



Legislative Background Brief

for the
Economic Affairs Interim Committee

October 2011

Board of Investments

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Executive Director: Carroll South. Served since 1993 and plans to retire at the end of 2011. The closing date for applications for the position was Sept. 12. Position oversees a chief investment officer, in-state loan manager, accounting manager, deputy director, and INTERCAP manager.

Statutorily Established - Under 2-15-1808, MCA, and administratively attached to the Department of Commerce. Duties outlined primarily in Title 17 regarding state finance.

Purposes and Responsibilities:

- Handles \$13.2 billion in assets (as of end of August 2011), including the state's unified investment program for public funds, the public retirement system, and state compensation insurance fund assets and supervises the surplus funds of all counties, cities, towns, and other local government entities, as provided constitutionally in Article VIII, section 13, and by Title 17, chapter 6..
- Determines if a city or town's amortization bonds may be issued and at what interest rate pursuant to 17-5-102. (7-7-4275).
- The following activities selected from those outlined in 17-5-1504:
 - Invest any funds not required for immediate use.
 - Arrange for lines of credit and enter into agreements with any financial institution.
 - Issue bonds.
 - Sell, purchase, or insure loans to finance the costs of projects.
 - Acquire real or personal property or rights, interests, or easements and the right to sell, assign, mortgage, lease, encumber, or otherwise dispose of the property.
 - Collect reasonable interest, fees, and charges for making or servicing agreements, loans, bonds, notes, or other forms of indebtedness.
- Finance projects located in the state and make loans to financial institutions for financing the acquisition, construction, or improvement of projects in the state (17-5-1505). Certain requirements are specified for projects that are not major (17-5-1526) and that are major (17-5-1527).
- Issue negotiable notes and bonds, including bond anticipation notes (17-5-1507) for any of its purposes and establishment of reserves (17-5-1506) plus to finance or refinance loans to eligible government units (17-5-1606) and sell unit bonds, bond anticipation notes, registered warrants, and tax or revenue anticipation notes of eligible government units (17-5-1611).

Board: 9 members. Of the nine members appointed by the Governor, one must be from the Public Employees' Retirement Board, one from the Teachers' Retirement Board, and 7 are to provide a balance of "professional expertise and public interest and accountability, who are informed in the subject of investments, and who are representative of: (i) the financial community; (ii) small business; (iii) agriculture; and (iv) labor". One of the members must be an attorney because the board is a quasi-judicial board, described in 2-15-124, MCA.

Members/Address	Representing	Term Expires
Gary Buchanan, Billings (chair)	financial community	1/1/2015

Karl Englund, Missoula	attorney (re: board's quasi-judicial status)	1/1/2015
Pat McKittrick, Great Falls	Public Employees Retirement System	1/1/2013
Quinton Nyman, Helena	labor	1/1/2015
Jack Prothero, Great Falls	small business	1/1/2013
Jon Satre, Helena	business	1/1/2015
Jim Turcotte, Helena	Teachers Retirement System	1/1/2013
Dave Aageson, Gildford	agriculture	1/1/2013
Mark Noennig, Billings	business	1/1/2013
Legislative Liaisons/Address (appointed by legislative leaders)		
Joe Balyeat, Bozeman	Senate	1/1/2013
Franke Wilmer, Bozeman	House	1/1/2013

Annual Reports Required:

17-5-1650. By each December 31 the board must publish a financial report to be distributed to the governor, the legislature, and the public. Distribution to the legislature is accomplished by providing two copies to the Legislative Services Division and a copy to a legislator on request. The report must include: the board's current financial position, a summary of board activities during the previous year (including a listing of the eligible governmental securities purchased, a listing of the bonds and notes sold, and a summary of how any other investments performed), projected levels of activities for the next year, and a comparison of activities of the previous year with previous estimates.

17-6-230. Reports are due soon after December 31 on BOI investments for retirement system trust funds. The reports must be presented to the boards of PERS and TRS and to the legislature. The report may be part of the report provided for in 17-5-1650.

Topics of Interest

- A study of state debt showed that Montana's long-term debt in 2007 as a percentage of annual revenue (excluding private purposes debt - which the state constitution prohibits) was 22.5%. This compares with the lowest in the nation, Wyoming at 9.1%, the U.S. total of all states of 59.7%, and the highest, Nevada at 86.6%. (Study by Robert W. Wassmer and Ronald C. Fisher in *State Tax Notes*, Aug. 15, 2011, p. 434)

2011 Legislation Enacted Regarding Board of Investments

- HB 643, by Rep. Joe Read, would have moved some BOI functions to a state bank. The bill died in House Business and Labor.

Audits

- Financial compliance audits are done every year. No performance audits done.

Board of Investments Budget, FY 2012- FY2013 FTE = 33 (Legislative Fiscal Division)

	Personal Services	Operating Expenses	Operating Income	Debt Service Expenses	Total
Investment Division FY2012	\$2,627,135	\$1,937,743	\$266,163	na	\$4,831,041
Investment Division FY 2013	\$2,620,183	\$1,949,718	\$261,140	na	\$4,831,041
Industrial Revenue Bonds 2012	\$198,590	\$187,877	\$622,081	\$1,317,378	\$2,325,926
Industrial Revenue Bonds 2013	\$199,786	\$174,626	\$641,100	\$1,555,878	\$2,571,390

Total biennial costs excluding industrial revenue bonds = \$9,662,082. Of which all is from proprietary funding.