MINUTES OF THE
NEW MEXICO STATE BOARD OF FINANCE
REGULAR MEETING
Santa Fe, New Mexico
November 21, 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. John A. Sanchez, Lt. Governor [left at 11:10 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:
The Hon. Susana Martinez, President

Staff Present:
Ms. Donna Maestas, Acting 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
ANNNOUNCEMENT: NEXT REGULAR MEETING – TUESDAY, DECEMBER 19, 2017

Mr. Brasher moved for approval of the agenda, as published. Mr. Aragon seconded the motion, which passed 6-0 by voice vote.
CONSENT AGENDA (Items 3-6)
Presenter: Donna Maestas, Acting Director

Submitted by: Donna Maestas, Acting Director
3. Approval of Minutes: October 17, 2017 (Regular Meeting)

4. Private Activity Bond Cap Allocation Expiration Date

Submitted by: Terry Lease, Real Property Specialist, Santa Fe County; Roberta Joe, Assistant County Attorney, Santa Fe County
5. Santa Fe County – Requests Approval of Lease of Real Property Located at 2052 Galisteo Street in Santa Fe to Santa Fe Recovery Center ($86,190 annually)

* Contingent upon Director’s receipt and counsel review of (1) fully executed revised lease agreement.

Submitted by: Edwynn Burckle, Cabinet Secretary, General Services Department; Jimmy Rodriguez, Business Operations Bureau Chief, General Services Department/Facilities Management Division
6. General Services Department, Facilities Management Division – Requests Conditional Approval to Enter into Contract with White Sands Construction, Inc. Of Alamogordo for the Construction of a New Gallup State Veterans Cemetery Facility to be Located in Gallup, NM ($5,352,803)

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

EMERGENCY FUND BALANCES
Presenter: Donna Maestas, Acting Director
7. Emergency Balances – October 17, 2017
   Operating Reserve Fund $1,848,876.50
   Emergency Water Fund $104,800.00

Ms. Maestas reported these balances.

GENERAL OBLIGATION BONDS
Presenters: David Paul, Financial Advisor, Fiscal Strategies Group
8. Update on Escrow Restructuring of General Obligation Bonds, Refunding Series 2017B
Mr. Paul reported that, at the August meeting, the board approved the restructuring of a portion of the escrow funds created with the proceeds of the General Obligation Refunding Bonds, Series 2017B. The escrow funds related to the refunding of the 2021-2025 maturities of the General Obligation Bonds, Series 2015 were reinvested in tax exempt obligations. Fiscal Strategies Group advised the board in August that the proposed restructuring would result in aggregate present value savings ranging from $1.6 million to $3.5 million. The restructuring has been completed and the results indicate that the savings to the state will be $3.5 million. The savings comprise $3.3 million that are locked in by the purchase of long-term investments to provide payment of 94% of the principal and interest on the 2021-2025 maturities of the Series 2015 Bonds, plus another $205,000 in estimated earnings on Escrow Fund balances from the retirement dates of the tax-exempt obligations to the payment dates on the Series 2015 Bonds.

Mr. Kormanik noted discussion at the time about buying some Severance Tax Bonds through the next round, and asked if that was now off the table. Mr. Paul responded that it was.

SEVERANCE TAX BONDS
Presenter: David Paul, Financial Advisor, Fiscal Strategies Group
9. Presentation of Debt Affordability Study

Mr. Paul made this presentation, with the following highlights:

- The price of oil in 2027 is projected at $50 a barrel based on the state's consensus revenue estimates.
- General Obligation and Severance Tax Bond programs projected to provide $2.0 billion of new money over the next five years.
- Available funding includes $1.3 billion from long-term bonds.
- General Obligation and Severance Tax Bond ratings were each downgraded by Moody's and S&P in 2016. GO Bonds continue to have a negative outlook, suggesting risk of further downgrades.
- There has been a steady recognition that New Mexico's growth rate has been flat. Fiscal Strategies Group reduced the previous projections of 1.7 percent down to 1 percent.
- Moody's recalculates state unfunded pension liabilities from the actuarial rate of 7.75 percent to a high-grade bond rate between 3.61 and 4.4 percent. They are now considering all of the ERB liability as a state obligation. New Mexico's net pension liability is more than twice its outstanding debt, and the impact of the full ERB liability allocation is significant.

