MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
July 19, 2011

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**

A quorum was present:

**Members Present:**
The Hon. Susana Martinez, President [joining proceedings at 9:20 a.m.]
The Hon. John Sanchez, Lt. Governor
The Hon. James B. Lewis, State Treasurer
Mr. John Gasparich, Public Member, Secretary
Mr. Sam Spencer, Public Member
Mr. Thomas P. Tinnin, Public Member

**Members Excused:**
Mr. Robert J. Aragon, Public Member

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

**Staff Present:**
Mr. Richard E. May, Secretary, Department of Finance & Administration
Ms. Stephanie Schardin Clarke, Interim Director, State Board of Finance

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

2. **APPROVAL OF AGENDA**

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

Ms. Clarke noted the following changes:
Item 7: Withdrawn at GSD’s request.

Item 9a: Presentation of HED 5-year plan – University of New Mexico. [Defer to September meeting so UNM can also present new master plan, to be approved by Board of Regents in September.]

Upon motion by Treasurer Lewis, seconded by Mr. Spencer, the Agenda was approved 5-0 by voice vote, as amended.

3. APPROVAL OF MINUTES: June 21, 2011 (Regular Meeting)

Upon motion by Mr. Tinnin, seconded by Mr. Gasparich, the Minutes of the June 21 meeting were approved 5-0 by voice vote, as submitted.

STATE TREASURER’S OFFICE
Presenters: James B. Lewis, State Treasurer; Spencer Wright, Portfolio Manager; Sheila Duffy, Chief Investment Officer

4. State Treasurer’s Investment Reports

A. Monthly Investment Reports for Month Ended June 30, 2011

General Fund

-- The market value of the General Fund Investment Portfolio, net of TRANs, on June 30, 2011, was $1.41 billion. This compares to $1.16 billion at the same point last year and $1.55 billion at the same point two years ago.

-- The portfolio value of the fund increased by $203 million.

-- During June, there were purchases in the Core portfolio of $40 million in securities to slightly extend the duration of the portfolio. There were purchases of $213 million in the Liquidity portion of the General Fund, $32 million in bank CDs and the balance of $181 million in New Mexico Severance Tax and Supplemental Severance Tax Notes.

-- There were no sales transactions.

-- June earnings were $1.08 million.

TRAN Fund Investment Portfolio

-- June earnings in the TRAN were $29,812, representing a 35% decrease from May earnings of $45,811.
Total earnings in the TRAN were $774,052, sufficient to cover all costs of debt service and bond issuance.

**Local Government Investment Pool**

The June 30 market value of the LGIP portfolio was $692 million, compared to a market value of $778.0 million at the same period last year and $900 million at the same period two years ago.

On July 1, the Treasurer’s Office will deposit $75 million into the LGIP in accordance with the statute effective on that date.

During the month the portfolio balance of the fund decreased slightly, by 2.9%, from $712 million at May month end to $692 million.

There were no transactions due to the shallowness of the yield curve. Duration has continued to decrease over time.

LGIP earnings for June decreased to $166,000 from May earnings of $175,000.

YTD earnings total $2.1 million.

**Tax-Exempt Bond Proceeds Investment Pool**

The market value of the Tax-exempt BPIP as of June 30 was $641.80 million. This compares to a market value of $927.20 million one year ago and $722.14 million two years ago.

During June, the portfolio balance of the fund increased by $118.6 million, or 22.7%, from May due to the deposit of Debt Service funds due to be paid out on July 1.

Earnings for the month totaled $412,000, or an 18.5% decrease from May earnings of $505,000.

Total YTD earnings on the fund were $11.6 million.

**Taxable Bond Proceeds Investment Pool**

The market value of the Taxable BPIP as of June 30 was $743.06 million. This compares to a market value of $825.57 million one year ago and $867.37 million two years ago.

During June, the portfolio balance of the fund increased by $188.2 million, or 22.8%, from May balances due to the issuance of sponge bonds by the state.

[Governor Martinez joined the proceedings.]
Ms. Duffy discussed the State Treasurer’s investment strategy employed during the past quarter.

Ms. Duffy said rates have been depressed for a long time, now, and may well be depressed into the foreseeable future. All of the STO’s portfolios have a very short duration at this point – approximately a year – and when rates go up, STO will be in a position to take advantage of opportunities then. She said another reason for the very short duration is the state’s liquidity needs that somewhat exceed past history; additionally, the bond portfolios have been shrinking as capital projects are cut back.

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General Fund, Liquidity and Core accounts: STO has maintained a laddered portfolio of investments with a bias toward short duration securities. Credit quality in the funds remains high as STO primarily holds federally backed TLGP securities and U.S. 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. Consistent with Treasurer Lewis’s CD program with local banks and financial institutions, STO holds bank CDs in the general fund as well as in the bond proceeds accounts. Earnings on the general fund investments are reinvested in the general fund.

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TRAN investments: TRAN proceeds were invested to the final maturity of the outstanding notes. Interest earnings were more than sufficient to pay all debt service and costs of issuance, effectively offsetting the cost of the debt issue. This was done as an insurance policy against shrinking general fund balances.

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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. Over the past six months, STO has done considerable work with projecting anticipated draws from these accounts, especially with regard to principal and interest payments on the underlying bonds. Callable Agency securities in these funds have provided above-market returns. Call proceeds have been reinvested in a bond ladder. Earnings in the Bond Proceeds accounts are reinvested in those accounts and are spent on capital projects.

