MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
April 15, 2014

A Regular Meeting of the New Mexico State Board of Finance was called to order on this date at 9:04 a.m. in the Governor’s Cabinet Room, Fourth Floor, State Capitol Building, Santa Fe, New Mexico.

1. ROLL CALL: QUORUM PRESENT

Members Present:
The Hon. Susana Martinez, President [arriving at 10:22 a.m. and leaving at 12:00]
The Hon. John Sanchez, Lt. Governor [leaving at 12:15 p.m.]
The Hon. James B. Lewis, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Del Archuleta, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Excused:
None

Staff Present:
Ms. Stephanie Schardin Clarke, Director, State Board of Finance
Mr. Jeff Pimm, Deputy Director, State Board of Finance

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

Others Present:
[See sign-in sheets.]

2. APPROVAL OF AGENDA
NEXT REGULAR MEETING: TUESDAY, MAY 20, 2014

Ms. Clarke asked that Item 20 (Fiscal Agent/Custodial Bank Fees) be postponed, as there are no invoices to report.

Mr. Aragon moved to approve the agenda, as amended. Mr. Brasher seconded the motion and it passed 6-0 by voice vote.
3. **APPROVAL OF MINUTES:** March 18, 2014 (Regular Meeting)

Mr. Archuleta moved for approval of the March 18, 2014, minutes, as submitted. Treasurer Lewis seconded the motion, which passed 6-0 by voice vote.

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

4. **Emergency Balances – April 2014**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,475,150.00</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$79,349.00</td>
</tr>
</tbody>
</table>

Ms. Clarke reported these balances.

**SEVERANCE TAX BONDS**
Presenters: David Buchholtz, Rodey, Dickason, Sloan, Akin & Robb, Co-Bond and Disclosure Couse; Jill Sweeney, Brownstein Hyatt Farber Schreck, Co-Bond and Disclosure Counsel; David Paul, Fiscal Strategies Group, Financial Advisor

5. **Approval of Notice of Bond Sale Resolution Including Form of Preliminary Official Statement, Severance Tax Bond Series 2014A**

Mr. Buchholtz reported that he has left Brownstein Hyatt Farber Schreck and yesterday joined Rodey, Dickason, Sloan, Akin & Robb. His former partner, Jill Sweeney, is also leaving the Brownstein firm and will be joining Sherman & Howard tomorrow.

Mr. Buchholtz stated that the resolution before the Board today calls for a bid process for the sale of the bonds. The sale, opening of the bids, and choosing of the best bid will take place on May 20, 2014. He stated that the document also allows the Board to have its first look and review of the Preliminary Official Statement, which is the securities disclosure document. He said the information in it is relatively current and it has been circulated to the Board and other agencies.

Mr. Buchholtz reviewed the disclosure responsibility memo circulated to the Board. In addition to outlining the responsibilities of the Board, it also cautions about SEC actions taken against two states regarding disclosure of securities issues.

Responding to Mr. Kormanik, Mr. Paul said the net proceeds of the transaction are required to be in the range of $196 million, which is the approximate amount of projects to be funded from that amount. The structure of bids in the market have institutional couponing, which is the nominal interest rates on the bonds that the institutional investors tend to prefer, which are in the 3 to 5 percent range. Because the actual yields that will be paid will be in the range of 15 basis points to around 2 to 2.5 percent over the 10 year period, the investors will pay a substantial premium; so approximately $25 million of original issue premium will be provided to the state. In the normal market, they would expect to see around $20-$25 million of original issue premium, so the bond size will be around $175 million.
Mr. Paul said the duration of the bonds is expected to be about six to six and a half years. This is the average life of a 10-year issue.

Responding to Mr. Kormanik, Mr. Buchholtz said he has not looked at the New Jersey decision recently, but his recollection is that the concerns were more that funding wasn’t going on at all, and there were circumstances that diverted monies that were expected on a yearly basis for other purposes, and that that was not disclosed in regard to what had happened in the past. He said the Board of Finance does disclose what has occurred up to date, and has made current disclosure in regard to last year’s pension reform matters. He said New Mexico has not had a history of a failure of funding over time in the same way that New Jersey did.

Mr. Buchholtz said he is satisfied with the due diligence and disclosures made. Disclosure is not a guarantee of what will occur in the future but only describes the current state of affairs.

Responding to Mr. Kormanik, Mr. Buchholtz stated that they have not given a training session in the last year or two, but do special presentations to the Board on pension matters and other disclosure matters. In addition, they present detailed disclosure memos, such as that circulated today, and meet regularly with Board staff and with the staff at the Attorney General’s Office. They also meet with directors of the pension programs and policy staff members at the Taxation & Revenue Department.

Mr. Kormanik expressed concern that people understand the issues contextually as opposed to receiving disclosure information piecemeal in a way that does not include the bigger picture.

Mr. Buchholtz suggested holding a half-day workshop that would allow staff members, as they change, to see what this is all about and to understand the bigger picture.

Treasurer Lewis noted that this is a fast-changing environment, particularly with respect to GASB rules, and asked how that will impact disclosure issues.

