

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

Prepared By: Banking and Insurance Committee

BILL: CS/SB 1120

SPONSOR: Banking and Insurance Committee and Senator Haridopolos

SUBJECT: Financial Literacy Council

DATE: April 13, 2005

REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|---------|----------------|-----------|--------|
| 1. | Johnson | Deffenbaugh | BI | Fav/CS |
| 2. | | | GO | |
| 3. | | | TR | |
| 4. | | | WM | |
| 5. | | | | |
| 6. | | | | |

I. Summary:

The committee substitute creates the Financial Literacy Council (council) within the Department of Financial Services. The council is designed to provide basic financial information to businesses, young people, working adults, and seniors from a single-state source. The council is comprised of the Chief Financial Officer and up to nine members of the financial industry appointed by the Chief Financial Officer. The bill provides for membership requirements, council meetings, and reports and authorizes the council to seek financial resources from the state, federal government, and other sources.

The bill requires any funds received by the council to be deposited into the Administrative Trust Fund of the Department of Financial Services. The bill appropriates \$50,000 in non-recurring funds from the Administrative Trust Fund to the council, contingent upon receipt of funds by the council.

This bill creates the following section of the Florida Statutes: 516.321.

II. Present Situation:

In 1996, the number of personal bankruptcies in the United States exceeded 1,000,000. Six years later, in 2002, the number of personal bankruptcies totaled 1,537,730.¹ In the United States, the collective credit debt, as of 2000, was approximately \$600 billion or approximately \$2,000 for every man, woman, and child.² According to the Federal Reserve Bank of Cleveland, consumers

¹ Administrative Office of the U.S. Courts. *Bankruptcies in the United States*. 2003.

² Glaser, Perry, *Manage Your Credit ...before it manages you*. CIO Magazine. November 15, 2000.

carried an average monthly balance of \$5,800 in 1999.³ For consumers making only the minimum payment each month, it would take approximately 30 years and \$15,000 in interest to pay off the balance. The Federal Reserve noted that approximately 9 percent did not meet the minimum monthly payment.

The Chief Financial Officer is the head of the Department of Financial Services. The Division of Consumer Assistance (division) within the Department of Financial Services has the authority to receive inquiries and complaints related to insurance or financial institutions from consumers, to fine insurers and others who fail to respond to requests for information, to provide assistance and advocacy to consumers, and to prepare and disseminate information about regulated products and services. The division maintains a toll-free hotline for residents of Florida that provides consumers with information concerning the regulation of insurance agencies, insurance companies, financial institutions, mortgage brokerages, securities dealers, consumer finance companies, and for-profit providers of pre-need funeral and cemetery services. The division also provides informational guides on insurance and financial matters.

III. Effect of Proposed Changes:

Section 1 creates s. 516.321, F.S., to establish the Financial Literacy Council (council) within the Department of Financial Services. The council will act as a single state resource for consumers and small businesses to contact for assistance regarding basic financial information. The goals of the council include: equipping small businesses and individuals with the tools necessary to make financial decisions, facilitating the sharing of best practices for financial management that are characteristic of successful small businesses, and serving as an educational forum for resource planning, financial planning, and management issues for small businesses.

Membership

The council will be comprised of Chief Financial Officer (CFO), or his or her designee, and not more than nine other members appointed by the CFO. Six members must be persons with experience in various areas of the financial industry, including banking, finance, insurance, real estate, and securities. At least one member must be a person who is not employed by and is not a representative of the financial industry. At least one of the members must be chosen from a list of three persons submitted to the CFO by a senior advocacy group. At least one member must be chosen from a list of the persons submitted to the CFO by the Florida Council on Economic Education. The appointed members are to represent urban and rural interests and the ethnic and cultural diversity of the state's population.

Members of the council will serve at the pleasure of the CFO. The board is to designate one member as chair and shall meet at the call of the chair or the CFO. Five of the initial members will be appointed for a term of three years or until his or her successor is appointed. The remaining members will serve for a term of four years or until his or her successor is appointed. The CFO will fill a vacancy filled for the remainder of the unexpired term. The Department of Financial Services will provide administrative support for the council.

³ <http://www.clevelandfed.org/index.cfm>

Each member of the council will receive reimbursement per diem and travel expenses pursuant to s. 112.061, F.S., relating to per diem and travel expenses of public officers, employees, and authorized persons. Meetings and records of the council are subject to the chapters 119 and 286, F.S.

Meetings and Procedures

The CFO will set the agenda for the council and it will include items of business requested by the council members. A majority of the members will constitute a quorum and action by a majority of a quorum will be official. The council will make a report of each meeting's minutes to the CFO, indicating members present and a record of the council's discussions, recommendations, and actions taken. The CFO will keep the records of the proceedings of each meeting on file and is responsible for making the records available to any interested person.

Powers and Duties

The council is charged with the duty of studying financial problems that affect consumers, particularly young persons, seniors, working adults, and small businesses due to a lack of knowledge of basic financial issues. The council will develop written materials to educate consumers and small businesses about basic financial issues and establish an outreach program by providing education at meetings of affected persons, by seminars, or web-based media provided through the council.

Funding for the Council

The bill allows the council to apply for and accept funds, grants, gifts, and services from the state, the United States government or any of its agencies, or any other public or private source for offsetting any clerical and administrative costs associated with the council's duties. The bill directs the council to use the talents, expertise, and resources within the state, particularly those of the public school, community college, and the university system. The bill allows the council to coordinate with any governmental agency of the state in furtherance of its mission. The bill requires all monies received by the council to be deposited into the Administrative Trust Fund of the Department of Financial Services and used solely for the council.

Effective January 1, 2007, the council will report annually on January 1, to the Governor, the President of the Senate, and the Speaker of the House on the activities carried out by the council.

Section 2 appropriates \$50,000 in non-recurring funds from the Administrative Trust of the Department of Financial Services to the Financial Literacy Council and is contingent upon receipt of fund by the council.

Section 3 provides that the act will take effect on July 1, 2005.

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:

The Financial Literacy Council is intended to provide financial advice to a large segment of the population, therefore consumers and small businesses could benefit from activities of this council and become more financially responsible.

C. Government Sector Impact:

The bill appropriates \$50,000 in non-recurring funds from the Administrative Trust Fund within the Department of Financial Services to the council, contingent upon receipt of funds by the council.

Each council member is entitled to reimbursement for per diem and travel expenses estimated at \$15,000 per year (\$250 per meeting, 4 meetings per year, and 15 members). A dedicated funding source is not identified in this bill.

The Department of Financial Services anticipates that any staffing needs for the Financial Literacy Council will be met within existing appropriations.

According to the Department of Financial Services, regulators are ineligible to receive certain grants; however, these grants are awarded to organizations that have been created specifically for educating the public. For example, the National Association of Securities Dealers' Investor Education Foundation that was established to provide investors with easily accessible information and tools to better understand investing and the markets does not award grants to regulators. The council would potentially be eligible to receive such grants.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

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

VIII. Summary of Amendments:

None.

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