# *Fiscal Note & Local Impact Statement*

*127 th General Assembly of Ohio*

Ohio Legislative Service Commission
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BILL: **H.B. 151** DATE: **April 25, 2007**

STATUS: **As Introduced** SPONSOR: **Reps. Mandel and Jones**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **To prohibit any public investor from investing in a foreign company with active business ties or operations in or with the Islamic Republic of Iran and to require that any existing investments in such companies be divested in order to protect the public investments of the state of Ohio from global security risk-related losses**

## *State Fiscal Highlights*

| STATE FUND | FY 2007 | FY 2008 | FUTURE YEARS |
|---|---|---|---|
| **General Revenue Fund – TOS, AUD, AGO** | | | |
| Revenues | - 0 - | - 0 - | - 0 - |
| Expenditures | Possible increase | Possible increase | Possible increase |
| **Other State Funds – BWC and All of the state of Ohio Retirement Systems** | | | |
| Revenues | Possible decrease | Possible decrease | Possible decrease |
| Expenditures | Possible increase | Possible increase | Possible increase |

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The bill prohibits any public investors or asset manager investing on behalf of any public investors in this state from acquiring securities investing in a company with active business ties or operations in or with the Islamic Republic of Iran. The prohibited investments also include mutual funds that are invested in those companies. The provisions may increase the expenditures of the Treasurer of State, the Bureau of Workers' Compensation, and the five state retirement systems – School Teachers Retirement System (STRS), Public Employees Retirement System (PERS), School Employees Retirement System (SERS), Highway Patrol Retirement System (HPRS), and Ohio Police and Fire Pension Fund (OP&F) – to comply with the requirements of the bill.

- The bill requires the Treasurer of the State to evaluate, approve, and compile a list of the "independent research providers," to provide the list to public investors, and to update the list on a quarterly basis. The independent research provider status is given to a company that independently evaluates whether a company, mutual fund, or other investment account has active business ties to Iran. The provisions may minimally increase the agency's administrative costs.

- The bill requires the Auditor of State to verify that each public investor has complied with the investment limitations and submits a specified written report. The provisions may minimally increase the agency's administrative costs.

- The bill authorizes the Attorney General to enforce the provisions of the bill including a court action if necessary. The provisions may minimally increase the agency's administrative costs.

## *Local Fiscal Highlights*

- No direct fiscal effect on political subdivisions.

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## *Detailed Fiscal Analysis*

The bill prohibits any public investors or asset manager investing on behalf of any public investors in this state[1] from acquiring securities investing in a company[2] with active business ties or operations in or with the Islamic Republic of Iran. The prohibited investments also include mutual funds that are invested in those companies.

The bill specifies that each nonpublicly traded foreign company must provide an affidavit to the public investor or asset manager of a public investor that states the company does not have certain business ties with Iran in order to receive investment of public funds. In addition, asset managers under contract with a public investor are required to submit certification reports to the public investor attesting to the asset manager's noninvolvement with investments in those prohibited investments.

The bill requires the public investors or the asset manager to divest or redeem any securities in those companies that they currently holding or withdraw from an account that includes such entities. Any such investors and asset managers must divest or redeem at least 60% of investments held in forbidden entities within six months after the effective date of the bill and 100% of such investments within 12 months after the effective date of the bill.

Furthermore, the bill requires the Treasurer of State to evaluate and approve any companies that meet certain requirements under the bill as an "independent research provider." The independent research provider status is given to a company that independently evaluates whether a company, mutual fund, or other investment account has active business ties to Iran. In addition, the Treasurer is required to compile a list of the independent research providers, provide the list to public investors, and update the list on a quarterly basis.

The bill also requires the Auditor of State to verify that each public investor has complied with the limits on investing in operations tied to the Islamic Republic of Iran. The bill specifies that the Auditor of State must submit a written report of the findings to the Governor, the President of the

[1] The bill defines "public investor" as the Treasurer of State, the State Board of Deposit, the Workers' Compensation Oversight Commission, the Administrator of Workers' Compensation, and the board of each of the five state retirement systems, and prohibits these officers or entities from investing any public funds with a forbidden entity. It also includes investments of interim moneys managed by the Treasurer of State.

[2] Prohibited companies are defined in section 137.01 of the bill.

Senate, the Speaker of the House of Representatives, and the chairpersons of the standing committees with primary responsibility for legislation regarding public investors. The Auditor must notify the Attorney General if it is determined that a public investor has not complied with the requirements of the bill.

The bill authorizes the Attorney General to enforce the provisions of the bill including a court action if necessary. The bill also relieves a public investor of liability for a breach of fiduciary duty to the public fund under the investor's control provided that the public investor has complied with the investments' restriction requirements.

The bill may increase the expenditures of the Treasurer of State, the Bureau of Workers' Compensation, and the five state retirement systems – School Teachers Retirement System (STRS), Public Employees Retirement System (PERS), School Employees Retirement System (SERS), Highway Patrol Retirement System (HPRS), and Ohio Police and Fire Pension Fund (OP&F)-to comply with the requirements of the bill. However, the bill has no fiscal impact to the local governments.

The limitations on investments by public investors under the bill may slightly reduce diversification and investment criteria for public investors, but it may not affect their ability to maximize returns on investment. However, the limitations may impact the state's five retirement systems' investment returns, which in turn could negatively impact existing unfunded liabilities. A portion of the retirement systems' portfolios are invested in multinational companies.

Furthermore, if any of the public investors have to divest any investments in those companies, there would be upfront transition costs that need to be paid. In addition, the public investors would bear an undetermined loss of investment income. The transaction costs, loss of investment income, market risk associated with divestment, and reduced investment diversification resulting from the bill are undetermined.

In addition, the bill would minimally increase the administrative costs to the Treasurer of State, the Auditor of State, and the Attorney General to fulfill some of the requirements in the bill.

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