

ROBERT SPRAGUE

OHIO TREASURER

Good morning Chairman Ghanbari, Vice Chair Dean, Ranking Member Upchurch, and members of the House Small Business Committee. My name is Zach Prouty, I am the Deputy Chief of Staff for the Ohio Treasurer's Office. I am pleased to give proponent testimony for HB 332, which would create the new Small Defense Business Linked Deposit program.

For brevity's sake, I will keep my comments focused on the mechanics of the linked deposit program itself. As the state's Chief Investment Officer, the Ohio Treasurer and our office actively manage over \$50 billion in public funds. Of that, about \$25 billion is the Treasury itself, which is made up of the accumulated cash balance of every state fund. The time between receipt and disbursement of state revenue is known as the "interim" period where we invest the cash in a litany of fixed income investments. We are permitted by law to receive a below market interest rate on a small portion of the portfolio – these are the linked deposit programs – provided that the foregone interest is passed along to an eligible Ohio business or resident.

Ag-LINK is our oldest linked deposit program and enables us to "buy down" the interest rate on operating loans for Ohio farmers. We have saved Ohio's agricultural community well over \$10 million in interest payments this year alone. Conceptually, this program would operate very similarly to Ag-LINK or to our newest program, Buckeye Business Advantage. An eligible borrower goes to a bank or credit union who then submits an application to TOS. Upon approval, we purchase a certificate of deposit at the financial institution in the exact value and duration as the corresponding business loan, with some caveats. We negotiate a below market rate and the difference between what TOS receives on its investment and what the market rate of that same investment would be passed along to the borrower as an interest rate discount.

For instance, if a business loan for 2 years and \$250,000 would require an 8% interest rate, this program would enable us to purchase a 2-year CD for \$250,000. If the market rate on the CD is 4%, we would give up a predetermined amount of interest, say 3%, and the borrower would receive that benefit. In this arrangement, TOS receives 1% on our investment, and the borrower only pays 5% interest on the loan, with the lending institution being "held harmless". This hypothetical would save the business \$15,000 in interest over the 2-year borrowing.

Thank you for allowing me to testify, I'd be happy to answer any questions.