



COMMITTEE REPORT

4/16

HOUSE

(5)

FURTHER: FINANCE

2/12/82

Date: 4-15-82

Mr. Speaker:

The Committee on STATE AFFAIRS has had HB 770

"An Act relating to the Alaska permanent fund."

under consideration and ~~(a majority of the committee)~~ ~~(the committee)~~ reports it back with the following recommendations:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[X] replace with CS for HB 770 (SA) [X] same title [X] new title and recommends

[ ] AND attaches a "Letter of Intent" [X] New Fiscal Note Sup # 43

[X] reports it back without recommendation as follows:

[ ] referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING DO PASS

Ray Delcalle

MEMBERS HAVING OTHER RECOMMENDATIONS:

Mike Chast No Rec  
Ken Fanning No Rec  
W. Oler No Rec

Ray Delcalle  
CHAIRMAN

*Boswell*

Original sponsor: Metcalfe

Offered: 4/16/82  
Referred: Finance

1 IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE  
2 CS FOR HOUSE BILL NO. 770 (State Affairs)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUST-  
13 EES. (a) The Board of Trustees of the Alaska Permanent Fund Corpora-  
14 tion consists of six members appointed by the governor. Two [THREE] of  
15 the members shall be heads of principal departments of state government,  
16 one of whom shall be the commissioner of revenue. Four [THREE] members  
17 shall be appointed by the governor from the public and may not hold any  
18 other state or federal office, position or employment, either elective  
19 or appointive, except as a member of the armed forces of either the  
20 United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF  
21 REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF  
22 THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

~~\_\_\_\_\_~~  
*Wolfe*

1 board shall be appointed for terms of four [THREE] years, and they may  
2 be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF  
3 THE LEGISLATURE IN JOINT SESSION]. The terms of the public members  
4 [TERMS] shall be staggered so that no more than one term of a public  
5 member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE  
6 COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO  
7 MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

8 \* Sec. 3. AS 37.13.070 is amended to read:

9 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
10 for good cause remove a member of the board from office. [HOWEVER, THE  
11 REMOVAL OF A MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF  
12 A MAJORITY OF THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION  
13 HELD 10 OR MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL  
14 FROM THE GOVERNOR.] A removal by the governor shall be in writing and  
15 shall state the reason for the removal. A member who is removed by the  
16 governor may not participate in board business and may not be counted  
17 for purposes of establishing a quorum after [BETWEEN THE TIME] he  
18 receives written notice of his removal from the governor [AND THE TIME  
19 THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUB-  
20 SECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD  
21 MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

22 (b) A vacancy on the board shall be promptly filled by appointment  
23 by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE  
24 LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold  
25 office for the balance of the term for which his predecessor on the  
26 board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGIS-  
27 LATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD  
28 MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGIS-  
29 LATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. The board shall  
6 determine the compensation of the public members of the board subject  
7 to approval by the legislature in accordance with AS 37.07. Compensa-  
8 tion for public members of the board shall be requested as part of the  
9 operating budget of the board (AS 37.13.150). Members [PUBLIC MEMBERS  
10 OF THE BOARD RECEIVE AN HONORARIUM OF \$400 FOR EACH MEETING DAY IF THEY  
11 ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem  
12 and travel allowances as provided by law for members of state boards and  
13 commissions.

14 \* Sec. 5. AS 37.13.120(g) is amended to read:

15 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
16 section, the board may invest corporation assets at competitive national  
17 market rates or prices applicable to each investment in

18 (1) obligations of, or obligations insured by or guaranteed  
19 by, the United States or agencies or instrumentalities of the United  
20 States;

21 (2) obligations secured by reserves paid in by the United  
22 States or agencies or instrumentalities of the United States or obliga-  
23 tions of corporations in which the United States is a shareholder or  
24 member;

25 (3) certificates of deposit and term deposits of [ISSUED BY]  
26 United States domestic banks which are members of the Federal Deposit  
27 Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY  
28 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
29 which are fully secured at all times as to payment of principal and

1 interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) -  
2 (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS  
3 PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND  
4 THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

5 (4) certificates of deposit and term deposits [SHARES] of  
6 federally chartered savings and loan [LOANS] associations in Alaska  
7 which may be readily sold in a secondary market at prices reflecting  
8 fair value or which are fully secured at all times as to payments of  
9 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
10 of this section [SUBSECTION];

11 (5) [SAVINGS] certificates of deposit and term deposits of  
12 [ISSUED BY] state chartered savings and loan associations in Alaska  
13 which may be readily sold in a secondary market at prices reflecting  
14 fair value or which are fully secured at all times as to payments of  
15 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
16 of this section [SUBSECTION];

17 (6) certificates of deposit and term deposits of [DEPOSITS  
18 WITH] mutual savings banks in Alaska which may be readily sold in a sec-  
19 ondary market at prices reflecting fair value or which are fully secured  
20 at all times as to payments of principal and interest as [BY INVESTMENTS]  
21 described in (m) [(1), (2)] of this section [SUBSECTION];

22 (7) fixed-term certificates of indebtedness of federally in-  
23 sured credit unions in Alaska which may be readily sold in a market at  
24 prices reflecting fair value or which are fully secured at all times as  
25 to payments of principal and interest as [BY INVESTMENTS] described in  
26 (m) [(1), (2)] of this section [SUBSECTION];

27 (8) corporate debt securities which are rated AA or better by  
28 a nationally recognized rating service;

29 (9) short-term corporate promissory notes of the highest

1 ratings assigned by a nationally recognized rating service;

2 (10) bankers' acceptances drawn on and accepted by United  
3 States banks each of which have a combined capital and surplus aggregat-  
4 ing at least \$200,000,000;

5 (11) repurchase agreements, the securities underlying the  
6 agreements being any of the items in (1) - (3) and (8) - (10) of this  
7 subsection;

8 (12) the guaranteed portion of Federal Small Business Admin-  
9 istration loans;

10 (13) the portion of first lien real estate mortgages guaran-  
11 teed by the Federal Veterans Administration [ASSOCIATION];

12 (14) the portions of business and industrial loans made under  
13 the Rural Development Act of 1972 which are guaranteed by the Farmer's  
14 Home Administration;

15 (15) the guaranteed portion of Farmer's Home Administration  
16 loans;

17 (16) notes secured by mortgages granting a first lien on com-  
18 mercial or [OF] residential real estate improved by completed buildings  
19 if the mortgages are insured by a private mortgage insurance corporation  
20 which is authorized to do business in Alaska and has combined capital,  
21 surplus and reserves aggregating at least \$20,000,000, and if loan-to-  
22 value ratios do not exceed 75 percent for commercial mortgages and 90  
23 percent for residential mortgages; however, [THE MINIMUM COVERAGE SHALL  
24 BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90  
25 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A  
26 LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

27 (A) no mortgage insurance is necessary for commercial  
28 loans having loan-to-value ratios of less than 50 percent and the  
29 minimum coverage of other commercial loans shall be 10 percent for

1 those having a loan-to-value ratio of 50-60 percent and 15 percent  
2 for those havi. . a loan-to-value ratio greater than 60 percent but  
3 no more than 75 percent, and

4 (B) no mortgage insurance is necessary for residential  
5 loans having a loan-to-value ratio of less than 70 percent and the  
6 minimum coverage of other residential loans shall be 10 percent for  
7 those having a loan-to-value ratio greater than 70 percent but less  
8 than 90 percent and 20 percent for those having a loan-to-value  
9 ratio of 90 percent;

10 (17) notes secured by mortgages granting a first lien on com-  
11 mercial real estate improved by completed buildings if the originating  
12 financial institution retains at least 25 percent of the mortgage until  
13 maturity;

14 (18) preferred and common stock of corporations incorporated  
15 in the United States, on which dividends have been paid in each of the  
16 three years immediately preceding the investment;

17 (19) debt securities of foreign governments or corporations  
18 and preferred and common stock of foreign corporations which are of sub-  
19 stantially equivalent quality as those domestic securities permitted  
20 under this section;

