MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING
Santa Fe, New Mexico

June 20, 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 [by telephone, present 9:50-10:15 a.m.]
The Hon. Tim Eichenberg, State Treasurer [leaving at 10:05 a.m.]
Mr. Robert J. Aragon, Public Member
Mr. Adelmo Archuleta, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

Members Excused:
The Hon. John A. Sanchez, Lt. Governor

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:
Mr. Joseph Dworak, Attorney General’s Office

Others Present:
[See sign-in sheets.]

2. APPROVAL OF AGENDA

ANNOUNCEMENT: NEXT REGULAR MEETING – TUESDAY, JULY 18, 2017

Kormanik moved for approval of the Agenda, as published. Mr. Archuleta seconded the motion, which passed 5-0 by voice vote.
CONSENT AGENDA (Items 3-5)
Submitted by Leila Burrows Kleats, Director

3. Approval of Minutes: May 16, 2017 (Regular Meeting)

Submitted by: Terry Lease, Real Property Specialist, Santa Fe County

4. Santa Fe County – Requests Approval of Donation of Real Property Located at

19 and 23 East Frontage Road in Edgewood to the Town of Edgewood ($1.00)

Officer Ron Crow commented that this is a chance for the community to repurpose a current government building and put it to better use by relocating the police department and other Town staff. He thanked the board for approving this request.

Submitted by: Gerald Hoehne, NMHED Capital Projects Director; Kent C. Taylor, Director of Facilities, New Mexico Military Institute

5. New Mexico Military Institute – Requests Approval of Renovations to the PX Grill

($165,000)

Mr. Aragon moved for approval of the Consent Agenda, as published. Mr. Archuleta seconded the motion, which passed 5-0 by voice vote.

EMERGENCY FUND BALANCES
Presenter: Ms. Leila Burrows Kleats, Director


Operating Reserve Fund $ 1,101,421.00
Emergency Water Fund $ 499.56
Emergency Hardship Fund $ 972,748.00

Mr. Aragon asked if staff has received any requests from communities impacted by the fires that are ongoing in New Mexico. Ms. Kleats responded that no requests have been received to date. If a request is received before June 30, the date that these balances will revert back to the general fund, a special meeting will be scheduled to hear the request.

SEVERANCE TAX BONDS AND NOTES
Presenters: Jill Sweeney, Co-Bond Counsel, Sherman & Howard, LLC; Parker Schenken, Co-Bond Counsel, Sherman & Howard; Luis Carrasco, Co-Bond Counsel, Rodey Law Firm; David Paul, Financial Advisor, Fiscal Strategies Group; Ken Guckenberger and Noelle Graney, Disclosure Counsel, Kutak Rock, LLP

7. Approval of Resolution Reauthorizing Certain Severance Tax Bond Projects
Mr. Carrasco stated that, after the board approved a resolution at the last meeting approving projects approved by the legislature, one of the projects in the Administration’s priority list was deemed eligible for inclusion with the Re-appropriated Projects. This project, to plan, design, construct and improve Cannon Air Force Base in Curry County, would be paid for through the unexpended balance from Severance Tax Bond Series 2006S-A, which was in the original principal amount of $85,310,094.56.

Responding to Mr. Eichenberg, Ms. Maestas said the remaining balance was $803,360.

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

8. **Consideration of Amendment to Severance Tax Note Resolution, Series 2017S-A**

Mr. Carrasco stated that this resolution has been amended to incorporate the project list, which was not available at the time the board took action. The projects to be funded through this note are two of the projects listed on the Authorized But Unissued list that were flagged by bond counsel as potentially taxable. The amounts are $123,000 and $78,000 to the Local Government Division for projects in Bernalillo County and Santa Fe County. Also included is $28,279,40 to the Department of Finance and Administration to restore allotments made from the general fund for capital project appropriations whose expenditure periods had ended on or before June 30, 2006 (also known as the Super Sweep Fund). This also includes set-asides to the Tribal Infrastructure Board and Colonias Infrastructure Board.

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

9. **Consideration of Amendment to Severance Tax Note Resolution, Series 2017S-B**

Mr. Carrasco said this Supplemental Severance Tax resolution authorizes the issuance of up to $125 million for additional projects. At the special legislative session at the end of May 2017, the legislature directed the board to include, as one of the projects, an $81,400 appropriation to the Department of Finance and Administration to restore the allotments made to the general fund for capital project appropriations using expenditure periods ended on or before June 30, 2016. In addition to this overnight swap funding, the project list is being amended to include $26,542,900 to the Public School Capital Outlay Council (PSCOC) for capital project grants and $12,500,000 to the Public Education Department to make awards and distributions.

