MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING
Santa Fe, New Mexico
November 19, 2013

A Regular Meeting of the New Mexico State Board of Finance was called to order on this date at 9:05 a.m. in the Governor’s Cabinet Room, Fourth Floor, State Capitol Building, Santa Fe, New Mexico.

1. **ROLL CALL: QUORUM PRESENT**

**Members Present:**
The Hon. Susana Martinez, President [present 9:45 – 11:05 a.m.]
The Hon. James B. Lewis, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Del Archuleta, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

**Members Excused:**
The Hon. John Sanchez, Lt. Governor

**Staff Present:**
Dr. Tomas E. Clifford, Secretary of Finance & Administration
Ms. Stephanie Schardin Clarke, Director, State Board of Finance
Mr. Jeff Primm, Deputy Director, State Board of Finance

**Legal Counsel Present:**
Mr. Luis Carrasco, Attorney General’s Office
Ms. Sally Malavé, Attorney General’s Office

**Others Present:**
[See sign-in sheets.]

2. **APPROVAL OF AGENDA**

   **ANNOUNCEMENT: NEXT REGULAR MEETING TUESDAY, DECEMBER 17, 2013**

Mr. Archuleta moved for approval of the agenda, as published. Mr. Kormanik seconded the motion, which passed 5-0 by voice vote.
3. **APPROVAL OF MINUTES:** October 15, 2013 (Regular Meeting)

Treasurer Lewis moved approval of the minutes of the October 15, 2013, meeting, as submitted. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

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

4. **Emergency Balances – November 2013**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,905,150.00</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$118,400.00</td>
</tr>
</tbody>
</table>

Ms. Clarke reported these balances.

**EMERGENCY REQUEST**
Presenters: Raymond Z. Ortiz, Chief Judge; Stephen T. Pacheco, Court Executive Officer; Kathleen Vigil, Court Financial Manager

5. **First Judicial District Court – Requests the Conversion of an Emergency Loan to a Grant or Extension of Repayment Schedule ($87,000)**

Judge Vigil requested Board approval to convert an emergency loan of $87,000, approved by the Board on June 21, 2012 with a repayment date of June 30, 2013, into a grant. The original $87,000 loan was used to purchase court security equipment on an emergency basis so they could move into the new courthouse in Santa Fe. The equipment included X-ray machines, conveyer belts, metal detectors, handheld wands and “panic alarms.” He said all of the funds were exhausted for the equipment, and the total balance was just over $90,000. He said the additional $3,000 was found in court general funds.

Judge Ortiz said the funds the court receives from the legislature are for salaries and benefits, contract services, copiers and other equipment, and there is no money left over. He said Board staff asked why the court could not use any reversion money to repay the loan. Judge Ortiz explained that DFA is holding funds due to errors over time from the old SHARE accounting system, so there is no money being reverted back to the state and, consequently, no money from this source to repay the loan.

Judge Ortiz stated that the court asked the legislature for funds to repay the loan, but was unsuccessful.

Responding to Mr. Archuleta, Judge Ortiz said the expenditure had been anticipated, and was expected to come out of the furniture, fixtures and equipment budget, but the court was unsuccessful in obtaining any of the funding two legislative sessions ago. Although the Governor ultimately authorized the expenditure of funds to cover furniture, the security equipment is not considered as furniture.

Mr. Archuleta moved to convert the loan into a grant. Mr. Kormanik seconded the motion, which passed 5-0 by voice vote.
Mr. Carrasco stated that SBOF policy 11-03 states that the State Board of Finance may make an oral determination at its meeting that extraordinary circumstances exist to justify converting the loan to a grant. He asked the Board to include language to that effect in the motion for approval.

Mr. Aragon moved to reconsider the motion. Mr. Archuleta seconded the motion, which passed 5-0 by voice vote.

[Note: The Board took action later in the meeting on this item. See page 19.]

SEVERANCE TAX NOTES
Presenters: David Buchholtz, Bond Counsel, Brownstein Hyatt Farber Schreck; David Paul, Financial Advisor, Fiscal Strategies Group

6. Approval of Severance Tax Note Resolution, Series 2013S-D

7. Approval of Supplemental Severance Tax Note Resolution, Series 2013S-E

Mr. Buchholtz explained that these approvals start the process on the issuance of short-term notes at the end of this year. These are notes that would be sold overnight to the State Treasurer. The purpose would be to provide continued payments to capital projects that were approved in last year’s legislative session, previous sessions, and to provide funds for Public School Capital Outlay projects.

Mr. Buchholtz said the senior resolution would fund a variety of projects, to be identified at the next Board meeting, that were not funded in the major round of funding in the spring and summer for a variety of reasons. The estimated amount of the senior note is about $38 million, and about $110 million for the Public School Capital Outlay program. These estimates are based on current snapshots of monies available in the Severance Tax Bonding Fund and statutory tests.

Mr. Buchholtz said staff and counsel are testing, in this round, a computerized questionnaire system to ascertain the readiness of projects to be funded. They are in the midst of reviewing those results and gathering data in regard to assembling the projects list. The resolutions before the Board are almost identical to resolutions the Board has seen for these purposes previously.

Mr. Paul said the interest rate will be finalized on December 15, and the current estimated interest rate is .24 percent. The interest cost on the senior note is $253.41 and for the supplemental note is $495.44.

Ms. Clarke said the sizing of the Series 2013S-D note is at a maximum of $38 million, which is the total universe of senior projects authorized by the legislature but not yet issued. The project readiness is ongoing, so it will not be known how many will be ready for funding until the December meeting.

