

HB

345

9-LS1179C
Bannister
3/25/96

CS FOR HOUSE BILL NO. 345()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES FOSTER, Ivan

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the procurement of investment and brokerage services by
2 the Alaska State Pension Investment Board."

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

4 * Section 1. LEGISLATIVE FINDINGS AND PURPOSE. (a) The legislature finds that

5 (1) the existence of a strong and healthy free enterprise system is directly
6 related to the well-being and competitive strength of businesses in the state and to the
7 opportunity for businesses in the state to grow and expand;

8 (2) the state needs to examine its purchasing practices in order to ensure that
9 state agencies support businesses in the state by making every reasonable effort to identify
10 services available in the state and to foster bidding by local and resident businesses.

11 (b) The legislature declares that the purpose of this Act is to foster a procurement
12 process where businesses in the state obtain a fair proportion of the state's total procurement
13 contracts.

14 * Sec. 2. AS 37.10.220(a) is amended to read:

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(a) The board shall

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

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

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

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

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

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

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

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

(9) develop an annual operating budget plan and present it to the Department of Revenue and the office of management and budget; the board shall notify the legislature that the plan is available;

(10) increase the board's utilization of brokerage and investment services provided by persons located in the state to at least seven percent of the

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investment services that the board procures by contract, and seven percent of the
brokerage services utilized by the board or its designee, unless the board makes
a written finding that the board is unable to meet this goal because there is an
insufficient number of persons with the requisite skill in the state to perform the
investment or brokerage services.

Sponsor Statement
Representative Richard Foster

HB 345; An Act Relating to the Procurement of Investment and Brokerage Services by the Alaska State Pension Investment Board.

House Bill 345 simply requires that the Alaska Pension Investment Board "increase the utilization of brokerage and investment services provided by persons located in the state to at least seven percent of the brokerage services procured by the board." Additionally, there is a provision to allow the board to "opt" out upon a written finding that the seven percent goal is unattainable.

In support of the bill, I would merely reiterate the findings section of the legislation wherein the case is made for a healthy, competitive private sector; the need to review state procurement practices and support a local procurement process; and most importantly, the need for all state agencies and state resources to be directed toward improving the statewide economy.

For the record, it is not the intent of the sponsor to jeopardize in any way the integrity of these investment funds.

Dynamic Capital Management, Inc.

March 20, 1996

Chairperson and Committee Members
House State Affairs Committee

Dear Members of the Committee:

My name is David Gottstein. I am the president of Dynamic Capital Management, an Alaskan based Investment Advisory firm specializing in large capitalization equities. I am in the market to manage other peoples' money for a fee. This includes government pension assets. On the surface, because I might gain materially from its passage, you might assume that I would favor HB 345 as it is currently written. You would be very wrong. I am also a life-long Alaskan, and I do not think the bill as written serves the residents of Alaska or would accomplish the goals intended.

Even though the intent of the proposed legislation should gain wide approval within the state, the mechanism used is fundamentally flawed on a number of issues. With more focused analysis, a much better formula could be devised.

As members of the legislature, you are charged with the difficult task of balancing your fiduciary obligations to grow and to protect the pension and other assets of state government with your obligations, as citizens charged with the general welfare of your constituencies, to seek the growth of employment opportunities for Alaska's residents. I believe the solution would be to adopt a legitimate prejudice to hire firms that can show that the bulk of their human resources, wherever possible, are located in Alaska, and that services are provided without materially sacrificing competency, performance, or competitiveness in the area of fees, charges or commissions. There are several reasons why a quota system would not establish a system of checks and balances to accomplish the goal of having a legitimate prejudice to hire such Alaskan firms. For example:

1. The legislation, currently written establishing a quota system, could result in disaster. It is important that the decision makers assigning contracts feel ownership in the outcome and performance of their decisions. By focusing the decision making process on a mandate to hire Alaskans, state decision makers are forced to abdicate their primary responsibility as fund protectors to become job creators. If a bad performance ensues from one of the marginally qualified Alaskan contractors, fiduciaries cannot be held accountable, because they were forced by statute to select from a limited pool. It would be better for all if competency did not have to take a back seat in the decision-making process. Can you imagine a standard so low that one is required to hire someone unless they are determined to be unqualified? Do you know what one calls the person who graduates last in his or her medical class? He or she is called Doctor. This path is laced with potential mines.

2. The second flaw lies within the language, not the intent. The language in part says "services provided by persons located in the state...". The potential problem here is that legally a "person" can mean a human or an entity. A company with an office in Alaska, with only an order taker, might qualify, even though personnel in other states were actually getting paid for the services. Brokerage services might appear to go through an Anchorage or Fairbanks office, but actually be credited to an institutional New York broker when determining commission income and bonuses.

3. There is also a human factor. It is obvious from the way the legislation is written that the drafters have given up on the state bureaucracy's ability to contract services without a prejudice *against* local hire. They have no incentive to do so. They would rather go to Phoenix to check up on a money manager than Anchorage. Attempting to beat them into submission by expecting them to adopt a new agenda and to perform it appropriately and with enthusiasm is, quite frankly, naive. Perhaps a better approach would be to convince the procurement officers that Alaskan employment "will" be a secondary, but a legitimate criteria in the selection process. Rather than cramming a process down their throats that they don't believe in, getting input from them on how to accomplish both goals simultaneously would yield better results.

4. I believe the main challenge here is to devise a method whereby the state does not suffer from using local hire but rather supports and fosters growth in an immature but potentially significant industry. Current requirements sometimes preclude the state from nurturing a promising financial services industry. Therefore, in part, we may have to deal with certain regulatory or policy issues that act to discriminate against local hire because of company size and age, or amount of assets under management. Nascent industries need help most in their early stages of development. They often don't need much business to help them significantly. Let me next suggest two different approaches that may work better than a quota system.

Instead of quota standards that set a minimum percentage as a goal, a peer review qualification test could be maintained that requires, at a minimum, above average competency. This could be done by inserting the language I used previously such as "to institute a legitimate prejudice policy to hire firms who can show that the bulk of the human resources engaged in providing purchased services are located in Alaska, and that services are provided without materially sacrificing competency, performance, or cost." This does not require Alaskan companies to be the best or the cheapest, but they would have to be competitive. Fiduciaries could then be required to manage the execution of the policy.

Another approach, not dissimilar from that which other institutions use as a matter of course, would be to craft a farm team program for investment managers with a relatively modest dollar commitment. This would require the trustees to engage local hire farm or test teams under guidelines they deem appropriate. The quota system recommendation came as a result of frustration within the industry. A better approach would be to tell fiduciaries that they must engage in an affirmative action plan without dictating to them how to do it. A quota system could result in significant performance issues with a marginally-performing service provider, discrediting the whole intent of the legislation.

These are just a few words on what might be a delicate subject. I would be happy to answer questions from the committee members.

David Gottstein


President
Dynamic Capital Management, Inc.



CITY OF FAIRBANKS
James C. Hayes, Mayor
800 ~~TO~~ CUSHMAN STREET
FAIRBANKS, ALASKA 99701-4083
OFFICE: 907-459-6793
HOME OFFICE: 907-458-8637



March 20, 1996

The Honorable Jeanette James
State Capitol, Room 102
Juneau, Alaska 99801-1182

Delivered by Fax No. (907) 465-2381

Re: HB No. 345

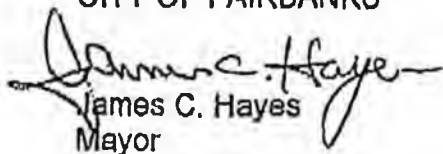
Dear Representative James:

I am writing to you in support of moving HB No. 345 on to the House Finance Committee. This bill can and will have a very beneficial impact on the private sector in Fairbanks and the rest of Alaska. Private sector financing stimulated by partnership with state government will force financial markets outside Alaska to allow the state realistic interest rates. It is critical to the long term growth of this city and the state as a whole to reconnect Alaska to the financial markets of Wall Street. The impact of reducing interest rates from Prime + 3, to a fixed interest rate tied to the 30 year T Bond, will stimulate business by lowering the cost of occupancy through a reduction in debt service.

Please study this program and appreciate that while Alaskans should be encouraged to buy Alaska, Alaskans should also be encouraged to invest in Alaska. The best way for this to happen is for the State of Alaska to lead the way with an investment of a portion of its 30 billion dollar investment funds. Alaskans need to help themselves before outside financial markets are going to invest in Alaska. The State needs show leadership.

Sincerely,

CITY OF FAIRBANKS


James C. Hayes
Mayor

JCH:bss

City Commerce CORPORATION

Commercial Mortgage Broker, SEC and State of Alaska Registered Investment Adviser, ERISA Fiduciary

Apartment Financing Comparison

Project Cost	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Number of Units	30	30	30
Cost Per Unit	\$ 33,333	\$ 33,333	\$ 33,333
Loan Amount	\$ 800,000	\$ 800,000	\$ 800,000
Loan Terms:			
Interest Type	Floating	Fixed	Fixed
Interest Rate	10%	8%	8%
Amortization Period, Years	15	30	30
Loan Call, Years	10	30	30
Monthly Loan Amortization	\$8,597	\$5,870	\$5,870
Average rent per unit	\$ 600	\$ 600	\$ 515
Percentage Decrease in Rent			14.2%
Operating expenses per unit	240	240	240
Monthly cash flow per unit before debt service	\$ 360	\$ 360	\$ 275
Total annual project cash flow before debt service	\$ 129,600	\$ 129,600	\$ 99,000
Total annual project cash flow after debt service	\$ 26,438	\$ 59,159	\$ 28,559
Rate of Return on Cash Invested	10.6%	23.7%	11.4%



State of Washington - State Investment Board
Real Estate Investment Plan

A. Existing SIB Portfolio Considerations

1. Allocation to Real Estate

The SIB real estate portfolio totals approximately \$665 million as of December 31, 1993. The total allocation to the asset class of real estate based on recent Board action is 0% to 5% of the market value of total SIB retirement fund assets. SIB Staff and Townsend have developed an Investment Plan intended to enable the SIB to achieve the full real estate allocation if desired. While this Investment Plan is designed to achieve the full real estate allocation, obtaining this objective will be subject to the advisors generating investment opportunities consistent with the SIB Policy and the Investment Plan and SIB approving specific investments. For purposes of developing the Investment Plan, The Townsend Group was directed by the SIB Staff to utilize a portfolio growth rate equivalent to the SIB actuarial growth rate assumption of 7.5% per year.

Based upon the foregoing assumptions, the total plan assets available for equity and debt real estate investments over the next three year period of 1994 through 1996 is set forth in the table below.

Total Plan Assets 1994	\$19.7 billion
Actuarial Growth Rate	7.5%
Projected 1996 Total Plan Assets	\$24.5 billion
Maximum Allocation to Real Estate %	5%
Maximum Allocation to Real Estate \$	\$1.225 billion

Reducing the total allocation of \$1.225 billion by \$625 million, the projected amount invested in equity and debt real estate in 1996, results in approximately \$600 million available for additional investment through 1996.

The SIB Policy will be amended to provide a target of up to 100% of the portfolio may be invested in equity real estate, and from 0% to up to 50% of the portfolio may be invested in commercial mortgages. The Investment Plan allocates all available capital in equity real estate investments. Townsend has been instructed that the existing commercial

State of Washington - State Investment Board
 Real Estate Investment Plan

mortgage investments will be transferred to the fixed income portfolio for purposes of planning and measuring SIB real estate portfolio diversification and compliance with the Policy diversification guidelines. Accordingly, this Investment Plan does not allocate any portion of the \$600 million available to new commercial mortgage investments, which Townsend has been instructed will be funded from the SIB fixed income allocation.

2. *Diversification Guidelines*

The following table sets forth current portfolio property type diversification for equity real estate portfolio based on current investments, the Repositioned Portfolio¹ and grown to 1996 Plan assets, and the diversification targets established by the Policy. As noted above, the Investment Plan takes into consideration the Repositioned Portfolio as one of the parameters guiding SIB Staff and Townsend.

Property Type	Current Equity Portfolio Diversification	Repositioned Portfolio Diversification	Policy Diversification
Office	41%	25%	10% - 40%
Retail	14%	8%	5% - 30%
Warehouse	13%	7%	10% - 40%
R&D Office	10%	5%	0% - 15%
Apartment	13%	1%	5% - 30%
Other	9%	6%	0% - 20%
TOTAL	100%	52%*	N/A

* Based on total 1996 Plan assets; remaining amount to invest to reach total allocation of 5% represents other 48%.

The following table sets forth the maximum distribution targets by location for real estate investments, based upon the eight subregions of the NCREIF Index. The table also sets forth the current portfolio

¹ As noted, the Repositioned Portfolio was prepared by the SIB Staff, based upon input from The Townsend Group, Jones Lang Wootton and other SIB advisors. Assumptions were made on divestiture and growth and declines in the existing portfolio.

State of Washington - State Investment Board
Real Estate Investment Plan

diversification based upon current dollars, the Repositioned Portfolio based on 1996 plan assets and the diversification established in the Policy.

Location	Current Equity Portfolio Diversification Based on Current \$	Repositioned Portfolio Diversification Based on 1996 Plan Assets	Policy Diversification
Northeast	3%	2%	5% - 15%
Mideast	3%	1%	5% - 15%
East North Central	1%	1%	5% - 15%
West North Central	1%	1%	0% - 5%
Southeast	4%	1%	3% - 7%
Southwest	2%	1%	3% - 7%
Pacific	78%	44%	40% - 60%
Mountain	8%	1%	3% - 7%
TOTAL	100%	52%*	N/A

*Rounded; based on total 1996 Plan assets; remaining amount to invest to reach total allocation of 5% represents other 48%.

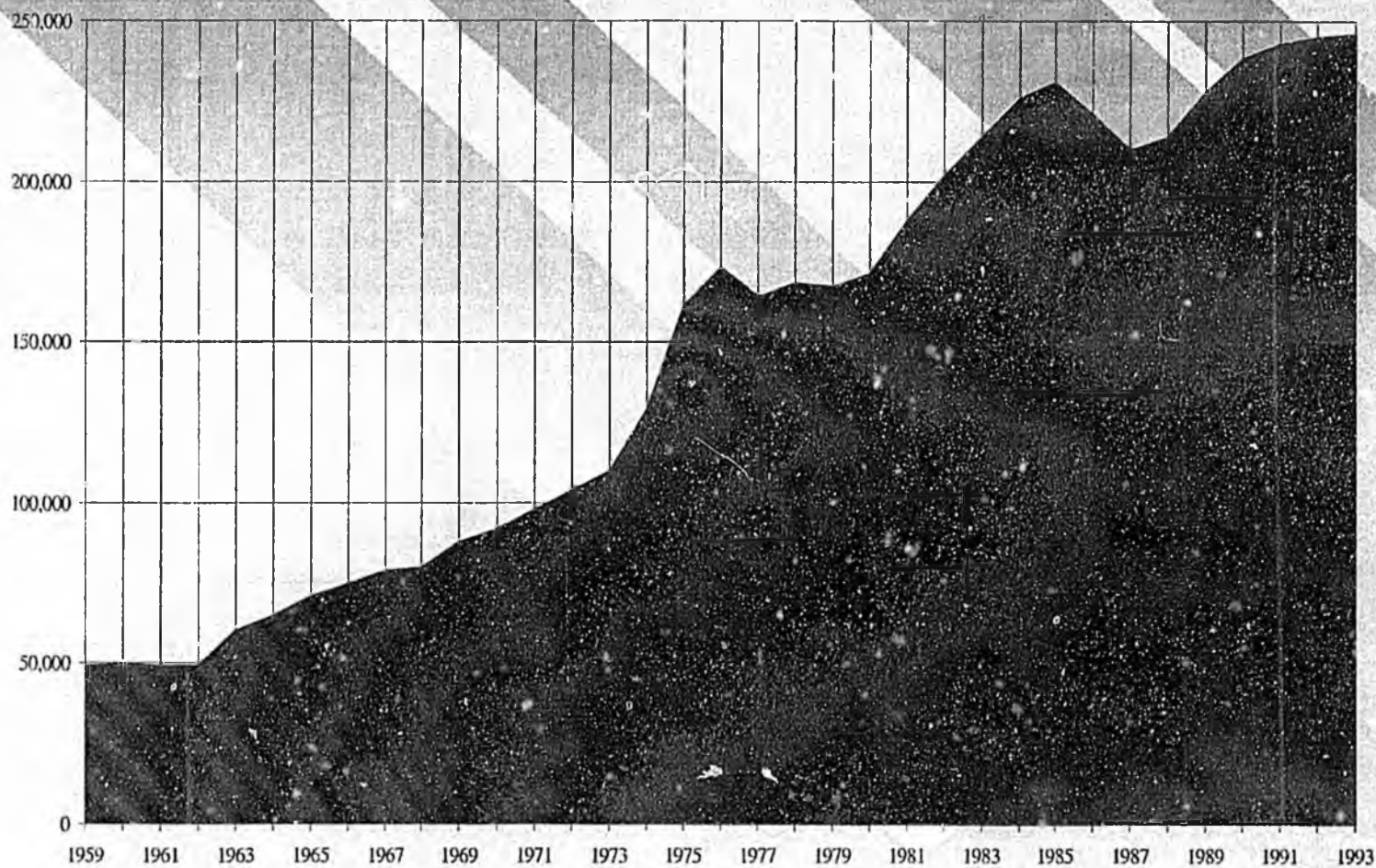
B. SIB Policy Guidelines

SIB Policy provides guidance with respect to major policy issues which have been factored into the development of the Investment Plan. The Policy directives utilized in the planning process include the following:

- Minimum and maximum ranges for property type diversification are set forth in the Policy and noted above.
- Minimum and maximum ranges for regional diversification are also noted above.
- The Policy specifies a preference be given to transactions with greater cash yield components.
- The Policy specifies a major focus in the real estate investment program will be on substantially leased operating properties.

