MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
February 21, 2012

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 [arriving 9:20 a.m.]
The Hon. John Sanchez, Lt. Governor
The Hon. James B. Lewis, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Michael Brasher, Public Member
Mr. John Gasparich, Public Member, Secretary
Mr. Sam Spencer, Public Member

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.]
2. **APPROVAL OF AGENDA**  
**NEXT REGULAR MEETING MARCH 20, 2012**

Ms. Clarke stated that she was erroneously listed on the Agenda as presenter for Item 20 (Luna County PAB request), and that the presenters would be Kelly Kuenstler, Luna County Manager; Florent Lescombs, Vice President; Brandon Young, CFO; and Mark Valenzuela, George K. Baum & Company.

Mr. Brasher moved for approval of the Agenda, as amended. Mr. Spencer seconded the motion, which passed 6-0 by voice vote. [Governor Martinez was not present for the vote.]

3. **APPROVAL OF MINUTES:** January 18, 2012 (Regular Meeting)

Mr. Gasparich moved approval of the January 18, 2012 Minutes, as submitted. Mr. Aragon seconded the motion, which passed 6-0 by voice vote. [Governor Martinez was not present for the vote.]

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

4. **Monthly Investment Reports for Month-ended December 31, 2011**

5. **Quarterly Investment Reports for Quarter-ended December 31, 2011**

Ms. Roseborough presented the Quarterly Investment Review, with the following highlights:

-- Fourth quarter of 2011 was marked by relative calm compared to the previous quarters of disarray.

-- Despite the good news out of Wall Street, Main Street continues to suffer – unemployment remains relatively high, home prices remain depressed and a general malaise seems to be gripping the country.

-- With regard to monetary policy, there have been several significant events out of the Federal Reserve:

  • An unprecedented amount of liquidity has flooded the system, driving rates lower and sending liquidity costs nearly to zero. The Fed has joined with European Central Banks to ensure that dollar-denominated liquidity is available to them in the event of a credit squeeze.

  • There is an unusual frankness in the way the Fed has communicated its intentions toward the markets, which includes the Fed’s intent to keep rates low for the foreseeable future. This has done a lot to calm the markets.
- The Fed has embarked on two rounds of quantitative easing and is openly discussing the intent to move into a third round.

- The Fed has allowed the movement of significant amounts of securities onto its balance sheet, now moving through “Operation Twist,” and has recently said it will selectively purchase mortgage securities, which could help the housing market.

-- Issues in the domestic fixed-income securities market and in the global economy have led to lower interest rates, and STO earnings have dropped as a result.

-- Because STO focuses on safety, liquidity and yield, in that order, it will have to refine its strategy to more closely match these goals. STO is trying to enhance returns in the following procedural areas:

- In connection with LFC and Cash Management, STO has significantly refined cash projection abilities over the past year. Its projection model is fairly robust at predicting cash balances, and they have recently rolled the model out toward a 6-month horizon and have the goal of predicting at least 12 months with some accuracy.

- STO also needs to put the model to the acid test by booking slightly longer investment maturities with better timing on anticipated draws.

- STO has also significantly changed the percentage of assets in the liquidity portfolio by moving them to the general fund core portfolio.

- In the BPIPs, STO is now laddering investments along a curve and on a slightly longer basis, with future issuances being matched against future liquidity needs.

-- STO has also moved aggressively to address “accounting slippage” in several areas:

- General fund negative balances: STO is working with agencies to ensure that the cash positions of the agencies are not negative and that they are drawing down reimbursement balances from the federal government on a timely basis. This ensures that the general fund is not inadvertently “lending” balances to agencies, which decreases the potential for interest earnings.

- STO has moved to identify discrepancies between capital funds in the SHARE system and BPIP balances. When those accounts are “out of balance,” it results in another unintentional loan by the general fund, decreasing earnings. In 2011, STO identified approximately $50 million of balances that needed to be adjusted and addressed that issue. STO estimates approximately $20 million has yet to be released and is working diligently to bring those accounts into line.

- Decrease reliance on overnight investments.
-- STO is taking advantage of dislocations in the market, picking up securities that would otherwise not be available.

-- STO is developing a credit process in order to invest a portion of the portfolios in the corporate space. It has developed a framework for monitoring and approving credit borrowers and will explore using credit products in accordance with the Investment Policy.

-- STO will continue to take advantage of the relative dislocation of the NM Municipal Bond marketplace, investing in local communities and school districts where they offer a yield pickup over alternative investments. There is no sacrifice to returns, however.

-- The aggressive purchase of TLGP fixed and floating rate securities in 2008 and 2009 continues to serve STO well. The federal guarantee on those securities will expire at the end of 2012.

-- STO saw less reliance on its CD program in the last quarter as regulators seem focused on decreasing the relative size of bank balance sheets. Several banks approached STO at the end of 2011 seeking to reduce their CD balances, which STO accommodated.

Mr. Wright reviewed portfolio characteristics:

-- **General fund –liquidity and core accounts** – STO has maintained a laddered portfolio of investments with a bias toward longer duration securities. Credit quality in the funds remains high, as STO primarily holds federally-based TLGP securities and US Treasury and agency securities. STO has purchased municipal bonds where they make sense relative to alternative investments with a bias toward supporting the New Mexico marketplace.

