

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

587 SCOMM18: HOUSE SPECIAL COMM. ON PERMANENT FUND 1978-80

least roughly among the beneficiaries through a surcharge on fishing licenses, entry permits or raw fish taxes. If such capital improvements are not to be funded this way, however, they seem more appropriate subjects for general fund appropriations than as "investments" by the permanent fund.

VI. ISSUES FOR FURTHER INVESTIGATIONS

This report has identified a number of questions whose answers are crucial if the Legislature is to develop appropriate policies for operation of the permanent fund. At most, however, the author has been able to give only tentative answers to these questions. The following is a list of issues that warrant further investigation, together with some discussion of methods and sources.

1. Capital market structure, costs and efficiency. A survey is necessary of the number, size and aggregate Alaska activity (e.g., loans made, loans outstanding, loans being serviced) for various institutions in the financial market, with offices both inside and outside of Alaska. Questionnaires and interviews would be used to determine the relative weight of each of these institutions in financing different industries in Alaska and their policies regarding various types of Alaska business.

A survey is necessary to determine just what is the price of money in Alaska and how does this price (together with other credit conditions) differ from those elsewhere in the United States. A large body of aggregate data comparing Alaska conditions with those in other states is available in the commercial bank call reports; some information is available by major loan

categories (real estate, commercial and installment). The absolute level of these rates is less indicative than their relation to rates in other Western states and particularly the trend of any Alaska rate differential. Any differences in other loan terms (for example, requirements for compensating balances) would have to be based upon questionnaires or systematic interviews with lending officers.

Similar questions can appropriately be asked about differences in the rates and conditions for various categories of credit as between the urban centers of Alaska, and small communities and rural areas. The quickest approximation to an estimate of geographic differentials could be obtained by comparing loan statistics for the outlying branches of statewide banks with those of their urban offices. A hypothesis that deserves investigation is the proposition that retail credit markets are more competitive and more efficient than "wholesale" markets in Alaska. If this is the case, channelling the permanent fund's Alaska lending through existing financial institutions could result in large, unearned windfalls to the banking system without significantly benefitting Alaska borrowers. It would be instructive to see what happened to the "spread" between the interest cost of public deposits to Alaska banks and their interest earnings on real estate loans, for example, as a result of the Alaska preference provision in management of the state's North Slope bonus money. A similar question can be asked about the actual effect of the state's purchases of residential mortgages, after loan fees are taken into account.

2. Demand for investment and for loanable funds. A sample survey and detailed case studies should be undertaken of the financial structure and the procedure of financing fish processing plants, hotels and other relevant investment projects in Alaska. The contrasts, if any, in structure, procedures, costs of capital for individual components of financing (interim construction, working capital, etc.) should be noted and the appropriate implications drawn. The importance of capital financing costs to overall project costs is an important element in judging the potential sensitivity of investment demand to interest rates.

The investment demand schedule for individual industries ought to be investigated. The question here is to what extent will a reduction in the interest rate to a particular group or for a particular purpose result in an increase in the level of investment. The question is difficult to answer generally because the shape of the curve relating investment outlays to interest rates will differ for each subcategory of investment and will be affected by a large number of other factors. Builders of national econometric models have spent much time trying to specify investment demand functions with only limited success, however. The data base modeling Alaska investment demand is very limited because there are almost no satisfactory statistics that can be used as indicators of investment activity, with the partial exception of residential construction. The more productive approach would be to model individual projects--even fictional projects--in the way the Delta barley project was analyzed.

3. Aggregate impacts of different policies toward permanent fund appropriations and investments. The percentage of eligible funds that should be channelled into the permanent fund is of central importance. Not only will the future growth of the state's economy be determined to some extent by the choice of eligible permanent fund investments, but perhaps more importantly, it will be determined by the amount of money remaining in the general fund for unrestricted use. Specifically, Department of Revenue analysis of state revenues presented in February, 1977, projected a permanent fund balance of \$1.8 billion in 1985 based upon a 25 percent contribution rate. The same source projected a general fund balance in excess of \$6 billion in the same year. Increases in spending above the historical pattern of state government expenditures would have a downward effect on the total remaining in the general fund, but the balance can be expected to remain substantial.

The possibility of such a large general fund balance requires that the choice of the percentage of oil revenue dedicated to the permanent fund reflect the expected impacts of the uses of the general fund balance as compared with the impacts of administration of that money through the permanent fund.

For example, one way to make use of the general fund balance would be to reduce the personal income tax. The ISER MAP analysis shows that this would indeed cause a significant reduction in the general fund balance. At the same time, it would have a highly stimulative effect on the private sector as the increase in

disposable income stimulated private sector demands. Employment and population would increase. Additional revenues would be generated, but these would not be sufficient to maintain constant per capita government expenditures. Either the level of services would have to decline or the general fund balance would be depleted more rapidly than initial calculations indicated, or both. If the permanent fund is to be a buffer against the depletion of the general fund, or is interpreted as a fund to benefit Alaskans, the expansion generated by the income tax could be the worst possible use of general fund money.

The growth implications of any constant percentage permanent fund contribution needs examination. Lumpy additions into the general fund caused by lease sales on state lands may be accompanied by bursts in general fund spending activity by the state. This erratic behavior could result in uneven growth and its problems. A formula for permanent fund contributions, which minimizes fluctuations in the general fund, might be a more appropriate rule than a fixed percentage.

Projections of the state fiscal position are important in the formulation of permanent fund policy in another way. Knowledge of what is happening to the general fund can determine permanent fund objectives. A large general fund balance, for example, tends to reduce the force of the argument that certain industry should be stimulated because of the tax base it provides.

The MAP model can be of assistance in the formulation of permanent fund policy in this regard because it can be used to project "futures" under varying assumptions of general fund policy given a "neutral" permanent fund. The state model can be used for this purpose.

A related issue is what policy should be established with regard to disposition of interest from the permanent fund. It is important not only what uses should be made of permanent fund interest but to a certain extent, what should be the target interest rate considering the uses of the interest. That is, if the interest is not put to good use, there should be relatively little concern with a high interest rate.

The basic issue, however, is whether the interest should be returned to the general fund without strings, should remain in the permanent fund for some period, or should be distributed to Alaska individuals who, in a sense, become the owners of the permanent fund.

The implications of each alternative on the growth of the economy and its fiscal condition will be considerably different. Reinvestment in the fund would have minimum impact in the short run. Transfer to the general fund would result in increased expenditures on state and local government which would have a stimulating effect on the economy with the impetus on increase in public sector activity. A transfer payment directly to individuals under some form of Alaska, Inc., project would provide an economic increase with a private sector impetus.

All of these kinds of expenditure programs can be analyzed with the MAP model framework. For this kind of analysis, which attempts to provide a picture of the relative impact of alternatives, specific program details are not necessary. The qualitative impacts would be the same regardless of whether a specific dividend amount were paid out as Alaska, Inc., payments or the available interest on the fund were distributed in that fashion. Here also, the state economic model can be used.

On the assumption that permanent fund investment will somehow be directed to the growth of certain industries, there is also a need for econometric simulations of the effects of expanding various Alaska industries on the state's economy as a whole, particularly on its employment and tax base.

4. Performance of soft loan programs. There are a number of existing state loan programs directed to social and economic development objectives. In general, they have loaned money at lower than prevailing commercial interest rates (but not necessarily at less than the state's "opportunity cost" of money). The actual quality of these funds' portfolios is unknown, however, and the actual rate of subsidy taking into account prospective future loan losses cannot, therefore, be determined. A systematic study should be made of this issue and its implications explored for administration of any soft loan program under the permanent fund.

Similar studies would be useful with respect to federal loan programs such as EDA and SBA, particularly concerning their Alaska activities. The experience and performance of International Development Agency programs and subsidized loan programs of other nations and states would also suggest problems which might be expected from any Alaska soft loan program established under the permanent fund.

MINUTES OF HOUSE SPECIAL PERMANENT FUND COMMITTEE MEETING

March 17, 1979

Agenda: HB 277 and HJR 23

Fran Ulmer and Pete Bushre presented the administration position and the rationale behind HB 277, HJR 23, and HB 99. (HB 99 has not been referred to the committee but is part of the administration's permanent fund package.)

Ulmer explained that increasing the permanent fund's contributions to 75% would still allow a moderate increase in state spending. HB 277, she said, is a conservative bill which treats the permanent fund basically as a trust.

Bushre defined the common law meaning of a trust and showed how HB 277 fits the classic definition. He explained that the first 25% of the fund would be in a clear trust and the additional 50% would be placed in a corporation with the same list of investments as the first, except for the addition of Alaskan mortgages. An additional provision states that other investments "not freely traded on a recognized market" may be expressly authorized by law. This allows a development bank to be set up by the legislature but makes it clear that it is different from the trust elements. Under the governor's proposal, power debt could be guaranteed by the income to the corporation's fund, and the income from both funds (all 75%) would go half to people in the form of tax credits and half to the general fund. Bushre argued that the Department of Revenue

should manage all of the permanent fund because it is already managing other trusts and that arrangement would be the most economical and responsible.

Ulmer explained that the state had sponsored two studies regarding the "capital gap;" these reached no solid conclusions but indicated that the problem was not one of there simply being a lack of money and that it would be unwise to just dump money on the market. The "development bank" aspect of HB 277 requires that any gaps be clearly identified and then the law amended. If no gaps are identified, the money stays in a trust.

Ulmer concluded by mentioning the public expectations, which are very high, and the fact that the permanent fund cannot be all things to all people.

Rogers asked why the governor was recommending tax credits rather than Alaska, Inc., and Ulmer explained that it was the governor's alternative since Alaska, Inc. was not warmly received before. Other questions from the committee concerned possible investment in a gasline, the executive oversight committee, guarantee of indebtedness, and other dedicated/reserved funds.

Bob Greeley, the committee's financial advisor from White, Weld, and Co., commented on the administration's proposal.

March 17, 1979

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He listed what the permanent fund can and cannot do, and stressed that it should be a trust and not confused with a development or enterprise fund. He recommended keeping things simple and keeping the trust and any development bank completely separate. He also recommended that the permanent fund not be managed by the Department of Revenue but should have its own identity and management.

Ulmer explained the reason for the executive oversight committee. Combined with the legislative involvement (amending the list of investments yearly and giving directives), it puts elected officials of both branches in positions of responsibility. The reason that some people are on both the policy board and the oversight committee is simply to provide an information link.

MINUTES OF HOUSE SPECIAL PERMANENT FUND COMMITTEE MEETING

March 20, 1979

Agenda: HB 400, HB 414, and HB 162

Rep. Haugen, sponsor of HB 162, stated that he was not happy with the bill and did not want it heard at this time. He wants to redraft it so that the fund principal is not spent.

Malone and Rogers, co-sponsors of HB 400, explained the bill. It lays out the various dedicated and reserved funds which we now have on the books and which, with the permanent fund and native claim payments, add up to 78.5% of oil and gas royalties. The sums in the bill are based on FY80 royalty receipts of \$360 million. Some of these funds are not being reserved but are being spent as part of the operating budget.

