

**ALASKA STATE LEGISLATURE**  
**HOUSE STATE AFFAIRS STANDING COMMITTEE**

February 23, 2006

8:05 a.m.

**MEMBERS PRESENT**

Representative Paul Seaton, Chair  
Representative Carl Gatto, Vice Chair  
Representative Bob Lynn  
Representative Jay Ramras  
Representative Berta Gardner  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Jim Elkins

**COMMITTEE CALENDAR**

HOUSE BILL NO. 475

"An Act describing contributions to the health reimbursement arrangement plan for certain teachers and public employees; clarifying eligibility for membership in that health reimbursement arrangement plan; relating to the 'administrator' of the Public Employees' Retirement System of Alaska; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 403

"An Act relating to registration and operation of neighborhood electric vehicles."

- MOVED CSHB 403(STA) OUT OF COMMITTEE

HOUSE CONCURRENT RESOLUTION NO. 27

Urging the Alaska Retirement Management Board and the Alaska Permanent Fund Corporation to divest all holdings held in companies with business activities or holding investments in Iran and North Korea.

- HEARD AND HELD

HOUSE BILL NO. 45

"An Act amending the definition of the term 'lobbyist' in the Regulation of Lobbying Act; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 485

"An Act amending the State Personnel Act to place in the exempt service pharmacists and physicians employed in the Department of Health and Social Services or in the Department of Corrections and corporate income tax forensic auditors employed by the division of the Department of Revenue principally responsible for the collection and enforcement of state taxes who specialize in apportionment analysis and tax shelters of multistate corporate taxpayers; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 475

SHORT TITLE: PUB EMPLOYEE & TEACHER RETIREMENT & SBS

SPONSOR(S): REPRESENTATIVE(S) SEATON

02/13/06	(H)	READ THE FIRST TIME - REFERRALS
02/13/06	(H)	STA, FIN
02/23/06	(H)	STA AT 8:00 AM CAPITOL 106

BILL: HB 403

SHORT TITLE: NEIGHBORHOOD ELECTRIC VEHICLES

SPONSOR(S): REPRESENTATIVE(S) THOMAS

01/27/06	(H)	READ THE FIRST TIME - REFERRALS
01/27/06	(H)	STA, TRA
02/23/06	(H)	STA AT 8:00 AM CAPITOL 106

BILL: HCR 27

SHORT TITLE: DIVEST INVESTMENTS IN IRAN AND N. KOREA

SPONSOR(S): REPRESENTATIVE(S) RAMRAS

01/25/06	(H)	READ THE FIRST TIME - REFERRALS
01/25/06	(H)	STA
02/21/06	(H)	STA AT 8:00 AM CAPITOL 106
02/21/06	(H)	Scheduled But Not Heard
02/23/06	(H)	STA AT 8:00 AM CAPITOL 106

**WITNESS REGISTER**

IAN FISK, Staff  
to Representative Bill Thomas  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Reviewed the changes made in Version F to  
HB 403 on behalf of Representative Thomas, sponsor.

DUANE BANNOCK, Director  
Office of the Director  
Division Motor Vehicles  
Department of Administration  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 403.

LIEUTENANT JAMES A. HELGOE, Legislative Liaison  
Division of Alaska State Troopers  
Department of Public Safety (DPS)  
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB  
403.

JACK CANELLI, Legal Council and Regulatory Specialist  
Global Electric Motor Cars  
Fargo, North Dakota

POSITION STATEMENT: Answered questions regarding low-speed  
vehicles during the hearing on HB 403.

ED IBBOTSON  
Skagway, Alaska

POSITION STATEMENT: Described possible uses for low-speed  
vehicles in his community during the hearing on HB 403.

EMILY STANCLIFF, Staff  
to Representative Jay Ramras  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Presented HCR 27 on behalf of  
Representative Ramras, sponsor.

CHRISTOPHER HOLTON, Vice President  
for Administration, Marketing & Development  
Center for Security Policy  
Washington, D.C.

POSITION STATEMENT: Testified during the hearing on HCR 27.

MEAD TREADWELL, Senior Fellow

Institute of the North  
Anchorage, Alaska

POSITION STATEMENT: Offered reasons for divestiture during the hearing on HCR 27.

LAURA ACHEE, Research and Communications Liaison  
Alaska Permanent Fund Corporation  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the department during the hearing on HCR 27.

MICHAEL J. BURNS, Executive Director  
Alaska Permanent Fund Corporation  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Had his testimony read by Laura Achee.

#### **ACTION NARRATIVE**

**CHAIR PAUL SEATON** called the House State Affairs Standing Committee meeting to order at [8:05:56 AM](#). Representatives Gatto, Ramras, Gardner, Gruenberg, and Seaton were present at the call to order. Representative Lynn arrived as the meeting was in progress.

#### HB 475-PUB EMPLOYEE & TEACHER RETIREMENT & SBS

[Contains brief mention of SB 141.]

[8:06:42 AM](#)

CHAIR SEATON announced that the first order of business was HOUSE BILL NO. 475, "An Act describing contributions to the health reimbursement arrangement plan for certain teachers and public employees; clarifying eligibility for membership in that health reimbursement arrangement plan; relating to the 'administrator' of the Public Employees' Retirement System of Alaska; and providing for an effective date."

[8:06:44 AM](#)

REPRESENTATIVE GATTO moved to adopt the proposed committee substitute (CS) for HB 475, Version 24-LS1685\G, Wayne, 2/22/06, as a work draft. There being no objection, Version G was before the committee.

8:07:12 AM

CHAIR SEATON explained his intent was to bring Version G before the committee, but to hold further discussion relating to the bill until a forthcoming meeting.

8:07:55 AM

CHAIR SEATON, in response to a question from Representative Gardner, said the committee will be receiving a sectional analysis. He explained that HB 475 is basically a series of clarification amendments to issues that were unclear in SB 141. Without the clarification of HB 475, it would be left to the administrator of the retirement plan to make judgments without legislative direction, which may result in an inconsistency of "the policies that we adopted in our discussions last year."

8:09:10 AM

REPRESENTATIVE GARDNER stated, "I think one of the reasons that happens so much is because we never did get a sectional analysis for [SB 141]."

8:09:28 AM

CHAIR SEATON indicated that the sectional analysis for HB 475 would be more in depth than a typical section analysis.

8:09:54 AM

CHAIR SEATON announced that HB 475 was heard and held.

HB 403-NEIGHBORHOOD ELECTRIC VEHICLES

8:10:04 AM

CHAIR SEATON announced that the next order of business was HOUSE BILL NO. 403, "An Act relating to registration and operation of neighborhood electric vehicles."

