

LEGISLATIVE FINANCE-HOUSE/SENATE FINANCE COMM. FILES 8879

HB 580 cont. 551 142

STATE OF ALASKA
1990 LEGISLATIVE SESSION

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Department of Revenue
 Title: Estab'ishing Alaska State
Investment Corporation BRU: Treasury
 Sponsor: Senate State Affairs Components: _____
 Requestor: Senate State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	(494.6)	(989.3)	(989.3)	(989.3)	(989.3)	(989.3)
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	(7080.2)	(14160.5)	(14160.5)	(14160.5)	(14160.5)	(14160.5)
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)
TOTAL	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)

POSITIONS:

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

ANALYSIS: attach a separate page for analysis. Fiscal year 1990 effect is zero. Fiscal years 1992 through 1996 based on the State Investment Corporation assuming responsibility for trust fund investments January 1, 1991. The amounts are the retirement and endowment funding contained in Treasury's fiscal year 1991 budget. Fiscal year 1991 effect is half of the Treasury fiscal year 1991 budget.

Prepared By: Milt Barker MB
 Division: Treasury

Phone: 465-2350
 Date: April 30, 1990

Approved by Commissioner: Walter B. Barker for
 Agency: Department of Revenue

Date: _____

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

Changes in CS CSNA580 (Fin)
 have no fiscal impact.
 This fiscal note is
 appropriate. 5/1/90 MB

Fiscal Note Analysis
SCS HB 580 (SA)
SBS Investment Management Costs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Liquid Balance	GIC Maturities	Net Contributions	Average Balance	Investment Earnings	Ending Liquid Balance	Stock Management Fees	Custodian Fees	Audit Fees	Performance Measurement Fees	Total Fees
FY91	0	151.1	50.0	100.5	9.0	210.1	93.5	5.2	10.0	12.0	120.7
FY92	210.1	118.9	55.0	297.1	26.7	410.7	276.3	13.6	10.0	12.0	313.9
FY93	410.7	96.3	60.0	488.8	44.0	610.9	454.6	25.7	10.0	12.0	502.3
FY94	610.9	202.9	65.0	744.8	67.0	945.8	692.6	39.1	10.0	12.0	733.7
FY95	945.8	128.7	70.0	1045.1	94.2	1238.6	972.9	54.9	10.0	12.0	1028.8
FY96	1238.6	60.0	75.0	1306.1	117.5	1491.1	1214.7	68.6	10.0	12.0	1285.3

Notes:

1. Column 6, prior year
2. From Division of Retirement & Benefits
3. Treasury Division estimate based on FY 89 contributions
4. Column 1 + (Column 2 + Column 3)/2
5. 9% x Column 4
6. Column 1 + Column 2 + Column 3 + Column 5
7. Column 4 x .31% per contract x 30% asset allocation to common stocks
8. Column 4 x 5.25¢/\$1000 per contract
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9 + 10.

6-2313D
Cramer
5/4/97

5/5/90

5/6/90

DP Adopted

Original sponsor(s): Finance Committee

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 SENATE CS FOR CS FOR HCUSE BILL NO. 580 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska State Investment
7 Corporation; relating to management and investment of
8 funds of the teachers' retirement system, University
9 of Alaska fund for money from the sale or lease of
10 land granted by Congress, judicial retirement system,
11 Alaska National Guard and Alaska Naval Militia re-
12 tirement system, public school trust fund, Alaska
13 children's trust fund, group health and life benefits
14 fund, supplemental employee benefits program, public
15 employees' retirement system, public employees'
16 deferred contribution program; requiring that certain
17 accounting records be maintained in accordance with
18 generally accepted accounting principles; and provid-
19 ing for an effective date."

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

21 * Section 1. AS 37.10 is amended by adding new sections to read:

22 ARTICLE 5. ALASKA STATE INVESTMENT CORPORATION.

23 Sec. 37.10.210. ALASKA STATE INVESTMENT CORPORATION. (a) There
24 is established the Alaska State Investment Corporation. The corpo-
25 ration is a public corporation and government instrumentality in the
26 Department of Revenue managed by a board of directors. The purpose of
27 the board is to provide professional management and investment of
28 state trust funds and other state funds upon agreement with the manag-
29 ers of those funds.

1 (b) The board consists of seven members:

2 (1) one member, nominated by the Teachers' Retirement Board
3 and appointed by the governor, who is a member of the teachers' re-
4 tirement system;

5 (2) one member, nominated by the Public Employees' Retire-
6 ment Board and appointed by the governor, who is a member of the
7 public employees' retirement system;

8 (3) one member, who is an employee of an employer partic-
9 ipating in the supplemental benefits system under AS 39.30.150 -
10 39.30.180 or who is receiving a benefit under that system because of
11 the person's prior employment appointed by the governor from three
12 nominees nominated for the position by the Teachers' Retirement Board
13 and by the Public Employees' Retirement Board; and

14 (4) four public members, appointed by the governor.

15 (c) At least two of the public members must have recognized
16 competence and wide experience in finance, investments, or other
17 business management-related fields. A public member may not hold
18 another state or federal office, position, or employment, either
19 elective or appointive, except as a member of the armed forces of
20 either the United States or of this state.

21 (d) The members of the board shall be appointed for staggered
22 terms of four years and may be reappointed to the board.

23 (e) The governor may remove a member of the board from office.
24 A removal by the governor must be in writing and must state the reason
25 for the removal. After a member receives written notice of removal
26 from the governor, the member may not participate in board business
27 and may not be counted for purposes of establishing a quorum.

28 (f) Members representing a state retirement system or the sup-
29 plemental benefits system may hold another compensated state office,

1 position, or employment, either elective or appointive.

2 (g) A vacancy on the board shall be promptly filled in the same
3 manner as the seat was originally filled. An appointee to a vacancy
4 holds office for the balance of the unexpired term of the appointee's
5 predecessor. A vacancy on the board does not impair the authority of
6 a quorum of the board to exercise all the powers and perform all the
7 duties of the board.

8 (h) The board shall annually elect a chair from among its mem-
9 bers.

10 (i) Four members of the board constitute a quorum for the trans-
11 action of business and the exercise of the powers and duties of the
12 board.

13 (j) A board member may not designate another person to serve on
14 the board in the absence of the member.

15 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board
16 shall

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

19 (2) establish investment policies for the funds for which
20 it is responsible;

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

23 (4) report to the governor and the legislature by Septem-
24 ber 30 of each year concerning the investment of state funds including
25 financial and investment policies established by the board;

26 (5) contract with external performance evaluators to review
27 the performance of each fund managed or invested by the corporation
28 and report each year to the board and to the other boards directly
29 responsible for the activities supported by the fund on the fund's

1 condition; the report must be complete, understandable, and presented
2 in acceptable format according to industry patterns and customs;

3 (6) engage independent certified public accountants to
4 prepare an annual audit of each of the funds for which the corporation
5 is responsible and to report to the board with the results of the
6 audit.

7 (b) The board may

8 (1) employ outside investment advisors to review investment
9 policies and make recommendations to the board;

10 (2) enter into an agreement with the manager of another
11 state fund, other than the commissioner of revenue with respect to
12 money invested under AS 37.10.070, to assume fiduciary responsibil-
13 ities for managing and investing the other state fund; an agreement
14 under this paragraph may not be for a term longer than three years but
15 may be renewed;

16 (3) do all acts necessary, convenient, or desirable to
17 carry out the powers expressly granted or necessarily implied in this
18 chapter.

19 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Members of the
20 board and the executive director are subject to the provisions of
21 AS 39.50.

22 (b) If a member of the board or an employee of the corporation
23 acquires, owns, or controls an interest, direct or indirect, in an
24 entity or project in which assets under the control of the corporation
25 are invested, the member shall immediately disclose the interest to
26 the board. The disclosure is a matter of public record and shall be
27 included in the minutes of the board meeting next following the dis-
28 closure.

29 Sec. 37.10.240. REGULATIONS. The board may adopt regulations

1 under the Administrative Procedure Act (AS 44.62) to interpret and
2 implement AS 37.10.210 - 37.10.399.

3 Sec. 37.10.250. COMPENSATION OF BOARD MEMBERS. Members of the
4 board, other than state employees, receive an honorarium of \$400 for
5 each day spent at a meeting of the board or at a meeting of a subcom-
6 mittee of the board or at a public meeting as a representative of the
7 board. Members of the board are entitled to per diem and travel
8 allowances as provided for members of state boards and commissions
9 under AS 39.20.180.

10 Sec. 37.10.260. STAFF. (a) The board shall, jointly with the
11 Board of Trustees of the Alaska Permanent Fund Corporation, employ an
12 executive director under AS 37.13.100. The operational, investment,
13 and administrative functions of the corporation are vested in the
14 executive director who serves under the joint supervision of the board
15 and the board of trustees. The executive director shall appoint
16 employees of the corporation as necessary under AS 37.13.100. The
17 board and the board of trustees shall agree on responsibility for
18 compensation for the executive director and employees of the two
19 corporations.

20 (b) A deed, contract, or other document that must be executed by
21 or on behalf of the corporation shall be signed by the executive
22 director.

23 Sec. 37.10.270. INSURANCE. The corporation shall protect trus-
24 teed assets and its own assets, services, and employees by purchasing
25 insurance or providing for self-insurance retentions in amounts recom-
26 mended by the executive director and approved by the board to cover
27 the acts, including fiduciary acts, errors, and omissions of its board
28 members, officers, employees, and agents. Insurance shall protect the
29 corporation and the state from liability to others and from loss of

1 trusted assets and assets of the corporation.

2 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
3 all properties at any time owned by it, managed by it, or held by it
4 in trust, and the income from those activities, are exempt from all
5 taxes and assessments in the state. All security instruments issued
6 by the corporation and income from them are exempt from all taxes and
7 assessments in the state, including transfer taxes.

8 Sec. 37.10.290. LIMITATIONS. The corporation may not engage in
9 commercial banking activity or private trust activity. The corpora-
10 tion may not act as a depository or trustee for a private person,
11 association, or corporation. The corporation may not act as a lender
12 to a private person, association, or corporation of money from any
13 source except state funds under management by the corporation.

14 Sec. 37.10.300. LIABILITY. A liability incurred by the corpo-
15 ration shall be satisfied exclusively from the assets or revenue of
16 the corporation and a creditor or other person may not have a right of
17 action against the state because of a debt, obligation, or liability
18 of the corporation. A liability of the corporation may not be sat-
19 isfied from trust assets unless expressly authorized by law.

20 Sec. 37.10.399. DEFINITIONS. In AS 37.10.210 - 37.10.399,
21 unless the context otherwise requires,

22 (1) "board" means the board of directors of the corpora-
23 tion;

24 (2) "corporation" means the Alaska State Investment Corpo-
25 ration.

26 * Sec. 2. AS 14.25.035(d) is amended to read:

27 (d) The commissioner of administration shall report to the board
28 concerning the condition and administration of the system. The re-
29 ports shall be distributed to the members of the system. The board of

1 directors of the Alaska State Investment Corporation [COMMISSIONER OF
2 REVENUE] shall provide reports to the board on the condition and
3 investment performance of the teachers' retirement trust fund and an
4 annual external performance review.

5 * Sec. 3. AS 14.25.180 is amended to read:

6 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The
7 board of directors of the Alaska State Investment Corporation [COMMIS-
8 SIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE] fiduciary
9 of the fund. In managing the fund, the board of the corporation
10 [COMMISSIONER OF REVENUE] shall

11 (1) consider the status of the fund's investments and the
12 system's liabilities on both a current and a probable future basis;

13 (2) determine the appropriate investment objectives for the
14 fund;

15 (3) establish investment policies aimed at achieving the
16 objectives; and

17 (4) act only in regard to the best financial interests of
18 the system's beneficiaries.

19 (b) The board of the corporation [COMMISSIONER OF REVENUE] may
20 invest the fund on the basis of probable total rate of return without
21 regard to the distinction between principal and income or to the
22 generation of income.

23 (c) In carrying out investment duties under this chapter, the
24 board of the corporation [COMMISSIONER OF REVENUE] has the same powers
25 and duties in regard to the teacher's retirement trust fund as are
26 provided in AS 37.10.071, except that the standard of prudence that
27 the board of the corporation [COMMISSIONER] must obey under AS 37.10.-
28 071(c) shall be in regard to the management of large trust investments
29 rather than large investments.

1 * Sec. 4. AS 14.40.400(b) is amended to read:

2 (b) The board of directors of the Alaska State Investment Corpo-
3 ration [COMMISSIONER OF REVENUE] is the fiduciary of the trust fund
4 and shall account for and invest the fund as set out in AS 37.14.-
5 110(c), 37.14.160, and 37.14.170, except that the board of the corpor-
6 ation [COMMISSIONER] shall report the condition and investment per-
7 formance of the fund to the Board of Regents.

8 * Sec. 5. AS 22.25.048(c) is amended to read:

9 (c) The board of directors of the Alaska State Investment Corpo-
10 ration [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND
11 THE] fiduciary of the fund and has the same powers and duties under
12 this section in regard to the judicial retirement trust fund as are
13 provided in AS 14.25.180.

14 * Sec. 6. AS 26.05.228(c) is amended to read:

15 (c) The board of directors of the Alaska State Investment Corpo-
16 ration [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND
17 THE] fiduciary of the fund and has the same powers and duties under
18 this section in regard to the fund as are provided under AS 14.25.180.

19 * Sec. 7. AS 36.30.850(b) (15) is amended to read:

20 (15) a contract that is a delegation, in whole or in part,
21 of investment powers held by the commissioner of revenue under
22 [AS 14.25.180, AS 14.40.400,] AS 14.42.200, 14.42.210, AS 18.56.095,
23 [AS 22.25.048, AS 26.05.228,] AS 37.10.070, or 37.10.071 [, AS 37.14,
24 OR AS 39.35.080];

25 * Sec. 8. AS 36.30.850(b) is amended by adding a new paragraph to read:

26 (22) a contract that is a delegation, in whole or in part,
27 of investment powers held by the board of directors of the Alaska
28 State Investment Corporation under AS 14.25.180, AS 14.40.400, AS 22.-
29 25.048, AS 26.05.228, AS 37.10.071, AS 37.14, AS 39.30.095, 39.30.175,

1 AS 39.35.080, or AS 39.45.030.

2 * Sec. 9. AS 37.10.071 is amended to read:

3 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making
4 investments under this section, the fiduciary of a state fund [COMMIS-
5 SIONER OF REVENUE] shall

6 (1) act as official custodian of cash and investments by
7 securing adequate and safe custodial facilities for them;

8 (2) receive all items of cash and investments;

9 (3) collect and deposit the principal of and income from
10 owned or acquired investments;

11 (4) invest and reinvest the assets in accordance with this
12 section;

13 (5) receive and spend appropriations to cover the cost of
14 the exercise of duties under this section;

15 (6) exercise the powers of an owner with respect to the
16 assets;

17 (7) perform all acts, not prohibited by this section,
18 whether or not expressly authorized, that the fiduciary [COMMISSIONER]
19 considers necessary or proper in administering the assets;

20 (8) maintain accounting records in accordance with gener-
21 ally accepted [INVESTMENT] accounting principles;

22 (9) engage an independent certified public accountant to
23 conduct an annual audit of the financial condition and investment
24 transactions;

25 (10) enter into and enforce contracts or agreements con-
26 sidered necessary, convenient, or desirable for the investment pur-
27 poses of this section; and

28 (11) when choosing to acquire or dispose of investments,
29 secure competitive national or international market rates or prices,

1 or the equivalence of those rates or prices in the judgment of the
2 fiduciary [COMMISSIONER].

