NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

Conducted by Teleconference

May 19, 2020

A regular meeting of the New Mexico State Board of Finance was called to order on this date at 9:00 a.m. via teleconference.

1. **ROLL CALL -- QUORUM PRESENT**

**Members Present:**
The Hon. Howie Morales, Lt. Governor
The Hon. Tim Eichenberg, State Treasurer
Mr. Joseph Badal, Public Member
Mr. Paul Cassidy, Public Member
Mr. Michael S. Sanchez, Public Member, Secretary
Ms. Wendy Trevisani, Public Member

**Members Excused:**
The Hon. Michelle Lujan Grisham, President

**Staff Present:**
Ms. Ashley Leach, Director
Mr. Marcos B. Trujillo, Deputy Director
Ms. Olivia Padilla-Jackson, Secretary of Finance and Administration

**Legal Counsel Present:**
Ms. Sally Malave, Attorney General’s Office
Ms. Marah deMeule, Attorney General’s Office

2. **APPROVAL OF AGENDA**

Mr. Cassidy moved approval of the agenda, as published. Ms. Trevisani seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

3. **APPROVAL OF MINUTES: APRIL 21, 2020 (REGULAR MEETING)**
Mr. Badal moved for approval of the April 21, 2020, minutes, as presented. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

CONSENT AGENDA
Presenter: Ashley Leach, Director, Board of Finance

Submitted by: Dennis P. Maupin, Chairman, Artesia Special Hospital District
4. Artesia Special Hospital District—Requests Approval of the Temporary Suspension of Lease Payments from Artesia General Hospital for Artesia Professional Building Suites ($25,550/month)

Submitted by: Connie Clarke, 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 Wiemann Wealth Strategies, LLC ($11,796.80/year)

Submitted by: Christopher M. Barela, Real Estate Specialist, Santa Fe County
6. Santa Fe County—Requests Approval of a Lease Amendment for the Lease of Real Property Located at 1160 Parkway Drive in Santa Fe ($44,124.00/year)

Submitted by: Susan Fox, Attorney, Matthew Fox, P.C.
7. Monte Del Sol Charter School—Requests Approval of Sale of Real Property Located at 4161 Walking Rain Road in Santa Fe to the Foundation for Monte Del Sol Charter School ($265,000)

* Contingent upon director’s receipt and counsel review of (1) revised and updated purchase agreement; and (2) a fully executed purchase agreement.

Submitted by: Gerald Hoehne, Capital Projects Director, NMHED
8. New Mexico State University—Requests Approval of Capital Expenditures for Water Tank Replacement ($1,154,000)

9. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Capital Expenditures for the Renovation of the 4th Floor Pulmonary Lab ($545,000)

10. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Capital Expenditures for Expansion and Refurbishment of the 2nd Floor Sterile Processing Department Decontamination Space
($690,000)

Submitted by Ashley Leach, Director, Board of Finance
11. Emergency Fund Balances – May 19, 2020

<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
<th>Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reserve Fund</td>
<td>$1,251,000.00</td>
<td>$2,000,000.00</td>
</tr>
<tr>
<td>Emergency Water Fund</td>
<td>$62,449.84</td>
<td>$104,800.00</td>
</tr>
</tbody>
</table>

12. Fiscal Agent and Custodial Bank Fees Report


Mr. Cassidy moved approval of the Consent Agenda, as presented. Mr. Badal seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

HIGHER EDUCATION DEPARTMENT

CAPITAL EXPENDITURES

HIGHER EDUCATION DEPARTMENT

Presenters: Gerald Hoehne, Capital Projects Director, NMHED; Dr. Paul Roth, CEO, Chancellor HSC, UNM; Kate Becker, CEO, UNMH; Michael Chicarelli, Chief Operating Officer, UNM; Ava Lovell, Senior Executive Officer, Finance and Administration, UNM

14. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Capital Expenditures for Phase I Site Work for the Planned Parking Structure and Hospital Tower ($5,200,000)

Mr. Hoehne stated that this project is being funded using UNMH Capital Initiative funding. He stressed that NMHED has been collaborating very closely with UNM Hospital on moving these projects forward, and this is only the first phase, which will include site work on Yale Boulevard and Camino de Salud and Tucker Boulevard, in preparation for the second phase, which is a new parking structure and a utility plant. The third phase will be the construction of the new hospital tower.