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LGIP: The LGIP has been invested using a barbell strategy, with significant balances being held in collateralized local bank accounts and Treasury investments where yield pickups are attractive. The LGIP is constrained by a Weighted Average Maturity restriction, a maximum maturity restriction and rating agency restrictions regarding investment assets. Earnings on the LGIP are paid out on a pro rata basis to pool participants.

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Severance Tax Bonding Fund: The Severance Tax Bonding Fund is invested by the Treasurer’s Office yet is held separately from other fund balances. Typically this fund has been invested as a part of the overnight repo pool. Earning on the Severance Tax Bonding Fund is retained within the fund and used to pay debt service on outstanding Severance Tax Bonds or transferred on a semi-annual basis to the Severance Tax Permanent Fund at SIC.

Secretary May asked Ms. Duffy to discuss cash flow status.
Ms. Duffy presented a graph that reflected general fund balances (General Fund Investment Pool) between July 2002 and May 2011, noting that cash balances reached their highest point in May 2006, just short of $2.9 billion; and today are at $1.4 billion. March 2010 was the low point, when STO began liquidating securities in the TRAN. Since that low point, there has been a rebound and revenue estimates are looking rosier than before.

B. Discussion of Investment Reporting Format

Ms. Duffy stated that, with the change in custodial bank this year, STO has been working with JP Morgan to create comprehensive reports on all of the portfolios that are audited and easy for them to generate as a third party, as opposed to STO generating all of the data that is reported monthly to the Board, and which is mostly downloaded from the QED system into Excel spreadsheets.

Ms. Duffy said the downside is that there is a one-month lag; however, that was the practice historically on any audited financials. Currently, STO has only three days to close the books and put all of the numbers together to prepare the packet in time for the monthly Board of Finance meeting, which is very rushed, and STO feels it is a stronger reporting mechanism to have everything audited before presentation to the Board.

Ms. Clarke stated that she has discussed this matter with Ms. Duffy and Mr. Wright; and even though there would be a one-month lag in reporting, staff at the Treasurer’s Office would obviously alert the Board to anything material going on in the interim month.

Ms. Duffy added that STO is required by policy to report any significant shift to the Board of Finance and the State Treasurer’s Investment Committee.

Mark Valdes, Deputy State Investment Officer; Angela Birky Bohnert, Bond Counsel, Kutak Rock; Rachel King, Disclosure Counsel, Sutin, Thayer & Browne.

5. Approval of State of New Mexico 2011-2012 Tax and Revenue Anticipation Notes, Series 2011

Mr. Valdes introduced Sam Collins, new Cash Manager with the State Treasurer’s Office.

Mr. Valdes requested Board approval of the plan of financing for issuing up to $500 million in Tax and Revenue Anticipation Notes, which will mature on June 29, 2012. He said the Treasurer’s Office has been issuing TRAN notes for about 15 years, and the three main purposes of issuing TRAN are: the financial advantage offered to the state through reduced reliance on inter-fund borrowing; allowing greater flexibility in extending the duration of general fund investments; and providing assurance to the state of additional cash flow liquidity in the event that the distribution of federal funds upon which the state relies are disrupted by political events.

Mr. Valdes said there is no indication at this point whether Congress will agree to raise the debt ceiling; and Treasurer’s staff has been in discussion with Secretary May and his staff about
potential problems that could arise if payments to the state are disrupted for any amount of time. The state may not have sufficient cash flow to sustain normal operations and would have to quit paying its bills, disbursing program payments, and paying the public schools, universities, local governments and state employees’ salaries.

Mr. Valdes stated that the TRAN notes can be used to assist with cash flow needs; or, in the case of the federal fund disruption, to prevent the potential shutdown of state government due to insufficient cash flow. He said STO considers this a type of insurance policy to protect against temporary insufficient cash flow to cover normal operating costs of the state. As STO has done previously, it has the ability, once it receives approval on a TRAN issue, to halt the sale of these notes at any time before the sale date if the state’s needs happen to change. If the sale is halted, STO may be obligated to pay rating agency fees of $106,000 to Standard & Poor’s and Moody’s because it has already ordered the ratings of the notes. All other consultant costs are only paid upon closing.

Mr. Valdes stated that many institutional investors cannot invest unless the instruments have a certain minimum rating. He said ratings are required for marketability of the notes.

Mr. Valdes reviewed a nine-year history of general fund market values, reaching $2.9 billion at its height. He stated that balances are beginning to level off.

Mr. Valdes referred a detail of the sources and uses estimated for the $500 million bond issue, with the cost of issuance at $300,000, based on an interest rate cost of 35 basis points. Interest would be $1.5 million, and estimated interest earnings to the state would be about 20 basis points, or $840,000. The net cost of the sale is therefore estimated at $936,000.

Mr. Valdes stated that, if the debt ceiling is not lifted in a timely manner, municipal credit will be a highly desirable investment vehicle, and a state TRAN sale would benefit under these circumstances.

Mr. Valdes said STO uses the MuniAuction service and usually receives about 40 bids.

Ms. Bohnert stated that these are conservative estimates. She said 35 basis points is on the high end – what they are seeing in the market right now for similar kinds of issuers is closer to 25 basis points.

Ms. Bohnert said the interest rate is not to exceed 4%, and the not-to-exceed all in interest cost would be 1%.