-- **Bond proceeds accounts** – bond proceeds accounts have been invested toward expected draws for capital spending as well as expectations of debt service payments to bondholders. Investment earnings on the tax-exempt bond proceeds accounts are reinvested in those accounts and spent on capital projects. Earnings on the taxable bond proceeds are deposited in the Severance Tax Bonding Fund.

-- **LGIP** – Significant changes in the LGIP occurred with the revised S&P rating guidelines that became effective in November. The LGIP is also constrained by a weighted average maturity restriction and a maximum maturity restriction. Earnings are paid out on a pro rata basis to pool participants.

-- **Severance Tax Bonding Fund** – The Severance Tax Bonding Fund (STBF) is invested by STO and held separately from other fund balances. During the quarter, STO invested STBF balances in the LGIP. Earnings on the STBF are retained within the fund and used to pay debt service on outstanding severance tax bonds or transferred semiannually to the Severance Tax Permanent Fund at SIC.

Mr. Wright discussed investment strategy for the next quarter:
-- Given the publicly stated stability articulated by the Fed, STO will continued to pursue a laddered strategy for the portfolios with a bias toward building the ladder using longer duration securities.

-- General fund – liquidity and core accounts – Continue to maintain a laddered portfolio with regard to core investments. Continue to evaluate and manage the amount necessary to be held in cash and cash-like investments. Continue to work with Cash Management to refine expectations regarding spending to allow for minimization of liquidity balances. Continue to purchase New Mexico municipal securities as appropriate; provide support for bank CD investments; work with STO and DFA to manage and document capital spending from the BPIP balances to repay general fund. Explore credit products where appropriate. Fully invest core balances.

-- Bond proceeds accounts – Invest these accounts on a slightly longer duration basis, maintaining appropriate cash balances in LGIP for future spending. Identify large withdrawals for capital spending and monitor planned issuance in order to invest bond proceeds on a slightly longer basis for a portion of the funds. Explore credit products for possible inclusion.

-- LGIP – Diminish reliance on the demand deposit balances at local banks. Continue to identify opportunities to use floating rate notes in order to capitalize on fund dislocation. Continue to support opportunities to grow the LGIP.

-- Severance Tax Bonding Fund – Continue to utilize the LGIP to invest STBF funds, ensuring that LGIP management and staff are aware of significant swings that may occur in cash balances. Proactively invest if and where alternative investments may be appropriate, subject to semiannual maturity restrictions and transfers.

This concluded the report.

[Governor Martinez joined the proceedings.]

Mr. Gasparich asked if he understood correctly that the total of negative balances in state agencies is about $20 million.

Mr. Wright responded that the negative balances change over time. When agencies draw down federal funds, at times there is a lag between when monies are paid out and federal reimbursement comes in, and essentially the general fund is lending the difference to the agency in question until it is reimbursed. He said the Cash Manager has been working diligently to ensure that agencies request reimbursement from the federal government as quickly as possible in order to narrow the window and help agencies understand how their cash position is affecting the general fund’s ability to maximize earnings.

Responding to Mr. Aragon, Mr. Wright explained that when agencies draw down, for example, capital spending and work through DFA and the State Board of Finance to spend money on projects, there is a time lag between when the warrant is funded and when the bond
proceeds are reduced. He said STO is working to eliminate the lag and increase cooperation between the two agencies. He added that there is a difference between the SHARE system and the system used by STO.

Mr. Aragon asked Mr. Wright how much was lost in investment earnings during the last fiscal year as a result of this “accounting slippage,” and Mr. Wright responded that he would have to calculate that and report back.

Ms. Roseborough explained that STO uses the QED system internally and also posts the transactions manually, and having access to the SHARE system would allow STO to get more timely information.

Treasurer Lewis clarified that the State of New Mexico moved to SHARE in June 2006. When he took over as State Treasurer in January 2007, his office was instructed to disband their legacy system, TRACS, and then it took STO two and a half years to make the switch and reconcile the books because SHARE was not doing what it was purported to do. He said STO previously used to certify to all of the agencies the amount of money they had in their accounts, but no longer has the ability to do that, and now STO is working with the Board of Finance to set up a system for bond proceeds.

Treasurer Lewis stated that the LFC is concerned about the time lag issue, and STO’s Cash Manager is working with DFA and going around to all of the state agencies that have these shortfalls to discuss the need to have these amounts reimbursed in a timely fashion. He stated that STO will be conducting an audit in cooperation with DFA and the LFC to work on reconciling these discrepancies.

Responding to Mr. Aragon, Treasurer Lewis said STO is working with DFA to ascertain whether STO will be able to continue with a centralized accounting system or will need a new system. He said the Legislature appropriated $200,000 for a contractor to come in and work with DFA and STO.

Responding to Mr. Aragon, Ms. Roseborough said STO uses the Bloomberg trading platform. She said they go out to bid on secondary market securities.

Treasurer Lewis added that the trading platform system, which was instituted by interim State Treasurer Doug Brown, creates an audit trail of all transactions.

Mr. Wright further clarified that, while they are required to have three bids, they typically seek five bids. He said the trading platform is real time.

Mr. Aragon said he had asked this question because the market is doing very well right now and it would be a good time to take advantage of that.

