

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672

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SENATE ○ COMMUNITY & REGIONAL AFFAIRS ○

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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.

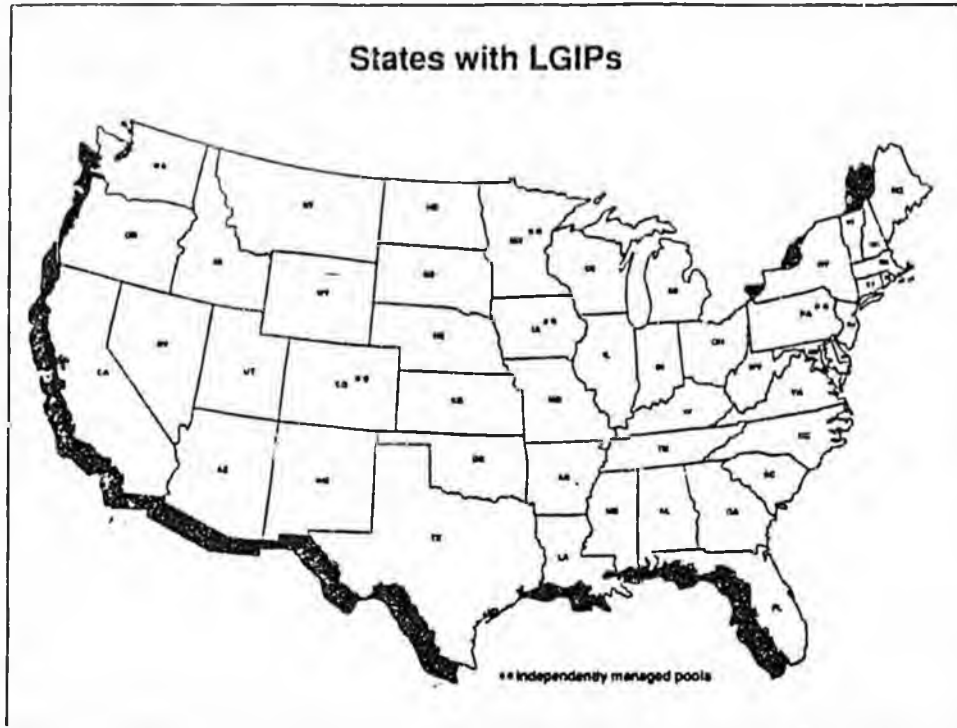
The next issue of INVESTMENT EXCHANGE will discuss the new arbitrage rebate regulations in detail.

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.

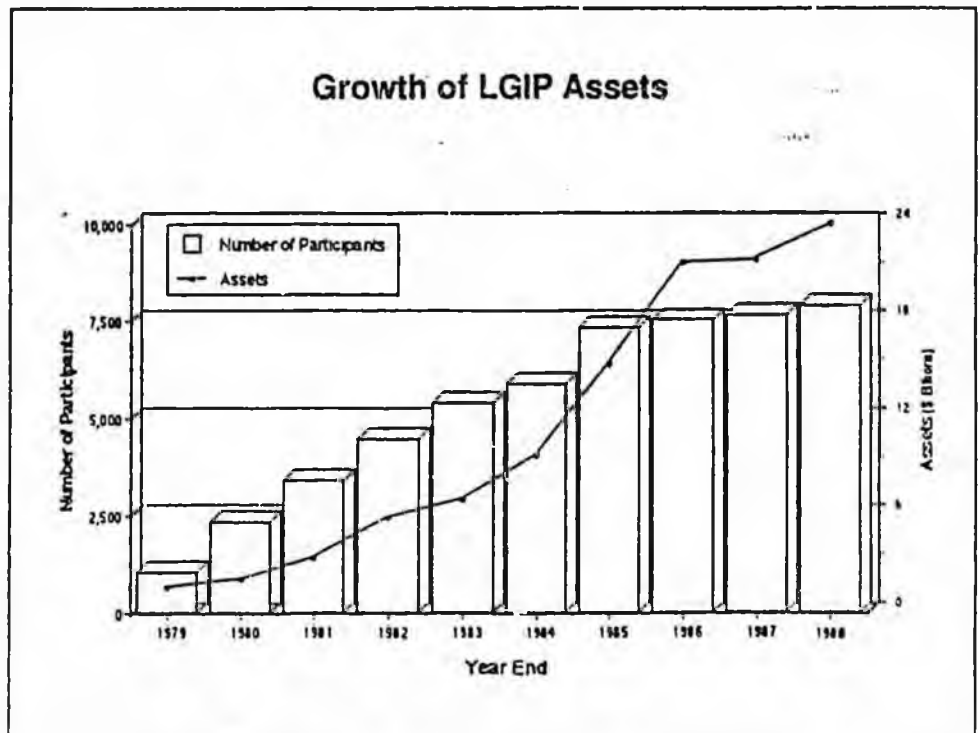
#### Keys to Success

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

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***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.***

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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.

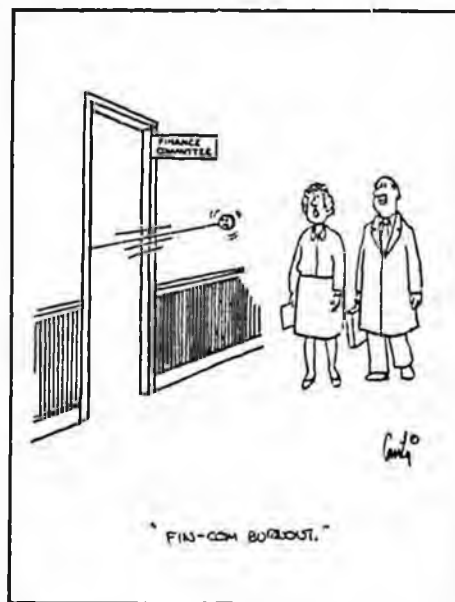
The choices range from straight savings options, which are the most conservative investments, to mutual funds, which are riskier but have the potential for higher yields.

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*

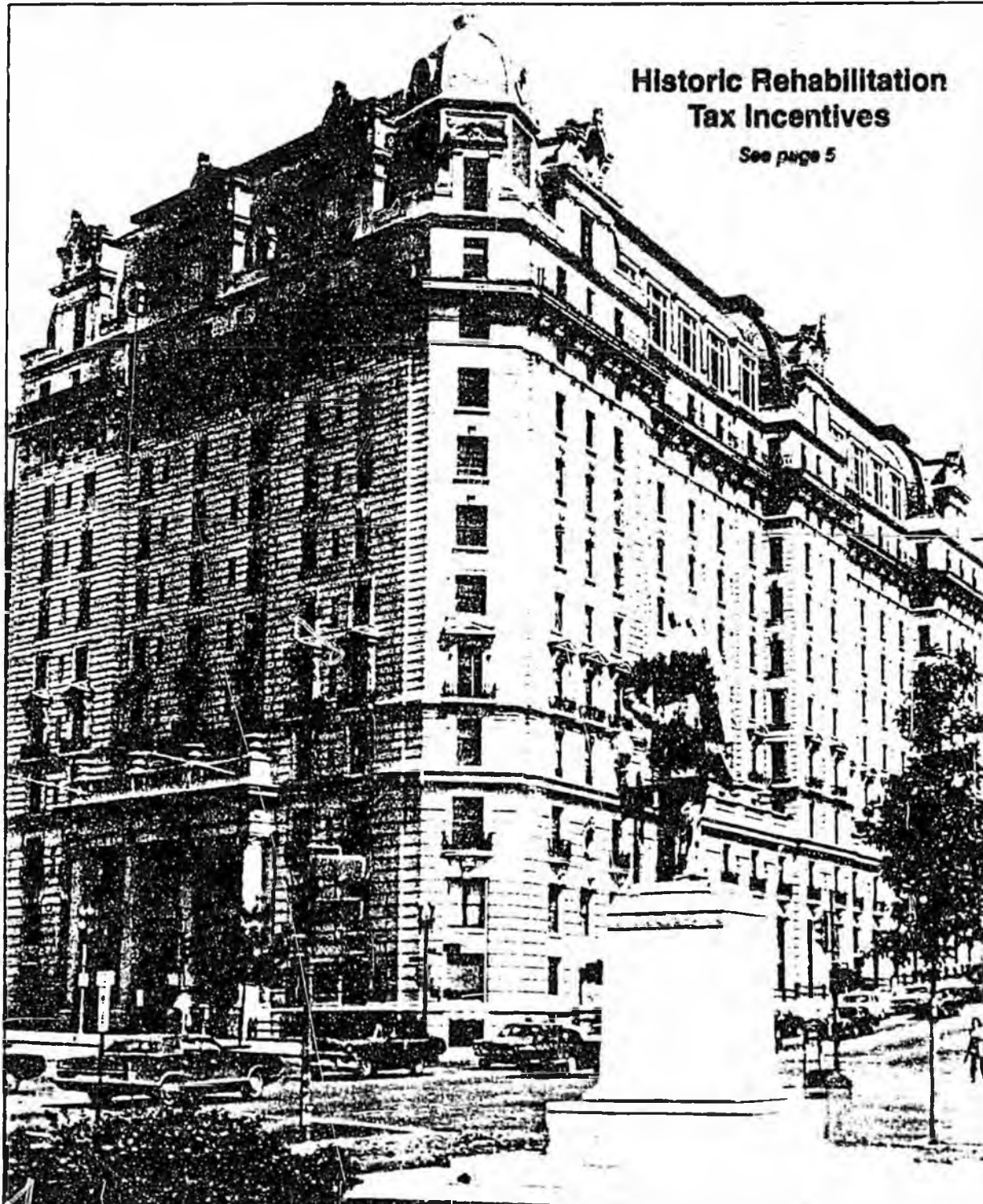
The Government Finance Officers Association's Standing Committee on Cash Management has previously endorsed local government use of LGIPs and is now studying the various issues associated with proper administration and use of LGIPs. Guidelines for LGIPs will be issued by the National Association of State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

