

Introduced: 5/2/80  
Referred: Finance

1 IN THE HOUSE

BY THE FINANCE COMMITTEE  
BY REQUEST

2 HOUSE BILL NO. 1029

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 investment of surplus funds in the  
7 state treasury; and providing for an effective date."

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

9 \* Section 1. AS 37.10.070 is repealed and re-enacted to read:

10 Sec. 37.10.070. INVESTMENT OF SURPLUS FUNDS. (a) When the commis-  
11 sioner of revenue determines that there is in the state treasury a  
12 surplus above an amount sufficient to meet current cash expenditure  
13 needs, the surplus shall be invested at competitive national market  
14 rates unless otherwise provided by law in any of the following:

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

17 (2) 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 (3) certificates of deposit issued by United States domestic  
22 banks which are members of the Federal Deposit Insurance Corporation for  
23 which a generally recognized secondary market exists or which are secured  
24 fully at all times as to the payment of principal and interest in accord-  
25 ance with Alaska law;

26 (4) corporate debt securities with a minimum rating of "Baa"  
27 or the equivalent by a nationally recognized rating organization and the  
28 preferred and common stocks of companies which have paid dividends  
29 continuously for the last three years;

1 (5) commercial paper bearing the highest rating of a na-  
2 tionally recognized rating organization;

3 (6) the portion of first lien real estate mortgages guaran-  
4 teed by the United States or agencies or instrumentalities of the United  
5 States;

6 (7) the portion of business and industrial loans guaranteed  
7 by the United States or agencies or instrumentalities of the United  
8 States;

9 (8) loans insured by the United States or agencies or instru-  
10 mentalities of the United States;

11 (9) conventional residential mortgages if the offering finan-  
12 cial institution retains at least 25 percent of the mortgage for a  
13 minimum of two years;

14 (10) notes secured by mortgages of commercial buildings if the  
15 originating financial institution retains at least 25 percent of the  
16 mortgage until maturity;

17 (11) other loans secured by real property, if the offering  
18 financial institution retains at least 33-1/3 percent of the mortgage  
19 until maturity;

20 (12) securities of foreign governments, foreign governmental  
21 agencies, and foreign corporations the principal, interest or dividends  
22 of which are payable in either United States dollars or foreign curren-  
23 cies;

24 (13) gold bullion, certified as to fineness of at least 90  
25 percent;

26 (14) bankers acceptances drawn on and accepted by banks with a  
27 combined capital and surplus aggregating at least \$200,000,000;

28 (15) shares of federally chartered savings and loan associa-  
29 tions in Alaska which are fully secured at all times as to the payment

1 of principal and interest in accordance with Alaska law;

2 (16) savings certificates issued by state-chartered savings  
3 and loan associations in Alaska which are fully secured at all times as  
4 to the payment of principal and interest in accordance with Alaska law;

5 (17) deposits with mutual savings banks in Alaska which are  
6 fully secured at all times as to the payment of principal and interest in  
7 accordance with Alaska law;

8 (18) fixed-term certificates of indebtedness of federally  
9 insured credit unions in Alaska which are fully secured at all times as  
10 to the payment of principal and interest in accordance with Alaska law;

11 (19) foreign time deposits of both United States-owned and  
12 foreign-owned banks and trust companies denominated in either United  
13 States dollars or foreign currencies;

14 (20) notes secured by mortgages of commercial or residential  
15 buildings if the mortgages are insured by a private mortgage insurance  
16 corporation which is authorized to do business in Alaska and has combined  
17 capital, surplus and reserves aggregating at least \$20,000,000; however,

18 (A) mortgage insurance is not necessary for commercial  
19 loans having loan-to-value ratios of less than 50 percent and the  
20 minimum coverage of other commercial loans is 10 percent for those  
21 having a loan-to-value ratio of 50-60 percent and 15 percent for  
22 those having a loan-to-value ratio greater than 60 percent but no  
23 more than 75 percent; and

24 (B) mortgage insurance is not necessary for residential  
25 loans having a loan-to-value ratio of less than 70 percent and the  
26 minimum coverage of other residential loans is 10 percent for those  
27 having a loan-to-value ratio greater than 70 percent but less than  
28 90 percent and 20 percent for those having a loan-to-value ratio of  
29 90 percent.

