

**HB**

**494**

**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**

February 17, 1994

**SUBJECT:** Sectional Summary of HB 494. (Changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority)

**TO:** Representative Eileen MacLean

**FROM:** Teresa B. Cramer *TBC*  
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.

**Section 1** amends the section that addresses investment of state funds to substitute the Alaska Pension Investment Authority (APIA), created this bill for the existing Alaska State Pension Investment Board (ASPIB). The amendment also makes the officers of the authority eligible to act as fiduciaries.

**Sec. 2** establishes the Alaska Pension Investment Authority as a public corporation and government instrumentality in the Department of Revenue with responsibility for having custody of, managing, and investing state pension funds. Previously, the section gave responsibility to the ASPIB for providing prudent and productive management and investment of state pension funds and other funds entrusted to it by the fiduciary with responsibility for the other fund.

**Sec. 3** gives the trustees of the APIA the duties that previously applied to the ASPIB.

**Sec. 4** permits the chair of the trustees of APIA to appoint the executive director or a trustee to present information to the legislature about the authority's operating budget.

**Sec. 5** makes the trustees, the executive director and the investment officers of the authority subject to the financial disclosure requirements found in AS 39.50 and

requires disclosure if one of them has an interest in an entity in which the authority has an investment.

**Sec. 6** permits the executive director of the authority to designate additional officers and employees of the authority who will also be subject to financial disclosure requirements.

**Sec. 7** permits the authority to employ an executive director who, with the approval of the trustees, may employ additional staff.

**Sec. 8** permits identification of the source of the funds for the authority's budget as the funds that the authority managements and invests.

**Sec. 9** requires the authority to ensure that the assets it holds in trust and the services of the trustees, officers, employees, and agents of the authority are protected, either by insurance or by provision of self-insurance retention.

**Sec. 10** exempts from state taxes and assessments the authority, funds managed by the authority, properties owned, managed, or held by the authority, and income from those activities or funds.

**Sec. 11** replaces the ASPIB with the APIA in a section that prohibits engaging in private banking or private trust activities.

**Sec. 12** replaces a definition of "board" (which was defined to mean the ASPIB) with a definition of "authority" (which is defined to mean the APIA).

**Sec. 13** places the officers and employees of the APIA in the exempt service.

**Sec. 14** amends the duties of the Department of Revenue with regard to state funds for which the APIA has responsibility. The section removes from the department the responsibility for having custody of, investing, and managing those funds. Under 37.10.210(a), enacted by sec. 2 of the bill, the APIA has those responsibilities.

**Sec. 15** repeals AS 44.25.028 which is made unnecessary because the APIA will directly employ staff to manage and invest funds for which the APIA has responsibility instead of using staff of the Department of Revenue. Portions of AS 44.25.028 have been added to AS 37.10.230 by bill sec. 6, adding subsection (d) to that statutory section.

**Sec. 16** directs the revisor of statutes and the regulations attorney to make the changes necessary in the state statutes and regulations to implement the name change enacted by this bill.

Representative Eileen MacLean  
February 17, 1994  
Page 3

Sec. 17 directs that the trustees of the ASPIB shall become the trustees of the APIA when the bill takes effect.

Sec. 18 transfers the business of the ASPIB to the APIA on the effective date of the bill.

Sec. 19 gives the bill an effective date of July 1, 1994.

TC:pl  
94-135.plm

RECEIVED

FEB 28 1994

7021 Hunt Ave.  
Anchorage, Ak. 99504  
February 24, 1994

Rep. Eileen MacLean  
State Capitol  
Juneau, Alaska 99811

Dear Eileen:

I have just read through your bill, HB 494, changing the Alaska State Pension Investment Board to an independent authority. I am delighted that you have introduced this bill and want to lend my strong support.

Ironically, HB 494 puts forward the original intent of my pension investment legislation introduced in 1990 and subsequently vetoed by the Governor. At that time it was felt that the costs of maintaining an independent authority or corporation were excessive. There may have also been some old fashioned territorialism involved.

However, in 1992 the Administration, largely through the efforts of Commissioner Rexwinkle, and I and others worked out compromise legislation which subsequently passed and established the Pension Investment Board which exists today. This legislation gave the Board fiduciary responsibility and independent investment power over the State's pension funds, but did not authorize a staff to carry out its policies. That function remained with the Department of Revenue.

I think everyone has been generally pleased with the functioning of the new Board and the work of the Department of Revenue. Now, however, Board members are beginning to turn their sights to the future. I share their view that the investment policies of the Board have to be followed over a reasonably long time horizon, regardless of changes in Administration. Having an Executive Director and investment officers who work exclusively for the Board would provide much greater assurance that the Board receives all the assistance it requires in its decision-making, and that Board policies and directions are strictly followed.

As we found out with SBS funds, investment of these billions of dollars is serious business, and that considerable attention and safeguards are needed. This legislation will further ensure long-term protection and enhancement of these funds to the advantage of employees as well the state and participating municipalities.

If I can be of any help, please let me know.

With warm regards,

  
Pat Pourchot

# Alaska State Pension Investment Board



P.O. Box 110400 Juneau, Alaska 99811-0400  
(907) 465-4880

March 3, 1994

The Honorable Eileen MacLean  
Alaska State Legislature  
State Capitol, Room 507  
Juneau, Alaska 99801-1182

Dear Representative MacLean:

The Treasury Division in the Department of Revenue as restructured by HB 494 will be able to improve earnings to the General Investment Fund by \$10 Million. This sum is actually a lower case expectation. Recent history shows that enhanced forecasting would have increased revenue in a range between \$23 Million and \$30 Million.

This can be achieved through enhanced cash flow forecasting and investing the funds using the improved information. However, as you would expect, there is nothing simple about the process.

The current cash flow forecasting system provides general information which is not sufficient for the investment process. The focus of the existing system is on unexpended General Fund assets. A greater emphasis towards monitoring the daily ebbs and flows of cash during the fiscal year will allow Portfolio Management staff of the Treasury Division to take greater advantage of investment opportunities. First, significant improvement can be achieved by monitoring the daily cash flows. Secondly, a significant working relationship can be established with financial officers of the appropriate departments and agencies of the State. This dialogue will educate and increase the level of communication regarding the need for timely information.

The improved level of cash flow information, as noted earlier, will allow staff to take advantage of investment opportunities. In a normal interest rate environment, an investor of fixed income securities will receive a higher return (increased yield) by investing in securities that have a longer maturity date. For example, a three-month U.S. Treasury Bill will pay a greater interest rate than an overnight investment; a six-month U.S. Treasury Bill typically has a higher payout than a three-month U.S. Treasury Bill, etc. With a greater understanding of the daily cash flow, it will not be necessary to maintain

Representative Eileen MacLean

March 3, 1994

Page 2

as high a level of residual cash on hand to meet unanticipated demands on the General Investment Fund. Not only can staff reduce the amount of cash on hand, they can take advantage of the interest rate environment and invest more comfortably in longer dated U.S. Treasury Fixed Income Securities. I emphasize that this can be achieved in the context of safety of principal and liquidity.

An example of how an improved forecast would have increased the returns in Calendar Year 1992 and for the twelve months ending October 31, 1993, is listed below. The columns represent the General Investment Fund balance, actual returns and the returns of the most representative published index. This low risk index is structured in a manner consistent with investment objectives that would be applicable given the ability to enhance cash flow forecasting.

