MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Santa Fe, New Mexico

January 18, 2017

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 [left at 10:00 a.m.]
The Hon. Tim Eichenberg, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Excused:
The Hon. Susana Martinez, President
Mr. Adelmo Archuleta, Public Member

Staff Present:
Ms. Lella Burrows Kleats, Director, State Board of Finance
Ms. Donna Maestas, Deputy Director
Ms. Stephanie Schardin Clarke, Deputy Secretary, Department of Finance & Administration

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

Others Present:
[See sign-in sheets.]

BOARD RECOGNITION OF RENEE ROMERO

Board members and staff thanked Renee Romero for her service to the board, and wished her well in her new job at the Attorney General's Office.

APPROVAL OF AGENDA: ANNOUNCEMENT: NEXT REGULAR MEETING – TUESDAY,
FEBRUARY 21, 2017

Mr. Aragon moved approval of the agenda, as published. Mr. Brasher seconded the motion, which passed 5-0 by voice vote.
CONSENT AGENDA (Items 3 – 10)

Submitted by Leila Burrows Kleats, Director
3. **Approval of Minutes**: December 20, 2016 (Regular Meeting)

Submitted by: Gail E. Norvell, Finance Director/Controller
4. **Elephant Butte Irrigation District of New Mexico – Requests Approval of Sale of Real Property, a Portion of the Angostura Drain, West of Rincon to CVZ Holdings, LLC ($33,500)**

Contingent upon Director’s receipt and counsel review of fully executed sale agreement reflecting staff’s changes (replace all instances of DFA with SBOF).

Submitted by John Heaton, Chairman
5. **Eddy-Lea Energy Alliance, LLC – Requests Approval of Amendment of Lease of Real Property Located in Lea County to Crown Castle Known as NCWPCS MPL27 – Year Sites Tower Holdings LLC, a Delaware Limited Liability Company ($10,800 per year)**

Contingent upon Director’s receipt of favorable TRD Review of Report.

Submitted by: Dr. Harrison Rommel, New Mexico Higher Education Department, Institutional Finance Director; Gerald Hoehne, Capital Projects Director, New Mexico Higher Education Department; Dr. Steven Gamble, ENMU President; Scott Smart, ENMU Vice President of Business Affairs
6. **Eastern New Mexico University – Requests Approval of Golden Student Success Center Phase II ($13,000,000)**

Submitted by: Dr. Harrison Rommel, New Mexico Higher Education Department, Institutional Finance Director; Gerald Hoehne, Capital Projects Director, New Mexico Higher Education Department; David W. Harris, Executive Vice President of Administration, Chief Operations Officer, Chief Financial Officer; Chris Vallejos, Associate Vice President, Institutional Support Services; Lisa Marbury, Executive Director, Institutional Support Services
7. **University of New Mexico – Requests Approval of La Posada Dining Hall Renovations ($2,800,000)**

Submitted by: Kathy Ulibarri, Vice President for Finance and Operations; Wanda Helms, Controller; Dr. Harrison Rommel, New Mexico Higher Education Department, Institutional Finance Director; Gerald Hoehne, Capital Projects Director, New Mexico Higher Education Department
8. **Central New Mexico Community College – Requests Approval of Lease of Real Property Located at 5600 Eagle Rock Avenue, N.E., in Albuquerque to New Mexico Procurement Technical Assistance program ($17,112 per year)**

9. **Central New Mexico Community College – Requests Approval of Lease of Real Property Located at 4700 Morris, N.E. in Albuquerque to the City of**
Albuquerque (exchanged parking at the Montoya campus and near main campus)

Submitted by: Sarah Brewer, Facilities Services Specialist

10. Los Alamos Public School District – Requests Approval of Lease of Real Property Located at North Side of DP Road in Los Alamos to Los Alamos Landscaping & More, LLC ($18,000 per year)

Contingent upon Director’s receipt and counsel review of (1) fully executed lease agreement; and (2) fully executed board resolution approving revised lease agreement.

Mr. Brasher moved approval of the Consent Agenda, with the contingencies. Mr. Aragon seconded the motion.

Mr. Eichenberg asked Ms. Kleats to discuss the process for deciding how certain items are added to the Consent Agenda.

Ms. Kleats responded that if an item is fairly straightforward and there are not a lot of questions associated with the submittal, and if staff has the sense that board members are comfortable with that item during the briefing, staff will add it to the Consent Agenda. She noted that any item on the Consent Agenda can be removed for discussion and separate action during the board meeting. She stressed that staff is trying to make the process more efficient and there is no attempt to be non-transparent.

The motion passed 5-0 by voice vote.

SEVERANCE TAX BONDS

Presenters: Jill K. Sweeney, Co-Bond Counsel, Sherman & Howard, LLC; Luis Carrasco, Co-Bond Counsel, Rodey, Dickason, Sloan, Akin & Robb, P.A.

11. Approval of Resolution Reauthorizing Certain Severance Tax Bond Projects

Mr. Carrasco stated that this resolution addresses projects that the legislature determined should be extended or modified in some way. He said there are five projects on the list. Originally, six projects were vetted, but one project (Bernalillo County, Project 083307) was withdrawn by the City of Albuquerque because the project could not be put in place in the three-year period that was authorized.