# GOVERNMENT FINANCE REVIEW

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# At the Crossroads: Private Sector Perspectives on Public Sector Investing

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*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.*

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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

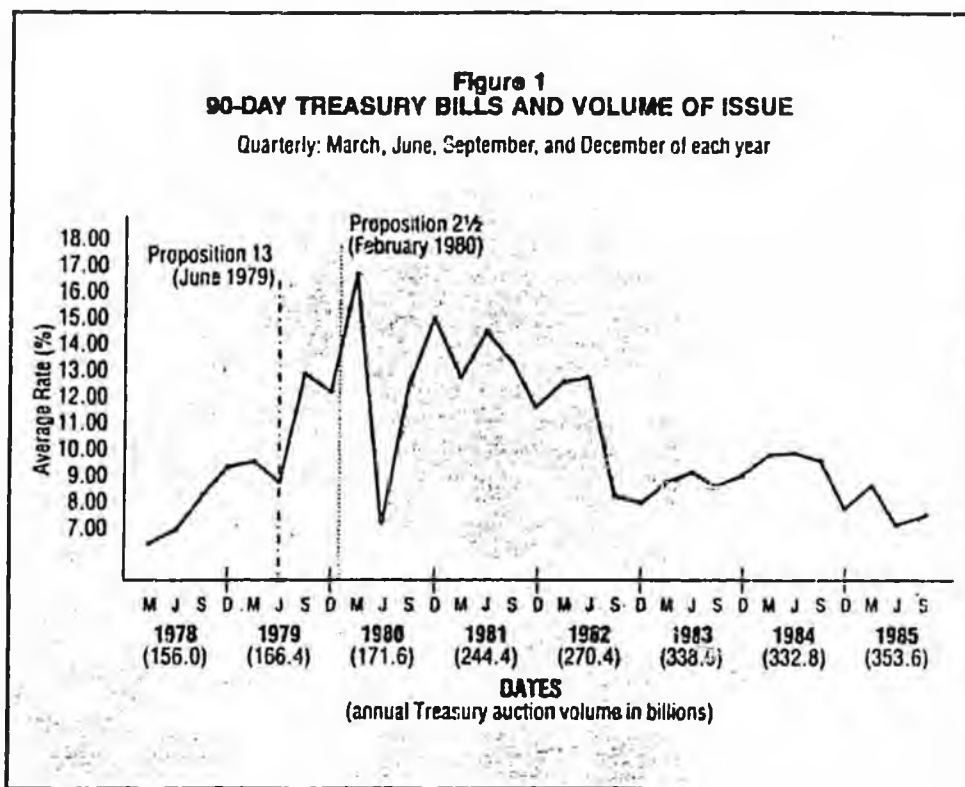
sector investment. However, while chasing yields in response to pressures to continue generating income, some public sector investors appear to have temporarily lost sight of the different types of investment risk. A U.S. Treasury security is a risk-free investment, but only from a credit standpoint. 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.

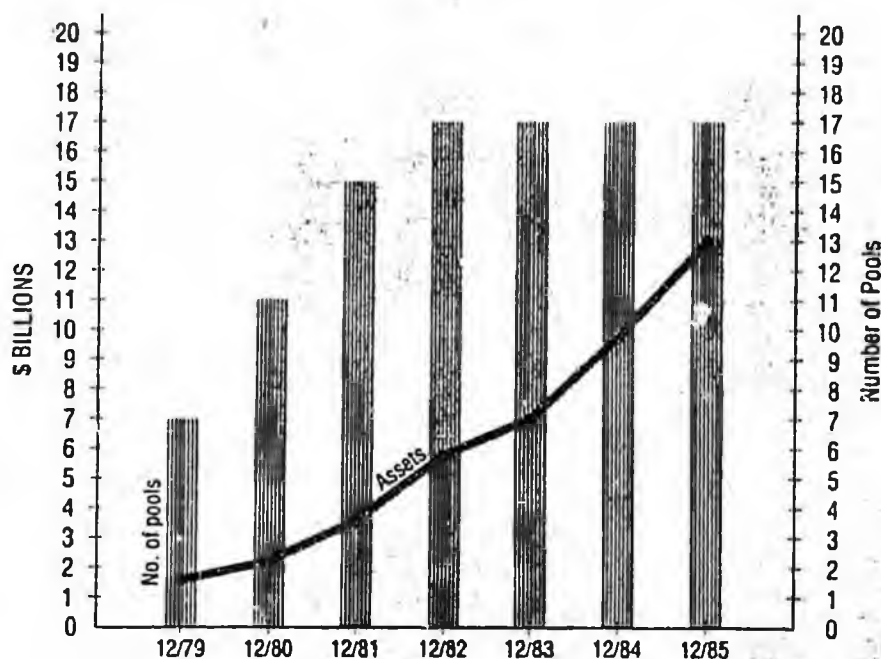
If an efficient, low-cost mechanism for

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 rapidly<sup>2</sup>. 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 funds<sup>1</sup> 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.

**E**xternalizing 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

<sup>1</sup> *Wall Street Journal*, September 6, 1985.

<sup>2</sup> Telephone survey of operating LGIPs by Fidelity Investments, November 1985.

<sup>3</sup> *Dunoghue's Money Fund Report*, October 25, 1985.

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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.

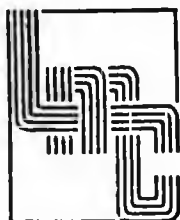
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February 1986.

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

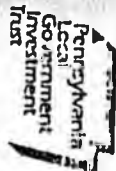
MINNESOTA MUNICIPAL MONEY MARKET FUND (4M FUND)

<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

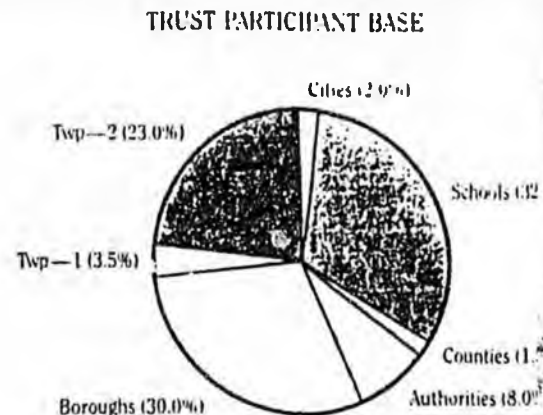


# Pennsylvania Local Government Investment Trust

## PORTFOLIO PROFILE

	MINIMUM INVESTMENT	RATE	INTEREST	WITHDRAWALS	TERM	OPTIONS AND SERVICES	FEES AND CHARGES
PLGIT PLUS	\$100,000 Initial \$15,000 Subsequent	Competitive Money Market Rates	Calculated Daily Paid Monthly	Same Day	One 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?

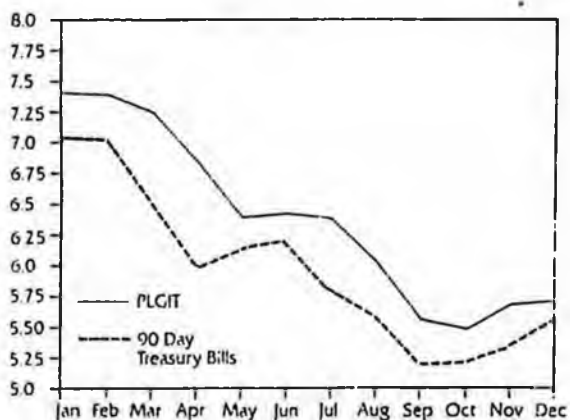
The Trust has the backing of the full faith and credit of the United States Government and any of its agencies for all such instruments that it holds. For bank instruments such as CD's, the Trust will invest only with those institutions that are covered by FDIC/FSLIC insurance. All investments made by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

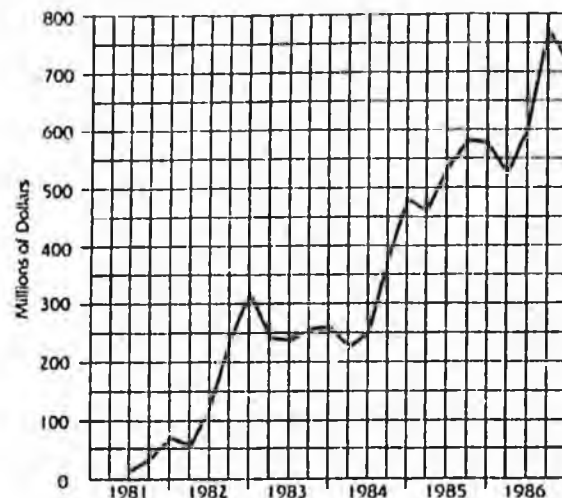
### 1986 Yield Advantage



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?