Date Year Year Ending	GIF balance ('000's)	Actual Performance	Lehman Government 1-3 Year Index
12-31-92		4.87%	6.25%
11-30-92	\$1,420,000	0.15	<0.15>
12-31-92	\$1,423,000	0.48	0.93
1-31-93	\$1,368,000	0.49	1.05
2-28-93	\$1,374,000	0.39	0.80
3-31-93	\$1,397,000	0.29	0.31
4-30-93	\$1,417,000	0.34	0.61
5-31-93	\$1,356,000	0.13	<0.24>
6-30-93	\$2,034,000	0.38	0.75
7-31-93	\$1,050,000	0.29	0.22
8-31-93	\$1,849,000	0.37	0.83
9-30-93	\$2,312,000	0.30	0.32
10-31-93	\$2,028,000	0.26	0.22
Average 12 months ending 10-31-93	\$1,660,000	3.92%	5.77%

For the twelve months ending October 31, 1993, the additional return would have been:

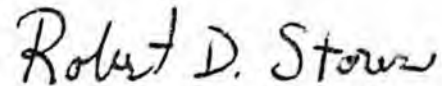
$$\$1,660,000,000 \times (5.77\% - 3.92\%) = \$30,710,000.$$

The same monthly average for Calendar Year 1992 would have increased revenue by \$22.9 Million. These returns are indicative of why staff believes an increase in revenue of \$10 Million is very conservative and achievable.

Representative Eileen MacLean  
March 3, 1994  
Page 3

I hope you find this information useful and I would be happy to provide additional information that may be required.

Sincerely,

A handwritten signature in cursive script that reads "Robert D. Storer".

Robert D. Storer  
Chief Investment Officer

94-043

cc: Darrel J. Rexwinkel, Commissioner  
Laraine L. Derr, Deputy Commissioner

PUBLIC EMPLOYEES' RETIREMENT BOARD

March 11, 1994

Honorable Al Vezey  
Chair  
House State Affairs Committee  
Room 102  
State Capitol  
Juneau, Alaska 99801-1182

F A X T R A N S M I T T A L M E M O

TO: David Harding

DEPT: Rep. Ingleton FAX #: 463-3241

FROM: Lorraine Devv PHONE: \_\_\_\_\_

CO: Treasury FAX #: \_\_\_\_\_

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RE: Support for Creation of Alaska State Pension Investment Authority

Dear Representative Vezey:

My colleagues on the Public Employees' Retirement Board have requested that I, as chair, convey to you the support of the Public Employees' Retirement Board for enactment of legislation which would create an Alaska State Pension Investment Authority. As we understand it, HB 484, "An Act Changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority and Relating to the Authority" is presently before your committee. We have reviewed that bill and believe that the intentions of the bill to convert the Alaska State Pension Investment Board into an authority is clearly an idea whose time has come and would serve the interests of the State's public employees.

As you undoubtedly know, the Public Employees' Retirement Board has advised on many issues relating to investment and administration of Alaska's public employee retirement pensions. The Board includes two elected members and three appointed members representing the retirement and benefit interests of public employees, both current and retired. The Board supported creation of the Alaska State Pension Investment Board in 1993, and has been pleased with the operations of that Board as an independent manager and fiduciary of the substantial assets of the retirement funds for public employees. Two members of the Pension Investment Board are elected representatives of the same constituency as is represented by the Public Employees' Retirement Board.

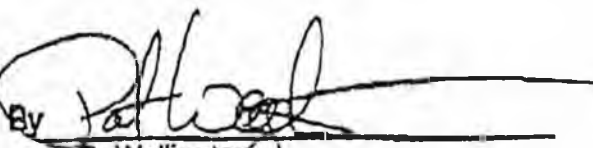
Given the substantial size of the assets now being administered by the Pension Investment Board (over \$8.5 billion), we believe that the scope of that Board's duties has evolved enough to warrant creation of an independent authority

Honorable Al Veazy  
March 11, 1994  
Page 2

to in fact handle its responsibilities. Creation of a new authority will not compound bureaucracy. Rather the creation of an authority will constitute an appropriate acknowledgment of the fact that pension funds are indeed separate from the general funds of the State of Alaska. The independent authority (consisting of staff and officers) supporting the Alaska Permanent Fund is an example of a self-supporting entity which is reflective of the importance given to the administration of that fund. The sizeable pension funds of public employees deserve similar treatment and we believe that an authority created through legislation such as HB 494 would indeed be self-supporting and protect the interests of our public employees.

We urge your support of a bill such as HB 494 creating an Alaska Pension Investment Authority. Should you have questions regarding the position or role of the Public Employees' Retirement Board in this process please feel free to contact me or other members of our Board. Thank you very much for your attention.

PUBLIC EMPLOYEES'  
RETIREMENT BOARD

By   
J. P. Wellington  
Chair

cc: Members, House State Affairs Committee  
Members, Public Employees' Retirement Board  
Members, Alaska State Pension Investment Board  
Deputy Commissioner Laraine Derr

To: Eileen MacLean, Co-Chair, Finance Committee

From: Dorothy Wells, Alaska State Pension Investment Board  
Trustee

Date: March 15, 1994

Subject: HB 494, An Act changing the Alaska State Pension  
Investment Board to the Pension Investment Authority

Since I will not be coming to Juneau to testify at the hearing regarding this bill, which I understand is scheduled for this coming Monday, March 21, I'd like to submit the following comments.

As a member of this board, I feel strongly that this change would be an excellent one. As you know, the present law gives the trustees fiduciary responsibility; however, the accountability to go along with this fiduciary responsibility is less clear. As it works now, one Board member, the Commissioner of Revenue, is in charge of hiring staff and implementing the policies of the Board. This is working well now; however, it might not always work, and then, it seems to me, it gets a little muddy about who is really responsible. It seems that if the Board has the fiduciary responsibility for the pension funds, then it has to truly be where the "buck finally stops." I think this bill would cause that to be the case.

Additionally, when the law which created the present Pension Board was passed, there was a lot of testimony about why not using the Permanent Fund Board to manage this money also. If that comes up again, I think that is an especially bad idea because of significant differences in the two funds.

1. The Pension Funds are managed with a whole different set of investment objectives than is the Permanent Fund. The payment of pensions is mandated in the Constitution -- no such mandate exists for the permanent fund dividends.

2. The Board manages assets for four different defined benefit pension plans, plus deferred compensation and the SBS funds, which are participant directed.

3. The Pension Board must coordinate with the TRS and PERS Boards and have different reporting requirements than the Permanent Fund Board.

To: Eileen MacLean, Co-Chair, Finance Committee  
From: Teachers Retirement System Board, Dorothy Wells, Chair  
Date: March 15, 1994  
Subject: HB 494, An Act changing the Alaska State Pension  
Investment Board to the Pension Investment Authority

The Teachers Retirement Board expresses strong support for HB 494, changing the Investment Board to an Investment Authority.

We feel that the continuity to be gained by creating an Investment Authority would be invaluable. Not only would there be continuity of investment policy, but also continuity of carrying out this policy -- both could only enhance investment returns, which is, of course, the ultimate goal of the Authority.

Thank you for your support of this bill.

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To MacLean	From Wells
Co. Finance	Co. TRS, ASPIB
Dept.	Phone #
Fax # 463-3241	Fax # 488-6955

# ALASKA STATE LEGISLATURE

Representative Eileen Panigeo MacLean  
Co-Chair House Finance Committee  
P.O. Box 830  
Barrow, Alaska 99723  
(907) 852-7111

WHILE IN JUNEAU  
State Capitol, Room 507  
Juneau, Alaska 99801-1182  
467-1833  
467-1525  
463-3241 FAX

## HOUSE OF REPRESENTATIVES

### MEMORANDUM

District 37

North Slope  
Borough

Anaktuvuk Pass  
Atkasuk  
Barrow  
Kaktovik  
Nulqsut  
Point Hope  
Point Lay  
Wainwright

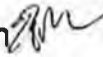
Northwest Arctic  
Borough

Ambler  
Buckland  
Deering  
Kiana  
Kivalina  
Kobuk  
Kolzebue  
Noatak  
Noorvik  
Selawik  
Shungnak

Seward Peninsula

Brevig Mission  
Diomedes  
Shishmaref  
Teller  
Wales

TO: Sen. Loren Leman, Chair  
Senate State Affairs Committee

FROM: Rep. Eileen P. MacLean 

DATE: March 30, 1994

RE: Hearing request for HB 494

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This is a request for hearing of HB 494 in the Senate State Affairs Committee.

