

SB329

SENATE FINANCE COMMITTEE REPORT

DATE: 1/24/92

FURTHER:

DATE TURNED INTO OFFICE: 1-28-92

The Finance Committee considered SENATE BILL NO. 329

"An Act establishing the Alaska State Pension Investment Board; relating to management and investment of state pension funds, receipts of the supplemental employee benefits program, receipts of the deferred compensation program, and other state funds; and providing for an effective date."

and recommends:

replace with _____ CS _____ (FINANCE) same title
or adopt previous CS SB 329 (STA) new title
 attaches amendment(s) technical title change (HB only)

adopts CSSB 329 (STA) Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES: Dept/Date

zero fiscal notes _____

fiscal notes DOA-1-27-92 (2:36.1)

appropriation--no fiscal note

PREVIOUS FISCAL NOTES: Dept/Date

zero fiscal notes _____

fiscal notes DOE 12-20-91-7176.9

DO PASS:

OTHER RECOMMENDATIONS:

1. [Signature]
Co-Chair: Signature/Recommendation

2. [Signature]
Co-Chair: Signature/Recommendation

FISCAL NOTE

BILL NO. CSSB 329 (STA)

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: January 27, 1992
 Title: An Act establishing the Alaska State Pension Investment Board
 Sponsor: Pourchot
 Requestor: Senate State Affairs

Department Affected: Administration
 BRU: Retirement and Benefits
 Component: Retirement and Benefits
 COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
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
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	<2736.1>	<2736.1>	<2736.1>	<2736.1>	<2736.1>	<2736.1>
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	2736.1	2736.1	2736.1	2736.1	2736.1	2736.1
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: none

ANALYSIS: (attach a separate page if necessary.) This analysis is based on the assumption that the Department of Revenue will provide staff assistance to the board to accomplish required administrative tasks. Section 13 includes the receipts of the Supplemental Benefits System and the Deferred Compensation Program as exceptions to the list of general fund program receipts. These receipts are considered to be held in trust and not available for general appropriation and results in the transfer of funding from General Fund to Other Fund Source (Benefit Systems Receipts).

Prepared By: Gary Bader
 Division: Retirement and Benefits

Phone: 465-4470
 Date: _____

Approved by Commissioner: Nancy Bear Usga
 Agency: Department of Administration

Date: 1/27/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).
 Rev 10/90

FISCAL NOTE

No. 1

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Bill Version: SB 329

Revision Date: _____

Department Affected: Revenue

(S) Publish Date: 1-24-92

Title: Alaska State Pension Investment Board.

BRU: Operations

Component: Treasury Management

Sponsor: Senator Pourchot

Component Serial No.

Requestor: Senator Pourchot

0	1	2	1
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONNEL SERVICES	50.0	52.0	54.1	56.2	58.5	60.8
TRAVEL	99.0	80.6	83.8	87.3	90.8	94.4
CONTRACTUAL	9.6	10.0	10.4	10.8	11.2	11.7
SUPPLIES	3.3	2.6	2.7	2.8	2.9	3.0
EQUIPMENT	15.0	1.0	1.0	1.0	1.0	1.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	176.9	146.2	152.0	158.1	164.4	170.9

PITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	176.9	146.2	152.0	158.1	164.4	170.9
TOTAL	176.9	146.2	152.0	158.1	164.4	170.9

POSITIONS:

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

Changes in CSB 329 (STA)
reflect NO FISCAL CHANGE from the original
fiscal note. This fiscal note is appropriate.

Estimate of current year impact: None

ANALYSIS: See attached worksheet.
date 1-23-92 Comte Aide (initial) Marie [Signature]

Prepared by: Brian C. Andrews *[Signature]*

Phone: 465-2350

Division: Treasury

Date: December 20, 1991

Approved by Commissioner: *[Signature]*

by: Revenue

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

Cost Analysis for Investment Board Legislation
 Prepared by Brian C. Andrews
 December 20, 1991

Assumptions:	Meeting Yr 1	Meeting Yrs 2-6	Education Yrs 1-6
Number of Board members	8	8	8
Number of Meetings	6	4	5
Length of Meetings (days)	2	2	3
Travel days	1	1	1.5
Annual cost increase		4%	4%

Meeting Costs:	Per Category	Per Member	Per Meeting	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
Travel @	\$500	\$500	\$4,000	\$24,000	\$16,640	\$17,306	\$17,998	\$18,718	\$19,466
Per Diem @	150	450	3,600	21,600	14,976	15,575	16,198	16,846	17,520
Honorarium @	150	450	3,150	18,900	13,104	13,628	14,173	14,740	15,330
Supplies/Misc @	50	50	400	2,400	1,664	1,731	1,800	1,872	1,947
Total	850	1,450	11,150	66,900	46,384	48,239	50,169	52,176	54,263

Education Costs:	Per Category	Per Member	Per Meeting	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
Travel @	1,500	1,500	12,000	18,000	18,720	19,469	20,248	21,057	21,900
Per Diem @	175	788	6,300	9,450	9,828	10,221	10,630	11,055	11,497
Honorarium @	150	675	4,725	7,088	7,371	7,666	7,972	8,291	8,623
Supplies/Misc @	75	75	600	900	936	973	1,012	1,053	1,095
Registration @	800	800	6,400	9,600	9,984	10,383	10,799	11,231	11,680
Total	2,700	3,838	30,025	45,038	46,839	48,713	50,661	52,688	54,795

Personal Service Costs:	PFT	Salary	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
Board Liaison	1	50,000	50,000	52,000	54,080	56,243	58,493	60,833
Equipment - Projector/PC/Software			15,000	1,000	1,000	1,000	1,000	1,000
Total			65,000	53,000	55,080	57,243	59,493	61,833
Total Investment Board Operating Costs:			176,938	146,223	152,032	158,073	164,356	170,890

Budget Categorization:	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
Personal Service	50,000	52,000	54,080	56,243	58,493	60,833
Travel	99,038	80,639	83,865	87,219	90,708	94,336
Intra-annual	9,600	9,984	10,383	10,799	11,231	11,680
Supplies	3,300	2,600	2,704	2,812	2,925	3,042
Equipment	15,000	1,000	1,000	1,000	1,000	1,000
Ending - Other	\$176,938	\$146,223	\$152,032	\$158,073	\$164,356	\$170,890
Total	1	1	1	1	1	1

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Alaska State Legislature

SENATE

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

SENATE STATE AFFAIRS COMMITTEE

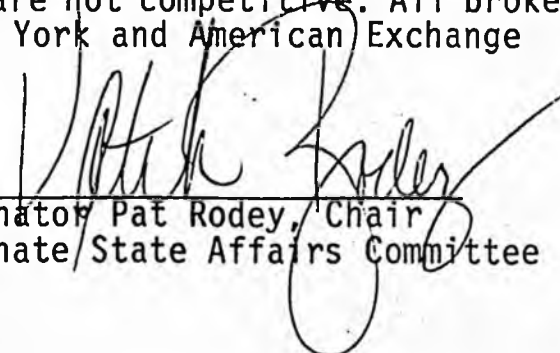
LETTER OF INTENT

CSSB 329 (STA)

An Act establishing the Alaska State Pension Investment Board; relating to management and investment of state pension funds, receipts of the supplemental employee benefits program, receipts of the deferred compensation program and other state funds; and providing for an effective date.

Acting within the fiduciary responsibility under the Prudent Investor Rule, and provided that, in the judgement of the manager, Purchase/Sale execution and transaction cost are competitive with Non-Alaska affiliated brokers, active managers are encouraged to do business with brokerage firms having offices in Alaska. The managers and index account managers are not required to execute trades with Alaska firms if they are not competitive. All brokerage firms must be members of the New York and American Exchange

1/22/92
Date


Senator Pat Rodey, Chair
Senate State Affairs Committee

CS FOR SENATE BILL NO. 329 (STATE AFFAIRS)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE STATE AFFAIRS COMMITTEE

Offered: 1/24/92
 Referred: Finance

Sponsor(s): SENATORS POURCHOT, Sturgulewski, Duncan, Collins, Pearce

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing the Alaska State Pension Investment Board; relating to management
 2 and investment of state pension funds, receipts of the supplemental employee benefits
 3 program, receipts of the deferred compensation program, and other state funds; and
 4 providing for an effective date."

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

6 * Section 1. AS 37.10 is amended by adding new sections to read:

7 ARTICLE 5. ALASKA STATE PENSION INVESTMENT BOARD.

8 Sec. 37.10.210. ALASKA STATE PENSION INVESTMENT BOARD. (a) There is
 9 established the Alaska State Pension Investment Board in the Department of Revenue. The
 10 purpose of the board is to provide prudent and productive management and investment of state
 11 pension funds and of other state funds upon agreement with the commissioner of the department
 12 or the fiduciary responsible for the fund.

13 (b) The board consists of eight trustees. Two of the trustees shall be elected by the
 14 members of the public employees' retirement system from the membership of the system.

