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# HOUSE COMMITTEE REPORT

FILE

(11)

Date Referred: April 2, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/22/90

The FINANCE Committee considered:

HB 589

HOUSE BILL NO. 589

PERMANENT FUND TECHNICAL AMENDMENTS

"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."

**RECOMMENDATIONS:**

- [  ] be replaced with CS HB 589 (FIN) [  ] the same title
- [  ] have 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): \_\_\_\_\_ APPROVES PREVIOUS: \_\_\_\_\_ (Date/Dept)

(Dept)

- [  ] fiscal impact \_\_\_\_\_ [  ] fiscal note(s) \_\_\_\_\_
- [  ] zero fiscal note \_\_\_\_\_ [  ] zero fiscal note(s) 4/2/90/4. SA CMTE.
- [  ] zero with analysis \_\_\_\_\_ [  ] zero fn/analysis \_\_\_\_\_

**SIGNING DO PASS:**

**SIGNING:**

(Check approp. column)

Do Not Pass    No Rec    Amend

[Signature] Swackhammer

[Signature] Brown

[Signature] Koponen

[Signature] Ulmer

<u>[Signature]</u>			
<u>[Signature]</u>			
<u>[Signature]</u>			✓
<u>[Signature]</u>		✓	
<u>[Signature]</u>		✓	

[Signature]  
Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: \_\_\_\_\_  
 Title: Permanent Fund Technical BRU: \_\_\_\_\_  
Amendments \_\_\_\_\_  
 Sponsor: House State Affairs Components: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

No fiscal impact.

Prepared by: House State Affairs  
 Division: \_\_\_\_\_  
 Approved by Commissioner: H. A. "Red" Boucher  
 Agency: \_\_\_\_\_

Phone: 465-4963  
 Date: March 28, 1990  
 Date: March 28, 1990

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

Adopted

Original sponsor(s): State Affairs Committee

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 589 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the permanent fund and the Alaska  
7 Permanent Fund Corporation; and providing for an  
8 effective date."

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

10 \* Section 1. AS 37.13.010(a) is amended to read:

11 (a) Under art. IX, sec. 15 of the state constitution, there is  
12 established as a separate fund the Alaska permanent fund. The [ALASKA  
13 PERMANENT] fund consists of

14 (1) 25 percent of all mineral lease rentals, royalties,  
15 royalty sale proceeds, net profit shares under AS 38.05.180(f) and  
16 (g), and federal mineral revenue sharing payments received by the  
17 state from mineral leases issued on or before December 1, 1979, and 25  
18 percent of all bonuses received by the state from mineral leases  
19 issued on or before February 15, 1980;

20 (2) 50 percent of all mineral lease rentals, royalties,  
21 royalty sale proceeds, net profit shares under AS 38.05.180(f) and  
22 (g), and federal mineral revenue sharing payments received by the  
23 state from mineral leases issued after December 1, 1979, and 50 per-  
24 cent of all bonuses received by the state from mineral leases issued  
25 after February 15, 1980;

26 (3) interest earned by the state on money described in (1)  
27 and (2) of this subsection before that money is deposited in the fund;

28 (4) any other money appropriated to or otherwise allocated  
29 by law to the [ALASKA PERMANENT] fund.

1 \* Sec. 2. AS 37.13.020 is amended to read:

2           Sec. 37.13.020. FINDINGS. The people of the state, by constitu-  
3 tional amendment, have required the placement of at least 25 percent  
4 of all mineral lease rentals, royalties, royalty sale proceeds, and  
5 federal mineral revenue sharing payments and bonuses received by the  
6 state into a permanent fund. The legislature finds with respect to  
7 the fund [ALASKA PERMANENT FUND CORPORATION] that

8           (1) the fund [CORPORATION] should provide a means of con-  
9 serving a portion of the state's revenue from mineral resources to  
10 benefit all generations of Alaskans;

11           (2) the fund's [CORPORATION'S] goal should be to maintain  
12 safety of principal while maximizing total return;

13           (3) the fund [CORPORATION] should be used as a savings  
14 device managed to allow the maximum use of disposable income from the  
15 fund [CORPORATION] for purposes designated by law.

16 \* Sec. 3. AS 37.13.030 is amended to read:

17           Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to  
18 provide a mechanism for the management and investment of those [PERMA-  
19 NENT] fund assets by [ALLOCATED TO] the Alaska Permanent Fund Corpora-  
20 tion in a manner consistent with the findings in AS 37.13.020.

