

Original sponsor: Rules/Governor

Offered: 4/17/80
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 208

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment of state retirement
7 and pension funds; and providing for an effective
8 date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 14.25.180(b) is amended to read:

11 (b) When, in the opinion of the commissioner of administration,
12 there is on hand in the retirement fund a surplus over and above a
13 reasonably safe amount to take care of current demands upon the fund,
14 the surplus or so much of it as in the judgment of the commissioner of
15 administration is considered proper may be invested at competitive na-
16 tional market rates by the commissioner of revenue in

17 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURITIES
18 OF THE UNITED STATES OR AN AGENCY OF THE UNITED STATES, A STATE OF THE
19 UNITED STATES, OR A POLITICAL SUBDIVISION OF ANY STATE OF THE UNITED
20 STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS SHOWN BY THE
21 LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NO LESS THAN 30,000
22 INHABITANTS, EXCEPT NO POPULATION LIMITATION APPLIES TO A POLITICAL
23 SUBDIVISION OF THIS STATE;

24 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE
25 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE
26 UNITED STATES, OR HELD BY THE DEPARTMENT OF COMMERCE, OR THE DEPARTMENT
27 OF NATURAL RESOURCES;

28 (3) CORPORATION BONDS, AND PREFERRED AND COMMON STOCKS AS THE
29 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS;]

1 (4) shares of federally chartered savings and loan associa-
2 tions in Alaska, to the extent that the investment is insured by the
3 federal government or by an agency of the federal government;

4 (5) deposits with mutuai savings banks in Alaska, to the
5 extent that the investment is insured by the federal government or an
6 agency of the federal government;

7 (6) deposits with state and national banks in Alaska to the
8 extent that the investment is insured by the federal government or an
9 agency of the federal government;

10 [(7) LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS
11 UNDER AS 26.15.040(b);]

12 (8) (deleted);

13 (9) the guaranteed portion of Small Business Administration
14 loans;

15 (10) first lien real estate mortgages guaranteed by the federal
16 Veterans Administration;

17 (11) notes secured by mortgages of commercial or residential
18 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured
19 by a private mortgage insurance corporation which is authorized to do
20 business in Alaska and has combined capital, surplus and reserves aggre-
21 gating at least \$20,000,000; however,

22 (A) no mortgage insurance is necessary for commercial
23 loans having loan-to-value ratios of less than 50 percent and the
24 minimum coverage of other commercial loans shall be 10 percent for
25 those having a loan-to-value ratio of 50-60 per cent and 15 percent
26 for those having a loan-to-value ratio greater than 60 percent but
27 no more than 75 percent, and

28 (B) no mortgage insurance is necessary for residential
29 loans having a loan-to-value ratio of less than 70 percent and the

1 minimum coverage of other residential loans shall be 10 percent for
2 those having a loan-to-value ratio greater than 70 percent but less
3 than 90 percent and 20 percent for those having a loan-to-value
4 ratio of 90 percent;

5 (12) conventional residential mortgages if the originating
6 financial institution retains at least 25 percent of the mortgage for a
7 minimum of two years;

8 (13) notes secured by mortgages of commercial buildings [REAL
9 ESTATE] if the originating financial institution retains at least 25
10 percent of the mortgage until maturity;

11 (14) FHA guaranteed portion of business and industrial loans
12 made under the Rural Development Act of 1972;

13 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP
14 FINANCING ACT OF 1972. NO MORE THAN 25 PERCENT OF THE SURPLUS MAY BE
15 INVESTED IN MORTGAGE SECURITIES OF THE DEPARTMENT OF COMMERCE, AND THE
16 STATE SHALL APPROPRIATE SUFFICIENT MONEY FROM THE GENERAL FUND TO REIM-
17 BURSE THE TEACHERS' RETIREMENT SYSTEM FOR ANY LOSSES INCURRED AS A
18 RESULT OF FAILURE OF THE OBLIGORS TO PAY ON THE NOTES. NO MORE THAN
19 \$400,000 OF THE SURPLUS MAY BE INVESTED ANNUALLY IN THE MORTGAGE SECURI-
20 TIES OF THE DEPARTMENT OF NATURAL RESOURCES, AND THE STATE SHALL APPRO-
21 PRIATE SUFFICIENT MONEY FROM THE GENERAL FUND TO REIMBURSE THE TEACHERS'
22 RETIREMENT SYSTEM FOR ANY LOSSES INCURRED AS A RESULT OF FAILURE OF THE
23 OBLIGORS TO PAY ON THE NOTES;