HB 494 represents the final step in establishing an appropriate management structure for the \$7 billion fund belonging to the State's retirement systems. It establishes an investment authority as the framework for a more efficient and responsive operation of the Alaska State Pension Investment Board (ASPIB).

The ASPIB is an eight-member board of trustees created in 1992 which has fiduciary responsibility for assets of the State's defined benefit pension programs including PERS, TRS and Judicial and Military retirement systems. Two trustees are elected by the PERS membership; two are elected by the TRS membership; three are appointed by the Governor; and the eighth trustee by statute is the Commissioner of Revenue.

The current organizational structure was regarded as a compromise when the Board was established. In order to save on program costs, executive and administrative functions of the ASPIB were assigned to the Treasury Division in the Department of Revenue. This simply carried forward the administrative structure that had been in place when the Commissioner of Revenue had sole fiduciary responsibility for the defined benefit pension programs.

Prudent management practice suggests that program staff should be responsible to the person or persons holding fiduciary responsibility.

Since the ASPIB Board now holds that responsibility, it stands to reason a separate, quasi-independent authority with its own staff should be established.

Staff that reports to only one member of the Board (the Commissioner of Revenue) creates the potential for a variety of conflicts, including the allocation of staff's time between the defined benefit pension funds and other funds in the Treasury Division. If a Commissioner of Revenue strongly disagrees with other members of the ASPIB regarding policy, there is clearly the potential for the Commissioner to influence policy implementation and undercut ASPIB policy decisions.

The 1992 legislation establishing the ASPIB gave it fiduciary responsibility for management of the pension funds' assets. They are accountable, not only to the Governor, but to the 57,000 beneficiaries and the 213 political subdivisions and school districts participating in the retirement plans. Under the current structure, allocation of resources and staff obscures accountability. HB 494 corrects this inherent flaw by establishing an investment authority and authorizing the ASPIB to hire an executive director and staff directly accountable to the ASPIB.

HB 494 creates a structure consistent with the way most large public pension plans are managed. The Department believes that the additional program costs for a quasi-independent agency are minimal compared to the increased revenue returns to the General Fund generated by the Treasury Division's enhanced cash flow analysis. As the fiscal note indicates, Revenue anticipates additional General Fund revenue of \$10 million or more.

In summary, HB 494 creates an investment authority that allows the ASPIB to hire an executive director and staff to assist in management of pension assets and implementation of policy for the retirement systems. This bill creates a more efficient organization and it clearly defines responsibility and accountability for management of pension assets.

If you need further information, please contact David Harding of my staff (-6871).



# NEA-ALASKA

*Affiliated with the National Education Association*

## NEA-ALASKA POSITION STATEMENT

HB 494

NEA-Alaska, representing members of both the Teacher Retirement System and the Public Employee Retirement System, supports changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority.

By establishing a public corporation with a legal existence independent of and separate from the state, active and retired participants in the retirement systems will become more confident in the integrity and security of their vested benefits.

Creating an Authority with an executive director and other employees will provide greater opportunity to keep pace with rapid and continuous change occurring in the employee benefits field. Even though the Alaska Pension Investment Board executes its fiduciary responsibility in a dependable manner, an Authority has the potential of enhancing the financial stability of investments and promoting greater economic security for the retirement systems.

The Alaska Permanent Fund Corporation provides a good example of successful management of funds independent of state government. A system that manages the volume of investments the size of TRS and PERS must carefully evaluate investment strategy to determine if investment objectives can be better achieved. HB 494 creates a system with greater accountability between the Board and the Executive Director and the Department of Revenue to achieve economic security for the system. The Authority will have the capacity to evaluate system performance against the employees it hires to achieve the investment returns necessary for a sound system.

One of the biggest employee needs is the need for economic security. In retirement years, economic security is the insurance against poverty and low income, and it is the assurance that one will have the ability to obtain the medical care that grows more important, and more expensive, as we age.

We believe that HB 494 will help achieve economic security for the system in the short term so that our employees enjoy economic security in the long term.

3-12-94



# NEA-ALASKA

*Affiliated with the National Education Association*

## NEA-ALASKA POSITION STATEMENT

HB 494

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Creating an Authority with an executive director and other employees will provide greater opportunity to keep pace with rapid and continuous change occurring in the employee benefits field. Even though the Alaska Pension Investment Board executes its fiduciary responsibility in a dependable manner, an Authority has the potential of enhancing the financial stability of investments and promoting greater economic security for the retirement systems.

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One of the biggest employee needs is the need for economic security. In retirement years, economic security is the insurance against poverty and low income, and it is the assurance that one will have the ability to obtain the medical care that grows more important, and more expensive, as we age.

We believe that HB 494 will help achieve economic security for the system in the short term so that ~~our~~ employees enjoy economic security in the long term.

3-12-94  
4-18-94

# Alaska State Pension Investment Board



P.O. Box 110400 Juneau, Alaska 99811-0400  
(907) 465-4880

## Position Paper

### An Act Establishing the Alaska Pension Investment Authority

#### Position

The Trustees of the Alaska State Pension Investment Board (ASPIB) passed a motion without opposition to request legislation to establish the Alaska Pension Investment Authority (APIA). This action signifies the Trustees' strong belief that a separate authority is in the best interest of the beneficiaries and employers participating in the retirement systems for which the Trustees have fiduciary responsibility. The Trustees respectfully request support for this important legislation from members of the legislature and the Governor.

#### Background

SB 329 created the Alaska State Pension Investment Board and gave the Trustees the fiduciary responsibility for management and investment of the State's retirement assets. This proposed legislation to create the APIA provides the Trustees direct authority over staff to carry out the Trustee's fiduciary responsibilities. Conversely, SB 329 requires that staff for the ASPIB be provided by the Department of Revenue, Treasury Division. Therefore, many staff members have dual roles that are potentially conflicting and multiple organizations to which they are responsible. Creating the APIA, and staffing it with employees directly accountable to the APIA, will clearly define responsibilities for management of retirement system assets. The Trustees believe that it is imperative to have a staff responsible solely to them to provide a more focused effort. This will assure their ability to properly manage the funds.

#### Implementation Costs

Two fiscal notes associated with this legislation identify budgetary impacts from the formation of the APIA - one for ASPIB/APIA and one for the Treasury Division.

#### ASPIB/APIA Fiscal Note

The ASPIB/APIA fiscal note provides detail of the annual 2.7% increase over that budgeted for the ASPIB. The increase is primarily from staffing requirements and the need for additional office space. This legislation would result in the addition of only one-half full time equivalent

(FTE) position for the ASPIB/APIA budget. The increased cost for office space is due to the fact that the APIA will require separate facilities. ASPIB is not currently charged for the use of space within the Treasury Division. Other overhead costs for the Treasury Division are expected to decrease.

Treasury Fiscal Note

The revised structure for the Treasury Division would result in the generation of an additional \$10 million of revenues available for General Fund appropriation. This would occur as a result of the redirection of staff to enhance forecasting and management of the General Fund cash resources and would require the addition of 6.8 FTE positions. The additional \$10 million far outweighs any additional costs and further demonstrates the benefit from a more concentrated focus of effort.

Summary

Actuarial soundness of the retirement systems would not be adversely impacted as a result of this legislation. In fact, formation of the APIA, with a proper operational structure to direct staff, should result in increased returns over time, enhancing the actuarial soundness and overall integrity of the systems.

This legislation provides amendments to Alaska Statutes necessary for the establishment and operation of the APIA. This will allow the Trustees to properly manage and invest the retirement funds for which they currently have fiduciary responsibility. The trustees of the ASPIB strongly believe that this action is in the best interest of all of the beneficiaries and employers who participate in the various retirement systems under their control.