8:10:11 AM

REPRESENTATIVE GATTO moved to adopt the proposed committee substitute (CS) for HB 403, Version 24-LS1229\F, Luckhaupt, 2/22/06, as a work draft. There being no objection, Version F was before the committee.

[8:10:48 AM](#)

IAN FISK, Staff to Representative Bill Thomas, Alaska State Legislature, on behalf of Representative Thomas, sponsor, reviewed the changes made in Version F. First and foremost, he said, Version F changes the designation of neighborhood electric vehicles to "low speed vehicles", which he said brings the bill into line with existing federal regulations. He specified, "We're not talking about golf carts and meter maid vehicles, although these could probably be used in those applications." Low speed vehicles are: vehicles with four wheels that must be capable of a minimum of 20 miles per hour (mph), but limited to a maximum of 25 miles per hour. Any kind of modifications to make them go faster than that are prohibited. They are required by the National Highway Transportation Safety Administration (NHTSA) to have headlights, front and rear turn signals, tail lights, break lights, reflectors, automotive quality windshields, mirrors, parking breaks, vehicles identification numbers, and seatbelts. Furthermore, he said, low-speed vehicles have to meet certain testing requirements that are spelled out in federal regulations developed in 1998. Mr. Fisk noted that "these types of vehicles" are now legal in 36 other states.

MR. FISK noted that low-speed vehicles offer the following advantages: fuel efficiency, zero or significantly lower emissions, a popularity with retired individuals, and accessibility for those with physical disabilities.

[8:13:08 AM](#)

MR. FISK stated that the problem currently is that the Division of Motor Vehicles (DMV) cannot regulate or register low-speed vehicles. He reported that the DMV supports [HB 403] and is requesting the specific authority to register and regulate low-speed vehicles. Version F also spells out in Section 2 that the registration fees for the low-speed vehicles would be \$100 biannually, which is the same cost as for any other passenger vehicle.

[8:13:47 AM](#)

REPRESENTATIVE GARDNER said she is unfamiliar with the vehicles in question. She asked, "Are they what people call 'Segways'?"

[8:14:03 AM](#)

MR. FISK answered no. He offered his belief that Segways are referred to in statute as "personal electric vehicles" and, thus, would not meet the requirements of a low-speed vehicle.

[8:14:23 AM](#)

CHAIR SEATON directed attention to the definition of a low-speed vehicle on page 2, lines 20-24. He noted that Section 1 of Version F refers to the safety requirements.

[8:14:54 AM](#)

REPRESENTATIVE GARDNER asked if dealers would be required to process license and title fees as they do with automotive vehicles.

[8:15:14 AM](#)

MR. FISK noted that Section 3, [subsection (a)] read: "The operator of a low-speed vehicle is subject to all the traffic and other laws applicable to operators of passenger vehicles." He said, "I would presume that dealers would be as well."

[8:15:40 AM](#)

REPRESENTATIVE GARDNER said, "I've heard people whizzing around the neighborhoods on some kind of vehicles. I don't know what you call them, but they sound like a lawnmower and they're really obnoxious." She asked what the volume of the low-speed vehicles would be.

[8:15:55 AM](#)

MR. FISK said the vast majority of low-speed vehicles are electric and are not loud like a lawnmower.

[8:16:15 AM](#)

CHAIR SEATON observed that HB 403 would limit the vehicle, by definition, to being electric; they could not be small engine vehicles.

[8:16:38 AM](#)

MR. FISK answered that's correct. He pointed out that on page 2, line 20, the word "electric" was left in before "motor vehicle" - an oversight, he explained. He stated that it is not

the intention of the sponsor to limit the low-speed vehicles to electric ones, because there are vehicles that could be developed to meet the restrictions that could be powered by other sources, for example, propane. He drew attention to photos of low-speed vehicles [included in the committee packet]. He said these vehicles are filling a market that is asking for an energy efficient vehicle. Because they are limited in speed, he said, the low-speeds vehicles will most likely be limited in sound.

[8:18:51 AM](#)

CHAIR SEATON, in response to questions from Representative Gatto, clarified the concept of the minimum and maximum speed requirements.

[8:19:27 AM](#)

REPRESENTATIVE GRUENBERG indicated his readiness to amend the language to remove the word "electric".

[8:19:56 AM](#)

CHAIR SEATON asked that amendments be held until later.

[8:20:07 AM](#)

REPRESENTATIVE GRUENBERG noted that Section 3, [paragraph (b)], sets out restrictions regarding roads and speed limits. He opined that those details should not be in state law, but should be left to the Department of Transportation & Public Facilities (DOT&PF) or local authorities to decide.

[8:21:09 AM](#)

MR. FISK responded that he thinks that's a good point. He offered his understanding that other states have chosen to do something similar to that. One concern, however, would be not to set up "a patchwork of different regulations." He said he doesn't think the sponsor would take issue with allowing municipalities the latitude to figure out which particular areas within a town could be designated as low-speed vehicle areas.

[8:22:01 AM](#)

REPRESENTATIVE GRUENBERG clarified that he is only talking about the speed limit, not the specifications for the vehicles.

[8:22:28 AM](#)

CHAIR SEATON stated the reason for having a minimum speed for the low-speed vehicles is to keep them within a flow of traffic for safety reasons. He suggested that if local governments didn't set limits, the result could be dangerous, because a vehicle with a maximum speed of 25 miles could be operating on a 55 mph road.

[8:23:10 AM](#)

MR. FISK replied that that's a good point. He indicated that making general designations are good, but perhaps local municipalities could be allowed to make some exceptions for safety reasons. He stated that it is not the intent of the federal law to allow low-speed vehicles on a regular highway.

[8:24:33 AM](#)

MR. FISK told the committee that HB 403 would have a fiscal note, which he has not yet received, but which would amount to approximately \$10,000 for licensing, development, and programming. He said the bill would be heard by the House Transportation Standing Committee and the House Finance Committee.

[8:24:42 AM](#)

CHAIR SEATON informed Mr. Fisk that the fiscal note is in the committee packet.

[8:24:58 AM](#)

REPRESENTATIVE RAMRAS noted that in colder climates, such as Fairbanks, it is a requirement to "remove all ... batteries and store them in a warm ... garage or heated space throughout the winter, otherwise they freeze and you lose all their value." He said he had to pay extra to get gas-powered golf carts. He said he supports the notion of the bill, but since the low-speed vehicles will be licensed by the DMV, he would like to see something that is applicable across the state. He added that he wants to ensure Fairbanks can have [a low-speed vehicle] that is street legal, and the way the bill is presently drafted, that would not be possible.

