



STATE OF WEST VIRGINIA  
OFFICE OF THE TREASURER

CHARLESTON 25305

June 5, 1981

LARRIE BAILEY  
TREASURER

Honorable A. James Manchin  
Secretary of State  
State Capitol  
Charleston, West Virginia

Re: Notice of Public Hearings for Proposed  
Amendments to West Virginia Administrative Rules

Dear Mr. Manchin:

Enclosed herewith are three copies of (a) Proposed Amendments to West Virginia Administrative Rules of the West Virginia State Board of Investments designated Chapter 12-6, Series I, (1978-Amendment 1981; Section 2.01) and (b) Proposed Amendments to West Virginia Administrative Rules of the West Virginia State Board of Investments designated Chapter 12-6, Series II (1978-Amendment 1981; Section 2.01), for filing in accordance with the Administrative Procedures Act.

Also enclosed for filing is a notice of public hearings on the proposed amendments and three copies of the rules with amendments incorporated therein. The rules have been printed on yellow sheets to easily distinguish the rules from the proposed amendments and to provide the reader an opportunity to view the proposed amendments in context.

I am sending copy of this letter complete with enclosures to the Capitol Press Corps and each participant of the Consolidated Fund and the Consolidated Pension Fund as additional notification of these actions.

Sincerely,

Larrie Bailey  
State Treasurer and  
Executive Secretary of the  
West Virginia State Board of Investments

FILED IN THE OFFICE OF

SECRETARY OF STATE  
TH.S DATE 6/5/81

Enclosures

cc: Honorable John D. Rockefeller IV  
Governor, w/attachments  
Honorable Glen B. Gainer, Jr.,  
Auditor, w/attachments

PROPOSED AMENDMENTS TO  
WEST VIRGINIA ADMINISTRATIVE RULES

FILED IN THE OFFICE OF  
SECRETARY OF STATE  
THIS DATE 6/5/81

- I. PROMULGATED BY: West Virginia State Board of Investments
- II. DESIGNATED: Chapter 12-6, Series I (1978 - Amendment 1981; Section 2.01)
- III. SUBJECT: Rules For The Administration of the Consolidated Fund by the West Virginia State Board of Investments.
- IV. TEXT CHANGES/DELETIONS:

<u>Section</u>	<u>Titled</u>
2.01	Definitions

- V. RENUMBERED SECTIONS:

<u>Section</u>	<u>Index</u>	<u>_____</u>
-		-

- VI. JUSTIFICATION AND DESCRIPTION OF TEXT CHANGES/DELETIONS:

During the 1981 Legislative Session, S. B. 574 was passed April 10, 1981 and becomes effective July 1, 1981. H. B. 1679 was passed April 9, 1981 and becomes effective ninety days from passage.

S. B. 574 added a definition of "political subdivision" (Section 12-6-2 (7) ) and H. B. 1679 expanded the definitions of "local government funds" and "pension Funds." The proposed amendments to these rules will incorporate the codified definitions into the rules definitions of "local government" and "pension funds."

The proposed amendments are identified below by using strike-throughs to indicate language to be stricken from the present rules, and underscoring to indicate new language to be added. A complete set of the rules, as amended, is printed on yellow pages following the amended sections.

Section 2. Definitions

2.01. Definitions - For purposes of these rules, unless a different meaning clearly appears from the context:

"Board" means the West Virginia state board of investments;

"Code" means the West Virginia code of 1931, as amended;

"Consolidated Fund" means the investment fund managed by the board and established pursuant to subsection (b), section eight, article six, chapter twelve of the code;

~~"Local government" means-and-includes-a-county,-municipality,-~~  
~~county-board-of-education,-and-other-political-subdivision-of-the--~~  
~~state;~~ means and includes a county, municipality, or any agency,  
authority, board, commission or instrumentality of a county or  
municipality and regional councils created pursuant to the  
provisions of section five, article twenty-five, chapter eight of  
the code and policemen's pension and relief funds and firemen's  
pension and relief funds;

