

S B

182

★ Fairbanks North Star Borough

809 Pioneer Road

P.O. Box 1267

Fairbanks, Alaska 99707

907/452-4761

May 3, 1991

Ben A. Barrera
Vice President, Corporation Relations
National Bank of Alaska
P. O. Box 100600
Anchorage, Alaska 99510-0600

Dear Mr. Barrera:

It was a pleasure to have the opportunity to meet you last week at the Municipal Finance Officers Association meeting. Since I've had a long term association with NBA, I felt that it was important for you hear my thoughts on an important matter. A copy of my comments to Senator Steve Frank regarding SB 182 is attached.

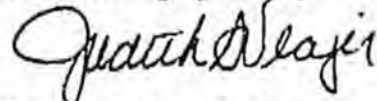
It is my understanding that Jan Siebert and a banking lobbyist are attempting to derail the Municipal Investment Pool legislation, SB 182. NBA officials have been attending our meetings twice-a-year and have not ever said a word of advise about the pooling concept. I met with Al Stockman last fall and discussed it with him. We have never heard any negative feedback from the bank until now, when the SB 182 is moving through the Senate.

NBA would have had quite an advantage in being part of the pool management due to its statewide exposure and being able to offer statewide coverage for cash to flow into and out of investments. This would have been a major marketing and operations plus to the pool management. NBA has all sorts of affiliations for services with outside firms and even has a relationship with an outside Alaska investment firm for some of its managed accounts. The Steering Committee put in an "Alaska preference" to encourage Alaska firms to assess the potential, hoping they would respond to this need. I do not understand why NBA choose not to develop this market, either separately or with affiliates.

NBA's posture in not responding to the management RFP does not diminish the "advantages" of the pooling concept and should not give NBA the cause nor the excuse to work to derail the legislation.

Thank you for hearing me out.

Sincerely yours,



Judith A. Slajer
Chief Financial Officer

Attachment (1)

cc: Scott Burgess, Alaska Municipal League

MAIL	TO: Scott Burgess AML	FROM: Judi Slajer FNSB	DATE: 5/3/91
	FAX #: 463-5480	FAX #: 459-1330 PHONE #: 459-1370	NO. PAGE INCLUDING THIS PAGE 1

National Bank of Alaska



Corporate Headquarters P.O. Box 100600 Anch

TELECOPIER HEAD

*Important!
Read it!
Kendall Sr*

TO: Bruce Kendall
NAME

State - Governor's Office
COMPANY

465 - 347
RECIPIENT'S TELECOPIER NUMBER

We are transmitting 3 pages, including this header sheet.

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FROM: Tom Sieberts
NAME

Telephone: (907) 265-2991

Telecopier: (907) 263-2582

Bruce, In regard to SB182 - Municipal Pooling someone should understand that Deloitte + Touche is handling the pooling for the Alaska Municipal League. They are the same folks who got SBS into executive life. This is a dangerous bill



EMPIRE

Capital City

WAN'S FAX NO 263-2582



SBS: What went wrong?

State lawyers look for cause of retirement fund debacle

By RALPH THOMAS
THE JUNEAU SIMPS

Alaska officials may have someone other than themselves to blame for letting \$132 million from a state employee retirement fund fall into the clutches of a crumbling insurance company.

Someone to blame means someone to sue.

State attorneys are considering lawsuits against consulting firms that helped oversee the fund's investments.

Between 1987 and 1990, the state invested millions of dollars from the Supplemental Benefits System with Executive Life Insurance Co. of California, and in exchange received four so-called "guaranteed investment contracts" - promises of high interest rates backed by signatures from corporate executives, but no collateral.

The retirement fund was started in 1980 after state workers opted out of the federal Social Security program. Since then, the fund has grown to \$820 million, including the faulty Executive Life contracts.

Now the state - and the SBS fund - stand to get burned. Executive Life's sweet tooth for high-yield, high-risk junk bonds caught up with

the company about two weeks ago when California insurance regulators seized the firm and its assets.

As more and more Executive Life creditors - including the Internal Revenue Service - come calling, Alaska's chances of getting anything for its unsecured investments is growing more grim.

Who's to blame?

One state official who was in charge of investing the SBS money apparently knew about Executive Life's junk-bond woes in 1987, not long after the first investment contract was signed. But that man - Mike Halverson - says he got repeated advice from the state's SBS consultant to stick with Executive Life.

Halverson, who resigned less than a month ago from his post at the state Division of Retirement and Benefits, admitted in a recent interview with an Anchorage reporter that he was in over his head with the SBS investment job. So he frequently turned to the state's consultant, Bob Richardson of William M. Mercer Cos., a subsidiary of Marsh & McLennan, an nationwide insurance brokerage.

As the state's consultant, Mercer
Please turn to 558, Page 5



■ JUNEAU EMPIRE, TUESDAY, APRIL 30, 1991

Military hospital may move to Alaska

THE ASSOCIATED PRESS

ANCHORAGE - Bush negotiations between the United States and the Philippine government could result in the transfer of a large military hospital to Alaska, officials say.

The U.S. Air Force is preparing for a possible transfer of medical personnel from Clark Air Base in the Philippines to the Elmendorf Air Force Base hospital, several Alaska legislators and congressional sources said.

An announcement from the Air Force could come within days,

source said. Such a move is contingent on military base lease talks between the U.S. and Philippine governments. The sixth and final round of the talks began Monday.

An Air Force spokesman said he could not comment on the transfer reports.

"At this time there has been no public announcement of a change in the hospital's status," Lt. Col. Mike Conlay said.

Several members of the state House Special Committee on Military and Veterans Affairs said they

learned in a briefing conducted by Lt. Gen. Thomas McInerney that the Elmendorf hospital will profit from Clark Air Base's losses. McInerney is commander of the 11th Air Force.

The briefing came during a three-day tour of Alaska military installations last month.

"My understanding was that some of the hospital units stationed in the Philippines are coming to Elmendorf," said Rep. Cliff Davidson, D-Kodiak. "It seemed to me he said it would be in the next year to year and a half."

SBS...

Continued from Page 1
cer's Seattle office oversaw the bidding process for the first three contracts won by Executive Life.

In the summer of 1989, the state switched to a new SBS consultant - DeLoitte & Touche of Minneapolis, Minn. That firm handled the bidding for the last contract won by Executive Life.

Not long after Executive Life landed its first SBS contract, an official who worked one floor above Halverson in the State Office Building began getting anonymous mailings that warned of the company's junk-bond troubles.

Mike DeBerry, a contract officer in the Division of General Services, said last week he thought the anonymous mailings might have come from insurance companies that lost to Executive Life in the SBS contract bidding battle.

The mailings included articles from insurance and investment publications and the Wall Street Journal. Most of the articles mention that almost half of Executive Life's assets were in junk bonds.

DeBerry said he gave the articles to Halverson.

But, according to Halverson, Richardson assured him that Executive Life would survive long enough for the state to get its money back with interest.

That advice may amount to negligence, especially in light of Executive Life's widely known junk-bond woes, said James Baldwin, an assistant attorney general who is reviewing the issue.

"The contract that we had with Mercer provided an indemnification (to the state) for their negligence," Baldwin said Monday. He said he assumes the contract with DeLoitte & Touche had the same clause.

No written evidence of Richardson's bad advice was found in Halverson's files by the Empire, but Baldwin said he had seen some docu-

mentation. "There are some things that are in writing," Baldwin said.

If the state takes Mercer to court, it will have to rely heavily on Halverson as a "key witness," Baldwin said.

Neither Richardson nor Halverson could be reached for comment. Richardson is reportedly on a sailing trip around the world, and a person who answered the phone at Halverson's home in Juneau said he has left the state for more than a month.

Brian McQue, the Mercer consultant who oversaw bidding for the third contract won by Executive Life, did not return a call from the Empire this morning.

It may be easier for the state to prove DeLoitte & Touche was negligent, but there's much less at stake.

Not long after DeLoitte & Touche helped the state negotiate a \$65 million SBS investment with Executive Life in 1989, administration officials began to worry about the company's junk-bond problems.

Former Department of Administration Commissioner Frank Baxter then went to Los Angeles and worked out a deal with Executive Life - a deal that cut the \$65 million contract down to about \$1.4 million. In return for getting most of its money back from the contract, the state agreed it would not try to get out of the first three contracts.

Though the remaining \$1.4 million is just 1 percent of what SBS stands to lose with Executive Life, the state may sue DeLoitte & Touche, Baldwin said.

At the same time that DeLoitte & Touche was working with the state on the SBS contract, auditors with the firm were reporting that Executive Life was in good financial shape. But, within a year after the first Executive Life-SBS contract was signed, the first of five DeLoitte & Touche employees who worked on the audit were hired by Executive Life.

William Sanders, who was in charge of the audit for DeLoitte &

Touche, got a contract from Executive Life that promised at least \$500,000 in pay for 1991, according to a story last week in the Los Angeles Times.

Sanders and another former DeLoitte & Touche auditor, Mark Furlong, were fired from Executive Life last week by the California regulators.

California insurance regulators are looking into the DeLoitte & Touche audit.

Alaska officials will be watching the probe closely.

"I think they (DeLoitte & Touche) have significant exposure with that audit," Baldwin said.

DeLoitte & Touche's Pat Pechacek, who handled the last Executive Life contract for the state, did not return calls to the Empire Monday or today.

Baldwin said state officials and attorneys have a lot of investigating of their own to do before they can take either of the consultants to court.

He speculated that, in the end, it may appear that state officials and their advisors all were at fault.

Sally Smith, former director of the Division of Retirement and Benefits, said she never knew of Executive Life's junk bond troubles until last year. She said today she never saw the articles that DeBerry gave to Halverson.

"All this talk of everybody knowing in 1987 of Executive Life being in trouble is simply not true," she said in an interview last week.

Smith said it was true, however, that her division had no business handling such huge investments as the SBS program. But she said her boss, Frank Baxter, didn't agree.

"I really wanted (the investment responsibility) to go to the Department of Revenue," Smith said. "Baxter didn't want anything to do with that ... he wanted to keep it in-house."

The Empire was unable to contact Baxter last week or Monday.

March 18, 1991

Mr. Benjamin A. Barrera, Vice-Pres.
National Bank of Alaska
P.O. Box 100600
Anchorage, AK 99510-0600

Dear Mr. Barrera:

The Alaska Municipal League (AML) is in the process of selecting a Program Manager for a new short-term investment program for Alaska government jurisdictions. We have engaged the firm of Deloitte & Touche to assist us with the selection process. Draft legislation authorizing this program is currently being considered by the Alaska Legislature.

We are seeking a comprehensive proposal which incorporates administrative, custodial and investment management capabilities. Dates and times for the mandated pre-proposal bidder's conference and for delivering proposals are contained in Section I-2 of the enclosed Request for Proposals.

We appreciate your interest and invite your firm to submit a proposal. All further contact and questions regarding this RFP should be directed to:

Mr. Jack Kiley
Deloitte & Touche
1111 Third Avenue, Suite 2900
Seattle, WA 98101
(206) 233-7737

~~Very truly yours,~~
~~Scott A. Burgess~~

Very truly yours,

Scott A. Burgess

Scott A. Burgess
Executive Director

Enclosure

*Pete - These are
some people involved
in SPS + Executive Life*

...management capabilities.
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Seattle, WA 98101
(206)233-7737

~~V. J. Kiley~~
~~Executive Director~~

Very truly yours,

[Handwritten signature]

Scott A. Burgess
Executive Director

Enclosure

←
Pete - These are
some people involved
in SPS + Executive Life



Fairbanks North Star Borough

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M E M O R A N D U M

TO: Senator Steve Frank

FROM: Judith A. Slajer, Chief Financial Officer

DATE: May 3, 1991

SUBJECT: CS SB 182, Municipal Investment Pool

I understand this bill will be up on for Senate consideration today. There are a couple of points I'd like to stress.

This legislation provides that cities and boroughs may authorize participation in a jointly controlled investment pool. Each local government will have to determine whether to participate by passage of legislation by the council or assembly. The investments allowed by the Pool will have to be consistent with the investments permitted in the local government's investment ordinance.

The investment pool concept certainly has some advantages for the Fairbanks North Star Borough. Due to our staffing limitations, we have not been able to diversify our investment portfolio. Therefore, we purchase only U.S. Treasuries. We would like to invest in Certificates of Deposit and Repurchase Agreements with Alaska banks as these types of investments can be safe and are likely to give us a greater interest return than do the Treasuries. Also, these types of investments diversify our portfolio and enable funds to flow into the Alaska economy. In order to be in both the CD and Repo markets, it is very labor intensive. Considerable on-going work is involved in qualifying financial institutions, maintaining a credit watch of the qualified institutions, maintaining a valuation watch on the investments, keeping all the contracts and agreements current with the financial institutions, buying and selling at the correct time, etc. The Investment Pool will be able to offer these services. This will benefit the Alaska financial institutions when the demand for funds in the local economy is present.

There has been two issues raised by National Bank of Alaska which needs to be addressed. One is that the State may be liable for the Pool. There is no question that the State would not be legally liable. In my opinion, the issue of the State needing to bale out the Pool is a scare tactic. If anything, the pool, which will be hiring a professional investment manager with expertise which is not available to us now. On the whole, the funds management will be more professional than 99% of the local governments can currently afford. The State did not bale the local governments out which in past years lost funds invested in Alaska's financial institutions which failed.

The second issue raised by NBA is that the funds will go outside the State, and that it will take outside firms to run the Pool. The funds will go where the market is. If anything, the Pool will be able to set up the mechanics for investing in CD's and Repurchase Agreements with Alaska financial institutions and maintain the proper documents needed to be able to invest in these instruments at much less of a cost that we incur currently. If the demand is present, funds will flow to the local banks in much greater quantities that it does currently. NBA is correct that they cannot manage the Pool without outside Alaska affiliations. Currently, the FNSB would not allow NBA to manage the Borough's funds without custodial services, therefore, we engage (at NBA's recommendation) Security Pacific Bank in California to provide custodial services. The Pool, due to its size, will be in a much better position to negotiate more favorable terms for custodial services, which services are not available in-State currently. These types of affiliations are common in the industry in order to provide a broad level of services to the clients.

In closing, I'd like to say that the investigation which has gone into evaluating the "pooling" concept has been extremely thorough. The information we have collected indicates that some, if not the majority, of the smaller local governments and school districts do not have the investment expertise to protect their funds as is now recommended by the Government Finance Officers Association (GFOA), and as such are vulnerable to the whims of the financial institutions. Nor, do they have the investment expertise and volume of funds which can ensure a reasonable return. The pooling concept addresses these issues.

As an local government finance professional, and as a Member of the GFOA Standing Committee on Cash Management, I highly recommend passage of CS SB 182.

I hope that you have an opportunity to share some of my comments with your colleagues.



May 2, 1991

In Defense of CS SB 182 (Finance)

- o The bill was introduced at the request of the Alaska Municipal League
- o The authorizing legislation "clarifies" that "public entities" can do jointly, what they can do individually, specifically invest their funds; investment pools exist in at least 29 states either through the state treasury or as separate entities as authorized in the legislation.
- o There is no legal liability on the state created by the legislation nor from any pool formed under the legislation.
 - addresses the investment of local funds
 - zero fiscal note because the state is not involved
 - probably can be done under existing statute AS 29.35.010 (13). Cook memo attached.
- o The legislation is needed because even though AS 29.35.010 (13) says, "All municipalities have the following general powers, subject to other provisions of law:...(13) to enter into an agreement, including an agreement for cooperative or joint administration of any function or power with a municipality, the state, or the United States;..."
 - this statute has been in effect since statehood but has not been used; the time of a multi-million dollar operation is not the time to test the efficacy of a statute;
 - the statute does not speak to "organizations composed of public entities" such as the AML;
 - clear statutory authority will assist the pooling entity receive a favorable IRS ruling.

- o AML intends to form an investment pool and is in the process of evaluating proposals from professional investment firms and financial institutions to provide administrative, custodial and investment management services, subject to the legislation passing.
- o Participation in the investment pool will be voluntary and first require a municipality or school district to pass an ordinance or resolution authorizing the use of the pool as an investment option and to sign a cooperative agreement which lays out the bylaws, conditions, and investment policies.
- o The pool will be created to invest short-term, idle funds, e.g. until necessary to meet payroll or other obligations, to improve interest earnings.
- o The pool's improved return on investment will come from investing larger amounts of money in secure and liquid investments, e.g. government securities, NOT by investing in higher risk instruments.
- o The pool will provide security, liquidity, competitive rate of return, diversification, investment advice, convenience, accounting, and professional management.

sab6:just.sb182

P.S. Response to Bankers: Authorizing legislation only; AML had competitive bid process with Alaska preference and \$1 billion assets under management threshold (but also need administrative and custodial services; pool will not provide banking services, just investment; money still in the bank and pool could buy bank CD's; participation in the pool is voluntary, if the bank is competitive then presumably they would get the investment; NBA contracts with an outside fund to handle its investments, too; no liability to the state.

participant in the fund. (1977 c.491 §5; 1981 c.3 §1; 1983 c.53 §2; 1989 c.135 §3)

294.740 Refund of account balances; payment of deficits; erroneous benefit payments. (1) The Employment Division shall refund to a political subdivision electing to cancel its request as provided by ORS 657.513 any account balance remaining after the division has made all payments to the Unemployment Compensation Trust Fund required to be made on behalf of the political subdivision.

(2) A political subdivision canceling a request having a negative account balance shall make such additional payments into the fund as necessary to maintain a zero account balance.

(3) Erroneous benefit payments determined after June 30, 1978, and attributable to wages paid by a political subdivision making payments under ORS 294.735 shall be excluded from the account balance determination and the determination of the benefit cost rate of that political subdivision. (1977 c.491 §6, 7; 1989 c.135 §4)

294.745 Analysis of fund receipts and expenditures; report to Legislative Assembly. The Employment Division shall investigate the experience of political subdivision participation in operations of the fund, including the relationship of fund receipts to fund expenditures and report the results of the investigation to the legislature at least 30 days prior to the date a regular session of the legislature is scheduled to convene. The report shall include any recommended changes in the provisions of ORS 293.701, 294.725 to 294.755 and 657.513. (1977 c.491 §8; 1989 c.135 §5)

294.750 Experience and liability of successor political subdivisions; unpaid assessment. (1) The experience and liabilities of a political subdivision that has ceased to exist shall be acquired by the successor political subdivision.

(2) Notwithstanding subsection (1) of this section, all units of government who are parties to an agreement to form a political subdivision shall be liable for any unpaid assessments of that political subdivision and for such amounts as necessary to maintain the account balance of the political subdivision, if no longer in existence, at zero dollars. (1977 c.491 §9)

294.755 Payment on quarterly basis; remedies for collection. Political subdivisions electing to participate in the Local Government Employer Benefit Trust Fund shall pay into the fund on a quarterly basis and are subject to all remedies for the collection of delinquent taxes provided in ORS chapter 657. (1977 c.491 §10)

LOCAL GOVERNMENT INVESTMENT POOL

294.805 Definitions for ORS 294.805 to 294.895. As used in ORS 294.805 to 294.895:

(1) "Board" means the Oregon Short Term Fund Board.

(2) "Council" means the Oregon Investment Council created under ORS 293.706.

(3) "Funds" means funds under the control or in the custody of any local government official by virtue of office that are not required to meet current demands.

(4) "Investment officer" means the State Treasurer in capacity as investment officer for the council and the investment pool.

(5) "Investment pool" means the aggregate of all funds from local government officials that are placed in the custody of the investment officer for investment and reinvestment as provided under ORS 294.805 to 294.895.

(6) "Local government official" means each officer or employee of any agency, political subdivision or public corporation of this state, including the Oregon State Bar, who by law is made the custodian of or has control of any funds. (1973 c.748 §1; 1981 c.880 §14; 1987 c.381 §1)

294.810 Local governments authorized to place limited funds in pool. (1) With the consent of the governing body, a local government official may place in the aggregate up to \$10 million of its funds in the investment pool, or, if the assets of the investment pool have been transferred pursuant to ORS 294.882, in the state investment fund established pursuant to ORS 293.721, for investment and reinvestment by the investment officer as provided under ORS 294.805 to 294.895, or 293.701 to 293.776, as the case may be. The \$10 million limitation stated in this section shall not apply to funds of a governing body which are placed in the investment pool on a pass-through basis. Local governments must remove pass-through funds which result in an account balance in the pool in excess of \$10 million within 10 business days. County governments must remove such excess funds within 20 business days. The investment officer shall promptly report each instance of noncompliance with, or apparent abuse of, the limitations of this section to the Secretary of State and to the governing body of the local government involved.

(2) The \$10 million limitation contained in subsection (1) of this section shall not apply to a local government whose governing body, by ordinance or resolution, authorizes their officials to place not more than \$20

million in the investment pool. The additional amount, not exceeding \$10 million, must be placed in an account which has been assigned a separate participant account number within the investment pool. This separate account shall not be used to receive or disburse pass-through funds, and shall be subject to such deposit and withdrawal procedures, requirements and restrictions as are deemed appropriate by the investment officer, including, but not limited to an advance notice requirement for withdrawal. [1979 c.748 §2; 1981 c.880 §15; 1987 c.381 §2]

294.818 Period of investments; withdrawal of funds. Subject to the right of the unit of local government to specify the period in which its funds may be held in the investment pool for investment and reinvestment, the investment officer by rule shall prescribe the time periods for investments in the investment pool and the procedure for withdrawal of funds. [1973 c.748 §3]

294.820 Separate long-term investments limited. With the consent of the governing body, a local government official of a city or municipal corporation may, before July 1, 1979, deposit funds with the State Treasurer for long-term investments of the funds by the State Treasurer separate from investments of the investment pool. [1973 c.748 §4; 1979 c.808 §1]

294.825 State Treasurer as investment officer; bond; employment of personnel; rules. (1) The State Treasurer is the investment officer for the council and the investment pool, and shall perform functions in that capacity as authorized or required by law and, consistent with law, by the council.

(2) The bond of the State Treasurer required from the State Treasurer by law shall be deemed to extend to the faithful performance of all functions of the office of investment officer under ORS 294.805 to 294.896.

(3) The investment officer may:

(a) Subject to any applicable provision of the State Personnel Relations Law, employ, prescribe the functions and fix the compensation of personnel necessary to facilitate and assist in carrying out the functions of the council, investment officer and investment pool.

(b) Require a fidelity bond of any person employed by the investment officer who has charge of, handles or has access to any of the moneys in the investment pool. The amounts of the bonds shall be fixed by the investment officer, except as otherwise provided by law, and the sureties shall be approved by the investment officer. The premiums on the bonds shall be an expense of the State Treasurer.

(4) Subject to review by the board, the investment officer may, pursuant to ORS 183.310 to 183.550, make reasonable rules necessary for the administration of ORS 294.805 to 294.895. [1973 c.748 §5, 18]

294.830 [1973 c.748 §7; repealed by 1979 c.808 §2 (294.831 enacted in lieu of 294.830)]

294.831 Investment objective; limit on maturity dates. (1) The local government investment pool shall seek to obtain a competitive return on investments subject to the standards set forth in ORS 294.835 and consistent with the liquidity requirements demanded by the short term nature of local government deposits in the pool.

(2) The investment officer shall at all times hold investments which mature in three years or less, in an amount not less than an amount equal to the aggregate of all funds placed with the investment officer by local governments under ORS 294.805 to 294.896, which investments shall be from the funds defined in ORS 293.701 (2)(r).

(3) Notwithstanding subsection (2) of this section, the investment officer may purchase legally issued general obligations of the United States and of the agencies and instrumentalities of the United States if the seller thereof has agreed to repurchase the obligations within 90 days following the date on which the investment officer makes the investment therein. If the maturity of the security exceeds 18 months, the price paid by the investment officer for such security may not exceed 98 percent of the current market value.

(4) Investments and commitments of the investment pool which do not conform to the quality or maturity requirements set forth in ORS 294.805 to 294.895 shall be liquidated by the investment officer once the market value of such investments and commitments reaches book value, or as soon as is practicable thereafter. [1979 c.808 §3 (enacted in lieu of 294.830); 1981 c.880 §16; 1987 c.381 §3]

294.835 Standard of care; investment in certain stocks prohibited. (1) In investing and reinvesting moneys in the investment pool and in acquiring, retaining, managing and disposing of investments of the investment pool there shall be exercised the judgment and care under the circumstances then prevailing, which individuals of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. Within the limitations of the foregoing standard and subject to subsections (2) and (3) of this section, there may be acquired, retained, managed and disposed of as investments of the

State to manage Fund

Fidelity Bond for Investment Officer

Prudent man Rule

investment pool every kind of investment which individuals of prudence, discretion and intelligence acquire, retain, manage and dispose of for their own account.

(2) Notwithstanding subsection (1) of this section, moneys in the investment pool may not be invested in the stock of any company, association or corporation.

