

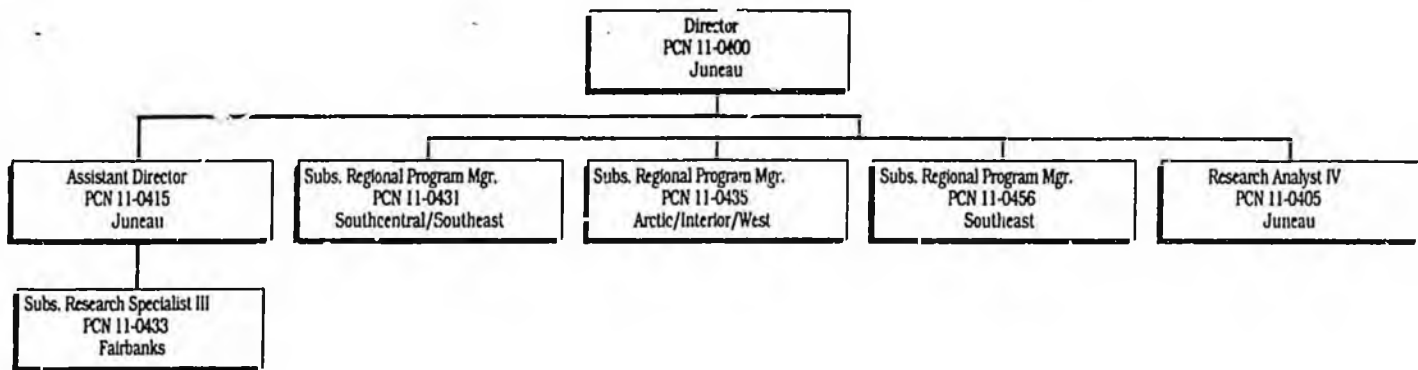
ALASKA LEGISLATURE

1583

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998



DIVISION OF SUBSISTENCE



DIVISION OF SUBSISTENCE

OVERVIEW

Subsistence hunting and fishing are economically and culturally important for many Alaskan families and communities. The division's main responsibilities are to conduct research to document subsistence uses, estimate subsistence harvest levels, and evaluate potential impacts to subsistence users from other uses. Research findings are compiled and analyzed to address fish and wildlife management and regulatory issues and to provide information for state and federal land use planning.

ISSUES

Dual Subsistence Management. Although both the Alaska National Interest Lands Conservation Act (ANILCA) and the State of Alaska subsistence law recognize subsistence uses, dual management has increasingly led to different regulatory situations on state and federal land. In FY97 the division assumed lead department coordination and liaison functions with the Federal Subsistence Management program. This work entails tracking the federal board process to comment on proposals, filing requests for reconsideration when federal decisions are counter to factual analysis; or protection of the state's subsistence uses and ensuring sustained yield; and providing departmental information throughout the process, including litigation.

Subsistence Resolution. Resolution of the dual management situation and resumption of state management of fish and wildlife on federal lands are certain to be important issues in FY98. Efforts by the administration or the legislature to regain state management, and/or potential legal decisions would likely change the present management landscape. Private sector groups, such as chambers of commerce and fishing groups have also expressed interest in providing forums for discussion of the issue. Division data and expertise will be called upon to provide the factual basis and the necessary analysis that may contribute to a lasting resolution of the present management impasse.

State Subsistence Law Implementation. The present state subsistence law may be examined in the coming legislative session. The Legislature will rely on the Division of Subsistence to provide a factual basis and analysis of fishing and hunting patterns to support legislative action on this law. Implementing the present law requires major work in two main areas: determining customary and traditional uses and providing reasonable opportunity for subsistence harvests, and, secondly, developing and administering Tier II hunting procedures.

RESPONSIBILITIES

- Subsistence Fisheries
- Subsistence Hunts
- Conduct Subsistence Research
- Identify Subsistence Uses
- Estimate Harvest Levels
- Advise Department and Boards
- Evaluate Impacts on Subsistence
- Liaison to Federal Managers

ISSUES

- Dual Subsistence Management
- Subsistence Resolution
- State Subsistence Law Implementation
- Resource Allocation
- Developing Fisheries
- Hunting Opportunities
- Land and Resource Development
- State/Federal Relationships
- Emerging Cooperative Management Relationships

GOALS

- Update Subsistence Information
- Provide Reliable Data
- Provide Technical Assistance to Local Entities

ISSUES (CONT.)

Resource Allocation. Allocation disputes between different user groups continue. Division data provide the basis for Boards of Fisheries and Game customary and traditional use determinations and for the promulgation of subsistence regulations.

SCHEDULED FY98 RESEARCH

Harvest Monitoring and Species-Specific Studies. A number of division projects in FY98 will document levels of subsistence salmon harvest in fisheries where accurate yearly harvest data are essential for management. Assessment projects are planned in Northwest Alaska, the Kuskokwim River drainage, Bristol Bay, the Chignik area, Cook Inlet, and Copper River. Research in Southeast Alaska will examine harvest and use of king and coho salmon in the area's smaller communities. Research on subsistence fisheries along the Aniak, Kisaralik and Kwethluk rivers, and further monitoring of Nelson Island herring harvests are also scheduled. The division will update data on subsistence use of deer in Southeast Alaska, and examine moose hunting practices in Yukon River drainage communities. Several proposed projects in the Interior and northern Alaska as well as one completed in the Bristol Bay region will develop models for harvest assessment of large game through partnership with regional Native organizations.

Community Profiles. Subsistence harvest survey data, maintained in the Community Profile Database, provide the quantitative factual basis for regulatory decisions on subsistence issues as well as provide information for land use planning. In FY98 the division will continue to update community profiles by conducting household surveys in northern Southeast and Interior communities. Available data for these regions has become dated. Other regions of the state will be resurveyed in subsequent years, following a five-year research cycle.

Collaborative Research. The efficient collection of accurate subsistence harvest and use data in small communities in Alaska increasingly requires the active participation of local communities in this work. The division will continue its practice of working closely with local communities in field research projects. Many research projects will take place through cooperative agreements with community and regional organizations.

Marine Mammal Studies. Certain marine mammal species are being evaluated for possible Endangered Species Act protection; final decisions have yet to be made. The division has undertaken studies of subsistence use of harbor seals and sea lions under contract with NMFS. These studies have documented the importance of subsistence harvests and demonstrated that these harvests are not the cause of declines of marine mammal populations.

FY98 BUDGET REQUEST

The Division of Subsistence is requesting a FY98 general fund budget of \$1,238.3, including authorization to receive \$269.7 in interagency receipts, and \$1,318.7 in special project funding. This budget reflects a continuation of FY97 GF funding and an increase of \$294.6 in Special Project funding authorization. This increase includes projects approved by the Legislative Budget and Audit Committee (LBA) in FY97 that are projected to continue in FY98. It also is an additional \$94.5 in federal receipts (Pittman-Robertson funds).

	FY94	FY95	FY96	FY97	FY98
	Auth	Auth	Auth	Auth	Request
Personal Services	2,097.3	2,161.8	1,884.5	2,036.0	2,276.5
Travel	227.9	253.3	182.7	186.2	201.8
Contractual	635.9	372.1	356.5	576.8	865.2
Supplies	49.2	50.7	45.8	44.2	52.0
Equipment	22.6	22.6	5.5	5.6	5.6
TOTAL	3,032.9	2,860.5	2,475.0	2,848.8	3,401.1
Funding:					
1002 Federal Receipts	1,268.2	966.8	1,040.3	976.1	1,084.2
1004 General Fund	1,686.2	1,684.6	1,289.6	1,225.0	1,238.3
1005 GF/Program Receipts	78.5	169.1	105.1	7.5	0.0
1007 I/A Receipts	0.0	40.0	40.0	305.5	311.0
1018 EVOS	0.0	0.0	0.0	334.7	574.4
1091 G/F Designated Rec	0.0	0.0	0.0	0.0	193.2
Positions:					
PFT	26.0	27.0	27.0	23.0	26.0
PPT	14.0	14.0	14.0	10.0	12.0
Temp	0.0	0.0	0.0	0.0	0.0

VALUE OF ALASKA SUBSISTENCE

- 45 Million Pounds of Food Annually to Alaskan Families
- Major Source of Employment in Rural Alaska
- Economic Base in Small Communities
- Cultural Dependency on Fish and Game

BUDGET HIGHLIGHTS

- \$1,238.3 General Fund (level)
- \$269.7 I/A Receipts
- \$1,318.7 Special Projects (Increase)
- Projected Increase in Pittman-Robertson (Federal Funds)

FY98 BUDGET REQUEST (CONT.)