Ron Lind, Director of Budget and Management, was present to answer questions. He stated that the governor had requested no money in his budget for either the capital outlay or energy facilities development accounts.

Rogers said that he didn't think we should be spending royalties in the operating budget, and a brief philosophical discussion followed.

Malone said that the fact remains that the legislature has established these different accounts. He recommended that the bill be moved to Finance for closer consideration.

March 20, 1979

2

Rogers proposed a technical amendment.

Page 1, line 19-- Delete "\$9,000,000" and insert in its place "\$18,000,000"

Page 1, line 21-- After "AS 37.12.080" add "and for deposit in the Alaska renewable resources investment fund in accordance with AS 37.12.020(b)"

The amendment passed and the bill passed from committee as a CS.

Discussion of HB 414 was held until a later date.

Perm. Fund Comm. 3/27/79

Present: Hayes, Chatterton, Hanger, Cotton, Malone, Rhode,
Guy, Rogers

0611 - Called to order.

Hohman can't come.

Sam ^{Plaia} ~~Plaia~~ - Con. ~~to~~ PF Comm in House.

0645 - Sam Plaia (Chatterton)

1. Re. SB 122 - general understanding
2. Comments PP by PP

1. Proposes ea. cit. rec. 1 share in prin. + entitlement to income from share. Returned shares revert to State which rec. income thereafter. Choose from at least 100 options. Appears intent is to pass income directly to cit.

2. Pg. 1 no comment

Pg. 2 Art. 5: Dist. of Income to Residents

Concerned w/ baby boom by certain date.

Share owned by infants constitutes a sort of trust, but no provision for admin. trust. In essence, income from infant used by parents however they want. Raises ques. abt. whether shareholders interest best served.

^{end}
708
* Pg. 3 Item E - doesn't permit transfer ...

Pg. 3 Directed Investments - list of at least 100

This puts burden of fin. dec. on shareholder.

Lack of ability to let. What's most approp. investment. Also wld. encourage investmt. grps. to solicit shareholders. Also, difficult to think we'd come up w/ list of 100 that'd follow prudent person rule.

Also, bill difficult administratively to provide quick re-direction of investments. Also, once shareholder has made selection, can then re-direct by instructing Comm. Selling initial investment. Cld. cause erosion in principal. This violates desire to protect the principal. This ability to choose from week to week to change investments. Creates timing prob. in purchasing & sale that cld. cause considerable erosion of principal. Doesn't provide for sophis. investment program.

Eligibility requirements - difficult to administer fairly. Will documentation be readily avail for Bush residents to est. unquestioned proof of eligibility. Also sets stage for creating false "proof."

C. 760?
 Chatterton: Does loss for indiv. share mean loss for everyone.
 ↳ to 807

Pg 7
 Sect. on Eligible Directed Investments.
 Comm. shall est. list of at least 100 spec. investments. It will be diff. to come up w/ 100 spec. investment categories in accord w/ "p.m." rule. W/ broad categories, hard to get 100.

Cotton: Is p.m. rule figure of speech.
 : No, legal definition exists. Is in Gov's bill.

Q-Guy: Re. baby boom poss. What abt. older kids, not yet 18, concern also applies to them. - Yes

Re. diminishing principal - would gains from good investmts. counteract losses from others.

C. 860 → 890

Sam: Response re. diminishing principal.

Guy: Doesn't want State to inherit my share. Wants to pass on to wife, children.

⁹⁰⁰ Bushre: Re. "p.m." rule.

d13 Sam: Pg. 8, Item 6, line 23. Def. of "resident."

Such a def. may create constitutional ques. & may encourage litigation to challenge residency requirement.

925 End of prepared comments on bill.

Guy: Comment re. def. of resident. Person's home is where claims it is, regardless of where living.

Cotten: Here talking only abt. whether live in or out of State.

947

Malone: Re. directed investments. No provisions in bill for acting. for cap. gains/losses...

Presently PF earning close to 8%. Tax free.

1. What wld. be treatment of earnings from directed investment program.
2. Also, tax treatment ^{on gains & losses} if buying & selling.

Sam: Any income rec'd by shareholder wld. be subject to appropriate tax. Re. cap. gains/losses. Don't know if there's much here where person cld. segregate it on tax form & get in lower tax bracket. Might need spec. ruling from IRS. But ~~states~~ income on State's shares totally non-taxable.

Malone:

Rhode: Hse. proposal provided for 5 yr. averaging
and ^{C.} 997 of cap. gains/losses...

⁹⁹⁷ Malone: Re. leveraging - ~~use~~ borrow agnst future contrib. to fund to offset non-recurring income. If prin. or earnings pledged, what would that likely do to payout of fund to shareholders.

Sam: If \$4 bill. is put into sound revenue prod. projects, then \$ will be there for debt interest. If projects ~~were~~ don't produce income + revenue quickly, then income from PR will have to pay interest on debt + ∴ less income for distribution.

Malone: What if Indus. investm'ts. leveraged.

1040-1056

Sam: In effect, create secondary lien on income of fund. Primary lien is ~~debt~~ debt holder.

5.
Hayes: Re. preventing shareholder to transfer income?

Chatt: Pg. 2 line 17-18

Wouldn't this be impetus to come in + est.
residency quickly.

Guy: Ques. re. minors rights.

Sam: Ques. old. be raised - how have you treated
this minor. Have you protected their share.

Cotten: ...

Jim: Re. leveraging. I think Sumner thinks
borrowing can be done at tax exempt rates.
If can't, + borrow at 10%, + get ret. at 12%,
does citizen investor get 2%.

Sam: Yes. raises ques. abt. whether can borrow at
tax exempt rate.

Jim: Freedom to re-direct also seemed to appeal to
Sumner. How far will bank go in
expanding loan portfolio if it can be
funded by investor.

Sam: Not very far. Banker wld want to keep
investmt. ^{of investors share} in most liquid thing possible.
Ques. whether bankers would even take it if

know \$ could be pulled out in a week.

1130

Bushre: Expand on comments. What AK banks do w/ 12-mo. deposits. Banks will view this \$ as demand deposit & invest accord. & will not be used to expand mortgages & loans in Alaska.

Sam Plaid's

1144 - Comments on Hohman's bill.

Not time here to make detailed analysis.

Make gen. comments on intent & possible problems.

Use of income of PF to support debt to get capital more quickly to expand local economy - this is essence of Hohman bill. Theory is income from PF could be used as security for sale of Revenue

? Bonds. ...

1174 End of intro.

1186 loan purposes - starting p. 25 - Residential housing, commercial, public, educ.

Re. residential -> no general probs.

Prime concern w/ commercial purposes. Intent somewhat similar to SBA. Record of SBA not very good.

Outstanding # of defaults. Scenarios. Enormous temptation for everyone who's wanted to go into business to come up w/ idea, form corp., get big \$,

1222 (?) end of tape

Tape 3 Side 2

0000 - Continue scenario. What if fail. State can go to indiv. & ask for \$. Indiv. can^{be} relieved of obligation via bankruptcy. Fund lost this prin. & PF income will have to be used to make up this deficit. I.e. corp. can easily bleed off assets of Fund intentionally or unintentionally.

0049

Malone: Could safeguards be built into law so if default loan fund could capture collateral.

Sam: Yes, but value of collateral questionable. Expended \$ means collateral not existent.

Malone: To what extent wld. legislation in concept encourage defaults to happen.

Sam
0089 ? : ...

SBIC (Small Business Investment Corporations)
analogy.

Malone: What was main stumbling block SBIC's ran into?

Sam: Primary prob. is pressure for investment. If have funds sitting around, want to put them to work. You're more willing to look for ^{to accept} invest. oppor. when your job is to make investments.

Malone:

0200 Sam: Continue SBIC analogy

Rob: Re value limitation, aren't we as protected as bank wld. be.

Sam: If banks are doing that, they aren't
for commercial loans. Maybe for housing.
Doubts bank will go along w/ these
standards for commercial loans.

0260 Haugen: Relating it to ^{starting} fishing business.

0270 Bushie: Re. what state requires for pension fund, which is
trust fund -
75% comm. property -
90% residential property.

? Jim:

0310 Malone: Re. public purposes section -

0335 Sam: Explains serial loan vs. term loan.
Serial maturities sell at increasing rates of yield.
Have yield curve. Shorter at lower price, longer at
higher price. Explains fluctuations in yield curve.
Formula fixes rate at which state must buy
securities, w/out acdng. for fluctuations in yield
curve.

Malone: I.e. formula set out in bill means loan off.
Will have to buy ^{bonds} for more than can sell them.

Sam: Not that formula is defective. Any formula
would be defective.

Buake & Hanger re. State loan programs.

0457

Malone: re. subsidizing interest rates.

0477 Sam: re. municipal bonding.

This formula will simply not work. All encourage bidding under cost, conditions + make bidding impossible at other times.

0504 Met: re. guarantee.

Sam: Don't think so. re. different yield curves.

Met: Could mixing bonds lower it.

Sam: No, market is the market. Makes its own curve.

0560 Malone: Another ques. on municipal bonds.

Sam: . . .

0574 Malone: re. commercial loans.

Any prob. leaving tax exempt bonds for this?

Sam: Yes. Ex. of pollution control facilities being exception. Serious ques. how as to whether bonds you sold wld. be tax exempt.

Met: Was examined ^{by E.F. Hutton} field wld. be tax exempt. (But not tax counsel however).

0612:

Sam: Concerned mainly w/ loan programs. Stud. loans as exempted now wld. be encroaching on the default on loans. 0630 End Sam's testimony. 0637 Adjournment

Re. overall policy considerations

1.

3/30 Clark Gruening
Tape 5

0000 - Call to order

0035 - Not recording

0036 - Clark Gruening

Present: Haugen,
Chatt, Cotten,
Schaeffer, Freeman,
Malone, Gray, Rogers

Pressure will grow in proportion to size of Fund.
~~Need to look at long-term policy.~~

Has heard legis. doesn't need to make
more definite statutory requirements until
Fund gets bigger. But need to act before
pressure from interest grps. grow.

0100 Critical elements not now in law.

Important
Principles,
but not
written
in law

1. Should serve as safe repository.
2. Prin. shd. not be dissipated.
3. Shd make snd. investments in AK
4. Use of income earnings for pres + future Alaskans
5. Accountability, + insulate + isolate Fund from day-to-day politics.

0127

Problem

Re. types of investments in interim bill.
Problem also that in interim bill - it's
admin. by Dept. of Revenue

Wise management sys. - separate investment
functions from others.

0179 Re. Accountability

~~02220~~

0250 HB 281 provisions will provide an accountability.

0255 Re. trust concept + development banking

~~02600~~

0330 Goals P.F. can accomplish

0377 Re. use of income

0385 Summary

1. Need liquidity of investment
2. Public accountability - i.e. Mgt. out of Dept of Revenue, reporting procedure; legis. oversight
3. Legis. has info to make decision this session - don't delay.

