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1

COMMITTEE REPORT

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)
- replace with CS for HB 770 same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation AS FOLLOWS:
- referred to the _____ Committee

MEMBERS SIGNING DO PASS

[Signature]

MEMBERS HAVING OTHER RECOMMENDATIONS:

[Signature]

[Signature]

 CHAIRMAN

ALASKA PERMANENT FUND CORPORATION

DEPARTMENT OF REVENUE
TREASURY DIVISION

Pouch SB
Juneau, Alaska 99811
(907) 465-2351

MONTHLY INVESTMENT REPORT

January 31, 1982

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ALASKA PERMANENT FUND CORPORATION

POUCH SB · JUNEAU, ALASKA 99811
TELEPHONE 907-465-2351

BOARD OF TRUSTEES:

ELMER E. RASMUSON - CHAIRMAN
THOMAS K. WILLIAMS - VICE-CHAIRMAN
WILSON L. CONDON
PETER B. MCDOWELL
GEORGE W. ROGERS
ROBERT W. WARD

RESPONDENT ADDRESS:

To the Reader:

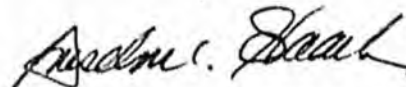
We present herein the investment report of the Alaska Permanent Fund for January 31, 1982, with year-to-date figures for the Fiscal Year 1982. Accounting procedures used in preparation include:

1. All transactions are recorded on the cash basis, i.e., when cash is received or disbursed.
2. Accrued interest purchased with marketable securities is recorded as an asset that is subsequently charged to income on the first coupon date.
3. The cost of investments represents the amount paid for securities not including transaction charges.
4. State contributions represent only those amounts actually transferred to the fund.
5. Safekeeping and transaction charges are billed to the State and are not deducted from operating income.

Chapter 18, SLA 1980 of the Alaska Statutes, recently enacted Permanent Fund management legislation, specifies certain computations necessary to determine income available for disbursement. Accordingly, income transfers to the General Fund will be made in varying amounts as allowed by law.

For purposes of source and use of funds analysis, we have defined the term "funds" to include savings deposits, repurchase agreements and purchased interest receivable.

Sincerely,



Anselm C. Staack
Treasury Comptroller

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF PORTFOLIO ASSETS

January 31, 1982

	Current Month	
	%	Cost
Cash	%	\$ 72,672.53
Purchased Interest Receivable		-0-
Marketable Securities, at Cost:		
Repurchase Agreements		9,100,000.00
Short Term Issues	91	2,761,406,535.29
Intermediate and Long Term Issues	7	195,905,182.50
Total Marketable Securities	98	2,966,411,717.79
Certificates of Deposit	2	50,000,000.00
Loans and Mortgages		11,290,879.52
Total Assets	100%	\$3,027,775,269.84

STATEMENT OF OPERATIONS/CHANGES IN TOTAL ASSETS

	Current Month	Year-to-Date
Portfolio Operations:		
Interest Income	\$ 27,598,841.68	\$ 189,383,170.08
Net Gain (Loss) on Sale/Maturity of Securities	-0-	-0-
Total Operating Income	27,598,841.68	189,383,170.08
Beginning Cash and Invested Funds	2,960,669,588.28	1,800,651,821.25
State Contributions from Royalties and Other Receipts	39,506,839.88	1,038,671,759.72
Net Contribution to General Fund	-0-	(931,481.21)
End Cash and Invested Funds	\$3,027,775,269.84	\$3,027,775,269.84

ALASKA PERMANENT FUND CORPORATION
COMPOSITION OF INVESTMENT HOLDINGS

January 31, 1982

<u>Asset Type</u>	<u>% of Total Cost Value</u>	<u>Current Month</u>	
		<u>Cost</u>	<u>Yield</u>
<u>MARKETABLE SECURITIES ACCOUNT</u>			
<u>Cash Deposits</u>			
Savings	%	\$ 72,672.53	5.39
<u>Purchased Interest Receivable</u>		-0-	
<u>Repurchase Agreements</u>	.3	9,100,000.00	13.00
<u>Short Term Issues</u>			
Certificates of Deposit	19.0	565,000,000.00	13.05
Commercial Paper	2.7	81,280,177.08	16.41
Bankers Acceptances	29.7	879,584,774.20	13.34
U.S. Treasury Bills	27.3	809,589,597.19	12.48
U.S. Treasury Notes & Bonds	14.4	425,951,986.82	11.00
Total Short Term	<u>93.1</u>	<u>2,761,406,535.29</u>	12.76
<u>Intermediate/Long Term Issues</u>			
U. S. Treasury Notes & Bonds:			
1 - 2 years	2.6	78,637,343.75	9.49
2 - 5 Years	1.9	55,802,187.50	9.12
Over 5 Years	1.2	34,973,870.00	8.78
Sub-Total	<u>5.7</u>	<u>169,413,401.25</u>	9.23
Federal Agency Securities:			
2 - 5 Years	.4	13,004,156.25	8.32
Over 5 Years		-0-	
Sub-Total	<u>.4</u>	<u>13,004,156.25</u>	8.32
Corporate Bonds:			
Over 5 Years	.5	13,487,625.00	8.45
Total Intermediate/Long Term	<u>6.6</u>	<u>195,905,182.50</u>	9.12
TOTAL INVESTMENT HOLDINGS	<u>100.0%</u>	<u>\$2,966,484,390.32</u>	12.53

Schedule continued on following page

ALASKA PERMANENT FUND CORPORATION

POUCH SB - JUNEAU, ALASKA 99811
TELEPHONE 907.465.2351

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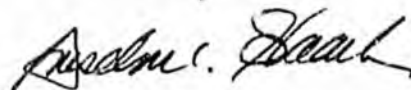
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Chapter 18, SLA 1980 of the Alaska Statutes, recently enacted Permanent Fund management legislation, specifies certain computations necessary to determine income available for disbursement. Accordingly, income transfers to the General Fund will be made in varying amounts as allowed by law.

For purposes of source and use of funds analysis, we have defined the term "funds" to include savings deposits, repurchase agreements and purchased interest receivable.

Sincerely,



Anselm C. Staack
Treasury Comptroller

ALASKA PERMANENT FUND CORPORATION
INVESTMENT ACTIVITY

January 31, 1982

At the end of January 1982, cash and investments of the Alaska Permanent Fund totaled \$3,027,775,269.84 up from \$2,960,669,588.28 at the end of the preceding month. Intermediate and long term issues were reduced by \$30,090,978.94 during January while short term issues increased by \$91,680,556.05. Funds in the amount of \$492,484,097.48 were provided by the sale/maturity of the investments. The Alaska Permanent Fund share of royalties and other State receipts amounted to \$39,506,839.88 down from \$132,617,596.50 during December 1981.

Marketable securities including repurchase agreements held by the Alaska Permanent Fund at the end of January yielded an average of 12.53. Uninvested cash is deposited in a savings account on which interest is compounded daily at an effective rate of 5.39.

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF PORTFOLIO ASSETS

January 31, 1982

	Current Month	
	%	Cost
Cash	%	\$ 72,672.53
Purchased Interest Receivable		-0-
Marketable Securities, at Cost:		
Repurchase Agreements		9,100,000.00
Short Term Issues	91	2,761,406,535.29
Intermediate and Long Term Issues	7	195,905,182.50
Total Marketable Securities	98	2,966,411,717.79
Certificates of Deposit	2	50,000,000.00
Loans and Mortgages		11,290,879.52
Total Assets	100%	\$3,027,775,269.84

STATEMENT OF OPERATIONS/CHANGES IN TOTAL ASSETS

	Current Month	Year-to-Date
Portfolio Operations:		
Interest Income	\$ 27,598,841.68	\$ 189,383,170.08
Net Gain (Loss) on Sale/Maturity of Securities	-0-	-0-
Total Operating Income	27,598,841.68	189,383,170.08
Beginning Cash and Invested Funds	2,960,669,588.28	1,800,651,821.25
State Contributions from Royalties and Other Receipts	39,506,839.88	1,038,671,759.72
Net Contribution to General Fund	-0-	(931,481.21)
End Cash and Invested Funds	\$3,027,775,269.84	\$3,027,775,269.84

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF CHANGES IN PORTFOLIO CONDITION

January 31, 1982

	Current Month	Year-to-Date
<u>During the Month Funds were Provided by:</u>		
Portfolio Operations:		
Interest Income	\$ 27,598,841.68	\$ 189,383,170.08
Net Gain (Loss) on Sale/Maturity of Securities	-0-	-0-
Total Provided by Operations	27,598,841.68	189,383,170.08
Sale/Maturity of Short Term Issues	492,484,097.48	2,943,836,502.95
Sale/Maturity of Long Term Issues	-0-	-0-
Principal Repayments	1,187.88	93,603.53
Redemption of Certificates of Deposit	-0-	36,100,000.00
Royalties and Other State Receipts	39,506,839.88	1,038,671,759.72
TOTAL Funds Provided During the Month	559,590,966.92	4,208,085,036.28
<u>During the Month Funds were Used for:</u>		
Purchase of:		
Short Term Issues	554,073,674.59	4,145,025,524.24
Intermediate/Long Term Issues	-0-	-0-
Certificates of Deposit	-0-	50,000,000.00
Loans and Mortgages	3,022,825.45	10,298,583.31
Total Purchases	557,096,500.04	4,205,324,107.55
Net Contribution to General Fund	-0-	931,481.21
TOTAL Funds Used During the Month	557,096,500.04	4,206,255,588.76
NET CHANGE IN FUNDS	\$ 2,494,466.88	\$ 1,829,447.52
<u>Summary of Changes:</u>		
Increase (Decrease) in Savings Deposits	\$ 15,786.32	\$ 29,447.52
Increase (Decrease) in Repurchase Agreements	2,500,000.00	1,800,000.00
Increase (Decrease) in Purchased Interest Receivable	(21,319.44)	-0-
NET CHANGE IN FUNDS	\$ 2,494,466.88	\$ 1,829,447.52

ALASKA PERMANENT FUND CORPORATION
COMPOSITION OF INVESTMENT HOLDINGS

January 31, 1982

<u>Asset Type</u>	<u>% of Total Cost Value</u>	<u>Current Month</u>	
		<u>Cost</u>	<u>Yield</u>
<u>MARKETABLE SECURITIES ACCOUNT</u>			
<u>Cash Deposits</u>			
Savings	%	\$ 72,672.53	5.39
<u>Purchased Interest Receivable</u>		-0-	
<u>Repurchase Agreements</u>	.3	9,100,000.00	13.00
<u>Short Term Issues</u>			
Certificates of Deposit	19.0	565,000,000.00	13.05
Commercial Paper	2.7	81,280,177.08	16.41
Bankers Acceptances	29.7	879,584,774.20	13.34
U.S. Treasury Bills	27.3	809,589,597.19	12.48
U.S. Treasury Notes & Bonds	14.4	425,951,986.82	11.00
Total Short Term	<u>93.1</u>	<u>2,761,406,535.29</u>	12.76
<u>Intermediate/Long Term Issues</u>			
U. S. Treasury Notes & Bonds:			
1 - 2 years	2.6	78,637,343.75	9.49
2 - 5 Years	1.9	55,802,187.50	9.12
Over 5 Years	1.2	34,973,870.00	8.78
Sub-Total	<u>5.7</u>	<u>169,413,401.25</u>	9.23
Federal Agency Securities:			
2 - 5 Years	.4	13,004,156.25	8.32
Over 5 Years		-0-	
Sub-Total	<u>.4</u>	<u>13,004,156.25</u>	8.32
Corporate Bonds:			
Over 5 Years	<u>.5</u>	<u>13,487,625.00</u>	8.45
Total Intermediate/Long Term	<u>6.6</u>	<u>195,905,182.50</u>	9.12
TOTAL INVESTMENT HOLDINGS	<u>100.0%</u>	<u>\$2,966,484,390.32</u>	12.53

Schedule continued on following page

Alaska Permanent Fund

COMPOSITION OF INVESTMENT HOLDINGS - Continued

<u>Asset Type</u>	<u>% of Total Cost Value</u>	<u>Current Month</u>	
		<u>Cost</u>	<u>Yield</u>
<u>CERTIFICATES OF DEPOSIT*</u>	<u>100.0%</u>	<u>\$ 50,000,000.00</u>	17.57
<u>LOANS AND MORTGAGES</u>	<u>100.0%</u>	<u>11,290,879.52</u>	14.96
<u>SUMMARY OF COMPOSITION</u>			
Marketable Securities Account	98.0	2,966,484,390.32	12.53
Certificates of Deposit	1.6	50,000,000.00	17.57
Loans and Mortgages	.4	11,290,879.52	14.96
TOTAL INVESTMENT HOLDINGS	<u>100.0%</u>	<u>\$3,027,775,269.84</u>	12.63

*See Page 8 for Summary of Alaska Deposits

ALASKA PERMANENT FUND CORPORATION
CHANGE IN PORTFOLIO COMPOSITION

January 31, 1982

	Current Month	Year-to-Date
<u>MARKETABLE SECURITIES ACCOUNT</u>		
<u>During the Month Funds were Provided by:</u>		
Portfolio Operations:		
Interest Income	\$ 27,527,024.61	\$ 186,400,108.42
Net Gain (Loss) on Sale of Securities	-0-	-0-
TOTAL Provided by Operations	27,527,024.61	186,400,108.42
Sale of Marketable Securities	36,638,222.22	362,492,921.78
Maturity of Marketable Securities	455,845,875.26	2,581,343,580.17
Royalties & Other State Receipts	39,506,839.88	1,038,671,759.72
Other Interest Income	-0-	3,030.30
Net Contributions from Loans & Mortgages	-0-	-0-
Net Contributions from Certificates of Deposit	-0-	3,491,171.58
TOTAL Funds Provided During Month	559,517,911.97	4,172,402,572.97
<u>During the Month Funds were Used for:</u>		
Purchase of Marketable Securities	554,073,674.59	4,145,025,524.24
Net Contribution to:		
General Fund	-0-	931,481.21
Certificates of Deposit	-0-	14,710,800.00
Loans and Mortgages	2,949,820.50	9,902,320.00
TOTAL Contributions	2,949,820.50	25,547,601.21
TOTAL Funds Used During Month	557,023,495.09	4,170,573,125.45
NET CHANGE IN FUNDS	\$ 2,494,466.88	\$ 1,829,447.52

Schedule continued on following page

Alaska Permanent Fund

CHANGE IN PORTFOLIO COMPOSITION - Continued

	<u>Current Month</u>	<u>Year-to-Date</u>
<u>CERTIFICATES OF DEPOSIT</u>		
<u>During the Month Funds were Provided by:</u>		
Interest Income	-0-	2,680,371.58
Maturity/Sales	-0-	36,100,000.00
Contribution from Marketable Securities	-0-	14,710,800.00
TOTAL Funds Provided During Month	-0-	53,491,171.58
<u>During the Month Funds were Used for:</u>		
Purchase of Certificates of Deposit	-0-	50,000,000.00
Contribution to Marketable Securities	-0-	3,491,171.58
TOTAL Funds Used During Month	-0-	53,491,171.58
NET CHANGE IN FUNDS	\$ -0-	\$ -0-
<u>LOANS AND MORTGAGES</u>		
<u>During the Month Funds were Provided by:</u>		
Interest Income	71,817.07	299,659.78
Principal Repayments	1,187.88	93,603.53
Net Contribution from Marketable Securities	2,949,820.50	9,905,320.00
TOTAL Funds Provided During Month	3,022,825.45	10,298,583.31
<u>During the Month Funds were Used for:</u>		
Purchase of Loans & Mortgages	3,022,825.45	10,298,583.31
Net Contribution to Marketable Securities	-0-	-0-
TOTAL Funds Used During Month	3,022,825.45	10,298,583.31
NET CHANGE IN FUNDS	\$ -0-	\$ -0-
<u>SUMMARY OF CHANGES</u>		
Marketable Securities Account	2,494,466.88	1,829,447.52
Certificates of Deposit	-0-	-0-
Loans and Mortgages	-0-	-0-
NET CHANGE IN FUNDS	\$ 2,494,466.88	\$ 1,829,447.52

ALASKA PERMANENT FUND CORPORATION
SUMMARY OF ALASKA DEPOSITS

January 31, 1982

<u>Institution</u>	<u>Total</u>
 <u>Commercial Pacific Bank</u>	
Alaska Pacific Bank	\$ -0-
B. M. Behrends Bank	-0-
United Bank Alaska	-0-
Total	-0-
 <u>Savings & Loan Institutions</u>	
Alaska Federal Savings & Loan	15,000,000.00
First Federal Savings & Loan	33,500,000.00
Home Federal Savings & Loan	-0-
Peninsula Savings & Loan	500,000.00
Total	49,000,000.00
 <u>Mutual Savings Banks</u>	
Mt. McKinley Mutual Savings	\$ 1,000,000.00
Total	1,000,000.00
TOTAL ALASKA DEPOSITS	\$50,000,000.00

ALASKA PERMANENT FUND CORPORATION

POUCH SB - JUNEAU, ALASKA 99811

TELEPHONE 907-465-2351

BOARD OF TRUSTEES:

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PETER B. MCCOWELL
GEORGE W. ROGERS
ROBERT W. WARD

RESPONDENT ADDRESS

TO: Senator Mulcahy, Chairman
Senate Labor and Commerce Committee

FROM: James B. Rhode, Special Assistant to the Trustees
Alaska Permanent Fund

DATE: March 12, 1981

SUBJECT: Sectional Analysis of Sponsor Substitute for SB 684

PREFACE

Nearly one year ago, the Trustees of the Alaska Permanent Fund and the Special Liaison Committee of the Legislature, chaired by Senator Sturgulewski, began a series of seminars and work sessions on the future of the Fund.