3 (b) Under this section, the fiduciary of a state fund or the
4 fiduciary's [COMMISSIONER OR THE COMMISSIONER'S] designee may

5 (1) delegate investment, custodial, or depository authority
6 on a discretionary or nondiscretionary basis to officers or employees
7 of the state or to independent firms, banks, or trust companies, by
8 designation through appointments, contracts, or letters or authority;

9 (2) acquire or dispose of investments either directly,
10 indirectly, or through investment pools or trusts, by competitive or
11 negotiated agreements, contracts, or auctions, in public or private
12 markets;

13 (3) concentrate or diversify investments as the fiduciary
14 [COMMISSIONER] considers appropriate to increase the probable total
15 rate of return or to decrease the overall exposure to potentially
16 adverse market value risks;

17 (4) protect the market value or the rate of return of the
18 investments by entering into forward agreements to buy or sell assets
19 at a future date as a hedge against existing held assets or as a
20 precommitment of future cash flows;

21 (5) lend assets, under an agreement and for a fee, against
22 deposited collateral of equivalent market value;

23 (6) borrow assets on a short-term basis, under an agreement
24 and for a fee, against the deposit of collateral consisting of other
25 assets in order to accommodate temporary cash or investment needs;

26 (7) hold investments in bearer or registered form in the
27 name of the state, a fund, or nominees authorized by the fiduciary
28 [COMMISSIONER];

29 (8) utilize consultants, advisors, custodians, investment

1 services, and legal counsel for assistance in investment matters on
2 either a continuing or a limited-term basis and with or without com-
3 pensation;

4 (9) declare records to be confidential and exempt from
5 AS 09.25.110 and 09.25.120 if the records contain information that
6 discloses the particulars of the business or the affairs of a private
7 enterprise, investor, borrower, advisor, consultant, counsel, or
8 manager.

9 (c) In exercising investment, custodial, or depository powers or
10 duties under this section, the fiduciary of a state fund [COMMIS-
11 SIONER] shall exercise the judgment and care under the circumstances
12 then prevailing that an institutional investor of ordinary profession-
13 al prudence, discretion, and intelligence exercises in managing large
14 investments with consideration for the purpose of the fund, the in-
15 vestment objectives, the continuing disposition of the fund's invest-
16 ments, and the probable safety of the capital as well as the probable
17 investment returns.

18 (d). In exercising investment, custodial, or depository powers or
19 duties under this section, the fiduciary or the fiduciary's [COMMIS-
20 SIONER OR A] designee [OF THE COMMISSIONER] is liable for a breach of
21 a duty that is assigned or delegated under this section, or under
22 AS 14.25.180, AS 14.40.400(b), AS 14.42.200, 14.42.210, AS 18.56.095,
23 AS 22.25.048, AS 26.05.228, AS 37.10.070, AS 37.14.110(c), 37.14.160,
24 37.14.170, 37.14.200, 37.14.210, AS 39.30.095, 39.30.175, [OR] AS 39.-
25 35.080, or AS 39.45.030. However, the fiduciary or the [COMMISSIONER
26 OR THE COMMISSIONER'S] designee is not liable for a breach of a duty
27 that has been delegated to another person if the delegation is prudent
28 under the applicable standard of prudence set out in statute or if the
29 duty is assigned by law to another person, except to the extent that t

1 fiduciary [COMMISSIONER] or designee

2 (1) knowingly participates [PARTICIPATE] in, or knowingly
3 undertakes to conceal, an act or omission of another person, knowing
4 that the act or omission is a breach of that person's duties under
5 this chapter;

6 (2) by failure to comply with this section in the adminis-
7 tration of specific responsibilities, enables another person to commit
8 a breach of duty; or

9 (3) has knowledge of a breach of duty by another person,
10 unless the fiduciary [COMMISSIONER] or designee makes reasonable
11 efforts under the circumstances to remedy the breach.

12 (e) The state shall defend and indemnify the fiduciary [COMMIS-
13 SIONER] or an officer or employee of the state against liability under
14 (d) of this section to the extent that the alleged act or omission was
15 performed in good faith and was prudent under the applicable standard
16 of prudence.

17 (f) In this section, "fiduciary of a state fund" or "fiduciary"
18 ["COMMISSIONER OF REVENUE" OR "COMMISSIONER"] means

19 (1) the commissioner of revenue for investments under
20 [AS 14.25.180 OR] AS 37.10.070; [OR]

21 (2) the board of directors of the Alaska State Investment
22 Corporation for investments under AS 14.25.080; or

23 (3) the person or body provided by law to manage the in-
24 vestments, for investments not subject to AS 14.25.180 or AS 37.10.-
25 070.

26 * Sec. 10. AS 37.13.100 is amended to read:

27 Sec. 37.13.100. CORPORATION STAFF. The board of trustees.
28 jointly with the board of directors of the Alaska State Investment
29 Corporation. may employ and determine the salary of an executive

1 director. The executive director may, with the approval of the board
2 of trustees and the board of directors of the Alaska State Investment
3 Corporation, select and employ additional staff as necessary. An
4 employee of the corporations [CORPORATION], including the executive
5 director, may not be a member of either [THE] board. The executive
6 director and the other employees of the boards [BOARD] are in the
7 exempt service under AS 39.25. The board of trustees and the board of
8 directors shall agree on responsibility for compensation for the
9 executive director and the staff of the two corporations.

10 * Sec. 11. AS 37.14.110(c) is amended to read:

11 (c) The board of directors of the Alaska State Investment Corpo-
12 ration [COMMISSIONER OF REVENUE] shall account for the fund in accor-
13 dance with generally accepted accounting principles and shall deter-
14 mine the net income of the fund [IN ACCORDANCE WITH INVESTMENT AC-
15 COUNTING PRINCIPLES AND IN A MANNER THAT PRESERVES THE DISTINCTION
16 BETWEEN PRINCIPAL AND INCOME AND THAT EXCLUDES CAPITAL GAINS OR LOSSES
17 REALIZED ON PRINCIPAL]. The principal of the fund and the capital
18 gains or losses realized on principal shall be perpetually retained in
19 the fund for investment purposes.

20 * Sec. 12. AS 37.14.140 is amended to read:

21 Sec. 37.14.140. UTILIZATION OF INCOME. The net income of the
22 fund may not be appropriated for a purpose other than the support of
23 the state public school program. The board of directors of the Alaska
24 State Investment Corporation [COMMISSIONER OF REVENUE] shall invest
25 realized net income that has not been appropriated or that has been
26 appropriated but not expended until the income is appropriated and
27 expended.

28 * Sec. 13. AS 37.14.160 is amended to read:

29 Sec. 37.14.160. DUTIES OF THE ALASKA STATE INVESTMENT

1 CORPORATION BOARD [COMMISSIONER OF REVENUE]. The board of directors
2 of the Alaska State Investment Corporation [COMMISSIONER OF REVENUE]
3 is the fiduciary [TREASURER] of the trust fund created in AS 37.14.110
4 and shall

5 (1) exercise the powers and duties established in AS 14.-
6 25.180(c);

7 (2) deposit the principal and income from investments in
8 separate principal and income accounts for the fund;

9 (3) invest and maintain accounting records that distinguish
10 between the principal and income of the fund;

11 (4) provide reports to the board established under AS 37.-
12 14.120 on the condition and investment performance of the fund.

13 * Sec. 14. AS 37.14.170 is amended to read:

14 Sec. 37.14.170. INVESTMENTS. The board of directors of the
15 Alaska State Investment Corporation [COMMISSIONER OF REVENUE] is the
16 fiduciary of the trust fund and shall invest the fund to provide
17 increasing net income over long-term periods to the fund's income
18 beneficiaries. The board of the corporation [COMMISSIONER] may invest
19 the money in the fund on the basis of probable total rate of return to
20 promote the long-term generation of income. In managing the trust
21 fund, the board of the corporation [COMMISSIONER] shall

22 (1) consider the status of the fund's capital and the
23 income generated on both a current and a probable future basis;

24 (2) determine the appropriate investment objectives;

25 (3) establish investment policies to achieve the objec-
26 tives; and

27 (4) act only in regard to the financial interests of the
28 fund's beneficiaries.

29 * Sec. 15. AS 37.14.200(c) is amended to read:

1 (c) The net income of the fund shall be determined by the board
2 of directors of the Alaska State Investment Corporation [COMMISSIONER
3 OF REVENUE] in accordance with generally accepted [INVESTMENT] ac-
4 counting principles [AND IN A MANNER THAT PRESERVES THE DISTINCTION
5 BETWEEN PRINCIPAL AND INCOME].

6 * Sec. 16. AS 37.14.210 is amended to read:

7 Sec. 37.14.210. POWERS AND DUTIES OF THE ALASKA STATE INVESTMENT
8 CORPORATION BOARD [COMMISSIONER OF REVENUE]. The board of directors
9 of the Alaska State Investment Corporation [COMMISSIONER OF REVENUE]
10 is the fiduciary [TREASURER] of the fund and has the power and duty to
11 [:]

12 (1) act as official custodian of the cash and investments
13 belonging to the fund by securing adequate and safe custodial facil-
14 ities;

15 (2) receive all items of cash and investments belonging to
16 the fund;

17 (3) collect the principal and income from investments owned
18 or acquired by the fund and deposit the amounts in separate principal
19 and income accounts for the fund;

20 (4) invest and reinvest the assets of the fund as provided
21 in this section and as provided for the investment of funds under
22 AS 14.25.180(c) and AS 37.14.170;

23 (5) exercise the powers of an owner with respect to the
24 assets of the fund;

25 (6) maintain accounting records of the fund in accordance
26 with generally accepted [INVESTMENT] accounting principles [AND WITH
27 DISTINCTION BETWEEN THE PRINCIPAL AND INCOME ACCOUNTS OF THE FUND];

28 (7) engage an independent firm of certified public accoun-
29 tants to annually audit the financial condition of the fund's

1 investments and investment transactions;

2 (8) enter into and enforce contracts or agreements con-
3 sidered necessary for the investment purposes of the fund;

4 (9) report to the board the condition and investment per-
5 formance of the fund;

6 (10) do all acts, whether or not expressly authorized, that
7 the board of the corporation [COMMISSIONER OF REVENUE] considers
8 necessary or proper in administering the assets of the fund.

9 * Sec. 17. AS 39.30.095(d) is amended to read:

10 (d) If the commissioner of administration determines that there
11 is more money in the fund than the amount needed to pay premiums or
12 benefits for the current fiscal year, the surplus, or so much of it as
13 the commissioner of administration considers advisable, may be in-
14 vested by the board of directors of the Alaska State Investment Corpo-
15 ration [COMMISSIONER OF REVENUE] in the same manner as retirement
16 funds are invested under AS 14.25.180.

17 * Sec. 18. AS 39.25.110(11)(B) is amended to read:

18 (B) Alaska Permanent Fund Corporation and Alaska State
19 Investment Corporation;

20 * Sec. 19. AS 39.30 is amended by adding a new section to read:

21 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. The
22 board of directors of the Alaska State Investment Corporation is the
23 fiduciary of the receipts of the employee benefits program established
24 under AS 39.30.150 - 39.30.180 and has the same powers and duties
25 concerning the management and investment in regard to those receipts
26 as are provided under AS 14.25.180.

27 * Sec. 20. AS 39.35.020 is amended to read:

28 Sec. 39.35.020. ADMINISTRATION. The commissioner of administra-
29 tion is responsible for the administration of the system and for

1 carrying out this chapter. In addition the commissioner shall

2 (1) maintain the accounts of the system;

3 (2) make payments for the various purposes specified;

4 (3) submit periodic reports or statements of account that
5 are needed;

6 (4) issue a statement of account to an employee requesting
7 it showing the amount of the employee's contributions to the system;

8 (5) as soon as possible after the close of each fiscal
9 year, and not later than six months after the close of each fiscal
10 year, send to the governor, the legislature, and the board an annual
11 statement on the operations of the system containing

12 (A) a balance sheet;

13 (B) a statement of income and expenditures for the
14 year;

15 (C) a report on an actuarial valuation of its assets
16 and liabilities;

17 (D) a summary of assets held in the pension fund
18 listed by the categories of investment, as provided by the board
19 of directors of the Alaska State Investment Corporation [COMMIS-
20 SIONER OF REVENUE];

21 (E) other statistical financial data that are neces-
22 sary for a proper understanding of the financial condition of the
23 system and the result of its operations;

24 (6) establish a public employees retirement trust fund in
25 which the assets of the system shall be deposited and held;

26 (7) engage an independent certified public accountant to
27 conduct an annual audit of the system's accounts and the annual report
28 of the system's financial condition and activity;

29 (8) report to the board concerning the condition and

1 administration of the system and distribute the report to the members
2 of the system.

3 * Sec. 21. AS 39.35.080 is amended to read:

4 Sec. 39.35.080. DUTIES OF THE ALASKA STATE INVESTMENT CORPO-
5 RATION BOARD [COMMISSIONER OF REVENUE]. The board of directors of the
6 Alaska State Investment Corporation [COMMISSIONER OF REVENUE] is the
7 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund. The board of
8 the corporation [COMMISSIONER] has the same powers and duties estab-
9 lished under this chapter in regard to the fund as are provided in
10 AS 14.25.035(d) and 14.25.180.

11 * Sec. 22. AS 39.45.030(a) is amended to read:

12 (a) The board of directors of the Alaska State Investment Corpo-
13 ration or the administrator of the [STATE OR] political subdivision
14 deferred compensation program is authorized, subject to contracts with
15 individual employees, to invest the funds held under a deferred com-
16 pensation program in

17 (1) fixed and variable life insurance and annuity contracts
18 or other contracts issued by life insurance companies;

19 (2) the same manner as retirement funds are invested under
20 AS 14.25.180 [SHARES OF OR DEPOSITS IN INSURED STATE OR FEDERAL CHAR-
21 TERED CREDIT UNIONS IN THE STATE;

22 (3) SHARES OF OR DEPOSITS IN INSURED STATE OR FEDERAL
23 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN THE STATE;

24 (4) DEPOSITS IN INSURED MUTUAL SAVINGS BANKS IN THE STATE;

25 (5) DEPOSITS IN INSURED STATE AND NATIONAL BANKS IN THE
26 STATE]; and

27 (3) [(6)] multi-employer trusts established for investment
28 of deferred compensation assets of state and local governments.

29 * Sec. 23. AS 39.50.200(b) is amended by adding a new paragraph to

1 read:

2 (50) Alaska State Investment Corporation (AS 37.10.210).

3 * Sec. 24. AS 44.25.020 is amended to read:

4 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue
5 shall

6 (1) enforce the tax laws of the state;

7 (2) collect, account for, have custody of, invest, and
8 manage all state funds and all revenues of the state except revenues
9 incidental to a program of licensing and regulation carried on by
10 another state department and funds managed and invested by the board
11 of directors of the Alaska State Investment Corporation or by the
12 board of trustees of the Alaska Permanent Fund Corporation;

13 (3) register cattle brands;

14 (4) supply necessary clerical and administrative services
15 for the Alcoholic Beverage Control Board; and

16 (5) invest and manage the balance of the power development
17 fund in accordance with AS 44.83.386.

