

(iv) (v) in special transportation service certified by the commissioner under section 174.30;

(v) (vi) that is special transportation service as defined in section 174.29, subdivision 1, when provided by a volunteer driver operating a private passenger vehicle as defined in section 169.01, subdivision 3a;

(vi) (vii) in a limousine the service of which is licensed by the commissioner under section 221.84; or

(vii) (viii) in a taxicab, if the fare for the transportation is determined by a meter inside the taxicab that measures the distance traveled and displays the fare accumulated.

Sec. 22. Minnesota Statutes 1992, section 631.40, is amended by adding a subdivision to read:

Subd. 1b. CRIME AGAINST MINOR. When a person is convicted of committing a crime against a minor as defined in section 171.3215, subdivision 2a, the court shall order that the presentence investigation include information about whether the offender is a Head Start bus driver as defined in section 171.3215, subdivision 1, whether the offender possesses a passenger endorsement on the offender's driver's license, and for what Head Start agency the offender drives a Head Start bus. If the offender is a Head Start bus driver or possesses a Head Start bus driver's passenger endorsement, the court administrator shall send a certified copy of the conviction to the department of public safety and to the Head Start agency for which the offender drives a Head Start bus.

Presented to the governor May 5, 1994

Signed by the governor May 9, 1994, 4:52 p.m.

#### CHAPTER 604—S.F.No. 2316

*An act relating to public finance; providing for management of funds under the control of the state board of investment; limiting the investment authority of various local pension plans to the pre-1994 investment authority of the state board of investment; changing certain debt service fund investment authority; amending Minnesota Statutes 1992, sections 11A.17, subdivisions 1, 4, 9, 10a, and 14; 11A.18, subdivision 9; 11A.24, subdivisions 3, 5, and 6; 353D.05, subdivision 2; 354B.07, subdivision 2; 356A.06, subdivision 7; and 422A.05, subdivision 2c; Minnesota Statutes 1993 Supplement, sections 11A.24, subdivisions 1 and 4; 69.77, subdivision 2g; 69.775; 352D.04, subdivision 1; 352D.09, subdivision 8; 354B.05, subdivision 3; and 475.66, subdivision 3.*

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

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## ARTICLE 1

## STATE BOARD OF INVESTMENT PROVISIONS

Section 1. Minnesota Statutes 1992, section 11A.17, subdivision 1, is amended to read:

Subdivision 1. **PURPOSE.** The purpose of the supplemental investment fund is to provide an investment vehicle for the assets of various public retirement plans and funds. The fund consists of ~~six~~ seven investment accounts: an income share account, a growth share account, an international share account, a money market account, a fixed interest account, a bond market account, and a common stock index account. The supplemental investment fund is a continuation of the supplemental retirement fund in existence on January 1, 1980.

Sec. 2. Minnesota Statutes 1992, section 11A.17, subdivision 4, is amended to read:

Subd. 4. **INVESTMENT.** The assets of the supplemental investment fund must be invested by the state board subject to section 11A.24; provided, however, that:

(1) the bond market account and the money market account must be invested entirely in debt obligations;

(2) the growth share account and the common stock index account may be invested entirely in corporate stocks; ~~and~~

(3) the international share account may be invested entirely in international stocks; and

(4) the fixed interest account may be invested in guaranteed investment contracts and debt obligations.

Sec. 3. Minnesota Statutes 1992, section 11A.17, subdivision 9, is amended to read:

Subd. 9. **VALUATION OF INVESTMENT SHARES.** The value of investment shares in the income share account, the growth share account, the international share account, the bond market account, and the common stock index account must be determined by dividing the total market value of the securities constituting the respective account by the total number of shares then outstanding in the investment account. The value of investment shares in the money market account and the fixed interest account is \$1 a share. Terms as to withdrawal schedules will be agreed upon by the public retirement fund and the state board.

Sec. 4. Minnesota Statutes 1992, section 11A.17, subdivision 10a, is amended to read:

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Subd. 10a. **DISTRIBUTION OF EARNINGS.** Once each month the state board shall deduct from the investment earnings of each account an amount equal to one-twelfth of an annual charge equal to ~~one-tenth~~ 40/100 of one percent of the assets in each account. Unless otherwise directed by the participating plan or fund, the state board shall distribute the deductions to participating plans or funds to pay administrative expenses. Any deductions not distributed must be used to purchase additional units in the accounts.

Sec. 5. Minnesota Statutes 1992, section 11A.17, subdivision 14, is amended to read:

Subd. 14. **PROCEDURES FOR DISTRIBUTION OF INCOME FOR MONEY MARKET ACCOUNT, AND FIXED INTEREST ACCOUNT.** At the end of each month, the state board shall determine the earnings of the money market account and the fixed interest account and deduct from the earnings an amount equal to one-twelfth of an annual charge equal to ~~one-tenth~~ 40/100 of one percent of the assets in each account. Unless otherwise directed by the participating plan or fund, the state board shall distribute the deductions to participating plans or funds to pay administrative expenses. Any earnings not deducted and distributed must be used to purchase additional shares in the respective accounts on behalf of each participating public retirement plan or fund.