Operational Funding. The division will continue its core statutory responsibilities: to document and monitor subsistence uses of fish and wildlife, to present subsistence information to fish and game regulatory boards and for land management decisions, and facilitate implementation of state and federal subsistence law.

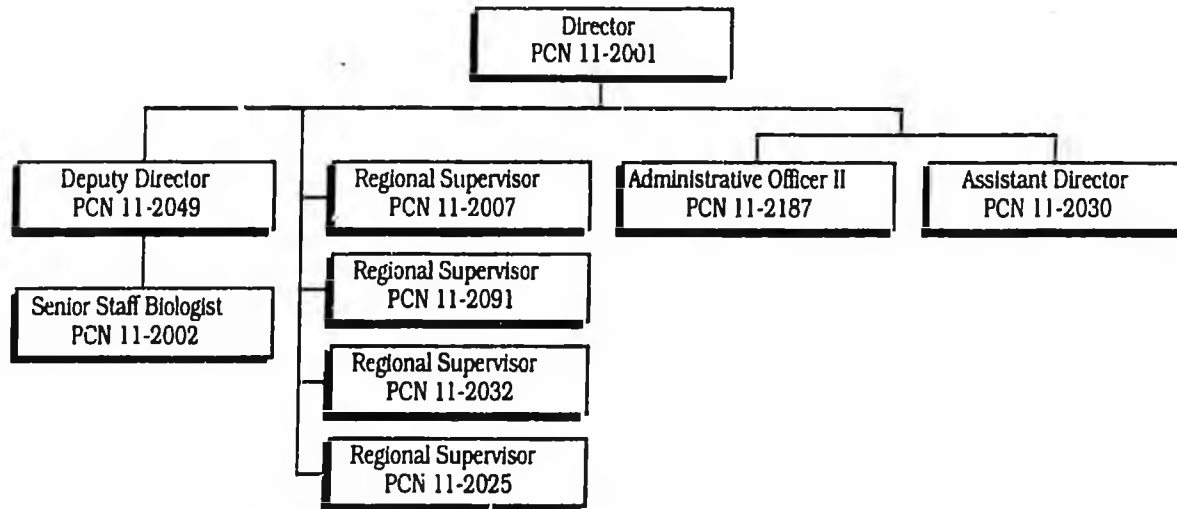
Special Project Funding. Special project funds, from federal agencies, state agencies, universities, and other sources, provide support for research and planning activities that are of interest to the state but not funded by general funds. Research on the subsistence use of marine mammals and migratory waterfowl, studies of the impact of the Exxon Valdez oil spill, rural opinion surveys of predator control, documentation of subsistence trapping, subsistence salmon harvest assessment, and baseline descriptions of subsistence use on federal lands are examples of such projects undertaken in recent years. These funds are received on a contract-specific basis and are restricted in use. Reductions in federal funding are likely, as are further staff reductions from the Special Projects budget component.

Efficiencies, Cost Control Measures. Since FY92 the division's general fund budget has been reduced 35 percent. This reduction, coupled with the loss of federal ANILCA funding after 1990, has reduced funding for the division's core program to less than 50 percent of what it was in FY92 without considering inflation. From FY92 through FY97, seven positions were eliminated and a field office was closed. Since FY96 two full-time research positions have not been filled. Additional full-time and permanent seasonal staff were transferred to special projects or assigned to work on projects funded by reimbursable services agreements.

Because of the cumulative effect of prior years reductions, the division's core research program has had to undergo rigorous prioritization in an attempt to fulfill its statutory responsibilities to document and monitor subsistence uses throughout the state. Divisional services to parts of the state are essentially non-existent unless crises develop. The division has reduced its presence at Board of Fisheries and Board of Game meetings, as well as its input to state and federal land use planning. This cumulative reduction in service will increasingly limit the department's ability to manage subsistence uses on state lands and waters and will reduce the state's ability to influence federal management of subsistence on federal lands and waters.



DIVISION OF WILDLIFE CONSERVATION



DIVISION OF WILDLIFE CONSERVATION

OVERVIEW

The Division of Wildlife Conservation is responsible for the management of Alaska's wildlife resources. The primary goals of the division are to protect, maintain, and enhance the wildlife resources of Alaska; and provide for their greatest use by the people, consistent with the sustained yield principle, for the well-being of the people and the economy of the state.

ISSUES

Increased Hunting Demand. One of the biggest challenges facing the Division of Wildlife Conservation is how to meet an increased demand for hunting opportunities. We believe the primary reasons for growth in this area are increases in Alaska's population and tourism. Balancing this demand against managing for sustained yield is complicated by reduction of habitat in populated areas and indirect adverse impacts to wildlife populations.

Increased Demand for Conservation Education, Wildlife Viewing, and Management of Endangered Species. The division has also experienced increased demands for other uses of wildlife. Wildlife information and education programs increase public understanding of requirements for healthy, productive wildlife populations, and help ensure public support for and voluntary compliance with wildlife conservation regulations. Division information programs are necessary to reduce public confusion regarding complex regulations resulting from "dual" management of Alaska's wildlife resources by state and federal authorities and to promote higher levels of voluntary compliance with regulations.

Subsistence. The division also is facing the question of how to deal with increased costs and complexities of managing for a state subsistence preference and all other uses, while addressing Alaskan concerns arising from federal subsistence management of resident wildlife on federal lands. The change in the state's subsistence law resulting from *McDowell v. State of Alaska* and the subsequent federal "takeover" of traditional state management authorities has had major impacts on the division and the future management and use of wildlife in Alaska. Solutions need to be developed to address these resource management and allocation conflicts to provide Alaskans with sound and rational management of their wildlife resources.

RESPONSIBILITIES

- Manage All Wildlife Species
- Regulate Hunting
- Enhance Wildlife Populations

ISSUES

- Increased Hunting Demand
- Increased Demand for Conservation Education, Wildlife Viewing, and Management of Endangered Species
- Dual State and Federal Subsistence Management

GOALS

- Conserve and Enhance Alaska's Wildlife
- Provide for a Wide Range of Wildlife Uses



FY98 BUDGET REQUEST

Revenue from the sale of hunting licenses and tag fees continues to increase, and federal aid receipts are stable. The FY98 budget request is for the same amount the legislature appropriated in FY97. We have requested that the operational programs funded via the CIP budget in FY97 be returned to the operating budget in FY 98. The division received no general funds in FY97. We have requested \$319.5 in general funds to pay for our programs in nongame management, endangered species research, and watchable wildlife (Creamer's Field, Potter's Marsh, and Pack Creek Refuges).

Programs that will receive additional funding in FY98 include intensive management in Interior Alaska, big game population surveys and censuses, wildlife planning in the Anchorage bowl, and the hunter education/hunter services program.