Mr. Buchholtz responded that he and Ms. Sweeney are challenged by all of the information that is in the intellectual marketplace with respect to pension matters, and they have to sift through the information to determine what is appropriate to make full disclosure. He said some people say there are no issues of importance, while others say, “the sky is falling.” He commented, “We visit with staff, we visit with accounting experts. We are not accountants and we are not financial analysts, we are lawyers, but we nevertheless take into account and read about changes in GASB, how that will affect disclosures that we make, and we move forward. We are certainly not ignorant about those matters, and we treat the day-to-day information we receive from the marketplace as best we can.”

Ms. Sweeney said they regularly track the changes in GASB and disclose the rates being used in the disclosure document.

Responding to comments by Treasurer Lewis about statements made by the mayor of Harrisburg when Harrisburg was in default on its disclosure responsibilities with regard to its accounting statements, Mr. Buchholtz said the SEC will put hard scrutiny on public statements made by elected officials who say that “everything is fine” when everything is not fine. In Harrisburg’s case, the government was not diligent in preparing its materials, didn’t have meetings where disclosure issues were discussed, didn’t make timely filings and didn’t have audits in place.
Ms. Clarke stated that, as she understands it, Mr. Buchholtz is advising is that, because the state makes timely disclosures, audits its financial statements and follows best practices, the financial statements and the filings speak for themselves; so in a sense, the statements of elected officials aren’t what the marketplace must rely on. She said the Board’s disclosure has always stated that the CAFR was reviewed rather than audited, a situation that will change very soon. She asked Mr. Buchholtz if that is enough of a caveat to the general statements he made.

Mr. Buchholtz responded that he is not suggesting that elected officials be reckless or just disregard what public information the government puts into the marketplace, and by and large he does not think New Mexico’s elected officials do that kind of thing. He added that the circumstances in Harrisburg were such that the marketplace had no other source of information. With regard to the Board’s disclosure, the fact that the CAFR has a review and not an audit is a factor, and that statement is made. He said the document is not responsible for “chasing down every speech that every government official has made” about the circumstances of the financial statements of government. The statements in some sense speak for themselves; but to the extent there are press reports, discussions in public, other events that might rise to the level of the marketplace knowing in a consideration of materiality, those are considered. He noted that Ms. Clarke is very good at pointing out to disclosure counsel articles and statements that have been made as well as recent lawsuits that might be pertinent.

Mr. Carrasco recommended minor amendments to the Notice of Bond Sale Resolution and Preliminary Official Statement, which were presented to the Board.

Lt. Governor Sanchez moved for approval of the Notice of Bond Sale Resolution, including the form of Preliminary Official Statement, incorporating Board Counsel’s proposed amendments. Treasurer Lewis seconded the motion, which passed 6-0 by voice vote.

**DEPARTMENT OF FINANCE AND ADMINISTRATION**

Presenters: Wayne Sowell, Director; Jessica Lucero, Deputy Director; Liza Luboff, LDWI and E-911 Bureau Chief; Jackie Miller, Deputy Secretary, DoIT

6. The Department of Finance and Administration, Local Government Division – Requests Approval of E-911 Grant Program Funding Request for FY15 ($10,293,750)

Ms. Luboff requested approval to expend $10,293,750 out of the Enhanced 911 Fund for the Local Government Division’s (LGD’s) proposed FY15 grant awards to the Public Safety Answering Points (PSAPs) inclusive of operating costs and equipment upgrades, where applicable.

Mr. Sowell stated that, last year, the LGD entered into a collaborative effort with the Department of Information Technology (DoIT) to strengthen the technical analysis of the equipment being put into the 47 PSAPs. Since he has been on board, the process of working with the Project Certification Committee (PCC) has worked very well, and all expensive equipment purchases must first go through a rigorous internal analysis by DoIT and the PCC before receiving a review by this Board.

Ms. Luboff added that the LGD would henceforth enter into one-year grant agreements rather than the four-year grant agreements entered into in the past. This will allow better tracking of expenditures.
This change will require the LGD to request the Board’s approval every April for budgets for the following fiscal year.

Ms. Luboff stated that the LGD would create a plan for any project over $100,000. While in the past the Board received a packet from DFA containing vendor quotes, in the future the Board will see a project plan that has been certified by the PCC.

Ms. Luboff stated that LGD has worked closely with DoIT on the RFP for 911 systems and Invitations to Bid for other 911 equipment purchases such as recorders, consoles and generators.

Ms. Luboff said LGD has provided an updated 5-year equipment upgrade replacement plan.

Mr. Primm noted that there are two E-911 fund budget projections; the first of the two is the official projection, showing the fund balance decreasing over time and reflecting a 5+-year replacement cycle. The second one, described by Ms. Luboff, shows a plausible scenario under a 5-year replacement plan. 
He commented that, so far, they have been sticking to the 5-year replacement plan on equipment and that seems to be a good timeframe for maintaining equipment that is supported by the vendors. However, LGD will not have enough money going forward to maintain that pace and will likely have to expand that replacement schedule to 6 or 7 years.

