

HOUSE FINANCE COMMITTEE
February 03, 2003
1:40 PM

TAPE HFC 03 - 8, Side A
TAPE HFC 03 - 8, Side B
TAPE HFC 03 - 9, Side A
TAPE HFC 03 - 9, Side B

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:40 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Carl Moses
Representative Gary Stevens
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

Representative Kevin Meyer, Vice-Chair
Representative Reggie Joule

ALSO PRESENT

Representative Max Gruenberg; Stephanie J. Cole, Administrative Director, Alaska Court System; Robert D. Storer, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue; Bob Bartholomew, Chief Operating Officer, Alaska Permanent Fund Corporation, Department of Revenue; Craig Campbell, Adjutant General, Commissioner, Department of Military & Veterans Affairs; Samuel Johnson, Assistant Commissioner, Division of Homeland Security; Denise Liccioli, Director, Division of Administrative Services, Department of Military & Veterans Affairs.

PRESENT VIA TELECONFERENCE

Larry Cohn, Executive Director, Alaska Judicial Council, Alaska Court System; Marla Greenstein, Executive Director, Alaska Council on Judicial Conduct.

GENERAL SUBJECT(S):

ALASKA COURT SYSTEM

ALASKA COMMISSION ON JUDICIAL CONDUCT
ALASKA JUDICIAL COUNCIL
ALASKA PERMANENT FUND CORPORATION
MILITARY AND VETERANS AFFAIRS
HOMELAND SECURITY

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

| LOG | SPEAKER | DISCUSSION |
|-----|--|--|
| | TAPE HFC 03 - 8 SIDE A | |
| 001 | Co-Chair Harris | Convened the House Finance at 1:40 p.m. |
| | | ALASKA COURT SYSTEM (ACS) |
| 300 | STEPHANIE J. COLE, ADMINISTRATIVE DIRECTOR, ALASKA COURT SYSTEM | Reported that she had been the Administrative Director for nearly six years, and introduced Chris Christensen, Staff Counsel, Alaska Court System, who would also be available to answer members' questions. She referred to the handout (copy on file), which included details of the current budget request. Ms. Cole noted that budget requests had traditionally been prepared according to the System's operating needs, and then revised the request according to legislative recommendations. |
| 417 | Ms. Cole | Noted that the court system comprised 99 percent of the judicial branch of the State government, but represented only 1.1 percent of the State Operating Budget. She noted that over 77 percent of the System's budget went to personnel services, and that over 70 percent of their employees were compensated at Range 15 or less. The System has court facilities in 44 locations statewide, also providing services to other locations through the use of traveling judges. ACS is primarily a service organization; primary function was to handle all civil and criminal cases, as a constitutional mandate. She pointed out that ACS has no control over caseload, and that all cases that came before the Court must be accepted, regardless of available resources. Citizens, |

| | | |
|-----|----------|--|
| | | businesses and various governmental entities file cases. |
| 602 | Ms. Cole | Summarized the ACS mission, as stated in the handout (copy on file, as being to handle cases in a timely, fair and affordable manner. Ms. Cole pointed out that last fiscal year 141,370 cases were filed in the trial courts, a 9% decrease from prior fiscal year. She noted that the decrease was due to a drop off in the number of traffic violations in district court, and in fact the number of more labor-intensive cases had increased. She explained that the ACS included 34 Superior Court Judges in 13 locations, with an additional 3 locations served by traveling judges. The Superior Court has jurisdiction over felony cases, the number of which rose in the last fiscal year by 6% overall, with some areas increasing by a greater percentage. These cases are the most likely to go to trial and require more judicial and clerical work. She also pointed out a 5% increase over the past year in domestic relations cases. Family cases comprise nearly 40% of the total Superior Court caseload. These cases, like felonies, tended to return to the ACS for revisions in future years. |
| 833 | Ms. Cole | Explained the function of District Courts, this being the lowest level of court with limited jurisdiction; there are 42 district court locations, presided over by magistrates and district court judges. She noted that, although total number of cases had decreased, more complex cases had increased 10% from the prior fiscal year. |
| 904 | Ms. Cole | Discussed revenue generated by court action. She summarized that last year ACS deposited over 6.1 million dollars into the General Fund, generated from filing fees, fines, forfeitures and cost recoveries, as well as \$736 thousand in court fees, used to supplement other state agency budgets. She added that the Department of Law deposited additional revenues of \$3.5 million in fines, fees and costs. Over \$800 thousand of this was reimbursement for Public Defender costs. Finally, she noted that \$1.3 million in fines for municipal cases was |

