MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
May 17, 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. John Sanchez, Lt. Governor [leaving at 10:15 a.m.]
The Hon. James B. Lewis, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. John Gasparich, Public Member, Secretary
Mr. Sam Spencer, Public Member
Mr. Thomas P. Tinnin, Public Member

Members Excused:
The Hon. Susana Martinez, President

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

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

Others Present:
[See sign-in sheets.]

[Note: Mr. Gasparich, Board Secretary, chaired the proceedings.]
2. **APPROVAL OF AGENDA**  
**NEXT REGULAR MEETING JUNE 21, 2011**

The Agenda was reprioritized.

Upon motion by Mr. Tinnin, seconded by Mr. Spencer, the Agenda was approved 6-0 by voice vote, as amended.

3. **APPROVAL OF MINUTES: April 19, 2011 (Regular Meeting)**

Upon motion by Treasurer Lewis, seconded by Mr. Tinnin, the Minutes of the April 19 meeting were approved 6-0 by voice vote, as submitted.

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

4. **Monthly Investment Reports for Month Ended April 30, 2011**

**General Fund**

-- The market value of the General Fund Investment Portfolio, net of TRANs, on April 30, 2011, was $1.29 billion. This compares to $1.29 billion at the same point last year and $1.64 billion at the same point two years ago.

-- The portfolio value of the fund increased by $165.97 million, or 14.7%, from March 31.

-- During April, there were purchases of $33 million in securities to slightly extend the duration of the portfolio. $13 million in New Mexico Bank CDs were purchased in the General Fund.

-- There were no sales transactions.

-- April earnings were $1.13 million, representing a 0.97% decrease from March earnings of $1.14 million. YTD earnings total $12.4 million, compared to $18.0 million through the same period last year.

-- The General Fund outperformed its benchmark with an earned yield of 1.817%.

**TRAN Fund Investment Portfolio**

-- During April there were no purchases or sales transactions in the TRAN portfolio.
Securities in the portfolio are all scheduled to mature in an amount necessary for the retirement of TRAN debt on June 30.

April earnings were $52,470, representing an 8.53% decrease from March earnings of $57,363.

Total YTD earnings on the TRAN are $698,429.

Local Government Investment Pool

April 30 market value of the LGIP portfolio was $707 million, compared to a market value of $814.6 million at the same period last year and $1.2 billion at the same period two years ago.

During the month the portfolio balance of the fund decreased 5.9% from $751 million at March month end to $707 million.

There was one purchase in the LGIP portfolio during March, chiefly to extend duration.

LGIP earnings for April decreased to $170,000 from March earnings of $176,000.

YTD earnings total $1.8 million.

The 30-day net yield of the LGIP as of April 22 was 0.28%, outperforming the 30-day net S&P Rated Government Investment Pool (GIP) index of 0.20% by 8 basis points. The 30-day gross yield of the LGIP at April 22 was 0.33%, outperforming the S&P Rated GIP index of 0.22% by 11 basis points.

The administrative fee assessed for April was 5 basis points, or $29,499. Year to date fees total $322,746.

Tax-Exempt Bond Proceeds Investment Pool

The market value of the Tax-exempt BPIP as of April 30 was $519.79 million, compared to a market value of $813.92 million one year ago and $533.56 million two years ago.

During April, the portfolio balance of the fund decreased by $12 million, or 2.3%, from March month end due to capital spending on projects.

Earnings for the month totaled $531,000, or an 8.3% increase from March earnings of $579,000.
Taxable Bond Proceeds Investment Pool

-- The market value of the Taxable BPIP as of April 30 was $608.48 million, compared to a market value of $744.30 million one year ago and $800.22 million two years ago. Declines are due to project spending.

-- During April the portfolio balance of the fund decreased by $71.3 million, or 10.5%, from March balances.

-- April earnings totaled $643,700, a 0.27% decrease from March earnings of $645,000.

5. Quarterly Investment Portfolio Analysis for Quarter Ended March 31, 2011

Ms. Duffy summarized key points of focus from the quarterly investment report prepared by Deanne Woodring, advisor with Davidson Fixed Income Management (DFIM).

-- Objectives continue to be safety, liquidity, and return, in that order. Safety is addressed through asset diversification and credit quality; liquidity is addressed through maturity, distribution and overnight investments; and return is addressed by sector and maturity/duration management.

-- Risks associated with the state investment funds are: 1) interest rate risk, which is the change in mark to market value given changes in interest rates; 2) credit risk, which is the risk associated with the ability of the issuer to pay on its debt obligations; and 3) reinvestment rate risk, which is the exposure to reinvesting maturities in lower interest rates.

DFIM’s observations and recommendations:

-- The portfolios are fully invested at this time.

-- Continue to look for NM municipal bonds to invest in, as they support New Mexico’s communities and present a good value.

-- Spreads over treasury securities remain very tight, so holding the higher quality securities is a value strategy.

-- The callable strategy is adding yield to the portfolio. A portion of the bonds are being called but are being reinvested at higher rates than the original investments.