From the first, it was agreed to explore the issues in the context of how all the oil revenues were, or might be, spent. This was to insure that any new role for the Fund would be consistent with its fundamental purposes and, too, would be more suitably lodged in the Fund than elsewhere.

Meeting at various points in the state, the group examined the ideas of economists, financial specialists, major Alaskan interests, and the general public. This is further described in the Annual Report of the Fund (pp. 3, 5-7). The analysis offered by various professionals is soon to be published under the heading of The Trustee Papers. A special edition, including formal statements from various groups and citizens, has been compiled for the committees of referral for this bill.

SUMMARY

SB 684 contains three key proposals: (1) having the public members comprise the majority of the Trustees to slow the effects of a change of administration or a change in political moods; (2) revising the list of permitted investments to be the same as for the pension funds (with some added restrictions and excepting gold, which does not produce direct income), as holding the best hope for long-term rates of return that exceed inflation without sacrifice of safety; and (3) reinvesting one-half the Fund's earnings to protect the buying power of the Fund's principal and income from inflation, and providing that the remaining earnings be paid over on the basis of a five-year average with, in effect, a reserve to keep those payments as stable as possible for state planning.

ANALYSIS

Section 1. The replacement of a commissioner by a public member in the composition of the Trustees has the dual effect of giving the public members the working majority and requiring that majority to have special qualifications for their office. In the discussion of this provision, it was felt that the Commissioner of Revenue, as the State's chief fiscal officer, must be formally accorded the role that he will always exercise in Administration decisions on the Fund. As well, this insures the Administration will be directly informed of the views of the Trustees. The provision to eliminate one commissioner was to recognize the growing demands placed upon the cabinet in recent years. While noting the advantage of having three commissioners during the organizational phase of the Fund, it was felt that it would be difficult to expect that many to be able to devote the necessary time indefinitely.

Sections 2 and 3 have the practical effect of staggering terms so that a governor will only be able to select all of the Trustees by the last year of his term. This gives a greater measure of independence to the board over existing law (where the next governor would have chosen a majority within six months of taking office), but also mitigates the deletion of existing language (p. 2, lines 2-3) which, on the basis of a decision of the Alaska Supreme Court, does not permit confirmation by the Legislature without constitutional amendment.

In like manner, section 4, requiring that a governor remove only for good cause, is designed to replace the check in the existing statute where the Legislature, by vote, can halt a removal.

Section 5. A majority of the Trustees felt that an annual fee for members of the board was justified on several grounds: The management of a fund of this size will involve working subcommittees and considerable travel to meet with outside fund managers, with financial advisors, and with senior officials in similar institutions. Assuming the likely stature of the public members, it was thought just to compensate them for the significant loss of income entailed by their work, and wise to prevent appointees from stating that personal circumstances limited the amount of time which they could devote. The annual fee, here tied with the salaries of legislators, is to be on the order of \$20,000 a year, which is the sum typically paid by leading corporations to outside directors. This figure was consciously set to be insufficient to draw potential appointees for the sake of the fee alone.

Section 6 adds to the list of permitted investments for the Fund with the dual aims of improving long-term, real earnings and giving needed diversity. At present, the Fund is essentially a large "money market" account of the kind now open to many private individuals. However, a number of financial specialists have pointed out that, on average over the decades, these securities have only matched inflation or have been somewhat negative in terms of real earnings. The situation of the past two years, with as much as 6% return above inflation, happened but once before in this century: 1931. Interest rates were then at a bare 1% but price levels had fallen 5%, thus giving a real income of 6%. Based on this historical data, our existing investment list promises few years in which earnings can exceed inflation. In contrast, the investment areas proposed to be added (stocks, income property, and foreign assets) have brought yields in line with the long-term real growth of the United States, 2 to 4% beyond inflation and, in some years, particularly in Japan and the strongest economies of Europe, the gains have been more substantial. To be sure, not all of these investment areas have performed well in every period owing to economic cycles, political and other events, and changes of investor preference. Indeed, our advisors have stressed that no guarantees against fluctuations can be offered for any class of investments, not even the highest grade of U. S. Government securities. (Actually, in recent years, the latter have swung more sharply and more often than other instruments). Hence, the necessity of having, now, a wider selection of proven investment options so that adjustments can be timely and of enough size to win better returns while avoiding reverses - both in a manner consistent with safety of principal.

It would be well to note here that section 7 places limits on the extent to which investments, other than fixed income securities, can be made and the limits are more severe than for the pension funds. The lack of a limit on fixed income securities is not because they afford markedly greater safety; in certain markets, they do not. Rather, the projected growth of the Fund, even with declining revenues, is such that it could, absent restraints, cause these markets to rise and fall by the very fact that it was buying and selling. Further, the limits are proposed by the Trustees as part of their commitment to gain experience in these new areas on a gradual, deliberate basis.

Ironically, our present investment list is not truly "conservative," in the sense of protecting either the current dollars or real worth of the Fund's corpus and income. Our list, by the standards of comparable institutions and court rulings, is more accurately described as "traditional". Most participants in the drafting of this bill were stunned to learn that a \$10

billion fund, earning 15% a year, suffering 10% inflation, and paying over all of its returns, would shrink in 30 years to less than \$250 million in value. The goods and services that could be purchased with the income of this fund would collapse in the same ratio, from \$1.5 billion at today's prices to \$89 million in three decades. Or, more graphic still, a dividend of \$1,500 would then buy what \$89 will buy today. Accordingly, whether one believes that the Fund's principal should be conveyed intact to the next generation or the Fund's income should be conveyed equally to present and future Alaskans, a portfolio that loses to inflation will serve us at the expense of those who follow. (Please see Appendix A for a more detailed analysis of the financial sections.)

Section 10, 11. Broadly, these sections provide that one-half the net earnings of the Permanent Fund shall be retained in principal and the balance is available for distribution on a five-year average, with any excess to be used to raise payments in a year they would fall below the average. The first is to sustain the real earnings power of the Fund; the second is to give the Legislature a stable income on which to plan.

More specifically, the Fund's earnings can be expected to rise steadily over the next decade as the result of regular contributions and competent management. During this period, more income will be made than is necessary to meet the five-year average, and the excess and the interest on it will build up in the "undistributed income account." In the first year if that income were to fall below the average, the reserve would be drawn upon. In the event that it was judged that reserves were ample, a larger dividend could be declared or, perhaps, the extra sums could be applied to other purposes by the Legislature.

Section 12 simply provides that the Fund's expenses will be met from the Fund's earnings (as "program receipts"), however, no money may be spent except as provided by the budget. Although the control of the Legislature is not altered in any way, this approach plainly shows what it has cost to make our income, thus allowing the public and legislators to better assess the worth of these expenses. This practice is virtually universal in the accounting of similar private institutions.

Section 13 is to allow the Legislative Budget and Audit Committee to be selective as to which financial and operational reports it prepares, or has prepared, in the light of circumstances. For example, this language would permit the Fund and the Committee to reach mutual agreement on a firm to assess performance in different areas of investment and, further, to reach mutual agreement on definitions of terms,

the proper sample of statistics, and the like. This "ground rules" approach will aid fuller disclosure of the Fund's activities while at the same time reduce temptations for either side to craft reports that are merely designed to attack or defend the Fund.

Section 14 brings the Permanent Fund into conformity with the law governing most other boards and commissions.

BUDGETARY NOTES

The Trustees ask that SB 684 be considered together with the Governor's budget request to achieve independent status for the Permanent Fund, and with the fiscal note which provides for outside, specialized firms to carry out the new investment authority under this bill.

Independence for the Permanent Fund has been the clear preference of public and legislative sentiment to date. (Please see the paper on the relevant legislative history prepared by Trustee Peter B. McDowell.) The case for independence, in brief, is that special interests pressing the Fund to win concessions will be more visible in their attempts and that your Trustees can be held to fuller account if they choose their own servants. The last point is not meant to reflect on the present Commissioner of Revenue or the staff of the Treasury. On the contrary, their ready cooperation has been frequently noted in the record of the Trustees. But it has been the consistent advice of professional managers that "... those committed to investing must have their operations separate from those committed to spending ...", especially given the "... great, tempting size ..." of the Fund. In the wealthiest state in the nation, California, where state and local pension assets exceed \$30 billion, such a separation has always been maintained.

Still, after independence has been attained, the Fund will have less freedom than any independent board or commission in present law. For the Fund has the most definite charter in state government, is not permitted to spend, does not lend directly to any borrower, and is subject to all the oversight that is applied to a line agency.

As for the fiscal note, the Trustees have agreed that outside managers are best suited to execute the new investment authority in this bill. In addition to our remoteness from the markets involved, there are numbers of reputed firms that can do this work more efficiently, and for less cost, than it can be done internally.

APPENDIX A

ANALYSIS OF FINANCIAL SECTIONS

SSSB 684

Peter A. Bushre

Deputy Commissioner of Treasury

Department of Revenue

Current law provides the corporation 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. Management is directed to give preference to Alaska investments as long as they meet the standards of quality set out in the bill. Specifically, deposits can be made in Alaska banks, mutual savings banks, savings and loan associations, and credit unions. Residential real estate (owner-occupied single family dwelling, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska.

The permanent fund statute 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. Purchases of residential mortgages may be a further 15% of total assets. The statute allows the Fund to use the futures market to protect investments

from severe declines in value that are being suffered today. These futures contracts, however, may be used only to hedge and not to speculate. The statute also prohibits the Fund from either borrowing or guaranteeing the obligations of others.

Section 6 of the bill would amend the present investment list by adding five categories currently authorized for the State pension funds and by conforming other language to the retirement system law. The additional investments are:

1. Commercial mortgages - loans secured by a first lien on commercial properties such as shopping centers, office buildings, etc. The corporation may purchase uninsured loans if the originating financial institution retains at least 25%, or insured loans which meet requirements currently in effect for the pension funds.

2. The common stock of U. S. corporations which have paid dividends in each of the immediately preceding three years.

3. Stocks and bonds that are denominated in foreign currencies or Eurodollars, provided that they are of the same quality as their U. S. counterparts.

4. Bank deposits that are denominated in foreign currencies or Eurodollars, provided that they are readily negotiable or that the issuing bank has capital and surplus of at least \$500 million.

5. Equity interests in commingled pools of real estate.

Section 7 of the bill reduces the limit on loans and mortgages to 15% and restricts the investment in foreign securities and bank deposits to the levels which currently prevail in the retirement systems. Common stock and corporate debt are together limited to 50%; both are more restrictive than the pension funds. The bill further limits the permanent fund to no more than 5% of the voting stock of any one corporation, and domestic stocks, with the exception of insurance companies and banks, must be listed on an exchange registered with SEC. Both are identical to current limitations on pension fund investments.

Section 8 would standardize the collateral requirements for deposits with all types of financial institutions, and require them to pledge U. S. government securities, corporate bonds, or mortgages if their certificates of deposit are not freely negotiable.

1 financial institution retains at least 25 percent of the mortgage until
2 maturity;

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

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

10 (20) certificates of deposit, term deposits, bankers' accept-
11 ances, or equivalent instruments, which are issued by a United States
12 or foreign bank or trust company located in a foreign country and are
13 denominated in either United States or foreign currency, if either (A)
14 they may be readily sold in a secondary market at prices reflecting fair
15 value, or (B) the issuing bank or trust company has capital and surplus
16 at the date of issue equalling at least \$500,000,000; investments made
17 under this paragraph are not subject to the collateral requirements for
18 domestic certificates under (m) of this section;

19 (21) ~~equity interests in, and debt obligations secured by~~ *limited partnership interests in venture capital funds*
20 ~~mortgages granting a first lien on real property improved by completed~~
21 ~~and substantially rented buildings and located in the United States, if~~
22 these investments are made

23 (A) in a corporation, partnership, ~~trust, or other~~
24 entity in which, at the conclusion of each investment transaction,
25 at least 60 percent of the beneficial ownership interests are
26 held by other institutional investors, and which is organized and
27 operated for the purpose of making *venture capital* real estate investments by a
28 ~~bank, insurance company, or other manager of institutional funds~~ *venture capital*
29 which has had at least five years of experience in the management

1 of ^{venture capital} real estate investments of institutional investors; or

2 (B) in conjunction with and on substantially the same
3 terms as an entity described in (A) of this paragraph.

4 * Sec. 7. AS 37.13.120(i) is repealed and reenacted to read:

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

18 * Sec. 8. AS 37.13.120 is amended by adding a new subsection to read:

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

27 * Sec. 9. AS 37.13.130 is repealed.

28 * Sec. 10. AS 37.13.140 is repealed and reenacted to read:

29 Sec. 37.13.140. INCOME. Net income must be computed annually as

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 770
Title An Act relating to the Alaska permanent fund.

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Department of Commerce & Economic Development
Program Category Affected Economic Development
BRU, Program, Or Subprogram(s) Affected Division of Loans and Veterans' Affairs
(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		549.5	582.5	617.4	654.5	593.8
200 TRAVEL		.0	.0	.0	.0	.0
300 CONTRACTUAL		37.6	39.8	42.2	44.7	47.4
400 COMMODITIES		8.1	4.0	4.3	4.5	4.8
500 EQUIPMENT		2.0	.0	.0	.0	.0
600 LAND & STRUCTURES		40.5	42.9	45.5	48.2	54.2
700 GRANTS, CLAIMS, ETC.						
TOTAL		637.7	669.2	709.4	751.9	800.2

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND		637.7	669.2	709.4	751.9	800.2
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME		15	15	15		15
PART TIME						
TEMPORARY						

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

Figures in the fiscal note are based on the following:

\$1,300,000,000 in mortgages (per Department of Revenue)
÷ 100,000 average loan amount = an estimated 13,000 loans per year.

