

NEW MEXICO STATE BOARD OF FINANCE

REGULAR MEETING

VIRTUAL ATTENDANCE AVAILABLE

Santa Fe, New Mexico

February 20, 2024

A regular meeting of the New Mexico State Board of Finance was called to order on this date at 9:00 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. Howie Morales, Lt. Governor

The Hon. Laura M. Montoya, New Mexico State Treasurer

Mr. Joseph Badal, Public Member

Mr. Paul Cassidy, Public Member

Mr. Michael S. Sanchez, Secretary, Public Member

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

Legal Counsel Present:

Mr. Blaine Moffat

2. APPROVAL OF AGENDA

A correction was made to the date on Agenda Item 20.

Member Badal moved approval of the agenda, as amended. Treasurer Montoya seconded the motion, which passed unanimously.

3. APPROVAL OF MINUTES: January 17, 2024 (Regular Meeting)

Member Badal moved approval of the January 17, 2024, minutes, as presented. Treasurer Montoya seconded the motion, which passed unanimously.

CONSENT AGENDA (Items 4-11)

Presenter: Ashley Leach, Director, Board of Finance

Submitted by: Benjamin McIntosh, Real Estate Manager, Bernalillo County

4. Bernalillo County—Requests Approval of the Lease of Real Property, Located at 3701 Condershire Drive SW in Albuquerque, with the Serenity Mesa Youth Recovery Center (\$109,782/year, services in lieu of rent)

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

Submitted by: Susan Fox, Attorney, Matthews Fox Law, Counsel to Monte de Sol Charter School

5. Monte de Sol Charter School—Requests Approval of the Sale of Real Property, Located at 4161 Walking Rain Road in Santa Fe, to CSDCPC Monte de Sol, LLC (\$330,000)

- Contingent upon director’s and counsel’s receipt and review of (1) a revised and fully executed purchase agreement and (2) favorable review of the appraisal from the Taxation and Revenue Department

Submitted by: William Provance, Airport Manager, Doña Ana County Jetport

6. Doña Ana County—Requests Approval of the Lease of Real Property, Located at Doña Ana County International Jetport (Lot-03D-South) in Santa Teresa, with JRT Aviation LLC (\$3,660.80/year, \$0.06/gallon of privately delivered fuel, 2 percent of sublease revenues)

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

7. Doña Ana County—Requests Approval of the Lease of Real Property, Located at Doña Ana County International Jetport (Lot-03E-South) in Santa Teresa, with Saratoga Homes, Inc. (\$3,659.26/year, \$0.06/gallon of privately delivered fuel, 2 percent of sublease revenues)

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

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

8. University of New Mexico—Requests Approval of Capital Expenditures for Popejoy Hall Lobby Renovation Improvements (\$2,318,799)

9. **New Mexico State University—Requests Approval of Capital Expenditures for Campus Wide Safety, Road, and Drainage Improvements (\$2,577,115)**
10. **New Mexico State University, Alamogordo—Requests Approval of Capital Expenditures for Rohovec Roof and Exterior Improvements (\$2,700,000)**
11. **New Mexico State University, Alamogordo—Requests Approval of Capital Expenditures for Reidlinger Science Center HVAC Upgrades (\$1,575,000)**

Treasurer Montoya moved to adopt Consent Agenda items 4-11. Member Cassidy seconded the motion, which passed unanimously.

INFORMATIONAL ITEMS

Presenter: Ashley Leach, Director, State Board of Finance

12. **Capital Buildings Repair Fund Financial Status Report for Month-Ended January 31, 2024**
13. **Legislative Capital Projects Financial Status Report for Month-Ended January 31, 2024**
14. **State Treasurer’s Office Investment Report for Month-Ended December 31, 2023**

15. **Emergency Balances – February 20, 2024**

	<u>Balance</u>	<u>Appropriation</u>
Operating Reserve Fund	\$2,136,692.61	\$4,000,000.00
Emergency Water Fund	\$ 49,600.00	\$ 109,900.00

Ms. Leach reported these balances.

