SENATE BILL NO. 174

INTRODUCED BY HIMSL, ELLIOTT

BY REQUEST OF THE BOARD OF INVESTMENTS

IN THE SENATE

January 17, 1983	Introduced and referred to Committee on Business and Industry.
	Fiscal Note requested.
January 20, 1983	Fiscal Note returned.
January 29, 1983	Committee recommend bill do pass as amended. Report adopted.
January 31, 1983	Bill printed and placed on members' desks.
February 1, 1983	Second reading, do pass.
February 2, 1983	Correctly engrossed.
February 3, 1983	Third reading, passed. Ayes, 42; Noes, 8. Transmitted to House.

IN THE HOUSE

February 4, 1983	Introduced and referred to House Select Committee on Economic Development.
March 3, 1983	Rereferred to Committee on Business and Industry.
March 21, 1983	Committee recommend bill be concurred in. Report adopted.

March 22, 1983	Second reading, concurred in.
March 23, 1983	Third reading, concurred in.

IN THE SENATE

March 24, 1983	Returned to Senate. Sent to enrolling.
	Reported correctly enrolled.

Senate BILL NO. 174

INTRODUCED BY Tim Elliott

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A BILL FOR AN ACT ENTITLED: "AN ACT TO ELIMINATE THE REQUIREMENT THAT A CORPORATION MUST HAVE A RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES OF AT LEAST 1 1/2 TO 1 BEFORE AN INVESTMENT OF PUBLIC FUNDS CAN BE MADE IN THE CORPORATE COMMERCIAL PAPER OF THAT CORPORATION; AMENDING SECTION 17-6-211, MCA."

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

Section 1. Section 17-6-211, MCA, is amended to read:

"17-6-211. Permissible investments. (1) The following securities are permissible investments for all investment funds referred to in 17-6-203, except as indicated:

(a) any securities authorized to be pledged to secure deposits of public funds under 17-6-103;

(b) bonds, notes, debentures, equipment obligations, or any other kind of absolute obligation of any corporation organized and operating in any state of the United States or in Canada, if the obligations purchased are payable in United States dollars, or of any corporation in which the United States government is a voting shareholder by act of congress; provided that all investments under this

subsection (b) must be rated by one nationally recognized rating agency among the top third of their quality categories, not applicable to defaulted bonds;

(c) commercial paper of prime quality, as defined by one nationally recognized rating agency, issued by any corporation organized and operating in any state of the United States, provided that:

(i) such securities mature in 270 days or less;

(ii) the issuing corporation or the parent company of a finance subsidiary issuing commercial paper, at the time of the last financial reporting period, ~~had a ratio of current assets to current liabilities, including among current liabilities long-term debt maturing within 1 year, of at least 1 1/2 to 1 and~~ had received net income averaging $1 million or more annually for the preceding 5 years; and

(iii) no investment may be made at any time under this subsection (c) which would cause the book value of such investments in any investment fund to exceed 10% of the book value of such fund or would cause the commercial paper of any one corporation to exceed 2% of the book value of such fund;

(d) bankers' acceptances guaranteed by any bank having its principal office in any state of the United States and having deposits in excess of $500 million;

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

INTRODUCED BILL

SB-174

loan associations, and savings and loan associations located in Montana, provided, however, that the board of investments shall require pledged securities as specified in 17-6-102 (interest on said deposits shall not be less than the prevailing rate of interest being paid on deposits of private funds);

(f) unencumbered real property, first mortgages, and participations in first mortgages on unencumbered real property, provided that:

(i) no such mortgage or mortgage participation may be purchased unless:

(A) the principal amount of the loan secured by the mortgage or mortgage participation is 80% or less of the appraised value of the property;

(B) the principal amount of the loan secured by the mortgage or mortgage participation exceeds 80% of the appraised value of the property but the amount of the loan in excess of 80%, determined at the time the loan was made, is guaranteed or insured by a mortgage insurance company which the board of investments has determined to be a qualified private insurer;

(C) 25% or more of the loan or participation therein secured is guaranteed or insured in the event of default by the United States of America or an agency thereof; or

(D) the mortgagor has leased the mortgaged property to

a person, firm, or corporation whose rental payments under the lease are guaranteed for the full term of the loan or participation therein by an agency of the United States; and

(ii) no investment shall be made at any time under subsection (1)(f) which would cause the book value of such investments in any investment fund to exceed 50% of the book value of such fund.

(2) Investments from the pooled investment fund shall be restricted to fixed income securities described in subsections (1)(a) to (1)(e) above.

(3) Retirement funds and the fund provided for in 17-6-203, subsection (4) may be invested in preferred and common stocks of any corporation organized and operating in any state of the United States provided that:

(a) the corporation has assets of a value not less than $10 million;

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

(c) no investment may be made at any time under subsection (3) which would cause the book value of such investments in any retirement fund to exceed 50% of the book

value of such fund or would cause the stock of one corporation to exceed 2% of the book value of such retirement fund;

(d) subsection (c) does not apply to funds provided for in 17-6-203(4).

