

NEW MEXICO STATE LEGISLATURE

INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

2008

INTERIM REPORT



**Legislative Council Service
411 State Capitol
Santa Fe, New Mexico**

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REPORT OF THE INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

Introduction

The Investments and Pensions Oversight Committee is the successor to the State Permanent Fund Task Force, originally created in 2003 by Senate Joint Memorial 14 and continued pursuant to Senate Joint Memorial 13 of the 2005 regular session. House Bill 212 in the 2006 session would have created a statutory legislative interim committee to carry on the work of the task force; however, the bill was pocket-vetoed by Governor Richardson. Since 2006, the Investments and Pensions Oversight Committee has been created each interim by the New Mexico Legislative Council.

Membership

The committee consisted of 10 voting members and 15 advisory members, including members of the legislature and certain designated public officials. The voting members appointed by the Legislative Council for the 2008 interim were:

- Senator John Arthur Smith, Chair
- Representative John A. Heaton, Vice Chair
- Representative Donald E. Bratton
- Senator Joseph J. Carraro
- Senator Phil A. Griego
- Representative Larry A. Larrañaga
- Senator Carroll H. Leavell
- Senator Mary Kay Papen
- Representative Henry Kiki Saavedra
- Representative Jim R. Trujillo
- Representative Luciano "Lucky" Varela

The advisory members appointed by the Legislative Council for the 2008 interim were:

Legislative Members

- Representative Andrew J. Barreras
- Senator Pete Campos
- Senator Carlos R. Cisneros
- Representative Miguel P. Garcia
- Senator Stuart Ingle
- Representative Patricia A. Lundstrom
- Representative John Pena
- Representative Jane E. Powdrell-Culbert
- Senator Leonard Lee Rawson
- Senator Michael S. Sanchez
- Senator H. Diane Snyder
- Representative Sheryl Williams Stapleton

- Representative Eric A. Youngberg

Public Officials

- Gary Bland, State Investment Council
- Robert Gish, Public Employees Retirement Association
- Robert Jacksha, Educational Retirement Board
- James Lewis, State Treasurer
- Olivia Padilla-Jackson, State Board of Finance

The committee received staff support from the Legislative Council Service and the Legislative Finance Committee.

Work During the 2008 Interim

During the 2008 interim, the committee met four times, with all meetings at the State Capitol in Santa Fe. The committee examined the performance of state investments, with reports from the State Investment Council, the State Treasurer, the Public Employees Retirement Association, the Educational Retirement Board and the Retiree Health Care Authority. The committee focused on investment policies and practices, the role of the oversight boards in monitoring investments and the actuarial condition of the retirement funds. The committee received testimony from several groups of employees that are seeking a change in retirement benefits and also considered the possibility of changes to retirement benefit structures to protect future fund solvency.

The final meeting of the committee, scheduled for November, was cancelled and not rescheduled; thus, the committee did not endorse any legislation.

Appendix A

2008 Interim Work Plan

**2008 APPROVED
WORK PLAN AND MEETING SCHEDULE
for the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

Members

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Joseph J. Carraro
Sen. Phil A. Griego
Rep. Larry A. Larrañaga

Sen. Carroll H. Leavell
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Advisory Members

Rep. Andrew J. Barreras
Gary Bland, State Investment Council
Sen. Pete Campos
Sen. Carlos R. Cisneros
Rep. Miguel P. Garcia
Robert Gish, Public Employees Retirement
Association
Sen. Stuart Ingle
Robert Jacksha, Educational Retirement
Board
James Lewis, State Treasurer

Rep. Patricia A. Lundstrom
Olivia Padilla-Jackson, Board of Finance
Rep. John Pena
Rep. Jane E. Powdrell-Culbert
Sen. Leonard Lee Rawson
Sen. Michael S. Sanchez
Sen. H. Diane Snyder
Rep. Sheryl Williams Stapleton
Rep. Eric A. Youngberg

Work Plan

During the 2008 interim, the committee proposes to focus on the following activities:

1. continue its examination of the investment and financial management practices of the state investment council, the state treasurer, the public employees retirement association and the educational retirement board. In addition, the committee will review New Mexico finance authority bond financing;
2. review reporting procedures and benchmarks and alternative investment opportunities, including economically targeted investments, to ensure the highest rate of return on investment of public funds;
3. receive testimony on the actuarial condition of the retirement funds and the retiree health care authority. The committee will review the composition of the board of the retiree health care authority; and
4. analyze and provide recommendations on any requests to change retirement benefits. The committee will receive a report concerning volunteer firefighters retirement benefits.

