

LEG. FINANCE - BILLS

1977 - 1978

747

C SHB 596 cont

10. page 10, line 13

Put a period after "corporation" and delete the remainder of the sentence.

11. page 11, line 11

Delete Sec. 37.13.140 and replace with the following:
"Sec. 37.13.140. RESERVES. The corporation may establish, from income derived from its investments a loss reserve account to preserve the principal of the permanent fund, consistent with sound financial practices."

12. page ., line 24

Delete Sec. 37.13.150. entitled "Income".

13. page 13, line 6

Following "trustees" delete "and officers and staff of the corporation may not engage in partisan political activities" and substitute "are subject to AS 39.25.160."

14. page 13, line 26

Substitute "Fifty percent" for "One-sixth".

15. page 13, line 28

Following "paid" delete "by the Alaska Permanent Fund Corporation directly".

16. page 14, line 1

Following "Corporation" insert "as specified in Sec. 37.13.010." and delete the remainder of the sentence.

17. page 14, line 22

Substitute "the commissioners of the departments of revenue and commerce and economic development" in place of "a person employed in the executive branch of state government appointed by the governor".

18. page 14, line 23

Substitute "five" in place of "six".

19. page 14, line 27

Following the period, insert the following sentence: "The President of the Alaska Enterprise Investment Corporation, appointed under Sec. 44.55.070 of this chapter, shall serve as the chairman of the Policy Board, but is not a voting member."

20. page 14, line 29

Delete the following words: "one of the".

21. page 15, line 1

Delete the following words: "public members as chairman and".

22. page 15, line 2

Substitute "five" in place of "six".

23. page 15, line 4

Substitute "one member serving for two years," in place of "two members serving for two years".

24. page 15, line 9

Following the word "vote" and before the period, insert: ", including not less than a majority of appointed members."

25. page 18, line 6

Delete this section and replace it with the following:
"Sec. 44.55.100. BUDGET. The corporation may retain income in the amount needed to pay the operating and administrative expenses of the corporation. The corporation is exempt from the provision of the Executive Budget Act (AS 37.07), except if these operating and administrative expenses shall exceed one-half of one percent of the corporation's paid-in capital, that budget of the corporation is subject to the Executive Budget Act."

26. page 20, line 11

Substitute "one percent of the resources of the corporation" in place of "five percent of the resources of the corporation or \$5,000,000, whichever is less,".

27. page 21, line 26

Insert a new section to read: "(o) All guarantees shall be presented to the Alaska State Legislature by the Policy Board for approval by law. A reserve for guarantees shall be established in accordance with Sec. 44.55.130(b) of this chapter."

28. page 21, line 26

Insert a new section as follows: "(p) the corporation may not make additional investments in participation with any other corporation or investment institution which is currently participating with the corporation in other investments if two percent of those investments are delinquent."

29. page 21, line 26

Insert a new section to read: "Sec. 44.55.130. RESERVES. (a) The corporation may establish from income derived from its investments, reserve accounts to preserve the principal of the permanent fund, consistent with sound financial practices.

(b) The corporation may establish from income from its investments, a reserve account for the purpose of paying loss on guaranteed debts. The amount credited to this reserve shall be a percentage of the total guaranteed debts as determined by the policy board, consistent with sound financial practices."

30. page 21, line 27

Substitute "prepare a detailed report of Alaskan investments which shall" in place of "render a detailed report to the legislature which shall".

31. page 23, line 1

Following the word "corporation" insert "are subject to AS 39.25.160." and delete the remainder of this sentence.

32. page 24, line 11

Following "tion" insert "and the Alaska Enterprise Investment Fund".

33. page 24, line 11

Substitute "30" in place of "10".

34. Page 24, line 17

Substitute "AS 37.13.130(g)" in place of "AS 44.55.120(b)(2) in Section 4 of this Act." and delete the remainder of the sentence.

35. page 24, line 19

Following "repealed" insert "at the time Sec. 7. Transition is completed."

36. page 24, line 20

Following "repealed" insert "at the time Sec. 7. Transition is completed."

It is further suggested that "small and medium scale" should be clearly defined in the bill, for example, defining that concept in terms of a 1 percent investment limitation.

WHITE, WELD & CO.
INCORPORATED

ONE LIBERTY PLAZA
61 LIBERTY STREET, NEW YORK, N.Y. 10005

ROBERT E. ORELLY
FIRST VICE PRESIDENT
R.E.O. 10005

March 18, 1978

CABLE ADDRESS "WHITEWELD"

Mr. Clark S. Grusning, Chairman
Special House Committee on the Alaska Permanent Fund
Mr. Steve C. Cowper, Chairman
House Finance Committee
Pouch V
Juneau, Alaska 99811

Gentlemen:

We would like to offer the following comments on CS for House Bill 596 (2-24-78):

Sec. 37.13.130 Powers and Duties (g)

While United States Agency issues are considered to be slightly lower quality than direct obligations of the United States Treasury, the quality of these securities are such that they should be considered as alternative investments for the Fund. By adding "and its Agencies" after Page 10, line 18 "may invest corporation assets in obligations of the United States (and its Agencies) or obligations etc.", the investment criteria can be expanded clearly to include United States Agency obligations.

It may be desirable to add at the end of (g) Page 10 line 21, "the Securities Act of 1933 are freely marketable.", the following, "and other investments that meet the requirements of (a) and (b), but not to exceed 2% of assets." This would allow the Trustees of the Fund, and the investment manager some leeway to invest in new classes of securities that may not be clearly outlined in other sections of (g). We would prefer this to expanding the list in order to include every conceivable type of approved investment.

Sec. 37.13.140 Gains and Losses

This method of calculating gains and losses is used to protect the principal of the Fund. Attractive exchanges of bonds and stocks would not be penalized immediately under this system, even though they might result in a current loss. The intent of this system is to allow the Fund to admit mistakes and match them against success whenever possible.

(continued.....)

Mr. Clark S. Gruening
Mr. Steve C. Cowper

Page 2
March 13, 1978

Sec. 37.13.150 Income

This section compliments the prior one (140), and uses a five year averaging program for payout of income. The principle objective of this system is to provide an orderly payout of income, that does not result in an unusually large payout in any one year, followed by a lower payout in a following year. The five year averaging would lessen some of the cyclical factors in dispensing income. The Fund under this system would always have more income than it was currently disbursing.

Sec. 37.13.170 Audits

It might be wise to include on Page 12, after line 10 (by an outside auditor) following "investment programs". While use of an outside auditor is stated later on in Sec. 180, line 14, it is not clear whether the Investment Oversight Committee will have an outside audit available to them.

Sec. 37.13.180 Reports and Publications

It should be noted in this section that the Fund should be valued at current market value or worth. Seeing the changes in market value that have occurred since the investments have been made, will be an important part of my review. Therefore, an analysis of the condition of the Fund, as if it were converted into current value, will be helpful in determining the relative success of the Fund's investment program.

We will be pleased to discuss the above in greater detail at your convenience.

Respectfully yours,

Robert E. Greeley

Robert E. Greeley,
First Vice President

REC/len

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 596 - "An Act relating to nonrenewable resource revenues;
 Title and providing for an effective date."
 Requested by Special Committee on the Alaska Permanent Fund Date 1/11/78

HB 596

II. FISCAL DETAIL

Agency Affected Department of Revenue
 Program Category Affected General Government
 Budget Request Unit(s) Affected Treasury Management

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		338.6				
200 TRAVEL		155.4				
300 CONTRACTUAL		578.0				
400 COMMODITIES		10.0				
500 EQUIPMENT		30.0				
600 LAND & STRUCTURES		120.0				
700 GRANTS, CLAIMS, ETC.						
TOTAL		1,232.0				

FUNDING (Thousands of Dollars)

GENERAL FUND		1,232.0				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		10				
PART TIME		18				
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This note enumerates a portion of the fiscal impact of HB 596 upon Treasury Management. Costs of the following administrative structures are included above:

- Investment Oversight Committee - 8 members
- Board of Trustees - 3 members
- Policy Board - 7 members
- Alaska Permanent Fund - 1 Executive Director and staff
- Alaska Enterprise Investment Corporation - 1 President and staff

Fiscal years subsequent to FY 79 would properly be estimated by the emergent administrative body.

IV. DATE February 23, 1978 PREPARED BY Jim Edenso
 AGENCY Department of Revenue
 Original: Legislative Finance PHONE 465-2350
 cc: Budget and Management
Prime Sponsor (First Legislator Named)

Draft Chairman's Letter

CSHB 596

The amendment to Section 15, Article IX of the Alaska Constitution, approved by the voters in November 1976, creates the Alaska permanent fund "...the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments."

CS HB596 was passed by the House Special Committee on the Permanent Fund to designate such investments and create appropriate management structures for making them.

CS HB 596 creates an Investment Oversight Committee of the legislature (AS 24.11), the Alaska Permanent Fund Corporation (AS 37.11) and the Alaska Enterprise Investment Corporation (AS 44.55).

The Committee's intent in creating the Investment Oversight Committee is to provide the legislature with technical review and oversight of the performance of all agencies of the state which perform lending or investment functions.

The Committee's intent in creating the Alaska Permanent Fund Corporation (APFC) and the Alaska Enterprise Investment Fund Corporation (AEIC) is to insure that the permanent fund maintains a separate and distinct identity. It is further the Committee's intent that the management structures of both corporations be independent of the existing governmental structure so that their investment policies and decisions are: (a) non-partisan; (b) prudent; (c) based solely on sound financial criteria.

In allocating the sizable majority of the permanent fund dedication to the APFC, the Committee intends that the funds be managed according to a high standard of trust responsibility and prudence.

The capitalization of the AEIC is evidence of the Committee's intent that the corporation be required to establish a record of sound financial practice before being funded to any greater extent. It also reflects what the Committee found to be a lack of supportable evidence as to the amount of money that can be invested prudently in financially sound small and medium scale productive private enterprise and community development projects.

The Committee clearly intends that investments by both corporations be income producing.

The Committee's intent in separating the policy and investment functions of the AEIC is to prevent those who make policy from influencing in any manner the corporation's decision on specific investments. This was done to prevent any possibility that those decisions be influenced by political considerations.

In placing a single administration member on the AEIC policy board, the Committee intends that the member will be able to provide the board with information on activities of governmental agencies that might be useful in setting corporation policy. In addition, the administration member is to provide, if the policy board so desires, coordination between the corporation and governmental agencies.

With this single exception, there are no representatives of existing governmental agencies in the management of either corporation. This reflects the Committee's intent to prevent any influence that might politicize or otherwise compromise the policy or investment decisions of the corporations.

CS HB596 varies slightly from HB596 as described in the Committee's final interim report, A Proposal for the Alaska Permanent Fund. In addition to the public hearings and Committee meetings held while drafting HB 596 (minutes and transcripts of these are to be found in the Appendices to the final interim report), the Committee held four public hearings and three work sessions which led to CS HB596.

CS HB596 contains some additions to and deletions from HB 596.

In the "Removal and Vacancies" sections (AS 37.13.070 and AS 44.55.050) the Committee added the words "Upon suspension, a vacancy is not created..." to clarify the legally allowable procedure when the legislature is not in session.

In "Powers and Duties" (AS 37.13.030(e)) the Committee added the words "...from the principal of the fund..." to allow guarantees to be made from permanent fund earnings if and when legislation granting such discretion is signed into law.

AS 37.13.030(i) was added to clarify any possible misunderstanding with regard to the APFC's authority to make in-state investments. It was not the Committee's intent to require such investment; rather, the Committee intended the language as a clarification of discretion already implicit. The addition was made simply to clarify the fact that there is nothing inherent in a trust that would prevent in-state investment.

AS 44.55.125(b) and AS 44.55.130 of HB 596 were deleted from CS HB596 to reflect the Committee's intent that financial arrangements made between the corporation and its creditors be left to their mutual agreement rather than to statutory provisions that might prove to be impractical at some future date.

TEN YEAR MUNICIPAL CAPITAL PROJECTIONS STUDY

1978 - 1987

In preparing this capital projects study, it immediately became apparent that municipal and borough officials face many difficulties when allocating public funds for capital projects. This conflict is best characterized by limited funds and an excess of needed or suggested projects. Further projection difficulties arise when it becomes necessary to determine the priority of projects, compliance with a Comprehensive Plan, coordination between various projects, public sentiment, and the impact on the present and future social, economic, physical, and environmental systems of the political subdivisions.

It must be recognized that these projections, developed with the best available information, are subject to the availability of funds. With permanent fund assistance, as well as various other grants, many of these could be realized. Conversely, many of these necessary projects may not be realized in the event of the non-availability of those funds.

Twenty municipalities responded and although they by no means represent all the projects, they do give an indication of the magnitude of the financial needs that face the municipalities of Alaska.

Attached are the results of the study. Requirements are shown (1) by municipality, (2) municipality and project, (3) size of project and, (4) sources of funds. Of the total \$1,499,753,000 in dollar costs only \$1,130,178,000 was recognized as coming from a specific source: either State, Federal, or local subject to availability of funds. Municipalities were not able to determine where the additional \$369,575,000 would come from if the projects were to be constructed.

Care was taken to differentiate between those projects one would like to see and those projects which were vital to general welfare of the community. These costs presently represent those projects which are vital to the community and which will have to be funded through whatever sources of capital is available or they may never be realized. The Permanent Fund may be a means to meet a portion of these requirements.

