

FINANCIAL INSTITUTIONS, HOUSING, AND URBAN DEVELOPMENT COMMITTEE

PROPONENT TESTIMONY – HOUSE BILL 46

TUESDAY, MARCH 28, 2017

MONTGOMERY COUNTY TREASURER CAROLYN RICE

THANK YOU, CHAIRMAN JONATHAN DEVER, VICE CHAIR ROBERT COLE SPRAGUE, RANKING MEMBER KENT SMITH AND MEMBERS OF THE COMMITTEE FOR GIVING ME THIS OPPORTUNITY TO PROVIDE PROPONENT TESTIMONY ON HOUSE BILL 46. MY NAME IS CAROLYN RICE, AND I AM THE MONTGOMERY COUNTY TREASURER. I AM A MEMBER AS WELL AS SECOND VICE PRESIDENT OF THE COUNTY TREASURERS ASSOCIATION OF OHIO (CTAO).

I COME HERE TODAY TO TELL YOU WHY I BELIEVE THAT THE PROPOSED CHANGES IN HOUSE BILL 46 WILL BE BENEFICIAL TO COUNTY INVESTMENT PORTFOLIOS AND OUR LOCAL COMMUNITIES. BUT FIRST, LET ME GIVE YOU SOME BACKGROUND ON HOW THE NEED FOR THESE CHANGES AROSE. I HAVE SERVED AS THE MONTGOMERY COUNTY TREASURER FOR THE LAST TEN YEARS. WHEN I FIRST CAME INTO OFFICE, MONTGOMERY COUNTY'S INVESTMENT PORTFOLIO'S TOTAL MARKET VALUE WAS COMPARABLE TO WHAT IT IS TODAY - \$482 MILLION. IN THOSE DAYS, THE INVESTMENT INCOME GENERATED ON THE PORTFOLIO WAS MORE \$27 MILLION. THEN THE GREAT RECESSION HAPPENED AND INTEREST RATES DROPPED AND HAVE REMAINED HISTORICALLY LOW OVER THE INTERVENING YEARS. AS YOU KNOW, FIVE YEARS IS THE MAXIMUM

DURATION ALLOWED FOR INVESTMENTS IN OUR PORTFOLIO. THEREFORE, EACH YEAR SINCE THE GREAT RECESSION FIRST OCCURRED, WE FOUND IT IMPOSSIBLE TO REPLACE MATURING INVESTMENTS AT THE SAME INTEREST RATES LEVELS BECAUSE THOSE OPTIONS WERE NON-EXISTENT. TO DEMONSTRATE WHAT AN IMPACT THIS DECLINE HAS HAD ON OUR COUNTY, THE INVESTMENT INCOME GENERATED ON MONTGOMERY COUNTY'S PORTFOLIO IN 2016 WAS \$4.4 MILLION—A FAR CRY FROM THE \$27 MILLION REALIZED IN 2007 ON THE SAME SIZE PORTFOLIO DESPITE BEATING OUR BENCHMARK EVERY SINGLE YEAR.

AT ONE OF OUR COUNTY'S INVESTMENT ADVISORY COMMITTEE MEETINGS BACK IN 2013, WE HAD A HEALTHY DISCUSSION ABOUT WHAT CHANGES, IF ANY, MIGHT BE PRUDENT AND GIVE US SOME POTENTIAL FOR ADDITIONAL REVENUE. AFTER MUCH STUDY AND ANALYSIS, WE PRESENTED THE PROPOSED CHANGES OFFERED IN HOUSE BILL 46 TO MY FELLOW COUNTY TREASURERS THAT WOULD ALLOW COUNTY TREASURERS TO INVEST IN "A" RATED CORPORATE BONDS WITH MATURITIES OF UP TO 3 YEARS—CURRENT LAW LIMITS INVESTMENTS TO "AA" RATED BONDS WITH MATURITIES OF NO MORE THAN 2 YEARS. OUR PROPOSAL WAS UNANIMOUSLY APPROVED AND ENDORSED BY CTAO'S LEGISLATIVE COMMITTEE AND MEMBERSHIP.

