

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3120S.01P
 Bill No.: Perfected SB 736
 Subject: Banks and Financial Institutions; State Treasurer
 Type: Original
 Date: February 28, 2024

Bill Summary: This proposal increases the limit on investments in linked deposits by the State Treasurer.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	\$0 or Up to (\$2,600,000)	\$0 or Up to (\$3,120,000)	\$0 or Up to (\$3,120,000)
Total Estimated Net Effect on General Revenue	\$0 or Up to (\$2,600,000)	\$0 or Up to (\$3,120,000)	\$0 or Up to (\$3,120,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Other State Funds*	\$0 or Up to (\$7,400,000)	\$0 or Up to (\$8,880,000)	\$0 or Up to (\$8,880,000)
Total Estimated Net Effect on Other State Funds	\$0 or Up to (\$7,400,000)	\$0 or Up to (\$8,880,000)	\$0 or Up to (\$8,880,000)

*The current cap on the Linked Deposit Program under the Office of the State Treasurer (STO) is \$800 million. This proposal raises it to \$1.2 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.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown

FISCAL ANALYSIS

ASSUMPTION

Section 30.266 – Gold and Silver (Senate Amendment 1)

In response to a similar proposal (SB 735), officials from **the Office of the State Treasurer (STO)** stated Section 30.266 of the proposal would allow that the State Treasurer “may keep [in the state treasury] an amount of specie greater than or equal to one percent of all state funds...” In general, “may” ordinarily implies discretion and this proposal gives the state treasurer discretion whether or not to keep specie in the state treasury. Absent an exercise of the Treasurer’s discretion, Section 30.266 has **no fiscal impact** to the State Treasurer’s Office. In the event a Treasurer exercises this discretion in the future, storing, protecting, assaying, and transporting specie would have a potential fiscal impact for the STO.

Oversight notes this section allows (may keep) the Office of the State Treasurer to keep in custody an amount of gold and silver greater than or equal to one percent (1%) of all state funds. Oversight notes as this is permissive, we will not reflect a fiscal impact for this section.

Oversight notes the balance of all state funds as of January 31, 2024 was \$18,533,970,438. One percent (1%) of this would be equal to \$185.3 million. Per the monthly STO Portfolio Summary report for January 31,2024, the STO’s investments had a monthly rate of return of 3.21%. If this amount is to be kept in gold and silver, Oversight would note holding gold and silver would result in a loss of interest income of:

	Balance	1%	x 3.21%
General Revenue	\$ 4,760,630,865	\$ 47,606,309	\$1,528,162
Other State Funds	<u>\$13,773,339,573</u>	<u>\$137,733,396</u>	<u>\$4,421,242</u>
Total State Funds	\$18,533,970,438	\$185,339,705	\$5,949,404

General Revenue Fund	\$4.76 billion x 1% x 3.21% = \$1,528,000
All others (reflected as “Other State Funds”) (\$18.5B - \$4.76B)	x 1% x 3.21% = <u>\$4,421,000</u>
TOTAL	\$5,949,000

Oversight also has **not** reflected the potential market volatility of gold and silver in the fiscal note if such specie is kept in the custody of the state treasury.

Section 30.753 – Increasing the Linked Deposit Program

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	<u>\$ 45,667,203</u>
Total Active Deposits	\$538,680,927

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 December 31, 2023 balances of General Revenue and all other state treasury funds were:

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	<u>\$ 8,880,000 (74% x \$12M)</u>
TOTAL	\$12,000,000

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 \$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.

Upon further inquiry, the **STO** noted that the average reduction over the past five years has been less than 2%. The STO noted that it has only been in the past year when the rate reduction in some situations has exceeded 2%. The STO also noted the terms of the deposits with participating financial institutions are from one to five years.

The **STO** noted that at the end of the previous program year (on September 30, 2023), the following reductions were applied:

Approximately \$342 million -	average rate of 2.1%; and
<u>Approximately \$197 million</u> -	average rate of 1.1% or less
Approximately \$539 million	

Therefore, Oversight will reflect the opportunity cost of using an additional \$400 million in the program as “up to” the 3% statutory cap spread allowed in §30.758.

