

LEG. FINANCE - BILLS 1981 - 1982 1703

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REAL ESTATE INVESTMENT MARKET & REAL ESTATE EQUITY POOLS

Until the early 1960's the real estate investment market in the United States was primarily controlled by the real estate developer and the small investor or investor group. There were few large real estate projects and those that were built were either financed or owned by one of a few insurance companies purchasing for their own investment account. Industrial property was usually owned by the corporate user or leased from local investors. The market place was highly fragmented and very much an activity at the local level. Developers had small organizations and essentially seat-of-the pants entrepreneurs.

The 1960's saw an explosive demand for manufacturing warehousing, retail, commercial and office facilities. The larger industrial and office park concepts were created and the increasing demand for capital led most corporations to a leasing posture. This was appropriate for warehousing and office facilities as a way to conserve capital for business and as a strategy which allowed reaction to changing markets. Family formation growth led to rapid residential suburban growth and as residential developments grew so did retail and commercial developments. The shopping center grew from infancy to maturity as regional enclosed mall centers creating a mini-downtown which had a major impact on residential and commercial growth patterns. During this period a very few pension funds began to acquire industrial and commercial properties for investment. At the same time, more insurance companies began to add properties to their investment portfolios. The institutional real estate investment market began to take on the characteristics of a regional and in some cases a national market.

As we moved into the 1970's real estate projects increased rapidly in size and complexity demanding a broader range of professional skills. The size of real estate development organizations expanded to handle regional as well as national areas as well as a national market.

The 1974-1976 recession dampened much corporate involvement in real estate but the demand and growth for investment grade real estate product remained intense. Demand for pension fund real estate investments during the latter part of the 1970's drove down the current cash return on investments. Appreciation in value and rapidly rising rental rates created even more demand as real estate appeared attractive as an alternative pension investment vehicle.

As we move into the 1980's, commercial and industrial grade real estate will become more and more an institutional market. The long term mortgage market is likely to see a radical change necessitating substantial equity to be raised for larger real estate projects. This will squeeze the smaller developers or will force them to sell or joint venture their projects with institutions and pension funds. The very large development projects will become exclusively an institutional and pension fund market.

Consequently, the demand for real estate facilities from the user side is currently very strong and promises to remain so during the 1980's and beyond. The demand for quality investment grade real estate by institutions and pension funds will be even stronger. This will predictably result in lower current returns and stretched out

periods to realize long term return on investment objectives. The demand from both the user and investor side combined with the effects of inflation and government regulations will continue to push real estate up at a substantial rate. Commercial and industrial real estate investments should continue to provide superior long-term returns on investment: .

In the last 10 years many trust, pools or funds have been established to participate in the advantages of real estate investments. They consisted of larger mortgage companies, banks, brokerage houses and insurance companies to name a few. Insurance companies led the way since in many cases they had been involved in real estate lending or purchasing for their portfolio for the past 100 years or longer.

Real estate is not a passive investment. It is a highly complicated field requiring creative ability, qualitative as well as quantitative analysis, and most of all experience. Owned real estate has its own risk parameters quite different from those of other investments. Once purchased, it has to be managed properly. Real Estate is susceptible to vacancies, demographic change, imbalance of income to expenses, and overbuilding to name a few. Major insurance companies have the expertise as well as offices all over the country, and this is a major advantage not available to most other managers. Real Estate pools offer protection against downside risk due to vacancies or rapidly escalating operating costs. Prudently selected and maintained Real Estate can be considered a viable supplement to other portions of a portfolio.

Funds accepted for real estate pools are limited to the properties available for purchase in any given period. You advise them of your intention to join and give them an indication of the amount you would like to deposit. They will accept your funds on a quarterly basis only, and then only if they have sufficient properties in line for purchase the following quarter. They will not guarantee acceptance of your funds in a specified time frame. They will not purchase unqualified properties just because funds are available.

Just as it is sometimes difficult to get in a real estate pool, it also takes time to withdraw. It must be realized that real estate investments are relatively illiquid and should be considered long term investments. They will not force sell a property just because you want to withdraw your funds. Most pools require 90 days written notice prior to any quarterly date. This allows them time to find other investors who want to invest in the pool, thus allowing you to withdraw. However, if cash available in the pool is sufficient to allow your withdrawal earlier, they will honor your request.

We're sure everyone will agree that any investment portfolio, pension fund or permanent fund in this case, should have the ability to diversify its investments. We have all witnessed the ups and downs in stock and bond markets over the years. Good real estate on the other hand on average has always increased in value. Investment decision makers have finally been convinced that real estate deserves a place in a well diversified portfolio. We believe that the current trend toward real estate as a major investment asset is both justified and of growing importance.

Many investment managers have been aware of the advantages of real estate investing but were discouraged from participating in real estate due to the lack of liquidity and risk characteristics associated with outright ownership. Real estate pool investments are designed to overcome these problems. Pool investment offers well managed diversification characteristics tailored to meet the risk to expected return and liquidity requirements of participants. The pools offer the investment advantages of a portfolio of high quality real estate, diversified by property type, lease term, tenant type and geographic location, combining a potential for capital appreciation with an attractive level of current income.

That last sentence says it all and deserves expanding upon:

Advantages

Real Estate equity pools are designed to deliver all of the advantages investors seek from real estate, without the complexities of outright ownership.

Return Potential

Over the years, carefully selected real estate has demonstrated a consistent ability to produce attractive yields.

Inflation Hedge

A rapid increase in real estate values has become increasingly evident in recent years as escalating construction costs have exerted upward pressure on the replacement cost of commercial and industrial properties. An attractive hedge against inflation.

Portfolio Diversification

Real estate assets produce very positive diversification characteristics when introduced into the typical portfolio of stocks, bonds, mortgages and money market investments to name a few.

A real estate pool also provides diversification of property types such as shopping centers, apartment and office buildings, motels, hotels, industrial and warehouse buildings, etc. Geographic diversification is provided through purchases of property from coast to coast including Alaska.

As more and more investors become aware of the advantages of diversification and returns available on these pools, the demand has been increasing. With this demand there has been an increasing number of pools going on line, which makes good real estate investments harder to find.

The better real estate pools do not speculate as Real Estate Investment Trusts (REIT's) did back in the late sixties and early seventies. Real Estate Investment Trusts began in 1960 when Congress passed the Real Estate Investment Trust Act.

The purpose was to provide more capital to satisfy the growing demand for long term investment money by opening the field to individual investors. The mortgage type REIT created the surge of popularity between 1969-71. Underwriters encouraged banks and others to establish trusts because the shares were easily sold and good fees were to be made. The REIT's borrowed heavily from banks and others to support their demand for more money to lend construction and development projects. Serious problems began to surface in 1974 when the prime rate soared past 12% and some construction loans reached 18% to 20%. Many could not pay and projects could not be completed and many failures resulted. Insurance company pools do not sell shares to the public, do not get involved in development projects until completed, and best of all do not borrow money to purchase real estate investments.

The insurance companies described on the following pages, in our opinion, are among the best in the industry. Other pools are available, some managed by non insurance companies, and other insurance companies also have pools. We presently have retirement systems funds in the pools with companies used as examples.

PRUDENTIAL INSURANCE COMPANY OF AMERICA

Prudential is the largest private real estate investor in the United States. As of June 1980 their estate investment department employed a professional staff of almost 500 persons located in Prudential Corporate Headquarters and 71 field offices in the United States and Canada. They manage nearly \$18 billion of real estate investments, including \$14 billion in mortgages, \$3 billion in wholly owned properties and over \$1 billion in joint ventures throughout the United States.

Because of their nationwide structure, the real estate department has established direct working relationships with regional and national real estate developers, brokers, managers, and investors. These relationships allow Prudential to consider property opportunities on a national basis.

Prudential Property Investment Separate Account (PRISA)
(\$2 billion) Annual Historical Performance

<u>Year</u> <u>Ending</u>	<u>Gross</u> <u>Return</u>	<u>Net</u> <u>Return</u>	<u>Breakdown of</u> <u>Net Return</u>	
			<u>Income</u>	<u>Appreciation</u>
12-31-79	25.4%	23.9%	8.8%	15.1%
12-31-78	20.9	19.5	9.0	10.5
12-31-77	12.0	10.7	7.8	2.9
12-31-76	9.8	8.5	7.5	1.0
12-31-75	9.5	8.3	7.0	1.3

Geographical Location

As of 6/30/80-%

Regions (30 States)

22%	West
20%	South
18%	Mid-West
40%	East

Property Diversification

39%	Office Buildings
23%	Industrial Buildings
16%	Hotels & Motels
19%	Shopping Centers
3%	Apartments

AETNA LIFE INSURANCE COMPANY

Aetna's Real Estate Department has been in operation for over 100 years, and in the last 10 years has established an equity unit responsible for buying and managing equity real estate. Aetna's real estate and mortgage portfolio exceeds \$5 billion. The real estate department is comprised of 130 employees with a variety of backgrounds in real estate. The department utilizes both correspondents and direct lending capabilities. They are affiliated with over 85 mortgage bankers in major metropolitan areas who are under contract to produce real estate and mortgage investments. Their internal National Accounts unit deals directly with major real estate development companies which operate on a national basis.

Aetna Real Estate Separate Account
(\$300 MM) Annual Historical Performance

	<u>Yield</u>	<u>Appreciation</u>	<u>Total Return</u>
Jan.-Dec., 1978	7.73%	.82%	8.55%
Jan.-Dec., 1979	9.03%	3.54%	12.57%

Geographic Distribution

<u>As of 6/30/80-%</u>	<u>Regions</u>
30%	Rockies
16%	South
18%	Mid West
3%	East
33%	West

Property Diversification

45%	Retail Buildings
2%	Land
20%	Office Buildings
19%	Industrial
14%	Warehouse Buildings

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY

The John Hancock's Real Estate Department has been in existence for over 100 years and currently manages a portfolio of commercial and agricultural real estate and mortgages of all types in excess of \$4 billion. In addition to a staff of in-house professionals including 50 mortgage investment officers, they have advisory and origination capability from a network of 58 mortgage banking firms and their branch offices located in major metropolitan cities from coast to coast. They also have eight agricultural loan agencies in the major farm areas of the country, and maintain extensive contact with major property developers as well as the mortgage and real estate brokerage community.

(\$350 MM) Equity Real Estate Account (ERA)
Annual Historical Performance

	<u>Yield</u>	<u>Appreciation</u>	<u>Total*</u> <u>Return</u>
Jan. - Dec., 1977	9.1%	1.2%	10.3%
Jan. - Dec., 1978	9.3	2.5	11.8
Jan. - Dec., 1979	10.2	8.8	19.0

Geographic Distribution

<u>As of 6/30/80-%</u>	<u>7 Regions (21 States)</u>
11%	New England
13%	Middle Atlantic
15%	Southeast
30%	Midwest
5%	Southcentral
13%	Mountain/Southwest
13%	Pacific

Property Diversification

32%	Industrial Buildings
8%	Hotel
28%	Warehouse Buildings
13%	Office Buildings
17%	Shopping Centers
3%	Retail Stores

EQUITABLE LIFE ASSURANCE COMPANY

Equitable's Real Estate Department has been in operation for over 115 years and has been involved in equity real estate ownership and management for over 25 years with over \$3 billion under management. The real estate department presently has a staff of over 500 full-time real estate professionals. The department utilizes both correspondents and direct lending capabilities with their own nationwide network of 40 offices. They are also the investment advisor to Equitable Life Mortgage and Realty Investors, a Boston based real estate investment trust listed on the New York Stock Exchange.

