

LEG. FINANCE - BILLS

1979

- 1980

1068

IB 208 cont.

1 minimum coverage of other residential loans shall be 10 percent for  
2 those having a loan-to-value ratio greater than 70 percent but less  
3 than 90 percent and 20 percent for those having a loan-to-value  
4 ratio of 90 percent;

5 (12) conventional residential mortgages if the originating  
6 financial institution retains at least 25 percent of the mortgage for a  
7 minimum of two years;

8 (13) notes secured by mortgages of commercial buildings [REAL  
9 ESTATE] if the originating financial institution retains at least 25  
10 percent of the mortgage until maturity;

11 (14) FHA guaranteed portion of business and industrial loans  
12 made under the Rural Development Act of 1972;

13 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP  
14 FINANCING ACT OF 1972. NO MORE THAN 25 PERCENT OF THE SURPLUS MAY BE  
15 INVESTED IN MORTGAGE SECURITIES OF THE DEPARTMENT OF COMMERCE, AND THE  
16 STATE SHALL APPROPRIATE SUFFICIENT MONEY FROM THE GENERAL FUND TO REIM-  
17 BURSE THE TEACHERS' RETIREMENT SYSTEM FOR ANY LOSSES INCURRED AS A  
18 RESULT OF FAILURE OF THE OBLIGORS TO PAY ON THE NOTES. NO MORE THAN  
19 \$400,000 OF THE SURPLUS MAY BE INVESTED ANNUALLY IN THE MORTGAGE SECURI-  
20 TIES OF THE DEPARTMENT OF NATURAL RESOURCES, AND THE STATE SHALL APPRO-  
21 PRIATE SUFFICIENT MONEY FROM THE GENERAL FUND TO REIMBURSE THE TEACHERS'  
22 RETIREMENT SYSTEM FOR ANY LOSSES INCURRED AS A RESULT OF FAILURE OF THE  
23 OBLIGORS TO PAY ON THE NOTES;

24 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,  
25 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-  
26 MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY  
27 MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,  
28 IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF  
29 THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE

1 PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST  
2 ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR  
3 AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN  
4 EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

5 (17) bankers' acceptances which are eligible for discount at  
6 the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit  
7 issued by United States domestic [COMMERCIAL] banks which are members of  
8 the Federal Deposit Insurance Corporation if a generally recognized  
9 secondary market exists for the certificates of deposit;

10 (18) obligations of, or obligations insured by or guaranteed  
11 by, the United States or agencies or instrumentalities of the United  
12 States;

13 (19) obligations secured by reserves paid in by the United  
14 States or agencies or instrumentalities of the United States or obliga-  
15 tions of corporations in which the United States is a shareholder or  
16 member;

17 (20) corporate debt securities with a minimum rating of "A" or  
18 an equivalent rating by a nationally recognized rating organization;

19 (21) preferred and common stock of companies which have paid  
20 dividends in each of the three years immediately preceding the invest-  
21 ment;

22 (22) commercial paper bearing the highest rating of a nation-  
23 ally recognized rating organization;

24 (23) securities of foreign governments, foreign governmental  
25 agencies, and foreign corporations the principal, interest or dividends  
26 on which are payable in either United States dollars or foreign curren-  
27 cies; however, investments under this paragraph may not exceed 15 per-  
28 cent of the total investments of the retirement fund;

29 (24) gold bullion if it is registered with a nationally recog-

1 nized dealer and is certified as to fineness of at least 99.5 percent;  
2 however, investments under this paragraph may not exceed 15 percent of  
3 the total investments of the retirement fund;

4 (25) foreign time deposits of both United States-owned and  
5 foreign-owned banks and trust companies denominated in either United  
6 States dollars or foreign currencies; however, investments under this  
7 paragraph may not exceed 25 percent of the total investments of the re-  
8 irement fund.

9 \* Sec. 2. AS 14.25.180(c) is amended to read:

10 (c) In making investments the commissioner of revenue shall exer-  
11 cise the judgment and care under the circumstances then prevailing which  
12 an institutional investor [MEN] of ordinary prudence, discretion, and  
13 intelligence exercises [FXERCISE] in the management of large investments  
14 entrusted to it [THEIR OWN AFFAIRS] not in regard to speculation but in  
15 regard to the permanent disposition of [THEIR] funds, considering [THE]  
16 probable safety of capital as well as probable income [THEREFROM AS WELL  
17 AS THE PROBABLE SAFETY OF THEIR CAPITAL]. However, no more than 50  
18 percent of the retirement fund may be invested at any given time in  
19 corporate stocks and debt securities [BONDS], nor may more than five  
20 percent of the voting stock of a [ANY] corporation be owned. Stocks  
21 eligible for purchase are restricted to stocks which, except for bank  
22 stocks and insurance stocks, are listed upon an exchange registered with  
23 the Federal Securities and Exchange Commission.

24 \* Sec. 3. AS 14.25.180(d)(5) is amended to read:

25 (5) register investments held in the retirement fund in the  
26 name of the system;

27 \* Sec. 4. AS 14.25.180(e) is repealed and re-enacted to read:

28 (e) To qualify as a mortgage which may be purchased under (b)(11),  
29 (12) or (13) of this section,

1 (1) the originating financial institution must certify that  
2 the mortgage has been made in compliance with law and that liens sup-  
3 porting the mortgage have been perfected;

4 (2) the mortgage may not have been held by the originating  
5 financial institution for a period greater than 90 days.

6 \* Sec. 5. AS 14.25.180 is amended by adding new subsections to read:

7 (g) The commissioner of revenue may enter into futures contracts  
8 for the sale of investments purchased under (b) of this section only for  
9 the purpose of hedging an existing equivalent ownership position in the  
10 investments.

11 (h) The commissioner of revenue may transfer at any time a portion  
12 of the assets of the retirement fund to a trust which is qualified under  
13 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal  
14 Revenue Code of 1954, as amended, and which is maintained as a medium  
15 for pooling a portion of the funds of pension and profit-sharing trusts  
16 for diversifying investments in real estate and interests in real  
17 estate.

18 (i) The commissioner of revenue may enter into a contract or trust  
19 agreement necessary to effectuate the transfer of assets of the retire-  
20 ment fund or to maintain the assets of the retirement fund to be trans-  
21 ferred to a trust under (i) of this section.

22 \* Sec. 6. AS 39.35.110(a) is amended to read:

23 (a) When, in the opinion of the commissioner of administration,  
24 there is on hand in the pension fund a surplus over and above a reason-  
25 ably safe amount to take care of current demands upon the fund, the  
26 surplus, or so much of it as in the judgment of the commissioner of  
27 administration is considered proper, may be invested at competitive  
28 national market rates by the commissioner of revenue in

29 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURI-

1 TIES OF THE (A) UNITED STATES OR AN AGENCY OF THE UNITED STATES, (B) A  
2 STATE OF THE UNITED STATES, OR (C) A POLITICAL SUBDIVISION OF A STATE OF  
3 THE UNITED STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS  
4 SHOWN BY THE LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NOT LESS  
5 THAN 30,000 INHABITANTS; WITH RESPECT TO POLITICAL SUBDIVISIONS OF THIS  
6 STATE, NO POPULATION LIMITATION APPLIES;

7 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE  
8 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE  
9 UNITED STATES OR HELD BY THE DIVISION OF VETERANS' AFFAIRS UNDER  
10 AS 26.15, OR LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS UNDER  
11 AS 26.15.040(b);

12 (3) CORPORATION BONDS AND PREFERRED AND COMMON STOCKS AS THE  
13 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS;

14 (4) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES HELD BY THE  
15 DEPARTMENT OF NATURAL RESOURCES UNDER AS 03.10;]

16 (5) shares of federally chartered savings and loan associa-  
17 tions in Alaska, to the extent that the [SUCH] investment is insured by  
18 the federal government or an agency of the federal government [THEREOF];

19 (6) deposits with mutual savings banks in Alaska, to the  
20 extent that the [SUCH] investment is insured by the federal government  
21 or an agency of the federal government [THEREOF];

22 (7) deposits with state and national banks in Alaska to the  
23 extent that the investment is insured by the federal government or an  
24 agency of the federal government;

25 (8) [MUTUAL FUNDS;]

26 (9) the guaranteed portion of Small Business Administration  
27 loans;

28 (10) first lien real estate mortgages guaranteed by the  
29 federal Veterans Administration;

1 (11) notes secured by mortgages of commercial or residential  
2 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured  
3 by a private mortgage insurance corporation which is authorized to do  
4 business in Alaska and has combined capital, surplus and reserves aggre-  
5 gating at least \$20,000,000; however,

6 (A) no mortgage insurance is necessary for commercial  
7 loans having loan-to-value ratios of less than 50 percent and the  
8 minimum coverage of other commercial loans shall be 10 percent for  
9 those having a loan-to-value ratio of 50-60 per cent and 15 percent  
10 for those having a loan-to-value ratio greater than 60 percent but  
11 no more than 75 percent, and

12 (B) no mortgage insurance is necessary for residential  
13 loans having a loan-to-value ratio of less than 70 percent and the  
14 minimum coverage of other residential loans shall be 10 percent for  
15 those having a loan-to-value ratio greater than 70 percent but less  
16 than 90 percent and 20 percent for those having a loan-to-value  
17 ratio of 90 percent;

18 (12) conventional residential mortgages if the originating  
19 financial institution retains at least 25 percent of the mortgage for a  
20 minimum of two years;

21 (13) notes secured by mortgages of commercial buildings [REAL  
22 ESTATE] if the originating financial institution retains at least 25  
23 percent of the mortgage until maturity;

24 (14) FHA guaranteed portion of business and industrial loans  
25 made under the Rural Development Act of 1972;

26 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP  
27 FINANCING ACT OF 1972;

28 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,  
29 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-

1           MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY  
2           MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,  
3           IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF  
4           THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE  
5           PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST  
6           ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR  
7           AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN  
8           EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

9           (17) bankers' acceptances which are eligible for discount at  
10          the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit  
11          issued by United States domestic [COMMERCIAL] banks which are members of  
12          the Federal Deposit Insurance Corporation if a generally recognized  
13          secondary market exists for the certificates of deposit;

14          (18) obligations of, or obligations insured by or guaranteed  
15          by, the United States or agencies or instrumentalities of the United  
16          States;

17          (19) obligations secured by reserves paid in by the United  
18          States or agencies or instrumentalities of the United States or obliga-  
19          tions of corporations in which the United States is a shareholder or  
20          member;

21          (20) corporate debt securities with a minimum rating of "A" or  
22          an equivalent rating by a nationally recognized rating organization;

23          (21) preferred and common stock of companies which have paid  
24          dividends in each of the three years immediately preceding the invest-  
25          ment;

26          (22) commercial paper bearing the highest rating of a nation-  
27          ally recognized rating organization;

28          (23) securities of foreign governments, foreign governmental  
29          agencies, and foreign corporations the principal, interest or dividends

1 on which are payable in either United States dollars or foreign curren-  
2 cies; however, investments under this paragraph may not exceed 15 per-  
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4 (24) gold bullion if it is registered with a nationally recog-  
5 nized dealer and is certified as to fineness of at least 99.5 percent;  
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9 foreign-owned banks and trust companies denominated in either United  
10 States dollars or foreign currencies; however, investments under this  
11 paragraph may not exceed 25 percent of the total investments of the pen-  
12 sion fund.

13 \* Sec. 7. AS 39.35.110(c) is amended to read:

14 (c) In making investr nts the commissioner of revenue shall exer-  
15 cise the judgment and care under the circumstances then prevailing which  
16 an institutional investor [A MAN] of ordinary prudence, discretion, and  
17 intelligence exercises in the management of large investments entrusted  
18 to it [HIS OWN AFFAIRS] not in regard to speculation but in regard to  
19 the permanent disposition of [HIS] funds, considering [THE] probable  
20 safety of capital as well as probable income [FROM THEM AS WELL AS THE  
21 PROBABLE SAFETY OF HIS CAPITAL]. However, no more than 50 percent of  
22 the pension fund may be invested at a given time in [MUTUAL FUNDS AND]  
23 corporate stocks and debt securities [BONDS], nor may [ANY] more than  
24 five percent of the voting stock of one corporation be owned. Stocks  
25 eligible for purchase are restricted to stocks which, except for bank  
26 stocks and [,] insurance stocks [, AND SHARES IN MUTUAL FUNDS], are  
27 listed upon an exchange registered with the Federal Securities and  
28 Exchange Commission.

29 \* Sec. 8. AS 39.35.110(e) is repealed and re-enacted to read:

1 (e) To qualify as a mortgage which may be purchased under (a)(11),  
2 (12), or (13) of this section,

3 (1) the originating financial institution must certify that  
4 the mortgage being sold has been made in compliance with law and that  
5 liens supporting the mortgage have been perfected;

6 (2) the mortgage may not have been held by the originating  
7 financial institution for a period greater than 90 days.

8 \* Sec. 9. AS 39.35.110 is amended by adding new subsections to read:

9 (h) The commissioner of revenue may enter into futures contracts  
10 for the sale of investments purchased under (a) of this section only for  
11 the purpose of hedging an existing equivalent ownership position in the  
12 investments.

13 (i) The commissioner of revenue may transfer at any time a portion  
14 of the assets of the retirement fund to a trust which is qualified under  
15 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal  
16 Revenue Code of 1954, as amended, and which is maintained as a medium  
17 for pooling a portion of the funds of pension and profit sharing trusts  
18 for diversifying investments in real estate and interests in real es-  
19 tate.