21 \* Sec. 4. AS 37.13.040 is amended to read:

22           Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is  
23 established the Alaska Permanent Fund Corporation. The corporation is  
24 a public corporation and government instrumentality in the Department  
25 of Revenue managed by the board of trustees. The purpose of the  
26 corporation [BOARD] is to manage and invest the assets of the perma-  
27 nent fund and other funds designated by law [CORPORATION] in accor-  
28 dance with this chapter.

29 \* Sec. 5. AS 37.13.060 is amended to read:

1           Sec. 37.13.060. TERM OF OFFICE. The public members of the board  
2 shall be appointed for terms of six [FOUR] years, and they may be  
3 reappointed. The terms of the public members shall be staggered so  
4 that no more than one term of a public member expires each year.

5 \* Sec. 6. AS 37.13.110(b) is amended to read:

6           (b) If a member of the board or an employee of the corporation  
7 acquires, owns, or controls an interest, direct or indirect, in an  
8 entity or project in which fund [CORPORATION] assets are invested, the  
9 member shall immediately disclose the interest to the board. The  
10 disclosure is a matter of public record and shall be included in the  
11 minutes of the board meeting next following the disclosure.

12 \* Sec. 7. AS 37.13.120(a) is amended to read:

13           (a) The prudent-man rule shall be applied by the board in the  
14 management and investment of [ALASKA PERMANENT] fund assets. The  
15 prudent-man rule as applied to investments of the fund [CORPORATION]  
16 means that in making investments the board shall exercise the judgment  
17 and care under the circumstances then prevailing that an institutional  
18 investor of ordinary prudence, discretion, and intelligence exercises  
19 in the management of large investments entrusted to it not in regard  
20 to speculation but in regard to the permanent disposition of funds,  
21 considering probable safety of capital as well as probable income.

22 \* Sec. 8. AS 37.13.120(b) is amended to read:

23           (b) The fund [CORPORATION] assets shall only be used for income-  
24 producing investments.

25 \* Sec. 9. AS 37.13.120(e) is amended to read:

26           (e) The corporation may not borrow money [FUNDS] or guarantee  
27 from principal of the [ALASKA PERMANENT] fund the obligations of  
28 others.

29 \* Sec. 10. AS 37.13.120(g) is amended to read:

1 (g) Subject to the limitations contained in this section, the  
2 board may invest fund [CORPORATION] assets at the competitive national  
3 market rates or prices that are applicable to each investment only in

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

7 (2) obligations secured by reserve paid in by the United  
8 States or agencies or instrumentalities of the United States or obli-  
9 gations of corporations in which the United States is a shareholder or  
10 member;

11 (3) certificates of deposit and term deposits of United  
12 States domestic banks that are members of the Federal Deposit Insur-  
13 ance Corporation and that may be readily sold in a secondary market at  
14 prices reflecting fair value or that are fully secured at all times as  
15 to payment of principal and interest as described in (m) of this  
16 section;

17 (4) [CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF FEDERALLY  
18 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN ALASKA THAT MAY BE READILY  
19 SOLD IN A SECONDARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE  
20 FULLY SECURED AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS  
21 DESCRIBED IN (m) OF THIS SECTION;

22 (5) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF STATE  
23 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN ALASKA THAT MAY BE READILY  
24 SOLD IN A SECONDARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE  
25 FULLY SECURED AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS  
26 DESCRIBED IN (m) OF THIS SECTION;

27 (6) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF MUTUAL  
28 SAVINGS BANKS IN ALASKA THAT MAY BE READILY SOLD IN A SECONDARY MARKET  
29 AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED AT ALL TIMES

1 AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN (m) OF THIS  
2 SECTION;

3 (7) FIXED-TERM CERTIFICATES OF INDEBTEDNESS OF FEDERALLY  
4 INSURED CREDIT UNIONS IN ALASKA THAT MAY BE READILY SOLD IN A SECON-  
5 DARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED  
6 AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN  
7 (m) OF THIS SECTION;

8 (8)] domestic corporate debt securities that are rated AA  
9 or better by a nationally recognized rating service, or nondomestic  
10 corporate debt securities of comparable quality;

11 (5) [(9)] short-term

12 (A) domestic corporate promissory notes of the highest  
13 ratings assigned by a nationally recognized rating service; [,]  
14 or

15 (B) nondomestic corporate promissory notes of compara-  
16 ble quality, the interest on which may be payable in either  
17 United States dollars or nondomestic currencies;

18 (6) [(10)] bankers' acceptances drawn on and accepted by  
19 United States banks each of which has a combined capital and surplus  
20 aggregating at least \$200,000,000;

21 (7) [(11)] repurchase agreements, the securities underlying  
22 the agreements being any of the items in (1) - (6) [(1) - (3) AND  
23 (8) - (10)] of this subsection;

