

HCS HB 468 -- DUTIES OF THE STATE TREASURER AND THE LINKED DEPOSIT PROGRAM

SPONSOR: Cunningham, 145 (Richard)

COMMITTEE ACTION: Voted "do pass" by the Committee on Financial Institutions by a vote of 17 to 0.

This substitute changes the laws regarding the duties of the State Treasurer and the Linked Deposit Program. In its main provisions, the substitute:

- (1) Defines the terms "market rate," "unencumbered," and "well capitalized";
- (2) Specifies that any written contract between the State Treasurer and a depository of state funds is limited to five years or less. Due consideration will be given when investing state funds as to the benefits to the economy and welfare of the people of Missouri and to the aggregate return in earnings and taxes on these deposits;
- (3) Allows the State Treasurer to include as acceptable securities for state deposits mortgage securities, including qualified individual loans secured by deeds of trust on residential, commercial, or farm real estate. These loans underwritten and offered by financial institutions will conform with standards established by the State Treasurer and the Federal Home Loan Bank of Des Moines, Iowa. All financial institutions pledging securities will report monthly to the State Treasurer ensuring that they meet collateral requirements. Acceptable securities also include any investment in which the State Treasurer may invest. These two additions are not authorized for political subdivisions;
- (4) Allows the State Treasurer to enter into agreements with private entities to provide services relating to his or her duties;
- (5) Allows state funds to be deposited in any banking institution where the State Treasurer, the Governor, or the State Auditor owns stock or is an officer or employee of the bank if the state official discloses the ownership of the stock or employment;
- (6) Changes the definition of "eligible agribusiness" and "eligible beginning farmer";
- (7) Adds the definition of an "eligible facility borrower" which is a borrower qualified for a reduced rate linked deposit loan;
- (8) Raises from \$360 million to \$720 million the amount that the State Treasurer may invest of aggregate deposits for linked

deposits to eligible farming operations, agribusinesses, beginning farmers, and livestock operations; doubles the current individual amounts which can be invested in linked deposits; and removes language that limits the State Treasurer's ability to commingle allocations among the types of linked deposits;

(9) Allows the State Treasurer to determine the dollar amount of deposits made to certain eligible agribusinesses. Beginning August 28, 2005, lending institutions will give consideration to eligible borrowers who have not previously received linked deposits; however, nothing prohibits a lending institution from making a linked deposit loan to any entity that has previously received a linked deposit;

(10) Authorizes the State Treasurer to place linked deposits with a lending institution at certain below-market rates, but not below 1%. All linked deposit rates are determined by the State Treasurer. The deposit agreement will specify that the original deposit plus renewals will not exceed five years. The lending institution must repay the State Treasurer any linked deposit principal received from the borrower in the previous year. If the linked deposit is tied to a revolving line of credit agreement, it will be excluded from the repayment provisions of this section;

(11) Prohibits the State Treasurer from investing in any new linked deposit with any new eligible facility borrower after January 1, 2020;

(12) Creates two new categories of eligible facility borrowers that can participate in the linked deposit program. The new categories are a development facility which produces goods derived from an agricultural commodity or product and a renewable fuel production facility which produces an energy source derived from a renewable domestically grown organic compound capable of powering machinery; and

(13) Removes Section 30.247, RSMo, which requires any bank account with an average daily balance of \$10,000 or more to be obtained through an open and competitive bid process.

FISCAL NOTE: Estimated Effect on General Revenue Fund of an Income of \$0 in FY 2006, a Cost of \$72,798 to \$92,798 in FY 2007, and a Cost of \$73,654 to \$93,654 in FY 2008. No impact on Other State Funds in FY 2006, FY 2007, and FY 2008.

PROPONENTS: Supporters say that the bill will help economic development in the state by creating jobs and increasing revenues and income. More individuals will be eligible for these loans. Because of low interest rates in the past few years, banks have not been willing to provide these low-cost loans. The bill will help fix that problem. Both rural and urban economies of the state will benefit, especially small businesses. This program

will not affect state funds because the loans are backed with at least 100% collateral, and the banks underwrite these loans as they would any type of loan.

Testifying for the bill were Representatives Richard, Hobbs, and Myers; State Treasurer; Tony Robertson, First National Bank of Audrain County; Missouri Bankers Association; Farm Credit Services of Missouri; Missouri Corn Growers Association; Missouri Credit Union Association; and Department of Agriculture.

OPPONENTS: There was no opposition voiced to the committee.

Marc Webb, Legislative Analyst