| | | |
|------|----------|---|
| | | returned to municipalities. |
| 1004 | Ms. Cole | Highlighted five key issues that challenge ACS: adequate security, technology issues and upgrades, timeliness and delay reduction, needs of payment assisted litigants, and therapeutic court projects. |
| 1032 | Ms. Cole | Discussed court security. She emphasized that concern in this area is increasing, as more incidents of fearfulness in courtrooms are reported. She noted the escalating effects of anxiety over terrorism, and cases involving domestic violence. She explained that the Department of Public Safety was required by statute to provide security; their staffing was not adequate. The goal of ACS is to provide weapons screening at all Superior Court sites. She stated that the Juneau Court weapons screening system was currently being operated using federal grant monies available for the short term. She also noted the effort to seek funds available through the Federal Homeland Security program. |
| 1254 | Ms. Cole | Then discussed the issue of Technology. The ACS relies on digital audio for records, and telephone systems for remote participation. Ms. Cole stressed the need for an adequate court case management system. Since the 1980's, the ACS has used only a rudimentary system. Ms. Cole explained that the system was inadequate to collect and report meaningful court statistic information. The system generates a high error rate currently. She reported that a modern system had been acquired, but needed modifying. Implementation of the new system is projected by the end of calendar 2004. She also reported that the Courts' participation in the new State contract with Alaska Communications Systems for wide area network was currently unclear. She explained that their agency would decide whether this system would meet their needs, or to find an alternative method for these services, such as ITG. |
| 1626 | Ms. Cole | Discussed the issue of timeliness and delay reduction. She recognized the difficulty for individuals or organizations to await resolutions of |

| | | |
|------|----------|---|
| | | <p>court cases. Ms. Cole reported that in February of 2000, the Court adopted aspirational time standards for the trial courts; in March of 2001 the Supreme Court adopted Appellant time standards for the appellant courts. She reported that periodic review of caseloads were conducted, and that, at the appellant level, the Supreme Court was either close to meeting or beating its time standards. Ms. Cole reminded the Committee that case delay relates to available resources. She noted current budget requests, as for a second District Court Judge and clerk in Palmer. She added that the agency took a \$.5 million cut from its maintenance level in last year's budget.</p> |
| 1851 | Ms. Cole | <p>Discussed pro tem ligitigance. She pointed out the Family Self Help Center in Anchorage, opened in October of 2001, which has served over 3,500 customers statewide. The Center is funded by Federal monies directed back to the State through a formula generated by the Child Support Enforcement Division. She reported that the Center was successful, but could serve more with increased resources. She also noted that the Center currently only helps with family law, and would like to expand to other areas.</p> |
| 2026 | Ms. Cole | <p>Explained Therapeutic Court Projects. These projects include: District Court Mental Health Court in Anchorage; Anchorage Felony Drug court; the Anchorage and Bethel Felony DUI Projects; Anchorage Wellness Court Project; a small Juneau Wellness Project; and a Family Care Court in Anchorage. Ms. Cole clarified that, although these courts were termed therapeutic, they actually operated on a tougher, requiring defendants to meet stringent mandates. She reported that ACS was currently evaluating all projects. Nationally such courts are reporting successful results. Ms. Cole stated that the programs require more resources. She noted that the DUI Project was not funded for the entire year. Many of the projects were initially funded by short term, but will require additional funding to expand or continue.</p> |

| | | |
|------|---|---|
| 2341 | Co-Chair Harris | Asked how much funding was requested for Security purposes. |
| 2403 | Ms. Cole | Referred to a Capital Request and an Operating Budget Request. |
| 2418 | CHRIS CHRISTENSEN, STAFF COUNSEL, ALASKA COURT SYSTEM | Reported that, at the present time, Juneau was funded by an \$80 thousand federal grant, and the request was for \$80 to continue the program. He also noted that \$75 thousand per system in operating funds was needed to install programs for Palmer and Kenai. He stated that a Capital Request for an additional \$40 thousand to purchase equipment was also pending. |
| 2452 | Co-Chair Williams | Asked for clarification, asking whether, with therapeutic courts included in the Capital Budget, an increase would also be requested in the Operating Budget for this year. |
| 2533 | Mr. Christensen | Responded that the funding in the Capital Budget did not come through the Court System, but rather as a grant through Partnership Progress, the private, volunteer organization in Anchorage, which assisted in the project. |
| 2552 | Co-Chair Harris | Asked about success of therapeutic courts. |
| 2601 | Ms. Cole | Explained that, while apparent changes in defendant behaviors were impressive, these projects were fairly new, and that evaluations were underway. The Mental Health Court in Anchorage has been in existence the longest, and an evaluation from the Judicial Court Council was expected shortly. |
| 2654 | Co-Chair Harris | Asked for the average time that cases waited in process before being heard by a court. |
| 2716 | Ms. Cole | Responded that the amount of time before a case went to court varied dramatically, and that the current system did not allow reporting of specific information. |
| 2736 | Co-Chair Harris | Clarified by asking whether if funding increased, it would directly effect and improve turnaround time for cases. |
| 2812 | Ms. Cole | Confirmed that increasing resources would likely improve timeliness of cases. For example, in Palmer, with a large caseload per judge, cases would be handled more quickly by adding another district court judge and clerk. |
| 2846 | Representative | Referred to Security, asking what options |

