MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
July 15, 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 9:20 am - 1:45 pm; 2:35 pm - 3:30 pm]
The Hon. John Sanchez, Lt. Governor [leaving at 2:45 pm]
Mr. Robert J. Aragon, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Excused:
The Hon. James B. Lewis, State Treasurer
Mr. Adelmo Archuleta, Public Member

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

The agenda was reprioritized to hear item 17 prior to item 12.

Mr. Brasher moved to approve the agenda, as amended. Mr. Kormanik seconded the motion and it passed 4-0 by voice vote.
3. **APPROVAL OF MINUTES**: June 17, 2014 (Regular Meeting)

Mr. Aragon moved for approval of the June 17, 2014, minutes, as submitted. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.

4. **APPROVAL OF MINUTES**: June 24, 2014 (Special Meeting)

Ms. Clarke called the Board’s attention to redline changes reflecting clarification by the Board after the draft minutes were circulated to the Board.

Mr. Brasher moved for approval of the revised June 24, 2014, minutes. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote.

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

5. **Emergency Balances – July 2014**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$2,000,000.00</td>
</tr>
<tr>
<td>FY14 Emergency Water Fund</td>
<td>$118,100.00</td>
</tr>
</tbody>
</table>

Ms. Clarke reported these balances.

**EMERGENCY FUNDING REQUESTS**

Presenters: Stacy Maestas, Secretary/Treasurer; Blanca Surgeon, Technical Assistance Provider; Ramón Lucero, Project Manager, Souder, Miller and Associates

6. **Ancones Mutual Domestic Water & Wastewater Consumers Association -- Requests Approval of Emergency Funding to Design and Construct a Pump House ($87,900)**

Also present were Ancones Mutual Domestic Water & Wastewater Consumers Association (Ancones) board members Belinda Vasquez, Robert Montoya, Robert Montoya and Jerry Vasquez, and Certified Water Operator Toby Chacon. [Two board members shared the same name.]

Ms. Surgeon stated that the first phase of this project is ready to go to construction, but there was a misunderstanding that Ancones was not in compliance with the Audit Act. So, the project was removed from the list of ready Severance Tax Bond projects. She said the State Auditor’s Office had failed to list the communities that were not required to submit full audits on its website. She requested approval of an emergency loan in the amount of $87,900 so the project could go forward. She said the loan would be paid back to the Board soon after December 2014, as she understood bonds sold at that time would include this project.

Mr. Lucero stated that bids for the project were solicited a second time after the first bids came in over budget. Since then, they have successfully negotiated an amount within budget, and will issue the award once the funding is available.
Mr. Aragon commented that this is an unorthodox way to fund a project and asked Ms. Clarke if bond counsel had been consulted. He said the Board would be creating debt without a definitive funding source in the event something happened with the bonds, and asked what contingencies would be recommended.

Ms. Clarke responded that Bond Counsel David Buchholtz has confirmed in writing that repaying a loan of this sort is an allowable use of the Severance Tax bond appropriation. Taxable proceeds would be used to repay the loan. If it were issued tax exempt, it would be a different analysis. Also, because the loan wasn’t anticipated at the time the appropriation was made, bond counsel feels that repaying the loan is an allowable use.

Regarding any contingencies related to timing of the bond sale, Ms. Clarke stated that if something were to happen and the December sponge note sale did not take place, it would be allowable to extend the repayment date until another sponge note was issued.

Responding to Mr. Aragon, Mr. Lucero stated that there is currently $150,000 in funding for the project, $75,000 from 2013 capital outlay funds and $75,000 from the Water Trust Board. With the $87,900 loan, they would be able to “very comfortably” complete the entire project. He said $13,000, or 7 percent of the total, has been set aside for contingencies.

Ms. Clarke stated that any approval of the loan should be contingent upon a positive recommendation from the Local Government Division.

Ms. Clarke read the following emergency loan resolution:

WHEREAS, the Ancones Mutual Domestic Water and Wastewater Consumers’ Association ("Ancones") has requested an emergency loan to design and construct a pump house;

WHEREAS, the New Mexico Department of Environment received a severance tax bond appropriation in Laws 2014, Chapter 66 in the amount of $87,900 to design and construct a pump house for Ancones;

WHEREAS, at the time of the Board’s June 2014 severance tax bond and notes sales, the New Mexico Department of Environment did not certify the Ancones project for issuance due to concerns the project did not comply with Executive Order 2013-006;

WHEREAS, the New Mexico Department of Environment now confirms that the Ancones project is compliant with Executive Order 2013-006;

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 Ancones the sum of eighty-seven thousand nine hundred dollars ($87,900) to design and construct a pump house from the funds appropriated to the Board for use in meeting emergencies for this purpose; that the request 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 Ancones 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 Ancones in the amount of eighty-seven thousand nine hundred dollars ($87,900) to design and construct a pump house from the FY15 General Fund Operating Reserve upon transfer to the Emergency Fund by the Secretary of Finance and Administration to meet this emergency. Disbursement of funds shall follow Director receipt of written requests from the New Mexico Department of Environment confirming 1) that amounts appropriated for the Ancones project from the Water Trust Board and from severance tax bond project 13-1482 have been expended, and 2) that the amount requested is to reimburse Ancones for expenditures that would be eligible from reimbursement pursuant to severance tax bond project 14-1763. This loan shall bear no interest and shall be repaid by February 15, 2015. Ancones agrees to provide quarterly reports on a form prescribed by the Board each April 15, June 15, October 15 and January 15 until the loan is repaid in full.

Mr. Aragon asked Ms. Maestas if Ancones will have sufficient revenue to service the new pump station and maintain it, and Ms. Maestas responded that they would be adjusting rates to meet that obligation. She said they have 29 paying members on the system.

[Governor Martinez joined the proceedings.]

Mr. Aragon moved for approval of the resolution as read by staff, as well as the contingency requiring approval from the Local Government Division. Mr. Kormanik seconded the motion, which passed 5-0 by voice vote.

