

HB

42

# STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

## LEGISLATIVE AFFAIRS AGENCY LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H HESS	2-27-87	8:30 a.m.
" "	2-19-87	" "
" "	2-20-87	" "

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: CS HB 42 (HESS)  
Publish Date: \_\_\_\_\_

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: University Fund

Agency Affected: Department of Revenue  
ERU: Treasury

Sponsor: House HESS  
Requestor: House HESS

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	22.8	61.1	119.1	198.1
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	22.8	61.1	119.1	198.1
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	22.8	61.1	119.1	198.1
TOTAL	-	-	22.8	61.1	119.1	198.1

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB  
Division: Treasury

Phone: 465-2350  
Date: February 23, 1987

Approved by Commissioner: Hugh Malone  
Agency: Department of Revenue

Date: 2/25/87

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)  
Senate Secretary

University Fund  
(\$ 000)

<u>Fiscal Year</u>	<u>Principal Balance</u>	<u>Securities Safekeeping Fees</u>	<u>Common Stock Management Fees</u>	<u>Performance Measurement Fees</u>	<u>Total Fees</u>
1989	15,800.0	.8	10.0	12.0	22.8
1990	48,900.0	2.6	46.5	12.0	61.1
1991	81,100.0	4.3	102.8	12.0	119.1
1992	113,600.0	6.0	180.1	12.0	198.1

Notes:

1. From 2-13-87 HB 42/HJR 2 Fiscal Note prepared by Robert Elliott, Department of Revenue
2. Column 1 x 5.25¢/\$1,000, per contract
3. Column 1 x .317%, per contract, x 20%, 30%, 40%, and 50% allocation to stocks for FY 89-92, respectively
4. Per contract
5. Column: 2 + 3 + 4

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

REQUEST \_\_\_\_\_

Bill Version: HB 42/HJR 2  
Publish Date: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: Creating the University Fund

Agency Affected: Revenue  
BRU: \_\_\_\_\_

Sponsor: Boucher  
Requestor: \_\_\_\_\_

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

FUNDING: (Millions of Dollars)

GENERAL FUND	-	-	(16.3)	(34.1)	(33.2)	(33.5)
UNIV. FUND PRIN. BALANCE	-	-	15.8	48.9	81.1	113.6
UNIV. FUND INCOME	-	-	.5	1.9	3.9	5.8
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

See attached.

Prepared By: Robert Elliott *RE*  
Division: Research/Revenue

Phone: 465-2173  
Date: 2/13/87

Approved by Commissioner: *H. Mulla*  
Agency: \_\_\_\_\_

Date: 2/12/87

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

Continuation of Fiscal Note Analysis

For Bill/Resolution No. HB 42/HJR 2

Analysis:

Figures are based on estimated mineral revenues for January 1987 Revenue Sources, and assume a six percent nominal interest rate and voter approval of the Constitutional Amendment. University Fund Income represents amount transferred to the Board of Regents at the end of each fiscal year. The above decrease in General Fund revenues includes not only the loss of mineral revenues but the subsequent decrease in General Fund investment earnings. Estimated revenues from proposed bonus sales were not included since bids are impossible to anticipate prior to sales.

Page 2 of 2

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: HB 42/HJR 2  
Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: University Fund

Agency Affected: Permanent Fund Corp.  
BRU: \_\_\_\_\_

Sponsor: Rep. Boucher  
Requestor: \_\_\_\_\_

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES		241.2	255.7	271.0	287.3	304.5
TRAVEL		31.0	32.9	34.8	36.9	39.1
CONTRACTUAL		192.8	204.4	216.6	229.6	243.4
SUPPLIES		3.2	3.4	3.6	3.8	4.0
EQUIPMENT	-	17.2	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	485.4	496.4	526.0	557.6	591.0
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	5	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

\* According to constitutional provision Article 9, Section 15 funds cannot be comingled with Permanent Fund Assets.

Prepared By: Royce Weller *FOR P.F.C.* Phone: 465-2300  
Division: Revenue/Commissioner's Office Date: 2/18/87

Approved by Commissioner: Hugh Malone *H.M.* Date: 2/18/87  
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)  
Senate Secretary

NOTE: THIS FISCAL NOTE IS BASED ON INFORMATION SUPPLIED BY THE PERMANENT FUND CORPORATION. *H.M.*  
page 1 of 1

# HOUSE COMMITTEE REPORT

3/2

(7)

Date referred: 1/19/87

FURTHER REFERRALS: Finance

DATE: \_\_\_\_\_

The Health, Education and Social Services Committee has considered HB 42

"An Act relating to the university fund; and providing for an effective date.

**RECOMMENDS:**

- replace with CSHB 42 (Hess)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- 2 fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING TO PASS:**

*Nita Kojima*

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

ROD E. PELLERIN - No Rec.

J. Ellis - no rec.

Mrs. [unclear] / no rec.

