MINUTES OF THE

NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Santa Fe, New Mexico

July 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. Susana Martinez, President [arrived 9:40 a.m.]
The Hon. John A. Sanchez, Lt. Governor [left at 10:55 a.m.]
The Hon. Tim Eichenberg, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Adelmo Archuleta, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Excused:
None.

Staff Present:
Ms. Leila Burrows Kleats, Director, State Board of Finance
Ms. Donna Maestas, Deputy Director
Ms. Duffy Rodriguez, Secretary of Finance and Administration

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, SEPTEMBER 19, 2017

The agenda was reprioritized at Ms. Kleats’ request.
Mr. Aragon moved for approval of the Agenda, as amended. Mr. Archuleta seconded the motion, which passed 6-0 by voice vote.

3. **EXAMINATION OF BIDS, SEVERANCE TAX BONDS SERIES 2017A** and

4. **EXAMINATION OF BIDS, GENERAL OBLIGATION BONDS SERIES 2017A AND GENERAL OBLIGATION BOND REFUNDING SERIES 2017B**

Before the Board examined the bids received for the State of New Mexico Severance Tax Bonds, Series 2017A, in the preliminary estimated aggregate principal amount of $75,795,000, and the State of New Mexico General Obligation Bonds, Series 2017A and General Obligation Bond Refunding Series 2017B, in the preliminary estimated aggregate principal amount of $148,520,000 and $151,790,000, respectively, the Lt. Governor Sanchez stated that, as required by law, notices of bond sale were published in The Albuquerque Journal and in the Bond Buyer, a recognized financial journal outside the state of New Mexico.

David Paul, Financial Advisor with Fiscal Strategies Group, read the bid results and true interest cost of each bid relating to the State of New Mexico Severance Tax Bonds, Series 2017A, and the State of New Mexico General Obligation Bonds, Series 2017A and General Obligation Bond Refunding Series 2017B. He said he would return later with the verification and request for the awards.

**General Obligation Bonds**

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup Global Markets, Inc.</td>
<td>1.562</td>
</tr>
<tr>
<td>JP Morgan Securities LLC</td>
<td>1.565</td>
</tr>
<tr>
<td>Morgan Stanley &amp; Co., LLC</td>
<td>1.574</td>
</tr>
<tr>
<td>Bank of America Merrill Lynch</td>
<td>1.577</td>
</tr>
<tr>
<td>Wells Fargo Bank, Nat’l Assn</td>
<td>1.590</td>
</tr>
<tr>
<td>RBC Capital Markets</td>
<td>1.603</td>
</tr>
</tbody>
</table>

Mr. Paul said bids were also received for the escrow securities. This is the portfolio of U.S. Government guaranteed securities that will be deposited in the escrow account to pay off the refunded bonds. Traditionally, the issuers have the option of buying Treasury securities directly from the U.S. Treasury (state and local government series, or SLGS). A SLGS portfolio is the traditional way that refundings are executed. In the current market, the SLGS window is closed because the national debt limit has not been raised. In lieu of that, they bid an open market portfolio instead; notably, when they did a pricing of winning portfolio against what SLGS would have been today, it was $140,000 more advantageous to do the open markets.

Mr. Paul noted that the winning bidder on the escrow securities was Wells Fargo Securities at $174,693,000, with a present value savings on the refunded bonds of $10.35 million.

**Severance Tax Bonds**
Morgan Stanley & Co, LLC 1.740 – apparent winning bid
Wells Fargo Bank, Nat’l Assn 1.763
Bank of America Merrill Lynch 1.809
TD Securities 1.810
JP Morgan Securities, LLC 1.811
Citigroup Global Markets 1.819
RBC Capital Markets 1.833
Robert W. Baird & Co. 1.849

CONSENT AGENDA (Items 5-16)
Presenter: Leila Kleats, Director

Submitted by Leila Kleats, Director
5. Approval of Minutes: June 20, 2017 (Regular Meeting)