24 (8) [(12) THE GUARANTEED PORTION OF FEDERAL SMALL BUSINESS  
25 ADMINISTRATION LOANS;

26 (13) THE PORTION OF FIRST LIEN REAL ESTATE MORTGAGES GUARAN-  
27 TEED BY THE FEDERAL VETERANS ADMINISTRATION;

28 (14)] the portions of business and industrial loans made

1 Farmers Home Administration;

2 (9) [(15)] the guaranteed portion of Farmers Home Adminis-  
3 tration loans;

4 (10) [(16)] notes secured by mortgages granting a first lien  
5 on [COMMERCIAL OR] residential real estate improved by completed  
6 buildings if the mortgages are insured by a private mortgage insurance  
7 corporation that is authorized to do business in this state [ALASKA]  
8 and has combined capital and surplus aggregating at least \$20,000,000,  
9 and if loan-to-value ratios do not exceed [75 PERCENT FOR COMMERCIAL  
10 MORTGAGES AND] 90 percent [FOR RESIDENTIAL MORTGAGES]; however,

11 [(A) MORTGAGE INSURANCE IS NOT NECESSARY FOR COMMERCIAL  
12 LOANS HAVING LOAN-TO-VALUE RATIOS OF LESS THAN 50 PERCENT AND THE  
13 MINIMUM COVERAGE OF OTHER COMMERCIAL LOANS SHALL BE 10 PERCENT  
14 FOR THOSE HAVING A LOAN-TO-VALUE RATIO OF 50 - 60 PERCENT AND 15  
15 PERCENT FOR THOSE HAVING A LOAN-TO-VALUE RATIO GREATER THAN 60  
16 PERCENT BUT NO MORE THAN 75 PERCENT; AND

17 (B)] mortgage insurance is not necessary for residen-  
18 tial loans having a loan-to-value ratio of less than 70 percent  
19 and the minimum coverage of other residential loans shall be 10  
20 percent for those having a loan-to-value ratio greater than 70  
21 percent but less than 90 percent and 20 percent for those having  
22 a loan-to-value ratio of 90 percent;

23 (11) [(17) NOTES SECURED BY MORTGAGES GRANTING A FIRST LIEN  
24 ON COMMERCIAL REAL ESTATE IMPROVED BY COMPLETED BUILDINGS IF THE  
25 ORIGINATING FINANCIAL INSTITUTION RETAINS AT LEAST 25 PERCENT OF THE  
26 MORTGAGE UNTIL MATURITY;

27 (18)] preferred and common stock of corporations incorpo-  
28 rated in the United States;

29 (12) [(19)] certificates of deposit, term deposits, or

1 bankers' acceptances, that are issued by a United States or nondomes-  
2 tic bank or trust company located outside of the United States and are  
3 denominated in United States or nondomestic currency, if either (A)  
4 they may be readily sold in a secondary market at prices reflecting  
5 fair value, or (B) the issuing bank or trust company has capital,  
6 surplus, and retained earnings at the date of issue equaling at least  
7 \$500,000,000; investments made under this paragraph are not subject to  
8 the collateral requirements for domestic certificates under (m) of  
9 this section;

10 (13) [~~(20)~~] equity interests in, and debt obligations  
11 secured by mortgages granting a first lien on, real estate improved by  
12 completed and substantially rented buildings and located in the United  
13 States, if these investments are made

14 (A) in a corporation, partnership, trust, or other  
15 entity in which, at the conclusion of each investment trans-  
16 action, at least 60 percent of the beneficial ownership interests  
17 are held by other institutional investors, and which is organized  
18 and operated for the purpose of making real estate investments by  
19 a bank, insurance company, or other manager of institutional  
20 funds that has had at least five years of experience in the  
21 management of real estate investments of institutional investors;  
22 or

23 (B) with corporations, partnerships, trusts, or en-  
24 tities in which, at the conclusion of each investment trans-  
25 action, at least 60 percent of the beneficial ownership interests  
26 in the co-investing entity or entities as a whole are held by  
27 institutional investors, if

28 (i) at the time of investment the fund has no  
29 more than a 40 percent beneficial ownership interest in the

1           real estate invested in as a whole;

2                   (ii) the rights and obligations of the fund are  
3 substantially similar to those of the other institutional  
4 investors, except for the percentage interest in the proper-  
5 ty; and

6                   (iii) the property is managed and operated by an  
7 entity that has had at least five years of experience in the  
8 management of real estate investments of institutional  
9 investors [IN CONJUNCTION WITH AND ON SUBSTANTIALLY THE SAME  
10 TERMS AS AN ENTITY DESCRIBED IN (A) OF THIS PARAGRAPH];

11           (14) [(21)] securities of non-domestic governments and  
12 non-domestic government agencies, the principal of, or interest on,  
13 which is payable in either United States dollars or non-domestic  
14 currencies;

15           (15) [(22)] securities of non-domestic corporations, includ-  
16 ing common and preferred stock, whose dividends, if any, may be pay-  
17 able in either United States dollars or non-domestic currencies;

18           (16) taxable municipal or state debt securities that are  
19 rated "AA" or better by a nationally recognized rating service.

