

SB

89

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 19, 1996

FURTHER REFERRALS:

Date of Committee Action: 5/1/96

The FINANCE Committee considered:

CSSB 89(FIN) am

CS FOR SENATE BILL NO. 89(FIN) am

PERMANENT FUND BOARD MEMBERS & STAFF

"An Act relating to the members of the board and staff of the Alaska Permanent Fund Corporation."

recommends it be replaced with the following committee substitute HCS CSSB 89(FIN) the same title a new title

additional referral to _____ Committee

attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal note(s) _____

fiscal note(s) Senate DOR, 3/8/96

zero fiscal note(s) _____

zero fiscal note(s) _____

| SIGNING WITH RECOMMENDATIONS | | DP | DNP | NR | AM |
|------------------------------|-------------|----|-----|----|----|
| <i>Richard J. Foster</i> | Foster | X | | | |
| <i>William Hanley</i> | Hanley | X | | | |
| <i>John Mulder</i> | Mulder | X | | | |
| <i>Terry Martin</i> | Martin | X | | | |
| <i>John Parnell</i> | Parnell | X | | | |
| <i>Kie Kohring</i> | Kohring | X | | | |
| <i>Ben Grussendorf</i> | Grussendorf | | | X | |
| <i>Mike Navarre</i> | Navarre | | | X | |
| <i>Tay Brown</i> | Brown | | | X | |
| <i>John Kelly</i> | Kelly | X | | | |
| <i>Gene Therriault</i> | Therriault | | | X | |

CHAIR'S SIGNATURE _____

Richard J. Foster

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act relating to the members of the board BRU: APFC
and staff of the Alaska Permanent Fund Corporation. Component: APFC
 Sponsor: Senator Rieger
 Requestor: Senate Finance COMPONENT SERIAL NO. 109

Expenditures/Revenues:

(Thousands of Dollars)

| OPERATING EXPENDITURES | FY 97 | FY 98 | FY 99 | FY 00 | FY 01 | FY 02 |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | 28.9 | 29.3 | 29.7 | 30.2 | 30.6 | 31.1 |
| CONTRACTUAL | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 31.5 | 31.9 | 32.3 | 32.8 | 33.2 | 33.7 |

| | | | | | | |
|----------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
|----------------------|--|--|--|--|--|--|

| | | | | | | |
|------------------------|--|--|--|--|--|--|
| CHANGE IN REVENUES () | | | | | | |
|------------------------|--|--|--|--|--|--|

FUND SOURCE

(Thousands of Dollars)

| | | | | | | |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| Other | 31.5 | 31.9 | 32.3 | 32.8 | 33.2 | 33.7 |
| TOTAL | 31.5 | 31.9 | 32.3 | 32.8 | 33.2 | 33.7 |

Estimate of any current year (FY96) cost \$ _____

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

The fiscal note assumes implementation on July 1, 1996. It projects costs associated with increasing the number of trustees from six to seven, and replacing one commissioner with a public member.

Travel assumes 15 trips per year in-state and 2 trips per year out-of-state.

Transportation costs are assumed to increase at a 4% rate of inflation each year. Per diem and honorarium remain constant in all years.

Contractual includes registration fees of two seminars.

Other Fund Source: Corporate Receipts.

Prepared by: Byron I. Mallart, Executive Director Phone: (907) 465-2047
 Division: Alaska Permanent Fund Corporation Date: 1/22/96
 Approved by Commissioner: _____ Date: _____
 Agency: Department of Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

4/27/96

WD

AMENDMENT \

OFFERED IN THE HOUSE
TO: HCS CSSB 89(STA)

BY REPRESENTATIVE BROWN

- 1 Page 2, lines 8 - 23
- 2 Delete all material.
- 3 Renumber sections accordingly.

WD

4/27/96

AMENDMENT

OFFERED IN THE HOUSE
TO: HCS CSSB 89(STA)

BY REPRESENTATIVE BROWN

- 1 Page 3, line 4, after "director":
- 2 Delete "and other employees serve"
- 3 Insert "serves"
- 4 Page 3, line 4, after "board,":
- 5 Delete "except that"
- 6 Insert "and"

As compared to

HCS CSSB 89 (STA)

HOUSE CS FOR CS FOR SENATE BILL NO. 89()

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): SENATORS RIEGER, Frank, Green, Halford, Kelly, Leman, Miller, Pearce, Phillips, Sharp, Taylor, Torgerson

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the members of the board and staff of the Alaska
2 Permanent Fund Corporation."

