

REFERENCE TITLE: political subdivisions; state endowment investments

State of Arizona  
House of Representatives  
Forty-eighth Legislature  
Second Regular Session  
2008

## **HB 2507**

Introduced by  
Representatives Konopnicki: Adams, Anderson, Burns J, Crandall, Crump,  
DeSimone, Driggs, Nichols, Stump, Thrasher

AN ACT

AMENDING TITLE 35, CHAPTER 2, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING  
SECTION 35-314.03; RELATING TO STATE MANAGEMENT OF PUBLIC MONIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Title 35, chapter 2, article 2, Arizona Revised Statutes,  
3 is amended by adding section 35-314.03, to read:

4 35-314.03. Political subdivision endowment funds; state  
5 investment authority

6 A. IN ADDITION TO THE INVESTMENT AUTHORITY IN SECTION 35-313, THE  
7 STATE TREASURER MAY INVEST AND REINVEST MONIES OF THIS STATE, STATE AGENCIES  
8 AND POLITICAL SUBDIVISIONS, INCLUDING TRIBAL NATIONS, IN A LONG-TERM  
9 ENDOWMENT IN EQUITY SECURITIES PURSUANT TO SECTION 35-314, EXCEPT THAT NOT  
10 MORE THAN SIXTY PER CENT OF THE MONIES IN EACH OF THE FUNDS MAY BE INVESTED  
11 IN EQUITY SECURITIES AT ANY TIME. THE PERCENTAGE OF INVESTMENT SHALL BE  
12 CALCULATED AT COST.

13 B. NO MONIES MAY EVER BE TAKEN FROM ONE ENDOWMENT FUND FOR DEPOSIT IN  
14 ANY OTHER ENDOWMENT FUND.

15 C. ALL MONIES IN THESE ENDOWMENT FUNDS SHALL BE INVESTED IN SAFE  
16 INTEREST-BEARING SECURITIES AND PRUDENT EQUITY SECURITIES CONSISTENT WITH THE  
17 REQUIREMENTS OF THIS SECTION.

18 D. THE BOARD OF INVESTMENT SHALL SERVE AS TRUSTEE AND PROVIDE FOR THE  
19 MANAGEMENT OF THE ASSETS OF EACH OF THE ENDOWMENT FUNDS CONSISTENT WITH THE  
20 FOLLOWING CONDITIONS:

21 1. NOT MORE THAN SIXTY PER CENT OF A FUND AT COST MAY BE INVESTED IN  
22 EQUITIES AT ANY TIME.

23 2. EQUITIES THAT ARE ELIGIBLE FOR PURCHASE ARE RESTRICTED TO STOCKS  
24 LISTED ON ANY NATIONAL STOCK EXCHANGE OR ELIGIBLE FOR TRADING THROUGH THE  
25 UNITED STATES NATIONAL ASSOCIATION OF SECURITIES DEALERS AUTOMATED QUOTATION  
26 SYSTEM, OR SUCCESSOR INSTITUTIONS, EXCEPT AS MAY BE PROHIBITED BY GENERAL  
27 CRITERIA OR BY A RESTRICTION ON INVESTMENT IN A SPECIFIC SECURITY ADOPTED  
28 PURSUANT TO THIS SUBSECTION.

29 3. NOT MORE THAN FIVE PER CENT OF ALL OF THE FUNDS COMBINED AT COST  
30 MAY BE INVESTED IN EQUITY SECURITIES ISSUED BY THE SAME INSTITUTION, AGENCY  
31 OR CORPORATION, OTHER THAN SECURITIES ISSUED AS DIRECT OBLIGATIONS OF AND  
32 FULLY GUARANTEED BY THE UNITED STATES GOVERNMENT.

33 E. IN MAKING INVESTMENTS UNDER THIS SECTION, THE STATE TREASURER AND  
34 THE TRUSTEE SHALL EXERCISE THE JUDGMENT AND CARE UNDER THE PREVAILING  
35 CIRCUMSTANCES THAT AN INSTITUTIONAL INVESTOR OF ORDINARY PRUDENCE, DISCRETION  
36 AND INTELLIGENCE EXERCISES IN MANAGING LARGE INVESTMENTS ENTRUSTED TO THE  
37 INVESTOR, NOT IN REGARD TO SPECULATION, BUT IN REGARD TO THE PERMANENT  
38 DISPOSITION OF MONIES, CONSIDERING THE PROBABLE SAFETY OF CAPITAL AS WELL AS  
39 THE PROBABLE TOTAL RATE OF RETURN OVER EXTENDED PERIODS OF TIME.

40 F. THE EARNINGS, INTEREST, DIVIDENDS AND REALIZED CAPITAL GAINS AND  
41 LOSSES FROM INVESTMENT OF EACH ENDOWMENT FUND SHALL BE CREDITED TO THAT FUND.

42 G. THE BOARD OF INVESTMENT SHALL DETERMINE THE AMOUNT OF THE ANNUAL  
43 DISTRIBUTIONS ANNUALLY, AND THE AMOUNT OF THE ANNUAL DISTRIBUTION FROM EACH  
44 ENDOWMENT ESTABLISHED PURSUANT TO THIS SECTION IS THE AMOUNT DETERMINED BY  
45 MULTIPLYING THE FOLLOWING FACTORS:

1           1. THE AVERAGE OF THE ANNUAL TOTAL RATE OF RETURN FOR THE IMMEDIATELY  
2 PRECEDING FIVE COMPLETE CALENDAR YEARS LESS THE AVERAGE OF THE ANNUAL  
3 PERCENTAGE CHANGE IN THE GDP PRICE DEFLATOR, OR A SUCCESSOR INDEX, FOR THE  
4 IMMEDIATELY PRECEDING FIVE COMPLETE CALENDAR YEARS. FOR THE PURPOSES OF THIS  
5 PARAGRAPH:

6           (a) "ANNUAL TOTAL RATE OF RETURN" MEANS THE QUOTIENT OBTAINED BY  
7 DIVIDING THE AMOUNT CREDITED TO A FUND PURSUANT TO SUBSECTION F OF THIS  
8 SECTION FOR A COMPLETE CALENDAR YEAR, PLUS UNREALIZED CAPITAL GAINS AND  
9 LOSSES, BY THE AVERAGE MONTHLY MARKET VALUE OF THE FUND FOR THAT YEAR.

10          (b) "GDP PRICE DEFLATOR" MEANS THE GROSS DOMESTIC PRICE DEFLATOR  
11 REPORTED BY THE UNITED STATES DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC  
12 ANALYSIS, OR ITS SUCCESSOR AGENCY.

13           2. THE AVERAGE OF THE MONTHLY MARKET VALUES OF THE FUND FOR THE  
14 IMMEDIATELY PRECEDING FIVE COMPLETE CALENDAR YEARS.