

LEG. FINANCE - BILLS 1983 - 1984 1952  
HB 599 cont. - CS HB 608 1952

ALASKA PERMANENT FUND CORPORATION

Invested Funds

January 31, 1984

	<u>AMOUNT</u>	<u>%</u>	<u>YIELD</u>
Cash	\$ 107,000		6.19
Marketable Securities, at market:			
Repurchase Agreements	16,800,000	.3	9.20
SFS Treasury Obligations	11,935,000	.2	9.11
U. S. Treasury Bills	193,806,000	3.9	10.07
Commercial Paper	24,904,000	.5	9.38
Certificates of Deposit	91,773,000	1.8	13.13
U. S. Notes & Bonds	4,301,194,000	85.6	11.15
Corporate Bonds	26,842,000	.5	11.07
Common Stock	<u>192,122,000</u>	<u>3.8</u>	<u>4.17</u>
Total Marketable Securities	\$4,859,376,000	96.6	10.85
Contributions/Interest Receivable	126,338,000	2.5	
Other Investments, at cost:			
Loans and Mortgages	33,355,000	.7	14.51
Real Estate Equity	<u>7,500,000</u>	<u>.2</u>	
	<u>\$5,026,676,000</u>	<u>100.0</u>	<u>10.86</u>

ALASKA PERMANENT FUND  
REALIZED RATES OF RETURN

1983 - 1977

(PERCENT)

YEAR	NOMINAL	INFLATION	REAL
1983	12.76	6.10	6.66
1982	15.10	10.37	4.73
1981	16.00	13.52	2.48
1980	11.29	11.26	.03
1979	8.24	7.66	.58
1978	7.53	6.45	1.08
1977	5.54	5.77	(.23)

ALASKA PERMANENT FUND  
NET INCOME  
(1983 - 1977)

YEAR	INCOME
1983	\$ 471,125,000
1982	368,426,000
1981	149,867,000
1980	32,427,000
1979	7,967,000
1978	1,791,000
1977	36,000

ALASKA PERMANENT FUND  
TOTAL ASSETS  
(1983 - 1977)

YEAR	ASSETS
1983	\$ 4,592,994,000
1982	3,301,655,000
1981	1,874,638,000
1980	502,877,000
1979	140,496,000
1978	54,997,000
1977	3,966,000

PREPARED TESTIMONY OF DAVE ROSE, EXECUTIVE DIRECTOR OF THE ALASKA  
PERMANENT FUND CORPORATION, BEFORE THE HOUSE FINANCE COMMITTEE,

REGARDING HOUSE BILL 599

MARCH 8, 1984

Mr. Chairman, Members:

Thank you for inviting me to testify on House Bill 599 which would compel that the prudent-man rule be waived for Alaskan investments, and at least 50 percent of the principal of the Permanent Fund be incrementally invested in Alaska.

I would like to break my presentation into two parts:

First, the current status of investments in Alaska, and

Second, the practical effect of HB 599, should it be adopted and accepted by the electorate.

Alaska Statute 37.13.120(a) provides:

"The prudent-man rule shall be applied by the board in the management and investment of Alaska permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income."

Alaska Statute 37.13.120(1) provides:

"The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section."

The Trustees have attempted to comply with both of these provisions. Today, the investment profile in Alaska is as follows:

HOME MORTGAGE PROGRAM. Under this program \$80 million has been made available for the purchase of owner occupied single-family, duplex, tri-plex and four-plex home mortgages. Loans are underwritten by Alaskan financial institutions and are purchased by the Fund. The banks service the loans which are made for a 15 to 30-year term, at variable rates which are adjusted annually. Certain loan to value ratios apply.

Market rates apply -- today's rate is 12.25 percent. Since this program does not employ the use of a general fund subsidy, it is not as popular as the Alaska Housing Finance Corporation program which is subsidized. It is popular, however, to borrowers whose loans exceed the AHFC limits and to borrowers who desire longer-term mortgages.

As indicated earlier, \$80 million is available. Our books currently show that loans outstanding equal \$33,335,000. Additionally, since the program was started, an additional \$9,076,000 has been loaned and paid off.

CORPORATE BOND PROGRAM. Alaska Statute 37.13.120(g)(8) provides that the Fund may invest in corporate debt securities which are rated "AA" or better by a nationally recognized rating service. To this end, we currently hold \$21,500,000 of taxable mortgage-backed bonds issued by AHFC. We are prepared to purchase more of this debt if rates are competitive and if the bonds are offered domestically. We cannot buy Eurobonds as they are issued by a foreign corporation.

BANK CERTIFICATES OF DEPOSIT. The Fund has been a purchaser of certificates of deposits issued by Alaskan financial institutions. As of this date, we have no debt of this type in our portfolio. On March 23, the Trustees will consider for adoption an extensive Alaskan Bank CD program which may provide up to \$200 million in actual and stand-by credit. This program has the following characteristics:

- It will be open continuously;
- Term will be three years;
- Interest rates will float quarterly;
- There will be 100 percent collateralization;

Alaskan loans may be used as collateral;  
Collateral will be held and valued by a Trustee.

PURCHASE OF FEDERALLY GUARANTEED PORTIONS OF LOANS. The Fund can be a purchaser of those portions of loans which are federally guaranteed. In other words, it could buy 90 percent of an SBA loan -- the guaranteed portion. To date the Alaska Industrial Development Authority has an active program which is meeting the total statewide need. If AIDA could no longer solely meet the need, the Fund could step in and fill the void.

EQUITIES. The Fund does not consider its common stock portfolio -- or any portion of it -- to be Alaskan investments. It should be noted, however, that many of the corporations involved operate within Alaska and contribute significantly to Alaskan employment and economic development. (To name just a very few: SOHIO, ARCO, EXXON, Humana Hospitals, IBM.)

Thus you have a recap of what we are doing in Alaska at this point in time. We believe you should look at our activity in juxtaposition to AHFC and AIDA -- two very financially powerful and professionally-run agencies which adequately meet housing and business loan demands of Alaskans. Indeed, at this point in time, your Permanent Fund is not experiencing any significant

bank or borrower demand for its funds.

This leads to the second portion of my presentation -- Specific comment on HB 599.

This legislation does not meet a demonstrated need or fill a demonstrated void. It has the potential effect of destroying the banking system within our state, destroying the equilibrium within the private sector and utilizing the Fund for social and political purposes. It could destroy the concept of managing the Fund as an inviolate trust under the prudent-investor rule and finally could destroy the Fund itself.

Allow me to elaborate:

The approximate net worth of all of the banks in our state is \$400 million. This would be dwarfed by the infusion into the economy of \$2.5 billion. The Fund -- particularly if it made direct loans -- could supplant rather than supplement the banking system. Under statutory mandate to invest in loans, the Fund would have little alternative but to reduce both its standards of quality and its rates in order to compete for business. If the Fund is forced to do so, borrowers would flock to the Fund as the central bank of Alaska, and existing institutions would be forced to either close their doors or invest their funds outside of Alaska. More importantly, long-term structural damage could be done to the banking system which could impair the formation of capital. This would be to our collective detriment in the future since the Fund will not continuously be available to serve as a

central lending bank.

I am concerned about the potential to destroy the equilibrium of the private sector. A mandate to invest, regardless of market supply and demand, has the following consequences:

The Fund competes with other Alaskan investors for equity ownership. It outbids the private sector in order to meet its statutory mandate.

The Fund finances shopping centers and office buildings and competes with marginal producers, forcing them out of business.

The Fund finances shopping centers and office buildings and creates glut. Thus all investors -- including the Fund -- do poorly.

Of deep concern is the question of whether or not a mandate to invest forces the Fund -- for lack of alternative Alaskan investments -- to invest in social and political public projects which do not offer market returns and which involve substantial risks.

The Fund could be forced to invest at tax-exempt rates, far below market yields.

The Fund could be forced to invest in hydroelectric projects where there are no rates in effect or contracts to purchase power and thus no

ability to a revenue return after operations.

The Fund could be forced to become involved in sectional and community disputes by financing a legislative hall in Juneau, an office building in Anchorage, a jail in Seward.

The Fund could be used as a means to expand the State capital budget to fund "overflow" projects which are not funded by priority and consensus.

The mandate to invest should not be used to obviate the prudent-investor rule which guarantees that the Fund will operate as an inviolate trust with proper regard given to diversification, liquidity, probable safety of capital and probable income.

For all of the above reasons, I am concerned that the mandate to invest may destroy the Fund itself. The mandate may create the charge to disregard ordinary prudence and to disregard the exercise of discretion and care usually found in a sophisticated institutional investor. Once the prudent-investor rule is set aside, the Fund corpus is placed in jeopardy, losses occur, risk increases, and it evolves into a social and political tool of government. When the Fund loses its financial integrity, you no longer have a Permanent Fund.

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**Alaska Permanent Fund Corporation**

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

DATE: February 21, 1984  
TO: Recipients of January 31, 1984 Financial Statements  
FROM: David A. Rose, Executive Director  
SUBJECT: Report Analysis

It is with pleasure that I forward financial statements of the Corporation for the month of January 1984 and the fiscal year to date.

As you review this report, you may wish to note the following highlights:

For the first time, total assets of the Fund and the total Fund equity exceed \$5 billion.

Reserves have been established for the payment to the State for the Permanent Fund Dividend Program and for retention by the Permanent Fund for inflation-proofing. Amounts set aside for the first seven months of the fiscal year appear in the equity portion of the Balance Sheet.

Our current projection of earnings for the year is \$509,300,000 which may be compared to last year's earnings of \$471,125,000.

Inflation-proofing is based on the U. S. Consumer Price Index for Urban Consumers. The computation used produces the rate of change in that index utilizing its average for calendar year 1982 versus its average for calendar year 1983. Thus, at the end of the fiscal year, the Fund will be inflation proofed at the rate of 3.22 percent. For comparison, last year's computation--which was made in the same manner utilizing calendar years 1981 and 1982--produced a rate of 6.1 percent. This year's projection indicates that \$146,202,000 will be utilized for inflation-proofing as opposed to \$231,192,000 last year.

Our current projection of funds which will be available to pay over to the State (based on statutory computations) for the Dividend Program is

\$152,886,000. Note, however, that we carry in our footnotes to financial statements a contingent liability from last fiscal year in the amount of \$19,855,000. This represents the difference in the amount available last year by statutory computation and the amount actually appropriated. It is assumed that this sum will be appropriated during the current legislative session for dividend use and our contingent liability will be eliminated.

The bulk of the Fund is invested in obligations of the U. S. Government. The Fund also holds \$23,500,000 of Alaska Housing Finance Corporation taxable bonds. Common stock investments now comprise almost 4 percent of total assets. Alaska home mortgages increased by \$1,140,000 to \$33,355,000.

Highlights of items appearing on the Statement of Revenues, Expenditures and Change in Undistributed Income include:

A large gain on the sale of fixed income securities during January of \$308,000 and a year-to-date gain of \$1,220,000.

A large gain on the sale of common stocks during January of \$209,000 and a year-to-date loss of \$197,000.

The Statement of Changes in Condition reflects a substantial decrease in the holdings of Repurchase Agreements during January with funds invested in instruments of longer maturity.

Please note that projections of income, amounts available for the Dividend Program and amounts required for inflation-proofing will be calculated monthly in conjunction with the issuance of these reports.

ALASKA PERMANENT FUND  
CORPORATION  
MONTHLY FINANCIAL REPORT  
JANUARY 1984

ALASKA PERMANENT FUND CORPORATION  
STATEMENT OF PORTFOLIO ASSETS, LIABILITIES AND FUND EQUITY  
JANUARY 31, 1984

<u>ASSETS</u>	<u>%</u>	<u>AMOUNT</u>
Cash		\$ 107,000
Receivables and Prepaid Expenses	3	136,652,000
Investments:		
Marketable Securities:		
Repurchase Agreements		16,800,000
Short Term Debt Issues	6	310,104,000
Intermediate and Long Term Debt Issues	86	4,376,061,000
Common Stock	4	194,885,000
Total Marketable Securities	99	4,897,850,000
Real Estate Equity		7,500,000
Loans and Mortgages	1	33,355,000
Property & Equipment, net of Accumulated Depreciation		135,000
TOTAL ASSETS	<u>100</u>	<u>5,075,599,000</u>
 <u>LIABILITIES</u>		
Accounts Payable		264,000
 <u>EQUITY</u>		
Contributed Equity	87	4,425,222,000
Reserves:		
Payment of Dividends	2	89,184,000
Inflation-Proofing	2	85,284,000
Total Reserves	4	174,468,000
Undistributed Income	9	475,645,000
TOTAL EQUITY	<u>100</u>	<u>5,075,335,000</u>
TOTAL LIABILITIES & EQUITY	<u>100</u>	<u>\$5,075,599,000</u>

ALASKA PERMANENT FUND CORPORATION  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGE IN UNDISTRIBUTED INCOME  
 JANUARY 31, 1984