One loan examiner reviews five (5) loans per day
= 2,600 workdays
÷ 220 workdays per year = 12 Loan Examiners
+ 1 Supervisor
+ 2 Clerk Typists

Figures for FY84-87 are based on the FY 83 budgeted costs plus 6% inflation per year.

IV. DATE March 15, 1982

PREPARED BY Don Hostak, Director

AGENCY Department of Commerce & Economic Development

Original: Legislative Finance

PHONE 465-2555 Division of Loans and

cc: Budget and Management

or 465-2510

Veterans' Affairs

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

REC'D MAR 10 1982

An Act relating to the Alaska permanent fund.

PERSONAL SERVICES:

<u>Positions</u>	<u>Monthly Salary*</u>	<u>Extended Yearly Salary</u>	<u>Total</u>
12 Loan Examiner II's	\$ 2,455	\$ 353,520	
1 Loan Manager	3,095	37,140	
2 Clerk Typists	1,393	33,432	
		<u>\$ 424,092</u>	
<u>Benefits</u>	SBS benefits (.0613)	\$ 25,997	
	Variable benefits (.1568)	66,498	
	Monthly benefits (\$183)	32,940	
		<u>\$ 25,435</u>	\$ 549,527
<u>TRAVEL</u> - No Travel			-0-
<u>CONTRACTUAL</u>			
Telephone \$1,200 per examining position		\$ 15,600	
Postage (13,000 times \$1.59)		20,670	
Xerox		<u>300</u>	37,570
<u>COMMODITIES</u>			
Calculators (15 X \$230)		3,450	
Setup Costs (\$40 per position)		600	
Yearly costs (\$200 per position)		3,000	
Letterhead, Envelopes, etc		<u>1,043</u>	8,093
<u>EQUIPMENT **</u>			
Correcting Selectric II typewriters (2 @ \$1,000)		2,000	2,000
<u>ASHA</u>			
Space Rental = 15 positions @ \$2,700			40,500
			<u> </u>
Total estimated expenditures			<u>\$ 637,690</u>

*Calendar year 1981 Salary Schedule used.

**The State Office Building is undergoing space evaluation and reallocation with new office furniture to be provided. It is assumed that if the 15 positions will not fit on the 9th floor with the rest of the division, furniture will be required. No furniture was budgeted at this time because used furniture should be available when the new office furniture is installed.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

HB 770

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 770 (2/12/82)
Title Relating to the Alaska Permanent Fund
Requested by House State Affairs Committee Date 3/15/82

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		305.1	335.6	369.2	406.1	446.7
200 TRAVEL		7.5	8.3	9.1	10.0	11.0
300 CONTRACTUAL		1,988.0	2,250.2	2,771.8	3,117.6	3,495.5
400 COMMODITIES		10.0	11.0	12.1	13.3	14.7
500 EQUIPMENT		38.0	4.0	4.4	4.9	5.4
600 LAND & STRUCTURES		38.4	42.2	46.5	51.1	56.2
700 GRANTS, CLAIMS, ETC.						
TOTAL		2,387.0	2,651.3	3,213.1	3,603.0	4,029.5

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
Permanent Fund Income		2,387.0	2,651.3	3,213.1	3,603.0	4,029.5

POSITIONS

FULL TIME		9.0	9.0	9.0	9.0	9.0
PART TIME						
TEMPORARY						

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

SEE ATTACHED PAGES FOR DETAIL INFORMATION.

Above analysis and costs indicated DO NOT INCLUDE the following:

1. Costs of loan approval by Dept. of Commerce & Economic Development.
2. Direct charge against fund income for loan servicing; fee on loans and mortgages by originating financial institutions; equivalent to about 1/2 of 1% which includes "lost" income on escrow reserves.
In Thousands: FY 83 - \$6,667.0, FY 84 - \$8,745.0, FY 85 - \$10,095.0,
FY 86 - \$11,545.0, FY 87 - \$13,135.0.
Based on one-third fund investment in loans & mortgages and projected fund balances for FY 83 thru FY 87.

A. Staack

IV. DATE March 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)

REC'D MAR 16 1982

House Bill 770 (2/12/82)
Fiscal Note, Add'l Data, Base Year

HB 770 modifies the investment language of the Alaska Permanent Fund to basically allow three types of investments. They include (1) obligations of the United States or agencies; marketable securities of the Federal government, (2) common stocks and corporate bonds; not to exceed 30% of total fund assets, (3) FHA, VA and conventional residential mortgages at a 75% participation level within Alaska; Department of Commerce and Economic Development must approve all loan purchases.

Assumptions:

One-third of fund balance directed to loans and mortgages; about \$1.3 billion, at 75% participation, approx. \$100,000 investment per loan. About 13,000 loans.
20% of fund balance invested in common stocks and bonds.

Loans and Mortgages: Account for all loans disbursements, maintain full record keeping general/subsidiary ledger accounting, continuous routine loan maintenance/file maintenance. Approvals done by Commerce & Economic Development; after approval, further accounting and maintenance of asset by Corp.

Personal Services:

2 PFT Accounting Tech. I (R12,X) @\$1,761/mo. plus Benefits	\$ 55.8
2 PFT Accounting Tech. II (R14,X) @\$1,995/mo. plus Benefits	63.2
2 PFT Clerk Typist III (R8,X) @\$1,393/mo. plus Benefits	44.1
1 PFT Accounting Supervisor III (R18,X) @\$2,640/mo. plus Benefits	41.8
1 PFT Loan Examiner III (R19,X) @\$2,837/mo. plus Benefits	44.9
1 PFT Investment Officer II (R22,X) @\$3,494/mo. plus Benefits	55.3
	<hr/>
	<u>\$305.1</u>

Travel:

Meet with financial institutions on a regular basis to solve accounting/reporting problems. Current update and review. Approx. 12 financial institutions, meet semi-annual, two persons. \$7.5

Contractual:

Communications	\$ 20.0
Printing and Advertising	15.0
Repair & Maintenance	2.0
Equipment Rental; word processing equip.	15.0
Safekeeping/reporting/accounting maintenance	50.0
Audit Costs	50.0
Legal	50.0
Other (insurance, risk management, etc.)	15.0
	<u>\$217.0</u>

Commodities:

All commodities (office supplies) to maintain loan & mortgage files	<u>\$10.0</u>
--	---------------

Equipment:

25 file cabinets, FIREPROOF, to accomodate 13,000 loans, 4 drawer legal (additional about 5 per year as new loans made)	\$20.0
9 new positions @\$3,000 per position (all inclusive including calculators)	\$18.0
	<u>\$38.0</u>

Lands and Buildings:

For new positions plus common work area, 700 Sq. Ft. @\$2/sq. ft./mo.	\$16.8
For file storage, special stress area due to cabinet weight, temp. control, security, future expansion, work area. 600 Sq. Ft. @\$3/sq. ft./mo.	<u>21.6</u>
	<u>\$38.4</u>

Common Stock and Bonds: Would probably be handled by contract managers.
Below computation assumes fund balances projected thru FY 87 at a 30%
level. Includes management cost plus safekeeping. (In Thousands)

FY 83 - \$1,771.0
84 - 2,011.5
85 - 2,509.2
86 - 2,828.7
87 - 3,177.7

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: HB 770

Title: An Act relating to the Alaska Permanent Fund.

Requested by: House State Affairs Committee Date: 03/16/82

II. FISCAL DETAIL

Agency Effected: Department of Revenue

Program Category Effected:

BRU, Program, or Subprogram(s) Effected:

(Note: If more than one budget component is effected, 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	1 86	FY 87
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	1 86	FY 87
GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)						
Permanent Fund	-	(525)	(675)	(800)	-	-

POSITIONS

	FY 82	FY 83	FY 84	FY 85	1 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

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

The above figures represent the projected decrease in mineral revenues, based on existing leases, by repealing the 50 percent rate (A; 37.13.010(a)(2)) to the 25 percent rate as reenacted in HB 770.

Mineral lease bonuses were not included in the fiscal impact, though the contribution rate was increased to one hundred percent, since bids are impossible to anticipate prior to sales. It was assumed the bill would become effective July 1, 1982.

IV. DATE: 03/16/82

PREPARED BY: Robert W. Elliott

AGENCY: Department of Revenue

PHONE: 465-2173

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

MAR 10 1982

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	-	-	-	-	-	-
TOTAL	-	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)	-	-	-	-	-	-
PERMANENT FUND INCOME	-	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 scenario 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

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10 CONCORD AVENUE, CAMBRIDGE, MASSACHUSETTS 02138

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ALASKA'S PERMANENT FUND:

ISSUES FOR CONSIDERATION

Final Report

prepared for:

Representative Joe L. Hayes, Speaker

Representative Ray H. Metcalfe, Chairman, State Affairs

Representative Russ Meekins, Jr.
Chairman, Special Committee on Loans

Alaska House of Representatives
Juneau, Alaska

March 17, 1982

Counsel for Community Development, Inc. is a firm specializing in development finance and economic development in this country and overseas. Since 1971, we have been actively engaged in financing urban and regional economic development, especially for local development organizations, and designing development banks to support those activities at the federal, state and local levels.

Staff for this project includes:

Project Director: Belden Daniels, President

Project Manager: Nancy Barbe, Senior Associate

Senior Associates: Steven Klein

Beth Siegel

Administrative Assistant: Peter Ide

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1.0 Introduction

The current session of the Alaska legislature is preparing to address an issue of critical importance to the state: amendments to the current policies that guide the investment and management of the Alaska Permanent Fund. Amendments under consideration include changes in the list of permissible investments, changes in the composition of the trustee and management of the Fund, and changes in the uses of revenues generated by investment of the Fund.

The Alaska Permanent Fund holds great promise for the citizens of Alaska. The Fund can be an important factor in saving a substantial proportion of the revenues from the exploitation of non-renewable resources for the day when those non-renewable resources are depleted. It can also invest a prudent portion of those trust savings in the development of a strong, sound, diversified economy that will thrive beyond the depletion of the natural resources that currently "fuel" the Fund. The critical role of the Permanent Fund in Alaska's future requires that policies which govern its investment and management be developed in a particularly thoughtful way. Thus, to further the current legislative debate, we present a brief examination of some of the critical issues that face the Permanent Fund.

A central standard governing the Permanent Fund is that "the prudent man rule shall be applied by the board to the management and investment of Alaska permanent fund assets." (Sec. 37.13.120). This historic rule circumscribes in a number of ways the amount, kind, term and nature of assets that the managers of the Permanent Fund

can prudently invest in Alaska. You have properly directed us to make our analyses and recommendations within the constraints of that rule. Recently the law firm of Debevoise & Plimpton prepared a thoughtful report* for the Legislative Budget and Audit Committee on the implications for Alaska's various fiduciary funds of the "prudent man rule." We use that report as the basis for our following analysis.

After a brief overview of the Fund's current status we will examine the following issues: inflation and its effect on the fund; venture capital as a permissible investment; requirements for in-state investment; a model list of permissible investments; and standards with regard to the management of a world class trust fund.

2.0 A Brief Overview

The Alaska Permanent Fund was created by Constitutional amendment in 1976. The Permanent Fund Corporation was established by legislation in 1980:

- to provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;
- to insure the safety of the corpus of the fund while maximizing total return; and
- to be used as a savings device managed to allow the maximum use of disposable income from the corporation for purposes designated by law.

The Permanent Fund constitutionally receives no less than 25% of mineral lease rentals, royalties, and other mineral income collected by the state. This amounts to about 11% of total oil receipts. The legislature can authorize and appropriate larger amounts. The fund can constitutionally

*"The Prudent Investor Rule," Debevoise & Plimpton, prepared for the Legislative Budget & Audit Committee, State of Alaska, December 1, 1981.

be invested only in income producing investments. This provision precludes investments in tangible assets such as gold, art, or antiques. Income generated by investment of the Fund is directed to the state's general fund for appropriation by the legislature.

As of November 30, 1981, the total assets of the Permanent Fund were \$2,802,772,757. The Fund held the following investments in its portfolio:

- 1% in repurchase agreements;
- 89% in short-term investments including certificates of deposit in US banks, commercial paper, bankers acceptances, US Treasury bills, and US Treasury notes and bonds;
- 8% in intermediate- and long-term investments including US Treasury notes and bonds for terms of one year or longer, federal agency securities for terms of two years or longer, and corporate bonds; and
- 2% in certificates of deposit in Alaska commercial banks, savings and loan associations and mut. savings banks.

The average yield on marketable securities (i.e., excluding CDs in Alaska institutions) was 13.44% for the 12 months prior to November, 1981.

Given the extreme volatility in the financial and capital markets over the last year, the Permanent Fund has followed a fairly conservative investment strategy, emphasizing short-term money market instruments in its portfolio. On June 30, 1981 the average weighted life of marketable securities was one year, one month as compared to three years, one month on June 30, 1980. Since June 30, 1981, all marketable securities in the Fund have been limited to maturities of three months or less.

The Permanent Fund Act of 1980 provided that the Fund be managed by six governor-appointed trustees: three from the populace, the Commissioner of Revenue and two other commissioners. Appointments are subject to legislative approval. Trustees must have competence and wide experience in finance, investments or other business management and related fields. The Fund has the authority to hire staff or retain advisors outside of the normal limitations imposed by civil service requirements. This authority allows the Fund the flexibility to pay private market salaries to hire expert money managers to invest its enormous corpus. Finally the Fund is subject to strict disclosure and oversight requirements.

Although the Permanent Fund is predicted to grow tremendously over the next twenty years, how tremendous that growth will be is uncertain. The 1981 Annual Report of the Permanent Fund estimates that by the end of the current fiscal year (June 30, 1982), the Fund will have total assets of \$4,273,900,000. Longer-range estimates project that the Fund will reach over \$10 billion in assets by 1990 and over \$20 billion by the year 2000. Based on current rates of return the Fund is projected to generate \$1.35 billion in investment income alone by 1990. (Alaska's Rainbow of Opportunities, 1982).

However, recent international events throw these projections into question. The demise of the Organization of Petroleum Exporting Countries (OPEC) cartel and the recent oversupply of oil have both depressed the price of oil and decreased the level of production. Lower

prices and production translate into fewer revenues for the state of Alaska and smaller allocations into the Permanent Fund. The Alaska Department of Revenue forecasts that \$3.5 billion will be available for appropriation in the 1982 legislative session -- down from the \$6.1 billion available in 1981 (Alaska Legislative Reporter, 1/8/82). Analysts have estimated that if U.S. oil prices fall as low as \$20 a barrel, Alaska would receive as little as \$1.45 billion in oil royalties and taxes in fiscal year 1983. (Anchorage Daily News, 3/9/82). The inability to control world events and the uncertainty of future revenue flows emphasizes the critical importance to Alaska of savings in the Permanent Fund.

In this time of fiscal anxiety for most state governments, the Permanent Fund is a much envied resource. The relatively enormous level of assets held by the Fund hold great potential for financial and economic stability in Alaska and underscore the crucial role in the state's future of the Fund's management and investment policies.

As we proceed with this analysis, it is important to keep in mind the following facts.

- The Permanent Fund is a constitutional creation.
- The Permanent Fund is a fiduciary trust fund subject to the "prudent man rule."
- The Permanent Fund Act is the product of a rigorous legislative history forged with great care over the last six years.
- The Permanent Fund Act of 1980 is considered by judicious observers of the legislative process as a remarkably "clean act" subject to clear interpretation by the executive, the legislature, the courts, the managers and the citizens of Alaska.

