

NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

HELD VIRTUALLY

Santa Fe, New Mexico

February 15, 2022

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

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

Members Excused:

The Hon. Michelle Lujan Grisham, President
Mr. Michael S. Sanchez, Secretary, Public Member
Ms. Wendy Trevisani, Public Member

Staff Present:

Ms. Ashley Leach, Director
Mr. Marcos B. Trujillo, Deputy Director
Ms. Debbie Romero, Secretary, Department of Finance and Administration

Legal Counsel Present:

None

2. APPROVAL OF AGENDA

Mr. Badal moved approval of the agenda, as published. Mr. Cassidy seconded the motion, which passed unanimously.

3. APPROVAL OF MINUTES: JANUARY 19, 2022 (REGULAR MEETING)

Mr. Cassidy moved approval of the minutes of the January 19, 2022, meeting, as presented. Mr. Badal seconded the motion, which passed, with Mr. Eichenberg in abstention.

CONSENT AGENDA (Items 4-22)

Presenter: Ashley Leach, Director, Board of Finance

Submitted by: Deanna Miglio, Real Estate Manager, Bernalillo County

4. Bernalillo County—Requests Approval of the Lease of Real Property, Located at 1706 Centro Familiar SW in Albuquerque, to Youth Development, Inc. (\$62,940/year, services in lieu of rent)

- Contingent upon director's and counsel's receipt of a fully executed lease agreement

5. Bernalillo County—Requests Approval of the Lease of Real Property, Located at 1710 Centro Familiar SW in Albuquerque, to Youth Development, Inc. (\$40,000/year, services in lieu of rent)

- Contingent upon director's and counsel's receipt of a fully executed lease agreement

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

6. New Mexico State University—Requests Approval of Capital Expenditures for Implementation of Campus-Wide Crime Prevention through Environmental Design Projects (\$934,743)

7. New Mexico State University—Requests Approval of Capital Expenditures for the Arrowhead Park Roadway and Utility Infrastructure Build-out (\$1,650,000)

8. New Mexico State University—Requests Approval of Capital Expenditures for the Campus-Wide Tunnel System Repair Phase VII Project (\$3,000,000)

9. University of New Mexico—Requests Approval of Capital Expenditures for University Libraries Turnstiles Installation (\$897,671)

10. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Revised Capital Expenditures for the 2nd Floor Sterile Processing Department Decontamination Renovation (\$1,290,000)

11. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Revised Capital Expenditures for the Comprehensive Movement Disorders Center & Senior Health Clinic (\$19,400,000)

Submitted by: Chita Gillis, Secretary Treasurer, Cañada de Los Alamos MDWCA

12. **Cañada de Los Alamos Mutual Domestic Water Consumers Association— Requests Approval of the Conversion of its Emergency Operating Loan to a Grant (\$161,172)**

Submitted by: Ashley Leach, Director, Board of Finance

13. **Consideration of the First Amending Resolution for State of New Mexico Supplemental Severance Tax Note, Series 2019S-B**

14. **Consideration of the Fourth Amending Resolution for State of New Mexico Supplemental Severance Tax Note, Series 2018S-D**

Submitted by: Anna Silva, Facilities Management Division Director General Services Department

15. **Capital Buildings Repair Fund Financial Status Report for Month-Ended January 31, 2022**

16. **Legislative Capital Projects Financial Status Report for Month-Ended January 31, 2022**

Submitted by: Vikki Hanges, Chief Investment Officer, State Treasurer’s Office

17. **State Treasurer’s Office Investment Report for Month-Ended December 31, 2021**

Submitted by: Ashley Leach, Director, Board of Finance

18. **Selection of Board of Finance Subcommittees and Members**

Ms. Leach stated that the current board members on these committees and staff are proposing that the members remain the same for 2022.

19. **Selection of Board Finance Secretary**

Ms. Leach said staff is recommending that Sen. Michael Sanchez continue to serve in that role for 2022.

20. **Emergency Balances – February 15, ~~2021~~ 2022**

	<u>Balance</u>	<u>Appropriation</u>
Operating Reserve Fund	\$2,100,000.00	\$2,500,000.00
Emergency Water Fund	\$ 86,900.00	\$ 109,900.00

21. **Fiscal Agent and Custodial Bank Fees Reports**

22. **Joint Powers Agreements for Month Ended January 31, 2022**

Mr. Badal moved approval of the Consent Agenda, as presented. Mr. Cassidy seconded the motion, which passed unanimously, with Lt. Governor Morales, Treasurer Eichenberg, Mr. Badal, and Mr. Cassidy voting in favor.