William A. Corbus  
William A. Corbus, Chair

Gail R. Oba  
Gail R. Oba, Vice-Chair

Gary M. Bader  
Gary M. Bader, Secretary

3/3/94  
Date

**RETIREMENT FUND ORGANIZATIONAL SURVEY**  
**March 4, 1994**

In order to ascertain the fiduciary responsibility and structure of large public retirement funds, a survey was conducted by staff of the Department of Revenue. The survey was designed to gather information about boards, staff, and accountability. The following questions were asked:

- In regard to investment of pension funds, who is the fiduciary?
- If a Board, is there a sub-committee?
- If an individual, is the position elected or appointed?
- To whom does the chief administrative officer report?
- To whom do investment staff report?

Respondents were selected from Pensions & Investments, January 24, 1994, which listed the top 200 pension funds in the United States. Only public funds above \$5 billion were surveyed. This group included 46 public retirement funds.

Results were as follows:

- Thirty-seven (37) had boards with fiduciary responsibility and staff reporting to the administrative officer hired by the Board
- Six (6) had sole fiduciaries, either state treasurers or chief financial officers, with staff reporting directly. Of the six, four were elected and two appointed.
- Three (3) had boards, Oregon PERS, New York City and Alaska State, where the staff reported to the treasurer or other individual
  - New York City has a comptroller who is on the board of trustees. The comptroller is elected and investment staff report to the comptroller
  - Alaska State has a commissioner who is on the board of trustees. The commissioner is appointed and investment staff report to the commissioner
  - Oregon has a state treasurer that is elected and reports to the investment council. Investment staff report to the treasurer.

## WHY SHOULD THE PENSION FUNDS BE INVESTED SEPARATELY FROM THE PERMANENT FUND?

The two Boards have a different focus for investment of funds. Significant points that detail those differences are as follows:

- Pension funds have a Constitutional mandate that there can be no diminishment of benefits - liabilities accrue and must be paid
- Permanent fund has discretionary liabilities - dividend payments are not mandatory
- Pension funds manage assets for four different defined benefit programs with different investment objectives. Deferred compensation and Supplemental Benefit System funds are participant directed.
- Pension funds are managed on a market basis as mandated by GAAP
- Permanent fund is managed on a cost basis
- Pension funds need elected membership on the Board who represent the beneficiaries
- Permanent fund Board is appointed by the Governor
- Each Board operates with a different set of investment objectives
- Permanent fund manages funds to a legal list
- Pension funds are managed with the prudent investor rule and is generally bound by ERISA guidelines.
- Competition and shared information leads to better results for both funds
- Pension funds must coordinate with PERS and TRS Boards and have different reporting guidelines than the Permanent Fund
- Pensions funds are able to be managed with greater rate of return giving the funds greater returns over time than the Permanent Fund
- Redundancy in the funds work to everyone's benefit -- currently the Permanent Fund is back-up for the Pension Funds with disaster control in the data processing area and vice-versa. The funds are able to help one another and it would not be in anyone's best interest to have 85% of the State's assets under control of one Board (the old eggs in one basket theory!)

**Sponsor Statement**  
**HB 494**  
**Rep. Eileen Panigeo MacLean**

This bill (HB 494) is the final building block in creating an organization focused solely on managing over \$7 billion in financial assets belonging to the State's retirement systems. This legislation is important to the State, its political subdivisions and school districts, and all beneficiaries of the retirement systems. It represents the culmination of an extensive effort to ensure the best financial returns on the assets of the retirement systems, in an organizational structure responsible to participating interests.

This bill establishes an investment authority as the structural framework for the responsive and efficient operation of the Alaska State Pension Investment Board (ASPIB). The ASPIB is an eight member board of trustees created in 1992 by SB 329 (36 yes, 4 no in the House and 18 yes, 0 no in the Senate). The ASPIB has fiduciary responsibility for assets of the State's defined benefit pension programs including Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and Judicial and Military Retirement Systems, and assets of the Supplemental Benefits System (SBS) and the Deferred Compensation program.

All eight trustees are voting members and at least five votes are required to approve any action. Two trustees are elected by the Public Employees' System (PERS) participants from the membership of the system; one must be a participant in SBS. Two trustees are elected by the Teachers' Retirement System (TRS) participants from the membership of the system. Three trustees are appointed by the Governor; one must represent a participating employer. The eighth trustee by statute is the Commissioner of Revenue.

Board structure is important for balancing accountability to the people of Alaska with direct representation by beneficiaries of the retirement systems. This balance was established by SB 329 when the shared fiduciary board was established and prudent pension fund asset management practices were passed into law. An earlier bill in 1991, SB 18, "An Act establishing the Alaska State Pension Corporation..", passed the legislature (28 yes, 11 no in the House and 17 yes, 0 no in the Senate) but was vetoed by the Governor. There were two significant reasons why the legislation was vetoed: board composition and program costs.

SB 329 addressed the concern over board composition and encompassed most provisions of SB 18 relating to prudent investment practices. While program costs remain a factor, they are controllable. Enhanced investment earnings performance will likely more than offset cost factors. In fact, additional returns may well be in the tens of millions of dollars.

In an apparent effort to avoid the issue of program costs, SB 329 did not properly address organizational structure as did SB 18. As a result, the Treasury Division within the Department of Revenue provides staff to the ASPIB. It was thought that providing staff to the ASPIB in this manner would add limited economies of scale resulting in

reduced organizational costs. Prior to SB 329, the Commissioner of Revenue was the sole fiduciary for the defined benefit pension programs. Therefore, Treasury Division was the only reasonable staffing alternative. This is because staff must be responsible to the person having program responsibility.

A fiduciary board of trustees necessitates a changed reporting relationship -- one that can only be accomplished through a separate authority with its own staff. Staff that reports to the Commissioner of Revenue or any person other than the board creates a situation where conflicts are inevitable, and challenges the validity of limited economies of scale. Under the current system, conflicts can occur regarding allocation of staff's time and resources between the retirement systems (accountable to the ASPIB) and other funds in the Treasury Division of the Department of Revenue (accountable to the Commissioner). If a Commissioner of Revenue strongly disagrees with other members of the ASPIB regarding policy, potential clearly exists where the Commissioner could influence implementation of policy and make ASPIB policy decisions ineffective, or create immense discord.

SB 329 gave ASPIB trustees fiduciary responsibility for management of financial assets, and they will be held accountable. The trustees are accountable not only to the Governor, but to the 57,000 beneficiaries and the 213 political subdivisions and school districts participating in the retirement plans. Under the current structure, allocation of resources and staff obscures accountability. HB 494 establishes an investment authority and authorizes the ASPIB to hire an executive director and staff directly accountable to the ASPIB. The Executive Director will have full authority to carry out board policy and directives. This is essential because the trustees are responsible for the assets of employee trust funds.

A separate investment authority is in the best interests of the State. The proposed authority would continue to meet in public, report to the Governor and the legislature, use the same budget process, and have the Attorney General provide legal assistance in the same manner that currently exists. HB 494 creates a structure consistent with the way most large public pension plans are managed.

With PERS and TRS earning over 14% for 1993 and the funds' performance ranking in the top 25% of comparable public funds, it may appear that structural problems would not be an issue. However, every increase or decrease in performance of one basis point (1/100 of a percent) means an increase or decrease in earnings of approximately \$700,000. The PERS and TRS assets alone earned over \$775 million in fiscal year 1993, which is over \$2 million a day. While it cannot be absolutely quantified, it is apparent that an organization structured to respond directly to the ASPIB without potential conflicts will define accountability and, over the long term, increase returns and add earnings to the retirement systems.

In addition, a restructured Treasury Division in the Department of Revenue is expected to add at least \$10 million a year in additional revenue to the General Fund. This can be achieved by incremental investment returns through enhanced cash flow analysis.