It is in this light that we now turn to a brief examination of issues that may be faced by the Fund in the near future.

3.0 Inflation and Its Effect on the Permanent Fund

The American economy has experienced record levels of inflation over the past five years. Table 1 indicates the consumer price index (CPI--as a proxy for inflation) for the US as a whole and for Anchorage from 1976 to 1981. The 1981 national CPI of 10.4% posed particularly severe problems for all savings funds as they struggled to find investments that would yield returns that "beat" inflation. A savings or endowment fund that receives a 10% return on investment during a period of 12% inflation actually loses 2% of its real value. Long periods of time with a lower return on investment than inflation will erode the principal of the fund, leaving it with far less buying power even if the nominal amount of total assets has increased.

A recent survey confirmed that this precise problem was faced by many smaller foundations and endowment funds over the ten-year period from 1965 to 1975. While the nominal value of these funds doubled from \$18.6 billion to \$38.4 billion over the period, the real value or purchasing power of the funds declined to \$16.7 billion. It is important to note that this decline in real value took place during a ten-year period with relatively low rates of inflation as compared to the inflation experienced from 1975 on. Thus, it is likely that the problem has only been compounded over the last six years.

Inflation poses as real a threat to the Alaska Permanent Fund as it does to other funds. While the Permanent Fund is experiencing dramatic growth with the inflow of mineral-related revenues, the value of that inflow is immediately decreased if the funds do not

Table 1
Consumer Price Index 1975-1981

Year	U.S. CPI	Anchorage CPI	Alaska Permanent Fund Realized Rates of Return*
1975	9.1	13.7	--
1976	5.8	7.7	--
1977	6.5	6.6	--
1978	7.7	7.1	7.53
1979	11.3	10.4	8.24
1980	13.5	10.2	11.29
1981	10.4	8.0	16.0

*Based on accrued income

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor,
Washington, D.C., 1982

immediately and consistently earn a return on investment that is greater than the inflation rate.

As Table 1 indicates, the Permanent Fund has had mixed success in beating inflation. In 1978, 1979 and 1980 the realized rate of return on Fund investment was below the national inflation rate. Only in 1981 did the Permanent Fund's return "beat" inflation by a significant amount; consequently, only in 1981 did the Fund experience real growth from its investments on the basis of national inflation.

Although the CPI represents a sound, average measure of inflation in all sectors of the economy, inflation in many specific economic sectors has been much higher. For example, a recent analysis conducted by the Alaska Department of Transportation and Government Facilities found that highway construction costs in the state escalated 37% from 1980 to 1981. Overall, public facilities construction costs are expected to inflate 24% over the next year. Thus, even in 1981 with its 16% realized rate of return, the Permanent Fund lost purchasing power in these specific sectors.

It is critical for the Permanent Fund to obtain yields equal to or greater than inflation in those economic sectors that are traditionally thought of as public commodities. Many would argue that it is even more critical for the Fund to keep pace with industry-specific inflation than with national inflation averages. If the state ever needs to call upon the Permanent Fund it will probably be to finance specific public commodities not the bundle of private goods represented by the national CPI. The most obvious way to address the problem of inflation is to

increase investment returns to the Fund. In order to do this, the Permanent Fund must have the flexibility to invest in securities and investment instruments that result in high returns as a hedge against inflation while maintaining prudent levels of risk. To this end fund trustees and managers should consider establishing a target return on investment as a portfolio management objective. Several targets could be established as Permanent Fund goals including national inflation figures along with inflation figures for specific industries such as education, transportation and construction.

Further, consideration should be given to the uses of investment income generated by the Fund. If all investment income is taken out of the Permanent Fund and directed to other state uses, the real return on investment to the Fund itself will be zero. In this case the Fund will have lost purchasing power (or value) vis-a-vis inflation. Possible solutions to this problem include allowing the Fund to retain a part of its investment income, or shifting to other state funds only that portion of investment income that exceeds the chosen inflation rate.

4.0 Venture Capital as a Permissible Investment

A bill recently presented to the legislature by Governor Hammond proposes a greatly expanded list of permissible investments for the Permanent Fund. The proposed legislation does not, however, include venture capital investments. Yet, the investment of funds in venture capital limited partnerships is being turned to with increasing frequency by all world-class institutional investors. Public pension, savings and endowment funds view investments in venture capital as a means to

obtain extremely high returns while satisfying their fiduciary obligations. Further, the risk-shield offered by the limited partnership mechanism and the opportunity to direct capital to business development have contributed to additional interest in this category of investment.

It is our professional judgment that the Alaska Permanent Fund should have the ability to invest a small portion of its portfolio in venture capital limited partnerships. While we will review the place of venture capital investments in an overall portfolio design in Section 6.0, at this time we would like to review the venture capital experience of several fiduciary funds. The following are a few public and private examples of such investments.

- The Ohio State Teachers' Retirement System (OSTRS) was granted authority in 1971 to invest 5 percent of its total assets in "non-traditional" investments. OSTRS invested 2 percent of its assets in seven venture capital limited partnerships. Although in 1978 the legislature ended OSTRS's authority for venture capital investments citing "poor returns," by the end of 1978 the venture investments were providing returns far in excess of any of OSTRS's other holdings. Reauthorization is now being sought.

- Endowments, private pension funds, and foundations have made increasing investments in venture capital. In 1981 \$350 million was invested by these groups in venture capital. For example, the University of Rochester had \$60 million in venture capital; 17 percent of Duke University endowment is invested in venture capital partnerships. Washington University, Harvard University, Stanford University, the University of California and Princeton have similarly invested in

venture capital. The private pension funds of the Grumman Corporation, Deere and Company, Inland Steel, TRW, Chrysler Corporation, Montgomery Ward, Manufacturers Hanover, NL Industries, and Conoco are just a few of the increasing number of private pension funds to invest in venture capital. Finally, the Ford Foundation has \$30 million, or 2 percent of its portfolio, invested in 15 venture capital pools. It is important to note that all of these world class trust funds are fiduciary funds subject to the "prudent man rule."

The experience of these groups and venture capital investments in general provide conclusive evidence that venture capital investments, although higher risk, yield significantly higher returns than other investments. The Ford Foundation has had a 25 percent internal rate of return on its venture capital investment through 1980. Table 2 illustrates that this return was representative of venture capital funds in general. Interviews with the former director of Citibank's venture capital investments for pension fund clients and the director of Venture Economics confirmed that professionally managed venture capital funds with assets of \$5 million or more have averaged returns of 20 percent to 45 percent. Both of these individuals assert that they know of no venture capital fund that has not earned positive returns (Coy, 1981). Thus, on the grounds of the risk-reward trade-off, investing a small proportion of assets (2% to 5%) in venture capital makes good financial and fiduciary sense, especially in light of continued high inflation.

In addition, the high risk that characterizes venture capital investments can be decreased through the use of a limited partnership.

With a limited partnership venture capital fund, each contributor is a limited partner while the investment manager acts as general partner. Limited partners share in the return to the partnership and are financially liable only to the extent of their capital contribution. They do not take any active management responsibility. The managing partner is responsible for locating and screening investment opportunities and monitoring investments.

Venture capital investment is a sound strategy for a small portion of the Alaska Permanent Fund. Such investments can fulfill the prudential obligations of the Fund while providing it with extremely high returns. As one venture capitalist recently noted, "Venture capital investment programs offer the potential for highly attractive returns, a window on new technologies, and the opportunity for institutional investors to contribute to solving one of our country's most critical resource needs--capital formation."

5.0 Requirements for In-State Investing

The tremendous growth of pension and permanent fund assets over the last five years has spurred the realization that these large public trust funds can be a valuable source of financing for economic development. In particular these public funds, which are defined by geographic boundaries, are increasingly looked to as potential in-state investors with a public conscience. Such investment strategies go by many names--"social investing," "targeted investing" and "divergent investing" are the most common. All are terms that raise strong reactions from investment managers. Many view such "socially responsible" investment strategies as a guarantee of both

TABLE 2
 RETURN ON INVESTMENT ANALYSIS FOR ALL TYPES OF VENTURE
 CAPITAL FUNDS^a

Initial Year of Fund or Initial Calculation of Return	Number of Funds	Average Duration	Median Return	Mean Return	Standard Deviation	High	Low
1960 - 1969	11	11.1 years	23.5%	25.7%	15.8	54.0%	7.0%
1970 - 1974	20	7.2 years	22.1%	23.4%	13.4	47.0%	1.3%
1975 - 1980	7	2.4 years	33.9%	32.5%	13.9	46.0%	10.0%
1960 - 1980	38	7.3 years	24.1%	25.7%	14.2	57.0%	1.3%

SOURCE: California Department of Economic and Business Development, Office of Economic Planning and Research. Final Report: Venture Capital Investment Analysis, by Venture Economics, a division of the Capital Publishing Company. San Francisco, CA: Department of Economic and Business Development, December, 1980.

- ^aIncludes:
- 1) private partnerships
 - 2) publicly - held venture capital funds
 - 3) corporate venture capital investment programs
 - 4) bank affiliated venture funds.

adequate financial return with acceptable levels of risk and social and economic returns to the beneficiaries and the populace at large.

The stated objective of these targeted investment programs is typically to increase the availability of capital for financing in-state development of business and housing. Unfortunately, many programs fall short of this objective. A program that truly increases the supply of capital for housing or business finance while still maintaining the fund's primary responsibilities to beneficiaries is difficult to design. The most common problem encountered is substitution, where investments by the fund replace traditional and more readily available sources of capital.

Substitution occurs when a fund targets types of investments already well served by traditional capital market investors. In such cases the pension fund only competes with private investors rather than actually increasing the supply of capital (Litvak, 1981). Thus, capital from the pension or permanent fund is merely substituted for other capital that would be readily available through existing private financial markets.

The most common example of substitution is found in the purchase of Government National Mortgage Association (GNMA) guaranteed pass-through securities. GNMA pass-throughs have become a favorite investment of pension and permanent funds. With their full faith and credit guaranteed from the federal government and relatively high return they are an ideal investment for funds with fiduciary responsibilities. However, GNMA pass-throughs are also ideal investments for all other investors with

fairly conservative risk preferences; most investors consider GNMA pass-through to be equivalent to all other direct federal securities. Consequently, the securities are in high demand from many different investment sectors. Thus, pension and permanent fund purchases of GNMA pass-throughs simply compete with other investors who would be just as willing to purchase those securities.

Even in the case of GNMA securities comprised solely of in-state Alaska mortgages, public funds are not increasing the supply of capital for housing finance; they are merely holding in-state securities that would be bought by others out-of-state. While such policies may be politically advantageous, they have little real impact on a state's housing market. These arguments apply equally to purchases of the guaranteed portions of U.S. Small Business Administration loans.

Several analysts have argued that substitution may also occur in the non-guaranteed mortgage pass-through market. Larry Litvak, in his recently released book Pension Funds and Economic Renewal, describes the following scenario. In a properly functioning capital market, increased purchases of in-state conventional mortgages on the secondary market will bid up the price of mortgage loans as an investment and correspondingly reduce their yield. Concurrently, the public fund will be selling off (or buying less of) other securities to make room for the mortgage securities. The resulting increased supply (or decreased demand) for these other securities will decrease their price and increase their yield. These changes in the capital markets will encourage other investors to purchase fewer low-yielding mortgage securities

and more higher-yielding other securities. When the shifting of investors has run its course and public funds and other investors stabilize their investment patterns, the supply and price of mortgage credit will be where it was to start. The only change will be that public funds will now hold more of the mortgage securities and other investors will hold more of the other securities. Many empirical studies support this view of how the capital markets operate. In particular, examinations of federally sponsored mortgage credit agencies have concluded that most of the mortgages purchased by these agencies have merely displaced other mortgage investors including insurance companies.

In-state investment requirements present additional problems in attempts to achieve proper diversification of a fund's portfolio. Modern portfolio theory tells us that investment funds should be properly diversified to protect against risk and to increase yield. Adequate diversification results from an assortment of investments made in five categories: industry type, geographic location, type of management personnel, financial type (equities or tangible items vs. debt), and length of maturity. If this is accomplished, losses due to the decline of any company or industry, to disaster in any geographic region, to error by any management group, to changes in the price level, and to changes in interest rates will all be minimized.

Interest has been expressed in designing a mechanism to allow states to "swap" their in-state trust fund investments with other states as a means to eliminate any fiducially unsound dependence on in-state investment. The Western Governors of Arizona, Colorado, Nevada,

New Mexico and Utah recently asked this firm to explore such potential "swaps." Our study concluded that the concept faced several operational problems: constitutional and legislative rules vary widely from state to state, as does management sophistication. Further, most funds are well below the threshold of in-state fiduciary unsoundness. Secondary markets already operating (or developing) for commercial, industrial and residential mortgages eliminate the need for "swaps" which in many ways are just informal secondary market arrangements.

Alaska faces particular problems with in-state investment requirements. The small size of the state's economy poses a unique problem for Alaska. Alaska's economy with its \$4.5 billion in personal income is simply not large enough to be able to absorb significant in-state investments by the \$4 billion Permanent Fund. Further, opportunities for making sound investments are relatively narrow. There are real limits on the ability of public fund investments to "force feed" sound, new economic activity in Alaska. Alaska has a small internal market which is extremely expensive to service; very high costs of production which limit exports; and a shortage of skilled management. The heavy impact of federal tax, expenditure and regulatory policies further constrain initiatives limited to state boundaries. Capital by itself cannot overcome these market, management, production or policy constraints.

Alaska's second unique problem arises from its relatively small capital market. Table 3 lists the total assets of the major financial sources in the state. The Permanent Fund currently towers over all other financial sources in Alaska. If even 25% of the Permanent Fund was

Table 3

Total Assets of Major Alaska Financial Sources

	<u>Assets (in millions)</u>
Alaska Permanent Fund	\$2,802.8 ¹
Commercial Bank Industry	2,459.0
Alaska Housing Finance Corporation	1,897.9 ²
General and Segregated State Program Funds	1,758.8 ¹
Native Corporations	801.7 ³
Public Employee Retirement Systems	567.6 ¹
Credit Union Industry	539.1
Teachers' Retirement Funds	415.7 ¹
Saving and Loan Association Industry	410.8
Mutual Savings Banks Industry	288.6
Alaska Industrial Development Authority	217.6 ²
Alaska Renewable Resource Corporation	43.4 ²
Insurance Industry	5.4 ⁴

¹ Assets as of 11/30/81.² As of 6/30/81.³ This includes the total assets of 13 native corporations--including the vast land holdings.⁴ Total deposits in domestic insurance companies 12/31/80.

invested exclusively within the state, that portion of the Fund would be the fifth largest financial source in Alaska. It would be extremely difficult (if not impossible) to restrict all such in-state investments exclusively to providing financing to deals ignored by the existing financial sources while still fulfilling the Fund's prudential responsibilities. If in-state investment of the Permanent Fund merely resulted in the Fund substituting its capital for that available from existing sources, no gain in available financing would occur. As of November 30, 1981, only 2% of the Permanent Fund was invested directly in in-state investments. That 2% (or \$53 million) is invested in certificates of deposit in Alaska commercial banks, savings and loan associations and mutual savings banks. In 1980 state and local funds comprised 20% of all deposits in Alaska commercial banks. The large part that public deposits play in the asset structure of Alaska deposit institutions indicate that the state should exercise extreme care before increasing this percentage even higher through increased Permanent Fund deposits.

Further, it is questionable whether such deposits result in increased economic activity in the state: recent studies conducted by this firm in both Alaska and New Mexico cast doubt on the existence of any significant relationship between bank lending and the level of public deposits.