Mr. Brasher asked if the money is in place for all of the projects, along with operational monies for them to move forward. Mr. Carrasco responded yes.

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

12. Approval of Resolution Amending Project List for Severance Tax Bonds, Series 2016D

Ms. Sweeney reviewed this resolution, relating to the project list for the last bond issue. For the first time, there was a negative contingency associated with the sale of these bonds, which means that the rounding amount was less than the $5,000 authorized denominations. The Series D bonds, therefore,
had a negative contingency in the amount of $3,762.58, and the taxable Series 2016E bonds had a positive contingency of just under $5,000. In order to ensure that the project lists remain accurate and exact, the authority to amend projects lists was implemented to split Public Education Project A2227 between the taxable and the tax-exempt series. She said the amendment to the Series D project list causes Project A2227 to be reduced from $20,000 to $16,237.42; and on the other side, the other resolution adds the project to the taxable Series E bond project list in the amount of $3,762.58.

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

13. Approval of Resolution Amending Project List for Taxable Severance Tax Bonds, Series 2016E

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

Presenter: David Paul, Financial Advisor, Fiscal Strategies Group

14. Presentation on Debt Affordability Study

Mr. Paul made this presentation, which encompassed three areas: a review of the bonding programs and capacities; a review of bond related rating issues; and a final conclusion regarding the affordability of the debt program.

Mr. Kormanik asked if the rating reductions are the result of reduced reserves, or are they the result of falling commodity prices in oil and gas.

Mr. Paul responded that, on the general obligation side, as natural resource pricing goes down, revenues to the general fund go down or, in this case, disappear. With respect to the general obligation bond downgrade, it is the impact on the reserve level and not the pricing itself. With respect to the downgrade of the severance tax bond program, that is directly related to pricing and so has a direct impact on severance tax bonds versus an indirect impact on general obligation bonds. Building a 10 percent reserve in the general fund, then, would have no impact on severance tax bond ratings.

Mr. Brasher asked how long it would take for a rating upgrade were the legislature to act to increase reserves to the appropriate level. Mr. Paul responded that an upgrade could happen in the next year or two if the 10 percent reserve was restored this year, but given that this is unlikely and it would probably take a couple of years, it would probably take three years for an upgrade.

Mr. Paul stated that, with the change in accounting regulations, unfunded pension liabilities are increasingly being viewed in tandem with the state’s debt in terms of long-term liabilities. With the 7.75 percent actuarial rate, which actuaries continue to feel is justified, the unfunded liabilities collectively were about $3.6 billion. When Moody’s adjusts to a 4.4 percent discount rate, the unfunded liability almost triples to $10 billion. He added that the view toward equity markets has changed in the last three months, and people are now looking at significantly higher projected corporate earnings, and this would impact pension funds significantly.

Mr. Aragon said he recently read an article in the Wall Street Journal saying that the next big crisis will be with public pension funds. Mr. Paul commented that there are states and governments in the
U.S. for whom their pension burden is untenable. He said pensions are not limited liability entities, i.e.,
should PERA run out of money, those obligations simply revert to the state.

Concluding his report, Mr. Paul said the major issue going forward with respect to the state’s
bonding programs, notwithstanding the reduced capacity, is how the natural resource markets treat the
state directly in terms of the severance tax programs and indirectly with respect to the general fund;
and the legislature’s and executive’s success in restoring reserves to targeted levels.

Ms. Clarke noted that the state’s senior sponge note capacity is basically zero right now because the
state has downsized the borrowing of the program through legislation that passed in 2015 to put more
money in the permanent funds; and also the decline in oil and gas markets. She said a policy question
DFA is discussing is how important it would be to rebuild some of that senior sponge capacity by under-
borrowing in the long term each year. DFA estimates that it can borrow $152 million of new long-term
bonds each year for ten years, but it is looking internally at working with the legislature to downsize that
by about 10 percent each year. She said this is important because the state will have met its statutory
issuance test in terms of maximum allowable debt service in FY 2018. With a continued decline in oil and
natural gas, statute will prohibit the state from issuing the long-term bonds timely and it will have to
wait until September to push the debt service into FY 2019.

[Lt. Governor Sanchez left the meeting.]

EMERGENCY FUND BALANCES
Presenter: Ms. Leila Burrows Kleats, Director
15. Emergency Balances – January 2017
   Operating Reserve Fund $1,850,000.00
   Emergency Water Fund $21,421.56
   Emergency Hardship Fund $978,946.00

Ms. Kleats reported these balances.

EMERGENCY FUNDING REQUESTS

Presenter: Loretta Trujillo, Administrator; Mark Gallegos, Mayor
16. Village of Questa – Requests Approval of Emergency Funding for Two
    Municipal Water Wells ($130,000)

Ms. Trujillo stated that the water system for the Village of Questa failed on December 6, and the
village went without water for over a month. As of January 10, they have 100 percent of their customers
back online, but they need additional money to correct three leaks and make other repairs.

Ms. Maestas stated that the village is requesting up to $130,000, which would be a 25 percent
match to a potential $600,000 grant, which would cover all of the costs of repairing the original well and
drilling a new well.

