

State of Arizona
Senate
Fifty-second Legislature
First Regular Session
2015

CHAPTER 171
SENATE BILL 1451

AN ACT

AMENDING SECTIONS 35-313, 35-315, 35-318 AND 35-324, ARIZONA REVISED
STATUTES; RELATING TO THE HANDLING OF PUBLIC FUNDS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 35-313, Arizona Revised Statutes, is amended to
3 read:

4 35-313. Investment of trust and treasury monies; loan of
5 securities

6 A. The state treasurer shall invest and reinvest trust and treasury
7 monies in any of the following items:

8 1. Obligations issued or guaranteed by the United States or any of its
9 agencies, sponsored agencies, corporations, sponsored corporations or
10 instrumentalities.

11 2. Collateralized repurchase agreements purchased from securities
12 dealers that make markets in those securities listed in paragraph 1 of this
13 subsection.

14 3. Bonds or other evidences of indebtedness of this state or any of
15 the counties or incorporated cities, towns or duly organized school
16 districts.

17 4. Commercial paper whose issuer is rated in one of the two highest
18 rating categories for short-term obligations by any two nationally recognized
19 statistical rating organizations.

20 5. Bills of exchange or time drafts known as bankers acceptances that
21 are drawn on and accepted by a commercial bank.

22 6. Negotiable certificates of deposit issued by a nationally or state
23 chartered bank or savings and loan association.

24 7. Bonds, debentures, notes or other evidences of indebtedness that
25 are denominated in United States dollars and that carry ~~as a minimum one of~~
26 ~~the Baa ratings of Moody's investors service or one of the BBB ratings of~~
27 ~~Standard and Poor's rating service or their successors~~ AN INVESTMENT GRADE
28 RATING BY A NATIONALLY RECOGNIZED BOND RATING AGENCY.

29 8. Securities of or any other interests in any open-end or closed-end
30 management type investment company or investment trust, including exchange
31 traded products whose underlying investments are invested in securities
32 allowed by state law, registered under the investment company act of 1940 (54
33 Stat. 789; 15 United States Code sections 80a-1 through 80a-64), as amended.
34 For any treasurer investment pool that seeks to maintain a constant share
35 price, both of the following apply:

36 (a) The investment company or investment trust takes delivery of the
37 collateral for any repurchase agreement either directly or through an
38 authorized custodian.

39 (b) The investment policy of the investment company or investment
40 trust includes seeking to maintain a constant share price.

41 9. Certificates of deferred property taxes as provided by section
42 42-17309.

43 10. Treasurer's warrant notes issued pursuant to section 35-185.01 or
44 registered warrants of a county issued pursuant to section 11-605, if the
45 yield is equal to or greater than yields on eligible investment instruments
46 of comparable maturities.

1 11. Shares in the treasurer's local government investment pools
2 pursuant to section 35-326 provided that investment policies of the pool seek
3 to maintain a constant share price.

4 12. Shares in the treasurer's long-term local government investment
5 pools, which terms are determined by the state board of investment, pursuant
6 to section 35-326.01.

7 13. Subject to subsection D of this section, state transportation board
8 funding obligations delivered pursuant to section 28-7678.

9 14. Deposits placed in accordance with the procedures prescribed in
10 section 35-323.01.

11 15. Institutional common trust funds whose underlying investments are
12 invested in securities allowed by state law.

13 B. In case of default or failure to honor a county treasurer's
14 warrant, the state treasurer may withhold the first state shared revenues
15 that would otherwise be distributed to the defaulting county in the amount
16 necessary to honor the note, including accrued interest to and beyond the
17 date of default.