Dr. Roth commented that they continue to turn down hundreds of transfer requests from hospitals all over the state, solely due to their lack of physical capacity. Had they received approval of their original request made to the Board of Finance under the previous administration, not only would it have been much less expensive than it is now, but at this point they would have been preparing for another addition and further expansion of their capacity. More importantly, they would have been able to reduce the overall morbidity rate for many New Mexicans had they the capacity that they are now...
asking for. He said that, as of this morning, 27 patients are in their emergency department waiting for beds to open up.

Ms. Becker reviewed a slide presentation describing the new hospital schematic design. She said this part of the project was approved by the Hospital Board at their February 28 meeting and the UNM Board of Regents on March 9.

Mr. Cassidy asked how and where UNMH plans to expand in the future in order to meet additional capacity needs.

Ms. Becker responded that one of the impacts they have seen from the transitions of care in healthcare generally, some of which has accelerated with COVID-19, has been sharper differentiation between inpatient and outpatient, with sicker patients on the inpatient side. They are also seeing a push to move patients to outpatient care, where possible, so their next step would be to look at additional expansion of their medical office building to the west of the current site to make into an outpatient facility. They would also look at additional inpatient beds that may mean renovating existing space or creating additional space at a location somewhat to the west on Lomas.

Responding to Mr. Cassidy, Ms. Becker said the second phase will all be cash funded, with borrowing involved in the third phase. The street work and parking garage will be funded with hospital capital funds.

Mr. Cassidy moved for approval. Mr. Badal seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Elchenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

**EMERGENCY FUNDING REQUEST**
Presenter: Alice Liu McCoy, Executive Director, Developmental Disabilities Planning Council
15. Developmental Disabilities Planning Council—Requests Emergency Funding in the Form of a Grant for DDPC’s Office of Guardianship ($204,375)

Ms. McCoy requested approval of emergency funding in the form of a grant in the amount of $204,375 for their Office of Guardianship (OOG), which provides guardianship services for income-eligible adults adjudicated by courts as legally incapacitated, or protected persons. OOG contracts with legal professionals to petition the courts for guardianship and contracts with professional guardians to provide eligible individuals with guardianship services. The Developmental Disabilities Planning Council (DDPC) states that, without emergency funds, it will not be able to provide guardianship services to 762 protected persons, or 77 percent of OOG’s protected persons. DDPC is projecting a budget shortfall for FY20 and will be unable to pay for professional guardian contractors for guardianship services for May and June of 2020. This means that five contractors will not be paid in May and nine will not be paid in June, and they cannot
wait until July 1 to receive payment. The agency has been unable to find another source of funding in the interim.

Ms. McCoy said DDPC’s budget is approximately $5.5 million and is primarily funded by general fund appropriations. The current shortfall was not foreseen because the DDPC, DFA, and the Legislative Finance Committee had estimated their fund balances to be larger than they ultimately were, and the difference was not identified until halfway through FY2020. Although a supplemental appropriation was requested during the last legislative session, it was not approved, and DDPC has amended existing contracts to disencumber amounts it does not anticipate spending. To seek other funding, DDPC will submit a final BAR for its remaining fund balance, and is also seeking COVID-19 federal funding. With savings from contract amendments, OOG anticipates needing $204,375 to cover a shortfall through June 30, 2020. DDPC is seeking a grant because it is funded almost entirely from the general fund. Because OOG’s fund balance will be depleted, any loan repayment would necessarily be paid from additional general fund appropriations. She said she would continue to seek additional funding sources and would closely monitor expenditures.

Responding to Mr. Cassidy, Ms. Leach stated that DDPC received a loan from the Board of Finance in 2010 for $293,000 to cover a shortfall for the salaries of two employees as well as contractual services for court-appointed guardians.

Responding to a question from Lt. Governor Morales about budget safeguards going forward, Ms. McCoy stated that, internally, they do reconcile contracts every month. Because of their current situation, they have been in close contact with their budget analyst at DFA, and they plan to bring their LFC analyst into the loop in the future. She said the LFC analyst did not realize what a dire situation the agency was in because of its history, which involved repeatedly going to the legislature with emergency requests that ended up not being emergencies, and they ended up with big budget reversions. She said she believed the agency would be on better footing with the legislature going forward because they have not had reversions since then and have spent the money they said they were going to spend.

