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Only the most recent FIR version, excluding attachments, is available on the Intranet. Previously issued FIRs and attachments may be obtained from the LFC office in Suite 101 of the State Capitol Building North.

F I S C A L   I M P A C T   R E P O R T

SPONSOR: Gonzales   DATE TYPED: 01/31/01   HB HJM 11

SHORT TITLE: State Permanent Fund Study   SB

ANALYST: Eaton

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	**FY02**	**FY01**	**FY02**		
	NFI*				

* No Fiscal Impact

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Relates to Appropriation in The General Appropriation Act

SOURCES OF INFORMATION

LFC files
State Investment Council (SIC)

SUMMARY

Synopsis of Bill

This bill requests the State Investment Council (SIC) to review the current distributions method for the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF).

FISCAL IMPLICATIONS

None. The review requested by this memorial is already in progress and is addressing all of the information items contained in this Memorial. Preliminary results have been briefed to the staff of the Legislative Finance Committee and the State Investment Council. The study should be available before the legislature adjourns in March 2001.

OTHER SUBSTANTIVE ISSUES

On October 6, 2000, staff of the Legislative Finance Committee presented a report to the Public School Capital Outlay Council (PSCOC) to describe some issues surrounding increases in the Land Grant Permanent Fund (LGPF). The following are some of the highlights.

- The distribution rate should be approximately equal to the real rate of return as follows:

Return Total - Inflation - Administration Costs + Contributions
= Real Rate of Return = Distribution Rate.

- The 1997 NACUBO Endowment Study on Selected Foundation Spending Rules (Attachment A) indicates that the current distribution formula (4.7% of the five-year moving average of fund balances) is within the range of existing endowment distribution methodologies.

- Given the uncertainties of future returns, inflation rates and contributions, an option to consider would be to provide for an administrative mechanism to review and adjust the distribution rates given unexpected market occurrences and extraordinary fiscal circumstances.

- Prior to considering a change in the distribution method, the State Investment Council's independent financial advisors, Barra, RogersCasey, should perform a study on the current distribution method and report to the full legislature on the feasibility of modifying the distribution formula while protecting the fund in the long term.

On December 19, 2000 Barra, RogersCasey presented a preliminary asset allocation study that also looked at the effect of varying spending policy to the State Investment Council. On December 20, 2000 Barra, RogersCasey presented a version of the study that looked at only the effect of varying spending policy to LFC staff and the Chairman of the Revenue Estimating and Investment Policy Subcommittee of the LFC. Below are some highlights.

<u>Over 30 years:</u>
- The expected return on the permanent funds is 8.37%.
- An investment return of 7.95% is required to support the current distribution formula.
- There is a 57.7% chance of exceeding the spending target under current conditions.
- An investment return of 8.47% is required to support a distribution of 5.2%. – higher than the current expected return.
- There is a 48.4% chance of exceeding the spending target under a 5.2% distribution scenario.
- Between years 20 and 30 the funds start to lose value under a 5.2% distribution policy.

JBE/prr
Attachment