

**SUBJECT:** Requiring an annual LBB report on the state's major investments

**COMMITTEE:** Pensions and Investments — committee substitute recommended

**VOTE:** 5 ayes — Tillery, Woolley, Crownover, Salinas, Goodman  
0 nays  
4 absent — George, Rangel, Telford, Williams

**SENATE VOTE:** On final passage, April 3 — 30-0

**WITNESSES:** None

**BACKGROUND:** Four major investment accounts exist within the State Treasury — the Teacher Retirement System Fund, the Employees Retirement System Investment Pool, the Permanent School Fund, and the Permanent University Fund. Also, the 76th Legislature established a fund to invest the proceeds of the tobacco settlement, most of which are managed by the Comptroller's Office and the University of Texas Investment Management Company (UTIMCO). Income from these investments totaled \$1.69 billion in fiscal 1999.

**DIGEST:** CSSB 734 would direct the Legislative Budget Board (LBB) to prepare an annual report on the risk-adjusted performance of all state investment funds that the LBB judged to have a relatively large amount of state assets or state-administered assets. The report would have to compare the risk-adjusted performance of similar kinds of assets or portfolios, both within a fund and between funds, and be written in non-technical language that a person without special training in investments could understand.

State governmental entities that administered the funds or the contractors who administered such funds would have to provide the LBB the information necessary to prepare the report.

A public investment fund would be defined as one established by statute or the Constitution or administered by or under contract with a public retirement

system for state employees, a state university or college, or other state entity.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

**SUPPORTERS  
SAY:**

CSSB 734 would facilitate legislative oversight of the state's major investment funds. The report that the bill would direct LBB to create would provide needed information comparing the performance of different state investments. The 76th Legislature's interim subcommittee of the Senate Finance Committee studied the management, goals, and performance of major state investment funds and were unable to compare the performance of the funds under investigation because the information they received was highly technical in nature and did not adjust the returns of the different funds for the risk of their different investments.

Another problem with conducting oversight of these funds is that the funds' performances are not adjusted for risk. For instance, a high-risk portfolio may earn a large return compared to a more conservative portfolio, but the riskier portfolio must have a greater return in the good years to offset the greater potential for losses in the bad years. What cannot be determined is whether the high-risk portfolio is earning enough to compensate for the downside risk unless the returns are adjusted. This bill would require the LBB to make such adjustments in comparing the state's investment funds.

The LBB report also could be used by the various funds to learn from each other's experiences, thus improving the overall performance of all state investment funds.

CSSB 734 would protect the privacy of the members of the investment advisory boards of these investment funds. The members volunteer their time and expertise to assist the state's investment funds. They might be reluctant to serve if too much information about them were published every year in a state report.

OPPONENTS SAY: The Senate engrossed version of SB 734 would require the LBB's reports to include information regarding the funds' investment advisors. This information is necessary to determine whether the advisors are free from conflicts of interest in the advice they give.

NOTES: The committee substitute amended the Senate engrossed version of the bill to add the requirement that the LBB analysis be of the risk-adjusted performance of the funds and delete the requirement that the report include information on any advisors or advisory committees providing information or advice on investments for state investment funds, including whether those individuals received compensation or other benefits for their services.