Ms. Surgeon stated that the Rural Community Assistance Corporation is working with four communities in the area to combine all of them into one system, and continues to work with various small communities to combine more systems.

**MISCELLANEOUS**

Presenters: Scott Verhines, State Engineer; Dr. Richard Rose, Division Director, Water Resources Allocation Program, Office of the State Engineer; Ryan Flynn, Cabinet Secretary, New Mexico Environment Department; Jim Chiasson, Bureau Chief, Field Operations & Infrastructure Division, Construction Program Bureau, NMED; Danielle Shuryn, Group Manager, Drinking Water Bureau, NMED

7. **Office of the State Engineer and New Mexico Environment Department – Informational Discussion on Statewide Water Policy**

Mr. Verhines distributed and discussed the following informational materials: review of the State Water Plan 2003; New Mexico Water Infrastructure Needs; and a series of slides entitled “Understanding the Issues: Long Term Solutions for Water Infrastructure Funding in New Mexico.”

Secretary Flynn reviewed individual programs funded through the State that provide infrastructure funding. He said NMED has been working over the years to coordinate the different agencies that administer these funds and to direct communities in need to the appropriate funding source.
Secretary Flynn said human health and the environment are NMED’s two top priorities in assessing funding needs for water and wastewater infrastructure programs. This is one of the struggles they have faced with the capital outlay program, as the system has been used in the past to distribute money evenly all over the state. Using capital outlay in that manner leaves NMED in a very difficult position, because the allocations given to each legislator are not enough to fund a total project and the NMED ends up underfunding major projects. As a result of direction given to NMED by Governor Martinez prior to the last legislative session, good progress was made in making sure that phases of projects, or entire projects, were fully funded.

Secretary Flynn said NMED is continuing the Governor’s initiative that began two years ago, which is to improve access to funding mechanisms, to improve coordination, and to continue outreach into communities. NMED is also working closely with stakeholders to find out what their priorities and needs are, including the Rural Community Assistance Corporation, New Mexico Rural Water Association, New Mexico Municipal League, the New Mexico Association of Counties and the New Mexico Council of Governments.

Mr. Verhines said that there is a two-pronged approach in dealing with emergencies: 1) by managing assets and working with communities to do that, emergencies will largely be prevented; and 2) addressing emergencies when they occur. He added that more taxpayer money is needed on the front end to help manage the assets of these smaller communities and make the assets last longer.

Mr. Kormanik commented that he sees a system that is very fragmented from an administrative and management perspective as well as a funding perspective. The efforts with trying to coordinate the entire system are significant, but he is concerned that there is a systemic problem in terms of optimizing the state’s scarce financial resources. He commented that he has no solution to offer, but sees six or seven different funding sources and at least four different organizations at the state level trying to coordinate projects, not to mention the numerous domestic water associations and mutual domestic water associations.

Mr. Kormanik said he did not hear in any of the presentations what the value of water is. What that means to him is that water is infinitely valuable and the state will do anything it can to deliver one gallon of water to a remote location. He commented that this does not seem to be a very efficient model. He asked if anyone has gone into Albertson’s to find out what the value of a gallon of water is; in other words, has anyone done a cost benefit analysis.

Secretary Flynn responded that a bottle of water includes the cost of the packaging, transportation, marketing and other services, and a water system includes the cost of construction, materials, maintenance and operations. He said the Martinez administration and stakeholders are embracing the concept of regionalization, which gets to the idea of optimizing the ability to provide wastewater projects or clean drinking water to communities, and regionalization is trying to establish efficiencies. One way is to connect a smaller system to a larger system, which was done recently when the Carnuel system was connected to the Albuquerque-Bernalillo Water Utility Authority.

Mr. Chiasson stated that the two systems had to agree to this connection.

Mr. Verhines added that the State Engineer Office has the ability to prioritize regional solutions, however, as the legislature directed.
Secretary Clifford commented that water projects are normally relegated to counties and funded through property taxes. He said the reason New Mexico is engaged in this is because of the oil and gas industry, with most of the funding coming from severance tax bonds. He commented that this introduces a lot of coordination problems.

Mr. Kormanik said he wasn’t sure this was a proper comparison because the southwestern states have different water availability issues.

Mr. Aragon stated that he has been on the Board for three and a half years, and in that time, the Board has had emergency funding requests from many small water districts. He said it might be appropriate to have the state’s entire system under the direction of the State Engineer, who could compel smaller water districts to join in order to achieve more continuity and less administrative cost. He said he shares concerns about redundancy as well as costs at the state level as well as the local level.

Mr. Aragon asked Governor Martinez to consider directing the legislature in the next session to look at overhauling the state’s disjointed water system by empowering someone to address redundancy and economies of scale.

Governor Martinez suggested that, when the Board grants emergency funding requests to small water systems in the future, it require them to take steps to regionalize where possible. She said she had just asked general counsel from the Attorney General’s Office if it would be permissible to impose such a condition, and the answer was probably.

Secretary Flynn responded that NMED has attempted to have a conversation with legislators about prioritizing capital outlay money to strategically invest in water, but they will have to be willing to meet the Executive halfway in order to make the regionalization idea work. He said the coordination/fragmentation issue couldn’t be addressed on its own without including the prioritization issue.

**PROPERTY DISPOSITIONS**

Presenters: Kim Bannerman, Attorney; Jonathan Martinez, Canadian Basin Manager; Amy Haas, General Counsel; Paul van Gulick, Program Manager, Eastern New Mexico Water Utility Authority

8. **New Mexico Interstate Stream Commission — Requests Approval of a Right-of-Way Easement to Farmers Electric Cooperative, Inc. ($1,535)**

Ms. Bannerman explained that the New Mexico Interstate Stream Commission (ISC) is requesting approval to grant to Farmers Electric Cooperative (Farmers Electric) a 1.535-acre right-of-way easement to allow for construction and maintenance of a new overhead power line for Eastern New Mexico Water Utility Authority (Authority). The ISC owns Ute Reservoir and fee land around the reservoir, and the Authority is in the process of building a major water project at Ute Reservoir for drinking water and needs a three-phased power line for their intake structure. Rather than upgrading the existing power line to the site to three-phase, Farmers Electric proposed that the existing power line and associated easements would be abandoned and that it would establish, at the Authority’s expense, a new three-phase power line along a different route requiring new easements. The reasons cited for re-routing the power line were that: 1) the new route would be nearer to a road allowing for easier access and
maintenance; and 2) the new route took the power line further away from the reservoir, reducing the threat of inundation.