CAPITAL REQUIREMENTS BY CITY
000's Omitted

Anchorage	\$ 825,832
Brevig Mission	1,586
Fairbanks	192,075
Galena	6,127
Haines	13,791
Houston	10,806
Juneau	122,010
Kenai Peninsula Borough	65,785
Ketchikan	20,101
Kodiak	49,704
Kwethluk	832
McGrath	9,285
Nighthorse	481
Savoonga	445
Sitka	99,310
Skagway	20,157
Tenakee Springs	1,050
Toksook Bay	1,190
Valdez	41,150
Wasilla	<u>18,036</u>
Total	<u>\$1,499,753</u>

CAPITAL NEEDS BY CITY AND PROJECTS
000's Omitted

<u>City</u>	<u>Port Facilities</u>	<u>Small Boat Harbors</u>	<u>Airports</u>	<u>Public Transit</u>	<u>Water Utility</u>	<u>Sanitary Sewer</u>	<u>Electric Utility</u>	<u>Parking Facilities</u>	<u>Animal Control</u>	<u>School Construction</u>	<u>Convention Culture Center</u>	<u>Health</u>	<u>Street Improvements</u>	<u>Street Maintenance</u>	<u>Fire Rescue Operations</u>	<u>Library</u>	<u>Parks and Recreation</u>	<u>Solid Waste</u>	<u>Other Projects</u>	<u>Total</u>
Anchorage	\$ 5,030	\$	\$ 7,882	\$25,236	\$ 81,414	\$110,930	\$211,116	\$ 18,788	\$	\$ 88,500	\$	\$	\$163,496	\$ 2,146	\$ 2,393	\$16,085	\$ 75,435	\$ 9,390	\$ 7,991	\$ 825,832
Brevig Mission						200	1,130		6			100	100			30	20			1,586
Fairbanks					72,000	7,500	80,000						15,020	3,500	3,055		1,000		10,000	192,075
Galena		30			500			3	15		30			480	25	6	15	23	5,000	6,127
Haines	2,675	909			1,060	1,965		300	35		1,340	900	584	125	495	270	2,608	375	150	13,791
Houston				320	1,500	4,500			75		1,320	1,580	640	210	207		78	166	210	10,806
Juneau	7,277	4,755	12,813	90	28,420	16,339				1,600	15,592	125	8,100		7,535	5,000	14,364			122,010
Kenai Peninsula Borough										58,885		4,000			780			2,120		65,785
Yetchikan	25		7,325			5,500		51	75	2,925									4,200	20,101
Kodiak	1,000	11,950			5,700	7,660			50		4,000		14,100	1,303	487	1,770	1,684			49,704
Kwethluk			70						29			63			91	54	525			832
McGrath	1,020		400		2,329	2,754					275		1,450		350	255	400	21	31	9,285
Nightmute		6	88	50	27	140	17				14	30	15			12	70	12		481
Savoonga				6		175	20						10			4	5	225		445
Sitka		1,700	1,250		3,000	23,600	49,350	1,900		3,500		7,000	4,350	2,000	1,350		310			99,310
Skagway	3,780	1,300	700		1,500	750		100	25	1,000	1,000	200	3,500	750	377	300	825	437	3,613	20,157
Tenakee Springs					400	400						50			50				150	1,050
Toksook Bay			150		102	360	200			150		25	85		28	20	70			1,190
Valdez	30,000	350			100	100			50		6,300			1,300		1,000	50		2,000	41,150
Wasilla					4,096	10,680		25	65		430		1,700	560		375	105			18,036
Total	\$ 50,807	\$21,000	\$30,678	\$25,702	\$202,048	\$193,553	\$341,833	\$ 21,167	\$ 425	\$ 156,560	\$ 30,301	\$14,073	\$213,150	\$ 12,374	\$ 17,223	\$25,181	\$ 97,564	\$12,769	\$33,345	\$1,499,753

CAPITAL REQUIREMENTS IN ORDER OF SIZE
000's Omitted

Electric Utility	\$ 341,833
Street Improvements	213,150
Water Utility	202,048
Sanitary Sewer	193,553
School Construction	156,560
Parks and Recreation	97,564
Port Facilities	50,807
Other Projects	33,345
Airports	30,678
Conventions/Culture Centers	30,301
Public Transit	25,702
Library	25,181
Parking Facilities	21,167
Small Boat Harbors	21,000
Fire Rescue Operations	17,223
Health	14,073
Solid Waste	12,769
Street Maintenance	12,374
Animal Control	<u>425</u>
Total	<u>\$1,499,753</u>

SOURCES OF FUNDS
000's Omitted

	<u>Total</u> <u>Requirements</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>
Anchorage	\$ 825,832	\$ 64,756	\$ 43,114	\$717,962
Haines	13,791	3,103	7,744	2,944
Juneau	122,010	35,833	33,843	52,334
Kodiak	49,704	21,400	17,245	11,059
Savoonga	445	51	319	75
Sitka	99,310	16,875	10,562	71,873
Tenakee Springs	1,050		800	250
Wasilla	<u>18,036</u>	<u>4,880</u>	<u>5,188</u>	<u>7,968</u>
Total	<u>\$1,130,178</u>	<u>\$146,898</u>	<u>\$118,815</u>	<u>\$864,465</u>
 Unidentified as to source	 <u>\$ 369,575</u>			

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

March 8, 1978

JAY S. HAMMOND, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811

The Honorable Steve Cowper
Chairman, House Finance Committee
State Capital
Juneau, Alaska 99811

Dear Representative Cowper:

The attached amendments were submitted to the Special Committee on the Permanent Fund in the House in an effort to maximize the cooperation between the administration and the Special Committee in the House in drafting the enabling legislation for the Alaska Permanent Fund. Beginning in 1976 the Department of Revenue, the State Investment Advisory Committee, and the Governor's Office have made every effort to cooperate with the House of Representatives in a continuing process of investigations on the enabling legislation. Initially, the administration submitted a bill, HB 298, and had hoped that that bill would be considered by the legislature. It now appears that Committee Substitute for House Bill 596 is the bill which this committee will consider as the enabling legislation on the Permanent Fund.

To continue the cooperative efforts between the administration and the House these amendments reflect the concerns of the administration for the proposed bill.

Amendment #1 amends Section 010. This amendment includes the Alaska Enterprise Investment Corporation as the recipient of a portion of the principal to be allocated to the Permanent Fund. It should be considered in conjunction with amendments 2 and 3. Amendment 2 decreases the amount of principal to be contributed into the Alaska Permanent Fund Corporation to 50 per cent of the receipts and increases the amount contributed to the Alaska Enterprise Investment Corporation to 50 per cent of the receipts.

The first three amendments reflect in a positive manner the administration's concern first that the savings account concept be adopted (the trust fund) and, secondly, that there be a greater amount of funds available for investment through the Enterprise Investment Corporation in Alaska than the \$100 million limitation.

The fourth amendment under section 020 merely removes the limitation that only future generations of Alaskans benefit from the Permanent Fund. This administration has made it clear that the Permanent Fund should benefit present generations of Alaskans as well as future generations.

The fifth amendment under section 040 includes the Commissioner of Revenue as a non-voting member of the Board of Trustees. The Commissioner of Revenue is responsible for all of the State's funds and therefore should be included as a member of the Board of Trustees.

Amendment #6 under section 090 increases from two members to three members the Board of Trustees for quorum purposes.

Amendment #7 deals with a policy issue which requires that the Department of Revenue provide the management and staff for the trust fund corporation. It includes a provision that the Commissioner of Revenue or his designee shall serve as the executive director of the corporation.

Amendment #8 is a minor technical amendment in section 130, POWERS AND DUTIES, paragraph (a) which clarifies the wording for the prudent-man rule for investment.

Amendment #9 section 130 clarifies the reasonable diversification clause found in paragraph (c).

Amendment #10 section 130, paragraph (f) deals with prohibition of the corporation on working with existing State agencies or departments. The administration clearly thinks that it is desirable for the Permanent Fund to cooperate and coordinate with existing State programs.

Amendment #11 is two-fold and it deletes the section entitled GAINS AND LOSSES and replaces it with a new section entitled RESERVES. The establishment of reserve accounts for losses on investments is desirable as these accounts would help to preserve the principal of the Permanent Fund.

Amendment #12 deletes section 150 entitled INCOME. The moving average income current return is confusing and unnecessary as current accounting practices clearly allow for the identification of income through investments.

Amendment #13 excludes the officers and staff from the State's Hatch Act but includes the Board of Trustees in the Hatch Act.

Amendment #14 section 44.55.010(b) is amended to increase the amount of contributions to the Enterprise Investment Corporation from 1/6 to 50 per cent. This amendment is in keeping with the administration's desire to provide a greater amount of principal for investments in Alaska.

Amendments # 15 and 16 should be considered together and are intended to allow the payment of principal directly into the Enterprise Investment Corporation.

Amendment #17 changes the composition of the proposed Policy Board to include the Commissioners of Commerce and Economic Development and Revenue and five public members.

Amendment #18 is in conjunction with Amendment #17.

Amendment #19 is self-explanatory but includes the president of the Enterprise Investment Corporation as the Chairman of the Policy Board but a non-voting member.

March 8, 1978

Amendments 20, 21, 22, and 23 are in conjunction with the recomposition of the Policy Board.

Amendment #24 amends the sentence to include a majority of appointed members.

Amendment #25 deletes section 44.55.100 entitled BUDGET and replaces it. The new wording for this section allows the Enterprise Investment Corporation to retain income for administrative operating expenses of up to 1/2 of 1 percent of the corporation's paid-in capital and requires that expenditures in excess of 1/2 of 1 percent of paid-in capital be approved by the legislature.

Amendment #26 re-states the diversification rule to limit investments to 1 percent of the resources of the corporation from the 5 percent limit found in the bill. It does not change the \$5 million limitation.

Amendment #27 and Amendment #29 allow the corporation to make guarantees but require approval by the legislature and establishes reserves.

Amendment #28 prohibits the corporation from investing in participation with other entities when current participating investments are 2 per cent or greater in delinquencies.

Amendment # 30 is clarifying language.

Amendment # 31 section 44.55.170 entitled POLITICAL ACTIVITIES includes the Policy Board and Investment Committee in the Hatch Act for the State (AS 39.25.160) and deletes the language including the officers and staff of the corporation in the Hatch Act.

Amendment #32 is in conjunction with the administration's desire to put 50 percent of the principal paid to the trust corporation and 50 per cent to the Enterprise Investment Fund.

Amendment #33 section 7 TRANSITION. It is necessary to have 30 days to transfer all funds to the trust fund corporation and the enterprise investment fund corporation in order to comply with the existing contracts the Department of Revenue has for safekeeping the Alaska Permanent Fund portfolio securities.

Amendments 34, 35, and 36 all in the Transition section tie together the activities in the repealers of existing interim management legislation.

It is my hope that the House Finance Committee will thoroughly review, evaluate, and sincerely consider these proposed amendments. Thank you for the opportunity to appear here today.

Sincerely,

Sterling Gallagher
Commissioner

9 MARCH 78

Suggested Amendments to House Bill 596

The following amendments should be considered:

1. page 6, line 8

Following the words "Alaska Permanent Fund Corporation" insert "and the Alaska Enterprise Investment Corporation".

2. page 6, line 9

Substitute "50 per cent" for "five-sixths".

3. page 6, line 11

Substitute "50 per cent" for "one-sixth"; place a period after "allocated"; and delete the remainder of this section.

4. page 6, line 23

Following the word "benefit" delete "of future generations".

5. page 7, line 15

Following "session." insert the following: "The commissioner of revenue is a non-voting member of the board of trustees."

6. page 9, line 1

Substitute "Three" for "Two".

7. page 9, line 8

Delete Sec. 37.13.110 and replace it with the following:
"Sec. 37.13.110. PERSONNEL. The commissioner of revenue or designee shall serve as the executive director of the corporation and staff will be provided by the department of revenue. All staff members responsible for corporation investments are in the partially exempt service as under AS 39.25."

8. page 9, line 23

Substitute "in the" for "to the board in its".

9. Page 10, line 6

Put a period after "investments" and delete the remainder of the sentence.

10. page 10, line 13

Put a period after "corporation" and delete the remainder of the sentence.

11. page 11, line 11

Delete Sec. 37.13.140 and replace with the following:
"Sec. 37.13.140. RESERVES. The corporation may establish, from income derived from its investments a loss reserve account to preserve the principal of the permanent fund, consistent with sound financial practices."

12. page 11, line 24

Delete Sec. 37.13.150. entitled "Income".

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Following "trustees" delete "and officers and staff of the corporation may not engage in partisan political activities" and substitute "are subject to AS 39.25.160."

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Substitute "Fifty percent" for "One-sixth".

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Following "paid" delete "by the Alaska Permanent Fund Corporation directly".

16. page 14, line 1

Following "Corporation" insert "as specified in Sec. 37.13.010." and delete the remainder of the sentence.

17. page 14, line 22

Substitute "the commissioners of the departments of revenue and commerce and economic development" in place of "a person employed in the executive branch of state government appointed by the governor".

18. page 14, line 23

Substitute "five" in place of "six".

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Following the period, insert the following sentence: "The President of the Alaska Enterprise Investment Corporation, appointed under Sec. 44.55.070 of this chapter, shall serve as the chairman of the Policy Board, but is not a voting member."

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Delete the following words: "one of the".

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Delete the following words: "public members as chairman and".

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Substitute "five" in place of "six".

23. page 15, line 4

Substitute "one member serving for two years," in place of "two members serving for two years".

24. page 15, line 9

Following the word "vote" and before the period, insert: ", including not less than a majority of appointed members."

25. page 18, line 6

Delete this section and replace it with the following:
"Sec. 44.55.100. BUDGET. The corporation may retain income in the amount needed to pay the operating and administrative expenses of the corporation. The corporation is exempt from the provision of the Executive Budget Act (AS 37.07), except if these operating and administrative expenses shall exceed one-half of one percent of the corporation's paid-in capital, that budget of the corporation is subject to the Executive Budget Act."

26. page 20, line 11

Substitute "one percent of the resources of the corporation" in place of "five percent of the resources of the corporation or \$5,000,000, whichever is less,".

27. page 21, line 26

Insert a new section to read: "(o) All guarantees shall be presented to the Alaska State Legislature by the Policy Board for approval by law. A reserve for guarantees shall be established in accordance with Sec. 44.55.130(b) of this chapter."

28. page 21, line 26

Insert a new section as follows: "(p) the corporation may not make additional investments in participation with any other corporation or investment institution which is currently participating with the corporation in other investments if two percent of those investments are delinquent."

29. page 21, line 26

Insert a new section to read: "Sec. 44.55.130. RESERVES. (a) The corporation may establish from income derived from its investments, reserve accounts to preserve the principal of the permanent fund, consistent with sound financial practices.

(b) The corporation may establish from income from its investments, a reserve account for the purpose of paying loss on guaranteed debts. The amount credited to this reserve shall be a percentage of the total guaranteed debts as determined by the policy board, consistent with sound financial practices."

30. page 21, line 27

Substitute "prepare a detailed report of Alaskan investments which shall" in place of "render a detailed report to the legislature which shall".

31. page 23, line 1

Following the word "corporation" insert "are subject to AS 39.25.160." and delete the remainder of this sentence.

32. page 24, line 11

Following "tion" insert "and the Alaska Enterprise Investment Fund".

35. page 24, line 11

Substitute "30" in place of "10".

34. Page 24, line 17

Substitute "AS 37.13.130(g)" in place of "AS 44.55.120(b)(2) in Section 4 of this Act." and delete the remainder of the sentence.

35. page 24, line 19

Following "repealed" insert "at the time Sec. 7. Transition is completed."

36. page 24, line 20

Following "repealed" insert "at the time Sec. 7. Transition is completed."

A. It is further suggested that "small and medium scale" should be clearly defined in the bill, for example, defining that concept in terms of a 1 percent investment limitation.

52-6013.

