

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

**October 6, 2020
Video Conference Meeting**

The second meeting of the Investments and Pensions Oversight Committee (IPOC) for the 2020 interim was called to order by Senator George K. Munoz, chair, on Tuesday, October 6, 2020, at 10:03 a.m. by video and audio conference via an online platform.

Present

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

Absent

Sen. Gregg Fulfer
Sen. Gay G. Kernan

Advisory Members

Rep. Phelps Anderson
Sen. Roberto "Bobby" J. Gonzales
Sen. Mary Kay Papen
Rep. Sheryl Williams Stapleton

Sen. William F. Burt
Sen. Stuart Ingle
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

Handouts

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

Tuesday, October 6

State Investment Council (SIC): Annual Investment Plan (10:04 a.m.)

Steven K. Moise, state investment officer, SIC; Vince Smith, deputy state investment officer, SIC; and Charles Wollmann, director of communications and legislative affairs, SIC, gave a presentation to the committee on the SIC's annual investment plan. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20100620%20Item%201%20SIC%20Annual%20Investment%20Plan.pdf>.

Questions and comments from committee members addressed the following:

- the SIC is targeting 12% of its assets in private equity investments in its portfolio; however, the SIC does not rely on private equity for liquidity in its portfolio;
- private equity assets are valued quarterly by managers and audited by a third party;
- there is a lot of regulation in valuing assets in the private equity market, and the SIC has confidence in these valuations;
- on average, it takes seven to eight years for the state to recoup its money in private equity investments, although it can take 14 to 15 years for the state to get its money back and see profits;
- most of the SIC's private equity investments are from within the United States;
- in its annual investment plan, the SIC intends to commit \$350 million in 2021 and \$450 million in 2022 for private equity investments. This money does not go out all at once and is generally spent in increments of one-third of the total over a three-year period;
- Mercer has been the SIC's private equity consultant for about 10 years; and
- the SIC has no plans at this time to introduce legislation for the next session.

New Mexico Finance Authority (NMFA): Small Business Recovery Act of 2020 Update (10:58 a.m.)

Marquita Russel, chief executive officer, NMFA, provided the committee with an update on the Small Business Recovery Act of 2020. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20100620%20Item%202%20NMFA%20Small%20Business%20Recovery%20Act%202020%20Update.pdf>.

Questions and comments from committee members addressed the following:

- when reviewing loans for funding consideration, the NMFA is permitted by statute to contract with technical service providers (such as small business development centers) and loan servicers (such as banks and credit unions). These entities verify

that the applicant's information is correct in order for the NMFA to determine eligibility;

- the key to the NMFA collecting loan payments is staying in touch with the borrowers and working with them;
- borrowers do not have to be current with filing annual reports with the Secretary of State's Office, but they do have to be current on payment of certain taxes prior to March 23, 2020;
- in order to allow more New Mexico companies to participate in the loan program, Ms. Russel recommended changing the statute to soften the 30% decline in revenues for March and April 2020 and extend this decline over a longer period. She also suggested defining "decline" differently;
- loans are funded at closing by an automated clearinghouse, which is a bank-to-bank transfer, and there are no fees involved with this process;
- a member would like to see how to improve nonprofit entities' participation in the loan program;
- the loan program statute requires that companies have 80% ownership by New Mexico residents, which has resulted in some companies, mainly hotels and restaurants, being declared ineligible for the program;
- to originate a loan, the NMFA pays loan servicers \$250 per applicant; the total overhead costs of the program are unknown at this time but less than anticipated;
- a member suggested that it may be prudent to implement a minimum amount that can be loaned so the state can ensure that it recoups the loans;
- borrowers do not pay application fees or the loan servicer fees;
- regarding nonprofit business borrowers, the NMFA has seen very few 501(c)(6) companies apply; the majority have been arts-based 501(c)(3) organizations;
- for-profit companies do need to submit the combined reporting system (CRS) reports that are filed with the Taxation and Revenue Department. However, there are businesses that are exempt from filing CRS reports, such as rental companies and certain agricultural businesses, and these companies by statute are ineligible for the loan program;
- the NMFA has not implemented the local government relief part of the loan program since revenue declines were not as high as expected;
- a member expressed concern that the state has no recourse to recoup the money it loans through the program; and
- a member suggested that the loan program should be made permanent.