Sec. 6. Minnesota Statutes 1992, section 11A.18, subdivision 9, is amended to read:

Subd. 9. **CALCULATION OF POSTRETIREMENT ADJUSTMENT.** (a) Annually, following June 30, the state board shall use the procedures in paragraphs (b), (c), and (d) to determine whether a postretirement adjustment is payable and to determine the amount of any postretirement adjustment.

(b) If the Consumer Price Index for urban wage earners and clerical workers all items index published by the Bureau of Labor Statistics of the United States Department of Labor increases from June 30 of the preceding year to June 30 of the current year, the state board shall certify the percentage increase. The amount certified may not exceed the lesser of the difference between the preretirement interest assumption and postretirement interest assumption in section 356.215, subdivision 4d, paragraph (a), or 3.5 percent.

(c) In addition to any percentage increase certified under paragraph (b), the board shall use the following procedures to determine if a postretirement adjustment is payable under this paragraph:

(1) The state board shall determine the market value of the fund on June 30 of that year;

(2) The amount of reserves required for the annuity or benefit payable to an annuitant and benefit recipient of the participating public pension plans or funds shall be determined by the commission-retained actuary as of the current June 30. An annuitant or benefit recipient who has been receiving an annuity or

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benefit for at least 12 full months as of the current June 30 is eligible to receive a full postretirement adjustment. An annuitant or benefit recipient who has been receiving an annuity or benefit for at least one full month, but less than 12 full months as of the current June 30, is eligible to receive a partial postretirement adjustment. Each fund shall report separately the amount of the reserves for those annuitants and benefit recipients who are eligible to receive a full postretirement benefit adjustment. This amount is known as "eligible reserves." Each fund shall also report separately the amount of the reserves for those annuitants and benefit recipients who are not eligible to receive a postretirement adjustment. This amount is known as "noneligible reserves." For an annuitant or benefit recipient who is eligible to receive a partial postretirement adjustment, each fund shall report separately as additional "eligible reserves" an amount that bears the same ratio to the total reserves required for the annuitant or benefit recipient as the number of full months of annuity or benefit receipt as of the current June 30 bears to 12 full months. The remainder of the annuitant's or benefit recipient's reserves shall be separately reported as additional "noneligible reserves." The amount of "eligible" and "noneligible" required reserves shall be certified to the board by the commission-retained actuary as soon as is practical following the current June 30;

(3) The state board shall determine the percentage increase certified under paragraph (b) multiplied by the eligible required reserves, as adjusted for mortality gains and losses under subdivision 11, determined under clause (2);

(4) The state board shall add the amount of ~~eligible and ineligible required reserves determined under clause (2)~~ required for the annuities or benefits payable to annuitants and benefit recipients of the participating public pension plans or funds as of the current June 30 to the amount determined under clause (3);

(5) The state board shall subtract the amount determined under clause (4) from the market value of the fund determined under clause (1);

(6) The state board shall adjust the amount determined under clause (5) by the cumulative current balance determined pursuant to clause (8) and any negative balance carried forward under clause (9);

(7) A positive amount resulting from the calculations in clauses (1) to (6) is the excess market value. A negative amount is the negative balance;

(8) The state board shall allocate one-fifth of the excess market value or one-fifth of the negative balance to each of five consecutive years, beginning with the fiscal year ending the current June 30; and

(9) To calculate the postretirement adjustment under this paragraph based on investment performance for a fiscal year, the state board shall add together all excess market value allocated to that year and subtract from the sum all negative balances allocated to that year. If this calculation results in a negative number, the entire negative balance must be carried forward and allocated to the

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next year. If the resulting amount is positive, a postretirement adjustment is payable under this paragraph. The board shall express a positive amount as a percentage of the total eligible required reserves certified to the board under clause (2).

(d) The state board shall determine the amount of any postretirement adjustment which is payable using the following procedure:

(1) The total "eligible" required reserves as of the first of January next following the end of the fiscal year for the annuitants and benefit recipients eligible to receive a full or partial postretirement adjustment as determined by clause (2) shall be certified to the state board by the commission-retained actuary. The total "eligible" required reserves shall be determined by the commission-retained actuary on the assumption that all annuitants and benefit recipients eligible to receive a full or partial postretirement adjustment will be alive on the January 1 in question; and

(2) The state board shall add the percentage certified under paragraph (b) to any positive percentage calculated under paragraph (c). The board shall not subtract from the percentage certified under paragraph (b) any negative amount calculated under paragraph (c). The sum of these percentages shall be carried to five decimal places and shall be certified to each participating public pension fund or plan as the full postretirement adjustment percentage.

