

1 *Senate* BILL NO. *281*  
 2 INTRODUCED BY *Roscoe Bushnell Jeff Dimes*  
 3 *Norman Dewake Blaylock Flynn*

4 A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE THAT THE  
 5 BOARD OF INVESTMENTS SHALL DIRECT THE STATE'S INVESTMENT  
 6 BUSINESS TO THOSE FIRMS AND/OR BANKS THAT MAINTAIN OFFICES  
 7 IN THE STATE; AMENDING SECTION 79-310, R.C.M. 1947."  
 8

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:  
 10 Section 1. Section 79-310, R.C.M. 1947, is amended to  
 11 read as follows:

12 "79-310. Permissible investments. (1) The following  
 13 securities are permissible investments for all investment  
 14 funds referred to in 79-309, except as indicated:

15 (a) any securities authorized to be pledged to secure  
 16 deposits of public funds under 79-307 of this act;

17 (b) bonds, notes, debentures, equipment obligations, or  
 18 any other kind of absolute obligation of any corporation  
 19 organized and operating in any state of the United States,  
 20 or in Canada if the obligations purchased are payable in  
 21 United States dollars; provided that all investments under  
 22 subsection (b) must be rated by one (1) nationally  
 23 recognized rating agency among the top third of their  
 24 quality categories, not applicable to defaulted bonds;

25 (c) commercial paper of prime quality, as defined by

1 one (1) nationally recognized rating agency, issued by any  
 2 corporation organized and operating in any state of the  
 3 United States, provided that:

4 (i) such securities mature in two hundred seventy (270)  
 5 days or less; and

6 (ii) the issuing corporation, or the parent company of  
 7 a finance subsidiary issuing commercial paper, at the time  
 8 of the last financial reporting period, had a ratio of  
 9 current assets to current liabilities, including among  
 10 current liabilities long-term debt maturing within one (1)  
 11 year, of at least one and one-half (1 1/2) to one (1); and  
 12 had received net income averaging one million dollars  
 13 (\$1,000,000) or more annually for the preceding five (5)  
 14 years; and

15 (iii) no investment may be made at any time under  
 16 subsection (c) which would cause the book value of such  
 17 investments in any investment fund to exceed ten percent  
 18 (10%) of the book value of such fund, or would cause the  
 19 commercial paper of any one corporation to exceed two  
 20 percent (2%) of the book value of such fund;

21 (d) bankers' acceptances guaranteed by any bank having  
 22 its principal office in any state of the United States and  
 23 having deposits in excess of five hundred million dollars  
 24 (\$500,000,000);

25 (e) interest-bearing deposits in banks, building and

1 loan associations, and savings and loan associations located  
 2 in the state of Montana, provided, however, that the board  
 3 of investments shall require pledged securities as specified  
 4 in section 79-301; interest on said deposits shall not be  
 5 less than the prevailing rate of interest being paid on  
 6 deposits of private funds;

7 (f) unencumbered real property and first mortgages on  
 8 unencumbered real property, provided that:

9 (i) no such mortgage shall be purchased unless:

10 (A) the principal amount of the loan secured by the  
 11 mortgage is seventy-five percent (75%) or less of the  
 12 appraised value of the property; or

13 (B) thirty percent (30%) or more of the loan secured is  
 14 guaranteed or insured in the event of default by the United  
 15 States of America or an agency thereof; or

16 (C) the mortgagor has leased the mortgaged property to  
 17 a person, firm, or corporation whose rental payments under  
 18 the lease are guaranteed for the full term of the loan by an  
 19 agency of the United States; and

20 (ii) no investment shall be made at any time under  
 21 subsection (f) which would cause the book value of such  
 22 investments in any investment fund to exceed fifty percent  
 23 (50%) of the book value of such fund.

24 (2) Investments from the pooled investment fund, shall  
 25 be restricted to fixed income securities described in

1 subsections (a) to (e) above.

2 (3) Retirement funds, only, may be invested in  
 3 preferred and common stocks of any corporation organized and  
 4 operating in any state of the United States, provided that:

5 (a) the corporation has assets of a value not less than  
 6 ten million dollars (\$10,000,000); and

7 (b) if the investment is preferred stock, the  
 8 corporation's aggregate earnings available for payment of  
 9 interest and preferred dividends, for a period of five (5)  
 10 consecutive years immediately before the date of investment,  
 11 have been at least one and one-half (1 1/2) times the  
 12 aggregate of interest and preferred dividends required to be  
 13 paid during this period; and

14 (c) if the investment is common stock,

15 (i) the stock has paid cash dividends in each of at  
 16 least five (5) years immediately before it is purchased; and

17 (ii) the aggregate earnings of the corporation during  
 18 this period which were available for payment of dividends on  
 19 common stock were at least equal to the aggregate of the  
 20 cash dividends paid thereon; and

21 (iii) not more than two percent (2%) of the assets of  
 22 any retirement fund may be invested in common stocks or in  
 23 fixed income securities convertible into common stock not  
 24 conforming to the dividend and earnings standards stated in  
 25 paragraphs (i) and (ii) above, so long as the corporation

1 maintains the asset value required in subsection (a) and  
2 evidences appropriate growth potential and probable earnings  
3 gain; and

4 (d) no investment may be made at any time under  
5 subsection (3) which would cause the book value of such  
6 investments in any retirement fund to exceed twenty percent  
7 (20%) of the book value of such fund, or would cause the  
8 stock of one corporation to exceed one percent (1%) of the  
9 book value of such retirement fund.