Responding to Mr. Kormanik, Ms. Luboff stated that the revenues for the E-911 program are generated by a 51-cent surcharge on landline and wireless usage. Approximately 5 years ago, there was a drop in landline usage and a sharp increase in wireless usage, resulting in a bump in revenues. In recent years, wireless usage has remained steady while landline usage has continued to decrease. So, projections do not show a significant increase in revenues over the next 5 years. On the other side, the cost of operating and maintaining the E-911 system is increasing. She said projections are based on a 3 percent annual increase on network charges and a 5 percent annual increase on wireless cost recovery. She said operating costs will continue to go up, forcing the replacement period to be extended out, and it may ultimately be necessary to seek a new source of revenue to keep the program going.

Responding to Mr. Brasher, Ms. Luboff said that, while revenues have stabilized, operating costs continue to go up. She said they have fund balance and would like to spend that down, particularly on PSAPs that are much older than 5 years and are “mission critical.” She added that there is about $2 million annually that can be used for capital expenditures. As the costs of technology and operating increase, there will be less available for upgrades.

Mr. Brasher commented that, as revenues remain flat or decrease and equipment costs increase, perhaps there is an alternative to having “PSAP locations everywhere.”

Ms. Luboff responded that the LGD is in fact working with DoIT and the E-911 affiliate and others in the state to discuss those issues.

Mr. Brasher asked Ms. Luboff to return to the Board at some point and provide an update.

Mr. Archuleta moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.
PROPERTY DISPOSITIONS
Presenter: Douglas A. Echols, Deputy County Attorney

7. San Juan County – Requests Approval of Sale of Real Property at 710 East 20th St. in Farmington to Charles Hagen and David Harris ($255,427)

Mr. Echols stated that San Juan County is requesting approval of the sale of surplus property located at 710 E. 20th Street in Farmington. He stated that the building and land together have been appraised at $255,000, and the land at $260,000. He said the County issued an Invitation to Bid in February 2014, and one bid was received from Charles Hagen and David Harris.

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

HIGHER EDUCATION DEPARTMENT

Presenters: Ronald James, Capital Project Coordinator, Higher Education Department; David Harris, Executive Vice President for Administration; Chris Vallejos, Associate Vice President, Business Planning and Services, Institutional Support Services; Lisa Marbury, Interim Executive Director of Institutional Support Services; Nancy Dennis, Associate Dean, University Libraries

8. University of New Mexico – Requests Approval of Zimmerman Combined Service Point Desk, Phase 2 ($1,400,000)

Mr. James stated that University of New Mexico (UNM) is requesting approval of phase 2 of the Zimmerman Combined Service Point Desk Project at a cost of $1,400,000, or $64.36 per square foot. The project encompasses 17,478 square feet. The learning commons and service point desk need renovation and upgrading to better meet the needs of the students. The Zimmerman Library is one of the most heavily used buildings on campus, receiving over 1,134,000 visits in 2013 from students, staff and members of the larger Albuquerque community. Approximately two-thirds of the funding for the project comes from insurance claims due to a 2006 fire, and the remainder from department funds ($320,143) and building renewal and replacement funds appropriated by the state ($150,000).

Mr. Kormanik noted that the Board has heard capital outlay requests during the last two Board meetings from universities, with the funding coming from various sources. He said he would like to see a list of funding sources from HED for the various capital projects and a definition so he can be assured of a consistent definition across the system. For example, are “department funds” from UNM the same as “department funds” from another institution? He commented that some funding sources have esoteric names that aren’t clear to him.

Mr. Archuleta noted that $140,000 has been reserved for surveys and testing. Mr. Vallejos said this is for testing and balancing after the HVAC system is redone and about 7 percent of that is the project management fee. Mr. Archuleta said the form should have this fee defined separately so it isn’t confused with surveys and testing.

Mr. Archuleta moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.
Presenters: Greg Walke, University Architect and Campus Planning Officer, Facilities and Services; Glen Haubold, Associate Vice President, Facilities, Facilities and Services; Alton Looney, Senior Assistant Director, Facilities and Services; Anna R. Price, Associate Vice President for Budget/Controller

9. **New Mexico State University – Requests Approval of Coca-Cola Weight Room Renovation ($750,000)**

Mr. James stated that New Mexico State University is requesting approval of the Coca Cola Weight Room renovation project. All work will be performed within the 13,413 square feet of the existing building, and approximately half of the project funds will go toward renovation and updating of the facility. The other half of the project will fund updated training equipment. The entire project will be funded by a $750,000 gift from Royal Jones, Jr.

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

10. **WITHDRAWN.**

11. **New Mexico State University – Requests Approval of Aggie Memorial Stadium New Synthetic Turf ($1,373,000)**

[Governor Martinez arrived at the meeting during this presentation.]

Mr. Archuleta stated that he would recuse himself from the discussion and vote on this project because his firm will work on the project.

Mr. James stated that NMSU is requesting approval of a project to replace the natural grass turf of the Aggie Memorial Stadium with synthetic turf. NMSU reports that synthetic turf is safer and that transitioning to synthetic turf would reduce maintenance costs and water use while also allowing for more extensive utilization of the field by eliminating downtime for recovery and regrowth of natural turf. The project is mostly funded by a $1 million donation, which would be combined with $23,000 in 2013 Severance Tax Bond proceeds, $250,000 in student fee revenue and $100,000 in plant funds.

