Revised

Bill number: HB 2152 Due date: 02/28/2025

Responding agency: Pooled Money Investment Board

Prepared by: Joel N. Oliver – Executive Director DOB Analyst: Sean Tomb

Fiscal Impact

State—Would this bill have a fiscal effect on your agency? Yes ☒ No ☐

Local—Would this bill have a fiscal effect on local government? Yes ☐ No ☒

Tax Revenue—Would this bill affect State General Fund revenues? Yes ☒ No ☐

Fee or Other Revenue—Would this bill affect revenues to other state funds? Yes ☐ No ☒

Comparable program from another state available for reference? Yes ☐ No ☒

Scenario #1 **Expenditures**	**FY 2025**	**FY 2026**	**FY 2027**
State General Fund	N/A	N/A	N/A
Fee Fund(s)	N/A	N/A	N/A
Federal Fund	N/A	N/A	N/A
Total Expenditures	N/A	N/A	N/A
Revenues			
State General Fund	$0	($7,200,000)	($7,200,000)
Fee Fund(s)	N/A	N/A	N/A
Federal Fund	N/A	N/A	N/A
Total Revenues	$0	($7,200,000)	($7,200,000)
FTE Pos0tions	N/A	N/A	N/A

Bill Description

Briefly describe what the legislation does. Describe the change(s) from current law that would drive an increase or decrease in expenditures or revenues. If federal funds are affected by the bill in some way, explain that relationship as well. Note any technical or mechanical defects with the bill (bill drafting errors only, do not include commentary as to whether the bill should be enacted or not). ***Please include an explanation of the assumptions used when determining increases or decreases in revenues or expenditures.***

This bill will impact the Pooled Money Investment Board's ("PMIB") Kansas Bank CDs ("Bank CDs") program. Since the bill language regarding changes to the Municipal investment pool was removed from the original proposal, the impact of those changes on the income was removed in this revised version.

The PMIB will potentially see a decrease in revenue as a result in changes to the Bank CD pricing. The PMIB is allowed to invest funds in KS Banks at a rate set by statute (currently the highest yield on allowable investments – Commercial Paper). This bill could result in PMIB funds being placed in Kansas Banks at a rate that is lower than what could be earned by purchasing investments that are allowed per the PMIB Policy. There are two sets of assumptions used for the impact to the SGF outlined below. The analysis provided only details the impact to the PMIB and does not consider any potential benefits that may be realized for the state in general.

Methodology and Assumptions for Fiscal Effect Estimate

Expenditures: *Detail the methodology and assumptions made in preparing the cost estimate. Describe agency expenditures that would become necessary with passage of the bill and how workload assumptions translate into the cost estimates. The estimate for any new position should be detailed to show the salary, benefits and associated other operating costs (such as a computer or other equipment). Distinguish between one-time and ongoing costs.*

Revenues: *Describe the methodology and assumptions used in estimating the bill's effect on revenues. Detail the source of the revenue—is it a tax, agency earning, fee income or a federal reimbursement—and the fund that would receive the revenue. Distinguish between one-time and ongoing revenue changes estimated to result from passage of the bill.*

In either scenario, the PMIB does not expect any impact to the staffing or expenditures of the PMIB as a result of this bill.

The Scenario #1 impact to revenues of the SGF presented above are based on the following assumptions. See calculations below.

The reduction of the rate offered on Bank CDs will negatively impact revenue to the SGF. Currently the rate paid on Bank CDs is a market rate based on allowable investments for the PMIB. The bill allows a reduction of this rate up to 2% below the current rate. The assumption for the revenue impact above, as it relates to Bank CDs are as follows:

- The lower rate offered will likely increase the demand for bank CDs
- This will result in more PMIB assets being invested at rates that are lower than what could be otherwise earned in the market
- Current PMIB policies allows for Bank CDs up to 15% of the total portfolio
- This analysis assumes that the PMIB will achieve an average 10% of the portfolio in Bank CDs
- A constant portfolio balance of $9 billion is assumed over the estimate horizon resulting in a Bank CD balance of $900 million
- The bill gives the PMIB authority to set the spread as it sees fit in order to achieve a goal of placing the funds in Banks, up to 2%
- Given that we won't know the demand for the CDs will be until the program is implemented, a median spread of 1% was used for this analysis; However, since the cash used for these assets would likely reduce investments in Treasuries and not Commercial Paper, which is the highest yielding allowable investment, a cost factor of 0.80% is used in this analysis.
- This results in an annual loss of SGF revenue = $7.2 million ($900.000,000 X 0.80%)

It is assumed that the implementation will not occur until the start of the next fiscal year. As a result, there is no impact to fiscal-year 2025. While the balance would not increase immediately, giving the very attractive funding cost for banks, the assumption is that the increase would occur quickly.

The estimated losses of SGF revenues from PMIB for FY 2026 and FY 2027 = $7.2 million

Kansas Bank CDs		
PMIB Portfolio Balance Assumption:	$ 9,000,000,000	(Approx Portfolio as of Dec 2024 = approx. $9.5B)
Targeted KS Bank CD Balance %:	10%	(Current Policy limit = 15%)
Targeted KS Bank CD Balance:	$ 900,000,000	
Spread to current rate offered:	0.80%	(Currently there is no spread to CP. Bill mandates a spread up to 2%.
		Assumed a median spread ro CP of 1% for this analysis.)
Annual decrease in SGF Rev:	$ (7,200,000)	Since CP cash will likely result in lower T-Bills 0.80% was used
Total Decrease:	$ (7,200,000)	

Scenario #2

If Bank demand would be sufficient with the Bank CD Rate set at a rate equal to Treasury yields, which would be below the current rate offered by an estimated 0.20%, there would not be a material expected impact to SGF revenues from the PMIB. This is because the Commercial Paper portfolio is constrained by the supply available, so these assets would likely replace Treasury or Agency investments. Given the current size of the KS Bank CD portfolio is approximately $45 million, these investments would potentially reprice to a lower rate than would have been earned if no changes in policy were made (by

approximately 0.20%). This would result in a decrease revenue of approximately $80,000 per year. Since the current bill does not set this floor for the rate and allows for a spread up to 2%, the 1% assumptions outlined in Scenario #1 above was used for the primary analysis.

Note: If the KS Bank CD rates are set below the Treasury yields, the decrease in revenue would be proportional to the spread between the KS Bank CD rate offered and the yield that could have been earned by buying Treasuries. For example, if the pricing is set on average 0.10% below the available Treasury yield, the annual loss of income for the State would be $1.8 million ($900,000,000*0.20%) per year. This assumes an average outstanding balance of 10% of the portfolio. This calculation is consistent with the assumption in Scenario #1.

Long-Term Fiscal Considerations

If the bill affects future years, beyond those shown in the table above, explain the long-term fiscal effect—are the revenues stable over the long term or would there be a phase-in of costs or revenues; if the bill ends at a specific future date, indicate this as well.

The effects of the bill on future years, beyond those shown above, will depend on the balance of the PMIP and KS Bank CD portfolios and any differences from the assumptions outlined above. Revenues will like continue to be negatively impacted if KS Bank CD rates are not set at a rate that is at least equal to Treasury yields. This assumes that bill continues as presented and given the assumptions outlined above.

Local Government Fiscal Effect

If the bill affects local governments, identify which local governments would be affected (e.g., cities, counties, school districts, water districts, etc.). Describe the bill's fiscal effect to the local governments.

NA

References/Sources

If there are supporting documents or spreadsheets explaining calculations or assumptions, please attach them. Be specific when citing the methodology used to calculate the fiscal effect of this legislation. Are there examples of actual costs or revenue changes from similar legislation passed in other states? If so, please detail how the estimated fiscal effect in Kansas compares to that of other states, and identify any programmatic differences that would lead to a fiscal effect that is different in Kansas than in other states.

If you have questions, please contact the Budget Analyst assigned to this fiscal note.