# F I S C A L   I M P A C T   R E P O R T

**ORIGINAL DATE** 1/21/08
**SPONSOR** Leavell **LAST UPDATED** **HB**

**SHORT TITLE** Uniform Prudent Management Act **SB** 135

**ANALYST** Wilson

**REVENUE (dollars in thousands)**

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY08 | FY09 | FY10 | | |
| | $0.1 | $0.1 | Recurring | Eleemosynary Funds |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Department of Finance & Administration (DFA)

**SUMMARY**

Synopsis of Bill

Senate Bill 135 repeals and re-enacts the Uniform Prudent Management of Institutional Funds Act. It applies to investment funds provided by gift to charities and to donations and, perhaps, investments managed by government entities in the state. Certainly, university endowment funds and other funds managed by government entities partially or wholly derived from gifts from the public are subject to the terms and conditions established by the bill.

There are few substantive differences between this act and the previous Uniform Prudent Management of Institutional Funds Act, with the exception of the release or modification of restrictions provisions in the proposed code and the limitation to seven percent of the market value for expenditures.

**FISCAL IMPLICATIONS**

DFA states there is an insignificant revenue impact. Under the new standards, slightly more revenue might be released from endowment or investment funds derived from gifts than under the previous version of this act.

There will be a minimal administrative cost for statewide update, distribution and documentation of statutory changes. New laws, amendments to existing laws and new hearings have the potential to increase caseloads in the courts, thus requiring additional resources to handle the increase.

**SIGNIFICANT ISSUES**

DFA states that this bill does not establish onerous standards. It establishes that each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person would exercise. This is commonly known as "the prudent man rule." The bill encourages diversification and careful planning of investments. An endowment fund may not appropriate for expenditure in any year an amount greater than seven percent of the fair market value of the endowment fund. An institution may delegate investment decisions to an external agent. An institution may, under carefully specified circumstances, release or modify restrictions placed on a gift if the restriction is unlawful, impracticable, impossible to achieve or wasteful.

Even though the Uniform Prudent Management of Institutional Funds Act nominally applies to all funds administered by the State Investment Council or the State Treasurer, virtually none of these funds are derived from gifts. The exception is endowment funds maintained by the state's colleges and universities.

DW/bb