Ms. Kleats stated that, because there is only $21,000 in the Emergency Water Fund, staff would
recommend (should this request be approved) using the remaining balance in that fund and then
drawing the rest from the Operating Reserve Fund.
Responding to Secretary Brasher, Ms. Maestas said their FY 2016 audit was submitted on time to the State Auditor’s Office, but it has not been released. Ms. Trujillo added that she received an email stating that the audit has been reviewed. Secretary Brasher asked if staff knows why there is an apparent delay, and Ms. Maestas said the State Auditor receives all the audits in November and December, so it takes them a while to review all of them, so this is not unusual.

Responding to Mr. Kormanik, Ms. Trujillo said there are 172 household connections. She said they have structured their fees based on municipalities of the same size; however, they realize that one of their first tasks will be to take another look at the fees in order to build up reserves for future repairs.

Ms. Clarke asked how the $130,000 would be spent, and why was the village requesting that specific amount. Ms. Trujillo responded that this was not the exact amount, that it was just an estimate. She said they anticipate that the total cost of fixing the system will exceed $600,000. She said the village has been working with the New Mexico Department of Homeland Security and Emergency Management, who have said they will fund up to 75 percent of approved reimbursable costs, and the $130,000 would cover a portion of the 25 percent match. She said they came up with the $130,000 number in the process, but that number has gone up since then; however, they are staying with the original figure.

Ms. Clarke suggested the board impose a contingency that disbursement of funds be contingent upon the Director’s review of invoices, so the funding goes out on a reimbursement basis after careful review to be sure the expenditures are truly related.

Ms. Clarke asked how this was an emergency given that everyone now has safe and reliable drinking water. She asked what kind of emergency would exist if the village were to receive an NMFA loan.

Ms. Trujillo responded that they plan to apply for an NMFA loan to cover the cost of a preliminary engineering report (PER). First, they would like to find out exactly what is going on with the system so they can ultimately be 100 percent compliant and be sure this problem doesn’t reoccur.

Ms. Clarke noted that the village still has to go to NMFA to get funding for a PER, and doesn’t have the planning done yet. She said she couldn’t imagine that this emergency funding will be expended anytime soon, so she didn’t understand what emergency was being addressed.

Ms. Trujillo responded that they have accumulated $404,000 in expenses at this point, and that does not include several large invoices that they expect soon. She said they do not have the money to pay all of their bills without funding from somewhere else, which is an emergency.

Ms. Maestas said the village has submitted a spreadsheet with a detailed list of their expenses (page 387). Presumably, they would separate out which would be the match items as opposed to the other grant items.

Responding to Mr. Aragon, Ms. Trujillo said the village may have to lay people off if they don’t get this money. She assured Mr. Aragon that none of the money from the board, if granted, would go to pay salaries, however. She said they have $79,000 in reserves, and those monies would be used for an emergent situation. Mr. Aragon asked if the $79,000 would be used to pay down the repair costs, and Ms. Trujillo responded yes, it would be used against the $245,900 and would be encumbered by the village council through a resolution adopted at its next meeting.
Mr. Aragon noted that expenses included plates, cups, bowls, coffee and burritos. Ms. Trujillo responded that this was for volunteers who worked when the emergency first occurred, and they covered those expenses for two weeks.

Responding to Mr. Aragon, Mr. Gallegos said the village council has not yet been approached about a rate increase.

Mr. Aragon said that, in his mind, it is completely foreseeable for the village to have this situation if its rates do not contemplate regular maintenance. He said he sees emergencies as events that are not foreseeable.

Mr. Gallegos said this happened on “his watch,” but it was a situation that he inherited as mayor. He said the rates have been raised only once in the last five years or so.

Responding to Mr. Eichenberg, Ms. Trujillo said the village has just completed an asset management plan in response to a 2014 audit finding.

Mr. Gallegos stated that, as mayor, he can only vote in case of a tie. He said he would appreciate it if any recommendation from the board today included a contingency that the village would increase its water rates.

Mr. Aragon suggested the board consider a motion granting this loan but requiring the village to come back to the board within six months with an appropriate rate structure, adopted by the village council, that would address not only the financial viability of the water system, but would also take into account a proper maintenance schedule. If those conditions were met, the loan would convert to a grant. In addition, the disbursement of funds be contingent upon the Director’s review and approval of invoices.

Ms. Malavé asked if she understood correctly that this would be a loan in the amount of up to $130,000, to be used to pay outstanding invoices that would be submitted to staff for review, and upon a determination that those funds were used to address the repair of the water system, those amounts would be paid out. Mr. Aragon said correct, with the contingency that this would be a match with the Department of Homeland Security grant. Without that, no loan would be granted.

Board members agreed to postpone action on this item until later in the agenda, giving staff time to develop the appropriate language.

Mr. Aragon moved to direct staff to construct a resolution that comports with the recommendations previously outlined. Mr. Eichenberg seconded the motion, which passed 4-0 by voice vote.

Presenter: Maggie Toulouse Oliver, Secretary of State; Kari Fresquez, State Elections Director; John Blair, Deputy Secretary of State; Veronica Albin, CFO; Ken Ortiz, Business Services Division

17. New Mexico Secretary of State – Requests Approval of Emergency Funding for 2016 General Election Automatic Recounts ($36,229)
Ms. Toulouse Oliver requested approval of emergency funding in the amount of $36,229 to reimburse Bernalillo County and Sandoval County the costs of conducting an automatic recount, which was required by law. She stated that she is new to the Secretary of State’s Office, and due to a variety of fiscal and financial issues, along with the cost of conducting last year’s election, there is not adequate funding in the budget to cover the costs of these recounts.

Mr. Kormanik noted that the draft resolution before the board states that the Secretary of State’s Office has $448,800 available. Ms. Albin responded that was the case at the time of submittal on December 27, but now only $36,000 remains available in the elections program, and there are additional projected costs that have to be covered from that source.

Mr. Kormanik asked if the legislature has been approached. Ms. Toulouse Oliver responded that they have not done so because the recounts occurred in late November and early December and were finished on December 9. The Secretary of State’s Office did not receive the invoices for these costs for another several weeks, by which time they had already missed the deadline to submit a deficiency request. Mr. Kormanik commented that, in his experience, that deadline is “pretty flexible.” He said he was also concerned that the Secretary of State’s Office had not approached the legislature “at all,” although it is currently in session.

Mr. Kormanik wondered if the counties in question would be facing a budget emergency without these reimbursements, noting that Bernalillo County had $1 million in cash in their budget at the beginning of this year.

Mr. Aragon commented that $36,000 was a small amount of money, and he could not imagine that legislators would turn such a request down. He also expressed concern that the Secretary of State’s Office had not exhausted all available remedies before approaching this board.

Ms. Toulouse Oliver said the Secretary of State’s Office has a couple of supplemental requests before the legislature to meet their projected shortfall before the end of the year; however, neither of those was recommended by either DFA or LFC, so they are already fighting an uphill battle on that front. She added that this shortfall already existed when she joined the Secretary of State’s Office on December 9. She said she would not be before the board were it not for the fact that they have an obligation to the counties, who went ahead and conducted the recounts in good faith and in accordance with the law. She said she did not know if this created a budget emergency for the counties, however.

Responding to Mr. Eichenberg, Ms. Albin said they have expended all but 1 percent of their election budget as well as all of the $387,000 that rolled over from the previous fiscal year.

Ms. Clarke noted that, if this is not funded by the legislature, it may also be hard for the board to find it meets the SBOF emergency criteria because it would be hard to see it as an unforeseen occurrence.

Ms. Clarke also stated that, with respect to the statutory language stating that the Secretary of State “may request funding from this board,” that bill actually did not go to DFA for review. She said it was one of those that slipped through the cracks, where DFA didn’t realize the board was getting new statutory authority and would have recommended striking the language had they known about it at the time. She said it could be argued that there was a separation of powers question for the legislature to
suggest that the Executive should execute this program a certain way. She said the board could choose to reject this request based on the use of “may” in the language.

Responding to Mr. Eichenberg, Ms. Toulouse Oliver said the legislature has chronically underfunded the Secretary of State’s Office for the last several years. When she arrived at that office, there was a 30 percent vacancy rate, and everyone sitting with her before the board today is functioning in two or three different roles just to keep the office running. She said, “We are facing an emergency situation in this office and we don’t think we’re going to make it to the end of the year at this point financially.”

Secretary Brasher said this request doesn’t meet the necessary criteria, which is a concern. He said another problem is that these emergency funds are used to address fire season issues, which come up every year, and for water requests, and all of these requests tend to be quite large.

Mr. Eichenberg moved for approval of this request. The motion died for lack of a second.

PROPERTY DISPOSITIONS

Presenters: Nita Taylor, County Manager; Alan Morel, County Attorney; Todd Oberhue, Lincoln County Medical Center Administrator; Troy Clark, Vice President of Regional Operations, Presbyterian Healthcare Services; Preston Stone, Chairman; Dallas Draper, Vice Chairman; Elaine Allen, Member; Tom Stewart, Member; Dr. Lynn Willard, Member, Lincoln County Commission; Chris Muirhead, Bond Counsel, Modrall Firm; Erik Harrigan, Financial Advisor, RBC Capital Markets; Gabe Parra, Counsel, Presbyterian Health Services

18. Lincoln County – Requests Approval of Amended and Restated Lease of Real Property Located at 211 Sudderth Drive, 121 El Paso Drive and 213 Sudderth Drive in Ruidoso to Presbyterian Healthcare Services ($1,159,515 per year to include services in lieu of cash)

Mr. Morel stated that, approximately two years ago, the Lincoln County Commission began the process of trying to determine whether they needed to replace or remodel the hospital, which is 69 years old. There have been seven additions to the facility since it was constructed, and there are several issues, including ADA issues and infrastructure, heating and maintenance issues. In April 2015, they hired hospital experts, bond experts, engineers and accountants to determine what was needed. Initially, the County Commission decided they should remodel and repair what they had; however, after hearing feedback from the experts, it became clear that it would cost more to rehabilitate the facility rather than build a new one. He said the County Commission has decided to construct a new 70,000 square foot facility immediately adjacent to the existing facility.

Mr. Morel reviewed a site plan. He said they propose to build a new two-story facility. Once it is operational, they will demolish the old facility and turn it into a parking lot.