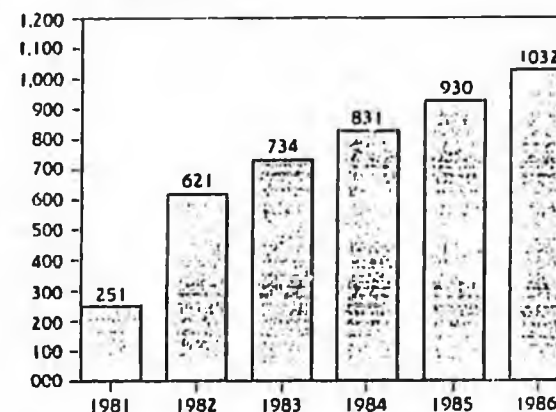
**Yes.** The Trust recognizes that you have strict audit requirements. Therefore, we have made it easy to use PLGIT and to maintain clear audit trails. Open as many accounts as you need, at no cost. All of your accounts will receive separate statements, which we will send to you for each transaction,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

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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)

S B

1 8 8

AMENDMENT #1

OFFERED IN THE SENATE

BY SENATOR RODEY

TO: SB 188

Page 1, line 14:

Delete "1992"

Insert "1993"

Page 2, line 1:

Delete "1992"

Insert "1993"

Page 2, line 5:

Delete "1992"

Insert "1993"

① we don't have the information yet on  
Employment

② When we get the results of the  
pilot we should get

**BRIEFING PAPER**  
**DEPARTMENT OF LABOR**  
**Senate Bill No. 188**

**SUBJECT OF PROPOSED BILL:** Extend State Training and Employment Pilot Program

**SUMMARY OF INTENT:** Extend pilot program for an additional year.

**BACKGROUND:** The State Training and Employment Program was established in 1989 as a two-year pilot project in order that the effectiveness of the program could be evaluated before a permanent, ongoing program was established. Due to delays in the startup of the program, additional time is needed to evaluate it. Accordingly, a one-year extension of the pilot program is proposed.

The pilot program is designed to increase training opportunities for Alaskans whose livelihood is affected by changes in Alaska's economy or by technological changes in the workplace. Training programs are funded by a small portion (0.1 percent) of employee unemployment insurance contributions. The training programs are closely tied to structurally unemployed workers in order that the training will result in reducing unemployment insurance outlays that would otherwise occur.

A majority of the funds currently available for training in Alaska are from the federal Job Training Partnership Act and other designated federal funds with specific qualifying provisions. The family income and other restrictions on the use of these funds makes a segment of the state's unemployed or minimally employed workers ineligible to participate in these programs. This training program permits training to be matched to Alaska's employment needs and Alaskans put back to work.

Several states operate similar programs which use a portion of unemployment contributions to fund job training.

SENATE COMMITTEE REPORT  
FIRST COMMITTEE OF REFERRAL

DATE: 3/11/91

FURTHER: Finance

Date of 5-Day Notice: 3/28/91  
(in accordance with Uniform Rule 23)

DATE TURNED  
INTO OFFICE: \_\_\_\_\_

C&RA Committee considered SB 188

Employment contributions and to extending the pilot project for state training and employment programs; efd.

and recommended:

- replace with \_\_\_\_\_ CS \_\_\_\_\_  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) \_\_\_\_\_  
Labor  
C&RA (2)

zero fiscal note(s) \_\_\_\_\_  
Administration (2)

appropriation-no fiscal note

Governor's bill w/fiscal note

SIGNING DO PASS:

[Signature]  
[Signature]  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

OTHER RECOMMENDATIONS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[Signature] Do Pass  
Chair: Signature and Recommendation

SUBJECT LINE TO READ: TC NO.; PLNFS; SHORT SUBJECT; DATE

TNC NO: 91-04-005  
DATE: 4-4  
SPONSOR: (S)C &RA  
SUBJECT: SE 188 - EXTEND STEP PROGRAM  
MODERATOR: LANI  
SITE: ANCHORAGE

PARTICIPANT LIST

\*\*\*\*\*

TO TESTIFY

NAMES\ REPRESENTING	ADDRESS	PHONE	BILL NO.
✓ 1. ANGELA SALERNO	MILA INC 3330 C #100	99503 562-3424	188
<i>Called</i> 2. ANN VANBOCKEL	MOA-JTP-STEP 825 L ST	343-6574	188

<i>Called</i> ✓ 3. BILL NUGENT-OPAG	325 E 3	99501	276-1059	188
✓ 4. JAMES LOUISE-DCRA	947 E 36 STE. 400		273-9458	188
✓ 5. MR. LESTER LAJUNGER	13500 OLD SEWARD HWY		345-3853	188
6.				

\*\*\*\*\*

TO OBSERVE:

NAMES REPRESENTING	ADDRESS	PHONE	BILL NO.
<i>Called</i> 1. JAMES GAY	8050 PIONEER #904	333-4066	188
2.			
3.			
4.			
5.			

\*\*\*\*\*

SUBJECT LINE TO READ: TC NO.; PL\FS; SHORT SUBJECT; DATE

TC NO: 91-04-005  
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2. ANN VANBOCKEL-NOA JTP-STEP	825 L ST	343-6574	188

3. BILL NUGENT-OPAC	325 E 3	99501 276-1059	188
4. JAMES LDIRKE-DCRA	949 E 36 STE. 400	273-9458	188
5.			
6.			

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TO OBSERVE:

NAME\ REPRESENTING	ADDRESS	PHONE	BILL NO.
1.			
2.			
3.			
4.			
5.			

\*\*\*\*\*



SPONSOR: SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE  
SUBJECT: SB 188: EXTEND STEP PROGRAM ONE YEAR  
MODERATOR: CHRISTI  
SITE: FAIRBANKS

PARTICIPANT LIST #1

\*\*\*\*\*  
TO TESTIFY

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1.			
2.			
3.			
4.			
5.			

\*\*\*\*\*

OBSERVED

NAME/REPRESENTING	ADDRESS	PHONE	BILL NO.
1. FRANK CHAPADOS			
2.			
3.			
4.			
5.			

\*\*\*\*\*

FISCAL NOTE

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

No. 1  
BILL NO. Bill Version: SB 188  
(S) Publish Date: 3/11/91

Revision Date: \_\_\_\_\_  
Title: "An Act relating to employment contributions and to extending the .. project .."  
Sponsor: Rules Committee  
Requestor: Governor

Department Affected: Labor  
BRU: Employment Security  
Component: State Training & Employment Program  
COMPONENT SERIAL NO. 1184

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	22.6					
TRAVEL						
CONTRACTUAL	1,817.4					
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	1,840.0	0.0	0.0	0.0	0.0	0.0

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

REVENUE	3,330.7					
---------	---------	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	1,840.0					
FEDERAL FUNDS						
OTHER						
TOTAL	1,840.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary)

(see attached for analysis)

Prepared by: Judy G. Knight, Director Phone: 465-2712  
Division: Employment Security Division Date: 2/14/91

Approved by Commissioner: Nancy Bear Usher Date: 2/14/91  
Agency: Department of Labor

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

Fiscal Note Analysis  
for

**"An Act relating to employment contributions...and extending the pilot project..."**

This bill extends the state training and employment program for an additional year. The program is funded by a contribution of one-tenth of one percent of covered worker wages collected by the Department of Labor. This is done at no cost to the worker by giving a credit of this amount from the employee contribution currently provided for in AS 23.20.290. The revenue is deposited in the general fund in the employment assistance and training program account.

Revenue calculations for FY 92 (the additional year) are as follows:

<u>FY 92 Revenues</u>	
Estimated taxable wages	\$3,506,000.0
Multiply by one-tenth of 1% to arrive at estimated revenues	\$3,506.0
Adjust for 95% collection rate	<u>(175.3)</u>
<u>Estimated total revenues available</u>	\$3,330.7

Of the total money collected \$22.6 will be retained by the Department of Labor to separately account for the funds. Of the remaining, \$300.0 will be spent on an anticipated appropriation for the Business Incentive Program operated by the Department of Community & Regional Affairs, and \$1,817.4 will be transferred to the Department of Community & Regional Affairs for employment assistance and training grants and to fund priority project analysis and program evaluation from the Department of Labor.

Assumptions:

1. Program would continue for one additional year (FY 92).

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

No.   

Bill Version: SB 188

(S) Publish Date: 3/11/91

Revision Date: \_\_\_\_\_ Department Affecting: \_\_\_\_\_

Title: State Training & Employment Program BRU: \_\_\_\_\_

Component: \_\_\_\_\_

Sponsor: Walter J. Hickel

Requestor: \_\_\_\_\_

COMPONENT SERIAL NO. 

--	--	--	--

Expenditures/Revenues: (Thousands of Dollars)

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

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: \_\_\_\_\_

ANALYSIS: (Attach a separate page if necessary.)

This bill will have no fiscal impact on the Division of Personnel.

Prepared By: David K. F. Otto *DKFO* Phone: 465-4430

Division: Personnel Date: 2/15/91

Approved by Commissioner: Millett Kollar

Agency: Administration *Millett Kollar* Date: 2/28/91

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

FISCAL NOTE

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

No. 3

II Version: 50188

(S) Publish Date: 3/11/91

Revision Date: \_\_\_\_\_

Department Affected: Administration

Title: State Training and Employment Program.

BRU: Labor Relations

Sponsor: \_\_\_\_\_

Component: Labor Relations

Requestor: Governor

COMPONENT SERIAL NO. 