STATE
of ALASKA**MEMORANDUM**TO: The Honorable Steve Cowper
Chairman
House Finance Committee
Alaska State Legislature

DATE : March 6, 1978

FROM: Sterling Gallagher *SS*
CommissionerSUBJECT: Attached Paper on Financial
Institutions in Alaska

Please find attached my testimony and recommendation
on the Alaska Permanent Fund.

FINANCIAL INSTITUTIONS IN ALASKA AND WHY CERTAIN REGULATORY
REQUIREMENTS CAUSE A CAPITAL SHORTAGE
FOR DEVELOPMENT WITHIN THE STATE

The following is an attempt to enlighten the reader on financial institutions in the state of Alaska and how the regulatory climate affects the capital sources and puts certain constraints on those resources.

Commercial Banks

Commercial banks are approximately \$2 billion in size - the largest of which is the National Bank of Alaska. Many people forget what the true function of a commercial bank is. Commercial banks are seen as lending institutions, but the original reason they were formed was to provide a liquidity institution for the transfer of funds. Therefore it is mandated that commercial banks look first to instruments and loans that are highly liquid in nature. Banks in Alaska have a very special need to stay liquid. Alaskan banks lose in the winter months each year over 20% of their deposits as the economy slows down and people cut back inventories. This high annual runoff mandates that even a greater percentage of assets be kept in a highly liquid form. No other banking system in the U.S. is faced with this sort of liquid crisis.

Alaskan banks are also characterized by a larger proportion of state and local deposits than any other state. These are construction funds from the various agencies. Due to their nature of being construction funds they are also highly volatile.

The predominant lending pattern of commercial banks revolves around loans to facilitate commerce in the state. Alaskan banks have a large percentage of their assets in Alaskan municipal bonds and commercial loans. They have a very low percentage of personal loans in comparison to other states.

Because of the liquid requirements of Alaskan institutions the Federal Deposit Insurance Corporation becomes highly concerned when over 15% of the assets of commercial banks get tied up in intermediate or long term assets. Institutions will face severe criticism if they push much beyond 15% of assets in long term loans. This allows the Alaskan commercial banking system to put approximately \$300 million into intermediate or long term loans.

How far does \$300 million go in Alaskan lending institutions? It is equivalent to three-quarters of a one year supply of the money needed for single family homes.

Loan limits also have a severe impact on the lending in Alaska. National banks are allowed to lend to any one borrower an amount equivalent to 10% of capital and surplus. State banks are allowed to lend 15% of capital and surplus. To give this perspective National Bank of Alaska is allowed to lend \$3.9 million to any one borrower; First National of Anchorage, \$2.2 million; Alaska Bank of Commerce, \$1.5 million; Alaska State Bank, \$1.4 million, Alaska National Bank of the North, \$900,000; Alaska Pacific Bank, \$600,000; B.B. Behrends, \$600,000; 1st National of Fairbanks, \$400,000; People's Bank and Trust, \$300,000; United Bank of Alaska, \$250,000; and Security Pacific, \$200,000.

As you can see from the loan lend limits for various institutions, only four banks have the ability to lend over a million dollars to any one party.

Savings and Loan Institutions

The savings and loan institutions of Alaska are approximately \$400 million in size, which is sufficient to supply one year's construction of single family homes in Alaska. The function of savings and loan institutions is to support the housing market.

Savings and loans are required to maintain 80% of their assets in single family dwellings and the other 20% is allocated for multi family situations. Only \$80 million is allowed to go into multi family housing although it makes up 35% of the units constructed in Alaska.

The savings institutions have a special liquidity outlet through the Federal Home Loan Bank. They are allowed to borrow up to 35% of their deposits from the Federal Home Loan Bank at increasing interest rates in proportion to the amount they have borrowed.

Loan limits for federally chartered savings and loans is equivalent to 10% of surplus or \$100,000, whichever is greater. Three of four savings and loans in the state have lending limits in the range of \$300,000. Home Federal Savings and Loan's surplus is not equivalent to \$1 million so therefore their lending limit is \$100,000.

There is also one mutual savings bank in the state whose lending limit is equal to 15% of surplus, which allows them to make a \$1 million loan.

Credit Unions

Alaska is an unusual state in that there are more deposits in credit unions than in savings and loan institutions. This is due in part to the higher interest rates that credit unions are allowed to pay and the large number of government employees who are eligible to be members of credit unions. Credit unions have approximately \$425 million of assets, of which approximately 50% are in one institution. The purpose of credit unions is to basically make personal loans. Commercial banks have pretty well left the personal lending market to credit unions, due to inadequate capital. Commercial banks can make more money lending to commercial enterprises than they can in making personal loans.

The credit unions are dissimilar from savings and loans in that they do not have a liquidity institution developed. This mandates that they keep their assets with short maturities.

Insurance Companies

Alaskans pay approximately \$225 million in insurance premiums, and these are all exported to outside institutions, as no major insurance company exists in Alaska.

Various types of insurance companies have different liquidity structures. Life insurance companies have a long term financial outlook due to the nature of the life insurance contract. At the other extreme is a medical plan insurance company, whose liquidity structure should be very short. Most casualty companies run an intermediate term lending structure. One thing that should be noted in discussing insurance companies is that 90% of their loans are made within 100 miles of the home office. In order to make loans outside the home office there must be an attraction - higher interest rates or a project of such size it is worthwhile to do it. This prevents insurance companies from taking an active part in the Alaskan market, except they do invest in some long term Alaskan municipal bonds because of the higher interest rates.

Pension Funds

There are approximately \$700 million of pension funds in Alaska, of which \$400 million are in two Public Employee pension funds and \$150 million is in the Teamsters pension fund.

Due to the Employee Retirement Income Security Act of 1974 these institutions are required to maintain a reasonable diversification. For that reason only 40% of these assets are invested in Alaska.

ERISA also requires that no more than 3% of any one fund can be lent to any one borrower.

The State of Alaska has an even stricter standard of 1% for its pension funds. Also by statute most pension funds in the state are limited to 1st Deeds of Trust, they are not allowed to make loans on chattel. These pension funds are long term in nature and therefore invest their money long term, except that there is some need to keep liquidity so you don't lose your price to market value.

200 Mile Limit

Let us now examine the requirement for lending to assist development of the 200 mile limit and this look will portray the inability of financial institutions in the state to aid in developing this industry.

Development of the 200 mile limit is characterized by fishing vessels that have the ability to pull trawl nets at 600 fathoms in some of the worst water in the world for weather. It is also characterized by a need for onshore facilities that will be large enough to handle large volumes of fish in a short period of time. The operating margins will be based on volume and not specialty items. This will make them highly capital intensive.

The typical fishing boat will cost \$2½ to \$2½ million plus an additional \$500,000 in gear will be needed to fully equip the vessel. The onshore processing facility will cost in the range of \$20 to \$40 million to handle the volume of fish necessary to make them efficient.

In this light let us examine our financial institutions.

Savings and loan institutions and pension funds are both disqualified because of the requirement that they lend on 1st Deeds of Trust. Credit unions are disqualified because none of them have a loan limit that is large enough, nor do they have a liquidity structure to handle such a loan.

Insurance companies do not have the experience in this sort of lending, nor are they located in a market in which they'll find out about the investment potential. They probably won't seek out this kind of loan because there are better lending opportunities they understand closer to home.

In the commercial banking industry there are only two institutions in the state that are large enough to handle a fishing boat loan by themselves, National Bank of Alaska and maybe First National of Anchorage, although First National may have to finance the gear elsewhere.

As I said earlier, banks are allowed to put only 15% of their assets into long term investments. National Bank of

Alaska has the ability to invest up to \$75 million of its total assets in long term investments. But National Bank of Alaska would not put all of their long term assets into 25 fishing boats. Much of their present assets are devoted to long term municipal bonds that yield 11½-12% on a taxable basis and long term commercial, industrial and multi family mortgages are other competing instruments with higher security. It is highly unlikely, due to these combinations of factors, that National Bank of Alaska would put over 10 of these ships on their books in the next 10 years.

Other outside commercial banking institutions will have to come into the market to assist. Not a single institution in the state has the ability to make a loan on a processing plant. That money will have to be obtained from an insurance company or other investment institution, neither of which will be highly experienced in the market.

Let us examine the ability of the Permanent Fund to assist in the 200 mile limit under the outline of the Governor's bill.

The Permanent Fund will not have the ability to make even one loan in the 200 mile limit due to loan limit restrictions until 1980. By 1985, due to diversity requirements, it is unlikely that it could finance over 25 boats. It would not have the ability to lend for a complete loan for one onshore processing facility until after 1985, although it may make a partial loan as part of a combined package in the early 1980's. As you can see, the Permanent Fund is not the total answer to assist in the development of the 200 mile limit, but it certainly helps.

The House Bill as conceived by the Special Committee on the Permanent Fund would never assist in this development because of the loan limit, since the diversity requirements of the bill goes to the \$100 million size of the Enterprise Investment Corporation.

We've examined just one potential industry in Alaska and found that all current financial institutions in the state do not have the ability to assist in any measureable way in its development in Alaska.

In conclusion, I strongly urge that this committee adopt the recommended amendments submitted by the Governor to the House Special Committee Permanent Fund Bill. These amendments would allow for reasonable investment of the Permanent Fund principle to a greater measure within Alaska.

Original sponsor: Special Committee on the
Alaska Permanent Fund

Offered: 2/24/78
Referred: Finance

1 IN THE HOUSE

BY THE SPECIAL COMMITTEE
ON THE ALASKA PERMANENT FUND

2 CS FOR HOUSE BILL NO. 596

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to nonrenewable resource revenues; to
7 legislative oversight; and providing for an effective
8 date."

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

10 * Section 1. AS 24.20 is amended by adding new sections to read:

11 ARTICLE IV. INVESTMENT OVERSIGHT COMMITTEE.

12 Sec. 24.20.600. INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED. The
13 Investment Oversight Committee is established as a permanent interim
14 committee of the legislature. The establishment of the committee recog-
15 nizes the need of the legislature for technical review and oversight of
16 the performance of all agencies of the state which perform lending or
17 investment functions.

18 Sec. 24.20.610. FINDINGS. The legislature finds that there is a
19 substantial need for oversight of the performance of all agencies of the
20 state which perform lending or investment functions since these functions
21 do not receive the detailed review to which other expenditures of public
22 money are subject, and therefore the knowledge necessary for sound
23 legislation in this area is not readily available. There is a need for
24 legislative oversight which will provide information on the policy and
25 performance of these agencies, the extent to which the agencies conform
26 to statutory intent, and the impact of their performance on the economy
27 and treasury.

28 Sec. 24.20.620. PURPOSES. The purposes of the committee are to

29 (1) monitor and report

1 (A) the performance of the agencies of the state which
2 perform lending or investment functions,

3 (B) the extent to which the performance of these agen-
4 cies has contributed to the fiscal, financial, economic and social
5 improvement of the state and its citizens,

6 (C) the extent to which these agencies and the executive
7 have prepared and coordinated short and long term economic, fiscal,
8 investment and financial planning;

9 (2) hold these agencies accountable to statutory intent in
10 their performance by recommending, where appropriate, changes in policy
11 to the agencies or changes in legislation to the legislature;

12 (3) annually review the extent of capitalization of the
13 investment funds of the state and alternative investment policy for the
14 general fund surplus and recommend needed legislation.

15 Sec. 24.20.630. MEMBERSHIP. The committee is composed of eight
16 members: the president of the senate, the speaker of the house, and
17 three members appointed from each house by the respective presiding
18 officer. The membership from each house shall include at least one
19 member from each of the two major political parties. The committee
20 shall select its own chairman.

21 Sec. 24.20.640. TERM OF MEMBERSHIP. (a) The committee shall be
22 organized within 15 days after the organization of each legislature.
23 Members serve for the duration of the legislature during which they are
24 appointed. If a member is reelected or his term of office extends into
25 the next succeeding legislature, he continues to serve until reappointed
26 or the appointment of his successor.

27 (b) When a member of the committee files a declaration of candi-
28 dacy for an elective office other than that of member of either house of
29 the legislature, and he has not resigned from membership on the com-

1 mittee, his committee membership terminates on the date of filing.

2 Sec. 24.20.650. VACANCIES. When a vacancy occurs in the statutory
3 or appointive membership of the committee, the presiding officer of the
4 house incurring the vacancy shall choose a successor. If the office of
5 the president of the senate or speaker of the house of representatives
6 becomes vacant and a vacancy from the affected house occurs among the
7 membership of the committee, the remaining committee members from the
8 house incurring the vacancy shall appoint a new member.

9 Sec. 24.20.660. MEETINGS. The committee may meet during sessions
10 of the legislature and during the interim between sessions at such times
11 and places in the state as the chairman may determine. Members may
12 receive, for the minimum time required to get to and from meetings and
13 for the period while attending meetings, the same travel and per diem
14 allowances provided by law for members of the legislature when attending
15 sessions, except that members of the committee receive no per diem
16 during legislative sessions other than the per diem allowance paid to
17 other members of the legislature.

18 Sec. 24.20.670. POWERS. The committee has the power to

19 (1) organize, adopt rules for the conduct of its business,
20 and prescribe procedures for the comprehensive fiscal analysis, budget
21 review and post-audit functions of those agencies of the state which
22 perform lending or investment functions;

23 (2) hold public hearings, administer oaths, issue subpoenas,
24 compel the attendance of witnesses and production of papers, books,
25 accounts, documents and testimony, and have the deposition of witnesses
26 taken in a manner prescribed by court rule or law for taking depositions
27 in civil actions;

28 (3) require all state officials and agencies of state govern-
29 ment to give full cooperation to the committee or its staff in assem-

1 bling and furnishing requested information;

2 (4) hold public hearings relating to the confirmation of the
3 Board of Trustees of the Alaska Permanent Fund Corporation, the Board of
4 Trustees of the Alaska Renewable Resources Corporation, and the Alaska
5 Enterprise Investment Corporation Policy Board;

6 (5) prepare and distribute reports, memoranda, or other
7 necessary materials;

8 (6) make recommendations concerning the structure and operat-
9 ing practices of all agencies of the state which perform lending or
10 investment functions;

11 (7) receive and review reports and post-audit analyses con-
12 ducted by the Legislative Budget and Audit Committee relating to all
13 agencies of the state which perform lending or investment functions;

14 (8) enter into and enforce all contracts necessary or desira-
15 ble for the functions of the committee.

16 Sec. 24.20.680. STAFF. The legislative audit division and the
17 legislative finance division shall provide audits, reports and analyses
18 requested by the committee. The committee may hire and determine the
19 salary of the staff it considers necessary within the limit of the
20 budget approved by the legislature.