24 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,
25 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-
26 MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY
27 MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,
28 IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF
29 THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE

1 PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST
2 ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR
3 AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN
4 EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

5 (17) bankers' acceptances which are eligible for discount at
6 the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit
7 issued by United States domestic [COMMERCIAL] banks which are members of
8 the Federal Deposit Insurance Corporation if a generally recognized
9 secondary market exists for the certificates of deposit;

10 (18) obligations of, or obligations insured by or guaranteed
11 by, the United States or agencies or instrumentalities of the United
12 States;

13 (19) obligations secured by reserves paid in by the United
14 States or agencies or instrumentalities of the United States or obliga-
15 tions of corporations in which the United States is a shareholder or
16 member;

17 (20) corporate debt securities with a minimum rating of "A" or
18 an equivalent rating by a nationally recognized rating organization;

19 (21) preferred and common stock of companies which have paid
20 dividends in each of the three years immediately preceding the invest-
21 ment;

22 (22) commercial paper bearing the highest rating of a nation-
23 ally recognized rating organization;

24 (23) securities of foreign governments, foreign governmental
25 agencies, and foreign corporations the principal, interest or dividends
26 on which are payable in either United States dollars or foreign curren-
27 cies; however, investments under this paragraph may not exceed 15 per-
28 cent of the total investments of the retirement fund;

29 (24) gold bullion if it is registered with a nationally recog-

1 nized dealer and is certified as to fineness of at least 99.5 percent;
2 however, investments under this paragraph may not exceed 15 percent of
3 the total investments of the retirement fund;

4 (25) foreign time deposits of both United States-owned and
5 foreign-owned banks and trust companies denominated in either United
6 States dollars or foreign currencies; however, investments under this
7 paragraph may not exceed 25 percent of the total investments of the re-
8 tirement fund.

9 * Sec. 2. AS 14.25.180(c) is amended to read:

10 (c) In making investments the commissioner of revenue shall exer-
11 cise the judgment and care under the circumstances then prevailing which
12 an institutional investor [MEN] of ordinary prudence, discretion, and
13 intelligence exercises [EXERCISE] in the management of large investments
14 entrusted to it [THEIR OWN AFFAIRS] not in regard to speculation but in
15 regard to the permanent disposition of [THEIR] funds, considering [THE]
16 probable safety of capital as well as probable income [THEREFROM AS WELL
17 AS THE PROBABLE SAFETY OF THEIR CAPITAL]. However, no more than 50
18 percent of the retirement fund may be invested at any given time in
19 corporate stocks and debt securities [BONDS], nor may more than five
20 percent of the voting stock of a [ANY] corporation be owned. Stocks
21 eligible for purchase are restricted to stocks which, except for bank
22 stocks and insurance stocks, are listed upon an exchange registered with
23 the Federal Securities and Exchange Commission.

24 * Sec. 3. AS 14.25.180(d)(5) is amended to read:

25 (5) register investments held in the retirement fund in the
26 name of the system;

27 * Sec. 4. AS 14.25.180(e) is repealed and re-enacted to read:

28 (e) To qualify as a mortgage which may be purchased under (b)(11),
29 (12) or (13) of this section,

1 (1) the originating financial institution must certify that
2 the mortgage has been made in compliance with law and that liens sup-
3 porting the mortgage have been perfected;

4 (2) the mortgage may not have been held by the originating
5 financial institution for a period greater than 90 days.

6 * Sec. 5. AS 14.25.180 is amended by adding new subsections to read:

7 (g) The commissioner of revenue may enter into futures contracts
8 for the sale of investments purchased under (b) of this section only for
9 the purpose of hedging an existing equivalent ownership position in the
10 investments.

11 (h) The commissioner of revenue may transfer at any time a portion
12 of the assets of the retirement fund to a trust which is qualified under
13 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal
14 Revenue Code of 1954, as amended, and which is maintained as a medium
15 for pooling a portion of the funds of pension and profit-sharing trusts
16 for diversifying investments in real estate and interests in real
17 estate.

18 (i) The commissioner of revenue may enter into a contract or trust
19 agreement necessary to effectuate the transfer of assets of the retire-
20 ment fund or to maintain the assets of the retirement fund to be trans-
21 ferred to a trust under (h) of this section.