Responding to questioning from Mr. Brasher, Mr. Haubold commented that NMSU has prohibited some activities at Aggie Memorial Stadium because it has been too hard on the grass.

Responding to Mr. Kormanik, Ms. Price stated that NMSU has emergency funds set aside for building projects and there is a small internal plant loan fund so departments can proceed with projects. She said the departments actually signed a loan document to request funds for this project, which were sourced from unspent general fund monies.

Responding to Mr. Aragon, Ms. Price stated that NMSU has a student fee review board, and so she believes the board is aware of fees for capital projects. She said recommendations are made by the board annually, and that request is forwarded to the Board of Regents.

Mr. Aragon commented that this issue was discussed at UNM and most of the students have no idea how the student fees are spent. He expressed concern about the continuing increase in student fees
along with the cost of education.

Ms. Clarke noted that this project was fast-tracked, as explained in the report to the Board. She recommended that any approval be contingent upon receiving a letter from HED indicating that the Capital Review Committee reviewed and approved this project.

Mr. Brasher moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote, with Mr. Archuleta in abstention.

Presenters: Dr. Joseph Shepard, President; Sherri Bays, Vice President of Business Affairs; Stan Peña, Director of Facilities and Maintenance; Paul Cassidy, Managing Director, RBC Capital Markets; Katherine Creagan, Attorney, Modrall Sperling Erik Harrigan, RBC Capital Markets, Financial Advisor to WNMU

12. Western New Mexico University – Requests Approval for Improvement System Revenue Bonds, Series 2014 (up to $3,100,000)

HED Capital Project Coordinator Ronald James stated that Western New Mexico University (WNMU) is requesting approval for Improvement System Revenue Bonds, Series 2014, to renovate a portion of the Brancheau Physical Education Complex and exterior space for a Student Fitness Center. Costs of issuance total $75,000. Pledged revenues available for debt service average about $15-$16 million per year, and coverage ratios are expected to vary from 3.8 to 6.9 times after the proposed bonds are issued.

Mr. James stated that these would be fixed rate bonds using a seven-year amortization, and would be served by student fees. He said student fees in the fund now total $538,000. He said Wells Fargo Bank would sign the note contingent on State Board of Finance approval.

Governor Martinez asked that Items 12 and 13 be considered together.

13. Western New Mexico University – Requests Approval of Student Fitness Center ($3,500,000)

Mr. James stated that WNMU is requesting approval of the Student Fitness Center project. This request will assist to renovate 10,300 square feet of the Brancheau Physical Education Complex. The facility will provide a new functioning, code-compliant swimming pool as well as a basketball court, sand volleyball court, walking track and entertainment space. Also, the occupational therapy and kinesiology students will be able to use it as a practicum laboratory for training, internships and assignments. This will have a direct impact on the overall quality of campus life, student activities and in turn a significant impact on overall student enrollment and retention. The funding sources for the project will be $2,975,000 from the issuance of WNMU’s Series 2014 bonds as well as $525,000 in student fees imposed in 2013 for this purpose.

Responding to questions from Mr. Aragon, Dr. Shepard said WNMU likes the callable feature in this bond issue because WNMU wants to retire the debt before moving onto other projects.
Dr. Shepard stated that student fees are completely controlled by the student senate, which holds public hearings and votes on student fees. He added that the student senate has also cut fees during his tenure at WNMU.

Dr. Shepard noted that WNMU’s retention rate is roughly 53 percent, which is not good. He said much of that has to do with the climate in Silver City. There is a bowling alley, but no movie theater. During exit interviews, students comment that there is “nothing to do.” He said WNMU’s exercise room is very small, and while they had a swimming pool, it was leaking 9,000 gallons daily. He commented that this feature is very important in retaining students.

Mr. Aragon commended Dr. Shepard on his courageous approach to this problem. He said he supports this project.

Mr. Kormanik said he had reviewed the table of Historical Pledged Revenues and Revenues Available for Debt Service (page 329 of the electronic materials). He said the numbers are run from 2009 to 2018, and asked what the assumptions were with regard to the increases in student fees from FY 2015-2018 as well as the increases in expenses. He said he had calculated that the revenues as well as expenses would increase by 1.5 percent, and asked if this was a coincidence.

Ms. Bays responded that WNMU’s revenues have remained fairly stable, and they do not expect any significant change in the higher education funding formula. She said there was a decrease in 2013 because GASB no longer allows Pell grants to be included in operating revenues. She commented that they would have to keep their recurring revenues in line with recurring expenditures, so essentially what the numbers reflect are inflationary increases.

Mr. Kormanik commented that the table assumes that fees, legislative appropriations and expenses are going to increase by 1.5 percent for at least the next four years. He asked where the 1.5 percent assumption came from.

Mr. Harrigan responded that inflation is around 3 percent historically. He said they wanted to look at something significantly more conservative than that, and felt the 1.5 percent was a conservative growth assumption.