Treasurer Lewis responded that STO follows the Prudent Investor Rule and by statute cannot invest in alternatives, stocks, hedge funds, etc.
On the SHARE discussion, Dr. Clifford said two different issues are being put together. The issue raised by Mr. Gasparich had to do with agency draws, and that is not a SHARE issue – it is just a matter of the agencies staying on top of their draws from the federal government. Separate from that are problems with cash reconciliation, something that has been on the Treasurer’s audit for several years. He said there are coordination issues on the Treasurer’s side and DFA’s side, and both agencies share responsibility in this area, and it will probably need to be part of an upgrade to the SHARE system. He stated that no plan is in place at this point, but both agencies are working on it.

Responding to Governor Martinez, Mr. Wright said the $20 million has accumulated over the past several years and has to do with the transition from the previous system into SHARE. He explained that while all warrants were formerly paid by STO, the documentation behind the warrants was then moved out of STO. He said now it is a matter of going to the agencies to ensure that the capital monies were actually spent as intended, and reconciling SHARE, STO and the agencies’ books.

Governor Martinez said her concern is that SHARE has been in place for a long time, but problems continue, and asked what the plan is to fix the problem.

Mr. Wright responded that, as Dr. Clifford has discussed, STO isn’t integrated into SHARE, He said it is difficult for portfolio managers because they have to try to guess what spending is going to be. He stated that they have been working with Ms. Clarke to make sure they agree on what is the system of record and whether all of the additional paperwork is necessary, because STO is going to agencies long after the vendor has been paid and the project built, and in many cases that documentation has already been provided to DFA and the Board of Finance.

Ms. Clarke added that STO requires the second set of paperwork in order to process it through their QED system; when a draw is processed by BOF, the bond proceeds are reduced in SHARE, but if the agency doesn’t comply, then QED’s balance isn’t reduced. She said SHARE is the book of record and is correct, but interest earnings are based on QED, so her concern is that when QED balances don’t match SHARE, each month when interest earnings are distributed, they may slightly off each time. Of particular concern to her is that, on tax-exempt bonds, the Board of Finance routinely does arbitrage rebate calculations that depend on having an accurate accounting of investment earnings.

Governor Martinez asked if this problem can be solved by the end of the 2012 calendar year.

Dr. Clifford responded that he did not think so. He explained that the DFA Controller has been interviewing contractors to find out what the scope of this will be. As the initial procurement of SHARE is now nearing the end of its life and the system needs a significant upgrade, the Controller feels this will likely have to be part of the upgrade.

Dr. Clifford said he could have the DFA Controller provide a report at the next Board meeting, if that would be helpful.
Dr. Clifford noted that the volume and the dollar amount of the unreconciled transactions is in the billions of dollars.

Lt. Governor Sanchez asked Ms. Roseborough if New Mexico should look to other states to see what software systems they are using, and Ms. Roseborough responded that it would be very prudent to research what else is available, as there are systems that can integrate treasury work systems and accounting systems.

6. WITHDRAWN.

BONDS

Presenters: David Buchholtz and Jill K. Sweeney, Disclosure Counsel, Brownstein Hyatt Farber Schreck, LLP

7. Approval of State Board of Finance Disclosure Policies and Procedures

Mr. Buchholtz stated that the disclosure procedures are designed to: 1) ensure the completeness and accuracy of the federal securities disclosure made by the Board and Board’s staff in the exercise of their official duties, and to ensure compliance with all applicable federal and state securities laws in connection with issuance and disclosure undertakings relating to outstanding and proposed general obligation and severance tax bonds and Annual Financial Information Filings; and 2) promote best practices regarding disclosures disseminated to investors and the municipal securities markets by the Board.

Mr. Buchholtz stated that the policy itself comes from a combination of disclosure counsel’s internal procedures and a form of disclosure procedures that was looked upon favorably by the SEC in other states that have had issues around disclosure.

Mr. Buchholtz noted that disclosure counsel reviewed these policies and procedures with the Board last year in connection with the issuance of general obligation bonds and severance tax bonds.

Responding to Dr. Clifford, Mr. Buchholtz stated that there is no federal regulation or law requiring the Board to have policies with regard to the issuance of tax-exempt municipal debt, but there is a fair amount of case law and SEC releases that say it is good practice to have policies and to document them. He added that these procedures would also apply should the Board ever decide to issue taxable obligations to the public.

Mr. Buchholtz also clarified that the manner in which the Board addresses the Educational Retirement Board, Public Employees Retirement Association and the Retiree Health Care Authority are addressed in this document, and disclosure counsel works with these agencies regularly.
Dr. Clifford asked who lays out the guidelines for reporting pension obligations, and Mr. Buchholtz responded that, while there are no formal guidelines, disclosure counsel looks to GASB, rating agency expectations, and work being done by the National Association of Bond Lawyers (NABL) in regard to “model disclosure” and formulates the document from all of this information.

Dr. Clifford said he understands GASB is contemplating stricter requirements with regard to the state’s disclosure of their pension obligation, and asked where that stands.

Ms. Sweeney responded that they are still working on these requirements, and GASB is trying very hard to reach consensus on exactly what needs to be disclosed in the pension area; and to date they have not yet been able to do that. She said counsel tries to be as forthcoming as possible in disclosing the information it feels should be disclosed and looking to other states to see what their general disclosure areas are. She said they keep a very close eye on the discussion to make sure they are being thorough.

Mr. Buchholtz stated that, the last time counsel looked at an official statement, they reviewed the disclosures made by Texas, Illinois, Minnesota, New Jersey and one other state to determine the manner in which they were making disclosures in regard to pensions. He said they also reviewed the GASB and NABL proposals with the financial advisor and members of PERA, ERB and Retiree Health Care Authority and put that all together to formulate the disclosure.

