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DATE: March 8, 2001

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
FISCAL POLICY & RESOURCES
ANALYSIS**

BILL #: HB 333

RELATING TO: Cultural Endowment Program

SPONSOR(S): Representative(s) Kosmas

TIED BILL(S): None

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) FISCAL POLICY & RESOURCES YEAS 10 NAYS 0
 - (2) TOURISM
 - (3) COUNCIL FOR COMPETITIVE COMMERCE
 - (4)
 - (5)
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I. SUMMARY:

This bill amends s. 265.606, F.S., to permit a greater selection of financial instruments for the investment of cultural endowment funds, such as stocks and mutual funds.

Sections 265.601 through 265.607, F.S., provide for the creation and funding of the Cultural Endowment Program under the Division of Cultural Affairs in the Department of State. The purpose of those sections is to create an endowment matching funds program which will provide operating resources to participating cultural organizations.

Section 265.606, F.S., provides state matching funds for the support of cultural endowment programs fulfilling the eligibility criteria established in ss. 265.601 through 265.607, F.S. The section authorizes the Secretary of State to provide financial assistance to programs if approved by the Florida Arts Council. When an organization raises \$360,000 in eligible contributions, the State of Florida matches the local contributions with a state matching share in the amount of \$240,000. The combined state match and local contributions creates the required endowment fund of \$600,000 for the organization. The funds in the endowment fund are required to be invested, and the interest which is generated on the investments is required to be used for general operating support. Approved organizations must have a trustee relationship for the preservation of the funds. At all times, each individual endowment in this program must maintain a minimum market value of at least \$600,000. In the event of organizational dissolution, bankruptcy, or willful expenditure of principal amounts, the state share of \$240,000 shall revert to the State General Revenue Fund. Under certain circumstances, all revenue earned from the state share is also required to be returned. The investment objective of the trustee is the preservation of capital through investment in fixed income instruments, such as Treasury Bills, Certificates of Deposit (CDs) and bonds.

The current law provides assurance that the state share is protected from loss regardless of the investment vehicle chosen.

According to the Department of State, the first year start-up costs would be minimal for staff time, administrative weekly costs, publication of program guidelines, and notification of grantees. The total costs are estimated at no more than \$1,000.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Sections 265.601 through 265.607, F.S., provide for the creation and funding of the Cultural Endowment Program under the Division of Cultural Affairs in the Department of State. The purpose of those sections is to create an endowment matching funds program which will provide operating resources to participating cultural organizations.

Section 265.606, F.S., provides state matching funds for the support of cultural endowment programs fulfilling the eligibility criteria established in ss. 265.601 through 265.607, F.S. The section authorizes the Secretary of State to provide financial assistance to programs if approved by the Florida Arts Council. When an organization raises \$360,000 in eligible contributions, the State of Florida matches the local contributions with a state matching share in the amount of \$240,000. The combined state match and local contributions creates the required endowment fund of \$600,000 for the organization. The funds in the endowment fund are required to be invested, and the interest which is generated on the investments is required to be used for general operating support. Approved organizations must have a trustee relationship for the preservation of the funds. At all times, each individual endowment in this program must maintain a minimum market value of at least \$600,000. In the event of organizational dissolution, bankruptcy, or willful expenditure of principal amounts, the state share of \$240,000 shall revert to the state General Revenue Fund. Under certain circumstances, all revenue earned from the state share is also required to be returned. The investment objective of the trustee is the preservation of capital through investment in fixed income instruments, such as Treasury Bills, Certificates of Deposit (CDs) and bonds.

C. EFFECT OF PROPOSED CHANGES:

House Bill 333 amends s. 265.606, F.S., to permit a greater selection of financial instruments for the investment of cultural endowment funds authorized under the Cultural Endowment Act. Current law requires that the trustees preserve the principal amount of the endowment (\$600,000) while maximizing current income through use of investment-quality fixed income instruments. The change in the law permits the use of investment-quality financial instruments, such as stocks and mutual funds.

The qualifying term "investment quality" represents a set of guidelines to be exercised in selecting among various financial instruments. It represents a combination of perspectives regarding investment goals, such as risk factor and investment objectives. An investment quality financial instrument would be of a conservative risk rather than aggressive risk. These financial instruments offer higher returns than fixed income instruments, while subjecting the investor to some risk. The investment quality language remains in the section to ensure that the endowment is not subjected to inappropriate levels of risk.

The change in the investment requirement is to take effect July 1, 2001.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

According to the Department of State, the first year start-up costs would be minimal for staff time, administrative weekly costs, publication of program guidelines, and notification of grantees. The total costs are estimated at no more than \$1,000. The costs to incorporate the changes into the Division of Cultural Affairs= programs are minimal with yearly distribution of program guidelines estimated at no more than \$350. Reprinting guidelines every 2 to 3 years are estimated to be no more than \$500.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Diversification of investment is an asset allocation strategy that is the best accepted means of managing risk. In recovering markets over reliance upon fixed income investments produces significant under performance, as has been the case during the last ten years. Fixed income securities behave inversely to the market: as interest rates rise, the underlying value of the instrument declines; as rates fall, the yield declines while the underlying value rises. The buying and selling of fixed income securities is intensely competitive with fees

measured in only a few fractions, basis points, or a percent. Other investment options are priced according to the market.

D. FISCAL COMMENTS:

The costs to the state are minimal ranging from a high of \$1,000 the first year to an annual continuation cost of \$350 with reprinting costs every 2 to 3 years of \$500. The current law provides assurance that the state share of the endowment is protected from loss regardless of the investment vehicle chosen.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require counties or municipalities to expend funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority of counties or municipalities to raise revenue.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The bill does not reduce the percentage of state tax shared with counties and municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON FISCAL POLICY & RESOURCES:

Prepared by:

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