

HB

234

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

CR
FN

DATE: 5/3/94

FURTHER:

DATE TURNED INTO OFFICE: 5-4-94

The Finance Committee considered **HOUSE BILL NO. 234**

"An Act relating to endowments and donations of the University of Alaska and the University of Alaska endowment trust fund; and providing for an effective date."

and recommends:

- replace with _____ CS _____ (FINANCE)
- or adopt previous _____ CS _____ (_____)
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
<i>DOR</i>	<i>3/8/94</i>		<i>22.5</i>
<i>University</i>	<i>3/4/94</i>	<i>0</i>	

Appropriation No Fiscal Note

DO PASS:

Steve Hui Do Pass
Bob Murray Do Pass

OTHER RECOMMENDATIONS:

Patricia AK
Tim Kelly - No Rec

1. *Dick Do Pass*
Co-Chair: Signature/Recommendation

2. *Jim Deane Do Pass*
Co-Chair: Signature/Recommendation

FISCAL NOTE

No. 1

Bill Version: HB 234

(H) Publish Date: 3/9/94

**STATE OF ALASKA
1994 LEGISLATIVE SESSION**

BILL

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act relating to endowments and donations of the university BRU: Revenue Operations
 Component: Treasury
 Sponsor: Representative Davies
 Requestor: H HESS COMPONENT SERIAL NO. 121

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	22.5	22.5	22.5	22.5	22.5	22.5
TRAVEL						
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	22.5	22.5	22.5	22.5	22.5	22.5

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

REVENUE FUND SOURCE:						
----------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	22.5	22.5	22.5	22.5	22.5	22.5
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	22.5	22.5	22.5	22.5	22.5	22.5

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ 0

ANALYSIS: (Attach a separate page if necessary.)

Currently, the investment and management of the fund is a function of the Treasury and is shared among various accountants and investment managers. As a result of the fund shifting, \$22,500 would have to be funded within the Treasury. Custodial fees of approximately \$25,000 would be transferred with the Fund. Total costs to the fund for FY93 were approximately \$52,000, resulting in total charges to the Fund of approximately 0.02%.

Prepared by: Lamine L. Derr *Lamine L. Derr* Phone: 465-4880
 Division: Treasury Date: 3/8/94
 Approved by Commissioner: Darrel J. Rexwinkel *Darrel J. Rexwinkel* Date: 3/8/94
 Agency: Revenue

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FISCAL NOTE

No. 2
 Bill Version: HB 234
 (H) Publish Date: 3/9/94

STATE OF ALASKA
 1994 LEGISLATIVE SESSION

Revision Date:
 Title: "An Act relating to endowments and donations of the
 University of Alaska endowment trust fund..."
 Sponsor: Rep. Davies
 Requestor: Rep. Davies

Department Affected: University of Alaska
 BRU:
 Component:

COMPONENT SERIAL NO.

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

REVENUE FD SOURCE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL FUNDING	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:						
FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS:(Attach a separate page if necessary There is no fiscal impact.
 The university currently has its endowments administered by fund managers such as those which the Department of Revenue has managing the land grant trust fund. Investment results to the university are net of management fees, just as they are under the existing arrangement with the Department of Revenue. The costs are anticipated to remain the same. The inherent advantage of university management of the land grant trust fund in addition to its management of its endowments is the coordination of asset allocation decisions and decisions regarding interest rate risks.

Prepared by: Alison Elgee, Director Phone: 474-7593
 Statewide Budget Office: Alison Elgee, Director
 Approved by: Brian Rogers, Vice President for Finance
 Agency: University of Alaska Date: 3/4/94

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

COMMITTEE COPY

Back-up

Alaska State Legislature

HB 234

COMMITTEES
RESOURCES
COMMUNITY AND REGIONAL AFFAIRS
LEGISLATIVE BUDGET AND AUDIT

FINANCE SUBCOMMITTEES
UNIVERSITY OF ALASKA
DEPARTMENT OF NATURAL RESOURCES




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FAX (907) 456-1910

While in Session
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(907) 465-4457
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Representative John Davies
District 29

MEMORANDUM

TO: Senator Drue Pearce, Co-Chair
Senator Steve Frank, Co-Chair
Senate Finance Committee

FROM: Representative John Davies 

DATE: May 2, 1994

RE: HB 234, University of Alaska Endowment Trust Fund

I would like to request a hearing for HB 234 in Senate Finance. This legislation, sponsored by all members of the House University budget subcommittee, would simply move the investment authority for the University of Alaska endowment trust fund from the Department of Revenue to the University of Alaska. Attached is back-up information from the University of Alaska.

