

Representative Lloyd W. Frandsen proposes to substitute the following bill:

EDUCATION BUDGET RESERVE ACCOUNT

2000 GENERAL SESSION

STATE OF UTAH

Sponsor: Lyle W. Hillyard

AN ACT RELATING TO BUDGETARY PROCEDURES; ESTABLISHING AN EDUCATION BUDGETARY RESERVE ACCOUNT; DEFINING ITS REVENUE SOURCES AND PARAMETERS; AUTHORIZING ITS INVESTMENT IN CERTAIN COMMON AND PREFERRED STOCKS AND BONDS; AND DEFINING APPROPRIATIONS THAT MAY BE MADE FROM THE ACCOUNT.

This act affects sections of Utah Code Annotated 1953 as follows:

ENACTS:

51-7-12.3, Utah Code Annotated 1953

63-38-2.6, Utah Code Annotated 1953

Be it enacted by the Legislature of the state of Utah:

Section 1. Section **51-7-12.3** is enacted to read:

51-7-12.3. Deposit or investment of Budgetary Reserve Account -- Authorized deposits and investments -- Asset manager.

(1) Notwithstanding the requirements of Section 51-7-11, the principal of the Education Budget Reserve Account established by Section 63-38-2.6 shall be deposited or invested only in the following:

(a) any deposit or investment authorized by Section 51-7-11;

(b) equity securities, including common and preferred stock issued by corporations listed on a major securities exchange, in accordance with the following criteria applied at the time of investment:

(i) the treasurer may not invest more than 5%, determined on a cost basis, of the total

26 account assets in the securities of any one issuer;

27 (ii) the treasurer may not invest more than 25%, determined on a cost basis, of the total
28 account assets in a particular industry;

29 (iii) the treasurer may not invest more than 5%, determined on a cost basis, of the total
30 account assets in securities of corporations that have been in continuous operation for less than
31 three years;

32 (iv) the account may not hold in excess of 5% of the outstanding voting securities of any
33 one corporation; and

34 (v) at least 75% of the corporations in which investments are made under Subsection (1)(b)
35 must appear on the Standard and Poor's 500 Composite Stock Price Index;

36 (c) fixed-income securities, including bonds, notes, mortgage securities, zero coupon
37 securities and convertible securities issued by domestic corporations rated A or higher by Moody's
38 Investor's Service, Inc. or by Standard and Poor's Corporation in accordance with the following
39 criteria applied at the time of investment:

40 (i) the treasurer may not invest more than 5%, determined on a cost basis, of the total
41 account assets in the securities of any one issuer;

42 (ii) the treasurer may not invest more than 25%, determined on a cost basis, of the total
43 account assets in a particular industry;

44 (iii) the treasurer may not invest more than 5%, determined on a cost basis, of the total
45 account assets in securities of corporations that have been in continuous operation for less than
46 three years; and

47 (iv) the dollar-weighted average maturity of fixed-income securities acquired under
48 Subsection (1)(c) may not exceed ten years;

49 (d) fixed-income securities issued by agencies of the United States and
50 government-sponsored organizations, including mortgage-backed pass-through certificates and
51 mortgage-backed bonds;

52 (e) shares of an open-end diversified management investment company established under
53 the Investment Companies Act of 1940; and

54 (f) shares of or deposits in a pooled-investment program.

55 (2) (a) No more than 65% of the total account assets of any of these funds, on a cost basis,
56 may be invested in common or preferred stocks at any one time.

57 (b) At least 35% of the total assets of the total account assets shall be invested in
58 fixed-income securities authorized by Subsections (1)(a), (c), and (d).

59 (3) The state treasurer shall use appropriate investment strategies to protect the principal
60 of the funds administered under this section during periods of financial market volatility.

61 (4) (a) The state treasurer may employ professional asset managers to assist in the
62 investment of assets of the Education Budget Reserve Account.

63 (b) The treasurer may provide compensation to asset managers from earnings generated
64 by the accounts' investments.

65 (5) The council shall give suggestions, advice, and opinions to the state treasurer in regard
66 to this section.

67 Section 2. Section **63-38-2.6** is enacted to read:

68 **63-38-2.6. Establishing an Education Budget Reserve Account -- Providing for**
69 **deposits and expenditures from the account.**

70 (1) There is created within the Uniform School Fund a restricted account to be known as
71 the Education Budget Reserve Account, which is designated to receive the surplus revenue
72 required by this section.

73 (2) (a) Beginning June 30, 2001, at the end of any fiscal year in which the Division of
74 Finance, in conjunction with the completion of the annual audit by the state auditor, determines
75 that there is a Uniform School Fund surplus, ~~h [25%] 10% h~~ of the surplus shall be transferred to
75a the
76 Education Budget Reserve Account, except that the amount in the Education Budget Reserve
77 Account may not exceed 8% of the Uniform School Fund appropriation amount for the fiscal year
78 in which the surplus occurred.

79 (b) The amount to be transferred to the Education Budget Reserve Account shall be
80 determined before any other contingency appropriation using surplus funds.

81 (3) (a) Any appropriation made by the Legislature from the Education Budget Reserve
82 Account may only be used to cover operating deficits or retroactive tax refunds.

83 (b) The Education Budget Reserve Account is available for appropriation to fund operating
84 deficits in public education appropriations.

85 (4) All interest generated from investments of money in the Education Budget Reserve
86 Account shall be deposited into the account.