Ms. Clarke said they set the sizing of the supplemental note, Series 2013S-E, very high, at $74 million, making assumptions that tax collections could come in higher than expected and a lot of senior projects might not be ready, which would make the additional money from the $38 million available for the supplemental note.
Mr. Aragon moved for approval of item 6. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

Mr. Aragon moved for approval of item 7. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

**BONDS**
Presenter: David Paul, Financial Advisor, Fiscal Strategies Group
8. Debt Affordability Study Presentation

Mr. Paul presented this report, with the following highlights:

-- Over the last five years, $2.5 billion of capital funding was derived from the core State bonding programs, which include General Obligation Bonds, Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Revenue Bonds.

-- New Mexico's general obligation bond ratings are Aaa and AA+ from Moody's and Standard & Poor's, respectively, each with a stable outlook.

-- New Mexico's strong bond ratings reflect (i) historically strong general fund reserves, (ii) solid revenue performance, even during periods of national economic weakness, and (iii) rapid debt retirement and moderate, through increasing, debt levels.

-- State law mandates short debt maturities and rapid debt amortization, which are both strong, structural debt features that contribute to strong rating and low interest rates.

-- Debt ratios are stable, though high compared to peer states relative to both population and personal income, reflecting both the large size of the state relative to population, as well as per capital income.

-- General fund reserve levels have been critical to the New Mexico bond ratings. Keeping aggregate reserves above five percent and toward 10 percent are key rating metrics for both bond rating agencies.

-- Severance taxes have tended to provide a counter-cyclical benefit to the state revenue mix.

-- The funding levels of PERA and ERB continues to constitute a significant fiscal challenge to the state, as bond raters increasingly look at unfunded pension liabilities as part of the overall state debt burden.

-- The state projects the capacity to issue $2.97 billion of bonds for capital funding over the next five years. However, $1.36 billion would be from cash flow notes that will not constitute new long-term debt.

-- General obligation bonding capacity of $895.0 million over the next decade reflects the current consensus between the Governor and the Legislature regarding the objective of keeping the aggregate general obligation mill levy stable.
Longstanding state policy has allocated total long-term severance tax bonding capacity over a ten-year horizon. With $1.97 billion of long-term capacity, and $2.44 billion of short-term “sponge” capacity, less than half of the Severance Tax Bonding Program comprises the issuance of long-term debt.

The projected $2.86 billion of long-term bonding capacity over the next decade is fully funded by dedicated revenue streams that do not flow into the state General Fund, and accordingly do not place stress on state finances or represent competing uses of funds.

The projected long-term bonding does not place stress on the state debt levels, as measured by key rating metrics of debt as a percentage of personal income and debt per capital. For the foreseeable future, the state indebtedness as measured by these key credit ratios will remain high relative to peer states, but should trend downward.

Mr. Kormanik noted that there were substantial changes to PERA and ERB in the last legislative session, including the COLA and multipliers. He asked how those changes are reflected in this report, since the comments seem to be outdated.

Mr. Paul responded that they could include the description of what has occurred with the pension fund changes in the document. With respect to the data used, it reflects data from Moody’s, which has not made any revisions since 2011. That point, in terms of changes that are made, as well as the difficulty of the charge that Moody’s has set for itself, is quite apparent in New Mexico in particular. First of all, there is a real time lag with respect to the numbers that they generate; but there are also a lot of significant uncertainties about what the numbers should be in New Mexico specifically for ERB. He said ERB has stipulated that their statewide obligation is very small because the number of employees that are statewide is very small and the rest of the obligations are local school district obligations. He said an argument could be that school district funding in New Mexico comes from the state, so that ultimately the costs are statewide costs.

[Governor Martinez joined the proceedings.]

Responding to Mr. Archuleta, Mr. Paul said reserves historically have been at 5 percent. Up until 2008, there was a statistically valid view that the core revenues of the state were countercyclical to each other, i.e., corporate income taxes, sales taxes and severance taxes tended to offset each other, but people now generally do not hold that view. Where the state saw a year where everything went down by 5 to 8 percent, that could give one a sense of how much downside vulnerability the state has. He said there is also the time issue, because the state goes into a special session to approve a budget in January for a fiscal year that starts in July and doesn’t end until 18 months later, so there is quite a vulnerability simply based on time, with greater difficulty in adjusting spending than some states have.

Mr. Paul noted that, between 2006 and 2010, the state’s general fund reserves as a percent of recurring revenues declined from approximately 17 percent to 5 percent, so 10 percent is obviously a safer number than 5 percent.

Treasurer Lewis asked how one reconciles this given that GASB is looking at the accounting side rather than the solvency side, and given Moody’s discount rate of about 5.5 percent and Fitch’s at 7 percent, and the fact that there is no rate yet from Standard and Poor’s.
Mr. Paul responded that the rating agencies may be consumed with GASB and actuarial assumptions, but they are really consumed with legal liability for having “missed the ball” either because they had financial incentive to do that, as some would suggest, or else because they were asleep at the switch, as others would suggest. He said no one would suggest that they did a good job leading up to 2008 and they are currently “terrified” of understating risk.

Mr. Paul also stated that federal exposure is the other fundamental credit weakness, although Moody’s has removed that concern as federal budget deficits, in their view, have alleviated somewhat. He commented that states that are dependent recipients of significant federal money would continue to be at risk. Although the Moody’s view is that things are more sanguine, he said he wasn’t sure that the people in Washington would necessarily agree.

Mr. Aragon asked if a decrease in the price of oil in the southeastern quarter of New Mexico is contemplated in the report in terms of the state’s ability to service its bonds.