One question that may be asked is, "Why not let the Alaska Permanent Fund Corporation (APFC) manage the assets?". There are many important reasons including different asset allocation needs, legal requirements, accounting requirements, constituency and objectives. The most important reason for individual boards and staff is that the funds have two entirely different mandates. The pension funds must be managed in the best financial interest of the beneficiaries. Beneficiaries have constitutionally protected benefits payable years into the future and these liabilities must be considered when making investment decisions. The Permanent Fund has a statutory legal list of investments and use of earnings.

Another question is, "Why not a board within the Department of Revenue with its own executive director and staff?". The simple answer is that the ASPIB is a fiduciary board legally responsible for managing the pension assets in the best financial interest of the beneficiaries. With over \$7 billion under management, there must be complete confidence in the system and accountability must not be obscured. Any obscurity of who has ultimate authority regarding implementation of board policies will work to the detriment of accountability, thus diminishing clear lines of fiduciary responsibility.

SB 18 was supported by the PERS and TRS Boards, the Alaska Municipal League, teachers' and State employee associations, and older Alaskan groups. It is expected that these entities will support HB 494.

In summary, HB 494 creates an investment authority that allows the ASPIB to hire an executive director and staff to assist in management of pension assets and implementation of policy for the retirement systems. This bill creates a more efficient organization and it clearly defines responsibility and accountability for management of pension assets.

by Taylor

HB-494

AS 37.10.260 is repealed and reenacted to read:

Sec 37.10.260. STAFF (a) The authority may employ and determine the salary of an executive director. The executive director may, with the approval of the trustees, select and employ additional staff as necessary. An employee of the authority, including the executive director, may not be a trustee of the authority. The executive director and other employees of the authority are in the exempt service under AS 39.25.110.

(b) [A PERSON WHO HAS SERVED AS A TRUSTEE OF THE AUTHORITY OR ON THE BOARD OF DIRECTORS OF THE FORMER ALASKA STATE PENSION INVESTMENT BOARD MAY NOT BE EMPLOYED BY THE AUTHORITY FOR A PERIOD OF ONE YEAR AFTER THE END OF THE SERVICE AS A TRUSTEE OR ON THE BOARD OF DIRECTORS, AS APPROPRIATE.]

# FISCAL NOTE

STATE OF ALASKA  
1994 LEGISLATIVE SESSION

BILL NO. HB 494

Revision Date: _____	Dept. Affected: <u>Administration</u>
Title: <u>"An Act changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority"</u>	BRU: <u>Retirement and Benefits</u>
Sponsor: <u>Rep. MacLean</u>	Component: <u>Retirement and Benefits</u>
Requestor: <u>(H) Sta</u>	COMPONENT SERIAL NO. <u>64</u>

**Expenditures/Revenues**

(Thousands of Dollars)

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

<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
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<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	0.0	0.0	0.0
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**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of current year (FY94) cost: none

**POSITIONS:**

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

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: <u>Robert L. Stalnaker, Director</u>	Phone: <u>465-4460</u>
Division: <u>Retirement and Benefits</u>	Date: _____
Approved by Commissioner: <u>Nancy Bear Usher</u>	Date: <u>3/7/94</u>
Agency: <u>Administration</u>	

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# FISCAL NOTE

No. 3  
 Bill Version: CSHB 494 (STA)  
 (H) Publish Date: 3/23/94

**STATE OF ALASKA  
 1994 LEGISLATIVE SESSION**

Revision Date: <u>March 21, 1994</u>	Dept. Affected: <u>Revenue</u>
Title: <u>An Act Relating to the Establishment of the Alaska Pension Investment Authority (APIA)</u>	BRU: <u>Revenue Operations</u>
Sponsor: <u>Representative MacLean</u>	Component: <u>Alaska State Pension Investment Board (See Note (2))</u>
Requestor: <u>House State Affairs Committee</u>	COMPONENT SERIAL NO. <u>#1961</u>

**Expenditures/Revenues (Thousands of Dollars)**

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	159.6	159.6	159.6	159.6	159.6	159.6
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	325.6	325.6	325.6	325.6	325.6	325.6
SUPPLIES	11.8	11.8	11.8	11.8	11.8	11.8
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>200.0</b>					
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other - Pension Systems	697.0	497.0	497.0	497.0	497.0	497.0
<b>TOTAL</b>	<b>697.0</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>	<b>497.0</b>

Estimate of any current year (FY94) cost: \$ 0

**POSITIONS**

FULL-TIME	Note (1)	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
		1.0	1.0	1.0	1.0	1.0	1.0
PART-TIME							
TEMPORARY							

**ANALYSIS:**

- Note (1) Net increase of 0.5 FTE positions over the 19.5 FTE employees the Department of Revenue, Treasury Division currently charged to the Alaska State Pension Investment Board.
- Note (2) This fiscal note represents the net impact from establishing a separate pension investment authority over that previously submitted for the Alaska State Pension Investment Board. If passed, the operating budget for the Board would be required to be used for operations of the new Authority.
- Note (3) See attached analysis for additional detail.

Prepared by: <u>Mark W. Prussing, Comptroller</u>	Phone: <u>465-2350</u>
Division: <u>Treasury</u>	Date: <u>3/21/94</u>
Approved by: <u>Darrel J. Rexwinkel, Commissioner</u> <u>William A. Corbus, Chair</u>	Date: <u>3/21/94</u>
Agency: <u>Department of Revenue</u> <u>Alaska State Pension Investment Board</u>	

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**Alaska State Pension Investment Board**  
**Comparison of FY '95 Costs To Those For A Separate Authority (APIA)**

**Revenues**

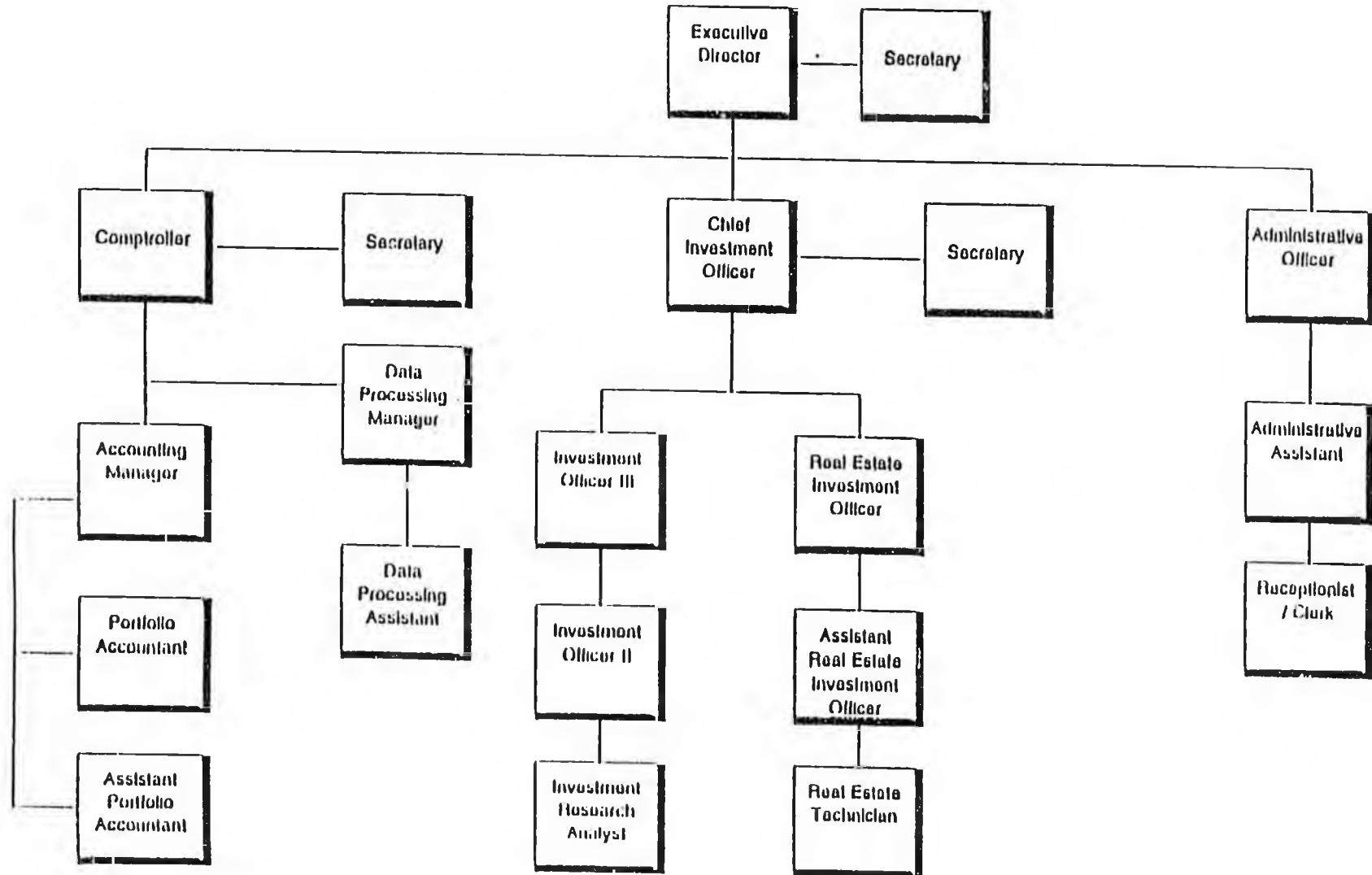
	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Public Employees' Retirement Trust Fund	\$10,891,600	\$11,303,807	\$412,207	\$293,919	\$293,919	\$293,919	\$293,919	\$293,919
Teachers' Retirement Trust Fund	7,255,700	7,530,302	274,602	195,801	195,801	195,801	195,801	195,801
Judicial Retirement Trust Fund	90,900	94,340	3,440	2,453	2,453	2,453	2,453	2,453
Military Retirement Trust Fund	29,100	30,201	1,101	785	785	785	785	785
Supplemental Benefit System Fund	74,000	76,801	2,801	1,997	1,997	1,997	1,997	1,997
Deferred Compensation Fund	74,000	76,801	2,801	1,997	1,997	1,997	1,997	1,997
<b>Total Revenues</b>	<b>\$18,415,300</b>	<b>\$19,112,252</b>	<b>696,952</b>	<b>\$496,952</b>	<b>\$496,952</b>	<b>\$496,952</b>	<b>\$496,952</b>	<b>\$496,952</b>