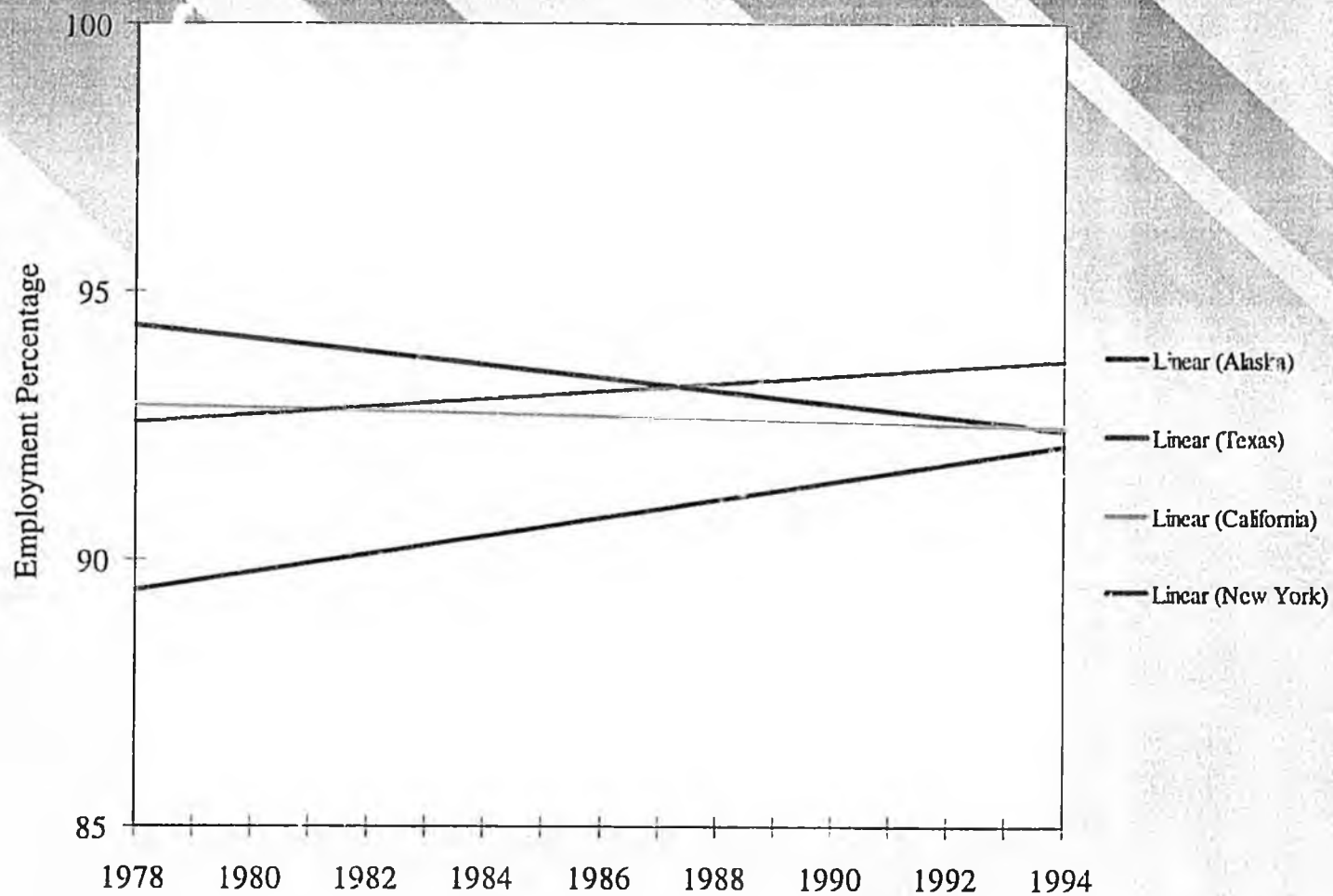
Alaska's Economy since Statehood

Employment



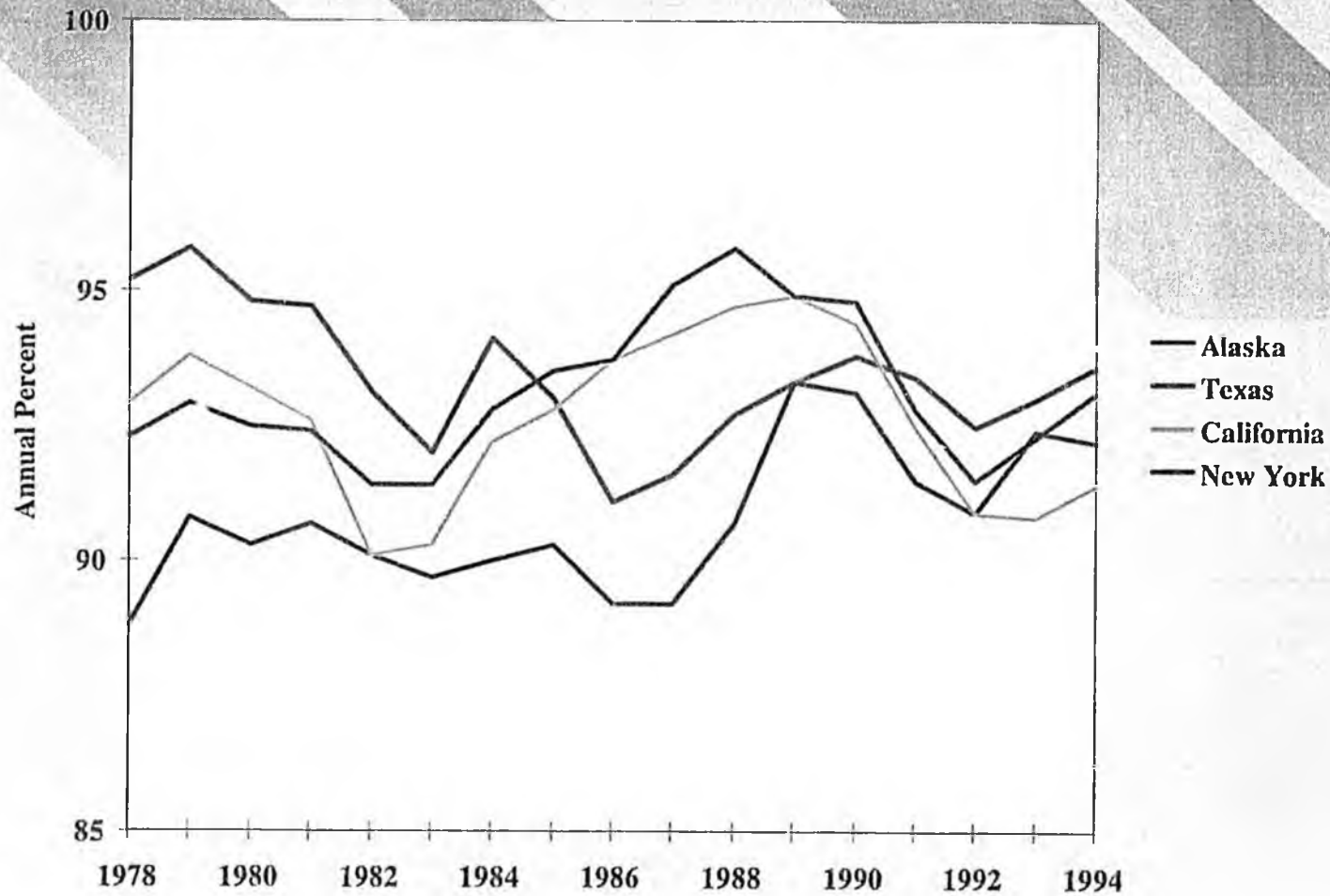
Employment - Trendlines: 1978 - 1994

Alaska, Texas, California and New York



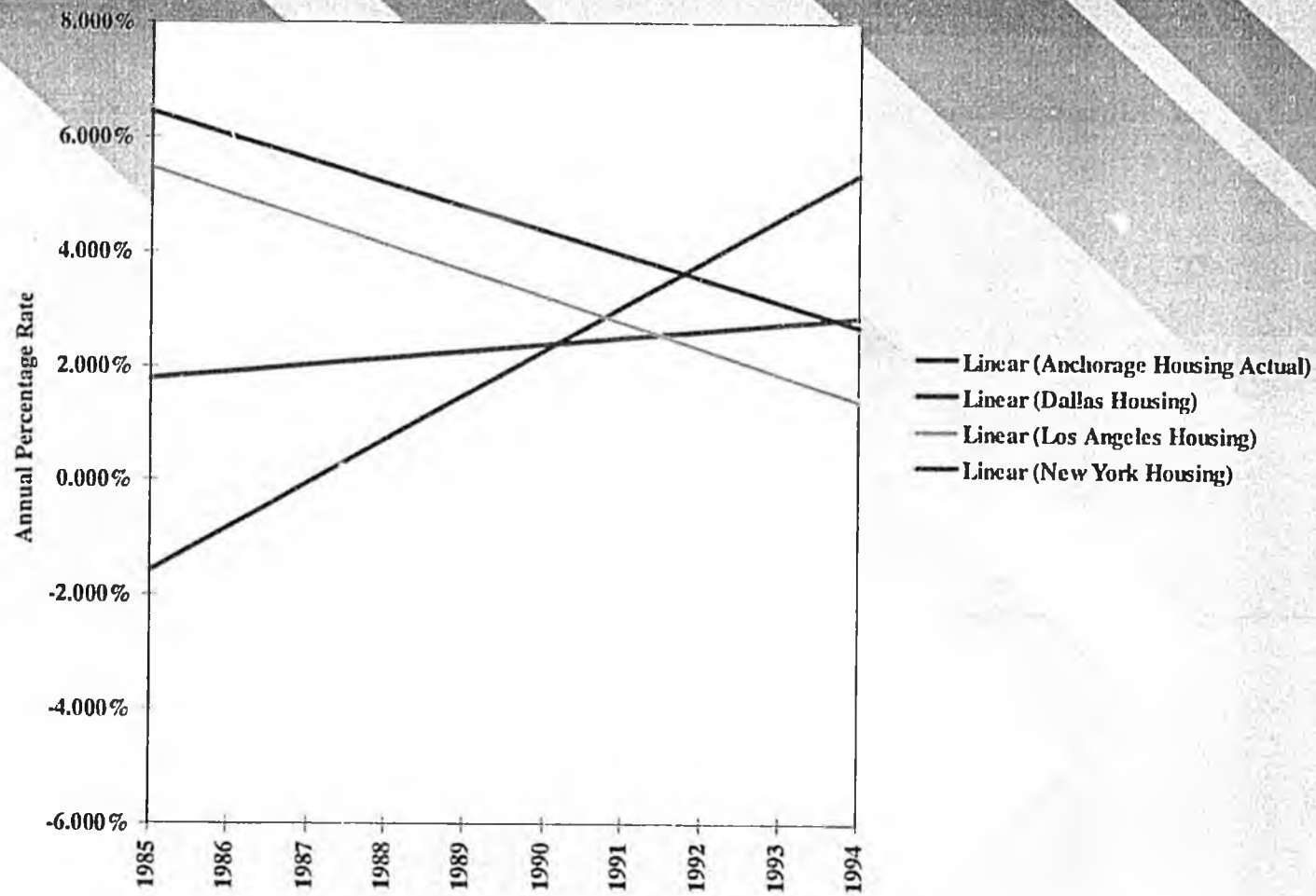
Employment - Actual: 1978 - 1994

Alaska, Texas, California and New York



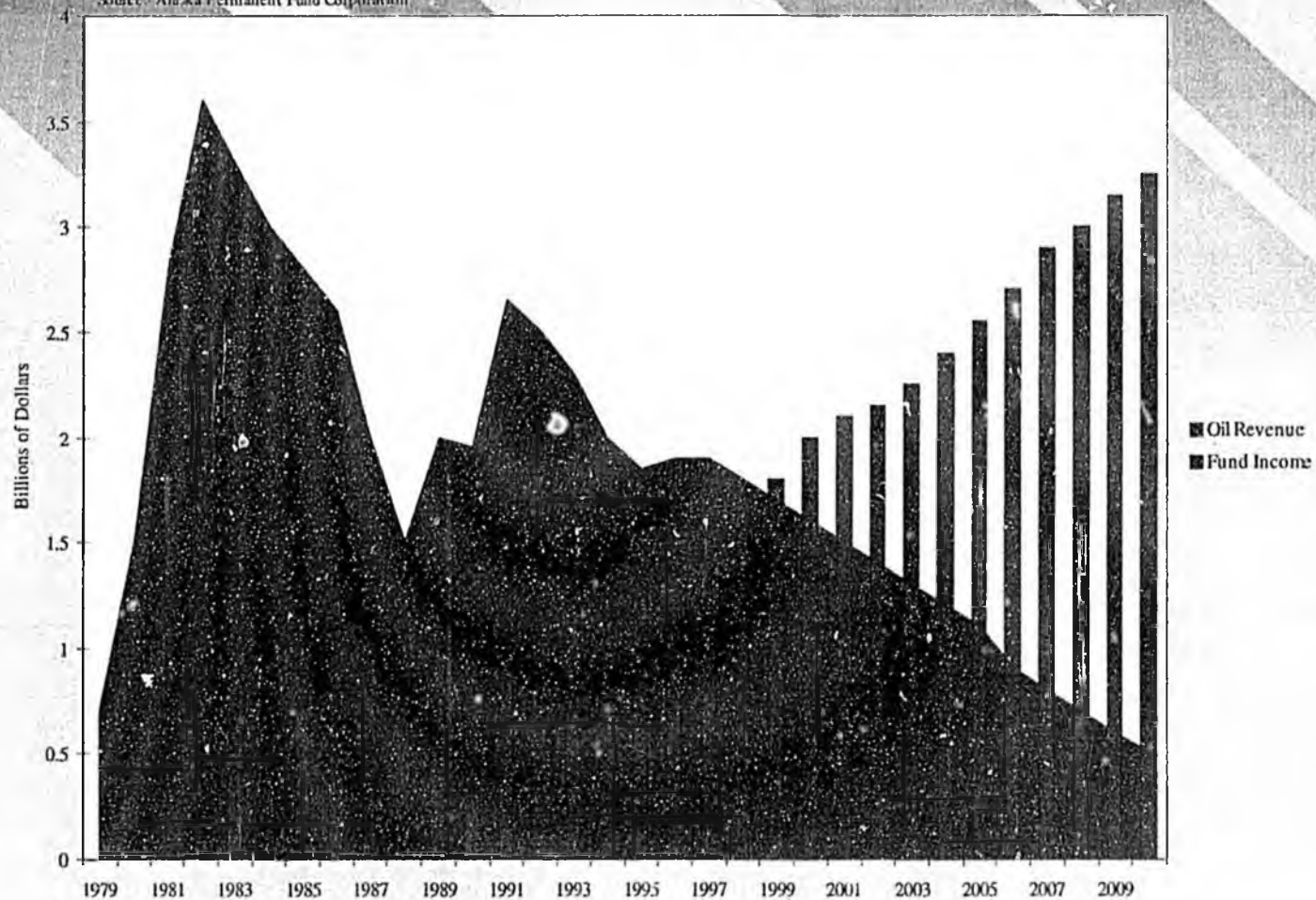
Housing - Trendlines: 1985 - 1994

Anchorage, Dallas, Los Angeles & New York



State of Alaska Permanent Fund Income and State Oil Revenues

Source: Alaska Permanent Fund Corporation



Michael J. Kirk

P.O. Box 20844
Juneau, Alaska 99802

March 15, 1996

Jeannette James, Chair
House State Affairs Committee
Room 102
State Capitol
Juneau, Alaska 99811

Re: HB 345

Dear Representative James:

I am vitally concerned about House Bill 345, which is scheduled for a hearing in your committee on March 21st. I view this bill as a blatant "pension raid", an attempt to use pension fund monies to benefit a few well-off members of the investment community at the expense of retired teachers and other retirees.

Enclosed are two letters I have written which explain my concerns. I would appreciate it if you would make them part of the committee record on this bill and distribute them to the committee members before the hearing next week.

Thank you.

Sincerely,


Michael J. Kirk

FINAL

CC

Michael J. Kirk
P.O. Box 20844
Juneau, Alaska 99802

March 11,
~~February 29,~~ 1996

Editor
The Alaska Journal of Commerce
3710 Woodland Drive, Suite 2100
Anchorage, Alaska 99517

Re: Robin E. Ward's opinion column of February 5, 1996

Dear Editor:

In your February 5th issue you printed an opinion essay which advocated investing the Alaska Permanent Fund and the pension funds of the Public Employees and Teachers Retirement Systems in mortgage investments offered by Alaskan brokers. As a retired teacher, I can only speak to use of the Teachers Retirement System fund: Hands off the hard-earned life savings of Alaskan pensioners!

The PERS, TRS, and smaller public employee pension funds are invested by the Alaska State Pension Investment Board. That Board has an excellent record of stewardship. It has brought in high earnings in safe investments by strictly abiding by the legal requirement that pension funds be invested solely for the benefit of the beneficiaries, the retired workers. This important principle is even enshrined in the Alaska Constitution, which mandates that the benefits of the retirement systems "shall not be diminished or impaired" (Art. XII, Sec. 7).

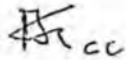
There is good reason to pay attention to this wise provision. All across the United States we have seen unscrupulous attempts to loot private and public employee pension funds by using them for purposes other than to optimize the benefit to the pension beneficiaries. There have been attempts to fund state operations with pension funds and even to steer investments to politically well-connected private interests. So far we have avoided these pension funds raid in Alaska, but for how long?

At least one mortgage investment broker is now lobbying intensively for passage of legislation which would require that the State Pension Investment Board and the Permanent Fund invest in instruments offered by Alaskan brokers. Perhaps, some day, such investments may become sound enough to be in the best interests of the beneficiaries, but for now the State Pension Investment Board has concluded that it would be unwise. That judgment must be respected and not interfered with by politicians and by investment advisors who stand to make money from a shift in fund investments.

Pension funds are not public money. Nor do the funds belong to private

investment brokers to use for their own benefit. The pension funds belong solely to me and my fellow beneficiaries who worked hard for our pensions and who depend on them. Hands off my life savings!

Sincerely,

A handwritten signature in black ink, appearing to read "MJ Kirk". The signature is stylized and somewhat cursive.

Michael J. Kirk

Michael J. Kirk
P.O. Box 20844
Juneau, Alaska 99802

RECEIVED BY

MAR 15 1996

Rep. Jeannine J. J...

March 11, 1996

Editor
The Alaska Journal of Commerce
3710 Woodland Drive, Suite 2100
Anchorage, Alaska 99517

Re: Robin E. Ward's opinion column of February 5, 1996

Dear Editor:

In your February 5th issue you printed an opinion essay which advocated investing the Alaska Permanent Fund and the pension funds of the Public Employees and Teachers Retirement Systems in mortgage investments offered by Alaskan brokers. As a retired teacher, I can only speak to use of the Teachers Retirement System fund: Hands off the hard-earned life savings of Alaskan pensioners!

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investment brokers to use for their own benefit. The pension funds belong solely to me and my fellow beneficiaries who worked hard for our pensions and who depend on them. Hands off my life savings!

Sincerely,

Michael J. Kirk

What Is Mine Is Yours?

A bill has been introduced in the Legislature which is the first step in a blatant raid on the public employee (PERS) and teacher (TRS) pension funds. This bill (HB No. 345) is entitled "An Act relating to the procurement of investment and brokerage services by the Alaska State Pension Investment Board". It requires the Board to "... increase the board's utilization of brokerage and investment services provided by persons located in the state to at least seven percent of the brokerage and investment services that the board procures by contract ...". This is a quota that handicaps the ability of the Pension Board to obtain the best investment advice at the least cost. Our pensioners deserve the best advice and security they can get. They have worked long and hard to make Alaska a better place for all of us to live.

When the State procures goods and services for itself, it does not use a quota system. Instead, it uses an in-state bidder's preference allowing in-state providers of goods and services to be 5% more expensive than out-of-state providers, and yet still be competitive. This is a balancing act that helps to promote in-state businesses, while at the same time fostering competition to keep the price the state pays down. A quota system as proposed in HB No. 345 flies in the face of that competition. When the procurement of goods and services are restricted to a small group, that group does not have to be anywhere near as competitive on either price or quality of services as when it is competing against a bigger group.

As mentioned above, this is just the first step in a raid on PERS and TRS. The next steps are laid out quite clearly by Robin E. Ward (Legislative Chair of the Alaska State Home Builders Association) in her guest editorial "Time to Invest in Alaska Instruments" (Alaska Journal of Commerce, Feb. 5, 1996). She calls for the investment of PERS and TRS funds in projects in Alaska that are not considered good investments by the Permanent Fund. She implies this should be done out of a sense of duty to the State. She states that this investment can be facilitated by using in-state financial advisors. For some reason she believes an investment advisor's time of residence is more important than his or her investment track record. One can only wonder at her motivation.

As Ms. Ward points out, there has been an ongoing debate in this State over the wisdom of using public funds to invest in private sector projects. Private funds are available for projects that are believed by investors (the "market") to have sufficient yield to compensate for the perceived risk. Some people argue that public funds should be used for riskier private sector projects such as commercial hanger expansion at the Anchorage airport because of the benefit to the State to complete a given project. Other projects using public funds, such as the Delta barley project, have not been as successful. As a matter of policy to aid the private sector with public funds, the State has created several entities including the Alaska Housing Finance Corporation, the Alaska Industrial Development Export Authority, and the Alaska Science and Technology Foundation. Also, as Ms. Ward points out, the Permanent Fund has been directed to

What is Mine is Yours?

invest in State projects where the risk and yield are at least the same as available investments elsewhere. A common thread in all of these investment activities using public funds is the sharing of risk by all Alaskans.

Ms. Ward evidently believes it is appropriate to expect our pensioners to bear all of the risk on investments other investors will not make. This is asking a small segment of the citizens of the State to bear the risk for the supposed good of all the State. Is it fair to ^{require} ~~demand~~ that our pensioners ^{life savings} ~~risk their financial security~~ ^{the} ~~for our benefit?~~ ^{of other} ~~Further, it should be noted that~~ ^{a small segment of the population} ~~the~~ dollars in the pension funds are not public funds. Courts have consistently declared that State pension funds, like all other pension funds, are not public funds, but belong only to the pensioners they cover and no one else.