0	0	5	8
---	---	---	---

Expenditures/Revenues: (Thousands of Dollars)

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

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: \_\_\_\_\_

ANALYSIS: (Attach a separate page if necessary.)

This draft proposes to extend for one year a pilot grant program for employment assistance and training providers. The program is housed in and administered solely by the Department of Labor. It has no direct fiscal or policy impacts on the Department of Administration.

Prepared by: Bruce Cummings  
Division: Labor Relations

Phone: 465-4404  
Date: 2/19/91

Approved by Commissioner: Millett Keller  
Agency: Administration

Date: 2/20/91

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

FISCAL NOTE

No. 4

Bill Version: SB 188

(S) Publish Date: 3/11/91

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

Revision Date: 2/12/91 Department Affected: Community & Regional Affairs  
 Title: "An Act relating to employment contributions (STEP)..." BRU: Employment/Training/Rural Development  
 Sponsor: Governor Component: State Employment and Training  
 Requestor: \_\_\_\_\_ COMPONENT SERIAL NO. 

1	0	1	2
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	52.9					
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	1064.5					
MISCELLANEOUS						
TOTAL OPERATING	1117.4					

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	1117.4					
TOTAL	1117.4					

POSITIONS:

FULL-TIME	1.0					
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: 2/20/91  
 Approved by Commissioner: Edgar Blatchford  
 Agency: Community and Regional Affairs Date: \_\_\_\_\_

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

Position Title Internal Auditor II		No. of Positions 1	Range / Step 17 A	Barg. Unit GGU
Time Status Full time	Staff Months 12	Location Anchorage		Election District
TYPE OF EXPENDITURE		Justification		
Salary	37.7	This position is indispensable to the administration of the employment and training programs. Taken as a total, over 11 million dollars for training and employment are granted annually by the JTPO. An increasing burden is placed on the unit each year by the federal government for program integrity and accountability. This position is the primary position charged with compliance monitoring, audit tracking and resolution, and liaison with the U.S. Department of Labor for their compliance monitoring of the state.		
Benefits	15.2			
Premium Pay				
Other				
Total Personal Services	52.9			
Travel				
Contractual				
Commodities				
Equipment				
Other				
Total Cost	52.9			
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.E. Match	1003			
General Fund	1004			
I-A Receipts	1007	52.9		
CIP Receipts	1061			
Other				

5203

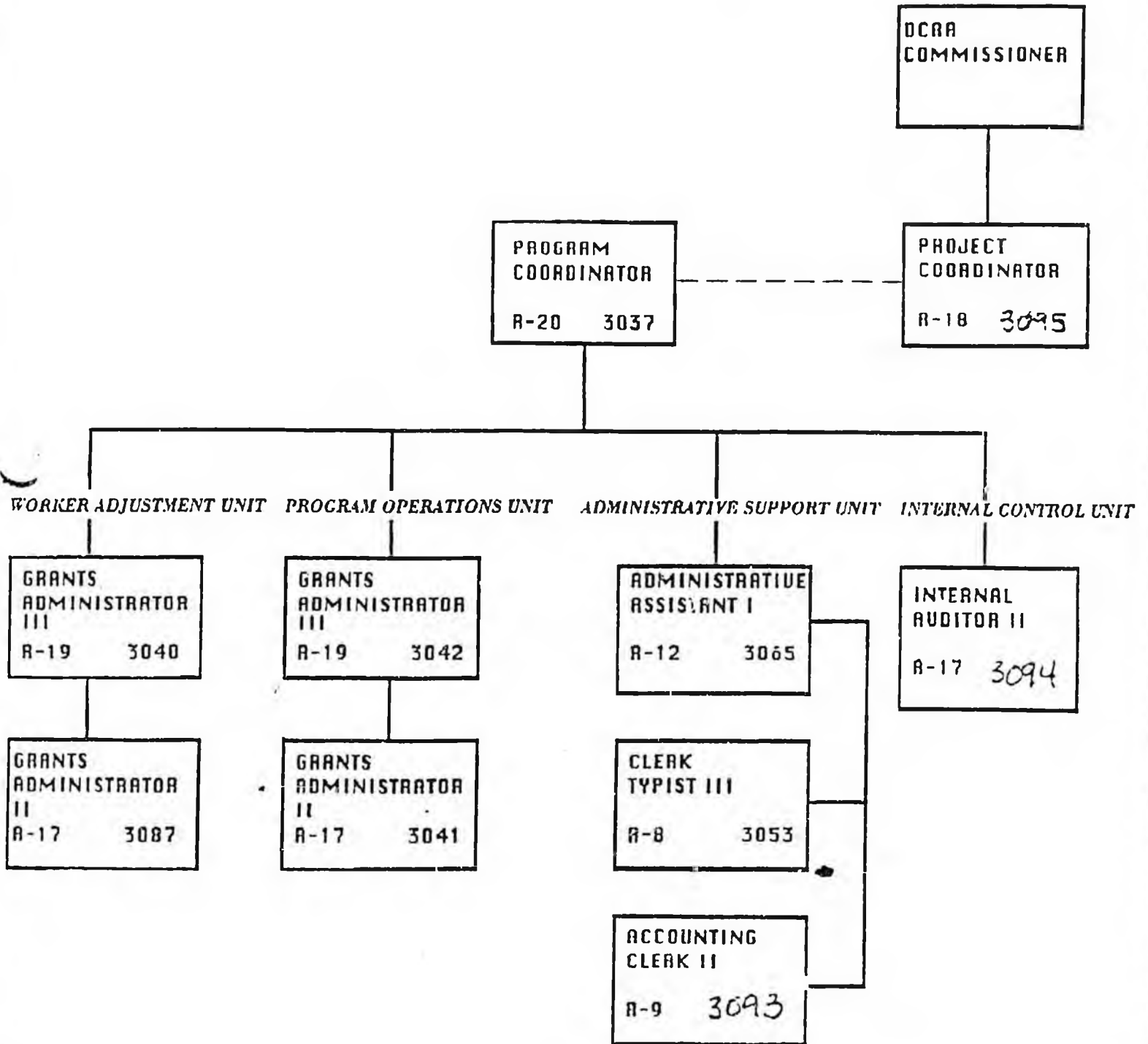
**Request For  
New Position**

AGENCY Community and Regional Affairs  
 PRP Employment/Training/Rural Development  
 COMPONENT State Employment and Training

**FY** \_\_\_\_\_

Page \_\_\_\_\_ of \_\_\_\_\_  
 Revised Date: \_\_\_\_\_

**JOB TRAINING PARTNERSHIP OFFICE  
ORGANIZATIONAL STRUCTURE**



FISCAL NOTE

No. 5

Bill Version: SB 188

(S) Publish Date: 2/11/91

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

Revision Date: 2/12/91

Department Affected: Community & Regional Affairs

Title: "An Act relating to employment

BRU: Employment/Training/Rural Development

contributions (STEP)..."

Component: Statewide Service Delivery

Sponsor: Governor

Requestor: \_\_\_\_\_

COMPONENT SERIAL NO. 

1	1	7	8
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	54.6					
TRAVEL	17.4					
CONTRACTUAL	15.0					
SUPPLIES	0.5					
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS	612.5					
MISCELLANEOUS						
TOTAL OPERATING	700.0					

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	700.0					
TOTAL	700.0					

POSITIONS:

FULL-TIME	1.0					
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Remond Henderson, Director *Remond Henderson* Phone: 465-4703

Division: Administrative Services Date: 2/20/91

Approved by Commissioner: Edgar Blatchford

Agency: Community and Regional Affairs Date: \_\_\_\_\_

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

Position Title <b>GRANTS ADMINISTRATOR II</b>		No. of Positions <b>1</b>	Range / Step <b>17 B</b>	Barg. Unit <b>GG</b>
Time Status <b>Full Time</b>	Staff Months <b>12</b>	Location <b>Juneau</b>		Election District
<b>TYPE OF EXPENDITURE</b>		<b>Amount</b>		
Salary		39.1		
Benefits		15.5		
Premium Pay				
Other				
<b>Total Personal Services</b>		<b>54.6</b>		
Travel		17.4		
Contractual		15.0		
Commodities		.5		
Equipment				
Other				
<b>Total Cost</b>		<b>87.5</b>		
<b>FUNDING SOURCE FOR TOTAL COST</b>				
Federal Receipts 1002				
G F Match 1003				
General Fund 1004				
IA Receipts 1007		87.5		
CIP Receipts 1061				
Other				
<b>Justification</b>				
<p>This position is the only dedicated professional position within this component to support the STEP program.</p> <p>This position oversees the development of the SDAS plan of service, manages the development of grant solicitations, contract or subgrant negotiations and writing, monitoring, oversight and reporting requirements. This position also supervises Regional office sub-allocations and oversees their performance in implementing subgrants.</p> <p>This position develops policies and procedures for program operations and assists in the participant enrollment system (MIS) and supports budget and accounting functions relative to this program.</p>				

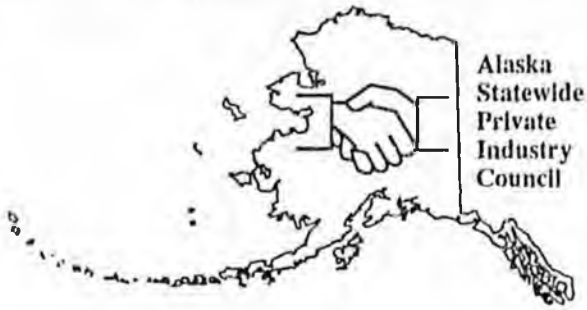
2082

**Request For  
New Position**

AGENCY COMMUNITY & REGIONAL AFFAIRS  
 BRU EMPLOYMENT TRAINING/RURAL DEVELOPMENT  
 COMPONENT STATEWIDE SERVICE DELIVERY

**FY** 92

Page 1 of 1  
 Revised Date: \_\_\_\_\_



*"A Partnership Putting Alaskans to Work"*

P.O. Box BC, Juneau, Alaska 99811

Phone: (907) 465-4890

April 2, 1991

The Honorable Steve Frank, Chairman  
Senate Community and Regional Affairs Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, Alaska, 99811

Dear Senator Frank:

On behalf of the Alaska Statewide Private Industry Council I would like to express strong support for Senate Bill 188. Our experience with the State Training and Employment Program (STEP) over the last year and a half indicates that the program is filling an important niche in Alaska's employment training effort, and supports reinvestment in Alaska's human capital. This is one of the most effective and cost-efficient ways to accomplish Alaskan hire. SB 188 will extend this important effort for an additional year, and allow for a more complete and thorough evaluation.