21 (20) certificates of deposit, term deposits, bankers' accep-  
22 tances, or equivalent instruments, which are issued by a United States  
23 or foreign bank or trust company located in a foreign country and are  
24 denominated in either United States or foreign currency, if either (A)  
25 they may be readily sold in a secondary market at prices reflecting fair  
26 value, or (B) the issuing bank or trust company has capital and surplus  
27 at the date of issue equalling at least \$500,000,000; investments made  
28 under this paragraph are not subject to the collateral requirements for  
29 domestic certificates under (m) of this section;

1           (21) equity interests in, and debt obligations secured by  
2 mortgages granting a first lien on, real property improved by completed  
3 and substantially rented buildings and located in the United States, if  
4 these investments are made

5           (A) in a corporation, partnership, trust, or other  
6 entity in which, at the conclusion of each investment transaction,  
7 at least 60 percent of the beneficial ownership interests are  
8 held by other institutional investors, and which is organized and  
9 operated for the purpose of making real estate investments by a  
10 bank, insurance company, or other manager of institutional funds  
11 which has had at least five years of experience in the management  
12 of real estate investments of institutional investors; or

13           (B) in conjunction with and on substantially the same  
14 terms as an entity described in (A) of this paragraph;

15           (22) limited partnership interest in venture capital funds,  
16 if these investments are made

17           (A) in a partnership in which, at the conclusion of  
18 each investment transaction, at least 60 percent of the beneficial  
19 ownership interests are held by other institutional investors and  
20 which is organized and operated for the purpose of making venture  
21 capital investments by a manager of institutional funds who has  
22 had at least five years of experience in the management of venture  
23 capital investments of institutional investors; and

24           (B) in a partnership that agrees to make venture capital  
25 investments in the state equal to the investment of the Alaska  
26 permanent fund in the partnership to the extent that in-state in-  
27 vestments that have a risk level and expected yield comparable to  
28 alternate investment opportunities are available.

29           (23) obligations issued by an agency of the state if the

1 obligations and the interest on them are taxable under federal law.

2 \* Sec. 6. AS 37.13.120(i) is repealed and reenacted to read:

3 (i) At the time of each investment, the aggregate investment of  
4 the Alaska permanent fund in each stated category of investment may not  
5 exceed the following stated percentage of the total investments of the  
6 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
7 investments under (g)(21) of this section, 15 percent; venture capital  
8 limited partnerships under (g)(22) of this section, 15 percent; foreign  
9 securities under (g)(19) of this section, 10 percent; foreign certifi-  
10 cates of deposit or the equivalent under (g)(20) of this section, 20  
11 percent; corporate stocks and debt securities under (g)(8), (9), and  
12 (18) of this section, 50 percent. The Alaska permanent fund may at no  
13 time own more than five percent of the voting stock of a corporation.  
14 Domestic stocks, except for bank and insurance company stocks, must be  
15 listed at the date of purchase on an exchange registered with the  
16 Securities and Exchange Commission.

17 \* Sec. 7. AS 37.13.120 is amended by adding new subsections to read:

18 (m) Certificates of deposit or the equivalent instruments which  
19 are not of a quality that may be readily sold in a secondary market at  
20 prices reflecting fair value must be secured by a pledge as collateral  
21 of investments authorized for the Alaska permanent fund under (g)(1),  
22 (2), (8) or (12) - (17) of this section, which investments have value at  
23 least equal to the face value of the certificate of deposit. The board  
24 may require substitution of collateral in order to ensure continued  
25 satisfaction of the requirements set out in this subsection.

26 (n) Certificates of deposit or the equivalent instruments may not  
27 be purchased from a bank doing business in Alaska unless the in-state  
28 loan-to-deposit ratio of that bank as determined by the division of  
29 banking of the Department of Commerce and Economic Development for the

1 last full quarter preceding the purchase is not more than five percent  
2 less than the in-state loan-to-deposit average ratio for all banks doing  
3 business in Alaska for that quarter.

4 (o) Certificates of deposits or the equivalent instrument may not  
5 be purchased from a bank doing business in Alaska if state and state  
6 agency deposits in the bank are in excess of 400 percent of the bank's  
7 combined capital and surplus.

8 \* Sec. 8. AS 37.13 is amended by adding a new section to read:

9 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal  
10 year, an amount equal to 50 percent of net income as defined in AS 37.-  
11 13.140, excluding any income on the undistributed income account in the  
12 Alaska permanent fund, shall be transferred to principal of the fund for  
13 reinvestment. The other 50 percent of the net income shall be trans-  
14 ferred to the undistributed income account. Money in the undistributed  
15 income account shall be invested in investments authorized under AS 37.-  
16 13.120. Income from the investment of the undistributed income account  
17 shall be treated as an addition to that account.

18 \* Sec. 9. AS 37.13.150 is amended to read:

19 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
20 ted by the corporation's investments must be identified as the source  
21 of the operating budget of the corporation in the state's operating  
22 budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
23 Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-  
24 ance of the corporation's annual operating budget does not lapse at  
25 the end of the fiscal year but shall be treated as income under AS 37.  
26 13.140.

27 \* Sec. 10. AS 37.13.160 is amended to read:

28 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-  
29 tee may [SHALL] provide for an annual post audit and annual operational

1 and performance evaluations of the corporation's investments and invest-  
2 ment programs.

3 \* Sec. 11. AS 37.13 is amended by adding a new section to read:

4 Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
5 under the Administrative Procedure Act (AS 44.62) to interpret and  
6 implement this chapter.

7 \* Sec. 12. Transition to four-year terms for members of the Board of  
8 Trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060  
9 as amended in sec. 2 of this Act shall be implemented as follows: at the  
10 expiration of the present term of each public member, the governor shall  
11 appoint a replacement, or reappoint the present member, for a term of four  
12 years. Within 90 days after the effective date of this Act, the governor  
13 shall appoint a public member to replace one of the two present heads of  
14 principal departments other than the commissioner of revenue, to serve for a  
15 term of four years or less which term expires in a year when no other public  
16 member's term expires. The head of a principal department who is to be  
17 replaced shall continue to serve on the board until the appointment of a  
18 replacement.

19 \* Sec. 13. This Act takes effect July 1, 1982.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

12-2323  
aper

Introduced: 2/12/82  
Referred: State Affairs and  
Finance

1 IN THE HOUSE

BY METCALFE

2 HOUSE BILL NO. 770

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska permanent fund."

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

8 \* Section 1. AS 37.13.010(a) is repealed and reenacted to read:

9 (a) Under art. IX, sec. 15 of the state constitution, there is  
10 established as a separate fund the Alaska permanent fund. The Alaska  
11 permanent fund consists of

12 (1) one hundred percent of mineral lease bonuses after deduc-  
13 tion of amounts allocated

14 (A) to the Alaska Native Fund under the Alaska Native  
15 Claims Settlement Act and implementing state legislation; and

16 (B) in AS 37.11.020 to the Alaska renewable resources  
17 development fund;

18 (2) twenty-five percent of all mineral lease rentals, royalti-  
19 ties, royalty sale proceeds, and federal mineral revenue sharing payments  
20 received by the state; and

21 (3) any other money appropriated or otherwise allocated by  
22 law to the Alaska permanent fund.

23 \* Sec. 2. AS 37.13.040 is amended to read:

24 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is  
25 established the Alaska Permanent Fund Corporation. The corporation is a  
26 public corporation and government instrumentality in the Department of  
27 Revenue managed by the board of trustees but has a legal existence inde-  
28 pendent of and separate from the state. The purpose of the board is to  
29 manage and invest the assets of the corporation in accordance with this

COMMITTEE COPY

1 chapter.

2 \* Sec. 3. AS 37.13.050 is repealed and reenacted to read:

3 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board  
4 of trustees consists of three members appointed by the governor and  
5 confirmed by a majority of the members of the legislature in joint  
6 session.

7 (b) The board shall annually elect a chair from among its members.

8 \* Sec. 4. AS 37.13.060 is amended to read:

9 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be  
10 appointed for terms of three years, and they may be reappointed subject  
11 to confirmation by a majority of the members of the legislature in joint  
12 session. Terms shall be staggered. [INITIAL TERMS FOR MEMBERS OTHER  
13 THAN THE COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE  
14 YEAR, TWO MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR  
15 THREE YEARS.]