Ms. King stated that, with approval of the parameters resolution, the Board would also be approving the Preliminary Official Statement, in the Board packet. She commented that this is very similar to the General Obligation POS that was issued a few months ago in that it discusses the general fund in some detail, and also gives a general overview of the state’s finances.
Ms. Bohnert stated that that it is contemplated that there would be a closing of this issuance note earlier than August 18, and it could go as late as August 22 or even later if pricing occurred later than anticipated.

Mr. Tinnin asked if this is a typical size for a TRAN historically, and Mr. Valdes responded that last year STO issued a TRAN for $200 million, and in prior years they have typically issued a TRAN for $400 million at the beginning of the fiscal year and another $300 million toward the end of the fiscal year, with the total of $700 million paid off by June 30.

Responding to Mr. Spencer, Ms. Duffy said Mr. Wright calculated the breakeven yield, and STO would certainly manage to that without taking on too much risk. She said they would try to get the cost down as much as possible.

Treasurer Lewis said STO is still looking into the reasonableness of the costs imposed by Standard & Poor’s and Moody’s in rating the notes.

Treasurer Lewis said there was discussion last year about whether this was intended as arbitrage, which it is not; rather, this is an insurance policy against any shortfall against the $500 million the state receives in federal monies every month.

Secretary May commented that no one knows at this point exactly what will happen if Congress does not raise the debt ceiling, since it has never happened before; for instance, will they continue to honor Social Security payments but not provide Medicare reimbursements, or will they provide Medicaid reimbursements and not pay the state transportation funds. He said the state is trying to prepare for the worst-case scenario.

Treasurer Lewis stated that the rating agency fees will have to be paid whether or not the TRAN is issued; and while last year the fees were paid out of residual bond funds, there is no appropriation for that this year. He said there is discussion about the idea of setting up a separate fund for this purpose.

Secretary May commented that it still benefits the state to be in the marketplace to issue these TRAN notes, regardless of the situation, since it helps the state maintain its strong credit rating.

Board legal counsel Zack Shandler read a summary of the parameters resolution: “This is Tax and Revenue Anticipation Notes, Series 2011. The plan of finance for the upcoming sale contemplates the sale of up to $500 million of one-year Notes with interest not to exceed 4% per annum and to be delivered within 75 days of this resolution. The Notes will mature on June 29, 2012. The true interest cost of the proposed notes is anticipated not to exceed 1%.”

Mr. Tinnin moved to approve the resolution as read by legal counsel. Treasurer Lewis seconded the motion, which passed 6-0 by voice vote.
GENERAL SERVICES DEPARTMENT
Presenter: Charles Gara, Director, Property Control Division; Robert Unthank, Deputy Director, GSD

Mr. Gara reported financials for the CBRF Fund, with a beginning balance as of May 1 of $17,158,171. After cash receipts and cash disbursements, the ending balance at May 31 was $16,987,784. Subtracting cash commitments to Legislative Council Service and approved projects, the uncommitted cash balance as of May 31 was $1,729,430. Year to date revenues total $5,462,063.

There were no emergency declarations in May.

Secretary May commented that Mr. Gara and Mr. Unthank both do excellent work and it is a pleasure to work with them.

7. WITHDRAWN.

PROPERTY DISPOSITION
Presenters: Dr. Kristina Baca, Superintendent; Don Owen, Clerk of the Works; Dean Leischow, Managing Director, Sunrise Energy Ventures, LLC; Kirk L. Kindred, Project Developer, Sunrise Energy Ventures, LLC; David Chavez, Executive Director, Cooperative Educational Services; Robin Strauser, Director of Finance; Llew Perry, Director of Procurement, CES
8. Loving Municipal Schools—Requests Approval of Lease of Real Property to Sunrise Energy Ventures, LLC (minimum of $.015 per kWh generated monthly for the first 60 months, $.02/kWh for remainder of lease term)

Dr. Baca requested approval of a 10-year lease of real property, with a 10-year renewal option, to convert 2.7548 acres of open parking located within the Loving Municipal School District’s 40 acres. This would include shade structures, 120,000 square feet built to house three solar arrays, each to support a 100 kW DC solar array, for a total of 300 kW units.

Dr. Baca stated that this is without capital investment by the District. She said the project is unique because it essentially calls for renting airspace for the project, with the added benefit of shade structures and without loss of the intended purpose, which is parking. She said this is a private partnership between Sunrise Energy Ventures and Loving Municipal Schools, and federal, state and local utility units will be used. She said the schools will host this in exchange for the District receiving the shade structures and rent. She said the benefit to the District is that, over the course of 20 years, about $190,000 of revenue will be realized.
Dr. Baca stated that this will utilize Excel’s incentives that are in direct support of the renewable energy portfolio standards passed by the New Mexico Legislature, requiring energy companies in New Mexico to have 20% of their energy produced by renewable energy sources.

Responding to Mr. Tinnin, Ms. Clarke stated that staff has been working for a few months with the Superintendent’s office in an effort to determine an appropriate appraisal. Referring to an addendum to the appraisal report, she said Sunrise Energy Ventures has another lease with a private property that was negotiated in the private market, and is the basis for the minimum fair market value arrived at here. She said this private party leases three acres at $2,000 per acre per year; and if that rate is applied to the acreage involved in the Loving transaction, which is roughly 2.75 acres, the minimum fair market value would be about $5,500 per year for Loving. To make staff comfortable that what Loving will be receiving is above that, the appraisal estimates that the energy credits that Loving receives will be $10,350 per year; and also, a different estimate done by Loving is about $7,800 per year – so both of those are significantly above the fair market value of the private party lease.

