

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Committee on Appropriations

BILL: CS/SB 614

INTRODUCER: Community Affairs Committee and Senator Montford and others

SUBJECT: Participant Local Government Advisory Council

DATE: February 14, 2018

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Cochran</u>	<u>Yeatman</u>	<u>CA</u>	Fav/CS
2.	<u>Davis/McVaney</u>	<u>Betta</u>	<u>AGG</u>	Recommend: Favorable
3.	<u>Davis/McVaney</u>	<u>Hansen</u>	<u>AP</u>	Favorable

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Technical Changes

I. Summary:

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 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 (IAC) and the Participant Local Government Advisory Council (PLGAC). 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 PLGAC expressed that it had achieved all of its objectives, and recommended discontinuing the PLGAC.

CS/SB 614 abolishes the Participant Local Government Advisory Council and makes conforming changes due to the abolishment.

The State Board of Administration (SBA) anticipates a reduction in expenditures of approximately \$25,000 associated with the abolishment of the PLGAC.

II. Present Situation:

The State Board of Administration

The State Board of Administration (“SBA”) is established by article IV, section 4 of the state Constitution.¹ The SBA is composed of the Governor as chair, the chief financial officer, and the attorney general (known collectively as the Trustees).² 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.³ The SBA’s current assets under management, as of October 26, 2017, total \$195,681,813,624.⁴

The Investment Advisory Council (“IAC”) provides independent oversight of the SBA’s funds and major investment responsibilities, including Florida PRIME.⁵ The SBA appoints nine members to serve on the council for four-year terms.⁶ Those appointed must possess special knowledge, experience, and familiarity with portfolio management, institutional investments, and fiduciary responsibilities.⁷ The IAC is responsible for reviewing investments made by SBA, and makes recommendations regarding investment policy, strategy, and procedures. The IAC meets quarterly to discuss general policies like risk budgets, alternative investments, and investment protection principles.⁸

Florida PRIME and Fund B Surplus Funds Trust Fund

Florida PRIME was created in 1977 to promote the maximization of net interest earnings on invested surplus funds of local governments.⁹ All units of local government in Florida are permitted to invest their surplus funds in Florida PRIME.¹⁰ The SBA may invest any funds of state agencies, state universities or colleges, and any of their direct support organizations in Florida PRIME.¹¹ The SBA is responsible for administering Florida PRIME,¹² and the IAC and the PLGAC provide independent oversight.¹³ As of August 31, 2017, Florida PRIME contains approximately \$8.9 billion in assets and serves 745 participants across the state.¹⁴

In 2007, Florida PRIME experienced an unanticipated liquidity crisis when participants withdrew an unprecedented \$14 billion in funds in a single month.¹⁵ The withdrawals were triggered by fears of exposure to “subprime commercial paper.”¹⁶ Florida PRIME held a small

¹ FLA. CONST. art. IV, s. 4(e).

² *Id.*

³ Section 215.44(1), F.S.

⁴ State Board of Administration, *Senate Bill 614 Analysis* (October 27, 2017).

⁵ Section 215.444, F.S.

⁶ *Id.*

⁷ *Id.*

⁸ State Board of Administration, *Senate Bill 614 Analysis* (October 27, 2017).

⁹ Section 218.405, F.S.

¹⁰ State Board of Administration, *Senate Bill 614 Analysis* (October 27, 2017).

¹¹ *Id.*

¹² Section 218.405, F.S.

¹³ Section 218.409, F.S.

¹⁴ State Board of Administration, *Senate Bill 614 Analysis* (October 27, 2017).

¹⁵ *Id.*

¹⁶ *Id.*

amount of securities that, while rated top-tier at the time of purchase, subsequently became distressed. As a result, the SBA Trustees implemented a temporary four-day freeze on withdrawals and deposits and created a separate second fund, the Fund B Surplus Funds Trust Fund (“Fund B”), to hold these distressed securities.¹⁷

In 2008, the Legislature passed a law to address the repayment of principal to Florida PRIME participants and statutorily created Fund B to maximize the present value of original principal balances.¹⁸

Participant Local Government Agency Council

In 2008, the Legislature also created the PLGAC.¹⁹ The six-member council had the purposes of regularly reviewing the administration of Florida PRIME and making recommendations regarding such administration to the SBA Trustees.²⁰ The members are appointed by the SBA for four-year terms and must be confirmed by the Senate.²¹ Members must possess special knowledge, experience, and familiarity obtained through active, long-standing, and material participation in the dealings of the trust fund.²² The PLGAC must prepare and submit a biennial report to the SBA, the SBA Trustees, the IAC, and the Joint Legislative Auditing Committee that describes the council’s activities and recommendations.²³

In its 2017 report, the PLGAC expressed that it had achieved all of its objectives, including providing guidance and oversight for all of Florida PRIME’s operations and investment activities.²⁴ Specifically, Florida PRIME’s investment portfolio had increased by 86 percent, representing \$4.9 billion in net-asset-value growth.²⁵ 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.²⁶ For these reasons, the report recommended discontinuing the PLGAC while simultaneously maintaining all current risk controls, investment policies, and participant disclosures.²⁷

III. Effect of Proposed Changes:

The bill abolishes the PLGAC from the statutes governing Florida PRIME and Fund B, and makes conforming changes because of the abolishment. The IAC will continue to provide independent oversight of both funds.

¹⁷ *Id.*

¹⁸ Chapter 2008-93, Laws of Fla. (creating 218.417, F.S., effective May 28, 2008.)

¹⁹ Chapter 2008-59, Laws of Fla. (creating 218.409(10), F.S., effective May 28, 2008).

²⁰ Section 218.409 (10), F.S.

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ Participant Local Government Advisory Council, *Biennial Report 2017*, at page 19, https://www.sbafla.com/prime/Portals/8/PLGAC/PLGAC_BiennialReport2017.pdf?ver=2017-03-14-121204-983 (last visited November 20, 2017).

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

The bill takes effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

The SBA reports there will be a reduction of expenses by approximately \$25,000 due to the abolishment of the PLGAC.

VI. Technical Deficiencies:

None.

VII. Related Issues:

SB 1344, reviser's bill, repeals ss. 218.417, 218.418, 218.421, and 218.422, F.S.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 218.409, 218.421, and 218.422.

IX. Additional Information:

- A. **Committee Substitute – Statement of Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Community Affairs on January 16, 2018:
Amends the effective date of the bill at the recommendation of the SBA.

- B. **Amendments:**

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