-- The LGIP was ranked higher in the public interest report as in the 2nd and 3rd quartile of all local government investment pool funds nationwide. The first quartile grouping tends to hold more commercial paper and corporate bonds.
Projects Ms. Woodring is working on with STO: updating the investment policy, which will be brought to the Board in June as an action item; credit procedures, in anticipation of going back into credit instruments such as commercial paper and corporate bonds; educational forums for LGIP participants; and working with portfolio managers to streamline STIC reports.

Mr. Spencer asked Secretary May to comment on a couple of proposals in Congress to eliminate the tax exemption for municipal bonds.

Secretary May responded that proposals like this have been introduced many times in the past and have not gone anywhere because they are so vital to the financing of state and local governments.

Treasurer Lewis said the National Treasurers Association is working closely with NASACT and other organizations in closely monitoring these bills.

Secretary May said DFA will work with the State Treasurer’s Office and keep Board members apprised of any developments.

[See page 7 for additional remarks on this subject.]

SEVERANCE TAX BONDS
Presenters: Robbie Heyman and Rachel King, Sutin Thayer & Browne, Bond Counsel

6. Approval of Resolution Reauthorizing Certain Severance Tax Bond Proceeds for New Projects

Ms. King stated that this resolution reauthorizes some excess proceeds that were reverted under SB 182 last year to the one remaining project that has been authorized, but for which bonds have not yet been issued.

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

7. Approval of Severance Tax Note Resolution, Series 2011S-A

Ms. King stated that there was no capital outlay bill this year, and one authorized project remains for which bonds have not been issued. A portion of this project, which is a Department of Game and Fish project constructing and renovating the Lake Roberts dam and spillway in Grant County, was funded through the previous resolution on the agenda, and the remainder will be authorized through this resolution.
Ms. King said there is a standing statutory authorization for Water Trust Board projects where, each year, the Water Trust Board receives 10 percent of the senior debt service capacity for its projects. The only outstanding capital outlay projects are the remainder of the Game and Fish project, and the standing Water Trust Board project. She said this resolution authorizes the issuance of senior Severance Tax notes for those projects.

Ms. King stated that the principal amount has been finalized at $27,273,218.62, and the final interest rate will be set on June 15 as the 30-day LIBOR rate plus 5 basis points.

**Mr. Tinnin moved for approval. Mr. Aragon seconded the motion.**

Lt. Governor Sanchez asked if there is precedence for this kind of action when there is no capital outlay bill.

Mr. Heyman responded that there is, because the Board always has some excess cash and some excess projects that don’t fit neatly into long-term bond issues.

Mr. Spencer asked if the Water Trust Board has actual projects planned at this point, and Ms. King responded that the Water Trust Board has certified to the State Board of Finance that it needs all of this money. Their process of determining the projects occurs at the beginning of June, so those projects will be known before issuance.

Mr. Heyman commented that this is a situation where the Legislature has delegated to another body the right to choose and prioritize projects in a category. They do this for the public schools through the Public School Capital Outlay Council, as well. Next year, the Board will be faced with individual projects for tribal infrastructure and colonias projects that will be selected by a body other than the Legislature.

Secretary May said he sits on the Water Trust Board and there are more projects than there is money to cover them because of needs arising out of the current drought. He said about $45 million has been requested with about $24 million available.

**The motion passed 6-0 by voice vote.**

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**8. Approval of Supplemental Severance Tax Note Resolution, Series 2011S-B**

Ms. King stated that the Supplemental Severance Tax Note is designated for the public schools as identified by the Public School Capital Outlay Council. The new version of the resolution establishes the final principal amount of the note at a maximum of $155 million, and the Council has already certified $169 million worth of projects.

**Mr. Tinnin moved for approval. Treasurer Lewis seconded the motion.**
Secretary May commented that many school projects that would otherwise not have been funded will be funded through this Supplemental Severance Tax Note with the inclusion of about $59 million of additional capacity.

Speaking to Mr. Spencer’s earlier concerns about bills in Congress to eliminate the tax exemption for municipal bonds, Mr. Heyman said this is usually done in the context of a substitute for a direct subsidy bond, which was similar to the Build America Bonds, where the notes are issued at a taxable rate but the federal government agrees to pay X amount of the interest directly; so rather than giving the taxpayer a break on the interest, they pay the money directly to the local government or the state. He said people in Washington say that is a more efficient way of creating the subsidy -- so they are not talking about totally eliminating subsidized funding for local government, but they are trying to change it.

The motion passed 6-0 by voice vote.

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


Mr. Gara reported financials for the CBRF Fund, with a beginning balance as of March 1 of $16,563,950. After cash receipts and cash disbursements, the ending balance at March 31 was $16,960,981. Subtracting cash commitments to Legislative Council Service and approved projects, the uncommitted cash balance as of March 31 was $851,434. Year to date revenues total $4,011,015.

There were no emergency declarations for the month of March.

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

Mr. Gara requested a six-month extension on the due diligence period on the purchase contract for approximately 20 acres in the Las Soleras project at I-25 near Cerrillos Road. He said moving it forward six months will allow time for the General Services Department to review the financial analysis for this project, for which it has hired an independent accounting firm, and to allow additional issues to be addressed by the Department of Transportation around the proposed Railrunner stop.
Responding to Treasurer Lewis, Mr. Gara stated that, based on comments from the developer that there are transactions either under contract or closed for retail sites and other development in the area, property values in the area are certainly going up.