Governor Martinez asked Board legal counsel Zack Shandler if there is a potential violation of the New Mexico antidonation clause based on the fact that a private company will be placing solar panels on state property and will be profiting from it more than they are through the lease they have on private property.

Mr. Shandler responded that, as discussed by Ms. Clarke, staff and legal counsel have been reviewing this request for several months and believes it is legally sufficient and in compliance with the New Mexico Constitution. He said he believes staff has provided sufficient information in the record to satisfy the legal requirements.

Governor Martinez asked Mr. Shandler if he was saying that the fact that they are profiting from placement of the panels on state property does not violate the antidonation clause, and Mr. Shandler responded yes.

Secretary May said this is the first instance he knows of where a New Mexico school has worked with a private company to execute this type of arrangement. He said he assumes Sunrise Energy plans to pursue this with other public properties, so the Board may be reviewing future requests.

Secretary May stated that, as he understands it, Sunrise is giving the District 1.5 cents per kilowatt-hour for electricity generated in the first 5 years, and then 2 cents per kilowatt-hour in years 6 through 20. When someone buys power from Sunrise when it goes into the grid, he asked what the difference is between what Sunrise is giving the school and what the market rate is for the power.

Mr. Kindred responded that the current rate that Excel Energy would buy the electricity for an array placed into service behind their grid would be at the avoided cost rate, which in 2010 was about 3 cents per kilowatt-hour. He said the retail rate the school is paying to Excel to buy
electricity is about 7.5 cents per kilowatt-hour so the 1.5 cents is a substantial percentage of what they are paying when they buy electricity.

Ms. Clarke explained that the 1.5 cents and 2 cents is a floor and will index upward from there if the market changes.

Dr. Baca stated that, as the market increases, the District’s percentage will also increase from the floor of 1.5 cents. If the market goes below the floor, they will stay at the floor rate. She said they will realize an 8% savings over the first five years and then 11% savings in their energy bills over the remainder of the 20-year period. In addition, the first five years will pay recoupment costs for construction related expenses; hence, the difference between the first five years and the remaining 15 years.

Secretary May asked if there was any discussion about the District benefiting from the power generated from the solar arrays, i.e., having the power go directly back into the school’s power source and somehow create a credit of sorts. He said he was wondering whether, for the future, it would be better to structure this differently where the power could go directly to the school so it could save the full 7 cents rather than being reimbursed from the back end.

Mr. Perry responded that there are a variety of ways to develop these, and a lot depends on the financing, incentives and amount of power usage involved. He stated that, based on the fact that there are other entities within the community using solar, it was felt that this was the best avenue for this project.

Lt. Governor Sanchez commented that, in terms of future requests of this type, and from a public relations standpoint, he thought the public would be very supportive in knowing that electricity generated on a school property would benefit that school.

Mr. Kindred clarified that technically the array would provide electricity to the school first; and then electricity that is not used – for instance, during the summer months – would go back to the grid. He said it would generate about 50% of the power that the schools will be using during daytime hours.

Mr. Kindred clarified for Governor Martinez that the sizing restrictions that Excel Energy has on an array that can be put behind a meter is being maxed out at 100 kW per meter, and the consumption of the buildings exceeds that. He said the array will generate 172,000 kWh of electricity annually, and the buildings consume 400,000 to 600,000 kWh a year, depending on the high school versus the middle school – so in general, the array will generate about half of what the District consumes. He stated that the District is not getting a reduced rate on the power; they are getting a reduction in their cost in the form of rent.

Mr. Spencer commented that this will also be a plus for the employees, since covered parking in the Hobbs and Loving area is considered a benefit.
Mr. Tinnin moved for approval. Mr. Gasparich seconded the motion, which passed 6-0 by voice vote.

**HIGHER EDUCATION DEPARTMENT**

9. **Presentation of Higher Educational Institutions’ Five-year Plans**

   **A. DEFERRED.**

   Presenter: Dr. Dan Lopez, President

   **B. New Mexico Institute of Mining and Technology**

   Dr. Lopez stated that, when he became President of NM Tech in 1987, he had a strategic plan developed for the entire university that included the kinds of programs they would focus on, what size the university should be, and disciplines with a state and national application. He said the process took a year.

   Dr. Lopez stated that, in approximately 1990, NM Tech commissioned a facilities study to determine how the strategic plan and master plan could dovetail with each other. From that, they identified old buildings that could be saved, and these buildings were refurbished, brought up to code, and made into functional and very attractive buildings. He said the study also identified where new facilities were needed to accommodate a wide range of engineering options developed at NM Tech.

   Concluding his report, Dr. Lopez said NM Tech has a 5-year plan in place that is updated annually, reviewed by the Board of Regents, and submitted to HED. He said they have largely accomplished what they have set out to do, with 5 projects outstanding.

   Mr. Tinnin stated that, at Dr. Lopez’s convenience, it would be helpful for the Board to see a layout of the campus with past, present and future projects identified and the rationale behind them. He said this information would help the Board in making decisions on future projects, adding that he applauded NM Tech’s efforts in sticking to a plan and following it through.

   Dr. Lopez responded that they would be happy to make that presentation.

   Secretary May asked Dr. Lopez to offer his perspective on how the Board meshes NM Tech’s master plan with the construction moratorium matched the uncertainty of the fate of General Obligation bonds in the upcoming legislative session – how does the Board look at these components individually and how does it fit all of them together.

