

HB

234

SENATE COMMITTEE REPORT

DATE: 4/27/94

FURTHER: Finance

DATE TURNED INTO OFFICE: 5/2/94

HESS 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 _____ ()
- 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
Univ	3/4/94	✓	
Revenue	3/8/94		22.5

Appropriation No Fiscal Note

DO PASS:

Mike Miller
John Ely
Brian D. Lemmon
John D. E. Sarn

OTHER RECOMMENDATIONS:

Steve Miller Do Pass
 Chair: Signature and Recommendation

University of Alaska

Statewide System

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:

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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.

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						
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REVENUE FD SOURCE						
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FUNDING: (Thousands of Dollars)	FY95	FY96	FY97	FY98	FY99	FY00
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL FUNDING	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:	FY95	FY96	FY97	FY98	FY99	FY00
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 Date: 3/4/94
Agency: University of Alaska

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

COMMITTEE COPY

DIVISION OF LEGAL SERVICES

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MEMORANDUM

March 22, 1993

SUBJECT: Sectional Summary of HB 234

TO: Representative John Davies

FROM: Michael F. Ford
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

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).

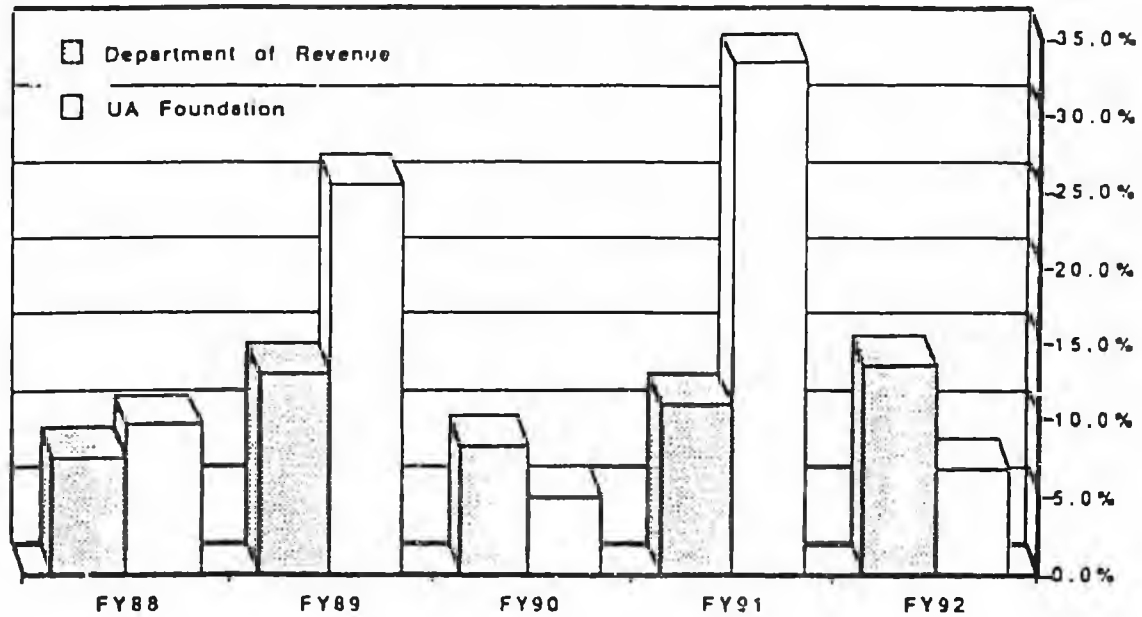
The annual average return for the University endowment fund for the five year period was 14.7%, while the annual average return for the Department of Revenue over the same five year period for the land grant trust fund was 11.73%.

**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
Market Indicators	<i>UA Fdn 0.4</i>	<i>13.2</i>	<i>9.7</i>	<i>15.9</i>	<i>14.7</i>
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>	49	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 UA 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.

University of Alaska Trust Fund Comparison of Earnings Rates



Annualized returns:	Dept. of Revenue	UA Foundation
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%

**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%	18.40%	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%	11.98%
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