

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

Date: March 17, 1998 Revised: _____

Subject: State Board of Administration

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	<u>Lombardi</u>	<u>Wilson</u>	<u>GO</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>WM</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The committee substitute clarifies and expands the existing investment authority of the State Board of Administration [SBA]. The bill also proposes to allow the Board to manage the investment portfolio of the Division of Blind Services.

The committee substitute will authorize the Office of Program Policy Analysis and Government Accountability to conduct performance audits regarding the management of the SBA every 2 years.

Rule authorizing issues originally incorporated in the bill have been stripped out in this committee substitute and transferred to Senate Bill 1332.

This act will take effect upon becoming law.

This committee substitute amends sections 215.44, 215.455, 215.515, and 215.47; and creates section 413.0115, Florida Statutes.

II. Present Situation:

The origin of the SBA can be traced to an act of the 1929 Florida Legislature, Chapter 14486, but the circumstances resulting in this action extend back to 1889. Beginning in that year several counties began issuing road and bridge bonds backed by the pledge of *ad valorem* taxes. The subsequent collapse of the land market in the 1920s precipitated defaults on many of these bonds since underlying land values plummeted and revenues sufficient to pay the debt disappeared. The SBA was created to provide a consolidated funding mechanism and a statewide gasoline tax of five cents per gallon was imposed [the first gas tax] to assure repayment. The potential for these

pledged revenues to disappear prompted the 1941 Legislature to elevate the SBA to constitutional status. It also was to administer a supplemental two cents per gallon levy upon gasoline [the second gas tax] in addition to any other powers conferred upon it by law. By 1955 SBA had begun to evolve as a central investment service for the many independent commissions and agencies which came to characterize Florida government prior to the 1968 governmental reorganization.

The SBA may popularly be referred to as an “off-budget” agency. The SBA is not directly funded through the General Appropriations Act; instead the funds it administers reflect payments made by agencies’ budgets for participation in the designated trust funds which are then transferred to the SBA for investment. SBA funds its own operations through imposition of a fee on these funds, currently two basis points, or two hundredths of one percent. The agency has its investment policies established by statute [Chapter 215] with individual decisions on investment portfolios directed through an Investment Advisory Council and executed through a variety of internal and external fund managers. The Executive Director of the SBA reports to the Governor, Comptroller, and State Treasurer in their collegial capacities.

III. Effect of Proposed Changes:

Section 1. Section 215.44(6), F.S., is amended to authorize the Office of Program Policy Analysis and Government Accountability to conduct performance audits regarding the management of the SBA every 2 years.

Section 2. Section 215.455, F.S., is repealed and consolidates under s. 215.47(16), F.S., Section 4 of the proposed committee substitute, the board’s existing authority to lend securities and investments to securities dealers if properly collateralized.

Section 3. In s. 215.515(2), F.S., the SBA is granted the authority to make reasonable charges for all investment services performed for any agency, the judicial branch, or any other funds identified in ss. 215.44-215.53, F.S. Investment charges levied by the SBA are paid from earnings on investment and proportionally assessed as to the service rendered to each agency, the judicial branch, and other funds and as to the total service rendered for all agencies, the judicial branch and other funds.

The charges established or revised under this section require review by the Department of Management Services. The Department’s review and any accompanying recommendations may be considered by the SBA prior to the adoption of any changes or revisions to existing investment charge policy. The proposed committee substitute will remove the Department’s authority to review and recommend changes or revisions to the SBA’s investment charge policy.

Section 4: Section 215.47(1)(I)-(k), F.S.¹, is consolidated and moved to s. 215.47(2)(d), F.S. The consequences of the language move will limit investment authority in these securities to no more than 25% of the total asset value of any one investment fund. However, new language is inserted in this section to read “Notes, bonds, and other obligations of agencies of the United States” which are investment vehicles with no limitation with regard to investment authority. Typically these investments are collateralized by full faith and credit of the issuing federal entity.

Section 215.47(1)(l), F.S., is added to provide clarifying language and will authorize the SBA to invest in negotiable certificates of deposit issued by domestic or foreign financial institutions denominated in United States dollars with no limitation.

Section 215.47(2)(c), F.S., is amended, and consolidated under the term “supranational agencies” and moved to s. 215.47(2)(j), F.S. The International Bank for Reconstruction and Development, the Inter American Development Bank, the African Development Bank, the International Finance Corporation, the Asian Development Bank, the European Investment Bank, or the Nordic Investment Bank are all examples of supranational agencies.

