NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Santa Fe, New Mexico

May 21, 2019

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. Michelle Lujan Grisham, President [present 9:55 – 10:30 a.m.]
The Hon. Howie Morales, Lt. Governor
Mr. Joseph Badal, Public Member
Mr. Paul Cassidy, Public Member
The Hon. Tim Eichenberg, State Treasurer
Mr. Michael S. Sanchez, Public Member, Secretary
Ms. Wendy Trevisani, Public Member

**Members Excused:**
None.

**Staff Present:**
Ms. Ashley Leach, Director
Ms. Olivia Padilla-Jackson, Secretary of Finance and Administration

**Legal Counsel Present:**
Mr. Stephen Vigil, Attorney General's Office

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

2. **APPROVAL OF AGENDA -- ANNOUNCEMENT: NEXT REGULAR MEETING -- TUESDAY, JUNE 18, 2019**

Ms. Leach requested the following amendments:

Item 5: New Mexico Taxation and Revenue Department: Change amount of emergency loan from $100,000,000 to $1,000,000.
Remove items 20 and 21 under Concession Contracts.

Mr. Eichenberg moved approval of the agenda, as amended. Mr. Badal seconded the motion, which passed 6-0.

3. APPROVAL OF MINUTES: APRIL 16, 2019 (REGULAR MEETING)

Mr. Cassidy moved approval of the minutes of the April 16, 2019, meeting, as submitted. Ms. Trevisani seconded the motion, which passed 6-0.

CONSENT AGENDA

Submitted by: Ashley Leach, Director

4. The City of Bayard – Requests Approval of an Amended Resolution for an Emergency Loan that was Approved at the Regularly Scheduled April 16, 2019, State Board of Finance Meeting of up to $750,000 to Include a Term of 25 Years

5. New Mexico Taxation and Revenue Department – Requests Approval of an Amended Resolution for an Emergency Loan that was Approved at the Regularly Scheduled April 16, 2019, State Board of Finance Meeting of up to $1,000,000 to be Paid in Full by May 1, 2020

Submitted by: Donnie Quintana, Director, Local Government Division

6. Department of Finance and Administration, Local Government Division – Requests Approval of the E-911 Program Operating Budgets for Public Safety Answering Points for Fiscal Year 2020 ($9,940,475)

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

7. University of New Mexico – Requests Approval of the KNME Sandia Transmission Tower Replacement ($1,200,000)

* Contingent upon Director’s receipt and counsel review of a letter of acceptance from the U.S. Forest Service.

8. University of New Mexico Health Sciences Center/Hospital – Requests Approval of the Ambulatory Care Clinic Roof Replacement ($1,890,000)

9. University of New Mexico Health Sciences Center/Hospital – Requests Approval of the Renovation and Expansion of the Psychiatric Emergency Services Facility ($1,813,000)
10. University of New Mexico Health Sciences Center/Hospital – Requests Approval of the Renovation of the Adult Inpatient Care Unit ($1,850,000)

11. University of New Mexico Health Sciences Center/Hospital – Requests Approval of the University Hospital Endoscopy Clinic Expansion ($555,022)

12. University of New Mexico Health Sciences Center/Hospital – Requests Approval to Upgrade the Hospital Pneumatic Tube System ($950,000)

Submitted by: Ashley Leach, Director

13. Emergency Balances – May 21, 2019

<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
<th>Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$191,495.00</td>
<td>$2,000,000.00</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$104,800.00</td>
<td>$104,800.00</td>
</tr>
</tbody>
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14. Fiscal Agent/Custodial Bank Fees

15. Joint Powers Agreement for Month-Ended April 30, 2019

Mr. Sanchez moved approval of the Consent Agenda, as presented. Ms. Trevisani seconded the motion, which passed 6-0.

SEVERANCE TAX BONDS AND NOTES
Presenters: Parker Schenken, Co-Bond Counsel, Sherman & Howard, LLC; David Buchholtz, Co-Bond Counsel, Rodey Law Firm; Luis Carrasco, Co-Bond Counsel, Rodey Law Firm

16. Consideration of Authorizing Resolution for State of New Mexico Severance Tax Note Series 2019S-A

Mr. Schenken stated that this resolution authorizes up to $59,200,000 to fund projects identified by the legislature and approved by the Governor. Attached to the resolution is an exhibit to be replaced at a later meeting, as all of the legislatively approved projects are still under review. The State Board of Finance will take action to approve the amended exhibit at the June 18 meeting.

Mr. Buchholtz added that a large number of capital outlay projects were assigned to the general fund during the last legislative session because of excess monies available in the general fund. As a result, long-term Severance Tax Bond financing would not be presented this year.
Mr. Buchholtz also stated that about 24 projects were authorized to be funded through Severance Tax Note proceeds in prior legislative sessions but were not ready for various reasons until recently. In addition, there were set-asides, which are percentages set by the legislature for colonias projects, Water Trust projects, and Native American projects.