Both PERS and TRS have the ability to invest in sound projects in Alaska along with the rest of the "market". Prudent investors gravitate naturally to sound investments. To expect our pensioners to gamble with their financial futures in projects in which others would not invest is both unreasonable and unwise.

Help stop this raid on our pensioner's futures. Contact your legislators and tell them you are opposed to HB No. 345.

Sincerely,

Michael J. Kirk

8030 N. Douglas Hwy.
Juneau, Ak. 99801
March 25, 1996

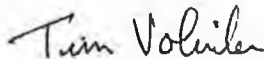
re: House Bill 345

I am opposed to House Bill 345, in particular Section 2 a. (10). It is an attack upon the integrity of the Pension Investment Board's purpose, which is to protect the principal of retirement funds and earn money to pay for pensions. I support the independence of the Pension Investment Board. No strings should be attached to the ability of the Board to hire managers and advisers which it believes to be the best people to provide investment returns which will meet the future financial obligations of paying for teachers and state workers retirement.

The Pension Investment Board was set up to give employees a voice and some control over the investment decisions regarding our retirement funds. The junk bond investments of Executive Life went sour, which put SBS funds at risk of huge losses. That is the reason that the Pension Investment Board was set up in the first place. The Legislature should not make the Pension Investment Board hire local managers, or invest a certain percentage in Alaska, for that matter. The Board concept is working well in actuality, and it should be allowed to continue in its present form. The Board is free to hire Alaskan managers if it chooses, but only if it chooses freely without political mandates or pressure.

Teacher and state employee pension funds should be managed for the sole benefit of employee retirement funds. They should not be seen as another pot of money for the Legislature to earmark for job creation, economic development, or infrastructure projects in Alaska. Those projects should be funded with general fund money or the AIDEA. Pension funds are compensation for many years of dedicated service to Alaskans by teachers and state employees. Prudent independent investment decisions by the Pension Investment Board will result in money being delivered to retirees who can then spend it themselves to help Alaska's economy.

Sincerely,



Tim Volwiler, vested member
Teacher's Retirement System

Alaska Valuation Service, Inc.

1320 EAST 68TH AVENUE • SUITE A • ANCHORAGE, ALASKA 99518
(907) 522 1031 FAX (907) 522 2554

February 29, 1996

Mr. Jim Crawford
City Commerce Corporation
3201 C Street
Anchorage, Alaska

Dear Jim,

This letter is in response to our conversation relative to rates found in the real estate market in Alaska which are used in the capitalization process. You inquired as to reasons why the Alaska capitalization rates appear to be consistently higher than those demonstrated in similar markets in the other states as evidenced by your conversations with stateside lenders and national statistics.

We too often receive comments and queries from outside lenders who read the appraisals and ask for clarification on the rates because in most states a lower rate means a higher value and Alaska real estate looks like a real bargain. The fact is that over the 30 years I have been a fee appraiser, all of the various markets in Alaska have consistently shown yields and rates of return at higher levels than are required by investors in other states.

Part of this may be due to the fact that Alaska for many decades was considered the "frontier" and in such environments the risk is perceived to be greater, therefore the reward needs to be higher. The reward is of course the rate of return, and that is demonstrated both by the cash flow and the rate of capitalization. Even though the risk is now no greater than in comparable areas of the other states, the higher rates of return have remained. This higher yield requirement has been maintained by a variety of ways, most importantly is the relative lack of reasonable term and cost financing on commercial properties. Because of the loan terms and interest rates, fewer purchasers are able to participate in the commercial market, and those that are able to purchase have been able to require investment yields well above like property returns in other states.

Even in the best of times here capitalization rates rarely get as low as 10%, and most often are in the 11 to 12% range. This does make for excellent personal investments if you have the ability to participate in the market. The lack of financing however has had an effect on the ability of property to be absorbed when the

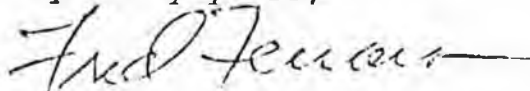
market slows. Buyers who see prices softening want to purchase to secure long term investment properties at better prices but are not able to get financing. As a result, market declines have the potential to become more pronounced than they would be if the real estate market had more liquidity by virtue of having more users and investors able to participate.

An example of what lack of liquidity can do in a market was demonstrated in our condominium market in the late 1980's when most of the loans were non assumable, and buyers were not able to find reasonable financing. Buyers would have assumed many of the loans were they able, but could not, and the properties declined in value until they were purchased at fire sale prices for cash.

In conclusion, high capitalization rates and their subsequent higher investment yields to commercial property owners has been present in Alaska markets for many years. We believe the somewhat limited availability of financing for such properties is part of the reason for that. Another reason however is that investors have gotten used to higher yields in real estate, and I believe that slightly higher yields will continue in this state even if better financing were available. The disparity in rates between Alaska and the other states would not be as stark if property were more easily financed.

These comments are of course my view of the market, but I believe you will find general consensus from other appraisers and Realtors in this area.

Very truly yours,



Alfred J. Ferrara, MAI, SRA

NCREIF CLASSIC PROPERTY INDEX

ANNUAL PERFORMANCE
YEARS ENDING JUNE 30, 1995

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
TOTAL													
Income	8.04	7.42	7.44	7.49	7.08	7.06	6.91	6.61	6.84	7.29	8.13	8.93	9.34
Capital	1.19	7.79	3.05	1.49	-2.10	-0.02	-0.05	-0.80	-7.67	-13.38	-11.00	-4.55	-1.30
Total	9.31	15.63	10.65	9.06	4.86	7.03	6.86	5.76	-1.22	-6.83	-3.55	4.08	7.95
S&P 500													
Total	61.03	-4.70	30.75	35.43	25.09	-7.10	20.40	16.32	7.39	13.47	13.59	1.33	26.11
LEHMAN G/C													
Total	29.12	1.77	28.70	20.66	4.68	7.48	12.34	7.10	10.23	14.17	13.15	-1.45	12.77
T-BILLS													
Total	9.46	9.45	9.24	6.90	5.74	6.06	8.23	8.21	6.93	4.65	3.13	3.33	5.35
CPI													
Total	2.57	4.22	3.76	1.76	3.65	3.96	5.16	4.67	4.70	3.09	2.99	2.48	3.05
WAREHOUSE													
Income	7.97	7.59	7.98	7.91	7.90	7.87	7.51	7.17	7.26	7.73	8.46	9.52	10.20
Capital	1.00	4.08	4.07	3.71	0.67	3.86	1.92	2.00	-6.66	-9.84	-11.19	-6.23	2.36
Total	9.03	11.90	12.30	11.84	8.61	11.95	9.54	9.27	0.24	-2.68	-3.44	2.84	12.74
RETAIL													
Income	9.08	8.53	8.05	7.52	6.94	7.04	6.86	6.32	6.50	6.57	7.31	7.67	8.27
Capital	0.43	8.05	5.36	3.54	4.00	5.79	6.44	2.93	-3.51	-10.16	-6.72	-2.12	-2.05
Total	9.54	17.08	13.73	11.26	11.22	13.13	13.63	9.38	2.82	-4.09	0.23	5.44	6.09
OFFICE													
Income	7.73	6.78	7.05	7.26	6.70	6.53	6.49	6.03	6.48	7.10	7.98	9.14	9.88
Capital	1.38	8.11	2.06	0.35	-5.43	-3.73	-2.35	-3.62	-11.81	-17.68	-16.91	-9.65	-3.72
Total	9.19	15.29	9.21	7.63	1.00	2.61	4.03	2.25	-5.90	-11.54	-9.95	-1.17	5.89
R&D/OFFICE													
Income	8.26	8.19	8.18	8.03	7.59	7.49	7.39	7.60	7.68	8.15	8.99	9.69	9.76
Capital	2.52	13.59	3.20	1.83	-0.96	-0.24	-2.18	-1.52	-7.95	-16.52	-13.02	-5.65	-1.98
Total	10.94	22.60	11.57	9.96	6.58	7.23	5.08	5.99	-0.72	-9.39	-4.92	3.64	7.64
APARTMENTS													
Income	NA	NA	NA	7.71	7.61	7.11	6.79	7.14	7.35	7.75	8.63	9.20	9.08
Capital	NA	NA	NA	1.76	-3.05	1.03	-1.31	0.31	-2.89	-9.88	-3.10	4.00	2.88
Total	NA	NA	NA	9.57	4.40	8.20	5.42	7.46	4.31	-2.68	5.33	13.47	12.16

Source: Reprinted with permission from National Council Real Estate Investment Fiduciaries (NCREIF)

The following is a summary of characteristics for the NCREIF property types:

Apartments
"Guarded optimism"

Office
"Navigating on the road to recovery"

Retail
"Seeking directions"

R&D
"Worth the risk?"

Warehouse
"Leads in returns!"

The second quarter 1995 marked the first quarter of formal publication of the newly expanded NCREIF Property Index.

Index	Returns
NPI	2.00%
NCPI	2.35%
Lehman G/C	6.49%
Lehman G/O 10 Yr.	2.52%
Salomon 3 mo. T-bills	1.45%
NAREIT Share Price-Equity	5.88%
CPI	0.73%

QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

Respondent	Property Types in Preference Order	Internal Rate of Return (%)	Going-In Capitalization Rate (%)	Residual Capitalization Rate (%)	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income: Years 1 to 3/ Years 4 to 10 (%)	Expense: Years 1 to 3/ Years 4 to 10 (%)		
National Real Estate Investor and Advisor	1 Industrial - Warehouse	11.5	9.5 - 10.0	10.0	4.0	4.0		4.0
	2 Office - Suburban	11.5	9.0 - 9.5	9.5	4.0	4.0		4.0
	3 Apartment	11.0	9.0	9.5	4.0	4.0		4.0
	4 Retail - Power Center	11.0	9.0 - 10.0	10.0	4.0	4.0		4.0
	5 Office - CBD	11.5	9.0 - 9.5	9.5	4.0	4.0		4.0
	6 Retail - Regional Mall	11.5	8.0 - 9.0	9.5	4.0	4.0		4.0
	7 Hotel	12.0	10.0	10.5	4.0	4.0		4.0

Comments: According to this investor, there has been a strong return of leveraged buyers due to favorable economic conditions.

National Real Estate Lender and Advisor	1 Apartment	11.5	9.0	9.5	3.5	3.5	3.0	3.5
	2 Retail - Regional Mall	11.5	8.5	9.0 - 9.3	4.0	3.5	10.0	3.5
	3 Retail - Power Center	11.5	9.0	9.5 - 9.8	4.0	3.5	4.0	3.5
	4 Retail - Neighborhood	12.5	10.5	11.0 - 11.3	3.0	3.5	4.0	3.5
	5 Office - Suburban	12.0	10.0	10.5	3.5	3.5	10.0	3.5
	6 Office - CBD	12.0	10.0	10.5	3.5	3.5	10.0	3.5
	7 Hotel	13.0	12.0	13.0	4.5	3.5	5.0	3.5

Comments: According to this advisor, the real estate market is gaining confidence, even though there has been a slowdown in investment activity, due to competition.

National Lender and Investor	1 Apartment	10.5	8.0	8.5	5.0	3.5	5.0	3.5
	2 Industrial - Warehouse	11.0	8.5	9.0	3.0	3.5	5.0	3.5
	3 Retail - Regional Mall	11.0	8.0	8.5	4.5	3.5	5.0	3.5
	4 Retail - Power Center	11.5	8.5	9.0	4.5	3.5	5.0	3.5
	5 Office - Suburban	11.5	9.0	9.5	3.0	3.5	5.0	3.5
	6 Retail - Neighborhood	12.0	9.0	9.5	4.0	3.5	5.0	3.5
	7 Industrial - R&D	12.0	9.5	10.0	3.0	3.5	5.0	3.5
	8 Office - CBD	12.0	9.5	10.0	2.0	3.5	5.0	3.5

Comments: Capital availability will continue to improve and competition for prime properties will grow. Competition on deal making seems to be very high.

National Investment Advisor	1 Industrial - Warehouse	11.0	9.0	9.5	3.0		10.0	4.0
	2 Office - Suburban	12.0	10.0	10.0	5.0	5.0	5.0	4.0
	3 Industrial - R&D	12.0	10.0	10.0	5.0		5.0	4.0
	4 Apartment	11.0	8.5	9.5	4.0	4.0	8.0	4.0

Comments: This investment advisor feels that stretching is taking place in the apartment market, as well as bulk distribution space.

National Investment Advisor	1 Industrial - Warehouse	11.5	8.8 - 9.5	8.8 - 9.5	3.5	3.5	8.5	3.5
	2 Office - Suburban	12.5	9.5 - 10.0	9.5 - 10.0	3.0	3.5	8.5	3.5
	3 Retail - Neighborhood	11.5	9.3 - 9.8	9.3 - 9.8	3.5	3.5	8.5	3.5
	4 Apartment	11.0	8.5 - 9.0	8.5 - 9.0	4.0	3.5	8.5	3.5
	5 Retail - Power Center	11.3	9.0 - 9.5	9.0 - 9.5	3.5	3.5	8.5	3.5

Comments: This investment advisor feels that competition is intensifying, which will result in increased prices. As markets become more aggressive, it's better to wait for the right deal to come along.

National Investment Advisor	1 Industrial - Warehouse	11.0	8.5 - 9.5	9.0 - 10.5	3.0	3.0	8.5	3.0
	2 Apartment	11.0	8.5	9.0	4.0	3.0	8.5	3.0

Comments: According to this advisor, the market is quite similar to the second quarter. Is it me, or are buyers stretching to purchase properties again?

QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

(continued)

Respondent	Property Types in Preference Order	Internal Rate of Return (%)	Going-In Capitalization Rate (%)	Residual Capitalization Rate (%)	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income: Years 1 to 3 Years 4 to 10 (%)	Expense: Years 1 to 3 Years 4 to 10 (%)		
Southern Investment Advisor	1 Office - Suburban	11.0	8.0	9.0	5.0	4.0	6.0	2.8
	2 Apartment	10.5	8.3	8.8	4.5	4.0	6.0	2.8
	4 Retail - Neighborhood	10.3	8.5	9.0	4.0	4.0	8.5	2.8
	5 Retail - Power Center	9.8	8.3	9.0	3.5	4.0	6.0	2.8
	6 Industrial - R&D	10.5	9.0	10.0	3.5	4.0	8.0	2.4
	7 Office - CBD	12.0	9.0	10.0	4.0	4.0	8.5	2.8
	8 Retail - Regional Mall	10.3	8.0	9.0	3.0	4.0	10.0	2.8
	9 Industrial - Warehouse	9.8	8.3	9.0	4.0	4.0	6.0	2.8
	Comments:	This advisor believes that the market for acquisitions has improved, but they are waiting for the right property to cross their path.						
National Investment Advisor	1 Office - Suburban	12.0 - 15.0	8.0 - 9.0	9.0 - 9.5	5.0	4.0	10.0	4.0
	2 Industrial - Warehouse	11.0 - 12.0	9.0 - 9.0	9.5	4.5	4.0	10.0	4.0
	3 Retail - Neighborhood	11.0 - 12.0	9.3 - 9.3	9.5	4.5	4.0	10.0	4.0
	4 Retail - Power Center	11.0 - 12.0	9.5 - 9.5	9.5	4.0	4.0	10.0	4.0
	5 Retail - Regional Mall	10.5 - 11.0	7.5 - 7.5	8.0	4.0	4.0	10.0	4.0
	6 Office - CBD	12.0 - 15.0	9.0 - 10.0	10.0	2.0	4.0	10.0	4.0
Comments:	The suburban office market is "hot" and prices continue to increase due to the large amount of buyers entering the market. Buyers are racing to purchase properties for fear of missing the next big real estate cycle.							
National Insurer and Investor	1 Industrial - Warehouse	11.0	8.5	10.0	3.5	3.5	8.5	3.25
	2 Retail - Power Center	11.5	9.0	9.5	2.5	3.5	7.5	3.25
	3 Apartment	11.0	9.5	9.5	3.8	3.5	7.5	3.25
	4 Office - Suburban	11.5	8.5	10.0	3.5	3.5	8.5	3.25
	5 Retail - Neighborhood	12.0	10.0	11.0	3.0	3.5	7.5	3.25
	6 Office - CBD	11.5	9.5	10.0	3.0	3.5	11.0	3.25
	7 Retail - Regional Mall	11.0	8.0	9.0	2.5	3.5	13.5	3.25
	8 Hotel	12.0 - 15.0	11.0		3.8	3.5		3.25
	9 Industrial - R&D	12.0	11.0	10.0	2.0	3.5	7.5	3.25
Comments:	Buyers are rushing to purchase properties so as to ride the next real estate cycle. At present, quality is driving down cap rates, but there is a wider gap in quality than is usually seen.							
East Coast Investor and Advisor	1 Industrial - Warehouse	11.0	9.0	10.0	4.0	4.0	10.0	4.0
	2 Apartment	11.5	9.0	10.0	4.0	4.0	10.0	4.0
	3 Retail - Regional Mall	11.0	8.0	9.0	4.0	4.0	10.0	4.0
	4 Retail - Power Center	11.5	9.0	10.0	4.0	4.0	10.0	4.0
	5 Office - Suburban	11.5	9.0	10.0	4.0	4.0	10.0	4.0
	6 Industrial - R&D	11.5	9.5	10.0	4.0	4.0	10.0	4.0
	7 Office - CBD	12.0	9.0	9.5	4.0	4.0	10.0	4.0
	8 Retail - Neighborhood	12.0	9.0	10.0	4.0	4.0	10.0	4.0
	9 Hotel	12.5	10.0	12.0	4.0	4.0	10.0	4.0
Comments:	This investor believes that the change in market forces is leading buyers to stretch to purchase properties.							
National Investment Advisor	1 Office - Suburban	11.0 - 13.0	10.0	10.5	4.0	4.0	10.0	3.0
	2 Industrial - Warehouse	11.0	9.0 - 9.5	10.0	4.0	4.0	10.0	3.0
	3 Retail - Neighborhood	11.0 - 13.0	10.0 - 11.0	10.0	4.0	4.0	10.0	3.0
	4 Apartment	11.0	8.5 - 9.0	9.0	4.0	4.0	10.0	3.0
Comments:	According to this national investment advisor, prices continue to be bid up without a corresponding increase in rent. Presently, capital is way ahead of the rent curve.							