20 (j) The commissioner of revenue may enter into a contract or trust  
21 agreement necessary to effectuate the transfer of assets of the pension  
22 fund or to maintain the assets of the pension fund to be transferred to  
23 a trust under (i) of this section.

24 \* Sec. 10. AS 39.35.110(b) and (g) are repealed.

25 \* Sec. 11. This Act takes effect immediately in accordance with AS 01.10.-  
26 070(c).



HB 208

Kathy

Pete Bushry's  
office

2351 - when  
scheduled

# COMMITTEE REPORT

## HOUSE

FURTHER:

4/17  
Rules

February 14, 1979

Date:

4/16/80

Mr. Speaker:

The Committee on FINANCE has had HB 208

"An Act relating to pension fund investments; eff. date."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for HB 208  same title  
 new title
- and recommends individual rec.
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without <sup>individual</sup> recommendation
- referred to the \_\_\_\_\_ Committee

### MEMBERS SIGNING DO PASS

DO PASS -  
ROGERS GOLDEN OPPORTUNITY  
~~\_\_\_\_\_~~  
McKinnon  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

### MEMBERS HAVING OTHER RECOMMENDATIONS:

Freeman - Do not Pass unless amended  
Smith - No Rec  
Montgomery - do not pass unless Amended  
Schaffer - No Rec  
Duncan - No Rec

Freeman  
 Vice CHAIRMAN

*Louis Vassar*

Original sponsor: Rules/Governor

Offered: 4/17/80  
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 208

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment of state retirement  
7 and pension funds; and providing for an effective  
8 date."

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

10 \* Section 1. AS 14.25.180(b) is amended to read:

11 (b) When, in the opinion of the commissioner of administration,  
12 there is on hand in the retirement fund a surplus over and above a  
13 reasonably safe amount to take care of current demands upon the fund,  
14 the surplus or so much of it as in the judgment of the commissioner of  
15 administration is considered proper may be invested at competitive na-  
16 tional market rates by the commissioner of revenue in

17 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURITIES  
18 OF THE UNITED STATES OR AN AGENCY OF THE UNITED STATES, A STATE OF THE  
19 UNITED STATES, OR A POLITICAL SUBDIVISION OF ANY STATE OF THE UNITED  
20 STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS SHOWN BY THE  
21 LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NO LESS THAN 30,000  
22 INHABITANTS, EXCEPT NO POPULATION LIMITATION APPLIES TO A POLITICAL  
23 SUBDIVISION OF THIS STATE;

24 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE  
25 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE  
26 UNITED STATES, OR HELD BY THE DEPARTMENT OF COMMERCE, OR THE DEPARTMENT  
27 OF NATURAL RESOURCES;

28 (3) CORPORATION BONDS, AND PREFERRED AND COMMON STOCKS AS THE  
29 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS;]

1 (4) shares of federally chartered savings and loan associa-  
2 tions in Alaska, to the extent that the investment is insured by the  
3 federal government or by an agency of the federal government;

4 (5) deposits with mutual savings banks in Alaska, to the  
5 extent that the investment is insured by the federal government or an  
6 agency of the federal government;

7 (6) deposits with state and national banks in Alaska to the  
8 extent that the investment is insured by the federal government or an  
9 agency of the federal government;

10 [(7) LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS  
11 UNDER AS 26.15.040(b);]

12 (8) (deleted);

13 (9) the guaranteed portion of Small Business Administration  
14 loans;

15 (10) first lien real estate mortgages guaranteed by the federal  
16 Veterans Administration;

17 (11) notes secured by mortgages of commercial or residential  
18 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured  
19 by a private mortgage insurance corporation which is authorized to do  
20 business in Alaska and has combined capital, surplus and reserves aggre-  
21 gating at least \$20,000,000; however,

22 (A) no mortgage insurance is necessary for commercial  
23 loans having loan-to-value ratios of less than 50 percent and the  
24 minimum coverage of other commercial loans shall be 10 percent for  
25 those having a loan-to-value ratio of 50-60 per cent and 15 percent  
26 for those having a loan-to-value ratio greater than 60 percent but  
27 no more than 75 percent, and

28 (B) no mortgage insurance is necessary for residential  
29 loans having a loan-to-value ratio of less than 70 percent and the

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6 financial institution retains at least 25 percent of the mortgage for a  
7 minimum of two years;

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9 ESTATE] if the originating financial institution retains at least 25  
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25 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-  
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27 MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,  
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4 EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

5 (17) bankers' acceptances which are eligible for discount at  
6 the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit  
7 issued by United States domestic [COMMERCIAL] banks which are members of  
8 the Federal Deposit Insurance Corporation if a generally recognized  
9 secondary market exists for the certificates of deposit;

10 (18) obligations of, or obligations insured by or guaranteed  
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12 States;

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14 States or agencies or instrumentalities of the United States or obliga-  
15 tions of corporations in which the United States is a shareholder or  
16 member;

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13 intelligence exercises [EXERCISE] in the management of large investments  
14 entrusted to it [THEIR OWN AFFAIRS] not in regard to speculation but in  
15 regard to the permanent disposition of [THEIR] funds, considering [THE]  
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17 AS THE PROBABLE SAFETY OF THEIR CAPITAL]. However, no more than 50  
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11 (h) The commissioner of revenue may transfer at any time a portion  
12 of the assets of the retirement fund to a trust which is qualified under  
13 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal  
14 Revenue Code of 1954, as amended, and which is maintained as a medium  
15 for pooling a portion of the funds of pension and profit-sharing trusts  
16 for diversifying investments in real estate and interests in real  
17 estate.

18 (i) The commissioner of revenue may enter into a contract or trust  
19 agreement necessary to effectuate the transfer of assets of the retire-  
20 ment fund or to maintain the assets of the retirement fund to be trans-  
21 ferred to a trust under (h) of this section.

22 \* Sec. 6. AS 39.35.110(a) is amended to read:

23 (a) When, in the opinion of the commissioner of administration,  
24 there is on hand in the pension fund a surplus over and above a reason-  
25 ably safe amount to take care of current demands upon the fund, the  
26 surplus, or so much of it as in the judgment of the commissioner of  
27 administration is considered proper, may be invested at competitive  
28 national market rates by the commissioner of revenue in

29 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURI-

1 TIES OF THE (A) UNITED STATES OR AN AGENCY OF THE UNITED STATES, (B) A  
2 STATE OF THE UNITED STATES, OR (C) A POLITICAL SUBDIVISION OF A STATE OF  
3 THE UNITED STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS  
4 SHOWN BY THE LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NOT LESS  
5 THAN 30,000 INHABITANTS; WITH RESPECT TO POLITICAL SUBDIVISIONS OF THIS  
6 STATE, NO POPULATION LIMITATION APPLIES;

7 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE  
8 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE  
9 UNITED STATES OR HELD BY THE DIVISION OF VETERANS' AFFAIRS UNDER  
10 AS 26.15, OR LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS UNDER  
11 AS 26.15.040(b);

12 (3) CORPORATION BONDS AND PREFERRED AND COMMON STOCKS AS THE  
13 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS;

14 (4) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES HELD BY THE  
15 DEPARTMENT OF NATURAL RESOURCES UNDER AS 03.10;]

16 (5) shares of federally chartered savings and loan associa-  
17 tions in Alaska, to the extent that the [SUCH] investment is insured by  
18 the federal government or an agency of the federal government [THEREOF];

19 (6) deposits with mutual savings banks in Alaska, to the  
20 extent that the [SUCH] investment is insured by the federal government  
21 or an agency of the federal government [THEREOF];

22 (7) deposits with state and national banks in Alaska to the  
23 extent that the investment is insured by the federal government or an  
24 agency of the federal government;

25 (8) [MUTUAL FUNDS;]

26 (9) the guaranteed portion of Small Business Administration  
27 loans;

28 (10) first lien real estate mortgages guaranteed by the  
29 federal Veterans Administration;

1 (11) notes secured by mortgages of commercial or residential  
2 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured  
3 by a private mortgage insurance corporation which is authorized to do  
4 business in Alaska and has combined capital, surplus and reserves aggre-  
5 gating at least \$20,000,000; however,

6 (A) no mortgage insurance is necessary for commercial  
7 loans having loan-to-value ratios of less than 50 percent and the  
8 minimum coverage of other commercial loans shall be 10 percent for  
9 those having a loan-to-value ratio of 50-60 per cent and 15 percent  
10 for those having a loan-to-value ratio greater than 60 percent but  
11 no more than 75 percent, and

12 (B) no mortgage insurance is necessary for residential  
13 loans having a loan-to-value ratio of less than 70 percent and the  
14 minimum coverage of other residential loans shall be 10 percent for  
15 those having a loan-to-value ratio greater than 70 percent but less  
16 than 90 percent and 20 percent for those having a loan-to-value  
17 ratio of 90 percent;

18 (12) conventional residential mortgages if the originating  
19 financial institution retains at least 25 percent of the mortgage for a  
20 minimum of two years;

21 (13) notes secured by mortgages of commercial buildings [REAL  
22 ESTATE] if the originating financial institution retains at least 25  
23 percent of the mortgage until maturity;

24 (14) FHA guaranteed portion of business and industrial loans  
25 made under the Rural Development Act of 1972;

26 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP  
27 FINANCING ACT OF 1972;

28 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,  
29 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-

1       MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY  
2       MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,  
3       IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF  
4       THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE  
5       PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST  
6       ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR  
7       AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN  
8       EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

9               (17) bankers' acceptances which are eligible for discount at  
10              the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit  
11              issued by United States domestic [COMMERCIAL] banks which are members of  
12              the Federal Deposit Insurance Corporation if a generally recognized  
13              secondary market exists for the certificates of deposit;

14              (18) obligations of, or obligations insured by or guaranteed  
15              by, the United States or agencies or instrumentalities of the United  
16              States;

17              (19) obligations secured by reserves paid in by the United  
18              States or agencies or instrumentalities of the United States or obliga-  
19              tions of corporations in which the United States is a shareholder or  
20              member;

21              (20) corporate debt securities with a minimum rating of "A" or  
22              an equivalent rating by a nationally recognized rating organization;

23              (21) preferred and common stock of companies which have paid  
24              dividends in each of the three years immediately preceding the invest-  
25              ment;

26              (22) commercial paper bearing the highest rating of a nation-  
27              ally recognized rating organization;

28              (23) securities of foreign governments, foreign governmental  
29              agencies, and foreign corporations the principal, interest or dividends

1 on which are payable in either United States dollars or foreign curren-  
2 cies; however, investments under this paragraph may not exceed 15 per-  
3 cent of the total investments of the pension fund;

4 (24) gold bullion if it is registered with a nationally recog-  
5 nized dealer and is certified as to fineness of at least 99.5 percent;  
6 however, investments under this paragraph may not exceed 15 percent of  
7 the total investments of the pension fund;

8 (25) foreign time deposits of both United States-owned and  
9 foreign-owned banks and trust companies denominated in either United  
10 States dollars or foreign currencies; however, investments under this  
11 paragraph may not exceed 25 percent of the total investments of the pen-  
12 sion fund.

13 \* Sec. 7. AS 39.35.110(c) is amended to read:

14 (c) In making investments the commissioner of revenue shall exer-  
15 cise the judgment and care under the circumstances then prevailing which  
16 an institutional investor [A MAN] of ordinary prudence, discretion, and  
17 intelligence exercises in the management of large investments entrusted  
18 to it [HIS OWN AFFAIRS] not in regard to speculation but in regard to  
19 the permanent disposition of [HIS] funds, considering [THE] probable  
20 safety of capital as well as probable income [FROM THEM AS WELL AS THE  
21 PROBABLE SAFETY OF HIS CAPITAL]. However, no more than 50 percent of  
22 the pension fund may be invested at a given time in [MUTUAL FUNDS AND]  
23 corporate stocks and debt securities [BONDS], nor may [ANY] more than  
24 five percent of the voting stock of one corporation be owned. Stocks  
25 eligible for purchase are restricted to stocks which, except for bank  
26 stocks and [,] insurance stocks [, AND SHARES IN MUTUAL FUNDS], are  
27 listed upon an exchange registered with the Federal Securities and  
28 Exchange Commission.

29 \* Sec. 8. AS 39.35.110(e) is repealed and re-enacted to read:

1 (e) To qualify as a mortgage which may be purchased under (a)(11),  
2 (12), or (13) of this section,

3 (1) the originating financial institution must certify that  
4 the mortgage being sold has been made in compliance with law and that  
5 liens supporting the mortgage have been perfected;

6 (2) the mortgage may not have been held by the originating  
7 financial institution for a period greater than 90 days.

8 \* Sec. 9. AS 39.35.110 is amended by adding new subsections to read:

9 (h) The commissioner of revenue may enter into futures contracts  
10 for the sale of investments purchased under (a) of this section only for  
11 the purpose of hedging an existing equivalent ownership position in the  
12 investments.

13 (i) The commissioner of revenue may transfer at any time a portion  
14 of the assets of the retirement fund to a trust which is qualified under  
15 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal  
16 Revenue Code of 1954, as amended, and which is maintained as a medium  
17 for pooling a portion of the funds of pension and profit sharing trusts  
18 for diversifying investments in real estate and interests in real es-  
19 tate.

20 (j) The commissioner of revenue may enter into a contract or trust  
21 agreement necessary to effectuate the transfer of assets of the pension  
22 fund or to maintain the assets of the pension fund to be transferred to  
23 a trust under (i) of this section.

24 \* Sec. 10. AS 39.35.110(b) and (g) are repealed.

25 \* Sec. 11. This Act takes effect immediately in accordance with AS 01.10.-  
26 070(c).

