

HF409 - 0 - "Long-term Equity Investment Authority"

Chief Author: **Tony Albright**
 Committee: **State Government Finance**
 Date Completed: **02/13/2017**
 Lead Agency: **Public Employees Retirement Assoc**
 Other Agencies:
 Investment Board

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Investment Board	-	-	-	-	-	-
Restrict Misc. Special Revenue	-	-	-	-	-	-
Public Employees Retirement Assoc	-	-	-	-	-	-
Public Employees Retirement Fund	-	-	-	-	-	-
State Total						
Restrict Misc. Special Revenue	-	-	-	-	-	-
Public Employees Retirement Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total						

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Investment Board	-	-	-	-	-
Restrict Misc. Special Revenue	-	-	-	-	-
Public Employees Retirement Assoc	-	-	-	-	-
Public Employees Retirement Fund	-	-	-	-	-
Total	-	-	-	-	-

Lead Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Susan Earle Date: 02/13/2017
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2	Biennium			Biennium	
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Investment Board	-	-	-	-	-
Restrict Misc. Special Revenue	-	-	-	-	-
Public Employees Retirement Assoc	-	-	-	-	-
Public Employees Retirement Fund	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Investment Board	-	-	-	-	-
Restrict Misc. Special Revenue					
Expenditures	-	11	8	8	8
Absorbed Costs	-	(3)	-	-	-
Public Employees Retirement Assoc	-	-	-	-	-
Public Employees Retirement Fund	-	10	4	4	4
Total	-	18	12	12	12
Biennial Total			30		24
2 - Revenues, Transfers In*					
Investment Board	-	-	-	-	-
Restrict Misc. Special Revenue	-	8	8	8	8
Public Employees Retirement Assoc	-	-	-	-	-
Public Employees Retirement Fund	-	10	4	4	4
Total	-	18	12	12	12
Biennial Total			30		24

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 Agency: **Public Employees Retirement Assoc**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Public Employees Retirement Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Public Employees Retirement Fund	-	-	-	-	-
Total	-	-	-	-	-

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

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*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021	
Public Employees Retirement Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Public Employees Retirement Fund	-	10	4	4	4	4
Total	-	10	4	4	4	4
Biennial Total			14			8
2 - Revenues, Transfers In*						
Public Employees Retirement Fund	-	10	4	4	4	4
Total	-	10	4	4	4	4
Biennial Total			14			8

Bill Description

The bill grants qualifying governments the authority to invest certain assets in equity markets. Subdivision 1 defines qualifying governments to include counties or cities with a population over 100,000; counties or cities with the highest applicable rating on their general obligation bonds; and certain self-insurance pools. Subdivision 2 provides that a qualifying government may invest through certain mutual funds or through the Minnesota State Board of Investment (“SBI”) subject to terms and minimum investment amounts adopted by the Board. Subdivision 3 states that qualifying cities or counties may only invest assets held for long-term capital plans or long-term obligations (i.e. long-term environmental exposure). The amount qualifying cities and counties may invest is limited to 15 percent of unassigned cash, cash equivalents, deposits, and investments. Qualifying self-insurance pools may invest up to the lesser of 15% of the sum of cash, cash equivalents, deposits, and investments, or 25% of its net assets. Subdivision 4 requires that the governing body of the qualifying government must certify that the body understands the type of funds invested, the investment itself, and the risk of loss. Subdivision 5 states that the Public Employees Retirement Association will administer an account for each qualifying government and will certify the appropriate assets to the SBI. Subdivision 6 limits the account with PERA to those qualifying governments investing with the SBI. Subdivision 7 grants PERA the authority to charge a fee for administrative costs, which are appropriated to PERA from the account. PERA must report the investment returns, investment fees, and costs associated with the account. Subdivision 8 requires PERA to certify the funds for investment with the SBI. The investment restrictions for accounts invested through the SBI are the same as those generally applicable to the SBI. Subdivision 9 allows a government to withdraw all or a portion of the account at a time and in a manner as required by the PERA Executive Director.

Assumptions

PERA will be responsible for drafting forms, setting up the capability to accept participant assets, and transferring the assets to SBI. Additionally, PERA would publish information on the assets under administration in the Agency's Comprehensive Annual Financial Report. This process is assumed to be the same as the process PERA uses to administer Other Post Employment Benefits (OPEB) accounts. It is further assumed that staff would be able to absorb the required work and no additional FTEs would be needed.

It is assumed that twenty entities participate beginning in FY18.

Establishing the necessary forms and publications is estimated to take four staff members one day of work each at a rate of \$52 per hour (salary plus benefits). It is assumed this cost is recovered immediately from twenty participating entities. In reality, it may be amortized over a longer period via an annual fee as is done with OPEB accounts.

Setting up a new participating entity is estimated to take one staff member four hours at a rate of \$52 per hour. It is assumed this cost is recovered immediately from twenty participating entities. In reality, it may be amortized over a longer

period via an annual fee as is done with OPEB accounts.

Transactions beyond the initial setup are estimated to take staff four hours annually by processing one transaction per month at \$52 per hour.