"Local government account" means the special account for the common investment of local government funds within the Consolidated Fund established pursuant to subsection (b), section eight, article six, chapter twelve of the code;

"Pension funds" means and includes the workmen's compensation fund; the state teachers' retirement system funds; the death disability and retirement fund for members of the department of public safety; the public employees' retirement system funds; the judges' retirement fund; and policemen's pension and relief funds;  
firemen's pension and relief funds and such other retirement or  
pension funds and systems established on behalf of public employees  
of the state or of its political subdivisions and administered by  
the state;

"Securities" means all bonds, notes, debentures or other evidences of indebtedness; and

"Treasurer" means the treasurer of the state of West Virginia.



PROPOSED AMENDMENTS TO  
WEST VIRGINIA ADMINISTRATIVE RULES

- I. PROMULGATED BY: West Virginia State Board of Investments
- II. DESIGNATED: Chapter 12-6, Series II (1978-Amendment 1981;  
Section 2.01)
- III. SUBJECT: Rules For The Administration of the Consolidated  
Pension Fund by the West Virginia State Board  
of Investments.

IV. TEXT CHANGES/DELETIONS:

<u>Section</u>	<u>Titled</u>
2.01.	Definitions

V. RENUMBERED SECTIONS:

<u>Section</u>	<u>Titled</u>	<u>Renumbered</u>
-	None	-

VI. JUSTIFICATION AND DESCRIPTION OF TEXT CHANGES/DELETIONS:

During the 1981 Legislative Session, H. B. 1679 was passed April 9, 1981 and becomes effective ninety days thereafter. H. B. 1679 expanded the definitions of "local government funds" and "pension funds" in section 12-6-2 of the code. The proposed amendments to these rules will incorporate the codified definitions into the rules definitions of "pension funds."

The proposed amendments are identified below by using strike-throughs to indicate language to be stricken from the present rules, and underscoring to indicate new language to be added. A complete set of the rules, as amended, is printed on yellow pages following the amended sections.

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Section 2. Definitions

2.01. Definitions - For purposes of these rules, unless a different meaning clearly appears from the context:

"Board" means the West Virginia state board of investments;

"Code" means the West Virginia code of 1931, as amended;

"Consolidated Pension Fund" means the investment fund managed by the board and established pursuant to subsection (a), section eight, article six, chapter twelve of the code;

"Pension funds" means and includes the workmen's compensation fund; the state teachers' retirement system funds; the death, disability and retirement fund for members of the department of public safety; the public employees' retirement system funds; the judges' retirement fund; and Policemen's pension and relief funds; firemen's pension and relief funds and such other retirement or pension funds and systems established on behalf of public employees of the state or of its political subdivisions and administered by the state;

"Securities" means all bonds, notes, debentures or other evidences of indebtedness; and

"Treasurer" means the treasurer of the state of West Virginia.

WEST VIRGINIA ADMINISTRATIVE RULES  
West Virginia State Board of Investments

Chapter 12-6  
Series I  
(1978 - Amendment 1981; Section 2.01)

FILED IN THE OFFICE OF  
SECRETARY OF STATE  
THIS 6/5/81

Subject: Rules for the Administration of the Consolidated Fund  
by the West Virginia State Board of Investments.

Section 1. General

1.01. Scope - These rules implement the provisions of article six, chapter twelve of the code of West Virginia, 1931 as amended, relating to the Consolidated Fund established by subsection (b), section eight of said article.

1.02. Authority - These rules are issued under the authority of said article six, chapter twelve, particularly section five, which authorizes the board to promulgate rules and regulations for the management and conduct of its affairs, and section eight, which authorizes the board to establish rules and regulations for the administration of the various funds and accounts established by said section eight.

1.03. Purpose - The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in section one, article one, chapter twelve of the code, wherein the board and the treasurer are authorized to develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and investment of public moneys. The rules in this series implement such legislative intent by prescribing procedures governing participation in, and administration of, the Consolidated

Fund to be administered by the board, for the purpose of enabling state agencies (other than pension funds) and local governments to maximize the return on their investments.

