

Offered: 4/24/85
Referred: Rules

Original sponsor: Rodey

1 IN THE SENATE BY THE FINANCE COMMITTEE
2 CS FOR SENATE BILL NO. 233 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - FIRST SESSION
5 A BILL
6 For an Act entitled: "An Act adding obligations of the state or instrumen-
7 talities of the state to the list of collateral that
8 may be used to secure certain investments of the
9 Alaska permanent fund; and providing for an effective
10 date."
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
12 * Section 1. AS 37.13.120(m) is amended to read:
13 (m) Certificates of deposit or the equivalent instruments that
14 [WHICH] are not of a quality that may be readily sold in a secondary
15 market at prices reflecting fair value must be secured by a pledge as
16 collateral of investments authorized for the Alaska permanent fund
17 under (g)(1), (2), (8), or (12) - (17) of this section or by a pledge
18 as collateral of obligations of the state or instrumentalities of the
19 state that are rated at least "A" by a major bond rating service and
20 have a demonstrated secondary market, which investments or obligations
21 have value at least equal to the face value of the certificate of
22 deposit. The board may require substitution of collateral in order to
23 ensure continued satisfaction of the requirements set out in this
24 subsection.
25 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
26 10.070(c).

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date : _____

REQUEST

Bill/Resolution No. : CS SB 233 (FIN)
 Title : State and municipal bonds
as Permanent Fund collateral

Sponsor : Rodey
 Requestor : House Finance
 Date of Request : 2/6/86

FISCAL DETAIL

Agency Affected : Dept. of Revenue
 BRU : _____

Components : Permanent Fund

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES		0				
TRAVEL		0				
CONTRACTUAL		0				
SUPPLIES		0				
EQUIPMENT		0				
LAND & STRUCTURES		0				
GRANTS, CLAIMS		0				
MISCELLANEOUS		0				
TOTAL OPERATING		0				

CAPITAL						
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REVENUE						
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FUNDING : (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS						
OTHER						
TOTAL		0				

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Al Adams, Chair Phone : 465-3706
 Division : House Finance Committee Date : 2/6/86

Approved by Commissioner : _____ Date : _____
 Agency : _____

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Off. of Management and Budget
- Impacted Agency(ies)



Alaska Permanent Fund Corporation
Pouch 4-1000 Juneau, Alaska 99802
TEL 907/465-2047 TLX 099-46-323

MEMORANDUM

DATE: February 3, 1986

TO: Representative Al Adams and
Members House Finance Committee

FROM: *David A. Rose*
David A. Rose, Executive Director
Alaska Permanent Fund Corporation

SUBJECT: CSSB 233

I have reviewed CSSB 233 and offer the following observations:

1. There is no requirement for additional funding to implement the bill.
2. The use of this type of collateral is presently not permissible under AS 37.13.120(m), the statute which governs the Permanent Fund on this issue. It appears that its omission was inadvertent and probably derived from the fact that such debt is not an approved investment. (Obviously, the Permanent Fund should not invest at tax-exempt rates.) There is, however, nothing wrong with using these bonds as collateral.
3. There are four positive aspects of the bill as follows:
 - A. The bill will stimulate purchase of State, local government and agency debt by Alaska financial institutions. This increased market demand may result in better (lower) interest rates to our Alaskan issuers.
 - B. Alaskan banking institutions will be able to use more of their available collateral thus increasing their borrowing power.
 - C. This collateral is of higher quality than some of the collateral now pledged.
 - D. This collateral will have a high degree of liquidity should redemption become necessary.

Representative Al Adams
CSSB 233
February 3, 1986
Page 2

4. It is recommended that this bill not be altered as to title or content to deal with any other aspect of Fund investments, mechanics or income distribution. Other Fund issues should be addressed separately and not combined in this bill.
5. I will be present to testify or answer questions on Friday, February 7, 1986, at 1:30 p.m.

DAR:bm



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

(907) 465-2047 Telex 099-46-323

December 6, 1985

Ms. Louann Cutler
c/o Representative Albert Adams
1024 W. 6th Avenue, Suite 204A
Anchorage, Alaska 99501

Dear Louann:

Per our phone conversation today, here are the letters
you requested regarding Senate Bill 233.

If I may be of any further assistance please contact me.

Sincerely,

Jim Kelly
Research & Liaison

JK/jm



Alaska Permanent Fund Corporation
Pouch 4-1000 Juneau, Alaska 99802
TEL 907/465-2047 TLX 079-46-323

April 20, 1984

The Honorable Robert H. Bettisworth
Chairman
Legislative Budget & Audit Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Bob:

Your staff has requested that we comment on the propriety of Alaskan banks utilizing tax-exempt bonds as collateral against funds borrowed from the General Fund of the State, PERS and TRS retirement funds, and the Permanent Fund.

