

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 420** SLS 22RS 1272

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action: **w/ SEN COMM AMD**

Proposed Amd.:

Sub. Bill For.:

Date: May 23, 2022	9:07 AM	Author: BERNARD
Dept./Agy.: Office of Group Benefits		Analyst: Patrice Thomas
Subject: Investment of OGB's Operating Funds		

GROUP BENEFITS PROGRAM OR1 INCREASE SG RV See Note Page 1 of 2
Provides relative to operating funds of the Office of Group Benefits. (7/1/22)

Proposed law provides that all funds under the control of OGB, called "Group Funds", shall be managed according to the following procedures: (1) Group Funds deposited with the state treasurer shall be invested in the same manner as State General Fund and interest on Group Funds shall be credited to Group Funds. (2) Group Funds shall be available for appropriation to pay expenses incurred by outside investment managers for the investment and management of Group Funds, and for other custody, investment, and disbursement costs directly attributable to Group Funds. (3) Interest on Group Funds shall be classified as self-generated revenues of OGB and available for appropriation. Proposed law effective July 1, 2022.

EXPENDITURES	2022-23	2023-24	2024-25	2025-26	2026-27	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$7,501	\$8,008	\$8,565	\$9,181	\$10,321	\$43,576
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$7,501	\$8,008	\$8,565	\$9,181	\$10,321	\$43,576

REVENUES	2022-23	2023-24	2024-25	2025-26	2026-27	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

EXPENDITURE EXPLANATION

Proposed law will marginally increase SGR expenditures within the Office of Group Benefits (OGB) as a result of paying custody, investment, and distribution fees to outside investment managers for the management and investment of Group Funds. OGB estimates payments to outside investment managers of \$7,501 in FY 23, \$8,008 in FY 24, \$8,565 in FY 25, \$9,181 in FY 26, and \$10,321 in FY 27. Estimates are based on prior year actuals fees paid by OGB to the State Treasury Department for banking services, which includes an annual base portfolio fee of \$2,148 and annual investment fee of 0.002%.

Annual Investment Fee Calculations

FY 23 = \$5,353 = \$411,805,834 fund balance x 65% invested = \$267,673,792 fund balance invested x 0.002% investment fee
 FY 24 = \$5,860 = \$418,600,630 fund balance x 70% invested = \$293,020,441 fund balance invested x 0.002% investment fee
 FY 25 = \$6,417 = \$427,809,844 fund balance x 75% invested = \$320,857,383 fund balance invested x 0.002% investment fee
 FY 26 = \$7,033 = \$439,574,615 fund balance x 80% invested = \$351,659,692 fund balance invested x 0.002% investment fee
 FY 27 = \$8,173 = \$454,080,577 fund balance x 90% invested = \$408,672,519 fund balance invested x 0.002% investment fee

	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Total
Annual Investment Fees	\$5,353	\$5,860	\$6,417	\$7,033	\$8,173	\$32,836
Base Portfolio Fees	\$2,148	\$2,148	\$2,148	\$2,148	\$2,148	\$10,740
Total	\$7,501	\$8,008	\$8,565	\$9,181	\$10,321	\$43,576

REVENUE EXPLANATION

Proposed law is estimated to increase self-generated revenues within OGB as the result of additional interest earnings. The proposed law authorizes OGB to allow the State Treasury Department to invest all of OGB's funds, collectively referred to as Group Funds, in long-term investments. Based upon the assumptions listed below, the additional interest earnings are as follows:

	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Total
Add'l Interest	\$4,529,864	\$5,689,612	\$ 6,962,482	\$ 8,381,268	\$ 7,095,433	\$32,658,659

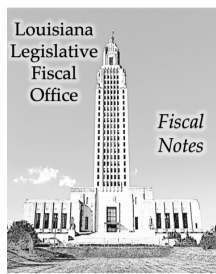
The revenue estimate is based upon the following **assumptions**: (1) As of 4/30/2022, OGB had available cash reserves of \$424,094,466 and the actuary projects the accrual fund balance will be \$411,805,834 by the end of FY 22. (2) Projected interest rates were provided by State Treasury Department. (3) It will take the State Treasury Department five years to invest 90% of OGB's funds in long-term investments. The percentage of the fund balance that will be invested in long-term investments by the State Treasury Department is 65% in FY 23, 70% in FY 24, 75% in FY 25, 80% in FY 26, and 90% in FY 27. (4) None of the \$411,805,834 projected fund balance will be used to fund any of OGB's operating expenditures. Also, the fund balance remains constant and growth will be the result of additional interest earned under this measure. (5) Investment will begin on 7/01/2022.

