

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3120S.01I  
 Bill No.: SB 736  
 Subject: Banks and Financial Institutions; State Treasurer  
 Type: Original  
 Date: January 8, 2024

Bill Summary: This proposal increases the limit on investments in linked deposits by the state treasurer.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	\$0 or More or Less than (\$2,600,000)	\$0 or More or Less than (\$3,120,000)	\$0 or More or Less than (\$3,120,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or More or Less than (\$2,600,000)</b>	<b>\$0 or More or Less than (\$3,120,000)</b>	<b>\$0 or More or Less than (\$3,120,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Other State Funds*	\$0 or More or Less than (\$7,400,000)	\$0 or More or Less than (\$8,880,000)	\$0 or More or Less than (\$8,880,000)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0 or More or Less than (\$7,400,000)</b>	<b>\$0 or More or Less than (\$8,880,000)</b>	<b>\$0 or More or Less than (\$8,880,000)</b>

\*The current cap on the Linked Deposit Program under the Office of the State Treasurer (STO) is \$800 million. This proposal raises it to \$1.2 billion. According to a 2023 report by the STO, \$538.7 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 additional \$400 million in the Linked Deposit Program and could have earned an additional 3.0% of interest on those monies – broken down between General Revenue and Other State Funds. The fiscal note does not reflect any indirect positive benefits to the state resulting from this program increase.

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>\$0 or Unknown</b>	<b>\$0 or Unknown</b>	<b>\$0 or Unknown</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the State Treasurer (STO)** state there is a potential opportunity cost associated with this proposal. The annual opportunity cost for this proposal is up to \$12,000,000 depending on utilization of the program. \$12,000,000 represents 3% of the \$400,000,000 increase included in the proposal. The STO believes that this cost would be offset by potential benefits received by participants in the program which are not sufficiently quantifiable to include in this response.

**Oversight** notes, according to a 2023 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:

2023	\$538,680,927
2022	\$292,092,410
2021	\$281,472,076
2020	\$437,486,163
2019	\$522,047,970

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

Small Business Program	\$330,509,987
Job Enhancement Program	\$ 1,650,000
Alternative Energy Program	\$ 0
Agriculture Program	\$159,304,804
Local Government Program	\$ 1,548,933
Multi-Family Housing Program	\$ 45,667,203
<b>Total Active Deposits</b>	<b>\$538,680,927</b>

**Oversight** will use an opportunity cost (loss) for the additional monies earmarked and utilized in the Linked Deposit Program of 3.0%, as assumed by the STO above.

\$400,000,000 cap increase (\$800M – \$1.2B) x 3% = **\$12,000,000**.

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

General Revenue:	\$ 4,623,639,714	26%
All other state funds:	<u>\$13,374,106,600</u>	74%
TOTAL	\$17,997,746,314	

General Revenue	\$ 3,120,000 (26% x \$12M)
Other State Funds	\$ 8,880,000 (74% x \$12M)
<b>TOTAL</b>	<b>\$12,000,000</b>

Oversight notes that increasing the allocation for Linked Deposits could result in a decrease to state revenues (interest income) 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 \$3,120,000 and a loss to other state funds of up to \$8,880,000.

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 the 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 2023 (\$538,680,927) is below the current cap of \$800 million (\$261.3 million difference); however, the program utilization increased by \$246 million over the previous year. Therefore, Oversight will assume the STO may or may not utilize the new \$400M of cap space provided by this bill in any of the fiscal years reflected in the fiscal note. 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 2025 (10 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE FUND</b>			
<u>Loss opportunity for higher returns STO – if additional monies are utilized in the Linked Deposit Program</u>	\$0 or More or Less than <u>(\$2,600,000)</u>	\$0 or More or Less than <u>(\$3,120,000)</u>	\$0 or More or Less than <u>(\$3,120,000)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b>\$0 or More or Less than <u>(\$2,600,000)</u></b>	<b>\$0 or More or Less than <u>(\$3,120,000)</u></b>	<b>\$0 or More or Less than <u>(\$3,120,000)</u></b>

<b>OTHER STATE FUNDS</b>			
<u>Loss opportunity for higher returns STO – if additional monies are utilized in the Linked Deposit Program</u>	\$0 or More or Less than <u>(\$7,400,000)</u>	\$0 or More or Less than <u>(\$8,880,000)</u>	\$0 or More or Less than <u>(\$8,880,000)</u>
<b>ESTIMATED NET EFFECT TO OTHER STATE FUNDS</b>	<b>\$0 or More or Less than <u>(\$7,400,000)</u></b>	<b>\$0 or More or Less than <u>(\$8,880,000)</u></b>	<b>\$0 or More or Less than <u>(\$8,880,000)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Savings – Linked Deposit Participation</u>	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>	\$0 or <u>Unknown</u>
<b>ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS</b>	<b>\$0 or <u>Unknown</u></b>	<b>\$0 or <u>Unknown</u></b>	<b>\$0 or <u>Unknown</u></b>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Under current law, the State Treasurer is permitted to invest in linked deposits in an amount up to \$800 million at any one time. This act increases that threshold to \$1.2 billion. Furthermore, the act modifies the total deposit for linked deposits that may be used for different borrowers as follows:

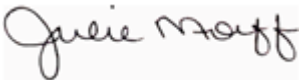
- Up to 5% of the aggregate for eligible multitenant development enterprises;
- Up to 5% of the aggregate for eligible property developers and eligible residential property owners;
- Up to 20% of the aggregate for eligible job enhancement businesses; and

· Up to 5% of the aggregate for eligible water systems.  
All other linked deposits not allocated to the above may be used as permitted by law.

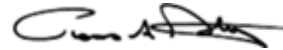
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the State Treasurer



Julie Morff  
Director  
January 8, 2024



Ross Strobe  
Assistant Director  
January 8, 2024