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QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

(continued)

Respondent	Property Types in Preference Order	Internal Rate of Return (%)	Going-In Capitalization Rate (%)	Residual Capitalization Rate (%)	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income: Years 1 to 3/ Years 4 to 10 (%)	Expense: Years 1 to 3/ Years 4 to 10 (%)		
National Investment Advisor	1 Apartment	11.0 - 11.5	8.8	9.1	3.5	3.5	10.0	3.0
	Comments:	This national investor has noted that sellers are asking for more non-monetary concessions from purchasers. All in all, more deals are closing because purchaser's and seller's expectations are being met.						
National Real Estate Investor and Advisor	1 Industrial - Warehouse	11.3	9.3	9.5		4.0	10.0	4.0
	1 Apartment	11.5	8.8	9.0		4.0	10.0	4.0
	2 Retail - Regional Mall	10.5	7.5	7.8		4.0	10.0	4.0
	3 Retail - Neighborhood	11.3	9.0	9.3		4.0	10.0	4.0
	4 Retail - Power Center	10.8	10.0	10.3		4.0	10.0	4.0
	5 Office - Suburban	11.0	9.0	9.3		4.0	10.0	4.0
	6 Office - CBD	11.0	8.8	9.0		4.0	10.0	4.0
	7 Industrial - R&D	11.3	9.3	9.5		4.0	10.0	4.0
	Comments:	This advisor envisions a continued availability of funds, although buyers are still cautious since the last real estate downswing.						
Investment Advisor	1 Retail - Power Center	10.5	8.8	9.3	4.0	4.0	10.0	4.0
	2 Office - Suburban	10.8	8.5	9.0	4.0	4.0	10.0	4.0
	2 Apartment	10.8	8.3	9.0	4.0	4.0	10.0	4.0
	3 Retail - Regional Mall	11.0	7.3	7.8	4.0	4.0	10.0	4.0
	3 Industrial - Warehouse	11.0	8.5	9.0	4.0	4.0	10.0	4.0
	4 Retail - Neighborhood	11.3	9.3	9.8	4.0	4.0	10.0	4.0
	5 Office - CBD	11.8	9.0	9.5	3.5	4.0	10.0	4.0
	6 Industrial - R&D	12.0	9.3	9.8	4.0	4.0	10.0	4.0
	7 Hotel	12.5	10.0	11.0	4.0	4.0	10.0	4.0
	Comment:	Continued strong bidding on suburban office buildings and power centers is leading to a greater supply of properties for sale in response to higher prices.						
National Developer and Investment Advisor	1 Apartment	11.5 - 12.0	8.4 - 8.6	8.8	4.0	4.0	7.5	4.0
	Comments:	According to this advisor, there is not a noticeable change in the overall market, except that transactions seem to be slowing down.						
National Investment Advisor	1 Apartment	12.0	9.0	9.5				
	2 Retail - Neighborhood	11.3	9.5	10.0				
	3 Industrial - Warehouse	11.0	8.5	9.0				
	4 Retail - Regional Mall	10.8	7.8	8.3				
	5 Retail - Power Center	10.8	9.8	10.3				
	6 Office - Suburban	11.0	9.0	9.5				
	7 Industrial - R&D	12.0	10.0	10.5				
	8 Office - CBD	13.0	9.5	10.0				
	9 Hotel	13.0	10.9	11.5				
	Comments:	This investment advisor feels that there is too much capital chasing in various markets and is willing to wait for the right property.						

QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

(continued)

Respondent	Property Types in Preference Order	Internal Rate of Return	Going-In Capitalization Rate	Residual Capitalization Rate	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income:	Expense:		
					Years 1 to 3/ Years 4 to 10	Years 1 to 3/ Years 4 to 10		
National Real Estate Investor	1 Apartment	12.5	9.5	9.7	3.5	3.5	10.0	3.5
Comments:	This investor is waiting to see a shift from apartments into other property types.							
West Coast Investment Advisor	1 Apartment	11.0	8.8	9.3	3.5	3.5	7.5	3.5
	2 Industrial - Warehouse	11.0	8.5	9.0	3.5	3.5	7.5	3.5
	3 Office - Suburban	11.5	9.0	10.0	3.5	3.5	7.5	3.5
	4 Industrial - R&D	12.0	9.5	10.0	3.5	3.5	7.5	3.5
	5 Retail - Neighborhood	11.5	9.3	9.8	3.5	3.5	7.5	3.5
	6 Retail - Power Center	11.5	9.8	10.3	3.5	3.5	7.5	3.5
	7 Retail - Regional Mall	11.0	8.5	9.0	3.5	3.5	7.5	3.5
Comments:	This west coast investment advisor has noticed a slight decrease in investor activity.							
West Coast Real Estate Investor	1 Industrial - Warehouse	12.0	7.0 - 10.5	9.0	4.0	2.5	3.0	3.0
	2 Office - Suburban	13.0	8.0 - 11.0	9.5	2.5	2.0	10.0	3.0
	3 Retail - Regional Mall	11.5	7.0 - 9.0	8.5	4.0	3.5	10.0	3.0
	4 Retail - Power Center	12.5	7.0 - 10.0	9.5	3.0	3.0	10.0	3.0
	5 Retail - Neighborhood	12.5	8.0 - 10.0	9.5	3.5	2.5	10.0	3.0
	6 Office - CBD	15.0	8.0 - 12.0	9.5	1.5	2.0	10.0	3.0
	7 Industrial - R&D	15.0	11.0	10.0	3.5	2.5	10.0	3.0
Comments:	According to this investment advisor, there is a resurgence of insurance companies as buyers, while foreign investors are sellers. REIT activity has been greatly curtailed, with some exceptions in the retail sector.							
Pension Fund Advisor	1 Industrial - Warehouse	11.2 - 11.6	9.4 - 9.8	9.8	3.3	3.0	6.0	2.8
	2 Apartment	11.0 - 11.5	8.8 - 9.3	9.0 - 9.3	3.8	2.8	5.0	2.8
	3 Office - Suburban	11.5 - 12.0	9.5 - 9.8	9.8	3.0	3.0	6.0	2.8
	4 Retail - Neighborhood	11.5 - 12.0	9.4 - 9.8	9.8	3.3	2.8	6.0	2.8
	5 Industrial - R&D	11.5 - 12.0	9.5 - 9.8	9.8	3.0	3.0	6.0	2.8
	6 Retail - Power Center	11.5 - 12.0	9.5 - 9.8	9.8	3.3	2.8	6.0	2.8
Comments:	According to this pension fund advisor, there is a greater buyer interest in suburban office markets and industrial parks. Due to the increase in buyers, yields are being pushed down.							
National Investment Advisor	1 Apartment	11.5	8.8	9.3	4.0	4.0	8.0	4.0
	2 Industrial - Warehouse	11.5	8.8	9.3	4.0	4.0	10.0	4.0
	3 Retail - Neighborhood	11.5	8.8	9.3	4.0	4.0	10.0	4.0
	4 Retail - Power Center	11.5	10.5	11.0	4.0	4.0	5.0	4.0
	5 Industrial - R&D	13.0	11.5	12.0	4.0	4.0	5.0	4.0
Comments:	This national investment advisor feels that institutional funds have pushed up prices, therefore, buyers are stretching purchases to stay in the game.							

DEFINITIONS:

YIELD (IRR)

Internal rate of return (IRR) is the rate of interest that discounts the pre-income tax cash flows received by the equity investors(s) back to a present value that is exactly equal to the amount of the original equity investment. It is in effect a time-weighted average return on equity and as used here, is synonymous with the term "yield."

GOING-IN CAP RATE

First-year NOI divided by present value (or purchase price), unless otherwise noted.

RESIDUAL CAP RATE

Usually a capitalization rate used to estimate resale or reversion value at the end of the holding period.

GROWTH RATE

Annual compounded rate of increase in revenue and expenses over current-year levels. Further expenses are typically forecast on a line-by-line basis.

REAL ESTATE INVESTMENT CRITERIA BY PROPERTY TYPE

(HISTORICAL SERIES)

	1990	1990	1990	1990	1991	1991	1991	1991	1992	1992	1992	1993	1993	1993	1993	1994	1994	1994	1994	1995	1995
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>
All types																					
Pre-tax yield (IRR)(%)	11.3	11.7	11.6	12.2	11.9	12.0	12.2	12.4	12.4	12.2	12.2	12.0	12.3	12.1	11.7	11.9	11.8	11.7	11.9	11.6	11.5
Going-in cap rate (%)	8.0	7.9	8.3	8.6	8.7	8.7	8.8	9.0	9.0	9.4	9.5	9.6	9.6	9.5	9.5	9.6	9.4	9.4	9.4	9.5	9.2
Terminal cap rate (%)	8.6	8.7	8.9	8.7	9.0	9.1	9.0	9.3	9.2	9.9	9.9	9.7	10.0	9.8	9.5	10.0	9.8	9.6	9.8	9.9	9.6
Office - CBD																					
Pre-tax yield (IRR)(%)	11.7	11.7	11.6	12.1	12.1	12.3	12.6	12.9	12.8	12.5	12.4	13.0	12.8	12.8	12.5	12.8	12.4	12.1	12.5	12.1	11.9
Going-in cap rate (%)	8.2	8.0	8.3	8.4	9.2	8.4	8.7	9.2	8.8	9.6	9.6	9.7	10.3	10.4	9.9	10.2	9.7	9.8	9.8	9.7	9.2
Office - suburban																					
Pre-tax yield (IRR)(%)	14.0	11.5	12.0	12.4	12.5	NA	12.5	13.0	12.6	12.9	13.1	13.0	12.8	12.7	12.0	12.4	12.1	11.9	12.2	11.9	11.8
Going-in cap rate (%)	8.5	8.0	9.6	9.6	10.0	11.0	10.3	10.1	9.9	10.2	10.3	10.3	10.5	10.6	10.2	10.0	9.9	9.9	9.8	9.8	9.2
Industrial - Warehouse																					
Pre-tax yield (IRR)(%)	11.2	11.5	11.5	11.9	11.9	12.1	12.1	12.1	12.0	11.9	11.8	11.3	11.8	11.7	11.1	11.6	11.4	11.3	11.2	11.1	11.2
Going-in cap rate (%)	8.7	8.1	8.2	9.0	9.2	9.2	9.4	9.6	9.5	9.5	9.4	9.7	9.5	9.4	9.5	9.6	9.3	9.4	9.2	9.4	9.2
Industrial - R&D																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	13.0	12.8	13.4	12.9	12.6	11.3	12.8	12.2	12.3	12.6	12.3	12.1
Going-in cap rate (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	10.3	10.0	10.5	10.1	10.4	9.9	10.3	10.4	10.4	10.2	10.1	9.6
Retail - Regional Mall																					
Pre-tax yield (IRR)(%)	10.9	11.3	11.4	11.7	11.8	11.4	11.8	11.7	11.8	11.3	11.5	10.9	11.4	11.2	11.0	10.9	11.1	11.0	11.1	10.9	11.1
Going-in cap rate (%)	6.9	7.1	7.3	7.4	7.6	7.2	7.2	7.4	7.5	7.7	7.6	7.9	7.7	7.8	7.7	7.9	7.7	7.7	8.0	8.2	7.9
Retail - Power Center																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	12.5	12.2	12.3	11.8	11.9	12.1	11.2	11.9	11.8	10.5	11.3	11.1	11.4	11.4	11.4	11.1
Going-in cap rate (%)	NA	NA	NA	NA	NA	9.8	9.6	10.5	10.0	9.6	9.5	9.8	9.4	9.3	9.6	9.7	9.1	9.3	9.2	9.4	9.4
Retail - Neighborhood/Comm.																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	12.3	12.6	12.9	12.8	12.2	12.0	11.7	12.1	12.3	12.1	11.5	11.5	11.8	11.6	11.3	11.3
Going-in cap rate (%)	NA	NA	NA	NA	NA	8.4	8.7	9.2	8.8	9.5	9.5	10.0	9.8	9.6	9.7	9.8	9.8	9.8	9.6	9.7	9.5
Apartments																					
Pre-tax yield (IRR)(%)	11.7	12.4	11.4	12.4	11.9	12.2	12.5	12.5	12.4	11.9	11.8	11.9	11.6	11.4	11.4	11.3	11.3	11.6	11.2	11.1	11.1
Going-in cap rate (%)	8.2	7.9	8.2	8.5	8.7	8.5	8.8	8.8	8.7	8.9	9.1	9.1	8.9	8.9	8.8	8.8	8.8	8.8	8.7	9.0	8.9
Hotels																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	NA	NA	16.0	16.0	14.6	14.3	14.5	14.5	14.0	14.2	13.5	13.7	13.3	13.7	12.9	12.5
Going-in cap rate (%)	NA	NA	NA	NA	NA	NA	NA	12.0	12.0	12.1	11.4	11.7	11.6	11.8	11.1	11.4	11.1	10.8	11.5	11.2	10.9

- Notes:
- 1) This data is derived from RERC's Quarterly Investment Survey. Data reflects desired returns by institutional investors in each quarter.
 - 2) Due to a change in the method by which data is gathered, there is no First Quarter 1992 survey.
 - 3) The Industrial: R&D category was introduced in Third Quarter 1992.
 - 4) The Hotel category was introduced in Fourth Quarter 1991.
 - 5) Before First Quarter 1991, Retail-Power Center and Retail-Neighborhood/Community were combined under Retail-Other category.

Source: Real Estate Research Corporation (RERC)

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act Relating to The Procurement of BRU: Revenue Operations
Investment and Brokerage Services by ASPIB Component: Alaska State Pension Investment Board
 Sponsor: Foster
 Requestor: State Affairs COMPONENT SERIAL NO. 1961

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	145.0	125.0	125.0	125.0	125.0	125.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	145.0	125.0	125.0	125.0	125.0	125.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1024 Public Employees' Trust Fund	92.8	80.0	80.0	80.0	80.0	80.0
1034 Teachers' Trust Fund	52.2	45.0	45.0	45.0	45.0	45.0
TOTAL	145.0	125.0	125.0	125.0	125.0	125.0

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Brokerage fees are incurred by the investment managers and are a component of the cost (or proceeds) of the buy (or sell) transaction. Managers are encouraged to use brokerage firms who have offices in Alaska, if their use will not result in a decreased benefit to the system beneficiaries (i.e. through increased cost or poor execution). Generally, our managers are trading for many large institutional investors and often do so through bulk lot buys and sells. To specifically trade through an Alaska broker would require the Alaska trades to be handled after all bulk trading, and at higher cost.

Our fiscal note reflects \$125,000 per year in consultant fees to first quantify the cost associated with these trades, and secondly to monitor the managers to ensure that they are directing the required amount of activity through Alaska brokers. Additionally, there is \$20,000 included in the first year to perform a manager search in Alaska. For purposes of this analysis we are assuming Alaskan investment manager's fees will be competitive with those of the institutional managers currently utilized by the board.

Prepared by: Betty Martin, Comptroller *Betty Martin*
 Division: Treasury
 Approved by Commissioner: Ross A. Kinney, Deputy Commissioner *Ross A. Kinney*
 Agency: Department of Revenue

Phone: 465-2350
 Date: March 19, 1996
 Date: March 19, 1996

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STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

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FEB 06 1996

February 6, 1996

The Honorable Richard Foster
Alaska State Legislature
Capitol, Room 410
Juneau, AK 99801-1182

Dear Representative Foster:

As you have acknowledged in your discussions with our department, your January 22 letter requested a great deal of information regarding the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). To respond to this information request as quickly as possible, we will forward information as we collect it. Here's what we have been able to accomplish on each of your requests.

- 1. Please supply a copy of the audited financial report for the investment portion of the TRS and PERS systems for the fiscal year ended June 30, 1995.**

Response: I have enclosed copies of the audited Alaska State Pension Investment Board 1995 Annual Report of Investments for PERS and TRS. Also, I have included a copy of the 1995 State of Alaska Comprehensive Annual Financial Report for PERS and TRS published by the Department of Administration, Division of Retirement & Benefits.

- 2. Please provide a break out of gross purchases and sales of marketable debt securities for FY 95.**

Response: We are preparing the data and will provide it as soon as possible.

- 3. Please indicate the percentage of gross purchases and sales of marketable debt securities (referenced in item #2 above) that were transacted through brokers or investment firms in Alaska. If possible, please provide a summary of all transactions, listing amounts, firms and salesperson responsible for the transaction.**

Response: We will provide information when we respond to item Number 2.

- 4. Please provide a listing of amounts paid to bank custodians during FY 95. Include the amount, the particular banking institution and location of the bank.**

Response: PERS paid State Street Bank & Trust Company \$913,485.74 to provide global custody in FY 95. TRS paid \$528,312.27 for the same service. Please see enclosed money managers and consultant list for the address of the bank.

- 5. Please provide a table listing all real estate held, as of June 30, 1995, by the TRS and PERS funds. Include the location of the property, date and cost of purchase as well as current market value. Please summarize real estate sales during the fiscal year (i.e. sales) using a similar spreadsheet format indicating date of purchase, location, purchase price, sales price, etc.**

Response: We are preparing the data and we will provide it as soon as possible.

- 6. Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property.**

Response: We are preparing the data and we will provide it as soon as possible.

- 7. Please provide a listing of the amount of mortgage backed securities held by the TRS and PERS funds as of June 30, 1995. In addition, list the value of each investment, name, year purchased and location of each property making up the security.**

Response: Neither PERS nor TRS owned mortgage backed securities during FY 95. Enclosed is a copy of quarterly reports from the Alaska State Pension Investment Board, prepared by Callan Associates, for each quarter. These reports reflect that the funds had made no investments in mortgage backed securities.

- 8. Please prepare a schedule indicating the amounts paid during FY 95 to all money managers and investment advisors. In addition, please indicate the name of the firm, contact person and location of the active office.**

Response: With the exception of real estate management, the Comprehensive Annual Report lists on pages 66 and 132, all management and consulting fees paid by PERS and TRS respectively during FY 95. Historically, real estate fees have been netted from the income of the commingled real estate investment pools. We are preparing data, and we will provide it as soon as possible.

The Honorable Richard Foster
February 6, 1996
Page 3

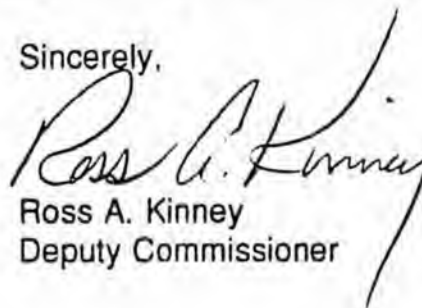
9. Please prepare a schedule indicating the amounts paid during FY 95 to regular and special consultants, auditors and actuaries. In addition, please indicate the name of the firm, contact person and location of the active office.

Response: Investment Advisors, performance measurement and real estate consulting fees for PERS and TRS during FY 95 are set forth on pages 66 and 132 of the Comprehensive Annual Financial Report. PERS paid \$28,428 and TRS paid \$28,428 respectively to members of the Investment Advisory Council. Auditing cost PERS \$35,000 and TRS \$20,500 during FY 95. Actuarial services cost PERS \$145,813 and TRS \$89,367 for the same time period. Obtaining actuarial service is the responsibility of the Department of Administration, Division of Retirement & Benefits. I have enclosed the pertinent names and addresses.

10. Please provide a summary of amounts paid during FY 95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities and the source of funds for all travel related expenditures. Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.

Response: We are preparing the data and we will prepare it as quickly as possible.