(3) Notwithstanding subsection (1) of this section, no moneys in the investment pool shall be invested, after June 30, 1979, in any securities originating outside the United States. [1073 c.748 §8; 1979 c.008 §4]

294.840 Investment policies; review; separate policies for individual local government units. Subject to the objective set forth in ORS 294.831 and the standards set forth in ORS 294.835, the council shall formulate policies for the investment and reinvestment of moneys in the investment pool and the acquisition, retention, management and disposition of investments of the investment pool. The council, from time to time, shall review those policies and make changes therein as it considers necessary or desirable. The council may formulate separate policies for any funds from any single governmental unit included in the investment pool. [1073 c.748 §9]

294.845 Investment officer to invest, reinvest pool funds. In amounts available for investment purposes and subject to the policies formulated by the council, the investment officer shall invest and reinvest moneys in the investment pool and acquire, retain, manage, including exercise of any voting rights, and dispose of investments of the investment pool. [1073 c.748 §10]

294.847 Prohibited conduct for investment officer. In making investments pursuant to ORS 294.805 to 294.808, the investment officer shall not:

(1) Make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement of the purchase or sale transaction;

(2) Enter into any agreement to invest funds or sell securities for future delivery for a fee other than interest;

(3) Lend securities to any person or institution, except on a fully collateralized basis;

(4) Pay for any securities purchased by the investment officer until the investment officer has received physical possession thereof. However, the investment officer may instruct any custodian bank, defined in ORS 295.005 (2), to accept securities on the investment officer's behalf against payment therefor previously deposited with the institution by the investment officer; or

(5) Deliver securities to the purchaser thereof upon sale prior to receiving payment in full therefor. However, the investment officer may deliver the securities to any custodian bank, defined in ORS 295.005 (2), upon instructions to hold the same pending receipt by the institution of full payment therefor. [1981 c.880 §11]

294.850 Contracts with persons to perform investment functions; compensation; bond. The council may enter into contracts with one or more persons whom the council determines to be qualified, whereby the persons undertake, in lieu of the investment officer, to perform the functions specified in ORS 294.845 to the extent provided in the contract. Performance of functions under contract so entered into shall be paid for out of the gross interest or other income of the investments with respect to which the functions are performed, and the net interest or other income of the investments after that payment shall be considered income of the investment pool. The council may require a person contracted with to give to the state a fidelity bond in a penal sum as may be fixed by law or, if not so fixed, as may be fixed by the council, with corporate surety authorized to do business in this state. Contracts so entered into and functions performed thereunder are not subject to the State Personnel Relations Law or ORS 279.710 to 279.746. [1978 c.748 §11]

294.855 Legal opinions; investment counseling services; mortgage services. (1) In the acquisition or disposition of bonds with which approving legal opinions ordinarily are furnished, the investment officer may require an original or certified copy of the written opinion of a reputable bond attorney or attorneys, or the written opinion of the Attorney General, certifying to the legality of the bonds.

(2) The council may arrange for the furnishing to the investment officer of investment counseling services. The furnishing and acquisition of those services are not subject to the State Personnel Relations Law or ORS 279.710 to 279.746.

(3) The investment officer, with the approval of the council, may arrange for services with respect to mortgages in which moneys in the investment pool are invested. Those services shall be paid for out of the gross interest of the mortgages with respect to which the services are furnished, and the net interest of the mortgages after that payment shall be considered income of the investment pool. The furnishing and acquisition of those services are not subject to the State Personnel Relations Law or ORS 279.710 to 279.746. [1973 c.748 §12]

294.860 Custody of investment documents; collection of income; distribution to local governments; calculation and allocation of profit and loss; defaulted payments of principal and interest, collection, compromise. (1) Except as provided in ORS 294.860 and this subsection, all instruments of title of all investments of the investment pool shall remain in the custody of the investment officer. The investment officer may deposit with a well-known and responsible bank or trust company in the City and State of New York or with one or more banks in Portland, Oregon, or both, with the consent of the banks or trust company, those instruments of title the investment officer considers advisable, to be held in safekeeping by the banks or trust company for collection of the principal and interest or other income, or of the proceeds of sale.

(2) Except as provided in ORS 294.860 and 294.865 (3) and subsections (1) and (3) of this section, the investment officer shall collect the principal and interest or other income of investments of the investment pool, instruments of title of which are in the investment officer's custody, when due and payable, and shall pay to the appropriate local government official the principal and interest or other income, within 30 days after the last day of the calendar quarter in which the principal and interest or other income accrues. Not less often than quarterly, the investment officer shall compute the amount by which the current fair market value exceeds or is less than the net purchase price of all investments in the investment pool maturing more than 270 days from the date computation is made. The investment officer shall compute the fair market value of such investments based upon the mean value of the bid and ask price of such investments as of the date of computation, based upon quotations from reputable dealers or financial institutions dealing in such investments. If the amount so computed by the investment officer totals more than one percent of the balance of the pool, either in terms of a gain or loss, the investment officer shall allocate the amount to all pool participants. Any addition to or deduction from amounts to be distributed shall be allocated among the municipalities participating in the pool at any time during the month in proportion to their average daily balances of funds invested through the pool. Investments maturing 270 days or less from the date of computation shall not be subject to the foregoing computation, but for other purposes shall be valued at book value or original purchase price.

(3) In the event of default in the payment of principal or interest or other income of

any investment of the investment pool, the investment officer, with the approval of the council, may:

(a) Institute the proper proceedings to collect the matured principal or interest or other income.

(b) Accept for exchange purposes refunding bonds or other evidences of indebtedness at interest rates to be agreed upon by the investment officer and obligor.

(c) Make compromises, adjustments or disposition of the matured principal or interest or other income as the investment officer considers advisable for the purpose of protecting the moneys invested.

(d) Make compromises or adjustments as to future payments of principal or interest or other income as the investment officer considers advisable for the purposes of protecting the moneys invested. [1973 c.748 §13; 1979 c.475 §2; 1987 c.381 §4]

294.865 Quarterly deductions from income received for reimbursement of expenses, repayment of initial appropriation. (1) The State Treasurer may deduct quarterly a maximum of one percent of the amount of income received from the earnings of the investment pool during the preceding quarter. Amounts so deducted:

(a) Shall reimburse the State Treasurer for expenses the State Treasurer incurs as investment officer and to the extent they are so used shall be deposited in the Miscellaneous Receipts Account established in the General Fund for the State Treasurer, and are appropriated for payment of the expenses of the office of State Treasurer, incurred as investment officer; and

(b) In excess of expenses incurred by the State Treasurer during the preceding quarter, shall be used to return to the General Fund the appropriation made to initially cover the costs of administering the investment pool.

(2) Once enough moneys have been deducted from the earnings of the investment pool and returned to the General Fund to repay the initial appropriation, the State Treasurer may deduct, up to one percent of the income, only such amounts as are needed to reimburse the State Treasurer for the actual expenses the State Treasurer incurs as investment officer of the investment pool. [1973 c.748 §6; 1975 c.740 §9; 1977 c.268 §11]

294.870 Separate accounts for local governments; reports on investment changes and monthly financial statements required. (1) The investment officer shall keep, for each governmental unit with funds in the investment pool, a separate account, which shall record the individual

amounts and the totals of all investments of its moneys in the investment pool.

(2) The investment officer shall report monthly to the local government official of a governmental unit with funds in the investment pool the changes in its account made during the preceding month for the investment pool. The investment officer shall also furnish a financial report monthly to each participating governmental unit investor in the local government investment pool. The financial report shall include, but not be limited to, such comparative data for the preceding six months operation of the investment pool as will provide a basis for analyzing trends and comparing operating results and financial position. A monthly statement shall be distributed within 30 days after the end of that month. (1973 c.748 §14, 15; 1979 c.608 §5; 1980 c.889 §4)

294.875 Monthly report of investments of pool funds; distribution. Not later than 15 days after the last day of each month, the investment officer shall submit to the council and the board a report of the investments made during the preceding month. The report shall include a detailed summary of investment, reinvestment, purchase, sale and exchange transactions, setting forth, among other matters, the investments bought, sold and exchanged, the dates thereof, the prices paid and obtained, the names of the dealers involved and a statement of the accounts referred to in ORS 294.870 (1). The reports shall include a description of every investment in the portfolio of assets in the investment pool showing issuer, coupon, purchase date, maturity date, yield to maturity, book value, market value as of the end of the month for which the report is rendered and the method used to value pool investments; a computation of the average life of the portfolio of assets in the investment pool weighted according to the market value of each investment that matures more than 270 days from the report date as of the end of the month for which the report is rendered; and a computation of the annualized rate of return of the investment pool portfolio, net of expense. A copy of the reports shall be made available to each county, municipality, school district and other political subdivision the funds of which are then being invested by the investment officer. The investment officer may send copies of the report to investment bankers and brokers recommended by the council. (1973 c.748 §16; 1981 c.880 §17; 1987 c.381 §5)

294.880 Program examination and audit; report; distribution. An examination and audit of the investment pool shall be made separately from the audit of the treasurer for submission to the council, local

governmental units which are investors in the pool, the Legislative Assembly and the board at least once a year and at other times as the council may require. An audit report shall be submitted to the individuals and units specified within 60 days after the end of the fiscal year or as soon as practical. The report shall include a statement prepared by the State Treasurer of the investment rules governing investments authorized by the council. (1978 c.748 §17; 1979 c.608 §6)

294.882 Merger or subsequent separation of local government investment pool and state investment fund; preconditions. It is recognized that a time might come when the interest of local governments diminishes to the extent that participation in the local government investment pool no longer warrants its operation as a separate fund. If the local government investment pool decreases to a level below \$125 million, the State Treasurer may transfer the assets of the pool to the state investment fund established pursuant to ORS 293.701 (2)(q). In that event, the local government investment pool participant accounts will be treated as are other state funds and accounts in receiving a proportionate share of the earnings of that investment fund. The State Treasurer, at the discretion of the treasurer may reestablish the local government investment pool as a separate fund, if the participant accounts increase to over \$125 million and in the State Treasurer's judgment, sufficient interest by local government exists to insure the local government investment pool will remain over \$125 million. Prior to reestablishing the pool as a separate fund, the State Treasurer shall first present a plan for operation, including the reasons for such action, to the Oregon Investment Council at a regularly scheduled meeting for its review and comment. The State Treasurer shall publish notice in the Secretary of State's administrative rules bulletin of the treasurer's intent to reestablish the pool as a separate fund at least 30 days prior to the meeting at which the Oregon Investment Council shall review the proposal, and notice of the meeting time and location of the Oregon Investment Council at which the proposal will be discussed. (1979 c.609 §9; 1980 c.10 §7; 1983 c.450 §3)

294.885 Oregon Short Term Fund Board; members; appointment; term; vacancies. (1) There is created the Oregon Short Term Fund Board consisting of seven members.

(2) One member shall be the State Treasurer or the treasurer's designated representative. Three members who are qualified by training and experience in the field of investment or finance and who do not hold any other public office or employment, shall be

Monthly
report of
changes
in portfolio
accounts

Exam
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appointed by the State Treasurer. Three members, who are treasurers, finance or fiscal officers or business managers of any county, city or school district, shall be appointed by the Governor. In making the appointment, the Governor may consider persons recommended by:

- (a) The Association of Oregon Counties.
- (b) The League of Oregon Cities.
- (c) The Oregon School Boards Association.

(3) The term of office of each appointed member of the board is four years, but each appointed member serves at the pleasure of the appointing authority. A vacancy in the appointed membership occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only. [1973 c.748 §19; 1979 c.608 §7; 1981 c.880 §18; 1989 c.1006 §2]

294.890 Board members serve without compensation; selection of chairman. (1) A member of the board shall serve without compensation.

(2) The board shall select one of its members as chairman, for a term and with the powers and duties necessary for the performance of the functions of the office as the board shall determine. [1973 c.748 §20]

294.895 Board duties, generally. The board shall:

(1) Advise the council and the investment officer in the management of the investment pool and in the investment of all funds defined in ORS 293.701 (2)(r) and invested pursuant to ORS 293.721.

(2) Review the rules promulgated by the investment officer as authorized under ORS 294.825 (4).

(3) Consult with the council and the investment officer on any matter relating to the investment and reinvestment of funds in the investment pool and on any matter relating to the investment or reinvestment of funds defined in ORS 293.701 (2)(r) and invested pursuant to ORS 293.721. [1973 c.748 §21; 1981 c.880 §19]

COUNCILS OF GOVERNMENTS

294.900 "Council of governments" defined. As used in ORS 294.900 to 294.930, "council of governments" means an entity organized by units of local government under an intergovernmental agreement under ORS 190.003 to 190.110, which does not act under the direction and control of any single member government and does provide services directly to individuals. [1987 c.888 §1]

Note: 294.900 to 294.930 were enacted into law by the Legislative Assembly but were not added to or made a part of ORS chapter 294 or any series therein by leg-

islative action. See Preface to Oregon Revised Statutes for further explanation.

294.905 Budget committee; membership; term; vacancies; officers; meetings to be public. (1) A council of governments shall establish a budget committee in accordance with the provisions of this section.

(2) The budget committee shall consist of the members of the governing body of the council of governments and an equal number of representatives of the services provided by the council of governments. If there are fewer representatives of the services than the number of members of the governing body of the council, the governing body and the representatives willing to serve shall be the budget committee. If there are no representatives willing to serve, the governing body shall be the budget committee.

(3) The members of the budget committee shall receive no compensation for their services as members of such committee.

(4) Appointive members of the budget committee shall not be officers, agents or employees of the council of governments or providers of the services.

(5) The appointive members of the budget committee shall be appointed for terms of three years. The terms shall be staggered so that one-third or approximately one-third of the terms of the appointive members end each year.

(6) If any appointive member is unable to serve the term for which the member was appointed, or an appointive member resigns prior to completion of the term for which the member was appointed, the governing body of the council of governments shall fill the vacancy by appointment for the unexpired term.

(7) The budget committee, at its first meeting after its appointment, shall elect a chairperson and a secretary from among its members.

(8) Meetings of the budget committee shall comply with the requirements of ORS 192.610 to 192.710. [1987 c.888 §2]

Note: See note under 294.900.

294.910 Estimates of expenditures; organization and format; matters to be included. (1) Each council of governments shall prepare estimates of expenditures for the ensuing year.

(2) The estimates required by subsection (1) of this section shall be prepared by organizational unit or by program.

(3) Estimates required by subsection (1) of this section and prepared by organizational unit shall be detailed under separate object classifications of personal services, materials and services and capital outlay.

295.005 Definitions for ORS 295.015 and 295.025 to 295.165. As used in this section, ORS 295.015 and 295.025 to 295.165, unless the context requires otherwise:

(1) "Certificate of participation" or "certificate" means a nonnegotiable document issued by a pool manager to a public official.

(2) "Custodian bank" or "custodian" means the following institutions designated by the depository bank for its own account:

(a) The Portland Branch of the Federal Reserve Bank of San Francisco;

(b) The Federal Home Loan Bank of Seattle;

(c) Any bank or trust company, mutual savings bank or savings and loan association doing business in this state. With the approval of the State Treasurer, a depository bank may be a custodian bank with respect to its own securities;

(d) Any bank or trust company not located in this state but authorized to act as trustee in this state; and

(e) The fiscal agency of the State of Oregon in the City and State of New York, duly appointed and acting as such agency pursuant to ORS 288.010 to 288.110.

(3) "Custodian's receipt" or "receipt" means a document issued by a custodian bank to a pool manager describing the securities deposited with it by a depository bank to secure public fund deposits.

(4) "Depository bank" or "depository" means any bank or trust company, mutual savings bank or savings and loan association which maintains a head office or a branch in this state in the capacity of a bank or trust company, mutual savings bank or savings and loan association.

(5) "Pool manager" means:

(a) The State Treasurer;

(b) Any trust company, bank or mutual savings bank legally engaged in the business of a trust company, as that term is defined in ORS 706.005 (25) at an office in this state; but a depository bank shall not be a pool manager with respect to securities that it deposits with its custodian as collateral for the security of public fund deposits; or

(c) The Federal Reserve Bank of San Francisco or any branch thereof.

(6) "Public funds" or "funds" means the funds under the control or in the custody of a public official by virtue of office, other than those which, pursuant to law other than this section, ORS 295.015 and 295.025 to 295.165, are invested in authorized investments or are deposited for the purpose of meeting the payment of principal or interest on bonds or like obligations.

(7) "Security" or "securities" means:

(a) Obligations of the United States, including those of its agencies and instrumentalities;

(b) Obligations of the International Bank for Reconstruction and Development;

(c) Bonds of any state of the United States (A) that are rated in one of the four highest grades by a recognized investment service organization that has been engaged regularly and continuously for a period of not less than 10 years in rating state and municipal bonds or, (B) having once been so rated are ruled, pursuant to ORS 295.095, to be eligible securities for the purposes of this section, ORS 295.015 and 295.025 to 295.165, notwithstanding the loss of such rating;

(d) Bonds of any county, city, school district, port district or other public body in the United States payable from ad valorem taxes levied generally on substantially all property within the issuing body and that meet the rating requirement or are ruled to be eligible securities as provided in paragraph (c) of this subsection;

(e) Bonds of any county, city, school district, port district or other public body issued pursuant to the Constitution or statutes of the State of Oregon or the charter or ordinances of any county or city within the State of Oregon, if the issuing body has not been in default with respect to the payment of principal or interest on any of its bonds within the preceding 10 years or during the period of its existence if that is less than 10 years;

(f) Notes issued by a municipality under ORS 287.526 and bond anticipation notes issued, sold or assumed by an authority under ORS 441.560;

(g) One-family to four-family housing mortgage loan notes related to property situated in the State of Oregon, which are owned by a depository bank, no payment on which is more than 90 days past due, and which are eligible collateral for loans from the Federal Reserve Bank of San Francisco under section 10(b) of the Federal Reserve Act and regulations thereunder;

(h) Bonds, notes, letters of credit or other securities or evidence of indebtedness constituting the direct and general obligation of a federal home loan bank or Federal Reserve bank;

(i) Debt obligations of domestic corporations that are rated in one of the three highest grades by a recognized investment service organization that has been engaged regularly and continuously for a period of not less than 10 years in rating corporate debt obligations;

(j) Collateralized mortgage obligations and real estate mortgage investment conduits that are rated in one of the two highest grades by a recognized investment service organization that has been engaged regularly and continuously for a period of not less than 10 years in rating corporate debt obligations; and

(k) One-family to four-family housing mortgages that have been secured by means of a guarantee as to full repayment of principal and interest by an agency of the United States Government, including the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

(8) "Public official" means each officer or employee of this state or any agency, political subdivision or public corporation thereof who by law is made the custodian of or has control of any public funds.

(9) "Value" means the value of securities at the most recent valuation date, as provided in ORS 295.095, or, if issued thereafter, market value at the date of issue. [1967 c.451 §1; 1973 c.157 §4; 1973 c.288 §2; 1973 c.378 §1; 1973 c.797 §420; 1975 c.515 §6; 1981 c.440 §2; 1983 c.104 §3; 1983 c.456 §4; 1985 c.430 §1; 1985 c.505 §51; 1987 c.524 §1; 1989 c.536 §1]

295.010 [Amended by 1953 c.352 §3; 1957 c.172 §1; 1965 c.169 §1; repealed by 1967 c.451 §32]

295.015 Maintenance of securities by depository required. Except as provided in ORS 295.018:

(1) Each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 25 percent of the certificates of participation issued by its pool manager.

(2) The depository may deposit other eligible securities with its custodian and withdraw from deposit securities theretofore pledged to secure deposits of public funds, if the remaining securities have a value not less than 25 percent of outstanding certificates of participation of the pool manager. The pool manager shall execute such releases and surrender such custodian's receipts as are appropriate to effect substitutions and withdrawals of excess pledged securities. [1967 c.451 §2; 1973 c.515 §3]

295.018 Increase in required collateral of depository; notification; effect of failure to increase collateral. (1) The State Treasurer may require any depository bank during any period when it has in its possession public fund deposits to maintain on deposit with its custodians securities having a value not less than 110 percent of the certificates of participation issued by its pool

manager. The increase in collateral shall be ordered upon the advice of the Director of the Department of Insurance and Finance. If the depository bank is a federally chartered savings and loan association, in giving its advice to the State Treasurer the Director of the Department of Insurance and Finance may rely exclusively on information provided to the director by federal regulatory agencies and by the association on forms prescribed by the director; as a condition of being analyzed and reviewed by the director, a federal association shall agree and consent to provide the director with accurate, pertinent and timely information.

(2) Failure of the Director of the Department of Insurance and Finance to inform the State Treasurer of the condition of any depository does not give any public depository any right or impose any liability on the director. The State Treasurer shall not be liable to any public depository or to any depository bank for increasing or not increasing the collateral requirement as authorized in subsection (1) of this section.

(3) Any depository bank notified by the State Treasurer of the increased collateral requirement shall comply with the order within 10 business days by increasing the collateral in the same manner as required for the initial deposit of collateral in ORS 295.015. The bank shall notify the State Treasurer and the pool manager of its compliance by supplying copies of the custodian's receipts for the increased collateral.

(4) If any depository bank notified by the State Treasurer of an increased collateral requirement fails to notify the State Treasurer of compliance therewith within 10 business days, the State Treasurer shall immediately notify the Director of the Department of Insurance and Finance of the failure and shall send notice to the pool manager and all public depositors served by that depository bank of its failure to comply.

(5) A depository bank described in subsection (4) of this section shall accept no further public deposits. [1975 c.515 §2; 1981 c.440 §1; 1985 c.782 §182; 1987 c.373 §229a, 28b; 1987 c.554 §1; 1989 c.171 §11]

295.020 [Repealed by 1967 c.451 §32]

295.022 Collateral not required for deferred compensation funds. Notwithstanding any other provision of this chapter, when a bank, mutual savings bank or savings and loan association receives funds from the state for deposit or investment under the deferred compensation program established under ORS 243.400 to 243.495, the institution shall not have to maintain the collateral required under this chapter for those deferred compensation program funds. [1977 c.721 §15]

295.025 Retention of cash working fund by public official; deposit of remaining public funds. (1) Any public official may retain undeposited such reasonable cash working fund as is fixed by the governing body of the political subdivision or public corporation for which the public official acts. Except to the extent of such cash working fund, each public official shall deposit public funds in the custody or control of the public official in one or more depositories currently qualified pursuant to ORS 295.005, 295.015 and 295.025 to 295.165. The public official shall not have on deposit in any one depository bank and its branches a sum in excess of the amount insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, without procuring certificates of participation issued by the pool manager of the depository in an amount equal to the excess deposit. Compliance with ORS 295.005, 295.015 and 295.025 to 295.165 relieves the public official of personal liability on account of the loss of the public funds in the custody or control of the public official.

(2) Whenever a public official holds a certificate of participation issued by a pool manager in an amount exceeding the amount required by subsection (1) of this section, upon the written request of the depository bank the public official shall surrender it to the pool manager or direct the pool manager in writing to cancel it in whole or in a designated part. [1967 c.451 §3; 1973 c.288 §3]

295.030 [Repealed by 1967 c.451 §32]

295.035 Issuance of custodian's receipt for securities. Upon receipt of securities from the depository bank, the custodian bank shall issue to the pool manager designated by the depository a custodian's receipt describing the securities. [1967 c.451 §4]

295.040 [Amended by 1959 c.330 §1; 1963 c.128 §1; 1955 c.829 §1; repealed by 1967 c.451 §32]

295.045 Designation of pool managers; procedure for changing managers. Each depository bank shall designate one or more pool managers as provided in ORS 295.005, 295.015 and 295.025 to 295.165; but it shall designate only one pool manager to function with respect to the public fund deposits and the security therefor of a single public official. If the depository elects to change pool managers, the public official shall surrender certificates of participation issued by the former pool manager in exchange for certificates of like amount issued by the successor pool manager, and the former pool manager shall cause the custodian to deliver to the successor pool manager custodian's receipts for security no longer required to support its outstanding certificates of participation. Such transactions may be arranged by

escrows or otherwise, as the parties agree. [1967 c.451 §5]

295.050 [Repealed by 1967 c.451 §32]

295.055 Depository bank to inform State Treasurer of its custodian banks and pool managers. Each depository bank shall keep on file with the State Treasurer the names and addresses of each of its custodian banks and pool managers. [1967 c.451 §6]

295.060 [Repealed by 1967 c.451 §32]

295.065 Duties of pool manager. Each pool manager shall:

(1) Maintain an accurate inventory of the securities of each depository bank described in the custodian's receipts transmitted to it from custodian banks, and adjust the inventory to reflect withdrawals and substitutions of securities previously inventoried.

(2) Appraise the value of the securities added to and withdrawn from the inventory of the depository bank, and appraise the value of the entire inventory of the depository on October 1 of each year and at such other times as it is directed to do so by the State Treasurer.

(3) Issue certificates of participation to public officials in amounts designated by the depository bank and, upon the direction of the depository bank and the written consent of the public official to whom it is issued, reduce, modify or cancel a certificate.

(4) Notify in writing holders of certificates of participation in the collateral of a depository bank whenever, after 10 days' notice to the depository bank, the value of the securities continues to be less than 25 percent of outstanding certificates.