[8:28:11 AM](#)

MR. FISK said, "This is part of ... why it was important to change the designation from neighborhood electric vehicles to low-speed vehicles." He indicated that he thinks [Version F] would help alleviate Representative Ramras' concerns.

[8:29:21 AM](#)

MR. FISK, in response to a question from Representative Gardner, said there are no 4-wheel drive low-speed vehicles currently, and he doesn't know how they would perform on hills.

[8:29:49 AM](#)

REPRESENTATIVE GRUENBERG asked Mr. Fisk if there are any features in any other related state laws that he would like to see incorporated in HB 403.

[8:30:36 AM](#)

MR. FISK said he has skimmed through some of the regulations of the 36 states that have legalized this mode of transportation thus far, and he agreed to show those regulations to Representative Gruenberg.

[8:31:28 AM](#)

CHAIR SEATON reviewed the changes made in Version F for those who did not have a copy.

[8:32:14 AM](#)

DUANE BANNOCK, Director, Office of the Director, Division Motor Vehicles, Department of Administration, testified in support of HB 403. He said some vehicles that are branded by the federal government as being a different type of motor vehicle are currently not covered under state statute. He indicated that [HB 403] would be one way for the DMV to "play a little bit of catch-up." He said the DMV does not involve itself in vehicle usage, but only in the title and registration of the vehicle. Mr. Bannock mentioned Global Electric Motorcars ("GEM cars"). He said every vehicle comes with what is called either a manufacturer's certificate of origin (MCO) or manufacturer's statement of origin (MSO). He read the MSO for the GEM car as follows: "This low-speed vehicle conforms to federal regulations, under ... Title 49, CFR, part 571.500. It is our opinion that this ... bill will allow our statute to then

respect that this MSO is now a welcome MSO at the DMV, no different for a Ford Mustang or something like that."

CHAIR SEATON asked if the DMV would have any problems with adding the low-speed vehicle to the rest of vehicles which are charged \$100 biannually.

[8:35:11 AM](#)

MR. BANNOCK answered that the DMV concurs entirely with adding that fee. In response to a follow-up question from Chair Seaton, he said the DMV also has no concern regarding removing the word "electric."

[8:35:31 AM](#)

REPRESENTATIVE GARDNER asked Mr. Bannock if he would anticipate that in terms of licensing and registration of [low-speed] vehicles, the dealer would be responsible, even if he/she is not an automobile dealer under normal circumstances.

[8:36:11 AM](#)

MR. BANNOCK answered, "If it was a dealer transaction, yes."

[8:36:22 AM](#)

CHAIR SEATON asked if someone who sells four-wheelers or snow machines is under the same business license definition as a [car] dealer.

[8:36:44 AM](#)

MR. BANNOCK answered, "I'm pretty sure no."

[8:37:24 AM](#)

CHAIR SEATON clarified that he wants to know if someone who currently deals in "Hondas and four-wheelers - those kind of things" - would be prevented from selling [low-speed vehicles].

[8:38:08 AM](#)

MR. BANNOCK responded specifically to the Honda example. He said that beside cars, Honda sells motorcycles, snow blowers, lawn mowers, and 4-wheelers. In Alaska, he said, motorcycle dealers are a different type of automobile dealer. He stated,

"So, if you were the Honda dealer and you sold the arrangement between 4-wheelers and lawnmowers - the fact that you sold motorcycles would require you to be [an] automobile dealer of motorcycles in Alaska."

[8:38:33 AM](#)

CHAIR SEATON asked, "Let's say you did not sell motorcycles - you just sold all the other kinds of snowmobiles and all - would you then have to become an automobile dealer in order to be able to sell these low-speed electric vehicles?"

MR. BANNOCK answered yes.

CHAIR SEATON asked, "Then when you became a dealer, ... you would be required to do the title and registration, and ... you wouldn't have to be a business partner, you could still take the information and send that information into the DMV. Is that correct?"

MR. BANNOCK answered in the affirmative.

[8:39:47 AM](#)

REPRESENTATIVE GRUENBERG directed attention to Section 4 of version F. He asked Mr. Bannock if he sees any advantage in simply referencing federal law rather than "listing all these things out in the state law." He offered an example.

[8:40:52 AM](#)

MR. BANNOCK replied that there is serious merit to that idea.

REPRESENTATIVE GRUENBERG noted that [Mr. Fisk] was nodding and smiling.

[8:41:17 AM](#)

REPRESENTATIVE GATTO asked if the department has ever been contacted regarding taking 4-wheelers "out of the ditches and on to the highway," providing they meet certain requirements, such as turn signals and lighting.

[8:41:34 AM](#)

MR. BANNOCK answered yes. However, he said he doesn't believe HB 403 addresses that situation, nor would he support that proposal.

[8:42:01 AM](#)

REPRESENTATIVE GATTO said he has heard people say they think that would be a good idea, because then they could go to work on a 4-wheeler that only costs \$6,000 instead of [a low-speed vehicle] that costs \$15,000. He asked what the opposition is.

[8:42:17 AM](#)

MR. BANNOCK said he owns a relatively new Honda 4-wheeler. On the MSO is written a warning that the 4-wheeler is not for use on any roads or highways. He stated that the DMV banks a lot on the manufacturer's recommendation of a particular product.

[8:44:35 AM](#)

LIEUTENANT JAMES A. HELGOE, Legislative Liaison, Division of Alaska State Troopers, Department of Public Safety (DPS), in response to a question from Chair Seaton, said he agrees with the limitation in the proposed legislation that low-speed vehicles may not be operated on a highway that has a maximum speed of more than 35 mph. He expressed agreement with the idea of allowing municipalities to set other limits, but not if those limits exceed the 35 mph hour restriction.

[8:46:09 AM](#)

REPRESENTATIVE GATTO noted that some roads change from 35, to 45, to 55 mph, within 100 yards. If low-speed vehicles are allowed on a road that starts out at 35 mph and then increases, Representative Gatto said he feels "they're mixing with the heavies."

[8:47:04 AM](#)

LT. HELGOE said he sees this issue as a concern in certain areas within the state.

[8:47:42 AM](#)

CHAIR SEATON stated his understanding of the bill is that if a person operating a low-speed vehicle is in an area with a speed limit above 35, he/she would not legally be able to operate the

vehicle in that area. He asked Mr. Helgoe if that is his understanding, as well.

[8:48:21 AM](#)

MR. HELGOE answered yes.