   Dr. Lopez responded that, as the Board knows, he worked with Secretary José Garcia to create the moratorium, and NM Tech intends to live by the moratorium. He said Item #11 on the agenda has to do with the exception to it.
Dr. Lopez commented that they are really dealing with a delay so they can present enough information to the Board and state officials that wherever they are headed makes sense, and that as Mr. Tinnin has suggested, there is data and a rationale to support the need. He stated that this is not going to cause a major problem, in his opinion – there will still be capacity in G.O. bonds in the future. He stated that NM Tech hopes to be put in line in the upcoming G.O. bond issue, because the moratorium will have expired by the time the bond issue is approved or disapproved by the voters. Dr. Lopez said they would not start any activities until the moratorium had expired.

Governor Martinez asked if the purpose of the moratorium isn’t also to determine future needs.

Dr. Lopez responded that, in working with Secretary Garcia on the moratorium, it became apparent that the chief problem was with the proliferation of campuses that were not on a university’s core campus; and in his opinion, the moratorium was to address that “undisciplined activity.” He said the moratorium will therefore help people rethink that need, and he feels it will ultimately result in a change in behavior.

Treasurer Lewis said he assumed NM Tech’s 5-year plan includes main campus facilities HVAC upgrades as well as future student enrollment and program/curriculum needs. He said previous Boards have expressed concern about duplication of programs at different universities.

Dr. Lopez responded that, with respect to energy savings and so forth, NM Tech has built in as many energy saving mechanisms as financially feasible in the refurbished buildings as well as new buildings. He added that NM Tech received a substantial grant from the Department of Energy to do a geothermal project on campus; however, they were unable to get the required matching funds from the Legislature. He said they are always looking at ways of curbing utility costs, and will keep the geothermal project on the back burner.

Mr. Lopez said they have identified what courses are necessary to address requirements in the business community, and have shifted from a science-based university to a hybrid of science and engineering, and offer many more engineering programs than before. In addition, they have sought relationships with other universities to avoid duplication; for example, they do a joint aeronautical program with NMSU. He stated that they always look for the ability to collaborate before initiating a program on their own.

Mr. Tinnin said it would be useful to see a list of university programs statewide and the number of students participating in each, since it would shed light on where there is duplication. He commented that there are many programs with very low enrollment.

Secretary May noted that Dr. Garcia is working with Dr. Lopez and many other people in creating a new higher education funding formula that would move to a performance-based system where schools are rewarded for graduating students, with an emphasis on science and technology.
To Mr. Tinnin’s comments on the Board’s role in approving new graduate programs, Ms.
Clarke said that, in 2006, then-Higher Education Secretary Beverlee McClure presented an in-
depth overview of graduate programs to the Board, which included all of the schools and their
current programs along with future plans, as well as information about duplication. After 2006,
there was a lot of turnover in leadership at Higher Education, going through several different
cabinet secretaries, and the plan was apparently never implemented. Every time a graduate
program came to the Board after that, staff and Board members would ask where it fit into the
2006 plan, and the response was that it wasn’t being used.

Ms. Clarke commented that, while her office does not have the data to provide the
information requested by Mr. Tinnin, perhaps HED would like to consider updating the 2006
plan. Mr. Tinnin said that would be very helpful.

Ms. Clarke added that, of the very few new graduate programs approved by the Board in the
last three or four years, each has been in a field where there is a workforce shortage, such as in
nursing; or new types of scientific degrees where the marketplace has shifted and requires a
different type of degree.

Presenter: David W. West, Facilities Vice President; Col. Judy Scharmer, CFO

C. New Mexico Military Institute

Mr. West reviewed an abridged version of NMMI’s 5-year capital plan that was presented to
their Board of Regents in May. He said the capital projects in the plan are part of NMMI’s
master plan and will be submitted to HED and the Legislature as part of their capital outlay
request and/or General Obligation bond request.

Mr. West presented a list of primary capital project needs and their status.

Mr. West stated that NMMI has made an effort for several years not to expand their facilities,
with the most recent new facility constructed in 2006 (Daniels Leadership Center) and using only
private funding. He said NMMI has been renovating its buildings instead, which are classified as
historic. He noted that, based on a 2006 report, NMMI was listed as having $19 million in
backlogged deferred maintenance in infrastructure alone. He said NMMI has since upgraded its
electrical systems and replaced gas lines, and is now almost through relining its waterlines. He
stated that, in a process begun in 2007, chillers and boilers are gradually being replaced.

Mr. West reviewed a chart of NMMI’s capital needs during 2012-2020.
Presenters: Mr. Robert Watson, Director, HED Planning, Assessment & Evaluation; Tom Neale Associate Director, UNM Office of Real Estate

10. **University of New Mexico – Requests Approval for Acquisition of Real Property at 1401-A University Blvd., N.E. ($350,000)**

Mr. Watson requested approval of the purchase of 9,605 square feet of land containing a 3,416 square foot office building, the final piece involved in the assemblage of three privately held parcels of land located in the immediate area of the NM Health Science Center. The property is located on the west side of University Boulevard between Lomas Boulevard and Indian School Road, and the site is identified on the UNM Health Science Center master plan and the intended use is for medical clinics. UNM states that if the property is not acquired, there will be a small ownership in the middle of university-owned land that will adversely impact the development potential of the surrounding property.

Mr. Watson said the property is currently under contract for $350,000, which is the appraised value.

Mr. Neale identified the subject property on a map. He said the property sits on about 35 acres and UNM has been working on this acquisition for about two years.

