

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2195-01  
Bill No.: Perfected HB 1029  
Subject: State Treasurer; Business and Commerce  
Type: Original  
Date: March 27, 2019

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Bill Summary: This proposal modifies the State Treasurer's authority to invest in linked deposits.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0	Up to (\$344,292)	Up to (\$688,584)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>Up to (\$344,292)</b>	<b>Up to (\$688,584)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Other State Funds	\$0	Up to (\$538,508)	Up to (\$1,077,016)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>Up to (\$538,508)</b>	<b>Up to (\$1,077,016)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<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>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<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 \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<b>Local Government</b>	<b>\$0</b>	<b>Unknown</b>	<b>Unknown</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of the State Treasurer (STO)** state that total state revenue will decrease because linked deposit loans receive less in interest than other options that the State Treasurer has to invest in as a result of this proposal.

The current activity for the Linked Deposit Program is as follows:

Small Business Program	\$271,918,647
Job Enhancement Program	\$700,000
Alternative Energy Program	\$0
Agriculture Program	\$154,830,370
Local Government Program	\$10,100,314
Multi-Family Housing Program	\$42,749,898
<b>Total Active Deposits</b>	<b>\$480,299,229</b>

Approved and Waiting Placement	\$0
Awaiting Approval	\$47,079,969
In Progress	\$74,167,786
<b>Total</b>	<b>\$601,546,984</b>

### **Fiscal Impact**

39% to GR - \$688,584.00

61% to all other interest earning funds - \$1,077,016.00

### **Formula**

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 is 2.207%

$$\$80,000,000.00 * 2.207\% = \$1,765,600.00$$

The STO anticipates hitting the current cap in 2021. Therefore, the fiscal note impact is staggered by no impact in FY 2020, half of \$1,765,600 in FY 2021, and a full impact in FY 2022.

ASSUMPTION (continued)

**Oversight** notes that the Missouri Linked Deposit Program is currently funded with a total of \$720 million available. Following is a list of the programs that an eligible individual and/or business may apply for through a lending institution partnered with the STO and how much is currently being utilized for each as of :

Small Business Program	\$271,918,647
Job Enhancement Program	\$700,000
Alternative Energy Program	\$0
Agriculture Program	\$154,830,370
Local Governments Program	\$10,100,314
Multi-Family Housing Program	\$42,749,898
<b>Total Active Deposits</b>	<b>\$480,299,229</b>

The proposal increases the aggregate total of \$720 million to \$800 million. Current law states that no more than \$110 million shall be used for linked deposits to eligible small businesses. This proposal will increase the \$110 million to \$190 million.

**Oversight** notes that increasing the allocation for Linked Deposits will result in a decrease to state revenue 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 \$688,584 and a loss to other state funds of up to \$1,077,016 (STO estimate of interest lost with program being fully utilized with the additional \$80,000,000).

**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 \$80 million in increased linked deposit authority.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume the proposal will have no fiscal impact on their organization.

**Oversight** notes that the Department of Insurance, Financial Institutions and Professional Registration has stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for this agency.

ASSUMPTION (continued)

**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.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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**GENERAL REVENUE FUND**

<u>Lost opportunity for higher returns - STO</u>	<u>\$0</u>	<u>Up to</u>	<u>Up to</u>
Decrease in investment returns		(\$344,292)	(\$688,584)

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>Up to</u> <u>(\$344,292)</u></b>	<b><u>Up to</u> <u>(\$688,584)</u></b>
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**OTHER STATE FUNDS**

<u>Lost opportunity for higher returns - STO</u>		<u>Up to</u>	<u>Up to</u>
Decrease in investment returns	\$0	(\$538,508)	(\$1,077,016)

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>	<b><u>\$0</u></b>	<b><u>Up to</u> <u>(\$538,508)</u></b>	<b><u>Up to</u> <u>(\$1,077,016)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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**LOCAL POLITICAL SUBDIVISIONS**

<u>Savings- Linked Deposit Participation</u>	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
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<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>Unknown</u></b>	<b><u>Unknown</u></b>
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FISCAL IMPACT - Small Business

Small businesses could potentially be affected as a result of this proposal.

### FISCAL DESCRIPTION

Currently, the State Treasurer may invest in linked deposits; however the total amount deposited at any one time may not exceed, in the aggregate, \$720 million and no more than \$110 million of the aggregate shall be used for link deposits to small businesses. This bill changes those limits to \$800 million and \$190 million, respectively.

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 Insurance, Financial Institutions and Professional Registration



Kyle Rieman  
Director  
March 27, 2019

Ross Strobe  
Assistant Director  
March 27, 2019