(e) A retirement annuity payable in the event of retirement before becoming eligible for social security benefits as provided in section 352.116, subdivision 3; 353.29, subdivision 6; or 354.35 must be treated as the sum of a period certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. The period certain retirement annuity plus the life retirement annuity shall be the annuity amount payable until age 62 or 65, whichever applies. A postretirement adjustment granted on the period certain retirement annuity must terminate when the period certain retirement annuity terminates.

Sec. 7. Minnesota Statutes 1993 Supplement, section 11A.24, subdivision 1, is amended to read:

Subdivision 1. **SECURITIES GENERALLY.** The state board shall have the authority to purchase, sell, lend or exchange the following securities for funds or accounts specifically made subject to this section including puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency. These securities may be owned as units in commingled trusts that own the securities described in subdivisions 2 to § 6.

Sec. 8. Minnesota Statutes 1992, section 11A.24, subdivision 3, is amended to read:

Subd. 3. **CORPORATE OBLIGATIONS.** (a) The state board may invest funds in bonds, notes, debentures, transportation equipment obligations, or any

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other longer term evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof ~~if they conform to the following provisions provided that:~~

~~(a)~~ (1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in United States dollars; and

~~(b)~~ (2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency.

(b) The state board may invest in unrated corporate obligations or in corporate obligations that are not rated among the top four quality categories as provided in paragraph (a), clause (2), provided that:

(1) the aggregate value of these obligations may not exceed five percent of the market or book value, whichever is less, of the fund for which the state board is investing;

(2) the state board's participation is limited to 50 percent of a single offering subject to this paragraph; and

(3) the state board's participation is limited to 25 percent of an issuer's obligations subject to this paragraph.

Sec. 9. Minnesota Statutes 1993 Supplement, section 11A.24, subdivision 4, is amended to read:

Subd. 4. **OTHER OBLIGATIONS.** (a) The state board may invest funds in bankers acceptances, certificates of deposit, deposit notes, commercial paper, mortgage ~~participation certificates and pools~~ securities and asset backed securities, repurchase agreements and reverse repurchase agreements, guaranteed investment contracts, savings accounts, and guaranty fund certificates, surplus notes, or debentures of domestic mutual insurance companies if they conform to the following provisions:

(1) bankers acceptances and deposit notes of United States banks are limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency;

(2) certificates of deposit are limited to those issued by (i) United States banks and savings institutions that are rated in the ~~highest~~ top four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by federal agencies; or (ii) credit unions in amounts up to the limit of insurance coverage provided by the National Credit Union Administration;

(3) commercial paper is limited to those issued by United States corporations or their Canadian subsidiaries and rated in the highest two quality categories by a nationally recognized rating agency;

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(4) mortgage participation or pass through certificates evidencing interests in pools of first mortgages or trust deeds on improved real estate located in the United States where the loan to value ratio for each loan as calculated in accordance with section 61A.28, subdivision 3, does not exceed 80 percent for fully amortizable residential properties and in all other respects meets the requirements of section 61A.28, subdivision 3 securities shall be rated in the top four quality categories by a nationally recognized rating agency;

(5) collateral for repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized in this section;

(6) guaranteed investment contracts are limited to those issued by insurance companies or banks rated in the top four quality categories by a nationally recognized rating agency or to alternative guaranteed investment contracts where the underlying assets comply with the requirements of this section; ~~and~~

(7) savings accounts are limited to those fully insured by federal agencies; and

(8) asset backed securities shall be rated in the top four quality categories by a nationally recognized rating agency.

(b) Sections 16A.58 and 16B.06 do not apply to certificates of deposit and collateralization agreements executed by the state board under paragraph (a), clause (2).

(c) In addition to investments authorized by paragraph (a), clause (4), the state board may purchase from the Minnesota housing finance agency all or any part of a pool of residential mortgages, not in default, that has previously been financed by the issuance of bonds or notes of the agency. The state board may also enter into a commitment with the agency, at the time of any issue of bonds or notes, to purchase at a specified future date, not exceeding 12 years from the date of the issue, the amount of mortgage loans then outstanding and not in default that have been made or purchased from the proceeds of the bonds or notes. The state board may charge reasonable fees for any such commitment and may agree to purchase the mortgage loans at a price sufficient to produce a yield to the state board comparable, in its judgment, to the yield available on similar mortgage loans at the date of the bonds or notes. The state board may also enter into agreements with the agency for the investment of any portion of the funds of the agency. The agreement must cover the period of the investment, withdrawal privileges, and any guaranteed rate of return.

