



OFFICE OF ILLINOIS STATE TREASURER

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Missed Investment Income Despite 6-Month Budget

Portfolio Reveals Millions in Missed Opportunity for Second Quarter

CHICAGO – The state of Illinois earned \$7.9 million less in investment income in the second quarter of 2016 as a result of the year-long budget impasse, Illinois Treasurer Michael Frerichs said today. Despite the six-month budget plan signed on June 30, the last day of the fiscal year, \$31 million remains the projection for missed earnings for 2016.

“The damage is already done. Even though we still made money from our investments, one year with no budget created missed opportunity for our state,” Frerichs said. “We will continue to assess the impact and adjust our investment strategy as needed to minimize further damage and do what is best for Illinois residents.”

The state of Illinois earned \$7.8 million less in investment income in the first quarter of 2016. Threats of unplanned fund sweeps and the need to pay court-ordered bills required the treasurer’s office to make short-term investments that prioritized cash availability rather than longer-term, higher-yielding investment opportunities.

“A six-month budget deal is a step in the right direction, but falls short, making it difficult for Illinois agencies, organizations, and families to plan for the future,” Frerichs added. “I am hopeful that when the Governor and the General Assembly return to the table, they will put their non-budgetary items aside and focus on passing a full-year, balanced budget.”

With no budget in place for a full year, the treasurer’s office remains faced with a number of cash management and investment challenges. The treasurer’s office is responsible for managing the state’s investment portfolio, ensuring the liquidity, safety and diversification of investments, and producing earnings at or above industry standards.

While Frerichs’ office has increased the 30-day rate of return this year compared to last, the rate of increase has not kept pace with the overall market because of the move to a more cautious investment strategy as a result of the budget impasse.

During the budget impasse, the state increased its position in short-term, lower-yielding assets, such as overnight investments and money market funds, to ensure it had cash available in case of a multi-billion dollar fund sweep or another court-ordered increase in

billings. This disruption of normal investment activities cost the state about \$2.6 million per month, which represents money that would have been potentially earned if the state maintained its position in higher-yielding, longer term investments such as treasuries and agency securities.

The analysis compares the state's overall asset allocation and term maturities each month and compares to March 2015, pre-budget impasse.

About the Illinois Treasurer

The Illinois Treasurer is the state's chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. As the state's Chief Investment Officer, he actively manages approximately \$25 billion. The portfolio includes \$13 billion in state funds, \$7 billion in college savings plans and \$5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns \$28 to the state for every \$1 spent in operations. The Treasurer's Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

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