Thank you.

DIVISION OF LEGAL SERVICES

**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

March 22, 1993

SUBJECT: Sectional Summary of HB 234

TO: Representative John Davies

FROM: Michael F. Ford *M.F.*
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Findings.

Section 2. Provides that endowments and donations made to the University of Alaska shall be held and managed by the university.

Section 3. Requires the University of Alaska to establish an endowment trust fund in which certain income from land sales and in which endowments, donations or gifts are held.

Section 4. Provides that the President of the University of Alaska is the fiduciary of the trust fund established under AS 14.40.400(a).

Section 5. Repeals a provision requiring the commissioner of revenue to report to the legislature.

Section 6. A transition section providing that contracts, liabilities, or obligations are not affected by changes made in secs. 2 - 5 of the Act. Also requires the Department of Revenue to transfer assets and liabilities to the university.

Section 7. Effective date.

MFF:gc
93-250.glc

Post-it Fax Note	7671	Date	# of pages
To	Davies	From	Redman
Co./Dept.		Co.	
Phone #		Phone #	
Fax #	465-3519	Fax #	

University of Alaska

Statewide System

POSITION PAPER

HB 234 Management of UA Endowment Trust Funds
SPONSORS: DAVIES, Martin, Phillips, Bunde, Ulmer

The congressional acts in 1915 and 1929 granted the Territory of Alaska approximately 113,000 acres of land for the exclusive use and benefit of the University of Alaska as the successor institution to the Agricultural College and School of Mines. All earnings from the sale, lease, and use of these lands has been deposited into a trust fund established under AS 14.40.400. From 1917 through June 30, 1993, the fund has grown to approximately \$20.3 million. Based primarily on more active management of its lands by the University, the fund has doubled in size from \$10.0 million in 1983 to the current \$23.9 million.

All investment earnings from the fund are transferred to the University on a quarterly basis. In accordance with the Board of Regents' policy, these earnings are utilized to inflation-proof the principal of the fund, to pay the costs associated with maintenance of the University's lands, and to fund projects and programs primarily in support of agriculture, fisheries, natural resource management, marketing, and education. The funds are intended to provide a margin of support over and above that which would otherwise be possible through other state and federal funding.

During the previous five years, the Department of Revenue has invested the funds with moderate to good investment results, with an average rate of return of approximately 11.5 percent. In FY93, the Department of Revenue initiated an assessment against the earning of the fund for trustee services in connection with administration of the fund. During the current year, this assessment totals \$50,000.

The Board of Regents and the president of the University believe that the University can manage these funds at a comparable or better return without incurring the annual assessment for trustee services. The

contact: Wendy Redman
 University Relations
 463-3086/474-7582

University intends to coordinate management of the investments with that of its other endowments to lower the cost of administration of both funds and maximize the earnings potential.

A comparison of the investment results for the University Trust Fund held by the Department of Revenue and earnings of the University of Alaska Foundation endowment funds managed by Sirach Capital Management and the Common Fund is attached. Assuming continued growth of the fund, if earnings of the fund can be improved by an additional 2 percent, approximately \$2.5 million of additional funds will be available to support critical University projects over the next five years.

In summary, the University is requesting the transfer of the University Trust Funds to the University of Alaska. These funds are adequately protected by law from any expenditure of principal by the University. The University has demonstrated a sound investment history in relation to the University of Alaska Foundation endowment funds, and this same enterprise will be extended to the Natural Resource Endowment.