16 \* Sec. 5. AS 37.13.070(a) is repealed and reenacted to read:

17 (a) The governor may remove a member of the board from office by  
18 and with the consent of a majority of the members of the legislature in  
19 joint session. A removal by the governor shall be in writing and state  
20 the reason for removal. If the legislature is not in session, the  
21 governor may suspend a member of the board. Upon suspension, a vacancy  
22 is not created but the member of the board may not participate in board  
23 business and may not be counted for purposes of establishing a quorum.  
24 The joint session of the legislature shall be held within 30 days from  
25 the date of removal if the removal occurs while the legislature is in  
26 session or within 30 days of convening of the legislature if the legis-  
27 lature is not in session. If the legislature refuses to consent to his  
28 removal, the member of the board shall be reinstated to his position.

29 \* Sec. 6. AS 37.13 is amended by adding a new section to read:

1           Sec. 37.13.075. QUALIFICATIONS OF BOARD MEMBERS. (a) A person  
2 may not be appointed to the board unless that person has been a resident  
3 of the state for at least three years.

4           (b) A member of the board may not hold any other state or federal  
5 office, position or employment, either elective or appointive, except as  
6 a member of the armed forces of the United States or of this state.

7           (c) At least one member of the board shall have recognized compe-  
8 tence and wide experience in finance, investments, or other business  
9 management-related field. Persons who share substantially similar  
10 professional or occupational backgrounds may not be appointed to the  
11 board to serve at the same time.

12 \* Sec. 7. AS 37.13.120 is repealed and reenacted to read:

13           Sec. 37.13.120. POWERS AND DUTIES. (a) The prudent-man rule is  
14 applicable to the board in the management and investment of permanent  
15 fund assets. The prudent-man rule as applied to investments of the  
16 corporation means that in making investments the board shall exercise  
17 the judgment and care under the circumstances then prevailing that an  
18 institutional investor of ordinary prudence, discretion, and intelligence  
19 exercises in the management of large investments entrusted to it not in  
20 regard to speculation but in regard to the permanent disposition of  
21 funds, considering the probable income from them as well as probable  
22 safety of capital.

23           (b) The corporation assets may only be used for income-producing  
24 investments.

25           (c) The board shall seek to maintain a reasonable diversification  
26 among corporation investments unless under the circumstances it is  
27 clearly prudent not to do so.

28           (d) The board shall submit long-range and quarterly investment  
29 reports to the Legislative Budget and Audit Committee.

1 (e) The corporation may not borrow funds or guarantee from princi-  
2 pal of the fund the obligations of others.

3 (f) The board may enter into and enforce all contracts necessary,  
4 convenient, or desirable for purposes of the corporation. It may con-  
5 tract with the division of treasury of the Department of Revenue for  
6 services.

7 (g) Subject to (a) and (b) of this section, the board may invest  
8 corporation assets in obligations of, or obligations insured or guaran-  
9 teed by, the United States or agencies or instrumentalities of the  
10 United States; corporate securities that under the Securities Act of  
11 1933 are freely marketable; and short-term investments that meet the  
12 requirements of (a) and (b) of this section except for the term of the  
13 investments.

14 (1) The assets of the fund may not be used for the purchase  
15 of stock of a corporation that is not paying dividends on that stock in  
16 cash at the time of purchase; nor in the purchase of bonds of a corpora-  
17 tion, upon which any regular interest payment has been defaulted within  
18 five years before purchase, except bonds never in default but which have  
19 been outstanding for less than five years.

20 (2) The assets of the corporation may not be used for the  
21 purchase of stock if immediately following the purchase the proportionate  
22 market value of all stocks held by the corporation would exceed 30  
23 percent of the assets of the corporation.

24 (h) Subject to (a) and (b) of this section, the board may invest  
25 corporation assets in

26 (1) Federal Housing Administration mortgages;

27 (2) Federal Veterans Administration mortgages;

28 (3) conventional residential mortgages if the offering finan-  
29 cial institution retains at least 25 percent of the mortgage.

1 (i) To qualify as a mortgage or secured loan that may be purchased  
2 by the board under (h) of this section, the mortgage or secured loan  
3 shall

4 (1) be secured by real estate in the state;

5 (2) have as a mortgagor an Alaska resident or a corporation  
6 in which at least 60 percent of the stock is owned by Alaska residents;

7 (3) be certified by the originating financial institution  
8 that the loan being sold has been made in compliance with law and that  
9 liens supporting the loan have been perfected;

10 (4) have no initial closing fees or service fees that exceed  
11 one-half of one percent, excluding closing costs.

12 (j) The board may purchase loans provided for in (h) of this  
13 section only with the approval of each purchase by the Department of  
14 Commerce and Economic Development, and the loans may be purchased only  
15 from financial institutions that are operating under the national banking  
16 laws, federal savings and loan laws, or under the provisions of AS 06.05,  
17 AS 06.15, AS 06.25 or AS 06.30.

18 (k) The board shall establish and from time to time as necessary  
19 modify guidelines for the investment of the corporation's assets.  
20 Before adoption of any investment guidelines, the guidelines shall be  
21 reported to the Legislative Budget and Audit Committee for review and  
22 comment.

23 (l) Nothing in this section may be interpreted to preclude in-state  
24 investments that have a risk level and expected yield comparable to  
25 alternative investment opportunities.

26 \* Sec. 8. AS 37.13.130 is repealed and reenacted to read:

27 Sec. 37.13.130. GAINS AND LOSSES. At the end of each fiscal year,  
28 the total amount of losses on the sales of securities, not offset by  
29 gains on the sales of securities during that year, shall be computed,

1 with a portion of these losses to be deducted each fiscal year from the  
2 interest and dividend income and the resulting amount of interest and  
3 dividend income added to the principal of the fund. Losses taken on the  
4 sales of bonds shall be accumulated over a period equal to the average  
5 remaining life of the bonds sold, and losses taken on the sales of  
6 stocks shall be accumulated within a period of five years, unless these  
7 losses are offset by gains on future sales of securities. In any fiscal  
8 year in which the gains on the sales of securities exceed the losses on  
9 the sales of securities, the excess shall be added to the principal of  
10 the fund.

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

12       Sec. 37.13.145. MORTGAGE LOSS RESERVE ACCOUNT. The board may  
13 establish a mortgage loss reserve account for the purpose of protecting  
14 the financial integrity of the fund.

15 \* Sec. 10. AS 37.13.190 is amended to read:

16       Sec. 37.13.190. POLITICAL ACTIVITIES. The members of the board of  
17 trustees and employees of the corporation may not engage in partisan  
18 political activities. The resources of the corporation may not be used  
19 to finance or influence political activities.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

HOUSE JOURNAL

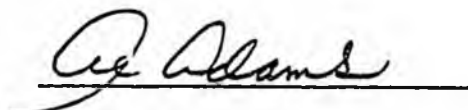
HOUSE FINANCE COMMITTEE  
Letter of Intent  
for  
CSHB 101 (Finance)

It is the intent of the Finance Committee that the "certificate of use" provision in \*Section 1 of CSHB 101 (Finance) be interpreted in accordance with the following:

Section 1 of CSHB 101 (Finance) states that a motor fuel dealer need not collect the motor fuel tax if the dealer has a reasonable belief that the fuel that is sold or transferred is not to be used as "motor fuel" within the meaning of AS 43.40.100 (2). In addition the dealer must obtain a certificate of use from the recipient of the fuel if the tax is not collected. The certificate is a statement by the recipient that the fuel has not been and will not be used in a manner that would make it "motor fuel", subject to the motor fuel tax. The Department of Revenue is to prescribe the form of the certificate of use by regulation.

It is the intent of the Finance Committee that a certificate of use may be a short statement printed on a fuel delivery invoice to be signed by the recipient of fuel at the time of delivery. To avoid unnecessary recordkeeping and duplication of forms the certificate of use should be printed on the delivery invoice or the fuel billing form whenever possible. The regulations adopted by the Department of Revenue to implement this section of the Act should allow the certificate of use to be printed on forms used by fuel dealers except in cases where a separate certificate of use is absolutely necessary.

