MINUTES OF THE

NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Santa Fe, New Mexico

October 17, 2017

A Regular Meeting of the New Mexico State Board of Finance was called to order on this date at 9:07 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 [joining at 9:25 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
   The Hon. Tim Eichenberg, State Treasurer

   **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, NOVEMBER 21, 2017**

   Mr. Aragon moved for approval of the agenda, as published. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote.
CONSENT AGENDA (Items 3-11)
Presenter: Leila Kleats, Director

Submitted by: Leila Kleats, Director
3. Approval of Minutes: September 19, 2017 (Regular Meeting)

Submitted by: Julie Morgan Baca, County Manager, Bernalillo County
4. Bernalillo County – Requests Approval for an Extension of Private Activity Bond Volume Cap Allocation for Valle De Atrisco Family Apartments until December 26, 2017 ($23,000,000)

Submitted by: Ramon Romero, President, Agua Fria Community Water System Association; Gilbert Tercero, Treasurer, AFCWS; Henry Chavez, Jr., Board Member, AFCWS
5. Agua Fria Community Water Association – Requests Approval of the Sale of Real Property Located at 3541 Rufina Street in Santa Fe to Victor Delgado and Jacqueline Ortega de Delgado ($127,500)

Submitted by: William Provance, International Jetport Manager Doña Ana County
6. Doña Ana County – Requests Approval of Lease of Real Property Located at the Doña Ana County International Jetport Lot S-08, at 8280 Airport Road in Santa Teresa to Francis Aviation, LLC ($9,334 per year)

Submitted by: Dr. George Bickert, Superintendent, Ruidoso Municipal School District; John Kennedy, Legal Counsel, Cuddy & McCarthy
7. Ruidoso Municipal School District – Requests Approval for an Exchange of Real Property with The Village of Ruidoso between Horton Complex and the Village Parcel in Ruidoso (no consideration)

Submitted by: Elizabeth Newlin Taylor, Attorney, Taylor & McCaleb, P.A.
8. San Juan Water Commission – Requests Approval of Lease of Water Rights in San Juan County to Southland Royalty Company, LLC, and Acceptance of Other Evidence of Fair Market Value ($525 per acre-foot for 675 acre-feet of water rights including a 10% annual reservation fee)

Contingency: Contingent upon Director’s receipt and counsel review of (1) fully executed revised lease agreement, and (2) approved minutes or resolution indicating Commission’s approval of revised lease.
Submitted by: Christopher Gutierrez, Superintendent, West Las Vegas Schools; Jerry Maestas, Facilities Manager, West Las Vegas Schools

9. West Las Vegas Schools – Requests Approval of the Sale of Real Property Located at 105 Bridge Street in Las Vegas to Carlos Lopez, Lopez Group, LLC

($26,000)

Submitted by: Gerald Hoehne, New Mexico Higher Education Department Capital Projects Director

10. New Mexico School for the Deaf – Requests Approval of Delgado Hall Renovation

($2,556,175)

Submitted by: Vikki Hanges, Chief Investment Officer and General Fund Portfolio Manager

11. Approval of State Treasurer’s Investment Performance Benchmarks

Mr. Aragon moved approval of the Consent Agenda, with the contingency as noted for item 8. Mr. Archuleta seconded the motion, which passed 4-0 by voice vote.

EMERGENCY FUND BALANCES
Presenter: Ms. Leila Kleats, Director

12. Emergency Balances – October 17, 2017

Operating Reserve Fund $1,848,876.50
Emergency Water Fund $104,800.00

Ms. Kleats reported these balances.

GENERAL OBLIGATION BONDS
Presenters: David Paul, Financial Advisor, Fiscal Strategies Group; Jill Sweeney, Co-Bond Counsel, Sherman & Howard, LLC


Mr. Paul reported that they have been able to reinvest all of these funds the 2017B series bonds at either at a wash or at a positive present value benefit relative to their cost of the 2017B series bonds. To date, on the 2015 portion, there is a positive present value of just over $900,000. In addition, they continue to have the savings from the 2013 bonds of is at $2.3 million. To date, there is an estimated present value from the 2017B refunding of just over $3.3 million.
DEPARTMENT OF FINANCE AND ADMINISTRATION
Presenter: Ronald Spilman, Financial Control Division Director and State Controller


[Governor Martinez joined the proceedings during this presentation.]