(5) Notify the State Treasurer of the occurrence whenever a bond in the inventory of a depository bank loses its rating requirement provided in ORS 295.005 (7)(c) and (d). [1967 c.451 §7; 1973 c.378 §2; 1975 c.515 §4]

295.070 [Repealed by 1967 c.451 §32]

295.075 [1965 c.520 §3; repealed by 1967 c.451 §32]

295.080 [Amended by 1959 c.330 §2; 1963 c.520 §2; 1967 c.335 §33; repealed by 1967 c.451 §32]

295.085 Requiring special certification of collateral value. If, in the opinion of the State Treasurer, market conditions so indicate, the State Treasurer may require certification of collateral value in accordance with ORS 295.065 at other times throughout the year. The decision to request a special certification shall be solely at the discretion of the State Treasurer. [1967 c.451 §8]

295.090 [Amended by 1959 c.330 §3; repealed by 1967 c.451 §32]

295.095 Valuation committee; appointment; duties; compensation and expenses; report to govern appraisal of securities

by pool managers. (1) Not later than January 15 of each year, the State Treasurer shall appoint a committee of not less than three nor more than five individuals to serve without compensation as a valuation committee. Within 15 days after September 30 of each year and within 15 days after any date specified by the State Treasurer, which dates shall be known as valuation dates, the committee shall establish means for the determination of the value of eligible securities based on quality, coupon rate, maturity and yields on similarly rated securities or on bonds of similar quality. Each member of the committee must be a resident of this state and have experience in bond market transactions or analysis. The membership of the committee must include one or more officers of banks or trust companies. Whenever the number of the members of the committee is less than five, the State Treasurer may appoint an additional member for a term expiring on the following January 15. Members are entitled to compensation and expenses as provided in ORS 292.495.

(2) Each report of the committee shall include its determination with respect to the continued eligibility as collateral of all bonds reported to the State Treasurer pursuant to ORS 295.065 (5) since the publication of the committee's last preceding report and appropriate criteria for use in the valuation of such of those bonds as are determined to be eligible.

(3) Pool managers shall appraise securities in accordance with the report of the committee currently in effect. Provided, however, that the committee shall value securities of the type described in ORS 295.006 (7)(g) as provided under ORS 295.185.

(4) The findings of the committee shall be published or otherwise made available from time to time as the State Treasurer determines to be appropriate and necessary for the purpose of advising depository banks and pool managers. [1967 c.451 §9; 1969 c.314 §20; 1973 c.374 §9; 1983 c.486 §7]

295.100 [Repealed by 1907 c.451 §32]

295.105 Effect of deposit of securities; procedure in case of default of depository bank. (1) The deposit of securities by a depository bank with its custodian pursuant to ORS 295.005, 295.015 and 295.025 to 295.165 constitutes consent by the depository to the disposition of the securities in accordance with this section.

(2) When a depository is closed by order of the Director of the Department of Insurance and Finance or the Comptroller of the Currency, the State Treasurer shall:

(a) Demand and receive from the pool manager the custodian's receipts; and

(b) Demand and receive from the custodian the securities pledged to secure deposits of public funds and, with the advice and counsel of the valuation committee, liquidate in an orderly manner the securities or such thereof as the State Treasurer may determine advisable at public or private sale and distribute the proceeds as provided in this section.

(3) Each public official shall advise the State Treasurer of the amount of the public official's deposits in the defaulted depository bank, and the State Treasurer shall proceed to determine the total amount of the claims payable out of the collateral of the depository. The claim of a public official for purposes of this section shall be the lesser of:

(a) The amount of the public official's deposits plus interest to the date the funds are distributed to the public official at the rate the depository agreed to pay on the funds reduced by the portion thereof that is insured by the Federal Deposit Insurance Corporation; or

(b) The amount of the public official's certificates of participation plus interest on the public official's deposits to the date the funds are distributed to the public official at the rate the depository agreed to pay on the funds.

(4) The State Treasurer shall distribute the net proceeds of the collateral, to the extent that they do not exceed the total claims, among the public officials entitled thereto in proportion to their respective claims. The State Treasurer shall remit to the depository bank any of its collateral or the proceeds thereof in excess of the amount so distributable to public officials.

(5) If the net proceeds of the collateral are inadequate, after all other available sources are applied, to meet the total claims of the public officials entitled thereto, the public officials may make claims against the depository bank as general creditors.

(6) The State Treasurer, in accordance with ORS 183.310 to 183.550, shall adopt rules to carry out this section. [1967 c.451 §10; 1973 c.438 §1; 1975 c.515 §6; 1983 c.206 §10; 1985 c.762 §183]

295.110 [Amended by 1953 c.352 §3; repealed by 1907 c.451 §32]

295.115 Time deposits. (1) Any depository may offer in writing to accept from the State Treasurer time deposits without limitation in amount or in an aggregate amount therein stated and to pay interest on the time deposits at rates specified in the offer. The offer shall be a continuing offer until it is modified or withdrawn by notice in writing delivered or mailed by registered or certified mail to the State Treasurer. While the offer

continues in effect, the depository is bound to accept upon the terms therein specified time deposits tendered by the State Treasurer.

(2) Any funds deposited by the State Treasurer on a time basis shall be deposited at the highest rate of interest available for the amount and term of the deposit.

(3) The State Treasurer shall establish time deposits so as to make the deposited moneys as productive as possible, and shall exercise the judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering the probable income and the probable safety of the moneys deposited, including the distribution of the deposits among depositories so as to minimize the possibility of loss of moneys. (1987 c.451 §11; 1989 c.319 §1)

295.120 (Amended by 1983 c.352 §3; repealed by 1987 c.451 §32)

295.125 Deposits for terms not exceeding two years; interest; retention of sum by State Treasurer to pay current obligations. (1)(a) The State Treasurer may deposit moneys not required to meet current demands for a term not to exceed two years at such interest rates and upon such conditions as to withdrawals of such moneys as may be agreed upon between the State Treasurer and any depository bank or banks in the state.

(b) All interest received on deposits of moneys under this subsection shall accrue to and become a part of the General Fund as required by ORS 293.140.

(2)(a) The State Treasurer may deposit moneys of any of the funds mentioned in ORS 293.701 (2), except moneys deposited under subsection (1) of this section, at such interest rates and upon such conditions as to withdrawals of such moneys as may be agreed upon between the State Treasurer and any depository bank or banks in the state.

(b) Notwithstanding ORS 293.140, all interest received on deposits of moneys under this subsection shall accrue to and become a part of the fund the moneys of which were deposited.

(3) The State Treasurer may retain on hand in the state vault or in a depository, the sum the treasurer considers necessary as a reserve for the purpose of paying the current obligations and appropriations of the state. (1987 c.451 §12b; 1981 c.189 §1; 1989 c.319 §2)

295.130 (Amended by 1983 c.352 §3; repealed by 1987 c.451 §32)

295.135 Designation of depository; collection for claims due state. (1) The State Treasurer may designate such banks as are necessary within this state as depositories

for the collection of drafts, checks, certificates of deposit and coupons received by the State Treasurer on account of any claim due the state.

(2) The State Treasurer, on receipt of any draft, check or certificate of deposit, on account of a claim due the state, may place it in a depository for collection. The depository shall collect it without delay, without charge for its services for the collection or for exchange, and shall notify the State Treasurer when collected. The compensation to be paid by the depository shall be fixed by the State Treasurer upon the best terms obtainable for the state. (1987 c.451 §13; 1981 c.189 §2)

295.140 (Repealed by 1983 c.352 §3)

295.145 Division of State Lands to invest proceeds from sales of public lands. Nothing in ORS 295.005, 295.015 and 295.025 to 295.165 deprives the Division of State Lands of the power to invest or dispose of the funds derived from the sale of public lands as provided by law. (1987 c.451 §14)

295.150 (Repealed by 1987 c.451 §32)

295.155 Preference in selecting depositories for political subdivisions; apportioning funds; interest. (1) In selecting banks or trust companies to act as depositories, public officials are not limited to the appointment of banks or trust companies in any particular locality; but if banks or trust companies are engaged in business at an office or offices within the corporate limits of the political subdivision or public corporation and qualify to receive the funds, such depositories shall be given preference. If there is more than one such local qualifying depository, the depositing public official shall apportion the funds in the hands of the public official to such depositories in a manner that is equitable and in the best interests of the political subdivision or public corporation.

(2) The depositories shall be required to pay to the political subdivision or public corporation upon deposits evidenced by certificates of deposit or deposits which by agreement may not be withdrawn on less than 30 days' notice, interest at such rate or rates as shall be agreed upon between the governing body of the political subdivision or public corporation and the depository.

(3) All interest received on deposits of moneys under this section shall accrue to and become a part of the fund the moneys of which were deposited.

(4) This section does not apply to the State Treasurer. (1987 c.451 §15)

295.160 (Repealed by 1987 c.451 §32)

295.165 Depositing moneys with treasurer of political subdivision. Any public

official may deposit moneys coming into the hands of the public official in connection with official duties with the treasurer of the political subdivision or public corporation concerned and obtain a receipt therefor. [1967 c.451 §16]

295.170 [Repealed by 1967 c.451 §32]

295.176 Expenses of State Treasurer as pool manager. The expense of the State Treasurer in acting as a pool manager shall be paid to the State Treasurer by the depository bank using the services as pool manager. The State Treasurer, under rules and regulations to be adopted by the State Treasurer pursuant to ORS 183.310 to 183.550, shall deposit funds so received and may require advance deposits to be made by any depository bank. The moneys credited pursuant to this section are continuously appropriated for the payment of expenses incurred in the administration of ORS 295.005, 295.015 and 295.025 to 295.165. [1967 c.451 §30; 1989 c.509 §5]

295.180 [Repealed by 1967 c.451 §32]

295.185 Maintenance of certain securities as collateral at rate set by State Treasurer. Notwithstanding the provisions of ORS 295.015 to 295.165, securities described in ORS 295.005 (7)(g) shall be maintained as collateral for public deposits at the value determined by the State Treasurer. [1983 c.448 §6]

295.190 [Repealed by 1967 c.451 §32]

295.195 When deposit in foreign country authorized; effect on collateral. (1) Notwithstanding any other provision of ORS chapter 295, the Department of Higher Education, with the approval of the State Treasurer, may deposit funds in a financial institution in a foreign country, if the circumstances under which the funds are to be used render it impracticable to keep the funds in a domestic financial institution or if the terms of a grant, gift or contract require that the funds be kept in a foreign country.

(2) Notwithstanding any other provision of this chapter, to the extent estimated to be necessary to fund operations or activities for one biennium of the State of Oregon in a foreign country, the State Treasurer may deposit funds in a financial institution in a foreign country.

(3) When funds are deposited in a financial institution in a foreign country pursuant to subsection (1) or (2) of this section, the institution shall not be required to maintain collateral as provided in ORS 295.015. Reasonable and prudent measures to protect the public funds from loss shall be exercised to the extent permitted under the laws of the foreign country.

(4) The State Treasurer shall report to the Legislative Assembly biennially on the amounts of deposits in foreign countries, and the operation and activities funded by such deposits. The report shall be submitted to the offices of the President of the Senate and the Speaker of the House of Representatives and shall be referred by each of them to appropriate standing committees other than committees concerned with budgets of the State Treasurer or the activity or operation so funded. [1983 c.374 §1, 2; 1989 c.389 §1]

295.200 [Repealed by 1967 c.451 §32]

295.210 [Repealed by 1967 c.451 §32]

295.220 [Repealed by 1967 c.451 §32]

295.230 [Repealed by 1967 c.451 §32]

295.240 [Repealed by 1967 c.451 §32]

295.250 [Repealed by 1967 c.451 §32]

295.260 [Repealed by 1967 c.451 §32]

295.270 [Repealed by 1967 c.451 §32]

295.280 [Amended by 1957 c.171 §1; 1965 c.160 §2; repealed by 1967 c.451 §32]

295.290 [Repealed by 1967 c.451 §32]

295.300 [Repealed by 1967 c.451 §32]

295.310 [Repealed by 1967 c.451 §32]

295.320 [Repealed by 1967 c.451 §32]

295.330 [Repealed by 1967 c.451 §32]

295.340 [Amended by 1963 c.502 §5; repealed by 1967 c.451 §32]

295.350 [Repealed by 1967 c.451 §32]

295.360 [Repealed by 1967 c.451 §32]

295.370 [Repealed by 1967 c.451 §32]

295.380 [Repealed by 1967 c.451 §32]

295.390 [Repealed by 1967 c.451 §32]

295.400 [Repealed by 1967 c.451 §32]

295.991 [1967 c.451 §16; repealed by 1971 c.743 §432]

CHAPTER 296

[Reserved for expansion]

National Bank of Alaska



Corporate Headquarters P.O. Box 100600 Anchorage, Alaska 99510-0600 (907) 276-1132

April 17, 1991

Scott A. Burgess
Executive Director
Alaska Municipal League
217 Second Street, Suite 200
Juneau, Alaska 99801

Dear Mr. Burgess:

We have reviewed your RFP for providing a local government pooled investment Fund for AML members.

After careful examination, and based on the criteria outlined in the RFP (paragraph 3A, page 5 "Scope of Services Required"), we have determined that NBA is not qualified to make a proposal unless we joint venture with an out-of-state money manager. While we have the ability to enter into a joint venture, we feel it would not be in the best interest of either the bank or League members.

We are disappointed our Bank is unable to qualify and the municipal funds will undoubtedly have to leave the state. As you know, NBA is a strong believer in investing in our communities and the state. For the past 75 years, we've serviced Alaskan communities with sound investments and we feel our products still compare favorably against out-of-state money managers.

Scott, if you were to consider the fact that NBA has offices in 30 Alaska communities, employs over 1150 Alaskans with an annual payroll over \$37 million, paid over \$880,000 in real estate and personal property taxes to League communities and the State, and makes sizable contributions to the State's economy in a variety of ways, then maybe the additional value your members might receive from an outside money manager would be better compared.

Again, we thank you for including us in the process and I hope you will accept this letter as an expression of our disappointment in not being able to participate in this program.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rod Shipley".

Rod Shipley
Vice President
Trust Administrator

cc: Alaska Municipal League Board Members

caj



217 Second Street, Suite 200 • Juneau, Alaska 99801 • Tel (907) 586-1325, Fax (907) 463-5480

March 28, 1991

Senator Arliss Sturgulewski
Alaska State Senate
Post Office Box V
Juneau, Alaska 99801

RE: SB 182 - Investment Pools for Public Entities

Dear Senator:

In response to your request during the recent Senate Community and Regional Affairs Committee meeting on SB 182, I am providing some additional information regarding legislative authority for local government investment pools from other states.

I have enclosed copies of statutes from Colorado, Minnesota and Iowa which run separate entity (non-state), local government investment pools. I mentioned in my testimony before the C&RA Committee, other states have established their local government investment (and insurance) pools under "joint powers" acts which allows two or more entities to enter into agreements. Separate (non-state) local government investment pools were formed in Iowa and Minnesota under "joint powers" statutes (copies enclosed).

Let me again briefly review the AML's goals for the legislation, and for the program. The AML is seeking legislation (SB 182/HB 199) to clarify the authority of municipalities and school districts to do jointly (in our case through the AML) what they can do individually - invest public funds in a pool to provide security and liquidity while providing a higher rate of return, and provide investment advice, convenience, diversification, accounting and professional management. While our attorneys said creating such a pool may be possible under existing statutes, the AML Investment Pool Committee decided to pursue legislation to facilitate the creation of an investment pool and avoid any legal questions in the future.

There would be no cost or fiduciary responsibility on the state created by SB 182. Alaska law does not limit to any great degree instruments in which municipalities and school districts can invest. To insure security and liquidity, the pool will limit the types of investments beyond the options available to the entities individually. The increased rate of return does not come with higher risk investments but through the pooling of funds.

Public entities will voluntarily participate in the pool only after reviewing bylaws and investment policies, passing a local resolution or ordinance authorizing participation, and signing a cooperative participation agreement. Then they will actually invest their funds, and keep their funds invested in the pool, only if the pool provides competitive rates. The AML

Senator Sturgulewski
March 28, 1991
Page 2

Board intends to establish a pool run by professional management firm and with oversight of representatives of participating entities, including finance officers. We have a request for proposal for firms "on the street". The committee is working on bylaws, cooperative agreements, and resolutions.

While the legislation would allow others to form an investment pool, the AML intends to create a pool for the benefit of our members and others if it proves feasible. If it is not feasible we may look to the state treasury but, at least at this point, municipal finance officers and other officials we are working with have encouraged us to develop a program in which they have more control of their money. The AML got legislation passed in 1986 to allow it to create a pool for insurance and that program, now in its third year, has been very successful.

If you have any other questions, please feel free to call. Thank you for your interest and your support.

Sincerely,



Scott A. Burgess
Executive Director

Enclosures

c: Senator Steve Frank

§ 24-75-605

GOVERNMENT—STATE

(2) Investments under this section shall be limited in their acquisition and retention in the above classes of securities so that the aggregate of all investments in each separate fund at any time shall be as follows:

(a) Classes 1, 2, and 3, or any combination thereof, up to any amount but not less than seventy percent;

(b) Class 4. In any amount not to exceed thirty percent;

(c) Class 5. In any amount which is fully insured by the federal savings and loan insurance corporation or the federal deposit insurance corporation.

(3) The legal investments in this section authorized for cities having a population of twenty-five thousand or more shall be in addition to those investments otherwise by law authorized for said cities.

(4) Notwithstanding the provisions of subsection (2) of this section, investments of firemen's pension funds shall be limited in their acquisition and retention in the classes of securities set forth in subsection (1) of this section so that the aggregate of all investments in each separate fund at any time shall be as follows:

(a) Classes 1, 2, and 3, or any combination thereof, up to any amount but not less than fifty percent;

(b) Class 4. In any amount not to exceed fifty percent, but not more than fifty percent of such class 4 aggregate may be invested in class 4 notes, bonds, or debentures which are convertible into shares of common stock or in common stocks of such class 4;

(c) Class 6. In any amount not to exceed fifty percent;

(d) As a further limitation thereon, in any amount not to exceed seven percent or one hundred thousand dollars, whichever is the greater, of any one issue valued at the time of purchase;

(e) In no event shall any investment be made in the common or preferred stock, or both, of any single corporation in an amount in excess of five percent of the then book value of the assets of the retirement fund.

(Law 1963, S.D. 69, § 1; Law 1969, H.D. 1140, § 1.)

Prior Compilations: C.R.S. 1953, § 83-1-5; C.R.S. 1963, § 83-1-5.

Library References

Municipal Corporations ⇐ 884.

WESTLAW Topic No. 268.

C.J.C. Municipal Corporations § 1851.

COLORADO

PART 7

INVESTMENT FUNDS—LOCAL GOVERNMENT POOLING

§ 24-75-701. Local governments—authority to pool surplus funds

In accordance with the provisions of this part 7, it is lawful for any county, city and county, city, town, school district, special district, or other political subdivision of the state, or any department, agency, or instrumentality there-

of, or any political or public corporation of the state to pool any moneys in its treasury, which are not immediately required to be disbursed, with the same such moneys in the treasury of any other county, city and county, city, town, school district, special district, or other political subdivision of the state, or any department, agency, or instrumentality thereof, or any political or public corporation of the state in order to take advantage of short-term investments and maximize net interest earnings.

(Laws 1983, H.B.1097, § 1; Laws 1986, H.B.1279, § 1.)

Library References

Municipal Corporations §884.
WESTLAW Topic No. 268.
C.J.S. Municipal Corporations § 1881.

Notes of Decisions

Construction and application 1

§§ 24-75-701 and 24-75-702. AG FILE No.
DLS8703970/AQC June 29, 1987.

1. Construction and application

Colorado local governmental units may pool funds for investment only in accordance with

§ 24-75-702. Local government investment pooling—trust method

(1) The governing body of each local government entity that desires to participate in pooling shall cooperate in drafting a uniform resolution to be adopted by a majority vote of the governing body of each participating entity. The resolution shall provide for, but need not be limited to, the following:

- (a) Establishment of a local government surplus funds trust fund;
- (b) Supervision of the trust fund by a board composed of the treasurers or other local officials empowered to invest local funds of each of the participating entities;
- (c) Administration of the trust fund by an investment officer and the manner of his appointment as trustee;
- (d) An appropriation from each participating entity to finance the establishment of the trust fund and the repayment of the appropriations from the earnings of the trust fund;
- (e) Payment of the expenses of administration from the income received from the earnings of the trust fund;
- (f) Limitations, if any, on the aggregate amount of moneys which any participating local entity may have on deposit in the trust fund at one time;
- (g) Limitations, if any, on the period of time that the funds of any participating entity may be held in trust;
- (h) Maximum maturity dates of instruments purchased with trust fund moneys;
- (i) Penalties upon participating entities for early withdrawal of funds and procedures for resolving other contingencies which may jeopardize the earning potential of the trust fund, but the principal of each and every account

constituting the trust fund shall be subject to payment at any time from moneys in the trust fund;

(j) Distribution of the income from earnings of the trust fund to participating entities on a pro rata basis;

(k) Maintenance of separate accounts for each participating entity. Individual transactions and totals of all investments, or the share belonging to each participant, shall be recorded in the accounts.

(l) Periodic audits of trust fund management;

(m) Periodic reports to each participating entity showing changes in investments and earnings thereon;

(n) Semiannual financial reporting of the details of the operations of the trust fund;

(o) Purchase of surety and other bonds necessary to protect the fund.

(2) By separate resolution similarly adopted, the governing body of each participating local government entity shall authorize investment of any moneys in its treasury, which are not immediately required to be disbursed, in a local government surplus funds trust fund established pursuant to this section. The resolution shall name the local government official, who may be the treasurer or other official empowered to invest local funds, responsible for deposit and withdrawal of such funds and shall state the approximate cash flow requirements of the local government for the surplus funds invested. In making such deposits and withdrawals, such official shall use prudence and care to preserve the principal and to secure the maximum rate of interest consistent with safety and liquidity. The resolution shall be filed with the trustee of the trust fund.

(3) The investments made with trust fund moneys shall be limited to those instruments which all participating local government entities may individually invest in by law. The trust fund shall not be used to circumvent limitations on the investment authority of participating local government entities.

(4) The trustee of any trust fund moneys authorized by this section shall invest in compliance with the requirements of this section and with that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital and need for liquidity as well as the probable income to be derived.

(Laws 1983, H.B.1097, § 1.)

Notes of Decisions

Construction and application 1

§§ 24-75-701 and 24-75-702. AC FILE No. DLS4703970/AQC June 29, 1997.

1. Construction and application

Colorado local governmental units may pool funds for investment only in accordance with

471.58 RANGE ASSOCIATION OF MUNICIPALITIES AND SCHOOLS; MEMBERSHIP.

For the purpose of providing an areawide approach to problems which demand coordinated and cooperative actions and which are common to those areas of northeast Minnesota affected by operations involved in mining iron ore and taconite and producing concentrate therefrom, and for the purpose of promoting the general welfare and economic development of the cities, towns and school districts within the iron ranges area of northeast Minnesota, any city, town or school district in which the net tax capacity consists in part of iron ore, or lands containing taconite or semitaconite or which is located in whole or part in the tax relief area defined by section 273.134, may pay annual dues in the range association of municipalities and schools. The association may sue, be sued, intervene and act in a civil action in which the outcome of the action will have an effect upon the interest of any of its members.

History: 1943 c 517 s 1; 1965 c 309 s 1; 1973 c 123 art 5 s 7; 1978 c 575 s 1; 1979 c 124 s 1; 1983 c 64 s 1; 1988 c 719 art 5 s 84; 1989 c 329 art 13 s 20

471.59 JOINT EXERCISE OF POWERS.

Subdivision 1. Agreement. Two or more governmental units, by agreement entered into through action of their governing bodies, may jointly or cooperatively exercise any power common to the contracting parties or any similar powers, including those which are the same except for the territorial limits within which they may be exercised. The agreement may provide for the exercise of such powers by one or more of the participating governmental units on behalf of the other participating units. The term "governmental unit" as used in this section includes every city, county, town, school district, other political subdivision of this or another state, another state, and any agency of the state of Minnesota or the United States, and includes any instrumentality of a governmental unit. For the purpose of this section, an instrumentality of a governmental unit means an instrumentality having independent policy making and appropriating authority.

Subd. 2. Agreement to state purpose. Such agreement shall state the purpose of the agreement or the power to be exercised and it shall provide for the method by which the purpose sought shall be accomplished or the manner in which the power shall be exercised. When the agreement provides for use of a joint board, the board shall be representative of the parties to the agreement. Irrespective of the number, composition, terms, or qualifications of its members, such board is deemed to comply with statutory or charter provisions for a board for the exercise by any one of the parties of the power which is the subject of the agreement.

Subd. 3. Disbursement of funds. The parties to such agreement may provide for disbursements from public funds to carry out the purposes of the agreement. Funds may be paid to and disbursed by such agency as may be agreed upon, but the method of disbursement shall agree as far as practicable with the method provided by law for the disbursement of funds by the parties to the agreement. Contracts let and purchases made under the agreement shall conform to the requirements applicable to contracts and purchases of any one of the parties, as specified in the agreement. Strict accountability of all funds and report of all receipts and disbursements shall be provided for.

Subd. 4. Termination of agreement. Such agreement may be continued for a definite term or until rescinded or terminated in accordance with its terms.