**Expenditures**

	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Salaries & Benefits	\$1,380,900	\$1,540,502	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602
Investment Management Fees	14,827,700	14,827,700	0	0	0	0	0	0
Custody Fees	1,334,700	1,334,700	0	0	0	0	0	0
Travel	159,000	159,000	0	0	0	0	0	0
Performance Measurement	84,300	84,300	0	0	0	0	0	0
Investment Advisory	190,000	190,000	0	0	0	0	0	0
ASPIB Expenses	56,000	56,000	0	0	0	0	0	0
Professional Fees	109,000	119,000	10,000	10,000	10,000	10,000	10,000	10,000
Information Services	110,950	172,000	61,050	61,050	61,050	61,050	61,050	61,050
Software Support	121,050	121,050	0	0	0	0	0	0
Office Expenses	41,700	308,000	266,300	266,300	266,300	266,300	266,300	266,300
Equipment & Furniture	0	200,000	200,000	0	0	0	0	0
<b>Total Expenditures</b>	<b>\$18,415,300</b>	<b>\$19,112,252</b>	<b>\$696,952</b>	<b>\$496,952</b>	<b>\$496,952</b>	<b>\$496,952</b>	<b>\$496,952</b>	<b>\$496,952</b>



# ALASKA PENSION INVESTMENT AUTHORITY (Proposed)



# FISCAL NOTE

No. 4  
 Bill Version: CSHB 494 (STA)  
 (H) Publish Date: 3/23/94

**STATE OF ALASKA**  
**1994 LEGISLATIVE SESSION**

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: An Act Relating to the Establishment of the BRU: Revenue Operations  
Alaska Pension Investment Authority (APIA) Component: Treasury Management  
 Sponsor: Representative MacLean  
 Requestor: House State Affairs Committee **COMPONENT SERIAL NO. #121**

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	550.5	550.5	550.5	550.5	550.5	550.5
TRAVEL	17.7	17.7	17.7	17.7	17.7	17.7
CONTRACTUAL	(169.7)	(169.7)	(169.7)	(169.7)	(169.7)	(169.7)
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES (Note (2))</b>	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	278.0	278.0	278.0	278.0	278.0	278.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other - Other State Funds	120.5	120.5	120.5	120.5	120.5	120.5
<b>TOTAL</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>	<b>398.5</b>

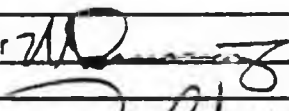
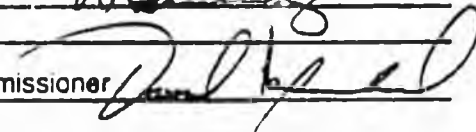
Estimate of any current year (FY94) cost: \$ 0

**POSITIONS**

POSITIONS	Notes (1) & (2)	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
FULL-TIME		7.0	7.0	7.0	7.0	7.0	7.0
PART-TIME							
TEMPORARY							

**ANALYSIS:**

Note (1) Net increase of 6.8 FTE positions over the 9.5 FTE employees currently charged to the Department of Revenue, Treasury Division  
 Note (2) The change in staffing is expected to increase the amount available to the General Fund by \$9.7 million annually.  
 Note (3) See attached analysis for additional detail.

Prepared by: Mark W. Prussing, Comptroller  Phone: 465-2350  
 Division: Treasury Date: 3/4/94  
 Approved by: Darrel J. Rexwinkel, Commissioner  Date: 3/8/94  
 Agency: Department of Revenue

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## Department of Revenue, Treasury Division

Comparison of FY '95 Costs to Those If the Retirement Funds form a Separate Authority (APIA)

