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COMMITTEE REPORT

HOUSE

FURTHER: FINANCE

(3)

3/7/62

Date: 3/7/62

Mr. Speaker:

The Committee on STATE AFFAIRS has had CSSSSF 654 (Fin) am.

"An Act relating to the investment and management of the Alaska permanent fund and to the computation of the income of the fund available for distribution; and providing for an effective date."

under consideration and reports it back as follows:

[] do pass [] do not pass

[] do pass with attached amendments(s)

[X] replace with CS for House CS [X] same title [] new title

and recommends _____

[] AND attaches a "Letter of Intent" [] New Fiscal Note

[X] reports it back without recommendation

[] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Raymond
CHAIRMAN

A M E N D M E N T

Offered in the HOUSE

By Metcalfe

TO: CSSSSB 684 (Fin) am

Page 1, line 11 - page 10, line 7:

Delete all material and insert:

* Section 1. AS 37.13.050 is amended to read:

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

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

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

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

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

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

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

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

(b) A vacancy on the board shall be promptly filled by appointment by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the

board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGISLATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGISLATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

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

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

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

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

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

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

(2) obligations secured by reserves paid in by the United

States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit and term deposits of [ISSUED BY] United States domestic banks which are members of the Federal Deposit Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or which are fully secured at all times as to payment of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) - (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

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

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

(6) certificates of deposit and term deposits of [DEPOSITS

WITH] mutual savings banks in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

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

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

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

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

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

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration [ASSOCIATION];

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

Home Administration;

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

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

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

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

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

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

(19) debt securities of foreign governments or corporations and preferred and common stock of foreign corporations which are of substantially equivalent quality as those domestic securities permitted under this section;

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

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

(A) in a corporation, partnership, trust, or other

entity in which, at the conclusion of each investment transaction, at least 60 percent of the beneficial ownership interests are held by other institutional investors, and which is organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds which has had at least five years of experience in the management of real estate investments of institutional investors; or

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

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

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

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

(23) obligations issued by an agency of the state if the obligations and the interest on them are taxable under federal law.

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

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

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

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

(n) Certificates of deposit or the equivalent instruments may not be purchased from a bank doing business in Alaska unless the in-state

loan-to-deposit ratio of that bank as determined by the division of banking of the Department of Commerce and Economic Development for the last full quarter preceding the purchase is not more than five percent less than the in-state loan-to-deposit average ratio for all banks doing business in Alaska for that quarter.

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

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

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

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

Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues generated by the corporation's investments must be identified as the source of the operating budget of the corporation in the state's operating budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-

ance of the corporation's annual operating budget does not lapse at the end of the fiscal year but shall be treated as income under AS 37.13.140.

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

Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Committee may [SHALL] provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

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

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

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

* Sec. 13. This Act takes effect July 1, 1982.