1 Nominations may be made by the Public Employees' Retirement Board or by petition signed by
2 at least 10 persons eligible to vote in the election. One of the trustees elected from the
3 membership of the public employees' retirement system must be a participant in the supplemental
4 employee benefits program established under AS 39.30.150 - 39.30.180. Two of the trustees
5 shall be elected by the members of the teachers' retirement system from the membership of the
6 system. Nominations may be made by the Teachers' Retirement Board or by petition signed by
7 at least 10 persons eligible to vote in the election. The governor shall appoint three trustees. At
8 least one of the appointed trustees must represent employers, other than the state, who participate
9 in one of the retirement systems. The appointed trustees must have business and investment
10 experience. The commissioner of revenue serves as a trustee.

11 (c) The appointed and elected trustees shall serve for staggered terms of four years and
12 may be reappointed or reelected to the board.

13 (d) The governor may, by written notice to the trustee, remove an appointed trustee for
14 cause. The Public Employees' Retirement Board may, by written notice to the trustee, remove
15 a member elected from the membership of that retirement system for cause. The Teachers'
16 Retirement Board may, by written notice to the trustee, remove a member elected from the
17 membership of that retirement system for cause. After a trustee receives written notice of
18 removal, the trustee may not participate in board business and may not be counted for purposes
19 of establishing a quorum.

20 (e) A vacancy on the board of trustees shall be promptly filled in the same manner as
21 the seat was originally filled. A person filling a vacancy holds office for the balance of the
22 unexpired term of the person's predecessor. A vacancy on the board does not impair the
23 authority of a quorum of the board to exercise all the powers and perform all the duties of the
24 board.

25 (f) The board of trustees shall annually elect a chair from among its members.

26 (g) Five trustees constitute a quorum for the transaction of business and the exercise of
27 the powers and duties of the board.

28 (h) A trustee may not designate another person to serve on the board in the absence of
29 the trustee.

30 (i) The board shall adopt a policy concerning investment education for trustees.

31 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board shall

1 (1) hold regular and special meetings at the call of the chair or of at least four
2 members;

3 (2) establish investment policies for the funds for which it is responsible after
4 reviewing recommendations from the investment advisory council and the Department of
5 Revenue;

6 (3) submit long-range and quarterly investment reports to the Legislative Budget
7 and Audit Committee;

8 (4) report to the governor, the legislature, and employers participating in the
9 retirement systems by the first day of each regular legislative session concerning the investment
10 of funds for which the board is responsible, including financial and investment policies
11 established by the board, and enclose a summary of the most recent performance evaluations of
12 the funds managed by the board;

13 (5) contract with external performance evaluators to review the performance of
14 each fund for which the board is responsible and report each year on the fund's condition to the
15 board of trustees and to the other appropriate boards;

16 (6) engage independent certified public accountants to perform an annual audit
17 of each of the funds for which the board is responsible and to report to the board with the results
18 of the audit;

19 (7) review the actuarial earnings assumption for each fund for which the board
20 is responsible every two years and report its findings and recommendations to the appropriate
21 board or agency;

22 (8) after reviewing the recommendations from the Department of Revenue and
23 the advisory council, select and retain the external investment managers and custodians for the
24 funds managed by the board;

25 (9) develop an annual operating budget plan and present it to the Department of
26 Revenue, the office of management and budget, and the legislature.

27 (b) The board may

28 (1) employ outside investment advisors to review investment policies and make
29 recommendations to the board;

30 (2) employ legal counsel;

31 (3) contract for services necessary to carry out its powers and duties;

1 (4) enter into an agreement with the commissioner of the department or the
2 fiduciary responsible for another state fund to assume fiduciary or management responsibilities
3 for investing the other state fund;

4 (5) do all acts necessary to carry out the powers expressly granted or necessarily
5 implied in this chapter.

6 (c) The board shall meet annually, either jointly or separately, with the Public
7 Employees' Retirement Board, the Teachers' Retirement Board, and the Department of
8 Administration to review benefit administration of each of the retirement systems and of the
9 employee benefits program established under AS 39.30.150 - 39.30.180 and the deferred
10 compensation program under AS 39.45. The Department of Administration and each retirement
11 board shall report to the investment board on benefit administration and other issues for that
12 retirement system or program that may affect the investment and management of the fund.

13 (d) The chair of the board shall appoint a trustee to present the board's position to
14 legislative committees when the committees are considering the board's operating budget. The
15 board is otherwise subject to AS 37.07.

16 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Trustees are subject to the provisions
17 of AS 39.50.

18 (b) If a trustee acquires, owns, or controls an interest, direct or indirect, in an entity or
19 project in which assets under the control of the board are invested, the trustee shall immediately
20 disclose the interest to the board. The disclosure is a matter of public record and shall be
21 included in the minutes of the board meeting next following the disclosure. The board shall
22 adopt regulations to restrict trustees from having a substantial interest in an entity or project in
23 which assets under the control of the board are invested.

24 Sec. 37.10.240. REGULATIONS AND OPEN MEETINGS. (a) The board may adopt
25 regulations to implement AS 37.10.210 - 37.10.390. Regulations adopted by the board are not
26 subject to the Administrative Procedure Act (AS 44.62). The board shall adopt regulations
27 required by AS 36.30.015(f) relating to procurement. The board shall comply with the
28 requirements of AS 44.62.310 - 44.62.312.

29 (b) Notwithstanding (a) of this section, a regulation adopted under AS 37.10.210 -
30 37.10.390 shall be published in the Alaska Administrative Register and Alaska Administrative
31 Code for informational purposes. A regulation adopted under this section shall conform to the

1 style and format requirements of the drafting manual for administrative regulations that is
2 published under AS 44.62.050.

3 (c) At least 30 days before the adoption, amendment, or repeal of a regulation under this
4 chapter, the board shall provide notice of the action that is being considered. The notice must
5 include publication in one or more newspapers of general circulation in each judicial district of
6 the state.

7 (d) A regulation adopted under this chapter takes effect 30 days after adoption by the
8 board unless a later effective date is stated in the regulation.

9 (e) Notwithstanding the other provisions of this section, a regulation may be adopted,
10 amended, or repealed, effective immediately, as an emergency regulation. For an emergency
11 regulation to be effective the board must find that the immediate adoption, amendment, or repeal
12 of the regulation is necessary. The board shall, within 10 days after adoption of an emergency
13 regulation, give notice of the adoption under (c) of this section. An emergency regulation
14 adopted under this subsection may not remain in effect past the date of the next regular meeting
15 of the board unless the board complies with the procedures set out in this section and adopts the
16 regulation as a permanent regulation.

17 (f) In this section, "regulation" has the meaning given in AS 44.62.640(a).

18 Sec. 37.10.250. COMPENSATION OF TRUSTEES. Trustees, other than trustees who
19 are employees of the state or a political subdivision of the state, receive an honorarium of \$150
20 for each day spent at a meeting of the board or at a meeting of a subcommittee of the board or
21 at a public meeting as a representative of the board. Trustees who are state employees are
22 entitled to administrative leave for service as a trustee. Trustees who are employees of a political
23 subdivision of the state are entitled to leave benefits provided by their employers comparable to
24 those provided to state employees for service as a trustee. Trustees are entitled to per diem and
25 travel expenses authorized for boards and commissions under AS 39.20.180.

26 Sec. 37.10.260. STAFF. (a) The Department of Revenue shall provide staff for the
27 board.

28 (b) The board may designate a trustee or an officer or employee of the Department of
29 Revenue to be responsible for signing on behalf of the board a deed, contract, or other document
30 that must be executed by or on behalf of the board.

31 Sec. 37.10.270. INVESTMENT ADVISORY COUNCIL. (a) The board shall appoint

1 an investment advisory council composed of at least three and not more than five members.
2 Members of the council shall possess experience and expertise in financial investments and
3 management of investment portfolios for public, corporate, or union pension benefit funds,
4 foundations, or endowments.

5 (b) Members of the council serve at the pleasure of the board for staggered terms of three
6 years.

7 (c) The board shall establish the compensation of members of the council. Members of
8 the council are entitled to per diem and travel expenses authorized for boards and commissions
9 under AS 39.20.180.

10 (d) The council shall

11 (1) review the investments made by the board;

12 (2) make recommendations to the board concerning the board's investment
13 policies, investment strategy, and investment procedures;

14 (3) advise the board on selection of performance consultants and on the form and
15 content of annual reports;

16 (4) provide other advice as requested by the board.

17 (e) With approval of the board, the council may contract with other state agencies to
18 provide investment advice.

19 Sec. 37.10.280. INSURANCE. The board shall ensure that trustee assets and its own
20 services are protected. The board may purchase insurance or provide for self-insurance retention
21 in amounts recommended by the commissioner of revenue and approved by the board to cover
22 the acts, including fiduciary acts, errors, and omissions of its board members and agents. Insur-
23 ance must protect the board and the state from liability to others and from loss of trustee assets
24 due to the acts or omissions of the trustees.

