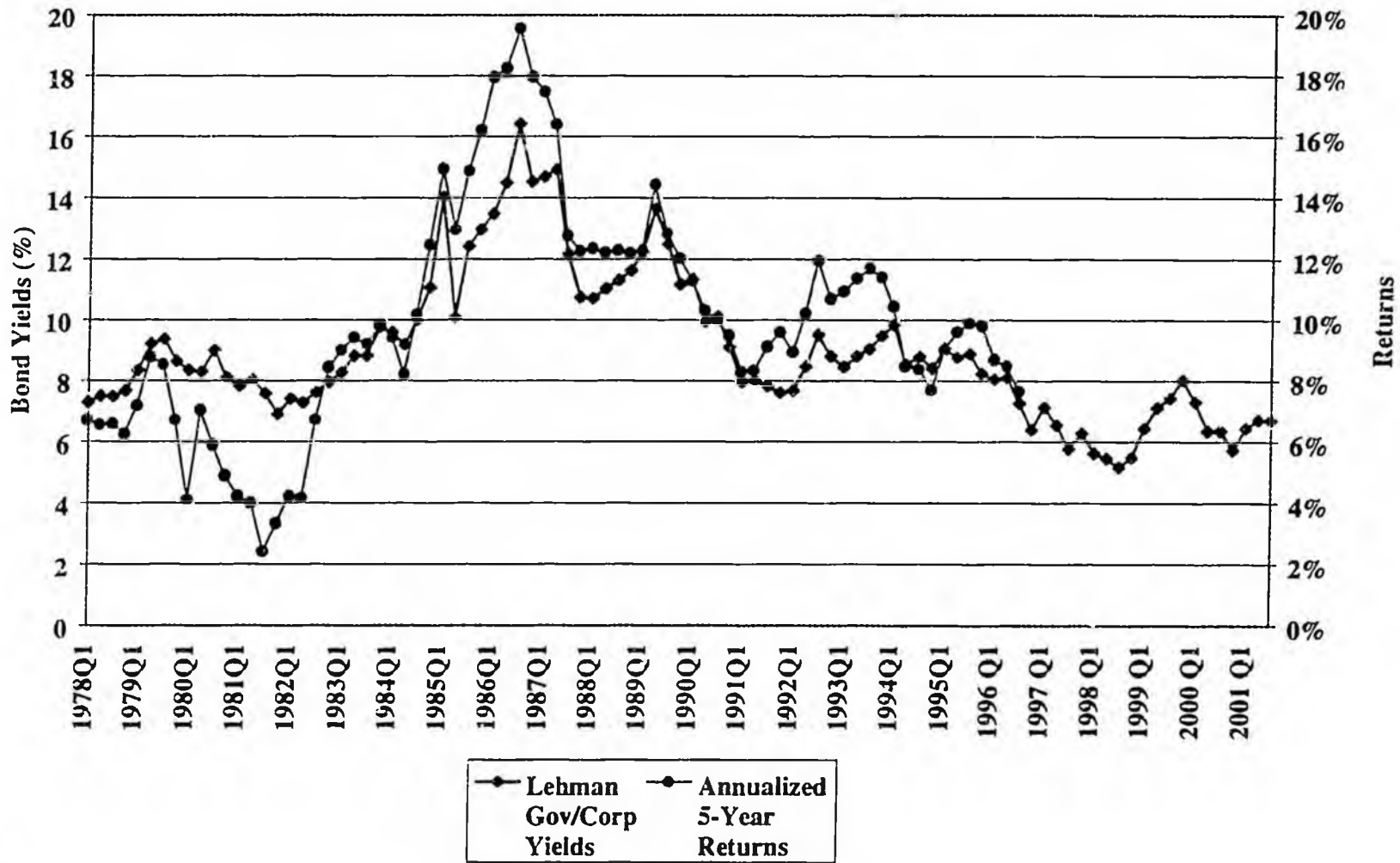


ALASKA LEGISLATURE

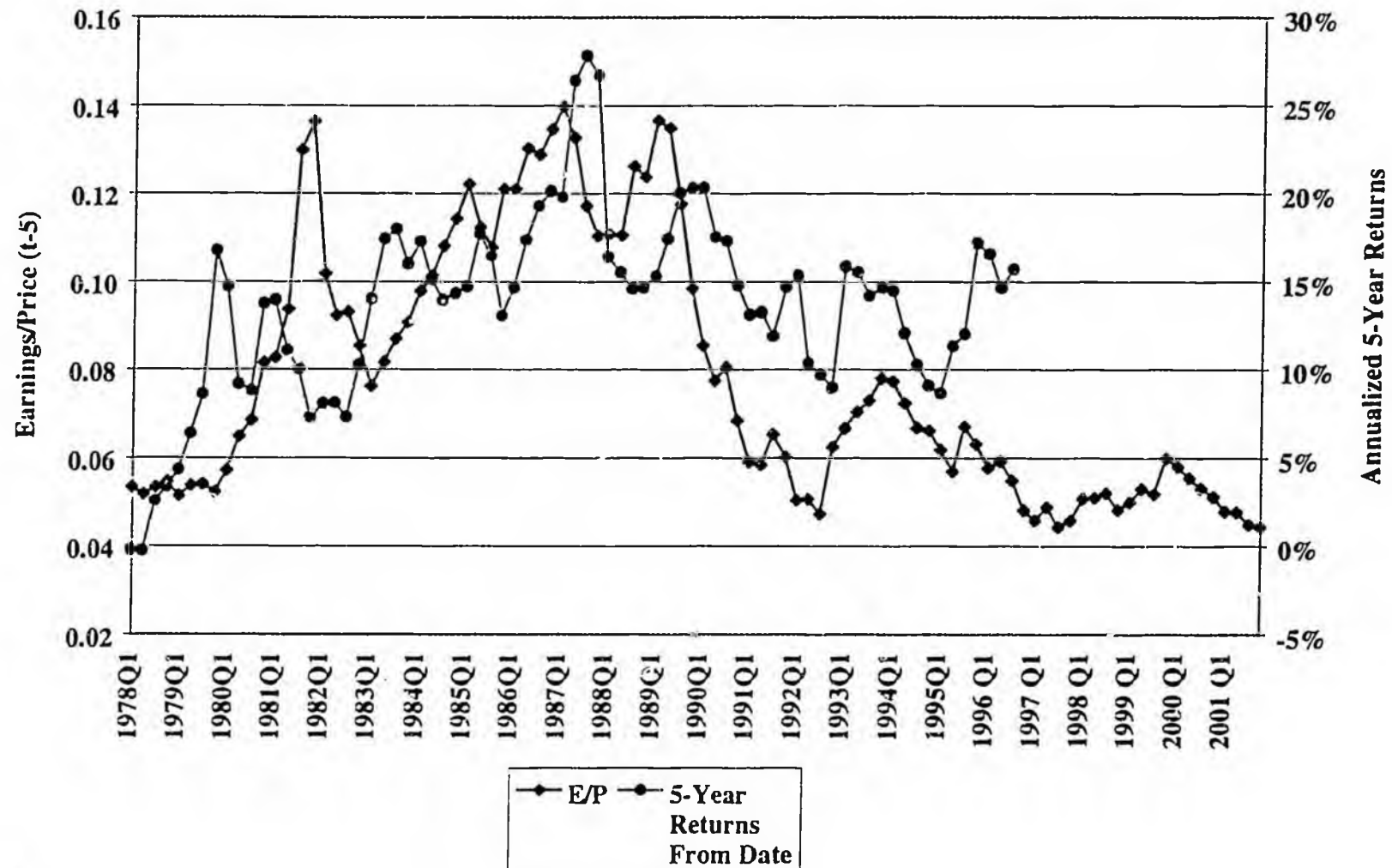
1594

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998

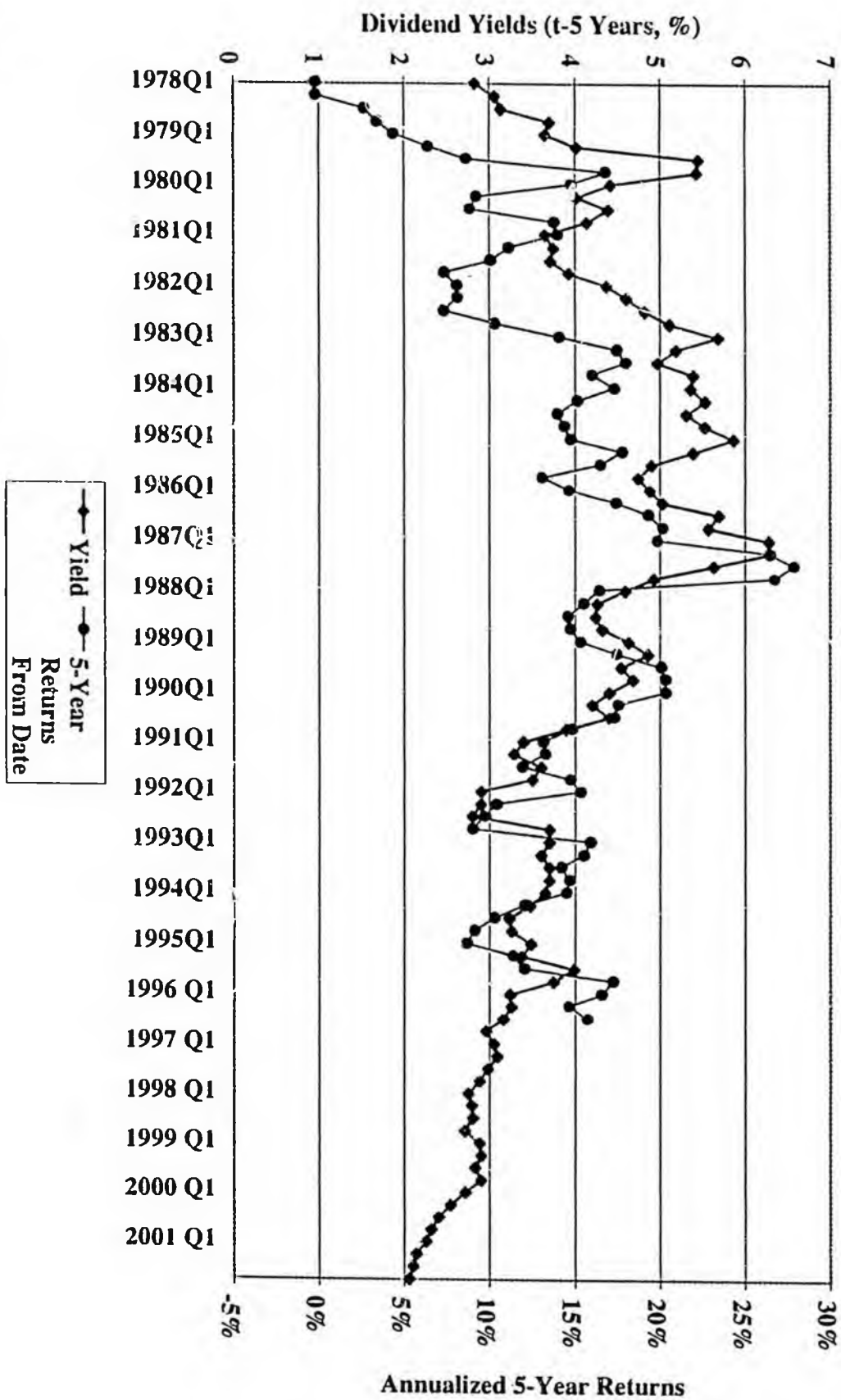
### Bond Yields and Subsequent Returns



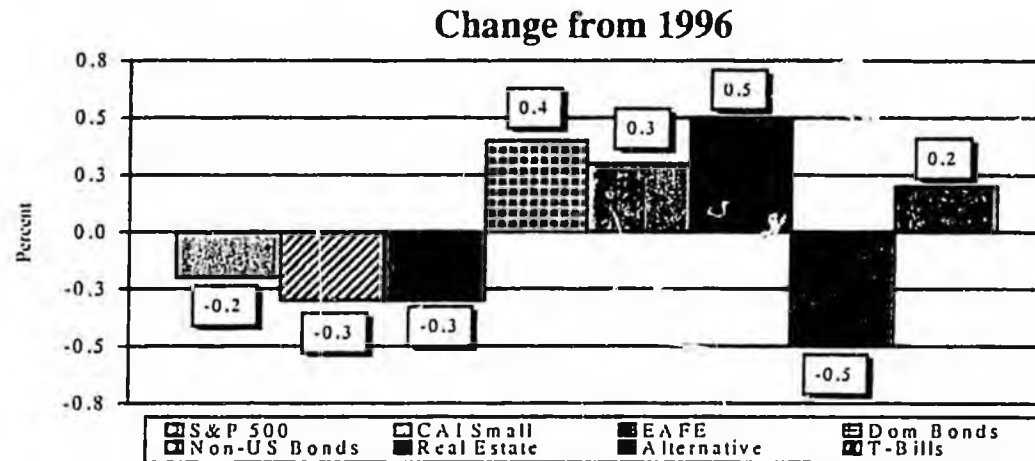
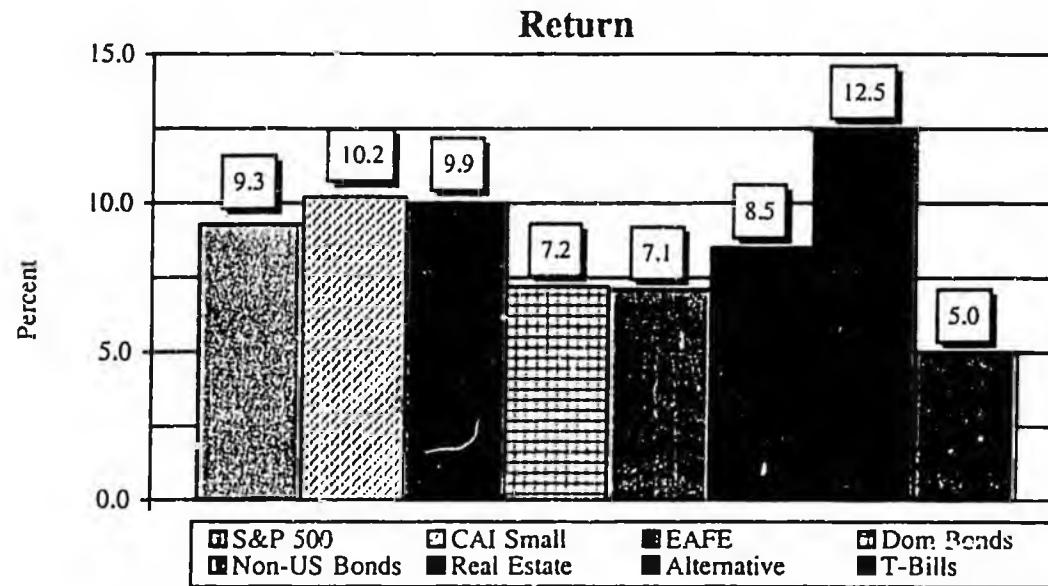
## S&P 500 Earnings-Price Ratios and Subsequent Returns



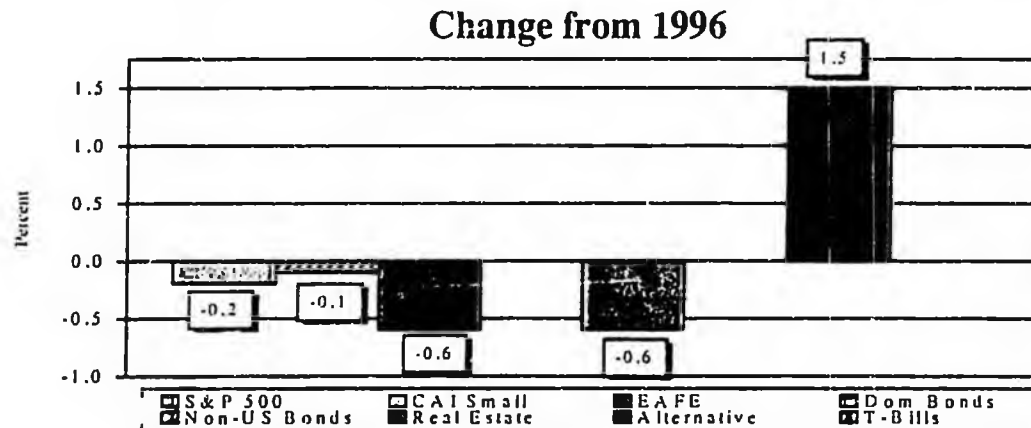
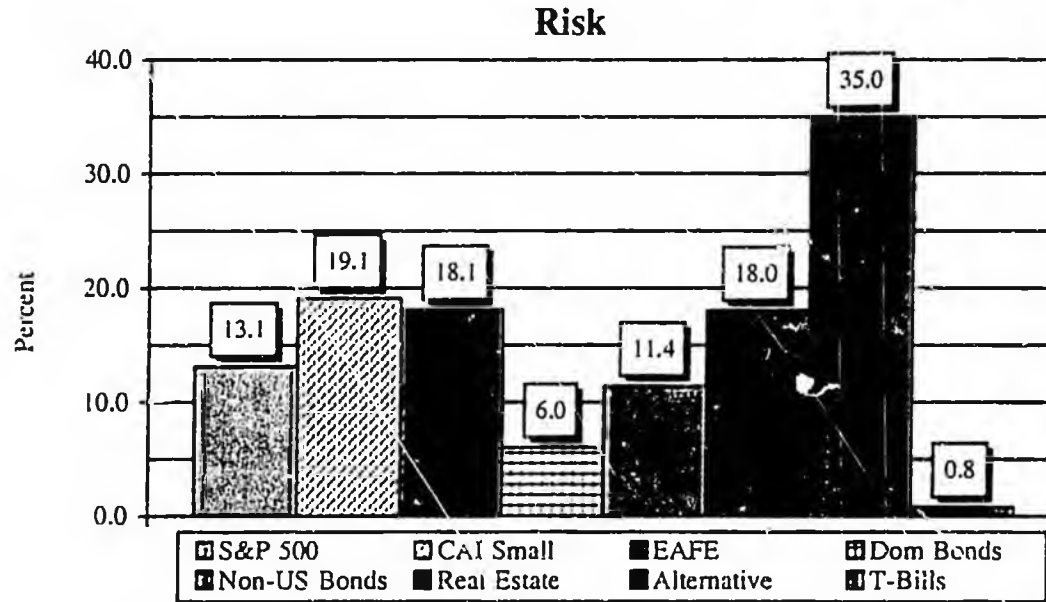
### S&P 500 Yield and Subsequent Returns



