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SENATE FINANCE COMMITTEE REPORT

DATE: January 25, 1990

FURTHER:

DATE TURNED INTO OFFICE: 1/25/90

The Finance Committee considered SB 353

Relating to insured investments in development banks.

and recommended:

[] replace with _____ CS
[] or adopt _____ CS

[] same title
[] new title
[] technical title change (HB only)

[] attached amendment(s)

[] _____ letter of intent adopted

do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

[] fiscal note(s) _____

[] zero fiscal note(s) _____

[] appropriation-no fiscal note

APPROVES PREVIOUS:

Dept/Date:

[] fiscal note(s) _____

zero fiscal note(s) DCEED 1/19/90

SIGNING DO PASS:

[Signature]
[Signature]
[Signature]
[Signature]

OTHER RECOMMENDATIONS:

1.

-- 2.

Co-Chairs: Signatures and Recommendations

B

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Insurer investments in
development banks
Sponsor: Kelly
Requestor: Senate Labor & Commerce

Agency Affected: Commerce & Economic Dev.
BRU: Insurance
Components: Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This legislation would have no fiscal impact on the department in FY 90.

Prepared by: James J. Jordan, Acting Director Phone: 465-2515
Division: Insurance Date: 1/18/90
Approved by Commissioner: Larry Mercuti Date: 19/1/90
Agency: Department of Commerce & Economic Development

Distribution (by preparer):

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

1011

BY SEN. KELLY

1 IN THE SENATE

2

SENATE BILL NO. 353

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to insurer investments in develop-
7 ment banks."

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

9 * Section 1. AS 21.21.130 is amended to read:

10 Sec. 21.21.130. [INTER-AMERICAN] DEVELOPMENT BANKS [BANK]. An
11 insurer may invest in obligations issued, assumed, or guaranteed by
12 the Inter-American Development Bank, the African Development Bank, or
13 the Asian Development Bank, if the bank is solvent and not in default
14 in the payment of principal or interest on any of its direct general
15 obligations on the date of the investment.

16

OFFICE OF THE PRESIDENT

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE
SIXTEENTH ALASKA LEGISLATURE



SENATOR TIM KELLY

PO. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

PO. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7812

January 31, 1990

MEMORANDUM

To: Senator Rick Uehling, Co-chair
Senate Finance Committee

From: Senator Tim Kelly

TDK

Re: Scheduling SB 353, relating to investments in development banks.

Rick, I would appreciate a hearing on SB 353 at your earliest convenience. I introduced the bill in response to interest expressed in the Anchorage community. As you can read from the attached support information, it appears to have not only a laudible purpose but provides a valuable investment opportunity to Alaskan institutions.

Current law restricts insurers to only those investment opportunities of the Inter-American Development Bank. This bill would expand the the authorization to invest in obligations of the African Development Bank and the Asian Development Bank.

Henry Lancaster is a good resource person to contact for more information on the merits of SB 353. He can be reached at 278-4729.

~~SECRET~~

MEMORANDUM

AFRICAN DEVELOPMENT BANK STATE
LEGISLATIVE PROGRAM - ALASKA

I. Background

The African Development Bank ("the Bank") is currently seeking the enactment of legislation, where necessary, which would permit state-regulated banks, insurance companies, fiduciaries and public employee retirement systems to invest in Bank obligations if they choose to do so. Several years ago, largely through the joint efforts of the Congressional Black Caucus and the Reagan Administration, Congress enacted Title XIII of P.L. 97-35 authorizing United States membership and financial participation in the Bank, which was initially created in 1964 and until 1982 limited its membership to African countries. Today, the Bank's membership includes all African nations except for South Africa, plus the Governments of the United States, Canada, Japan and Western Europe.

The Bank, a principal source of financing for economic development projects on the African continent, funds these projects through the sale of its obligations in the world's capital markets. As with the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank and the Asian Development Bank, investments in African Development Bank securities by the state-regulated institutions described above generally require either state legislation or administrative agency rulings prior to the time such securities can be marketed in a particular state. P.L. 97-35 referred to above authorized federally regulated financial institutions to invest in such securities.

