

## Appendix B: ORM Economic Review Form

### Office of Regulatory Management

#### Economic Review Form

<b>Agency name</b>	Treasury Board
<b>Virginia Administrative Code (VAC) Chapter citation(s)</b>	1 VAC75-20
<b>VAC Chapter title(s)</b>	Virginia Security for Public Deposits Act Regulations
<b>Action title</b>	Amend Virginia Security for Public Deposits Act Regulations After Periodic Review
<b>Date this document prepared</b>	March 17, 2023
<b>Regulatory Stage (including Issuance of Guidance Documents)</b>	Standard Review Stage 3 Final

### **Cost Benefit Analysis**

Complete Tables 1a and 1b for all regulatory actions. You do not need to complete Table 1c if the regulatory action is required by state statute or federal statute or regulation and leaves no discretion in its implementation.

Table 1a should provide analysis for the regulatory approach you are taking. Table 1b should provide analysis for the approach of leaving the current regulations intact (i.e., no further change is implemented). Table 1c should provide analysis for at least one alternative approach. You should not limit yourself to one alternative, however, and can add additional charts as needed.

Report both direct and indirect costs and benefits that can be monetized in Boxes 1 and 2. Report direct and indirect costs and benefits that cannot be monetized in Box 4. See the ORM Regulatory Economic Analysis Manual for additional guidance.

**Table 1a: Costs and Benefits of the Proposed Changes (Primary Option)**

<p>(1) Direct &amp; Indirect Costs &amp; Benefits (Monetized)</p>	<p><b>A. Collateral changes: Extends existing “haircuts” on municipal securities (“munis”) pledged as collateral for Non-pooled qualified public depositories (“QPD”) to Pooled QPDs and removes corporate notes as an eligible security type.</b></p> <p>Direct Costs: No direct costs to the Treasury Board or Department of the Treasury. No QPDs currently pledge corporate notes, so there is no cost to eliminate them. Multiple factors impact how a Pooled QPD will respond to the need to increase SPDA collateral to cover a new requirement of a haircut (10% to 20%) on the market value of munis pledged as collateral, including analysis of the securities in their portfolios and the cost to use each type of security as collateral, and safekeeping fees associated with pledging the securities as collateral. Each Pooled QPD may approach these factors differently, making it difficult to associate a cost with this new requirement. Our analysis shows that very few Pooled QPDs will be impacted by this new requirement. As of 12/31/2022, only 22 (37%) of the total 60 Pooled QPDs pledged munis. Using the December public deposit balances, one Pooled QPD pledging munis would have been impacted by the proposed haircuts and need to pledge additional collateral. Many QPDs over-collateralize and QPDs’ public deposit balances change significantly from month to month. Accordingly, using data from the prior 5 quarters, several (&lt; 5) Pooled QPDs would have been impacted by this change at least once. The impact to pledged collateral can vary significantly month to month from no impact to requiring a pledge of additional collateral of over \$100 million. QPDs impacted by this change would either have to pledge additional munis as collateral (taking into account the new haircuts) or substitute other security types with lower or no haircuts in order to maintain sufficient collateral. The impact on Pooled QPDs of the proposed haircuts on munis as of 12/31/2022 can be seen in <b>Attachment 2</b>, and in <b>Attachment 1</b> for the quarters 3/31/2021 through 3/31/2022.</p> <p>Indirect Costs: None identified.</p> <p>Direct Benefits: Provides more security for public funds deposited at Pooled QPDs by either increasing the value of munis pledged as collateral or by pledging securities that are more easily valued and liquidated in the event of a QPD failure. Benefits Pooled QPDs by decreasing their contingent liability to cover public fund losses should other QPDs in the collateral pool fail.</p> <p>Indirect Benefits: None identified.</p>
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	<p><b>B. Require public depositors to verify their public deposit accounts and account balances quarterly through the Treasury’s website search feature.</b></p> <p>Direct Costs: Minimal cost of public depositors’ staff time to verify public deposit accounts using Treasury’s Public Funds Accounts Search Feature quarterly. One-time programming costs for the Treasury to enhance security and usability of the search feature and create a log of accounts searched to show which public entities have performed the required verification.</p> <p>Indirect Costs: None identified.</p> <p>Direct Benefits: Ensures that banks are reporting all Virginia public deposits to the Treasury Board by requiring quarterly verification by the public depositors, thus ensuring all public funds accounts are properly secured in case of a QPD default. Currently, there is no outside verification by public depositors that banks are reporting all Virginia public deposits to the Treasury Board, and that balances are correct.</p> <p>Indirect Benefits: None identified.</p>	
(2) Present Monetized Values	Direct & Indirect Costs	Direct & Indirect Benefits
	(a) \$2,063,441 (see Attachment 5, page 1)	(b) unable to monetize or quantify
(3) Net Monetized Benefit	\$-2,063,441	