Sec. 10. Minnesota Statutes 1992, section 11A.24, subdivision 5, is amended to read:

Subd. 5. **CORPORATE STOCKS.** The state board may invest funds in stocks or convertible issues of any corporation organized under the laws of the United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange, if they conform to the following provisions:

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(a) The aggregate value of corporate stock investments, as adjusted for realized profits and losses, shall not exceed 85 percent of the market or book value, whichever is less, of a fund, less the aggregate value of investments according to subdivision 6;

(b) Investments shall not exceed five percent of the total outstanding shares of any one corporation, except that the state board may hold up to 20 percent of the shares of a real estate investment trust.

Sec. 11. Minnesota Statutes 1992, section 11A.24, subdivision 6, is amended to read:

Subd. 6. **OTHER INVESTMENTS.** (a) In addition to the investments authorized in subdivisions 1 to 5, and subject to the provisions in paragraph (b), the state board may invest funds in:

(1) venture capital investment businesses through participation in limited partnerships and corporations;

(2) real estate ownership interests or loans secured by mortgages or deeds of trust or shares of real estate investment trusts through investment in limited partnerships, bank sponsored collective funds, trusts, mortgage participation agreements, and insurance company commingled accounts, including separate accounts;

(3) regional and mutual funds through bank sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940;

(4) resource investments through limited partnerships, private placements and corporations; and

(5) international securities.

(b) The investments authorized in paragraph (a) must conform to the following provisions:

(1) the aggregate value of all investments made according to paragraph (a), clauses (1) to (4), may not exceed 35 percent of the market value of the fund for which the state board is investing;

(2) there must be at least four unrelated owners of the investment other than the state board for investments made under paragraph (a), clause (1), (2), (3), or (4);

(3) state board participation in an investment vehicle is limited to 20 percent thereof for investments made under paragraph (a), clause (1), (2), (3), or (4); and

(4) state board participation in a limited partnership does not include a gen-

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eral partnership interest or other interest involving general liability. The state board may not engage in any activity as a limited partner which creates general liability.

Sec. 12. Minnesota Statutes 1993 Supplement, section 352D.04, subdivision 1, is amended to read:

Subdivision 1. (a) An employee exercising an option to participate in the retirement program provided by this chapter may elect to purchase shares in one or a combination of the income share account, the growth share account, the international share account, the money market account, the bond market account, the fixed interest account, or the common stock index account established in section 11A.17. The employee may elect to participate in one or more of the investment accounts in the fund by specifying, on a form provided by the executive director, the percentage of the employee's contributions provided in subdivision 2 to be used to purchase shares in each of the accounts.

(b) A participant may indicate in writing on forms provided by the Minnesota state retirement system a choice of options for subsequent purchases of shares. Until a different written indication is made by the participant, the executive director shall purchase shares in the supplemental fund as selected by the participant. If no initial option is chosen, 100 percent income shares must be purchased for a participant. A change in choice of investment option is effective no later than the first pay date first occurring after 30 days following the receipt of the request for a change.

(c) ~~One month before the start of a new guaranteed investment contract, a participant or former participant may elect to transfer all or a portion of the participant's shares previously purchased in the income share, growth share, common stock index, bond market, or money market accounts to the new guaranteed investment contract in the fixed interest account. Upon expiration of a guaranteed investment contract, the participant's shares attributable to that contract must be transferred to a new guaranteed investment contract unless the executive director is otherwise directed by the participant. Shares in the fixed interest account attributable to any guaranteed investment contract as of July 1, 1994, may not be withdrawn from the fund or transferred to another account until the guaranteed investment contract has expired, unless the participant qualifies for withdrawal under section 352D.05 or for benefit payments under sections 352D.06 to 352D.075.~~

(d) A participant or former participant may also change the investment options selected for all or a portion of the participant's shares previously purchased in accounts ~~other than~~, subject to the provisions of paragraph (c) concerning the fixed interest account. Changes in investment options for the participant's shares must be effected as soon as cash flow to an account practically permits, but not later than six months after the requested change.

Sec. 13. Minnesota Statutes 1993 Supplement, section 352D.09, subdivision 8, is amended to read:

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Subd. 8. **ADMINISTRATIVE CHARGE DEDUCTIONS.** Any administrative charges deducted under subdivision 7 that were in excess of the administrative expenses between July 1, 1973, and June 30, 1992, together with any investment gains or losses based on fiscal year balances, must be recovered from the state employees retirement plan and held in the unclassified plan to pay future administrative expenses. Any deductions to pay administrative expenses under section 11A.17, subdivision 10a, on contributions and investment returns attributable to contributions made before July 1, 1992, must be credited back to the participants in the unclassified plan. Any deductions to pay administrative expenses under section 11A.17, subdivision 10a, that exceed an amount equal to 1/12 of an annual charge equal to one-tenth of one percent of the assets in each account will be credited back to the participants.