Mr. Kormanik commented that a conservative approach would be to assume 3 percent for expenses and 1.5 percent for fees and revenues.

Ms. Bays responded that their budget is so small that they cannot build a budget by deflating their balances – there has to be a revenue source for the expenditure to maintain the state-required fund balances.

Dr. Shepard added that they would have to reduce their expenditures down to nothing under that scenario.

Mr. Arceuleta commented that he feels this is a great project and the amenities are very much needed on this campus. Without them, it would be more difficult to recruit students.
Mr. Archuleta said he could see positives and negatives to opening these facilities up for community use. On the negative side, use of the facilities could become saturated and WNMU might find itself having to develop a plan or “pecking order” that would allow it to be used for higher priority purposes.

Dr. Shepard responded that their highest priority is student usage, as they are the ones footing the initial bill. He noted that their projections do not include revenue generated from the community, because they would have lowest priority and would be the first to go “when push came to shove five years, ten years from now as our enrollment grew and it dominated that particular facility.”

Mr. Archuleta expressed concern that WNMU “not fall in love” with the revenues from the community and come to rely on them. He said WNMU should have a policy in place to ensure that the facility retains its originally intended purpose.

Dr. Shepard responded that the community “had a first bite of this apple” when it voted down gross receipts tax revenue bonds for this facility. He added that WNMU’s students then picked up the ball “and the way I look at it, he or she who pays gets to play.” He said WNMU has been very clear in publicly stating through the media, etc., that its first priority is the students.

On the earlier discussion about declining enrollment and students not having anything to do in town, Governor Martinez commented that she wished all of the universities, with the exception of UNM and NMSU, would get together – Northern New Mexico College, ENMU, WNMU, Highlands -- and try to be “specialists in a field or several fields where the professors you brought in were such high quality that that would be the only place you could get that super degree …. and where you’re not duplicating services, but where you’ve actually been able to pump your money into the best of the best professors, internships, and things like that.” She said it would make it more understandable to the taxpayers why the state keeps investing in these schools – while enrollment may be going down at a particular school, students are drawn to the school because that is where they know they can get the best degree available in New Mexico in public policy or whatever specialty they are looking for.

Dr. Shepard responded that WNMU will be going through a program prioritization this year and will be cutting programs and putting more focus on a narrower field of degrees.

Governor Martinez issued a challenge to the universities, with the exception of UNM and NMSU, to not only do what Dr. Shepard was talking about, but also to look at how many credit hours it takes to get a degree. She questioned how many are meaningful to the degree itself, pointing out that some classes are being added on that aren’t necessary. She said, “To bring your colleagues with you is my challenge – to not only figure out what you’re going to be the best of, including Northern, Eastern, Highlands and Tech, but to say let’s all pull together and let’s figure out what we’re concentrating on. Because are we diluting it so much that the quality isn’t there…. That’s my challenge to you. To pull in those other institutions and say, look, let’s take out the classes we don’t need and let’s figure out who’s the best of what so we can continue to invest in our schools at a great level.”

Mr. Aragon commended the Governor for her challenge to the universities, and stated that, in the mid-1990s, Governor Gary Johnson tried to bring the various boards of regents together from the non-research institutions for that very reason. He suggested to Governor Martinez that a summit of that sort could facilitate what she was recommending. He added that the funding formula encourages them to compete with “the guys next door” as opposed to specializing.
Dr. Shepard suggested that each school have its specialized “center of excellence.” For example, if WNMU is going to be a center of excellence in education, then that is where the relevant funding is directed.

Governor Martinez asked HED to provide a table of information to the Board, five days before the next meeting, showing what degrees all of the institutions offer, the number of required credit hours for each certificate, two-year degree, and four-year degree; and if someone already has a master’s, what does it take to get a doctorate in whatever subject.

Mr. Archuleta suggested providing a listing of each university and what degrees they offer on a spreadsheet to allow the reviewer to identify anomalies and commonalities. He added that the next question is how many students are there in each program, and what is the student-teacher ratio?

Governor Martinez agreed. She suggested doing a snapshot of one day, since obviously the data fluctuates.

Mr. Aragon suggested asking Dr. José Garcia to provide a white paper on the idea of a “super board of governors.” He said a constitutional amendment would be required to allow a regent from each board to be part of the super board.

Dr. Shepard suggested including whether a program is online or not, and where the degree is offered. Governor Martinez agreed that should be added. She added that “phase two” is how many of those credits transfer to another university. She commented that someone going to Doña Ana Branch for two years cannot transfer those credits to NMSU; but if someone goes to El Paso Community College for a semester, their Doña Ana Branch credits and El Paso Community College credits all transfer to NMSU, which she thought made no sense.

Mr. Carrasco stated that, if the Board votes to approve the bond issue, let the record reflect that the parameters resolution issued by the Board provides for a principal amount not to exceed $3.1 million, a net effective interest rate not to exceed 5 percent, final maturity no later than June 15, 2022, and delivery to the purchaser on or before October 1, 2014.

Mr. Aragon moved for adoption of Item 12. Mr. Brasher seconded the motion, which passed 7-0 by voice vote.