Dr. Clifford asked Ms. Clarke if the Board ever received any feedback from the rating agencies on the package of information sent to them on the state’s pension obligations, and Ms. Clarke responded that the Board received a letter of acknowledgment but no other information. Dr. Clifford asked Ms. Clarke if she feels they are still working on their policy in terms of how they want these obligations reported and calculated, and Ms. Clarke responded yes.

Mr. Buchholtz stressed that New Mexico was not the only state targeted by the rating agencies in this information survey.

Mr. Aragon asked if this document adequately addresses the issues raised by counsel in the San Diego litigation, and Mr. Buchholtz responded yes.

Mr. Aragon said the unfunded liabilities of the state’s public retirement funds make this a rather cloudy issue and potentially create exposure for the Board. He commented that, in his opinion, neither the ERB or PERA have a firm grasp of the true unfunded liability of the state and how that might impact the ability to do due diligence. He noted that Attachment A to the policy and procedures document states that contributors to Official Statements and AFIFs include the ERB, PERA and the Retiree Health Care Authority.

Mr. Buchholtz responded by suggesting that, when there is next a severance tax bonding offering, the Board ask representatives of the three agencies to appear before the Board and speak to the areas of the disclosure document where they share responsibility.
Responding to a request of Dr. Clifford, Mr. Buchholtz said he would prepare a report for presentation at the next bond issue on disclosure counsel’s process, as discussed, and to also address how the bond market perceives the unfunded liability problem and its effect on the state’s credit worthiness.

**Lt. Governor Sanchez moved for approval. Mr. Brasher seconded the motion, which passed 6-1 by voice vote, with Mr. Aragon voting against the motion.**

Presenter: Stephanie Schardin Clarke, Director

8. **Approval of State Board of Finance Debt Policies**

Ms. Clarke stated that before the Board today is the adoption of updated debt policies. The Board’s current debt policies were put into place in March 2007 and were developed primarily by the Board’s Financial Advisor, David Paul, and Board staff. The purpose of the policies is to provide for effective management of the Board’s debt programs in a manner consistent with applicable laws, industry standards and the maintenance of the highest credit ratings. These debt policies do not attempt to cover the Board’s approval authority with regard to debt issued by other entities.

Ms. Clarke summarized each of the 16 debt policies contained in the draft before the Board today:

- Debt Policy 1 states that the Board will attempt to achieve and maintain the highest possible credit rating for the State’s bonds. This means continuing the Board’s practice of full and timely disclosure and coordination with rating agencies.
- Debt Policy 2 documents the State’s capital planning processes.
- Debt Policy 3 commits the Board to continue its practices of conducting an annual debt affordability study to assess the affordability of projected debt issuance. The annual Debt Affordability Study has traditionally been presented to the Board each October.
- Debt Policy 4 establishes that the Board’s long-term bonds have a maximum maturity of 10 years.
- Debt Policy 5 sets forth typical structuring terms of the Board’s bonds, such as the typical maturity of the bonds and the practice of structuring level debt service amortization.
- Debt Policy 6 states that the Board will estimate severance tax bonding capacity so as to provide for level long-term capacity over a 10-year horizon. One substantive addition to the version of the policies before the Board today is the statement that in the event capacity is not fully utilized in one year, the Board may determine it is in the best interest of the State to add unused capacity to the following fiscal year.
- Debt Policy 7 limits any issuance of variable rate debt to 20 percent of the total par amount of bonds outstanding. Currently the Board has no variable rate debt.
- Debt Policy 8 provides requirements that must be met for the Board to consider use of derivative products such as interest rate swaps, caps, and floors. Currently the Board is not utilizing any derivative products.
• Debt Policy 9 discusses the use of short-term severance tax notes and general fund appropriations to cash finance capital projects.

• Debt Policy 10 is new to this year’s revision to the debt policies. It states that the Board may, from time to time, receive presentations from various State entities to remain informed of items affecting the Board’s bonding programs and potential disclosure concerns.

• Debt Policy 11 relates to refunding bonds, and states that the Board seeks to achieve a net present value savings of at least 3 percent on any refunding.

• Debt Policy 12 states that the Board may consider use of credit enhancement to reduce its cost of debt. In general, the Board currently does not find credit enhancements to be useful in decreasing its costs of borrowing.

• Debt Policy 13 states that the Board issues its bonds through competitive sale; the Board may, however, consider use of negotiated sale if the Board finds it to be in the best interest of the State.

• Debt Policy 14 describes the manner in which bond proceeds are invested in accordance with the State Treasurer’s Investment Policy to preserve capital, provide liquidity, and earn a return.

• Debt Policy 15 commits the Board to fully comply with federal arbitrage rebate regulations.

• Debt Policy 16 commits the Board to full and complete financial disclosure, cooperation with rating agencies and investors, and other entities.

Dr. Clifford suggested that a policy be added addressing some of the tradeoffs associated with these policies; for example, in order to meet its goal of having the highest possible credit rating, the Board limits its general obligation bonds to a 10-year term and doesn’t issue variable rate debt or derivatives. He said he assumed the Financial Advisor would come forward if there were an advantage to a variable rate issuance, but it would be a good idea to have something in the policy that would direct the Financial Advisor to keep the Board apprised of that.