Expenditure and/or Revenue Formula

	FY 2018	FY 2019	FY 2020	FY 2021
Establishment of Proper Forms, Materials, Website Information, etc.	1664			
Participating Entity Account Set Up	4160			
Processing Participating Entity Transactions	4160	4160	4160	4160
TOTAL	9984	4160	4160	4160

Long-Term Fiscal Considerations

The administrative fees charged to participating entities will be ongoing for the duration of their participation.

Local Fiscal Impact

PERA will charge participating local governments for ongoing administrative costs for the duration of their participation. PERA assumes that a billing structure similar OPEB account charges would be established, and that participating entities would be billed a flat fee once annually. The cost in FY18 reflects all of PERA's setup costs at \$500 per participating entity. As the program continues, the cost to administer would be evaluated and is likely to range between \$200 to \$500 annually per participating entity.

References/Sources

Experience administering OPEB accounts.

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Chief Author: **Tony Albright**
 Committee: **State Government Finance**
 Date Completed: **02/13/2017**
 Agency: **Investment Board**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

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State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Restrict Misc. Special Revenue	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Restrict Misc. Special Revenue	-	-	-	-	-
Total	-	-	-	-	-

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

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State Cost (Savings) Calculation Details

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Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021	
Restrict Misc. Special Revenue	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Restrict Misc. Special Revenue						
Expenditures	-	11	8	8	8	8
Absorbed Costs	-	(3)	-	-	-	-
Total	-	8	8	8	8	8
Biennial Total			16			16
2 - Revenues, Transfers In*						
Restrict Misc. Special Revenue	-	8	8	8	8	8
Total	-	8	8	8	8	8
Biennial Total			16			16

Bill Description

The bill grants qualifying governments the authority to invest certain assets in equity markets. Subdivision 1 defines qualifying governments to include counties or cities with a population over 100,000; counties or cities with the highest applicable rating on their general obligation bonds; and certain self-insurance pools. Subdivision 2 provides that a qualifying government may invest through certain mutual funds or through the Minnesota State Board of Investment (“SBI”) subject to terms and minimum investment amounts adopted by the Board. Subdivision 3 states that qualifying cities or counties may only invest assets held for long-term capital plans or long-term obligations (i.e. long-term environmental exposure). The amount qualifying cities and counties may invest is limited to 15 percent of unassigned cash, cash equivalents, deposits, and investments. Qualifying self-insurance pools may invest up to the lesser of 15% of the sum of cash, cash equivalents, deposits, and investments, or 25% of its net assets. Subdivision 4 requires that the governing body of the qualifying government must certify that the body understands the type of funds invested, the investment itself, and the risk of loss. Subdivision 5 states that the Public Employees Retirement Association will administer an account for each qualifying government and will certify the appropriate assets to the SBI. Subdivision 6 limits the account with PERA to those qualifying governments investing with the SBI. Subdivision 7 grants PERA the authority to charge a fee for administrative costs, which are appropriated to PERA from the account. PERA must report the investment returns, investment fees, and costs associated with the account. Subdivision 8 requires PERA to certify the funds for investment with the SBI. The investment restrictions for accounts invested through the SBI are the same as those generally applicable to the SBI. Subdivision 9 allows a government to withdraw all or a portion of the account at a time and in a manner as required by the PERA Executive Director.

Assumptions

The SBI is making the following assumptions for purposes of the following calculations:

- The assets invested through this legislation do not include retirement assets;
- The SBI will manage assets through the SBI’s U.S. equity index pool, through which the SBI currently manages other non-retirement assets;
- The SBI administrative fee is .0075% of the assets under management, which is similar to the fee charged for other non-retirement asset management;
- The SBI will manage investments for approximately 20 qualifying governments; and
- The assets are long-term assets that do not require frequent deposits or withdrawals (frequent cash movement will incur

liquidation costs as well as increased agency costs for the SBI).

Expenditure and/or Revenue Formula

It will take a total of 10 work days for staff to set up 20 accounts (4 hours per account). This setup time is considered a one-time employee expense. At a yearly accounting staff wage of \$97,000 (including salary and benefits), the setup costs will equal approximately \$3,750. This initial cost is allocated as an overhead (absorbed) cost to FY 18 (assuming the legislation takes effect July 1, 2017). Ongoing expenses will include monitoring the accounts, producing reports, making investments, and transferring funds. These costs, along with other allocable expenses, are accounted for in the \$7,500 expense allocation explained in the Local Fiscal Impact section.

Long-Term Fiscal Considerations

The ongoing costs discussed above will continue as long as the accounts remain active with the SBI.

Local Fiscal Impact

The SBI charges an administrative fee based on the assets under management for the fund. See Minn. Stat. § 11A.07, subd. 5 (2016). Based on a hypothetical account value of 100 million, the administrative fee would be \$7,500, which would be apportioned amongst the qualifying governments relative to the value of each government's investment. This amount is billed directly to the participants and covers the ongoing expense of managing the investments. The SBI understands that the amount of investment by qualifying governments is uncertain and may be less than this estimate.

References/Sources

- Minn. Stat. § 11A.07, subd. 5
- 2016 SBI Annual Report (describing how the SBI manages various funds)

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