Sec. 14. Minnesota Statutes 1992, section 353D.05, subdivision 2, is amended to read:

Subd. 2. **INVESTMENT OPTIONS.** (a) A participant may elect to purchase shares in the income share account, the growth share account, the international share account, the money market account, the bond market account, the fixed interest account, or the common stock index account established by section 11A.17, or a combination of those accounts. The participant may elect to purchase shares in a combination of those accounts by specifying the percentage of the total contributions to be used to purchase shares in each of the accounts.

(b) A participant or a former participant may indicate in writing a choice of options for subsequent purchases of shares. After a choice is made, until the participant or former participant makes a different written indication, the executive director of the association shall purchase shares in the supplemental investment account or accounts specified by the participant. If no initial option is indicated by a participant or the specifications made by the participant exceeds 100 percent to be invested in more than one account, the executive director shall invest all contributions made by or on behalf of a participant in the income share account. If the specifications are less than 100 percent, the executive director shall invest the remaining percentage in the income share account. A choice of investment options is effective the first of the month following the date of receipt of the signed written choice of options.

(c) ~~One month before the start of a new guaranteed investment contract, a participant or former participant may elect to transfer all or a portion of the participant's or former participant's shares previously purchased in the income share, growth share, common stock index, bond market, or money market accounts to the new guaranteed investment contract in the fixed interest account. Upon expiration of a guaranteed investment contract, the participant's or former participant's shares attributable to that contract must be transferred to a new guaranteed investment contract unless the executive director is otherwise directed by the participant. Shares in the fixed interest account attributable to any guaranteed investment contract as of July 1, 1994, may not be withdrawn from the fund or transferred to another account until the guaranteed investment~~

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contract has expired, unless the participant qualifies for a benefit payment under section 353D.07.

(d) A participant or former participant may also change the investment options selected for all or a portion of the individual's previously purchased shares in accounts ~~other than~~, subject to the provisions of paragraph (c) concerning the guaranteed return fixed interest account. A change under this paragraph is effective the first of the month following the date of receipt of a signed written choice of options.

(e) The change or selection of an investment option or the transfer of all or a portion of the deceased or former participant's shares in the income share, growth share, common stock index, bond market, international share, money market, or guaranteed investment fixed interest accounts must not be made following death of the participant or former participant.

Sec. 15. Minnesota Statutes 1993 Supplement, section 354B.05, subdivision 3, is amended to read:

Subd. 3. **SELECTION OF FINANCIAL INSTITUTIONS.** The supplemental investment fund administered by the state board of investment is one of the investment options for the plan. The state board of investment may select two other financial institutions to provide annuity products. In making their selections, the board shall consider at least these criteria:

- (1) the experience and ability of the financial institution to provide retirement and death benefits suited to the needs of the covered employees;
- (2) the relationship of the benefits to their cost; and
- (3) the financial strength and stability of the institution.

The state board of investment must periodically review at least every three years each financial institution selected by the state board of investment. The state board of investment may retain consulting services to assist in the periodic review, may establish a budget for its costs in the periodic review process, and may charge a proportional share of those costs to each financial institution selected by the state board of investment. All contracts must be approved by the state board of investment before execution by the state university board and the community college board. The state board of investment shall also establish policies and procedures under section 11A.04, clause (2), to carry out this subdivision.

The chancellor of the state university system and the chancellor of the state community college system shall redeem all shares in the accounts of the Minnesota supplemental investment fund held on behalf of personnel in the supplemental plan who elect an investment option other than the supplemental investment fund, except that shares in the fixed interest account attributable to any guaranteed investment contract as of July 1, 1994, must not be redeemed

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until the expiration dates for the guaranteed investment contracts. The chancellors shall transfer the cash realized to the financial institutions selected by the state university board and the community college board under section 354B.05.

Sec. 16. Minnesota Statutes 1992, section 354B.07, subdivision 2, is amended to read:

Subd. 2. **REDEMPTIONS.** The chancellor of the state university system and the chancellor of the state community college system shall redeem all shares in the accounts of the Minnesota supplemental investment fund held on behalf of personnel in the supplemental plan who elect an investment option other than the supplemental investment fund, except that shares in the fixed interest account attributable to any guaranteed investment contract as of July 1, 1994, may not be redeemed until the expiration dates for the guaranteed investment contracts. The chancellors shall transfer the cash realized to the financial institutions selected by the state university board and the community college board under section 354B.05.

Sec. 17. **REQUIREMENT FOR PROVISION OF CERTAIN INFORMATION.**

The executive director of the state board of investment shall report to the legislative commission on pensions and retirement during fiscal year 1995 on any investments that it made under Minnesota Statutes, section 11A.24, subdivision 3, paragraph (b). The report must be made in conjunction with the regular annual report of the state board of investment.

