

SCR

29

# HOUSE COMMITTEE REPORT

(7)

Date Referred: January 31, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/29/90

FINANCE

The LABOR & COMMERCE Committee considered:

SCR 29

SENATE CONCURRENT RES. NO. 29 VENTURE CAPITAL INVESTMENTS BY STATE  
Relating to the investment of the state's public trust funds.

### RECOMMENDATIONS:

- [ ] be replaced with \_\_\_\_\_ [ ] the same title  
[ ] a new title  
[ ] have attached amendment(s)  
[  ] do pass  
[ ] do not pass  
[ ] no recommendation  
[ ] individual recommendations  
[ ] additional referral to the \_\_\_\_\_ Committee

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

ATTACHES NEW FISCAL NOTE(S):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- [ ] fiscal impact \_\_\_\_\_ [ ] fiscal note(s) \_\_\_\_\_  
[  ] zero fiscal note Dept. Rec. [ ] zero fiscal note(s) \_\_\_\_\_  
[ ] zero with analysis \_\_\_\_\_ [ ] zero fn/analysis \_\_\_\_\_

SIGNING DO PASS:

SIGNING:  
(Check approp. column)

Do Not  
Pass  
No Rec  
Amend

	Do Not Pass	No Rec	Amend
<u>Dave Donley</u> Donley			
<u>Mark Bayer</u> Bayer			
<u>Carl Finkelstein</u> Finkelstein			
<u>Andrew D. Lemmon</u> Lemmon			
<u>Chris Collins</u> Collins			
<u>Bob Boucher</u> Boucher			
<u>Mark Greenberg</u> Greenberg			
_____			
_____			
_____			

Dave Donley

Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Department of Revenue  
 Title: Investment of State Public BRU: Treasury  
Trust Funds  
 Sponsor: Senate Banking & Economic Dev. Components: \_\_\_\_\_  
 Requestor: House Labor & Commerce

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: attach a separate page for analysis. Fiscal year 1990 effect is zero.

Prepared By: Milt Barker *MB*  
 Division: Treasury

Phone: 465-2350  
 Date: April 9, 1990

Approved by Commissioner: [Signature]  
 Agency: Department of Revenue

Date: 4/9/90

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



**ANCHORAGE  
ECONOMIC  
DEVELOPMENT  
CORPORATION**

**ENCOURAGING VENTURE CAPITAL FUNDS  
TO PURSUE ALASKA OPPORTUNITIES**

**Purpose:** Use Alaska's tremendous financial clout to encourage large venture capital funds to actively search out Alaska opportunities.

**Need:** The collapse of Alaska real estate values and financial institutions has destroyed much of Alaska's wealth that was previously available to finance new ventures. At the same time, Alaska public retirement funds and the Alaska Permanent Fund prefer to maintain their nationwide diversification policies. There exists a need to somehow address Alaska's need for investment capital without compromising the integrity of its important public trust funds.

**Structure:** This proposal envisions nothing more than a resolution of the legislature. It will encourage the managers of Alaska's public trust funds to invest a small portion of their portfolios in large, stable, high-grade venture capital funds on the condition that the venture capitalists actively pursue viable Alaska opportunities. This will diversify and enhance the portfolios of our public trust funds while greatly improving Alaska entrepreneurs' access to equity capital.

**Cost:** No appropriation will be required. The public trust funds will benefit from the generally attractive returns from high-grade venture capital funds.

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Patrick M. Rodey  
Senator

# Alaska State Legislature



Senate

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During Ses  
P.O. Box  
Juneau, Alaska  
(907) 465-

DATE: March 31, 1989

TO: Members of the Special Committee  
on Banking and Economic Development

FROM: Senator Rodey, Chair *Pat*

SUBJECT: Introduction of legislation on investment  
of the state's public trust funds

Please find attached a copy of draft legislation that I would like to introduce on Monday, April 3.

Because of the lack of available investment capital for the formation of new businesses I felt it was necessary to address this issue through a resolution.

The purpose of this legislation is to encourage the managers of the state's trust funds to consider placing a portion of their investments into venture capital funds.

If you have any comments on this legislation, please feel free to contact my legislative aide, Mark Begich at 465-3793.

Rodey MEMO re: SCR-29

MINUTES  
VENTURE CAPITAL WORKING GROUP

March 30, 1989

Present: Jack Jessee, ComRim Systems, Chair, Alaska Industrial Development and Export Authority (AIDEA); Larry Mercurieff, Commissioner, Department of Commerce and Economic Development (DCED); Jim Rhode, Special Assistant, Department of Revenue; Dave Rose, Executive Director, Alaska Permanent Fund Corporation; Dave Van Amberg, Apple Computer; and Bert Wagon, Executive Director, AIDEA. Staff: Kelley Hegarty, Assistant Commissioner, DCED; Elaine Wurster, DCED, AIDEA. Guest: Jim Baldwin, Assistant Attorney General.

The meeting was called to order by Larry Mercurieff. Mercurieff explained that the meeting would be divided into two parts, with the group going into executive session to discuss the respondents to the Request for Proposals (RFP). Jim Baldwin concurred, noting the sensitivity of discussions involving personalities and reputations.

Mercurieff noted the need for the group to address some very fundamental questions, as outlined in the agenda, not necessarily for the purpose of drawing immediate conclusions, but for the purpose of setting some general parameters for subsequent refinement by the selected consultant.

