



State of New Jersey
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May 19, 2015

Dr. David J. Rosen
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex, P.O. Box 068
Trenton, NJ 08625-0068

Dear Dr. Rosen:

Pursuant to your letter dated May 8, 2015, it was requested that I provide a written response to the 13 questions broken into seven parts, posed by Assemblyman Schaer at the May 6 hearing of the Assembly Budget Committee. The questions and their subsequent answers are as follows:

For FY 2005 through FY 2014, please provide, by asset class, the annual total dollar amount of management and performance fees the State paid for the public employee retirement system.

Attached please find annual amounts paid for management fees and carried interest retained by investment managers by asset class for FY07 through FY14. External investment managers and advisors were not used prior to FY06 and no data exists prior to FY07. Data included in the attached is based on records used to produce the State Investment Council Annual Report.

It is my understanding that the New Jersey Comprehensive Financial System is more than 20 years old and has not seen any significant upgrades since the mid 1990's. Given the pace at which technology is changing and the myriad of advances that have been made in last 20 years in this area, there would seem to be significant risks involved in running such an old system. Given this fact, New Jersey has already begun the process of updating its Procurement and Budgeting systems, is New Jersey now considering an upgrade to its aging financial system?

The focus is on upgrading systems that are at greatest risk because of various factors such as hardware or software that is no longer supported. CFS runs on the State's IBM mainframe, which OIT owns, hosts, and administers. The hardware platform will be upgraded in 2015 with regard to both the mainframe and its backup system. Both will be state of the art after the upgrade.

If the State is considering a major change to the current financial system, are you aware of any approaches in the marketplace for State to stay on a more current technology on an ongoing basis so New Jersey doesn't end up later on upgrading on unsupported, older technology? Is the State aware of the various deployment models available for modernizing the current ERP system? Also, has the State considered having the vendor host, operate, maintain, and provide future upgrades of the ERP system?

There are many systems that interface with CFS. It makes both technical and business sense to upgrade other systems before attempting to upgrade CFS. An ERP solution would likely be cost prohibitive and expose the State to more risks than upgrading separate systems.

Given the often high costs associated with maintaining an outdated system, has the state done an analysis of the cost to run the current system? What are the costs to run and maintain the current system?

The annual cost to operate and maintain CFS is approximately \$1.1 million.

If New Jersey is not considering an upgrade to their financial system in the near future, can you talk about why you would continue to put off such an upgrade?

See prior responses.

It is my understanding that numerous states, including California, North Carolina, Louisiana, Michigan and Colorado, have in recent years undertaken major financial systems upgrades to allow them better transparency and public accountability. In particular, the Colorado State Auditor went as far as to release a report in 2011 called the "Sustainability of the Colorado Financial Reporting System". The report concludes that the 20 year old financial system is not adequate to meet the 21st century demands of the state to allow for real time data and better transparency to the citizens of the State. Given the similarities in New Jersey to other states and the Colorado story, has there been a similar report or audit done in New Jersey? And if not, do you believe that a report such as this may help us better understand the risks associated with not upgrading our current system? Would you support such a report to help in your assessment of the current system?

New Jersey has dramatically increased financial transparency in recent years though www.yourmoney.nj.gov. If such an assessment is needed it will be undertaken at the appropriate time.

The state contract with Parsons Corp, which operates state inspection stations, expires in 2016. A new contract must be in place for May of 2016. Is the Treasurer intending to issue an RFP for this program? If so, when? Was the original contract with Parson Corp deemed successful?

The Division of Purchase & Property (DPP) does intend to reprocur the Enhanced Motor Vehicle Inspection contract. Members of the DPP team have been in discussions with the Motor Vehicle Commission's representatives since the summer of 2014. Presently, MVC, in consultation with its contracted vendor, Eastern Research Group, is finalizing the specification for the RFP. An RFP is presently anticipated to be posted later this year.

Sincerely,



Andrew P. Sidamon-Eristoff
State Treasurer

Attachment

| | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|------------|------------|------------|------------|------------|------------|-------------|-------------|
| Management Fees and Expenses¹ | | | | | | | | |
| Hedge Funds Management Fees and Expenses | 14,373,512 | 39,690,724 | 40,947,434 | 39,878,202 | 41,275,557 | 57,871,769 | 79,721,801 | 93,069,462 |
| Real Assets Management Fees and Expenses | | | 1,562,200 | 5,179,402 | 2,228,044 | 2,699,039 | 1,421,605 | 14,573,242 |
| Private Equity Management Fees and Expenses | | | | | | 64,165,260 | 86,184,010 | 79,558,037 |
| Real Estate Management Fees and Expenses | | | | | | 16,584,303 | 21,755,899 | 37,210,443 |
| Global Diversified Credit Management Fees and Expenses | | | | | | 12,774,513 | 10,116,463 | 12,388,281 |
| Private Equity + Real Estate + Global Diversified Credit Management Fees and Expenses | 26,493,135 | 51,501,261 | 65,809,158 | 61,653,513 | 76,978,860 | | | |
| Emerging Market Equity | | | 7,634,877 | 9,650,065 | 14,571,780 | 14,086,107 | 16,094,827 | 4,636,604 |
| High Yield | | | 1,328,950 | 2,653,400 | 2,835,542 | 3,136,383 | 4,503,818 | 23,867,173 |
| Performance Allocation/Carried Interest ¹ | | | | | | | | |
| Hedge Funds Performance Allocation | 21,702,851 | 13,417,153 | 3,206,286 | 20,243,659 | 48,972,437 | 13,398,013 | 131,828,046 | 143,904,873 |
| Real Assets Performance Allocation | | | 6,667,811 | | 4,937,011 | 4,279,746 | | 8,866,736 |
| Private Equity Performance Allocation | | | | | | | | 91,263,968 |
| Real Estate Performance Allocation | | | | | | | | 49,129,543 |
| Global Diversified Credit Performance Allocation | | | | | | 20,004,152 | 47,032,801 | 41,553,687 |

¹ Contractual terms for management fee and carried interest earned by external managers have been consistent over time. Increase in actual amount paid over time due to (1) increased investment amounts; and (2) strong performance. The gains from these investments have significantly outperformed the investments that the funds had previously been invested, and a review of fees and compensation is inappropriate without consideration of enhanced returns that benefit the health of the pension funds. External investment managers and advisors were not used prior to FY 06 and no data exists prior to FY 07. Data included is based on records used to produce the State Investment Council annual report.