<u>REVENUES</u>	<u>CURRENT MONTH</u>	<u>YEAR-TO-DATE</u>
Interest on:		
Investments	\$ 66,635,000	\$293,911,000
Loaned Securities		314,000
Total Interest	<u>66,635,000</u>	<u>294,225,000</u>
Dividends	338,000	1,863,000
Gain (Loss) on the Sale of:		
Marketable Securities	308,000	1,220,000
Common Stock	<u>209,000</u>	<u>(197,000)</u>
Total Gain	<u>517,000</u>	<u>1,023,000</u>
GROSS REVENUES	<u>67,490,000</u>	<u>297,111,000</u>
 <u>OPERATING EXPENDITURES</u>		
Salaries and Benefits	55,000	362,000
Travel	3,000	41,000
Trustee Honoraria		16,000
Contractual Services	43,000	357,000
Depreciation	4,000	29,000
Other	<u>1,000</u>	<u>3,000</u>
TOTAL OPERATING EXPENDITURES	<u>106,000</u>	<u>808,000</u>
NET INCOME	67,384,000	296,303,000
 <u>CHANGE IN UNDISTRIBUTED INCOME</u>		
Beginning Balance	582,729,000	353,810,000
Provision for Reserves	<u>(174,468,000)</u>	<u>(174,468,000)</u>
ENDING BALANCE	<u>\$475,645,000</u>	<u>\$475,645,000</u>

ALASKA PERMANENT FUND CORPORATION  
STATEMENT OF CHANGES IN CONDITION  
JANUARY 31, 1984

<u>FUNDS WERE PROVIDED BY:</u>	<u>CURRENT MONTH</u>	<u>YEAR-TO-DATE</u>
Investment Operations:		
Net Income	\$ 67,384,000	\$ 296,303,000
Items Not Affecting Funds:		
Amortization	178,000	(530,000)
Depreciation	4,000	29,000
(Increase) Decrease in Receivables & Prepaid Expenses	(19,372,000)	15,613,000
Decrease in Accounts Payable	<u>(52,000)</u>	<u>(284,000)</u>
Total Provided by Operations	48,142,000	311,131,000
Sale of:		
Marketable Securities	329,798,000	1,037,273,000
Common Stock	<u>4,245,000</u>	<u>16,442,000</u>
Total Sales	334,043,000	1,053,715,000
Maturity of Debt Obligations		465,646,000
Loans & Mortgage Repayments	42,000	4,849,000
Redemption of Alaska Certificates of Deposit		50,000,000
Contributions from the State of Alaska	<u>30,272,000</u>	<u>403,996,000</u>
TOTAL FUNDS PROVIDED	<u>412,499,000</u>	<u>2,289,337,000</u>
 <u>FUNDS WERE USED FOR:</u>		
Purchases of:		
Marketable Securities	504,253,000	1,848,493,000
Loans & Mortgages	1,182,000	6,683,000
Common Stock	30,600,000	211,327,000
Real Estate Equity	<u>3,750,000</u>	<u>7,500,000</u>
Total Purchases	539,785,000	2,074,003,000
Payments to the State of Alaska		<u>217,410,000</u>
TOTAL FUNDS USED	<u>539,785,000</u>	<u>2,291,413,000</u>
NET CHANGE IN FUNDS	<u>\$ (127,286,000)</u>	<u>\$ (2,076,000)</u>

ALASKA PERMANENT FUND CORPORATION  
STATEMENT OF CHANGES IN CONDITION

(continued)

	<u>CURRENT MONTH</u>	<u>YEAR-TO-DATE</u>
<u>SUMMARY OF CHANGES</u>		
Decrease in Cash	\$ (86,000)	\$ (76,000)
Decrease in Repurchase Agreements	<u>(127,200,000)</u>	<u>(2,000,000)</u>
NET CHANGE IN FUNDS	<u>\$ (127,286,000)</u>	<u>\$ (2,076,000)</u>

ALASKA PERMANENT FUND CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JANUARY 31, 1984

1. ENTITY

The Constitution of the State of Alaska was amended by public referendum in 1976 to provide for the automatic segregation of a portion of certain natural resource revenues in the Permanent Fund. The principal of the Permanent Fund is invested in perpetuity; the earnings are transferred to the general fund of the State unless otherwise provided by law.

In 1980 the State Legislature created the Alaska Permanent Fund Corporation (the "Corporation"), a public corporation separate from the agencies of State government and governed by a Board of Trustees, to manage the investments of the Permanent Fund. The Legislature also provided that a portion of the annual earnings would be transferred to the State for the payment of dividends, an equal amount for general purposes, and that the balance would be retained as undistributed income. In 1982 the Legislature amended the law to provide that a portion of the annual earnings would be transferred to the State each year for the payment of dividends, and that a portion would be contributed to the principal of the Permanent Fund sufficient to offset the impact of inflation. The balance would again be retained as undistributed income.

2. SIGNIFICANT ACCOUNTING POLICIES

Contributions

Contributions by operation of statutory law are recorded when they become due from the State, i.e., when certain revenues are received by the State Department of Natural Resources.

Contributions by appropriation are recorded when they are received.

### Depreciation

Furniture and equipment is depreciated on a straight line basis over a three year useful life. Other property is depreciated on a straight line basis over a five year useful life.

### Distributable Income

Distributable income is a five year moving average of the net income of the Corporation.

### Funds

For purposes of the Statement of Changes in Financial Position, the term "Funds" has been defined as cash and repurchase agreements.

### Inflation Impact

The impact of inflation is measured by the United States Consumer Price Index calendar year average for all urban consumers applied against the balance of contributed equity at the end of the fiscal year.

### Interest Income

Interest income on all securities is accrued monthly as earned.

Interest income is shown net of amortization of premiums and accretion of discounts.

### Marketable Securities

Marketable securities are carried at cost adjusted for amortization of premiums and accretion of discounts.

Gains or losses on the sale of securities are determined by specific identification.

### Operations

All costs of operating the Corporation, reflected in the accompanying financial statements, are funded by the earnings of the Corporation and are not billed to the State of Alaska. Certain services,

including master servicing of loans and mortgages, are provided at no cost to the Corporation by the State of Alaska. All distributions and retentions of earnings are net of the cost of operations.

Reserves

Reserves are provided for the incremental portion of annual distributions of income.

Undistributed Income

Net earnings are credited to the undistributed income account at the end of the fiscal year. Earnings attributed to the investment of undistributed income are based upon the balance at the beginning of the fiscal year.

3. INVESTMENT SECURITIES

The estimated market value of investment securities at January 31, 1984, and their corresponding yields were as follows:

	<u>AMOUNT</u>	<u>YIELD</u>
Repurchase Agreements	\$ 16,800,000	9.20
Short Term Issues	322,418,000	10.85
Intermediate and Long Term Issues	4,328,036,000	11.15
Common Stock	<u>192,122,000</u>	<u>4.17</u>
	<u>\$4,859,376,000</u>	<u>10.85</u>

No market values have been estimated for loans and mortgages due to the lack of an established secondary market for these investments. All of the Corporation's investment securities are held by commercial lending institutions pursuant to custodial agreements.

Real estate is appraised at the yearly anniversary date.

4. GENERAL FUND APPROPRIATIONS

In 1980 the State Legislature appropriated \$900,000,000 from general fund revenues to the Permanent Fund. This appropriation has been paid in full. In 1981 the Legislature appropriated an additional

\$1,800,000,000 from general fund revenues to the Permanent Fund. This appropriation bill directs the Commissioner of Revenue to make monthly deposits of general fund operating surplus until the balance is reached. At January 31, 1984, \$1,400,000,000 of this appropriation had been deposited in the Permanent Fund, leaving a balance due of \$400,000,000.

5. CONTINGENT LIABILITY

Current law directs that at least one-half of distributable income be made available for the payment of dividends each year. The actual transfer to the State dividend fund, however, must be appropriated by the Legislature. For the year ended June 30, 1983, the appropriation was less than one-half of distributable income as calculated under the statutory formula, and the shortfall could be appropriated by the Legislature during a subsequent session. This amount is summarized below:

Statutory accrual of distributable income	\$127,730,000
Appropriated by the Legislature	<u>107,875,000</u>
Contingent liability	<u>\$ 19,855,000</u>

6. GROSS REVENUES


Gross revenues are overstated for the month of January 1984 and were understated for the month of December 1983 by \$20,947,000. This amount represents interest due and payable on December 31, 1983--a Saturday--but not received until January 3, 1984, which was not accrued as of December 31, 1984. Gross revenues year-to-date are correctly stated at January 31, 1984.

\* \* \* \* \*

The Board of Trustees  
Alaska Permanent Fund Corporation

Gentlemen:

The financial report and statements presented herein were prepared from the books of account without audit, and no independent opinion on the fairness of these statements has been rendered.

Sincerely,  
  
Peter A. Bushre  
Comptroller



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y, State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

February 4, 1983

TO: Representative Rick Uehling

FROM: David Teal  
Research Staff

RE: Investment Parameters of the Permanent Fund  
Research Request Number 83-35

This memorandum is in reponse to your request for information on the following topics:

- guidelines applicable to investments of the Permanent Fund;
- the current investment portfolio of the Fund; and
- definitions of "fiduciary responsibility" and "prudent-man" in reference to investment of the Permanent Fund.

Guidelines for Investment of Permanent Fund Assets

Investment decisions are based on both statute and on flexible guidelines established by the Permanent Fund Board. AS 37.13.120 delineates the investment responsibilities of the Permanent Fund Board. Paragraph (a) of Section 120 states that the prudent-man rule shall be applied by the board in the management and investment of Fund assets. The paragraph further states that

[t]he prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

Paragraphs (b) and (c) of Section 120 specify that assets shall be used only for income-producing investments and that the board shall maintain reasonable diversification among investments, respectively. Paragraph (g) lists allowable investments and states that the board may invest corporation assets in these investments "at such competitive

national market rates or prices as are applicable to each investment."  
The list of allowable investments is attached to this memorandum.

Paragraph (1) of Section 120 specifies that the board shall invest the assets of the corporation in Alaska to the extent that in-state investments have both risk level and expected yield comparable to alternative investment opportunities.

The Permanent Fund Board is responsible for establishing guidelines which determine the composition of the investment portfolio within the statutory framework described above. The Legislative Budget and dit Committee is authorized to review any modification of investment guidelines.

Investment guidelines developed by the board recommend both the type of investments and the preferred mix of maturities. Current guidelines call for investments of the following types:

- United States bills, notes and bonds;
- domestic certificates of deposit;
- bankers' acceptances;
- repurchase agreements;
- mortgages; and
- corporate bonds.

Source: Alaska Permanent Fund Corporation 2/1/83

Allowable investments not currently recommended by the board include (1) loans guaranteed by the Small Business Administration, the Farmers Home Administration and the Veterans Administration; (2) corporate stock; (3) certificates of deposit held in U.S. banks in foreign countries; and (4) equity interests in real estate.

The maturity mix recommended by the board is as follows:

<u>Maturity (years)</u>	<u>Percent of Assets</u>	
Short (0-2)	38	
Intermediate (2-10)	55	(no more than 20% maturing in 6 to 10 years)
Long (10+)	5	
Mortgages	2	(\$30 million at fixed rates, \$50 million at variable rates)

Source: Alaska Permanent Fund Corporation 2/1/83

Current Portfolio

Table I summarizes the portfolio held by the Permanent Fund on December 31, 1982. The proportion of funds invested in Alaska is less than two percent of total funds available. Except for \$29.1 million in loans and mortgages and \$50 million in bank deposits, all investments of the Fund are in national financial markets. The table shows that 86 percent of total assets are invested in U.S. Government securities. Yield ranges from 5.4 percent on cash holdings to 15.1 percent on Alaskan loans and mortgages. The average yield to maturity is 11.8 percent.

TABLE I  
 ALASKA PERMANENT FUND CORPORATION  
 INVESTED FUNDS

December 31, 1982

	<u>Amount Invested</u>	<u>Percent of Portfolio</u>	<u>Yield to Maturity</u>
Cash	\$ 48,730	-	5.4%
Marketable Securities (at market value):			
Repurchase Agreements	3,300,000	.08	10.5
U.S. Treasury Bills	934,539,604	22.32	11.7
Bankers' Acceptances	22,960,108	.55	14.3
Certificates of Deposit	355,707,039	8.50	13.8
U.S. Notes and Bonds	2,665,376,800	63.67	11.5
FNMA	12,583,000	.30	8.3
Corporate Bonds	<u>9,885,170</u>	<u>.24</u>	8.5
Total Marketable Securities	\$4,004,351,721	95.65	
Accrued Interest Receivable	102,932,284	2.46	11.7
Other Investments (at cost):			
Alaskan Loans and Mortgages	29,119,246	.70	15.1
Alaskan Bank Deposits	<u>50,000,000</u>	<u>1.19</u>	<u>11.1</u>
TOTAL	\$4,186,451,981	100.00%	11.8%

Source: Alaska Permanent Fund Corporation 2/1/83

Table II provides information on the maturity of investment holdings of the Fund. The average weighted life to maturity is two years, ten months. David Rose, the executive director of the Permanent Fund Corporation, said that this is very close to typical investments of money market funds and that the Permanent Fund has very conservative holdings. Actual maturity of the portfolio is significantly shorter than the guidelines recommended by the board. Also note that the total assets shown in Table II differ from the amount reported in Table I. The difference is due to the method of evaluation; Table I uses market value while Table II reports par value (i.e. the original purchase price) of securities. Market value is currently about \$144 million greater than par value.

TABLE II  
ALASKA PERMANENT FUND CORPORATION  
MATURITY OF INVESTMENT HOLDINGS  
AT PAR VALUE

December 31, 1982

<u>Maturity (years)</u>	<u>Amount Invested (\$000)</u>	<u>Percent of Portfolio</u>
0 - 2	\$2,207.7	54.6%
2 - 6	1,457.0	36.1
6 - 10	325.0	8.0
10+	52.7	1.3
	<u>\$4,042.4</u>	<u>100.0%</u>

Source: Alaska Permanent Fund Corporation 2/1/83

The "Prudent-man" Rule and Fiduciary Responsibility

The fifth edition of Black's Law Dictionary describes the prudent-man rule as an investment standard. The dictionary notes that some states limit investments to a list of securities approved by the State while other states allow trustees of a fund to invest in a security if it is one a prudent man of discretion and intelligence, who is seeking a reasonable income and preservation of capital, would buy. Alaska's prudent-man rule closely resembles the federal rule as it appears in

Representative Hehling  
February 4, 1983  
Page 5

Section 404 (a)(1) of the Employee Retirement Income Security Act (ERISA). Investments of the Alaska Permanent Fund are governed by the prudent-man rule as well as by a list of approved investments.

