MINUTES OF THE

NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Santa Fe, New Mexico

January 17, 2018

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 10:15 a.m.]
The Hon. Tim Eichenberg, State Treasurer
Mr. Robert J. Aragon, Public Member
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormnik, Public Member

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

**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
Mr. Stephen Vigil, Attorney General’s Office

**Others Present:**
[See sign-in sheets.]

2. **APPROVAL OF AGENDA**

ANNOUNCEMENT: NEXT REGULAR MEETING: TUESDAY, FEBRUARY 20, 2018

Ms. Maestas requested the following changes:

4. Governor Susana Martinez – Requests Approval of a Temporary Transfer of 48 Human Resources Employees and 12 Vacant Positions to the State Personnel Office from Executive Branch Agencies (Pursuant to NMSA 1978, §10-7-1)
Ms. Maestas stated that Item 10 (Belen Consolidated School District) has been withdrawn.

Mr. Eichenberg requested that Item 4 be removed from the Consent Agenda for discussion.

Mr. Brasher moved approval of the agenda, as amended. Mr. Kormanik seconded the motion, which passed 5-0.

**CONSENT AGENDA** (Items 3 and 5-8)
Presenter: Donna Maestas, Acting Director

3. Approval of Minutes: December 19, 2017 (Regular Meeting)

Submitted by: Donna Maestas, Acting Director

3. Approval of Minutes: December 19, 2017 (Regular Meeting)

4. Approval of Minutes: December 19, 2017 (Regular Meeting)

5. Submitted by: Lisa Montoya, Assistant Superintendent; Connie Clark, Strategic Assets Coordinator, Los Alamos Public Schools

5. Los Alamos Public Schools – Requests Approval of the Lease of Real Property Located at 2101 Trinity Drive in Los Alamos, to Samantha D’Anna DBA Samantha D’Anna Photography ($8,051.16 per year)

* Contingent upon Director’s receipt and counsel review of 1) amended and fully executed lease agreement, and (2) copy of resolution of school board approving the lease and making it subject to board approval.

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

6. Eastern New Mexico University – Requests Approval of the Curry Hall and Quay Hall Heating, Ventilation and Air Conditioning Systems ($2,000,000)

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

7. New Mexico Highlands University – Requests Approval of Rodgers Hall Renovation ($4,460,380)

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

8. New Mexico State University – Requests Approval of Fiscal Year 2018 Roof Replacement ($936,430.30)

Mr. Eichenberg moved approval of the Consent Agenda, with the contingencies. Mr. Aragon seconded the motion, which passed 5-0.
REGULAR AGENDA

Presenter: Justin Najaka, Director, State Personnel Office

4. Governor Susana Martinez – Requests Approval of a Temporary Transfer of 46 Human Resources Employees and 17 Vacant Positions to the State Personnel Office from 16 Executive Branch Agencies (Pursuant to NMSA 1978, §10-7-1)

Mr. Najaka stated that, on February 22, 2017, Governor Martinez issued an executive order to centralize and consolidate the state’s human resource functions under the State Personnel Office (SPO) for classified employees. This request is consistent with that executive order and complies with the State Personnel Act.

Mr. Najaka said that, at the core of this centralization and consolidation initiative is the transformation of human resources from a transactional function to being a strategic partner working with agency leaders to identify solutions to human capital issues. Some of the benefits of this are consistent application of rules, regulations, policies, practices and collective bargaining agreements, leading to reduced financial and legal liabilities; to reduce the duplication of efforts and human resource administration to improve quality and timeliness; to streamline the HR processes by removing unnecessary steps and improving response times; and to provide employees with consistent information at the time that they need it.

Mr. Najaka asked the board for approval of this request.

Responding to Mr. Eichenberg, Mr. Najaka said SPO is ready to go live and is in the process of assigning new equipment and moving people over to six newly-created “centers of excellence,” which are specialized areas that will service each of the different functions of an HR department. He said procedures are in place, a call center has been set up, and policies are being formulated.

Mr. Kormanik observed that, on the executive recommendation for FY 2018, SPO’s budget was $4,082,000, and the recommendation for FY 2019 is for the same amount. He asked how the additional positions will be funded in FY 2019 if they are not included in the executive recommendation.

Mr. Najaka responded that they are in the process of working with the Legislative Council Service to draft legislation that would address the transfer of funds and allow for a service fee to be charged to agencies to cover the additional expense. Once that legislation goes through, which only addresses general fund agencies, legislation will be drafted to cover all of the federal and restricted fund agencies. He said there are 65 agencies in all, 39 of which are included in the first phase.

Mr. Najaka also clarified that a separate bill is being drafted to address the necessary statutory changes.

Ms. Malavé noted that, in an earlier iteration of the memo submitted to the board, there was a reference to the approval of the FY 2019 budget as marking the length of time for this
temporary transfer, and that has been removed. She cautioned Mr. Najaka that this particular statute is intended to be temporary, and any attempt to do a wholesale transfer could be subject to challenge under this particular statute.

