

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 6003 Participant Local Government Advisory Council

SPONSOR(S): White

TIED BILLS: **IDEN./SIM. BILLS:** SB 614

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Oversight, Transparency & Administration Subcommittee	12 Y, 0 N	Moore	Harrington
2) Government Accountability Committee	23 Y, 0 N	Moore	Williamson

SUMMARY ANALYSIS

The Local Government Surplus Funds Trust Fund (Florida PRIME) was created in 1977 to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local governments. All units of local government in Florida are permitted to jointly invest their surplus funds in Florida PRIME. The State Board of Administration is responsible for administering Florida PRIME, and independent oversight is provided by the Investment Advisory Council and the Participant Local Government Advisory Council. The six-member Participant Local Government Advisory Council was created by the Legislature in 2008 following an unanticipated liquidity crisis in Florida PRIME for the purpose of regularly reviewing the administration of Florida PRIME and making recommendations regarding such administration to the Trustees. In its 2017 report, the council expressed that it had achieved all of its objectives, and recommended discontinuing the council.

The bill repeals the Participant Local Government Advisory Council.

The bill does not appear to have a fiscal impact on the state or local governments.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background

Florida PRIME

The Local Government Surplus Funds Trust Fund (Florida PRIME) was created in 1977 to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local governments.¹ All units of local government² in Florida are permitted to jointly invest their surplus funds in Florida PRIME. In addition, the State Board of Administration (SBA) may invest any funds of state agencies, state universities or colleges, and any of their direct support organizations in Florida PRIME.³ The SBA is responsible for administering Florida PRIME, and independent oversight is provided by the Investment Advisory Council and the Participant Local Government Advisory Council. As of August 31, 2017, Florida PRIME contains approximately \$8.9 billion in assets and serves 745 participants across the state.⁴

State Board of Administration

The State Board of Administration (SBA) is established by Article IV, s. 4(e) of the State Constitution, and is composed of the Governor as Chair, the Chief Financial Officer as Treasurer, and the Attorney General as Secretary, who are collectively known as the Trustees. The statutory mandate of the SBA is to invest, manage, and safeguard assets of the Florida Retirement System Trust Fund as well as the assets of a variety of other funds, including Florida PRIME.⁵

Investment Advisory Council

The Investment Advisory Council provides independent oversight of the SBA's funds and major investment responsibilities, including Florida PRIME.⁶ The SBA appoints nine members to serve on the council for four-year terms, subject to Senate confirmation.⁷ Members must possess special knowledge, experience, and familiarity with portfolio management, institutional investments, and fiduciary responsibilities.⁸ The council is responsible for reviewing investments made by the staff of the SBA and making recommendations regarding investment policy, strategy, and procedures.⁹ The council meets quarterly to discuss general policies such as risk budgets, alternative investments, and investment protection principles.

2008 Legislation

In 2007, Florida PRIME experienced an unanticipated liquidity crisis when participants withdrew an unprecedented \$14 billion in funds in a single month. The withdrawals were triggered by fears of exposure to so-called "subprime commercial paper." Florida PRIME held a small amount of securities that, while rated top-tier at the time of purchase, subsequently became distressed. Faced with this liquidity crisis, the SBA Trustees implemented a temporary four-day freeze on withdrawals and deposits

¹ Section 218.401, F.S.

² The term "unit of local government" means any governmental entity within the state not part of state government and includes any county, municipality, school district, special district, clerk of circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporation, or any other political subdivision of the state. Section 218.403(11), F.S.

³ Section 215.44(1), F.S.

⁴ *Monthly Summary Report: August 2017*, Florida PRIME, available at https://www.sbafla.com/prime/Portals/8/PRIME_Monthly_%20Summary_%20ReportFINAL083117.pdf.

⁵ *2015-2016 Investment Report*, State Board of Administration, at 3-6, available at <https://www.sbafla.com/fsb/Portals/FSB/Content/Performance/Annual/2015-16%20AIR.pdf?ver=2017-01-03-121048-220>.

⁶ Section 215.444(1), F.S.

⁷ Section 215.444(1)-(2), F.S.

⁸ Section 215.444(2), F.S.

⁹ Section 215.444(1), F.S.

and created a separate second fund, the Fund B Surplus Funds Trust Fund, to hold these distressed securities.

In 2008, the Legislature passed a law to address the repayment of principal to Florida PRIME participants¹⁰ and statutorily created the Fund B Surplus Funds Trust Fund (Fund B). Fund B's goal was to maximize the present value of original principal balances.

Participant Local Government Advisory Council

As part of the 2008 legislation, the Legislature created the Participant Local Government Advisory Council for the purpose of regularly reviewing the administration of Florida PRIME and making recommendations regarding such administration to the SBA Trustees. The six members of the council, who serve four-year terms, must be appointed by the SBA and are subject to confirmation by the Senate. Members must possess special knowledge, experience, and familiarity obtained through active, long-standing, and material participation in the dealings of Florida PRIME.¹¹ The council is required to prepare and submit a biennial report to the SBA, the Trustees, the Investment Advisory Council, and the Joint Legislative Auditing Committee that describes the council's activities and recommendations.¹²

In its 2017 report, the council expressed that it had achieved all of its objectives since its creation, including providing guidance and oversight for all of Florida PRIME's operations and investment activities. Specifically, Florida PRIME's investment portfolio had increased by 86 percent, representing \$4.9 billion in net-asset-value growth. In addition, in September 2015, the legacy Fund B original principal amount was returned in full to fund participants alongside a significant proportion of the November 2007 interest earnings. For these reasons, the report recommended discontinuing the council while simultaneously maintaining all current risk controls, investment policies, and participant disclosures.¹³

Effect of Proposed Changes

The bill repeals the Participant Local Government Advisory Council. It also makes conforming changes.

B. SECTION DIRECTORY:

Section 1. amends s. 218.409, F.S., abolishing the Participant Local Government Advisory Council.

Section 2. amends s. 218.421, F.S., conforming provisions to changes made by the bill.

Section 3. amends s. 218.422, F.S., conforming provisions to changes made by the bill.

Section 4. provides an effective date of July 1, 2018.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The bill does not appear to have an impact on state government revenues.

¹⁰ Section 218.421, F.S.

¹¹ Section 218.409(10)(a), F.S.

¹² Section 218.409(10)(b), F.S.

¹³ *Biennial Report 2017*, Participant Local Government Advisory Council, at 19, available at https://www.sbafla.com/prime/Portals/8/PLGAC/PLGAC_BiennialReport2017.pdf.

2. Expenditures:

The bill does not appear to have an impact on state government expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The bill does not appear to have an impact on local government revenues.

2. Expenditures:

The bill does not appear to have an impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. The bill does not appear to require counties or municipalities to spend funds or take action requiring the expenditures of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The bill does not appear to create a need for rulemaking or rulemaking authority.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

None.