18 * Sec. 25. TRANSITION. All litigation, hearings, investigations, and
19 other proceedings pending under a law amended or repealed by this Act, or
20 in connection with functions transferred by this Act, continue in effect
21 and may be continued and completed notwithstanding a transfer, amendment,
22 or repeal provided for in this Act. Orders and regulations issued or
23 adopted under authority of a law amended or repealed by this Act remain in
24 effect for the term issued, or until revoked, vacated, or otherwise mod-
25 ified under the provisions of this Act. All contracts, rights, liabilities
26 and obligations created by or under a law amended or repealed by this Act,
27 and in effect on the effective date of this Act, remain in effect notwith-
28 standing this Act's taking effect. Records, equipment, and other property
29 of agencies of the state whose functions are transferred under this Act

1 shall be transferred commensurate with the provisions of this Act.

2 * Sec. 26. (a) Notwithstanding AS 37.10.210(e), enacted by sec. 1
3 of this Act, the initial terms of the members of the board of directors of
4 the Alaska State Investment Corporation shall be as follows:

5 (1) the member nominated by both state retirement boards and two
6 public members shall serve terms of three years;

7 (2) one member nominated by a state retirement board and one
8 public member shall serve terms of two years;

9 (3) one member nominated by a state retirement board and one
10 public member shall serve one-year terms.

11 (b) The board of directors of the Alaska State Investment Corporation
12 may hold organizational meetings as soon as a quorum of the board has been
13 appointed to or selected for the board.

14 * Sec. 27. This Act takes effect, January 1, 1991.
15
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21
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23
24
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26
27
28
29

5/7/90

JB →

JB
Amendment

Adopted

AMENDMENT TO SCSHB580 (FIN)

Page 2, line 14, change to read:

(4) four public members who are also public members of the Alaska Permanent Fund Board of Trustees [APPOINTED BY THE GOVERNOR].

Page 2, line 15

delete subsection (c)

5/6/90

DP-3

Adopted

5/7/90

AMENDMENT

SCS CSHB 580 (SA) [^{Proposed} SCS CSHB 580 (Fin) (5/4/90)]

BY THE FINANCE COMMITTEE

Page 6, line 27 (Finance version - Page 6, line 3)

after "all properties...", DELETE "at any time"

Page 6, line 29 (Finance version - Page 6, lines 5)

after "...are exempt from all taxes...", DELETE "and assessments"

Page 6, line 29 (Finance version - Page 6, line 5)

after "...in the state", ADD "unless otherwise provided by law"

Page 7, lines 1 and 2 (Finance version - Page 6, lines 6 and 7)

after "...are exempt from all taxes...", DELETE "and assessments"

1 office of investment director is vacant, the executive director may
2 temporarily designate the assistant director. The assistant director
3 shall act in place of the executive director in the absence or dis-
4 ability of the executive director.

5 (c) The board shall adopt regulations that restrict the execu-
6 tive director, investment directors, other officers, and employees
7 from having financial interest, directly or indirectly, in firms or
8 corporations that provide services to the corporation. Officers and
9 employees of the corporation are subject to AS 39.52.

10 (d) The executive director and each investment director shall
11 file a bond for the faithful performance of duties in the amount and
12 with the sureties as required by the board.

13 (e) Officers and employees of the corporation are members of the
14 exempt service under AS 39.25.110.

15 (f) A deed, contract, or other document that must be executed by
16 or on behalf of the corporation shall be signed by the executive
17 director.

18 Sec. 37.10.270. INSURANCE. The corporation shall protect trus-
19 teed assets and its own assets, services, and employees by purchasing
20 insurance or providing for self-insurance retentions in amounts recom-
21 mended by the executive director and approved by the board to cover
22 the acts, including fiduciary acts, errors, and omissions of its board
23 members, officers, employees, and agents. Insurance shall protect the
24 corporation and the state from liability to others and from loss of
25 trusted assets and assets of the corporation.

26 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
27 all properties [at any time] owned by it, managed by it, or held by it
28 in trust, and the income from those activities, are exempt from all
29 taxes [and assessments] in the state. All security instruments issued

1 by the corporation and income from them are exempt from all taxes [and
2 assessments] in the state, including transfer taxes.

3 Sec. 37.10.290. SURETY FOR DEPOSITS WITH BANKS. Banks, trust
4 companies, savings banks, and other persons carrying on a banking
5 business are authorized to give sureties to the corporation. The
6 sureties shall be approved by the corporation to the effect that the
7 banks or banking institutions shall faithfully keep and pay over to
8 the order of or upon the warrant of the corporation or its authorized
9 agent all money deposited with them by the corporation and agreed
10 interest, at the times or upon the demands agreed on with the banks or
11 banking institutions. In lieu of these sureties, a depository bank or
12 other banking institution shall deposit with the corporation or its
13 authorized agent or a trustee as collateral, securities approved by
14 the corporation. The deposits of the corporation may be evidenced by
15 agreements in the form and upon the terms and conditions that are
16 agreed upon by the corporation and the depository banks or banking
17 institutions.

18 Sec. 37.10.300. LIMITATIONS. The corporation may not engage in
19 commercial banking activity or private trust activity. The corpora-
20 tion may not act as a depository or trustee for a private person,
21 association, or corporation. The corporation may not act as a lender
22 to a private person, association, or corporation of money from any
23 source except state funds under management by the corporation.

24 Sec. 37.10.310. LIABILITY. (a) Except with respect to a writ-
25 ten agreement authorized under (b) of this section, a liability in-
26 curred by the corporation shall be satisfied exclusively from the
27 assets or revenue of the corporation and a creditor or other person
28 may not have a right of action against the state because of a debt,
29 obligation, or liability of the corporation. A liability of the

1 trusted assets and assets of the corporation.

2 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
3 all properties [at any time] owned by it, managed by it, or held by it
4 in trust, and the income from those activities, are exempt from all
5 taxes [and assessments] in the state, ^{unless otherwise provided by law} All security instruments issued
6 by the corporation and income from them are exempt from all taxes [and
7 assessments] in the state, including transfer taxes.

8 Sec. 37.10.290. LIMITATIONS. The corporation may not engage in
9 commercial banking activity or private trust activity. The corpora-
10 tion may not act as a depository or trustee for a private person,
11 association, or corporation. The corporation may not act as a lender
12 to a private person, association, or corporation of money from any
13 source except state funds under management by the corporation.

14 Sec. 37.10.300. LIABILITY. A liability incurred by the corpo-
15 ration shall be satisfied exclusively from the assets or revenue of
16 the corporation and a creditor or other person may not have a right of
17 action against the state because of a debt, obligation, or liability
18 of the corporation. A liability of the corporation may not be sat-
19 isfied from trust assets unless expressly authorized by law.

20 Sec. 37.10.399. DEFINITIONS. In AS 37.10.210 - 37.10.399,
21 unless the context otherwise requires,

22 (1) "board" means the board of directors of the corpora-
23 tion;

24 (2) "corporation" means the Alaska State Investment Corpo-
25 ration.

26 * Sec. 2. AS 14.25.035(d) is amended to read:

27 (d) The commissioner of administration shall report to the board
28 concerning the condition and administration of the system. The re-
29 ports shall be distributed to the members of the system. The board of

ALASKA ASSOCIATION OF ASSESSING OFFICERS



Date: May 3, 1990
To: Chrystal Smith, AML
From: Steve Van Sant, Mickey Keller, A.A.A.O.
Subject: CSHB 580

As requested, we have reviewed CSHB 580 and offer the following concerns:

Sec. 37.10.280 - EXEMPTION FROM TAXATION

Line 23. There are three words contained in this section which appear redundant and at the same time confusing. "...at any time..." which addresses the ownership of property by the corporation and consequently, the exemption from taxation. These words are not necessary for the exemption to attach and we would request that they be deleted from the bill. The confusion which they add could initiate the exemption from taxation property owned by private individuals which at one time was owned by the corporation. We do not believe that is the intent of the bill, however, it could be misconstrued as such.

Line 25 and Line 27.

This section attempts to exempt property from taxation, however, the words "...and assessments..." are used in both lines of this section. It is unclear to us what the intent is, however, it is our opinion that the term "assessment" as used here is intended to mean the assessed values which are placed on property by the assessor's offices. In many municipalities, this term is also used in conjunction with special assessments, such as paving assessments, sewer and water assessments, etc. In our opinion, the municipalities would not endorse this concept of exempting properties from these special assessments. Therefore, we ask that the terms "...and assessments..." be deleted in both instances.

Line 25.

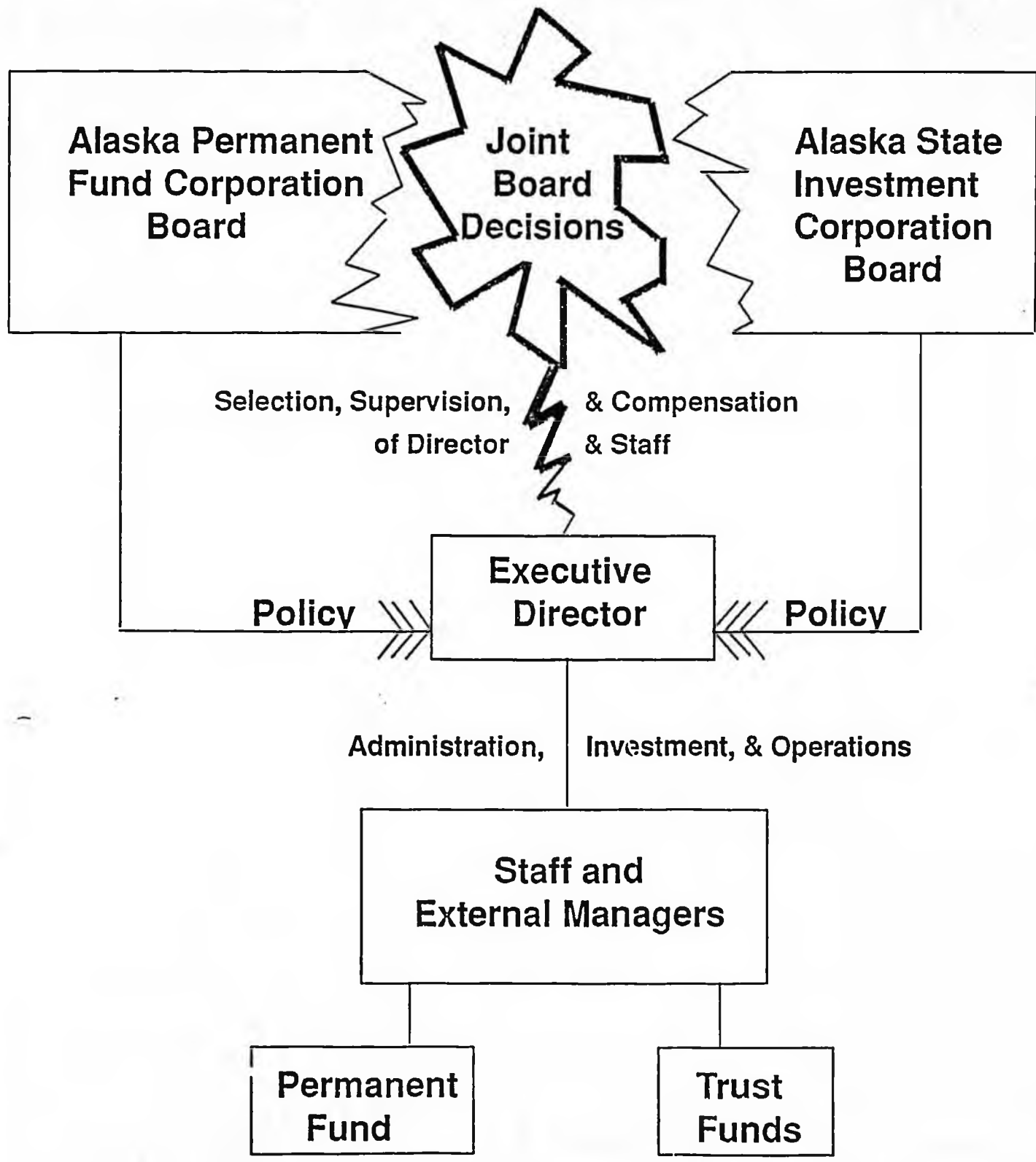
There are certain state agencies such as AHFC which, by statute, do pay property taxes. It appears that these agencies may have the corporation manage property which would become exempt. Therefore, we would like to add the following to the end of the first sentence: "...are exempt from all taxes in the state unless otherwise provided by law."

Thank you for this opportunity to voice our concerns. Should we be able to assist you on any matters relating to taxation, please don't hesitate to call on us.

5/6/90
Mick
Baker
HB580

MIXING THE PERMANENT FUND AND THE TRUST FUNDS

Draft
(SCS CSHB 580 (Finance))



More on exploding creatures

KNIGHT-RIDDER NEWSPAPERS

Here at the Exploding Animal Research Institute we have received two very alarming news items that we are passing along today in the hopes that you, the generalized public, will finally break out of your apathetic, selfish, materialistic life styles and send us some large cash contributions.

DAVE BARRY

Item One, submitted by numerous alert readers, concerns the recent criminally insane vote by the U.S. Senate AGAINST having the federal government monitor methane emissions from cows. I am not making this vote up. As you may be aware, cows emit huge quantities of methane, which contributes to global warming, which has gotten so bad in some areas that brand-new shirts are coming out of the factory with armpit stains already in them. So the U.S. Senate (motto: "White Male Millionaires Working for You") was considering an amendment to the Clean Air Act, under which the government would monitor methane emissions from various sources, including "animal production."

Well as you can imagine, this did not sit well with the senators from those states where cow flatulence is a cherished way of life. Leading the herd of opposition senators was Sen. Steve Symms of Idaho ("The Exploding Potato State"), who took the floor and stated that the amendment would - this is an actual quote - "put the nose of the federal government in almost every place it does not belong."

So the Senate took out the part about monitoring animal methane, which means there will be no advance warning when, inevitably, there is some kind of cow-interior blockage, causing a potentially lethal buildup of flammable gases and ~~transforming one of these normally~~ docile creatures into a giant mooing time bomb which, if detonated, could cause the dreaded Rain of Organs. Have you ever, in a supermarket, accidentally encountered a cow tongue - a large sluglike slab of gray flesh that you couldn't imagine anybody purchasing for any purpose other than to nail it to the front door in hopes of scaring off evil spirits? Well, I'd like to know what Sen. Symms would say if one of those babies came hurtling out of the sky and struck him at upwards of 100 miles per hour. "Yuck," would be my guess.

I base this statement on a similar situation in Oregon where innocent civilians were struck by falling whale parts. I am absolutely not making this incident up; in fact, I have it all on videotape, which I obtained from the alert father-son team of Dean and Kurt Smith. The tape is from a local TV news show in Oregon, which sent a reporter out to cover a 45-foot, eight-ton dead whale that washed up on the beach. The responsibility for getting rid of the carcass was placed upon the Oregon State Highway Division, apparently on the theory that highways and whales are very similar in the sense of being large objects.

So anyway, the highway engineers hit upon the plan - remember, I am not making this up - of blowing up the whale with dynamite. The thinking here was that the whale would be blown into small pieces, which would be eaten by sea gulls, and that would be that. A textbook whale removal.