Ms. Leach said it is board practice to require that grant monies be expended by the end of the fiscal year, which staff has discussed with Ms. McCoy. As an option, staff can ask Ms. McCoy to provide a report on expenditures and what, if any, funds from the grant were not expended by that time. Lt. Governor Morales and Mr. Cassidy said that would be helpful.

Ms. Trevisani moved for approval. Mr. Badal seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

BONDING PROGRAMS

New Mexico State Board of Finance: May 19, 2020
Presenters: David Buchholtz, Director, Rodey, Dickason, Sloan, Akin & Robb, P.A.; Luis Carrasco, Director, Rodey, Dickason, Sloan, Akin & Robb, P.A.; Parker Schenken, Member, Sherman & Howard, LLC; David Paul, Financial Advisor, Fiscal Strategies Group

16. Consideration of Authorizing Resolution for State of New Mexico Severance Tax Note Series 2020S-A, Maximum Principal Amount of $380,000,000

Mr. Schenken reviewed this resolution. He said the authorized projects listed are legislatively approved projects now undergoing the review process. The note issuance of $380,000,000 is in excess of the current amount permitted under the statutory issuance test for this note, but it is sized such to accommodate any potential legislative relief that might be granted in the special session. Not knowing where that might end up, board staff has sent out some information in addition to the ordinary questionnaires, gauging people’s willingness to wait in the event there is downward pressure on the ultimate size of the note. He said bond counsel would return with an amending resolution in June once the review of the projects is complete.

Mr. Buchholtz stated that, with the disruption and uncertainty in the bond market and in the pricing of oil and gas, and expectation of protections for severance tax revenues going on at this time, it was determined not to go forward until at least the next legislative session or two relative to a long-term issue. With respect to this particular item, it is uncertain whether the board meeting scheduled on June 16 will happen before or after the special session, although at that point there may be a better sense of the sizing and determination of projects. He said the note must be issued before the end of the fiscal year because of statutory requirements, however.

Responding to Mr. Cassidy, Ms. Leach stated that $532 million was appropriated in the 2020 legislature for capital projects, after vetoes, so this note includes as much as can be potentially funded from that, and it also includes funding for earmarked colonias, tribal, and water projects, which are statutorily required to receive a certain percentage of senior note capacity.

Following up on Mr. Buchholtz’s comments, Mr. Paul stated that the municipal market had a very violent but very short period of disruption as the impacts of the coronavirus waved through the markets. The Fed actions did a lot in terms of its statement of its willingness to fund, and the result is a number of major corporations successfully floating bond issues. Boeing, for example, floated bonds of $25 billion with yields in the 3-5 percent range. The municipal market effectively shut down in the middle of that period, and there has been additional disruption related to Mitch McConnell’s comments and questions about what will happen to the municipal bond markets with the severe impact of revenues at the state and local level. The municipal market has since rallied, and buying has also picked up. He stressed that most of the offerings to date have been strong and have included a few essential service utilities such as the water utilities in Los Angeles. For the state of New Mexico, turmoil in the oil and gas market, and particularly
in the global oil market, is the threshold issue in terms of going ahead with the severance tax bonds. Before beginning discussions on the investor side, he said there needs to be some stabilization at least at the $40 level.

Mr. Eichenberg moved for approval. Mr. Badal seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

17. Consideration of Authorizing Resolution for State of New Mexico Supplemental Severance Tax Note Series 2020S-B, Maximum Principal Amount of $55,000,000

Mr. Carrasco reviewed the resolution. As with the last agenda item, this would be an overnight sale to the State Treasurer’s Office, and the resolution includes language that provides flexibility to use the monies in any other way that may be directed by the legislature in an upcoming special session. The monies from this note would be used to finance Public School Capital Outlay Council capital improvement projects, legislative appropriations to the Instructional Materials Fund, and transportation distribution of the Public School Fund. He said these notes would be subordinate to all senior notes and bonds, and the resolution delegates to the Executive Officer to make the final determination of the note on or before June 26.

Mr. Cassidy moved for approval. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

MONTHLY REPORTING

Presenter: Ken Ortiz, Cabinet Secretary, GSD; Anna Silva, Facilities Management Division Director, GSD

18. Capitol Buildings Repair Fund Financial Status Reports for Month-Ended April 30, 2020

Ms. Silva presented this report.

19. Legislative Capital Projects Financial Status Report for Month-Ended April 30, 2020

Ms. Silva presented this report.