Jerome B. Komisar
President

UNIVERSITY OF ALASKA STATEWIDE SYSTEM

202 BUTROVICH BLDG
FAIRBANKS ALASKA 99775-5560
PHONE 474-7311
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March 25, 1993

The Honorable Walter J. Hickel
Governor, State of Alaska
Third Floor Capitol Building
P. O. Box 110001
Juneau, AK 99811-0001

Dear Governor Hickel:

The University of Alaska Board of Regents, at its February 26, 1993 regular meeting, unanimously adopted a resolution requesting that the Alaska legislature pass, and you sign, legislation transferring management of the University of Alaska Trust Fund assets from the Alaska Department of Revenue to the University of Alaska.

The University of Alaska Trust Fund was established pursuant to the congressional act of 1929 establishing the then Alaska Agricultural College and School of Mines as Alaska's land-grant institution. This fund contains the net income from sale or lease of university trust lands. The Board of Regents believes that because University of Alaska Trust Fund assets are shown on the balance sheet of the University of Alaska, and since the income from the University of Alaska Trust Fund is used to support university programs and services, it would be more efficient to have the University of Alaska manage these trust assets. Further efficiency and reduction in investment management fees can also be gained by management of these endowment assets with other endowment assets of the University of Alaska.

Over the past five years, the university's endowment assets managed by the University of Alaska Foundation have achieved a rate of return which was on average approximately 5 percent higher than the rate of return achieved by the Alaska Department of Revenue on the University of Alaska Trust Fund. With the current fund balance of the University of Alaska Trust Fund, a 4 percent difference translates into roughly \$800,000 per year, or \$4 million over the past five years. The university believes that the land-based revenues to the university will be of growing importance to the university as state revenues decline and is thus keenly interested in opportunities for greater return on the fund.

University of Alaska

The Honorable Walter J. Hickel


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March 25, 1993

Members of the House Finance Subcommittee on the university -- Representatives Davies, Martin, Phillips, Bunde, and Ulmer -- have introduced House Bill #234 to achieve the transfer of assets requested by the Board of Regents. The university urges the administration's support of this legislation and urges your signature when and if the bill reaches your desk.

Thank you for your continuing support of the University of Alaska.

Sincerely,



Jerome B. Komisar
President

JBK/BDR/pe

cc: Representatives Bunde, Davies, Martin, Phillips, Ulmer

University of Alaska Trust Fund

Position Paper

The congressional acts in 1915 and 1929 granted the Territory of Alaska approximately 113,000 acres of land for the exclusive use and benefit of the University of Alaska as the successor institution to the Agricultural College and School of Mines. All earnings from the sale, lease, and use of these lands has been deposited into a trust fund established under AS 14.40.400. From 1917 through June 30, 1993, the fund has grown to approximately \$20.3 million. Based primarily on more active management of its lands by the university, the fund has doubled in size from \$10.0 million in 1983 to the current \$20.3 million.

All investment earnings from the fund are transferred to the university on a quarterly basis. In accordance with Board of Regents' policy, these earnings are utilized to inflation-proof the principal of the fund, to pay the cost associated with maintenance of the university's lands, and for projects and programs primarily in support of agriculture, fisheries, natural resource management, marketing, and education. The funds were intended to provide a margin of support over and above that which would otherwise be possible through other state and federal funding.