Equitable's Equity Real Estate Account
(\$1 billion) Annual Historical Performance

<u>Year</u> <u>Ending</u>	<u>Yield</u>	<u>Appreciation</u>	<u>Total</u> <u>Return</u>
12-31-75	9.8%	(2.2%)	7.6%
12-31-76	8.7%	1.5%	10.2%
12-31-77	9.1%	2.2%	11.3%
12-31-78	9.2%	4.7%	13.9%
12-31-79	9.3%	5.5%	14.8%

Geographic Distribution

<u>As of 6/30/80-%</u>	<u>Regions</u>
32%	Southern
29%	Central
15%	Western
14%	Mid-Atlantic
10%	Northeastern

Property Diversification

64%	Retail
16%	Office
15%	Industrial
2%	Hotels
2%	Land

PERFORMANCE FIGURES - POOLED REAL ESTATE ACCOUNTS

INVESTMENT RETURN NET OF INVESTMENT FEES

<u>YEAR</u>	<u>INSURANCE COMPANY</u>			
<u>Ending 12/31:</u>	<u>Prudential PRISA</u>	<u>Aetna</u>	<u>John Hancock</u>	<u>Equitable</u>
1979	23.9%	12.6%	17.8%	13.9%
1978	19.5	8.6	10.8	14.4
1977	10.7	--	9.3	10.0
1976	8.5	--	--	8.9
1975	8.3	--	--	6.3
Assets at Market 12/79 (000)	\$1,493.70	\$184.75	\$180.02	\$903.09

THE CASE FOR EURODOLLAR DEPOSITS AND C. D.s

Eurodollar time deposits and Eurodollar certificates of deposit are time deposits denominated in U. S. dollars and accepted or issued by the London branches of major European, United States, Canadian, and Japanese commercial banks as well as the international subsidiaries of United Kingdom clearing banks. The Eurodollar deposit and C. D. markets grew rapidly in the 1960's in response to measures taken by the United States to restrict the outflow of dollars. Significant growth is also attributable to the tight money periods of 1966 and 1969 when short term rates in the United States rose above the maximums U. S. commercial banks could pay on domestic time deposits in accordance with Regulation Q. This forced U. S. banks to borrow heavily from their branches abroad where interest rates were not regulated.

As the result of recurrent balance of payments problems during the 1960's, such foreign investment controls as the Interest Equalization Tax, Voluntary Foreign Credit Restraint Guidelines, and Overseas Foreign Direct Investment Regulations were instituted. Although these controls effectively closed the U. S. capital markets to foreign borrowers and prevented U. S. firms from transferring capital abroad, they contributed significantly to the development of an active market for U. S. dollars on deposit outside the U. S. In early 1974, these control programs were all eliminated. Many observers thought that the Eurodollar market as a result would disappear. However, since no reserve requirements were levied on these deposits, the continued growth of the Eurodollar market was assured. The lack of reserve requirements enabled banks to pay higher interest on deposits while at the same time charging a lower rate on loans and still to increase profits. The volume of outstanding Eurodollar negotiable C. D.s continued to grow to its present size of approximately \$32 billion while the much larger Eurodollar deposit market has grown to an estimated \$425 billion.

Most Eurodollar negotiable C. D.s are issued with maturities up to one year by prime international banks. Banks usually quote rates for three, six, and twelve month maturities, corresponding to their loan rollover requirements, rather than for all maturities as in the United States. U. S. purchasers of Eurodollar C. D.s include commercial bank portfolios and trust departments, corporations, insurance companies and various other institutions. In addition, a large number of foreign entities are active participants in the Eurodollar C. D. market. Investors generally receive an additional 1/8 to 1/4% in yield over domestic C. D.s of the same issuer and maturity while a holder of a non-negotiable Eurodollar time deposit normally picks up still an additional 1/8 to 1/4%. These spreads may change as the result of the recent (November 13, 1980) requirement that U. S. and foreign agency banks hold 3% reserves against their net balances due to foreign branches. It is still too early to determine what the likely impact of this reserve requirement on the Eurodollar markets will be.

Many investment bankers and commercial banks actively trade Eurodollar C. D.s providing liquidity to these investment instruments. The standard trading units are multiples of \$1,000,000. The trading volume of Eurodollar

C. D.s has grown steadily from a monthly average turnover of about \$2.1 billion in 1974 to more than \$12 billion in mid-1979 with trades of \$20 to \$25 million not uncommon. Trading activity in the market is influenced not only by normal seasonal pressures affecting the domestic C. D. market but also by periodic loan rollover pressure and foreign exchange developments which may have a significant impact on rates, thereby presenting opportunities for the investor.

With regard to credit risk, the deposits are general obligations of the issuing bank under the laws of England where they are issued and payable. Holders of these deposits are creditors of the entire bank and not just the issuing branch. If a branch failed to pay a C. D. because of insolvency, it could be enforced against the head office of the bank. A depositor or C. D. holder could be negatively affected by government action in two ways. One would be an action of the English government such as its imposition of currency controls or interest limitations and the other would be by the action of the bank's head office. This could take the form of modification or termination of the issuing bank's liability regardless of where the holder sought payment. The chances of such governmental action are viewed as highly unlikely.

**Yields of Three and Six Month Eurodollar Certificates of Deposit
and their Yield Spreads above U.S. Prime Certificates of Deposit**

<u>First of Month</u>	<u>Yields-</u> <u>Eurodollar C.D.</u>		<u>Yield Spreads-</u> <u>Euro \$ vs. U.S. C.D.s</u> <u>(in Basis Points)</u>	
	<u>Three</u>	<u>Six</u>	<u>Three</u>	<u>Six</u>
	<u>Month</u>	<u>Month</u>	<u>Month</u>	<u>Month</u>
1974-Jan.	10.00%	10.00%	+ 80	+150
Apr.	9.81	9.81	+ 6	+ 51
July	13.31	13.31	+121	+151
Oct.	11.69	11.75	+ 89	+105
1975-Jan.	9.63	9.44	+ 53	+ 74
Apr.	6.55	6.94	+ 46	+ 54
July	6.50	7.00	+ 20	+ 30
Oct.	7.63	8.25	+ 53	+ 20
1976-Jan.	5.63	6.25	+ 13	+ 30
Apr.	5.31	5.88	+ 11	+ 26
July	5.83	6.50	+ 14	+ 30
Oct.	5.56	5.75	+ 21	+ 25
1977-Jan.	4.88	5.00	+ 23	+ 20
Apr.	5.05	5.31	+ 16	+ 16
July	5.63	5.81	+ 25	+ 21
Oct.	6.69	6.94	+ 29	+ 24
1978-Jan.	7.00	7.25	+ 20	+ 25
Apr.	7.20	7.50	+ 35	+ 20
July	8.35	8.70	+ 25	+ 15
Oct.	9.30	9.60	+ 40	+ 35
1979-Jan.	11.45	12.00	+ 55	+ 50
Apr.	10.35	10.62	+ 35	+ 32
July	10.40	10.38	+ 60	+ 51

**Volume Outstanding of U.S. and Eurodollar Certificates of Deposit
and Secondary Market Turnover of Eurodollar Certificates of Deposit
(Billions of U.S. Dollars)**

Mid-month (Approx.)	U.S. C.D.s	Eurodollar C.D.s	
	Total Outstanding (1)	Total Outstanding (2)	Secondary Market Turnover (3)
1974-Jan.	65.6	11.1	2.3
Apr.	71.8	13.7	2.0
July	83.0	13.0	1.4
Oct.	88.7	12.5	2.6
1975-Jan.	91.4	11.6	3.3
Apr.	85.2	11.2	2.2
July	80.9	11.8	2.1
Oct.	83.3	12.4	3.7
1976-Jan.	79.1	13.3	5.1
Apr.	69.9	14.1	4.6
July	69.5	14.9	5.0
Oct.	64.6	15.7	5.4
1977-Jan.	62.8	15.9	6.2
Apr.	59.9	17.0	5.7
July	62.5	19.0	6.3
Oct.	68.5	21.7	6.1
1978-Jan.	75.8	21.9	7.4
April	80.7	21.9	7.5
July	87.3	22.0	4.7
Oct.	90.0	23.5	6.8
1979-Jan.	96.5	27.5	11.6
Apr.	86.5	28.1	9.3
July	79.3	32.2	12.4

Considerations for Permanent Fund Legislation

Memorandum from the Chairman of Trustees

The desirable changes in the legislative act creating the Alaska Permanent Fund are simple in concept and appear to need only be three in number. Most of the policy decisions and operating procedures of the Fund can better be defined through Board of Trustees Resolutions. This gives flexibility and, at the same time, clarity to the public.

The three legislative changes can be classified as follows:

1. Structure of the Board of Trustees to achieve a desirable degree of independence.
2. Expansion of the legal investments of the Fund to include equities-- both in securities and in real estate.
3. Permission for the Trustees to reinvest part of the investment income of the Fund to offset the impact of inflation and to permit growth of the Fund.

These changes are discussed in supporting memoranda.

Structure of the Board of Trustees

The most fundamental part of the Permanent Fund and the determining factor in its success or failure is the Board of Trustees. Water cannot rise higher than its source.

The Board sets the policy for:

1. The goals of the Fund.
2. The investments within the limits set by the Legislature.
3. Selection of investment managers--whether in-house or outside.

In addition, the Board operates in close coordination in policy and practice with the executive and legislative branches of the state government.

The public image and confidence in the Fund rests with the Board.

Qualifications of the Trustees:

It is not reasonable to expect that the Trustees should be especially skilled in investment management. The prime requisites are that the Trustees be Alaskans of integrity and favorable public image.

However, it is desirable that each Trustee have a background in decision making in the fields of business, economics, finance, or public service.

Independence of the Board:

While the Board is politically constituted, and properly so, through appointment by the Governor, it is essential that the Board be reasonably insulated from the fluctuating winds of politics--either executive or legislative.

This is in order to:

1. Enable consistency in policy to be developed and implemented.
2. Give confidence to prospective staff in recruitment and in retaining of investment managers.
3. Attract top quality trustees.

The recommended independence has adequate safeguards built in for protection against an irresponsible independence of the Board.

From the standpoint of the executive branch, this results from the fact that the Governor:

1. Appoints all trustees and may remove them at will.
2. There is a continuous liason through the Commissioner of Revenue.

From the standpoint of the Legislature, this results from the fact that the Legislature:

1. Sets the legislative guidelines (i.e. the charter) of the Fund, which can be changed by any succeeding Legislature.
2. Determines the disposition of the earnings of the Fund.
3. Has review on a continuous basis through the joint Legislative Budget and Auditing Committee.

Conclusion:

The trustees can neither in theory nor in practice operate without joint support and confidence of both the Governor and the Legislature. The degree of independence recommended is merely to slow down precipitous action. This enables a reasonable time to:

1. Develop proper organization and investment strategy.
2. Evaluate the Board's policies and action by the Governor, the Legislature and the public.

The greatest safeguard from undesirable action by the Board, political office holders, or the public is through accepted tradition--and the next three years are crucial.

Implementation:

The movement towards beneficial independence can be facilitated by a change in the composition of the Board of Trustees to limit the cabinet representation to the Commissioner of Revenue and have four public members with staggered terms of office of four years each.

Reasoning:

All Commissioners are appointed to their positions for qualifications, primarily associated with the responsibilities of their respective departments. However, because of the close relation necessary with the Department of Revenue, the duties of its Commissioner naturally flow into the work of a Fund Trustee. The close identity with the Governor's office inherent in having half of the Trustees represented by Commissioners has been very effective in the organizational stage of the Board. However, the operational stage which is forthcoming, will involve considerable travel, probably monthly meetings and numerous consultations, thus requiring commitments difficult for Commissioners to include in their busy time schedules.

If this change in composition of the Board is acceptable to the Governor and the Legislature, the necessary enabling legislation could be passed at the forthcoming session. Attached is a schedule showing the effect of the suggested change in composition and terms.

With the operational stage of the Board developing, it is logical to change the compensation of the public members by eliminating the honorarium for attendance at meetings and substitute an annual fee for all personal services of each public Trustee.

Reasoning:

The attendance honorarium is illogical in that it assumes that the Trustees' services are performed only at a stated meeting. It ignores the fact that the Board is a working body involving continuous services in committees, traveling, consultation with staff, investment managers, other fund trustees, participation in work shops with legislators, interested public groups, etc.

It is suggested that the public members receive an annual fee on a par with that of the legislators. This does not introduce an employee relationship but assumes the fiduciary relation comparable to that of directors of a corporation.

1. The suggested compensation would be in line with compensation of legislators, state of Alaska staff and private industry.

2. It assumes a dedication of 25% to 50% of the public members' time, depending on assignments.

3. The suggested fee is set to be midway between the value of the Trustee's services in the market place and a pure donation of time which is not within the ability of many fine, potential Trustees. It is not so large as to be a sought-after prize for political appointment but it is enough to demand the commitment and time of qualified Trustees.

4. The service implied in the compensation should be an assist to the Governor in his choice of appointees.

Accountability of the Board:

The Legislature has provided for independence of Board management of the Fund by transfer of Fund assets to the Permanent Fund Corporation and instructions to manage and invest. However, there are problems of identity which soon will be upon us and deserve clarification.