| | | |
|------|--------------------------|--|
| | Stevens | were being considered. He noted his concern over how little security was used in the court in his home. |
| 2927 | Ms. Cole | Clarified that the statutory requirement was pertaining to the Department of Public Safety to provide security. She noted however that often State Troopers were not what was most effective. She referred to a weapons screening program that was necessary to preserve the safety of courtroom personnel. |
| 3035 | Mr. Christensen | Added that, while Public Safety generally used State Troopers, they also had a unit called Judicial Services, law enforcement officers with limited jurisdiction. Screening at door for weapons in Anchorage, Fairbanks, and Juneau was implemented by private security officers and not State employees. Noted that a new security company had placed a bid on the Juneau services. |
| 3133 | Representative Gruenberg | Asked whether a statutory amendment was necessary to add a new District Court Judge in Palmer. |
| 3203 | Ms. Cole | Responded that, under the current statute (AS 22.15.020), the Supreme Court could increase the number of District Court judges without legislative action. |
| 3230 | Mr. Christensen | Clarified that the statute only required an amendment to create a Superior Court Judge. |
| 3247 | Representative Gruenberg | Read from AS 22.15.020, which outlined the number of judges for each judicial district. He observed that the Supreme Court interpreted the statute to allow them to create a different number of district court judges than was in statute. He asked how many district court judges were currently in the third judicial district. |
| 3348 | Mr. Christensen | Responded that there were 17 district court judges currently, which was a decrease. He noted that, while a bill was not needed to create a judgeship, the legislature had always been asked for approval through the funding mechanism. |
| 3442 | Representative Gruenberg | Asked whether the Federal Homeland Security Department had been consulted on security measures. |
| 3452 | Ms. Cole | Responded that letters had been sent to Senator Stevens. She stated that ACS had not directly spoken with Homeland |

| | | |
|------|--|---|
| | | Security, except in inquiring about available funding. She reported that available funds through Homeland Security had been first responder money. |
| 3518 | Representative Gruenberg | Asked whether cost savings might be realized by unifying the Superior and District courts. |
| 3559 | Ms. Cole | Stated that there had been no recent examination of this idea, although there had been a past proposal that did not go forward. |
| 3626 | Representative Stoltze | Asked whether Truth in Sentencing Statutes were being successfully and uniformly implemented. |
| 3655 | Mr. Christensen | Responded that the process seemed to be working smoothly. |
| 3719 | Representative Stoltze | Asked whether victims were notified of sentence reductions by the Court System or by the Department of Law. |
| 3753 | Mr. Christensen | Responded that statute placed the responsibility for these notifications on the Department of Law, because that agency continues contact with victim. He noted that many victims' addresses were not allowed to be kept on file. |
| 3814 | Representative Hawker | Referred to the budget request earlier mentioned by Ms. Cole, noting that it proposed a 4.4% increase in operating budget. Asked about her priorities in terms of budget reductions. |
| 3853 | Ms. Cole | Responded that the only unknown budgetary item was the contract with Alaska Communication Systems. She explained that \$217 thousand was a worst-case scenario, which could improve. She noted that her department had only included items that they considered important. |
| 3940 | Mr. Christensen | Noted that the only increase which could not be mitigated were the land fees. |
| 4010 | Co-Chair Harris | Concluded the discussion and acknowledged Ms. Greenstein via teleconference. |
| | | ALASKA COMMISSION ON JUDICIAL CONDUCT |
| 4026 | MARLA GREENSTEIN, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON JUDICIAL CONDUCT | Introduced herself and stated the mission of the Commission. The Commission's primary mandate is to handle complaints concerning ethics of State court judges. She explained that their caseload fluctuated, as did the seriousness of complaints. Ms. Greenstein noted that Commission staff consisted of two people, herself and an assistant. If an adversarial relationship developed |

| | | |
|------|--|---|
| | | between the Commission and a judge, outside counsel was necessary. |
| 4202 | Ms. Greenstein | Explained that fluctuating percentages of financial needs from year to year corresponded to cases when special counsel was required. She noted a \$20 thousand standing request for professional services, which was not always needed, yet not adequate to meet the costs of an actual formal hearing process, thus resulting in supplemental requests. She also mentioned education for court personnel as a cost. |
| 4343 | Co-Chair Harris | Thanked Ms. Greenstein and welcomed Mr. Cohn to give his report. |
| | | ALASKA JUDICIAL COUNCIL |
| 4424 | LARRY COHN, EXECUTIVE DIRECTOR, ALASKA JUDICIAL COUNCIL, ALASKA COURT SYSTEM | Referred to his handout, which outlines Judicial Council duties. He noted that the Council was a separate state agency, created by the Alaska Constitution. The Council is comprised of three attorneys and three non-attorneys, a citizens' commission. Members are appointed with consideration to State geographic distribution. Mr. Cohn presides over a staff of eight people. The Council has Constitutional and statutory mandates in three areas: to screen applicants for judicial vacancies and make nominations to Governor; to evaluate the performance of judges who appear on the ballot in their retention years and to make recommendations to voters; to provide studies and recommendations to improve administration of justice. |
| 4615 | Mr. Cohn | Noted the Council's budget request, which was essentially a continuation budget. He pointed out that council had not made supplementary request in over 20 years. He outlined the council's process of judicial selection. |
| | | TAPE HFC 03 - 8, Side B |
| 4624 | Mr. Cohn | Noted that the Council's duties in this area were increasing, due to the aging of the judiciary and the increased number of positions. Regarding retention, the Constitution requires that judges stand for retention periodically, depending on their terms; in 2002, a retention year, 16 judges appeared on the ballot. He detailed various aspects of collecting and distributing information on judges in retention years. |