2008 APPROVED MEETING SCHEDULE

<u>Date</u>	<u>Location</u>
June 11	Santa Fe
July 1	Santa Fe
August 12	Santa Fe
September 8	Santa Fe
October 15	Santa Fe

Appendix B

Agendas and Minutes of Meetings

**TENTATIVE AGENDA
for the
FIRST MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**June 11, 2008
Room 307, State Capitol
Santa Fe**

Wednesday, June 11

- 10:00 a.m. **Call to Order**
- 10:10 a.m. **Interim Legislative Committee Protocols**
—Paula Tackett, Director, Legislative Council Service
- 10:45 a.m. **Discussion and Adoption of Interim Work Plan**
- 11:15 a.m. **Review of Committee-Sponsored 2008 Legislation: HB 184 (State Treasurer),
HB 198 (Investments and Pensions Oversight Committee), SB 67 (Retiree
Health Care Authority), SB 150 (State Investment Council Board)**
—Cleo Griffith, Legislative Council Service
- 11:30 a.m. **Discussion of Agenda Topics for Future Meetings**
- 12:00 noon **Adjourn**

Revised: June 30, 2008

**TENTATIVE AGENDA
for the
SECOND MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**July 1, 2008
Room 307, State Capitol
Santa Fe**

Tuesday, July 1

- 10:00 a.m. **Call to Order**
- 10:05 a.m. **New Mexico Finance Authority (NMFA); Financing Debt Service**
—Mark Valenzuela, Director, Intergovernmental Relations, NMFA
- 10:45 a.m. **Legislative Finance Committee (LFC); Overview of Investment Performance**
—Michelle Aubel, Fiscal Analyst, LFC
—Dan White, Economist, LFC
- 11:00 a.m. **State Investment Council (SIC); Investment Update**
—Gary Bland, Chief Investment Officer, SIC
- 12:00 noon **Lunch**
- 1:30 p.m. **Public Employees Retirement Association (PERA); Investment Update**
—Bob Gish, Chief Investment Officer, PERA
- 2:30 p.m. **PERA; Unreconciled Accounts**
—Kurt Weber, Deputy Director of Operations, PERA
—Anthony Armijo, Financial Operations, Department of Finance and
Administration
- 3:30 p.m. **Educational Retirement Board (ERB); Actuarial Update From 2007**
—Jan Goodwin, Executive Director, ERB
—Bob Jacksha, Chief Investment Officer, ERB
- 4:30 p.m. **Approval of the Minutes of the June 11, 2008 Meeting**
- Adjourn**

**TENTATIVE AGENDA
for the
THIRD MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**September 8, 2008
Room 307, State Capitol
Santa Fe**

Monday, September 8

- 10:00 a.m. **Call to Order**
- 10:10 a.m. **Approval of the Minutes of the July 1, 2008 meeting**
- 10:10 a.m. **Retiree Health Care Authority (RHCA); Update on Fund Solvency; Board Recommendations to Improve Solvency**
—Alfredo Santistevan, Chair, RHCA
—Wayne Propst, Executive Director, RHCA
—Gary Petersen, Segal Company
- 11:30 a.m. **RHCA; Governance; Composition of the Board**
—Alfredo Santistevan, Chair, RHCA
- 12:00 noon **Lunch**
- 1:30 p.m. **Volunteer Firefighter Retirement**
—John Standifore, State Fire Marshal
- 2:30 p.m. **New Mexico Bond Rating**
—Olivia Padilla-Jackson, Director, State Board of Finance
- 3:00 p.m. Investment Performance for Fiscal Year 2008
—Gary Bland, State Investment Council
—Bob Gish, Public Employees Retirement Association
—Bob Jacksha, Educational Retirement Board
- 4:00 p.m. **Committee Discussion of Draft Legislation**
- 4:30 p.m. **Adjourn**

**TENTATIVE AGENDA
for the
FOURTH MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**October 15, 2008
Room TBA, State Capitol
Santa Fe**