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

4 * Section 1. AS 37.13.050(a) is amended to read:

5 (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists
6 of seven [SIX] members appointed by the governor. Two of the members must be
7 heads of principal departments of state government, one of whom shall be the
8 commissioner of revenue. Five [FOUR] members shall be appointed by the governor
9 from the public and may not hold any other state or federal office, position, or
10 employment, either elective or appointive, except as a member of the armed forces of
11 either the United States or of this state.

12 * Sec. 2. AS 37.13.050(b) is amended to read:

13 (b) The [FOUR] public members of the board must have recognized
14 competence and wide experience in finance, investments, or other business

1 management-related fields and at least one of the public members must have
2 recognized competence and experience in investment portfolio management.

3 * Sec. 3. AS 37.13.060 is amended to read:

4 Sec. 37.13.060. TERM OF OFFICE. The public members of the board shall
5 be appointed for terms of four years, and they may be reappointed. The terms of the
6 public members shall be staggered so that the terms of no more than two [ONE
7 TERM OF A] public members expire [MEMBER EXPIRES] each year.

8 * Sec. 4. AS 37.13.070(a) is amended to read:

9 (a) The governor may remove a public member of the board from office only
10 for cause. A removal by the governor must be in writing and must state the reason
11 for the removal. A member who is removed by the governor may not participate in
12 board business and may not be counted for purposes of establishing a quorum after the
13 member receives written notice of removal from the governor. In this subsection,
14 "cause" means

15 (1) incompetency, which is the inability or the unintentional or
16 intentional failure to perform the duties of the trustee; or

17 (2) misfeasance or malfeasance in office, which includes the failure
18 of the trustee to exercise prudent judgment in the affairs of the corporation or
19 intentionally taking action for reasons other than the financial best interest of the
20 corporation.

21 * Sec. 5. AS 37.13 is amended by adding a new section to read:

22 Sec. 37.13.075. LIMITATIONS ON GOVERNOR. (a) The governor shall
23 base the decision to appoint a board member solely on the financial best interest of the
24 fund.

25 (b) The governor may not influence or attempt to influence the board to make
26 an investment decision that violates prudent investment principles.

27 (c) Violation of this section constitutes a violation of AS 39.52.

28 * Sec. 6. AS 37.13.100 is amended to read:

29 Sec. 37.13.100. CORPORATION STAFF. The board may employ and
30 determine the salary of an executive director. The executive director may, with the
31 approval of the board, select and employ additional staff as necessary. The executive

Deleted (3) conviction of a crime that would cause a significant number of reasonably prudent members of the public to distrust the trustee's ability to discharge the duties of the trustee.

1 director and other employees ^{added} with investment responsibilities serve at the pleasure
2 of the board, except that the board may enter into employment contracts that do
3 not exceed two years' duration. An employee of the corporation, including the
4 executive director, may not be a member of the board. The executive director and the
5 other employees of the board are in the exempt service under AS 39.25.

6 * Sec. 7. AS 37.13.120(a) is amended to read: *New section*

7 (a) The prudent-investor rule shall be applied by the board in the management
8 and investment of fund assets. The prudent-investor rule as applied to investments of
9 the fund means that, in making investments, the board shall exercise the judgment and
10 care under the circumstances then prevailing that an institutional investor of ordinary
11 prudence, discretion, and intelligence exercises in the management of large investments
12 entrusted to it not in regard to speculation but in regard to the permanent disposition
13 of funds, considering probable safety of capital as well as probable income. Each
14 board member has a fiduciary duty to the fund, and each member shall perform
15 official actions solely in accordance with that duty.

Deleted - AS 37.13.100 is amended by adding a new section to read:

(b) A board member shall act solely in the best interest of the fund when making decisions regarding the executive director or employees of the corporation. A person who violates this subsection breaches a fiduciary responsibility.