0398 Chatt: Re. 5 basic prin. at beginning - Earnings from fund should benefit people now + in future. Ques - Should we put entire income back into P.F., rather than in general funds.

Ans. to 0427

~~0407~~ 0434

Malone: Re. trust concept, + eligible investment, idea.
Criticism of eligible investment, idea.
~~How can~~ Do investments have to be specified.
How can 2 be combined.

Ans. to 0487

0488 - Reference to Gov's bill re. in-state investments -
 0510 doesn't say what it "should" say

Malone - 0531 - comments on any other proposals offered -
 by gov. or legislators.
 This comm. doesn't have HB 99 -
 proposes split of earnings.
 Any comments?

Ans. to
 0550

0553 - Hugh's feelings on ↑.

0560 Jim:

Ans. to 0581

0585 - Comment on transition.

to 0662

70 stuff - Gov's bill. Legal opinion on 70

0662 to 0671

To 0684 Doogan re. statutory limits re. 25%
 Malone re. HJR 23 not rec.

0688 Jim: Re. admin. bill

Re. admin. explanation of how 75% of
~~royalties~~ royalties can be placed in P.F.

0717 - adjournment

Agenda: Hohman

3/29/79

Present - Hays, Chatt, Hungen, Rogers, ~~Cotton~~
Freeman, Guy, Malone

0639 - Call to order

Chatt & Hays, Hungen - leave
for min. mtg.

0680 George Wolf

Indus. dev. bonds^{10B} - proceeds of bond issue used entirely
or mgt. in trades or businesses for non-exempt
persons & paymt. by revenues made on loan
proceeds.

0706

Types of loans that can be made - very few non-comm.
type loans.

Can you have a large enough vol. of non-comm.
loans to support comm. activity.

0722 Exceptions - Exempt facilities (res., sport, pub util., convention,
H₂O, sewage, poll. control)

90%
test } If issue rev. bonds to finance these, will be tax-exempt
- Small issue exemption - up to \$1,000,000 to priv. bus.
given 90% restriction.

0749 - Summarize pt. re. whether type of loan prog.
tracing - not clear in bill.

0805 Ans. to whether bonds issued under Fund
could be tax exempt

0808 Arbitrage aspects

0838 - Next sig. ques. under arbitrage rules
is question of bond security.

Under arbitrage rules -

0890 - Re. potential application of replacement
clause.

0918

Rogers: What if don't get advance ruling from
IRS.

They'd go after holders of bonds &
tax interest... Even if could sell them
w/out a ruling.

0923: Re Revenue Act of '78, can petition tax court
if disagree w/ **IRS** ruling.
More info abt. rulings.

0971

Municipal + non-profit corp. loans
Elig. req. of bill don't ~~so~~ completely reflect
story for priv. non-profit corp.

0991 Re. loan elig. + loan limits

0996 Re. bank particip. in loan servicing.

1005 assessment of what law might be 5 yrs.
from now & how might affect program.

1017 Housing bonds - trend for future restrictions.

1037 Totally new prog. in Hoh. bill may
create its own trend, doing what Congress
tried to prevent w/ IDB.

1050 Restrictions seem to be loosening up rather
than tightening.

1055 Re. declaratory judgment procedure.
New stream of judicial decisions in
tax-exempt area will be relatively
unsettling. Novel program could suffer.

1073
~~1072~~ Guy: Re. trader business + security interest sec.

1083: summary by Malone.
And Wolfe

1114: End of Wolf testimony

1117 Walter Philkin

Introduces himself

Financial Advisors to State since Statehood for
all but 3 yrs. on long-term borrowing prog.

Comments re. marketing aspect of bonds
that might result from this bill.

1127 Testimony begins.

Re. 2 sources of security for bonds.



Ques. of can the issue re-pay its debt & interest on timely basis is critical ques. re. what additional will be needed for marketability.

1150 ~~Edith~~ P.F. pledge not necessary?

1159 Malone - re. major divisions bill falls into.

1165 Re make up of P.F. Boundaries need to be put on investment uses.

1196 Impact of loan progs. on State borrowing prog.

Tape 4 Side 1

~~0128 - Jim:~~

0128 - Jim:

Re. revenue bond projects

Jim: Re NYC & Municipals

0217: Re. other points in legislation → concerned that it appears to be so all-inclusive. E.g. permitted investments have long list → oppor. to invest in such broad range could lose impact hoped for from P.F. security.

0244: Re. municipal loan prog., section dealing w/ Funds purchase of mun. bonds on set formula. ^{Experience w/} Formulas like this in past.

0275: ~~End of Watter's testimony.~~ Thanks to Walt

0284: Re. what Plaia said abt. revenue bonds. Not initially being marketable.

Walter's reaction.

~~0300~~ 0304: End of Watter's testimony.

0306: New documents.

From Ulmer, Mar. 29.

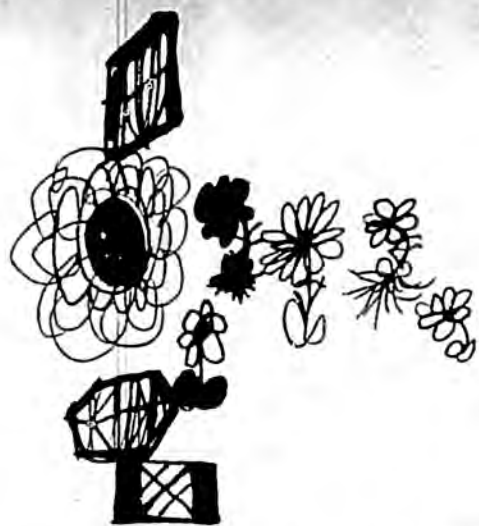
Feb. 21 Memo on SP 2

Mar. 23 Memo from Wohlforth & Flint

Other comments:

0361 Martine Moore: If P.F. is going to have perpetual life, must put \$ in Secure A Bonds or Triple A Bonds.

0406 Adjournment



1.
Keep track of
Sen. Sumner's
remarks on
leveraging

borrowing
\$ or future
oil revenues

Permanent Fund Committee
March 23, 1979

780 Present: Chatterton, Guy, Malone, Rhode,
~~Sen. Sumner~~ Sen. Sumner, ? , Rogers,
Haugen,

Call to order

HB 240

790

SB

240

800 approx

Sen. Sumner: Described concept behind SB

If p.t. is really peoples \$, people ought
to have some option or selection in way \$
is invested: directed trust ^{or investment} concept.

Commissioner would est. types of investments.

5. Thought legis. would est. investments. + Thought
we'd have 100 or more investments. GSOB

could be incorporated into this concept.

become line item investment under this
plan. Scope of accommodating many concepts,
all within body of one bill.

825

826

Rogers: So ea. indiv. could choose bet.

~~several~~ several plans.

5: Yes, if approved way to invest.

Non-invested \$ wld. stay in mutual fund.

Rogers: Fiscal note on this?

5: Not yet.

5: Ea. of approved invest. sectors would have
part. restrictions in terms of ~~business~~
of terms of invest. But once these criteria met,
~~it then a matter of~~

12: What if on my share, that invest. loses \$

5: Fund would share loss. On some % of earnings

could come back to fund aginst. any losses.
Doesn't think investor should share 100%
of loss.

877
878 Malone: Concept is that indiv. would have
abil. to let. where their share of
fund is invested & earnings
would come right back to them.

S: Yes

In the bill itself, what is legal def. of
"residents"

7 S: As of date of bill, & if don't close it
off, it's legal. i.e. don't restrict when next
one would occur, it's legal.

901

902 Chat: Typ question...

Chat: e.g. 400,000 shareholders.

Gov. will be able to direct
how want their portion invested.

What if many investors are persuaded
to invest in a scam & is very
costly to fund.

S: Trying to make avenues for everyone -
e.g. older citizens who don't want to
wait for return need other options to
invest in.

□

Summary
of
concept
of
his
bill

A permanent fund really the peoples \$
& if it is do people have access to
it & if they don't then I doubt
it's really peoples \$ & gov't will
find some way to use it w/out
benefits accruing to all people.

942

anything

3.

943

943 Malone: how is leverage of net income addressed in bill.

S: It isn't. Didn't want to write tight bill. Trying to address concept & to extent that I can get you to bend w/ me, that's my goal.

If we take our collective assets, ~~co~~ and invest, can offset our collective liabilities.

Malone: how do you see this & p.t. together.

S: We have presently 25% of non-renewable income \$ going into p.t.

Plus renewable tax base whose taxes go into gen. fund.

Would like to re-structure leverage to broaden ~~tax~~ ^{economic} base.

Off set non-renewable ^{tax} \$ now feeding gov't.

If don't start taking out resource \$ in direct ratio as tax \$, then just expanding gov't.

(996) ? \$4 billion additional investment needed to offset inflation.

Need to embrace concept of backing more non renewable tax \$ into perm. fund & then have that invested to broaden econ. base.

1011

Chat: in other wds. want perm fund that's generating enough income to meet needs of State gov't.

1024



1025 Jim: ~~If point~~

Earnings of perm. fund are sufficient to replace oil revenues?

No stim. of econ. leverage can replace sig. portion of oil tax \$.

Jim: I.e. taxes thrown off by business & personal growth

\$4 bill into econ. could stim. growth to support present level of gov't.

Want most of directed invest. to stim. Alaskan economy.

1050 J: Wants to build priv. econ. w/ this \$4 bill.

1051 Rogers: Similar to plan laid out by Milton Friedman to Jim & me few yrs. ago.

1058 S: I'm trying to put together skeleton that brains & wisdom can build on

1059. ~~Chatt~~ What would mgt. of this whole Hansen thing cost? Seems like gov't will be involved in some way.

1079

1080 Malone: To elaborate -
ques. eligibility

1085 Guy: death of shareholder - lapses to state. why not pass on to relative or someone born after elig. deadline

S: If come off here after effective date, then elig. for next go-round w/ fund I don't care abt. this pt. - however comm. wants to go. Either way, not fatal to concept.

1099 S testimony ends

1025 Jim: ~~If present~~

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to replace oil revenues?

No stim. of econ. leverage can
replace sig. portion of oil tax \$.

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& personal growth

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someone born after elig. deadline

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then elig. for next go-round w/
fund. I don't care abt. this pt. -
however comm. wants to go
either way, not fatal to concept.

1099 S testimony ends

1103

Ken J. re. elig. ques. re. residency requirement
Vassar, attorney w/ legis Att.

Person has to have been res. continuously
since July 1 1980 & apply by Feb-
1981. Diff. than other res. req -
prospective residency requirement.

Is that constitutional → not sure.

Thinks it sustainable but not sure.

↓ Bec. is one-time shot, dealing w/
fixed asset. Need to det. who is &
isn't resident at that X.

In summary I think it's sustainable.

