Financial Institutions, Housing, and Urban Development Committee

Proponent Testimony House Bill 46

Tuesday March 28, 2017

Warren County Treasurer Elect Barney Wright

Good Morning. Chair Dever, Vice Chair Sprague, and Ranking Member Smith, I appreciate the opportunity to offer testimony to assist the Committee today.

My name is Barney Wright and I am the Treasurer Elect of Warren County. I am also a member of the Legislative Committee of the Ohio County Treasurers Association. I am a lawyer by training and, since Law School, have spent 40 years investing funds for others and practicing law. The large majority of my career has involved serving as the head of the Trust Department and concurrently as the Investment Officer for at LCNB National Bank. In those roles, I managed the investments of the bank's trust accounts, including investment funds of Warren County and other public entities, as well as all the investments held in the bank's investment portfolio. When I retired from the bank in 2014 we had approximately $250 million in trust assets and over $350 million in the Bank's investment portfolio.

As I'm sure you know the public funds held by our counties are vital for the provision of services to our citizens. To protect those funds, the legislature has established strict limitations on how a county's funds can be invested. I'm here today to suggest that, while restrictions are certainly appropriate, the restrictions currently in effect can be slightly relaxed without imprudently increasing the risk to public funds. A minor expansion of investment options will allow county treasurers *who choose to adjust their investment choices* the opportunity to increase the income they earn on their funds.

The increased income earned will then be available to provide for a county's public needs WITHOUT ADDING TO THE TAX BURDEN OF THE COUNTY'S RESIDENTS. I consider this an extremely beneficial result.

To review the law as it stands now, a county treasurer may invest up to 15% of their average assets in debt issued by qualifying corporations. The corporation must have a double A rating for its debt and the bond must mature in 2 years or less.

House Bill 46 proposes a change to allow county investments in debt that must mature within 3 years issued by corporations with a single A rating. A study of the relative yields for these two classes of debt for the last 5+ years and shows that the daily closing yield quoted for single A issues maturing in 3 years, on average, exceeds the daily closing quoted yield for double A rated, 2 year maturity debt by over .6%.

Now .6% may not sound like a lot, but on $1 million it is an additional $6,000 in annual income. In Warren County's portfolio, if aggressively pursued, it could amount to over $200,000 in additional income for us.

