Ohio State House of Representatives

Committee on Financial Institutions, Housing and Urban Development

Testimony of Barney Wright, Treasurer of Warren County, regarding Senate Bill 163.

October 31, 2017

Chairman Dever, Vice Chairman Sprague, Ranking Member Smith, members of the committee, my name is Barney Wright and I am the Treasurer of Warren County, Ohio. I want to thank you for allowing me to testify today as a county treasurer and a representative of the Legislative Committee of the County Treasurer's Association of Ohio. Briefly, we are in favor of Senate Bill 163 which proposes changes to the possible investments available to a county for the investment of their inactive funds.

Senate Bill 163 would permit County Treasurers to invest in "A" rated corporate bonds and to purchase corporate bonds with maturities of up to three years. This is an expansion of county investment possibilities, as current law limits county investments to "AA" rated corporate bonds with maturities of no more than 2 years.

I would note that Rep. Sprague introduced HB 46, an identical bill. On April 25th, this committee favorably recommended HB 46, and on June 7th, the House approved the bill by a vote of 91:1. On September 20 the Senate approved SB 163 by a vote of 32-0.

Key points of the proposed bill – Positives

- The investment option is elective – each County's Investment Advisory Committee would have to approve it before any change actually occurs.

- Corporate bond holdings continue to be limited to no more than 15% of county's total average portfolio.

- The proposed change will increase the choices for investment from about 19 issuers currently to over 100 – allowing much broader choice and diversification.

- "A" rated bonds with 3 years to maturity have, over the last 6 1/2 years, paid an average of 0.97% more than comparable treasury notes. Given that treasury notes maturing in 3 years or less have paid less than .5% over the same period, this is a significant increase in yield.

- Additional investment income for counties can provide funds to pay for needed community services without any tax increases.

A Potential Negative

- The one year expected default risk for “AA” bonds has been 0.021%. Comparable default rates for “A” rated bonds have been 0.06%. While the “A” bond is, by the numbers, slightly riskier, it is a very small increase in risk and reflects the fact that bonds generally have their ratings moved down long before the company actually defaults.

Market facts that support the change

- The change adjusts to changes in the corporate debt market - when the current O.R.C. provision was originally enacted, “AA” or better debt included 25% of corporate bonds. Now “AA” or better debt is only 10% of market.

- Government Agency bonds that qualify for investment (the major alternative to Treasury notes for county investment) are shrinking in the volume available – in the year 2000 Agency bonds encompassed 29% of the Merrill Lynch 1-5 year Treasury/Agency index. In 2014 they were 8% and since then that percentage has continued to shrink.

- Qualifying money market funds are currently paying miniscule rates of interest. In addition, the current rates are not expected to increase as general rates rise because most managers have been waiving fees to keep from having their fund charge investors for participating. Fund managers will restore their fees before paying their investors more.

- “Investment grade” bonds are usually defined as including the top <u>four</u> bond rating categories. “A” rated bonds, which are the third highest, are well above the bottom of “Investment Grade”.

Again, thank you for allowing me to testify. If the Committee has questions, I would be happy to address them.