

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4792-02
Bill No.: HCS for HB 2206
Subject: State Treasurer
Type: Original
Date: February 18, 2020

Bill Summary: This proposal modifies the State Treasurer’s authority to invest in certain deposits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0	Up to (\$344,292)	Up to (\$688,584)
Total Estimated Net Effect on General Revenue	\$0	Up to (\$344,292)	Up to (\$688,584)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Other State Funds	\$0	Up to (\$538,508)	Up to (\$1,077,016)
Total Estimated Net Effect on Other State Funds	\$0	Up to (\$538,508)	Up to (\$1,077,016)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	Unknown	Unknown

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version, officials from the **Office of the State Treasurer (STO)** stated that total state revenue will decrease because linked deposit loans earn less in interest than other options that the State Treasurer has to invest in as a result of this proposal.

The current activity for the Linked Deposit Program is as follows:

Small Business Program	\$256,644,377
Job Enhancement Program	\$ 700,000
Alternative Energy Program	\$ 0
Agriculture Program	\$190,655,584
Local Government Program	\$ 14,960,735
Multi-Family Housing Program	<u>\$ 43,625,460</u>
Total Active Deposits	<u>\$506,596,156</u>
Approved and Waiting Placement	\$ 5,285,387
Awaiting Approval	\$ 425,636
In Progress	<u>\$ 9,935,287</u>
Total	<u>\$522,242,466</u>

Fiscal Impact

39% to GR - \$688,584

61% to all other interest earning funds - \$1,077,016

Formula

Average 5 year agency bond: 3.00 callable or 2.75 bullet = Average of 2.875% the state earns

Average yield on linked deposit is .668%

Opportunity cost is 2.207% (2.875% - 0.668%)

$\$80,000,000 (\$800,000,000 - \$720,000,000) * 2.207\% = \$1,765,600$

GR	39% x \$1,765,600 =	\$688,584;
Other	61% x \$1,765,600 =	<u>\$1,077,016</u>
Total		\$1,765,600

The STO states the fiscal impact is staggered; no impact in FY 2021, half of \$1,765,600 in FY 2022, and a full impact in FY 2023.

ASSUMPTION (continued)

Oversight notes the proposal increases the aggregate cap from \$720 million to \$800 million. Current law states that no more than \$110 million shall be used for linked deposits to eligible small businesses. This proposal will increase the \$110 million to \$190 million.

Oversight notes that increasing the allocation for Linked Deposits will result in a decrease to state revenue given that there are investments with higher interest rates of return that the STO could take advantage of. The interest rate environment with lending institutions will not be constant and Oversight is unable to determine the amount of businesses that would utilize the Linked Deposit program in the future. Therefore, Oversight will reflect a loss to general revenue of up to \$688,584 and a loss to other state funds of up to \$1,077,016 (STO estimate of interest lost with program being fully utilized with the additional \$80,000,000).

Oversight also notes there is potential savings to local political subdivisions if they choose to utilize the Linked Deposit Program. Therefore, Oversight will reflect an unknown positive fiscal impact to political subdivisions to the extent they avail themselves of up to \$80 million in increased linked deposit authority.

Oversight notes this increase in the Linked Deposit program may have positive benefits to the various Missouri businesses and entities that utilize the program. Oversight considers these benefits to be indirect impacts and have not reflected them in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Lost opportunity for higher returns - STO</u> Decrease in investment returns	<u>\$0</u>	<u>Up to</u> <u>(\$344,292)</u>	<u>Up to</u> <u>(\$688,584)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>Up to</u> <u>(\$344,292)</u>	<u>Up to</u> <u>(\$688,584)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2021	FY 2022	FY 2023
(continued)	(10 Mo.)		

OTHER STATE FUNDS

<u>Lost opportunity for higher returns - STO</u>		Up to	Up to
Decrease in investment returns	\$0	<u>(\$538,508)</u>	<u>(\$1,077,016)</u>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS	\$0	<u>Up to (\$538,508)</u>	<u>Up to (\$1,077,016)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2021	FY 2022	FY 2023
	(10 Mo.)		

LOCAL POLITICAL SUBDIVISIONS

<u>Savings- Linked Deposit Participation</u>	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
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FISCAL IMPACT - Small Business

Small businesses could benefit from continued opportunities to participate in the linked deposit program.

FISCAL DESCRIPTION

Currently, the State Treasurer must create an investment policy that includes an asset allocation plan that limits the total amount of state moneys that may be invested in a particular investment. The asset allocation plan must also set diversification limits that include a restriction limiting the total amount of time deposits (not including linked deposits) of state money placed with any one single banking institution to no more than 10% of all time deposits of state money. This bill changes that limit to 15% of all time deposits of state money authorized under the asset allocation plan (Section 30.260, RSMo).

FISCAL DESCRIPTION (continued)

Currently, it is required that market rate is to be determined at least once a month by the State Treasurer using a process that gives consideration of prevailing rates offered for certificate of deposits by well-capitalized Missouri financial institutions and the advance rate established by the Federal Home Loan Bank of Des Moines. This bill requires the treasurer to also give consideration to any other calculation based on current market investment indicators determined by the State Treasurer (Section 30.260).

Currently, the State Treasurer may invest in linked deposits; however the total amount deposited at any one time may not exceed, in the aggregate, \$720 million and no more than \$110 million of the aggregate shall be used for link deposits to small businesses. This bill changes those limits to \$800 million and \$190 million, respectively (Section 30.753).


This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the State Treasurer



Julie Morff
Director
February 18, 2020



Ross Strope
Assistant Director
February 18, 2020