Sincerely,



Ross A. Kinney
Deputy Commissioner

Enclosures

96-013

**Alaska State Pension Investment Board
Treasury Division
External Money Managers and Consultants**

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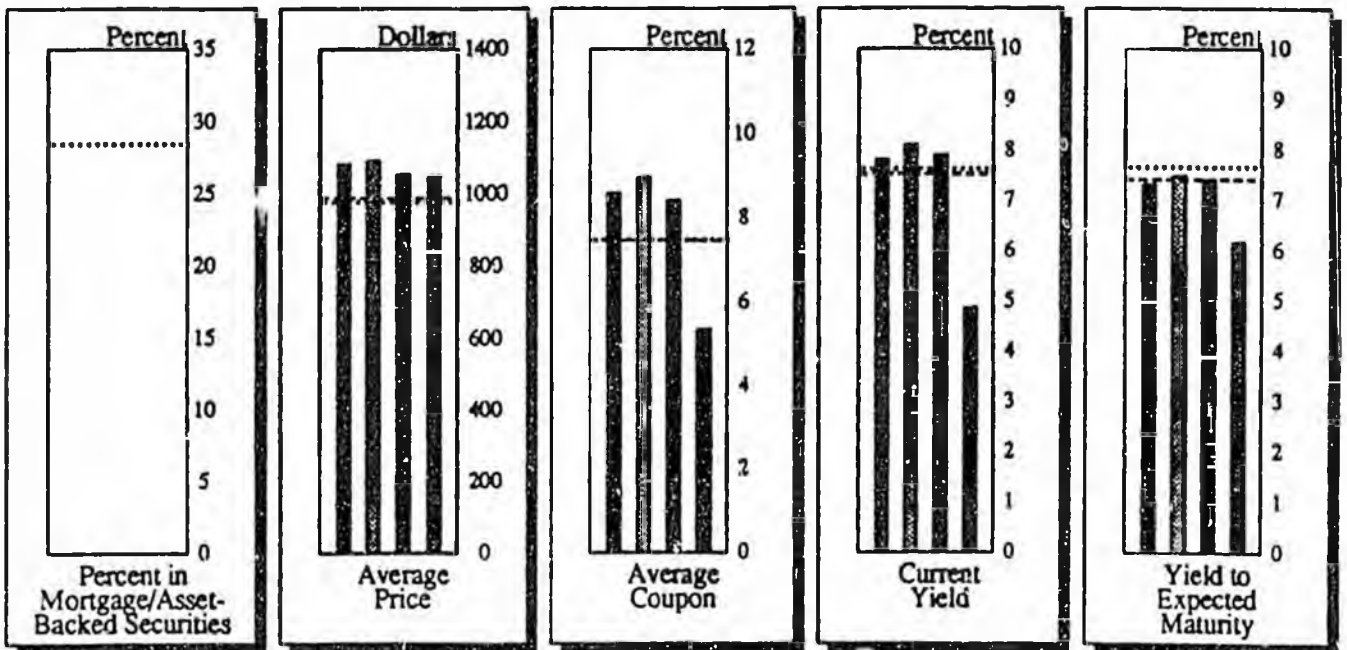
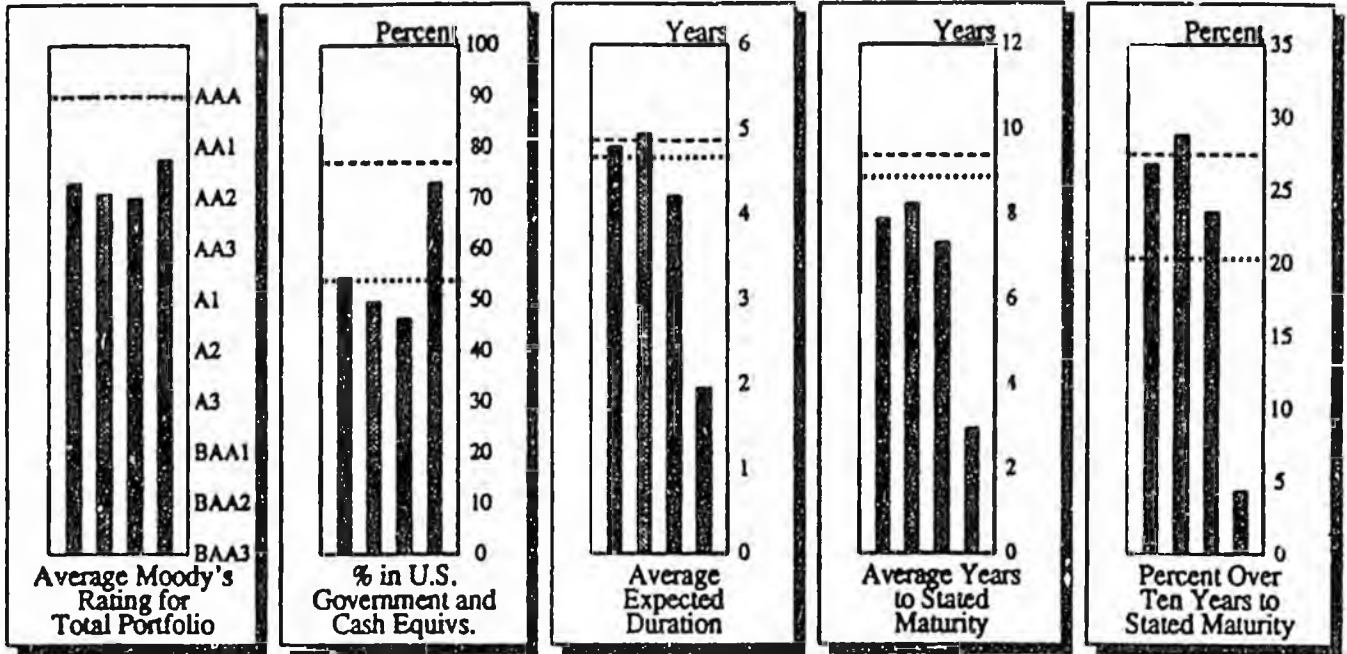
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PH: 206-292-7000

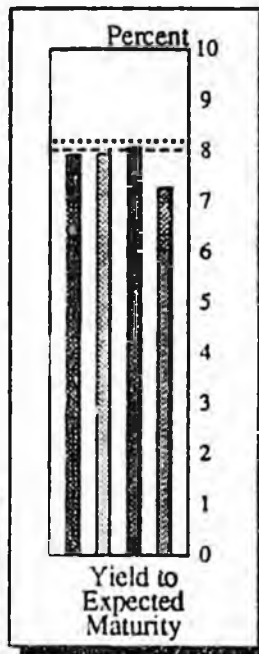
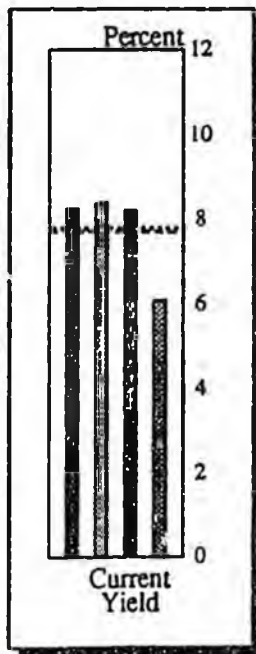
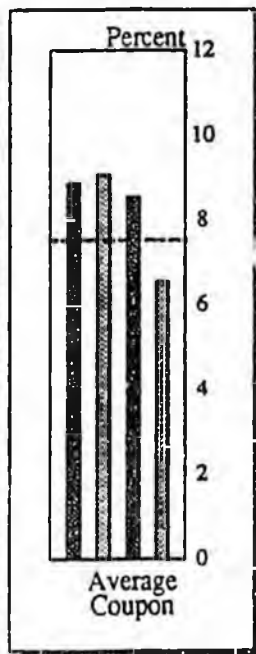
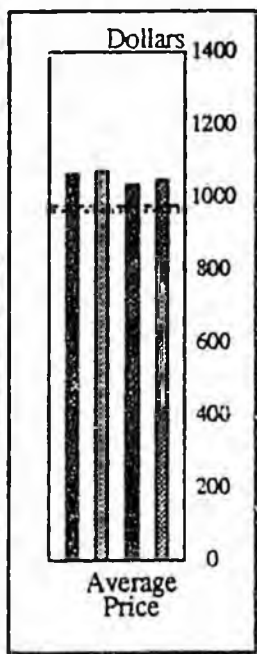
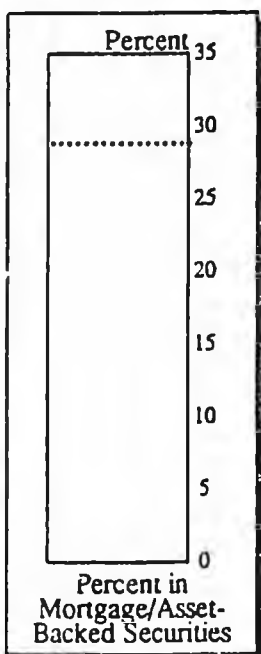
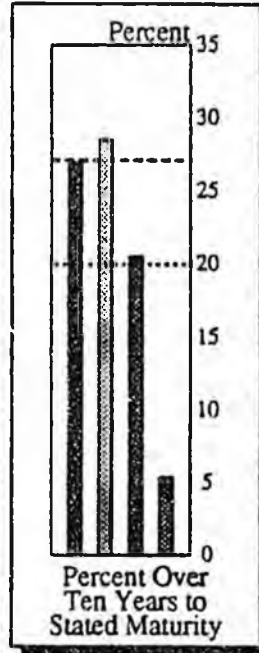
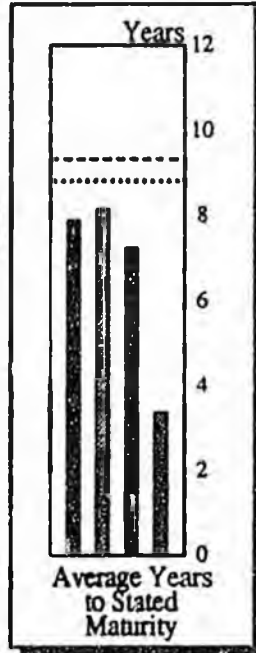
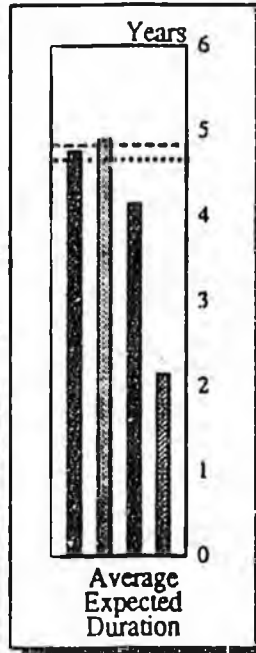
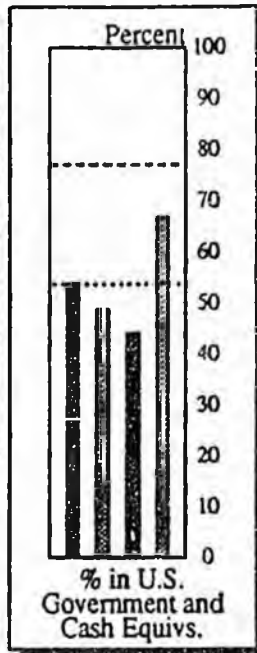
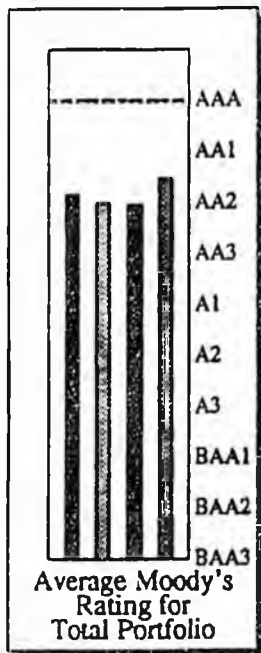
STATE OF ALASKA - PENSION FUNDS
 FIXED-INCOME PORTFOLIO CHARACTERISTICS
 SEPTEMBER 30, 1994



Employees
 Teachers
 Judicial

Military
 Lehman Brothers Aggregate
 Lehman Brothers Govt/Corp

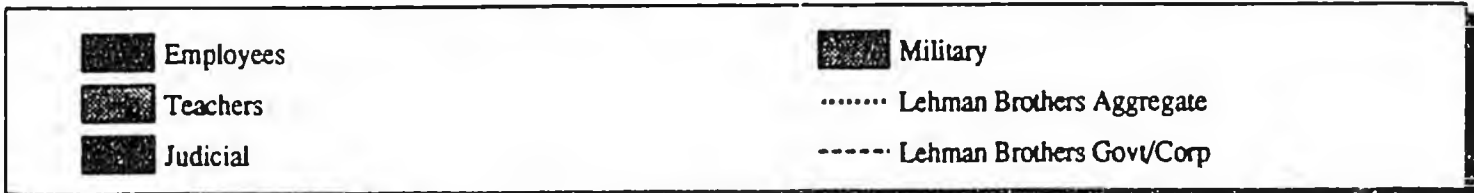
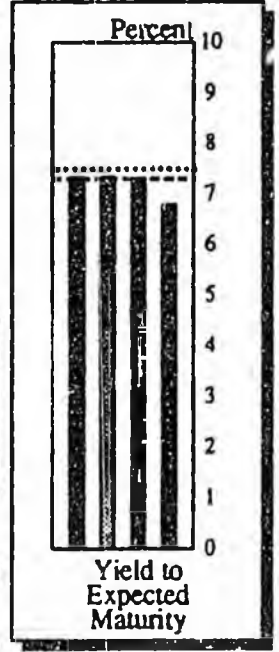
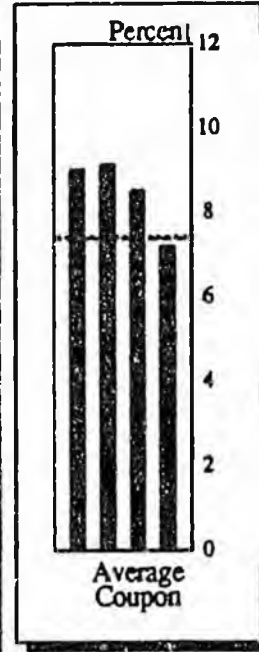
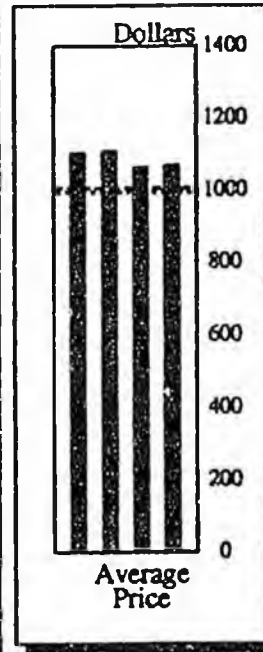
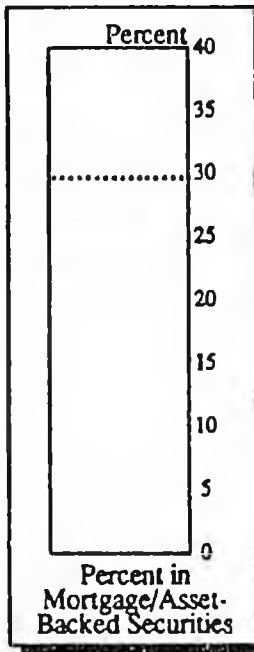
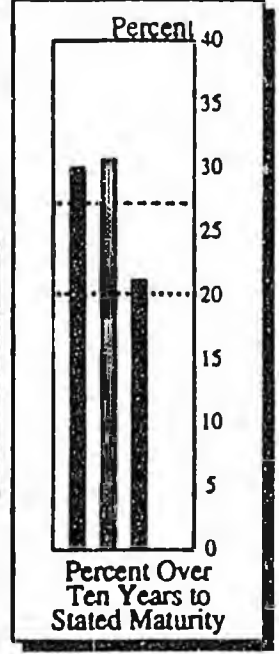
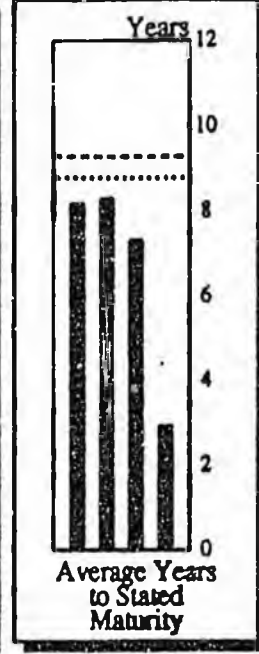
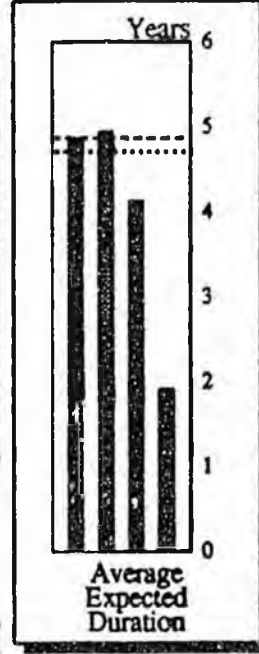
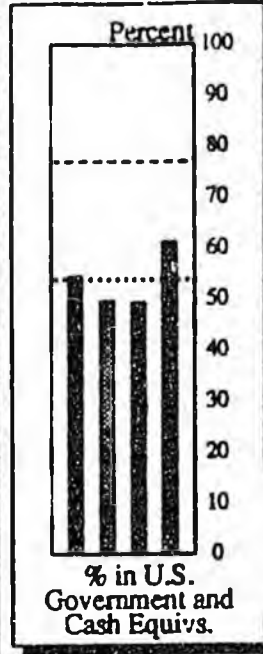
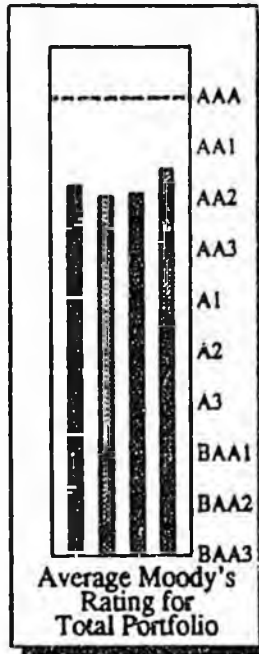
STATE OF ALASKA - PENSION FUNDS
 FIXED-INCOME PORTFOLIO CHARACTERISTICS
 DECEMBER 31, 1994



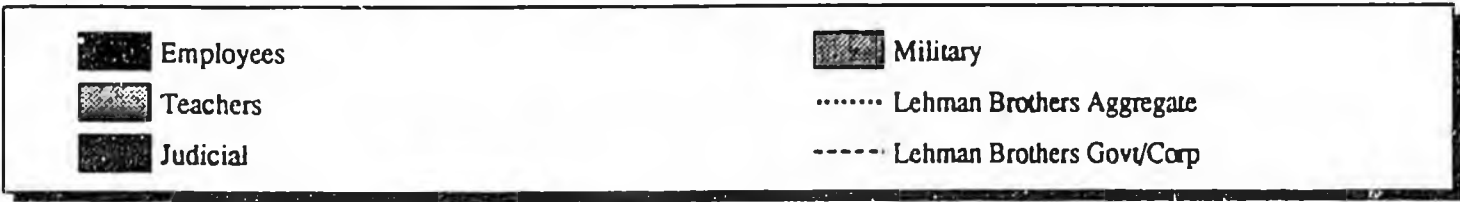
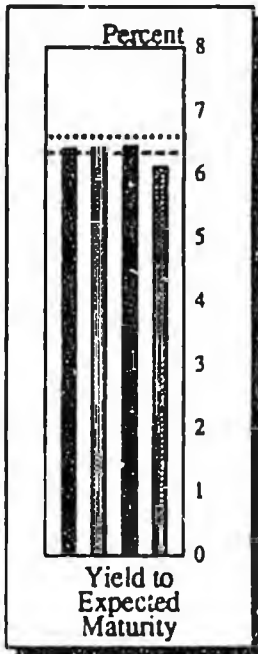
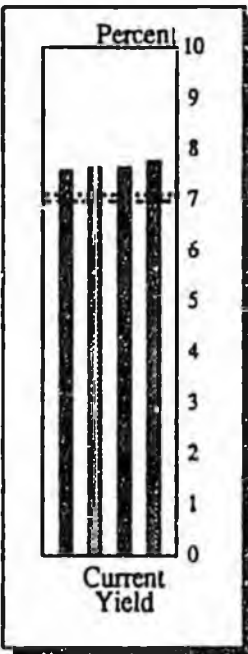
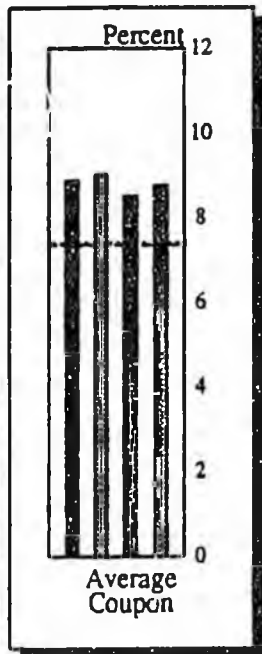
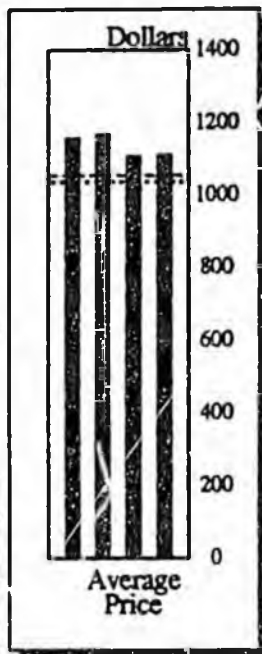
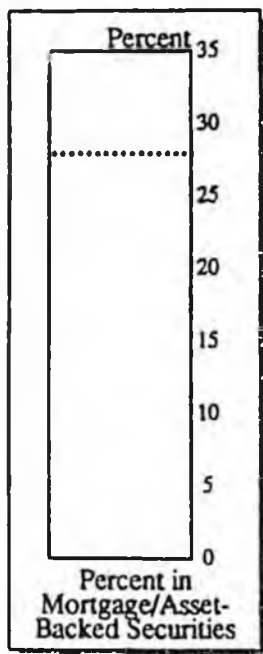
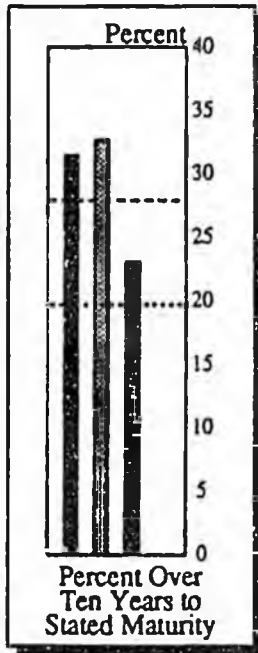
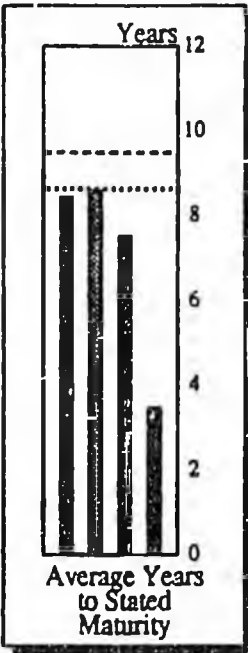
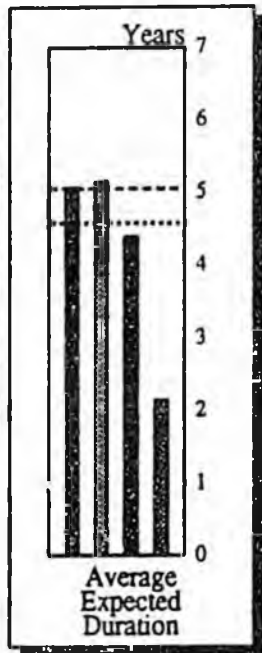
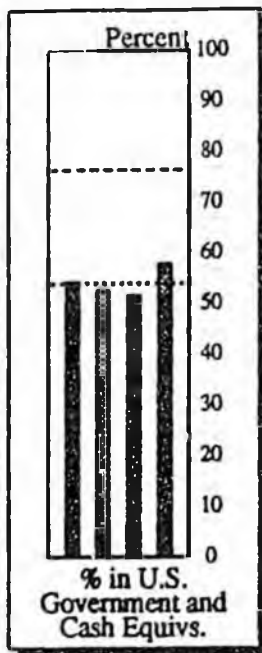
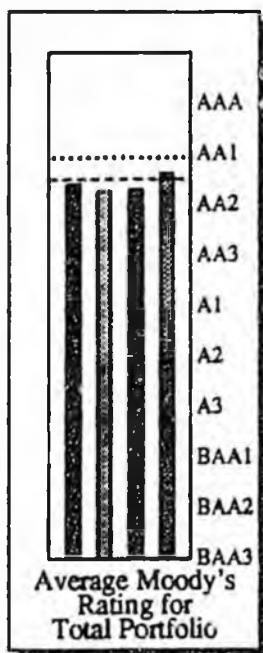
Employees
 Teachers
 Judicial

