

Fiscal Estimate - 2017 Session

Original Updated Corrected Supplemental

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|--|--|---|-------------|
| LRB Number 17-3046/1 | | Introduction Number SB-210 | |
| Description prohibiting the Investment Board from making certain investments | | | |
| Fiscal Effect | | | |
| State: | | | |
| <input type="checkbox"/> No State Fiscal Effect | | | |
| <input type="checkbox"/> Indeterminate | | | |
| <input type="checkbox"/> Increase Existing Appropriations | | <input type="checkbox"/> Increase Existing Revenues | |
| <input type="checkbox"/> Decrease Existing Appropriations | | <input type="checkbox"/> Decrease Existing Revenues | |
| <input type="checkbox"/> Create New Appropriations | | <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget | |
| | | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | |
| | | <input type="checkbox"/> Decrease Costs | |
| Local: | | | |
| <input type="checkbox"/> No Local Government Costs | | | |
| <input type="checkbox"/> Indeterminate | | | |
| 1. <input checked="" type="checkbox"/> Increase Costs | | 3. <input type="checkbox"/> Increase Revenue | |
| <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory | | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | |
| 2. <input type="checkbox"/> Decrease Costs | | 4. <input type="checkbox"/> Decrease Revenue | |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | |
| 5. Types of Local Government Units Affected | | | |
| <input checked="" type="checkbox"/> Towns | | <input checked="" type="checkbox"/> Village | |
| <input checked="" type="checkbox"/> Counties | | <input type="checkbox"/> Others | |
| <input checked="" type="checkbox"/> School Districts | | <input checked="" type="checkbox"/> WTCS Districts | |
| Fund Sources Affected | | Affected Ch. 20 Appropriations | |
| <input type="checkbox"/> GPR <input type="checkbox"/> FED <input checked="" type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS 20.536(1)(k) | | | |
| Agency/Prepared By | | Authorized Signature | Date |
| SWIB/ Bill Ford (608) 852-6871 | | Bill Ford (608) 852-6871 | 4/26/2017 |

Fiscal Estimate Narratives

SWIB 4/26/2017

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|--|-----------|---------------------|--------|---------------|----------|
| LRB Number | 17-3046/1 | Introduction Number | SB-210 | Estimate Type | Original |
| Description prohibiting the Investment Board from making certain investments | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

The State of Wisconsin Investment Board (SWIB) currently invests approximately \$108 billion of state trust fund assets. Over 90% of this money belongs to the Wisconsin Retirement System (WRS) and is held in trust for the retirement security of over 600,000 state and local employees and retirees. On average, 75% of the income of the WRS comes from investment returns. SWIB also invests the assets of 6 other trust funds, including the cash management fund for the state and local governments. SWIB has investments in thousands of companies domiciled in the United States and throughout the world.

This bill prohibits SWIB from investing in securities of any "company" that has entered into a contract with the federal government to plan, design or construct a wall along the southern border between the United States and Mexico pursuant to Executive Order 13767 of the President of the United States. The term "company" is defined broadly to mean "any organization or enterprise operated for profit, including but not limited to a proprietorship, partnership, firm, business trust, joint venture, syndicate, corporation, limited liability company or association.

Within 30 days after the effective date of the bill, SWIB is required to identify all companies that contract to plan, design or build a border wall and make a list of these companies. SWIB must update this list at least quarterly. For each company included on the list, SWIB must send a written notice to the company informing the company that SWIB is prohibited from investing in the company and the reason for this prohibition.

After 30 days following the effective date of the bill, SWIB may not make any new investment in securities of any company included on the list. If at this time SWIB already maintains investments in companies included in the list, SWIB must divest itself of these investments within approximately 6 months. If SWIB later updates the list and adds a company in which SWIB already maintains an investment, SWIB must divest itself of the investment within 6 months after the company is added to the list. SWIB may remove a company from the list one year after the company completes all work related to the border wall or one year after the contract termination date, whichever is later.

The bill also requires SWIB to report annually to the legislature SWIB's most recent list identifying affected companies and other information relating to SWIB's divestment from companies that contract to build a border wall.

SWIB receives no direct general purpose revenue from the state. All costs incurred by SWIB are paid from the income of the trust funds. Therefore, the costs imposed by the bill will result in lower net returns for the trust funds that SWIB manages.

SWIB estimates the initial administrative costs imposed by the bill to be \$349,600 annually and the continuing administrative costs imposed by the bill to be \$287,200 annually. These costs include identifying all companies that contract to plan, design or construct the border wall and including them on a list of affected companies, updating this list quarterly, providing written notice to the affected companies that SWIB is prohibited from investing in their securities and the reason why, monitoring work on the wall construction project and removing a company from the list within one year after the company completes all work related to the border wall or one year after the contract termination date, whichever is later, selling the shares of securities of affected companies that SWIB currently owns and reporting to the legislature the most recent list and other information relating to SWIB's divestment from companies that contract to build a border wall. This estimate is based on the assumption that 1000 companies will be involved in some aspect of the planning, design and construction of the border wall.

The investment-related costs of this bill include the market impact cost of divesting in securities of affected companies within a relatively short period of time and the prohibition against investing in securities of

companies that might earn profits for the trust funds, thereby reducing expected trust fund returns. These costs are not possible to estimate with any accuracy, in part because of the nature of investing and in part because of uncertainty concerning when Congress will appropriate money to construct the wall and how much money will be appropriated. However, these costs could be substantial and could affect contribution rates and post retirement annuity adjustments under the WRS. Most of the over 1400 employers who participate in the WRS are local governments so increases in contribution rates would also increase local government costs.

SWIB has a fiduciary and statutory duty to the trust funds it manages to invest only in the interests of the trust funds. Section 25.15 (2)(c), stats., States that SWIB's standard of responsibility when it manages money and property is to "administer assets of each trust or fund solely for the purpose of ensuring the fulfillment of the purpose of each trust or fund at a reasonable cost and not for any other purpose." For example, the WRS trust funds are to be used only for the benefit of the over 600,000 participants in the WRS for their retirement security. The investment restrictions and the divestiture requirements imposed under the Bill are not consistent with this purpose or with the purposes for which other trust funds managed by SWIB were created.

Long-Range Fiscal Implications