

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3236H.01T
 Bill No.: Truly Agreed To and Finally Passed HB 1803
 Subject: Economic Development; State Treasurer; Business and Commerce
 Type: Original
 Date: April 30, 2024

Bill Summary: This proposal increases the aggregate investment amount that the State Treasurer may invest in linked deposits and changes disbursement criteria for eligible parties.

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

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
Total Active Deposits	\$538,680,927

Oversight will use an opportunity cost (reflected as a 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</u> (74% x \$12M)
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 have taken 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Loss opportunity for higher returns</u> 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 opportunity for higher returns</u> 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 – Linked Deposit Participation</u>	\$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.

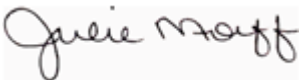
FISCAL DESCRIPTION

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 \$1.2 billion. Currently, the cap is \$800 million. The bill specifies that the aggregate deposits shall be used for linked deposits to eligible small businesses in addition to the businesses currently allowed. Currently, there is a maximum dollar amount that can be deposited in linked deposits applicable to the various businesses, this bill changes the maximum to a percentage of the aggregate deposit.

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
April 30, 2024



Ross Strobe
Assistant Director
April 30, 2024