Military
 Lehman Brothers Aggregate
 Lehman Brothers Govt/Corp

**STATE OF ALASKA - PENSION FUNDS
FIXED-INCOME PORTFOLIO CHARACTERISTICS
MARCH 31, 1995**



STATE OF ALASKA - PENSION FUNDS
 FIXED-INCOME PORTFOLIO CHARACTERISTICS
 JUNE 30, 1995



DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400
 JUNEAU, ALASKA 99811-0400
 TELEPHONE: (907) 465-2300
 FACSIMILE: (907) 465-2389

March 19, 1996

The Honorable Richard Foster
 Alaska State Legislature
 Capitol, Room 410
 Juneau, AK 99801-1182

Dear Representative Foster:

In response to your January 22, 1996 letter requesting information about the Public Employees' and Teachers' Retirement Systems, following are the responses to the rest of your questions:

I provided answers to your questions numbered 1, 4, 7 and 9 in my letter dated February 6, 1996.

#2 Please provide a breakout of gross purchases and sales of marketable debt securities for FY 95.

	PERS	TRS
Gross Purchases	\$(1,269,976,322)	\$(528,771,413)
Gross Sales	<u>1,056,455,230</u>	<u>469,215,795</u>
Net (Purchases)/Sales*	<u>\$ (213,521,092)</u>	<u>\$ (59,555,618)</u>

* Agreed to June 30, 1995 audited financial statement, Statement of Cash Flows

#3 Please indicate the percentage of gross purchases and sales of marketable debt securities (referenced in item #2 above) that were transacted through brokers or investment firms in Alaska. If possible, please provide a summary of all transactions, listing amounts, firms and salesperson responsible for the transaction.

No debt security purchases or sales were transacted by brokers through their Alaska offices.

#5 Please provide a table listing all real estate held as of June 30, 1995, by the TRS PERS funds. Include the location of the property, date and cost of purchase as well as current market value. Please summarize real estate sales during the fiscal year (i.e., sales) using a similar spreadsheet format indicating the date of purchase, location, purchase price, sales price, etc.

See Attachment A.

- #6 Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property.**

See Attachment B.

- #8 Please prepare a schedule indicating the amounts paid during FY 95 to all money managers and investment advisors. In addition, please indicate the name of the firm, contact person and location of the active office.**

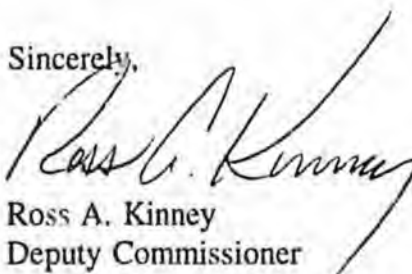
Attachment C provides a list of real estate management fees which were not included in my February 6 response.

- #10 Please provide a summary of amounts paid during FY 95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities and the source of funds for all travel related expenditures. Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.**

Attachment D provides the requested details of staff travel during FY 95. Detailed agendas of meetings are not generally prepared or if prepared, not usually attached to staff Travel Authorization forms. However, the final column does note if staff took personal leave in conjunction with the trip.

No staff members have reported the receipt of gratuities with a value in excess of the State's reportable guidelines (\$50).

Sincerely,



Ross A. Kinney
Deputy Commissioner

RAK/dcm

Attachments

REAL ESTATE EQUITIES

Page 2, Paragraph 5:

"Please provide a table listing all real estate held, as of June 30, 1995 by the TRS and PERS funds. Include the location of the property, date and cost as well as current market value. Please summarize real estate sales during the fiscal year (i.e. sales) using a similar spreadsheet format indicating date of purchase, location, purchase price, sales price, etc."

Neither PERS nor TRS purchase individual properties as a means of real estate equity investment. Rather, equity investments have been made through the purchase of ownership interests in real estate commingled funds.

Two schedules are attached which include the following information:

The commingled funds in which PERS and TRS had an ownership interest as of June 30, 1995.

PERS and TRS commingled fund ownership interests which were sold during the fiscal year ended June 30, 1995.

Information on individual property location is not included because of the large number of properties involved. As of June 30, 1995 the six real estate commingled funds, in which PERS and TRS had an ownership interest, owned a total of about 220 properties. All of these properties were located in the continental United States.

The Equitable Prime Property Fund, which was sold during the year, had two investments in Anchorage, Alaska.

PERS and TRS do own individual properties obtained through foreclosure. Details on those properties are included in the information provided in the mortgage portfolio information regarding Page 2, Paragraph 6.

**Pension Funds' Sale of Ownership Interests in Real Estate
Commingled Funds During the Fiscal Year Ending June 30, 1995**

Public Employees' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	June 30, 1995 Market Value
John Hancock Equity Real Estate Account ^{1.}	1980	\$ 6,250,000	\$ 4,294,029	\$ (1,071,114)	\$ 0	\$ 9,472,915	\$ 0
Equitable Prime Property Fund ^{2.}	1980	9,251,580	13,475,807	(3,341,916)	0	19,385,471	0
Total PERS:		\$ 15,501,580	\$ 17,769,836	\$ (4,413,030)	\$ 0	\$ 28,858,386	\$ 0

Teachers' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	June 30, 1995 Market Value
John Hancock Equity Real Estate Account	1980	\$ 6,250,000	\$ 4,294,029	\$ (1,071,114)	\$ 0	\$ 9,472,915	\$ 0
Equitable Prime Property Fund ^{2.}	1980	5,750,350	8,888,022	(2,034,106)	0	12,604,266	0
Total TRS:		\$ 12,000,350	\$ 13,182,051	\$ (3,105,220)	\$ 0	\$ 22,077,181	\$ 0

1. During the quarter ended December 31, 1994, PERS and TRS received their final liquidation payments of \$27,241 each from the John Hancock, Equity Real Estate Account. This closed-end fund liquidated over a nine year period.
2. During the quarters ended December 31, 1994 and March 31, 1995, PERS and TRS redeemed all of their shares in the Equitable Prime Property Fund.

**Pension Funds' Ownership Interests in
Real Estate Commingled Funds**

As of June 30, 1995

Public Employees' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	End of Period Market Value
AETNA Real Estate Separate Account	1980	\$ 7,750,531	\$ 11,982,942	\$ (4,000,060)	\$ 0	\$ 0	\$ 15,733,413
Heitman/JMB Group Trust III	1984	13,000,000	9,701,394	(3,792,229)	1,900,275	0	17,008,890
Heitman/JMB Group Trust IV	1987	15,000,000	4,741,878	(8,238,076)	1,274,216	0	10,229,586
JP Morgan Real Estate Fund	1984	7,151,870	4,840,153	(1,726,057)	0	1,212,672	9,053,294
Karsten / First Interstate Fund 1	1984	6,947,405	3,969,320	(1,137,425)	3,141,522	0	6,637,778
Sentinel Real Estate Fund	1984	41,000,000	28,997,122	(19,760,970)	8,631,862	0	41,604,290
PERS Total:		\$ 90,849,806	\$ 64,232,809	\$ (38,654,817)	\$ 14,947,875	\$ 1,212,672	\$ 100,267,251

Teachers' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	End of Period Market Value
AETNA Real Estate Separate Account	1980	\$ 7,250,354	\$ 11,292,500	\$ (3,715,665)	\$ 0	\$ 0	\$ 14,827,189
Heitman/JMB Group Trust III	1984	7,000,000	5,223,834	(2,041,969)	1,023,232	0	9,158,633
Heitman/JMB Group Trust IV	1987	10,000,000	3,161,254	(5,492,052)	849,478	0	6,819,724
JP Morgan Real Estate Fund	1984	4,743,836	3,261,783	(1,161,865)	0	808,587	6,035,167
Karsten / First Interstate Fund 1	1984	2,977,460	1,701,138	(487,467)	1,346,368	0	2,844,763
Sentinel Real Estate Fund	1984	19,000,000	14,049,884	(9,296,933)	4,081,368	0	19,671,583
TRS Total:		\$ 50,971,650	\$ 38,690,393	\$ (22,195,951)	\$ 7,300,446	\$ 808,587	\$ 59,357,059

SCHEDULE OF MORTGAGES

Page 2, Paragraph 6:

"Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property."

See the attached mortgage portfolio schedules.

Note: On the "Active Loans" category listings attached, no loan loss reserve is included. For reference, the loan loss reserves, as of June 30, 1995, are shown below:

FUND	INDIVIDUAL	NBA RESERVE	TOTAL RESERVE
PERS:	\$ 997,000.00	\$ 543,028.63	\$ 1,540,028.63
TRS:	1,057,000.00	913,619.46	1,970,619.46
Total Combined:	\$ 2,054,000.00	\$ 1,456,648.09	\$ 3,510,648.09

ACTIVE LOANS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995

MME # ^{1.}	Principal Balance	Location	Year Purchased
0821119	\$ 72,734.88	Kenai	07/79
0621049	45,363.62	Anchorage	12/80
2121031	117,815.07	Pennsylvania	02/85
2021012	150,005.26	Anchorage	02/81
4121094	27,181.92	Kentucky	03/82
0421002	469,706.58	Anchorage	09/78
1721164	94,076.40	Fairbanks	09/90
2421050	41,371.90	Anchorage	06/74
1521002	368,852.30	Anchorage	06/76
0821057	184,528.99	Anchorage	03/80
0821101	54,150.40	Anchorage	12/78
0421008	163,964.66	Sitka	08/85
1721178	124,735.52	Anchorage	03/93
1721179	146,190.61	Anchorage	10/93
2021053	271,009.28	Anchorage	10/78
2424001	764,001.03	Dillingham	03/78
2021066	95,430.13	Unsecured Note	^{2.} 08/93
0821018	4,215.65	Unsecured Note	^{3.} 04/79
0821110	2.00	Unsecured Note	^{4.} 03/79
Total PERS:	\$ 3,195,336.20		
<p>1. The names on these accounts have been omitted on the advice of the Attorney General's Office.</p> <p>2. Balance of Chapter 7 Bankruptcy liquidation.</p> <p>3. To be written off - Uncollectible.</p> <p>4. Collection doubtful in near term - Possible recovery of balance of debt including accrued interest and costs totaling approximately: \$ 105,000.</p>			

REO PROPERTIES
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995

Loan Name	Book Balance	Location	Year Loan Purchased	Comment
Eubank, Wm.	\$ 58,584.65	Sandpoint	06/78	
Cardin, F. - L4	53,554.45	North Pole	03/91	Hazardous Waste 1.
Cardin, F. - L5	53,554.44	North Pole	03/91	Hazardous Waste 2.
Cardin, F. - L6	53,554.46	North Pole	03/91	Hazardous Waste 3.
Kocurek, M.	20,000.00	Anchorage	09/90	
Tovsen, Oliver	115,000.00	Anchorage	08/86	
Chena Hot Springs	2.00	Chena	03/80	
Hickel, Vernon	230,009.66	Anchorage	04/77	
Holland, Jack	390,000.00	Anchorage	06/77	
Miller, J&F	212,512.64	Fairbanks	04/77	
Northgate Square	350,888.09	Fairbanks	08/84	
Wise, Dennis	69,524.86	Fairbanks	02/79	Hazardous Waste 4.
Sager Enterprises	50,847.71	Delta Junction	11/79	Hazardous Waste 5.
Porter/Weeks	424,659.57	Kotzebue	02/77	
Total PERS:	\$ 2,082,692.53			
1. Leaking underground storage tank - Phase II completed - Remediation underway. 2. Leaking underground storage tank - Phase II completed - Remediation underway. 3. New - Leaking storage tank - Phase II remediation underway. 4. Leaking underground storage tank - Submersion well - Extensive remediation underway. 5. Surface contamination - Floor drain contamination - Phase II completed.				

**PERFORMING JUDGMENTS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995**

MME # ^{1.}	Book Balance ^{2.}	Date of Judgment
0621015A	\$ 1,780.69	06/21/88
0621015C	3,228.05	06/21/88
0621185	787.47	11/10/90
0621015B	4,073.20	06/16/92
0821127A	76,509.17	10/01/91
2921015A	23,449.93	10/28/88
1221001C	2,038.02	01/14/94
1521001B	6,640.28	07/16/90
0621034B	17,771.88	06/14/91
2021066A	28,821.27	02/22/94
Total PERS:	\$ 165,099.96	
<p>1. The names on these accounts have been omitted on the advice of the Attorney General's Office.</p>		
<p>2. Negotiated dollar amount - May be different than the original judgment amount.</p>		

**NON-PERFORMING JUDGEMENTS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995**

Name	Date of Judgment	Original Judgment Amount
Bennett, William	06/16/92	\$ 11,250.00
Olympic Inc.	12/14/89	193,040.16
Clay & Anderson	07/20/87	343,184.45
Cardin, F&B L#4	10/12/94	16,036.26
Cardin, F&B L#5	10/12/94	24,130.04
Cardin, F&B L#6	10/12/94	35,380.04
Anderson/Neville	05/25/90	207,248.09
Humphrey/Dinkins	01/08/90	27,087.68
Lewdon's Inc.	05/07/91	1. 273,283.52
Guidry, Joseph (Mrs.)	01/22/91	75,433.01
DonnyBrook Supply	06/14/91	1. 112,472.60
Littleton, Wayne	05/29/92	310,599.50
Guertin / Lambert	11/01/91	5,126.15
Miller, Francis	08/01/89	11,250.00
Porter / Weeks	12/15/94	30,842.58
Bicaci, Carlos	01/29/93	50,731.87
Sullivan/Geraty	12/17/93	12,143.04
Tovsen, Oliver & Mark	05/23/93	288,485.00
W.W. Wilson	09/01/91	45,000.00
May, Elizabeth	07/14/93	20,820.06
Lakeside Co.	03/26/91	1. 503,408.72
Lakeside Co.	08/23/90	1. 240,750.00
Total Judgments-PERS:		\$ 2,837,702.77
<p>1. This amount reflects the full judgment, however, term settlements have been negotiated with debtor. If the negotiated settlements, reflected in the performing judgments, are paid off as agreed these amounts will be forgiven.</p>		

ACTIVE LOANS
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995

MME # ^{1.}	Principal Balance	Location	Year Purchased
0431036	\$ 74,358.66	Anchorage	03/85
0431049	387,595.21	Anchorage	04/84
0431165	173,184.78	Anchorage	05/84
0431094	233,579.88	Anchorage	09/79
2431007	152,579.83	Anchorage	02/82
0431228	300,000.00	Hatcher Pass	04/91
2031026	52,621.84	Anchorage	07/89
0631058	63,212.68	Anchorage	10/76
0431014	469,706.58	Anchorage	09/78
0432003	14,489.64	Anchorage	04/70
0431045	54,141.60	Anchorage	10/76
0431136	167,533.53	Wasilla	01/85
0431240	88,843.86	Bethel	01/93
0431241	275,683.81	Eagle River	12/92
1131007	333,393.77	Juneau	02/83
2431104	411,499.92	Anchorage	06/84
3231005	39,773.22	Kansas	01/84
Total TRS:	\$ 3,292,198.81		
<p>^{1.} The names on these accounts have been omitted on the advice of the Attorney General's Office.</p>			

**REO PROPERTIES
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995**

Loan Name	Book Balance	Location	Year Purchased	Comment
Curry, Lucille	\$ 67,500.00	Anchorage	02/93	
Ebenbeck, R.	2.00	Anchorage	02/86	Hazardous Waste ^{1.}
Holland, S. L3/4/5	96,308.61	Anchorage	09/84	Hazardous Waste ^{2.}
Seair	93.28	Anchorage	05/78	
Slaymaker/Duffin	221,358.01	Kenai	11/83	
Cole, Claudie	28,856.48	Kenai	07/78	
Gilfillian, Robert	105,000.00	Wasilla	02/85	
Holland/Hofseth	390,000.00	Anchorage	06/77	
Lethin Investments	225,637.41	Anchorage	09/77	Hazardous Waste ^{3.}
Total TRS:	\$ 1,134,755.79			
1. Floor drain & surface contamination - Remediation underway.				
2. Surface contamination - Remediation underway.				
3. Leaking underground storage tank - Floor drain contamination - Buried materials - Remediation underway.				