Sincerely,



Al Adams, Chairman  
House Finance Committee

DO NOT  
COPY.  
Attached to  
bill when it  
came from  
Chief Clerk's  
Office ??!!

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: CSHB 770 (SA) (4/14/82)  
 Title: Relating to Investment & Management of the Alaska Permanent Fund  
 Requested by: House State Affairs Committee Date: 4/15/82

II. FISCAL DETAIL

Agency Affected: Department of Revenue  
 Program Category Affected: Permanent Fund Corp.  
 BRU, Program, or Subprogram(s) Affected: Permanent Fund Corp.  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	(28.8)	-	-	-	-
300 CONTRACTUAL	-	4,145.0	9,210.0	11,078.0	12,567.0	14,132.0
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL</b>	-	4,116.2	9,210.0	11,078.0	12,567.0	14,132.0

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-
<b>PERMANENT FUND INCOME</b>	-	4,116.2	9,210.0	11,078.0	12,567.0	14,132.0

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Compensation level of Public Members of Board of Trustees to be determined by Board. Reduction in Travel for deletion of \$400/meeting day honorarium budgeted for present public members.

Contractual Services is for associated outside management and safekeeping costs of new allowable investments were applicable. Assumes, based on average fund balance for a fiscal year; 25% in preferred and common stock, 5% real estate equity, 5% foreign securities and certificates of deposit, 5% venture capital. Stock is at one-half of maximum allowed, others at one-third of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed starting FY 85 and after (not per year). Brokerage fee on preferred and common stock not included as it is part of base securities cost.

FY 83 assumes above percentages for one-half year only as transition time to new investment categories. Net effect of above scenerio places 40% of all corporate assets with outside managers, the balance 60% remains for internal management.

*A. Staack*

IV. DATE: April 15, 1982

PREPARED BY: Anselm C. Staack, Treasury Comptroller

AGENCY: Dept. of Revenue/Treasury Division

PHONE: 465-2350

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

**ALASKA STATE LEGISLATURE**

TWELFTH Legislature SECOND Session

HOUSE BILL NO. 770

By METCALFE

"An Act relating to the Alaska permanent fund."

Alaska permanent fund

Introduced in the House 2/12, 1982

**HISTORY IN THE HOUSE**

19 82

Feb 12

Read first time and referred to Committee on State Affairs and Finance  
Reported back with recommendation that

Read second time and

Read third time and

<b>PASS</b>	<b>Effective Date</b>
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

**Reconsideration**

<b>PASS</b>	<b>Effective Date</b>
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed  
Signed by Speaker  
Sent to Senate

CHIEF CLERK OF THE HOUSE

**HISTORY IN THE SENATE**

19

Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

<b>PASS</b>	<b>Effective Date</b>
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

**Reconsideration**

<b>PASS</b>	<b>Effective Date</b>
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed  
Signed by President  
Returned to House

SECRETARY OF THE SENATE

**HISTORY IN THE HOUSE**

19

Received from Senate

Concurred in Senate amendment thus adopting:  
VOTE

Failed to concur in Senate amendment; asked Senate to recede  
VOTE

Senate receded from amendment  
VOTE

Senate failed to recede from amendment  
VOTE

CC appointed by House

CC appointed by Senate

CC adopted by House  
VOTE

CC adopted by Senate  
VOTE

To enrolling  
Reported correctly enrolled  
Sent to Governor

..... by Governor

Filed with Lt. Governor

Chapter No. ....

Original sponsor: Metcalfe

Offered: 4/16/82  
Referred: Finance

1 IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 770 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUST-  
13 EES. (a) The Board of Trustees of the Alaska Permanent Fund Corpora-  
14 tion consists of six members appointed by the governor. Two [THREE] of  
15 the members shall be heads of principal departments of state government,  
16 one of whom shall be the commissioner of revenue. Four [THREE] members  
17 shall be appointed by the governor from the public and may not hold any  
18 other state or federal office, position or employment, either elective  
19 or appointive, except as a member of the armed forces of either the  
20 United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF  
21 REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF  
22 THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

1 board shall be appointed for terms of four [THREE] years, and they may  
2 be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF  
3 THE LEGISLATURE IN JOINT SESSION]. The terms of the public members  
4 [TERMS] shall be staggered so that no more than one term of a public  
5 member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE  
6 COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO  
7 MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

8 \* Sec. 3. AS 37.13.070 is amended to read:

9 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
10 for good cause remove a member of the board from office. [HOWEVER, THE  
11 REMOVAL OF A MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF  
12 A MAJORITY OF THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION  
13 HELD 10 OR MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL  
14 FROM THE GOVERNOR.] A removal by the governor shall be in writing and  
15 shall state the reason for the removal. A member who is removed by the  
16 governor may not participate in board business and may not be counted  
17 for purposes of establishing a quorum after [BETWEEN THE TIME] he  
18 receives written notice of his removal from the governor [AND THE TIME  
19 THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUB-  
20 SECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD  
21 MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

22 (b) A vacancy on the board shall be promptly filled by appointment  
23 by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE  
24 LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold  
25 office for the balance of the term for which his predecessor on the  
26 board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGIS-  
27 LATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD  
28 MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGIS-  
29 LATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. The board shall  
6 determine the compensation of the public members of the board subject  
7 to approval by the legislature in accordance with AS 37.07. Compensa-  
8 tion for public members of the board shall be requested as part of the  
9 operating budget of the board (AS 37.13.150). Members [PUBLIC MEMBERS  
10 OF THE BOARD RECEIVE AN HONORARIUM OF \$400 FOR EACH MEETING DAY IF THEY  
11 ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem  
12 and travel allowances as provided by law for members of state boards and  
13 commissions.

14 \* Sec. 5. AS 37.13.120(g) is amended to read:

15 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
16 section, the board may invest corporation assets at competitive national  
17 market rates or prices applicable to each investment in

18 (1) obligations of, or obligations insured by or guaranteed  
19 by, the United States or agencies or instrumentalities of the United  
20 States;

21 (2) obligations secured by reserves paid in by the United  
22 States or agencies or instrumentalities of the United States or obliga-  
23 tions of corporations in which the United States is a shareholder or  
24 member;

25 (3) certificates of deposit and term deposits of [ISSUED BY]  
26 United States domestic banks which are members of the Federal Deposit  
27 Insurance Corporation and [FOR] which may be readily sold in a [GENERALIY  
28 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
29 which are fully secured at all times as to payment of principal and

1 interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) -  
2 (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS  
3 PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND  
4 THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

5 (4) certificates of deposit and term deposits [SHARES] of  
6 federally chartered savings and loan [LOANS] associations in Alaska  
7 which may be readily sold in a secondary market at prices reflecting  
8 fair value or which are fully secured at all times as to payments of  
9 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
10 of this section [SUBSECTION];

11 (5) [SAVINGS] certificates of deposit and term deposits of  
12 [ISSUED BY] state chartered savings and loan associations in Alaska  
13 which may be readily sold in a secondary market at prices reflecting  
14 fair value or which are fully secured at all times as to payments of  
15 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
16 of this section [SUBSECTION];

17 (6) certificates of deposit and term deposits of [DEPOSITS  
18 WITH] mutual savings banks in Alaska which may be readily sold in a sec-  
19 ondary market at prices reflecting fair value or which are fully secured  
20 at all times as to payments of principal and interest as [BY INVESTMENTS]  
21 described in (m) [(1), (2)] of this section [SUBSECTION];

22 (7) fixed-term certificates of indebtedness of federally in-  
23 sured credit unions in Alaska which may be readily sold in a market at  
24 prices reflecting fair value or which are fully secured at all times as  
25 to payments of principal and interest as [BY INVESTMENTS] described in  
26 (m) [(1), (2)] of this section [SUBSECTION];

27 (8) corporate debt securities which are rated AA or better by  
28 a nationally recognized rating service;

29 (9) short-term corporate promissory notes of the highest

1 ratings assigned by a nationally recognized rating service;