Board legal counsel Zack Shandler requested that approval of this request be contingent upon (1) Director receipt of the final purchase agreement incorporating all comments provided by the Board staff prior to the November 2010 Board of Finance meeting and (2) Director receipt of a final title binder prior to closing that deletes special exceptions 15 and 16, and that includes the correct date on which the associated plat was filed in the binder’s legal description.

Mr. Shandler said these items have been stated before in the minutes, but to be prudent, they are being included in the minutes again to make it clear that staff still needs these items.

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

**ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT**

Presenters: Tommy Mutz, State Parks Director; Charles Ulm, Business Enterprise Coordinator

10. Energy, Minerals and Natural Resources Department, State Parks Division – Requests Approval of Concessions Contract with Southwest Expeditions at Mesilla Valley Bosque State Park (Minimum monthly rental amount for life of contract is $300 and maximum annual amount for the first three years is $5,000, subsequent years the maximum shall be 5 percent of net receipts).

Mr. Mutz requested approval of a concession contract with Southwest Expeditions to provide a gift shop, outdoor equipment rental and guided tours in Mesilla Valley Bosque State Park outside of Las Cruces. He said this is a 5-year contract with one 5-year renewal clause, and the concession fee is 5 percent.

Mr. Mutz stated that an RFP was issued, with one bidder responding. He said this is the third attempt; with the previous two RFPs, there was no response.

Responding to Lt. Governor Sanchez, Ms. Schardin Clarke stated that no infrastructure improvements by the concessionaire are expected as part of this contract.

Mr. Tinnin moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.
11. Energy, Minerals and Natural Resources Department, State Parks Division – Requests Approval of Concessions Contract with Broken Saddle Riding Company at Cerrillos Hills State Park (7 percent of net receipts).

Mr. Mutz requested approval of a concession contract with Broken Saddle Riding Company to provide a horseback riding service in Cerrillos Hills State Park. He said this is a 5-year contract with a 5-year renewal option, and the concession fee is 7 percent.

Mr. Mutz stated that an RFP was issued for this contract, with Broken Saddle Riding Company as sole bidder.

Responding to Mr. Tinnin, Mr. Mutz stated that the State Parks Division generated $356,000 in royalties off of all concession operations in 2010; and the gross amount for the concessions was $5+ million.

Mr. Tinnin asked if there is a basis for deciding on what is a fair fee to charge the concessionaire; for instance, are fees higher in some areas based on usage and other factors. Mr. Mutz responded that the fees are negotiated and are arbitrary. He added that a lot of concessions are in secluded areas and are the sole providers of services to the visiting public. Over time, State Parks has tried to grow the percentage based on whatever the concessionaire’s gross income is.

Mr. Ulm added that much of it depends on economic conditions and weather conditions. As lake levels go down, so do revenues for the concessionaires. He stated that the sole bidder tends to be the existing contractor “who’s just trying to hang on.” He said negotiations start at 10 percent; and by statute, a contract can go for 30 years. The last administration preferred 10 years, which can be very difficult for a $5 million marina, and the hope is that the current administration will work with State Parks and allow longer-term contracts.

Ms. Schardin Clarke stated that no infrastructure improvements by the concessionaire are expected as part of this contract.

Lt. Governor Sanchez asked if State Parks is casting a large enough net to encourage more bids.

Mr. Mutz responded that State Parks tries to saturate the area where the concession opportunity exists as best it can.

Mr. Ulm added that the marina contracts were turned over to concessionaires in 1986, when State Parks got out of the business of running marinas. He said these 30-year contracts are coming up now, and although State Parks is advertising nationwide, there is little response. The last two contracts were for Conchas Lake State Park and Sims at Navajo Lake, and the existing contractors were the sole bidders. He commented that the biggest test will happen in the next couple of years, when the three major marinas at Elephant Butte will come up for bid. State Parks is thinking about combining them into one contract to see if a national player is interested.
He added, though, that most of the State Parks concessions are in depressed remote areas, making it very difficult to attract new bidders.

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

**HIGHER EDUCATION DEPARTMENT**

Presenters: David Hadwiger, Director of Institutional Finance; Tom Drake, Executive Director for Business and Governmental Relations; Erik Harrigan, Financial Advisor; Duane Brown, Bond Counsel

12. **Clovis Community College – Requests Approval of System Refunding Revenue Bond Series 2011 ($1,600,000)**

Dr. Hadwiger requested approval of the sale of System Refunding Revenue Bonds Series 2011 to the New Mexico Finance Authority for the purpose of refunding, refinancing and discharging the District’s System Revenue Bonds, Series 2001, and paying the costs of issuance.

At Secretary May’s request, Dr. Hadwiger explained to the Board that, last week, Governor Martinez, HED Secretary José Garcia and university and college officials statewide agreed to a voluntary moratorium on building new branch campuses, new learning centers and new facilities that would impact the state funding formula. He said the Board of Finance would continue to see requests for renovations and new-build projects that do not impact the funding formula, e.g., dormitories and residence halls.