Responding to Mr. Aragon, Ms. Kleats said the whole balance of the supplemental note traditionally would go to the PSCOC for construction and renovation of public school buildings. The change this year is that $12,500,000 of those proceeds is going to public schools, but it is to be used for school buses and instructional materials. In addition, $81,400,000 approved during
the 2017 special session will go to the general fund to restore prior year capital expenditures. A portion of the long-term bond that will be sold at the July board meeting will accrue the $81,4 million and that will go back to the PSCOC for public school projects, so they will be reimbursed for that amount. She commented that this is a little bit complicated, but it works because there is additional Severance Tax revenue available to cash finance projects.

Secretary Rodriguez confirmed for Mr. Aragon that this was legislation passed during the special session to augment the general fund for the reserves that were drawn down.

Mr. Carrasco clarified that the amount in its entirety would be paid through notes issued on June 29 and paid back on June 30.

Mr. Aragon stated that he has received phone calls from people who are under the mistaken impression that the state will be using bond revenues to supplement operating reserves.

Mr. Paul commented that the term “sponge bond” has become part of New Mexico’s public finance lexicon to refer to what is in reality a short-term funding note and not a bond. He said he, too, receives calls from people who think the state is issuing bonds to fund operating purposes, when it is actually cash in the bank where a one-day bond is the mechanism for making it available.

Secretary Rodriguez said DFA spent most of yesterday on the phone with the rating agencies, who totally understand what the state is doing “and realize the press got it wrong.”

Responding to Mr. Kormanik, Mr. Paul agreed that the money that is going into the general fund would otherwise have been used to cash-finance long-term capital projects, and that this may be problematic for some people. He added that it is quite unusual for a state to fund such a significant portion of its capital expenditures from cash, and that is the exception being made this year, where some of the cash is being used to augment general fund balances that were completely depleted as of the middle of this year.

Mr. Kormanik commented that this transaction results in interest paid by bonds that were issued for public school capital outlay long-term debt that would not have otherwise been incurred.

Mr. Paul responded that the state annually uses one-tenth of its debt capacity, which is what this is, so this money would have been used for other projects if not used for this particular purpose. If one were to argue that there was a “price paid,” the price that was paid was the opportunity cost, and the opportunity cost this year is being used for public schools as opposed to legislatively appropriated capital outlay.

Mr. Aragon asked if there is a long-term debt service associated with this transaction. Mr. Paul responded that the sponge bond transaction has no long-term debt service. The long-term
debt service in the aggregate structure is with respect to the portion of the senior Severance Tax Bonds that in this case would be used for public school purpose, and those bonds will have the normal long-term debt service of any long-term Severance Tax Bonds that the board issues.

Mr. Eichenberg asked if he was correct that the New Mexico Constitution calls for a balanced budget. He expressed concern that this transaction could be likened to a home equity line of credit.

Mr. Paul responded that the state “isn’t anywhere close to that at this point,” and taking out a line of credit as suggested by Mr. Eichenberg would violate all policy norms. He reiterated that this is a cash transaction where the funding that is historically used for capital would be used in this case to bolster reserves.

[Governor Martinez joined the meeting by telephone.]

Responding to Mr. Eichenberg’s earlier question, Ms. Sweeney stated that the constitutional issue relating to balance budget is complicated, and some would argue that the New Mexico Constitution has a balanced budget requirement while others would argue that it does not. From a policy perspective, the state has always “balanced the budget.” The state has used sponge bonds for years, and this is an extraordinarily legislative directive, and the State Board of Finance is mandated by the state to issue these bonds in order to fund these projects for this purpose.

Governor Martinez said she thought it important for people to understand that this transaction does not involve borrowing money.

Mr. Archuleta moved for approval. Mr. Aragon seconded the motion, which passed 5-1 by voice vote, with Mr. Eichenberg voting against the motion.

[Mr. Eichenberg left the meeting.]

10. **Consideration of Notice of Bid and Bond Resolution, Including Form of Preliminary Official Statement, Severance Tax Bonds, Series 2017-A**

Ms. Sweeney said this resolution, among other things, authorizes the issuance of Severance Tax Bonds in the maximum principal amount of $89,275,000, and authorizes the publication of a notice of sale. This is the transaction that is the flip side of what has been termed the “swap.” The project list contains $81.4 million for the financing of public school capital outlay. Also included are several projects from the Authorized but Unissued List, and pieces of the set-asides.