Section 2. Definitions

2.01. Definitions - For purposes of these rules, unless a different meaning clearly appears from the context:

"Board" means the West Virginia state board of investments;

"Code" means the West Virginia code of 1931, as amended;

"Consolidated Fund" means the investment fund managed by the board and established pursuant to subsection (b), section eight, article six, chapter twelve of the code;

"Local Government" means and includes a county, municipality, or any agency, authority, board, commission or instrumentality of a county or municipality, and regional councils created pursuant to the provisions of section five, article twenty-five, chapter eight of the code and policemen's pension and relief funds and firemen's pension and relief funds;

"Local government account" means the special account for the common investment of local government funds within the Consolidated Fund established pursuant to subsection (b), section eight, article six, chapter twelve of the code;

"Pension funds" means and includes the workmen's compensation fund; the state teachers' retirement system funds; the death disability and retirement fund for members of the department of public safety; the public employees' retirement system funds; the judges' retirement fund; policemen's pension and relief funds; firemen's pension and relief funds and such other retirement or pension funds and systems established on behalf of public employees of the state or of its political subdivisions and administered by the state;

"Securities" means all bonds, notes, debentures or other evidences of indebtedness; and

"Treasurer" means the treasurer of the state of West Virginia.

### Section 3. Commencement of Operation

3.01. Commencement Date - The Consolidated Fund shall commence operation as an investment pool on October 16, 1978. As of that date the assets of the various state agencies (other than pension funds) which had theretofore been made available to the board for investment shall be transferred to the Consolidated Fund. The Consolidated Fund shall also thereafter be open for participation by local governments. After the commencement of operation of the Consolidated Fund as an investment pool, deposits into and withdrawals therefrom shall be governed by article six, chapter twelve of the code and by these rules.

3.02. Valuation of Assets Transferred to The Consolidated Fund - The board recognizes that the various state agencies (other than pension funds) whose moneys heretofore have been invested by the board may not desire or be able to reduce all of their invested assets to cash as of October 16, 1978. More typically, the assets transferred on that date into the Consolidated Fund will consist of securities and any accrued interest or other accrued income associated with said securities. The board further recognizes that market value; i.e., the actual dollars being contributed to the pool on the commencement date, is the only fair method of valuation of such assets. Accordingly, each asset transferred into the Consolidated Fund on October 16, 1978, shall be

valued at its market value as of the close of the last business day immediately preceding October 16, 1978. The market value of each class of security and for accrued interest shall be determined as follows:

(1) U. S. Government obligations, U. S. Government agency obligations and obligations of the Federal National Mortgage Association, shall be valued at the closing offered price quoted in The Wall Street Journal for the previous business day;

(2) Corporate bonds and notes, and general obligation bonds of states and political subdivisions shall be valued at that percentage of par value, plus accrued interest, which is the average of the offered prices quoted by three dealers in such securities who are nationally recognized as market makers in the same or similar securities;

(3) Certificates of deposit shall be valued at book value plus accrued interest;

(4) Repurchase agreements shall be valued at book value plus accrued interest;

(5) Mortgages shall be valued as follows: The board shall retain two mortgage brokers who shall each appraise the market value of the mortgage investments transferred into the Consolidated Fund. The average of the two appraisements shall constitute the market value to be fixed for each such investment; and

(6) Accrued interest on securities shall be computed as of October 16, 1978, by using the method which is most widely used in computing accrued interest for each such security by the financial community within the United States.

3.03. Book Value of Transferred Assets - All assets

transferred to the Consolidated Fund shall be placed on its books at the market value plus accrued interest as established by use of the procedure described in Section 3.02 of these rules.

Section 4. Mechanics of Participation in the Consolidated Fund

4.01. Participation by State Agencies - State agencies

may participate in the Consolidated Fund by making written requests to the treasurer. If a written request for deposit or withdrawal is made after 10:00 a.m. of the business day, the treasurer is not required to execute such requests until the next business day.