	FY94 Auth	FY95 Auth	FY96 Auth	FY97 Auth	FY98 Request
Personal Services	9,432.7	9,881.0	10,569.2	10,463.1	11,368.2
Travel	608.8	727.8	752.2	765.7	849.6
Contractual	4,036.8	4,081.9	4,358.4	3,669.0	4,485.1
Commodities	698.3	913.2	961.6	1,168.8	1,141.1
Equipment	152.5	198.2	277.7	425.3	336.9
TOTAL	14,929.1	15,802.1	16,919.1	16,491.9	18,180.9
Funding:					
1002 Federal Receipts	8,300.0	9,055.6	9,154.0	9,572.2	9,673.8
1004 General Fund	1,254.5	667.9	0.0	0.0	319.5
1005 GF/Program Receipts	113.0	408.6	428.6	77.6	85.9
1007 I/A Receipts	50.0	50.6	0.0	120.9	40.0
1018 EVOS	0.0	0.0	0.0	617.3	461.9
1024 F&G Fund	4,841.3	5,467.9	7,190.4	5,650.4	7,200.0
1061 CIP Receipts	70.3	151.5	146.1	153.2	95.2
1091 G/F Designated Rec	0.0	0.0	0.0	300.3	304.6
Positions:					
PFT	130.0	132.0	137.0	137.0	143.0
PPT	34.0	36.0	40.0	44.0	53.0
Temp	0.0	3.0	3.0	11.0	20.0

BUDGET HIGHLIGHTS

- GF for Creamer's and Potter's Marsh Refuge
- Fish and Game Funds for Hunter Education/Hunter Services
- Fish and Game Funds for Intensive Management Survey and Inventory

MANAGEMENT ACTIVITIES

- Big Game
- Small Game
- Furbearer
- Waterfowl
- Nongame Species
- Manage General Hunts
- Manage Permit Hunts
- Provide Opportunities to View and Enjoy Wildlife
- Hunter Education
- Wildlife Education

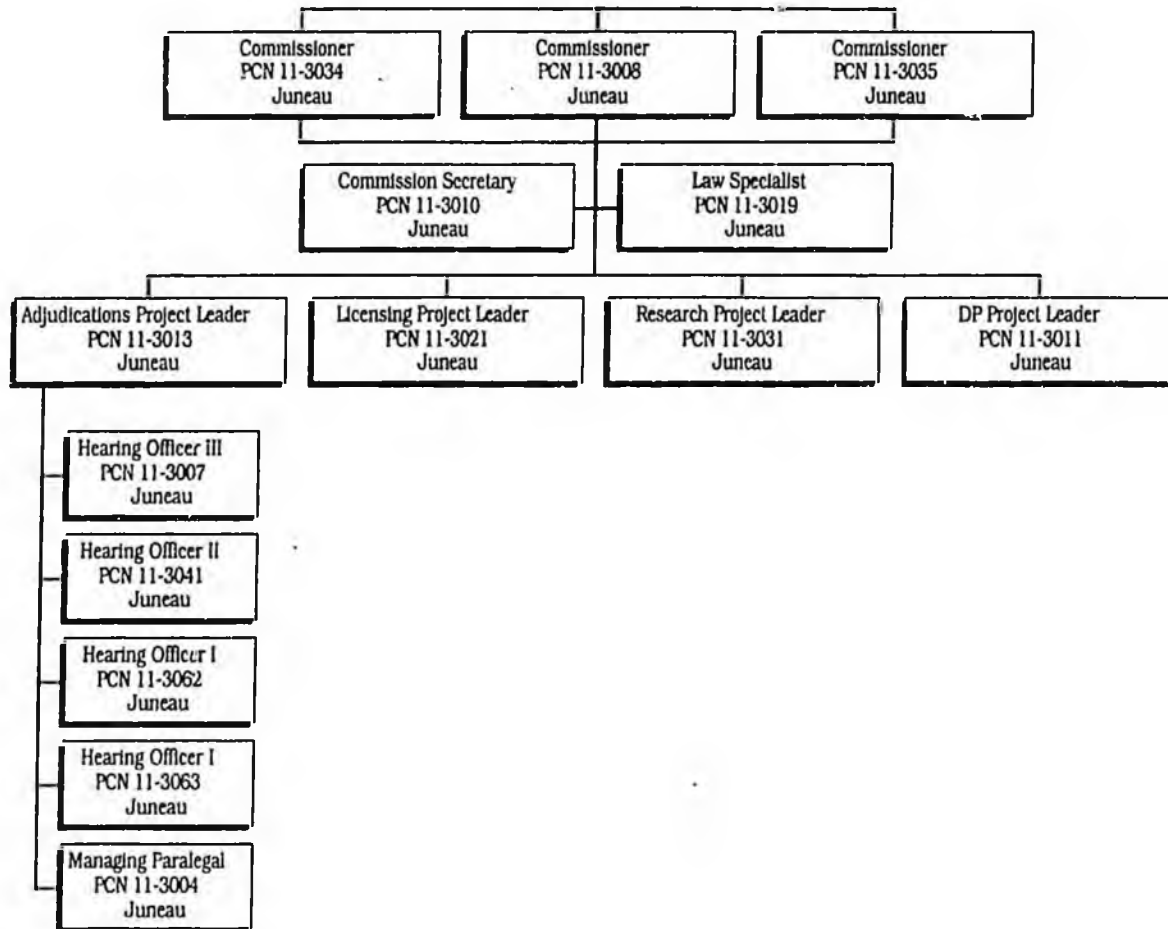


SECTION III

COMMERCIAL FISHERIES ENTRY COMMISSION

FY98 BUDGET REQUEST JANUARY 1997

COMMERCIAL FISHERIES ENTRY COMMISSION



COMMERCIAL FISHERIES ENTRY COMMISSION

OVERVIEW

Alaskans amended the state constitution in 1972 to provide the legislature the authority to establish a commercial fishery license limitation system. Subsequent to the approval of the constitutional amendment, the legislature created the Commercial Fisheries Entry Commission. The commission is an exempt, independent and quasi-judicial agency. Its purpose is to limit the number of participants in selected commercial fisheries to promote sustained yield and economically viable fisheries.

CFEC has become an essential management component of Alaska's billion dollar fishing industry. The commission has the statutory duty to promote the conservation and sustained yield management of Alaska's fishery resources and the economic health and stability of the industry by regulating entry into Alaskan commercial fisheries in the public interest.

ISSUES

Adjudication. A primary function of the agency is adjudicating disputes affecting permit applications, transfer requests and fee arrearage cases as well as revocation and suspension actions. Concentrated efforts have been made to resolve first the *Wassilie* cases followed by others in chronological order.

Statutory Changes. The Commission is constantly seeking to streamline the limited entry system for the public benefit. Two challenges facing CFEC are developing functional fleet reduction opportunities and restructuring existing moratorium statutes.

Public Demands. CFEC receives many petitions for fishery limitations each year from individual fishermen, private fishery organizations, and government fishery managers. Currently pending before the Commission are 24 such petitions. Extensive research is required before a final Commission decision can be made to limit a fishery. It is not a process to be taken lightly, and is often expensive and lengthy to implement because of stringent legal requirements.

Legal Challenges. *Carlson v. CFEC* This lawsuit by out-of-state fishermen challenges CFEC's annual entry permit renewal fees, which by statute (AS 16.43.160)

RESPONSIBILITIES

- Promote Conservation
- Promote Sustained Yield
- Promote Economically Stable Fishing Industry
- Regulate Entry into Commercial Fisheries
- Issue Permits
- Adjudication
- Conduct Research

ISSUES

- Limitation of Entry
- Adjudication
- Statutory Changes
- Public Demands
- Legal Challenges

HIGHLIGHTS

- 77% of all Limited Entry Permits are Held by Alaskans
- 57 Fisheries Now Under Limitation
- 24 Pending Petitions Requesting Limitation

ISSUES (CONT.)

requires a 3-to-1 differential in favor of residents. The case is now under consideration to be heard by the U.S. Supreme Court.

