

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 431 CS Financial Literacy Council  
**SPONSOR(S):** Traviesa and others  
**TIED BILLS:** **IDEN./SIM. BILLS:** SB 1120

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Economic Development, Trade &amp; Banking Committee</u>	<u>15 Y, 0 N, w/CS</u>	<u>Sheheane</u>	<u>Carlson</u>
2) <u>Governmental Operations Committee</u>	<u>7 Y, 0 N</u>	<u>Brazzell</u>	<u>Everhart</u>
3) <u>Finance &amp; Tax Committee</u>	<u>5 Y, 0 N, w/CS</u>	<u>Levin</u>	<u>Diez-Arguelles</u>
4) <u>State Administration Appropriations Committee</u>	<u>(W/D)</u>		
5) <u>Commerce Council</u>	<u>10 Y, 0 N, w/CS</u>	<u>Sheheane</u>	<u>Bohannon</u>

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### SUMMARY ANALYSIS

HB 431 creates the Financial Literacy Council (Council) within the Department of Financial Services to provide information and education about financial issues to consumers and small businesses.

The bill provides for purposes, membership, meetings, and powers and duties. It authorizes the Council to seek resources from a variety of sources to support its efforts. The bill requires submission of an annual report beginning on January 1, 2007. The Fiscal Literacy Council may not continue as a governmental entity after December 31, 2010.

This bill does not appear to have a fiscal impact on local governments. The bill appears to have a minimal fiscal impact on state government. The Department of Financial Services states that it will provide necessary administrative staffing for the Council within current resources.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

*Provide Limited Government*--the bill creates a new advisory body, the Financial Literacy Council, of up to nine members appointed by the Chief Financial Officer.

#### B. EFFECT OF PROPOSED CHANGES:

##### Current Situation

The elected Chief Financial Officer (CFO) is the head of the Department of Financial Services (DFS). Among the CFO's responsibilities are:

- Licensing and oversight of insurance agents and agencies;
- Investigating fraud, including identity theft and securities and insurance fraud;
- Overseeing cemeteries and funeral homes that sell pre-need contracts;
- Overseeing the state's accounting and auditing functions, including review of state contracts and safeguarding unclaimed property;
- Monitoring the investment of state funds and managing the deferred compensation program for state employees; and
- Ensuring that businesses have workers' compensation coverage in place for employees.

Within the DFS, the Financial Services Commission, composed of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture, oversees the Office of Insurance Regulation and the Office of Financial Regulation.

- The Office of Insurance Regulation is responsible for regulation of all insurance companies and risk-bearing entities, including licensing, rates, policy forms, market conduct, claims, adjusters, issuance of certificates of authority, solvency, viatical settlements, and premium financing.
- The Office of Financial Regulation is responsible for overseeing state-chartered banks, credit unions, financial institutions, finance companies, and the securities industry.

Research indicates that some Floridians would benefit from improving their personal finance practices. A statewide survey of adult Floridians conducted in June 2004 by Mason-Dixon Polling & Research Inc. found:

- More than one-third have more debt than savings or investments;
- About 25% are putting nothing aside each month for retirement;
- More than 80% of Floridians have credit cards, and 35% report current debt levels over \$5,000; and
- While 96% of Floridians review their monthly credit card statements, 23% of Floridians have never reviewed their credit reports.<sup>1</sup>

Increasing age and income level tends to be associated with smarter personal finance practices.

In the 12 month period ending September 30, 2004, bankruptcy filings in Florida totaled 88,370. There were 1,202 business filings and 87,168 personal filings.<sup>2</sup> This includes filings under chapters 7, 11, 12, and 13.

A few of the organizations which currently provide information and education about financial issues to consumers and small businesses include:

<sup>1</sup> [http://www.yourmoneyyourlife.org/downloads/Mason-Dixon\\_Survey.pdf](http://www.yourmoneyyourlife.org/downloads/Mason-Dixon_Survey.pdf). Margin of error +/- 4%.

<sup>2</sup> [http://www.USCourts.gov/Press\\_releases/bankrupt\\_f2\\_table\\_sep2004.xls](http://www.USCourts.gov/Press_releases/bankrupt_f2_table_sep2004.xls).

- The Florida Council for Economic Education, which is dedicated to improving economic education and financial literacy for students of all ages and abilities throughout the state;<sup>3</sup>
- Small business development centers, which provide management assistance to current and prospective small business owners;<sup>4</sup>
- The Service Corps of Retired Executives, which offers free counseling to small business owners;<sup>5</sup>
- The Florida JumpStart Coalition, which seeks to promote and teach personal finance skills among the state's youth so that individuals can make informed, responsible financial decisions;<sup>6</sup> and
- Consumer credit counseling services, which provide free and affordable confidential money management, financial education, budget counseling, and debt management services to consumers.<sup>7</sup>

### Proposed Changes

The bill creates the Financial Literacy Council (Council) to provide a single state resource for consumers and small businesses to contact for basic financial information. The bill provides the Council's goals are:

- Equipping small businesses, young people, working adults, and seniors with the tools and resources they need to make informed financial decisions;
- Helping residents of the state learn more about personal financial issues, including, but not limited to applying for loans, managing debt, making sound investment choices, and saving for retirement;
- Facilitating the sharing of best practices for financial management that are characteristic of highly successful small businesses; and
- Serving as an educational forum for resource planning, financial planning, and management issues for small businesses.

