

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 248** SLS 15RS 256
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 7, 2015 9:15 AM	Author: MURRAY
Dept./Agy.: State Treasury	Analyst: Travis McIlwain
Subject: State Treasurer Investments	

COMMERCIAL REGULATIONS RE SEE FISC NOTE GF RV See Note Page 1 of 1
 Provides relative to authority to invest monies in certain investment grade commercial paper. (8/1/15)

Proposed bill permits investment of governmental funds in investment grade commercial paper issued in the US, traded in the US markets, denominated in US dollars, with a short-term rating of at least A-1 by Standard & Poor's or P-1 by Moody's or the equivalent rating by a Nationally Recognized Statistical Rating Organization. The investment provision of the proposed legislation impacts the invested resources of the LA Quality Education Fund, funds of local political subdivisions, invested resources of the Millennium Trust, and the SGF. Proposed bill does not amend the current statutory provision limiting such investment in these types of investments to 20%.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

This bill allows the state and local political subdivisions to invest its governmental funds in investment grade commercial paper that meet specific criteria within this legislation. The proposed legislation may result in an indeterminable increase in interest income for the state and political subdivisions the extent these governmental entities actually allocate portions of their investment portfolios to the commercial paper assets being allowed by this bill.

The current statutes allow for these types of investment opportunities (not to exceed 20% of the portfolio). However, according to the State Treasury, the Dodd-Frank Wall Street Reform and Consumer Protection Act, does not specifically apply to the investment options for commercial paper referred to in existing law. According to State Treasury, commercial investment options are now sometimes offered by a subsidiary of a parent company as opposed to the parent company themselves. This bill grants the authority for State Treasury and local political subdivisions to invest its governmental funds in commercial paper being offered by the subsidiary as long as that entity meets the specific requirements outlined within the legislation.

For illustrative purposes, based upon current market conditions and information provided by State Treasury, if the State Treasurer were to invest up to 10% of the current SGF portfolio (\$450 million) in these investment options, the additional interest earnings could range from 5 basis points (0.05%) to 10 basis points (0.10%), or generate approximately \$225,000 to \$450,000 of interest earnings, which will be allocated to the SGF and to the various statutorily dedicated funds. Actual earnings performance will depend on various factors that make specific dollar estimates potential gain in particular fiscal years speculative.

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {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} | |

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