HOUSE CS FOR CS FOR SENATE BILL NO. 89(STA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered: 4/19/96

Referred: Finance

Sponsor(s): SENATORS RIEGER, Frank, Green, Halford, Kelly, Leman, Miller, Pearce, Phillips, Sharp, Taylor, Torgerson

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8 commissioner of revenue. Five [FOUR] members shall be appointed by the governor
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19 intentionally taking action for reasons other than the financial best interest of the
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11 making decisions regarding the executive director or employees of the corporation.
12 A person who violates this subsection breaches a fiduciary responsibility.

Alaska State Senate

SENATOR STEVE RIEGER
District 1

Senate Finance Committee
Chair, Senate Transportation Committee

Legislative Budget and Audit Committee
Administrative Regulation Review Committee
Legislative Council

During Session:
State Capitol, Room 516
Juneau, Alaska 99801
(907) 465-3879

716 West 4th Avenue, Suite 530
Anchorage, Alaska 99501
(907) 258-8188

Sponsor Statement

SB 89 – An Act Relating to the Members of the Board and Staff of the Alaska Permanent Fund Corporation

In the past two years there has been 100% turnover in the top management of the Alaska Permanent Fund Corporation – among them the executive director, the chief investment officer, and all six trustees. This level of turnover is not healthy.

The purpose of SB 89 is to provide greater continuity in the management of the fund, which should translate into more careful, deliberate financial decision-making. The bill makes it clear that removal of a trustee must be for cause. The number of public members is increased from four to five members with staggered terms. Senate Bill 89 also clarifies that the investment policies of the fund and staffing decisions must be made solely in the best interest of the fund.

The management issue is significant because the Alaska Permanent Fund is significant. In a few short years, the Permanent Fund has grown to over \$18 billion. This is an amount more than seven times the amount of general funds used in the annual state operating and capital budget. Sound and stable management of a fund of this magnitude is essential.

With the exception of the accelerated removal of trustees which occurred in the last two governor transitions, this bill is not aimed at correcting any particular past practices. Passage of SB 89 should not be construed as an indication that any past Permanent Fund Board of Trustees' decisions were incorrect or improper. Instead, SB 89 is forward-looking – designed to strengthen the protections for the corpus of the fund – so that the fund will be of maximum value and long-lived.

April 22, 1996




RECEIVED JAN 30 1996

Alaska Permanent Fund Corporation
P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: January 29, 1996

TO: Senator Steve Rieger
Senator Rick Halford

FROM: Byron I. Mallott 
Executive Director

SUBJECT: **Trustees' Position on Senate Bill No. 89 and
Senate Joint Resolution 14**

This is to reiterate the position of the Board of Trustees regarding Senate Bill No. 89 and Senate Joint Resolution 14. As was the case last session, the Board does not intend to take a position on either the bill or the proposed Constitutional amendment because, in their view, the issues addressed are legislative prerogatives.

c: Board of Trustees
Pat Pourchot, Governor's Legislative Director

SENATE FINANCE COMMITTEE REPORT

DATE: 3/10/95

FURTHER:

DATE TURNED INTO OFFICE: 3-8-96

The Finance Committee considered **SENATE BILL NO. 89**

"An Act relating to the members of the board and staff of the Alaska Permanent Fund Corporation."

and recommends:

- be replaced with _____ CS SB 89 (FIN.)
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical change
 - new: SCR# _____

| SIGNING DO PASS | DP | OTHER RECOMMENDATIONS | NR | DNP | AM |
|--------------------------------|----|-----------------------|----|-----|----|
| <i>Steve King</i> | ✓ | <i>David Wiley</i> | ✓ | | |
| <i>Roll & Hill</i> | ✓ | | | | |
| <i>BA King</i> | ✓ | | | | |
| | | | | | |
| Co-Chair: <i>John</i> | ✓ | | | | |
| Co-Chair: <i>Rick Halstead</i> | ✓ | | | | |

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

| | | | |
|------------|----------------|--|-------------|
| <i>DOR</i> | <i>1/22/95</i> | | <i>31.5</i> |
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PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

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| | | | |
| | | | |

-5
SB

* APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

SENATE COMMITTEE REPORT
First Committee of Referral

*has further
 reb.*

DATE: 2/15/95

FURTHER: Finance

Date of 5-Day Notice: 3/2/95
 (in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3-10-95

due

State Affairs Committee considered SENATE BILL NO. 89

~~"An Act relating to the members of the board and staff of the Alaska Permanent Fund Corporation."~~