Mr. Paul said Moody's rationale is that because the state funds most local school district operating costs, they have to look at it as a state liability. He said the chart on page 9 would have to be changed, however, as it does not reflect what portion of the ERB's liability is related to local government pension versus university pensions.
Conclusions:

- The fall 2017 Debt Affordability Study projects the availability for authorization of $2.3 billion of new general obligation and senior severance tax secured long-term debt over the next ten years.
- The projected debt capacity of the core state bonding programs does not impact the challenges facing the State General Fund, as that debt service is not paid from General Fund resources.
- The projected debt capacity of the core state bonding programs is affordable with respect to the revenue streams that are dedicated to debt repayment, and debt ratio impacts.
- The state’s key debt ratios are within the range of its peer group in the wake of the bond rating downgrades, while they remain above national median levels.
- Continued success in restoring general fund reserves toward the target 10 percent reserve level is essential to stability of the general obligation bond ratings.
- The Severance Tax Bonding Program capacity and ratings will be directly impacted by future trends in natural resource pricing and production.
- Pension fund liabilities, in particular Moody’s reframing of ERB liabilities, are a significant challenge facing the state both with respect to bond ratings and cash flow pressures impacting other services.
- Continued improvement in the timing and quality of annual financial reports remains an important management objective.

Presenters: Jill Sweeney, Co-Bond Counsel, Sherman & Howard, LLC; Luis Carrasco, Co-Bond Counsel, Rodey Law Firm

10. Approval of Severance Tax Note Resolution, Series 2017S-C and the Approval of Supplemental Severance Tax Note Resolution Series 2017S-D

Ms. Sweeney stated that the Series 2017S-C Severance Tax Note is issued in the maximum principal amount of $12,147,530, to be sold at par to the State Treasurer on December 28, with a final maturity of December 29. This note is to fund certain projects on the authorized but unissued list as well as the stalled balances list.

Ms. Sweeney stated that the Series 2017S-D Supplemental Severance Tax Note, in the maximum principal amount of $44,797,924, is issued to fund public school capital improvements as well as certain legislative appropriation for instructional materials and/or transportation. These projects have been certified as ready by the Public School Capital Outlay Council.

Responding to Mr. Kormanik, Secretary Rodriguez said one of the issues DFA runs into involves nonprofits and the ability to get an intergovernmental agreement or memorandum of
agreement between the political subdivision and the nonprofit. This is the main reason for stalled projects.

Mr. Aragon moved for approval of the Series 2017S-C and Series 2017S-D Notes. Mr. Brasher seconded the motion, which passed 6-0 by voice vote.

PRIVATE ACTIVITY BONDS
Presenters: Jay Czar, Executive Director, New Mexico Mortgage Finance Authority; Gina Hickman, Deputy Director, New Mexico Mortgage Finance Authority


Mr. Czar said he was present to request Private Activity Bond Cap for 2018, 2019 and 2020, and for 2017 carry forward.

Mr. Czar said the Mortgage Finance Authority (MFA) was not requesting any new PAB Cap for its single-family first-time homebuyer mortgage program, as the high cost of funds in the bond market makes it difficult for MFA to offer mortgage rates that can compete with traditional market rates. Housing Finance Agencies, including MFA, across the nation have been using alternatives. Beginning in 2013, MFA has sold approximately 80 percent of its mortgage loan production into the secondary market to fund the single-family mortgage program.

In the Multifamily category, Mr. Czar said MFA is requesting $100 million for 2018. Every dollar allocated to MFA results in $1.87 in housing activity in New Mexico. He said six deals are currently in the pipeline, the largest of which is MOAB 20, which is 20 different projects, all in rural areas. Not all of the entities will be coming to MFA; many times, the developers go to counties, most typically Bernalillo County.

Mr. Czar said MFA anticipates the same level of need in 2019 and 2020.

Mr. Czar said MFA’s last request is that all of the unallocated 2017 PAB Volume Cap be awarded to MFA as a carryforward allocation for single-family programs.