Opportunities for the Permanent Fund to invest prudentially within Alaska are truly quite limited. In-state investment requirements would probably not compromise the Permanent Fund's ability to diversify its portfolio. Due to the small size of the state's economy and capital market, the ability of the economy to absorb in-state investments would

probably be reached before diversification requirements would dictate that the Fund held too many in-state investments.

In light of all of these concerns, we present the following model list of investments for the Alaska Permanent Fund.

6.0 A Model List of Permissible Investments

The Alaska Permanent Fund currently has a fairly narrow range of permissible investments, emphasizing US government securities, money market paper, bank certificates of deposit, mortgages and other fixed income paper. The Fund is currently prohibited from investing in stock, income property and foreign securities. The list is limiting from the standpoint of opportunities for both diversification (by term of maturity, location, industry, etc.) and generation of investment income. Although these constraints may well have been initially sound from a political, financial and management standpoint, the growth and maturing of the Permanent Fund corpus and management, as well as the urgencies of continuing high rates of inflation, require a review at this time.

It is, therefore, now our professional judgment that the list of permissible investments for the Alaska Permanent Fund should be cautiously expanded to include the many financial instruments and securities in which all world class institutional investors (such as the Permanent Fund) do now invest.

As we mentioned earlier, Governor Hammond has proposed many sound changes that would accomplish the goal of expanding permissible investments in a cautious, efficient manner. To further discussion of the issue, we present here a model list of permissible investments.

All of these investments would be appropriate for the Alaska Permanent Fund, fulfilling both its prudential responsibilities and its more general responsibilities to the future health of the state.

Before proceeding to a description of that list, one further point must be made. As we have emphasized, fiduciary concerns must override all other goals in the investment of public funds. In most cases, investment officers act far too conservatively in their zeal to fulfill their fiduciary and prudential responsibilities. These responsibilities do not imply a requirement for risk-free investment; rather, they imply a requirement for responsible investment activity that balances risks against potential return. This is precisely the standard which is written into the legislative findings with regard to the Alaska Permanent Fund Corporation: "The Corporation's goal should be to maintain safety of principal while maximizing total return" (emphasis added).

Venture capital. As we noted earlier, many world class institutional investors--including Harvard, most other major universities, the Ford Foundation, and other major foundations, as well as most private pension funds--have placed small portions (perhaps 5%) of their portfolio in venture capital limited partnerships. In fact, the recent enormous growth in the national pool of available venture capital funds can be attributed almost exclusively to an influx of funds from such world class institutional investors. Such investments can produce extremely high returns--25 to 40 percent. After an initial investment, Alaska could make subsequent investments contingent on the agreement of the venture fund's managers to give consideration to venture opportunities

in Alaska. Such a system would allow the state to maintain high financial returns while indirectly directing venture capital toward Alaska's entrepreneurs. This "best efforts" requirement will be tricky, however, due to the small economy and relatively limited venture opportunities in the state. While Alaska investments should not be required, the state should encourage venture funds in which it has investments to be open to opportunities within her boundaries. This should be one of the issues for review before reinvestment in a venture capital partnership.

Equity. Increased equity investments should be diversified by location, industry, size of business and risk. A truly diversified equity portfolio will eliminate the unsystematic risk; that is, the risk associated with investment in each individual stock. With a truly diversified portfolio, risk will be a factor of general economic trends only, trends to which any form of investment is susceptible.

Commercial paper, banker's acceptance, repurchase agreements, and negotiable certificates of deposit. These are standard, high-yield, low-risk investments which are a major component of any world class portfolio. The Permanent Fund currently invests in these instruments and should continue to do so.

Foreign securities. The ability to invest in foreign securities would allow the Permanent Fund to take advantage of economic growth overseas during hard economic times at home. Analyses of nine major world stock and bond markets over the period 1970-1979 indicated that a portfolio which holds investments from several countries in rough proportion to the country's size provides a better return than one concentrated

in any individual market. The returns of international markets exhibit fairly low correlation with each other and with this country, allowing a further reduction of risk. While financial return to the fund from this type of investment will be quite high, the economic and social benefits that will be generated in-state will be minimal.

Long-term debt. Many sophisticated debt investments have emerged over the last three years. Recent moves to variable rate mortgages allow investors to capture changes in interest rates. Debt instruments are also offering shares in equity profits, shares in real estate appreciation and convertible options that permit investors to convert debt to equity. These last options allow investors to have many of the financial benefits of equity investment without the accompanying risk.

Home mortgages. Several states operate programs in which commercial, industrial, and home conventional mortgages are packaged and sold to the state's pension fund. Colorado for instance has a very active program in which conventional residential mortgages of numerous state S&Ls are packaged and sold to the state's Public Employees' Retirement Association (PERA). For commercial mortgages of less than \$1 million, PERA purchases the mortgage from Empire Savings and Loan of Denver, which handles the pooling of smaller mortgages from assorted originators for the system.

Several other states, including New York and North Carolina, have been active in packaging in-state residential mortgages from many lenders

and placing them with the state public employee pension fund. In the case of New York, the pension fund is the direct placement purchaser of three separate pass-through certificates totalling \$85 million. The securities were issues by a commercial bank, a thrift, and a group of savings institutions. As a variation, the North Carolina pension fund recently purchased \$50 million of "conduit pay-through bonds," which represent residential mortgages originated by multiple lenders throughout the state. Because of the North Carolina pension fund's requirement that all investments be made in rated corporate debt securities, the state set up a special purpose corporation organized and managed by the state's banks and thrifts to issue the bonds, which received an "aa" rating from Standard and Poor's Corporation.

In another variation, the Connecticut State Employee's Pension fund committed to purchase \$40 million in conduit pass-through securities originated by the state's lending institutions and packaged by its largest savings and loan. This forward commitment enables the Fund to establish conditions which mortgages must meet to qualify for purchase. Beyond merely describing length and loan-to-value ratios, it has influenced targeting of mortgages by expressing a preference to purchase mortgages of homeowners who are also Pension Fund participants.

Permanent Fund investment in conventional mortgage securities from Alaska is particularly appropriate given the clear need for additional adequate housing for residents of the state. No new pooling mechanism would need to be developed to package the mortgages: both AIDA and MIFC have the capability to perform this function. It is important to note that mortgages have been sound investments for institutional funds;

residential mortgages have been yielding 40 to 50 basis points higher than similar quality bonds. Like all portfolio options, these investments should be subject to prudent limits--in this case probably about 15 percent to 25 percent of the Permanent Fund's total assets.

Bonds, notes and other obligations of the United States.

These essentially risk-free investments are a standard component of any public fund portfolio. U.S. debt obligations are highly liquid and are fully guaranteed by the federal government. They are currently a significant part of the Permanent Fund's portfolio.

Equity investments in real estate. Institutional investors have recently turned to equity investments in real estate as a means to capture a high, constant revenue flow from a tangible assets. While such investments can be fairly risky, they can result in great benefits when done by a competent professional manager.

Certificates of deposit. Finally, it seems prudent, in our professional judgment, to devote a very small percentage of the fund to long-term CDs of no less than two and no more than eight years. Recently CCD conducted detailed analyses of the banking systems in both New Mexico (number one in the country in the percentage of state and local public funds in the banking system, with 22.5%) and Alaska (number two, 20.1%). Our analysis suggests that there is no clear relationship between increased state and local deposits in the banking system and increased bank lending. This appears to be especially likely with the most typical form of state deposits, the short-term CD. It can be argued, however, that longer-term deposits may be more likely to lead to increased bank lending activity, which in turn

may result in greater in-state lending. It is important to note, however, that the state has limited control over the bank's use of public deposits. In-state lending, out-of-state lending and arbitraging of funds in national capital markets are all possible uses for the funds. The choice will be determined by the demand for loans and the bank's own risk-reward preferences.

State deposits in CDs can be 100 percent insured by the FDIC through a multiple trusteeship system such as that used by other states and private money managers. For example, Colorado, borrowing from the private market experience of Merrill Lynch and others, utilizes a system of trustees for administration and deposit of its public funds. Under this system, available funds are placed under the administration of several trustees. The trustees, in turn, can each deposit up to \$100,000 in each institution. As a result, while a given bank may hold well over the insured limit of state funds in total, each separate account is fully insured. The advantage of such a system is that it avoids complex and onerous pledging or collateral requirements by allowing all state deposits to qualify for FDIC insurance. Banks are able to utilize public funds more efficiently, and the administrative burden on the state for monitoring the security of its deposits is reduced. The Colorado system is appropriate for both the investment of short- and long-term public funds; FDIC insurance places no limit on CD maturities.

Conclusion. With each of these investment options, the Permanent Fund managers have the opportunity to incorporate higher rates of return at levels of risk that meet the fiduciary and

prudential requirements of the Fund. It is our professional judgment that all of these options are appropriate for investment by the Alaska Permanent Fund.

7.0 Managing a World Class Trust Fund
Such As the Permanent Fund

In the end, the wisdom of adopting these portfolio recommendations depends on the capability of the management to carry them out with the highest standards of professionalism and prudence. The independent strength and authority of the Permanent Fund Corporation's Board of Trustees provides a basis for confidence that such changes in portfolio power will be handled with the appropriate high trust and discretion. If these new powers are to be soundly administered, there is, however, one area of management which deserves more consideration by the board of trustees and the legislature-- that is, the willingness to engage more professional full-time staff and to hire more external portfolio managers.

The Board currently has the authority to hire staff and investment management and counseling firms to advise the corporation of appropriate investments for the Fund. This authority should be used fully. The expertise of professional advisors will greatly improve the benefits accruing to the Fund from its expanded powers. The ability to hire multiple advisors allows the Council to obtain advice from experts in specific technical fields and to establish competitive relationships among advisors rewarding them for improved return on investment. Moreover, highly specialized areas of investment, such as venture capital, foreign investments, or equity investments in

real estate, tend to be contracted out to specialized professionals by world class trust funds. Consultants can also be hired whose specialty is evaluating the performance of both inside and outside money managers. Virtually all Fortune 500 pension funds and the other large funds we have mentioned as models use such a service. In keeping with its relative size and status, the Permanent Fund should do likewise.

The Permanent Fund Corporation policy budget for fiscal year 1982 is currently under consideration by the Alaska legislature. In a proposal submitted by the Permanent Fund Corporation itself, corporate operations would have a budget of \$1.3 million or .0005% of total Fund assets. Staffing under this budget would include the following:

- Administrative Staff: Director, Administrative Assistant, and Secretary
- Investment Staff: at least three investment officers-- one for marketable securities; one for loans and mortgages, and one for additional types of investment
- Financial Control Staff: Comptroller, Secretary Accounting Technician and Clerk
- Board/General Staff: one to two assistants to do general legislative liaison, reports to Board, and staff coordination and assistance, etc.

Additional funds are proposed for travel, contractual services, supplies and equipment.

This proposal will allow the Permanent Fund to acquire in-house and out-house professional investment and management assistance. The total budget is only .0005% of total assets which is quite modest. It is not uncommon for world class institutional investment funds to have operational expenses as high as .5% of total assets. Yet, this

budget will greatly improve the expertise with which the Permanent Fund is invested and allow it to fully capitalize on its powers.

We strongly support its passage.

With these internal management modifications the Permanent Fund will be well equipped to undertake these portfolio changes.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

HB 770

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 770 (2/12/82)
Title Relating to the Alaska Permanent Fund
Requested by House State Affairs Committee Date 3/15/82

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		305.1	335.6	369.2	406.1	446.7
200 TRAVEL		7.5	8.3	9.1	10.0	11.0
300 CONTRACTUAL		1,988.0	2,250.2	2,771.8	3,117.6	3,495.5
400 COMMODITIES		10.0	11.0	12.1	13.3	14.7
500 EQUIPMENT		38.0	4.0	4.4	4.9	5.4
600 LAND & STRUCTURES		38.4	42.2	46.5	51.1	56.2
700 GRANTS, CLAIMS, ETC.						
TOTAL		2,387.0	2,651.3	3,213.1	3,603.0	4,029.5

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
Permanent Fund Income		2,387.0	2,651.3	3,213.1	3,603.0	4,029.5

POSITIONS

FULL TIME		9.0	9.0	9.0	9.0	9.0
PART TIME						
TEMPORARY						

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

SEE ATTACHED PAGES FOR DETAIL INFORMATION.

Above analysis and costs indicated DO NOT INCLUDE the following:

1. Costs of loan approval by Dept. of Commerce & Economic Development.
2. Direct charge against fund income for loan servicing fee on loans and mortgages by originating financial institutions; equivalent to about 1/2 of 1% which includes "lost" income on escrow reserves.
In Thousands: FY 83 - \$6,667.0, FY 84 - \$8,745.0, FY 85 - \$10,095.0,
FY 86 - \$11,545.0, FY 87 - \$13,135.0.
Based on one-third fund investment in loans & mortgages and projected fund balances for FY 83 thru FY 87.

A. Staack

IV. DATE March 15, 1982 PREPARED BY Anselm C. Staack, Treasury Comptroller
AGENCY Dept. of Revenue, Treasury Division
Original: Legislative Finance PHONE 465-2350
cc: Budget and Management
Prime Sponsor (First Legislator Named)
33-001 (Rev. 12/81)

REC'D MAR 16 1982

House Bill 770 (2/12/82)
Fiscal Note, Add'l Data, Base Year

HB 770 modifies the investment language of the Alaska Permanent Fund to basically allow three types of investments. They include (1) obligations of the United States or agencies; marketable securities of the Federal government, (2) common stocks and corporate bonds; not to exceed 30% of total fund assets, (3) FHA, VA and conventional residential mortgages at a 75% participation level within Alaska; Department of Commerce and Economic Development must approve all loan purchases.

Assumptions:

One-third of fund balance directed to loans and mortgages; about \$1.3 billion, at 75% participation, approx. \$100,000 investment per loan. About 13,000 loans.
30% of fund balance invested in common stocks and bonds.

Loans and Mortgages: Account for all loans disbursements, maintain full record keeping general/subsidiary ledger accounting, continuous routine loan maintenance/file maintenance. Approvals done by Commerce & Economic Development; after approval, further accounting and maintenance of asset by Corp.

Personal Services:

2 PFT Accounting Tech. I (R12,X) @\$1,761/mo. plus Benefits	\$ 55.8
2 PFT Accounting Tech. II (R14,X) @\$1,995/mo. plus Benefits	63.2
2 PFT Clerk Typist III (R8,X) @\$1,393/mo. plus Benefits	44.1
1 PFT Accounting Supervisor III (R18,X) @\$2,640/mo. plus Benefits	41.8
1 PFT Loan Examiner III (R19,X) @\$2,837/mo. plus Benefits	44.9
1 PFT Investment Officer II (R22,X) @\$3,494/mo. plus Benefits	55.3
	<hr/>
	<u>\$305.1</u>

Travel:

Meet with financial institutions on a regular basis to solve accounting/reporting problems. Current update and review. Approx. 12 financial institutions, meet semi-annual, two persons. \$7.5

Contractual:

Communications	\$ 20.0
Printing and Advertising	15.0
Repair & Maintenance	2.0
Equipment Rental; word processing equip.	15.0
Safekeeping/reporting/accounting maintenance	50.0
Audit Costs	50.0
Legal	50.0
Other (insurance, risk management, etc.)	<u>15.0</u>
	<u>\$217.0</u>

Commodities:

All commodities (office supplies) to maintain loan & mortgage files	<u>\$10.0</u>
--	---------------

Equipment:

25 file cabinets, FIREPROOF, to accomodate 13,000 loans, 4 drawer legal (additional about 5 per year as new loans made)	\$20.0
9 new positions @\$3,000 per position (all inclusive including calculators)	\$18.0
	<u> </u>
	<u>\$38.0</u>

Lands and Buildings:

For new positions plus common work area, 700 Sq. Ft. @\$2/sq. ft./mo.	\$16.8
For file storage, special stress area due to cabinet weight, temp. control, security, future expansion, work area. 600 Sq. Ft. @\$3/sq. ft./mo.	<u>21.6</u>
	<u>\$38.4</u>

Common Stock and Bonds: Would probably be handled by contract managers.
Below computation assumes fund balances projected thru FY 87 at a 30%
level. Includes management cost plus safekeeping. (In Thousands)

FY 83 - \$1,771.0
84 - 2,011.5
85 - 2,509.2
86 - 2,828.7
87 - 3,177.7

3/15/82

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: HB 770

Title: An Act relating to the Alaska Permanent Fund.

