

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1236-04  
Bill No.: HCS for SCS for SB 270 with HA 1  
Subject: Office of State Treasurer; Banking and Financial Institutions  
Type: Original  
Date: April 27, 2005

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
<b>General Revenue</b>	\$979,934	\$979,934	\$979,934
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$979,934</b>	<b>\$979,934</b>	<b>\$979,934</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
State Treasurers' General Operations Fund*	\$0	\$0	\$0
Various State Funds	(\$979,934)	(\$979,934)	(\$979,934)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$979,934)</b>	<b>(\$979,934)</b>	<b>(\$979,934)</b>

\* Offsetting transfers in and costs total \$979,934 per year

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Office of the Governor, House of Representatives,** and the **Department of Agriculture** indicated there would be no fiscal impact on their agencies resulting from this proposal.

Officials from the **Office of State Courts Administrator** assume there will be no fiscal impact on the Courts.

Officials from the **Senate** stated this proposal would either have no fiscal impact as it related to their agency or minimal costs which can be absorbed by present appropriations.

Officials from the **Office of Administration (COA)** assume that the Commissioner of Administration will be responsible for reviewing and approving all requests of the state treasurer of disbursements from the newly created "State Treasurer's General Operations Fund." COA is assuming that this responsibility falls under the general authority that the Commissioner of Administration has to approve all payments. (33.040 RSMo)

Officials from the **Office of Secretary of State (SOS)** assumed the rules, regulations and forms issued by the Office of State Treasurer could require as many as 12 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23.

ASSUMPTION (continued)

The estimated cost of a page in the *Code of State Regulations* is \$27. The actual costs could be more or less the SOS's estimated cost of \$738 for FY 2006. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Economic Development - Division of Finance (DED-FIN)** assume this proposal would authorize the Office of State Treasurer to deduct costs of that office from interest earned on funds in the state treasury prior to distributing the interest to the various funds. The cost allocation would be in proportion to the average daily balance in each fund. The interest distributed to the Finance Fund would be modestly reduced resulting in a negative fiscal impact. However, the net fiscal impact after the first year should be zero because the succeeding year's assessment would increase slightly to take into account the reduction in interest income and resulting lower beginning fund balance.

**Oversight** assumes a negative fiscal impact to various agencies on any interest bearing funds managed by the Office of State Treasurer.

Officials from the **Department of Economic Development - Division of Credit Unions** stated this proposal would have no fiscal impact on their division, but there could be an indeterminate effect on Total State Revenue.

Officials from the **Department of Transportation** state this proposal exempts the State Road Fund, Motor Fuel Tax Fund, State Highways and Transportation Department Fund, the State Transportation Fund, and the State Road Bond Fund from being affected by this transfer.

**Oversight** assumes, based on information from the Office of State Treasurer, that interest income from other available funds will be used to offset the exemption of certain transportation funds from this provision. (Section 1)

Officials from the **Office of State Treasurer (STO)** estimate a net savings to General Revenue by funding operations from interest earned on certain accounts at \$979,934. (Section 1)

Officials from the **Office of State Treasurer (STO)** assume the increase in the amount of

ASSUMPTION (continued)

deposits authorized to be used in the linked deposit program will generate new revenue to the state and local subdivisions. The bill authorizes up to \$720 million that the State Treasurer may place in linked deposit programs in state banks. This amount of investment will create a net gain to the state in approximately \$17.1 million in general revenue in FY07 and approximately \$23.36 million in FY08. STO assumptions used in this analysis are as follows:

1. The full \$720 million will be phased in over a two year period assuming demand for the program (\$300million in FY07 and \$420 million in FY08).
2. The following economic assumptions were used: 1) a 2.2 average "multiplier" for all economic activity (Source: US Department of Commerce) 2) Missouri's economy yields about 1 job per \$70,000 in Gross State Product (Source: US Department of Commerce) 3) Each wage earner equals approximately \$30,000 in personal income and 4) A tax rate of 6.8% (GR plus dedicated) of Missouri personal income generated.
3. The interest rate for purposes of this analysis for FY07 equals 3.0% and for FY08 equals 3.5%. This is based on the market rates as defined by this bill.
4. The discounted corresponding rates for the linked deposit loans equal 1.2% for FY07 and 1.4% for FY08.
5. If market conditions vary or bankers choose not to accept loans then all these calculations can change.