16. **Fiscal Agent and Custodial Bank Fees Report**
17. **Joint Powers Agreements for Month-Ended January 31, 2024**
18. **Board of Finance Staff Legislative Report**

Ms. Leach reviewed the 2024 legislative summary, highlighting three bills that are consequential to the Board of Finance:

- Senate Bill 217: Severance Tax Bond distributions. Provides for a minimum distribution to the severance tax permanent fund in December of each year for ten years (FY25 to FY34). This reflects the savings of the state not issuing long-

term severance tax bonds this year. The savings for the ten-year period total an average of \$82 million per year. Combining this minimum transfer with minimum transfers established in previous sessions brings the total minimum transfer to \$197.69 million annually between FY25 and FY28, dropping to \$174 million annually for FY29 to FY34.

- **House Bill 253: Capital Outlay Changes.** Creates a new capital outlay reserve fund and a program fund that will be specifically for two purposes: the funding of capital projects totaling less than \$5 million, and planning and design only of capital projects that total more than \$5 million. In addition, the bill also caps annual capacity available for appropriation to the lesser of either the capacity as it is currently estimated, or the capacity that would maintain stable debt ratios over time. In 2023, David Paul had recommended that the board keep a very close eye on debt ratios. At that time a capped issuance would be at \$350 million, but because of the large revenues the state is receiving, traditional capacity would be at \$666 million. If that full amount were issued, the debt per capita and debt as a percentage of personal income would skyrocket, putting the state in jeopardy with its bond rating agencies. This bill allows the state to report the lesser of the two. Because of the debt service that would be created as a result, the SBOF would be sponging up the short term notes and sending them to a reserve fund that would be held by the SIC in conjunction with STO. The SIC would distribute 5 percent of the average value of the reserve fund over the last three years back to the severance tax bonding fund for the program fund, which would be available for appropriation.
- **Senate Bill 275: Capital Outlay Projects.** Authorizes the SBOF to issue up to \$30 million in severance tax bonds in FY25 to supplement funding for previously authorized tribal infrastructure projects and \$320 million in severance tax bonds in FY25 for nine named transportation projects. The authorized amount will be held for issuance in FY25, reducing available capacity in that year by the total amount.

Lt. Governor Morales said it was made clear on both sides of the aisle in the Senate that reauthorizations will become a thing of the past. He said he had mixed feelings about that because sometimes delays take place and every single appropriation can't be treated in the same way. He said local governments and communities depend on grant monies and other funding flowing to them on schedule. He asked if DFA feels there will be sufficient staff and resources to help get these grant agreements and other agreements processed in a timely manner.

Secretary Propst responded yes, dependent on the Governor signing the Senate Bill that would create a new infrastructure and planning division at DFA. He agreed that ending reauthorizations would be easier said than done. He said he would take a look into this at DFA and try to do a better job of keeping the number of reauthorizations to a minimum.

STATE TREASURER'S OFFICE

Presenter: Vikki Hanges, Chief Investment Officer, State Treasurer's Office; Anna Murphy, Portfolio Manager, State Treasurer's Office

19. Consideration of Annual State Treasurer's Investment Performance Benchmarks

Ms. Hanges stated that STO has made no changes to the existing benchmarks it has been using over the past several years, but are also adding the LGIP Medium-Term Fund.

Ms. Murphy discussed the addition of the new benchmark for the LGIP Medium-Term Fund. By statute, STO cannot invest further than three years in the LGIP, and so a conservative three-year benchmark is appropriate given that constraint. She said STO currently manages the portfolio for the Taxable Bond Proceeds Pool utilizing the conservative three-year benchmark. She said STO met with the State Investment Council to discuss this benchmark with them, and they are comfortable with it.

Treasurer Montoya moved for approval. Ms. Trevisani seconded the motion, which passed unanimously.

20. Quarterly Investment report for Quarter-Ended December 31, 2023

Ms. Hanges reported that STO managed \$15.8 billion in assets versus \$15.1 billion in assets at the end of the third quarter.