Wednesday, October 15

- 10:00 a.m. **Call to Order**
- 10:10 a.m. **Approval of the Minutes of the September 8, 2008 Meeting**
- 10:10 a.m. **SHARE Update**
—Anthony Armijo, Department of Finance and Administration
- 10:45 a.m. **The Emergency Economic Stabilization Act of 2008**
—Paul Sheard, Barclay's Capital
—Steve Nesbitt, Cliffwater
- 11:30 a.m. **The Credit Crisis Impact on New Mexico**
—Dan White, Legislative Finance Committee
- 12:00 noon **Lunch**
- 1:30 p.m. **Investment Performance before and after the Federal Rescue Program**
—Gary Bland, State Investment Council
—Bob Gish, Public Employees Retirement Association
—Jan Goodwin, Educational Retirement Board
—James Lewis, State Treasurer
- 2:30 p.m. **Juvenile Corrections Officers Retirement Plan**
—Paula Fisher, Juvenile Corrections Officer, Children, Youth and Families
 Department
- 3:30 p.m. **Adjourn**

**MINUTES
of the
FIRST MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**June 11, 2008
State Capitol
Santa Fe**

The first meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Senator John Arthur Smith, chair, on Wednesday, June 11, 2008, at 10:00 a.m. at the State Capitol in Santa Fe.

Present

Sen. John Arthur Smith, Chair
Sen. Joseph J. Carraro
Rep. Larry A. Larrañaga
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Phil A. Griego
Sen. Carroll H. Leavell
Sen. Mary Kay Papen

Advisory Members

Rep. Andrew J. Barreras
Sen. Carlos R. Cisneros
Rep. Miguel P. Garcia
Bob Gish, Public Employees Retirement
Association (PERA)
Adam Levine for Gary Bland, State
Investment Council (SIC)
Rep. Patricia A. Lundstrom
Olivia Padilla-Jackson, State Board of
Finance
Rep. John Pena
Rep. Jane E. Powdrell-Culbert
Sen. H. Diane Snyder
Rep. Eric A. Youngberg

Sen. Pete Campos
Sen. Stuart Ingle
Bob Jacksha, Educational Retirement
Board (ERB)
James Lewis, State Treasurer
Sen. Leonard Lee Rawson
Sen. Michael S. Sanchez
Rep. Sheryl Williams Stapleton

Staff

Michelle Aubell, Legislative Finance Committee (LFC)
Doris Faust, Legislative Council Service (LCS)
Norton Francis, LFC
Cleo Griffith, LCS
Wayne Propst, LFC
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Interim Legislative Committee Protocols

—Paula Tackett, Director, LCS

Ms. Tackett reviewed interim committee protocols, beginning with the establishment of a quorum and the exceptions to the quorum rule. She also reviewed the rules with respect to voting, noting that only voting members may vote and that, in the case of a roll call, only the vote of voting members will be recorded. Ms. Tackett cited the "blocking" provision as it applies to voting.

Ms. Tackett encouraged the committee to accept the recommended meeting dates in order to avoid conflicts.

Senator Smith noted that he wants potential witnesses cleared by the committee chair.

Representative Varela stated that staff need to control the witness list and prevent last-minute additions to agendas.

Discussion and Adoption of Interim Work Plan

—Doug Williams, LCS

Mr. Williams reviewed the tentative work plan. In addition to the items listed, the committee will review New Mexico Finance Authority bond financing, the composition of the New Mexico Retiree Health Care Authority (RHCA) Board, problems with unreconciled payroll records at the PERA and a report concerning volunteer firefighters' retirement benefits.

The committee adopted the work plan, meeting dates and locations.

Review of Committee-Sponsored 2007 Legislation: HB 184 (State Treasurer), HB 198 (Investments and Pensions Oversight Committee), SB 67 (RHCA) and SB 150 (SIC)

—Cleo Griffith, Staff Attorney, LCS

Ms. Griffith reviewed the status of legislation sponsored by the committee during the 2008 session. She noted that the only bill that became law was the state treasurer's legislation relating to the local government investment pool.

Senator Smith applauded Senator Carraro on his initiative in creating the Investments and Pensions Oversight Committee (IPOC).

Mr. Propst summarized the retiree contribution increase approved by the RHCA Board. He also noted that, in the opinion of the RHCA counsel, the present structure of the fund is substantially equivalent to an irrevocable trust.

