GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 341 (First Edition)

SHORT TITLE: Modern Escheat Investment Program.

SPONSOR(S): Senator Hoyle

FISCAL IMPACT

Yes ( ) **No ( )** **No Estimate Available (x)**

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
REVENUES:					
Escheats Fund	**(See "Assumptions and Methodology")**				
EXPENDITURES:					
POSITIONS (cumulative):					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

EFFECTIVE DATE: When the bill becomes law.

BILL SUMMARY: Under current law the State Treasurer may invest the excess cash balances of the Escheats Fund only in debt securities or cash. The bill would allow up to 20% to be invested in: (1) insurance contracts, trusts, limited partnerships, and limited liability companies whose primary purpose is investing in or owning real estate or related debt financing; (2) certain corporate stock; and (3) limited partnerships and limited liability companies whose primary purpose is to invest in public or private debt, public or private equity, or corporate buyout transactions

ASSUMPTIONS AND METHODOLOGY: The shift of up to 20% of the excess balances of the fund should increase the average annual investment income over the long run, when compared to the annual return under the current portfolio. In theory, the increase in annual income should be around 10%. Thus, if the expected average return were currently 5.0% under current practices, the new average annual return might be as high as 5.5%. The increase in yield will correspond to a modest rise in the volatility of the annual return. The variation in annual returns makes it impossible to predict the impact on a particular year covered by this fiscal note. Finally, a review of the recent experience of the investment of state and local pension fund assets, the written policy guidelines of the Office of State Treasurer for the investment of pension assets, and discussions with the staff of the Office of State Treasurer suggest that the Treasurer is likely to not use all of the capacity allowed under the bill for the new investment vehicles. If this occurs, the additional investment income and the extra volatility will not be as high as the results under full usage of the new investment vehicles.

SOURCES OF DATA:

TECHNICAL CONSIDERATIONS: None

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