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March 6, 1991

TO: Rep. Kubina, Chair
Members; House State Affairs Committee

RE: SB 18; *"An Act establishing the Alaska State Pension Corporation; relating to the management and investment of state pension funds and other state funds; and providing for an effective date."*

NEA-Alaska, representing members of both the TRS and PERS, supports the concepts contained in this legislation and commends the sponsor for this approach to the management of employee pension funds.

The transfer of this fiduciary responsibility from the Commissioner of Revenue to a public corporation will enhance constituent confidence in the integrity and security of their vested benefits.

We do have one concern which we wish to call to the attention of the committee:

We feel very strongly that the composition of the ASPC board of trustees must consist of a majority who are constituent members of the retirement systems. Members will have a greater level of confidence in a new investment/management system if a majority of the board members come from their constituency and that they be both active members and those now drawing benefits from the systems.

Thank you for your consideration of our position. We look forward to working with the Committee on this critical legislation.

Respectfully submitted,

Bob Manners
Executive Director

Don Oberg
President

cc: Sen. Pourchot

LE04/SB18/dl

To: The members of the Senate State Affairs Committee, the Honorable Pat Rodey, Chair

From: Terry Elder, Secretary-Treasurer
Alaska State Employees Association

Date: January 28, 1991

Re: SB 18

Mr. Chairman, and members of the committee, thank you for the opportunity to speak with you today to share with you the position of the Alaska State Employees Association on investment management legislation.

By way of introduction, I am the secretary-treasurer of ASEA. I am a ten-year state employee, have a Ph.D. in economics, and work as an economist for the department of labor. I also have a background in investment management. I have about 12 years of experience in the investment business with major money managers in Chicago, mostly managing employee benefit portfolios. I have an M.B.A. in finance, am a Chartered Financial Analyst, and periodically teach financial management at the University of Alaska. So I speak to you both as a representative of ASEA and as a person with some expertise in investment issues.

ASEA appreciates the concern and the hard work of the legislature on this issue, last session, during the interim, and now at the beginning of a new session. This is an issue that is a vital concern to our members, and also to you. We are all members of one of these retirement systems, and we all have an interest in improving their management.

We appreciate also the past and continuing willingness of many legislators to work with us in a cooperative and positive manner on this issue. We recognize that the current version of SB 18 already reflects some of our input during the past year. We thank you for that.

In reviewing SB 18, however, we find that we have a serious concern which we believe the legislation should address. Our concern is that SB 18 does not include the Supplemental Benefits System fund. This is the fund with the most serious and immediate management problem. This is the fund which the administration calls a defined contribution fund, which implies that losses could be charged directly to member balances. Yet, this is also the fund which has been managed by the department of administration and now is managed by the PERS Board, neither of which has any representation of SBS members.

Our position is that SBS is a retirement plan, just as surely as are the Teachers Retirement System and the Public Employees Retirement System. In Senator Pourchot's letter on this legislation, mailed during the interim, called SBS a "program established to replace the state's participation in the federal social security system." This is true. It is absolutely a retirement plan, just as much as individual retirement accounts are. The only difference is that the program is not voluntary. Many employers allow employees the option to withdraw their contributions to retirement funds on termination. This option does not make these funds savings plans.

Therefore, SBS is a retirement fund. It should be managed professionally, and it should be managed by the board which has oversight of other retirement funds. We hope that you will agree, and, in a committee substitute, will transfer the responsibility of SBS from the department of administration to the Alaska State Pension Corporation, created by SB 18.

If you do that, we would suggest you also deal with the question of participant representation. You could do that in one of two ways:

If you were willing to increase the number of trustees from seven to eight, you could add to Section 2 (b) a fourth trustee to be elected by members of SBS. This trustee should be active, since 85% of SBS members are, but that is not as critical as it is simply to have representation. This trustee should be elected by SBS members. This would be our preferred solution, since we believe an even division of the board between employer and employee representatives would be fair.

If you want to keep the number of trustees at seven, you could change the second sentence of Section 2 (b) to read: ONE OF THE ELECTED TRUSTEES MUST BE AN ACTIVE MEMBER OF ONE OF THE RETIREMENT SYSTEMS, ONE MUST BE RECEIVING A BENEFIT FROM ONE OF THE RETIREMENT SYSTEMS, AND ONE [MAY] MUST BE EITHER AN ACTIVE MEMBER OR RECEIVING A BENEFIT FROM [ONE OF THE RETIREMENT SYSTEMS] THE SUPPLEMENTAL BENEFITS SYSTEM.

We note that the other two participant representatives may not be members of SBS. They could both be members of TRS. Why should SBS members specifically be given representation?

1. Since SBS is a defined contribution plan, this is the only fund in which the participants' balances may be affected adversely by decisions of the managers.
2. The PERS Board, which currently is responsible for SBS, contains only two elected members, both are retired, and neither is a member of SBS. In contrast, 85% of SBS members are active.

If the legislature includes SBS in SB 18, and provides for SBS participant representation, we could endorse SB 18 enthusiastically. While we appreciate, sympathize and support the objectives of ~~SBS~~^{SB 18} as it is currently presented, we believe the SBS situation is so serious that our full support of SB 18 depends on the inclusion of SBS.

Re: SB 10

We note that SB 10 does include SBS (see Section 22). In that respect, we like SB 10. It also has appeal to some, we are sure, in that it seeks to ensure professional management of all types of investment funds with which the state must deal. That is a goal with which we sympathize.

We do not believe, however, that it is a preferred approach to SB 18. We like SB 18 because it focuses on employee benefit funds, and creates a board which includes participant and employer representatives. By mixing the types of funds with which the State Investment Board would deal, the board structure becomes confused.

In dealing with employee benefit plans, there is no reason to have representation for anyone who is not an employee or an employer. Specifically, there is no reason to have general public membership. The employers generally represent the public.

We appreciate the willingness of the sponsor of SB 10 to change the board structure to provide for better employee representation. There is no point in changing its structure, however, since employees do not need to tell the state how to manage funds like the general fund any more than employees need public members telling anybody how to invest their SBS funds. The difference is that employees own the assets of SBS, and, as a minimum, own the benefits provided by the assets of retirement funds. Employees do not own the general fund.

We would suggest that the committee use SB 18, with the changes outlined above, to deal with employee benefit funds. Separately, if so desired, the legislature could

establish a State Investment Board to manage strictly state assets. If they are only state assets, and do not impact employees, there is little reason to include employee representatives on such a board.

Before concluding, I would like to make a couple of comments generally about the situation concerning SBS. Your legislation deals only with the investment management. We support your objectives. However, we would also point out that it has been over a year since the department of administration has been able to give you, me, or my Union's members an accounting of their SBS balances. Frankly, the investment management and the administrative management of the department of administration has been a disgrace. If you do not want to deal with that through legislation, I urge you to do it through the budget review process.

Also, I want to point out that the department, with the agreement of the PERS board, is proceeding with the development of an RFP for investment management services for SBS. They also seek to develop an investment strategy for the fund. If they insist on going forward with this, we hope they will work with participant representatives, since participants will probably pay for what the department does. However, we hope that the legislature's actions to include SBS in the management structure of a State Pension Corporation will convince the PERS board and the department of administration to not do anything which locks us in to something that the new managers may want to change. They should do all things necessary to protect the assets, but, given their track record of contracting for investment services, we are not anxious for them to do much else.

Thank you.

Alaska Municipal League

Policy Statement 1991

Adopted at the Business Meeting
of the 40th Anniversary Local Government Conference
of the
Alaska Municipal League
Anchorage, Alaska
November 16, 1990



retirement benefits. Additionally, in order to assist municipalities and the Legislature in evaluating changes to the retirement systems, fiscal notes accompanying such legislation should include an analysis of the fiscal impact on each of the participating municipalities.

2. Separate PERS/TRS Corporation: The League supports the establishment of a separate corporation for the management and investment of state trust funds, including the trust funds of the Public Employees' Retirement System and the Teachers' Retirement System, insofar as the board of the corporation includes representatives of trust beneficiaries and employers. The League urges that legislation establishing such a corporation include a provision that foreclosed real property held as assets by funds managed by the corporation be subject to municipal property taxes.

Alaskan municipalities make over half of all employer contributions to the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and are directly affected by the performance of these funds because of the effect fund earnings have on employer contribution rates and, thus, on local tax rates. At present, both PERS and TRS funds are managed by the Department of Revenue, with the Commissioner of the Department as the sole fiduciary.

Creation of a separate corporation would give visibility to and strengthen the trust status of these trust funds. It would increase accountability, continuity, and public disclosure for the investment management of the funds by establishing a board of directors as fiduciary, incorporating professional investment managers and trust administrators, as well as representatives of beneficiaries, on the corporation's board, and providing for the exercise of fiduciary powers through the forum of regularly scheduled public meetings rather than administrative actions. A corporation would give management the authority to act in a timely manner and compete fully with other professional institutional investors. It would also allow the trust fund managers to have direct access to various Federal Reserve System services, increasing the security, earnings, and efficiency of trust fund investments and reducing the costs for intermediary custodian bank services.