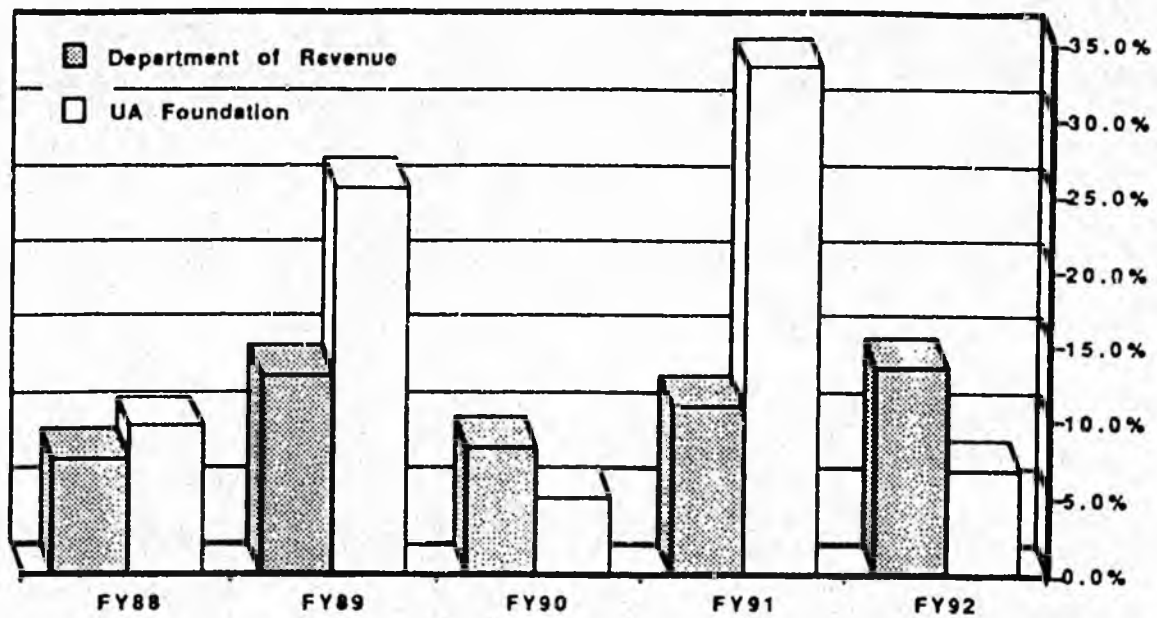
During the previous five years, the Department of Revenue has invested the funds with moderate to good investment results, with an average rate of return of approximately 10.7 percent. In FY93, the Department of Revenue initiated assessment against the earnings of the fund in the amount of \$103,291 for trustee services for FY91 and FY92 in connection with administration of the trust fund.

The Board of Regents and the president of the university believe that the university can manage these funds at a comparable or better return without incurring the annual assessment for trustee services. The university intends to coordinate management of the investments with that of its other endowments to lower the cost of administration of both funds and maximize earnings for the University Trust Fund.

A comparison of the investment results for the University Trust Fund held by the Department of Revenue and earnings of the University of Alaska Foundation endowment funds managed by Sirach Capital Management is attached. Assuming continued growth of the fund, if earnings of the fund can be improved by an additional 2 percent, approximately \$2.5 million of additional funds will be available to support critical university projects.

In summary, the university is requesting the transfer of the University Trust Funds to the University of Alaska. These funds are adequately protected by law from any expenditure of principal by the university.

University of Alaska Trust Fund Comparison of Earnings Rates



	<u>Dept. of Revenue</u>	<u>UA Foundation</u>
Annualized returns:		
One year	7.2%	6.7%
Two years	12.0%	19.3%
Three years	10.7%	14.3%
Four years	11.2%	17.0%
Five years	10.5%	15.5%

HB234- University vs. Revenue investment performance

In a report prepared by Callan Associates, Inc. for the Department of Revenue, the Department's investment performance for the University land grant trust fund was ranked against all other university endowment and trust funds in the nation. With 1 being the best and 100 being the worst, the performance for the Department of Revenue ranked 99 over the past 5 years (performance in the bottom 1%, nationwide).

The University investment of the University Endowment Fund was ranked 3 for the same five year period. (In the top 3%, nationwide).

The annual average return for the University endowment fund for the five year period was 14.7%, while the annual average return for the Department of Revenue over the same five year period for the land grant trust fund was 11.73%.