25 Sec. 37.10.290. EXEMPTION FROM TAXATION. Except as provided in
26 AS 29.45.030(a) for property acquired through foreclosure or deed in lieu of foreclosure, the
27 board and all properties at any time owned by it, managed by it, or held by it in trust, and the
28 income from those activities, are exempt from all taxes and assessments in the state. All security
29 instruments issued by the board and income from them are exempt from all taxes and
30 assessments in the state, including transfer taxes.

31 Sec. 37.10.300. LIMITATIONS. The board may not engage in commercial banking

1 activity or private trust activity. The board may not act as a depository or trustee for a private
2 person, association, or corporation. The board may not act as a lender to a private person,
3 association, or corporation of money from any source except state funds under management by
4 the board.

5 Sec. 37.10.310. LIABILITY. A liability incurred by the board shall be satisfied
6 exclusively from the trust assets or trust revenue, and a creditor or other person may not have
7 a right of action against the state because of a debt, obligation, or liability of the board.

8 Sec. 37.10.390. DEFINITIONS. In AS 37.10.210 - 37.10.390, unless the context
9 otherwise requires,

10 (1) "board" means the board of trustees of the Alaska State Pension Investment
11 Board;

12 (2) "retirement systems" means the teachers' retirement system, the judicial
13 retirement system, the Alaska National Guard and Alaska Naval Militia retirement system, and
14 the public employees' retirement system.

15 * Sec. 2. AS 14.25.035(d) is amended to read:

16 (d) The commissioner of administration shall report to the board concerning the condition
17 and administration of the system. The reports shall be distributed to the members of the system.
18 The Alaska State Pension Investment Board [COMMISSIONER OF REVENUE] shall provide
19 reports to the board on the condition and investment performance of the teachers' retirement trust
20 fund including a summary of an annual external performance review.

21 * Sec. 3. AS 14.25.035 is amended by adding a new subsection to read:

22 (j) The board shall adopt regulations for the election of trustees to the Alaska State
23 Pension Investment Board and for removal from the investment board of trustees elected from
24 the system.

25 * Sec. 4. AS 14.25.180 is amended to read:

26 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The Alaska
27 State Pension Investment Board [COMMISSIONER OF REVENUE] is the [TREASURER OF
28 THE SYSTEM AND THE] fiduciary of the fund. In managing the fund, the Alaska State
29 Pension Investment Board [COMMISSIONER OF REVENUE] shall

30 (1) consider the status of the fund's investments and the system's liabilities on
31 both a current and a probable future basis;

1 (2) determine the appropriate investment objectives for the fund;
2 (3) establish investment policies aimed at achieving the objectives; and
3 (4) act only in regard to the best financial interests of the system's plan and
4 beneficiaries.

5 (b) The Alaska State Pension Investment Board [COMMISSIONER OF REVENUE]
6 may invest the fund on the basis of probable total rate of return without regard to the distinction
7 between principal and income or to the generation of income.

8 (c) In carrying out investment duties under this chapter, the Alaska State Pension
9 Investment Board [COMMISSIONER OF REVENUE] has the same powers and duties in regard
10 to the teacher's retirement trust fund as are provided in AS 37.10.071, except that the standard
11 of prudence that the board [COMMISSIONER] must obey under AS 37.10.071(c) shall be in
12 regard to the management of large trust investments rather than large investments.

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

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

23 * Sec. 6. AS 22.25.048(c) is amended to read:

24 (c) The Alaska State Pension Investment Board [COMMISSIONER OF REVENUE]
25 is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same
26 powers and duties under this section in regard to the judicial retirement trust fund as are provided
27 in AS 14.25.180.

28 * Sec. 7. AS 26.05.228(c) is amended to read:

29 (c) The Alaska State Pension Investment Board [COMMISSIONER OF REVENUE]
30 is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same
31 powers and duties under this section in regard to the fund as are provided under AS 14.25.180.

1 * Sec. 8. AS 36.30.015(f) is amended to read:

2 (f) The board of directors of the Alaska Housing Finance Corporation, notwithstanding
3 AS 18.56.088, and the board of directors of the Alaska State Housing Authority shall adopt
4 regulations under the Administrative Procedure Act (AS 44.62) and the board of trustees of the
5 Alaska State Pension Investment Board shall adopt regulations under AS 37.10.240 to
6 govern the procurement of supplies, services, professional services, and construction for the
7 respective public corporations and board. The regulations must

8 (1) reflect competitive bidding principles and provide vendors reasonable and
9 equitable opportunities to participate in the procurement process; and

10 (2) include procurement methods to meet emergency and extraordinary
11 circumstances.

12 * Sec. 9. AS 36.30.850(b)(15) is amended to read:

13 (15) a contract that is a delegation, in whole or in part, of investment powers held
14 by the commissioner of revenue under [AS 14.25.180,] AS 14.40.400, AS 14.42.200, 14.42.210,
15 AS 18.56.095, [AS 22.25.048, AS 26.05.228,] AS 37.10.070, 37.10.071, or AS 37.14 [, OR
16 AS 39.35.080];

17 * Sec. 10. AS 36.30.990(1) is amended to read:

18 (1) "agency"

19 (A) means a department, institution, board, commission, division,
20 authority, public corporation, the Alaska Pioneers' Home, or other administrative unit of
21 the executive branch of state government;

22 (B) does not include

23 (i) the University of Alaska;

24 (ii) the Alaska State Housing Authority;

25 (iii) the Alaska Railroad Corporation;

26 (iv) the Alaska Housing Finance Corporation;

27 (v) a regional Native housing authority created under AS 18.55.996

28 [,] or a regional electrical authority created under AS 18.57.020;

29 (vi) the Alaska Aerospace Developmen. Corporation;

30 (vii) the Alaska State Pension Investment Board;

31 * Sec. 11. AS 37.05.146 is amended to read:

1 Sec. 37.05.146. DEFINITION OF PROGRAM RECEIPTS. In AS 37.05.142 - 37.05.146
2 and AS 37.07.080, "program receipts" means fees, charges, income earned on assets, and other
3 state money received by a state agency in connection with the performance of its functions; all
4 program receipts except the following are general fund program receipts:

5 (1) federal receipts;

6 (2) University of Alaska receipts (AS 14.40.491);

7 (3) individual, foundation, or corporation gifts, grants, or bequests that by their
8 terms are restricted to a specific purpose;

9 (4) receipts of the following funds:

10 (A) highway working capital fund (AS 44.68.210);

11 (B) correctional industries fund (AS 33.32.020);

12 (C) loan funds;

13 (D) international airport revenue fund (AS 37.15.430);

14 (E) funds managed by the Alaska State Housing Authority (AS 18.55.020),
15 the Alaska Housing Finance Corporation (AS 18.56.020), the Alaska Railroad Corporation
16 (AS 42.40.010), the Municipal Bond Bank Authority (AS 44.85.020), the Alaska
17 Aerospace Development Corporation (AS 14.40.821), or the Alaska Industrial
18 Development and Export Authority (AS 44.88.020);

19 (F) fish and game fund (AS 16.05.100);

20 (G) school fund (AS 43.50.140);

21 (H) training and building fund (AS 23.20.130);

22 (I) retirement funds (AS 14.25, AS 22.25, AS 26.05.222, AS 39.35, and
23 former AS 39.37);

24 (J) permanent fund (art. IX, sec. 15, Alaska Constitution);

25 (K) public school fund (AS 37.14.110);

26 (L) second injury fund (AS 23.30.040);

27 (M) fishermen's fund (AS 23.35.060);

28 (N) FICA administration fund (AS 39.30.050);

29 (O) receipts of the employee benefits program established under
30 AS 39.30.150 - 39.30.180;

31 (P) receipts of the deferred compensation program established under

1 AS 39.45.

2 * Sec. 12. AS 37.10.071 is amended to read:

3 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making investments
4 under this section, the fiduciary of a state fund [COMMISSIONER OF REVENUE] shall

5 (1) act as official custodian of cash and investments by securing adequate and safe
6 custodial facilities for them;

7 (2) receive all items of cash and investments;

8 (3) collect and deposit the principal of and income from owned or acquired
9 investments;

10 (4) invest and reinvest the assets in accordance with this section;

11 (5) receive and spend appropriations to cover the cost of the exercise of duties
12 under this section;

13 (6) exercise the powers of an owner with respect to the assets;

14 (7) perform all acts, not prohibited by this section, whether or not expressly
15 authorized, that the fiduciary [COMMISSIONER] considers necessary or proper in administering
16 the assets;

17 (8) maintain accounting records in accordance with generally accepted
18 [INVESTMENT] accounting principles;

19 (9) engage an independent certified public accountant to conduct an annual audit
20 of the financial condition and investment transactions;

21 (10) enter into and enforce contracts or agreements considered necessary,
22 convenient, or desirable for the investment purposes of this section; and

23 (11) when choosing to acquire or dispose of investments, secure competitive
24 national or international market rates or prices, or the equivalence of those rates or prices in the
25 judgment of the fiduciary [COMMISSIONER].