20 \* Sec. 11. AS 37.13.120(i) is amended to read:

21           (i) The [ALASKA PERMANENT] fund may at no time own more than  
22 five percent of the voting stock of a corporation. Domestic stocks,  
23 except for bank and insurance company stocks, must be listed at the  
24 date of purchase on an exchange registered with the Securities and  
25 Exchange Commission. At the time of each investment, the aggregate  
26 investment of the fund in each stated category of investment may not  
27 exceed the following stated percentage of the total investments of the  
28 fund:

29                   (1) mortgages under (g)(10) [(g)(16)] of this section - 15

1 percent;

2 (2) real estate investments under (g)(13) [(g)(20)] of this  
3 section - 15 percent;

4 (3) certificates of deposit, term deposit, or bankers'  
5 acceptances under (g)(12) [(g)(19)] of this section - 20 percent;

6 (4) securities of nondomestic governments, nondomestic  
7 government agencies, and nondomestic corporations under (g)(4), (14),  
8 and (15) [(g)(8), (21), AND (22)] of this section, domestic corporate  
9 stocks and debt securities under (g)(4) [(g)(8)] and (11) [(18)] of  
10 this section, and short-term nondomestic corporate promissory notes  
11 under (g)(5)(B) [(g)(9)(B)] of this section - 50 percent.

12 \* Sec. 12. AS 37.13.120(j) is amended to read:

13 (j) The assets of the [ALASKA PERMANENT] fund may not be used  
14 for the purchase of bonds of a corporation, upon which any regular  
15 interest payment has been defaulted within five years before purchase,  
16 except bonds never in default but which have been outstanding for less  
17 than five years.

18 \* Sec. 13. AS 37.13.120(k) is amended to read:

19 (k) The board shall establish and from time to time as necessary  
20 modify guidelines for the investment of the assets of the fund [CORPO-  
21 RATION]. Before adoption of any guidelines the guidelines shall be  
22 reported to the Legislative Budget and Audit Committee for review and  
23 comment.

24 \* Sec. 14. AS 37.13.120(1) is amended to read:

25 (1) The board shall invest the assets of the fund [CORPORATION]  
26 in in-state investments to the extent in-state investments are avail-  
27 able if the in-state investments

28 (1) have a risk level and expected yield comparable to  
29 alternate investment opportunities; and

1 (2) are included in the list of permissible investments in  
2 (g) of this section.

3 \* Sec. 15. AS 37.13.120(m) is amended to read:

4 (m) Certificates of deposit or the equivalent instruments that  
5 are not of a quality that may be readily sold in a secondary market at  
6 prices reflecting fair value must be secured by a pledge as collateral  
7 of

8 (1) investments authorized for the [ALASKA PERMANENT] fund  
9 under (g)(1), (2), (4), or (8) - (10) [(8), OR (12) - (17)] of this  
10 section;

11 (2) [OR BY A PLEDGE AS COLLATERAL OF] obligations of the  
12 state or instrumentalities of the state that are rated at least "A" by  
13 a major bond rating service and have a demonstrated secondary market,  
14 which investments or obligations have value at least equal to the face  
15 value of the certificate of deposit;

16 (3) the guaranteed portion of Federal Small Business Admin-  
17 istration loans;

18 (4) the portion of first lien real estate mortgages guaran-  
19 teed by the federal Veterans Administration; or

20 (5) notes secured by mortgages granting a first lien on  
21 commercial or residential real estate improved by completed buildings  
22 if the originating financial institution retains at least 25 percent  
23 of the mortgage until maturity. [THE BOARD MAY REQUIRE SUBSTITUTION  
24 OF COLLATERAL IN ORDER TO ENSURE CONTINUED SATISFACTION OF THE RE-  
25 QUIREMENTS SET OUT IN THIS SUBSECTION.]

26 \* Sec. 16. AS 37.13.120 is amended by adding a new subsection to read:

27 (n) The board may require substitution of collateral in order to  
28 ensure continued satisfaction of the requirements set out in (m) of  
29 this section.