# 1997 Five Year Projections

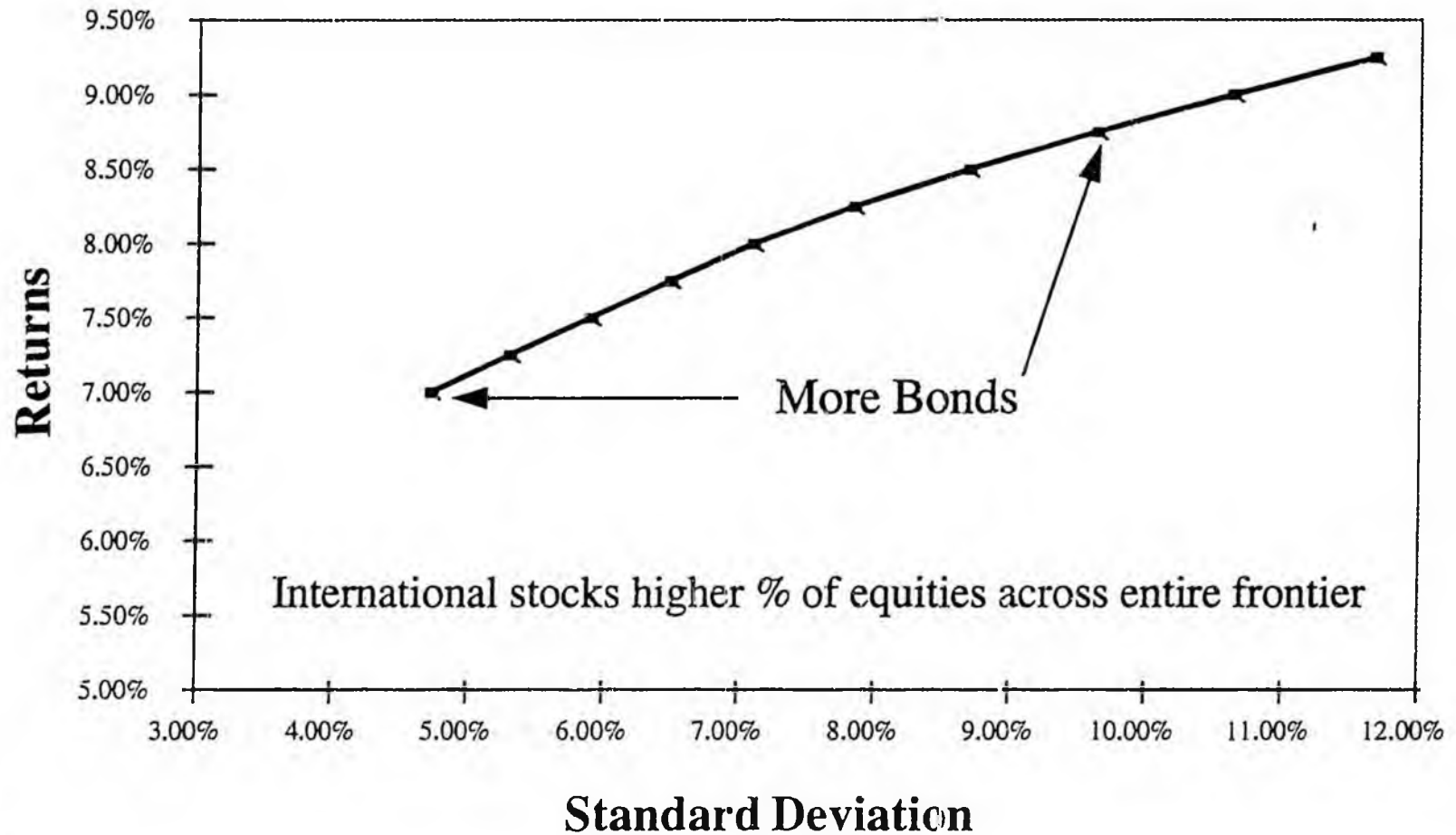


# 1997 Five Year Projections

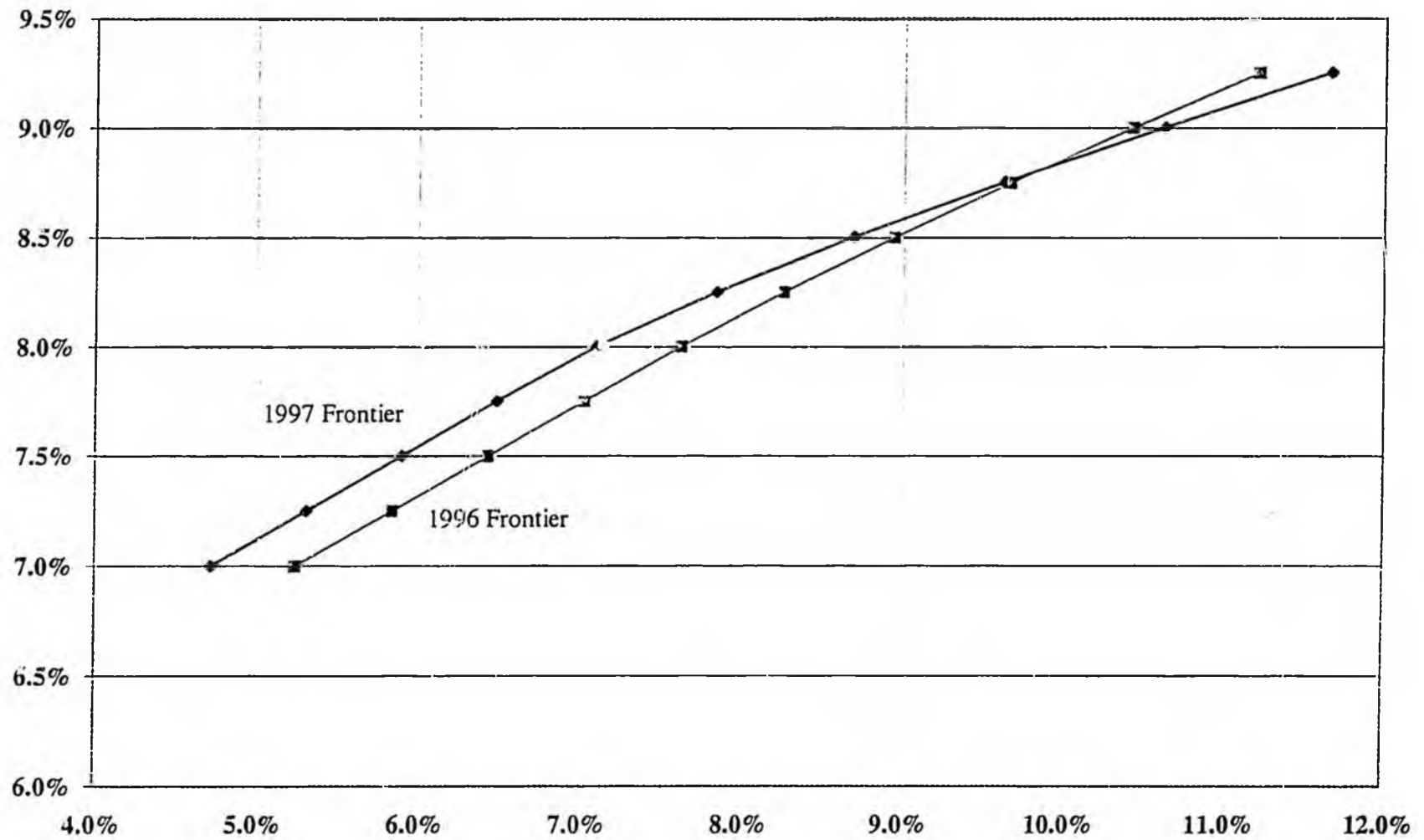


# Implications

## Efficient Frontier - 1997 Projections



## Efficient Frontier with All Major Asset Classes

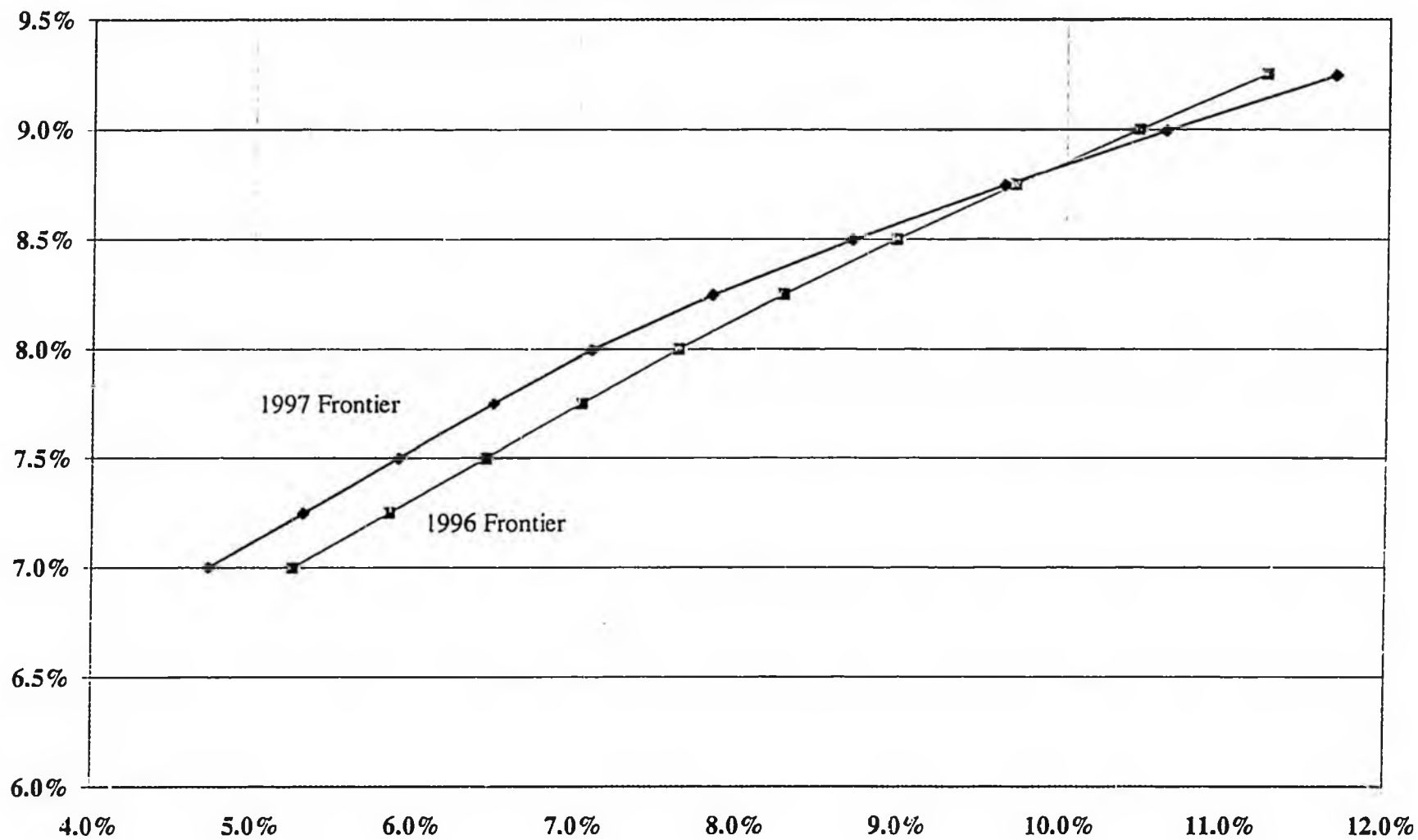


## Efficient Frontier with All Major Asset Classes

1997	Asset Mix Alternatives									
Component	1	2	3	4	5	6	7	8	9	10
S&P	10%	11%	13%	14%	16%	21%	26%	31%	35%	40%
CAI Small	2%	2%	2%	2%	3%	4%	5%	6%	8%	9%
Intl Eq	6%	6%	7%	7%	9%	11%	13%	15%	18%	20%
LB G/C Bd	47%	53%	59%	65%	62%	50%	38%	26%	14%	2%
NUS Bonds	0%	1%	1%	1%	2%	4%	6%	8%	9%	11%
Real Estat	4%	5%	5%	6%	7%	8%	9%	11%	12%	13%
Alt Inv	0%	0%	0%	1%	1%	2%	3%	3%	4%	5%
T-Bills	31%	22%	13%	4%	0%	0%	0%	0%	0%	0%
Totals	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Median	7.00%	7.25%	7.50%	7.75%	8.00%	8.25%	8.50%	8.75%	9.00%	9.25%
Std Dev	4.73%	5.31%	5.90%	6.49%	7.10%	7.84%	8.69%	9.63%	10.63%	11.67%

Difference from 1996	Asset Mix Alternatives									
Component	1	2	3	4	5	6	7	8	9	10
S&P	-6%	-7%	-7%	-7%	-7%	-6%	-4%	-3%	-3%	-1%
CAI Small	-1%	-1%	-1%	-2%	-1%	0%	-1%	0%	1%	1%
EA FE	0%	0%	0%	-1%	1%	1%	0%	0%	1%	1%
LB G/C Bd	9%	10%	12%	14%	7%	5%	3%	1%	-1%	-3%
SB WGN on US	-1%	0%	0%	0%	0%	0%	0%	0%	-1%	-2%
Real Estat	-1%	0%	-1%	-1%	0%	0%	1%	2%	3%	3%
Alt Inv	0%	-1%	-1%	0%	0%	0%	1%	0%	0%	1%
T-Bills	0%	-1%	-2%	-3%	0%	0%	0%	0%	0%	0%
Totals	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Std Dev	-0.52%	-0.53%	-0.54%	-0.55%	-0.53%	-0.42%	-0.26%	-0.05%	0.19%	0.45%

### Efficient Frontier with All Major Asset Classes, except Alternative Investments



## Efficient Frontier with All Major Asset Classes, except Alternative Investments

1997 Component	Asset Mix Alternatives									
	1	2	3	4	5	6	7	8	9	10
S&P	10%	11%	12%	14%	17%	21%	26%	31%	35%	40%
CAI Small	2%	2%	3%	3%	4%	7%	9%	11%	13%	15%
Intl Eq	6%	6%	7%	7%	9%	11%	14%	16%	19%	22%
LB G/C Bd	47%	53%	59%	65%	61%	49%	36%	23%	11%	0%
NUS Bonds	0%	1%	1%	1%	2%	4%	6%	8%	10%	10%
Real Estat	4%	5%	5%	6%	7%	8%	9%	11%	12%	13%
T-Bills	31%	22%	13%	4%	0%	0%	0%	0%	0%	0%
Totals	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Median	7.00%	7.25%	7.50%	7.75%	8.00%	8.25%	8.50%	8.75%	9.00%	9.25%
Std Dev	4.73%	5.31%	5.90%	6.48%	7.09%	7.83%	8.69%	9.62%	10.62%	11.67%

Difference from 1996 Component	Asset Mix Alternatives									
	1	2	3	4	5	6	7	8	9	10