In keeping with the League's general policy opposing exemption from taxation of foreclosed real property held as assets by state and federal agencies, the League supports inclusion of a provision making such assets held by the new corporation subject to municipal taxation.

I. GOVERNMENT MANDATES

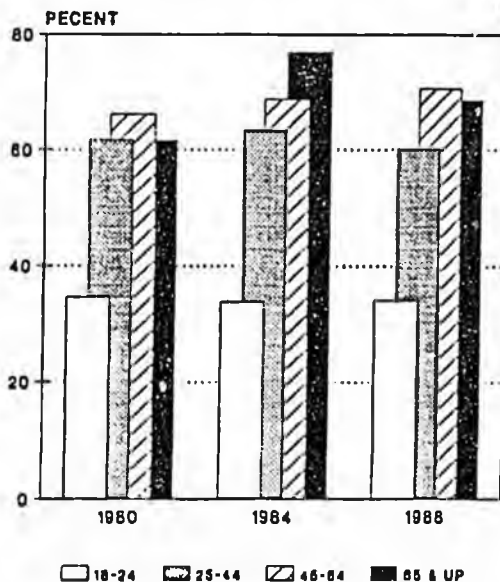
The League urges passage of legislation that would require a government agency unilaterally transferring responsibility for a program to a municipality or imposing regulations on a municipality to reimburse the municipality for the costs of the transferred responsibility or regulations.

OLDER VOTERS

Older people are generally eager to participate in all facets of political life. Older persons are often involved in registering voters, assisting voters in traveling to polls, and actually conducting poll operations on election day. They believe in the Eisenhower adage, "Politics should be the part-time profession of every citizen."

The voter turnout graph illustrates the participation rate of four age groups of Alaska voters in elections held between 1980 and 1988.

VOTER TURNOUT GRAPH



Prepared for AARP by Election Data Services

1991 ALASKA LEGISLATIVE PROGRAM

PRIORITIES

HEALTH

- Increase access to appropriate and affordable health care for all Alaskans by:
 - advocating formulation of a health policy for Alaska
 - supporting concept of state-mandated insurance for the uninsured
 - seeking legislation and appropriations for a comprehensive and coordinated program of home-, community-, and institutionally-based services throughout the state
 - supporting availability of adequate health insurance for all, including those uninsured

ECONOMIC SECURITY AND BUDGET

- Strengthen programs which will provide economic security for all Alaskans by:
 - supporting legislation to stabilize the Longevity Bonus Program
 - advocating recognition of the economic and social value of the retirement community by supporting programs to encourage retirees to remain in Alaska
 - supporting full funding of present property tax relief to senior citizen homeowners and renters

SUPPORT ITEMS

- Support legislation to provide separate management of public pension funds
- Support efforts to improve availability of insurance by means of tort reform and/or increased regulations consistent with adequate consumer protection

SL1003AK(1090)

ALASKA

State Legislative Committee

1991 FACTS & LEGISLATIVE PRIORITIES



American Association
of Retired Persons

TO: The Alaska House of Representatives, Committee on State Affairs, the Honorable Gene Kubina, Chairman, and the Committee members.

FROM: Buddy Maupin, Business Manager, the Alaska State Employees Association, AFSCME, Local 52, AFL-CIO.

Re: CSSSSB 18, Establishing the Alaska State Pension Corp.

Mr. Chairman and Committee members, I want to thank you for this opportunity to provide written testimony for the committee's permanent record on the Committee Substitute for the Sponsor Substitute to Senate Bill 18.

To begin, I would like to compliment the State Senate and the bill's sponsor, Senator Pat Pourchot, for trying to accommodate the concerns of ASEA's 8,000-plus members in this legislation. I would also compliment you, Mr. Chairman, for teleconferencing this hearing so that we could again testify in favor of CSSSSB 18.

As the committee is aware from its work on the bill last year, this legislation came about because serious concerns were raised about the way the state was handling the investment of the \$700 million in the state's Supplemental Benefit System. Specific concerns were raised because the state had issued several guaranteed interest contracts for investment of SBS funds to Executive Life which, in turn, invested these funds in so-called junk bonds.

Since the state does not indemnify these monies, which are jointly contributed to the SBS system by the state and its employees, a bad investment could wipeout the life savings of many state employees.

Because of this, in supporting CSSSSB 18 our main concern has been to see that SBS funds are invested wisely and in a manner that better ensures the funds will be there when an employee retires or resigns.

This legislation does that very well. In fact, by pooling the Supplemental Benefits System's money in with funds from the Public Employees Retirement System and the Teachers Retirement System, the SBS money gains the advantage of coverage by the federal Employee Retirement Income Security Act, or ERISA, which reduces the investment risks to which these funds would otherwise be subjected.

(continued)

CSSSSB 18 is not a perfect bill from our perspective. We would still prefer that employees of the Pension Corporation be classified, rather than exempt; and we would prefer the corporation's board of directors to consist of nine members, including a specific member who is a participant in the Supplemental Benefits System.

But we also recognize that the bill does adequately address our main concern--the protection of the investments made by state employees in PERS and SBS. For this reason we support CSSSSB 18.

In closing, I urge the members of the House State Affairs Committee to approve and pass the bill without further amendment, and I thank you for allowing me to testify.



NEA-ALASKA

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March 6, 1991

**TO: Rep. Kubina, Chair
Members; House State Affairs Committee**

RE: SB 18; "An Act establishing the Alaska State Pension Corporation; relating to the management and investment of state pension funds and other state funds; and providing for an effective date."

NEA-Alaska, representing members of both the TRS and PERS, supports the concepts contained in this legislation and commends the sponsor for this approach to the management of employee pension funds.

The transfer of this fiduciary responsibility from the Commissioner of Revenue to a public corporation will enhance constituent confidence in the integrity and security of their vested benefits.

We do have one concern which we wish to call to the attention of the committee:

We feel very strongly that the composition of the ASPC board of trustees must consist of a majority who are constituent members of the retirement systems. Members will have a greater level of confidence in a new investment/management system if a majority of the board members come from their constituency and that they be both active members and those now drawing benefits from the systems.

Thank you for your consideration of our position. We look forward to working with the Committee on this critical legislation.

Respectfully submitted,

Bob Manners
Executive Director

Don Oberg
President

cc: Sen. Pourchot

LE04/SB18/dl

HOUSE COMMITTEE REPORT

(7)

Date Referred: March 1, 1991

FURTHER REFERRALS:

Finance

Date of Committee Action: 3-25-91

The STATE AFFAIRS Committee considered:

CSSS SB 18 (FIN)

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 18 (FINANCE)

INVESTMENT OF PENSION FUNDS

"An Act establishing the Alaska State Pension Corporation; relating to management and investment of state pension funds and other state funds; and providing for an effective date."

RECOMMENDATIONS:
 be replaced with HCSSSSSB 18 (State Affairs) the same title
 a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____

fiscal impact Revenue / AK Pension Fund Corp.] fiscal note(s) _____

zero fiscal note _____ [] zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Gene Kubina</i>					
<i>Tom Moore</i>	X	<i>David (Moss)</i>		✓	
<i>Bob</i>	-	<i>Jerry</i>		-	
<i>W. G. ...</i>					

Gene Kubina
 CHAIRMAN'S SIGNATURE

SB 18

Resolution of the Alaska Municipal League

Resolution No. 91-8

A RESOLUTION SUPPORTING ESTABLISHMENT OF A CORPORATION TO MANAGE STATE TRUST FUNDS

WHEREAS, the Alaska Municipal League has reviewed and considered the establishment of a separate corporation for the management of state trust funds, including the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) trust funds, and

WHEREAS, PERS and TRS assets now total over \$4 billion and generate \$400 million or more of investment income annually, and

WHEREAS, the amount of income generated by PERS and TRS significantly affects employer contribution rates since employee contribution rates are fixed by statute, and

WHEREAS, Alaska municipalities make over half of all employer contributions to PERS and TRS, and

WHEREAS, PERS and TRS contribution rates have a direct impact on local tax rates, and

WHEREAS, the improvement in investment earnings that can be expected as a result of establishing a separate corporation would be of great importance to beneficiaries and employers as state petroleum revenues decline because an improvement of only 25 basis points (.025 percent) would be \$10 million, half of which would go to reduce municipal employer contributions, thus freeing up \$5 million for other municipal expenditures or permitting a .3 mill average reduction in property taxes for the typical Alaska municipality, and

WHEREAS, a separate corporation would give visibility to and strengthen the trust status of the PERS, TRS, and other trust funds, providing a corporate bulwark for the management of trust fund assets in the interests of beneficiaries and providing a clear mission to management in carrying out fiduciary responsibilities, and