Written requests for deposits or withdrawals shall state the amount which the agency wishes to make available for investment, or the amount which it wishes to withdraw, as the case may be. Such requests shall also contain other information which the treasurer deems necessary. The treasurer may require twenty-four hours advance notice for withdrawals of one million dollars (\$1,000,000.00) or more.

4.02. Participation by Local Governments -

(a) Local governments may commence participation in the Consolidated Fund by completing and returning to the treasurer an "account request form." Such form shall be prescribed by the treasurer, shall require such information as he deems necessary, and shall be made available to any local government upon request. The treasurer may require any local government to submit copies of resolutions, orders or other proof of authorization or election to participate in the Consolidated Fund. Upon receipt of the account request form and other required information, the treasurer

shall assign an account number within the Local Government Account of the Consolidated Fund. Local governments which require more than one account may request the establishment of an additional accounts as needed.

(b) All notifications of deposit of funds by local governments into the Local Government Account, and all requests for withdrawals therefrom, shall be made by a telephone call to the treasurer's office no later than 10:00 a.m. of the business day on which the transaction is to be made. If a telephone notification of deposit or withdrawal is made after 10:00 a.m., the treasurer is not required to execute such request until the next business day. All telephone notifications of deposit or withdrawal shall be confirmed by mail on the same day the notification is made. The treasurer shall prescribe the forms which local governments shall use for the confirmation of such deposits or withdrawals by mail.

(c) All deposits by local governments into the Local Government Account shall be made by wire transfer from the local government's bank to a bank designated by the treasurer. All funds transferred by local governments shall be collected balances available for wire transfer and immediate credit at the Federal Reserve Bank.

(d) Withdrawals by local governments from the Local Government Account shall be made by wire transfer of immediately available funds by the treasurer to the local government's designated bank. Upon such transfer, the treasurer shall debit the local government's account in the Consolidated Fund. The treasurer may require twenty-four hours advance notice for withdrawals of one million dollars (\$1,000,000.00) or more.

(e) The treasurer may collect a fee of up to one percent of the earnings of the Local Government Account as a charge for the investment services being provided to local governments.

#### Section 5. Accounting

5.01. Nature of ownership - Each participant shall own an undivided interest in the portfolio of the Consolidated Fund based on the participant's pro-rata contribution of assets at any time. Ownership shall be expressed in terms of units. One dollar shall equal one unit of ownership. Each participant, by participating in the Consolidated Fund, is deemed to have consented to the methods of sharing gains and losses and all other accounting methods required or adopted by the board.

5.02. Accounting System - The treasurer shall implement an accounting system based on a daily accrual method for earnings, deposits and withdrawals for each participant in the Consolidated Fund. In conjunction with such accounting system, the treasurer shall adopt procedures which accurately reflect yields on investments through amortization of premium and accretion of discount over the life of the investment as determined by investment practices of the investment community. That is to say, for investments customarily having yields to the average life of the investment such as GNMA mortgage pools, the premium or discount shall be amortized to the average life. Premium or discount for all other investments shall be amortized over the life of the investment.

5.03. Trading Gains and Losses - The board recognizes that it is impractical to amortize trading gains and losses over the life of all securities sold. Therefore, the board may authorize the treasurer to amortize all gains and losses over a period of time commensurate with the average life of the entire portfolio. Since the average life of short-term portfolios can vary greatly from day to day, the board may authorize the treasurer to amortize all gains and losses from the sale of securities over the month in which they are realized and the subsequent eleven months.

5.04. Distribution of Earnings; Monthly Statement - The board shall distribute interest monthly either by credit to the principal account of the participant or by check. The choice of method of such distribution shall be at the board's discretion. The treasurer shall furnish to each participant a monthly statement of earnings, deposits and withdrawals for each account. Monthly statements shall also include an accurate statement of the yield for the preceding month for the Consolidated Fund, to aid local government treasurers in meeting their responsibility to determine that the Consolidated Fund yield will be greater than any yield offered them by their local financial institutions.

