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*House* BILL NO. *330*

INTRODUCED BY *Wiseman* *Ever* *Johnson*

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING LOCAL GOVERNMENT GROUP SELF-INSURANCE PROGRAMS TO INVEST IN DIRECT OBLIGATIONS OF THE UNITED STATES, WITH THE AVERAGE MATURITY DATE OF THE INVESTMENTS NOT TO EXCEED 6 YEARS; AND AMENDING SECTION 7-6-202, MCA."

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

**Section 1.** Section 7-6-202, MCA, is amended to read:

**"7-6-202. Investment of public money in direct obligations of the United States.** (1) A local governing body may invest public money not necessary for immediate use by the county, city, or town in the following eligible securities:

(a) United States government treasury bills, notes, and bonds and in United States treasury obligations, such as state and local government series (SLGS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;

(b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book-entry form with the federal reserve bank of New York; or

(c) obligations of the following agencies of the United States, subject to the limitations in subsection (2):

- (i) federal home loan bank;
- (ii) federal national mortgage association;
- (iii) federal home mortgage corporation; and
- (iv) federal farm credit bank.

(2) An investment in an agency of the United States is authorized under this section if the investment is a general obligation of the agency and has a fixed or zero-coupon rate and does not have prepayments that are based on underlying assets or collateral, including but not limited to residential or



1 commercial mortgages, farm loans, multifamily housing loans, or student loans.

2 (3) The local governing body may invest in a United States government security money market fund  
3 if:

4 (a) the fund is sold and managed by a management-type investment company or investment trust  
5 registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 through 80a-64), as may be  
6 amended;

7 (b) the fund consists only of eligible securities as described in this section;

8 (c) the use of repurchase agreements is limited to agreements that are fully collateralized by the  
9 eligible securities, as described in this section, and the investment company or investment trust takes  
10 delivery of the collateral for any repurchase agreement, either directly or through an authorized custodian;

11 (d) the fund is listed in a national financial publication under the category of "money market mutual  
12 funds", showing the fund's average maturity, yield, and asset size; and

13 (e) the fund's average maturity does not exceed 397 days.

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16 outstanding bond issue in advance.

17 (5) An investment of the assets of a local government group self-insurance program established  
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21 ~~(5)~~(6) This section may not be construed to prevent the investment of public funds under the state  
22 unified investment program established in Title 17, chapter 6, part 2."

23 -END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0330, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act amending local government investment law by increasing from 5 to 10 years the permissible maturity date of investment securities purchased by local governments with assets of group self-insurance programs. The average maturity of all securities purchased with these assets may not exceed six years. This bill does not expand the types of investment securities local governments are permitted to purchase.

ASSUMPTIONS:

1. Securities with longer maturities may provide higher yields, but they also tie up assets for longer periods of time. While holding these securities to maturity will ensure no loss of principal, if they must be sold before maturity because cash is required, a loss of principal may occur under certain market conditions.

FISCAL IMPACT:

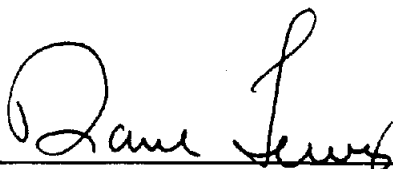
There is no fiscal impact to the Department of Commerce, Board of Investments.

TECHNICAL NOTES:

The Board of Investments (BOI) invests the state group benefits self-insurance account with a market value of \$32.8 million. The BOI investment policy for this account states "This fund is considered a short-to-intermediate-term fund with uncertain future financial liabilities. The maximum maturity for any security purchased for this fund is five years."

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Investment income on local government group self-insurance programs could increase if the maturities of securities purchased are extended. However, under certain market conditions, if these securities have to be sold prior to maturity to satisfy cash flow requirements, the increased income could be more than offset by realized losses.

 1-27-97  
DAVE LEWIS, BUDGET DIRECTOR                      DATE  
Office of Budget and Program Planning

 1/28/97  
WILLIAM WISEMAN, PRIMARY SPONSOR      DATE

Fiscal Note for HB0330, as introduced

**HB 330**

1 House BILL NO. 330  
2 INTRODUCED BY Wiseman Edward D. Brown  
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17 principal of securities (STRIPS), or similar United States treasury obligations;

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19 or principal payments on specific United States treasury obligations that, in the absence of payment default  
20 by the United States, are held in a special custody account by an independent trust company in a certificate  
21 or book-entry form with the federal reserve bank of New York; or

22 (c) obligations of the following agencies of the United States, subject to the limitations in  
23 subsection (2):

- 24 (i) federal home loan bank;
- 25 (ii) federal national mortgage association;
- 26 (iii) federal home mortgage corporation; and
- 27 (iv) federal farm credit bank.

28 (2) An investment in an agency of the United States is authorized under this section if the  
29 investment is a general obligation of the agency and has a fixed or zero-coupon rate and does not have  
30 prepayments that are based on underlying assets or collateral, including but not limited to residential or

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5 registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 through 80a-64), as may be  
6 amended;

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