Ms. Malavé also noted that one of the agencies identified is the Office of the Superintendent of Insurance. She asked whether SPO has the agreement of the Superintendent of Insurance to be part of this transfer.

Mr. Najaka responded yes; SPO has worked with the Superintendent of Insurance and its director, and has had discussions about transferring one employee over and taking over the functions of his office through a service level agreement.

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

**EMERGENCY FUND BALANCES**
Presenter: Donna Maestas, Acting Director

9. Emergency Balances – January 17, 2018

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,848,876.50</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$104,800.00</td>
</tr>
</tbody>
</table>

**HIGHER EDUCATION DEPARTMENT**
Presenters: Gerald Hoehne, Capital Projects Director, New Mexico Higher Education Department; David Harris, Executive Vice President of Administrative Services; Thomas Neale, Director of Real Estate, University of New Mexico; Linda Warning, Harwood Museum of Art

11. University of New Mexico – Requests Approval of Acquisition of Real Property Located at 223 Ranchitos Road in Taos from Edward Foster ($290,000)

Mr. Hoehne stated that University of New Mexico (UNM) is requesting approval of the acquisition of 0.786 acres of real property located at 223 Ranchitos Road in Taos. The subject property is approximately 80 feet northwest of Ranchitos Road, which is a paved secondary road. UNM plans to use this property as a secondary parking lot for the UNM Harwood Museum of Art, which is directly across from it. The site will also allow for the expansion of public functions and art events.

Ms. Warning described the history of the Harwood Museum and its art collection. She said the museum has visitors from every state, and many European visitors, and they need extra parking. She said they have 25 spaces available at the current time.

Mr. Neale said UNM believes an additional 25 parking spaces could be created in this property net of any easements or setback requirements. He added that the majority of the funding was raised through donations, and about $105,000 of the $290,000 purchase price would be funded by the Board of Regents.

Responding to Mr. Aragon, Mr. Neale explained the UNM Real Estate Department maintains a real estate transaction index, where they accumulate minor funds through the operation of their activities, primarily the management of their Science and Technology Park.
They use some of the funds in reserves to replace or repair roofs and mechanical systems, and they also operate the real estate transaction index, which currently has a $130,000 balance. They have set aside $105,000 for this transaction.

Ms. Warning added that the Harwood has raised “more than enough money” through its donors to fund the property acquisition and make improvements.

Mr. Aragon asked if the zoning has been addressed. Mr. Neale responded that the property is zoned R-14, which is residential zoning and includes a variety of commercial-related uses. The lot may not be operated as a commercial lot, however, with fees charged for parking. He said they would not need a variance for the parking lot.

Responding to Mr. Aragon’s questions about safety issues, Ms. Warning said a crosswalk already exists.

Ms. Warning said the lot might be paved at some point.

Responding to Mr. Eichenberg’s concerns about neighbors who might object to any additional activity, Ms. Warning said she doubted neighbors would be affected very much. She said there are no late night activities, and they have not had any complaints before. She added that most of the surrounding properties are rentals.

Ms. Maestas requested that approval of this request be contingent upon Director’s receipt and counsel review of a (1) revised title binder deleting general exceptions 1 through 5 and 7; and (2) letter from university counsel explaining exceptions 8-11 and confirming that these exceptions will not interfere with UNM’s intended use of the property.

Mr. Aragon moved for approval, with the contingencies. Mr. Brasher seconded the motion, which passed 5-0.

Presenters: Gerald Hoehne, Capital Projects Director, New Mexico Higher Education Department; Dr. Joseph Shepard, President; Kelley Riddle, Vice President of Business Affairs, Western New Mexico University

12. Western New Mexico University – Requests Approval of Ritch Hall Renovation ($1,580,000)

Mr. Hoehne stated that this project involves approximately 8,224 square feet. The proposed renovations will include seven new classrooms, two conference rooms, three offices, 37 double rooms, four single ADA rooms, five bathrooms, and 13 new miscellaneous spaces. Western New Mexico University (WNMU) plans on using the new space to accommodate students enrolled in their ESL program, international students, and their sponsors. Funds needed to complete this project will come from Series 2017 General Obligation Bond proceeds and Institution and General reserves.

Dr. Shepard said Ritch Hall is on the National Register of Historic Places and WNMU is working with the historical society to make sure WNMU meets their requirements. The building is empty, and WNMU has decided to repurpose it in order to house international programs, which will generate revenues for the school and local economy.
Responding to Secretary Rodriguez, Dr. Shepard said the reserves are generated from prior years’ funding. He said one part of the reserves is set aside to meet the 3 percent statutory funding requirement. Any surplus goes into their plant reserves, which in this case is $5 million. Primarily, this consists of tuition from years past and excess general fund monies.

Mr. Brasher asked Mr. Hoehne if there are other institutions in New Mexico with fund balances that exceed the 3 percent requirement; and if so, which institutions and by how much. Mr. Hoehne responded that there are institutions with funding that exceeds the 3 percent but he would have to report back with any additional information.