So they moved the spectators back up the beach, put a half-ton of dynamite next to the whale, and set it off. I am probably guilty of understatement when I say that what follows, on the videotape, is the most

Please turn to Barry, Page 24

The Fate of the Permanent Fund?

Barry...

Continued from Page 21
wonderful event in the history of the universe. First you see the whale carcass disappear in a huge blast of smoke and flame. Then you hear the happy spectators shouting "Yayy!" and "Wheee!" Then, suddenly, the crowd's tone changes. You hear a new sound, the sound of many objects hitting the ground with a noise that sounds like "splud." You hear a woman's voice shouting "Here comes pieces of ... my GOD!" Something smears the camera lens.

Later, the reporter explains: "The humor of the entire situation suddenly gave way to a run for sur-

vival as huge chunks of whale blubber fell everywhere." One piece caved in the roof of a car parked more than a quarter of a mile away. Remaining on the beach were several rotting whale sectors the size of condominium units. There was no sign of the sea gulls, who had no doubt permanently relocated to Brazil.

This is a very sobering videotape. Here at the Institute we watch it often, especially at parties. But this is no time for gaiety. This is a time to get hold of the folks at the Oregon State Highway Division and ask them, when they get done cleaning up the beaches, to give us an estimate on the U.S. Capitol.

ALASKA?



5/6/90
Binkley
hand out

Alaska Permanent Fund Corporation
P.O. Box 4-1000 Juneau, Alaska 99802-4100
(907) 465-2047

April 25, 1990

The Honorable
Senator John Binkley
Co-Chairman, Senate Finance Committee
P. O. Box V
Juneau, AK 99811

Dear Senator Binkley:

You have posed several questions regarding HB 580 which consolidates the investments of several funds under a single corporation known as the Alaska State Investment Corporation. Your questions and my answers follow:

Q: Proponents of HB 580 indicate that the Alaska State Investment Corporation will be organized and operated similar to the Permanent Fund? Will the two organizations be exactly the same? If not, what are some of the major differences?

A: The two organizations are not parallel in that there are several major differences as follows:

State Investment would be exempt from the Open Meetings Act.
The Permanent Fund is not.

State Investment would be exempt from the Administrative Procedures Act.
The Permanent Fund is not.

State Investment would be exempt from the State Procurement Act.
The Permanent Fund is not.

Two seats of State Investment's board are appointed by other board members.
All seats on the Permanent Fund's board are appointed by the Governor. There is no "inbreeding".

State Investment staff accountability is not well defined. The board appoints an executive director responsible only for "board executive and administrative functions". (Not investment functions.) That board also appoints an assistant executive director called an "investment director" but assigns him no investment functions. Apparently the executive director cannot remove this assistant. This duality is confusing and will tend to both undermine the executive director and create tension within the organization.

The Permanent Fund has simple, straight lines of authority and accountability. The board appoints an Executive Director who hires his own staff. The Executive Director is accountable to the board for the performance of all functions.

The Honorable John Binkley
April 25, 1990
Page 2

Q: Proponents of HB 580 state that the Permanent Fund should not be responsible for the investment of other funds. Are there any technical reasons which would prohibit the Permanent Fund from assumption of additional investment duties?

A: No. Indeed, the management style employed by the Permanent Fund would probably result in less total cost, provide greater staff depth and restore credibility.

It is interesting to note that HB 580 provides that State Investment can assume fiduciary, administrative or management responsibility for the Alaska Permanent Fund but apparently the reverse is not acceptable.

Q: Should the State's General Fund be managed by an investment company? Could State Investment take over the General Fund under provisions of HB 580?

A: In my opinion the State's General Fund should remain in the Treasury within the Department of Revenue under the direct control of the Governor as a "line" organization. The General Fund has a short-term cash management orientation whereas the other funds have long-term goals and investment regimens. HB 580 would permit the transfer of the General Fund to State Investment on the sole authority of the Commissioner of Revenue.

It would appear that this is the ultimate intent of the framers of HB 580 since there are provisions which permit State Investment to enter into an agreement with the Federal Reserve. Use of the Federal Reserve would be beneficial in the low cost clearance of warrants for the General Fund but would not be a major assist for the trust and endowment accounts. Since a state may enter into only one agreement with the Fed, the placement of the agreement within State Investment will "pull" the General Fund into that organization.

Q: You have set up three State financial organizations; AIDEA, the Bond Bank and the Permanent Fund. How do you feel about HB 580?

A: Uneasy. Financial organizations need authoritarian structure and anti-corruption control. New organizations need to develop credibility. HB 580 is wide open in that it divorces State Investment from too many disciplines. As executive director of the Permanent Fund I would love to have the operational flexibility the many exemptions provide, but I have never requested them because of potential abuse, appearance of abuse, and resultant loss of confidence and credibility.

Q: Legislation on these matters has been somewhat "fast-tracked" because of the SBS problem. Is it essential that we act quickly?

A: Quick action should not result in establishing the wrong organizational structure and guidelines. SBS matters could be handled in the short-run by Administrative or Executive Order. In the long-run, SBS must be managed by investment professionals. The establishment of a totally new financial organization such as State Investment will take some time. The simple renaming of Treasury will not do the trick. It would seem logical that an effective date of January 1, 1991 for all aspects of the legislation would enable the new governor to appoint her/his board members. This legislation should not be used as a vehicle to foster "midnight appointments", finding a resting spot for specific individuals, or starting the building of a critical organization by a group of people who may not be in a leadership role in seven months.

Finally, attached are audited total operating and investing expenses for the past three years per your request.

The Honorable John Binkley
April 25, 1990
Page 3

I hope I have answered your questions on these matters. Please understand that these remarks are my own and do not necessarily represent the views of my board. I would be pleased to respond if you have further inquiry.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Rose", with a long horizontal flourish extending to the right.

David A. Rose
Executive Director

DAR:vs

Enclosure: Audited expenses

cc: Board of Trustees

AS 14.25.180 Teachers Retirement System
 AS 14.40.400 University of Alaska Endowment
 AS 14.42.200 - 210 Student Loan Fund
 AS 18.56.095 Mortgage Insurance Fund AHFC
 AS 22.25.048 Judicial Retirement System
 AS 26.05.228 Alaska National Guard and Naval Militia Retirement System
 AS 37.10.070 General Fund
 AS 37.14.110 Public School Fund
 AS 37.14.160
 AS 37.14.170
 AS 37.14.200 - 210 Alaska Childrens Fund
 AS 39.30.095 Group Health and Life Benefits
 AS 39.30.175 Supplemental Benefits System
 AS 39.35.080 Public Employee Retirement System
 AS 39.45.030 Deferred Compensation

STATE OF ALASKA
 DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

5/6/90
 Binkley
 STEVE COWPER, GOVERNOR
 hand out

P.O. BOX 5
 JUNEAU, ALASKA 99811-0400
 PHONE: (907) 465-2300
 TELEFAX: (907) 465-2289

April 27, 1990

The Honorable John Binkley
 Alaska State Senate
 P.O. Box V
 Juneau, AK 99811

Dear Senator Binkley:

This letter is to make some observations about the letter of April 25 sent to you by Dave Rose of the Alaska Permanent Fund.

Firstly, I want to thank you for your efforts on the trust investment issues. The leadership that you and other other legislators have demonstrated is appropriate and timely. I appreciate your attention to the details as well as the larger issues in these important and urgent questions.

The Legislature is in a position now to initiate a process that will serve the public and our trust beneficiaries - retirement, SBS and the other funds - into the foreseeable future. I ask for your continued help in this.

Turning to the points in the letter of April 25:

Open meeting law -

Open meetings are necessary. The investment corporation will meet this requirement.

Administrative procedures act -

The trust investment corporation should be exempt from the provisions of this act as they apply to rule making and dispute resolution. This law is designed to bring a uniform set of procedures to government agencies. Many specific exemptions exist throughout government to meet specific needs. This is one.

State procurement act -

At present Treasury's investment functions are exempt from the procurement act - but so are the investment functions of the Permanent Fund. The legislation approved by the House and the Senate State Affairs Committee would provide additional exemptions to increase the competitive ability of the trust corporation. The corporation would adopt procedures to effect this.

Board appointments -

The only board appointments that are not directly appointed by the governor are the two professional investor members of the board. The board is given the latitude to select people in the areas most needed. This is in concert with the trust nature of the board's responsibility.

Appointment of staff -

holding the chief executive officer responsible is the simple and best way for the board to work. The CEC should be required to hire and manage staff. If the board wants or needs board approval for filling key slots, they can and will make this clear to the CEC. This testimony was provided by me to the Senate State Affairs Committee.

Combining the Retirement Funds with the Permanent Fund -

We have discussed this before. The main problems, as I see them, are a loss of management focus, which will affect priorities and loss of the public sense of the purpose for the Permanent Fund. The Permanent Fund is a unique Alaska institution. It is not a pension fund.

General fund management -

Under CS HB 580 general fund management would be retained at Treasury unless the Governor acting through the commissioner decided to contract with the investment corporation, or with some other public or private agency, to carry out particular functions. The Governor has this authority now. As for "pulling" the General Fund into the Investment Corporation, I think that the example of Texas shows that many operations, including Treasury or the Permanent Fund, could avail themselves of the Federal Reserve access through the investment corporation without surrendering their identities.

Appropriate controls -

CSHB 580 provides carefully tailored exemptions from general standards, such as the personnel act, the procurement code, and the administrative procedures act. These all exist, in various forms, in the particular statutes for special purpose organizations. For example, the Permanent Fund is exempt from the personnel code and much of the procurement code. The Department of Revenue is exempt from various parts of the Administrative Procedures Act. The Alaska State Housing Authority is exempt from the procurement code.

The honorable John Binkley
April 27, 1990
Page 3

If we want these special purpose organizations to do their special jobs on behalf of the public, they need the operational authority to do so.

In this case, very high standards of accountability and performance are placed on the board and the investment corporation as a whole. Not only is the operation subject to Legislative Audit and reporting requirements, but the board members have personal financial liability. The organization is subject to meeting the standards of the banking examiner. There is explicit standing for beneficiaries to require, through the courts if necessary, that the investment corporation and board meet the strict fiduciary standard set out in the law. No other public organization has to meet these standards under Alaska law today.

Timely action -

The Legislative Budget and Audit committee has made clear the need for attention now. Establishing a board and charging the people on it to begin work promptly is the best way to make sure this process is continued in an orderly fashion. I believe that a delay will negatively affect the interests of all state employees, including both SBS and retirement system beneficiaries.

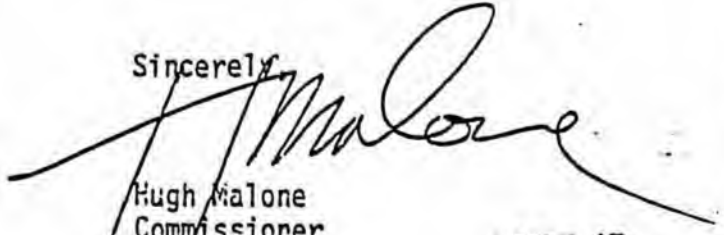
The notion that action should be delayed on the grounds that there is an election that will result in a new Legislature and Governor is a new one to me. Continuity is a major reason for the very change we are seeking. While a new Governor would have the authority to change all boards and other appointments, that is rarely done. The letter hints that "specific individuals" are looking for a "resting spot". I do not know who these people are. Perhaps the names could be supplied.

It is true that when the Permanent Fund was created that several of the staff moved from Treasury to the Fund. That worked out well for the Fund, but it was the decision of the Executive Director and the board as to whom they hired. The new organization would also make its own decisions.

I hope my comments are useful.

I look forward to working with you to bring these issues to a successful conclusion this session.

Sincerely,



Hugh Malone
Commissioner

HM:m11
90-99

CC DAVE ROSE

5/6/90

Alaska Association of Assessing Officers Proposed Amendments to

HB 580

All proposed amendments on pages 6 and 7 of the bill:

Page 6, line 27: Deletion of the phrase "at any time" as language which is unnecessary for the exemption from taxation to attach; and to clarify that the exemption only attaches to property when it is owned by the corporation (i.e. not to property in private ownership which was previously owned by the corporation)

Page 6, line 29: Deletion of the phrase "and assessments" because it would also apply to special assessments, such as paving, sewer, etc. from which property of the corporation should not be exempted.

Page 6, line 29: Addition of the phrase "unless otherwise provided by law" to clarify that agencies such as AHFC, which do pay property taxes, do not become exempt by having property managed by the corporation.

Page 7, lines 1 & 2: Deletion of phrase "and assessments"; same reasoning as Page 6, line 29 deletion.

AMENDMENT TO SCS HB 580 (State Affairs)

5/6/90
DOR
Amendment
Malone
to SCS (SA)

Page 7, - lines 2 - 16: Delete all language.

(REMOVES SURETY REQUIREMENT)

REASON: The fiduciaries are under an obligation to make adequate provision for surety already.

This specific provision may give the impression that other holdings do not require surety.

Also, the specifics in this section may limit or rule out certain forms of surety that may be the same or better.

5/6/90

ALASKA ASSOCIATION OF ASSESSING OFFICERS



Date: May 3, 1990
To: Chrystal Smith, AML
From: Steve Van Sant, Mickey Keller, A.A.A.O. *M. Keller*
Subject: CSHB 580 *[Signature]*

As requested, we have reviewed CSHB 580 and offer the following concerns:

Sec. 37.10.280 - EXEMPTION FROM TAXATION

Line 23. There are three words contained in this section which appear redundant and at the same time confusing. "...at any time..." which addresses the ownership of property by the corporation and consequently, the exemption from taxation. These words are not necessary for the exemption to attach and we would request that they be deleted from the bill. The confusion which they add could initiate the exemption from taxation property owned by private individuals which at one time was owned by the corporation. We do not believe that is the intent of the bill, however, it could be misconstrued as such.

Line 25 and Line 27.

This section attempts to exempt property from taxation, however, the words "...and assessments..." are used in both lines of this section. It is unclear to us what the intent is, however, it is our opinion that the term "assessment" as used here is intended to mean the assessed values which are placed on property by the assessor's offices. In many municipalities, this term is also used in conjunction with special assessments, such as paving assessments, sewer and water assessments, etc. In our opinion, the municipalities would not endorse this concept of exempting properties from these special assessments. Therefore, we ask that the terms "...and assessments..." be deleted in both instances.

Line 25.

There are certain state agencies such as AHFC which, by statute, do pay property taxes. It appears that these agencies may have the corporation manage property which would become exempt. Therefore, we would like to add the following to the end of the first sentence: "...are exempt from all taxes in the state unless otherwise provided by law."

Thank you for this opportunity to voice our concerns. Should we be able to assist you on any matters relating to taxation, please don't hesitate to call on us.



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

5/6/90
Malone
DOR
herdant

Don Oberg, President

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Vice-President
Box 4412
Fairbanks Alaska 99703

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NEA Director
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Kenai Alaska 99551

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Region I Director
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Richman Alaska 99501

Deedie Sorenson
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Beverly Good
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Copper Center Alaska 99573

DeWayne Craig
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Region R Director
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ANCHORAGE, ALASKA 99503
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FAIRBANKS REGIONAL OFFICE

2115 CUSHMAN STREET
FAIRBANKS, ALASKA 99701
(907) 456-4435
FAX: (907) 456-2159

May 2, 1990

TO: Senators Binkley and Uehling, Co-Chairs, and members of the Senate Finance Committee.

