JEFFERSON PARISH
LOUISIANA

OFFICE OF PARISH PRESIDENT

AARON F. BROUSSARD
PARISH PRESIDENT

February 23, 2004

Office of the Governor
Governor Kathleen Blanco
P. O. Box 94004
Baton Rouge, Louisiana 70804

Kathleen / "Governor"

Dear ~~Governor~~ Blanco:

The Board of First Bank and Trust applauds your pro-business incentives in recruiting new industry to Louisiana. Last year in the Regular Legislation Session, Senate Bill 1076 was passed to create an even playing field for Louisiana Investment firms seeking to do business with our State Pensions.

This Bill was sponsored by Senator Lambert Bossiere and it requires that the four State Pensions (Teachers, Lasers, State Police and Municipal Employees) must trade 10% of their fixed income and equity transactions through Louisiana Domiciled Broker Dealers.

Independent economic studies created by Dr. Timothy Ryan and Lauren Scott (copies enclosed) showed that millions of Pension commission dollars would now stay home in Louisiana. The multiplier affect would influence many industries and communities statewide by adding new jobs and increasing taxes.

It is our understanding that Senate Bill 1076 is not being complied with by the State Pension funds. The Board of First Bank and Trust would like you to consider issuing an "executive order" to the pensions and their trustees similar to the one created by California Governor Mr. Gray Davis (see attachment). This order requires that pensions operate as requested by the California Legislation and that they regularly report their level of activity to the Department of General Services.

We do not believe that there is a single advantage in using out-of-state firms when capable professionals reside in the state. Capturing this business results in a terrific economic boost to our state while it does not cost the pensions one penny more to operate as the Legislators voted.

Just as California protected the rights of their Disabled Veterans Program, our Domiciled Investment program needs to be monitored an enforced.

Page Two
February 23, 2004

We would recommend that you visit with our Investment firm's President, Leonard Alsfeld who created the Bill that was introduced and supported by Senator Boissiere. He would be happy to assist you in drafting your letter to the trustee as well as help you engineer a new extension of the current Bill 1076.

Furthermore, we ask that you consider introducing legislation to lift the sunset provision of the Bill which is set to expire on June 30, 2005 and increase the trading requirement to 30%. Your bill would create as many as 242 new jobs and add over $20 million in new revenue to our state. The message to voters would be heard loud and clear, "Louisiana first" because it works for our State.

We are also asking that Louisiana Attorney General, Charles C. Foti, Jr. look into the legal issues created by the Pension fund's refusal to abide by this legislation.

The Board of First Bank and Trust thanks you for your time and considerations and looks forward to working with you to build a bright future for the State of Louisiana.

Regards,

Aaron Broussard
President, Jefferson Parish
Director, First Bank and Trust

cc: Attorney General, Charles C. Foti, Jr.

The Association for Service Disabled Veterans'

CHALLENGE News™

The Trade and Focus Paper for Service Disabled Veterans in Businesses

Volume Eleven Number 27.1

Independence Day Edition
July 2, 2001

EXECUTIVE DEPARTMENT
STATE OF CALIFORNIA EXECUTIVE ORDER D-43-01
by the Governor of the State of California

WHEREAS, the State of California spends billions of dollars each year procuring goods and services, and

WHEREAS, the State of California established the Disabled Veteran Business Enterprise Program in 1989 (Public Contract Code 10115) to promote self-reliance for California's disabled veterans by offering veterans the opportunity to gain experience in business, while sharing their expertise with the citizens of California; and

WHEREAS, existing law establishes the goal of awarding three percent of all state contracts to certified Disabled Veteran Business Enterprises; and

WHEREAS, most State departments and agencies have not met this goal; and

WHEREAS, it is my intent to keep California's promise to our veterans by increasing the participation of disabled veteran businesses in State contracting;

NOW THEREFORE, I, GRAY DAVIS, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and the statutes of the State of California, do hereby issue this order to become effective immediately:

IT IS ORDERED that each department director or chief executive officer shall take all appropriate action to ensure that the State's contracting programs are administered in a manner that promotes the participation of disabled veteran businesses to the greatest extent possible.