Ms. Hickman discussed an update on federal tax reform activity as it relates to affordable housing. She commented that most people were fairly shocked by some of the provisions in the new tax code relative to Private Activity Bonds. At this point, the House has approved a bill that eliminates Private Activity Bonds. She commented that, if the Senate and House do not reconcile their bills and come to a final bill before the end of December, as of December 31, MFA will be unable to get a tax opinion on a PAB bond issue. MFA is preparing for what this may mean moving forward. On the single-family side, MFA is looking at storing some volume cap before the end of the year by issuing a convertible option bond to preserve between $100 million and $150 million in order to deal with the possibility that private activity bonding will be eliminated.
Ms. Hickman stated that, on the multifamily side, the PAB bonding tool is significant for all states across the country. As Mr. Czar briefly discussed, MFA is looking at a larger pipeline in New Mexico for 2018, so it is unfortunate that they may not have the financial tool to build those affordable housing units. In order to be proactive, MFA has contacted the developers that have applications in for 4 percent tax credits or for bonds to see if there is any interest in accelerating closings on some of these projects before the end of 2017. Unfortunately, most of these projects are in the beginning stages of development, and none of the developers feel they will be ready to take advantage of existing cap. She added that a “tricky” part of this is that two projects involve drawdown construction loans and the developers have not completely drawn down on their bonds and could lose their ability to access the funds as of December 31st.

Mr. Czar said informal negotiations are underway between the House and Senate. The good news is that both the House and Senate bills preserve the competitive 9 percent low income housing tax credit. He added, however, that the 4 percent deals that MFA and the counties bring to the board represent 250 units a year, so this would be a big loss.

HIGHER EDUCATION DEPARTMENT
Presenters: Gerald Hoehne, New Mexico Higher Education Department Capital Projects Director; Glen Haubold, Associate Vice President for Facilities and Services, New Mexico State University; Debra Hicks, Chair, Board of Regents; Heather Zack Watenpaugh, University Architect, New Mexico State University; Jon Webster, Assistant Director, Project Development and Engineering

12. New Mexico State University — Requests Approval of Existing Housing Renovations ($11,000,000)

Mr. Hoehne stated that New Mexico State University (NMSU) requests approval of the renovation of several residence halls and apartment-style residences throughout the NMSU campus. The project involves a total of 739,339 gross square feet consisting of residence space in Rhodes-Garnett-Hamiel Complex, Garcia Hall, Piñon Hall, Chamisa I, Chamisa II, and Vista Del Monte. The proposed renovation projects are part of the NMSU comprehensive redevelopment efforts. NMSU has identified and will prioritize deferred maintenance challenges, including floor repair/replacement, paint interior walls, repair/replace roof, exterior stucco, and address HVAC and plumbing. The source of funding will be Net System Revenue Bonds Series 2017A that received State Board of Finance approval at the May 16, 2017, regular meeting.

Mr. Haubold noted that NMSU fall 2017 enrollment in the freshman class had a 17 percent increase, and 62 percent of them will be in NMSU housing as opposed to 47 percent the year before. They have started to become crowded, making this project more important than ever.

Ms. Hicks said some of the buildings are 80 years old, and this project is critical.
Mr. Eichenberg moved for approval. Mr. Archuleta seconded the motion.

Mr. Archuleta commended NMSU for developing an excellent strategy and said he was in full support.

Responding to Mr. Brasher, Ms. Hicks said students who cannot afford the cost of housing on campus can request and receive a waiver.

The motion passed 6-0 by voice vote.

13. New Mexico State University – Requests Approval of New Residence Hall
   ($21,500,000)

Mr. Hoehne stated that all of the work in this project is for a new 300-bed first-year student residence hall on an existing site where Monagle Residence Hall was demolished just east of Jordan and north of International Mall. The Monagle site was a 550-bed residence hall with 121,457 gross square feet. The new facility will provide approximately 76,000 gross square feet. He noted that the building will meet the requirements of Silver LEED certification.

Mr. Brasher asked if NMSU has taken online education and long distance learning into account in developing plans for this dormitory. Ms. Hicks responded that the philosophy of their Board of Regents is that while technology will continue to change the process by which education is delivered by universities, NMSU will always need the bricks and mortar and housing, as NMSU is not a commuter university. They have taken that into account in their design, which includes community areas and living and learning spaces.

Ms. Hicks commented that NMSU understands that there is “mission creep.” She said they have received accolades for transforming NMSU and creating efficiencies where they need to happen, and making critical investments in student outcomes. She said they are running more than 90 percent occupancy in their residence halls right now; so this dormitory, which is for first-year freshmen, is critical to NMSU.

