

FISCAL NOTE

Bill #: SB0493

Title: Revise laws on economic development by revising investments

Primary

Sponsor: Fred Thomas

Status: As Introduced

Sponsor signature Date

Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:	0	0
Revenue:		
State Special Revenue		(\$189,195)
Net Impact on General Fund Balance:	\$0	\$0

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

Department of Commerce

1. The Montana Constitution currently does not permit the Board of Investments to invest any public funds, other than pension funds and the State Fund compensation insurance funds in “private corporate capital stock.”
2. This constitutional amendment would permit the Board of Investments to invest any public fund in “private corporate capital stock”, a term defined in state law as “common stock.”

3. In theory any public fund could be invested in common stock if this amendment is approved. In practice, however, there are only two funds for which such investments may be prudent, the public school trust fund and the permanent coal tax trust fund. These trusts had invested balances of \$354 million and \$637 million, respectively, as of June 30, 2000.
4. The public school trust currently is invested totally in fixed-income investments.
5. The permanent coal tax trust currently is invested in fixed-income investments and in-state loans.
6. Should this constitutional amendment be ratified by the voters, the Board of Investments would begin investing a portion of the public school trust fund in common stock in January 2003.
7. The board would consult with the 2003 Legislature regarding the investment of the permanent coal tax trust in common stock.
8. Beginning January 2003, the board would invest \$1.5 million per month of the public school trust fund in common stock, and consult with the 2003 Legislature regarding the maximum portion of the trust that is appropriate to be invested in common stock.
9. Under this investment schedule, the public school trust fund would hold \$36 million of common stock by the end of calendar year 2004, or approximately 10% of the total trust.
10. The investments would be made in a Standard and Poor 500 Index fund that is currently used by the state pension fund and state compensation insurance fund. This investment vehicle provides an immediate diversification of holdings in 500 of the countries largest corporations.
11. Current investment income to the school trust will be reduced as investments are transferred from fixed income investments with 7.00% to 7.25% interest coupons to common stock since S&P 500 index funds do not distribute realized capital gains or dividends.
12. During the past 74 years, large company stocks have yielded 11.3% annually, while government and corporate bonds have yielded 5.1% and 5.6% annually respectively. However, this common stock yield has been achieved via the compounding effect of reinvesting capital gains and dividends.
13. If historical investment performance is repeated, the portion of the trusts invested in common stock will grow significantly faster than the fixed-income portion assuming the realized capital gains and dividends are reinvested rather than expended.
14. There will be no additional operational costs for the Department of Commerce or the Board of Investments.
15. The income loss is estimated below:

School Trust Investment Income Loss				
<u>Date</u>	<u>Days</u>	<u>Amount</u>	<u>Cumulative</u>	<u>Interest</u>
01/01/03		1,500,000	1,500,000	0.00
02/01/03	31.00	1,500,000	3,000,000	9,236.30
03/01/03	28.00	1,500,000	4,500,000	16,684.93
04/01/03	31.00	1,500,000	6,000,000	27,708.90
05/01/03	30.00	1,500,000	7,500,000	35,753.42
06/01/03	31.00	1,500,000	9,000,000	46,181.51
07/01/03	30.00		9,000,000	53,630.14
Total	181.00	9,000,000		189,195

FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Revenues:</u>		
State Special Revenue (02)		(\$189,195)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
State Special Revenue (02)		(\$189,195)

LONG-RANGE IMPACTS:

In the long term, if historical investment performance repeats, the public school trust fund balance will grow more rapidly if a portion of the trust is invested in common stock. However, current investment income will be reduced in the short term as investments are transferred from fixed-income bonds to common stock.

TECHNICAL NOTES:

1. If the intent of this constitutional amendment is to permit the investment of the public school trust fund in common stock investments effective January 1, 2003, state law governing investments should also be amended, contingent upon ratification of this amendment. The pertinent section of state law is 17-6-201(2)(b), MCA: **"Other public funds may not be invested in private corporate capital stock. "Private corporate capital stock" means only the common stock of a corporation."** If this section of state law is not amended, common stock investments could not be made from the school trust until the 2003 Legislature amended this section.