FROM: Don Oberg, President

RE: CSHB 580 (FIN)
CSSB 197 (SA)

After careful consideration of the above-mentioned legislation we conclude the Alaska State Investment Corporation will improve the management of the Public Employees' Retirement System, the Teachers' Retirement System, the Supplemental Benefits System, and other state retirement systems.

Please lend your support for this legislation.

cc: Hugh Malone, Commissioner
Alaska Department of Revenue

Sally Smith, Director
Department of Administration
Division of Retirement and Benefits

TRS Retirement Board

NEA-Alaska Board & Staff

OB/H580s197/dl

RECEIVED
MAY 3 1990
COMMISSIONER'S OFFICE



Alaska Public
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334
FEDERATION OF STATE EMPLOYEES/AFT/AFL-CIO

April 26, 1990

Honorable Albert P. Adams
PO Box V
Juneau, AK 99811

APR 20 1990

Dear Senator Adams:

The Alaska Public Employees Association urges the prompt resolution of the problems regarding the various state retirement funds, as well as other funds for which the state is responsible.

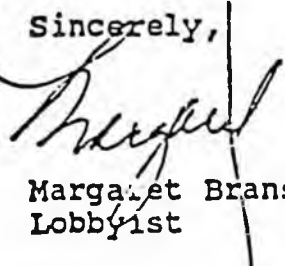
At the present time, we see CSHB580 (FIN) am, which passed the House April 23, as the most expeditious vehicle. It should be noted that a similar bill CSSB197 (SA) is currently residing in Senate Finance.

Our initial concern about the make up of the Board and the appointees who would represent the Teachers Retirement, Public Employees Retirement and the Supplemental Benefits System have been satisfied at this time.

We do believe, however, that the professional investor members should serve under the same conditions as the public sector members and that the permitting of monthly fees of up to \$1000 are unwarranted. They should be pleased to represent the private sector as a contribution to the common good of the state.

As you well know, time is very limited so we would urge you to expedite the passage of this legislation.

Sincerely,


Margaret Branson
Lobbyist

MB/kg

Sent to all
Senators.

Fairbanks Field Office
825 College Road
Fairbanks, AK 99701
Telephone: (907) 456-5412

Anchorage Field Office
833 Gambell Street, Suite A
Anchorage, AK 99501
Telephone: (907) 274-1688

Juneau Field Office
227 4th Street
Juneau, AK 99801
Telephone: (907) 586-8305

TEACHERS' RETIREMENT SYSTEM BOARD

April 27, 1990

Charlie Arteaga, Chairperson
Teachers' Retirement System Board
1439 Miller
Ketchikan, Alaska 99901
225-6776

Senate State Affairs Committee
Senator Rick Uehling, Chairperson

RE: CSHB 560

Dear Senator Uehling and Committee members,

Once again I urge your support of legislation which creates the Alaska State Investment Corporation. It is the position of the Teachers' Retirement System (TRS) Board that this legislation is desirable and necessary. It is also the TRS Board's desire that any legislation creating an investment board have sufficient constituency representation, we favor an investment board which has approximately 40% constituency representation.

The TRS Board is in opposition to any legislation which would permit the Permanent Fund Corp. to invest retirement fund monies. We believe that an Independent corporation, with adequate constituency representation, is the best and most honest approach to maximize investment returns for our members. Divergent investment philosophies and on going political volatility surrounding the Permanent Fund does not provide a safe haven for retirement funds.

It is my hope that your committee takes quick and positive action on these concerns and moves to assure quick passage of legislation which will improve our members' retirement fund.

Thank you for your attention and time on this matter.

Sincerely,



C. Arteaga, Chairperson
TRS Board

UNIVERSITY OF ALASKA SOUTHEAST
School of Education, Liberal Arts and Science

11120 Glacier Highway • Juneau, Alaska 99801

The Honorable Senator
Rick Uehling Co-Chair
Senate Finance
Rm. 516, Capitol
P.O. Box V
Juneau, Ak. 99811

April 16, 1990

Dear Senator Uehling,

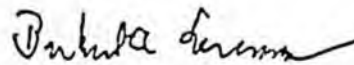
the Faculty Senate of the University of Alaska Southeast passed unanimously a motion in support of then Senate Bill 509 which proposed the establishment of an Alaska State Trust Company. Since the faculty senate acted on the motion, committee action resulted in CSSB 197 State Affairs, now pending before your committee.

Since most of the concept of the previous bill is now contained in CSSB197 State Affairs, the faculty of this institution would like to express its support for this Committee Substitute. In addition, we would like to let you know that we informed the Faculty Senates at Anchorage and Fairbanks of our action. It is likely that you will be informed of their actions as well.

Should you have any further questions in this matter, please feel free to have your staff contact me at my office number # 789-4403.

Thank you for your consideration.

Sincerely,



Dr. Barbara Sorensen
Associate Professor of Economics

Senator John Binkley, Co-Chairman
Senate Finance Committee
P.O. Box V
Juneau, Alaska 99811

Honorable Senator Binkley,

This is to urge you and your committee to give serious consideration and passage of SCS-HB 580 (State Affairs) in this session of the Legislature, if at all possible.

This legislation is badly needed in order to preserve and properly manage the funds dedicated and deposited for future benefits of some 27,000 employees who have participated in creating these funds.

The Board of the Public Employees Retirement System has endorsed the concept of a separate Alaska Trust Company in formal sessions and again urges you to act favorably on this at this session.

C. R. "Steve" Hafling
C. R. "Steve" Hafling
Chairman
Alaska Public Employees
Retirement Board



Inlandboatmen's Union of the Pacific



MARINE DIVISION — INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION
NATIONAL OFFICE • 2700 FIRST AVENUE, ROOM 211 • SEATTLE, WASHINGTON 98121 • 206-448-0736

April 26, 1990

Senator Tim Kelly
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Kelly:

The Inlandboatmen's Union of the Pacific, Alaska Region, supports creation of the ALASKA STATE INVESTMENT CORPORATION (CSHB 580). We strongly urge your passage of this legislation.

Public employees in Alaska work many years in dedicated public service. They should be secure in the knowledge their retirement is protected and properly managed when they finally reach retirement. Their pension monies should not be commingled with other funds managed by the Permanent Fund. Pension monies must be managed and accounted for separately with the proper fiduciaries.

We urge your support and passage on this important legislation before the end of the session.

Sincerely,

INLANDBOATMEN'S UNION OF THE PACIFIC
Marine Division of the International
Longshoremen's & Warehousemen's Union, AFL/CIO

Michael Wilson
Regional Director, Alaska Region

REGIONAL OFFICES

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SAN FRANCISCO
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SAN FRANCISCO, CA 94124
415-376-0518

HAWAII
1001 DILLINGHAM BLVD. No. 214
HONOLULU, HI 96817
808-847-0511

SOUTHERN CALIFORNIA
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KETCHIKAN, AK 99901
907-238-2565

JUNEAU
2219 JORDAN CREEK AVE.
JUNEAU, AK 99801
907-289-0888



ALASKA STATE EMPLOYEES ASSOCIATION

The Honorable John Binkley

April 27, 1990

RE: Investment of Retirement Funds - CSHB 580

Dear Senator Binkley:

The Alaska State Employees Association (ASEA/AFSCME Local 52) strongly supports the idea of placing responsibility for managing state trust and retirement funds with an entity outside state government. Many retirement funds are managed by a separate board of trustees. This practice insures that the funds remain outside the political sphere and guarantees the best return on the investment. Having individuals knowledgeable of investment practices also allows for the best return on investments.

We have studied several different pieces of legislation on this subject, and the approach we prefer is embodied in the committee substitute for HB 580.

The most recent version of this bill provides for nine voting members. Of the nine, four are not covered by TRS, PERS, or SBS and two are essentially representatives of the state as an employer. This leaves three of the nine as representatives of employee plan participants.

While it is particularly important to us that PERS and SBS participants are on the board, we would like to see employee participants comprise more than one-third of the voting directorship.

We also favor having an even number of voting members, as this encourages consensus. Major decisions on investment policy should not be made by a simple majority.

The dilution of plan participants' representation on the board can be alleviated by placing the commissioners of Administration and Revenue as non-voting members, as was the case in earlier versions of the bill. This gives the board the benefit of the commissioners' insight while avoiding the practice or appearance of politicizing the work of the Board of Directors.

The number of voting directors can be further reduced to six by eliminating one of the two public members from voting status.

Yours truly,

Fredric R. Dichter
ASEA Business Manager

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

May 15, 1989

SUMMARY OF: A Special Report on the Department of Revenue, Division of Treasury, Portfolio Management, State Investment Officers, April 14, 1989.

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, this report was prepared to determine:

1. The purpose for requesting premium pay for four investment officer positions in the Department of Revenue, Treasury Management's FY 90 budget.
2. The reasons for allowing the State Investment Officer IV to work at home.

ISSUES ANALYSIS

1. What is the department's justification for budgeting premium pay in Treasury Management's FY 90 budget request?

According to the deputy commissioner of the Department of Revenue, the reason for budgeting \$100,000 under the "premium pay" heading was to provide a vehicle to increase employee compensation paid to the four state investment officers within the Portfolio Management section. These amounts were added to the detailed budget documents by the department and represent the estimated increase necessary to bring investment officers' compensation levels to competitive levels offered to investment officers managing similar investments.

The department does not intend on compensating these employees with "premium pay." Actual revisions to state investment officer compensation that the Division of Treasury plans to make would be based on an independent evaluation of compensation levels by a professional consulting firm in the employee compensation field. It is likely that a contract to conduct this evaluation will be awarded in FY 90.

2. What is the department's justification that allows the State Investment Officer IV (SIO IV) to work at home?

In response to a November 21, 1988 prohibition to smoking in the Juneau State Office Building where the Division of Treasury is located, the SIO IV, a heavy smoker with no intention to quit smoking at that time, indicated he would retire. As an alternative, the SIO IV was allowed to perform his job duties at home. The following enumerates the reasons that the department provided us to support their decision which allows the SIO IV to work at home.

- A. The department had difficulties recruiting for the position currently occupied by the SIO IV. These difficulties prompted the department to consider alternatives that might avoid an extended vacancy in the State's most important investment officer position.
- B. The department believed it would be detrimental at that time for the Portfolio Management section of the Division of Treasury to lose a valued employee whose job performance is considered excellent.
- C. The department believed that fiduciary responsibilities investing state funds required retaining the SIO IV as the chief investment officer.
- D. It is expected that the SIO IV plans to retire soon. As such, this working situation is temporary. The department would have reconsidered their decision if it meant that an employee would be working out of his/her home on a permanent basis.

Auditor's Comments

We question whether the best interests of the State are being met by allowing the SIO IV, a key supervisory position regarding state investment, to work in a location other than where the investments are being managed. There exists an appearance that effective management and professionalism is lacking in the investment of state assets that exceeds \$4.8 billion.

In our opinion, the department should take action to reestablish the work location of the SIO IV position back in the office. In order to accomplish that, the department should make it a priority to recruit for candidates to fill the SIO IV position. In addition, the department should obtain adequate evidence confirming the SIO IV will retire once a person is found to fill the position.



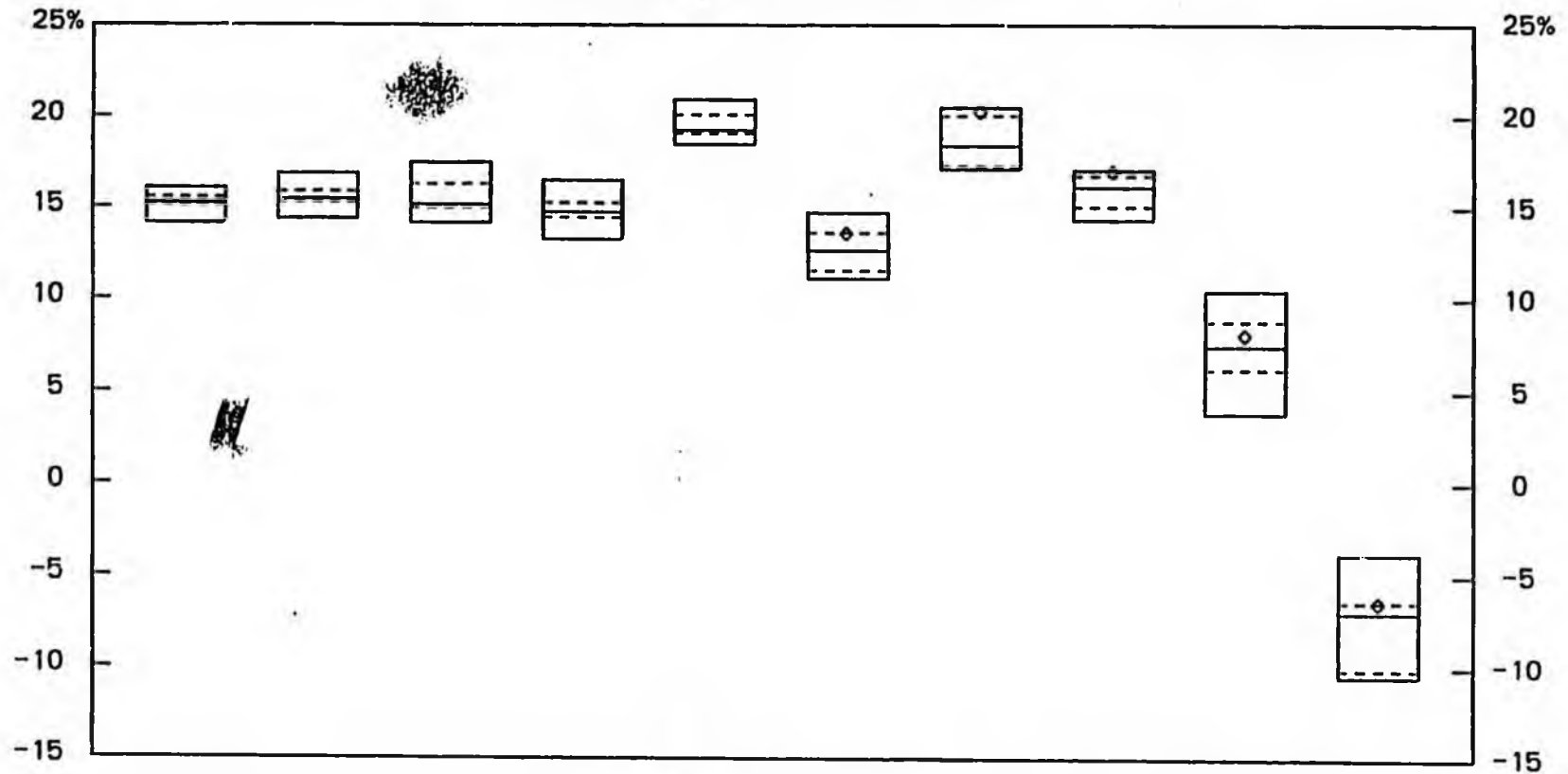
STATE PLAN REPORT

ALASKA PERMANENT FUND CORP.
JUNEAU, AK
ALASKA PERMANENT-COMBINED FUND
JUNE 30, 1988

FUNDS EVALUATION SERVICES

DRI

STATE RETIREMENT PLANS EQUITIES: ANNUALIZED RATES OF RETURN FOR PERIODS ENDING JUNE 30, 1988



	1979-88	1980-88	1981-88	1982-88	1983-88	1984-88	1985-88	1986-88	1987-88	1988
5TH PERCENTILE	16.0	16.9	17.5	16.5	20.9	14.7	20.5	17.1	10.4	-3.8
25TH PERCENTILE	15.5	15.9	16.3	15.2	20.1	13.6	20.0	16.8	8.8	-6.4
MEDIAN	15.2	15.5	15.1	14.7	19.2	12.7	18.4	16.1	7.5	-7.0
75TH PERCENTILE	15.1	15.3	14.9	14.5	19.1	11.6	17.3	15.1	6.2	-10.1
95TH PERCENTILE	14.1	14.4	14.2	13.2	18.5	11.1	17.1	14.3	3.8	-10.5
PLAN M1937						13.6	20.3	17.0	8.1	-6.4
RANK						28	12	6	32	30
S&P 500 INDEX	16.3	16.6	16.5	15.9	21.3	14.6	20.0	16.5	7.9	-6.9
RANK	3	8	15	10	3	6	26	43	38	49

going to happen, you would think that is when the award would be given, not years later," said Stephen Schroeder, 45, who received the majority of his \$35,000 prize in 1988, eight years after it was initially considered. "Before the award was approved, I had been on the road briefing the highest Department of Defense officials, including four-star generals and admirals, about how the system was working," said Schroeder, whose computerized identification of parts in inventory saved the Navy millions.