| | | |
|------|--|---|
| 4453 | Mr. Cohn | Referred to the Reports and Recommendations portion of the handout (copy on file). He noted two recent reports, completed through the Criminal Justice Council, regarding recommendations to solve overcrowding the prison system. He pointed out that it was their intent to continue work with Criminal Justice Council to examine cross benefit information regarding aspects of the criminal justice system. He also noted the study on the criminal justice process in order to identify any unwarranted reasons for disproportionate representation of minorities in the court process. Mr. Cohn also noted involvement in therapeutic court projects, including evaluations of the DUI and mental health courts. |
| 4140 | Representative Gruenberg | Referred to page three of the handout, outlining the performance evaluation of pro tems and other judicial officers, and asked whether the survey was disseminated to the members of the bar and the public. |
| 4047 | Mr. Cohn | Responded that he was unaware of the most recent law judge evaluation. Regarding the Pro Tem evaluation, the report was sent to the Chief Justice, to whom it was required, as well as copies of relevant portions of the report to the judges. |
| 4003 | Representative Gruenberg | Requested that Mr. Cohn send these reports to members of the bar and the public. He expressed his opinion that these people needed the results of the surveys. |
| 3924 | Mr. Cohn | Agreed and explained that Council policy was to provide as much information to the public as possible. Noted that Alaskans, compared to other places in the country or world, received a great deal of information. He noted that he would require guidance from the Supreme Court about disseminating information in the manner Representative Gruenberg described. |
| 3833 | Representative Gruenberg | Requested a written response to his question. |
| 3754 | Co-Chair Harris | Concluded discussion on the Court System and welcomed Robert Storer to address the Committee. |
| | | ALASKA PERMANENT FUND CORPORATION |
| 3728 | ROBERT D. STORER, EXECUTIVE DIRECTOR, | Introduced himself and Bob Bartholomew, Chief Operating Officer, Alaska Permanent |

| | | |
|------|--|--|
| | ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE | Fund Corporation, to present the overview of the Permanent Fund Corporation. |
| 3700 | BOB BARTHOLOMEW, CHIEF OPERATING OFFICER, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE | Presented a Corporation Overview, referring to an outline (copy on file). He pointed out that the Permanent Fund was established based on an article in the Alaska Constitution, stating that 25 percent of all mineral revenue would be placed in a permanent fund. |
| 3502 | Mr. Bartholomew | Referred to page two, which outlined the legislation expanding on the Constitution: increasing the deposit from 25 percent to 50 percent; and directing income to be retained in the Permanent Fund until appropriated. He also pointed out the distinction between the Board of Trustees and the Department of Revenue, which administers the Permanent Fund Dividend program. |
| 3403 | Mr. Bartholomew | Noted on page three of the outline the mission adopted by the Board. He also explained the legislative mission of the Corporation. |
| 3311 | Mr. Bartholomew | Noted the organization of management as listed on page 4. He noted that the current organization had been adopted two years ago, to emulate a money management firm. He also discussed out corporate goals as listed on the outline. |
| 3217 | Mr. Storer | Pointed out the importance of diversified asset allocation, which they believed would realize a 5 percent return over time. |
| 3157 | Mr. Bartholomew | Referred to page 5, which illustrates the Corporation's investment principles (diversify, prudent expert rule, long-term, balance between current and future benefits), as well as the relationship between the Fund and the legislature. He noted the Legislative Budget and Audit Committee as an oversight agency. |
| 3103 | Mr. Bartholomew | Page 6 discussed how the Fund had benefited from legislative actions. For example, increasing the amount of oil revenues dedicated to the Fund. Two special appropriations from the General Fund into the Permanent Fund, and seven appropriations to protect the Fund. He also pointed out four myths, for example the idea that future returns could be predicted, or that the past distribution |

| | | |
|------|-------------------|---|
| | | policy may remain the same, or that the Fund was big enough to be all things to all people. |
| 2725 | Co-Chair Williams | Asked for more information regarding WorldCom. |
| 2644 | Mr. Storer | Responded that the Fund's exposure to WorldCom and Enron was limited by many standards. He also noted that the Corporation had lost money with Enron, as part of the S&P 500 index fund. Approximately \$13 million dollars were lost in the Index Fund. However, in the several years prior, the Fund the active managers realized profits of nearly the same amount. He discussed losses in WorldCom, which equaled approximately \$38 million dollars in the Index Fund, with profits by active managers of essentially the same amount. He pointed out that WorldCom also issued debt that was part of the Index Fund, against which the Corporation managed portfolios, which caused another \$18 million of losses. The Corporation is involved in the class action litigation being brought against both Enron and WorldCom. The Corporation has also retained five law firms to help evaluate the merits of pursuing class action litigation. |
| 2402 | Co-Chair Williams | Questioned how a company is investigated before the investment. |
| 2343 | Mr. Storer | Explained that external managers were hired who use different disciplines, thereby diversifying not only by asset class but also by management style. These external managers perform due diligence and analysis to find companies who will produce greater earnings. He pointed out that, in the case of Enron, the Corporation was not exposed through active management. The only exposure was through the Index Fund, which is passively managed. He discussed the methods of actively and passively managed portfolios. He pointed out that, since active management is more costly, a fund the size of the Permanent Fund would choose passive portfolios to get cost effective exposure to an asset class. 40 percent of the Permanent Fund's equity exposure is through passive management. |
| 2048 | Co-Chair Williams | Questioned if more attorneys may be needed to handle other class action |

