

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 Rules

BILL: CS/SB 1674

INTRODUCER: Community Affairs Committee; Senator Calatayud and others

SUBJECT: Unrated Bonds

DATE: April 18, 2025

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Shuler	Fleming	CA	Fav/CS
2.	Shuler	Siples	FP	Favorable
3.	Shuler	Yeatman	RC	Pre-meeting

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SB 1674 prohibits a local government's investment policy from requiring a minimum bond rating for investments in rated or unrated bonds issued by the Israeli government.

The bill takes effect on July 1, 2025.

II. Present Situation:

Local Government Investment Policies

Known as the “Investment of Local Government Surplus Funds Act,”¹ part IV of chapter 218, F.S., (ss. 218.40-218.415, F.S.) provides the framework by which local governments may maximize “net interest earnings on invested surplus funds of local units of government, based on the principles of investor protection, mandated transparency, and proper governance, with the goal of reducing the need for imposing additional taxes.”²

Each unit of local government³ in the state may invest any surplus funds either according to a written investment policy adopted by the governing body or principal officer of the local

¹ Section 218.40, F.S.

² Section 218.401, F.S.

³ A “unit of local government” is defined under the act as any governmental entity within the state that is not part of state government and includes, but is not limited to, the following and the officers of: any county, municipality, school district,

government, or they may choose to invest according to alternative guidelines that authorize a more limited range of investment types.⁴

If a local government has not adopted a written investment policy, its ability to invest surplus funds in their control or possession is limited to:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.
- Money market funds registered with the Securities and Exchange Commission with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits, such as certificates of deposit, or savings accounts in qualified public depositories.
- Direct obligations of the United States Treasury.⁵

If the unit of local government has chosen to invest pursuant to a written investment policy, the investment policy applies to funds under the control of the unit of local government in excess of those required to meet current expenses, but does not apply to any pension funds of the local government, including any firefighter or municipal police pensions, or to any funds related to debt issuance where there are other policies or indentures governing such funds.⁶

The local government's written investment policy must be structured to place the highest priority on the safety of principal and liquidity of funds, with maximizing investment returns as a secondary consideration.⁷ The investment portfolio must be structured so that the local government has sufficient liquidity to pay obligations as they come due.⁸ The policy must describe investment objectives, specify performance measures appropriate for the nature and size of the funds held by the local government, and describe the level of prudence and ethical standards followed by the local government in investing.⁹ The policy must also include guidelines for investments, limits on security issues, issuers, and maturities the funds will be deposited in, and provide for appropriate diversification.¹⁰

A local government's written investment policy must include a list of investments authorized by the governing body of the unit of local government selected from a list of investments provided in statute.¹¹ Any investments not listed in the investment policy are expressly prohibited.¹²

Section 218.415(16), F.S. lists the following authorized investments:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.¹³

special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporations, or any other political subdivision of the state. S. 218.403(11), F.S.

⁴ Section 218.415, F.S.

⁵ Section 218.415(17), F.S.

⁶ Section 218.415(1), F.S.

⁷ Section 218.415, F.S.

⁸ Section 218.415(6), F.S.

⁹ Sections 218.415(2)-(4), F.S.

¹⁰ Sections 218.415(7)-(8), F.S.

¹¹ Section 218.415(5), F.S.

¹² Section 218.415(5), F.S.

¹³ The Local Government Surplus Funds Trust Fund, also known as Florida PRIME, is administered by the State Board of Administration and currently holds a balance of over \$34 billion dollars on behalf of 819 participating local governments.

- Money market funds registered with the Securities and Exchange Commission with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits, such as certificates of deposit, or savings accounts in qualified public depositories.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.
- Securities or other interests in any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940 that is limited to investing in obligations of the United States Government and to repurchase agreements fully collateralized by such United States Government obligations.
- Other investments authorized by law or by ordinance for a county or a municipality.
- Other investments authorized by law or by resolution for a school district or a special district.