S&P	-6%	-7%	-7%	-7%	-6%	-6%	-5%	-3%	-3%	-2%
CAI Small	-1%	-2%	-2%	-2%	-2%	-1%	0%	0%	0%	0%
EA FE	0%	0%	0%	-1%	1%	1%	1%	1%	2%	3%
LB G/C Bd	9%	10%	12%	14%	7%	6%	3%	1%	0%	-1%
SB WGN on US	-1%	0%	0%	0%	0%	0%	0%	-1%	-1%	-3%
Real Estat	-1%	0%	-1%	-1%	0%	0%	1%	2%	2%	3%
T-Bills	0%	-1%	-2%	-3%	0%	0%	0%	0%	0%	0%
Totals	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.01%	-0.01%	-0.01%	-0.01%
Std Dev	-0.52%	-0.53%	-0.55%	-0.56%	-0.54%	-0.44%	-0.28%	-0.07%	0.16%	0.42%

**Table 1****Rolling Periods 1926-1996****Average Rolling 5-Year Real Returns (Annualized)****Quarterly**

Returns	1st Period	# Rolling	S&P 500	LT Corp	75/25	50/50	25/75
Since	End Date	Periods					
1/1/26	12/31/30	265	6.79	2.31	6.03	5.03	3.79
1/1/56	12/31/60	145	5.98	2.40	5.28	4.45	3.48

**Rolling 5-Year Counts (At least 4% Real Return)****Quarterly**

Returns	1st Period	# Rolling	S&P 500	%	LT Corp	%	75/25	%	50/50	%	25/75	%
Since	End Date	Periods		Periods		Periods		Periods		Periods		Periods
1/1/26	12/31/30	265	171	65%	93	35%	163	62%	149	56%	123	46%
1/1/56	12/31/60	145	95	66%	52	36%	88	61%	75	52%	66	46%

**Table 2****Rolling 5-Year Counts (Negative or 0% Real Return)****Quarterly**

Returns	1st Period	# Rolling	S&P 500	%	LT Corp	%	75/25	%	50/50	%	25/75	%
Since	End Date	Periods		Periods		Periods		Periods		Periods		Periods
1/1/26	12/31/30	265	53	20%	122	46%	52	20%	55	21%	71	27%
1/1/56	12/31/60	145	31	21%	61	42%	37	26%	41	28%	47	32%

Note: 50/50 is a composite portfolio consisting of 50% S&P 500/50% LT Corp, rebalanced quarterly.  
 75/25 is a composite portfolio consisting of 75% S&P 500/25% LT Corp, rebalanced quarterly.  
 25/75 is a composite portfolio consisting of 25% S&P 500/75% LT Corp, rebalanced quarterly.

**Table 3**

**Rolling Periods 1973-1996**

**Average Rolling 5-Year Real Returns (Annualized)**

**Quarterly**

Returns Since	1st Period End Date	# Rolling Periods	S&P 500	LT Corp	EAFE	Gov/Corp	50/50	40/10/50	50/15/35
1/1/73	12/31/77	77	7.83	4.55	8.57	4.15	6.48	6.36	6.97

**Rolling 5-Year Counts**

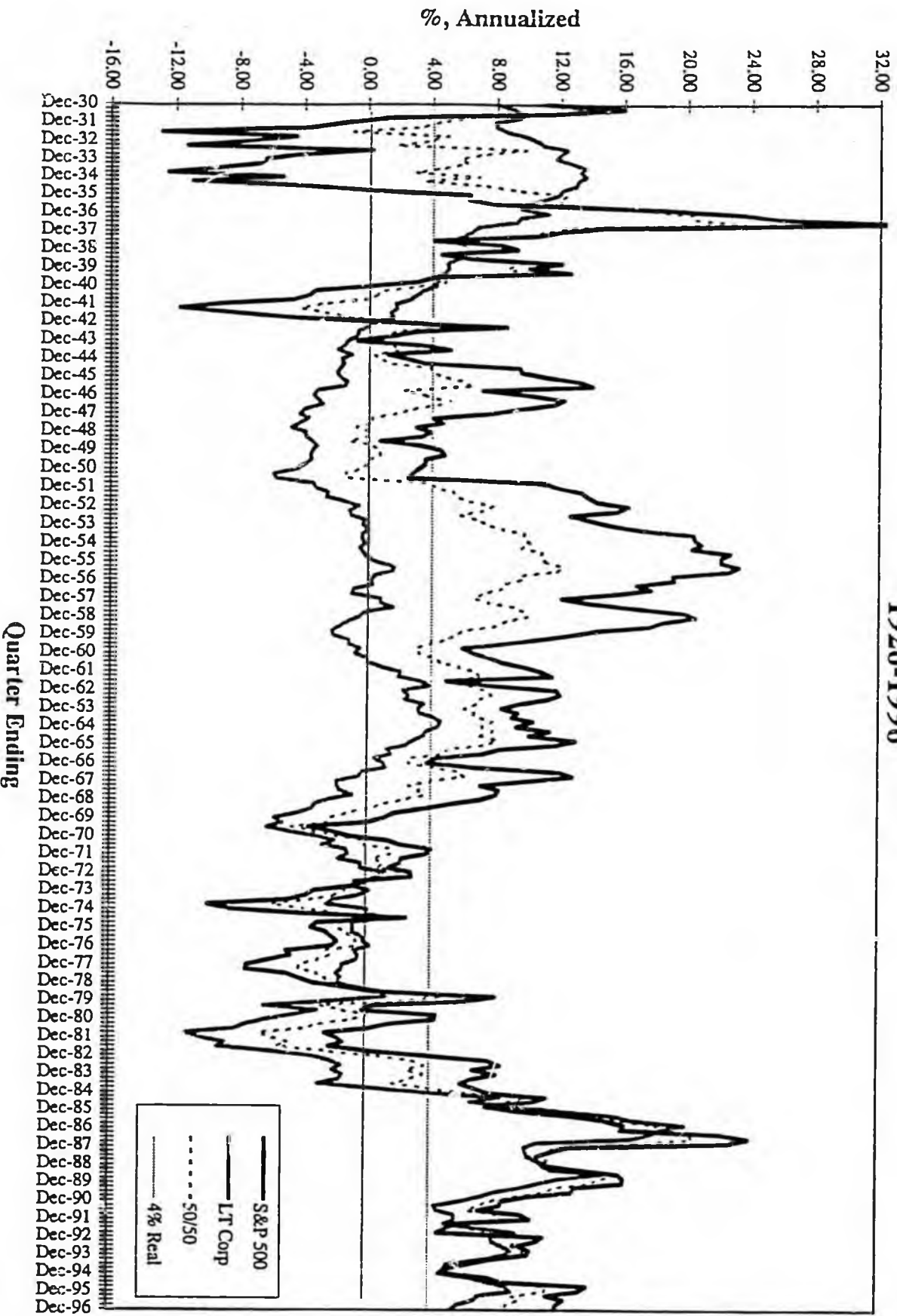
Real Return Hurdle	# Rolling Periods	S&P 500	%	LT Corp	%	EAFE	%	Gov/Corp	%	50/50	%	40/10/50	%	50/15/35	%
At least 4%	77	61	79%	49	64%	40	52%	47	61%	50	65%	52	68%	55	71%
At least 3%	77	61	79%	49	64%	45	58%	49	64%	53	69%	57	74%	58	75%
At least 0%	77	66	86%	52	68%	60	78%	57	74%	61	79%	62	81%	63	82%

