MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING
Santa Fe, New Mexico
September 16, 2014

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

1. ROLL CALL: QUORUM PRESENT

Members Present:
The Hon. Susana Martinez, President [present 9:15 a.m. – 12:10 p.m.]
The Hon. John Sanchez, Lt. Governor
The Hon. James B. Lewis, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Adelmo Archuleta, Public Member [arriving 9:45 a.m.]
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Excused:
None.

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

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

Others Present:
[See sign-in sheets.]

2. APPROVAL OF AGENDA
NEXT REGULAR MEETING: TUESDAY, SEPTEMBER 16, 2014

Ms. Clarke stated that Item 8 (Luna County) and Item 13 (New Mexico Junior College) were
withdrawn after publication of the agenda. In addition, the Governor has requested that Item 5 (Santa
Fe Community College emergency funding request) be heard after Property Dispositions, as those items
are expected to take a relatively short time to address.
Mr. Kormanik moved to approve the agenda, as amended. Mr. Brasher seconded the motion and it passed 5-0 by voice vote.

3. APPROVAL OF MINUTES: July 15, 2014 (Regular Meeting)

Mr. Aragon moved for approval of the July 15, 2014, minutes, as submitted. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.

EMERGENCY FUND BALANCES
Presenter: Stephanie Schardin Clarke, Director

4. Emergency Balances – September 2014

- Operating Reserve Fund: $1,912,100.00
- FY14 Emergency Water Fund: $118,100.00

Ms. Clarke reported these balances.

PROPERTY DISPOSITIONS

Presenter: David Shaw, Chief Executive Officer and Administrator

6. Nor-Lea Hospital District – Requests Approval of Sale of Real Property to Sterling Management Company of New Mexico, LLC, dba Good Life Senior Care, at the 1600 Block of North Second Street in Lovington ($39,500)

Mr. Shaw stated that Nor-Lea Hospital District requests approval to sell 2.05 acres of property, located at the 1600 block of North Second Street in Lovington, to Sterling Management Company of New Mexico, LLC, doing business as Good Life Senior Care. The District wishes to sell the property to a developer who plans to build an assisted living and memory loss facility. There are no comparable facilities in Lovington, and residents have to travel to Lubbock, Texas to find places to live for senior living. An appraisal was performed in June 2014 and the purchase price is equal to the appraised value of $39,500.

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

Presenters: Arturo Jaramillo, Attorney, Cuddy & McCarthy; Gene Strickland, Director of Operations; Mike Gallagher, Lea County Manager

7. Hobbs Municipal School District – Requests Approval of Donation of Real Property at 1019 East Bender Blvd. in Hobbs to Lea County

Mr. Jaramillo stated that the Hobbs Municipal School District (District) requests approval of the donation of real property to Lea County located at 1019 East Bender Boulevard in Hobbs. The tract of land consists of a vacant and obsolete office building containing 10,832 square feet, known as the Dalton/Tabor Building. The building no longer has any educational or administrative use by the District. The school board determined it would have to expend significant funds to maintain the vacant building
and in January 2014 issued a Request for Proposals for competitive bids to purchase the building. In response, no bids were received. The District has been unsuccessful in negotiating a sale to other government agencies. Lea County has agreed to accept the donation in “as is” condition and will use and maintain the facility for County purposes. A March 2013 appraisal determined the value of the property was $175,000.

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

8. WITHDRAWN

Presenters: Kim Bannerman, Attorney; Jonathan Martinez, Canadian Basin Manager

9. New Mexico Interstate Stream Commission – Requests Approval of Sale of Real Property Containing 160.74 Acres to the Village of Logan ($32,000)

Ms. Bannerman stated that the New Mexico Interstate Stream Commission (ISC) requests approval to sell a 160.74-acre parcel to the Village of Logan. She said this transfer started in 2009, when the Village approached the ISC about purchasing this plot of land, portions of which they had been leasing from the ISC and in turn leasing to the Logan school district. In November 2011, the ISC approved the sale but conditioned it on certain requirements, including an assessment of flooding in the area. In 2014, all of the conditions were met of the initial ISC approval, and the Ute Committee gave final approval in August 2014. The property contains an abandoned airstrip and a 38-acre parcel that is under a long-term lease to Logan Public Schools for the local Future Farmers of America Chapter’s agricultural farm. The Village of Logan plans to seek federal funding to construct municipal and educational facilities on the property. Although an appraisal is not required for this property conveyance between two governmental entities, an appraisal was performed in 2009 that established a value for the property of $32,000.