HIGHER EDUCATION DEPARTMENT

Presenters: Gerald Hoehne, Capital Projects Director, Higher Education Department
Dr. Michael Richards, Senior Vice Chancellor Clinical Affairs, UNM HSC;
Kate Becker, Chief Executive Officer, UNM Hospital; Dr. Michael Chicarelli, Chief Operating Officer, UNM Hospital; Douglas Brooks, Executive Director, Hospital Campus Development

23. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Revised Capital Expenditures for the UNM Hospital Tower Phase II—Parking Structure, Central Utility Plant & Logistics Space (\$118,935,603)

Mr. Hoehne stated that UNM Hospital is requesting re-approval for the construction Phase II of the hospital tower project. The original request was approved by the Board of Finance on October 20, 2020, and included construction of a new 558,532-square-foot precast concrete building that included a 516,110-square-foot parking structure with 1,400 parking spaces for hospital patient and visitor parking, a 23,692-square-foot central utility plant (CUP), and an 18,730-square-foot materials management space. Mr. Hoehne said the original project submittal was approved at \$82,710,450 with funding provided by UNM Hospital cash reserves.

Mr. Hoehne said the revised project before the board today moves the mechanical equipment installation, which was originally scheduled to be completed in Phase III, to this phase of the project. The equipment includes normal power and emergency power electrical switchgear, mechanical chillers, cooling towers, boilers, pumps, and standby emergency generators, which will be installed within the CUP. Adding this equipment to Phase II increases the project budget by \$36,225,153, bringing the total project budget to \$117,935,603. The increase will be funded using UNM Hospital cash reserves.

Ms. Becker noted that both President Stokes and Douglas Ziedonis are in a UNM Board of Regents meeting this morning and are very supportive of this project.

Dr. Chicarelli commented that everyone is acutely aware of the supply chain issues occurring across the country, and this is also true with construction. UNM's goal is to deliver this project on time, and in order to do that, they had to order equipment ahead of time. They had this plan originally for Phase III of the project, but have moved it now back to Phase II per their request.

Responding to questions from Mr. Cassidy, Dr. Chicarelli responded that, given the supply chain issue, it is no surprise that the cost of everything has gone up, and so preordering the materials was important in trying to keep this project on schedule. The

cost of the equipment going into the CUP is about \$36 million or so, so it isn't the majority of the cost. UNM did sign an agreement with Bradbury Stamm Hunt that caps the amount of money that this can cost going forward.

Mr. Cassidy asked if the CMAR's methodology is changing by definition in terms of all the construction projects going on around New Mexico. There is a lot of money coming into the state and coming from the state for construction projects, and he asked what the challenges are from a CMAR'S standpoint, and is this the right way to be doing this.

Mr. Brooks responded that UNM has found the CMAR's process to be valuable in this project, but he couldn't speak to the future. UNM has found savings in certain areas, and in other areas they have experienced the inflation and escalation that is seen in this proposal. What they are finding is that construction managers are very reluctant to take on greater risk.

Mr. Cassidy moved for approval. Mr. Eichenberg seconded the motion, which passed unanimously, with Lt. Governor Morales, Treasurer Eichenberg, Mr. Badal, and Mr. Cassidy voting in favor.

Mr. Hoehne commented that NMHED is working closely with higher education institutions as they try to overcome some of the challenges associated with price increases. He added that the board will be seeing more projects than usual coming forward for revised project costs and increases in costs.

24. University of New Mexico Health Sciences Center/Hospital—Requests Approval of Revised Capital Expenditures for the UNM Hospital Tower Phase III—Vertical Expansion (\$488,582,948)

Mr. Hoehne stated that this particular request is for the re-approval for the construction of Phase III of the new hospital tower project in the amount of \$488,582,948. The originally approved expenditures totaled \$401,859,331, with funding provided by a \$320 million HUD-backed mortgage, \$30 million from a general fund state appropriation, and \$51.8 million in hospital capital initiative funding. These expenditures were approved by the board in May 2021, and included a 7-level 570,774-square-foot adult acute care hospital with 96 intensive care beds, 18 operating rooms, and a number of other spaces to support patient care. The revision includes cost increases associated with increases in labor costs, with the majority of the increase being part of an additional 2 levels that will be added to the existing 7-level facility. These 2 levels will be shelled out at a later date and will include 84 universal beds and increase the size of the facility by 113,562 square feet. The 2-level expansion will also increase the total number of bed units in the tower to 180 bed units. The footprint for the new level 8 and 9 floors will match the footprint of level 7. The structural system will be steel moment frames, floors will consist of 7.5" deep slab on metal deck, and exterior walls will be constructed as the same rain-screen assembly as used at the lower floors. Adding these floors to Phase III

increases the project budget by \$86.7 million, bringing the total project budget to \$488.6 million. The increase will be funded using UNM Hospital cash reserves.