EXPENDITURE EXPLANATION Continues on Page 2

Senate	Dual Referral Rules	House
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux
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Interim Deputy Fiscal Officer

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CONTINUED EXPLANATION from page one:
REVENUE EXPLANATION Continued from Page 1

New Investment Strategy Under Proposed Law

Below are revenue calculations utilized to project the revenue increase within OGB as a result of the proposed law utilizing the assumptions listed on page one. The revenue calculations are based on the rates of cash equivalent investment securities and long-term investment securities. OGB reports \$250 M is the amount needed to maintain an actuarially sound fund balance. As of April 2022, OGB reports a \$424.1 M fund balance. The calculations below are based on \$411,805,834 of the fund balance being invested by the Treasury Department under this measure beginning July 1, 2022.

Projected Investment Strategy of \$411 M Fund Balance:

Long Term Investments	Cash Equivalent Investments
FY 23 - 65%	FY 23 - 35%
FY 24 - 70%	FY 24 - 30%
FY 25 - 75%	FY 25 - 25%
FY 26 - 80%	FY 26 - 20%
FY 27 - 90%	FY 27 - 10%

Projected Interest Earning Rates:

Long Term Investments	Cash Equivalent Investments
FY 23 - 2.0%	FY 23 - 1.0%
FY 24 - 2.5%	FY 24 - 1.5%
FY 25 - 3.0%	FY 25 - 2.0%
FY 26 - 3.5%	FY 26 - 2.5%
FY 27 - 3.5%	FY 27 - 3.0%

Annual Interest Earnings Calculations Under Proposed Law

Interest Earnings = Investment Account Balance x Interest Earning Rate
 FY 23 (Cash Equiv) = \$1,441,320 = \$144,132,042 fund balance x 1.0% interest earned
 FY 23 (Long Term) = \$5,353,476 = \$267,673,792 fund balance x 2.0% interest earned
 FY 23 Total = \$6,794,796
 FY 24 (Cash Equiv) = \$1,883,703 = \$125,580,189 fund balance x 1.5% interest earned
 FY 24 (Long Term) = \$7,325,511 = \$293,020,411 fund balance x 2.5% interest earned
 FY 24 Total = \$9,209,214
 FY 25 (Cash Equiv) = \$2,139,049 = \$106,952,461 fund balance x 2.0% interest earned
 FY 25 (Long Term) = \$9,625,721 = \$320,857,383 fund balance x 3.0% interest earned
 FY 25 Total = \$11,764,771
 FY 26 (Cash Equiv) = \$ 2,197,873 = \$ 87,914,923 fund balance x 2.5% interest earned
 FY 26 (Long Term) = \$12,308,089 = \$351,659,692 fund balance x 3.5% interest earned
 FY 26 Total = \$14,505,962
 FY 27 (Cash Equiv) = \$ 1,362,242 = \$ 45,408,058 fund balance x 3.0% interest earned
 FY 27 (Long Term) = \$14,303,538 = \$408,672,519 fund balance x 1.25% interest earned
 FY 27 Total = \$15,665,780

Existing Investment Strategy Under Present Law

Currently, OGB's fund balance is invested separately from general fund, but in in the same manner as general fund. Below are general fund investment rates provided by Treasury. Utilizing the same assumptions for projections under proposed law, if OGB and Treasury continued the existing investment strategy, the projected interest earning are below.

General Fund Investment Rates:

FY 23 - 0.55%
FY 24 - 0.85%
FY 25 - 1.15%
FY 26 - 1.45%
FY 27 - 2.00%

Annual Interest Earnings Calculations Under Present Law

Interest Earnings = Investment Account Balance x Interest Earning Rate
 FY 23 (Existing) = \$2,264,932 = \$411,805,834 fund balance x 0.55% interest earned
 FY 24 (Existing) = \$3,519,602 = \$414,070,766 fund balance x 0.85% interest earned
 FY 25 (Existing) = \$4,802,289 = \$417,590,368 fund balance x 1.15% interest earned
 FY 26 (Existing) = \$6,124,694 = \$422,392,657 fund balance x 1.45% interest earned
 FY 27 (Existing) = \$8,570,347 = \$428,517,350 fund balance x 2.00% interest earned

New Investment Strategy vs. Existing Investment Strategy

	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	Total
New	\$6,794,796	\$9,209,214	\$11,764,771	\$14,505,962	\$15,665,780	\$57,940,523
Existing	<u>(\$2,264,932)</u>	<u>(\$3,519,602)</u>	<u>(\$ 4,802,289)</u>	<u>(\$ 6,124,694)</u>	<u>(\$ 8,570,347)</u>	<u>(\$25,281,864)</u>
Add'l Interest	\$4,529,864	\$5,689,612	\$ 6,962,482	\$ 8,381,268	\$ 7,095,433	\$32,658,659

Senate
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