EMERGENCY FUNDING REQUESTS

Presenter: Maggie Toulouse-Oliver, New Mexico Secretary of State; Sharon Pino, Deputy Secretary of State; Gregory Rockstroh, Chief Information Officer, NM Secretary of State; Naomba Frostad, Deputy Chief Information Officer, NM Secretary of State; Justin O'Shea, Chief Financial Officer, NM Secretary of State

21. New Mexico Secretary of State—Requests Approval of an Emergency Operating Grant to Comply with Payment Card Industry Security Standards & Continue Acceptance of Payment Cards (\$240,000)

Secretary Toulouse-Oliver stated that, recently, the Secretary of State's Office (SOS) was part of a Payment Card Industry Data Security Standard (PCI-DSS) scan which identified a vulnerability that, if not rectified by April 1, 2024, will cause her office and agency to be out of compliance along with the rest of the state.

Secretary Toulouse-Oliver said the Secretary of State's Office is requesting emergency funding to remediate the PCI non-compliance in the amount of \$240,000, which is the cost to get it done by April 1 so that the entire state can remain PCI-DSS compliant.

Mr. O'Shea stated that the application that this affects is the public-facing legacy Business Filing System (BFS), which is being replaced in a phased implementation approach;

however, it will be in use until the new system replaces it. The same server also hosts the other public-facing SOS-developed election support applications. Although the SOS-developed election support applications didn't fail the recent scan, all such applications are currently hosted on the same server that triggered the failed scan result. Therefore, they want to be proactive and resolve the entire problem on that server instead of waiting for another scan to identify something down the road.

Mr. O'Shea spoke to the risk of financial penalties and potential data breaches for failing to fix this problem. He also noted that the BFS accounts for about \$250,000 in monthly credit card revenue, so it is a big system and the source of a lot of revenue for the state.

Mr. Rockstroh stated that the SOS-developed election support application includes online voter registration, online requests of absentee ballots, and the online system for delivering a ballot to visually impaired voters and receiving the ballot back.

Mr. Rockstroh stated that the SOS is pursuing a "software path" and a "server path" simultaneously. Last November, their current software vendor declined to engage in a maintenance and support contract. As a result of that, the SOS started to seek the source code so it could maintain the application with in-house staff or contract with another vendor. The source code was received about two weeks ago, and they are still in the process of making sure it is thorough and has all of the necessary elements. They plan to use the source code to rebuild the system and target it toward new servers and new versions of the web hosting software from Microsoft. They are actively engaged with a consulting vendor to work with the source code and getting it to build and deploy to newer software. The other path is to take the server that hosts the BFS system and these applications and directly upgrade the version of the operating system that is on that. They have engaged some additional server administration expertise and have a team that plan to work on the server upgrade on February 24 and 25. If either path succeeds, they will have eliminated the PCI compliance issue with the SOS as well as for the state as a whole.

Mr. Rockstroh stated that, once that goal is achieved, they will then start work on the elections applications. They are seeking additional application development staff from a consulting company to aid SOS staff to accomplish the move of those applications to a new non-vulnerable server.

Member Badal asked when the SOS learned about this problem. Mr. O'Shea responded that the scan was conducted on January 6 and they learned of the results on January 16.

Member Badal asked why the current contractor declined to continue support of the system. Mr. Rockstroh responded that the contractor is moving to a cloud-based software system. In addition, there has been staff turnover and they have lost some of the expertise that would have been needed in this case.

Member Badal asked if the SOS had to pay for the source code. Secretary Toulouse-Oliver responded that they were entitled to the source code as a result of the non-continuation of the contract; however, the SOS has found this vendor to be historically challenging to work with. The vendor brought in a new CEO, who was the fourth or fifth the SOS has worked with over the course of the contract period, and it was a challenge to finally get the source code delivered.