21 Sec. 24.20.690. DUTIES. The committee shall

22 (1) report to the legislature its recommendations relating to
23 the confirmation of suggested appointees to the Alaska Permanent Fund
24 Corporation Board of Trustees, the Board of Trustees of the Alaska
25 Renewable Resources Corporation, and the Alaska Enterprise Investment
26 Corporation Policy Board;

27 (2) annually review the long-range operating plans of all
28 agencies of the state which perform lending or investment functions;

29 (3) review periodic reports from all agencies of the state

1 which perform lending or investment functions;

2 (4) present a complete report of investment programs, plans,
3 performance, and policies of all agencies of the state which perform
4 lending or investment functions to the legislature within 30 days after
5 the convening of each regular session;

6 (5) present to the legislature within 30 days after the con-
7 vening of each regular session a review of the report of the governor
8 under AS 37.09.020(b) with recommendations for any needed legislation;

9 (6) in conjunction with the finance committee of each house
10 recommend annually to the legislature the investment policy for the
11 general fund surplus and the income from the permanent fund.

12 Sec. 24.20.700. RECORDS. The committee shall keep a complete file
13 of all reports presented to it and all reports presented by it to the
14 legislature or any legislative committee.

15 * Sec. 2. AS 37.07.020 is amended by adding a new subsection to read:

16 (b) The governor shall annually, before the convening of the
17 legislature, report to the legislature through the Investment Oversight
18 Committee the long-range fiscal and economic consequences of

19 (1) alternate levels of capitalization of the investment
20 funds of the state; and

21 (2) alternative investment policy for the general fund sur-
22 plus.

23 * Sec. 3. AS 37 is amended by adding a new chapter to read:

24 CHAPTER 13. ALASKA PERMANENT FUND.

25 Sec. 37.13.010. ALASKA PERMANENT FUND. Under art IX, sec. 15 of
26 the state constitution, there is established as a separate fund the
27 Alaska permanent fund. The permanent fund consists of 100 per cent of
28 mineral lease bonuses after deduction of any amounts allocated to the
29 Alaska Native Fund under the Alaska Native Claims Settlement Act and

1 implementing state legislation and any amounts allocated by law to the
2 Alaska renewable resources development fund and 30 per cent of all
3 mineral lease rentals, royalties, royalty sale proceeds, and federal
4 mineral revenue sharing payments received by the state and any other
5 money allocated by law or appropriated to the principal of the fund
6 which shall be paid to the Alaska Permanent Fund Corporation at least
7 once each month. Management of the permanent fund is performed by (1)
8 the Alaska Permanent Fund Corporation established in this chapter to
9 which five-sixths of the receipts from these sources is allocated and
10 (2) the Alaska Enterprise Investment Corporation established in AS 44.55
11 to which one-sixth of the receipts from these sources is allocated until
12 the amount so allocated reaches the sum of \$100,000,000. Thereafter the
13 total receipts from these sources is allocated to the Alaska Permanent
14 Fund Corporation.

15 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
16 tional amendment, have required the placement of at least 25 per cent of
17 all mineral lease rentals, royalties, royalty sale proceeds, and federal
18 mineral revenue sharing payments and bonuses received by the state into
19 a permanent fund. The legislature finds with respect to the Alaska
20 Permanent Fund Corporation that

21 (1) the corporation should provide a means of conserving a
22 portion of the state's revenues from mineral resources to the ultimate
23 benefit of future generations of Alaskans;

24 (2) the corporation's primary goal should be to maximize
25 total return while maintaining safety of principal;

26 (3) the corporation should be used as a savings device
27 managed to allow the maximum use of disposable income from the corpora-
28 tion as needed for purposes designated by law.

29 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to

1 provide a mechanism for the management and investment of those permanent
2 fund assets allocated to the Alaska Permanent Fund Corporation in a
3 manner consistent with the findings established in sec. 20 of this
4 chapter.

5 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is
6 established the Alaska Permanent Fund Corporation. The corporation is a
7 public corporation and government instrumentality in the Department of
8 Revenue managed by a board of trustees but has a legal existence inde-
9 pendent of and separate from the state. The purpose of the board is to
10 manage and invest the assets of the corporation in accordance with this
11 chapter.

12 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board
13 of trustees consists of three members appointed by the governor and
14 confirmed by a majority of the members of the legislature in joint
15 session.

16 (b) The board shall annually elect a chairman from among its
17 members.

18 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be
19 appointed for terms of four years, and they may be reappointed. Terms
20 shall be staggered. Initial terms shall be one member serving for two
21 years, one member serving for three years, and one member serving for
22 four years.

23 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may
24 remove a trustee from office by and with the consent of a majority of
25 the members of the legislature in joint session. A removal by the
26 governor shall be in writing and state the reason for removal. If the
27 legislature is not in session, the governor may suspend a member of the
28 board. Upon suspension, a vacancy is not created but the trustee may
29 not participate in board business and may not be counted for purposes

1 of establishing a quorum. The joint session shall be held within
2 30 days from the date of removal if the removal occurs while the
3 legislature is in session or within 30 days of convening of the legis-
4 lature if the legislature is not in session. If the legislature refuses
5 to consent to his removal, the trustee shall be reinstated to his
6 position.

7 (b) A vacancy on the board shall be promptly filled by appointment
8 by the governor and confirmation by a majority of the members of the
9 legislature in joint session, and an appointee to fill a vacancy shall
10 hold office for the balance of the term for which his predecessor on the
11 board was appointed. If a vacancy arises on the board while the legis-
12 lature is not in session, the governor may appoint an interim trustee
13 who shall exercise all powers of a permanent trustee until such time as
14 the legislature in joint session fails to confirm the interim trustee's
15 appointment.

16 (c) A vacancy on the board does not impair the authority of a
17 quorum of the board to exercise all the powers and perform all the
18 duties of the board.

19 Sec. 37.13.080. QUALIFICATIONS OF TRUSTEES. (a) No trustee may
20 be appointed to the board who has not been a resident of the state for
21 at least three years.

22 (b) No member of the board may hold any other state or federal
23 office, position or employment, either elective or appointive, except as
24 a member of the armed forces of the United States or of this state.

25 (c) At least one member of the board shall have recognized
26 competence and wide experience in finance, investments, or other busi-
27 ness management-related field. No two members may be appointed to the
28 board who share substantially similar professional or occupational
29 backgrounds.

1 Sec. 37.13.090. QUORUM. Two members of the board constitute a
2 quorum for the transaction of business and the exercise of the powers
3 and duties of the board.

4 Sec. 37.13.100. COMPENSATION OF TRUSTEES. Trustees receive an
5 honorarium of \$250 for each meeting day if they attend the meeting and
6 are entitled to per diem and travel allowances as provided by law for
7 members of state boards and commissions.

8 Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and
9 determine the salary of an executive director. The executive director
10 may, with the approval of the board, select and employ additional staff
11 as necessary. No employee of the corporation, including the executive
12 director, may be a trustee. The executive director and all other
13 employees of the board are in the exempt service under AS 39.25.

14 Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Trustees are subject
15 to the provisions of AS 39.50.

16 (b) If a member or employee acquires, owns or controls an in-
17 terest, direct or indirect, in an entity or project in which corporation
18 assets are invested, he shall immediately disclose the interest to the
19 board. The disclosure is a matter of public record and shall be in-
20 cluded in the minutes of the board meeting next following the disclo-
21 sure.

22 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is
23 applicable to the board in its management and investment of permanent
24 fund assets. The prudent-man rule as applied to investments of the
25 corporation means that in making investments the board shall exercise
26 the judgment and care under the circumstances then prevailing which an
27 institutional investor of ordinary prudence, discretion, and intel-
28 ligence exercises in the management of large investments entrusted to it
29 not in regard to speculation but in regard to the permanent disposition

1 of funds, considering the probable income from them as well as probable
2 safety of capital.

3 (b) The corporation assets may only be used for income-producing
4 investments.

5 (c) The board shall seek to maintain a reasonable diversification
6 among corporation investments unless under the circumstances it is
7 clearly prudent not to do so.

8 (d) The board shall submit long-range and quarterly investment
9 reports to the Investment Oversight Committee.

10 (e) The corporation may not borrow funds or guarantee from princi-
11 pal of the fund the obligations of others.

12 (f) The board may enter into and enforce all contracts necessary,
13 convenient or desirable for purposes of the corporation except it may
14 not contract with agencies or departments of the state to recommend or
15 select investments.

16 (g) Subject to (a) and (b) of this section the board may invest
17 corporation assets in obligations of the United States or obligations
18 for which the full faith and credit of the United States are pledged for
19 payment of principal and interest; loans secured by first liens on
20 unencumbered realty or leaseholds; and corporate securities which under
21 the Securities Act of 1933 are freely marketable.

22 (1) No portion of the assets of the fund may be used in the
23 purchase of stock of any corporation which is not paying dividends on
24 that stock in cash at the time of purchase; nor in the purchase of bonds
25 of any corporation, upon which any regular interest payment has been
26 defaulted at any time within five years before purchase, except bonds
27 never in default but which have been outstanding for less than five
28 years.

29 (2) No portion of the assets of the corporation may be used

1 in the purchase of stock if immediately following the purchase the
2 proportionate market value of all stocks held by the corporation would
3 exceed 30 per cent of the corporation's assets.

4 (h) The board shall establish and from time to time as necessary
5 modify guidelines for the investment of the corporation's assets.
6 Before adoption of any guidelines the guidelines shall be reported to
7 the Investment Oversight Committee for review and comment.

8 (i) Nothing in this section may be interpreted to preclude in-
9 state investments that have a risk level and expected yield comparable
10 to alternative investment opportunities.

11 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,
12 the total amount of losses on the sales of securities, not offset by
13 gains on the sales of securities during that year, shall be computed,
14 with a portion of these losses to be deducted each fiscal year from the
15 interest and dividend income and the resulting amount of interest and
16 dividend income added to the principal of the fund. Losses taken on the
17 sales of bonds shall be accumulated over a period equal to the average
18 remaining life of the bonds sold, and losses taken on the sales of
19 stocks shall be accumulated within a period of five years, unless these
20 losses are offset by gains on future sales of securities. In any fiscal
21 year in which the gains on the sales of securities exceed the losses on
22 the sales of securities, the excess shall be added to the principal of
23 the fund.

24 Sec. 37.13.150. INCOME. The interest and dividends received in a
25 year are the income of the corporation for that year. The income avail-
26 able for disbursement shall be determined on an averaging basis. For
27 the first five years, income will be the simple averaging of the annual
28 current return at cost. Subsequently, there will be a moving average
29 current return, in which the latest fiscal year will replace the oldest

1 year. The income available for disbursement will be the lesser of the
2 latest fiscal year's income, or the average annual current income for
3 the past five fiscal years of the fund at cost, and after adjustment for
4 capital losses charged to that fiscal year.

5 Sec. 37.13.160. BOARD BUDGET. The board's operating budget is
6 from the general fund and is subject to the Executive Budget Act (AS
7 37.07).

8 Sec. 37.13.170. AUDITS. The Investment Oversight Committee shall
9 provide for an annual post audit and annual operational and performance
10 evaluations of the corporation's investments and investment programs.

11 Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than Septem-
12 ber 30 of each year, the board shall publish a report to the governor,
13 legislature, and the public in easily understandable language. Each
14 report must include financial statements audited by independent outside
15 auditors, a statement of the amount of money received by the permanent
16 fund from each investment during the period covered, a statement of
17 corporation investments, a description of corporation investment
18 activity during the period covered by the report, a comparison of the
19 corporation performance with the intended goals contained in sec. 20 of
20 this chapter, an examination of the impact of the investment criteria of
21 this chapter on the corporation portfolio with recommendations of any
22 needed changes and any other information the board believes would be of
23 interest to the governor, the legislature, and the public. The annual
24 income statement and balance sheet of the corporation shall be published
25 in at least one newspaper in each judicial district. The income state-
26 ment and balance sheet for the two fiscal years preceding the publica-
27 tion of the election pamphlet under AS 15.57 shall be included in that
28 pamphlet. The board may also publish other reports it considers desir-
29 able to carry out its purpose.

1 Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all
2 taxes and assessments in the state. All security instruments issued by
3 the corporation, their transfer, and their income are exempt from all
4 taxes and assessments in the state.

5 Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board of
6 trustees and employees of the corporation may not engage in partisan
7 political activities. The resources of the corporation may not be used
8 to finance any partisan political activities.

9 Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the
10 possession of the corporation is a public record, except that infor-
11 mation which discloses the particulars of the business or affairs of a
12 private enterprise or investor is confidential and is not a public
13 record. Confidential information may be disclosed only for the purposes
14 of an official law enforcement investigation or when its production is
15 required in a court proceeding. These restrictions do not prohibit the
16 publication of statistics presented in a manner that prevents the iden-
17 tification of particular reports, items, persons, or enterprises.

18 * Sec. 4. AS 44 is amended by adding a new chapter to read:

19 CHAPTER 55. THE ALASKA ENTERPRISE INVESTMENT CORPORATION.

20 Sec. 44.55.010. CREATION OF CORPORATION; FUNDING. (a) There is
21 created the Alaska Enterprise Investment Corporation. The corporation
22 is a public corporation and government instrumentality in the Department
23 of Revenue but has legal existence independent of and separate from the
24 state. The exercise by the corporation of the powers conferred by this
25 chapter is considered an essential governmental function of the state.

26 (b) One-sixth of the receipts of all mineral lease rentals, roy-
27 alties, royalty sale proceeds, and federal mineral revenue sharing pay-
28 ments and bonuses allocated to the Alaska permanent fund shall be paid
29 by the Alaska Permanent Fund Corporation directly into the Alaska

1 Enterprise Investment Corporation until a total of \$100,000,000 has been
2 paid in. The amount paid into the Alaska Enterprise Investment Corpora-
3 tion under this subsection is the paid-in capital of the corporation.

4 Sec. 44.55.020. FINDINGS. The legislature finds

5 (1) that investment in financially sound small and medium
6 scale (A) productive private enterprises and (B) community development
7 projects in the state, for which sufficient capital is not available
8 from other sources on reasonable terms, is of benefit to the citizens of
9 the state;

10 (2) there is a shortage of investment capital available from
11 other sources on reasonable terms for financially sound small and medium
12 scale productive private enterprise and community development projects;

13 (3) that the corporation working with private financial
14 institutions to supplement but not supplant their services can help to
15 alleviate this shortage.

16 Sec. 44.55.030. PURPOSE. The purpose of the corporation is to
17 provide capital at market rates and terms which are not available from
18 other sources on reasonable terms for small and medium scale productive
19 private enterprises and community development projects.

