MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
January 20, 2016

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. Tim Eichenberg, State Treasurer  [arriving 11:30 a.m.]
Mr. Adelmo Archuleta, Public Member
Mr. Robert J. Aragon, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Absent:
The Hon. Susana Martinez, President
The Hon. John A. Sanchez, Lt. Governor

Staff Present:
Dr. Thomas E. Clifford, Secretary of Finance and Administration
Ms. Leila Burrows Kleats, Director, State Board of Finance
Mr. Jeff Primm, Deputy Director, State Board of Finance

Legal Counsel Present:
Ms. Sally Malavé, Attorney General's Office

Others Present:
[See sign-in sheets.]

2. APPROVAL OF AGENDA

ANNOUNCEMENT: NEXT REGULAR MEETING – TUESDAY, FEBRUARY 16, 2016

Secretary Brasher requested that Approval of the Minutes be deferred for a few minutes until a set of corrected minutes was distributed.

Mr. Archuleta moved approval of the agenda, as amended. Mr. Aragon seconded the motion, which passed 4-0 by voice vote.
EMERGENCY FUND BALANCES

Presenter: Leila Burrows Kleats, Director

4. **Emergency Balances – January 2016**

   - Operating Reserve Fund  $1,944,192.40
   - Emergency Water Fund    $118,100.00

Ms. Kleats reported these balances.

PROPERTY DISPOSITIONS

Presenter: Charles Jackson, County Manager; Jim Massengill, Public Works Director, City of Deming; Jessica Etcheverry, Community Projects Director; Javier Diaz, County Commissioner

5. **Luna County – Requests Approval of Transfer of Real Property Known as the Tulip Landfill to the City of Deming**

Mr. Jackson requested approval of the transfer of real property, known as the Tulip Landfill, to the City of Deming. The Tulip Landfill was deeded to Luna County on November 8, 2012, to be eligible for a Brownfield grant to assess the extent of contamination. The City was not eligible to apply for the grant because it owned the site. He said the County and City decided to apply for Colonias funding through the Colonias Infrastructure Board for the reclamation of the landfill with the intent of developing the site for recreational use. The County was awarded the grant, and was subsequently informed that it would have to pay the match/loan on the grant and maintain the site for 20 years after the project was complete. The City of Deming had pledged the match/loan funds for the grant and expected the County to deed back the land after the Brownfield grant was complete.

Mr. Jackson said the Colonias Infrastructure Board changed the borrower and grant awardee from the County to the City on September 1, 2015; and on September 11, 2015, the Luna County Board of Commissioners adopted a resolution approving the transfer of the property back to the City of Deming. After the transfer is complete, the City of Deming will present the documents to the Colonias Infrastructure Board to meet the conditions of funding.

Responding to Mr. Archuleta, Mr. Jackson said the deadline to meet the conditions was originally December 4, 2015. This item was originally on the November Board of Finance agenda, but was deferred pending receipt of a letter from the United States Environmental Protection Agency (EPA) stating that they did not take issue with the City of Deming resuming ownership. He said the grantor has extended the deadline to allow for the delay.

Ms. Kleats requested that approval of this item be contingent upon Director’s receipt of documentation from the EPA confirming that the EPA does not take issue with the City of Deming resuming ownership.

Mr. Massengill said the EPA letter “is working its way through the EPA wheels.” He said the attorneys are reviewing it and see no problem with it, but it will require “multiple approvals.” He said he hopes to see it before the end of the month. Mr. Jackson added that they have an email from EPA satisfactorily addressing the contingency discussed by Ms. Kleats.
Mr. Archuleta moved for approval, with the contingency. Mr. Aragon seconded the motion.

Mr. Archuleta commended the City and County for working together to reclaim the landfill property and repurpose it for recreational use.

The motion passed 4-0 by voice vote.

3. APPROVAL OF MINUTES: DECEMBER 15, 2015 (REGULAR MEETING)

Mr. Aragon moved approval of the amended minutes. Mr. Archuleta seconded the motion.