Mr. Spilman made this presentation.

Mr. Spilman said he was pleased to report that the state has made great strides in terms of compliance. In reviewing a compliance timeline, he noted that, when the initial GAP study was done, the state was 59 percent compliant, and today that is up to 91 percent; however, because the credit card industry views the state as a single entity, on that basis it is only 30 percent compliant.

Mr. Spilman clarified that Risk Sense, a certified contractor that has been providing the state with compliance reports, conducted the GAP study. The next compliance report is due to the credit card agencies on December 31, 2017.

Responding to Mr. Kormanik, Mr. Spilman said each agency conducts its own training. He said he doesn’t have the expertise or experience in his agency to lend to other agencies; however, all agencies are hearing the same message in reference to training. Each agency has a responsible state worker assigned as a credit card contact to assist with training implementation.

15. Financial Control Division – Presentation of Fiscal Year 2016 Audited Comprehensive Annual Financial Report (CAFR)

Mr. Spilman reported that the CAFR was submitted to the Office of the State Auditor (OSA) on June 12, 2017, 30 days earlier than the previous year, but considerably later than the February 15, 2017 due date.

Mr. Spilman said the report contained four findings. Three prior year findings were repeated in FY16, and there is one new finding related to separately issued department level financial statements of agencies included in the CAFR.

-- 2016-001 – Separately Issued Department Financial Statements.
-- 2015-001 – Late Submission of Audit Report
Mr. Spilman commented that the CAFR presents the state as an integrated entity, which consists of 125 state agencies, 10 institutions of Higher Education, 60 charter schools, and 25 discrete component units. Historically, the state has used the financial statements after completion of statutorily required state audits. The statutorily required state audits have caused an agency versus primary government focus, i.e., it has fostered a perception that agencies’ presentations are independent from and apart from the primary government, which is not the case. He commented that, in discussion with the Government Accounting Standards Board, agencies’ financial statements should be dictated by the CAFR and not the other way around.

Mr. Spilman noted that some agencies, when putting together their financial reports, were viewing state assets as “agency assets” and were misreporting them as such. He said agencies must recognize that they are a division of the state. This was a major reporting issue. To address that for FY17, his office met with the seven largest receipt agencies with the goal of resolving this problem.

Mr. Spilman stressed that, by waiting for and building upon agency statutory audits that are not due to the State Auditor until November 1, that then need to be reviewed, released and trued up with SHARE, it would be impossible to issue a timely CAFR. He said, “We are going to need to move to a single comprehensive state audit commencing possibly in September or five months earlier than we currently do in order to get there.”

Concluding his report, Mr. Spilman said that it is clear that there is a need for a fundamental and comprehensive redesign of the state’s financial reporting model.

**HIGHER EDUCATION DEPARTMENT**

Presenters: Gerald Hoehne, New Mexico Higher Education Department Capital Projects Director; Patrick Valdez, CEO, UNM; Martinez Hewlett, Former CEO, UNM; Mario Suazo, Director of Business Operations, UNM; Lisa Marbury, Executive Director, Institutional Support Services, UNM Main Campus

16. **University of New Mexico, Klauer Campus, Taos – Requests Approval of STEMH Technical Career Center Phase II ($4,890,000)**

Mr. Hoehne said this project would construct, plan, design, equip and furnish a 10,839 gross square foot addition to the existing Career Technical Center, which totals 3,995 square feet. The new building will house the following departments: Biology, Geology, Mathematics and Statistics, Environmental Sciences, Earth and Planetary Sciences, Astronomy and Technology, as well as study labs, biological science lab, the Career Tech Center and faculty/staff office space. Currently, UNM Taos STEM courses
are being administered in classrooms without sufficient study safety equipment, lab furniture and access to science equipment and computer technology. The sources of funding for this project are the Series 2017A General Obligation Bonds, Series 2015 Severance Tax Bonds, and the Taos Educational Gross Receipts Taxes.

