

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 2, 1998 Revised: 3/13/98 _____

Subject: Financial Matters

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	<u>Johnson</u>	<u>Deffenbaugh</u>	<u>BI</u>	<u>Fav/2 amendments</u>
2.	_____	_____	<u>GO</u>	_____
3.	_____	_____	<u>WM</u>	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The bill revises the guidelines for the Treasurer in investing state moneys.

This bill amends section 18.10 of the Florida Statutes.

II. Present Situation:

The Cabinet office of the Treasurer is established in s. 4, Art. IV, Fla. Const. The Treasurer is directed to keep all state funds and securities and to disburse state monies only upon the order of the Comptroller. Section 20.13, F.S., designates the Treasurer as the Insurance Commissioner, Treasurer, and State Fire Marshal and names the Treasurer as the head of the Department of Insurance. The law also directs the Treasurer to administer the Government Employees Deferred Compensation Plan through the Division of the Treasury.

Chapter 18, F.S., delineates many of the duties of the Treasurer. Among the duties assigned by law is the investment of state monies in excess of those needed to pay the immediate debts of the state. These excess funds include monies from the General Revenue Fund, trust accounts, and various other accounts of state agencies and other public and quasi-public entities. The law authorizes the Treasurer to charge a fee for managing excess state monies.

Pursuant to s. 18.10(2), F.S., the Treasurer is directed to invest these excess funds in qualified public depositories that will pay rates established by the Treasurer at levels not less than the prevailing rate for United States Treasury securities with a corresponding maturity. In the event additional money is available and qualified public depositories are unwilling to accept such money and pay the rates established by the Treasurer, then the Treasurer is authorized to invest the money in specific investment products.

The law also directs that Treasurer to establish qualifications in order to designate banks and savings and loan associations as qualified public depositories. Chapter 280, F.S., outlines the procedures a financial institution must follow in order to be designated as a qualified public depository.

In order to qualify as a qualified public depository, a financial institution must provide specific information to the Department of Insurance describing the assets of the institution. A qualified public depository is also required to collateralize a specified portion of the public monies on deposit so that the designated portion of the public deposits is immediately available should the need arise. The percentage of public funds that a financial institution must collateralize varies depending upon the assets of the institution, among other requirements.

Pursuant to s. 18.10, F.S., the Treasurer is specifically permitted to invest in: U.S. Government and Agency Bonds, corporate bonds (rating of "A" or better from two major rating agencies), mortgage-backed securities, and various other types of derivative securities, including options and futures. Bonds rated "A" or above by rating services, such as Moody's or Standard and Poor's, include bonds issued by "blue-chip" corporate debentures. Bonds rated "A" or above have a less relative degree of investment risks than lower rated bonds and are broken out into three classifications. Generally, the interest payments are protected by a significant, stable margin and the principal is secure. The fourth highest classification, Baa (used by Moody's) is characterized as bonds that are medium-grade obligations (or "investment grade"). According to Moody's "The interest payments and principal security appear adequate in the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time."

The Department of Insurance engaged Ennis, Knupp & Associates to evaluate the structure of the Treasurer's investment program. The consultants released a report, entitled, *Review of the Florida State Treasury's Investment Program (January 1996)*, which recommended that the current prohibition on the Treasurer investing in investment-grade or medium-grade corporate bonds (BBB or Baa) materially restricts the Treasurer's ability to maximize returns, since investment-grade corporate bonds represent approximately 24% of total market value. According to the consultants, an analysis of historical data indicates that BBB-rated bond have earned slightly higher returns than A-rated issues at a risk level only marginally greater (i.e., very low probability of default.)

Under the provisions of s. 658.67, F.S., a bank may invest in bond and other obligations, if the obligation is rated in one of the four highest classifications.

III. Effect of Proposed Changes:

Section 1. Amends subsection (2) of s. 18.10, F.S., relating to deposits and investments of state money, to revise the guidelines for investing in corporate obligations by eliminating the intermediate term duration requirement. Investments in state and local government obligations rated in any of the four, as opposed to three, highest classifications by at least two nationally

recognized rating services is authorized. However, if such obligations are rated by only one nationally recognized rating service, the obligations must be rated in one of the two highest classifications. By lowering the rating to the three highest classifications, the department would be authorized to invest in investment-grade obligations (e.g., BBB or Baa).

Investments in foreign bonds, denominated in United States currency and registered with the U.S. Securities and Exchange Commission, are permissible, if the long-term obligations of such issuers are rated by at least two nationally recognized rating services in any of the four highest classifications. However, if such obligations are rated by only one nationally recognized service, the obligation must be rated in one of the two highest classifications.

Investments in convertible debt obligations of any corporation domiciled in the United States are authorized, if the debt issue is rated by at least two nationally recognized rating services in any of the four highest classifications. However, if the such obligations are rated by only one nationally recognized service, the obligations must be rated in one of the two highest classifications.

Section 2. The bill becomes effective July 1, 1998.

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:

Financial markets could benefit from selling additional types of investment products to the state.

C. Government Sector Impact:

According to the Department of Insurance, the possible expansion of the State Treasury's investment portfolio, by permitting additional investment opportunities, could result in an additional non-taxable recurring revenue for the state of approximately \$1,550,000.

VI. Technical Deficiencies:

On page 2, line 29 the words, "on ly." should be the word, "only." This is corrected by amendment #1 by Banking and Insurance.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Banking and Insurance:

Technical amendment changing "on ly" to "only".

#2 by Banking and Insurance:

Authorizes the board of the Florida Birth-Related Neurological Injury Compensation Association (NICA) to investment plan funds only in the investments and securities described in s. 215.47, F.S. and subject to the limitations on investments contained in that section, which currently applies to investments made by the State Board of Administration. Currently, the NICA board must invest plan funds in "interest-bearing investments." (WITH TITLE AMENDMENT)