| | | |
|------|-------------------------|--|
| | | suits. |
| 2030 | Mr. Storer | Expressed his belief that change was effected through corporate governance. He stated that managers have been instructed to vote for more independent boards. The Corporation is involved in the Council of Institutional Investors, which encourages good corporate governance and policies. Mr. Storer pointed out that the Corporation uses law firms to investigate activities, but there is no cost to the Fund unless litigation is pursued. |
| 1818 | Mr. Storer | Explained that the Fund is divided into two parts: the principle and the earnings reserve. |
| 1745 | Mr. Storer | Referred to page two of the second handout (copy on file). He explained that the principle is comprised of three items: \$7.3 billion of dedicated oil revenues, \$7.6 billion in appropriated inflation proofing, and \$7 billion from special appropriations. |
| 1650 | Mr. Storer | Clarified that the earnings reserve account is excess earnings, made of two components: the appreciation of portfolios, or unrealized gains, and income earned over the course of the year. He noted that the Fund typically earned \$70 million per month was earned on real estate, cash flow dividends and interest on bond portfolio, as well as manager behavior to financial market. |
| 1542 | Mr. Storer | Noted that the Earnings Reserve had declined dramatically over the course of the past three years. He then referred to page three of the handout, which tracked the pattern that led to the current Earnings Reserve status, which included earnings and losses from market downturns, dividend payouts, and inflation proofing transfers and realized losses. |
| 1313 | Representative Whitaker | Asked about the balance of the Earnings Reserve Fund, after dividend payouts and inflation proofing. |
| 1289 | Mr. Storer | Stated that the \$1.6 billion represented a balance after inflation proofing and payouts. |
| 1246 | Mr. Storer | Responding to a question by Co-Chair Harris, emphasized that the Earnings Reserve Account has been in the negative three times since June 30, 2003. He noted |

| | | |
|------|--------------------------|--|
| | | that the balance of the Earnings Reserve was \$329 million dollars as of last Thursday. He noted that, regarding unrealized gains and losses, the Earnings Reserve absorbs market volatility. |
| 1128 | Co-Chair Harris | Summarized that, if the State were to follow current practices for inflation proofing the Fund, there could be insufficient funds to pay dividends. |
| 1107 | Mr. Storer | Stressed that it is difficult to predict market volatility, and gave examples of fluctuations over the short term. He conceded, if downward market trends continued, it would generate serious issues, including the potential of no dividend payout. He stated that, as the year progressed, the Fund would have more information to report to the Committee. |
| 936 | Mr. Bartholomew | Pointed out that statutes require that dividends be paid before inflation proofing, and thereby inflation proofing did not effect the dividend distribution. |
| 913 | Mr. Storer | Again referred to page three of the handout, which showed negative returns in FY01, FY02 and FY03. He emphasized that, in comparison to other large, public funds (which were down by -5% to -10% for the same period), Permanent Fund returns have been very favorable. |
| 748 | Representative Gruenberg | Observed that there were four articles in the Los Angeles Times regarding the effect of the newly proposed federal policy of not taxing dividends. He asked Mr. Storer's opinion on how this would affect stock performance. |
| 713 | Mr. Storer | Expressed his opinion that the policy would help stocks. He pointed out that the Permanent Fund was a tax-exempt fund that did not receive dividends. He stated that, for individuals, stockowners could live on the income generated, rather than selling stocks, which increase stability. He affirmed that a secondary effect would keep stock prices up and increase the Fund's value. |
| 548 | Representative Croft | Questioned whether President's Bush's proposal would affect Alaskans paying taxes on permanent fund dividends. |
| 523 | Mr. Storer | Clarified that it would not affect permanent fund dividend earners, since the Fund was not a publicly traded corporation. |
| 445 | Representative | Asked if there were concerns regarding |

| | | |
|-----|------------------------------------|--|
| | Hawker | the tax-exempt status of the Permanent Fund if dividends continued to be distributed individually through the dividend program. |
| 401 | Mr. Storer | Explained that the tax-exempt status is retained due to the legislature's ability to use the dividends for government purposes. He noted that, if the ability were somehow removed, the tax-exempt status could be questioned. |
| 321 | Representative Gruenberg | Asked whether it was possible to amend the proposed legislation to prevent Alaskans from paying tax on the PFD. |
| 310 | Mr. Storer | Responded that this seemed an unlikely proposition. He referred again to page three, and noted that their total return over the long term was projected at 8 percent. He noted, based on a new capital market assumption, that the current asset allocation would most likely return 7.5 percent. |
| 213 | Mr. Storer | Referred to page 4 of handout, which illustrated asset allocations, with a target allocation of 37 percent for domestic equities, and a +/- 7 percent balancing band. He stated his opinion that those funds that adopted a disciplined approach to investing (buying low/selling high) were successful. He also noted that in any year, the Fund had a 25 percent chance of a negative return. He noted that a positive return was incumbent on maintaining the 37 percent equity goal. |
| | TAPE HFC 03 - 9, Side A | |
| 040 | Mr. Storer | Responded to a question from Representative Croft and explained that maintained a disciplined approach, rather than following investment trends, while over the short term may cause returns to lag, produced success over long term. |
| 113 | Mr. Bartholomew | Discussed the statutory method for determining funds available for appropriation, the method for inflation proofing, as well as pointing out current debate on the statutory interpretation. He turned to page five, which references AS 37.13.140 and 145 to determine how much was available annually for distribution. The statute was established in 1982. The first step of the calculation process is to determine a |