The bill provides that the Council will be made up of the state Chief Financial Officer, or his or her designee, and not more than 9 other members to be appointed by the CFO.

- Six members must be persons with experience in various sectors 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 member must be chosen from a list of three persons submitted to the CFO by a senior advocacy group, and 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. Each member of the Council will receive reimbursement for per diem and travel expenses pursuant to s. 112.061, F.S.

The bill requires the Council to study financial problems affecting consumers (particularly young persons, seniors, working adults, and small businesses) due to a lack of knowledge of basic financial issues. The Council is to 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 by web-based media.

The bill allows the Council to apply for and accept funds, grants, gifts, and services from the state, the federal government or any of its agencies, or any other public or private source for the purpose of offsetting any clerical and administrative costs associated with the Council's duties. The bill directs all funds received by the Council to be deposited into the Administrative Trust Fund and provides that the

<sup>3</sup> [www.fcee.org/main.aspx?id=2](http://www.fcee.org/main.aspx?id=2)

<sup>4</sup> [www.sba.gov/sbdc/aboutus.html](http://www.sba.gov/sbdc/aboutus.html)

<sup>5</sup> [www.score.org](http://www.score.org)

<sup>6</sup> [www.fljumpstart.org](http://www.fljumpstart.org)

<sup>7</sup> [www.nfcc.org/AboutUs/nfccfactsbckgnd.pdf](http://www.nfcc.org/AboutUs/nfccfactsbckgnd.pdf)

funds are appropriated for use by the Council in carrying out its duties and to defray expense incurred for administrative duties.

The bill clarifies that the Council may not expend appropriated funds from the Administrative Trust Fund over the amount it receives in private grants or donations.

Beginning January 1, 2007, the Council is to report annually to the Governor, the Speaker of the House of Representatives, and the President of the Senate on the activities carried out by the Council.

#### C. SECTION DIRECTORY:

Section 1 creates an unnumbered section of law creating the Financial Literacy Council; providing for the purpose of the Council; providing the composition of the Council; providing the procedures for meetings, record keeping, and compensation of members of the Council; providing powers and duties of the Council; establishing provisions for resources for the council; and providing requirements for reports of the Council.

Section 2: Provides that the Council may not expend appropriated funds from the Administrative Trust Fund over the amount it receives in private grants or donations.

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

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

#### A. FISCAL IMPACT ON STATE GOVERNMENT:

##### 1. Revenues:

None. The Department of Financial Services (DFS) indicates that the Council could apply for grant funds.

##### 2. Expenditures:

Each Council member is entitled to reimbursement for per diem and travel expenses, estimated at \$15,000 for all Council members during FY 2005-06. The Council may have insignificant expenditures for materials and services, which DFS says it will absorb within current resources.

#### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

##### 1. Revenues:

None.

##### 2. Expenditures:

None.

#### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

#### D. FISCAL COMMENTS:

The Department reports than any fiscal impact associated with staff support for the Council will be met within existing appropriations.

### III. COMMENTS

#### A. CONSTITUTIONAL ISSUES:

##### 1. Applicability of Municipality/County Mandates Provision:

The mandates provision does not apply because this bill does not: require counties or municipalities to spend funds or to take an action requiring the expenditure of funds; reduce the authority that municipalities or counties have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with counties or municipalities.

##### 2. Other:

None.

#### B. RULE-MAKING AUTHORITY:

No exercise of rule-making authority is required to implement the provisions of this bill.

#### C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

### IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

At the March 10, 2005, meeting of the Economic Development, Trade and Banking Committee, the committee adopted an amendment and reported the bill favorably with a committee substitute. The amendment:

- Removed unnecessary language;
- Reduced the number of members on the council from 14 to 9 for purposes of obtaining a quorum;
- Clarified the criteria for Council membership;
- Provided that Council membership will represent rural and urban interests and the cultural and ethnic diversity of the state's population;
- Designated the CFO or his or her designee as chair of the Council;
- Provided staggered board terms for the Council;
- Provided for all sums received by the Council to be deposited into the Insurance Regulatory Trust Fund; and
- Allowed use of web-based media in educational outreach.

At the April 15, 2005 meeting of the Finance and Tax Committee, one amendment to the bill was adopted. It provides an expiration date of December 31, 2010 for the Fiscal Literacy Council as a governmental unit.

At the April 21, 2005, meeting of the Commerce Council, three amendments were adopted to the bill. The amendments:

- Conform to the Senate bill by clarifying that the Financial Literacy Council will be within the Department of Financial Services;
- Provides that all funds received by the council will be deposited within the Administrative Trust Fund;
- Clarify that the council may not expend appropriated funds from the Administrative Trust Fund over the amount it receives in private grants or donations.