17. Consideration of Authorizing Resolution for State of New Mexico
Supplemental Severance Tax Note Series 2019S-B

Mr. Schenken stated that this resolution authorizes up to $17,800,000 for public school and PSCOC (Public School Capital Outlay Council) projects, as well as instructional materials and transportation funding for PED.

Mr. Buchholtz stated the legislature passed a bill limiting the amount of Severance Tax supplemental notes to be issued in FY 2019. A large issue was made in December, and this is the remainder.

Mr. Carrasco added that the capacity test also required a smaller issuance this year.

18. Consideration of Authorizing Resolution for State of New Mexico
Supplemental Severance Tax Note Series 2018S-B

19. Consideration of Authorizing Resolution for State of New Mexico
Supplemental Severance Tax Note Series 2018S-D

Mr. Schenken stated that items 18 and 19 address prior Supplemental Severance Tax Note issues from June and December 2018. The first modifying resolution is to reallocate about $947,000 of proceeds from one purpose to another, as outlined in the resolution. The second relates to Senate Bill 280, when the legislature gave direction to provide funding for certain public school projects.

Mr. Carrasco explained that the public school projects include purchasing and equipping school buses to include air conditioning for districts where temperatures may reach unsafe levels, plus two or three additional new projects that the legislature wanted to see.

Mr. Eichenberg moved approval of Item 16. Mr. Cassidy seconded the motion, which passed 6-0.

Mr. Eichenberg moved approval of Item 17. Mr. Cassidy seconded the motion, which passed 6-0.

Mr. Eichenberg moved approval of Item 18. Mr. Cassidy seconded the motion, which passed 6-0.
Mr. Eichenberg moved approval of Item 19. Mr. Cassidy seconded the motion, which passed 6-0.

**HIGHER EDUCATION DEPARTMENT**

Presenters: Gerald Hoehne, Director, Capital Projects Division, New Mexico Higher Education Department; Thomas M. Neale, Director of Real Estate, University of New Mexico

22. University of New Mexico Health Sciences Center/Hospital – Requests Approval of the Acquisition of Real Property Located at 1600 University Blvd. in Albuquerque from Bison, LLC ($1,725,000)

Mr. Hoehne stated that this request is for approval of the acquisition of real property located at 1600 University Boulevard, N.E. from Bison, LLC. University of New Mexico Hospital (UNMH) currently leases 6,121 square feet of space (out of a total 15,346 square feet) for the UNMH Eye Clinic and has been paying $7,396.21 per month in rent. The remaining space in the building is vacant. If the acquisition is approved, UNMH plans to expand the Eye Clinic operations into the remainder of the building to meet demand for patient services. UNMH also plans to request approval for capital improvements to the building in the future, for which funds through the UNMH Capital Initiative Fund have been identified. This expansion will allow UNMH to hire an additional optometrist, general ophthalmologist, and cornea ophthalmologist. The funding source for the property acquisition is through the UNMH Capital Initiative Fund.

Mr. Neale stated that there is acute need to expand the services in this building to accommodate increased demand for Eye Clinic services. The property is contiguous with 17.5 acres of land that UNM owns along University Boulevard, which will allow UNM to redevelop the area along University Boulevard in the distant future.

Responding to Ms. Trevisani, Mr. Neale said UNM conducted a phase 1 environmental site assessment and there were no recognized environmental conditions that needed further study. He said the building was constructed post the era when lead-based paint and asbestos were commonly used.

Responding to Mr. Cassidy, UNM Chief Operating Officer Mike Chicarelli said Eye Clinic clients are from the general public, who use it most frequently for cataract surgery.

Ms. Leach requested that approval of this item be contingent upon Director’s receipt and counsel review of a letter from university counsel explaining whether the retention of “shortages in area” in standard exception 3 will interfere with UNM’s intended use of the property.

Ms. Leach stated that this is a standard exemption in the title binder.
Mr. Neale noted that one of the requested amendments to the purchase and sale agreement deals with like-kind exchanges (paragraph 29) and would require State Board of Finance approval. He said the seller does intend to enter into a 1031 Exchange but the University would like to propose excluding assignment to a qualified entity to facilitate a like-kind exchange, since this is at the request of the seller and would not have any bearing whatsoever on the University’s ability to close on this transaction.

Mr. Vigil said the language in paragraph 29 states that, in doing this like-kind exchange, there would be some kind of assignment. Typically, when staff reviews lease and purchase agreements, it is standard practice to require State Board of Finance approval on any assignments so the board is kept informed of transactions that might take place later which the board would not necessarily hear about otherwise. He said he believed the board could choose to waive this requirement.