Subd. 5. Shall provide for distribution of property. Such agreement shall provide for the disposition of any property acquired as the result of such joint or cooperative exercise of powers, and the return of any surplus moneys in proportion to contributions of the several contracting parties after the purpose of the agreement has been completed.

Subd. 6. Residence requirement. Residence requirements for holding office in any governmental unit shall not apply to any officer appointed to carry out any such agreement.

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Subd. 7. Not to affect other acts. This section does not dispense with procedural requirements of any other act providing for the joint or cooperative exercise of any governmental power.

Subd. 8. Services performed by county, commonality of powers. Notwithstanding the provisions of subdivision 1 requiring commonality of powers between parties to any agreement the board of county commissioners of any county may by resolution enter into agreements with any other governmental unit as defined in subdivision 1 to perform on behalf of that unit any service or function which that unit would be authorized to provide for itself.

Subd. 9. Exercise of power. For the purposes of the development, coordination, presentation and evaluation of training programs for local government officials, governmental units may exercise their powers under this section in conjunction with organizations representing governmental units and local government officials.

Subd. 10. Services performed by governmental units; commonality of powers. Notwithstanding the provisions of subdivision 1 requiring commonality of powers between parties to any agreement, the governing body of any governmental unit as defined in subdivision 1 may enter into agreements with any other governmental unit to perform on behalf of that unit any service or function which the governmental unit providing the service or function is authorized to provide for itself.

Subd. 11. Joint powers board. Two or more governmental units, through action of their governing bodies, by adoption of a joint powers agreement that complies with the provisions of subdivisions 1 to 5, may establish a joint board to issue bonds or obligations pursuant to any law by which any of the governmental units establishing the joint board may independently issue bonds or obligations and may use the proceeds of the bonds or obligations to carry out the purposes of the law under which the bonds or obligations are issued. A joint board created pursuant to this section may issue obligations and other forms of indebtedness only pursuant to express authority granted by the action of the governing bodies of the governmental units which established the joint board. The joint board established pursuant to this subdivision shall be composed solely of members of the governing bodies of the governmental unit which established the joint board, and the joint board may not pledge the full faith and credit or taxing power of any of the governmental units which established the joint board. The obligations or other forms of indebtedness shall be obligations of the joint board issued on behalf of the governmental units creating the joint board. The obligations or other forms of indebtedness shall be issued in the same manner and subject to the same conditions and limitations which would apply if the obligations were issued or indebtedness incurred by one of the governmental units which established the joint board provided that any reference to a governmental unit in the statute, law, or charter provision authorizing the issuance of the bonds or the incurring of the indebtedness shall be considered a reference to the joint board.

Subd. 12. Joint exercise of police power. In the event that an agreement authorizes the exercise of peace officer or police powers by an officer appointed by one of the governmental units within the jurisdiction of the other governmental unit, an officer acting pursuant to that agreement has the full and complete authority of a peace officer as though appointed by both governmental units and licensed by the state of Minnesota, provided that:

(1) the peace officer has successfully completed professionally recognized peace officer preemployment education which the Minnesota board of peace officer standards and training has found comparable to Minnesota peace officer preemployment education; and

(2) the officer is duly licensed or certified by the peace officer licensing or certification authority of the state in which the officer's appointing authority is located.

History: 1943 c 557; 1949 c 448 s 1-3; 1961 c 662 s 1,2; 1965 c 744 s 1-3; 1973 c 123 art 5 s 7; 1973 c 541 s 1; 1975 c 134 s 1,2; 1980 c 532 s 2; 1982 c 507 s 27; 1983 c 342 art 8 s 15; 1984 c 495 s 1; 1986 c 465 art 2 s 15; 1990 c 572 s 14

CHAPTER 28E

JOINT EXERCISE OF GOVERNMENTAL POWERS

28E.1	Purpose.	28E.18	Shared use of facilities.
28E.2	Definitions.	28E.19	Joint county indigent defense fund.
28E.3	Joint exercise of powers.	28E.20	Joint purchases of equipment.
28E.4	Agreement with other agencies.		UNIFIED LAW ENFORCEMENT
28E.5	Specifications.	28E.21	Definition.
28E.6	Additional provisions.	28E.22	Referendum for tax.
28E.7	Obligations not excused.	28E.23	Budget.
28E.8	Filing and recording.	28E.24	Revenue and tax levies.
28E.9	Status of interstate agreement.	28E.25	Expansion of district.
28E.10	Approval of statutory officer.	28E.26	City civil service and retirement.
28E.11	Agency to furnish aid.	28E.27	Duration of agreements for law enforcement purposes.
28E.12	Contract with other agencies.	28E.28	Public safety commission.
28E.13	Powers are additional to others.	28E.28A	Referendum on tax levy — dissolution of district.
28E.14	No limitation on contract.	28E.29	Amara — additional law enforcement.
28E.15	District agency.	28E.30	Agreement for law enforcement administrative services.
28E.16	Election for bonds.		
28E.17	Transit policy — joint agreement — city debt.		

28E.1 Purpose.

The purpose of this chapter is to permit state and local governments in Iowa to make efficient use of their powers by enabling them to provide joint services and facilities with other agencies and to cooperate in other ways of mutual advantage. This chapter shall be liberally construed to that end.

[C66, 71, 73, 76, 77, 79, 81, §28E.1]

28E.2 Definitions.

For the purposes of this chapter, the term "public agency" shall mean any political subdivision of this state; any agency of the state government or of the United States; and any political subdivision of another state. The term "state" shall mean a state of the United States and the District of Columbia. The term "private agency" shall mean an individual and any form of business organization authorized under the laws of this or any other state.

[C66, 71, 73, 75, 77, 79, 81, §28E.2]

See also §28E.2

28E.3 Joint exercise of powers.

Any power or powers, privileges or authority exercised or capable of exercise by a public agency of this state may be exercised and enjoyed jointly with any other public agency of this state having such power or powers, privilege or authority, and jointly with any public agency of any other state or of the United States to the extent that laws of such other state or of the United States permit such joint exercise or enjoyment. Any agency of the state government when acting jointly with any public agency may exercise and enjoy all of the powers, privileges and authority conferred by this chapter upon a public agency.

[C66, 71, 73, 75, 77, 79, 81, §28E.3]

28E.4 Agreement with other agencies.

Any public agency of this state may enter into an agreement with one or more public or private agencies for joint or co-operative action pursuant to the provisions of this chapter, including the creation of a separate entity to carry out the purpose of the agreement. Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies involved shall be necessary before any such agreement may enter into force.

[C68, 71, 73, 75, 77, 79, 81, §28E.4]

28E.5 Specifications.

Any such agreement shall specify the following:

1. Its duration.
2. The precise organization, composition and nature of any separate legal or administrative entity created thereby together with the powers delegated thereto, provided such entity may be legally created.
3. Its purpose or purposes.
4. The manner of financing the joint or co-operative undertaking and of establishing and maintaining a budget therefor.
5. The permissible method or methods to be employed in accomplishing the partial or complete termination of the agreement and for disposing of property upon such partial or complete termination.
6. Any other necessary and proper matters.

[C68, 71, 73, 75, 77, 79, 81, §28E.5]

28E.6 Additional provisions.

If the agreement does not establish a separate legal entity to conduct the joint or co-operative undertaking, the agreement shall also include:

1. Provision for an administrator or a joint board responsible for administering the joint or co-

the warrant book. The original warrant shall be preserved for at least two years. The treasurer shall make monthly reports to show for each warrant the number, date, drawee's name, when paid, to whom paid, original amount, and interest.

5. a. When a warrant legally drawn on the county treasury is presented for payment and not paid because of a deficiency, the treasurer shall carry out duties relating to the endorsement and payment of interest on the amount of deficiency as provided in chapter 74.

b. In lieu of the requirements and procedures specified in sections 74.1, 74.2, and 74.3, when warrants other than anticipatory warrants are presented for payment and not paid for want of funds or are only partially paid, the treasurer may issue a warrant order for an amount equal to the unpaid warrants drawn on a fund. The warrant order shall be dated and include the fund name, amount, and the rate of interest established under section 74A.6. The warrant order shall be endorsed by the treasurer, "not paid for want of funds", and include the treasurer's signature. The treasurer shall keep a list of all warrants comprising a warrant order and shall submit a duplicate copy of the warrant order to the auditor. The procedures of sections 74.4 to 74.7 apply to warrant orders.

6. The amount of a check outstanding for more than two years shall be paid to the treasurer and credited as unclaimed fees and trusts. The treasurer shall provide a list of the checks to the auditor who shall maintain a record of the unclaimed fees and trusts. A person may claim an unclaimed fee or trust within five years after the money is credited upon proper proof of ownership.

7. A warrant outstanding for more than two years shall be canceled by the auditor and the amount of the warrant shall be credited to the fund upon which the warrant was drawn. A person may file a claim with the auditor for the amount of the canceled warrant within five years of the date of the cancellation, and upon showing of proper proof that the claim is true and unpaid, the auditor shall issue a warrant drawn upon the fund from which the original canceled warrant was drawn. This subsection does not apply to warrants issued upon drainage or levee district funds or any fund upon which the county treasurer has issued a warrant order or stamped a warrant for want of funds.

1. (R60, §2187; C73, §567; C97, §597; C24, 27, 31, 35, 39, §5168; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §334.3; S81, §331.554(1); 81 Acts, ch 117, §553)

2. (C51, §154, 490; R60, §362, 755; C73, §329; C97, §485; C24, 27, 31, 35, 39, §5162; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §334.5; S81, §331.554(2); 81 Acts, ch 117, §553)

3. (C51, §155; R60, §363; C73, §330; C97, §486; C24, 27, 31, 35, 39, §5189; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §334.6; S81, §331.554(3); 81 Acts, ch 117, §553)

4. (C51, §159, 160; R60, §365, 368; C73, §332, 333; C97, §488; C24, 27, 31, 35, 39, §5184; C46, 50,

54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §334.7; S81, §331.554(4); 81 Acts, ch 117, §553)

5. (S81, §331.554(5); 81 Acts, ch 117, §553; 82 Acts, ch 1048, §1)

6. (C97, §456; C24, 27, 31, 35, 39, §5169; C46, 50, 54, 58, 62, 66, 71, 73, 75, 77, 79, 81, §334.12; S91, §331.554(6); 81 Acts, ch 117, §553)

83 Acts, ch 65, §1, 2; 83 Acts, ch 129, §147, 209

331.555 Fund management.

1. During each term of office, the treasurer shall keep a separate account of the taxes levied for state, county, school, highway, or other purposes and of all other funds created by law whether of regular, special, or temporary nature. The treasurer shall not pay out or use the money in a fund for any purpose except as specifically authorized by law. The treasurer shall be charged with the amount of tax or other funds collected or received by the treasurer and shall be credited with the amount of taxes or other funds disbursed from each account as authorized by law.

2. Except as provided in section 321.163, on or before the fifteenth day of each month, the treasurer shall prepare sworn statements of the amount of money held by the treasurer on the last day of the preceding month belonging to the state treasury and mail a copy of the statement and the remittance to the treasurer of state. Another copy of the statement shall be mailed to the director of revenue and finance. However, in lieu of mailing the remittance to the treasurer of state, the treasurer may deposit the remittance to the credit of the treasurer of state in an interest-bearing account in a bank in the county as designated by the treasurer of state.

3. If a treasurer fails to comply with the requirements of subsection 2, the treasurer shall forfeit for each failure a sum of not less than one hundred dollars nor more than five hundred dollars to be recovered in an action against the treasurer's bond brought in the name of the director of revenue and finance or the treasurer of state.

4. The treasurer shall make a complete settlement with the county semiannually and when the treasurer leaves office as provided in sections 452.6 and 452.7.

5. The treasurer shall maintain custody of all public moneys in the treasurer's possession and deposit or invest the moneys as provided in section 452.10 and chapter 453.

6. The treasurer shall keep all funds invested to the extent practicable and may invest the funds jointly with one or more counties, judicial district departments of correctional services, cities, or city utilities pursuant to a joint investment agreement.

(C51, §156, 161; R60, §364, 367, 799; C73, §331, 334, 914; C97, §487, 489, 1459; C24, 27, 31, 35, 39, §5165, 5166, 5168; C46, 50, 54, §334.8, 334.9-334.11; C58, 62, 66, 71, 73, 75, 77, 79, 81, §334.8, 334.9, 334.11, 981, §331.555, 81 Acts, ch 117, §554) 87 Acts, ch 105, §1; 88 Acts, ch 1084, §1

331.556 Loss of funds — replacement.
Repealed by 88 Acts, ch 1108, §4

be as shown in the adopted city budget and as certified by the clerk, subject to any changes made after a protest hearing, and any additional tax rates approved at a city election. A city levy is not valid until proof of publication or posting of notice of a budget hearing is filed with the county auditor.

[C24, 27, 31, 35, 39, §370, 385; C46, 50, 54, 58, 62, 66, 71, 73, §24.10, 24.19; C75, 77, 79, 81, §384.17]

384.18 Budget amendment.

A city budget as finally adopted for the following fiscal year becomes effective July 1 and constitutes the city appropriation for each program and purpose specified therein until amended as provided in this section. A city budget for the current fiscal year may be amended for any of the following purposes:

1. To permit the appropriation and expenditure of unexpended, unencumbered cash balances on hand at the end of the preceding fiscal year which had not been anticipated in the budget.
2. To permit the appropriation and expenditure of amounts anticipated to be available from sources other than property taxation, and which had not been anticipated in the budget.
3. To permit transfers from the debt service fund, the capital improvements reserve fund, the emergency fund, or other funds established by state law, to any other city fund, unless specifically prohibited by state law.
4. To permit transfers between programs within the general fund.

A budget amendment must be prepared and adopted in the same manner as the original budget, as provided in section 384.16, and is subject to protest as provided in section 384.19, except that the committee may by rule provide that amendments of certain types or up to certain amounts may be made without public hearing and without being subject to protest. A city budget shall be amended by May 31 of the current fiscal year to allow time for a protest hearing to be held and a decision rendered before June 30. The amendment of a budget after May 31, which is properly appealed but without adequate time for hearing and decision before June 30 is void.

[C24, 27, 31, 35, 39, §375; C46, 50, 54, 58, 62, 66, 71, 73, §24.9; C75, 77, 79, 81, §384.18; 82 Acts, ch 1079, §6]

384.19 Written protest.

Within a period of ten days after the final date that a budget or amended budget may be certified to the county auditor, persons affected by the budget may file a written protest with the county auditor, specifying their objections to the budget or any part of it. A protest must be signed by qualified electors equal in number to one-fourth of one percent of the votes cast for governor in the last preceding general election in the city, but the number shall not be less than ten persons and the number need not be more than one hundred persons.

Upon the filing of any such protest, the county auditor shall immediately prepare a true and complete copy of the written protest, together with the budget to which the objections are made, and shall

transmit the same forthwith to the state appeal board, and shall also send a copy of the protest to the council.

The state appeal board shall proceed to consider the protest in accordance with the same provisions that protests to budgets of municipalities are considered under chapter 24. The state appeal board shall certify its decision with respect to the protest to the county auditor and to the parties to the appeal as provided by rule, and the decision shall be final.

The county auditor shall make up the records in accordance with the decision and the levying board shall make its levy in accordance with the decision. Upon receipt of the decision the council shall correct its records accordingly, if necessary.

[C39, §300.2, 300.7; C46, 50, 54, §24.26, 24.31; C58, 62, 66, 71, 73, §24.27, 24.32; C75, 77, 79, 81, §384.19; 82 Acts, ch 1079, §7]

384.20 Separate accounts.

A city shall keep separate accounts corresponding to the programs and items in its adopted or amended budget, as recommended by the committee.

A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public monies may not be expended or encumbered except under an annual or continuing appropriation.

[§13, §741-a, 741-b; C24, 27, 31, 35, 39, §5675, 5676; C46, 50, §363.49, 363.50; C54, 58, 62, 66, 71, 73, §368A.5, 368A.6; C75, 77, 79, 81, §384.20]

384.21 Joint investment of funds.

A city or a city utility board shall keep all funds invested to the extent practicable and may invest the funds jointly with one or more cities, utility boards, judicial district departments of correctional services, or counties pursuant to a joint investment agreement.
87 Acts, ch 105, §2; 88 Acts, ch 1084, §2

384.22 Annual report.

Not later than October 1 of each year, a city shall publish an annual report as provided in section 862.3 containing a summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the city, and the legal debt limit of the city for the current fiscal year. A copy of this report must be furnished to the auditor of state.

[§13, §741-c, 1056-a7, 1056-a9, 1056-a33; C24, 27, 31, 35, 39, §5677, 5678, 5680, 5681; C46, 50, §363.54, 363.56, 363.57, 416.103; C54, 58, 62, 66, 71, 73, §368A.9, 368A.11, 368A.12; C75, 77, 79, 81, §384.22]

DIVISION III

GENERAL OBLIGATION BONDS

384.23 Construction of words "and" and "or."
As used in divisions III to VI of this chapter, the

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

P.O. Box Y, Juneau, Alaska 99811
(907) 465-3867 or 465-2450
FAX (907) 465-2029

Deliveries to: 240 Main Street
Court Plaza, Room 500
Mail Stop 3101

MEMORANDUM

April 25, 1991

same as SB182

SUBJECT: Investment Pools for Public Entities (CSHB 199(CRA))

TO: Representative Mike Navarre, Co-chair
House Finance Committee

FROM: Tamara Brandt Cook
Director *TBC*

CSHB 199(CRA) permits municipalities and school districts to form investment pools under which the funds of the public entities are administered and invested jointly. You have asked what the implications are regarding the state's financial responsibility in the event that an investment pool suffers financial losses.

As a matter of law, losses experienced by an investment pool would not create any particular liability on the part of the state. However, as a practical matter the state is hardly likely to stand by and allow a municipality to sink into financial ruin. With respect to school districts, of course, there exists the additional constitutional responsibility placed on the legislature to maintain a system of public education. (Article VII, sec. 1, Constitution of the State of Alaska) These considerations exist completely aside from the investment pool issue, although, to the extent that an investment pool provides an opportunity for larger losses simply because the pool will involve larger amounts of money, I suppose, the cause for concern may increase. This would have to be looked into by someone with financial expertise.

Note, however, that with respect to municipalities CSHB 199(CRA) may not substantially change existing law. AS 29.35.010(13) already grants every municipality the authority ". . . to enter into an agreement, including an agreement for cooperative or joint administration of any function or power with a municipality, the state, or the United States. . ." Since it is quite possible that municipalities could form investment pools right now under this provision of law, it is hard to argue that CSHB 199(CRA) substantially changes the state's potential responsibility in situations involving investment losses of municipal funds.

TBC:gc
91-236.glc

TABLE 2
STATUTORY LOCAL GOVERNMENT INVESTMENT AUTHORITY

State	U.S. Treasury Obligations	U.S. Agency Obligations	Federal Instrumentalities	Repurchase Agreements (Explicit)	Commercial Bank CDs	Savings & Loan Deposits	Bankers' Acceptances	Commercial Paper	Money Market Funds	State Investment Pool
Alabama	Yes	Yes	No	Yes	Yes	Yes	No	No	Yes	No
Alaska	HOME RULE									
Arizona	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No
Arkansas	Yes	Some	No	Yes	Yes	Yes	No	No	No	No
California	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Colorado	Yes	Some	Yes	Yes	Yes	Yes	Prpsd.	No	Prpsd.	Private
Connecticut	Yes	Yes	Some	Yes	Yes	Yes	Yes	Yes	No	Yes
Delaware	HOME RULE									
Florida	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Georgia	Yes	Some	No	Yes	Yes	Yes	No	No	No	Yes
Hawaii	Yes	Some	Some	Yes	Yes	Yes	No	No	No	No
Idaho	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Illinois	Yes	Yes	Some	Yes	Yes	Yes	No	Lmtd.	Yes	Yes
Indiana	Yes	No	Yes	Yes	Yes	Yes	No	No	No	No
Iowa	Yes	Yes	Yes	Lmtd.	Yes	Yes	Yes	Yes	Yes	No
Kansas	Yes	Some	Some	Lmtd.	Yes	Lmtd.	No	No	No	No
Kentucky	Yes	Yes	Some	Yes	Yes	Yes	No	No	No	Yes
Louisiana	Yes	Some	Some	No	Yes	Yes	No	No	No	No
Maine	Yes	No	No	Lmtd.	Yes	Yes	No	Lmtd.	Some	No
Maryland	Yes	Yes	Some	Yes	Yes	Yes	Yes	No	Yes	Private
Massachusetts	Lmtd.	No	No	Lmtd.	Lmtd.	Lmtd.	No	No	No	Yes
Michigan	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Lmtd.	Yes	No
Minnesota	Yes	Yes	Yes	Lmtd.	Lmtd.	Lmtd.	Lmtd.	Lmtd.	Yes	No
Mississippi	Yes	No	No	No	Yes	Yes	No	No	No	No
Missouri	Lmtd.	Yes	Yes	Yes	Yes	Yes	No	No	No	No
Montana	Yes	Yes	No	Yes	Yes	Yes	No	No	No	Yes
Nebraska	Yes	Yes	Some	No	Yes	No	No	No	No	No
Nevada	Yes	Some	Some	No	Yes	Yes	No	No	No	Yes
New Hampshire	Yes	Lmtd.	Lmtd.	Lmtd.	Yes	Yes	Lmtd.	Lmtd.	No	No
New Jersey	Lmtd.	Some	Some	Yes	Yes	Yes	No	No	No	Yes
New Mexico	Yes	No	No	No	Yes	Yes	No	No	No	No
New York	Yes	No	Lmtd.	No	Yes	Yes	No	No	No	No
North Carolina	Yes	Some	Some	Yes	Yes	Yes	Some	Lmtd.	Lmtd.	Yes
North Dakota	Yes	No	Some	No	No	No	No	No	No	No
Ohio	Yes	Yes	Some	Yes	Yes	Yes	No	No	No	Yes
Oklahoma	Yes	Some	Some	No	Yes	No	No	No	No	No
Oregon	Yes	Yes	Yes	No	Yes	Yes	Yes	No	No	Yes
Pennsylvania	Yes	Some	Some	No	Yes	Yes	No	Lmtd.	Yes	Trust
Rhode Island	No	No	No	No	Yes	Yes	No	No	Yes	Private
South Carolina	Yes	Some	Some	Yes	Yes	Yes	No	No	No	Yes
South Dakota	Yes	Lmtd.	Yes	No	Yes	Yes	Lmtd.	No	No	No
Tennessee	Yes	Some	Some	Lmtd.	Yes	Yes	No	No	Lmtd.	Yes
Texas (cities)	Yes	Yes	Some	No	Lmtd.	Yes	No	No	No	No
Utah	Yes	Yes	Some	Yes	Yes	Yes	Yes	No	No	Yes
Vermont	HOME RULE									
Virginia	Yes	Yes	Yes	Yes	Lmtd.	Lmtd.	Lmtd.	Yes	Yes	Yes
Washington	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	No
West Virginia	Yes	Some	Some	No	Yes	Yes	No	No	No	Yes
Wisconsin	Yes	Yes	Yes	Yes	Yes	Yes	Lmtd.	Lmtd.	No	Yes
Wyoming	Yes	Some	Some	No	Yes	Yes	No	No	No	No

This information may require correction due to changing state laws and conflicting provisions.

(Updated: November 1988)

The State of Alaska will not endorse a specific investment pool, nor will it indemnify a political subdivision against losses sustained from using an investment pool. This statute neither relieves a political subdivision from its fiduciary obligation to prudently invest public funds, or conform to its local investment policy restrictions.

YOUR PRUDENT PERSON LANGUAGE WOULD MOST APPROPRIATELY FIT ON
PAGE ONE, LINE 12 AFTER THE WORD "POOL"

Adams
Am #1

"THE PRUDENT PERSON RULE SHALL BE APPLIED TO INVESTMENTS MADE UNDER THIS SECTION. THE PRUDENT PERSON RULE MEANS THAT THE INVESTORS SHALL EXERCISE THE JUDGEMENT AND CARE UNDER THE CIRCUMSTANCES THEN PREVAILING THAT AN INSTITUTIONAL INVESTOR OF ORDINARY PRUDENCE, DISCRETION AND INTELLIGENCE EXERCISES IN THE MANAGEMENT OF LARGE INVESTMENTS ENTRUSTED TO IT NOT IN REGARDS TO SPECULATION BUT IN REGARD TO THE PERMANENT DISPOSITION OF FUNDS, CONSIDERING THE PROBABLE SAFETY OF CAPITAL AS WELL AS PROBABLE INCOME."

SENATE FINANCE COMMITTEE REPORT

FRANK

DATE: 3/22/91

FURTHER:

DATE TURNED INTO OFFICE: 4/9/91

The Finance Committee considered SENATE BILL NO. 182

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

and recommended:

- [] replace with CS SB 182 (kin)
[] or adopt CS
[] attached amendment(s)
[] letter of intent adopted
[] same title
[] new title
[] technical title change (HB only)

[x] 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:

[] fiscal note(s) Dept/Date:

[] zero fiscal note(s)
DOR 2/2/91
CRA 2/2/91

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Handwritten signatures of committee members.