Member Badal commented that he has been involved in a lot of system upgrades in his career, and none of them have ever been completed by the date promised, and if this doesn't happen in a timely fashion, there could be a very dramatic impact on the entire state. He said he felt that the elected leadership at the legislative level and the Governor's Office should be on top of this on a daily basis.

Lt. Governor Morales asked whether the SOS is comfortable that the changeover will be free of problems, Mr. Rockstroh stated that they have good protocols in place in order to migrate the data and verify that it is fully available in any of the new systems without gaps.

Responding to Treasurer Montoya on the consequences of being out of compliance, Secretary Toulouse-Oliver said there would be the risk of data breaches as well as financial penalties and reputational risk.

Ms. Leach stated that, with approval by the board, the draft resolution in the packet would govern the release of funds, which will happen expeditiously given the tight timeline. The funds will be released as invoices are received from the SOS.

Treasurer Montoya moved for approval. Lt. Governor Morales seconded the motion, which passed unanimously. [Not present: Member Trevisani]

PRESENTATIONS

Presenters: Leonardo Delgado, Chief Economist, Dept. of Finance & Administration; Andrew Miner, Budget Division Director, Department of Finance & Administration; Meribeth Densmore, Sr. Budget Analyst, Department of Finance & Administration

22. Department of Finance and Administration Presentation on the Tobacco Settlement Fund

Mr. Delgado and Ms. Densmore presented slides.

Presenters: David S. Campbell, Executive Director, Lobo Development Corporation; Theresa Costantinidis, CEO, Lobo Development Corporation and Executive Vice President, UNM.

23. South Campus Tax Increment Development District Annual Presentation

Mr. Campbell noted that no bonds have yet been issued by the South Campus TIDD, but there has been a great deal of development activity. He presented an update on activities at the Gibson Town Center.

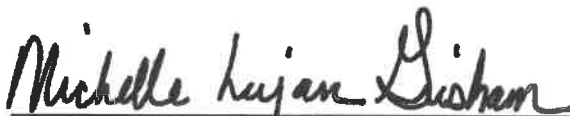
Mr. Campbell said the Board of Finance has asked Lobo Development Corporation (LDC) to address what measures are being taken to address crime in the TIDD. In April 2023, the Albuquerque Police Department (APD) opened a Command Center owned by UNM in the South Campus TIDD District, which is open and operating at 1009 Bradbury SE in the UNM Science and Technology Park. There are more than 40 full-time sworn APD officers working from the facility, and discussions with the City of Albuquerque are underway for a new Area Command headquarters facility to be located within the South Campus TIDD.

Mr. Campbell stated that, following a September shooting at Isotopes Park, Vice President Costantinidis convened a summit of law enforcement personnel from around the area to come up with some solutions. This has resulted in productive dialogue among the law enforcement agencies involved, and he feels this has materially helped with the law enforcement situation there. Also, a large retailer interested in the Gibson Town Center was concerned about retail theft and asked for more information. LDC and UNM helped to facilitate meetings with the retailer's corporate officials, who came to Albuquerque and participated in presentations from UNM, APD, and the District Attorney.

Member Sanchez recalled that the Interstate was going to be changed to accommodate all of the developments on the South Campus. Mr. Campbell responded that there is a working group within NMDOT that is discussing changes at the Gibson Interchange. This will impact the Gibson entrance and exit at the TIDD site. NMDOT is working on another project at the current time, however. They are also planning to eliminate the "S" curve at Cesar Chavez going north into the downtown area. This may require some takings of land from APS and a portion of the TIDD.

Member Sanchez asked if LDC has met with the neighborhood associations to see if they are in favor of all of the excess traffic that will be accumulating in the area. Ms. Costantinidis responded that, as part of the TIDD process, they did meet with all of the affected neighborhood associations, and the people in that area were very supportive of the TIDD because of new jobs, access to groceries, etc.

ADJOURNMENT: 11:05 a.m.



Michelle Lujan Grisham, President

3/27/24
Date

Michael S. Sanchez
Michael S. Sanchez, Secretary

3/27/24
Date