Sec. 18. **EFFECTIVE DATE.**

Section 6 is effective June 30, 1994. The remaining sections are effective July 1, 1994.

## ARTICLE 2

### LIMIT ON INVESTMENT AUTHORITY FOR OTHER PUBLIC FUNDS

Section 1. Minnesota Statutes 1993 Supplement, section 69.77, subdivision 2g, is amended to read:

Subd. 2g. **LOCAL POLICE AND PAID FIRE RELIEF ASSOCIATION INVESTMENT AUTHORITY.** The funds of the association must be invested in securities that are authorized investments under section 356A.06, subdivision 6 or 7. Notwithstanding the foregoing, up to 75 percent of the market value of the assets of the fund may be invested in open-end investment companies registered under the federal Investment Company Act of 1940, if the portfolio invest-

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ments of the investment companies comply with the type of securities authorized for investment by ~~section 11A.24, subdivisions 2 to 5~~ under section 356A.06, subdivision 7. Securities held by the association before June 2, 1989, that do not meet the requirements of this subdivision may be retained after that date if they were proper investments for the association on that date.

The governing board of the association may select and appoint investment agencies to act for and in its behalf or may certify special fund assets for investment by the state board of investment under section 11A.17. The governing board of the association may certify general fund assets of the relief association for investment by the state board of investment in fixed income pools or in a separately managed account at the discretion of the state board of investment as provided in section 11A.14. The governing board of the association may select and appoint a qualified private firm to measure management performance and return on investment, and the firm shall use the formula or formulas developed by the state board under section 11A.04, clause (11).

Sec. 2. Minnesota Statutes 1993 Supplement, section 69.775, is amended to read:

#### 69.775 INVESTMENTS.

The special fund assets of the relief associations governed by sections 69.771 to 69.776 must be invested in securities that are authorized investments under section 356A.06, subdivision 6 or 7. Notwithstanding the foregoing, up to 75 percent of the market value of the assets of the fund may be invested in open-end investment companies registered under the federal Investment Company Act of 1940, if the portfolio investments of the investment companies comply with the type of securities authorized for investment by ~~section 11A.24, subdivisions 2 to 5~~ under section 356A.06, subdivision 7. Securities held by the associations before June 2, 1989, that do not meet the requirements of this section may be retained after that date if they were proper investments for the association on that date. The governing board of the association may select and appoint investment agencies to act for and in its behalf or may certify special fund assets for investment by the state board of investment under section 11A.17. The governing board of the association may certify general fund assets of the relief association for investment by the state board of investment in fixed income pools or in a separately managed account at the discretion of the state board of investment as provided in section 11A.14. The governing board of the association may select and appoint a qualified private firm to measure management performance and return on investment, and the firm shall use the formula or formulas developed by the state board under section 11A.04, clause (11).

Sec. 3. Minnesota Statutes 1992, section 356A.06, subdivision 7, is amended to read:

Subd. 7. **EXPANDED LIST OF AUTHORIZED INVESTMENT SECURITIES.** (a) **AUTHORITY.** Except to the extent otherwise authorized by law or bylaws, a covered pension plan not described by subdivision 6, paragraph (a), may invest its assets only in accordance with ~~section 11A.24~~ this subdivision.

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(b) SECURITIES GENERALLY. The covered pension plan has the authority to purchase, sell, lend, or exchange the securities specified in paragraphs (c) to (g), including puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency. These securities may be owned as units in commingled trusts that own the securities described in paragraphs (c) to (g).

(c) GOVERNMENT OBLIGATIONS. The covered pension plan may invest funds in governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. The obligations in which funds may be invested under this paragraph include guaranteed or insured issues of (1) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (2) Canada and its provinces, provided the principal and interest is payable in United States dollars; (3) the states and their municipalities, political subdivisions, agencies or instrumentalities; (4) the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(d) CORPORATE OBLIGATIONS. The covered pension plan may invest funds in bonds, notes, debentures, transportation equipment obligations, or any other longer term evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof if they conform to the following provisions:

(1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof must be payable in United States dollars; and

(2) obligations must be rated among the top four quality categories by a nationally recognized rating agency.

