MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
May 17, 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. John A. Sanchez, Lt. Governor
The Hon. Tim Eichenberg, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Adelmo Archuleta, Public Member
Mr. Michael Brasher, Public Member, Secretary

Members Absent:
The Hon. Susana Martinez, President
Mr. John Kormanik, Public Member

Staff Present:
Dr. Thomas E. Clifford, Secretary of Finance and Administration
Ms. Stephanie Schardin Clarke, Deputy Secretary of Finance & Administration
Ms. Leila Burrows Kleats, 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, JUNE 21, 2016
Mr. Aragon moved approval of the agenda, as published. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

3. APPROVAL OF MINUTES: APRIL 19, 2016 (REGULAR MEETING)

Mr. Aragon moved approval of the April 19 minutes, as submitted. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

EMERGENCY FUND BALANCES

Presenter: Leila Burrows Kleats, Director

4. Emergency Balances – May 2016

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,629,453.40</td>
</tr>
<tr>
<td>FY14 Emergency Water Fund</td>
<td>$118,100.00</td>
</tr>
</tbody>
</table>

Ms. Kleats reported these balances.

SEVERANCE TAX BONDS AND NOTES

[Because the bond sale on the taxable series was still underway. Items 6 and 7 were deferred until the bond sale was complete.]

Presenters: David Buchholtz and Luis Carrasco, Co-Bond Counsel, Rodey, Dickason, Sloan, Akin & Robb, P.A.

5. Approval of Amendment to Severance Tax Bond Resolution, Series 2014A

Mr. Buchholtz reported it was discovered that the Veterans Services Department conducts a loan and reimbursement program with the federal government, which program may raise tax concerns. As such, counsel feels it wise to remove this project from the Series 2014A project list and add it the 2016C taxable bond project list that will be coming to the board shortly.

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

8. Approval of Severance Tax Note Resolution, Series 2016S-A

Mr. Buchholtz said this is the so-called “sponge” note that the board issues every six months. Because of the impact of oil and gas revenues on the Severance Tax Bonding Fund, the senior sponge note will be very small this year, and will be replaced by the 2016C bond that will be coming later on today’s agenda. He said there would be about $1 million of possible money available for use. This note will be purchased by the State Treasurer’s Office (STO) as an overnight investment and is scheduled to close on June 29 and be paid off on June 30.
Ms. Kleats stated that, although this note is for just under $1 million in available capacity, the board has built in a $10 million buffer just in case revenues come in higher than anticipated.

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

9. **Approval of Supplemental Severance Tax Note Resolution, Series 2016S-B**

Mr. Buchholtz stated that the proceeds of this note, approximately $120 million, would go entirely to the Public School Capital Outlay program.

Ms. Kleats stated that the board has built a $20 million buffer into this note.

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

**PROPERTY DISPOSITION**

Presenters: Geno Zamora, Legal Counsel, Ortiz & Zamora Attorneys at Law, LLC; Myra Martinez, Interim Superintendent, Española Schools; Adan Cordova, Director of Facilities

10. **Española Public School District – Requests Approval of Donation of Real Property Located at 714 Calle Don Diego in Española to Cariños de Los Niños Charter School**

Mr. Zamora requested approval of a land transfer from Española Public Schools to Cariños de Los Niños Charter School, a state-chartered charter school. The land transfer is the result of a settlement of litigation between the two parties, and the two parties agree that this is a good settlement to preserve the resources of the district and the charter school, and to provide a permanent home for the charter school. He said it also returns students to an old school that has been used as an administrative building for the last 30 years.

Dr. Clifford said he understood the property had been red-tagged, and asked why.

Mr. Zamora responded that there tends to be some confusion with this issue. He said there are three property sites: the middle school property site, the Mountain View property site, and the Calle Don Diego property site. The original site, which was the middle school, was red-tagged, and that was part of what caused the litigation. He said that is not the property under discussion today. He said Cariños had to vacate the middle school and go to the Mountain View site, where they are currently open and operating. As a result of the settlement, they would relocate from the Mountain View site to the Calle Don Diego site, which is currently open and operating for administrative purposes. After this land transfer, and prior to any move from Mountain View to Calle Don Diego, Cariños de Los Niños would have to work with the Construction Industries Division and the Public Schools Facilities Authority (PSFA) to ensure that all upgrades are met.
Dr. Clifford asked if the Public School Capital Outlay Council (PSCOC) has contributed funds to improve the Mountain View School that Cariños is in now.