Mr. Primm requested that, if the Board chooses to approve this item, it approve it contingent upon Director’s receipt, with review by counsel, of a) a copy of the final, signed minutes of the meeting at which the Interstate Stream Commission ratifies the sale of this property to the Village of Logan and b) the execution of all sale documents.

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

[Governor Martinez joined the proceedings.]

[Items 10, 11 and 12 were deferred pending arrival of Bernalillo County representatives.]
STATE TREASURER’S OFFICE

Presenters: Linda Montoya Roseborough, Chief Investment Officer; Treasurer James B. Lewis


Ms. Roseborough presented this report.

With respect to the accrual of revenue to the state general fund, Secretary Clifford said he understands there are differences in terms of what the DFA is booking as earnings into that fund.

Ms. Roseborough responded that staff at the State Treasurer’s Office had a productive meeting with DFA and LFC staff members. She said they have been reporting data from the Fund 801 account, not realizing that the account holds other assets. As there is no definition of what assets should be held in the Fund 801 account, the external auditors are doing a review and adjustments will be made once there is clarification.


Ms. Roseborough presented this report, which was prepared by Government Portfolio Advisors.

HIGHER EDUCATION DEPARTMENT

Presenters: Ronald James, Capital Projects Coordinator, Higher Education Department; David Harris, Executive Vice President for Administration, Chief Financial Officer and Chief Operations Officer; Dr. Stephen McKernan, Chief Executive Officer; Dr. Cheryl Willman, Director and Chief Executive Officer, UNM Center

14. University of New Mexico – Requests Approval of UNM Cancer Center Build Out ($11,660,200)

Mr. Harris stated that the University of New Mexico (UNM) is requesting approval of the UNM Cancer Center build out. He said that the Cancer Center opened in September 2009 but several spaces on various floors were left shelled for completion at a later date because of insufficient funding. He said this is an $11,660,200 project, with $9.4 million of it coming from the capital initiative fund of the Health Science Center and the remainder from a combination of donor funds and operating funds of the Cancer Center.

Dr. Willman stated that she took over as head of the Cancer Center in 1999, when the vision and mission was that the state of New Mexico needed to develop one of the National Cancer Institute (NCI) designated Cancer Centers, as these are the premier cancer centers in the United States and achieving an NCI-designated Cancer Center allows access to federal funds from the NCI. She said they have a unique mission, which is to integrate research, community outreach, education and training of the next generation of cancer health professionals with very high quality cancer care. About $5 billion of the NCI’s federal budget for cancer research, new cancer drug development and cancer trials, 80 percent flows through the nation’s 68 NCI Cancer Centers. She said UNM will be filing its five-year competitive renewal application, a 2,500 page document, to retain that designation in a few days.

Dr. Willman said that the Albuquerque facility treats 48-58 percent of New Mexico’s adults and virtually all of its children, and they have partnerships with community health providers, hospital
systems and oncologists. She said 100 percent of the practicing oncologists in New Mexico are in their network, which means they can refer patients and have access to innovative drugs and treatments.

Dr. Willman said they are now running at 103-110 percent of capacity and their physicians are seeing 20-35 patients per day on average. She said they have no more capacity to take the patients that they need to serve. She said they want to finish out one floor to create more clinic space, and expand their infusion capacity for blood product and chemotherapy infusion. Part of the finish-out of the top floor will allow them to create a bone marrow transplant program, as the state currently does not have a certified bone marrow program. She said people have to leave the state for those services.

Dr. Willman said they also plan to introduce a phase one clinical trials program for patients who are at their last resort and have run out of all of the standard therapies. She introduced Dr. Wadih Arap, formerly from MD Anderson, and Dr. Oliver Rixe, formerly from the National Cancer Institute in Georgia, who would be opening the program.

Responding to questions from Governor Martinez, Dr. Willman said about 10 percent of the patients are from the region and they are developing a partnership with the Texas Tech hospital system in El Paso and Las Cruces and are applying for a joint federal grant. She said 22 of their 103 oncologists were trained at MD Anderson. She stated that the Cancer Center will maintain 10 percent availability for Native Americans in accordance with the lease agreement.

[Mr. Archuleta joined the proceedings.]

Secretary Clifford asked how University of New Mexico Hospital (UNMH) is compensated for its Native American patients, and Dr. McKernan responded that payment comes from Medicare and Medicaid, where there is eligibility. If the person is qualified as "on reservation" and they can get a medical authorization for that, they will go through Indian Health Services; and if the person is off reservation and residing in Bernalillo County, they will go through the UNM Care Financial Assistance Program.

