

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0587H.03P
Bill No.: Perfected HCS for HJR 35
Subject: Treasurer, State; Bonds - General Obligation and Revenue
Type: Original
Date: March 9, 2021

Bill Summary: Modifies provisions for the Missouri State Treasurer's ability to invest.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0 or (More than \$7,000,000)	\$0 or could exceed \$2,225,000	\$0 or could exceed \$2,225,000
Total Estimated Net Effect on General Revenue	\$0 or (More than \$7,000,000)	\$0 or could exceed \$2,225,000	\$0 or could exceed \$2,225,000

*The potential fiscal impact of “(More than \$7,000,000)” in FY 2022 would be realized only if a special election were called by the Governor to submit this joint resolution to voters.

Oversight has ranged the fiscal impact in future years from \$0 (joint resolution is defeated by voters), to the potential increase in investment income from allowing the Office of the State Treasurer to modify the investment portfolio.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 2022	FY 2023	FY 2024
Local Government	\$0*	\$0	\$0

*Transfer out and transfer in nets to zero **if** the Governor calls a special election.

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of the Secretary of State** assume, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7 million based on the cost of the 2020 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected, in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2022. This reflects the decision made by the Joint Committee on Legislative Research that the potential cost of the elections should be shown in the fiscal note. The next scheduled statewide primary election is in August 2022 and the next scheduled general election is in

November 2022 (both in FY 2023). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2022.

Officials from the **Office of the State Treasurer (STO)** assume, with an expanded option of investments, they could increase interest income to the General Revenue Fund by \$935,000 annually.

Current investment return	0.50%
Current US Taxable GO AA+, AA, AA- Muni BVA return	0.72%

If the STO were to invest in Missouri Bonds, it would not exceed 5%-10% of the portfolio.

7.5% of the portfolio	\$425,000,000
Return on current investments (0.50%)	\$ 2,125,000
Anticipated return on Muni Bonds (0.72%)	\$ 3,060,000
Difference	\$ 935,000

If the STO were to invest in 6 or 7 year Agency Bonds, it would not exceed \$500M of the portfolio.

Portfolio size	\$500,000,000
Return on 5 year Agency Bonds	\$ 4,175,000
Return on 6 or 7 year Agency Bonds	\$ 5,465,000
Difference	\$ 1,290,000

Oversight notes according to the STO's Portfolio Management Report from January 29, 2021, the STO had the following investments (Market Value):

U.S. Treasury Securities – Coupon	\$ 229,397,755
U.S. Agency Discount Notes	\$1,033,443,504
U.S. Agency Issues – Coupon	\$ 469,231,138
Amortizing Commercial Paper	\$ 574,960,354
U.S. Agency Issues – Callable	\$2,224,276,312
Term Repo	\$ 743,507,000
Overnight Repos	\$1,765,218,000
Time Deposits – Market	\$ 62,000,000
Linked Deposits	\$ 235,965,072
Linked Deposits – FFCB	\$ 135,884,000
CDs	\$ 245,782
Investments	\$7,474,128,917

The effective Rate of Return for January, 2021 was 0.46% and the fiscal year to date was 0.50%

Oversight will range the potential increase in interest income from \$0 (HJR is defeated by voters), to the estimates provided by STO. For simplicity, Oversight will reflect the additional interest income starting in FY 2023.

Officials from the **Department of Revenue** and the **Office of Administration** each assume the proposal would not fiscally impact their respective departments. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Income</u> – STO potential increase in interest income if the STO invests in Missouri municipal bonds	\$0	\$0 or could exceed \$935,000	\$0 or could exceed \$935,000
<u>Income</u> – STO potential increase in interest income if the STO invests in longer term bonds	\$0	\$0 or could exceed \$1,290,000	\$0 or could exceed \$1,290,000
<u>Transfer Out</u> - SOS - reimbursement of local election authority election costs if a special election is called by the Governor	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0 or could exceed \$2,225,000</u>	<u>\$0 or could exceed \$2,225,000</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State for a special election	\$0 or More than \$7,000,000	\$0	\$0
<u>Costs</u> - Local Election Authorities - cost of a special election if called for by the Governor	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

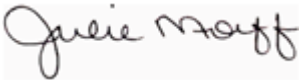
FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment would change the authorized investments the State Treasurer could invest in.

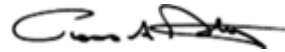
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Revenue
Office of Administration
Office of the State Treasurer



Julie Morff
Director
March 9, 2021



Ross Strobe
Assistant Director
March 9, 2021