Mr. Aragon moved an amendment that the motion for approval on Item 6 as it appeared in the amended minutes (New Mexico Martin Luther King, Jr. State Commission – Requests Approval of Emergency Funding), be further amended to incorporate page 43 of the December 17, 2015 electronic agenda as an exhibit to the amended minutes.

Mr. Archuleta seconded the amendment, which passed 4-0 by voice vote.

The minutes, as amended, were approved 4-0 by voice vote.

PROPERTY DISPOSITIONS

Presenters: Dr. George Bickert, Superintendent; Nancy Nieto, Counsel, Cuddy & McCarthy, LLP; Shane Holder, Board Member

6. Ruidoso Municipal Schools – Requests Approval of Trade of Real Property Located at the North Side of US Highway 70, Ruidoso Downs, in Exchange for Property Located at the Southwest Corner of Hull Road and White Mountain Drive in Ruidoso with White Mountain Development Company and Acceptance of Certain Special Exceptions (real property plus $5,000)

Ms. Nieto stated that the Ruidoso Municipal Schools (RMS) was requesting approval of approximately 20.954 acres that it owns on the north side of U.S. Highway 70, Ruidoso Downs, in exchange for approximately 4.955 acres owned by White Mountain Development Company (WMDC). The RMS property was valued at $525,000, and RMS would receive the WMDC property, valued at $520,000, plus $5,000, in trade.

Ms. Nieto said this exchange would allow the school district to acquire land for a pending project that was approved by the Public School Capital Outlay Council, to create a combined school at the existing Sierra Vista Primary School campus that would combine pre-kindergarten through second grade.

Ms. Nieto said they have a title commitment, but there are some unresolved minor title issues that they have been working with staff on. The title commitments included very general exceptions for possible mineral interests, and she has asked the title office to delete those and add any specific actual exceptions of record related to mineral interests. As of late last night, they were completing some additional title review work to potentially be able to do that. They also had added a general exception for taxes and subsequently verbally agreed to remove that, as the realty is not taxable.
Mr. Primm requested that approval of this item be contingent upon Director’s receipt, with counsel review, of a) form of warranty deed from White Mountain Development Company; and b) revised title binder

Responding to Secretary Brasher, Mr. Primm said there are appraisals for each of the two properties being traded. The appraisal for the WMDC property is dated December 30, 2014 a fairly old appraisal as appraisals go, but it is within the Board’s rules that it was less than one year old as of the time of submission for this meeting, which happened in mid-December. The exposure time of the report was 18 months, so it did not exceed the rule or the appraiser’s anticipated usage window.

Mr. Archuleta noted that page 918 of the electronic agenda includes the exchange agreement between WMDC and RMS. At the end, at the signature block, “County of Lincoln” is crossed out and corrected to read “County of Chaves” is added. He asked if this is because the WMDC’s official registered office is in Chaves County. Dr. Bickert said that was correct.

Mr. Primm noted that the RMS has elected not to do a survey on the property that they are acquiring because they are very aware of what the property is, and there aren’t any improvements on it; so by not having a survey, that means they will not be able to remove all of the standard exceptions to the title binder that Board staff would normally expect. In consultation with counsel, Board staff feels this is an expense that the school probably doesn’t need to take on. He added that those are what Board staff normally expects in property transactions. If there were improvements on the property, it would perhaps be a different matter. He added that this is considered a best practice, but is not a Board rule requirement.

Mr. Aragon moved for approval, with the contingencies outlined by staff. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote.

**HIGHER EDUCATION DEPARTMENT**

Presenters: Ronald James, Capital Projects Director, New Mexico Higher Education Department; Scott Smart, Vice President of Business Administration

7. Eastern New Mexico University – Requests Approval of Electrical System Upgrades ($900,000)

Mr. James stated that Eastern New Mexico University (ENMU) is requesting approval of campus-wide electrical system upgrades. The project will include the replacement of main power lines, transformers, switchgears and distribution systems. Funding for the project is from the 2015 special session Severance Tax Bond, and the project is part of ENMU’s five-year plan.

