

FY17 Budget Request and Long-Term Sustainability Update Presentation to LFC

Chairman Senator John Arthur Smith
Vice-Chairman Representative Jimmie C. Hall

Jan Goodwin, NMERB Executive Director

Rick Scroggins, NMERB Deputy Director

Dianne L. Rossbach, NMERB Chief Financial Officer

November 19, 2015



Mary Lou Cameron – Chairperson
H. Russell Goff – Vice Chairman

FY15-16 Executive Summary

Accomplishments	Challenges
<p>1 Implemented financial, investment, and operational strategies to improve workflow, reduce cost, and mitigate risk.</p> <ul style="list-style-type: none"> • FY15 fund market value increased to \$11.4 Billion. • Actuarial ratio improved from 63.1% to 63.7% • Total fund returned 4% in FY15, performance was 9.8% and 10.1% over the 3 and 5 year horizons respectively. • Published first GASB 68 Employer Allocation Report. 	<p>1 Investment due diligence increasing based on growth and new GASB 72 Fair Value requirements.</p> <ul style="list-style-type: none"> • Fund includes over 100 manager and alternative asset pools. Need support staff to cover increased transaction volume. Plans in place to add 5 Opportunistic Credit funds; renegotiate 6 more. • GASB 72 increases due diligence procedures and reporting requirements for legal, accounting, and investment staff.
<p>2 Increased Member Services call center and online service levels; decreased backlogs.</p> <ul style="list-style-type: none"> • Hired Member Services Manager • Hired Outreach Coordinator 	<p>2 FY16 added 3 new schools; FY15 total member population growth by more than 4%; retirees by 4.3%.</p> <ul style="list-style-type: none"> • Planning online solutions to provide more self-service options. • Planning additional school outreach and compliance visits.
<p>3 ERB personnel are all critical to the mission and goal.</p> <ul style="list-style-type: none"> • Agency overall vacancy rate (unfilled/ total positions) declined by more than 50% from FY13 - FY16 (only 3 open positions today). • Retention factor is stable. 	<p>3 Meeting resource needs through overtime and temporary positions.</p> <ul style="list-style-type: none"> • Request 2 new permanent investment professionals. (\$474,800 – Total for Categories 200, 300 & 400) • Request 1 new permanent accountant (\$60,600 Category 200)
<p>4 IT accomplishments focus on Disaster Recovery & Business Continuity Planning.</p> <ul style="list-style-type: none"> • Disaster Recovery & Business Continuity Plan (DR/BCP) under way; expected to fully deploy in 3rd quarter of FY16. • IT staff training-MCSE/MCSA, PMI, Linux, SQL, ORACLE. • ODA configuration preparation for Browser platform. • Replaced switching infrastructure; cloud-based management of network components that enhances security for Browser system and accessibility for IT staff. 	<p>4 Increasing IT services and capacity.</p> <ul style="list-style-type: none"> • Planning Browser customization to improve service delivery. • Member needs are growing; benefit calculations are more complex, involve more options, require a higher service level. • Planning for electronic 1099Rs; secure portal for schools and members. • DR/BCP includes offsite datacenter supporting all ERB offices.

Budget Comparison for FY 15 – FY 17

Presented in 000's

Fiscal Year	2015		2016	2017		
Budget Category	OPBUD	Actual	OPBUD	Base Request	Expansion Request	Total
PS&EB	\$ 5,880.4	\$ 5,594.2	\$ 6198.6	\$ 5,904.7	\$ 271.0	\$ 6,175.7
Contractual Services	\$ 23,448.2	\$ 20,928.6	\$ 22,827.6	\$ 24,383.0	\$ 250.0	\$ 24,633.0
Other	\$ 1,136.7	\$ 1,101.8	\$ 1,426.6	\$ 1,359.7	\$ 14.4	\$ 1,374.1
Total	\$ 30,465.3	\$ 27,624.6	\$ 30,452.8	\$ 31,647.4	\$ 535.4	\$ 32,182.8
FTE						
Permanent	63		65	65	3	68
Temporary	4		4	4		4
GSD Liability Insurance	\$ 648.7		\$ 755.1	\$ 108.2		