We appreciate this opportunity to express our support for SB 188, and urge your favorable consideration.

Sincerely,

*James L. Barron*  
James L. Barron  
Chairman

cc: The Hon. Fred Zharoff  
The Hon. Lyman F. Hoffman  
The Hon. Drue Pearce  
The Hon. Arliss Sturgulewski



# PRIVATE INDUSTRY COUNCIL

P.O. BOX 196650  
ANCHORAGE, ALASKA 99519-6650  
(907) 343-6560

"An Anchorage/Mat-Su Consortium"

March 29, 1991

Honorable Steve Frank, Chair  
Senate Committee on Community and Regional Affairs  
Alaska State Legislature  
P. O. Box V  
Juneau, AK 99811

Dear Senator Frank:

I am writing on behalf of the Anchorage/Mat-Su Private Industry Council (PIC) to urge favorable consideration of Senate Bill No. 188, to extend the pilot project for state training and employment programs.

The PIC is responsible for overseeing the employment and training programs provided to residents of the Municipality and the Matanuska-Susitna Borough. These programs are primarily federally funded. The addition of the State Training and Employment Program (STEP) has expanded services to Alaskans who could not otherwise be served due to federal guidelines and restrictions.

The program is assisting participants to return to work or retain their jobs by upgrading current skills or learning new ones. Not only do individuals benefit, but the state benefits through a reduced demand on the unemployment insurance trust fund and an increase in workers whose wages circulate through the economy.

At this point we have had approximately one year of actual program operations. While an initial review of program activities shows that program participants are being returned to the work force, we feel that another year of operations is necessary to yield sufficient data for an analysis of both short- and long term benefits.

We respectfully urge the passage of SB 188 to extend the STEP program to June 30, 1992.

Sincerely,

Larry Hartig, Chair  
Anchorage/Mat-Su Private Industry Council

cc: Sen. Jalmar Kerttula	Sen. Curt Menard
Sen. Virginia Collins	Sen. Arliss Sturgulewski
Sen. Drue Pearce	Sen. Pat Rodey
Sen. Pat Pourchot	Sen. Rick Uehling
Sen. Rick Halford	Sen. Sam Cotten

# STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

April 3, 1991

POSITION PAPER

RE: Senate Bill 188

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Program Effects of the Bill

The bill authorizes the extension for a period of one year of the pilot project for state funded training and employment programs. This additional time period will permit continuation of training and employment services to eligible participants throughout the state. The extension will also allow for sufficient time to evaluate the effectiveness of the program.

Comments

The Department of Community and Regional Affairs supports this bill. Through a unique arrangement with the Alaska Department of Labor this department has offered training opportunities to Alaskans utilizing the Service Delivery Areas set up under the federal Job Training Partnership Act. The program is operated in all parts of the state. This arrangement has proven to be an effective service delivery strategy. Since the project became fully operational earlier this fiscal year statistical and anecdotal evidence indicates that the program is very successful. Through the end of February over 456 Alaskans have been enrolled in training programs. We expect nearly 1200 to be trained this year alone. Over 60% of those in the program were unemployed when they enrolled. Approximately 30% have active Unemployment Insurance claims, about 18% have exhausted their UI benefits and over half have no active claim. This indicates service is being provided to those groups the project is intended to serve. Of those completing the training program 73% have gained unsubsidized employment.

There is a great unmet need for training opportunities in Alaska. Typically those served under this program are not employed and have not completed high school. This program offers job specific training that in most cases leads directly to employment. Available evidence indicates that the program should be reauthorized for another year.

*Edgar Blatchford*  
Edgar Blatchford, Commissioner

STEVE COWPER, GOVERNOR

- P.O. BOX B  
JUNEAU, ALASKA 99811-2100  
PHONE: (907) 485-4700
- 049 E. 36TH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99508-4302  
PHONE: (907) 563-1073



105-4714  
**General Teamsters Local 959 State of Alaska**

*Affiliated with the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America*  
ANCHORAGE, ALASKA 99510, P.O. BOX 102692 (907) 269 4122 FAX (907) 337 0668 JACK SLAMA (Secretary/Treasurer)

FAIRBANKS, ALASKA 99707, P.O. Box 609, (907) 452 0221 FAX (907) 452 5051  
JUNEAU, ALASKA 99901, 306 W.oughby, (907) 586 3295 FAX (907) 586 1227

April 3, 1991

APR - 8 1991

Senator Steve Frank  
P.O. Box V  
Juneau, AK 99811

Dear Senator Frank:

I urge you to please extend the STEP Program (SB 188). This program has been of great benefit to the workers of this state and with your support will continue to make funds available for retraining and returning people to the Alaskan work force, not to the unemployment insurance program.

Thank you for your consideration and, hopefully, your support.

Sincerely,

TEAMSTERS LOCAL 959

*Robert M. Erickson*

Robert M. Erickson  
Administrative Assistant

RE.91\SENATOR

cc: Jack Slama, Secretary-Treasurer, Teamsters Local 959  
Mark Johnson, Executive Assistant, Teamsters Local 959  
John Creed, ALIVE Director, Teamsters Local 959



April 3, 1991

1791-1991

CITY OF KENAI  
"Oil Capital of Alaska"

210 FIDALGO KENAI, ALASKA 99611  
TELEPHONE 283-7535  
FAX 907-283-3014

SENT VIA TELECOPIER

Senator Steve Frank  
State of Alaska  
P.O. Box V  
Juneau, AK 99811

RE: *SENATE BILL 188*

Dear Senator:

Please accept these comments on behalf of SB188 during your hearing scheduled for Thursday, April 4, 1991 at 3:30 p.m.

I urge the passage of SB188 as an economic measure that will enhance the opportunities of local hiring throughout our state. The spending of money for pre-employment training, on behalf of citizens of our own areas within the state, will ensure that the work force of Alaska is qualified to participate in the job market. With qualified Alaskans available, we will ensure local hire for our own people.

I would suggest you consider a two-year authorization of this bill rather than a one-year authorization and urge the passage of the funding for this year. As a mayor of a community that has seen the benefits of the State Job Training Council and the STEP Program, I can say unequivocally that the money is well spent.

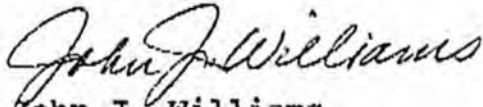
As a member of the Board of the State Job Training Council for the past six years, I can again attest to the worthiness of a job being performed under the Job Partnership Training Act. I am

Senator Steve Frank  
April 3, 1991  
Page 2

pleased to advise you that our STEP Program has become an integral and worthwhile project within the organization. Once again, I urge your consideration of the passage of this bill and request full implementation and funding for its success.

Sincerely,

CITY OF KENAI



John J. Williams  
Mayor and Senior Member  
State Job Training Council

JJW/clf

cc: Senator Lyman Hoffman  
Senator Drue Pearce  
Senator Arliss Sturgulewski  
Senator Fred Zharoff

WALTER J. HICKEL  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 11, 1991

The Honorable Richard I. Eliason  
President of the Senate  
P.O. Box V  
Juneau, AK 99811

Dear President Eliason:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to extend, for a one-year period, the pilot project for state training and employment programs, and associated employment contributions. The pilot project was established in 1989 (ch. 95, SLA 1989) and is due to expire on July 1, 1991. Due to delays in the start-up of the program, additional time is needed to evaluate the effectiveness of the program.

Several other states have passed legislation that has resulted in successful employment training programs. There is broad-based support for the bill in Alaska from labor and industry. I urge your early and favorable consideration of this bill.

Sincerely

A handwritten signature in cursive script that reads "Walter J. Hickel".

Walter J. Hickel  
Governor

# STATE OF ALASKA

## DEPARTMENT OF LABOR OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 21149  
JUNEAU, ALASKA 99802-1149  
PHONE: (907) 465-2700

FAX: (907) 465-2784

March 26, 1991

The Honorable Steve Frank, Chair  
Community & Regional Affairs Committee  
Alaska State Senate  
P.O. Box V  
Juneau, AK 99811

Dear Senator Frank:

This is to request your consideration in scheduling Senate Bill 188 for hearing before the Community and Regional Affairs Committee. This bill provides a one-year extension of the State Training and Employment pilot program.

