

HB 199

HOUSE COMMITTEE REPORT

(11)

Date Referred: April 5, 1991

FURTHER REFERRALS:

Date of Committee Action: 4.29.91

The FINANCE Committee considered:

HB 199

HOUSE BILL NO. 199

INVESTMENT POOLS FOR PUBLIC ENTITIES

"An Act relating to investment pools for public entities; and providing for an effective date."

RECOMMENDATIONS:

be replaced with _____

CS HB 199 (Fin)

the same title

a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) REVENUE 4.5.91
OCRA 4.5.91

SIGNING <u>DO PASS</u>	DP	<u>OTHER RECOMMENDATIONS</u>	DNP	NR	AM
<i>Mike Favone</i>	<input checked="" type="checkbox"/>	<i>Eileen P. Machean</i>		<input checked="" type="checkbox"/>	
<i>Jay Brown</i>	<input checked="" type="checkbox"/>	George J. ... <i>George J. ...</i>		<input checked="" type="checkbox"/>	
<i>Mill ...</i>	<input checked="" type="checkbox"/>	<i>Jamona Barnes</i>		<input checked="" type="checkbox"/>	
<i>Ronald J. ...</i>	<input checked="" type="checkbox"/>	<i>Bob Sharp</i>		<input checked="" type="checkbox"/>	
<i>John Ulmer</i>	<input checked="" type="checkbox"/>	<i>Ross E. ...</i>		<input checked="" type="checkbox"/>	

Mike Favone Eileen Machean
CHAIRMAN'S SIGNATURE

CS FOR HOUSE BILL NO. 199 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to investment pools for public entities; and providing for an effective
2 date."

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

4 * Section 1. AS 37.25 is amended by adding a new section to read:

5 Sec. 37.25.050. INVESTMENT POOLS FOR PUBLIC ENTITIES. (a) A public entity
6 may enter into agreements with other public entities regarding the formation and operation of
7 investment pools under which funds of the participating public entities are administered and
8 invested jointly. One or more public entities may form a nonprofit corporation for the purpose
9 of operating an investment pool. An agreement entered into under this section may provide for
10 the employment of staff and other matters necessary for the operation of the investment pool.
11 Each participating public entity is authorized to spend funds necessary for the operation of the
12 investment pool.

13 (b) The prudent investor rule shall be applied to investments made by investment pools
14 formed under this section. The prudent investor rule means that the investors shall exercise the

1 judgment and care under the circumstances then prevailing that an institutional investor of
2 ordinary prudence, discretion, and intelligence exercises in the management of large investments
3 entrusted to it not in regard to speculation but in regard to the permanent disposition of funds,
4 considering the probable safety of capital as well as probable income.

5 (c) For purposes of this section, "public entity" means a subdivision of the state,
6 including a municipality, school district, or regional educational attendance area, or an
7 organization composed of public entities.

8 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

No. 1

Bill Version: CSHB 199 (FIN)

(H) Publish Date: 4/5/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____

Department Affected: Community & Regional Affairs

Title: "An Act relating to investment pools for public entities.."

BRU: _____

Sponsor: House C&RA Committee

Component: _____

Requestor: _____

COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Remond Henderson, Director

Phone: 465-4708

Division: Administrative Services

Date: 4/2/91

Approved by Commissioner: Edgar Blatchford

Agency: Community & Regional Affairs

Date: 4/2/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

No. 2
Bill Version: CSHB 199 (FIN)
(H) Publish Date: 4/5/91

Revision Date: April 2, 1991

Department Affected: Revenue

Title: Investment pools for public entities

BRU: Treasury

Component: _____

Sponsor: Senate Community & Regional Affairs

Component Serial No.

Requestor: _____

1	2	1
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: See attached.

Prepared by: Brian C. Andrews *BA*

Phone: 465-2350

Division: Treasury

Date: April 2, 1991

Approved by Commissioner: _____ *[Signature]*

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Rev 10/90

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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April 2, 1991

POSITION PAPER

RE: CS for House Bill 199

SPONSOR: House Community and Regional Affairs Committee

Departmental Position: Support

Program Effects

The bill would provide for certain public entities to form and operate investment pools for public funds which might otherwise lie idle.

Comments

This concept would provide a much needed tool for public entities to use in maximizing available revenues to offset the cost of services provided within their boundaries. In these times of declining state revenues, it is extremely important that we focus on discovering new sources of revenues for local jurisdictions, and methods whereby existing fiscal activities at the local level can be enhanced to maximize their efficiency. Committee Substitute for House Bill 199 directly addresses that concept, and the Department strongly supports its passage.

Ed. Blatchford

Edgar Blatchford, Commissioner



STATE OF ALASKA
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Revenue	DIVISION Treasury	BILL NUMBER HB 199	SPONSOR House Community & Regional Aff
SHORT TITLE OF BILL Investment Pools for Public Entities			
DEPARTMENT POSITION See amendments proposed.			
PREPARED BY Brian C. Andrews	<i>BCA</i>	DATE 4/2/91	COMMISSIONER'S SIGNATURE <i>[Signature]</i>
			DATE 4-3-91

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None known	CONSTITUENT GROUP(S) AFFECTED BY BILL
ORGANIZATIONAL SUPPORT FOR BILL Municipalities and other public entites.	ORGANIZATIONAL OPPOSITION TO BILL None known

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT
To allow for the creation of a nonprofit corporation for the purpose of establishing and operating an investment pool of securities for public entities.