**Board legal counsel Zack Shandler stated that, pursuant to Board Rule 1.5.23.8B6, special exceptions include: (a) an utility easement on the northerly lot; (b) right of way easement to Southern Union Gas Company; (c) deviation of block wall on the northerly lot; (d) prescriptive easement for underground gas and water lines. UNM has represented that there will be no negative impact on the intended use.**

Mr. Shandler asked that approval of this request be contingent upon the following:

--- **Director receipt with review of counsel of final title binder, Purchase Agreement, Warranty Deed, Assignment of Approvals, Contracts and Development Rights, and Bill of Sale reflecting filing of the 1967 plat of survey on August 3, 1967.**

--- **Director receipt with review of counsel of a second amendment to the purchase and sale agreement that includes standard debt clause language and addresses other comments provided by SBOF staff such as deletion of the word “warrants” and fixing typographical errors.**

Mr. Tinnin moved for approval, with the two contingencies. Mr. Spencer seconded the motion, which passed 6-0 by voice vote.
Presenters: Miguel Hidalgo, Director of Special Projects; Lonnie Marquez, Vice President Finance; John Archuleta, Senior Vice President, George Baum & Company; Mr. Robert Watson, Director, HED Planning, Assessment & Evaluation; Dr. Dan Lopez, President, NM Tech; Richard Cervantes Assoc. Vice President, Research & Economic Development; Frank Coppler, Bond Counsel

11. New Mexico Institute of Mining and Technology – Requests Approval of Issuance of Institutional System Revenue Bonds, Series 2011 (not to exceed $14,500,000)

Mr. Watson requested approval of the issuance of Institutional System Revenue Bonds, Series 2011, an amount not to exceed $14,500,000, to be used for the construction of a new student housing facility on the south end of the campus in the general vicinity of the existing child care center, and to construct and equip certain phases of the Magdalena Ridge Observatory Interferometer. The projects do not involve instructional and general funds and are not subject to the current moratorium on higher education capital building projects.

Mr. Watson stated that individual requests for project approval will be presented to the New Mexico Tech Board of Regents and the Higher Education Department at a later date when the projects’ scope of work has been developed.

Dr. Lopez said this will be a 150-bed unit that will replace a very old unit with a 50-bed capacity. He said they are oversubscribed at this point, with deposits for 40 beds that are not available, and will have to return the money. He said the beds will be available to undergraduate students only. He said this project is part of the master plan, but not part of the five-year plan because that only addresses state funding requests. He stated that the 20-year revenue bond being used for this project has payments estimated at $1 million. He said NM Tech has no outstanding debt and is comfortable making this request.

Dr. Lopez stated that the Board of Regents approved this request on July 11, and has forwarded the request to HED.

Ms. Clarke stated that all of staff’s requested changes to the documents have been made. She said the documents were sent to Board financial advisor David Paul and to Sutin, Thayer & Browne, bond counsel. Mr. Paul has recommended approval, agreeing that the financing plan was conservative and the debt service would not place a material strain on NM Tech; and bond counsel found the legal documents to be sufficient.

Board legal counsel Zack Shandler read into the record a summary of the parameters resolution: “This is New Mexico Institute for Mining and Technology Institutional System Revenue Bond Series 2011 with a principal not to exceed $14,500,000. The proceeds will be used for (1) construction of new student housing facility and (2) construction and equipping of certain phases of Magdalena Ridge Observatory. The final maturity date is July 1, 2031, with a net effective interest rate not to exceed 6% per annum.”
Mr. Tinnin moved for approval. Mr. Gasparich seconded the motion, which passed 6-0 by voice vote.

[Governor Martinez was temporarily away from the proceedings.]

Presenter: Mr. Robert Watson, Director, HED Planning, Assessment & Evaluation; Mr. David West, Facilities Vice President; Col. Judy Scharmer, CFO

12. New Mexico Military Institute—Requests Approval of Chapel Columbarium ($176,000)

Mr. Watson requested approval to replace an existing planter located approximately 20 feet west of the Alumni Chapel with a columbarium. The proposed columbarium is approximately 11 feet in diameter and six feet tall and consists of cubical niches and a frame for each section. The funds collected for the columbarium pay for the initial capital costs and cover minimal maintenance costs. The purpose of this columbarium is to use land efficiently and prominently commemorate loved ones.

Mr. Gasparich asked if this is subject to state regulation as a Perpetual Care Cemetery.

Mr. West responded that he posed this question to the Regulation & Licensing Division. He read a response from General Construction Bureau Chief Fermin Aragon that explained that the columbarium is considered a structure and will require a building permit.

Mr. Gasparich commented that there is a Perpetual Care Cemetery Act, and it is not clear whether this proposal is subject to that Act, as Mr. West’s question was not posed to the right division.

Board legal counsel Zack Shandler recommended that approval be contingent upon Director receipt, with review of counsel, of confirmation that the project is in compliance with the regulations of the Regulation & Licensing Department, if applicable.

Mr. Shandler said staff will investigate further whether the Perpetual Care Cemetery Act is applicable in this case, and will work with the parties to see if that is applicable.

Mr. Tinnin moved for approval, contingent upon legal counsel’s recommendation. Mr. Spencer seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present during the vote.]
EMERGENCY FUND BALANCES
Presenter: Stephanie Schardin Clarke, Interim Director


<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,500,000.00</td>
</tr>
<tr>
<td>Emergency Water</td>
<td>$118,400.00</td>
</tr>
</tbody>
</table>

Ms. Clarke reported these balances.