Internal Revenue Service v. Alaska Permit Holders For more than 10 years, the Commission has worked to protect Alaskans from the loss of access to their fisheries due to IRS seizures and forced sales of limited entry permits. In many areas the loss of an entry permit would result in the loss of a primary source of cash to a family and community. CFEC is continuing to work directly with the IRS as well as a collaborative statewide network including several municipalities, the University, the Commercial Fishing and Agriculture Bank, Alaska Federation of Natives, Native corporations and associations, Division of Investment, Department of Commerce, the Alaska Business Development Center, and others to help individual fishermen respond to financial crises, protect their fishing privileges and achieve voluntary federal tax compliance.

FY98 BUDGET REQUEST

After twenty years of operation, CFEC remains a small but efficient agency with a frugal budget. In fact, the CFEC FY98 budget request approximates that of 15 years ago in FY83. However, the burden to protect access has grown substantially. Budget restrictions have required the Commission to do more with less. Since 1986, nine positions have been eliminated and, at various times, CFEC has imposed salary freezes and pay cuts, requested employees to take leave without pay, and downgraded positions to meet budget demands. At the same time, from the fees charged to fishermen, the Commission generates nearly twice its budget in revenues to the general fund.

	FY94	FY95	FY96	FY97	FY98
	Auth	Auth	Auth	Auth	Request
Personal Services	2,148.1	2,203.5	2,218.3	2,243.8	2,285.4
Travel	80.4	65.4	65.4	58.7	56.7
Contractual	489.0	417.0	402.2	380.4	379.6
Supplies	26.7	26.7	26.7	26.7	26.7
Equipment	3.0	3.0	3.0	3.0	3.0
TOTAL	2,747.2	2,715.6	2,715.6	2,712.6	2,751.4
Funding:					
1002 Federal Receipts	108.3	108.7	108.7	108.9	109.6
1005 GF/Prgm. Rcpts	2,638.9	2,606.9	2,606.9	2,603.7	2,641.8
Positions:					
PFT	33.0	32.0	32.0	32.0	32.0
PPT	4.0	5.0	5.0	5.0	5.0
Temp	2.0	2.0	2.0	2.0	2.0

BUDGET HIGHLIGHTS

- CFEC Generates Twice its Budget in Revenues to General Fund
- Since 1986, Nine Positions (29% of agency staff) Eliminated due to Budget Constraints
- FY98 Budget Request Approximates that of FY83 when Agency Revenues were Half What They are Today

Agency

Overviews:

Revenue ;

DCED ; Labor ;

CRA

HFIN

FILE

HOUSE FINANCE COMMITTEE
JANUARY 22, 1997
1:45 P.M.

TAPE HFC 97 - 5, Side 1, #000 - end.
TAPE HFC 97 - 5, Side 2, #000 - end.
TAPE HFC 97 - 6, Side 1, #000 - #529.

CALL TO ORDER

Co-Chair Mark Hanley called the House Finance Committee meeting to order at 1:45.

PRESENT

Co-Chair Hanley	Representative Grussendorf
Co-Chair Therriault	Representative Kohring
Representative Davies	Representative Martin
Representative Davis	Representative Mulder
Representative Foster	

Representatives Moses and Kelly were not present for the meeting.

ALSO PRESENT

Wilson Conson, Commissioner, Department of Revenue; Laurie Perkins, Director, Division of Administrative Services, Department of Revenue; Willie Hensley, Commissioner, Department of Commerce and Economic Development; Guy Bell, Director of Administrative Services, Department of Commerce and Economic Development; Remond Henderson, Director, Division of Administrative Service, Department of Community and Regional Affairs; Lamar Cotten, Deputy Director, Department of Community and Regional Affairs; Percy Frisby, Director, Division of Energy, Department of Community and Regional Affairs; Tom Cashen, Commissioner, Department of Labor; Dwight Perkins, Deputy Commissioner, Department of Labor; Arbe Williams, Director, Division of Administrative Services, Department of Labor; Director, Division of Employment Security, Department of Labor; Rebecca Nance, Director, Employment Services, Department of Labor.

SUMMARY

AGENCY OVERVIEWS:

Department of Revenue
Department of Commerce and Economic Development
Department of Labor
Department of Community and Regional Affairs

(Copies of log notes, meeting tapes and handouts will be on file with the House Finance Committee Secretaries until after the 20th Legislative Session. Contact #465-6814 or #465-2378. After the 20th Legislative Session, log notes, meeting tapes and handouts will be located at the Legislative Library, #465-3808.)

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Finance

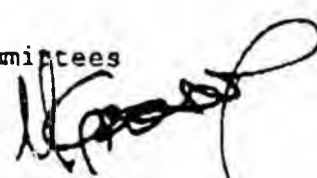


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(907) 465-3795
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October 14, 1996

TO: Chair and Vice-Chair
Legislative Budget & Audit Committee

Co-Chairs, House and Senate Finance Committees

FROM: Mike Greany, Legislative Fiscal Analyst 

RE: ~~Discontinuation of Executive RP Review Process~~

This is to advise you that Ms. McConnell, Office of Management and Budget has discontinued prior OMB review of agency revised programs and delegated to agency commissioners:

- transfers of funding between allocations (within an appropriation)
- transfers between line items (except the grants line)
- position establishments and reclassifications.

I have some misgivings about this move in that I believe that OMB has served a necessary internal executive branch "check and balance" by reviewing/approving these type of budget transfers and new positions.

In the past, this office has also received information copies which have assisted us in our legislative oversight function. For example, it was through this process a couple of years ago that we became aware that the Department of Law was converting part of its oil and gas litigation effort from contractual to in-house with ten new positions-- an issue of legislative interest.

We will work with the agencies, and OMB as necessary, to ensure that we are able to provide continued legislative oversight.

A copy of the OMB delegation memorandum is attached for your information.

ATT 3

House Finance Committee

Departmental Operating Budget Overviews

TOPICS TO BE ADDRESSED

- 1) Managing the FY97 budget
 - # of filled positions deleted (if any)
 - Potential lapse balances
 - Potential supplementals
 - Efficiencies introduced
 - Cost savings produced
 - RIP update

- 2) The Governor's Proposed FY98 Operating Budget.
 - Major dollar changes from FY97 (Increments/Decrements)
 - Programmatic effect of these changes
 - Known underfunding/supplementals
 - Top Departmental Priorities
 - Any known legislation and fiscal note amounts

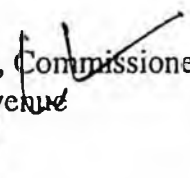
- 3) Questions from members.

MEMORANDUM

STATE OF ALASKA DEPARTMENT OF REVENUE

TO: Annalee McConnell, Director
Office of Management and Budget

DATE: January 20, 1997

FROM: Wilson L. Condon,  Commissioner
Department of Revenue

RE: FY 97 Supplemental
Request

The Department of Revenue, Treasury Division (Treasury) requests a supplemental increment to its FY 97 General Fund budget in the amount of \$31,000. This increase would pay investment management fees on equity investments for the Constitutional Budget Reserve Fund (CBRF) for the period February 1, 1997, to June 30, 1997. This amount is very small in comparison to Treasury's overall General Fund budget, and your normal practice would require us to find a way to absorb this amount somewhere in that budget. Treasury believes a supplemental appropriation is necessary to make certain the Legislature specifically approves investing a portion of the CBRF in the equity market.

Last session, the Legislature's final actions with respect to the investment and management of the CBRF were inconclusive. On the one hand, the Legislature amended the statutes pertinent to the CBRF in a manner that clearly indicated they wanted a portion of the CBRF invested in equities. On the other hand, they did not provide funding for the management fees for such investments.