According to Black's Law Dictionary, "fiduciary responsibility" refers to the "scrupulous good faith" required of a person acting primarily for the benefit of others. The dictionary cites the example of a trustee possessing fiduciary responsibility to the beneficiaries of a trust to follow the terms of the trust and the requirements of applicable state law. The definition also notes that a breach of fiduciary responsibility would make the trustee liable to the beneficiaries for any damage caused by such breach. According to Black's dictionary, fiduciary responsibility includes a prohibition against investing money in investments which are speculative or otherwise imprudent.

Alaska statutes do not use the term "fiduciary responsibility" in reference to investments of the permanent fund, but it appears that the fiduciary responsibility of the Permanent Fund Board is to follow the prudent-man rule and the restrictions listed in AS 37.13.120(g). Note, however, that AS 37.13 (the permanent fund statute) contains no mention of penalties for breach of fiduciary responsibility. Section 409 of the ERISA makes trustees personally liable for any breach of responsibilities. That section of federal law is attached to this memorandum.

\* \* \*

I hope you find this information useful. If you have questions on the material presented in this memorandum or would like this agency to perform additional research, please call.

Attachments

of an account of an individual retirement bond (as defined in section 409 of the Internal Revenue Code of 1954) and an employer (as defined in section 401 of such code) which establishes such an account or an account of such code shall be deemed to be an eligible plan.

Section 406 and 407 shall not apply to the acquisition or sale of a plan of qualifying employer securities (as defined in section 407(d)(5)) or acquisition, sale, or lease by a plan of qualifying employer property (as defined in section 407(d)(1)).

1. if such acquisition, sale, or lease is for adequate consideration (or in the case of a marketable obligation, at a price not less favorable to the plan than the price determined under Section 407(c)(1)),

2. if no commission is charged with respect thereto, and

3. if

- A. the plan is an eligible individual account plan (as defined in section 407(d)(3)), or

- B. in the case of an acquisition or lease of qualifying employer real property by a plan which is not an eligible individual account plan, or of an acquisition of qualifying employer securities by such a plan, the lease or acquisition is not prohibited by section 407(a).

LIABILITY FOR BREACH OF FIDUCIARY DUTY

Sec. 409. (a) Any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations, or duties imposed upon fiduciaries by this title shall be personally liable to make good to such plan any losses to the plan resulting from each such breach, and to restore to such plan any profits of such fiduciary which have been made through use of assets of the plan by the fiduciary, and shall be subject to such other equitable or remedial relief as the court may deem appropriate, including removal of such fiduciary. A fiduciary may also be removed for a violation of section 411 of this Act.

(b) No fiduciary shall be liable with respect to a breach of fiduciary duty under this title if such breach was committed before he became a fiduciary or after he ceased to be a fiduciary.

EXEMPTORY PROVISIONS - INSURANCE

Sec. 410. (a) Except as provided in sections 405(d)(1) and 406, any provision in an agreement or instrument which purports to relieve a fiduciary from responsibility or liability for any responsibility, obligation, or duty under this part shall be void as against public policy.

(b) Nothing in this subpart shall preclude

(1) a plan from purchasing insurance for its fiduciaries or for itself to cover liability or losses occurring by reason of the act or omission of a fiduciary, if such insurance permits recourse

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investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(d) The corporation's assets shall only be used for income-producing investments.

(e) The board shall maintain a reasonable diversification among investments and, under the circumstances it is clearly prudent not to

(1) invest in a single large and quarterly investment portfolio; (2) invest in a Budget and Audit Committee

(3) invest in or borrow funds or guarantee from private individuals or government bond the obligations of others.

(4) The corporation shall make and enforce all contracts necessary, convenient or desirable for the purposes of the corporation.

(5) Subject to the limitations contained in this section, the board may invest in any of such competitive national market securities that are readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(6) Obligations insured by or guaranteed by, the United States or any instrumentality of the United States, or obligations of the United States or any instrumentality of the United States as a shareholder or member.

(7) Obligations of the United States or any instrumentality of the United States as a shareholder or member.

(8) Term deposits of United States banks.

(9) Term deposits of the Federal Deposit Insurance Corporation.

(10) Term deposits of state chartered banks which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(11) Term deposits of federally chartered banks in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(12) Obligations insured by or guaranteed by, the United States or any instrumentality of the United States, or obligations of the United States or any instrumentality of the United States as a shareholder or member.

(13) Term deposits of state chartered banks which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(14) Term deposits of federally chartered banks in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(15) Term deposits of mutual savings banks which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(16) Term deposits of mutual savings banks which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(17) Obligations insured by or guaranteed by, the United States or any instrumentality of the United States, or obligations of the United States or any instrumentality of the United States as a shareholder or member.

(18) Obligations insured by or guaranteed by, the United States or any instrumentality of the United States, or obligations of the United States or any instrumentality of the United States as a shareholder or member.

(19) Obligations insured by or guaranteed by, the United States or any instrumentality of the United States, or obligations of the United States or any instrumentality of the United States as a shareholder or member.

*Alaska Permanent Fund Permissible Investments*

prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as described in any of this section.

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least \$200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1), (4) and (8) of this subsection;

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmers Home Administration;

(15) the guaranteed portion of Farmers Home Administration loans;

(16) notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings if the mortgages are insured by a private mortgage insurance corporation, which is authorized to do business in Alaska and has combined capital and surplus aggregating at least \$20,000,000 and if loan-to-value ratios do not exceed 75 percent for commercial mortgages and 90 percent for residential mortgages, however;

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the maximum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent; and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the maximum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 80 percent and 20 percent for those having a loan-to-value ratio of 80 percent;

(17) notes secured by mortgages granting a first lien on commercial real estate improved by completed buildings if the originating financial institution retains at least 25 percent of the mortgage portfolio maturity;

(18) preferred and common stock of corporations incorporated in the United States;

(19) certificates of deposit, term deposits, or banker's acceptances which are issued by a United States bank or trust company located in a foreign country and are denominated in United States currency; if

either (A) they may be readily sold in a secondary market at prices reflecting fair value, or (B) the issuing bank or trust company has capital and surplus at the date of issue equaling at least \$500,000,000. Investments made under this paragraph are not subject to the collateral requirements for domestic certificates under (c) of this section.

(19) equity interests in, and debt obligations secured by mortgages creating a first lien on real estate improved by completed and substantially rented buildings and located in the United States, if these investments are made

A) in a corporation, partnership, trust, or other entity in which, at the conclusion of each investment transaction, at least 60 percent of the beneficial ownership interests are held by other institutional investors, and which is organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds which has had at least five years of experience in the management of real estate investments of institutional investors,

or

B) in connection with, and on substantially the same terms as an entity described in A) of this paragraph.

(b) The board may enter into future contracts for the sale of investments purchased under (g) of this section only for the purpose of hedging an existing equivalent ownership position in these securities.

(c) At the time of each investment, the aggregate investment of the Alaska permanent fund in each stated category of investment may not exceed the following stated percentage of the total investments of the fund: mortgages under (g)(16) of this section, 15 percent; real estate investments under (g)(20) of this section, 15 percent; foreign certificates of deposit or the equivalent under (g)(19) of this section, 20 percent; corporate stocks and debt securities under (g)(8), (9), and (18) of this section, 50 percent. The Alaska permanent fund may at no time own more than five percent of the voting stock of a corporation. Domestic stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the Securities and Exchange Commission.

(d) The assets of the Alaska permanent fund may not be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(e) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of any guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(f) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities, and

(2) are included in the list of permissible investments in (g) of this section.

(m) Certificates of deposit or the equivalent instruments which are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge, as collateral, of investments authorized for the Alaska permanent fund under (g)(1), (2), (8), (9), (12) -- (17) of this section, which investments have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in this subsection. AS 37.13.120 SLA 1980, am § 5 -- 7 ch 81 SLA 1982.

**Effect of amendments.** The 1982 amendment, effective July 1, 1982, in (a) substituted "contained in this section" for "in (b) and (c) of this section" and inserted "at such competitive national market rates or prices as are applicable to each investment only" in the introductory language; rewrote paragraphs (1) and (16); substituted "Federal Veterans Administration" for "Federal Veterans Association" in paragraph (11); and added paragraphs (17) -- (20). The amendment also rewrote subsection (c) and added subsection (m).

**Editor's notes.** Section 37.13.130, AS 1980 provides: "The Alaska Permanent Fund Corporation established by this act after receipt for the corporation. Notwithstanding AS 37.13.120, the corporation may invest the money of the Alaska permanent fund in the investments described in AS 37.13.120, subject to the limitations of AS 37.13.120, and"

#### Sec. 37.13.130. Gains and losses.

Repealed by § 13 ch 81 SLA 1982, effective July 1, 1982.

**Editor's notes.** -- The repealed section derived from 4 S. ch. 18, SLA 1980.

**Sec. 37.13.140. Income.** Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145. AS 5 ch 18 SLA 1980; am § 8 ch 81 SLA 1982.

**Effect of amendments.** The 1982 amendment, effective July 1, 1982, rewrote this section.

ALASKA PERMANENT FUND CORPORATION

POUCH SB — JUNEAU, ALASKA 99811  
TELEPHONE 907-465-2351

M E M O R A N D U M

DATE: January 21, 1983

TO: All Members, Board of Trustees

FROM: David A. Rose, Executive Director *DR*

SUBJECT: Transition Agreement

The attached memorandum from Mr. Bushre sets forth a list of functions performed by Treasury on behalf of the Permanent Fund.

It was originally anticipated that an agreement would be drawn between Revenue and the Fund to clarify which functions would be performed by Revenue during transition. It now appears, due to personnel changes, that roles are somewhat reversed in that Fund personnel will be on loan to Treasury to assist in the performance of Treasury functions.

I have met with the Commissioner of Revenue and we have agreed to work closely together to insure continuity of both Revenue and Fund operations. Consequently, a formal transition agreement has not been prepared and is not recommended at this time.

Attachment

# MEMORANDUM

# State of Alaska

Department of Revenue

TO: Dave Rose  
Executive Director  
Alaska Permanent Fund Corporation

DATE: December 16, 1982

FILE NO:

*Peter A. Bushre*

TELEPHONE NO: 465-2350

FROM: Peter A. Bushre  
Deputy Commissioner  
Treasury Division  
Department of Revenue

SUBJECT: Transition

I have described below the major functions of the Alaska Permanent Fund Corporation currently performed by the Division of Treasury. This is a "broad brush"--an identification of the tasks which the Fund must discharge to meet its stated objectives, rather than an attempt to define each of them explicitly. The latter can be described in a formal agreement between the Corporation and the State.

1. Marketable securities management - The purchase and sale of fixed-income marketable securities. Duties include:
  - (a) Market research
  - (b) Execution of orders
  - (c) Cash flow scheduling
  - (d) Strategic planning
  
2. Loan and mortgage management - The purchase of first-lien real estate mortgages. Until now, this function has been limited by statute to residential mortgages. The 1982 amendments, however, will also permit the purchase of commercial mortgages. Duties include:
  - (a) Market research
  - (b) Credit approval
  - (c) Payment collection
  - (d) Foreclosure management
  
3. Marketable securities accounting -
  - (a) The recording of purchases, sales, maturities, and income receipts;
  - (b) The maintenance of journals in which all transactions are entered;
  - (c) The maintenance of subsidiary ledgers which include all pertinent data on every security held;
  - (d) The reconciliation of safekeeping agent reports with internally-generated accounting records; and
  - (e) The preparation of statistical reports on a regular and as-needed basis.
  
4. Loan and mortgage accounting -
  - (a) The recording of purchases, maturities, principal payoffs, sales of property foreclosed, and income receipts;
  - (b) The maintenance of journals in which all transactions are entered;
  - (c) The maintenance of subsidiary ledgers which include (currently) all pertinent data on every mortgage group held;
  - (d) The reconciliation of reports from sales and service agents with internally-generated accounting records; and
  - (e) The preparation of statistical reports on a regular and as-needed basis.

5. General ledger accounting -

- (a) The recording of contributions, earnings, transfers, and income distributions in the State PBA accounting system;
- (b) The recording of all transactions in the Permanent Fund books of account;
- (c) The preparation of monthly and annual financial statements which combine all portfolios; and
- (d) The maintenance of all supporting documents.

6. Alaska deposit management -

- (a) The solicitation of competitive bids;
- (b) The transfer of funds; and
- (c) The collection of principal and interest.

In addition to these functions, the Division of Treasury has provided certain other services including administration and contract negotiations. Each of these tasks, while distinct functions unto themselves, is inter-related to some degree and depend on each other for their execution. It is very important that critical interrelationships be transferred to the Corporation simultaneously and that each of them be identified and precisely defined before any transfers take place. In this way we can ensure a smooth transition of responsibilities.

PAB:fm

REPLIES ARE KEYED TO QUESTION NUMBERS.

- (1) In dollars, how much of the Permanent Fund is now invested in the stock market? What percentage of the total fund is this amount? What is the breakdown between investment in the index account and the active investment individual stock account?