1. There is no place under present law where the complete financial performance of the Fund is summarized and disclosed. Administrative and other expenses (e.g. supplies, safe keeping, travel, auditing, consultants' fees, etc.) are paid by the General Fund and are not included in the statements of the Permanent Fund. This is so significant an omission that our auditors have to mention it through footnote. This has also been commented on in public hearings. The forthcoming large expenses in staff and management consultants, this lack of centralization of all income and expenses of the Fund will prevent any proper accountability of Fund performance and the published statements will be a distortion of results.

2. To the extent that professional in-house investment management is built up, certain key personnel will probably require compensation at rates higher than presently contemplated in state salary structures. Those individuals are highly trained and, since the best are limited in supply, command specialty compensation. To the extent that investment managers are retained, their services, based on market value of assets could be greater than any previously paid state departments.

3. Another requirement for proper management of the Fund is strict confidentiality during sensitive operations. This includes the negotiation with investment managers, decisions on investment strategy, receipt and study of evaluations of both securities and the performance of investment managers. While the security portfolio held by the Fund would be published in detail, the decisions during the purchases and sales would require confidentiality.

A simple and straightforward solution to the foregoing problems is to designate the Permanent Fund Corporation as a separate entity for budgetary and accountability purposes. All income and expenses attributable to the Fund operation should flow through the Fund accounts. By this means, the financial statements of the Fund would disclose all results of operation and the complete performance of the Board Management could be easily monitored by the Governor, the Legislature and the public.

Necessarily, the Board needs the complete discretion to hire personnel, fix compensation and retain outside managers. The compensation arrangements are difficult to determine in advance but the number of positions could be estimated and then fixed by the Legislature if they so desire.

Expansion of Legal Investments of the Fund

The Legislature has charged the Board with the obligation of "conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans." (Sec. 37.13.020(i)).

It would be of little benefit to future Alaskans to hand on to them a Fund of the same dollars but of sharply reduced purchasing power because of inflation. This has a double doleful impact, because a fall in real principal (adjusted for inflation) always brings a like fall in real income.

The advice we have received from visiting advisers, financial consultants and the fund managers is consistent. Our investments should be broadened to include equities--both in stocks and real estate.

The reasoning of the advice is clear and simple. Under present law, the only legal investments for the Fund are debt instruments. Debts are repaid in fixed sums of money. In times of inflation, the increase in value of the underlying property of a company belongs not to the debt holder but to the stockholder. Therefore, to offset inflation, the Fund needs to have a substantial part of its investments in the form of equity ownership.

There is another compelling reason for the Fund to hold common stocks and that is to share in the growth of the company and the country. With population increases in Alaska, the per capita value of the Permanent Fund can be increased by adding to the Fund's principal at a faster rate than the population growth. But this ability to add to the capital may not continue indefinitely. Furthermore, why turn down the opportunity to share in the economic growth of the companies whose securities are available for investment?

An obvious and legitimate concern in the expansion of the legal investment list is the matter of risk. There are three main types of risk to which the Fund management must address itself.

The first risk is the erosion of value through inflation. By confining the investments only to debt instruments, this risk is assured and devastating.

The second risk is the fluctuation in market value of the security during the period of ownership by the Fund. Traditionally stocks have had a higher volatility in market value than debt instruments. However, in recent years, bonds of both medium and long term have experienced as great a market risk. No one recommends that a large pension or endowment fund be concentrated entirely and permanently in short-term investments. The answer to this type of risk is to have a long-term outlook in investments--a patient capital approach. Statistical summaries for practically any ten year period selected, show a positive appreciation for equity investments.

The third risk is variability in rate of investment return. This should be of great concern to all interested in the performance of the Permanent Fund. Consistency of return will yield better long term results than a fluctuating return. Dependability in return is necessary for making budget forecasts by those who are designated to receive the income.

The factors which must be considered in this type of risk are varied and complex. However, modern portfolio management has learned to overcome such risk. Diversification of investment by security, issuer, industry and location is a useful tool. The impact of business cycles, interest movements and political changes can be dampened out by a proper mix of equity and fixed income securities in the portfolio. The risk in investment management is best countered by having a number of managers with their performance monitored by professional experts and their retention based on their results.

Changes by the Legislature in the investment guidelines for the Fund should be gradual and step by step. Fortunately, there exists a precedence in the investment authority for the Teachers Retirement System and the Public Employees Retirement System which is familiar to the Legislature. It appears that the investment criteria for these retirement funds could be flexible enough for a positive performance by the Permanent Fund.

It should be noted that the permission to the Retirement Funds to invest in gold is not desired for the Permanent Fund. The constitutional requirement for investments to be income producing would probably eliminate it anyway.

The proportions of the Fund to be invested in stocks should best be left to the discretion of the Board and will vary over years as the mix between equities and fixed income securities is determined to meet the objectives of the Fund. Most well run pension and endowment funds nationally use a mix that is in excess of

50% common stocks. The Harvard Management Company which has an outstanding performance record varies in portfolio mix between 50% and 75% of common stocks.

The retirement funds of the state of Alaska allow real estate investment in national pooled funds. This would be the principal kind of real estate investment for the Permanent Fund. In the opinion of the writer, there are profitable and very safe investments that could be made directly in improved real estate on a selective basis. However, if there is any hesitation on the part of the Legislature to grant this kind of real estate investment authority, it could await further experience in the management of the Fund.

Permission to Reinvest Part of Investment Income
of the Fund

The most important legislative change necessary to enable the Board to carry out its implied mandate to conserve the real principal of the Fund for future generations is to permit reinvestment of investment income. Investment in equities will help the Fund grow. But if a permission to invest in equities is granted, it need be coupled with a redefinition of income to include dividends and capital gains. Then, regardless of the rate of income, if all income is transferred to the Permanent Fund, the value of ^{the} Fund will inevitably decline in purchasing power and income.

To illustrate the point: If the Fund has \$10 billion, earning 15%, and pays all of it out despite an inflation of, say 10%, in 30 years there would be a fall in real income from \$1.5 billion to \$86 million at the end.

Redefinition of income:

If equities are permitted for investment by the Fund, the income therefrom,-- dividends, rents and capital gains and losses--must be netted out and included in that investment income. This is necessary to compute the true income of the investment and to yield the cash for purposes of distribution to beneficiaries as determined by the Legislature.

If this expanded definition of income is made in the existing law, it should be coupled with a change, to charge all security losses to income as incurred. This would be in accordance with generally accepted principles of accounting.

Amount of income to retain in Fund.

The most effective way to retain income is for the Legislature to authorize the initial retention of all net investment income, after Fund expenses. This would identify and quantify the investment results of the Fund and permit the

retained income to be at profit until used for distribution according to direction of the Legislature.

A portion of this income, say one-half, should be carried to surplus and permanently retained as part of the principal of the Fund. The resultant earnings would aid in the dollar growth of the Fund and help in part to offset inflation.

The other half can best be carried to a reserve, subject to appropriation by the legislature. The decision as to how much to appropriate, and for what, can perhaps better be done later. A good argument can be made to not appropriate the entire half, but let inflation and investment results enter also in the picture.

The practice of the Harvard Management Company is helpful in this regard. This is a growing fund of approximately \$1.7 billion at present. Income distribution is predicated on the anticipation that total investment return will be 8% annually on market value over the long term. 4% is distributed to University Departments and is used for planning purposes. The other 4% is retained for reinvestment. The actual earnings in most years have been higher and the excess of the distributable 4% goes into a stabilization reserve so as to meet the budgeted distribution rate. It should be noted that an 8% anticipated return on market value of investments is substantially more than on historical cost.

Elmer Rasmuson

Composition of Trustees
of Permanent Fund

Under present law:	<u>T E R M</u>	
	<u>Inception</u>	<u>Expiration</u>
First year of office of new Governor -		
Commissioner of Revenue	1983	Pleasure of Gov
Two other Commissioners	1983	"
One public member	1983	1986
Second year of office -		
One public member	1984	1987
Third year of office -		
One public member	1985	1988
Fourth year of office -		
No new appointment		

Result: Under present law, four of the six trustees are appointed by the incoming Governor within six months of his office.

Under proposed law:
if approved at next legislative session:

Governor Hammond would appoint -		
Commissioner of Revenue	1981	Pleasure of Gov
One public member (present term of Elmer Rasmuson)	1982	1986
New Governor would appoint in first year of office -		
Commissioner of Revenue	1983	Pleasure of Gov
One public member (present term of George Rogers)	1983	1987
Second year of office -		
One public member (present term of Peter McDowell)	1984	1988
Third year of office -		
One public member	1985	1989
Fourth year of office -		
One public member	1986	1990

Stability consequences of proposed legislation:

1. None of the terms of the present public members would be abridged.
2. Governor Hammond would maintain his right to have the Commissioner of Revenue on the Board, and his present authority to appoint a public member in 1982 would not be changed.
3. The three public members appointed by Governor Hammond would continue into the administration of the succeeding Governor.
4. The incoming Governor would have the right to appoint his Commissioner of Revenue and all the four public members as their terms expired.

DATE: 10 February 1982

TO: The Trustees, Alaska Permanent Fund

FROM: James E. Rhode, Special Assistant

SUBJECT: Report on Investment Meetings Attended by Messrs. Rasmuson, McDowell, and Rhode - Seattle, San Francisco 11-15 January 1982

Our first host was Mr. Gary Bland, Manager of Trust Investments and Investor Relations for Boeing Aircraft. The company offers its employees, in addition to a standard retirement fund of equities and bonds, the choice of spreading their pension and profit-sharing assets between three different funds: equity or bond or a fund with a "guaranteed contract" rate. Total investments approach \$3 billion. During the discussion of investment classes, Mr. Bland noted the caution of Boeing as to real estate, mortgages and income property, and their ambiguity towards foreign holdings, a fear of supplying capital to aircraft rivals and the recognition that foreign earnings have a major part in the earnings of the company. Mr. Bland was approving of the wider investment authority sought in our pending bill and did not urge additions.

In a pattern that we saw repeated in all our visits, Mr. Bland served an investment committee (which included the corporate treasurer or his equivalent) as its single executive director. His key role was monitoring the various fund managers, reporting on the over-all performance of investments, implementing decisions on these (and other) matters, and representing the investment committee to employees and other affected parties.

Mr. Bland has no investment officers under him and but one secretary for his staff. However, the staff of the Comptroller's office assists in compiling reports and statistical analysis for internal use.

In addition, Boeing engages the Frank Russell Company of Tacoma for help in selecting and evaluating managers and for limited financial advice. While acknowledging the value of having this firm to lay down a record on which to base decisions, especially one to place before regulatory and other bodies, he stressed that judgments on managers and on investment mix were the active, final responsibility of Boeing. As to broad approach, it was stated that no managers with negative returns were tolerated and managers with a worsening record have been let go in as short a period as six months. Otherwise, the aim is good, consistent returns as opposed to high but irregular performance. It was later observed that Boeing, a leader in a highly cyclical industry with an expensive labor force (white and blue collar), must have a stable investment program for the many who may need to draw out their assets.

In our meeting with Mr. George Weyerhaeuser and his associates at the famed lumber company of the same name, the focus was again on the suitable range of investments, especially in an inflationary environment, and the possible roles of internal staff and outside managers. In the first area, we met our first objection to having any foreign assets, an objection born of bitter company experience in making long-term investment plans for Japan only to find exchange rates moving sharply against them. In the second area, this company, with less than \$1 billion in assets, preferred a more passive course. With no investment officers of their own, central reliance is placed on the Russell Company. Yet, again, the company did review the Russell work and pass on the general strategy being pursued.

Mr. Roland Trafton, Chairman of the Board, Safeco Corporation, joined us for our meeting with his associates. This insurance company

prompt crediting of various payments. He is also able to have all assets marked to market on a daily basis.

Mr. Greeley devoted his remarks to the work that falls exclusively to any governing body of a fund. He underscored the importance of timely and useable reporting of financial data, taking a number of measures of investment performance to give a three dimensional effect (book value, market value, total return in different senses, and comparisons with other like funds), and the advantages of good, sustainable rates of return in contrast with higher but erratic showings. Indeed, his company buttresses this approach with the practice of reserves to insure minimum payments of pension and profit-sharing benefits, benefits that figure prominently in recruiting for this highly competitive industry.

It was explained that the company manages fixed income assets within and manages equities both within and outside. This latter approach may largely result from the distinguished investment credentials of Mr. Greeley and certain members of the investment committee.

