

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

March 6, 2006  
9:02 a.m.

**MEMBERS PRESENT**

Representative Bruce Weyhrauch, Chair  
Representative Norman Rokeberg  
Representative Paul Seaton  
Representative Peggy Wilson

**MEMBERS ABSENT**

Representative Ralph Samuels  
Representative Max Gruenberg  
Representative Carl Moses

**COMMITTEE CALENDAR**

OVERVIEW OF PERMANENT FUND INVESTMENT CONFIDENTIALITY POLICIES

- HEARD

HOUSE BILL NO. 418

"An Act relating to a mining production tax; relating to the mining license tax; relating to production royalties on minerals; relating to exploration incentive credits; and providing for an effective date."

- BILL HEARING CANCELED

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MIKE BURNS, Executive Director  
Alaska Permanent Fund Corporation (APFC)  
Juneau, Alaska

POSITION STATEMENT: Provided information on APFC investment confidentiality policies.

LAURA ACHEE, Communications Director  
Alaska Permanent Fund Corporation (APFC)  
Juneau, Alaska

POSITION STATEMENT: Provided information on APFC investment confidentiality policies.

#### **ACTION NARRATIVE**

**CHAIR BRUCE WEYHRAUCH** called the House Special Committee on Ways and Means meeting to order at [9:02:16 AM](#). Representatives Weyhrauch and Wilson were present at the call to order. Representatives Rokeberg and Seaton arrived as the meeting was in progress.

#### OVERVIEW OF PERMANENT FUND INVESTMENT CONFIDENTIALITY POLICIES

[Contains discussion of HB 215.]

[9:02:25 AM](#)

CHAIR WEYHRAUCH announced that the only order of business would be the overview of the permanent fund investment confidentiality policies. He explained that it is not the purview of the House Special Committee on Ways and Means to be the oversight for the permanent fund; however, due to present scheduling conflicts, this committee has the opportunity to question the Alaska Permanent Fund Corporation (APFC) on its current confidentiality policies which may guide its investment decisions. He informed the committee that recent press has raised questions on APFC restrictions regarding the release of information. Additionally, he relayed that there has been some interest expressed by the corporation's administration to invest in the gas pipeline.

[9:05:45 AM](#)

MIKE BURNS, Executive Director, Alaska Permanent Fund Corporation (APFC), expressed his belief that [APFC] would like the public to be fully aware of what the corporation is presently doing. Additionally, he said that there is nothing confidential today that wasn't confidential in prior years. He then provided historical background, relaying that several statutes created the corporation and empowered it to manage those funds within the permanent fund. He referred to one of the statutes, AS 37.13.200, which has been in effect since 1980 and which read:

Information in the possession of the corporation is a public record, except that information that discloses the particulars of the business or affairs of a

private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

9:07:24 AM

REPRESENTATIVE SEATON, referring to the different reports from [fund] managers the legislature receives, asked whether or not these were not considered part of the business section.

MR. BURNS said that this is dependent upon the particular managers with whom the corporation has a contractual relationship which would be those who manage non-public assets in specifically the private equity area and in absolute return. He relayed that the managers' strategies are their intellectual property and very important to them. The amount of money committed to the strategies, he explained, in addition to the identification of the managers' personnel, is information not made available to competitors. He highlighted that approximately 75 to 80 percent of the returns in the alternative investments asset class, "come from the top third of the managers." He opined that it's very important for [APFC] to be associated with the best people in the field and that "the permanent fund is the kind of client people want desperately - we're large, we have a good reputation - so we have people in all asset classes going out of their way to have us as their client or try to make us their client." He explained that since it's a seller's market for alternative investments, it's very important for [APFC] to invest with the top third of the managers. He said that these managers are the ones that consider their information most confidential because it's what "their success, their intellectual property is built upon." He informed the committee that this is the reason APFC accommodates these managers as allowed under the statute of 1980.

9:09:52 AM

REPRESENTATIVE SEATON rephrased his question asking if the total gross or net return shown on the state's monthly [statements] of assets, provided by a particular manager, is information available for the public as well.