Mr. Hoehne said this project was originally presented to the HED committee for capital outlay on August 9, 2017; however, the committee did not feel the project was ready based on a few concerns. The initial proposal put forward in 2015 was for a 6,500 square foot addition, increasing the size of the addition to 10,839 square feet, but with no information on the required offsets. Since then, they have agreed to remove 3,584 square feet from their I&G inventory.

Mr. Archuleta noted that some of the STEM program is being housed in two portables, which make up the 3,584 square feet that will be removed from their I&G inventory. Dr. Valdez clarified that each portable is about 1,600 square feet, and they would be repurposed to serve as storage space instead.

Responding to Mr. Archuleta, Ms. Marbury said the fee on this particular project is 5 percent of the total budget, noting that UNM’s fee structure is approved each year by the controller’s office. This ensures that UNM isn’t inadvertently profiting off the backs of its branches and departments. For some of their larger projects, the fee is 2 percent of the total project.

Ms. Marbury also clarified that UNM uses its internal engineering services to do commissioning of the building after it is complete to make sure that all of the systems are “talking to each other” and are in good working order.

Mr. Archuleta observed that there is a breakout of $22,000 for commissioning and then another $6,500 for PPD E&ES (Physical Plant Department, Energy and Environmental Services Controls). Ms. Marbury explained that this is one of the services they provide in the whole scheme of the project, which includes reviewing the schematic and construction documents as they come in.

Ms. Marbury agreed to provide additional information on how UNM calculated the $22,000 and $6,5000.

Mr. Archuleta asked staff to see that university projects provide more detailed budget breakdowns in the future to include special services, outside professionals, and other details.
Mr. Aragon said he recently heard on the news that an increasing number of students are taking online classes versus traditional classes at UNM. He wondered if these brick and mortar expansions are necessary in light of discussions the board has had in previous meetings about a clear shift in the delivery of educational “product.” He said he understands one out of three students at UNM’s main campus have taken online classes. He noted that the rationale for this project is that UNM-Taos enrollment in STEM courses has increased 43.5 percent over the last ten years, and asked if there has been a corresponding reduction in other courses, and is that data available, or is there an actual increase in actual FTE hours.

Dr. Hewlett responded that he teaches portions of his courses online, but he noted that because a large part of STEM is hands-on, which is what this project is all about. He added the hands-on component is never going to change in physics, biology and chemistry.

Mr. Aragon wondered if it would make sense for some of the branches to begin encouraging some students to go to the main campus, for example, where these facilities already exist. He commented that delivery of education has not changed in the last hundred years, but the technology around it has changed dramatically.

Responding to Mr. Brasher, Ms. Marbury said the challenge with reporting off-campus enrollment or web-based and distance education is that, while a student may be taking an Internet-based course, they’re taking courses on campus as well. While they do take Internet courses that complete some of their course requirement, there are also courses that are partially done in labs. She agreed that this trend is growing in higher education and they are thinking about ways to re-engineer the way they think about facilities.

With respect to comments about duplication of facilities, Dr. Hewlett said they serve two types of STEM students at UNM-Taos. One group consists of those who have the idea of going to UNM, NMSU or another four-year institution to finish their degree program, and in this case, UNM-Taos is providing them with the first two years of that degree program. For a science student, that means introductory chemistry, biology and physics, which require laboratory facilities locally. He said the other group of STEM students they serve are in certificate programs or professional programs, such as the nursing program. In those cases, they need basic science and math skills locally so they can enter into the field of sciences and go into a nursing program. He agreed that some of that can be done online, but he does what he can in his classes to supplement what they do online in a hands-on lab setting. He said this is especially true in the medical field.
Dr. Valdez said they plan to store furniture, maintenance equipment and books in the portables.

Mr. Brasher suggested they rethink this, since eventually they will have to get rid of the items in the portables. Governor Martinez agreed.