Review of Investment Performance

—Norton Francis, Chief Economist, LFC

Total fund investment returns ranged between negative 5.5 percent and negative 6.9 percent for the quarter, lagging their respective benchmarks across the board. The Land Grant

Permanent Fund and the Severance Tax Permanent Fund, both managed by the SIC, lost 5.6 percent and 5.7 percent, respectively. The ERB returned a negative 5.5 percent while the PERA reported the largest decline at a negative 6.9 percent return. The PERA notes that this third-quarter performance, 157 basis points below its benchmark, was the worst in its history. The agency attributes the underperformance to a benchmark primarily to its fixed-income portfolio.

Mr. Gish noted that the PERA is short of its eight percent goal on an annual basis. He stated that only five percent of assets are invested in alternative investments. He said that these past two quarters are the worst in the past 10 years. The PERA's asset allocations remain unchanged. Diversification is functioning to protect the PERA's assets.

Senator Carraro asked if the LFC has evaluated the performance of state investments in hedge funds. Mr. Francis responded that the LFC has been evaluating hedge fund performance and that the second quarter report should be available in one week.

Representative Varela requested a second-quarter performance report from the ERB, the PERA and the SIC at the committee's August meeting.

The committee adjourned at 12:00 noon.

**MINUTES
of the
SECOND MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**July 1, 2008
State Capitol
Santa Fe**

The second meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Senator John Arthur Smith, chair, on Wednesday, July 1, 2008, at 10:00 a.m. at the State Capitol in Santa Fe.

Present

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Joseph J. Carraro
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Sen. Phil A. Griego

Advisory Members

Rep. Andrew J. Barreras
Gary Bland, State Investment Council
Rep. Miguel P. Garcia
Bob Gish, Public Employees Retirement Association
Bob Jacksha, Educational Retirement Board
James Lewis, State Treasurer
Sen. Leonard Lee Rawson
Olivia Padilla-Jackson, State Board of Finance

Sen. Pete Campos
Sen. Carlos R. Cisneros
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Rep. John Pena
Rep. Jane E. Powdrell-Culbert
Sen. Michael S. Sanchez
Sen. H. Diane Snyder
Rep. Sheryl Williams Stapleton
Rep. Eric A. Youngberg

Staff

Michelle Aubell, Legislative Finance Committee (LFC)
Doris Faust, Legislative Council Service (LCS)
Norton Francis, LFC
Jeret Fleetwood, LCS
Wayne Propst, LFC
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Tuesday, July 1

Approval of the Minutes of the June 11, 2008 Meeting

The minutes of the June 11, 2008 meeting were adopted unanimously.

New Mexico Finance Authority (NMFA); Financing Debt Service

—Mark Valenzuela, Director, Intergovernmental Relations, NMFA

—John Duff, Chief Financial Officer, NMFA

Mr. Valenzuela made a presentation concerning the NMFA bond portfolio. He explained that insurance companies that supported NMFA investments in auction rate securities were heavily invested themselves in the subprime mortgage market. With the onset of the subprime crisis, the rating of the insurance companies dropped from AAA to AA, A or less. This, in turn, caused the pool of investors to shrink and triggered a contractual increase in the interest rate that the NMFA was required to pay because of the inability to find investors. He noted that the NMFA is no longer participating in auction rate securities. The NMFA has shifted to variable rate demand notes that are supported by a letter of credit from a bank.

Representative Larrañaga asked about the policy for issuing future bonds. Mr. Valenzuela responded that no new bonds are expected to be issued until 2010. The NMFA's policy has not changed, and the possibility of variable rate notes will be considered at that time.

Representative Heaton requested staff to review the NMFA statutes with respect to interest rates that may be paid on bonds and to explore the possibility of according the NMFA additional flexibility in structuring bond interest rates.

Representative Varela thinks that the legislature needs to be better informed about revenue collections and the cost of health insurance.

LFC; Overview of Investment Performance

—Michelle Aubel, Fiscal Analyst, LFC

—Dan White, Economist, LFC

Ms. Aubel provided an overview of state investment performance for the first quarter of 2008.

State Investment Council (SIC); Investment Update

—Gary Bland, Chief Investment Officer, SIC

—Adam Levine, Deputy Investment Officer, SIC

Mr. Bland made a presentation concerning SIC investment performance.

