

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1930H.04P
 Bill No.: Perfected HCS for HB 863
 Subject: Bonds - General Obligation and Revenue; Political Subdivisions; Environmental Protection; Taxation and Revenue - Sales and Use; Tax Incentives; Auditor, State
 Type: Original
 Date: March 23, 2023

Bill Summary: This proposal establishes provisions relating to social objective scoring standards.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*The interest on or income from green bonds would be exempt from Missouri income tax. Oversight assumes the potential impact to the state would not reach the \$250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other State Funds</u>	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§§105.688 & 105.692 – Proxy Voting and Fiduciary Investments

In response to similar legislation from this year, HB 769, officials from the **Local Government Employees Retirement System, Rock Community Fire Protection District Retirement Plan** and the **County Employees' Retirement Fund** each assumed the proposal will have no fiscal impact on their respective organizations.

In response to similar legislation from this year, HB 769, officials from **Public Schools and Education Employee Retirement Systems** stated this legislation modifies provisions relating to duties of fiduciaries for public employee retirement systems. Currently, an investment fiduciary has to discharge his or her duties relating to the investment, reinvestment and management of the assets of the system for the participants, based upon certain specified standards. This legislation includes additional standards and provides that the investment fiduciary shall not consider environmental, social, or governance characteristics in a manner that overrides his or her fiduciary duties. Further, the investment fiduciary shall not be subject to legislative, regulatory, or other mandates to invest with environmentally, socially, or other noneconomically motivated influence unless they are consistent with the fiduciary's responsibilities, or divest from any direct holdings as mentioned in the bill.

The legislation also provides for voting of all shares of common stock solely to further the economic interest of the plan participants and prohibits voting to further noneconomic environmental, social, political, ideological or other goals. The bill also specifies the methods for voting by proxy.

As currently drafted this bill has no substantial fiscal or operational impact on PSRS or PEERS of Missouri.

In response to similar legislation from this year, HB 769, officials from the **St. Louis Public Schools Retirement System** noted the following impacts:

- The System can't set up a separately managed account (SMA) that would then incorporate environmental, social or governance (ESG) as a stand alone consideration, engage with companies on these issues, or work with managers that market their commitment to "ESG", "sustainable", etc.
- The System must be actively engaged in overseeing and monitoring proxy voting for SMAs.
- Can't have managers vote unless they agree to guidelines that follow the bill.

In response to a previous version, officials from the **Kansas City, Kansas City Employees' Retirement System, Kansas City Firefighter's Pension System** and the **Kansas City**

Supplemental Retirement Plan each assumed this proposal could have a positive fiscal impact of an indeterminate amount unless the thresholds weren't met every year which could cause a negative fiscal impact.

In response to another similar proposal, HB 863, officials from the **Kansas City Public School Retirement System (KCPSRS)** stated KCPSRS asset allocation invests with passive and active money managers. The managers selected by the Retirement Board may very well be index managers who, at a very low cost, will replicate equity holdings of an appropriate index fund. Neither the investment manager nor the Retirement Board can dictate which investments are included in the index fund. The new provisions of section 105.688 RSMo, contained in HB 863 could prevent the Retirement Board from investing in funds that could add value to the plans.

Cost increase is undetermined. The provisions of HB 863 may cause need to hire additional staff the cost of which cannot be determined at this time. Investment manager's fees may increase as a result of the new provisions in 105.688 RSMo.

Oversight assumes this proposal may limit investment decisions to already established fiduciary duties. Based on the majority of responses, Oversight assumes this proposal would not have a significant fiscal impact on public employee retirement plans.

§108.371 – Municipal Green Bonds

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would allow municipalities to issue bonds for certain “green” projects. This proposal would also exempt all interest and income earned from the green bonds from Missouri income tax. B&P notes that per §143.121.2(2) the interest from municipal bonds are already exempt from Missouri income tax. Therefore, if this proposal leads to the issuance of additional municipal bonds than what would have otherwise been issued under general obligation bonds, then this proposal could result in an unknown reduction to GR. Therefore, B&P estimates that this proposal may reduce TSR and GR by \$0 to (Unknown).

B&P further notes that per subsection 4, if a review of a municipal bond determines that less than 85% of the revenues were used on a qualifying green project, the bonds would lose their tax-exempt status under this proposal. However, as noted above §143.121.2(2) already exempts municipal bonds from Missouri income taxes. Therefore, B&P assumes that even if the bonds lose their “green” status, the interest would remain exempt from taxation under §143.121.

Officials from the **Department of Revenue (DOR)** assume this proposal would allow for the issuance of municipal green bonds to support certain environmentally-friendly activities. The interest on or income from such bonds would be exempt from Missouri income tax (§108.371.3) although apparently not exempt from some or all of Missouri's financial institution taxes. This proposal refers to the municipal green bonds as being rated, certified, validated or reviewed but it is unclear who is to do this rating. If DOR is expected to do this, it is outside its area of

expertise and DOR would need to hire additional FTE to handle this. The FTE need is unknown at this time.