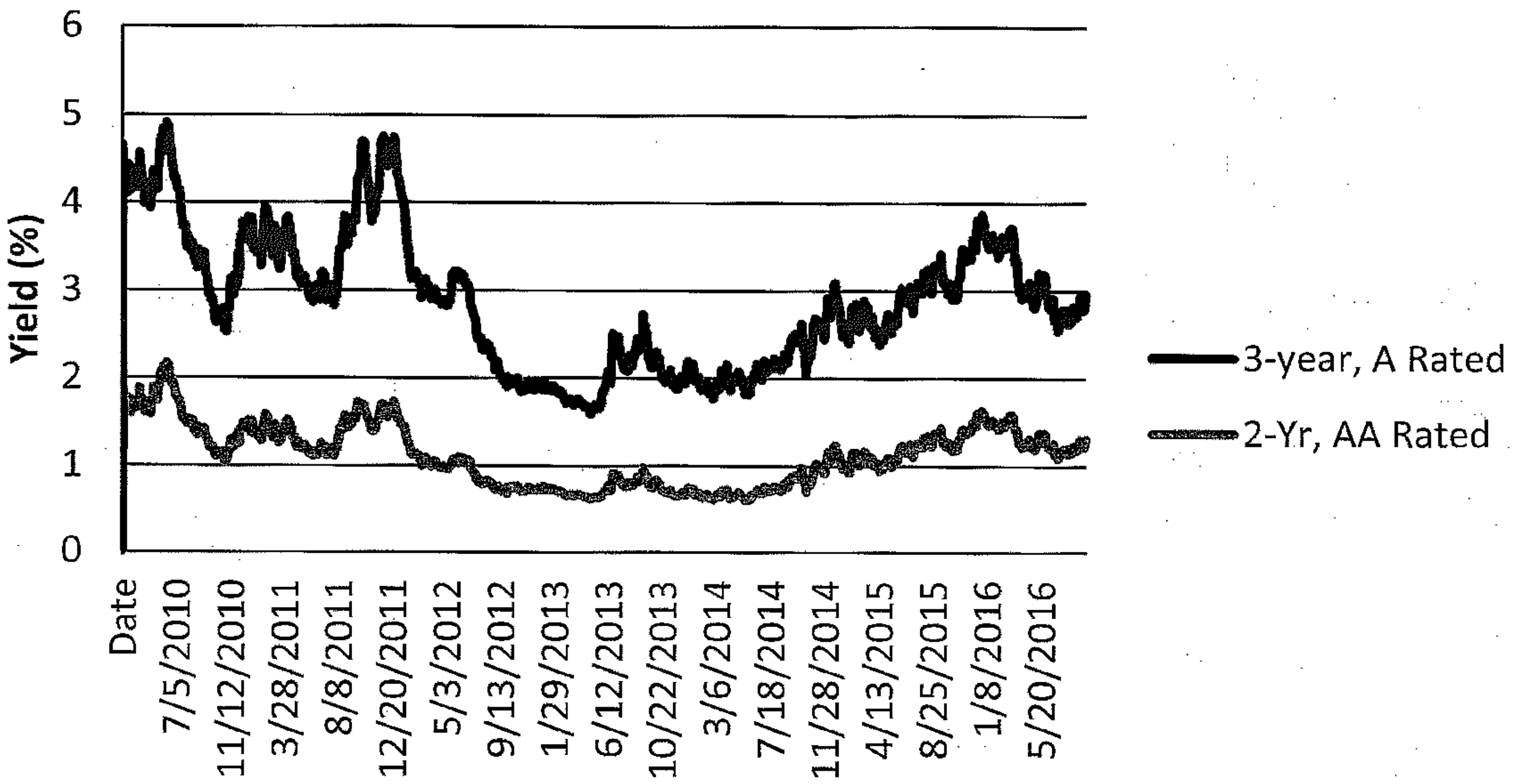
I've distributed a summary sheet of this proposal with information that I believe may be helpful. I would specifically point out the additional risk inherent in this change is very small. AA and A rated issues almost never default without warning. The rating generally is reduced gradually, so the default rates for bonds with these ratings is miniscule. Recent numbers we have found indicates that .02% of AA rated debt defaults in any year and .064% of A rated debt defaults annually.