With respect to Debt Policy 2, regarding capital planning, Dr. Clifford said it doesn’t make reference to the legislation appropriation process, which seems less than forthcoming.

Dr. Clifford commented that the change redlined in Debt Policy 6 was the subject of discussion during the legislative session. He said some legislative advisors feel that the Board should come forward with one number so there isn’t an ongoing debate about what the capacity is.

Dr. Clifford suggested that, on the debt affordability, the Board add an analysis of its revenue streams when it prepares the report so it is taking a close look at the history of the state’s revenue base used to fund the bonds, and what are the potential issues affecting that revenue going forward.

On the matter of the variable rate debt limit, Mr. Spencer noted that STO’s report today discussed the possible use of swaps. He asked if the limit would still apply if they swapped fixed rate for variable rate debt.
Ms. Clarke responded that this policy has to do with the issuance of the Board’s bonds as fixed rate bonds versus variable rate bonds, which is separate from the Treasurer’s investment of the bond proceeds in fixed or variable rates.

Mr. Spencer commented that fixed rate debt could be turned into floating rate debt, however. While the Board hasn’t done that, it has the ability to do that, and the limit should probably apply whether it was initially issued as fixed or later swapped to floating. He said that should count against the floating limit.

Ms. Clarke responded that she believed it would apply.

Responding to Governor Martinez regarding Debt Policy 6 and whether any capacity was lost in FY 2011 due to the lack of a capital outlay bill, Ms. Clarke said the long term capacity wasn’t issued in FY 2011, so it can be added over the next 10 years and spread out equally, but there are also the senior short-term notes (“sponge notes”) based on cash availability, and the cash in of the debt service set-aside that is in the bonding fund every six months sweeps to the permanent fund, so that is lost. In this case, there was the choice of whether it would sweep to the permanent fund or be used for supplemental bonds for the schools; and in this case the Public School Capital Outlay Council (PSCOC) had certified sufficient need to use all of the unused senior short term capacity for schools. The permanent fund was unaffected.

Ms. Clarke said that, as contemplated by Policy 6, the unused capacity could be added from FY 2011 to FY 2012 in this case, essentially doubling FY 2012 up.

Governor Martinez asked if the policy in the draft states that the capacity would only be used next year and not spread out over 10 years, and Ms. Clarke responded that the policy is worded such that either can be done. She added that there is no legal requirement to evenly spread the capacity out over ten years – this is a policy choice – but we wanted to avoid completely opening the door so that people wouldn’t think that every year the Board could issue as much as it wanted. She said there would have to be an anomaly of not having used all the capacity the prior year to justify doubling up capacity in the next year.

Governor Martinez said the severance tax appropriation bill, which is now on her desk, includes a $40,000 item for gym equipment, for instance, which will not last as long as the term of the bonds, yet a long-term project such as a chronically leaking dam has been removed from the bill. She said there is also a building project for $100,000, which may never get off the ground.

Mr. Aragon suggested the Board develop a policy requiring that items being funded will last at least as long as it takes to pay off the debt. He commented that it makes no economic sense for the state to engage in the current policy as a way of assisting legislators in their reelection efforts.

Ms. Clarke noted that many of the projects that are funded through senior STB capacity ultimately are funded through the sponge notes, which are cash financed. Generally, with regard
to long-term bonds, if all the projects in the series together have an average life of six years, and the average maturity of the series is six years, then that is legally acceptable.

Lt. Governor Sanchez said he would like legal clarification on how this policy was formed to start with and how the Executive, Board and Legislature somehow came together in this process.

Mr. Aragon commented that this is a systemic problem in New Mexico, where the lines are blurred between the body politic, which is the Legislature, and governance. He said the Board should choose a policy that is transparent and represents good governance.

Governor Martinez expressed concern that there are several hundred million dollars’ worth of unfinished projects in New Mexico that sometimes are not vetted properly – for instance, Mora County does not have the resources to staff the courthouse that was constructed. She also noted that the PSCOC has $150 million worth of school projects, yet the severance tax appropriation bill has 68 school projects in it.

Dr. Clifford said staff has circulated a letter at this meeting dated September 15, 2009, to the legislative leadership addressing this issue. He suggested the Board consider reissuing this letter, which recommends various reforms to the state’s capital outlay process, and includes establishing a state capital outlay planning board.

Mr. Brasher suggested that one disincentive for using capital dollars to buy a computer system, for example, might be to require the entity to carry the item on their books for 10 years and to replace it at the original value if lost or damaged.

Mr. Gasparich asked bond counsel Rachel King if the Board would have the ability to deny funding for projects funded by severance tax bonds if they failed to meet Board policy, assuming the Board had established standards for projects, and Ms. King responded no. Under the Severance Tax Bonding Act, the Board is required to issue severance tax bonds that comply with the law, and if the Governor signs it into law, the Board is required to fund it.

Mr. Gasparich asked if the solution would be to adopt a statute setting out minimum standards that the Board could rely on to not fund what does not need funding, and Ms. King responded yes, that such a statute could set forth the types of projects for which severance tax bonds could be issued.

[Break.]

Mr. Aragon moved to table this item to the March meeting. Mr. Brasher seconded the motion, which passed 7-0 by voice vote.
GENERAL SERVICES DEPARTMENT
Presenter: Charles Gara, Director, Property Control Division


Addressing the previous agenda item, Mr. Gara noted that the Property Control Division received only $500,000 in the severance tax appropriation bill to address statewide improvement needs, which includes 6.5 million square feet of state buildings.