The Legislature added a new section, AS 37.10.430, to the statutes relating to the CBRF in the FY 96 session (previously AS 37.10.410-420). In this new section, the Commissioner of Revenue is:

- given discretion to transfer the management of the CBRF to the Permanent Fund Corporation, and
- required to annually prepare a report comparing the earnings of the CBRF to the Permanent Fund and General Fund.

The proponents of this amendment clearly wanted Treasury to reevaluate the CBRF asset allocation and to invest the CBRF longer term in both fixed income and equity securities. They believed this reallocation would come about either by transferring some or all of the CBRF to the care and custody of the Permanent Fund or by reinvesting the CBRF directly in these longer term securities. Either of these investment options require an appropriation for manager fees. If I had decided to move the entire CBRF to the Permanent Fund Corporation, an appropriation of approximately \$3,000,000 would have been required to pay management fees.

If the State is going to continue to use a portion of the CBRF each year to balance the State budget, then it would be inappropriate under existing institutional arrangements for the Permanent Fund Corporation to take over the management of the CBRF. I have attached six sections from our Treasury Division's Policies and Procedures Manual that

reflect the reasoning process that leads us to this conclusion. The first four, which are all still in *preliminary draft* form, are important to review. The fifth and sixth are useful if you want to look in depth at the ins and outs of developing an asset allocation for an investment program. The six sections of the Treasury Division's Policies and Procedures Manual are:

1. Draft Section X(B) from the Treasury Division's Policies and Procedures Manual, Investment Policy Statement: Constitutional Budget Reserve Fund;
2. Draft Appendix L from the Treasury Division's Policies and Procedures Manual, Recommended Reserves Policy;
3. Draft Appendix M from the Treasury Division's Policies and Procedures Manual, Commissioner's Proposed Decision and Justification for Managing the Constitutional Budget Reserve Fund in the Treasury Division of the Department of Revenue;
4. Draft Appendix N from the Treasury Division's Policies and Procedures Manual, Proposed Decision and Justification for Asset Allocation for the Constitutional Budget Reserve Fund;

5. Draft Section VII from the Treasury Division's Policies and Procedures Manual, Building Blocks for Treasury's Investment Policies; and
6. Draft Appendix H from the Treasury Division's Policies and Procedures Manual, Capital Market Assumptions and Projections: Treasury 1996.

Treasury believes the investment policies of the CBRF must address the following three needs:

- 1) Provide money to cover anticipated and unanticipated shortfalls over a two year time horizon;
- 2) Provide money to cover projected budget shortfalls until the time the State's recurring revenue is sufficient to meet its yearly expenses; and
- 3) Provide a long-term budget reserve.

Each of these purposes has a different time horizon, risk tolerance, and income objective.

I reviewed these three unique sets of objectives in Attachments 4 and 5. The overall investment policy - the combination of the investment policies designed to meet the three individual objectives - follows:

Treasury's short-term fixed income investment pool	1%
Treasury's intermediate-term fixed income investment pool	43%
Treasury's long-term fixed income investment pool	30%
S&P 500 equity investment pool	<u>26%</u>
	<u>100%</u>

Treasury has already made the appropriate reallocations within the various fixed income investment pools without incurring any additional cost. Treasury has not implemented the equity portion of the asset allocation. To invest in equities, Treasury must hire an external manager. The associated fees for this external manager will be 1 basis point, or .01% of the invested balance, annually. As stated earlier, Treasury's budget does not include any amount for these fees. While Treasury could begin implementation of this new asset allocation policy in the Spring of 1997, using funds already available for FY 97, Treasury would not be able to continue to pay the fees in FY 98 if the Legislature did not expressly appropriate money for that purpose.

Because of the possibility of incurring unnecessary transaction costs, Treasury cannot prudently begin to purchase equity securities without reasonable assurance that funding will be made available on an annual basis. *In addition, we believe it is important that the Legislature review the asset allocation for the CBRF and, at a minimum, indicate their understanding and acceptance by approving the funds to implement it.*

Treasury currently funds all costs of managing the CBRF with General Fund money.

The calculation of expected fees for external management follows:

CBRF balance, 1/1/97	\$2,800,000,000	
Equity allocation	<u>26%</u>	
Equity investment if invested at 1/1/97	<u>728,000,000</u>	
Projected equity investment at 6/30/97, (assuming 10% annual growth rate)	<u>764,400,000</u>	
Average equity investment		746,200,000
Annual fee, 1 basis point		<u>.01%</u>
Total annual fee		\$ <u>74,620</u>
Fee for 5 months, approximate		\$ <u>31,000</u>

The fee calculation assumes Treasury will invest the equity allocation by February 1.

At the recommendation of OMB, Treasury did not include any amount for CBRF management fees in its FY 98 budget, pending the outcome of this supplemental request with the Legislature. Treasury intends to modify its FY 98 request if the Legislature approves this budget request for FY 97. Treasury projects the additional request for FY 98 will approximate \$100,000 because of appreciation on the equity assets. Treasury will provide additional information if and when it makes a request to amend its proposed FY 98 budget.

Treasury wishes to bring this issue before the Legislature as a supplemental request early in the session so Treasury can confirm that our investment strategy meets legislative approval before we commit CBRF funds to long-term equity investment.

Thank you for your consideration. If you have any questions, please contact Ross Kinney at 465-3669, or Betty Martin at 465-2352.



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B. Investment Policy Statement: Constitutional Budget Reserve Fund

1. Description and History

In the 1990 general election, the voters of Alaska adopted an amendment to the Alaska State Constitution creating the Constitutional Budget Reserve Fund (CBRF). All money received by the State after July 1, 1990 as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes, must be deposited in the CBRF. The amounts that have been credited to the CBRF through the end of the 1996 fiscal year (rounded to the nearest million) are:

<u>Fiscal Year</u>	<u>Amount</u>
1991	314,000,000
1992	437,000,000
1993	868,000,000
1994	350,000,000
1995	1,500,000,000
1996	552,000,000
<u>Total</u>	<u>4,021,000,000</u>

The Legislature may appropriate funds from the CBRF to fund the operations of State government only under certain conditions. If, at any time, the amount of funds from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated to fund State government for the previous fiscal year, then the Legislature may appropriate from the CBRF on a simple majority vote. When the amount of funds from other sources exceeds the amount appropriated for the previous fiscal year, the

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General Fund that were identified as available for appropriation were used to repay a part of the General Fund liability to the CBRF during FY 96. Chapter 94, SLA 1995, section 43(a) appropriated that same amount back to the funds from which they had been transferred.

Amounts in the various subfunds and accounts of the General Fund that were identified as available for appropriation as of June, 30, 1996, were used to repay a part of the General Fund liability in accordance with article IX, section 17(d).

Chapter 94, SLA 1995, appropriated amounts from the CBRF to fund miscellaneous operating appropriations.

Chapter 94, SLA 1995, section 439(b), appropriated additional amounts needed to fund the shortfalls between State revenue and General Fund appropriations for fiscal year 1996.

As mentioned above, the Alaska State constitutional provision governing the operation of the CBRF requires the State's General Fund to repay the monies that have been appropriated from the CBRF if and when there is a surplus in the General Fund at the end of any fiscal year. The General Fund currently "owes" the CBRF \$1,875,813,600. The General Fund does not pay interest on the money it has "borrowed" from the CBRF.

The amounts earned by the investment of the money in the CBRF are credited to the Fund; through the end of FY 96, the Fund had earned about \$386,000,000.

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As of January 1, 1997, the balance in the CBRF was about \$2,800,000,000. At the present time, our best estimate is that the following additional contributions will be made to the CBRF over the next five fiscal years:

<u>Fiscal Year</u>	<u>Amount</u>
Last half of 1997	0
1998	250,000,000
1999	230,000,000
2000	230,000,000
2001	25,000,000

Until July 1, 1996, the Treasury Division of the Department of Revenue was solely responsible for managing the investment of the CBRF. Beginning July 1, 1996, the Commissioner of Revenue was given the discretion to transfer the management of all or a portion of the CBRF to the Alaska Permanent Fund Corporation (see AS 37.10.430 in Appendix M). Appendix M also contains the constitutional and the other statutory provisions applicable to the CBRF.