26 (b) Under this section, the fiduciary of a state fund or the fiduciary's
27 [COMMISSIONER OR THE COMMISSIONER'S] designee may

28 (1) delegate investment, custodial, or depository authority on a discretionary or
29 nondiscretionary basis to officers or employees of the state or to independent firms, banks,
30 financial institutions, or trust companies [,] by designation through appointments, contracts, or
31 letters of [OR] authority;

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

4 (3) concentrate or diversify investments as the fiduciary [COMMISSIONER]
5 considers appropriate to increase the probable total rate of return or to decrease the overall
6 exposure to potentially adverse market value risks;

7 (4) protect the market value or the rate of return of the investments by entering
8 into forward agreements to buy or sell assets at a future date as a hedge against existing held
9 assets or as a precommitment of future cash flows;

10 (5) lend assets, under an agreement and for a fee, against deposited collateral of
11 equivalent market value;

12 (6) borrow assets on a short-term basis, under an agreement and for a fee, against
13 the deposit of collateral consisting of other assets in order to accommodate temporary cash or
14 investment needs;

15 (7) hold investments in bearer or registered form in the name of the state, a fund,
16 or nominees authorized by the fiduciary [COMMISSIONER];

17 (8) utilize consultants, advisors, custodians, investment services, and legal counsel
18 for assistance in investment matters on either a continuing or a limited-term basis and with or
19 without compensation;

20 (9) declare records to be confidential and exempt from AS 09.25.110 and
21 09.25.120 if the records contain information that discloses the particulars of the business or the
22 affairs of a private enterprise, investor, borrower, advisor, consultant, counsel, or manager.

23 (c) In exercising investment, custodial, or depository powers or duties under this section,
24 the fiduciary of a state fund [COMMISSIONER] shall exercise the judgment and care under
25 the circumstances then prevailing that an institutional investor of ordinary professional prudence,
26 discretion, and intelligence exercises in managing large investments with consideration for the
27 purpose of the fund, the investment objectives, the continuing disposition of the fund's
28 investments, and the probable safety of the capital as well as the probable investment returns.
29 With respect to the Alaska State Pension Investment Board, the fiduciaries of the board
30 shall apply the prudent investor rule and exercise their fiduciary duty in the sole financial
31 best interest of the funds entrusted to them and of the beneficiaries of those funds. The

1 trustees may not make or authorize investment decisions or voting of shares for a purpose
2 other than the sole financial best interest of the funds or beneficiaries.

3 (d) In exercising investment, custodial, or depository powers or duties under this section,
4 the fiduciary or the fiduciary's [COMMISSIONER OR A] designee [OF THE
5 COMMISSIONER] is liable for a breach of a duty that is assigned or delegated under this
6 section. or under AS 14.25.180, AS 14.40.400(b), AS 37.10.070, AS 37.14.110(c), 37.14.160,
7 37.14.170, or AS 39.35.080. However, the fiduciary or the [COMMISSIONER OR THE
8 COMMISSIONER'S] designee is not liable for a breach of a duty that has been delegated to
9 another person if the delegation is prudent under the applicable standard of prudence set out in
10 statute or if the duty is assigned by law to another person, except to the extent that the fiduciary
11 [COMMISSIONER] or designee

12 (1) knowingly participates [PARTICIPATE] in, or knowingly undertakes to
13 conceal, an act or omission of another person [,] knowing that the act or omission is a breach of
14 that person's duties under this chapter;

15 (2) by failure to comply with this section in the administration of specific
16 responsibilities, enables another person to commit a breach of duty; or

17 (3) has knowledge of a breach of duty by another person, unless the fiduciary
18 [COMMISSIONER] or designee makes reasonable efforts under the circumstances to remedy the
19 breach.

20 (e) The state shall defend and indemnify the fiduciary [COMMISSIONER] or an officer
21 or employee of the state against liability under (d) of this section to the extent that the alleged
22 act or omission was performed in good faith and was prudent under the applicable standard of
23 prudence.

24 (f) In this section, "fiduciary of a state fund" or "fiduciary" ["COMMISSIONER OF
25 REVENUE" OR "COMMISSIONER"] means

26 (1) the commissioner of revenue for investments under [AS 14.25.180 OR]
27 AS 37.10.070; [OR]

28 (2) with respect to the Alaska State Pension Investment Board, for
29 investments under AS 14.25.180,

30 (A) each trustee who serves on the board of trustees; and

31 (B) any other person who exercises control or authority with respect

1 to management or disposition of assets for which the board is responsible or who
2 gives investment advice to the board; or

3 (3) the person or body provided by law to manage the investments [,] for
4 investments not subject to AS 14.25.180 or AS 37.10.070.

5 * Sec. 13. AS 37.14.160 is amended to read:

6 Sec. 37.14.160. DUTIES OF THE COMMISSIONER OF REVENUE. The commissioner
7 of revenue is the treasurer of the trust fund created in AS 37.14.110 and shall

8 (1) in carrying out investment duties under this section, exercise the same
9 powers and duties established for the Alaska State Pension Investment Board in
10 AS 14.25.180(c);

11 (2) deposit the principal and income from investments in separate principal and
12 income accounts for the fund;

13 (3) invest and maintain accounting records that distinguish between the principal
14 and income of the fund;

15 (4) provide reports to the board established under AS 37.14.120 on the condition
16 and investment performance of the fund.

17 * Sec. 14. AS 39.30 is amended by adding a new section to read:

18 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. (a) The Alaska
19 State Pension Investment Board is the fiduciary of the mandatory receipts, under
20 AS 39.30.150(a), of the employee benefits program established under AS 39.30.150 - 39.30.180
21 and has the same powers and duties concerning the management and investment in regard to
22 those receipts as are provided under AS 14.25.180.

23 (b) The board may provide a range of investment options and permit a participant or
24 beneficiary of the program to exercise control over the assets in the individual employee annuity
25 account established under AS 39.30.150(a). If the board offers investment options, and if a
26 participant or beneficiary exercises control over the assets in the individual employee annuity
27 account,

28 (1) the participant or beneficiary is not considered a fiduciary for any reason on
29 the basis of exercising that control; and

30 (2) a person who is otherwise a fiduciary is not liable under this section for any
31 loss, or by reason of any breach, that results from the individual's exercise of control.

1 (c) If the board is considering entering into a contract or modifying an existing contract
2 concerning the management or investment of the mandatory receipts of the supplemental
3 employee benefits program, the board shall consult with the commissioner of administration
4 before making a decision on the issue.

5 (d) The board shall develop a contingency plan that addresses the board's response to
6 possible future investment problems.

7 (e) In this section, "board" means the Alaska State Pension Investment Board.

8 * Sec. 15. AS 39.35.020 is amended to read:

9 Sec. 39.35.020. ADMINISTRATION. The commissioner of administration is responsible
10 for the administration of the system and for carrying out this chapter. In addition, the
11 commissioner shall

12 (1) maintain the accounts of the system;
13 (2) make payments for the various purposes specified;
14 (3) submit periodic reports or statements of account that are needed;
15 (4) issue a statement of account to an employee requesting it showing the amount
16 of the employee's contributions to the system;

17 (5) as soon as possible after the close of each fiscal year, and not later than six
18 months after the close of each fiscal year, send to the governor, the legislature, and the board an
19 annual statement on the operations of the system containing

20 (A) a balance sheet;
21 (B) a statement of income and expenditures for the year;
22 (C) a report on an actuarial valuation of its assets and liabilities;
23 (D) a summary of assets held in the pension fund listed by the categories
24 of investment, as provided by the Alaska State Pension Investment Board
25 [COMMISSIONER OF REVENUE];

26 (E) other statistical financial data that are necessary for a proper
27 understanding of the financial condition of the system and the result of its operations;

28 (6) establish a public employees retirement trust fund in which the assets of the
29 system shall be deposited and held;

30 (7) engage an independent certified public accountant to conduct an annual audit
31 of the system's accounts and the annual report of the system's financial condition and activity;

1 (8) report to the board concerning the condition and administration of the system
2 and distribute the report to the members of the system.

3 * Sec. 16. AS 39.35.040 is amended by adding a new paragraph to read:

4 (11) adopt regulations for the election of trustees to the Alaska State Pension
5 Investment Board and for removal from the investment board of trustees elected from the system.

6 * Sec. 17. AS 39.35.080 is amended to read:

7 Sec. 39.35.080. DUTIES OF THE ALASKA STATE PENSION INVESTMENT
8 BOARD [COMMISSIONER OF REVENUE]. The Alaska State Pension Investment Board
9 [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE]
10 fiduciary of the fund. The board [COMMISSIONER] has the same powers and duties
11 established under this chapter in regard to the fund as are provided in AS 14.25.035(d) and
12 14.25.180.