2 (10) bankers' acceptances drawn on and accepted by United  
3 States banks each of which have a combined capital and surplus aggregat-  
4 ing at least \$200,000,000;

5 (11) repurchase agreements, the securities underlying the  
6 agreements being any of the items in (1) - (3) and (8) - (10) of this  
7 subsection;

8 (12) the guaranteed portion of Federal Small Business Admin-  
9 istration loans;

10 (13) the portion of first lien real estate mortgages guaran-  
11 teed by the Federal Veterans Administration [ASSOCIATION];

12 (14) the portions of business and industrial loans made under  
13 the Rural Development Act of 1972 which are guaranteed by the Farmer's  
14 Home Administration;

15 (15) the guaranteed portion of Farmer's Home Administration  
16 loans;

17 (16) notes secured by mortgages granting a first lien on com-  
18 mmercial or [OF] residential real estate improved by completed buildings  
19 if the mortgages are insured by a private mortgage insurance corporation  
20 which is authorized to do business in Alaska and has combined capital,  
21 surplus and reserves aggregating at least \$20,000,000, and if loan-to-  
22 value ratios do not exceed 75 percent for commercial mortgages and 90  
23 percent for residential mortgages; however, [THE MINIMUM COVERAGE SHALL  
24 BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90  
25 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A  
26 LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

27 (A) no mortgage insurance is necessary for commercial  
28 loans having loan-to-value ratios of less than 50 percent and the  
29 minimum coverage of other commercial loans shall be 10 percent for

1 those having a loan-to-value ratio of 50-60 percent and 15 percent  
2 for those having a loan-to-value ratio greater than 60 percent but  
3 no more than 75 percent, and

4 (B) no mortgage insurance is necessary for residential  
5 loans having a loan-to-value ratio of less than 70 percent and the  
6 minimum coverage of other residential loans shall be 10 percent for  
7 those having a loan-to-value ratio greater than 70 percent but less  
8 than 90 percent and 20 percent for those having a loan-to-value  
9 ratio of 90 percent;

10 (17) notes secured by mortgages granting a first lien on com-  
11 mercial real estate improved by completed buildings if the originating  
12 financial institution retains at least 25 percent of the mortgage until  
13 maturity;

14 (18) preferred and common stock of corporations incorporated  
15 in the United States, on which dividends have been paid in each of the  
16 three years immediately preceding the investment;

17 (19) debt securities of foreign governments or corporations  
18 and preferred and common stock of foreign corporations which are of sub-  
19 stantially equivalent quality as those domestic securities permitted  
20 under this section;

21 (20) certificates of deposit, term deposits, bankers' accep-  
22 tances, or equivalent instruments, which are issued by a United States  
23 or foreign bank or trust company located in a foreign country and are  
24 denominated in either United States or foreign currency, if either (A)  
25 they may be readily sold in a secondary market at prices reflecting fair  
26 value, or (B) the issuing bank or trust company has capital and surplus  
27 at the date of issue equalling at least \$500,000,000; investments made  
28 under this paragraph are not subject to the collateral requirements for  
29 domestic certificates under (m) of this section;

1                   (21) equity interests in, and debt obligations secured by  
2 mortgages granting a first lien on, real property improved by completed  
3 and substantially rented buildings and located in the United States, if  
4 these investments are made

5                   (A) in a corporation, partnership, trust, or other  
6 entity in which, at the conclusion of each investment transaction,  
7 at least 60 percent of the beneficial ownership interests are  
8 held by other institutional investors, and which is organized and  
9 operated for the purpose of making real estate investments by a  
10 bank, insurance company, or other manager of institutional funds  
11 which has had at least five years of experience in the management  
12 of real estate investments of institutional investors; or

13                   (B) in conjunction with and on substantially the same  
14 terms as an entity described in (A) of this paragraph;

15                   (22) limited partnership interest in venture capital funds,  
16 if these investments are made

17                   (A) in a partnership in which, at the conclusion of  
18 each investment transaction, at least 60 percent of the beneficial  
19 ownership interests are held by other institutional investors and  
20 which is organized and operated for the purpose of making venture  
21 capital investments by a manager of institutional funds who has  
22 had at least five years of experience in the management of venture  
23 capital investments of institutional investors; and

24                   (B) in a partnership that agrees to make venture capital  
25 investments in the state equal to the investment of the Alaska  
26 permanent fund in the partnership to the extent that in-state in-  
27 vestments that have a risk level and expected yield comparable to  
28 alternate investment opportunities are available.

29                   (23) obligations issued by an agency of the state if the

1 obligations and the interest on them are taxable under federal law.

2 \* Sec. 6. AS 37.13.120(i) is repealed and reenacted to read:

3 (i) At the time of each investment, the aggregate investment of  
4 the Alaska permanent fund in each stated category of investment may not  
5 exceed the following stated percentage of the total investments of the  
6 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
7 investments under (g)(21) of this section, 15 percent; venture capital  
8 limited partnerships under (g)(22) of this section, 15 percent; foreign  
9 securities under (g)(19) of this section, 10 percent; foreign certifi-  
10 cates of deposit or the equivalent under (g)(20) of this section, 20  
11 percent; corporate stocks and debt securities under (g)(8), (9), and  
12 (18) of this section, 50 percent. The Alaska permanent fund may at no  
13 time own more than five percent of the voting stock of a corporation.  
14 Domestic stocks, except for bank and insurance company stocks, must be  
15 listed at the date of purchase on an exchange registered with the  
16 Securities and Exchange Commission.

17 \* Sec. 7. AS 37.13.120 is amended by adding new subsections to read:

18 (m) Certificates of deposit or the equivalent instruments which  
19 are not of a quality that may be readily sold in a secondary market at  
20 prices reflecting fair value must be secured by a pledge as collateral  
21 of investments authorized for the Alaska permanent fund under (g)(1),  
22 (2), (8) or (12) - (17) of this section, which investments have value at  
23 least equal to the face value of the certificate of deposit. The board  
24 may require substitution of collateral in order to ensure continued  
25 satisfaction of the requirements set out in this subsection.

26 (n) Certificates of deposit or the equivalent instruments may not  
27 be purchased from a bank doing business in Alaska unless the in-state  
28 loan-to-deposit ratio of that bank as determined by the division of  
29 banking of the Department of Commerce and Economic Development for the

1 last full quarter preceding the purchase is not more than five percent  
2 less than the in-state loan-to-deposit average ratio for all banks doing  
3 business in Alaska for that quarter.

4 (o) Certificates of deposits or the equivalent instrument may not  
5 be purchased from a bank doing business in Alaska if state and state  
6 agency deposits in the bank are in excess of 400 percent of the bank's  
7 combined capital and surplus.

8 \* Sec. 8. AS 37.13 is amended by adding a new section to read:

9 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal  
10 year, an amount equal to 50 percent of net income as defined in AS 37.-  
11 13.140, excluding any income on the undistributed income account in the  
12 Alaska permanent fund, shall be transferred to principal of the fund for  
13 reinvestment. The other 50 percent of the net income shall be trans-  
14 ferred to the undistributed income account. Money in the undistributed  
15 income account shall be invested in investments authorized under AS 37.-  
16 13.120. Income from the investment of the undistributed income account  
17 shall be treated as an addition to that account.

18 \* Sec. 9. AS 37.13.150 is amended to read:

19 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
20 ted by the corporation's investments must be identified as the source  
21 of the operating budget of the corporation in the state's operating  
22 budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
23 Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-  
24 ance of the corporation's annual operating budget does not lapse at  
25 the end of the fiscal year but shall be treated as income under AS 37.  
26 13.140.

27 \* Sec. 10. AS 37.13.160 is amended to read:

28 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-  
29 tee may [SHALL] provide for an annual post audit and annual operational

1 and performance evaluations of the corporation's investments and invest-  
2 ment programs.

3 \* Sec. 11. AS 37.13 is amended by adding a new section to read:

4 Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
5 under the Administrative Procedure Act (AS 44.62) to interpret and  
6 implement this chapter.

