

SB 182

SENATE FINANCE COMMITTEE REPORT

DATE: 3/22/91

FURTHER:

*Vetoed by Gov. Hickey
6/18/91*

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) same title
- or adopt _____ CS _____ new title
- attached amendment(s) technical title change (HB only)
- _____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

appropriation-no fiscal note

APPROVES PREVIOUS:

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

DOR 2/2/91
CRA 2/2/91

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Handwritten signatures]

1. *[Signature]* 2. *[Signature]*
Co-Chairs: Signatures and Recommendations

Revision Date: April 2, 1991
 Title: Investment pools for public entities
 Sponsor: Senate Community & Regional Affairs
 Requestor: _____

Department Affected: Revenue
 BRU: Treasury
 Component: _____

Component Serial No.

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

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

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: See attached.

Changes in CS SB 182 (FIN) reflect NO FISCAL CHANGE from the original fiscal note. This fiscal note is appropriate.

4/9/91 AL
 Date Comptroller (initial)

Prepared by: Brian C. Andrews *BA*
 Division: Treasury
 Approved by Commissioner: _____
 Agency: Revenue

Phone: 465-2350
 Date: April 2, 1991

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



STATE OF ALASKA
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Revenue	DIVISION Treasury	BILL NUMBER CS SB 182 (CRA)	SPONSOR Senate Community & Regional Affairs
SHORT TITLE OF BILL Investment Pools for Public Entities			
DEPARTMENT POSITION See amendments proposed.			
PREPARED BY Brian C. Andrews <i>BCA</i>	DATE 4/2/91	COMMISSIONER'S SIGNATURE <i>[Signature]</i>	DATE 4-3-91

SUMMARY

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

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

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

ANALYSIS OF BILL/PROGRAM EFFECTS

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

AMENDMENTS PROPOSED

Please see attached.

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

CS SB 182

Amendments proposed:

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

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

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

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

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

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

Equipment/Communications, computer supplies
software and equipment enhancements 75,000

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

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CS 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.

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Expenditures/Revenues: (Thousands of Dollars)

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

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND	-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 CS58182 (FIN) reflect NO FISCAL CHANGE from the original fiscal note. This fiscal note is appropriate.
4/9/91 al
Date Comptroller Initials

Prepared By: Remond Henderson, Director Phone: 465-4708

Division: Administrative Services Date: 4/2/91

Approved by Commissioner: Edgar Blatchford *Edgar Blatchford*

Agency: Community & Regional Affairs Date: 4/2/91

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

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

April 2, 1991

POSITION PAPER

RE: CS for 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. Committee Substitute for Senate Bill 182 directly addresses that concept, and the Department strongly supports its passage.

Edgar Blatchford

Edgar Blatchford, Commissioner

CS FOR SENATE BILL NO. 182 ^{FIN} ~~(GRA)~~

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 3/22/91
Referred: Finance

Sponsor(s): SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

A BILL

FOR AN ACT ENTITLED

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

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

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

5 Sec. 37.25.050. INVESTMENT POOLS FOR PUBLIC ENTITIES. (a) A public entity
6 may enter into agreements with other public entities regarding the formation and operation of
7 investment pools under which funds of the participating public entities are administered and
8 invested jointly. One or more public entities may form a nonprofit corporation for the purpose
9 of operating an investment pool. An agreement entered into under this section may provide for
10 the employment of staff and other matters necessary for the operation of the investment pool.
11 Each participating public entity is authorized to spend funds necessary for the operation of the
12 investment pool. ~~#1~~

13 (b) For purposes of this section, "public entity" means a subdivision of the state,
14 including a municipality, school district, or regional educational attendance area; or an

Adams Amended

Adopted
4/19/91

investor

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

*Adams
Am #1*

investor

"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."

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

March 22, 1991

SUBJECT: Investment Pools for Public Entities (CSSB 182(CRA))

TO: Senator Arliss Sturgulewski

FROM: Tamara Brandt Cook
Director TBC

CSSB 182(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 to maintain a system of public education. These considerations exist completely aside from the question of an investment pool, although, to the extent that the investment pool provides an opportunity for larger losses simply because a 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 CSSB 182(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 CSSB 182(CRA) substantially changes the state's potential responsibility in situations involving investment losses of municipal funds.