Mr. Lewis asked about trying to time the market. Mr. Bland responded that he does not believe in trying to time the market; however, he believes it is important to recognize a down market.

Representative Bratton asked about participation in hedge funds. Mr. Bland responded that the SIC has instructed its hedge fund manager to avoid energy and food futures. He stated that he believes that public investment agencies have a moral obligation not to speculate in food and energy.

Representative Varela asked for an update on investment performance at the committee's August meeting.

Representative Heaton observed that it is important to maintain a long-term perspective when it comes to investing.

Senator Smith asked if there is an opportunity in the subprime crisis. Mr. Bland stated that subprime investments have already been written down and they are now being bid up.

Public Employees Retirement Association (PERA); Investment Update

—Bob Gish, Chief Investment Officer, PERA

Mr. Gish presented an overview of the PERA investment performance.

Senator Carraro asked how frequently the PERA meets with its active investment managers. Mr. Gish stated that there are annual meetings with each of the 24 fund managers and routine telephone contact by PERA staff. Also, the PERA has placed Alliance Bernstein on the watch list and has met with this manager twice in the past year.

Representative Saavedra asked why the PERA would put a fund manager on the watch list when all the market benchmarks are down. Mr. Gish stated that the PERA compares its fund managers to their peers and acts accordingly.

Senator Carraro asked why the PERA does not simply invest in three-month treasury bills because at least there would be a positive return instead of a loss. Mr. Gish observed that the rate of return from treasury bills is insufficient to meet the PERA's overall target of eight percent.

Representative Bratton asked about the impact of the last quarter's performance on the funded ratio. Mr. Gish stated that there will be a negative effect, but it will be small. Representative Bratton noted that different groups are always seeking improved retirement benefits based on the assumed eight percent rate of return. Mr. Gish responded that the key to improving benefits is appropriate contributions.

PERA; Un-Reconciled Accounts

—Kurt Weber, Deputy Director of Operations, PERA

—Anthony Armijo, Financial Operations, Department of Finance and Administration

Mr. Weber and Mr. Armijo reported on the issue of suspended records.

Representative Varela noted that the state auditor believes that the SHARE system is manageable. However, Representative Varela observed that the number of errors in suspended records began in fiscal year 2006, when SHARE was implemented, and has increased every year since.

Representative Varela requested a report regarding the number of errors that have been resolved.

Mr. Armijo stated that the number of errors represents 1.5 percent of all transactions sent to the PERA. He also said that the core of the problem is a matter of definitions between the payroll system and the PERA's system. As an example, the payroll system records the date when an employee is hired, while the PERA system is keyed to an employee's change of status, e.g., the date an employee's status changes from temporary to permanent.

Representative Varela asked when this issue will be resolved. Mr. Armijo responded that the target for fixing the interface is September 30, 2008. In terms of fixing the employee accounts, it is unknown when this issue will be resolved.

Representative Bratton observed that 95 percent of the problem is related to the date issue.

Educational Retirement Board (ERB); Actuarial Update from 2007

—Jan Goodwin, Executive Director, ERB

—Bob Jacksha, Chief Investment Officer, ERB

Ms. Goodwin and Mr. Jacksha reviewed the actuarial status of the ERB.

Mr. Jacksha noted that one year of poor performance will not have a significant impact on the funded ratio because the ERB uses a five-year smoothing approach.

Senator Smith encouraged Ms. Goodwin to explore transitioning from defined benefit to defined contribution. Ms. Goodwin noted that defined contribution retirement plans are not a panacea.

The committee adjourned at 4:30 p.m.

**MINUTES
of the
THIRD MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**September 8, 2008
State Capitol, Santa Fe**

The third meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Representative Luciano "Lucky" Varela on Monday, September 8, 2008, at 10:20 a.m. at the State Capitol in Santa Fe.