| | | |
|-----|----------------------|---|
| | | <p>five-year average of the realized income (cash flow, with any gains or losses from sale of investments), and then devise a sum slightly greater than one fifth of that average. If necessary, a second step is employed: if the Earnings Reserve does not contain the amount for payout indicated by the first calculation, only the amount of the Earnings Reserve could be appropriated, and only one half of that to the Dividends. He pointed out that, whether the first or second method is used, both limit the dividend payout to one half of the Earnings Reserve. He also noted that dividends were paid first, then inflation proofing, then a remaining balance would be left in the Fund.</p> |
| 423 | Mr. Bartholomew | <p>Referred to page six which outlines the process for calculations performed on June 30. He noted that in 1999 and 2000, the results were well above average, while 2002 and 2003 were below the average, a result of the market trends. He noted that using the 21 percent calculation would total \$1.4 million dollars, one half of which would go to the dividend.</p> |
| 557 | Mr. Bartholomew | <p>Responded to an earlier question from Co-Chair Williams and explained that the second method of calculation would be used if the Earnings Reserve was less than, in this case, \$1.4 billion, the income in the Earnings Reserve would be divided in half for distribution.</p> |
| 623 | Mr. Bartholomew | <p>Explained inflation proofing, as outlined on page 7, as the change in the national consumer price index annually. This amount is then multiplied by the principal of the Fund, in order to calculate the amount necessary to maintain the purchasing power of the Fund. He noted that \$602 million was needed last year to inflation proof the Fund; he speculated that this year, if the rate of inflation remained consistent, the amount need was \$355 million.</p> |
| 742 | Representative Croft | <p>Referred to the figure of .21 times the past five years. He asked the reason for the 50% payouts.</p> |
| 819 | Mr. Bartholomew | <p>Reiterated that, once it was determined by statue what was available for total</p> |

| | | |
|------|-------------------------|---|
| | | distribution, then half was taken for the dividend, the other half for inflation proofing. He pointed out that this was in statute. |
| 858 | Representative Croft | Restated that roughly 25 percent would go to inflation proofing. |
| 953 | Representative Whitaker | Raised his concern about the mechanism whereby the Fund's principal was protected from a loss in value. He asked whether this was a function of the Earnings Reserve Account. |
| 1030 | Mr. Bartholomew | Affirmed that this was true, and had become a source of recent debate. He noted that, if the market declined, the amount of the decline went into the earnings reserve. He noted that if the total value of the Permanent Fund decreased below the principal, according to statute, distribution from the Fund would not occur. He stressed that, if unrealized losses were brought into the formula, and the value went below principal, there were no funds available for distribution. |
| 1158 | Representative Croft | Reasoned that, if projections were correct, and roughly \$750 million were paid to dividends, \$350 million to inflation proofing, slightly more than \$500 million would remain in the Earnings Reserve. He referred to page 8, and questioned whether, if downward market trends continued, inflation proofing would be shorted. |
| 1303 | Mr. Bartholomew | Explained that the Fund had never shorted inflation proofing. He noted that the estimates on page 8 were after dividends and inflation proofing had been paid |
| 1355 | Representative Whitaker | Asked for clarification as to whether, given that January was less than projected, the next median would be lower, thereby decreasing the likelihood of having needed funds for dividend and inflation proofing. |
| 1430 | Mr. Bartholomew | Affirmed, indeed, January performance had lowered the median. He pointed out, however, that the Earnings Reserve changed by \$200 million per day regularly. |
| 1458 | Mr. Bartholomew | Responding the another question by Representative Whitaker, confirmed that, in the terms of probability analysis, the median would in fact decrease. |
| 1521 | Mr. Storer | Referred to page 7, which outlined |