TBC:gc
91-165.glc

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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March 20, 1991

POSITION PAPER

RE: Senate Bill 182

SPONSOR: Senate Community and Regional Affairs Committee

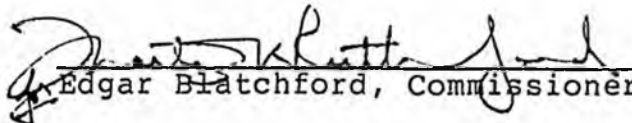
Departmental Position: Support

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



February 1991

Alaska Municipal League
Investment Pool Legislation and Program Justification

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

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

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

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

AML Investment Pool
February 1991
Page 2

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

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

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

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

sab2:investwhy

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

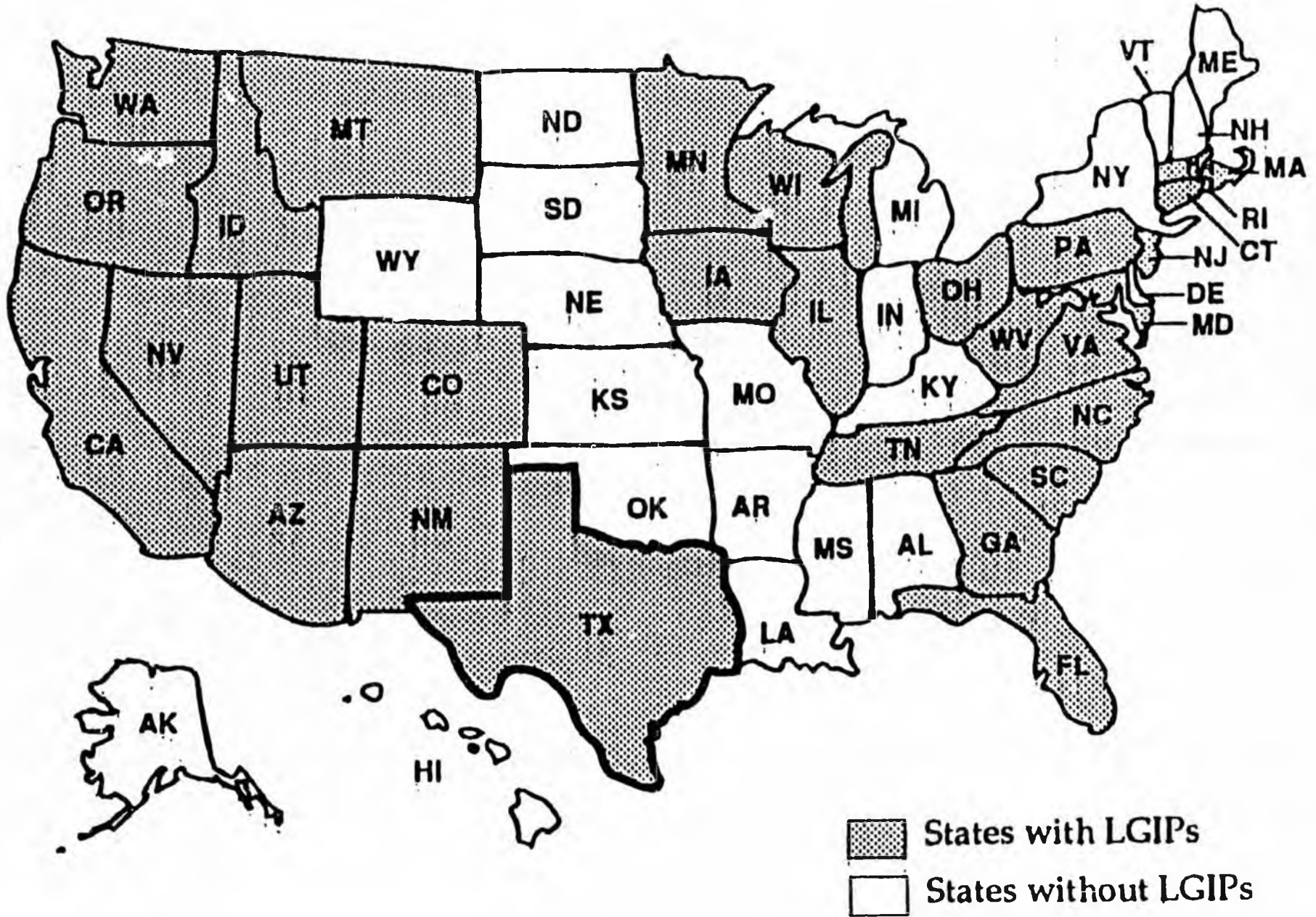
WHEREAS, many municipalities do not have ready access to investment programs and in some cases do not have deposit institutions in their communities, and