7 \* Sec. 12. Transition to four-year terms for members of the Board of  
8 Trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060  
9 as amended in sec. 2 of this Act shall be implemented as follows: at the  
10 expiration of the present term of each public member, the governor shall  
11 appoint a replacement, or reappoint the present member, for a term of four  
12 years. Within 90 days after the effective date of this Act, the governor  
13 shall appoint a public member to replace one of the two present heads of  
14 principal departments other than the commissioner of revenue, to serve for a  
15 term of four years or less which term expires in a year when no other public  
16 member's term expires. The head of a principal department who is to be  
17 replaced shall continue to serve on the board until the appointment of a  
18 replacement.

19 \* Sec. 13. This Act takes effect July 1, 1982.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

Introduced: 2/12/82  
Referred: State Affairs and  
Finance

1 IN THE HOUSE

BY METCALFE

2 HOUSE BILL NO. 770

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska permanent fund."

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

8 \* Section 1. AS 37.13.010(a) is repealed and reenacted to read:

9 (a) Under art. IX sec. 15 of the state constitution, there is  
10 established as a separate fund the Alaska permanent fund. The Alaska  
11 permanent fund consists of

12 (1) one hundred percent of mineral lease bonuses after deduc-  
13 tion of amounts allocated

14 (A) to the Alaska Native Fund under the Alaska Native  
15 Claims Settlement Act and implementing state legislation; and

16 (B) in AS 37.11.020 to the Alaska renewable resources  
17 development fund;

18 (2) twenty-five percent of all mineral lease rentals, royal-  
19 ties, royalty sale proceeds, and federal mineral revenue sharing payments  
20 received by the state; and

21 (3) any other money appropriated or otherwise allocated by  
22 law to the Alaska permanent fund.

23 \* Sec. 2. AS 37.13.040 is amended to read:

24 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is  
25 established the Alaska Permanent Fund Corporation. The corporation is a  
26 public corporation and government instrumentality in the Department of  
27 Revenue managed by the board of trustees but has a legal existence inde-  
28 pendent of and separate from the state. The purpose of the board is to  
29 manage and invest the assets of the corporation in accordance with this

1 chapter.

2 \* Sec. 3. AS 37.13.050 is repealed and reenacted to read:

3 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board  
4 of trustees consists of three members appointed by the governor and  
5 confirmed by a majority of the members of the legislature in joint  
6 session.

7 (b) The board shall annually elect a chair from among its members.

8 \* Sec. 4. AS 37.13.060 is amended to read:

9 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be  
10 appointed for terms of three years, and they may be reappointed subject  
11 to confirmation by a majority of the members of the legislature in joint  
12 session. Terms shall be staggered. [INITIAL TERMS FOR MEMBERS OTHER  
13 THAN THE COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE  
14 YEAR, TWO MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR  
15 THREE YEARS.]

16 \* Sec. 5. AS 37.13.070(a) is repealed and reenacted to read:

17 (a) The governor may remove a member of the board from office by  
18 and with the consent of a majority of the members of the legislature in  
19 joint session. A removal by the governor shall be in writing and state  
20 the reason for removal. If the legislature is not in session, the  
21 governor may suspend a member of the board. Upon suspension, a vacancy  
22 is not created but the member of the board may not participate in board  
23 business and may not be counted for purposes of establishing a quorum.  
24 The joint session of the legislature shall be held within 30 days from  
25 the date of removal if the removal occurs while the legislature is in  
26 session or within 30 days of convening of the legislature if the legis-  
27 lature is not in session. If the legislature refuses to consent to his  
28 removal, the member of the board shall be reinstated to his position.

29 \* Sec. 6. AS 37.13 is amended by adding a new section to read:

1           Sec. 37.13.075. QUALIFICATIONS OF BOARD MEMBERS. (a) A person  
2 may not be appointed to the board unless that person has been a resident  
3 of the state for at least three years.

4           (b) A member of the board may not hold any other state or federal  
5 office, position or employment, either elective or appointive, except as  
6 a member of the armed forces of the United States or of this state.

7           (c) At least one member of the board shall have recognized compe-  
8 tence and wide experience in finance, investments, or other business  
9 management-related field. Persons who share substantially similar  
10 professional or occupational backgrounds may not be appointed to the  
11 board to serve at the same time.

12 \* Sec. 7. AS 37.13.120 is repealed and reenacted to read:

13           Sec. 37.13.120. POWERS AND DUTIES. (a) The prudent-man rule is  
14 applicable to the board in the management and investment of permanent  
15 fund assets. The prudent-man rule as applied to investments of the  
16 corporation means that in making investments the board shall exercise  
17 the judgment and care under the circumstances then prevailing that an  
18 institutional investor of ordinary prudence, discretion, and intelligence  
19 exercises in the management of large investments entrusted to it not in  
20 regard to speculation but in regard to the permanent disposition of  
21 funds, considering the probable income from them as well as probable  
22 safety of capital.

23           (b) The corporation assets may only be used for income-producing  
24 investments.

25           (c) The board shall seek to maintain a reasonable diversification  
26 among corporation investments unless under the circumstances it is  
27 clearly prudent not to do so.

28           (d) The board shall submit long-range and quarterly investment  
29 reports to the Legislative Budget and Audit Committee.

1 (e) The corporation may not borrow funds or guarantee from princi-  
2 pal of the fund the obligations of others.

3 (f) The board may enter into and enforce all contracts necessary,  
4 convenient, or desirable for purposes of the corporation. It may con-  
5 tract with the division of treasury of the Department of Revenue for  
6 services.

7 (g) Subject to (a) and (b) of this section, the board may invest  
8 corporation assets in obligations of, or obligations insured or guaran-  
9 teed by, the United States or agencies or instrumentalities of the  
10 United States; corporate securities that under the Securities Act of  
11 1933 are freely marketable; and short-term investments that meet the  
12 requirements of (a) and (b) of this section except for the term of the  
13 investments.

14 (1) The assets of the fund may not be used for the purchase  
15 of stock of a corporation that is not paying dividends on that stock in  
16 cash at the time of purchase; nor in the purchase of bonds of a corpora-  
17 tion, upon which any regular interest payment has been defaulted within  
18 five years before purchase, except bonds never in default but which have  
19 been outstanding for less than five years.

20 (2) The assets of the corporation may not be used for the  
21 purchase of stock if immediately following the purchase the proportionate  
22 market value of all stocks held by the corporation would exceed 30  
23 percent of the assets of the corporation.

24 (h) Subject to (a) and (b) of this section, the board may invest  
25 corporation assets in

26 (1) Federal Housing Administration mortgages;

27 (2) Federal Veterans Administration mortgages;

28 (3) conventional residential mortgages if the offering finan-  
29 cial institution retains at least 25 percent of the mortgage.

1 (i) To qualify as a mortgage or secured loan that may be purchased  
2 by the board under (h) of this section, the mortgage or secured loan  
3 shall

4 (1) be secured by real estate in the state;

5 (2) have as a mortgagor an Alaska resident or a corporation  
6 in which at least 60 percent of the stock is owned by Alaska residents;

7 (3) be certified by the originating financial institution  
8 that the loan being sold has been made in compliance with law and that  
9 liens supporting the loan have been perfected;

10 (4) have no initial closing fees or service fees that exceed  
11 one-half of one percent, excluding closing costs.

12 (j) The board may purchase loans provided for in (h) of this  
13 section only with the approval of each purchase by the Department of  
14 Commerce and Economic Development, and the loans may be purchased only  
15 from financial institutions that are operating under the national banking  
16 laws, federal savings and loan laws, or under the provisions of AS 06.05,  
17 AS 06.15, AS 06.25 or AS 06.30.

18 (k) The board shall establish and from time to time as necessary  
19 modify guidelines for the investment of the corporation's assets.  
20 Before adoption of any investment guidelines, the guidelines shall be  
21 reported to the Legislative Budget and Audit Committee for review and  
22 comment.

23 (l) Nothing in this section may be interpreted to preclude in-state  
24 investments that have a risk level and expected yield comparable to  
25 alternative investment opportunities.