Ms. Bannerman said the ISC approved the agreement contingent on the Authority staff obtaining confirmation that Farmers Electric had lined up all the other necessary easements for the new power line.

Mr. van Gulick confirmed that Gary Kippey of Farmers Electric has stated that all of the easements have been successfully obtained. The one before the Board is the last one remaining.

Ms. Bannerman stated that, after the ISC Director executed the agreement, a non-material typo was found on the front page so that the legal description of the easement was off by 1/100th of a foot. This was changed without re-executing the agreement.

Responding to Governor Martinez, Ms. Bannerman and Mr. Martinez said the power line to the intake structure would eventually be used to pump water from the reservoir to communities in eastern New Mexico. The existing power line currently supplies power to a residential subdivision, but it is not three-phase power as would be required for the project.

Governor Martinez said this is a federal project that could take decades and would be moving water over what is essentially a small mountain. She asked why this work was being done now. She also expressed concern that the federal government ultimately might not come through with their share of the money.

Mr. van Gulick explained that then-State Engineer John D’Antonio requested $100,000 in capital outlay money a couple of years ago specifically to bring power to the site because once this construction phase is finished, other entities in Quay County that have signed up for the reservoir water at a certain amount per year could begin putting in their own pumps and pipes and begin using the water now. He said 24,000 acre-feet of water are available each year, and there are contracts reserving the water. He said the ISC wants to have just one intake to serve the customers rather than having “a bunch of straws in the water,” which is not economical.

Ms. Bannerman clarified for Governor Martinez that the power being provided here would not be powering the huge pipeline that would go to Clovis and Texaco. This is enough to at least pump it out, which meets the ISC’s contractual obligations to provide water if called upon to do so by the entities it is contracting with. Right now, the water is reserved, but the entities have the right to request it.

Governor Martinez asked who these entities are. Mr. van Gulick responded that the City of Tucumcari is currently drawing water out of the reservoir for use in a development at Ute Reservoir. This is the only entity that has purchased water under the contract. Ms. Bannerman added that Eastern New Mexico includes Clovis, Melrose, Texaco, Portales, Elida, Grady and San Jon. In the same contract, Tucumcari and Quay County are included with a separate amount that has been agreed to.

Governor Martinez said there is an enormous amount of controversy over Ute Lake, because the state is contributing a lot of money into something that will cost the federal government “billions of dollars” and may never be completed.

Mr. van Gulick stated that the federal government has put in about $7 million to date. The local cost share has been $9 million and the state’s has been $33 million.
Ms. Haas stated that this is a $500 million project, with the federal government funding 75 percent and state and local government funding 25 percent. Ms. Haas added that this project does support the concept of regionalization, as just discussed by the Board, and will address the problem of the rapidly declining Ogallala aquifer that is serving communities on the east side of the state.

Governor Martinez questioned the efficiency of constructing a water system that goes “up a mountain, over a mountain and down a mountain to the other side of the state.”

Mr. van Gulick responded that this project is very well vetted, which has been a 50-year process. Governor Martinez said her concern was how long that process was.

Mr. van Gulick said communities will be dying by bits and pieces as the aquifer dries up, which is a reality. While it will take a great deal of electricity to deliver this water, the ultimate cost will be $3 per 1,000 gallons to the users, which is not expensive.

State Engineer Scott Verhines stated that he has a long history with this project, which began in 1963 when the feasibility study was completed. He said these large water projects take a long time to mature. He cited the San Juan-Chama Drinking Water Project, which had 17 contracting communities and was initiated in 1967. But for that project, Albuquerque would have about 20 years’ worth of water left rather than the 90 to 100 years it now has.

Lt. Governor Sanchez said he has visited Portales, and their situation is unquestionably dire, but wondered if there is the federal will to complete this project given the state of the national economy and the impasse in Congress. He said the drought raises additional issues. He commented that the San-Juan Chama project happened when times were different.

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

Presenters: Phillip Rios, Sandoval County Manager; Steve Hansen, Chief Executive Officer, Presbyterian Medical Services; Cheri Nipp, Regional Director, Presbyterian Medical Services; Daniel Alsup, Modrall Sperling Law Firm

9. Sandoval County – Requests Approval of Lease of Real Property at 1500B Idalia Road NE in Bernalillo to Presbyterian Medical Services ($3,248 per month in cash or dental services in lieu of cash rent)

Mr. Rios stated that Sandoval County is requesting approval of a roughly 10-year lease of real property, consisting of 1,624 square feet in the County’s Health Commons facility located at 1500B Idalia Road, N.E., in Bernalillo, to Presbyterian Medical Services (PMS). The facility currently houses the Public Health Office, Women and Infant Children’s Program, and senior services. He said the plan by PMS is to provide dental services to citizens in need of those services.

Mr. Hansen said PMS operates a number of federally qualified facilities around the state, primarily in Rio Rancho, and provides services to people regardless of their ability to pay. About 40 percent of their clients are uninsured. They also provide medical and behavioral health services to other parts of the county.
Mr. Aragon moved for approval. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote. [Lt. Governor Sanchez was not present for the vote.]