1 \* Sec. 17. AS 37.13.140 is amended to read:

2       Sec. 37.13.140. INCOME. Net income of the fund includes income  
3 of the earnings reserve account established under AS 37.13.145. Net  
4 income [CORPORATION] shall be computed annually as of the last day of  
5 the fiscal year in accordance with generally accepted accounting  
6 principles, excluding any unrealized gains or losses. Income avail-  
7 able for distribution equals 21 percent of the net income of the fund  
8 [CORPORATION] for the last five fiscal years, including the fiscal  
9 year just ended, or [BUT MAY NOT EXCEED] net income of the corporation  
10 for the fiscal year just ended plus the balance in the earnings re-  
11 serve account, whichever is less [DESCRIBED IN AS 37.13.145].

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

13       Sec. 37.13.150. CORPORATION BUDGET. The revenue generated by  
14 the fund's [CORPORATION'S] investments must be identified as the  
15 source of the operating budget of the corporation in the state's  
16 operating budget under AS 37.07 (Executive Budget Act). The unexpend-  
17 ed balance of the corporation's annual operating budget does not lapse  
18 at the end of the fiscal year but shall be treated as income under  
19 AS 37.13.140.

20 \* Sec. 19. AS 37.13.160 is amended to read:

21       Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Com-  
22 mittee may provide for an annual post audit and annual operational and  
23 performance evaluations of the fund's [CORPORATION'S] investments and  
24 investment programs.

25 \* Sec. 20. AS 37.13.170 is amended to read:

26       Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of  
27 each year, the board shall publish a report of the fund [CORPORATION]  
28 for distribution to the governor, legislature, and the public. The  
29 report shall be written in easily understandable language. The report

1 must include financial statements audited by independent outside  
2 auditors, a statement of the amount of money received by the [ALASKA  
3 PERMANENT] fund from each investment during the period covered, a  
4 statement of investments of the fund [CORPORATION] including an ap-  
5 praisal at market value, a description of fund [CORPORATION] invest-  
6 ment activity during the period covered by the report, a comparison of  
7 the fund [CORPORATION] performance with the intended goals contained  
8 in AS 37.13.020, an examination of the impact of the investment cri-  
9 teria of this chapter on the fund [CORPORATION] portfolio with recom-  
10 mendations of any needed changes, and any other information the board  
11 believes would be of interest to the governor, the legislature, and  
12 the public. The annual income statement and balance sheet of the fund  
13 [CORPORATION] shall be published in at least one newspaper in each  
14 judicial district. The income statement and balance sheet for the two  
15 fiscal years preceding the publication of the election pamphlet under  
16 AS 15.58 shall be included in that pamphlet.

17 \* Sec. 21. AS 37.13.180 is amended to read:

18       Sec. 37.13.180. TAX EXEMPTION. The corporation and the fund  
19 are [IS] exempt from all taxes and assessments in the state. All  
20 security instruments issued by the corporation or the fund, their  
21 transfer, and their income are exempt from all taxes and assessments  
22 in the state.

23 \* Sec. 22. AS 37.13.190 is amended to read:

24       Sec. 37.13.190. POLITICAL ACTIVITIES. The resources of the  
25 corporation or the fund may not be used to finance or influence polit-  
26 ical activities.

27 \* Sec. 23. AS 37.13.210 is amended by adding a new paragraph to read:

28       (3) "fund" means the Alaska permanent fund established  
29 under art. IX, sec. 15, Constitution of the State of Alaska.



1 \* Sec. 24. Notwithstanding AS 37.13.060, as amended in sec. 5 of this  
2 Act, the members of the board of the Alaska Permanent Fund Corporation in  
3 office on the effective date of this Act serve only the period of the term  
4 of office to which they were appointed.

5 \* Sec. 25. This Act takes effect July 1, 1990.  
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**SECTIONAL ANALYSIS OF CS FOR HOUSE BILL 589 (STATE AFFAIRS)**

**"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."**

- Section 1: TECHNICAL/POLICY -- Would ensure that the interest earned on funds placed in escrow during royalty litigation would be deposited in Fund principal and treated as principal. This is cited here as technical because it represents no change in current policy. That is the way the Corporation has always treated such money -- including fiscal 1988 when the Corporation deposited into principal all \$146 million received as partial settlement of the Dinkum Sands case. Nonetheless, by approving this section of the bill, the legislature would be making its first clear policy statement on the issue.
- Section 2: TECHNICAL -- Replaces [ALASKA PERMANENT FUND CORPORATION] with fund. In this case (and in all subsequent sections in which similar changes are made), the purpose is simply to clarify what was intended when the Alaska Permanent Fund Corporation Act was originally enacted in 1980. Specifically, the change makes clear the distinction between the "Alaska Permanent Fund" which comprises assets owned by the State of Alaska, and the "Alaska Permanent Fund Corporation" which is the government instrumentality created to manage and invest those assets.
- Section 3: TECHNICAL -- See Section 1.
- Section 4: TECHNICAL -- Recognizes that the purpose of the corporation is to manage and invest the assets of the permanent fund "and other funds designated by law"; for example, the Science and Technology Fund.