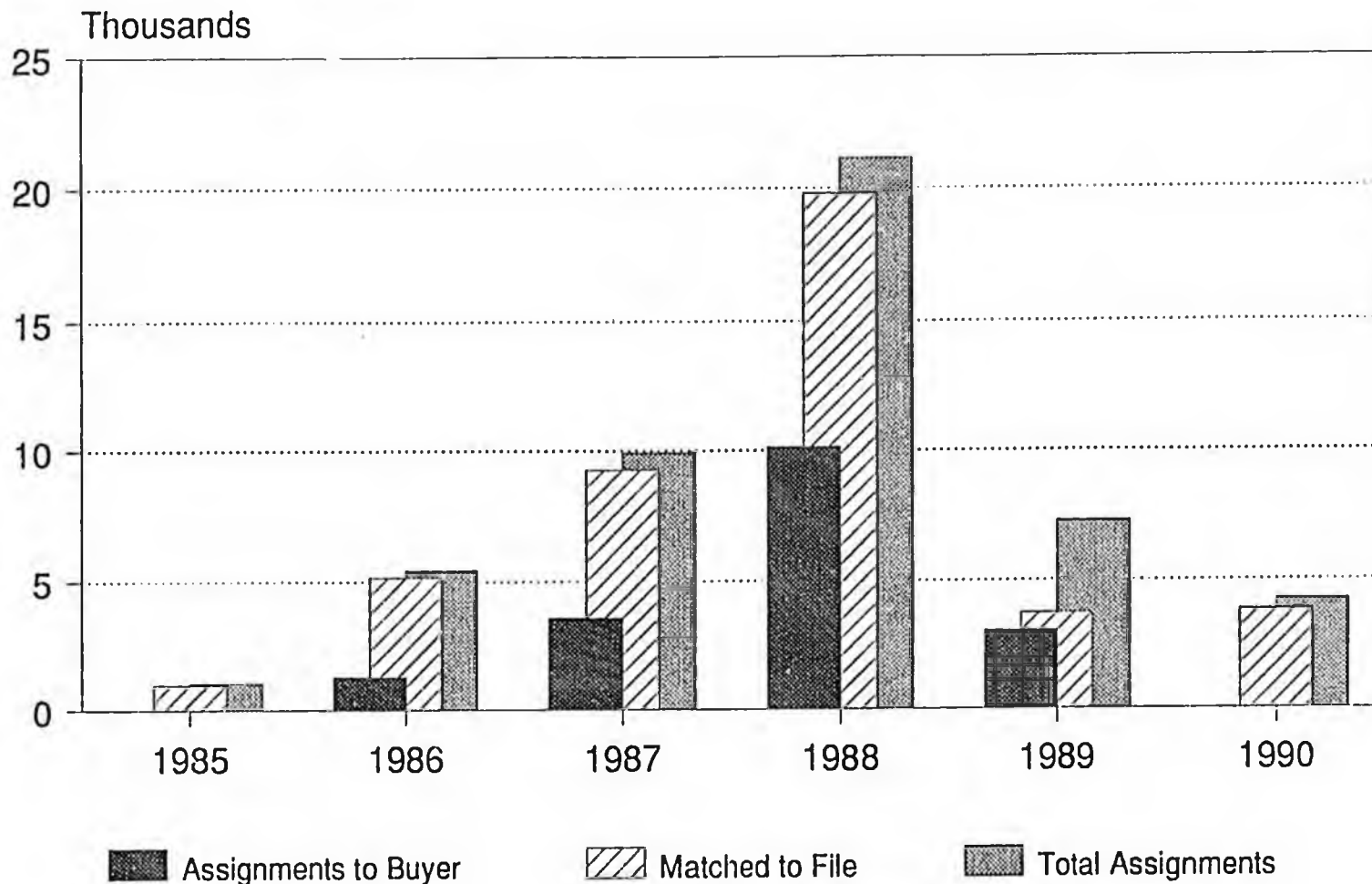
WHEREAS, a separate corporation would increase accountability, continuity, and public disclosure for the investment management of the funds by:

1. establishing a board of directors in place of one person as fiduciary;
2. incorporating professional investment managers and trust administrators, as well as representatives of beneficiaries, on the corporation's board; and

50318

PERMANENT FUND DIVIDEND ASSIGNMENTS

For 1985 - 1990 Dividend Years



Alaska State Legislature
House of Representatives

INTERIM

3111 C Street
Anchorage, Alaska 99503
(907) 561-2032



SESSION

P.O. Box V
Juneau, Alaska 99811
(907) 465-2995

Representative Dave Choquette



Larry Crawford
Municipal Manager
Municipality of Anchorage
P.O. Box 196650
Anchorage Alaska, 99519-6650

Tuesday, March 12, 1991

RE: SB 18 and HB 37

Dear Larry,

Thank you for the information on SB 18. I concur with your letter dated March 1 1991 regarding SB 18 and HB 37. When HB 37 was in the House State Affairs committee, I argued to allow Alaska State Pension Corporation property be subject to taxes like any other property.

SB 18 has been referred to the House State Affairs Committee, and a hearing has been scheduled for Friday March 15 at 8:30 AM. I will enter an amendment to amend Section 37.10.290 of Senate Bill 18 to allow taxation of property held by the Alaska State Pension Corporation. The enclosed amendment will be introduced in the House State Affairs committee hearing at that time.

Thank you for bringing this issue to my attention, and if I can be of further assistance please do not hesitate to call me at 465-2995.

Kindest personal regards,

DAVE

Dave Choquette



Draft

Amendment

OFFERED IN THE HOUSE

BY REPRESENTATIVE CHOQUETTE

TO SB 18

Page 6, Lines 2-4

Delete "EXEMPTION FROM TAXATION. The corporation and all properties at any time owned by it, managed by it, or held by it in trust, and the income from those activities are exempt from all taxes and assessments in the state. All security instruments issued by the corporation and income from them are exempt from all taxes and assessments in the state, including transfer taxes."

**Municipality
of
Anchorage**



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(907) 343-4433
TOM FINK,
MAYOR

OFFICE OF THE MUNICIPAL MANAGER

March 1, 1991

Representative Dave Choquette
P.O. Box V
Juneau, Alaska 99811

Re: SB 18 and HB 37, Investment of Pension Funds


Dear Representative Choquette:

The Municipality of Anchorage recommends SB 18 be amended to reflect the provisions of HB 37 as it pertains to property held as an investment by the Alaska State Pension Corporation. The exclusion of the Corporation's investment properties from local property taxes places these properties in an unfair competitive position.

Local property taxes are a normal cost of doing business and provide for all to share in the cost of paying for locally provided government services. These Pension Corporation properties will require government services as do other properties within the Municipality. Excluding property shifts the cost of providing services to other property owners. In addition, rental property owners must then compete with the Alaska State Pension Corporation on an uneven playing field.

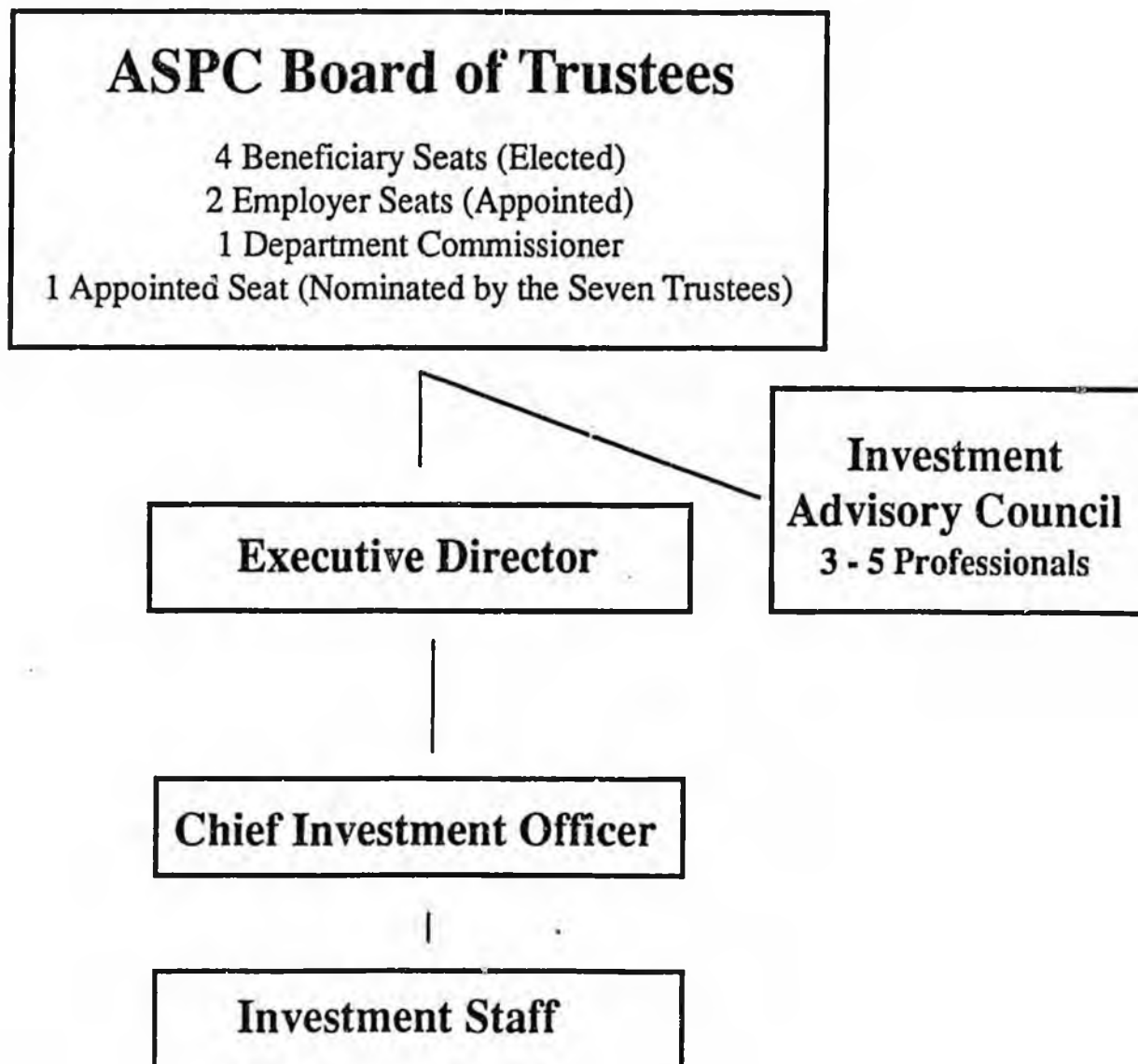
We urged you to delete Section 37.10.290 from SB 18.