EMERGENCY FUNDING REQUEST

14. WITHDRAWN.

Presenter: Kathy Romero, Secretary/Treasurer

15. North San Isidro Mutual Domestic Water Consumers Association — Requests Appearance to Address Past Due Emergency Water Loan, Including Possible Extension of Payment Schedule or Conversion to Grant ($100,000)

Ms. Clarke reported that, just after this meeting started, representative Kathy Romero emailed her to say that she had a family emergency and could not make it to this meeting, and is planning to submit a letter to be on the September agenda.

Mr. Tinnin moved to defer this item to a future meeting. Mr. Spencer seconded the motion, which passed 5-0 by voice vote.

Secretary May said he thought it important for the Board to understand that Ms. Clarke has been trying to communicate with the North San Isidro Mutual Domestic Water Consumers Association for years, and has not received any cooperation from them.

STAFF ITEMS
Presenter: Stephanie Schardin Clarke, Interim Director


Ms. Clarke stated that the current contract with JP Morgan for Custody Banking services is scheduled to expire on June 30, 2012. Staff requests direction from the Board whether to extend the current contract for one out of two additional years available through June 30, 2013, or to issue a Request for Proposals. Staff recommends extending the current contract.
Mr. Tinnin asked when JP Morgan initially began providing custody banking services to the Board, and Ms. Clarke responded that an RFP was issued in the fall of 2009 and JP Morgan started contractual services in 2010.

Mr. Tinnin commented that, as he has mentioned before, the process of selecting a custodial bank is very arduous; and if Board staff and DFA are pleased with their services, then he felt the contract should be extended another year.

Mr. Shandler noted that these are four-year contracts, and this is year two. He said it takes about a year to generate the RFP process.

**Mr. Tinnin moved for approval to extend the current contract. Mr. Spencer seconded the motion, which passed 5-0 by voice vote.**

[Governor Martinez rejoined the proceedings.]

17. **Fiscal Agent Contract Extension/Request for Proposals**

Ms. Clarke stated that the current contract with Wells Fargo for Fiscal Agent Banking services is scheduled to expire on May 1, 2012. Staff requests direction from the Board whether to extend the current contract for one out of two additional years available through May 1, 2013, or to issue a Request for Proposals. Staff recommends extending the current contract.

**Mr. Tinnin moved for approval to extend the current contract. Mr. Gasparich seconded the motion, which passed 6-0 by voice vote.**

18. **Approval of First Amendment to Custody Bank Agreement with JP Morgan to Incorporate Optional Earnings Credit to Offset Costs of Services**

Ms. Clarke reported that the staff has negotiated an amendment to the custody bank agreement that will allow the State’s three larger investing agencies (SIC, PERA and ERB) to deposit cash in non-interest-bearing accounts with JP Morgan and earn a soft dollar earnings credit on those balances to offset the contractor’s fees for services. Currently, the earnings credit rate would be 20 basis points, based on current market conditions, but that could change with 30 days’ notice. This is an option for the agencies to earn 20 basis points on cash rather than 2 or 3 basis points that they would get in an overnight repo.

Ms. Clarke stated that because of the Dodd Frank Act, FDIC coverage on such non-interest bearing accounts is unlimited between now and the end of calendar year 2012, so the balances will be fully protected. The amendment only allows deposit of such funds so long as FDIC coverage is in place.

Ms. Clarke explained that due to federal regulations and JP Morgan’s internal accounting
processes, earnings credits left over at the end of any calendar year or at the contract termination date cannot be refunded to the Investing Agencies. To prevent forfeiture of earnings credits, staff has negotiated an exhibit to the contract that provides for the business process Investing Agencies will need to follow to monitor their credits so they can instruct JP Morgan to switch off the earnings credit program if there is a concern about having too much earnings credit left over. She said staff and counsel feel that this is legally sufficient to avoid any potential anti-donation problem.

Ms. Clarke said the SIC is already participating in this program, and the contract allows for the Director, as contract administrator, to authorize a service that will decrease the net cost of services and then get later Board approval, and that is being requested of the Board today. She said the ERB also plans to implement this.

Responding to Mr. Gasparich, Ms. Clarke said that, because the Treasurer’s Office’s funds are under different statutory requirements, they have to deposit cash in depository banks in New Mexico, and JP Morgan is not a depository bank.

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

19. Approval of Publication of Notice of Proposed Rule Amendment – Voting Machine Acquisitions

Ms. Clarke requested Board approval to publish notice of proposed changes to the Board’s rule on voting machine acquisition. The changes are necessary due to amendment to the election code enacted by the legislature in 2010. That legislation significantly changed the Board’s role in voting system acquisitions. Previously, all voting system purchases required Board of Finance approval, and all voting systems were to be purchased by the Board and the Board entered into lease purchase agreements with counties for counties to pay for the voting systems and accept title. Now, for voting systems required by the election code, Board approval is necessary but the Secretary of State then purchases the voting systems pursuant to their own agreements with the county. Board of Finance will still purchase voting systems for counties that are in addition to the number required by the election code.

Ms. Clarke stated that if the Board approves publishing this rule, it will be published in the New Mexico Register on August 15, 2011. The 30-day public comment period will expire on September 14, 2011, and staff will bring the rule to the Board for final approval at the September 20, 2011 meeting."

Ms. Clarke stated that Board staff will pursue a change in the statute to make the language clearer.