Presenter: Arturo Jaramillo, Attorney, Cuddy & McCarthy; Nancy Nieto, Cuddy & McCarthy; Richard Chavez, Associate Superintendent; Frank Coppler, Attorney for La Clinica de Familia; Susan Martinez de Gonzales, Executive Director; Yvette Turrietta, La Clinica de Familia

10. Gadsden Independent School District – Requests Approval of Ground Lease Agreement in Doña Ana County with La Clinica de Familia, Inc. ($4,400 per year in services in lieu of cash rent)

Mr. Jaramillo stated that the Gadsden Independent School District (the District) is requesting approval of a ground lease agreement with La Clinica de Familia, Inc., a New Mexico Nonprofit Corporation (LCDF) for approximately 12,380 square feet of land with a 2,780 square foot building site and a 9,600 square foot supporting side yard. The purpose is to facilitate the construction and operation by LCDF of a new school-based health center, located on the campus of Santa Teresa High School in Santa Teresa, to enable LCDF to provide age-appropriate primary care, medical, dental and behavioral health care services to the students of the District. The lease term is 25 years. A current appraisal determined the fair market rental rate of $4,400 per year for 12,380 square feet.

Mr. Jaramillo stated that the site will be immediately adjacent to the front entrance to the high school campus, which is where a security guard is posted. The guard logs in the names of all entrants into the school campus and confirms all appointments with the front desk. This same protocol and confirmation procedure will apply when the new health center opens. LCDF will provide its own security after school hours.

Mr. Coppler said LCDF serves poor people in Doña Ana County, and the services being provided to the students would otherwise come out of the District’s budget. By the same token, LCDF is able to leverage federal funds in order to build the clinic. He said this is grant money, and the clinic will be a tenant of the District. He commented that this is a “win-win situation” and there is no downside for either party.

Ms. Martinez de Gonzales said the existing clinic is very small and they have been providing services to about 700 students a year in a total of 1,400 encounters. She said the larger size of the health center, plus the services to be provided, will allow for about 7,000 individual encounters. She said there will be three exam rooms, two dental operators, and an office for behavioral health.

Responding to Mr. Kormanik’s concerns about the potential risk of including behavioral health services, Ms. Martinez de Gonzales explained that the program is just for students and does not include people who are severely mentally ill. Such clients would be referred to the local mental health program, La Frontera. She said they have a crisis line in partnership with La Frontera.

Responding to Mr. Aragon, Mr. Jaramillo said the actual security hours at the school are from 7:30 a.m. until 6:30 p.m. If there are special events, there is a security complement.
Mr. Aragon said page 13 of the lease refers to a prohibition against a “mental disorder treatment facility.” He asked what the difference was between that and “behavioral health.” He said he saw no clinical definition of what that meant, as he was trying to reconcile that with the “mental disorder treatment facility” language. In addition, there is the security issue and the comingling of students with the general public “after hours.” If the intent is to segregate the general public from students, that isn’t being achieved after hours.

Mr. Aragon said he was in support of this concept, but was trying to flesh out these issues.

Mr. Jaramillo responded that Section 2.06 of the lease also states that “students with physical and behavioral issues shall receive routine physical and emotional examination or evaluation, which may be conducted by tenant or may be referred to other healthcare providers at tenant’s professional discretion.” He said it was made clear that the tenant had to operate within their own professional credentialing and licensing, and the definition of behavioral healthcare and variations of that are better left to the physician, who is trained to recognize these.

Mr. Jaramillo stated that not only is there a security guard posted at the entrance, there are three other security guards on campus until 6:30 p.m. For school events, there would be supplemental security.

Mr. Aragon said he would like to see the lease strengthened by including a definition between behavioral health services and mental health services and the conditions that apply.

Mr. Jaramillo said he would be pleased to amend the lease to satisfy Mr. Aragon’s concerns.

Ms. Clarke stated that the final signed version of the lease has been received and includes previously requested changes, which she discussed.

Ms. Clarke requested that any approval of this request be contingent upon: 1) Director receipt of an amended or restated lease including definitions of mental health versus behavioral health services; and 2) Director receipt of a report of the Property Tax Division confirming the value established in the appraisal.

Mr. Aragon moved for approval, with the two contingencies. Mr. Brasher seconded the motion, which passed 4-0 by voice vote. [Mr. Kormanik was not present for the vote.]

[The Board took a brief recess]
INTEREST RATE EXCHANGE AGREEMENT

Presenters: Susan Nipper, Utility Business Operations Manager, City of Farmington; Robert Westervelt, Deputy Utilities Manager, Finance and Administration, Los Alamos County; Paul Cassidy, Managing Director, RBC Capital Markets, LLC; Duane Brown, Shareholder, Modrall Sperling; Peter Franklin, Shareholder, Modrall Sperling; Mario Fuentes, Gas Business Analyst, City of Las Cruces; George Majors, the Majors Group

11. New Mexico Municipal Energy Acquisition Authority – Requests Approval of Interest Rate Exchange Agreement

Ms. Nipper discussed the formation and background of the New Mexico Municipal Energy Acquisition Authority (NMMEAA) and its purpose.

Mr. Cassidy said NMMEAA plans to sell floating rate notes with a five-year final maturity, which will allow them to eliminate a 30-year letter of credit that was issued with the Series 2009 bonds, where the capital charges were high. He said the variable discount on the gas would be converted to a fixed discount rate. He said the expected rate will be about 22 cents per MCF. With the anticipated approvals, they would expect to be on the market next week. The number of interest rate swaps would also be reduced from two to one through the proposed restructuring of the 2009 transaction.

Mr. Franklin said they expect the floating rate notes will pay 67 percent of one month LIBOR plus a spread, which is anticipated to be 28 basis points on the low end of the maturities out to about 83 basis points on the longest maturity. The swap will be to a single fixed rate to a five-year term on the floating rate notes. As of June 19, RBC had estimated the fixed rate at 1.983 percent. This includes a swap fee of 10 basis points, and RBC would pay the floating rate on the 2014 bonds, and the swap would match the five-year term of the 2014 bonds. If the swap is terminated due to an early redemption, RBC and NMMEAA would only be obligated to make the payments up to the date of termination.

Ms. Nipper, Mr. Fuentes and Mr. Westervelt each spoke in favor of this transaction.