Mr. Paul responded that the rate that becomes salient with respect to the state’s coverage is the rate in 2023. For many years, the Board has structured its issuance of available debt capacity by looking at current debt capacity, issuing 10 percent of it, and leaving the next 90 percent of it for the next ten years. Because it is a 10-year projection, the driver is projected revenue to the Severance Tax Bonding Fund in Year 10. In the report, the price of oil in Year 10 is $80 as compared to $94 in Year 1; so there is a significant degree of conservatism in the way this program is structured with respect to not using current pricing as the basis for determining compliance with the 2x coverage for the senior bonds. He noted that, first, there is conservatism in the projected pricing and production levels based upon Year 10; second, statutory restrictions say that debt service can only be in an amount that is 50 percent of the prior year’s receipts; and third, the state is husbanding the resource and actually only issuing 10 percent of its capacity in any given year. If oil prices start trending down, the model is recalibrated to reflect the downward trend.

Mr. Aragon commented that he heard recently that there might be a move afoot to ban hydraulic fracturing in the 2015 legislative session, which would significantly curtail oil production in the southeast corridor. In addition, Mora County has banned oil drilling altogether.

Mr. Paul responded that this is one of the reasons why the structure of this program is important. At least four times a year, revenue estimates are revised with respect to rate, price and production. As that is contemplated, that will affect the production levels projected over the next 10 years.

Mr. Aragon commented that his concern is to the political discussions that are taking place without taking into consideration the long-term implications of what these “extremist views” might do to the state.

Mr. Paul added that there are significant potential changes that will impact this program coming from other directions based on the price of natural gas, the trending of natural gas and the decline in energy use that is already happening domestically. He said natural gas liquids, which are priced off of oil prices, have sustained New Mexico’s price levels.

Mr. Paul stated that Fiscal Strategies Group can certainly model out, and do it frequently, what different legislative changes would do to the Severance Tax Bonding Program.
Mr. Aragon stated that, while there are positive changes to the unfunded liability of the state’s pension funds, he is assuming there is no reference in the report to the NM Supreme Court challenge by the FRB. If the appellants prevail, PERA will likely follow suit and undo what the legislature did in the last session.

Mr. Paul said there was no reference to this issue in the report.

9. WITHDRAWN

PRIVATE ACTIVITY BONDS

Presenter: Jeff Primm, Deputy Director

10. Private Activity Bond Cap Allocation Expiration Date

Mr. Primm stated that, pursuant to the Private Activity Bond Act, 6-20-2A NMSA, the Board of Finance is required to set a date no later than December 26 of each calendar year by which unexpired allocations must be used by an issuing authority. Staff recommended approval of an expiration date of December 26, 2013.

Mr. Aragon moved staff’s recommendation. Mr. Archuleta seconded the motion, which passed 6-0 by voice vote.

Presenters: Jay J. Czar, Executive Director; Gina Hickman, Deputy Director of Finance & Administration

11. New Mexico Mortgage Finance Authority Report of Projected Needs for Private Activity Bond Volume Cap

Mr. Czar stated that the New Mexico Mortgage Finance Authority (MFA), has submitted a report to the Board on its projected need for 2014, 2015 and 2016 private activity bond (PAB) cap as well as its need for 2013 carryforward.

Mr. Czar presented a summary of MFA’s report, which stated that, based on its projected needs, MFA’s request is for $75 million of 2014 PAB cap for multifamily housing. For its first-time homebuyer single family housing activities, MFA is not requesting 2014 cap, but it is requesting $150 million in 2013 carryforward for that purpose. MFA’s existing surplus of unused cap combined with projected strengthening of single family program activities over the next few years makes carryforward cap allocations, which are good for three years, more attractive and useful for its single family programs than “current-year” 2014 cap.

Ms. Hickman summarized the MFA’s activity over the last 12 months with the single-family program. She said there has been a 25 percent increase in activity.

Mr. Kormanik asked how MFA addresses the unemployment issue in terms of the need for people in the program to relocate, perhaps to another state, in order to get a job.

Mr. Czar responded that, at the federal level, there is a lot of discussion about the shift that is occurring among the “millennials” and other young people who are not necessarily looking at home ownership but are looking at having the flexibility to relocate to other cities or areas of the country.
when there is a need or desire to do so. He said MFA has spoken to the federal delegation about increasing the low-income housing tax credit, and the Bipartisan Commission supports that. He added that MFA was only able to allocate tax credit for four projects, and there would have been a lot more development had MFA been able to use those tax credits.

Mr. Brasher said the Singing Arrow neighborhood in Albuquerque has a number of rental houses that are almost in bankruptcy, while across the street someone is getting government funds to build a multifamily housing project, which is a concern to the neighborhood. He said people feel this puts a further burden on the property owners.

Mr. Czar responded that he is familiar with this neighborhood. What MFA generally sees happen in neighborhoods like this is that it helps the surrounding area, with landlords making improvements and then increasing property values. He said MFA has seen this time and time again.

Presenters: Stanton L. Riggs, Chaves County Manager; Duane Brown, Modrall Sperling, Bond Counsel; Dewey Vaughn, President, AGPower; Paul Cassidy, Financial Adviser, RBC Capital Markets
12. Chavez County – Requests 2013 Private Activity Bond Cap for AGPower FP 1, LLC ($18,500,000)

Mr. Riggs said Chaves County is requesting approval for Private Activity Bond (PAB) cap for AGPower FP 1, LLC. While Chaves County is very proud of its dairy industry, it has created a significant problem in terms of trying to find a clean and environmentally friendly way to deal with the disposal of the manure byproduct.

Mr. Vaughn stated that AGPower is offering a sustainable solution to an environmental issue, and the result would be a usable commodity. He said AGPower would combine several dairies into one grouping, create a sewer management process, and then put a septic system into the dairies. The manure would then be piped through the system to a centralized location among the dairies. He stated that they would be able to reduce odor in the air by 80-90 percent. The anaerobic digestive process turns the manure into biomethane that is then sold to gas distributors in a CNG-concentrated natural gas form, which is a transportation commodity.