Ms. Kleats stated that legal counsel has advised that ENMU will need to request a waiver of the requirement under Rule 2.70.4.10(A)6, which is a certificate of adequate parking.

Mr. Smart explained that this project is not specific to any one facility on campus, so that requirement didn’t seem relevant, which is why ENMU is requesting the waiver.

Responding to Mr. Archuleta, Mr. Smart said this is a continuation of the initial project, which was to replace a large electrical distribution line that was in the ground and needed immediate attention, and that was as far as they could stretch the budget.
Mr. Aragon moved for approval, including approval of ENMU's request for a waiver of the certificate of adequate parking requirement. Mr. Archuleta seconded the motion.

Secretary Brasher commented that, during his time on the Board, and under Governor Martinez's administration, the focus has been on upgrading and maintaining older buildings rather than replacing them, which he feels is a very good thing.

The motion passed 4-0 by voice vote.

Presenters: Glen Haubold, Associate Vice President; Heather Watenpaugh, Interim University Architect and Campus Planning Officer; Enrique Espalin, Assistant Director

8. New Mexico State University, Carlsbad Community College – Requests Approval of Boiler Replacement and Information Technology Renovation ($1,600,000)

Mr. James stated that New Mexico State University (NMSU), Carlsbad Community College, is requesting approval of boiler replacement in the existing 676 square foot mechanical room; reconfiguration and renovation of the information technology server room; and installation of an emergency generator in a building that was constructed in 1966. The new boilers would reduce heating costs and allow more centralized monitoring. The project will also include the installation of a much-needed emergency generator to alleviate frequent power outages at the campus. The IT renovations would provide more reliable IT access essential for future enrollment growth.

Mr. Primm said staff has distributed late responses to questions posed by Board members and staff that were not included in the electronic agenda.

Mr. Aragon moved for approval. Mr. Archuleta seconded the motion.

Mr. Archuleta noted that the project includes a paging system on the emergency generator to notify systems and to broadcast to everyone on campus that there is a potentially dangerous situation. He said that is part of the reason for the infrastructure, which would connect that to a backup electrical system. He wondered if NMSU has incorporated that in any new projects, making absolutely sure that the design looks at what load is put on the emergency generators, escape routes in the event there is no lighting, etc. He said the electrical power has to be sufficient to switch on the generator if someone cuts the power, for instance.

Mr. Haubold responded that they are “scurrying to catch up” with this, given recent events around shootings on campus, and they are looking at incorporating that into new designs.

Secretary Brasher asked if NMSU has been able to certify that the project is consistent with the health and safety requirements with the funds being used for the project.

Mr. Haubold indicated yes.

The motion passed 4-0 by voice vote.
DEPARTMENT OF FINANCE AND ADMINISTRATION

Presenter: Ron Spillman, State Controller and Financial Control Division Director


State Fiscal Year (SFY) 15 Component Appropriations Audit

Mr. Spillman stated that the Component Appropriation Funds consist of nine statutorily or administratively created funds, with $1.7 billion in assets and $6.3 billion of revenue in SFY15. He said these funds, which are the "hub" of the state's general fund operational revenue and finances, act as financial intermediary and control between general revenue receipts and outbound expenditures. He said there are 75 streams of revenue, with disbursements to 94 agencies and 143 funds.

Mr. Spillman said a portion of the $1.7 billion was banked in the state general fund investment pool; and at the time of the last audit, they had not done reconciliation. Reconciliation has since been performed and the disclaimer has been removed.

Mr. Spillman discussed the findings. He said the issue was the resolution of uncertainties, i.e., they did not know if the balance in the State General Fund Investment Pool was correct and what the ultimate loss would be, and they had allowances of between $70 million and $100 million. He said they have since been able to reconcile that and reduce the uncertainty to $4 million and subsequently down to about $1 million, which is a $1 million gain at this point. With that uncertainty resolved, and because it appears there is not a loss they have to cover, they have reduced the allowance to zero. He said they still have about $1 million of uncertainty built into the system.

Mr. Spillman said the good news is that they now have an unmodified audited opinion for the general fund.