1 (b) To qualify as a mortgage or secured loan which may be purchased  
2 by the state under (a)(9), (10), or (11) of this section, the mortgage  
3 or secured loan must

4 (1) be secured by real estate in the state;

5 (2) have as a mortgagor an Alaskan resident or a corporation  
6 in which at least 50 percent of the stock is owned by Alaska residents;

7 (3) be certified by the originating financial institution that  
8 the loan being sold has been made in compliance with law and that liens  
9 supporting the loan have been perfected;

10 (4) not have been held by the originating financial institu-  
11 tion for a period greater than 90 days.

12 (c) When more than three percent of the aggregate of all loans  
13 purchased from a financial institution becomes 60 days delinquent, the  
14 state shall discontinue purchasing loans from that financial institution  
15 until the delinquency is reduced to less than three percent.

16 (d) In making investments, the commissioner of revenue shall  
17 exercise the judgment and care under the circumstances then prevailing  
18 which an institutional investor of ordinary prudence, discretion, and  
19 intelligence exercises in the management of large investments entrusted  
20 to it not in regard to speculation but in regard to the permanent dispo-  
21 sition of funds, considering probable safety of capital as well as  
22 probable income.

23 (e) Except as provided in this section, the commissioner of revenue  
24 may

25 (1) invest and reinvest the principal and income without  
26 distinction between principal and income;

27 (2) sell, exchange, convey, transfer, or otherwise dispose of  
28 an investment of the general fund by private contract or at public  
29 auction;

1 (3) vote upon a stock, bond, or other security; give a general  
2 or special proxy or power of attorney with or without power of substitu-  
3 tion; exercise a conversion privilege, subscription right, or other  
4 option and make payments incidental to it; consent to or participate in  
5 a corporate reorganization or other change affecting corporate securi-  
6 ties, delegate discretionary power, pay an assessment or charge in  
7 connection with the delegation; and generally exercise any of the powers  
8 of an owner with respect to stocks, bonds, securities, or other invest-  
9 ments held in the general fund;

10 (4) make, execute, acknowledge, and deliver documents of  
11 transfer and conveyance and instruments necessary or appropriate to  
12 carry out the powers granted;

13 (5) register investments held in the name of the state;

14 (6) do all acts whether or not expressly authorized which are  
15 considered necessary or proper for the protection of the investments.

16 (f) The commissioner of revenue may enter into futures contracts  
17 for the sale of investments purchased under (a) of this section only for  
18 the purpose of hedging an existing equivalent ownership position in  
19 these investments.

20 (g) The commissioner of revenue may enter into contracts for  
21 services providing investment advice, custody of securities, and execu-  
22 tion of transactions, in or out of Alaska.

23 (h) The commissioner of revenue shall invest all funds available  
24 under this section in investments in Alaska to the extent investments in  
25 Alaska are available if investments in Alaska

26 (1) have a risk level comparable to alternate investment  
27 opportunities; and

28 (2) are included in the list of permissible investments in  
29 (a) of this section.

1 (i) In this section

2 (1) "mortgage" means a pledge or security of particular  
3 property for the payment of a debt or the performance of some other  
4 obligation, whatever form the transaction may take;

5 (2) "resident" means a person domiciled in this state.

6 \* Sec. 2. AS 16.10.550; AS 26.15.070(b); AS 45.88.040(b); AS 45.90.040(b);  
7 and AS 45.95.020(b) are repealed.

8 \* Sec. 3. Section 2 of this Act takes effect July 1, 1980.

9 \* Sec. 4. Sections 1, 3 and 4 of this Act take effect immediately in  
10 accordance with AS 01.10.070(c).