FN

and recommends:

- be replaced with CS SB 89 (STA)
- adopt previous CS
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill: same title
- new title
- House Bill: technical change
- new: SCR# _____

| SIGNING DO PASS | DP | OTHER RECOMMENDATIONS | NR | DNP | AM |
|---------------------------|-------------------------------------|-----------------------|-------------------------------------|-----|----|
| <i>Form A Human</i> | <input checked="" type="checkbox"/> | <i>Stan DUN CA</i> | <input checked="" type="checkbox"/> | | |
| | | | | | |
| | | | | | |
| | | | | | |
| CHAIR: <i>[Signature]</i> | <input checked="" type="checkbox"/> | | | | |

NEW FISCAL NOTE(S): *FY96*

| Department | Date | Zero | Fiscal |
|------------|------------|------|-------------|
| <i>REV</i> | <i>3/7</i> | | <i>31.0</i> |
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PREVIOUS FISCAL NOTE(S):*

| Department | Date | Zero | Fiscal |
|------------|------|------|--------|
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| | | | |
| | | | |

APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

ALASKA
STATE SENATE
ROLL CALL



Alaska State Senate
Nineteenth Legislature
Second Session

RCS# 233
Item 17

03-26-96
11:54:53

CSSB 89(FIN) am
Third Reading - On Reconsideration

| | | |
|----------|----|---|
| Yeas: | 14 | Frank, Green, Halford, Hoffman, Kelly, Leman, Miller, Pearce, R. Phillips, Rieger, Salo, Sharp, Taylor, Torgerson |
| Nays: | 6 | Adams, Donley, Duncan, Ellis, Lincoln, Zharoff |
| Excused: | 0 | |
| Absent: | 0 | |

HOUSE COMMITTEE REPORT

4/19/96

(7)
Date Referred to Committee: March 27, 1996

FURTHER REFERRALS:

Finance

Date of Committee Action: 4-18-96

The STATE AFFAIRS Committee considered:

CSSB 89(FIN) am

CS FOR SENATE BILL NO. 89(FIN) am

PERMANENT FUND BOARD MEMBERS & STAFF

"An Act relating to the members of the board and staff of the Alaska Permanent Fund Corporation."

recommends it be replaced with the following committee substitute HCS CS SB 89 (STA) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) Senate Rev 3/8/96
 fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) _____

| SIGNING WITH RECOMMENDATIONS | DP | DNP | NR | AM |
|--------------------------------|-----|-----|-----|----|
| <u>X Connette James</u> James | ✓ | | | |
| <u>Christian Porter</u> Porter | ✓ | | | |
| <u>Green</u> Green | ✓ | | | |
| <u>Ivan</u> IVAN | ✓ | | | |
| <u>Robinson</u> Robinson | | | ✓ | |
| <u>Willis</u> Willis | | | ✓ | |
| <u>Ogan</u> Ogan | ✓ | | | |
| | (5) | | (2) | |

CHAIR'S SIGNATURE Connette James

Alaska State Senate

SENATOR STEVE RIEGER
District 1

Senate Finance Committee
Chair, Senate Transportation Committee

Legislative Budget and Audit Committee
Administrative Regulation Review Committee
Legislative Council

During Session:
State Capitol, Room 516
Juneau, Alaska 99801
(907) 465-3879

716 West 4th Avenue, Suite 530
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(907) 258-8188

MEMORANDUM

TO: Representative Mark Hanley, Co-chair
Representative Richard Foster, Co-chair
House Finance Committee

FROM: Senator Steve Rieger *SR*
Senate District I

DATE: April 25, 1996

RE: Hearing request for SB 89 - "An Act relating to the members of
the board and staff of the Alaska Permanent Fund Corporation."

I respectfully request a hearing on SB 89 which passed the House State Affairs Committee with 5 "do pass" and 2 "no recommendation" on April 18, 1996.

I have enclosed a sponsor statement and packet of information on SB 89 for the House Finance members. The legislation has a \$31,500 fiscal note from the Department of Revenue. If you have any questions on this legislation, please contact me or Sheila Peterson on my staff.

Thank you very much for your consideration.

Enclosures

*cc'd
A/100
LW
5-95*