As you may recall, the program was established in 1989 as a two-year pilot in order that the effectiveness of the program could be evaluated before a permanent, ongoing program was established. However, due to delays in the startup of the program, additional time is needed to evaluate it. Accordingly, the one-year extension is proposed.

Inasmuch as the program will expire on July 1, 1991, passage of Senate Bill 188 is needed this session if the pilot is to continue.

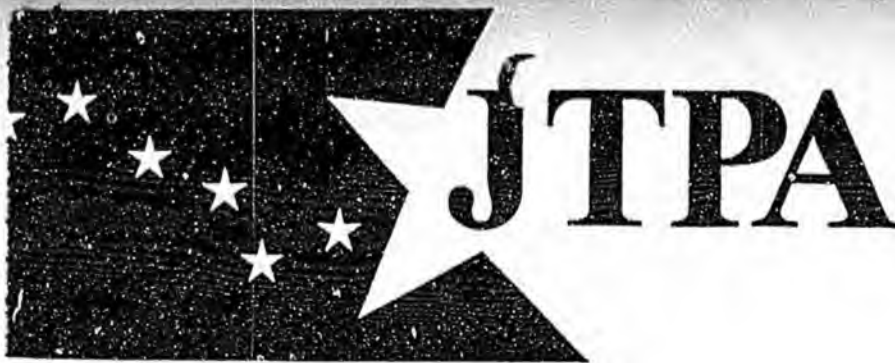
Thank you for your help.

Sincerely,



Nancy Bear Usera  
Commissioner

NBU:kh



ALASKA JOB TRAINING COUNCIL

WALTER HICKEL, GOVERNOR

REPLY TO: State of Alaska  
Department of Community  
and Regional Affairs  
Rural Development Division  
949 East 36th Avenue, Suite 400  
Anchorage, Alaska 99508-4361  
Phone: (907) 563-1073  
Fax: (907) 563-1734

February 25, 1991

Honorable Members of the 17th Alaska State Legislature:

A statutory requirement of the Business Incentive Training Program (AS 44.47.750) is that the Alaska Job Training Council report annually to the Legislature on matters related to the program. Attached is the first annual report.

The Job Training Council is unanimous in its support for the legislation. It has the potential of improving the state's economic competitiveness through worker training. This strategy is prevalent among our foreign competitors, and can offer a sound lesson for institutional change at home.

However, while the intent of the statute is correct, we respectfully submit that certain language in the statute ought to be changed in order to accomplish its goals. The mechanics proposed by the law are simply too cumbersome to effectively operate the program. After much thought and examination of other state funded programs, we wish to report on those elements of a model business incentive program.

The Job Training Council will continue to be at your service should you wish to enact some or all of the recommendations.

Respectfully Yours,

Sarah Scanlan, Chair  
Vice President, NANA Development Corp.

# STATE OF ALASKA

**DEPT. OF COMMUNITY & REGIONAL AFFAIRS**

*Rural Development Division*

WALTER J. HICKEL, GOVERNOR

949 E. 36TH AVE., #400  
ANCHORAGE, ALASKA 99508-4361  
(907) 563-1073  
TELEFAX: (907) 563-1734

February 28, 1991

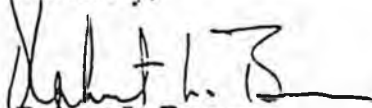
Dear Legislator:

I am pleased to express my support for the first annual report on the Business Incentive Training Program, A.S. 44.47, presented to the First Session of the 17th Alaska State Legislature.

The Business Incentive Program attempts to establish a partnership between the state, private sector employers, and training agencies, to raise the work based skills of Alaskans, particularly in the use of new technologies. Successfully implemented, it has the capacity to emulate a strategy much more prevalent among our foreign competitors: upgrading employee skills as a means to improved business competitiveness.

The following pages will allow you the opportunity to learn about the statute, its means of implementation, and possible ways to exact results consistent with the statute's purpose.

Sincerely,



Robert L. Brean  
Director

SB188

1990 REPORT TO THE LEGISLATURE  
On The  
BUSINESS INCENTIVE TRAINING PROGRAM

AS 44.47.750

Prepared by  
James Gurke, Coordinator  
ALASKA JOB TRAINING COUNCIL  
Sarah Scanlan, Chair

State of Alaska  
Walter J. Hickel, Governor

Department of Community & Regional Affairs  
Edgar Blatchford, Commissioner



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## FINDINGS

The National Governors' Association and National Commission for Employment Policy have recently examined state funded industry-specific training programs, drawing the following conclusions:

- o That businesses in other states offering such assistance are uniformly in agreement that training proved to be valuable and that the state's participation was instrumental.
- o That in most cases a business does not know how to use training as a strategic agent in its business plan, necessitating assistance prior to obtaining the actual training grant.
- o That training projects are most effective when they are clearly tied to specific employer needs and performance objectives developed in the application process.
- o That states reduce the risk of substituting public for private funds in industry-specific training when grants pay for classroom training or some form of customized training, and are most substantial when paying for on the job training wages. Furthermore, training grants for industry-specific training should require a private sector match.

In order to translate these recommendation into action at the state level, the council proposes the following changes to the Business Incentive Training Program.

1. That the Job Training Council be provided the latitude to recommend to the Department of Community and Regional Affairs which agency or agencies be considered for administration of the business incentive program.
2. That Private Industry Councils and regional economic development agencies be used as a means of recruiting businesses interested in worker training.
3. That the business incentive program be targeted toward smaller businesses, and that the business match the grant with a 100 percent cash or in-kind contribution.
4. That the program be concentrated on upgrading skills of existing employees, therefore, eliminating the need for on-the-job wage subsidies as a training cost.
5. That eligibility criteria for employees in training be simplified to being a current contributor to the Unemployment Insurance Trust under AS 23.20.

## BACKGROUND TO STATE FUNDED INDUSTRY-SPECIFIC TRAINING

The gap between school and work is the focus of the recent report of the Commission on the Skills of the American Workforce, "America's Choice: High Skills or Low Wages." It contends that our future economic growth is dependent upon a workforce that is not college bound, and that future prosperity is linked to the work skills of this population cohort. The report is blunt in its assessment that neither schools nor work are organized to produce the highly skilled, productive workers critical to our future.

The problems confronting occupational training in the education system are mirrored in the private sector as well. "Made in America," a 1988 MIT study of productivity, similarly found "most workplace training unstructured and often non-existent." In spite of the billions of dollars employers report spending on workplace training, it represents only about one percent of total payroll costs. Less than ten percent of all workers receive any formal training and most of those are "managers and technical elites."

Among other things, the MIT report concluded:

- o "There seems to be a systematic under evaluation in this country of how much difference it can make when people are well educated and when their skills are continuously developed and challenged."
- o "The origins of the problem lie not in the disappearance or weakening of basic American values and capabilities, but in the institutions that educate Americans for work."
- o "Without major changes in the ways schools and firms train workers...no amount of macroeconomic fine tuning or technological innovation will be able to produce significantly improved economic performance or a rising standard of living."

At the state level, the 16th Alaska Legislature attempted to address some of these concerns with passage of two bills: the Business Incentive Program (BIP) in AS 44.47.750; and a companion bill, the State Training and Employment Program (STEP), SLA 95, 1989. Their purpose is to encourage private industry to provide new job opportunities by offering assistance in training the new workforce and in retraining existing employees to implement new technologies. Each attempts to create new institutional arrangements to improve the skills of the Alaska workforce.

## POLICY RATIONALE FOR STATE FUNDED TRAINING

Alaska is only one of four states to use the unemployment insurance trust rather than general tax revenue in underwriting worker training and retraining -- the others being California, Delaware and Rhode Island. However, at least a quarter of the states have comparable programs supported by their respective general funds. In virtually every case the purpose of the statutes are the same:

(California) To encourage investment in the productivity and competitiveness of California's workers through training.

(Maryland) To improve competitiveness and productivity of the workforce; upgrade employee skills for new technologies; and assist in promotion of employment stability.

(New York) To assist individual businesses and industries in improving competitiveness by providing skill training; to provide job skills to dislocated workers; to upgrade skills of existing employees to enable modernization of operations, particularly among small businesses.

Historically, government sponsored programs have targeted the idea of industry attraction. For instance, providing a package of tax incentives and worker training to attract a firm or discourage its leaving. However, this goal has a zero sum result -- as states within a region establish similar incentives the playing field is leveled and programs compete against each other in a bidding war.

Adoption of new strategies are based upon alternative premises.

(1) That state financing of training in transferable skills will, in itself, help create an environment which will interest new business.

(2) That government participation in industry specific training helps mitigate a concern of small businesses, known as the "free rider dilemma." Companies fear that by providing training at their own cost, they then risk losing employees through relatively high turnover rates. A consequence is that few lower level workers ever receive advanced skills training.

(3) That government financing of high skills training will improve competitiveness of businesses, thus reduce turnover and help retain business and employment within the state.

(4) Finally, that demographic indicators show that many workers lack functional skills because they were unsuccessful in school or simply have not kept up with technological advances. These workers are most likely to be claimants of unemployment insurance or public assistance in the absence of any job specific training.