Sincerely,


Larry D. Crawford
Municipal Manager

Alaska State Pension Corporation (ASPC) CS Sponsor Substitute SB 18(FIN)

A public corporation located in the
Department of Revenue to manage the following funds:
Public Employees Retirement System Fund **\$2.74 billion**
Teachers Retirement System Fund **\$1.70 billion**
Judicial Retirement System Fund **\$28.67 million**
Military Retirement Fund **\$3.9 million**
Supplemental Benefits System (SBS) **\$600 million**



CSSSSB 18(FIN) ALASKA STATE PENSION CORPORATION

PURPOSE

~Replace the Commissioner of Revenue as the sole fiduciary of the retirement and Supplemental Benefits System (SBS) funds with a representative Board of Trustees, to provide more comprehensive management and investment oversight for the retirement funds.

~Respond to the serious concerns about the past investment practice of the SBS funds by bringing SBS under this separate corporation.

FUNDS TO BE MANAGED

Public Employees Retirement System Fund	\$2.74 billion
Teachers Retirement System Fund	\$1.74 billion
Judicial Retirement System Fund	\$28.67 million
Military Retirement System Fund	\$3.9 million
SBS Fund	\$600.0 million

BOARD COMPOSITION

Eight Trustees-4 year terms

1 Active PERS/Active SBS	Elected
1 Retired PERS	Elected
1 Active TRS	Elected
1 retired from any system other than PERS	Elected
2 employers, nominated by member employers (school districts, munis)	Appointed
1 Commissioner of Revenue	Appointed
1 Board Nominated	Appointed

BOARD RESPONSIBILITIES

- ~Participate in financial training
- ~establish investment policies
- ~report to LB&A, Governor, Legislature, Employers and appropriate boards
- ~provide annual performance evaluations and audits
- ~advise the Commissioner of Administration on investment of Deferred Compensation funds
- ~Comply with Conflict of Interest and Ethics Acts
- ~appoint an Investment Advisory Council of 3-5 qualified members
- ~apply the Prudent Investor Rule to all investment decisions

FISCAL IMPACT

There are no increases in costs of personnel attributable directly to the creation of the ASPC. Current budget positions in the Department of Revenue for pension investment and management would be transferred to the new corporation.

However with the problems faced by the investment of SBS funds in GICs, the Department of Revenue is currently altering its investment policies and strategies, which call for increases management costs. These costs, although requested have not been included in the FY 92 Rickel budget. Consequently, the Department of Revenue fiscal note for SB 18 contains \$209.95 for 1/2 year of FY 92 and \$419.9 for subsequent years for SBS management. Those monies would be paid from SBS funds, not General Funds.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CSSSSB18

Revision Date: 3/22/91

Department Affected: Alaska Pension Fund Corporation

Title: Alaska State Pension Corporation

BRU: _____

Component: _____

Sponsor: Senator Pourchot

Component Serial No.

Requestor: _____

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	1,277.5	20,993.6	21,833.3	22,706.7	23,614.9	24,559.4
TOTAL OPERATING	1,277.5	20,993.6	21,833.3	22,706.7	23,614.9	24,559.4

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	1,277.5	20,993.6	21,833.3	22,706.7	23,614.9	24,559.4
TOTAL	1,277.5	20,993.6	21,833.3	22,706.7	23,614.9	24,559.4

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: See attached.

Prepared by: Brian C. Andrews *BCA*

Phone: 465-2350

Division: Treasury Division

Date: March 22, 1991

Approved by Commissioner: _____ *[Signature]*

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

March 22, 1991 Analysis of CS SS SB 18

Pension Corporation

Alaska State Pension Corporation is assumed to start up on January 1, 1992 for the take over of retirement fund investments on July 1, 1992 from Treasury. Start up costs include a separate physical location, furniture and equipment, electronic hardware and software, personal service costs, supplies and other obligations. FY 93 costs represent Treasury's FY 92 budgeted amount, separate physical location, personal service cost increases and the management of SBS. Costs for FY 94 - FY 97 have been incremental increased by a compounded 4 per cent over FY 93.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CSSSB18

Revision Date: 3/22/91

Department Affected: Revenue

Title: Alaska State Pension Corporation

BRU: Revenue Operations

Component: Treasury

Sponsor: Senator Pourchot

Component Serial No.

Requestor: _____

	1	2	1
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	0	(19,316.7)	(20,089.4)	(20,892.9)	(21,728.7)	(22,597.8)
TOTAL OPERATING	0	(19,316.7)	(20,089.4)	(20,892.9)	(21,728.7)	(22,597.8)

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	0	(19,316.7)	(20,089.4)	(20,892.9)	(21,728.7)	(22,597.8)
TOTAL	0	(19,316.7)	(20,089.4)	(20,892.9)	(21,728.7)	(22,597.8)

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: See attached.

Prepared by: Brian C. Andrews *BA*

Phone: 465-2350

Division: Treasury Division *21K*

Date: March 22, 1991

Approved by Commissioner: _____ *[Signature]*

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

March 22, 1991 Analysis of CS SS SB 18

Revenue/Treasury

Alaska State Pension Corporation is assumed to take over retirement fund investments July 1, 1992. FY 93 is the full amount of the original FY 92 budget for retirement funds less a personal service cost adjustment of 575.0 resulting from the continual need for investment management of the General Investment Fund, Endowment Funds and other State trust funds which are currently be handled on a pro rata basis with retirement funds. Costs for FY 94 - FY 97 have been incremental increased by a compounded 4 per cent over FY 93.

631 W. 11th Street
Juneau, AK 99801

Chairman Kubina:

The concept embodied in CSSSSB18 is an excellent one and the members of the legislature are to be commended for their concern about the handling of pension funds.

The Alaska State Retired Teachers are concerned about the make up of the board as expressed in SB18 we would prefer that the board have nine members so a tie vote is not possible. We would prefer that the ninth member be a retired teacher. There are many retired people with knowledge in the field of investment. At the last hearing one of the board members expressed concern that the board in SB18 might not have the expertise needed

I, therefore, suggest you might consider some qualifications for the members to be appointed by the governor. Qualifications such as those set forth in the original SB 10 would give the board some expertise in finance, investment and business management.

ASRTA's other major concern is that the bill be written so that no governor can remove all the the board members in the same year. The board must always have a majority who know and understand the decisions that have ^{been} made.

Viola D. Shaw
Legislative Chairman
AK State Retired Teachers

cc members of the State Affairs Committee.

**DEPARTMENT OF REVENUE
POSITION PAPER**

**CS SS SB 18
Alaska State Pension Corporation**

The goal should be to provide for continued prudent management of State of Alaska retirement funds. To accomplish this goal, there are several alternatives including the following:

1. continued sole fiduciary in the Commissioner of Revenue.
2. a separate corporation managed by a board of trustees with minimal accountability to the Governor.
3. a retirement board within the Department of Revenue.

A retirement board within the Department of Revenue as proposed in SB 10 is clearly preferable. It requires minimal additional expenses, uses existing structures and staff within Treasury Division, and provides for shared fiduciary responsibility.

State pension plans may be managed in a variety of ways including the three basic alternatives listed above. A clear majority of states use an investment board within state government. A few have a sole fiduciary but we are not aware of any who have a separate corporate structure. Most boards are accountable to the governor. Many years ago there were abuses of pension monies. These abuses led to federal and State laws governing pension funds. As a result, pension funds are managed more responsibly with substantially greater member benefit protections.

In Alaska, members of state pension plans are protected. Article 12 of the Constitution requires that there be no diminishment of benefits. In other words, a member's benefits may not be reduced and benefit reductions can only be applied to new members. Absent the trust fund, annual benefit payments would have to be appropriated annually. The members are guaranteed their benefits by the State of Alaska. The State is required to actuarially fund the retirement system. The State cannot remove monies from the fund to pay for other expenditures because this would probably be considered a diminishment of benefits. By statute, members pay a fixed rate toward funding a pension plan and the State and the participating subdivisions make up the actuarially computed difference. The State, through its governor, should be in control of managing the pension funds. This is because the State is the ultimate guarantor of benefits and the members' contributions rates are fixed. The pension monies should, of course, be managed in accordance with rules of prudence which is presently the case.

