



**State Representative Robert Cole Sprague
83rd House District**

Sponsor Testimony
House Bill 46
Financial Institutions, Housing, and Urban Development Committee
March 7, 2017

Chair Dever, Ranking Member Smith, and members of the Financial Institutions, Housing, and Urban Development Committee, thank you for giving me the opportunity to offer sponsor testimony on House Bill 46.

House Bill 46 will update the investment authority of county treasurers. Currently, county treasurers are authorized to invest in corporate bonds with the two highest credit ratings (AAA or AA). However, in practice, there is very limited issuance of corporate paper in these two categories, with only about twenty of the largest American corporations issuing AA paper. As an investment tool, the very limited number of securities have concentrated portfolios into only a few issues, limiting the effectiveness of having corporate debt securities available. If all investment grade paper were permitted (AAA, AA, and A), these portfolios could be broadened and strengthened through diversification. The overall yield would also increase, because A rated paper has a higher yield than AAA or AA paper. Of course, it has increased risk, and the county treasurers will have to balance both risk and return for their portfolios. House Bill 46 would permit county treasurers to invest in A rated corporate debt, according to the needs of their portfolio.

Current law also limits investment to debt securities that mature within two years. However, this limits the portfolio to the low end of the yield curve, reducing the portfolio returns on taxpayer money. By going from a two year to a three year maturity, the portfolio could climb the yield curve with longer ladders and increase portfolio returns for taxpayers. There is opportunity cost, along with duration risk, when investing in longer dated securities, but in most cases, county investments are held until final maturity anyway. House Bill 46 would expand the allowable maturity of securities from two to three years.

If signed into law, House Bill 46 will provide treasurers with greater flexibility and authority to make decisions that best fit their county's portfolio. While continuing to remain cognizant of

protecting taxpayer funds, these policy changes will provide counties with greater opportunities to gain higher yields and further diversify investments.

Before concluding my testimony, I want to mention that although “and money in the public library fund” is referenced in the title, the language changes only apply to county inactive moneys. After introducing the bill, there were concerns this bill was revising language that impacts the public library fund. The Legislative Service Commission has drafted amendment AM0087, which amends the title, to ease any concerns that still exist.

Thank you for your time and consideration of this important bill. I am happy to answer any questions that the committee might have.