HOUSE OF REPRESENTATIVES STAFF FINAL BILL ANALYSIS

BILL #: HB 5011 PCB APC 21-06 Termination of the Lawton Chiles Endowment Fund
SPONSOR(S): Appropriations Committee, Trumbull
TIED BILLS: **IDEN./SIM. BILLS:**

FINAL HOUSE FLOOR ACTION: 80 **Y's** 36 **N's** **GOVERNOR'S ACTION:** Approved

SUMMARY ANALYSIS

HB 5011 passed the House on April 30, 2021, as amended by the conference committee, and subsequently passed the Senate on April 30, 2021.

The Lawton Chiles Endowment Fund (LCEF) was established in 1999 to receive a portion of the nonrecurring receipts from the state's settlement agreement with tobacco companies. The LCEF is administered by the State Board of Administration (SBA) and has an estimated market value of approximately $958 million. The state budget reserves are comprised of the LCEF, the Budget Stabilization Fund (BSF), and unallocated general revenue (GR). During previous emergencies and economic downturns, the LCEF has been used to offset shortfalls in GR and to provide for emergency spending. The State Constitution requires the BSF to be repaid and maintained at specified thresholds, if accessed, unlike the LCEF and unallocated GR.

The bill eliminates the LCEF and redirects the funds to the BSF. The bill directs the SBA to liquidate the assets in the LCEF by June 30, 2022. The bill will increase the reserves held in the BSF.

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

The bill was approved by the Governor on June 2, 2021, ch. 2021-43, L.O.F., and will become effective on July 1, 2021.

I. SUBSTANTIVE INFORMATION

A. EFFECT OF CHANGES:

Background

Lawton Chiles Endowment Fund
The Lawton Chiles Endowment Fund (LCEF)[1] was established in 1999 to receive a portion of the nonrecurring receipts from the state's settlement agreement with tobacco companies. Continuing payments from the settlement agreement are deposited in the Tobacco Settlement Trust Fund each year for appropriation in support of health care programs. The LCEF was created to provide a perpetual source of enhanced funding for state health care programs and biomedical research activities.

The LCEF is administered by the State Board of Administration (SBA) and initially received $1.7 billion of settlement receipts. There have been several withdraws from the LCEF since its creation. In Fiscal Year (FY) 2008-2009, $354.4 million was transferred from the LCEF to support appropriations for health care programs pursuant to the General Appropriations Act.[2] No provisions were made to repay those funds. In FY 2008-2009, $700 million was transferred from the LCEF to the General Revenue (GR) Fund to offset a projected GR shortfall.[3] This transfer was approved during a special session to reduce the state budget and specified intent to repay the funds; however, no repayments have been made. In FY 2012-2013, $350 million was transferred from the LCEF to the GR Fund. This transfer also expressed an intent to repay and included a structured repayment schedule that required the full amount to be repaid by July 1, 2021.[4] So far, only one repayment of $45.3 million has been made in FY 2013-2014.

The estimated market value of the LCEF was $958.4 million as of December 31, 2020.[5]

Budget Stabilization Fund
The Budget Stabilization Fund (BSF)[6] was created in 1992 by a constitutional amendment proposed by the Taxation and Budget Reform Commission. The BSF must retain an amount equal to at least 5 percent, but not to exceed 10 percent, of the last completed fiscal year's net revenue collections for the GR Fund. Funds can only be withdrawn from the BSF to cover revenue shortfalls of the GR Fund or to provide funding for an emergency as defined by general law; however, if such funds are withdrawn, the State Constitution requires the fund to be restored.

In FY 2004-2005 and 2005-2006, a total of $13.2 million was transferred via budget amendments from the BSF to the State Risk Management Trust Fund for emergencies related to hurricanes. In FY 2008-2009, the Legislature provided authority in the GAA for the Legislative Budget Commission to approve the transfer of funds from the BSF to the GR Fund to offset projected GR deficits;[7] ultimately, over $1 billion was transferred to GR from the BSF. The Legislature repaid the BSF by FY 2015-2016. In addition, since FY 2016-2017, transfers have been made each year from the GR Fund to the BSF to maintain the 5 percent required minimum balance. Currently, the BSF is approximately $1.6 billion.