FY17 Base Budget - Current Challenges

The FY17 Base Budget Request Highlights:

Personal Services and Employee Benefits (Category 200):

- ERB's budget assumes all positions are filled, with minimal turnover and vacancies. ERB has reduced YTD FY16 vacancy rate to 4.6%.
- ERB is still facing resource constraints as our business needs grow:
 - ERB's 65 permanent employees, and 4 temporary positions are all critical to managing our mission. The Investment and Accounting workgroups project that due diligence and reporting functions in FY16 will increase based on portfolio growth and the complexity of implementing GASB 72.
 - We are requesting 2 new investment professionals for Investments, and have included the related legal and travel costs we expect to incur to perform investment due diligence.
 - We are requesting an additional accountant to assist in meeting an increasing workload to meet processing and financial reporting requirements.
- ERB has continued software testing on its Browser environment in preparation for movement to the new Oracle Database Appliance (ODA). This has added duties across all ERB workgroups using our Browser software. Once this testing series is complete ERB will begin adding enhancements to the Browser software to increase functionality for members.

Contractual Services (Category 300):

- FY17 investment fees are projected to increase with our growing asset portfolio. Professional services such as attorney, audit, and IT maintenance fees will be higher overall by 8%.
- Actuarial and accounting fees increased in FY15 due to GASB 68 financial reporting requirements and will remain at that level in FY16. Implementation of GASB 72 will likely result in higher audit fees in FY17.

Other Costs (Category 400):

- Other IT costs (equipment and licensing) are expected to decline somewhat in FY17, but security and data storage will likely offset those reductions.
- In total, including the expansion portion, the FY17 Category 400 request is a 4% reduction from the FY16 Category 400 Opbud.

Personal Services and Employee Benefits (Category 200):

- The expansion request includes three additional employees:
 - Two investment professionals are needed to perform due diligence, research and analysis in real estate and equity portfolios.
 - One Accountant Auditor is needed to support increased accounting, financial and reporting requirements.

Contractual Services (Category 300):

- Funding included to ensure access to professional and investment information services appropriate to new investment professionals.

Other (Category 400):

- Budget request covers training, travel, and certification requirements for the expansion employees.

Overall the FY 2017 budget request increases the total budget by 5.6% over the FY 2016 OPBUD. To control expenditures, ERB is focused on strategies to maximize staff productivity, improve operating efficiencies, and identify asset portfolios for internal management.

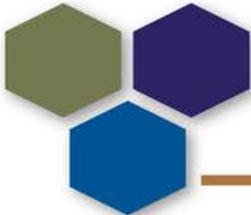
The New Mexico Educational Retirement Board is not funded by the State General Fund, and no funds revert to the State General Fund at year end. We are funded by the monies we manage.

What is SOLVENCY?

Ability to pay; present ability to pay; ability to pay one's debts out of one's own present means. Marsh v. Dunckel, 25 Hun (N. Y.) 100; Osborne v. Smith (C. C.) 15 Fed. 130; Larkin v. Hapgood, 50 Vt. 001; Sterrett v. Third Nat Bank, 40 Hun (N. Y.) 20; Reid v. Lloyd, 52 Mo. App. 252

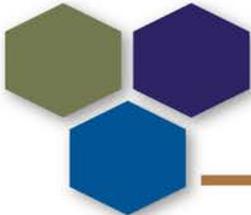
Law Dictionary: [What is SOLVENCY? definition of SOLVENCY \(Black's Law Dictionary\)](#)

Investopedia defines solvency as “the ability of a company to meet its long-term financial obligations”.