Mr. Archuleta moved for approval of Item 13. Mr. Brasher seconded the motion, which passed 7-0 by voice vote.

Presenters: Ben Woods, Chief of Staff; Glen Haubold, Associate Vice President, Facilities, Facilities and Services; Duane Brown, Attorney, Modrall Sperling; Erik Harrigan, RBC Capital Markets

14. New Mexico State University – Requests Approval of Subordinate Lien Improvement Revenue Bonds, Series 2014 ($15,865,000)

Mr. Haubold read the following statement from President Garrey Carruthers: “I regret that prior commitments have prevented me from attending today’s meeting in person, but I wanted to express my thanks to the Board for hearing the artificial turf project on short notice and for reconsidering the performance contract and sale of subordinate lien bonds. Both of these are very important projects to
New Mexico State University. Although our staff had worked on this project for nearly three years at my request, the performance contract was reviewed again by distinguished Professor of Economics Dr. James Peach, who in turn solicited assistance from Professor of Economics and Center for Public Utilities Director Dr. Doug Gegax. Dr. Peach believes that this is a sound project that will allow us to make infrastructure improvements without any cost to the taxpayer, and that the escalation factor is extremely conservative. From my standpoint, the most important aspect of the project is that, after the final year of the performance period, NMSU will retain the improvements as well as nearly $2 million in savings. We appreciate the consideration of these projects by the Board and request your approval."

Mr. Haubold pointed out that NMSU has a history of seeking energy savings efforts as a means of investing in infrastructure through projects in 1992 and in 2010. He said this project is unique in that NMSU is using the 1993 energy performance contract state statute to secure a third party partner, who brings additional expertise and capability coupled with NMSU’s desire to self-finance the effort to gain even more efficiencies. He said NMSU followed the Public Facility Energy Efficiency and Water Conservation Act.

Mr. Haubold noted that the industry is phasing out the production of T12 lighting. By replacing these fixtures through this method, NMSU will save the citizens of New Mexico the need to fund this work through other means. He said there is approximately three years of effort supporting this project, including extensive energy audits and due diligence all along the way. He said the project is safe, efficient and economical.

Dr. Woods thanked staff and Secretary Clifford for meeting with NMSU to discuss the details and peculiarities of the project. He said NMSU has come forward in the past with projects that use avoided energy costs to fund bonds that they have sold in the past. This is not new; they did this in 1992 and again in 2010, and this is a normal way for NMSU to do business in order to meet the capital needs of its campuses.

Dr. Woods also noted that NMSU has done these projects based on their own summary of what the risks are, and their assumption of all risks. In this case, staff has also looked at the risk and brought in a third party, which has offered a guarantee and an insurance policy.

Mr. Archuleta said he supported this project before, and still supports it. He commented that an infrastructure improvement project is not as “sexy” as a new building, for instance, and will never come before the legislature as a capital project. He commended NMSU for making this a very high priority “versus continuing to write checks to utility companies month in and month out, year in and year out... and that NMSU realizes this will have a payout in a few short years and will accrue to the benefit to everyone involved in this facility.”

Mr. Archuleta commented that, while he initially had concerns, he now understands the privatization element involved in terms of creating “a one stop shop” in a project that would otherwise be done piecemeal and might never get done at all.

Mr. Archuleta asked NMSU to address for the record the care it has taken in ensuring that this project will indeed result in savings and create the necessary revenue source.

Mr. Haubold responded that NMSU has worked on this for three years. They have had the El Paso Electric working group involved, and have also worked with Harold Trujillo at NM Energy, Minerals and
Natural Resources. He noted that eQUEST is an extremely sophisticated energy modeling program they have worked with and that Mr. Trujillo, who reviewed and certified this project, described the modeling as "the most extensively done that he had ever seen."

Dr. Woods also noted that the 1993 Act, which allows the use of energy service company contracts, places the administrative authority under NM Energy, Minerals and Natural Resources. More than 80 such contracts have been executed across the state, primarily through public schools, so there is a track record in New Mexico of these being done successfully. He said NMSU also has a track record of approaching these with great care and due diligence, and NMSU has done the due diligence.

Mr. Brasher asked what happens at the end of the agreement term, which is 13 years; for instance, does NMSU own any of the equipment that has been installed, and is it at the end of its life cycle at that point.

Mr. Haubold responded that President Carruthers had indicated in his comments that, at that point, NMSU owns the new fixtures and improvements, estimated at that point to be $2 million in annual savings. While another four years remains on the rated equipment life and the light fixtures have an expected life of 17 years, "I would submit to you that I could walk around here and find some 40- or 50-year light fixtures that are still working."

Responding to Mr. Brasher, Ms. Price said the source of funding to pay off the bonds is supposed to be the savings realized from installing the new light fixtures. NMSU would be using the savings from not having to pay an electric bill to pay the debt service.

Mr. Brasher asked if NMSU was unable to find anyone willing to agree that the savings could be used to repay the bonds.