Responding to Governor Martinez, Dr. Valdez stated that the number of STEM degrees awarded has increased from 15 in 2014 to 22 in 2016; and between those two academic years, 24 percent of STEM majors completed their degree within 3 years (150 percent of the time). He said they were recently awarded a $1.3 million STEM grant in Math and Science, which ties to their current STEM success and will allow them to continue the work they began under a previous STEM grant. He stated that they have been good stewards with this grant money and look forward to increasing enrollment. He said there were 241 students in the STEM program last year, and 22 students graduated from the program.

Governor Martinez questioned what UNM-Taos is doing with unused classroom space and staff given that enrollment for the entire campus is down (minus STEMH). She wondered if that space couldn’t be repurposed. With respect to the “junk” being stored in the portables, she pointed out that the General Services Department has an ongoing online sale of furniture and other items. This would make more sense than storing items that UNM-Taos probably will never use.

Dr. Valdez clarified that 80 percent of their faculty are adjuncts, and they only hire faculty they actually need. With respect to existing staff, he said they are operating at capacity right now. He agreed that faculty can share office space and they can create cubicles as opposed to constructing brand-new offices, but STEM is unique in terms of the need to have labs for hands-on work. He said they would do an audit on their space to address Governor Martinez’s concerns.

Dr. Valdez said they have been conscientiously reducing their footprint in Taos by canceling leases off campus as on-campus space is created.

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

Mr. Aragon noted that approving this motion would mean the portables would be left as storage units, which he could not endorse and found “repugnant.”
Governor Martinez asked what is planned for the portables, and Dr. Valdez responded that they could use one of the portables as a small maintenance shop for their physical plant.

Ms. Marbury clarified that the portables were donated to UNM-Taos by the local school board. She said perhaps one portable could be used as the maintenance shop with the other portable returned to the school board. Governor Martinez said they could also be sold.

Dr. Valdez said he would be glad to return to the board with a report on what UNM decided to do with the portables.

Mr. Archuleta said he was taking UNM-Taos at their word that they would make the best use of the funds they’ve received and that they would exercise commonsense in deciding on how the portables would be used.

The board agreed to an amendment requiring UNM-Taos to provide a brief update to the board in six months on what they have done with the portables.

The motion, as amended, passed 4-1 by voice vote, with Mr. Aragon dissenting.

STATE TREASURER’S OFFICE
Presenter: Vikki Hanges, Chief Investment Officer and General Fund Portfolio Manager
17. Monthly Investment Report for Month-Ended August 31, 2017

Ms. Hanges presented this report. STO managed $3.7 billion in assets during the month of August and earned about $3.4 million.

GENERAL SERVICES DEPARTMENT
Presenter: Leila Kleats, Director


Ms. Kleats presented these reports.

TAX INCREMENT DEVELOPMENT DISTRICT
Presenters: Pat Rogers, Pat J. Rogers, LLC; Mitch Mosesman, Managing Director, David Taussig & Associates; Justin A. Horowitz, Attorney, Rodey Law Firm; Matthew Look, Vice President, Garrett Development Corporation

20. **Western Albuquerque Land Holdings, Lower Petroglyphs**

   (A) Presentation of Request for Dedication of a Portion of the State’s Gross Receipts Tax Increment

   (B) Request for Approval of Waiver of 2.61.3.9(B) NMAC, Timeline and Submittal Requirements

Mr. Rogers made a presentation to the board. [Slides were also distributed.]

Mr. Rogers stated that the Westside of Albuquerque is the fastest growing area of the city; however, it suffers from few employment opportunities, no major healthcare services nearby, limited retail and commercial choices, and long distances and heavy traffic times across the Rio Grande to reach these services. To attract employers and services to the Westside, approximately $95 million in public infrastructure is needed, and the City of Albuquerque has established the District to aid the funding process. He said participation by the state in the TIDD would accelerate the timeline and economic development growth by encouraging the developer to advance the funding for the design and development of the public infrastructure needed to support the healthcare facility, commercial and retail services.

Mr. Archuleta noted that Presbyterian Health Services has committed $100 million over time, and asked what they plan to do with those funds.

