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**LEGISLATIVE EDUCATION STUDY COMMITTEE**  
**BILL ANALYSIS**  
**54th Legislature, 1st Session, 2019**

<b>Bill Number</b>	<u>SB57</u>	<b>Sponsor</b>	<u>Rue</u>
<b>Tracking Number</b>	<u>.211267.1SA</u>	<b>Committee Referrals</b>	<u>SPAC/SFC</u>
<b>Short Title</b>	<u>Additional Reports to State Auditor</u>		
<b>Analyst</b>	<u>Simon</u>	<b>Original Date</b>	<u>1/24/2019</u>
		<b>Last Updated</b>	<u></u>

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**BILL SUMMARY**

Synopsis of Bill

SB57 would require the Educational Retirement Board (ERB), the Office of the State Treasurer, the Public Employees Retirement Association, and the State Investment Council to include additional financial information relating to the agency's investment activities, contracts, and management fees when completing their annual financial audits.

This analysis is limited to the impact on the ERB.

**FISCAL IMPACT**

SB57 does not contain an appropriation. ERB states that SB57 would not have a fiscal impact on the agency, but indicated SB57 would cause additional costs for the agency's auditor. ERB did not provide an estimate of the additional cost, but it would likely be minimal.

**SUBSTANTIVE ISSUES**

SB57 would require ERB to include the following information in their annual financial audit:

- Discussion and analysis of the financial statements;
- A statement on investment gains or losses and the change in the fund's net position;
- Expenses from investment activity, including fees ERB pays to its investment consultants and investment managers and a schedule of base management fees and performance fees for each asset class; and
- Administrative expenses, including staff salaries and benefits, professional service contract, facilities leases and maintenance, utilities, office supplies, employee professional development and travel, and general administrative expenses.

ERB states that much of the information SB57 would require to be included in the annual audit is already disclosed by the agency. In addition to annual financial reports, ERB discloses information on investment performance by quarter on its website.

ERB notes some of the disclosure requirements of SB57 could cause ERB to violate confidentially terms included in some private investment agreements. While ERB could provide disclosure in the aggregate, disclosing fees on an individual manager basis could cause ERB to violate these agreements. The bill requires ERB to disclose the amount paid to each “investment advisor” and ERB is unsure if this refers to both investment consultants and investment managers. ERB states if this includes investment managers it could cause ERB to violate confidentiality agreements. Under the audit rule, ERB discloses aggregate fees by asset class and whether the consultant is in-state or out-of-state for private investments. ERB suggests an amendment distinguishing between private and public investments.

The bill requires disclosure of “income from swaps on agency investments,” but ERB is unclear if this refers to bond swaps or swap contracts.

### **ALTERNATIVES**

ERB notes similar provisions could be included in the state audit rule, rather than in statute, which would be more easily changed if one of the disclosure provisions proved to be problematic.

### **SOURCES OF INFORMATION**

- LESC Files
- Educational Retirement Board

**JWS/**