Requested by: House State Affairs Committee Date: 03/16/82

II. FISCAL DETAIL

Agency Effected: Department of Revenue

Program Category Effected:

BRU, Program, or Subprogram(s) Effected:

(Note: If more than one budget component is effected, 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	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)						
Permanent Fund	-	(525)	(675)	(800)	-	-

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)

The above figures represent the projected decrease in mineral revenues, based on existing leases, by repealing the 50 percent rate (As 37.13.010(a)(2)) to the 25 percent rate as reenacted in HB 770.

Mineral lease bonuses were not included in the fiscal impact, though the contribution rate was increased to one hundred percent, since bids are impossible to anticipate prior to sales. It was assumed the bill would become effective July 1, 1982.

IV. DATE: 03/16/82

PREPARED BY: Robert W. Elliott

AGENCY: Department of Revenue

PHONE: 465-2173

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

Robert W. Elliott

MAR 16 1982

1	POSITION TITLE Loan Examiner II				RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 1 of 15		FORM 12 PAGE/LINE	LEG		
3	TYPE OF EXPENDITURE			AMOUNT		JUSTIFICATION: HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.				
	1	2	3							
4	PERSONAL SERVICES:									
	SALARY		29,460							
5	BENEFITS		4,619							
6	SBS		1,806							
7	FIXED BENEFITS		2,196							
8	TOTAL PERSONAL SERVICES		01	38,081						
9	TRAVEL		02	-0-						
10	CONTRACTUAL		03	1,200						
11	COMMODITIES		04	470						
12	EQUIPMENT		05							
13	OTHER			2,700						
14	TOTAL COST			42,451						
	RECEIPT CODE	FUNDING SOURCE								
15		FED RCPTS. 1002								
16		GF MATCH. 1003								
17		GEN. FUND 1004		42,451						
18		I-A RCPTS. 1005								
19		PGM RCPTS 1028								
20		OTHER								
21	CONTINUATION									
22	ADDITION			FOR B&M USE ONLY						
7A KEY NUMBER		COLUMN NO.								

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

FY 83

Page 1 of 15 REVISED DATE _____

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DIBAPP
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 2 of 15	FORM 12 PAGE/LINE	LEG.		

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
	SALARY	29,460
5	BENEFITS	4,619
6	SBS	1,806
7	FIXED BENEFITS, \	2,196
8	TOTAL PERSONAL SERVICES 01	38,081
9	TRAVEL 02	-0-
10	CONTRACTUAL 03	1,200
11	COMMODITIES 04	470
12	EQUIPMENT 05	
13	OTHER	2,700
14	TOTAL COST	42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE	
15		FED RCPTS. 1002	
16		GF MATCH. 1003	
17		GEN. FUND 1004	42,451
18		I-A RCPTS. 1005	
19		PGM RCPTS 1028	
20		OTHER	

21 CONTINUATION
22 ADDITION

FOR B&M USE ONLY

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

Page 2 of 15 REVISED DATE _____

FY 83

1	POSITION TITLE	Loan Examiner II		RANGE/STEP	BARG. UNIT.	LOCATION	GOV.	APPROV.	DIG.
2	TYPE OF POSITION	STAFF MONTHS	RP No.	PCN No.	PRIORITY	FORM 12	PAGE/LINE	LEG.	
	Permanent	12			3 of 15				

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
5	SALARY	29,460
6	BENEFITS	4,679
7	SBS	1,506
8	FIXED BENEFITS	2,196
9	TOTAL PERSONAL SERVICES	38,081
10	TRAVEL	-0-
11	CONTRACTUAL	1,200
12	COMMODITIES	470
13	EQUIPMENT	
14	OTHER	2,700
15	TOTAL COST	42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1004
18		I-A RCPTS. 1005
19		PGM RCPTS 1028
20		OTHER
21	CONTINUATION	
22	ADD'TION	

FOR B&M USE ONLY

4A - KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION

COMPONENT _____

Page 3 of 15 REVISED DATE _____

FY 83

1	POSITION TITLE	Loan Manager		RANGE/STEP	20 A	BARG. UNIT.	Supr	LOCATION	AWA	GOV.	APPROV.	DIGAPP.
2	TYPE OF POSITION	STAFF MONTHS	RP No.	PCN No.	PRIORITY	FORM 12	PAGE/LINE					
	Perm.	12			4 of 15			LEG.				

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
	SALARY	37,140
5	BENEFITS	5,824
6	SBS	2,277
7	FIXED BENEFITS	2,196
8	TOTAL PERSONAL SERVICES	01 47,437
9	TRAVEL	02 -0-
10	CONTRACTUAL	03 1,200
11	COMMODITIES	04 470
12	EQUIPMENT	05 -0-
13	OTHER	2,700
14	TOTAL COST	51,807

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. This would require a loan manager to supervise 12 loan examiners and clerical personnel.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1004 51,807
18		J-A RCPTS. 1005
19		PGM RCPTS 1028
20		OTHER

21	CONTINUATION	
22	ADDITION	

FOR B&M USE ONLY

4A KEY NUMBER

COLUMN NO.

AGENCY Commerce and Economic Development

PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

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REVISED DATE _____

FY 83

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 5 of 15	FORM 12	PAGE/LINE	LEG	

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES: SALARY	29,460
5	BENEFITS	4,619
6	SBS	1,806
7	FIXED BENEFITS	2,196
8	TOTAL PERSONAL SERVICES 01	38,081
9	TRAVEL 02	-0-
10	CONTRACTUAL 03	1,200
11	COMMODITIES 04	470
12	EQUIPMENT 05	
13	OTHER	2,700
14	TOTAL COST	42,451

JUSTIFICATION:
 HP 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1001
18		I-A RCPTS. 1005
19		PGM RCPTS 1078
20		OTHER

21	CONTINUATION	
22	ADDITION	FOR B&M USE ONLY

4A KEY NUMBER COLUMN NO.

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

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FY 83

1	POSITION TITLE	Loan Examiner II			RANGE/STEP	BARG. UNIT.	LOCATION	GOV.	APPROV.	DISAPP.
	TYPE OF POSITION	STAFF MONTHS	RP No.	PCN No.	PRIORITY	FORM 12	PAGE/LINE	LEG.		
	Permanent	12			6 of 15					

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
	SALARY	29,460
5	BENEFITS	4,619
6	SBS	1,806
7	FIXED BENEFITS	2,196
8	TOTAL PERSONAL SERVICES	38,081
9	TRAVEL	-0-
10	CONTRACTUAL	1,200
11	COMMODITIES	470
12	EQUIPMENT	
13	OTHER	2,700
14	TOTAL COST	42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1001
18		I-A RCPTS. 1005
19		PGM RCPTS 1028
20		OTHER

21 CONTINUATION

22 ADDITION

FOR B&M USE ONLY

4A KEY NUMBER

COLUMN NO.

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

Page 6 of 15 REVISED DATE _____

FY 83

1	POSITION TITLE Loan Examiner II				RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 7 of 15		FORM 12 PAGE/LINE	LEG.		

3	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
4	PERSONAL SERVICES: SALARY		29,460
5	BENEFITS		4,619
6	SBS		1,806
7	FIXED BENEFITS		2,196
8	TOTAL PERSONAL SERVICES	01	38,081
9	TRAVEL	02	-0-
10	CONTRACTUAL	03	1,200
11	COMMODITIES	04	470
12	EQUIPMENT	05	
13	OTHER		2,700
14	TOTAL COST		42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE	
15		FED RCPTS. 1002	
16		GF MATCH. 1003	
17		GEN. FUND 1004	42,451
18		I-A RCPTS. 1005	
19		PGM RCPTS 1028	
20		OTHER	

21	CONTINUATION		
22	ADDITION		FOR B&M USE ONLY

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

FY 83

Page 7 of 15 REVISED DATE _____

1	POSITION TITLE Clerk Typist III	RANGE/STEP 08A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAP.
2	TYPE OF POSITION Perm.	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 8 of 15	FORM 12	PAGE/LINE
						LEG	

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES: SALARY	16,716
5	BENEFITS	2,621
6	SBS	1,025
7	FIXED BENEFITS	2,196
8	TOTAL PERSONAL SERVICES 01	22,561
9	TRAVEL 02	-0-
10	CONTRACTUAL 03	-0-
11	COMMODITIES 04	470
12	EQUIPMENT 05	1,000
13	OTHER	2,700
14	TOTAL COST	26,731

JUSTIFICATION:
 HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. It will require at least two typists to keep up with correspondence on the loans under review.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1004
18		I-A RCPTS. 1005
19		PGM RCPTS 1028
20		OTHER
21	CONTINUATION	
22	ADDITION	

26,731

FOR B&M USE ONLY

4A KEY NUMBER COLUMN NO.

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

FY 83

Page 8 of 15 REVISED DATE _____

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 9 of 15	FORM 12 PAGE/LINE	LEG		

3	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
4	PERSONAL SERVICES: SALARY		29,460
5	BENEFITS		4,619
6	SBS		1,806
7	FIXED BENEFITS \		2,196
8	TOTAL PERSONAL SERVICES	01	38,081
9	TRAVEL	02	-0-
10	CONTRACTUAL	03	1,200
11	COMMODITIES	04	470
12	EQUIPMENT	05	
13	OTHER		2,700
14	TOTAL COST		42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE	
15		FED RCPTS. 1002	
16		GF MATCH. 1003	
17		GEN. FUND 1004	42,451
18		I-A RCPTS. 1005	
19		PGM RCPTS 1028	
20		OTHER	

21	CONTINUATION		
22	ADDITION		

FOR B&M USE ONLY

4A KEY NUMBER

COLUMN NO.

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

COMPONENT _____

13 REQUEST FOR NEW POSITION.

FY 83

Page 9 of 15 REVISED DATE _____

1	POSITION TITLE	Loan Examiner II			RANGE/STEP	BARG. UNIT.	LOCATION	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION	STAFF MONTHS	RP No.	PCN No.	PRIORITY	FORM 12	PAGE/LINE	LEG.		
	Permanent	12			10 of 15					

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
	SALARY	29,460
5	BENEFITS	4,619
6	SBS	1,806
7	FIXED BENEFITS	2,196
8	TOTAL PERSONAL SERVICES	38,081
9	TRAVEL	-0-
10	CONTRACTUAL	1,200
11	COMMODITIES	470
12	EQUIPMENT	
13	OTHER	2,700
14	TOTAL COST	42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1001
18		I-A RCPTS. 1005
19		PGM RCPTS 1028
20		OTHER

21 CONTINUATION

22 ADDITION

FOR B&M USE ONLY

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

FY 83

Page 10 of 15 REVISED DATE _____

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 11 of 15	FORM 12 PAGE/LINE	LEG.		

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES: SALARY	29,460
5	BENEFITS	4,619
6	SBS	1,806
7	FIXED BENEFITS	2,196
8	TOTAL PERSONAL SERVICES	38,081
9	TRAVEL	-0-
10	CONTRACTUAL	1,200
11	COMMODITIES	470
12	EQUIPMENT	
13	OTHER	2,700
14	TOTAL COST	42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1004
18		I-A RCPTS. 1005
19		PGM RCPTS 1028
20		OTHER

21 CONTINUATION

22 ADDITION

FOR R&M USE ONLY

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

FY 83

Page 11 of 15 REVISED DATE _____

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 12 of 15	FORM 12 PAGE/LINE	LEG		

3	TYPE OF EXPENDITURE	AMOUNT
	1	2
4	PERSONAL SERVICES:	
	SALARY	29,460
5	BENEFITS	4,619
6	SBS	1,806
7	FIXED BENEFITS, \	2,196
8	TOTAL PERSONAL SERVICES 01	38,081
9	TRAVEL 02	-0-
10	CONTRACTUAL 03	1,200
11	COMMODITIES 04	470
12	EQUIPMENT 05	
13	OTHER	2,700
14	TOTAL COST	42,451

JUSTIFICATION:
 HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE
15		FED RCPTS. 1002
16		GF MATCH. 1003
17		GEN. FUND 1004
18		I-A RCPTS. 1005
19		PGM RCPT. 1028
20		OTHER

21 CONTINUATION
 22 ADDITION

FOR B&M USE ONLY

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

FY 83

Page 12 of 15 REVISED DATE _____

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	BOV.	APPROV.	DISAPP.						
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 13 of 15	FORM 12 PAGE/LINE	LEG								
3	TYPE OF EXPENDITURE			JUSTIFICATION:											
	1	2	3												
4	PERSONAL SERVICES: SALARY		29,460	<p>HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.</p>											
5	BENEFITS		4,619												
6	SBS		1,806												
7	FIXED BENEFITS		2,196												
8	TOTAL PERSONAL SERVICES		01 38,081												
9	TRAVEL		02 -0-												
10	CONTRACTUAL		03 1,200												
11	COMMODITIES		04 470												
12	EQUIPMENT		05												
13	OTHER		2,700												
14	TOTAL COST		42,451												
	RECEIPT CODE	FUNDING SOURCE													
15		FED RCPTS. 1002													
16		GF MATCH. 1003													
17		GEN. FUND 1001		42,451											
18		I-A RCPTS. 1005													
19		PGM RCPTS 1028													
20		OTHER													
21	CONTINUATION		FOR B&M USE ONLY												
22	ADDITION														
23	KEY NUMBER			COLUMN NO.											

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION.

COMPONENT _____

Page 13 of 15 REVISED DATE _____

FY 83

1	POSITION TITLE Loan Examiner II			RANGE/STEP 17 A	BARG. UNIT. GGU	LOCATION AWA	BOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Permanent	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 14 of 15	FORM 12	PAGE/LINE	LEG.	

3	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
4	PERSONAL SERVICES: SALARY		29,460
5	BENEFITS		4,619
6	SBS		1,806
7	FIXED BENEFITS		2,196
8	TOTAL PERSONAL SERVICES	01	38,081
9	TRAVEL	02	-0-
10	CONTRACTUAL	03	1,200
11	COMMODITIES	04	470
12	EQUIPMENT	05	
13	OTHER		2,700
14	TOTAL COST		42,451

JUSTIFICATION:

HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. At 5 loans per day it would require 12 loan examiners, a supervisor and clerical staff to review these loans.