Responding to Secretary Clifford, Dr. McKernan said UNMH revenues provide the funding for the capital initiative fund, and they also can issue bonds. They currently have a $200 million bond issue outstanding for the pavilion project. Because of the 1952 contract between the Indian Health Service and Bernalillo County and the lease from 1978, which was amended in 1999, when UNM accepted the obligations, "it's pretty complicated." When they did the bond issue in 2004, they used FHA Section 242 insurance. If they were to issue another bond, they would have to pay that off or else go through FHA again. He said FHA has been "somewhat favorable" on a project of about $11 million, but the cost of financing is very high. He said they have concluded through an analysis that using the capital initiative fund is the most efficient way of financing this particular project.

Secretary Clifford commented on concerns about cutbacks in federal funding, including for cancer research.

Dr. Willman responded that federal funding for cancer research has declined about 25 percent in the last seven years, but the UNM Cancer Center's federal funding for cancer research has increased 33 percent since 2010. She said she feels this is because UNM has recruited excellent faculty who have been successful in maintaining a federal funding stream despite the decline. She said the NCI is also very interested in investing in the UNM Cancer Center, and the Center has received two new grants, one at
$1.7 million per year to fund the statewide cancer clinical trials network. In addition, the NCI is interested in funding a $20 million new grant, which will be filed in January, to fund the statewide registry and cancer screening programs.

Mr. Kormanik noted projections of $26 million in the capital initiative fund for FY 2014, and asked if those figures have materialized. Dr. McKernan responded that they have. He said they had a “good year” at UNMH because of a one-time investment, and that money was moved into the fund. He said the $2.5 million projected in 2016 is tied to projected revenues from the Cancer Center expansion, the idea being that the $9.4 million investment would then be paid off over four to five years back into the fund to replenish the fund and allow them to continue with other capital investments.

Responding to Mr. Brasher, Dr. Willman said the Cancer Center receives $6 million annually from state resources, including the general fund and tobacco taxes, and will not need additional money to maintain its designation. She said the Cancer Center provides about $6.5 million of unreimbursed care to indigent patients through its clinical operation, and a proportional amount, about $2 million annually, is reimbursed from the Bernalillo County mill levy fund.

Dr. Willman said she was “pretty darned confident” that the Cancer Center would not lose its NCI designation “because I know how that Institute feels about us and what we’ve done.” She said the NCI doesn’t want to lose a center, and instead of revoking a designation NCI will provide transition funding for two or three years so a center can reapply. She added that the NCI has not closed a Cancer Center since 1970.

Mr. Brasher asked that the Board be provided with some idea of how the Cancer Center would continue should funding not be provided.

Dr. Willman said she believes that the Cancer Center “will be good for another ten years or longer” after the build-out is completed. She said her concern is that the state’s cancer incidents will continue to increase as the population ages at a rate of 3 percent annually, and that nearly 70 percent of adult cancer patients are living five or more years, which means they will require continued monitoring. She said she feels this will be their last major project for a while outside of building some radiation oncology facilities.

Mr. Archuleta said this project has his “complete support” and he has great respect for the principals involved. Furthermore, it makes sense to build out this project and put it to good use.

Mr. Archuleta asked why the contingency in the project budget is so high. Dr. Willman responded that one of the major finish-out components is the fourth floor infusion suite, which has the highest cost per square foot. The cost of building an infusion bay for a single patient costs as much as an acute care hospital room. As the bone marrow and infusion facility is built out, they are expecting gas changes, plumbing changes and other changes, and the costs at this point are unknown.

Governor Martinez said she wished to compliment UNM Student Regent Heidi Overton. She said she has had several long conversations with Ms. Overton and is very impressed by her.

Dr. Willman introduced Chief Medical Officer Richard Lauer and Chief Financial Officer Rodney Martinez.
Governor Martinez asked if Medicare or Medicaid cover Safe Ride transportation for cancer patients. Dr. McKernan responded that Medicaid covers Safe Ride, and Medicare does not have a benefit for transportation. Dr. Willman added that transportation networks and housing for cancer patients across New Mexico is a huge challenge.

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

**PROPERTY DISPOSITIONS**

Presenters: Deanna Miglio, Right of Way Manager; Allen Cave, Right of Way Agent; Kristalyn Loftis, Business Manager, Gordon Bernal Charter School

10. **Bernalillo County – Requests Approval of Lease of Real Property at 100 Deputy**
   Dean Miera, SW in Albuquerque to Gordon Bernal Charter School
   ($47,163.96 per year)

Ms. Miglio stated that Bernalillo County requests approval of a 4,232 square feet lease agreement with Gordon Bernal Charter School at 100 Deputy Dean Miera Drive, SW in Albuquerque, near the Metropolitan Detention Center (MDC). She said the school leases classroom space for incarcerated individuals to help them obtain their GED or high school diploma. The lease is for five years, with three automatic options to renew, and is subject to a rent escalator for the option term.

