

March 3, 2021

The Honorable Jim Kelly, Chairperson
House Committee on Financial Institutions and Rural Development
Statehouse, Room 581A-W
Topeka, Kansas 66612

Dear Representative Kelly:

SUBJECT: Fiscal Note for HB 2429 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2429 is respectfully submitted to your committee.

HB 2429 would create the City Utility Low-Interest Loan Program for the purpose of providing loans to cities for extraordinary electric or natural gas costs incurred during the extreme winter weather event of February 2021. The program would be administered by the State Treasurer. The bill would allow up to \$100.0 million in idle fund balances to be loaned to cities that could only be used for the amount of extraordinary electric or natural gas costs incurred during the extreme winter weather event and not for any other utility costs previously budgeted for by the city. The interest charged would be 2.0 percent below the Pooled Money Investment Board (PMIB) market rate with a minimum interest rate of 0.25 percent. The interest rate on the loan would be recalculated on the first business day of January of each year. The term of the loan could not exceed ten years. The State Treasurer could accept or reject an application based on the State Treasurer's evaluation of whether the city meets the requirements of the program. If sufficient funds are not available for a loan deposit, the applications could be considered in the order received when funds are once again available.

The State Treasurer would have the authority to write rules and regulations to implement the program. The rules and regulations would be required to be adopted no later than January 1, 2022; however, there would be a streamlined application process that would be established within 14 days after the effective date. The adoption of rules and regulations would not be a requirement before approving loans by the State Treasurer under this program. The State Treasurer would be required to provide an annual report to the Governor and the Legislature identifying the cities that

are participating in the program, the aggregate amount of moneys loaned, and the amount of moneys still available for loan on or before January 1, 2022, and each January thereafter. The Legislature would be required to review the loan program on or after January 1, 2024. The bill would take effect upon its publication in the *Kansas Register*.

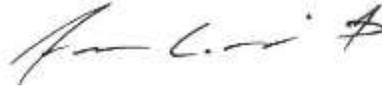
The Office of the State Treasurer estimates enactment of the bill would require \$33,000 in FY 2021 and \$46,000 in FY 2022 to implement this new loan program and the agency would request that amount come from the State Treasurer's Operating Fund or other fee funds within the agency. The Office estimates enactment of the bill would require the agency to hire at least 0.50 new FTE position to manage this new program. In addition, there would be the need to hire outside legal counsel to draft loan contracts with cities and to write expedited rules and regulations. The bill would require the Office to assume full credit risk in administering these loans to cities. If a city were to default on the loan, the funds, which would otherwise be available to the State of Kansas would be lost. Since the idle fund balance is used as the funding source for the loans, it is assumed that State General Fund resources would be needed to backfill idle fund balances if a city were to default on a loan.

The bill would require the PMIB, at the direction of the State Treasurer, to make deposits of up to \$100.0 million of idle funds to cities qualifying for the City Utility Low-Interest Loan Program. The PMIB is authorized to make investments in U.S. Treasury and federal agency securities, highly rated commercial paper and corporate bonds, and repurchase agreements and certificates of deposit at Kansas banks. Declining balances have required the PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. The PMIB maintains a significant portion of its investments in overnight repurchasing agreements. Rates that the PMIB could earn in that market fell to near zero after actions from the Federal Reserve in 2020 (and are likely to stay low for the foreseeable future according to the November 2020 Consensus Revenue Estimate Memo). Recalculating the rate on the loan to cities one time each year has the potential to lock in a lower or higher interest rate that could be earned in the market; however, without knowing the timing of future interest rate changes, it is not possible to estimate the bill's impact on interest earnings from requiring the loaning of up to \$100.0 million of idle funds to cities compared to other investments that the PMIB might make. The PMIB and the State Treasurer indicate that sufficient idle fund cash balances currently exist to fund this new program; however, future balances that would be used to support this program over the course of the next ten years are unknown. The PMIB indicates that the costs to administer the deposit of idle funds to cities would be negligible and could be absorbed within existing resources and staff levels.

The League of Kansas Municipalities indicates the bill would allow cities who provide municipal gas and electric services for their respective cities the ability to apply to the State Treasurer for loans for extraordinary electric or natural gas costs incurred during the extreme winter weather event of February 2021. The loan program would allow the extraordinary utility expenses to be spread out over time to lessen the economic effect of extraordinarily high utility bills for residents and businesses living and operating in these cities. The League indicates that if federal money becomes available from aid or other congressional actions, those funds would be used first to pay off these loans. The League is unable to determine the precise amount of loans

that would be requested by cities, as not all cities have received bills that cover the timeframe of the extreme winter weather event. Any fiscal effect associated with HB 2429 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lauren Tice Miller, Office of the Treasurer
Scott Miller, PMIB
Wendi Stark, League of Municipalities