IT IS FURTHER ORDERED that each Agency Secretary shall promote the use of disabled veteran businesses in State contracting and shall review the participation levels achieved by the departments within their agencies. If a department's level of participation by disabled veteran businesses is less than three percent, or its participation rate is not reported, the Agency Secretary shall require the department to develop a plan for improvement.

IT IS FURTHER ORDERED that this review shall be completed, and any required plans shall be submitted to my Cabinet Secretary, no later than August 1, 2001. The review and plans required by this Executive Order shall be coordinated and included with the review and plans required by Executive Order D-37-01.

IT IS FURTHER ORDERED that the Departments of Veterans Affairs and General Services shall provide direction, assistance and resources to State agencies in achieving participation by disabled veteran businesses at the three-percent level.

IT IS FURTHER ORDERED that all State agencies shall make every effort to assure that disabled veteran businesses participate in at least three percent of State contracting annually by June 30, 2002. Any agency that does not meet this level shall report to the Governor by December 1, 2002 on the reasons why the participation was not achieved and options for improving contracting opportunities for disabled veteran businesses.

IT IS FURTHER ORDERED that, because virtually all disabled veteran businesses are small businesses, Agency Secretaries and the Department of General Services shall, to the extent possible, coordinate their efforts under this Executive Order with their efforts for small businesses under Executive Order D-37-01.

IT IS FURTHER ORDERED that the Department of General Services, in cooperation with the Department of Veterans Affairs, shall examine the current contracting programs for disabled veteran and small businesses and make recommendations to my office on how those programs could be improved.

IT IS FURTHER ORDERED that all Constitutional Officers, the University of California, the California State University, the Lottery Commission, the Public Employees' Retirement System, the State Teachers' Retirement System, the State Compensation Insurance Fund, and other independent State entities are encouraged to take all necessary actions to comply with the intent and the requirements of this Order.

IT IS FURTHER ORDERED that nothing in this Order shall be construed to require any action that would violate a court order or statute, or result in a loss of eligibility for federal funding.

I FURTHER DIRECT that as soon as hereafter possible, this order be filed in the Office of the Secretary of State and that widespread publicity and notice be given to this order.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this the twenty-second day of June 2001.

Gray Davis
Governor of California

FIRST BANK AND TRUST

909 Poydras Street Suite 100
New Orleans, Louisiana 70112
(504) 584-5900
(504) 584-5902 Fax

February 23, 2004

Attorney General
Charles C. Foti, Jr.
P.O. Box 94095
Baton Rouge, Louisiana 70804-9095

Dear Charlie:

Congratulations on your newly elected position as Louisiana's Attorney General.

I am writing you today as a member of The Board of Directors of First Bank and Trust to educate you on an important piece of legislation that was passed last year. Senate Bill 1076 was created to level the playing field for Louisiana Investment firms seeking to do business with our State Pensions.

This Bill was sponsored by Senator Lambert Boissiere requires that the four State Pensions (Teachers, Lasers, State Police and Municipal Employees) must trade 10% of their fixed income and equity transactions through Louisiana Domiciled Broker Dealers.

Independent economic studies created by Dr. Timothy Ryan and Lauren Scott (copies enclosed) showed that millions of Pension commission dollars would now stay home in Louisiana. The multiplier affect would influence many industries and communities statewide by adding new jobs and increasing taxes.

It is our understanding that Senate Bill 1076 is not being complied with by the State Pension funds. We do not believe that there is a single advantage in using out-of-state firms when capable professionals reside in the state. This business is a terrific economic boost to our state and it does not cost the pensions one penny more to operate as the Legislators instructed.

Just as California protected the rights of their Disabled Veterans Program, our Domiciled Investment program needs to be monitored an enforced. (See attached). We have asked Governor Blanco to issue an executive order to force the Trustee and State Pension to comply with the law.

We would recommend that you visit with our Investment firm's President, Leonard Alsfeld who created the Bill that was introduced and supported by Senator Boissiere. He would be happy to assist you in drafting your letter to the trustee compelling them to enforce the law.

As the States Attorney General, we ask that you look into the legal issues created by the Pension refusal to abide by this legislation.

The Board of First Bank and Trust thanks you for your time and considerations and looks forward to working with you to build a bright future for the State of Louisiana.