Present

Sen. Joseph J. Carraro
Rep. Donald E. Bratton
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Sen. Phil A. Griego

Advisory Members

Rep. Andrew J. Barreras
Rep. Miguel P. Garcia
Bob Gish, Public Employees Retirement
Association (PERA)
Bob Jacksha, Educational Retirement
Board (ERB)
Adam Levine for Gary Bland, State
Investment Council (SIC)
James Lewis, State Treasurer
Olivia Padilla-Jackson, State Board of
Finance
Rep. John Pena
Rep. Jane E. Powdrell-Culbert

Sen. Pete Campos
Sen. Carlos R. Cisneros
Sen. Stuart Ingle
Rep. Patricia A. Lundstrom
Sen. Leonard Lee Rawson
Sen. Michael S. Sanchez
Rep. Sheryl Williams Stapleton
Sen. H. Diane Snyder
Rep. Eric A. Youngberg

Staff

Doris Faust, Legislative Council Service (LCS)
Jeret Fleetwood, LCS
Cleo Griffith, LCS
Dan White, Legislative Finance Committee (LFC)
Doug Williams, LCS

Guests

The guest list is in the meeting file.

The minutes of the July 1, 2008 meeting were adopted unanimously.

Retiree Health Care Authority (RHCA); Update on Fund Solvency; Board Recommendations to Improve Solvency

- Alfredo Santistevan, Chair, RHCA
- Wayne Propst, Executive Director, RHCA
- Gary Petersen, Segal Company

Mr. Propst provided an overview of the financial condition of the RHCA.

Mr. Petersen reviewed the fiscal year 2010 budget request.

Mr. Santistevan presented the proposed legislative changes approved by the RHCA board.

Senator Leavell expressed concern about the subsidy for retirees with only five years of service. Mr. Propst explained that all of the current beneficiaries have at least 20 years of service.

Representative Larrañaga asked about the impact of migration from the gold to silver plan. Mr. Petersen responded that if all gold plan members switched to the silver plan, solvency would be reduced by approximately 18 months.

Representative Larrañaga asked about investment performance. It was noted that for the year ending June 30, 2008, the RHCA investment return was minus 3.4 percent compared to a benchmark return of minus 5.9 percent. Mr. Santistevan stated that the board is investigating the possibility of contracting with an advisor for guidance on asset allocation. Mr. Levine stated that the SIC makes asset allocation decisions for trust funds, but not for investments managed through a joint powers agreement.

Representative Varela observed that every investment agency hires its own investment advisors and that there should be a consolidation of investment advisor capabilities.

Terry Slattery, executive director, PERA, stated that RHCA benefits from the economy of scale provided by the SIC and has special asset allocation needs because of liquidity considerations.

Representative Larrañaga encouraged the board to seek investment advice from Mr. Slattery, Mr. Bland, Mr. Lewis and others before engaging an outside contractor.

Representative Trujillo asked about retiree premium increases. Mr. Santistevan responded that the board does not intend to change premiums before January 1, 2010.

Representative Trujillo said that some retirees receive a pension calculated under the old two percent plan and should get special consideration with respect to health care premiums. Mr.

Slattery stated that there are, indeed, retirees who are receiving 50 percent of their salary after 25 years of service; however, they have been receiving annual cost-of-living increases.

Representative Varela stated that the fiscal year 2009 budget includes funding for an increase in the employee's share of RHCA contributions; however, the failure of the RHCA bill to pass leaves the additional agency appropriations in limbo.

Representative Varela questioned why an agency of 22 has five exempt positions.

RHCA; Governance; Composition of the Board

—Alfredo Santistevan, Chair, RHCA

Mr. Propst reviewed the changes to the board that had been proposed by the legislature during the regular 2008 session. Mr. Santistevan noted that there is a requirement in law that board members must represent organizations that are participants in the RHCA benefit plan.

Representative Varela suggested that perhaps a change in law is needed.

Volunteer Firefighter Retirement

—John Standifore, State Fire Marshal

Mr. Standifore explained the process by which volunteer firefighter service is reported to PERA.

The volunteer firefighters are proposing a change to the requirements that qualify for a year of creditable service. Also, they are proposing legislation that would allow PERA to remove inactive names to an inactive database that would allow the actuaries to exclude the inactive firefighters from their projections.

Mr. Slattery stated that PERA has been cleaning its database and the number of volunteer firefighters has been reduced from 16,000 to 6,000. There are currently 338 retired volunteer firefighters.

Senator Leavell noted that volunteer firefighters are important because New Mexico is a rural state.

New Mexico Bond Rating

—Olivia Padilla-Jackson, Director, State Board of Finance

Ms. Padilla-Jackson presented an overview of New Mexico's credit rating. She noted that rating agencies would prefer to see reserve requirements established in law; however, the current reserves are approximately 10 percent of recurring expenditures, which is double that of most states.

