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Fiscal Note

Drafting Number: LLS 22-0279
Prime Sponsors: Sen. Hansen

Date: January 27, 2022
Bill Status: Senate Finance
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Bill Topic: SECURITY TOKEN OFFERINGS STATE CAPITAL FINANCING

- Summary of Fiscal Impact:
- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill requires a study be conducted on the use of security token offerings for financing state capital projects. It increases state expenditures beginning in FY 2022-23, and potentially decreases state expenditures in future years.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of \$389,285 to the Department of the Treasury.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 22-025

Table with 4 columns: Category, Sub-category, Budget Year FY 2022-23, and Out Year FY 2023-24. Rows include Revenue, Expenditures (General Fund, Total FTE), Transfers, and Other Budget Impacts (General Fund Reserve).

Summary of Legislation

The bill directs the State Treasurer to conduct a study to determine the feasibility of using security token offerings to finance capital construction projects. Security tokens are defined in the bill as digital, liquid contracts made verifiable and secure using blockchain technology, and establish an owner's right to a fraction of a financial asset, such as a stock, bond, or certificate of participation.

The State Treasurer must submit a report on the study's findings to the legislature by March 1, 2023, and post the findings on the Department of the Treasury's website. If the study concludes that using security token offerings is feasible and in the best interest of the state, the State Treasurer is authorized to use them for capital financing.

Regarding capital financing, the bill also broadens the definition of "eligible state facility" to any state-owned asset, including land, and requires that the state public financing policy be modified to include criteria for issuance of any authorized security token offering.

State Expenditures

The bill increases state expenditures in Department of the Treasury by \$389,285 in FY 2022-23 and, conditional on the results of the study, \$177,426 in FY 2023-24 and future years. These amounts are paid from the General Fund. It may also decrease future capital financing expenditures. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under SB 22-025

	FY 2022-23	FY 2023-24
Department of Treasury		
Experts	\$250,000	-
Consultant	\$90,000	-
Legal Services	\$49,285	\$177,426
FTE – Legal Services	0.3 FTE	1.0 FTE
Total Cost	\$389,285	\$177,426
Total FTE	0.3 FTE	1.0 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of the Treasury. The State Treasurer will hire a consultant to facilitate the study and prepare the final report, and unbiased subject matter experts will be contracted to advise the study. Costs are based on contracting costs for similar sized studies.

Legal services. The Department of the Treasury requires 500 hours of legal services to support the study in FY 2022-23. In future years, 1,800 hours may be required to support the new mode of public financing. Legal services are provided by the Department of Law at a rate of \$98.57 per hour.

State budget. If the study determines that security token offerings are feasible and in the best interest of the state, state expenditures for capital financing may decrease starting in FY 2023-24, to the extent that security token offerings are issued instead of higher-cost alternatives. As the long-term financing of capital construction projects is pursued on a case-by-case basis, the fiscal note does not estimate this potential savings.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to the amount of General Fund held in reserve by \$58,393 in FY 2022-23 and \$26,614 in FY 2023-24, which will decrease the amount of General Fund available for other purposes.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2022-23, the bill requires an appropriation of \$389,285 to the Department of the Treasury. Of this amount, \$49,285 is reappropriated to the Department of Law, and 0.3 FTE

State and Local Government Contacts

Law Treasury