[8:48:25 AM](#)

REPRESENTATIVE GRUENBERG asked for Mr. Helgoe's feedback regarding who should decide the limits - the local authority or the state legislature. He noted that some areas have bike paths, and municipalities may want to set rules to keep low-speed vehicles off of them.

[8:49:29 AM](#)

MR. HELGOE stated his belief that the local municipalities should have the authority to "regulate the use" and "that should not be written into state law." In response to a question from Representative Gruenberg, he offered his understanding that DOT&PF sets the speed limits for the Parks Highway. In response to a follow-up question from Representative Gruenberg as to whether or not DOT&PF or the legislature should set limits, he said that is beyond his expertise to offer an answer.

[8:52:16 AM](#)

CHAIR SEATON clarified:

What is being asked here is: Do you think that we should allow these vehicles and allow them to be operated on roads within municipal jurisdictions that are above 35 mph? That's the question. If we don't set it in statute, it means that local jurisdictions can either ... not [make] any designation or [make] a designation of 55 mph .... And I thought your earlier comment was [that] for safety reasons they should not be allowed to mix with traffic on roads above 35 mph.

[8:53:03 AM](#)

LT. HELGOE answered that's correct. He stated, "I do not believe these low-speed vehicles should be commingled in any roadway with a speed limit above 35 mph, and further I feel that we should allow the local ... municipalities to set up areas

that they deem safe for the operation and commingle of these vehicles."

[8:53:41 AM](#)

CHAIR SEATON said, "But the question is should they be allowed to set a speed limit above 35 mph, or should that be permissive that they could set areas that could be designated and at lower speeds. But, I mean, the question is: Should we remove the 35 mph from the statute, which would allow ... local jurisdictions to set 45 or 50 mph?"

[8:53:53 AM](#)

LT HELGOE responded, "No, I believe 35 should stay in."

[8:54:04 AM](#)

REPRESENTATIVE GATTO asked if a low-speed vehicle licensed by the state would be violating the law by operating "off the pavement" with four-wheelers, for example.

[8:54:33 AM](#)

LT. HELGOE answered no.

[8:54:55 AM](#)

JACK CANELLI, Legal Council and Regulatory Specialist, Global Electric Motor Cars, told the committee that he manufactures electric low-speed vehicles in Fargo, North Dakota. In response to a question from Representative Gruenberg, he said what he would recommend has already been touched upon, which is adopting federal standards by reference. In response to a follow-up question from Representative Gruenberg, he said he would e-mail suggested language to the sponsor. Regarding the previous talk of deferring the decision to the local municipalities, he told the committee that the vast majority of states have had their legislatures define the [low-speed vehicles] and set a restriction that they be allowed on streets with speed limits of 35 mph or less. Then, he said, some states give local jurisdictions the ability to set further restrictions in the interest of public safety. He said he would not allow municipalities to set limits higher than that set by the legislature.

[8:57:58 AM](#)

REPRESENTATIVE GRUENBERG noted that in Juneau, one of the streets connecting one area of Juneau to the rest of Juneau has variable speed limits. He asked Mr. Canelli for his thoughts on that subject.

8:58:30 AM

MR. CANELLI said low-speed vehicle owners would know that if they are on a 40 mph street they are not operating legally.

8:59:34 AM

CHAIR SEATON, in response to a question from Representative Lynn, noted that [lines 15-18] on page 2 address the issue of crossing a street with a speed limit of more than 35 mph. The language read as follows:

Notwithstanding this subsection, the operator of a low-speed vehicle may cross a highway that has a maximum speed limit of more than 35 miles an hour if the crossing is made at the intersection with a highway that is authorized for low-speed vehicles.

8:59:54 AM

REPRESENTATIVE GARDNER recalled Representative Ramras' previous comments about operating certain vehicles in extreme cold climates. She noted that Mr. Canelli's company is in North Dakota and asked him to tell the committee how the company's low-speed vehicles work in cold temperatures.

9:00:31 AM

MR. CANELLI said low-speed vehicles are generally not made for cold weather; his company's standard version doesn't even have doors on it, although they are available. He noted that they can be run indoors in such places as a sports stadium or a large warehouse.

REPRESENTATIVE GARDNER asked if the low-speed vehicle would actually function in cold weather.

9:02:09 AM

MR. CANELLI said he can't answer that question.

[9:02:32 AM](#)

REPRESENTATIVE GRUENBERG noted that the driving force behind the bill - Representative Thomas' constituent from Skagway - is available to testify.

[9:03:05 AM](#)

ED IBBOTSON, testifying on behalf of himself, said low-speed vehicles are not made for every application; they are made for the person who needs to run down to the grocery store or post office a couple times a week, but doesn't want the expense of maintaining a gasoline-powered vehicle. Regarding the issue of commingling vehicles, he pointed out that there are already scooters on the streets with bigger vehicles. Mr. Ibbotson said the instigator for the bill was his desire to run a car rental business for tourists, which is when he found out that [low-speed] vehicles are not legal in Alaska. He stated that he has heard from locals in Skagway who think the vehicles would be ideal for their town.

[9:05:23 AM](#)

CHAIR SEATON moved Conceptual Amendment 1 as follows:

On page 2, line 20:  
Delete paragraph (27)  
Insert the definition of low-speed vehicle as  
found in federal law

[9:05:46 AM](#)

REPRESENTATIVE RAMRAS objected for purposes of discussion. He asked if the federal definition includes a gas-powered vehicle, or if it only applies to electric vehicles.

[9:05:59 AM](#)

MR. FISK stated that the federal regulations do not specify that the low-speed vehicle is an electric one.

[9:06:06 AM](#)

REPRESENTATIVE RAMRAS, regarding his previous statement about requirements for cold climates, stated for the record that nobody is intending to ride a low-speed vehicle in December when it's 30 degrees below zero. He removed his objection.

[9:06:53 AM](#)

REPRESENTATIVE GARDNER objected for discussion purposes. She said she thinks the distinction between electric and gas vehicles is partly one of noise. She said she is concerned about allowing something that may be loud.

[9:07:17 AM](#)

REPRESENTATIVE GATTO noted that nonelectric vehicles include those run on propane, which he indicated are quiet. He said a "two cycle go-cart with no muffler is pretty potent."

[9:07:37 AM](#)

REPRESENTATIVE GARDNER responded, "Do we want to approve those for our ... neighborhoods?"

[9:08:49 AM](#)

MR. CANELLI, in response to a question from Representative Gruenberg, said the federal regulations allow both gas and electric; however, he is not currently aware of any gas-powered, low-speed vehicles other than perhaps a John Deere Gator, which he said is not an on-road vehicle.