Representative Varela noted that, unlike the budget process, there is no statutory process for capital planning. Most other states do have a capital planning process and the LFC has been asked to recommend a process.

Senator Carraro observed that the capital process is haphazard, and the rating agencies are judging the state because of the absence of a priority planning process for capital outlay.

Representative Larrañaga asked about an impact on bond rating from transportation bonds. Ms. Padilla-Jackson stated that the bond rating is only impacted by debt that affects the general fund. Transportation bonds are special obligation bonds financed from a dedicated source.

Representative Varela requested that the New Mexico Finance Authority testify regarding the issuance of GRIP bonds.

Ms. Padilla-Jackson observed that only eight other states have an AA+ bond rating and only nine states have a better (AAA) rating.

Investment Performance for Fiscal Year 2008

- Adam Levine, SIC
- Bob Gish, PERA
- Bob Jacksha, ERB

Mr. Levine made a presentation of the SIC investment performance for fiscal year 2008.

In total, SIC lost \$629.5 million; however, assets increased from \$15.1 billion to \$15.4 billion due to contributions.

Senator Carraro asked why the internal staff money managers are outperforming the external managers. Mr. Levine responded that the staff managers are focused and motivated.

Mr. Gish presented an overview of PERA investment performance for fiscal year 2008. In total, PERA lost 7.4 percent of its assets while the benchmark was minus 4.06 percent. Thus, PERA's actual performance was 3.34 percent worse than the benchmark.

Mr. Jacksha presented an overview of ERB fiscal year 2008 investment performance. In total, ERB lost \$575.1 million.

The committee voted to meet on November 5, 2008 in Santa Fe in lieu of the August meeting that was canceled. The committee adjourned at 4:30 p.m.

**MINUTES
of the
FOURTH MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE**

**October 15, 2008
State Capitol
Santa Fe**

The fourth meeting of the Investments and Pensions Oversight Committee for the 2008 interim was called to order by Senator John Arthur Smith, chair, on Wednesday, October 15, 2008, at 10:00 a.m. at the State Capitol in Santa Fe.

Present

Sen. John Arthur Smith, Chair
Rep. John A. Heaton, Vice Chair
Rep. Donald E. Bratton
Sen. Joseph J. Carraro
Rep. Larry A. Larrañaga
Sen. Mary Kay Papen
Rep. Henry Kiki Saavedra
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent

Sen. Phil A. Griego
Sen. Carroll H. Leavell

Advisory Members

Rep. Andrew J. Barreras
Gary Bland, State Investment Council
Bob Gish, Public Employees Retirement Association
Sen. Stuart Ingle
Bob Jacksha, Educational Retirement Board
Rep. Miguel P. Garcia
James Lewis, State Treasurer
Olivia Padilla-Jackson, State Board of Finance
Rep. John Pena
Rep. Sheryl Williams Stapleton
Rep. Eric A. Youngberg

Sen. Pete Campos
Sen. Carlos R. Cisneros
Rep. Patricia A. Lundstrom
Rep. Jane E. Powdrell-Culbert
Sen. Leonard Lee Rawson
Sen. Michael S. Sanchez
Sen. H. Diane Snyder

Staff

Michelle Aubel, Legislative Finance Committee (LFC)
Doris Faust, Legislative Council Service (LCS)
Jeret Fleetwood, LCS
Cleo Griffith, LCS
Aurora Sanchez, LFC
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Wednesday, October 15

The minutes of the September 8, 2008 meeting were approved.

SHARE Update

—Anthony Armijo, Department of Finance and Administration (DFA)

Mr. Armijo presented an update on the status of SHARE, including the implementation of different modules, performance enhancements and the necessary maintenance upgrades.

Mr. Armijo also reported on the progress that has been made in improvements to the Public Employees Retirement Association (PERA) interface with SHARE.

Senator Carraro asked if the Department of Information Technology (DOIT) is cooperating with the DFA. Mr. Armijo responded that Marlin Mackey, secretary of information technology, is fully cooperating.

Representative Bratton stated that the PERA interface needs to allow for a seamless transfer of employees between one agency and another.