Mr. Tinnin moved for approval. Mr. Spencer seconded the motion, which passed 6-0 by voice vote.
20. Approval of Proposed Changes to Rule on Real Property Acquisitions, Sales, Trades or Leases

Lt. Governor Sanchez addressed the Board as follows: “The next item on the agenda is a Public Hearing on changes to the Board’s Rules. I now declare the hearing record open. Staff has proposed these changes and we will start with staff providing testimony on why these rules should or should not adopted. The Board is free to ask any questions. Then, we will allow anyone from the audience to provide oral or written testimony. We should hold off on any deliberations among ourselves until we receive all the testimony. When we have received all of the testimony, I will close the hearing record. Then, the Board may start deliberating the merits of the rule. I will entertain a motion to accept, modify, or reject the proposed rule. We may modify the rule as long as it is the logical outgrowth of the rule as published in our packet.

“I need to state two legal items for the record. First, rules become effective 30 days after they are filed at Records and Archives. Second, the legal standard is that we need to ‘inform the public’ of our reasoning when we choose to amend our rules. The comments of one member on the record, if it explains our reasoning, satisfies this legal standard.

“We are ready for Ms. Schardin Clarke to make her presentation and submit any exhibits into the record.”

Ms. Clarke stated that at the May 17, 2011 Board meeting, the Board approved staff’s request to publish proposed changes to the Board’s rule on real property acquisitions, sales, trades or leases. Those proposed changes were published in the New Mexico Register on June 15, 2011 and the 30-day public comment period on the rule change expired on July 14, 2011. No written public comment was received. Ms. Clarke stated that if the Board approves the changes today, staff will submit the rule change for publishing in the New Mexico Register and it will be published on August 15, 2011.

Ms. Clarke explained that the rule change is very straightforward. It addresses a simple legislative change made during the 2011 session that requires school district leases with charter schools to receive approval from the Public School Facilities Authority rather than the Board of Finance. The change also incorporates a few technical cleanups and clarifies some of our existing submission requirements for real property acquisitions, sales, trades and leases.

There being no public comment, the hearing record was closed.

Mr. Tinnin moved to accept the proposed rule. Mr. Gasparich seconded the motion, which passed 6-0 by voice vote.
21. **Adoption of Emergency Funding Policy**

Ms. Clarke stated that, as requested at the Board’s last regular meeting, staff has drafted a proposed written policy on emergency loans and grants. The written policy ensures compliance with the Board’s statutory authorities but also makes clear the policy priorities the Board will consider within that statutory authority when presented with requests for emergency funding.

Ms. Clarke stated that, yesterday morning, staff received substantive comments on the proposed policy from DFA General Counsel Greg Shaffer, which staff has not had sufficient time to review, and she therefore suggested that today’s meeting be limited to discussion of the proposed policy and that action be tabled until the September meeting.

Ms. Clarke said Mr. Shaffer suggested the policy might benefit from staff’s researching of loan underwriting documents used by the New Mexico Finance Authority, although she personally felt that entities with good credit would not necessarily approach the Board for a loan in the first place.

Ms. Clarke said Mr. Shaffer also suggested legal concerns raised with the very notion of state agencies and other entities entering into loans without debt clauses that limit their liability in future fiscal years to the availability of sufficient appropriations for loan repayment.

Mr. Tinnin suggested that Board members defer discussion until they have submitted comments to staff that then can be incorporated into the policy and brought back for discussion in September.

Secretary May apologized for the last-minute comments submitted by DFA legal counsel; however, the issue is very complicated and there are some very important policy questions about loans and how they are paid back, as well as the role of the Legislature, that need another 30 to 60 days of review.

**Mr. Spencer moved to table the policy to a future Board meeting. Mr. Tinnin seconded the motion, which passed 6-0 by voice vote.**

22. **Board of Finance Dashboard Report**

Ms. Clarke noted two updated features on the report: General Fund Reserves Chart, updated for the new revenue estimate and showing reserves recovering significantly; and an updated chart reflecting the dollar amount of capital outlay projects approved for higher education institutions over the last fiscal year.

Ms. Clarke said one highlight is that the Board received a record amount of repayments on emergency fund loans in FY 2011 – about $1.4 million.
23. **Fiscal Agent/Custodial Bank Fees**

Ms. Clarke stated that May invoices from the fiscal agent and custody bank were in line with projections, so the Board will end the fiscal year just within the appropriation for those payments.

Ms. Clarke added, however, that there will be some difficulty staying within the appropriation in FY 2012 and there could be a $200,000 shortfall in the fiscal agent appropriation. Two years ago, the Board received an emergency loan for that purpose, which DFA recently repaid. At that time, staff took a close look at services in the fiscal agent agreement to see if there was a possibility for some real savings, but staff was unable to identify any major way to streamline the fiscal agent’s operations that wouldn’t put an unmanageable burden on state agencies. She said the main way to save money in this area is to move to an electronic system of sending and receiving payments, but making this move puts a burden on DFA’s Financial Control Division as well as the State Treasurer’s Office.

Ms. Clarke said the one way of reducing the billings of the fiscal agent would be to leave more cash at the fiscal agent, thus increasing the Board’s earnings credit. She said this would earn a minimum of 50 basis points versus 2 or 3 basis points in an overnight repo. She said Treasurer’s staff is working with Mr. Pike at Wells Fargo on what the optimal balance would be.

24. **Joint Powers Agreement**

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

Its business completed, the State Board of Finance adjourned the meeting at approximately 11:35 a.m.

Susana Martinez, President

Date

John Gasparich, Secretary

Date