Regards,

Aaron Broussard
President, Jefferson Parish
Director, First Bank and Trust

cc: Governor Kathleen B. Blanco

enclosures

ENROLLED

Regular Session, 2003

ACT No. 788

SENATE BILL NO. 1076

BY SENATOR BOISSIERE

AN ACT

To enact R.S. 11:263(F), 266.1 and 268, relative to Louisiana state public retirement or pension systems, funds, and plans; to direct the governing authorities of the state public retirement or pension systems, funds, and plans to prepare a policy wherein the system, fund, or plan shall propose how it intends to invest in small and emerging businesses, venture capital firms, and in-state money management firms; to direct the governing authorities of the state public retirement or pension systems, funds, and plans to prepare a policy wherein the system, fund, or plan shall propose how it intends to use in-state or out-of-state emerging businesses, money managers, and venture capital firms; to provide for a two-year pilot program, requiring each Louisiana state public retirement or pension system, fund, or plan to direct at least ten percent of all investment trades through broker-dealers who maintains an office in Louisiana and ten percent through broker-dealers who have been incorporated and domiciled in Louisiana for at least two years; to provide for interim cost analyses on the results of the pilot program; to provide a sunset date for the pilot program; to provide for an effective date; and to provide for related matters.

Notice of intention to introduce this Act has been published.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 11:263(F), 266.1 and 268 are hereby enacted to read as follows:

§263. Prudent-man rule; investments

* * *

R.S. 11:263(F) is all new law.

F. The prudent-man rule as used herein shall not prohibit investment in small and emerging businesses, small business investment companies, and venture capital firms as provided in R.S. 11:268 so long as such investment otherwise complies with the provisions of this Section.

* * *

§266.1. Investment through Louisiana incorporated and domiciled broker-dealer

R.S. 11:266.1 is all new law.

A. The provisions of this Section shall be applicable to every state public retirement or pension system, plan, or fund.

B. Each state public retirement or pension system, plan, or fund shall direct at least ten percent of all trades of listed equity and fixed income separately managed accounts through broker-dealers who maintain offices in Louisiana and ten percent of all trades of listed equity and fixed income separately managed accounts through broker-dealers who have been incorporated and domiciled in Louisiana for at least two years, who are registered and in good standing with the National Association of Securities Dealers, and who have demonstrated the ability to execute institutional equity transactions.

C. All trades shall be subject to best efforts and best executions as defined by the Securities and Exchange Commission and the National Association of Securities Dealers.

D. The provisions of this Section shall be implemented as a temporary pilot program and shall be null, void, and of no effect after June 30, 2005. An interim cost analysis of the provisions of this Section shall be performed by the systems and shall be presented to the speaker of the House of Representatives, the president of the Senate, the chairmen of the House of Representatives and Senate committees on retirement, the Public Retirement Systems' Actuarial Committee, and the Commission on Public Retirement at least fourteen days before the convening of the regular legislative session in 2005.

* * *

§268. Investment advisors; certain small and emerging businesses; small business investment companies; venture capital firms; location

R.S. 11:268 is all new law.

A. It is the intent of the legislature that each state public retirement or pension system, fund, or plan governed by this Subpart give appropriate consideration to investments that would enhance the general welfare and development of this state and its citizens through stimulation of job creation or capital formulation.

B. The governing authority of each state public retirement or pension system, fund, or plan may invest in small and emerging

CODING: Words in ~~struck through~~ are deletions from existing law; words **underscored and boldfaced** are additions.

businesses, small business investment companies, and venture capital firms.

C. The provisions of this Section do not repeal provisions relative to investments contained within the individual laws governing the state public retirement or pension systems, funds, or plans; however, the provisions of this Section shall be controlling in the cases of conflicts with the individual laws.

D. As used in this Section, the following terms shall have the meanings ascribed to them herein:

(1) "Small and emerging business" means a small business, as defined in R.S. 51:941(3), that meets the following requirements:

(a) More than one-half of its employees are employed within this state; and one of the following requirements is met:

(i) More than one-half of its assets are within this state.

(ii) Its principal office is located within this state.