Mr. Harrigan responded that this would be substantially more expensive. When NMSU issued an RFQ for a lease-purchase, the bid was 250 basis points above the rate that NMSU received with the pledged revenues. He said that would cost NMSU about $2.2 million in interest costs over the life of the bond issue, which would obviously reduce the efficiency of the savings to NMSU.

Mr. Brown explained that NMSU would be using the system revenue pledge that all the universities use, and it consists of a package of revenues – tuition, fees, operational, auxiliary enterprises, etc., but doesn’t include state appropriations, property taxes or anything that comes through the state. He said it is the traditional way of doing a university bond issue.

Ms. Clarke summarized the terms of the parameters resolution for the record: The Board will be approving NMSU’s subordinate lien improvement revenue bonds, Series 2014. The principal amount would be $15,865,000. The net effective interest rate would be 3.079 percent. Final maturity would be on April 1, 2028, and delivery to the purchaser would occur on or about April 21, 2014.

Mr. Archuleta moved for approval, including the parameters resolution as summarized by Ms. Clarke. Mr. Kormanik seconded the motion, which passed 7-0 by voice vote.

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


Ms. Roseborough presented the monthly investment reports for the month of February 2014.

[Governor Martinez left the meeting.]

Presenters: Janet Pacheco-Morton, Partner, CPA, CliftonLarsonAllen; Joel Blackman, Manager, CPA, CliftonLarsonAllen

16. Presentation of Fiscal Year 2013 State Treasurer’s Audit

Lt. Governor Sanchez stated that, in February, the Board reappointed him and Mr. Kormanik to continue to serve on the State Treasurer’s Audit Subcommittee. On March 25, the subcommittee met with auditors from CliftonLarsonAllen, staff from the State Treasurer’s Office, and DFA staff to review the FY 2013 audit findings. He thanked Treasurer Lewis and his staff, as well as DFA staff, for their time and willingness to discuss potential solutions to address issues raised in the audit.

Mr. Kormanik said he thought the subcommittee meeting was useful and he was pleased with the dialogue during the meeting. He is particularly encouraged with the coordination between DFA and the State Treasurer with respect to reconciling some of the issues that have been years in the making.

Ms. Pacheco-Morton stated that the most significant issue is the audit opinion that reflects the overall financial statement, which received a clean opinion.

Ms. Pacheco-Morton said another highlight is the GASB Board statement regarding deposits and disclosures. She said there are no new accounting principles, so these are similar to the prior year.

Findings were detailed as follows:


- Condition: During our compliance test work over cash receipts, we noted one out of twenty-two cash receipts was not deposited within 24 hours.
- Criteria: Per section 6-10-3 NMSA 1978, cash or checks should be deposited before the close of the next succeeding business day after the initial receipt.
- Recommendation: We recommend that the Office make efforts to ensure that receipts are deposited within the timeframe noted above to ensure compliance with Section 6-10-3 NMSA 1978.

Mr. Brasher questioned how realistic it was to expect every cash receipt to be deposited within 24 hours when sometimes the banks are closed. Ms. Pacheco-Morton responded that this is a very common finding throughout the state in various locations.

Treasurer Lewis commented that this is something his office works at every day. He added that some boards and commissions wait until the end of the month before making a deposit.
Responding to Mr. Brasher, State Cash Manager Sam Collins said the State Treasurer’s Office has worked with Wells Fargo on standards rather than taking a check to the bank to scan it for an electronic deposit. He said the State Treasurer’s Office has worked on cardholder security to make sure the card information is swiped so the cardholder is secure.


- Condition: The Severance Tax Bonding Fund’s (STB) interest in the State General Fund Investment Pool (SGFIP) was understated by $2,190,933 in fiscal year 2012, requiring a prior period adjustment in fiscal year 2013.
- Criteria: Interest in SGFIP should be accurately recorded for all funds.
- Recommendation: We recommend that Management carefully review all proposed journal entries. We also recommend better coordination between the Office and Auditor in making entries to the general ledger.

-- Finding 2009-06 Reporting of Additions and Deductions to Fiduciary Funds

- Condition: The State Treasurer’s Office did not segregate gross total additions to and deductions from fiduciary funds for the financial statement presentation. The information regarding additions to and deductions from individual accounts is available, but the information is not readily available in total.
- Criteria: GASB 34.109 requires additions and deductions from fiduciary funds to be reported as gross rather than net numbers.
- Recommendation: We recommend that the State Treasurer’s Office perform a reconciliation of the gross total additions to and deductions from fiduciary funds in preparation for presenting their financial statements. In addition, we recommend the Office use two separate general ledger account numbers for additions to and deletions from fiduciary accounts so information is readily available for future financial statements.

-- Finding 2007-04 Reporting of Agency Interest in the State General Fund Investment Pool

- Condition: On July 1, 2006, the State of New Mexico implemented the SHARE accounting system requiring changes to business processes at the State Treasurer’s Office, DFA and other State Agencies. The State Treasurer’s Office was not allowed to maintain the TRACS subsidiary system that provided for reporting of each State Agency’s interest in the State General Fund Investment Pool (SGFIP) when the transition to the SHARE system occurred due to lack of funding for redundant systems.

