

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2430H.011
 Bill No.: HB 1109
 Subject: Treasurer, State; Banks and Financial Institutions
 Type: Original
 Date: February 27, 2023

Bill Summary: Modifies limits on the state treasurer's ability to invest in linked deposits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	\$0 or More or Less than (\$1,100,000)	\$0 or More or Less than (\$1,320,000)	\$0 or More or Less than (\$1,320,000)
Total Estimated Net Effect on General Revenue	\$0 or More or Less than (\$1,100,000)	\$0 or More or Less than (\$1,320,000)	\$0 or More or Less than (\$1,320,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Other State Funds*	\$0 or More or Less than (\$2,333,333)	\$0 or More or Less than (\$2,680,000)	\$0 or More or Less than (\$2,680,000)
Total Estimated Net Effect on Other State Funds	\$0 or More or Less than (\$2,333,333)	\$0 or More or Less than (\$2,680,000)	\$0 or More or Less than (\$2,680,000)

*The current cap on the Linked Deposit Program under the Office of the State Treasurer (STO) is \$800 million. This proposal raises it to \$1 billion. According to a 2022 report by the STO, only \$292 million was invested in the program. Therefore, Oversight has ranged the fiscal impact from \$0 (the program may not use monies above the \$800 million cap even with this bill and therefore this would **not** have an impact), to a potential loss of interest income if the STO had utilized the \$200 million in the Linked Deposit Program and could have earned an additional 2.0% of interest on those monies – broken down between General Revenue and Other Funds.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer (STO)** did not respond to our request for fiscal impact. However in response to SB 599 (2020), the last time the Linked Deposit program cap was raised (from \$720 million to the current \$800 million) the 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.

Oversight notes, according to a 2022 report issued by the STO (MO BUCK\$, Linked Deposits for small businesses, farms and communities, the following is a summary of Missouri Linked Deposit Program by Year:

2022	\$292,092,410
2021	\$281,472,076
2020	\$437,486,163
2019	\$522,047,970

Per the report, *“The program has entered another growth cycle with the rising interest rates experienced in 2022. After rolling back some the changes we had to make in prior years to slow the explosive growth, the program slowed dramatically when interest rates neared record low levels. With interest rates once again on the rise, volume has picked up significantly this year.”*

The report noted the current breakout for the Linked Deposit Program as follows:

Small Business Program	\$82,359,363
Job Enhancement Program	\$0
Alternative Energy Program	\$0
Agriculture Program	\$201,383,185
Local Government Program	\$0
Multi-Family Housing Program	<u>\$8,349,862</u>
Total Active Deposits	\$292,092,410

In assessing the fiscal impact, in 2020 of increasing the cap, the STO estimated a loss of revenue as:

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 (loss) is 2.207% (2.875% - 0.668%)

Oversight notes the market has changed considerably in three years since this response was provided by the STO. However, for fiscal impact calculations, Oversight will assume an

opportunity cost (loss) for the additional monies earmarked and utilized in the Linked Deposit Program of 2.0%

$\$200,000,000 (\$800M - \$1B) \times 2\% = \mathbf{\$4,000,000}$.

The current (at January 31, 2023) balances of General Revenue and all other state treasury funds are:

General Revenue:	\$5,609,026,200	33%
All other state funds:	<u>\$11,351,844,912</u>	67%
TOTAL	\$16,960,871,112	

General Revenue	\$1,320,000 (33% x \$4M)
Other State Funds	<u>\$2,680,000 (67% x \$4M)</u>
TOTAL	\$4,000,000

Oversight notes that increasing the allocation for Linked Deposits could result in a decrease to state revenues 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 \$1,320,000 and a loss to other state funds of up to \$2,680,000.

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 \$200 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.

Oversight notes the amount of linked deposits per the MOBUCK\$ report as of 2022 (\$292,092,410) is far from the current cap of \$800 million. Therefore, Oversight will assume the STO may not utilize the new \$200M of cap space provided by this bill. Therefore, Oversight will reflect the fiscal impact as \$0 (increasing the cap does not impact the amount of linked deposits made) to the estimates provided above.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Loss</u> opportunity for higher returns STO – if additional monies are utilized in the Linked Deposit Program	\$0 or More or Less than <u>(\$1,100,000)</u>	\$0 or More or Less than <u>(\$1,320,000)</u>	\$0 or More or Less than <u>(\$1,320,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or More or Less than <u>(\$1,100,000)</u>	\$0 or More or Less than <u>(\$1,320,000)</u>	\$0 or More or Less than <u>(\$1,320,000)</u>
OTHER STATE FUNDS			
<u>Loss</u> opportunity for higher returns STO – if additional monies are utilized in the Linked Deposit Program	\$0 or More or Less than <u>(\$2,333,333)</u>	\$0 or More or Less than <u>(\$2,680,000)</u>	\$0 or More or Less than <u>(\$2,680,000)</u>
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	\$0 or More or Less than <u>(\$2,233,333)</u>	\$0 or More or Less than <u>(\$2,680,000)</u>	\$0 or More or Less than <u>(\$2,680,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Savings</u> – Linked Deposit Participation	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>

FISCAL IMPACT – Small Business

Small businesses that utilize the Linked Deposit program could be impacted by this proposal.

FISCAL DESCRIPTION

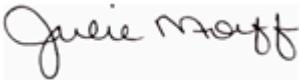
This bill raises the aggregate amount that the state treasurer may invest in linked deposits, such that the total amount deposited at any one time does not exceed \$1 billion. Currently, the cap is \$800 million.

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

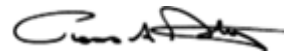
SOURCES OF INFORMATION

NOT RESPONDING:

Office of the State Treasurer



Julie Morff
Director
February 27, 2023



Ross Strobe
Assistant Director
February 27, 2023