Rogers: How close do we push time lag bet.
effective date & beginning of residency.
Could we make it July 2, 1980.

Cut off date is for purpose of det. how
many residents there are & then X
to det. how distribute ~~resident~~ shares.
(Resident defined as 30 days).

Malone: end up w/ 2 classes of people -
one who are qualifying residents,
& other residents. Prob. when dealing
w/ State funds. What if there isn't a
2nd distribution? Argument that
just can't dist. public funds that way.
or benefits of pub. funds that way.

Vassar: I.e. in essence only 1 group of people
might be able to share in this. I don't
know any case prohibiting this. I don't
think it's unconstitutional. Cause fixed asset
at time of distribution.

Rhode: Thinking by analogy to Berne initiative. 6.

What if fund is growing & growing aft 1980. You've created special class of perm. fund investors.

Vassar: You can make classes.

Are you dis. agnst. class that violates Const'l. right, Are you creating suspect class. I think you could argue here that need to make cut off in order to rationally distribute shares.

5: We can pledge everything we've got to whoever we want, & still distribute again in future.

Rhode: If I leave state my share reverts to State & none goes to ^{gen} fund.

W: Is residency a valid basis for discrimination?

^{new tape 0000} V: There is case law where State can show preference to residents in terms of distribution of States resources.

M: But we're talking abt. 2 classes of residents, not residents & non-residents.

Sumner: key is that if you're resident today & ∴, then for next distribution must do it for all residents here then.

Chatt: - - - -

⁰⁰⁷⁰ Guy: pg 2+3 line 26-p.1
 ⁰⁰⁷⁰ line 1-p.3
ques abt. language

0113 Sumner: assuming people move & shares turned back in, there's nothing to stop reinvestment of those w/ future fund.

0123  Chatt: What happens when all those shareholders move out of State & die - then everything would revert back to State, Would self-destruct w/ time.

0150: End of Ken's testimony ^{Ken-right.}

0153: Pete? Busho?

Started

0166 - Bill embraces 2 general concepts →
 Dist. of earnings of pt to people
 of AK sim. to Gov AK Inc.
 proposal of last yr.

Other concept is to enable people of AK
 to have voice in use of p.t.

Some ques. for committee to consider - areas that
 need specific lang. regardless of intent.
 Need to define "net income" -

Does public have knowledge + expertise to
 choose bet. the investmt. alternatives?

Perhaps better to ~~impose~~ invest. areas to public
 rather than spec. investmts.

Distinction bet. direct investments - ^{steady income stream} + in-State investments
 (development capital for in-State dev.).

Mechanics of administering direct investmts.
 As bill is presently drafted, appears investmts can
 be re-directed, unless made choice for time
 deposit. My ques - would re-direction of
 investmts generate losses for perm. fund
 which would be borne by everyone.

Another ques - if my invest went well + another
 citizen went broke, would I have to share
 their loss + share my gain.

Needs to be addressed w/ more specific language +
 hopefully something simpler to administer.

Malone: if someone invests + goes down they'll get out.
 What do you do abt. capital gains + losses w/
 this scheme.

Pete: Should be some provision to prevent panic selling.
 As written, shareholder can re-direct by calling Commissioner.



P: some safeguard by statute is needed to prevent ~~panic~~ selling.

Malone: regardless of how \$ is invested, does everyone share = in div. at end of yr.?

Sum - No, earning comes directly to investor from where investing.

If stop investmt, \$ goes back to perm. fund.



Week later e.g. if want to re-direct, send in form to computer.

Jim:

0515 Chatt: ques abt. mutual funds

Pete: could have simply administered perm fund or administrative nightmare.

Sumner wants somewhere ^{between} ~~being~~ State doing it all + poor dumb people blowing it all.

Chatt: If any investmt. becomes crummy, by definition erodes principle. Right.

Jim: Constituency for perm fund will be shrinking over X just as fund is getting bigger & bigger. Fear who's left will want to break ~~for~~ **for** the fund.

Chatt: If p.t. could be divorced from politics, would you say Sumner's bill goes counter to this, cause body politics so involved.

Sum - don't know. But politics of nine member

0545 investmt panel & appointment of those members is real scary to me.

0600 Adjourned

Meeting of the House Special Permanent Fund Committee

March 23, 1976

? agenda: HB 280 + SB 122

Members Cotton, Freeman and Hayes were absent.

Tape #2

800

Sen. Sumner described the concept behind SB ~~280~~¹²². If the Permanent Fund is really the people's money, then the people ought to be able to ~~directly~~ invest ~~this~~ ~~money~~ as they wish, given certain ~~restrictions~~ ~~investments~~ ~~options~~ to choose from (with each ~~particular~~ investment having its ~~own~~ ^{individual} ~~criteria~~). This is known as the directed trust or investment concept. The Commissioner of Revenue ^(a legislator's preferred legislation) would establish ^{investment options} ~~options~~, perhaps 100 or more possibilities to choose from. GSOP's could be one of these possibilities options. Idea is to accommodate many investment possibilities and to allow the people to choose among them. A fiscal note has not yet been

SB ~~122~~ does not yet have a fiscal note; ~~cost of administering this not yet determined.~~ ~~Administrative costs unknown, undetermined.~~

Questions were raised concerning gains or losses on an individual's ~~particular~~ investment(s), and the effect on other individuals, earnings and on the Fund in general.

? Senator Sumner said earnings would come directly to the individual from their particular investment(s), ~~he does not think an investor should not~~ with the Fund sharing some % of the earnings. Likewise, ~~he thinks an individual ought not to offset any losses, he thinks an individual~~ ~~should~~.

or perhaps a Reserve Fund sh. be est. for the purpose of covering losses.

ought not to suffer 100% of ^{their} losses. The Fund would share this burden.

~~Regarding losses, question was also raised about costliness to fund if many investors were persuaded to invest in a "scam."~~ ~~Sen. Sumner said Commissioner's~~

Sen. Sumner was also asked how leverage of principal is addressed. Questions were also asked about eligibility ⁱⁿ 56122.

Questions were also raised about leverage.

Sen. Sumner said it isn't, but ~~the~~ the idea is that one part of Sen. Sumner's concept, which is that incorp. in the bill, is leveraging P.F.

~~The P.F. \$ would be used. wd. be used to borrow on, so eventually there'd be \$4 bill. in working capital. If this~~ ^{could be} ~~were~~ invested in Alaskan businesses, this would broaden economic base, ~~all~~ offset inflation, and displace the non-renewable \$ now going into P.F. He suggested that we need to embrace

the concept of ^{more} borrowing more ~~renewable~~ ^{into P.F.} ~~to that~~ By leveraging P.F. enough increased ~~investment capital~~ ^{income} would stimulate private economy. enough income could eventually be generated to meet needs of State gov't. ^{recurring} ~~depending on a non-renewable \$~~ ^{to} for increasing principal of Fund.

Ken Vassar, ~~Attorney General~~ ^{legality of the} legislative Affairs attorney, addressed the ~~legality~~ residency requirements for qualifying for shares of the P.F. He said that since ⁱⁿ this case ~~the State is~~ concerned with a fixed asset and needs to determine who is eligible to receive a share at a certain fixed time is eligible to receive a share, that the residency requirement is sustainable. He's not sure if it's constitutional.

to borrow against the future contrib. P.F.

How do you pay borrowing was not addressed.

Tape #2
1103

He said he's not sure if the residency requirement is constitutional but he thinks in this case it is sustainable. ~~Because~~ The State is dealing with a fixed asset that will be distributed to individuals at a particular time, and it seems justifiable to use residency ~~as the criteria~~ ~~to determine~~ at that time as the criteria for eligibility to receive a share.

The Committee expressed concern that this would create two classes of ~~residents~~ ^{people} - ~~those~~ eligible at a particular time and ~~those~~ ~~not elig~~ who become residents later & therefore are not eligible.

one who are qualifying residents & the other non-qualifying residents. What if there is not a second distribution? Mr. Vassar said he thinks this would not ~~be creating~~ create a suspect class, because it could be argued that some cut off is needed in order to rationally distribute shares.

~~Question was asked about~~ What would happen when all shareholders from first distribution either move out of State or die. ^{all shares} ~~Everything~~ would eventually reversion back to the State.

Mr. Vassar confirmed that this means the "class" of qualifying residents would eventually "self-destruct" with time.

Tape #3

0153

Pete Brushner, Deputy Commissioner of Treasury, raised ~~some~~ questions for the Committee's consideration, & suggested these ^{some} areas need to be addressed with ^{more} specific language in the legislation.

Does the public have the knowledge & expertise to choose between investment alternatives?

Would it be better to pose investment areas to the public rather than specific investments?

Should distinctions between trust investments (steady income stream producing) & in-State investments (development capital) ~~be~~ be clarified? examined & clarified?

What are the mechanics of administering direct investments? As presently drafted, bill allows for re-directing investments (unless investor has chose time deposit e.g.). Would re-direction generate losses for P.F.F. Would these be borne by everyone.

If my investment went well & another citizen went broke, would I have to share their loss & then my gain?

Should some provision ^{some safeguard by statute,} to prevent panic selling, be written into the bill. As is, shareholder can re-direct by calling the Comm.

Discussion ^{among} ~~with~~ Committee members also raised these concerns:

If any investment ~~is~~ goes down, then by definition the principal is eroded.

Constituency for the Fund will shrink over time, just as the fund is getting bigger & bigger. Fear that those left will want to break open the Fund.

~~Is the body politic too involved~~
 In use some suggest P.F. should be divorced from politics. Is body politic too involved Under SB122.

April 10 Present: Haugen, Haygo, Freeman, Chatterton,
Rogers, Gray, Malone, Rhode, Schaeffer

Call w/ Bob Greeley

How imp. is it to treat cap. gains @ corpus
of fund.

D came late
left early

134 Ques. from Malone re. way gains + losses are
treated in private trusts

155 End of conversation w/ Bob Greeley

Malone summarizing basic theory re. gains + losses
w/ ques. from Haugen re. taking conservative approach.
People expect fund to be protected. Wants to
restrict investmt. of fund to Treasury Bills -
not playing the market.

Malone - treatment of gains + losses is sep. from types of
investments you want to allow.

Freeman - no ques. as to how wants capital gains
to be treated - ought to stay in principal.

Haygo - Prob. w/ having cap. gains as part of
principal.

Freeman - More imp. to protect integrity of trust
than to produce income. If going to win,
have to gamble big. If gamble big, then
can lose big. Wants strict limits on
allowable investments.

223 Chaff. - Sect 140 + 150 ans. ques. that have been raised.

Malone - in 140 says if you take a loss on a sale of a security, then have to offset by netting out in same yr. or by averaging out over time period. But have to pay back. Other hand, if take gain, that's added to principal, so protection is there.

Re. income Constitutional amend. provides that fund has to earn income.
p. 10 lines 5-6 —

Malone thinks cap. gains need to be treated as addition to principal.
Refers to Blix's comments.