Mr. Gara referenced materials provided in the Board’s packet related to the Capitol Buildings Repair Fund and Project Nothing Drops.

8. Property Control Division – Requests Approval to Enter into a Contract with Done Right Construction, LLC for Replacement and Repairs to the Campus Wide Water System at the Youth Diagnostic and Development Center Facility in Albuquerque ($708,182.54)

Mr. Gara requested approval to enter into a contract with Done Right Construction, LLC of Albuquerque for extensive repair and replacement of most of the water system at the Youth Diagnostic and Development Center in Albuquerque. He said the work will introduce a system of new valves and add additional fire hydrants to bring the system up to fire code standards.

Mr. Aragon moved for approval. Mr. Gasparich seconded the motion, which passed 7-0 by voice vote.

HIGHER EDUCATION DEPARTMENT

Presenters: Dr. David Hadwiger, Director of Institutional Finance; Vahid Staples, UNM Budget Officer, Office of Planning, Budget & Analysis; UNM Architect Bob Dohr

11. University of New Mexico – Requests Approval for College of Education Renewal Project ($9,000,000)

Dr. Hadwiger stated that HED has certified this project, which has also been reviewed and approved by the Capital Projects Committee, and it complies with the provisions specified in the building moratorium.

Dr. Hadwiger requested approval of the College of Education Renewal Project at a cost of $9,000,000. The project will consist of a new three-story interdisciplinary building of approximately 26,562 gross square feet, and will include shared-use state-of-the-art classrooms, a prototype “sandbox” classroom that will be used for teaching and faculty development, small
group study rooms, student gathering areas, and academic support space. The building will achieve LEED Silver Certification at a minimum.

Dr. Hadwiger said the funding sources include $6 million of general obligation bonds from the 2008 G.O. Bond, and $3 million from 2007 UNM System Revenue Bonds.

Responding to Lt. Governor Sanchez, Mr. Staples said the project will be underway in approximately June and will take about 13 months.

Lt. Governor Sanchez noted the importance of trying to start projects at a time when there is less activity on campus, and would like to see a policy established where school projects are planned, designed and scheduled to start “the moment that the kids are out” as a way to reduce costs. He said he realized that university projects were a bit different, and that he was not necessarily speaking to this project.

Mr. Brasher asked Dr. Hadwiger if there is a requirement that buildings be LEED certified, and Dr. Hadwiger responded yes. He said HED does a thorough green review and strives for energy efficient low-cost buildings.

Mr. Brasher commented that the LEED program is ongoing; and while buildings certainly need to be energy efficient, the question is whether the LEED system is the most cost effective.

Dr. Clifford asked what was the basis for the requirement that these buildings meet these energy conservation standards.

Mr. Staples responded that an Executive Order governs the LEED Certification process.

Ms. Clarke stated that Executive Order 2006-001 covers not only HED, but also Property Control Division contracts. Subsequent to the Executive Order, the Board amended three or four of its rules to include provisions to ensure that projects were submitted to the Board so the Board could make sure they complied. She said the Private Activity Bond rule only requires that the Board be informed about any environmentally protective technologies used in projects, but no minimum has to be met.

Ms. Clarke said state-funded buildings exceeding 15,000 square feet have to meet LEED Silver certification, and other rules apply to renovation projects -- if a project is extensive enough, it has to meet certain requirements.

Dr. Clifford noted that UNM has a program that attempts to estimate energy savings, and asked if UNM has done an analysis of the cost effectiveness of LEED certification.

Mr. Staples responded that it looks at buildings holistically and energy efficiencies that are possible, and projects that would lead to further efficiencies.
UNM Architect Bob Dohr explained that UNM’s energy policy looks at being an overall good steward relative to the energy consumption of its buildings, while LEED is a governing system that provides criteria to reach an applied standard. He said historically LEED has served to raise awareness about sustainability, energy conservation and the like. He stated that, while it isn’t a perfect system, for the most part UNM does an extremely strong amount of vetting not just relative to LEED but also to the whole idea of sustainability and energy conservation on every project. He added that while a LEED Silver standard is “icing on the cake,” without that they would do a great deal of vetting to make sure they were getting the best product.

Mr. Brasher commented that he saw an energy report done on the Albuquerque Public Schools, which showed that the older buildings were more energy efficient than the LEED certified buildings, so the question is whether LEED is necessarily the best standard. He suggested reviewing the Executive Order.

Governor Martinez said it is being reviewed.

Responding to Governor Martinez, Mr. Staples said Energy Efficiency, Inc. has done an extensive review of the buildings at UNM, and the next step is to train people on ways to increase energy efficiency. He said this process is underway and will continue until September, when the contract is up.

Governor Martinez recalled that this company did a study that lasted three or four years and reported that the only savings on the UNM campus was realized at UNM Hospital, which is not a LEED facility.

Ms. Clarke stated that the previous Board received a presentation in 2008 from an outside consultant about the cost benefits of green building, and suggested that such a presentation would be helpful for this Board.

Governor Martinez agreed that a presentation would be beneficial.

Responding to Dr. Clifford, Mr. Staples said it is fairly typical to have projects phased, or not fully funded, through the legislative process.

Dr. Clifford commented that the general obligation bill received by the Governor contains partial funding almost across the board on HED requests, and the Board will probably be seeing a lot of these going forward, where a project cannot move forward because it has only been partially funded. He recommended addressing this in the debt policy revisions.