Note: 50/50 is a composite portfolio consisting of 50% S&P 500/50% LT Corp, rebalanced quarterly.

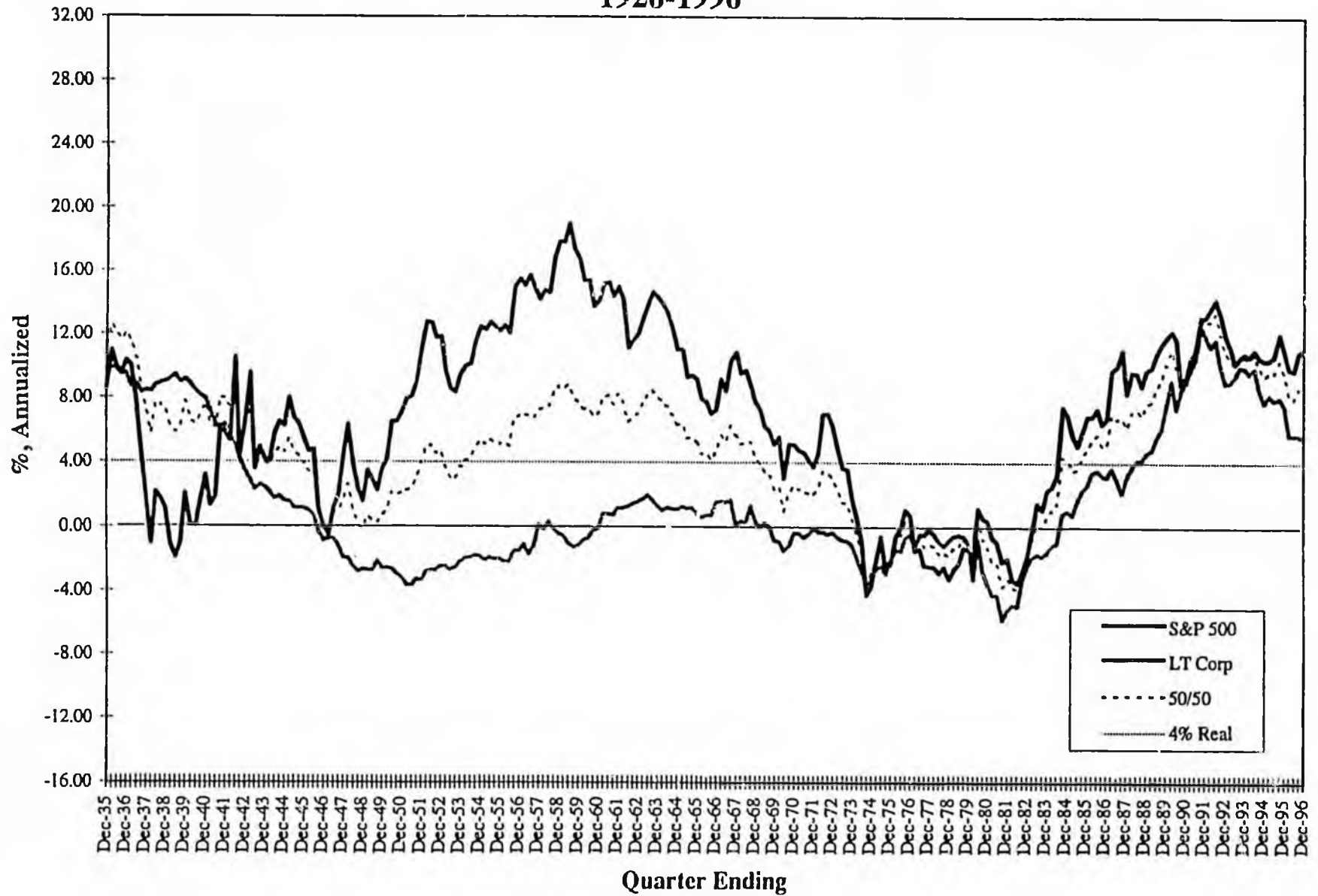
40/10/50 is a composite portfolio consisting of 40% S&P 500/10% EAFE/50% LB Gov/Corp Bonds, rebalanced quarterly.

50/15/35 is a composite portfolio consisting of 50% S&P 500/15% EAFE/35% LB Gov/Corp Bonds, rebalanced quarterly.

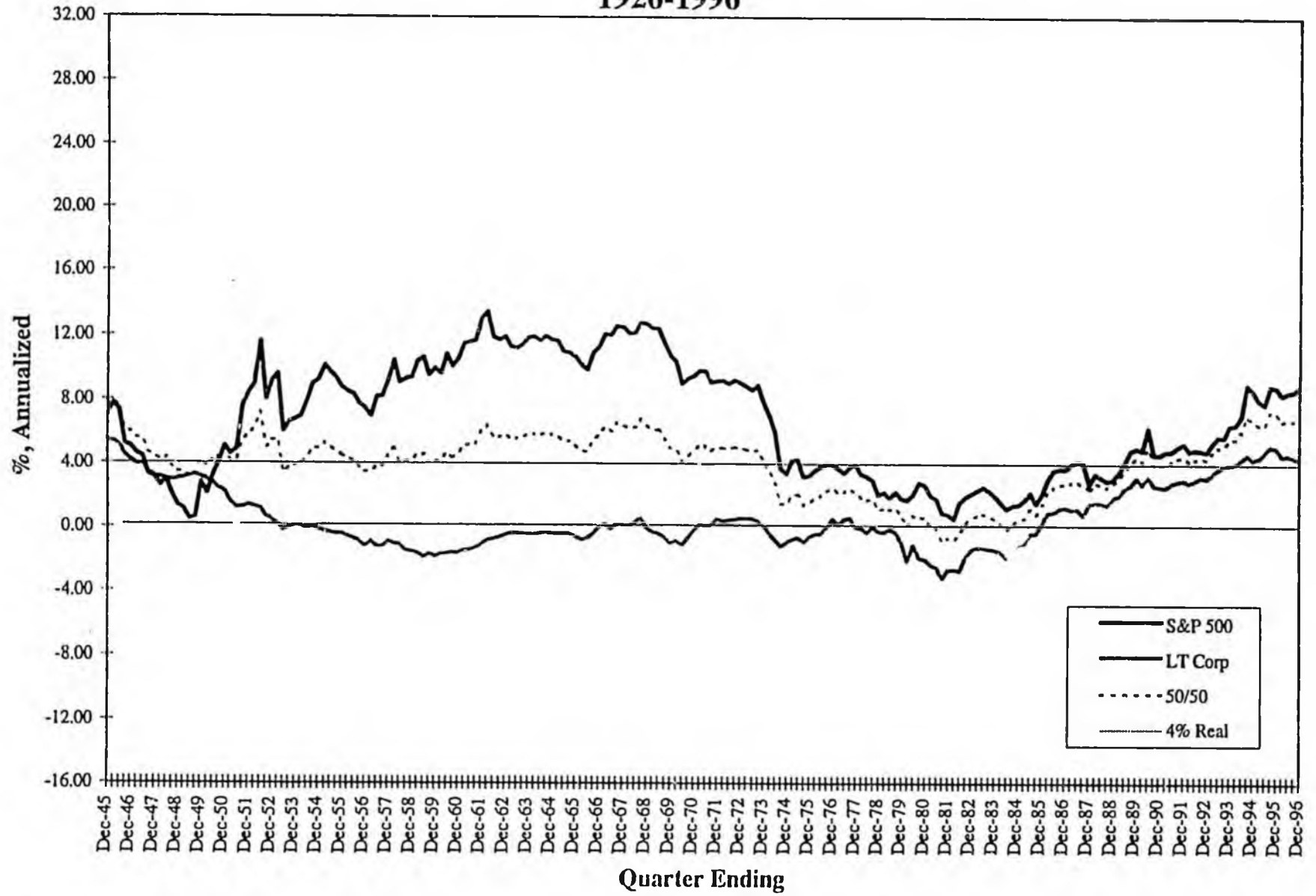
### Moving 5-Year Real Returns 1926-1996



### Moving 10-Year Real Returns 1926-1996



### Moving 20-Year Real Returns 1926-1996



**Table 11**

**Rolling Periods 1926-1996**

**Average Rolling 5-Year Nominal Returns (Annualized)**

**Quarterly**

Returns	1st Period	# Rolling	S&P 500	LT Corp	75/25	50/50	25/75
Since	End Date	Periods					
1/1/26	12/31/30	265	10.35	5.62	9.53	8.47	7.17
1/1/56	12/31/60	145	10.86	7.13	10.13	9.26	8.26

**Table 12**

**Rolling 5-Year Counts (Negative or 0% Nominal Return)**

**Quarterly**

Returns	1st Period	# Rolling	%	%	%	%	%	%	%	%	
Since	End Date	Periods	S&P 500	LT Corp	75/25	50/50	25/75	Periods	Periods	Periods	Periods
1/1/26	12/31/30	265	28	14	24	12	3	11%	9%	5%	1%
1/1/56	12/31/60	145	4	11	2	1	2	3%	1%	1%	1%

Note: 50/50 is a composite portfolio consisting of 50% S&P 500/50% LT Corp, rebalanced quarterly.  
75/25 is a composite portfolio consisting of 75% S&P 500/25% LT Corp, rebalanced quarterly.  
25/75 is a composite portfolio consisting of 25% S&P 500/75% LT Corp, rebalanced quarterly.

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

**Table 11**

**Rolling Periods 1926-1996**

**Average Rolling 5-Year Nominal Returns (Annualized)**

**Quarterly**

<b>Returns</b>	<b>1st Period</b>	<b># Rolling</b>	<b>S&amp;P 500</b>	<b>LT Corp</b>	<b>75/25</b>	<b>50/50</b>	<b>25/75</b>
<b>Since</b>	<b>End Date</b>	<b>Periods</b>					
1/1/26	12/31/30	265	10.35	5.62	9.53	8.47	7.17
1/1/56	12/31/60	145	10.86	7.13	10.13	9.26	8.26

**Table 12**

**Rolling 5-Year Counts (Negative or 0% Nominal Return)**

**Quarterly**

<b>Returns</b>	<b>1st Period</b>	<b># Rolling</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
<b>Since</b>	<b>End Date</b>	<b>Periods</b>	<b>S&amp;P 500</b>	<b>LT Corp</b>	<b>75/25</b>	<b>50/50</b>	<b>25/75</b>					
1/1/26	12/31/30	265	28	11%	14	5%	24	9%	12	5%	3	1%
1/1/56	12/31/60	145	4	3%	11	8%	2	1%	1	1%	2	1%

Note: 50/50 is a composite portfolio consisting of 50% S&P 500/50% LT Corp, rebalanced quarterly.  
75/25 is a composite portfolio consisting of 75% S&P 500/25% LT Corp, rebalanced quarterly.  
25/75 is a composite portfolio consisting of 25% S&P 500/75% LT Corp, rebalanced quarterly.