Please see Back Page, AWARDS

The council recommended that people daily eat five or more half-cup portions of fruits and vegetables and a minimum of six portions of starches such as breads, cereals and beans. The recommendations would roughly double the average amounts of these eaten by Americans. The council also said it found no proof that calcium

of dietary guidelines. This is the first time that a committee of the National Research Council, the working arm of the National Academy of Sciences, has made such definitive dietary recommendations. "Many people may be confused by the vast amount of

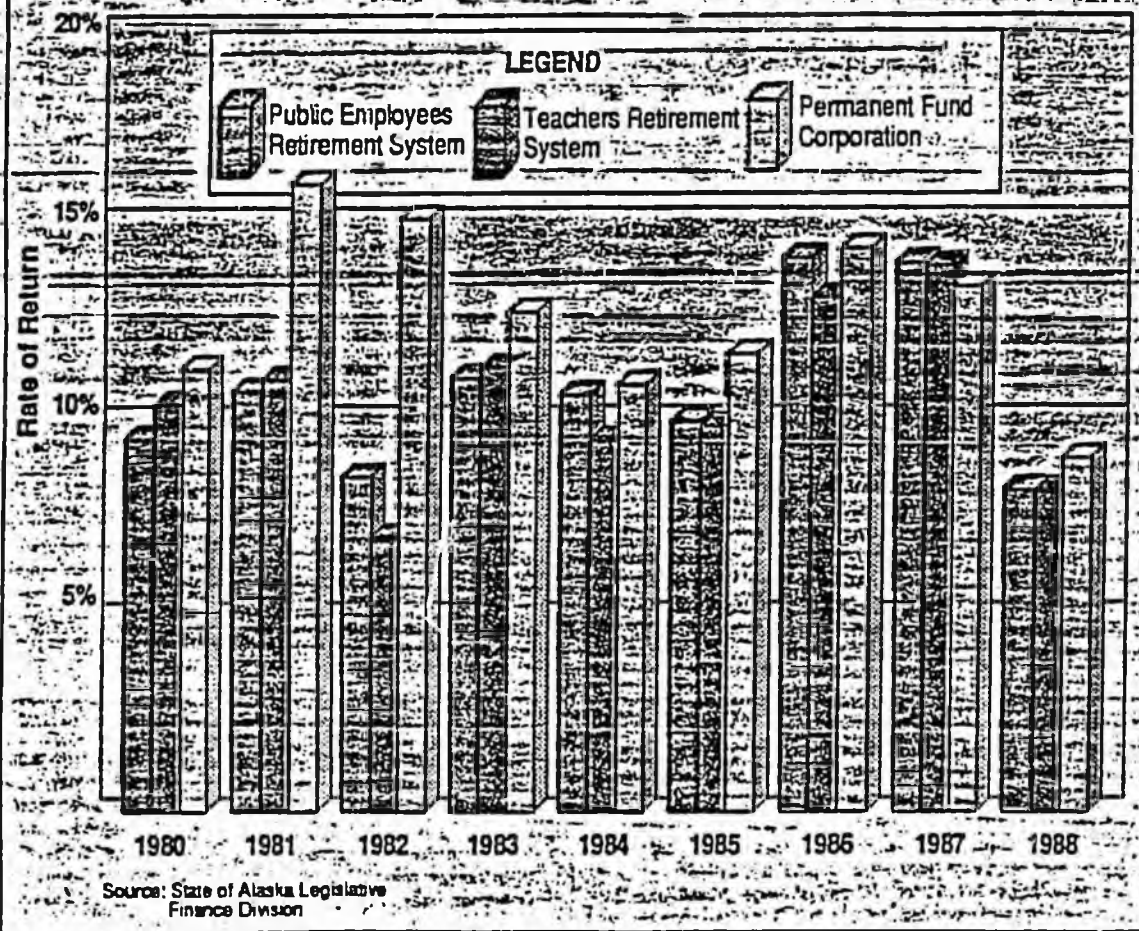
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Comparison of State Investment Funds



Anchorage Daily News/Dee Boyle

State's handling of retirement fund gets a close look

By GEORGE FROST
Daily News reporter

A state-run retirement fund meant to ensure the golden years of about 27,000 government employees and teachers costs three times as much to administer as the Alaska Permanent Fund but consistently earns less on its investment portfolio, a legislative analyst says.

During this budget year, it will cost about \$7.4 million to manage the \$9.1 billion permanent fund portfolio and \$10.4 million to manage the \$3.8 billion retirement fund portfolio, according to a preliminary study by Cameron Kashani, an analyst in the legislative finance division.

But Kashani's analysis, performed at the request of legislators considering a transfer of investment authority away from the state Department of Revenue, is just one slice of a large and many-layered financial onion.

One layer at a time, the retirement system is being peeled back by legislative auditors, the revenue department and critics who allege the state has lost millions of dollars through unsound stock investments.

The state Department of Revenue is in charge of managing and investing the huge

Please see Back Page, RETIREMENT

Investors want pensions in Permanent Fund portfolio

LEGISLATION transferring Alaska's \$3.5 billion pension and teachers' pension permanent fund was morning in the Senate. of the pension funds for has come under fire for sive management costs nance.

Last week the Legislative Budget and Audit Committee directed legislative auditors to investigate the performance of the Public Employees Retirement System and Teachers' Retirement System funds. Sen. John Binkley, R-Bethel, said he proposed the legislation to begin a dialogue on the issue. He said he doesn't expect the bill to pass this year. "I think we should hold some hear-

ings and get some questions answered," agreed Senate President Tim Kelly, who signed on as a co-sponsor of the bill. Sen. Drue Pearce, R-Anchorage and another co-sponsor of the measure, said the retirement funds are not in any danger, but "everybody who puts money into the Public Employees Retirement System and Teachers Retirement System ought to be concerned." "It looks as though the performance

of those two funds are below the permanent fund's," said Binkley. He said it also appears the state is duplicating efforts by having one set of investment officers in the Treasury Division and another at the permanent fund. Anchorage stockbroker Dennis Waldock researched the performance of the two funds and found them wanting. He said his research showed the pension fund's rate of return is among the worst

of the industry. Revenue Commissioner Hugh Malone disagrees with Waldock, saying that the pension funds' performance appears to be close to that of the Permanent Fund. Malone acknowledged management costs are higher than the Permanent Fund, but he attributed that to a greater share of the pension fund money being invested in stocks and foreign investments.

revenue Commissioner... who oversees the retirement fund, says those higher administrative costs are justified by a more aggressive investment strategy.

C.R. Halling, chairman of the Public Employees Retirement System for 20 years, sees no problem. "My first opinion is there is no crisis. I don't think a little blip is anything to get worried about."

But Dennis Waldock, a Paine Webber Inc. stockbroker who has orchestrated criticism of Malone, claims that the fund has been among the worst performers in the country and the state has used deceptive accounting practices to keep everybody confused. Waldock admits he has a very large axe to grind in pressing for change in the management of the retirement system. He began digging up information and firing off memos in December, shortly after Malone announced he wanted to bypass Alaska-based stockbrokers and deal directly with Wall Street discount brokers.

The local office of Paine Webber earned about \$100,000 in commissions last year from the retirement funds, and Waldock and other brokers here don't want to lose that income, he said. Malone put the Wall Street policy on ice for a year while he studies whether it would save money or not. After intense lobbying by Waldock, legislation to transfer the retirement funds to the stewardship of permanent fund managers was introduced this week by Sen. Johnie Binkley, R-Bethel, and two other GOP senators.

"It seems as though, from preliminary figures, that the return on investment is a lot less than the permanent fund corporation, when it should be greater," Binkley said.

The permanent fund was created by voters in 1976 to save some of the state's oil wealth, and it has a more conservative policy geared to greater investments in government securities.

To help sort out the true numbers, Sen. Arliss Sturgulewski requested a legislative audit to see how well the funds have performed. She also wants to study how the legislature can gain more oversight of those investments.

Kashani found that the state's cost of investing the retirement system portfolio almost doubled between 1988 and 1989, from \$5.54 million to \$10.45 million, although that is a budgeted, not an actual number.

Dollar for dollar, it costs more than three times as much to manage the retirement program as the permanent fund, he said. "What does this higher cost buy?"

During the last nine years, only once — in 1987 — did the revenue department's investments outstrip the permanent fund, he said.

"We are not running a gold-plated operation that is more expensive than the permanent fund at all," said Deputy Revenue Commissioner Mill Barker.

According to Barker, it should cost three times as much, dollar for dollar, because the Revenue Department is a much more active

retirement funds is driven by the fees paid to private investment houses, which got more than \$8 of every \$10. The retirement funds also pay out high fees for foreign stock purchases, forbidden for now to permanent fund managers, he said.

As for the disputes over performance, Barker's numbers show the retirement funds averaged a 14.6 percent return between 1985 and 1988 compared to 16.3 percent for the permanent fund. Malone, who also sits on the permanent fund board of directors, explained the lower returns as part hangover from earlier investments into Alaska commercial real estate and other poor policies.

And the permanent fund, with about 80 percent of its money in securities, was able to ride the waves of short-term government bonds that followed changes in interest rates, he said.

Malone said that transferring the retirement programs to the permanent fund may save a few hundred thousand dollars, but not enough to jeopardize either fund by mixing different investment strategies.

The permanent fund has to earn large amounts of cash each year to pay dividends to Alaskans and protect the fund from inflation, Malone said, and thus invests heavily in short-term securities. The retirement funds, however, aim for larger and longer-term gains primarily through the stock market.

Both funds were battered in the October 1987 stock market crash, although the retirement funds, with one-third invested in common stocks, were hit harder.

Waldock said the "politicians" at the Revenue Department had blundered far worse during the panic-racked months when stocks nose-dived. While the permanent fund and many other funds were selling off stock prior to the September peak of the Dow Jones index, the retirement fund was buying big — increasing its market position by \$181 million and purchasing more stock into October, he said.

Waldock also charged that the Revenue Department has used deceptive accounting practices to make its foreign stock investments more attractive. He pointed to a financial disclaimer by the accounting firm of Ernst and Whinney, incorporated into the state's financial statements.

The accountants said the Revenue Department was not using accepted accounting principles in reporting more than \$100 million of gains from its investments in foreign stocks, and actually should have reported gains of only about \$6 million.

Although Malone acknowledged his differences with Ernst and Whinney, he said the financial note was not significant.

Malone defended the department's deferred reporting on foreign stock activity, saying it's more accurate to record gains and losses in foreign stocks when the money was converted to U.S. dollars, not when the transactions were actually made, as required of private investment funds.

assistance for health restructuring of our health coverage for children who noted that the current budget deficit of investment in child

"The fiscal policies short-changed kids," too many of America's deficit status, and on by public policymakers alarming trends."

As a first step in the health of American children endorsed a bill co-sponsored by Waxman, D-Calif., to bring levels for preterm infants.

Under the proposal 1991 could, for example, be 10 percent above the federal level — and still there. By 1993, a slip up to \$10,874, 85 per poverty level, and s

AWARDS:

Continued from Page

"If you understand the system's a bureaucrat everything has to go so many checks and balances, you understand it takes so long," electronics technician at the U.S. Naval Air Station at North Island, San Diego. "But awarding money so late is an anticlimax."

Representatives of the Navy and the Office of Personnel Management in Arlington, D.C., said they could not explain the delay.

About 7 percent of federal employees, 169,000 people, suggested in 1987 that they would like to have a year's pay for which they were available. A man said that the award had helped about 43,000 of them an estimated savings of \$100 million since the start of the Federal Awards Program.

Schroeder is among individuals or groups that have won more than \$1 million for money-saving suggestions. Many are grateful for Schroeder's opinion on the timing of the awards.

"The whole purpose of the awards is to encourage people. It certainly helps you learn you are receiving \$25,000, which is a real boost off the program."

Senior research scientist John Pearson of the Weapons Center at Lake, Calif., who was named for a \$25,000 award in 1985 and will receive a final \$15,000 this year. "Plus, it's frustrating you never really know you're going to get it. There's always

DIET: Council advises Americans to change their ways

Continued from Page A-1

advice given in many forms about what to eat," said Dr. Arno Motulsky, chairman of the Committee on Diet and Health. "Some may have delayed making changes in their diets until they are more convinced that scientists have reached consensus. We hope our report will help these individuals move from

The committee said the risk of heart disease could be reduced by at least 20 percent if the public followed the fat and cholesterol guidelines. Americans currently consume 37 percent of their calories as fat. The committee endorsed a reduction to 30 percent — as many other health groups have recommended — but it acknowledged that level is on

and said further reductions would provide additional benefits. The committee also said the risk of cancer of the colon, lung and stomach could be reduced by sharply increasing consumption of fruits and vegetables.

The committee's recommendations are far more specific than the recent Surgeon General's Report on Di-

5/5/90

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Hm. #:243-8462

WHY WE NEED THE PUBLIC EMPLOYEES AND TEACHERS PENSIONS
TRANSFERRED TO THE PERMANENT FUND

Please accept this as written testimony regarding HB 580.

This is a plea that you consider placing the management of state funds with the proven, accomplished and professional management staff located at the Permanent Fund.

The Department of Revenue appears to be pre-occupied with the form of the investment organization rather than the execution of the investment function itself.

The department has demonstrated a lack of good judgment both in the execution of its management and investment duties as well as in proposing this new organization. What is really frightening is that the same individuals possessing this poor judgment are asking you to race to a decision on this legislation so they can be in charge of setting up the new corporation.

There has been much debate over form and very little about substance. By substance, I mean the execution of the investment function itself.

Investing must be accomplished by professionals who know the business and the people in it. It must be accomplished by professionals who have a proven track record and a consistent investment approach. It must be accomplished by professionals who enjoy what they do and are dedicated to the organization for which they work. Finally, the investment function must be accomplished by professionals who have demonstrated good judgment. In all cases, performance of the investment function by the professionals currently in place at the Permanent Fund is far superior to the alternative of the establishment of a new and untried organization.