18 C. The state treasurer may contract to loan securities owned by the
19 trust funds and operating monies deposited in the investment pools pursuant
20 to section 35-316, subsection B to the financial or dealer community through
21 one or more of the entities listed in section 35-317, subsection A, or
22 authorized by the board of investment pursuant to section 35-311, subsection
23 E, if the borrower transfers collateral to the state treasurer or acting
24 agent of the state in the form of cash or securities specified in subsection
25 A of this section. Collateral posted in the form of cash shall be in an
26 amount equal to at least one hundred ~~per-cent~~ PERCENT of the market value of
27 the loaned securities as agreed. Collateral posted in the form of securities
28 shall be in an amount of no more than one hundred ten ~~per-cent~~ PERCENT of the
29 market value of the loaned securities as established from time to time by the
30 board of investment. The loaned securities shall be valued as to market
31 value daily, and, if necessary, the borrower shall post additional
32 collateral, as agreed, to ensure that the required margin is maintained. The
33 state treasurer may collect from the borrower all dividends, interest,
34 premiums, rights and other distributions to which the lender of securities
35 would otherwise be entitled. The state treasurer may terminate the contract
36 on not less than five business days' notice, as agreed, and the borrower may
37 terminate the contract on not less than two business days' notice, as agreed.

38 D. The state treasurer shall invest operating monies in state
39 transportation board funding obligations delivered pursuant to section
40 28-7678 pursuant to the following:

41 1. The state treasurer shall liquidate investments of operating monies
42 if necessary in order to invest in state transportation board funding
43 obligations, except that if operating monies in the state general fund fall
44 below an eight hundred million dollar average over the previous twelve
45 consecutive months, the state treasurer is not required to purchase state
46 transportation board funding obligations pursuant to this subsection.

1 2. Each series of state transportation board funding obligations shall
2 bear interest at a fixed interest rate equal to the mean bid-ask price of the
3 United States treasury obligation with a maturity date closest to the
4 maturity date of the state transportation board funding obligation as
5 ~~published most recently in the Wall Street Journal~~ DETERMINED BY THE PRICING
6 SYSTEM USED BY THE STATE TREASURER before the date the state treasurer
7 receives a certificate from the state transportation board that states the
8 board's determination to deliver an obligation to the state treasurer and the
9 anticipated delivery date of the obligation. The delivery date shall be
10 between fifteen and sixty days after the day the state treasurer receives the
11 certificate.

12 3. The state treasurer shall provide written notice to the state
13 transportation board and the director of the department of transportation
14 when the operating monies fall below four hundred million dollars. If
15 operating monies fall below two hundred million dollars, the state treasurer
16 may call the investment in the state transportation board funding obligations
17 in twenty-five million dollar increments up to the amount that the operating
18 monies are below two hundred million dollars. The state treasurer shall give
19 the state transportation board and the director of the department of
20 transportation at least fifteen days' notice of the call.

21 Sec. 2. Section 35-315, Arizona Revised Statutes, is amended to read:

22 35-315. Servicing banks; qualifications; proposals

23 A. Any bank eligible to become an eligible depository having a total
24 capital structure of ten million dollars or more and assets of ~~two~~ ONE
25 hundred million dollars or more and being otherwise in a sound condition is
26 eligible to be the servicing bank for the state.

27 B. ~~On the first Monday in March of each year of award,~~ The state board
28 of investment shall provide for public notice to the banks qualified to be a
29 servicing bank of the time and place at which servicing proposals will be
30 received. Requests for proposals shall clearly specify all services required
31 to be performed by the servicing bank. The servicing proposal submitted
32 shall be the compensation for which the qualified bank will agree to perform
33 the required services as a servicing bank for the ensuing period of
34 designation as established by the board of investment. The award shall be
35 made for a period not to exceed five years and may be paid from general fund
36 interest earnings according to rules adopted by the board of investment.

37 C. ~~On the fourth Monday in April of the year of the award,~~ The state
38 treasurer shall receive the servicing proposals in writing. Only those
39 proposals that conform to the specifications set forth in the request for
40 proposals shall be considered. The qualified bank submitting the proposal
41 with the highest value to this state, as determined by the state treasurer
42 and the board of investment, shall be designated as the servicing
43 bank. Designations shall be evidenced by the signing of the final proposal
44 by the state treasurer, the board of investment and the designee bank. The
45 state treasurer may maintain a bank account in conjunction with the servicing
46 bank account, which must have on deposit at all times a sum of money

1 approximating the average dollar value of daily warrants paid by the bank the
2 previous month.