Mr. Morel stated that the negotiation process undertaken with Presbyterian Health Services (PHS) began in February 2016. He said the new 70,000 square foot facility will be entirely paid for with lease payments made by PHS. He said the $25 million general obligation bond issue received 72 percent support from Lincoln County voters.
Mr. Morel reviewed the highlights of the 29-page lease:

-- The new lease requires a lease payment of $3.25 million per year, of which $2.3 million shall be in cash with a minimum of $950,000 during each calendar year in the form of lease credit for uncompensated services provided by PHS.

-- The existing lease payment is $1.1 million. If approved, it will be increased to $1,159,515 to be at fair market value. Thirty days after the certificate of occupancy is issued, the payment goes to $3.25 million.

-- Lease payments will support the annual debt service, which will be between $1.7 million and $1.9 million.

-- With $2.3 million in cash as part of the payment, there will be $400,000 to $600,000 of excess revenues over and above what is required to fund the debt service each year. By setting the debt service payment aside, they can fund the debt service account. Even though they have to have a general obligation bond to secure repayment of the debt, they do not have to impose that tax on the citizens as long as they receive the monthly rental payments.

-- About ten years is left on the old lease. When this first term of the lease expires, a new appraisal will be required to determine fair market lease values.

Responding to Mr. Brasher, Mr. Morel said Lincoln County has a mill levy that is 3 mills out of 4.25 that are legally authorized. Not all of that is imposed, but they receive a budget request from PHS annually, and they fund some operation and maintenance of the hospital and clinics on an annual basis. Mr. Oberhue added that the mill levy proceeds are not used for indigent claims.

Mr. Morel stated that the New Mexico Finance Authority has approved the county’s $25 million loan application, with approval being contingent on State Board of Finance approval of the lease.

With respect to the 180-day termination provision, Ms. Clarke noted that the property tax is set only once per year. If a termination unwound right after the mill levy had been set for a year, she asked how the county would cover the debt service until the mill could be imposed. Mr. Morel responded that the general obligation bonds are guaranteed through an ad valorem property tax. On next month’s agenda, the County Commission will request approval of an ordinance that will allow implementation of the ad valorem tax.

Ms. Clarke asked if the county would be able to impose the tax at any point during the year if the lease were terminated.

Mr. Harrigan responded that, on June 30, the payment for the following year’s debt service payments would have to be deposited into that account. When the tax rate is set by DFA, whatever amount is short in that account, the levy will be set to that amount. In the event of the 180-day termination, there would be sufficient money in the debt service account to make full payment. In the following year, a tax would be set if there were not enough money available.

Ms. Clarke noted back-and-forth discussion between the county and SBOF staff on how to quantify the value of services provided to the county. Although a lot of progress was made in that discussion, one
outstanding issue is that there are certain patients who have insurance but choose not to pay; for example, maybe they have a high deductible plan. She said she understands this is still being counted as a service to the county, but she agreed with staff that a patient who chooses not to pay, despite having insurance, is not really a service that Lincoln County needs to provide its citizens. She asked why this is counted as a service to the county.

Mr. Clark responded that PHS has patients who have no insurance, and providing care for them is a public benefit. He added that there are an increasing number (because of the Affordable Care Act) of people who have high deductible plans who previously weren’t insured. They have a policy, but their policy doesn’t cover any of their care until they have met a deductible level that is far beyond their ability to pay. PHS provides care to those people but receives no payment. In negotiations with the county for uncompensated care, it was agreed that if PHS were to receive any payment from the insurance company because the patient met the deductible, those patients would be excluded.

Ms. Clarke asked what the cost would be per bed, and how many beds would be in the facility. Mr. Morel responded that the facility is considered a critical access care hospital, which allows a maximum of 25 beds. He said additional beds would put the facility into another category. He said he hadn’t calculated the cost per bed, but noted that the county would receive a total of about $38 million ($25 million loan, $5 million in philanthropy and $8.1 million in FF&E). Mr. Clark added that, for comparative purposes, facilities in the hospital industry generally do not include FF&E in that calculation. He said this would be a $30 million facility, or about $1.125 million per bed. He cautioned the board that, beyond 100 beds, hospital costs per bed becomes very comparable; however, with critical access hospitals, the range of services that are provided make comparisons more challenging. For example, some have ICU services, obstetric services, and so forth.

Ms. Clarke asked what their basis is for knowing that the new facility needs 25 beds versus another number. Mr. Clark responded that they looked at average daily expenses at other facilities, adding that Lincoln County and the city of Ruidoso gives them a different pattern at that facility because the county population almost doubles or triples between the end of May and September. Ms. Clarke asked how they know they need 25 beds at peak demand versus 24 beds, for instance. Mr. Clark responded that they will have rooms that can be flexibly adjusted to provide certain services. In the current facility, there are rooms strictly dedicated to obstetrics, ICU and med-surgical, and in calendar year 2016, there were 17 days when they could not admit a patient because they did not have a bed that met a particular need even though beds were available for other needs.

Ms. Clarke asked if elective surgical procedures happen on a fairly even pace or are they “bunched up” between Monday and Thursday because medical personnel don’t want to necessarily work on weekends. Mr. Clark responded that these procedures are quite sporadic in Lincoln County. He said surgical procedures are not the driver for filling beds. He said another component of patients who take up a bed are “observation patients” because of Medicare regulations. Only 19 beds are available for medical-surgical patients.