Dr. Hadwiger noted that all of the HED-related projects on the Board agenda today comply with the moratorium.

At Ms. Schardin Clarke’s request, Dr. Hadwiger agreed to specify in HED’s monthly cover letter to the Board that all projects for Board review do comply with the moratorium.

**Mr. Tinnin moved for approval. Treasurer Lewis seconded the motion.**

Board legal counsel Zack Shandler read a summary of the parameters resolution into the record as follows: “This is Clovis Community College System Refunding Revenue Bond, Series 2011 with a principal up to $1,440,000. The proceeds will be used to refund, refinance, discharge and pay the outstanding System Revenue Bond, Series 2001. The final maturity date is June 1, 2021 with a net effective interest rate not to exceed 3.596%.

“If the Board votes to approve this item, it shall be contingent upon the Director's receipt of items required under Rule 2.61.5.10.A(2)(g), 2.61.5.12 and 2.61.5.16 NMAC.”

The contingency was added to the motion as a friendly amendment.
The motion, as amended, passed 6-0 by voice vote.

Presenters: Dr. Dan Lopez, President; Miguel Hidalgo, Special Projects Director; Al Garcia, Facilities Planner; Dr. David Hadwiger, Director of Institutional Finance

13. New Mexico Institute of Mining and Technology – Requests Approval of Macey Mechanical Renovation ($1,295,600)

Dr. Hadwiger requested approval of mechanical renovations at the Macey Center on the New Mexico Tech main campus, to replace the existing air handler with a new DX/heating hot water unit. He said the project cost is $1,295,600, paid for from New Mexico Tech internal funds.

President Lopez stated that Macey Center was constructed in 1981, and the mechanical system has outlived its useful life. He said there are pigeon droppings, mold and corroded pipes, and the project is long overdue.

Responding to Lt. Governor Sanchez, Mr. Hidalgo said there will be major improvements to the insulation, including full insulation of the ductwork. He said increased energy efficiency, as part of the project’s adherence to the State’s “green code” requirements, will save a minimum of $5,000 a year in utility costs.

Responding to Mr. Tinnin, Mr. Hidalgo said they are hopeful that the bids will come in under the engineer’s estimate of $29 per square foot.

Responding to Mr. Tinnin, Mr. Hidalgo said this project would be subject to Davis-Bacon Act wage requirements, which could increase the overall cost of the project by 30%.

Mr. Aragon commented that he is in favor of this project, but with reservations, based on the fact that the State will be paying a higher wage rate than a private developer would be paying, based on the internal policies of the State as mandated by the Legislature.

Lt. Governor Sanchez stated that this administration would work closely with the Legislature to try to change the law.

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

[Lt. Governor Sanchez left the proceedings.]

14. WITHDRAWN.
Presenters: Chris Vallejos, Associate Vice President for Institutional Support Services; Vahid Staples, Budget Officer; Dr. David Hadwiger, Director of Institutional Finance

15. University of New Mexico — Requests Approval of Laguna/DeVargas Complex Interior Renovations ($2,300,000)

Dr. Hadwiger requested approval of general maintenance and refurbishment of approximately 93,152 square feet at the Laguna Building and DeVargas Residence Hall Complex at UNM, to be paid from UNM Residence Life & Student Housing Plant Fund balances.

Responding to Acting Chair Gasparich, Mr. Staples stated that, while there are other dormitory-related projects taking place on the UNM campus at the current time, this particular project will take three months and will be completed before students return for the fall semester. Overall, there will be increased capacity once the housing on South Campus comes on line.

Mr. Tinnin said he would like Board staff to bring back the bids on projects like this before the bid award is made. This would offer an opportunity for the Board to decide whether bids submitted on a given project are seriously out of line and that the project should be rebid. He recalled that this happened when he was on the Board during the Johnson administration.

Ms. Scharin Clarke noted that, more recently, the Board has included in its rule that if any project comes back with a final budget that is 10% or more higher than what the Board has approved, it has to come back to the Board for re-approval.

Mr. Tinnin responded that this was helpful information, but the Board should be cognizant of the fact that there are bids that are unreasonably high, and the Board should know about them.

Ms. Scharin Clarke said she understood Mr. Tinnin to be referring to projects that come in above budget but below the 10% threshold.

Mr. Staples commented that one “silver lining” in this challenging economic environment is that, overall, bids are in fact coming in significantly below estimates.

Secretary May stated that he and Ms. Scharin Clarke would work with Dr. Hadwiger to respond to Mr. Tinnin’s request. He agreed the Board should know what the final bids are.

Mr. Aragon said he thought it disconcerting that bids are coming in lower simply because of the economic environment – this would seem to say that bids have been inflated when the economic environment was more positive.

Mr. Staples responded that, based on feedback UNM has received, contractors are foregoing any profit in order to keep their workforce together and cohesive. He added that UNM works hard, in engineering projects, to ensure that taxpayers get the best value for their investment without compromising quality.
Secretary May added that DFA has heard from other governmental entities that they are experiencing lower-than-expected project costs, based on the bidding atmosphere, so it would be fair to say that the numbers the Board is seeing are more like a project cost ceiling as opposed to a projection of true cost.