Representative Larrañaga asked if the planning for SHARE was not done properly in the beginning. Mr. Armijo responded that there was no provision for the creation of an implementation team, which was assembled from volunteers from state agencies. When the system was turned on, all the volunteers went back to their respective agencies.

Representative Larrañaga asked what will happen if the appropriation request of \$11.5 million is not approved. Mr. Armijo stated that the basic operation of SHARE will continue; however, problems concerning the speed of operation will not be fixed.

Representative Varela asked how many data errors are in the PERA system. Ms. Sanchez stated that there are currently 35,000 errors that total approximately \$9 million.

The Market Crisis, Bailouts and the Impact on Investments

—Stephen Nesbitt, Chief Executive Officer, Cliffwater, LLC

—Bob Gish, PERA

Mr. Nesbitt provided an overview of the market crisis. He stated that, nationally, pension funds have lost approximately one-half trillion dollars and that funded ratios will decline from 90% to 70%. This is the largest decline since 2002. In comparison, the crash of 1929 caused a loss of 85% of the value of stocks and the market took 15 years to recover.

Mr. Nesbitt stated he believes that the stock market recovery will correlate with the national economic recovery. The economy is very likely in a recession at present and the underlying cause is a reduction in consumer spending.

Mr. Gish stressed that diversification is still the key to recovery of the PERA portfolio rather than attempting to time the market.

Senator Smith asked about the status of Lehman Brothers. Mr. Nesbitt responded that he believes that Lehman Brothers was a casualty of public opinion opposed to government bailout.

Senator Smith asked about the real estate market and when financial institutions will return to sound lending practices. Mr. Nesbitt responded that, in the past, banks and lending institutions held mortgages and had a stake in their lending practices. Beginning in 2000, a process developed whereby banks and lending institutions sold mortgages immediately, recaptured their assets and had no downside in the process. This practice needs to change because the cause of the economic downturn started with the housing crisis and will not improve until the housing crisis turns around.

Representative Bratton observed that when a public pension fund providing defined benefits cannot pay the benefits, the result is increased taxes. He also observed that the \$700 billion government bailout plan will be financed by printing money. This will result in higher inflation. Mr. Nesbitt noted that inflation over the past 20 years has been about 3%, even with an infusion of money following the savings and loan crisis. The reason is because the Federal Reserve withdrew liquidity when the economy and markets turned around. The result kept inflation under control.

Juvenile Corrections Officers Retirement Plan

—Paula Fisher, Juvenile Corrections Officer, Children, Youth and Families Department (CYFD)

Ms. Fisher presented a request for enhanced retirement for juvenile corrections officers just like that already enjoyed by adult corrections officers. There are 250 officers statewide. Corrections officers must staff facilities 24 hours a day, seven days a week and on holidays.

She also stated that the enhanced retirement would only affect 10 officers who are preparing to retire in the near term.

Representative Varela asked for an updated actuarial study given the current market crisis. Carter Bundy, AFSCME, stated that a new study can be prepared by November.

Senator Smith agreed that the equity argument for juvenile corrections officers is extremely valid. The question is the cost to state government. He stated that he would like to see an actuarial study that looks out four years.

Senator Smith suggested that the legislature will probably also receive requests for enhanced retirement from the motor transportation police and district attorneys.

Investment Performance Before and After the Federal Rescue Program

—Gary Bland, State Investment Council (SIC)

—Bob Gish, PERA

—Bob Jacksha, Educational Retirement Board (ERB)

—James Lewis, State Treasurer

Representatives of the investment agencies and the state treasurer summarized the impact of recent market fluctuations on investment performance.

Since June 30, 2008:

- the permanent funds have lost \$2.5 billion and now have assets of \$12.9 billion;
- PERA has lost \$1.5 billion and now has assets of \$9.7 billion; and
- ERB has lost \$1.5 billion and now has assets of \$7.2 billion.

The Credit Crisis Impact on New Mexico

—Dan White, LFC

Mr. White presented an analysis of the impact of the credit crisis on New Mexico.

Senator Carraro asked about collusion among rating agencies. Mr. White responded that Connecticut has filed a lawsuit against Moody's, Fitch's and Standard and Poor's.

Representative Bratton suggested that the drop in natural gas prices may be influenced by increased Canadian production. Both Canada and New Mexico sell primarily to California.

The committee adjourned at 3:30 p.m.