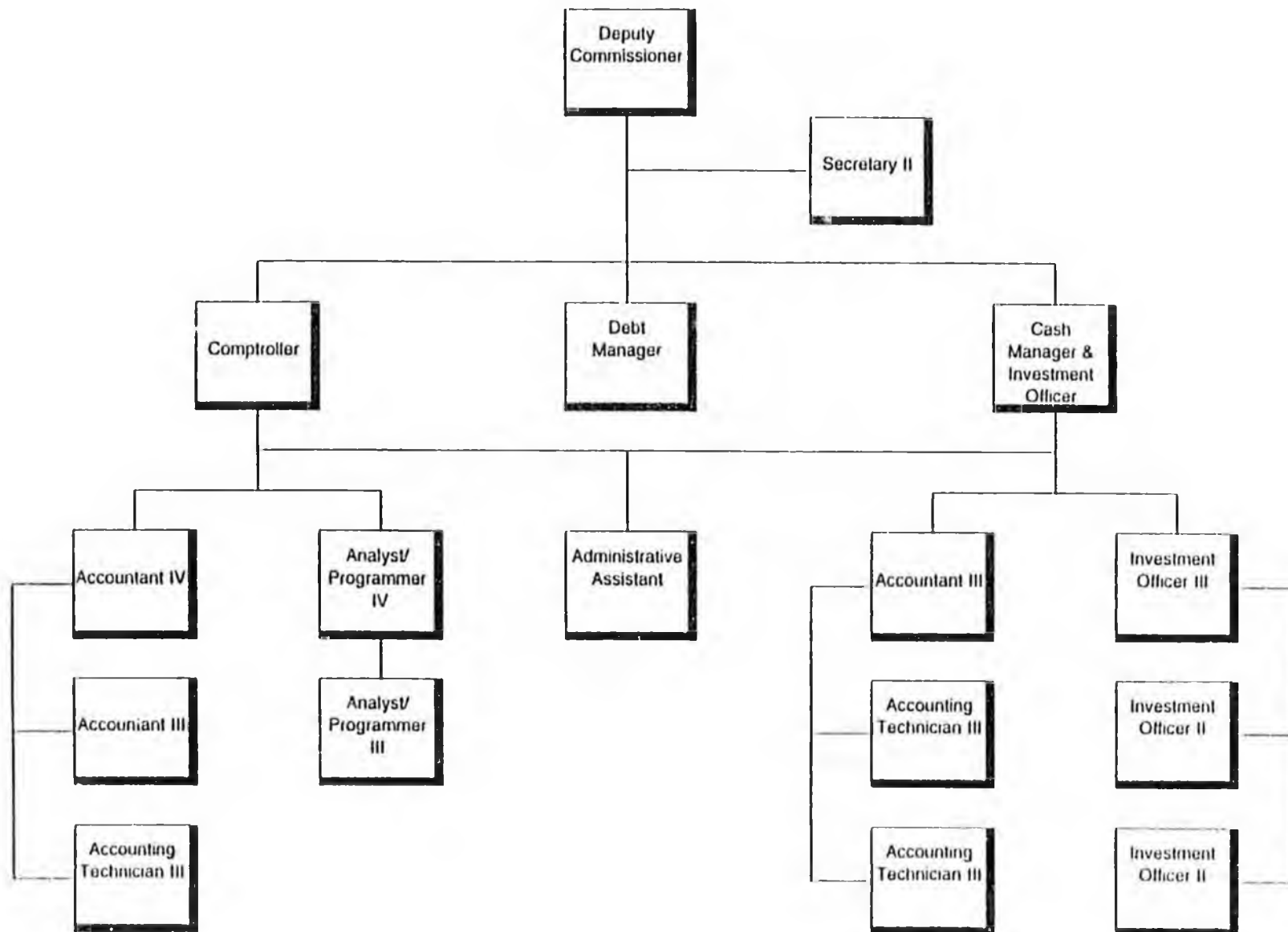
### Revenues

	FY 95 Budget Amount for Treasury	Revised Treasury FY 95 Budget	First Year Change from Treas 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
General Fund	\$1,023,100	\$1,301,058	\$277,958	\$277,958	\$277,958	\$277,958	\$277,958	\$277,958
University of Alaska Trust Fund	71,400	90,798	19,398	19,398	19,398	19,398	19,398	19,398
Public School Trust Fund	302,000	384,048	82,048	82,048	82,048	82,048	82,048	82,048
Advance College Tuition Pmt Fund	35,100	44,636	9,536	9,536	9,536	9,536	9,536	9,536
Investment Loss Trust Fund	35,200	44,763	9,563	9,563	9,563	9,563	9,563	9,563
<b>Total Revenues</b>	<b>\$1,466,800</b>	<b>\$1,865,303</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>
<b>Increase in General Fund Revenues</b>			<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>

### Expenditures

	FY 95 Budget Amount for Treasury	Revised Treasury FY 95 Budget	First Year Change from Treas 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Salaries & Benefits	\$655,000	\$1,205,503	\$550,503	\$550,503	\$550,503	\$550,503	\$550,503	\$550,503
Investment Management Fees	201,700	201,700	0	0	0	0	0	0
Custody Fees	116,900	116,900	0	0	0	0	0	0
Travel	22,300	40,000	17,700	17,700	17,700	17,700	17,700	17,700
Performance Measurement	33,000	10,000	(23,000)	(23,000)	(23,000)	(23,000)	(23,000)	(23,000)
Investment Advisory	10,000	0	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Professional Fees	39,500	45,000	5,500	5,500	5,500	5,500	5,500	5,500
Information Services	120,100	36,000	(84,100)	(84,100)	(84,100)	(84,100)	(84,100)	(84,100)
Software Support	15,600	15,600	0	0	0	0	0	0
Office Expenses	245,700	187,600	(58,100)	(58,100)	(58,100)	(58,100)	(58,100)	(58,100)
Equipment	7,000	7,000	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>\$1,466,800</b>	<b>\$1,865,303</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>	<b>\$398,503</b>
<b>Net Increase in Amount Available for General Fund</b>			<b>\$9,722,042</b>	<b>\$9,722,042</b>	<b>\$9,722,042</b>	<b>\$9,722,042</b>	<b>\$9,722,042</b>	<b>\$9,722,042</b>

**ALASKA DEPARTMENT OF REVENUE  
TREASURY DIVISION ORGANIZATIONAL CHART  
(Proposed)**



8-LS1699AK  
Cramer  
4/7/94

SENATE CS FOR CS FOR HOUSE BILL NO. 494(STA)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES MACLEAN, Ulmer

A BILL

FOR AN ACT ENTITLED

1 "An Act changing the Alaska State Pension Investment Board to the Alaska  
2 Pension Investment Authority and relating to the authority; and providing for an  
3 effective date."

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

5 \* Section 1. AS 37.10.071(f) is amended to read:

6 (f) In this section, "fiduciary of a state fund" or "fiduciary" means

7 (1) the commissioner of revenue for investments under AS 37.10.070;

8 (2) with respect to the Alaska Pension Investment Authority [STATE

9 PENSION INVESTMENT BOARD], for investments under AS 14.25.180,

10 (A) each trustee who serves on the authority; [BOARD OF  
11 TRUSTEES; AND]

12 (B) each officer of the authority;

13 (C) any other person who exercises control or authority with  
14 respect to management or disposition of assets for which the authority

1 [BOARD] is responsible or who gives investment advice to the authority  
2 [BOARD]; or

3 (3) for investments not subject to AS 14.25.180 or AS 37.10.070, the  
4 person or body provided by law to manage the investments [FOR INVESTMENTS  
5 NOT SUBJECT TO AS 14.25.180 OR AS 37.10.070].

6 \* Sec. 2. AS 37.10.210(a) is repealed and reenacted to read:

7 (a) The Alaska Pension Investment Authority is established as a public  
8 corporation and government instrumentality in the Department of Revenue. The  
9 authority has a legal existence independent of and separate from the state. The  
10 purpose of the authority is to have custody of and provide prudent and productive  
11 management and investment of state pension funds and, if the authority secures the  
12 agreement of the commissioner of the department or the fiduciary responsible for  
13 another fund, of other state funds.

14 \* Sec. 3. AS 37.10.220(a) is amended to read:

15 (a) The trustees of the authority [BOARD] shall

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

18 (2) establish investment policies for the funds for which the authority  
19 [IT] is responsible after reviewing recommendations from the investment advisory  
20 council and the executive director [DEPARTMENT OF REVENUE];

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

23 (4) report to the governor, the legislature, and employers participating  
24 in the retirement systems by the first day of each regular legislative session concerning  
25 the investment of funds for which the authority [BOARD] is responsible, including  
26 financial and investment policies established by the authority [BOARD], and enclose  
27 a summary of the most recent performance evaluations of the funds managed by the  
28 authority [BOARD];

29 (5) contract with external performance evaluators to review the  
30 performance of each fund for which the authority [BOARD] is responsible and report  
31 each year on the fund's condition to the authority [BOARD OF TRUSTEES] and to

1 the other appropriate boards;

2 (6) engage independent certified public accountants to perform an  
3 annual audit of each of the funds for which the authority [BOARD] is responsible and  
4 to report to the authority [BOARD] with the results of the audit;

5 (7) review the actuarial earnings assumption for each fund for which  
6 the authority [BOARD] is responsible every two years and report its findings and  
7 recommendations to the appropriate board or agency;

8 (8) after reviewing the recommendations from the executive director,  
9 other staff members, [DEPARTMENT OF REVENUE] and the advisory council,  
10 select and retain the external investment managers and custodians for the funds  
11 managed by the authority [BOARD];

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

14 \* Sec. 4. AS 37.10.220(d) is amended to read:

15 (d) The chair of the trustees [BOARD] shall appoint the executive director  
16 or a trustee to present the authority's [BOARD'S] position to legislative committees  
17 when the committees are considering the authority's [BOARD'S] operating budget.  
18 The authority [BOARD] is otherwise subject to AS 37.07 as provided in  
19 AS 37.10.265.