*Finn*

Introduced: 2/14/79  
Referred: Finance

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

IN THE HOUSE

HOUSE BILL NO. 208

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to pension fund investments; and providing for an effective date."

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

\* Section 1. AS 14.25.180(b) is amended to read:

(b) When, in the opinion of the commissioner of administration, there is on hand in the retirement fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus or so much of it as in the judgment of the commissioner of administration is considered proper may be invested by the commissioner of revenue in (1) bonds or other interest-bearing obligations and securities of the United States or an agency of the United States, a state of the United States, or a political subdivision of any state of the United States, if the political subdivision has a population as shown by the last federal census preceding the investment of no less than 30,000 inhabitants, except no population limitation applies to a political subdivision of this state; (2) first lien real estate mortgage securities insured by the Federal Housing Administration under the National Housing Act of the United States, or held by the Department of Commerce and Economic Development, or the Department of Natural Resources; (3) corporation bonds, and preferred and common stocks the principal, interest, or dividends of which are payable in either United States dollars or foreign currencies as the commissioner of revenue considers proper investments for the funds; (4) shares of federally chartered savings and loan associations in Alaska, to the

1 extent that the investment is insured by the federal government or by  
2 an agency of the federal government; (5) deposits with mutual savings  
3 banks in Alaska, to the extent that the investment is insured by the  
4 federal government or an agency of the federal government; (6) deposits  
5 with state and national banks in Alaska to the extent that the invest-  
6 ment is insured by the federal government or an agency of the federal  
7 government; (7) loans guaranteed by the division of veterans' affairs  
8 under AS 26.15.040(b); (8) [deleted] (9) the guaranteed portion of  
9 Small Business Administration loans; (10) first lien real estate  
10 mortgages guaranteed by the federal Veterans Administration; (11)  
11 notes secured by mortgages of commercial or residential real estate or  
12 other security if the mortgages are insured by a private mortgage  
13 insurance corporation which is authorized to do business in Alaska and  
14 has combined capital, surplus and reserves aggregating at least  
15 \$20,000,000; however, (A) no mortgage insurance is necessary for  
16 commercial loans having loan-to-value ratios of less than 50 per cent  
17 and the minimum coverage of other commercial loans shall be 10 per  
18 cent for those having a loan-to-value ratio of 50 - 60 per cent and 15  
19 per cent for those having a loan-to-value ratio greater than 60 per  
20 cent but no more than 75 per cent, and (B) no mortgage insurance is  
21 necessary for residential loans having a loan-to-value ratio of less  
22 than 70 per cent and the minimum coverage of other residential loans  
23 shall be 10 per cent for those having a loan-to-value ratio greater  
24 than 70 per cent but less than 90 per cent and 20 per cent for those  
25 having a loan-to-value ratio of 90 per cent; (12) conventional residen-  
26 tial mortgages if the originating financial institution retains at  
27 least 25 per cent of the mortgage for a minimum of two years; (13)  
28 notes secured by mortgages of commercial real estate if the originating  
29 financial institution retains at least 25 per cent of the mortgage;

1 (14) FHA guaranteed portion of business and industrial loans made  
2 under the Rural Development Act of 1972; (15) guaranteed portion of  
3 loans made under the Federal Ship Financing Act of 1972. No more than  
4 25 per cent of the surplus may be invested in mortgage securities of  
5 the Department of Commerce and Economic Development, and the state  
6 shall appropriate sufficient money from the general fund to reimburse  
7 the teachers' retirement system for any losses incurred as a result of  
8 failure of the obligors to pay on the notes. No more than \$400,000 of  
9 the surplus may be invested annually in the mortgage securities of the  
10 Department of Natural Resources, and the state shall appropriate  
11 sufficient money from the general fund to reimburse the teachers'  
12 retirement system for any losses incurred as a result of failure of  
13 the obligors to pay on the notes; (16) bonds, debentures, notes, or  
14 other obligations issued, guaranteed, or assumed as to both principal  
15 and interest by the government of the Dominion of Canada, or by any  
16 province of Canada, or by any municipality of Canada which has a  
17 population of not less than 150,000, if (A) the full faith and credit  
18 of the issuer, guarantor, or assumer of the bonds, debentures, notes,  
19 or other obligations is pledged for the payment of principal and  
20 interest on them, (B) the principal and interest on them is payable in  
21 United States currency, either unconditionally or at the option of the  
22 holder, and (C) these obligations are rated A or an equivalent quality  
23 by a nationally recognized rating organization; (17) bankers' accept-  
24 ances which are eligible for discount at the Federal Reserve Bank and  
25 negotiable time certificates of deposit issued by commercial banks.

26 \* Sec. 2. AS 14.25.180(b) is amended by adding new paragraphs to read:

27 (18) foreign time deposits of both United States owned and  
28 foreign owned banks and trust companies denominated in either United  
29 States dollars or foreign currencies, those holdings not to exceed 25

1 per cent of total invested funds;

2 (19) securities of foreign governments, foreign governmental  
3 agencies, and foreign corporations the principal, interest or dividends  
4 of which are payable in either United States dollars or foreign curren-  
5 cies, those holdings not to exceed 15 per cent of the total invested  
6 fund;

7 (20) gold bullion, silver bullion, and platinum not to  
8 exceed in aggregate 15 per cent of total invested funds.

9 \* Sec. 3. AS 14.25.180 is amended by adding new subsections to read:

10 (g) The commissioner of revenue may enter into futures contracts  
11 for the sale of foreign currencies for the purpose of hedging an  
12 existing time deposit in that currency.

13 (h) The commissioner of revenue may enter into futures contracts  
14 for the sale of obligations of the United States or agencies or  
15 instrumentalities of the United States for the purpose of hedging an  
16 existing equivalent ownership position in these securities.

17 (i) The commissioner of revenue may enter into futures contracts  
18 for the purchase and sale of gold, silver, and platinum for the purpose  
19 of hedging an existing equivalent ownership position in these metals.

20 (j) The commissioner of revenue may transfer at any time a portion  
21 of the assets of the retirement fund to any trust which is qualified  
22 under sec. 401(a) and exempt from taxation under sec. 501(a) of the  
23 Internal Revenue Code of 1954, as amended, and is maintained as a  
24 medium for pooling a portion of the funds of pension and profit sharing  
25 trusts for diversifying investments in real estate and interests in  
26 real estate.

27 (k) The commissioner of revenue may enter into any contract or  
28 trust agreement necessary to effectuate the transfer of assets or  
29 maintain the assets to be transferred to a trust under (j) of this

1 section.

2 \* Sec. 4. AS 39.25.110(a) is amended by adding new paragraphs to read:

3 (18) foreign time deposits of both United States owned and  
4 foreign owned banks and trust companies denominated in either United  
5 States dollars or foreign currencies, those holdings not to exceed 25  
6 per cent of total invested funds;

7 (19) securities of foreign governments, foreign governmental  
8 agencies, and foreign corporations the principal, interest, or divi-  
9 dends of which are payable in either United States dollars or foreign  
10 currencies, those holdings not to exceed 15 per cent of the total  
11 invested funds;

12 (20) gold bullion, silver bullion, and platinum not to  
13 exceed in aggregate 15 per cent of total invested funds.

14 \* Sec. 5. AS 39.35.110 is amended by adding new subsections to read:

15 (h) The commissioner of revenue may enter into futures contracts  
16 for the sale of foreign currencies for the purpose of hedging an  
17 existing time deposit in that currency.

18 (i) The commissioner of revenue may enter into futures contracts  
19 for the sale of obligations of the United States or agencies or instru-  
20 mentalities of the United States for the purpose of hedging an existing  
21 equivalent ownership position in these securities.

22 (j) The commissioner of revenue may enter into futures contracts  
23 for the purchase and sale of gold, silver, and platinum for the purpose  
24 of hedging an existing equivalent ownership position in these metals.

25 (k) The commissioner of revenue may transfer at any time a por-  
26 tion of the assets of the pension fund to any trust which is qualified  
27 under sec. 401(a) and exempt from taxation under sec. 501(a) of the  
28 Internal Revenue Code of 1954, as amended, and is maintained as a  
29 medium for pooling a portion of the funds of pension and profit sharing

1 trusts for diversifying investments in real estate and interests in  
2 real estate.

3 (1) The commissioner of revenue may enter into any contract or  
4 trust agreements necessary to effectuate the transfer of assets or  
5 maintain the assets to be transferred to a trust under (k) of this  
6 section.

7 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
8 10.070(c).

PR 208

February 13, 1979

The Honorable Terry Gardiner  
Speaker of the House  
Alaska State Legislature  
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting a bill relating to pension fund investments. This bill would amend the state's authority under AS 14.25.180 and AS 39.35.110 to include investments and investment techniques which have historically proven their value during periods of high inflation.

During calendar year 1978, the national rate of inflation again reached double digit levels and averaged 9.1 per cent for the year. During the same period, the earnings realized by each of the pension funds averaged between 8 and 8.5 per cent. The purchasing power of pension fund benefits thus eroded by nearly 1 per cent during calendar year 1978.

The state's ability to meet the threat of inflation in relation to the pension fund, is limited to the investments which we are permitted by statute to purchase. The pension funds are currently invested in conventional mortgages, corporate and government debt, and common stocks. Although the first two categories have approached the inflation rate, they have not yet exceeded it on an annualized basis. None of the investments currently allowed by law yields an amount sufficient to preserve the capital of the pension funds. For this reason, I am submitting amendments to expand investment authority to include the following investments and investment techniques:

1. Precious Metals: The bill authorizes purchase of gold, silver, and platinum bullion not to exceed 15 per cent of the total pension fund. During times of high inflation precious metals have proven themselves to be the most reliable means of preserving capital. These investments are highly liquid and the pension fund

(should it establish a bullion position) would always be able to realize cash for that position with little effort. During calendar year 1978 the price of gold bullion appreciated by 25 per cent.

2. Foreign Currency Time Deposits: The bill authorizes purchase of certificates of deposit denominated in strong foreign currencies (such as Swiss franc, German mark, and Japanese yen) not to exceed 25 per cent of the total pension fund. These deposits would combine the advantages of income with substantial capital appreciation during a period of dollar weakness. In calendar year 1978 the Swiss franc rose by more than 30 per cent against the U. S. dollar.

3. Foreign Securities: The bill authorizes investment in corporate and government securities the principal and interest of which is denominated in strong foreign currencies. The reasons for doing so include those described under foreign time deposits (number 2 above) with the added advantage of participating in a strong securities market. Research indicates that in a period of currency appreciation the securities markets of countries with strong currencies have, on the average, proven to be quite attractive. This type of investment would be limited by statute to no more than 15 per cent of the total fund.

4. Real Estate Equity Funds: The bill authorizes investment in real estate equity funds that qualify under sections 401a and 501a of the Internal Revenue Code as tax exempt funds. Participation in these funds is limited to tax exempt pension plans invested in the equity of income-producing real estate. During a period of high inflation, the great advantage of these investments has proven to be the ability of the equity owner to adjust lease rentals to compensate for inflation. During calendar year 1978 the return on investments in two of the largest national funds exceeded 12 per cent.

5. Futures Hedge: The bill authorizes sale of any investment owned by the pension fund in the futures market, i.e., for delivery at a specified future date. The technique is similar to obtaining an insurance policy against loss by market depreciation. This bill specifies that futures contracts must be used as a "hedge" (the term carries an industry definition that is the exact opposite of speculation) and that at no time could a future sale of an investment exceed actual bullion, currency, or securities owned at the time the contract is entered into. In this manner, the pension fund is in a

position to deliver the investment sold at maturity of the futures contract, and in no way is the technique to be confused with speculation. The added authority to purchase bullion in the futures market equal to an equivalent spot position would eliminate the need for physical delivery of the metal.

Both AS 14.25.180 and AS 39.35.110 charge the commissioner of revenue with the responsibility of investing pension fund money in accordance with the "prudent man rule," i.e., to act as would the person of prudence and intelligence in the management of pension fund investments. In my opinion, this bill is prudent within the classical definition of the term. In a period of rising inflation with declining markets that fail to preserve the capital of funds invested, it is prudent to seek out those markets which historically have proven themselves to be the best hedge against erosion of purchasing power. I urge your prompt passage of this bill.

Sincerely,

A handwritten signature in dark ink, appearing to read "JSH", written in a cursive style.

Jay S. Hammond  
Governor

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST  
 Bill/Resolution No. HOUSE BILL NO. 208  
 Title An act relating to pension fund investments; and providing for an effective date  
 Requested by Governor Date 2-10-79

II. FISCAL DETAIL  
 Agency Affected Department of Revenue  
 Program Category Affected General Government  
 BRU, Program, or Subprogram(s) Affected Treasury Management  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)  
EXPENDITURES (Thousands of Dollars)

|                          | FY 79 | FY 80 | FY 81 | FY 82 | FY 83 | FY 84 |
|--------------------------|-------|-------|-------|-------|-------|-------|
| 100 PERSONAL SERVICES    |       |       |       |       |       |       |
| 200 TRAVEL               |       | 1.2   | -0-   | -0-   | -0-   | -0-   |
| 300 CONTRACTUAL          |       | 6.0   | 6.2   | 6.5   | 6.7   | 6.9   |
| 400 COMMODITIES          |       |       |       |       |       |       |
| 500 EQUIPMENT            |       |       |       |       |       |       |
| 600 LAND & STRUCTURES    |       |       |       |       |       |       |
| 700 GRANTS, CLAIMS, ETC. |       |       |       |       |       |       |
| TOTAL                    |       | 7.2   | 6.2   | 6.5   | 6.7   | 6.9   |

FUNDING (Thousands of Dollars)

|                             | FY 79 | FY 80 | FY 81 | FY 82 | FY 83 | FY 84 |
|-----------------------------|-------|-------|-------|-------|-------|-------|
| GENERAL FUND                |       |       |       |       |       |       |
| FEDERAL FUNDS               |       |       |       |       |       |       |
| OTHER (Specify Fund Source) |       |       |       |       |       |       |
| PERS                        |       | 3.6   | 3.1   | 3.2   | 3.4   | 3.4   |
| TRS                         |       | 3.6   | 3.1   | 3.3   | 3.3   | 3.5   |
|                             |       | 7.2   | 6.2   | 6.5   | 6.7   | 6.9   |

POSITIONS

|           | FY 79 | FY 80 | FY 81 | FY 82 | FY 83 | FY 84 |
|-----------|-------|-------|-------|-------|-------|-------|
| FULL TIME |       | -0-   | -0-   | -0-   | -0-   | -0-   |
| PART TIME |       |       |       |       |       |       |
| TEMPORARY |       |       |       |       |       |       |

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

The above charges represent the incremental cost of educational seminars for professional staff and safekeeping charges for the custody and transfer of investments detailed in the subject bill.

