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In making their decision on the Alaska Permanent Fund, the Committees have focused on the single most important question at this time -- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans...." The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases.

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

Three major concerns -- safety of principal, accountability, and legislative oversight -- are addressed by the legislation.

Safety of Principal

The House Permanent Fund bill provides a framework for highly conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments; the flexibility allowed enables the managers to achieve a sound rate of return on the investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committees to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. As former Permanent Fund Committee Chairman Clark Gruening has said, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The five members of the board will be appointed by the Governor and confirmed by the Legislature. Terms are three years, staggered, and members may be reappointed subject to reconfirmation. Members may be removed from the board by the Governor only with the consent of the Legislature. The trustees must be three-year Alaskan residents, may not hold any other state or federal office or employment, and a majority must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state, and they will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

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The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The House Special Committee, like its predecessor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

The House Finance Committee also considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interests of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

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In making their decisions on the Alaska Permanent Fund, the Committees have focused on the single most important question at this time -- the management of the Fund's principal. It is to be, as the Governor has urged, "an inviolate trust" which, in the words of the bill, conserves "a portion of the state's revenues from mineral resources to benefit all gererations of Alaskans." It is to be independent, yet held accountable so as to "maintain safety of principal while maximizing total return" (page 4). Thus three major concerns -- safety of principal, accountability, and legislative oversight -- are addressed by the proposed legislation.

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The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments; the flexibility allowed enables the managers to achieve a sound rate of return on the investments.

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The bill also provides for the handling of gains and losses and income

Next pg to line beg "state govt. After the Dept of R" stricken in H G
from "state ... Dept of Revenue to
Heading "uncontrolled gen or th" in HB10
Thru the word "year" to end of next pg - strike all
Last pg stricken in HB2

agency securities, certificates of deposit, high-grade corporate

The House Special Committee, like its predecesor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several bond authorities, and the general fund.

As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and the extent to which the economic and social goals of the various programs are being achieved.

(C) This agreement expires with the adjournment of the First Session, Eleventh Alaska Legislature, unless terminated earlier as provided in Clause II(B) of this agreement.

CLAUSE III. - PROJECT DIRECTOR

The project director shall be Representative Hugh Malone, Chairman, House Special Committee on the Permanent Fund.

CLAUSE IV. - COMPENSATION AND METHOD OF PAYMENT

(A) Contractors total compensation for providing the services described in this agreement shall be the retainer of Five Hundred Dollars ($500) per month.
(B) Per diem shall be at the prevailing State rate. Out of pocket expenses incurred as a result of these consultations,

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The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases, ~~will be paid into~~ placed in the ~~ARRF~~ Fund.

HOUSE SPECIAL COMMITTEE ON THE PERMANENT FUND

HOUSE FINANCE COMMITTEE

JOINT COMMITTEE REPORT ON CS HB 281 (FINANCE)

The House Special Committee on the Permanent Fund, in designing its Permanent Fund legislation, narrowed its focus to consider the single most important question at this time -- the management of the fund principal. The bill, CS HB 281, raises the contribution level to the fund from 25% to 50% for all bonuses, and from 25% to 50% for all other royalty payments from new leases (p. 3-4). Most importantly, the bill insures that the Permanent Fund will be managed as a trust; this conforms to the Governor's "bottom line" that the Permanent Fund be managed as "an inviolable trust fund." Three major concerns -- legislative oversight, accountability, and safety of principal -- are addressed by the proposed legislation.

Legislative Oversight

The House Special Committee on the Permanent Fund found that there is a need for oversight of the performance of state agencies, including the proposed Permanent Fund Corporation, which perform lending or investment functions. Legislative oversight would provide information on the policy and performance of the agencies, the extent to which the agencies conform to statutory intent, and the impact on the economy and state treasury.

The House Finance Committee also considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interests of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (p. 1-3). As

proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the committee's intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that that committee report back to the legislature within two years, recommending how best the oversight duty could be carried out and including consideration of the option of delegating the responsibilities to a separate committee.

Accountability

It was the aim of the committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in basic public policy and accountable to the people through their elected officials. As former Committee Chairman Clark Gruening used to say, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that a fund of the size of the Permanent Fund should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The Permanent Fund Corporation created by CS HB 281 therefore has its

own board of trustees which is made accountable in several ways (p. 5). The five members of the board will be appointed by the Governor and confirmed by the legislature. Terms are three years, staggered, and members may be reappointed subject to reconfirmation. Members may be removed from the board by the Governor only with the consent of the legislature. The trustees must be three-year Alaskan residents, may not hold any other state or federal office or employment, and a majority must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state, and they will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (p. 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (p. 11) including a financial statement audited by independent auditors, a statement of the earnings from each investment, a market-value appraisal of the investments, and an examination of the impact of the investment criteria on the corporation portfolio. These reports will be published in newspapers and reviewed by the Legislative Budget and Audit Committee.