(4) Other Costs & Benefits (Non-Monetized)	<p><b>A. Collateral Changes</b> None identified.</p> <p><b>B. Verification of accounts</b> None identified</p>
(5) Information Sources	Collateral pledging data from TRS SPDA database; Cost of Funds analysis performed by TRS Cash Management and Investments (CMI) Division; Estimate of programmer's time and cost/hour from TRS IT Division.

**Table 1b: Costs and Benefits under the Status Quo (No change to the regulation)**

(1) Direct & Indirect Costs & Benefits (Monetized)	<p><b>A. Collateral Changes</b> Direct Costs: Public funds at Pooled QPDs are less protected from loss if there is a default of a Pooled QPD; Pooled QPDs face higher contingent liability for public fund losses incurred by the default of another Pooled QPD.</p> <p>Indirect Costs: None identified.</p> <p>Direct Benefits: Pooled QPDs that pledge munis may not have to pledge additional or different types of securities to adequately collateralize public funds.</p> <p>Indirect Benefits: None identified.</p> <p><b>B. Verification of accounts</b> Direct Costs: Treasury has already begun reprogramming to enhance security and usability of its Public Funds Accounts Search feature and create a log of accounts searched on its website. Whether or not the SPDA Regulation revisions become effective, Treasury will be implementing these programming changes to make the Search Feature more secure. Public entities not voluntarily verifying their accounts are being reported accurately to the Treasury Board run the risk of the loss of their public funds in the event of a QPD failure.</p> <p>Indirect Costs: None identified.</p> <p>Direct Benefits: None identified.</p>	
(2) Present Monetized Values	Direct & Indirect Costs	Direct & Indirect Benefits
	(a)\$7,107 (see Attachment 5, page 1)	(b)\$0

(3) Net Monetized Benefit	\$-7,107
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(4) Other Costs & Benefits (Non-Monetized)	<p><b>A. Collateral Changes - Costs</b> None identified.</p> <p><b>B. Verification of accounts – Costs</b> None identified.</p> <p><b>Benefits – None identified.</b></p>
(5) Information Sources	Collateral pledging data from TRS SPDA database; Cost of Funds analysis performed by TRS Cash Management and Investments (CMI) Division; Estimate of programmer’s time and cost/hour from TRS IT Division.

**Table 1c: Costs and Benefits under Alternative Approach(es)**

(1) Direct & Indirect Costs & Benefits (Monetized)	<p><b>A. Collateral Changes: Tighten restrictions on types of munis that can be pledged by Pooled QPDs.</b></p> <p><b>1. Eliminate munis as eligible collateral;</b></p> <p><b>2. Only accept munis with a AAA / Aaa S&amp;P / Moody’s rating; and/or</b></p> <p><b>3. Only accept general obligation munis (eliminate revenue and other bonds).</b></p> <p>Direct Costs: Costs would be significantly higher than proposed change, as any of these restrictions would apply to all 22 of the 60 Pooled QPDs pledging munis rather than the 5 or fewer Pooled QPDs potentially affected by the proposed change. See <b>Attachment 3</b>.</p>	
	<p>Indirect Costs: None identified.</p> <p>Direct Benefits: Provides more security for public funds deposited at Pooled QPDs by either increasing the value of munis pledged as collateral or by pledging securities that are more easily valued and liquidated in the event of a QPD failure, benefiting the public. Benefits Pooled QPDs by decreasing their contingent liability to cover public fund losses if a pooled QPD fails.</p> <p>Indirect Benefits: None identified.</p> <p><b>B. Verification of Accounts: No alternative approaches identified.</b></p>	
(2) Present Monetized Values	Direct & Indirect Costs	Direct & Indirect Benefits
	(a) least expensive alternative: \$4,588,391 (see Attachment 5, page 1)	(b) unable to monetize or quantify

(3) Net Monetized Benefit	\$-4,581,284
(4) Other Costs & Benefits (Non-Monetized)	<b>A. Collateral Changes</b> None identified. <b>B. Verification of accounts</b> None identified
(5) Information Sources	Collateral pledging data from TRS SPDA database; Cost of Funds analysis performed by TRS Cash Management and Investments (CMI) Division; Estimate of programmer's time and cost/hour from TRS IT Division.