We next met with Mr. Robert Wade, president of a Bank of America subsidiary, the Investment Management Corporation, and with Mr. Lloyd Stockel, an Under Secretary for Business, Transportation, and Housing, State of California, a principal financial advisor to Governor Brown. His official purview includes the state's credit assistance in these areas. Mr. Greeley joined us.

In the extended discussion, which confirmed many views offered by other senior investment figures who have spoken to you and your representatives, it may best serve to cite new information. Review the history of California public investment, it was emphasized that a separation has always been maintained between the state treasury and

a partially indexed fund was certain to result from the actions of independent managers. There was no reason to pay management fees "...to buy the GM and U.S. Steel that you are going to buy anyway..." As for the money market component of the Fund, it was felt that internal managers, competitively paid, would be far more cost effective than farming out the assets. Finally, among other key matters raised, it was the view of Safeco that adjustable rate mortgages, rather than short-term, fixed rate mortgages, would probably become the dominant trend in the U.S.

Ms. Susan Tomby, with the Treasury of Crown Zellerbach and board member of the California State Public Employees pension fund, met with us for a confidential discussion on the course of the Governor's Task Force on Public Investment Policy. The focus of that group was on recommending ways in which state and local investment pools could aid business, notably housing and venture capital, and increase the weight given to "social purposes" in making investment decisions. We can report that California has more interests, with more unusual ideas, who more often seek to influence public investments than has been true in Alaska. Ms. Tomby, for her part, is not convinced that lending in aid of business or social purposes can be done without conflict with normal financial criteria, e.g. yield, credit risk, or liquidity. Among other concerns, she noted several conflicts of interest that may arise should institutions take a seat on boards of directors in companies whose shares they hold.

Mr. Robert Greeley, Manager of Corporate Investments for Hewlett-Packard, guided us through his operations; they include, for his transactions, a system to track the services of safekeeping agents and the

invests more than \$1.5 billion in equities and bonds; the bulk of this consists of reserves for life and casualty policies, but there are \$134 million in pension and individual accounts managed for outsiders, \$114 million in company pension and profit-sharing plans, and \$94 million in mutual funds. There are significant real estate assets, too.

A striking point was made during our discussion of investment strategy, a point raised twice, but not emphasized, in meetings with other financial specialists over the past year. The very magnitude of the Permanent Fund will limit the extent to which it can enter all investment markets, with the sole exception of fixed income securities, a highly liquid market of scores of billions in size. This problem, of where to put vast sums of money without becoming the major force in a market, up and down, has vexed a number of middle eastern countries, whose investment situation we may come to parallel. To illustrate the point, the conventional rule would limit to 5% the shares of any one company held by an institution, a benchmark we might quickly reach. After 5%, the S.E.C. requires timely reporting of any change in holdings until 10% is held, at which time advance notice of any change is required. Clearly, this limits the pace and terms of any movement in these shares.

On the question of internal and external managers, Safeco handles all investments within, and even has its own complement of security analysts. However, it was recognized that our Fund is remote from specialized markets, under some political constraints as to salaries and, as well, inexperienced with the new list of investments being sought. Still, it was argued that in the case of common stocks, a persuasive case is to be made for indexing a core portfolio. Given the large stock position we are likely to have, it was stated that

state and local retirement funds (which currently total in excess of \$87 billion). It was agreed that a Permanent Fund committed to investing must have its operations removed from those committed to spending, particularly given the great, tempting size of the Fund, if there is to be any hope of keeping its original goal. In the matter of staffing, the wisdom of having some internal professionals, whose first loyalty is to the trustees, was pressed, if only to monitor the work of the outside managers. It was cautioned, once again, that despite the savings of having your own fixed income and stock index managers, it may prove difficult, in a political climate, to attract and retain people in this very mobile profession. Then, in a lengthy review of mortgage financing, a novel approach used by the Bank of America was cited. Partial guarantees are made by employers to ease the growing problem of finding acceptable housing for persons transferred into the Bay Area.

Mr. Rodney Adams, Director of Finance at Stanford University and chief officer for its endowment, first related how, beginning in 1975, the University made a systematic review of its strategy for the endowment, with first place given to protecting real capital from inflation. Based on a study of the past 75 years of American capital markets, it was decided that all capital gains would be credited to principal, with up to 4.75% of total return to market value to be available for the departments of the University. In recent years, total real return has reached 5%. A formula that pays over real income, year to year, was not adopted, it was explained, because capital markets tend to lag over the short-run in periods of high inflation. The complex reports that support the distribution rules of Stanford will be lent or copied upon request.

Over \$900 million is under management, with some \$200 million in the hands of the internal staff, usually because the money was given with special conditions that make the accounts too awkward or small to be placed with outside managers. These last consist of a firm, each, in equities, fixed income, and international. Among the internal staff, duties are divided between handling the special accounts, liquidating donations and routine cash management, and monitoring the outside managers. In addition, there are three officers for income properties, located in California, and a like number to act on specialized information held on venture capital in electronics, a development centered in the region. Although staff pay has been a serious problem, stemming from the fact that academic faculty control this matter, Mr. Adams stated that his superiors believe in having their own personnel. At Stanford, he observed, they have a direct feel of many markets and review, without interfering, the conduct of the outside managers.

Our visit here closed with a startling discovery. In order to settle the bounds of their liability under the prudent investor rule, the University obtained a "declaratory statute". This, or some legal equivalent, was discussed as a possibility for the Permanent Fund. Supposedly, it would clarify the exposure of the trustees, who may be open to suit by individual citizens, and might deter illegal investment proposals from being forced on the Fund.

Meetings with Investment Firms
Week of July 6-10

SUMMARY OF INVESTMENT DISCUSSIONS

People in attendance:

Permanent Fund Staff

James B. Rhode

Susi Gregg Fowler

Department of Revenue,

Treasury Division

Peter A. Bushre

William L. Means

Legislative Budget and Audit

Steven Rieger

Department of Law

Laura Davis

The question that rose most frequently in New York was "What is the objective of the Alaska Permanent Fund?" The near unanimous opinion was that this question must be addressed by the Trustees before meaningful discussion can occur on such questions as allocation of investments and investment strategy. Robert Salomon, of Salomon Brothers, asked whether the Board of Trustees realized that if the Permanent Fund paid out more than 3% to 5% of its earnings, a level of earnings above inflation which might be attainable, the Trustees would be operating a fund with diminishing real capital and real income. At such time that the Permanent Fund ceased to grow in real terms, either through inflation or a fall in contributions, it would become self-liquidating. The crucial decision is whether the Permanent Fund is going to pay out real earnings, all earnings or a portion thereof. This is a grave problem being faced today by a growing number of foundations and university endowments. The Rockefeller Foundation, a \$1 billion foundation, has grown substantially in nominal terms, but has experienced an actual 35% contraction in real earnings power while the Ford Foundation, a \$2.5 billion foundation, has contracted in real earnings power by 55%. If nothing is done to curb these foundations' spending programs, Robert Salomon stated that he could project for their trustees the dates on which they would be totally self-liquidated.

Once the objective of the Permanent Fund has been decided, much will be determined as to level of risk which will be required to meet that objective. Long term studies, for example, have indicated that it is unrealistic to expect to earn more than a 2% real rate of return on a high grade fixed income portfolio, whereas a 3% to 5% real rate of return has been attainable in common stock over an extended period of time. Questioning Salomon Brothers as to what percentage

of common stock that they thought might be appropriate to the Permanent Fund given an earnings objective of a 3% to 5% real rate of return, the response was 80%. U. S. Steel Pension Fund, a pension fund in a mature industry, has approximately 80% of its assets currently in common stock, 10-15% in real estate, and the balance in fixed income securities. As reported by the S. E. C., the typical large corporate pension plan is approximately 55% invested in common stock. The normal asset mix of a portfolio under management by the Prudential Insurance Company of America is 40% to 60% in common stock and 20% to 30% in real estate equity, with the balance in fixed income securities. Mr. William Field, Senior Vice President of Prudential's Asset Management Department, indicated that for reasons of political toleration a 20% commitment to common stock might be more advisable for the Alaska Permanent Fund.

Mr. William Field, Mr. Robert Salomon and Mr. Heath McLendon, President of the investment management firm of Bernstein-Macaulay, Inc. agreed that the Trustees should seek authority from the Legislature to invest in domestic common stock, foreign securities, and real estate equity. They also volunteered that in their respective opinions, the timing for purchases in foreign securities and real estate was not good. However, they all felt that there would be better opportunities in the next two or three years, and any program to make major commitments in foreign securities and real estate should be understood by all to be a three to five year program. However, in their judgment, it is highly desirable to obtain authority as soon as possible so as to maximize flexibility.

With the exception of the U. S. Steel Pension Fund, it was the opinion of those that we contacted that the Alaska Permanent Fund, as a consequence of its sheer size, should utilize an index fund approach for its core holdings of common stock. Mr. William Field suggested that otherwise the investment management fees would become prohibitively expensive. It was suggested that outside managers be utilized in such specialized areas as high technology stocks, energy development stocks, foreign securities, and real estate equity to provide the Permanent Fund an extra increment of yield above that which an index fund would provide. It was the unanimous opinion of those to whom we talked that the significant danger in hiring a number of investment managers to manage the common stock portfolio was that the Permanent Fund would end up de facto as an expensively managed index fund. The largest acceptable number of outside managers suggested by anyone was six, and these six would cover the full gamut of investments from domestic common stock, foreign securities, to real estate equity. If more are hired, the feeling was expressed that the Trustees and staff are apt to find increasingly large segments of their time devoted to monitoring the managers performance and trying to determine how new flows of investable funds are to be allocated among the various investment managers.

Typically most large corporate pension plans are handled by outside investment managers with a number of plans managing only fixed income assets in house. Among the people we visited, only the manager of the U. S. Steel Pension Fund unqualifiedly thought that the entirety of the Alaska Permanent Fund could be managed in house in Alaska. The U. S. Steel Pension Fund is managed entirely in house with a staff of eleven investment professionals. This staff consists

of nine Certified Financial Analysts, one trader, and one specialist in money market and fixed income securities. It is interesting to note, however, that although the headquarters for the U. S. Steel Corporation is in Pittsburgh, the Company chose to run its pension fund out of New York City. Also the manager of the Fund felt that they were not close enough to the European markets to run a portfolio of European securities out of their New York office. Mr. William Field of the Prudential Insurance Company of America, on the other hand, felt on the basis of his experience with governmental bodies that the Trustees would likely have great difficulty in obtaining funding from the Legislature to run an in house operation with first class talent. To attract a top administrator to the Permanent Fund would require, in his opinion, a salary of approximately \$250,000 per annum with other positions scaled down to \$70,000.

The consensus opinion was that, if the Trustees chose to run fixed income securities in house, an index fund for core domestic stock holdings, and to choose outside investment managers for other specialized investment areas, a staff of four investment professionals plus clerical help would be adequate to manage a \$6 billion or larger fund. Assuming a staff of four investment professionals, one should specialize in fixed income securities; one should manage the index fund; one should monitor the outside managers; and one should have expertise in the field of real estate investments.

In selecting investment managers, the general feeling was that enough information is published regarding the performance of investment managers that the Board of Trustees should utilize its staff to select the most promising managers to make investment presentations before the Trustees. It was also strongly urged by Mr. Heath McLendon and Mr. William Field that the Permanent Fund staff make visits

directly to potential managers' offices to meet their staffs and discuss with them their investment philosophies and how they visualize investing for the Permanent Fund. It was felt that only after the Permanent Fund staff has made its selection of potential managers should a consultant be hired for the specific purpose of reviewing this list to see if any managers of merit have been missed.

It was interesting to note the generally low regard held for performance measurement analysts by most people we visited. While agreeing that they are necessary for public bodies in order to provide an element of comfort to them, they felt that they are expensive and that undue heavy reliance on them may result in inappropriate comparisons. In measuring performance, Mr. William Field strongly urged that the Standard & Poor's 500 not be used as the measurement of performance. Rather, in his opinion, the measure should be the ability of a fund to earn a specific positive rate of return above inflation on a consistent basis. Consistency, in his view, is the most important element of measurement.

In conclusion, there are two basic questions which the Board of Trustees should address before deciding questions of organization and investment strategy. As Robert Salomon said these are questions which your Trustees cannot avoid for they will ultimately be held responsible for the answers whether or not they address the questions directly or leave them to members of their staff. The questions are as follows:

1. What is to be the objective of the Alaska Permanent Fund?
2. How is the corpus of the Alaska Permanent Fund to be allocated to different types of investments?

