

Department of Planning and Budget 2009 Fiscal Impact Statement

1. Bill Number: HB2583

House of Origin	<u>X</u>	Introduced	___	Substitute	___	Engrossed
Second House	___	In Committee	___	Substitute	___	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. *This impact statement was revised to reflect the need for an additional position within the Department of the Treasury as well as additional information regarding the management of the LGIP portfolio.*

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 local 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 local 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 secured through the Virginia Security for Public Deposits (SPDA) program. There are currently five large rated banks that accept public deposits. If these large banks cannot or will not offer large dollar CD's at a competitive level, the LGIP

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would have to invest in shorter term non-negotiable CD's of unrated SPDA financial institutions. According to the Department of the Treasury, this would adversely impact the LGIP's rating. 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: 2/2/2009 tmw

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cc: Secretary of Finance