The forgone interest income for FY07 equals \$9.0 million and FY08 equals \$14.7 million. The increase in general revenue to the state based on the above assumptions equals: FY07 \$22.5 million (interest earned plus new revenue) and FY08 \$32.2 million (interest earned plus new revenue). The net gain equals  $\$22.5 - 9 = \$17.1$  million in FY07 and  $\$32.2 - \$14.7 = \$23.36$  million in new state revenue.

STO officials further assume that no new FTEs would be needed in FY 06; however three FTEs would be needed in FY 07 and beyond to handle the linked deposit program. STO would be requesting one Link Deposit Coordinator at \$45,385 a year and two Time Deposit Coordinators at \$32,000 a year. Currently there are one and one-half FTEs budgeted for the linked deposit program with the one-half FTE position vacant. STO did not request Equipment and Expenses for these positions. **Oversight** assumes, for fiscal note purposes only, that one FTE at a salary of \$30,000 would be sufficient. This assumption is based on published salaries paid for like

ASSUMPTION (continued)

positions. If other positions are needed, STO can request them through the budgetary process.

STO estimates an FTE or RFP for outside monitoring for securitization by mortgage or blanket lien of state time deposits. This cost would range from \$30,000 to \$50,000 a year starting in FY 07.

STO assumes local governments and subdivisions would see an increase in income created by local taxes generated on jobs created by the increase in the linked deposit program.

**Oversight** assumes any revenue or costs from this proposal, other than the State Treasurer's Operating Fund, would have an indirect effect on the state. **Oversight** has reflected only the direct impact to the state for this program.

**This proposal would increase Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2006	FY 2007	FY 2008
<b>GENERAL REVENUE</b>			
<u>Savings</u> - Office of State Treasurer Appropriation from General Revenue	\$979,934	\$979,934	\$979,934
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$979,934</u></b>	<b><u>\$979,934</u></b>	<b><u>\$979,934</u></b>
<b>STATE TREASURER'S GENERAL OPERATIONS FUND</b>			
<u>Income</u> - Interest from various state funds (Section 1)	\$979,934	\$979,934	\$979,934
<u>Cost</u> - Operations expenses of State Treasurer's Office	<u>(\$979,934)</u>	<u>(\$979,934)</u>	<u>(\$979,934)</u>
<b>ESTIMATED NET EFFECT ON STATE TREASURER'S OFFICE</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

**VARIOUS STATE FUNDS**

<u>Loss</u> - Transfer interest pursuant to Section 1 to State Treasurer's General Operations Fund	(\$979,934)	(\$979,934)	(\$979,934)
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<b>ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS</b>	<b><u>(\$979,934)</u></b>	<b><u>(\$979,934)</u></b>	<b><u>(\$979,934)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2006	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

A positive fiscal impact would be expected for small businesses as a result of this proposal.

DESCRIPTION

This proposal modifies provisions relating to the linked deposit program and other duties of the State Treasurer:

The proposal repeals a section that required any bank account with more than \$10,000 to be obtained through an open and competitive process. (Section 30.247)

Any written contract between the state treasurer and a depository of state funds may be for a period of up to five years. (Section 30.250)

Currently, the state treasurer must give consideration to the comparative yield to be derived in determining where to invest state moneys. This proposal repeals that requirement and instead requires the treasurer to give consideration to the benefits to the economy and welfare of the state when state money is invested in banking institutions of this state, as well as the aggregate return in earnings and taxes on deposits and investments. (Section 30.260)

The State Treasurer is required to use only certain securities as collateral for moneys deposited by the treasurer into financial institutions, unless it the treasurer determines that any of such securities may place state public funds at risk. The list of approved securities is modified to add mortgage securities, including qualified individual loans secured by deeds of trust on residential, commercial or farm real estate. Such mortgage securities must be meet certain requirements to

DESCRIPTION (continued)

ensure that the financial institution is compliant with current standards of the Federal Home Loan Bank of Des Moines, Iowa . The proposal also sets forth collateral requirements for different types of mortgage securities. Each financial institution pledging such mortgage securities must report monthly to the State Treasurer to ensure that the securities meet collateral requirements. The list of approved securities is also modified to include any investment in which the State Treasurer may invest. These two new additions to the list are not authorized for political subdivisions. Definitions for "market rate" and unencumbered" are also created. (Section 30.270).