I ASK THIS COMMITTEE TO SUPPORT HB 46 AND ENABLE US TO INVEST IN "A" RATED CORPORATE BONDS WITH MATURITIES OF UP TO 3 YEARS. SINCE THIS LEGISLATION IS PERMISSIVE, IT DOES NOT FORCE ANY COUNTY TO INVEST IN "A" RATED BONDS IF THEY DO NOT DEEM IT NECESSARY OR APPROPRIATE.

HOWEVER, FOR THOSE OF US WHO SEE REAL OPPORTUNITIES AND BENEFITS FROM EXPANDING THE CATEGORIES OF CORPORATE BONDS WE CAN BUY, GIVE US THE CHANCE TO USE OUR JUDGMENT AND MAKE THESE INVESTMENTS TO EARN MORE INVESTMENT INCOME FOR OUR COUNTY. THE FOLLOWING IS A LIST OF REASONS I BELIEVE WE SHOULD BE GRANTED THIS AUTHORITY:

- CORPORATE BONDS CONTINUE TO BE LIMITED TO NO MORE THAN 15% OF COUNTY'S TOTAL AVERAGE PORTFOLIO.
- THE SUPPLY OF SECURITIES THAT MEET THE STRINGENT QUALITY GUIDELINE PUT FORTH BY THE OHIO REVISED CODE ("AA" RATED OR BETTER) HAVE BEEN DECLINING OVER THE YEARS. CURRENTLY ONLY 25 COMPANIES ISSUE DEBT THAT MEET THE QUALITY RESTRICTIONS PLACED UPON OHIO COUNTIES.
- BY ALLOWING "A" RATED SECURITIES AS ELIGIBLE INVESTMENTS, THE OPPORTUNITY SET INCREASES TO WELL OVER 125 CORPORATIONS. THUS ALLOWING MUCH BROADER CHOICE AND DIVERSIFICATION.
- "INVESTMENT GRADE" BONDS ARE USUALLY DEFINED AS INCLUDING THE TOP FOUR BOND RATING CATEGORIES. "A" RATED BONDS, WHICH ARE THE THIRD HIGHEST, ARE WELL ABOVE THE BOTTOM OF "INVESTMENT GRADE".
- THE INCREASED YIELD FROM INVESTING IN SHORT "A" RATED CORPORATE BONDS VERSUS SHORT "AA" CORPORATE BONDS IS CURRENTLY 0.20% OR 20 BASIS POINTS. ON A \$100 MILLION

PORTFOLIO, THE INCREASE IN INTEREST INCOME WOULD AMOUNT TO APPROXIMATELY \$200,000 PER YEAR.

- WHILE AN “A” CORPORATE BOND IS SLIGHTLY RISKIER THAN AN “AA” BOND, CORPORATE BONDS GENERALLY HAVE THEIR RATINGS MOVED DOWN LONG BEFORE THE COMPANY ACTUALLY DEFAULTS.

I AM UNDER NO ILLUSION THAT ENACTING THESE CHANGES WILL MIRACULOUSLY BOOST OUR INVESTMENT INCOME, BUT WE BELIEVE MONTGOMERY COUNTY COULD EARN AN ADDITIONAL \$100,000 TO \$125,000 IN ADDITIONAL INVESTMENT INCOME PER YEAR BY MAKING THESE INVESTMENTS IN “A” CORPORATE SECURITIES. THAT IS REAL MONEY THAT OUR COUNTY COULD USE TO ADDRESS THE FINANCIAL DEMANDS WE FACE. MONTGOMERY COUNTY CURRENTLY HAS \$8.9 MILLION IN APPLE CORPORATE BONDS AND \$9 MILLION IN BERKSHIRE HATHAWAY CORPORATE BONDS THAT REPRESENT ONLY 3.72% OF OUR INVESTMENT PORTFOLIO. PLEASE SUPPORT HB 46 SO WE CAN TAKE ADVANTAGE OF THIS NEW INVESTMENT OPTION TO INCREASE OUR PORTFOLIO’S INCOME AND IMPROVE ITS DIVERSIFICATION WITHOUT SIGNIFICANTLY CHANGING THE RISK PROFILE OF THE PORTFOLIO.

I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MIGHT HAVE. AGAIN, THANK YOU FOR THE OPPORTUNITY TO PROVIDE PROPONENT TESTIMONY ON HOUSE BILL 46.