Mr. Archuleta commented that he supports this project, adding that there has been research going on for several years at New Mexico State University regarding the application of anaerobic digestion. He disclosed that he is an engineer who does wastewater treatment.

Mr. Archuleta said his concern is that, in the world of wastewater treatment, anaerobic digestion involves two sets of bacteria, acid formers and methane formers, that have to do all of the breakdown; and in places where they do operate these digesters, there is a lot of trouble with them. He said the problem is that if the biology of the process becomes upset with too many acid formers, the pH drops and kills all the methane formers, and it may take 60 to 120 days to get back in business. He said this occurs in a controlled environment with a single vessel with level 4 operators “really babying the thing.” He stated that the anaerobic digesters in AGPower’s drawings depict lagoons with some methane capture at the top of the vessel. He wondered if AGPower has done the due diligence in visiting places where this is being done and whether they have a performance record showing that there won’t be any interruption in the volume of gas being projected in the pro forma. He asked if AGPower has also done
the due diligence to determine how predictable the theoretical amount of volume is on a day-in, day-out basis without interruption. He asked if AGPower has a trained level 4 operator in wastewater treatment.

Mr. Vaughn responded that the team that put this together was part of an engineering team that came from Los Alamos National Laboratories, where they specifically ran anaerobic digestion and were chemical engineers. Part of the team teaches at Santa Fe Community College, which provides a lot of the input.

Mr. Vaughn said they identify any constraints “right off the bat” and address them, because otherwise it is not worth the investment. He said their design starts the acidic process at the digestion of the actual septic system behind each dairy before it gets into the piping system, and they apply heat to the process right there. He said the lagoon design affords them the most sustainability and flexibility. He said this extends the retention time and allows the process to “catch up” as it travels through the pipe and through a series of lift stations before reaching its destination.

Mr. Archuleta commented that there are days “when bacteria get an attitude” and it can take a long time to recover from that. He said, “All I’m suggesting to you is that if you are counting on full production 365 days a year—depending on that biological process, and I’m talking about state-of-the-art in the world, people that do this every day—that in your pro forma is there another facility like it, where they can show that what they predicted per volume by per unit of BOD or however you’re going to measure it in terms of their waste, if they have run similar numbers and they can demonstrate that they can predictably put out the product that you’re going to put out in a reliable way 365 days a year. The question is, will you be interrupted for a few days, weeks or months and then find out down the road that maybe you should put in a little bit more contingency? …. I’m just suggesting a little bit of due diligence there.”

Responding to Dr. Clifford, Mr. Cassidy said RBC will be the placement agent on the debt, and they have talked to a number of investors preliminarily. What they expect to happen after they get through this process of getting the volume cap is to complete the security documents to share with investors. At the end of that process, they expect the investors will require a feasibility study, since these will be large institutional investors who would normally require such. In addition, there will be a performance and payment bond attached to the project so that the process works and cash flow is already being produced before the bond is released. He said the finance plan includes about 21 percent equity if they get the flow, the brown gas sales, RIN (Renewable Identification Number) and California low carbon credits, but it may need to be adjusted downward where Mr. Vaughn will have to raise more equity.

[Governor Martinez left the meeting.]

Responding to Mr. Kormanik, Mr. Cassidy said revenues in the first two years of operation are projected at $6.5-$6.8 million annually, of which $2.4 million will come from natural gas sales, $2.2 million from RIN sales, and $750,000 in California tax credits. New Mexico tax credits for cleaning up the manure will level out at $1.1 million a year, which the legislature approved for projects similar to this several years ago. He said operating expenses are expected at $6 million, dropping every year, and debt service coverage at 1.69x if this is financed at 80 percent.
Mr. Archuleta commented that methane gas is not the same quality as natural gas in terms of BTU output, and asked what measures the company has taken with respect to the overall value of their product. He asked if there is a committed price in the pro forma.

Mr. Vaughn responded that they have a committed price from British Petroleum on the commodities side for 12 years that may fluctuate a little bit. He said they are working to get an amendment on the RIN value in the RIN market, and BP wants to purchase 100 percent of that. He said their gas is pipeline quality, has not been an issue and will not be an issue going forward.

Mr. Brown noted that these are not being treated as industrial revenue bonds under the New Mexico statutes; rather, these are pollution control revenue bonds, which are very similar, but seemed more appropriate in this case. Under the federal tax code, they are asking for exempt facility volume cap for solid waste disposal facilities, another “little wrinkle” under the tax code that the State Board of Finance does not often see.

Mr. Brown added that they are keenly aware that the time is short for 2013 volume cap, and may well be back asking for a carryforward with respect to 2014 volume cap.

Mr. Archuleta asked what the status is with their groundwater discharge permit. Mr. Vaughn responded that they are in technical review with NMED, and have gone past the 30-45 days of public comment. He noted that they are located in an area where the discharge permits for every one of the dairies already exist, and so NMED is highly motivated. He said the usual reason for not getting a discharge permit has to do with public comment, and people living within 1/3 mile of the property are the primary source. He said there are no houses within a 1/3-mile area, and half of the six landowners within the 1/3-mile area are dairy farmers and understand the process.

Mr. Archuleta asked if there was any negative public comment and Mr. Vaughn responded that there were “zero comments.”

Mr. Brasher asked if there are any other approvals required before they can move forward, and Mr. Vaughn responded that there were none.