Mr. Spillman added that they still have an open finding, which has been declassified from a material weakness to a significant deficiency. He said the auditor would prefer that this be zeroed out, but it is important to understand that to zero out the difference might be inappropriate because they are not that accurate at this point but are within the range. He said they would be working with the auditor next year to resolve this.

Responding to Mr. Kormanik, Mr. Spillman said the majority of money going into the fund comes from the Taxation & Revenue Department. This includes gross receipts taxes, personal income tax, etc. He said over $500 million was on deposit from the state general fund investment pool, and the question raised by the auditors was whether those claims were valid. He explained that all monies received are stored with the State Treasurer's Office (STO) investment pools, but those amounts ($500 million in claims) hadn't been reconciled. This year, they were able to establish that they have $3.6 to $3.9 billion worth of claims, and STO has approximately the same amount of resources. He commented that STO is earning about $2 million of interest per month, and there are market value gains or losses that are even more difficult to monitor.

Dr. Clifford said page 1506 in the binder details the discussion around the condition, which was that the General Operating Reserve Fund reported a $100 million allowance for potential loss related to the reconciliation of the New Mexico State General Fund Investment Pool. He recalled the concern was that
the historical transactions had not been reconciled. The conclusion was that the reconciliation of claims to the resources captured all of the cumulative transactions. He said they have been doing a monthly reconciliation for about three years, and so there are now two different processes (monthly reconciliation and claims to resources reconciliation), and they feel that the latter provides the additional certainty they need with regard to these historical transactions.

**Book-to-Bank Reconciliation: Background and Current Status**

Mr. Spillman stated that this could not have been accomplished without collaboration with STO, DFA, DoIT, the agencies, funding by the State Board of Finance, “and a lot of hard work in the trenches by the Cash Control Unit of DFA and STO.”

Mr. Spillman stated that a comprehensive reconciliation of statewide cash balances had not been performed since SHARE implementation in July 2006. He commented that they missed an opportunity to critically evaluate and standardize business processes at that time, and it took until February 2013 to do that.

Mr. Kormanik commented that one of the concerns that agencies have articulated in the past with regard to the implementation of SHARE as a state system is that it doesn’t provide the kind of unique financial information that an agency such as Human Services needs in order to execute their programs. He asked Mr. Spillman if he has received any feedback with regard to that issue.

Mr. Spillman responded that he would agree with some specific activities that an agency might be involved in, but for a base business, an enterprise system such as SHARE or PeopleSoft should be able to handle that.

Dr. Clifford said the question has come up as to whether the State Treasurer will be able to integrate his investment management software with SHARE as the state moves forward with its upgrade.

Mr. Spillman responded that investment activity has been supported by QED on the investment side, as PeopleSoft 88 did not have a robust-enough module to do that. He said ten years has elapsed since Peoplesoft 88, and PeopleSoft 92 has been upgraded and he has been advised that it can handle the needs of STO for investment activity.

Mr. Spillman discussed the second phase of the cash remediation project, which has a budget of $4.9 million. The focus will be to:

- Increase controls and automate banking interfaces associated with payment activity, eliminating interaction with bank files once produced from the system.
- Establish standardized and streamlined process applicable to all disbursement activities using the Payment Load and Third Party Warrant processes. Transitioning from a Detective to Preventive Control using improved business processes.
- Re-engineer SHARE monthly closing process, including development of missing processes, strengthening and streamlining existing processes and improving adequacy of controls.

Mr. Spillman said the system should be operational on May 1, 2016. He said some entities would need additional funding to be able to configure to the cash remediation II template. For example, the
Administrative Office of the Courts will not be ready for another year from then. He said all agencies are indicating a willingness to cooperate.