Ms. Leach stated that Mr. Vigil’s summary was correct.

Mr. Eichenberg commented that it is really not the board’s concern whom the seller does business with after this transaction, and he saw no reason to not waive this requirement.

Mr. Cassidy said he saw no problem with granting this waiver, with the suggestion that board staff notify Mr. Neale’s office that this was done.

Mr. Vigil said he was comfortable with this proposal.

Lt. Governor Morales asked Mr. Neale to restate his request.

Mr. Neale said he was requesting that a change in paragraph 6 to the amendment of the purchase and sale agreement to exclude the assignment to qualified intermediary for a like-kind exchange.

Mr. Eichenberg moved for approval, with the contingency and requested amendment. Mr. Badal seconded the motion, which passed 6-0.

ENERGY TRANSITION ACT
Presenters: Stacey Goodwin, Associate General Counsel, Public Service Company of New Mexico (PNM); Charles Atkins, Senior Advisor, Guggenheim Securities; Michael Rico, Treasury Department, PNM

23. Public Service Company of New Mexico – Requests an Attestation to the Qualifications of Guggenheim Securities, LLC to Provide a Memorandum Stating Bonds to be Issued by PNM Satisfy the Current Published AAA Rating or Equivalent Rating Criteria (no consideration)
Ms. Goodwin stated that this request is the result of the Energy Transition Act (ETA), which was signed into law by Governor Lujan Grisham this year after being passed by the legislature. The ETA is part of the state’s transition to cleaner energy resources, and contemplates that coal fired plants will be retired, and renewable and carbon-free resources will be used in place of carbon emitting resources to serve the state’s energy needs. PNM proposes to shut down its San Juan coal plant in June 2022, and the Act allows PNM to issue securitized AAA bonds to finance these activities. The financing also includes the funding of employee retraining, economic development, and job training programs in the affected San Juan communities and tribal communities. PNM would like to proceed with approval from the New Mexico Public Regulation Commission to issue the securitized bonds. The bonds will be issued around the time of the plant shutdown, but because of the time required to get the necessary resources in place and get approval from the Public Regulation Commission, PNM was before the board today for approval. She said they will be making their filing by July 1, shortly after the ETA goes into effect on June 14, 2019.

Ms. Goodwin stated that section 4 of the ETA requires that PNM provide to the PRC a memorandum from a qualified investment advisor that asserts the proposed issuance of the bonds will satisfy a current public AAA rating or an equivalent rating from credit agencies. The bonds are backed by securitized energy transition property and are paid by a non-bypassable charge collected from customers. In order to get the memorandum that is necessary from Mr. Atkins and Guggenheim Securities, they are required to have this board approve his qualifications and to provide an attestation to the PRC. She said materials providing Mr. Atkins’ qualifications have been submitted to the board in advance.

Mr. Cassidy asked if Guggenheim is being retained by PNM as a financial advisor in doing this first memo or are they being hired as the underwriter of the transaction. Mr. Atkins responded that this bond transaction will not happen until 2022, so this is only the first phase. He said they are being engaged only to help through the financing order process at this point, although he hoped to be involved in the actual bond transaction later.

Ms. Goodwin added that it is PNM’s intent to have Guggenheim act as financial advisor, and a separate group of investment banks would be the underwriters.

Mr. Cassidy asked how the cost to abandon the facility is determined. Ms. Goodwin responded that PNM is the operator of the San Juan plant along with other owners. The plant originally consisted of four operating units, two of which were shut down in 2017 with PRC approval. Once the whole plant site is shut down and decommissioned, the adjacent mine will go through a reclamation process. The issuance of the bonds and cost of the abandonment in general covers the abandonment cost, which includes the under-depreciated investments of PNM with regard to the San Juan power plant. It also includes other costs up to a certain limit within the statute of $30 million, which covers
reclamation and remaining decommissioning costs, and up to $25 million for severance packages and job retraining for employees. Also, it allows for the recovery of the financing costs of the transactions through the life of the bonds. Finally, it allows for the funding of projects that are operated by the state through three different funds. One will be operated by the Department of Indian Affairs, which will benefit tribal communities with job displacement and other impacts. Another fund is managed by the Economic Development Department, and the third fund is managed by the Workforce Solutions Department for job training and other job programs in the impacted communities. When the bonds are issued, PNM will transfer certain percentages of the bond amount into these state agencies to administer the programs and funds. She said PNM anticipates that the issuance will be about $400 million, which is in the range of PNM’s past bond issues.

[Governor Lujan Grisham joined the proceedings.]