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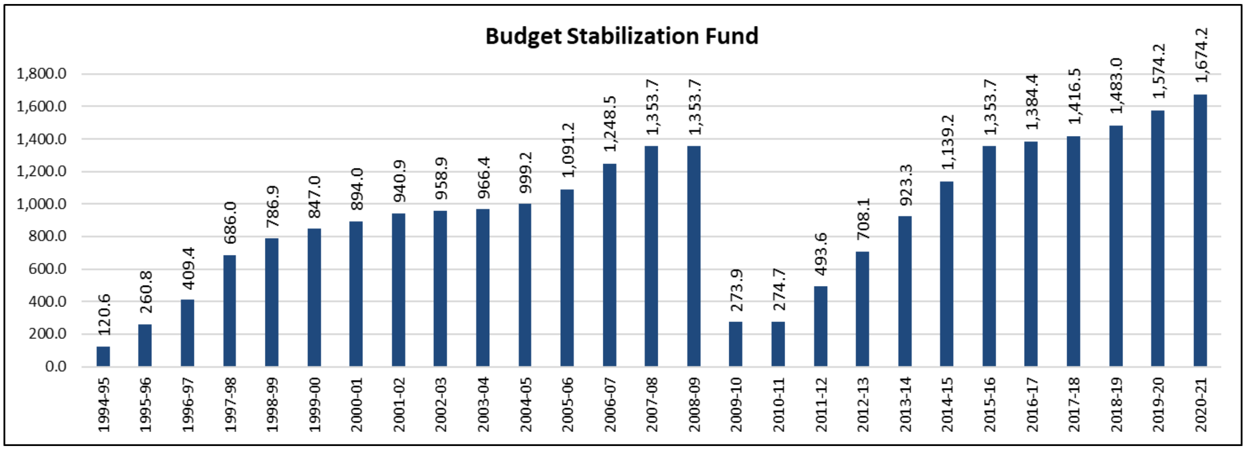
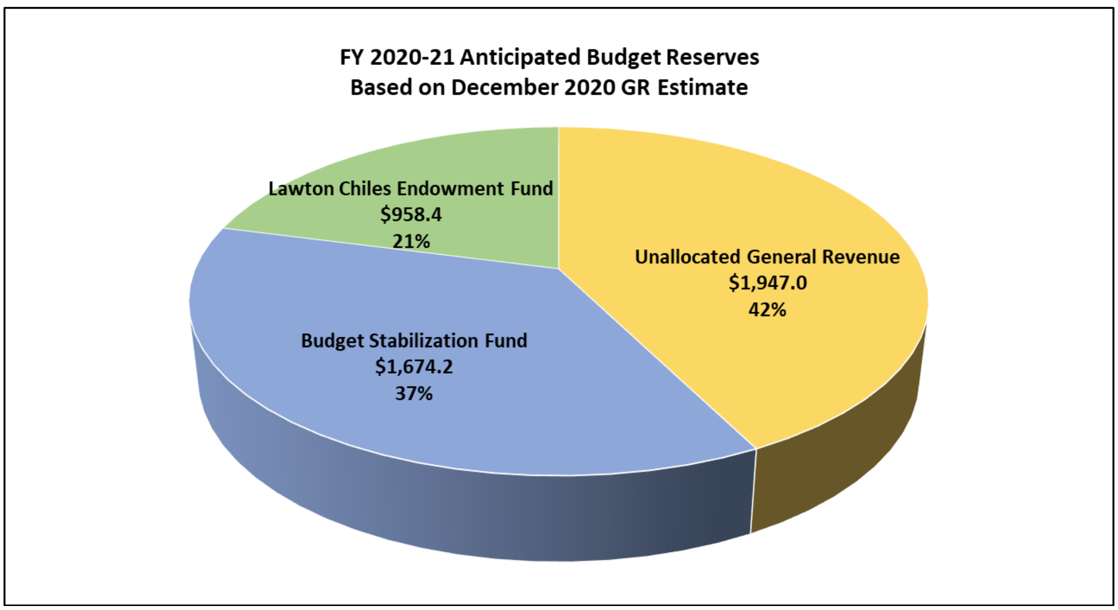
[1] Section 215.5601, F.S.
[2] Section 37, ch. 2008-152, L.O.F.
[3] Section 52, ch. 2009-1, L.O.F.
[4] Section 409.915(8), F.S.
[5] State Board of Administration Performance Report to the Trustees. Performance through December 31, 2020. Available at https://www.sbafla.com/fsb/PerformanceReports/MonthlyReportstoTrustees/2020Reports.aspx.
[6] Article III, s. 19(4)(g), FLA. CONST. *See also* ss. 215.32 and 216.222, F.S.
[7] Section 77, ch. 2008-152, L.O.F.