Once the first question is answered, much will have been determined about the level of liquidity which can be maintained and the parameters of risk that the Permanent Fund will have to assume in order to attain its objective. Quite obviously the level of risk toleration would have to be substantially higher should the Board seek to obtain a 5% real rate of return as opposed to a 2% real return, and the allocation of investments would have to be concentrated in those areas which have a higher element of inherent risk but also offer potentially greater investment rewards.

INVESTMENT MEETINGS
New York City

Monday - July 6

9:30 A. M. Bache Halsy Stuart Shields Inc.
Bache Building
100 Gold St.
6th Floor
New York City, N. Y.
Sam Plia, Lou Auer, Executive Vice President
212-791-2467

12:00 Noon (To include lunch)
Prudential Insurance Company
Newark, N. J.
William Field 201-877-7979

Tuesday - July 7

11:30 A. M. (To include lunch)
Shearson Loeb Rhoades Inc.
2 World Trade Center
106th Floor
John McDougall 212-577-2718

Wednesday - July 8

10:00 A. M. The First Boston Corporation
20 Exchange Place
8th Floor
(To include lunch)
Gene Boehringer 212-825-2096

3:30 P. M. Discount Corporation of New York
58 Pine Street
Rodney Bird 212-248-8931

6:00 P. M. (To include dinner)
The Leash Club
41 East 63rd St.

Thursday - July 9

11:00 A. M. (To include lunch)
U. S. Steel Pension Fund
General Motors Building
767 Fifth Avenue
Graham Harrison, President & John Van Duesen, Vice President
212-826-8472

3:00 p.m. Buck Consulting Group

INVESTMENT MEETINGS - New York City Continued -

Friday - July 10

10:00 A. M.

(To include lunch)
Salomon Brothers
One New York Plaza
42nd Floor
R. S. Salomon 212-747-7000

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

July 31, 1981

Mr. Elmer Rasmuson, Chairman
Board of Trustees
Alaska Permanent Fund Corp.
Box 600
Anchorage, AK 99510

Re: Legal assistance re
investment practices

Dear Mr. Rasmuson:

I am writing to inform you of the current activities of the Department of Law relating to the investment of state funds. As background, the current status of the investment of state funds may be summarized as follows:

The monetary assets of the State of Alaska now consist of four funds: the general fund, the public employees' retirement system fund, the teachers' retirement system fund, and the permanent fund, all of which are managed and invested by the Treasury Division of the Department of Revenue, under the authority and supervision of the commissioner of revenue. The approximate aggregate balance of these funds at present is \$4.9 billion (approximately \$510 million in the PERS fund, \$385 million in the TRS fund, \$1.8 billion in the permanent fund, and \$2.2 billion in the general fund). These figures represent the amount of money for which the treasury has investment management responsibility (not the amount available for appropriation or expenditure), and they vary from day to day depending on the flow of income and the demand on state warrants.

The investment of each of the four funds is regulated by a separate statute (AS 14.25.180, TRS fund; AS 37.-10.070, general fund; AS 37.13.120, permanent fund; and AS 39.35.110, PERS fund), and in the case of the permanent fund, by a constitutional provision requiring investment only in income-producing assets. Alaska Const., art. IX, § 15. These statutes vary in terms of the list of specific types of investments which are authorized, but each contains a general provision commonly known as the prudent-man or prudent-investor rule.

Mr. Elmer Rasmuson, Chairman
Alaska Permanent Fund Corp.

July 31, 1981

Page #2

There is a large body of law interpreting the prudent-investor rule in the context of both public and private funds. It is our opinion that prudence in the management of all of these state funds requires the development and implementation of consistent procedures and practices for the evaluation of investment opportunities, and the execution of investment agreements, which conform to the prudent-investor rule. The development of such routine practices and procedures is particularly important at present, because of the rapidly expanding variety of investment alternatives, the volatility of financial markets, and the rapid expansion of the state treasury.

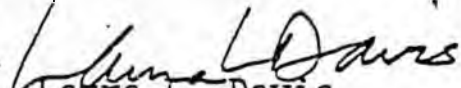
While in New York with the permanent fund and treasury staff, I met with members of two law firms (Shearman & Sterling, and Debevoise, Plimpton, Lyons, and Gates) to discuss their ability to provide legal assistance on matters related to state investment practices. I also met with the chief general counsel in the Investment Management Group of Citibank, N.A. to discuss matters related to the function of general counsel to an institution which manages large investment funds.

We have retained Shearman & Sterling to assist us in preparation of an agreement related to investment in gold by the retirement funds. We are now discussing with both firms their ideas for assisting us in the development of standard investment practices and procedures as discussed above, and hope to retain one of them for this purpose in the near future. We believe that the development of such investment practices with the assistance of a law firm which is actively involved in advising major public and private financial institutions will be important in helping our investment managers to carry out their fiduciary responsibilities for our rapidly increasing state funds over the next several decades. Our current work in this area is aimed primarily at investment management for the retirement funds and the general fund, but will be directly relevant to developing investment management guidelines for the permanent fund.

Sincerely yours,

WILSON L. CONDON
ATTORNEY GENERAL

By:


Laura L. Davis
Assistant Attorney General

LLD/pjg

cc: Thomas K. Williams
Robert W. Ward
George Rogers
Peter McDowell
Jim Rhode ✓
Peter Busbre

A paper on the
Organization and Management of the
Alaska Permanent Fund Corporation

I. History and Objectives

Determination of the appropriate management structure of an organization follows from an understanding of the history and objectives of the organization.

History

On November 2, 1976 Alaska voters by a 2:1 margin approved Ballot Proposition 2, which added the following to Article 9 of the Alaska State Constitution:

"Alaska Permanent Fund. Section 15. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

There is little or no background or elaboration on what was meant by the title "permanent" at that time (1976), but limited research indicates that the common understanding was as defined

by contemporary usage. Two dictionaries in use at the time included the following:

Permanent: "1. Fixed and changeless; lasting or meant to last indefinitely." (Source: The American Heritage Dictionary of the English Language, 1970). "1. Lasting or intended to last indefinitely without change; continuing in the same state or in the same place, stable, durable, abiding." (Source: Webster's New Universal Dictionary of the English Language, 1976).

Development of legislation

The Legislature and administration, in particular the House Special Committee on the Permanent Fund, then proceeded to evaluate a number of alternative ways of defining "income-producing investments." The major alternatives considered were:

- Activist development bank in the private and public sectors
- Savings account
- Passive trust fund of high-grade investments.

A number of bills were drafted for legislative consideration of these alternatives. This process of evaluation culminated in the drafting of House Committee Substitute for SB 161 and the accompanying Joint Committee Report, approved by the House in 1979. The final bill, which was approved by both houses and signed by the Governor in April 1980, was very similar to the 1979 House bill. The final Free Conference Committee Report

(Appendix I) was virtually unchanged from the 1979 House Joint Committee Report. As can be seen from Appendix II, the final bill also adhered closely to the concerns expressed by the Governor in April 1979.

Corporation objectives

As indicated in the Committee Report, the Corporation, ". . . provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets . . . The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second." Safety in this context is not explicitly defined, but at a minimum appears intended to provide that the face amount of fund principal never diminish and that at least some of the effects of inflation be mitigated.

1. Safety of principal

Throughout the legislation and the Committee Report are threads which indicate the legislative view of "safety of principal" included a recognition that some erosion of purchasing power might take place. The risks associated with investments which might yield returns equal to or greater than inflation would be higher than acceptable under the fiscally conservative investment philosophy inherent in the legislation.

2. Maximization of income

The legislation provides that the second major objective is to maximize income from the investments which are available to

the Corporation. Thus investment strategy, in practice, involves choosing among various maturities and issues while maintaining reasonable diversification among the allowable categories of investments.

Scope of the Fund

The present and future scale of the Fund are important considerations for organization and management. The current balance is slightly in excess of \$1 billion. It is expected to exceed \$2 billion by June 30, 1981 and \$12 billion by 1990, without further appropriations to principal. There appear to be strong prospects for additional appropriations, so that \$12 billion should be considered the minimum 1990 balance.

II. Management Structure

The legislation and Committee Report provide some guidance as to the intended management structure. The following is quoted from the Accountability section of the Committee Report:

"It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. In short, the aim was insulation without isolation. It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create

a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state. The Corporation is placed within the Department of Revenue for administrative matters such as payroll, but has a legal existence independent of and separate from the state."

Organizational objectives

The Permanent Fund is clearly important enough in its own right, due to its unique existence, purpose and size, to warrant special consideration from an organizational viewpoint. One purpose of a separate corporation is to provide high visibility for the Fund, its management and its investment activities. A second purpose is to provide the structure within which a separate staff, whose time is devoted wholly to the affairs of this Fund, may operate. As noted in the Committee Report, the objectives and the size of the Fund clearly justify the existence of a full-time professional staff to operate the Corporation, in a manner that will enable the Board of Trustees to carry out its responsibilities and achieve the objectives established for the Corporation.

Corporation objectives

The Corporation's objectives might be restated from the statute as:

1. Conserve (i.e., render permanent) a portion of the state's revenues from mineral resources to benefit all generations of Alaskans,
2. Maintain safety of principal in face value terms at a minimum with at least some gains offset against erosion by inflation, and
3. Maximize total return from investments (the investments allowed by statute which were selected primarily to insure safety of principal), in order to allow the maximum use of disposable income for purposes designated by law.

Trustees' responsibilities

The following list of responsibilities has been extracted from the statute and the Committee Report.

1. Manage and invest the assets of the Corporation, in accordance with the "prudent-man" rule, to achieve superior results, i.e. a sound rate of return on investments.
2. Maintain a reasonable diversification among the investment categories permitted by law.
3. Establish and as necessary modify guidelines for investment.

4. Relate to the Legislative Budget and Audit Committee by:
 - a) Reporting investment guidelines to the Committee for review and comment before adoption.
 - b) Reporting long-range and quarterly investment plans to the Committee.
 - c) Working with the Committee to help it carry out its duties with regard to the Permanent Fund, including:
 - Hearings on the confirmation of members of the Board of Trustees
 - Reviews of plans and reports
 - Annual post audits and operational and performance evaluations of Fund investments
 - Recommended changes in policy or legislation
5. Prepare and publish the annual report to the Governor, Legislature and the public. The report must include:
 - Audited financial statements
 - Income from investments
 - Investments at market value
 - Description of investment activity
 - A comparison of performance with statutory goals
 - An examination of the impact of the statutory investment criteria on the portfolio with recommendations of any needed changes in the investment list.
6. Prepare and submit annual operating budgets in accordance with the Executive Budget Act.

III. Conclusion

It appears, from a review of the statute, intent and history that the Legislature clearly intended the Corporation to be separate from ordinary state government operations in both fact and appearance. It seems that the Legislature felt the Corporation would be more accountable to state government and the public if it had a high profile and maximum organizational visibility.

The Governor and Legislature, through the dividend program, also gave the Alaskan public a personal financial stake in the management of Corporation investments. The level of dividends paid to Fund beneficiaries will rise or fall with the returns on investments.

Finally, there is the impact that the present interim arrangements have on the Department of Revenue, Division of Treasury. The Division is presently being asked to carry out all of its normal responsibilities and the additional burden of Permanent Fund activities without additional staff or budget. These arrangements would not seem to be in the best interest of either the Department or the Board of Trustees.

IV. Recommendation

In view of the above, it is recommended that the Board of Trustees consider the creation of a separate corporate organization of a size and with the levels of full-time professional

investment management that are appropriate to a multi-billion dollar trust fund. The unique nature of the trust fund; i.e., its size, its permanent character and universal group of direct beneficiaries; make it essential that the Board of Trustees have full-time staff support and an organization dedicated to helping the Board meet its objectives and carry out its responsibilities.

V. Plan of Implementation

If the Board agrees with the recommendation of this paper, it could be implemented by carrying out (but not limited to) the following steps:

1. Engage professional consultants to design the organization and handle recruitment of an executive director and staff of say 6-8 persons.-
2. Selection of independent professional advisers:
 - Auditors
 - Legal Counsel
 - Investment Performance Measurement consultants
3. Retain the office space and other facilities required.
4. Agree with the Department of Revenue regarding accounting and other administrative arrangements.