As proposed, the Legislative Budget and Audit Committee will oversee the performance of the Permanent Fund Board and Corporation (p. 2). The committee will review plans and reports, provide for audits and review independent audits, and present reports and recommendations regarding investments and appointments to the legislature.

In summary, CS HB 281 insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, and will be accountable to both the executive and legislative branches through the appointment process and oversight by the Legislative Budget and Audit Committee. In addition, the Permanent Fund will be further safeguarded by the statutory limits placed on the fund managers concerning permissible areas of investment.

Safety of Principal

CS HB 281 provides a framework for highly conservative and responsible management of the fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, Federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments and Federally guaranteed loans (p. 8-9). Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments

in common or preferred stock, restricts the purchase of corporate bonds to 25% of the fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the fund from either borrowing or guaranteeing the obligations of others (p. 8).

The fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (p. 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments; the flexibility allowed enables the managers to achieve a sound rate of return on the investments.

The bill also provides for the handling of gains and losses and income (p. 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the fund principal; this protects the fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the fund principal. The fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

As stated earlier, this bill addresses only the question of fund management and leaves the separate question of how to use the fund earnings to later legislation. It merely assures that there will be income and does not preclude any options for its use. Until another determination is made, the Permanent Fund earnings will be deposited in the general fund.

In making their decision on the Alaska Permanent Fund, the House Special Committee on the Permanent Fund and the House Finance Committee have focused on the single most important question at this time -- the management of the Fund's principal.

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Legislative Oversight

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JOINT COMMITTEE REPORT
HCS for SB 161
PERMANENT FUND MANAGEMENT

In making their decision on the Alaska Permanent Fund, the House Special Committee on the Permanent Fund and the House Finance Committee have focused on the single most important question at this time -- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans...." The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases.

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In making their decision on the Alaska Permanent Fund, the House Special Committee on the Permanent Fund and the House Finance Committee have focused on the single most important question at this time -- the management of the Fund's principal.

It is to be, as the Governor has urged, "...an inviolate trust..." which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans...." The contribution rate has been set at 50% of mineral lease bonuses (after deducting payments under the Alaska Native Claims Settlement Act and for the Alaska Renewable Resources Fund), 25% of the mineral lease royalties from present leases, and 50% of future leases.

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

Three major concerns -- safety of principal, accountability, and legislative oversight -- are addressed by the legislation.

Safety of Principal

The House Permanent Fund bill provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments. The flexibility allowed enables the managers to achieve a sound rate of return on the investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). Nothing precludes in-state investments of these types, as long as they fulfill the standards of quality as specified in the bill. Importantly, the bill has a minimum of investment restrictions yet provides a very definite certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. It also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 10). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committees to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. As former Permanent Fund Committee Chairman Clark Gruening has said, "We want insulation without isolation." It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The five members of the board will be appointed by the Governor and confirmed by the Legislature. Terms are three years, staggered, and members may be reappointed subject to reconfirmation. Members may be removed from the board by the Governor only with the consent of the Legislature. The trustees must be three-year Alaskan residents, may not hold any other state or federal office or employment, and a majority must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state, and they will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (page 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (page 11) including a financial statement reviewed by independent auditors, a statement of the earnings from each investment, a market-value appraisal of the investments, and a performance evaluation with recommendations for needed changes. These reports, which must be written in easily understandable language, will be available to the Governor, the Legislature, and the public. The income statement and balance sheet will be published yearly in newspapers and every two years in the election pamphlet.

The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The House Special Committee, like its predecessor, found a need for co-ordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

The House Finance Committee also considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interests of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the Committees' intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that that committee report back to the Legislature within two years, recommending how best the oversight duty could be carried out and including consideration of the option of delegating the responsibilities to a separate committee.

The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to later legislation. It merely assures that there will be income and does not preclude any options for its use. Until another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a responsible fiscal policy.

HUGH MALONE
Chairman
House Special Committee on the
Permanent Fund

ORAL FREEMAN
Vice Chairman
House Finance Committee