**PERFORMING JUDGMENTS
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995**

MME # ^{1.}	Book Balance ^{2.}	Date of Judgment
1631001C	\$ 3,470.62	05/08/89
1631001B	6,854.56	05/08/89
0431058A	1,083.16	08/09/91
2431106B	2,158.72	01/26/94
2431106A	8,698.50	08/03/90
0431213A	30,000.00	01/22/94
2431199A	65,450.30	06/13/90
0431185A	74,692.50	01/17/95
Total TRS:	\$ 192,408.36	
<p>1. The names on these accounts have been omitted on the advice of the Attorney General's Office.</p>		
<p>2. Negotiated dollar amount - May be different than the original judgment amount.</p>		

**NON-PERFORMING JUDGMENTS
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995**

Name	Date of Judgment	Original Judgment Amount
Duff/Kennedy/Pritchard	03/23/90	\$ 123,304.76
Zimmerman, Gerald	07/21/92	28,371.11
Hrubes, A & S	10/01/92	30,000.00
Van Geystel, Albert	02/02/93	128,167.95
Gilfilian	10/04/93	296,049.27
Chappell/Imlach	11/18/88	157,823.55
Lomax, B	04/06/91	37,301.52
Poole / Kovacs	06/25/91	273,283.52
Miller, Richard	06/18/94	1.00
Lakeside Co.	03/26/91	1. 503,408.72
Lakeside Co.	08/23/90	1. 240,750.00
Total Judgments - TRS:		\$ 1,818,461.40
<p>1. This amount reflects the full judgment, however, term settlements have been negotiated with debtor. If the negotiated settlements, reflected in the performing judgments, are paid off as agreed these amounts will be forgiven.</p>		

REAL ESTATE EQUITY INVESTMENT MANAGEMENT FEES

Page 2, Paragraph 8:

"Please prepare a schedule indicating the amounts paid during FY95 to all money managers and investment managers. In addition, please indicate the name of the firm, contact person, and location of the active office."

See attached fee schedule for Fiscal Year 1995.

**Schedule of Public Employees' and Teachers' Retirement System's
Real Estate Investment Management fees
for the 12 Month Period Ending June 30, 1995**

Manager	Fund		Contact Person	Address
	PERS	TRS		
Aetna Realty Investors, Inc.	\$ 171,176	\$ 159,006	Thomas J. Anathan	242 Trumbell Street Hartford, CT 06156-9622
Heitman/JMB Advisory Corporation	\$ 428,448	\$ 252,738	Herbert W. Kuehne	180 North LaSalle Street Chicago, IL 60601-2886
JP Morgan Investment Management, Inc.	\$ 96,481	\$ 64,316	Earling Asheim	522 Fifth Avenue at 44th Street New York, NY 10036
Koll Investment Management (Karsten /First Interstate Fund I)	\$ 91,841	\$ 39,361	Tom Arai	4343 Von Karman Avenue Newport Beach, CA 92660
Sentinel Real Estate Corporation	\$ 619,109	\$ 29,2731	David Weiner	666 5th Avenue New York, NY 10103-2698

REAL ESTATE CONSULTANT FEES

Page 2, Paragraph 9:

"Please prepare a schedule indicating the amounts paid during FY95 to regular or special consultants, auditors, and actuaries. In addition, please indicate the name of the firm, contact person, and location of the active office."

See attached consultant fee schedule for fiscal year 1995.

Real Estate Consultant Fees Paid During Fiscal Year 1995

Name of Firm	Contact Person	Location of Active Office
The Townsend Group	Kevin W. Lynch	M.K. Ferguson Plaza 1500 West Third Street, Suite 410 Cleveland, OH 44113

Amount paid by PERS to the Townsend \$ 31,962

Amount paid by TRS to the Townsend \$ 31,692

REAL ESTATE TRAVEL INFORMATION

Page 2, Paragraph 10:

"Please provide a summary of amounts paid during FY95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities, and the source of funds for all travel related expenditures.¹ Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.

See attached listing.

¹ It is assumed that the underlined issues would be handled with general statements regarding all travel expenses.

**Travel Expenditures
FY 95**

Attachment D

Traveler Title	Origination	Departure Date	Return Date	Destination	Purpose/Meet With	Airfare	Hotel	Meals/Other *	Total Cost of Travel	Charged to ASPIB	Charged to Non-ASPIB	Hotel Rate/Night	* Notes
Accountant	Juneau	6/12/95	6/14/95	Anchorage	Meet with CSED, Key Bank	200.00	194.40	130.74	525.14	-	525.14	194.40	6/14 meeting was canceled, stayed at her own expense
Debt Manager	Juneau	3/6/95	3/7/95	Anchorage	AMBBA meeting, meetings with Moody's	118.00	72.36	165.33	355.69	-	355.69	72.36	
Debt Manager	Juneau	5/4/95	5/5/95	Anchorage	Municipal Finance Officers meeting	286.00	65.00	105.25	456.25	-	456.25	65.00	
Debt Manager	Juneau	5/22/95	5/23/95	Anchorage	AMBBA meeting	286.00	74.52	110.30	470.82	184.82	286.00	74.52	
Loan Manager	Juneau	7/26/94	7/31/94	Fairbanks, Anchorage	Property inspections	371.00	366.00		737.00	737.00	-		Went on a straight per diem rate- Hotel and meals listed under "hotel"
Investment Officer III	Juneau	8/23/94	8/23/94	Anchorage	Presentation to Exxon Valdez Oil Spill Council and meet with AK Permanent Capital	218.00	-	102.00	320.00	-	320.00	-	
Investment Officer III	Juneau	9/8/94	9/10/94	Fairbanks	ASPIB meeting	250.00	190.08	108.00	548.08	-	-	95.04	
Investment Officer III	Juneau	10/15/94	10/23/94	Minnesota, New York	Meet with professionals in mortgage-backed securities	1,104.50	801.41	408.85	2,314.76	2,314.76	-	63.99	10/15 Personal day, no per diem, one night no hotel claim
Investment Officer III	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	281.00	208.44	150.00	639.44	639.44	-	72.36	Had to stay an extra night due to weather
Asst. Comptroller	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	281.00	208.44	83.50	572.94	572.94	-	72.36	Had to stay an extra night due to weather
RE Investment Officer	Juneau	9/8/94	9/12/94	Fairbanks	ASPIB meeting	293.00	190.08	103.00	586.08	-	-	95.04	Two days personal leave- no per diem or hotel
RE Investment Officer	Juneau	10/20/94	10/30/94	Phoenix, San Francisco	Pension real estate conference, meet with real estate investment managers	969.00	838.02	371.50	2,178.52	2,178.52	-	209.51	10/20,21,29,30 no per diem or hotel, personal time
RE Investment Officer	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	281.00	144.72	111.80	537.52	537.52	-	72.36	
RE Investment Officer	Juneau	3/11/95	3/15/95	California	Real estate seminar	504.00	407.28	164.65	1,075.93	1,075.93	-	77.28	3 breakfasts, 2 lunches, and 3 dinners were provided by seminar, no per diem
RE Investment Officer	Juneau	5/30/95	6/1/95	San Francisco	Meet with Callan Associates	977.00	221.76	165.20	1,363.96	1,363.96	-	110.88	
RE Investment Officer	Juneau	6/17/95	6/20/95	Milwaukee, WI Newark, NJ	Site inspections on JMB properties	2,005.00	207.62	206.66	2,419.28	2,419.28	-	58.40	
RE Investment Officer	Juneau	6/21/95	6/24/95	Anchorage	ASPIB meeting	444.00	306.72	120.20	870.92	870.92	-	153.36	
Deputy Commissioner	Seattle	4/3/95	4/4/95	Anchorage	AHFC briefing, meet with Anchorage Daily News	444.00	81.00	151.85	676.85	-	676.85	81.00	Was in Seattle on personal business. Paid airfare difference to bring cost of airfare to \$444: the Juneau-Anchorage rate
Deputy Commissioner	Juneau	4/12/95	4/13/95	Anchorage	AHFC worksession & board meeting	152.00	-	149.68	301.68	-	301.68	-	

* May include cost of pre-authorized car rental

**Travel Expenditures
FY 95**

Traveler Title	Origin/ation	Departure Date	Return Date	Destination	Purpose/Meet With	Airfare	Hotel	Meals/Other *	Total Cost of Travel	Charged to ASPIB	Charged to Non-ASPIB	Hotel Rate/Night	* Notes
Deputy Commissioner	Juneau	5/19/95	5/31/95	Boston	Educational meetings	752.50	789.84	226.13	1,768.47	1,768.47	-	197.46	On personal leave as of noon 5/26, no per diem or hotel
Deputy Commissioner	Juneau	6/2/95	6/7/95	Wyoming	W State Treasurer's conference	798.60	444.96	105.07	1,348.63	-	1,348.63	111.24	6/2 had to overnight in Sea due to late departure
Deputy Commissioner	Juneau	6/21/95	6/23/95	Anchorage	ASPIB meeting	444.00	306.72	85.00	835.72	835.72	-	153.36	
Deputy Commissioner	Juneau	7/20/95	7/20/95	Anchorage	AMBBA meeting	321.00	-	26.00	347.00	-	347.00	-	
Investment Officer II	Juneau	9/9/94	9/10/94	Fairbanks	ASPIB meeting	408.00	95.04	69.00	572.04	-	-	95.04	
Investment Officer II	Juneau	11/4/94	11/13/94	New York	"Grant's investment conference", meet with brokers	963.00	821.20	318.06	2,102.26	2,102.26	-	164.24	11/5,12 Personal days-no per diem, made personal arrangements for hotel on 11/4,5,11,12
Investment Officer II	Juneau	6/22/95	6/23/95	Anchorage	ASPIB meeting	444.00	153.36	91.00	688.36	688.36	-	153.36	6/23 lunch was provided, no per diem
Comptroller Secretary	Juneau	4/15/95	4/20/95	Boston	Meet with SSB, Portia training	744.00	499.15	213.91	1,457.06	-	1,457.06	99.83	
	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	118.00	208.44	116.00	442.44	442.44	-	72.36	Had to stay an extra night due to weather
Investment Officer I	Juneau	12/7/94	12/8/94	Anchorage	ASPIB meeting	281.00	72.36	64.00	417.36	417.36	-	72.36	
Investment Officer I	Juneau	3/4/95	3/11/95	New York, Boston	Fixed income seminar in NY, visit brokerage firms and SSB in Boston	930.00	842.30	338.95	2,111.25	1,414.54	696.71	76.59	Had to overnight in Seattle due to weather
												100.08	
												99.88	
												162.82	
Chief Investment Off	Juneau	8/18/94	8/26/94	Idaho, New York, Minnesota	Meet with external managers, economists, SSB	2,360.00	819.35	361.85	3,541.20	3,541.20	-	-	
Chief Investment Off	Juneau	9/7/94	9/10/94	Fairbanks	ASPIB meeting	250.00	285.12	127.00	662.12	662.12	-	95.04	
Chief Investment Off	Juneau	10/9/94	10/12/94	San Francisco	Meet with external managers and performance measurement cons.	454.00	299.90	164.46	918.36	918.36	-	76.59	
												146.72	
Chief Investment Off	Juneau	10/22/94	10/26/94	Arizona	Pension real estate conference	538.00	640.04	267.87	1,445.91	1,445.91	-	160.01	
Chief Investment Off	Juneau	10/31/94	11/2/94	Anchorage	ASPIB, PERS, TRS meetings	444.00	162.00	112.00	718.00	718.00	-	81.00	
Chief Investment Off	Juneau	2/22/95	2/22/95	Anchorage	PERS meeting regarding SBS structure	118.00	-	51.00	169.00	169.00	-	-	
Chief Investment Off	Juneau	3/6/95	3/10/95	Anchorage, Fairbanks	SBS public meetings	572.00	261.36	172.00	1,005.36	1,005.36	-	72.36	
												58.32	
Chief Investment Off	Juneau	5/2/95	5/2/95	Anchorage	AIFC audit committee meeting	444.00	-	57.75	501.75	-	501.75	-	
Chief Investment Off	Juneau	5/20/95	5/27/95	Boston, San Francisco	Educational meetings	904.00	1,230.03	330.00	2,464.03	2,464.03	-	197.46	
												146.72	
Chief Investment Off	Juneau	6/21/95	6/23/95	Anchorage	ASPIB meeting	444.00	306.72	124.00	874.72	874.72	-	153.36	6/23 lunch was provided, no per diem
Chief Investment Off	Anchorage	12/7/95	12/10/94	Anchorage	ASPIB meeting	281.00	208.44	150.00	639.44	639.44	-	72.36	
												63.72	
Cash Manager	Juneau	10/8/94	10/12/94	Texas	TMA conference	659.00	386.46	301.72	1,347.18	-	1,347.18	128.82	

* May include cost of pre-authorized car rental

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Travel Expenditures
FY 95

Traveler Title	Origin/ation	Departure Date	Return Date	Destination	Purpose/Meet With	Airfare	Hotel	Meals/Other *	Total Cost of Travel	Charged to ASPIB	Charged to Non-ASPIB	Hotel Rate/Night	* Notes
Cash Manager	Juneau	5/17/95	5/22/95	Wash. DC	NASACT conference	804.00	274.20	184.00	1,262.20	-	1,262.20	137.10	5/21 personal time. Stayed over weekend to lower airfare-no lodging reimbursement requested
Accounting Tech	Juneau	9/18/94	9/28/94	Boston	Portia users' conference, meet with SSB	731.50	959.91	301.50	1,992.91	-	-	137.13	

* May include cost of pre-authorized car rental

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COPY

ALASKA STATE LEGISLATURE
REPRESENTATIVE RICHARD FOSTER

Session STATE CAPITOL, ROOM 410, JUNEAU, ALASKA 99811 • 907 465 3789 • FAX 907 465 3242
Interim PO BOX 1630 NOME, ALASKA 99762 • 907 443 5036 • FAX 907 443 2162

January 22, 1996

Mr. Ross Kinney
Deputy Commissioner
Department of Revenue
MS 0400
Juneau, AK 99811

**RE: Procurement of Investment & Brokerage Services.
HB 345.**

Dear Mr. Kinney:

In order to prepare for hearings on HB 345, I am requesting information from your offices regarding investment history and practices of the PERS and TRS accounts. As you are aware, it is the intention of the proposed legislation that increased investment activity be conducted through qualified Alaskan investment firms. Additionally, I am interested in expanding the actual direct investments made through these investment funds in Alaska's economy. Your response to the following questions will assist my office in developing a workable recommendation for the entire legislature to consider, one that benefits all Alaskans.

1. Please supply a copy of the audited financial report for the investment portion of the TRS and PERS systems for the fiscal year ended June 30, 1995.
2. Please provide a break out of gross purchases and sales of marketable debt securities for FY 95.
3. Please indicate the percentage of gross purchases and sales of marketable debt securities (referenced in item #2 above) that were transacted through brokers or investment firms in Alaska. If possible, please provide a summary of all transactions, listing amounts, firms and salesperson responsible for the transaction.

4. Please provide a listing of amounts paid to bank custodians during FY95. Include the amount, the particular banking institution and location of the bank.

5. Please provide a table listing all real estate held, as of June 30, 1995, by the TRS and PERS funds. Include the location of the property, date and cost of purchase as well as current market value. Please summarize real estate sales during the fiscal year (i.e. sales) using a similar spreadsheet format indicating date of purchase, location, purchase price, sales price, etc.

6. Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property.

7. Please provide a listing of the amount of mortgage backed securities held by the TRS and PERS funds as of June 30, 1995. In addition, list the value of each investment, name, year purchased and location of each property making up the security.

8. Please prepare a schedule indicating the amounts paid during FY95 to all money managers and investment advisors. In addition, please indicate the name of the firm, contact person and location of the active office.

9. Please prepare a schedule indicating the amounts paid during FY95 to regular and special consultants, auditors and actuaries. In addition, please indicate the name of the firm, contact person and location of the active office.

10. Please provide a summary of amounts paid during FY95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities and the source of funds for all travel related expenditures. Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.

I recognize that this is a considerable research request and appreciate the time and effort necessary to respond to each of the queries.

Mr. Ross Kinney

1/22/96

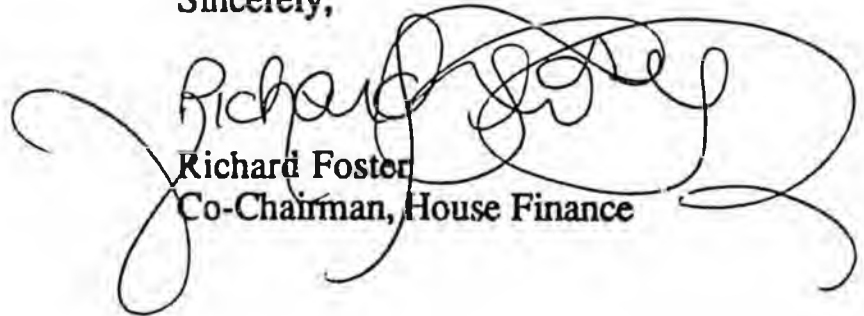
Page 3 of 3

If you wish to discuss this request further, please contact Mr. John Walsh in my office (5-3722).

I have enclosed an advance copy of an article addressing the need for review of in-state investment policies of both the Alaska Permanent Fund and the TRS and PERS retirement investment accounts.

Thank you.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Richard Foster". The signature is written over the typed name and title.

Richard Foster
Co-Chairman, House Finance

Enclosure

It's Time To Invest In Quality Alaskan Investments

By Robin E. Ward, Legislative Chair
Alaska State Home Builders Association

Alaskans need to understand where and how our state is investing its savings accounts. We are told that our economy is boom and bust, that we do not pay our bills as well as others in the lower forty-eight and therefore long term investment in Alaska should not be considered. Every state in the nation, except Alaska, makes a point of investing in their local economies.

Alaska has thirty billion dollars in state held investment funds, not counting the billions of dollars held in private or municipal pension funds. This money is controlled by "Outside" investment advisors who unanimously recommend against investing in Alaska. Alaska Statute 37.13.120 states that the Alaska Permanent Fund (APF) Board shall invest in 'in-state investments' if the 'in-state investments' are comparable in risk and yield. That is very clear language. Shortly after adoption, an APF Resolution was issued to implement the statute. The resolution established minimum qualifications of \$10,000,000 per investment and a population of 200,000 people per community. How many urban or rural Alaskan communities qualify?

Let's examine the 'comparability of risk' issue. Housing is a basic economic indicator in Alaska and in the rest of the nation. We can compare risk by comparing housing investments in Alaska to housing investments in other states. In the early seventies, investment advisors were adamantly opposed to housing loans in Alaska. These advisors judged the Alaska economy to be unstable, and believed that Alaska is prone to earthquakes. The Alaska Housing Finance Corporation (AHFC) stands as a successful repudiation of that judgment by maintaining their AAA bond ratings. The truth is that Alaskans have and will handle their debts responsibly, just as others do in other states.

Alaska does have an economic cycle -- as does every other state. If you compare our job growth, housing appreciation, diversification and long term growth trends, we find that our economy is one of the strongest in the nation and adds tremendous fiscal stability.

However, even with our stable economy, investment advisors' recommendations for Alaskan funds do not include "in-state investments". The Alaska State employees retirement system, PERS - TRS, is a good example. During a recent allocation of assets, the PERS - TRS Board discussed the subject of "in-state investments" and rejected it. This is a seven billion dollar State fund with no active "in-state investment" program and no Alaska resident investment advisor.

Not all investment advisors are anti-Alaskan. In recent years, four Alaskan investment advisory firms have been registered with the SEC and handle millions of dollars for retired and employed Alaskans. These local firms are well respected in the national community of investment advisors. Such proven competent investment advisors as Dave Rose, Jane Cuddy, David Gottstein, Jim Crawford, Jack Diamond and Bob Gillam are principals in these Alaska based SEC registered investment advisory firms. Currently, none of the thirty billion dollars of state investment funds are handled by any of these Alaskan advisors, but are instead controlled by outside firms.

During Alaska's recession, national investors "red-lined" (red-lining means NO Loans In Alaska) our state. Some still refuse to finance multi-family or income-producing properties because these loans are too small by their standards or because "Alaska is too far away." Fannie Mae's apartment loans, for example, start at \$1,500,000 while most Alaskan apartments are valued between \$500,000 to \$1,000,000.

Multi-family income producing and commercial property owners in other states enjoy terms with up to thirty year amortization and eight per cent or lower interest rates. Local property owners have had to finance their purchases at prime plus two percent to four percent (today that would be 10.5% to 12.5%), and on pay back schedules of seven to ten years. That means less capital available for building maintenance, higher rents and an affordable housing shortage. A direct result of this short term financing over the last ten years is a deteriorating multi-family housing stock and very little construction of new apartments. There is a new loan program to finance multi-family properties now available through HUD called the 223(f) program, however, HUD has been targeted for a national overhaul and the future of this program is uncertain.