Mr. Tinnin asked if UNM is prioritizing its projects so that more immediate needs, such as crumbling infrastructure, are addressed first.

Responding, Ms. Schardin Clarke noted that, over the last seven or eight years, the past Board of Finance engaged in a lot of dialogue with HED institutions about strategic planning and master planning. For years, there was a sense that the Board had been telling HED that it wanted them to demonstrate how these individual projects it was asking the Board to approve fit into a statewide strategic plan. Because of turnover of management at HED, and for other reasons, it never really materialized until the last year of the last administration, when HED Secretary Dr. Viola Florez picked up the ball and held stakeholder meetings all over the state. At the very end of the last calendar year, she presented a draft master plan for higher education to the Board. Ms. Schardin Clarke said she thought it fair to say that it was generally felt the draft master plan was somewhat disappointing in that it did not specify action steps or directions, but was more of a mission statement. While it identified a lot of worthy goals, it did not identify funding sources or necessary legislative changes, among other things; so there is still some work to be done if the new administration and new Higher Education Department want to keep going with it.

Secretary May stated that Governor Martinez wants to create a process for the Board of Finance, DFA and GSD to evaluate, rank and prioritize projects, following a model like that of the Public School Capital Outlay Council.

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

16. **University of New Mexico – Requests Approval of Student Family Housing Renovations ($1,200,000)**

Dr. Hadwiger requested approval of the renovation of the Student Family Housing facility, located on the South UNM Campus, in the amount of $1,200,000. The facility was constructed in 1975 and consists of 13 separate building structures that house 200 units. Over the last 24 months, the apartments have been re-roofed, parking lots repaired and a new fire alarm system has been installed. The project includes re-stucco and replacement of windows and sliding glass doors.

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

17. **University of New Mexico – Requests Approval of Clinical Neurosciences**
Core Renovations of Logan Hall ($5,584,723)

Dr. Hadwiger requested approval of renovations at UNM’s Clinical Neurosciences research base to create a state-of-the-art Clinical Neurosciences Core facility. The project will renovate 9,937 square feet of the second floor of Logan Hall for clinical neurosciences laboratories, a trans-cranial stimulation lab, imaging and data analysis spaces, collaborative/computerized work areas, offices, and support spaces.

Dr. Hadwiger said the project would be funded with $4,964,723 from a National Institutes of Health grant, with matching institutional funds at $620,000, for a total of $5,584,723.

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

18. University of New Mexico, Gallup Campus – Requests Approval of Gurley Hall Backfill ($870,000)

Dr. Hadwiger requested approval of renovations to 30,551 square feet of Gurley Hall at UNM’s Gallup Branch Campus to backfill and realign the space to enhance seating, computer access points, the bookstore and offices. The project will be funded with $870,000 from McKinley County general obligation bonds.

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

Presenters: Scott Smart, Vice President of Business Affairs; Greg Salinas, Bond Counsel; George Williford, Financial Advisor; Dr. David Hadwiger, Director of Institutional Finance

19. Eastern New Mexico University – Requests Approval for Issuance of Subordinate Lien System Revenue Bond Series 2011 ($28,350,000)

Dr. Hadwiger stated that this item is tied to specific projects that follow it on the agenda (Items 20-23).

Dr. Hadwiger requested approval of the issuance of System Revenue Bonds and System Revenue Refunding bonds to fund demolition of three dormitory facilities, construction of a new residence hall to accommodate 300 to 350 students, replacement of the ceiling at Greyhound Arena, replacement of the campus hot water piping system, and to refund outstanding maturities of ENMU’s Series 1998 System Revenue Bonds.
Responding to Acting Chair Gasparich, Mr. Salinas stated that this is the senior revenue financing lien for the University, so the bonds are being issued on parity with the existing senior lien bonds, and there is no debt above these bonds.

Mr. Williford explained that, in the original application, the use of the term “subordinate” was erroneously used.

Board legal counsel Zack Shandler read a summary of the parameters resolution, as follows: “This is Eastern New Mexico University System Improvement Refunding Revenue Bonds Series 2011, with a principal up to $28,350,000. The proceeds will be used for (1) purchase, construction, erecting, altering, improving, repairing, furnishing and equipping buildings, improvements and facilities; (2) refunding two final maturities in the Series 1998 bonds in the balance of $950,000 and (3) payment of cost of issuance. The final maturity date is April 1, 2037 with a net effective interest rate not to exceed 6%.

“If the Board votes to approve this item, it shall be contingent upon the Director's receipt of items required under Rule 2.61.5.10.A (2)(g), 2.61.5.12 and 2.61.5.16 NMAC and Director's receipt of closing of the System Revenue Bonds Series 2011 evidencing that proceeds are available for the proposed projects.”

Mr. Tinnin moved for approval, with the contingency. Mr. Aragon seconded the motion.

Responding to Acting Chair Gasparich, Mr. Williford said the true interest cost of the bonds is estimated at 4.7%.

New Mexico Finance Authority bond counsel Richard Virtue stated that this financing meets all policies required for the purchasing of bonds.

The motion passed 5-0 by voice vote.