The Commissioner of Revenue is now the fiduciary. In performing his duties, the Commissioner is charged with applying the prudent investor rule in exercising his fiduciary duty in the financial best interest of the funds entrusted to him and the beneficiaries of those funds. CS SS SB 18 ("Bill") would apply this rule of prudence to a board of trustees. The concept of a shared fiduciary has merit. Decisions regarding the management and investment of pension monies would be shared by a board. The board members could bring their collective knowledge and ideas to the decision-making process.

The separate corporation and member controlled board proposed in the Bill will cost more to operate and will be an entity with no accountability to the people through their elected officials and especially the governor. A fiduciary board can be constituted within the Department of Revenue as was proposed in SB 10. This board could perform the same functions as the board proposed for the separate Corporation. A fiduciary board within Revenue would operate within an existing structure at minimal additional cost and would be accountable to the governor. The board would be charged with full fiduciary responsibilities and be required to exercise the prudent investor rule.

The board of trustees created by the Bill would be controlled by elected members. The board would elect its own chair. The board would consist of four elected members, two appointed by the governor from political subdivision employer nominees, and the Commissioner of Revenue. These seven then elect an eighth member which means the elected members have majority representation. Trustees serve four year terms. The governor may not remove a trustee unless the trustee cannot perform "normal" duties due to mental or physical incapacitation, is convicted of a felony, or commits an act that under State law constitutes a felony or misdemeanor that is incompatible with service on the Board.

This board would be exempt from the procurement code, all its employees would be in the exempt service, and the board would retain its own legal counsel. With all this independence, the State must still indemnify the trustees against liability.

The Bill does set forth some good management tools. It provides for performance measurement, investment advisory service, an advisory counsel, and an annual audit. Treasury now performs many functions required by the bill. PERS and TRS funds have performance measurement by a nationally recognized firm. All trust funds are audited by an independent CPA firm with an opinion as to conformance with generally accepted accounting principles. Treasury uses investment advisors, monthly financial statements are prepared, and results are presented semi-annually to the PERS and TRS boards. The management practices set forth in the Bill can be required of a single fiduciary or a shared fiduciary. In fact, these functions should be performed even if not required.

Treasury has been accused in the past of improper management, poor investment results, and high costs. While there were some problems, the retirement funds averaged an annual rate of return of 12.4% over the five years ended June 30, 1990. By comparison, the Permanent Fund averaged 11.3%. Based on the Permanent Fund's investment objectives, they achieved an excellent rate of return. The retirement funds were more heavily invested in equities resulting in the higher earnings rate. While it is true it cost more to manage the retirement funds, there is a reason for this. Treasury manages several funds and not just one, it costs substantially more to manage equities than fixed income securities, and the retirement funds are still managing real estate mortgages acquired several years ago. If the additional rate of return of 1.1% (12.4% - 11.3%) is considered, the retirement funds earned approximately \$55 million (\$5 billion at 1.1%) more than if the Permanent Fund rate of return was earned. This is an annual amount of additional earnings. These earnings far more than offset the additional cost. Also a substantial amount of time is spent working the real estate mortgages which are becoming a smaller part of the total portfolio. The real estate mortgages amounted to 23.9% of the portfolio at June 30, 1985 and only 4.5% at June 30, 1990.

The Bill has recently been touted as a cure for the apparent problems with SBS invested monies. SBS monies were managed and invested by the Department of Administration. The current problems are certainly not due to retirement fund considerations. Moving SBS monies to an independent corporation for management is a hasty reaction and may not be the best solution. After all, SBS monies are immediately employee vested. Perhaps the employees should have the opportunity to direct their investments.

The Bill provides that the corporation advise the Commissioner of Administration concerning the investment of funds held under the State deferred compensation program. The first question that should be resolved is who should manage deferred compensation monies. This program is entirely voluntary and considerable consideration should be given to employee directed investments. For both SBS and deferred compensation, a standard low-risk U.S. government securities fund could be established. Employees wishing a more aggressive posture could elect other options.

In conclusion, this bill sets up an independent corporation not responsible to the people through the governor. The State, by Constitution, is the ultimate guarantor of pension benefits and the employer rate is the one that fluctuates to meet actuarial requirements while the employee rate is fixed. Yet the board would be controlled by members of the retirement funds and board members could not be removed by the governor except in very unusual circumstances. The corporation would be exempt from procurement code requirements and all employees would be in the exempt service. The corporation can retain its own legal counsel and yet the State must indemnify the fiduciary against liability. The corporation would experience substantial start-up costs and would be administratively more expensive to operate than a board within Revenue.

A separate investment board created within the Department of Revenue should be established. Most features of CS SS SB 18 could be incorporated into the investment board functions and the board member composition could be modified to conform more to that of proposed SB 10.

TO: Representative Gene Kubina

FROM: Senator Pat Pourchot
Staff: Susie Barnett

RE: Comparison of CSHB(SA) 37 and CESSSB 18
ALASKA STATE PENSION CORPORATION

DATE: March 4, 1991

1. SB 18 carries a Letter of Intent which encourages the board to utilize local institutions and companies. HB 37 does not carry a letter on intent nor contain language similar to the SB 18 letter of intent.

2. SB 18 contains no language referring to the integration of benefits administration, HB 37, in Section 1 Findings, refers to integration of benefits administration "when prudent".

3. (Section 37.10.210) HB 37 has a 9 member board, SB 18 has an 8 member board. The difference between the two boards is:
SB 18 has a ACTIVE PERS/ACTIVE SBS trustee seat.
HB 37 splits the above seat (SB 18) into two separate seats;
1 ACTIVE PERS and 1 ACTIVE SBS.

SB 18 has a equal balance of elected an appointed seats, HB 37 has a majority of elected seats.

4. (Section 37.10.210) SB 18 sets out specific reasons for removal from the board, HB 37 states removal for just cause.

5. (Section 37.10.220) SB 18 adds a requirement that the board advise the Commissioner of Administration on investment of Deferred Compensation funds and (Section 39.45.030) requires the Commissioner to consult with the board prior to investing. HB 37 does not contain references to Deferred Compensation.

6. (Section 37.10.290) SB 18 allows exemption from taxation for corporate assets, HB 37 does not exempt the assets.

7. (Section 37.05.146) SB 18 adds SBS and Deferred Compensation to the list of funds to be excluded from the Program Receipts /General Fund Definition, thereby protecting the funds.

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE,
CO-CHAIR



Senator Pat Pourchot

ANCHORAGE
P.O. BOX 104836
ANCHORAGE, AK 99510
(W) (907) 581-7623
(H) (907) 338-2425

JUNEAU
P.O. BOX V
STATE CAPITOL
JUNEAU, AK 99811
(907) 465-3712

M E M O R A N D U M

TO: Representative Gene Kubina
Chair, House State Affairs

FROM: Senator Pat Pourchot

RE: CSSSSB 18, the Alaska State Pension Corporation

DATE: March 4, 1991

Please find attached position papers and/or letters of support for
CSSSSB 18:

University of Alaska Southeast Faculty Senate

Alaska Council of School Administrators

University of Alaska Fairbanks Staff Council

Alaska Municipal League

American Association of Retired Persons

Department Of Revenue

Permanent Fund Board of Trustees

UNIVERSITY OF ALASKA SOUTHEAST
School of Education, Liberal Arts and Science

789-4418

11120 Glacier Highway • Juneau, Alaska 99801

February 12, 1991

The Honorable Pat Pourchot
Alaska State Senate
P. O. Box V
Juneau, Alaska 99811

FEB 13 1991

SUBJECT: The Alaska State Pension Corporation

Dear Senator Pourchot:

I am writing on behalf of the UAS Faculty Senate to express its support for the subject above. Last November the Faculty Senate witnessed a Department of Revenue presentation on this matter and has reviewed the "Background Information" prepared by your office dated 10/10/90. I hope that your office will forward a copy of the legislation for further review.

The UAS Faculty Senate finds the initiative to have merit in a number of areas. One in particular concerns the transfer of fiduciary responsibility for \$5 billion from the control of one political appointee. Further, we agree that such monies should not reside within the political arena but rather within the control of those Alaskans who earned them. It seems clear, moreover, that the funds may be brought to perform better under the safeguards that are part of the proposed structure. This performance would allow the pension funds to pay for their own maintenance as well as support solvency on behalf of beneficiaries.

As requested in your letter of November 26, 1990, to the Executive Committee of the University of Alaska General Assembly, I have written on behalf of the UAS Faculty Senate to the Southeast legislative delegation in support of this legislation, and I have written to the Commissioner of Revenue and the Governor's Chief of Staff. If you will keep me abreast of developments and recommend what more can be done to support this change, I suspect the UAS Faculty Senate will continue to support the measure.

The UAS Faculty Senate appreciates your sponsorship of this important legislation. Once again, if there be more that can be done by way of support, please call or write to me.

Sincerely yours,



Arthur M. Petersen, PhD
Associate Professor of English
UAS Faculty Senate President

cc: UAS Faculty Senate
Chancellor Marshall Lind
Donna Chantry, UAS Assembly President
And President of the Classified Association
UA General Assembly President Ray Highsmith
UA President Jerome Komisar
UA Vice President for University Relations Wendy Redman



ALASKA ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS
ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •
326 Fourth St., Suite 408, Juneau, AK 99801-1101 (907) 586-9702 FAX (907) 586-5870

POSITION PAPER

SENATE BILL 18

"AN ACT ESTABLISHING THE ALASKA STATE PENSION CORPORATION;...."