ANALYSIS OF BILL/PROGRAM EFFECTS
Through a cooperative effort, public entities would establish a privatized money market mutual fund which may provide for increased investment returns and lower investment risk.

AMENDMENTS PROPOSED

Please see attached.

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

HB 199

Amendments proposed:

Section 37.25.050 (b) of CS SB 182 and HB 199 should be modified to include within the definition of "public entity" the State of Alaska as well as a subdivision of the State, including a municipality, school district, regional educational attendance area or service area within the unorganized borough; or an organization composed of public entities. The expanded definitions would allow the General Investment Fund of the State to be a participant in the investment pool.

The Department of Revenue believes that the formation of an investment pool for money market securities within the Division of Treasury would offer the following benefits.

1. Use of Treasury's expertise in investment and cash management matters.
2. Treasury's existing arrangements for custodial services can accommodate a participant investment pool.
3. Treasury has already established cash concentration procedures within banks located in Alaska which could be used by public entities to transfer funds to the investment pool.
4. Use of Treasury's existing ACH electronic funds transfer capabilities which accommodates movement of deposits and withdrawals to and from the bank accounts of the participants.
5. Inclusion of the General Investment Fund as a participant would assure the investment pool's objectives of enhanced yields, liquidity and preservation and safety of capital.
6. Probable overall lower cost benefits to all participants.

Treasury would anticipate the following annual costs if it was charged with the responsibility of establishing and managing an investment pool of an assumed size of \$500 million.

Personal:	1 FTP cash management position	\$ 50,000
	1/2 FTP Investment officer	40,000
	1 FTP Accountant	50,000
Contractual:	Custodial fees @ 5 bps ¹	250,000
	External audit	25,000

¹"bps", or "basis points", is the standard of measurements of less than one per cent. One bps equals one percent of one percent.

Equipment/Communications, computer supplies software and equipment enhancements	<u>75,000</u>
TOTAL	<u>\$490,000</u>

\$490,000 represents a cost of 0.00098 (9.8 bps) of the \$500 million pool total. For example, an 8.0 per cent gross investment return will net to 7.9 per cent after Treasury's total expenses. The only variable cost is custodial fees which would increase slightly by additional asset amounts to the investment pool. Because of scales of economy, the impact of Treasury's expenses on gross earnings would be reduced further by investment pools greater than \$500 million.



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February 1991

Alaska Municipal League
Investment Pool Legislation and Program Justification

The Alaska Municipal League (AML) urges the passage of legislation to authorize the formation of investment pools under Title 29. The AML wishes to form an investment pool to improve the efficiency and effectiveness of municipalities and other local public entities statewide in the investment of their short-term, "idle," public funds. The objectives of the pool's investments, in order of priority, will be 1) security, 2) liquidity, and 3) return. In the absence of an Alaska "joint powers act," the AML is seeking legislation to authorize a public entity or a nonprofit corporation to form and enter into agreements for the purpose of investing funds.

Many AML member municipalities and school districts do not have banks in their communities much less investment options. In certain cases, municipalities lost funds when several banks folded in the 1980's because their funds were not collateralized. As federal and state financial assistance to municipalities have declined, making the most of local funds through interest revenues continues to be important.

The AML membership of over 125 municipalities passed a resolution in November 1989 directing the AML Board of Directors to investigate the feasibility of a municipal investment pool. The AML formed a committee of municipal officials to investigate the need and feasibility of a pool. The committee surveyed municipalities and school districts in June 1990 to gather information on local investment practices and interest in participating in a pool. Over 50 responses were received indicating:

- o Idle funds may be sufficient to form a pool
- o A significant number of respondents do not have written investment policies
- o Few municipalities and school districts employ investment professionals
- o Few do not collateralize their investments
- o Most respondents invest in a broad variety of investment instruments
- o Some respondents indicated that they had investments of over 2 years in terms which may not be prudent for these public funds
- o An investment pool would broaden the investment options available to even the most sophisticated, investor municipalities/school districts
- o The less sophisticated municipalities/school districts would benefit from safekeeping, yield of a pool, and professional advice.

AML Investment Pool
February 1991
Page 2

The committee reviewed investment pools operating in 13 states. These pools are operated within the state treasurer's office or a independent non-profit corporations. The committee is leaning toward using a money market fund limited to very secure types of investments. The return on investments would be improved by increasing volume and term through pooling rather than on increasing risk.

In September 1990, the AML Board authorized the committee to proceed with establishing an investment pool by introducing legislation and distributing a request for proposal for a firm(s) to assist the AML with managing pool and investing the funds on behalf of entities who choose to participate in the pool.

A request for proposal from firms wishing to bid on providing administration, custodial and investment services has been finalized and will be distributed in March. AML is also working with a law firm to develop the necessary legal documents. If the legislation passes this session as planned, it is the intent of the AML to establish the pool and accept funds as of July 1, 1991.

The legislation would have a zero fiscal note and would not affect the State of Alaska. Participation in the pool by eligible public entities would be optional. The AML Board of Directors urges the Legislature to pass the investment pool legislation in the First Session of the 17th Alaska State Legislature to enable the AML to immediately begin to improve the efficiency and effectiveness of participants in the investments of their public funds.

sab2:investwhy