[9:09:21 AM](#)

REPRESENTATIVE GARDNER removed her objection.

CHAIR SEATON asked if there was any further objection to Conceptual Amendment 1. There being none, it was so ordered.

[9:09:35 AM](#)

CHAIR SEATON moved to adopt Conceptual Amendment 2, on page 2, line 18, after "vehicles." to add language allowing local jurisdictions to further regulate for safety concerns.

[9:09:48 AM](#)

REPRESENTATIVE GRUENBERG objected for discussion purposes. He said he thinks Conceptual Amendment 2 may not be totally necessary, because that may be assumed under existing state law anyway. He asked Chair Seaton to make it clear that the

amendment is requested, but doesn't have to be inserted if it's not necessary.

CHAIR SEATON said the Co-Chair of the House Transportation Standing Committee - the next committee of referral - can choose to remove the language if it's not necessary.

[9:10:25 AM](#)

REPRESENTATIVE GRUENBERG removed his objection.

CHAIR SEATON asked if there was any further objection to Conceptual Amendment 2. There being none, it was so ordered.

[9:10:43 AM](#)

CHAIR SEATON closed public testimony.

[9:11:02 AM](#)

REPRESENTATIVE GRUENBERG stated his assumption that with the removal of language through the adopted Conceptual Amendment 1, there is no longer a need for concern regarding the term "electric motor vehicle" because that language will be removed.

CHAIR SEATON confirmed that is correct.

[9:11:06 AM](#)

REPRESENTATIVE GATTO moved to report CSHB 403, Version 24-LS1229\F, Luckhaupt, 2/22/06, as amended, out of committee with individual recommendations and the accompanying fiscal note. There being no objection, CSHB 403(STA) was reported out of the House State Affairs Standing Committee.

HCR 27-DIVEST INVESTMENTS IN IRAN AND N. KOREA

[Contains discussion of SB 12.]

[9:12:06 AM](#)

CHAIR SEATON announced that the last order of business was HOUSE CONCURRENT RESOLUTION NO. 27, Urging the Alaska Retirement Management Board and the Alaska Permanent Fund Corporation to divest all holdings held in companies with business activities or holding investments in Iran and North Korea.

9:12:27 AM

EMILY STANCLIFF, Staff to Representative Jay Ramras, Alaska State Legislature, presented HCR 27 on behalf of Representative Ramras, sponsor. She directed attention to a report in the committee packet entitled, "The Terrorism Investments of the 50 States," produced by the Center for Security Policy, August 12, 2004. Ms. Stancliff noted that the U.S. Department of State and the Office of Foreign Assets have identified that Iran and North Korea "are state sponsors of terrorism." She read from the first page of the report: "... this nation's largest and most prominent public pension systems tend to be heavily invested in global publicly traded companies that have business activities in terrorist-sponsoring states." Ms. Stancliff referred to other portions of the report, which read as follows:

On average, America's top 100 pension systems invest between 15 and 23 percent of their portfolio in companies that do business in terrorist-sponsoring states.

... The total estimated value of the stock of some 400 companies doing business in terrorist-sponsoring states held by America's leading public pension systems is approximately \$188 billion.

MS. STANCLIFF said according to the Center of Security Policy, the Alaska Retirement Management (ARM) Board invests 24 percent of its total equity holdings in companies with ties to terrorist-sponsoring nations. The ARM Board, she stated, is linked to 98 companies that have invested a total of \$27 billion in terrorist-sponsoring states; of those 98 companies, 68 have dealings in Iran and 8 have dealings in North Korea. Ms. Stancliff said the report lists the "dirty dozen" - [twelve companies with ties to terrorist states], and she said the ARM Board and the Alaska Permanent Fund Corporation hold stocks in those companies. She reported that the holdings of the Permanent Fund Corporation in five of the dirty dozen companies are estimated to value \$76 million. She noted that the report includes reasons why the twelve companies have been placed on the dirty dozen list.

MS. STANCLIFF relayed that other states across the country have drafted similar legislation, including Pennsylvania, Illinois, and Arizona. Retirement boards in the states of Missouri and California, as well as the New York City Fire Department have

hired companies to investigate where their pension funds are being invested.

[9:16:31 AM](#)

MS. STANCLIFF quoted former President Bill Clinton's Secretary of State, Peter Tarnoff, as having said, "A straight line links Iran's oil income [with] its ability to sponsor terrorism, build weapons of mass destruction, and acquire sophisticated armaments. Any government or private company that helps Iran to expand its oil must accept that it is contributing to this menace." Ms. Stancliff said she believes that the sponsor shares that view, which is one of the reasons behind the proposed resolution.

[9:17:25 AM](#)

CHAIR SEATON directed attention to a page in the report, entitled, "The Alaska Permanent Fund Stock Holdings," and noted that four of the countries listed had an asterisk drawn next to their names: France, Italy, Norway, and Switzerland. He asked for an explanation.

[9:17:58 AM](#)

MS. STANCLIFF explained that the sponsor checked off those countries on the stock-holding list that were also countries in which dirty dozen companies were based.

[9:20:52 AM](#)

MS. STANCLIFF, in response to a question from Chair Seaton, clarified that unlike SB 12, HCR 27 does not take issue with the countries themselves, it only asks that the holdings be divested from the publicly held companies in the countries.

[9:21:16 AM](#)

REPRESENTATIVE GRUENBERG remarked that the invests in companies, not in countries, which is why he is confused by [SB12].

[9:22:58 AM](#)

MS. STANCLIFF, in response to a question from Representative Gruenberg, said she is not familiar with the workings of the Office of Foreign Assets Control.

[9:23:28 AM](#)

REPRESENTATIVE GRUENBERG asked why the resolution is limited to the aforementioned countries, because "tomorrow they could change regimes and become allies of the United States and then we have another country that becomes the haven for the terrorist."

[9:24:17 AM](#)

MS. STANCLIFF suggested that other countries could be factored into the resolution if they were of concern to the committee.

[9:25:08 AM](#)

REPRESENTATIVE RAMRAS proffered that North Korea and Iran are the biggest threats, thus, they are the countries he wants to highlight in the resolution.

[9:27:06 AM](#)

CHAIR SEATON directed attention to [page 1], line 10, of the resolution, which refers to "the Center for Security Policy". He asked for information regarding the organization.

[9:27:36 AM](#)

MS. STANCLIFF confirmed that the Center for Security Policy is a private entity whose report was used extensively as a basis for HCR 27. In response to a follow-up response from Chair Seaton, she said she would get more information regarding the Center for Security Policy to the committee.