MR. BURNS said it is and that this information is available online as well. He explained that most of the fund's returns are based against a benchmark and that managers are directed to manage a fund against others such as the S&P 500, the S&P 1000, or the Lehman Aggregate Bond index. With absolute returns, he clarified that managers are hired to manage risk with no big upside or downside but rather with a "narrow band of returns." He relayed that the desired target for the fund's absolute return is the one-month London Interbank Offered Rate (LIBOR) which he defined as an "overnight trading of funds between major banks on a worldwide basis" and is very similar to a treasury bill return. More specifically, he described the desired target as being LIBOR plus 400 basis points or 4 percent. He highlighted that although targeted earnings were set for 7.31 percent, the fund has earned 9.61 percent, since inception, from bonds earning 3.95 percent. Furthermore, he relayed that the standard deviation for the bond portfolio, which had earned the 3.95 percent, was 2.83 percent, and then compared this to the standard deviation of 2.67 percent for the fund's absolute return which had earned the 9.61 percent. These percentages show, he said, that the APFC exceeded its goal, more than doubled the fixed-income return, and did so with less risk.

[9:14:33 AM](#)

CHAIR WEYHRAUCH, referring to the [APFC] Resolution 05-04 adopted in November 2005, inquired as to why it was so recently adopted if [disclosure] policies were in place for so long. He asked whether it was done "in reaction to something."

MR. BURNS explained that APFC was beginning to receive an increased amount of inquiries on this topic and was advised by its counsel that it had the statutory responsibility to review all public records requests. Given this, and the infrequent amount of time the board meets each year, he relayed that the resolution was instated to empower him, as the corporation's executive director, to respond to these records requests. Following this, regulation 15 AAC 137.610 was adopted which he opined as a more straightforward means than solely by resolution. Furthermore, he said that's it "almost identical to the one that the state's pension board has had on the books since 1996."

CHAIR WEYHRAUCH, referring to the aforementioned statute, Sec. 37.13.200, asked whether the State of Alaska would be considered as an "investor" given that it "wants to invest millions of dollars in gas pipeline."

MR. BURNS said that this hasn't yet been addressed by [APFC] counsel and expressed his belief "that at this point in time, probably the confidentiality ... would ... derive from the Stranded Gas Act rather than these organic statutes of [APFC's]." He informed the committee that APFC is currently in the request for proposals (RFP) process for hiring a fiduciary to advise the corporation in the event it is asked to be a participant in the gas pipeline project. He described the three sections of the RFP: education of the board on infrastructure investments such as the one for the gas pipeline, examining the financial attributes and returns of the investment, and determining how the investment would fit with APFC's current portfolio.

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REPRESENTATIVE SEATON, referring to the possibility that the gas pipeline may or may not be regulated by the Federal Energy Regulatory Commission (FERC), asked whether he was correct in presuming that this would be an issue upon which the APFC and its fiduciary would focus.

MR. BURNS said that discussions regarding FERC regulations would likely be discussed if and when APFC is presented with a proposal to [invest in the gas pipeline] - something that has not yet occurred.

REPRESENTATIVE ROKEBERG said that it would be "news to him" if [the gas pipeline] was not FERC-regulated.

REPRESENTATIVE SEATON relayed that prior testimony "from the all-Alaska line was that it was available for the \$18 billion underwriting" but that they would not [necessarily] be FERC-regulated. He suggested that this could affect investment decisions.

[9:20:26 AM](#)

REPRESENTATIVE WILSON said that she has heard discussions suggesting that another permanent fund be started for the gas pipeline which would be used to pay for state services. If this happens, she asked how it would affect APFC's investment decisions.

MR. BURNS said that in the event the corporation is asked to invest in the gas pipeline, it would have to determine whether

or not the investment is prudent given the many possible variables. Given that 25 percent of royalties are currently diverted to the [permanent] fund, he speculated that this is "probably totally independent of the investment characteristics of investing money in a pipeline." Mr. Burns continued with his prepared remarks relaying that there are those who have considered the APFC's investment choices "out of the mainstream" yet the trustees have made modest investments work. He informed the committee that the current asset allocation to absolute return for the permanent fund is 4 percent and that its asset allocation to private equity is also at 4 percent. Similarly, he said, the state's pension fund has 3 percent allocated to absolute return and 6 percent to private equity. He then highlighted the investment percentages for several universities: The Massachusetts Institute of Technology (MIT) with 12.7 percent in private equity and 18.8 percent in other alternative investments; the Yale Endowment with an absolute return of 26.1 percent and private equity of 14.5 percent; and the University of Alaska Foundation with targeted alternative investments of 25 percent. He opined that in comparison, both the permanent fund and the state pension fund are on the low end. He said, "If you had to give up 200 basis points to not be in these asset classes, that aren't as transparent as some of the others, that it would be worthwhile." He pointed out that 200 basis points on 8 percent of the permanent fund is well over \$50 million a year and expressed his belief that the corporation is investing very prudently in a "tough" world.

[9:25:53 AM](#)

REPRESENTATIVE ROKEBERG sought confirmation of his understanding that the targeted rate for the approximate \$33 billion total corpus of the funds is 8 percent, with the combined percentages for private equity and absolute return, and that a 200 basis points portion of this 8 percent yields \$50 million per year.

MR. BURNS said this was accurate and that the corporation deals "in very big numbers."

[9:27:02 AM](#)

CHAIR WEYHRAUCH, noting that there is a presumption that [permanent fund] information should be made public, asked Mr. Burns in what situations does an investing entity require that information be kept confidential from the public and when, if ever, is it decided that the information be made available to the public.

MR. BURNS explained that the only areas requiring confidentiality are those pertaining to absolute return and private equity - the strategies behind which are the intellectual property of the managers. He informed the committee that the only other possible area in which the APFC is not as "forthcoming on a timely basis" is during the negotiation stage of real estate transactions. He said that once the transaction is complete, it becomes available information for the public. In response to Chair Weyhrauch, he explained that the initial need for confidentiality is due to today's competitive market and that the APFC does not want to offer more for property than necessary. He relayed that the corporation is guided by its advisors and bids according to the recommended range, cap rate, and return - information better kept confidential from possible competitors.

CHAIR WEYHRAUCH inquired as to whether the amount the fund is willing to invest in [real estate] transactions is kept confidential from the public. He clarified that one possible concern of the public is whether the fund is putting "an inordinate amount of money at risk on secret deals and when would the public ever have an opportunity to weigh in on that, except after the fact when things are disclosed." He said it was his understanding that the overall fund is managed by the "prudent-investor rule" and asked Mr. Burns to provide more explanation on the need for the APFC's "cone of silence."

MR. BURNS said that the public can access the fund's annual allocations on the APFC website. This year's real estate allocation, he relayed, is 10 percent of the fund and falls into two categories: privately-owned real estate and real estate investment trusts which are publicly traded securities.

[9:30:53 AM](#)

REPRESENTATIVE ROKEBERG asked whether knowing which institutions are contracted by the APFC is public information.

MR. BURNS explained that the corporation has what it refers to as a "gatekeeper," Pathway [Capital Management, LLC], which makes committed partnerships. The amount committed to these partnerships is public information at times and other times not, depending upon where the partners are in the transactions.

REPRESENTATIVE ROKEBERG, in noting the concern for "lack of transparency and lack of knowledge" regarding which investment

medium is used, suggested that the transactions Mr. Burns is describing parallels real estate transactions which begin with an initial period of confidentiality and then disclosed to the public once the transactions are complete.

[9:33:27 AM](#)

LAURA ACHEE, Communications Director, Alaska Permanent Fund Corporation (APFC), relayed that the APFC quarterly publishes the names of the underlying partnerships in the private equity portfolio in addition to the amounts committed to them. What isn't published, she said, is the amount these partnerships have currently invested. She explained that with absolute returns, the names of the partnerships are not published because "those relationships that they have with those absolute return managers are considered their proprietary information."

REPRESENTATIVE ROKEBERG suggested that an argument could be made that there is disclosure on "where the funds are, who has responsibility for them and not the nitty gritty [details]," and opined that it's not like buying a mutual fund which periodically lists the stocks in an equity portfolio.

[9:34:41 AM](#)

REPRESENTATIVE SEATON asked whether Real Estate Investment Trusts (REIT) [transactions] are confidential.

MR. BURNS explained that these are publicly traded securities and not confidential. He relayed that recently APFC liquidated a fair number of REITs at almost \$300 million. Since the REITs operate similarly to small cap stocks, having little liquidity, the selling of such investments, though public, is not broadcast at large.

REPRESENTATIVE SEATON requested Mr. Burns define the private equity asset allocation and what it entails.

MR. BURNS informed the committee that the corporation views private equity as having similar risk characteristics as public equity. However, he explained that with private equity investing "you are paid for the illiquidity" of lengthier investment periods. He opined that liquidity is not a problem for the permanent fund. Additionally, he highlighted that private equity investors have investment access to roughly 50,000 or so private businesses which are not available to the public equity market.

REPRESENTATIVE SEATON said he was trying to grasp what "private equity" means for the public.

MR. BURNS provided an example of one of the largest transactions which involved the Ford Motor Company sale of the Hertz Rental Car Company to a consortium of private equity managers. He then explained that in private equity, there is something called "the liquidity event which is akin to the pay off" and the point at which private equity managers decide whether to make a stock public, resell it or other decisions made according the determined value.

REPRESENTATIVE SEATON expressed his belief that the public has not been fully informed as to the kinds of [private equity] in which the permanent fund invests.

MR. BURNS further attempted to clarify this by assuming that the permanent fund had been involved with the aforementioned purchase of the Hertz Rental Car Company. Any company doing so would invest through the private equity general partnership which purchased the rental car company, he relayed. The partnership's actions, he said, would be driven by the possible financial aspects of the company it purchased, such as how much debt can it service as well as determining what the appropriate capital structure would be.

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MS. ACHEE explained that there are public companies that trade on the public stock and bond markets as opposed to private companies that might not want to go public to sell shares and yet still require funding. Private equity, she said, is investing in private companies that haven't gone public.

MR. BURNS provided an additional example: the CSX [Corporation] sale of Sea-Land when it was determined that this company no longer met CSX Corporation's hurdle rate for investment and so was sold to a private equity partnership.

[9:42:20 AM](#)

REPRESENTATIVE ROKEBERG observed that there is a plethora of private capital availabilities. He referred to Mr. Burn's earlier mention that it is currently a seller's market for those in the business of seeking management firms and noted the importance of APFC being able "to recruit the very best." He

remarked that "many of the very best companies wouldn't even undertake us if we had, for example, greater disclosure of their business activities; they wouldn't even consider taking Alaska up as a client." He then asked Mr. Burns to expand on this.

MR. BURNS, in noting that 75 percent of the APFC's returns are in the top third, said, "it's obvious that's where we want to be." He relayed an instance when a potential absolute return manager notified the APFC board at the last minute that it did not wish to be considered for a position "specifically because of the disclosure [issue]." Given the fact that the permanent fund virtually requires no additional costs, he remarked on how [unlikely] it is to have an [absolute return manager] "walk away from a very substantial fee from [APFC]" because of possible concern that the corporation would "disclose their intellectual property."

[9:45:21 AM](#)

REPRESENTATIVE ROKEBERG, as the sponsor of HB 215, legislation which passed last year, commented that he has heard it said this legislation allows APFC greater authority to transact its business with more confidentiality. He said that he "rejects" this belief and was pleased to hear Mr. Burn's description of the yields and returns to the State of Alaska on the fund's former fixed income portion by over 5.5 basis points. "We accomplished the number one goal in that legislation," he said. In noting that since its inception, the APFC has always had a regulatory framework in which it would keep particular issues confidential, he asked Mr. Burns to describe the historic context of these particular issues and whether there has been any possible change to public policy on this topic.

MR. BURNS said there has been no change to public policy. He opined that HB 215 has been "a huge step forward for the fund and for its asset allocation and investment ability" [and yet] "HB 215 has absolutely nothing to do with this issue [of confidentiality]." He informed the committee that the confidentiality statute was passed in 1980 when the fund was created and that nothing has been added to the regulation - one that has been on the books since 1990. He repeated his opening statement that "nothing is confidential today that wasn't confidential [since inception] ...."

[9:48:43 AM](#)

CHAIR WEYHRAUCH sought confirmation that there was no connection between the legislative change made to the "basket clause," which increased the investment options for the permanent fund, and APFC's resolution which came out [later] that same year.

MR. BURNS said this is correct.

MS. ACHEE agreed and said that in her position as the project manager who worked on the resolution and regulations, it was made very clear to her that the APFC's Board of Trustees could not take on any sort of authority that isn't provided in statute. Furthermore, she relayed that the statute directs the board to keep certain information confidential and the newly passed regulations can only add clarification.

[9:49:47 AM](#)

REPRESENTATIVE WILSON asked why, if nothing has changed, have all these questions come up so suddenly.

MR. BURNS opined that it's perhaps a "basic issue of journalism."

[9:51:13 AM](#)

CHAIR WEYHRAUCH sought confirmation of his belief that there is always a tension between the public's "right to know" and the ability of a corporation to have reasonable return on the public's money.

Mr. Burns agreed.

[9:51:32 AM](#)

REPRESENTATIVE ROKEBERG, referring to the March 6, 2006 "Alaska Budget Report" in the committee packet, asked whether its editor and publisher, Rebecca Braun would be testifying.

CHAIR WEYHRAUCH explained that she would not be testifying because he had questions to ask of Mr. Burns regarding the redacted portion of the report and whether this was done with the corporation's permission or whether it divulged "public information that would harm the state's investments if it were not redacted."

MR. BURNS explained that determining whether information can be redacted involves a process between the APFC lawyers and such

companies as Crestline Investors, Inc. and Pathway Capital Management, LLC whereby these companies must provide convincing argument that their strategies are a vital part of their intellectual property. Otherwise, he relayed, it's APFC's "natural instinct" to disclose information.

CHAIR WEYHRAUCH asked whether the court is "the remedy" once a determination is made that information is confidential and not to be released.

MR. BURNS said this is correct.

[9:53:37 AM](#)

MS. ACHEE explained that the reason some of the information in the report was redacted is because Crestline Investors, Inc. believed it would give away their proprietary strategies "or the particulars of their business affairs." She relayed that they presented their arguments to APFC's counsel who then worked through the regulations and statutes to determine whether this information was legitimately confidential.

CHAIR WEYHRAUCH inquired as to whether the corporation, in the RFP process, informs potential investment managers that under state law their information will be subject to public disclosure unless APFC advises in writing what is not public information.

MS. ACHEE explained that APFC does not go through the RFP process for its financial managers. She pointed out that the corporation is just now facing these confidentiality issues because of its recent investment in certain kinds of asset classes; prior to that, investments primarily involved real estate. In response to Chair Weyhrauch, she said this was not a result of HB 215 passing but rather a result of the creation of the 5 percent "basket clause" of 1999. She relayed that from this point forward, APFC will need to inform asset managers at the time of the bidding process that much of the information they wish to keep confidential, will have to be released by APFC. In response to Representative Wilson, she confirmed that this is exactly the reason why one of the firms withdrew its bid in 2004. She commented that she does not agree with all this firm's concerns, one of which pertained to the posting of APFC minutes on the World Wide Web where the public could read "everything that [the firm] said."

MR. BURNS clarified that the firm was very straightforward regarding their reasons for pulling out and that this was not something simply inferred by APFC.