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

Presenters: Jill Sweeney, Co-Bond Counsel, Sherman & Howard, LLC; Parker Schenken, Co-Bond Counsel, Sherman & Howard; Luis Carrasco, Co-Bond Counsel, Rodey Law Firm; David Paul, Financial Advisor, Fiscal Strategies Group; Ken Guckenberger and Noelle Graney, Disclosure Counsel, Kutak Rock, LLP


Ms. Sweeney stated that the voters approved these bonds on November 8, 2016. This resolution authorizes the issuance of general obligation bonds in the maximum principal amount of $186,159,000. It also authorizes the issuance of refunding bonds in the amount of $165,150,000. The state can achieve savings through this current refunding all of the outstanding maturity for the 2013 bonds and an advanced refunding of certain portions of the outstanding 2015 bonds. The project list contains the new money portion projects for senior citizen facilities, schools, libraries and certain state police public safety projects. In addition, this resolution authorizes the publication of the notice of sale that will be used to market the bonds.

Mr. Paul said the current sizing is $307.5 million and includes $153.6 million for the new money projects and $153.96 million for the Series B refunding. Each would have in excess of $20 million of original issue premium, which would bring the proceeds up to fully fund $174 million of projects and the funds needed to complete the refunding portion. This would fund the state’s 2013A general obligation bonds in their entirety as well as the last few maturities of 2021 on updated 2015 bonds. The refunding is attractive because of the decline in interest rates since the issuance of the bonds, and the savings to the state is about $9.3 million of total savings and $8.7 million of present value savings, which is over 5 percent of the total amount of bonds being refunded, which is well above the standard in the state’s Debt Policy Statement.

Mr. Paul said this transaction would involve a single bid because the size of either of the bonds individually is not small enough to allow the larger universe of smaller bidders to bid.

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

[Governor Martinez signed off from the meeting.]

DEPARTMENT OF FINANCE AND ADMINISTRATION

Presenters: Rick Lopez, Director, Local Government Division; Bill Range, Program Manager, E911; Michael Mariano, Acting Deputy Director, E911; Jolene Gonzales, E911 Finance Analyst; Erika Wilson, Albuquerque Police Dept. PSAP Director; Dave Ripley, San Juan PSAP Director; Keith Wattenbarger, City of Portales PSAP Coordinator; Terri Thornberry, Communications Director, Department of Public Safety; Art Rios, Venture Technologies; Dave Cornwall, Motorola Solutions

12. Department of Finance and Administration, Local Government Division – Requests
Approval of E-911 Grant Program Funding for Fiscal Year 2018 ($11,278,922)

Mr. Lopez presented this report, requesting State Board of Finance approval for FY 2018 operating budgets for New Mexico Public Safety Answering Points (PSAPs) that are supported through the E-911 Fund. The total operating budget being requested is $9,432,941.

Mr. Aragon wondered if it would be appropriate to have even more consolidation than that shown on the consolidation map provided to board members.

Mr. Lopez agreed that more consolidation would be a good thing; however, at this time, they have reached the maximum level of consolidation allowable with existing funds and technology.

Mr. Ripley added that there are some obvious positives to consolidation, but there are also some negatives. For instance, in San Juan County, the impact would be to eliminate 48 full time jobs and take $5 million worth of income out of the community. This would have a huge impact. He said they also have a tactical dispatch program, where trained dispatchers go into the field to provide assistance when there is a major event such as a large structure fire or active shooter. If they were to consolidate with Bernalillo County, for instance, there would be no opportunity for that. He also stated that Albuquerque dispatchers are not familiar with the San Juan County area, which can create a safety issue when there is confusion about where people are located.

Mr. Wattenbarger said that, within his rural area, there is oil production and processing, a hospital, a university, seven fire departments and five law enforcement agencies. He expressed concern that outsourcing some of this in his area, which is very large but with a population of only 20,000, would present problems. He said the fire departments, while operating in similar fashion, are autonomous.

Ms. Wilson said her office has talked to DFA about implementing Next Generation 911 throughout the state of New Mexico in the next 20 years, which would allow digital information to flow seamlessly from the public through the 911 network to emergency workers. She said the $2.8 million granted to the Albuquerque Police Department last year allowed her to build her PSAP up with 15 additional consoles to address increased call volume; however, if she were to bring in more users, her office would need more space.