[9:28:36 AM](#)

REPRESENTATIVE GATTO, regarding the source of information used to formulate the resolution, said he would like to know where the source is headquartered and something about its history.

[9:29:49 AM](#)

MS. STANCLIFF said some of that information can be found on page 8 of the report, which lists the Conflict Securities Advisory Group, Inc. (CSAG), as being "an independent and impartial Washington-based risk assessment firm."

[9:30:52 AM](#)

CHAIR SEATON cited a portion from the first page of a three-page excerpt of the Christian Science Monitor, entitled, "Spotting links to Terrorism, Inc.," which read as follows [original punctuation provided]:

But of the 30 or so other companies linked to proliferation issues, some two-thirds hail from the US.

CHAIR SEATON interpreted that there may be some "consistency problems with where we're going."

[9:31:39 AM](#)

REPRESENTATIVE GARDNER said she thinks the next sentence on the aforementioned page is relevant. It read as follows [original punctuation provided]:

The reason is that the US government is more likely to identify companies that export high technology with potential military uses than many foreign governments are.

REPRESENTATIVE GARDNER suggested, "It may be that other countries might find the same results if they were looking as we are." She emphasized to the sponsor that she thinks the whole issue is interesting, and the question is how to do the right thing when there is so much that is unknown.

[9:32:51 AM](#)

CHRISTOPHER HOLTON, Vice President for Administration, Marketing & Development, Center for Security Policy, told the committee that he is in charge of the center's Divest Terror Initiative. He relayed that the Center for Security Policy is a national security think tank, founded in 1988 by Frank J. Gaffney, Jr., the center's president and former official of the Reagan Administration Pentagon. He stated that the center is a nonpartisan entity whose mission is to promote peace through strength. He said the center has been involved in national missile defense and in the formation of the Rumsfeld commission through the Institute of the North.

MR. HOLTON said the Center for Security Policy has aided in "getting this type of legislation going" in Arizona, Illinois, Louisiana, and Missouri. He said the State Department has

identified official state sponsors of terrorism in its annual report, "Patterns of Global Terrorism." He listed the following countries: Iran, Syria, Libya, North Korea, and Sudan. He continued:

While U.S. companies are forbidden from doing business in those countries, by virtue of sanctions for the most part, (indisc. - coughing) companies have stepped in and done a tremendous amount of business with those countries - particularly with Iran ....

... We think this a moral issue [and] that state pension system holders around the country need to be informed that their investment dollars are going to companies that are doing business with those that are ... literally killing us.

In the case of Iran and Syria, both of those countries are heavily involved in the insurgency in Iraq. And that's not the Center for Security Policy saying that; that is well accepted. In fact, Iran, basically, tacitly admits that they are involved in the insurgency in Iraq.

So, right now you have members of the Alaska National Guard ... fighting in Iran and in Iraq against Jihadist insurgents who are armed, trained, equipped, and supported by Iran and Syria. At the same time that this is going on, the Alaska State Pension Board has investments in 68 companies with ties to Iran and 34 companies with ties to Syria. We think that this is information that needs to get out there, and we think that this is something that needs to stop.

MR. HOLTON, in response to a question from Chair Seaton, specified that the aforementioned states have actually passed similar legislation.

CHAIR SEATON asked, "If a company such as BP, or Exxon, or ConocoPhillips [Alaska, Inc.], ... was buying oil from Iran, would that be a country that was doing business with Iran?"

[9:37:52 AM](#)

MR. HOLTON answered as follows:

I can't accept the premise of your question ..., because those companies cannot [directly do] business with Iran. Someone mentioned the Office of Foreign Assets Control earlier; that is the arm of the treasury department that monitors U.S. sanctions policy. ... ExxonMobil [Corporation] cannot go into Iran and help them with their oil program; however, foreign companies, like Total SA, from France, have come in and do billions of dollars-worth of business in Iran. So, yes, ... theoretically, if one of those companies was doing business directly with Iran, that would be a problem, but the fact is ... that is not going on and that is currently against U.S. law.

CHAIR SEATON asked if Mr. Holton means investing in those countries or purchasing oil from those countries.

MR. HOLTON replied, "They can't do business with those countries."

[9:38:41 AM](#)

CHAIR SEATON asked, "Okay, but can they do business with companies that ... have business in those countries?"

[9:38:51 AM](#)

MR. HOLTON said he imagines that Exxon could do business with Total SA, but it could not buy oil directly from Iran.

CHAIR SEATON said, "But they could buy it from somebody else who's buying it from there."

MR. HOLTON responded that he does not know that for a fact.

[9:39:15 AM](#)

REPRESENTATIVE RAMRAS asked how the investment boards in the other states refuted the prudent investor rule, because he predicted that would be the objection that the legislature hears from the ARM Board and the Permanent Fund Corporation during this hearing.

[9:39:44 AM](#)

MR. HOLTON said the response from the investment community is that it will be too costly, cause portfolio performance to

suffer, or will be too difficult. He said the short answer to those objections is that they are not true. He continued:

For instance, the Louisiana sheriff's pension system ... has divested from this ... category, and ... in Missouri there was a terrorist-free pension system. They have managed to do this, despite the fact that they were told that it was going to be costly. In fact, the actuarial analysis from the Louisiana State House of Representatives retirement committee found that this was a revenue-neutral initiative; in other words, it did not cost the system a thing. And there is no reason why this has to negatively impact portfolio performance.

There are ways of divestment that can mitigate that impact. Divestment can occur in staged amounts over a period of time. Nobody's suggesting that these stocks should be dumped en masses, immediately. The way that it has been done in the past, for instance with South Africa divestment, is that perhaps over a period of three years, portions of the portfolio might be divested. It might not be the easiest thing that money managers have to do, but I would suggest to you that the young men and women of the U.S. military who are fighting in Iraq ... and in Afghanistan today are not doing something that's really easy either, and what we're not doing is supporting them.

[9:41:52 AM](#)

REPRESENTATIVE GATTO said he thinks what Representative Ramras is trying to do [as co-prime sponsor of HB HCR 27] is important, but he said it is also important to avoid making purchases from Middle East countries. He said, "We have an opportunity right here to take care of that problem." He asked, "[Does] that kind of a message ever leak out into some of these communities that you're familiar with?"

[9:42:58 AM](#)

MR. HOLTON replied that there is definitely a sense that dependence on Middle East oil is not a good thing, and he offered examples.