Responding to Mr. Brasher, Ms. Miglio stated that she understands overcrowding has been significantly alleviated at the MDC such that Gordon Bernal’s student count has decreased.

Secretary Clifford commented that the Public School Capital Outlay Council (PSCOC) has expressed concern about some of the terms that Gordon Bernal Charter School accepts, committing the school to quite a few expenses that can be hard to support, and sometimes competing with their SEG funds as well. He said he would encourage the school to look at that, noting that the PSCOC has a standardized lease that can be used.

Mr. Primm stated that, should the Board choose to approve this request, staff would recommend that it be approved contingent upon Director’s receipt of a fully executed revised lease containing staff’s changes.

Mr. Archuleta moved for approval, with the contingency. Mr. Archuleta seconded the motion, which passed 6-0 by voice vote. [Mr. Kormanik was not present for the vote.]

11. **Bernalillo County – Requests Approval of Lease of Real Property at 401 Roma,**
    NW, 3rd Floor in Albuquerque to Gordon Bernal Charter School ($133,099.20 per year)

Ms. Miglio stated that Bernalillo County is requesting approval of a 9,250 square foot lease agreement with Gordon Bernal Charter School at 401 Roma, NW, 3rd floor, at the site of the old Metro Court in Albuquerque. This lease term is for four years with no options for renewal.
Mr. Primm stated that, should the Board choose to approve this request, staff would recommend that it be approved contingent upon Director’s receipt of a fully executed revised lease containing staff’s changes.

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

Presenters: Deanna Miglio, Right of Way Manager; Allen Cave, Right of Way Agent; Kimberly Silva, Board Chair, Albuquerque Sign Language Academy; Raphael Martinez, Executive Director Albuquerque Sign Language Academy

12. Bernalillo County – Requests Approval of Lease of Real Property at 620 Lomas Blvd., NW in Albuquerque to the Albuquerque Sign Language Academy ($111,432 per year)

Ms. Miglio stated that Bernalillo County requests approval of a 9,286 square foot lease agreement with the Albuquerque Sign Language Academy at 620 Lomas Blvd., NW in Albuquerque. The proposed lease has an initial term of three years with five additional one-year extension options. The use of the facility is to operate a public charter school whose mission is to serve deaf and hard of hearing students. The lease rate is set at $12.00 per square foot initially, which would be adjusted on an annual basis through negotiation to a rate not to exceed the school’s lease assistance grant award.

Mr. Primm stated that, should the Board choose to approve this request, staff would recommend that it be approved contingent upon Director’s receipt of a fully executed revised lease containing staff’s changes.

Mr. Archuleta moved for approval, with the contingency. Mr. Kormanik seconded the motion, which passed 7-0 by voice vote.

13. WITHDRAWN.

GENERAL SERVICES DEPARTMENT
Presenter: Pamela Nicosin, Deputy Director, Facilities Management Division


Ms. Nicosin reviewed the CBRF Financial Status Reports for June and July. The July report reflected a beginning cash balance at July 1, 2014 of $12,498,096 and an ending cash balance as of July 31 of $12,254,428. There were no emergency declarations in June or July.

Ms. Nicosin reviewed the project schedule and project status report. She said the report continues to be refined and now includes information on what problems, if any, there are with individual projects.

Ms. Nicosin reported that the staff architect position has been reposted and there is an increase in the number of applicants over the last posting. The issue previously was that a master’s degree was
required, but that requirement has been removed. She commented that there are many older architects with a lot of experience who do not have a master’s degree and would be ideal for the position.

**EMERGENCY FUNDING REQUEST**

Presenters: Randy Grissom, Interim President; Linda Siegle, Governing Board Chair; Pablo Sedillo; Governing Board Member; Kathy Keith, Governing Board Member; Henry Mignardot, Executive Director, Plant Operations; Anita Rainey, Interim Controller; Amy Tilley, Executive Budget Director

5. *Santa Fe Community College – Requests Approval of Emergency Loan for Operating Budget Shortfall ($500,000)*

Mr. Grissom gave a brief overview of Santa Fe Community College (SFCC), stating that it serves 6,700 credit students and 6,000 non-credit students each semester, with another 1,000-1,500 students in their adult education and GED program. They have grown in recent years, and this fall are projecting flat enrollment, although there could be a slight increase. He said they have a number of new programs and have realigned the curriculum in their nursing program.