22 * Sec. 6. AS 39.35.110(a) is amended to read:

23 (a) When, in the opinion of the commissioner of administration,
24 there is on hand in the pension fund a surplus over and above a reason-
25 ably safe amount to take care of current demands upon the fund, the
26 surplus, or so much of it as in the judgment of the commissioner of
27 administration is considered proper, may be invested at competitive
28 national market rates by the commissioner of revenue in

29 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURI-

1 TIES OF THE (A) UNITED STATES OR AN AGENCY OF THE UNITED STATES, (B) A
2 STATE OF THE UNITED STATES, OR (C) A POLITICAL SUBDIVISION OF A STATE OF
3 THE UNITED STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS
4 SHOWN BY THE LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NOT LESS
5 THAN 30,000 INHABITANTS; WITH RESPECT TO POLITICAL SUBDIVISIONS OF THIS
6 STATE, NO POPULATION LIMITATION APPLIES;

7 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE
8 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE
9 UNITED STATES OR HELD BY THE DIVISION OF VETERANS' AFFAIRS UNDER
10 AS 26.15, OR LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS UNDER
11 AS 26.15.040(b);

12 (3) CORPORATION BONDS AND PREFERRED AND COMMON STOCKS AS THE
13 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS;

14 (4) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES HELD BY THE
15 DEPARTMENT OF NATURAL RESOURCES UNDER AS 03.10;}

16 (5) shares of federally chartered savings and loan associa-
17 tions in Alaska, to the extent that the [SUCH] investment is insured by
18 the federal government or an agency of the federal government [THEREOF];

19 (6) deposits with mutual savings banks in Alaska, to the
20 extent that the [SUCH] investment is insured by the federal government
21 or an agency of the federal government [THEREOF];

22 (7) deposits with state and national banks in Alaska to the
23 extent that the investment is insured by the federal government or an
24 agency of the federal government;

25 (8) [MUTUAL FUNDS,]

26 (9) the guaranteed portion of Small Business Administration
27 loans;

28 (10) first lien real estate mortgages guaranteed by the
29 federal Veterans Administration;

1 (11) notes secured by mortgages of commercial or residential
2 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured
3 by a private mortgage insurance corporation which is authorized to do
4 business in Alaska and has combined capital, surplus and reserves aggre-
5 gating at least \$20,000,000; however,

6 (A) no mortgage insurance is necessary for commercial
7 loans having loan-to-value ratios of less than 50 percent and the
8 minimum coverage of other commercial loans shall be 10 percent for
9 those having a loan-to-value ratio of 50-60 per cent and 15 percent
10 for those having a loan-to-value ratio greater than 60 percent but
11 no more than 75 percent, and

12 (B) no mortgage insurance is necessary for residential
13 loans having a loan-to-value ratio of less than 70 percent and the
14 minimum coverage of other residential loans shall be 10 percent for
15 those having a loan-to-value ratio greater than 70 percent but less
16 than 90 percent and 20 percent for those having a loan-to-value
17 ratio of 90 percent;

18 (12) conventional residential mortgages if the originating
19 financial institution retains at least 25 percent of the mortgage for a
20 minimum of two years;

21 (13) notes secured by mortgages of commercial buildings [REAL
22 ESTATE] if the originating financial institution retains at least 25
23 percent of the mortgage until maturity;

24 (14) FHA guaranteed portion of business and industrial loans
25 made under the Rural Development Act of 1972;

26 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP
27 FINANCING ACT OF 1972;

28 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,
29 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-

1 MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY
2 MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,
3 IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF
4 THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE
5 PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST
6 ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR
7 AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN
8 EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

9 (17) bankers' acceptances which are eligible for discount at
10 the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit
11 issued by United States domestic [COMMERCIAL] banks which are members of
12 the Federal Deposit Insurance Corporation if a generally recognized
13 secondary market exists for the certificates of deposit;

14 (18) obligations of, or obligations insured by or guaranteed
15 by, the United States or agencies or instrumentalities of the United
16 States;

17 (19) obligations secured by reserves paid in by the United
18 States or agencies or instrumentalities of the United States or obliga-
19 tions of corporations in which the United States is a shareholder or
20 member;

21 (20) corporate debt securities with a minimum rating of "A" or
22 an equivalent rating by a nationally recognized rating organization;

23 (21) preferred and common stock of companies which have paid
24 dividends in each of the three years immediately preceding the invest-
25 ment;

26 (22) commercial paper bearing the highest rating of a nation-
27 ally recognized rating organization;