(e) OTHER OBLIGATIONS. (1) The covered pension plan may invest funds in bankers acceptances, certificates of deposit, deposit notes, commercial paper, mortgage participation certificates and pools, repurchase agreements and reverse repurchase agreements, guaranteed investment contracts, savings accounts, and guaranty fund certificates, surplus notes, or debentures of domestic mutual insurance companies if they conform to the following provisions:

(i) bankers acceptances and deposit notes of United States banks are limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency;

(ii) certificates of deposit are limited to those issued by (A) United States

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banks and savings institutions that are rated in the highest four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by federal agencies; or (B) credit unions in amounts up to the limit of insurance coverage provided by the National Credit Union Administration;

(iii) commercial paper is limited to those issued by United States corporations or their Canadian subsidiaries and rated in the highest two quality categories by a nationally recognized rating agency;

(iv) mortgage participation or pass through certificates evidencing interests in pools of first mortgages or trust deeds on improved real estate located in the United States where the loan to value ratio for each loan as calculated in accordance with section 61A.28, subdivision 3, does not exceed 80 percent for fully amortizable residential properties and in all other respects meets the requirements of section 61A.28, subdivision 3;

(v) collateral for repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized in this section;

(vi) guaranteed investment contracts are limited to those issued by insurance companies or banks rated in the top four quality categories by a nationally recognized rating agency or to alternative guaranteed investment contracts where the underlying assets comply with the requirements of this subdivision; and

(vii) savings accounts are limited to those fully insured by federal agencies.

(2) Sections 16A.58 and 16B.06 do not apply to certificates of deposit and collateralization agreements executed by the covered pension plan under clause (1), item (ii).

(3) In addition to investments authorized by clause (1), item (iv), the covered pension plan may purchase from the Minnesota housing finance agency all or any part of a pool of residential mortgages, not in default, that has previously been financed by the issuance of bonds or notes of the agency. The covered pension plan may also enter into a commitment with the agency, at the time of any issue of bonds or notes, to purchase at a specified future date, not exceeding 12 years from the date of the issue, the amount of mortgage loans then outstanding and not in default that have been made or purchased from the proceeds of the bonds or notes. The covered pension plan may charge reasonable fees for any such commitment and may agree to purchase the mortgage loans at a price sufficient to produce a yield to the covered pension plan comparable, in its judgment, to the yield available on similar mortgage loans at the date of the bonds or notes. The covered pension plan may also enter into agreements with the agency for the investment of any portion of the funds of the agency. The agreement must cover the period of the investment, withdrawal privileges, and any guaranteed rate of return.

(f) CORPORATE STOCKS. The covered pension plan may invest funds in stocks or convertible issues of any corporation organized under the laws of the

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United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange, if they conform to the following provisions:

(1) The aggregate value of corporate stock investments, as adjusted for realized profits and losses, must not exceed 85 percent of the market or book value, whichever is less, of a fund, less the aggregate value of investments according to subdivision 6;

(2) Investments must not exceed five percent of the total outstanding shares of any one corporation.

(g) OTHER INVESTMENTS. (1) In addition to the investments authorized in paragraphs (b) to (f), and subject to the provisions in clause (2), the covered pension plan may invest funds in:

(i) venture capital investment businesses through participation in limited partnerships and corporations;

(ii) real estate ownership interests or loans secured by mortgages or deeds of trust through investment in limited partnerships, bank sponsored collective funds, trusts, and insurance company commingled accounts, including separate accounts;

(iii) regional and mutual funds through bank sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940;

(iv) resource investments through limited partnerships, private placements and corporations; and

(v) international securities.

(2) The investments authorized in clause (1) must conform to the following provisions:

(i) the aggregate value of all investments made according to clause (1) may not exceed 35 percent of the market value of the fund for which the covered pension plan is investing;

(ii) there must be at least four unrelated owners of the investment other than the state board for investments made under clause (1), item (i), (ii), (iii), or (iv);

(iii) covered pension plan participation in an investment vehicle is limited to 20 percent thereof for investments made under clause (1), item (i), (ii), (iii), or (iv); and

(iv) covered pension plan participation in a limited partnership does not include a general partnership interest or other interest involving general liability. The covered pension plan may not engage in any activity as a limited partner which creates general liability.

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Sec. 4. Minnesota Statutes 1992, section 422A.05, subdivision 2c, is amended to read:

Subd. 2c. **MINNEAPOLIS EMPLOYEES RETIREMENT FUND INVESTMENT AUTHORITY.** (a) For investments made on or after July 1, 1991, the board shall invest funds only in investments authorized by section ~~HA.24~~ 356A.06, subdivision 7.

(b) However, in addition to real estate investments authorized by ~~section HA.24~~ under paragraph (a), the board may also make loans to purchasers of Minnesota situs nonfarm residential real estate that is owned by the Minneapolis employees retirement fund. The loans must be secured by mortgages or deeds of trust.

~~(b)~~ (c) For investments made before July 1, 1991, the board may, but is not required to, comply with ~~section HA.24~~ paragraph (a). However, with respect to these investments, the board shall act in accordance with subdivision 2a and chapter 356A.