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

States With Local Government Investment Pools



THE MUNICIPAL TREASURES ASSOCIATION
OF UNITED STATES AND CANADA
1420 16TH STREET NW SUITE 401 WASHINGTON DC 20036

REPRINTED FROM TREASURY NOTES: JANUARY 1991

INVESTMENT EXCHANGE

FIDELITY INVESTMENTS NEWS AND ANALYSIS FOR PUBLIC FINANCE PROFESSIONALS

RECEIVED

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 manage-

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.

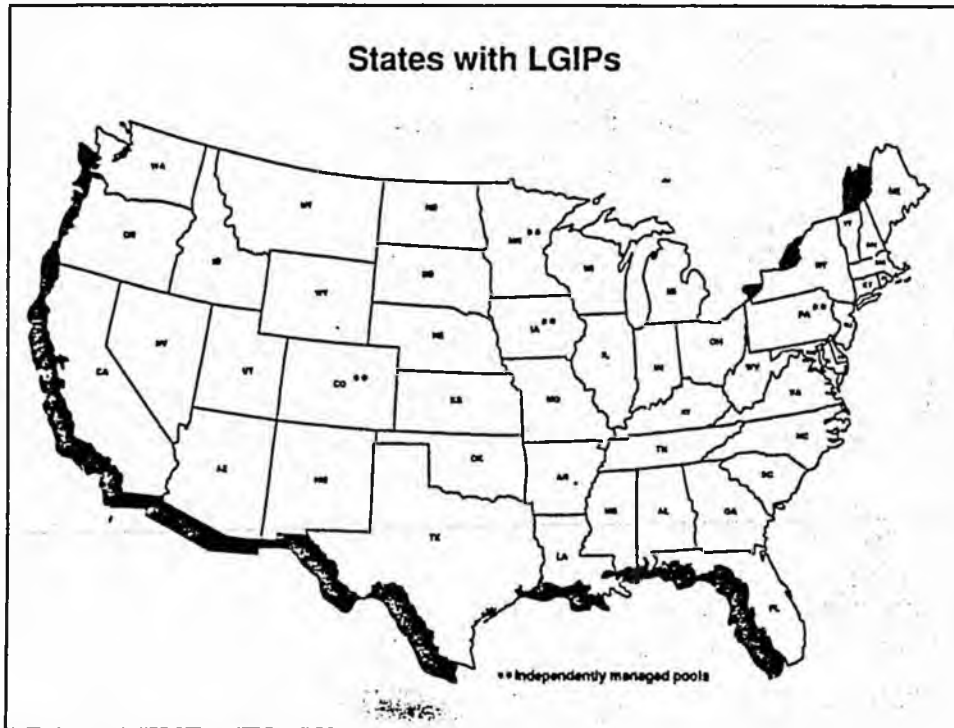
The next issue of INVESTMENT EXCHANGE will discuss the new arbitrage rebate regulations in detail.

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.