Since initiating state legislation activities several years ago, the Bank has obtained passage of legislation, or secured comparable administrative agency public rules to qualify its securities for investment in forty-two states.^{1/}

^{1/} These include Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Texas, Virginia, Washington, West Virginia and Wisconsin. In addition, Alaska state-chartered banks obtained such investment authorization through legislation enacted in the 1988 session.

Background

Bills are also pending in several additional states, while others have either issued private administrative rulings or have laws which already permit such investments under a "prudent investor" standard. It should be noted that each state has its own particular laws applicable to state-regulated institutional investors and no two states are alike in this regard.

The Bank entered the United States capital market for the first time in the Fall of 1985 and most recently in early November 1987 with highly successful bond issues. The three principal American bond rating services have given its bonds AAA, AAA and AA ratings, which makes this type of investment quite attractive once a regulated investor receives appropriate legal authorization. In order to assure a successful United States market presence, the Bank is seeking enactment of legislation in a number of additional states, including Alaska, to obtain this authorization.

II. Specific Legislation Needs in Alaska

A review of the applicable Alaska laws indicates a need for amending only one section of the Alaska Statutes to gain investment authorization for state-regulated insurance companies. This involves merely adding the name of the African Development Bank to those of the World and already eligible for such investments. Alaska state banks recently gained this investment authorization in similar legislation, while other regulated investors apparently already have the necessary authority without the need for statutory change.

Based upon experience to date in other states, this legislation should be completely noncontroversial. President Reagan and the U.S. Treasury Department have actively supported efforts to get this legislation enacted, as have many Black political leaders around the country. Because of the high Bank securities ratings, prospective investors also support it since this increases their high-yield, low-risk portfolio options and provides them an opportunity to make both profitable and socially worthwhile investments. Finally, since the Bank is the major source of foreign exchange financing for transactions in or with Africa, American exporters and technical assistance providers to that continent have ample incentive to support the Bank's financial success.

Prepared November 1988 by:

David Aronofsky, Esq.
U.S. Legal Counsel, African Development Bank
Arent, Fox, Kintner, Plotkin & Kahn
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339
202-857-6054

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1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339
202-857-6054



THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 12 1988

Dear Governor Cowper:

I am writing in support of the African Development Bank's efforts to obtain the qualification of its obligations in the State of Alaska for investment by certain state-regulated institutions.

The African Development Bank was established as a multilateral development bank in 1963 to foster economic and social development of its African members individually and through regional cooperation. In addition to all independent African countries except for South Africa, the Bank's membership now includes the United States, as well as the countries of Western Europe, Japan and other developed nations. The African Development Bank is patterned after the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank and the Asian Development Bank, in that they all make extensive use of the world's capital markets through the sale of their highly rated bonds and other obligations to obtain funds for development lending activities. A substantial percentage of such funds finances the purchase of American goods and services used in critical development projects. This in turn enables American businesses and academic institutions to participate directly in these activities, to the benefit of all concerned.

I would appreciate your State taking the necessary steps to have the African Development Bank receive at least as favorable treatment under the laws of Alaska as is currently accorded to one or more of the other multilateral development banks with respect to the qualification of the Bank's securities for purchase by state chartered banks, savings and loan associations, insurance companies, public employee retirement systems and any special statutory or constitutional funds. At least 34 states have already wholly or partially accorded such treatment to the African Development Bank through enactment of legislation or, where appropriate, administrative agency rulings. I anticipate that the Bank will be in touch with you through its American legal counsel to present detailed legislative proposals.

Sincerely,

James A. Baker, III

The Honorable Steve Cowper
Governor, State of Alaska
Juneau, AK 99811-0101

cc: The Honorable Jan Faiks
The Honorable Ben Grussendorf

Letters of Support

Third World Projects Create a New Market

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Oct. 9 — Although the market for exports to cash-strapped developing countries has fallen strikingly in the past decade, third-world projects financed by the international development banks have created a booming market for an array of products.

Under their crushing debt burden, developing countries, which normally buy about a third of all American exports, cut purchases from the United States by 13 percent since 1981, to \$82.7 billion in 1987.