26 \* Sec. 8. AS 37.13.130 is repealed and reenacted to read:

27 Sec. 37.13.130. GAINS AND LOSSES. At the end of each fiscal year,  
28 the total amount of losses on the sales of securities, not offset by  
29 gains on the sales of securities during that year, shall be computed,

1 with a portion of these losses to be deducted each fiscal year from the  
2 interest and dividend income and the resulting amount of interest and  
3 dividend income added to the principal of the fund. Losses taken on the  
4 sales of bonds shall be accumulated over a period equal to the average  
5 remaining life of the bonds sold, and losses taken on the sales of  
6 stocks shall be accumulated within a period of five years, unless these  
7 losses are offset by gains on future sales of securities. In any fiscal  
8 year in which the gains on the sales of securities exceed the losses on  
9 the sales of securities, the excess shall be added to the principal of  
10 the fund.

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

12 Sec. 37.13.145. MORTGAGE LOSS RESERVE ACCOUNT. The board may  
13 establish a mortgage loss reserve account for the purpose of protecting  
14 the financial integrity of the fund.

15 \* Sec. 10. AS 37.13.190 is amended to read:

16 Sec. 37.13.190. POLITICAL ACTIVITIES. The members of the board of  
17 trustees and employees of the corporation may not engage in partisan  
18 political activities. The resources of the corporation may not be used  
19 to finance or influence political activities.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: CSHB 770 (SA) (4/14/82)  
 Title: Relating to Investment & Management of the Alaska Permanent Fund  
 Requested by: House State Affairs Committee Date: 4/15/82

II. FISCAL DETAIL

Agency Affected: Department of Revenue  
 Program Category Affected: Permanent Fund Corp.  
 BRU, Program, or Subprogram(s) Affected: Permanent Fund Corp.  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	(28.8)	-	-	-	-
300 CONTRACTUAL	-	4,145.0	9,210.0	11,078.0	12,567.0	14,132.0
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL</b>	-	4,116.2	9,210.0	11,078.0	12,567.0	14,132.0

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-
<b>PERMANENT FUND INCOME</b>	-	4,116.2	9,210.0	11,078.0	12,567.0	14,132.0

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Compensation level of Public Members of Board of Trustees to be determined by Board. Reduction in Travel for deletion of \$400/meeting day honorarium budgeted for present public members.

Contractual Services is for associated outside management and safekeeping costs of new allowable investments were applicable. Assumes, based on average fund balance for a fiscal year; 25% in preferred and common stock, 5% real estate equity, 5% foreign securities and certificates of deposit, 5% venture capital. Stock is at one-half of maximum allowed, others at one-third of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed starting FY 85 and after (not per year). Brokerage fee on preferred and common stock not included as it is part of base securities cost.

FY 83 assumes above percentages for one-half year only as transition time to new investment categories. Net effect of above scenerio places 40% of all corporate assets with outside managers, the balance 60% remains for internal management.

*A. Staack*

IV. DATE: April 15, 1982

PREPARED BY: Anselm C. Staack, Treasury Comptroller

AGENCY: Dept. of Revenue/Treasury Division

PHONE: 465-2350

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

Original sponsor: Metcalfe

Offered: 4/16/82  
Referred: Finance

1 IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 770 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUST-  
13 EES. (a) The Board of Trustees of the Alaska Permanent Fund Corpora-  
14 tion consists of six members appointed by the governor. Two [THREE] of  
15 the members shall be heads of principal departments of state government,  
16 one of whom shall be the commissioner of revenue. Four [THREE] members  
17 shall be appointed by the governor from the public and may not hold any  
18 other state or federal office, position or employment, either elective  
19 or appointive, except as a member of the armed forces of either the  
20 United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF  
21 REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF  
22 THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

1 board shall be appointed for terms of four [THREE] years, and they may  
2 be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF  
3 THE LEGISLATURE IN JOINT SESSION]. The terms of the public members  
4 [TERMS] shall be staggered so that no more than one term of a public  
5 member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE  
6 COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO  
7 MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

8 \* Sec. 3. AS 37.13.070 is amended to read:

9 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
10 for good cause remove a member of the board from office. [HOWEVER, THE  
11 REMOVAL OF A MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF  
12 A MAJORITY OF THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION  
13 HELD 10 OR MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL  
14 FROM THE GOVERNOR.] A removal by the governor shall be in writing and  
15 shall state the reason for the removal. A member who is removed by the  
16 governor may not participate in board business and may not be counted  
17 for purposes of establishing a quorum after [BETWEEN THE TIME] he  
18 receives written notice of his removal from the governor [AND THE TIME  
19 THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUB-  
20 SECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD  
21 MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

22 (b) A vacancy on the board shall be promptly filled by appointment  
23 by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE  
24 LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold  
25 office for the balance of the term for which his predecessor on the  
26 board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGIS-  
27 LATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD  
28 MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGIS-  
29 LATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. The board shall  
6 determine the compensation of the public members of the board subject  
7 to approval by the legislature in accordance with AS 37.07. Compensa-  
8 tion for public members of the board shall be requested as part of the  
9 operating budget of the board (AS 37.13.150). Members [PUBLIC MEMBERS  
10 OF THE BOARD RECEIVE AN HONORARIUM OF \$400 FOR EACH MEETING DAY IF THEY  
11 ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem  
12 and travel allowances as provided by law for members of state boards and  
13 commissions.

14 \* Sec. 5. AS 37.13.120(g) is amended to read:

15 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
16 section, the board may invest corporation assets at competitive national  
17 market rates or prices applicable to each investment in

18 (1) obligations of, or obligations insured by or guaranteed  
19 by, the United States or agencies or instrumentalities of the United  
20 States;

21 (2) obligations secured by reserves paid in by the United  
22 States or agencies or instrumentalities of the United States or obliga-  
23 tions of corporations in which the United States is a shareholder or  
24 member;

25 (3) certificates of deposit and term deposits of [ISSUED BY]  
26 United States domestic banks which are members of the Federal Deposit  
27 Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY  
28 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
29 which are fully secured at all times as to pay ment of principal and

1 interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) -  
2 (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS  
3 PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND  
4 THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

5 (4) certificates of deposit and term deposits [SHARES] of  
6 federally chartered savings and loan [LOANS] associations in Alaska  
7 which may be readily sold in a secondary market at prices reflecting  
8 fair value or which are fully secured at all times as to payments of  
9 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
10 of this section [SUBSECTION];

11 (5) [SAVINGS] certificates of deposit and term deposits of  
12 [ISSUED BY] state chartered savings and loan associations in Alaska  
13 which may be readily sold in a secondary market at prices reflecting  
14 fair value or which are fully secured at all times as to payments of  
15 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
16 of this section [SUBSECTION];

17 (6) certificates of deposit and term deposits of [DEPOSITS  
18 WITH] mutual savings banks in Alaska which may be readily sold in a sec-  
19 ondary market at prices reflecting fair value or which are fully secured  
20 at all times as to payments of principal and interest as [BY INVESTMENTS]  
21 described in (m) [(1), (2)] of this section [SUBSECTION];

22 (7) fixed-term certificates of indebtedness of federally in-  
23 sured credit unions in Alaska which may be readily sold in a market at  
24 prices reflecting fair value or which are fully secured at all times as  
25 to payments of principal and interest as [BY INVESTMENTS] described in  
26 (m) [(1), (2)] of this section [SUBSECTION];

27 (8) corporate debt securities which are rated AA or better by  
28 a nationally recognized rating service;

29 (9) short-term corporate promissory notes of the highest

1 ratings assigned by a nationally recognized rating service;

2 (10) bankers' acceptances drawn on and accepted by United  
3 States banks each of which have a combined capital and surplus aggregat-  
4 ing at least \$200,000,000;

5 (11) repurchase agreements, the securities underlying the  
6 agreements being any of the items in (1) - (3) and (8) - (10) of this  
7 subsection;

8 (12) the guaranteed portion of Federal Small Business Admin-  
9 istration loans;

10 (13) the portion of first lien real estate mortgages guaran-  
11 teed by the Federal Veterans Administration [ASSOCIATION];

12 (14) the portions of business and industrial loans made under  
13 the Rural Development Act of 1972 which are guaranteed by the Farmer's  
14 Home Administration;