As of December 31, 1983, valued at "cost", \$168,530,000 was invested in equities. This represented 3.385 percent of the Fund's total assets of \$4,977,995,000. Investments in the index fund were \$100,222,227 (59.5 percent), and investments in the active accounts were \$68,307,773 (40.5 percent). (Since December 31, 1983, an additional \$50,000,000 has been added to the index fund.) Note that although \$80,000,000 has been made available to active managers, only \$68,307,773 was invested in stock on December 31, 1983.

- (2) What is the total dollar loss to the Fund, both paper loss and actual loss, from these stock market investments? What is the breakdown between the paper loss and the actual loss?

As of December 31, 1983, actual losses on the purchase and sale of equities were \$406,000. Unrealized gains (paper profits) were \$715,000. Thus:

Paper gains	\$715,000
Actual losses	<u>(406,000)</u>
Net paper gains	<u>\$309,000</u>

Realized and unrealized gains and losses will fluctuate on a daily basis. We expect January figures to reflect gains on sales of securities. Because of the large market drop, we expect that paper gains will have eroded in January and turned negative.

- (3) Who is the manager of the index account? In dollars, what is the amount previously paid for management of the index account? How much more is the Fund obligated to pay for management of this account?

The manager of the index fund is Bankers Trust Company, New York. The index is based on a statistical image of the Standard & Poor's 500. Thus, the index directly tracks the market.

Fee is computed at 70/1000 percent per annum on the first \$100,000,000 invested and 35/1000 percent per annum of the next \$100,000,000 invested.

To date, actual fees paid equal \$5,670 for first quarter FY 84. We have not

been billed for second quarter FY 84 or third quarter to date. Services may be terminated on 60 days' notice.

- (4) Who are the managers of the active investment accounts? In dollars, what fees, commissions, or other payments have been made to each manager and how much more is committed to each? What portion of the loss is attributable to each manager?

The managers of the active accounts are as follows:

Batterymarch Financial Management  
 Lehman Brothers, Kuhn, Loeb  
 Rosenberg Capital  
 Eaton & Howard, Vance Sanders

As of February 17, 1984, fees paid and unpaid billings to date are:

<u>MANAGER</u>	<u>RATE</u>	<u>PAID</u>	<u>BILLED</u>	<u>TERMINATION</u>
Batterymarch	85/100 of 1% per annum - \$10 million	\$16,609	\$33,294	60 days
	45/100 of 1% per annum - next \$10 million			
Lehman	75/100 of 1% per annum - \$10 million	-0-	31,906	60 days
	50/100 of 1% per annum - next \$10 million			
Rosenberg	70/100 of 1% per annum - \$10 million	17,929		60 days
	60/100 of 1% per annum - next \$10 million			
Eaton/Howard	75/100 of 1% per annum - \$1 million	11,220		60 days
	50/100 of 1% per annum - next \$24 million			

As of December 31, 1983, individual manager performance is as follows:

	<u>Realized Gains/Losses</u>	<u>Unrealized Gains/Losses</u>
Batterymarch	\$ (25,000)	\$ 568,000
Lehman	(235,000)	515,000
Rosenberg	(1,000)	341,000
Eaton	<u>(136,000)</u>	<u>(744,000)</u>
Bankers Trust	<u>(9,000)</u>	<u>35,000</u>
	<u>(406,000)</u>	<u>715,000</u>

Representative Charlie Bussell  
February 17, 1984  
Page 3

- (5) Why were the Trustees not aware of the "four year cycle" when initial investment policy was established? What is the current strategy and policy of the Board of Trustees for additional investments in the stock market?

On March 30, 1983, the Trustees adopted an investment allocation formula as follows:

Fixed Income Investments	-	75% of portfolio
Equities	-	15% of portfolio *
75% Indexed		
25% Active		
Real Estate	-	10% of portfolio **

\*To be built up over two years.

\*\*To be built up over three years. Includes Alaska Home Mortgages.

This strategy is still in effect but is the subject of review at a March 12, 1984 worksession and a March 23, 1984 regular meeting. Please note that implementation of the 15 percent equity target investment strategy is matched by an actual investment level of 3.385 percent as of December 31, 1983. There is no "established" investment cycle, nor is there an "established" portfolio investment percentage. The "four year cycle" concept resulted from a recent Trustee worksession and will be considered at the above mentioned meetings.

# Business

•Money management •Mutual funds  
•Money market funds •Dick Davis

C

## Fund found bargains in market drop

by Annette Taylor  
Times Business Writer

The "1984 winter massacre" on Wall Street, in some ways, has been good for the Alaska Permanent Fund Corp.

When the Dow Jones average of 30 industrial stocks plummeted 22.72 points last Monday — its biggest slide in more than a year — the keepers of Alaska's \$5 billion savings account bought \$25 million in common stocks.

The trustees got some good bargains.

That didn't do much for the stocks the corporation already held. If the trustees last week had sold all those stocks — for which they paid about \$200 million — the permanent fund's seven-month trial on Wall Street would have been a bust.

Permanent Fund Corp. executive director David Rose didn't know how much the fund would have lost. The corporation's stock market advisers' reports aren't due until Monday.

But it doesn't take a broker to figure out that the permanent fund isn't making a killing.

The Standard and Poor's composite index of 500 stocks, by which the Permanent Fund Corp. measures its market performance, was off Friday

by about 10 points since the corporation's debut on Wall Street last July.

Critics of the corporation's stock market investments note that the permanent fund would have gained roughly \$22 million by summer if that \$200 million had been in government securities. About 80 percent of the permanent fund is in U.S. Treasury bonds, bills and notes.

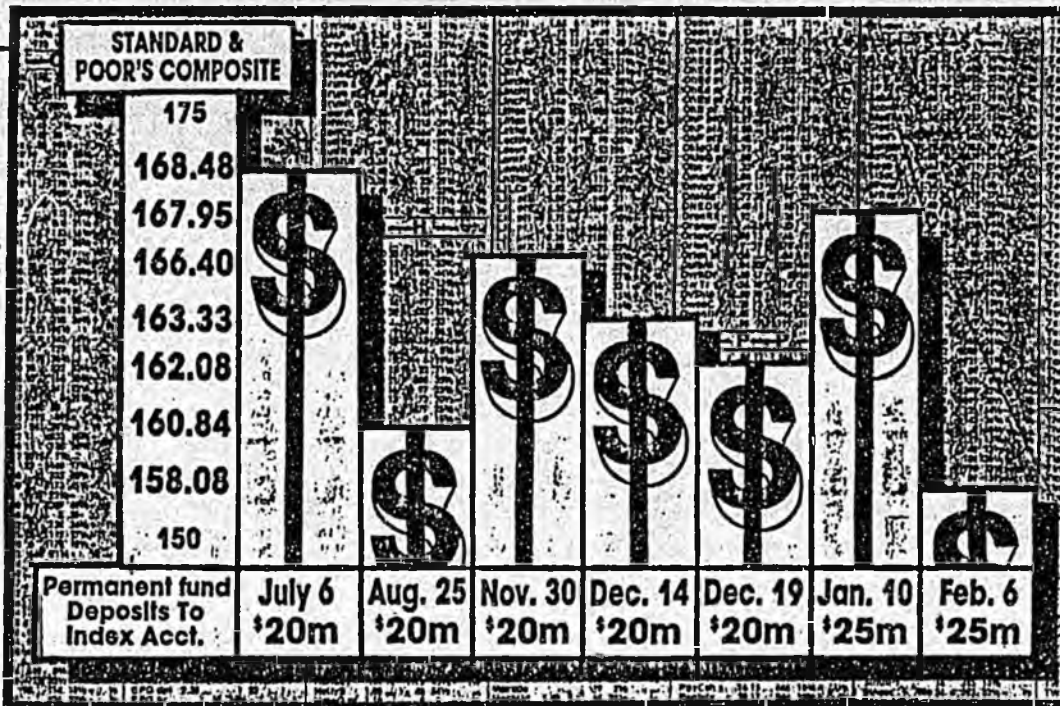
On the other hand, the corporation "didn't get killed last week because it didn't have to sell," as Seth Lynn, a vice president with Bankers Trust in New York, said. Bankers Trust manages an index account in which the permanent fund has \$150 million invested.

Unlike pension funds and endowments, which periodically liquidate their stocks for needed cash, the Permanent Fund Corp. can hold its common stocks for better times, he said.

"The equity market still has the best long-term results and remains a practical investment for Alaska's children and grandchildren," Lynn said. "It's the only place to invest in the future of capitalist America."

But the corporation has lost money on the stock market.

The December 1983



financial report, the latest report available, showed that the permanent fund had lost \$400,000 since its debut on Wall Street in July 1983. January's figures will be far worse, Rose predicted. Chairman Steve Cowper said the losses listed in financial reports are misleading because the managers are "selling off the dogs and hanging on to the good stocks."

"On paper we appear under water, which would seem to prove Mr. (Tom) Fink right," Rose said. "But that doesn't include what we earned in dividends."

As of Dec. 31, the permanent fund had made \$1.5 million on \$168.5 million in stocks.

Fink, an Anchorage insurance salesman and likely candidate for mayor, is among the most vocal critics of the corporation's investment policies.

He frequently reminds people that the state in the early 1970s invested \$18 million in the stock market and sold in 1976 for \$13 million. Then-Gov. William A. Egan "sold off the stock because of political pressure," Fink said.

"The state lost \$5 million plus loss of income if they invested in any fixed securities like real estate mortgages or government bonds," he said. "My point is that every time we've done all these fancy investments, we've lost our butts."

Fink also said \$10,000 invested in stocks 10 years ago would have yielded by now 7½ percent interest compounded annually.

The corporation's December financial report estimated annual yield on stock market investments at 4 percent compared with 11 percent for fixed-income securities.

The 1983 legislature added common stocks to the corporation's permissible list of investments. The legislature wanted to diversify the permanent fund's investments instead of having all of the money in fixed-income securities.

The trustees last spring decided to invest as much as

15 percent of the permanent fund in the stock market by mid-1986 — \$320 million this fiscal year and \$280 million next fiscal year.

They now are considering decelerating their strategy and spreading investments over four years. Switching to a four-year plan will reduce the risk of buying when stock prices are high and "gnashing our teeth waiting through the lows," Rose said.

The trustees were not aware of the typical four-year cycle when they set the initial policy in March 1983.

"That's why we have financial advisers and managers — the best in the business — to help get us

See Lawmakers, page C-2

By Postman of The Times

# Lawmakers criticize stock purchases amid state fund losses

Continued from page C-1

educated," Cowper said. "And that's why we've been moving slowly."

The initial plan was to put 75 percent of the total stock market allocation in an index account. The remaining 25 percent would be available for more risky active investments.

Money in an index account is spread over 280 companies, from Abbott Laboratories to Xerox, that are said to statistically represent the Standard & Poor's index. The gamble is on the index as opposed to the performance of individual stocks.

The active investments are in individual stocks. Money is traded frequently by the corporation's four stock managers depending on their assessments of the companies in which stock is held.

Because an index is less risky, Bankers Trust was to get \$3 for every \$1 given the active managers. But Rose gave the four active managers their entire fiscal year's allocation of \$20 million each by September 1983. By Dec. 31, the index account had \$60 million.

That irked at least one state legislator who reportedly complained to Gov. Bill Sheffield that Rose was deciding, based on his

observations of the stock market, when to deposit money with Bankers Trust.

"Rose might just as well be on the other side of the moon trying to judge Wall Street from Juneau," another regular observer of the corporation's activities said.

Although they won't say publicly, the trustees may have agreed. In mid-December, the corporation jumped further into the stock market with two \$20 million deposits in the index account within five days. By January, the investment strategy was to deposit \$25 million a month for the next six months.

Rose said the active managers had been guaranteed that in-

itial, start-up investment. He said he held off on deposits in the index account in September and October based on Bankers Trust's advice.

And, he said, the trustees understood that there would be a temporary disparity in the ratio between the active and index funds.

Cowper said the trustees' tentative decision to curb stock market investments was neither political nor based on recent losses.

"It's just sound investment policy base on the advice of our investment managers," he said. "I know some people think we or the state should not be in the stock market at all. But we don't pay much attention to that unless there's a directive from the legislature."

"We are optimistic about the economy," Cowper said. "If we thought it would get worse, we wouldn't buy in stocks."

Two days later, the Dow Jones average of 30 industrial stocks tumbled more than 24 points, the biggest decline in 15 months.

The corporation's big winners in trading so far have been Getty Oil, \$81,500 profit on sale of 2,900 shares; Diamond Shamrock, \$64,800 profit on 12,500 shares; and Westinghouse Electric, \$60,200 profit on 6,200 shares.

The "dogs" that sold at the greatest loss were Wolverine World Wide (makers of shoes and gloves), \$45,000 on 17,100 shares; Cook United (discount stores), \$43,000 on 15,600 shares; and G. Hellman Brewing (brewer and baker), \$28,350 on 8,300 shares.

Rose said the corporation still is holding shares in Getty Oil. The corporation, through its active managers, also has stocks in Boise Cascade, Dow Chemical, John Deere, Boeing, Weyerhaeuser, Standard Oil and Zapata Corp.

The corporation first invested in the stock market July 6, 1983, with \$20 million in the index account. The Dow Jones industrial average was at 1215 and the Standard & Poor's composite index was 168.48.

By the end of August, \$48 million or 1 percent of the fund was invested in the stock market. At

the end of September, about \$104 million or 2 percent of the fund was put into common stocks. The September financial report showed the first gain of \$29,000.

The October report showed \$106 million invested and the first losses of \$202,000. Losses for the month of November were \$95,000, raising the total loss to \$268,000. About \$108.4 million was in common stocks by the end of November.

