

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3882H.01I
Bill No.: HB 1726
Subject: Banks and Financial Institutions; Business and Commerce
Type: Original
Date: February 5, 2024

Bill Summary: This proposal changes the laws regarding bonds.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 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

§108.170 - Bonds

Officials from the **University of Central Missouri** assume an indeterminate fiscal impact for this proposal.

Officials from the **Metropolitan St. Louis Sewer District (MSD)** assume this change could have a significant long-term financial impact on MSD and its ratepayers.

Most municipal bonds are issued with a 5% coupon rate. The benchmark rate for municipal bonds, MMD, assumes a 5% coupon. Since the cost of borrowing is driven by demand side factors, forcing a price or a structure on Missouri issuances will put Missouri issuers and ratepayers at a cost disadvantage in some rate environments. In the record low-rate environment MSD recently experienced it was not uncommon for the benchmark price of a 30-year maturity with a 10 yr. par call to be over 120%, yet still result in a bond offering with a low yield. Limiting prices for Missouri issuers could actually increase overall borrowing costs by limiting demand for those bonds as lower prices provide less protection from future rate increases for bond investors and also by limiting opportunities for future refunding savings. Potential refunding savings, or call option value, is not reflected in the True Interest Cost (TIC) so a focus on TIC alone does not ensure that the lowest overall financing cost is achieved. If legislation like this was in place in prior years, MSD's cost of borrowing would be higher today.

As written, the legislation conflicts with the advice of MSD's municipal advisor, PFM. With PFM's permission, MSD is resubmitting a letter written by them in 2021 in response to similar legislation (Proposed House Bill 2552). Current laws already limit the coupon rate at which bonds can be issued. If the concern is that amount of premium generated is being used as a way to get around statutory debt limits then perhaps the legislation can focus on general obligation (G.O.) bonds, which have a statutory limit, but exempt revenue bonds. Please also consider an exemption for issuers of revenue bonds that work with a municipal advisor to plan and structure debt.

Oversight does not have information to the contrary and therefore, Oversight will reflect the potential negative impact to local political subdivisions as described by the MSD.

Officials from the **Office of Administration - Budget and Planning**, the **Department of Commerce and Insurance**, the **Department of Economic Development**, the **Missouri Department of Transportation**, the **Office of the State Treasurer**, the **South River Drainage District**, the **St. Charles County PWSD #2**, the **Wayne County PWSD #2** and **Northwest Missouri State University** 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.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities, counties, nursing homes, fire protection districts, schools, utility districts, hospitals and colleges 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss – on potential bond premiums by selling bonds at a certain par value §108.170</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

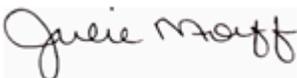
This bill provides that bonds, notes, or other forms of indebtedness may be issued in book-entry or registered form and may be sold at any sale, at the lowest true interest cost that is obtained, not less than 50% of the par value and not more than 120% of the par value. The bill prescribes similar requirements for industrial development revenue bonds, bonds issued by any housing authority, and revenue bonds issued for airport purposes.

The bill repeals the current language which provides for a political subdivision to have an unenhanced bond rating of AA+ or higher or comparable rating, and replaces it with a bond rating that is one of the two highest long-term ratings or the highest short-term rating issued by a nationally recognized rating agency on its outstanding general obligation.

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

Missouri Department of Transportation
University of Central Missouri
Metropolitan St. Louis Sewer District
Office of Administration - Budget and Planning
Department of Commerce and Insurance
Department of Economic Development
Office of the State Treasurer
South River Drainage District
St. Charles County PWSD #2
Wayne County PWSD #2
Northwest Missouri State University
Office of the Secretary of State



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February 5, 2024



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