[unclear]

Wendy Jouley - no rec.

Clyde [unclear] - No Rec.

*J. Ellis*  
CO-chairman's signature

*Nita Kojima*

HB 42 -- "An Act relating to the university fund; and providing for an effective date."

FILE CONTENTS

- 1) Copy of HB 42
- 2) Memo from staff
- 3) Fiscal note from Department of Revenue
- 4) Fiscal note from Alaska Permanent Fund Corporation
- 5) Memo from bill sponsor, Rep. Boucher
- 6) Department of Revenue's General Investment Policies
- 7) Draft of Committee Substitute for HB 42 (HESS)



Alaska State Legislature  
House of Representatives  
COMMITTEE ON HEALTH, EDUCATION  
AND SOCIAL SERVICES

OFFICIAL BUSINESS

POUCH V  
JUNEAU, AK 99811  
465-3759

February 18, 1987

M E M O R A N D U M

TO: House HESS Committee members  
FROM: HESS Committee staff  
SUBJECT: HB 42 and HJR 2

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Section (1) (c) of HB 42 requires the Alaska Permanent Fund Corporation to also manage the university fund. While the Corporation has prepared a fiscal note, the Trustees of the Alaska Permanent Fund have not taken an official position on HB 42. Jim Kelly, from the Corporation, indicated that HB 42 will be on the agenda for the next board meeting, March 9, 1987. After that time, the Corporation will be prepared to present its position to the next committee of referral, House Finance, if the HESS committee passes out the bill before then.

# Alaska State Legislature

POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-4931

DISTRICT 10  
BOX 111038  
ANCHORAGE, ALASKA 99511  
(907) 349-2192



CHAIRMAN  
Special Committee on  
Telecommunications

MEMBER  
Labor and Commerce  
State Affairs  
Finance—Subcommittee Administration

Representative H. A. "Red" Boucher

## MEMORANDUM

February 16, 1987

TO: Representative Koponen, Co-Chairman  
Representative Ellis, Co-Chairman  
Health, Education and Social Services Committee

FROM: Representative Boucher

SUBJECT: Background on House Bill 42, an Act relating to the university fund; and providing for an effective date.

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House Bill 42 has been referred to your committee for consideration. This bill represents an effort to provide a stable source of funding for the university system. House Bill 42 is the accompanying legislation which amends the Constitution and places a ballot question before the voters in the 1988 General Election to create a University Fund.

This fund would be capitalized by 5% of the mineral royalty income received by the state after January 1, 1989. That amount is estimated as follows for the next four years:

<u>YEAR</u>	<u>TOTAL AMOUNT (MILLIONS OF DOLLARS)</u>
FY 89	\$16.3
FY 90	34.1
FY 91	33.2
FY 92	33.5

These estimates were derived from the Department of Revenue's estimated mineral revenues for January 1987 Revenue Sources. They reflect the loss of mineral revenues and the subsequent decrease in General Fund investment earnings.

HB 42 Background, Page Two

All income received from the University Fund would be transferred to the Board of Regents to be used for the University. Legislative appropriation would not be required to spend the money.

The University Fund would be handled by the Permanent Fund Corporation, and current investment procedures of the Permanent Fund would be followed, with allowances for additional legislative appropriations.



**Alaska State Legislature**  
**House of Representatives**  
 COMMITTEE ON HEALTH, EDUCATION  
 AND SOCIAL SERVICES

GUEST SIGN IN SHEET

JOINT MEETING OF SENATE AND HOUSE HESS COMMITTEES

Date: 2/20/87 Subject of Meeting Mental Health Trust Lands, HTR 2, HB 42 (House Only)

Name	Address / Representing	Phone	Do you want to Testify?
Karen Perdue	Box H-01 DASS	3030	NO
Dee W. Rogers	1790 Evergreen Ave - Int M.H. Commi POB 7005 Anch AK	586-1202	Yes
Anthony Broderick	99510 DNR	762-4344	NO

Original sponsor: Boucher

1 IN THE HOUSE

BY THE HEALTH, EDUCATION AND  
SOCIAL SERVICES COMMITTEE

2 CS FOR HOUSE BILL NO. 42 (HESS)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

9 \* Section 1. AS 37.14 is amended by adding new sections to read:

10 Sec. 37.14.300. UNIVERSITY FUND. (a) There is established as a  
11 separate endowment trust fund the university fund consisting of

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

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

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

22 (c) The net income of the university fund shall be determined by  
23 the commissioner of revenue in accordance with investment accounting  
24 principles and in a manner that preserves the distinction between  
25 principal and income.

26 Sec. 37.14.310. FUND USE. (a) The principal of the university  
27 fund and the capital gains or losses realized on the principal shall  
28 be perpetually retained in the fund for investment purposes.