GBM

Peter B. McDowell

December 19, 1980

COMMITTEE REPORT
SENATE

4/12/82

FURTHER: Wainwright and Finance

Date: 4/29/82

Mr. President:

The Committee on STATE AFFAIRS has had SSSB 685
unlawful conduct of minors

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 SSSB 685 same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature] no rec

[Signature]

CHAIRMAN

Original sponsors: Rodey, Bradley,
Dankworth, et al

Offered: 4/30/82
Referred: Finance

1 IN THE SENATE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 685 (State Affairs)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 TWELFTH LEGISLATURE - SECOND SESSION
5 A BILL

6 For an Act entitled: "An Act relating to unlawful conduct of minors."

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

8 * Section 1. AS 12.55.015 is amended by adding a new subsection to read:

9 (d) If the court sentences a defendant to a term of imprisonment
10 and the defendant is a minor over whom children's court jurisdiction is
11 waived under AS 47.10.060, the court shall

12 (1) order that the defendant be confined in an institution
13 designated by the Department of Health and Social Services for offenders
14 under 18 years of age; and

15 (2) order that the defendant be transferred to an adult
16 correctional facility when the defendant reaches 18 years of age if more
17 than one year then remains of the defendant's term of imprisonment.

18 * Sec. 2. AS 34.50.020(a) is amended to read:

19 (a) Except as provided in (e) of this section, a [A] person, muni-
20 cipal corporation, association, village, school district or religious or
21 charitable organization, incorporated or unincorporated, may recover
22 damages in a civil action in an amount not to exceed \$5,000 [\$2,000] and
23 court costs, from either parent or both parents or the legal guardian or
24 person having the legal custody of an unemancipated minor under the age
25 of 18 years, who maliciously or wilfully destroys real or personal
26 property belonging to the person, municipal corporation, association,
27 village, school district or religious or charitable organization.

28 * Sec. 3. AS 34.50.020 is amended by adding new subsections to read:

29 (c) For the purposes of this section a minor is considered emanci-

1 pated and a parent or legal guardian or person having legal custody is
2 not liable for property damage caused by the minor if the court deter-
3 mines that

4 (1) the disabilities of minority have been removed under
5 AS 09.55.590;

6 (2) the minor is a resident of the state, is at least 16 years
7 of age, is living separate and apart from the minor's parents or legal
8 guardian or person having legal custody, and is capable of self-support
9 and of managing personal financial affairs; or

10 (3) the minor is living separate and apart from the minor's
11 parents or legal guardian or person having legal custody and engages in
12 conduct that results in a judgment under AS 47.10.080(a) that the minor
13 is a delinquent minor and that also is the basis for a civil action for
14 damages to property under this section.

15 (d) If the court determines that a minor is emancipated under (c)
16 of this section, the minor may be sued in a civil action for injuries
17 caused by the minor as if the minor were an adult.

18 (e) The provisions of (a) of this section do not apply to destruc-
19 tion of property by an unemancipated minor under the age of 18 years
20 who maliciously or wilfully destroys property at the time the minor is a
21 ward of the state under AS 47.10.080(f).

22 * Sec. 4. AS 47.10.020(a) is amended to read:

23 (a) Whenever a person informs the court of the facts which bring a
24 minor within this chapter, the court shall appoint a competent person or
25 agency to make a preliminary inquiry and report for the information of
26 the court to determine whether the interests of the public or of the
27 minor require that further action be taken. Upon the receipt of the
28 report, the court may informally adjust or dispose of the matter without
29 a hearing, or it may authorize the person having knowledge of the facts

1 of the case to file with the court a petition setting out the facts.
2 Where the court informally adjusts or disposes of the matter, the minor
3 may not be detained or taken into the custody of the court, and the
4 matter shall be closed by the court upon adjustment or disposition.
5 Upon request of the victim or the victim's parent or guardian, the court
6 shall disclose to the victim of the minor or to the victim's parent or
7 guardian the manner in which it informally adjusted or disposed of the
8 matter. The court may not disclose the identity of the minor.

9 * Sec. 5. AS 47.10.060(a) is repealed and reenacted to read:

10 (a) The court shall order a case closed and, subject to the pro-
11 visions of AS 12.55.015(d), the minor may be prosecuted as if the minor
12 were an adult if the court finds at a hearing on a petition

13 (1) that the minor was 16 years of age or older at the time
14 of the offense and that there is probable cause to believe that the
15 minor has committed an unclassified felony or a class A felony; however,
16 the court may retain jurisdiction if the court finds by a preponderance
17 of the evidence that the interests of justice would be best served if
18 the minor is not prosecuted as an adult; or

19 (2) that the minor is not amenable to treatment under this
20 chapter and there is probable cause to believe that the minor is delin-
21 quent.

22 * Sec. 6. AS 47.10.060(d) is repealed and reenacted to read:

23 (d) A minor is not amenable to treatment under AS 47.10.060(a)(2)
24 if the minor probably cannot be rehabilitated by treatment under this
25 chapter before reaching 20 years of age. In determining whether a minor
26 is amenable to treatment, the court shall consider

27 (1) the criminal and personal history of the minor and the
28 likelihood of rehabilitation;

29 (2) the seriousness of the minor's present offense in rela-

1 tion to other offenses committed by the minor;

2 (3) the probable cause of the minor's delinquent behavior;

3 (4) the facilities available to the division of youth and
4 adult authority for treating the minor.

5 * Sec. 7. AS 47.10.060 is amended by adding a new subsection to read:

6 (f) At a hearing on a petition under (a)(1) of this section, the
7 court shall consider

8 (1) the criminal and personal history of the minor and the
9 likelihood of rehabilitation;

10 (2) the seriousness of the minor's present offense in relation
11 to other offenses committed by the minor;

12 (3) the need to confine the minor to prevent further harm to
13 the public;

14 (4) the circumstances of the offense and the extent to which
15 the offense harmed a victim or endangered the public safety or order;

16 (5) the effect of prosecuting the minor as an adult in
17 deterring the minor or other minors from future criminal conduct;

18 (6) the best interest of the minor.

19 * Sec. 8. AS 47.10.080(a) is amended to read:

20 (a) The court, at the conclusion of the hearing, or thereafter as
21 the circumstances of the case may require, shall find and enter a judg-
22 ment that the minor is or is not a delinquent or a child in need of aid.
23 The court shall disclose the results of the hearing in accordance with
24 AS 47.10.020(a).

25 * Sec. 9. AS 47.10.090 is amended by adding a new subsection to read:

26 (d) The provisions of this section prohibiting disclosure of
27 information relating to a minor do not apply to a disclosure to a victim
28 or the victim's parent or guardian under AS 47.10.020(a), 47.10.080(a),
29 and 47.10.140(d).

1 * Sec. 10. AS 47.10.140(d) is amended to read:

2 (d) If the court finds that probable cause exists, it shall deter-
3 mine whether the minor should be detained pending the hearing on the
4 petition or released. It may either order the minor held in detention
5 or order the minor [HIM] to be released to the custody of a suitable
6 person pending the hearing on the petition. If the court finds no prob-
7 able cause, it shall order the minor released and close the case.
8 The court shall disclose the results of the hearing in accordance with
9 AS 47.10.020(a).

Introduced: 4/12/82
Referred: State Affairs,
Judiciary and Finance

BY ROBEY, BRADLEY, DANFORTH,
KELLY, KERTTULA AND PAY

1 IN THE SENATE

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 685

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

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13 designated by the Department of Health and Social Services for offenders
14 under 18 years of age; and

15 (2) order that the defendant be transferred to an adult
16 correctional facility when the defendant reaches 19 years of age if more
17 than one year then remains of the defendant's term of imprisonment.

18 * Sec. 2. AS 47.10.020(a) is amended to read:

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20 minor within this chapter, the court shall appoint a competent person or
21 agency to make a preliminary inquiry and report for the information of
22 the court to determine whether the interests of the public or of the
23 minor require that further action be taken. Upon the receipt of the
24 report, the court may informally adjust or dispose of the matter without
25 a hearing, or it may authorize the person having knowledge of the facts
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27 Where the court informally adjusts or disposes of the matter, the minor
28 may not be detained or taken into the custody of the court, and the
29 matter shall be closed by the court upon adjustment or disposition.

1 The court shall disclose to the victim, if any, of the minor the manner
2 in which it informally adjusted or disposed of the matter. The victim's
3 parents, guardian, and other immediate family members are entitled to
4 receive the same information from the court.

5 * Sec. 3. AS 47.10.060(a) is repealed and reenacted to read:

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10 of the offense and that there is probable cause to believe that the
11 minor has committed an unclassified felony or a class A felony; or

12 (2) that the minor is not amenable to treatment under this
13 chapter and there is probable cause to believe that the minor is delin-
14 quent.

15 * Sec. 4. AS 47.10.060 is amended by adding a new subsection to read:

16 (f) If a case is closed under (a)(1) of this section, the minor
17 may petition the court within 10 days to reopen the case. The case
18 shall be reopened if the court finds by a preponderance of the evidence
19 that the interests of justice would be best served if the minor is not
20 prosecuted as an adult. In making this finding, the court shall con-
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22 (1) the criminal and personal history of the minor and the
23 likelihood of his rehabilitation;

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25 tion to other offenses committed by the minor;

26 (3) the need to confine the minor to prevent further harm to
27 the public;

28 (4) the circumstances of the offense and the extent to which
29 the offense harmed a victim or endangered the public safety or order;

1 (5) the effect of prosecuting the minor as an adult in deter-
2 ring the minor or other minors from future criminal conduct.

3 * Sec. 5. AS 47.10.080(a) is amended to read:

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5 the circumstances of the case may require, shall find and enter a judg-
6 ment that the minor is or is not a delinquent or a child in need of aid.
7 The court shall disclose the results of the hearing to the victim, if
8 any, of the minor. The victim's parents, guardian, and other immediate
9 family members are entitled to receive the same information from the
10 court.

11 * Sec. 6. AS 47.10.090 is amended by adding a new subsection to read:

12 (d) The provisions of this section prohibiting disclosure of
13 information relating to a minor do not apply to a disclosure to a victim
14 and his family under AS 47.10.020(a), AS 47.10.080(a), and AS 47.10.-
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20 or order him to be released to the custody of a suitable person pending
21 the hearing on the petition. If the court finds no probable cause, it
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23 close the results of the hearing to the victim, if any, of the minor.
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25 entitled to receive the same information from the court.

26 * Sec. 8. AS 34.50.020(a) is amended to read:

27 (a) Except as provided in (e) of this section, a [A] person,
28 municipal corporation, association, village, school district or religious
29 or charitable organization, incorporated or unincorporated, may recover

1 damages in a civil action in an amount not to exceed \$5,000 [\$2,000] and
2 court costs, from either parent or both parents or the legal guardian or
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6 village, school district or religious or charitable organization.

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10 not liable for property damage caused by the minor if the court deter-
11 mines that

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13 AS 09.55.590;

14 (2) the minor is a resident of the state, is at least 16
15 years of age, is living separate and apart from his parents or legal
16 guardian or person having legal custody, and is capable of self-support
17 and of managing his own financial affairs; or

18 (3) the minor is living separate and apart from his parents
19 or legal guardian or person having legal custody and engages in conduct
20 that results in a judgment under AS 47.10.080(a) that he is a delinquent
21 minor and that also is the basis for a civil action for damages to
22 property under this section.

23 (d) If the court determines that a minor is emancipated under (c)
24 of this section, the minor may be sued in a civil action for injuries
25 caused by the minor as if the minor were an adult.

26 (e) The provisions of (a) of this section do not apply to destruc-
27 tion of property by an unemancipated minor under the age of 18 years
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29 of the state under AS 47.10.080(f).

ALASKA STATE LEGISLATURE

TWELFTH Legislature SECOND... Session

SPONSOR SUBSTITUTE
SENATE BILL..... NO. ...685.

By .RODEY.,.BRADLEY.,.DANKWORTH,
KELLY, KERTTULA, RAY

"An Act relating to unlawful
conduct of minors."

Introduced in the Senate 1/27/ 82

HISTORY IN THE SENATE

19	82	Read first time and referred to Committee on
1	27	State Affairs and Judiciary
3	5	Reported back with <i>FINANCE</i> recommendation that <i>ADDED</i>
4	13	<i>Sponsor out letter - some reports</i>
4	30	<i>SA: replace w/ks, & do pass 1/ma</i>
4	30	<i>rev to Jud</i>
		<i>Jud. Committee - to sin</i>
		Read second time and
		Read third time and
		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
		Sent to House
SECRETARY OF THE SENATE		

HISTORY IN THE HOUSE

19		Read first time and referred to Committee on
		Reported back with recommendation that
		Read second time and
		Read third time and
		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
		Returned to Senate
CHIEF CLERK OF THE HOUSE		

HISTORY IN THE SENATE

19		Received from House
		To enrolling
		Reported correctly enrolled
		Sent to Governor
	 by Governor
		Filed with Lt. Governor
		Chapter No.