Submitted by: Daniel J. Beaman, Special Projects Coordinator-Issuer Representative, Bernalillo County Economic Development, Community Services Division; Walter (Skip) Grodahl, Managing Member-User Representative, DBG Properties, LLC 6. Bernalillo County – Requests Approval of Private Activity Bond Volume Cap Allocation for Valle De Atrisco Family Apartments ($23,000,000)

Submitted by: Jennifer Salazar, General Counsel, Department of Cultural Affairs
7. Department of Cultural Affairs, National Hispanic Cultural Center – Requests Approval of Lease of Real Property Located at 1701 4th Street in Albuquerque to Stefani Mangrum (dba City Treats) ($25,330 per year)

Contingency: Contingent upon Director’s receipt and counsel review of fully executed revised lease.

Submitted by: Linda Hale, Superintendent of Hatch Valley Public Schools
8. Hatch Valley Public Schools – Requests Approval of Lease of Real Property to Horizon Tower, LLC ($12,000 per year)

Submitted by: Dr. Ann McBroy, Superintendent of Loving Municipal School District
9. Loving Municipal School District – Requests Approval of the Sale of Real Property Located at 101 6th Street in Loving to Onsurez Construction ($80,000)

Submitted by: Randy Knudson, Attorney for Roosevelt County
10. Roosevelt County – Requests Approval of Donation of Real Property Located in Roosevelt County to the Roosevelt County Special Hospital District
Contingency: Contingent Upon Director's receipt and counsel review of fully executed donation agreement and quitclaim deed, and approved minutes or resolution of Board of County Commissioners indicating approval of donation.

Submitted by: Terry Lease, Real Property Specialist, Santa Fe County
11. Santa Fe County – Requests Approval of Amendment #3 to Lease of Real Property Located at 901 W. Alameda Street in Santa Fe to Southwest CARE Center, Inc.

Submitted by: Shirley McDougall, Asset Manager, Santa Fe Public Schools
12. Santa Fe Public Schools – Requests Approval of Ground Lease of Real Property Located at 1730 Llano Street in Santa Fe to the City of Santa Fe ($100 per year)

Contingency: Contingent upon Director's receipt and counsel review of (1) fully executed revised lease agreement; (2) approved minutes or resolutions of Santa Fe Public School Board; and (3) approved minutes or resolutions of City of Santa Fe City Council indicating approval of ground lease.

Submitted by: Gerald Hoehne, New Mexico Higher Education Department Capital Projects Director
13. New Mexico School for the Deaf – Requests Approval of Renovation of the 2nd Floor Dining Hall ($708,990)

Submitted by: Gerald Hoehne, New Mexico Higher Education Department Capital Projects Director
14. Western New Mexico University – Requests Approval of Renovations to the World of Wings – WOW Café ($922,448)

Submitted by: Thomas Schawel, Policy Analyst, New Mexico Higher Education Department
15. New Mexico Institute of Mining and Technology – Requests Approval of Ph.D. Program in Electrical Engineering with Dissertation In Cyber Electronic Systems

Submitted by: Thomas Schawel, Policy Analyst, New Mexico Higher Education Department
16. New Mexico State University -- Requests Approval of Masters of Science Program in Clinical Psychopharmacology

Mr. Archuleta moved for approval of the Consent Agenda, with the contingencies. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.

**EMERGENCY FUND BALANCES**
Presenter: Ms. Lella Kleats, Director
17. **Emergency Balances – July 18, 2017**
   - Operating Reserve Fund $ 2,000,000.00
   - Emergency Water Fund $ 104,800.00

New Mexico State Board of Finance: July 18, 2017
Ms. Kleats reported these balances.

[Agenda was reprioritized.]

**STATE TREASURER'S OFFICE**  
Presenter: State Treasurer Tim Eichenberg


[Informational.]

25. **Approval of Broker-Dealer List**

Mr. Eichenberg requested approval.

Mr. Archuleta moved approval. Mr. Eichenberg seconded the motion, which passed 6-0 by voice vote.