**Table 13**

**Rolling Periods 1973-1996**

**Average Rolling 5-Year Nominal Returns (Annualized)**

**Quarterly**

Returns Since	1st Period End Date	# Rolling Periods	S&P 500	LT Corp	EAFE	Gov/Corp	50/50	40/10/50	50/15/35
1/1/73	12/31/77	77	13.78	10.28	14.55	9.90	12.33	12.23	12.87

**Rolling 5-Year Counts**

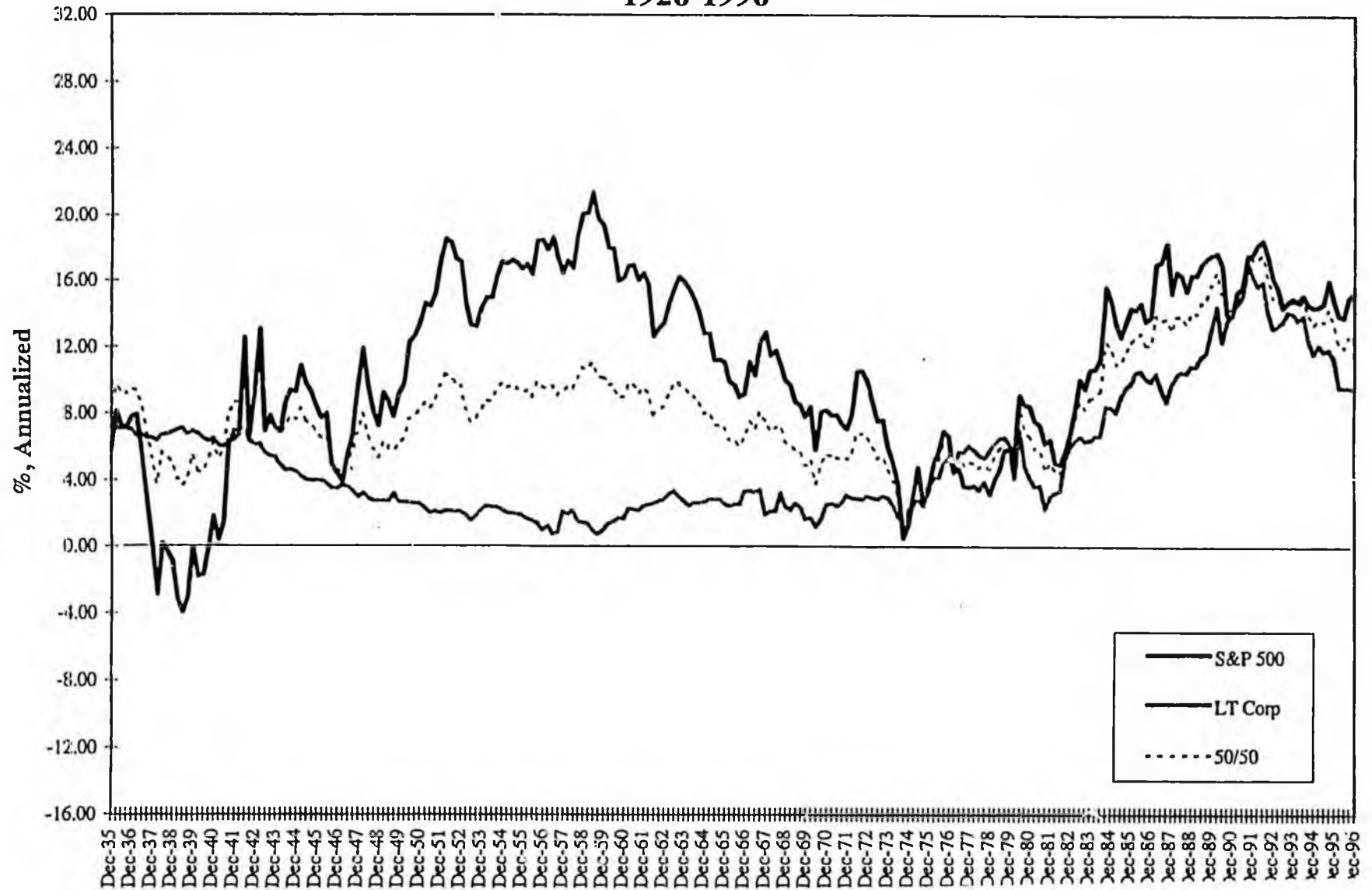
Return Hurdle	# Rolling Periods	S&P 500	% Periods	LT Corp	% Periods	EAFE	% Periods	Gov/Corp	% Periods	50/50	% Periods	40/10/50	% Periods	50/15/35	% Periods
At least 0%	77	75	97%	73	95%	76	99%	76	99%	77	100%	77	100%	77	100%

Note: 50/50 is a composite portfolio consisting of 50% S&P 500/50% LT Corp, rebalanced quarterly.

40/10/50 is a composite portfolio consisting of 40% S&P 500/10% EAFE/50% LB Gov/Corp Bonds, rebalanced quarterly.

50/15/35 is a composite portfolio consisting of 50% S&P 500/15% EAFE/35% LB Gov/Corp Bonds, rebalanced quarterly.

### Moving 10-Year Nominal Returns 1926-1996



Moving 20-Year Nominal Returns  
1926-1996

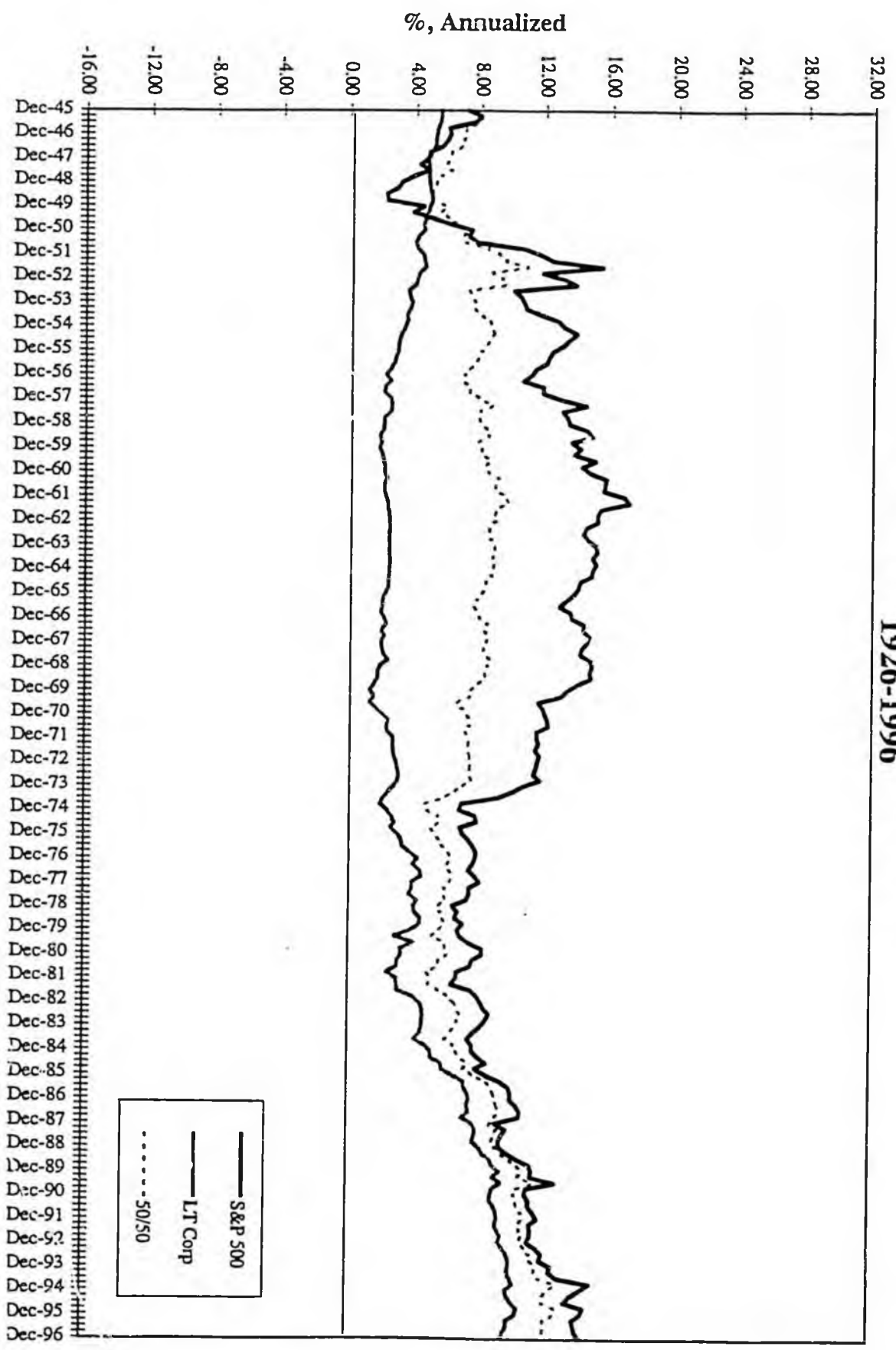


Chart 13

JIM HILL  
STATE TREASURER



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W. DAN SMITH, DIRECTOR  
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OREGON STATE TREASURY

Facsimile Cover Sheet

<b>To:</b>	<b>Jim Kelly</b>
<b>Company:</b>	<b>Alaska Permanent Fund</b>
<b>Phone:</b>	
<b>Fax:</b>	<b>907-586-2057</b>
<b>From:</b>	<b>W. Dan Smith</b>
<b>Company:</b>	<b>Oregon State Treasury</b>
<b>Phone:</b>	<b>503-378-4111</b>
<b>Fax:</b>	<b>503-378-6772</b>
<b>Date:</b>	<b>2/11/97</b>
<b>Pages including this cover page:</b>	

Comments:

**Alaska Permanent Fund  
Presentation to Legislature/Board  
February 12, 1997**

Description of Oregon PERS

a. Membership

1. retired: 67,000
2. active: 180,000

b. Funded status: Roughly 95-100%

Market Value: \$ 24 Billion

Cash Flow: Benefit payments modestly exceed the total  
of employee/employer contributions

c. Administration:

1. PERS Board: responsible for benefit side only
2. Oregon Investment Council: responsible for asset side only

d. Investment authority: Prudent Person Standard

## History of Asset Allocation

### a. Inclusion of stocks dates to the mid - 1960's

OPERF was one of the first public pension funds to make equity investments. Over the 30 year history of the equity program, results have been favorable, and this success has enabled the System to both reduce contributions and to enhance benefits. Cumulative results for the equity program, on a real dollar basis, have been roughly twice that of bonds. Total holdings of domestic and international stocks is currently 60%.

### b. Alternatives (LBO's, etc.) dates to mid-1980's

Over the past 15 years, OPERF has been an active participant in Alternative equity vehicles. This program has yielded an inception-to-date internal rate of return in excess of 20%. As conventional markets have become more "efficient", the System has made more active use of this asset category. Currently, about 11% of total assets are invested (actual funded amount) are invested within this category.

## Discuss current asset allocation

### a. Comparisons to other funds

Historically, Oregon has had an equity allocation far in excess of most public pension funds. Currently, this allocation is only modestly higher than the 'norm'.

b. Asset allocation process

The Investment Council, in conjunction with their consultants, have established policy ranges for each asset category/sub-category.

c. Re-balancing process

As sector allocations move above or below established policy ranges, assets are re-balanced to the mid-point of the policy ranges. In a sense this can be viewed as selling high, and buying low.