But in the same period, American companies doubled, to \$2.1 billion a year, their sales of items needed for projects financed by the four leading development banks — the World Bank, the Inter-American Development Bank, the African Development Bank and the Asian Development Bank.

The market created by the development banks includes power generators, water pumps, trucks, tractors, drilling rigs, irrigation equipment, farm implements, telecommunications equipment, pesticides, seeds and schoolbooks.

In the past five years, the World Bank and the three regional institutions have disbursed \$76 billion to business contractors, chiefly in the industrial countries, to support projects in more than 100 developing countries, according to a recent report by Development Bank Associates Inc., a research group based in Washington.

Chances are that future disbursements will be even greater, following recent Congressional action authorizing American participation in a \$75 billion increase in the resources of the World Bank, nearly doubling its capital. A large increase in funds for the Inter-American Development Bank is likely to be approved in the next few months as well.

"The development banks have created an enormous market," said David A. Raymond, director of international programs for the Enserch Corporation of Dallas, a diversified energy operator which aggressively pursues World Bank contracts. "It isn't an easy business and there's more competition than ever. But it pays hard currency on projects throughout the world."

Despite the numbers, analysts here note that American bidders like Enserch are still relatively few.

"Many business executives do not

The development banks are bringing about a boom for many products.

know about the bidding process," the United States Chamber of Commerce said in a special study of the market published two years ago. "Others fear red tape."

Development Bank Associates said in a recent report, "A Practical Guide to the Development Bank Business," that less than 3 percent of United States exporters are actively engaged in marketing products for such projects.

The lack of interest has hit the pocketbook. Even as the United States has strikingly increased exports to the development-bank market, it has been losing market share to its principal commercial rivals — West Germany and Japan.

By far the biggest of the development institutions, the World Bank committed \$17.7 in 1987 to expand power distribution in Argentina, build irrigation works in Belize, expand technical education in Brazil and to aid scores of other programs. Commitments by the three regional institutions totaled \$7 billion, bringing the total for the four to \$24.7 billion.

The commitments become actual disbursements as the multiyear projects reach varying stages of completion needing additional equipment and supplies.

Most of the contracts are relatively small — in the range of \$10,000 to \$50,000. In a recent year, 65 percent of all equipment contracts and 55 percent of all consultancy contracts on World Bank projects were for less than \$50,000, according to the Development Bank Associates study.

Over the same period there were 2,000 payments by the World Bank of more than \$1 million

The development-bank business is confined to developing countries, which includes nearly all countries with per-capita yearly income of less than \$3,000. These include such giants as China and India and such tiny island states as Kiribati and Vanuatu. The market also includes some East bloc countries like Hungary and Poland.

low rates. Others disagree.

"I think tax policy in 1989 is going to be a backburner issue," said Donald H. Straszheim, chief economist for Merrill Lynch & Company, even though "the budget and trade deficits are troubling to economists."

"We're likely to end up with higher taxes down the road, but not immediately," he said. Some form of energy tax is likely, he suggests, and eventually a value-added tax could be imposed. If income tax rates are raised, then preferential treatment for capital gains is "not unreasonable," he said. But with a new Administration and a new Congress due to take office, he does not expect the tax rates to be changed in 1989.

Mr. Straszheim sees a modest recession and lower interest rates for the second half of 1989. If that forecast is accurate, it would argue against making tax-driven sales of bonds now, because bond prices would rise if rates fell. One strategy, though, would be to sell bonds on which one has a loss and replace them with similar securities.

Vern Martens, vice president of Merrill Lynch Tax Advisory, noted that if there is no change in tax rates next year, "taxpayers will pay lower taxes because of indexing for inflation." Nevertheless, he said, "people are still looking for something that will provide a tax break."

The most popular tax-exempt investments are municipal bonds, although certain municipal bonds are subject to the alternative minimum tax. These latter bonds pay slightly higher rates and thus are attractive to investors who are not liable for the alternative minimum tax.

Mr. Martens offered these additional possibilities for reducing taxes:

¶ Rehabilitation credits for low-income housing can cut taxes by up to \$7,000.

¶ Tax-deferred annuities can be attractive for retirement plans.

