Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Vincent C. Gray** **Chair, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**December 11 2008**
SUBJECT:	**Fiscal Impact Statement: "Prohibition of the Investment of Public Funds in Certain Companies Doing Business with the Government of Iran , and Sudan Divestment Conformity Act of 2008"**
REFERENCE:	**Bill Number 17-657**

Conclusion

Funds are not sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the proposed legislation. The proposed legislation would cost approximately $1.95 million in the FY 2009 through FY 2012 budget and financial plan period. Of the $1.95 million in the four-year period, the legislation would require additional contributions of $1.2 million by the government of the District of Columbia to the funds administered by the District of Columbia Retirement Board and would cost an additional cost of $750,000 in transaction costs.

Background

The proposed legislation would require the District of Columbia Retirement Board (DCRB) annually to "make its best efforts" to identify those companies (a) in which the funds under the DCRB control have direct or indirect holdings and (b) that have made significant investments in the country of Iran's petroleum energy sector (more than $20 million in any given year since 1996).

Further, the proposed legislation would require the DCRB, within 135 days from the bill's effective date, to give 90 days notice to the identified companies in which the funds have direct holdings to desist from their Iranian petroleum activities; for companies that do not comply, the funds must dispose of these holdings.

In the case of DCRB's funds' holding shares in managed funds – such as mutual funds or private equity fund – the bill requires DCRB to ask the managed funds to consider divesting their ownership in the identified companies or providing alternative funds that do not include those companies.

Financial Plan Impact

Funds are not sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the proposed legislation. The proposed legislation would require additional contributions by the government of the District of Columbia to the funds administered by the DCRB. These additional contributions would total $1.2 million the FY 2009 through FY 2012 period, as indicated in the table below. In addition to reduced earnings on investments, the transaction costs of divestment would be $750,000. The Board's estimates of these costs are divided between FY 2009 and FY 2010, as the actual divestment would likely take some time to effect.

The DCRB commissioned its custodial bank, State Street Investment Analytics, to perform an analysis of the bill's impact on the funds under its jurisdiction. State Street estimated that the impact of divestment would be a decrease in total returns of 0.05% to 0.10% per year. The DCRB funds are financed by a combination of investment returns, member contributions, and District contributions. Thus, to the extent that investment returns are lower than expected, District contributions must make up the shortfall resulting from lower investment returns. Based on the State Street analysis, EFI Actuaries has estimated that the District would be required to make additional contributions of $200,000 to $400,000 to meet the funds' obligations.

Impacts to the Financial Plan of the Prohibition of the Investment of Public Funds in Certain Companies Doing Business with the Government of Iran , and Sudan Divestment Conformity Act of 2008
($ in thousands)

Item	FY 2009	FY 2010	FY 2011	FY 2012	4-Year Total
Increased Contributions	$300	$300	$300	$300	**$1,200**
Transaction Costs	$375	$375	$0	$0	**$750**
Net Annual Impact	$675	$675	$300	$300	**$1,950**