Ms. Clarke stated that Bob Gorrell, director of the PSFA, confirmed that Cariños has not received any funding from PSCOC. It received an award for planning in FY12, but the award was rejected by the school district. She added that, by owning their own facility in the future, they will not be eligible for lease assistance.

Ron Van Amberg, attorney for Cariños, appeared before the board with board president Dr. Cata and board member Felix Gonzales. He said an architect is working on identifying the areas that need to be brought up to the standards required by statute. As a charter school in a public facility, they are entitled to apply for grant money from the PSFA and would seek matching funds, using the state formula, through the Española School District. He said they have recently been approved to be a state-chartered charter school.

Mr. Zamora said the charter school does have the option for its pro rata share of all bonds issued within the district under state statute.

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

**HIGHER EDUCATION DEPARTMENT**

Presenters: Ronald James, Capital Projects Director, New Mexico Higher Education Department; Glen Haubold, Associate Vice President of Facilities and Services; Dr. Renay Scott, President, Doña Ana Community College; Kelly Brooks, Vice President of Business and Finance, Doña Ana Community College; Heather Zack Watenpaugh, University Architect

11. **New Mexico State University, Doña Ana Community College – Requests Approval of East Mesa Improvements ($2,000,000)**

[Mr. Archuleta stated that he would abstain from the vote because his firm has provided professional services on this project.]

Mr. James stated that New Mexico State University (NMSU) is requesting approval of $2,000,000 for infrastructure improvements for a new East Mesa campus entrance roadway and erosion control measures. The project was approved by New Mexico Higher Education Department in September 2015 and submitted to the Board of Finance for the October 2015 meeting; however, the project was pulled before the board meeting because the City of Las Cruces requested additional traffic controls along Sonoma Ranch. The original project also included the relocation of high power lines. He said this portion of the project was removed due to neighborhood concerns. At the same time, site grading and erosion control became a greater need, and the cost replaced the power line costs. This project's most important need is for security and emergency response. The availability of two exits will permit first responders
better access to the campus while allowing students and staff alternatives to vacate the campus. Funding for this project is from local general obligation bonds and is part of the institution’s five year plan.

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

Presenter: Domingo Sanchez III, Interim President

12. Northern New Mexico College, El Rito and Española Campuses – Requests Approval of Critical Infrastructure Improvements ($2,000,000)

Mr. James stated that Northern New Mexico College is requesting approval of $2,000,000 for a number of critical infrastructure projects on the college’s Española and El Rito campuses. These projects include roof repair, heating, ventilating and air conditioning unit installations, parking lot repair, and replacement of several areas of sidewalk throughout the campus. All of these projects deal with health, safety and welfare of the students and staff while protecting the assets of the institution. A voter-approved 2014 general obligation bond is funding the project. This project is part of the college’s five-year plan.

Mr. Archuleta commented that Northern New Mexico College “always seems to want to do a lot with a little,” and he could understand the college’s need to stretch dollars as far as they could. He noted a number of different quotes and aspects to the project. He said he was concerned “that you come in and you do a lot, and then in a year or so you’re back to square one on some of those paved areas.” He asked for more information.

Mr. Sanchez responded that, unlike some of the larger institutions, they do not have staff architects or capital projects directors and lean heavily on the Cooperative Educational Services (CES) procurement process. He said they first look at who is on the approved list for CES, give them calls to determine interest, and to the extent that they can get people to respond, they will invite them down and go over the different projects and ask people to provide quotes. He said they generally have their director of facilities, who has been there for 35 years, handling the process and dialoguing with the potential bidders. In some cases they issue request for proposals (RFPs), but they use CES for the larger projects.

Mr. Archuleta asked if they have done actual tests on what is below the surface and what kind of design would be needed for a particular road or parking lot, etc. Mr. Sanchez responded that they have not done those tests. Mr. Archuleta commented that this is a situation where they need to get this work done because of safety concerns, but because they are bringing a contractor in without doing borings and determining what the right level of pavement is, “you’re really sort of taking a chance that that treatment is going to work fine. And whether you get two years or ten years out of it totally depends on what’s below you... And I understand, you don’t have all the staff to be able to do that.” He said he doesn’t know if the state has people who can help out and make sure that they get the level of construction that they are expecting, but this is a concern. He commented that the same is true with roofing:
"You’re kind of left without somebody on your side making sure that what you’re getting is going to be the same quality that your peers may be getting or you may expect."