Mr. Oberhue added that 80 to 90 percent of patients at the hospital are outpatients. He said the only surgeries that take place on weekends are emergency surgeries. He added that weekend surgeries increase operating costs.

Mr. Kormanik asked for a worst-case scenario in the event the Affordable Care Act (ACA) is repealed. Mr. Oberhue responded that, when they ran the “pre-ACA” numbers, they were providing
about $4.2 million of public benefit. As they've run the numbers today, they believe they have (depending on the method of annualization) $1.3 to $1.8 million of public benefit offered for uncompensated care services.

Ms. Kleats stated that staff would recommend that patients who have insurance but have not paid their bill be excluded from the definition of uncompensated care. She said services in lieu of are meant to be a service that the county would otherwise provide, and she was still not convinced that this was a service that the county would also provide.

Mr. Clark stated that they will be required to treat all patients who show up, and PHS finds that to be a public benefit. He said PHS absorbs that cost, which drives up the overall cost of providing care to the citizens of Lincoln County. PHS feels strongly that that needs to be recognized. If they receive any form of payment from the insurance company, they agree it should be excluded because it is a public benefit.

Ms. Kleats recommended that approval be contingent upon Director's receipt and counsel review of (1) fully executed revised lease agreement reflecting staff changes; and (2) fully executed board resolution approving revised lease agreement.

Clarifying staff's earlier recommendation, Ms. Kleats cited the LCMC Uncompensated Care Quarterly Report's eligible account criteria (page 678), which included "patients without any third party payment for which patient payments received were less than 10% of charges." She said these are people that have insurance, perhaps subject to a deductible, and for whatever reason they have not paid their bill. With respect to the recommendation that approval be contingent upon Director's receipt and counsel review of the fully executed revised lease agreement reflecting staff changes, Ms. Kleats said the current version incorporates all of the other requirements from staff with the exception of this one.

Mr. Kormanik said he personally felt that, if the County Commission has concluded that this is an obligation that they feel meets the criteria of uncompensated care, he was not in a position of revoking that decision. He said he would not support staff's recommendation to exclude from eligible costs those patients who have insurance but fail to pay their bill.

Responding to Mr. Brasher on whether this raised an anti-donation concern, Ms. Malavé said there may be people within that population who are low income wage earners and are forced to have insurance, but cannot afford the premiums and so choose high deductibles after deciding how much risk they are willing to take based on their health issues. She said there are no anti-donation concerns provided PHS has a method to screen and identify this portion of the patient population. Without that, someone with a $100,000 income could choose a high deductible and then simply not pay, and there would be no way of identifying them.

Mr. Clark said PHS has a process in place with two different criteria it uses to review all patients in this category. He said one is the county indigent policy, and the other is PHS's financial assistance policy that is company-wide. Anybody who meets the criteria for the latter, which mirrors the criteria for the ACA going all the way up to the potential of 400 percent of poverty level, are screened. He said PHS ends up with very few, if any, who have the means to pay and do not pay, and these individuals are subject to a collections process.
Mr. Brasher recommended that the County Commission formalize that policy in a resolution so it goes beyond just a vendor making those decisions.

Ms. Taylor asked Mr. Brasher if he was looking for a formalization that went beyond what the lease agreement said.

Mr. Brasher asked if the county has addressed all of the concerns in the document that Ms. Malavé discussed. He said he wasn’t suggesting the lease terms be changed. He said he was recommending that the County Commission formalize who does and does not get service, adding that this should be a policy decision by the County Commission.

Mr. Morel responded that they would agree to do that.

Addressing the recommendation that approval be contingent upon a fully executed board (County Commission) resolution approving the revised lease agreement, Ms. Clarke asked if the County Commission has taken action on the final form of the lease. Mr. Morel responded that the commission approved the form of lease initially sent to the SBOF but would approve the final version before February 22.

Mr. Clark said that, on behalf of PHS, he was “all for formalizing” this through a resolution and maintaining the ability to receive credit for the public benefit offered to those patients who may have insurance but make no payment or receive no payment from any third party. Absent that, the amount of uncompensated care would have a financial impact that would not make this a doable deal.

Mr. Brasher reiterated that the intent is to recognize that PHS has screening policies in place, as previously discussed.

Mr. Oberhue said he liked the idea of deferring the policy decision to the county. From PHS’s perspective, “what we’re most concerned about is that there is certainty going forward of the method of the calculation and that we’re not going to start and come back later and there’d be some change.”

Ms. Kleats clarified staff’s recommendation that approval be contingent upon a fully executed version of the lease now before the board; a fully executed resolution from the County Commission approving the lease before the board; and the additional resolution identifying which services would be allowed.

Mr. Kormanik asked Ms. Kleats if staff would add the proviso that the resolution will take into account any problems with the Anti-Donation Clause. Ms. Kleats responded yes.

Mr. Kormanik said that would basically require some sort of vetting on the part of the service provider to assure that there was no Anti-Donation clause provision violation.

Mr. Kormanik moved for approval with the provisions just discussed. Mr. Aragon seconded the motion.

Mr. Aragon proposed an amendment that Presbyterian will exercise in good faith to properly vet all patients to ensure that there are no anti-donation violations. Mr. Eichenberg seconded the amendment, which passed 4-0 by voice vote.
The main motion, as amended, passed 4-0 by voice vote.