Ms. Becker said the timing of this is really important because everybody will already be on site to build the first 7 levels of the tower, so this will save money.

Ms. Becker stated that people are asking why UNM Hospital isn't also equipping the facility now and putting in the beds now. As people are aware, there is a staffing challenge for healthcare workforce across the country, and a key element for an academic hospital is physicians in training. The program for the current tower over the next three years will need about 100 residents added for the staffing as originally scheduled, and 35 are coming in each year. In 2024, when the new tower opens, they will have adequate staff. For the additional two floors, they will need another three years to build the programs and will need the capacity of the new tower to have the space and the supervision and training opportunities to be able to create the workforce.

Dr. Chicarelli commented that the disruption to the patients is another consideration. If they wait to build these additional floors in the future, they have to disrupt the current patient flow into the new hospital tower. Everyone is aware that if they are doing construction above an occupied floor, they cannot have patients on the floor below and would have to downsize the number of beds during construction. Also, the need for beds right now in New Mexico is astronomical and they are doing what they can to accommodate patients, so the idea of having additional beds is a good one. He said the building was designed foundation-wise to accommodate additional floors in the future, but no one expected the future to happen quite so soon.

Stressing that his comments were not directed at the hospital project but were more general in nature, Mr. Badal wondered whether or not, on a general policy basis, the state ought to be discouraging construction projects that could be put off reasonably for a year or two, given that no one really knows what the supply chain will look like at this point. He suggested that it would be helpful to ask an economist to appear before the board and offer a projection about what the picture might look like going forward. This would inform Mr. Hoehne and his department about the kind of advice that they might be giving to other organizations and agencies about construction projects. He said UNM Hospital isn't cavalier about spending extra tens of millions of dollars, although this impacts future projects and their ability to perform going forward if their cash reserves are depleted. He said he was very concerned about the extra costs associated with these projects, while also understanding how important medical care is and the criticality of providing enough hospital beds and other medical needs.

Mr. Cassidy said he wanted to re-emphasize that the material that was presented as backup touched on the items that Ms. Becker and Dr. Chicarelli focused on, which he really appreciated. When this originally came forward, he may have asked the question

about why they weren't building out the next two floors. He commended them for moving forward with that now, since that would be a great investment.

In terms of what Mr. Badal was discussing, Mr. Cassidy said he understands that UNM Hospital is taking an operating loss, and after doing this, they will have 42 days of unrestricted cash. Historically, UNM Hospital has operated at that level, but that is not the norm for medical centers of this size. He thought it was closer to 200 to 250 days.

Ms. Becker responded that the cash on hand for a safety net like UNM is usually somewhere between 45 and 70 days, but for a not-for-profit such as Presbyterian, the number is closer to 250 to 300 days. She commented that this is a very important observation. One of the things that Mr. Badal also touched on is that UNM Hospital is making this choice, which means there are other choices it can't make immediately. She added that the pandemic has thrown a glaring light on the under-bedded nature of New Mexico, so prioritizing that in-patient capacity became the right decision for how UNM allocated its use of cash.

Mr. Cassidy said he understood that Ms. Becker was saying that UNMH was comfortable with this and using the cash in this way. He agreed it was totally critical.

Mr. Hoehne stressed that he thought it was great that UNM Hospital had the capacity to move this project forward; however, NMHED has run into situations with other projects where that additional funding was not available in order to cover those additional costs. NMHED has been working to understand what other strategies can be used to still complete a functional project while utilizing those funds to make sure that the programs that they were going to support are in fact supported by that facility. Additionally, they have taken a close look at making sure that NMHED has sufficient inflation built in when project requests come forward for funding, although over the past year, they have not really captured what those cost increases have been.

Mr. Badal moved for approval. Mr. Cassidy seconded the motion, which passed unanimously, with Lt. Governor Morales, Treasurer Eichenberg, Mr. Badal, and Mr. Cassidy voting in favor.