Sec. 5. Minnesota Statutes 1993 Supplement, section 475.66, subdivision 3, is amended to read:

Subd. 3. Subject to the provisions of any resolutions or other instruments securing obligations payable from a debt service fund, any balance in the fund may be invested

(a) in governmental bonds, notes, bills, mortgages, and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage-backed securities that are defined as high risk pursuant to subdivision 5, or in certificates of deposit secured by letters of credit issued by federal home loan banks,

(b) in shares of an investment company (1) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and (2) whose only investments are in (i) securities described in the preceding clause, except that the exclusion of mortgage-backed securities defined as high risk pursuant to subdivision 5 ~~de~~ does not apply to ~~shares~~ mortgage-backed securities in the portfolio of an investment company, (ii) general obligation tax-exempt securities rated A or better by a national bond rating service, and (iii) repurchase agreements or reverse repurchase agreements fully collateralized by those securities, if the repurchase agreements or reverse repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the 100 largest United States commercial banks,

(c) in any security which is (1) a general obligation of the state of Minnesota or any of its municipalities, or (2) a general obligation of another state or local government with taxing powers which is rated A or better by a national bond

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rating service, or (3) a general obligation of the Minnesota housing finance agency, or (4) a general obligation of a housing finance agency of any state if it includes a moral obligation of the state, or (5) a general or revenue obligation of any agency or authority of the state of Minnesota other than a general obligation of the Minnesota housing finance agency. Investments under clauses (3) and (4) must be in obligations that are rated A or better by a national bond rating service and investments under clause (5) must be in obligations that are rated AA or better by a national bond rating service,

(d) in bankers acceptances of United States banks eligible for purchase by the Federal Reserve System,

(e) in commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less, or

(f) in guaranteed investment contracts issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies or their Canadian or United States subsidiaries; provided that the investment contracts rank on a parity with the senior unsecured debt obligations of the issuer or guarantor and, (1) in the case of long-term investment contracts, either (i) the long-term senior unsecured debt of the issuer or guarantor is rated, or obligations backed by letters of credit of the issuer or guarantor if forming the primary basis of a rating of such obligations would be rated, in the highest or next highest rating category of Standard & Poor's Corporation, Moody's Investors Service, Inc., or a similar nationally recognized rating agency, or (ii) if the issuer is a bank with headquarters in Minnesota, the long-term senior unsecured debt of the issuer is rated, or obligations backed by letters of credit of the issuer if forming the primary basis of a rating of such obligations would be rated in one of the three highest rating categories of Standard & Poor's Corporation, Moody's Investors Service, Inc., or similar nationally recognized rating agency, or (2) in the case of short-term investment contracts, the short-term unsecured debt of the issuer or guarantor is rated, or obligations backed by letters of credit of the issuer or guarantor if forming the primary basis of a rating of such obligations would be rated, in the highest two rating categories of Standard and Poor's Corporation, Moody's Investors Service, Inc., or similar nationally recognized rating agency.

The fund may also be used to purchase any obligation, whether general or special, of an issue which is payable from the fund, at such price, which may include a premium, as shall be agreed to by the holder, or may be used to redeem any obligation of such an issue prior to maturity in accordance with its terms. The securities representing any such investment may be sold or hypothecated by the municipality at any time, but the money so received remains a part of the fund until used for the purpose for which the fund was created.

#### Sec. 6. EFFECTIVE DATE.

Sections 1 to 5 are effective July 1, 1994.

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Presented to the governor May 5, 1994

Signed by the governor May 6, 1994, 4:47 p.m.

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## CHAPTER 605—S.F.No. 1736

*An act relating to metropolitan government; providing for financial assistance and capital expenditures of the regional transit board; amending Minnesota Statutes 1992, sections 473.375, subdivision 13; and 473.39, subdivision 1b.*

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

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### ARTICLE 1

Section 1. Minnesota Statutes 1992, section 473.375, subdivision 13, is amended to read:

Subd. 13. **FINANCIAL ASSISTANCE.** The board may provide financial assistance to the commission and other providers as provided in sections 473.371 to 473.449 in furtherance of and in conformance with the implementation plan of the board. The board may not use the proceeds of bonds issued by the council under section 473.39 to provide capital assistance to private, for-profit operators of public transit, unless the operators provide service under a contract with the board or recipients of financial assistance under sections 473.371 to 473.449.

Sec. 2. **EFFECTIVE DATE.**

Section 1 is effective the day after its final enactment.

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### ARTICLE 2

Section 1. Minnesota Statutes 1992, section 473.39, subdivision 1b, is amended to read:

Subd. 1b. **OBLIGATIONS; 1993-1996.** The council may also issue certificates of indebtedness, bonds, or other obligations under this section in an amount not exceeding \$62,000,000, of which \$44,000,000 may be used by the commission for fleet replacement, facilities, and capital equipment, and \$18,000,000 may be used by the board for transit hubs, park-and-ride lots, community-based transit vehicles and replacement service program vehicles, ~~and~~ intelligent vehicle highway systems projects, and other capital expenditures as

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