The Alaska Council of School Administrators is in support of Senate Bill 18.

ACSA has always been concerned that any changes made to the state retirement system be accomplished to first, insure the fund is actuarially sound and second, to insure the maximum rate of return on it's investments.

Further, we support the make up of The Alaska State Pension Corporation Board of Trustees with representation from all groups effected by the pension program. This includes current members of the retirement systems, representation from employer groups who would be impacted and representation appointed by the Governor. This broad base of representation will insure a close communication and shared decision making necessary for the success of the corporation.

To insure the stability of the board, we would support an amendment defining "just cause" for reasons of dismissing board members.

We would like to express our appreciation to the sponsor of this legislation for the foresightedness of the future of these retirement fund.

UNIVERSITY OF ALASKA FAIRBANKS



Governance Office
Fairbanks, Alaska 99775-0680
(907) 474-7964 • FAX: (907) 474-5213

JAN 25 1991

January 16, 1991

Senator Pat Pourchot
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

JAN 25 1991

Dear Senator Pourchot:

Enclosed is a copy of a position paper regarding the PERS/TRS fund the UAF Staff Council passed at its December 7, 1990. Currently the PERS funds are managed by the Commissioner of Revenue, a gubernatorial appointee. This places the fund in possible jeopardy because of political pressure. Fiduciary responsibility for funds of this magnitude should not be placed in the hands of just one person.

UAF Staff Council is recommending that the management board for the PERS/TRS fund be separate from the Permanent Fund because the money belongs to a different group of people. The reason for ensuring the separation of pension funds from the Permanent Fund is the difference in ownership use and needs of the PERS/TRS fund.

The paper has been forwarded to Wendy Redman, Vice President for University Relations. Vice President Redman will be lobbying the legislature on this matter.

If you have questions regarding this matter, do not hesitate to contact me at 474-6162 or Lola Oliver, President of the UAF Staff Council at 474-7114. If you would like to discuss this matter further, I will be in Juneau on April 18 and 19 for the Board of Regents meeting.

Enclosed you will also find a 1991 UAF Staff Council calendar, enjoy.

Sincerely,

Lois Hildenbrand, President-Elect
UAF Staff Council

LH/kam

Enclosures

The UAF Staff Council approved the following at its Meeting #29 on December 7, 1990:

MOTION PASSED (unanimous approval)

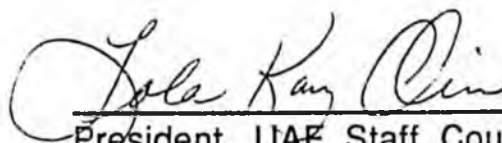
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The UAF Staff Council moves to endorse the following position paper regarding the PERS/TRS fund:

1. PERS funds should be managed and invested by a separate public corporation. This corporation should be developed for the specific purpose of managing the investment and benefit administration of public pension funds within the state of Alaska.
2. The Corporate Board of Trustees should have fiduciary responsibility for the PERS fund and any other public pension fund managed by the corporation.
3. The Board should be composed of: elected representatives of the beneficiaries of the various funds; the Commissioner of Revenue (nonvoting); and gubernatorial appointees from fund employers. There should be equal representation between employers and employees.
4. An Advisory Council of investment experts should be established by the Board. The purpose of the Council should be to provide information to the Board based on its cumulative expertise in investment matters.
5. The Board should be responsible for hiring an Executive Director for the corporation who in turn should hire his/her staff for administration of operational and investment matters.
6. Under no circumstances should the PERS funds be co-mingled with the Alaska Permanent Dividend Fund.

RATIONALE: PERS funds are currently managed by the Commissioner of Revenue, a gubernatorial appointee. This places the fund in possible jeopardy because of political pressure. Fiduciary responsibility for funds of this magnitude should not be placed in the hands of just one person. The management board for the PERS/TRS fund should be separate from the Permanent Fund

because the money belongs to a different group of people. The reason for ensuring the separation of pension funds from the Permanent Fund is the difference in ownership use and needs of the PERS/TRS fund.


President, UAF Staff Council

12/19/90

Date

DEPARTMENT OF REVENUE
POSITION PAPER

Senate Bill 18
House Bill 37
Alaska State Pension Corporation

The Department of Revenue supports the basic concepts embodied in this legislation for the following reasons:

1. a board to govern investments would improve accountability, public visibility, and continuity; and
2. the Department believes the fiduciary responsibility should not solely rest with the Commission of Revenue.

Professionalism of the Board

Preferable to an investment advisory council would be the inclusion of a minority of investment professionals on the board of the proposed corporation. It is difficult to see how exclusion of professionals as board members would be in the best interests of beneficiaries, given the fact that there is a clearly defined objective of maximizing investment earnings subject to prudence. Inclusion of professionals would seem to be an important edge in order to provide competitive investment results.

Legislative Audit stated in their June 19, 1989 Special Report on PERS and TRS that, "Some members of the board of trustees should have the necessary professional skills." Greta Marshall, former Chief Investment Officer of the California Public Employees Retirement System, in her September 17, 1990 comments to the PERS and TRS Boards (enclosed) strongly recommended placing professionals on the board. Professionals would be chief investment officers or trustees of other institutional investment funds.

Experience seems to indicate a real danger of advisory committees (as an avenue for professional input) falling into disuse. The best approach for assuring the continuing vitality of a professional component for board decision-making is inclusion of such persons on the board.

Integration of Benefits Administration with Investments

The benefits of integrating pension administration with investment need to be more clearly identified and considered in light of the resulting loss of focus and attention on investments by the board, management, and participants. It is questionable whether any possible benefits would compare with the potential adverse effects on returns on investments of over \$4.4 billion.

One of the Department's main concerns in advocating a separate organization for investment management has been to increase the visibility of, focus on, and attention to investments. For precisely these reasons, the Department both sought to extricate investment management from line agency status and opposed mixing it with the Permanent Fund.

The importance of these concerns is reflected in the fact that many of the nation's leading institutional investors have been spinning-off their investment management activities into separate organizations. Major banks with which the Department is acquainted, such as Citibank, Morgan Guaranty, Security Pacific, and Bank of America, have moved the investment management function out of their trust departments into separate subsidiaries. As indicated in the enclosed news articles, Stanford, Harvard, Princeton, and Duke Universities have done likewise. These developments are part of the trend during the 1980's in the corporate world to downsize, restructure, and spin-off corporate functions to achieve more intensive management focus and ultimately profitability. This was a reaction to the unwieldy conglomerates created in the 1970's.

Integration does not seem to be required for purposes of coordinating administrative and investment functions. The Department is able to identify very little activity that involves joint action or direct interaction of the Departments of Revenue and Administration. Most such activity consists of consolidated reporting in the PERS and TRS newsletters, audits, actuarial reports, and annual reports. In these areas, coordination is achieved as required without resorting to organizational amalgamation. The Department of Revenue's advice is provided as to two of the several assumptions used in the actuary's report--namely, the assumed investment earnings rate and the method for valuation of investments. The audit of the retirement systems as a whole, done by auditors retained by the Division of Retirement and Benefits, relies on the audits of investment assets performed by the Treasury Division's auditors. Regulations recently adopted by the Department of Revenue require the submission of various investment reports as well as an annual oral presentation of the reports and investment policy to the retirement boards. This is and has been the practice. These joint activities are sporadic and do not require daily or ongoing interaction.

Another prominent, highly successful example of the separation of benefit and investment management organizationally is that of the Department of Revenue's Permanent Fund Dividend Division and the Alaska Permanent Fund Corporation.

The one really critical link between the liabilities (benefits) side of the systems and the assets (investment) side is the long-range cash flow projections of the systems done by the systems' actuary. These are performed annually and included in the actuary's report. As Gordon S. Harrison stated in his September 27, 1990 memorandum,

"(Investment) policies should reflect the characteristics of the fund and its participants, such as the size of the fund, promised benefit scales, employer and employee contribution rates, liquidity demands by retirees, investment returns, and the turnover rate, age profile, life expectancies and salary increases of members."

The cash flow projections specifically incorporate all of these characteristics and are used by the Department to establish investment policy for the retirement funds.

Should unforeseen needs arise for coordination, avenues are available to meet the needs. Benefits administration is governed through public meetings of the retirement boards. The Department of Revenue receives meeting agendas and can attend the meetings like any public person would, or may be called upon by the Department of Administration or the boards to appear. The Department rarely has occasion to attend the boards' benefit meetings. Establishment of an investment corporation would afford similar access to the Department of Administration with respect to investment matters. This is in addition to direct consultation between the departments when needed.

BY: *R. C. Peters*

DATE: 2-11-91

BY: *[Signature]*
Department of Revenue

DATE: 2-11-91

Board of Trustees
Marc Langland,
Chairman
Charles H. Parr,
Vice-Chairman
Douglas B. Baily
John T. Kelsey
Byron I. Mallott
Hugh Malone



Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047

October 2, 1990

The Honorable
Pat Pourchot
Alaska State Senator
3111 "C" Street, Suite 545
Anchorage, Alaska 99503

Re: Position of the Board of Trustees of the Alaska Permanent Fund Corporation on the Management of the PERS/TRS Funds.