Section 34.700 – Central Bank Digital Currency (Senate Amendment 3):

Officials from the **Department of Revenue (DOR)** state this part of the proposal would prohibit the STO from accepting as payment central bank digital currency.

The Department of Revenue receives, processes and deposits the majority of all state revenue in the state funds. DOR receives sales tax, individual income tax, corporate tax and various taxes and fees collected by state agencies that is then brought to DOR for deposit.

DOR currently accepts the following types of payments which are considered physical currency: Coins created by the U.S. Mint including pennies, nickels, dimes and quarters.

Dollar Bills printed by the Bureau of Engraving and Printing
Personal/ Business Checks
Money Orders
Cashier's Check
Debit Cards
Credit Cards
Bank Transfers via electronic means

This proposal would prohibit the STO from accepting payments using “central bank digital currency” however, it does not prohibit DOR. Since DOR deposits all the funds it is unclear how this would work.

It should be noted that this adds the definition of “central bank digital currency” saying it includes a digital currency, a digital medium of exchange or a digital monetary unit of account issued by the United States Federal Reserve System.

Currently, the United States is using physical currency as its monetary system. It is a system that allows people to hold money in a physical form (such as dollar bills in your hand). A digital currency is a form of currency that would only exist in a digital or electronic form (such as cryptocurrency or bitcoin). It cannot be converted into a physical form.

The Federal Reserve is collecting comments on the possibility of creating a central bank digital currency system. One does **not** exist at this time. Under this proposal, should the Federal Reserve be allowed to create a central bank digital currency, the STO would be prohibited from accepting that currency as payment of any debt.

For informational purposes, in FY 2023, the State brought in \$13,234,562,879 in general revenue, \$1,204,232,139 in the School District Trust Fund, \$159,908,6287 in the Conservation Commission Fund and \$127,826,635 for the DNR sales tax funds. At this time, since the digital currency does not exist, DOR assumes this will not have a fiscal impact to DOR, or state revenue.

Should digital currency be allowed to be used in the future, this could hamper the state's ability to collect what is owed or inconvenience the taxpayers by limiting their payment options.

Oversight assumes this amendment would not have a direct fiscal impact on the state.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Loss</u> opportunity for higher returns STO – if additional monies are utilized in the Linked Deposit Program	\$0 or Up to <u>(\$2,600,000)</u>	\$0 or Up to <u>(\$3,120,000)</u>	\$0 or Up to <u>(\$3,120,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or Up to <u>(\$2,600,000)</u>	\$0 or Up to <u>(\$3,120,000)</u>	\$0 or Up to <u>(\$3,120,000)</u>
OTHER STATE FUNDS			
<u>Loss</u> opportunity for higher returns STO – if additional monies are utilized in the Linked Deposit Program	\$0 or Up to <u>(\$7,400,000)</u>	\$0 or Up to <u>(\$8,880,000)</u>	\$0 or Up to <u>(\$8,880,000)</u>
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	\$0 or Up to <u>(\$7,400,000)</u>	\$0 or Up to <u>(\$8,880,000)</u>	\$0 or Up to <u>(\$8,880,000)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
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 participate in 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:

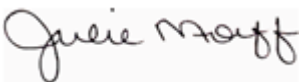
- Up to 5% of the aggregate for eligible multitenant development enterprises;
- Up to 5% of the aggregate for eligible property developers and eligible residential property owners;
- Up to 20% of the aggregate for eligible job enhancement businesses; and
- Up to 5% of the aggregate for eligible water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

All other linked deposits not allocated to the above may be used as permitted by law.

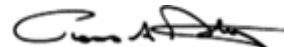
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the State Treasurer
Department of Revenue



Julie Morff
Director
February 28, 2024



Ross Strope
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February 28, 2024