The Commissioner of Revenue has decided to retain the responsibility for managing the entire CBRF. The justification for that decision is set forth in Appendix M.

Prior to November 1996, most of the money in the CBRF was invested in the Intermediate-term Fixed Income Investment Pool (see Section VII(B)). Effective November 1996, the Commissioner adopted a preliminary investment policy that treated the CBRF as if it were three separate funds. Treasury implemented the fixed income portion of that policy. The equity

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33%	Long-term Fixed Income Investment Pool
67%	Equity Investment Pool

Treasury's performance benchmark for this portion of the CBRF is:

33%	Lehman Brothers Government/Corporate Index
67%	Standard & Poor's 500 Index

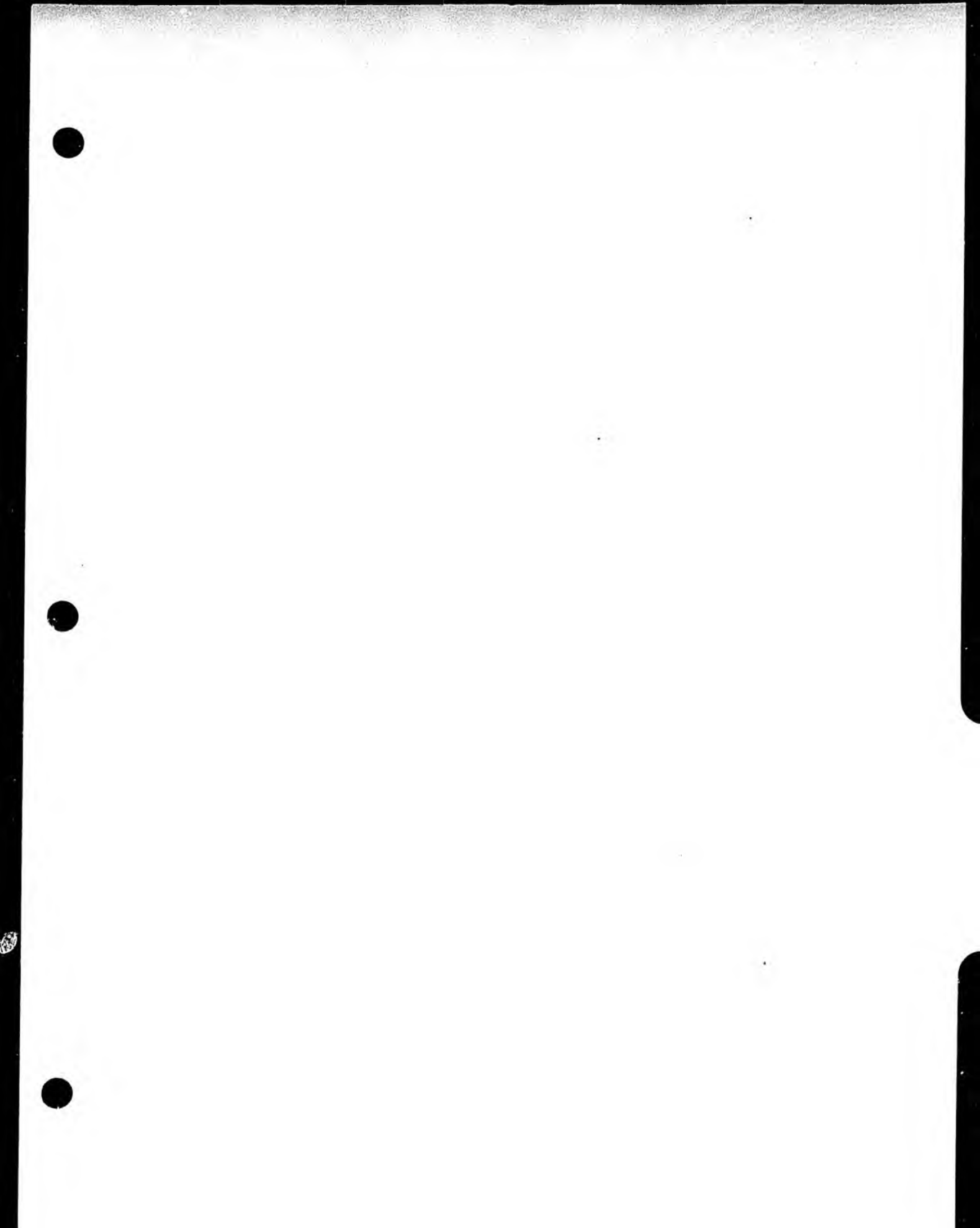
5. Combination of the Three Policies

With \$2,800,000,000 in the Fund, the following table reflects the asset allocation applicable to the Fund when these three policies are combined:

Short-term Fixed Income Investment Pool	1%
Intermediate-term Fixed Income Investment Pool	43%
Long-term Fixed Income Investment Pool	30%
Equity Investment Pool	26%

6. Reporting Requirements Pertinent to the CBRF

On or before March 15 each year, AS 37.10.430 requires Treasury to prepare a report to the Legislature comparing beginning and ending balances in the CBRF for the immediately preceding calendar year together with comparative nominal, real and realized returns for the CBRF, the Permanent Fund and the General Fund. The Comptroller in the Treasury Division is responsible for compiling this information and preparing and distributing the required report.



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APPENDIX L

MEMORANDUM

**STATE OF ALASKA
Department of Revenue**

To: File

Date: January 20, 1997

From: Wilson L. Condon
Commissioner
Department of Revenue

Telephone: 465-2301

Subject: Reserves Policy

Recommended Reserves Policy

A. Defining Reserves Policy

The Commissioner of Revenue is responsible for managing the assets held by the State Treasury to (1) meet the daily cash flow needs of the State and (2) meet the longer term reserve needs of the State. (See AS 37.10.070 in Appendix A of the Treasury Division's Policies and Procedures Manual). To fulfill these responsibilities, the Treasury Division has consulted with and worked jointly with other State agencies (principally the Office of Management and Budget in the Governor's Office and the Division of Finance in the Department of Administration) to develop two separate policies: a Cash Deficiency Contingency Plan and a Reserves Policy. The Cash Deficiency Contingency Plan is designed to insure that the State will be able to meet its very short-term daily cash needs. That Plan is discussed in further detail in Section XIII of the Treasury Division's Policies and

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possibility of a material decline in oil prices estimated using market measures of price volatility for oil. Treasury concluded that an allocation sufficient to cover any statistically significant decline (99% case) would result in too conservative an investment policy for the entire CBRF by allocating \$1,300,000,000 to the near-term reserve portion of the Fund.

E. Derivation of the \$1.2 Billion Transition

Because of the uncertainty surrounding the eventual outcome of the long-term fiscal process, Treasury used an average of the four proposed long-term fiscal plan's draws for fiscal years 1999 through 2002. Further, Treasury made allowance for the following additional factors:

1. Spending the \$800 million near-term reserve some time during the transition period to assist in balancing the annual budget;
2. Spending the projected earnings of the CBRF during the transition period to balance the current budgets; and
3. Accounting for the unexpectedly high oil prices experienced in FY 1996 and 1997 and anticipated for FY 1998 in calculating the annual deficits that must be covered by the CBRF.

Treasury concluded that \$1,200,000,000 was the appropriate additional amount required from the principal of the CBRF for the transition at this time. Treasury will review this amount at least annually as the State's long-term fiscal plan evolves.