Losses in December amounted to \$138,000.

Bankers Trust gets \$70,000 in fees for the first \$100 million invested in the index account and \$35,000 on the second \$100 million.

The stock managers' fees are based on earnings of the permanent fund's stock investments. The managers get about one-half of 1 percent of the average amount in their portfolio over a four-month period.

If one management firm turns its \$20 million allocation to \$22 million, the fee would be \$110,000.

"They have the incentive to make us more money," Rose said.

# MEMORANDUM

# State of Alaska

TO: David Rose, Executive Director  
Permanent Fund Corporation

DATE: August 10, 1983

FILE NO: 366-656-83

TELEPHONE NO: 465-3600

FROM: Norman C. Gorsuch  
Attorney General

SUBJECT: Investment in real  
estate

By: *Laura L. Davis*  
Laura L. Davis  
Assistant Attorney General  
Governmental Affairs-Juneau

Your letter of June 9, 1983 asked for our advice regarding investment of the permanent fund in real estate, and referred particularly to several sections of the Internal Revenue Code (102, 401(a), 501(a), and 805(d)). On July 12, 1983, I attended a meeting between members of your staff and representatives of a real estate investment agency and discussed some of your questions. This confirms my oral advice.

Your statutory authority for real estate investment permits great flexibility in the structuring of an investment. AS 37.13.120(g)(20) provides:

(g) Subject to the limitations contained in this section, the board may invest corporation assets at such competitive national market rates or prices as are applicable to each investment only in

....

(20) equity interests in, and debt obligations secured by mortgages granting a first lien on, real estate improved by completed and substantially rented buildings and located in the United States, if these investments are made

(A) in a corporation, partnership, trust, or other entity in which, at the conclusion of each investment transaction, at least 60 percent of the beneficial ownership interests are held by other institutional investors, and which is organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds which has had at least five years of experience in the management of real estate or investments of institutional investors; or

RECEIVED

AUG 02 1983

LEGISLATIVE AFFAIRS  
Reference Library

David Rose, Executive Director  
Alaska Permanent Fund Corporation  
366-656-83

August 10, 1983  
Page #2

(B) in conjunction with and on substantially the same terms as an entity described in (A) of this paragraph.

The authority for investment of the permanent fund in real estate was added in 1982 by adoption of Senate Bill 684, enacted as ch. 81, SLA 1982. The governor's transmittal letter for that bill stated that it would expand the investment authority of the permanent fund to essentially parallel that of the employee retirement funds. 1982 S. Jour. at 131-133 (copy attached). 1/ The paragraph authorizing investment of the permanent fund in real estate permits the use of any investment vehicle or structure, be it a corporation, partnership, trust, or other entity, as long as it meets the requirements of 60 percent participation by other institutional investors, five years experience by the investment manager, and investment only in real estate which is improved by completed and substantially rented buildings and located in the United States. This paragraph is more flexible than the comparable authority of the retirement funds, which may invest in real estate equity only through a trust established in accordance with certain federal Internal Revenue Code provisions to pool real estate investments for pension and profit sharing trusts. AS 14.25.180(h) and AS 39.35.110(i).

The permanent fund is not restricted to a trust as a real estate investment vehicle, but is subject to specific limitations including participation by other investors. This flexibility is necessary because the permanent fund is different from most other institutional investors. It is not a charitable organization or a pension plan. It does not fall into any of the categories established by the federal Internal Revenue Code, and thus may be excluded by investment managers from certain investment opportunities in order to preserve the tax status of other investors. For example, we understand that participation by the permanent fund in a real estate trust for qualified pension plans could increase the tax liability of the providers and benefici-

---

1/ As introduced, the bill would have expanded the authorized investments of the permanent fund by adding common and preferred stock of United States corporations, real estate equity under certain limitations, notes secured by mortgages on commercial real estate, and foreign securities and deposits of substantially equivalent quality as permitted domestic investments. As adopted, the bill added investment authority in all these areas except foreign securities and deposits.

David Rose, Executive Director  
Alaska Permanent Fund Corporation  
366-656-83

August 10, 1983  
Page #3

aries of those plans. 2/

You asked specifically whether the fund could purchase stock in a corporation organized for the sole purpose of investing in real estate, if that stock did not satisfy the requirement of AS 37.13.120(i) that any domestic stock purchased by the fund must be listed on an exchange registered with the federal Securities and Exchange Commission (SEC). The SEC registered exchange listing requirement which applies to the permanent fund is similar to that applicable to investments of the state employees' retirement funds, under AS 14.25.180(c) and AS 39.35.110(c). This requirement clearly does not apply to real estate investment by the retirement funds because those funds may invest in real estate only through a trust, and not through purchasing common stock. There is no indication that the limitation was intended to apply to permanent fund real estate investments either. We believe that the requirement applies only to those permanent fund investments purchased under the grant of authority in AS 37.13.-120(g)(18) to invest in preferred and common stock of United States corporations. This opinion is based on our reading of AS 37.13.120 as a whole and in context with the parallel provisions relating to investment by the state employee retirement funds.

You also asked specifically about several sections of the Internal Revenue Code. The provisions to which you referred do not apply to the permanent fund, which is tax-exempt because it is owned and operated by the State of Alaska. As mentioned, the federal tax laws may create some difficulties for investment managers in designing a structure for real estate investment by the fund. However, they do not directly apply to or limit the investment authority of the corporation. AS 37.13.120(g)(20) should permit you to enter into reasonably safe real estate investments without jeopardizing the tax status of the investment manager or the other participating investors.

---

2/ We note that Congress has only recently explicitly sanctioned the participation by governmental pension plans like our public employees' and teachers' retirement systems in co-mingled investment trusts with qualified pension plans. 26 U.S.C. § 401(a)-(24), added by P.L. 97-248 § 254(a), 96 Stat. 324, Tax Equity and Fiscal Responsibility Act of 1982. Our retirement funds have participated in such co-mingled trusts under Alaska statutory authority added in 1980 without this explicit federal sanction. AS 14.25.180(h) and AS 39.35.110(i), added by ch. 122, SLA 1980. This federal statute does not sanction participation by a governmental non-pension fund, like the permanent fund, in a co-mingled trust with qualified pension plans.

David Rose, Executive Director  
Alaska Permanent Fund Corporation  
366-656-83

August 10, 1983  
Page #4

This letter confirms my oral advice to you and Dick Alexander on this subject. If you have specific questions, or would like our comments on specific real estate investment proposals, do not hesitate to call.

LLD/pjg

cc: Hon. Robert Heath, Commissioner  
Department of Revenue

Dick Alexander  
Alaska Permanent Fund Corporation



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y, State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

May 5, 1982  
(Revised)

MEMORANDUM

TO: Representative Terry Gardiner

FROM: Anne DeVries, Research Staff, *AND*  
Deb Pomeroy, Research Aide *DP*

RE: Real Changes in the Permanent Fund  
Research Request 82-124

In response to your request, we have attached five graphs which illustrate the effect of inflation and interest reinvestment on the real value of the Permanent Fund. We have focused on two alternatives: no reinvestment of earnings and the reinvestment of one-half the Fund's earnings.

The major assumptions underlying this analysis were taken from an analysis of CSSSSJR 61, prepared by Milt Barker, of Legislative Finance, on April 23, 1982. These assumptions are: an 8 percent annual inflation, a Permanent Fund contribution which is increased to 35 percent from FY 83 through FY 90 and which is based on the Department of Revenue March 1982 estimates at the 30th percentile.

Each of the five graphs is described below:

Figure I compares the real and nominal Permanent Fund balances, assuming no reinvestment of earnings. The dashed line designating the nominal balance reflects an 8 percent annual inflation rate. The solid line designates the real value of the Fund in FY 83 dollars.

Figure II compares the real and nominal Permanent Fund balances, assuming reinvestment of one-half the Fund's earnings. It is assumed that the Fund will earn a real annual return of 3 percent. Again, the nominal value is shown by the dashed line and the real value by the solid line.

Figure III compares the real Permanent Fund balances, with and without the investment of one-half the earnings. With reinvestment of one-half the earnings (the dashed line) the real value of the Fund increases 77.1 percent, from \$3,646.0 million in FY 84 to \$6,457.9 million in FY 98. Without reinvestment (the solid line), the real value of the Fund increases only 4.9 percent, from \$3,462.1 million in FY 84 to \$3,632.9 million in FY 98.

Representative Gardiner  
May 5, 1982  
Page 2

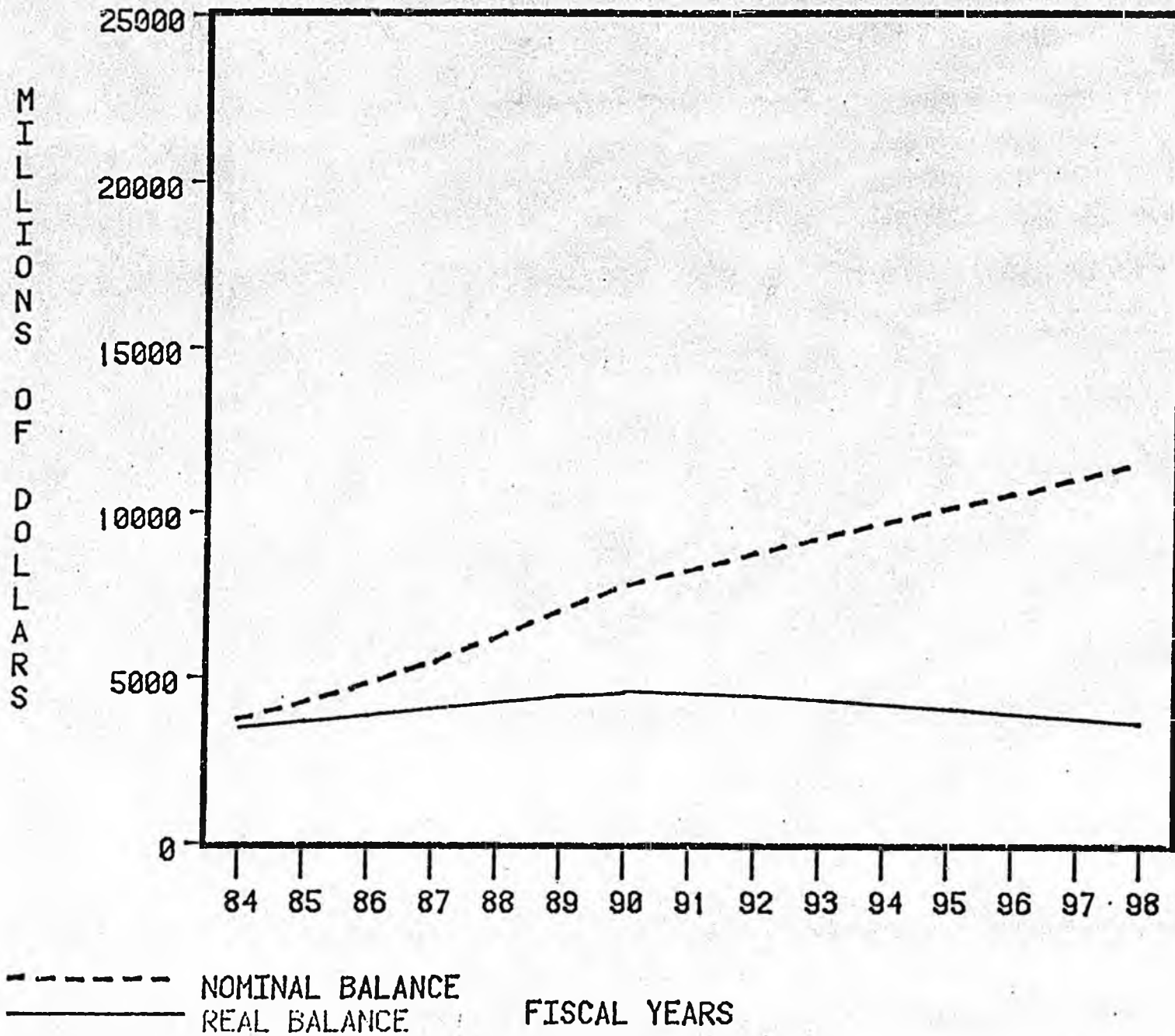
Figure IV shows the annual change in the real value of the Permanent Fund, with (dashed line) and without (solid line) reinvestment of earnings. As the graph shows, without reinvestment, the real value of the Permanent Fund declines annually after FY 90, as deposits do not compensate for the erosion of the Fund's value through inflation. With the reinvestment of one-half of the Fund's earnings, the real value increases by large amounts in the early years, but the annual real increase in the Fund drops sharply in the later years.

Figure V shows the effect of an 8 percent annual inflation rate on the real value of the current balance in the Fund. The Fund balance as of February 28, 1982 was \$2,886.1 million. With no reinvestment of earnings and an 8 percent rate of inflation, the real value of the Fund's current balance will fall 68.5 percent, to \$909.8 million, between now and FY 98 (solid line). Reinvesting one-half of the Fund's earnings (dashed line) would result in a smaller decrease (28.4 percent) in the real value of the current balance. The real value in FY 98 would be \$2,067.3 million, or 127 percent more than the FY 98 value without reinvestment of earnings.

Attached you will find Figures I through V, as well as the data which was used to create the graphs. If you have any further questions, please call.