(2) "Small business investment company" means an incorporated body or a limited partnership under Section 301 of Title III of the Small Business Investment Act of 1958, 15 U.S.C. 681 that meets the following requirements:

(a) More than one-half of its employees are employed within this state; and one of the following requirements is met:

(i) More than one-half of its assets are within this state.

(ii) Its principal office is located within this state.

(3) "Venture capital firm" means a corporation, partnership, proprietorship, or other entity the principal business of which is or will be the making of investments in Louisiana small businesses, either directly or indirectly, by investing in entities the principal business of

which is or will be the making of investments in Louisiana small businesses.

E. Notwithstanding the provisions of Subsections (B) and (D) of this Section, the governing authority of the system, fund, or plan may invest in small and emerging businesses, small business investment companies, and venture capital firms located outside of the state.

F. Pursuant to the provisions of R.S. 11:268, the governing authority of each state public retirement or pension system, fund, and plan shall prepare a policy to be presented to the Senate and House of Representatives committees on retirement on or before December 31, 2003, wherein the system, fund, or plan shall propose how it intends to invest in small and emerging businesses as defined in R.S. 51:941(3), venture capital firms, and in-state money management firms which either have been incorporated and domiciled in this state for at least two years or maintain offices in the state. The policy shall also include how the system, fund, or plan intends to use in-state or out-of-state emerging businesses.

G. The provisions of this Section shall be null, void, and of no effect after June 30, 2005.

Section 2. The pilot program established by this Act shall not be extended unless and until the House of Representatives and Senate committees on retirement meeting jointly, the Public Retirement Systems' Actuarial Committee, and the Commission on Public Retirement have held public meetings to discuss the cost analysis of the systems and the legislature extends the provisions of this Act by legislative enactment.

Section 3. This Act shall become effective on July 1, 2003; if vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on July 1, 2003, or on the day following such approval by the legislature, whichever is later.

PRESIDENT OF THE SENATE

SPEAKER OF THE HOUSE OF REPRESENTATIVES

GOVERNOR OF THE STATE OF LOUISIANA

APPROVED: ____________

CODING: Words in ~~struck through~~ are deletions from existing law; words **underscored and boldfaced** are additions.

THE ECONOMIC IMPACT ON THE STATE OF LOUISIANA WITH THE PASSAGE OF SENATE BILL 1076 WHICH ALLOWS THAT 20% OF THE STATE RETIREMENT SYSTEMS' TRANSACTIONS BE EXECUTED WITH LOUISIANA LOCATED AND DOMICILED BROKER-DEALERS

By

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May 2003

I. Introduction

One proposal before the Louisiana Legislature is to require that a certain proportion of trades conducted by the various state retirement systems be required to go through Louisiana located and domiciled brokerage firms. This is seen as an economic development issue. The argument is that if these trades are run through Louisiana-based firms, the commissions associated with those trades will stay in the State. By staying in the State, the funds will not only create more jobs and earnings at the brokerage houses, but also at other firms in Louisiana via the "multiplier effect.

Experience in Other States

Such legislation would not be unique to Louisiana. Other states are experimenting with this tool. For example, in late 2001, the state treasurer for Connecticut began an initiative to encourage investment managers to allocate 20% of brokerage commissions to Connecticut-based broker-dealers.[1] In Wisconsin, the SWIB is required to do at least 5% of its domestic stock brokerage business with Wisconsin firms. [2]

In New Mexico, the State Treasurer is required to give priority to New Mexico broker-dealers over out-of-state firms. Their investment policy states that their list of approved broker-dealers will contain no fewer that nine firms, and if possible, at least five of those firms should be physically located in New Mexico.[3] In Alaska, the state manages a fund called the Alaska Permanent Fund, which generates annual income of $2.1 billion. Through its directed brokerage program, the Fund ensures that Alaskan businesses share in the commissions generated by the Fund's stock trades. In addition, the Fund has turned a portion of its fixed income portfolio to an Alaskan company.[4] The Public School Teacher's Retirement Fund of Chicago has an internal policy to direct 25% of total brokerage commissions to firms designated in the Board's commission recapture program.[5]

II. Estimating New Spending In Louisiana From 20% Designation Clause

Suppose that the Legislature passed legislation requiring that 20% of all trades by state retirement systems be conducted with Louisiana located and domiciled based broker-dealers. The first question is how much money would be kept in Louisiana rather than leaving the State to out-of-state broker-dealers.