20 Sec. 44.55.040. ALASKA ENTERPRISE INVESTMENT CORPORATION POLICY
21 BOARD. (a) There is established the Alaska Enterprise Investment
22 Corporation Policy Board consisting of a person employed in the execu-
23 tive branch of state government appointed by the governor and six public
24 members appointed by the governor with due regard for geographical
25 representation and confirmed by a majority of the members of the legis-
26 lature in joint session. At least two of the public members shall have
27 recognized competency and wide experience in investment and finance. No
28 public member may be appointed to the board who has not been a resident
29 of the state for at least three years. The board shall elect one of the

1 public members as chairman and other officers they determine desirable.

2 (b) The six public members shall serve for four-year terms, and
3 they may be reappointed. Terms shall be staggered. Initial terms shall
4 be two members serving for two years, two members serving for three
5 years, and two members serving for four years. A member continues to
6 serve until his successor is appointed and confirmed.

7 (c) A majority of the policy board members constitutes a quorum
8 for the transaction of business by the board. Decisions of the board
9 shall be taken by a majority vote. The board shall hold at least one
10 public meeting each year.

11 (d) Public members of the policy board receive an honorarium of
12 \$250 for each meeting day if they attend the meeting and are entitled to
13 per diem and travel allowances as provided by law for members of state
14 boards and commissions.

15 Sec. 44.55.050. REMOVAL AND VACANCIES ON BOARD. (a) The governor
16 may remove a policy board member from office by and with the consent of
17 a majority of the members of the legislature in joint session. The
18 joint session shall be held within 10 days from the date of removal if
19 the removal occurs while the legislature is in session or within 30 days
20 of convening of the legislature if the member was suspended. If the
21 legislature is not in session, the governor may suspend a member of the
22 policy board for cause. Upon suspension, a vacancy is not created but
23 a board member may not participate in policy board business and may not
24 be counted for purposes of establishing a quorum. If the legislature
25 refuses to consent to his removal, the member shall be reinstated to his
26 position.

27 (b) A vacancy arising on the policy board shall be promptly filled
28 by appointment by the governor and confirmation by a majority of the
29 members of the legislature in joint session, and an appointee to fill a

1 vacancy shall hold office for the balance of the term for which his
2 predecessor on the board was appointed. If a vacancy arises on the
3 board while the legislature is not in session, the governor may appoint
4 an interim board member who shall exercise all powers of a permanent
5 board member until such time as the legislature in joint session fails
6 to confirm the interim member's appointment.

7 (c) A vacancy on the policy board does not impair the authority of
8 a quorum of the board to exercise all the powers and perform all the
9 duties of the board.

10 Sec. 44.55.060. DUTIES OF THE POLICY BOARD. The policy board shall

11 (1) select and appoint the president and other members
12 of the Investment Committee established in sec. 80 of this chapter;

13 (2) annually review and approve long-range operating plans,
14 the budget for the forthcoming year, and the financial plan for the
15 following years;

16 (3) have responsibility on behalf of the corporation for
17 relations with the general public, legislature, executive branch, local
18 communities, and interest groups concerning all things excepting only
19 those matters that are the responsibility of the Investment Committee;

20 (4) review quarterly reports from the Investment Committee
21 concerning investment decisions and investment supervision, but the
22 board may not impose an investment decision upon, or override an invest-
23 ment decision of, the Investment Committee;

24 (5) review, consider and approve policies;

25 (6) establish an audit committee which shall select inde-
26 pendent outside auditors, and receive all audit reports.

27 Sec. 44.55.070. PRESIDENT. The president of the corporation is
28 appointed by the policy board for a term of four years, may be reap-
29 pointed, and serves at the pleasure of the policy board. The salary of

1 the president is set at the discretion of the policy board; but may not
2 be set below that of the highest paid member of the Investment Commit-
3 tee. The president shall

4 (1) have sole responsibility for presenting investment pro-
5 posals to the Investment Committee;

6 (2) be responsible for the ordinary business of the corpo-
7 ration and the organization, appointment, dismissal, or remuneration of
8 the officers and staff;

9 (3) be responsible for making investments in investment grade
10 securities, subject to review by the Investment Committee;

11 (4) establish and maintain adequate and appropriate organi-
12 zational, operating and financial controls.

13 Sec. 44.55.080. INVESTMENT COMMITTEE. (a) There is established
14 the Investment Committee, consisting of the president and four members
15 appointed by the policy board. No member of the policy board may be a
16 member of the committee. Members of the committee shall be persons of
17 recognized competence and wide experience in investments, finance, and
18 other business management-related fields. No member may be appointed to
19 the committee who has not been a resident of the state for at least
20 three years. A member may be reappointed and continue to serve until
21 his successor is appointed. The president and members shall serve for
22 four-year terms. Terms shall be staggered. Initial terms shall be one
23 member serving for one year, one member serving for two years, one
24 member serving for three years, and one member and the president serving
25 for four years.

26 (b) Three members of the committee constitute a quorum. Decisions
27 of the committee shall be taken by majority vote.

28 (c) Members of the committee other than the president receive an
29 annual salary within Range 30 in the salary schedule for state employees

1 established by AS 39.27.011.

2 Sec. 44.55.090. DUTIES OF THE COMMITTEE. The committee has sole
3 responsibility to approve all investment proposals regarding productive
4 private enterprises and community development projects in the state, and
5 review all investments in investment grade securities.

6 Sec. 44.55.100. BUDGET. The corporation operating budget is from
7 the general fund and is subject to the provisions of the Executive
8 Budget Act (AS 37.07).

9 Sec. 44.55.110. PERSONNEL OF CORPORATION. Policy board members,
10 committee members, and officers and staff of the corporation are in the
11 exempt service under AS 39.25.

12 Sec. 44.55.120. POWERS OF THE CORPORATION. (a) In carrying out
13 the corporate purposes of the corporation, the policy board has power to

14 (1) adopt, alter and use a corporate seal;

15 (2) prescribe, adopt, amend, and repeal bylaws;

16 (3) sue and be sued in the name of the corporation;

17 (4) borrow funds, and in that connection furnish such collat-
18 eral or other security as it determines, except that corporation borrow-
19 ing may not exceed its paid-in capital;

20 (5) guarantee obligations of another corporation or legal
21 entity in order to facilitate their sale;

22 (6) enter into agreements necessary or convenient in the
23 exercise of its powers and functions;

24 (7) acquire, hold, use, lease, sell or otherwise dispose of
25 property of any kind, real, personal or mixed, or any interest in it;

26 (8) contract with state, federal and other agencies to
27 develop needed information and analyses;

28 (9) do all acts and things necessary, convenient or desirable
29 to carry out the powers granted or implied in this chapter.

1 (b) In carrying out the corporate purposes of the corporation, the
2 committee has the power to

3 (1) invest, as it considers appropriate, by purchasing the
4 capital stock of, or lending money to, projects, except that any invest-
5 ment in the capital stock of or other ownership interest in a project
6 may not exceed 25 per cent of the capital stock of, or other ownership
7 interest in, the project, and no loan or other investment in the project
8 by the corporation may exceed 90 per cent of the cost of the project
9 unless, in the judgment of the committee, additional amounts must be
10 loaned to protect the interests of the investment fund;

11 (2) deposit or invest surplus funds through the Alaska Perma-
12 nent Fund Corporation in such obligations as the committee may determine;

13 (3) buy and sell securities the corporation has issued or
14 guaranteed or in which it has invested;

15 (4) do all acts and things necessary, convenient or desirable
16 to carry out the powers granted or implied in this chapter.

17 Sec. 44.55.125. INVESTMENTS. (a) In making investments, the
18 committee and staff shall exercise the judgment and care under the
19 circumstances then prevailing which a person of ordinary prudence,
20 discretion, and intelligence exercises in the management of his own
21 affairs taking into consideration the probable income from the invest-
22 ments as well as probable safety of principal.

23 (b) The committee may invest not more than 50 per cent of the
24 resources of the corporation to provide a reasonable proportion of
25 longer-term investment capital for financing the establishment, improve-
26 ment, and expansion of financially sound small and medium scale produc-
27 tive private enterprises which will benefit Alaskans, and for which
28 sufficient capital is not available from other sources on reasonable
29 terms. These investments may take the form of equity, debt, or debt

1 guarantees.

2 (c) The committee may invest not more than 50 per cent of the
3 resources of the corporation in financing a reasonable proportion of the
4 longer-term investment capital needs for financially sound small and
5 medium scale community development projects of municipalities and public
6 corporate entities and private dwellings in the state for which suf-
7 ficient financing is not available from other sources on reasonable
8 terms. These investments may take the form of equity, debt, or debt
9 guarantees.

10 (d) The committee may not invest or guarantee obligations totaling
11 more than five per cent of the assets of the corporation or \$5,000,000,
12 whichever is less, in a single project unless the legislature has ap-
13 proved the investment by concurrent resolution.

14 (e) The committee may not undertake any financing for which, in
15 its opinion, sufficient private capital could be obtained on reasonable
16 terms.

17 (f) The committee may not assume responsibility for managing any
18 enterprise or project in which it has invested and may not exercise
19 voting rights for that purpose or for any other purpose which, in its
20 opinion, properly is within the scope of managerial control.

21 (g) The committee shall only undertake its financing on terms and
22 conditions which it considers appropriate, taking into account the terms
23 and conditions normally obtained by private investors for similar fi-
24 nancing, the requirements of the enterprise or project, the risks being
25 undertaken by the corporation, and the participation of other investors
26 unless the legislature has appropriated funds for subsidizing invest-
27 ments which in the opinion of the corporation are of such high priority
28 that special terms and conditions are appropriate.

29 (h) The committee may seek to revolve the corporation's money by

1 selling its investments to other investors whenever it can appropriately
2 do so on satisfactory terms.

3 (i) The committee shall seek to maintain a reasonable diversi-
4 fication in its investments.

5 (j) The committee shall only consider investment proposals after
6 the applicant for an investment has submitted a detailed proposal to the
7 committee's staff and the staff has prepared a written report recommend-
8 ing the investment after a study of its merits.

9 (k) The committee shall analyze the economic and other effects of
10 an investment decision, including the effects on employment, income
11 distribution, environment, health, social and other factors. The com-
12 mittee shall be sensitive to the views of affected local communities.

13 (l) The committee may guarantee qualifying loans made by financial
14 intermediaries in order to facilitate investment by the intermediaries
15 in specific enterprises or projects.

16 (m) The committee shall provide for operational and performance
17 evaluations (post-audits) of its investments and investment programs and
18 report the results to the policy board.

19 (n) Nothing in this section prevents the committee, in the event
20 of actual or threatened default on any of its investments, actual or
21 threatened insolvency of the enterprise in which the investment has been
22 made, or other situations which, in the opinion of the committee,
23 threaten to jeopardize the investment, from taking such action and
24 exercising such rights as it may consider necessary for the protection
25 of its interests.

26 Sec. 44.55.140. INITIAL DETERMINATIONS. Before beginning its
27 financing operations, the policy board shall render a detailed report to
28 the legislature which shall

29 (1) define the sectors which need financing for expansion of

1 existing projects or the development of new projects;

2 (2) define the size and nature of projects which are feasible
3 for corporation financing;

4 (3) determine specific projects which are feasible for corpo-
5 ration and private financing;

6 (4) determine the availability of private investment capital
7 for the projects it determines are feasible;

8 (5) forecast the capital requirements of the corporation for
9 the first three years of its operations.

10 Sec. 44.55.150. REPORTS AND PUBLICATIONS. The policy board shall
11 publish an annual report in easily understandable language to the gover-
12 nor, legislature and the public. Each report shall include financial
13 statements audited by independent outside auditors, a statement of the
14 amount of money received by the corporation from each source during the
15 period covered, a statement of corporation investments, a description of
16 corporation investment activity during the period covered by the report,
17 an analysis of economic and other effects of investment decisions in-
18 cluding, but not limited to, the effects on employment, income distri-
19 bution, environment, health, social and other factors, and any other
20 information the policy board believes would be of interest to the gover-
21 nor, the legislature and the public. The corporation may also publish
22 such other reports as it considers desirable to carry out its purpose.

23 Sec. 44.55.160. CONFLICT OF INTEREST. (a) Members of the policy
24 board and the committee are subject to the provisions of AS 39.50.

25 (b) Members of the policy board and the committee shall disclose
26 their financial interest in an investment proposal and disqualify them-
27 selves from voting on any investment proposal in which they have a
28 financial interest.

29 Sec. 44.55.170. POLITICAL ACTIVITIES. The members of the policy

1 board and the committee and officers and staff of the corporation may
2 not engage in partisan political activities. The resources of the
3 corporation may not be used to finance any partisan political activi-
4 ties.

5 Sec. 44.55.180. PUBLIC ACCESS TO INFORMATION. Information in the
6 possession of the corporation is a public record, except that infor-
7 mation which discloses the particulars of the business or affairs of a
8 private enterprise or investor is confidential and is not a public
9 record. Confidential information may be disclosed only for the purposes
10 of an official law enforcement investigation or when its production is
11 required in a court proceeding. These restrictions do not prohibit the
12 publication of statistics presented in a manner that prevents the iden-
13 tification of particular reports, items, persons, or enterprises.

14 Sec. 44.55.190. TAX EXEMPTION. The corporation is exempt from all
15 taxes and assessments in the state. All security instruments issued by
16 the corporation, their transfer, and their income are exempt from all
17 taxes and assessments in the state.

18 Sec. 44.55.200. DEFINITIONS. In this chapter

19 (1) "board" or "policy board" means the Alaska Enterprise In-
20 vestment Corporation Policy Board established by sec. 20 of this chap-
21 ter;

22 (2) "business enterprise" means a private corporation, firm,
23 partnership or sole proprietorship;

24 (3) "committee" means the Investment Committee established by
25 sec. 60 of this chapter;

26 (4) "corporation" means the Alaska Enterprise Investment
27 Corporation.

28 * Sec. 5. AS 39.25.110 is amended by adding new paragraphs to read:

29 (21) members of the policy board and Investment Committee, and

1 the president, officers, and staff of the Alaska Enterprise Investment
2 Corporation;

3 (22) members of the board of trustees, the executive director,
4 and staff of the Alaska Permanent Fund Corporation.

5 * Sec. 6. AS 39.50.200(9) is amended by adding new subparagraphs to read:

6 (NN) Alaska Enterprise Investment Corporation Policy
7 Board and Investment Committee;

8 (OO) Alaska Permanent Fund Corporation Board of Trustees.

9 * Sec. 7. TRANSITION. (a) The commissioner of revenue shall transfer
10 all funds of the Alaska permanent fund to the Alaska Permanent Fund Corpora-
11 tion established by this Act within 10 days after request for transfer is
12 made by the corporation board of trustees.

13 (b) The Alaska Enterprise Investment Corporation may not expend funds
14 for any purpose other than normal operating expenses of the corporation until
15 the paid-in capital of the corporation reaches \$50,000,000. Other funds of
16 the corporation including the funds received under AS 44.55.010 in sec. 4 of
17 this Act shall be invested as surplus funds under AS 44.55.120(b)(2) in sec.
18 4 of this Act until the paid-in capital reaches \$50,000,000.