Lt. Governor Sanchez asked if UNM is figuring the cost of increasing inflation into future construction costs. He said the state has historically seen trends where there have been significant spikes in the cost of materials and labor, and right now things are in a downturn, and there is the danger of complacency around that.
Mr. Dohr responded that UNM is very concerned with that issue, and is becoming leaner in approaching projects and being more collaborative by involving the contractors and design teams from the beginning.

**Mr. Spencer moved for approval. Mr. Brasher seconded the motion, which passed 7-0 by voice vote.**

Presenters: Greg Walke, University Architect and Campus Planning Officer  
12. New Mexico State University – Requests Approval of Corbett Center Student Union Dining Services Renovations ($3,700,000)

Dr. Hadwiger stated that HED has certified this project, which has also been reviewed and approved by the Capital Projects Committee, and it complies with the provisions specified in the building moratorium.

Dr. Hadwiger stated that this project will provide for renovation and upgrade of the Taos Dining Room, renovations and upgrades to a number of retail dining facilities, and some associated work in the adjacent kitchen in the Corbett Center Student Union. The total project cost includes furnishings and equipment. NMSU reports that this work is a necessary part of the new food service contract and will allow the provider to furnish their services as outlined in their food service concepts.

Dr. Hadwiger reported that $2.7 million of the $3.7 million total cost will come from contract revenues, and $1 million will come from the NMSU Facilities and Services Project account.

Responding to a question from the Governor, Mr. Walke stated that the contract with the food service provider states that the provider will invest in NMSU’s capital facilities at the various food service venues around the campus, and they are doing it on a schedule. In the first year, the payment will be very large and that will go to their capital outlay accounts and then be invested in the project over the contract term, which is seven years.

Responding to Mr. Gasparich, Mr. Walke said NMSU will manage the project.

**Mr. Gasparich moved for approval. Lt. Governor Sanchez seconded the motion, which passed 7-0 by voice vote.**
PROPERTY DISPOSITIONS

Presenters: Deanna Miglio, Bernalillo County Right of Way Manager; Rosanna Suazo, Special Projects Coordinator; John Bolton and Bob Bolton, East Central Ministries

13. Bernalillo County – Requests Approval of a Lease of Real Property to East Central Ministries ($17,300 Annually in Cash and Services)

Ms. Miglio requested approval of the lease of real property located at 133 Virginia, NE to East Central Ministries (ECM), a nonprofit organization for the operation of La Mesa Clinic, a health and dental care facility. She said the lease is for $17,300 annually for a six-year term with two additional three-year option periods.

Mr. Brasher noted that the area is designated as a Metropolitan Redevelopment Area (MRA), but this is not mentioned in the appraisal documentation. To receive this designation, he said an area has to be a slum or blighted, and wondered if the MRA designation has an adverse effect on property values and on lease agreements.

Ms. Miglio stated that the review appraiser was not present to address this, and she did not know if the designation would have an adverse effect on land values that area.

Responding to Mr. Aragon, John Bolton stated that about 70% of ECM’s funding comes from fundraising, and about 20% comes from grants from local foundations. He said they get no grants or money from the government.

Treasurer Lewis moved for approval. Mr. Spencer seconded the motion, which passed 7-0 by voice vote.

Presenters: Mary Ann Chavez-Lopez, El Camino Real Housing Authority Executive Director; Adren Nance, Socorro County Attorney; Delilah Walsh, Socorro County Manager

14. El Camino Real Housing Authority – Requests Approval of Sale of Real Property at 106 Center Street to Socorro County ($115,000)

Mr. Nance requested approval for a property transfer from the El Camino Real Housing Authority to Socorro County. He said the County created the Housing Authority in the 1990s and has helped to expand it. He stated that an administrative building is located on the plaza that is no longer needed by the Housing Authority but which is desperately needed by Socorro County to use for administrative office space.

Mr. Nance said the building was appraised at $129,000, and the County plans to purchase it for $115,000.
Mr. Aragon moved for approval. Lt. Governor Sanchez seconded the motion, which passed 7-0 by voice vote.

15. WITHDRAWN.

16. WITHDRAWN.

Presenters, Doug Echols, County Attorney; Mike Stark, Chief Operating Officer

17. San Juan County – Requests Approval of Lease of Real Property as Amended in Blanco, New Mexico to Northwest New Mexico Seniors, Inc. ($21,378 annually, services in lieu of cash rent)

Mr. Echols requested approval of a lease agreement with Northwest New Mexico Seniors, Inc., a nonprofit corporation. The nonprofit will lease the County’s 4,072 square foot building, and rent of $21,378 a year will be paid through services, as the nonprofit will operate a senior center in the facility, including congregate meals, delivered meals, homemaker services and social events. The term of the lease is a maximum of four years.

Mr. Echols stated that the County has no role in the selection of the contractor that provides senior services – this is all done through the New Mexico Department of Aging and Long-Term Services. Other than the building, the County provides no financial remuneration.

Mr. Echols added that, based upon the figures developed by the senior center and reported to the state, the total value of meals provided during the previous fiscal year was $44,761, which substantially exceeds the rent and services to be provided.

Responding to Dr. Clifford, Mr. Echols clarified that New Mexico Seniors is compensated by the New Mexico Department of Aging and Long-Term Services, so the state is essentially compensating the County for the rent by paying for the meals.