Dear Senator Pourchot:

At your request, the Board of Trustees discussed and voted on its position concerning the possible management of the PERS/TRS funds by the Alaska Permanent Fund Corporation. It was the unanimous vote of the Board that the Trustees have no interest in assuming responsibility for the management of PERS/TRS and other state investment funds that have actuarial and different liability obligations than the Alaska Permanent Fund.

In general, it is the view of the Trustees, as well as staff, that the management of the Alaska Permanent Fund involves very different management philosophies and policies than are involved in the management of retirement funds. The potential mixing of the two types of policies in one organization was felt to be detrimental for both types of funds.

I have enclosed the verbatim transcript of the portion of the Board meeting where the Trustee position was raised, discussed, and voted upon. If you have any questions, please do not hesitate to call.

Sincerely,


Marc Langland
Chairman



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

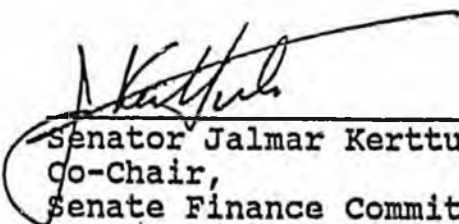
SENATE FINANCE COMMITTEE

LETTER OF INTENT

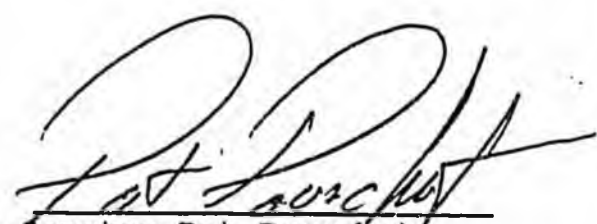
CSSSSB 18 (FIN)

An Act establishing the Alaska State Pension Corporation;
relating to the management and investment of state pension
funds and other state funds; and providing for an effective
date.

Acting within the fiduciary responsibility under the Prudent Investor Rule, the Alaska State Pension Corporation Board of Trustees is encouraged to look to and utilize local institutions and companies for investment and business opportunities within the State of Alaska.



Senator Jalmar Kerttula
Co-Chair,
Senate Finance Committee



Senator Pat Pourchot
Co-Chair,
Senate Finance Committee

FISCAL NOTE

No. 5

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Bill Version: SSSB 18 *REVISED*

(S) Publish Date: 2/22/91

Revision Date: February 11, 1991

Department Affected: Alaska State Pension Corporation

Title: Alaska State Pension Corporation

BRU: _____

Component: _____

Sponsor: Pourchot

Component Serial No.

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Requestor: Senate State Affairs

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	10,109.6	20,219.2	20,219.2	20,219.2	20,219.2	20,219.2
TOTAL OPERATING	10,109.6	20,219.2	20,219.2	20,219.2	20,219.2	20,219.2

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: Thousands of Dollars

GENERAL FUND						
FEDERAL FUNDS						
OTHER: See Attached Detail	10,109.6	20,219.2	20,219.2	20,219.2	20,219.2	20,219.2
TOTAL	10,109.6	20,219.2	20,219.2	20,219.2	20,219.2	20,219.2

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Changes in SSSB 18 (Fin) have no fiscal impact. This fiscal note is appropriate. 2/20/91

Estimate of current year impact: None

ANALYSIS: FY 92 - 97 are the amounts deleted from the Treasury budget on the attached fiscal note. FY 92 - 97 net incremental cost is \$2,889.15 which represents the management of the Supplemental Benefits Investment Fund and the difference between Treasury's original budget request and Treasury's budget per the Administration's request. This fiscal note does not take into effect a potential change of office location for the pension corporation.

Prepared by: Brian C. Andrews

Phone: 465-2350

Division: Treasury

Date: _____

Approved by Commissioner: _____

Agency: Revenue

Distribution by preparer: Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE (continued)

BILL NO.: SS SB 18

Alaska State Pension Corporation

OTHER FUNDING: Thousands of Dollars

	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
Public Employees Retirement Investment Fund	6,137.6	12,275.2	12,275.2	12,275.2	12,275.2	12,275.2
Teachers Retirement Investment Fund	3,712.65	7,425.3	7,425.3	7,425.3	7,425.3	7,425.3
Judicial Retirement Investment Fund	40.85	81.7	81.7	81.7	81.7	81.7
Military Retirement Investment Fund	8.55	17.1	17.1	17.1	17.1	17.1
Supplemental Benefits System ¹	209.95	419.9	419.9	419.9	419.9	419.9

¹ Annual Component Costs of the Supplemental Benefits System are as follows:

Personal Services \$ 68.3

Contractual Services:

Security Safekeeping \$ 28.0

Domestic Stock Management 185.6

International Stock Management 116.0

Performance Measurement 12.0

Audit 10.0

351.6

TOTAL \$419.9

FISCAL NOTE

No. 6 *REVISED*

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Bill Version: SSSB 18

(S) Publish Date: 2/22/91

Revision Date: February 11, 1991

Department Affected: Revenue

Title: Alaska State Pension Corporation

BRU: Treasury

Component: _____

Sponsor: Pourchot

Component Serial No.

	1	2	1
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	(9,846.95)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)
TOTAL OPERATING	(9,846.95)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER: See Attached Detail	(9,846.95)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)
TOTAL	(9,846.95)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)	(19,693.9)

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Changes in SSSB 18 (Fin)
have no fiscal impact.
This fiscal note is
appropriate. 2/20/91

Estimate of current year impact: None

ANALYSIS: Alaska State Pension Corporation is assumed to take over retirement fund investments January 1, 1992. FY 92 figures are half the amounts originally requested in Treasury's FY 92 budget for retirement funds. FY 93 - 97 are the full amount of the original FY 92 budget for retirement funds.

Prepared by: Brian C. Andrews *BA*

Phone: 465-2350

Division: Treasury

Date: _____

Approved by Commissioner: *[Signature]*

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE(continued)

BILL NO.: SS SB 18

Department of Revenue, Treasury Division

OTHER FUNDING: Thousands of Dollars

	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
Public Employees Retirement Investment Fund	(6,111.25)	(12,222.5)	(12,222.5)	(12,222.5)	(12,222.5)	(12,222.5)
Teachers Retirement Investment Fund	(3,686.3)	(7,372.6)	(7,372.6)	(7,372.6)	(7,372.6)	(7,372.6)
Judicial Retirement Investment Fund	(40.85)	(81.7)	(81.7)	(81.7)	(81.7)	(81.7)
Military Retirement Investment Fund	(8.55)	(17.1)	(17.1)	(17.1)	(17.1)	(17.1)

FISCAL NOTE

4

Bill Version: SSSB 18 *REVISED*

(S) Publish Date: 2/22/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act Establishing the Alaska State Pension Corporation.

Department Affected: Administration
BRU: Retirement and Benefits

Sponsor: Pourchot
Requestor: _____

Component: Retirement and Benefits

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
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
LAND & 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

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of dollar)

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

Estimate of current year impact: _____

ANALYSIS: (attach a separate page if necessary.)

Changes in SSSB 18 (FW)
have no fiscal impact.
This fiscal note is
appropriate. 2/20/91

There is no measurable fiscal to the Division from this bill.

Prepared By: Gary Bader *Gary M. Bader*
Division: Retirement and Benefits

Phone: 465-4460
Date: _____

Approved by Commissioner: Millett Keller *Millett Keller*
Agency: Department of Administration

Date: 2/18/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

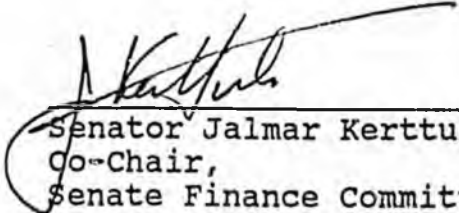
SENATE FINANCE COMMITTEE

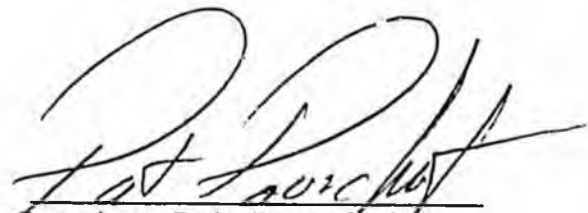
LETTER OF INTENT

CSSSSB 18 (FIN)

An Act establishing the Alaska State Pension Corporation;
relating to the management and investment of state pension
funds and other state funds; and providing for an effective
date.

Acting within the fiduciary responsibility under the Prudent Investor Rule, the Alaska State Pension Corporation Board of Trustees is encouraged to look to and utilize local institutions and companies for investment and business opportunities within the State of Alaska.