Mr. Grissom said they have a cash flow challenge in three areas. He said the mill levy is contributing 47 percent of SFCC’s revenues and that percentage continues to grow; the state appropriation comes in throughout the year in 12 monthly payments; and tuition comes in at the start of each semester. He said they get two-thirds of the county mill levy in December and January and another one-third in June. The challenge is that, as the percentage of funds from local mill levy appropriations has grown, operating from June until December and January requires a lot of cash flow planning.

Mr. Grissom said some bad assumptions were made at the end of FY 2013 that impacted the budget that was presented for FY 2014, and the actual dollars spent in FY 2014. He said a previous administration assumed a lot more revenue was coming in from the mill levy and also assumed there was more money in cash reserves than there actually was. As a result, they overestimated revenues and the bulk of that went into increased salary schedules for faculty and staff, and the hiring of 11 faculty members when there was only budget for five. A budget adjustment request was approved in December 2013 that recognized the additional expenses and assigned more revenue to cover them, but then it was discovered that the controller (who is no longer with SFCC) assumed that all the funding that came from the mill levy went to operating dollars. In fact, a large amount of the mill levy is used to pay debt service to bonds SFCC sold for capital projects.

Mr. Grissom said there have also been staffing shortages. The previous administration instituted a retirement incentive program, resulting in the loss of institutional memory. In addition to that, the previous president decided not to hire a Vice President of Finance and Administration. SFCC has since advertised for the position, has 15 applicants, and plans to interview candidates at the end of this month. He said he has hired Anita Rainey, a nationally known consultant in the SunGard Banner System and a former controller at other institutions, who is helping SFCC with the transitioning process.

Mr. Grissom stated that he shares others’ frustration that the numbers keep changing in SFCC’s projected cash flow numbers. He explained that when they put together the original cash flow estimate for this year, they based it on the new budget for this year but didn’t take into consideration the large amount of payables that they booked by June 30 for the year that just ended and that would go out in cash in July. He said the same thing will happen at the end of the year next June, but the problem is they
need cash between now and December 15-20 when they receive the mill levy.

Mr. Grissom commented that they have learned a lot by facing this challenge, and at the end of this will be a much better institution, better able to have controls and measures in place.

Mr. Grissom said he had provided the Board with cash flow projections through FY 2015-2016 ("Scenario 4") that assume SFCC spends everything it needs to spend between now and the end of this year. He said SFCC made a request to accelerate its state appropriation for this year by three months. As it turns out, they are in and odd fiscal year – SFCC did not know about the state’s 50 percent rule – which means they cannot accelerate past December, which translates into a $1.2 million shortfall over what was requested from the State. He said Scenario 4 also reflect a $500,000 loan from the State Board of Finance, to be repaid in January. If SFCC does nothing to control its expenses, it will end up with a negative balance in November 2014. He said SFCC is working with some of its larger vendors, some of whom are willing to work with SFCC and others not. He said SFCC will simply have to withhold payment in those cases, but is legally obligated to make tax payments and payments to the ERP. He said SFCC will end next year (June 2015) with a cash balance of $5.2 million, but will need $6 million and so will ask for accelerated payments from its appropriation money while it continues to build its cash balances back up.

Mr. Grissom said SFCC is not allowed to issue tax revenue anticipation notes. If some mechanism could be found to do that, they would not be asking the Board for money today, as they will receive $9 million in December-January from the county mill levy. He asked the Board to grant SFCC a $500,000 emergency loan to allow them to cover payroll and other immediate expenses between now and then.

Governor Martinez asked how many small vendors will be waiting for payment because of this, and Mr. Grissom responded that he would anticipate that SFCC would pay the very small vendors. The ones they are working with are major vendors such as PNM and Century Link. He said they will have to pay a fee for the delayed payments.

Governor Martinez asked if the past president was let go because of these problems, and Ms. Siegle responded SFCC has a confidentiality agreement with her, so there are a lot of things that cannot be discussed. There was a lot of division on the board, and the last year of her tenure was quite contentious. Even though the board requested it, she did not hire a vice president of finance, which was very problematic; and for a number of months there was no controller. Even though the board was asking questions, it was not verifying what was actually going on in the finance department.

Ms. Siegel stated that she became board chair a few months ago and there is now a finance committee. Within the next month, they will have a detailed analysis that the board will review monthly and during budget times. The financial documents that they received previously were incorrect, but they had no way to know that.

Governor Martinez asked if the past president received a golden parachute of $500,000, and Ms. Siegle responded that she did, with part of the $500,000 paid by the insurance company.

Governor Martinez commented, “We’re almost encouraging poor performance, and that is part of why we’re in this hole, and the board approved it?” Ms. Siegle responded that, on the advice of their attorneys, they were looking at protracted litigation. Governor Martinez commented, “So what?... There has to be a line drawn in the sand where ineffective employees have to be dismissed.” Even if the
employee threatens to sue, she said eventually an investigation will show that the employee was in fact ineffective.