28. **Amendment 3 to the Custody Bank Services Contract Authorizing Participation in J.P. Morgan Liquidity Exchange Services**

Ms. Kleats stated that the State Treasurer’s Office has notified staff that it wishes to add government money market funds as an investment option for STO portfolios to increase diversification and to provide much-needed alternatives for overnight repurchase agreements, and is requesting that the board approve attachment of a rider to the Custody Bank Services Agreement. The rider would allow STO to access a portal that JP Morgan offers for government money market funds.

Mr. Kormanik moved for approval. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.

**GENERAL SERVICES DEPARTMENT**  
Presenter: Leila Kleats, Director

26. **Capitol Buildings Repair Fund Financial Status Report for Month-Ended June 30, 3017**

[Informational.]

**STAFF ITEMS**  
Presenter: Leila Kleats, Director

29. **Dashboard Report**

Ms. Kleats reviewed the July dashboard report.
Ms. Kleats noted that general fund reserves are estimated to be 5 percent at the end of Fiscal Year 2017.

[Governor Martinez arrived.]

**HIGHER EDUCATION DEPARTMENT**

Presenters: Gerald Hoehne, NM Higher Education Department Capital Projects Director; Dr. Chaouki Abdallah, Interim President, UNM; David Harris, Executive Vice President For Administration, CFO and COO; Chris Vallejos, Associate Vice President for Institutional Support Services, UNM; Lisa Marbury, Executive Director for Institutional Support Services, UNM

22. University of New Mexico – Requests Approval of New Physics and Astronomy Interdisciplinary Science Building ($65,746,710)

Dr. Abdallah said UNM has appeared before the board on two previous occasions with respect to this project and today is meant to be the final step. He said planning for this project began ten years ago.

Mr. Harris said the existing building was built in 1952, 65 years ago, and in 2011, UNM conducted a facility condition analysis that determined the building’s outdated infrastructure and code violations could no longer support high-level research and education. UNM believes that construction of a new building is the only viable solution and it is UNM’s opinion that building a state-of-the-art research and education facility that will be the new home for the Department of Physics and Astronomy and a half dozen interdisciplinary science centers will bring scholars to perform extraordinary scholarship.

Mr. Harris said the sources of funding are 2014 Severance Tax Bonds in the amount of $746,710; 2015 Severance Tax Bonds in the amount of $700,000; 2017 General Obligation Bonds in the amount of $27,000,000 and 2017 UNM Revenue Bonds in the amount of $37,300,000.

Responding to Governor Martinez, Mr. Harris said student fees were increased by $150 per year to fund the bond sale. This amount is earmarked toward the debt service for the UNM Revenue Bonds.

Mr. Archuleta spoke in favor of this project. He said he could not say enough how important it is to have a state-of-the-art facility to attract top researchers from around the world.

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

**ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT**

Presenters: Christy Tafoya, Director, State Parks Division; James Hilderbrandt, Business
Enterprise Coordinator, State Parks Division; Neal Brown, Owner, Lago Rico, Inc.

21. State Parks Division – Requests Approval of Amendment to Concession Contract for the Marina Del Sur Facility with Lago Rico, Inc. at Elephant Butte Lake State Park in Sierra County (monthly concession fee of 8 percent of net receipts from sales and services, excluding fuel and oil sales for which the concessionaire shall remit $0.015 for every gallon of fuel and oil sold)

Ms. Tafoya stated that the State Parks Division appeared before the board in the fall with this application, and subsequently provided additional information at the board’s request. She said this marina is the second-largest marina in the State Parks system and offers boating opportunities, jet skiing, a store, and boat slips.

Ms. Tafoya said they are requesting to change the premises map so that it truly reflects reality and affords the concessionaire the ability to move the marina back and forth according to water levels.

Ms. Tafoya said they are also requesting removal of the escalator fee. Currently, the escalator fee goes up in five-year increments, at $8,000 a year for the first five years and then increases to $10,000 a year in year six, to $15,000 a year in year 11, and $20,000 a year in year 16. She said State Parks would like to bring this in alignment with some of the other marina concessions throughout the state, as there are no other marinas that have such an escalator fee. In addition, because of fluctuating water levels, having a little bit more stability with regard to an 8 percent fee is reasonable.