If the local government's investment policy authorizes investments in derivative products or in reverse repurchase agreements or other forms of leverage, the policy must require the officials responsible for making investment decisions to have sufficient understanding and expertise in the use of such products.¹⁴ Reverse repurchase agreements or other forms of leverage may only be used where the proceeds are intended to provide liquidity to the local government.¹⁵

Each local government's investment policy must provide for a system of internal controls and operational procedures to prevent the loss of funds by fraud, employee error, misrepresentation by third parties, or imprudent actions by employees.¹⁶ The system of internal controls must provide for the review of such controls by independent auditors as part of any financial audit required of the local government.¹⁷ The policy must also provide for reporting on at least an annual basis that includes the local government's investment portfolio, the book value of the assets in the portfolio, any income earned by the portfolio, and the market value as of the date of the report.¹⁸

State Board of Administration, *Florida PRIME Monthly Summary Report*, (Jan. 31, 2025), available at https://prime.sbafla.com/media/0131slpj/monthly_summary_report_01_31_25.pdf (last visited Mar. 26, 2025). Additionally, there are currently two intragovernmental investment pools operating in the state, the Florida Local Government Investment Trust, jointly created by the Florida Association of Counties and the Florida Court Clerks & Comptrollers, and the Florida Municipal Investment Trust. See Florida Trust, *About the Florida Trust*, <https://www.floridatrustononline.com/about/> (last visited Mar. 26, 2025) and Florida League of Cities, *Florida Municipal Investment Trust (FMIVT)*, [https://www.floridaleagueofcities.com/services/investments-\(fmivt\)](https://www.floridaleagueofcities.com/services/investments-(fmivt)) (last visited Mar. 26, 2025).

¹⁴ A “derivative” is defined by the act as any financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values. S. 218.415(5), F.S. A “reverse repurchase agreement” is a transaction in which an investor owns a security that a bank or other party purchases from the investor such to an agreement to sell the security back to the investor on a specified date at an agreed-upon interest rate. Government Finance Officers Association, *Ensuring the Safety of Reverse Repurchase Agreements*, <https://www.gfoa.org/materials/ensuring-the-safety-of-reverse-repurchase-agreements> (last visited Mar. 26, 2025).

¹⁵ Section 218.415(5), F.S.

¹⁶ Section 218.415(13), F.S.

¹⁷ *Id.* Certified public accountants conduct annual financial audits of units of local government pursuant to s. 218.39, F.S. must report as part of the audit whether the local government is complying with the requirements for local government investment policies. S. 218.415(22), F.S.

¹⁸ Section 218.415(15), F.S.

Bond Ratings

Bond ratings are measures developed by credit rating agencies to inform investors of the creditworthiness of a bond issuer.¹⁹ Ratings agencies conduct research into the financial health of bond issuers and assign ratings based on their findings.²⁰ Ratings are reported using a hierarchical system that allows investors to compare the risks associated with the bonds of different issuers.²¹ While various gradations exist, bonds are often thought of as being either “investment-grade” (bonds with a rating of BBB- (on the Standard & Poor's and Fitch scale) or Baa3 (on Moody's) or better) or “speculative” (sometimes called “high-yield” or “junk” bonds).²² An unrated bond is a bond that has not received a rating from a rating agency.²³ While perceived by some as representing greater investment risk, bonds may be unrated for reasons unrelated to creditworthiness.²⁴

Israeli bonds

Section 215.44, F.S., directs the State Board of Administration to invest funds in the System Trust Fund established in the State Treasury for the purpose of holding and investing the contributions paid by members and employers and paying the benefits to which members or their beneficiaries may be entitled under the Florida Retirement System. Section 215.47(2), F.S., provides that not more than 25 percent of any fund available for investment can be invested in specified areas, and that a portion of those funds available for investment can be invested in rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel. The authority for local governments with written investment policies to invest in rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel was put into law in 2007.²⁵

Israeli bonds have been a popular investment choice for some counties. In March of 2024, the Palm Beach County Board of County Commissioners voted unanimously to amend its investment policy to increase the cap for the amount of the portfolio that could be invested in Israeli bonds from 10 percent to 15 percent, allowing the county to invest approximately \$700 million in total in Israeli bonds.²⁶ The Palm Beach County investment policy provides that the Clerk may purchase investments in bonds, notes, or instruments backed by the full faith and credit of the government of Israel if Standard & Poor's and Moody's have rated Israel's foreign debt at the time of purchase as “A” or higher.²⁷ Broward County announced in October of 2023,

¹⁹ Fidelity, *Bond Ratings*, <https://www.fidelity.com/learning-center/investment-products/fixed-income-bonds/bond-ratings> (last visited Mar. 26, 2025).