15 (15) the guaranteed portion of Farmer's Home Administration  
16 loans;

17 (16) notes secured by mortgages granting a first lien on com-  
18 mercial or [OF] residential real estate improved by completed buildings  
19 if the mortgages are insured by a private mortgage insurance corporation  
20 which is authorized to do business in Alaska and has combined capital,  
21 surplus and reserves aggregating at least \$20,000,000, and if loan-to-  
22 value ratios do not exceed 75 percent for commercial mortgages and 90  
23 percent for residential mortgages; however, [THE MINIMUM COVERAGE SHALL  
24 BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90  
25 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A  
26 LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

27 (A) no mortgage insurance is necessary for commercial  
28 loans having loan-to-value ratios of less than 50 percent and the  
29 minimum coverage of other commercial loans shall be 10 percent for

1 those having a loan-to-value ratio of 50-60 percent and 15 percent  
2 for those having a loan-to-value ratio greater than 60 percent but  
3 no more than 75 percent, and

4 (B) no mortgage insurance is necessary for residential  
5 loans having a loan-to-value ratio of less than 70 percent and the  
6 minimum coverage of other residential loans shall be 10 percent for  
7 those having a loan-to-value ratio greater than 70 percent but less  
8 than 90 percent and 20 percent for those having a loan-to-value  
9 ratio of 90 percent;

10 (17) notes secured by mortgages granting a first lien on com-  
11 mercial real estate improved by completed buildings if the originating  
12 financial institution retains at least 25 percent of the mortgage until  
13 maturity;

14 (18) preferred and common stock of corporations incorporated  
15 in the United States, on which dividends have been paid in each of the  
16 three years immediately preceding the investment;

17 (19) debt securities of foreign governments or corporations  
18 and preferred and common stock of foreign corporations which are of sub-  
19 stantially equivalent quality as those domestic securities permitted  
20 under this section;

21 (20) certificates of deposit, term deposits, bankers' accep-  
22 tances, or equivalent instruments, which are issued by a United States  
23 or foreign bank or trust company located in a foreign country and are  
24 denominated in either United States or foreign currency, if either (A)  
25 they may be readily sold in a secondary market at prices reflecting fair  
26 value, or (B) the issuing bank or trust company has capital and surplus  
27 at the date of issue equalling at least \$500,000,000; investments made  
28 under this paragraph are not subject to the collateral requirements for  
29 domestic certificates under (m) of this section;

1                   (21) equity interests in, and debt obligations secured by  
2 mortgages granting a first lien on, real property improved by completed  
3 and substantially rented buildings and located in the United States, if  
4 these investments are made

5                   (A) in a corporation, partnership, trust, or other  
6 entity in which, at the conclusion of each investment transaction,  
7 at least 60 percent of the beneficial ownership interests are  
8 held by other institutional investors, and which is organized and  
9 operated for the purpose of making real estate investments by a  
10 bank, insurance company, or other manager of institutional funds  
11 which has had at least five years of experience in the management  
12 of real estate investments of institutional investors; or

13                   (B) in conjunction with and on substantially the same  
14 terms as an entity described in (A) of this paragraph;

15                   (22) limited partnership interest in venture capital funds,  
16 if these investments are made

17                   (A) in a partnership in which, at the conclusion of  
18 each investment transaction, at least 60 percent of the beneficial  
19 ownership interests are held by other institutional investors and  
20 which is organized and operated for the purpose of making venture  
21 capital investments by a manager of institutional funds who has  
22 had at least five years of experience in the management of venture  
23 capital investments of institutional investors; and

24                   (B) in a partnership that agrees to make venture capital  
25 investments in the state equal to the investment of the Alaska  
26 permanent fund in the partnership to the extent that in-state in-  
27 vestments that have a risk level and expected yield comparable to  
28 alternate investment opportunities are available.

29                   (23) obligations issued by an agency of the state if the

1 obligations and the interest on them are taxable under federal law.

2 \* Sec. 6. AS 37.13.120(i) is repealed and reenacted to read:

3 (i) At the time of each investment, the aggregate investment of  
4 the Alaska permanent fund in each stated category of investment may not  
5 exceed the following stated percentage of the total investments of the  
6 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
7 investments under (g)(21) of this section, 15 percent; venture capital  
8 limited partnerships under (g)(22) of this section, 15 percent; foreign  
9 securities under (g)(19) of this section, 10 percent; foreign certifi-  
10 cates of deposit or the equivalent under (g)(20) of this section, 20  
11 percent; corporate stocks and debt securities under (g)(8), (9), and  
12 (18) of this section, 50 percent. The Alaska permanent fund may at no  
13 time own more than five percent of the voting stock of a corporation.  
14 Domestic stocks, except for bank and insurance company stocks, must be  
15 listed at the date of purchase on an exchange registered with the  
16 Securities and Exchange Commission.

17 \* Sec. 7. AS 37.13.120 is amended by adding new subsections to read:

18 (m) Certificates of deposit or the equivalent instruments which  
19 are not of a quality that may be readily sold in a secondary market at  
20 prices reflecting fair value must be secured by a pledge as collateral  
21 of investments authorized for the Alaska permanent fund under (g)(1),  
22 (2), (8) or (12) - (17) of this section, which investments have value at  
23 least equal to the face value of the certificate of deposit. The board  
24 may require substitution of collateral in order to ensure continued  
25 satisfaction of the requirements set out in this subsection.

26 (n) Certificates of deposit or the equivalent instruments may not  
27 be purchased from a bank doing business in Alaska unless the in-state  
28 loan-to-deposit ratio of that bank as determined by the division of  
29 banking of the Department of Commerce and Economic Development for the

1 last full quarter preceding the purchase is not more than five percent  
2 less than the in-state loan-to-deposit average ratio for all banks doing  
3 business in Alaska for that quarter.

4 (o) Certificates of deposits or the equivalent instrument may not  
5 be purchased from a bank doing business in Alaska if state and state  
6 agency deposits in the bank are in excess of 400 percent of the bank's  
7 combined capital and surplus.

8 \* Sec. 8. AS 37.13 is amended by adding a new section to read:

9 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal  
10 year, an amount equal to 50 percent of net income as defined in AS 37.-  
11 13.140, excluding any income on the undistributed income account in the  
12 Alaska permanent fund, shall be transferred to principal of the fund for  
13 reinvestment. The other 50 percent of the net income shall be trans-  
14 ferred to the undistributed income account. Money in the undistributed  
15 income account shall be invested in investments authorized under AS 37.-  
16 13.120. Income from the investment of the undistributed income account  
17 shall be treated as an addition to that account.

18 \* Sec. 9. AS 37.13.150 is amended to read:

19 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
20 ted by the corporation's investments must be identified as the source  
21 of the operating budget of the corporation in the state's operating  
22 budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
23 Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-  
24 ance of the corporation's annual operating budget does not lapse at  
25 the end of the fiscal year but shall be treated as income under AS 37.  
26 13.140.

27 \* Sec. 10. AS 37.13.160 is amended to read:

28 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-  
29 tee may [SHALL] provide for an annual post audit and annual operational

1 and performance evaluations of the corporation's investments and invest-  
2 ment programs.

3 \* Sec. 11. AS 37.13 is amended by adding a new section to read:

4 Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
5 under the Administrative Procedure Act (AS 44.62) to interpret and  
6 implement this chapter.

7 \* Sec. 12. Transition to four-year terms for members of the Board of  
8 Trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060  
9 as amended in sec. 2 of this Act shall be implemented as follows: at the  
10 expiration of the present term of each public member, the governor shall  
11 appoint a replacement, or reappoint the present member, for a term of four  
12 years. Within 90 days after the effective date of this Act, the governor  
13 shall appoint a public member to replace one of the two present heads of  
14 principal departments other than the commissioner of revenue, to serve for a  
15 term of four years or less which term expires in a year when no other public  
16 member's term expires. The head of a principal department who is to be  
17 replaced shall continue to serve on the board until the appointment of a  
18 replacement.

19 \* Sec. 13. This Act takes effect July 1, 1982.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29