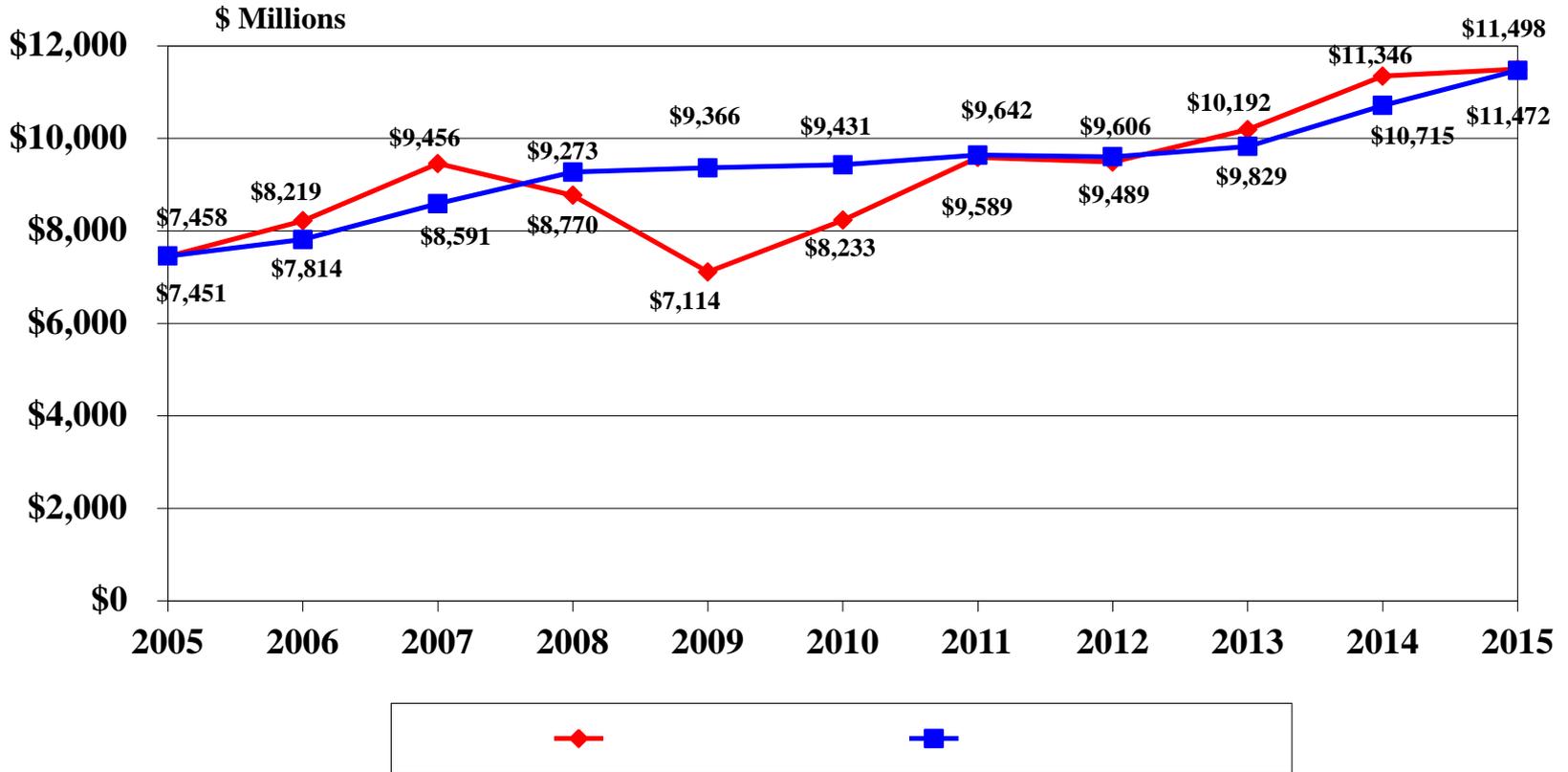


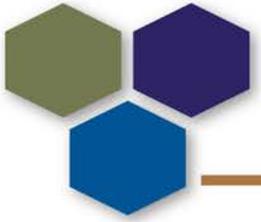
Key Results

- ◆ The actuarial funded ratio improved from 63.1% to 63.7%
- ◆ Unfunded Actuarial Accrued Liability (UAAL) increased from \$6.3 billion to \$6.5 billion
- ◆ The normal cost rate decreased from 13.11% of pay to 12.98% of pay
- ◆ The funding period increased from 42.1 years to 43.2 years
- ◆ *These above valuation results are determined as of a single point in time. The calculated funding period does not reflect:*
 - ▶ *Lower normal cost for future members*
 - ▶ *Future COLAs less than 2%*
 - ▶ *Open group projections as future hires replace retirements and terminations*