Ms. Clarke reviewed the due diligence done by staff and the Board’s advisors. She said Fiscal Strategies Group, the Board’s financial advisor, had reviewed the transaction and generated a list of questions that were posed to the parties and resolved. Sherman & Howard, the Board’s bond counsel, generated a series of questions that were satisfactorily answered.

Mr. Carrasco stated that, if the Board votes to approve this item, the parameters resolution issued by the Board authorizing NMMEAA to enter into an interest rate exchange agreement relating to its Variable Rate Refunding Revenue Bonds Series 2014, in summary provides:

- That the bonds are to be issued for the purpose of acquiring pre-paid natural gas supplies and may be issued as variable rate bonds;
- That it is necessary to enter into an interest rate swap providing that the authority shall pay a fixed rate in return for actual variable bond rates for payments to the holders of the bonds;
- The financing plan submitted for State Board of Finance approval addresses the requirements set forth in Section 2.61.5.13(B) NMAC;
- Royal Bank of Canada, whose senior long-term debt obligations are and shall be rated in one of the top two rating categories by a nationally recognized rating agency at the time.
of the execution of the interest rate exchange agreement, will provide the interest rate swap;
• All terms of the interest rate swap shall comply with the requirements of NMSA 1978,
  Section 6-18-8.1 and the approval regulations;
• The term of the interest rate swap shall not extend beyond the final maturity of the Series
  2014 Bonds;
• The interest rate swap shall provide a notional amount not to exceed $775,000,000 with
  respect to the Series 2014 Bonds and the authority pays a fixed rate not to exceed 2.50%
  to Royal Bank of Canada and receives, in return, an actual variable rate equal to the
  variable rate paid to holders of the Series 2014 Bonds;
• The interest rate swap shall be executed and delivered no later than June 1, 2015;
• Prior to execution and delivery of the interest rate swap, the authority shall receive written
  confirmation from the Director of the State Board of Finance that the parameters with
  respect to the interest rate swap established in the resolution are satisfied; and
• That the interest rate swap results in a long-term financial benefit to the authority.

Mr. Carrasco noted that Sherman & Howard has represented that this transaction is legally
sufficient, but they intend to engage Modrall Sperling to rectify a few minor issues, which will be
rectified prior to the State Board of Finance Director’s final certification of approval.

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

**HIGHER EDUCATION DEPARTMENT**

Presenters: Dr. Stephen Burd, Associate Professor, UNM Anderson School of
Management; Douglas Brown, Dean Emeritus, UNM Anderson School of Management;
Derrick Welch, Higher Education Department; Tim Lowrey, Associate Dean
of Graduate Studies

17. University of New Mexico – Requests Approval of Master of Science in
    Information Systems and Assurance

Dr. Burd stated that University of New Mexico’s (UNM) Anderson School of Management currently
offers a Master’s in Business Administration program with 12 different concentrations, two of them in
Management Information Systems and Information Assurance. This proposal creates a new degree to
house those concentrations, and once that degree is up and running, the two concentrations will be
shut down.

Dr. Burd distributed an information sheet: “MS-ISA in a Nutshell.” He said the new degree program
would target students with an undergraduate degree in the following fields: accounting; computer
science or computer-related engineering; and information systems or information technology.

Dr. Burd said the program provides a flexible way to pursue graduate-level education in data
analytics; database management and data warehousing; digital and financial forensics; fraud and white
color crime; and other related areas.
Dr. Burd stated the courses that constitute this program already exist, and they are already full. So, it is expected that this program will start out at full enrollment, or roughly 88 FTE students per year. He said the program pays for itself from tuition and fee dollars alone as long as the program is at least at 70 percent full. He said they plan to begin the program in January 2015.

Mr. Brown added that this program attracts top-flight students within New Mexico primarily, and there are significant subsidies from NSF grants. He said many jobs will be in New Mexico, and offering a Master’s degree in this area helps ensure top qualification for jobs at the labs.

Secretary Clifford commented that it appears that this program would be tailored to meet individual students’ needs, and Dr. Burd responded that this is the intent. He said the degree can be customized significantly, depending on the student’s background and career objective.

Responding to Governor Martinez, Dr. Burd said there is no other four-year institution in New Mexico that offers this program. He said there are computer science degrees at the master’s level at New Mexico State University, New Mexico Tech and UNM, but those cater to computer science and computer engineering students and lack the managerial content and the emphasis on financial forensics, fraud and white color crime. He said there are a couple of classes at NMSU on fraud accounting.

Mr. Brown stated that letters have been submitted from NMSU and New Mexico Tech indicating that they regard this as non-duplicative and encourage development of this program.

Lt. Governor Sanchez asked what the demand for this program is, and Dr. Burd responded that a large number of graduates wind up working at the labs, which view a Master’s of Science degree as a more valuable commodity than an MBA. In addition, graduates with a Master’s of Science degree earn $10,000 to $20,000 more annually at the labs. He added that changes have just been implemented within the UNM MBA program that makes it less attractive to students who want to concentrate in this area. Finally, the program was created in response to demands from the business community and from the students themselves.

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

Governor Martinez stated that LANL is considering moving several hundred employees from New Mexico to Tennessee, and wondered if graduates from this new program who are hired by LANL will be part of that move.

[Governor Martinez stepped away from the proceedings.]
12. **University of New Mexico Hospital—Requests Approval of Construction of North Fourth Street Clinic ($4,940,000)**

Mr. James stated that University of New Mexico Hospital (UNMH) is requesting approval of construction of a North Fourth Street Clinic, to be located at 3401 4th Street, N.W., in Albuquerque. The clinic would encompass 17,000 square feet and include exam rooms, a procedure room and a pharmacy. The expected completion date of the project is spring of 2015. The Board previously approved purchase of the land in December 2013 for the purpose of constructing this clinic, which would be funded entirely out of the UNMH Capital Initiatives Fund.