Lt. Governor Sanchez commented that the board had a situation a couple of years ago at New Mexico Highlands University (NMHU) in Las Vegas. Because the regents were making those decisions and there was no professional architectural, engineering or construction management staff on board, there were problems.

Lt. Governor Sanchez asked Mr. James if he has someone on staff that can address these potential issues, and Mr. James responded that he does not. He said he would personally love to have a construction management person on staff. He noted that the State of Utah, for instance, has two people for each of their five institutions.

Mr. James said he worked closely with Lisa Martinez, who is on contract with Northern to oversee their construction.

Lt. Governor Sanchez stated that it would be a good investment for the state to contract this position out part time. He said perhaps the legislature could budget some money for this. He noted that NMHU’s had to spend a tremendous amount of money correcting the problem.

Dr. Clifford commented that the Procurement Code has provisions that generally ensure that there isn’t poor performance on state contracts, and contractors often ask for waivers to these provisions. He said he would argue that people need to work hard to use those provisions to protect the state and taxpayers, but added that he thought the Department of Finance and Administration could work with Mr. James and Higher Education Department (HED) Secretary Damron to see what additional support the state might provide, especially to the smaller institutions.

Mr. Archuleta suggested that somebody on Mr. James’s staff could write some procedures that would help in situations like this. He said these guidelines would help projects last longer.

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

GENERAL SERVICES DEPARTMENT


Ms. Kleats referenced this informational report.
STAFF ITEMS

Presenter: Leila Burrows Kleats, Director

18. Approval of First Amendment to Bond Counsel Services Agreement with Rodey, Dickason, Sloan, Akin & Robb, P.A. and Sherman & Howard, L.L.C Extending for a Term of One Year to June 6, 2017

Ms. Kleats stated that both law firms have reviewed and agreed to the form of amendment. She asked for board approval of the form of contract so that staff could move forward and obtain the signatures.

Mr. Brasher moved to approve the form of contract. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

19. Approval of Agreement for Disclosure Counsel Services and Recommendation to the Department of Finance and Administration Contracts Review Bureau for Approval And Final Award of Contract

Ms. Kleats stated that this is a draft contract. Although Kutak Rock has signed off on most of it, there are some questions about the conflict of interest provision. Ms. Kleats understands that Kutak Rock provides legal services to the New Mexico Department of Transportation, but as SBOF disclosure counsel, there should be no conflict of interest. Staff will contact Kutak Rock to clarify that.

Ms. Kleats asked for approval of the form of the contract.

Mr. Brasher thanked the evaluation committee and staff for their hard work on these two agenda items (18 and 19).

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

20. Approval of Staff Recommendation and Authorization to Begin Contract Negotiations for Arbitrage Services

Ms. Kleats stated that, because this was a small contract, staff sought informal quotes from potential vendors rather than issuing an RFP. Responses were received from ACS, BLX, AMTEC and Kutak Rock. After reviewing the responses, staff recommends negotiating a contract with BLX, as their offer was most advantageous to the state. Their costs are reasonable, they have a preferred level of errors & omissions insurance coverage, and the team is highly experienced and educated.
Ms. Kleats said the term of the contract is for one year because the board did not go out for RFP. She said staff would bring the form of the contract forward to the board for approval at the June meeting.

Mr. Eichenberg moved to authorize staff to begin contract negotiations with BLX. Mr. Archuleta seconded the motion, which passed 5-0 by voice vote.

21. Approval of Delegation of Authority to Stephanie Schardin Clarke as State Board of Finance Acting Director During the Absence of Leila Burrows Kleats

Ms. Kleats stated that she will be on maternity leave soon, and asked that the board approve delegation of authority to Stephanie Schardin Clarke as Acting Director during her absence.