Lt. Governor Sanchez said that he has visited the education systems in China, India and Germany. He commented that there is great uncertainty about future trends in education, but New Mexico has a constitutional responsibility toward NMSU and other universities. He said the board and future boards must continue to work with Higher Education to address future trends while providing the necessary resources and infrastructure for students today and in the future.

Mr. Eichenberg asked why NMSU has not incorporated solar into its design. Mr. Haubold responded that their existing system has driven their utility costs so low that using solar would not be economically beneficial.
Responding to Mr. Aragon, Ms. Hicks said first year freshmen enrollment did increase by 11 percent (or about 200 students), but total enrollment overall has not increased. They have stopped the downward trend for enrollment from 2012, when it was 25,000, to the current year, which is at 14,500. She said enrollment decrease was just under 3 percent this year. She clarified that total enrollment in the freshman class is 2,050.

Ms. Hicks also stated that, from fall 2016 to fall 2017, dormitory occupancy rates ranged from 71 percent to 98 percent.

Mr. Aragon asked how many students were living on campus prior this, before the new policy was adopted requiring freshmen to live on campus. He said he shared Lt. Governor Sanchez’s concerns that future growth trends are unknown, and expressed concern that NMSU’s Board of Regents not be creating a marketplace by requiring freshman students to live on campus, as opposed to addressing existing market conditions that actually justify the need to build dormitories.

Mr. Haubold responded that, for Rhodes-Garnett-Hamiel Complex, Garcia Hall and Piñon Hall for 2016, there were 1,154 students. For those same residence halls this year, there would be 1,413.

Mr. Haubold agreed that NMSU encouraged freshmen to live on campus this year, so perhaps that could account for approximately 200 additional students. He added that Monagle was demolished with NMSU investment money, taking 500 beds out of service.

Mr. Aragon commented that one could also say that 500 beds were taken out of service because there wasn’t a market for them to start with.

Mr. Archuleta said projects like this take years to plan, conceptualize, design, and then build. According to the Government Accounting Office, an infrastructure project takes seven years from start to finish, so sometimes it is a roll of the dice because what was a trend seven years ago may not be a trend going forward. Responding to direction from HED and this Administration, NMSU razed an “ancient” building and removed 500 beds. At the same time, they looked at every possible way to preserve the ability of people to get the type of education they wanted while also ensuring that they would not be wasting public money. They did this by carefully and strategically developing a housing strategy that would encourage first- and second-year students to live in various occupancy configurations on a walking campus. They used a very conservative pro forma that showed this was affordable. Mr. Archuleta commented that he supported the project at that meeting for these reasons and not because of any perception that NMSU had developed a market strategy to fill a deficit. He added that, when he was a student at NMSU, freshmen were required to live on campus.

Mr. Eichenberg moved for approval. Mr. Archuleta seconded the motion, which passed 5-1 by voice vote, with Mr. Aragon voting against the motion.
[Lt. Governor Sanchez left the meeting.]

**STATE TREASURER’S OFFICE**
Presenter: Vikki Hanges, Chief Investment Officer and General Fund Portfolio Manager


15. Quarterly Investment Report for Quarter-Ended September 30, 2017

Ms. Hanges presented these reports. STO managed $3.8 billion in assets for the month of September. This number was virtually unchanged at the end of the quarter.

Ms. Hanges noted that general fund balances totaled about $2 billion at the end of October, an increase of $200 million for the month. She said they have been slowly moving funds from the general fund liquidity back into the general fund core.

Mr. Eichenberg noted that STO took $575 million out of the core fund in 2016 and another $200 million in 2017 to maintain liquidity in the corpus and pay the bills. He commended his small staff of two people, Vikki Hanges and Jeremy Landrum, who managed this stressful situation so well while continuing to perform their regular duties.

**GENERAL SERVICES DEPARTMENT**
Presenter: Donna Maestas, Acting Director


Ms. Maestas presented these reports.