1. Co-Chairs: Signatures and Recommendations 2.

Short term money

Kerttula - less risky investments, not
long term

Adams - property is not short term

Sen Frank

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. HB 199, SB 182

Revision Date: March 20, 1991

Department Affected: Revenue

Title: Investment pools for public entities.

BRU: Treasury

Component: _____

Sponsor: Senate and House Community & Regional Affairs

Component Serial No.

Requestor: _____

	1	2	1
--	---	---	---

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 analysis.

Prepared by: Brian C. Andrews *BCA*

Phone: 465-2350

Division: Treasury

Date: March 20, 1991

Approved by Commissioner: *[Signature]*

Agency: Revenue

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

Amendments proposed:

Section 37.25.050 (b) of Senate Bill 182 and House Bill 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 accomodates 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 mgt position	\$ 50,000
	1/2 FTP Investment officer	40,000
	1 FTP Accountant	50,000
Contractual	Custodial fees @ 5 bps ¹	250,000

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

	External audit	25,000
Equipment/ Supplies	Communications, computer software and equipment enhancements	<u>75,000</u>
Total		\$490,000

\$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.



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.

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.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

No. 1

Bill Version: SB 182

(S) Publish Date: 3/22/91

Revision Date: March 20, 1991

Department /

Title: Investment pools for public entities.

BRU: Treasury

Component: _____

Sponsor: Senate and House Community & Regional Affairs

Component Serial No.

Requestor: _____

1	2	1
---	---	---

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: _____

Changes in CS SB182 (CRA)
have no fiscal impact. This
fiscal note is appropriate.

ANALYSIS: See attached analysis.

3/21/91 Wt. Rick Solie
date Comte Aide (initial)

Prepared by: Brian C. Andrews *BCA*

Phone: 465-2350

Division: Treasury

Date: March 20, 1991

Approved by Commissioner: _____ *[Signature]*

Agency: Revenue

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

Rev 10/90

Amendments proposed:

Section 37.25.050 (b) of Senate Bill 182 and House Bill 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 accomodates 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 mgt position	\$ 50,000
	1/2 FTP Investment officer	40,000
	1 FTP Accountant	50,000
Contractual	Custodial fees @ 5 bps ¹	250,000

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

	External audit	25,000
Equipment/ Supplies	Communications, computer software and equipment enhancements	<u>75,000</u>
Total		\$490,000

\$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.

FISCAL NOTE

No. 2
 Bill Version: SB 182
 (S) Publish Date: 3/22/91

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: Senate C&RA Committee Component: _____
 Requestor: _____ COMPONENT SERIAL NO.

--	--	--	--

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	-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.)	Changes in <u>CS SB 182 (CRA)</u> have no fiscal impact. This fiscal note is appropriate. Date: <u>3/21/91</u> Comte Aidé (initial): <u>Rick Solie</u>
--	---

Prepared By: Leonard Henderson, Director Phone: 465-4708
 Division: Administrative Services Date: 3/19/91
 Approved by Commissioner: [Signature] 3/20/91
 Agency: Community & Regional Affairs Date: 3/19/91

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



**STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS**

DEPARTMENT DCRA	DIVISION MRAD	BILL NUMBER SB 182	SPONSOR Senate C&RA Committee
SHORT TITLE OF BILL Act relating to investment pools for public entities			
DEPARTMENT POSITION Support			
PREPARED BY MKG <i>W. KELLY</i> Vern Hurst	DATE 3/19/91	COMMISSIONER'S SIGNATURE <i>[Signature]</i>	DATE 3/20/91

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None	CONSTITUENT GROUP(S) AFFECTED BY BILL Municipal governments, school districts, and Regional Education Attendance Areas.
ORGANIZATIONAL SUPPORT FOR BILL Alaska Municipal League	ORGANIZATIONAL OPPOSITION TO BILL None known

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT
The purpose of the bill is to provide public entities the ability to maximize return on local moneys, many of which are presently lying idle.

ANALYSIS OF BILL/PROGRAM EFFECTS
The bill would allow local public entities to work together and form investment pools for public moneys, thereby enabling them to receive the greatest return on their invested funds.

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 182

Revision Date: _____ Department Affected: Community & Regional Affairs
 Title: "An Act relating to investment pools for public entities.." BRU: _____
 Sponsor: Senate C&RA Committee Component: _____
 Requestor: _____ COMPONENT SERIAL NO.

--	--	--	--

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	-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: 3/19/91
 Approved by Commissioner: *[Signature]* 3/20/91
 Agency: Community & Regional Affairs Date: 3/19/91

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

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

March 20, 1991

POSITION PAPER

RE: Senate Bill 182

SPONSOR: Senate 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. Senate Bill 182 directly addresses that concept, and the Department strongly supports its passage.


Edgar Blatchford, Commissioner

SENATE COMMITTEE REPORT
FIRST COMMITTEE OF REFERRAL

DATE: 3/8/91

FURTHER: Finance

Date of 5-Day Notice: 3/14/91
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3-21-91

C&RA Committee considered SB 182
Investment pools for public entities; efd.

and recommended:

- replace with CS SB 182 (C+RA) same title
- attached amendment(s) new title
- _____ letter of intent adopted

- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:

Department(s)/Date:

- fiscal note(s) _____
- _____
- _____

- zero fiscal note(s) _____
- Revenue
- C+RA
- _____

- appropriation-no fiscal note

- Governor's bill w/fiscal note

~~SIGNING DO PASS:~~

OTHER RECOMMENDATIONS:

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

Chair: Signature and Recommendation

TELECONFERENCE PARTICIPATION

SPONSOR _____

DATE/TIME _____

SUBJECT _____

LIO'S

(moderator)

	TESTIFY	OBSERVE	TESTIFY	OBSERVE
ANCHORAGE ()	<i>Ellen Braden SB 182 (Municipality of Juneau)</i>		PETERSBURG * ()	
BARROW * ()			SITKA ()	
BETHEL ()			SOLDOTNA ()	
DELTA JUNCTION * ()			VALDEZ * ()	
DILLINGHAM * ()			LTC'S	
FAIRBANKS ()	<i>Judith Flajole SB 182 (No Star Borough)</i>		HOMER	
GLENNALLEN * ()			WRANGELL	
JUNEAU ()			OFFNETS	
KETCHIKAN ()			OFF1	
KODIAK ()			OFF2	
KOTZEBUE ()			OFF3	
MAT-SU ()			OFF4	
NONE ()			OFF5	
			OFF6	

269-5954

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Anderson	Nenana
Angoon	Newhalen
Cantwell	Nikiski
Chiniak	North Pole
Chignik	Northway
Chignik Lake	Ouzinkie
Chistochina	Pelican
Chitina	Point Hope
Copper Center	Port Licns
Cordova	Saint Paul
Craig	Savoonga
Dot Lake	Selawik
Eagle	Seward
Fort Yukon	Shishmaref
Gakona	Skagway
Galena	Slana
Gambell	Togiak
Haines	Tok
Healy	Unalakleet
Hoonah	Unalaska
Hooper Bay	Wainwright
Hydaburg	Yakutat
Hyder	
Kake	
Kaktovik	
Kafluk	
Kenny Lake	
Klawock	
Larson Bay	
Mentasta Lake	
Mentasta Lodge	
Metlakatla	

*Session Only

DRAFT 1/17/91

Introduced: 1/ /91
Referred: _____

IN THE HOUSE [SENATE]

BY _____

HOUSE[SENATE] BILL NO. _____

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE FIRST SESSION

A BILL

For an Act entitled: "An Act authorizing public entity investment pools; and providing for an effective date."

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

*Section 1. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.015 INVESTMENT POOLS. (a) A public entity may form, or become a member of, a nonprofit corporation or designate an existing political subdivision and enter into agreements with it and one or more other public entities, which, if involving a nonprofit corporation, are members, for the purpose of investing any funds in its treasury with funds from the treasuries of those other public entities. Any nonprofit corporation so created or political subdivision so designated has the authority to employ personnel and do or perform all other acts or things necessary to execute the terms of such agreements.

(b) For purposes of this section 15, "public entity" means a municipality, school district, service area within the unorganized borough, regional school board operating

DRAFT 1/17/91

under AS 14.08, any other legally constituted political subdivision of the state, or an organization whose members are public entities or officials representing those public entities.

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

DRAFT

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.

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.

Resolution of the Alaska Municipal League

Resolution No. 90-17

**A RESOLUTION SUPPORTING THE CREATION OF A COMMITTEE
TO EXPLORE THE DEVELOPMENT OF A STATEWIDE
MUNICIPAL INVESTMENT POOL**

WHEREAS, municipalities handle large sums of public funds, and

WHEREAS, municipalities must keep those funds secured, earning interest, and liquid to meet ongoing financial obligations, and

WHEREAS, many municipalities do not have ready access to investment programs and in some cases do not have deposit institutions in their communities, and

WHEREAS, municipalities may be able to work together to develop a program to both protect public funds at low risk and receive a higher rate of return on investments with good liquidity through investment pooling independently or through an appropriate state agency;

NOW, THEREFORE, BE IT RESOLVED that the Alaska Municipal League create a committee of appropriate municipal officials to explore investment options and make a recommendation to the Board of Directors by June 30, 1990.

Adopted at Annual Business Meeting on November 17, 1989 in Juneau, Alaska

INVESTMENT EXCHANGE

FIDELITY INVESTMENTS NEWS AND ANALYSIS FOR PUBLIC FINANCE PROFESSIONALS

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APR 03 1989

ALASKA MUNICIPAL LEAGUE

Local Government Investment Pools

By Girard Miller and David Maynard

Editor's Note: The recent widely publicized collapse of the State of West Virginia's LGIP and ensuing questions raised by readers has prompted the following article.

Local governments are a major source of capital to the money markets. Public cash managers earn attractive market rates of return by investing their short-term funds. When interest rates are relatively high, as they are now, a community's cash management and investment program is an important contributor to local revenues.

Most local governments invest a segment of their short-term funds

LGIPs are now operating in 26 states and usually offer the benefits of daily liquidity, money market rates of return and portfolio diversification.

directly in government securities, bank CDs and other money market instruments. Local officials also have learned to take advantage of the liquidity and services offered by their state's local government investment pool (LGIP). LGIPs are now operating in 26 states

and usually offer the benefits of daily liquidity, money market rates of return and portfolio diversification. Generally, pools operate like SEC-registered money market mutual funds. They combine the cash of local governments to invest in a diversified portfolio of money market securities with earnings paid to participants in proportion to their total investment. Not all pools are alike, however.

Types of LGIPs

When measured in terms of asset size and participation, the largest local government investment pools are those overseen by state treasurers or other state administrative boards. Presently, 22 states sponsor and operate an investment pool for the benefit of their local governments. In some state pools, local funds are commingled with the

state's liquid assets. In others a completely separate fund for localities is maintained.

Generally, LGIP investment and recordkeeping functions are performed by state officials, although several states have contracted with private firms for investment and administrative services. In some states, an advisory board of local government officials provides consultation and input regarding LGIP policies and practices.

In addition to the state-sponsored pools, local governments in a few states have jointly organized and operate LGIPs pursuant to "joint powers" or "intergovernmental cooperation" agreements. Typically, these non-state-sponsored intergovernmental pools are operated by a private money manager.

Continued on next page

Treasury Finalizes Arbitrage Regulations

The U.S. Treasury Department will soon release preliminary arbitrage regulations governing the calculation of arbitrage rebates. Some highlights:

- Rebates will be based on a "future value," calculated every five years.
- No calculation is required if qualified investments earn less than the issuer's bond yield.
- A \$1,000 computational credit against the rebate will be allowed to help issuers defray expenses.
- Mutual funds are acceptable investments and are used as an example in the regulations.

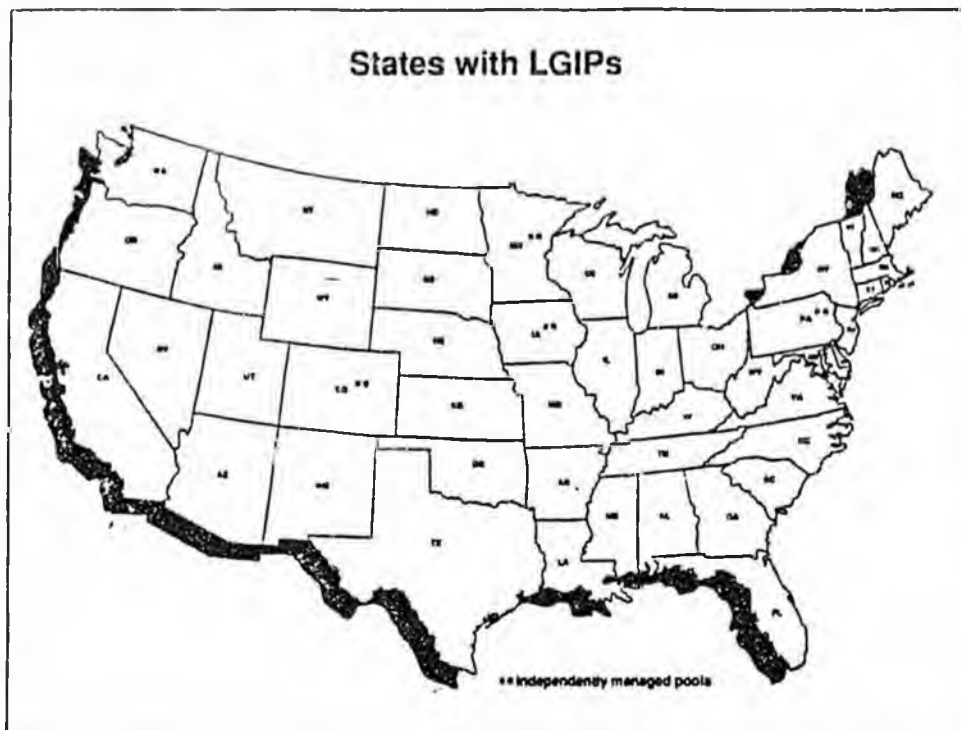
The next issue of INVESTMENT EXCHANGE will discuss the new arbitrage rebate regulations in detail.

ment firm which often is instrumental in organizing and promoting the LGIP. Unlike SEC-registered money market mutual funds, these so-called "joint

liquid short-term securities which can easily be converted to cash without price loss.

In the 15 years since the inception

relatively recent case involved portfolio management that, among other practices, failed to observe the short-term liquidity needs of the pool, investing instead in long-term securities. Although longer-term investments may have higher interest rates and produce capital gains during periods of declining interest rates, an LGIP which holds long-term securities in a rising-rate market may face the problem of price losses. If the market price losses are realized, the LGIP's total return will suffer and concerned local investors may redeem their funds, forcing the portfolio manager to liquidate even more securities at potentially depressed prices. Further compounding this trend, yields on competing money market securities may attract more funds out of pools whose investment portfolios may be "locked up" in long-term but lower-yielding paper.



powers" pools are governed by separate trust agreements and a board of trustees which consists of participating local officials.

A final variant of the LGIP is the county investment pool, usually operated by a county treasurer. In California and Washington, for example, county treasurers are responsible for certain local school funds, which are commingled by some counties for investment purposes.

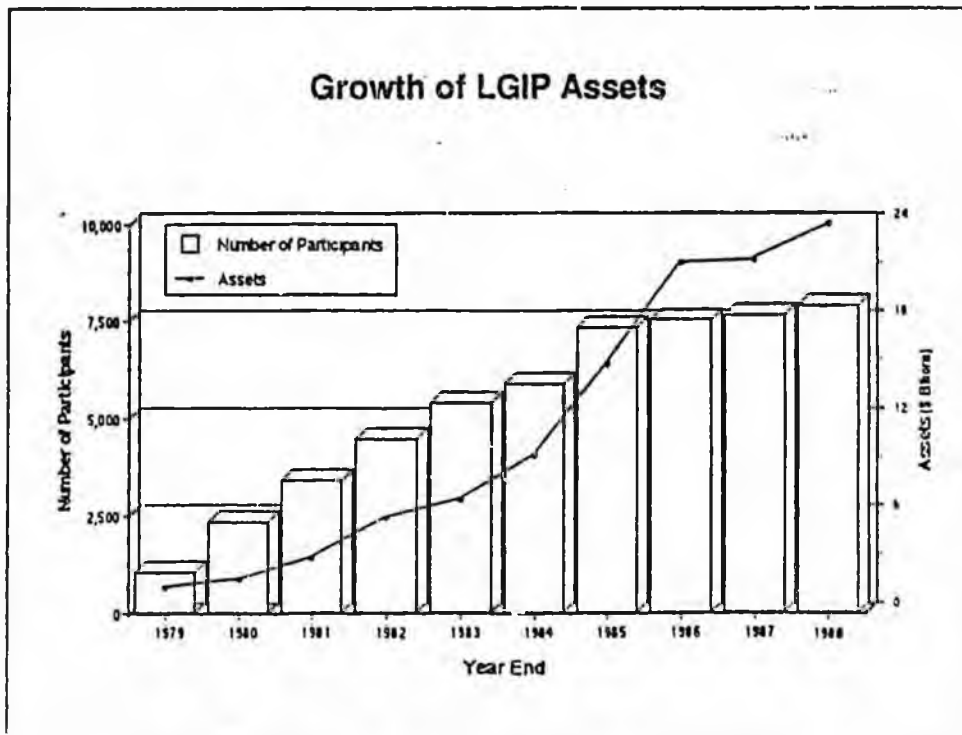
Keys to Success

Just as an individual public investor must constantly seek safety and liquidity before yield, so too must the LGIP portfolio manager focus first on safety and liquidity. Local units that invest in an LGIP typically expect to be able to withdraw funds on a same-day basis with no penalty or price loss. Any losses in the LGIP portfolio that adversely affect investors could jar investor confidence and cause a "run" on the pool. Thus, an LGIP portfolio generally should be structured to include a broadly diversified mix of high-quality,

of the first state-sponsored LGIP, there has been only one documented case of investment losses by a LGIP. This

Know Your LGIP

When investing in an LGIP, local officials should first study the investment policies and practices of the pool, and obtain information regarding the portfolio's average maturity. As a general rule, LGIPs which follow SEC portfolio guidelines for money market



mutual funds (Rule 2a-7) are unlikely to suffer market price shocks; this is done by maintaining the pool's average maturity below 120 days and by holding individual securities with maturities of less than one year.

Diversification and Credit Research Pays Off

A major advantage of most state-sponsored LGIPs is their size. Economies of scale are generally realized

When investing in an LGIP, local officials should first study the investment policies and practices of the pool, and obtain information regarding the portfolio's average maturity.

through better prices on individual securities and defrayal of administrative expenses such as third-party custodial fees. Also, many LGIPs are able to purchase diversified portfolios of higher-yielding money market securities such as commercial paper. Frequently, individual municipalities are unable to perform thorough credit analysis or to diversify their investment portfolios adequately on their own. However, LGIPs can be managed to accomplish these functions on behalf of their participants.

The Problem With Bond Proceeds

Some LGIP officials are anxiously awaiting U.S. Treasury Department regulations concerning arbitrage investments of bond proceeds. Presently, some statewide LGIPs have instructed local governments to avoid using their pool for investments of bond proceeds subject to federal arbitrage restriction. Pools which maintain longer average dollar weighted portfolio maturities (in excess of 90 days) and are not valued to market regularly may not meet the Treasury's so-called "market price rule" and therefore could be inappro-

Increasing Interest in Deferred-Compensation Plans

Deferred-compensation plans allow employees to save portions of their incomes untaxed until retirement. Upon retirement, the employee will likely be in a lower personal income-tax bracket, and will be taxed less.

Congress authorized Section 457, public-sector deferred compensation plans in the Revenue Act of 1978, enabling government workers to save for retirement and emergencies. Under Section 457 of the Internal Revenue Code, a public-sector employee may defer up to \$7,500 of income annually.

Typically, deferred-compensation plans allow the employee to choose to have contributions placed in one of several investment options, and to periodically transfer the assets between investment vehicles.

The choices range from straight savings options, which are the most conservative investments, to mutual funds, which are riskier but have the potential for higher yields.

Many deferred-compensation investments are in fixed-rate annuities or in guaranteed investment contracts

Deferred-compensation plans are meant to supplement, rather than replace, other retirement plans. At retirement, a plan member has the

option of withdrawing deferred funds in a single lump sum, in monthly installments or on a schedule based on life expectancy.

The Tax Reform Act of 1986 heightened interest in deferred-compensation plans by placing considerable restrictions on the tax deferral for employee contributions to individual retirement accounts.



Illustration by William Canty.

appropriate as a vehicle for the investment of bond proceeds. The Treasury's second set of arbitrage regulations, to be issued later this year, will probably address the issue of allocating investment income received from such pools.

The Money Market Mutual Fund Alternative

In states that lack an LGIP, money market mutual funds can be considered as a viable alternative for local government liquidity investments, provided mutual funds are an authorized investment under state statute. Some institutional money market funds provide subaccounting and arbitrage

recordkeeping services specifically designed for governments, which are not provided by most LGIPs.

GFOA Guidance

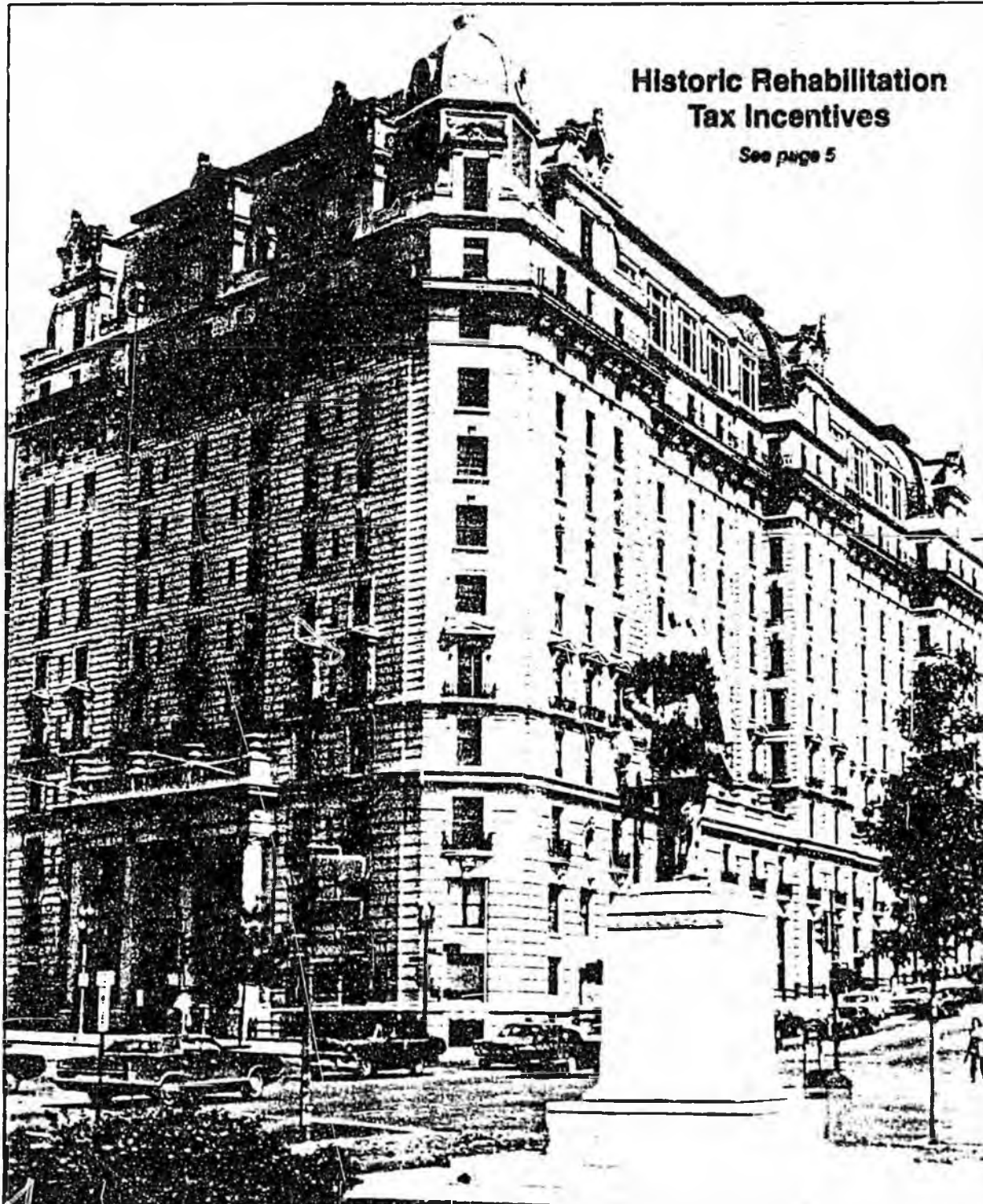
The Government Finance Officers Association's Standing Committee on Cash Management has previously endorsed local government use of LGIPs and is now studying the various issues associated with proper administration and use of LGIPs. Guidelines for LGIPs will be issued by the National Association of State Treasurers (NAST) later this year. *Investment Exchange* will provide further information on this topic as it becomes available.

