

LFC Requester:	Simon
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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

AgencyAnalysis.nmlegis.gov and email to billanalysis@dfa.nm.gov

(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: Jan 23 2025 *Check all that apply:*
Bill Number: SJR 2 Original Correction
 Amendment Substitute

Sponsor: Sen. Gonzales, Rep. Borrego **Agency Name and Code** 337
Short Title: Public Employees Retiree Health Care Fund **Number:** _____
Person Writing Wollmann
Phone: 5052313334 **Email** charlesw@state.nm.us

SECTION II: FISCAL IMPACT

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total			\$150.0-\$200.0		Non-recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
 Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

SJR2 seeks to amend Article 20 of the New Mexico Constitution for the purpose of explicitly

protecting the trust funds established and grown by, and currently providing health care resources to, New Mexico public employees, from any use other than serving the intended beneficiaries. The amendment seeks to affirm the current and future property rights of vested and qualifying employees who have paid into the Retiree Health Care Authority's system, protecting their expected benefit from alternative uses.

FISCAL IMPLICATIONS

Assuming passage and adoption, the SIC believes the constitutional changes contemplated under SJR 2 have no negative impact to the funds that are the subject of the proposed Amendment, which are currently growing in the investment pools overseen by the State Investment Council (SIC).

Using a menu of diversified investment pool options offered by the SIC, the fiduciary and governing board of the Retiree Health Care Authority (RHCA) currently directs the strategic investment allocation of the trust and establishes the risk/return profile of the funds long-term, while working in conjunction with external financial consultants to optimize investment returns for its beneficiaries.

This joint-powers arrangement has evolved over time, but the basic structure has been in existence since the RHCA became one of the SIC's original government clients starting with just a \$10 million investment in 1992. For context, the SIC has since taken on an additional two dozen governmental clients (including state agencies, cities, counties and other political subdivisions), with those total governmental client pooled investments now exceeding \$2.4 billion in value. RHCA remains the largest of the 25 clients, with more than \$1.588 billion in holdings as of 12/31/24.

To RHCA's credit, the board has been exemplary in its high level of engagement with the SIC in observing its fiduciary duties and the strategic development of its investment portfolio over the recent decades. This diligence, along with additional investments by RHCA, has helped successfully grow the funds substantially while simultaneously servicing retiree health plans and also, in recent years, significantly shrinking unfunded liabilities the state has promised to RHCA beneficiaries.

As far as costs related to the Constitutional Amendment, the SIC would note from its files, that under Section 1-16-4 NMSA 1978 and the New Mexico constitution, the Secretary of State (SOS) is required to print samples of the text of each constitutional amendment, in both Spanish and English, in an amount equal to ten percent of the registered voters in the state. The SOS is also required to publish them once a week for four weeks preceding the election in newspapers in every county in the state. The cost per constitutional amendment – according to LFC documents from 2021 - is an estimated \$150 -\$200 thousand depending upon the size and number of ballots and if additional ballot stations are needed.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

If passed, SJR2 would help remove any uncertainty about the long-term nature of RHCA's funds

and investments, which would allow RHCA’s governing board to worry less about short-term liquidity needs and to focus on long-term fund administration and strategic investment goals. While incremental in benefit, this factor would provide a positive impact in the management of these funds, removing the risk that they could be pulled away unexpectedly to address a future state government budget shortfall, and allowing the board to take additional strategic steps to improve long-term returns.

Along those lines, the quality and engagement level of the RHCA board is an important characteristic to consider, and its impressive track record would appear to warrant continued support of its ongoing efforts. The SIC notes that in addition to retirees, the RHCA board includes financially sophisticated members including but not limited to the State Treasurer and representatives from the Education Retirement Board and Public Employees Retirement Association.

The following table captures the most recent performance data for RHCA investments, as of 9/30/24.

Comparative Performance										
	QTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2023	2022	2021
Retiree Health Care Authority Total Fund Comp - Gross	4.56	8.71	14.80	4.90	7.91	7.28	7.21	9.39	-6.98	15.61
Total Fund Benchmark (Retiree Health Care Authority)	4.71	8.83	15.52	4.06	7.24	6.83	6.88	9.85	-8.54	12.91
Difference	-0.15	-0.12	-0.72	0.84	0.67	0.45	0.33	-0.46	1.56	2.70
Retiree Health Care Authority Total Fund Comp - Net	4.56	8.66	14.72	4.82	7.84	7.20	7.13	9.32	-7.05	15.51
Total Fund Benchmark (Retiree Health Care Authority)	4.71	8.83	15.52	4.06	7.24	6.83	6.88	9.85	-8.54	12.91
Difference	-0.15	-0.17	-0.80	0.76	0.60	0.37	0.25	-0.53	1.49	2.60

Schedule of Investable Assets					
Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	% Return
CYTD	1,339,917,477	110,000,000	123,384,860	1,573,302,338	8.66

SIC would note that the RHCA has achieved long-term outperformance of its portfolio benchmark, with investment returns averaging more than 7.1% annualized over the past ten-years. That net return of 7.13%, according to the InvMetrics universe among public investment funds of >\$1Billion (which is observed by LFC, SIC, ERB & PERA and about 80 peer funds in the U.S.), would place RHCA above median, in the 46th percentile for the 10-year period ending 9/30/24. In short, that means that RHCA has outperformed dozens of US public pensions and other public investment funds around the country, whose main mission is to optimize investment returns. Given the highly diversified portfolio that RHCA has developed, and despite the constraints of the somewhat limited subset of investment strategies in which it is allowed to invest through the SIC pools, this speaks very well to the quality and diligence of RHCA’s efforts.

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS