

Introduced: 1/19/87  
Referred: Health, Education &  
Social Services and Finance

1 IN THE HOUSE BY BOUCHER

2 HOUSE BILL NO. 42

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the university fund; and provid-  
7 ing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 37.13 is amended by adding a new section to read:

10 Sec. 37.13.015. UNIVERSITY FUND. (a) Under art. IX, sec. 17,  
11 Constitution of the State of Alaska, there is established as a sepa-  
12 rate fund the university fund consisting of

13 (1) five percent of all mineral lease rentals, royalties,  
14 royalty sale proceeds, net profit shares under AS 38.05.180(f) and  
15 (g), and federal mineral revenue sharing payments received by the  
16 state after January 1, 1989, from mineral leases issued on or before  
17 December 1, 1979, and six percent of all bonuses received by the state  
18 after January 1, 1989, from mineral leases issued on or before Febru-  
19 ary 15, 1980;

20 (2) any other money appropriated to the university fund.

21 (b) Payments due the university fund under (a) of this section  
22 shall be made to the fund once each month.

23 (c) The university fund shall be managed by the Alaska Permanent  
24 Fund Corporation established in this chapter.

25 (d) Income of the university fund transferred to the Board of  
26 Regents of the University of Alaska under AS 37.13.145(b) shall be  
27 used for the University of Alaska in accordance with AS 14.40 and  
28 other applicable provisions of law.

29 \* Sec. 2. AS 37.13.020 is amended to read:

1           Sec. 37.13.020. FINDINGS. The people of the state, by consti-  
2           tutional amendment, have required the placement of at least 25 percent  
3           of all mineral lease rentals, royalties, royalty sale proceeds, and  
4           federal mineral revenue sharing payments and bonuses received by the  
5           state into a permanent fund and at least five percent of the money  
6           from those sources into a university fund. The legislature finds with  
7           respect to the Alaska Permanent Fund Corporation that the

8                     (1) [THE] corporation should provide a means of conserving  
9           a portion of the state's revenues from mineral resources to benefit  
10          all generations of Alaskans;

11                    (2) [THE] corporation's goal should be to maintain safety  
12          of principal while maximizing total return;

13                    (3) [THE] corporation should be used as a savings device  
14          managed to allow the maximum use of disposable income from the corpor-  
15          ation for purposes designated by law.

16   \* Sec. 3. AS 37.13.030 is amended to read:

17           Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to  
18          provide a mechanism for the management and investment of those perma-  
19          nent fund and university fund assets allocated to the Alaska Permanent  
20          Fund Corporation in a manner consistent with the findings in AS 37.-  
21          13.020.

22   \* Sec. 4. AS 37.13.120(a) is amended to read:

23           (a) The prudent-man rule shall be applied by the board in the  
24          management and investment of Alaska permanent fund and university fund  
25          assets. The prudent-man rule as applied to investments of the corpo-  
26          ration means that in making investments the board shall exercise the  
27          judgment and care under the circumstances then prevailing that [WHICH]  
28          an institutional investor of ordinary prudence, discretion, and intel-  
29          ligence exercises in the management of large investments entrusted to

1 it not in regard to speculation but in regard to the permanent dispo-  
2 sition of funds, considering probable safety of capital as well as  
3 probable income.

4 \* Sec. 5. AS 37.13.120(e) is amended to read:

5 (e) The corporation may not borrow funds or guarantee from  
6 principal of the Alaska permanent fund or the university fund the  
7 obligations of others.

8 \* Sec. 6. AS 37.13.120(i) is amended to read:

9 (i) At the time of each investment, the aggregate investment of  
10 the Alaska permanent fund and the aggregate investment of the univer-  
11 sity fund in each stated category of investment may not exceed the  
12 following stated percentage of the total investments of each [THE]  
13 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
14 investments under (g)(20) of this section, 15 percent; foreign certif-  
15 icates of deposit or the equivalent under (g)(19) of this section, 20  
16 percent; corporate stocks and debt securities under (g)(8), (9), and  
17 (18) of this section, 50 percent. At no time may the [THE] Alaska  
18 permanent fund or university fund [MAY AT NO TIME] own more than five  
19 percent of the voting stock of a corporation. Domestic stocks, except  
20 for bank and insurance company stocks, must be listed at the date of  
21 purchase on an exchange registered with the Securities and Exchange  
22 Commission.

23 \* Sec. 7. AS 37.13.120(j) is amended to read:

24 (j) The assets of the Alaska permanent fund or the university  
25 fund may not be used for the purchase of bonds of a corporation, upon  
26 which a [ANY] regular interest payment has been defaulted within five  
27 years before purchase, except bonds never in default but which have  
28 been outstanding for less than five years.

29 \* Sec. 8. AS 37.13.120(m) is amended to read:

1           (m) Certificates of deposit or the equivalent instruments that  
2 are not of a quality that may be readily sold in a secondary market at  
3 prices reflecting fair value must be secured by a pledge as collateral  
4 of investments authorized for the Alaska permanent fund and the uni-  
5 versity fund under (g)(1), (2), (8), or (12) - (17) of this section or  
6 by a pledge as collateral of obligations of the state or instrumen-  
7 talities of the state that are rated at least "A" by a major bond  
8 rating service and have a demonstrated secondary market, which invest-  
9 ments or obligations have value at least equal to the face value of  
10 the certificate of deposit. The board may require substitution of  
11 collateral in order to ensure continued satisfaction of the require-  
12 ments set out in this subsection.

13 \* Sec. 9. AS 37.13.140 is amended to read:

14           Sec. 37.13.140. INCOME. Net income of the corporation shall be  
15 computed annually as of the last day of the fiscal year in accordance  
16 with generally accepted accounting principles, excluding any unrealiz-  
17 ed gains or losses. Income from the Alaska permanent fund available  
18 for distribution equals 21 percent of the net income of the corpo-  
19 ration from that fund for the last five fiscal years, including the  
20 fiscal year just ended, but may not exceed net income of the corpo-  
21 ration from that fund for the fiscal year just ended plus the balance  
22 in the earnings reserve account described in AS 37.13.145. Income  
23 from the university fund available for distribution equals the net  
24 income of the corporation from that fund for the fiscal year just  
25 ended.

26 \* Sec. 10. AS 37.13.145 is amended to read:

27           Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each  
28 fiscal year, an amount sufficient to offset the effect of inflation on  
29 principal of the Alaska permanent fund during that year, as measured

1 by the change in the calendar year average United States consumer  
2 price index for all urban consumers shall be transferred from net  
3 income from the Alaska permanent fund as defined in AS 37.13.140,  
4 excluding income on the earnings reserve account in the Alaska perma-  
5 nent fund, to the principal of the Alaska permanent fund for reinvest-  
6 ment. The balance of the income from the Alaska permanent fund  
7 available for distribution under AS 37.13.140 shall be transferred to  
8 the earnings reserve account in the Alaska permanent fund. Money in  
9 the earnings reserve account shall be invested in investments  
10 authorized under AS 37.13.120. Income from the investment of the  
11 earnings reserve account shall be treated as an addition to that  
12 account.

13 \* Sec. 11. AS 37.13.145 is amended by adding a new subsection to read:

14 (b) At the end of each fiscal year the net income from the  
15 university fund as defined in AS 37.13.140 shall be transferred to the  
16 Board of Regents of the University of Alaska.

17 \* Sec. 12. AS 37.13.170 is amended to read:

18 Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of  
19 each year, the board shall publish a report of the corporation for  
20 distribution to the governor, legislature, and the public. The report  
21 shall be written in easily understandable language. The report must  
22 include financial statements audited by independent outside auditors,  
23 a statement of the amount of money received by the Alaska permanent  
24 fund and the university fund from each investment during the period  
25 covered, a statement of investments of the corporation including an  
26 appraisal at market value, a description of corporation investment  
27 activity during the period covered by the report, a comparison of the  
28 corporation performance with the intended goals contained in AS 37.-  
29 13.020, an examination of the impact of the investment criteria of

1 this chapter on the corporation portfolio with recommendations of any  
2 needed changes, and any other information the board believes would be  
3 of interest to the governor, the legislature, and the public. The  
4 annual income statement and balance sheet of the corporation from the  
5 Alaska permanent fund and the annual income statement and balance  
6 sheet of the corporation from the university fund shall be published  
7 in at least one newspaper in each judicial district. The income  
8 statements [STATEMENT] and balance sheets [SHEET] for the two fiscal  
9 years preceding the publication of the election pamphlet under AS  
10 15.58 shall be included in that pamphlet.

11 \* Sec. 13. This Act takes effect on the effective date of a constitu-  
12 tional amendment establishing a university fund.