29 (b) At the end of each fiscal year the net income from the

1 university fund as determined under AS 37.14.300(c) shall be trans-  
2 ferred to the Board of Regents of the University of Alaska. Income of  
3 the university fund transferred to the Board of Regents of the Univer-  
4 sity of Alaska under this section shall be used for the University of  
5 Alaska under AS 14.40 and other applicable provisions of law.

6 (c) Realized net income that has not been transferred to the  
7 Board of Regents of the University of Alaska under (b) of this section  
8 shall be invested until transferred.

9 Sec. 37.14.320. DUTIES OF THE COMMISSIONER OF REVENUE. The  
10 commissioner of revenue is the treasurer of the university fund and  
11 shall

12 (1) act as official custodian of the cash and investments  
13 belonging to the fund by securing adequate and safe custodial facil-  
14 ities;

15 (2) receive all items of cash and investments belonging to  
16 the fund;

17 (3) collect the principal and income from investments owned  
18 or acquired by the state treasury and deposit the amounts in separate  
19 principal and income accounts for the fund;

20 (4) invest and reinvest the assets of the fund under  
21 AS 37.14.330;

22 (5) generally exercise the powers of an owner with respect  
23 to the assets of the fund;

24 (6) do all acts, whether or not expressly authorized, that  
25 the commissioner of revenue considers necessary or proper in adminis-  
26 tering the assets of the fund;

27 (7) maintain accounting records of the fund under invest-  
28 ment accounting principles and with distinction between the principal  
29 and income accounts of the fund;

1 (8) contract with an independent firm of certified public  
2 accountants to annually audit the financial condition of the fund's  
3 investments and investment transactions;

4 (9) enter into and enforce all contracts or agreements  
5 considered necessary, convenient, or desirable for the investment  
6 purposes of the fund; and

7 (10) report to the Board of Regents of the University of  
8 Alaska the condition and investment performance of the fund.

9 Sec. 37.14.330. INVESTMENTS. (a) The commissioner of revenue  
10 is the fiduciary of the university fund and shall invest the fund to  
11 provide increasing net income over long-term periods. In investing  
12 the assets of the fund the commissioner of revenue shall exercise the  
13 judgment and care under the circumstances then prevailing that an  
14 institutional investor of ordinary professional prudence, discretion,  
15 and intelligence exercises in managing large trust investments with  
16 consideration for the purpose of the funds, the investment objectives,  
17 the continuing disposition of the fund's investments, and the probable  
18 safety of the capital as well as the probable investment returns.

19 (b) In managing the university fund, the commissioner of revenue  
20 shall

21 (1) consider the status and income of the fund's capital on  
22 both a current and a probable future basis;

23 (2) determine the appropriate investment objectives;

24 (3) establish investment policies aimed at achieving the  
25 objectives; and

26 (4) act only in regard to the long-term financial interests  
27 of the fund's beneficiaries.

28 (c) The discretionary acquisition or disposition of investments  
29 in the fund shall be at competitive national or international market

1 rates or prices or the equivalent in the judgment of the commissioner  
2 of revenue.

3 (d) In exercising the duties and powers set out in this section  
4 and AS 37.14.320, the commissioner of revenue may

5 (1) delegate investment, custodial, or depository authority  
6 on a discretionary or nondiscretionary basis to officers or employees  
7 of the state or to independent firms, banks, or trust companies, by  
8 designation through appointments, contracts, or letters of authority;

9 (2) invest the university fund on the basis of probable  
10 total rate of return as a means of promoting the long-term generation  
11 of income;

12 (3) acquire or dispose of investments, either directly,  
13 indirectly, or through investment pools or trusts, by competitive or  
14 negotiated agreements, contracts, or auctions, in public or private  
15 markets;

16 (4) concentrate or diversify the investments of the univer-  
17 sity fund as appropriate in order to increase the probable total rate  
18 of return on the fund or to decrease the fund's overall exposure to  
19 potentially adverse market value risks;

20 (5) protect the market value or the rate of return of the  
21 university fund's investments by entering into forward agreements to  
22 buy or sell assets at a future date as a hedge against existing held  
23 assets or as a precommitment of future cash flows;

24 (6) lend under an agreement and for a fee assets of the  
25 university fund against deposited collateral of equivalent market  
26 value;

27 (7) hold investments in bearer form or in registered form  
28 in the name of the university fund or authorized nominees;

29 (8) use consultants, advisers, custodians, investment

1 services, and legal counsel for assistance in investment matters on  
2 either a continuing or a limited term basis and with or without com-  
3 pensation; and

4 (9) withhold information that discloses the particulars of  
5 the business or the affairs of a private enterprise, investor, bor-  
6 rower, adviser, consultant, counsel, or manager as confidential and  
7 nonpublic records subject to disclosure only as required in a court  
8 proceeding or for purposes of an official law enforcement proceeding.

9 \* Sec. 2. This Act takes effect on the effective date of a constitu-  
10 tional amendment establishing a university fund.