Lt. Governor Sanchez asked Mr. Brown if this request is sufficient for the business to remain viable, and Mr. Brown responded yes.

Lt. Governor Sanchez commented that the “bright spot” in New Mexico’s economy is tourism, and no other state park in New Mexico is a bigger draw than Elephant Butte. He added that Sierra County is also one of the state’s poorest counties. He said he did not want “to kill the goose that lays the golden egg.”

Responding to Mr. Kormanik, Ms. Tafoya said the escalator was not included in the RFP and the provision was negotiated.

Mr. Brown added that Ms. Tafoya’s predecessor told him there would be no more negotiation on the escalator and that the terms were final. He said the State Parks Division had already canceled one of his contracts at Elephant Butte Lake, and he was in fear of losing this one as well. He sought advice from legislators, who recommended he sign the contract and try to negotiate later.

Mr. Kormanik asked how elimination of the escalator would affect revenue streams for the State Parks Division. Ms. Tafoya responded that they are projecting they could lose $400,000 to $500,000, but they would bring in $1.4 million over the term of the contract. She added that
Mr. Brown provides a very important service to visitors and the community, so the $1.4 million is really only a portion of what he provides overall. She said State Parks also feels that eliminating the escalator would enhance Mr. Brown's ability to provide more and better services, which would bring in more revenues to the state and offset any or all of the losses the state might otherwise incur.

Lt. Governor Sanchez moved for approval. Mr. Eichenberg seconded the motion, which passed 7-0 by voice vote.

**HIGHER EDUCATION DEPARTMENT**

Presenters: Gerald Hoehne, NM Higher Education Department Capital Projects Director; Dr. Chaouki Abdallah, Interim President, UNM; David Harris, Executive Vice President for Administration, CFO and COO; Chris Vallejos, Associate Vice President for Institutional Support Services, UNM; Lisa Marbury, Executive Director for Institutional Support Services, UNM; Steve McKernan, CEO, UNMH; Dr. Paul Roth, Chancellor for Health Sciences; Dr. Michael Richards, Vice Chancellor, Clinical Affairs.

23. **University of New Mexico Hospital – Modern Medical Facility Presentation**

[Lt. Governor Sanchez left the meeting during the course of this item.]

Dr. Roth made a presentation to the board (page 1146 of electronic agenda).

Governor Martinez noted that UNMH receives about $90 million for indigent care from the mill levy in Bernalillo County and asked if UNMH reverts any unused funds from this source back to the county. Dr. Roth responded that the money does not revert back to the county, as UNMH typically does not have much unused money. He also clarified that New Mexico has the Indigent Funding Act and the Hospital Funding Act, and in Bernalillo County, the mill levy comes to UNMH through the Hospital Funding Act, which is for the operation and maintenance of UNMH. While much of those funds help UNMH cross-subsidize the expenses associated with indigent care, those funds are officially to be used for general operations. He said this process goes back to the 1950s and is governed by a lease agreement between UNM and Bernalillo County. He added that the net margin for UNMH is not at the level where they could consider moving any funds back to the county, and they do not account for those dollars in a separate account, as is the case in the indigent fund in other counties.

Responding to Mr. Brasher, Mr. McKernan said the ballot that went to the public most recently in November 2016 designated the money from the Hospital Funding Act for the operations and maintenance of the hospital. UNMH’s legal counsel and accountants advised that UNMH should abide by the ballot measure language, the lease language, and the statutory language. This would include utilities, supplies, housekeeping and electronic medical records.

Mr. Brasher suggested that some of those could be statewide expenses paid for under the mill levy. Mr. McKernan responded that they can break down which patients come from within Bernalillo County and from outside the county, along with estimated costs related to that, and
estimated reimbursements from Medicare, Medicaid and insurance from those patients, and what is not reimbursed. Traditionally, patients from Bernalillo County have generated most of UNMH’s uncompensated care. They have 15 primary care clinics in the county that principally take care of residents from within the county, and UNMH works closely with the county to be sure they are providing services to those residents.

