

### Fiscal Estimate - 2021 Session

Original           Updated           Corrected           Supplemental

<b>LRB Number</b> 21-3933/1		<b>Introduction Number</b> <b>SB-497</b>
<b>Description</b> creating a baby bond program and baby bond fund, granting rule-making authority, and making an appropriation		
<b>Fiscal Effect</b>		
<b>State:</b>		
<input type="checkbox"/> No State Fiscal Effect		
<input type="checkbox"/> Indeterminate		
<input type="checkbox"/> Increase Existing Appropriations	<input type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> Decrease Existing Appropriations	<input type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Create New Appropriations		
<input type="checkbox"/> Decrease Costs		
<b>Local:</b>		
<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
5. Types of Local Government Units Affected		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Counties <input type="checkbox"/> Others
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	<input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
<b>Fund Sources Affected</b>		<b>Affected Ch. 20 Appropriations</b>
<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		
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
SWIB/ Jay Risch (608) 261-2410	Jay Risch (608) 261-2410	8/17/2021

## Fiscal Estimate Narratives

SWIB 8/17/2021

LRB Number	21-3933/1	Introduction Number	SB-497	Estimate Type	Original
<b>Description</b> creating a baby bond program and baby bond fund, granting rule-making authority, and making an appropriation					

### Assumptions Used in Arriving at Fiscal Estimate

#### BACKGROUND ON SWIB'S ASSETS UNDER MANAGEMENT

As of Dec. 31, 2020, the State of Wisconsin Investment Board (SWIB) managed nearly \$144 billion of trust fund assets. The largest portion of assets managed by SWIB, about 91%, is in the Wisconsin Retirement System (WRS) trust fund. About 7% is in the State Investment Fund (SIF), which is a pool of cash balances for state and local governments. The remaining 2% of total assets are in other separately managed trust funds. These other trust funds include the Injured Patients & Families Compensation Fund, the State Historical Society Fund, the University of Wisconsin System Trust Funds, and the State Life Insurance Fund.

#### BILL SUMMARY

2021 Senate Bill 497 requires the Department of Financial Institutions to establish and administer a baby bond program and creates a baby bond trust fund managed by SWIB.

#### ASSUMPTIONS AND COST ESTIMATE

Given the expected assets of a baby bond trust fund, SWIB would likely manage this new fund in a manner similar to the other separately managed trust funds. In particular, SWIB would expect to invest the assets in passive, externally managed, low-cost index funds.

SWIB charges various fees and costs to separately managed funds to comply with statutory requirements and its fiduciary duty to each of the trust funds under its management. SWIB expects its management fee for a baby bond trust fund could range from 2.25 to 5.5 basis points (bps) on the fund's annual average assets under management (AUM). (One basis point is equal to 0.01 percent, 1/100th of a percent, or 1 cent for each \$100.) Custody fees would likely be about 0.18 bps on the fund's annual average AUM. Middle office fees (risk management, IT, etc.) would likely be 0.36 bps on the fund's annual average AUM. Custody fees and middle office fees can change from year to year. The total of these fees and costs would be \$279-604 per \$1 million of AUM.

Depending on the investment needs of the trust fund, external managers will charge fees from 2 bps to 10 bps on AUM invested in passively managed funds. Some fee schedules are structured such that fees shrink as AUM grows.

SWIB would also need to engage an asset allocation consultant to review the investment needs of the baby bond trust fund and recommend an appropriate asset allocation. The initial cost for this review would be approximately \$50,000 - \$100,000 and should be revisited every 1-2 years (at an additional cost of about \$25,000 per review).

These assumptions and cost estimates assume the assets of a baby bond trust fund would be invested in a single pool with a long term investment horizon and the fund's assets would be roughly similar to the assets of SWIB's other separately managed funds. The smallest fund SWIB manages is the State Historical Society Fund, which has assets of about \$25 million.

### Long-Range Fiscal Implications