Presbyterian representative Jim Jepson responded that they have not master-planned the site. He said he would anticipate, commensurate with the growth of the community, an emergency room, clinic, hospital bed and a few physicians.

Mr. Archuleta noted that part of the board’s charge is to understand what would happen organically if TIDD monies were not made available. He said he wanted to be sure that this development would not happen without the TIDD funds.

Mr. Rogers said Presbyterian would not be able to build on its site without infrastructure in place and address the health and safety of the residents who move there.
Mr. Aragon asked Mr. Rogers if he anticipated this would anticipate the development of north-south corridors on the Westside. Mr. Rogers responded that this is one additional positive impact. He commented that there will be 58,000 homes there someday, and it will be a “mess” unless somebody begins with this infrastructure and does something to prompt the other services that those people will need.

Mr. Brasher commented that economic development and job creation in that area is critical, and the board needs to be able to respond promptly when these projects are brought forward, but they also need proper scrutiny. He expressed concern that if the board is not responsive, people will go elsewhere because somebody else has figured out how to do this.

Responding to questions from Mr. Archuleta, Ms. Kleats said December is a very busy time of year for the economists, and the special legislative session is scheduled in January. She added that Chief Economist Clinton Turner is reviewing the application and will try to get a good head start ahead of the consensus revenue process. She suggested the board approve the waiver of the timeline, as she could not provide assurances that the December timeline would be met.

Mr. Archuleta moved to grant the waiver and set a goal of December 19, understanding that there are no promises that the goal can be met. If there is additional information needed, or the economist requests additional time, the board will grant the necessary extension. Mr. Aragon seconded the motion, which passed 4-1 by voice vote, with Mr. Kormanik dissenting.

**FISCAL AGENT BANK**
Presenter: Mark Jensen, SVP & Regional Manager, Government and Institutional Banking
21. **Wells Fargo Settlement Update**

Mr. Jensen said his staff manages the fiscal agent contract Wells Fargo has with the State of New Mexico, and he has submitted a progress report and steps Wells Fargo has taken to address past improper sales practices and to rebuild the trust of its customers and team members. He reviewed a list of actions Wells Fargo has already taken, noting that the progress report in the board packet is a summary of comments that Wells Fargo’s new chairman, Tim Sloan, made in testimony before the Senate Banking, Housing and Urban Affairs Committee on October 3.
Mr. Jensen said they continue to work hard to rebuild trust among their customers. He commented that it has been tough, and he hopes they have made some progress as a result of their efforts.

**STAFF ITEMS**

Presenter: Leila Kleats, Director

22. **Approval of Publication of Notice of Proposed Rule Amendment: NMAC, 2.60.8, Acceptance of Payment Cards and Use of Electronic Funds**

Ms. Kleats requested approval to publish notice of this proposed rule amendment.

Ms. Kleats read from the notice: “Merchant acceptance of payment cards, including by the State of New Mexico, is conditioned upon the business meeting requirements of the Payment Card Industry-Data Security Standards (PCI-DSS). Under PCI-DSS, the State must establish specific rules and policies regarding vendor management of credit card services.” The state has until March 2018 to meet PCI-DSS requirements; otherwise, the state risks losing the right to accept payment cards.

Ms. Kleats said the board will hear public comment and consider adoption of the proposed rule amendments, at the December 19, 2017, regular board meeting, beginning at 9:00 a.m.

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

23. **Dashboard Report**

Ms. Kleats reviewed the Dashboard Report.

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

Ms. Kleats reported that fees are consistent with historical levels. Staff continues to work with Wells Fargo to identify those reports that generate the largest fees so that staff can change those practices to minimize the cost of those reports.

25. **Joint Powers Agreements for September 2017**

Ms. Kleats asked the record to reflect that the Joint Powers Agreements for the month of September have been read into the record.
ADJOURNMENT

Its business completed, the State Board of Finance adjourned the meeting at 1:30 p.m.

Martinez
Susana Martinez, President

11-28-2017
Date

Michael Brasher
Michael Brasher, Secretary

12/19/17
Date