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[1] Connecticut Office of State Treasurer, Press Release, December 13, 2001.
[2] State of Wisconsin web site, www.swib.state.wi.us.
[3] www.stonm.org/InvestmentPolicy.htm
[4] Alaska Permanent Fund Annual Report, www.apfc.org/apfc/97report
[5] Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago, Report of Proceedings, March 15, 2001.

This may appear to be a seemingly simple procedure. Just take the number of trades done by the various retirement systems, take 20% of the figure, and multiply that by the commission per trade. While that is the proper general methodology, the problem is complicated by several factors. One is that, with the exception of the Louisiana State Employees Retirement System (LASERS), we are unaware of any documentation on the volume of trades by the various systems. LASERS data are available as a result of a presentation made to the House of Representatives Retirement Committee on June 10, 2002. Secondly, the commission-per-trade is not one nice, neat figure. Commissions on trades vary based on market conditions, the number of trades, frequency of trades, and other factors. As will be pointed out later, in some cases even the average commission-per-trade figure has been falling over time. Because detailed data on LASERS trading are available, they will form the basis for much of our analysis.

System Assets

Table 1 provides data from the web sites of the various state retirement systems on their total assts. According to these data, there are about $23 billion in assets held in these systems. The largest is the Teachers Retirement System with $13.6 billion or 59% of the total, followed by LASERS with $5.5 billion or 24% of the total.

Table 1
Louisiana Public Employee Retirement System Assets

System	Total Assets
Teachers Retirement System	$13,637,650,000
State Employees Retirement System	$5,529,500,000
School Employees Retirement System	$1,520,000,000
Sheriff Pension & Relief Fund	$824,570,000
State Police Retirement System	$256,500,000
Clerks of Court Retirement & Relief Fund	$160,000,000
Other Systems	$1,071,780,000
Total	**$23,000,000,000**

Annual Number of Shares Traded Per Year

Given the volume of assets shown in Table 1, what volume of shares traded are conducted by these systems each year? As mentioned earlier, data are not available on all systems. Data are available on LASERS share volumes as reported at the June10, 2002 House committee meeting. While LASERS is not the largest of the systems, it is sufficiently large that it can handle shares in an efficient and professional manner, and LASERS may be considered a reasonable model for what is happening to share volume in the other systems.

Table 2 presents data on the volume of shares by fiscal year from FY97 through FY02. It would be tempting to simply take an average of the trade volume over these six years. However, FY97-FY00 covered an unusually strong bull market, while FY01-

FY02 covered an unusually strong bear market. Both have an influence on trading volumes. Rather than take an average of all six years, which would bias the numbers in favor of a strong bull market (there were 4 bull years versus only 2 bear years), we will take an average over the FY99-FY02 period, which includes two strong bull markets and two strong bear markets. The average annual volume of shares over this 4-year period was 409,700,000.

Table 2
LASERS Shares Traded by Year
(millions)

Fiscal Year	Number of Shares
1997	111.2
1998	73.0
1999	137.1
2000	211.1
2001	475.6
2002	815.0*

* Estimated based on 11 months of reported trades
Source: LASERS presentation to House Retirement Committee, June 10, 2002.

Estimated Trades at All Systems

If LASERS averages 409.7 million shares traded a year on an asset base of $5,529.5 million, that means the system produces one trade per $13.50 worth of assets. Assuming that LASERS's trading activity is reflective of trading activity at the other systems, we can use this one-trade-per-$13.50-of -assets ratio to estimate the annual volume of trades at the other systems as well. These estimates of share volume by system are shown in Table 3.