Continued from earlier in agenda:

16. Village of Questa – Requests Approval of Emergency Funding for Two Municipal Water Wells ($130,000)

Mr. Aragon moved that the board make a loan to the Village of Questa in the amount of $21,421 from the Emergency Water Fund for the purpose of providing a match, and to be contingent upon approval of the Village application to the Department of Homeland Security and Emergency Management to repair the village water system, to be paid over 20 years in annual installments, the first due on April 1, 2018 and every April thereafter at zero percent interest until paid in full. The Village will submit invoices to the Director of the Board of Finance for review and approval before any disbursements are made. Mr. Eichenberg seconded the motion.

Responding to Ms. Clarke, Ms. Malavé said she did not believe it necessary to add language stating that the loan would be converted to a grant within six months, as the board has given that direction to the village, and the village would make a request to be on the agenda within six months, Mr. Aragon said he was fine with that.

The motion passed 4-0 by voice vote.

Mr. Aragon moved that the board make a loan to the Village of Questa in the amount of $108,579 from the Emergency Operating Reserve Fund for the purpose of providing a match, and to be contingent upon approval of the Village application to the Department of Homeland Security and Emergency Management to repair the village water system, to be paid over 20 years in annual installments, the first due on April 1, 2018 and every April thereafter at zero percent interest until paid in full. The Village will submit invoices to the Director of the Board of Finance for review and approval before any disbursements are made. Mr. Eichenberg seconded the motion, which passed 4-0 by voice vote.

Presenter: Gary Esslinger, Treasurer/Manager

19. Elephant Butte Irrigation District of New Mexico – Requests Approval of Sale of Real Property, a Portion of the Angostura Drain, South of Hatch, to Las Uvas Dairies ($90,000)

Mr. Esslinger requested approval of the sale of approximately 21.88 acres of real property, a portion of the Angostura Drain, south of Hatch, to Las Uvas Dairies. The Elephant Butte Irrigation District (EBID) no longer uses this portion of the drain. An appraisal report was completed August 2016. The sales price includes $1,000 to settle the disputed ownership of an additional 13.82 acres.

Ms. Kleats recommended that any approval of this request be contingent upon Director’s receipt and counsel review of a fully executed sale agreement reflecting staff’s changes (replacing all instances of DFA with SBOF).

Responding to Mr. Kormanik, Mr. Esslinger said the dairy is on the west mesa. He said the land was purchased for use as a pecan orchard, and there were no concerns from the community.
Ms. Kleats noted there is a settlement included in the transaction dealing with some disputed land, and she understands Ms. Malavé spoke with their legal counsel and feels comfortable with the arrangement that was made. She said it should be made clear that the disputed land has not been appraised, and the settlement is incorporated in the sale agreement.

Mr. Esslinger discussed the history of the drains. He said EBID settled the disputed claim by giving it back to the farmer who was already using the property, as EBID had no interest in having it.

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

**HIGHER EDUCATION DEPARTMENT**
Presenters: Gerald Hoehne, Capital Projects Director, New Mexico Higher Education Department; David W. Harris, Executive Vice President of Administration, Chief Operating Officer, Chief Financial Officer; Vahid Staples, Budget Officer; Jason Hughes, First Southwest; Lisa Marbury, Institutional Support Services; Glenda Lewis, Graduate and Professional Student Association President; Kyle Biederwolf, Undergraduate Student President; UNM Acting President Chaouki T. Abdallah

20. **University of New Mexico – Requests Approval of System Improvement Revenue Bonds, Series 2017 (not to exceed $56,500,000)**

Mr. Harris stated that this request is supported by student fees, and is the second piece of the bond issue that UNM brought to the board last year, which was regarding Johnson Gym. He said they chose not to impose the full project last year because a big part of it was on the ballot in November 2016. He said $27.5 million of the project was approved by the voters. He said there are a number of smaller projects included in his package, but the main body of the project is to replace the Physics and Astronomy Building, which the Higher Education Department ranked as “the worst facility in the state” a couple of years ago. He said the original facility was built in 1950 and is not capable of offering modern science.

Mr. Harris said the other project, which was to refurbish the Fine Arts Annex, was the second building constructed at UNM at the turn of the 20th century, and there is also the Biology Annex, which is an important John Gaw Meem building and has fallen into some disrepair.

Mr. Harris said there would be a student fee increase of $150 per year.

Mr. Biederwolf stated that students have supported these initiatives “from the get-go” and understand that there would be a $150 increase to their fees. He said students have had a hand in all of the plans in this project, with multiple forums held, and there has been overwhelming support from undergraduates.

Responding to Mr. Eichenberg, Mr. Staples said the fees would be on a per-credit basis.

Ms. Lewis said the graduate and professional students understand that these renovations will help with their professionalism and that they will also be able to recruit exemplary students and staff to UNM.
Responding to Mr. Kormanik, Mr. Harris stated that student fees are currently $1,525 per year. Mr. Staples stated that the $150 fee would represent 2.16 percent of the total.