GOVERNMENT FINANCE REVIEW

Government Finance Officers Association

Volume 2, Number 1

February 1986



At the Crossroads: Private Sector Perspectives on Public Sector Investing

Local government investment officers are faced with the challenge of achieving high yields without sacrificing safety and liquidity. While pressures on public finance officials to enhance earnings from investments will not go away, there are several options for the prudent investment of public funds at market yields.

By David E. Maynard and Priscilla M. Wheatley

“A federal bankruptcy judge approved a settlement that would give 34 municipalities and school districts nationwide about \$29 million of the \$40.8 million they claimed was lost when Lion Capital Group sought protection under federal bankruptcy law [in 1984]. . . . The settlement means claimants will receive about 73 cents on the dollar. . . . [A]n attorney for the school districts said the benefits of the settlement ‘are extraordinary.’ At a hearing in bankruptcy court, he called the settlement ‘almost a total victory for the school districts and municipalities.’”

Seventy-three cents on the dollar, a victory?

Despite the exposure, publicity and education since the demise of Drysdale Securities in 1982, and the lessons to be learned from Lion and other failed dealers, public sector investors lost again in 1985. Lion Capital was one of three small government securities dealers to go under as a result of multiple pledging of collateral; the other two were E.S.M. Government Securities Inc. and Beville, Bressler & Shulman Inc. E.S.M.’s trustee anticipates that settlements could pay municipalities in the vicinity of 75 cents on the dollar.

Could it happen again? Why have some public finance officials altered their traditionally conservative investment practices? Has “safety, liquidity and yield” become “yield, liquidity and safety” in the minds of many public finance officials?

Are realistic options currently available that will help the public sector maximize its return while ensuring the safety of invested funds? This article examines the sources of some of the pressures on public finance officials, explores several options for prudent investment of public funds at market yields and suggests some initiatives to be taken over the long term to strengthen the public finance profession.

Investing Public Funds—A Fiduciary Responsibility. For most of the 20th century, investment of public funds has been appropriately considered a fiduciary function: that is, the conservation of principal is the primary responsibility, even if income is to be earned from investments. Because of this, most state legislatures have controlled the investment of public funds by enacting restrictive statutes which narrowly define allowable investments. In fact, many of those statutes bear striking similarity to statutes that govern the investment of trust funds, and some incorporate the “prudent person rule.”

Until the escalation of inflation and interest rates during the 1970s and early 1980s, there was little pressure on most public officials to invest revenues. Rates of return were generally so low that there was little benefit to be gained. The rapid rise in interest rates that began in the late 70s was concurrent with taxpayer revolts that led to passage of tax-cutting measures

such as Propositions 13 in California and 2½ in Massachusetts (see Figure 1). The need to find sources of additional income led most local finance officers to step up short-term investing. Some treasurers were so successful that investment earnings became the second or third largest source of revenues for their communities.

In the heyday of double-digit rates, local treasurers were often reporting annualized rates of return in excess of 15 percent, and many were justly proud of hitting the top of the yield curve, purchasing one- to six-month certificates of deposit with annualized yields of 18 percent to 20 percent. Even recently elected treasurers without specific investment training were able to report exceptional earnings. The attractiveness of above-market yields became even more apparent on the downside, when rates on short-term money market instruments slid back into single digits from their historic highs. Some public sector investors had become so accustomed to double-digit returns that, in their quest to maintain high rates of return, they invested funds in short-term instruments such as repurchase agreements and certificates of deposit (CDs) at 25 to 200 basis points higher than was available in their local markets. Some substantial investments were made without considering the risk factors that might have at least partially explained the higher yields.

Everyone agrees that safety of principal is still the fundamental goal of public

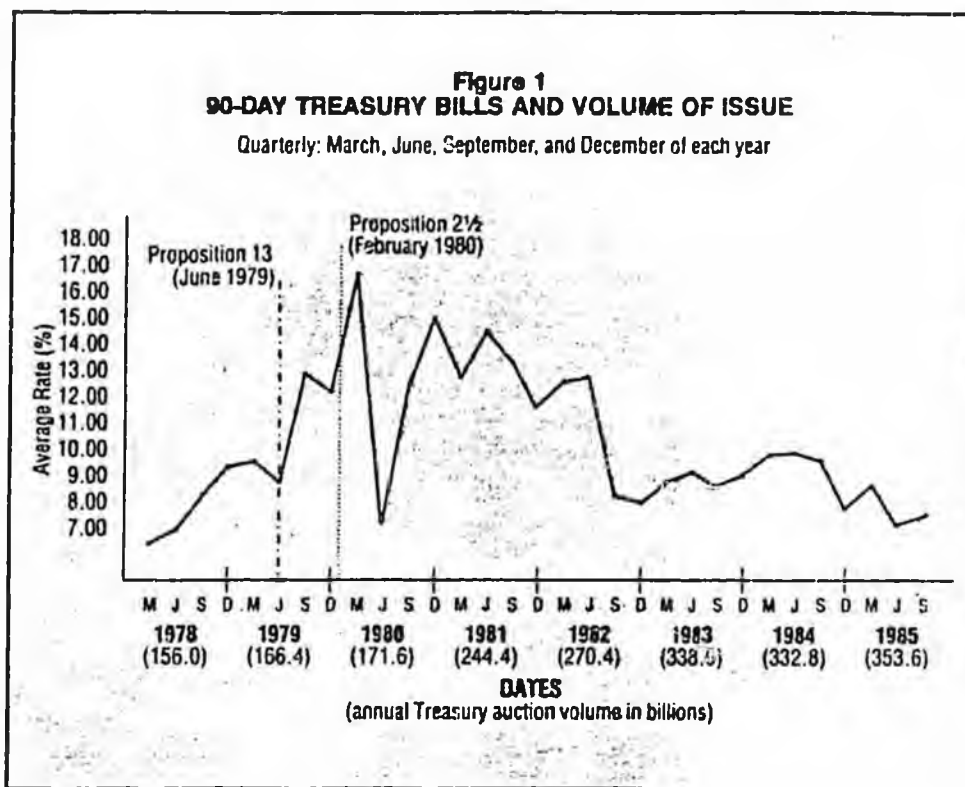
sector investment. However, while chasing yields in response to pressures to continue generating income, some public sector investors appear to have temporarily lost sight of the different types of investment risk. A U.S. Treasury security is a risk-free investment, but only from a credit standpoint. If it is purchased through a broker/dealer or bank, either as a direct investment or part of a repurchase agreement, the dealer is subject to credit risk, and the value of the security will fluctuate with changing interest rates. An in-state bank CD may be legal, insured and collateralized, but that doesn't preclude the fact that the solvency of the issuing institution is critical—no local treasurer wants to stand in line waiting for the FDIC to settle a claim.

Some Practical Options. One thing is certain: pressure on local government finance officers to enhance earnings from investments will not go away. Expectations of both the electorate and local officials were raised by several years of double-digit interest rates and the success of many finance officers in managing their investments. In many cases interest earnings have become a major component of local government revenues. As austerity in state and local government continues, the focus will be on continuing to produce significant investment earnings, notwithstanding a general decline in rates. Given this scenario, how can local units achieve high yields without sacrificing safety and liquidity?

Repurchase agreements. Because some public sector investors have experienced major losses of principal, the use of repurchase agreements (repos) has received a great deal of publicity. The repo market is huge—\$160 billion in average daily activity—and generally quite efficient, but safe use of repos hinges on proper perfection of the underlying collateral (see "A Few Thoughts About Repos" on page 18). Three cardinal rules for their use have been suggested over and over:

- know your counterparty,
- take physical possession or independent book entry of the collateral, and
- establish and monitor a margin to protect the market value of the collateral from interest rate movements.

The call for proper perfection by the Governmental Accounting Standards Board, the Federal Reserve and other



regulators is long overdue, but it has created a stumbling block for the public sector. Most municipalities still execute "trust me" repurchase agreements; that is, they do not take delivery of the repo collateral through an independent third party, but rather rely on a safekeeping receipt from the dealer or its agent, which is usually *not* sufficient to establish legal control over the securities. In some states, investments in repos without taking delivery of collateral may be illegal. Collateral should be delivered to an independent custodian under the unit's (not the dealer's) control, and there should be written agreements between the unit and the custodian. A unit might also choose to use a custodian which the two repo parties agree upon, but again, there should be separate written agreements between each of the parties to protect the *unit's* interest. Local units that have collateral delivery mechanisms have found that the costs tend to reduce net yields below those available from other equally liquid and safe investments. In any case, lack of perfected delivery results in an ownership problem in the truest sense, and is not unlike buying a house without having the deed properly recorded.

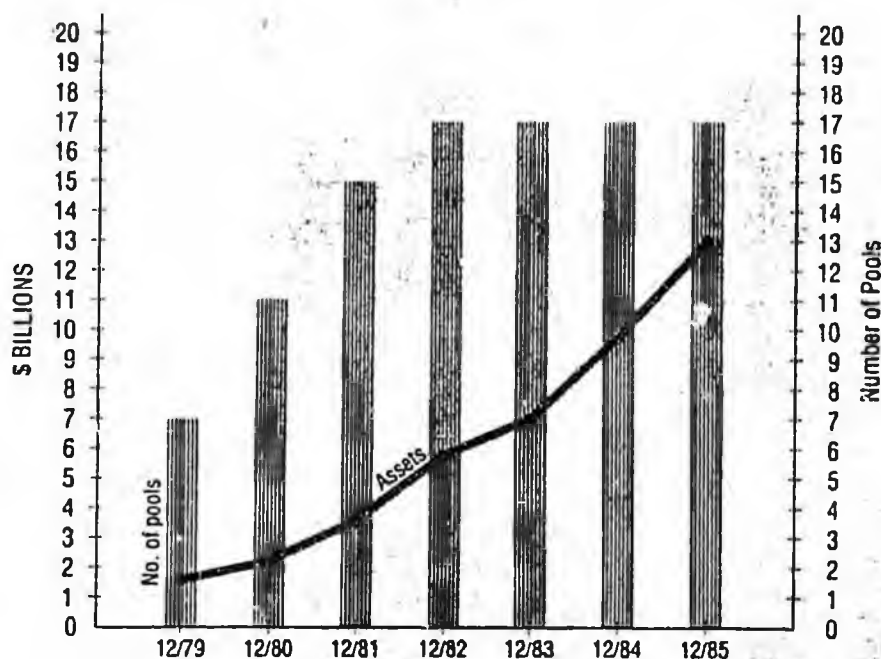
If an efficient, low-cost mechanism for

delivery is not available to a local unit, repos should not be considered an appropriate investment, especially when other liquid investments are available at competitive or higher yields.

Direct investments. Some units have successfully used direct purchases of U.S. Treasury and government agency obligations in lieu of repurchase agreements. When coupled with federally insured time deposits at banks, this type of investment program is perhaps the safest in terms of credit risk, but may be burdensome to manage in order to maintain sufficient daily liquidity. Unless the unit is able to structure maturities to match its cash flow requirements, the portfolio must be actively managed and traded.

As with any investment program, there are other trade-offs that must be considered. First, active management of the portfolio usually means a substantial investment of time in order to ensure that maturities match cash flows, and effective use of swaps and hedges may require a significant level of expertise. Second, unless securities are purchased directly from the Federal Reserve and held to maturity, commissions and custodial costs will tend to reduce net yields below those of other appropriate alternatives. Finally,

Figure 2
LGIP ASSET GROWTH



in order to benefit from economies of scale, the portfolio must be sizable, thus limiting the effectiveness of this option to larger public units.

Local government investment pools. In the investment area, one of the best examples of interlocal cooperation and capacity sharing is the local government investment pool (LGIP). LGIPs increase the efficiency and earnings of local government investment programs by providing a safe, professionally managed, diversified portfolio. LGIPs are, in effect, a financial intermediary—a "middle man" between local governments and the securities purchased by the pool on behalf of its participants. LGIPs are tailored to meet the needs of and specialize solely in serving local governments.

When a local government invests in an LGIP it purchases "shares" or "units" of the pool. Monies from each participating entity are combined for purposes of investment, but principal and earnings are accounted for separately; therefore, each participant's funds maintain their own identity. Pools are the public sector version of money market mutual funds, which give individual investors convenient access to high-yielding money market

instruments.

LGIPs are usually created by states for the benefit of their local units. In most, but not all cases, the pool is managed by the state treasurer, and it may include some state money. The programs vary from state to state, but most allow deposits and withdrawals at any time, usually in any amount, and pay interest on a daily basis, net of pool expenses. Participation in LGIPs is voluntary, and once an account is established, transactions may be executed as often as desired. Yields are usually comparable to rates on large-denomination money market instruments of \$1 million and more and, thus, are normally in excess of what most units can earn on their own.

By providing daily liquidity and permitting participants to select virtually any denomination for their investment, LGIPs alleviate many of the limitations of direct investment in money market securities. Most money market instruments are available only in select denominations with fixed maturities. Although larger government units do some buying and selling in the secondary markets and pay commissions, most local units purchase short-term securities from the original

issuer and hold them to maturity. The costs of premature liquidation can be prohibitive. For example, a six-month CD for less than \$1 million issued by a nonmoney center bank usually pays a below-market rate and is not readily marketable to another investor. The issuing bank may refuse to redeem the certificate, or it may assess penalties in addition to those required by federal regulations.

A significant feature of LGIPs that is often overlooked is that they require "delivery versus payment" for all securities purchases, including repurchase agreements. In other words, the pool's custodian will not release funds to the seller until delivery is made. Thus, the pool's investments are "perfected" because the custodian has possession of and control over the securities on behalf of the pool. This should provide comfort not only to current participants, but also to those units that may be considering the use of an LGIP in lieu of repos.

State treasurers in the following states sponsor an LGIP which is currently operating or is being established under recently passed enabling legislation (year of creation in parentheses):

California (1977)	North Carolina (1981)
Connecticut (1973)	Ohio (1985)
Florida (1977)	Oregon (1974)
Georgia (1981)	Tennessee (1979)
Illinois (1974)	Utah (1974)
Maryland (1981)	Virginia (1981)
Massachusetts (1977)	West Virginia (1978)
Montana (1973)	Wisconsin (1977)
New Jersey (1978)	

Private sector firms have established, or are trying to start, pools which are independent of state sponsorship in several other states, including Colorado, New York, Pennsylvania and Rhode Island. In addition, school districts in Illinois, Minnesota and Pennsylvania may use pools formed by their respective state school boards with assistance from the National School Board Association. All of these programs were established and operate under so-called "joint powers statutes."

A recent review of operating pools indicates that acceptance and usage of LGIPs has grown rapidly². Total LGIP assets have risen five-fold, from \$2.1 billion at the end of 1981 to \$13.0 billion in September 1985. During the same period, participating units have increased from about 2,300 in 11 pools to 6,600 in 17 pools (see Figure 2). Some states have seen the percentage of eligible units increase to more than 50 percent; the

highest participation rate, 75 percent, is in Massachusetts.

IGIPs enable local units to pool their resources to obtain professional investment management, and, over the past decade have proven themselves an efficient and economical alternative because they provide:

- portfolio diversification,
- stringent credit analysis,
- competitive rates of return,
- daily liquidity,
- economies of scale and
- low overhead.

These features and advantages create a persuasive case for using existing IGIPs instead of repos, and for the creation of similar vehicles in those states where such an alternative is not currently available.

Money market mutual funds. A few states, such as Michigan, Minnesota and Tennessee, allow their local units to purchase shares of money market mutual funds (MMFs) whose authorized investments meet the state's legal list for localities. Money market funds are registered with and regulated by the Securities and Exchange Commission, and their operations are outside the direct control of the states. States which allow use of MMFs have recognized the benefits of pooling which were discussed above, and manifest the intent of the Model Investment Legislation for State and Local Governments developed by GFOA's Committee on Cash Management in June 1984. The committee's report included sample investment statute language which places MMFs on the legal list of investments, and sample enabling legislation for establishing IGIPs. (Editor's note: Copies of the Model Investment Legislation are available from the committee staff. Contact Girard Miller at the Chicago office of the GFOA.)

Allowing the use of an existing money market fund is a sound alternative to creating an IGIP, particularly in those states where local government cash flows are not sufficient to support an independent pool. The approach can be refined to ensure that local units reap the maximum benefits from management of pooled funds by private sector organizations.

To the layman, most MMFs appear similar. There are, however, 350 distinct funds¹ which have varying investment disciplines, maturity ranges and service features. Funds run the gamut from those which invest solely in U.S. Treasury obligations to international portfolios with

A FEW THOUGHTS ABOUT REPOS

Is it wise to purchase a car without a title? What about a house without a recorded deed? Probably not—when it comes time to sell that asset, legal proof of ownership is essential.

Buying a repurchase agreement is the equivalent of purchasing any other asset. The purpose of the underlying securities—the so-called collateral—is to assure the buyer that there is something of value to sell off in the event the seller fails to meet his obligations at maturity. "Perfected delivery" establishes the repo buyer's legal control of the securities because the buyer pays for the securities only after they have been delivered to the buyer's agent.

There is no problem with the credit-worthiness of the U.S. Treasury and government agency securities pledged by the E.S.M.s and Lion Capitals of the industry. The real problem is one of mechanics—establishing the legal right to sell repo collateral as quickly as possible, if necessary. Four common problems have led to public sector losses:

1. *Failure to take delivery versus payment.* Funds should be released only upon delivery of the securities. A safekeeping receipt from the seller or its agent is not enough to establish legal control. Also, the Federal Reserve has not stated categorically whether safekeeping by the trust department of the transacting bank is perfected delivery.

2. *Lack of credit analysis of repo dealers.* Inability to foresee an impending insolvency is usually due to lack of credit analysis. Securities dealers that are slow to respond or refuse to provide audited financial statements may be trying to hide their deteriorating financial position. Some may not be licensed to do business in the state. Also, small dealers that have grown substantially in a short period of time and have a small capital base, or those with numerous affiliates and substantial intercompany transactions also may be on the brink of insolvency.

Purchasers should insist that their dealers comply with the capital adequacy standards of the New York Federal Reserve Bank.

3. *Lack of written trading agreements.* Written master trading agreements between the unit and its dealers (including banks with which it executes repos) are strongly recommended. These documents delineate the conditions to which all parties have agreed, and their respective obligations and responsibilities. Established dealers or banks should be able to provide drafts of these documents for review and revision by the unit.

4. *Fraud on the part of dealer.* Fraud is almost impossible to detect, even by the most sophisticated and experienced credit analyst. Even so, losses due to fraud shouldn't occur if the first three problems are scrupulously avoided.

varying levels of credit risk. The diversity in types of funds and their varying service levels is why some states are developing parameters to select and approve the use of existing MMFs. This approach recognizes the desirability of a state role in exerting some control to ensure high-quality management and a selection of features and services that benefit participating local units.

Once enabling legislation is passed to allow use of existing MMFs, the mechanics of setting up a program are relatively straightforward. Investment restrictions, features, services and reporting requirements can be established to limit the universe of eligible funds, and a request for proposals issued. Delineating criteria for approval of funds. To provide maximum benefits to local units, a MMF

should offer:

1) Same-day (as opposed to next-day) portfolio pricing and interest stream. Public units, like all other institutional investors, expect and require interest earnings on each dollar invested for an exact number of days.

2) No minimum investment period or dollar value of investment. Units should be allowed to invest or redeem any amount on any business day, without penalty. This feature is especially important for smaller local units, which may be less certain of their cash flow requirements.

3) Unlimited wire transfer and check-writing access. While the wire system is used primarily by larger participants for transfers to and from the fund, check-writing can be used by large and small

**Figure 3
GOVERNMENT SECURITIES DEALER FAILURES
PUBLIC FUNDS AT RISK**

Dealer Name	Year Failed	Public Units Affected	How Much at Risk	Settlement Reached
Lombard-Wall, Inc.	1982	New York State Dormitory Authority & other gov'l. units	\$52 million	68 cents on the dollar
Lion Capital	1984	34 municipalities & school districts	\$40.8 million	73 cents on the dollar
RTD Securities	1984	NY municipalities & school districts	\$40+ million	
E.S.M. Government Securities Inc.	1985	12 municipalities	\$100+ million	Proposed settlement 23 cents on the dollar
Bevill, Bressler & Shulman Inc.	1985	No municipalities, but with E.S.M. precipitated Ohio and Maryland thrift crises. Municipalities indirectly affected.		
TOTAL PUBLIC FUNDS AT RISK: \$232.8+ million				

units alike when they wish to capture additional earnings from float.

4) Complementary participant services and education. This important but generally overlooked area encourages units to use the fund and can ensure quality and continuity of participant services provided by the manager. Among services that can be requested are:

- dedicated participant service personnel;
- toll-free telephone lines;
- prompt daily, monthly and year-to-date confirmation statements of accounts and transactions;
- unlimited transfers between fund accounts of identical registration;
- regular reporting to the state treasurer or other supervisory authority on fund performance, marketing activities and local unit participation;
- educational assistance, special publications and a monthly newsletter for all eligible participants.

Other criteria which can be used to screen funds are availability of special services, such as terminal-based sub-accounting systems, automatic daily sweeps of excess balances in noninterest bearing accounts, and direct deposit of state and federal transfer payments by automated clearing house. An advisory board of local officials, which serves as a liaison between the fund and its users, is an effective tool not only for monitoring

the fund's activities, but also for enhancing services and creating new features.

The North Carolina approach. North Carolina provides an example of the trend toward state-controlled use of MMFs. Because of the volume of local government cash flows, North Carolina had the option of requiring the establishment of a new SEC-registered mutual fund, uniquely tailored to meet the needs of North Carolina local units.

In 1981, the state legislature amended the local government investment statute to make "participating shares in money market mutual funds [legal] for local government investment if the investments of the fund are limited to those qualifying for investment by the State, and if said fund is certified by the Local Government Commission." Through use of a competitive bid process, the state made it possible for the private sector to assist local units. Despite the fact that the fund is a legally independent entity regulated by the SEC, the state oversees its operations through the Local Government Commission, which exercises "the authority to issue rules and regulations concerning the establishment and qualifications of any mutual fund for local government investment." This approach acknowledges that the private sector can and will provide services when there is opportunity for

reasonable profit. But the state retains the ability to exercise a firm level of review and control to protect the best interests of its local units.

In its three years of operation, North Carolina's fund has grown to more than \$300 million with more than one-third of eligible units actively using the fund. Its success is an indication of the acceptance by local units of this approach and the unique alliance between the public and private sectors.

Externalizing the Investment Management Function. LGIPs and MMFs are ways of externalizing part of a local unit's investment function; the purest form of externalization, however, is the individually managed account through an investment management firm.

The external management of public funds by the private sector occurs most frequently with public pensions. These systems have recognized that investment advisors offer economies of scale and generally superior investment returns because they have the resources, staff and expertise that most public units usually are not in a position to duplicate. The concept of using an outside advisor for managing short-term, fixed-income securities, on the other hand, has not been considered necessary or justified. This is because the investment techniques of this discipline are believed to be relatively uncomplicated. Two factors, one dramatic and the other more subtle, have begun to change that perception.

The drama was seen over the past several years when more than \$200 million in public funds were at risk as a result of investment in repurchase agreements with collapsing securities dealers (see Figure 3). In the words of one public finance official, "Two hundred million dollars would pay for a lot of management fees."

More subtle, but no less important, is the trend of innovation in the securities markets and the marked increase in investment vehicles and strategies that are used in managing short-term, fixed-income portfolios. The use of zero-coupon securities, options, futures and various hedging strategies was fostered within the private sector to increase yield or safety. Some of these new vehicles and techniques can be used successfully by municipalities to enhance yield without sacrificing safety or liquidity, but others are nothing short of speculative yield-chasing and have no place in a public sector investment

GFOA'S CASH MANAGEMENT COMMITTEE NEEDS YOUR HELP

As an aid to researchers, GFOA's Committee on Cash Management is compiling resource materials on authorized investment vehicles by state. The committee will use the data to determine which vehicles are used universally, as well as how the statutes differ between the states. It would be most appreciated if readers would forward a copy of their state's investment statutes, as well as any interpretive releases which also may be pertinent to. Technical Services Center, Government Finance Officers Association, 180 N. Michigan Ave., Suite 800, Chicago, IL 60601. Fidelity Investments will receive copies of these documents and will assist the committee in its efforts. Copies of the listing will be available to interested readers upon completion.

program with its fiduciary orientation.

Because of the fiduciary nature of public funds investment, state statutes have generally been structured toward narrowing alternatives, rather than recognizing prudent innovation. This statutory structure and the accompanying political environment have not encouraged most local officials to keep up with the rapid changes and increasing sophistication of the financial markets. As a result, new securities and strategies that are appropriate for the public sector go unused or may be misused because of lack of adequate training.

Although most existing state laws would have to be changed to allow the externalization of short-term funds management, localities that now operate under prudent person or home-rule provisions could take advantage of this strategy immediately. Among the benefits to be realized are reduction of staff and overhead expense, full-time professional portfolio management and credit analysis, and greater portfolio diversification. External managers also can provide regular market valuation, more and better management reporting, and economical procedures for delivering, paying for and safekeeping securities, all at a relatively low cost. If finance officers are elected, external management can provide continuity of investment management through transition periods, and free the new official to focus on other aspects of

the unit's financial operations. Finally, by virtue of the fact that they are full-time investment professionals, outside advisors are in a position to pursue more esoteric strategies with the unit's concurrence.