Table 3
Estimated Annual Number of Shares Traded by Public Retirement System

System	Estimated Number of Shares Annually
Teachers Retirement System	1,010,196,296
LASERS	409,700,000
School Employees	112,529,593
Sheriffs	61,079,259
State Police	19,000,000
Clerks of Court	11,851,852
Other	79,391,111
TOTAL	**1,703,748,111**

Number of Shares Made Available By This Legislation

The data in Table 3 can be used to estimate the total number of shares traded at each retirement system that would take place under different percentage designation clauses. Suppose, for example, that legislation was passed requiring that 20% of all shares traded be done with Louisiana located and domiciled broker-dealers. Table 4 shows the estimated number of shares accruing to these Louisiana firms from each system. **The total number of designated shares under this proviso would be 340,762,223.**

Table 4
Total Designated Shares Traded Under 20% Clause

System	Total Number of Shares
Teachers Retirement System	202,039,259
LASERS	81,940,000
School Employees	22,518,519
Sheriffs	12,215,852
State Police	3,800,000
Clerks of Court	2,370,371
Other	15,878,222
TOTAL	**340,762,223**

Estimating Total Shares Handled By Louisiana Located and Domiciled Broker-Dealers From Transaction Business

If there will be an estimated 340.8 million in new shares traded that will be made through Louisiana located and domiciled broker-dealers, what does this mean in terms of new sales revenues for these firms? The answer depends on how much these firms are paid **per trade.**

Data in the LASERS presentation on June 20, 2003 suggest some clues to expected revenues per trade. LASERS provided very detailed schedules of commissions paid per trade for fiscal years 1997-2001. The average commission paid in FY97 was $0.0381. By FY2001this figure had declined to **$0.0146**. However, within each year, there was a very wide variation around the mean. For example, in FY01 the commissions ranged from a high of $0.17 to a low of $0.0007. One slide in the LASERS presentation indicated that for all U.S. listed trades the average commission was **$0.046**---a figure that fits within the upper and lower bounds of the fees LASERS paid in FY01. LASERS presenters indicated that this fee varied with the type of stock traded. They indicated the following distribution of average commissions: small caps - $0.036; mid caps - $0.049; large caps - $0.05.

Because the commission on trades vary over time and is influenced by a number of factors, we have chosen to use **sensitivity analysis** to generate our estimate of potential Louisiana located and domiciled broker-dealer sales increases due to a 20% transaction requirement. That is, we will provide a range within which the commissions are likely to fall. As an upper bound, we conservatively assume that the Louisiana located and domiciled broker-dealers will earn the U.S. industry average of $0.046 per designated share. Based on our estimate of 340,762,223 designated shares, this would generate new sales to Louisiana located and domiciled broker-dealers of $15,675,062. At the lower end, we assume that these firms would earn commissions equal to the average commission LASERS reported paying in FY01---$0.0146. This would generate new sales to the Louisiana located and domiciled broker-dealers of $7,462,693 annually. Thus, **our best estimate is that a 20% designation clause would generate between $4,975,128 and $15,675,062 in new sales for Louisiana located and domiciled broker-dealers.**

III. Total Impact of a 20% Transaction Requirement

Above we estimated the **direct impact** of imposing a 20% transaction requirement. We estimate that Louisiana located and domiciled broker-dealers would enjoy a sales boost of between $5.0 and $15.7 million annually. However, this is not the total impact on the state. To these benefits we must add the multiplier effects on the State of this new money injected into the Louisiana economy.

The "Multiplier" Concept

We will focus in this section not only on the direct impact of the new broker-dealer sales, but also on the **multiplier** or indirect impacts of those sales. Think of Louisiana as a large economic pond. Into this pond a rock will be dropped labeled "new broker-dealer sales". As we estimated above, this rock represents between $5.0-$15.7 million in new sales injected into the State economy. That rock is so large that it will make a sizeable splash in the pond. This is the "**direct**" impact of the sales.

However, once that rock hits the pond, it begins to send out ripples to the edge of the pond. For example, workers in the brokerage firms will take their new paychecks and spend those new monies at grocery stores, car dealerships, movie theaters, department stores, etc. This will create new earnings at these establishments, and those workers will spend their new earnings at other establishments in the State, etc., etc. Brokerage firms will spend money on software, technology, research, staffing, office space, and supplies at area stores, creating new income for their owners and employees, who will take this new money and spend it at car dealerships, grocery stores, etc. This is the "**multiplier**" effect.