[9:44:33 AM](#)

MEAD TREADWELL, Senior Fellow, Institute of the North, told the committee that he directs the institute's defense and security program. He reviewed that the institute was founded by former Governor Walter Hickel to develop policy on issues strategic to Alaska and its future. For close to 10 years, he noted, the institute has worked with other national, international, and state-based think tanks on the proposition that action at the state level can help improve the security of the United States. He continued as follows:

Should state governments be concerned about national security? Absolutely. In Alaska, we understand our geographic position, we understand our role in hosting the military and sending our sons and daughters abroad. We understand we're close to North Korea. We understand the pipeline as a terrorist target, and we understand our energy helps America diversify its supply.

But we also need to understand our role as an investor in providing funds to parts of the world that could or would do harm to us. With the Center for Security Policy in Washington, the Claremont Institute in California, the Institute in Foreign Policy Analysis at Tufts [University], ... our program has helped the nation understand Alaska's vital role in U.S. security over the last 10 years, and we've helped Alaskans play a more effective role ourselves.

I should say that this Divest Terror campaign is a very interesting coalition of people coming from the left and the right, people coming from business and labor, people concerned about slavery in Sudan, and nuclear proliferation, and that you're working with very ... fine people here ....

As far back as 1996, the institute began looking at missile threats to Alaska and the position of the U.S. government then, which was not to include Alaska under the umbrella of a proposed missile defense system. It was a resolution of the Alaska [State] Legislature in 1997 which called for a new intelligence estimate on missile threats to Alaska, and [which] Senator Stevens told us resulted in the Rumsfeld Commission. Over several years, we helped shift U.S. policy to build a system in Alaska, not for our economy, but for our protection. We hosted a continuing series of follow-

up conferences on these issues, involving many of your present and former colleagues.

... There's one conclusion we found in every meeting we've had assessing the threats to the United States: terrorism and nuclear threats run on money. Terrorism finds refuge in states with regimes that support terrorists, and money - usually outside money brought in from the world market economy either as investment or trade - is the mother's milk of terrorism. Alaska's major fund, the permanent fund, and our pension funds could find themselves unwitting players in this process. This resolution calls for a stop to that by a simple, inexpensive process that several other states and leading pension funds have taken on to review their portfolios.

I was able to see a copy of ... the document circulated by the Permanent Fund Corporation at the last meeting of this committee. ... What I saw there is a kind of a scare tactic; a huge price tag meant to dissuade ... this committee from passing a resolution that would free Alaskans from the concerns that their permanent fund might be supporting terrorism. Between the last meeting and this we were in contact with the Conflict Securities Advisory Group - one that several firms, states, and pension funds have hired to review their portfolios against concerns they unwittingly invest in terrorism or nuclear threats to the United States. The firm has told me that they'd be able to offer the State of Alaska a full screening service for its permanent fund and state pension fund for a discounted rate of \$5,000. ... Before this legislature concludes its business this spring, I believe you could be aware of how many stocks and of what value Alaska's portfolio is exposed through investments and terrorism. The term exposure is not one I use lightly. While some investment funds have cautioned that divestment of stocks invested in terrorist states could lose them money, I believe this process reduces risk that the stocks would take a sharp fall. Several firms, such as General Electric and ConocoPhillips [Alaska, Inc.] have, because of concerns raised like those in this resolution, divested activities in Iran to make sure they are not exposed. Shouldn't we be doing the same thing?

[9:49:11 AM](#)

MR. TREADWELL concluded that the proposed legislation is a resolution, not a law, and it would commit the State of Alaska to a process of moderating its investments in national security and would give the Permanent Fund Board the flexibility to "take this on." He stated, "Governor Hickel likes to remind us we're an owner state, and I think as owners we deserve to give our asset managers a little advise now and then."

[9:49:29 AM](#)

REPRESENTATIVE GARDNER asked Mr. Treadwell to provide a written copy of his testimony for the committee.

[9:49:58 AM](#)

LAURA ACHEE, Research and Communications Liaison, Alaska Permanent Fund Corporation, Department of Revenue, said she is pleased to hear that the Council for Security Advisory Groups has given a quote of \$5,000 for Divest Terror products, because she had been told the cost would be \$15,000 per manager. She stated, "I would like to point out that for the Alaska Permanent Fund Corporation itself to purchase the list does us not as much good; it helps us evaluate what's in our current portfolios, but we don't make any of our purchase or divestment transactions in house, so every one of our managers would also have to purchase this list." Ms. Achee explained the purpose for her presence is to supply "the full range of facts" for the committee to use in deliberating the resolution. She concluded, "The Permanent Fund Board is required to act as fiduciaries, and unfortunately that means that they have to approach every decision from a financial perspective."

[9:52:17 AM](#)

MICHAEL J. BURNS, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue, had his testimony read by Laura Achee, which read as follows [original punctuation provided]:

Mr. Chairman and members of the committee, my name is Mike Burns and I am here on behalf of the Alaska Permanent Fund Corporation Board of Trustees to testify on House Concurrent Resolution 27.

We appreciate the reasons that the sponsor would have for bringing this resolution forward. No United States citizen wants to support countries that seek to harm the US, either directly or through the actions of our state and local government.

However, I am here today to represent the Permanent Fund's Board of Trustees, and their role as fiduciaries of the Fund. The common law duty that has been termed the most fundamental duty owed by a fiduciary is to administer a fund solely for the financial good of its beneficiaries. Therefore any social investment restriction will raise concerns for the Trustees.

These concerns of the Board and the APFC staff can be summarized in three points.

First, the Board of Trustees does not believe that any social investment restrictions are compatible with their charge by state statute and the prudent investment rule to act as fiduciaries of the Permanent Fund.

Second, the APFC believes that the restrictions suggested by this resolution will have a significant increase in management fees, divestiture costs and potential lost revenues in the future.

And finally, while we can appreciate the desire to bring about change through investment guidelines, we believe that the efficacy of these measures has not been proved and is not guaranteed to produce the desired result.

*(Statutory direction)*

The statutes are very clear. The Fund must be invested under the guidelines of the Prudent Investor Rule. Statutes also direct that the Fund should:

- provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;
- maintain safety of principal while maximizing total return;

- and be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law.

Any directive to invest in or divest of any asset for any reason other than for the financial benefit of the Fund's beneficiaries would run counter to all of the directives in statute.

On December 15 of last year, the Board's Corporate Governance Committee met and approved by motion a statement on behalf of the Board of Trustees. This statement reads "The Corporate Governance Committee reaffirms the position that social investment policies do not serve the Fund's statutory mission of investing for maximum return while protecting principal."

I believe the Trustees' position on this issue has been made very clear.