20. Eastern New Mexico University – Requests Approval of Ceiling Replacement of Greyhound Arena ($2,500,000)

Dr. Hadwiger requested approval of the replacement of the existing ceiling in the main basketball arena at Greyhound Arena. The approximately 60,000 square foot ceiling is composed of a cement backer board with an acoustical treatment sprayed on that contains asbestos. This project will be financed through the bonds approved by the Board in Item 19.

21. Eastern New Mexico University – Requests Approval of Replacement of Heating Loop ($6,000,000)

Dr. Hadwiger requested approval of the replacement of a 30 year old campus-wide hot water
loop that provides heating to the entire campus. After the system began leaking in 2008, an engineering analysis of the system revealed that the pipe walls had lost as much as 74% of their thickness from corrosion. The system failed again in February 2011 and has been patched. The failure nearly caused a catastrophic loss of all campus facilities. This project will be financed through the bonds approved by the Board in Item 19.

22. Eastern New Mexico University – Requests Approval of Razing Old Dorms ($3,500,000)

Dr. Hadwiger requested approval to raze three former residence halls at the Portales Campus. The total combined square footage of all three facilities is 200,000. The facilities are not currently utilized and continue to deteriorate. The cost to remodel them and bring them up to code exceeds the benefits gained from doing so. This project will be financed through the bonds approved by the Board in Item 19.

23. Eastern New Mexico University – Requests Approval of New Residence Hall ($15,000,000)

Dr. Hadwiger requested approval of the construction of a new freshman hall that will replace Bernalillo Hall, constructed in 1966 and serving as the current freshman hall. An engineering study has revealed that the wastewater piping system in the entire facility is in immediate need of replacement. The University reports that it makes the most economic sense to construct a new facility given the age of Bernalillo Hall and the need to replace the HVAC and plumbing systems. This project will be financed through the bonds approved by the Board in Item 19.

Board legal counsel Zack Shandler requested that any Board approval be contingent upon Director’s receipt of closing of the System Revenue Bonds Series 2011 evidencing that proceeds are available for the proposed projects.

Mr. Tinnin moved approval of Items 20, 21, 22 and 23, with the contingency. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

PROPERTY DISPOSITIONS

24. WITHDRAWN.

Presenter: Mr. Arturo Jaramillo, legal counsel; John Wolfe, Chief Financial Officer, Los Alamos Public School District

25. Los Alamos Public School District – Requests Approval of Amendment to Lease with VISTA Control Systems for Real Property at 2075 and 2101 Trinity Drive ($4,270.98 per month plus utilities)
31. Los Alamos Public School District – Requests Approval of Amendment to Lease with Jon McDonald, DDS for Real Property at 2075 and 2101 Trinity Drive ($1,935.15 per month plus utilities)

Mr. Jaramillo stated that he appeared before the Board at its March meeting seeking approval of these two leases, which are part of a larger transaction by which the Los Alamos Public School District is purchasing an administrative complex that they are currently leasing. The Board approved the assumption of the two leases with a number of conditions, one of which involved an amendment incorporating a non-appropriations clause. He said the two tenants reviewed the condition and expressed strong concerns that, in this economic environment, there was a potential for the District in the future to indiscriminately use the clause to terminate their contracts.

Mr. Jaramillo stated that the non-appropriation clause is necessary to meet the requirements of the Bateman Act and NM Constitution, which both disallow a state entity such as a public school system from contracting debt in the future that cannot be paid from the current year’s appropriations. He said the Special Fund Doctrine, however, provides that if a fund is set aside in the year the contract is entered into in order to cover future expenses, a special exception can be made from the Bateman Act and constitutional provisions.

Mr. Jaramillo stated that the District accordingly sought the development of an escrow agreement with Los Alamos National Bank, into which the District would deposit funds that would represent the potential costs it would incur as lessor under the two leases through 2016 and 2017. The District engaged an architect to inspect the leased premises and determine potential repair and maintenance costs if the properties are assumed by the Schools. He said his firm also prepared a legal analysis. He said the architect has determined that potential expenses for interior and exterior work and mechanical replacements through the end of the lease terms would be in the amount of $53,533.

Mr. Jaramillo stated that one lease is with a software development company, Vista Control Systems, and the other lease is to a dental office. Over the lives of the leases, the District will collect $880,000. He said his firm’s legal analysis reflects very little in contingent liabilities.

Board legal counsel Zack Shandler requested that any approval of Items 25 and 31 be contingent on (1) Director receipt with review of board counsel of amendment executed and approved by the parties and on (2) fulfillment of remaining contingencies provided in the Board’s motions in the March 15, 2011 meeting.

Mr. Tinnin moved for approval of Items 25 and 31, with the contingencies. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

EMERGENCY FUND BALANCES
Presenter: Stephanie Schardin Clarke, Interim Director

Operating Reserve Fund (Laws 2010) $977,607.13  
Operating Reserve Fund (Laws 2011) $750,000.00  
Emergency Water Fund $126,800.00

Ms. Schardin Clarke reported these balances. She stated that any unused balances remaining after the June meeting will be swept back into the general fund, and the Board will begin with a new appropriation for FY 2012.

Ms. Schardin Clarke said the Gaming Control Board will be submitting a sizable repayment which, if received in time, can be used for emergency loans in FY11; otherwise, it will go back to the general fund.