¶ By switching from money market funds to certificates of deposit or Treasury bills or notes, investors can defer income into future years. A switch in October, however, will only reduce 1988 interest income by 25 percent.



Illustration by Saul Goldenberg

is a current investment cars, but the it by 1991.

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Oil Producers' Challenge to OPEC

From First Business Page

As a day, from around 4.3 barrels a day a month ago. Officials said their current was to keep their production protect their share of the market against other pro- at are discounting their oil- asing production to secure les.

Industry officials said that would substantially overall OPEC ceiling, bring- ser to 19 million barrels a 4 million barrels above the quota. The higher ceiling

manently lower oil prices.

One industry expert said the tentative proposal depended upon a compromise between Iraq and Iran under which the countries would agree to equal production shares of 2.5 million barrels a day each. Iraq is now producing about 2.7 million barrels a day, while Iran's output is just below 3 million barrels a day.

Under the new proposal, OPEC would also agree to lower the official price it has used as a yardstick, to closer to \$15 a barrel, from \$18.

But OPEC officials and oil analysts fear that until an agreement is reached, a further steep drop in oil prices is a real possibility, bringing

Pillsbury Sued Over Offer

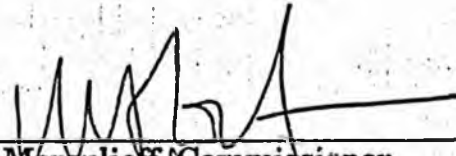
... to protect the interests of the

SB 353: "An Act relating to insurer investments in development banks."

SB 353 adds the African and Asian Development Banks to the eligible list of development banks into which investments can be placed. Provisions regarding solvency and nondefault status are also added.

The provisions in this bill are identical to the language contained on page 30, Section 30 of SB 212, an Act relating to insurer solvency, introduced last session by the Governor. SB 212 is in the Senate Labor and Commerce Committee.

The department supports this legislation. The additional provisions regarding solvency and nondefault status give the department the opportunity to make sure these banks are good investments before they are used by insurers.



Larry Mercurieff, Commissioner

Date: 9/1/90

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HENRY LANCASTER, INC.

550 West Seventh Avenue • Suite 1325 • P.O. Box 10-3461 • Anchorage, Alaska 99510 • (907) 278-4729 • FAX (907) 276-4289

January 29, 1990

RECEIVED
JAN 30 1990

Senator Dick Eliason, Chair
Labor & Commerce Committee
Alaska State Senate
P.O. Box V
Juneau, Alaska 99811

Dear Senator Eliason:

I am writing to thank you for allowing me to testify via teleconference in the January 24, 1990 Senate Labor & Commerce Committee meeting.

Senator Faiks raised a question during the meeting that deserves further clarification. She asked whether the World Bank should be included in SB 353. My review of the Alaska Statutes has revealed that AS 21.21.120 already allows an insurer to invest in the obligations of International Bank for Reconstruction and Development (IBRD). The IBRD is more commonly known as the "World Bank." Thus the concern for inclusion that Senator Faiks expressed is already addressed in Alaska law.

Please do not hesitate to contact me if you have any other questions or concerns.

Sincerely,



Henry M. Lancaster II
President

HML:bgm

cc: Sen. Tim Kelly
Sen. Jan Faiks
Sen. Pat Rodey
Sen. Jalmar Kertula
Sen. Jack Coghill

OFFICE OF THE PRESIDENT

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
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January 23, 1990

MEMORANDUM

To: Senator Eliason, Chair
Labor and Commerce Committee

From: Senator Kelly *TDK*

Re: SB 353, insurer investments in development banks.

Thank you for scheduling this bill for the committee's early consideration.

I introduced SB 353 in response to interest expressed in the Anchorage community. As you can read from the attached support information, it appears to have not only a laudible purpose but provides a valuable investment opportunity to Alaska institutions.

Current law restricts insurers to only those investment opportunities of the Inter-American Development Bank. This bill would expand the authorization to invest in obligations of the African Development Bank and the Asian Development Bank.

Henry Lancaster is a good resource person to contact for more information on the merits of SB 353. He can be reached at 278-4729.