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

HIGHER EDUCATION DEPARTMENT (Cont’d)

Presenters: David Harris, Executive Vice President for Administration, Chief Operations Officer and Chief Financial Officer; Chris Vallejos, Associate Vice President, Institutional Support Services; Lisa Marbury, Executive Director, Institutional Support Services; Thomas Neale, Interim Director, University of New Mexico Real Estate Department

13. University of New Mexico – Requests Approval of Acquisition of Real Property Located at the Former Yale Reservoir Site in Albuquerque from Albuquerque Bernalillo County Water Utility Authority and Acceptance of Certain Special Exceptions ($2,500,000)

Mr. James stated that University of New Mexico (UNM) is requesting approval of its acquisition of the Yale Reservoir site on the northeast quadrant of the intersection of Central and Yale for $2,500,000. This property was declared surplus property by the Albuquerque Bernalillo County Water Utility Authority (ABCWUA) and is appraised at $3,400,000. It is HED and UNM’s understanding that if UNM does not purchase the property, ABCWUA plans to sell the property to a third party for commercial development. UNM’s acquisition is intended to infill a portion of the UNM campus along the Central Avenue corridor as an academic building site, consistent with UNM’s master plan.

Mr. James said asbestos and lead paint were discovered during the environmental studies, and abatement will take place at UNM’s expense during the demolition.

Mr. James said the project is funded by insurance settlements from previous real estate sales, and the acquisition is part of UNM’s five year plan to have better utilization of the campus.
Dr. Clifford said there was a concern that the $900,000 difference between the appraisal and purchase price would not be sufficient to cover possible remediation of the property. Mr. Neale responded that bids were solicited for the demolition and abatement of asbestos and lead within the structures. With a $50,000 contingency, the total cost will be $650,000.

Mr. Eichenberg asked Mark Sanchez, director of the ABCWUA, if there were any inquiries from the local community about acquisition of the property after it was declared surplus. Mr. Sanchez responded that they did not initially declare the property as surplus. He said they intended to decommission the reservoir, and at that point were aware of UNM’s master plan “and those two things seemed to come together, and that’s when the discussions began.” He said several developers were interested in the property, but ABCWUA’s intent was to have it remain as part of the campus. He said the ABCWUA board adopted a resolution directing him to negotiate with UNM to the extent that they could get fair market value, and to release it to the public if he was unsuccessful.

Ms. Malavé requested that approval of this request be contingent upon Director’s receipt, with counsel review, of revised title binder to reflect the deletion of standard exceptions 1, 2, 4 and 5 at closing; limiting standard exception 3 to “shortage in areas”; further omitting standard exceptions 6, 8, 10 and 11; but including the following non-standard exceptions: exception 12 regarding the ownership of mineral rights; exception 13 regarding reservations and exceptions in the US patent recorded in July 1891; exceptions 14 and 16 regarding easements to the Public Service Company of New Mexico, recorded in 1961 and 1986 respectively; and exception 15 regarding an easement to the City of Albuquerque recorded in 1964; all of which UNM’s general counsel has asserted will not effect on UNM’s title to the subject property.

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

SEVERANCE TAX BONDS AND NOTES (Cont’d)

Presenters: David Paul, Financial Advisor, Fiscal Strategies Group; David Buchholtz and Luis Carrasco, Co-Bond Counsel, Rodey, Dickason, Sloan, Akin & Robb, P.A.; Jill Sweeney, Co-Bond Counsel, Sherman & Howard;


7. Acceptance of Bids and Adoption of Bond Resolution, Including Form of Official Statement, Severance Tax Bonds, Series 2016C

Mr. Paul stated that Severance Tax Series 2016A, B and C are for three separate purposes. Series 2016A are tax-exempt bonds sold for capital projects authorized by the legislature, while Series 2016C bonds are taxable bonds sold for capital projects authorized by the legislature but
for projects that have to be financed on a taxable basis. Those traditionally would be projects funded through senior sponge bond proceeds. Because there are reduced revenues this year, the state has had to fund those through issuance of taxable bonds in the marketplace.

Mr. Paul noted that the Severance Tax bonds sold by the state were downgraded by Standard & Poor’s and Moody’s. Ironically, the prices of oil are starting to rise now. He said other places (Alaska, Alberta, Venezuela, Russia and Saudi Arabia) are struggling with the same thing. He estimated that the downgrade probably cost the state about 5-6 basis points in yield. He said this amounts to about $4,000 per million dollars issued.