3 D. The state treasurer may request and qualified banks may submit
4 proposals for any or all of the services required. The state treasurer may
5 specify differing contract periods for any or all of the services required.

6 E. The state treasurer or servicing bank may terminate a servicing
7 bank contract at any time after sixty days' prior written notice is given.

8 F. In addition to the services required of the servicing bank, the
9 state treasurer shall contract for all other banking services required by any
10 state agency. No state agency shall contract for banking services except
11 with the written permission of the state treasurer.

12 G. This section does not require the state treasurer to utilize a
13 servicing bank.

14 H. This section or the specifications set forth in the request for
15 proposals shall not be construed to require the servicing bank to purchase
16 warrants.

17 I. Deposits and withdrawals of monies shall be made by the state
18 treasurer on the servicing bank.

19 Sec. 3. Section 35-318, Arizona Revised Statutes, is amended to read:

20 35-318. Investment managers and advisors; treasury monies;
21 investment services account

22 A. The state treasurer may enter into an agreement with investment
23 managers to invest treasury monies or with advisors to recommend investment
24 strategies or tactics for the investment of treasury monies, including legal
25 advisors **AND SOFTWARE TO ASSIST WITH THE ANALYSIS, TRACKING AND TRADING OF**
26 **SECURITIES**. Qualification and selection of investment managers or advisors
27 pursuant to this section are exempt from title 41, chapter 23 but must be
28 conducted by a process that is substantially equivalent to procedures
29 prescribed by title 41, chapter 23. Managers or advisors who enter into a
30 contract pursuant to this section shall be paid from earnings on investments.
31 A contract established pursuant to this section may be annually renewable but
32 shall be limited to a period of not more than three years. A contract may be
33 cancelled by the treasurer with forty-five days' written notice.

34 B. An agreement established pursuant to subsection A of this section
35 shall require the investment manager to regularly account for, itemize and
36 inventory all securities under management consistent with the requirements of
37 section 35-317, subsections C, D and E and report the findings to the state
38 treasurer at least monthly or on demand.

39 C. The state treasurer shall maintain an investment services account
40 consisting of all monies for payment of contractual financial services
41 authorized by this section. The account shall consist of monies apportioned
42 from the investment earnings of assets under management that are necessary
43 for the payment of current contractual obligations.

44 D. Expenditures for investment management and advisory fees required
45 by contract pursuant to subsection A of this section shall be paid on

1 approval of the state treasurer from the investment services account
2 established by subsection C of this section.

3 Sec. 4. Section 35-324, Arizona Revised Statutes, is amended to read:

4 35-324. Investment of trust funds; loan of securities; sale of
5 permanent endowment securities

6 A. The treasurer shall invest and reinvest monies of trust funds in:

7 1. Any and all of those securities permitted for the investment of
8 public monies.

9 2. Fixed income securities of corporations organized and doing
10 business in any state of the United States or the District of Columbia which
11 carry one of the two highest ratings of Moody's investors service and
12 Standard and Poor's rating service or their successors. If only one of the
13 above mentioned services rates the security, it must carry the highest rating
14 of that service. If a rating change occurs after purchase, it is not
15 mandatory to sell the security.

16 B. Securities owned by the permanent endowment funds may be loaned to
17 the financial or dealer community if securities which qualify under
18 subsection A, paragraph 1 **OF THIS SECTION** are transferred to the ~~state~~
19 treasurer as collateral with market value from one hundred two ~~per-cent~~
20 **PERCENT** to one hundred ten ~~per-cent~~ **PERCENT** as established from time to time
21 by the board of deposit of the par value of the securities loaned. The
22 securities used as collateral shall be "valued as to market value" weekly,
23 and if necessary the borrower shall post additional collateral to insure that
24 the excess margin is maintained.

25 C. Permanent endowment securities may be sold at a price below par or
26 cost if the proceeds of the sale are reinvested in securities whose
27 incremental yield will recover the dollar loss on the old securities. The
28 recovery period is from the time of sale until the shorter of the maturities
29 of the sold securities or purchased securities.

APPROVED BY THE GOVERNOR APRIL 1, 2015.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 2, 2015.