STATE TREASURER’S OFFICE

MONTHLY REPORTING

New Mexico State Board of Finance: May 19, 2020
Presenter: Vikki Hanges, Chief Investment Officer and General Fund Portfolio Manager, State Treasurer’s Office

20. Monthly Investment Report for Month-Ended March 31, 2020

Ms. Hanges reported that STO managed $6.3 billion in assets as of March 31. There was a dramatic drop in interest rates during the month of March following two emergency rate cuts by the Fed, and the rate is now 0 percent to 0.5 percent. For the total fiscal year to date, income and mark-to-market, there was a positive $87 million for all the funds. One key point is STO received $1.06 billion from the CARES Act that was deposited into the general fund liquidity, which bolstered the liquidity position. During March and the first quarter, all of STO’s benchmarks are U.S. Treasury benchmarks only, and with the stock market underperforming dramatically, credit spreads widened in March, so corporate bonds and agencies, which STO owns in its portfolios, widened. When measured against Treasury-only benchmarks, even if duration was close to the benchmark, a little ground was lost. All performance numbers are positive, however, reflecting a +5 percent return over 12 months.

Mr. Eichenberg commended staff in the State Treasurer’s Office for their hard work during this difficult period. He said Ms. Hanges was spending 20-hour days ensuring that New Mexico taxpayers’ money was well protected.


Ms. Hanges presented this report.

22. Consideration of Amended Broker-Dealer List

Ms. Hanges stated that, although STO reviews its broker-dealer list every two years, this request is inside that two years. She asked for the addition of JP Morgan, which is a primary dealer. Over the last several years, because of the municipal bond rule, JP Morgan was sensitive about adding accounts that manage bond proceeds cash, which STO does; but because the institutional side of JP Morgan has more lenient rules in their legal area, they have asked to transact business with the state of New Mexico. STO is anxious to add JP Morgan to the list as a primary dealer.

Ms. Hanges said STO would also like to add Moreton Capital to the list. STO had Mutual Securities on the list, and as a result of Mutual Securities clearing through a subsidiary of Fidelity Investments, Fidelity is no longer clearing transactions for Mutual Securities. The sales representative moved from Mutual Securities to Moreton Capital, so STO would like to remove Mutual Securities and add Moreton Capital to the Broker-Dealer list.
Mr. Badal moved for approval. Ms. Trevisani seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

**STAFF ITEMS**

Presenter: Ashley Leach, Director, Board of Finance

23. **Consideration of Final Contract for Disclosure Counsel Services**

Ms. Leach stated that, at last month's meeting, staff received approval to enter into contract negotiations and to finalize the contract with the finalist offeror, Kutak Rock, for disclosure counsel services. There were very few changes made to the contract, the most notable being the addition of a provision stating that the fees for the annual continuing disclosure statement, which is prepared each December and filed each January, will not exceed $25,000 per filing.

Mr. Cassidy moved for approval. Ms. Trevisani seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

24. **Board of Finance Audit Subcommittee Report**

Ms. Leach noted that the Board of Finance is required to review the annual audit of the Educational Retirement Board, Office of the State Treasurer, Public Employees Retirement Association, and the State Investment Council. The Audit Subcommittee, which includes Mr. Badal and Mr. Cassidy, conducted these reviews and has produced bulleted points on each of the audits, as detailed in the four-page memorandum in the electronic agenda.

Mr. Cassidy disclosed that neither he nor Mr. Badal are CPAs, but did take what items they thought were important and relevant and summarized those in the memorandum, including the single material finding identified in the PERA audit, which PERA has responded to and will fix. The memorandum recommended that the unfunded liability efforts addressed by the administration, legislature, and DFA staff this last year should continue with the goal of 100 percent funding within 30 years.

Mr. Badal said they found a couple of areas they thought should be mentioned in the report, but there were no red flags. Considering the history from several years ago that led up to the legislation requiring these annual audits, the Audit Subcommittee is pleased with the way things are operating today.

**ADJOURNMENT:** 10:48 a.m.
Mr. Badal moved for adjournment. Mr. Cassidy seconded the motion, which passed unanimously by roll call vote, with the following members voting in favor: Lt. Governor Morales; Mr. Eichenberg; Mr. Badal; Mr. Cassidy; Mr. Sanchez; Ms. Trevisani.

Michelle Lujan Grisham, President

6/18/2020

Date

Michael S. Sanchez, Secretary

6/19/20

Date