Section 6. Miscellaneous

6.01. Minimum Amount of Investment - The minimum amount for investment in the Consolidated Fund is One Thousand Dollars (\$1,000.00). There is no minimum time for which deposits will be retained.

6.02. Reserve for Losses - The board may create a reserve for losses in the Consolidated Fund if the board determines that the one-year amortization of gains and losses is inappropriate or inadequate for unusual losses.

6.03. Payment of Expenses From Earnings - The treasurer shall deduct expenses incurred in the administration of the Consolidated Fund from the gross earnings of the Fund prior to distribution of the earnings each month.

WEST VIRGINIA ADMINISTRATIVE RULES  
West Virginia State Board of Investments

Chapter 12-6  
Series I  
(1978 - Amendment 1981; Section 2.01)

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WEST VIRGINIA ADMINISTRATIVE RULES  
West Virginia State Board of Investments

Chapter 12-6  
Series II  
(1978-Amendment 1981; Section 2.01)

FILED IN THE OFFICE OF

SECRETARY OF STATE  
THIS DATE 6/5/81

Subject: Rules for the Administration of the Consolidated Pension Fund by the West Virginia State Board of Investments.

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Section 1. General

1.01. Scope - These rules implement the provisions of article six, chapter twelve of the code of West Virginia, 1931, as amended, relating to the Consolidated Pension Fund established by subsection (a), section eight of said article.

1.02. Authority - These rules are issued under the authority of said article six, chapter twelve, particularly section five, which authorizes the board to promulgate rules and regulations for the management and conduct of its affairs, and section eight, which authorizes the board to establish rules and regulations for the administration of the various funds and accounts established by said section eight.

1.03. Purpose - The general purpose of these rules is to aid in the implementation of the legislative findings and purpose set forth in section one, article one, chapter twelve of the code, wherein the board and the treasurer are authorized to develop and maintain modern systems, consistent with sound financial practices, for the collection, disbursement, management and investment of public moneys. The rules in this series implement such legislative intent by prescribing procedures governing participation in, and administration of, the Consolidated Pension Fund to be administered by the board, for the purpose of

enabling the participating Pension Funds to maximize the return on their investments.

Section 2. Definitions

2.01. Definitions - For purposes of these rules, unless a different meaning clearly appears from the context:

"Board" means the West Virginia state board of investments;

"Code" means the West Virginia code of 1931, as amended;

"Consolidated Pension Fund" means the investment fund managed by the board and established pursuant to subsection (a), section eight, article six, chapter twelve of the code;

"Pension funds" means and includes the workmen's compensation fund; the state teachers' retirement system funds; the death, disability and retirement fund for members of the department of public safety; the public employees' retirement system funds; the judges' retirement fund; policemen's pension and relief funds; firemen's pension and relief funds and such other retirement or pension funds and systems established on behalf of public employees of the state or of its political subdivisions and administered by the state;

"Securities" means all bonds, notes, debentures or other evidences of indebtedness; and

"Treasurer" means the treasurer of the state of West Virginia.

Section 3. Commencement of Operation

3.01. Commencement Date - The Consolidated Pension Fund shall commence operation as an investment pool on a date designated by the board. As of that date the assets of the various pension funds which had theretofore been made available to the board for investment shall be transferred to the Consolidated Pension Fund. After the commencement of operation of the Consolidated Pension Fund as an investment pool, deposits into and withdrawals therefrom shall be governed by article six, chapter twelve of the code and by these rules.