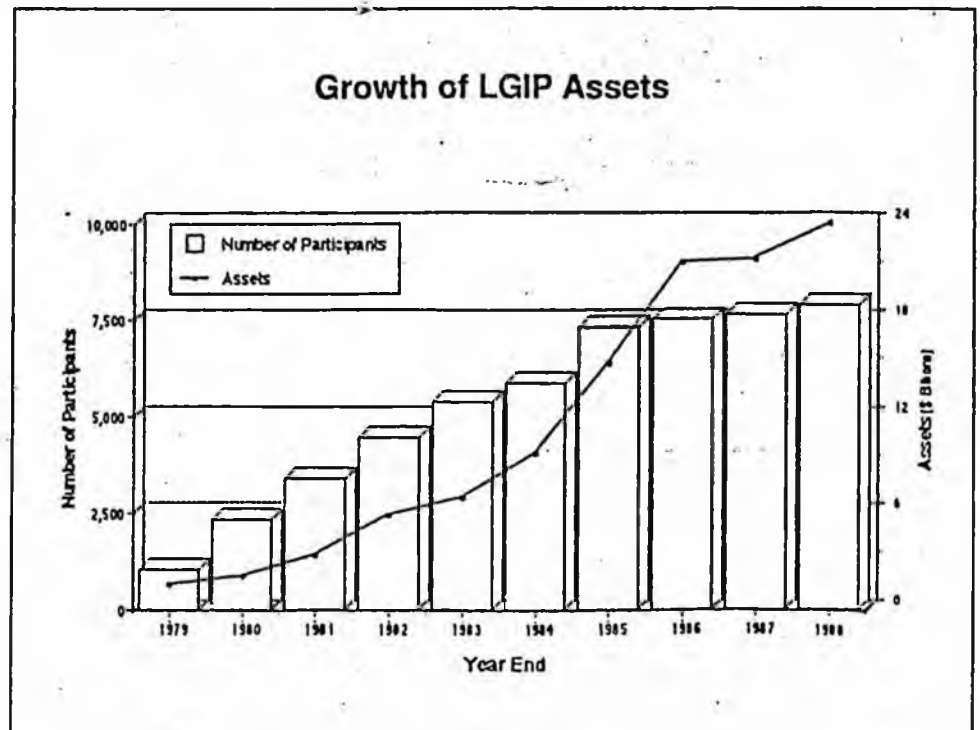
Keys to Success

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. ■

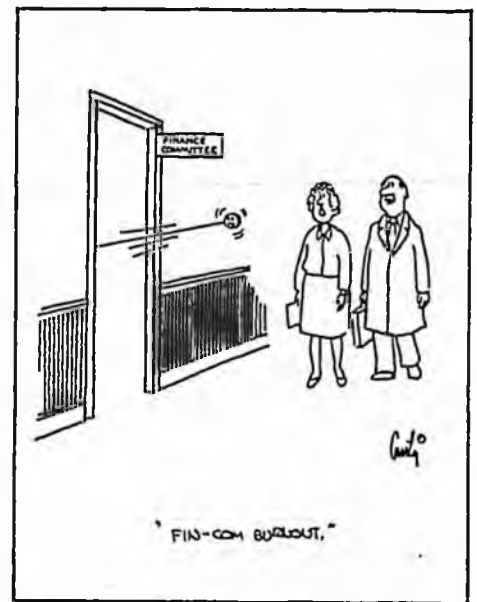


Illustration by William Canty.

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. ■



**(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 Acts.* 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 forgoing 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.

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.

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Expenditures/Revenues: (Thousands of Dollars)

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

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND	-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:

<p>ANALYSIS: (Attach a separate page if necessary.)</p>	<p>Changes in <u>CS SB 182 (CRA)</u> have no fiscal impact. This fiscal note is appropriate.</p> <p><u>3/21/91</u> <u>Rick Slic</u> Date Comte Aide (initial)</p>
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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).

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
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Expenditures/Revenues: (Thousands of Dollars)

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

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

Changes in CS SB 182 (CRA)
have no fiscal impact. This
fiscal note is appropriate.

ANALYSIS: See attached analysis.

3/21/91 Mr. 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.

**DOCUMENTS WHICH HAVE NOT BEEN FILMED BUT ARE
AVAILABLE IN THE ORIGINAL FILE INCLUDE:**

**INFORMATION, ORDINANCES, AND STATUTES RELATING TO
PUBLIC INVESTMENT POOLS FROM:**

- 1. THE STATE OF TEXAS**
- 2. IOWA STATUTES**
- 3. OREGON STATE TREASURY INFORMATION AND STATUTES**