Department of Revenue in a self-serving way has chronicled reasons why the Permanent Fund should not manage other funds. Its two-page paper does not discuss the investment function but dwells with the stress which will be placed on the Permanent Fund management. In my view, the Permanent Fund folks are experts at maintaining focus, balance, accountability and a keen awareness of proper fiduciary actions. Since the transfer of functions to the Permanent Fund is accompanied by the transfer of adequate numbers of people and dollar resources, there is no reason to believe that either Permanent Fund or other Fund functions will suffer from a consolidation.

For your information, I have prepared an enclosure which sets forth what, in my opinion, constitutes poor judgment by the people who would be responsible for the new organization, and should be viewed as a "red flag" warning you of the potential for continued mismanagement.

Again, I urge that you consider placing the investment of state funds with the proven, accomplished professionals of the Permanent Fund.

See Exhibit 1.

Some additional reasons for you to question the judgment of the members of the Department of Revenue who would be responsible for the start-up of the Alaska State Investment Corp. are as follows:

1) COST: By using the Permanent Fund which is already in place the state can save between \$2.5 million and \$5 million of savings to the Alaska taxpayer.

The Permanent Fund runs their money at a cost of .0013 or 13 basis points. At present, the PERS + TRS cost .0031 or 31 basis points to run their money. This idea of an Alaska State Investment Corporation will cost at least 40 basis points to run. The savings of \$2.5 million to \$5 million per year with the slowing of Prudhoe Bay and the slow economy could go a long way on helping the image of the Legislature with the public.

2) DEFINED BENEFIT PLAN: This simply means that if for some reason (mismanagement , etc.) there is not enough money to cover the plan that the Alaska Legislature will be called on to make the plan whole.

In the last three years the Revenue Department over stated the return on foreign investment by 1500% - Can you imagine 1500%.

During 1987, while the Permanent Fund was quietly trying to get out of the equity market, the Revenue Department was trying to put an additional \$1 billion dollars in the equity market. During October 1987 the Revenue Department put over \$76 billion in equities between October 1st and October 19th, the day of Wall Streets biggest crash.

Now, look at money. The Department of Administration has investments in Junk Bonds, \$121 million. If you look in the Wall Street Journal, today you will find that those Junk Bonds are now worth between 20 cents and 40 cents on the dollar. This all means that the state will in all probability have a loss of \$73,000,000.

Remember that the State of Alaska is under a Defined Benefit Plan.

See Exhibit 2 and 3.

3) THE PERMANENT FUND: a few years ago the Legislation was passed, AS 24.20.206, to allow oversight of the Alaska Permanent Fund. If PERS + TRS was moved from the Department of Revenue to The Permanent Fund, the Legislature would have oversight.

If you form an Alaska State Investment Corporation, you will only be duplicating services already in place. If you create the Alaska State Investment Corporation you will need five new employees above the present level.

The Rates of Return at the Permanent Fund are exceptional, and are admired around the world. You will have no guarantee the Rate of Return will be good or exceptional if you form the Alaska State Investment Corporation. The State of Alaska does not need another First Executive Corp.

Staffing at the Permanent Fund is already in place. They are a very talented and dedicated group of people who have a track record envied by all of Wall Street. It is extremely hard to find this type of individual who wants to live in Alaska. It will be very difficult to find similar talented help who will want to move to Alaska, so most likely you will find less talented people working in the Alaska State Investment Corporation. You will already have the Permanent Fund and its staff in place, so why would you possibly want to take a chance with the Alaska State Investment Corporation!

Separation of PERS + TRS from the Permanent Fund is already mandated by Federal Law. The PERS + TRS will not lose their individuality, they will remain as they presently are.

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DLW:bjr

Enclosures

EXHIBIT 1

DEPT. OF REVENUE
POOR JUDGEMENT

Received an unnecessary "qualified audit opinion" on the fiscal year 1988 audit.

The qualified opinion was not disclosed within the formal, published PERS/TRS Annual Report for 1988.

Allowed its physically fit chief investment officer (a critical position) to spend months at home rather than at his desk in the State Office Building.

Engaged in some "market timing" activities which resulted in buying high and selling low before and after the 1987 crash.

Did not require the independent performance evaluation firm it hired to evaluate total portfolio performance.

Despite concerns at the highest levels of the Executive Branch, independently requested introduction of this legislation which originally:

- * Would have provided five-year contracts (golden parachutes) to staff.
- * Would have permitted the organization to move out-of-state.
- * Would have a majority of the board of directors located out-of-state.
- * Would have paid huge honorariums to the out-of-state Trustees.
- * Would have been exempt from the open meetings act.
- * Would have been exempt from the budget act.
- * Would have been exempt from the procedures act.
- * Would have created a cumbersome and impractical board-staff arrangement in which there would be poor accountability.

S&P'S 500, COMMON STOCK PRICE INDEX 1986 - 1988

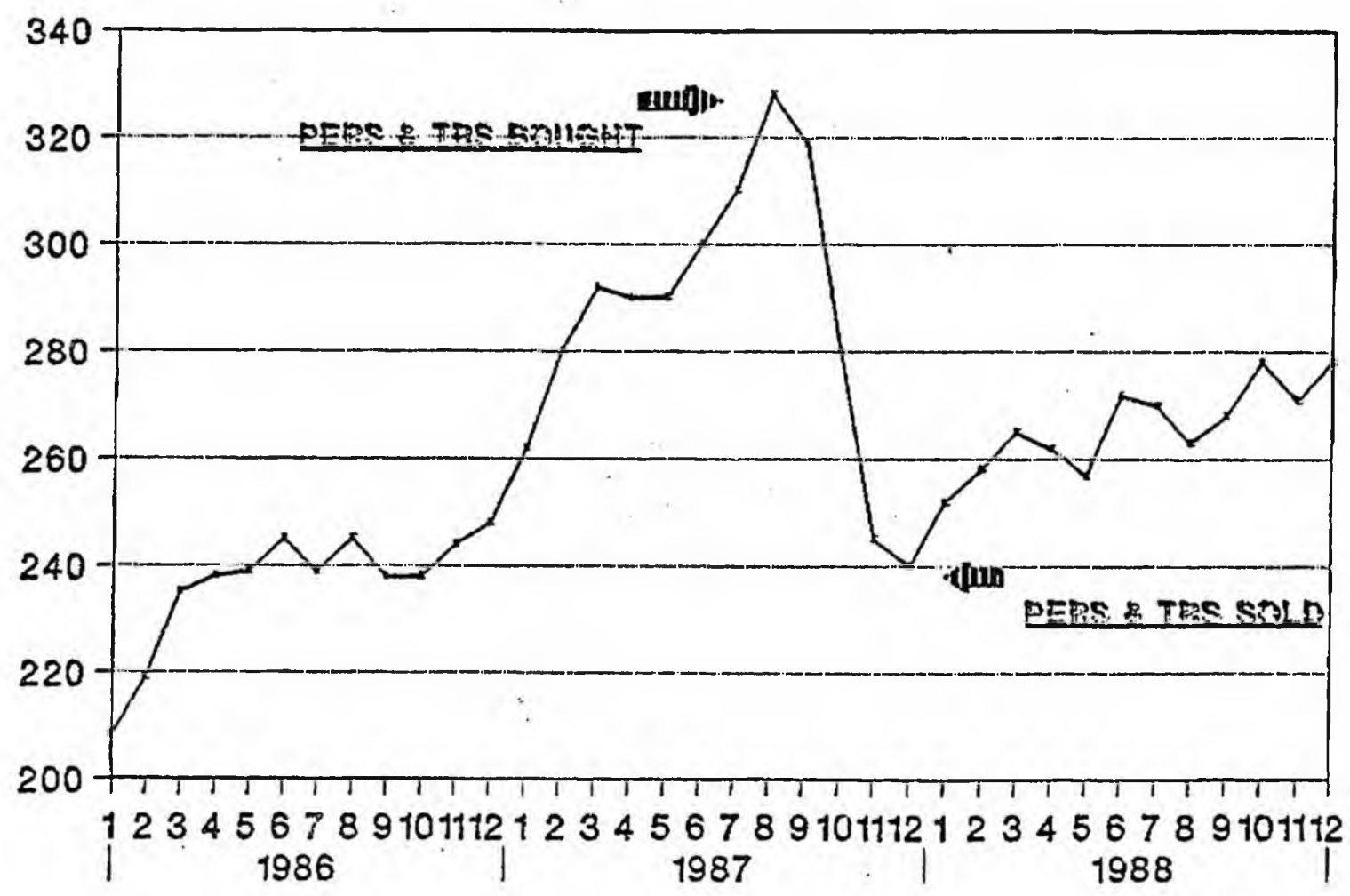


EXHIBIT 2

the market activity (not new money) of both PERS and TRS (please see exhibit 13 , or my original letter).

Below you will find the stock market activities month by month for both the PERS and TRS and where the Dow Jones was at during the important months leading up to the market crash. The figures with brackets are withdrawals from the market.

DJIA		PERS	TRS
	1987		
	January	0	0
	February	0	0
2226/2286	March	43,895,000	29,858,000
	April	8,655,000	6,111,000
	May	3,710,000	2,817,000
2295/2407	June	24,784,000	11,975,000
	July	6,247,000	3,519,000
2539/2669	August	107,887,000	19,858,000
2549/2701	September	132,316,000	48,729,000
	October	76,413,000	(688,000)
	November	(11,635,000)	(7,442,000)
	December	(7,222,000)	(4,660,000)
	1988		
1879/2037	January	(77,089,000)	(49,909,000)
	February	(4,391,000)	(2,824,000)
	March	(3,450,000)	(2,240,000)
	April	(2,690,000)	(1,738,000)
	May	9,540,000	6,766,000
	June	(251,000)	(163,000)

Please note, during September 1987, one month before the market crash (Dow Jones was at its high) the Retirement Funds increased their market position by \$181,045,000. During October 1987, the month of the crash, PERS increased their market position by \$76,413,000. Remember that the Alaska Permanent Fund sold out a major part of their market position during March 1987.

In November 1987, please also note that the bracketed monthly numbers turn negative (dictates withdrawals from the Equity market) and continued through June of 1988, with the exception of May 1988.

In closing I would like to leave you with two lists; one containing reasons for moving the management of PERS & TRS to the Permanent Fund and the other a list of reasons not to move the Retirement Funds from the Treasury Department.

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	30.0	62	26.6	75	0.0	100	0.0	100	0.0	100		
BONDS	65.0	31	59.4	31	62.2	37	74.1	1	73.1	1		
MONEY MARKETS & CASH	5.0	83	14.0	30	37.8	1	25.9	1	26.9	1		

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780122

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

Asset Allocations	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
COMMON STOCKS	30.0	62	26.6	75	0.0	100	0.0	100	0.0	100		
BONDS	65.0	31	59.4	31	62.2	37	74.1	1	73.1	1		
MONEY MARKETS & CASH	5.0	83	14.0	30	37.8	1	25.9	1	26.9	1		

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

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0780122

P. 9
State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

DOMESTIC SECURITIES PORTFOLIOS
AS COMPARED TO LARGE RETIREMENT FUNDS
(Annualized Rates of Return at Market Values)

	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>SECURITIES PORTFOLIOS</u> (Versus other States)	10.8	55	4.3	18	9.1	70								
<u>SECURITIES PORTFOLIOS</u> (Versus Corporate Funds)	10.8	98	4.3	9	9.1	92								

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	25.3	7.3	19.8
25th	14.8	3.4	14.2
Median	11.7	2.5	10.3
75th	8.7	0.1	8.4
95th	4.9	-1.1	5.3

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	27.7	4.6	22.9
25th	21.6	2.3	19.9
Median	19.2	0.8	15.3
75th	15.2	-1.3	13.6
95th	11.7	-3.3	6.1

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780121

State of Alaska

TEACHERS RETIREMENT FUNDQuarter Ending,
June 30, 1988

DOMESTIC SECURITIES PORTFOLIOS
AS COMPARED TO LARGE RETIREMENT FUNDS
(Annualized Rates of Return at Market Values)

	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
SECURITIES PORTFOLIOS (Versus other States)	11.7	49	1.6	57	9.3	66	27.6	23	29.4	45	-3.4	84	34.0	69
SECURITIES PORTFOLIOS (Versus Corporate Funds)	11.7	95	1.6	31	9.3	92	27.6	64	29.4	12	-3.4	37	34.0	97

STATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	25.3	7.3	19.8	33.0	36.4	3.1	46.9
25th	14.8	3.4	14.2	27.1	31.8	0.3	42.7
Median	11.7	2.5	10.3	23.8	28.9	-2.0	39.7
75th	8.7	0.1	8.4	22.7	25.9	-2.7	31.9
95th	4.9	-1.1	5.3	18.2	23.9	-5.6	18.4

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	27.7	4.6	22.9	34.3	30.1	-0.4	55.7
25th	21.6	2.3	19.9	32.4	27.4	-1.9	51.5
Median	19.2	0.8	15.3	29.7	25.5	-5.0	46.0
75th	15.2	-1.3	13.6	25.7	23.8	-6.4	39.9
95th	11.7	-3.3	6.1	20.4	22.1	-8.9	34.6

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(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780113

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988DOMESTIC SECURITIES PORTFOLIOS
AS COMPARED TO LARGE RETIREMENT FUNDS
(Annualized Rates of Return at Market Values)

	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>SECURITIES PORTFOLIOS</u> (Versus other States)	10.8	60	2.4	52	9.4	64	26.6	28	28.1	60	-1.2	38	28.5	91
<u>SECURITIES PORTFOLIOS</u> (Versus Corporate Funds)	10.8	98	2.4	23	9.4	91	26.6	69	28.1	19	-1.2	20	28.5	100

STATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	25.3	7.3	19.8	33.0	36.4	3.1	46.9
25th	14.8	3.4	14.2	27.1	31.8	0.3	42.7
Median	11.7	2.5	10.3	23.8	28.9	-2.0	39.7
75th	8.7	0.1	8.4	22.7	25.9	-2.7	31.9
95th	4.9	-1.1	5.3	18.2	23.9	-5.6	18.4

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	27.7	4.6	22.9	34.3	30.1	-0.4	55.7
25th	21.6	2.3	19.9	32.4	27.4	-1.9	51.5
Median	19.2	0.8	15.3	29.7	25.5	-5.0	46.0
75th	15.2	-1.3	13.6	25.7	23.8	-6.4	39.9
95th	11.7	-3.3	6.1	20.4	22.1	-8.9	34.6

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

078015

COMMON STOCK PORTFOLIOS
AS COMPARED TO LARGE STATE RETIREMENT FUNDS AND MARKET INDICES
(Annualized Rates of Return at Market Values)

Common Stock Portfolios (Note A)	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
ALGER	24.8	80	-13.1	100	8.4	100	48.5	1	27.4	75				
INVESCO	28.2	54	-4.9	22	19.4	85	29.6	100	27.4	75				
LEHMAN	31.6	30	-3.3	15	26.2	17	35.2	66	31.7	23				
COMPOSITE OF MANAGERS	28.2	51	-6.9	55	17.7	96	37.5	38	28.8	63	-15.1	100	67.3	7

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	49.6	-0.2	36.2	41.2	34.1	0.0	69.2
25th	32.6	-5.8	25.1	37.9	31.5	-6.1	65.5
Median	28.6	-6.8	22.6	37.0	30.6	-8.1	60.6
75th	25.3	-9.3	20.4	34.3	27.4	-9.6	58.0
95th	22.0	-10.5	17.8	30.5	18.5	-14.8	52.7

MARKET INDICES

S&P 500 Index	29.1	-6.9	25.2	35.9	31.0	-4.6	61.2
Dow Jones 65 Index	29.9	-11.7	25.5	31.8	25.5	1.0	54.5

Prepared under contract by SEI CORPORATION

- (*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.
 (A) - up to 9-30-87 portfolio returns include money market (non-stock) investments, whereas the comparative returns for state retirement funds are for stocks only.