Discuss investment results

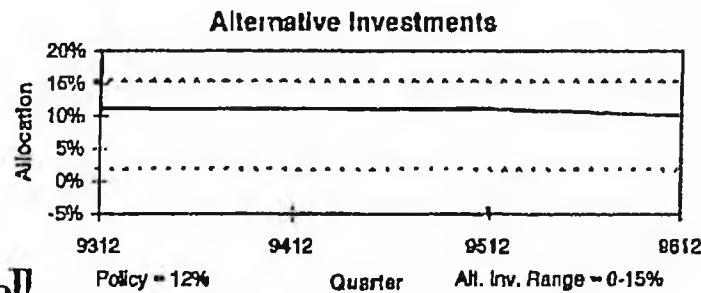
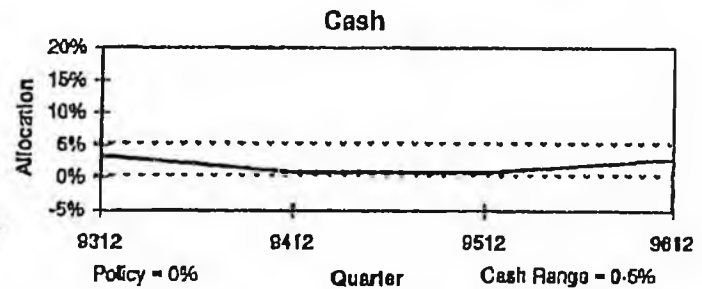
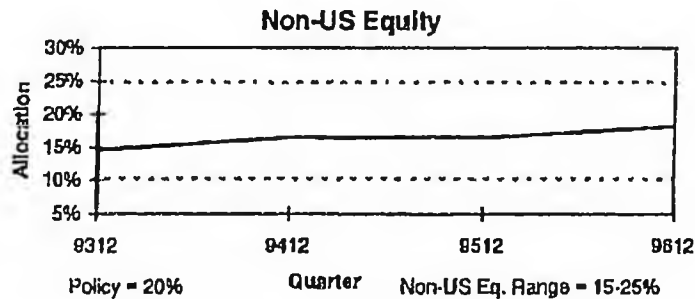
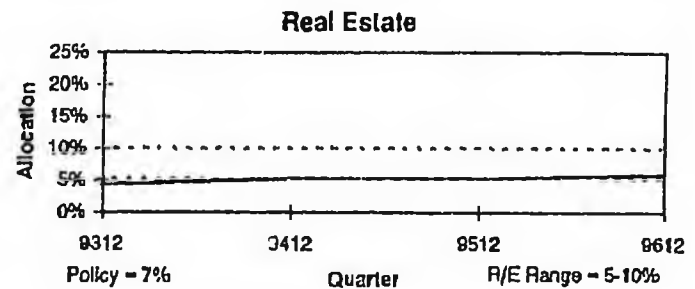
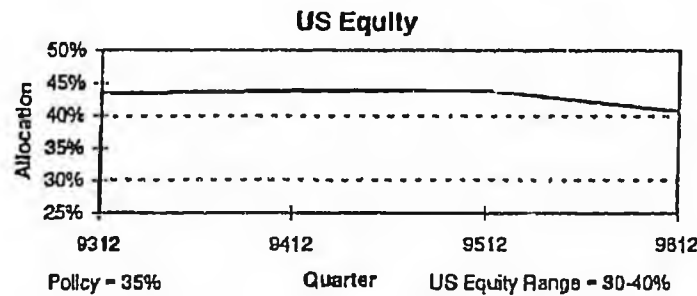
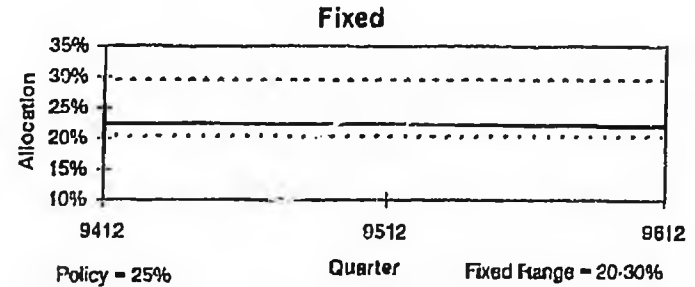
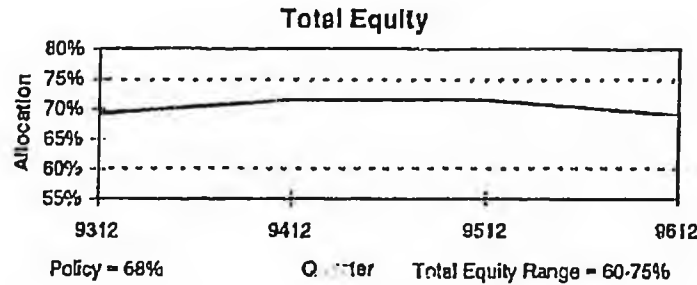
- a. Absolute
- b. Relative

Summary

Total fund performance has been favorable relative to the Council's established investment policy. Further, total fund results compare very favorably with both public and private plan universes. These favorable comparisons are substantially due to the high equity and alternative allocations.

The long time horizon of the PERS allows us to capture the higher returns that equities have historically provided.

# State of Oregon Historical Asset Allocation, Current Policy and Ranges



----- Policy Range  
————— Actual Allocation

	<u>Policy Ranges</u>	<u>Estimate (\$ Million)</u>	<u>12/31/96 %</u>	<u>Proposed Changes</u>	<u>New Allocation</u>	
<b>Equity Total</b>	60-75%	16,360	68.97%	-330	16,030	67.58%
Domestic	30-40%	9,640	40.64%	-1,180	8,460	35.67%
International	15-25%	4,320	18.21%	430	4,750	20.03%
Alternative	0-15%	2,400	10.12%	420	2,820	11.89%
<b>Fixed Income</b>	20-30%	5,230	22.05%	700	5,930	25.00%
<b>Real Estate</b>	5-10%	1,430	6.03%	230	1,660	7.00%
<b>Cash</b>	0- 5%	700	2.95%	-600	100	0.42%
<b>Total Fund:</b>		23,720	100.00%	0	23,720	100.00%

Sheet1

OPERS Performance Comparisons

Periods ending 9-30-96

Source: Wilshire Associates

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Years</u>	<u>Since 12-31-92 (1)</u>
<b>OPERS Total Fund:</b>	2.2%	14.7%	12.2%	12.6%
Policy Return (2):	2.1%	12.9%	11.4%	12.2%
Universe Percentiles:				
Public Funds	91st.	14th.	25th.	---
All Funds	65th.	22nd.	19th.	---
<b>Domestic Equity:</b>	2.6%	19.3%	15.8%	15.9%
Russell 3000 Index	2.9%	19.0%	16.4%	15.9%
<b>International Equity:</b>	-0.6%	9.1%	8.2%	17.0%
EAFE Index	-0.1%	8.6%	8.1%	15.7%
<b>Domestic Bonds:</b>	2.5%	6.3%	5.7%	10.8%
Lehman Aggregate Index	1.8%	4.9%	5.0%	9.0%
<b>Real Estate: (3)</b>	2.8%	12.2%	8.3%	6.7%
Russell NACREIF	2.5%	9.6%	7.2%	na
<b>Alternatives: (3)</b>	4.5%	27.9%	20.9%	15.9%
S&P 500 + 5.0%	4.3%	25.3%	22.4%	na
<b>Short-Term</b>	1.4%	5.7%	5.0%	4.8%
T-Bills	1.4%	5.6%	5.1%	na

(1) Wilshire began calculating 'Total Fund' returns on 12-31-92.

(2) Policy Return = policy weight of each segment multiplied by the index return of each segment.

(3) Real Estate &amp; Alternative returns are lagged by one quarter.

**OPERF: Comparative Performance**

**Periods Ending 9-30-98**

	(1)	(2)	(3)	(3)
	<u>OPERF</u>	<u>OPERF Policy Portfolio</u>	<u>Wilshire Median Public</u>	<u>Wilshire Median All Funds</u>
1 Year % Rank	14.69	12.80	13.72 14 th.	12.51 22 nd.
2 Years % Rank	15.73	15.88	16.53 64 th.	15.95 54 th.
3 Years % Rank	12.20	11.40	11.37 25 th.	10.93 19 th.
Inception (4)	12.60	12.20	NA	NA

- (1) As calculated and reported by Wilshire Associates.
- (2) Policy Return = policy weight of each segment multiplied by the index return of each segment.
- (3) Fund Universes supplied by Wilshire Associates. "All Funds" includes both public and private plans.
- (4) Inception date is 12-31-92. Prior to that time, Wilshire had not calculated a Total Fund return.

Calendar Years:

Wilshire Universe Comparisons - Public Funds

		<u>OPERF</u>	<u>High</u>		<u>1st. Qrtl.</u>		<u>Median</u>		<u>3rd. Qrtl.</u>		<u>Low</u>
1987	(1)	9.00	9.98	X	4.94		2.57		1.96		0.20
1988		16.86	17.47	X	11.96		11.18		9.91		7.60
1989		19.75	23.41		19.78	X	18.10		16.17		14.63
1990		-1.54	8.90		4.98		2.94		1.50	X	-1.89
1991		22.45	29.51		23.13	X	20.61		18.44		14.90
1992		8.85	10.26		8.34		7.53	X	6.23		4.81
1993	(2)	14.86	17.52	X	13.11		10.93		8.43		6.56
1994		-0.14	1.21		0.17	X	-0.77		-2.21		-3.65
1995		24.04	28.63		26.54		24.34	X	21.93		18.65
1996	(3)	14.40	15.52	X	14.30		12.78		10.84		8.47

- (X) Indicates OPERF position within the Universe.
- (1) Years 1987 through 1992 are from PERS annual report.
- (2) 1993 through 1996 are from Wilshire Associates.
- (3) OPERF 1996 figure is estimated.

Calendar Years:

Wilshire Universe Comparisons - All Funds

		<u>OPERS</u>	<u>High</u>		<u>1st. Qrtl.</u>		<u>Median</u>	<u>3rd. Qrtl.</u>		<u>Low</u>
1987	(1)	9.00	9.80	X	5.48		3.93	2.21		-1.03
1988		16.86	17.47	X	13.44		11.62	9.80		7.07
1989		19.75	25.44		21.19	X	18.10	15.05		11.35
1990		-1.54	8.88		4.98		2.35	-0.16	X	-5.29
1991		22.45	30.67		23.82	X	21.06	18.12		12.53
1992		6.95	11.48		8.66		7.50	6.24	X	3.93
1993	(2)	14.86	18.07	X	13.31		10.79	8.90		5.31
1994		-0.14	2.19		0.32	X	-0.98	-2.14		-4.23
1995		24.04	30.47		27.00	X	23.98	20.77		14.31
1996	(3)	14.40	19.11		15.42	X	13.28	11.30		5.14

- (X) Indicates OPERS position within the Universe.
- (1) Years 1987 through 1992 are from PERS annual report.
- (2) 1993 through 1996 are from Wilshire Associates.
- (3) OPERS is estimated.

Annual Returns Dec 31, 1966 to Dec 31, 1996

<u>Period End</u>	<u>Real Bond Return</u>	<u>Real S&amp;P 500 Return</u>
Dec-67	-7.79	20.35
Dec-68	-2.06	6.09
Dec-69	-13.44	-13.81
Dec-70	12.26	-1.42
Dec-71	7.42	10.63
Dec-72	3.64	14.94
Dec-73	-5.96	-21.80
Dec-74	-10.94	-34.80
Dec-75	5.01	28.40
Dec-76	10.25	18.36
Dec-77	-3.48	-13.17
Dec-78	-7.07	-2.46
Dec-79	-10.13	4.66
Dec-80	-8.82	17.68
Dec-81	-2.53	-12.83
Dec-82	27.76	16.52
Dec-83	4.41	17.97
Dec-84	10.80	2.06
Dec-85	17.69	27.28
Dec-86	13.99	17.20
Dec-87	-1.63	0.80
Dec-88	3.34	11.94
Dec-89	9.49	25.79
Dec-90	2.64	-8.95
Dec-91	12.58	26.69
Dec-92	4.40	4.66
Dec-93	6.83	6.85
Dec-94	-5.46	-1.35
Dec-95	15.58	34.12
Dec-96	0.27	19.18

20-Month Rolling Returns Dec 31, 1966 to Dec 31, 1996

<u>Period End</u>	<u>Real Bond Return</u>	<u>Real S&amp;P 500 Return</u>
Jan-67	1.78	8.57
Dec-67	0.16	10.88
Dec-68	0.35	7.77
Dec-69	-0.84	5.14
Dec-70	-0.41	5.10
Dec-71	-0.10	3.74
Dec-72	-0.38	6.29
Dec-73	-1.04	1.77
Dec-74	-2.52	-3.86
Dec-75	-1.81	-2.39
Dec-76	-0.54	0.67
Dec-77	-0.08	-2.57
Dec-78	-0.60	-3.38
Dec-79	-0.23	-1.49
Dec-80	-2.28	0.27
Dec-81	-3.23	-2.09
Dec-82	-1.18	-1.95
Dec-83	-0.15	2.16
Dec-84	2.06	6.84
Dec-85	3.23	6.75
Dec-86	3.57	8.65
Dec-87	3.77	8.25
Dec-88	4.88	9.75
Dec-89	6.97	11.79
Dec-90	8.24	8.95
Dec-91	9.81	13.10
Dec-92	7.62	11.90
Dec-93	7.86	10.79
Dec-94	6.17	10.42
Dec-95	5.97	11.00
Dec-96	4.62	11.18