Sectional Analysis  
April 4, 1990  
Page 2

- Section 5: POLICY -- Extends the term of office for public members of the Board from [FOUR] years to six years.
- Section 6: TECHNICAL -- See Section 1.
- Section 7: TECHNICAL -- See Section 1.
- Section 8: TECHNICAL -- See Section 1.
- Section 9: TECHNICAL -- See Section 1.
- Section 10: TECHNICAL -- (1) See Section 1. (2) Replaces a sub-section relating to equity real estate investment which had little real meaning with language which clearly spells out current Corporation policy.

POLICY -- (1) Removes from the Fund's list of authorized investments those investments which are not considered by the Corporation to be of trust-grade quality and which have never been made by the Corporation. These include: Certificates of Deposit issued by Alaska Savings & Loan Associations, Mutual Savings Banks and Credit Unions for which a readily-available secondary market exists; the guaranteed portions of Small Business Administration (SBA) and Veterans Administration (VA) loans; and commercial mortgages.

(2) Adds taxable municipal or state debt securities that are rated "AA" or better by a nationally-recognized rating service to the list of authorized investments.

- Section 11: TECHNICAL -- (1) See Section 1. (2) Conforming amendments.
- Section 12: TECHNICAL -- See Section 1.
- Section 13: TECHNICAL -- See Section 1.
- Section 14: TECHNICAL -- See Section 1.
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be used as collateral under the Alaska Bank Certificate of Deposit program.

- Section 16: TECHNICAL -- Conforming amendment.
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- Section 18: TECHNICAL -- Rewrites AS 37.13.145: (1) to clarify original legislative intent and Corporation practice regarding the annual disposition of Fund income; (2) to bring (without substantive change) the section of law addressing the annual Permanent Fund Dividend transfer from AS 43.23 into AS 37.13; (3) to spell out the procedure used by the Corporation in the annual inflation-proofing transfer.
- POLICY -- (1) Provides that the annual inflation-proofing transfer shall be made from the earnings reserve account rather than from current year income as provided for in existing law.
- (2) Adds a new section providing "cumulative" inflation-proofing. Under this provision, if there is a shortfall in inflation-proofing in any one year, at the end of the next or subsequent year, -- after providing for that year's dividend and inflation-proofing transfers -- the Corporation shall transfer from the balance remaining in the earnings reserve account, the amount necessary to fully offset the effect of inflation on Fund principal since and including the shortfall.
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- Section 24: TECHNICAL -- Conforming amendment.

Sectional Analysis  
April 4, 1990  
Page 4

- Section 25: TECHNICAL -- Conforming amendment.
- Section 26: TECHNICAL -- Conforming amendment.
- Section 27: TECHNICAL -- Provides transitional language  
for the change in Board members' terms.
- Section 28: EFFECTIVE DATE -- July 1, 1990.

-- Prepared by the Alaska Permanent Fund Corporation on  
April 4, 1990.

PROPOSED AMENDMENTS TO  
CS FOR HOUSE BILL NO. 589 (STATE AFFAIRS)

Submitted to the House Finance Committee by the  
Alaska Permanent Fund Corporation on April 5, 1990

**Amendment #1:** Amend Sec. 7 (Page 3, Lines 14-16) to read as follows:

(a) The prudent investor [MAN] -rule shall be applied by the corporation [BOARD] in the management and investment of [ALASKA PERMANENT] fund assets. The prudent investor [MAN] -rule as applied to investments of the fund [CORPORATION] means that in making investments the corporation [BOARD] shall exercise the judgement etc.

**Amendment #2:** Amend Sec. 17 (Page 11, Lines 8-13) to read as follows:

... Income available for distribution equals 21 percent of the net income of the fund [CORPORATION] for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the fund [CORPORATION] for the fiscal year just ended plus the balance in the earnings reserve account [DESCRIBED IN AS 37.13.145].



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100  
(907) 465-2047 Telex 099-46-323

March 23, 1990

Honorable H. A. "Red" Boucher  
Chairman, House State Affairs Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Representative Boucher:

I am writing regarding the Permanent Fund bill which you have drafted to make certain technical and policy changes to the Alaska Permanent Fund Corporation enabling act, AS 37.13.