Governor Martinez asked if it would be feasible for UNMH to come up with a way to follow a patient through the system to make sure that their outputs are at maximum level, and to make sure that there are no redundancies or overlooked treatments, etc. She said the patient would have to agree to allow their medical information and other details to be available. She said her concern is that UNMH not put its business needs ahead of what is best for the patients.

Dr. Roth responded that he saw nothing that would prohibit UNMH from doing that, and he would like to go back and explore that idea.

Mr. McKernan discussed the proposed location of the hospital (east of University and north of Lomas Boulevard), along with details of the site plan and design and phasing plan. The architecture planning process for the Modern Medical Facility would begin in October 2017. The first phase would include a new facility of 120 beds and increase the operating room capacity by six rooms. The total cost of Phase I would be $248,814,000.

Responding to Mr. Aragon, Dr. Richards said a Presbyterian patient navigator is located in the Emergency Department who helps identify the patients who can be transferred back to Presbyterian. Although the 360-bed number doesn’t take into account the licensed beds at Lovelace, that number was arrived at as part of UNMH’s strategy to send patients into post acute care (at Genesis or Lovelace), as is the continued growth of the call transfer center. The current 360-bed analysis contemplates that they could move as many as 1,400 low complexity patients from the call transfer center into the other beds, which would be predominantly at Lovelace.

Governor Martinez noted that 39 percent of the hospital budget is supported by Medicaid. She asked if it would be prudent to delay moving ahead with this project for another year, given the uncertain fate of the Affordable Care Act, particularly when (based on comments by Dr. Roth about 18 months ago) UNMH’s two biggest priorities are its operating rooms, which are insufficient in number and not up to current standards, as well as the trauma center, which is also not at the level and size necessary to serve as the state’s only trauma center.

Dr. Roth responded that they are “painfully aware” of the uncertainty of finances in the U.S. and in New Mexico, and they are under no assumption that what they know today will hold true tomorrow. He added that they will know more within the next 12 months, and that will help guide them on any changes necessary for the overall project.

[This item was tabled for a few minutes to accommodate the next item.]
SEVERANCE TAX BONDS

Presenters: David Paul, Financial Advisor, Fiscal Strategies Group; Luis Carrasco, Co-Bond Counsel, Rodey Law Firm

18. Acceptance of Bids and Adoption of Bid Resolution, Including Form of Official Statement and Project List Amendments, Severance Tax Bonds, Series 2017A

Mr. Paul stated that they had verified the winning bidders as Morgan Stanley for the Severance Tax Bonds and Citigroup for the General Obligation Bonds. He said the refunding would save $10.3 million, which is about $2 million higher than originally projected.

Mr. Carrasco presented a revised resolution in the aggregate principal amount of $69,470,000. The resolution provides for the acceptance of the best bid; amends and restates the list of projects to be funded; and approves the form of the Official Statement.

Mr. Aragon asked how much of the $82.6 million in projects listed in Exhibit A would go to public education. Mr. Carrasco responded that $75.4 million would go to the Public School Capital Outlay Council. He said there are also some direct appropriations to the Public Education Department that are also being funded through these bonds. Mr. Aragon commented that there is a lawsuit underway that directly relates to this issue. He noted that this does not include the additional monies invested in public school education through the General Appropriations Act, which makes up 45 percent of the state’s budget.

Mr. Aragon moved for approval. Mr. Kormanik seconded the motion, which passed 6-0 by voice vote.

19. Adoption of Resolution Reassigning Unencumbered Balances from Previously Funded Severance Tax Bond Projects

Mr. Carrasco stated that this is referred to as the “stalled balances resolution.” The agencies and projects listed in Exhibit B have not satisfied the 5 percent encumbrance test. Instead of keeping the funds tied up, the board is asked to authorize using those funds for projects now deemed ready to proceed. When the board prepares to issue future Severance Tax Bonds, it will circulate questionnaires for the original projects to see if they can be included for funding at that time.

Ms. Kleats noted that the reassignment of bond proceeds in an amount totaling about $6.5 million allowed for a reduction in the “new money” issuance. The remaining balance of the $81.4 million authorized for use by the Public School Capital Outlay Council by the Legislature is being funded through these reassigned balances.