CURRENT STATUS  
OF THE  
BUSINESS INCENTIVE PROGRAM

Funding Mechanics

The Business Incentive Training Program (BIP), AS 44.47.750, was passed by the first session of the 16th Legislature as a companion to a second, larger program, the State Training and Employment program (STEP), in SLA 95, 1989.

Besides providing for training, STEP established the means of funding both programs by way of an employment assistance and training account in the general fund. One-tenth of one percent of the employee wages paid into the unemployment insurance trust are set aside to pay for STEP and BIP. Monies are then appropriated from the general fund to the Department of Labor for STEP (approximately \$2 million), and to the Department of Community and Regional Affairs for BIP (\$300,000 by statute). A significant difference between the two laws is that STEP has a two year sunset provision due to expire June 30, 1991. BIP does not have a sunset provision, but without the employment and training account established by STEP, funds would have to be appropriated directly from the general fund.

Projects Funded in FY 90

The Department of Community and Regional Affairs established an application process consistent with the statute to enable Private Industry Councils to apply for BIP grants. In FY 90, only two of three Private Industry Councils (PICs) chose to apply for funding: Statewide and Fairbanks. The Anchorage Private Industry Council did not choose to apply for BIP funds in FY 90.

**Statewide Project:** The Statewide PIC is administered by the Division of Rural Development. It awarded the University of Alaska Southeast, Institute of Mining Technology, \$44,370 to provide specialized advance underground mine training and work experience. Five participants were trained and an underground mine site was developed for use by future trainees. In addition, a mining video was developed for use by the Alaska Employment Service and other agencies to inform and recruit potential miners into the industry. In FY 91 the project was extended to provide training to two additional participants at a cost of \$17,538.

In FY 90 the department undertook development of regulations that reflected new knowledge about implementation of industry-specific training. The Statewide PIC was advised that a direct connection to placement in business or industry would be a prerequisite to training. Statewide subsequently reallocated its grant from the University to its regional offices, but no further obligations have been reported.

Fairbanks Project: The Fairbanks Private Industry Council expended \$26,356 in FY 90. It awarded a single grant for computer training through the University of Alaska Small Business Development Center. The project allowed the Center to establish a computerized entrepreneurial training program that has subsequently been used by trainees under both the Job Training Partnership Act and the State Training and Employment Program.

In conclusion, in FY 90, \$300,000 was authorized for BIP; but only \$75,408 expended. An explanation for this anomaly is the fact that BIP proposes to establish new institutional partnerships between the state, business, and training agencies. Little prior experience with such implementation models existed at the time of BIP's authorization.

For example, in 1983, Illinois established the Prairie State 2000 Authority, but it took almost three years to fully implement the program. It is now in its fifth year of operation and is often cited as one of the most successful models for work based education. The lessons learned were apparently worth the time and should be an example for Alaska.

The following recommendations are based upon what we have learned from the research and the experience of other states.

## JUSTIFICATION FOR PROPOSED AMENDMENTS TO THE BUSINESS INCENTIVE PROGRAM

1. That the Job Training Council be provided the latitude to recommend to the Department of Community and Regional Affairs which agency or agencies be considered for administration of the business incentive program.

In order to accomplish the goals of the Business Incentive Program, the statute directs the Job Training Council to allocate equal grants to each Private Industry Council (PIC) established under the federal Job Training Partnership Act.

This process of grants distribution is unique among all the state funded programs investigated for this report. Its adoption was likely in the belief that the administrative system used under JTPA would provide management efficiency, and that the local private industry council would be a bridge to local employers.

The initial problem in implementation has been the fact that BIP and STEP were undertaken at the same time, by most of the same agencies, with an understanding that the programs were to meet unique training needs. STEP, having almost six times the budget as BIP (approximately \$2 million vs. \$300,000) naturally took priority among the PICs.

A more important issue, discussed further in Recommendation #3, is the need for an employer to understand how workforce training can become a part of the business strategic plan, so that public policy outcomes can be easily accommodated by the private sector. For BIP to succeed, a certain marketing and management threshold must be met. With each Private Industry Council entitled to separate \$100,000 grants, each agency must administer, market and provide the appropriate technical assistance with only \$15,000 in administration (15 percent statutory limitation). This bifurcated approach to administration will not allow BIP to replicate those models discovered in our research.

The recommendation is that the Department of Community and Regional Affairs continue to have authority for the program, guided by recommendations from the council in regard to administration and awarding of training grants. Technical assistance should be available from the administrative agency, to assess employer training needs, available curricula, and sources of training expertise.

2. That Private Industry Councils and regional economic development agencies be used as a means of recruiting businesses interested in worker training.

The Maryland "Partnership for Workforce Quality" is among the best examples of a partnership in action to promote and recruit employers into workforce training projects. The network includes the Chamber of Commerce, private industry councils, organized labor, and their system of community colleges.

Administration is centrally located in their Department of Economic and Employment Development. Payments for training occur through a voucher system to pay for training at a recognized training agency; or through grants to a business consortium or individual business who arrange their own training method and curriculum.

The recommendation is that a recruitment method, similar to Maryland's program, be emulated in the Alaska Business Incentive Program.

3. That the business incentive program be targeted toward smaller businesses and that the business must match the grant with a 100 percent cash or in-kind match.

**Targeting and Substitution Issues.** To adequately support a public policy initiative like BIP or STEP, the state must be prepared to justify the program against two criteria. First, a method of targeting resources should be considered given the small amount of available assistance. Second, a method should exist to ensure that state general funds are not substituting for otherwise available private training monies.

A common approach used by other states in determining business need is the use of pre-application assistance. Business receiving a training grant should be able to cite the positive effects training is expected to have on the business. Specifically, it should be able to develop a training plan which identifies specific skills to be obtained by employees; whether these skills are likely to be important components of its overall business strategy; and the means of measuring the acquisition of the skills acquired in training.

Targeting is further assured through limitations that can easily be built into the statute.

- o One, by concentrating the majority of the money on small business under the theory that they are least likely to afford job specific skills training on their own. Small business is also responsible for the most significant number of new job openings. Maryland, for instance, concentrates 60 percent of its funding on businesses with less than 100 employees; New York, 50 percent.
- o Second, that funding be limited by either a percentage of available funds or a dollar amount. Illinois limits its grants to \$50,000, Maryland to 5% of the funds available in the appropriation. Both states' appropriations are similar in size to Alaska. Illinois' experience over the past four years is that grants average \$17,000 per business.

Reciprocally, the government must make some attempt at deciding whether the use of public funds is necessary, or whether substitution of public funds for private resources is likely to occur. (Creticos & Sheets, National Commission for Employment Policy). The method recommended by Creticos is that a set of criteria be established by the state for determining whether a business is to be assisted. The business applies for the grant not by competing against other firms, as in a request for proposals (RFP), but rather, by competing against the criteria on a first come basis.

Screening methods, such as an on-site business consultation, not only help determine need, but also ensure that the training plan is designed as an integral part of the firm's business plan. Minnesota, Kentucky, and Oregon all use a partnership with their respective community colleges to screen employers, develop curriculum and provide training. [The University of Alaska has a "quick start" program, but it is not integrated with BIP in any way.] Illinois provides grants of up to \$5000 just to get the initial training plan in place to ensure training goals are met. California has recently adopted a similar pre-application strategy.

A final note about the substitution issue is that of cost sharing. Conclusions from available research and examples of other state programs indicate that cost sharing between the state and private sector is recommended. Matching funds reflect the degree of business interest in training; reduce the likelihood of substitution; and expand the resources of the program. Virtually every other state funded employment training program requires a private sector match to demonstrate the partnership role in a training strategy.

Because of limited resources, it is recommended that the business incentive program be better targeted toward small employers; those having less than 100 employees. Furthermore, it ought to be a requirement of the program that grants be matched by the private sector.

4. That the program be concentrated on upgrading skills of existing employees, therefore, eliminating the need for on-the-job wage subsidies as a training cost.

The particular reason for not funding OJT in state funded programs is that the client group is not the same as in programs that target the economically disadvantaged, like JTPA. It does not tend to be a "hard to serve" group with many barriers to employment, but rather, individuals in need of specific skills training. OJT also represents an investment that is least defensible in terms of the substitution issue.

OJT payments are treated differently by the various state programs. California permits them, but only upon condition that time sheets are signed by the employee and trainer indicating the number of hours in training versus simply doing one's job. Illinois provides for OJT by not subsidizing wages of the trainee, but rather the employee who serves as trainer. Maryland and Kentucky do not permit OJT simply because the substitution issue weakens the argument for use of public funds.

The argument for training existing employees is fundamental to the business incentive program. By limiting training to existing employees, the government is responding to a private sector need as a partner. The uncertainties of matching trained workers to employer expectations is removed from the equation. Instead, the employer takes the initiative to train its existing workforce, including new hires. For example, when Federal Express entered the Alaska market there was a local desire to assist them in training new employees. The argument of most state programs is, "Fine...hire the new workforce, then enter into a partnership with the state to provide the skills training you require."

The recommendation is that only existing employees qualify and that training be oriented toward classroom or customized training and away from on-the-job wage subsidies.

5. That eligibility criteria for employees in training be simplified to being a current contributor to the Unemployment Insurance Trust under AS 23.20.

The Legislative intent of the statute and the eligibility criteria for employers and employees are currently at odds. The statute requires that trainees be unemployed, at risk of being unemployed, or marginally employed seasonal workers. Eligible employers, on the other hand, even include sole proprietor businesses who do not contribute to the Unemployment Insurance Trust under AS 23.20.