Senator Jalmar Kerttula
Co-Chair,
Senate Finance Committee


Senator Pat Pourchot
Co-Chair,
Senate Finance Committee

Adopted by the Senate 2/27




217 Second Street, Suite 200 • Juneau, Alaska 99801 • Tel (907) 586-1325, Fax (907) 463-5480

March 14, 1991

MEMORANDUM

TO: Representative Gene Kubina, Chair
Members, House State Affairs Committee

FROM: Scott A. Burgess, Executive Director 

SUBJECT: CS SS SB 18 (FIN) and Proposed Amendment

The Alaska Municipal League supports CS for SS for SB 18 (FIN) with an amendment addressing municipal taxation of certain properties held by the Corporation and urges its passage.

The Alaska Municipal League has testified before the Committee in support of similar legislation providing for a separate state corporation to manage the investment of PERS, TRS, and SBS funds. Senator Pourchot has proposed an amendment to require the State Pension Corporation to pay municipal property taxes on property acquired through foreclosure or deed in lieu of foreclosure and held for investment purposes. The amendment specifically addresses a request of the AML. Such property should be subject to municipal property taxation to compensate for the provision of municipal services which maintain or enhance the value of the property. With the amendment included as a Committee Substitute, the legislation meets the objectives and concerns of the AML.

The AML urges the Committee to pass out a CS incorporating the proposed amendment in the legislation as it passed the Senate. Thanks to the sponsor and the Committee.

A M E N D M E N T

OFFERED IN THE HOUSE

TO: CSSSSB 18(FINANCE)

*Removes tax
exemption
from property
acquired by deed
in lieu of foreclosure*

Page 5, line 28:

Delete "The"

Insert "Except as provided in AS 29.45.030(a) for property acquired through foreclosure or deed in lieu of foreclosure, the"

Page 7, after line 26:

Insert a new bill section to read:

** Sec. 5. AS 14.25.200(a) is amended to read:

(a) Except as provided in AS 29.45.030(a)(1), member [MEMBER] contributions and other amounts held in the system on behalf of a member or other person who is or may become eligible for benefits under the system are exempt from Alaska state and municipal taxes and are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge of any kind, either voluntary or involuntary, before they are received by the person entitled to the amount under the terms of the system, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the system is void. However, a member's right to receive benefits may be assigned under a qualified domestic relations order."

Renumber the following bill sections accordingly.

Page 8, after line 4:

Insert new bill sections to read:

** Sec. 8. AS 29.45.030(a) is amended to read:

(a) The following property is exempt from general taxation:

(1) municipal, state, or federally owned property, except that

(A) a private leasehold, contract, or other interest in the property is taxable to the extent of the interest;

(B) property acquired by the Alaska State Pension Corporation through foreclosure or deed in lieu of foreclosure and retained as an investment of the corporation is taxable;

(2) household furniture and personal effects of members of a household;

(3) property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes;

(4) property of a nonbusiness organization composed entirely of persons with 90 days or more of active service in the armed forces of the United States whose conditions of service and separation were other than dishonorable, or the property of an auxiliary of that organization;

(5) money on deposit;

(6) the real property of certain residents of the state to the extent and subject to the conditions provided in (e) of this section;

(7) real property or an interest in real property that is exempt from taxation under 43 U.S.C. 1620(d), as amended.

* Sec. 9. AS 29. '5 is amended by adding a new section to read:

Sec. 29.45.295. COLLECTION OF DELINQUENT TAXES ON CERTAIN GOVERNMENTAL PROPERTY. AS 29.45.300 - 29.45.490 do not apply to property taxable under AS 29.45.030(a)(1)(B). A municipality may bring an action in the superior court to compel payment of property taxes due from the Alaska State Pension Corporation, if the corporation does not pay the amount due within six months after the date that the taxes are due."Renumber the following bill sections accordingly.

Page 14, after line 6:

Insert a new bill section to read:

** Sec. 18. AS 39.35.500 is amended to read:

Sec. 39.35.500. SAFEGUARD OF EMPLOYEE FUNDS HELD BY THE SYSTEM. Except as provided in AS 29.45.030(a)(1)(B), employee [EMPLOYEE] contributions and other amounts held in the system are exempt from Alaska state and local taxes. Amounts held on behalf of, or payable to, any employee or other person who is or may become eligible for benefits under the system are not subject to anticipation, alienation, sale, transfer, assignment,

pledge, encumbrance, or charge of any kind, either voluntary or involuntary, before being received by the person entitled to the amount under the terms of the system. An attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of a right to amounts held under the system is void. However, an employee's right to receive benefits may be assigned under a qualified domestic relations order."

Renumber the following bill sections accordingly.

Page 14, line 31:

Delete "sec. 21"

Insert "sec. 25"

Page 15, line 13:

Delete "sec. 19"

Insert "sec. 23"

Page 15, line 15:

Delete "sec. 20"

Insert "sec. 24"



House State Affairs Committee

Representative Gene Kubina, Chair

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Rose Olive Drayman	Individ. JRTA	P.O. Box 021365 Juneau, AK	99802	586 - 1172	—	Y	<input checked="" type="radio"/> N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: Mar. 25, 1991

PLACE: Capitol, Room 102

SUBJECT OF MEETING:

*HB 181 - Relating to Salary Schedule for State Employees

*HB 182 - Relating to Approp: Public Employee COLA, FY 91

SB 18 - Relating to Investment of Pension Fund

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
C. J. CHRISTENSEN	ALASKA COURT SYSTEM	305 K ST. ANCHORAGE 99501			264-5228 465-4770	<input checked="" type="radio"/>	<input type="radio"/>	HB 181
P. Reinhill	JRTA	157 Belinda Ln 99501				<input type="radio"/>	<input type="radio"/>	SB 18
Rosaline D. Johnson	JRTA	P.O. Box 021368 Juneau	99802		586-1172	<input type="radio"/>	<input checked="" type="radio"/>	
✓ Marie Darlin	self	Box 2-1283 Juneau 99802-7			6-3637	<input checked="" type="radio"/>	<input type="radio"/>	SB 18
VIOLA Viola Shaw	ASRTA JRTA	631 W. 11th	99801		6-1609	<input type="radio"/>	<input checked="" type="radio"/>	SB 18
✓ Mary Lee Meene	AARP	805 Hald Belt	99801		586-2568	<input checked="" type="radio"/>	<input type="radio"/>	SB 18
Carole Oien	JRTA	P.O. Box 34852 Juneau, AK	99803		789-9264	<input type="radio"/>	<input checked="" type="radio"/>	SB 18
						<input type="radio"/>	<input type="radio"/>	
						<input type="radio"/>	<input type="radio"/>	
						<input type="radio"/>	<input type="radio"/>	
						<input type="radio"/>	<input type="radio"/>	



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: 3/25/91

PLACE: Capitol, Room 102

SUBJECT OF MEETING:
 HB 181 - Relating to Salary Schedules for State Employees
 HB 182 - Relating to Approp. Public Empl. Cost, FY 91
 SB 18 - Relating to Investment of Government

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Scott Burgess	AMU	Tucson			6-1325	<input checked="" type="radio"/> Y	<input type="radio"/> N	SB 18
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	



House State Affairs Committee

Representative Gene Kubina, Chair

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Scott Burgess	AML				60-1325	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N	SB 18
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	
						<input type="checkbox"/> Y <input type="checkbox"/> N	



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: Mar. 15, 1991

PLACE: Capitol, Room 102

SUBJECT OF MEETING:

- HB 40 - Relating to False Information in Election Pamphlets
- SB 18 - Relating to Investment of Pension Funds
- SB 32 - Relating to PERS Benefits for Youth Center Employees

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
GREG ROTH	PR JUV (CORRECTIONAL & PARENTS ASSN)	3252 HOSPITAL CON JUNO	99801		586-9433	<input checked="" type="radio"/> Y <input type="radio"/> N	SEN 32
Viola Shaw	PR State De- vired Teacher	631 W. 11 th JUNO	99801		586-1602	<input checked="" type="radio"/> Y <input type="radio"/> N	SEN 18
Patricia Campbell	"	157 BEHRENS VIE	99801		586 2626	<input type="radio"/> Y <input checked="" type="radio"/> N	SB 15
Carol Oien	"	P.O. Box 34852, JUNO	99803	787-4264		<input type="radio"/> Y <input checked="" type="radio"/> N	SB 18
Paula LaChick	PER	P.O. Box 211143, ANCHORAGE	99821	789-7420		<input type="radio"/> Y <input checked="" type="radio"/> N	SB 18
Marie Warlin	PERS	Box 2-1283 JUNO	99802	6-3637		<input checked="" type="radio"/> Y <input type="radio"/> N	SB 18
Willie Anderson	NEA/PR	105 Manich, JUNO	99801	6-3090		<input checked="" type="radio"/> Y <input type="radio"/> N	SB 18
Gary Bader	Dept of Admin	State office Building	99811	44460		<input type="radio"/> Y <input checked="" type="radio"/> N	SB 18
Darrel Rexwinkel	Dept of Revenue	S O B	99801	2300	2500	<input checked="" type="radio"/> Y <input type="radio"/> N	SB 18
Louise Lawson	RTA	2880 FRITZ CAR 6	99801	9-9655		<input type="radio"/> Y <input checked="" type="radio"/> N	18
Elizabeth Lucas	AARP-RTA	99801	"		<input type="radio"/> Y <input checked="" type="radio"/> N	18