

LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6623

BILL NUMBER: HB 1387

NOTE PREPARED: Feb 11, 2021

BILL AMENDED: Feb 11, 2021

SUBJECT: Prohibited Expenditures and Investments.

FIRST AUTHOR: Rep. Judy

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill prohibits the use of public funds to subsidize or otherwise incentivize direct flights from international and regional airports in Indiana to or from China. The bill prohibits the Indiana Public Retirement System from investing in Chinese companies or companies in which China has a direct or indirect economic interest or a resident of China on the board of directors. It prohibits the Indiana Economic Development Corporation from maintaining a foreign office in China.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) *INPRS:* The bill's requirements represent an additional workload and expenditure on the agency outside of the agency's routine administrative functions. The costs to implement the proposal are indeterminate at this time and will depend on administrative actions. The administrative costs of the affected funds are paid from the respective funds. Administrative costs for the defined contribution accounts are paid by members of the funds through monthly administrative fees. [In 2020, the monthly administrative fee was \$3.75.]

The bill requires INPRS to determine which businesses would be restricted investments under the proposal, divest from restricted investments, and track and report on the divestment activities. The bill allows INPRS to cease divestment if certain conditions are met. Costs of divestment include the costs associated with the sale, redemption, divestment, or withdrawal of an investment and the costs associated with the acquisition and maintenance of a replacement investment. The potential also exists that the funds may earn a lower rate of return by divesting from restricted holdings under the proposal. The bill allows INPRS to contract with a research firm to determine which businesses would be restricted investments under the proposal.

Interim Study Committee on Pension Management Oversight (PMOC): The bill allows the INPRS board in consultation with PMOC to cease divestment if certain conditions are met. If the committee were to hold additional meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

State Agencies: This bill prohibits state agencies from subsidizing or otherwise incentivizing direct flights from airports in Indiana to or from the People's Republic of China, including Hong Kong. State agencies include political officials and instrumentalities, such as: Indiana Economic Development Corporation, Indiana Finance Authority, and Indiana Destination Development Corporation. It also prohibits the IEDC from funding, operating, or otherwise maintaining a foreign office in the People's Republic of China, including Hong Kong, beginning June 30, 2021. These provisions could potentially result in a decrease in expenditures to the extent that these prohibited actions would otherwise have been funded with public funds.

Additional Information - INPRS currently pays a third party provider approximately \$71,000 annually to provide lists for the Sudan, terror states, and Anti-BDS divestment requirements in current law. INPRS estimates that the opportunity cost of not holding Chinese securities in its global equity portfolio over the past five years would have been approximately \$44 M. INPRS's estimate was based on a request for information from the Pension Management Oversight Committee. The actual investments that INPRS would be required to divest from under the bill may differ from the estimate provided by INPRS. The expected rate of return on investment for the pension funds is 6.75%. If the funds do not achieve the expected rate of return over time and administrative costs increase, the actuarially defined contribution rate and the employer contribution rate for the actuarially-funded retirement funds may increase.

This proposal applies to the following public pension and retirement funds: 1. Public Employees' Retirement Fund (PERF); 2. Public Employees Defined Contribution Plan; 3. Indiana State Teachers' Retirement Fund (TRF); 4. Teachers' Defined Contribution Plan; 5. Indiana Judges' Retirement Fund; 6. Prosecuting Attorneys Retirement Fund; 7. State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund; 8. 1977 Police Officers' and Firefighters' Pension and Disability Fund; 9. Legislator's Retirement System; 10. Pension Relief Fund; 11. Special Death Benefit Fund.

Under current statute, the Governor may approve the IEDC's establishment of foreign offices to assist businesses and industries in acquiring, improving, and developing overseas markets and encourage international plant locations in Indiana. Currently, IEDC has an international office in China.

The IEDC has collaborated with the America China Society of Indiana (ACSI) since 2013. The intent of that collaboration is to encourage direct investment from China to Indiana. The ACSI also assists with inbound and outbound delegations to and from China. The International Development Division is funded through the International Trade fund and works to create relationships with the international business community. Costs associated with the IEDC's international business trips, which include efforts with China, have previously been funded primarily through private donations.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System, Interim Study Committee on Pension Management Oversight (PMOC), all state agencies and instrumentalities.

Local Agencies Affected:

Information Sources: Scott Davis, Chief Investment Officer, INPRS, ScDavis@inprs.in.gov; INPRS's Investment Exposure to China, Interim Study Committee on Pension Management Oversight, October 14, 2020, <https://iga.in.gov/documents/86c3fc9a>; https://iga.in.gov/legislative/2020/committees/i_pension_management_oversight_interim_study_committee_on#information; https://www.in.gov/sba/files/IEDC_2016_2017_Agency_Overview_Submission_12_10_2014_Revised.pdf

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