As you know, the above four entities occasionally deposit funds in Alaskan banks. These deposits are evidenced by "certificates of deposit" issued by the banks which pledge that funds will be repaid at a specified time and at a specified rate. In addition to executing the certificate of deposit, banks also pledge collateral; agreeing that if the certificate is not paid, the collateral can be sold to produce enough proceeds to cover the amount due as stated in the certificate.

Typically, each entity promulgates a list of the types of financial instruments which it will accept as pledged collateral. This list may include: direct obligations of the Federal Government (U. S. Treasury bills, bonds and notes), obligations of agencies of the United States; commercial paper, corporate bonds, home mortgages, commercial real estate mortgages, tax exempt bonds issued by instrumentalities of states, etc.

"Instrumentalities of states" means tax-exempt bonds issued by states, their agencies (power authorities, housing authorities, bond banks, industrial development authorities, airport revenue authorities, university revenue authorities, medical authorities, etc.), boroughs and cities.

Since instrumentalities of states issue debt for a public purpose, it logically follows that states try to assist them by encouraging prospective purchasers to acquire instrumentality debt. Although the primary reason this debt is purchased is for its tax benefits, a secondary incentive is offered

Representative Robert H. Bettisworth
April 20, 1984
Page 2

to banks ~~if the bonds can be pledged~~ as collateral against deposits of public money as discussed above. Thus, to stimulate banks' interest in purchasing instrumentality debt, states (and cities) usually include such debt on their approved collateral list.

Here in Alaska there is a long history permitting use of instrumentality debt as collateral. Of course, it cannot be any tax-exempt bonds; it must be Alaskan bonds. (We would not want to stimulate and encourage the purchase of debt of other jurisdictions.)

The Department of Revenue (managing PERS, TRS and the General Fund) has, in the past, accepted instrumentality debt as collateral. The Permanent Fund has not.

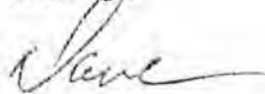
The omission of instrumentality debt from the approved collateral list of the Permanent Fund as set forth in AS 37.13.120(m) appears inadvertent and is probably derived from the fact that instrumentality debt is not an approved investment. (Obviously, the Fund should not invest at tax-exempt rates.) There is, however, nothing wrong with using these bonds as collateral.

It would appear that AS 37.13.120(m) could be expanded. However, I would strongly urge that the Permanent Fund Act not be opened up for amendment this late in the session and it not be opened up at all unless there are strong assurances that other amendments would not surface which would seriously injure the Fund.

I cannot comment on the current acceptance of instrumentality debt as collateral by the Department of Revenue. I am not aware of any statutory bar which would preclude use of such debt.

I hope this explains staff questions. If you need better clarity or explanation, please contact me.

Sincerely,



David A. Rose
Executive Director

DAR/aef

cc: Milt Barker, Deputy Commissioner
Treasury, Department of Revenue



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

February 22, 1985

Representative Steve Frank
Room 503, Capitol Building
Pouch V
Juneau, AK 99811

Dear Representative Frank:

You have asked that we comment on the propriety of allowing Alaskan financial institutions to use debt issued by the State or instrumentalities of the State as collateral against funds borrowed from the Permanent Fund under our Certificate of Deposit Purchase Program.

Unfortunately, this type of collateral is not permissible under AS 37.13.120(m), the statute which governs the Permanent Fund on this issue. It appears that its omission was inadvertent and probably derived from the fact that such debt is not an approved investment. (Obviously, the Permanent Fund should not invest at tax-exempt rates.) There is, however, nothing wrong with using these bonds as collateral.

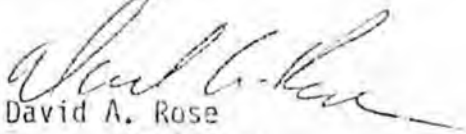
It would appear that AS 37.13.120(m) could be expanded to allow this. Nonetheless, I would strongly urge that the Alaska Permanent Fund Act not be opened up for this particular amendment unless there are strong assurances that other amendments would not surface which would seriously injure the Fund.

Perhaps it would be possible to draft a bill accomplishing the desired change, but with a very tight title to prevent any other amendments. One suggestion might be:

"An Act adding debt issued by the State or instrumentalities of the State to the approved collateral list of the Alaska Permanent Fund as set forth in AS 37.13.120(m)."

I hope this answers your questions. If you need additional assistance on this or any other matter regarding the Permanent Fund, please contact me.