Mr. Brasher asked how UNMH has addressed the problem of overcrowding in the main hospital’s emergency room, as discussed at the December 2013 Board meeting. Mr. McKernan responded that they have had good results from their Care One program. Frequent users of the emergency room are moved into this program, which runs for about six months in an ambulatory environment. After that, they are placed back in a community clinic and a patient-centered medical home. If UNMH can have the clinics in the community close to where the people live, it really assists them in getting appropriate care rather than waiting until their medical condition reaches an acute phase and they have to go to the emergency room.

Mr. McKernan also stated that each clinic has a community advisory committee, consisting of 10-12 patients, and the clinic’s hours are based on their input.

**Mr. Brasher moved for approval. Mr. Aragon seconded the motion, which passed 4-0 by voice vote.**

13. **University of New Mexico, Taos Campus—Requests Approval of UNM Taos Core Student Success Center Construction, Renovation, Infrastructure and Improvements ($3,688,000)**

Mr. James stated that the University of New Mexico, Taos Campus, is requesting approval of Taos Core Student Success Center construction, renovations, infrastructure and improvements. The project would include a 7,169 square foot renovation to Padre Martinez Hall along with a 7,811 square foot addition. Funding for the project would come from 2012 General Obligation Bonds and 2013 Severance Tax appropriations as well as roughly $1.5 million from Taos gross receipts tax revenues.

**Mr. Komanik moved for approval. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.**
14. University of New Mexico – Requests Approval of Clark Hall Chemistry Building Renovations ($16,000,000)

Mr. James stated that University of New Mexico is requesting approval of renovations to the Clark Hall Chemistry Building. The project will renovate portions of the 81,339 square foot chemistry facility, including 12,703 feet of research space and an 850 square foot addition for research space. The focus of the project is on safety and code compliance, including mechanical, electrical and plumbing systems, as well as information technology system upgrades. The Chemistry Department serves over 8,000 undergraduates and graduate students from more than 20 different degree-granting programs and generates over 20,000 student credit hours.

Mr. Brasher moved for approval. Mr. Aragon seconded the motion, which passed 4-0 by voice vote.

15. Northern New Mexico College – Requests Approval of System Improvement Revenue Bond Series 2014 (up to $16,000,000)

Mr. James stated that Northern New Mexico College (NNMC) is requesting approval of $16 million in bonds to finance the construction of $13,353,032 in student housing, or $151 per square foot. NNMC has applied to the New Mexico Finance Authority (NMFA) for financing, and received phase one approval last week. They will be meeting tomorrow with NMFA on the second phase of a three-phase process. The housing project consists of three buildings and two different housing types. The dormitory unit will consist of independent rooms with two beds and a bathroom. The dormitory will provide 75 total beds. The apartment units are designed in a suite style arrangement. In these units, four single occupancy rooms each have their own private bathroom. Four rooms are then configured around a common living space and a full kitchen. Each floor contains four suites. Each apartment is three stories high, containing 60 beds, for a grand total of 195 beds for this project.

Mr. James stated that NNMC has an agreement with the local low-income housing project to house some of their athletes and long-distance students. Other students more than 40 miles away are required to find their own housing or commute from Santa Fe or Los Alamos. Over 93 percent of NNMC students are from northern New Mexico. Rio Arriba County makes up 67 percent of the students, while Santa Fe County makes up 27 percent of the students. NNMC is the only four-year institution in New Mexico without housing on campus.

Mr. Carrasco stated that, if the Board votes to approve this item, that the parameters resolution issued by the Board authorizing NNMC to issue Improvement System Revenue Bonds, Series 2014, in summary provides:
• That the bonds are being used to plan, design, purchase, erect, alter, improve, furnish and equip a new student housing facility and related infrastructure, all for the benefit of the College and to pay the costs of issuance of the bonds;
• The College has submitted a financing plan with respect to the bonds which addresses the requirements set forth in Section 2.61.5.10 NMAC;
• The College expects to issue and sell the bonds to the New Mexico Finance Authority after approval by the State Board of Finance;
• The bonds will be issued in an aggregate principal amount not to exceed $16,000,000, bearing interest at a net effective interest rate not to exceed 5% and having a final maturity no later than June 1, 2045;
• The bonds shall be delivered to the Purchaser on or before January 31, 2015;
• The bonds shall not be delivered to the Purchaser until the College has received written confirmation from the State Board of Finance staff that the conditions established in the resolution are satisfied;
• That upon proper investigation having been made, the project is found and declared to be needed, that the cost thereof is reasonable, and that the revenues pledged to the payment of the Bonds should and probably will be sufficient to repay the money borrowed with interest as the same is due and payable, and the issuance of the Bonds for the Project is approved on the conditions set forth in the resolution.

Lt. Governor Sanchez recommended that Item #16 be presented prior to any motion being made on item #15.

16. Northern New Mexico College – Requests Approval of Student Housing Construction Project ($13,353,032)

Mr. James stated that NNMC’s due diligence study on this project included looking at rates charged at New Mexico Highlands University, Western New Mexico University and Eastern New Mexico University. The rates to be charged by NNMC are comparable to the rates charged by those institutions.

Ms. Clarke referred the Board to the recommendations from Fiscal Strategies Group, the Board’s financial advisor, and from David Buchholtz, the Board’s bond counsel.

[The agenda was reprioritized and items #15 and #16 were deferred until later in the meeting.]

STATE TREASURER’S OFFICE

Presenter: Linda Montoya Roseborough, Chief Investment Officer
18. Approval of State Treasurer’s Investment Performance Benchmarks

Ms. Roseborough requested approval of the recommended benchmarks for the State Treasurer’s portfolios. She said the Board approved the benchmarks in June 2012, and the State Treasurer’s Investment Committee recommends no change to the performance benchmarks at this time.
Mr. Aragon moved for approval. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.


Ms. Roseborough presented the investment report for the month ended May 31, 2014.

Ms. Roseborough said the State Treasurer’s Office has extended an invitation to Board members and interested financial professionals to the sixth annual LGIP stakeholder conference at CNM Training Center in Albuquerque.