The Treasurer is authorized to enter into agreements with private entities to provide services relating to the State Treasurer's statutory and constitutional duties. (Section 30.286)

Currently, the Treasurer cannot deposit state funds into a Missouri bank if the Governor, State Auditor or State Treasurer owns stock or is an officer or employee of the bank. This proposal provides that the Treasurer may invest in such a bank, regardless of whether it is in Missouri, if such state official discloses the ownership of stock or employment. (Section 30.440)

The proposal modifies numerous provisions regarding the linked deposit program, which allows financial institutions to make lower interest rate loans to certain types of agri-businesses, job enhancement businesses, educational institutions, real estate development and other entities in order to stimulate economic development. The proposal modifies certain definitions, including: "eligible agribusiness" by deleting the requirement that the business must employ ten or more persons; "eligible beginning farmer" by increasing the cap on the size and value of the farm in order to qualify under the definition; and "linked deposit" by removing language setting the interest rate floor for such loans at two percent. The definition of "market rate" is also included. (Section 30.750)

Currently, the State Treasurer may invest in linked deposits as long as the aggregate amount does not exceed \$360 million. The proposal raises that aggregate amount to \$720 million. The proposal doubles the cap on the amount of money which can currently be invested in linked deposits for different types of qualified businesses and other entities. Further, the proposal repeals language which limited the state Treasurer's ability to commingle allocations among the types of linked deposits. (Sections 30.753 and 30.830).

Currently, linked deposits made to certain eligible agribusinesses cannot exceed \$100,000. The proposal provides caps for such linked deposits at a dollar limit determined by the state treasurer. Beginning August 28, 2005, lending institutions shall give consideration to eligible borrowers who have not previously received linked deposits, but nothing prohibits a lending institution

DESCRIPTION (continued)

from making a linked deposit to an eligible borrower who has previously received a linked deposit. (Section 30.756)

The State Treasurer is authorized to place linked deposits with a lending institution at certain below-market rates, provided that the linked deposit rate is not below one percent. If the market rate is 5% or above, then the state treasurer shall reduce the market rate by up to 3% to obtain the linked deposit rate. If the market rate is less than 5%, then the state treasurer shall reduce the market rate by up to 60% to obtain the linked deposit rate. All linked deposit rates are determined and calculated by the State Treasurer. The State Treasurer must make a good faith effort to ensure that linked deposit loans are awarded to female or minority owned entities. The agreement between the State Treasurer and the lending institution receiving linked deposits shall specify that the original deposit plus renewals shall not exceed five years. Each year, the lending institution must repay the state treasurer any linked deposit principal received from the borrower in the previous year. Certain lines of credit are excluded from the repayment provisions of this act (Section 30.758).

The proposal deletes a requirement that the State Treasurer annually report on the linked deposit program to the General Assembly, since current law requires a similar report by the linked deposit review committee. (Section 30.760)

Loans shall be at a fixed rate of interest set at an amount equal to the amount reduced in section 30.758. (Section 30.760)

The proposal extends the expiration of the linked deposit program from 2007 to 2015. (Section 30.767)

The State Treasurer is authorized to renew linked deposits for certain agribusinesses for additional, up to five-year, terms, instead of the current one-year terms. (Section 30.840)

The proposal creates a new category of borrower that may participate in the linked deposit program relating to the creation of facilities producing goods derived from agricultural commodities or producing an energy source derived from a renewable domestically grown organic compound, such as ethanol. The Missouri Agricultural and Small Business Development Authority is required to determine eligible facility borrowers, based on the borrower's ability to repay the loan, the economic conditions of the area in which the agricultural property is located, and the prospect for success of the project. An eligible facility borrower cannot received a linked deposit loan for more than \$70 million. (30.860)



DESCRIPTION (continued)

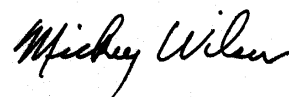
The proposal creates the "State Treasurer's General Operations Fund". Moneys in the fund shall be used to pay for personal service, equipment and other expenses of the State Treasurer in carrying out official duties. The State Treasurer shall deduct the costs incurred by the State Treasurer in administering official duties of the treasurer from the interest earned on the state's investments and deposit such deducted moneys in the Fund. The total costs of the State Treasurer for personal service, equipment and other expenses cannot exceed fifteen basis points, or fifteen hundredths of one percent, of the total average daily fund balance of funds in the state treasury (Section 1).

This proposal has an emergency clause.

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 State Treasurer  
Office of Secretary of State  
    Administrative Rules Division  
Department of Economic Development  
    Division of Finance  
    Division of Credit Unions  
Office of the Governor  
Missouri Senate  
Missouri House of Representatives  
Office of State Courts Administrator  
Department of Agriculture  
Office of Administration  
Department of Transportation



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