19 * Sec. 8. AS 37.10.065(c) is repealed.

20 * Sec. 9. AS 37.10.065(a) and (b) are repealed.

21 * Sec. 10. Section 9 of this Act takes effect upon transfer of the funds
22 of the Alaska permanent fund to the Alaska Permanent Fund Corporation as
23 provided in sec. 7(a) of this Act. The remainder of this Act takes effect
24 immediately in accordance with AS 01.10.070(c).

Introduced: 1/11/78
Referred: The Special Committee
on the Alaska Permanent Fund
and Finance

1 IN THE HOUSE

BY THE SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND

2 HOUSE BILL NO. 596

3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to nonrenewable resource revenues; and
7 providing for an effective date."

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

9 * Section 1. AS 24.20 is amended by adding new sections to read:

10 ARTICLE IV. INVESTMENT OVERSIGHT COMMITTEE.

11 Sec. 24.20.600. INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED. The
12 Investment Oversight Committee is established as a permanent interim
13 committee of the legislature. The establishment of the committee recog-
14 nizes the need of the legislature for technical review and oversight of
15 the performance of all agencies of the state which perform lending,
16 borrowing or investment functions.

17 Sec. 24.20.610. FINDINGS. The legislature finds that there is a
18 substantial need for oversight of the performance of all agencies of the
19 state which perform lending, borrowing or investment functions since
20 these functions do not receive the detailed review to which other ex-
21 penditures of public money are subject, and therefore the knowledge
22 necessary for sound legislation in this area is not readily available.
23 There is a need for legislative oversight which will provide information
24 on the policy and performance of these agencies, the extent to which the
25 agencies conform to statutory intent, and the impact of their perfor-
26 mance on the economy and treasury.

27 Sec. 24.20.620. PURPOSES. The purposes of the committee are to

28 (1) monitor and report

29 (A) the performance of the agencies of the state which

1 perform lending, borrowing or investment functions,

2 (B) the extent to which the performance of these agen-
3 cies has contributed to the fiscal, financial, economic and social
4 improvement of the state and its citizens,

5 (C) the extent to which these agencies and the executive
6 have prepared and coordinated short and long term economic, fiscal,
7 investment and financial planning;

8 (2) hold these agencies accountable to statutory intent in
9 their performance by recommending, where appropriate, changes in policy
10 to the agencies or changes in legislation to the legislature;

11 (3) annually review the extent of capitalization of the
12 investment funds of the state and alternative investment policy for the
13 general fund surplus and recommend needed legislation.

14 Sec. 24.20.630. MEMBERSHIP. The committee is composed of eight
15 members: the president of the senate, the speaker of the house, and
16 three members appointed from each house by the respective presiding
17 officer. The membership from each house shall include at least one
18 member from each of the two major political parties. The committee
19 shall select its own chairman.

20 Sec. 24.20.640. TERM OF MEMBERSHIP. (a) The committee shall be
21 organized within 15 days after the organization of each legislature.
22 Members serve for the duration of the legislature during which they are
23 appointed. If a member is reelected or his term of office extends into
24 the next succeeding legislature, he continues to serve until reappointed
25 or the appointment of his successor.

26 (b) When a member of the committee files a declaration of candi-
27 dacy for an elective office other than that of member of either house of
28 the legislature, and he has not resigned from membership on the com-
29 mittee, his committee membership terminates on the date of filing.

1 Sec. 24.20.650. VACANCIES. When a vacancy occurs in the statutory
2 or appointive membership of the committee, the presiding officer of the
3 house incurring the vacancy shall choose a successor. If the office of
4 the president of the senate or speaker of the house of representatives
5 becomes vacant and a vacancy from the affected house occurs among the
6 membership of the committee, the remaining committee members from the
7 house incurring the vacancy shall appoint a new member.

8 Sec. 24.20.660. MEETINGS. The committee may meet during sessions
9 of the legislature and during the interim between sessions at such times
10 and places in the state as the chairman may determine. Members may
11 receive, for the minimum time required to get to and from meetings and
12 for the period while attending meetings, the same travel and per diem
13 allowances provided by law for members of the legislature when attending
14 sessions, except that members of the committee receive no per diem
15 during legislative sessions other than the per diem allowance paid to
16 other members of the legislature.

17 Sec. 24.20.670. POWERS. The committee has the power to

18 (1) organize, adopt rules for the conduct of its business,
19 and prescribe procedures for the comprehensive fiscal analysis, budget
20 review and post-audit functions over those agencies of the state which
21 perform lending, borrowing or investment functions;

22 (2) hold public hearings, administer oaths, issue subpoenas,
23 compel the attendance of witnesses and production of papers, books,
24 accounts, documents and testimony, and have the deposition of witnesses
25 taken in a manner prescribed by court rule or law for taking depositions
26 in civil actions;

27 (3) require all state officials and agencies of state govern-
28 ment to give full cooperation to the committee or its staff in assem-
29 bling and furnishing requested information;

1 (4) hold public hearings relating to the confirmation of the
2 Board of Trustees of the Alaska Permanent Fund Corporation, the Board of
3 Trustees of the Alaska Renewable Resources Corporation, and the Alaska
4 Enterprise Investment Corporation Policy Board;

5 (5) prepare and distribute reports, memoranda, or other
6 necessary materials;

7 (6) make recommendations concerning the structure and operat-
8 ing practices of all agencies of the state which perform lending, bor-
9 rowing or investment functions;

10 (7) receive and review reports and post-audit analyses con-
11 ducted by the Legislative Budget and Audit Committee relating to all
12 agencies of the state which perform lending, borrowing or investment
13 functions;

14 (8) enter into and enforce all contracts necessary or desira-
15 ble for the functions of the committee.

16 Sec. 24.20.680. STAFF. The legislative audit division and the
17 legislative finance division shall provide audits, reports and analyses
18 requested by the committee. The committee may hire and determine the
19 salary of the staff it considers necessary within the limit of the
20 budget approved by the legislature.

21 Sec. 24.20.690. DUTIES. The committee shall

22 (1) report to the legislature its recommendations relating to
23 the confirmation of suggested appointees to the Alaska Permanent Fund
24 Corporation, the Board of Trustees of the Alaska Renewable Resources
25 Corporation, and the Alaska Enterprise Investment Corporation Policy
26 Board;

27 (2) annually review the long-range operating plans of all
28 agencies of the state which perform lending, borrowing or investment
29 functions;

1 (3) review periodic reports from all agencies of the state
2 which perform lending, borrowing or investment functions;

3 (4) present a complete report of investment programs, plans,
4 performance, and policies of all agencies of the state which perform
5 lending, borrowing or investment functions to the legislature within 30
6 days after the convening of each regular session;

7 (5) present to the legislature within 30 days after the con-
8 vening of each regular session a review of the report of the governor
9 under AS 37.09.020(b) with recommendations for any needed legislation;

10 (6) in conjunction with the finance committee of each house
11 recommend annually to the legislature the investment policy for the
12 general fund surplus and the income from the permanent fund.

13 Sec. 24.20.700. RECORDS. The committee shall keep a complete file
14 of all reports presented to it and all reports presented by it to the
15 legislature or any legislative committee.

16 * Sec. 2. AS 37.07.020 is amended by adding a new subsection to read:

17 (b) The governor shall annually, before the convening of the
18 legislature, report to the legislature through the Investment Oversight
19 Committee the long-range fiscal and economic consequences of

20 (1) alternate levels of capitalization of the investment
21 funds of the state; and

22 (2) alternative investment policy for the general fund sur-
23 plus.

24 * Sec. 3. AS 37 is amended by adding a new chapter to read:

25 CHAPTER 13. ALASKA PERMANENT FUND.

26 Sec. 37.13.010. ALASKA PERMANENT FUND. Under art IX, sec. 15 of
27 the state constitution, there is established as a separate fund the
28 Alaska permanent fund. The permanent fund consists of 100 per cent of
29 mineral lease bonuses after deduction of any amounts allocated to the

1 Alaska Native Fund under the Alaska Native Claims Settlement Act and
2 implementing state legislation and any amounts allocated by law to the
3 Alaska renewable resources development fund and 30 per cent of all
4 mineral lease rentals, royalties, royalty sale proceeds, and federal
5 mineral revenue sharing payments received by the state and any other
6 money allocated by law or appropriated to the principal of the fund
7 which shall be paid to the Alaska Permanent Fund Corporation at least
8 once each month. Management of the permanent fund is performed by (1)
9 the Alaska Permanent Fund Corporation established in this chapter to
10 which five-sixths of the receipts from these sources is allocated and
11 (2) the Alaska Enterprise Investment Corporation established in AS 44.55
12 to which one-sixth of the receipts from these sources is allocated until
13 the amount so allocated reaches the sum of \$100,000,000. Thereafter the
14 total receipts from these sources is allocated to the Alaska Permanent
15 Fund Corporation.

16 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
17 tional amendment, have required the placement of at least 25 per cent of
18 all mineral lease rentals, royalties, royalty sale proceeds, and federal
19 mineral revenue sharing payments and bonuses received by the state into
20 a permanent fund. The legislature finds with respect to the Alaska
21 Permanent Fund Corporation that

22 (1) it should provide a means of conserving a portion of the
23 state's revenues from mineral resources to the ultimate benefit of
24 future generations of Alaskans;

25 (2) the primary goal of the corporation should be to maximize
26 total return while maintaining safety of principal;

27 (3) it should be used as a savings device managed to allow
28 the maximum use of disposable income from the corporation as needed for
29 purposes designated by law.

1 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
2 provide a mechanism for the management and investment of permanent fund
3 assets in a manner consistent with the findings established in sec. 20
4 of this chapter.

5 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is
6 established the Alaska Permanent Fund Corporation. The corporation is a
7 public corporation and government instrumentality in the Department of
8 Revenue managed by a board of trustees but has a legal existence inde-
9 pendent of and separate from the state. The purpose of the board is to
10 manage and invest the assets of the corporation in accordance with this
11 chapter.

12 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board
13 of trustees consists of three members appointed by the governor and
14 confirmed by a majority of the members of the legislature in joint
15 session.

16 (b) The board shall annually elect a chairman from among its
17 members.

18 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be
19 appointed for terms of four years, and they may be reappointed. Terms
20 shall be staggered. Initial terms shall be one member serving for two
21 years, one member serving for three years, and one member serving for
22 four years.

23 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may
24 remove a trustee from office by and with the consent of a majority of
25 the members of the legislature in joint session. A removal by the
26 governor shall be in writing and state the reason for removal. If the
27 legislature is not in session, the governor may suspend a member of the
28 board. Upon suspension, a trustee may not participate in board business
29 and may not be counted for purposes of establishing a quorum. The joint

1 session shall be held within 30 days from the date of removal if the
2 removal occurs while the legislature is in session or within 30 days of
3 convening of the legislature if the legislature is not in session. If
4 the legislature refuses to consent to his removal, the trustee shall be
5 reinstated to his position.

6 (b) A vacancy on the board shall be promptly filled by appointment
7 by the governor and confirmation by a majority of the members of the
8 legislature in joint session, and an appointee to fill a vacancy shall
9 hold office for the balance of the term for which his predecessor on the
10 board was appointed. If a vacancy arises on the board while the legis-
11 lature is not in session, the governor may appoint an interim trustee
12 who shall exercise all powers of a permanent trustee until such time as
13 the legislature in joint session fails to confirm the interim trustee's
14 appointment.

15 (c) A vacancy on the board does not impair the authority of a
16 quorum of the board to exercise all the powers and perform all the
17 duties of the board.

18 Sec. 37.13.080. QUALIFICATIONS OF TRUSTEES. (a) No trustee may
19 be appointed to the board who has not been a resident of the state for
20 at least three years.

21 (b) No member of the board may hold any other state or federal
22 office, position or employment, either elective or appointive, except as
23 a member of the armed forces of the United States or of this state.

24 (c) At least one member of the board shall have recognized com-
25 petence and wide experience in finance, investments, or other business
26 management-related field. No two members may be appointed to the board
27 who share substantially similar professional or occupational backgrounds

28 Sec. 37.13.090. QUORUM. Two members of the board constitute a
29 quorum for the transaction of business and the exercise of the powers

1 and duties of the board.

2 Sec. 37.13.100. COMPENSATION OF TRUSTEES. Trustees receive an
3 honorarium of \$250 for each meeting day if they attend the meeting and
4 are entitled to per diem and travel allowances as provided by law for
5 members of state boards and commissions.

6 Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and
7 determine the salary of an executive director. The executive director
8 may, with the approval of the board, select and employ additional staff
9 as necessary. The executive director may not be a trustee. The execu-
10 tive director and all employees of the board are in the exempt service
11 under AS 39.25.

12 Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Trustees are subject
13 to the provisions of AS 39.50.

14 (b) If a member or employee acquires, owns or controls an in-
15 terest, direct or indirect, in an entity or project in which corporation
16 assets are invested, he shall immediately disclose the interest to the
17 board. The disclosure is a matter of public record and shall be in-
18 cluded in the minutes of the board meeting next following the disclo-
19 sure.

20 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is
21 applicable to the board in its management and investment of permanent
22 fund assets. The prudent-man rule as applied to investments of the
23 corporation means that in making investments the board shall exercise
24 the judgment and care under the circumstances then prevailing which an
25 institutional investor of ordinary prudence, discretion, and intel-
26 ligence exercises in the management of large investments entrusted to it
27 not in regard to speculation but in regard to the permanent disposition
28 of funds, considering the probable income from them as well as probable
29 safety of capital.

1 (b) The corporation assets may only be used for income-producing
2 investments.

3 (c) The board shall seek to maintain a reasonable diversification
4 in its investments unless under the circumstances it is clearly prudent
5 not to do so.

6 (d) The board shall submit long-range and quarterly investment
7 reports to the Investment Oversight Committee.

8 (e) The corporation may not borrow funds or guarantee the obli-
9 gations of others.

10 (f) The board may enter into and enforce all contracts necessary,
11 convenient or desirable for purposes of the fund except it may not
12 contract with agencies or departments of the state to recommend or
13 select investments.

14 (g) Subject to (a) of this section the board may invest its assets
15 in obligations of the United States or obligations for which the full
16 faith and credit of the United States are pledged for payment of princi-
17 pal and interest; loans secured by first liens on unencumbered realty or
18 leaseholds; and corporate stock and corporate obligations which under
19 the Securities Act of 1933 are freely marketable.

20 (1) No portion of the assets of the fund may be used in the
21 purchase of stock of any corporation which is not paying dividends on
22 that stock in cash at the time of purchase; nor in the purchase of bonds
23 of any corporation, upon which any regular interest payment has been
24 defaulted at any time within five years before purchase, except bonds
25 never in default but which have been outstanding for less than five
26 years.