GENERAL SERVICES DEPARTMENT

Presenter: Pamela Nicosin, Deputy Director, Facilities Management Division

20. Presentation on Expenditures Tracking/Data

Ms. Nicosin presented this report.


Ms. Nicosin reviewed the CBRF Financial Status Report, which reflected a beginning cash balance as of May 1, 2014 of $12,333,806 and an ending cash balance as of May 31, 2014, of $12,134,698. There were no emergency declarations in May.

Ms. Nicosin reviewed projects currently in the design stage.

In reviewing Project 159 (expansion and upgrade of State Archives), Ms. Nicosin said the space use assessment study showed that a lot of space is being taken up in state buildings with storage of data that should be archived. Because State Archives is not taking in any more data files, agencies are keeping boxes of data at their locations, “and it is everywhere.” She said the first part of the design phase has been funded, and State Records has submitted a funding request to cover the construction.

Mr. Aragon asked if the documents are at least minimally secured, and Ms. Nicosin responded that they are not. She said boxes are sitting in hallways.

Mr. Aragon asked if any of the documents contain sensitive information, and Ms. Nicosin responded that she did not know.

Mr. Aragon commented that these are important documents related to state business, and he thought it imperative that the documents be moved to a secure location. He said this is also an auditing concern. He suggested that the Executive should look at this “post haste” and consider it a possible emergency expenditure. He added that he was “stunned” to hear about this.

Ms. Nicosin said this is a very serious concern. She said State Records asked for funding last year to cover construction, but was not successful. She added that, according to State Records, putting things
on a digital type media is not totally accepted by State Archives or federal archives because the media keeps changing.

**STAFF ITEMS**

Presenter: Stephanie Schardin Clarke, Director

23. **Approval of Proposed Changes to Rule: Dedication of a Portion of the State’s Gross Receipts Tax Increment**

Ms. Clarke stated that, at the Board’s April 15, 2014, meeting, the Board approved publishing proposed changes to the Board’s Rule, entitled Dedication of a Portion of the State’s Gross Receipts Tax Increment. Notice of the proposed rule change was published on the Board’s website, in the New Mexico Register, and in the *Albuquerque Journal*. The public comment period was from April 15 through May 30, 2014. During the public comment period, she received two sets of public comments, which were reviewed during the Board’s hearing on this matter at its June 17, 2014, meeting. After deliberation, the Board tabled the rule change until today’s meeting.

Ms. Clarke stated that the electronic agenda includes staff’s markup following public comment and changes made as a result of the Board’s deliberations at the June 17 meeting.

Ms. Clarke stated that, this morning, staff received some minimal formatting comments from the State Records Center and Archives on the formatting of the rule. Staff would propose that any final version of the rule include those formatting changes.

**Mr. Aragon moved approval of the rule changes as outlined by staff. Mr. Brasher seconded the motion, which passed 4-0 by voice vote.**

24. **Notification of Request for Proposals for Financial Advisor Services**

Ms. Clarke stated that the Board’s Financial Advisor contract will expire on December 31, 2014, without option to extend. Staff is notifying the Board today that it will issue a Request for Proposals to procure a new contract to take effect on January 1, 2015.

Ms. Clarke stated that, in the past, the Board has selected a member to serve on the evaluation committee, although this is not required.

[Governor Martinez returned to the proceedings.]

25. **Board of Finance Dashboard Report**

Staff distributed this report.
26. **Fiscal Agent/Custodial Banking Fees**

Ms. Clarke stated that banking fees are in line with historical averages. She noted that the Fiscal Agent banking fees are being waived for the first six months of services, as per the negotiated contract.

27. **Joint Powers Agreements**

The Joint Powers Agreements were read into the record.

22. **Approval of Publication of Notice of Public Comment Period Related to Doña Ana County Taxable Industrial Revenue Bonds, CN Wire Corporation Project, Series 2014, Appointment of Hearing Officer, and Adoption of Procedures for Making a Determination Pursuant to NMSA 1978, Section 4-59-15 (1975)**

Ms. Clarke stated that, pursuant to NMSA 1978, Section 4-59-15 (1975), Doña Ana County (County) has requested that the Board determine whether the County’s planned issuance of Industrial Revenue Bonds for the benefit of CN Wire Corporation directly or substantially competes with existing business, International Wire Group.

Ms. Clarke said staff is requesting Board approval to publish notice of a public comment period in the *Albuquerque Journal* as well as the *Las Cruces Sun*, the local newspaper in Doña Ana County, and also on the Board’s website.

Ms. Clarke read the Notice of Public Comment Period, which included information about the timing for submitting written public comments to her, examples of the types of information that may assist the Board in making its determination, and notice that the Board is anticipated to schedule a meeting during the week of August 18 to hear presentations and possibly take action on the issue.

Ms. Clarke said staff also recommends that the Board chairperson appoint a hearing officer to preside over public hearings related to this issue and delegate to that hearing officer the authority to respond to procedural questions that arise between today’s meeting and the meeting at which the Board may make its determination related to this issue. The hearing officer would have authority to take all measures necessary for maintenance of order and for the efficient, fair and impartial consideration of issues arising before and during public hearings including but not limited to: keeping the public hearing on schedule, taking or admitting written public comment, and making such orders as may be necessary to preserve decorum and protect the orderly hearing process.

Ms. Clarke stated that the rules of civil procedure and the rules of evidence do not apply to the SBOF’s public hearings on this issue. Similarly, the Administrative Procedures Act, NMSA 1978, Sections 12-8-1 to 12-8-25 (1969, as amended through 1999), is not applicable to this or any SBOF proceeding.

Ms. Clarke stated that staff recommends the following agenda item at the August meeting, to be presided over by the appointed hearing officer:

Doña Ana County – Requests Determination on Proposed CN Wire Corporation Industrial Revenue Bond Projects Pursuant to NMSA 1978, Section 4-59-15
a. Presentation by Doña Ana County  
b. Presentation by International Wire Group  
c. Presentation by CN Wire Corporation  
d. Board Deliberation  
e. Board Action

Ms. Clarke said that following presentations under items a, b, and c, the SBOF may also ask questions of all persons appearing before it to elicit information it deems necessary to make its determination. It is recommended that testimony and commentary be made under oath, as provided in the notice proposed by staff.