Mr. Badal said he had several questions, and perhaps at some other time those could be addressed, since they were not part of the scope of this request. He added that he felt some of the costs associated with the decommissioning and reclamation process would ultimately end up in PNM’s rate base, which would be passed on to the PNM customers. Assuming the PRC gives approval, the cost of replacing this facility would be passed on to customers, as well. He said he was concerned about what the rate increase would potentially be for the citizens of New Mexico.

Ms. Goodwin responded that PNM did prepare illustrations at the legislature on what those costs might look like. She said the reason behind this in the first place is about the benefits to customers that can occur from retiring a plant that is no longer economical to run and replacing it with less-expensive resources. She said the savings to customers could be significant. She added that the securitized bonds would lessen the cost to customers of the financing of these transactions. When they looked at the savings, the cost of this on balance can be between $6 and $7 a month on customer bills that is offset by the savings from closing the plant of about $12 a month.

Ms. Trevisani asked if there was anything that could potentially occur between now and 2022 that might interfere with the AAA rating. Mr. Atkins responded that he did not see anything that would keep PNM from achieving the AAA rating.

Mr. Eichenberg asked why Guggenheim was appearing before the board now rather than later, and why it had not appeared before the PRC first. He also asked how Guggenheim could guarantee a AAA rating. Mr. Atkins responded that appearing before the board now was part of the legislative requirement. He added that no one could guarantee a AAA rating, but this transaction is well within AAA boundaries.

Mr. Atkins stated that, if the transaction turned out not to be feasible in 2022, it would not be done.
Governor Lujan Grisham said this was debated extensively at the legislature. She said it would be useful for board members to receive a condensed version of that testimony, since all of the questions asked at today’s meeting were asked and answered at that time. She said perhaps board members might find issues that were identified at that time but not substantially debated and addressed.

In discussion on delaying action on this item for another month, Ms. Goodwin expressed concern about timing. She said PNM wants to move forward as expeditiously as possible, because it intends to do the filing with the PRC by July 1. Mr. Atkins will have to do a fair amount of modeling in order to be comfortable in telling the commission that Guggenheim believes the bonds will qualify for the rating.

Mr. Eichenberg asked what process was followed in selecting Guggenheim. Mr. Rico responded that the Treasury Department at PNM had several discussions with investment banks in trying to determine who would have strong credentials in doing this transaction, and Mr. Atkins was strongly recommended. Ms. Goodwin added that Guggenheim has the strongest experience with these types of bonds.

Mr. Badal stated that he had several questions about the project itself, but recognized that the board's role today was to address the issue on the agenda.

Mr. Badal moved to attest to Guggenheim's qualifications. Mr. Cassidy seconded the motion, which passed 7-0.

**STATE TREASURER'S OFFICE**
Presenter: Vikki Hanges, Chief Investment Officer and General Fund Portfolio Manager
24. Monthly Investment Report for Month-Ended March 31, 2019

Ms. Hanges reported that STO managed $6.1 billion in assets in March, and the portfolios earned $11.5 million. The unrealized mark-to-market gain across all the portfolios was $12.6 million.

**GENERAL SERVICES DEPARTMENT**
Presenter: Anna Silva, Director, Facilities Management Division
25. Capitol Buildings Repair Fund Financial Status Report for Month-Ended April 30, 2019

Ms. Silva presented this report.

26. Facilities Management Division – Legislative Capital Projects Financial Status Report for Month-Ended April 30, 2019
Ms. Silva presented this report.

**STAFF ITEMS**

Presenter: Ashley Leach, Director

27. Pursuant to NMSA 1978, Section 6-1-1(G), Approval of Appointment of
Ashley Leach as State Board of Finance Director

Lt. Governor Morales moved for approval. Mr. Badal seconded the motion, which passed 7-0.

28. Appointment of the State Board of Finance State Treasurer’s Investment Committee Private Sector Member

Mr. Cassidy moved to approve the appointment of Cilia E. Agliarolo. Mr. Eichenberg seconded the motion, which passed 7-0.

[Governor Lujan Grisham left the meeting.]

**STATE BOARD OF FINANCE OVERVIEW WORKSHOP**

Presenter: Ashley Leach, Director; David Paul, Financial Advisor, Fiscal Strategies Group; Stephen Vigil, Board Counsel, Assistant Attorney General, Office of the Attorney General

29. Overview Workshop

See Electronic Agenda for slide presentation on this workshop [page 1,648].

Topics covered during this workshop were as follows:

- Mission of the Board & Division Overview
- State Board of Finance Role
- Monthly Board Meeting Process
- Bonding Programs & Credit Overview
- Legal Role & Responsibilities

**ADJOURNMENT: 1:00 p.m.**

Mr. Cassidy moved for adjournment. Mr. Eichenberg seconded the motion, which passed 8-0.

Michelle Lujan Grisham, President