In June 2012, the State Controller of the Financial Control Division at the DFA commissioned a diagnostic report with the purpose of assessing the current state of cash reconciliation and determining recommendations for remediating the system configuration and business process issues pertaining to the book to bank processes.

Key observations:
• Complete functionality available in the SHARE Treasury application was not implemented. The premise of the reconciliation functionality in PeopleSoft is that all system transactions have an accounting entry on the general ledger and that each bank transaction reconciles to a corresponding system transaction. This is not the case for the current implementation of SHARE, as it requires significant manual intervention by the Treasurer’s staff to facilitate the reconciliation of bank activity.
• The current system configuration does not lend itself to providing reporting of each agency’s interest in the SGFIP.
• Recommendation: We recommend that the Treasurer’s Office continue to work collaboratively with DFA and DoIT on the Remediation Project.

Ms. Pacheco-Morton reviewed the Status of Prior Year Findings. She said the State Treasurer’s Office resolved four findings, and their involvement and motivation in this effort is commendable.

Lt. Governor Sanchez left the meeting.

GENERAL SERVICES DEPARTMENT
Presenter: Pamela Nicosin, Deputy Director, Facilities Management Division
17. Capital Buildings Repair Fund Financial Status Report for Month-Ended
February 28, 2014

Ms. Nicosin reviewed the CBRF Financial Status Report, which reflected an uncommitted cash balance as of February 1, 2014 of $13,356,358 and an ending cash balance as of February 28, 2014 of $13,132,779. There were no emergency declarations in the month of February.

Ms. Nicosin reviewed highlights from the newly formatted project schedule.

Mr. Kormanik and Mr. Archuleta commented that the format was a great improvement.

STAFF ITEMS
Presenter: Ms. Stephanie Schardin Clarke, Director

18. Approval of Publication of Notice of Proposed Rule Amendment – Dedication of a Portion of the State’s Gross Receipts Tax Increment

Ms. Clarke stated that staff is requesting Board approval to publish notice of proposed changes to NMAC 2.61.3, Dedication of a Portion of the State’s Gross Receipts Tax Increment. With the enactment of SB 140 during the 2014 Legislative Session, the Board has a new statutory authority. Under certain circumstances, a Tax Increment Development District may request Board approval of a revised base year from which incremental revenues are measured. The proposed changes to the rule drafted by staff incorporate changes contained in SB 140, list what must be submitted to the Board for consideration of a revised base year, and clarify the criteria the Board will take into account when considering a revised base year. In addition to changes required by SB 140, the proposed changes drafted by staff also incorporate language that will cause certain approved dedications to expire if bonds are not authorized timely after Board approval of a dedication, changes to reporting requirements, as well as a number of clarifications and cleans ups to existing language. If the Board approves publishing notice of the
proposed rule change, staff will submit notice to the New Mexico Register to begin a 30-day public comment period. Approval of the rule changes could appear on the Board’s June 17, 2014 agenda.

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

19. **Dashboard Report**

Ms. Clarke stated that the Dashboard Report for April could be found on page 1179 of the electronic agenda.

20. **POSTPONED.**

21. **Joint Powers Agreements**

Ms. Clarke read the Joint Powers Agreements into the record.

22. **Bond Counsel and Disclosure Counsel Contract Updates and Action**

Ms. Clarke reported that, last week, staff was informed that Brownstein Hyatt Farber Schreck would no longer continue its bond practice. The two main attorneys who act as bond counsel and disclosure counsel to the Board have each joined new firms, Rodey and Sherman & Howard. The Board’s contracts with Brownstein allow the contracts to be assigned with approval of the Director, and also allow termination upon 30 days’ notice by either party.

Ms. Clarke said she has approved the assignment of both contracts to both Sherman & Howard and Rodey. These firms will act as co-bond counsel and co-disclosure counsel for the time being. Looking forward, staff would like to request direction from the Board whether and when to proceed with procurements for one or both services. From a legal perspective, counsel has advised that the two firms to which the contracts have been assigned may continue to provide services through the full contract terms. However, the Board may wish to direct staff to issue Requests for Proposals sooner.

Ms. Clarke noted that the Board has less than 30 days in the current bond cycle to complete its work reviewing projects.

Responding to Mr. Kormanik, Ms. Clarke stated that counsel has advised that the assignments could be in effect until the end of the current contracts. The current disclosure counsel contract will expire June 30, 2015 but may be extended for one additional year. The current bond counsel contract will expire June 6, 2015 but may be extended for two additional years.

**Mr. Aragon moved to ratify the assignments. Treasurer Lewis seconded the motion, which passed 5-0 by voice vote.**

Mr. Archuleta commented that he was disappointed with the Brownstein firm’s sudden decision to
stop providing bond counsel and disclosure counsel services. He said he was pleased that Mr. Buchholtz and Ms. Sweeney are going to new firms and that those firms are willing to pick up these services.

**ADJOURNMENT**

Its business completed, the State Board of Finance adjourned the meeting at 1:00 p.m.

_Susana Martinez, President_

5-28-14

_Date_

_Michael Brasher, Secretary_

5/20/14

_Date_