Ms. Clarke stated that the procedures she had described are intended to provide all parties an opportunity to present information to the SBOF to assist the SBOF in making its determination. It is not an adjudicatory proceeding at which individual rights will be determined and should not be treated as such. In making its determination, the SBOF shall rely solely on the information contained in the record of the SBOF’s proceedings in this matter.

Michael Brasher was appointed as hearing officer by the Chair.

Mr. Aragon moved to approve publication of notice as read by staff. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

Mr. Aragon moved adoption of the procedures, as read by staff. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

[Lt. Governor Sanchez left the meeting.]

ITEMS 16 AND 15 (Cont’d)

15. Northern New Mexico College – Requests Approval of System Improvement Revenue Bond Series 2014 (up to $16,000,000)

16. Northern New Mexico College – Requests Approval of Student Housing Construction Project ($13,353,032)

Responding to Secretary Clifford, Ms. Clarke stated that there was analysis done late yesterday that was distributed today. Staff had requested an alternate pro forma in addition to the regular pro forma proposed by NNMC. The regular pro forma provides that revenues and expenditures will grow by 2.5 percent over the years with a 10 percent vacancy rate in the housing. That shows positive coverage on the bonds. Staff requested an alternate, where expenditures grow by 2.5 percent, revenues are flat, and vacancy is 15 percent, which shows an inability to service the bonds.

Secretary Clifford commented that enrollment has been declining for several years. He asked how much of an increase in enrollment is contemplated in order to generate the first set of pro formas (where it breaks even).

Mr. Serna responded that they expect a 3 percent increase in enrollment in 2015, which anticipates
that, at 90 percent capacity, 60 percent (or 106) would be students attending the college because they would then have the opportunity live on campus. In fall 2016, they anticipate enrollment to increase by 6 percent, assuming 95 percent capacity, of which 70 percent would be new students enrolling because of the residence halls.

Secretary Clifford noted a statewide decline in enrollment, however. He said he would have to assume the increase would come at the expense of other higher education institutions in the state.

Dr. Barceló said most of their students come from within a 40 mile radius. She said they often get requests from students in Chama, who instead choose to go to Alamosa. She stated that she believes the freshman class, after living for a year in a residence hall, will move into a fraternity or sorority house or an apartment. Without residence halls, this opportunity will not be available to them because there is no housing for them to move into in Española.

Mr. Serna said NNMC did a random sample of students and learned that 43 percent of the students are living at home but 70 percent of that group would like to live in the residence halls.

Mr. Serna said NNMC is the most affordable four-year institution in the southwestern United States. He said their mission is to provide affordability, but the lack of housing can drive students to more expensive institutions elsewhere.

Mr. Kormanik asked what the rating on the Bonds was. Mr. Cassidy responded that Moody’s Investor Services assigned a rating of Baa3, which is at the lower end of the investment grade rating range. This would be expected for a small institution, which has very weak liquidity and has come out of a difficult period. He added that NNMC had an $800,000 positive balance in the last fiscal year, so have cleaned up a lot of problems they’ve had.

Mr. Brasher asked how NNMC proposes to cover the debt service if projections are not realized, and Mr. Sanchez responded that they would cut expenditures, not fill vacancies, and cut staffing in student services.

Mr. Sanchez discussed the dearth of available housing for students in Española. He said the only apartment complex in town has a questionable reputation and has been in the news several times over the years, and there was a murder there last year.

Mr. Brasher asked if additional streams of revenue, including raising tuition, would be considered, and Mr. Serna responded yes. He said this is the first year in several years that NNMC elected not to raise tuition.

Mr. Brasher expressed concern that NNMC has not really offered any specific plan for meeting the debt service if enrollment projections are not realized.

Responding to Mr. Brasher, Mr. Sanchez said all of their audits, as of FY 2013, are unmodified and unqualified, and they continue to work on the findings.

Governor Martinez said the survey NNMC did, asking students if they would rather live in a dorm than at home with their parents, raises the question of how they would find the $3,000 or $4,000 to pay for that.
Governor Martinez said she realized NNMC was caught up with its audits, but cited the fact that cash balances changed by about $2 million as a result of audits, which is “huge.” She noted that NMCC has an uncommitted cash balance right now of $195,000, which is not very much, and the housing will leave $955,000 per year debt service with only about $45,000 extra housing revenue left for operations and maintenance. She said, “I think we need more time in viewing the stability of the institution before there is a continued investment... It just doesn’t make fiscal sense to throw in another $1 million with the hope that, even if you got it, how would you maintain it.”

Governor Martinez said the Board would like to do a comparison of the audit that was just done and the audit that is in the process of being finished. She said the Board should also wait another year to see if there is growth in enrollment or not.

Responding to Mr. Brasher, Mr. Cassidy said Monument’s developer fee to complete the housing master plan was $978,000.

Monument president Timothy Pitcher discussed the various studies that went into the master plan and the bid package that was created. He also discussed assumptions included in the pro forma.

Dr. Barceló said she directed that NNMC not pursue a residence hall until it had some stability and completed its audits, and she feels they have turned a corner. She stated that they have a new provost as well as a new dean of education. Last year, their engineering program received the highest marks for accreditation, which will be announced in August, and this will attract more students. Their College of Business, their fastest growing program, is also going out for accreditation. She said NNMC is moving in the right direction, and expressed concern that they will lose more students if they delay this project another year.

Responding to Governor Martinez, Mr. Serna said their student teacher ratio, which was 10:1, is now 15:1. NNMC has done a lot of work in enrollment management, and that should go to 20:1 in the next two years. He said NNMC has the ability to double in size without any increase in faculty.

[No action was taken on items 15 and 16 for lack of motion.]
ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 3:30 p.m.

Susana Martinez, President

9-16-14

Date

Michael Brasher, Secretary

9/16/2014

Date