Mr. Archuleta said he is hearing Ms. Siegle say that the board was previously making judgments based on what was presented to its members, and that going forward they will take a more active role to get down “into the weeds” in believing that the numbers presented to them appropriately reflect the true financial status of SFCC. He commented, “I mean, that’s like Accounting 101 to know that if you have restricted funds you can’t use them for certain things. So how will I feel confident that this is representing a true financial picture for the next few years?” Ms. Siegle responded that the finance committee has gone through all of the numbers, reviewed the assumptions and reviewed the budget projections. She said President Grissom has brought in professionals from the outside to “fix our books” and they have spent a great deal of time working on the numbers.

Mr. Archuleta asked if there is anything that would worry SFCC in any way in terms of the accuracy of the numbers. He asked if there were contingencies, for example, “that would keep you up at night?” Ms. Siegle responded that they believe the projections are correct and are good, solid projections.

Governor Martinez expressed concern that the numbers had changed by $2 million between last Friday and today, which was three working days.

Mr. Grissom responded that they put a lot of things together very quickly on Friday, and discovered, in doing the bank reconciliation, that there was a double entry of a payroll transaction. In addition, a deposit made in August was not booked and has now been booked in September. He explained that these errors were because of understaffing. He said there is no permanent controller nor is there someone to oversee contracts and grants.

Mr. Grissom stated that every employee making more than $30,000 is taking a salary cut this year, with the percentage of the cut ranging from 2 percent to 8 percent depending on the salary amount. He said he has taken a 12 percent cut. The total of the cuts is about $2 million. The cuts are through June 30 and regular salaries will be reinstated after that if SFCC is able to receive the requested emergency loan.

Secretary Clifford asked how much of the budget relates to the operations of the Learning Center in the city, and Mr. Grissom responded that it is a $600,000 budget but the net operating cost will be $300,000 because half will come from the program’s partners. He said SFCC anticipates that the center will be totally self-supporting within two years. Secretary Clifford commented that it was difficult for him to believe that all of these programs could be operated on $300,000, but he did not have enough information to be able to determine that.

Mr. Aragon commented that he found it “unbelievable that a board could allow this to happen.” He said he was also unsure that the $500,000 being requested would actually fix the problem beyond “putting a Band-Aid on it.” He said he would want to know exactly how each dollar of the lcan would be spent, and he also wanted to know “with absolute certainty” how the $500,000 would solve what appeared to be not a $2 million problem, but something closer to $5-$7 million projected over time. He agreed with Secretary Clifford’s concern about how SFCC could expand a program without having recurring costs. He said none of that information was available for the Board to review today.

Ms. Clarke reviewed the most recent version of Scenario 4 that was handed out and noted a
negative cash flow balance of more than $2 million at the end of November 2014 even with the 
$500,000 loan. She said she had requested Scenario 5, reflecting the cessation of all vendor payments 
and which would bring the balance at November 30 to about $167,000. What this means to her is that, if 
the Board approves the loan and all vendor payments are ceased (which isn’t necessarily possible), then 
the balance can be positive throughout the entire period. The missing information is what is the true 
scenario if some vendor payments continue to be made. She noted that the balances rebounded at the 
end of January with a $10 million positive cash flow balance.

Ms. Clarke commented that she thinks it is reasonable to question the scenarios because the Board 
doesn’t know how many vendor payments can be delayed; and the Board has received four iterations of 
scenarios in the last week and a half “and they’ve been all over the map.”

Secretary Clifford stated to Mr. Grissom that SFCC needs to maintain a higher reserve in order to 
cope with the uneven flow of revenues throughout the year.

Mr. Grissom commented that SFCC really needs $1 million, but in talking with staff and others, the 
feeling was that SFCC should only ask for $500,000. He said, “Whatever you lend us, I can pay you back 
in January.”

Mr. Aragon asked if SFCC’s doors would close without the $500,000, and Mr. Grissom responded 
that he did not know whether faculty would walk out if they were not paid.

Responding to Governor Martinez, Mr. Grissom said SFCC has been undergoing a special audit 
examination for almost a year related to a whistleblower complaint letter from the previous president. 
They have looked at all transactions between 2009 and 2012 for most areas, and that has been part of 
the reason his staff has been sidetracked for the past year in coming up with all the information. When 
the former president let the vice president go, she packed up all the files in the vice president’s office 
and moved them to an unknown location. The lost files have been reported to the sheriff’s office, and 
there is an open investigation. As a result of the missing documents, SFCC had to go back and manually 
recreate almost every invoice and transaction document. They were able to do that for all but two 
items, which are the subject of the special examination.

