Summary of the Senate Finance Committee's meeting on S-180.

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S-180: An act relating to the investment of State funds in credit unions.

- The law proposes to allow Vermont state funds to be invested in any Vermont credit union.

Credit Union: Not-for-profit membership based cooperative financial institution.

- Not subject to state or federal corporate taxes.
- Membership can be narrow or wide.
- Often provide lower interest rates to members and serve communities underserved by traditional financial institutions.

Franchise Tax: A Vermont tax levied on deposits held by a bank over a 12 month period. The tax is collected monthly.

- Currently the State brings in ~$13 million a year in franchise tax money.
- Credit unions would not be subject to the tax if included in state investment funds.

Current state funds investment process:

- There are currently about $2 billion in state funds subject to investment.
- The state invests in banks through two programs:
    - <u>Deposit relationships</u>
        - Deposit state funds in exchange for banking services and favorable interest rates.
        - Banks must meet certain regulatory requirements:
            - <u>DFR Examination Process</u> evaluates banks regularly on their safety and soundness.
            - Must be able to collateralize and insure deposits. This process can be expensive.
        - Only two institutions capable of meeting these needs and requirements: M&T and TD bank.
            - State currently has a ~5.5% interest rate on its deposits. This is a very favorable rate that only banks of that scale can offer.
            - About half of total state funds (~$1 billion) are in M&T and TD.
    - <u>Bank in Vermont</u>
        - Only institutions "domiciled in or having branches within the boundaries of the State of Vermont" can participate.
            - Currently 19 banks are eligible
        - Short term certificate of deposit (CD)
            - Dates can range from 3 month to 12 month

        - Banks are subject to same regulatory requirements as normal
        - Banks compete by offering competitive bids.
            - In the last several years, only TD bank has submitted a bid. This is likely due to the financial burden of regulation and ability to offer competitive rates.
- Currently the state treasurer can invest in Community Development Credit Unions.
    - Community Development Credit Union: Based in Vermont and serving primarily low income members. E.g Opportunities Credit Union.[1]

Questions and Concerns:

- Loss of Franchise Tax revenue: Some are concerned that if state funds were moved to credit unions, that would result in lower Franchise Tax revenue.
    - A response is that credit unions would likely only receive a small portion of the funds, not enough to make a major difference.
- Lack of capacity: Jeremiah Breer, CFO of the State Treasurer's office, was skeptical that credit unions could meet the needs of the Treasurer's office when investing deposits. The reasons for this boiled down to (1) small size and (2) uncompetitive interest rates. He described his Office's position on the bill as "neutral."
- Community role: Some pointed to the unique role credit unions play in the financial marketplace as a reason to invest. Credit unions often provide better service, lower fees, and are more accountable to their members.
    - A response is that the Treasurer's Office has a fiduciary responsibility to maximize returns on the state funds, and investing in credit unions for moral reasons would violate that.

[1] This exception was carved out to accommodate a plan by the Department of Environmental Conservation that required them partnering with Opportunities Credit Union.