27 (2) No portion of the assets of the corporation may be used
28 in the purchase of stocks if immediately following the purchase the
29 proportionate market value of all stocks held by the corporation would

1 exceed 30 per cent of the corporation's assets.

2 (h) The board shall establish and from time to time as necessary
3 modify guidelines for the investment of the corporation's assets.
4 Before adoption of any guidelines the guidelines shall be reported to
5 the Investment Oversight Committee for review and comment.

6 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,
7 the total amount of losses on the sales of securities, not offset by
8 gains on the sales of securities during that year, shall be computed,
9 with a portion of these losses to be deducted each fiscal year from the
10 interest and dividend income and the resulting amount of interest and
11 dividend income added to the principal of the fund. Losses taken on the
12 sales of bonds shall be accumulated over a period equal to the average
13 remaining life of the bonds sold, and losses taken on the sales of
14 stocks shall be accumulated within a period of five years, unless these
15 losses are offset by gains on future sales of securities. In any fiscal
16 year in which the gains on the sales of securities exceed the losses on
17 the sales of securities, the excess shall be added to the principal of
18 the fund.

19 Sec. 37.13.150. INCOME. The interest and dividends received in a
20 year are the income of the fund for that year. The income available for
21 disbursement shall be determined on an averaging basis. For the first
22 five years, income will be the simple averaging of the annual current
23 return at cost. Subsequently, there will be a moving average current
24 return, in which the latest fiscal year will replace the oldest year.
25 The income available for disbursement will be the lesser of the latest
26 fiscal year's income, or the average annual current income for the past
27 five fiscal years of the fund at cost, and after adjustment for capital
28 losses charged to that fiscal year.

29 Sec. 37.13.160. BOARD BUDGET. The board's operating budget is

1 from the general fund and is subject to the Executive Budget Act (AS
2 37.07).

3 Sec. 37.13.170. AUDITS. The Investment Oversight Committee shall
4 provide for an annual post audit and annual operational and performance
5 evaluations of the board's investments and investment programs.

6 Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than Septem-
7 ber 30 of each year, the board shall publish a report to the governor,
8 legislature, and the public in easily understandable language. Each
9 report must include financial statements audited by independent outside
10 auditors, a statement of the amount of money received by the permanent
11 fund from each investment during the period covered, a statement of
12 permanent fund investments, a description of permanent fund investment
13 activity during the period covered by the report, a comparison of the
14 fund performance with the intended goals contained in sec. 20 of this
15 chapter, an examination of the impact of the investment criteria of this
16 chapter on the fund portfolio with recommendations of any needed changes
17 and any other information the board believes would be of interest to the
18 governor, the legislature, and the public. The annual income statement
19 and balance sheet of the permanent fund shall be published in at least
20 one newspaper in each judicial district. The income statement and
21 balance sheet for the two fiscal years preceding the publication of the
22 election pamphlet under AS 15.57 shall be included in that pamphlet.
23 The board may also publish other reports it considers desirable to carry
24 out its purpose.

25 Sec. 37.13.190. CONFLICT OF INTEREST. (a) Members of the board
26 of trustees are subject to the provisions of AS 39.50.

27 (b) Members of the board of trustees shall disclose their finan-
28 cial interest in an investment proposal and disqualify themselves from
29 voting on any investment proposal in which they have a financial in-

1 terest. The board may not make an investment in any project or enter-
2 prise in which officers of the corporation have a financial interest.
3 All officers of the corporation in the discharge of their offices owe
4 their duty entirely to the corporation and no other authority.

5 Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board of
6 trustees and officers and staff of the corporation may not engage in
7 partisan political activities. The resources of the corporation may not
8 be used to finance any partisan political activities.

9 Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the
10 possession of the corporation is a public record, except that infor-
11 mation which discloses the particulars of the business or affairs of a
12 private enterprise or investor is confidential and is not a public
13 record. Confidential information may be disclosed only for the purposes
14 of an official law enforcement investigation or when its production is
15 required in a court proceeding. These restrictions do not prohibit the
16 publication of statistics presented in a manner that prevents the iden-
17 tification of particular reports, items, persons, or enterprises.

18 * Sec. 4. AS 44 is amended by adding a new chapter to read:

19 CHAPTER 55. THE ALASKA ENTERPRISE INVESTMENT CORPORATION.

20 Sec. 44.55.010. CREATION OF CORPORATION; FUNDING. (a) There is
21 created the Alaska Enterprise Investment Corporation. The corporation
22 is a public corporation and government instrumentality in the Department
23 of Revenue but has legal existence independent of and separate from the
24 state. The exercise by the corporation of the powers conferred by this
25 chapter is considered an essential governmental function of the state.

26 (b) One-sixth of the receipts of all mineral lease rentals, roy-
27 alties, royalty sale proceeds, and federal mineral revenue sharing pay-
28 ments and bonuses allocated to the permanent fund shall be paid by the
29 Alaska Permanent Fund Corporation directly into the Alaska Enterprise

1 Investment Corporation until a total of \$100,000,000 has been paid in.
2 The amount paid into the Alaska Enterprise Investment Corporation under
3 this subsection is the paid-in capital of the corporation.

4 Sec. 44.55.020. FINDINGS. The legislature finds

5 (1) that investment in financially sound small and medium
6 scale (A) productive private enterprises and (B) community development
7 projects in the state, for which sufficient capital is not available
8 from other sources on reasonable terms, is of benefit to the citizens of
9 the state;

10 (2) there is a shortage of investment capital for financially
11 sound small and medium scale (A) productive private enterprises and, (B)
12 for community development projects for which sufficient capital is not
13 available from other sources on reasonable terms;

14 (3) that the corporation working with private financial
15 institutions to supplement but not supplant their services can help to
16 alleviate this shortage.

17 Sec. 44.55.030. PURPOSE. The purpose of the corporation is to
18 provide capital at market rates and terms for small and medium scale (1)
19 productive private enterprises, and (2) community development projects
20 for which sufficient capital is not available from other sources on
21 reasonable terms.

22 Sec. 44.55.040. ALASKA ENTERPRISE INVESTMENT CORPORATION POLICY
23 BOARD. (a) There is established the Alaska Enterprise Investment
24 Corporation Policy Board consisting of a person employed in the execu-
25 tive branch of state government appointed by the governor and six public
26 members appointed by the governor with due regard for geographical
27 representation and confirmed by a majority of the members of the legis-
28 lature in joint session. At least two of the public members shall have
29 recognized competency and wide experience in investment finance. The

1 board shall elect one of the public members as chairman and other offi-
2 cers they determine desirable.

3 (b) The six appointed members shall serve for four-year terms, and
4 they may be reappointed. Terms shall be staggered. Initial terms shall
5 be two members serving for two years, two members serving for three
6 years, and two members serving for four years. A member continues to
7 serve until his successor is appointed and confirmed.

8 (c) A majority of the policy board members constitutes a quorum
9 for the transaction of business by the board. Decisions of the board
10 shall be taken by a majority vote. The board shall hold at least one
11 public meeting each year.

12 (d) Members of the policy board receive an honorarium of \$250 for
13 each meeting day if they attend the meeting and are entitled to per diem
14 and travel allowances as provided by law for members of state boards and
15 commissions.

16 Sec. 44.55.050. REMOVAL AND VACANCIES ON BOARD. (a) The governor
17 may remove a policy board member from office by and with the consent of
18 a majority of the members of the legislature in joint session. The
19 joint session shall be held within 10 days from the date of removal if
20 the removal occurs while the legislature is in session or within 30 days
21 of convening of the legislature if the member was suspended. If the
22 legislature is not in session, the governor may suspend a member of the
23 policy board for cause. Upon suspension, a board member may not par-
24 ticipate in policy board business and may not be counted for purposes of
25 establishing a quorum. If the legislature refuses to consent to his
26 removal, the member shall be reinstated to his position.

27 (b) A vacancy arising on the policy board shall be promptly filled
28 by appointment by the governor and confirmation by a majority of the
29 members of the legislature in joint session, and an appointee to fill a

1 vacancy shall hold office for the balance of the term for which his
2 predecessor on the board was appointed. If a vacancy arises on the
3 board while the legislature is not in session, the governor may appoint
4 an interim board member who shall exercise all powers of a permanent
5 board member until such time as the legislature in joint session fails
6 to confirm the interim member's appointment.

7 (c) A vacancy on the policy board does not impair the authority of
8 a quorum of the board to exercise all the powers and perform all the
9 duties of the board.

10 Sec. 44.55.060. DUTIES OF THE POLICY BOARD. The policy board
11 shall

12 (1) select and appoint the president and other members of the
13 Investment Committee established in sec. 80 of this chapter;

14 (2) annually review and approve long-range operating plans,
15 the budget for the forthcoming year, and the financial plan for the
16 following years;

17 (3) have responsibility on behalf of the corporation for
18 relations with the general public, legislature, executive branch, local
19 communities, and interest groups concerning all things excepting only
20 those matters that are the responsibility of the Investment Committee;

21 (4) review quarterly reports from the Investment Committee
22 concerning investment decisions and investment supervision, but the
23 board may not impose an investment decision upon, or override an invest-
24 ment decision of, the Investment Committee;

25 (5) review, consider and approve policies;

26 (6) establish an audit committee which shall select inde-
27 pendent outside auditors, and receive all audit reports.

28 Sec. 44.55.070. PRESIDENT. The president of the corporation is
29 appointed by the policy board for a term of four years, may be reap-

1 pointed, and serves at the pleasure of the policy board. The salary of
2 the president is set at the discretion of the policy board; but may not
3 be set below that of the highest paid member of the Investment Commit-
4 tee. The president shall

5 (1) have sole responsibility for presenting investment pro-
6 posals to the Investment Committee;

7 (2) be responsible for the ordinary business of the corpo-
8 ration and the organization, appointment, dismissal, and remuneration of
9 the officers and staff;

10 (3) be responsible for making investments in investment grade
11 securities, subject to review by the Investment Committee;

12 (4) establish and maintain adequate and appropriate organi-
13 zational, operating and financial controls.

14 Sec. 44.55.080. INVESTMENT COMMITTEE. (a) There is established
15 the Investment Committee, consisting of the president and four members
16 appointed by the policy board. No member of the policy board may be a
17 member of the committee. Members of the committee shall be persons of
18 recognized competence and wide experience in investments, finance, and
19 other business management-related fields. A member may be reappointed
20 and continue to serve until his successor is appointed. The president
21 and members shall serve for four-year terms. Terms shall be staggered.
22 Initial terms shall be one member serving for one year, one member
23 serving for two years, one member serving for three years, and one
24 member and the president serving for four years.

25 (b) Three members of the committee constitute a quorum. Decisions
26 of the committee shall be taken by majority vote.

27 (c) Members of the committee other than the president receive an
28 annual salary within Range 30 in the salary schedule for state employees
29 established by AS 39.27.011.

1 Sec. 44.55.090. DUTIES OF THE COMMITTEE. The committee has sole
2 responsibility to approve all investment proposals.

3 Sec. 44.55.100. BUDGET. The corporation operating budget is from
4 the general fund and is subject to the provisions of the Executive
5 Budget Act (AS 37.07).

6 Sec. 44.55.110. PERSONNEL OF CORPORATION. Policy board members,
7 committee members, and officers and staff of the corporation are in the
8 exempt service under AS 39.25.

9 Sec. 44.55.120. POWERS OF THE CORPORATION. (a) In carrying out
10 the corporate purposes of the corporation, the policy board has power to

11 (1) adopt, alter and use a corporate seal;

12 (2) prescribe, adopt, amend, and repeal bylaws;

13 (3) sue and be sued in the name of the corporation;

14 (4) borrow funds, and in that connection furnish such collat-
15 eral or other security as it determines, except that corporation borrow-
16 ing may not exceed its paid-in capital;

17 (5) guarantee obligations of another corporation or legal
18 entity in order to facilitate their sale;

19 (6) enter into agreements necessary or convenient in the
20 exercise of its powers and functions;

21 (7) acquire, hold, use, lease, sell or otherwise dispose of
22 property of any kind, real, personal or mixed, or any interest in it;

23 (8) contract with state, federal and other agencies to
24 develop needed information and analyses;

25 (9) do all acts and things necessary, convenient or desirable
26 to carry out the powers granted or implied in this chapter.

27 (b) In carrying out the corporate purposes of the corporation, the
28 committee has the power to

29 (1) invest, in such form and such amounts not to exceed

1 \$100,000,000, as it considers appropriate, by purchasing the capital
2 stock of, or lending money to, projects, except that any investment in
3 the capital stock of or other ownership interest in a project may not
4 exceed 25 per cent of the capital stock of, or other ownership interest
5 in, the project, and no loan or other investment in the project by the
6 corporation may exceed 90 per cent of the cost of the project unless, in
7 the judgment of the committee, additional amounts must be loaned to
8 protect the interests of the investment fund;

9 (2) deposit surplus funds, or invest surplus funds through
10 the Alaska Permanent Fund Corporation in such obligations as it may
11 determine;

12 (3) buy and sell securities the corporation has issued or
13 guaranteed or in which it has invested;

14 (4) do all acts and things necessary, convenient or desirable
15 to carry out the powers granted or implied in this chapter.

16 Sec. 44.55.125. INVESTMENTS. (a) In making investments, the
17 committee and staff shall exercise the judgment and care under the
18 circumstances then prevailing which a person of ordinary prudence,
19 discretion, and intelligence exercises in the management of his own
20 affairs taking into consideration the probable income from the invest-
21 ments as well as probable safety of principal.

22 (b) An amount equal to at least 150 per cent of all guarantees by
23 the corporation shall be invested in investment-grade securities.

24 (c) The committee may invest not more than 50 per cent of the
25 resources of the corporation to provide a reasonable proportion of
26 longer-term investment capital for financing the establishment, improve-
27 ment, and expansion of productive private enterprises which will benefit
28 Alaskans, and for which sufficient capital is not available from other
29 sources on reasonable terms. These investments may take the form of

1 equity, debt, or debt guarantees.

2 (d) The committee may invest not more than 50 per cent of the
3 resources of the corporation in financing a reasonable proportion of the
4 longer-term investment capital needs for financially sound small and
5 medium scale community development projects of municipalities and public
6 corporate entities and private dwellings in the state for which suf-
7 ficient financing is not available from other sources on reasonable
8 terms. These investments may take the form of equity, debt, or debt
9 guarantees.

10 (e) The committee may not invest or guarantee obligations totaling
11 more than five per cent of the resources of the bank or \$2,500,000,
12 whichever is less, in a single project unless the legislature has ap-
13 proved the investment by concurrent resolution.