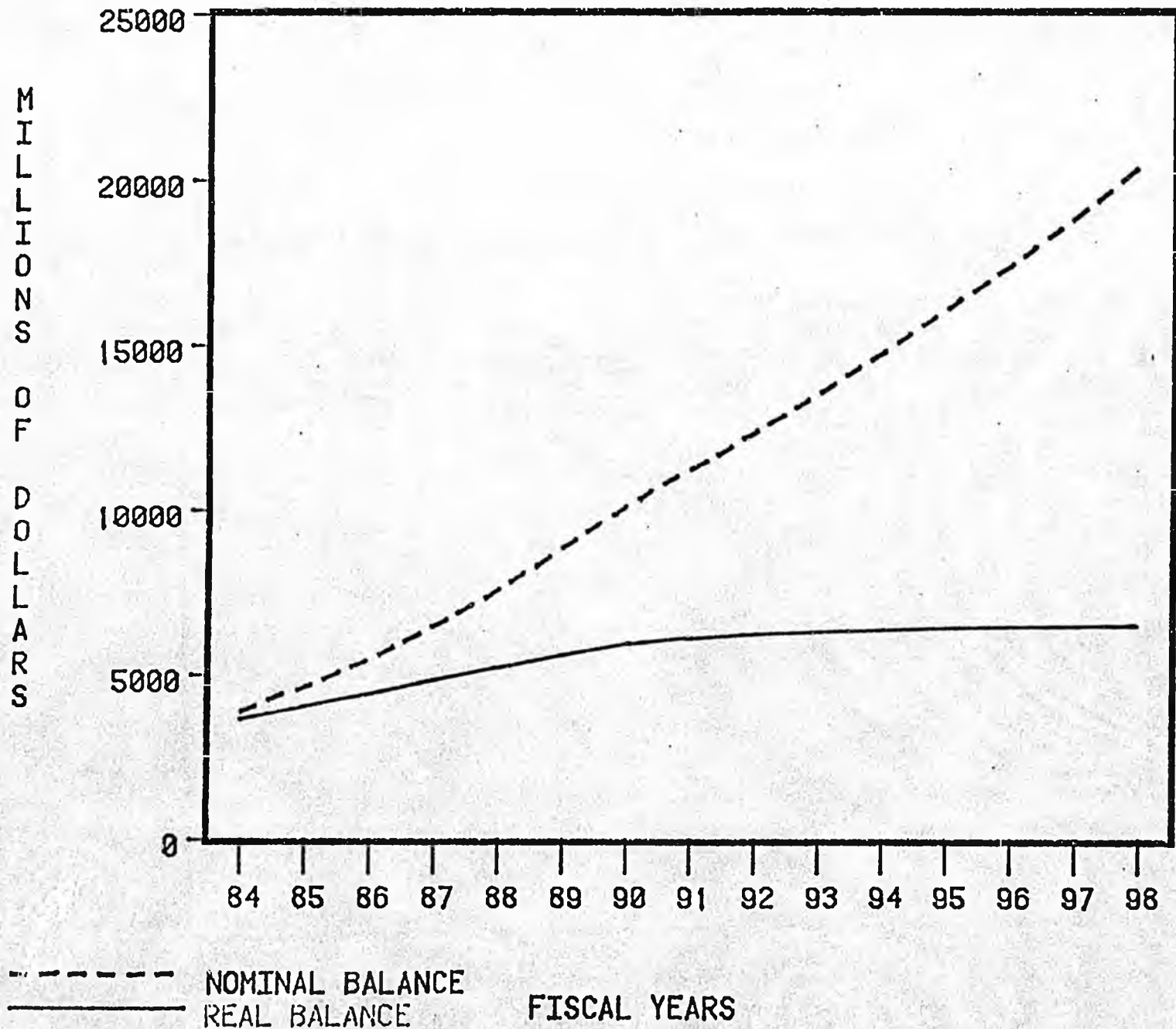
AHD  
Attachments

FIGURE I  
 REAL AND NOMINAL PERMANENT FUND BALANCES  
 WITH NO INTEREST REINVESTMENT



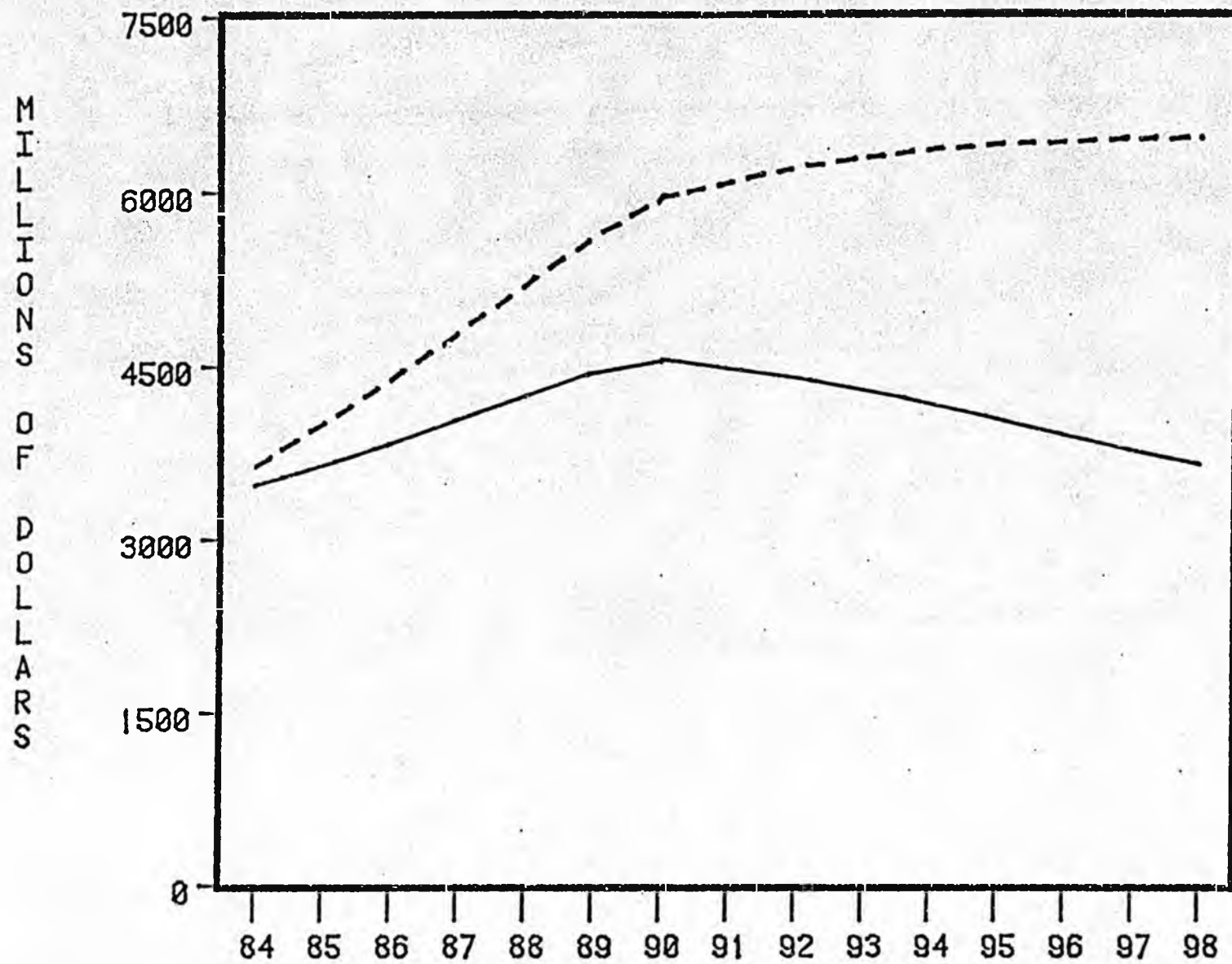
FY	Nominal Balance	Real Balance
84	\$3,739.1	\$3,462.1
85	4,232.0	3,628.3
86	4,805.6	3,814.3
87	5,478.9	4,027.2
88	6,220.5	4,233.6
89	7,043.6	4,438.7
90	7,793.7	4,547.5
91	8,275.5	4,471.0
92	8,774.3	4,389.3
93	9,244.9	4,282.2
94	9,706.5	4,163.0
95	10,153.7	4,032.2
96	10,578.3	3,889.6
97	11,038.6	3,758.2
98	11,524.2	3,632.9

FIGURE II  
 REAL AND NOMINAL PERMANENT FUND BALANCES  
 WITH INTEREST REINVESTMENT



FY	Nominal Balance	Real Balance
84	\$3,937.7	\$3,646.
85	4,665.7	4,000.
86	5,517.6	4,380.
87	6,519.9	4,792.
88	7,648.8	5,205.
89	8,924.9	5,624.
90	10,197.7	5,950.
91	11,266.1	6,086.
92	12,412.1	6,209.
93	13,593.5	6,296.
94	14,832.0	6,361.
95	16,125.3	6,403.
96	17,468.1	6,423.
97	18,923.0	6,442.
98	20,485.7	6,457.

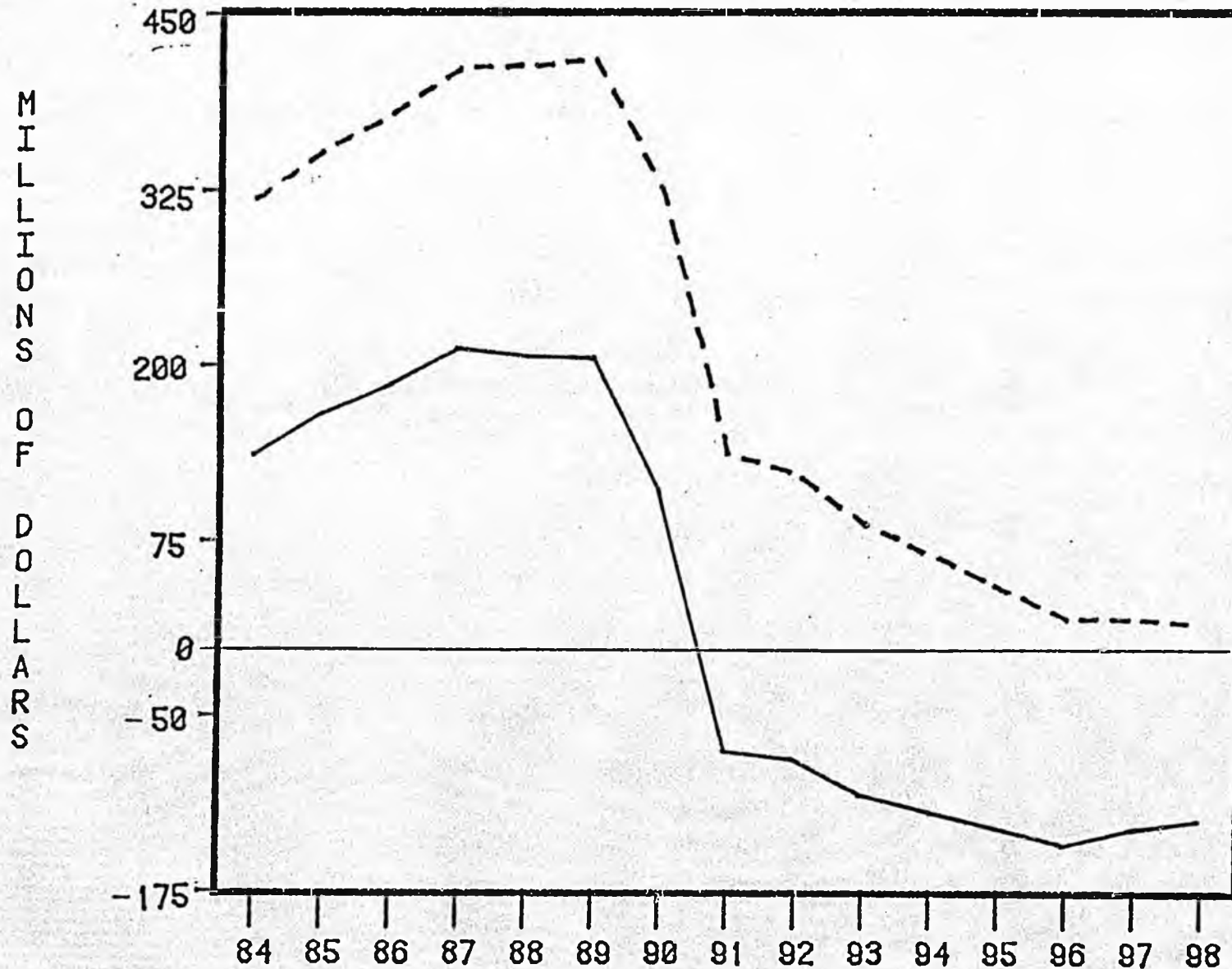
FIGURE III  
 COMPARISON OF REAL PERMANENT FUND BALANCES  
 WITH & WITHOUT REINVESTMENT



FY	With Reinvest.	Without Reinvest.
84	3,646.0	3,462.1
85	4,000.1	3,628.3
86	4,380.0	3,814.8
87	4,792.3	4,027.2
88	5,205.6	4,233.6
89	5,624.2	4,438.7
90	5,950.3	4,547.5
91	6,086.7	4,471.0
92	6,209.1	4,389.3
93	6,296.4	4,282.2
94	6,361.2	4,163.0
95	6,403.6	4,032.2
96	6,423.0	3,889.6
97	6,442.5	3,758.2
98	6,457.9	3,632.9