Cumulative Returns Dec 31, 1966 to Dec 31, 1996

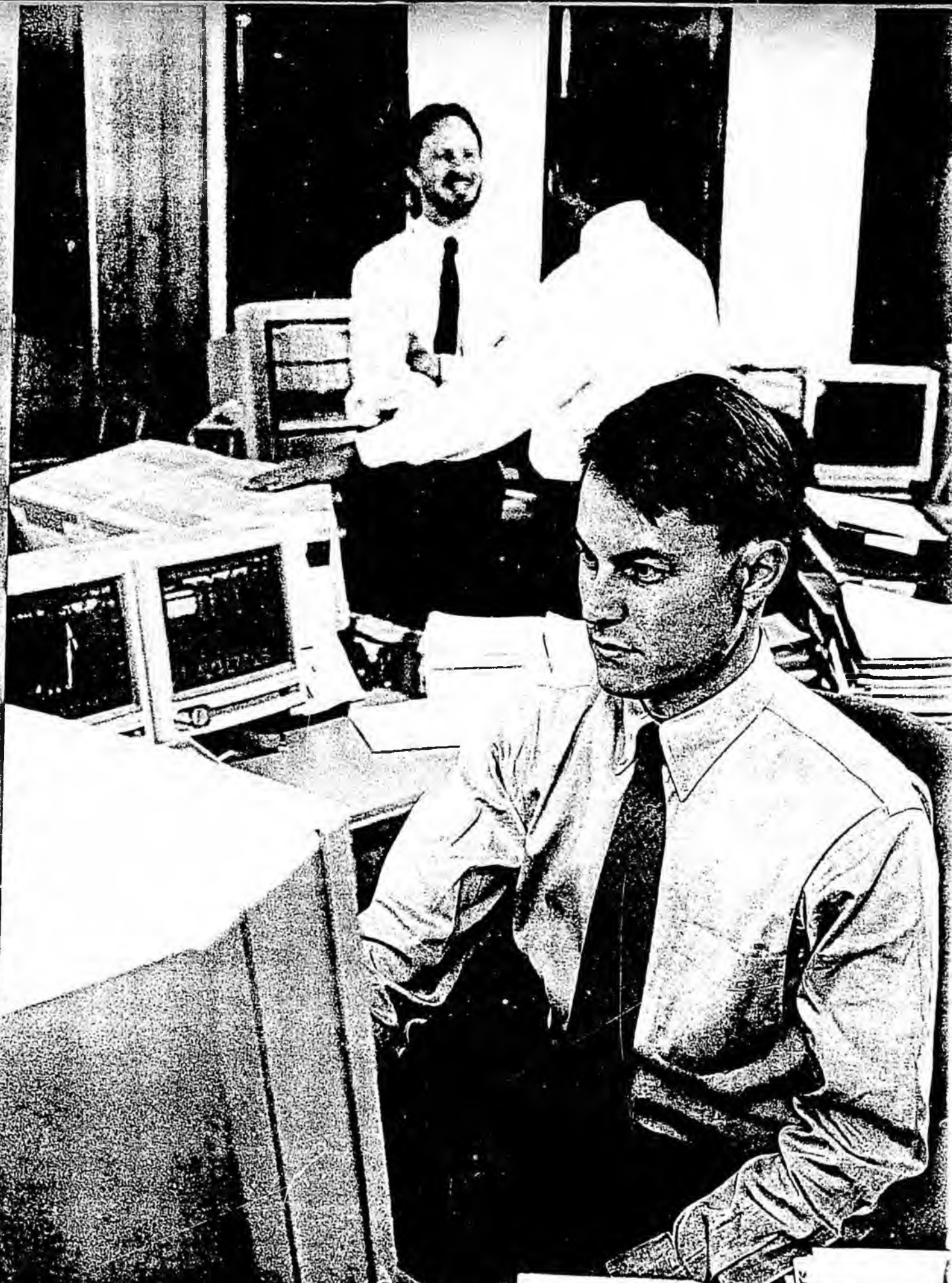
<u>Period End</u>	<u>Real Bond Return</u>	<u>Real S&amp;P 500 Return</u>
Dec-66	1.00	1.00
Dec-67	0.92	1.20
Dec-68	0.90	1.28
Dec-69	0.78	1.10
Dec-70	0.88	1.08
Dec-71	0.94	1.20
Dec-72	0.98	1.38
Dec-73	0.92	1.08
Dec-74	0.82	0.70
Dec-75	0.86	0.90
Dec-76	0.95	1.07
Dec-77	0.91	0.93
Dec-78	0.85	0.91
Dec-79	0.76	0.95
Dec-80	0.70	1.11
Dec-81	0.68	0.97
Dec-82	0.87	1.13
Dec-83	0.91	1.34
Dec-84	1.00	1.36
Dec-85	1.18	1.74
Dec-86	1.35	2.03
Dec-87	1.32	2.05
Dec-88	1.37	2.29
Dec-89	1.50	2.89
Dec-90	1.54	2.63
Dec-91	1.73	3.33
Dec-92	1.81	3.48
Dec-93	1.93	3.72
Dec-94	1.83	3.67
Dec-95	2.11	4.93
Dec-96	2.12	5.87

Risk/Return Dec 31, 1966 to Dec 31, 1996

<u>Assets</u>	<u>Risk</u>	<u>Total Return</u>
REAL BOND RETURN	7.18	2.53
REAL S&P5 RETURN	15.22	6.08

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

ALASKA PERMANENT FUND CORPORATION



1996 ANNUAL REPORT

Results  
Based  
Budgeting

**HFIN**

**FILE**

Alaska State Legislature

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SENATE Finance Committee

January 22nd, 1998

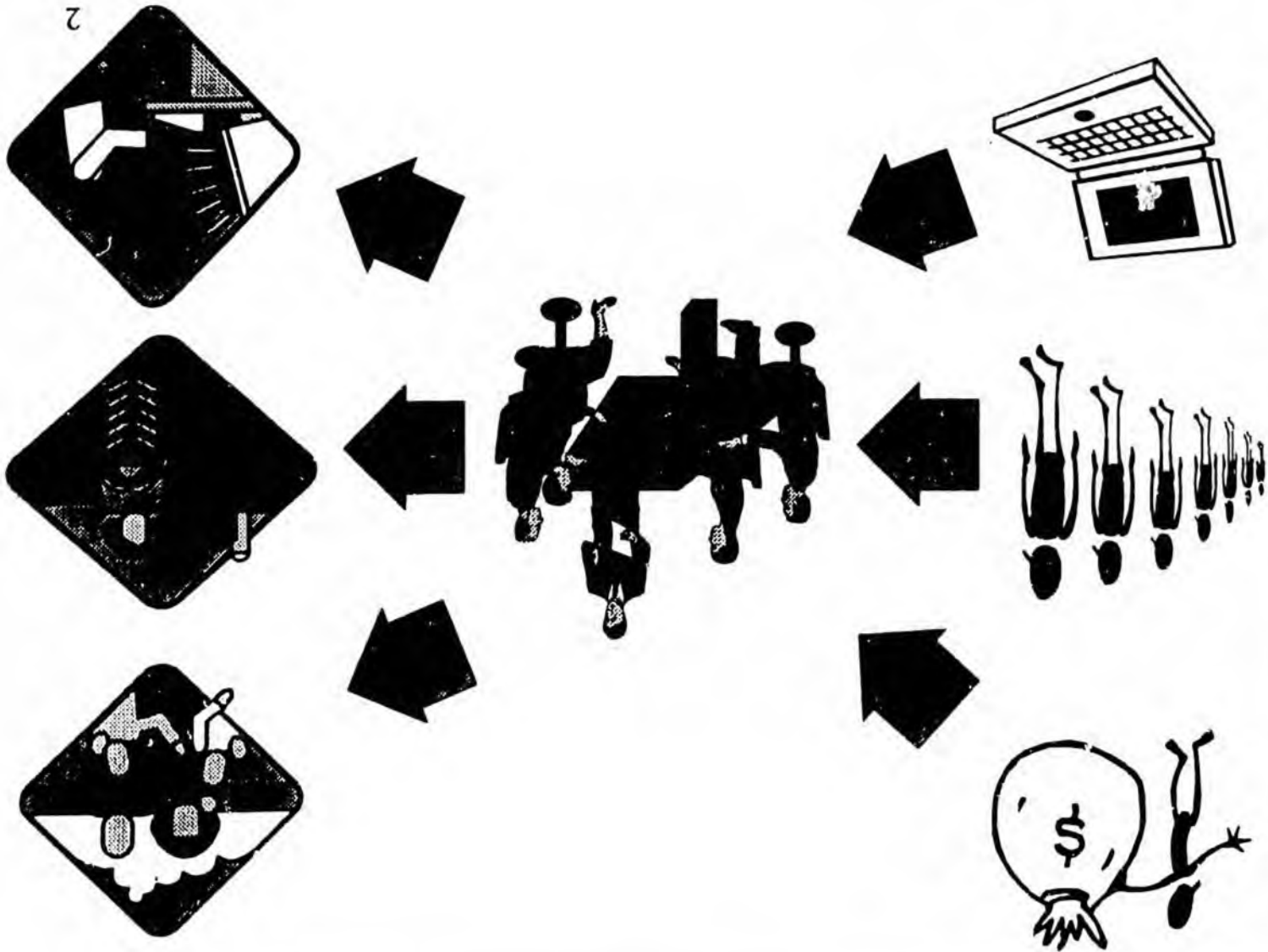
*Investing in Results*

Presented by:  
Craig L. Holt, President  
MTP Inc.

MTP

Attachment  
1/22/98

Inputs to Outcomes/Program Impacts

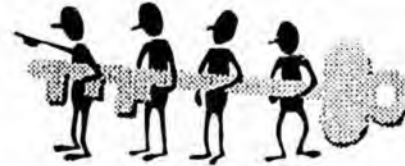


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# Getting to OUTCOMES

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## 4 KEYS



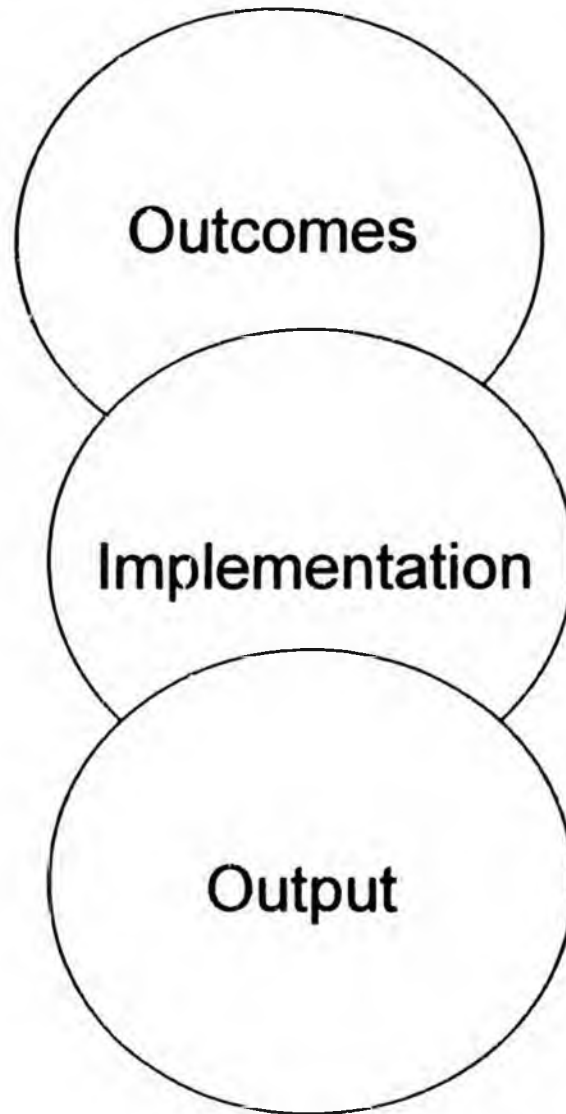
- *MANAGEMENT has to care about outcomes*
- *You need a process that focuses on RESULTS*
- *Budget discussion MUST shift to outcomes*
- *You WILL have to train managers and politicians*

## 4 Steps

- *First define Agencies Mission/Purpose*
- *Next define Agencies Products/Services.....Results*
- *Next define the Customer (if it's internal question it!)*
- *Develop outcomes, preferably WITH customer input*

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# Outcomes, Outputs and Overlaps



Policy = Legislative

= Executive Branch

Service Delivery = Agency

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Performance Measurement is.....



Efficiency & Effectiveness



Efficiency=Making the BEST use of resources

- How much did we do?
- What did it cost?

Effectiveness=How WELL did we deliver our services

- Quality of our work?
- Customer perception of our work?

NOTE: The assumption above is that you are doing the "RIGHT THINGS".....

# What's IMPORTANT to measure?

Results.....not Activities

*Result: The intended "outcome" of the effort.*

*Activities: The things done to accomplish the "outcome".*

EXAMPLE - JOBS Training

Result = Person get's a Job

Activities =  
Person's case is established  
Person is trained  
Person receives child care assistance  
Person is taught interviewing skills  
etc.....