**TAX INCREMENT DEVELOPMENT DISTRICT**
Presenter: Donna Maestas, Acting Director

18. Pursuant to 5-15-2(A) NMSA 1978 and 2.61.3.10 NMAC, the Board’s rule on dedication of a portion of the state’s gross receipts tax increment development districts, districts that have received a dedication of a portion of the state’s gross receipts tax increment are required to provide updated information to the Board every November including, but not limited to: information on the infrastructure build-out, jobs created, employers, revenues and expenses, total debt outstanding, and a status report of the district’s achievements with respect to public facilities.
and community benefits. Reports from the following districts:

a. DevCo
b. Las Cruces Downtown
c. Mesa del Sol
d. Winrock Town Center

Ms. Maestas stated that, per the board’s rule, by November 1 of each year, the TIDD districts have to submit a written report describing any changes to their plans that have occurred since the board approved the dedication. They also have to report information on infrastructure completed, any jobs created, the employers they have brought to the TIDD, revenues, expenses, and the total outstanding debt. She said reports have been received from DevCo, Las Cruces Downtown, Mesa del Sol and the Winrock Town Center.

Secretary Brasher commented that the DevCo report seemed very short.

Ms. Maestas responded that the districts also report in June and will be asked to use a template format that staff has developed so that all of the reports are consistent.

Mr. Kormanik said he was glad a template format had been created, since it would require more specificity on number of jobs created. He noted that one of the districts indicated that the TIDD had created businesses “and presumably jobs.” This was the language used in the previous three submissions, and he found it lacking.

Responding to Secretary Brasher, Ms. Maestas said all reports were in with the exception of Taos Ski Valley.

19. Executive Session to be Held Pursuant to Section 10-15-1(H)(7) – Threatened Litigation: Consideration of October 25, 2017 Letter from New Mexico Legislative Council

Secretary Brasher stated the following: “The next item on the agenda is consideration of the October 25, 2017 letter from the Legislative Council Service regarding the board’s May 2017 approval of an amendment to 2.61.3.9 NMAC (the TIDD rule) and the board’s October 2017 decision to grant a waiver of the 6-month submission deadline to the application submitted by Western Albuquerque Land Holdings on behalf of the Lower Petroglyphs Tax Increment Development District, seeking the board’s approval of a dedication of a portion of the state’s gross receipts tax increment at its December 2017 meeting. Discussion on this item falls squarely within one of the permitted exceptions to the Open Meetings Act and I would like to entertain a motion to go into executive session for the limited purpose of discussing the Legislative Council Service’s October 25, 2017 letter.”
Mr. Archuleta so moved. Mr. Kormanik seconded the motion.

Mr. Aragon pointed out that, while the statute does allow the board to go into executive session, it is in fact permissive, and there isn’t anything in the statute that makes it mandatory for the board to do so. Whether it is prudent or not for the board to discuss what is basically a threat from the legislature to circumvent what he considers economic development, it is discretionary upon each of the voting members, and there is nothing that is compelling the statute.

The motion passed on the following roll call vote:

For: Mr. Archuleta; Mr. Brasher; Mr. Eichenberg; Mr. Kormanik.

Against: Mr. Aragon.

[The board entered executive session at 11:35 a.m. and reconvened at 12:54 p.m.]

Secretary Brasher stated that the only item discussed in executive session was the Legislative Council Service’s October 25, 2017 letter.

20. Action Regarding October 25, 2017 Letter from New Mexico Legislative Council

Mr. Aragon moved to direct Board Counsel to draft a response to the Legislative Council Service’s letter, as discussed in closed session, for signature. Mr. Kormanik seconded the motion.

Mr. Kormanik disclosed that he has a small professional services contract with the Legislative Council.

Mr. Eichenberg disclosed that he owns land in the district, and pays taxes on it.

The motion passed 5-0 by voice vote.

STAFF ITEMS

Presenter: Donna Maestas, Acting Director

21. Approval of Donna Maestas as State Board of Finance Acting Director

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

22. Fiscal Agent/Custodial Bank Fees

Ms. Maestas reported that fees are consistent with historical fees.
23. **Joint Powers Agreements for October 2017**

Ms. Maestas asked the record to reflect that the Joint Powers Agreements for the month of October have been read into the record.

**ADJOURNMENT**

Its business completed, the State Board of Finance adjourned the meeting at 1:05 p.m.

Susana Martinez, President

12/19/2017

Date

Michael Brasher, Secretary

12/19/2017

Date