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

14 Sec. 39.35.500. SAFEGUARD OF EMPLOYEE FUNDS HELD BY THE SYSTEM.
15 Except as provided in AS 29.45.030(a)(1)(D), employee [EMPLOYEE] contributions and other
16 amounts held in the system are exempt from Alaska state and local taxes. Amounts held on
17 behalf of, or payable to, any employee or other person who is or may become eligible for
18 benefits under the system are not subject to anticipation, alienation, sale, transfer, assignment,
19 pledge, encumbrance, or charge of any kind, either voluntary or involuntary, before being
20 received by the person entitled to the amount under the terms of the system. An attempt to
21 anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of a
22 right to amounts held under the system is void. However, an employee's right to receive benefits
23 may be assigned under a qualified domestic relations order.

24 * Sec. 19. AS 39.45.030(a) is repealed and reenacted to read:

25 (a) The Alaska State Pension Investment Board is authorized, subject to contracts with
26 individual employees, to invest the funds held under a deferred compensation program. The
27 board has the same powers and duties concerning the management and investment in regard to
28 those funds as are provided under AS 14.25.180.

29 * Sec. 20. AS 39.45.030 is amended by adding new subsections to read:

30 (c) The board may provide a range of investment options and permit a participant or
31 beneficiary of the program to exercise control over the assets in the individual's account. If the

1 board offers investment options, and if a participant or beneficiary exercises control over the
2 assets in the individual's account,

3 (1) the participant or beneficiary is not considered a fiduciary for any reason on
4 the basis of exercising that control; and

5 (2) a person who is otherwise a fiduciary is not liable under this section for any
6 loss, or by reason of any breach, that results from the individual's exercise of control.

7 (d) If the board is considering entering into a contract or modifying an existing contract
8 concerning the management or investment of funds of the deferred compensation program, the
9 board shall consult with the commissioner of administration before making a decision on the
10 issue.

11 (e) The board shall develop a contingency plan that addresses the board's response to
12 possible future investment problems.

13 (f) In this section, "board" means the Alaska State Pension Investment Board.

14 * Sec. 21. AS 39.50.200(b) is amended by adding a new paragraph to read:

15 (54) Alaska State Pension Investment Board (AS 37.10.210).

16 * Sec. 22. AS 44.25.020 is amended to read:

17 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue shall

18 (1) enforce the tax laws of the state;

19 (2) collect, account for, have custody of, invest, and manage all state funds and
20 all revenues of the state except revenues incidental to a program of licensing and regulation
21 carried on by another state department and funds managed and invested by the Alaska State
22 Pension Investment Board;

23 (3) register cattle brands;

24 (4) supply necessary clerical and administrative services for the Alcoholic
25 Beverage Control Board; [AND]

26 (5) invest and manage the balance of the power development fund in accordance
27 with AS 44.83.386;

28 (6) in accordance with the policies established by the board of trustees of the
29 Alaska State Pension Investment Board, collect, account for, have custody of, invest, and
30 manage the state funds for which the board is responsible.

31 * Sec. 23. AS 44.25 is amended by adding a new section to read:

1 Sec. 44.25.028. CONFLICT OF INTEREST FOR ALASKA STATE PENSION
2 INVESTMENT BOARD. (a) The commissioner of revenue may designate employees of the
3 department who are subject to the provisions of AS 39.50 because of their responsibility for
4 participating in the management or investment of the funds for which the Alaska State Pension
5 Investment Board is responsible.

6 (b) If an officer or employee of the department with responsibility for funds for which
7 the Alaska State Pension Investment Board is responsible acquires, owns, or controls an interest,
8 direct or indirect, in an entity or project in which assets under the control of the board are
9 invested, the officer or employee shall immediately disclose the interest to the board. The
10 disclosure is a matter of public record and shall be included in the minutes of the board meeting
11 next following the disclosure. The commissioner shall adopt regulations to restrict officers and
12 employees of the department from having a substantial interest in an entity or project in which
13 assets under the control of the board are invested.

14 (c) Failure to comply with the requirements of this section or regulations enacted under
15 it is grounds for termination of employment.

16 * Sec. 24. AS 39.45.030(b) is repealed.

17 * Sec. 25. TRANSITION. All litigation, hearings, investigations, and other proceedings pending
18 under a law amended or repealed by this Act, or in connection with functions transferred by this Act,
19 continue in effect and may be continued and completed notwithstanding a transfer, amendment, or repeal
20 provided for in this Act. Orders and regulations issued or adopted under authority of a law amended
21 or repealed by this Act remain in effect for the term issued, or until revoked, vacated, or otherwise
22 modified under the provisions of this Act. All contracts, rights, liabilities, and obligations created by
23 or under a law amended or repealed by this Act, and in effect on the effective date set out in sec. 30 of
24 this Act, remain in effect notwithstanding this Act's taking effect. Records, equipment, and other
25 property of agencies of the state whose functions are transferred under this Act shall be transferred
26 commensurate with the provisions of this Act.

27 * Sec. 26. ORGANIZATION OF TRUSTEES. (a) Notwithstanding AS 37.10.210(c), enacted by
28 sec. 1 of this Act, the initial terms of the members, other than the commissioner of revenue, of the board
29 of trustees of the Alaska State Pension Investment Board shall be as follows:

30 (1) one member elected from the public employees' retirement system and one appointed
31 member shall serve terms of four years;

1 (2) one member elected from the teachers' retirement system and one appointed member
2 shall serve terms of three years;

3 (3) one member elected from the public employees' retirement system and one appointed
4 member shall serve terms of two years;

5 (4) one member elected from the teachers' retirement system shall serve a one-year term.

6 (b) The board of trustees of the Alaska State Pension Investment Board may hold organizational
7 meetings as soon as a quorum of the board has been appointed to or selected for the board.

8 * Sec. 27. AS 37.10.210 and 37.10.230 - 37.10.390, enacted by sec. 1 of this Act, and sec. 26 of this
9 Act take effect July 1, 1992.

10 * Sec. 28. Except as provided in sec. 27 of this Act, this Act takes effect on the earlier of July 1,
11 1993, or the date established by resolution of the board of trustees of the Alaska State Pension
12 Investment Board for the transfer to it of securities and assets of all the funds of the retirement systems,
13 as defined in AS 37.10.390, enacted by sec. 1 of this Act, and the receipts of the employee benefits
14 program established under AS 39.30.150 - 39.50.180 and of the deferred compensation programs under
15 AS 39.45. The board shall promptly provide the revisor of statutes and the lieutenant governor with a
16 copy of this resolution.

FISCAL NOTE

BILL NO. CSSB 329 (STA)

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: April 21, 1992
Title: An Act establishing the Alaska State Pension Investment Board
Sponsor: Pourchot
Requestor: House Finance Committee

Department Affected: Administration
BRU: Retirement and Benefits
Component: Retirement and Benefits
COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
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
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	(3,013.2)	(3,013.2)	(3,013.2)	(3,013.2)	(3,013.2)	(3,013.2)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	3,013.2	3,013.2	3,013.2	3,013.2	3,013.2	3,013.2
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: none

ANALYSIS: (attach a separate page if necessary.) Updating the impact of moving the funding authority for the Supplemental Benefits System (SBS) and Deferred Compensation programs from general fund/program receipts to an "other" funding source (Benefit System Receipts). This update is congruent with the FY 93 Governor's Budget (form C21b, page 000618).

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

Phone: 465-4470
Date: April 21, 1992

Approved by Commissioner: Nancy Bear Usher
Agency: Department of Administration

Date: 4/22/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).
Rev 10/90 Page 1 of 1

580 329

Alaska State Pension Investment Board (ASPIB)

CSSB 329 (STA), Senator Pourchot

A Board of Trustees established to manage the following funds:

Public Employees Retirement System Fund **\$3.2 billion**

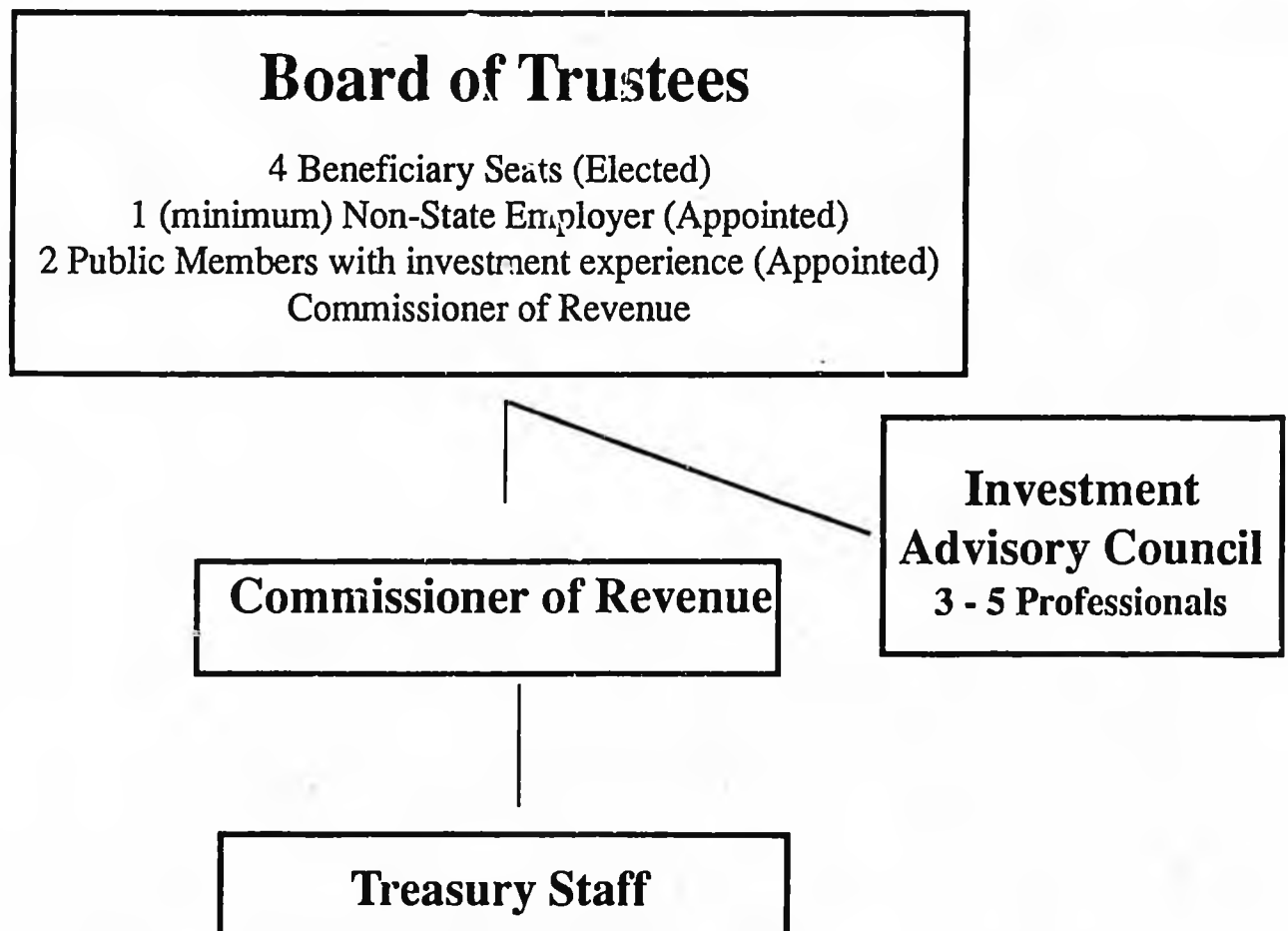
Teachers Retirement System Fund **\$1.90 billion**

Judicial Retirement System Fund **\$34.1 million**

Military Retirement Fund **\$4.2 million**

Supplemental Benefits System (SBS) **\$675 million**

Deferred Compensation **\$125 million**

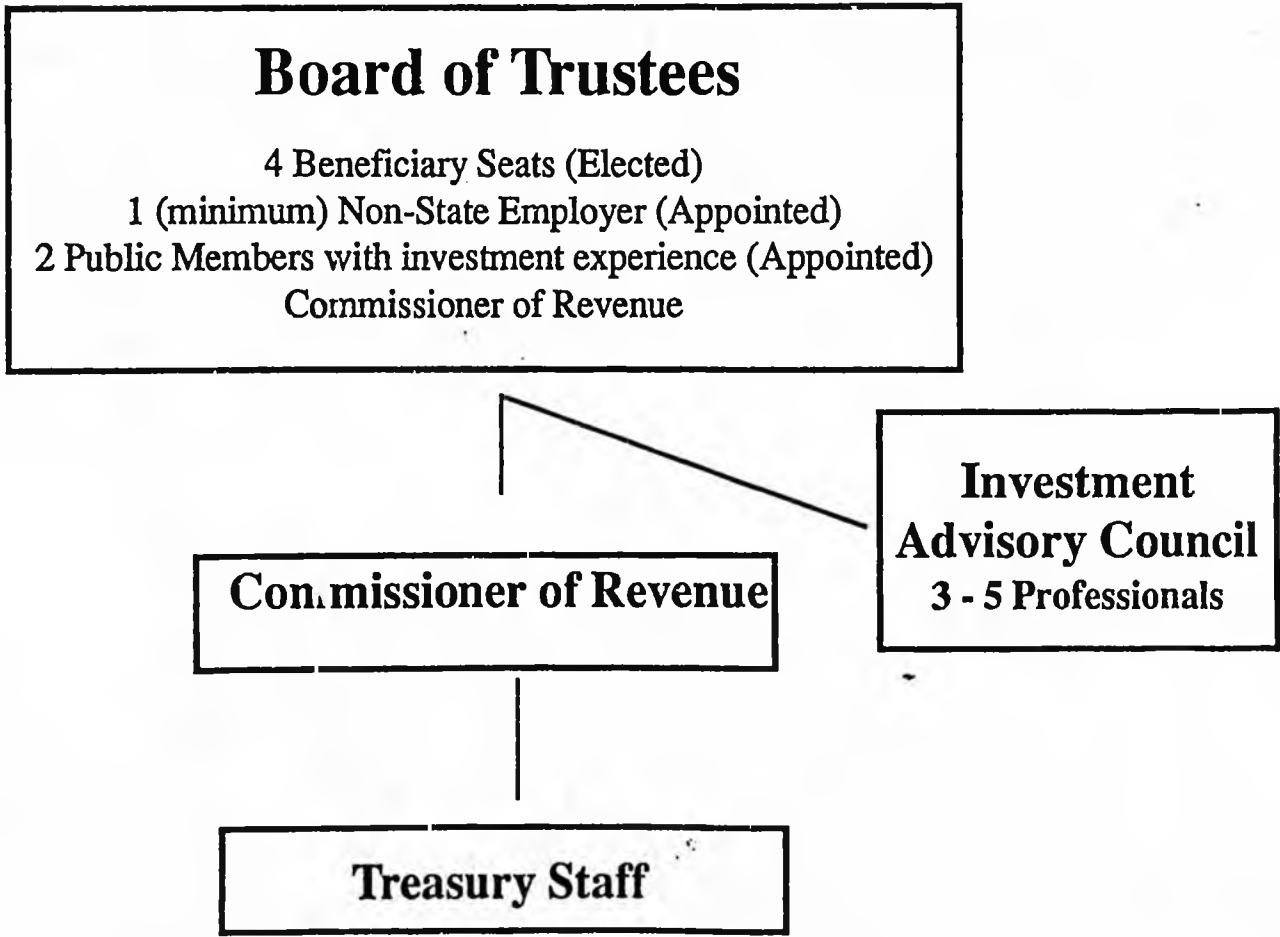


Alaska State Pension Investment Board (ASPIB)

SB 329, Senator Pourchot

A Board of Trustees established to manage the following funds:

- Public Employees Retirement System Fund **\$3.2 billion**
- Teachers Retirement System Fund **\$1.90 billion**
- Judicial Retirement System Fund **\$34.1 million**
- Military Retirement Fund **\$4.2 million**
- Supplemental Benefits System (SBS) **\$675 million**
- Deferred Compensation **\$125 million**



1/23/92
By Senator Pourchot

COMPARISON OF CSSB 329 AND SB 18 PENSION FUND MANAGEMENT

Senate Bill 18, which established the Alaska State Pension Corporation, passed both bodies in 1991 and was vetoed by the Governor. SB 329 was drafted in cooperation with the Department of Revenue and the Department of Administration and incorporates many of the concepts that were included in SB 18. The major differences between the two bills are listed below.

SB 329 ESTABLISHES A BOARD OF TRUSTEES WHICH DIRECTS THE DEPARTMENT OF REVENUE IN THE MANAGEMENT AND INVESTMENT OF PENSION FUNDS.

SB 329 does not establish a separate corporation, as was proposed in SB 18. Elimination of the corporate concept altered language in several areas of the bill. SB 329 does not contain any provisions for an executive director, corporate exempt employees, banking examination, or holding of assets. SB 329 does contain a new provision that allows the Commissioner of Revenue to designate employees who are subject to conflict of interest and whose failure to comply would be grounds for termination.

SB 329 ADDS DEFERRED COMPENSATION FUNDS TO THE PREVIOUS SB 18 LIST OF FUNDS.

The Board of Trustees in SB 329 will manage the funds of the following systems: PERS, TRS, Judicial, Military, SBS and Deferred Compensation. Provisions have been added that require the Board to consult with the Department of Administration prior to making any changes to either the SBS or the Deferred Compensation programs. The Board is also required to develop contingency plans for potential carrier investment problems for both SBS and Deferred Compensation.

SB 329 ALTERS CURRENT SBS AND DEFERRED COMPENSATION STATUTES BY CONVEYING FIDUCIARY POWERS TO THE BOARD AND ALLOWING FOR, BUT NOT REQUIRING, PARTICIPANT DIRECTED INVESTMENT PROGRAMS.