14 (f) The committee may not undertake any financing for which, in
15 its opinion, sufficient private capital could be obtained on reasonable
16 terms.

17 (g) The committee may not assume responsibility for managing any
18 enterprise or project in which it has invested and may not exercise
19 voting rights for that purpose or for any other purpose which, in its
20 opinion, properly is within the scope of managerial control.

21 (h) The committee shall only undertake its financing on terms and
22 conditions which it considers appropriate, taking into account the terms
23 and conditions normally obtained by private investors for similar fi-
24 nancing, the requirements of the enterprise or project, the risks being
25 undertaken by the corporation, and the participation of other investors
26 unless the legislature has appropriated funds for subsidizing invest-
27 ments which in the opinion of the corporation are of such high priority
28 that special terms and conditions are appropriate.

29 (i) The committee may seek to revolve the corporation's money by

1 selling its investments to other investors whenever it can appropriately
2 do so on satisfactory terms.

3 (j) The committee shall seek to maintain a reasonable diversi-
4 fication in its investments.

5 (k) The committee shall only consider investment proposals after
6 the applicant for an investment has submitted a detailed proposal to the
7 committee's staff and the staff has prepared a written report recommend-
8 ing the investment after a study of its merits.

9 (l) The committee shall analyze the economic and other effects of
10 an investment decision, including the effects on employment, income
11 distribution, environment, health, social and other factors. The com-
12 mittee shall be sensitive to the views of affected local communities.

13 (m) The committee may guarantee qualifying loans made by financial
14 intermediaries in order to facilitate investment by the intermediaries
15 in specific enterprises or projects whose individual financing require-
16 ments are not, in the opinion of the committee, large enough to warrant
17 its direct supervision.

18 (n) The committee shall provide for operational and performance
19 evaluations (post-audits) of its investments and investment programs and
20 report the results to the policy board.

21 (o) Nothing in this section prevents the committee, in the event
22 of actual or threatened default on any of its investments, actual or
23 threatened insolvency of the enterprise in which the investment has been
24 made, or other situations which, in the opinion of the committee,
25 threaten to jeopardize the investment, from taking such action and
26 exercising such rights as it may consider necessary for the protection
27 of its interests.

28 Sec. 44.55.130. CAPITAL RESERVE ACCOUNT. For the purpose of
29 securing its obligations, the corporation shall establish a special

1 account called the capital reserve account. The corporation shall pay
2 into that account the income of the corporation until the amount in the
3 capital reserve account is equal to 25 per cent of the outstanding
4 obligations of the corporation. Subsequently, at the beginning of each
5 fiscal year the corporation shall withdraw from the capital reserve
6 account any amount in the account in excess of 25 per cent of the obli-
7 gations secured or, if the amount in the account is less than 25 per
8 cent of the obligations secured, pay into the account from income the
9 amount necessary to bring the reserve to 25 per cent. All money held in
10 the capital reserve account may be used as required solely for (1) the
11 payment of the principal of obligations, (2) the purchase or redemption
12 of obligations, (3) the payment of interest on obligations, or (4) the
13 payment of any redemption premium required to be paid when those obli-
14 gations are redeemed before maturity.

15 Sec. 44.55.140. INITIAL DETERMINATIONS. Before beginning its
16 financing operations, the policy board shall render a detailed report to
17 the legislature which shall

18 (1) define the sectors which need financing for expansion of
19 existing projects or the development of new projects;

20 (2) define the size and nature of projects which are feasible
21 for corporation financing;

22 (3) determine specific projects which are feasible for corpo-
23 ration and private financing;

24 (4) determine the availability of private investment capital
25 for the projects it determines are feasible;

26 (5) forecast the capital requirements of the corporation for
27 the first three years of its operations.

28 Sec. 44.55.150. REPORTS AND PUBLICATIONS. The policy board shall
29 publish an annual report in easily understandable language to the

1 governor, legislature and the public. Each report shall include finan-
2 cial statements audited by independent outside auditors, a statement of
3 the amount of money received by the corporation from each source during
4 the period covered, a statement of corporation investments, a descrip-
5 tion of corporation investment activity during the period covered by the
6 report, an analysis of economic and other effects of investment deci-
7 sions including, but not limited to, the effects on employment, income
8 distribution, environment, health, social and other factors, and any
9 other information the policy board believes would be of interest to the
10 governor, the legislature and the public. The corporation may also
11 publish such other reports as it considers desirable to carry out its
12 purpose.

13 Sec. 44.55.160. CONFLICT OF INTEREST. (a) Members of the board
14 of trustees are subject to the provisions of AS 39.50.

15 (b) Members of the board of trustees shall disclose their finan-
16 cial interest in an investment proposal and disqualify themselves from
17 voting on any investment proposal in which they have a financial in-
18 terest. The board may not make an investment in any project or enter-
19 prise in which officers of the corporation have a financial interest.
20 All officers of the corporation in the discharge of their offices owe
21 their duty entirely to the corporation and no other authority.

22 Sec. 44.55.170. POLITICAL ACTIVITIES. The members of the board of
23 trustees and officers and staff of the corporation may not engage in
24 partisan political activities. The resources of the corporation may not
25 be used to finance any partisan political activities.

26 Sec. 44.55.180. PUBLIC ACCESS TO INFORMATION. Information in the
27 possession of the corporation is a public record, except that infor-
28 mation which discloses the particulars of the business or affairs of a
29 private enterprise or investor is confidential and is not a public

1 record. Confidential information may be disclosed only for the purposes
2 of an official law enforcement investigation or when its production is
3 required in a court proceeding. These restrictions do not prohibit the
4 publication of statistics presented in a manner that prevents the iden-
5 tification of particular reports, items, persons, or enterprises.

6 Sec. 44.55.190. TAX EXEMPTION. The corporation is exempt from all
7 taxes and assessments in the state. All security instruments issued by
8 the corporation, their transfer, and their income are exempt from all
9 taxes and assessments in the state.

10 Sec. 44.55.200. DEFINITIONS. In this chapter

11 (1) "board" or "policy board" means the Alaska Enterprise In-
12 vestment Corporation Policy Board established by sec. 20 of this chap-
13 ter;

14 (2) "business enterprise" means a private corporation, firm,
15 partnership or sole proprietorship;

16 (3) "committee" means the Investment Committee established by
17 sec. 60 of this chapter;

18 (4) "corporation" means the Alaska Enterprise Investment
19 Corporation.

20 * Sec. 5. AS 39.25.110 is amended by adding new paragraphs to read:

21 (21) members of the policy board and Investment Committee, and
22 the president, officers, and staff of the Alaska Enterprise Investment
23 Corporation;

24 (22) members of the board of trustees, the executive director,
25 and staff of the Alaska Permanent Fund Corporation.

26 * Sec. 6. AS 39.50.200(9) is amended by adding new subparagraphs to read:

27 (NN) Alaska Enterprise Investment Corporation Policy
28 Board and Investment Committee;

29 (OO) Alaska Permanent Fund Corporation Board of Trustees.

1 * Sec. 7. TRANSITION. (a) The commissioner of revenue shall transfer
2 all funds of the Alaska permanent fund to the Alaska Permanent Fund Corpora-
3 tion established by this Act within 10 days after request for transfer is
4 made by the corporation board of trustees.

5 (b) The Alaska Enterprise Investment Corporation may not expend funds
6 for any purpose other than normal operating expenses of the corporation until
7 the paid-in capital of the corporation reaches \$50,000,000. Other funds of
8 the corporation including the funds received under AS 44.55.010 in sec. 4 of
9 this Act shall be invested as surplus funds under AS 44.55.120(b)(3) in sec.
10 4 of this Act until the paid-in capital reaches \$50,000,000.

11 * Sec. 8. AS 37.10.065 is repealed.

12 * Sec. 9. This Act takes effect immediately in accordance with AS 01.10.-
13 070(c).

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. SLB 298
 Title Alaska Permanent Fund
 Requested by Department of Revenue, Treasury Date _____

II. FISCAL DETAIL
 Agency Affected _____
 Program Category Affected Development
 Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		266.5				
200 TRAVEL		75.6				
300 CONTRACTUAL		414.7				
400 COMMODITIES		6.5				
500 EQUIPMENT		40.8				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		798.1				

FUNDING (Thousands of Dollars)

GENERAL FUND		798.1				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		6				
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)
 This fiscal note enumerates expenses to provide for personal services and operating expenses for one year of operation for the Alaska Permanent Fund.

Personal Services, Equipment and Commodities expenses are for a President, Comptroller, 2 Investment Officers, and 2 Secretaries. Travel and Per Diem expenses are for 7 Board members, 4 Investment Committee members and for the President. Contractual services expenses are for normal office operating expenses, fire and bond insurance, safekeeping and management fees, and \$150,000 for various professional consulting services.

It is anticipated that this fiscal note will be for one year only as the Alaska Permanent Fund will prepare its own budget effective FY 79. In the event that there is no formal enabling legislation for the Permanent Fund the Department of Revenue will prepare the necessary budget for the interim management.

IV. DATE March 1, 1977 PREPARED BY Jim Edens
 AGENCY Department of Revenue
 PHONE 464-2350
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

Permanent Fund Fiscal Note

	Salary (100)	Travel & Per Diem (200)	Contractual Services (300)	Commodities (400)	Equipme (500)
7 Board Members:					
12 Meetings per year x 2 days x \$250 per day	\$	\$ 42,000		\$	\$
12 Meetings per year x 2 days Travel x \$50		1,200			
12 Meetings x 7 x 2 Anchorage x 4		1,600			
2 Fairbanks x 5		3,000			
2 Juneau x 5		3,000			
President:	50,000				
Benefits	12,500				
Travel & Per Diem @ \$75 per day:					
12 Meetings x 4 (Per Diem)			3,600		
(Travel)			1,500		
6 In-State Meetings (Per Diem)			600		
(Travel)			1,500		
6 Out-of-State Meetings (Per Diem)			1,000		
(Travel)			3,500		
Ex. Desk, Ex. Chair, Credenza, 2 Bookcases, 4 side chairs					6,000
Conference Room:					
Table, 10 Chairs, 6 Side Chairs, Side Table					6,000
Visual Aids - Chalk Board, Cork Board					300
Investment Committee:					
\$500 each x 4 x 12	24,000				
Benefits	6,000				
12 Meetings x 40 x \$75 (Per Diem)			3,600		
(Travel)			6,000		
Staff Support:					
Comptroller	35,256				
Benefits - 24A @ \$2,938	8,814				
Ex. Desk, Ex. Chair, Credenza, 2 side chairs					3,000
Calculator, Dictaphone, Bookcase					1,500

Permanent Fund Fiscal Note

	<u>Salary</u> (100)	<u>Travel & Per Diem</u> (200)	<u>Contractual Services</u> (300)	<u>Commodities</u> (400)	<u>Equipment</u> (500)
Investment Officer III - (2):					
24A @ \$2,938 x 2 x 12	\$ 70,512	\$	\$	\$	\$
Benefits	17,628				
2 Ex. Desks, 2 Ex. Chairs, 4 side chairs					6,000
2 Calculators, 2 Bookcases					2,500
Secretary to Comptroller & Investment Officer:					
Secretary II 11A @ 1,155 x 12	13,872				
Benefits	3,468				
Steno Desk, Chair, Credenza, Memory Typewriter, Distaphone unit					5,000
Secretary to President:					
Secretary III 12A @ 1,231 x 12	14,772				
Benefits	3,693				
Steno Desk, chair, credenza, Memory Typewriter, Dictaphone unit					5,000
Office Supplies and Facilities:					
Office Rent - Conference Room			54,000		
2 Executive offices - Staff area for 6 3,000 sq.ft. @ \$1.50 x 12 including janitorial, lights, heat, water, garbage					
<u>310</u> : Postage			2,500		
Telephone - LD & SC & Inst.			30,000		
Telex - LD use - month			5,700		
<u>320</u> : Printing - Office Stationary, advertising			7,500		
<u>360</u> : Equipment rental - Xerox, etc.			10,000		
<u>370</u> : Fire & Bond Insurance			55,000		
<u>380</u> : Contracts			150,000		
Safekeeping & Management	1,500		50,000		
Miscellaneous contracts for Fund		2,000	50,000		

Permanent Fund Fiscal Note

	<u>Salary</u> (100)	<u>Travel & Per Diem</u> (200)	<u>Contractual Services</u> (300)	<u>Commodities</u> (400)	<u>Equipme:</u> (500)
Commodities:					
470: Publications, Tec. books & Manuals	\$	\$	\$	\$ 2,000	\$
480: General Office Supplies				2,500	
Envelopes & Stationery				2,000	
Equipment:					
Supply Storage Cabinet (2)					300
Bookcases (4)					500
File Cabinets 4 Broadside					1,200
2 Fireproof					1,000
General Office Furniture					2,500
	_____	_____	_____	_____	_____
Totals	<u>\$260,515</u>	<u>\$ 75,600</u>	<u>\$414,700</u>	<u>\$ 6,500</u>	<u>\$40,300</u>
Total =	<u>\$798,115</u>				

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W-ALASKA OFFICE BUILDINGFINANCE DIVISION
POUCH WF-STATE CAPITOL

JUNEAU 99801

March 15, 1978

M E M O R A N D U M

TO: Rep. Clark Gruening, Chairman
House Permanent Fund Committee

FROM: Milton B. Barker, Fiscal Analyst *MB*
Legislative Finance Division

SUBJECT: HB 596 Fiscal Note

At your request, I have reviewed the fiscal note for HB 596, comparing it to the fiscal note for HB 298 and also to similar items of expenditure contained in the FY 79 budget submissions for the Alaska Power Authority and Treasury Management. I would note the following:

1. The note for HB 298 contains \$150,000 for contracts and \$50,000 for miscellaneous contracts while HB 596 contains \$100,000 for Permanent Fund consulting and \$250,000 for Enterprise Corp. consulting.
2. Office rent is budgeted in HB 596 at \$60,000 apiece for the Permanent Fund and Enterprise Corp., both with staff of five. The same size staff, five, of the Alaska Power Authority has budgeted \$30,000 for rent and janitorial for FY 79. The HB 298 fiscal note had \$54,000 for rent for six, based on 3,000 sq. ft. @ \$1.50/month.
3. HB 596 calls for at least one meeting per year of the Enterprise Corp. policy board and no apparent minimum for the Permanent Fund board of trustees. The fiscal note for HB 596 assumes 12 meetings in-state and 3 meetings out-of-state per year for both the trustees and policy board. In-state meetings last 2 days, out-of-state 4 days. HB 298 anticipated only the 12 in-state meetings for its board. Full attendance is assumed at all meetings. Travel and per diem is apparently included in the fiscal note for the one state official on the Enterprise Corp. policy board.