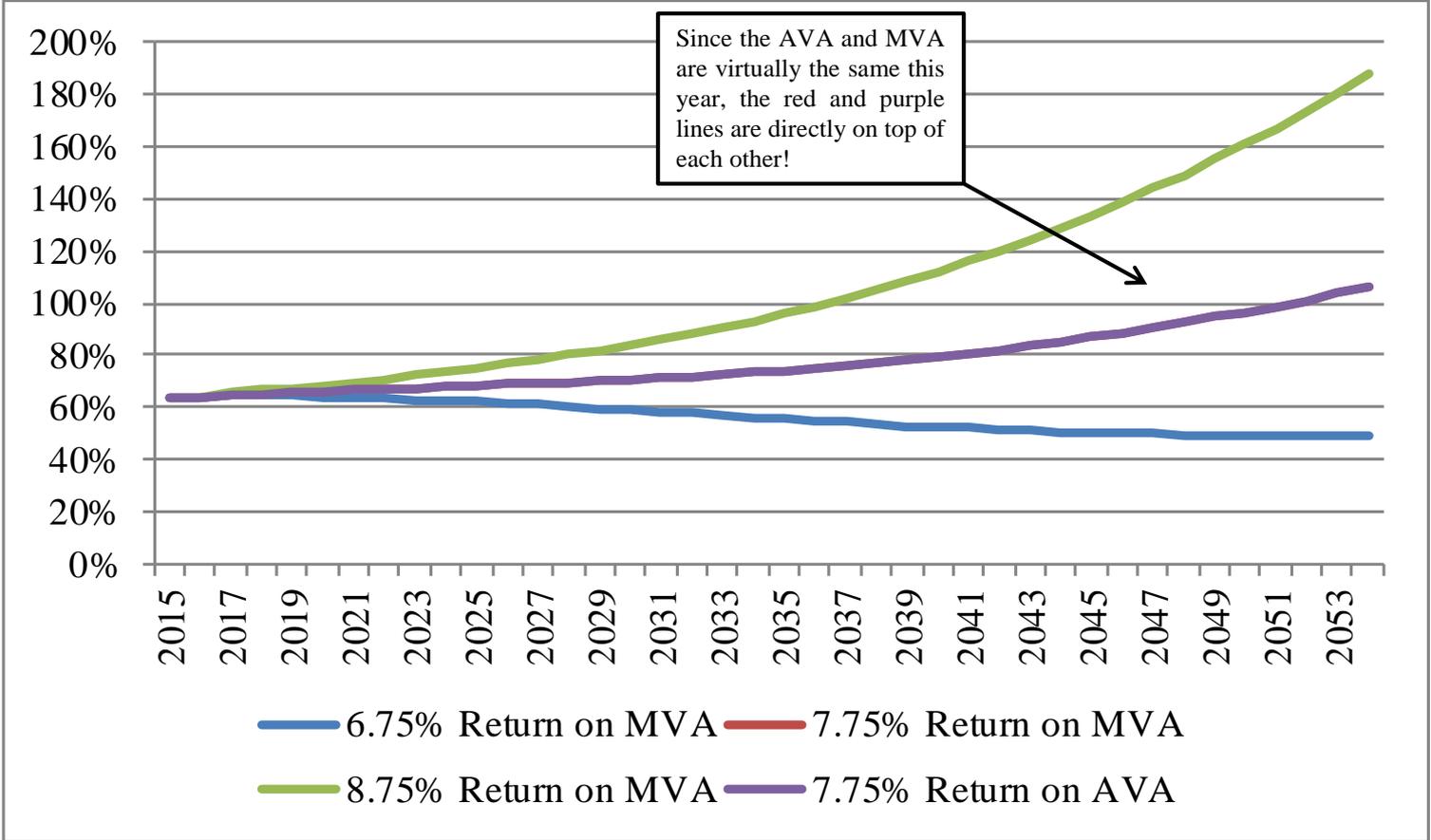


Market and Actuarial Values of Assets





Projection – Funded Ratios



Projection results assuming 7.75% return market value, 0.00% annual membership growth, current assumptions and plan provisions, and variable COLAs based on future funded ratios