This provision is being placed in the statutes regarding general obligation bonds. However it is not clear if this will be a new type of general obligation bond. If this proposal allows municipalities to issue these green bonds in lieu of their general obligation bond, then no additional impact may be expected.

However, if this proposal encourages the creation of additional bonds, and these bonds are exempt from income tax, then this could result in an Unknown negative impact on general revenue. This proposal could result in a \$0 to Unknown negative impact to general revenue.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P and DOR.

Officials from the **Metropolitan St. Louis Sewer District Employees Pension Plan (MSDPP)** assume a negative unknown for this proposal. MSDPP believes this bill will may have an impact on MSDPP and its ratepayers. At this time MSDPP is not able to quantify the potential impact but the main concern is the requirement to establish a green bond holder protection fund upon the issuance of a municipal green bond which will add costs that diminish the feasibility of issuing green bonds. MSDPP only borrows to fund projects required under its Consent Decree or by environmental regulations. As such, it should be incontrovertible that all MSDPP bond issuances support projects that are green bond eligible, negating the need for a protection fund. If investor demands for green bonds continues to grow, there may eventually be a pricing benefit to issuing green bonds. The added costs of the protection fund will offset or possibly eliminate the savings, a cost that will ultimately be borne by the ratepayers.

Oversight assumes the potential for MSDPP to issue green bonds and therefore establish a green bond holder protection fund is speculative and the MSDPP would not incur significant cost related to this proposal. If a fiscal impact were to result, the MSDPP may request additional funding through the appropriation process.

In response to a previous version, officials from the **City of O'Fallon** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

§§409.115 & 409.117 – Investment Disclosures

In response to similar legislation from this year, HB 824, officials from the **Office of the State Courts Administrator** assumed the proposal will have no fiscal impact on their organization.

Bill as a Whole

Officials from the **Department of Economic Development**, the **Missouri Department of Conservation**, the **Office of the Secretary of State**, the **Sheriff's Retirement System**, the **Office of the State Auditor**, the **Office of the State Treasurer** and the **Missouri State Employee's Retirement System** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Except for what is already provided in §108.371, officials from the DOR assume the rest of the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for those sections.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

HA 1 – Title Change

Oversight assumes this amendment reflects a title change to the proposal and will have no fiscal impact.

HSA 1 to HA 1 – §1.1200 – Environmental, Social Justice or Governance Scores or Metrics

Oversight assumes this amendment removes §1.1200 from the HCS portion of the bill and will have no fiscal impact.

HA 3 - §§409.115 & 409.117 – Investment Disclosures

Oversight assumes this amendment is clarifying language regarding these 2 sections of the proposal and will have no fiscal impact.

Bill as a Whole as Amended

Officials from the **Department of Revenue (DOR)** assume the amendments from the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Officials from the **Department of Commerce and Insurance**, the **Department of Natural Resources**, the **Missouri Department of Transportation**, the **Missouri Department of Agriculture**, the **MoDOT & Patrol Employees' Retirement System**, the **City of Springfield**, the **County Employees Retirement Fund** and the **Joint Committee on Public Employee Retirement** each assume the proposal will have no fiscal impact on their respective

organizations. **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 – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Loss – B&P/DOR – of revenues from interest and income earned on green bonds being exempt from MO income taxes §108.371</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<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

§108.371 – Municipal Green Bonds

This legislation governs green bonds which are a type of bond instrument where the proceeds are exclusively used to finance or re-finance eligible green projects.

To be rated as a green bond in Missouri, at least 85% of the bond proceeds should be used for eligible green projects and interest on income from such bonds is exempt from income tax.

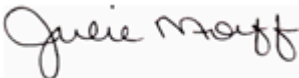
This bill provides that a municipality that issues a municipal green bond shall establish a green bond holder protection fund separate from the municipality's debt service reserve fund or an equivalent fund.

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

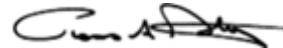
SOURCES OF INFORMATION

Office of Administration - Budget and Planning
 Department of Revenue

Department of Economic Development
Office of the State Auditor
Department of Natural Resources
Missouri Department of Conservation
Missouri Department of Transportation
Department of Commerce and Insurance
Office of the State Treasurer
City of O'Fallon
City of Springfield
Joint Committee on Public Employee Retirement
Local Government Employees Retirement System
Missouri Department of Agriculture
Missouri State Employee's Retirement System
MoDOT & Patrol Employees' Retirement System
Office of the State Courts Administrator
Office of the Secretary of State
Public Schools and Education Employee Retirement Systems
Kansas City
Joint Committee on Public Employee Retirement
Public Schools and Education Employee Retirement Systems
Kansas City Employees' Retirement System
Kansas City Firefighter's Pension System
Kansas City Supplemental Retirement Plan
Kansas City Public School Retirement System
Local Government Employees Retirement System
Rock Community Fire Protection District Retirement Plan
County Employees' Retirement Fund
Sheriff's Retirement System
Metropolitan St. Louis Sewer District Employees Pension Plan



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