IV. DATE February 11, 1979 PREPARED BY Peter A. Bushre  
 AGENCY Department of Revenue  
 PHONE 465-2350  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

ALASKA STATE LEGISLATURE

ELEVENTH Legislature FIRST Session

HOUSE ...BILL..... NO. 208...

By ...THE RULES COMMITTEE BY...  
REQUEST OF THE GOVERNOR

"An Act relating to pension fund investments; and providing for an effective date."

Pension fund investments

Introduced in the House ...2-14..., 19.79

HISTORY IN THE HOUSE

|                              |   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
|------------------------------|---|------|----------------|------|------|------|------|--------|--------|---------|---------|-----------------|--|------|----------------|------|------|------|------|--------|--------|---------|---------|------------------------------|--|-------------------|--|----------------|--|
| 19 79                        | Read first time and referred to Committee on  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Feb. 14                      | <b>Finance</b>  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
|                              | Reported back with recommendation that  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
|                              | Read second time and  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
|                              | Read third time and   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
|                              | <table border="0"> <tr> <td>PASS</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> <tr> <td colspan="2">Reconsideration</td> </tr> <tr> <td>PASS</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> <tr> <td colspan="2">Reported correctly engrossed</td> </tr> <tr> <td colspan="2">Signed by Speaker</td> </tr> <tr> <td colspan="2">Sent to Senate</td> </tr> </table> | PASS | Effective Date | Yeas | Yeas | Nays | Nays | Absent | Absent | Excused | Excused | Reconsideration |  | PASS | Effective Date | Yeas | Yeas | Nays | Nays | Absent | Absent | Excused | Excused | Reported correctly engrossed |  | Signed by Speaker |  | Sent to Senate |  |
| PASS                         | Effective Date  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Yeas                         | Yeas  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Nays                         | Nays  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Absent                       | Absent  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Excused                      | Excused   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Reconsideration              |   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| PASS                         | Effective Date  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Yeas                         | Yeas  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Nays                         | Nays  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Absent                       | Absent  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Excused                      | Excused   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Reported correctly engrossed |   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Signed by Speaker            |   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| Sent to Senate               |   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |
| CHIEF CLERK OF THE HOUSE     |   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                   |  |                |  |

HISTORY IN THE SENATE

|                              |  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
|------------------------------|--|------|----------------|------|------|------|------|--------|--------|---------|---------|-----------------|--|------|----------------|------|------|------|------|--------|--------|---------|---------|------------------------------|--|---------------------|--|-------------------|--|
| 19                           | Read first time and referred to Committee on   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
|                              | Reported back with recommendation that   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
|                              | Read second time and   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
|                              | Read third time and  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
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| PASS                         | Effective Date   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Yeas                         | Yeas   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Nays                         | Nays   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Absent                       | Absent   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Excused                      | Excused  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Reconsideration              |  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| PASS                         | Effective Date   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Yeas                         | Yeas   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Nays                         | Nays   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Absent                       | Absent   |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Excused                      | Excused  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Reported correctly engrossed |  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Signed by President          |  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| Returned to House            |  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |
| SECRETARY OF THE SENATE      |  |      |                |      |      |      |      |        |        |         |         |                 |  |      |                |      |      |      |      |        |        |         |         |                              |  |                     |  |                   |  |

HISTORY IN THE HOUSE

|    |  |
|----|--|
| 19 | Received from Senate   |
|    | Concurred in Senate amendment thus adopting:<br>VOTE                                 |
|    | Failed to concur in Senate amendment; asked Senate to recede<br>VOTE                 |
|    | Senate receded from amendment<br>VOTE  |
|    | Senate failed to recede from amendment<br>VOTE                                       |
|    | CC appointed by House  |
|    | CC appointed by Senate   |
|    | CC adopted by House<br>VOTE  |
|    | CC adopted by Senate<br>VOTE   |
|    | To enrolling<br>Reported correctly enrolled<br>Sent to Governor<br>..... by Governor |
|    | Filed with Lt. Governor  |
|    | Chapter No. ....   |

# COMMITTEE REPORT

## HOUSE

FURTHER:

February 14, 1979

Date: 4/16/80

Mr. Speaker:

The Committee on FINANCE has had HB 208

"An Act relating to pension fund investments; eff. date."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for HR 208  same title  
 new title
- and recommends industrial rec.
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

**MEMBERS SIGNING  
DO PASS**

Roberts DO PASS -  
GOLDEN OPPORTUNITY

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**MEMBERS HAVING  
OTHER RECOMMENDATIONS:**

Freeman \_\_\_\_\_

Smith - No Rec

Matheny - DO NOT PASS union

\_\_\_\_\_

\_\_\_\_\_

Freeman  
Vice CHAIRMAN

FORM 02-0018C  
FOR BRIEF COMMUNICATIONS  
MAY BE HANDWRITTEN

# MEMORANDUM

## State of Alaska

TO:  Legal

DEPT. \_\_\_\_\_  
DIV. \_\_\_\_\_  
SEC. \_\_\_\_\_

DATE : April 16, 1980

FROM: Rocky Fritz  
House Finance  
Room 519, Capitol  
PI: 3795

SUBJECT:

Please prepare the attached work draft of (SB) 200 in final form and return to me as soon as possible. The Committee made no changes to the work draft.

Vassar ✓  
4-14-80

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 208

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment of state retirement  
7 and pension funds; and providing for an effective  
8 date."

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

10 \* Section 1. AS 14.25.180(b) is amended to read:

11 (b) When, in the opinion of the commissioner of administration,  
12 there is on hand in the retirement fund a surplus over and above a  
13 reasonably safe amount to take care of current demands upon the fund,  
14 the surplus or so much of it as in the judgment of the commissioner of  
15 administration is considered proper may be invested at competitive na-  
16 tional market rates by the commissioner of revenue in

17 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURITIES  
18 OF THE UNITED STATES OR AN AGENCY OF THE UNITED STATES, A STATE OF THE  
19 UNITED STATES, OR A POLITICAL SUBDIVISION OF ANY STATE OF THE UNITED  
20 STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS SHOWN BY THE  
21 LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NO LESS THAN 30,000  
22 INHABITANTS, EXCEPT NO POPULATION LIMITATION APPLIES TO A POLITICAL  
23 SUBDIVISION OF THIS STATE;

24 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE  
25 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE  
26 UNITED STATES, OR HELD BY THE DEPARTMENT OF COMMERCE, OR THE DEPARTMENT  
27 OF NATURAL RESOURCES;

28 (3) CORPORATION BONDS, AND PREFERRED AND COMMON STOCKS AS THE  
29 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS; ]

1 (4) shares of federally chartered savings and loan associa-  
2 tions in Alaska, to the extent that the investment is insured by the  
3 federal government or by an agency of the federal government;

4 (5) deposits with mutual savings banks in Alaska, to the  
5 extent that the investment is insured by the federal government or an  
6 agency of the federal government;

7 (6) deposits with state and national banks in Alaska to the  
8 extent that the investment is insured by the federal government or an  
9 agency of the federal government;

10 [(7) LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS  
11 UNDER AS 26.15.040(b);]

12 (8) (deleted);

13 (9) the guaranteed portion of Small Business Administration  
14 loans;

15 (10) first lien real estate mortgages guaranteed by the federal  
16 Veterans Administration;

17 (11) notes secured by mortgages of commercial or residential  
18 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured  
19 by a private mortgage insurance corporation which is authorized to do  
20 business in Alaska and has combined capital, surplus and reserves aggre-  
21 gating at least \$20,000,000; however,

22 (A) no mortgage insurance is necessary for commercial  
23 loans having loan-to-value ratios of less than 50 percent and the  
24 minimum coverage of other commercial loans shall be 10 percent for  
25 those having a loan-to-value ratio of 50-60 per cent and 15 percent  
26 for those having a loan-to-value ratio greater than 60 percent but  
27 no more than 75 percent, and

28 (B) no mortgage insurance is necessary for residential  
29 loans having a loan-to-value ratio of less than 70 percent and the

1 minimum coverage of other residential loans shall be 10 percent for  
2 those having a loan-to-value ratio greater than 70 percent but less  
3 than 90 percent and 20 percent for those having a loan-to-value  
4 ratio of 90 percent;

5 (12) conventional residential mortgages if the originating  
6 financial institution retains at least 25 percent of the mortgage for a  
7 minimum of two years;

8 (13) notes secured by mortgages of commercial buildings [REAL  
9 ESTATE] if the originating financial institution retains at least 25 per-  
10 cent of the mortgage until maturity;

11 (14) FHA guaranteed portion of business and industrial loans  
12 made under the Rural Development Act of 1972;

13 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP  
14 FINANCING ACT OF 1972. NO MORE THAN 25 PERCENT OF THE SURPLUS MAY BE  
15 INVESTED IN MORTGAGE SECURITIES OF THE DEPARTMENT OF COMMERCE, AND THE  
16 STATE SHALL APPROPRIATE SUFFICIENT MONEY FROM THE GENERAL FUND TO REIM-  
17 BURSE THE TEACHERS' RETIREMENT SYSTEM FOR ANY LOSSES INCURRED AS A  
18 RESULT OF FAILURE OF THE OBLIGORS TO PAY ON THE NOTES. NO MORE THAN  
19 \$400,000 OF THE SURPLUS MAY BE INVESTED ANNUALLY IN THE MORTGAGE SECURI-  
20 TIES OF THE DEPARTMENT OF NATURAL RESOURCES, AND THE STATE SHALL APPRO-  
21 PRIATE SUFFICIENT MONEY FROM THE GENERAL FUND TO REIMBURSE THE TEACHERS'  
22 RETIREMENT SYSTEM FOR ANY LOSSES INCURRED AS A RESULT OF FAILURE OF THE  
23 OBLIGORS TO PAY ON THE NOTES;

24 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,  
25 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-  
26 MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY  
27 MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,  
28 IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF  
29 THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE

1 PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST  
2 ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR  
3 AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN  
4 EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

5 (17) bankers' acceptances which are eligible for discount at  
6 the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit  
7 issued by United States domestic [COMMERCIAL] banks which are members of  
8 the Federal Deposit Insurance Corporation if a generally recognized  
9 secondary market exists for the certificates of deposit;

10 (18) obligations of, or obligations insured by or guaranteed  
11 by, the United States or agencies or instrumentalities of the United  
12 States;

13 (19) obligations secured by reserves paid in by the United  
14 States or agencies or instrumentalities of the United States or obliga-  
15 tions of corporations in which the United States is a shareholder or  
16 member;

17 (20) corporate debt securities with a minimum rating of "A" or  
18 an equivalent rating by a nationally recognized rating organization;

19 (21) preferred and common stock of companies which have paid  
20 dividends in each of the three years immediately preceding the invest-  
21 ment;

22 (22) commercial paper bearing the highest rating of a nation-  
23 ally recognized rating organization;

24 (23) securities of foreign governments, foreign governmental  
25 agencies, and foreign corporations the principal, interest or dividends  
26 on which are payable in either United States dollars or foreign curren-  
27 cies; however, investments under this paragraph may not exceed 15 per-  
28 cent of the total investments of the retirement fund;

29 (24) gold bullion if it is registered with a nationally recog-

nized dealer and is certified as to fineness of at least 99.5 percent;  
however, investments under this paragraph may not exceed 15 percent of  
the total investments of the retirement fund;

(25) foreign time deposits of both United States-owned and  
foreign-owned banks and trust companies denominated in either United  
States dollars or foreign currencies; however, investments under this  
paragraph may not exceed 25 percent of the total investments of the re-  
tirement fund.

\* Sec. 2. AS 14.25.180(c) is amended to read:

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor [MEN] of ordinary prudence, discretion, and intelligence exercises [EXERCISE] in the management of large investments entrusted to it [THEIR OWN AFFAIRS] not in regard to speculation but in regard to the permanent disposition of [THEIR] funds, considering [THE] probable safety of capital as well as probable income [THEREFROM AS WELL AS THE PROBABLE SAFETY OF THEIR CAPITAL]. However, no more than 50 percent of the retirement fund may be invested at any given time in corporate stocks and debt securities [BONDS], nor may more than five percent of the voting stock of a [ANY] corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

\* Sec. 3. AS 14.25.180(d)(5) is amended to read:

(5) register investments held in the retirement fund in the name of the system;

\* Sec. 4. AS 14.25.180(e) is repealed and re-enacted to read:

(e) To qualify as a mortgage which may be purchased under (b)(11), (12) or (13) of this section,

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1 (1) the originating financial institution must certify that  
2 the mortgage has been made in compliance with law and that liens sup-  
3 porting the mortgage have been perfected;

4 (2) the mortgage may not have been held by the originating  
5 financial institution for a period greater than 90 days.