10. Discussion of Second Phase of Cash Reconciliation Project Plan and Status
Comprehensive Annual Financial Report (CAFR) Status and Audit Readiness

Summary of FY13 and FY14 audits:

- FY13 was the first year the state CAFR was audited
- Previous years (FY01-12) were reviewed, which provides a lower standard of assurance
- FY13 CAFR received a disclaimed opinion and was not completely audited
- While many of the challenging issues encountered in FY13 remained in FY14, significant progress was made: Auditor was able to express an unmodified opinion on 40 percent of the total fund-level opinion units; however, material findings prevented the auditor from providing an opinion on the remaining CAFR statements
- Two of the five FY13 material weaknesses were resolved in FY14 and the ongoing reconciliation of bank transactions to the general ledger has positioned the state to resolve another longstanding issue in FY15
- The FY14 CAFR was released 4 months earlier than the FY13.

Hyperion Software

Mr. Spillman stated that, this year, the state has a financial reporting package that will upload data from SHARE and upload it based on 12 characteristics. For non-SHARE entities (e.g., universities), the information will be uploaded manually. Next year, they will send data forms to the universities for later upload to the system.

- Purchased in 2014, the Hyperion Software automates CAFR development, using SHARE data and data files from Component Units. It replaces the manual process based on queries and Excel spreadsheets
- Software configuration began in July 2015, with completion slated for end of February 2016.
- FY14 data was loaded in Hyperion to test development and to provide beginning balances
- Working extended warranty period to accommodate delay in data receipt

Secretary Brasher commented Mr. Spillman on an excellent report. He said he was impressed by the tremendous amount of progress.

Mr. Archuleta congratulated Dr. Clifford and Mr. Spillman on this report. He said, “My hat is off to you. You are doing a fantastic job.”

[Mr. Eichenberg joined the proceedings.]

STATE TREASURER’S OFFICE

Presenter: Vikki Hanges, General Fund Investment Pool Portfolio Manager


Ms. Hanges presented this report.
GENERAL SERVICES DEPARTMENT


[Informational.]

STAFF ITEMS

Presenter: Leila Burrows Kleats, Director

13. Adoption of Open Meetings Resolution 16-01

Ms. Kleats asked for Board approval of the Open Meetings Resolution for calendar year 2016.

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

14. Adoption of Interest Rate Policy 16-02

Ms. Kleats stated that, each January, the Board approves an interest rate policy for public funds that sets a market rate that is available each day on the State Treasurer’s website. No substantive changes are proposed for this policy.

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

15. Election of Secretary of the State Board of Finance

Ms. Kleats stated that, in discussion with the Governor’s staff, the Governor would be happy with having Mr. Brasher continue to serve as Board Secretary.

Mr. Aragon nominated Mr. Brasher as Secretary.

Mr. Eichenberg moved to close the nomination by acclamation, which passed 5-0 by voice vote.

Mr. Archuleta motioned the election by acclamation of Mr. Brasher as Secretary. Mr. Kormanik seconded the motion, which passed 5-0 by voice vote.

16. Appointment of State Board of Finance Subcommittee Members

A. Private Activity Bond Committee

Members: Mr. Aragon; Mr. Brasher.

B. Banking Committee

Members: Mr. Eichenberg; Mr. Archuleta.
C. **Committee on Reviewing State Treasurer’s Audit Process**

Members: Lt. Governor Sanchez; Mr. Kormanik.

Ms. Kleats stated that, in discussion with Board members as well as with the Governor’s Office, the recommendation would be to maintain the status quo.

Mr. Aragon stated that a motion to approve these recommendations was not necessary, as these were appointments made by the Governor.

17. **Report on Severance Tax Note 2015S-C Delegation of Authority**

Ms. Kleats stated that at the December meeting, the Board granted a delegation of authority to Dr. Clifford to approve any additional projects added to the project list. She said there were no additional projects, and the language presented in the resolution at the December meeting was the final version.

18. **Board of Finance Dashboard Report**

[Informational.]

19. **Fiscal Agent/Custodial Bank Fees**

Mr. Pimm stated that these reports were included in the electronic agenda. Fees were trending as expected.

20. **Joint Powers Agreements for Month-ended December 2015**

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

**ADJOURNMENT**

Its business completed, the State Board of Finance adjourned the meeting at 11:55 a.m.

Susana Martinez, President

3-25-16

Date

Michael Brasher, Secretary

3/15/2016

Date