Working with an external manager allows a local unit to develop fundamental investment guidelines within the prudent person rule, to which the manager must adhere, with periodic review and revision by the unit. In many localities, some private institutions traditionally have had a vested interest in the fact that the municipalities are restricted in their investment alternatives. A contract which is awarded to a qualified investment manager based on sealed bids, with periodic rebidding of the agreement, could substantially mitigate this situation.

Where Do We Go From Here? In a political and imperfect world one will not find a universally accepted "best" approach for the safe investment of public funds, especially when local finance officers are under political pressure to maximize returns within the constraints of safety and liquidity. Recent experience has shown that the "lowest common denominator" approach of state legal lists for local units, coupled with collateral pledging requirements, has not been sufficient to insure the safety of all public funds. Nor is it expected that the development of investment guidelines or the externalization of the investment function will in the future insure against losses due to fraud or malfeasance.

What longer-term initiatives can be undertaken by local units to safely incorporate innovation and new technology in their investment strategy?

Recodification of state investment laws. GFOA's Committee on Cash Management has created model legislation for this purpose. It speaks to the need to expand the investment options available to local units, and to improve their ability to externalize investment management through the use of LGIPs and MMFs. It also suggests the widespread adoption of collateral pools to reduce costs and increase the safety of collateralized deposits. This three-pronged approach can go a long way toward assisting most local units.

Increased training. The issue is not what to teach to investment officers, but rather how to reach the thousands of finance officers in the United States with an effective program. State college and

university systems could house the effort, with a central body such as the GFOA orchestrating the development of curriculum. Interested private sector individuals and organizations that have been active in this area would be encouraged to continue their involvement. Funds to defray the costs could come from a number of sources including the states, the private sector and, of course, the benefiting officials and jurisdictions.

Better salaries. Public finance is a profession. Historically, however, it has had a low profile and many localities, not recognizing its importance, continue to pay salaries that are not substantial enough to attract and keep talented individuals. This false economy will probably persist until the public sector recognizes the finance officer's responsibility within the community and the potential benefits of paying salaries that encourage competence and continuity in these positions.

Minimum competency. Establishing minimum competency standards for any profession is fraught with problems, but in light of recent losses to public treasuries perhaps the time has come to take a closer look at this controversial issue. Some state associations of finance officers have begun to implement certification programs, which complement training programs and encourage a high level of competence on the part of both appointed and elected finance officials. New programs in Texas and North Carolina were described in the December 1985 issue of *Government Finance Review*. In New Jersey, Oregon and Ontario such programs have been in place for a few years. There is, however, little specific training in cash management skills in any of the above programs. Training and certification programs also would serve to provide a level of comfort to both the electorate and public executives.

Conclusion. This article was prompted in part by the recent article by J. Dwight Hadley in the September 1985 *Government Finance Review*, which discussed New York state's response to the repo crisis faced by some of its units. By combining the ideas discussed in that article and this one, several approaches begin to emerge.

It is impossible to totally eliminate the risk in any investment program—fraud, abuse and greed are almost impossible to detect, and always will be around. The

goal of the public sector should be to create an environment which fosters the development of investment professionals who are qualified and capable of minimizing investment risk and probability of loss. Short-term reactive approaches which seek to place even greater limitations on public investment officers may prove to be very damaging to the achievement of this goal. Over the long term, practical solutions must be designed to attract additional talented individuals, provide them with appropriate professional training and encourage them to remain in the profession. The public should be able to assure itself that its funds have been entrusted to investment professionals, whether they are appointed or elected individuals, or outside managers.

Public sector investing is at the crossroads. The vehicles are there—it's up to finance officials to choose the best route. □

Fidelity Investments

Fidelity Distributors Corporation
(General Distribution Agent)

NOTES

¹ *Wall Street Journal*, September 6, 1985.

² Telephone survey of operating LGIPs by Fidelity Investments, November 1985.

³ *Dunoghue's Money Fund Report*, October 25, 1985.

DAVID E. MAYNARD, an advisor to the GFOA's standing Committee on Cash Management, is a vice president and group product manager at Fidelity Investments of Boston, a privately held investment management and discount brokerage firm. He oversees the management of LGIP programs for the Commonwealth of Massachusetts and the State of North Carolina, and is responsible for the development of investment product and programs for the public sector on a national basis. PRISCILLA M. WHEATLEY, product manager at Fidelity Investments, is responsible for the daily operations of LGIPs managed by Fidelity, and the implementation of new public sector investment products and services. She was employed in the public sector for 10 years before joining Fidelity, and holds an MBA from Clark University and an MA from the University of Connecticut.

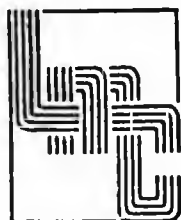
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February 1986.

GFR-2/86

**Minnesota
Municipal
Money Market
Fund**

4M Fund

**A comprehensive cash management
service for Minnesota municipalities**



Sponsored by the League of Minnesota Cities

The 4M Fund: A comprehensive financial service alternative for Minnesota municipalities.

The Minnesota Municipal Money Market Fund (the 4M Fund) is a professionally managed money market fund. It enables municipalities in Minnesota to pool short-term investable monies and earn high money market rates while maintaining safety of principal.

Sponsored by the League of Minnesota Cities, the 4M Fund is a financial service exclusively for Minnesota municipalities. Accounts are available only to cities, counties, public authorities, public corporations, public commissions, special districts, and any "instrumentality" (as defined in the joint powers act) of a municipality in the state of Minnesota.

The Board of Directors of the League of Minnesota Cities governs the 4M Fund, with the advice of a technical advisory committee comprised of local government finance officials. The 4M Fund complies with all legal requirements regarding permissible investments for Minnesota municipalities.

The 4M Fund offers a range of optional programs and services to help your municipality further decrease the time and expense of investment management. This brochure explains these extra programs. The Information Statement and the Application Forms available from the League office contain more specific information on the 4M Fund.

How The 4M Fund Began

The League began looking at the benefits of an investment pool after the GFOA (Government Finance Officers Association of the United States and Canada) adopted a policy encouraging the professional investment of public funds in statewide investment pools. GFOA felt that statewide pools would enable municipalities to take advantage of portfolio diversification and liquidity.

After exploring the idea and requesting proposals from a number of firms, the League Board selected Piper Capital Management Incorporated, a Minnesota based firm, as administrator and investment adviser, and Cadre Consulting Services, Incorporated as sub-administrator of the 4M Fund.

The Professional Team

Piper Capital Management, Inc. (PCM) and Cadre Consulting Services, Inc. have assisted many public officials with their investment and financial needs. PCM serves as administrator and investment adviser for a similar program for Minnesota School Districts. Cadre Consulting Services administers five municipal investment pools and has the experience and software necessary to commingle individual cities' deposits and maintain the separate accounting records necessary for each account. Legal staff of the League of Minnesota Cities serves as legal counsel to the 4M Fund.

Advantages of a Professionally Managed Money Market Fund

By pooling short-term investable monies with those of other Minnesota municipalities you'll reduce the time and expense of managing your investments while helping improve investment earnings. The money market fund uses state-of-the-art cash management techniques to maximize investment earnings. It maximizes "float" by keeping all of your municipality's monies invested at all times. It compounds principal and interest daily and credits these monthly, so that interest actually earns interest. The 4M Fund offers:

- safety of principal
- competitive money market rates
- easy and immediate access to invested assets; no advance notice is required for deposits or withdrawals
- no minimum balance or minimum length of deposit
- free, unlimited checkwriting allows investments to earn interest until checks are presented for payment
- comprehensive monthly statements for each account you open
- daily statements for each investment and wire withdrawal

The 4M Fund is an Investment Option—a Complement to and not a Replacement for Bank Services

The 4M Fund does not purport to be a replacement for the services that banks or other financial institutions provide to municipalities. However, it does provide a unique service by reducing the amount of time and money public officials expend on their investment management programs. In particular, the money market fund serves as:

- a convenient alternative to direct investment in money market instruments
- an investment option worthy of consideration by every municipality that wants to make the most on its money.

The 4M Fund Charges No Fees

The 4M Fund pays all of its own operating expenses, including fees of the investment adviser and the administrator. This means that yields that the 4M Fund quotes are the net returns the municipality earns.

4M Fund Reporting Keeps Municipalities Close To Their Money

A municipality may open as many individual accounts as necessary and will receive a daily statement reporting all transactions for that day, including all deposits and withdrawals. At the end of every month, a comprehensive statement shows for each account:

- all deposits and withdrawals

- interest earned for the month
- interest earned year-to-date
- end of the month closing balance
- certificates of deposit
- interest received from certificates of deposit for the month
- interest received from certificates of deposit year-to-date

The 4M Fund Offers a Range of Financial Services

In an effort to provide your municipality with a range of financial services, the 4M Fund also makes available, through its administrator or sub-administrator, the following options.

Fixed-Rate Investment Services

Like all money market funds, the rates that the 4M Fund pays will vary from day to day. However, as an extra service, the 4M Fund allows participants to locate and lock in some of the most attractive available rates on certificates of deposit. By placing one toll-free telephone call and specifying the amount you wish to place and the desired maturity, you'll receive fast quotes from among the best fixed-interest rates available nationwide.

Benefits of the fixed-rate investment service include the following:

- depositories must meet the specific criteria of the 4M Fund
- attractive rates—your municipality can select from among the most favorable rates available
- time and money savings—nationwide quotation systems allow you to "shop the market"
- the opportunity to increase the compounded yield on the CDs (with maturities of 90 days or more)—the fund will automatically reinvest your monthly interest receipts in your account, where they earn additional interest each and every day

- safety—all certificates of deposit meet the requirements of Minnesota law; you receive safekeeping receipt for all fixed-rate investments you purchase
- convenience—you can automatically transfer monies from your 4M Fund account to purchase CDs. You receive a statement confirming your purchases, maturities, and interest payments.

Your monthly 4M Fund statement provides a complete summary of all transactions, enabling you to review at a glance all your short and long-term investments. Also, you'll receive notification as your investments near maturity.

Free Cash-Flow Management Consultation

When your municipality opens a 4M Fund account you'll be able to call the 4M Fund's toll-free telephone number for daily cash-flow management advice. This advice is made available on an individual basis only to participating municipalities at no additional charge. Both Piper Capital Management, Inc. and Cadre Consulting Services Inc. are available at any time to consult with you on any aspect of your municipality's cash-flow management, including banking, borrowing, or other needs.

Cash-Flow Management Seminars

These informative sessions are offered periodically at different locations around the state to keep you and your municipality abreast of the latest financial management techniques. In addition the sessions cover, in easy to understand terms, the banking industry, the Federal Reserve System, cash-flow terminologies, and short-term investment vehicles. This extra service is provided by Piper Capital Management Inc. and Cadre Consulting Services Inc. to all Minnesota municipalities.

For further information about the 4M Fund and answers to any questions you may have, please call Cadre toll-free at 1-800-221-4524 or Piper Capital Management at 1-800-333-6000.

PERFORMANCE INFORMATION

July 28, 1989

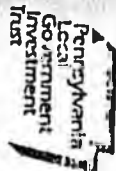
MINNESOTA MUNICIPAL MONEY MARKET FUND (4M FUND)

<u>MM Balance</u>	<u>CD Balance</u>	<u>Total Assets</u>
\$46,267,174.39	\$86,450,000.00	\$132,717,174.39

	<u>1-Day Average</u>	<u>7-Day Average</u>
Yield	8.72	8.83

<u>30 Days</u>	<u>60 Days</u>	<u>90 Days</u>	<u>120 Days</u>	<u>150 Days</u>	<u>180 Days</u>	<u>270 Days</u>	<u>360 Days</u>
8.80**	8.80	8.80	8.80	8.80	8.80	8.80	8.875

** Net of all fees

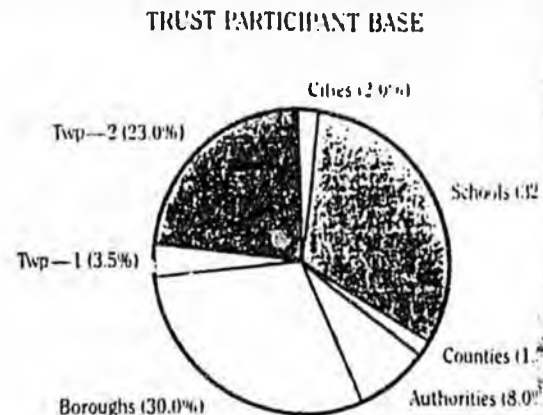


Pennsylvania Local Government Investment Trust

PORTFOLIO PROFILE

	MINIMUM INVESTMENT	RATE	INTEREST	WITHDRAWALS	TERM	OPTIONS AND SERVICES	FEES AND CHARGES
PLGIT PLUS	\$100,000 Initial \$15,000 Subsequent	Higher Competitive Money Market Rates	Calculated Daily Paid Quarterly or on withdrawal	Minimum 15 day Notification Minimum \$25,000	30 Day Minimum	Free Checking Electronic Funds Transfer (EFT) Direct Deposit Programs Wire Services Multiple Accounts Exchange Capabilities Transaction Verification Monthly and Year End Statements Multiple Accounts Electronic Funds Transfer (EFT) Wire Purchase Financial Advisory Service Wire Services Multiple Accounts	None
PLGIT TERM	\$100,000	Competitive Fixed Rates	Paid at Maturity	At Maturity Early Redemption Available**	Minimum of 6 months Maximum of 1 year		None

Information Statement dated November 1, 1985 states that additional purchases can be for as little as \$25,000, provided that the account has a minimum balance of \$100,000. Currently the Trust is accepting additional purchases of \$15,000. See Information Statement for details.



The Pennsylvania Local Government Investment Trust was established in 1981 as a common-law trust to allow Pennsylvania local governments and school districts to pool their funds for investment in money market instruments under the provisions of the Pennsylvania Intergovernmental Cooperation Act.

The Trust has developed three portfolio options to meet your various investment needs: PLGIT, PLGIT/PLUS, and PLGIT/TERM. The original portfolio, PLGIT, is explained through the following Questions and Answers.

Why should you be interested in PLGIT?

PLGIT offers you convenience, high yield, safety, liquidity, and free checkwriting with no minimum balances and no sales charges or transactional fees.

Why was PLGIT created?

PLGIT was created to help local governments and school districts benefit from money market interest rates. It is designed to earn high levels of current income on any size investment while meeting all Pennsylvania legal requirements for local government and school investments.

Here's how PLGIT can conveniently provide you with:

- Safety
- High Yield
- Liquidity

Who may use PLGIT?

All Pennsylvania local governments and schools are eligible to participate in the Trust. This may include boroughs, cities, townships, counties, school districts, area vocational-technical schools, intermediate unit, community colleges, municipal authorities, council of governments, and other governmental-type entities.

What are PLGIT's allowable investments?

- United States Treasury Bills
- Obligations of the U.S. Government or any of its agencies or instrumentalities backed by the full faith and credit of the U.S. Government
- Certificates of deposit insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC)
- Certificates of deposit fully collateralized under Pennsylvania law.
- Securities described above subject to repurchase agreements.

How does the Trust guarantee the safety and security of PLGIT's investments?

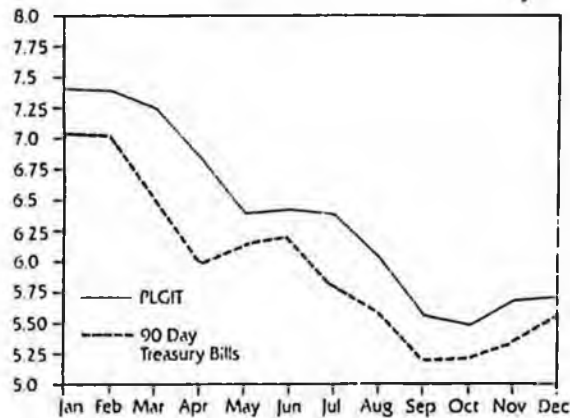
The Trust has the backing of the full faith and credit of the United States Government and any of its agencies for all such instruments that it holds. For bank instruments such as CD's, the Trust will invest only with those institutions that are covered by FDIC/FSLIC insurance. All investments made by PLGIT are held under the safekeeping of the Trust's custodian bank.

What are the advantages of investing in PLGIT?

PLGIT stands for safety, convenience, and flexibility.

It is a cost-effective investment vehicle that offers you cash management services and high money market rates. Because PLGIT was designed by local government officials for the exclusive use of Pennsylvania local governments and school districts, it meets your legal, accounting, and financial requirements as no other program can.

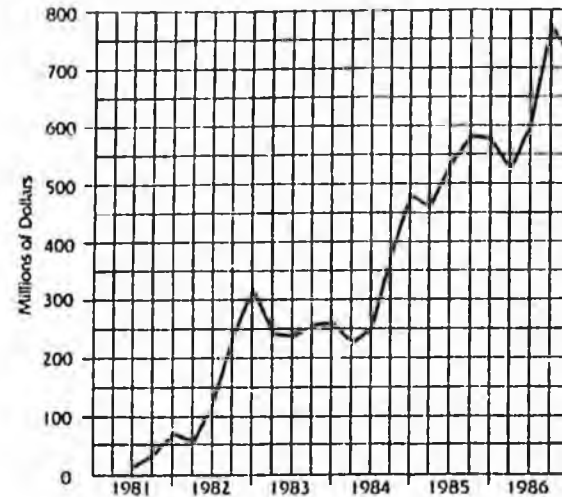
1986 Yield Advantage



PLGIT is also quite flexible, with no minimum balance requirements and no time requirements on investments. It is more liquid than CD's and higher yielding than bank money market accounts.

Pennsylvania Local Government Investment Trust

Asset Growth by Year



What sort of transactional fees are involved?

None. PLGIT participants pay no transactional fees or sales charges. There is no minimum balance requirement, no minimum amount of time which you must keep your money in PLGIT, and no limit to the number of checks you may write.

May I open more than one account?

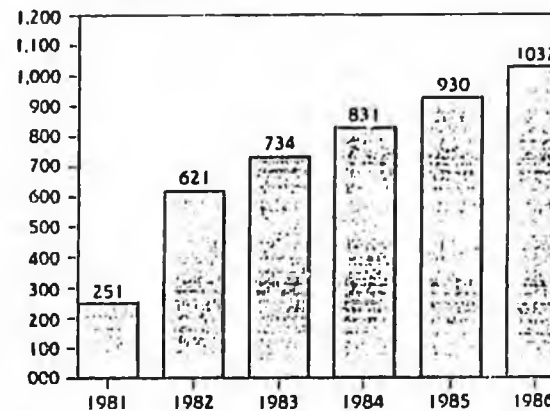
Yes. The Trust recognizes that you have strict audit requirements. Therefore, we have made it easy to use PLGIT and to maintain clear audit trails. Open as many accounts as you need, at no cost. All of your accounts will receive separate statements, which we will send to you for each transaction, for month end, and for fiscal year end.

Who sponsors the Trust?

The following state-wide municipal and school associations sponsor the Trust:

- Pennsylvania State Association of Boroughs
- Pennsylvania League of Cities
- Pennsylvania State Association of Township Commissioners
- Pennsylvania State Association of Township Supervisors
- Pennsylvania Municipal Authorities Association
- Pennsylvania Association of School Administrators
- Pennsylvania State Association of County Commissioners.

Trust Participant Growth



What other Trust Investment Options are available?

The Trust has two other investment options, PLGIT/PLUS and PLGIT/TERM.

PLGIT/PLUS is designed to offer a higher yield than PLGIT and is structured on a larger investment scale. A \$100,000 minimum initial investment is required with a minimum investment period of 30 days. More than 375 Trust participants currently have over \$175 million invested in PLGIT/PLUS.

PLGIT/TERM is a unique high-yielding investment option designed specifically for your longer-term investment needs. It offers a fixed-term investment at a fixed rate for up to one year. The minimum investment in PLGIT/TERM is \$100,000.

(for more information please see Portfolio Profile on back)

How does the Trust operate?

The following professional firms and organizations provide all day-to-day services for the Trust:

The Vanguard Group, Inc., of Valley Forge acts as the administrator and distributor for PLGIT. Vanguard has extensive experience in performing necessary administrative and marketing functions and has had its own family of mutual funds since 1928. The Vanguard Group of Funds has assets in excess of \$2 billion, spread over 44 different investment options. Over 1,500,000 corporations, public entities, and individuals are shareholders in the various Vanguard funds.

Public Financial Management (PFM) of Philadelphia performs all investment advisory duties for PLGIT. PFM, formed in 1975, is very active in public finance in Pennsylvania, acting as financial adviser to over 300 Pennsylvania local government units. Financial Management Services (FMS), PLGIT's investment adviser since the inception of the Trust, merged with PFM in 1986.

Philadelphia National Bank (PNB) is the custodian and check clearing agent for PLGIT. PNB is a member of CoreStates Financial Corporation with assets in excess of \$14 billion.

Price Waterhouse performs all auditing services for the Trust.

Saul, Ewing, Remick and Saul of Philadelphia provides the Trust with legal counsel.

How can I find out more?

Complete the attached business reply card and return it to us. Or call us toll free, 1-800-572-1472, for an information package that will include more detail on PLGIT, PLGIT/PLUS, and PLGIT/TERM. If you wish the Trust will send a list of participants in your area for you to review. Our representatives will be happy to show you all the advantages that PLGIT and the Trust can provide.

WHAT IS IT?

The Iowa Public Agency Investment Trust is a professionally managed investment trust created under Iowa law for cities, city utilities and counties. The Trust provides participating public agencies a ready vehicle for the investment of short term cash funds.

WHAT IS ITS PURPOSE?

The purpose of the Trust is to increase the interest earnings of public agencies by providing a safe and easy means of investing any amount of idle funds for any period of time up to 90 days at rates often higher than can be obtained by a single public agency.

HOW IS IT ORGANIZED?

The Trust is established under Iowa law pursuant to Chapter 28F and sections 331.555 and 384.21 (1987), which authorizes Cities, Counties and City Utilities to jointly invest their funds. Participating public agencies control the program through a Board of Trustees that includes three city representatives, three county representatives and three city utility representatives. The Board of Trustees operates the Trust through the services of a professional investment Adviser, a Trust Custodian and a Trust Administrator. The assets of the Trust are owned by the participating public agencies which invest in the Trust.

WHAT ARE THE BENEFITS?

A number of benefits will accrue to public agencies that elect to participate in the Trust. Among them are the following:

SAFETY. The Trust will diversify its investments among a variety of professionally selected securities of the highest quality that come due at different times. The Trust invests only in permitted investments as specified for public agencies by Iowa law. This means an investment in the Trust will be a safe investment for public agencies.

CONVENIENCE. Once an account with the Trust has been opened, investments can be made any business day by placing one simple phone call. There are no forms to be filled out, authorizations to sign, safekeeping arrangements to be made or detailed records to be maintained. Money can also be withdrawn from the Trust at any time with equal ease.

COMPETITIVE RETURNS. By combining the resources of many public agencies, the Trust can purchase securities in larger denominations that yield higher returns. This, combined with continuous, day-to-day professional management of the Trust's investments, will yield higher returns.

LIQUIDITY. Because public agencies investing in the Trust can invest or withdraw funds at any time, they can keep more of their money working more of the time.

Thus, excess funds can be invested overnight, for a few days, or for longer periods with the full knowledge that if an unanticipated need for funds occurs, money is readily available without risk.

NON-TAX REVENUE. Every additional dollar earned through investment means one less property tax dollar must be raised.

REDUCED EXPENSES. Investing in the Trust will save time and money by eliminating the paperwork, the bookkeeping and the time spent in selecting and purchasing individual investments.

RECORD KEEPING. The Trust will provide complete record keeping for all investments made. For each account opened with the Trust the public agency will receive a monthly account statement and an annual summary of transactions and interest earned.

HOW IS INTEREST PAID?

Interest will vary based on the underlying securities purchased. Daily rates are quoted toll-free by phone. Interest is earned and compounded daily, and is paid or credited to principal the first of every month.

HOW ARE INVESTMENTS MADE?

A single toll-free telephone call to the Trust Administrator is all that is required to make an investment in or withdrawal from the Trust. With prior authorization, money can be transferred automatically between the public agency's local financial institution and the Trust. Transactions are confirmed the following day in writing and are summarized in a monthly statement to the public agency.

HOW DOES A PUBLIC AGENCY JOIN?

Participation in the Trust is easy and involves only two steps:

1. A resolution authorizing the public agency's participation must be approved by the public agency. A model resolution is provided by the Trust.
2. A simple one-page application must be prepared and forwarded to the Trust together with a copy of the resolution.

NOTE: Public agencies can open more than one account to provide for segregation of funds. Joining the Trust will open an investment account for the public agency, but creates no further obligations. There is no cost for joining the Trust.

To make application or to obtain additional information please contact the Trust Administrator.