Dr. Clifford asked why this isn’t structured as a joint powers agreement, and Mr. Stark responded that the Aging and Long Term-Services Department contracts directly with Bernalillo County and the City of Albuquerque for services. He said the other delivery method for the state’s rural areas is through the North Central NM Council of Governments, under which the Non-Metro Area Agency on Aging contracts with various service providers in rural areas of the state. He said their preferred method is not to contract. He noted that there are five senior centers in San Juan County, three of which are owned by Bloomfield, Aztec and Farmington, and the other two by San Juan County, and about 20 years ago they joined to form a nonprofit for this purpose.

Mr. Brasher stated that he would abstain from the vote on this item, as his wife is involved in Albuquerque-Bernalillo County senior administration.

Mr. Gasparich moved for approval. Mr. Spencer seconded the motion, which passed by voice vote, with 6 members voting in favor and 1 member (Mr. Brasher) in abstention.
Presenters, Doug Echols, County Attorney; Mike Stark, Chief Operating Officer

18. **San Juan County – Requests Approval of Lease of Real Property as Amended in Waterflow, New Mexico to Northwest New Mexico Seniors, Inc. ($21,460 annually, services in lieu of cash rent)**

Mr. Echols stated this is an identical situation to the last matter on the agenda.

Mr. Spencer moved for approval. Lt. Governor Sanchez seconded the motion, which passed by voice vote, with 6 members voting in favor and 1 member (Mr. Brasher) in abstention.

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

19. **Emergency Balances – February 2012**

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

Ms. Clarke reported these balances, adding that she is expecting to receive some requests from state agencies, once HB 2 is signed, for loans from the Operating Reserve Fund.

**PRIVATE ACTIVITY BONDS**

Presenters: Kelly Kuenstler, Luna County Manager; Florent Lescombs, Vice President, New Mexico Wines, Inc.; Brandon Young, Chief Financial Officer; Mark Valenzuela, Vice President, George K. Baum & Co.; John Archuleta, Managing Director, George K. Baum & Co.; Tommy Hughes, Bond Counsel

20. **Luna County – Requests 2012 Private Activity Bond Cap for New Mexico Wines, Inc. ($6,000,000)**

A memorandum from Board legal counsel Zack Shandler was circulated, addressing the Board’s fiduciary duties with respect to small issue economic development purpose bonds.

Ms. Kuenstler stated that the Luna County Commission passed an intent resolution supporting this bond, and is very excited about this.

Ms. Kuenstler stated that New Mexico Wines is a local business that ships lots of wine outside of New Mexico, which brings in new money; and they bank locally, so put money back into New Mexico. She stated that the County Commission and County Manager see this as responsible economic development.

Ms. Kuenstler noted that, in 2005, New Mexico Wines shipped 25,000 cases of wine to other parts of the U.S., and had 125 employees, including their retail business. In 2011, they shipped
125,000 to 130,000 cases, and now have about 325 employees, including their retail stores. She said their goal in five years is to ship out 500,000 to 700,000 cases.

Ms. Kuenstler said the majority of their vineyards are in Grant County, with a few in Luna County, and the manufacturing plant is in Luna County.

Mr. Young stated that the Lescombs family came to New Mexico in 1981 and this is a six-generation family in winemaking. He noted that there are 7,000 wineries in the U.S., of which about 300 produce more than 50,000 cases, and out of that only 150 produce more than 100,000 cases. He said New Mexico Wines has won several awards, and has been growing at the rate of 20 percent a year for the past five years. He said their current facility is 36,000 square feet, and they seek to add 20,000 to 25,000 square feet and update bottling equipment, as the current facilities and equipment will not meet expected demand as they continue to expand.

Mr. Young stated that they have had a 10-year relationship with Wells Fargo Bank, but Wells Fargo considers their growth rate “unhealthy,” seeing a 4 to 5 percent growth rate as more realistic. He spoke to the frustrations the business has faced in seeking lending capital from other financial institutions in the area because they are not familiar with the winemaking industry.

Mr. Valenzuela added that some local lenders have said they may want to have a piece of the transaction, and they also want to have a senior lien holder position. With a PAB allocation, New Mexico Wines can structure a transaction for the lenders and meet their requirements while providing flexibility for New Mexico Wines.

Mr. Valenzuela reviewed the financing plan:

-- PAB with New Market Tax Credit (NMTC) program

-- 30-year PAB, interest only for 7 years (7 year call)

-- NMTC loan provides gap financing

-- Exit strategy: at the end of 7 years, liquidate sinking fund, NMTC loan forgiveness (50 to 80 percent).

-- Annual payments: years 1-7, $720,580 (including $185,000 set-aside that will be in an escrow account for 7 years); and after year 4, $491,751.

Lt. Governor Sanchez said he wished this company great success.

Governor Martinez disclosed that she was a colleague of Ms. Kuenstler for 20 years, and did consult with legal counsel about whether she should abstain from voting, and she was advised that this would not be necessary.
Mr. Aragon moved for approval. Mr. Spencer seconded the motion, which passed 7-0 by voice vote.

STAFF ITEMS
Presenter: Stephanie Schardin Clarke, Director

21. Fiscal Agent/Custodial Bank Fees

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

22. Joint Powers Agreement

The Joint Powers Agreement report was read into the record.

ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 12:30 p.m.

Susana Martinez, President

Date: 3/20/12

John Gasparich, Secretary

Date: 3/20/12