



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	S. 0583	Introduced on March 2, 2023
Author:	Bennett	
Subject:	ESG Investing	
Requestor:	Senate Finance	
RFA Analyst(s):	Miller	
Impact Date:	June 1, 2023 - Updated for Additional Agency Response	

Fiscal Impact Summary

This bill specifies that the Retirement System Investment Commission (RSIC) may only consider pecuniary factors when making investment decisions on the retirement system managed by the commission. Additionally, to the extent practical, RSIC must retain the authority to exercise shareholder proxy rights for shares that are owned directly or indirectly on behalf of the system. The bill outlines how this retention of authority may be accomplished. This bill also grants the Attorney General's Office the authority to bring an action to enforce Chapter 16 of Title 9, entitled the Retirement System Funds. Further, this bill requires insurance companies, banking corporations, trust institutions, and credit unions to disclose any non-pecuniary objective that was considered for various decisions.

This bill will have no expenditure impact for the Department of Insurance (DOI) or the Board of Financial Institutions (BOFI), as these agencies anticipate any additional responsibilities due to this bill can be managed within existing resources. Also, the Public Employee Benefit Authority (PEBA) anticipates this bill will have no impact on the agency or the revenues of the retirement systems that PEBA manages.

The Attorney General's Office believes this bill will require the agency to implement oversight and monitoring activities to enforce the provisions of Chapter 16 of Title 9. The agency anticipates the need for several FTEs and an increase of General Fund expenditures to monitor the activity of RSIC for potential violations of this bill. The agency is unsure of the extent of their responsibilities under this bill, and therefore, anticipates this bill may have a significant fiscal impact on the agency depending upon the workload required to fulfill the new oversight responsibility. The Attorney General provided a list of the three types of positions that may be needed to cover the responsibilities. These titles include an Audit Manager II with total expenses of \$162,355, a Senior Auditor with total expenses of \$105,717, and an Attorney III with total expenses of \$133,848. The total number of FTEs of each of these positions that will be needed, however, is currently unknown.

RSIC is unsure which of three scenarios will fully accomplish the requirements of this bill. The three scenarios include: managing the proxy voting in-house, hiring an external proxy advisor, or fully delegating the proxy voting to an external investment manager. The Other Funds expenditure increase will be approximately \$1,035,000, with an additional 5.0 FTEs to manage

the proxy voting in-house, up to \$292,000 to hire an external proxy advisor, or no expenditure increase to fully delegate the proxy voting to an external investment manager. Therefore, the Other Funds expenditure impact on RSIC is undetermined as it will depend on which of the three scenarios RSIC implements.

This bill will have no fiscal impact to state revenues as neither PEBA nor RSIC indicate this bill will have an impact on the retirement system investments.

This fiscal impact statement has been updated to include a response from the Attorney General's Office and a revised analysis based on the provided response.

Explanation of Fiscal Impact

Updated for Additional Agency Response on May 9, 2023

Introduced on March 2, 2023

State Expenditure

This bill specifies that RSIC may only consider pecuniary factors when making investment decisions on the retirement system managed by the commission. Additionally, to the extent practical, RSIC must retain the authority to exercise shareholder proxy rights for shares that are owned directly or indirectly on behalf of the system. The bill outlines how this retention of authority may be accomplished. This bill also grants the Attorney General's Office the authority to bring an action to enforce Chapter 16 of Title 9, entitled the Retirement System Funds. Further, this bill requires insurance companies, banking corporations, trust institutions, and credit unions to disclose any non-pecuniary objective that was considered for various decisions.

This bill may increase the oversight responsibilities of DOI and BOFI to ensure insurance companies, banking corporations, trust institutions, and credit unions are properly disclosing the information related to non-pecuniary objectives. However, both agencies anticipate this bill will have no expenditure impact as these agencies anticipate any additional responsibilities due to this bill can be managed within existing resources. Also, PEBA anticipates this bill will have no impact on the agency or the revenues of the retirement systems that PEBA manages.

The Attorney General. The Attorney General's Office believes this bill will require the agency to implement oversight and monitoring activities to enforce the provisions of Chapter 16 of Title 9. The agency anticipates the need for several FTEs and an increase of General Fund expenditures to monitor the activity of RSIC for potential violations of this bill. The agency is unsure of the extent of their responsibilities under this bill beyond the monitoring of activity, and therefore, anticipates this bill may have a significant fiscal impact on the agency depending upon the workload required to fulfil the new oversight responsibility. The following tables provides the types of positions that the agency anticipates will be needed as well as the associated expenses for each position.