# Shifting from Spending to Investing

## Budget:

*How much do we "get"*

*Focus is on spending*

*Tends to "assume" costs*

*"check book" orientation*

## Invest:

*What did we "get"*

*Focus is on results*

*Tends to "challenge" costs*

*Revenue orientation*

## In What & At What Level?

- Agency Level - Mission
- Program Unit - Specifics within Agencies
- Outcomes - Broad (cross cutting) Goals
- Combination - Agency & Outcomes



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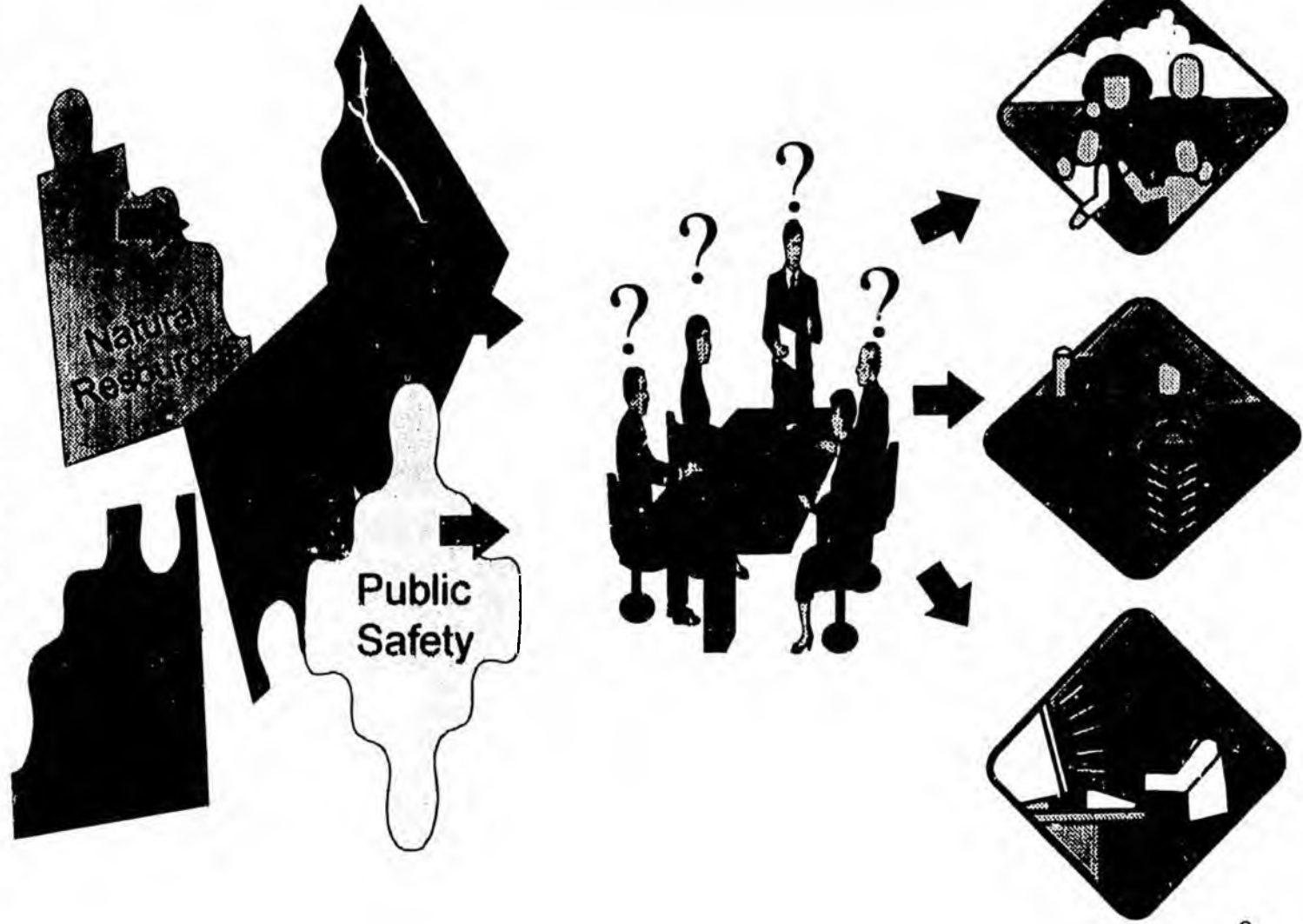
# Investing in Agencies

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- % spent on administration.
- % spent on Over Time.
- Ratio of managers to staff.
- Layers of management.

# Investing in Programs



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# Investing in Outcomes



- % of Kindergartners ready to succeed in school.
- # of children abused or neglected per 1,000 persons under age 18.

So HOW do we shift to OUTCOMES?

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“Really good ideas ultimately have something simple at the bottom of them.”

*Dr. Arno Penzias - Nobel Prize Winner*  
FORTUNE Magazine - January 15, 1996

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## KEY QUESTIONS?

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1. What's your Mission?
2. What are your programs and how do they contribute to the Mission?
3. Who are your customers?
4. What are your Program Outcome Performance Measures?
5. How did you do last year?
6. What do you intend to do differently this year?
7. What are your strategies/priorities for this next year?
8. Which measures are you going to use to validate and monitor our investment? -(cost)
9. \* *Is there duplication between agencies?*
10. \* *Are other options viable to accomplish these outcomes?*

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## Example Performance Measures:

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Program: Welfare to Work

### Efficiency:

*Cost per client that gets a job.*

### Effectiveness:

- *Average time to move from Welfare to Work.*
- *% of clients placed above minimum wage.*
- *% of "repeat" clients*

## Caution - "Simplify to Succeed"

---

*Resist the urge to over complicate for "perceived" completeness. Begin by having each program unit, agencies, submit the following;*

- At least one efficiency & one effectiveness measure for each program result.
- Brief narrative to support measure.
- Graph depicting baseline, actual & potential results.
- Quarterly reporting to OMB
- (Oregon SB-1130)

## PIT FALLS (Lessons from the "Pit")

---

- ✓ There MUST be agreement by the committees that they will follow an agreed upon approach - Speaker and President KEY.
- ✓ Legislative and Executive MUST agree on a shift from spending to investing. The debate on where to invest will still remain.....
- ✓ Create accountability mechanisms - between the Executive and Legislative. (Performance Contracts)
- ✓ Not everyone(Executive and Legislative) will "want" to change. Predetermine the consequences.....
- ✓ Reward appropriate behavior (Executive and Legislative)

## PIT FALLS (Lessons from the "Pit")

---

- ✓ Focus is to improve - not keep score. Resist the urge to "judge" the numbers too quickly.
- ✓ Build in a quarterly review process, and be ready to make mid-course corrections.
- ✓ Most Financial Systems "count things" and will probably have to be modified, to provide results based information
- ✓ Remember- no one wins -if poor investments are made!

**Alaska State Chamber of Commerce**

*Alternative Ways to Deliver  
Government Services*

*January 22nd, 1998*

*Presented by:  
Craig L. Holt, President  
Managing Total Performance, Inc.*

**MTP**

Attachment #2  
1/22/98

# Tools for Improving Government

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Activity Based Costing (ABC)

Asset Sale

Benchmarking

Contracting Out

Managed Competition

Outsourcing

Privatization

Performance Contracts - Managers

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# Tools for Improving Government

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Activity Based Costing (ABC): Methodology that assigns costs to products or services based on resources consumed.

Asset Sale: Transfer of ownership of government assets or functions to the private sector. - Golf Course

Benchmarking: The process of comparing like functions and services.

Contracting Out: Private or non-profit organizations provide goods or services for the government.

# Tools for Improving Government

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Managed Competition: Public employees and private contractors compete for same work.

Outsourcing: The service delivery of a government function is contracted with the private sector, while the responsibility still resides with the government. - Guard Rail Repair.

Privatization: Service delivery & responsibility for an entire government function is turned over to the private sector.

Performance Contracts: Managers agree to a list of program outcomes, with compensation and dismissal linked to accomplishment.

# Reasons for choosing Alternative Service Delivery

## Georgia:

- Limit government growth
- Reduce scope of government
- Improve government efficiency

## Massachusetts:

- Reduce state budget deficit
- Reduce cost of government services
- Improve government services

## Michigan:

- Reduce state budget deficit
- Shrink size and scope of government

## New York:

- Reduce size and scope of government
- Reduce cost and improve government services

## Virginia:

- Improve service and productivity of government
- Reduce the cost of operations



## Reported Results achieved - (GAO/GGD-97-48)

<u>Georgia:</u>	<u>Reason</u>	<u>Result</u>
State Maintenance of auto's	<i>not core</i>	\$300,000/year
Lancer Island Recreation Area	<i>not core</i>	\$6 million/year
<u>Massachusetts:</u>		
Prison health care	<i>cost savings</i>	\$1.4 million/year
County road maintenance	<i>improve service</i>	\$4.5 million/year
Social Service Collections	<i>improve service</i>	40% increase
<u>Michigan:</u>		
Armory Sale	<i>not core</i>	\$400,000
Physical Security Services	<i>cost savings</i>	\$1.2 million
Worker's Comp. Accident Fund	<i>not core</i>	\$261 million
<u>New York:</u>		
Vista Hotel	<i>not core</i>	\$141.5 million
Tax form processing	<i>cost savings</i>	\$7.5 million/year
<u>Virginia:</u>		
Delinquent Tax Collection	<i>improve service</i>	\$6.8 million/year
Child support enforcement	<i>improve service</i>	60% cost reduct.

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Criteria and things to consider....

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Is this currently being done in the private sector?

Is there sufficient "competition" in the private sector?

Is this REALLY a government function?

Does this function exist elsewhere in government?

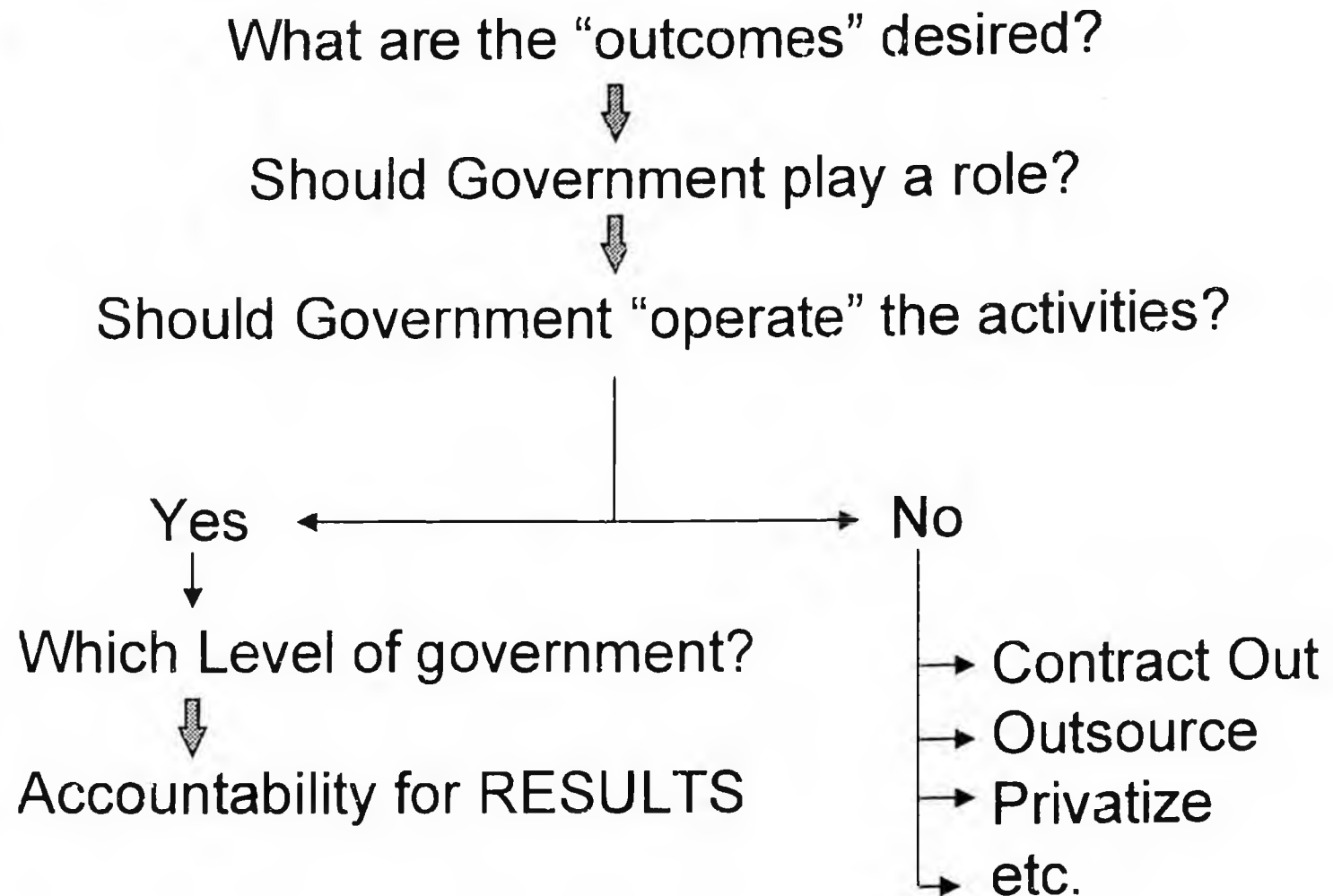
Is Integration an option?

How does this function compare on cost?

How does this function compare on Service Quality?

How Strategic to the future of Alaska?

## Decision Tree for Analyzing Programs



## Areas for Consideration

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1. Cost cannot be the only factor.
2. Don't outsource to a monopoly, its actually worse.
3. Force Government Agency's to Articulate their Mission and demonstrate how their resources are contributing to that Mission.
4. Where similar functions are being done, managed competition is a good tool for improvement.
5. Look at State, County, and City for similarities.
6. Make DATA driven decisions, this means you will need some performance measures..
7. Provide training to Government Managers, this will be new.
8. The focus should be on IMPROVING government, not outsourcing, privatizing, or competition.

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