



OFFICE OF LEGISLATIVE AUDITOR
Fiscal Note

Fiscal Note On: SB 442 SLS 14RS 752
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 1, 2014 10:44 AM Author: MARTINY
Dept./Agy.: Political Subdivisions Analyst: Ryne Young
Subject: Changes Investment Options

MUNICIPALITIES OR SEE FISC NOTE LF RV Page 1 of 1
Provides relative to investments by political subdivisions. (8/1/14)

Purpose of Bill: This bill changes the maximum allowable time periods of final maturity, mandatory tender, or continuing tender for certain debt that can be purchased by political subdivisions from 3 years to 5 years. It also allows political subdivisions to invest in bonds, debentures, notes or other indebtedness issued by United States corporations under certain circumstances. This bill also requires the purchasing Louisiana political subdivision to retain the services of an investment advisor registered with the SEC when investing in corporate debt.

Table with 7 columns: EXPENDITURES, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

The impact of this bill on governmental expenditures is indeterminable. Based on information obtained from the Louisiana Municipal Association, Louisiana School Boards Association, Louisiana Police Jury Association, and Louisiana Sheriffs Association, it appears that the impact of this bill on governmental expenditures is indeterminable due, in part, to the permissive nature of the bill; the investment decisions of each individual political subdivision; and differences in fees charged by investment advisors.

REVENUE EXPLANATION

The impact of this bill on governmental revenues is indeterminable. In order to determine the fiscal impact of this bill on a large number of political subdivisions, we contacted the Louisiana (1) Municipal Association (LMA); (2) Police Jury Association (LPJA); (3) Sheriffs Association (LSA); and (4) the School Boards Association (LSBA - the LSBA provided us with information from various school boards regarding the fiscal impact of this bill). The following information from our contacts supports the conclusion that the fiscal impact is indeterminable:

- 1) LMA: provided information from a professional in the financial services industry stating that the bill could increase local government revenue due to higher return rates by investing in longer term investments and corporate securities. However, the LMA official was unable to determine the specific fiscal impact of these investment transactions.
2) LPJA: was unable to determine the fiscal impact of this bill on local government due to several unknown variables (e.g., future market conditions; future interest rates).
3) LSA: was unable to determine the fiscal impact of this bill on sheriffs' offices due to several unknown variables (e.g., investment needs of individual sheriff's offices).
4) LSBA/St. Charles Parish School Board: the School Board's consultant indicated that longer term investments (e.g., 5-year Treasury notes compared to 3-year Treasury notes) earned higher yield rates over the 10-year period ended on December 2013. Average five-year yielded 2.68 percent and three-year yielded 2.16 percent.
5) LSBA/Jefferson Davis Parish School Board: school board official was unable to determine the fiscal impact of the bill. In addition, the school board's investment manager indicated that the fiscal impact of this bill is indeterminable due to several unknown variables (e.g., market conditions and advisor fees). However, this investment manager indicated that the new investment options provided by the bill are riskier than current options, and theoretically could increase the chance for more revenue and more losses.
6) LSBA/Ouachita Parish School Board: was unable to determine the fiscal impact of this bill on school boards due to several unknown variables (e.g., future market conditions and advisor fees).

- Senate Dual Referral Rules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}
6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S}
6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Joy Irwin
Director of Advisory Services