PRIVATE ACTIVITY BONDS

Presenters: Izzy Hernandez, Executive Director/CEO, NMMFA; Kathryn Turner, Assistant Director of Housing Development, NMMFA; Jeanne Redondo, Tax Credit Program NMMFA; Richard Ashton, Managing Director, Liberty Multifamily, LLC; Tom Fielder, Architect, Fielder Group

- 25. New Mexico Mortgage Finance Authority—Requests Approval of a Private Activity Bond Allocation for EMLI at Wells of Artesia Apartment Project, Located at 2104 West Richey Avenue in Artesia (not to exceed \$33,000,000)**

Lt. Governor Morales disclosed that he is on the board of the New Mexico Mortgage Finance Authority.

Mr. Hernandez stated that the New Mexico Mortgage Finance Authority (MFA) is requesting approval of a Private Activity bond volume cap allocation of \$33,000,000 for the acquisition and construction of a multifamily apartment complex in northwestern Artesia. He said there is a critical need for affordable housing across the state. Home prices have increased by 57 percent in the last five years and 23 percent in the last year, and rents have increased over 18 percent in the last year. There is an estimated shortage of 32,000 rental units statewide, and this project will provide 198 affordable units. He said the construction will have a \$21 million economic impact on the community of Artesia.

Ms. Redondo provided a description of the project and financing structure. She said the project will include units that are affordable for a range of incomes from extremely low incomes to at or below 60 percent of the area median income. Seven units will rent at market rates. The project includes 88 one-bedroom units, 58 two-bedroom units, 36 three-bedroom units, and 16 four-bedroom units. There will be two play areas for children and a 1,200-square-foot swimming pool, and a community building that will house offices, a business center, a children's activity area, and community room with kitchenette for community activities. Total development cost is \$37.7 million, equaling approximately \$190,700 per square foot, which compares favorably to the \$250,000 average cost of other new construction tax credit projects under development. Project financing includes the bonds requested today, \$13.9 million from investor equity generated from about \$1.7 million in annual low income housing tax credits, \$1.8 million in NMFA gap financing, and a \$2.7 million deferred developer fee. The \$33 million volume cap request would be issued in two series of bonds, all of which will be used during the construction period. When construction is complete, about \$19.3 million will remain in the project's permanent financing, and the remaining bonds will be repaid as the remaining tax credit equity and NMFA gap financing are paid into the project to take out the construction period bonds.

Treasurer Eichenberg disclosed that he is on the board of the New Mexico Mortgage Finance Authority.

Responding to Treasurer Eichenberg, Ms. Redondo said a swimming pool in this complex would typically range from three feet to five feet in depth. Mr. Ashton added that they typically do a beach walk-in entry so children can play in the pool. Depths are limited, and safety measures are taken in securing the pool.

Mr. Cassidy moved for approval. Mr. Badal seconded the motion, which passed unanimously, with Lt. Governor Morales, Treasurer Eichenberg, Mr. Badal, and Mr. Cassidy voting in favor.

STATE TREASURER'S OFFICE

Presenter: Vikki Hanges, Chief Investment Officer, State Treasurer's Office

26. Investment Review for Quarter-Ended December 31, 2021

Ms. Hanges presented this report.

COMMUNICATIONS FROM THE BOARD

Mr. Badal wondered if NMHED is asking entities applying for new construction projects as well as renovation projects about systemic changes in the way they will be operating post-COVID. He commented that he is seeing a lot of this in the private sector, which is that a lot of companies will continue to have large numbers of their workforce continue to work remotely because it is more efficient and more economical. He said he assumed that this was also happening in the public sector, and suggested that submitting entities be asked to include information about plans about remote work and how that might inform the amount of space that is really needed. He commented that this could potentially save tens of millions of dollars a year for the state. He said he would be interested in hearing Mr. Hoehne's perspective on this at the next meeting.

Ms. Leach responded that she would work with Mr. Hoehne and possibly GSD about whether they are looking at this on a broad scale or whether this would be a question for entities when they submit.

On a question posed earlier on construction trends, Ms. Leach said she would reach out to Kenneth Simonson, chief economist with the Associated General Contractors. Mr. Simonson had made a presentation before the board at its November meeting and might be able to provide some projections.

Secretary Romero suggested that the issue of teleworking needed further exploration. Although there has been a lot of discussion about teleworking opportunities, there is a real interest in getting people back into the offices because DFA keeps hearing that the state needs to provide more and better services. While there will be exceptions, she did not think the teleworking concept would be as broad as originally believed. She thought this would also be the case with higher education institutions.

ADJOURNMENT: 9:55 a.m.




Michelle Lujan Grisham, President

March 29, 2022

Date


Michael S. Sanchez, Secretary


Date