Secretary Rodriguez said the Higher Education Department reported that FY 2017 I&G ending balances for all institutions totaled $165 million.

Mr. Brasher commented that he was surprised that there was so much surplus money out there. He recalled when University of New Mexico discussed its various “pots of money” with the board in a recent meeting.

Mr. Brasher asked Mr. Hoehne if this fits into the equation at budget time when universities ask for additional funding for projects. Mr. Hoehne responded that he only deals with the capital outlay component, but that includes other available revenue streams for projects they are requesting. He said there is no segregation of accounting in the reporting of actuals that gets to that level of detail. He said their actuals include an I&G balance, which is what they examine before budget approval.

Ms. Riddle clarified that WNMU does make transfers (above and beyond the 3 percent required minimum reserve) out of I&G to other areas, such as a mandatory transfer for BR&R (Building Renewal and Replacement). The other transfer can be seen on their actuals in the capital outlay section, and these are the monies that would be used to renovate Ritch Hall.

Mr. Aragon asked Ms. Maestas to contact the Higher Education Department and ask a representative to report to the board on how many accounts the different universities have, where the funding is coming from, and what the account balances are.

Mr. Aragon said he felt the board should compel all of the presidents to explain how these funds are used and how they are disclosed. He said he would also like to know from the various presidents of the different boards of regents if they are aware of these different funds.

Addressing WNMU’S business model for this project, which was intended to increase revenues for the school and the local economy, Lt. Governor Sanchez commented that WNMU’s plan to attract international students is something that the entire state of New Mexico and every institution in the state ought to be doing.

Mr. Aragon moved for approval of this request. Mr. Brasher seconded the motion, which passed 5-0.

[Lt. Governor Sanchez left the meeting.]
**STATE TREASURER’S OFFICE**
Presenter: Vikki Hanges, Chief Investment Officer and General Portfolio Manager

13. **Monthly Investment Report for Month-Ended November 30, 2017**

Ms. Hanges reported that, at the end of November, STO managed $3.7 billion in assets and earned $3.5 million. The Fed raised interest rates by 25 basis points in December, and anticipates three more rate hikes in 2018.

Mr. Aragon asked if rising interest rates have changed the direction of STO’s investment policy. Ms. Hanges responded that the portfolios are about 85 percent of the benchmark duration, which means they are taking 15 percent less risk than the benchmark. They keep maturities short so they can take advantage of interest rates as they rise.

Ms. Hanges also noted that the general fund balance is about $750 million higher than it was at this time last year. STO has not been moving cash into the core fund in order to stay liquid and preserve principal, so they are about 50-50 liquidity to core. Even though income on the short-term investments is expected to increase, long-term investments are underwater because as interest rates go up, fixed income security prices go down, and so the securities they have already purchased will mark to market with unrealized losses. They are trying to minimize that as much as possible by staying conservatively postured and as short as they can.

Mr. Eichenberg commented that he views STO’s conservative approach as a fiscally responsible approach.

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

14. **Capitol Buildings Repair Fund Financial Status Report for Month-Ended December 31, 2017**

Ms. Maestas presented this report.

15. **Facilities Management Division – Legislative Capital Projects Financial Status Report for Month-Ended December 31, 2017**

Ms. Maestas presented this report.

**STAFF ITEMS**
Presenter: Donna Maestas, Acting Director

16. **Adoption of Open Meeting Resolution 18-01**

Ms. Maestas noted no changes in this year’s resolution.

Mr. Aragon moved for approval. Mr. Kormanik seconded the motion, which passed 4-0.

17. **Adoption of Interest Rate Policy 18-02**

Ms. Maestas said this resolution is the same as last year’s. The Treasurer’s Office reviewed the policy and recommended no changes. Staff also asked bond counsel to review the policy in
light of any potential impact from the new federal tax laws. They saw no impact, and no changes were recommended.

Mr. Aragon moved for approval. Mr. Kormanik seconded the motion, which passed 4-0.

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

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

Mr. Brasher accepted the nomination.

The motion passed 4-0.

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

   A. **Private Activity Bond Committee**
   
   B. **Banking Committee**
   
   C. **Committee of Reviewing State Treasurer’s Audit Process**

Mr. Eichenberg moved to approve the current status. Mr. Aragon seconded the motion, which passed 4-0.

20. **Dashboard Report**

Ms. Maestas reviewed the Dashboard Report.

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

Ms. Maestas reported that fees were in line with historical averages.

22. **Joint Powers Agreements for Month-Ended December 31, 2017**

Ms. Maestas stated that the Joint Powers Agreement have been read into the record.

**ADJOURNMENT**

The meeting was adjourned at 10:25 a.m.

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Susana Martinez, President

Date February 28, 2018

New Mexico State Board of Finance: January 17, 2018 8
Michael Brasher, Secretary

3/20/18

Date