Mr. Grissom said he filed the complaint with the sheriff’s office in April, and it is still under active 
investigation.

Mr. Kormanik observed that the whistleblower’s complaint letter refers to the individual who was 
bring back and yet who was integral in some of the problems that were being reported to the State 
Auditor.

Ms. Siegle responded that everything in the whistleblower letter is from the 2012 audit, and the 
board had reviewed and addressed everything in the letter. She said nothing in the letter was legitimate 
because the board had addressed and given its endorsement to everything mentioned.

Mr. Kormanik said he could understand errors in projecting the budget, but couldn’t understand 
why financial controls were not in place to prevent overspending of the budget. He asked if that has 
been corrected, and Mr. Grissom responded yes. He said there is a new budget director, and they are 
fully utilizing the Banner system. Previously, the system was not fully implemented and things that 
should have been in the system were not.
Mr. Kormanik said another problem is that the BAR that instigated some of these problems was approved by the Higher Education Department. He said the BAR should never have been approved based on the documentation he saw.

Mr. Brasher noted from SFCC’s website that the board agendas for this year and last year do not reflect any meetings relating to a budget with the exception of one meeting in January that refers to the budget process, and apparently the general public has been left out of the process, since he saw no reference anywhere to a public meeting. He added that he found it “incredible” that SFCC did not know what the 50 percent rule was. He commented, “There isn’t an elected official anywhere who can’t tell you about the 50 percent rule.”

[Governor Martinez left the proceedings.]

Mr. Grissom said he has been with SFCC for six years and there was a budget process each year. Mr. Brasher asked if the public was consulted during the process, since this is mill levy money, and Mr. Grissom responded, “We have in some cases.” He said 1,100 people in the community participated in the strategic plan process, which is what led to the budget last April.

Mr. Brasher said he would like the legislature at some point to address the ability of a board to appoint a replacement to fill a vacancy and what the preferred process should be. He said he was not referring to the current members, but it would seem preferable for a body like the county commission to make appointments rather than having the board pick someone.

Ms. Clarke stated that she received a letter from the State Budget Division late yesterday stating that they have reviewed the most recent cash flow projections (as of last night) and “at this time the information presented by SFCC suggests that, at the beginning of November 2014, the institution will face a significant shortfall which will likely be well in excess of $500,000.” She said the letter is intended to address the Board’s emergency policy and whether or not an emergency exists.

Ms. Clarke read a draft resolution for the Board’s consideration, which was amended in discussion to state as follows:

WHEREAS, Santa Fe Community College ("SFCC") has requested an emergency loan to address a projected operating budget shortfall of $500,000 in the fall of 2014;

RESOLVED, the State Board of Finance (the “Board”) determines, pursuant to NMSA 1978, Section 6-1-2 (1959, as amended through 2005), that an emergency exists that warrants loaning to SFCC the sum of five hundred thousand dollars ($500,000.00) to meet payroll expenses it expects to realize in the fall of 2014; that loaning the sum of five hundred thousand dollars ($500,000.00) from the funds appropriated to the Board for use in meeting emergencies to SFCC for this purpose is reasonable and appropriate; that the emergency necessitating this loan is the result of an unforeseen occurrence or circumstance severely affecting the quality of government services and requiring the immediate expenditure of money that is not within the available resources of SFCC and, if subject to appropriation, cannot reasonably await appropriation by the next regular session of the legislature, and; cannot be addressed by disaster declaration or other emergency or contingency funds.

THEREFORE, the Board approves a loan to SFCC in the amount of five hundred thousand dollars ($500,000.00) to meet payroll expenses it expects to realize in the fall of 2014 from the Fiscal Year 2015
General Fund Operating Reserve upon transfer to the Emergency Fund by the Secretary of Finance and Administration to meet this emergency. Pursuant to the Board’s authority to prescribe the terms and conditions it deems proper with respect to repayment of any loan and the application of the proceeds of a loan under NMSA 1978, Section 6-1-3 (1959), this loan shall bear no interest and shall be repaid by February 1, 2015. Pursuant to State Board of Finance Policy 11-03 (10/18/2011), SFCC has agreed to submit quarterly reports on the form prescribed by the Board each April 15, June 15, October 15 and January 15, until the loan is repaid in full. SFCC shall appear before the Board at each of the Board’s regular meetings until the loan is repaid in full to present updated financial information.

Mr. Archuleta said he liked the idea of the monthly reporting, and would like to see a real budget that includes a forecast of who SFCC intends to pay. He said he would also like to see a list of which vendors are not being paid, and what fees are associated with that.