28 (23) securities of foreign governments, foreign governmental
29 agencies, and foreign corporations the principal, interest or dividends

1 on which are payable in either United States dollars or foreign curren-
2 cies; however, investments under this paragraph may not exceed 15 per-
3 cent of the total investments of the pension fund;

4 (24) gold bullion if it is registered with a nationally recog-
5 nized dealer and is certified as to fineness of at least 99.5 percent;
6 however, investments under this paragraph may not exceed 15 percent of
7 the total investments of the pension fund;

8 (25) foreign time deposits of both United States-owned and
9 foreign-owned banks and trust companies denominated in either United
10 States dollars or foreign currencies; however, investments under this
11 paragraph may not exceed 25 percent of the total investments of the pen-
12 sion fund.

13 * Sec. 7. AS 39.35.110(c) is amended to read:

14 (c) In making investments the commissioner of revenue shall exer-
15 cise the judgment and care under the circumstances then prevailing which
16 an institutional investor [A MAN] of ordinary prudence, discretion, and
17 intelligence exercises in the management of large investments entrusted
18 to it [HIS OWN AFFAIRS] not in regard to speculation but in regard to
19 the permanent disposition of [HIS] funds, considering [THE] probable
20 safety of capital as well as probable income [FROM THEM AS WELL AS THE
21 PROBABLE SAFETY OF HIS CAPITAL]. However, no more than 50 percent of
22 the pension fund may be invested at a given time in [MUTUAL FUNDS AND]
23 corporate stocks and debt securities [BONDS], nor may [ANY] more than
24 five percent of the voting stock of one corporation be owned. Stocks
25 eligible for purchase are restricted to stocks which, except for bank
26 stocks and [,] insurance stocks [, AND SHARES IN MUTUAL FUNDS], are
27 listed upon an exchange registered with the Federal Securities and
28 Exchange Commission.

29 * Sec. 8. AS 39.35.110(e) is repealed and re-enacted to read:

1 MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY
2 MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,
3 IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF
4 THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE
5 PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST
6 ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR
7 AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN
8 EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;)

9 (17) bankers' acceptances which are eligible for discount at
10 the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit
11 issued by United States domestic [COMMERCIAL] banks which are members of
12 the Federal Deposit Insurance Corporation if a generally recognized
13 secondary market exists for the certificates of deposit;

14 (18) obligations of, or obligations insured by or guaranteed
15 by, the United States or agencies or instrumentalities of the United
16 States;

17 (19) obligations secured by reserves paid in by the United
18 States or agencies or instrumentalities of the United States or obliga-
19 tions of corporations in which the United States is a shareholder or
20 member;

21 (20) corporate debt securities with a minimum rating of "A" or
22 an equivalent rating by a nationally recognized rating organization;

23 (21) preferred and common stock of companies which have paid
24 dividends in each of the three years immediately preceding the invest-
25 ment;

26 (22) commercial paper bearing the highest rating of a nation-
27 ally recognized rating organization;

28 (23) securities of foreign governments, foreign governmental
29 agencies, and foreign corporations the principal, interest or dividends

1 (e) To qualify as a mortgage which may be purchased under (a)(11),
2 (12), or (13) of this section,

3 (1) the originating financial institution must certify that
4 the mortgage being sold has been made in compliance with law and that
5 liens supporting the mortgage have been perfected;

6 (2) the mortgage may not have been held by the originating
7 financial institution for a period greater than 90 days.

8 * Sec. 9. AS 39.35.110 is amended by adding new subsections to read:

9 (h) The commissioner of revenue may enter into futures contracts
10 for the sale of investments purchased under (a) of this section only for
11 the purpose of hedging an existing equivalent ownership position in the
12 investments.

13 (i) The commissioner of revenue may transfer at any time a portion
14 of the assets of the retirement fund to a trust which is qualified under
15 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal
16 Revenue Code of 1954, as amended, and which is maintained as a medium
17 for pooling a portion of the funds of pension and profit sharing trusts
18 for diversifying investments in real estate and interests in real es-
19 tate.

20 (j) The commissioner of revenue may enter into a contract or trust
21 agreement necessary to effectuate the transfer of assets of the pension
22 fund or to maintain the assets of the pension fund to be transferred to
23 a trust under (i) of this section.

24 * Sec. 10. AS 39.35.110(b) and (g) are repealed.

25 * Sec. 11. This Act takes effect immediately in accordance with AS 01.10.-
26 070(c).