

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

**December 10, 2020  
Video Conference Meeting**

The third meeting of the Investments and Pensions Oversight Committee (IPOC) was called to order by Senator George K. Munoz, chair, on Thursday, December 10, 2020, at 9:04 a.m. by video and audio conference via an online platform.

**Present**

Sen. George K. Munoz, Chair  
Rep. Patricia Roybal Caballero, Vice Chair  
Rep. Natalie Figueroa  
Rep. Miguel P. Garcia  
Sen. Gay G. Kernan  
Sen. Steven P. Neville  
Rep. William "Bill" R. Rehm  
Rep. Tomás E. Salazar  
Sen. John M. Sapien  
Sen. Elizabeth "Liz" Stefanics

**Absent**

Sen. Jacob R. Candelaria  
Sen. Gregg Fulfer

**Advisory Members**

Sen. Roberto "Bobby" J. Gonzales  
Rep. Sheryl Williams Stapleton

Rep. Phelps Anderson  
Sen. William F. Burt  
Sen. Stuart Ingle  
Sen. Mary Kay Papen  
Sen. William H. Payne  
Sen. James P. White

**Staff**

Anthony Montoya, Staff Attorney, Legislative Council Service (LCS)  
Erin Bond, Research Assistant, LCS  
Rebecca Griego, Records Officer, LCS  
Carrie McGovern, Researcher, LCS

**Minutes Approval**

Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

## **Handouts**

Copies of all handouts and written testimony are in the meeting file and posted on the legislature's website.

## **Thursday, December 10**

### **Pension Obligation Bonds (9:05 a.m.)**

Erik Harrigan, managing director, RBC Capital Markets, LLC, provided the committee with an overview of pension obligation bonds (POBs). The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20121020%20Item%201%20Pension%20Obligation%20Bonds.pdf>.

Questions and comments from committee members addressed the following:

- the average term to maturity of POBs is 30 years, making them long-term bonds; this long-term debt means interest rates are higher;
- POBs are taxable on a federal basis;
- rating agencies look favorably on POBs because unfunded liability is decreased. As obligations are reduced, rating agencies perceive this as positive. Bonds were rated AA- by Standard and Poor's and A+ by Fitch Ratings, and these bonds have a 10-year par call; and
- the Educational Retirement Board's (ERB's) rate of return for fiscal year (FY) 2019 was 7.25%.

### **Approval of Minutes**

On a motion made, seconded and passed, the IPOC's minutes from the October 6, 2020 meeting were approved as submitted.

### **ERB: Legislation (9:45 a.m.)**

Senator Mimi Stewart and Jan Goodwin, executive director, ERB, presented proposed legislation (.218420.2) for the ERB. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=IPOC&Date=12/10/2020&ItemNumber=2>.

Questions and comments from committee members addressed the following:

- July 1, 2020 teacher retirements were similar in number to those in July 1, 2019, with K-12 retirements down significantly. January 1, 2021 retirees will be largely from higher education due to early retirement incentives. Overall, there is not an increase in teacher retirements at this time;

- the proposed legislation would raise employer contribution rates over a four-year period in 1% increments, from 14.15% to 18.15%; each 1% increment brings \$30 million into the Educational Retirement Fund (ERF);
- the ERF balance is up, but the funded ratio is down. Pay raises resulted in increased benefits, thus increasing liabilities while reducing the funded ratio; an increase in the number of retirements does not affect liabilities;
- in New Mexico, the median income of government employees rivals that of private sector employees;
- increased employer contribution rates may result in increased budgets for the Public Education Department and the Higher Education Department;
- a \$1 billion issuance in POBs would have an immediate positive impact on the ERB's unfunded liability; the state typically pays back the bonds;
- the increase in employer contribution rates is especially concerning for smaller educational institutions;
- a 1% increase in employer contribution rates does not cause unfunded liability to decrease dramatically in the first few years, but it does reduce the funding period from infinity to 42 years;
- 20% of ERB members are eligible to retire in the next five years; 9,000 members out of 60,000 members are eligible to retire now;
- payments on a \$1 billion POB would be about \$33 million per year plus interest, with interest declining over time since interest is due only on outstanding bonds;
- the ERB's unfunded liability is \$9 billion with an infinite funding period; the ERB may run out of money in 100 years, which is why action is needed now;
- the Constitution of New Mexico protects the state's pension plans in the event that there is no money;
- an infinite funding period means that 100% funding will not be achieved if changes are not made;
- no change in statute is needed for POBs as the state already has the authority to pursue this;
- if both POBs and increased employer contribution rates are implemented, it would cost the state \$150 million per year. A member cautioned against POBs; and
- the ERB had a rate of return this year of -0.97%. More equity is sought between the ERB and Public Employees Retirement Association (PERA) plans.