At our Board meeting of March 21, the Trustees reviewed a draft of the legislation and the following motion was adopted by a vote of 4 to 1:

"It is resolved that the Board of Trustees of the Alaska Permanent Fund Corporation agrees with the technical changes proposed in this bill as well as the general intent of the policy changes, and directs Corporation staff to work with the Committee and assist the members in their efforts to advance the legislation. In addition, staff is directed to keep the Trustees informed on a timely basis of the progress of this bill and any substantive changes."

Red, let me make clear the Board's position:

First, the Board supports timely legislative action on the recommendations of the Commission on the Future of the Permanent Fund. We supported the process that the Commission used to come up with their recommendations, and we wish to be responsive to the legislature as it attempts to accomplish those recommendations.

Second, regarding this particular piece of legislation, there is full support for the technical changes being proposed. Although in our view, past Corporation practices have in every instance conformed to legislative intent, we agree that existing statutory language can be improved to make that conformity perfectly clear.

Representative Boucher  
March 23, 1990  
Page 2

Third, regarding the policy changes, there are three points in particular I would like to make on behalf of my colleagues on the Board:

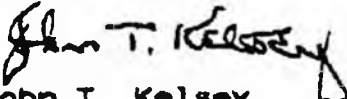
1) the Board supports "cumulative" inflation-proofing as an effective means to ensure that the purchasing power of Permanent Fund principal is fully preserved over the long term;

2) adoption of the sections amending the current list of authorized investments would not adversely affect either the Board's current asset allocation or its investment policies; and

3) the Board neither supports nor opposes the extension of the terms of Board members from four years to six years.

We would be pleased to provide additional testimony as requested.

With warm regards,

  
John T. Kelsey  
Chairman,  
Board of Trustees

cc: Members of the Board

### SECTIONAL ANALYSIS

**"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."**

- Section 1: TECHNICAL -- Replaces [ALASKA PERMANENT FUND CORPORATION] with fund. In this case (and in all subsequent sections in which similar changes are made), the purpose is simply to clarify what was intended when the Alaska Permanent Fund Corporation Act was originally enacted in 1980. Specifically, the change makes clear the distinction between the "Alaska Permanent Fund" which comprises assets owned by the State of Alaska, and the "Alaska Permanent Fund Corporation" which is the government instrumentality created to manage and invest those assets.
- Section 2: TECHNICAL -- See Section 1.
- Section 3: TECHNICAL -- Recognizes that the purpose of the corporation is to manage and invest the assets of the permanent fund "and other funds designated by law"; for example, the Science and Technology Fund.
- Section 4: POLICY -- Extends the term of office for public members of the Board from [FOUR] years to six years.
- Section 5: TECHNICAL -- See Section 1.
- Section 6: TECHNICAL -- See Section 1.
- Section 7: TECHNICAL -- See Section 1.
- Section 8: TECHNICAL -- See Section 1.
- Section 9: TECHNICAL -- (1) See Section 1. (2) Replaces a sub-section relating to equity real estate investment which had little real meaning with

**Sectional Analysis**  
**March 23, 1990**  
**Page 2**

language which clearly spells out current Corporation policy.

**POLICY --** (1) Removes from the Fund's list of authorized investments those investments which are not considered by the Corporation to be of trust-grade quality and which have never been made by the Corporation. These include: Certificates of Deposit issued by Alaska Savings & Loan Associations, Mutual Savings Banks and Credit Unions for which a readily-available secondary market exists; the guaranteed portions of Small Business Administration (SBA) and Veterans Administration (VA) loans; and commercial mortgages.

(2) Adds taxable municipal or state debt securities that are rated "AA" or better by a nationally-recognized rating service to the list of authorized investments.

**Section 10:** TECHNICAL -- (1) See Section 1. (2) Conforming amendments.

**POLICY --** Would prohibit the Corporation from making any more Alaska home mortgages. The Board's current investment policy already excludes making any more of this type of investment.

**Section 11:** TECHNICAL -- See Section 1.

**Section 12:** TECHNICAL -- See Section 1.

**Section 13:** TECHNICAL -- See Section 1.

**Section 14:** TECHNICAL -- (1) See Section 1. (2) Conforming amendments. (3) Clarifies that the investments which are removed from the authorized list in Section 9 above may still be used as collateral under the Alaska Bank Certificate of Deposit program.

