HOUSE COMMITTEE ON APPROPRIATIONS

2009-10 Legislative Session

FISCAL NOTE

HOUSE BILL: 1821 **PRINTER'S NO: 2447** **PRIME SPONSOR: Shapiro**

FISCAL IMPACT SUMMARY	FY 2009/10	FY 2010/11
Expenditure Increase/(Decrease):		
General Fund	See Analysis	See Analysis
Public School Employee Retirement Fund	See Analysis	See Analysis
School Employee Retirement Fund	See Analysis	See Analysis
Pennsylvania Municipal Retirement Fund	See Analysis	See Analysis

OVERVIEW:

House Bill 1821 would require the Public School Employees' Retirement System (PSERS), the State Employees' Retirement System (SERS), the Pennsylvania Municipal Retirement System (PMRS), and the Treasurer to divest of investments in companies doing business in Iran and Sudan. All four entities must, within 90 days after the effective date of the bill, identify all scrutinized companies in which they have direct holdings. The bill allows investments in social development companies, which are defined as companies whose primary purpose is to provide humanitarian goods or services. The bill also requires the Commonwealth to reimburse PSERS, SERS, PMRS and any fund of which the Treasury is a custodian for their net losses, costs and expenses incurred as a result of compliance with the provisions of the bill.

The bill takes effect immediately.

ANALYSIS:

PSERS estimates that their current holdings in Iran and Sudan as specified in the bill have a total market value of $580 million. The cost of divesting these holdings and then reinvesting those assets is estimated to be approximately $4.1 million. These are onetime, non-recurring costs. It is not possible at this time to determine how this cost can be broken into annual costs as that will be dependent on the timing of when transactions will occur. In addition, ongoing monitoring of compliance with the bill's provisions is estimated to be approximately $100,000.

SERS estimates that their current holdings in Iran and Sudan as specified in the bill have a total market value of $90 million. The cost of divesting these holdings and then reinvesting those assets is estimated to be approximately $360,000. These are onetime, non-recurring costs. It is not possible at this time to determine how this cost can be broken into annual costs as that will be dependent on the timing of when transactions will occur. In addition, ongoing monitoring of compliance with the bill's provisions is estimated to be approximately $50,000 to $100,000.

Treasury reports that they currently have a policy requiring them to divest of holdings where they believe the geopolitical situation could create losses, but they believe this bill perhaps goes further than that. Treasury reports that there is possibly a slight gain that would be realized in the amount of approximately $340,000 to the General Fund.

PMRS estimates that their current holdings in Iran and Sudan as specified in the bill have a total market value of $22 million. The cost of divesting these holdings and then reinvesting those assets is estimated to be approximately $100,000. These are onetime, non-recurring costs. It is not possible at this time to determine how this cost can be broken into annual costs as that will be dependent on the timing of when transactions will occur.

The market performance of the replacement holdings will determine the level of loss or gain in the funds. According to the Public Employee Retirement Commission's actuarial note dated November 13, 2009, "there are numerous variables and uncertainties in determining the potential impact resulting from enactment of divestment legislation." For this reason, a precise estimate of the financial impact of House Bill 1821 cannot be made.

The provision requiring the Commonwealth to reimburse each public fund for their net losses, costs and expenses incurred as a result of compliance with the bill would equate to a cost to the General Fund, however at this time there is no way to estimate what the costs could be.

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General Note and Disclaimer: *This Fiscal Note was prepared pursuant to House Rule 19(a), and the elements considered and reported above are required by Section 5 of the rule. Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*