Secretary May added that DFA is taking steps to repay its loan, which is in the amount of $160,000, in early June.

Secretary May noted that the Secretary of State’s Office owes over $1.1 million in loans to the Board, and DFA is working with that office to determine how the money can be repaid. He said the previous administration submitted a request to DFA that the loans be converted to grants, but this administration is not necessarily in favor of that approach.

Secretary May said the Governor has pulled back $2.6 million in federal stimulus (Government Services Fund) money from previous projects approved by the previous administration to give her administration some flexibility to help agencies with last minute FY 2011 items. The $2.6 million has to be spent by September 30, 2011, and DFA is planning to help DPS, for instance, which is under tremendous pressure because of the rising cost of fuel. He said the monies may also be used to help defray the costs associated with fighting fires in the upcoming fire season.

Secretary May also said State agencies seem to be faring well in FY 2011 with the employee hiring freeze, but FY 2012 may be another story, depending on the state of the economy.

Treasurer Lewis noted that STO is in the process of moving to another location, where the lease rates are cheaper.

Secretary May said DFA is helping other agencies find cheaper space, and has surveyed available leases.

EMERGENCY FUNDING REQUEST
Presenter: Al Gallegos, President

27. La Bajada Community Ditch and Mutual Domestic Water Association — Requests Approval of Emergency Water Loan
for the Repair and Protection of the Domestic Water System
($38,000)

Alonzo Gallegos, President of the La Bajada Community Ditch and Mutual Domestic Water Association, appeared before the Board with Association secretary Vangie Tinajero, board member Henry Barreras and the ditch mayordomo (unidentified). Also present was Santa Fe County Commissioner Robert Anaya.

Mr. Gallegos stated that, on January 29, the community water line froze and the community did not have water again until April 1. He said the community is grateful for State and County assistance in having water delivered by the National Guard. He said the line dates back to 1918. Since 1971, when the line was given to the community along with water rights, the residents have maintained it at their own expense.

Mr. Gallegos said the Association has exhausted its funds repairing the line, and there is concern that another cold snap could freeze the line again, since it is not buried, and all their repair work would be for naught. He requested an emergency loan in the amount of $38,000 to pay bills incurred by the Association and to finish protecting the line. He added that the County engineer and others have recommended that the Association sink a supplemental well and increase the storage capacity, which is currently 8,600 gallons for 15+ families.

Ms. Schardin Clarke said Board staff has reviewed this request extensively. She referred to financial statements reflecting that the bank balance of the Association at about zero, and she understands the account balance is $100, the minimum needed to keep the account open. She said staff has confirmed that no other funding source is available.

Ms. Schardin Clarke said she feels the Association genuinely qualifies under the emergency criteria. She said $14,160 worth of work has been done for the emergency repairs, which includes labor, use of a backhoe and materials, but there is no funding to pay for them yet. In addition, there is $24,739.07 in quotes and estimates of additional labor that needs to be done. She said the Association has provided the Board with copies of the quotes from different construction firms, and staff feels the quotes are reasonable.

Ms. Schardin Clarke stated that, if the Board is inclined to approve this request, staff has prepared a resolution declaring that the Board has determined, pursuant to Section 3-27-9, that an emergency exists requiring an expenditure in order to provide an adequate and safe drinking water supply for residents of the community, which is less than 5,000 in population and which uses the water supply system in common (both statutory requirements). The resolution stated that the loan of $38,000 would come from the FY 2011 Emergency Water Fund to be used to prepare and protect the existing water line. The resolution states that the loan shall bear no interest and shall be repaid in annual payments of $3,800, due on June 1, 2012 and each June 1 thereafter until repaid in full.

Ms. Schardin Clarke stated that, at the April Board meeting, Mr. Tinnin and the Board discussed quarterly reporting from entities that receive emergency loans. If the Board feels
it is appropriate, the following language can be added to the resolution: “La Bajada Community Ditch and Mutual Domestic Water Association agrees to provide quarterly reports on a form prescribed by the Board each April 15, June 15, October 15 and January 15 until the loan is repaid in full.”

Board members agreed that this should be standard language in all such emergency resolutions.

Commissioner Anaya thanked Governor Martinez and her staff, Sen. Phil Griego and the late Rep. Jeannette Wallace for working closely in order to get the emergency designation for this small community. He said he would continue to make efforts to get the community’s primary water source in place.

Mr. Gallegos said he was in agreement with all of the stipulations stated by staff.

Addressing the source of repayment, Ms. Schardin Clarke noted that the Association feels water rates can be increased by $12 per 6,000 gallons, which will provide about $4,000 a year in additional revenue, of which $3,800 would be earmarked for repayment of the loan. In order to implement a rate increase, the community board of directors would need to grant approval.

Responding to Treasurer Lewis, Mr. Gallegos said that, if the Association is able to get a grant, it will use the grant money to repay the loan to the Board of Finance as soon as possible.

Mr. Aragon moved for approval of the resolution, with the additional language requiring quarterly reporting. Mr. Spencer seconded the motion, which passed 5-0 by voice vote.