**Section 15:** TECHNICAL -- Conforming amendment.

Sectional Analysis  
March 23, 1990  
Page 3

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**Sectional Analysis**  
**March 23, 1990**  
**Page 4**

- Section 23: TECHNICAL -- Conforming amendment.**
- Section 24: TECHNICAL -- Conforming amendment.**
- Section 25: TECHNICAL -- Conforming amendment.**
- Section 26: TECHNICAL -- Provides transitional language for the change in Board members' terms.**
- Section 27: EFFECTIVE DATE -- July 1, 1990.**

-- Prepared by the Alaska Permanent Fund Corporation.



## Alaska State Legislature

House of Representatives  
COMMITTEE ON STATE AFFAIRS

### MEMORANDUM

TO: House Finance Committee Members

FROM: Representative H.A. "Red" Boucher

DATE: April 10, 1990

RE: HB 589 Disposition of Permanent Fund Income;  
Technical Amendments

-----

HB 589 is one of three bills (HB 511, HB 563, HB 589) sponsored by the House State Affairs Committee which addresses the recommendations of the Commission on the Future of the Permanent Fund.

HB 589 is the result of extensive work by a number of individuals representing the Permanent Fund Corporation, the Department of Revenue, the Office of Management and Budget, Legislative Research, and others who have been involved with Permanent Fund issues over the last few years.

The above working group's goals and objectives were to carry out three of the recommendations of the Commission on the Future of the Permanent Fund. The most important recommendations were:

- **preserve the value of the Permanent Fund;**
- **retain the dividend program; and**
- **clean up the statutory language.**

Considerable discussion and debate took place by the working group. There were those who initially supported reversing the priority between inflation-proofing and dividends. Others felt that a new procedure for calculating earnings was in order.

The result of 6 weeks of meetings by the working group is before you in HB 589. This bill represents a consensus between the many viewpoints that were put forward that HB 589 was a way to accomplish the goals and objectives that were set out.

The attached provides a sectional analysis of HB 589. You should note that there are a number of technical changes and policy changes. The most important policy change is the introduction of a new concept - "**Cumulative Inflation Proofing**" - which provides dividend payment stability and allows for full inflation-proofing over time.

Under Cumulative Inflation Proofing, if an inflation-proofing shortfall occurs in any year, then in the next or subsequent year, the Corporation is authorized to transfer from the earnings reserve account to the principal to make up that shortfall. To summarize:

- 1) the current year's dividends would always be paid first;
- 2) inflation-proofing for the current year would then be provided for, to the extent that funds are available in the earnings reserve account; and
- 3) any inflation-proofing deficiency outstanding from a previous year would then be transferred from the earnings reserve account to principal.

In addition to strengthening the current provision for inflation-proofing, HB 589 clears up a number of technical ambiguities which exist under current law.

Attached you will find a sectional analysis of HB 589, a letter of support from John Kelsey, Board of Trustees, Permanent Fund Corporation, and a copy of two minor technical amendments offered by the Permanent Fund Corporation.



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100  
(907) 465-2047 Telex 099-46-323

March 23, 1990

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Red, let me make clear the Board's position:

First, the Board supports timely legislative action on the recommendations of the Commission on the Future of the Permanent Fund. We supported the process that the Commission used to come up with their recommendations, and we wish to be responsive to the legislature as it attempts to accomplish those recommendations.

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Representative Boucher  
March 23, 1990  
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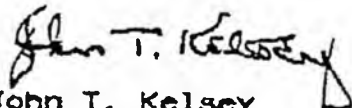
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We would be pleased to provide additional testimony as requested.

With warm regards,



John T. Kelsey  
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Board of Trustees

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**SECTIONAL ANALYSIS OF CS FOR HOUSE BILL 589 (STATE AFFAIRS)**

**"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."**

- Section 1: TECHNICAL/POLICY -- Would ensure that the interest earned on funds placed in escrow during royalty litigation would be deposited in Fund principal and treated as principal. This is cited here as technical because it represents no change in current policy. That is the way the Corporation has always treated such money -- including fiscal 1988 when the Corporation deposited into principal all \$146 million received as partial settlement of the Dinkum Sands case. Nonetheless, by approving this section of the bill, the legislature would be making its first clear policy statement on the issue.
- Section 2: TECHNICAL -- Replaces [ALASKA PERMANENT FUND CORPORATION] with fund. In this case (and in all subsequent sections in which similar changes are made), the purpose is simply to clarify what was intended when the Alaska Permanent Fund Corporation Act was originally enacted in 1980. Specifically, the change makes clear the distinction between the "Alaska Permanent Fund" which comprises assets owned by the State of Alaska, and the "Alaska Permanent Fund Corporation" which is the government instrumentality created to manage and invest those assets.
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Sectional Analysis  
April 4, 1990  
Page 2

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Sectional Analysis  
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Page 4

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