APPENDIX M

MEMORANDUM

STATE OF ALASKA
Department of Revenue

To: File Date: January 20, 1997
From: Wilson L. Condon Telephone: 465-2301
Commissioner
Department of Revenue Subject: Constitutional Budget
Reserve Fund

Commissioner's Proposed Decision and Justification for Managing the Constitutional
Budget Reserve Fund in the Treasury Division of the Department of Revenue

AS 37.10.430(a) enacted by the Alaska Legislature in 1996 provides:

The Department of Revenue may transfer management responsibility over all or a portion of the Budget Reserve Fund (Article IX, Section 17, Constitution of the State of Alaska) to the Alaska Permanent Fund Corporation.

I have decided that the Department of Revenue should retain the management of all of the Constitutional Budget Reserve Fund (CBRF). I intend to review this decision at least annually.

My decision is based on a review of the State's Reserves Policy and an analysis of the mission of the Permanent Fund Corporation in light of that Reserves Policy. The policy is based on four points as follows:

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1. Single Purpose Permanent Fund Asset Allocation Not Designed to Accomplish Purposes of State Reserves Policy.

The State currently plans to use the CBRF to implement its Reserves Policy. That Reserves Policy has three parts, each of which will require a separate investment and asset allocation policy. Those three parts are:

- a) Provide money to cover anticipated and unanticipated shortfalls over a two year time horizon;
- b) Provide money to cover projected budget shortfalls until the time the State's recurring revenue is sufficient to meet its yearly expenses; and
- c) Provide a long-term budget reserve.

The Treasury Division has the flexibility to develop and use a range of policies for the Funds it manages.

The Permanent Fund, on the other hand, has a single asset allocation designed to achieve the particular purposes that have developed for that Fund, namely: *Provide dividends and provide a legacy for future generations of Alaskans.*

Requesting that the CBRF be managed by the Permanent Fund Corporation (PFC) and be used to fulfill the State's Reserves Policy would create irreconcilable missions for the PFC. On the other hand, Treasury has developed and intends to implement three separate specific investment and asset allocation policies for the CBRF to meet the three goals of the Reserves Policy (see Appendix L of the Treasury Division's Policies and Procedures Manual).

The key element of this Reserves Policy is that the CBRF has a much more discreet, well-defined and diversified set of objectives than the Permanent Fund.

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3. Treasury Currently Has the Tools in Place to Meet the Objectives of the Reserves Policy and the CBRF.

First, the Treasury Division has created a series of pooled Funds that are ideally suited to accommodate the proposed CBRF asset allocation. (See Sections VII and VIII and Appendix L of the Treasury Division's Policies and Procedures Manual.) Because Treasury has been required to accommodate a wide variety of investment mandates over the years, it has developed investment vehicles that can accommodate those differing mandates. The asset allocation analysis and decision set forth in Appendix N of the Treasury Division's Policies and Procedures Manual justifies leaving the CBRF investment responsibility with the Treasury Division. The Permanent Fund Corporation cannot, at this time, provide the necessary asset allocation opportunities.

Second, Treasury has staff members responsible for managing daily cash flows, and it invests some portion of its funds with daily cash flow requirements in mind. Without increasing the size of their staff, the Permanent Fund Corporation cannot easily provide the necessary arrangements for managing daily cash flows.

Third, Treasury can provide these services at a relatively low cost because the institutional arrangements for implementing the pertinent investment policies are already in place with respect to other Funds managed by Treasury. Using these arrangements will give the CBRF the obvious benefit of the economies of scale attendant to large institutional arrangements.



APPENDIX N

Decision and Justification for Asset Allocation for the
Constitutional Budget Reserve Fund

The Constitutional Budget Reserve Fund (CBRF or Fund) is a very important financial asset of the State. By adopting a constitutional amendment (Article IX, Section 17 of the Alaska State Constitution) the voters of Alaska established the Fund in 1990. The State must deposit all money received as a result of administrative proceedings or litigation on (1) mineral lease payments or (2) taxes on mineral income into the Fund. The legislature can appropriate money from the Fund with a three quarters vote of both houses or, under some restricted circumstances, with a simple majority. On January 1, 1997, the CBRF balance was approximately \$2,800,000,000.

The State currently plans to use money from the CBRF for three purposes to fulfill the State's Reserves Policy. Each of these purposes has a different time horizon, risk tolerance, and income objective. While the CBRF is one fund, Treasury treats it as three funds designated to fill different objectives. The investment policy for the CBRF is the combination of the investment policies designed to meet the three separate individual objectives. Taking this approach to the construction of CBRF's investment policy allows Treasury the maximum flexibility to invest for higher long-term returns while maintaining the safety of principal and liquidity needed to meet the Fund's more immediate objectives.

Based on the current State budget, current State revenue projections and the proposals presently being discussed to address the State of Alaska's longer term fiscal needs. Treasury believes the investment policies of the CBRF must be designed to address three needs:

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1. Provide money to cover anticipated and unanticipated shortfalls in the current and next fiscal years' budgets;
2. Provide money to smooth the State's transition to a balanced long-term fiscal plan; and
3. Provide a long-term budget reserve.

The exact amount of money the State will need to meet each of these objectives cannot be precisely known. Treasury has made its best estimate of the amounts required in order to construct the CBRF's investment policy. Based on current spending and revenue projections, Treasury estimated that \$800,000,000 in the CBRF should be allocated to cover the current and upcoming fiscal years' anticipated and unanticipated budget shortfalls. Treasury used an average estimated or implied standard deviation of oil prices, \$3.82/ barrel, over the relevant period to estimate the amount of money needed to cover a 90th percentile oil price decline. This results in a 10% probability that the reserve will not be sufficient to meet anticipated expenditures.

Treasury adds the amount set aside to cover unanticipated declines to the Department of Revenue's most recent estimate of the surpluses or deficits for the current and upcoming fiscal years' budgets. Treasury's estimate of money required for this portion of the CBRF reflects both the State's current fiscal position and the possibility of a material decline in oil prices estimated using market measures of price volatility for oil. Treasury concluded that an allocation sufficient to cover any statistically significant decline (99% case) would result in too conservative an investment policy for the entire CBRF by allocating \$1,300,000,000 to the near term reserve portion of the Fund.

Treasury estimated that \$1,200,000,000 will be needed to cover the transition period when the State's recurring revenues and expenditures are balanced. Finally, Treasury proposes to treat the

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meet any of the three objectives or changed expectation about the financial markets almost certainly require Treasury to alter the investment policy.

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statistical technique to combine, with respect to different investment classes, expected returns, variances of returns and covariances of returns, one can estimate the expected return profiles and standard deviation of various asset allocation alternatives. Treasury employs an independent consulting firm to develop the capital market projections used as input in this modeling process.

The capital market projections consist of (1) the expected return of the pertinent asset classes; (2) the expected future volatility of the returns for each asset class measured in terms of a statistical benchmark, standard deviation; and (3) the correlations of the returns among the various asset classes. Appendix H contains a description of the most recent derivation of these capital market projections.

Finally, to make the required asset allocation policy decisions, the Commissioner uses the output of this modeling process - namely a series of alternative asset allocations each of which is the allocation that is projected to achieve the highest return for each of the various levels of projected portfolio volatility (risk) reflected in the series. To make the final allocation judgment, the Commissioner considers (1) the risk tolerance of the pertinent fund; (2) the fund's need for protection from inflation; (3) the fund's need for liquidity; and (4) the output of the model.

C. Expected Return

As explained above, the expected return for each asset class in which Treasury plans to invest some portion of a fund, is a key ingredient in determining the optimal asset allocation for that fund. Expected returns are not a mysterious concept; "expected returns" are precisely what their name suggests. The material in Appendix H explains the derivation of Treasury's current return expectations.

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a particular asset, a particular asset class or a particular portfolio of investments. Returns include realized and unrealized capital gains and losses as well as interest and dividend income.