[9:58:01 AM](#)

REPRESENTATIVE ROKEBERG opined that as a public corporation, responsibility is owed to the shareholders - the people of the State of Alaska. He asked how Alaska compares to other state pension funds in regard to public disclosure.

MS. ACHEE said that APFC did not research the regulations of other states before drafting its regulations. She explained that the APFC regulations are based on the Alaska Retirement Management Board (ARMB) regulations and "based on the interpretation of what the authority was granted under statute." In discussions with other equity managers, she said it was determined that [Alaska's disclosure policies] fall somewhere in the middle range. She referred to two public universities within these asset classes, both in states that require the release of more information than Alaska requires and both having been excluded from business dealings with private equity firms when disclosing required information that those firms felt was confidential.

[10:00:35 AM](#)

REPRESENTATIVE WILSON asked Ms. Achee if she was familiar with the legislation proposed by University of Alaska last year which would enable the university to keep more of its information private.

MS. ACHEE said she was not familiar with this particular legislation.

[10:00:54 AM](#)

REPRESENTATIVE ROKEBERG referred to Ms. Braun's "Alaska Budget Report" and its mention of the notoriety of the hedge funds following the 1998 collapse of Long-Term Capital Management. He also noted its mention of the "famous letter" that Berkshire Hathaway's chairman, Warren E. Buffett, sent to the fund's shareholders in which he admitted he was to blame for the loss of \$[404] million through derivative investments. He said that "perhaps the budget report would prefer that we get out of the absolute return and private equity business and just put the money in buying Berkshire Hathaway's stock."

CHAIR WEYHRAUCH expressed his belief that the legislature and the people in the State of Alaska have put a "tremendous amount of trust in the trustees of the permanent fund." Although noting that the purpose of having confidentiality restrictions is to reveal any imprudent investment practices, policies, or transactions, he opined that APFC's practices have not been such. He remarked that it is "politically popular" for the legislature to respond to any uproar regarding the loss of "a tremendous amount of money in a transaction that was kept secret." He opined that Alaskans "want to get a return on their investment that's reasonable and prudent and that we do not put too many eggs in one basket." He stated his belief that confidentiality restrictions should be placed on information in a limited fashion and that they eventually be lifted so people can be informed of what transpired.

[10:03:42 AM](#)

REPRESENTATIVE SEATON referred to the "disconcerting" mention of the 13 denials [for public records requests] in Ms. Braun's "Alaska Budget Report" and its mention that of those records received, many were "often so heavily redacted." He inquired as to whether the 13 denials were simply an "outright denial of information" or that the records requested were "so specific that it would be 100 percent redacted."

MS. ACHEE [referred to the denials as "letters"]. She then informed the committee that although she could not remember the exact number of letters sent, two of the them requested the 10-day extension allowed under state law. She explained that other letters were sent relaying that "redacted information was being provided." In very few cases were entire documents withheld, she relayed, and "for the most part, [APFC] provided every single document with redactions ...."

REPRESENTATIVE SEATON referred to the Crestline Investors, Inc. chart attached to Ms. Braun's budget report. He clarified for the record, that although information on the individual investments and investment partners on the chart have been redacted, the "full totals" for costs, additions, withdrawals, and other categories are shown.

[10:05:57 AM](#)

MR. BURNS explained that Crestline Investors, Inc. manages 14 strategies and 46 managers for APFC and "how they move money from strategy to strategy is very important to them."

REPRESENTATIVE ROKEBERG, returning to earlier mention on the proposed gas pipeline project, asked Mr. Burns to update the committee on the current status of discussions between the corporation and Governor Frank Murkowski on this topic. In response to Chair Weyhrauch, he opined that APFC is more likely "constrained by the prudent[-investor rule] in making any investment." Furthermore, he expressed his belief that a cap or a total allocation to a singular project would be a limiting factor.