**STAFF ITEMS**
Presenter: Stephanie Schardin Clarke, Interim Director

28. Approval of Publication of Notice of Proposed Rule Amendment – Real Property Acquisitions, Sales, Trades or Leases

Ms. Schardin Clarke said staff is requesting approval to publish notice of proposed changes to the Board of Finance’s rule on Real Property Acquisitions, Sales, Trades, or Leases, which is NMAC 1.5.23. The proposed changes are necessary as a result of the enactment of HB 283 during the 2011 Legislative Session, which provides that as of July 1, 2011, school district leases with charter schools will require approval by the Public Schools Facilities Authority rather than the Board of Finance. The proposed amendment also makes some technical clarifications and makes clear that entities requesting approval of property acquisitions must submit full-sized plats of survey.

Ms. Schardin Clarke stated that, if the Board approves this publication of notice, the proposed changes will be published in the New Mexico Register on June 15, 2011 and a 30-day
public comment period will span from then until July 14, 2011. Staff will then bring the rule, along with any changes necessary as a result of public comment, to the Board for final approval at the regularly scheduled July 19, 2011 meeting.

Ms. Schardin Clarke said the proposed changes will be available at the offices of the State Board of Finance at 181 Bataan Memorial Building or on the Board’s website, www.board.nmdfa.state.nm.us. Comments on the proposed rule amendments should be submitted in writing to Stephanie Schardin Clarke, Interim Director, in writing as soon as possible but no later than July 14, 2011.

Mr. Tinnin moved to approve publication of notice. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.

29. Fiscal Agent/Custodial Bank Fees

Ms. Schardin Clarke stated that, in FY 2011, average balances at the fiscal agent bank have increased 40% over the same period in FY 2010, due in part to fully transitioning from Bank of America to Wells Fargo. Services provided by the fiscal agent are costing about $100,000 a month on average. Cash balances are currently earning 50 basis points, which has averaged $29,000 per month over the 9 months in FY 2011, meaning that almost 30% of fees are being offset with earnings credits.

Ms. Schardin Clarke reported that custody bank fees from JP Morgan are also reported for the months available. The Board pays the State Treasurer’s portion of the fees, which are averaging $6,500 per month, up slightly from the average under the previous contract with Northern Trust.

Mr. Aragon asked how long ago the fiscal agent was selected, and Ms. Schardin Clarke responded that the contract with Wells Fargo began May 1, 2010, and the procurement was in the fall of 2009. She said it is a two-year contract with options to extend each year to a maximum of four years.

Ms. Schardin Clarke also explained that all of the Board’s contracts – including bond counsel, disclosure counsel, financial advisor, custody bank and fiscal agent -- were put in place and approved by the previous Board, and the procurement was either conducted by herself, the previous Director, or both. She said each of the contracts contains a provision that the Board may terminate a contract without cause with a certain number of days’ notice. This Board, having not chosen its own advisors, would have the option to terminate early or to wait for the procurement period to run.

Mr. Aragon said he wasn’t suggesting that the Board look into terminating any contracts, but thought it would be useful for the Board to discuss what options it might have.

Ms. Schardin Clarke responded that the Board could schedule this as a discussion item at
one of its meetings. If the Board were to decide to terminate any contract, however, time would have to be allotted for the procurement process as well as a transition period from old contractor to new contractor. She commented that some transitions are fairly straightforward, but others are not; for instance, the transition period for custody bank or fiscal agent can be at least a year.

Mr. Aragon said it would behoove the current administration to look into all of the contracts as soon as possible, and asked staff to schedule discussion at the next meeting.

Responding to Secretary May, Mr. Shandler said he would work with staff to schedule the discussion either in open session or executive session.

Treasurer Lewis noted that the State Investment Council and Educational Retirement Board now have the authority to issue an RFP for their own custody bank, but both have indicated that they do not intend to issue RFPs in the near future because of the time involved, which can be almost a year. He said the Board of Finance may want to consider this as part of the upcoming discussion.

Mr. Tinmin added that he has been involved in the procurement process for many of these contracts under previous administrations, and it is an arduous task. He said he is familiar with most of the contractors, who have worked through Republican and Democratic administrations, and he has found them to be largely apolitical. He said, “I would caution the Board that changing for changing’s sake, unless it’s for good reasons, is not something I would advise.”

Mr. Aragon commented that the Board does not know what the considerations were in choosing the contractors, however.

Ms. Schardin Clarke stated that staff would provide the scoring information from all of the contracts.

Ms. Schardin Clarke stated that the transition process is most disruptive with the fiscal agent and custody bank. With the fiscal agent transition, the State Treasurer’s Office and the Financial Control Division bear the brunt of that. She said Anthony Armijo, former Director of that Division, now retired after 20 years of service, had discussed with her the need for the Board of Finance to seek a legislative appropriation to pay the costs of transitioning, which the last time were around $200,000, and for which Financial Control and the Treasurer’s Office did not have the funds. She said she would therefore suggest a contingent appropriation in the next budget year’s HB 2; and if there is no transition, the appropriation can revert back to the general fund.

30. **Joint Powers Agreement**

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

Its business completed, the State Board of Finance adjourned the meeting at approximately 11:50 a.m.

Susana Martinez, President

Date

John Gasparich, Secretary

Date