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

ORIGINAL DATE 1/18/19
SPONSOR Munoz **LAST UPDATED** **HB**

SHORT TITLE Investment Pool Charges To State Treasurer **SB** 252

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					**Recurring or Nonrecurring**	**Fund Affected**
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
No Fiscal Impact	No Fiscal Impact	Up to ($278.0)	Up to ($278.0)	Up to ($278.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Treasurer's Office (in response to a similar bill in a prior session)

SUMMARY

Synopsis of Bill

Senate Bill 252 expands the authorized expenditure by the State Treasurer's Office (STO) of management fees that it collects from the local government investment pool (LGIP) to include operations of STO and provides for continuing appropriations of these funds to the agency. Any remaining balance at year end would transfer to the general fund, continuing the existing structure for excess funds to revert.

The effective date of this bill is July 1, 2020.

FISCAL IMPLICATIONS

Approximately $400 thousand in management fees for administration of the LGIP are received by STO annually. The Legislature appropriates $122.3 thousand of these funds to STO for the prescribed uses, and the remainder reverts to the general fund. By providing for continuing appropriations of the full amount and expanding the authorized uses, this bill creates a negative general fund impact by reducing, and possibly eliminating, the annual reversion beginning in FY21.

SIGNIFICANT ISSUES

Due to budget constraints, STO has been unable to hire key financial investment and related positions, and the agency reports these positions are critical to the safety and security of the various funds managed by STO.

STO manages about $800 million in LGIP funds and charges a 0.05 percent management fee to help cover the costs that the agency incurs in managing the LGIP. These fees fluctuate depending on how much is in the LGIP but are estimated to average as much as $400 thousand annually. Currently, the Legislature allows STO to retain a portion of the fees ($122.3 thousand), and the balance is credited to the general fund.

STO provided the following analysis in response to a similar bill in a prior session.

> The amount appropriated to STO to cover administration of the LGIP has not been increased in a number of years, yet STO has managed this portfolio without incident. The risks that must be managed, however, are ever-increasing and include, but are not limited to, interest rate risk, cyber security risk, credit risk, operation risk, fraud risk and liquidity risk, as well as the ability to hire competent, experienced portfolio managers who oversee the funds.
>
> The costs to oversee the fund have also risen. These additional costs or expenses include, but are not limited to, the following:
> - portfolio management, transaction settlement and administrative staffing
> - rating agency fees
> - Bloomberg trading platform costs
> - annual audit and investment accounting costs

RELATIONSHIP

This bill relates to the appropriation to STO in the General Appropriation Act.

OTHER SUBSTANTIVE ISSUES

The priorities for STO's investment strategies are (1) safety of the principal, (2) maintenance of liquidity, and (3) maximum return on investments. General fund balances are held in two portfolios: The core portfolio is primarily intended to maximize return with minimal risk to principal, and the liquidity portfolio is intended to provide day-to-day liquid assets for the operations of state government. During FY18, general fund balances rose rapidly in the last few months of the fiscal year because revenues significantly exceeded appropriation levels, ending with a balance of $2.8 billion, or a 78 percent year-over-year increase.

Does the bill meet the Legislative Finance Committee tax policy principles?
1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

JC/al/gb