The strict employee eligibility in the statute makes the program clumsy to operate and has the potential of precluding private sector interest. Employers are restricted by whom they may hire, and to upgrade the skills of existing employees the employer must guarantee that the employee is about to lose his or her job.

Because the funding source for the program is the Unemployment Insurance Trust, employers should be limited to those who are covered under AS 23.20.

The recommendation is that employee and employer eligibility be consistent with the purpose of the program. Both entities ought to be currently covered under AS 23.20 to be eligible for assistance under the program.

## CONCLUSION

The recommendations presented in the report are those of the Job Training Council. We hope they represent the best interest of the intended customer, employers and employees interested in industry specific training. We also hope we have encouraged some thought about how Alaska can forge new institutional arrangements which are consistent with legitimate functions of the state: education and promotion of our economic well being.

The Job Training Council is firmly in support of the purpose behind AS 44.47.750. We encourage the 17th Legislature to continue its support for the Business Incentive Training Program, considering also the recommendations offered in our report.

Draft regulations are about to be adopted by the Department of Community and Regional Affairs which will provide the Business Incentive Program with sufficient guidance to achieve some of our recommended outcomes. However, with the information available to us from other state funded programs and current research, changes to the statute are advisable. The Job Training Partnership Office, Department of Community and Regional Affairs, has assembled a very detailed critique of each section of the statute with drafts of alternative language. Further information is available through Robert L. Brean, Director, Division of Rural Development.

As a final remark, the Job Training Council would like to offer whatever assistance we can to broaden the public debate about the Business Incentive Program and State Training and Employment Program. We encourage the Legislature to conduct public hearings on the subject, soliciting the opinions of our training partners and the private sector in determining how an investment in workforce skills can improve our economy.

## REFERENCES

The following sources of information were used for this report.

1. A special meeting of an Alaska Job Training Council Ad Hoc Committee for BIP, August 17, 1990.
2. A BIP workshop conducted under the auspices of a joint meeting between the Job Training Council and Private Industry Councils, November 10, 1990, facilitated by Steve Duscha, former Director of the California Employment Training Panel, and Peter Creticos, author of several research studies on state funded training programs.
3. Attendance by the Chair and council staff at an National Governors' Association workshop highlighting the Maryland "Partnership for Workforce Quality" legislation.
4. Examination of other state legislation and reports documenting outcomes of similar state funded workplace-based retraining programs, including:
  - Bluegrass State Skills Corporation, 1989 Annual Report, State of Kentucky.
  - "Evaluating State-Financed, Workplace-Based Retraining Programs," Research Report 89-08, Peter Creticos and Robert Sheets, National Commission for Employment Policy and National Governor's Association.
  - "Partnership for Workforce Quality: Maryland's Response to Skills Upgrading," Audrey S. Their, Maryland Department of Economic and Employment Development, NGA Center for Policy Research.
  - "State-Financed, Workplace-Based Retraining Programs," Research Report 89-01, Peter Creticos and Robert Sheets, National Commission for Employment Policy and National Governor's Association.



**PRIVATE  
INDUSTRY  
COUNCIL**

"An Anchorage/Mat-Su Consortium"

P.O. BOX 196650  
ANCHORAGE, ALASKA 99519-6650  
(907) 343-6560

March 29, 1991

Honorable Steve Frank, Chair  
Senate Committee on Community and Regional Affairs  
Alaska State Legislature  
P. O. Box V  
Juneau, AK 99811

APR 1 1991

Dear Senator Frank:

I am writing on behalf of the Anchorage/Mat-Su Private Industry Council (PIC) to urge favorable consideration of Senate Bill No. 188, to extend the pilot project for state training and employment programs.

The PIC is responsible for overseeing the employment and training programs provided to residents of the Municipality and the Matanuska-Susitna Borough. These programs are primarily federally funded. The addition of the State Training and Employment Program (STEP) has expanded services to Alaskans who could not otherwise be served due to federal guidelines and restrictions.

The program is assisting participants to return to work or retain their jobs by upgrading current skills or learning new ones. Not only do individuals benefit, but the state benefits through a reduced demand on the unemployment insurance trust fund and an increase in workers whose wages circulate through the economy.

At this point we have had approximately one year of actual program operations. While an initial review of program activities shows that program participants are being returned to the work force, we feel that another year of operations is necessary to yield sufficient data for an analysis of both short- and long term benefits.

We respectfully urge the passage of SB 188 to extend the STEP program to June 30, 1992.

Sincerely,

Larry Hartig, Chair  
Anchorage/Mat-Su Private Industry Council

cc: Sen. Jalmar Kerttula                      Sen. Curt Menard  
      Sen. Virginia Collins                    Sen. Arliss Sturgulewski  
      Sen. Drue Pearce                        Sen. Pat Rodey  
      Sen. Pat Pourchot                      Sen. Rick Uehling  
      Sen. Rick Halford                       Sen. Sam Cotten

S B

2 3 1

SENATE COMMITTEE REPORT  
FIRST COMMITTEE OF REFERENCE

DATE: 4/2/91

FURTHER: Resources  
Finance

Date of 5-Day Notice: 4/18/91  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 5-3-91

C&RA Committee considered SB 231

Authorizing the commissioner of natural resources to convey land within the Chugach State Park to the Municipality of Anchorage.

and recommended:

- replace with \_\_\_\_\_ CS SB 231 (CRA)  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) SB & CS
- DNF - 4/25/91
- \_\_\_\_\_
- \_\_\_\_\_

- appropriation-no fiscal note

- Governor's bill w/fiscal note

SIGNING DO PASS:

Adrian King-Lester

[Signature]

Tom Keace

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

OTHER RECOMMENDATIONS:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Signature]

Chair's Signature and Recommendation

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

400 WILLOUGHBY AVENUE  
JUNEAU, ALASKA 99801-1796  
PHONE: (907) 465-2400  
FACSIMILE: (907) 586-2754

April 24, 1991

The Honorable Steve Frank, Chair  
Senate Community and Regional Affairs Committee  
P.O. Box V  
Juneau, AK 99811

Dear Senator Frank:

Subject: SB 231, which authorizes the conveyance of up to two acres of state land within Chugach State Park to the Municipality of Anchorage.

Position: The Department of Natural Resources supports this bill because it will correct the problems of private land holders who inadvertently built homes outside of their property lines, on state and municipal land, and will allow the Municipality of Anchorage to acquire valuable public fishing and recreational access along Bird Creek. We do, however, recommend an amendment relating to the ownership of tidelands that are part of the exchange.

Background: The Municipality of Anchorage, the Department of Natural Resources and a group of Bird Creek area homeowners would like to complete a three way land exchange that has been discussed for many years. As a result of the exchange, the homeowners would receive approximately .6 acres of state land and approximately 1.5 acres of municipal land on which their homes were mistakenly built. In return, the public would receive approximately 4.8 acres of sport fishing land along Bird Creek. The exact amount of acreage to be exchanged will not be know until a survey is completed.

This bill authorizes the Department of Natural Resources to convey up to two acres of public land to the Municipality of Anchorage. The area to be conveyed contains a gravel pit managed by the Department of Transportation and Public Facilities and will only be transferred if it does not interfere with DOT/PF use of the site. After receiving the land from the state, the municipality will convey it to the Bird Creek homeowners. In return, the homeowners will convey about 4.8 acres of land along Bird Creek to the municipality to include in the nearby municipal park. The park is managed under a cooperative agreement with the state as part of Chugach State Park. Municipality of Anchorage voters approved the exchange in a 1987 municipal election.

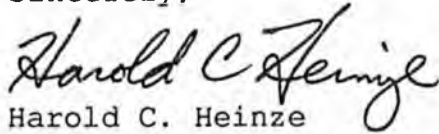
Recommendation: Amend page 2, line 7 to read:

Municipality of Anchorage agrees to convey to the State

(retain) the tidelands on the parcel it will receive  
(permanently in public ownership and to manage the tidelands as  
public trust land).

Please let me know if you need additional information about this  
matter.

Sincerely,



Harold C. Heinze  
Commissioner

cc: Members of the Committee  
Senator Menard  
Bruce Kendall, Legislative Liaison, Office of the Governor  
Frank Turpin, Commissioner, Department of Transportation and  
Public Facilities



# Alaska State Legislature

*Senator Curt Menard*



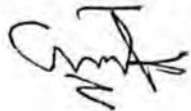
While In  
Session:  
P.O. Box V  
Juneau, Alaska  
99811  
(907)465-2679

Interim:  
165 E. Parks  
Highway  
Wasilla, Alaska  
99687  
(907)373-2878

Senate  
District  
E

## MEMORANDUM

TO: Senator Steve Frank, Chairman  
Senate Community and Regional Affairs Committee

FROM: Senator Curt Menard 

RE: SB 231 - An act authorizing conveyance of land  
within Chugach State Park

DATE: April 15, 1991

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I am writing to request a hearing on SB 231 at your earliest convenience.

SB 231 would resolve a longstanding private property title problem in the vicinity of Bird Creek within Chugach State Park. The bill will resolve pending litigation between the owners, the state and the municipality, improve public access to Bird Creek and ensure that tidelands in the vicinity of Bird Creek will be managed in perpetuity as public trust land.

There is unanimous agreement among the parties affected by this dispute that SB 231 is the best solution to the problem.

Thank you for your consideration and attention to this request.