0780425

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988

COMMON STOCK PORTFOLIO
AS COMPARED TO CORPORATE RETIREMENT FUNDS AND MARKET INDICES
(Annualized Rates of Return at Market Values)

Common Stock Portfolio	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
DOMESTIC EQUITY FUND (Note A)	25.8	74	-5.4	32	17.7	89	37.5	39	28.8	71	-15.1	92	67.3	51

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	46.9	-1.6	30.1	42.5	33.6	-7.3	80.0
25th	35.0	-5.1	24.6	39.3	31.4	-8.8	72.4
Median	30.1	-6.6	22.4	36.4	30.1	-10.2	67.6
75th	24.8	-7.6	19.5	34.3	28.3	-12.7	62.9
95th	20.2	-9.6	14.1	31.6	26.3	-15.4	60.8

MARKET INDICES

S&P 500 Index	29.1	-6.9	25.2	35.9	31.0	-4.6	61.2
Dow Jones 65 Index	29.9	-11.7	25.5	31.8	25.5	1.0	54.5

Prepared under contract by SEI CORPORATION

- (*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.
- (A) - Includes money market investments (non-stock), whereas the comparative returns for corporate retirement funds are for stocks only.

078012

EXHIBIT 3

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

COMMON STOCK PORTFOLIO
AS COMPARED TO LARGE STATE RETIREMENT FUNDS AND MARKET INDICES
 (Annualized Rates of Return at Market Values)

Common Stock Portfolio	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
DOMESTIC EQUITY FUND (Note A)	25.3	72	-4.5	21	34.4	100								

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	49.6	-0.2	60.3
25th	32.6	-5.8	50.1
Median	28.6	-6.8	46.3
75th	25.3	-9.3	42.2
95th	22.0	-10.5	40.9

MARKET INDICES

S&P 500 Index	29.1	-6.9	25.2	35.9	31.0	-4.6	61.2
Dow Jones 65 Index	29.9	-11.7	25.5	31.8	25.5	1.0	54.5

Prepared under contract by SEI CORPORATION

- (*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.
 (A) - includes money market (non-stock) investments, whereas the comparative returns for state retirement funds are for stock only.

078027

EXHIBIT 3

State of Alaska

TEACHERS RETIREMENT FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	33.8	52	35.0	57	35.2	55	26.3	64	21.6	66	26.2	59
BONDS	56.4	49	51.4	32	53.0	51	46.3	52	66.8	25	57.4	39
MONEY MARKETS & CASH	9.8	35	13.6	48	11.8	35	27.4	1	11.7	45	16.4	12

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780104

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	32.6	55	33.8	59	34.9	55	26.5	65	18.3	67	17.3	65
BONDS	58.1	45	48.8	54	51.3	51	48.1	57	69.9	25	62.2	37
MONEY MARKETS & CASH	9.2	38	17.4	12	13.8	22	25.4	1	11.8	41	20.5	1

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

078016

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EXHIBIT 3

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO CORPORATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	30.0	100	26.6	100	0.0	100	0.0	100	0.0	100		
BONDS	65.0	1	59.4	1	62.2	3	74.1	1	73.1	1		
MONEY MARKETS & CASH	5.0	100	14.0	20	37.8	1	25.9	1	26.9	1		

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	55.3	58.5	51.8	56.8	56.5	59.5
BONDS	28.2	28.0	29.1	32.5	25.4	27.1
MONEY MARKETS & CASH	10.4	10.6	8.7	7.3	12.7	7.8

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(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

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EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO CORPORATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	32.6	100	33.8	93	34.9	90	26.5	99	18.3	99	17.3	100
BONDS	58.1	1	48.8	6	51.3	7	48.1	11	69.9	1	62.2	17
MONEY MARKETS & CASH	9.2	67	17.4	16	13.8	15	25.4	1	11.8	52	20.5	1

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	55.3	58.5	57.8	56.8	56.5	59.5
BONDS	28.2	28.0	29.1	32.5	25.4	27.1
MONEY MARKETS & CASH	10.4	10.6	8.7	7.3	12.7	7.8

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

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P. 5



alaska judicial council

1029 W. Third Avenue, Suite 201, Anchorage, Alaska 99501 (907) 279-2526 FAX (907) 276-5046

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Daniel G. Callahan
William T. Council

May 4, 1990

CHAIRMAN, EX OFFICIO
Warron W. Matthews
Chief Justice
Supreme Court

Senator John Binkley
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Re: HB 491: Alaska Sentencing Commission

Dear Senator Binkley:

I am writing to encourage the Senate Finance Committee to schedule and pass out the above referenced legislation which would create an Alaska sentencing commission. The Alaska Judicial Council supports this legislation and I would be happy to attempt to answer any questions you might have about it.

Please feel free to give me a call.

Very truly yours,

A handwritten signature in cursive script that reads "William T. Cotton".

William T. Cotton
Executive Director

TWC/jmz

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

June 19, 1989

Audit Control Number

04-4345-89-S

Commissioner, Department of
Revenue

Hugh Malone

Deputy Commissioner, Department
of Revenue

Milton B. Barker

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

June 19, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

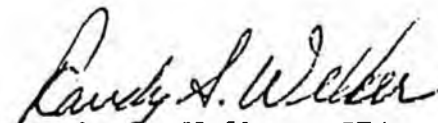
A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

Audit Control Number

04-4345-89-S

The purpose of this audit is to examine the accounting and oversight of the Public Employees' and Teachers' Retirement Funds administered by the Department of Revenue, Treasury Division.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. The audit approach is discussed in the Report Objectives, Scope, and Methodology section of this report. The audit results may be found in the Findings and Recommendations section.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we reviewed the Public Employees' and Teachers' Retirement Funds. The purpose was to review accounting procedures used for the retirement funds' foreign investment portfolio and to ascertain the extent of investment oversight the retirement funds are subject to.

The policy and audit approach utilized by the Division of Legislative Audit for special and performance reports can best be described as "audit by exception." This methodology focuses the audit effort on areas of an auditee's operation that have been identified by a preliminary survey as having a high degree of probability for needing improvements.

Therefore, by design, finite audit resources are used to identify where and how improvement can be made, and little time is devoted to reviewing well-run operations or programs. Consequently, this report highlights those areas needing improvement and does not emphasize those operations and programs that are properly functioning.

Discussion of the objectives, scope, and methodology of our review follows.

OBJECTIVES

In response to public allegations about mismanagement of the retirement funds and "deceptive accounting practices," the Legislative Budget and Audit Committee requested a review of certain management practices of the Public Employees' and Teachers' Retirement Funds.

The first objective of our review was to determine the type of management and investment oversight provided over the operations of the retirement funds.

The second objective was to ascertain the management and investment oversight styles applied to other similar funds.

Our third objective was to determine if proper accounting practices were applied to the funds' foreign investments.

Finally, we identified the various rates of returns earned by the retirement funds and the Permanent Fund, and we reviewed the cost of managing and investing these funds.

SCOPE AND METHODOLOGY

We met with officials of the Department of Revenue, Treasury Division, including the deputy commissioner, chief investment officer, other investment officers, and the state

comptroller; the director of the Division of Risk Management; officials of the Alaska Permanent Fund Corporation; certified public accountants under contract with the Treasury Division; and a member of the brokerage community.

We also reviewed various reference materials and publications; reports, and supporting documentation, prepared by the Senate Advisory Council; fund performance evaluation reports prepared for the retirement funds and the Alaska Permanent Fund; and, various literature provided by other states on their retirement funds.

Additionally, we prepared and distributed a questionnaire to all other states inquiring about certain aspects of their public employees retirement funds.

We also engaged a consultant, who as a former employee of Merrill Lynch had past experience in evaluating the performance of the Public Employees' and Teachers' Retirement systems, to assist us in interpreting the externally prepared performance reports on the retirement funds and the Permanent Fund.

ORGANIZATION AND FUNCTION

The Department of Revenue, Division of Treasury (Treasury) is responsible for, and has sole discretion over, the prudent investment and management of the Public Employees' Retirement Fund (PERS) and the Teachers' Retirement Fund (TRS).

Chapter 141, SLA 1988 amended PERS and TRS statutes by designating the funds as retirement trust funds and appointing the commissioner of Revenue as treasurer of the retirement systems and fiduciary of the funds. Under the amending legislation, the commissioner of Revenue shall:

1. Consider the status of the funds' investments and the system's liabilities on both a current and a probable future basis.
2. Determine the appropriate investment objectives for the funds.
3. Establish investment policies aimed at achieving the objectives.
4. Act only in regard to the best financial interests of the system's beneficiaries.

The amendments also repealed the "legal list" of investments the retirement funds were restricted to and placed upon the commissioner of Revenue, or his designee, the responsibility of fund fiduciary. Treasury also employes external investment managers who manage a substantial portion of the retirement funds.

Additionally, there are two boards which oversee the administrative aspects of the retirement systems. The Public Employees' Retirement Board is composed of five members, three of whom are members of the Department of Administration personnel board and two who are members of the system and elected by the membership of the system. The Teachers' Retirement Board consists of five members appointed by the governor. Both boards are mostly administrative in nature, being responsible for governing the regulatory aspects of the retirement systems.

The Alaska Permanent Fund is managed by an executive director, who reports to a six-member board of trustees appointed by the governor.

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FUND COMPARISONS AND DISCUSSION:
PUBLIC EMPLOYEES' RETIREMENT FUND, TEACHERS'
RETIREMENT FUND, and ALASKA PERMANENT FUND

BACKGROUND

There is no validity to the statement that "a fund is a fund" as each fund has its own unique characteristics. Although funds such as those set up as trusts and endowments may have few obvious differences, there are deeper, less clearly defined differences such as fund objectives, philosophy over fund management, and investment styles. A slight difference in fund objectives and philosophy may, and usually does, result in different investment styles and, therefore, differing returns on investment. The varied fund management styles and investment philosophies create a danger in across-the-board rate of return comparisons and forming conclusions drawn from those comparisons. There are several ways of assessing investment results. It is not, for example, appropriate to compare the results of funds with very different objectives or constraints. Funds with different types and mixes of investments are also difficult to compare directly. To properly assess investment results, comparisons must reflect similar objectives, constraints, opportunities, and all things that go into the investment process.

The Alaska Permanent Fund, while not legally defined as one, is in all probability a trust fund like the Public Employees' (PERS) and Teachers' (TRS) Retirement Funds. The Alaska Permanent Fund Corporation (PFC) holds the Permanent Fund out as a "Public Trust Investing for Alaska's Future," has a Board of Trustees, and is intent on earning revenue for beneficiaries while preserving principal. The obvious similarities between PERS/TRS and the Permanent Fund end here - at considering both funds as trusts.

PFC has chosen a more cautious, less risky approach towards its investments. In an informational pamphlet dated May 1989, PFC stated:

The Fund invests its assets to earn income. To minimize the risk that Fund assets could be destroyed by bad investment decisions, the Fund is invested very conservatively. Indeed, the primary emphasis in all Fund decision-making is maintaining the safety of principal. The maximizing return on investment is the secondary consideration.

This contrasts to the Department of Revenue, Division of Treasury (Treasury) investment philosophy of the PERS/TRS which has been stated as:

The most important characteristic of the funds for investment policy purposes is their perpetual nature and, in the case of the Public Employees' Retirement System, the long number of years before it will encounter any net outflows (probably 15 to 20 years). A long time span accommodates investments which should enjoy higher returns over the long-run, although they may be slow to materialize, or be erratic in the short-run, and it allows greater use of investments which may have substantial market valuation risks. This characteristic expands the universe of investment possibilities and increases the potential for achieving higher returns on the investments.

The PERS/TRS has opted for more growth through a higher asset allocation to equities. To achieve that end, PERS/TRS follows an investment technique known as active management versus a passive management investment style. Passive management is a term used to describe an investment strategy that attempts to follow a predefined market index, such as the Standard and Poor's (S&P) 500, and fashions the portfolio to mirror the results of that index. Passive management follows a process of rebalancing the portfolio to reflect the index, not necessarily to enhance or maximize a return. Active management, on the other hand, involves portfolio management that is involved in the active investment process of buying and selling in an attempt to enhance the portfolio's performance. The active management strategy can be characterized as continually monitoring the market to determine what is the best selection of investment to produce the best returns within a predetermined set of risk parameters.

PFC is legally limited in its investment diversification by statute which defines a specific "list" of permitted investments. The Treasury did have investment limitations, but the statutory restrictions were repealed by Chapter 41, SLA 1988. This allows Treasury more investment flexibility. With this flexibility, Treasury can assume additional risk, and theoretically achieve higher returns for the PERS/TRS Funds.

ASSET ALLOCATION

An informative way to examine the assumed risk is to analyze the asset allocations of the various funds. At March 31, 1989, the various funds' holdings were (stated in percentage of portfolio at market values):

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Equities (1)	32.8%	34.9%	12.9%
Fixed Income	54.7%	51.3%	77.6%
Real Estate	6.4%	6.0%	5.6%
Other (2)	6.1%	7.8%	3.9%

(1) includes domestic and foreign equity holdings of the PERS and TRS. PFC does not yet invest in foreign markets.

(2) includes mortgages, cash, and interest and dividends receivable.

As can be seen, the PERS/TRS Funds hold 2.5-to-3 times more equity than does PFC. Conversely, PFC holds 1.5 times more fixed income investments than does the PERS/TRS Funds.

By their nature, equities have more risk than fixed income (debt) investments. As mentioned earlier, theoretically the riskier the investment, the higher the potential rate of return.

FUND PERFORMANCE

This section and the following section ("Other Rate of Return Data") present statistical data which show various rates of return earned not only by the PERS/TRS and Permanent Fund but other interest-bearing investments. As noted above, and throughout the report, direct comparisons between these funds and other investments are not practical for assessing how one fund "performed or out performed" another fund. This is mainly due to the differences in purpose, goals, and philosophy of each particular fund. However, the presentations provided here are done so for the benefit of interested parties who can review the returns earned by the funds and relate those to other commonly known investments.

It has been alleged that Treasury managed PERS/TRS Funds are among the worst performers within the universe of funds used for performance measurement and comparison (see Recommendation No. 2). While the allegations themselves are substantially accurate in the context they were submitted, the facts must be kept in perspective in light of the long-term nature of the retirement funds. The allegations were made from looking at just one, short period of time that the PERS/TRS funds were evaluated. One must be careful about the period of time used for measurement as investment results measured over short periods of time are very misleading. The best results today may be the worst tomorrow. What matters is consistent, long-term results.

With the above thoughts in mind, the PERS, TRS, and PFC performance can be reviewed together with returns of other, although non-comparable, commonly known investments.