Secretary Clifford asked whether SFCC has looked at furloughs as a method of managing the payroll. Mr. Grissom responded that their policy states that the maximum number of furlough days is five per year. He said their original plan called for furlough days rather than cutting salaries, but the number of days they need to do was greater than the five days would allow.

Secretary Clifford said the SFCC board may want to revisit that policy.

Treasurer Lewis asked how SFCC would be affected if the Board were to delay a decision until its next regular meeting (October 21). Mr. Grissom responded that the payroll that most concerns him is the October 31 payroll.

Lt. Governor Sanchez asked Ms. Clarke if she thought the monies would be available to SFCC within that timeline, assuming the Board approved the loan. Ms. Clarke responded that she would expect so unless the Board placed contingencies on the disbursement.

Mr. Kormanik moved approval of the resolution but that the loan be effective at today’s meeting. Treasurer Lewis seconded the motion.

Mr. Brasher said the “unforeseen circumstance” appears to be the 50 percent rule. Mr. Grissom responded yes, but the other one is the unforeseen circumstance of the misestimated revenues and over-expenditures of the past year.

Mr. Brasher commented that this does not seem to meet the criteria of an emergency. He said he would feel much more comfortable voting on this at the next meeting.

Mr. Aragon asked Ms. Clarke to read the resolution again for the record, reflecting changes identified during the Board’s discussion. Ms. Clarke re-read the resolution with a January 1, 2015 repayment date, with the purpose of the loan expanded from “payroll expenses” to “operating budget shortfall,” and with an added requirement to appear before the Board monthly until the loan is repaid in full to present updated financial information and to review ongoing efforts to mitigate the shortfall using vendor payment strategies.

Mr. Aragon stated that there has been criminality or potential criminality involved, as previously described by Mr. Grissom. He said Mr. Grissom said he was so compelled by the probability of criminal involvement that he made a report to the sheriff’s department, and then followed up on the status of
the investigation. He said he has a problem with the Board operating on the “false assumption” that there is an unforeseen circumstance, since it would require it to ignore the alleged criminal act.

Mr. Carrasco said the statute does require that the Board find that there is an unforeseen circumstance. If the Board feels it cannot make that determination, then he would advise that it not approve the motion at this time and wait until there is more information available.

Mr. Aragon also stated that, without a causal relationship found between the alleged criminal act and the unforeseen circumstance, he could not vote in favor of the resolution and did not think the Board could do that either, based on statements by Mr. Grissom about the alleged criminal act. He said they contradict each other.

The motion was withdrawn.

Mr. Brasher moved to table this item to the October 21 meeting. Mr. Aragon seconded the motion.

Mr. Archuleta proposed an amendment to the motion that SFCC put together the most detailed information possible that would give the Board the best picture on how they intend to manage the situation, including the vendor strategy.

The amendment was accepted as friendly.

Secretary Clifford asked legal staff to look into potential precedent being set in terms of allocating emergency funds to supplement an entity’s operating budget.

The motion, as amended, passed 6-0 by voice vote.

STAFF ITEMS
Presenter: Ms. Stephanie Schardin Clarke, Director

19. Notice of Voluntary Disclosure Filing

Ms. Clarke stated that this agenda item is an announcement about a voluntary disclosure that was filed on September 8, 2014 relating to the sizing of the Severance Tax Note, Series 2014S-A and Supplemental Severance Tax Note, Series 2014S-B. She said she has briefed the Board on this. She noted that Disclosure Counsel David Buchholtz was present to respond to questions.

Mr. Archuleta asked for assurances that the necessary action has been taken to mitigate this situation occurring in the future.

Ms. Clarke responded that she and the Financial Advisor have updated the Severance Tax Bond model used to forecast capacity to ensure that off-cycle sponge notes that are longer than a day or two will have a clear place. Secondarily, the fact that the Board does not issue these off-cycle sponge notes very often is another assurance that it is not likely to reoccur.

Mr. Kormanik asked if staff is comfortable that the State Investment Council will not be charging interest. Ms. Clarke responded that she has spoken with State Investment Officer Steve Moise to clarify
exactly what occurred, and she understands he will raise the issue at an upcoming SIC meeting. She is not aware that there will be requested interest.

20. Fiscal Agent/Custodial Bank Fees

Ms. Clarke reviewed the updated banking fee spreadsheet.

21. Joint Powers Agreements

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

ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 12:45 p.m.

__________________________
Susana Martinez, President

October 28, 2014

Date

__________________________
Michael Brasher, Secretary

October 28, 2014

Date