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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
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Legislative Budget
Office

H.B. 405
133rd General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 405's Bill Analysis](#)

Version: As Reported by Senate Health, Human Services & Medicaid

Primary Sponsor: Rep. Cross

Local Impact Statement Procedure Required: No

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Highlights

- Establishes the Adoption Linked Deposit Program to be administered by the Ohio Treasurer of State (TOS). The Adoption Linked Deposit Program is designed to subsidize loans for persons to finance qualifying adoption expenses.
- Implementing and administering the new program may increase TOS administrative costs.
- The proposed program will reduce earnings on investments deposited into the GRF. Revenue losses will depend on the volume of linked deposits issued and the size of the reduction in rates of return on those deposits, and will likely vary significantly from year to year. Plausible numbers based on the recent history of adoptions in Ohio and other factors suggest the revenue loss is unlikely to exceed \$500,000 per year and may be considerably less in most years.
- There would be no local fiscal effect from the bill.

Detailed Analysis

H.B. 405 establishes the Adoption Linked Deposit Program, to be administered by TOS, for the purpose of reducing the financial burdens of adoption by incentivizing participating financial institutions to offer low-interest loans to eligible borrowers. In concept, a linked deposit program encourages a financial institution to issue such loans to beneficiaries in a targeted group by agreeing to commit the deposit of state funds into the financial institution at a below market interest rate. To become eligible to participate in the bill's linked deposit program, individuals must be Ohio residents and either complete an adoption home study program or seek an adoption through the public foster care system administered by the Department of Job and Family Services (JFS). Any financial institution which currently serves as

a public depository, as well as any credit union located within the state, is eligible to participate in the Adoption Linked Deposit Program.

Currently, TOS administers five other linked deposit programs that maintain asset balances:¹ GrowNow, BidOhio, Agricultural Linked Deposit Program (AgLink), EcoLink Deposit Program, and Re-Energize Ohio Linked Deposit Program. As of the date of publishing of the most recent TOS Annual Report, a total of \$221.3 million in financial assets were attributed to the above programs.

Administrative details

The bill requires financial institutions that wish to participate in the Adoption Linked Deposit Program to either be registered as a public depository of state funds or meet the definition of a credit union as defined in section 1733.01 of the Revised Code. Upon receipt of an adoption loan application, participating financial institutions must evaluate whether each applicant is an eligible borrower and apply their usual lending standards in evaluating each loan application. A financial institution then forwards to TOS the loan package, certifying the above and including all information required by TOS to process the request.

TOS is authorized to place certificates of deposit or other financial instruments with the eligible lending institution at a rate below the current market rate for each financial instrument, upon which time participating financial institutions shall enter into a contract with TOS; the contract is to reflect current market conditions with regards to risk factors and rate of return. Financial instruments transferred from TOS to participating financial institutions cannot be placed for a period longer than five years, and each contract can be renewed for up to an additional five years. Issuance of linked deposits under the program are subjected to a limit in section 135.63 of the Revised Code, that lending under all the linked deposit programs must not exceed 12% of the state's total average investment portfolio.

Upon placement of an adoption linked deposit with an eligible financial institution, such institution is required to lend funds to applicants approved as eligible by both the institution and TOS. The consumer loan's interest rate is to be lowered by, at a minimum, the percentage difference between the current market rate for the financial instrument placed at the institution by TOS and the rate specified by the adoption linked deposit contract. TOS may adopt policies to monitor the compliance of both eligible lending institutions and eligible borrowers. In addition, TOS must produce an annual report on the Adoption Linked Deposit Program and its activities during the calendar year preceding the publication of the report; the report is to be submitted before the first day of February each year to the Governor, the Speaker of the House of Representatives, and the President of the Senate and must include specified information about the program.

Fiscal impact

Implementing and administering the new program may increase administrative costs for the Treasurer's Office. LBO does not have an estimate of the magnitude of any such cost increase as of this writing.

¹ As of June 30, 2019.

Also, to the extent TOS issues more linked deposits to financial institutions in total due to the establishment of the Adoption Linked Deposit Program, the program would reduce the state's investment earnings. The amount of that reduction depends on the discretion of the Treasurer in approving linked deposits and the terms of the associated agreements. Investment earnings, unless specified otherwise in the Revised Code, are deposited into the GRF; foregone earnings under this program would therefore reduce GRF revenue.

The magnitude of the revenue loss is uncertain. It depends on the level of participation in the linked deposit program, amounts borrowed, TOS investment decisions, and uncertain returns on alternative investments. Perhaps the most uncertain variables are the volume of linked deposits outstanding in any given fiscal year under the proposed program and the difference in rates of return between linked deposits and alternative investments. According to the nonprofit association ABBA Fund, the average loan for adoption expenses provided by their organization is in the \$6,000 to \$8,000 range.² The number of adoptions, and therefore the demand for adoption loan funds, can vary significantly from year to year. The table to the right shows the number of completed adoptions through state agencies in Ohio, by selected fiscal years.³ Data pulled from TOS annual reports' "Financials" sections suggests that the average rate of return on investments in the existing linked deposit programs during recent years is roughly one percentage point lower than the average rate of return for all investments.⁴ The difference in rates of return ranged from a low of roughly 0.5 percentage point in FY 2016 to a high of about 1.8 percentage points in FY 2019.

FY 2009	670 adoptions
FY 2013	1,412 adoptions
FY 2017	1,551 adoptions

The variation in historical (1) numbers of adoptions and (2) differences in rates of returns from year to year imply that the GRF revenue loss would also be quite variable. While LBO cannot determine the revenue loss with precision, plausible numbers based on the variable historical numbers on adoptions and differences in rates of return imply it is unlikely to exceed \$500,000 in any year in the near future and may be considerably less in most years.

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² <https://www.abbafund.org/how-we-help/loans/>. The ABBA Fund is a nonprofit organization providing adoption assistance targeting Christian families.

³ <http://data.jfs.ohio.gov/FamChild/ChildWelfare.stm>.

⁴ From the tables titled "Summary of Investment Activity" and "Summary of Realized Income" in the Financials sections of those reports. For purposes of this calculation LBO defines the rate of return (ROR) on investments as realized income during the year divided by the value of investment portfolios at the beginning of each fiscal year; this is a rough calculation in that cash flows are not accounted for. For linked deposit programs, LBO's calculations of ROR do not include FY 2019 data. The linked deposit investment accounts included are AgLink, EcoLink, GrowNow, Re-Energize Ohio, and the Small Business Linked Deposit Program. The Save Now and BidOhio programs are excluded from these calculations, although in past years have been included with other linked deposit programs under the "Special Projects Investment Acct" category. During the period from 2015 to 2019, the average of annual RORs for *all* TOS invested moneys was 1.30%. During the same time, the average ROR for moneys invested in linked deposit programs was 0.33%.