3.02. Valuation of Assets Transferred to the Consolidated Pension Fund - The Board recognizes that the various pension funds whose moneys heretofore have been invested by the board may not desire or be able to reduce all of their invested assets to cash as of commencement date. More typically, the assets transferred on that date into the Consolidated Pension Fund will consist of securities and any accrued interest or other accrued interest or other accrued income associated with said securities. The board further recognizes that market value; i.e., the actual dollars being contributed to the pool on the commencement date, is the only fair method of valuation of such assets. accordingly, each asset transferred into the Consolidated Pension Fund on commencement date, shall be valued at its market value as of the close of the last business day immediately preceding commencement date. The market value of each class of security and for accrued interest shall be determined as follows:

- (1) U. S. Government obligations, U. S. Government agency obligations and obligations of the Federal National Mortgage Association, shall be valued at the closing bid price quoted in The Wall Street Journal for the previous business day plus accrued interest

(2) Corporate bonds and notes, all other government guaranteed securities, and general obligation bonds of states and political subdivisions shall be valued at that percentage of par value, plus accrued interest, which is the average of the bid prices quoted by three dealers in such securities who are nationally recognized as market makers in the same or similar securities;

(3) Certificates of deposit shall be valued at book value plus accrued interest;

(4) Repurchase agreements shall be valued at book value plus accrued interest;

(5) Mortgages shall be valued as follows: The board shall retain two mortgage brokers who shall each appraise the market value of the mortgage investments transferred into the Consolidated Pension Fund. The average of the two appraisements shall constitute the market value to be fixed for each such investment; and

(6) Accrued interest on securities shall be computed as of commencement date, by using the method which is most widely used in computing accrued interest for each such security by the financial community within the United States.

3.03. Book Value of Transferred Assets - All assets transferred to the Consolidated Pension Fund shall be placed on its books at the market value plus accrued interest as established by use of the procedures described in Section 3.02 of these rules.

Section 4. Mechanics of Participation in the Consolidated Pension Fund.

4.01. Participation by Pension Funds - Pension funds may participate in the Consolidated Pension Fund by making written request to the

treasurer. Written requests for deposits or withdrawals shall state the amount which the pension fund wishes to make available for investment, or the amount which it wishes to withdraw, as the case may be. Such requests shall also contain other information which the treasurer deems necessary. The treasurer may require twenty-four hours advance notice for withdrawals of one million dollars (\$1,000,000.00) or more.

#### Section 5. Accounting

5.01. Nature of Ownership - Each participant shall own an undivided interest in the portfolio of the Consolidated Pension Fund based on the participant's pro-rata contribution of assets at any time. Ownership shall be expressed in terms of units. Each participant, by participating in the Consolidated Pension Fund, is deemed to have consented to the methods of sharing gains and losses and all other accounting methods required or adopted by the board.

5.02. Accounting System - The treasurer shall implement an accounting system based on a daily accrual method for earnings, deposits and withdrawals for each participant in the Consolidated Pension Fund. In conjunction with such accounting system, the treasurer shall adopt procedures which accurately reflect yields on investments through amortization of premium and accretion of discount over the life of the investment as determined by investment practices of the investment community. That is to say, for investments customarily having yields to the average life of the investment such as GNMA mortgage pools, the premium or discount shall be amortized to the average life. Premium or discount for all other investments shall be amortized over the life of the investment.

5.03. Trading Gains and Losses - The board may amortize trading gains and losses over the life of all securities sold, using the "scientific" method of amortization; or, it may recognize any gains or losses during the period in which they occurred. The board may also authorize the treasurer to amortize all gains and losses over a period of time commensurate with the average life of the entire portfolio.

5.04. Distribution of Earnings; Monthly Statement - The treasurer shall furnish to each participant a monthly statement of earnings, deposits and withdrawals for each account. Monthly statements shall also include an accurate statement of the yield for the preceding month.

#### Section 6. Miscellaneous

6.01. Minimum Amount of Investment - The minimum amount for investment in the Consolidated Pension Fund is One Thousand Dollars (\$1,000.00). There is no minimum time for which deposits will be retained.

6.02. Payment of Expenses from Earnings - The treasurer shall deduct expenses incurred in the administration of the Consolidated Pension Fund from the gross earnings of the Fund monthly.

Adm. Rules 12-6  
Series II

WEST VIRGINIA ADMINISTRATIVE RULES  
West Virginia State Board of Investments

Chapter 12-6  
Series II  
(1978-Amendment 1981; Section 2.01)

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