

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.)

BILL: SB 2320

SPONSOR: Senator Sebesta

SUBJECT: Cultural Endowment Program

DATE: March 17, 2000 REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|---------------|----------------|-----------|------------------|
| 1. | <u>Wilson</u> | <u>Wilson</u> | <u>GO</u> | <u>Favorable</u> |
| 2. | _____ | _____ | _____ | _____ |
| 3. | _____ | _____ | _____ | _____ |
| 4. | _____ | _____ | _____ | _____ |
| 5. | _____ | _____ | _____ | _____ |

I. Summary:

The bill permits use of a wider array of financial instruments for the investment of cultural endowment funds.

This bill amends section 265.606, Florida Statutes.

II. Present Situation:

Section 265.606, F.S., provides state matching funds for the support of cultural endowment programs authorized in ss. 265.601-265.607, F.S. These sections authorize the Secretary of State to provide financial assistance to such programs if approved by the Florida Arts Council. Of the \$600,000 in total funds, \$360,000 must be provided by the sponsoring organization with the remainder provided by the State of Florida. Approved organizations must have a trustee relationship for the preservation of the funds. 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.

The investment objective of the trustee is the preservation of capital through investment in fixed income financial instruments.

III. Effect of Proposed Changes:

The bill would expand approved investment authority from fixed income to any investment quality financial instruments.

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:

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, or basis points, of a percent. Other investment options are priced according to the market.

C. Government Sector Impact:

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

VI. Technical Deficiencies:

None.

VII. Related Issues:

“Investment grade quality” includes a number of additional options for the plan trustee. These may take the form of equity, or stock ownership, corporate obligations or other instruments of

debt. A cultural endowment program which is thinly capitalized would not likely have recourse to other choices, unless it was part of a larger investment pool.

Unlike pension plans which have investment horizons measured in decades and for which equities are a preferred choice, other programs may have time frames which require flexibility in the allocation of assets for which exclusively fixed term securities may be inappropriate.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