Mr. Aragon moved for approval. Mr. Brasher seconded the motion, which passed 6-0 by voice vote.
GENERAL OBLIGATION BONDS
Presenters: Presenters: David Paul, Financial Advisor, Fiscal Strategies Group; Luis Carrasco, Co-Bond Counsel, Rodey Law Firm; Parker Schenken, Co-Bond Counsel, Sherman & Howard


Mr. Carrasco said this resolution accepts the best bid for the purchase of General Obligation Bonds Series 2017A and General Obligation Bonds Refunding Series 2017B and approves the lowest cost bid for escrow securities. The aggregate principal amount for the 2017A bonds is $148,520,000, and for the 2017B bonds is $151,790,000.

Mr. Schenken described the process for the escrow agreement. He said the purpose of the 2017B General Obligation Bonds is to refinance two outstanding General Obligation Bonds from 2013 and 2015. Contractually, they cannot be paid off on the day the new bonds are issued. The new bonds will be issued on August 1. The 2013 bonds cannot be paid off until September 1, and the 2015 bonds have a lockout restriction until March 2020. The proceeds of the 2017B bonds will therefore have to be held in escrow so they can come off the state’s books, but then monies are held with trustee for the purpose of paying off those bonds. While the money is in escrow, the ordinary process is to invest in SLGS, an especial brand of Treasury securities designed for this purpose; however, with the U.S. debt ceiling issues going on right now, the ability to purchase those securities is closed. This morning, the state accepted bids for the purchase of open market securities to fund the escrow. Once the escrow is funded on August 1, the bonds are no longer outstanding for the state’s purposes.

Mr. Carrasco said the successful bidder on the escrow securities is Wells Fargo Bank.

Mr. Carrasco stated that there was no further need to amend the project list that the board approved in last month’s bond resolution.

Mr. Aragon moved for approval. Mr. Archuleta seconded the motion, which passed 5-0 by voice vote. [Governor Martinez was not present during the vote.]

HIGHER EDUCATION DEPARTMENT
23. University of New Mexico Hospital – Modern Medical Facility Presentation [Cont’d]

Mr. McKernan continued with his presentation.

Mr. Aragon recalled that, some time ago, when the original plan was being discussed, UNM representatives told the board they had $225-$275 million in cash on hand. He asked if that money was still in reserves, and Mr. McKernan responded that they have $206 million in a fund they hold in conjunction with the university, and their hospital’s balance sheet has about $150 million. He said the debt covenants require them to hold about $100 million. He said they plan
to work with Mr. Harris over the next year and a half to determine the optimal funding mechanism, which could be a combination of cash or bonds. They have had very preliminary discussions with the Federal Housing Administration, which is interested in working with them.

Mr. McKernan said section 242 of the FHA allows for bond insurance for hospitals, and it is well used in the U.S. They issue about 15 of these insurance policies per year. The debt is issued by UNM, and the FHA insurance “just rides on top of it,” giving the organization an AA to AAA rating. The cost is about 50 basis points per year on the outstanding balance. UNMH would submit on a monthly basis and formally check in with them on a quarterly basis. He said the Pavilion was insured through the FHA at about $196 million. The current balance is about $100 million.

Mr. Aragon asked if UNM’s bonding capacity would be affected with the hospital project on top of this, and Mr. Harris responded that the timing is very important, and they are confident that their bonding capacity will not be affected.

Mr. Aragon said he realized the mill levy money that goes to the hospital comes through the Hospital Funding Act and goes for the operations and maintenance of the hospital, which indirectly benefits indigent people; however, many Bernalillo County voters think this mill levy goes directly to pay for the hospital expenses of people who are indigent. He suggested that UNM make an effort to clarify this for the taxpayers, who deserve to be told up front what they are voting for.

Responding to Governor Martinez, Dr. Roth said UNMH does not do any accounting on an individual basis for the mill levy dollars through the Hospital Funding Act. Governor Martinez said she thought it was “sloppy accounting” not to have a line item budget for these monies. She said people should know how and where the money is drawn down, and for what purpose. She agreed with Mr. Aragon that many people believe this is an indigent fund, and she felt UNMH should be more transparent.