**UNIVERSITY OF ALASKA EDUCATIONAL ENDOWMENT TRUST FUND
PERFORMANCE TO DATE**

Periods Ended December 31, 1993	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 5 Years
University Endowment Fund					
Equity	2.39%	10.06%	9.36%	15.17%	11.68%
Fixed-Income	(0.57)	11.95	9.83	11.66	11.51
Total Fund	(0.02)	11.51	9.72	12.34	11.73
	<i>WA Fdn 0.4</i>	<i>13.2</i>	<i>9.7</i>	<i>15.9</i>	<i>14.7</i>
Market Indicators					
Standard & Poor's 500	2.24%	9.91%	8.79%	15.61%	14.49%
Callan Broad Market Index	2.03	10.44	9.52	17.00	14.60
Lehman Brothers Aggregate	0.06	9.75	8.57	10.99	11.28
Lehman Brothers Govt/Corp	(0.29)	11.03	9.30	11.53	11.40
Treasury Bills	0.78	3.11	3.36	4.17	5.82
Consumer Price Index	0.49	2.50	2.68	2.72	3.75
Median Rates of Return					
Total Equity Database	2.63%	12.51%	10.54%	17.26%	14.56%
Total Fixed-Income Database	0.16	10.58	9.16	11.54	11.43
Endowment Foundation Funds Database	1.50	12.14	10.37	15.28	12.85
Ranking (1--Best, 100--Worst)					
vs. Total Equity Database					
University Endowment Fund	<i>SIRACH 89</i>	44	57	23	16
Equity	56	66	60	77	92
vs. Total Fixed-Income Database					
University Endowment Fund	<i>SIRACH 75</i>	44	52	63	71
Fixed-Income	92	26	32	46	48
vs. Endowment Foundation Funds Database					
University Endowment Fund					
Total Fund	98	78	70	100	99
	<i>vs WA Fdn 90</i>	31	77	22	3
	<i>SIRACH 94</i>	41	60	29	21

For explanation of market indicators and comparable funds see end of report.
Rates of return for periods over one year are annualized.

**Performance Comparison:
State of Alaska UA Trust Fund and UA Foundation Pooled Endowment Fund**

	Last Quarter 4/1-6/30/93	Last Year FY93	Last 2 Years FY92-93	Last 3 Years FY91-93	Last 5 Years FY89-93
UA Intermed. Cash	2.10%	9.10%	10.40%	-	-
Index: Merrill Lynch 1-3 Yr. Treasury	1.10%	6.60%	8.50%	9.10%	8.80%
Index: Treasury Bills	0.75%	3.15%	3.91%	4.93%	6.28%
State Equity	0.50%	13.63%	13.52%	9.04%	-
UA Equity	1.60%	24.90%	21.40%	17.10%	18.50%
Index: S&P 500	0.53%	13.58%	13.52%	11.44%	14.19%
Index: State's Total Equity Database	1.02%	15.39%	14.66%	12.03%	13.47%
State Fixed Income	3.06%	14.30%	14.23%	12.69%	11.84%
UA Fixed Income	3.00%	13.20%	13.30%	12.50%	10.90%
Index: Lehman Bros. Govt/Corp	3.00%	13.15%	13.66%	12.50%	11.37%
Index: Total Fixed Income Database	2.77%	12.39%	13.62%	12.55%	11.42%
UA Global Bond	3.40%	14.60%	14.40%	-	-
Index: Salomon Bros. World Bond Index	3.60%	15.20%	13.40%	15.70%	13.10%
UA Int'l Equity	6.70%	8.50%	8.00%	-	-
UA Emerging Markets	6.90%	-	-	-	-
Index: MCSI EAFE Index	10.20%	21.10%	10.10%	2.60%	4.30%
State Total Fund	2.52%	14.17%	14.01%	12.63%	12.98%
UA Total Fund	2.40%	16.10%	16.00%	13.50%	14.00%
Index: State's Endowment Foundation Database	1.31%	13.66%	14.25%	11.38%	12.11%
Index: UA's Policy Index	1.90%	12.30%	12.70%	11.60%	12.00%
Average Trust Fund Balance	\$20,444,087	\$19,760,522	\$18,375,055	\$17,258,273	\$15,452,005
Yield @ State Performance	\$515,191	\$2,800,066	\$2,574,345	\$2,179,720	\$1,851,150
Yield @ UA Performance	\$490,658	\$3,181,444	\$2,940,009	\$2,329,867	\$2,163,281
Benefit (Cost) of State Management	\$24,533	(\$381,378)	(\$365,664)	(\$150,147)	(\$312,130)

Period Ending 6/30/93