6 \* Sec. 5. AS 14.25.180 is amended by adding new subsections to read:

7 (g) The commissioner of revenue may enter into futures contracts  
8 for the sale of investments purchased under (b) of this section only for  
9 the purpose of hedging an existing equivalent ownership position in the  
10 investments.

11 (h) The commissioner of revenue may transfer at any time a portion  
12 of the assets of the retirement fund to a trust which is qualified under  
13 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal  
14 Revenue Code of 1954, as amended, and which is maintained as a medium  
15 for pooling a portion of the funds of pension and profit-sharing trusts  
16 for diversifying investments in real estate and interests in real  
17 estate.

18 (i) The commissioner of revenue may enter into a contract or trust  
19 agreement necessary to effectuate the transfer of assets of the retire-  
20 ment fund or to maintain the assets of the retirement fund to be trans-  
21 ferred to a trust under (h) of this section.

22 \* Sec. 6. AS 39.35.110(a) is amended to read:

23 (a) When, in the opinion of the commissioner of administration,  
24 there is on hand in the pension fund a surplus over and above a reason-  
25 ably safe amount to take care of current demands upon the fund, the  
26 surplus, or so much of it as in the judgment of the commissioner of  
27 administration is considered proper, may be invested at competitive  
28 national market rates by the commissioner of revenue in

29 [(1) BONDS OR OTHER INTEREST-BEARING OBLIGATIONS AND SECURI-

1 TIES OF THE (A) UNITED STATES OR AN AGENCY OF THE UNITED STATES, (B) A  
2 STATE OF THE UNITED STATES, OR (C) A POLITICAL SUBDIVISION OF A STATE OF  
3 THE UNITED STATES, IF THE POLITICAL SUBDIVISION HAS A POPULATION AS  
4 SHOWN BY THE LAST FEDERAL CENSUS PRECEDING THE INVESTMENT OF NOT LESS  
5 THAN 30,000 INHABITANTS; WITH RESPECT TO POLITICAL SUBDIVISIONS OF THIS  
6 STATE, NO POPULATION LIMITATION APPLIES;

7 (2) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES INSURED BY THE  
8 FEDERAL HOUSING ADMINISTRATION UNDER THE NATIONAL HOUSING ACT OF THE  
9 UNITED STATES OR HELD BY THE DIVISION OF VETERANS' AFFAIRS UNDER  
10 AS 26.15, OR LOANS GUARANTEED BY THE DIVISION OF VETERANS' AFFAIRS UNDER  
11 AS 26.15.040(b);

12 (3) CORPORATION BONDS AND PREFERRED AND COMMON STOCKS AS THE  
13 COMMISSIONER OF REVENUE CONSIDERS PROPER INVESTMENTS FOR THE FUNDS;

14 (4) FIRST LIEN REAL ESTATE MORTGAGE SECURITIES HELD BY THE  
15 DEPARTMENT OF NATURAL RESOURCES UNDER AS 03.10;]

16 (5) shares of federally chartered savings and loan associa-  
17 tions in Alaska, to the extent that the [SUCH] investment is insured by  
18 the federal government or an agency of the federal government [THEREOF];

19 (6) deposits with mutual savings banks in Alaska, to the  
20 extent that the [SUCH] investment is insured by the federal government  
21 or an agency of the federal government [THEREOF];

22 (7) deposits with state and national banks in Alaska to the  
23 extent that the investment is insured by the federal government or an  
24 agency of the federal government;

25 (8) [MUTUAL FUNDS;]

26 (9) the guaranteed portion of Small Business Administration  
27 loans;

28 (10) first lien real estate mortgages guaranteed by the  
29 federal Veterans Administration;

1 (11) notes secured by mortgages of commercial or residential  
2 buildings [REAL ESTATE OR OTHER SECURITY] if the mortgages are insured  
3 by a private mortgage insurance corporation which is authorized to do  
4 business in Alaska and has combined capital, surplus and reserves aggregating  
5 at least \$20,000,000; however,

6 (A) no mortgage insurance is necessary for commercial  
7 loans having loan-to-value ratios of less than 50 percent and the  
8 minimum coverage of other commercial loans shall be 10 percent for  
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10 for those having a loan-to-value ratio greater than 60 percent but  
11 no more than 75 percent, and

12 (B) no mortgage insurance is necessary for residential  
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14 minimum coverage of other residential loans shall be 10 percent for  
15 those having a loan-to-value ratio greater than 70 percent but less  
16 than 90 percent and 20 percent for those having a loan-to-value  
17 ratio of 90 percent;

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24 (14) FHA guaranteed portion of business and industrial loans  
25 made under the Rural Development Act of 1972;

26 [(15) GUARANTEED PORTION OF LOANS MADE UNDER THE FEDERAL SHIP  
27 FINANCING ACT OF 1972;

28 (16) BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS ISSUED,  
29 GUARANTEED, OR ASSUMED AS TO BOTH PRINCIPAL AND INTEREST BY THE GOVERN-

1           MENT OF THE DOMINION OF CANADA, OR BY ANY PROVINCE OF CANADA, OR BY ANY  
2           MUNICIPALITY OF CANADA WHICH HAS A POPULATION OF NOT LESS THAN 150,000,  
3           IF (A) THE FULL FAITH AND CREDIT OF THE ISSUER, GUARANTOR, OR ASSUMER OF  
4           THE BONDS, DEBENTURES, NOTES, OR OTHER OBLIGATIONS IS PLEDGED FOR THE  
5           PAYMENT OF PRINCIPAL AND INTEREST ON THEM, (B) THE PRINCIPAL AND INTEREST  
6           ON THEM IS PAYABLE IN UNITED STATES CURRENCY, EITHER UNCONDITIONALLY OR  
7           AT THE OPTION OF THE HOLDER, AND (C) THESE OBLIGATIONS ARE RATED A OR AN  
8           EQUIVALENT QUALITY BY A NATIONALLY RECOGNIZED RATING ORGANIZATION;]

9           (17) bankers' acceptances which are eligible for discount at  
10          the Federal Reserve Bank and [NEGOTIABLE TIME] certificates of deposit  
11          issued by United States domestic [COMMERCIAL] banks which are members of  
12          the Federal Deposit Insurance Corporation if a generally recognized  
13          secondary market exists for the certificates of deposit;

14          (18) obligations of, or obligations insured by or guaranteed  
15          by, the United States or agencies or instrumentalities of the United  
16          States;

17          (19) obligations secured by reserves paid in by the United  
18          States or agencies or instrumentalities of the United States or obliga-  
19          tions of corporations in which the United States is a shareholder or  
20          member;

21          (20) corporate debt securities with a minimum rating of "A" or  
22          an equivalent rating by a nationally recognized rating organization;

23          (21) preferred and common stock of companies which have paid  
24          dividends in each of the three years immediately preceding the invest-  
25          ment;

26          (22) commercial paper bearing the highest rating of a nation-  
27          ally recognized rating organization;

28          (23) securities of foreign governments, foreign governmental  
29          agencies, and foreign corporations the principal, interest or dividends

1 on which are payable in either United States dollars or foreign curren-  
2 cies; however, investments under this paragraph may not exceed 15 per-  
3 cent of the total investments of the pension fund;

4 (24) gold bullion if it is registered with a nationally recog-  
5 nized dealer and is certified as to fineness of at least 99.5 percent;  
6 however, investments under this paragraph may not exceed 15 percent of  
7 the total investments of the pension fund;

8 (25) foreign time deposits of both United States-owned and  
9 foreign-owned banks and trust companies denominated in either United  
10 States dollars or foreign currencies; however, investments under this  
11 paragraph may not exceed 25 percent of the total investments of the pen-  
12 sion fund.

13 \* Sec. 7. AS 39.35.110(c) is amended to read:

14 (c) In making investments the commissioner of revenue shall exer-  
15 cise the judgment and care under the circumstances then prevailing which  
16 an institutional investor [A MAN] of ordinary prudence, discretion, and  
17 intelligence exercises in the management of large investments entrusted  
18 to it [HIS OWN AFFAIRS] not in regard to speculation but in regard to  
19 the permanent disposition of [HIS] funds, considering [THE] probable  
20 safety of capital as well as probable income [FROM THEM AS WELL AS THE  
21 PROBABLE SAFETY OF HIS CAPITAL]. However, no more than 50 percent of  
22 the pension fund may be invested at a given time in [MUTUAL FUNDS AND]  
23 corporate stocks and debt securities [BONDS], nor may [ANY] more than  
24 five percent of the voting stock of one corporation be owned. Stocks  
25 eligible for purchase are restricted to stocks which, except for bank  
26 stocks and [,] insurance stocks [, AND SHARES IN MUTUAL FUNDS], are  
27 listed upon an exchange registered with the Federal Securities and  
28 Exchange Commission.

29 \* Sec. 8. AS 39.35.110(e) is repealed and re-enacted to read:

1 (e) To qualify as a mortgage which may be purchased under (a)(11),  
2 (12), or (13) of this section,

3 (1) the originating financial institution must certify that  
4 the mortgage being sold has been made in compliance with law and that  
5 liens supporting the mortgage have been perfected;

6 (2) the mortgage may not have been held by the originating  
7 financial institution for a period greater than 90 days.

8 \* Sec. 9. AS 39.35.110 is amended by adding new subsections to read:

9 (h) The commissioner of revenue may enter into futures contracts  
10 for the sale of investments purchased under (a) of this section only for  
11 the purpose of hedging an existing equivalent ownership position in the  
12 investments.

13 (i) The commissioner of revenue may transfer at any time a portion  
14 of the assets of the retirement fund to a trust which is qualified under  
15 sec. 401(a) and exempt from taxation under sec. 501(a) of the Internal  
16 Revenue Code of 1954, as amended, and which is maintained as a medium  
17 for pooling a portion of the funds of pension and profit sharing trusts  
18 for diversifying investments in real estate and interests in real es-  
19 tate.

20 (j) The commissioner of revenue may enter into a contract or trust  
21 agreement necessary to effectuate the transfer of assets of the pension  
22 fund or to maintain the assets of the pension fund to be transferred to  
23 a trust under (i) of this section.

24 \* Sec. 10. AS 39.35.110(b) and (g) are repealed.

25 \* Sec. 11. This Act takes effect immediately in accordance with AS 01.10.  
26 070(c).

February 11, 1980

The Honorable Russ Meekins, Jr.  
Chairman, House Finance Committee  
Alaska State Legislature  
Pouch SB  
Juneau, Alaska 99811

Dear Representative Meekins:

I am writing you to express my views on House Bill 208 entitled Pension Funds Investment.

Currently, I am serving as an elective member of the Public Employees Retirement Board and have served in this capacity for approximately the last year and a half.

The Department of Revenue, through Peter A. Bushre, has done an excellent job of briefing both the Public Employees Retirement Board and the Teachers Retirement Board on the current problems existing with the investment options available under existing state statutes. I support the concept of House Bill 208 which gives latitude to the state in investing funds of both retirement systems.

The part I am concerned about, and I feel should be addressed, is the board having a policy role in determining the investment practices of the fund. I base this on the fact part of the money is actually funds contribute<sup>d</sup> by the participants - not solely money appropriated by the state. Therefore, I feel the members should have a voice in the investment practices.

You will note from reviewing the bill, the total disgression, as now proposed, lies with the Commissioner of Revenue. In my opinion, this gives one individual too much latitude, authority and disgression over funds which participants of the system have contributed personal funds.


I have discussed my concern with other board members and with Deputy Commissioner Bushre. They all agree both boards should, through statutory authority, be given policy-making authority regarding the investment. It is my understanding that Deputy Commissioner Bushre will be making an amendment proposal and forwarding it to you for consideration.

The Honorable Russ Meekins, Jr.  
February 11, 1980  
Page -2-

I am under the impression that other board members will also be corresponding with you concerning their feelings.

If you have any questions, please feel free to contact me at my Anchorage address.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'J. Wellington', with a long horizontal flourish extending to the right.

James P. Wellington  
2405 Aspen Drive  
Anchorage, Alaska 99503

JPW/nm

cc: The Honorable Joe Montgomery  
Deputy Commissioner Peter A. Bushre

# MEMORANDUM

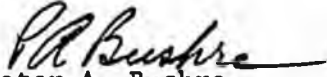
TO:  Honorable Russ Meekins, Chairman  
House Finance Committee

DATE: February 14, 1980

FILE NO:

TELEPHONE NO:

FROM:

  
Peter A. Bushre  
Deputy Commissioner  
Department of Revenue

SUBJECT: HB 208

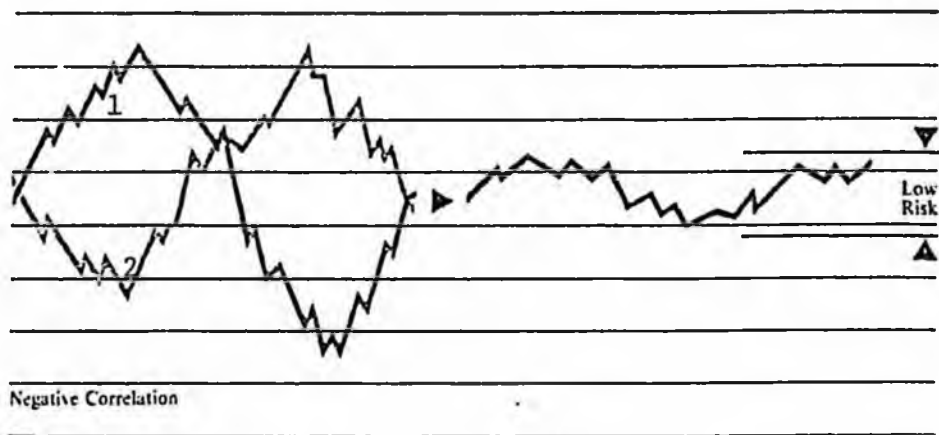
The Alaska statutes under which pension fund monies are currently invested were developed between 1955 and 1964; i.e., during a period of low inflation, low energy costs, American energy self-sufficiency, and economic and political stability. For these times common stock, mortgages, and government and corporate bonds proved to be excellent investment vehicles. Inflation was running at less than 2% per annum and the yields provided by these instruments actually gave the State a "real" or inflation-adjusted rate of return. Unfortunately such conditions no longer prevail. Inflation has been at double digit levels for more than a year. Energy costs are high and the United States now depends on imports for more than 50% of its annual consumption. Economic and political conditions are both highly unstable, and we do not see any immediate prospect for change on the horizon. Today's conditions have been translated into investment terms by falling prices and rising interest rates.