Sincerely,


David A. Rose
Executive Director

DAR/JK/bn

(b) If a member of the board or an employee of the corporation acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, the member shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure. (§ 5 ch 18 SLA 1980)

Sec. 37.13.120. Investment responsibilities of the board. (a) The prudent-man rule shall be applied by the board in the management and investment of Alaska permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

(c) The board shall maintain a reasonable diversification among investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the Alaska permanent fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations contained in this section, the board may invest corporation assets at such competitive national market rates or prices as are applicable to each investment only in

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

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit and term deposits of United States domestic banks which are members of the Federal Deposit Insurance Corporation and which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payment of principal and interest as described in (m) of this section;

(4) certificates of deposit and term deposits of federally chartered savings and loan associations in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in (m) of this section;

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(5) certificates of deposit and term deposits of state chartered savings and loan associations in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in (m) of this section;

(6) certificates of deposit and term deposits of mutual savings banks in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in (m) of this section;

(7) fixed-term certificates of indebtedness of federally insured credit unions in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in (m) of this section;

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least \$200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (3) and (8) — (10) of this subsection:

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmers Home Administration;

(15) the guaranteed portion of Farmers Home Administration loans;

(16) notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital and surplus aggregating at least \$20,000,000, and if loan-to-value ratios do not exceed 75 percent for commercial mortgages and 90 percent for residential mortgages; however,

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

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

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

(17) notes secured by mortgages granting a first lien on commercial real estate improved by completed buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(18) preferred and common stock of corporations incorporated in the United States;

(19) certificates of deposit, term deposits, or bankers' acceptances, which are issued by a United States bank or trust company located in a foreign country and are denominated in United States currency, if either (A) they may be readily sold in a secondary market at prices reflecting fair value, or (B) the issuing bank or trust company has capital and surplus at the date of issue equaling at least \$500,000,000; investments made under this paragraph are not subject to the collateral requirements for domestic certificates under (m) of this section;

(20) equity interests in, and debt obligations secured by mortgages granting a first lien on, real estate improved by completed and substantially rented buildings and located in the United States, if these investments are made

(A) in a corporation, partnership, trust, or other entity in which, at the conclusion of each investment transaction, at least 60 percent of the beneficial ownership interests are held by other institutional investors, and which is organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds which has had at least five years of experience in the management of real estate investments of institutional investors; or

(B) in conjunction with and on substantially the same terms as an entity described in (A) of this paragraph.

(h) The board may enter into future contracts for the sale of investments purchased under (g) of this section only for the purpose of hedging an existing equivalent ownership position in these securities.

(i) At the time of each investment, the aggregate investment of the Alaska permanent fund in each stated category of investment may not exceed the following stated percentage of the total investments of the fund: mortgages under (g)(16) of this section, 15 percent; real estate investments under (g)(20) of this section, 15 percent; foreign certificates of deposit or the equivalent under (g)(19) of this section, 20 percent; corporate stocks and debt securities under (g)(8), (9), and (18) of this section, 50 percent. The Alaska permanent fund may at no time own more than five percent of the voting stock of a corporation. Domestic stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the Securities and Exchange Commission.

(j) The assets of the Alaska permanent fund may not be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(k) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of any guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(l) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section.

(m) Certificates of deposit or the equivalent instruments which are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of investments authorized for the Alaska permanent fund under (g)(1), (2), (8), or (12) — (17) of this section, which investments have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in this subsection. (§ 5 ch 18 SLA 1980; am §§ 5 — 7 ch 81 SLA 1982)

Cross references. — For transfer of the Alaska permanent fund from the commissioner of revenue to the Alaska Permanent Fund Corporation, and for permissible investments by commissioner, see § 9, ch. 18, SLA 1980.

Effect of amendments. — The 1982 amendment in subsection (g), substituted "contained in this section" for "in (h) and (i) of this section" and inserted "at such

competitive national market rates or prices as are applicable to each investment only" in the introductory language, rewrote paragraphs (3) — (7) and (16), substituted "Federal Veterans Administration" for "Federal Veterans Association" in paragraph (13), and added paragraphs (17) — (20). The amendment also rewrote subsection (i) and added subsection (m).

Sec. 37.13.130. Gains and losses. [Repealed, § 13 ch 81 SLA 1982.]

Sec. 37.13.140. Income. Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145. (§ 5 ch 18 SLA 1980; am § 8 ch 81 SLA 1982)

Introduced: 3/14/85
Referred: Finance

1 IN THE SENATE

BY RODEY

2

SENATE BILL NO. 233

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act adding obligations of the state or instrumentalities of the state to the list of collateral that may be used to secure certain investments of the Alaska permanent fund; and providing for an effective date."

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

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* Section 1. AS 37.13.120(m) is amended to read:

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(m) Certificates of deposit or the equivalent instruments that [WHICH] are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of investments authorized for the Alaska permanent fund under (g)(1), (2), (8), or (12) - (17) of this section or by a pledge as collateral of obligations of the state or instrumentalities of the state, which investments or obligations have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in this subsection.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).