Introduced: 4/12/82
Referred: State Affairs,
Judiciary and Finance

1 IN THE SENATE

BY RODEY, BRADLEY, DANKWORTH,
KELLY, KERTTULA AND RAY

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1 damages in a civil action in an amount not to exceed \$5,000 [\$2,000] and
2 court costs, from either parent or both parents or the legal guardian or
3 person having the legal custody of an unemancipated minor under the age
4 of 18 years, who maliciously or wilfully destroys real or personal
5 property belonging to the person, municipal corporation, association,
6 village, school district or religious or charitable organization.

7 * Sec. 9. AS 34.50.020 is amended by adding new subsections to read:

8 (c) For the purposes of this section a minor is considered emanci-
9 pated and a parent or legal guardian or person having legal custody is
10 not liable for property damage caused by the minor if the court deter-
11 mines that

12 (1) the disabilities of minority have been removed under
13 AS 09.55.590;

14 (2) the minor is a resident of the state, is at least 16
15 years of age, is living separate and apart from his parents or legal
16 guardian or person having legal custody, and is capable of self-support
17 and of managing his own financial affairs; or

18 (3) the minor is living separate and apart from his parents
19 or legal guardian or person having legal custody and engages in conduct
20 that results in a judgment under AS 47.10.080(a) that he is a delinquent
21 minor and that also is the basis for a civil action for damages to
22 property under this section.

23 (d) If the court determines that a minor is emancipated under (c)
24 of this section, the minor may be sued in a civil action for injuries
25 caused by the minor as if the minor were an adult.

26 (e) The provisions of (a) of this section do not apply to destruc-
27 tion of property by an unemancipated minor under the age of 18 years
28 who maliciously or wilfully destroys property at the time he is a ward
29 of the state under AS 47.10.080(f).

Original sponsors: Rodey, Bradley,
Dankworth, et al

Offered: 4/30/82
Referred: Finance

1 IN THE SENATE BY THE STATE AFFAIRS COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 685 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to unlawful conduct of minors."

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

8 * Section 1. AS 12.55.015 is amended by adding a new subsection to read:

9 (d) If the court sentences a defendant to a term of imprisonment
10 and the defendant is a minor over whom children's court jurisdiction is
11 waived under AS 47.10.060, the court shall

12 (1) order that the defendant be confined in an institution
13 designated by the Department of Health and Social Services for offenders
14 under 18 years of age; and

15 (2) order that the defendant be transferred to an adult
16 correctional facility when the defendant reaches 18 years of age if more
17 than one year then remains of the defendant's term of imprisonment.

18 * Sec. 2. AS 34.50.020(a) is amended to read:

19 (a) Except as provided in (e) of this section, a [A] person, muni-
20 micipal corporation, association, village, school district or religious or
21 charitable organization, incorporated or unincorporated, may recover
22 damages in a civil action in an amount not to exceed \$5,000 [\$2,000] and
23 court costs, from either parent or both parents or the legal guardian or
24 person having the legal custody of an unemancipated minor under the age
25 of 18 years, who maliciously or wilfully destroys real or personal
26 property belonging to the person, municipal corporation, association,
27 village, school district or religious or charitable organization.

28 * Sec. 3. AS 34.50.020 is amended by adding new subsections to read:

29 (c) For the purposes of this section a minor is considered emanci-

1 pated and a parent or legal guardian or person having legal custody is
2 not liable for property damage caused by the minor if the court deter-
3 mines that

4 (1) the disabilities of minority have been removed under
5 AS 09.55.590;

6 (2) the minor is a resident of the state, is at least 16 years
7 of age, is living separate and apart from the minor's parents or legal
8 guardian or person having legal custody, and is capable of self-support
9 and of managing personal financial affairs; or

10 (3) the minor is living separate and apart from the minor's
11 parents or legal guardian or person having legal custody and engages in
12 conduct that results in a judgment under AS 47.10.080(a) that the minor
13 is a delinquent minor and that also is the basis for a civil action for
14 damages to property under this section.

15 (d) If the court determines that a minor is emancipated under (c)
16 of this section, the minor may be sued in a civil action for injuries
17 caused by the minor as if the minor were an adult.

18 (e) The provisions of (a) of this section do not apply to destruc-
19 tion of property by an unemancipated minor under the age of 18 years
20 who maliciously or wilfully destroys property at the time the minor is a
21 ward of the state under AS 47.10.080(f).

22 * Sec. 4. AS 47.10.020(a) is amended to read:

23 (a) Whenever a person informs the court of the facts which bring a
24 minor within this chapter, the court shall appoint a competent person or
25 agency to make a preliminary inquiry and report for the information of
26 the court to determine whether the interests of the public or of the
27 minor require that further action be taken. Upon the receipt of the
28 report, the court may informally adjust or dispose of the matter without
29 a hearing, or it may authorize the person having knowledge of the facts

1 of the case to file with the court a petition setting out the facts.
2 Where the court informally adjusts or disposes of the matter, the minor
3 may not be detained or taken into the custody of the court, and the
4 matter shall be closed by the court upon adjustment or disposition.
5 Upon request of the victim or the victim's parent or guardian, the court
6 shall disclose to the victim of the minor or to the victim's parent or
7 guardian the manner in which it informally adjusted or disposed of the
8 matter. The court may not disclose the identity of the minor.

9 * Sec. 5. AS 47.10.060(a) is repealed and reenacted to read:

10 (a) The court shall order a case closed and, subject to the pro-
11 visions of AS 12.55.015(d), the minor may be prosecuted as if the minor
12 were an adult if the court finds at a hearing on a petition

13 (1) that the minor was 16 years of age or older at the time
14 of the offense and that there is probable cause to believe that the
15 minor has committed an unclassified felony or a class A felony; however,
16 the court may retain jurisdiction if the court finds by a preponderance
17 of the evidence that the interests of justice would be best served if
18 the minor is not prosecuted as an adult; or

19 (2) that the minor is not amenable to treatment under this
20 chapter and there is probable cause to believe that the minor is delin-
21 quent.

22 * Sec. 6. AS 47.10.060(c) is repealed and reenacted to read:

23 (d) A minor is not amenable to treatment under AS 47.10.060(a)(2)
24 if the minor probably cannot be rehabilitated by treatment under this
25 chapter before reaching 20 years of age. In determining whether a minor
26 is amenable to treatment, the court shall consider

27 (1) the criminal and personal history of the minor and the
28 likelihood of rehabilitation;

29 (2) the seriousness of the minor's present offense in rela-

1 tion to other offenses committed by the minor;

2 (3) the probable cause of the minor's delinquent behavior;

3 (4) the facilities available to the division of youth and
4 adult authority for treating the minor.

5 * Sec. 7. AS 47.10.060 is amended by adding a new subsection to read:

6 (f) At a hearing on a petition under (a)(1) of this section, the
7 court shall consider

8 (1) the criminal and personal history of the minor and the
9 likelihood of rehabilitation;

10 (2) the seriousness of the minor's present offense in relation
11 to other offenses committed by the minor;

12 (3) the need to confine the minor to prevent further harm to
13 the public;

14 (4) the circumstances of the offense and the extent to which
15 the offense harmed a victim or endangered the public safety or order;

16 (5) the effect of prosecuting the minor as an adult in
17 deterring the minor or other minors from future criminal conduct;

18 (6) the best interest of the minor.

19 * Sec. 8. AS 47.10.080(a) is amended to read:

20 (a) The court, at the conclusion of the hearing, or thereafter as
21 the circumstances of the case may require shall find and enter a judg-
22 ment that the minor is or is not a delinquent or a child in need of aid.
23 The court shall disclose the results of the hearing in accordance with
24 AS 47.10.020(a).

25 * Sec. 9. AS 47.10.090 is amended by adding a new subsection to read:

26 (d) The provisions of this section prohibiting disclosure of
27 information relating to a minor do not apply to a disclosure to a victim
28 or the victim's parent or guardian under AS 47.10.020(a), 47.10.080(a),
29 and 47.10.140(d).

1 * Sec. 10. AS 47.10.140(d) is amended to read:

2 (d) If the court finds that probable cause exists, it shall deter-
3 mine whether the minor should be detained pending the hearing on the
4 petition or released. It may either order the minor held in detention
5 or order the minor [HIM] to be released to the custody of a suitable
6 person pending the hearing on the petition. If the court finds no prob-
7 able cause, it shall order the minor released and close the case.
8 The court shall disclose the results of the hearing in accordance with
9 AS 47.10.020(a).

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THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS Sponsor Substitute for Senate Bill No. 685
 Title "An Act relating to unlawful conduct of minors."
 Requested by Senate Judiciary Date April 27, 1982

II. FISCAL DETAIL

Agency Affected Health and Social Services
 Program Category Affected Offender Confinement, Reformation, & Supervision
 BRU, Program, Or Subprogram(s) Affected Adult Confinement
 (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 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES			270.6	289.5	309.7	331.4
200 TRAVEL			5.6	6.1	6.6	7.2
300 CONTRACTUAL			66.4	72.4	78.9	86.0
400 COMMODITIES			60.0	65.0	70.8	77.1
500 EQUIPMENT			5.3	5.7	-	-
600 LAND & STRUCTURES		2,208.0				
700 GRANTS, CLAIMS, ETC.			24.7	26.9	29.3	31.9
TOTAL	-0-	2,208.0	432.6	465.6	495.3	533.6

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-0-	2,208.0	432.6	465.6	495.3	533.6
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-0-	-0-	7	7	7	7
PART TIME						
TEMPORARY						

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

- A. Enactment of Sponsor Substitute for Senate Bill No. 685 will have a fiscal impact on Adult Confinement within the Division of Adult Corrections. Since the new language would treat individuals sixteen years and older as adults for unclassified and class A felonies, the time served by convicted sixteen and seventeen year-olds would increase substantially.

It is the estimate of the Department of Health and Social Services that ultimately an additional 42 beds will be needed to care for this group of individuals in a secure setting. Detail of this estimate follows.

IV. DATE April 15, 1982

PREPARED BY William W. Rodwey for Roger C. Lange JCC

AGENCY Division of Adult Corrections

Original: Legislative Finance

PHONE 465-3376

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

B. Adult Confinement

It is assumed that no appreciable bed impact will be experienced by the Division of Adult Corrections until FY 1984. This is based on the assumption that the average age of offenders affected by this legislation will be 17 years, and will serve one year in a juvenile facility prior to transfer to an adult facility. This fiscal note identifies a need for 32 additional beds, although the legislation will result in 10 additional beds being needed at the rate of 1 bed per year after FY 1986. This is a result of the average period of confinement of 15 years for persons convicted of unclassified felonies.

Based upon arrest data indicating 28 persons 16 and 17 years of age being arrested annually for crimes in the unclassified and Class A felony categories, and using conviction rates and average sentence lengths for adult offenders, the following is predicted:

1.) Unclassified Felony

One conviction per year with an average sentence of 15 years to serve (20 years less good time) will require 14 additional beds. It is noted that only 4 of these beds will be required during the period covered by this fiscal note and that is the number requested. The additional 10 beds will have to be considered for capital projects planned for completion after FY 1986, if this proposed legislation is enacted.

2.) Class A Felony with Gun

Five convictions per year with one waived to juvenile status and one sentenced so as to serve all time in a juvenile facility. Therefore, it is estimated there will be three individuals who will serve a period of 3.5 years each in an adult facility.

$$3 \times 3.5 = 10.5 \text{ person years or beds}$$

3.) Class A Felony without Gun

Eight convictions per year with one waived to juvenile status and two sentenced so as to serve all time in a juvenile facility. Therefore, it is estimated there will be five individuals who will serve a period of 3.4 years each in an adult facility.

$$5 \times 3.4 = 17 \text{ person years or beds}$$

4.) Total beds required through FY 1986 is 32.

5.) Cost Estimates

a) Capital expenditures:

32 beds at \$69,000 per bed
 $32 \times \$69,000 = \$2,208,000$

b) Operating expenditures:

It is estimated that 7 positions will be required to provide security and support for these 32 beds: 1 Correctional Officer III, 5 Correctional Officer II, and 1 Institutional Counselor. Costs for these positions will not occur until FY 1984, the anticipated opening date for the new beds.