¹ Risk has four major sources, not all of which may apply to every asset class or portfolio.

a) Credit Risk

Credit risk arises from a debt issuer's willingness and ability to pay the interest and principal of a fixed income instrument as it becomes due. Credit risk varies greatly from issuer to issuer and usually reflects the relative certainty of the issuer's ability to pay. Low credit risk implies a high degree of certainty that the issuer will make all payments in full and on time.

b) Residual or Equity Risk

Equity investments are not investments with set cashflows or terminal values. Equity investments are a percentage ownership in a company. These investments are the residual interest in the net income, after corporate taxes, and the residual value of the company's assets after the creditors are paid. Uncertainty about the future profitability of a company and/or to its current or future liquidation value creates the risk in equity investments.

c) Exchange Rate Risk

Exchange rate risk arises from fluctuations in the relative exchange rates between foreign currencies and the U.S. dollar. These risks arise only on investments payable or valued in foreign currencies. Exchange rates vary daily and reflect a number of factors including economic productivity, relative inflation rates and trade balances.

d) Market Risk

Market risk arises from the market's valuation of a fixed income investment at any time prior to its maturity or at any time for all other investments. This valuation reflects the market participants' consensus judgments about a number of factors needed to value any particular investment. These judgments may or may not turn out to be correct; they may change suddenly; and they may be different from the judgments used to make the investment. The valuation of a fixed income investment reflects the market participants' perception of the credit risk, the remaining time to maturity of the investment, the coupon rate, and the interest rate similar securities currently earn.

The value of an equity security reflects the market participants' perception of the current and future profitability of the company, the dividend payment rate, the liquidation value of the company, and the future expected price of the security. The current valuation also reflects the probable return on the security relative to alternative investment options.

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Finally, in some instances, the current valuation of an equity security reflects current perceptions of exchange rate risks.

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When it comes time to measure the "risk" of a portfolio that includes more than one asset class, the statistical analysis becomes more complex. This is so because different asset classes behave differently. Sometimes the market forces that decrease the returns on one asset class in the portfolio simultaneously increase the returns on another asset class in the portfolio. Consequently, we must use both the estimated standard deviation of return on each asset class in the portfolio and the correlation coefficient between the historical performance of each of those asset classes to derive the "risk" (standard deviation in the variability of return) for the entire portfolio. The differing performance of asset classes provide what we often refer to as the benefits of diversification. Treasury measures risk at the portfolio level to account for the benefits of diversification. Individual investments or investments in a particular asset class may seem risky in isolation but could lower the overall risk at the portfolio level.

Treasury must consider the level of risk and the nature of the risks being accepted when developing the investment policy for each individual fund. The amount of risk a particular investment policy entails can change with market conditions. Treasury annually evaluates the risk levels of all investment policies and recommends changes as appropriate.

3. How Does Treasury Specifically Categorize Risk?

Treasury evaluates the riskiness of various investments or investment strategies using a spectrum of terms that range from "very low" risk to "high" risk with reference to the estimated probability of a loss over the next one year period. The categories are:

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Treasury uses the following time horizon specifications in making and articulating its investment policies:

Time horizon specification	Estimated time period before State will need funds
Very short time horizon	less than 6 months
Short time horizon	6 months to 1 year
Intermediate time horizon	1 to 4 years
Moderately long time horizon	4 to 8 years
Long time horizon	over 8 years

F. Risk Tolerance

Another term often used in conjunction with "risk" and "time horizon" in the development of investment policy is "risk tolerance." "Risk tolerance" is a measure of an investor's tolerance for variability in returns in exchange for the likelihood of higher long-term compensation. For purposes of developing investment policy for State Funds, Treasury categorizes risk tolerance as follows:

Very low risk tolerance	Unwilling to risk material short-term volatility because of the immediate need for the invested funds. Minimizing exposure of principal to loss is very important.
Low risk tolerance	Willing to take some risk to seek enhanced returns. Fairly low exposure of principal to loss is important.
Moderate risk tolerance	Willing to assume an average amount of market risk and volatility to achieve higher returns.

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efficiency, and the lower the cost of buying and selling an investment, usually referred to as the "transaction cost." The lower the transaction costs, the greater the liquidity of an investment.

When describing the complexity of an investment, the two ends of the spectrum are referred to as "simple" and "complicated." Complicated investments are generally more illiquid than simple investments. Complicated investments require the prospective buyer to perform a series of analytical steps and make consequent judgments to value the investment. The more complicated the investment, the longer it can take to make all the necessary judgments. The longer it takes to buy or sell an investment, the lower its liquidity. Further, since more judgments are necessary to value a complicated investment, there is a greater likelihood that the market will determine different valuations than those of the prospective buyer. The riskier the investment, the more reluctant the would-be buyer and, consequently, the more illiquid the investment.

An investment manager can convert a highly liquid investment into money or another investment quickly and efficiently. Therefore, liquidity increases flexibility in the investment management process. More illiquid investments and asset classes generally have higher expected rates of return than comparable more liquid assets. Whether to sacrifice liquidity for higher expected return will depend on the specific purposes and needs of each particular fund.





APPENDIX H

Capital Market Assumptions and Projections

Treasury 1996

To do the capital market modeling required to allocate the assets in the various funds managed by Treasury, the Department of Revenue employs an independent consulting firm to make capital market projections and to use those projections in capital market models. The firm currently under contract, Callan Associates, Inc., specializes in developing information to help fund managers make their asset allocation decisions.

The capital market projections consist of: (1) the expected returns of the pertinent asset classes; (2) the expected future volatility of those expected returns measured using the statistical benchmark, standard deviation; and (3) the correlations of the expected returns among the various asset classes.

Callan Associates uses four steps to form their capital market expectations:

1. Develop a five year economic outlook for the United States and other major industrial economies;
2. Examine the historical relationships between major economic and financial variables and five year asset returns;
3. Examine historical interrelationships of performance characteristics among the individual asset classes; and
4. Perform a qualitative review of the conclusions reached in items 1, 2 and 3 by a firm policy review committee.

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To develop a five year economic outlook, Callan Associates uses a combination of in-house empirical models and consensus forecasts from leading economists. The economic outlook broadly determines the capital market expectations for each asset class. Callan employs five year projections because that is a sufficient amount of time to cover most market cycles.

Next, Callan examines the historical relationship between major economic variables and then projects the expected returns over subsequent five year periods for each asset class. For example, equities are more likely to do well when the economy is expanding. Similarly, bonds are more likely to have strong returns when inflation is low. The estimates for economic growth and inflation are incorporated into the expected returns for each of the asset classes by accounting for the effects of a large number of variables.

Callan considers both market valuations and expected risk premiums to derive return projections. Market valuations indicate the prices investors would likely be willing to pay for the benefits of owning different types of securities. For example, in a stable, low inflation environment, investors are willing to accept a lower risk premium to invest in the equity market.

While the first two steps are forecasts of the economic and investment environment looking forward over the next five years, step three is an examination of the historic returns and risks, and the correlation of the returns of the respective asset classes that have persisted over the last several decades. The correlation measures (using the statistical measure of a "correlation coefficient") the association or co-movement among the returns of various classes of assets. Correlation coefficients can vary from 1 to -1. If the returns of one security or asset class move in tandem with the returns of another security or asset class, the returns have a correlation of one. If the two securities' or asset

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Fixed Income		
Domestic (LB G/C)	6.80	6.00
International (SB Non-US Gov.)	6.80	12.00
Intermediate Term	5.75	3.50
High Yield (First Boston)	7.50	9.20
Other		
Real Estate	8.00	18.00
Alternative Investments	13.00	33.50
Cash Equivalents	4.80	0.80
Economic Variables		
Inflation	3.50	N/A
Real GDP	2.40	N/A

Callan Associates reviews their capital market projections each year.

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