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ Intrepid Capital, *Demystifying Non-Rated Bonds*, <https://blog.intrepidcapitalfunds.com/advisor-insights/demystifying-non-rated-bonds> (last visited Mar. 26, 2025).

²⁴ *Id.*

²⁵ Chapter 2007-28, Laws of Fla.

²⁶ Clerk of the Circuit Court & Comptroller of Palm Beach County, *World's Largest Investor in Israel Bonds*, (Mar. 26, 2024) <https://www.mypalmbeachclerk.com/Home/Components/News/News/712/16> (last visited Mar. 27, 2025).

²⁷ Palm Beach County Board of County Commissioners, Resolution No. R-2024-0334, s. VI.A.11., available at <https://www.mypalmbeachclerk.com/home/showpublisheddocument/286/638530276351930000> (last visited Mar. 27, 2025).

that it holds \$5 million in Israeli bonds,²⁸ and Miami-Dade County announced its total investment in Israeli bonds at that time to be \$76 million.²⁹ While the investment policy of Broward County includes minimum bond ratings for some types of investments, it does not specify a minimum bond rating for Israeli bonds.³⁰ Miami-Dade's investment policy requires that bonds backed by the Israeli government have an "A" rating or above or equivalent rating by at least two accredited ratings agencies.³¹

In September of 2024, Moody's Ratings downgraded bonds backed by the Israeli government from A2 to Baa1.³² Moody's stated that "The key driver for the downgrade is our view that geopolitical risk has intensified significantly further, to very high levels, with material negative consequences for Israel's creditworthiness in both the near and longer term."³³

III. Effect of Proposed Changes:

The bill amends s. 218.415, F.S., to prohibit a local government's investment policy from requiring a minimum bond rating for investments in rated or unrated bonds issued by the Israeli government.

The effective date of the bill is July 1, 2025.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

²⁸ Broward County Office of Public Communications, Israeli Bonds Part of Broward County's Investment Portfolio (Oct. 13, 2023), <https://webapps6.broward.org/newsrelease/View.aspx?intMessageId=14488> (last visited Mar. 27, 2025).

²⁹ Miami-Dade County Office of the Mayor, Mayor Daniella Levine Cava announces Miami-Dade County will boost investment in Israel, (Oct. 17, 2023) https://www.miamidade.gov/global/release.page?Mduid_release=rel1697579815448444 (last visited Mar. 27, 2025).

³⁰ Broward County Board of County Commissioners, Resolution No. 2007-314 s. 22.84.o., available at https://library.municode.com/fl/broward_county/codes/administrative_code?nodeId=CH22OTOPPOFIADSE_PTXIIINPOB_RCO (last visited Mar. 27, 2025).

³¹ Miami-Dade County, *Investment Policy*, 6 (2020) available at <https://www.miamidade.gov/finance/library/policy.pdf> (last visited Mar. 27, 2025).

³² Moody's, *Moody's Ratings Downgrades Israel's Ratings to Baa1, Maintains Negative Outlook*, (Sept. 27, 2024), <https://ratings.moody.com/ratings-news/429502> (last visited Mar. 27, 2025).

³³ *Id.*

D. State Tax or Fee Increases:

None.

E. Other Constitutional Issues:

None identified.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

Because s. 218.415, F.S., authorizes, but does not require, local governments to invest in any particular investment products, this bill will not have a direct fiscal effect on government.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends section 218.415 of the Florida Statutes.

IX. Additional Information:

A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Community Affairs on March 31, 2025:

The committee substitute makes a clarifying change to ensure the prohibition on minimum bond ratings applies specifically to Israeli bonds.

B. Amendments:

None.