

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 834

(Delegate Heller, *et al.*) (Chair, Joint Committee on the
Management of Public Funds)

Economic Matters

Budget and Taxation

State Treasurer - Permissible Investments - Linked Deposit Program

This bill alters the Minority Business Enterprise (MBE) Linked Deposit Program by changing the types of investments that the State Treasurer may make with participating financial institutions from “certificates of deposit (CD)” to “interest bearing accounts.”

Fiscal Summary

State Effect: The State Treasurer’s Office receives an operational benefit from allowing increased flexibility in administering the MBE Linked Deposit Program. No direct effect on State revenues or expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State Treasurer may invest funds of the MBE Linked Deposit Program in any financial institution that the Treasurer has designated as a depository for State money and makes loans through participation in the MBE Linked Deposit Program. The Treasurer may purchase one or more CDs that are equal to the amount of the loan made by the financial institution or in aggregate of two or more loans made by one or more financial institutions.

An MBE is a legal entity, other than a joint venture, that is:

- organized to engage in commercial transactions;
- at least 51% owned and controlled by one or more individuals who are socially and economically disadvantaged; and
- managed by, and the daily business operations of which are controlled by, one or more of the socially and economically disadvantaged individuals who own it.

MBEs include not-for-profit entities organized to promote the interests of physically or mentally disabled individuals.

Background: The MBE Linked Deposit Program within the Department of Housing and Community Development (DHCD) provides loans to MBEs at a reduced interest rate. Under the program, a bank provides a loan to a certified MBE at an interest rate two percentage points lower than the bank otherwise would charge. In return, the State Treasurer's Office purchases a CD from that bank in an amount equal to the amount of the loan and accepts a two percentage point reduction in the interest rate of the investment.

State Fiscal Effect: CDs are well-known financial instruments with fixed terms of deposit, often in three-month, six-month, or one- to five-year terms. DHCD and the State Treasurer's Office have determined that CDs are not well-suited to the MBE Linked Deposit Program, which requires continually adjusting the level of the State's linked deposits based on the number of participants and the payoff of corresponding loans made by participating banks. Allowing an investment in other types of interest bearing accounts will provide an operational benefit to the State Treasurer's Office by providing greater flexibility in managing these investments, reducing administrative cost for the program.

Additional Information

Prior Introductions: None.

Cross File: SB 208 (Senator Jones, *et al.*) (Chair, Joint Committee on the Management of Public Funds) - Budget and Taxation.

Information Source(s): Department of Housing and Community Development, Maryland State Treasurer's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2010
ncs/lgc

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