Mr. Brasher said the Bernalillo County Commission should be having regular meetings with UNMH to discuss the disposition of the mill levy monies, and there should be public meetings with public input to discuss the disposition of those funds.

Governor Martinez recalled when UNMH appeared before the board on three separate occasions, the request was for only 72 beds. She said it later turned out that the project was the “wrong idea” and hadn’t been thoroughly vetted, which UNMH later admitted to. She said this, along with the uncertainty of the fate of the Affordable Care Act, is a concern. She added that UNMH should submit quarterly reports to Bernalillo County going forward, detailing how the Hospital Funding Act mill levy monies are drawn down.

Dr. Roth responded that the earlier project referred to by Governor Martinez was for a 96-bed hospital, and he did not believe anyone from UNM acknowledged that this was a bad idea. The plan was to admit scheduled surgical and medical patients to the facility, and the only thing
that has changed since then has been the Medicaid environment, the site location (which the board requested be reviewed), and the size of the facility. He said the difference is that UNMH wanted to pay cash for the 96-bed facility. In terms of vetting, he said UNMH researched the project in detail by having outside groups come in and help with the plans. He said he personally felt that, had the board approved that project, the hospital would have much greater capacity today and would have been meeting a greater need and demand by citizens, and maybe at this point they would be coming back with a new phase.

Mr. McKernan said that, with the Affordable Care Act and the expansion of Medicaid, the hospital saw significant cash flow in fiscal years 2014, 2015, and 2016. As a result, they expanded programs, added a community clinic, hired a number of new FTEs, and their workload went up significantly. They thought it prudent to take that money and hold it in reserves, knowing that the building would have to be replaced at some point in time. He said they also saw a number of Medicaid patients who were previously charity care patients, and the hospital received additional revenue because of those patients.

Governor Martinez said she found it disturbing that the hospital, a nonprofit, was making money off of Medicaid while holding $200 million in reserves and taking in $90+ million every year in mill levy money.

Dr. Roth agreed that the hospital received a “windfall” for a couple of fiscal years. On an annual basis, based on projected revenues, they decided to either grow programs or hold reserves in the event that something unexpected happens. In this case, they deliberately held back certain programs knowing that the windfall was temporary and realizing they needed more capacity in a larger hospital. Alternatively, they could have approached the county or the state and asked for $800 million, but felt they should be responsible and prudent overseers of their finances and assume the financial burden on their own.

Mr. McKernan also clarified that, after all of the Medicaid patients were enrolled, the reimbursement for them happened within three months. Prior to that, the hospital did not know if their eligibility would clear or not based on a number of things going on with the Managed Care Organizations (MCOs). Secondly, the rates they had negotiated with the MCOs were the older rates before the Medicaid expansion, and they were beneficial to UNM Hospital. UNMH did not tell the MCOs to reduce the rate; however, after the enrollment kicked up, they reduced the reimbursement rates by a significant amount. Thirdly, when they had a higher number of uninsured patients, UNMH qualified for disproportionate share payments of about $23 million a year. UNMH realized they wouldn’t qualify for those payments, and subsequently worked out a deal to reimburse the monies back to the state.

**STAFF ITEMS**

Presenter: Leila Kleats, Director

27. **Approval of Publication of Notice of Proposed Rule Amendment: NMAC 2.1.2, Adoption of Rules by the State Board of Finance**
Ms. Kleats stated that the legislature passed House Bill 58 during the last regular legislative session, which made a change to the rulemaking process. She said the board therefore will be required to amend its rule on rules to conform to House Bill 58. She asked the board to approve publication of the public notice so that the public comment period on the proposed changes could be scheduled.

Mr. Kormanik moved for approval. Mr. Archuleta seconded the motion, which passed 6-0 by voice vote.

30. Fiscal Agent/Custodial Bank Fees

Ms. Kleats stated that the fees are 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 2:15 p.m.

Susana Martinez, President

[Signature]

01/31/17

Date

Michael Brasher, Secretary

[Signature]

8/1/2017

Date