Responding to Mr. Aragon, Mr. Vaughn said they anticipate the first project to employ 12-15 people on a full-time basis. These people will be sent to Santa Fe Community College. AGPower has already discussed a curriculum with the college so that everyone who goes through the program is educated on the process before coming to AGPower. He said the firm has identified three other projects identical to this for New Mexico, so there will be a total of 45-50 permanent jobs that will pay higher-than-normal wages. In addition, they expect to employ 35-40 people in short-term construction jobs. Mr. Vaughn said the model for the first project would be replicated over and over again, using the same bond process, the goal being to create a “gold standard” for the bond process and encourage more investors to invest money in the state.

Mr. Aragon commented that he thought this was a “great use of private activity bonds.”

Mr. Archuleta said he would feel more comfortable if AGPower had the NMED permit in hand. Mr. Brown responded that they would not be able to close the deal until the financing was in place and the permit issued, although AGPower could go out and raise private equity in the meantime.
Mr. Archuleta asked how delaying approval today would affect the project, and Mr. Vaughn responded that it would create a snowball effect by adding 60 to 90 days to the process, and they would be upside down financially for the first year because they would not meet production goals. He added that NMED is planning to issue a preliminary permit within the next 30 days.

Mr. Primm said staff recommends the Board consider, as a discretionary contingency, that any approval of this request be contingent upon Director’s receipt of New Mexico Environment Department’s final permit for the project and certification by the County Manager that the project has received all other required pre-construction permitting.

Mr. Archuleta asked if this restriction limits AGPower in terms of marketing, and Mr. Cassidy responded that he did not think so. He said, “I think it’s fair.” Mr. Vaughn indicated that he was fine with the contingency as well. He said they would have the necessary permit by the time they close in approximately 60 days.

Mr. Archuleta moved for approval, with staff’s contingency. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

13. WITHDRAWN.

PROPERTY DISPOSITION
Presenters: Kenny Salazar, Chairman; Ross Garcia, Jr., Vice Chairman, East Rio Arriba Soil & Water Conservation District

14. East Rio Arriba Soil & Water Conservation District – Requests Approval of Lease of Real Property with Farm Service Agency ($59,670 per year)

Mr. Salazar requested approval of a 10-year, 4-month lease with Farm Service Agency (FSA). The complex would house Natural Resource Conservation Services (NERCS) and FSA to provide a one-stop Service Center for agricultural producers. The rental rate of $19.50 per year for 3,060 rental square feet is $59,670 per year. FSA conducted a competitive bid process to select the East Rio Arriba Soil & Water Conservation District (ERASWCD). The ERASWCD was awarded a $1.15 million New Mexico Finance Authority (NMFA) loan in 2012 to purchase a parcel of land and pay for architectural services being used to draw up the new complex.

Mr. Salazar stated that the existing facility is not ADA-compliant and the roof is leaking water.

Mr. Archuleta commented that the rental rate seems rather high, and asked if they can afford it.

Mr. Garcia responded that their total net cost would be around $45,000 a year, and they have demonstrated that they can afford it.

Responding to Mr. Kormanik, Mr. Garcia said the NMFA approval of the loan was not contingent upon the lease. He said they could have afforded the complete payment without the loan, but it would have required them to cut some programs.
Mr. Brasher asked what the funding source is for ERASWCD, and Mr. Salazar responded that they receive a 1 mill levy, which amounts to $286,000 per year. In addition, they have grants totaling $50,000 from BLM and State Forestry.

Mr. Aragon asked how reliable the grants are. Mr. Salazar responded that they have been very reliable. He said he represents the state in Washington, “so more grants are headed our way.” He said the BLM and State Forestry grants have been ongoing for three years.

Responding to Dr. Clifford, Mr. Garcia said there is an old state statute that says that the mill levy continues, “as long as you have debt.” He said they have a small debt against the mill levy for equipment. When they received the loan from NMFA, they approved $160,000 to repay the purchase cost of the land and design fee.

Mr. Archuleta asked how likely it is that the federal government will re-up on this, and Mr. Salazar responded that FSA and NERCS both rely on the Farm Bill. He commented that there has been a Farm Bill for 70 years “and I don’t see that ending any day soon. As long as there is a Farm Bill, there are going to be Farm Service Centers, and they have chosen the Española Valley... because of the activity we have and the location.”

Ms. Clarke requested that any approval of this item be contingent upon (1) Director’s receipt of a lease amendment stipulating that lease amendments be made in writing and approved by the State Board of Finance; and (2) evidence of District approval of this lease amendment.

Mr. Aragon moved for approval, with the contingencies. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

**HIGHER EDUCATION DEPARTMENT**

Presenters: Henry Mignardot, Former Capitol Projects Coordinator, Higher Education Department; David Harris, Executive Vice President; Lisa Marbury, Interim Executive Director for Institutional Support Services; Bob Doran, University Architect; Terry Loring, Chairman, Mathematics & Statistics; Stephen Cabaniss, Chair, Department of Chemistry and Chemical Biology

15. **University of New Mexico – Requests Approval of Biology Building Completion – Castetter Hall ($3,850,000)**

Mr. Mignardot stated that the University of New Mexico (UNM) requests approval of Biology Building Completion (Castetter Hall) to accommodate growth in research and teaching in the Biology Department. This project would complete the remaining 11,000 square feet of shell space of the Phase II addition. The first floor would finish out four laboratories, seven offices and other support areas. The third floor would finish out three laboratories with associated support spaces and nine offices. The second floor was completed in Phase II. Demolition of the old Biology Annex, which UNM reports is an old and inefficient building, is included. UNM reports that the department generates approximately $13 million per year in research grant funding, the highest at UNM, and has seen large growth in students and faculty. The Biology Department Master Plan requires the creation of more new research laboratories, offices and support. Biology majors increased approximately 275 percent in the last 10
years; in addition, the graduate program in Biology has over 120 students, all engaged in research activities.

Mr. Mignardot said the 2012 FTE count was 22,471. He stated that the project completion date is scheduled for September 2014, at a cost of $254 per square foot.