	Salary	Fringe	Operating	FTE Total
Audits Manager II	\$105,254	\$42,101	\$15,000	\$162,355
Senior Auditor	\$64,798	\$25,919	\$15,000	\$105,717
Attorney III	\$85,280	\$33,568	\$15,000	\$133,848

The operating expenses associated with each position include expenses such as rent, office supplies, cars for the auditor positions, IT software and licenses, among other items. The total number of new FTEs that may be needed, and therefore the total expenses, is unknown, depending upon the extent of the agency’s responsibilities. Therefore, this bill will have an undetermined General Fund expenditure impact on the Attorney General’s Office.

The Retirement System Investment Commission. This bill specifies that, to the extent practical, RSIC must retain the authority to exercise shareholder proxy rights for shares. The agency may retain a proxy firm or advisory service to assist in exercising shareholder proxy rights, but only if certain criteria are met. Additionally, the commission must meet at least annually to review compliance regarding the exercise of proxy vote.

RSIC anticipates this bill may result in an increase in Other Funds expenditures depending upon how the commission manages the authority to exercise shareholder proxy rights. RSIC notes that there are three options to accomplish the requirements of this bill. The following are the three options:

- **Managing proxy voting in-house:** If RSIC manages the proxy voting in-house this would increase Other Funds expenditures by \$1,035,000 This would include expenses for an additional 5.0 FTEs, 1 Senior Officer with a salary and fringe totaling \$245,000 and 4 Investment Officers with salary and fringe of \$161,000 for each position, totaling \$644,000. This also includes the cost of an external Proxy Consultant at an estimated cost of \$146,000. The agency does not currently have sufficient Other Funds revenue to cover the total increase of \$1,035,000.
- **Hiring an external proxy advisor to assist in exercising its proxy authority:** The agency anticipates an increase in Other Fund expenses between \$146,000 and \$292,000 would be required to hire an external proxy advisor, depending upon the negotiated contract price. RSIC anticipates it would need to request an increase in Other Funds authorization to cover this expense.
- **Fully delegate proxy voting to an external investment manager:** RSIC anticipates this would have no expenditure impact as managing the proxy voting is included in the fee charged by the external investment manager. However, RSIC noted that whether an external investment manager would vote proxy consistent with the requirements of this bill is currently unknown.

RSIC is currently unsure which of these three scenarios will fully accomplish the requirements of this bill. Therefore, the Other Funds expenditure impact of this bill on RSIC is undetermined, depending upon which option RSIC implements.

This section of the fiscal impact statement has been updated to include a response from the Attorney General's Office and a revised analysis based on the provided response.

State Revenue

This bill specifies that RSIC may only consider pecuniary factors when making investment decisions. Additionally, to the extent practical, RSIC must retain the authority to exercise shareholder proxy rights for shares. PEBA and RSIC indicate this bill will have no impact on the retirement system investments. Therefore, this bill will have no impact on state revenues.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on March 2, 2023

State Expenditure

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This bill may increase the oversight responsibilities of DOI and BOFI to ensure insurance companies, banking corporations, trust institutions, and credit unions are properly disclosing the information related to non-pecuniary objectives. However, both agencies anticipate this bill will have no expenditure impact as these agencies anticipate any additional responsibilities due to this bill can be managed within existing resources. Also, PEBA anticipates this bill will have no impact on the agency or the revenues of the retirement systems that PEBA manages. Further, based on a response for similar legislation, we anticipate the Attorney General's Office will be able to manage any additional responsibilities due to this bill within existing resources.

This bill specifies that, to the extent practical, RSIC must retain the authority to exercise shareholder proxy rights for shares. The agency may retain a proxy firm or advisory service to assist in exercising shareholder proxy rights, but only if certain criteria are met. Additionally, the commission must meet at least annually to review compliance regarding the exercise of proxy vote.

RSIC anticipates this bill may result in an increase in Other Funds expenditures depending upon how the commission manages the authority to exercise shareholder proxy rights. RSIC notes that there are three options to accomplish the requirements of this bill. The following are the three options:

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- Hiring an external proxy advisor to assist in exercising its proxy authority: The agency anticipates an increase in Other Fund expenses between \$146,000 and \$292,000 would be required to hire an external proxy advisor, depending upon the negotiated contract price. RSIC anticipates it would need to request an increase in Other Funds authorization to cover this expense.
- Fully delegate proxy voting to an external investment manager: RSIC anticipates this would have no expenditure impact as managing the proxy voting is included in the fee charged by the external investment manager. However, RSIC noted that whether an external investment manager would vote proxy consistent with the requirements of this bill is currently unknown.

RSIC is currently unsure which of these three scenarios will fully accomplish the requirements of this bill. Therefore, the Other Funds expenditure impact of this bill on RSIC is undetermined, depending upon which option RSIC implements.

State Revenue

This bill specifies that RSIC may only consider pecuniary factors when making investment decisions. Additionally, to the extent practical, RSIC must retain the authority to exercise shareholder proxy rights for shares. PEBA and RSIC indicate this bill will have no impact on the retirement system investments. Therefore, this bill will have no impact on state revenues.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director