| | | |
|------|----------------------|--|
| | | volatility models. He discussed sophisticated tools to outline probabilities. Their consulting firms give over 300 probability scenarios. He explained that the way to view this model was to understand that their consultant ran the model for a single year, and that the model ran the median case for the next year. He cautioned against extrapolating out to future years. He noted that if one held a pattern over five years, one had a greater probability of achieving a median return. The model represents a series of single year snapshots. He pointed out that the important data was the realized earnings reserve, as illustrated on page 8. He noted that the total earnings reserve stated that the median case resulted in \$500 million remaining in the Reserve. He stated that in any given year, nothing may be left in the Earnings Reserve. |
| 1920 | Mr. Storer | Referred to page 9, and noted that there was a 10 percent probability that the dividend would zero in any given year, not a series of years. He also noted that as oil revenues declined, the earnings of Fund have increased. |
| 2024 | Mr. Storer | Concluded by stating the two points of view regarding possible futures for the Dividend: the concept that the true way to compute the dividend was based on realized income only; or that the total earnings reserve (income and unrealized income or loss) was what counts in dividend payment. He pointed out that the debate over these points of view would continue. He noted that their new Board and their Audit Committee, with outside counsel, would be examining the correct answer to this issue. |
| 2240 | Mr. Bartholomew | Referred to page 10, and pointed out that the blue income was defined in statute; the orange or unrealized portion was defined by accounting principals. These methods arrive at a different amount in the earnings reserve, and are an issue in the debate. |
| 2344 | Representative Croft | Asked whether the statutory intent was indeed to refer to realized income, and not a question of legal interpretation. |
| 2349 | Mr. Bartholomew | Clarified that statute specifically excludes unrealized gains and losses in |

| | | |
|------|--|---|
| | | the calculations. He noted that accounting principles generally require examination of unrealized losses or gains. He conceded that legal interpretations may be required. |
| 2449 | Representative Croft | Asked whether adequate funds were available to inflation proof, as well as for clarification about the definition of principal. |
| 2512 | Mr. Bartholomew | Noted that this policy issue effected what was available for distribution, whether dividends or inflation proofing. |
| 2551 | Co-Chair Williams | Asked whether a change to the distribution formula was being proposed. |
| 2604 | Mr. Storer | Responded that a proposal would be made to the new Board to change the payout methodology to the market value method. |
| 2654 | Co-Chair Harris | Reconvened the meeting after a short break and welcomed Mr. Campbell to address the Committee. |
| | | DEPARTMENT OF MILITARY AND VETERANS AFFAIRS |
| 5724 | CRAIG CAMPBELL, ADJUTANT GENERAL, COMMISSIONER, DEPARTMENT OF MILITARY & VETERANS AFFAIRS | Introduced himself and noted that he had Commissioner of the department for one month, as well as being the Adjutant General for the National Guard for the State of Alaska. He introduced Samuel Johnson, Assistant Commissioner, Division of Homeland Security and Emergency Services, and stressed the significance of this issue to the State. |
| | Mr. Campbell | Referred page one of his handouts (copy on file), stating the mission of the Department: to provide relevant, ready quality forces and services for Alaskans and the Nation. He noted that this mission was broad to encompass both the agency's military and civilian goals. |
| 2852 | Mr. Campbell | Referred to page three outlining the reorganization of the Department. He noted that the Department divided into three sections: administrative services, a civilian component (Emergency Services and Homeland Security), and the military organization. He noted that the difference in the current organization was in its direct connection to the Army National Guard. This gave the ability to respond quickly to a terrorist event. He also noted that missile defense had been re-alligned into one agency under the Army National Guard, as opposed to two entities. |

| | | |
|------|---|--|
| 3118 | Mr. Campbell | Stated their mission priorities: Homeland Security; Recruiting and Retention; Missile Defense; National Guard Transformation; and the Veterans Home. He explained that the National Guard would be transformed to a joint army/air operation. |
| 3245 | Mr. Campbell | Referred to the chart outlining personnel. He noted that, of over 4,000 members, only 1200 to 1300 full-time federally paid Active Guard Reserve (AGR) and technician employees. He explained that only 250 were State employees, and emphasized the opportunity to leverage Federal Funding for programs. He pointed out that the largest percentage of employees were part time. He also pointed out volunteers in the staff. |
| 3445 | Mr. Campbell | Noted that the National Guard was changing to include joint operations. He highlighted this as an opportunity to team with the Army. He explained that the Fort Greely mission was one of missile defense. He also noted aerospace defense, stating his opinion that all air and space defense should be organized under the National Guard. He noted that in Alaska, unlike other states in the country, alert aircraft were under the Active Duty Force, rather than the National Guard. He summarized that new mission goal of aerospace defense. Examined whether operations at Fort Greely could be combined into an army/air mission. Proposed that this purple concept would be more efficient. He also noted the goal of remaining relevant with Active Duty forces. |
| 3821 | Mr. Campbell | Referred to Homeland Security Priorities outlined in the handout (on file). |
| 3854 | SAMUEL JOHNSON, ASSISTANT COMMISSIONER, DIVISION OF HOMELAND SECURITY | Explained that the response portion of Homeland Security was similar to that of Emergency Services, which resulting in combining the organizations to increase efficiency. In regard to mitigating crises, he stated that the first step was to identify critical assets in prioritized order. Assets may be depleted, and the organization must focus on what is most critical. He reported that the list had recently been developed. He explained that intelligence sharing was essential in |