Toll Free Number 1-800-872-4034

Local Number (515) 245-3245

or return attached card to:

Iowa Public Agency Investment Trust

C/O Northwest Bank, Des Moines, IA

666 Walnut Street, P.O. Box 837

Des Moines, Iowa 50304

IOWA PUBLIC AGENCY INVESTMENT TRUST

_____ Please send complete information statement and application forms.

Name _____

Position _____

City/County/City Utility _____

Address _____

Phone (____) _____

LET THE IOWA PUBLIC AGENCY INVESTMENT TRUST WORK FOR YOU!

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL

FIRST CLASS MAIL PERMIT NO. 1431 DES MOINES, IOWA

POSTAGE WILL BE PAID BY ADDRESSEE

Iowa Public Agency Investment Trust
C/O Norwest Bank Des Moines, N.A.
666 Walnut P.O. Box 837
Des Moines, Iowa 50304

BOARD OF TRUSTEES

Robert Rasmussen, Mayor, Fairfield, Chairperson
Millie Lloyd, Supervisor, Hardin Co., Vice Chairperson
Jim Ahrenholtz, Office Manager, Denson Municipal
Utilities, Trustee
Terry Campie, Manager, Maquoketa Municipal Electric
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Patricia A. Less, Councilperson, Lone Tree, Trustee
Melvin Mills, Treasurer, Poweshiek Co., Trustee
Mary Richards, Co. Attorney, Story County, Trustee
Connie Sticking, City Administrator, Preston, Trustee
Robert Haug, Executive Director, Iowa Association of
Municipal Utilities, Ex-Officio Member
and Secretary
Peter King, Executive Director, League of Iowa
Municipalities, Ex-Officio Member
and Treasurer
Vacant, Executive Director, Iowa State
Association of Counties, Ex-Officio
Member

IOWA PUBLIC AGENCY INVESTMENT TRUST

A Cash Management Service
For Iowa Cities, Counties and City Utilities

The following companies have been retained by the
Board of Trustees to provide professional services as
required by the Trust

AS TRUST ADVISOR:

Investors Management Group, Ltd.
720 Liberty Building
Sixth and Grand
Des Moines, Iowa 50309

AS TRUST ADMINISTRATOR:

Norwest Bank Des Moines, N.A.
666 Walnut, P.O. Box 837
Des Moines, Iowa 50304

AS TRUST CUSTODIAN:

Norwest Bank Des Moines, N.A.
666 Walnut, P.O. Box 837
Des Moines, Iowa 50304

AS LEGAL COUNSEL:

Ahlers, Cooney, Dorweiler,
Haynie, Smith & Allbee
100 Court Avenue
Des Moines, Iowa 50309

AS INDEPENDENT ACCOUNTANTS:

Peat, Marwick, Main & Co
2500 Ruan Center
Des Moines, Iowa 50309

For Investment Information
Call

Toll Free (800) 872-4024
In Des Moines (515) 245-3245

Sponsored By
Iowa Association of Municipal Utilities
Iowa State Association of Counties
League of Iowa Municipalities



(ORDINANCE/ORDER/RESOLUTION)
AUTHORIZING JOINT INVESTMENT
OF PUBLIC FUNDS

WHEREAS, _____ (this "Governmental Entity") is a "local government" within the meaning of The Interlocal Cooperation Act, Article 4413(32c), Vernon's Texas Civil Statutes, as amended (the "Interlocal Act"), and as such is authorized to contract with one or more other such local governments for the joint investment of public funds of such local governments in any investments in which each such local government is authorized to invest its funds:

WHEREAS, this Governmental Entity is authorized by the Public Funds Investment Act of 1987, Article 842a-2, Vernon's Texas Civil Statutes, as amended (the "Public Investment Act"), to invest its public funds in any of the obligations or securities described in section 2 or 3 of the Public Investment Act, as amended.

WHEREAS, the joint investment of local public funds is in the best interest of this Governmental Entity and its inhabitants; and

WHEREAS, this Governmental Entity therefore desires to authorize the joint investment of its public funds with other local governments pursuant to the Interlocal Act and to enter into a contract with such local governments to provide for the terms on which public funds so invested may be combined, invested, secured, and accounted for:

NOW, THEREFORE, BE IT [ORDAINED/ORDERED/RESOLVED] BY THE [CITY COUNCIL/CITY COMMISSION/COMMISSIONERS COURT/BOARD OF TRUSTEES] (THIS "GOVERNING BODY") OF _____ THAT:

Section 1. *Authorization of Contract.* The terms of the Common Investment Contract attached hereto as Exhibit A, including the investment objectives and purposes described therein, are hereby approved. The [Mayor/County Judge/President of the Board of Trustees] of the Governmental Entity is hereby authorized and instructed to execute and deliver, and the [Secretary/County Clerk/Secretary of the Board of Trustees] of this Governmental Entity is hereby authorized to attest, a Common Investment Contract substantially in the form and to the effect so attached (the "Interlocal Contract"), and there upon the designations, delegations, approvals, and authorizations described thereby shall be authorized, approved, and granted by this Governmental entity without further act by this Governing Body.

Section 2. *Authorization of Investments.* Upon the execution of the Interlocal Contract by this Governmental Entity, each officer and employee of this Governmental Entity who is designated to be responsible for the investment of public funds of this Governmental Entity pursuant to Article 4413(34c), Vernon's Texas Civil Statutes, as amended (the "Investment Procedures Act"), is authorized to transfer public funds of this Governmental Entity to the Fund to be created by the Interlocal Contract in order to acquire an interest in any Series thereof, provided that, in the case of any Series other than the initial Series created by the Interlocal Contract, (1) the funds of such Series may be invested solely in obligations described in the Public Investment Act or in any other obligations in which this Governmental Entity may lawfully invest its funds and (2) this Governing Body has approved the investment rules and policies governing such investments. All such transfers shall be made in accordance with investment policies and procedures heretofore adopted by this Governmental Entity pursuant to the Investment Procedures Act, as such policies and procedures may be amended from time to time, but to the same extent as if such policies and procedures expressly authorized such transfers as direct investments of public funds of this Governmental Entity.

Section 3. *Notices, Etc.* All notices, demands, requests, drafts, consents, approvals, waivers, ballots, and other documents and action which may be given or taken by this Governmental Entity under the Interlocal Contract may be given or taken by any officer of this Governmental Entity who at the time is designated pursuant to the Investment Procedures Act as responsible for the investment of public funds of this Governmental Entity.

Section 4. *Further Actv.* Each officer of this Governmental Entity is hereby authorized to take any and all action necessary to effect the Interlocal Contract and joint investments authorized hereby and to perform any obligation of this Governmental Entity thereunder.

Section 5. *Repealer.* All ordinances, orders, or resolutions, or parts thereof, which are in conflict or inconsistent with any provision hereof are hereby repealed and declared to be inapplicable to the extent of such conflict, and the provisions hereof shall be and remain controlling as to the matters ordained, ordered, or resolved herein.

Governmental Entities interested in participating in the Fund may utilize the foregoing resolution or you may create your own. The provisions listed below are provided for your convenience and should be included in any resolution created by participating local entities.

**PROVISIONS TO BE INCLUDED IN ACTION AUTHORIZING
THE COMMON INVESTMENT CONTRACT CREATING THE
LOCAL GOVERNMENT INVESTMENTS FUND FOR TEXAS**

1. Authorization for one or more officers of the participant to execute and deliver the Common Investment Contract.
2. Approval of the investment objectives and purposes described in the Contract.
3. Authorization of the transfer for investment of public funds of the participant to the Local Government Investment Fund for Texas.

OREGON STATE TREASURY

LOCAL GOVERNMENT INVESTMENT POOL

Revised May 1986

THE LOCAL GOVERNMENT INVESTMENT POOL

The Oregon Local Government Investment Pool was conceived at a meeting of County Treasurers in the fall of 1972, when someone asked "How can we invest in the same things the Treasury does?" That question was answered in the 1973 Legislative Session with the passage of enabling legislation (ORS.294.035) sponsored by the State Treasurer.

Briefly, the Act directed the State Treasurer, as Chief Investment Officer for the State, to invest monies for the purpose of investment. Further legislation, passed in 1979, permitted those funds to be co-mingled with those of the State Excess Fund. This merger, which took place in August 1979, created the new Oregon Short Term Fund.

The Original Act also authorized the formation of the Local Government Investment Board, which advises the State Treasurer and the Oregon Investment Council regarding management of the Investment Pool. The Board consists of seven members: the State Treasurer (or Deputy State Treasurer), three public members, and three finance officers of Local Government Units. The public members are appointed by the Treasurer; the other three members, representing cities, counties, and school districts, are appointed by the Governor upon the recommendation of the League of Oregon Cities, the Association of Oregon Counties, and the Oregon School Boards Association, respectively. Members serve four year terms.

In late 1973, an Ad Hoc Committee was appointed by the State Treasurer to determine exactly what services the Pool should provide and how, within the law, the Pool would operate. This committee was composed of bankers and Local Government finance Officials.

Deposits or withdrawals should be made as early as possible in the morning and must be made no later than 11:00 a.m. if they are to be included in the current day's work.

A MINIMUM ONE DAY ADVANCE NOTICE TO THE POOL IS REQUIRED FOR DEPOSITS OR WITHDRAWALS OF \$1,000,000 OR MORE.

ACCOUNTING AND REPORTING

The accounting system is two fold: one system deals with the transactions within the Pool and the other deals with transactions to and from the Pool with Local Governments. Within the Pool; a daily accrual method of accounting for earnings is used. The earnings are then set aside in an accrued earnings account for monthly credit to the Local Government's account. Interest earned during the month is credited to the account on the first working day of the following month.

The Pool may deduct up to 1% of the income received from earnings as a fee to recover expenses. This deduction is made from total Pool earnings prior to the distribution of earnings to participants. Because of record earnings over the past year, a surplus has accrued to the account and the charge will be suspended for approximately one year.

Each month, Local Government participants receive statements showing deposits, withdrawals and earnings distributed to each individual account. If distributed earnings are not withdrawn from the account, a compounding of interest and other income on a monthly basis results.

SETTING UP AN ACCOUNT

Before using the Local Government Pool, a Local Government unit must obtain written consent of the governing body by resolution, ordinance or other appropriate means. The Local Government official (the person authorized by the Local Government unit to make Pool

transactions) should then call the Pool to obtain an account number. Once the account number has been obtained, Pool transactions may be made as explained above. A written confirmation of each transaction must be sent to both the local bank and the Pool (sample forms and explanation of reports available to Pool participants on request).

OTHER SERVICES PROVIDED BY LGIP

If you would like further information on any of these services, please call the Pool staff at 1-800-452-0345 (toll free).

1. MULTIPLE ACCOUNTS - If a Local Government unit has sub-accounts which it must segregate from its regular fund because of LEGAL REQUIREMENTS (for example: a bond account) it may request separate accounts for those funds. Because of additional costs to the administration of the Pool which must be borne by all participants, multiple accounts SHOULD NOT be used simply for convenience in accounting. Interest allocation of various sub-accounts within the Local Government unit may easily be made using monthly reports provided by the Pool. Further information on this procedure may be obtained by calling the Pool staff.

2. DIRECT TRANSFER OF WARRANTS - In order to maximize earnings, Local Government participants may have certain state warrants deposited directly to their Pool accounts on the date the warrants are issued. Those receipts are as follows:

SCHOOL DISTRICTS

- BASIC SCHOOL SUPPORT (monthly August and May)

COMMUNITY COLLEGES

- FTE (quarterly)
 - CONSTRUCTION (when issued)

CITIES

- CIGARETTE (monthly)
 - LIQUOR (monthly)
 - HIGHWAY (monthly)

COUNTIES

- CIGARETTE (monthly)
- LIQUOR (monthly)
- HIGHWAY (monthly)
- MENTAL HEALTH (monthly)
- SEVERANCE TAX (tri-annually)
- STATE FORESTRY (quarterly)
- FEDERAL FORESTRY (annually)
- VETERANS PROPERTY TAX RELIEF
(annually)
- CIRCUIT COURT (annually)
- CITY REVENUE SHARING (quarterly)
- 911 EMERGENCY FUNDS (quarterly)

Upon deposit of these warrants, the Pool will send the Local Government unit a statement of receipts as notification of its deposit into the Pool.

3. INTER-ACCOUNT TRANSFERS - Local Government units which make direct payment to other Local Government units within the state may make direct transfers to any Local Government unit which has a Pool account. For example: a county may make a direct transfer of funds to its cities, school districts, or special districts by requesting that the Pool debit the county's account and credit the other participants account. The county or transferring unit will provide notification to each Local Government unit involved.

Local Government units are encouraged to call the Pool any time they have questions concerning the Pool operations, interest rates, account balances, or other related matters.

PORTFOLIO RULES FOR THE OREGON SHORT TERM FUND

The following rules apply to the desired future portfolio makeup for the Oregon Short Term Fund but do not reflect the present Fund portfolio. The Investment Officer will sell existing investments to achieve compliance with the new rules only when prudent investment policy dictates it wise to do so. Consequently, the prohibitions of certain types of investments, trading techniques and other rules apply to all investments from this date forward but are not meant to apply to those investments already made.

1. GENERAL
 - A. Guidelines relating to size of investments and diversification of investments do not apply to short term investments of 7 days or less or to Masternote agreements.
 - B. No delayed deliveries beyond normal settlement.
2. MATURITY DISTRIBUTION
 - A. 50% of actual portfolio must mature within 93 days.
 - B. Up to \$100,000,000 may mature in over 1 year.
 - C. No investment may mature in over 3 years.
3. DIVERSIFICATION OF PORTFOLIO
 - A. At least 10% of actual portfolio must be in Treasury and/or Agency Securities.
 - B. No more than 50% of the actual portfolio may be in any one of the following:
 - i. commercial paper; ii. repurchase agreements; iii. bankers acceptances; iv. negotiable certificates of deposit; v. time certificates of deposit.
4. TIME CERTIFICATES OF DEPOSIT
 - A. Banks with deposits of less than \$2,000,000 permitted TCD of \$100,000.
 - B. Banks with deposits of \$2,000,000 or more permitted TCDs of up to 5% of deposits.
 - C. Current limit of \$100,000 TCD in each Savings & Loan unless 100% collateral posted.
5. BANKERS ACCEPTANCES AND NEGOTIABLE CERTIFICATES OF DEPOSIT.
 - A. 2.5% maximum of actual portfolio per issuer in domestic bank Bankers Acceptances.
 - B. 2.5% maximum of actual portfolio per issuer in domestic bank Negotiable Certificates of Deposit.
 - C. Limited to approved banks.
 - D. Negotiable Certificates of Deposit limited to Oregon institutions only.
6. COMMERICAL PAPER
 - A. Up to 5% of actual portfolio per issuer in domestic paper.
 - B. A-2 rated commercial paper.
 - i. No more than 10% of actual portfolio.
 - ii. No A-2 rated commercial paper may mature in over 93 days.
 - iii. Purchases may be made from approved list only: Louisiana Pacific, Pacific Power & Light.
7. REPURCHASE AGREEMENTS
 - A. Current net worth of firm must be over \$2,500,000.
 - B. Firm must be on approved list and must have signed Repurchase Agreement..
 - C. Repurchase agreements must equal no more than 2% of liabilities of firm.
 - D. Any additional firms must be approved in writing by the Treasury Department.
 - E. All collateral for repurchase agreements must be either delivered to the Treasury's Fiscal Agent or held in a segregated safekeeping account in the name of the Oregon State Treasury.
 - F. Collateral for repurchase agreements must not be of lesser quality than otherwise permitted by the guidelines.
8. REVERSE REPURCHASE AGREEMENTS
 - A. Maximum maturity of 6 months.
 - B. Maximum total of \$100,000,000.
 - C. Net worth of firm must be over \$50,000,000.
 - D. Firm must be on approved list and have signed Repurchase Agreement.
 - E. Reverses must equal no more than 2% of liabilities of firm.
9. OTHER
 - A. Masternote agreements must be individually approved by the Oregon Short Term Fund Board.

LOCAL GOVERNMENT INVESTMENT POOL

294.805 Definitions for ORS 294.805 to 294.895. As used in ORS 294.805 to 294.895:

(1) "Board" means the Oregon Short Term Fund Board.

(2) "Council" means the Oregon Investment Council created under ORS 293.706.

(3) "Funds" means funds under the control or in the custody of any local government official by virtue of office that are not required to meet current demands.

(4) "Investment officer" means the State Treasurer in capacity as investment officer for the council and the investment pool.

(5) "Investment pool" means the aggregate of all funds from local government officials that are placed in the custody of the investment officer for investment and reinvestment as provided under ORS 294.805 to 294.895.

(6) "Local government official" means each officer or employe of any agency, political subdivision or public corporation of this state who by law is made the custodian of or has control of any funds. [1973 c.748 §1; 1981 c.880 §14]

294.810 Local governments authorized to place limited funds in pool. With the consent of the governing body, a local government official may place in the aggregate up to \$10 million of its funds in the investment pool, or, if the assets of the investment pool have been transferred pursuant to ORS 294.882, in the state investment fund established pursuant to ORS 293.721, for investment and reinvestment by the investment officer as provided under ORS 294.805 to 294.895, or 293.701 to 293.776, as the case may be. The \$10 million limitation stated in this section shall not apply to funds of a governing body which are placed in the investment pool on a pass-through basis. [1973 c.748 §2; 1981 c.880 §15]

294.815 Period of investments; withdrawal of funds. Subject to the right of the unit of local government to specify the period in which its funds may be held in the invest-

ment pool for investment and reinvestment, the investment officer by rule shall prescribe the time periods for investments in the investment pool and the procedure for withdrawal of funds. [1973 c.748 §3]

294.820 Separate long-term investments limited. With the consent of the governing body, a local government official of a city or municipal corporation may, before July 1, 1979, deposit funds with the State Treasurer for long-term investments of the funds by the State Treasurer separate from investments of the investment pool. [1973 c.748 §4; 1979 c.608 §1]

294.825 State Treasurer as investment officer; bond; employment of personnel; rules. (1) The State Treasurer is the investment officer for the council and the investment pool, and shall perform functions in that capacity as authorized or required by law and, consistent with law, by the council.

(2) The bond of the State Treasurer required from him by law shall be deemed to extend to the faithful performance of all functions of the office of investment officer under ORS 294.805 to 294.895.

(3) The investment officer may:

(a) Subject to any applicable provision of the State Personnel Relations Law, employ, prescribe the functions and fix the compensation of personnel necessary to facilitate and assist in carrying out the functions of the council, investment officer and investment pool.

(b) Require a fidelity bond of any person employed by him who has charge of, handles or has access to any of the moneys in the investment pool. The amounts of the bonds shall be fixed by the investment officer, except as otherwise provided by law, and the sureties shall be approved by him. The premiums on the bonds shall be an expense of the State Treasurer.

(4) Subject to review by the board, the investment officer may, pursuant to ORS 183.310 to 183.550, make reasonable rules necessary for the administration of ORS 294.805 to 294.895. [1973 c.748 §§5, 18]

294.830 [1973 c.748 §7; repealed by 1979 c.508 §2 (294.831 enacted in lieu of 294.830)]

294.831 Investment objective; limit on maturity dates. (1) The local government investment pool shall seek to obtain a competitive return on investments subject to the

instructions to hold the same pending receipt by the institution of full payment therefor. (1981 c.880 §11)

294.850 Contracts with persons to perform investment functions; compensation; bond. The council may enter into contracts with one or more persons whom the council determines to be qualified, whereby the persons undertake, in lieu of the investment officer, to perform the functions specified in ORS 294.845 to the extent provided in the contract. Performance of functions under contract so entered into shall be paid for out of the gross interest or other income of the investments with respect to which the functions are performed, and the net interest or other income of the investments after that payment shall be considered income of the investment pool. The council may require a person contracted with to give to the state a fidelity bond in a penal sum as may be fixed by law or, if not so fixed, as may be fixed by the council, with corporate surety authorized to do business in this state. Contracts so entered into and functions performed thereunder are not subject to the State Personnel Relations Law or ORS 279.710 to 279.740. (1973 c.748 §11)

294.855 Legal opinions; investment counseling services; mortgage services. (1) In the acquisition or disposition of bonds with which approving legal opinions ordinarily are furnished, the investment officer may require an original or certified copy of the written opinion of a reputable bond attorney or attorneys, or the written opinion of the Attorney General, certifying to the legality of the bonds.

(2) The council may arrange for the furnishing to the investment officer of investment counseling services. The furnishing and acquisition of those services are not subject to the State Personnel Relations Law or ORS 279.710 to 279.746.

(3) The investment officer, with the approval of the council, may arrange for services with respect to mortgages in which moneys in the investment pool are invested. Those services shall be paid for out of the gross interest of the mortgages with respect to which the services are furnished, and the net interest of the mortgages after that payment shall be considered income of the investment pool. The furnishing and acquisition of those services are not subject to the State Personnel Relations Law or ORS 279.710 to 279.746. (1973 c.748 §12)

294.860 Custody of investment documents; collection of income; distribution to local governments; defaulted payments of principal and interest, collection, compromise. (1) Except as provided in ORS 294.850 and this subsection, all instruments of title of all investments of the investment pool shall remain in the custody of the investment officer. The investment officer may deposit with a well-known and responsible bank or trust company in the City and State of New York or with one or more banks in Portland, Oregon, or both, with the consent of the banks or trust company, those instruments of title the investment officer considers advisable, to be held in safekeeping by the banks or trust company for collection of the principal and interest or other income, or of the proceeds of sale.

(2) Except as provided in ORS 294.850 and 294.855 (3) and subsections (1) and (3) of this section, the investment officer shall collect the principal and interest or other income of investments of the investment pool, instruments of title of which are in the investment officer's custody, when due and payable, and shall pay to the appropriate local government official the principal and interest or other income, within 30 days after the last day of the calendar quarter in which the principal and interest or other income accrues.

(3) In the event of default in the payment of principal or interest or other income of any investment of the investment pool, the investment officer, with the approval of the council, may:

(a) Institute the proper proceedings to collect the matured principal or interest or other income.

(b) Accept for exchange purposes refunding bonds or other evidences of indebtedness at interest rates to be agreed upon by the investment officer and obligor.

(c) Make compromises, adjustments or disposition of the matured principal or interest or other income as the investment officer considers advisable for the purpose of protecting the moneys invested.

(d) Make compromises or adjustments as to future payments of principal or interest or other income as the investment officer considers advisable for the purposes of protecting the moneys invested. (1973 c.748 §13, 1979 c.475 §2)

to the state investment fund established pursuant to ORS 293.701 (2)(r). In that event, the local government investment pool participant accounts will be treated as are other state funds and accounts in receiving a proportionate share of the earnings of that investment fund. The State Treasurer, at the discretion of the treasurer may reestablish the local government investment pool as a separate fund, if the participant accounts increase to over \$125 million and in the State Treasurer's judgment, sufficient interest by local government exists to insure the local government investment pool will remain over \$125 million. Prior to reestablishing the pool as a separate fund, the State Treasurer shall first present a plan for operation, including the reasons for such action, to the Oregon Investment Council at a regularly scheduled meeting for its review and comment. The State Treasurer shall publish notice in the Secretary of State's administrative rules bulletin of the treasurer's intent to reestablish the pool as a separate fund at least 30 days prior to the meeting at which the Oregon Investment Council shall review the proposal, and notice of the meeting time and location of the Oregon Investment Council at which the proposal will be discussed. (1979 c.608 §9; 1980 c.19 §7)

294.885 Oregon Short Term Fund Board; members; appointment; term; vacancies. (1) There is created the Oregon Short Term Fund Board consisting of seven members.

(2) One member shall be the State Treasurer or the treasurer's designated representative. Three members who are qualified by training and experience in the field of investment or finance and who do not hold any other public office or employment, shall be appointed by the State Treasurer. Three members, who are treasurers, finance or fiscal officers or business managers of any county, city or school district, shall be appointed by the Governor as follows:

(a) One shall be chosen from the persons recommended by the Association of Oregon Counties.

(b) One shall be chosen from persons recommended by the League of Oregon Cities.

(c) One shall be chosen from persons recommended by the Oregon School Boards Association.

(3) The term of office of each appointed member of the board is four years, but each

appointed member serves at the pleasure of the appointing authority. A vacancy in the appointed membership occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only.

(4) Notwithstanding the term of office specified in subsection (3) of this section, one of the members of the board first appointed by the State Treasurer after July 23, 1979, shall serve for a term of three years. (1973 c.748 §19; 1979 c.608 §7; 1981 c.880 §18)

294.890 Board members serve without compensation; selection of chairman. (1) A member of the board shall serve without compensation.

(2) The board shall select one of its members as chairman, for a term and with the powers and duties necessary for the performance of the functions of the office as the board shall determine. (1973 c.748 §20)

294.895 Board duties, generally. The board shall:

(1) Advise the council and the investment officer in the management of the investment pool and in the investment of all funds defined in ORS 293.701 (2)(r) and invested pursuant to ORS 293.721.

(2) Review the rules promulgated by the investment officer as authorized under ORS 294.825 (4).

(3) Consult with the council and the investment officer on any matter relating to the investment and reinvestment of funds in the investment pool and on any matter relating to the investment or reinvestment of funds defined in ORS 293.701 (2)(r) and invested pursuant to ORS 293.721. (1973 c.748 §21; 1981 c.880 §19)