Mercurieff first posed the basic question of whether AIDEA monies could actually be utilized in this type of investment. Bert Wagon replied that, given the conservatism of AIDEA's investment strategy, it was unclear to him. Wagon noted that 80% of the portfolio was placed in Governments or Government equivalents going out no more than 24 months. With the change in Title 37 and the consequent elimination of an approved list of investments, the emphasis now is on prudence and operating in the best interest of the fund.

Jim Baldwin noted that in interpreting the new law, it was decided early on to look at ERISA, which has strict requirements for diversification, for a model. The Attorney General's office will be rendering an opinion soon, and it is expected that their interpretation will permit AIDEA to make venture capital investments, but the opinion will be rendered in such a way that other funds are not affected. Because AIDEA is charged with industrial and commercial development, the requirement for diversification is discretionary. Unlike the retirement funds or the Permanent Fund, economic development is more consistent with the overall goals of the agency. Baldwin added that their research indicates that at least twelve states are doing social investing with their retirement funds and other surplus funds, usually keeping such investments within 2-3% of available funds.

MINUTES: 3-30-89  
VENT. CAPITAL WORKING GROUP

Jim Rhode cautioned that the pension funds at one point were 40% invested in Alaska real estate, a single kind of real estate in a single economy, which generated massive portfolio losses, and that the Permanent Fund is still viewed by some as a development bank. Mercurieff pointed out that we are not looking at other funds, only AIDEA.

A discussion ensued as to whether we are talking about strictly Alaskan investments and to what extent the monies would be invested in Alaskan projects. Dave Van Amberg emphasized that our objective is to make venture capital available here, not to mandate that it be invested here. Social issues would be a by-product, Van Amberg added, noting that we are not looking to set policy.

Dave Rose noted that trust considerations should not enter the picture; AIDEA has no beneficiaries, and its monies should not be managed as a trust. The prudent man rule, Rose asserted, speaks to trust law, not to a fund whose primary mission is economic development. Rose advocated that AIDEA not attempt to run a venture capital fund, but rather to deal with seasoned national and international professionals. Rose cautioned that socially engineering the fund through the RFP will tie the hands of venture capitalists and result in limited response from seasoned professionals.

Rhode noted that HB123 would recast AIDEA'S role by allowing it to take equity positions. Wagon noted that, while joint ventures and equity positions would be permitted, AIDEA was not looking at involvement in every type of project, but more specifically basic industry. HB123 seeks to place emphasis on what the name indicates, instead of strictly acting as an in-state correspondent, Wagon added.

Jack Jessee pointed out that, in retrospect, ARRC doesn't look so bad if one compares its performance with the high default rates of other state loan programs. Rose concurred, emphasizing that AIDEA's purpose is economic development, not return on investment.

Wagon cited the Authority's role as a passive investor. With a social goal of in-state investment, Mercurieff added. Mercurieff further observed that, politically and socially, AIDEA's is the only money that can fund venture capital.

Van Amberg averred that the objective of the fund should have capitalistic motivations; while encouraging development, the fund manager should not be measured on the number of jobs created. Jessee disagreed, citing the comparison between returns on the Permanent Fund and AIDEA portfolios. Wagon suggested that we move on to the proposals, setting the issue aside for the consultants.

Mercurieff reported that an outside venture capital firm is looking seriously at establishing a \$30-50 million Alaska fund, with a specific interest in primary industry. Apart from this group's efforts, we may end up with an Alaska-based fund. And we may not.

Jessee again raised the basic policy issue, noting that it had to be resolved by this group. Jessee made a strong pitch for economic development objectives, resulting in further discussion around the venture capitalists' response to such constraints. Rose asked rhetorically why we were hiring someone who would simply ask the same questions we had not yet answered. Mercurieff wondered whether it was possible to achieve consensus within the group.

In response to Rose's concurrence with Jessee's economic development objectives, Wagnon noted that farming was economic development, but farming provided no return on investment. Rose stated that it would be necessary to establish sensible parameters. Wagnon advised that, without definite parameters, the result would be another ARRC. Wagnon suggested that, in addition to farming, perhaps service sector investments could be eliminated from consideration. Jessee noted that, without a reasonable rate of return, the fund would die. Van Amberg cited the need to provide a structure that would ensure a return to the fund manager.

Rose questioned whether it was within the purview of this group to make these decisions: if we give guidance to the consultant, then why not do it in-house? Van Amberg noted that the attraction of other funds was critical to success, and the consultant would be able to provide advice that would not tie the venture capitalist's hands. Jessee concurred, citing the role of the consultant as buffer and a test with reality. Rose added that this would provide assurance that we don't have too much social engineering. Wagnon cautioned that fund investments in New Mexico would generate public flak. Van Amberg suggested that we not stipulate what percentage of the monies be invested in Alaska, maybe skewing it with a back-end bonus for successful Alaska investments, in essence paying for performance. This would assure that we achieve our bottom line objective of making money available in Alaska.

Mercurieff suggested a break, after which the group reconvened in executive session to discuss the proposals. After executive session, the group voted to retain Callan Associates for the purpose of providing venture capital advisory services, including drawing up a Request for Proposals and recruiting and screening respondents to same. The group also voted to retain Donald Vogt for the purpose of providing advisory services regarding goals and objectives for the proposed venture capital investment.

The meeting was adjourned.

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