| | | |
|------|--------------|--|
| | | order to be proactive. He noted the importance of a vulnerability assessment, as well as identifying, in advance, forces to address those vulnerable areas. He stated that he believed the Alaskan Task Force would be key in identifying the forces to protect vulnerabilities. |
| 4213 | Mr. Johnson | Explained Threat Level Procedures. He noted that this might change if the country were to go to war. He explained that if the threat levels changed, the cost to the State would increase. |
| 4257 | Mr. Johnson | Discussed Response Procedures and emphasized the challenge of outreach to bush areas in Alaska. He referred to an evaluation of the State Emergency Coordination Center, which was currently under-funded. They have examined other ways to make the center work and save money through streamlining and made recommendation to eliminate redundancies. For example, there existed in the State three terrorism task forces; a recommendation was made to place two groups together, jointly chaired by the Commissioner, and partnering state and federal government. |
| 4609 | Mr. Campbell | Regarding Recruiting and Retention, discussed the intended improvement in representing all cultures. He noted the priority of giving opportunities to Native Alaskans. |
| | | TAPE HFC 03 - 9, Side B |
| | Mr. Campbell | Noted the commitment to increase the percentage of Native Alaskan officers. He noted that the percentage of female officers was better, but could still be improved. He stated his belief that most female officers were of lower rank, and expressed a commitment to improve this number. Noted past waivers of requirements to qualify individuals to serve in the National Guard. Pointed out a focus on eliminating obstacles to opportunities. |
| 4459 | Mr. Campbell | Discussed his creation of a strategic plan, which had not been implemented in the past ten years, and his intention to act on that plan. He will publish an Annual Report, to determine whether goals had been achieved. He also noted performance measures as an effective tool. He did not believe that current |

| | | |
|------|-----------------|---|
| | | performance measures were not reflective of legislative needs for the department. Also noted the importance of updating the web site, due to the demographics of Alaska. |
| 4245 | Mr. Campbell | Referred back to Missile Defense, outlined in the handout. President Bush has accelerated initial deployment of the program. He pointed out an issue of inadequate housing at Fort Greely. Also noted the proposed railroad connection from Fairbanks to Fort Greely, stating his position that, in terms of security, a railway connection was easier to contain than a road. He also explained that power for Ft. Greely was ongoing issue and that additional materials might be required. |
| 4008 | Co-Chair Harris | Referred to a resolution for extending the railroad to Ft. Greely; he asked whether military had been contacted. |
| 3925 | Mr. Campbell | Confirmed that a discussion had been ongoing and the railroad was favored by the military and railroad. |
| 3835 | Mr. Campbell | Outlined key issues as listed on the handout. Stated that, if the federal program were to be funded based on population, Alaska would not fare well. He stated his opinion that funding should be based on other factors, and that Alaskans needed to be part of discussion. He stated that their civilian technicians' union contract expired in 2000. He explained that the contract may open for negotiations by year-end, but that no problems were anticipated. |
| 3647 | Mr. Campbell | Discussed the C12 Accident Lawsuit Settlement, and stated that current negotiations would likely settle without litigation. |
| 3623 | Co-Chair Harris | Noted that legislation was pending to help with settlement. |
| 3552 | Mr. Campbell | Emphasized the important issue of Army Aviation Property Accountability. He referenced a previous investigation of parts related to the twin otter aircraft of the Army National Guard. Some of the parts were handled through improper channels; the investigation revealed \$1.2 million in missing parts. He stated that the report will soon be closed and an action plan developed to prevent this from occurring again. |

| | | |
|------|--------------------------|---|
| 3441 | Mr. Campbell | Mentioned Deferred Maintenance. He will discuss this during the budget process. |
| 3416 | Mr. Campbell | He noted the Kulis Base Lease. Federal military base construction funding required 25 years on a base after approval on a project is completed. They have negotiated with the airport to extend lease in order to continue to receive construction funds, as well as to discuss long-term solutions. |
| 3313 | Mr. Campbell | Discussed the Missile Defense Program. Concluded that he foresaw a challenge in meeting program goals with current resources. Assured the Committee that, although vacancies may remain higher in short term, no mission deficiencies would occur. He noted that disaster relief would require supplemental requests. |
| 3127 | Mr. Campbell | Discussed the priority of three proposals regarding Veterans Home, including one, which would be managed by a health care provider. They will research and present a proposal. |
| 3037 | Co-Chair Harris | Asked whether they were working with LB & A about Veterans Home study. |
| 3015 | Mr. Campbell | Responded that he would research that answer. |
| 2956 | Representative Stoltze | Asked whether Mr. Campbell foresaw a change in the policy of the current administration with regard to Emergency Services as they pertain to economic emergencies. |
| 2939 | Mr. Campbell | Acknowledged that the previous year contained a great number of disaster declarations. He noted that it was the Governor's option to declare disasters. His new team would work with local communities to determine best resolutions. |
| 3855 | Representative Gruenberg | Asked if we should consider a Coast Guard facility at Dutch Harbor. He also recommended recruiting minorities from urban as well as rural areas. |
| 2756 | Mr. Campbell | Agreed that recruitment should occur in all areas. He responded that an ROTC program in Alaska was being discussed as a solution to increasing coastland security. |
| 3636 | Representative Stevens | Questioned the practicalities of working between branches of military service. |
| 2529 | Mr. Campbell | Emphasized that the services work together but are paid separately. Each |

| | | |
|--|--------------------|---|
| | | commander makes the appropriate decisions. Command and control can operate together. He pointed out that the Homeland Security Task Force has demonstrated partnership ability. |
| | <u>ADJOURNMENT</u> | The meeting was adjourned at 4:33 PM |