The Alaskan apartment market is in severe shortage and is creating a current crisis for renters. Towns like Juneau, Kodiak, Barrow, Bethel and Fairbanks all have dangerously low vacancy rates. Since the late eighties Alaskan homeowners have enjoyed an increase in the value of their residential investments. Income producing property owners have not been so lucky. When local lenders attempt to bring long term capital to Alaska they frequently hear "If your own state retirement and investment funds do not have enough faith in the Alaskan economy to invest at home, why should we?"

In a policy comparison, the Washington state pension system, through its State Investment Board, invests some twenty billion dollars on behalf of state employees and retirees. Their allocation to real estate equity and mortgage debt for the period 1994 through 1996 was 5%, or one billion two hundred and twenty-five million dollars. **Six hundred million dollars will be available for investment in 1996 alone!** Quality investment can be made in Alaska where it will be underwritten by local professionals and enjoy a favorable return on investment.

For a growing and healthy economy in 1996, Alaska needs investment policies that are not exclusively run by investment advisors who oppose Alaskan investment. "Buy Alaska" also means investing in Alaska. Encouragingly, a few Alaska Taft Hartley funds, (funds associated with organized labor), have overridden the anti-Alaskan bias and invested in our local economy. The Alaska Laborers' Employers' Retirement Trust's (ALERT) Alaska investment is an example that performance can be outstanding and an excellent reflection of Alaskan quality. Investing at home should be our finest investments and would create potential long term loans for multi-family properties. Single family homes are not the only answer to a housing shortage.

If you agree that it's time to invest at home, please contact the Governor and your local legislator and ask that change be made now.

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City Commerce CORPORATION

Commercial Mortgage Banker, SEC and State of Alaska Registered Investment Advisor, ERISA Fiduciary

January 15, 1996

The Honorable
Terry Martin
Alaska State House Of Representatives
State Capitol
Room 502,
Juneau, AK 99801-1182

Dear Mr. Martin: *Terry*

The last chapter of Alaska by James Michener describes the subservience of Alaska to Seattle. It's simple really, they control Alaska's money. That book rekindled a parochial fire in me to change the third world status of Alaskans. Being only a third generation Alaskan may not be much compared to the heritage of some of your constituents but it does establish how I view our Alaskan problems and opportunities.

My business is long term lending. I founded City Mortgage Corporation in 1981 and grew the company to be the dominant lender in Alaska in the one to four family residential market. During 1995, we enjoyed over a 35% market share statewide. In 1995, we were the 52nd largest Alaska based company as judged by Alaska Business Magazine.

In 1990, I retired from City Mortgage although I still maintain control as Chairman and CEO. In 1992, after examining Alaska's long term financing needs, I reactivated my father's bank holding company, City Commerce Corporation, to bring in commercial and multifamily long term loans. We're just delivering a 7.97% fixed rate or 7.58% floating rate, 25 year amortization (10 year call) \$4,000,000 Anchorage loan from a major national bank. A \$5.5 million loan is also in the works for a Fairbanks investor.

In January, we will close over \$2,000,000 in HUD 223F apartment loans. These are 35 year, fully amortizing, 7 7/8%, fixed rate and non recourse. We've closed \$5,000,000 in multifamily and commercial loans in our pension program, the Alaska Small Business Development Fund. We even closed a \$1.7 million strip mall refinance for a village corporation - just to prove that we could.

Although we have succeeded in bringing in capital, we have a long way to go to reestablish a fluid market in commercial and apartment real estate, unrestricted by financing. I've enclosed a copy of an important Opinion Piece authored by Robin Ward, Legislative Chair of the Alaska Home Builders Association. It should run in newspapers statewide shortly. Robin's article describes the capital exclusion practiced by investment and pension funds as well as national lenders, and mentions our Small Business Fund as a solution. Our Fund reconnects Alaska to the national markets so that the financing is supplied from Alaska, not Seattle or other money centers. We're informing investment advisors and state government leaders that Alaskans are good risks for "in state investments". Mr. Alex Miller and Mr. Sam Kito are assisting us in this project.

It is critical to have legislative support for our attack on the housing crisis. I believe that we will be better able to serve our clients and your constituents through local ownership and Alaska financing of profitable multifamily and commercial buildings. Our Small Business Fund financing is available throughout Alaska, not just in the urban centers.



Page 2
January 15, 1996


Dan Fauske, Executive Director of Alaska Housing Finance Corporation also believes in long term financing. AHFC is precluded from solving the statewide apartment crisis since their personnel and available lending were capped by the legislature. It is unlikely, in a time of budget cuts, that Dan can beef up staff. His current multifamily staff consists of one and one half who handle the entire state. Dan and his staff, however, have worked with us to explain our "in state" investment program as a cooperative effort between the public and private sectors to solve the problem. AHFC has agreed to serve as a Performance Analyst for City Commerce and the APF and advise us on securitizing loans.

The location of a property should not solely dictate its financing. If a project pencils in Barrow or Kwethluk, it should be financed on equal terms as those available in Anchorage, Seattle or Minneapolis - St. Paul. Capital exclusion has gone on too long in Alaska. In rural areas, it comes close to redlining. The Small Business Fund provides financing access statewide. We have proven through experience that Alaskan loans are every bit as good as "outside" loans. The next step, to be taken with AHFC and the Alaska Permanent Fund, is to increase available funds, then package and sell or securitize the loans. That's a business City Mortgage and AHFC have practiced successfully for the last fifteen years with single family loans. Sale of the loans allows recycling of funds, establishing a permanent capital source for Alaska commercial and multifamily ventures.

It is much easier to invest in virtually any venture outside Alaska than it is at home. Changing the financing of Alaska ventures changes that equation. As a Realtor and a mortgage banker, it is my professional embarrassment to see the run down state of our housing and commercial buildings. I ask you to join me in solving this problem in 1996.

As Alaskans, you and I have a simple choice. We can continue to wait (in a time of budget cuts) for the federal governments to solve our crisis, or we can solve it ourselves. This program does not cost the state of Alaska one thin dime. In fact, it earns a premium rate of return when compared with other fixed rate investments. With financing readily available under reasonable terms, we can, in a decade, solve a century old problem. This is an exciting challenge and I hope you'll join me in accepting it. Let's talk soon. Thanks for your consideration.

With best regards,



James M. Crawford
President

Enclosure

It's Time To Invest In Quality Alaskan Investments

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Let's examine the 'comparability of risk' issue. Housing is a basic economic indicator in Alaska and in the rest of the nation. We can compare risk by comparing housing investments in Alaska to housing investments in other states. In the early seventies, investment advisors were adamantly opposed to housing loans in Alaska. These advisors judged the Alaska economy to be unstable, and believed that Alaska is prone to earthquakes. The Alaska Housing Finance Corporation (AHFC) stands as a successful repudiation of that judgment by maintaining their AAA bond ratings. The truth is that Alaskans have and will handle their debts responsibly, just as others do in other states.

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Not all investment advisors are anti-Alaskan. In recent years, four Alaskan investment advisory firms have been registered with the SEC and handle millions of dollars for retired and employed Alaskans. These local firms are well respected in the national community of investment advisors. Such proven competent investment advisors as Dave Rose, Jane Cuddy, David Gottstein, Jim Crawford, Jack Diamond and Bob Gillam are principals in these Alaska based SEC registered investment advisory firms. Currently, none of the thirty billion dollars of state investment funds are handled by any of these Alaskan advisors, but are instead controlled by outside firms.

During Alaska's recession, national investors "red-lined" (red-lining means NO Loans In Alaska) our state. Some still refuse to finance multi-family or income-producing properties because these loans are too small by their standards or because "Alaska is too far away." Fannie Mae's apartment loans, for example, start at \$1,500,000 while most Alaskan apartments are valued between \$500,000 to \$1,000,000.

Multi-family income producing and commercial property owners in other states enjoy terms with up to thirty year amortization and eight per cent or lower interest rates. Local property owners have had to finance their purchases at prime plus two percent to four percent (today that would be 10.5% to 12.5%), and on pay back schedules of seven to ten years. That means less capital available for building maintenance, higher rents and an affordable housing shortage. A direct result of this short term financing over the last ten years is a deteriorating multi-family housing stock and very little construction of new apartments. There is a new loan program to finance multi-family properties now available through HUD called the 223(f) program, however, HUD has been targeted for a national overhaul and the future of this program is uncertain.

The Alaskan apartment market is in severe shortage and is creating a current crisis for renters. Towns like Juneau, Kodiak, Barrow, Bethel and Fairbanks all have dangerously low vacancy rates. Since the late eighties Alaskan homeowners have enjoyed an increase in the value of their residential investments. Income producing property owners have not been so lucky. When local lenders attempt to bring long term capital to Alaska they frequently hear "If your own state retirement and investment funds do not have enough faith in the Alaskan economy to invest at home, why should we?"

In a policy comparison, the Washington state pension system, through its State Investment Board, invests some twenty billion dollars on behalf of state employees and retirees. Their allocation to real estate equity and mortgage debt for the period 1994 through 1996 was 5%, or one billion two hundred and twenty-five million dollars. Six hundred million dollars will be available for investment in 1996 alone! Quality investment can be made in Alaska where it will be underwritten by local professionals and enjoy a favorable return on investment.

For a growing and healthy economy in 1996, Alaska needs investment policies that are not exclusively run by investment advisors who oppose Alaskan investment. "Buy Alaska" also means investing in Alaska. Encouragingly, a few Alaska Taft Hartley funds, (funds associated with organized labor), have overridden the anti-Alaskan bias and invested in our local economy. The Alaska Laborers' Employers' Retirement Trust's (ALERT) Alaska investment is an example that performance can be outstanding and an excellent reflection of Alaskan quality. Investing at home should be our finest investments and would create potential long term loans for multi-family properties. Single family homes are not the only answer to a housing shortage.

If you agree that it's time to invest at home, please contact the Governor and your local legislator and ask that change be made now.

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City Commerce CORPORATION

Commercial Mortgage Banker. SEC and State of Alaska Registered Investment Advisor. ERISA Fiduciary

January 31, 1996

The Honorable Terry Martin, Chair
Legislative Budget and Audit Committee
Alaska State Legislature
P. O. Box 113200
Juneau, Alaska 99811-3200

Dear Representative Martin:

Thank you for your letter of January 25, 1996. You indicated that my letter was about affordable housing. In a sense, it was. Privately owned apartment rents are substantially higher in your district and around the state than they need to be. Rents for commercial buildings are higher than they need to be. Both are due to the lack of access to national capital markets. Our state is excluded from normal capital access by misperceptions of our economy, by remoteness from the markets and by smaller loan demand as compared to other states. The crime, Terry, is that our own state's investment funds participate in and encourage this continued capital exclusion.

Privately owned apartment and commercial building financing need be not subsidized nor should it be a cost burden to the State of Alaska. This is not financing for subsidized or non profit projects. This is financing for apartments in Mountain View that will allow local people to recapture ownership of their neighborhoods. Surely you are aware of the apartment crisis which is ongoing throughout the state. It is caused by lack of long term financing.

We've documented that Alaskan investment is good quality investment. You and your compatriots in the Legislature even passed AS 37.13.120 which directs the Alaska Permanent Fund Corporation Board of Trustees to invest in 'in state' investments if the 'in state' investment is comparable in yield and risk. Our studies have proven the comparability of risk and the comparability, indeed, the superiority of yield. And yet none of the funds are investing in Alaska. While I applaud the Permanent Fund's award of a contract to an Anchorage fund manager for \$75 million, I must also point out that a fixed income investment is a bond market investment which increases employment in Chicago not Alaska.

You need not defend policies that provide for safe investment of the Alaska Permanent Fund and the pension funds with me. When Governor Hammond appointed me to the Investment Advisory Committee in 1978, we shaped the safe investment policies of the Alaska Permanent Fund. I was and still remain unwavering in my demands for protecting those funds from the kind of wasteful programs practiced by the Alberta Heritage Foundation. As a third generation Alaskan with a fourth generation growing at home, I have every reason to be just as protective as yourself regarding the investment policies of the funds. On the safety factors, we certainly do agree.

Paternal protection, however, should not be used to justify excluding Alaskan investments which would be financed by virtually any other state's investment funds but Alaska's. The Washington state employee pension fund, for example, (roughly the same size as our Permanent Fund will finance about \$500 million dollars in 1996, 44% of it in their home region. PERS and TRS are allowed to invest in Alaska - but simply refuse.

At your hearing, let's find out why a program that works in every other state's pension funds and has been proven to work in Alaska is not practiced by funds financed by the Alaskan taxpayers' money. I want to hear the managers tell us why they feel that Alaska apartments and commercial buildings should not be funded. Do they seriously feel that Alaskan investment carries inordinate risk? If so and with your permission, I will document how the Alaska apartment and commercial building markets outperform other comparable markets like Los Angeles, Dallas or New York City where our funds do invest. We have compared other states' whole economies to Alaska's economy to prove the risk comparability of Alaskan investment. And yet, even with this proof, which no one denies, Alaskans are still being excluded from investing our own funds at home, as every other state does. That is just simply wrong.

A safe and secure investment program can be managed by the private sector within a context of cautious investments and in fulfillment of the fiduciary responsibilities of trustees of the funds. We have presented such a program, the Alaska Small Business Development Fund, to the funds which would safely provide access to the national capital markets by packaging small Alaskan loans and pooling them with loans from other states to sell into the secondary market. As an SEC registered Investment Advisor, we have suggested a format that is virtually identical to the methods the funds use to invest in the stock, bond and "outside" real estate markets. Alaska Housing Finance Corporation has even agreed to be a Performance Analyst to both the Permanent Fund and City Commerce Corporation to facilitate the program.

The Permanent Fund's local investments which you mentioned in your letter are acknowledged. Yes, they did participate some years ago in the Frontier Building which is primarily leased to the State of Alaska. And, yes, they did invest in the Goldbelt office building in which they are the primary occupants. And, yes, they did buy Commissioner Lloyd Hames' shopping center in Ketchikan during the Hickel Administration. The conclusion then is that if you are the state or the Permanent Fund, your project in Alaska can be funded? There are private sector investments in Alaska just as attractive as those made to facilitate state related activities.

Every other state in the nation manages their pension and investment funds in such a way that they help the local economy, not hurt it. When I travel and bring back markets for Alaskans, I hear, if your own state's pension funds exclude Alaskan investment, why should our pension fund (or savings and loan or bank or Wall Street dealer) invest there?

Rather than defending the status quo of absolute control of these investment funds by "outside" Investment Advisors, (funding Seattle's ability to compete against your constituents' businesses), I would think you would want to foster a safe investment program which would grow the independence and success of our local businesses. Defending bureaucratic inaction strengthens the competition against your constituents' businesses. You have always been a strong supporter of the local small business community, as I have been.

With regard to Alaskan investment, you have a clear choice: to support continued bureaucratic inaction and excuses about why investment in Alaska is wrong or support a proven in state investment program which makes a premium rate of return for the funds and doesn't cost the state a dime to manage. The program is funded by the origination receipts and still provides a premium rate of return to the funds.

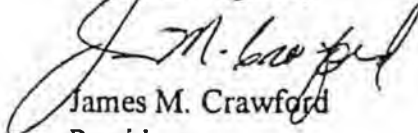
Alaskan pay their bills every bit as well those who reside outside. Yes, we had a recession. So has every other state in the nation. The Alaskan economy is a cyclical economy. And so is every other states' economy. There is no reason to exclude quality Alaskan investment. Protection of the status quo delights those who currently control our money. They get to use it to fuel their economies instead of ours but that is not appropriate public policy for Alaska.

Perhaps it is parochial to suggest that Alaskan investment can be of good quality but I'll take that risk. My companies have provided hundreds of millions of dollars of investment all over our state. Our investment experience has been good and we continue to invest over \$1,000,000 per day in Alaska's economy. I believe that Alaskans should invest their money at home as I have done. Even state pension funds, Terry, should invest our money at home.

Diversity of investment? Of course. A balanced investment portfolio? Yes. Competent and accountable Investment Advisors? Definitely. We back our program with a \$1,000,000 errors and omission policy which is pretty tough to get. We accept full fiduciary responsibility for our actions. But, we have chosen to make a market in financing Alaskan apartments and commercial properties since others have excluded them. Your constituents need your support for this program not your defense of the bureaucratic blockage of Alaskan investment.

I look forward to furthering our discussion personally before your panel in Juneau on February 7, 1996 at 4:15 PM. The investment policies of the state's investment and retirement funds can be a vital part of a healthy economy in Alaska for 1996.

With best regards,



James M. Crawford
President

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Finance



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January 25, 1996

Mr. James M. Crawford
President
City Commerce Corporation
P.O. Box 241446
Anchorage, AK 99524-1446

Dear Mr. Crawford:

Thank you for your recent letter expressing concern about the financing of affordable housing in Alaska. Your letter and the enclosed article by Robin Ward are thought provoking, and many pertinent points are made. The Legislative Budget and Audit Committee will be meeting jointly with the House Finance Subcommittee for the Department of Revenue in the House Finance Committee room in Juneau's Capitol Building on February 7th at 4:30 pm. The meeting has been scheduled to examine the investment strategies and performance of the Permanent Fund and the three major state retirement funds. Your letter and the attachment, as well as this response, will be provided to the participants of that meeting.

The state of Alaska has subsidized affordable housing for its residents in the amount of approximately \$1 billion through the Alaska Housing Finance Corporation. This level of assistance is higher than any other state in the country. It is my view that any additional funds for housing should be supplied by the private sector.

I feel I must come to the defense of the investment funds for which I have oversight as chairman of the Legislative Budget and Audit Committee. Although I will mostly speak to the Permanent Fund, I feel that the state's three major investment funds are similarly positioned. The most important investment goal of the Permanent Fund is to protect the principal of the Fund. The Fund's investment strategy is aimed first at this important goal, and then at creating income from its investments to provide for dividends,

Mr. James M, Crawford

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January 25, 1996

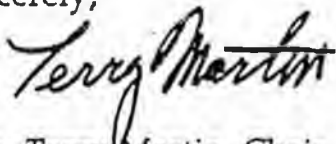
and at facilitating long-term growth of the Fund. Although Permanent Fund principal investments in Alaska are limited, hundreds of millions of dollars in dividends are put into the hands of Alaska consumers every year. I am sure much of that money finds its way into local financial institutions to be used to finance housing and in many other ways which benefit Alaska's economy.

The Supplemental Benefits System (SBS) Fund may invest up to 20 percent of its portfolio in mortgages, but no direct investment in real estate is allowed. The Public Employees Retirement System (PERS) Fund and the Teachers Retirement System (TRS) Fund are allowed up to 5 percent investment in real estate, and a moderate amount of investment in mortgage instruments. The Permanent Fund may invest up to 5 percent of its portfolio in real estate and 15 percent in mortgages, and in fact, the Fund has several real estate investments in Alaska. The Fund owns 40 percent of the Goldbelt office building in Juneau, and it holds participating mortgages in both the Frontier office building in Anchorage, and in Plaza Port West, a shopping center in Ketchikan. In addition, the Permanent Fund has a special program called the Alaska Certificates of Deposit program, which makes funds available to Alaska banks at market rates of return. You might also be interested to know that the Permanent Fund recently contracted with the Alaska Permanent Capital Management Company in Anchorage (of which Dave Rose is a principal) to manage \$75 million of its funds.

Yes, the Permanent Fund Corp and the State Pension Investment Board are cautious about their investments, but they are fulfilling their mandates and helping Alaska's economy in many ways. These funds can't be everything to every citizen. Let us not forget the lessons learned from the Alberta Heritage Foundation, which invested heavily in the Alberta economy and suffered great losses from such action.

Again, I thank you for your concern. Please feel free to contact me again, and to attend the February 7th Legislative Budget and Audit Committee Meeting.

Sincerely,



Rep. Terry Martin, Chair
Legislative Budget & Audit Committee