIPTS TAX INCREMENT (Cont’d)**

Presenter: Bill Slettom, Downtown Development Coordinator

28. **City of Las Cruces – Presentation on Tax Increment Development District**

Mr. Slettom who appeared with Assistant City Manager Mark Winson, made a presentation with the following highlights:

--- The downtown revitalization plan is moving “splendidly” and is on target time-wise.

--- This is the state’s first and only TIDD thus far for downtown revitalization.

--- They are preparing to award the bid for the next two blocks to reopen Main Street. Construction start date is expected in January, with a 120-day construction period. Vehicles will be able to drive this road for the first time in 40 years.

Mr. Slettom presented updated TIDD revenues since March 2009:

--- Total revenue from all sources (City of Las Cruces GRT, City of Las Cruces 2010 property tax, Doña Ana County GRT, Doña Ana County 2010 property tax, and State of NM) is $3,495,300.
With $1.3 million spent on the North Main Street project, TIDD fund balance as of October 2011 is $2,195,300.

Presenter: James Dobbie, Senior Vice President

29. Quorum at ABQ Uptown/Hunt Partners – Presentation on Tax Increment Development District

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

-- Hunt Uptown II and Target Corporation are currently in the development review process with the City of Albuquerque.

-- If the project is approved, Target will not apply to use any TIDD funds to build public infrastructure. Any public infrastructure required pursuant to Target’s construction will be privately funded by Target.

-- At the current time, no deviation from the approved TIDD plan has occurred.

-- Workforce Housing: permits and related construction work has not commenced; therefore, no contributions have been made.

-- Uptown Progress Team is collecting signatures to create a Business Improvement District.

-- Through September 2011, the TIDD has received $534,939 in TIDD revenues, which were generated through GRT paid by Trader Joe’s.

Presenter: Darin Sand, Goodman Realty Group

30. Winrock Town Center – Presentation on Tax Increment Development District

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

-- The Winrock project is moving forward, and construction is expected to begin in the next couple of months.

-- There is one major lease, with a 16-screen IMAX theater (Regal Theater), which is the first IMAX in the state of New Mexico. The theater is expected to open in the fall of 2012.

-- Winrock is also in final negotiations with three restaurants, two of them national chain restaurants that are not located in New Mexico. They will open in the fall of 2012 to coincide with the theater opening.
Winrock Inn will be demolished soon, which will bring vitality to this area and draw prospective tenants.

**STAFF ITEMS**

Presenter: Stephanie Schardin Clarke, Director

31. **Approval of Directing Staff to Issue Request for Proposals for Custody Bank Services**

32. **Approval of Directing Staff to Issue Request for Proposals for Fiscal Agent Banking Services**

33. **Approval of Directing Staff to Issue Request for Proposals for Financial Advisor Services**

Mr. Aragon said he has spoken with some individuals in the Administration, and now feels it appropriate to ask to table Items 31, 32 and 33.

Mr. Aragon so moved. Mr. Gasparich seconded the motion, which passed 4-0 by voice vote.

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

Ms. Clarke reported that the fiscal agent/custody bank fees received over the last month are in the Board’s materials. She said the custody bank fees are on average as expected, and the fiscal agent fees have come in a little lower than average for the first few months of the year, which is good news given the shortfall in that appropriation. She said the bills are a little lower, and STO has now begun to increase the balance that they hold at the fiscal agent, so that is increasing soft dollar earnings.

35. **Joint Powers Agreement**

Ms. Clarke read the Joint Powers Agreement into the record.
ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at approximately 3:35 p.m.

Susana Martinez, President

Date

John Gasparich, Secretary

Date