The current statutory Deferred Compensation "laundry list" of authorized investments has been deleted to allow the Board to set the investment strategy. The language is the same as that proposed for the SBS funds. Both provisions allow for a participant directed plan and if chosen, clarifies the liability limits of the fiduciary for losses due to the individual's exercise of control.

BOARD COMPOSITION:

SB 329 establishes an eight member Board, four elected and four appointed. The elected members are 1 PERS/SBS, 1 PERS, 2 TRS. The PERS and TRS Boards are empowered to set regulations concerning election and removal of the PERS/TRS board members. The Governor appointed members are: Commissioner of Revenue and three members who have investment experience, with at least one of these representing a non-state employer. The Governor may remove the appointed members for cause. The nine member board composition in SB 18 was more exacting in eligibility for both elected and appointed members and contained specific reasons for removal.

BOARD REQUIREMENTS:

In addition to the duties and responsibilities listed in SB 18, SB 329 requires that the Board shall:

1. Develop and present a budget to DOR, OMB and the Legislature
2. Review every two years, the actuarial earnings assumption for each fund and report to the appropriate boards and agencies
3. Adopt procurement regulations that include public notice requirements and emergency procedures
4. Select and monitor external investment managers
5. Meet annually with the PERS and TRS board and the Department of Administration to review benefit administration of each system.

January 23, 1992
sec.txt/Susie

SUBJECT; CSSB 329 (STA): PENSION FUND INVESTMENT LEGISLATION

TO; Senator Pat Pourchot

FROM; Susan Barnett, Staff

This legislation establishes a Board of Trustees to manage and invest the following funds: PERS, TRS, Judicial, Military, SBS and Deferred Compensation.

TITLE; An Act establishing the Alaska State Pension Investment Board, hereinafter referred to as the Investment Board; relating to management and investment of state pension funds and other state funds; and providing for an effective date.

SECTION 1: creates the Alaska State Pension Investment Board.

Sec. 37.10.210 (a) establishes the Investment Board and sets the purpose of the Investment Board as providing prudent and productive management and investment of state pension funds and other funds by agreement.

Subsection (b) sets out the eight voting trustees, two of whom are members of and elected by the Public Employees Retirement System (PERS) participants. One of the PERS elected trustees must be a participant in SBS. Two trustees are members of and elected by the Teachers Retirement System (TRS) participants. Nominations may be made by the TRS Board, PERS Board or by petition signed by at least 10 persons eligible to vote in the election. Three public member trustees are appointed by the governor, at least one of whom represents non-State participating employers. All public members shall have business and investment experience. The Commissioner of Revenue also serves as a trustee.

Subsection (c) sets out staggered four year terms for trustees. Subsections (d) and (e) set out removal "for cause" of trustees, each trustee serving at the pleasure of the appointing or electing authority and the filling of a vacancy. The PERS and TRS Boards serve as the "electing" authorities.

Subsections (f)(g)(h) set out Investment Board organization: Board elects chair annually, five trustees constitute a quorum and designees are not allowed. Subsection (i) requires trustees to adopt a policy concerning investment education.

Sec. 37.10.220 sets out the powers and duties of the Investment Board. Subsection (a) provides that the Investment Board shall establish investment policies for the funds for which it is responsible after reviewing recommendations from the advisory council and DOR, submit investment reports to the legislature,

employers, appropriate boards, departments, contract for external performance reviews, engage independent auditors, review the actuarial earnings assumption every two years and report findings to the appropriate board, select and retain external investment managers and fund custodians and develop and present a budget plan to DOR, OMB and the legislature. Subsection (b) provides that the Investment Board may employ legal counsel, engage outside investment advisors, contract for services necessary to allow the Investment Board to perform its functions, enter into an agreement to assume responsibility for other state funds upon agreement with the Commissioner of the department or the fiduciary responsible for those funds. Subsection (c) sets out that the Investment Board shall annually meet with PERS, TRS boards and the Department of Administration to review benefits administration.

Sec. 37.10.230 (a) (b) set out conflict of interest provisions for the trustees. Under this section, the Investment Board shall adopt regulations to restrict trustees from having a substantial interest in any of the fund assets.

Sec. 37.10.240 exempts the Investment Board from the Administrative Procedures Act but requires the Board to adopt and publish regulations relating to procurement that reflect competitive bidding and to provide public notification. The Investment Board must also comply with the open meetings law. Subsection (e) sets out emergency regulations procedures.

Sec. 37.10.250 sets the honorarium for trustees at \$150 per meeting day and states that those who are public employees shall serve without compensation but shall be granted administrative leave.

Sec. 37.10.260 (a) requires DOR to provide staff for the Investment Board. (b) allows Board to designate a signatory.

Sec. 37.10.270 requires the Investment Board to appoint an investment advisory council composed of at least three and not more than five members who must meet qualifications. Subsection (b) sets out that the members serve at the pleasure of the Investment Board and serve for staggered three year terms. Subsection (c) requires Investment Board to establish compensation for advisory members. Subsection (d) sets out duties of the council to include reviewing investments, recommending investment policy, advising on selection of consultants and auditors. Subsection (e) allows the council to contract with other state agencies to provide advice, with Investment Board approval.

Sec. 37.10.280 requires the Investment Board to ensure that assets held in trust are protected and that insurance must protect the board and state from liability to others and from loss of trustee assets due to acts or omissions of the trustees.

Sec. 37.10.290 exempts the retirement systems and property they own, manage or hold in trust from all taxes and assessments in the state with the exception of municipal taxation on property acquired

through foreclosure or in lieu of foreclosure.

Sec. 37.10.300 prohibits the Investment Board from engaging in commercial banking activity, from acting as a depository or trustee for a private person and from acting as a lender to a private person of money from any source other than the money from the state funds under its own management.

Sec. 37.10.310 limits the state's responsibility for liabilities of the Investment Board.

Sec. 37.10.390 defines board, retirement systems. Retirement Systems are: TRS, PERS, Judicial, Military.

SECTION 2: substitutes the Board for the Commissioner of Revenue in reporting about the condition of the teachers retirement system (TRS) and requires the Board provide the TRS board with an annual external performance review of the trust fund.

SECTION 3: requires the TRS board to adopt regulations for the election and removal of trustees to the Investment Board. Note: changes to 14.25.280 alter several other funds. 14.25.280 is considered the standard.

SECTION 4: makes the Investment Board fiduciary of the TRS fund in place of the Commissioner of Revenue and requires the Board to work in the best financial interest of the system's beneficiaries and the retirement plan.

SECTION 5: allows the Teachers Retirement System member contributions held in the system to be taxed under the proposed changes to Title 29, allowing municipal taxation of foreclosed properties.

SECTION 6: substitutes the Investment Board for the commissioner of revenue in management and investment of the Judicial Retirement Trust.

SECTION 7: substitutes the Investment Board for the commissioner of revenue in management and investment of the Alaska National Guard and Alaska Naval Militia retirement fund, referred to as the Military fund or system.

SECTIONS 8, 9 and 10 exempt the Investment Board from the procurement code but require the Board to adopt comparable procedures.

SECTION 11 includes the receipts of SBS and Deferred Compensation on the list of funds excluded from the Program Receipts/ General Fund definition.

SECTION 12 substitutes the Investment Board for the Commissioner of Revenue in the section that sets out the current statutes concerning powers and duties of the fiduciary that invests and manages state funds. In paragraph (8) the bill requires accounting

records to be kept in accordance with generally accepted accounting principles. Subsection (c) requires the fiduciary to exercise the Prudent Investor Rule in exercising powers and duties. Subsections (d) (e) require the state to defend and indemnify the fiduciary if fiduciary or the fiduciary's designee performed in good faith and was prudent. Subsection (f) defines fiduciary to include trustee, and any other person who exercises control over assets or who gives investment advice to the board.

SECTION 13 is a conforming amendment to correct the Public School Trust Fund (which is not included in the board's responsibility) statutes, to reflect changes made to the TRS statutes.

SECTION 14: identifies the Investment Board as the fiduciary of the receipts of the employee benefits program (SBS). Subsection (b) allows, but does not require, the Investment Board to offer a "participant directed" plan and protects the Board from liability from the individual's exercise of control. Subsection (c) requires the Board to consult with Commissioner of Administration prior to contracting or modifying contracts concerning management of SBS. Subsection (d) requires Board to develop a contingency plan for potential investment problems.

SECTION 15: in existing PERS statutes, requires the Investment Board to provide specified information to the commissioner of administration.

SECTION 16; requires the PERS Board to adopt regulations concerning the election and removal of trustees to the Investment Board.

SECTION 17; substitutes the Investment Board for the Commissioner of Revenue as the fiduciary for the PERS fund and references to the requirements set out in the TRS sections.

SECTION 18: allows the PERS member contributions held in the system to be taxed under the changes in Title 29, concerning foreclosed property.

SECTIONS 19 and 20; substitute the Investment Board for the commissioner of administration as investor of the deferred compensation funds and gives the Board the same powers and duties in investing Deferred Compensation funds as set out in the TRS statutes. The language is similar to that in Section 14 (SBS) concerning investments, fiduciary responsibility, consultation with Admin. and contingency planning.

