

Department of Planning and Budget 2010 Fiscal Impact Statement

1. Bill Number: HB246

House of Origin	<u> X </u>	Introduced	<u> </u>	Substitute	<u> </u>	Engrossed
Second House	<u> </u>	In Committee	<u> </u>	Substitute	<u> </u>	Enrolled

2. Patron: Merricks

3. Committee: Appropriations

4. Title: Local government investment pool; limitations.

5. Summary: Provides that no less than 10 percent of local government investment pool (LGIP) assets shall be invested in time, savings, or demand deposits at financial institutions qualified to accept public deposits under the Virginia Security for Public Deposits Act (SPDA qualified banks). The bill, as enacted by the 2009 Session of the General Assembly, includes an enactment clause requiring reenactment by the 2010 Session of the General Assembly in order to become effective.

6. Fiscal impact estimates are preliminary. See item 8, below.

7. Budget Amendment Necessary: No.

8. Fiscal Implications: The legislation requires the investment of at least 10 percent of LGIP assets in SPDA qualified banks. This is the equivalent of approximately \$360 million, based on current balances and market conditions. Any impact the legislation may have on the LGIP portfolio is unknown and would depend on the behavior of participants and the willingness of SPDA qualified banks to invest these funds.

The Department of the Treasury estimates that it will require an additional analyst position to address the additional workload and provide oversight. The agency has sufficient vacant positions and sufficient nongeneral fund appropriation, so a budget amendment is not necessary. The annual cost of the additional staff person is estimated at \$78,000. Treasury is able to charge an administrative fee to the LGIP to cover its costs. The current fee will generate sufficient cash to cover the costs associated with the additional staff person. Existing nongeneral fund appropriation can be transferred between service areas within the agency to cover the costs of the position.

9. Specific Agency or Political Subdivisions Affected: Department of the Treasury, LGIP participants, and local treasurers.

10. Technical Amendment Necessary: No.

11. Other Comments: The proposed bill represents a change to the way in which the Department manages the LGIP portfolio. When the LGIP obtained its AAAm rating from Standard and Poor's (S&P), S&P required the LGIP to discontinue investing in non-negotiable certificates of deposit (CD) of unrated financial institutions or financial institutions rated below A-1 secured through the Virginia Security for Public Deposits (SPDA) program. There are currently only

three S & P rated banks with a rating of A-1 or above that also accept public deposits. If these banks cannot or will not offer large dollar CD's at a competitive level, the LGIP would have to invest in shorter term non-negotiable CD's of SPDA financial institutions unrated or rated less than A-1. According to the Department of the Treasury, this would adversely impact the LGIP's rating and as a result, Treasury believes the number of participants in the LGIP would decrease.

In addition, investing in non-negotiable bank CD's could impact liquidity. Participants in the LGIP are primarily localities and can request funds from the LGIP without prior notice; consequently, the LGIP must be liquid.

Date: 1/27/2010 tmw

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cc: Secretary of Finance