~~Re. Sect. on treatment of inc.~~

263 Mr. Swick introduced.

For comments on SB 1 + possible uses of income for energy dev. in State.

274 Ted Swick - deals w/ marketplace for State + local gov't securities.

Re. SB 1 - (HB 279) - ~~✗~~ formula won't work. Based on Bond Buyer average. Est. by market price for 20 yr. A rated + AA rated bonds. In market place, all A bonds e.g. don't trade at same rate. Formula will not come up w/ competitive price. Re. yield curve.

But fixed arrangement where change every 5 yrs,
 leave no reality to market place,
 Price of part. bond on a part. day is very subjective.
 If intent were to buy all bonds put up for
 public sale, then this would work like
 a charm.

352

Que. from Guy re. ratings.

369

Madans's Re HB 414 - proposal for use of P.F.
 income. Would guarantee certain types of
 debt. Comm. hasn't made any decision
 on allocation of income. Need to examine.
 Paper to Ted's letter of Dec. 1972.



440

Madans: summarizing these points

Freeman: Same as double-bond bonds?

Guides: Yes.

Haugen: Re. double bond bonds

Haugen: Re. concerns alt. power projects

oooooooooooo

Madans: Re. cost of benefits

James: Re. use of earnings as guarantee being a
 device to raise money but there's a difference.

490 Malone w/ other questions re. use of income from PF to guarantee debt. Explanation of difference here (compared to SB 1 eq?)

Swick: can get value out of this income flow, while putting it in mild jeopardy, if any.

Malone: What does it rest on? Re. guarantee. If there's a difference in this case, I want to isolate it, so I can understand what diff. is.

507 Swick's response.

~~Malone: can't get income from energy~~

524 Ted on energy reserve acct.

Haugen: Re. leveraging for energy dev. projects.

Swick's resp - way it is generated & handled it will not support debt or leverage.

555 Other business

Let's list issues section by section, what are options.

572 Rejoinder

House Special P.F. Committee

April 11, 1979

Agenda: 281 Mark-up

Present: Malone, Freeman, Chatterton, Hargen,

Hargen, Rogers, Cotton

Tap 7 (cassette), Side 1

000 Call to order.

Intro memo from DPDP + ^{list of issues} ~~info~~ in HB 281 prepared by staff.

110 First issue deals w/ investmt. advisory comm, IOC.

Clark Gruening wants to comment on that. Has provided written & oral testimony. Wants to make additional comments.

212 Summary by Bushre of comments ~~in~~ in his letter re. gains/losses. w/ questions from members.

367 Call w/ Clark Gruening. What are reasons Hse. Comm. wanted separate permanent committee of legislature for review of investments, rather than use other alternatives. w/ questions from members. (Rogers, Chatt

616 End of Gruening ~~testimony~~ call.

621 Continue remarks by Bushre.

633 Haugen - concerned abt. expense of legislative oversight. Could Bd. of Trustees provide annual report to legislature.

661 Rogers re. IOC. Should be B+A Comm, w/ 2 Statutory subcomm. One for Investment, Oversight.

679 Hayes re. IOC.

695 Chatt. re. IOC.

714 Cotten re. IOC operative functions.
Malone response. Refer to p. 4 thru 4.12 p. 5.
#4 & 5 would place biggest burden on IOC in terms of work load.

(Tape change)

Side 2

000 Cotten continues.

021 Haugen re. IOC + Chatt's response to him.

086 Hayes re. IOC oversight for more than PF. How many?

Malone responds. Pdt - 25 separate funds.

116 Chatt. re. Hayes. point. Monthly reports don't tell you how loan prog. are being administered & what loans are going for.

144 Rogers - agrees w/ Chatt. re. workload. But fair amt. is being done by Budget & Audit Committee.

161 Malone → don't have definition of what workload will be. Suggests assigning respon. to B+A & ask them in 1st yr. if that needs improvement. Take duties first & put in statute under B+A & put transitional section there, or in letter of intent - for B+A to make recommendations after a yr.

On - don't delegate to interim comm. Relegate to standing comm i.e. Finance.

251 Hayes response to T.

268 Jem? - Question abt. powers of IOC. Would not perform audit.

284 Chatt. Why assign. those to B+A cause in effect it's their duties now?

Malone response to T. Reasons for putting into statute.

313 Freeman response to 1.

342 Cotten moves that spirit of Malone's suggestion be put into new draft.

Malone - take duties section + add it to functions of current B+A Comm.

Also, PF Comm include letter requesting B+A Comm report to legis. re. how assigning these functions to B+A Comm. could be improved.

370 Rogers - changes in

24.20.201

24.20.271

24.20.231

Malone - refer to statement of functions at top of p. 2 that should be incorporated into motion.

Rogers - also legis. findings on p. 4. - let's incorporate that into motion.

400 Harges - re. p. 5 l. 12 does B+H presently have that capability?

Malone - new concept, new staff function.

434 Rhodes: low fiscal note of last yr., adding one more individual could probably handle additional work load.

- 450 Haugen - how do you get recommendation from all these committees.
- 481 Malone - let's leave it for Finance Comm. to decide.
- 502 Hayes - amend motion to strike "in conjunction w/ Fin. Comm. of the House"
- 510 Restate motion:
Assign ^{purposes &} duties of IOC to B+A Comm.
Include in a Comm. letter discussion of ques. of sep. comm & ask B+A to report to legis. consideration of assigning respon. to a new or some other committee.
- 525 Chatt. Include findings, too.
Yes (Malone).
- 531 Motion adopted w/ no objections.
- 549 Chatt. - could people who won't be here tomorrow, tell us how they feel abt L.5, p. 6.
- Hayes - aren't we going to deal only w/ 25%.
- Malone - not going to limit debate in comm.
But comm. needs to decide on contribution.
- Meet Thursday at noon. Finance Comm. Room.
- 587 Adjournment

4-12
(1)

House Special P.F. Committee
April 12, 1979
Agenda: Mark-ups

Present: Malone, Freeman, Chatterton, Guy,
Rogers, Haugen

589 Call to order

Review of motion adopted yesterday that
dealt w/ oversight.

635 Now at Sec. 2

No suggestions.

645 Sec. 3

010 p. 6

Item 1 - increase lease bonus from 25 to 100%

682 Freeman: Question about 1. Maybe better off if
don't have leases for awhile. Best to stick w/
25%.

698 Rogers: Concerns that setting other % could affect
other policies.

726 Chatt: Damned if you do, damned if you don't.

~~7~~

Tape Change Tape # 8 Side 1

000 Malone: Any lease bonus \$ should go into fund.
Alternative re. review of G.F. balance. E.g. item 3.

056 Rogers:

109 Freeman: Problems re. putting everything into PF
rather than make 100%, make 50%.

137 Chatt

173 Rogers: What putting 100% in ~~the~~ will do
depends on objectives of admin. at the time.

195 Chatt: Re. liquidity of mineral leases.

214 Guy: PF would be short changed

254 Rogers: Re. native claims payments.

Another alternative - elim. Sec 1 L. 5-10...

ms
at
bathroom

302 Chatt question re % of bonus & going to Native fund & Renewable Resources.

316 Barker & Eppenbach respond.

336 Freeman: clarification re. present % re. bonuses.

345 Malone:

L.5 Motion to include diff. word "bonuses" the word "remaining" to make clear talking about net diff. these other deductions required by state law.

361 Freeman

p.6 L.5. Motion to change 100% to 50%.

Rogers objects for purposes of discussion.

~~Malone~~

390 Chatt. & Barker & Rogers & Malone re. %.
Would actually be $46\frac{1}{2}\%$.

461 Motion adopted w/ no objections.

467 Rogers: ^{Motion to} Strike word 30, replace w/ 50, p.6 L.11.

472 Chatt: Concerned abt. "single source of revenue" in Ah.

492 Freeman: Re. bread & butter.

521 Haugen: Need some \$ for G.F. to spend. If raise this to 50%, basket x when other taxes will have to be generated to pick up G.F. budget.

536 Rogers: Doesn't see royalty income as bread & butter, sees taxes as bread & butter.

559 Chatt. How can you legislate more than 100% of what's coming in.

571 Malone's response.

592 Rogers - willing to amend -

add "remaining after any deductions allowable to ..."

Malone - object case would violate Constitution. Can't deduct any more than what's already netted out in Constitution. Can put more in but can't take more out.

Rogers: clarify, %.

621 Chatt: Concern also alt. saving some for future, also alt. getting benefits immediately.

630 Freeman: Great difference bet. one-shot bonus deal + royalties (bread + butter).

651 Rogers: Regardless of bidding method used by dept., only half goes into P.F.

674 Guy, Rogers, Malone in favor. } Signify by
Freeman, Chatterton opposed. } raising hands.
Chair didn't rule on motion. Not enough members present.
What next.

735 Chatt - suggests changing p.6 L. 29

Tape 8

Side 2

000 Rogers. Suggests changing p.6 L. 29 to:
Corp. goal should be to maintain safety of prin. while maximizing total return.

50 or so on... Why chair wants full committee present.
What next.

120 Adjournment

House Spec Permanent Fund Committee

April 18, 1979

Agenda: Mark-up.

Present: Malone, Hayes, Haugen, Freeman, Bry, Rogers,

Tape #8 Side 2

Chatterton

152 Call to order.

Left off on debate re. contributions level of income into fund.

Review of motion adopted on 4-12 + motion chair did not rule on on 4-12

171 Rogers: refers to memo from Mitt Barker, att. where P.F. would be under different leasing programs.

Why bonus + lease figures need to be consistent.

Discussion w/ members.

343 Rogers renews motion changing 30% to 50% ~~time to~~ p. 6, l. 11.

Haugen objects. Wants to know where earnings of PF will go, before decides how much \$ to put into it.

Malone guesses some kind of compromise will be the answer eventually.

Need to decide based on info now.

Hayes: Thought we were looking at management structure of fund that has already been est. by law, first. Seems like we're going astray. Dealing now w/ how much more going to put into fund.

Freeman: Question regarding effect - more you put in PF, less you'll have to spend on day-to-day operation of govt. Not willing to increase contrib. to PF, esp. if have to raise taxes to keep govt operating.

Chatt: State gets abt \$800,000/day from

royalties. Would be \$60 million going into PF that is now going into GF if increase to 50%.

Malone: But as written is additional 5% over current contribution level.

496 Freeman: could we treat state land sales same as oil leases & bonuses.

Malone: OK in terms of increasing contrib. to fund.

Rogers: No you put in would depend on whether someone paid in cash or installments.

Rhode: can you do that legally?

Malone responds. Philosophically fits in, but don't know abt. legalities.

Present amend. that defines income of Fund is fairly limited.

536 Ques. pending is what should we set ongoing contrib. rate at.

Call for ques.

542 Malone, Guy, Haugen, Rogers in favor.
Freeman, Chatterton, Hayes opposed.
Haugen mis understood.

Rogers withdrew motion bec. of
P. 6, L. 5 40% ← misunderstanding.
p. 6 L. 11 40% ← {Amends motion
to read

Call for ques.