- - - - - W/REINVESTMENT  
 \_\_\_\_\_ W/O REINVESTMENT      FISCAL YEARS

FIGURE IV  
ANNUAL CHANGE IN REAL PERMANENT FUND BALANCES  
WITH & WITHOUT INTEREST REINVESTMENT

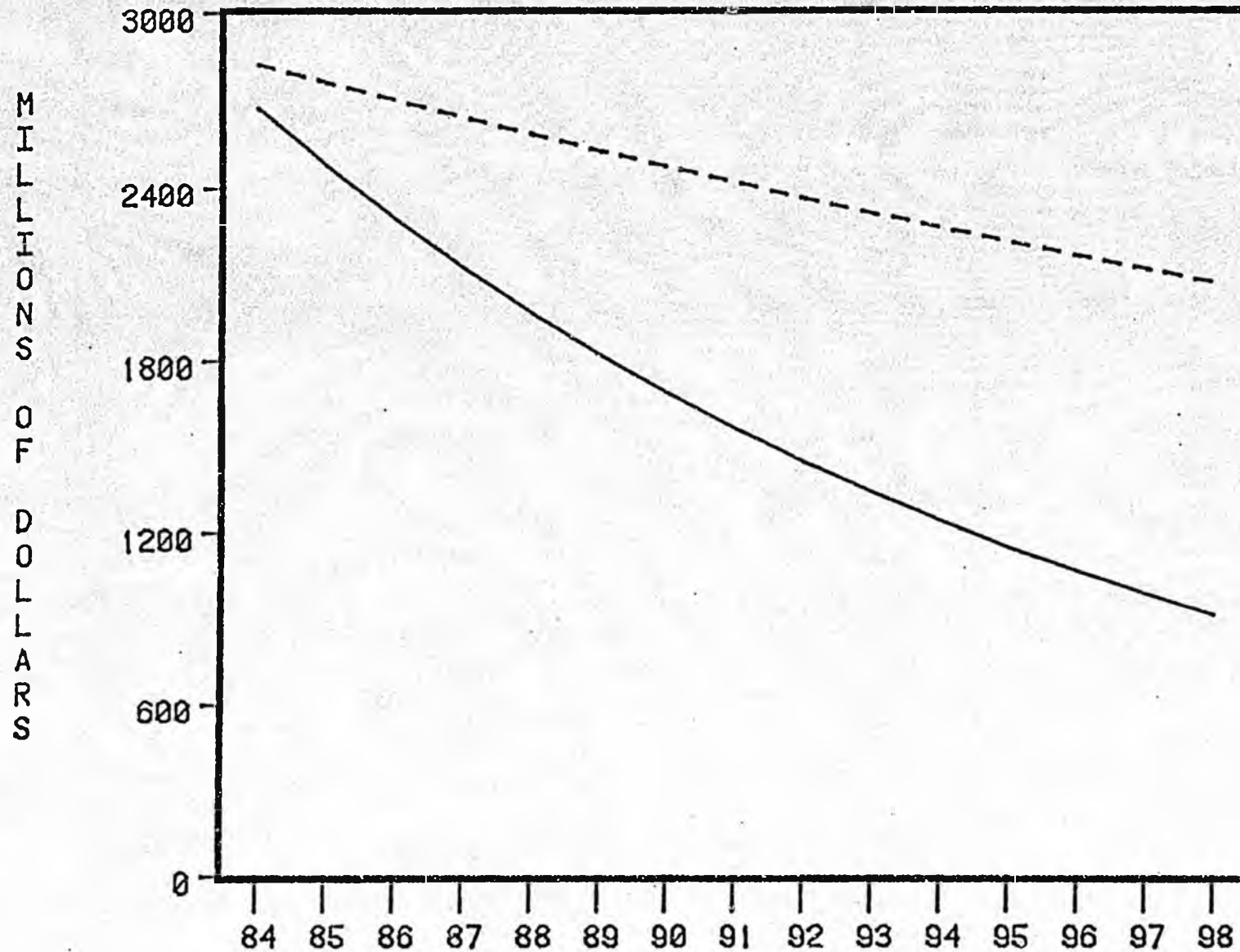


FY	With Reinvest.	Without Reinvest.
84	\$319.0	\$135.2
85	354.1	166.2
86	379.9	186.5
87	412.3	212.4
88	413.3	206.4
89	418.6	205.1
90	326.1	108.8
91	136.4	(76.5)
92	122.4	(81.7)
93	87.3	(107.1)
94	64.8	(119.2)
95	42.4	(130.8)
96	19.4	(142.6)
97	19.5	(131.4)
98	15.4	(125.3)

- - - - - WITH REINVEST.  
 \_\_\_\_\_ W/O REINVEST.

FISCAL YEARS

FIGURE V  
 FUTURE VALUE OF CURRENT 1982 PERMANENT FUND BALANCE IN REAL DOLLARS  
 WITH & WITHOUT REINVESTMENT



FY	With Reinvest.	Without Reinvest.
84	2,822.6	2,672.3
85	2,760.5	2,474.4
86	2,699.8	2,291.1
87	2,640.4	2,121.4
88	2,582.3	1,964.2
89	2,525.5	1,818.7
90	2,469.9	1,684.0
91	2,415.6	1,559.3
92	2,362.4	1,443.8
93	2,310.5	1,336.8
94	2,259.6	1,237.8
95	2,209.9	1,146.1
96	2,161.3	1,061.2
97	2,113.8	982.6
98	2,067.3	909.8

----- W/REINVESTMENT  
 \_\_\_\_\_ W/O REINVESTMENT      FISCAL YEARS

Table I  
 PERMANENT FUND BALANCE  
Analysis of the Effects of Inflation and Reinvestment of Earnings  
 (Millions of dollars)

	Permanent Fund Balance No Reinvestment of Earnings			Permanent Fund Balance With Reinvestment of Earnings			Real Future Value of Current (2/22/82) Permanent Fund Balance	
	Nominal Dollars	FY 83 Dollars	Real Annual Change	Nominal Dollars	FY 83 Dollars	Real Annual Change	FY 83 Dollars W/O Reinvest.	FY 83 Dollars With Reinvest.
FY 84	3,739.1	3,462.1	-	3,937.7	3,646.0	319.1	2,672.3	2,822.6
FY 85	4,232.0	3,628.3	166.2	4,665.7	4,000.1	354.1	2,474.4	2,760.5
FY 86	4,805.6	3,814.8	186.5	5,517.6	4,380.0	379.9	2,291.1	2,699.8
FY 87	5,478.9	4,027.2	212.4	6,519.9	4,792.3	412.3	2,121.4	2,640.4
FY 88	6,220.5	4,233.6	206.4	7,648.8	5,205.6	413.3	1,964.2	2,582.3
FY 89	7,043.6	4,438.7	205.1	8,924.9	5,624.2	418.6	1,818.7	2,525.5
FY 90	7,793.7	4,547.5	108.8	10,197.7	5,950.3	326.1	1,684.0	2,469.9
FY 91	8,275.5	4,471.0	(76.5)	11,266.1	6,086.7	136.4	1,559.3	2,415.6
FY 92	8,774.3	4,389.3	(81.7)	12,412.1	6,209.1	122.4	1,443.8	2,362.4
FY 93	9,244.9	4,282.2	(107.1)	13,593.5	6,296.4	87.3	1,336.8	2,310.5
FY 94	9,706.5	4,163.0	(119.2)	14,832.0	6,361.2	64.8	1,237.8	2,259.6
FY 95	10,153.7	4,032.2	(130.8)	16,125.3	6,403.6	42.4	1,146.1	2,209.9
FY 96	10,578.3	3,889.6	(142.6)	17,468.1	6,423.0	19.4	1,061.2	2,161.3
FY 97	11,038.6	3,758.2	(131.4)	18,923.0	6,442.5	19.5	982.6	2,113.8
FY 98	11,524.2	3,632.9	(125.3)	20,485.7	6,457.9	15.4	909.8	2,067.3

Based on data provided by Milt Barker, Legislative Finance.

House Resc Agency 5/5/82

Introduced: 2/9/84  
Referred: Finance

BY COWDERY, HAYES, BARNES,  
BUSSELL, LINDAUER, WARD,  
TISCHER, BETTISWORTH, FRITZ,  
LISKA AND ABOOD

1 IN THE HOUSE

2 HOUSE BILL NO. 599

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment policy of the  
7 Alaska permanent fund board; and providing for an  
8 effective date."

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

10 \* Section 1. FINDINGS AND INTENT. The legislature finds that strict  
11 application of the "prudent man rule" investment policy by the Alaska  
12 permanent fund board overemphasizes conservative investment policy to the  
13 exclusion of many sound investments that could be made within the state.  
14 While the legislature does not intend for permanent fund money to be in-  
15 vested in imprudent investments, the growth of the state economy must be  
16 encouraged by requiring that a portion of the Alaska permanent fund be  
17 invested in the state.

18 \* Sec. 2. AS 37.13.120(1) is repealed and reenacted to read:

19 (1) Notwithstanding the provisions of (a) of this section the  
20 board shall invest at least 10 and not more than 20 percent of the  
21 assets of the corporation within the state in each financial year of  
22 the corporation until at least 50 percent of the assets of the corpora-  
23 tion are invested within the state.

24 \* Sec. 3. This Act takes effect immediately in accordance with AS 01.-  
25 10.070(c).

COMMITTEE REPORT  
HOUSE

(11)

FURTHER:

3/23/84

Date:

4-3-84

The Committee on FINANCE has had HB 605

"An Act providing for the issuance of general obligation bonds in the amount of \$100,000,000 for the purpose of paying the cost of constructing a public facility to house the legislature and other state agencies in Anchorage; and providing for an effective date."

under consideration and recommends:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for \_\_\_\_\_  same title
- and recommends \_\_\_\_\_  new title
- AND attaches a "Letter of Intent"  -New Fiscal Note \$1500.0
- reports it back without recommendation  Zero Fiscal Note Attached
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

[Signature]

[Signature]

[Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

[Signature] - No Rec

[Signature] NO REC

[Signature] - NO REC.

[Signature] (Do not Pass)

[Signature] (Do Not Pass)

MILO H. FRITZ

[Signature]

CHAIRMAN

Introduced: 2/13/84  
Referred: State Affairs and  
Finance

1 IN THE HOUSE

BY WARD

2

HOUSE BILL NO. 605

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act providing for the issuance of general obliga-  
7 tion bonds in the amount of \$100,000,000 for the  
8 purpose of paying the cost of constructing a public  
9 facility to house the legislature and other state  
10 agencies in Anchorage; and providing for an effective  
11 date."

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

13 \* Section 1. For the purpose of paying the cost of constructing a  
14 public facility to house the legislature and other state agencies in Anchor  
15 age, general obligation bonds of the state in the principal amount of not  
16 more than \$100,000,000 shall be issued and sold. The full faith, credit,  
17 and resources of the state are pledged to the payment of the principal of  
18 and interest and redemption premium, if any, on these bonds. These bonds  
19 shall be issued under the provisions of AS 37.15 as those provisions read  
20 at the time of issuance.

21 \* Sec. 2. If the issuance of these bonds is authorized by the qualified  
22 voters of the state, a special fund of the state to be known as the "Anchor  
23 age Legislative Hall and Office Building Fund" shall be established, to  
24 which shall be credited the proceeds of the sale of the bonds described in  
25 sec. 1 of this Act except for the accrued interest and premiums.

26 \* Sec. 3. The amount of \$100,000,000 is appropriated from the  
27 "Anchorage Legislative Hall and Office Building Fund" to the Department of  
28 Transportation and Public Facilities to be used for the purpose described  
29 in sec. 1 of this Act.

1 \* Sec. 4. If the issuance of these bonds is authorized by the qualified  
2 voters of the state, the amount of \$35,000 or as much of that amount as is  
3 found necessary is appropriated from the general fund of the state to the  
4 state bond committee to carry out the provisions of this Act and to pay  
5 expenses incident to the sale and issuance of the bonds authorized in this  
6 Act. The amounts expended from the appropriation authorized by this sec-  
7 tion shall be reimbursed to the general fund from the proceeds of the sale  
8 of the bonds authorized by this Act.

9 \* Sec. 5. The amount withdrawn from the public facility planning fund  
10 for the purpose of advance planning for the improvements financed under  
11 this Act shall be reimbursed to the fund from the proceeds of the sale of  
12 bonds authorized by this Act.

13 \* Sec. 6. The question whether the bonds authorized in this Act are to  
14 be issued shall be submitted to the qualified voters of the state at the  
15 next general election and shall read substantially as follows:

16 Proposition

17 State General Obligation Anchorage Legislative

18 Hall and Office Building Bonds \$100,000,000

19 Shall the State of Alaska issue its general obligation  
20 bonds in the principal amount of not more than  
21 \$100,000,000 for the purpose of paying the cost of con-  
22 structing a public facility to house the legislature and  
23 other state agencies in Anchorage?

24 Bonds Yes [ ]

25 Bonds No [ ]

26 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
27 10.070(c).

28

29

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

*OK - 5/28/83*

Revision Date \_\_\_\_\_

REQUEST

Bill/Resolution No: HB 605  
 Title: \$100 Million GOB for Anchorage legislative facility  
 Sponsor: Ward  
 Requestor: House State Affairs  
 Date of Request: \_\_\_\_\_

FISCAL DETAIL

Agency Affected: State Bond Committee  
 Program Category Affected: \_\_\_\_\_  
 BRU, Program of Subprogram(s) Affected: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<u>OPERATING</u>						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	14500.0	15375.0	15375.0	15375.0	15375.0
<u>TOTAL OPERATING</u>	-	-	-	-	-	-
<u>CAPITAL</u>	-	-	-	-	-	-
<u>REVENUE</u>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	14500.0	15375.0	15375.0	15375.0	15375.0
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<u>TOTAL</u>	-	-	-	-	-	-

POSITIONS:

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

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Debt service calculated at 9% on 10 year bonds. FY 85 is the first semiannual interest payment.