MR. BURNS relayed that concentration [in a singular project] is "a big part" of the prudent-investment decision and one that would require input from an outside fiduciary. He informed the committee that APFC has no specific requests from the governor. Mr. Burns noted that William Corbus, commissioner of the Department of Revenue (DOR), one of the APFC's trustees, indicated that various financing schemes have mentioned the permanent fund as a source of capital and a potential investor. He said that APFC is currently in the RFP process to hire an independent fiduciary to prepare the corporation for any forthcoming proposals. In response to Representative Rokeberg's question regarding who requested the RFP, he explained that APFC staff suggested the RFP process to the corporation's board. He relayed that DOR has "made it known to [APFC], as a group, that [the corporation] is part of [DOR's] thought process, but there's no specific requests" to date.

REPRESENTATIVE ROKEBERG remarked that any fixed income instruments that might result from the pipeline would be rated by rating agencies and that standard, fixed income principles in making investments in bonds would be followed. He then suggested that there are really two sections of ownership on the gas pipeline: one of private equity placement, were APFC to buy a portion of the pipeline, anticipating equity from the pipeline itself, and the other being the pipe itself as an entity in shipping responsibilities. He expressed his belief that there would be significant constraints on what the permanent fund could do in terms of gross investment in the project and "how that would fit in the purchase or equity position of the State or Alaska." He concluded by saying that he wasn't sure he understood "what value that would have other than just a straight investment in part of the permanent fund to the state's position."

10:11:57 AM

MR. BURNS opined that from the state's perspective, there is great benefit to delivering its gas to market and creating employment. However, from APFC's perspective, he relayed that other points are evaluated such as whether the investment can stand on its own with clear, prudent investment merits. He remarked that there is no section in the RFP which requires that the fiduciary consider "whether [APFC's] investment in this [project] is for the good of the order; it's got to be for the good of the fund, period." In response to Representative Rokeberg, he said that APFC is currently requesting a special appropriation from the legislature to hire a fiduciary - approval of which would likely result in a packet of [accompanying] legislation. He said he does not know how this will affect APFC at this point in time.

CHAIR WEYHRAUCH observed that last year, APFC testified that it did not need any special legislative authority to invest in the gas pipeline, that it had otherwise met all the requirements for fund investment such as prudent-investor rule, reasonable return on a reasonable amount, and similar constraints.

REPRESENTATIVE ROKEBERG said he did not disagree with this.

REPRESENTATIVE SEATON explained that there are three kinds of ownership in a gas pipeline: gas, pipeline, and shipping volume. He asked whether APFC's RFP included an investment in the pipe alone or of ownership in gas or in shipping volume.

10:15:38 AM

MR. BURNS informed the committee that APFC is seeking advice on [investment] in the pipe and the transportation business, not on gas ownership.

REPRESENTATIVE SEATON noted the two components of ownership remaining: shipping volumes and the actual pipeline itself. He said he imagined that the shipping volume component to be quite different from investing in a FERC pipeline which involves a set return on investment. Between these two components, he asked Mr. Burns whether the RFP dealt with the pipeline only and not ownership of shipping volume.

MR. BURNS said this is correct yet reminded the committee that APFC has not yet been specifically asked to become involved in

any of these ownership components of the gas pipeline project. He relayed that APFC has no expertise in marketing gas.

REPRESENTATIVE SEATON expressed his belief that it is really important to clarify these components of ownership and suggested that perhaps the shipping volume and gas components would be very problematic within the structure of the permanent fund.

[10:17:51 AM](#)

REPRESENTATIVE WILSON said that she was initially concerned upon reading the "Alaska Budget Report"; however, after hearing Mr. Burns' testimony, she opined that [APFC] has been "really prudent in what [it's] doing and why ...."

[10:18:37 AM](#)

CHAIR WEYHRAUCH referred to the Susitna Dam as an example of one large, state project which [failed] "because we couldn't get a full faith and credit of the permanent fund to support it." In conclusion, he informed the committee that in researching the California Public Employee's Retirement System (CalPERS), he learned that it does allow confidentiality restrictions to be imposed on similar kinds of information.

[10:19:47 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 10:19 a.m.