557 Rogers in favor.

Other members present opposed.

Rogers recommends coming back to this when have full committee.

Chatt - so what will % be.

Malone - would have to leave at 25%

ber. That's what law is, if don't get committee consensus on it.

Hayes: if leave it at 25%, then don't need next #?

Malone: personally in favor of Rogers' motion but not in favor of jamming it down members' throats.

607 Malone: jump to new topic. Need to discuss list of eligible investments. Didn't discuss much last time.

Refers to comparison of different proposals (Navy's bandout). Also Larry Eppenbach will discuss w/ committee.

~~650 Larry Eppenbach~~

650 Larry Eppenbach

Tape 9 Side 1

~~650~~

we at
bathroom { 000
99
153

Eppenbach

Questions from members.

Freeman: Which order do these fall in in terms of safety.

34

350

Bushre on long-term investments of PF \$ in ab. banks, bec. 2 yrs. ago agreed not to do so w/ chair of PF Comm., even tho legally revenue can do it now.

369 Eppenbach w/ some suggestions.

419 Aratt: Where are these 4 things in HB 281.
Pg 10 L. 20

437 Rogers: of 8 in 277, which are currently
 being invested in.
 Bushre: 1, 2, 3, 4, 5, sometimes 6.

461 Rhode: re list of investmts for 277,
 no ak mortgages tho do under #2
 of 281.
 Bushre responds.

496 Adjournment.

House Special Permanent Fund Committee

April 21, 1979

Agenda: Mark-up

Present: Malone, Freeman, Cotten, Rogers,
Chatterton, Guy, Hayes. Haugen
arrived at 4 pm.

Tape #9, Side 1

498 Call to order.

Review.

592 Discussion of rates continues.

Malone: Could go as low as 25% or as high as
members think people could afford or would buy.

602 Summary by Malone.

Two questions (p 6, l. 5 + 11) closely related, so
looking at previous action (motion on l. 5 passed 4/12)
+ thinking committee should look at it again.

Rogers: why he thinks both should be the same.

Chatterton: more \$ you put in PF, less you have
for running the gov't.

723 Rogers: proposes compromise language. 30% of
royalties from existing leases, 50% of
bonuses + royalties issued aft. effective date.

733 Freeman: why he supports 25%.

Tape #9, Side 2

000 Freeman continues.

115 Question by Cotten re. how \$ is appropriated to
PF w/ responses from Malone + Vassar.

No appropriation is necessary. If additional
amounts allocated by law, they'd also go
into the Fund.

336 Motion by Freeman: p. 6, l. 5 change 100% to
50% + after "bonuses" add "remaining."
~~by objects.~~
Discussion.

Rogers: Amend motion so l. 11 also reads 50%.

Freeman objects.

Discussion.

489 Vote on amendment to motion.

Cotten, Guy, Rogers in favor.

Chatterton, Freeman, Hayes, Malone opposed.

Amendment to motion fails.

Discussion on effect of no motion passing -

Chair & Chatterton (who moved to adopt HB 281 as mark-up) concur that rate would be 25%.

545 Vote on main motion.

Freeman, Guy, Hayes, Malone in favor.

~~Cotten~~ Chatterton, Cotten, Rogers opposed.

Main motion passes.

553 Motion by Rogers: p.6 l. 11 25% of all mineral lease rentals etc. as of effective date of act and 50% of all ... received from leases issued after effective date of act.

590 Chatterton: moves for division of question.

Guy objects.

Malone suggests voting on increased contribution of new leases separately.

627 Rogers: withdraws motion.

New motion: 50% of any leases issued after effective date of act.

636 Vote on motion.

Cotten, Guy, Malone, Rogers in favor.

Chatterton, Freeman, Hayes opposed.

Chair reviews that p.6 l. 13 shall now read -

after "state", add "on or before effective date of this act," then "and 50% of all mineral lease rentals ... (etc) after effective date of this act."

658 Motion by Freeman: p.6 l. 11 change 30 to 25%.

Guy objects.

Guy removes objection.

678 Chair rules motion adopted with no objections.

- 684 Freeman suggests deleting word "primary" from p. 6, l. 29. Rogers suggests reversing 2 clauses about corporation's goals (p. 6, l. 29 + p. 7, l. 1). Discussion about this language.

Tape #10, Side 1

- 000 Discussion about p. 6 l. 29 language continues.
- 183 Motion by Rogers: p. 6, l. 29 + p. 7, l. 1 should read - "The corporation's goal should be to maintain safety of principal while maximizing total return."
- 266 Chair rules motion adopted with no objections.
- 267 Motion by Rogers: p. 6 l. 27-28 change to read "to benefit ^{future} generations of Alaskans."
- 370 Amendment to the motion by Guy: delete "future." l. 28
Vote on amendment to motion.
Chatterton, Guy in favor.
Other members opposed.
Amendment fails.
Question on main motion.
Guy objects - present generation not included in "future."
- 436 Freeman: Amend motion to change language p. 6, l. 27-28 to read "to the benefit of all generations of Alaskans."
- 443 Chair rules ^{amended} motion adopted with no objections.
- 461 Sec. 030
Malone:
Suggestion to remove "a mechanism" p. 7, l. 6.
Sec. 040
Guy: p. 7, l. 12-13 means corp. can sue + be sued, right? Right.
Sec. 050
Discussion of appointment + confirmation issues. and # of people on Board of Trustees.
Court has ruled that appointing to Exec. agencies is exclusively an executive power.
Malone - should go w/ Sec. as written.

642 Motion by Guy: Board of Trustees will consist of 5 members, for better geographic representation.

Discussion.

684 Vote on motion.

Cotten, Guy, Haugen, Malone, Rogers in favor.
Chatterton, Freeman, Hayes opposed.

Motion passes.

691 Motion by Rogers: members of Board appointed for 5 years.

Malone object - 5 yrs. too long.

Discussion.

Tape # 10, Side 2

000 Vote on motion.

Hayes, Rogers in favor.

Other members opposed.

Motion fails.

012 Motion by Cotten: p. 7, l. 23 change 4 to 3, after "reappointed" add "and must be reconfirmed." Change terms to "2 members for one year, 2 members for two years, 1 member for three years."

058 Vote on motion.

Chatterton, Cotten, Freeman, Guy, ^{Haugen} ~~Hayes~~ in favor.
Hayes, Malone & Rogers opposed.

Motion passes.

081 Motion by Malone: members can't be appointed for more than two consecutive 1-year terms.

Rogers & Freeman object. If someone's doing a great job, want to keep them on.

Malone withdraws motion.

127 Sec. 070

Motion by Guy: if vacancy occurs, replacement must be from that geographic area.

Cotton & Chatterton object.

Discussion. Five best people should be chosen, regardless of where they come from.

309 Vote on motion.

Guy, Haugen in favor.

Other members opposed.

Motion fails.

319 Sec. 080

Motion by Cotton: p. 9, l. 2-4 - delete.

Rogers objects.

Discussion.

Rogers withdraws objection.

392 Motion adopted with no objections.

401 Freeman suggests change Sec. 080 (c) to "all members..."

Discussion.

514 Motion by Rogers: p. 8, l. 29 change to "at least 3 members shall have..."

Motion adopted with no objections.

542 Sec. 090

Freeman suggests change quorum from 2 to 3, p. 9, l. 5.

Adopted with no objections.

552 Sec. 100

Discussion of difference between "honorarium" & per diem, & fee of \$250. No changes.

571 Sec. 110

Discussion of who determines salary of Exec. Dir. No changes.

603 Sec. 120

Motion by Rogers: p. 9, l. 13 after "board" add "and Executive Director of the Board."

619 Motion adopted with no objections.

636 Sec. 130

Discussion of language p. 10, l. 1-6. - definition of prudent-man rule as applied to investments.

Doogan explains rationale from prior committee.

Vassar explains this is "boiler-plate" language, prudent-man rule.

708 Motion by Guy: p. 9, l. 29 change "means that" to "is when."

Tape #11, Side 1

800 Discussion of language in Sec. 130 continues.

093 Chatterton suggests changing p. 9 l. 26-28 to read - "The prudent-man rule shall be applied by the Board in the management..."
Guy withdraws motion.

Chatterton so moves his suggestion.

108 Chatterton's motion adopted with no objections.

109 Sec. 130(b) is constitutional requirement.

Rogers suggests changing "may" to "shall" to be consistent with Constitution.

Discussion.

~~Rogers~~

Motion by Rogers: change "may" to "shall," p. 10, l. 7.

147 Motion adopted with no objections.

148 Motion by Freeman: p. 10, l. 9 delete "seek to."

189 Motion adopted with no objections.

195 Motion by Rogers: p. 10, l. 13 delete "IOC," insert "B+A."

198 Motion adopted with no objections.

205 Discussion of "may" vs. "shall" (e) + (f) p. 10.

Discussion of "guarantee from principal"
p. 10, l. 14-15.

362 Malone: Means Fund principal may not be used for leveraging.

376 Discussion of (t) p. 10. Administration asked that contracts w/ agencies or departments of the state be allowed.

Motion by Rogers: p. 10, l. 19 after "investments" add "without approval of the legislature."

Cotten objects.

Discussion.

Bushre: Corp. ought to have option to contract w/ Dept. of Revenue to manage investments of P.F.

Chatterton, Freeman: If allow that, no different than present situation.

Rogers: Doesn't want absolute prohibition.

Eppenbach: Transitional problems?

549 Chair rules to adjourn w/ Rogers' motion pending, if no objection.

No objection.

559 Adjournment, w/ Rogers' motion pending.

2 Gov
1 Collier
1 Haynes
3 Hauger

House Special Permanent Fund Committee

April 24, 1979

Agenda: Mark-up

Present: Mr. Love, Freeman,
Hayes, Schaeffer,
Chatterton

Tape #12, Side 2

511 Call to order.

530 Dept. of Revenue + Staff prepared list of possible investments. Malone outlines approaches Committee can take. Committee seems to want to pursue list of specific investments. Policy ques. around it are, if specific, represents what's good investment today but may not be good a few yrs. from now. Also, have possibility of someone coming along w/ one line bill + including it in legislation, to add their favorite to the list.

573 Mr. Bushie on list from Dept. of Rev. + committee staff.

612 Malone on list.

628 Chatterton asks Bushie if he'd feel comfortable thru #7. Bushie - yes. Goes Manager good latitude.

Hayes: How about last 7?

Bushie: 14 items are ones currently used for pension fund + feels comfortable w/ them.

Freeman: What if you were me.

Bushie: Might want to omit 8, 9, 10 + raise rating of corporate securities from a to aa in item (4).

Hayes: These are not listed by increasing risk order. Items 1-7, + 11-14 would be conservative.

Bushie: Very. 8-10 also conservative as can be in mortgage field.

Malone re #7, w/ explanation by Bushie.