Responding to Mr. Archuleta, Mr. Harris said the $528,000 in Admin/Surveys/Testing includes material testing, electrical performance testing, commissioning, any miscellaneous administrative costs, and project taxes. He said project gross receipts taxes are $238,000.

Mr. Archuleta suggested changes be made in the future to HED Form 4 so that gross receipts taxes and other overhead costs are identified.

Mr. Archuleta moved for approval. Mr. Kormanik seconded the motion, which passed 5-0 by voice vote.

16. University of New Mexico – Requests Approval of Science and Mathematics Learning Center Phase II ($5,000,000)

Mr. Mignardot requested approval of Science and Mathematics Learning Center Phase II. The proposed addition would contain 12,450 square feet of space on four floors, including the basement and mechanical penthouse. The facility would provide two state-of-the-art teaching science laboratories for organic chemistry. The project bid documents would include additive alternates to include build-out of eleven offices for faculty in the Departments of Mathematics and Statistics, and build-out of a state-of-the-art teaching science laboratory for Earth and Planetary Sciences. Associated support offices and storage would be included. The Science and Mathematics Learning Center Addition would provide interactive teaching laboratories and Mathematics offices aimed at engaging freshmen in courses taught by faculty in the Departments of Chemistry, Earth and Planetary Sciences, and Mathematics, which would further foster interactions between freshmen and science faculty and the development of interdisciplinary programs. These divisions of the College of Arts and Sciences consistently make up the highest enrollments for freshmen and underclassman-course study at UNM. UNM reports that the addition would help carry out its academic mission by providing much-needed science laboratories, targeted at serving undergraduate students.

Mr. Mignardot said the project is scheduled for completion in May 2015. Estimated construction cost per square foot is $280.

Responding to Mr. Archuleta, Mr. Harris said the $761,400 for Admin/Surveys/Testing (Form 4) includes $310,000 in gross receipts tax and $225,000 for the administrative fee.

Mr. Aragon moved for approval. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

17. University of New Mexico, Gallup Campus – Requests Approval of Career Education Building HVAC Replacement ($1,200,000)
Mr. Mignardot stated that UNM Gallup Campus requests approval of the Career Education HVAC Replacement. The project would replace the existing heating, cooling and ventilation systems, which UNM reports are beyond their useful service life. Equipment including boilers, pumps, fans and air conditioning units would be replaced with new high efficiency models. Digital controls for occupant comfort would replace the existing pneumatic controls. Inefficient lighting and ceilings would be replaced with new energy efficient fixtures. The fire protection system would be expanded to cover areas in the original building not currently protected. The current heating, cooling, ventilation and lighting systems are original to the building's 1978 construction. A new digital control system would improve occupant comfort and improve the teaching and learning environment. The new ventilation systems would improve air distribution, which is critical to controlling odor from cosmetology spaces. It is anticipated that this project would result in energy savings of approximately $7,000 per year.

Mr. Mignardot said the UNM Gallup Campus fall enrollment was 1,820 students. He said the project is scheduled for completion in October 2014.

Mr. Archuleta observed that the Admin/Surveys/Testing line item in Form 4 was blank, and asked why.

Ms. Marbury commented that someone from the fiscal plant completed the form rather than the Office of Capital Projects. She said UNM staff would work internally to be more consistent in completing the paperwork for projects.

Mr. Aragon moved for approval. Mr. Archuleta seconded the motion, which passed 5-0 by voice vote.

18. University of New Mexico, Valencia Campus – Requests Approval of Sustainability and Infrastructure Project ($700,000)

Mr. Mignardot requested approval of the Sustainability and Infrastructure Project. The project would convert the Building Automation Systems (BAS) in all of the buildings on the Valencia Campus from Internet Network Enhanced Technology to Automatic Logic Controls, and would restructure the campus chilled water distribution and ice storage system to improve capacity, functionality and redundancy. UNM reports that the Valencia Campus BAS are obsolete, no longer supported and incompatible with either of the two standard GAS systems installed at the main campus. The current controls do not permit Internet connectivity and remote control adjustment of the mechanical and HVAC systems. Installing new controllers, sensors and actuators would provide standardization and the capability for Internet control, troubleshooting, and commissioning of the mechanical and HVAC systems in these buildings.

Mr. Archuleta moved for approval. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

Presenters: Henry Mignardot, Former Capitol Projects Coordinator, Higher Education Department: Dr. Joseph Shepard, President; Sherri Bays, Vice President of Business Affairs; Stan Peña, Director of Facilities and Maintenance
19. Western New Mexico University – Requests Approval of Light Hall Renovation
   Phase II ($2,150,000)

Mr. Mignardot stated that Western New Mexico University (WNMU) is requesting approval of Phase II Renovation of Light Hall, located on the south side of the campus. Constructed in 1927, Light Hall is one of WNMU’s original structures and is the new home for the College of Business. The structure is 15,267 square feet. The building is currently utilized for instructional classrooms with a 4,670 square foot auditorium that is used as a lecture hall and which currently seats 256 students. The remainder of the facility houses faculty offices and instructional classroom space. WNMU reports that the project is supported by WNMU’s mission and strategic plan to improve the quality of the student experience. The building would continue to deteriorate, would be under-utilized and be non-compliant with code requirements if it is not renovated.

Responding to Mr. Aragon, Ms. Bays said enrollment has stabilized, and they now have the highest enrollment in the history of the institution. There are currently 2,500 FTE with 6 percent average growth over the past five years.

Mr. Aragon moved for approval. Mr. Kormanik seconded the motion, which passed 5-0 by voice vote.