***Motion for Endorsement:*** On a motion made and seconded, the proposed bill was endorsed by the committee, with Senator Neville voting no. Senator Stewart will sponsor the bill.

**PERA: Update on FY 2020 Actuarial Valuation Results and Projected Funded Status (11:04 a.m.)**

Wayne Propst, executive director, PERA, and Dominic Garcia, chief investment officer, PERA, gave an update on the PERA's FY 2020 actuarial valuation results and projected funded status. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20121020%20Item%203%20PERA%20presentation.pdf>.

Questions and comments from committee members addressed the following:

- if Senate Bill 72 from the 2020 regular session had not passed and the legislature instead had pursued a \$1 billion POB, the POB would have helped the PERA's unfunded liability, but the provisions in Senate Bill 72 are superior to the one-time inflow that the POB would provide;
- mailing lists of all PERA retirees are not provided to any outside entity, with the only exception being candidates for the PERA board; and
- the PERA's rate of return for FY 2020 was -1.5%, largely due to the coronavirus disease 2019 pandemic. The fund balance has returned to about \$16.2 billion. For FY 2020, fees amounted to between \$75 million and \$80 million, with all returns net of fees.

**State Investment Council (SIC): Private Equity and Economically Targeted Investments (11:32 a.m.)**

Steven K. Moise, state investment officer, SIC; Richard Pugmire, principal, Mercer Investment Consulting; David Lee, director of private equity, SIC; and Chris Cassidy, private equity portfolio manager, SIC, provided the committee with a presentation on private equity and economically targeted investments. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20121020%20Item%204%20NM%20PEIP.pdf>.

It was noted that New Mexico has invested \$100 million in private equity in two companies: Scale Venture Partners and KKR.

**New Mexico Finance Authority (NMFA): Small Business Recovery Act of 2020 Update (11:53 a.m.)**

Marquita Russel, chief executive officer, NMFA, gave the committee an update on the Small Business Recovery Act of 2020 (SBRA) as well as on small business federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) relief grants. The presentation materials can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20121020%20Item%205%20NMFA%20presentation.pdf>.

Questions and comments from committee members addressed the following:

- although the SBRA grant program ends on December 31, 2020, there are sponsors in the house of representatives and the senate who are exploring ways to expand and extend the program during the upcoming regular session in January;
- small business development centers and community development associations have been helpful in providing help for accessing the SBRA grant program; also, the NMFA did targeted online outreach to educate about the program;
- having allocation rounds helped to distribute funding equitably;

- veterans' associations have to submit applications in the same manner as other businesses; and
- the NMFA hired five temporary workers to implement the SBRA and have hired five more temporary workers; in addition, full-time personnel have been temporarily reassigned to help.

### **Retiree Health Care Authority (RHCA): Legislation (12:28 p.m.)**

David Archuleta, executive director, RHCA, presented proposed RHCA legislation (.218423.2) for the committee to consider for endorsement. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=IPOC&Date=12/10/2020&ItemNumber=6>.

Questions and comments from committee members addressed the following:

- the proposed legislation would update the RHCA definition section and would repeal several outdated sections. There is no request for an increase in employer or employee contributions, and there is no fiscal impact;
- Medicare Part D drug costs are set by the federal government; specialty drug prices are what is driving up costs;
- some retirees retire at relatively young ages, yet they are still eligible for the RHCA's program. The subsidy is based on 25 years of service, not age; and
- raising the age of eligibility closer to age 65 would have a positive fiscal impact, but the RHCA's board would have to decide whether to pursue this. Members are required to pay the Part B premium.

***Motion for Endorsement:*** On a motion made and seconded, the committee voted to endorse the RHCA legislation with no objections. Senator Gonzales will sponsor the bill in the senate, and Representative Figueroa will sponsor the bill in the house of representatives.

### **Adjournment**

There being no further business, the third meeting of the IPOC for the 2020 interim adjourned at 12:46 p.m.