The prudence of an investment is directly related to the economic and political conditions existing when it is made. History indicates that what is good for a period of relative economic stability is not good for a period of relative economic instability. I have attached a small chart published by State Street Bank of Boston to illustrate this fact. It compares gold with a composite average of United States securities between the years 1971 and 1977. As you can see these two markets have exhibited an inverse relationship to each other, due to the fact that gold consistently performs well during periods of rising inflation while the security markets on average have performed well during periods of declining rates of inflation. A portfolio with the position in each will average the risk of each as illustrated in exhibit 1 and will produce a relatively consistent store of value regardless of external conditions.

We are seeking the authority to invest in gold in order to more adequately diversify the investment mix of the State pension funds. The Prudent-Man Rule requires diversification of investments and the spreading of risks in order that any change in economic conditions or in the underlying value of any one investment will not adversely affect the retirement system as a whole. Under current law we have adequately diversified between different types of investment but only for stable economic and political conditions. We do not have any diversification capabilities for unstable economic and political conditions. Gold will provide that capability.

**EXHIBIT I  
CORRELATION  
OF ASSETS  
AFFECTS  
PORTFOLIO  
RISK...**

Example:  
U.S. versus Gold



It is occasionally possible to find markets in which there is a slightly negative or inverse correlation, such as normally exists between the U.S. market and a gold index. When two such markets are merged to create a portfolio, the risk reduction effect is very powerful. Overall portfolio risk under such conditions can be quite low relative to a portfolio entirely invested in U.S. securities.

1 = Gold  
2 = U.S. Securities

1.3 Mile Nelson Road  
S. R. Box 80470  
Fairbanks, AK 99701  
February 12, 1980

Representative Russ Meekins  
Finance Chair  
Pouch V  
Juneau, AK 99811

Dear Representative Meekins:

As a member of the Teacher Retirement System Board, I want you to know that I do support the concepts in HB 208, the bill allowing for greater flexibility in TRS and PERS pension fund investments, and I urge your support also.

At a meeting in Juneau yesterday, it was the consensus of the board that indeed times have changed and in our current economic climate, the people investing our money do need more possibilities available to them in order to preserve the purchasing power of the dollars entrusted to them.

At the same time that we offered our support, we asked that an amendment be attached making the two boards policy-making rather than advisory only. We have great concern that since the Commissioner of Revenue is a very political position, and since the politics of this state can and do change, there is no real continuity and it is very easy for each commissioner to blame all past ones for all the things wrong with our investment portfolios. If we had policy-making status, at least some basic parameters could be established, thereby giving all commissioners some guidelines within which to work.

Thus, I urge you to support HB 208 with the amendment regarding the status of the boards.

Thank you.

Sincerely,

*Dorothy J. Wells*

Dorothy J. Wells  
TRS Board Member

Introduced: 2/14/79  
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 208

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to pension fund investments; and  
7 providing for an effective date."

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

9 \* Section 1. AS 14.25.180(b) is amended to read:

10 (b) When, in the opinion of the commissioner of administration,  
11 there is on hand in the retirement fund a surplus over and above a  
12 reasonably safe amount to take care of current demands upon the fund,  
13 the surplus or so much of it as in the judgment of the commissioner of  
14 administration is considered proper may be invested by the commissioner  
15 of revenue in (1) bonds or other interest-bearing obligations and  
16 securities of the United States or an agency of the United States, a  
17 state of the United States, or a political subdivision of any state of  
18 the United States, if the political subdivision has a population as  
19 shown by the last federal census preceding the investment of no less  
20 than 30,000 inhabitants, except no population limitation applies to a  
21 political subdivision of this state; (2) first lien real estate mort-  
22 gage securities insured by the Federal Housing Administration under  
23 the National Housing Act of the United States, or held by the Depart-  
24 ment of Commerce and Economic Development, or the Department of Natural  
25 Resources; (3) corporation bonds, and preferred and common stocks the  
26 principal, interest, or dividends of which are payable in either  
27 United States dollars or foreign currencies as the commissioner of  
28 revenue considers proper investments for the funds; (4) shares of  
29 federally chartered savings and loan associations in Alaska, to the

1 extent that the investment is insured by the federal government or by  
2 an agency of the federal government; (5) deposits with mutual savings  
3 banks in Alaska, to the extent that the investment is insured by the  
4 federal government or an agency of the federal government; (6) deposits  
5 with state and national banks in Alaska to the extent that the invest-  
6 ment is insured by the federal government or an agency of the federal  
7 government; (7) loans guaranteed by the division of veterans' affairs  
8 under AS 26.15.040(b); (8) [deleted] (9) the guaranteed portion of  
9 Small Business Administration loans; (10) first lien real estate  
10 mortgages guaranteed by the federal Veterans Administration; (11)  
11 notes secured by mortgages of commercial or residential real estate or  
12 other security if the mortgages are insured by a private mortgage  
13 insurance corporation which is authorized to do business in Alaska and  
14 has combined capital, surplus and reserves aggregating at least  
15 \$20,000,000; however, (A) no mortgage insurance is necessary for  
16 commercial loans having loan-to-value ratios of less than 50 per cent  
17 and the minimum coverage of other commercial loans shall be 10 per  
18 cent for those having a loan-to-value ratio of 50 - 60 per cent and 15  
19 per cent for those having a loan-to-value ratio greater than 60 per  
20 cent but no more than 75 per cent, and (B) no mortgage insurance is  
21 necessary for residential loans having a loan-to-value ratio of less  
22 than 70 per cent and the minimum coverage of other residential loans  
23 shall be 10 per cent for those having a loan-to-value ratio greater  
24 than 70 per cent but less than 90 per cent and 20 per cent for those  
25 having a loan-to-value ratio of 90 per cent; (12) conventional residen-  
26 tial mortgages if the originating financial institution retains at  
27 least 25 per cent of the mortgage for a minimum of two years; (13)  
28 notes secured by mortgages of commercial real estate if the originating  
29 financial institution retains at least 25 per cent of the mortgage;

1 (14) FHA guaranteed portion of business and industrial loans made  
2 under the Rural Development Act of 1972; (15) guaranteed portion of  
3 loans made under the Federal Ship Financing Act of 1972. No more than  
4 25 per cent of the surplus may be invested in mortgage securities of  
5 the Department of Commerce and Economic Development, and the state  
6 shall appropriate sufficient money from the general fund to reimburse  
7 the teachers' retirement system for any losses incurred as a result of  
8 failure of the obligors to pay on the notes. No more than \$400,000 of  
9 the surplus may be invested annually in the mortgage securities of the  
10 Department of Natural Resources, and the state shall appropriate  
11 sufficient money from the general fund to reimburse the teachers'  
12 retirement system for any losses incurred as a result of failure of  
13 the obligors to pay on the notes; (16) bonds, debentures, notes, or  
14 other obligations issued, guaranteed, or assumed as to both principal  
15 and interest by the government of the Dominion of Canada, or by any  
16 province of Canada, or by any municipality of Canada which has a  
17 population of not less than 150,000, if (A) the full faith and credit  
18 of the issuer, guarantor, or assumer of the bonds, debentures, notes,  
19 or other obligations is pledged for the payment of principal and  
20 interest on them, (B) the principal and interest on them is payable in  
21 United States currency, either unconditionally or at the option of the  
22 holder, and (C) these obligations are rated A or an equivalent quality  
23 by a nationally recognized rating organization; (17) bankers' accept-  
24 ances which are eligible for discount at the Federal Reserve Bank and  
25 negotiable time certificates of deposit issued by commercial banks.

26 \* Sec. 2. AS 14.25.180(b) is amended by adding new paragraphs to read:

27 (18) foreign time deposits of both United States owned and  
28 foreign owned banks and trust companies denominated in either United  
29 States dollars or foreign currencies, those holdings not to exceed 25

1 per cent of total invested funds;

2 (19) securities of foreign governments, foreign governmental  
3 agencies, and foreign corporations the principal, interest or dividends  
4 of which are payable in either United States dollars or foreign curren-  
5 cies, those holdings not to exceed 15 per cent of the total invested  
6 fund;

7 (20) gold bullion, silver bullion, and platinum not to  
8 exceed in aggregate 15 per cent of total invested funds.

9 \* Sec. 3. AS 14.25.180 is amended by adding new subsections to read:

10 (g) The commissioner of revenue may enter into futures contracts  
11 for the sale of foreign currencies for the purpose of hedging an  
12 existing time deposit in that currency.

13 (h) The commissioner of revenue may enter into futures contracts  
14 for the sale of obligations of the United States or agencies or  
15 instrumentalities of the United States for the purpose of hedging an  
16 existing equivalent ownership position in these securities.

17 (i) The commissioner of revenue may enter into futures contracts  
18 for the purchase and sale of gold, silver, and platinum for the purpose  
19 of hedging an existing equivalent ownership position in these metals.

20 (j) The commissioner of revenue may transfer at any time a portion  
21 of the assets of the retirement fund to any trust which is qualified  
22 under sec. 401(a) and exempt from taxation under sec. 501(a) of the  
23 Internal Revenue Code of 1954, as amended, and is maintained as a  
24 medium for pooling a portion of the funds of pension and profit sharing  
25 trusts for diversifying investments in real estate and interests in  
26 real estate.

27 (k) The commissioner of revenue may enter into any contract or  
28 trust agreement necessary to effectuate the transfer of assets or  
29 maintain the assets to be transferred to a trust under (j) of this

1 section.

2 \* Sec. 4. AS 39.25.110(a) is amended by adding new paragraphs to read:

3 (18) foreign time deposits of both United States owned and  
4 foreign owned banks and trust companies denominated in either United  
5 States dollars or foreign currencies, those holdings not to exceed 25  
6 per cent of total invested funds;

7 (19) securities of foreign governments, foreign governmental  
8 agencies, and foreign corporations the principal, interest, or divi-  
9 dends of which are payable in either United States dollars or foreign  
10 currencies, those holdings not to exceed 15 per cent of the total  
11 invested funds;

12 (20) gold bullion, silver bullion, and platinum not to  
13 exceed in aggregate 15 per cent of total invested funds.

14 \* Sec. 5. AS 39.35.110 is amended by adding new subsections to read:

15 (h) The commissioner of revenue may enter into futures contracts  
16 for the sale of foreign currencies for the purpose of hedging an  
17 existing time deposit in that currency.

18 (i) The commissioner of revenue may enter into futures contracts  
19 for the sale of obligations of the United States or agencies or instru-  
20 mentalities of the United States for the purpose of hedging an existing  
21 equivalent ownership position in these securities.

22 (j) The commissioner of revenue may enter into futures contracts  
23 for the purchase and sale of gold, silver, and platinum for the purpose  
24 of hedging an existing equivalent ownership position in these metals.

25 (k) The commissioner of revenue may transfer at any time a por-  
26 tion of the assets of the pension fund to any trust which is qualified  
27 under sec. 401(a) and exempt from taxation under sec. 501(a) of the  
28 Internal Revenue Code of 1954, as amended, and is maintained as a  
29 medium for pooling a portion of the funds of pension and profit sharing

1 trusts for diversifying investments in real estate and interests in  
2 real estate.

3 (1) The commissioner of revenue may enter into any contract or  
4 trust agreements necessary to effectuate the transfer of assets or  
5 maintain the assets to be transferred to a trust under (k) of this  
6 section.

7 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
8 10.070(c).

# Berry's World



© 1979 by NEA, Inc.

*John Berry*  
M.H.

"If gold is such a good thing to buy, how come you're SELLING it?"