Presenters: Henry Mignardot, Former Capitol Projects Coordinator, Higher Education Department; Colonel David W. West, Chief of Staff; Colonel Judy Scharmer, Chief Financial Officer; Kent Taylor, Director of Facilities

20. New Mexico Military Institute – Requests Approval of Bates Hall Renovation
   Project ($12,000,000)

Mr. Mignardot stated that New Mexico Military Institute (NMMI) is requesting approval of the Bates Hall Renovation project. In October 2013, the Board approved NMMI’s issuance of system revenue bonds to fund this project. The project includes the design, development, remediation, demolition and renovation of the existing Bates Dining Hall. The renovation would include the Cade bookstore, clothing store, additional laundry space and address all electrical and mechanical elements. The existing Bates Dining Hall Building was constructed in 1918. There have been several major renovations: in 1955, NMMI remodeled refrigeration areas; in 1963, an addition to the dining and kitchen areas was completed; in 1984, NMMI remodeled the basement mechanical areas; in 2002, fire alarm additions were made; and in 2006, NMMI completed domestic hot water upgrades. The existing building has various deficiencies with regard to life safety and accessibility. The ground floor does not have any fire sprinkler protection. There are significant accessibility issues throughout, to include no passenger elevator to the basement area and limited exits. The renovation would address all code issues and bring the serviceable level up to code and current needs.

Mr. Archuleta moved for approval. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

GENERAL SERVICES DEPARTMENT

Presenter: Pamela Nicosin, Acting Deputy Director

Ms. Nicosin reviewed the CBRF Financial Status Report, which reflected a cash balance as of September 1, 2013 of $14,299,447 and uncommitted cash balance as of September 30, 2013 of $1,103,443. There were no emergency declarations in the month of September. She noted that there were no cash distributions in September.

**GROSS RECEIPTS TAX INCREMENT**

Presenters: Andrew Jacobson, Deputy Secretary, Department of Finance and Administration, State Member on TIDD Boards; Ryan Gleason, Tax Policy Director, Taxation and Revenue Department; Patricia Herrera, Manager, Tax Information and Policy Office, Taxation and Revenue Department; Michael Daly, Mesa del Sol Project Representative; David Robbins, CFO and ASD Director, Taxation and Revenue Department

23. **Mesa del Sol – Presentation on Tax Increment Development District**

Mr. Daly made a presentation on the status of the project.

Mr. Kormanik commented that one of the problems that was suggested in terms of the TIDD’s format was that it basically picked winners and losers. In this case a tax break was given to a new development, and the numbers show that evidently the tax break has paid in more than it has paid out. He wondered if the tax incentive for this project would have worked for other projects in the city, for instance, in the downtown or in Old Town.

Mr. Daly responded that tax increment financing is useful in financing infrastructure needs, and has its place in economic development in existing places within downtown, but trying to create the nexus that a tax increment has created the jobs is difficult to determine. He said he feels tax increment financing is important in urban infill projects as well as in greenfield projects. He said he could definitely say that, without the tax increment financing for Mesa del Sol, they would not have invested the $80 million because they would not have had the ability to pay for the infrastructure given today’s economics and land prices.

Presenter: Andrew Hume, AICP, Senior Planner, Interim Downtown Coordinator

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

Mr. Hume made a presentation on the status of the project.

Responding to Mr. Aragon on when the redirection of the traffic is to be completed, Mr. Hume estimated four years or so, with the design taking about a year and the construction at least two to three years. He explained that it would have to be done in phases to avoid having to shut down entire sections of downtown.

Mr. Brasher asked if there is a timeline on the drawdown of the TIDD funds, and Mr. Hume responded that the sunset for the TIDD is December 2018. He said this is a major concern for the City of Las Cruces and will be a top priority going forward.
Presenter: Darin Sand, Vice President of Development, Goodman Realty Group

25. Winrock Town Center — Presentation on Tax Increment Development District

Mr. Sand made a presentation on the status of the project.

Responding to Mr. Brasher on why there had been no real distributions from this TIDD, Mr. Gleason stated that the TIDD in this case was formed by the City of Albuquerque and Bernalillo County, which, in consultation with Taxation and Revenue, would establish a baseline by looking at the prior year. In this case, TIDDS were formed in 2008 based on 2007 as the prior base year, but to the best of everybody’s collective knowledge, neither the City of Albuquerque nor Bernalillo County formally adopted the baseline. He said it appears that Taxation and Revenue, as it tried to establish the baseline, would look to all of the businesses that were reporting in the TIDD in 2008 in order to establish the baseline based on the 2007 numbers. The problem became that almost no one reported in 2008. He stated that all of the calculating was done automatically with software programmed to do that, which it did, and apparently no one went back to look at the baseline. It turns out it was somewhere around $250 and should have been around $64 million on one TIDD and $20 million on the other TIDD.

Mr. Gleason said the companies continued to not report into the TIDD for several years; so for as long as no one reported into the TIDD, it was being measured against the baseline that nobody had reported into, so there was very little incremental distribution, i.e., 86 cents, $800, and other very small amounts.

Mr. Gleason stated that, in approximately September 2012, companies began reporting into the TIDD using that location code, and at least a couple of companies amended their returns going back to the beginning of the TIDD. When that happened, their new reporting into the TIDD were still being reported against the artificially low baseline, so there were massive incremental differences and massive distributions. When the City of Albuquerque’s economist was getting ready to do his revenue projections for the next year, he noticed a huge spike in the distribution to the TIDD and thus a huge reduction to the amount the city would receive, and contacted the Taxation and Revenue Department.

Mr. Gleason said that, a week after he began his job at Taxation and Revenue, he was handed the paperwork reflecting the widely varying distribution numbers. He stated that it has taken staff some time to investigate what the problem was, and they all hoped there was a reasonable explanation for the distribution pattern. Through their investigations, they determined that there was no good answer.