	RECEIPT CODE	FUNDING SOURCE	
15		FED RCPTS. 1002	
16		GF MATCH. 1003	
17		GEN. FUND 1004	42,451
18		I-A RCPTS. 1005	
19		PGM RCPTS 1028	
20		OTHER	

21	CONTINUATION		FOR B&M USE ONLY
22	ADDITION		

4A KEY NUMBER _____ COLUMN NO. _____

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

COMPONENT _____

13 REQUEST FOR NEW POSITION.

FY 83

Page 14 of 15 REVISED DATE _____

1	POSITION TITLE Clerk Typist III			RANGE/STEP 08A	BARG. UNIT. GGU	LOCATION AWA	GOV.	APPROV.	DISAPP.
2	TYPE OF POSITION Perm.	STAFF MONTHS 12	RP No.	PCN No.	PRIORITY 15 of 15	FORM 12 PAGE/LINE	LEG.		
3	TYPE OF EXPENDITURE			AMOUNT					
	1	2	3						
4	PERSONAL SERVICES:								
	SALARY		16,716						
5	BENEFITS		2,621						
6	SBS		1,025						
7	FIXED BENEFITS		2,196						
8	TOTAL PERSONAL SERVICES		01	22,561					
9	TRAVEL		02	-0-					
10	CONTRACTUAL		03	-0-					
11	COMMODITIES		04	470					
12	EQUIPMENT		05	1,000					
13	OTHER			2,700					
14	TOTAL COST			26,731					
	RECEIPT CODE	FUNDING SOURCE							
15		FED RCPTS. 1002							
16		GF MATCH. 1003							
17		GEN. FUND 1004		26,731					
18		I-A RCPTS. 1005							
19		PGM RCPTS 1028							
20		OTHER							
21	CONTINUATION								
22	ADDITION		FOR B&M USE ONLY						
4A	KEY NUMBER			COLUMN NO.					

JUSTIFICATION:
 HB 770 - This bill would require that approximately 13,000 loan packages be reviewed by Commerce during the year. It will require at least two typists to keep up with correspondence on the loans under review.

AGENCY Commerce and Economic Development PROGRAM Economic Development

BRU Loan Administration

13 REQUEST FOR NEW POSITION

COMPONENT _____

FY 83

Page 15 of 15 REVISED DATE _____

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

March 16, 1982

The Honorable Ray H. Metcalfe
Chairman
House State Affairs Committee
Room 102 - Capitol Building
Juneau, Alaska

Dear Mr. Metcalfe:

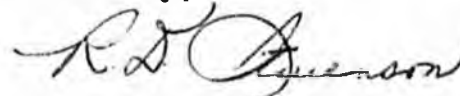
Re: House Bill No. 770

House Bill No. 770, an Act relating to the Alaska permanent fund, was introduced in the House on February 12, 1982 and was referred to the House State Affairs and Finance Committees.

For the consideration of the House State Affairs Committee, I am enclosing copies of Fiscal Notes prepared by Mr. Anselm Staack, Treasury Comptroller and Mr. Robert W. Elliott, Research Analyst, Research Section of the Department of Revenue concerning the proposed legislation.

For the further consideration of the House State Affairs Committee, at the request of the Department of Commerce, I am also enclosing a copy of a Fiscal Note prepared by Mr. Don Hostak, Director, Division of Loans and Veterans' Affairs, of the Department of Commerce.

Sincerely,



R. D. Stevenson
Special Assistant

Enclosures

cc: The Honorable Albert P. Adams
Chairman
House Finance Committee

Joseph K. Donohue
Deputy Commissioner
Department of Revenue

Anselm Staack
Treasury Comptroller
Department of Revenue

Robert W. Elliott
Research Analyst
Research Section
Department of Revenue

Don Hostak, Director
Division of Loans and
Veterans' Affairs
Department of Commerce

REC'D MAR 16 1982

Ann

HO-770 - State Affairs
(Ann)

① Scheduled for
Thursday, March 4.
(with Kurlbert's Bill HB 743)

Reported ~~3-6-82~~ ^② Belden
& waiting for
Daniels who will be here on
Mar. 9th and should have
a substitute bill for orig
bill drafted.

③ (when draft is received
then we schedule hearing)
will probably be scheduled for
an all-Sat meeting >

3/18
you wanted amendments
to be rescheduled.

STATE OF ALASKA
DEPARTMENT OF REVENUE
TREASURY DIVISION
Pouch SB
Juneau, Alaska 99811
(907) 465-2350

GENERAL AND SEGREGATED STATE PROGRAM FUNDS

MONTHLY INVESTMENT REPORT

January 31, 1982

CONTENTS

	<u>Page</u>
Investment Activity	1
Statement of Portfolio Assets	2
Statement of Operations/Changes in Total Assets	2
Statement of Change in Portfolio Condition	3
Composition of Investment Holdings	4-6
Summary of Alaska Deposits	7
Summary of Operating Account	7
Debt Certificates - Credit Unions	8
Change in Portfolio Composition	8-10
Summary of Changes	11

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

JAY S. HAMMOND, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE:

To the Reader:

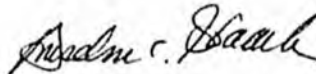
We present herein the investment report of the General and Segregated State Program Funds for January 31, 1982, with year-to-date figures for the Fiscal Year 1982. Accounting procedures used in preparation include:

1. All transactions are recorded on a cash basis, i.e. when cash is received or disbursed.
2. Accrued interest purchased with marketable securities is recorded as an asset that is subsequently charged to income on the first coupon date. Accrued interest purchased with other holdings has not been material and is charged against income at the time of acquisition.
3. Other holdings will be held until repayment at or prior to maturity.
4. The cost of investments represents the amount paid for securities and other holdings.
5. Safekeeping charges are billed to the State and not deducted from operating income. Transaction charges are deducted from operating income at the time securities mature or are sold.

Amounts identified as net contributions from or to the retirement funds represent the excess of retirement fund payments over contributions or contributions over payments, respectively, during the month as adjusted for investment activity in loans and mortgages. Cash revenues of the State and warrants redeemed are indicated by State contributions from taxes and other receipts and State expenditures, respectively.

For purposes of source and use of funds analysis, we have defined the term "funds" to include demand deposits, clearing cash, savings deposits, purchased interest receivable and repurchase agreements. Funds provided by the loan and mortgage programs, separately invested funds and Alaska deposits are assumed to increase the operating account prior to investment unless specifically identified otherwise. Funds used for loan and mortgage programs, separately invested funds and Alaska deposits are assumed to be withdrawn from the operating account unless specifically identified otherwise.

Sincerely,



Anselm C. Staack
Treasury Comptroller

STATE OF ALASKA
GENERAL AND SEGREGATED STATE PROGRAM FUNDS
INVESTMENT ACTIVITY

January 31, 1982

At the end of January 1982, the General and Segregated State Program Funds totaled \$2,164,986,215.91 up from \$2,051,428,445.23 at the close of the previous month. The operating and marketable securities accounts were increased by \$91,187,905.03 during January. In this period \$311,864,127.55 was received from taxes and other State revenues, while \$199,328,708.13 was used for the payment of State expenditures. Cash and repurchase agreements, including purchased interest receivable, were decreased by \$17,346,531.60.

Holdings of short term issues (securities of less than one year maturity) increased by \$134,231,367.08 during January, while holding of intermediate/long term issues (securities of one year or more maturities) remained the same after netting purchases, sales and maturities. Activity included the marketable securities account and separately invested funds.

During January, \$27,500,000.00 was deposited with Alaska financial institutions in 140 to 181 day certificates of deposit which yield 14.00% to 14.375%. The commitment to loan and mortgage programs amounted to \$293,109,631.09 at month end, of which State loan programs accounted for \$198,864,979.79. The commitment to Loan and Mortgage programs decreased \$2,327,064.80 during January.

STATE OF ALASKA
GENERAL AND SEGREGATED STATE PROGRAM FUNDS
STATEMENT OF PORTFOLIO ASSETS

January 31, 1982

	<u>%</u>	<u>Current Month</u> <u>Cost</u>
Cash	1%	\$15,470,382.65
Purchased Interest Receivable		1,332.92
Marketable Securities, at Cost:		
Repurchase Agreements	2	35,900,000.00
Short Term Issues	76	1,649,757,330.74
Intermediate and Long Term Issues	1	<u>32,808,538.51</u>
Total Marketable Securities	79	<u>1,718,465,869.25</u>
Other Holdings, at Cost:		
Commercial Fishing & Agriculture Bank	1	51,800,000.00
Certificates of Deposit	3	72,960,000.00
Debt Certificates	2	45,179,000.00
Bank Loans and Mortgages	1	17,250,049.64
Rural Mortgage Program Bonds	1	10,000,000.00
Obligations of State Corporations	3	54,694,601.66
State of Alaska Loan Programs	9	198,864,979.79
Loans to Alaska Municipalities		<u>300,000.00</u>
Total Other Holdings	<u>20</u>	<u>431,048,631.09</u>
Total Assets	<u>100%</u>	<u>\$2,164,986,215.91</u>

STATEMENT OF OPERATIONS/CHANGE IN TOTAL ASSETS

	<u>Current Month</u>	<u>Year-to-Date</u>
Portfolio Operations:		
Interest Income	\$ 9,407,457.94	\$ 157,565,052.74
Net Gain (Loss) on Sale/Maturity of Securities	<u>-0-</u>	<u>937.50</u>
Total Operating Income	<u>9,407,457.94</u>	<u>157,565,990.24</u>
Beginning of Month Cash and Invested Funds	2,051,428,445.23	2,337,247,432.06
State Contributions from Taxes and Other Receipts	311,864,127.55	2,652,363,987.68
Net Contribution from Permanent Fund	-0-	931,481.21
State Expenditures	(199,328,708.13)	(2,913,401,041.44)
Net Contribution to Retirement Funds	<u>(8,385,106.68)</u>	<u>(69,721,633.84)</u>
End of Month Cash and Invested Funds	<u>\$2,164,986,215.91</u>	<u>\$2,164,986,215.91</u>

STATE OF ALASKA
GENERAL AND SEGREGATED STATE PROGRAM FUNDS
STATEMENT OF CHANGES IN PORTFOLIO CONDITION

January 31, 1982

	Current Month	Year-to-Date
<u>During the Month Funds were Provided by:</u>		
Portfolio Operations:		
Interest Income	\$ 9,407,457.94	\$ 157,565,052.74
Net Gain (Loss) on Sale/Maturity of Securities	-0-	937.50
Total Provided by Operations	9,407,457.94	157,565,990.24
Sale/Maturity of Marketable Securities:		
Short Term Issues	161,905,382.63	3,255,900,536.44
Intermediate/Long Term Issues	-0-	1,159,736.02
Total Provided by Sales/Maturities	161,905,382.63	3,257,060,272.46
Collections of Loans and Mortgages:		
State Loan Programs	2,049,835.94	23,208,731.14
Other Loans and Mortgages	277,228.86	10,998,653.57
Total Provided by Collections	2,327,064.80	34,207,384.67
Redemption of Deposit/Savings Certificates	29,500,000.00	107,037,244.86
Taxes and Other State Receipts	311,864,127.55	2,652,363,987.68
Permanent Fund Income Transferred to General Fund	-0-	931,481.21
TOTAL Funds Provided During the Month	515,004,032.92	6,209,166,361.12
<u>During the Month Funds were Used for:</u>		
Purchase of Marketable Securities:		
Short Term Issues	297,136,749.71	3,086,660,700.77
Intermediate/Long Term Issues	-0-	-0-
Total Marketable Securities Purchased	297,136,749.71	3,086,660,700.77
Purchase of Loans and Mortgages:		
State Loan Programs	-0-	-0-
Other Loans & Mortgages	-0-	1,168,058.00
Total Loans & Mortgages Purchased	-0-	1,168,058.00
Purchase of Deposit/Savings Certificates	27,500,000.00	101,538,910.69
Purchase of Debt Certificates	-0-	-0-
State Operating Expenditures	199,328,708.13	2,913,401,041.44
Net Contribution to Retirement Funds	8,385,106.68	69,721,633.84
TOTAL Funds Used During the Month	532,350,564.52	6,175,490,344.74
NET CHANGE IN FUNDS	<u>\$ (17,346,531.60)</u>	<u>\$ 33,676,016.38</u>
<u>Summary of Changes:</u>		
Increase (Decrease) in Clearing Accounts	\$ (3,627,577.73)	\$ (2,569,777.09)
Increase (Decrease) in Demand Deposits	-0-	-0-
Increase (Decrease) in Savings Deposits	13,981,046.13	514,282.66
Increase (Decrease) in Compensating Balances	-0-	(150,000.00)
Increase (Decrease) in Repurchase Agreements	(27,700,000.00)	35,900,000.00
Increase (Decrease) in Purchased Interest Receivable	-0-	(18,489.19)
NET CHANGE IN FUNDS	<u>\$ (17,346,531.60)</u>	<u>\$ 33,676,016.38</u>

STATE OF ALASKA
GENERAL AND SEGREGATED STATE PROGRAM FUNDS
COMPOSITION OF INVESTMENT HOLDINGS

January 31, 1982

Asset Type	% of Total Cost Value	Current Month	
		Cost	Yield
OPERATING ACCOUNT			
Clearing Accounts	5.3%	\$ 73,396.24	N/A
Compensating Balances	94.7	1,315,000.00	N/A
TOTAL	100.0%	1,388,396.24	
MARKETABLE SECURITIES ACCOUNT			
<u>Cash Deposits</u>			
Savings	1.0%	\$ 14,049,154.55	5.39
<u>Purchased Interest Receivable</u>			
		1,332.92	N/A
<u>Repurchase Agreements</u>			
	2.4	35,000,000.00	13.13
<u>Short Term Issues</u>			
Commercial Paper	3.9	57,185,799.72	12.67
U. S. Treasury Bills	37.6	549,945,259.92	12.33
Bankers Acceptances	25.7	375,953,686.82	12.83
Certificates of Deposit	24.9	365,004,740.96	11.65
U. S. Treasury Notes & Bonds	3.7	54,748,555.00	8.17
Federal Agency Securities		-0-	
Corporate Bonds		-0-	
Total Short Term Issues	95.8	1,402,838,042.42	12.14
<u>Intermediate/Long Term Issues</u>			
U. S. Treasury Notes & Bonds:			
1 - 2 Years		-0-	
Federal Agency Securities:			
Over 5 Years	.5	8,077,500.00	7.16
Corporate Bonds:			
Over 5 Years	.3	3,945,101.72	10.10
Total Intermediate/ Long Term	.8	12,022,601.72	8.13
TOTAL	100.0%	\$1,463,911,131.61	12.08
LOAN AND MORTGAGE PROGRAMS			
<u>State of Alaska Loan Programs</u>			
Business Loans		\$ 4,422.88	N/A
Agriculture	.4	1,241,127.18	5.44
Commercial Fishing	16.2	47,514,307.55	7.74
Fisheries Enhancement	2.4	6,886,338.00	7.96
Small Business	10.5	30,909,395.15	8.37
Tourism	1.1	3,332,063.07	8.02
Veterans	17.1	108,760,174.29	6.97
Childcare Facilities		57,795.13	6.04
Historical District	.1	159,356.54	6.56
Total Loans	67.8	\$ 198,864,979.79	7.42

