

Fiscal Estimate - 2021 Session

Original Updated Corrected Supplemental

LRB Number 21-3804/1		Introduction Number SB-557	
Description investment of certain University of Wisconsin System revenues			
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 checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget	
<input type="checkbox"/> Decrease Existing Appropriations	<input type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
<input type="checkbox"/> Create New Appropriations		<input type="checkbox"/> Decrease Costs	
Local:			
<input type="checkbox"/> No Local Government Costs			
<input type="checkbox"/> Indeterminate			
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	5. Types of Local Government Units Affected	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue		<input type="checkbox"/> Counties <input type="checkbox"/> Others
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		<input type="checkbox"/> School Districts <input 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			
Agency/Prepared By	Authorized Signature	Date	
SWIB/ Jay Risch (608) 261-2410	Jay Risch (608) 261-2410	9/20/2021	

Fiscal Estimate Narratives

SWIB 9/20/2021

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Description investment of certain University of Wisconsin System revenues					

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 557 expands the authority of the Board of Regents of the University of Wisconsin System to manage the investment of certain UW System revenues through a financial manager, a private investment firm, or the State of Wisconsin Investment Board (SWIB), instead of investing these moneys in SWIB's State Investment Fund (SIF).

ASSUMPTIONS AND COST ESTIMATE:

Under current law, state statute 25.17(9m), SWIB invests the UW System's revenues from gifts, grants, and donations. This bill extends this investment authority to other sources of UW System revenue, including tuition dollars and auxiliary revenues (e.g., housing, dining, athletics, parking, etc.).

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 additional UW System revenues would be about 5.5 basis points (bps) on the UW System Trust Funds' 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 0.11 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.

Depending on the investment needs of the trust fund, external managers could charge fees up to 14 bps or more on AUM invested in passively managed funds. Some fee schedules are structured such that fees shrink as AUM grows.

SWIB may also need to engage an asset allocation consultant to review the UW System's investment needs 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).

Long-Range Fiscal Implications