*(The Cost of Implementation)*

However, if the Trustees were to divest the Fund of companies with ties to Iran and North Korea, it would raise two questions: How do we know which companies to divest from and avoid purchasing in the future, and what will be the cost to the Fund both in manager fees and lost returns?

First, how to determine which are the companies in question? The Federal Government via the Securities and Exchange Commission would be a good source of information, however they have declined to produce a list of companies that invest in terror sponsoring states.

So we turn to private sector offerors. There are only two firms that could provide the Permanent Fund with this information.

Institutional Shareholder Services is a widely recognized firm that primarily offers research for proxy voting issues. They also provide lists on companies that invest in Sudan and more recently in terror sponsoring states. However, ISS has publicly

warned that their list should be used for informational purposes and is not intended as a divestment list.

Conflict Securities Advisory Group also offers a list of companies invested in terror sponsoring states. CSAG clearly states on their web site that they do not separate companies that are in terror sponsoring states for humanitarian reasons versus those with purely economic motivations, or even the scale of economic involvement. Adam Pender of CSAG has also cautioned that his list in no way should be used as a divestment list.

The New York State Comptroller's office wrote to several companies on CSAG's list last fall to inquire of their specific activities. In one case the company paid half of a local consultant's salary for information on what was occurring on the ground in Sudan.

Seimens, another company on CSAG's list, has stated that while they do have a joint venture in Iran, they are in "full compliance with existing international embargoes and sanctions."

The APFC has questions regarding the reliability of the information on these lists based on the statements of the firms themselves and the subsequent investigation of the companies named.

If the Board of Trustees were to move forward despite the concerns over the information contained in these lists for purchase, the APFC would next have to address cost.

One cost would be the cost of the divestment lists. The APFC does not make any internal equities trades, and uses 4 external fixed income managers in addition to our internal fixed income department. Thus the Fund's external managers would all have to purchase one of the lists available in order to properly screen the Fund's current portfolio and any future purchases. We expect that the managers would pass this cost back to the Fund, in part based on information gleaned in our conversations with ISS and C-SAG regarding their current clients.

Including our internal fixed income department, we have 39 managers each paying an annual fee. We estimate the annual cost to the Permanent Fund would range from \$207 thousand to \$585 thousand. This could be affected by the manager's decision to charge the APFC.

The next step in the cost analysis would be the cost of divesting the Permanent Fund's portfolios of the companies on the list. One specific portfolio that I would like to mention is our Cap Guardian Emerging Markets portfolio. Currently our portfolio is commingled with the funds from several other large institutional investors providing a significant cost savings. In order to comply with this specific divestment directive we would have to pull out of that common fund to create a custom portfolio, incurring both divestment costs and increased annual fees.

The specific details of the divestment costs for our portfolios are broken down for you in the handout we provided. In summary, we estimate the range of divestment costs to be from \$19 million to \$37 million. These estimated costs don't include the cost of searching for new managers if our existing managers choose to terminate our relationship because of the difficulties associated with these new restrictions.

And there will be annual costs to comply with the new restrictions. We estimate our manager fees for the equity portfolio will increase by about \$16 million per year, in addition to the annual costs of procuring the divestment list. For comparison, the Permanent Fund has budget \$47.6 million for manager fees for FY06. We also believe that while small compared to the other costs, there will be increased costs in necessary staff time to monitor managers' compliance with these restrictions, additional due diligence and additional consultant's fees.

Also we must consider the potential loss of revenue to the Fund. While it is difficult to predict what this might be, we have put some rough estimates together of various scenarios and have included the details in the information provided to you. Our rough estimate shows losses of as much as \$52 million per year.

*(Social Investing)*

Now that I have outlined the specific issues of how this resolution could affect the Fund, I would like to take a few minutes to address the topic of social investment policies in general.

One question is whether divesting of the companies would have any affect at all in discouraging them from investing in terror sponsoring states. While the Permanent Fund seems large from the Alaskan point of view, we are very small from the point of view of the companies we invest in. Generally the Fund owns less than 1 percent of any company, and if we were to sell our shares other buyers from around the world would be there to take our place.

But if our divestiture were to have the desired effect of encouraging companies to pull out of the countries in question, would it produce the desired result?

While aggression against the United States and aggression against a country's own citizens do create slightly different circumstances, there are enough similarities in purpose behind this suggested divestiture from terror sponsoring states and the move to divest from South Africa in the 1980's to draw comparisons on the efficacy of these measures.

Conventional wisdom over the years has held that boycotting South Africa was very effective and brought the country to its knees, but this conclusion does not hold up against the facts.

In 1999 a group of economic researchers from several organizations collaborated on what is considered to be the definitive review of the South African boycott. Their findings were published in the Journal of business, and the group concluded that "despite the prominence an publicity of the boycott and the multitude of divesting companies, the financial markets' valuation of targeted companies or even the South African financial markets themselves were not easily visibly affected."

The conclusion we can draw from this is that even if the companies that the Fund is invested in withdraw from terror sponsoring states, it is not guaranteed to have the desired effect of bringing about change in those countries.

#### Conclusion

I am not here to recommend that the committee vote for or against this resolution. The Board of Trustees respects the Legislature's authority to provide direction in how the Permanent Fund is invested. However, I do urge the committee to carefully consider the definite and potential financial consequences of supporting any social investment restriction on the Fund, as well as the probability the restriction has of producing the intended benefit.

Thank you for the opportunity to testify on this resolution.

[10:00:34 AM](#)

CHAIR SEATON, regarding Ms. Achee's breakdown of initial costs, asked if the divestiture would be required of the Standard and Poor's (S&P) 400 and S&P 500 funds.

[10:00:52 AM](#)

MS. ACHEE answered yes.

[10:00:56 AM](#)

REPRESENTATIVE RAMRAS asked Ms. Achee, "Do you think we would have saved money with the bus system if Rosa Parks would have just got on the back of the bus instead of the front of the bus?"

[10:01:30 AM](#)

MS. ACHEE replied, "The Board of Trustees of the Permanent Fund is not in position to debate the relative moral implications of any social investment restriction; their job is to act as fiduciaries of the fund."

[10:01:56 AM](#)

REPRESENTATIVE LYNN suggested that [only focusing on the fiduciary aspects of the fund] could mean investing with the mafia.

MS. ACHEE replied, "I don't know if those are traded on public markets."

[10:02:33 AM](#)

REPRESENTATIVE LYNN said everyone has his/her own favorite social issue, but what is being discussed is not a social issue, but one of national security.

[10:02:36 AM](#)

CHAIR SEATON announced that HCR 27 was heard and held.

**ADJOURNMENT**

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at [10:02:41 AM](#).