Fortunately, there is a handy tool available for measuring these multiplier effects---an **input/output (I/O) table**. An I/O table for the Louisiana economy has been constructed by the Bureau of Economic Analysis (BEA), which is located within the U.S. Department of Commerce. The BEA is the same governmental agency responsible for measuring the nation's gross domestic product each quarter.

This I/O table can be used to estimate three separate impacts of the new broker-dealer sales...the impact on (1) sales at firms in the State, (2) household earnings of citizens of the State, and (3) jobs in the State. Below, we estimate these three effects for both the lower and upper bounds of projected new broker-dealer sales.

Impact on Sales at Louisiana Firms

Table 5 shows the I/O table estimates of the impact of the designated commissions, from a 20% transaction requirement, on sales at all Louisiana firms. The middle column reveals the impacts on firm sales of the lower estimate ($5.0 million) of designated commissions, and the last column illustrates the impact if designated commissions are at the upper bound of our estimate ($15.7 million).

Table 5
New Sales Created By 20% Transaction Requirement

Category	New Sales Created Lower Bound	New Sales Created Upper Bound
Finance and Brokerages	$5,396,522	$17,002,740
Real Estate	$657,712	$2,072,224
Health Services	$461,195	$1,453,078
Business Services	$452,239	$1,424,863
Retail Trade	$388,060	$1,225,988
Total Sales Created	**$7,355,728**	**$23,178,893**

Note: This table is based on the Bureau of Economic Analysis' RIMS II tables, which provide impact multipliers for 37 industries. The total impact is the sum of the direct and indirect impact over all 37 industries.

According to the I/O table, **sales at Louisiana firms would rise by over $9.3 million if only the lower bound of designated commissions is achieved and would jump to over $29 million if the upper bound of designated commissions is attained.** Table 5 also indicates which firms in the economy would benefit the most from these new sales. Not surprisingly, firms in the Finance/Brokerage industry benefit the most because that is where the initial direct sales go first. That is, in the case of the lower bound column, the $5,396,522 figure for Finance/Brokerage firms sales includes the $5.0 million of newly designated commissions.

Even so, there would be significant sales boosts accruing to other industries in the State as seen in Table 5. Real Estate firms would see their sales rise between $657,712 and $2.1 million, Health Service firms would enjoy sales boosts of between $461,195 and almost $1.5 million. As the table reveals, firms in Business Services and Retail Trade would also benefit noticeably from the transaction requirement.

Impacts on Household Earnings

Table 6 provides I/O estimates of the impact of the 20% transaction requirement on household earnings of Louisiana citizens. The table also illustrates in which industries Louisiana workers will gain the most.

Table 6
New Household Earnings Created by 20% Transactions Requirement

Category	New Earnings Created Lower Bound	New Earnings Created Upper Bound
Finance and Brokerages	$2,403,982	$7,574,190
Health Services	$227,363	$716,350
Business Services	$223,880	$705,378
Retail Trade	$144,279	$454,577
Miscellaneous Services	$93,034	$239,123
Total Earnings Created	**$3,092,538**	**$9,689,618**

Note: This table is based on the Bureau of Economic Analysis' RIMS II tables, which provide impact multipliers for 37 industries. The total impact is the sum of the direct and indirect impact over all 37 industries.

According to the I/O table, **the 20% transaction requirement would create between $3 million and $9.6 million in new earnings for Louisiana households.** Again, workers in the Finance/Brokerage field---where the new commissions originate---would be the biggest beneficiaries of the designation clause. However, significant earnings gained would be enjoyed by workers in Health Services, Business Services, Retail Trade, and Miscellaneous Services.

Impacts on Jobs in Louisiana

Table 7 shows the I/O table estimates of the impact of a 20% transactions requirement on jobs in the State. **According to the I/O table between 65 and 204 new jobs would be created in Louisiana under a 20% transaction requirement.**

Table 7
New Jobs Created by 20% Transactions Requirement

Category	New Jobs Created Lower Bound	New Jobs Created Upper Bound
Finance and Brokerages	41	127
Retail Trade	10	31
Health Services	7	23
Business Services	7	23
Total Jobs Created	**65**	**204**

Note: This table is based on the Bureau of Economic Analysis' RIMS II tables, which provide impact multipliers for 37 industries. The total impact is the sum of the direct and indirect impact over all 37 industries.