Malone re risk factor of any investment.
Might want to consider limiting total
real estate investment to certain %.

Bushre: in-house limit for pension fund
is 40% for items 8-14.

Hayes: Does Bushre recommend we omit investments
that are on list of investments prohibited by commission?

Tape #13, Side 1

000 Bushre w/ ans. to Hayes. List of investments
prohibited by commission is just for
Committee's info.

019 Malone re. 7 approaches - categories or
list? Can we decide on that.

Chatt: Wants specific list.

Hayes: Supports suggested alternatives w/
limit of 75-40% on amount that
can be put into real estate.

088 Motion by Chatterton that we take
suggested alternatives approach.
Adopted w/ no objections.

099 Chatt: Re. #4, would like to change A to
AA rating & wants 70 & even 80 ceiling on
limit, perhaps.

Freeman: Dollar limit would be screwed
up as Fund grows.

Malone: What's relative degree of security
of A compared to AA?

161 Bushre w/ definitions of A & AA securities.
Freeman: If A is upper medium, then AA
is lower upper.

205 Chatt: move change A to AA on #4 of suggested
alternatives list.
Adopted w/ no objections.

216 Chatt: move to limit investment in
corporate securities to 30% of fund, #4 of
suggested alternatives list.

Freeman objects.

Discussion.

③

Hayes: Doesn't appear to be any basis for 30%.
Rhode: Greeley said this was a typical, reasonable, defensible practice.

Hayes: Can't support 30%, maybe OK if 10%.

~~Bushre: kept extremely low common~~

Doogan: In original bill, 30% limitation applied only to stocks. No limitation in original bill.

Chatt: Need limiter, but no firm feeling on #.
~~Freeman:~~

Bushre: Factors governing % limitation on stock shld. be different than factors governing % limitations on A & AA-rated corporate debt securities.

Freeman: If have 40 different types of investments, could make, how would AA-rated corporate debt securities rate.

Bushre: In today's market, current breakdown of PF is probably representative of how manager would break it down. Thinks currently AA-rated amount to 15-20%.

Hayes: Amend motion from 30 to 10%.

Bushre: on current yield curve situation - inverse yield curve presently (better return on short-term) but that will change.

Prudent fund mgr. wld. want more than 10% in AA-rated bonds in period of declining interest rates. 30 would give sufficient flexibility. 25 is probably what would be chosen. And depends on rest of list & conditions at the moment.

Hayes w/ draws Amendment.

Freeman: Moves to amend to 25.

Amendment adopted w/ no objections.

Main motion adopted w/ no objections.

463 Malone re proposed list.

list basically reflects a higher standard for investment than present pension trust of state part. in real estate area.

Doesn't want to turn P.F. into loan fund;

On other hand real estate things are unique. Backed up by tangible asset, rather than promise to pay.

list does seem more secure than pension trust.

505 Freeman: Motion to accept #1, 2, 3, 4 as amended, 5, 6, 7 from suggested alternatives list.

Motion adopted w/ no objection.

516 Hayes: Motion to adopt 11, 12, 13, 14 from suggested alternatives list.

Malone asks to comment from Bushre on #12.

As entire mortgage insured or a %.

Bushre: Not certain, but language could be adopted to ~~put~~ make sure #12 ok.

Chatt: Motion to amend to delete #12.

Hayes: Objection.

Chatt: Because this is a Permanent Fund, + #12 selects out a certain group of people.

Vote on amendment to motion.

Freeman, Chatt in favor of amendment.

Malone, Schaeffer, Hayes opposed.

Vote on main motion, w/ lang in #12

to make clear that talking abt. guaranteed portion.

Hayes, Freeman, Malone, Schaeffer in favor.

Chatt. opposed.

Motion carries.

525 Hayes: Move #8.

Freeman: Objects.

Bushre - #8, 9, 10 higher risk than 11-14.

~~Freeman:~~

Discussion.

Freeman withdraws objection.

Malone objects. Will vote against it.
cause 8-10 are most marketable
form of mortgages. No particular direct
benefit. Concerned abt. diversification, which
is solved now.

644 Vote on motion.

Hayes in favor.

Malone, Chatterton, Schaeffer, Freeman opposed.
Motion fails.

(Hayes left - no quorum).

653 Malone: ~~motion~~ ^{was going more} to limit % that may be
invested in real estate mortgages, but
not sure necessary now.

Chatt. - was going to propose aggregate of
11-14 not exceed 25%.

Malone - let's continue discussion w/out quorum.

685 Do we want to keep limitations of 5 yrs.
p. 11 l. 2-4.

Bushie - it does make a difference; keep in for
policy reasons.

Malone: Re (h), do members here have
objection to (h), p. 11.

What about (i), p. 11.

Chatt: Use lang. from 277 instead.

Tape #13,
Side 2

Rhode: Greeley's analysis, lang. in 281 ~~better~~
more conservative.

000

Rhode continues,

Chatt: Now comfortable w/ (i).

Bushie: Both saying same thing, is matter
of emphasis.

067

Sec. 140 + 150. Vassar - need conforming
changes w/ absence of investmts. in common
stocks.

098 Sec 155 -

Malone - do we need authorizing legis. for reserve acct.

Bushre: Yes.

rhode: What purpose does that serve.

Bushre responds

rhode: Contradictory.

185 Freeman: Explain how reserve works. Bushre responds.

254 Freeman: Still doesn't see need for reserve acct.

268 Malone: Depends on your definition of income.

Summary of 140 + 150.

323 Chatt: Can't see need for Sec. 37.13.155 in view of 140 + 150.

Malone: agrees.

Bushre: Don't need 155 anymore bec.

new investmts. list makes this loss

reserve acct. unnecessary, since can invest only in guaranteed portion.

Schaeffer: But why not leave it in anyway.

382 Sec. 160.

(Hayes returns).

Malone: Should operating budget be appropriated from income of P.F. on grounds that might keep it small. Maybe other issues involved.

Doogan: Argument for having it come from G.F. so Board couldn't set own budget.

Freeman: Inclined to leave as is. Better scrutiny.

Malone: Fear it coming from earnings is they may get used to having certain % of earnings.

Bushre: Other hand, if PF required to cover cost of own operations, becomes more apparent when mgt. getting less efficient. Can easily compare cost of running fund vs. earnings.



- 458 Now have quorum, review.
Is committee inclined to add more investments
to list adopted? No?
- 469 Chatt: Motion that aggregate summation
of 11, 12, 13, + 14 not exceed 25% of fund.
- 485 Motion adopted w/ no objections.
- 492 (h) p. 11 needs technical change - ~~IOC~~ IOC to
B + A.
- (g) (2) Since even if miss paymt., don't change
rating so good reason to **keep** in p. 11, l. 2-4.
No objection to making conforming change in (g)(2).
- 523 Bach to (h). No other suggestions.
- 528 (i) Admin. bill says "preference will be given..."
Chatt: move to keep as is.
No objection.
- Schaeffer - quer. abt. (h). After review + comment,
then what.
- 572 Sec. 140
Conforming changes need to be made
Cause ~~of~~ list of investments has been
changed, + lang. re. stocks needs to be
deleted. And in 150, dividends are out.
Malone proposes adopt those 2 Sec. w/
conforming changes.
No objection.
- 595 Sec. 155
No longer need mortgage loss reserve acct.
- 601 Freeman: Motion to delete Sec. 155
Adopted w/ no objections.
- 604 ~~Board B~~ Sec. 160
Chatt: Move to retain as is.
Adopted w/ no objections.
- 610 Sec. 170
Requires annual audit Is that too much?
Freeman: Change IOC to B + A.
~~Change~~ Discussion of "requiring" audit rather

than "providing." Who'd be responsible for doing it & for whom would it be done?

068 Chatt: Thinks annual audit is too frequent.

073 Chatt: Motion to delete "an annual" & replace w/ "a biannual;" p. 12 l. 17.

Milt: General Fund & pension funds have annual financial audit.

Does this refer to fin. audit or operational or performance evaluations?

Doogan & Rhode on what thinking was of prior committee.

Chatt: W/draws motion.

031 Sec. 180

Tape # 14, S. 62

000 Hayes: Motion to keep 180 as is.

010 Sec. 190

No objections.

071 Sec. 200

Malone: ~~Move~~ Move that delete 1st sentence ~~of~~ p. 13 l. 14-16.

Chatt: Move to add after "finance," the words "or influence", p. 13, l. 16.

Widow: "Members or employees of the corp. may not file for any partisan political office" suggested to replace p. 13, l. 14-16.

Malone: What's difference bet. filing for office as independent or partisan.

What does partisan mean; is there such a thing as "non-partisan" political activity.

Freeman: If keep only last sentence, & remove "partisan".

No objection to combined motion; adopted.

193

Another suggestion made to Malone that Board members need to disclose to other members their dealings re. P.F. investments. Problem is how to write to define what they'd have to disclose.

Jassar - thinks it's already in p. 14, l. 8.

Malone - Discloses only interest.

Not resolved.

254 Sec. 210

Hayes: Move to retain as is.

Adopted w/ no objection.

~~285 Chatt: #.~~

295 Sec. 220

No objection to lang. as written

358 Another question that's come up - what #
should be used on bill - 281 or 277?

Freeman: Do we have Senate title we can hang
it on?

386 Adjourned.

House Special Permanent Fund Committee.
April 23, 1979

agenda: Mark-up

Present: Malone, Freeman,

Guy, Schaeffer, Rogers

Hayes arrived at 4:15.

Chatt. arrived 4:30

Tape #11 Side 1

560 Call to order.

Review by chair, re. B+A Comm. oversight;
mineral lease bonuses rates; royalty
income rates; ~~the~~ membership of Board of
Trustees + length of term + experience, confirmation
of appointment. + re-appointment. Left w/ motion
pending on whether or not P.F. Corp.
should have authority to contract w/ state
agencies. Motion pending would allow such
contracts w/ approval of legislature.

621 Rogers on motion - to add at end of l. 19, p. 10
"w/out approval of the legislature."

Upon reconsideration, this is covered in legis, +
b/c corp. is subject to Executive Budget Act.

This was put into bill when thought Comm.
of Revenue would be on board + this lang.

would prevent self-dealing. But now Comm. of Rev.
won't be on board, so
Withdraw previous motion.

641 New motion by Rogers: delete l. 17-19 p. 10
beginning w/ "except..."
Discussion.

685 Motion adopted w/ no objections.

687 Sec. 130 (g) Eligible investments

Guy: question about limitations of Securities Act of 1933.

Why is that Act referenced in legislation?

Response from Jim, Duane, Mills(?)

~~227 Rogers~~

~~229 Malone:~~

Tape 11, Side 2

000 Doogan: why previous committee wrote list
in this way. ~~Allows wide scope~~ Present language
Sets risk limit + then w/in that limit
allows for flexibility. Theory that if list were

More specific ("laundry list"), legislature would have to amend frequently.