Mr. Paul stated that six firms submitted bids on the Series 2016A and Refunding Series 2016B. They submitted a total of 37 bids over the course of the auction, which began at 7:45 this morning and ended at 8:20 a.m. The bids and true interest costs were as follows:

<table>
<thead>
<tr>
<th>Firm</th>
<th>True Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td>1.381986 percent</td>
</tr>
<tr>
<td>Citigroup</td>
<td>1.383267 percent</td>
</tr>
<tr>
<td>RBC Capital</td>
<td>1.412369 percent</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>1.455136 percent</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>1.465139 percent</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>1.480238 percent</td>
</tr>
</tbody>
</table>

Mr. Paul stated that seven firms submitted bids on the Series 2016C bonds, and a total of 25 bids were submitted over the course of the auction. The bids and true interest costs were as follows:

<table>
<thead>
<tr>
<th>Firm</th>
<th>True Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Baird</td>
<td>1.270039 percent</td>
</tr>
<tr>
<td>Citigroup</td>
<td>1.338747 percent</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>1.361206 percent</td>
</tr>
<tr>
<td>Bank of America</td>
<td>1.405166 percent</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>1.416440 percent</td>
</tr>
<tr>
<td>Jefferies</td>
<td>1.471664 percent</td>
</tr>
<tr>
<td>RBC Capital</td>
<td>1.484428 percent</td>
</tr>
<tr>
<td>Raymond James</td>
<td>1.504220 percent</td>
</tr>
</tbody>
</table>

Mr. Paul said the present value savings on the refunding was $15,170,676, which is 8.1 percent of the par amount of bonds refunded. At the April meeting, when the board approved the sale, the projection was $13,515,690, for a percentage savings of 6.7 percent.

Mr. Paul suggested revisiting the general obligation bond savings given the run-up in the savings level of these bonds.

Dr. Clifford asked if that suggests the board should revisit the refunding before next year’s general obligation series. Mr. Paul responded that he would suggest that based upon these sale results, which were quite aggressive.
Ms. Sweeney reviewed the resolutions for the Series 2016A and Refunding Series 2016B Severance Tax Bonds. She asked that approval be subject to final verification of the numbers.

Mr. Eichenberg moved for approval of Item #6 subject to any changes that would result from the final verification of the numbers. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

Ms. Sweeney reviewed the resolution accepting the best bid for the purchase of the Series 2016C bonds, which were the taxable series in the par amount of $41,925,000.

Mr. Eichenberg moved for approval Item #7. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

STATE TREASURER'S OFFICE

Presenter: Vikki Hanges, General Fund Investment Pool Portfolio Manager;

15. Quarterly Investment Reports for Quarter-Ended March 31, 2016

Ms. Hanges reviewed these reports.

Presenter: Charmaine Cook, State Cash Manager
16. Approval of Broker/Dealer List

Ms. Cook stated that, annually the STO Investment Division accepts applications and selects Broker/Dealers for potential traders for the next fiscal year. Last year and this year, the division made selections from the applications rather than following past practice of accepting everyone who applied. She stated that 13 primary broker/dealers applied and all were selected. Of the 36 secondary broker/dealers who applied, 22 were selected.

Mr. Archuleta expressed concern about transparency in the selection process. He asked what process is followed.

Ms. Hanges responded that there are certain dealers that make markets in securities that STO is also invested in, and these are the ones that STO is interested in. She said STO wants dealers who are available when STO needs them and who have balance sheets large enough to be able to do a transaction themselves without having to go to another dealer. Where there are dealers who do research and can provide valuable information, STO wants to continue to have a relationship with them.

Ms. Clarke asked that the Broker/Dealer List include the individual name and contact information of the primary contact for each firm. She suggested that any approval be contingent upon Director’s receipt of a more detailed list to include those items.
Ms. Cook said she would be glad to provide this additional information.

Mr. Archuleta moved for approval, with that contingency. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.

STAFF ITEMS (Cont’d)

22. Fiscal Agent/Custodial Bank Fees

Ms. Kleats stated that staff is still awaiting the bill from Wells Fargo for April, so the spreadsheet is essentially unchanged from last month. She said custodial bank fees look to be in line with previous months.


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

ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 11:00 a.m.

[Signature]
Susana Martinez, President

[Date] 6/23/16

[Signature]
Michael Brasher, Secretary

[Date] 6/23/16