Approval of Minutes

On a motion made, seconded and passed, the minutes of the IPOC's August 19, 2020 meeting were approved as submitted.

Bureau of Business and Economic Research (BBER): Educational Retirement Board (ERB) Benefit Analysis (1:03 p.m.)

Dr. Jeffrey Mitchell, director, BBER, University of New Mexico (UNM); Julian Baca, research scientist, BBER, UNM; and Jan Goodwin, executive director, ERB, reviewed the results of the BBER's comparison of ERB and Public Employees Retirement Association (PERA) benefits. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20100620%20Item%203%20BBER%20and%20ERB%20Benefit%20Analysis.pdf>.

Questions and comments from committee members addressed the following:

- since the PERA has many more employee plans than the ERB, a member wondered if this made comparing cohorts difficult. Dr. Mitchell said that because the study compared two people who started employment on the same day and retired as soon as they were eligible and applied the rules present during that time, this allows for an accurate comparison;
- the size of the sample is large enough to make an adequate comparison;
- the main comparison was focused on the PERA and the ERB, not the different plans within each agency. The study looked at employees in the PERA's state general member coverage plan 3, which is the plan that covers the most PERA members;
- after a member inquired why the PERA and the ERB plans need to have parity, Ms. Goodwin replied that since employees of both agencies are public employees, she wanted to know why one group (PERA) received markedly more benefits than the other (ERB), with the knowledge that the latter group consists of mostly females;
- a member noted that the difference in ERB and PERA benefits was the result of negotiations during the legislative process, in which the educational side wanted more money for members in their paychecks and less money in retirement;
- a member suggested that if changes are made to increase the benefits for ERB members, these changes should apply to new hires only, as it would be too expensive to cover current employees;
- approximately 20% of ERB members are eligible to retire but are working past this eligibility date;
- a member expressed that the ERB benefits are likely where they should be and the PERA benefits are still too high;
- there have been no conversations with the New Mexico School Superintendents Association about early retirement programs for ERB members. However, if a large number of ERB members opt to retire soon, it would mean fewer contributions for the ERB's plan and less money available for benefits;
- the practice of fixing cost-of-living adjustment increases to inflation has been in statute for many years;

- legislative recommendations to increase parity between the retirement plans should include an analysis of making incremental changes and the impact this would have on contributions and distribution;
- PERA members work all year while most ERB members have contracts for less than a year;
- during the COVID-19 pandemic, an exodus of teachers retiring early is possible, although it was noted that so far this year there have been a normal amount of retirements; and
- some universities are exploring early retirement programs.

PERA: Board Governance Results (2:33 p.m.)

Jessica Bundy, C.P.A., principal, REDW, and internal auditor, PERA Board of Trustees; and Caitlin Gutierrez, C.P.A., internal audit manager, REDW, and internal auditor, PERA Board of Trustees, provided the committee with the results of their audit of the governance of the PERA Board of Trustees. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20100620%20Item%204%20PERA%20Governance%20Audit%20Results.pdf>.

Questions and comments from committee members addressed the following:

- REDW has performed two governance audits on the PERA, one in fiscal year 2016 and one in 2020. In the first audit, a recommendation was given that the PERA Board of Trustees should not be directly involved in asset manager selection, which was eventually adopted by the board;
- REDW does a number of audits for the PERA throughout the year, and the REDW reports to the board of trustees, not staff; and
- a recent REDW audit found that the PERA's new asset manager selection process is transparent and its performance can be tracked.

PERA: Financial Audits, Fiscal Years 2015-2020 (3:08 p.m.)

Wayne Propst, executive director, PERA, and Anna Williams, administrative services director and chief financial officer, PERA, presented the results of the PERA's financial audits from fiscal years 2015 through 2020. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20100620%20Item%205%20PERA%20Financial%20Audits,%20Fiscal%20Years%202015-2020.pdf>.

There were no questions or comments from committee members.

Retiree Health Care Association (RHCA): Update (3:20 p.m.)

David Archuleta, executive director, RHCA, provided the committee with an update of the RHCA's recent activities. The presentation can be found here:

<https://www.nmlegis.gov/handouts/IPOC%20100620%20Item%206%20Retiree%20Health%20Care%20Authority%20Update.pdf>.

There were no questions or comments from committee members.

Adjournment

There being no further business, the second meeting of the IPOC for the 2020 interim adjourned at 3:43 p.m.