

LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6817

BILL NUMBER: HB 1089

NOTE PREPARED: Jan 1, 2013

BILL AMENDED:

SUBJECT: Investment of Public Funds.

FIRST AUTHOR: Rep. Lehman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that public deposits may be invested in a fixed annuity contract offered by an insurance company with a high credit rating. It specifies the minimum terms for the annuity contract.

Effective Date: July 1, 2013.

Explanation of State Expenditures:

Explanation of State Revenues: *Summary:* The provisions in the bill could have a fiscal impact on the state General Fund, dedicated funds, and trust funds relative to investment earnings and on the state General Fund relative to financial institutions tax collections. The fiscal impact of the changes is indeterminable.

Investment in fixed annuity contracts by the State Treasurer could change the risk and return from the investment of public funds. Fixed annuity contracts have recently offered better interest rates than bank deposits. Since they guarantee a minimum interest rate, they can remove some market risk. Fixed annuity contracts are not insured by Federal Deposit Insurance Corporation. The investment is backed by the financial strength of the insurance carrier offering the product.

The bill could divert state and local investment funds from the financial institutions currently designated as depositories of state deposits to the eligible insurance companies. If that happens, then it would result in loss of income for the current depositories of state funds. This would result in a decrease in financial institution tax deposited in the state General Fund.

Background: Under current law the state and local treasurers are required to invest public funds under the investment guidelines provided by I.C 5-13-9. In FY 2011 (latest available annual report), the Treasurer of State managed an investment portfolio of over \$6.0 B. The portfolio comprised receipts from the state General Fund and over 84 trust funds and dedicated funds. The investment portfolio consists of certificates of deposit and repurchase agreements in 200 banks, savings and loans, and credit unions across the state of Indiana. Current law requires that these financial institutions be designated as depositories for state deposits before receiving any public funds. It also provides a list of instruments that could be used for investment purposes.

The bill allows the Treasurer to invest in fixed annuity contracts. A fixed annuity is a contract sold by an insurance company. This bill specifies requirements that the insurance company and the contract have to meet in order to be eligible for receiving investment of public funds. It requires that the fixed annuity contract must (1) have a fixed rate of return; (2) not be greater than five years in term; and (3) make regular payments, at least annually. It requires that the insurance company be authorized by the Department of Insurance to do business in Indiana and have a high credit rating as specified in the bill.

Explanation of Local Expenditures:

Explanation of Local Revenues: Depending on the actions taken by the county treasurers, the provisions in the bill could have a fiscal impact on local units of government. The fiscal impact from this provision is indeterminable.

State Agencies Affected: Department of Insurance, Treasurer of State.

Local Agencies Affected: Local units of government.

Information Sources:

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