Budget Reserves

The BSF, the LCEF, and unallocated GR are generally considered to compose the state's reserves. The constitutionally-required BSF is the state's structural reserve, while unallocated GR provides budget flexibility. Operationally, the state has also used the LCEF as part of its reserve system. As discussed previously, the LCEF was a key factor for ensuring balanced budgets during the Great Recession.

For FY 2020-2021, the total anticipated reserves across the three sources are approximately $4.6 billion. The anticipated reserves reflect the unallocated funds that will remain on June 30, assuming revenues meet the estimates and all authorized expenditures are made before the end of the year.

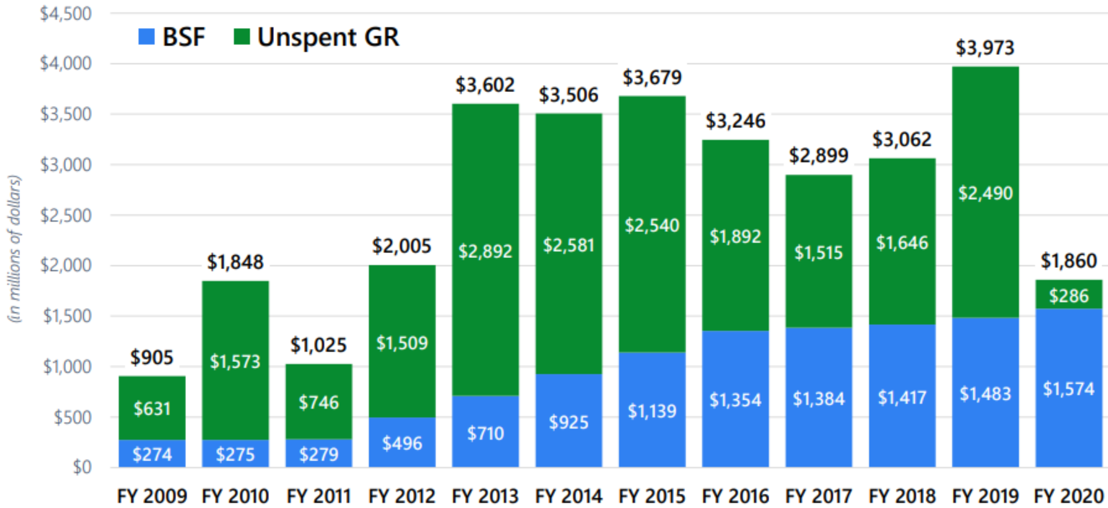


Florida's Credit Rating

The state's credit rating is a rating agency's assessment of the willingness and ability to timely repay debt obligations. Credit ratings play an integral role in the municipal bond market and are one factor that affects the state's borrowing costs. Among other factors, rating agencies evaluate the state's ability to meet revenue projections and maintain reserves and structural budget balance. Florida has an AAA or Aaa rating from Moody's, S&P, and Fitch.

Although at the state level the LCEF is considered part of the state's reserves, the rating agencies focus on general fund reserves, which include only the BSF and unallocated GR.

Florida General Fund Reserves



The Covid-19 pandemic caused a decline in projected revenues and an increase in emergency spending. As shown in the chart above, unallocated GR was used to offset revenue shortfalls and to provide for Covid-19 spending, which reduced general fund reserves. The BSF, however, has not been used in response to Covid-19. Recent rating reports have indicated the importance of rebuilding general fund reserves to maintain Florida's high credit ratings and stable financial outlook.

Effect of the Bill

The bill eliminates the LCEF and redirects the funds to the BSF. The bill directs the SBA to liquidate the assets in the LCEF by June 30, 2022. The bill will increase the reserves held in the BSF.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

   None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None.

2. Expenditures:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

Current law provides for the transfer of funds from the LCEF to two state trust funds to support health care programs and biomedical research activities related to tobacco use - the Tobacco Settlement Trust Fund and the Biomedical Trust Fund. For FY 2021-2022, the estimated transfers total approximately $9 million. The General Appropriations Act for FY 2021-2022 includes recurring fund shifts from the Tobacco Settlement Trust Fund to the General Revenue Fund to account for the loss of the annual transfers from the LCEF.