FY 1984 Costs

Personal Services	\$270,600
Travel	5,600
Contractual Services	66,400
Commodities	60,000
Equipment	5,300
Inmate Gratuities	<u>24,700</u>
Total	\$432,600

Inflation of 7% for Personal Services and 9% for all other expenditure object groups was assumed when calculating subsequent fiscal years.

POSITION PAPER
SPONSOR SUBSTITUTE FOR SENATE BILL NO. 685

"An Act relating to unlawful conduct of minors."

Sponsor Substitute for Senate Bill No. 685 would add additional provisions to AS 12.55, AS 47.10, and AS 34.50. The amendments can be organized into the following topic areas. Section 3 of the act amends AS 47.10 to require the court to order a children's proceeding closed and jurisdiction over a minor waived if the court finds that there is probable cause for believing that the minor is 16 years of age or older and delinquent because he committed an unclassified or Class A felony. Section 4 further amends AS 47.10 to allow a minor, if a case is closed, to petition the court within 10 days to reopen the case and to require the court to grant the petition if it finds by a preponderance of the evidence that the interests of justice would be best served if the minor is not prosecuted as an adult. Section 1 of Sponsor Substitute for Senate Bill No. 685 amends AS 12.55 to require the court to order a minor defendant waiver under AS 47.10.060 to be confined in an institution designated by the Department of Health and Social Services for offenders under age 18 years of age and to be transferred to an adult correctional facility when the defendant reaches 19 years of age if more than one year remains of the offender's term of imprisonment. Sections 2, 5, 6, and 7 of Spncsor Substitute for Senate Bill No. 685 would require that the court disclose to the victim of a minor the manner in which the court informally or formally disposed of a matter concerning the minor and the results of any hearing held to determine the need to detain the minor. In addition, the parents, guardians, and other immediate members of the victim's family would be entitled to receive the same information from the court. Finally, Section 8 of Senate Bill No. 685 would amend AS 34.50 by raising from \$2,000 to \$5,000 the amount of damages which may be recovered in a civil action from the parents or legal guardian of a minor who destroys real or personal property. In addition, Section 8 of the Bill provides for civil action to be brought against an emancipated minor to recover damages caused by the minor and relieving the parents or legal guardian of the minor from legal responsibility for those damages.

The affect of Section 3 [AS 47.10.060(a)] contained in Sponsor Substitute for Senate Bill No. 685 would be an increase in the number of juveniles subject to prosecution under the adult criminal statutes and an increased liability of juveniles so convicted to sanctions which are more severe, both in nature and duration, than those to which they would have been liable under the juvenile code. Thus, the focus in dealing with older juveniles accused of serious violent crimes would be primarily upon increasing the accountability of the offender for his actions. The Department supports this change in focus, as under present law, the accountability of older, violent juvenile offenders is insufficient and the ability of the Department to provide rehabilitation of an adequate duration is too severely restricted. In addition, the Department supports Section 4 [AS 47 10.060 (f)] which allows some flexibility for unusual cases by providing the youthful offender a period of 10 days to request a "transfer back" of the case from the adult court to the juvenile court.

Section 1 (AS 12.55.015) of Sponsor Substitute for Senate Bill No. 635 which requires the court to order waived juveniles to serve their terms of imprisonment in juvenile correctional facilities until the offender reaches the age of 19 is generally supported by the Department. However, the Department would recommend that (d)(2), Line 16 of this section be amended to change the age from 19 to 18.

This change would make the age in this section consistent with the age of majority. An analysis of the most recent available arrest data indicates that an estimated 28 juvenile offenders would have been subjected to prosecution as adults during CY 1981 as a result of the waiver of jurisdiction provisions in Sponsor Substitute for Senate Bill No. 635. If Section 1, Line 16, is not amended to reduce the age from 19 to 18, this Bill will result in a substantial fiscal impact to the juvenile corrections system. It is estimated by analyzing adult sentencing data, as well as data on length of time served, that the Division will need to add 10 new beds to the McLaughlin Youth Center's Closed Treatment Unit to house 18 and 19 year old sentenced offenders.

Sections 2, 5, 6, and 7 of Sponsor Substitute for Senate Bill No. 685 would amend AS 47.10 to mandate the disclosure of information about informal or formal children's proceedings concerning minors to the victims of offenses committed by those minors. This would alter present law which prohibits any such disclosure without specific order of the court. This provision would infuse clarity and uniformity into the matter of disclosure of information to victims which is presently treated variously by courts in the four judicial districts depending upon the differing circumstances of each specific case. The Department is supportive of the concept of informing the victim of an offense of the outcome, either formal or informal, of court proceedings concerning delinquent minors. The Department believes that the provisions contained in Sponsor Substitute for Senate Bill No. 685 would accomplish this purpose satisfactorily.

Sections 8 and 9 of Sponsor Substitute for Senate Bill No. 685 which increases the civil monetary liability of parents for property damage caused by their minor children and which render an emancipated minor civilly liable for his actions are supported by the Department as a means of insuring the innocent victims do not suffer a loss when payment of restitution by a minor is not feasible or forthcoming.

In summary, the Department supports Sections 2 through 9 of Sponsor Substitute for Senate Bill No. 685. In addition, the Department supports Section 1 of Sponsor Substitute for Senate Bill No. 685, but recommends amending (d)(2), Line 16, by changing the age from 19 to 18.

RECOMMENDED BY: John R. Pugh
John R. Pugh, Director
Division of Family and
Youth Services

DATE: 4/15/82

APPROVED BY: Helen D. Beirne
Helen D. Beirne
Commissioner

DATE: 4-20-82

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Sponsor Substitute for Senate Bill No. 685
 Title "An Act relating to unlawful conduct of minors."
 Requested by Senate Judiciary Date April 12, 1982

II. FISCAL DETAIL

Agency Affected Health and Social Services
 Program Category Affected Offender Confinement, Reformation, & Supervision
 BRU, Program, Or Subprogram(s) Affected Adult Confinement; Youth Services
 (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 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES			352.2	666.4	713.0	762.9
200 TRAVEL			4.0	10.4	11.3	12.4
300 CONTRACTUAL			45.9	121.1	132.0	143.9
400 COMMODITIES			30.1	97.0	105.7	115.2
500 EQUIPMENT			3.2	5.6	-	-
600 LAND & STRUCTURES		2,818.0				
700 GRANTS, CLAIMS, ETC.			38.6	68.5	74.7	81.4
TOTAL	- 0 -	2,818.0	474.0	969.0	1,036.7	1,115.8

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	- 0 -	2,818.0	474.0	969.0	1,036.7	1,115.8
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	- 0 -	- 0 -	8	15	15	15
PART TIME						
TEMPORARY						

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

- A. Enactment of Sponsor Substitute for Senate bill No. 685 will have a fiscal impact on both Youth Services within the Division of Family and Youth Services and Adult Confinement within the Division of Adult Corrections. Since the new language would treat individuals sixteen years and older as adults for unclassified and class A felonies, the time served by convicted sixteen and seventeen year-olds would increase substantially.

It is the estimate of the Department of Health and Social Services that ultimately an additional 42 beds will be needed to care for this group of individuals in a secure setting. Detail of this estimate follows.

Roger C. Lange

IV. DATE April 15, 1982 PREPARED BY Roger C. Lange
 AGENCY Division of Adult Corrections
 Original: Legislative Finance PHONE 465-3376
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)
 33-001 (Rev. 12/81)

JCC

B. Youth Services Impact

Enactment of this bill would require the construction of a 10-bed brick and steel addition to the McLaughlin Youth Center. Construction should be completed for opening in FY 1984. The unit would be separated from other units of the detention center so that the older inmates could be separate from the younger, less sophisticated offenders.

Eight additional staff would be required to supervise this unit:
2 Youth Counselors III and 6 Youth Counselors II.

Costs

1) Capital Expenditure - FY 1983	
10 beds @ approximately \$130,000 per bed.	
10 x \$130,000 = \$1,300,000	
2) Operating Expenditures - Begin FY 1984	
Personal Services	\$ 352,200
Travel	4,000
Contractual Services	45,900
Commodities	30,100
Equipment	3,200
Benefits to Individuals	<u>38,600</u>
Total	\$ 474,000

C. Adult Confinement

It is assumed that no appreciable bed impact will be experienced by the Division of Adult Corrections until FY 1985. This is based on the assumption that the average age of offenders affected by this legislation will be 17 years, and will serve one year in a juvenile facility prior to transfer to an adult facility. This fiscal note identifies a need for 22 additional beds, although the legislation will result in 10 additional beds being needed at the rate of 1 bed per year after FY 1987. This is a result of the average period of confinement of 15 years for persons convicted of unclassified felonies.

Based upon arrest data indicating 28 persons 16 and 17 years of age being arrested annually for crimes in the unclassified and Class A felony categories, and using conviction rates and average sentence lengths for adult offenders, the following is predicted:

1) Unclassified Felony

One conviction per year with an average sentence of 15 years to serve (20 years less good time) will require 13 additional beds. It is noted that only 3 of these beds will be required during the period covered by this fiscal note and that is the number requested. The additional 10 beds will have to be considered for capital projects planned for completion after FY 1987, if this proposed legislation is enacted.

2) Class A Felony with Gun

Five convictions per year with one waived to juvenile status and one sentenced so as to serve all time in a juvenile facility. Therefore, it is estimated there will be three individuals who will serve a period of 2.5 years each in an adult facility.

$$3 \times 2.5 = 7.5 \text{ person years or beds}$$

3) Class A Felony without Gun

Eight convictions per year with one waived to juvenile status and two sentenced so as to serve all time in a juvenile facility. Therefore, 5 individuals will serve an average of 2.4 years in an adult facility.

$$5 \times 2.4 = 12 \text{ person years or beds}$$

4) Total beds required through FY 1987 is 22.

5) Cost Estimates

a) Capital expenditures:

22 beds at \$69,000 per bed
 $22 \times \$69,000 = \$1,518,000$

b) Operating expenditures:

It is estimated that 7 positions will be required to provide security and support for these 22 beds: 1 Correctional Officer III, 5 Correctional Officers II, and 1 Institutional Counselor. Costs for these positions will not occur until FY 1985, the anticipated opening date for the new beds.

FY 1985 Costs

Personal Services	\$ 289,500
Travel	6,000
Contractual Services	71,000
Commodities	64,200
Equipment	5,600
Inmate Gratuities	<u>26,400</u>
Total	\$ 462,700

Inflation of 7% for Personal Services and 9% for all other expenditure object groups was assumed when calculating subsequent fiscal years.

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB 685

Title "An Act relating to unlawful conduct of minors."

Requested by Senator Rodey

Date _____

II. FISCAL DETAIL

Agency Affected Dept. of Admin.

Program Category Affected Due Process

Budget Request Unit(s) Affected Public Defender Agency

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 81
100 PERSONAL SERVICES					139.6	
200 TRAVEL					10.0	
300 CONTRACTUAL					25.4	
400 COMMODITIES					3.0	
500 EQUIPMENT					4.0	
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL					182.0	

FUNDING (Thousands of Dollars)

GENERAL FUND					182.0	
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME					2.0	
PART TIME						
TEMPORARY						

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

This bill, if passed, will substantially increase the number of adult felony prosecutions of serious crimes such as murders, kidnappings and other Class A felonies which are the serious offenses in the criminal code. These types of felony cases are the most time consuming of any cases handled by this agency due to their complexity and the amount of exposure to the client. Substantial expenditures for expert witnesses fees and psychiatric evaluations are necessary in these types of cases. Furthermore, while cases in juvenile court are often negotiated and disposed of without court appearances or trial, such serious adult felony cases require the greatest amount of attorney time of any cases handled by our agency. Because the majority of juvenile cases are handled in Anchorage and Fairbanks and the resulting new felony prosecutions will occur in those locations, an additional trial attorney for each location is requested.

IV. DATE Feb. 22, 1982

PREPARED BY Dana Fabe, Public Defender

AGENCY Public Defender Agency

PHONE 279-7541

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Senate Bill No. 685
 Title "An Act relating to unlawful conduct of minors."
 Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Department of Public Safety
 Program Category Affected Administration of Justice/Public Protection
 BRU, Program, Or Subprogram(s) Affected Alaska State Troopers
 (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 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS

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

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

No fiscal impact is anticipated.

IV. DATE February 3, 1982 PREPARED BY Francis C. Allan
 AGENCY Department of Public Safety
 Original: Legislative Finance PHONE 269-5691
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)
 33-001 (Rev. 12/81)