**Government Oversight and Reform Committee**

**September 5, 2017**

**S.B. 163**

**Proponent’s Testimony**

Good Afternoon. My name is Barney Wright and I am the Treasurer of Warren County. I’m here to support the proposed changes to investment limits for inactive county funds. Senator Wilson has introduced S.B. 163. This bill will permit 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.

**Key points for consideration – Positives**

* The option is elective – each County’s Investment Advisory Committee will have to approve before any change actually occurs.
* Corporate bonds 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 issuers – allowing much broader choice and diversification.
* “A” rated bonds with 3 years to maturity have, over the last several years, paid an average of almost 1% more than comparable treasury notes. Given that those comparable treasury notes have paid less than .5%, this is a significant increase in yield.

**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 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 issuer actually defaults.

**Market facts that support the change**

* The change adjusts to changes in the corporate debt market - when the currently effective O.R.C. provision was originally enacted, “AA” or better debt included 25% of the market. Now “AA” or better debt is only 10% of market, and that percentage is falling.
* Government Agency bonds that qualify for investment (a county’s major alternative to Treasury notes) 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 that % has continued to shrink since then.
* Qualifying money market funds are paying miniscule rates of interest – generally less than 1%. In addition, that rate is 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.
* “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”.