Section 215.47(2)(d), F.S., represents the language removed from s. 215.47(1)(I)-(k), F.S., which was amended and consolidated under this section to reflect the current composition of the institutional mortgage market. Collateralized residential mortgages of any significant size will be pooled for real property located in this state or for mortgages originated by but not limited to national banks or federal savings and loan associations for real properties in other geographic areas.

Section 215.47(2)(j), F.S., is amended, and consolidates s. 215.47(2)(c), F.S., under the term “supranational agencies.” “Supranational agencies” are organizations formed by sovereign nations through international treaties for the purpose of promoting economic development of the member countries. Ownership of the institution lies with the member countries as set out in the respective agreements and/or charters.

Section 215.47(3)(c), F.S., is amended to increase the amount of common stock the SBA is authorized to manage in house from 50 percent to 75 percent. The SBA currently has no formal plan to pursue this option; however, as holdings in the equity portfolio continue to increase it may be financially prudent to manage more holdings internally. This section is also amended to remove redundant language which appears in s. 215.47(10), F.S.

Section 215.47(5), F.S., is amended to increase the amount of foreign investment the SBA is authorized to hold in any one fund from 10% to 20%. These investments include foreign

¹Currently provides a listing of authorized investment securities in which moneys available for investing may be used by the SBA. The list currently includes: obligations of the Federal Farm Credit Banks and obligations of the Federal Home Loan Bank and its district banks; obligations of the Federal Home Loan Mortgage Corporation, including participation certificates; and obligations guaranteed by the Government National Mortgage Association. All of the existing investment vehicles in s. 215.47, F.S., are either backed by; full faith and credit of the issuing federal entity, or pledged assets.

corporate obligations and securities of any kind or a foreign commercial entity having its principal office located in any country other than the United States.

Section 215.47(16), F.S., adopts the repealed language in s. 215.445, F.S., and reorganizes under this section with regard to securities and investments lent to securities dealers.

Section 5. Section 413.0115, F.S., is created authorizing the SBA to manage the Division of Blind Services investment portfolio and to direct the director of the division to make available and transfer such funds to the SBA.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The SBA currently ranks 5th in asset size among the top 200 U.S. pension funds and 4th among top public funds. The top 200 largest U.S. pension funds administer both defined benefit plans and defined contribution plans. Approximately 82% of all retirement plans administered by the top 200 largest U.S. pension funds are defined benefit plans. The percentage of defined benefit plans administered among the top 200 largest U.S. pension funds has remained relatively stable over the past two years. A list of the top 10 largest U.S. pension funds is depicted below:

The Top 10 Largest U.S. Pension Funds		
Ranking	Fund Name	Assets in \$ millions
1	California Public Employees	\$127,656
2	New York State Common	95,802
3	General Motors	90,600
4	California State Teachers	78,900
5	Florida State Board	71,940
6	New York State Teachers	68,738
7	Texas Teachers	64,221
8	New Jersey Division	59,933
9	General Electric	56,915
10	Federal Retirement Thrift	55,491

Source: Pensions & Investments, "Top Public Funds", January 26, 1998

In an article published by *Pensions & Investments* dated January 26, 1998, foreign holdings by defined benefit plans of the top 200 largest U.S. pension funds had increased 34.7% over a two year period, September 30, 1994, to September 30, 1996. Investment analysts believe that the growth rate in foreign equities for these funds would have been much greater if their target international allocations were not under statutory constraints or for whatever other reasons that might matter. In 1997 a few funds including the California Public Employees Retirement System (CalPERS), increased fund targets for foreign stocks and international bonds. Below is a listed the top 200 largest U.S. defined benefit pension funds with internationally invested assets expressed as a percent of total plan assets.

Foreign Asset Holdings of 10 Largest U.S. Pension Systems			
Ranking	Fund Name	Asset in \$ millions	% of total plan assets
1	California Employees	\$29,000	22.71%
2	California Teachers	16,240	20.58%

Foreign Asset Holdings of 10 Largest U.S. Pension Systems

Ranking	Fund Name	Asset in \$ millions	% of total plan assets
3	IBM	11,322	21.31%
4	United Nations	11,108	58.52%
5	New Jersey	10,593	17.67%
6	Ohio Teachers	8,354	18.96%
7	New York State Teachers	7,868	11.45%
8	New York Common	7,782	8.12%
9	Wisconsin Board	7,455	14.89%
14	Florida State Board	5,896	8.20%

Source: Pensions & Investments, "Top Public Funds", January 26, 1998

Rule authorizing issues originally incorporated in the bill have been stripped out in this committee substitute and transferred to Senate Bill 1332.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