Secretary Brasher asked for discussion on the survey process. Mr. Biederwolf said the stakeholders in the five different projects were able to go to an open area in the Student Union Building and visit various booths describing the projects. He said there is a lot of foot traffic in this building, and so many people were exposed to these information booths. The Joint Council represents almost every constituency on campus, and the projects were brought to the council for a roundtable discussion. He said this advisory board represents all 22,000 students on campus, and the council offered only positive remarks.

Ms. Lewis said there were several forums on campus, and graduate students were engaged in those forums.

Ms. Marbury said there were many different avenues of outreach throughout the summer of 2015. This included all of the neighborhood association groups around the campus, open forums with the students, and many articles in the Daily Lobo and the UNM News Minute. In addition, there were many articles in the Albuquerque Journal.

Mr. Aragon said his concern remains that these projects continue to be paid for through student fees. He recalled that UNM appeared before the board a few months ago stating that Johnson Gym was “an imperative,” and today the board is being told that the project now before it is an imperative. He stated that, were he looking at this as a student at UNM, he would consider today’s project to be an imperative over Johnson Gym. He commented this bond will be over 30 years, so that students who haven’t been born yet will be paying for this, so in those terms, the survey done by UNM is basically useless. He questioned how much more students can bear in these fees.

Mr. Aragon expressed concern that New Mexico will never have a flagship institution as long as legislators continue to approve university projects that are not always necessary and which dilute available monies for creating truly great universities. He said there have to be candid discussions with boards of regents about this longstanding issue.

Dr. Abdallah stated that UNM puts 20 percent of any increase in its tuition into financial aid, and student debt among UNM graduates is less than the national average.

Responding to Mr. Kormanik, Ms. Marbury said student president Hagengruber reported that 98 percent of those surveyed were in favor of the entire institutional bond package, which included the Johnson Center and the Physics & Astronomy project.

Responding to Ms. Clarke, Mr. Staples clarified that UNM built in a $10 million debt service reserve, which is included in the $56.5 million request. UNM now believes it will be able to get a surety bond, however. He added that, when they originally started this process, they weren’t sure how they were going to do the student fees, so built in capitalized interest. He also noted that UNM told the students that it could phase in the process, thus “spreading the pain,” although there would be a cost associated with that because of capitalized interest. Since they’ve moved along in the process, they are no longer doing that. He said there is $6.6 million in savings over the 30 years if they don’t do capitalized interest, so the parameters resolution gives some flexibility. He said the proceeds are actually $46.5 million. Ms.
Clarke asked if a debt reserve would be about one year's worth of principal and interest, or about $2.8 million. Mr. Harris responded yes.

Ms. Clarke commented that this was under $50 million in total, and suggested that if the board were to approve this request today, it approve a resolution reducing the maximum PAR amount.

Ms. Clarke asked why this is a negotiated bond sale. Mr. Hughes responded that, given the volatility in the market, they felt this would lend itself more to a negotiated sale.

Mr. Eichenberg moved for approval of this bond resolution in an amount not to exceed $50 million. Mr. Kormanik seconded the motion.

Secretary Brasher said he did not feel that UNM could continue to increase student fees. He said $150 is a lot of money for some students, who are struggling to get by, and he would not support this request with the student fees included.

The motion failed on a tied vote, with Mr. Eichenberg and Mr. Kormanik voting in favor, and Mr. Brasher and Mr. Aragon voting against.

**STAFF ITEMS**

Presenter: Leila Kleats, Director

23. **Adoption of Open Meeting Resolution 17-01**

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

24. **Adoption of Interest Rate Policy 17-02**

Ms. Kleats said there were no changes to this policy from last year.

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

25. **Election of Secretary of the State Board of Finance**

Mr. Aragon nominated Michael Brasher. Mr. Kormanik seconded the nomination.

Nominations were closed.

The nomination was approved 4-0 by voice vote.

26. **Appointment of State Board of Finance Subcommittee Members**

A) **Private Activity Bond Committee**
B) **Banking Committee**
C) **Committee on Reviewing State Treasurer's Audit Process**
Ms. Kleats said that, in discussion with the Governor’s Office, the recommendation is to maintain the status quo.

Mr. Aragon so moved. Mr. Eichenberg seconded the motion.

With respect to Item C, Mr. Eichenberg said he felt it was a violation of the New Mexico Constitution for the SBOF to review only STO’s audit process, and asked Ms. Malavé to look into this for next month’s meeting, as the Constitution requires that STO be independent of the Governor’s Office. He said legislation would be introduced requiring that all of the financial institutions (PERA, NMERB, NMSIC and STO) have their audit process reviewed by SBOF. He said this process was first instituted for STO because of the indictments of two past State Treasurers.

The motion passed 4-0 by voice vote.

STATE TREASURER’S OFFICE
Presenter: Vikki Hanges, General Fund Investment Pool Portfolio Manager

Ms. Hanges presented this report, noting that General Fund Investment Pool balances have declined from $1.9 billion to $1.2 billion.

GENERAL SERVICES DEPARTMENT
Presenter: Jimmy Rodriguez, Business Operations Bureau Chief

[Informational.]

STAFF ITEMS (Cont’d)

27. Dashboard Report

Ms. Kleats presented the Dashboard Report.

28. Fiscal Agent/Custodial Bank Fees

Ms. Kleats reported that fiscal agent and custodial bank billings were in line with historical averages.


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

ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 2:00 p.m.