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST  
 Bill/Resolution No. HOUSE BILL NO. 208  
 Title An act relating to pension fund investments; and providing for an effective date  
 Requested by Governor Date 2-10-79

II. FISCAL DETAIL  
 Agency Affected Department of Revenue  
 Program Category Affected General Government  
 BRU, Program, or Subprogram(s) Affected Treasury Management  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)  
EXPENDITURES (Thousands of Dollars)

|                          | FY 79 | FY 80      | FY 81      | FY 82      | FY 83      | FY 84      |
|--------------------------|-------|------------|------------|------------|------------|------------|
| 100 PERSONAL SERVICES    |       |            |            |            |            |            |
| 200 TRAVEL               |       | 1.2        | -0-        | -0-        | -0-        | -0-        |
| 300 CONTRACTUAL          |       | 6.0        | 6.2        | 6.5        | 6.7        | 6.9        |
| 400 COMMODITIES          |       |            |            |            |            |            |
| 500 EQUIPMENT            |       |            |            |            |            |            |
| 600 LAND & STRUCTURES    |       |            |            |            |            |            |
| 700 GRANTS, CLAIMS, ETC. |       |            |            |            |            |            |
| <b>TOTAL</b>             |       | <b>7.2</b> | <b>6.2</b> | <b>6.5</b> | <b>6.7</b> | <b>6.9</b> |

FUNDING (Thousands of Dollars)

|                             | FY 79 | FY 80      | FY 81      | FY 82      | FY 83      | FY 84      |
|-----------------------------|-------|------------|------------|------------|------------|------------|
| GENERAL FUND                |       |            |            |            |            |            |
| FEDERAL FUNDS               |       |            |            |            |            |            |
| OTHER (Specify Fund Source) |       |            |            |            |            |            |
| PERS                        |       | 3.6        | 3.1        | 3.2        | 3.4        | 3.4        |
| TRS                         |       | 3.6        | 3.1        | 3.3        | 3.3        | 3.5        |
|                             |       | <b>7.2</b> | <b>6.2</b> | <b>6.5</b> | <b>6.7</b> | <b>6.9</b> |

POSITIONS

|           | FY 79 | FY 80 | FY 81 | FY 82 | FY 83 | FY 84 |
|-----------|-------|-------|-------|-------|-------|-------|
| FULL TIME |       | -0-   | -0-   | -0-   | -0-   | -0-   |
| PART TIME |       |       |       |       |       |       |
| TEMPORARY |       |       |       |       |       |       |

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

The above charges represent the incremental cost of educational seminars for professional staff and safekeeping charges for the custody and transfer of investments detailed in the subject bill.

IV. DATE February 11, 1979 PREPARED BY Peter A. Bushre  
 AGENCY Department of Revenue  
 PHONE 465-2350  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

MEMORANDUM

---

TO: John Sackett  
Chairman  
Senate Finance Committee

FROM: Jay H. Hogan

DATE: April 26, 1979

SUBJECT: GOLD AS A STATE INVESTMENT

---

You have requested some thoughts on the attached language which would allow the Commissioner of Revenue to purchase gold bullion as an investment for the retirement funds.

Unfortunately we do not have much information immediately at hand to address the question. However, the attached page 10 of the Alaska Department of Natural Resources Mines & Geology Bulletin indicates quite clearly the volatile price changes experienced by gold over the past year, going from \$179 an ounce to \$251. As with any commodity, prices that go up rapidly can also decline rapidly. The enclosed article from the Wall Street Journal, charting the price and purchasing power of gold, clearly indicates that 1974-75 purchasers of gold had to wait until 1979 to recover their investment.

Attachments

9 - Make  
damn sure this  
doesn't go - see me  
I think I know

AS 14.25.130(b) is amended by adding a new subparagraph (18) to read:

(18) Gold Bullion of a fineness that meets marketing and delivery requirements of the trade, not to exceed in aggregate 10% of total invested funds.

AS 39.35.110(a) is amended by adding a new subparagraph (18) to read:

(18) Gold Bullion of a fineness that meets marketing and delivery requirements of the trade, not to exceed in aggregate 10% of total invested funds.

JOHN -

PETE BUSHRE ASKED THAT THIS LANGUAGE BE INTRODUCED TO ALLOW THE RETIREMENT FUNDS TO PURCHASE GOLD. THIS COULD BE A SHOT IN THE ARM FOR THE MINING INDUSTRY IN ALASKA. CS HB 260 WOULD ACCEPT THIS LANGUAGE. I'VE TALKED TO COLLETTA AND HE HAS NO OBJECTION, IF YOU DON'T, TO ADDING THIS TO HB 260 IN RULES.

Glenn Hadeney

## Metals Market

|  | <u>Feb. 23, 1979</u> | <u>Three Months Ago</u> | <u>Year Ago</u> |
|--|----------------------|-------------------------|-----------------|
| Antimony ore, stu equivalent<br>European ore | \$ 17.90-19.00       | \$ 17.00                | \$ 16.20-18.20  |
| Barite (drilling mud grade<br>per ton)       | \$ 31.00             | \$ 19-28                | \$ 19-28        |
| Beryllium ore, stu                           | \$ 50-55             | \$ 45-50                | \$ 40-42        |
| Chrome ore per long ton (Transvaal)          | \$ 54.00             | \$ 54.00                | \$ 54-58        |
| Copper per lb. (MW-prod.)                    | \$ 0.92              | \$ 0.70                 | \$ 0.62         |
| Gold per oz.                                 | \$251.00             | \$198.25                | \$178.86        |
| Lead per lb.                                 | \$ 0.44              | \$ 0.38                 | \$ 0.33         |
| Mercury per 76-lb flask                      | \$208.00             | \$154.00                | \$159.00        |
| Molybdenum conc. per lb.                     | \$ 5.86              | \$ 4.95                 | \$ 4.01         |
| Nickel per lb. (cathode)                     | \$ 2.10              | \$ 2.00                 | \$ 2.06         |
| Platinum per oz.                             | \$423.00             | \$307.00                | \$232.50        |
| Silver, New York, per oz.                    | \$ 7.85              | \$ 5.75                 | \$ 5.00         |
| Tin per lb., MW composite                    | \$ 7.19              | \$ 7.44                 | \$ 5.88         |
| Titanium ore per ton (ilmenite)              | \$ 50.00             | \$ 50.00                | \$ 55.00        |
| Tungsten per unit (GSA domestic)             | \$120.00             | \$131.35                | \$130.00        |
| Uranium per lb., MW US<br>spot oxide         | \$ 43.25             | \$ 42.50-44.00          | \$ 42-44        |
| Zinc per lb. (MW-US PW)                      | \$ 0.36              | \$ 0.31                 | \$ 0.305-       |

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Alaska Department of Natural Resources  
Division of Geological & Geophysical Surveys  
P.O. Box 80007  
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one does not know to what port one is sailing, no wind is favorable. On such a vessel, like the present U.S. ship of state, the captain could easily welcome Mwalimu onto the bridge.

Mr. Adelman, who lived in Africa from 1972 to 1975 and recently returned from a study tour of Tanzania, is now with SRI International.

porter: All the ingredients are there—bountiful land (60% arable) larger than Texas and inhabited by a manageable population of 17 million—but the recipe is flawed. In 1957, Mr. Nyerere launched his visionary ujamaa scheme of collectivized vil-

duzi" (Swahili for revolutionary party). According to the Los Angeles Times correspondent for Africa, it holds more political prisoners than the detested "fascist" South Africa. Freedom House labels Tanzania "not free." Even the gingerly State Department, in its 1979 human rights report to the

# Golden Constant: Yellow Metal and Inflation

By Roy W. JASTRAM

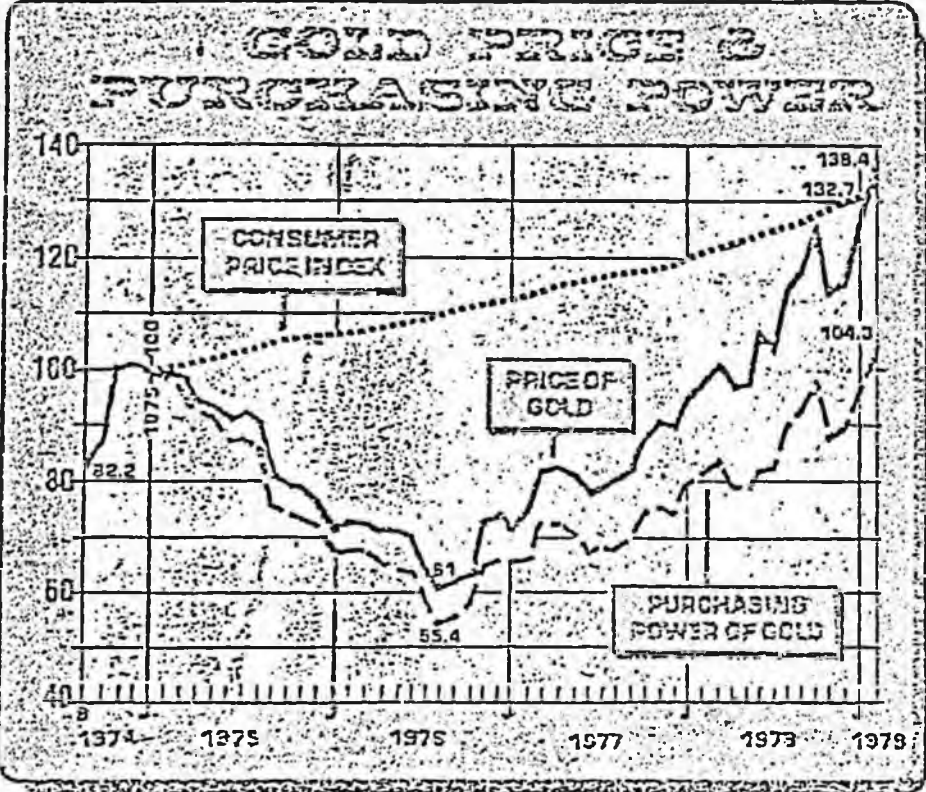
On January 1, 1975, Americans were free, after 40 years, to buy, hold and sell gold. —Did gold resume its vaunted role as a short-run hedge against domestic inflation? —Did gold return to its age-old pattern of long-run stability of purchasing power? The chart suggests the answers, but some history and interpretation are useful. Plotted are the index of the price of gold, the Consumer Price Index, and the quotient between the two: namely, the index of the purchasing power of gold at the consumer level. January 1975, the month when

"fixings" in London rose from \$151.26 in September to \$182.69 in December. The peak in December 1974 was \$197.50. The only question in the minds of many was: How high will it shoot in the new market in January? Millions were bet on the answer. What developed was a resounding anticlimax. The price of gold went into an immediate decline. By the end of the third quarter of 1975 gold was selling a shade above \$130. To cover the period under review with statistical circumspection the chart shows the behavior of gold for the four months

that monthly London price behavior is a perfectly good surrogate for any market in the world.) The imagery of the chart holds a kind of tortoise/hare fascination. Uppermost is the Consumer Price Index, mounting slowly but steadily on the cumulative waves of compounding inflation. Falling away at first is the price of gold, with the consequence that the purchasing power of gold falls even faster to a loss of 45% by August 1976; Gold makes its turn in September 1976, and begins to climb at a rate faster than the cost-of-living. It takes two years to catch up, but catch up it does. The long loop is closed. The closure of the gold index with the CPI is both striking and reassuring because it is observed for the first time in a free market.

For three centuries preceding 1910 when gold prices were often controlled by governments in England and the United States this "retrieval phenomenon"—gold's retrieval of its purchasing power—has been seen repeatedly. But here it happens again with no restraints on buying or selling. Is there something about gold which allows it in the long run to retain its purchasing power whether or not governments interfere? Curious.

Mr. Jastram, professor at the School of Business Administration, University of California, Berkeley, is author of "The Golden Constant" (John Wiley & Sons).



the purchase of gold became legal, is taken as the base=100.0 for all three series. The gold price each month is the average of the mid-week London "fixings." On August 14, 1974, Congress enacted Public Law 93-373 which stated in part, "No provision of any law may be construed to prohibit any person from purchasing, holding, selling, or otherwise dealing with gold in the United States or abroad." The effective date was given as December 31, 1974. With four months advance notice given, speculative anticipation mounted in the principal bullion markets of the world. Gold prices reflected this speculative anticipation. Monthly averages of the mid-week

before January 1975. Then the new era begins. One instructive feature of the chart is that it composes two essentially straight-line segments in the form of a "V." The interpretation of this is that once a major movement was underway in the price of gold it persisted for a substantial time and at a nearly uniform percentage rate. When it reversed, it reversed to stay for awhile, and showed again a roughly stable rate of change. This feature is worth remembering to give perspective when we become engulfed by the seemingly erratic changes day-by-day. (This long-term observation is based upon London quotations. But the world-wide market for gold is so efficient

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## STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

March 23, 1979

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

JUNEAU 99801

M E M O R A N D U M

TO: Russ Meekins, Chairman  
House Finance Committee

FROM: Milt Barker <sup>MB</sup>  
Fiscal Analyst

SUBJECT: HB 208

I thought you might be interested in the attached WALL STREET JOURNAL item.

Also, as a point of interest, Bob Greeley of Merrill Lynch White Weld points out that the reason some private pension funds get into foreign securities is that they have foreign pensioners. These multinational companies that will be paying pensions in marks or rupees are thus not exposed to currency exchange rate risks to the extent they match their foreign pension liabilities in like-denominated foreign security investments. In fact, they are hedging their pension liabilities by so doing.

To my knowledge, this rationale would apply to the State of Alaska only if SB 116, which would admit Tokyo Office employees into PERS, passes. And only to the extent of covering the pension liabilities of three persons. And only for investment in yen-denominated securities.

MB:pw

# STREET JOURNAL.

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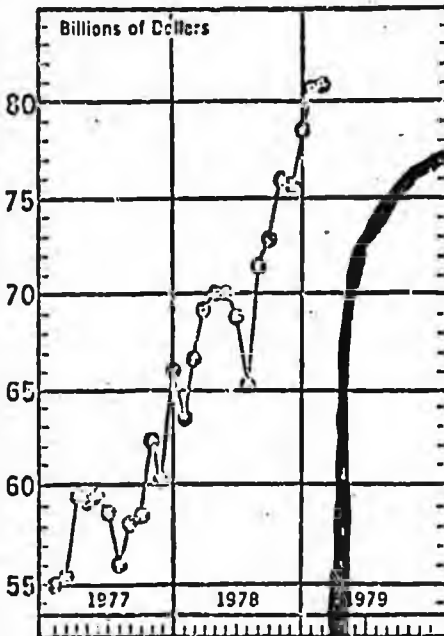
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THURSDAY, MARCH 22, 1979

FEDERAL WAY, WA.

