
Detailed Fiscal Analysis

This bill affects two types of political subdivisions: those that do not have a written investment policy filed with the State Auditor and those whose treasurer has not completed specified continuing education requirements. Currently, these subdivisions have a limited number of investment opportunities. Those without a written investment plan filed with the State Auditor may invest in (a) the Ohio Subdivision's Fund, or (b) interim deposits of certain eligible institutions. Counties without a written investment plan filed with the State Auditor may invest in (a) the Ohio Subdivision's Fund, or (b) time certificates of deposits, savings accounts, or deposit accounts of certain eligible financial institutions. County treasurers who do not complete the required continuing education program may invest in (a) the Ohio Subdivision's Fund, or (b) time certificates of deposits, savings accounts, or deposit accounts of certain eligible financial institutions.

The Ohio Subdivision's Fund is commonly referred to as STAR Ohio. It is an AAAM rated investment alternative created for eligible governmental subdivisions as defined in section 135.45(E)(2) of the Ohio Revised Code. The investment pool is managed by a full-time investment staff with the Treasurer of State of Ohio and is similar in concept to a money market mutual fund. STAR Ohio affords the participants a convenient tool for investing in a diversified pool of high quality short-term assets. Approximately 94 percent of the portfolio is invested in U.S. government obligations and U.S. government agency securities. The remainder of the portfolio is invested in fully collateralized certificates of deposit, repurchase agreements, eligible bankers' acceptances and commercial paper. While the fund is not insured, it is backed by the underlying securities of the portfolio. The current (December 30, 1999) annualized yield on deposits is 5.76 percent.

The bill would permit the above mentioned political subdivisions to invest in certain money market mutual funds. The money market mutual funds made permissible for the affected subdivisions must meet specific conditions. They must consist exclusively of obligations and securities issued and guaranteed as to principal and interest by the U.S. Treasury or a federal government agency. All federal agency securities must be direct issues of the agency. Under federal requirements assets of the fund must be at least \$100,000. Although these funds, like all mutual funds, are not guaranteed or insured like a bank deposit, they are considered among the safest of investments because the securities they hold are high quality and short term. The table below, based on information obtained from IBC Financial Data's website, presents the 30 day annualized yield for taxable retail and institutional money funds. The report lists about 1,000 funds between these two categories, but it is unclear how many of these funds meet the U.S. government only restriction. The information in the table is based on data through December 28, 1999.

30 Day Annualized Yield	Average	Maximum	Minimum
Taxable Retail	4.97	5.87	3.52
Taxable Institutional	5.22	5.93	4.18

The information in the table demonstrates that by investing in a money market mutual fund a political subdivision may be able to earn a greater return than that yielded by STAR Ohio. However,

some money market mutual funds may yield less than STAR Ohio and currently, the average yield is less than STAR Ohio. Although mutual funds are governed by strict federal and state regulations, there are still differences between funds, even between funds that invest solely in government securities. These differences allow some funds to earn more and others to earn less.

Both STAR Ohio and the money market mutual funds this bill makes permissible as investments for specified political subdivisions are relatively low risk investments. However, no investment is completely risk free.

The following consumer information regarding mutual funds (much of which also can be applied to STAR Ohio) is provided by the Securities and Exchange Commission.

- Mutual funds are not guaranteed or insured by any bank or government agency. Even if you buy through a bank and the fund carries the bank's name, there is no guarantee. You can lose money.
- Mutual funds always carry investment risks. Some types carry more risk than others.
- Understand that a higher rate of return typically involves a higher risk of loss.
- Past performance is not a reliable indicator of future performance.
- Money market funds have relatively low risk, compared to other mutual funds. They are limited by law to certain high-quality, short-term investments. Money market funds try to keep their value (NAV) at a stable \$1.00 per share, but NAV may fall below \$1.00 if their investments perform poorly. Investor losses have been rare, but they are possible.
- Banks now sell mutual funds, some of which carry the bank's name. But mutual funds sold in banks, including money market funds, are not bank deposits. Don't confuse a "money market fund" with a "money market deposit account." The names are similar, but they are completely different.

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