### **Impact on Local Partners**

Use this chart to describe impacts on local partners. See Part 8 of the ORM Cost Impact Analysis Guidance for additional guidance.

**Table 2: Impact on Local Partners**

(1) Direct & Indirect Costs & Benefits	<b>A. Collateral Changes</b>  Direct Costs: None.  Indirect Costs: None.  Direct Benefits: Ensuring their public deposits are being properly collateralized and reported to the Treasury Board, thus ensuring recovery of funds in the event of a QPD failure.  Indirect Benefits: None identified.  <b>B. Verification of accounts</b>  Direct Costs: Immaterial, an additional cost of approximately ½ hour per calendar quarter for local government staff to verify public deposit bank accounts are being properly reported to the Treasury Board via Treasury's Public Funds Search Feature.  Indirect Costs: None.  Direct Benefits: Ensuring their public deposits are being properly collateralized and reported to the Treasury Board, thus ensuring recovery of funds in the event of a QPD failure.  Indirect Benefits: None identified.
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(Monetized)		
(2) Present Monetized Values	Direct & Indirect Costs	Direct & Indirect Benefits
	(a) \$0	(b) unable to monetize or quantify
(3) Other Costs & Benefits (Non-Monetized)	None identified.	
(4) Assistance	Requested input from local partners during Phase II of the Regulations revision process	
(5) Information Sources		

**Impacts on Families**

Use this chart to describe impacts on families. See Part 8 of the ORM Cost Impact Analysis Guidance for additional guidance.

**Table 3: Impact on Families**

(1) Direct & Indirect Costs & Benefits (Monetized)	<b>A. and B.</b> Direct Costs: None.  Indirect Costs: None.  Direct Benefits: None.  Indirect Benefits: Public entities can continue to provide essential services to constituents without having to address the impact of the loss of public funds should a QPD default.	
(2) Present Monetized Values	Direct & Indirect Costs	Direct & Indirect Benefits
	(a) n/a	(b) n/a
(3) Other Costs & Benefits (Non-Monetized)	n/a	



(4) Information Sources	n/a
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**Impacts on Small Businesses**

Use this chart to describe impacts on small businesses. See Part 8 of the ORM Cost Impact Analysis Guidance for additional guidance.

**Table 4: Impact on Small Businesses**

(1) Direct & Indirect Costs & Benefits (Monetized)	<p><b>A. Collateral Changes</b>            Direct Costs: Some Pooled QPDs (20 of 60) would meet the definition of a small business and could possibly be affected by the proposed change; two would have been affected in Table 1a. See <b>Attachment 4</b>.            Indirect Costs: None.            Direct Benefits: None.            Indirect Benefits: None.</p> <p><b>B. Verification of Accounts</b>            Direct Costs: None.            Indirect Costs: None.            Direct Benefits: None.            Indirect Benefits: None.</p>	
(2) Present Monetized Values	Direct & Indirect Costs	Direct & Indirect Benefits
	(a) \$62,973 [included in Table 1a(2)(a) total]; see Attachment 5, page 2	(b) unable to monetize or quantify
(3) Other Costs & Benefits (Non-Monetized)	None identified.	
(4) Alternatives	n/a	
(5) Information Sources	Collateral pledging data from TRS SPDA database; Cost of Funds analysis performed by TRS Cash Management and Investments (CMI) Division; Estimate of programmer’s time and cost/hour from TRS IT Division.	

**Changes to Number of Regulatory Requirements**

*For each individual VAC Chapter amended, repealed, or promulgated by this regulatory action, list (a) the initial requirement count, (b) the count of requirements that this regulatory package is adding, (c) the count of requirements that this regulatory package is reducing, (d) the net change in the number of requirements. This count should be based upon the text as written when this stage was presented for executive branch review. Five rows have been provided, add or delete rows as needed.*

**Table 5: Total Number of Requirements**

	<b>Number of Requirements</b>			
<b>Chapter number</b>	<b>Initial Count</b>	<b>Additions</b>	<b>Subtractions</b>	<b>Net Change</b>
IVAC75-20	91	16	26	-10
<b>TOTAL</b>	91	16	26	-10