OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

**H.B. 440**
**134th General Assembly**

# Fiscal Note & Local Impact Statement

Click here for H.B. 440's Bill Analysis

**Version:** As Reported by House Financial Institutions

**Primary Sponsors:** Reps. Swearingen and White

**Local Impact Statement Procedure Required:** No

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## Highlights

- The bill creates the State Securities Tender Program and modifies the Treasurer of State's (TOS) investment authority by allowing TOS to serve as buyer of obligations issued by a nonprofit corporation, state agency, or political subdivision that has been awarded a specified bond rating. The bill also allows TOS to serve as end purchaser of bonds issued by the Ohio Higher Educational Facility Commission and state institutions of higher education.
- The program increases TOS revenue through a purchase agreement fee imposed on participating state agencies and political subdivisions, though by an indeterminate amount. The revenue is to be deposited into the State Securities Tender Program Fund, created by the bill, and must be used to fund TOS operations. Fee revenue above a specified threshold would accrue to the GRF.
- The bill expands the Treasurer's existing agricultural linked deposit program, Ag-LINK, by including nonprofit agricultural cooperatives in the list of eligible agricultural businesses, and by removing a provision which sets a codified limit on each Ag-LINK loan amount. Changes to Ag-LINK could marginally reduce GRF investment earnings.

## Detailed Analysis

The bill increases the authority of the Treasurer of State (TOS) to invest interim funds by adding new categories of debt securities to the list of those approved for interim moneys, and establishes the related State Securities Tender Program. In addition, the bill expands an existing linked deposit program, Ag-LINK, which provides subsidized loans to eligible agricultural businesses. Under the bill, nonprofit agricultural cooperatives become eligible to participate in Ag-LINK, and TOS is granted the authority to set the maximum dollar amount on each loan.

## State Securities Tender Program

H.B. 440 creates the State Securities Tender Program, broadening the authority of TOS to invest interim funds of the state. Interim moneys are composed of deposits in the treasury of the state that are not needed for immediate use but will be needed before the end of the designated financial outlook period. Under the program, TOS is able to enter into purchase agreements for any obligations issued by the state, its political subdivisions, or by nonprofit corporations or associations located in Ohio, provided either the obligation or the issuer is rated in one of the four highest debt categories by at least one nationally recognized rating service (Standard & Poor's, Moody's, or Fitch). Under the bill, up to 10% of the state's total average portfolio can be composed of debt issued under the program.

Under the program, TOS could enter into purchase agreements with a debt issuer (of one of these types), specifying the terms and conditions of the sale and a fee payable to TOS. The bill creates the State Securities Tender Program Fund, which is to receive revenue from fees collected pursuant to each purchase agreement. Revenue to the fund is capped at 1% of the total value of all securities issued under the program, and must be used by TOS to fund agency operations. Any revenue received above the 1% threshold is to be deposited into the GRF.

## Higher education debt security purchases

Under the bill, TOS is able to enter into debt purchase agreements with state universities and colleges, as well as serve as end purchaser of debt issued by the Ohio Higher Educational Facility Commission. In the event the issuing institution does not remit bond service payments, the Department of Higher Education (BOR) is required, upon request, to withhold appropriated funds, commonly referred to as the State Share of Instruction (SSI), from the institution and instead transfer those moneys to TOS. The duties for BOR under the bill are expected to result in little, if any, additional administrative costs.

## Ag-LINK Program expansion

The Treasurer's Office currently operates the Ag-LINK Program, providing subsidized small denomination loans to agricultural businesses. H.B. 440 removes the individual loan cap, currently set at $150,000, and replaces that provision with one allowing TOS to determine the maximum amount for each applicant. Additionally, the bill allows nonprofit agricultural cooperatives to participate in the subsidized loan program.

Linked deposit programs, in general, provide Ohio businesses with loan options at below market interest rates. Once a linked deposit application has been accepted, TOS places a certificate of deposit (CD) with the financial institution providing the loan, with the CD paying a below market interest rate. Presumably, expanding the Ag-LINK Program to agricultural cooperatives will result in greater participation, increasing the dollar amount of interim funds flowing to those deposits. Depending on investment returns earned in alternative securities, this provision could result in a slight loss of investment income to the GRF, although neither LBO nor TOS are able to estimate a dollar amount.[1] As of June 30, 2021, approximately $63.4 million was

[1] Section 135.63 of the Revised Code, not in the bill, limits the total placement of linked deposits under Ag-LINK and other linked deposit programs to a maximum of 12% of the state's total average investment portfolio.

on deposit with financial institutions via the Ag-LINK Program; these deposits represent funding for projects in 52 counties across Ohio.

## Other fiscal effects

The expanded authority for investing interim funds described in the State Securities Tender Program section and the Higher Education Debt Security Purchases section offer more options to TOS for the investment of such funds. The additional options allow the possibility for TOS to achieve higher earnings from the investment of state interim funds, but may also affect the financial risk of the state's portfolio.

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