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB  
 Division: Treasury

Phone: 465-2350  
 Date: 2-24-84

Approved by Commissioner: *R. M. O'Leary*  
 Agency: Revenue

Date: 2/28/84

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

# MEMORANDUM

# State of Alaska

TO: Anselm C. Staack  
Deputy Commissioner  
Administrative Management  
Department of Administration

DATE: April 3, 1984

FILE NO:

TELEPHONE NO: 465-2250

FROM: Robert J. Link *RJL*  
Director  
Division of General Services & Supply  
Department of Administration

SUBJECT: A.O.C. Estimate

I am providing you with a "good ball park" estimate of the costs of constructing the A.O.C. I would like to preface the numbers by saying that cost estimation without construction drawings is an inexact science. Our consultant prepared this estimate quickly at our request. However, the consultant feels confident that we could obtain an aesthetically pleasing structure meeting our exacting performance requirements within the listed budget. A major assumption is that the project will be procured utilizing a design-build process with competitive bidding.

420,000 gross square feet @ \$150.00	\$63,000,000
[350,000 net] price includes design fees and utility relocation	
340,000 gross square feet parking garage @ \$80.00	27,200,000
60,000 gross square feet commercial space @ \$100.00	6,000,000
contingency & furnishings	13,800,000
	<u>\$110,000,000</u>

RJL/cjk  
20/11D2/0403-01

SECTIONAL ANALYSIS  
House Bill 605

- SECTION 1. Would authorize the issuance of general obligation bonds in the amount of \$100 million to pay the cost of constructing a public facility to house the legislature and other state agencies in Anchorage if approved by the voters at the next general election.
- SECTION 2. Establishes a building fund to which funds would be deposited.
- SECTION 3. Appropriates \$100 million to the Department of Transportation for construction of the facility.
- SECTION 4. Appropriates as necessary from the \$100 million for expenses incident to the sale and issuances of the bonds authorized.
- SECTION 5. Provides that expenses of advance planning be reimbursed to the public facility planning fund from \$100 million.
- SECTION 6. States wording of proposition.
- SECTION 7. Provides Act takes effect immediately.

Introduced: 2/13/84  
Referred: State Affairs and  
Finance

1 IN THE HOUSE

BY WARD

2

HOUSE BILL NO. 605

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act providing for the issuance of general obliga-  
7 tion bonds in the amount of \$100,000,000 for the  
8 purpose of paying the cost of constructing a public  
9 facility to house the legislature and other state  
10 agencies in Anchorage; and providing for an effective  
11 date."

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

13 \* Section 1. For the purpose of paying the cost of constructing a  
14 public facility to house the legislature and other state agencies in Anchor  
15 age, general obligation bonds of the state in the principal amount of not  
16 more than \$100,000,000 shall be issued and sold. The full faith, credit,  
17 and resources of the state are pledged to the payment of the principal of  
18 and interest and redemption premium, if any, on these bonds. These bonds  
19 shall be issued under the provisions of AS 37.15 as those provisions read  
20 at the time of issuance.

21 \* Sec. 2. If the issuance of these bonds is authorized by the qualified  
22 voters of the state, a special fund of the state to be known as the "Anchor  
23 age Legislative Hall and Office Building Fund" shall be established, to  
24 which shall be credited the proceeds of the sale of the bonds described in  
25 sec. 1 of this Act except for the accrued interest and premiums.

26 \* Sec. 3. The amount of \$100,000,000 is appropriated from the  
27 "Anchorage Legislative Hall and Office Building Fund" to the Department of  
28 Transportation and Public Facilities to be used for the purpose described  
29 in sec. 1 of this Act.

1 \* Sec. 4. If the issuance of these bonds is authorized by the qualified  
2 voters of the state, the amount of \$35,000 or as much of that amount as is  
3 found necessary is appropriated from the general fund of the state to the  
4 state bond committee to carry out the provisions of this Act and to pay  
5 expenses incident to the sale and issuance of the bonds authorized in this  
6 Act. The amounts expended from the appropriation authorized by this sec-  
7 tion shall be reimbursed to the general fund from the proceeds of the sale  
8 of the bonds authorized by this Act.

9 \* Sec. 5. The amount withdrawn from the public facility planning fund  
10 for the purpose of advance planning for the improvements financed under  
11 this Act shall be reimbursed to the fund from the proceeds of the sale of  
12 bonds authorized by this Act.

13 \* Sec. 6. The question whether the bonds authorized in this Act are to  
14 be issued shall be submitted to the qualified voters of the state at the  
15 next general election and shall read substantially as follows:

16 Proposition

17 State General Obligation Anchorage Legislative  
18 Hall and Office Building Bonds \$100,000,000

19 Shall the State of Alaska issue its general obligation  
20 bonds in the principal amount of not more than  
21 \$100,000,000 for the purpose of paying the cost of con-  
22 structing a public facility to house the legislature and  
23 other state agencies in Anchorage?

24 Bonds Yes [ ]

25 Bonds No [ ]

26 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
27 10.070(c).

28  
29

COMMITTEE REPORT  
SENATE

5/31/84

FURTHER:

Date 6/1/84

Mr. President

The Committee on FINANCE considered CSHB 608(F1a)

Royalty oil contracts and approving the sale of Prudhoe Bay royalty oil by the State of Alaska to the Tesoro Alaska Petroleum Company; efd.

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

- do pass *w/attached letter of intent from Rep Adams*
- do pass with attached amendment(s)
- replace with/or adopt CS for \_\_\_\_\_
- new title \_\_\_\_\_
- same title and recommends \_\_\_\_\_
- and attached a "LETTER OF INTENT"  NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to \_\_\_\_\_ Committee

MEMBERS SIGNING

DO PASS

*John C. Abbott*  
*[Signature]*  
*[Signature]*  
*[Signature]*  
*[Signature]*

MEMBERS HAVING

OTHER RECOMMENDATIONS

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Chairman

Chairman recommendation

Offered: 5/30/84  
Referred: Rules

Original sponsor: Hayes

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2

CS FOR HOUSE BILL NO. 608 (Finance)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to royalty oil contracts and approving the sale of Prudhoe Bay royalty oil by the State of Alaska to the Tesoro Alaska Petroleum Company; and providing for an effective date."

7

8

9

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

11 \* Section 1. The "Agreement for the Sale and Purchase of Royalty Oil  
12 between the State of Alaska and Tesoro Alaska Petroleum Company," dated  
13 December 9, 1983, for the sale of Prudhoe Bay royalty oil, is hereby approved and ratified.

15 \* Sec. 2. AS 38.05.183 is amended by adding a new subsection to read:

16 (f) The commissioner may not enter into a contract for the sale  
17 of royalty oil unless the contract provides that any material amendment to the contract that appreciably reduces the consideration received by the state requires prior approval of the legislature.

20 \* Sec. 3. This Act takes effect immediately in accordance with AS 01.-  
21 10.070(c).

LETTER OF INTENT  
FOR  
COMMITTEE SUBSTITUTE FOR HOUSE BILL 608 (FINANCE)

It is the intent of the legislature that the "Agreement for the Sale and Purchase of Royalty Oil between the State of Alaska and Tesoro Alaska Petroleum Company", dated December 9, 1983, for the sale of Prudhoe Bay royalty oil, is approved only with the understanding that the attached amendment to the agreement relating to the relationship between Tesoro Alaska Petroleum Company and Charter Oil Company has been signed by Commissioner Wunnicke and the Tesoro Alaska Petroleum Company Attorney-in-Fact and is now incorporated into the agreement.



---

Al Adams, Chairman  
House Finance Committee

*Came w/ bill*

*11*

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No.: CSHB 608(Fin)  
Title: Re: Royalty oil contracts/  
approving sale of P.B. r.oil to Tesoro  
Sponsor: Hayes  
Requestor: House Finance Committee  
Date of Request: 5/30/84

FISCAL DETAIL

Agency Affected: DNR  
Program Category Affected: \_\_\_\_\_  
BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<b>OPERATING</b>						
100 PERSONAL SERVICES		0				
200 TRAVEL		0				
300 CONTRACTUAL		0				
400 SUPPLIES		0				
500 EQUIPMENT		0				
600 LAND & STRUCTURES		0				
700 GRANTS, CLAIMS		0				
800 MISCELLANEOUS		0				
TOTAL OPERATING		0				
<b>CAPITAL</b>		0				
<b>REVENUE</b>		0				

FUNDING: (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS		0				
OTHER		0				
TOTAL		0				

POSITIONS:

FULL-TIME		0				
PART-TIME		0				
TEMPORARY		0				

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Al Adams, Chair  
Division: House Finance Committee

Phone: 465-3706  
Date: 5/30/84

Approved by Commissioner: \_\_\_\_\_  
Agency: \_\_\_\_\_

Date: \_\_\_\_\_

Distribution (by Agency preparing fiscal note):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

STATE OF "ALASKA" 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

**REQUEST**

Bill/Resolution No.: CSHB 608(Fin)  
 Title: Re: Royalty oil contracts/  
approving sale of P.B. r.oil to Tesoro  
 Sponsor: Hayes  
 Requestor: House Finance Committee  
 Date of Request: 5/30/84

**FISCAL DETAIL**

Agency Affected: DNR  
 Program Category Affected: \_\_\_\_\_  
 BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<b>OPERATING</b>						
100 PERSONAL SERVICES		0				
200 TRAVEL		0				
300 CONTRACTUAL		0				
400 SUPPLIES		0				
500 EQUIPMENT		0				
600 LAND & STRUCTURES		0				
700 GRANTS, CLAIMS		0				
800 MISCELLANEOUS		0				
<b>TOTAL OPERATING</b>		0				
<b>CAPITAL</b>		0				
<b>REVENUE</b>		0				

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	0				
FEDERAL FUNDS	0				
OTHER	0				
<b>TOTAL</b>	0				

**POSITIONS:**

FULL-TIME	0				
PART-TIME	0				
TEMPORARY	0				

**SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:**

**ANALYSIS:** Attach a separate page for analysis

Prepared By: Al Adams, Chair Phone: 465-3706  
 Division: House Finance Committee Date: 5/30/84

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: \_\_\_\_\_

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

Amendment to the Agreement for the Sale and Purchase of Royalty Oil between the State of Alaska and Tesoro Alaska Petroleum Company (for the sale of Prudhoe Bay Royalty Oil), dated December 9, 1983:

(a) In order to induce Seller to enter into this Agreement and to perform its respective obligations from time to time hereunder, Purchaser represents and warrants to Seller that, as of the expected dates of delivery of royalty oil under this Agreement, no person(s) or entity that controlled the Charter Company as of July 1, 1981 (including, but not limited to, Mr. Raymond K. Mason) (collectively, together with the Charter Company, "Charter"), nor any persons or entities that control, are controlled by, or are under common control with, Charter as of such expected dates of delivery will own or hold any beneficial equity or ownership interest in Purchaser that was acquired through a transaction that included Purchaser or Tesoro Petroleum Corporation as a party and did not involve any public offering as defined in Section 4(2) of the Securities Act of 1933 (a "Prohibited Interest"). As used in this paragraph, the word "control" and its correlatives "controlling" and "controlled" refer to the power, directly or indirectly (including through one or more controlled entities) to cause the direction of the operations or management of another entity, whether through common management, majority ownership, by contract or otherwise. It shall be a condition precedent to Seller's performance of its respective obligations under this Agreement generally and, specifically, to deliver any royalty oil hereunder that the foregoing representation and warranty shall be true, complete and accurate on the date of such performance. Such representation and warranty shall be deemed affirmed by Purchaser in each notice to Seller requesting delivery of royalty oil and by Purchaser's acceptance of each such delivery, as if made by Purchaser and effective as of the date of each such notice and acceptance. In addition, Purchaser shall from time to time, upon written request from Seller, certify to Seller in a written instrument signed by Purchaser's chief executive officer, that to the best of Purchaser's actual knowledge, no Prohibited Interest exists as of the date of such certificate.

(b) If from time to time (1) Seller should have notice or knowledge of the existence of a Prohibited Interest, or (2) Purchaser should fail to deliver to Seller the certificate described in the preceding paragraph within 15 days after Seller's written request therefor, Seller will in each instance suspend deliveries of royalty oil hereunder by written notice to Purchaser, effective as of a date set forth in such notice but not later than the date seven calendar months after the date of such notice. No such suspension shall terminate this Agreement, or extend the term hereof, or operate to excuse or discharge Purchaser's obligations to accept and pay for deliveries of

*Jew*  
5-29-84  
*CM*

royalty oil prior to the effective date of such suspension or after such suspension is terminated by Seller. Seller's failure to suspend, or delay in suspending delivery of royalty oil shall not be deemed, or operate as, a waiver to exercise such right subsequently in the same or any other instance.

(c) If, during the pendency of any notice period with respect to any such suspension or during the period of such suspension, Purchaser shall certify to Seller in a written instrument signed by Purchaser's chief executive officer that any Prohibited Interest no longer exists and provide any explanatory information confirming such fact that Seller may reasonably request, Seller shall terminate such notice and suspension by written notice to Purchaser, effective as of a date set forth in such notice but not later than the date seven calendar months after the date of such notice. On and as of such effective date, Seller shall deliver, and Purchaser shall accept and pay for, royalty oil pursuant to such terms and conditions as would otherwise pertain hereunder as if such notice of suspension and suspension had not occurred.

*Arthur C. Wenniche*  
Commissioner  
Department of Natural Resources

*May 29, 1984*  
Date

*William J. Park*  
Attorney-in-Fact  
Tesoro Alaska Petroleum Company

*May 29, 1984*  
Date