Mr. Cornwall said Motorola is willing to work with DFA to address constantly changing technology, which will be less expensive in the future, particularly with the Next Gen 911 technology.

Mr. Archuleta moved for approval. Mr. Aragon seconded the motion.
Art Rios, Venture Technologies, said there were about 150 PSAPs at one time, and that has been reduced to 46. He said almost every PSAP in Colorado, where he is located, has Next Gen 911 technology in place.

The motion passed 4-0 by voice vote.

**GENERAL SERVICES DEPARTMENT**  
Presenter: Jimmy Rodriguez, Bureau Chief, Facilities Management Division  
13. Facilities Management Division – Requests Approval to Adopt July 2017-December 2017 Schedule of Repairs

Mr. Rodriguez presented this report.

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

15. Facilities Management Division – Legislative Capital Projects Financial Status Report as of May 31, 2017
16. Facilities Management Division – Inventory of Buildings Report Including an Approved Checklist of Conditions

Mr. Rodriguez presented these reports.

**STATE TREASURER’S OFFICE**  
Vikki Hanges, Chief Investment Officer and General Fund Portfolio Manager  
17. Monthly Investment Reports for Month-Ended April 30, 2017

Ms. Hanges presented this report. At the end of April, STO managed about $3.7 billion in assets and earned about $2.6 million.

**TAX INCREMENT DEVELOPMENT DISTRICTS**

18. Annual Employment Reports Pursuant to 2.61.3.10B  
   a. Las Cruces Downtown  
   b. Taos Ski Valley  
   c. Winrock Town Center  
   d. Mesa del Sol  
   e. Western Albuquerque Land Holdings (Formerly SunCal)

Ms. Kleats said the rule states, “A district that has received a dedication of a portion of the state’s increment shall provide to the board employment reports, as available, setting forth in reasonable detail the number and types of jobs created within the district on a full time
equivalent basis during the preceding 12-month period and the availability of workforce housing.” These reports are due by June 1; however, as was pointed out by Justin Horwitz of the Rodey Law Firm, representatives of Western Albuquerque Land Holdings (WALH), the rule applies only to those districts that have sold bonds, and WALH has not sold bonds. She said Las Cruces Downtown, Taos Ski Valley and Mesa del Sol did not provide a report and did not provide any correspondence explaining why they did not do so; however, Darrell Sand of Goodman Realty Group (Winrock Town Center) did provide a report with impressive detail.

Secretary Brasher agreed with a recommendation by Mr. Archuleta that Ms. Kleats should contact the TIDDs that failed to file a report.

Responding to a suggestion by Mr. Archuleta that the rule be strengthened, Ms. Kleats said she would add this to a list of potential rule to be brought before the board in July.

**STAFF ITEMS**

19. Discussion of Communications from Rodey Law Firm (Justin A. Horwitz and Kip Purcell) regarding its Representation of Western Albuquerque Land Holdings LLC in the Formation of the Lower Petroglyphs Tax Increment Development District

Ms. Kleats noted that she had emailed a communication from Rodey Law Firm regarding their representation of Western Albuquerque Land Holdings and, in particular, the formation of the Lower Petroglyphs TIDD. She said they plan to come to the board at some point in the future to ask for a dedication in the state’s gross receipts tax increment. Per the prior agreements and as specified in the contract, they were doing their due diligence by alerting the board to this relationship. She commented that Mr. Horwitz’s position is that it is not a conflict of interest. She reminded the board that Rodey Law Firm represents the board as bond counsel. As TIDDs are not eligible for Severance Tax Bond funding, there should be very little overlap.

Mr. Archuleta said he personally saw no conflict, but had brought this issue up with Ms. Kleats out of a concern that there be a annual process established that would require the Rodey Law Firm (in this case) to self-certify that there is no conflict. He said the onus should be on Rodey Law Firm to take this initiative, but it should also be required for any other firm under contract with the Board of Finance to do that if and when such a situation arises.

Mr. Aragon said he reviewed a communication from Kip Purcell and was satisfied that no firewall would have to be established in this situation.

20. Fiscal Agent/Custodial Bank Fees

Ms. Kleats stated that the fees are in line with historical levels.

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

**ADJOURNMENT**

Its business completed, the State Board of Finance adjourned the meeting at 11:35 a.m.

---

Susana Martinez, President

7-18-17

Date

Michael Brasher, Secretary

7/18/17

Date