064 Freeman: Re. risk factors of investments in HB 281 vs. 287, + ratings Eppentbach gave as to how would compare for safety. Of the 4 types in 281, least desirable would be "loans secured by first liens". If #5 is good enough on 287 to rate as 3rd best, why not put in 281 also.

135 Malone responds. Jim responds.

Freeman: So weighing overall benefits of investing in real estate in Ah, so even if seems less safe look at wider benefit.

171 Rodley: is purpose of investment to seek maximum return?

Malone: approach of this comm. is to treat principal as trust.

225 Rodley: so more innovative programs would be financed out of return, rather than any part of corpus?

Malone: Right, trying to manage w/ safety of principal 1st consideration, then earn market rates consistent w/ good returns not speculative but not low. But how returns will be used is different issue. But won't have returns if manage principal poorly.

255 Rogers w/ ques. on loans secured by 1st liens. Malone responds.

289 Rogers on list. Advantage of laundry list - double rule. Blanket list - up to fund manager as to what is prudent. More careful to say you can choose what is prudent within this list.

317 Malone responds. Refers to Sec. 130 (h). If management is restricted to list of specific type of investments, they may not be the ones a prudent investor would invest in after a certain period of time.

374 Rogers: Then given prudent-man rule, maybe we should have them est. investment guidelines by regulation. Legislature could amend regs. Doogan responds. These arguments in prior committee led to present language. Perhaps key point is that prudent investor at time bill drafted would've had this kind of portfolio. So one is picture of another.

403 Freeman: What exactly does p. 10 l. 25 mean - "freely marketable?"

Bushre responds.

Freeman: Nervous about State getting into stock market business. How wise is it to allow investment in corporate securities at all - even tho limited to 30% of assets of corp. That figure too high. Why should they be buying + selling stocks at all?

Bushre responds. Small level presently, for diversification purposes only. Less than 10%.

472 Rodey: Is it worthwhile to keep as diversifying tool, + how does that apply to PF?

Bushre: performance over past 10 yrs. has been abominable.

483 Rogers: Re. short term investments that meet (a) + (b) (p. 10, l. 25-27). Too broad - personal loans.

Malone + Bushre respond. Institutional investors don't invest in personal loans.

More discussion about what "short-term investments" would include - certificates of deposit of less than 12 mos.

545 Freeman: Re. concern on corporate securities, cause more interested in safety of fund than rate of earnings. Want set up so can't lose \$, even if don't make much. Would it be too inflexible to prohibit

investmt. in corporate securities. At least keep at very safe level so can't lose \$ in stock market.

Malone responds. Thru incompetent mgt, fund can lose \$ no matter what list is laid down. Also possible to subvert fund w/out good mgt. W/ bad mgt, can't prevent either one.

~~598 Freeman:~~

602 Bushre re. corporate bonds vs. corporate stocks. Committee can limit risk by limiting ratings of allowable corporate bonds.

613 Malone: Freeman's point is 30% is too high, right? Right.

619 Malone on ~~list of~~ **Suggested** list of Investments. If committee wishes to retain real estate investments, can provide some protection.

661 Go thru (g) bit by bit.

672 Freeman: down to line 23, p. 10 ending w/ "United States" is ok - hard to quarrel with. Malone - what about real estate loans?

683 Rogers: Could argue either side.

Chatt: This makes P.F. in part a loan fund.

Adulterates "permanent" fund by making it loan fund. Two aren't compatible.

708 Malone: what abt. pension funds.

Bushre: approx. 40% in Alaska real estate.

If funds to be placed in State, probably one of best way to do so. Control over where, & what security is behind investment. Can pick & choose.

Tape 12, Side 1

000 Bushre continues.

015 Chatt: moves Sept 1. 23, p. 10.

Discussion.

Freeman - inclined to go along with that.

Too discretionary, as Peter said lots of discretion as to where can make loans. Possibility for political pressure.

- 076 Hayes: Hasn't heard that these loans are risky.
If combine options 1+2, will provide some security.
- 122 Chaff: If leave as is, asking board members to be loan officers as well as investment experts.
Loan funds already set up for specific needs.
- 157 Rogers: If we were to allow it, I'd want to combine option 1+2 + make it Alaskan realty.
Also, does invest in loans mean buying directly or from fin. institution that already made loan.
- Malone: Combine op. 1+2 would do [↑], but could be problem if board doesn't know anything about real estate.
- 206 Malone: Way written now, strict interpretation could be they'll be in loan business.
But motion before us is to delete entirely.
- 218 Rogers: Lang. in existing pension fund on real estate might alleviate our concerns.
(Reads statute).
- ~~244~~ ~~Hayes~~
- 253 Vote on motion.
Malone, Freeman, Hayes, Chaff, Rogers, Schaffer in favor.
Guy opposed.
Motion passes.
- 260 Rogers w/ substitute language.
Malone suggests changing "loans secured by..." + add
- 306 Chaff: What are we gaining by having P.F. dip into this line of business?
Hayes: There's not always a market for loan packages, & also we're paying a higher rate...
Purchasing real estate loans - haven't heard any testimony that those are not safe.

375 Chatt: What's point difference?

Bushre: 1 or 2% points higher.

Hayes: Re. ^{suggested} list. How would you rate #5 in comparison w/ others?

Bushre: Between (2) + (3).

431 Jim: This trust would be held to investment grade securities bec of case law & previous practices.

443 Chatt: Re. 1 or 2% yield. Would discounted rate still be 1 or 2% greater yield.

Bushre: no.

462 Motion by Rogers: add "investment grade" to beginning of l. 24, p. 10 as amendment, before decide whether or not to keep this in.

Jim: would common stocks be included?

Bushre: subject to interpretation. Possibility that it could include common stock.

Malone on amendment - would take care of questions raised by Freeman. Also, could end p. 11 l. 6 after "stock."

Bushre w/ alternative suggestion.

516 Malone on stocks. Reason lost on G.T. was cause sold at wrong time. With P.F. wouldn't have to be sold to generate cash.

532 Motion adopted w/ no objections.

536 Rogers: Motion to delete p. 11, l. 6-8 after "stocks."

542: Motion adopted w/ no objections.

Makes (g)(1) unnecessary.

560 Chatt: does preferred stock meet test of investment grade corporate security?

Bushre: don't see why not.

Chatt: so should it be "common stock" (p. 11 l. 6), rather than just "stocks."

595 Chatt: Motion that insert "common" before "stocks" ~~p. 10~~ p. 10, l. 29, & before "stocks" p. 11, l. 6.

Malone - might not want to change p. 10, l. 29.

Chatt: amend motion to include only

p. 11 l. 6 in motion.

613

Freeman: how about deleting p. 10 l. 29 from "stock" to right before "bonds."

Malone responds - there may be preferred

stocks which would meet the test of

investment grade securities so maybe should

rebut only ^{primary} common stocks.

Freeman: if adopt Chatt's motion, p. 11, l. 6,

& eliminate reference to stocks p. 10, l. 29,

wouldn't that do what we want, i.e. eliminate

purchase of common stock - Don't need p. 10

& 29 reference to stock. Investment grade

would meet higher standard than that.

Chatt: Maybe just need to put "preferred"

instead of "common" p. 11 l. 6.

675 Malone: let's handle motions separately.

Freeman: Motion that p. 10, l. 28 after

"used," delete "in the purchase .. at the

time of the purchase; nor."

688 Motion pending.

Vote on Motion p. 11, l. 6, insert "common"

of "stock."

Adopted w/ no objections.

695 ~~Adopted~~ Vote on Freeman's motion.

Adopted w/ no objections.

Malone: standard on bonds would also be

carried under investment grade securities.

Does Burke agree? Yes. "Expanded w/

more comments on ratings & interpretation of

"investment grade." Is Larry necessary at all?

Tape #128.22

cc

Discussion bet. Malone & Burke continues.

Burke: this Larry, trying to take "investment grade"

a little further.

Hayes: Does some argument apply to what we just deleted?

Freeman: Just because it's "investment grade" doesn't mean it's a good investment.

Discussion of Penn Central RR as example.

Malone: Again, if get incompetent mgt., can lose \$ no matter how we write this.

104 Chatt: Motion to delete amended p. 10, l. 24-25 to "marketable;"

Discussion.

Chatt: These types of securities aren't appropriate place to put trust \$.

Rogers: Is any \$ invested in this now.

Bushie: Yes. Dept. won't go lower than single A in defining "investmt. grade."

Rogers: if we limit to investmt. grade of single A or better, secure?

Bushie: Yes, in my opinion?

178 Guy: question re. limitations, ratings of allowable investmts.

Malone refers to (h).

~~2282~~

246 Malone re. Chatt's motion + list of investments. Main reliance ought to be placed on mgt. of fund + its accountability. Personally, detail on list of eligible investmts. is not necessary. Need some policy decisions - e.g. real estate or not. But places alot of reliance on active oversight + good mgt. W/out those, list of eligible investmts. won't safeguard fund. Wonder abt. diversification if keep deleting types of eligible investments. Unless investmts. are earning at close to market rates, then worth less than face value. If sink all \$ into one type of investmt., \$ may not be so secure. Wants adequate room for

diversification of fund. Doesn't want to cut list too short. Principal + income are related one affects value of other. Ans. is diversification.

336 Rogers: What if we said what we absolutely don't want, + ~~we~~ left it to board to est. rest by reg. + don't give them power to adopt emergency regs.

356 Freeman: What benefit would be served in having board adopt regs. Who'd attend hearings who'd know what they're talking about? Let's put prohibitions out in black + white + on others as much restriction as we think is reasonable.

430 Rogers: If we limit too far, it may be imprudent to put all our eggs in one basket. On other hand, need to make sure all baskets are good ones. Don't know where to draw line.

Freeman: If can't depend on obligations of U.S. govt, if no good anyway.

What % now in obligations to U.S. - 56% approx.

471 Burke: Re. diversification. One of primary requisites of trust fund.

Chatt: Withdraws motion, if no objection we can start fresh w/ new members.

510 Adjournment

House special Committee on the Permanent Fund
April 8, 1979

Agenda: Mark-up

Present: Malone, Chatterton, Freeman, Haugen, Hayes, Rogers
Tape # 4, side ~~2~~ 1

0407 Call to order

0410 Malone: Main issues to consider in mark-up -

1. Management of PF
2. Level of contribution
3. Use of income of PF

Key ques. is how 25% can be managed.

Senate versions place main emphasis on use of income
Governor's as mix, also increases contribution rate.

Legislation for 25% focused on mgt. of fund itself.

0449 Malone: propose handling ea. issue separately.

0454 His recommendation - Mgt. of Fund follows concept
similar to House bill introduced last yr.

Need to make decision in ea. area; recommends
making ea. decision one at a time

0489 Hayes: Is interest from 25% a separate issue?

0512 Try to reach conclusion on mgt. of principal
of fund, based on existing fund.

0535 Investment Statute for interim P.F. - comment by Bushne

0562 Comments by Malone, Bushne