

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 2, 2012

9:02 a.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Chair
Senator Joe Paskvan, Vice Chair
Senator Albert Kookesh
Senator Kevin Meyer
Senator Cathy Giessel

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 130

"An Act establishing in the Office of the Governor an advisory council for the preservation, restoration, and revitalization of Alaska Native languages."

- MOVED CSSB 130(STA) OUT OF COMMITTEE

SENATE JOINT RESOLUTION NO. 10

Proposing an amendment to the Constitution of the State of Alaska relating to deposits to the constitutional budget reserve fund from surplus oil revenue.

- MOVED CSSJR 10(STA) OUT OF COMMITTEE

SENATE CONCURRENT RESOLUTION NO. 17

Celebrating the 100th anniversary of the Girl Scouts of the United States of America and proclaiming 2012 as the Year of the Girl.

- MOVED CSSCR 17(STA) OUT OF COMMITTEE

SENATE BILL NO. 131

"An Act relating to certain investments of the Alaska permanent fund, the state's retirement systems, the State of Alaska Supplemental Annuity Plan, and the deferred compensation program for state employees in certain companies that do business in Iran, and restricting those investments; and providing for an effective date."

- MOVED SB 131 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 130

SHORT TITLE: ALASKA NATIVE LANGUAGE COUNCIL

SPONSOR(s): SENATOR(s) OLSON

04/15/11	(S)	READ THE FIRST TIME - REFERRALS
04/15/11	(S)	STA, FIN
01/24/12	(S)	STA AT 9:00 AM BUTROVICH 205
01/24/12	(S)	Scheduled But Not Heard
01/31/12	(S)	STA AT 9:00 AM BUTROVICH 205
01/31/12	(S)	Heard & Held
01/31/12	(S)	MINUTE(STA)
02/02/12	(S)	STA AT 9:00 AM BUTROVICH 205

BILL: SJR 10

SHORT TITLE: CONT. AM.: BUDGET RESERVE FUND

SPONSOR(s): SENATOR(s) WIELECHOWSKI

01/17/12	(S)	PREFILE RELEASED 1/6/12
01/17/12	(S)	READ THE FIRST TIME - REFERRALS
01/17/12	(S)	STA, FIN
01/24/12	(S)	STA AT 9:00 AM BUTROVICH 205
01/24/12	(S)	Heard & Held
01/24/12	(S)	MINUTE(STA)
02/02/12	(S)	STA AT 9:00 AM BUTROVICH 205

BILL: SCR 17

SHORT TITLE: GIRL SCOUTS 100TH ANNIVERSARY

SPONSOR(s): DAVIS

01/17/12	(S)	READ THE FIRST TIME - REFERRALS
01/17/12	(S)	STA
02/02/12	(S)	STA AT 9:00 AM BUTROVICH 205

BILL: SB 131

SHORT TITLE: DIVEST INVESTMENTS IN IRAN

SPONSOR(s): STATE AFFAIRS BY REQUEST

04/16/11	(S)	READ THE FIRST TIME - REFERRALS
04/16/11	(S)	STA, FIN
01/31/12	(S)	STA AT 9:00 AM BUTROVICH 205
01/31/12	(S)	Heard & Held
01/31/12	(S)	MINUTE(STA)
02/02/12	(s)	STA AT 9:00 AM BUTROVICH 205

WITNESS REGISTER

KATYA WASSILLIE, Intern
Senator Bettye Davis
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SCR 17 on behalf of the sponsor.

JANE ANGVIK, Chair
Girl Scouts of Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SCR 17.

OLIVIA LARSON, Girl Scout
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SCR 17.

LAURA ACHEE, Director
Administration and Communications
Alaska Permanent Fund Corporation (APFC)
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Answered questions related to SB 131

DAN WAYNE, Legislative Legal Counsel
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding SB 131.

ACTION NARRATIVE

[9:02:53 AM](#)

CHAIR BILL WIELECHOWSKI called the Senate State Affairs Standing Committee meeting to order at 9:02 a.m. Present at the call to order were Senators Giessel, Kookesh, Paskvan, and Chair Wielechowski. Senator Meyer arrived shortly thereafter.

SB 130-ALASKA NATIVE LANGUAGE COUNCIL

[9:04:05 AM](#)

CHAIR WIELECHOWSKI announced that the first order of business was SB 130 sponsored by Senator Donny Olson. Previously, the committee heard eloquent testimony from around the state. All testifiers stressed the risks faced by Alaska Native languages, the linkage between language and cultural identity, and the unique perspective language gives on how different peoples view

and interact with the world. SB 130 would establish a council to help protect and revitalize Alaska's many Native tongues. The original version of the bill had a fiscal note from the Office of the Governor for \$387,900 in FY 13 and slightly less in subsequent years. Version X of the bill will have a lower fiscal note as a result of changes made in the committee substitute. The bill has a further referral to the Senate Finance Committee.

[9:05:28 AM](#)

SENATOR PASKVAN moved to report the CS for SB 130, labeled 27-LS0779\X, from committee with individual recommendations and with a forthcoming fiscal note from the Department of Commerce, Community and Economic Development.

SENATOR WIELECHOWSKI announced that without objection, CSSB 130 (STA) moved from the Senate State Affairs Standing Committee.

SJR 10-CONT. AM.: BUDGET RESERVE FUND

[9:06:25 AM](#)

CHAIR WIELECHOWSKI stated that the next bill before the committee was SJR 10. This constitutional amendment would cap the amount of unrestricted oil revenue that can be spent in a given year at \$6 billion, adjusted for inflation, and two-thirds of the surplus would be put into the Constitutional Budget Reserve (CBR).

CHAIR WIELECHOWSKI said that the committee heard compelling testimony from two university experts in support of this concept. The first was Dr. Scott Goldsmith of the Institute of Social and Economic Research who has written extensively about state finances and the need to spend wisely. The second was Dr. Steven Haycox, an Alaska historian and author of many books. The bill has a further referral to the Senate Finance Committee. It is one of many ideas on the table for ensuring that our financial house is in order as oil production continues to decline. If passed by the legislature, it would go to the people of Alaska for a vote. The bill has a modest fiscal note of \$1,500 to cover the cost of providing information about the amendment on the elections booklet for the 2012 general election.

SENATOR GIESSEL stated that a constitutional amendment is a significant action and should address an issue that is durable over time. She recalled testimony that stated that excess funds would only exist for the next two to three years in light of declining oil production. She opined that it was not appropriate

to amend the constitution for something that will only be relevant for a few years. She also disapproved of tying the hands of future legislatures.

SENATOR WIELECHOWSKI opined that the intent of the bill is to put a framework into the future to provide for savings.

SENATOR KOOKESH said that he was inclined to support bills that required a vote of the people; however, he was uncertain about what would happen in the next three years.

[9:09:37 AM](#)

SENATOR PASKVAN moved [to report the CS for SJR 10, labeled 27-LS1091\D, from committee with individual recommendations and the attached fiscal note.]

SENATOR WIELECHOWSKI announced that without objection, CSSJR 10(STA) moved from the Senate State Affairs Standing Committee.

SCR 17-GIRL SCOUTS 100TH ANNIVERSARY

SENATOR WIELECHOWSKI announced that the next bill before the committee was SCR 17, which proclaims 2012 as the Year of the Girl and celebrates the 100th anniversary of the Girl Scouts. The bill was introduced by Senator Bettye Davis. The committee will take up version M of SCR 17.

SENATOR PASKVAN moved [to adopt the CS for SCR 17, version M, as the working document before the committee.]

SENATOR WIELECHOWSKI objected for discussion purposes.

KATYA WASSILLIE, intern, Senator Bettye Davis, sponsor of SCR 17, introduced the resolution. She related that the Girl Scouts of America, founded by Juliette Gordon Low in 1912, now have about 2.3 million members and 890,000 adults working as volunteers. Fifty million women are Girl Scout alumnae. In Alaska there are about 6,000 Girl Scouts and 1,500 volunteers today. The experience of being a Girl Scout produces growth on many levels. She described the advantages of being a Girl Scout and the difference it makes in girls' lives. She shared statistics about the numbers in the organization. SJR 17 recognizes the positive impact of the Girl Scouts and commemorates them by proclaiming 2012 the Year of the Girl.

SENATOR KOOKESH asked if Ms. Wassillie was a Girl Scout.

MS. WASSILLIE replied that she was not.

[9:13:18 AM](#)

JANE ANGVIK, Chair, Girl Scouts of Alaska, Anchorage, Alaska, testified in support of SCR 17. She shared statistics of the organization and advantages of belonging to the group. She shared types of badges available to Girl Scouts.

[9:15:48 AM](#)

OLIVIA LARSON, Girl Scout, Anchorage, Alaska, testified in support of SCR 17. She shared her experience as a Girl Scout and urged support of the resolution.

SENATOR WIELECHOWSKI closed public testimony. He requested a motion to move the bill.

[9:17:11 AM](#)

SENATOR PASKVAN moved [to report the CS for SCR 17, version M, from committee, with individual recommendations and the attached zero fiscal note.]

SENATOR WIELECHOWSKI announced that without objection, CSSCR 17(STA) moved from the Senate State Affairs Standing Committee.

SB 131-DIVEST INVESTMENTS IN IRAN

[9:18:54 AM](#)

SENATOR WIELECHOWSKI announced that SB 131 was again before the committee. Since the committee heard the bill, the governor made a surprise announcement that he is asking the Alaska Permanent Fund Corporation (APFC), Alaska Retirement Management (ARM) Board, and Department of Revenue (DOR) to divest their holdings from any companies doing business in Iran. He said he applauds the governor's support for divesting, but it is not clear whether he and the agencies he asked to divest currently have sufficient legal authority to do so. He wished to learn more about that question and about the fiscal notes the bill received from the APFC. One of the fiscal notes, for \$200,000 in FY 13, refers to APFC custody and management fees.

[9:19:01 AM](#)

LAURA ACHEE, Director of Administration and Communications, Alaska Permanent Fund Corporation (APFC), Department of Revenue (DOR), Juneau, Alaska, introduced herself. She offered to answer questions about SB 131.

SENATOR PASKVAN questioned the transactional cost related to the bill.

MS. ACHEE explained that two elements relate to the costs; one is the direct pass through cost that APFC is charged for brokers buying and selling stocks, and the other is the cost of having both internal and external staff manage the portfolio. At the front end is the initial cost of divesting the stocks, and then there are on-going costs of making sure those stocks are not re-bought.

SENATOR PASKVAN said he thought those transactional costs were part of every day, usual costs.

[9:22:59 AM](#)

MS. ACHEE countered the idea that APFC would not be doing anything different. One of the tasks that would be different is the monitoring of unacceptable stocks on the list to make sure that they are not purchased. Also, the issue of paying the brokers is a fixed cost. The management cost is not included in the fiscal note. She addressed the issue of profits versus losses, which cannot be estimated. Managers are expecting that there might be some offers, but those costs are also not included in the fiscal note.

SENATOR PASKVAN said he thought the investments should be divested no matter what the cost.

SENATOR KOOKESH wondered if the fiscal note changed due to the governor's interest.

MS. ACHEE answered said no.

SENATOR KOOKESH asked if the costs will be shared with the governor.

MS. ACHEE said she has not discussed that situation.

SENATOR KOOKESH wondered how fiscal notes are determined now that the governor has weighed in.

[9:26:43 AM](#)

SENATOR WIELECHOWSKI said that Senator Kookesh made a good point. He wondered where the \$200,000 would come from if the bill does not pass, now that the governor has stated support.

MS. ACHEE said that discussion would have to happen and the money would have to be found. She thought the direction of inquiry was premature.

SENATOR GIESSEL asked if there were other stocks APFC is prohibited from investing in.

MS. ACHEE said there were none.

SENATOR MEYER pointed out that there are some restrictions. For example, high risk trading is not done.

MS. ACHEE did not know. A number of years ago the investment authority was turned over to the APFC.

SENATOR WIELECHOWSKI said he had been told that the Permanent Fund was divested from Sudanese investments.

MS. ACHEE said that was incorrect.

SENATOR WIELECHOWSKI said he understood that former-Governor Palin requested that.

MS. ACHEE did not recall that. She assured the committee that there has never been any divestment for any reason.

[9:30:03 AM](#)

DAN WAYNE, Legislative Legal Counsel, Legislative Affairs Agency, introduced himself.

SENATOR WIELECHOWSKI related his conversation with Legislative Legal questioning the governor's authority to request or demand that the Permanent Fund divest from investments.

MR. WAYNE explained that the constitution gives the governor power under Article 3, Section 16, to force compliance with any constitutional or legislative mandate, which may make the governor think he can take action to divest funds from the Permanent Fund. Mr. Wayne did not think the Permanent Fund Corporation could act on the request because the constitution says in Article 9, Section 15, that "the principle of the Permanent Fund shall be used only for those income producing investments specifically designated by law as eligible for Permanent Fund investment."

The legislature has designated by law how that money is supposed to be invested in AS 37.13.120(a) "when adopting regulations

authorized by this section, or managing and investing fund assets, the prudent investor rule shall be applied by the corporation. The prudent investor rule is applied to investment activity of the fund, means that the corporation shall exercise the judgment and care under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the fund over time while maximizing the expected total return from both income and appreciation of capital."

He concluded that the legislature has said this is the law to follow when investing money. SB 131 adds a subsection to AS 37.13.120 on page 5, Section 3, "the board shall comply with AS 37.10.072," which is the new section that requires divestment. He opined that without legislative direction, the APFC can't divest from Iran investments unless it would satisfy the requirements of the prudent investment rule.

SENATOR WIELECHOWSKI asked Ms. Achee for clarification on the fiscal note. He wondered how many fund managers were contacted regarding the need for a fiscal note.

MS. ACHEE replied there were about 20-25 fund managers.

SENATOR WIELECHOWSKI inquired how many thought there would be a cost.

MS. ACHEE said three fund managers decided SB 131 would require a cost. One manager gave an estimate for manager fees, but they were not included in fiscal note, as well as transaction costs. She emphasized that the amount of \$200,000 is not a definite number, but a rough estimate.

SENATOR WIELECHOWSKI concluded that the fiscal note was based on the recommendation of one fund manager. He summarized page 2, lines 5-11, "if an investment in the fund is managed as a commingled investment or other business structure in which the fund is not the sole owner, the law does not apply." He asked if it was a commingled investment.

[9:38:06 AM](#)

MS. ACHEE responded that it was not a commingled fund. All managers that did not suggest that there would be a cost are

separate account active managers that do not fall under either exclusion in the bill.

SENATOR WIELECHOWSKI understood that the one fund manager manages about \$1.3 billion.

MS. ACHEE clarified that the manager manages \$1.4 billion, \$1 billion of which is international large capitalized company stock.

SENATOR WIELECHOWSKI stated that the state pays that manager about \$350,000 per quarter.

MS. ACHEE said manager fees vary. She did not know the number.

SENATOR WIELECHOWSKI asked if Ms. Achee or her lawyers had looked at subsection (b).

MS. ACHEE said she has and it does not apply.

SENATOR WIELECHOWSKI thought it was a commingled investment.

[9:40:46 AM](#)

MS. ACHEE reviewed definitions: an active separate account is an account where the manager makes decisions based on what is best for the individual portfolio; passive managers align the portfolio directly to an index and charge a significantly smaller fee; commingled funds are blended with other institutional investors like a mutual fund.

SENATOR PASKVAN requested a definition of basis points. He said he estimated the transactional costs to be 25 basis points. He wondered if they could be negotiated lower.

[9:42:51 AM](#)

MS. ACHEE defined a basis point as a fraction of a percent. For example, \$200,000 is two basis points of a \$1 billion portfolio.

SENATOR PASKVAN asked if the value is 99.8 percent after two basis points are removed.

MS. ACHEE said that APFC does not approach it that way. She asked for further clarification of Senator Paskvan's question.

SENATOR PASKVAN assumed a \$100,000 investment with a 2 basis point transactional cost. He asked what amount remained.

MS. ACHEE said it would be the remainder if the stock were to be sold for full value.

SENATOR PASKVAN restated the question based on a \$100 investment. He asked if \$99.80 would remain.

MS. ACHEE agreed.

SENATOR PASKVAN explained the rationale for his analysis.

[9:45:03 AM](#)

SENATOR WIELECHOWSKI asked if there is a section in the contract with the fund manager that discusses how much it would cost for a legislative change.

MS. ACHEE did not know.

SENATOR WIELECHOWSKI wondered if the governor could legally direct investments.

MS. ACHEE deferred to Legislative Legal to answer.

SENATOR KOOKESH asked Ms. Achee to follow up on that question.

MS. ACHEE did not feel comfortable answering the question.

SENATOR PASKVAN also wanted feedback on the question.

SENATOR KOOKESH said it was new ground and he wished to follow the process.

SENATOR WIELECHOWSKI thanked Ms. Achee for her work. He left the decision on the bill to the committee.

[9:48:01 AM](#)

SENATOR PASKVAN asked when the APFC might respond.

SENATOR WIELECHOWSKI requested more information about the governor's letter. He related that Mr. Wayne maintained that the governor's letter did not give the APFC authority to divest. He also wondered if the governor could give authority for APFC to divest.

MS. ACHEE said she would try to get an answer as soon as possible, but it was up to the Department of Law to respond.

SENATOR WIELECHOWSKI said the committee would hold the bill until further notice.

SENATOR MEYER recalled that the previous governor verbally requested divestment from Sudan. He also wanted to find out the governor's legal role. He agreed with the bill's intent from a policy standpoint. He suggested moving the bill.

SENATOR KOOKESH also agreed to move the bill.

[9:50:22 AM](#)

SENATOR PASKVAN moved to report SB 131, version M, from committee with individual recommendations and the attached fiscal notes.

SENATOR WIELECHOWSKI added that there are two attached fiscal notes; one from the Department of Revenue - Treasury, and one from the Department of Revenue - APFC Operations. A revised fiscal note concerning APFC custody and management fees may be forthcoming.

SENATOR GIESSEL said in spite of the governor's support, she was unsure of the bill. She stated objections to political aspects of the bill, even though she did not dispute Iran's action. She noted that Norway makes objective decisions about investments.

SENATOR WIELECHOWSKI agreed that that's the argument against the bill. He said each individual case should be looked at based on its own merits. He said Norway has a board that does allow social investing. For example, Norway does not invest in tobacco companies. He thought this bill was a unique situation. He argued in favor of the bill.

[9:53:36 AM](#)

SENATOR GIESSEL commented on an investment Norway declined to make.

SENATOR WIELECHOWSKI announced that without objection, SB 131 moved from the Senate State Affairs Standing Committee.

[9:54:03 AM](#)

There being no further business to come before the committee, Chair Wielecowski adjourned the Senate State Affairs Standing Committee at 9:54 a.m.