30 CENTS

## Durable Goods



NEW ORDERS received by manufacturers of durable goods rose in February to a seasonally adjusted \$80.91 billion from a revised \$80.66 billion a month earlier, the Commerce Department reports. (See story on page 3.)

## Whole City Feels A Newspaper Strike In Wilkes-Barre, Pa.

### Friends Split and Merchants Squirm as Paper's Unions And New Owner Do Battle

By RICHARD L. HUDSON

Staff Reporter of THE WALL STREET JOURNAL  
WILKES-BARRE, Pa. — John Anderson and Paul Golias are friends and colleagues, but you wouldn't know it these days.

"He's a scab," says Mr. Golias. "He's working to take away my job. He's the enemy."

"I don't understand him," says Mr. Anderson. "He twists the truth out of shape."

Both men are bitter. After reporting the same news beat on the same daily paper for about two years, they find themselves on opposite sides of an eight-foot chain-link fence topped with barbed wire. Inside the security fence, Mr. Anderson writes headlines for the

## Business Bulletin

### A. Special Background Report On Trends in Industry and Finance

ALASKA SEEKS to invest its pension funds in gold and foreign securities.

"It's the only way left we know of to protect beneficiaries of our public pension plans against continuing inflation," says Peter Bushe, the state's deputy commissioner of revenue. Legislation awaiting a hearing by the House Finance Committee would permit the state's public employees' retirement fund and teachers' retirement fund, with a total of \$520 million, to invest in gold bullion, certificates of deposit denominated in foreign currencies and in real estate.

Alaska's pension funds currently are invested in mortgages, bonds, money-market securities and common stocks, for an average return of about 8%. "These traditional outlets simply can't maintain the purchasing power of the pensioners' dollars," says Michael J. Riley, state investment officer. Although there are some large private pension funds with foreign-currency investments, "we think this would be the first public one, and certainly one of the first to buy gold."

The big question, says a spokesman for the Municipal Financial Officers Association, is how far can you go and still remain prudent?

SOME POSH New York restaurants plan to expand operations to other states.

Sardi's, a well known theater-district spot, for instance, will open a Sardi's in Houston under a franchise arrangement. A spokesman says Sardi's also hopes to sell franchises in Los Angeles, Hollywood and London. The "21" Club, which already operates Cricket's in Chicago and the Jockey Club in Washington, D.C., expects to have a restaurant going in Dallas by the end of the year.

Owners of the Gingerman say they plan to open another in Coconut Grove, Fla., and one in Beverly Hills, Calif., both this spring. The proprietor of the Palace and Proof of the Pudding expects to open a Palace in Beverly Hills and a Proof of the Pudding in Hartsdale, Conn., sometime this year. Almost to a man, the owners say it's tough to make money on a New York restaurant.

RAIL-CAR ORDERS are up sharply from year ago, but most buyers aren't railroads.

Individual investors, in fact, are providing the wherewithal for a growing percentage of the nation's rolling stock. Through

## Stocking Up

### Economists See Signs Firms Are Beginning To Build Inventories

### With Business Doing Well, Some Increase Outlays; Problems for Long Run?

### Elephants and Smokestacks

By LAWRENCE ROU

Staff Reporter of THE WALL STREET JOURNAL  
A year ago, William A. Hodder was bearish on business. As president of Minneapolis-based Donaldson Co., Mr. Hodder decided to defer expansion plans, anticipating that the economy would slide into a recession by the first quarter of this year.

That prediction was wrong, and with business better than expected, Mr. Hodder now forecasts that the maker of engine air cleaners and air filters will see at least a 15% increase in both sales and profits in the fiscal year ending July 31. Although he is still worried about the economy, Mr. Hodder is increasing Donaldson's production capacity by building a \$2 million plant in the United Kingdom and buying a \$5.5 million plant in Kentucky.

Mr. Hodder's experience is typical of that of many businessmen who have spent the better part of the past year looking over their shoulders for a recession that hasn't arrived. They have deferred expansion and kept inventories lean.

Now, many are still gloomy about the economy in general, but with business continuing strong, they have begun to shake off some of that conservatism. They believe that their own business will fare well even if there is a downturn. And this optimism may be leading to more than expansion: Some analysts suggest that businessmen are starting to beef up their inventories for the first time since the recession of 1974. "Firms continue to respond to the pace of economic activity, increasing employment and adding to inventories," says William Dunkelberg of Purdue University in an analysis of a survey of the National Federation of Independent Business.

### The Long and the Short

That, economists say, bodes well for the short term health of the economy. They pre-

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION  
POUCH WF--STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3795

February 28, 1979

### MEMORANDUM

TO: Russ Meekins, Chairman  
House Finance Committee

FROM: Milt Barker, <sup>MB</sup> Fiscal Analyst  
Legislative Finance Division

SUBJECT: HB 208

At your request, I have reviewed HB 208 and offer the following questions or comments:

1. Do these investments really meet the prudent-man rule? I quote the following version of the rule from the Governor's permanent fund bill, HB 277:

"(2) the prudent-man rule of investments is applicable; in making investments, the staff and the investment committee shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of capital;"

While investments in foreign time deposits and securities and real estate investment trusts do offer an income, there is no income to be received from holding bullion. Bullion purchases are inherently speculative, gambling only on the opportunity for capital gains and exposing the investment to possibly precipitous downside risks, given the wild gyrations that frequently occur in these markets which are built principally on fear and avarice and not the commodity value of the bullion. Only the use of hedging would allow a fund manager to cut these potential losses short.

2. Naked investments in foreign time deposits and securities would probably not meet the prudent-man rule because both income and capital can be wiped out by currency fluctuations. If such investments are allowed, not only should the legislation authorize futures contracts for the sale of foreign currencies as a hedge on these investments, but, indeed, such hedging should be required.

However, the Department of Revenue says that they can't be required to hedge all foreign investments as they are made because those denominated in the stronger currencies--German marks and Japanese yen for example--offer low interest rates. The Department wants to garner a total return on foreign investments in stronger currencies equal to or better than high U. S. interest rates by riding further escalations in the value of these stronger currencies before locking in the total return from currency increases and the interest income with a sales contract of the foreign currency in the futures market. Once this hedge or future sales contract is made, further fluctuations in currency values will not affect the total return to the fund.

Thus, a major component of the proposed investments in foreign time deposits and foreign securities turns out to be currency speculation, plain and simple, unless hedging is required at the time of the investment, in which case these foreign investments would not be very attractive. For the same reasons as investment in bullion, currency speculation per se does not meet the prudent-man rule.

3. The Department of Revenue points out that foreign securities are generally long-term and that in general there is no market for them. Thus, one would have to buy and hold a foreign security for many years until maturity. The problem is that currency futures are only sold out to a year or two in the future. This means that the later interest payments and redemption of the security's principal could not be hedged against in any event. In other words, currency speculation would be an inherent part of any investment in foreign securities.

4. If investment in foreign time deposits is permitted, "may" should be changed to "shall" in paragraph (g) in both Sections 3 and 5 of HB 208 to require hedging and avoid currency speculation.

If investment in foreign securities is permitted, paragraphs similar to (g) should be incorporated in the bill, though reading "shall to the extent possible", since total hedging of the security would be impossible. It would have to be recognized that some unavoidable currency speculation would be taking place.

The Department of Revenue wants to add foreign securities to the permissive authority to hedge in paragraphs (g).

5. There may be other risks to foreign investments such as restrictions on currency flows or repatriation of capital that do not sit well with the prudent-man rule.

6. None of the proposed investments would result in additional investment in Alaska and might be a drain on capital invested in-state. To the extent capital markets are perfect, this argument is invalid.

7. The proposed authority in paragraphs (h) in Sections 3 and 5 to allow hedging of obligations of the U.S. or its agencies or instrumentalities is desirable in that it allows the Department to lock in its return on these obligations. Where a security would not be held to maturity but sold beforehand, a hedge insures against any further changes in the price of the security - which as a capital gain or loss, in combination with interest received, makes up the total return.

8. The proposed investments in real estate trusts probably do meet the prudent-man test. These trusts purchase commercial property, i.e., warehouses, shopping centers, office buildings, apartments, etc., for both income and appreciation. However, the shares in the trust are not marketable, making these sorts of investments rather illiquid. Property may have to be sold or special efforts made to find a buyer for the trust shares. The bill has no ceiling on these types of investments as a portion of the total pension fund investments.

9. Can the existing State investment officers who manage the pension funds adequately keep abreast of all the additional information, developments and trends in the proposed investment areas, at least without sacrificing their attention to existing investment channels? Or are new positions required? Will the glamour or exotic aura of some of these go-go investments detract from the prudent consideration of all investments?

10. According to the Department of Revenue, no other State pension funds engage in these sorts of investments, although some corporations have pension funds that do.

MBB:pw

cc: Rep. Brian Rogers



Official Business

# Alaska State Legislature

## House of Representatives

### Committee on Finance

Pouch V  
State Capitol  
Juneau, Alaska 99811

#### HOUSE FINANCE COMMITTEE

February 4, 1980

1:30 p.m.

#### AGENDA

HB 208 Relating to Pension Fund Investments  
Pete Bushre - Commissioner of Treasury  
John Exter - Consultant to the International  
Monetary Fund and most central banks of major  
Industrialized Nations.

Pl 208

February 13, 1979

The Honorable Terry Gardiner  
Speaker of the House  
Alaska State Legislature  
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting a bill relating to pension fund investments. This bill would amend the state's authority under AS 14.25.180 and AS 39.35.110 to include investments and investment techniques which have historically proven their value during periods of high inflation.

During calendar year 1978, the national rate of inflation again reached double digit levels and averaged 9.1 per cent for the year. During the same period, the earnings realized by each of the pension funds averaged between 8 and 8.5 per cent. The purchasing power of pension fund benefits thus eroded by nearly 1 per cent during calendar year 1978.

The state's ability to meet the threat of inflation in relation to the pension fund, is limited to the investments which we are permitted by statute to purchase. The pension funds are currently invested in conventional mortgages, corporate and government debt, and common stocks. Although the first two categories have approached the inflation rate, they have not yet exceeded it on an annualized basis. None of the investments currently allowed by law yields an amount sufficient to preserve the capital of the pension funds. For this reason, I am submitting amendments to expand investment authority to include the following investments and investment techniques:

1. Precious Metals: The bill authorizes purchase of gold, silver, and platinum bullion not to exceed 15 per cent of the total pension fund. During times of high inflation precious metals have proven themselves to be the most reliable means of preserving capital. These investments are highly liquid and the pension fund

(should it establish a bullion position) would always be able to realize cash for that position with little effort. During calendar year 1978 the price of gold bullion appreciated by 25 per cent.

2. Foreign Currency Time Deposits: The bill authorizes purchase of certificates of deposit denominated in strong foreign currencies (such as Swiss franc, German mark, and Japanese yen) not to exceed 25 per cent of the total pension fund. These deposits would combine the advantages of income with substantial capital appreciation during a period of dollar weakness. In calendar year 1978 the Swiss franc rose by more than 30 per cent against the U. S. dollar.

3. Foreign Securities: The bill authorizes investment in corporate and government securities the principal and interest of which is denominated in strong foreign currencies. The reasons for doing so include those described under foreign time deposits (number 2 above) with the added advantage of participating in a strong securities market. Research indicates that in a period of currency appreciation the securities markets of countries with strong currencies have, on the average, proven to be quite attractive. This type of investment would be limited by statute to no more than 15 per cent of the total fund.

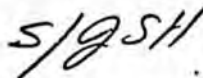
4. Real Estate Equity Funds: The bill authorizes investment in real estate equity funds that qualify under sections 401a and 501a of the Internal Revenue Code as tax exempt funds. Participation in these funds is limited to tax exempt pension plans invested in the equity of income-producing real estate. During a period of high inflation, the great advantage of these investments has proven to be the ability of the equity owner to adjust lease rentals to compensate for inflation. During calendar year 1978 the return on investments in two of the largest national funds exceeded 12 per cent.

5. Futures Hedge: The bill authorizes sale of any investment owned by the pension fund in the futures market, i.e., for delivery at a specified future date. The technique is similar to obtaining an insurance policy against loss by market depreciation. This bill specifies that futures contracts must be used as a "hedge" (the term carries an industry definition that is the exact opposite of speculation) and that at no time could a future sale of an investment exceed actual bullion, currency, or securities owned at the time the contract is entered into. In this manner, the pension fund is in a

position to deliver the investment sold at maturity of the futures contract, and in no way is the technique to be confused with speculation. The added authority to purchase bullion in the futures market equal to an equivalent spot position would eliminate the need for physical delivery of the metal.

Both AS 14.25.180 and AS 39.35.110 charge the commissioner of revenue with the responsibility of investing pension fund money in accordance with the "prudent man rule," i.e., to act as would the person of prudence and intelligence in the management of pension fund investments. In my opinion, this bill is prudent within the classical definition of the term. In a period of rising inflation with declining markets that fail to preserve the capital of funds invested, it is prudent to seek out those markets which historically have proven themselves to be the best hedge against erosion of purchasing power. I urge your prompt passage of this bill.

Sincerely,

Handwritten signature of Jay S. Hammond in cursive script.

Jay S. Hammond  
Governor