SECTION 21; includes the Investment Board trustees in the conflict of interest statutes.

SECTION 22; amends the duties of the Department of Revenue to reflect the changes made by the bill and the funds for which the Board is responsible for, requires that the department collect, account for, have custody of, invest and manage the funds in accordance with the policies set by the Investment Board.

SECTION 23; allows the commissioner of Revenue to designate employees who are subject to conflict of interest provisions and sets out that failure to comply is grounds for termination.

SECTION 24; repeals definition of "insured" as the language in AS 39.45.030 (b) has been changed from an investment limitation list to the language in Sections 19 and 20 for deferred compensation and the word "insured" no longer appears in either section.

SECTION 25; is a transition section.

SECTION 26; sets out the initial terms of the Investment Board and permits the Board to hold organizational meetings as soon as a quorum has been appointed or elected.

SECTION 27; sets July 1, 1992 as the effective date for Board organization.

SECTION 28; sets the earlier of July 1, 1993 or the date established by resolution of the trustees as the effective date for the Board to begin managing and investing assets as well as other duties as defined in the bill.

LETTER OF INTENT;

TESTIMONY OF JON STABLES
ASSISTANT BUSINESS MANAGER, ASEA/AFSCME LOCAL 52
BEFORE THE SENATE FINANCE COMMITTEE
ON SENATE BILL 329
"ALASKA STATE PENSION INVESTMENT BOARD"
JANUARY 28, 1992

GOOD MORNING. FOR THE COMMITTEE RECORD, MY NAME IS JON STABLES AND I AM THE ASSISTANT BUSINESS MANAGER FOR THE ALASKA STATE EMPLOYEES ASSOCIATION/AFSCME LOCAL 52. MY BUSINESS ADDRESS IS 641 WEST WILLOUGHBY, SUITE 100, JUNEAU, ALASKA 99801.

I WANT TO THANK FINANCE COMMITTEE CO-CHAIRMEN JAY KERTTULA AND PAT POURCHOT FOR ALLOWING ME TO TESTIFY ON BEHALF OF SENATE BILL 329 TODAY, AND FOR THEIR WORK IN DEVELOPING THIS LEGISLATION.

I SHOULD POINT OUT THAT MY TESTIMONY TODAY REFLECTS THE DESIRES OF THE APPROXIMATELY 9,000 MEMBERS AND OFFICERS OF THE ALASKA STATE EMPLOYEES ASSOCIATION.

AS I AM SURE THE COMMITTEE MEMBERS RECALL, OUR ASSOCIATION SUPPORTED SENATE BILL 18 LAST YEAR, WHICH WOULD HAVE ESTABLISHED A SEPARATE STATE INVESTMENT BOARD. WE FELT THIS WAS A VERY GOOD PIECE OF LEGISLATION AND OUR ONLY REGRET IS THAT GOVERNOR HICKEL VETOED THE BILL LAST SUMMER.

WHILE SENATE BILL 329 CONTAINS A FEW SIGNIFICANT CHANGES FROM SENATE BILL 18, WE AT ASEA RECOGNIZE IT AS A COMPROMISE EFFORT TO AVOID THE GOVERNOR'S VETO THIS YEAR.

WE SUPPORT SENATE BILL 329 BECAUSE IT PROVIDES FOR THE MEMBERS AND BENEFICIARIES OF THE PUBLIC EMPLOYEES RETIREMENT SYSTEM, THE TEACHERS RETIREMENT SYSTEM, THE SUPPLEMENTAL BENEFITS SYSTEM

(CONTINUED)

SENATE FINANCE COMMITTEE
TESTIMONY OF JON STABLES ON S.B. 329
PAGE TWO

AND THOSE EMPLOYEES WITH INVESTMENTS IN THE DEFERRED COMPENSATION FUND TO ELECT THEIR REPRESENTATIVES TO THE INVESTMENT BOARD. I'M SURE IT COMES AS NO SURPRISE TO THE COMMITTEE THAT WE BELIEVE IT PRUDENT AND SENSIBLE PUBLIC POLICY TO ALLOW PUBLIC EMPLOYEES A SAY IN HOW THEIR MONEY IS INVESTED.

FURTHER, WE BELIEVE CREATION OF SUCH AN INVESTMENT BOARD, WHETHER AS A QUASI-INDEPENDENT ENTITY OR UNDER AN EXISTING STATE DEPARTMENT, IS A MAJOR STEP TOWARD AVOIDING THE TYPE OF FIASCO THAT CAME TO A HEAD LAST YEAR WITH THE STATE'S SUPPLEMENTAL BENEFITS SYSTEM AND THE SO-CALLED "GUARANTEED" INVESTMENT CONTRACTS WITH THE EXECUTIVE LIFE CORPORATION OF CALIFORNIA. MANY A CANDIDATE FOR PUBLIC OFFICE HAS BEEN BETTER ABLE TO DELIVER ON HIS OR HER CAMPAIGN GUARANTEES THAN THAT FIRM.

MANY OF THE RISKS INHERENT IN THE WAY S.B.S. FUNDS WERE INVESTED IN THE PAST WOULD BE ELIMINATED BY THE PROVISIONS IN SENATE BILL 329. FOR THE REASONS I HAVE STATED, FOR THE PROTECTION OF FUNDS INVESTED BY ALASKA'S HARD WORKING PUBLIC EMPLOYEES, AND FOR THE GOOD OF THEIR MORALE, ASEA STRONGLY URGES THE SENATE FINANCE COMMITTEE TO RECOMMEND APPROVAL OF SENATE BILL 329, AND TO PASS IT OUT TO THE SENATE RULES COMMITTEE SO IT CAN BE SCHEDULED FOR A FLOOR VOTE.

AGAIN, MY THANKS TO THE COMMITTEE CO-CHAIRMEN AND THE BILL'S SPONSOR FOR PROVIDING THE OPPORTUNITY TO TESTIFY TODAY. IF YOU HAVE ANY QUESTIONS REGARDING ASEA'S POSITION ON S.B. 329, I WILL BE PLEASED TO TRY TO ANSWER THEM.

THANK YOU.

(END TESTIMONY)



MANAGEMENT OF ALASKA STATE PENSION FUNDS
POSITION PAPER
1992

AARP POSITION

The Alaska State Legislative Committee of the American Association of Retired Persons advocates creation of an independent investment corporation to manage the state pension funds and ensure the state's prudent and faithful discharge of its investment responsibilities as the fiduciary of various trust funds.

This public corporation would carry out the state's responsibilities to facilitate the prudent maximization of trust fund earnings by providing broader and more flexible management powers.

Size of the Corporation Board of Trustees should be small (7 to 9 members, yet operationally efficient and financially prudent. Representation on the Board should include TRS and PERS members (active and retired), employers, the public, and the Commissioner of Revenue.

Provision should be made for an Investment Advisory Council to make recommendations to the Board on investment strategies and procedures. The present TRS and PERS Boards should be retained.

Benefit management should remain in the Department of Administration.

PROBLEM

Many Alaskans are contributors to various State Retirement Systems with the expectation that the funds will be carefully protected and prudently invested to ensure the availability of benefits to the eligible beneficiary upon retirement.

The State of Alaska has the responsibility for the management of investments for the trust funds (approximately \$5 billion) of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System, Military Retirement System and Elected Public Officers' Retirement System.

By law, the Commissioner of Revenue is the sole fiduciary for the investment of the funds. (The Teachers' Retirement Board and Public Employees' Retirement Board have no direct role in the investment of the funds, although the boards are responsible for administering retirement benefits.) The Commissioner is a political appointee, subject to change every four years, which is disruptive to the continuity of the investment program. Since the Commissioner of Revenue has numerous responsibilities, there are limitations on the time that he/she can devote to the management of the funds.



January 22, 1992

POSITION PAPER

SB 329 - Alaska State Pension Investment Board

The Alaska Municipal League supports the establishment of an investment board for the management and investment of state pension trust funds, including the trust funds of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS), insofar as the investment board includes representatives of trust beneficiaries and employers.

Alaskan municipalities make over half of all employer contributions to the PERS and 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 as the sole fiduciary. Under SB 329, the Board would replace the commissioner as the fiduciary of the fund.

Creation of an investment board under SB 329 will give visibility to and strengthen the trust status of pension trust funds. It would increase accountability, continuity, and public disclosure for the investment management of the funds by establishing a board as fiduciary and incorporating professional investment managers and trust administrators on an investment advisory council if not as an appointed member of the board. SB 329 also provides for representatives of beneficiaries and employers on the investment board, although the mandated number of employer representatives has been reduced from two in SB 18 to one under SB 329. The legislation provides for the exercise of fiduciary powers through the forum of regularly scheduled public meetings rather than administrative actions. A board would give management the authority to act in a timely manner and compete fully with other professional institutional investors.

The Alaska Municipal League supported the passage of SB 18 last year and supports SB 329 as an acceptable compromise in light of Governor Hickel's veto.

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