20 \* Sec. 5. AS 37.10.230 is amended to read:

21 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Trustees, the executive  
22 director, and the investment officers of the authority are subject to the provisions  
23 of AS 39.50.

24 (b) If a trustee or the executive director or an investment officer of the  
25 authority acquires, owns, or controls an interest, direct or indirect, in an entity or  
26 project in which assets under the control of the authority [BOARD] are invested, the  
27 trustee or officer shall immediately disclose the interest to the authority [BOARD].  
28 The disclosure is a matter of public record and shall be included in the minutes of the  
29 authority's [BOARD] meeting next following the disclosure.

30 (c) The authority [BOARD] shall adopt regulations to restrict trustees,  
31 officers, and other employees from having a substantial interest in an entity or project

1 in which assets under the control of the authority [BOARD] are invested.

2 \* Sec. 6. AS 37.10.230 is amended by adding new subsections to read:

3 (d) The executive director may designate additional officers and employees of  
4 the authority who are subject to the provisions of AS 39.50 because of their  
5 responsibility for participating in the management or investment of the funds for which  
6 the authority is responsible. If an officer or employee of the authority designated  
7 under this subsection acquires, owns, or controls an interest, direct or indirect, in an  
8 entity or project in which assets under the control of the authority are invested, the  
9 officer or employee shall immediately disclose the interest to the trustees as required  
10 by (b) of this section.

11 (e) Failure to comply with the requirements of this section or regulations  
12 adopted under this section is grounds for termination of employment.

13 \* Sec. 7. AS 37.10.260 is repealed and reenacted to read:

14 Sec. 37.10.260. STAFF. The authority may employ and determine the salary  
15 of an executive director. The executive director may, with the approval of the trustees,  
16 select and employ additional staff as necessary. An employee of the authority,  
17 including the executive director, may not be a trustee of the authority. The executive  
18 director and other employees of the authority are in the exempt service under  
19 AS 39.25.110.

20 \* Sec. 8. AS 37.10 is amended by adding a new section to read:

21 Sec. 37.10.265. BUDGET OF THE AUTHORITY. Funds under the control  
22 of the authority may be identified as the source of the operating budget of the authority  
23 in the state's operating budget under AS 37.07 (Executive Budget Act).

24 \* Sec. 9. AS 37.10.280 is amended to read:

25 Sec. 37.10.280. INSURANCE. The authority [BOARD] shall ensure that  
26 trusteed assets and [ITS OWN] services of the trustees, officers, employees, and  
27 agents of the authority are protected. At the direction of the trustees, the authority  
28 [THE BOARD] may purchase insurance or provide for self-insurance retention in  
29 amounts recommended by the executive director [COMMISSIONER OF REVENUE]  
30 and approved by the trustees [BOARD] to cover the acts, including fiduciary acts,  
31 errors, and omissions of trustees, officers, employees, [ITS BOARD MEMBERS] and

1 agents of the authority. Insurance must protect the authority [BOARD] and the state  
2 from liability to others and from loss of trusted assets due to the acts or omissions  
3 of the trustees, officers, employees, and agents of the authority.

4 \* Sec. 10. AS 37.10.290 is amended to read:

5 Sec. 37.10.290. EXEMPTION FROM TAXATION. Except as provided in  
6 AS 29.45.030(a) for property acquired through foreclosure or deed in lieu of  
7 foreclosure, the authority, funds managed by the authority, [BOARD] and all  
8 properties at any time owned by the authority [IT], managed by it, or held by it in  
9 trust, and the income from those activities or funds, are exempt from all taxes and  
10 assessments in the state. All security instruments issued by the authority [BOARD]  
11 and income from them are exempt from all taxes and assessments in the state,  
12 including transfer taxes.

13 \* Sec. 11. AS 37.10.300 is amended to read:

14 Sec. 37.10.300. LIMITATIONS. The authority [BOARD] may not engage  
15 in commercial banking activity or private trust activity. The authority [BOARD] may  
16 not act as a depository or trustee for a private person, association, or corporation. The  
17 authority [BOARD] may not act as a lender to a private person, association, or  
18 corporation of money from any source except state funds under control of  
19 [MANAGEMENT BY] the authority [BOARD].

20 \* Sec. 12. AS 37.10.390(1) is repealed and reenacted to read:

21 (1) "authority" means the Alaska Pension Investment Authority;

22 \* Sec. 13. AS 39.25.110(11) is amended to read:

23 (11) the officers and employees of the following boards, commissions,  
24 and authorities:

- 25 (A) Alaska Gas Pipeline Financing Authority;
- 26 (B) Alaska Permanent Fund Corporation;
- 27 (C) Alaska Industrial Development and Export Authority;
- 28 (D) Alaska Commercial Fisheries Entry Commission;
- 29 (E) Alaska Commission on Postsecondary Education;
- 30 (F) Alaska Aerospace Development Corporation;
- 31 (G) Alaska Pension Investment Authority;

*Taylor*

*Don't want to compete with private financial institutions*

1 \* Sec. 14. AS 44.25.020 is amended to read:

2 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue  
3 shall

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

5 (2) collect, account for, have custody of, invest, and manage all state  
6 funds and all revenues of the state except revenues incidental to a program of licensing  
7 and regulation carried on by another state department and funds managed and invested  
8 by the Alaska Pension Investment Authority [STATE PENSION INVESTMENT  
9 BOARD];

10 (3) register cattle brands;

11 (4) supply necessary clerical and administrative services for the  
12 Alcoholic Beverage Control Board;

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

15 (6) in accordance with the policies established by the [BOARD OF]  
16 trustees of the Alaska Pension Investment Authority [STATE PENSION  
17 INVESTMENT BOARD], collect and [,] account for [, HAVE CUSTODY OF,  
18 INVEST, AND MANAGE] the state funds for which the authority [BOARD] is  
19 responsible;

20 (7) administer the surety bond program for licensure as a fish processor  
21 or primary fish buyer.

22 \* Sec. 15. AS 44.25.028 is repealed.

23 \* Sec. 16. IMPLEMENTING NAME CHANGE. To be consistent with the name change  
24 made by this Act, wherever in the Alaska Statutes, and in regulations adopted under those  
25 statutes, "Alaska State Pension Investment Board" or "board" are used, they shall be read as  
26 referring to the "Alaska Pension Investment Authority" or "authority," as appropriate. Under  
27 AS 01.05.031, the revisor of statutes shall implement this section in the statutes, and, under  
28 AS 44.62.125(b)(6), the regulations attorney shall implement this section in the administrative  
29 regulations.

30 \* Sec. 17. TRANSITIONAL PROVISION CONCERNING BOARD MEMBERS. The  
31 trustees of the Alaska State Pension Investment Board on June 30, 1994, shall become the

1 trustees of the Alaska Pension Investment Authority on July 1, 1994.

2 \* Sec. 18. TRANSITIONAL PROVISIONS RELATING TO CREATION OF THE  
3 AUTHORITY. All litigation, hearings, investigations, and other proceedings pending under  
4 a law amended or repealed by this Act, or in connection with functions transferred by this Act,  
5 continue in effect and may be continued and completed notwithstanding a transfer,  
6 amendment, or repeal provided for in this Act. Orders and regulations issued or adopted  
7 under authority of a law amended or repealed by this Act remain in effect for the term issued,  
8 or until revoked, vacated, or otherwise modified under the provisions of this Act. All  
9 contracts, rights, liabilities, and obligations created by or under a law amended or repealed by  
10 this Act, and in effect on July 1, 1994, remain in effect notwithstanding this Act's taking  
11 effect. Records, equipment, and other property of agencies of the state whose functions are  
12 transferred under this Act shall be transferred commensurate with the provisions of this Act.

13 \* Sec. 19. This Act takes effect July 1, 1994.