Schedule continued on following page

General and Segregated State Program Funds

COMPOSITION OF INVESTMENT HOLDINGS Continued

Asset Type	% of Total Cost Value	Current Month	
		Cost	Yield
<u>LOAN AND MORTGAGE PROGRAMS - Continued</u>			
<u>Bank Loan Incentive Program</u>	1.3%	\$ 3,743,677.75	8.41
<u>Mortgage Option Program</u>			
Mortgages	1.1	3,265,586.81	10.04
Business Loans	1.7	5,039,063.77	9.19
Mobile Home Loans	1.8	5,201,721.31	8.75
Total Mortgage Op. Programs	<u>4.6</u>	<u>13,506,371.89</u>	<u>9.23</u>
<u>Obligations of State Corporations</u>			
ASHA Mortgages	.4	1,223,979.30	7.50
AHFC Notes	10.4	30,346,814.07	7.35
ARRC Mortgages	.6	1,639,241.49	10.66
ASHA Notes	5.2	15,125,566.80	7.00
ASDC Bonds	.2	550,000.00	4.75
MICA Notes	.9	3,000,000.00	7.00
U of A Notes	1.0	2,809,000.00	5.00
Total Obligations	<u>18.7</u>	<u>54,694,601.66</u>	<u>7.19</u>
<u>Obligations Pledged to AHFC</u>			
Certificates of Deposit	4.1	12,000,000.00	13.56
Rural Mortgage Program Bonds	3.4	10,000,000.00	7.50
Total Pledged	<u>7.5</u>	<u>22,000,000.00</u>	<u>10.81</u>
<u>Loans to Alaska Municipalities</u>	.1	300,000.00	6.07
<u>TOTAL</u>	<u>100.0%</u>	<u>\$293,109,631.09</u>	<u>7.73</u>
<u>SEPARATELY INVESTED FUNDS</u>			
<u>AHFC Mortgage Insurance Fund</u>			
Savings Deposits		-0-	
Demand Deposits		-0-	
Purchased Interest Receivable		-0-	
Repurchase Agreements		-0-	
Certificates of Deposit	.4	1,001,314.64	14.10
Federal Agency Securities	4.8	12,207,756.40	13.06
U. S. Treasury Bills	1.1	2,880,931.79	14.07
U. S. Treasury Money Market	.4	1,108,211.54	N/A
U. S. Treasury Notes	2.9	7,347,125.00	11.45
Total	<u>9.6</u>	<u>24,545,348.37</u>	<u>12.15</u>
<u>Public School Fund</u>			
Certificates of Deposit	5.7	14,700,000.00	17.66
U. S. Treasury Notes & Bonds	2.0	5,042,735.16	10.42
Federal Agency Securities	2.6	6,733,318.75	7.66
Total	<u>10.3</u>	<u>26,476,053.91</u>	<u>13.74</u>
<u>U of A Permanent Fund</u>			
Certificates of Deposit	.9	2,400,000.00	17.75
U. S. Treasury Notes & Bonds	.4	1,006,863.62	8.49
Federal Agency Securities	.9	2,177,375.00	7.69
Total	<u>2.2</u>	<u>5,584,238.62</u>	<u>12.16</u>

Schedule Continued on following page

General and Segregated State Program Funds

COMPOSITION OF INVESTMENT HOLDINGS - Continued

<u>Asset Type</u>	<u>% of Total Cost Value</u>	<u>Current Month</u>	
		<u>Cost</u>	<u>Yield</u>
<u>SEPARATELY INVESTED FUNDS - Continued</u>			
<u>Power Development Fund</u>			
Savings Account	7	\$ 32,831.86	5.39
Repurchase Agreement	.4	900,000.00	13.00
Certificates of Deposit	33.1	85,000,000.00	12.96
Banker's Acceptances	26.9	69,041,879.53	12.28
Commercial Paper	7.5	19,283,680.56	13.22
U. S. Treasury Bills	10.0	25,774,024.12	12.06
Total	<u>77.9</u>	<u>200,032,416.07</u>	12.63
TOTAL	<u>100.0%</u>	<u>\$ 256,638,056.97</u>	12.69
<u>DEBT CERTIFICATES</u>	<u>100.0%</u>	<u>\$ 45,179,000.00</u>	8.85
<u>CERTIFICATES OF DEPOSIT</u>	<u>100.0%</u>	<u>\$ 72,960,000.00</u>	12.81
<u>COMMERCIAL FISHING & AGRICULTURE BANK</u>	<u>100.0%</u>	<u>\$ 31,800,000.00</u>	N/A
<u>SUMMARY OF COMPOSITION</u>			
Operating Account	.17	\$ 1,388,396.24	N/A
Marketable Securities Account	67.6	1,463,911,131.61	12.08
Loan and Mortgage Programs	13.5	293,109,631.09	7.73
Separately Invested Funds	11.8	256,638,056.97	12.69
Certificates of Deposits	3.4	72,960,000.00	12.81
Debt Certificates	2.1	45,179,000.00	8.85
Commercial Fishing & Agriculture Bank	1.5	31,800,000.00	N/A
TOTAL INVESTMENT HOLDINGS	<u>100.0</u>	<u>\$2,164,986,215.91</u>	11.34

STATE OF ALASKA
GENERAL AND SEGREGATED STATE PROGRAM FUNDS
SUMMARY OF ALASKA DEPOSITS

January 31, 1982

<u>Institution</u>	<u>Total</u>	<u>General Fund</u>	<u>Bond Construction</u>	<u>International Airport</u>
<u>Commercial Banks</u>				
Alaska Bank of Commerce	\$ 4,504,000	\$ 4,504,000	\$ -0-	\$ -0-
Alaska National Bank	1,572,000	1,572,000	-0-	-0-
Alaska Pacific Bank	-0-	-0-	-0-	-0-
Alaska Statebank	2,920,000	2,920,000	-0-	-0-
B. M. Behrends Bank	-0-	-0-	-0-	-0-
First National Bank - Anchorage	5,584,000	5,584,000	-0-	-0-
First National Bank - Fairbanks	-0-	-0-	-0-	-0-
First Bank - Ketchikan	556,000	556,000	-0-	-0-
National Bank of Alaska	6,680,000	6,680,000	-0-	-0-
Peoples Bank & Trust	200,000	200,000	-0-	-0-
Security National Bank	-0-	-0-	-0-	-0-
United Bank Alaska	4,550,000	1,550,000	3,000,000	-0-
Total	<u>26,566,000</u>	<u>23,566,000</u>	<u>3,000,000</u>	<u>-0-</u>
<u>Federal Credit Union</u>				
Alaska U. S. A. F.C.U.	12,000,000	-0-	12,000,000	-0-
Total	<u>12,000,000</u>	<u>-0-</u>	<u>12,000,000</u>	<u>-0-</u>
<u>Mutual Savings Banks</u>				
Alaska Mutual Savings Bank	1,344,000	1,344,000	-0-	-0-
Mt. McKinley Mutual Savings Bank	-0-	-0-	-0-	-0-
Total	<u>1,344,000</u>	<u>1,344,000</u>	<u>-0-</u>	<u>-0-</u>
<u>Savings & Loan Institutions</u>				
Fred Meyer S & L Anchorage	100,000	100,000	-0-	-0-
Peninsula S & L Soldotna	100,000	100,000	-0-	-0-
Alaska Federal S & L	9,000,000	-0-	9,000,000	-0-
First Federal S & L	1,000,000	1,000,000	-0-	-0-
Home Federal S & L	350,000	350,000	-0-	-0-
Total	<u>10,550,000</u>	<u>1,550,000</u>	<u>9,000,000</u>	<u>-0-</u>
TOTAL ALASKA DEPOSITS	<u>\$50,460,000</u>	<u>\$26,460,000</u>	<u>\$24,000,000</u>	<u>\$ -0-</u>
Other Deposits	<u>\$22,500,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$22,500,000</u>
TOTAL Certificates of Deposit	<u>\$72,960,000</u>	<u>\$26,460,000</u>	<u>\$24,000,000</u>	<u>\$22,500,000</u>

SUMMARY OF OPERATING ACCOUNT

<u>Institution</u>	<u>Location</u>	<u>Clearing Accounts</u>	<u>Compensating Balances</u>
Alaska National Bank	Fairbanks	\$73,396.24	\$1,000,000.00
Alaska Pacific Bank	Anchorage	-0-	60,000.00
American Security & Trust Co.	Washington, D. C.	-0-	25,000.00
B. M. Behrends Bank	Juneau	-0-	200,000.00
Pacific National Bank	Seattle	-0-	30,000.00
TOTAL		<u>\$73,396.24</u>	<u>\$1,315,000.00</u>

STATE OF ALASKA
GENERAL AND SEGREGATED STATE PROGRAM FUNDS
DEBT CERTIFICATES-- CREDIT UNIONS

January 31, 1982

<u>Description</u>	<u>Balance</u>	<u>Yield</u>
Alaska District Engineers FCU	\$ 960,000.00	
Alaska Feminist FCU	124,000.00	
A. L. P. FCU	975,000.00	
Alaska Municipal Employees FCU	1,840,000.00	
Alaska Railroad FCU	1,290,000.00	
Alaska School Employees FCU	3,530,000.00	
Alaska State Employees FCU	975,000.00	
Alaska Teamsters FCU	2,090,000.00	
Alaska U. S. A. FCU	19,860,000.00	
Bering Straits FCU	45,000.00	
Eielson Employees FCU	1,515,000.00	
Fed Alaska FCU	3,600,000.00	
Fort Wainwright FCU	1,165,000.00	
KPC Employees FCU	681,000.00	
Matanuska Valley FCU	1,230,000.00	
North Country FCU	313,000.00	
Northern School FCU	930,000.00	
R. A. A. FCU	694,000.00	
Skagway FCU	44,000.00	
Starliner FCU	293,000.00	
Tlingit & Haida FCU	478,000.00	
Tongas FCU	671,000.00	
Union Collier FCU	406,000.00	
Western Alaska Trades FCU	770,000.00	
Wein Employees FCU	700,000.00	
	<u>\$45,179,000.00</u>	
TOTAL		<u>8.85</u>

CHANGE IN PORTFOLIO COMPOSITION

	<u>Current Month</u>	<u>Year-to-Date</u>
<u>OPERATING ACCOUNT</u>		
<u>Net Contribution (to) From:</u>		
Taxes and Other Receipts	45,221,922.17	912,169,657.52
Loan and Mortgage Programs	4,669,465.51	52,123,753.57
Separately Invested Funds	(1,400,250.00)	(4,610,618.06)
Certificates of Deposit/Debt	4,595,099.40	7,099,635.56
State Operating Expenditures	(48,328,708.13)	(899,801,041.44)
Retirement Funds	(8,385,106.68)	(69,721,633.84)
Bank Accounts	-0-	20,469.60
	<u>\$ (3,627,577.73)</u>	<u>\$ (2,719,777.09)</u>

General and Segregated State Program Funds

CHANGE IN PORTFOLIO COMPOSITION - Continued

	<u>Current Month</u>	<u>Year-to-Date</u>
<u>MARKETABLE SECURITIES ACCOUNT</u>		
<u>During the Month Funds were Provided by:</u>		
Portfolio Operations:		
Interest Income	\$ 4,173,277.38	\$ 130,519,387.39
Net Gain (Loss) on Sale/Maturity of Securities	-0-	-0-
Total Provided by Operations	<u>4,173,277.38</u>	<u>130,519,387.39</u>
Sale of Marketable Securities	-0-	741,604,845.04
Maturity of Marketable Securities	156,958,553.68	2,485,977,995.37
Taxes and Other Receipts	266,642,205.38	1,740,194,330.16
Other Interest Earnings	-0-	3,030.24
Permanent Fund Income Transferred to General Fund	<u>-0-</u>	<u>931,481.21</u>
TOTAL Funds Provided During the Month	<u>427,774,036.44</u>	<u>5,099,231,069.41</u>
<u>During the Month Funds were Used for:</u>		
Purchase of Marketable Securities	265,597,529.19	2,850,065,852.57
Contribution to Power Development Fund	25,000,000.00	200,000,000.00
State Operating Expenditures	<u>151,000,000.00</u>	<u>2,013,600,000.00</u>
TOTAL Funds Used During the Month	<u>441,597,529.19</u>	<u>5,063,665,852.57</u>
NET CHANGE IN FUNDS	<u>\$(13,823,492.75)</u>	<u>\$ 35,565,216.84</u>
<u>LOAN AND MORTGAGE PROGRAMS</u>		
<u>During the Month Funds were Provided by:</u>		
Interest Income	\$ 2,342,400.71	\$ 15,934,426.90
Principal Repayments	2,327,064.80	34,207,384.67
Redemption of Certificates of Deposit	-0-	26,400,000.00
Net Contribution from Operating Account	<u>-0-</u>	<u>-0-</u>
TOTAL Funds Provided During the Month	<u>4,669,465.51</u>	<u>76,541,811.57</u>
<u>During the Month Funds were Used for:</u>		
Purchase of:		
Loans and Mortgages	-0-	1,168,058.00
Certificates of Deposit	<u>-0-</u>	<u>23,250,000.00</u>
Total Purchases	<u>-0-</u>	<u>24,418,058.00</u>
Net Contribution to Operating Account	<u>4,669,465.51</u>	<u>52,123,753.57</u>
TOTAL Funds Used During the Month	<u>4,669,465.51</u>	<u>76,541,811.57</u>
NET CHANGE IN FUNDS	<u>-0-</u>	<u>-0-</u>

General and Segregated State Program Funds

CHANGE IN PORTFOLIO COMPOSITION - Continued

	<u>Current Month</u>	<u>Year-to-Date</u>
<u>SEPARATELY INVESTED FUNDS</u>		
<u>During the Month Funds were Provided by:</u>		
Portfolio Operations:		
Interest Income	296,680.45	3,336,437.22
Net Gain (Loss) on Sale of Securities	-0-	937.50
Total Provided by Operations	<u>296,680.45</u>	<u>3,337,374.72</u>
Sale/Maturity of Marketable Securities	4,946,828.95	29,477,432.05
Net Contribution from Marketable Securities Account	25,000,000.00	200,000,000.00
Net Contribution from Operating Account	<u>1,400,250.00</u>	<u>5,069,280.56</u>
TOTAL Funds Provided During the Month	<u>31,643,759.40</u>	<u>237,884,087.33</u>
<u>During the Month Funds were Used for:</u>		
Purchase of Marketable Securities	31,539,220.52	236,594,848.20
Net Contribution to Operating Account	-0-	458,662.50
TOTAL Funds Used During the Month	<u>31,539,220.52</u>	<u>237,053,510.70</u>
NET CHANGE IN FUNDS	<u>\$ 104,538.88</u>	<u>\$ 830,576.63</u>
<u>CERTIFICATES OF DEPOSIT/DEBT CERTIFICATES</u>		
<u>During the Month Funds were Provided by:</u>		
Interest Income	\$ 2,595,099.40	\$ 7,751,301.39
Redemption of Deposit/Savings Certificates	29,500,000.00	80,637,244.86
Net Contribution from Operating Account	-0-	7,729,252.21
TOTAL Funds Provided During the Month	<u>32,095,099.40</u>	<u>96,117,798.46</u>
<u>During the Month Funds were Used for:</u>		
Purchase of Deposit/Savings Certificates	27,500,000.00	81,288,910.69
Purchase of Debt Certificates	-0-	-0-
Net Contribution to Operating Account	<u>4,595,099.40</u>	<u>14,828,887.77</u>
TOTAL Funds Used During the Month	<u>32,095,099.40</u>	<u>96,117,798.46</u>
NET CHANGE IN FUNDS	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>BANK ACCOUNTS</u>		
Interest from Bank Accounts	\$ -0-	\$ 20,469.60
Net Contribution to Operating Account	-0-	20,469.60
NET CHANGE IN FUNDS	<u>\$ -0-</u>	<u>\$ -0-</u>

General and Segregated State Program Funds

CHANGE IN PORTFOLIO COMPOSITION - Continued

	<u>Current Month</u>	<u>Year-to-Date</u>
<u>SUMMARY OF CHANGES</u>		
Operating Account	\$ (3,627,577.73)	\$(2,719,777.09)
Marketable Securities Account	(13,823,492.75)	35,565,216.84
Loan and Mortgage Programs	-0-	-0-
Separately Invested Funds	104,538.88	830,576.63
Certificates of Deposit/Debt	-0-	-0-
Bank Accounts	-0-	-0-
	<hr/>	<hr/>
NET CHANGE IN FUNDS	<u>\$(17,346,531.60)</u>	<u>\$33,676,016.38</u>