Mr. Gleason stated that the City of Albuquerque and Bernalillo County have since worked with the Taxation and Revenue Department to establish a baseline, which has been roughly calculated at $64 million for one TIDD and $20 million for the other. Starting in December, the receipts coming into the TIDD will be measured against that baseline and distributions will be calculated accordingly.

Mr. Gleason said the challenge is that the Taxation and Revenue Department does not have all of the taxpayers reporting correctly into the TIDD. There are cases of over-reporting and under-reporting, depending on the taxpayer. He stated that his staff would meet later this week with the developer to finalize the plan for how to reach out to the taxpayers and get them to report correctly.

Mr. Gleason said there is still the challenge of going back to the period between 2008 and 2013 and determining how much of the distribution that went to the TIDD should have gone to the state, city and county. That is a more complicated problem to unwind because they have to work with the same
taxpayers and, in some cases, taxpayers that may have come into the TIDD and left the TIDD, and reconstruct month by month what their reports should have been and measure that against what the baseline should have been.

Mr. Buchholtz stated that he is counsel to the Winrock TIDD and wanted to clarify that, to the extent there have been distributions, they have gone to the TIDD and not the developer. In addition, the TIDD has made little expenditure on those distributions, and has agreed to freeze further distributions until this problem is resolved.

Mr. Kormanik asked how much these programs have cost the state general fund, and Mr. Gleason responded that the state’s share was about $3.5 million for the Winrock TIDD and about $5.5 million for the Mesa del Sol TIDD. As he understands it, the state has not given up an increment on the Las Cruces TIDD.

Responding to Mr. Brasher on the ability of the Quorum TIDD to complete the $22 million of public infrastructure, Mr. Sand responded that the deadline is June 2015 and they do not believe they can meet that. He said this is scheduled for discussion on the TIDD Board agenda next month.

Ms. Clarke introduced Andrew Jacobson, DFA Deputy Secretary and the state’s representative on the TIDD Boards.

STATE TREASURER’S OFFICE
Presenter: Linda T. Roseborough, Chief Investment Officer; Treasurer James B. Lewis

Ms. Roseborough presented the Monthly Investment Report for the month ending September 30, 2013. She said there were no compliance issues to report.

Responding to Mr. Aragon, Treasurer Lewis said the State Treasurer has no direct relationship with local county treasurers or finance officers, but that Ms. Roseborough is serving on an advisory subcommittee that was appointed to look into concerns surrounding investments made by the Bernalillo County Treasurer.

Ms. Clarke added that DFA has a representative serving on the advisory subcommittee that will work on crafting a new investment policy. She said the existing investment policy does stipulate that the objective of the fund is to manage for safety, liquidity and return, in that order. Based on newspaper reports she has read, it would appear that none of the tenets has been followed.

Ms. Clarke also stated that DFA is looking into options for statutory proposals for the upcoming legislative session. She added that it would be a challenge for the advisory subcommittee to come up with any kind of investment policy that the County Treasurer will agree with the County Board of Finance on. She noted that the Bernalillo County Board of Finance has an advise and consent role, but it is not clear to her that, in exercising that role, it needs the County Treasurer’s agreement to that policy. She believes the County Board of Finance can approve the policy with or without the County Treasurer’s agreement, and what the Treasurer chooses to do is up to the Treasurer.

27. Quarterly Investment Reports for Quarter-Ended September 30, 2013

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Ms. Roseborough presented the Quarterly Investment Reports for the quarter ended September 30, 2013.

**STAFF ITEMS**

Presenter: Stephanie Schardin Clarke, Director

28. Approval of Third Amendment to Disclosure Counsel Contract Extending Agreement for One Year

Ms. Clarke said staff has prepared an amendment to the Disclosure Counsel contract with the firm of Brownstein Hyatt Farber Schreck. The amendment extends the agreement for a third of four maximum years.

Mr. Archuleta moved for approval. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

29. Approval of Agreement for Custody Bank Services and Recommendation to State Purchasing Agent for Final Award of Agreement with J.P. Morgan

Ms. Clarke stated that staff previously this year issued an RFP for Custody Bank Services, and two months ago came to the Board after evaluating the responses. The Board approved a tentative award to JP Morgan, which allowed staff to begin negotiating a contract. She said agreement has been reached on the contract, which has been distributed to Board members. Because the State Purchasing Agent has not approved the final award, the content of the proposal and the final contract are confidential and would need to be addressed in executive session.

There was no further discussion, nor did the Board elect to enter executive session for further discussion.

Mr. Aragon moved for approval. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

**ACTION ON ITEM 5 ON AGENDA**

5. First Judicial District Court – Requests the Conversion of an Emergency Loan to a Grant or Extension of Repayment Schedule ($87,000)

Mr. Carrasco noted that the Board moved to reconsider this item but did not vote to approve the request and to include language finding that extraordinary circumstances exist to justify converting the loan into a grant.

Ms. Clarke stated that the policy reads that the Board would be heavily weighting its decision on any one of the criteria listed. She said one of those is the type of public entity requesting conversion of a loan to a grant, the priority given to requests from general funded state agencies.
Mr. Archuleta moved that the Board approve converting the loan into a grant, with the finding cited by Ms. Clarke. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

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

Ms. Clarke reported that billings were in line with what the Board has received since it has been under the new account structure with the state, which was in February.

31. **Joint Powers Agreements**

Ms. Clarke reported that there were no Joint Powers Agreements in the month of September.

**ADJOURNMENT**

Its business completed, the State Board of Finance adjourned the meeting at 2:25 p.m.

[Signature]

Susana Martinez, President

12-17-13

Date

[Signature]

Michael Brasher, Secretary