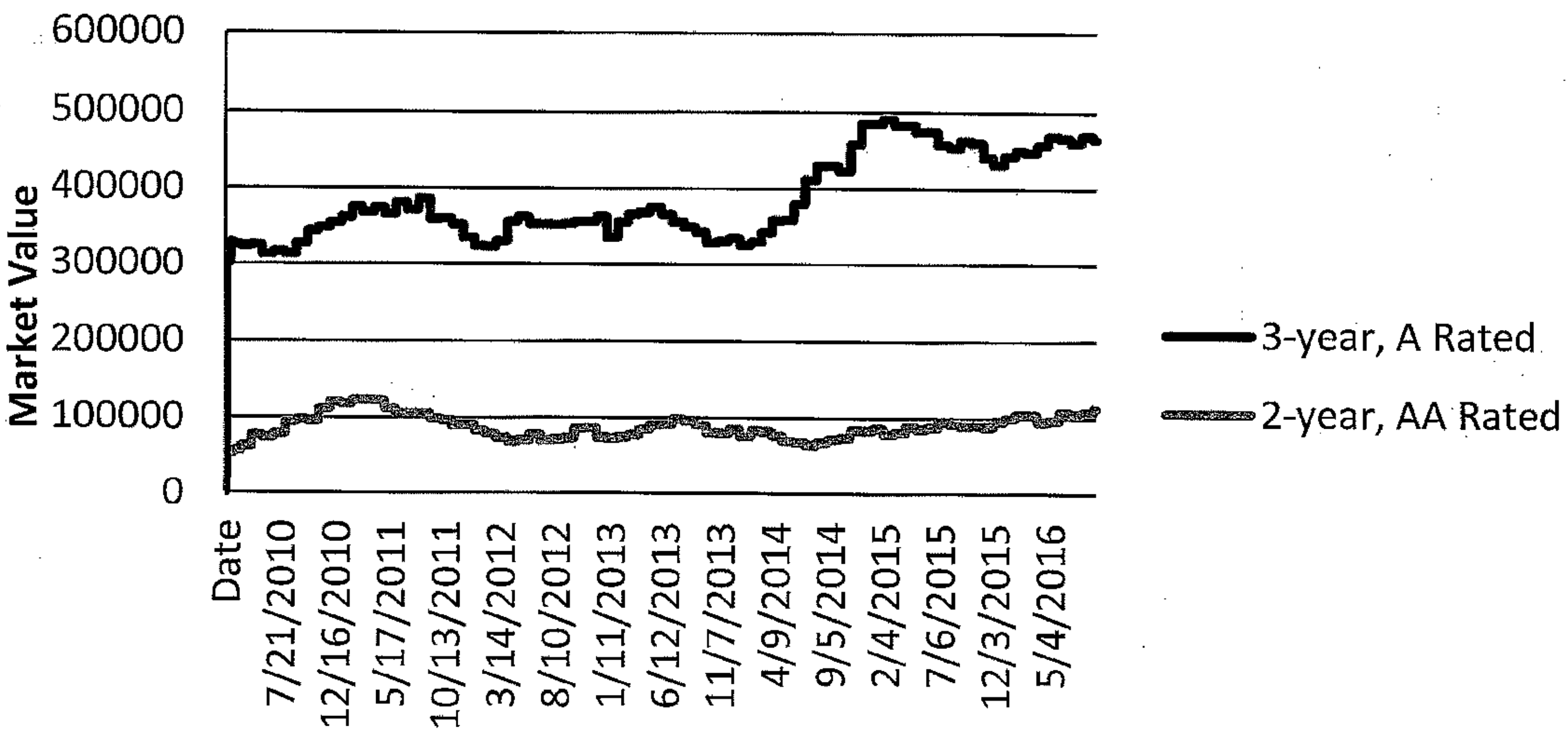
Based on these facts, there is no doubt that A debt is "riskier" than AA rated debt. The actual occurrence of the increased risk is extremely small and, in my opinion, well worth the increased yield that can be captured.

I have attached to my testimony a page of significant points regarding this legislation. I would particularly direct your attention to the section headed **Market facts that support the change**. It summarizes several adverse changes in the market for investment bonds that have affected investors. These changes are in addition to the generally low level of interest rates that the Federal Reserve has imposed on our country for the last several years.

I have also attached graphs of the daily closing yields for these issues going back 7 years. They show clearly that, while the margin of benefit changes over time, A rated issues with a three year maturity always yield more and are much more readily available than A rated two year issues.

I'd be happy to answer any questions.


Yield
Yield (%)
6
5
4
3
2
1
0
Date
7/5/2010
11/12/2010
3/28/2011
8/8/2011
12/20/2011
5/3/2012
9/13/2012
1/29/2013
6/12/2013
10/22/2013
3/6/2014
7/18/2014
11/28/2014
4/13/2015
8/25/2015
1/8/2016
5/20/2016
3-year, A Rated
2-Yr, AA Rated



Volume of Available securities
Market Value
600000
500000
400000
300000
200000
100000
0
Date
7/21/2010
12/16/2010
5/17/2011
10/13/2011
3/14/2012
8/10/2012
1/11/2013
6/12/2013
11/7/2013
4/9/2014
9/5/2014
2/4/2015
7/6/2015
12/3/2015
5/4/2016
3-year, A Rated
2-year, AA Rated