Table 7 also reveals how these new jobs would be distributed across industries. Finance/Brokerage firms would pick up the most new jobs because that is the sector where the "rock is dropped".

Impact on State & Local Sales Tax Collections

It is also possible to use the earnings estimates in Table 6 to estimate the impact on State and Local government tax collections of the new earnings produced by the 20% transaction requirement. Officials in the Legislative Fiscal office have estimated that the State collects about 5.6 cents in new revenues...in the form of income taxes, sales taxes, license fees, etc...for every $1 of new earnings generated in the State. Data in Table 6 suggests that the 20% designation clause would produce between $3,092,538 and $9,689,618 in new household earnings in Louisiana. **That means that the 20% transaction requirement would generate between $200,652 and $632,194 in new revenues for the State treasury.**

Dr. James Richardson of LSU's Public Administration Institute has estimated that for every dollar of new earnings generated in Louisiana, local governments add 4.4 cents to their treasuries. Given our household earnings estimates in Table 6, we **estimate that local governments would collect between $157,655 and $496,723 in additional monies for their coffers.**

IV. Ensuring Cost of Trade Minimization

One of the issues with establishing a 20% transaction requirement is ensuring that such a requirement does not increase costs to a system of conducting its trades. These systems are already not actuarially sound, and the government is now required to make an annual payment to the retirement systems to ultimately correct this problem. This problem has been exacerbated by the negative market environment of the past three years. No one is interested in a requirement that will increase trading expanses to a state retirement system.

Under the proposed legislation, retirement systems will be provided with guarantees by the Louisiana brokerage community that require these firms to confirm "best execution" in pricing trades. To ensure that "best execution" is being achieved, a Louisiana located and domiciled broker-dealer must consider factors such as overall market quality, speed of execution, the size of the order, the trading characteristics of he particular security, the availability of accurate information affecting choices as to the most favorable market in which execution might be sought, the availability of economic access to the various market centers and the cost and difficulty associated with achieving an execution in a particular market center.[6] **At the very minimum, a Louisiana located and domiciled broker-dealer must document that it has in place a system to monitor these "best execution" requirements at standards set by the SEC and NASD.** This will be a requirement for participation in the proposed 20% transaction program. **The brokerage participants must also meet all of the requirements outlined in the investment policies of the individual pension funds as they pertain to execution and transactions.** Competitive pricing and cost of execution can then be ensured so as not to negatively impact performance or returns or disrupt the trading habits of the individual fund managers.

[6] SEC Release No. 34-37619A, August 29, 1996.

V. Summary & Conclusions

Our findings regarding a proposed 20% transaction requirement can be summarized as follows:

- Designation clauses are not new. Transaction requirements are in place in New Mexico, Alaska, Wisconsin, Connecticut, and the Public School Teacher's Retirement Fund of Chicago.
- We estimate that more than 340.8 million shares traded would fall under the transaction requirement each year. Based on this estimate, we project that a 20% transaction requirement would generate between $5 million and $15.7 million in new revenue for Louisiana located and domiciled broker-dealers.
- Combining both the direct and multiplier effects of these new sales, we estimate that sales at Louisiana firms would rise between $7,355,728 and $23,178,893 due to the transaction requirement.
- We estimate that Louisiana households would enjoy a boost in Household earnings of between $3 million and $9.6 million under a 20% transaction requirement
- We estimate that between 65 and 204 new jobs would be created in Louisiana under a 20% transaction requirement.
- We estimate that the state treasury would collect between $200,652 and $632,194 in new revenues under a 20% transaction requirement.
- We estimate that the local governments would collect between $157,655 and $496,723 in new revenues under a 20% transaction requirement.
- At the very minimum, a Louisiana located and domiciled broker-dealer must document and confirm that they employ the same standards currently being used by out-of-state brokers. To participate in this program, Louisiana located and domiciled broker-dealers must meet the strict standards that are required by the SEC and NASD to monitor, test, and confirm "best execution". Furthermore, Louisiana located and domiciled broker-dealer must operate in total compliance with the investment policy governing the individual pension plans.