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

-End-

STATE OF MONTANA

REQUEST NO. 135-83

FISCAL NOTE

Form BD-15

In compliance with a written request received January 17, 19 83, there is hereby submitted a Fiscal Note for Senate Bill 174 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). 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:

Senate Bill 174 eliminates the requirement that a corporation must have a ratio of current assets to current liabilities of at least 1½ to 1 before an investment of public funds can be made in corporate commercial paper.

COMMENTS:

No dollar estimates are presented. The current ratios in most large corporations are being reduced due to intensive cash management programs. The Department of Administration has no data to estimate the number of corporations that do not meet the current ratio test. The maturity and net income requirements of Section 17-6-211 (c)(i) and (ii) counterbalance the test of solvency provided by the current ratio.

Fiscal year 1982 purchases of commercial paper, bankers' acceptances, and repurchase agreements for all funds are shown below. The respective revenue earned from the three types of securities (for FY '82) are listed for just the Short Term Investment Pool (STIP) fund.

	Purchases for Year for all Funds	Revenue in STIP Fund
Commercial Paper	$ 107,600,000	$ 370,335
Banker's Acceptances	$ 918,225,537	2,716,973
Repurchase Agreements	$22,243,985,000	$ 2,250,434

A wider spectrum of potential corporations would exist through elimination of the current ratio test. A substantial increase in revenue from commercial paper would result through the increased investment opportunities. Commercial paper earns a higher yield than other short term vehicles such as bankers' acceptances and repurchase agreements. The investment revenue bankers' acceptances and repurchase agreements would respectively decrease due to increased investing in commercial paper.

FISCAL NOTE 5:O/1

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 1-20-83

Approved by Committee
on Business and Industry

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(b) bonds, notes, debentures, equipment obligations, or any other kind of absolute obligation of any corporation organized and operating in any state of the United States or in Canada, if the obligations purchased are payable in United States dollars, or of any corporation in which the United States government is a voting shareholder by act of congress; provided that all investments under this

subsection (b) must be rated by one nationally recognized rating agency among the top third of their quality categories, not applicable to defaulted bonds;

(c) commercial paper of ~~prime~~ HIGHEST quality, as defined by one nationally recognized rating agency, issued by any corporation organized and operating in any state of the United States, provided that:

(i) such securities mature in 270 days or less;

(ii) the issuing corporation or the parent company of a finance subsidiary issuing commercial paper, at the time of the last financial reporting period, ~~had-a-ratio-of-current assets--to--current--liabilities,--including--among--current liabilities--long-term--debt--maturing--within-1-year,-of-at least-1-1/2-to-1-and~~ had received net income averaging $1 million or more annually for the preceding 5 years; and

(iii) no investment may be made at any time under this subsection (c) which would cause the book value of such investments in any investment fund to exceed 10% of the book value of such fund or would cause the commercial paper of any one corporation to exceed 2% of the book value of such fund;

(d) bankers' acceptances guaranteed by any bank having its principal office in any state of the United States and having deposits in excess of $500 million;

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SECOND READING

loan associations, and savings and loan associations located in Montana, provided, however, that the board of investments shall require pledged securities as specified in 17-6-102 (interest on said deposits shall not be less than the prevailing rate of interest being paid on deposits of private funds);

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(B) the principal amount of the loan secured by the mortgage or mortgage participation exceeds 80% of the appraised value of the property but the amount of the loan in excess of 80%, determined at the time the loan was made, is guaranteed or insured by a mortgage insurance company which the board of investments has determined to be a qualified private insurer;

(C) 25% or more of the loan or participation therein secured is guaranteed or insured in the event of default by the United States of America or an agency thereof; or

(D) the mortgagor has leased the mortgaged property to

a person, firm, or corporation whose rental payments under the lease are guaranteed for the full term of the loan or participation therein by an agency of the United States; and

(ii) no investment shall be made at any time under subsection (1)(f) which would cause the book value of such investments in any investment fund to exceed 50% of the book value of such fund.

(2) Investments from the pooled investment fund shall be restricted to fixed income securities described in subsections (1)(a) to (1)(e) above.

(3) Retirement funds and the fund provided for in 17-6-203, subsection (4) may be invested in preferred and common stocks of any corporation organized and operating in any state of the United States provided that:

(a) the corporation has assets of a value not less than $10 million;

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

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value of such fund or would cause the stock of one corporation to exceed 2% of the book value of such retirement fund;

(d) subsection (c) does not apply to funds provided for in 17-6-203(4).

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

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THIRD READING

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REFERENCE BILL

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