10 (4) The state board of investments shall ~~endeavor to~~  
11 direct the state's investment business to those investment  
12 firms, and/or banks, which maintain offices in the state and  
13 thereby make contributions to the state economy. Further,  
14 due consideration shall be given to investments which will  
15 benefit the smaller communities in the state of Montana."  
16 ~~The--state's--investment--business--will--be--directed--to~~  
17 ~~out-of-state--firms--only--when--there--is--a--distinct--economic~~  
18 ~~advantage--to--the--state--of--Montana.~~

-End-

SB 281

STATE OF MONTANA

REQUEST NO. 128-75

FISCAL NOTE

Form DD-15

In compliance with a written request received Jan. 29, 19 75, there is hereby submitted a Fiscal Note for Senate Bill 281 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to provide that the Board of Investments shall direct the state's investment business to those firms and/or banks that maintain offices in the state.

ASSUMPTIONS:

1. The Board of Investments transacted \$1.381 billion in security transactions from 7/1/64 to 12/31/74. Approximately ninety-five (95) percent of \$1.314 billion of the investment transactions were money market instruments.
2. There presently exist three (3) regional brokerage houses in Montana. These firms are brokers in corporate bonds, common and preferred stock and municipal bonds.
3. There presently exists no money market (repurchase agreements, bankers acceptances and commercial paper) in the state of Montana. If a local firm were to deal in money market instruments the instruments they would sell to the State of Montana would be bought from the same firms the Board of Investments is dealing with at present, with 1/8 to 1/4 of one (1) percent markup. The Board of Investments would be left without an outlet for liquidity funds i.e., repurchase agreements which have contributed to the \$8.3 million earned on surplus monies for fiscal 1973-74. The Board of Investments' alternative under this law would be to leave uninvestable millions in non-interest bearing bank demand accounts.
4. The principal feature of the Short-Term Investment Pool (STIP) is to provide liquidity for its participants. As of 12/31/74 (STIP) had assets of \$111 million. Participants presently include: nineteen (19) state agencies, five (5) university units, two (2) cities, three (3) counties and six (6) firemen relief associations. Under legislation enacted and effective January 1, 1975, the Board of Investments is to invest all firemen and police relief association monies. Without repurchase agreements the Board of Investments could not provide the liquidity feature which makes (STIP) attractive to its participants. Due to this loss of liquidity and subsequent lack of participants, (STIP) income would be reduced 75%.
5. The Board of Investments presently manages the portfolios of the Public Employees' Retirement System, the Teachers' Retirement System, Game Wardens' Retirement System, Judges' Retirement System, Highway Patrol Retirement System and Volunteer Firemen Retirement Systems. There are approximately 43,662 active and 7,337 retired members of these systems. Contributions made by these public employees and teachers are monies entrusted to the State of Montana to provide them with an adequate retirement. Under this bill their future benefits will be affected.
6. Negotiated commission rates on common stock transactions become effective May 1, 1975. The industry estimates this will save the investor thirty-three (33) percent on commission costs. It is questionable whether or not the State of Montana will benefit to the fullest with only three (3) competitors in the state.
7. It will be necessary under the proposed law to terminate an existing contract with St. Paul Investment Management Companies, St. Paul, Minnesota for investment advisory services presently being provided to the Board of Investments. Expenditures will be reduced approximately \$18,000 per year.
8. Five additional staff members including one senior security analyst, three analyst trainees and one secretary will be required. Additional travel expense of \$10,000 in FY76 and \$12,000 in FY77 will be required.

CONTINUED

BUDGET DIRECTOR

Office of Budget and Program Planning

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

## STATE OF MONTANA

CONTINUED

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## FISCAL IMPACT:

Revenue	FY76			FY77		
	Current Law	Proposed Law	Increase (Decrease)	Current Law	Proposed Law	Increase (Decrease)
Repurchase agreement interest to General Fund	\$ 2,400,000	\$ 0	\$(2,400,000)	\$ 2,400,000	\$ 0	\$(2,400,000)
Short term investment pool revenues	10,000,000	2,500,000	(7,500,000)	10,000,000	2,500,000	(7,500,000)
	<u>\$12,400,000</u>	<u>\$2,500,000</u>	<u>\$(9,900,000)</u>	<u>\$12,400,000</u>	<u>\$2,500,000</u>	<u>\$(9,900,000)</u>
<b>Expenditure</b>						
Additional expenditures under proposed law			<u>FY76</u>	<u>FY77</u>		
Personal Services			\$72,200	\$80,000		
Operating Expenses			(8,000)	(6,000)		
Total increase in expenditures			<u>\$64,200</u>	<u>\$74,000</u>		

## LOCAL IMPACT:

By altering the liquidity feature of (STIP) the Board of Investments would be required to develop another method of investing the some 240 police and fire relief association monies. Cities, counties, school districts and other political subdivisions would find the services of (STIP) unusable to them.

## CONCLUSION:

Enactment of Senate Bill 281 would result in a loss of revenue to the General Fund of \$4.8 million during the biennium. In addition, \$15.0 million in revenues will be lost to the participants in the Short-Term Investment Pool - 19 state agencies, 5 university units and 11 local participants. The total revenue loss over the biennium would be \$19.8 million.

*Michael B. Bell*

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2/10/75