FISCAL NOTE

	FY 2020	FY 2021	FY 2022
NON-ADMINISTRATIVE IMPACT			
Anticipated Revenue increase			
COMMON SCHOOL LAND INCOME ACCOUNT	$4,500,000	$4,500,000	$4,500,000
NON-ADMINISTRATIVE IMPACT			
Anticipated Expenditure increase			
SCHOOL FOUNDATION PROGRAM ACCOUNT	$5,150,000	$5,400,000	$5,400,000

Source of revenue and expenditure increase:

This bill has the potential to result in increased investment earnings to the Common School Land Income Account (CSLIA). The fiscal impact in the form of an expenditure increase to the School Foundation Program Account (SFP) will have an estimated net to zero fiscal impact to the Legislative Stabilization Reserve Account (LSRA) in the form of interest payments.

Assumptions:

Assuming there are sufficient funds in the LSRA to meet the full needs of an interfund loan for the SFP, this bill has the potential to result in increased investment earnings to the CSLIA. If interfund loans for the SFP are utilized from the LSRA rather than the Common School Account within the Permanent Land Fund (CSPLF), it would increase expenditures from the SFP to pay interest to the LSRA equal to the interest rate earned on pooled fund investments in the previous fiscal year. For FY 2019, FY 2021, and FY 2022, the Consensus Revenue Estimating Group (CREG) forecasts the yields for the LSRA to be 3.09%, 3.23% and 3.23%, respectively. For FY 2020, FY 2021, and FY 2022, the CREG forecasts the yields for the CSPLF to be 2.70%, 2.70% and 2.69%, respectively. The estimated interfund loan amount for each fiscal year is $200,000,000 for 10 months. It is also assumed current SFP appropriations are sufficient to meet the anticipated expenditure increase.

The bill provides the State Treasurer’s Office the opportunity to invest funds from the CSPLF that would have been used for interfund loans to the SFP, which has the potential to result in larger investment earnings over time than estimated above. Over time, investment earnings attributed to permanent funds (CSPLF) are anticipated to be higher than investment earnings attributed to non-permanent reserves (LSRA). The CSPLF has returned 5.9% in the last five years and 5.24% over the last 10 years, including unrealized capital gains according to the State Treasurer’s Office Investment Performance Analysis. By comparison, the State Agency Pool, where the LSRA is invested, has earned 2.18% over the last five years and 3.54% over the last ten years, a difference of 3.72% and 1.7%, respectively. Taking the more conservative difference of 1.7% higher total return, it yields $3,400,000 per year in potential increased investment performance, which is not included in the estimate above due to unrealized capital gains included within the historical performance. Further, any additional investment earnings to the CSLIA would reduce transfers from CSPLF reserve account to guarantee the spending policy amount.

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