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ELEVENTH LEGISLATURE - First Session

SPECIAL COMMITTEES

--House of Representatives--

AGRICULTURE COMMITTEE, SPECIAL

HJ 2-9-79 pg. 182

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ELECTIONS, "STATE AFFAIRS" SUB-COMMITTEE ON

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Membership:

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PERMANENT FUND COMMITTEE, SPECIAL

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ROADS AND HIGHWAYS, SPECIAL COMMITTEE ON

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HOUSE SPECIAL PERMANENT FUND COMMITTEE

TESTIMONY BY WALTER FILKIN

ON MARKETING ASPECTS OF BONDS

29 MARCH 1979

Filkin: A key consideration in a program of this type is the fact that there would be two sources of security for bonds, and it almost by definition says that one is not sufficient. Judging from the permitted acts or the permitted loan activities that can be engaged in, I think it is reasonably clear that some might require additional security. The broad categories of municipal, housing, residential, and commercial do lend themselves to all grades of lending activities. Certainly in the municipal category alone, which I'm most familiar with, there are borrowing activities that are equal to that of the Federal government which would be AAA rated down to activities that are of very highly questionable ability to repay such as start-up ventures by very small water or sewer systems, or other sorts of bond issues in areas where there are declining populations or reducing tax bases, or in the case of New York City, some of the problems in borrowing are well documented and we need not go into them. But in any event, there is a vast range of quality. So when you come to an activity of borrowing in the long-term market, the question of can the issue repay and pay not only the debt but also the interest on a timely basis, is the critical question in terms of what additional will be needed if there is some question about its marketability. So we get into the area of a loan program covering a vast array of possibilities, having as an ultimate or a backup security the earning power of the Permanent Fund. I think that's what we're really dealing with today.

To the extent that the security of the loans that are being made are sufficient in the market place, the Permanent Fund pledge itself isn't necessary. And so what we are dealing with is something where I presume the drafters of the bill would say the pledge of the Permanent Fund would be a vital necessity here and the question is, first of all, how does it impact the ability of the State to conduct its more typical or more normal borrowing programs and, secondly, what is the prospect of being able to conduct a continuing program like this in the general market.

Let's consider the make-up of the Permanent Fund itself. I think it is important if it is viewed as a true source of security for this loan program and the financing of this loan program, that sufficient boundaries be put on the investment uses of the Permanent Fund so that the benefit that is hoped for doesn't get dissipated. I mention that because part of the uses of the Permanent Fund might certainly be valid but their impact on security for bonds might be very limited... For instance, the Permanent Fund, at an extreme, if it were used for loans that had little or no chance of being repaid, the pledge of that fund as security for another loan would not be viewed as a good security in the market place. The other extreme, if the Permanent Fund were restricted to its investment only in U.S. Government Treasury bills and bonds as the Texas Permanent Fund is for example, the security of that Fund on another borrowing would make that other borrowing AAA rated. And that's exactly what the U. of Texas, whose Permanent Fund secures much of its borrowing, has right now... Somewhere in the middle is probably where the Alaska Permanent Fund would fall, but keep in mind that two independent pledges are important for the market to view the combination of the two as adequate in the long term. If, for instance, you had a $100 million Permanent

Fund that was currently 50% in U.S. Government and 50% in commercial loans such as fisheries and other small business type loans, that in itself probably wouldn't be sufficient without some other parameters around that Permanent Fund and some other limitations on the amount of debt that could be incurred that would be secured by a pledge of that fund. Even though at the outset you could say our first borrowing is going to be $25 million and we have the income from that $100 million fund as a backstop pledge. So I would suggest that it is important that the limitations on the investment opportunities in that fund be considered carefully in order to gain what is hoped to be gained by a pledge of the fund for borrowing to secure these various loan programs.

The impact of the loan programs on the State borrowing program itself - which today is in the neighborhood of about 250-300 million dollars every two years; it could have some impact. If in the transition of the General Fund surplus there is a view of the market place that it can be funneled into the loan program to the extent that they are not credit worthy programs could somehow draw down on the balance in the State's bank account, the market place could view the State far differently than it currently does. In the last ten years, the State excess of revenue over expenditures has been about four years out of ten. The other six years, there's been a slight to large excess of expenditure over revenue. The market place has not disregarded this but has accepted it, because ten years ago there was roughly a billion dollar surplus in the General Fund and has accepted the fact that there could be an excess of expenditures from time to time but overall has not looked at it as an alarming trend. It might have if there had been no surplus... If in the future there is a program which in some way could draw down, in the view of the market place, an unlimited amount of that surplus through the operation of the program such as the Permanent Fund pledge and State loan programs, then I think the impact on the State for its own borrowings would be negative.

Rogers: If we're going to use this money to guarantee one form of loan, or one issue, then we'd have to pledge that we wouldn't use it to guarantee something else?

Filkin: That would go without saying. What I'm suggesting, though, is that, in addition to that, if you comtemplate selling a block of bonds, and you've got an adequate revenue flow from the Permanent Fund to support the debt service on that issue, the only real way that the market would accept that sort of an arrangement would be if they could be assured that a year from now or ten years from now you wouldn't issue ten times the amount of debt with the same revenue projections that you now have. In other words, you'd be relying more on the loans themselves to provide the cash flow rather than the Permanent Fund. And to the extent that they thought that might happen, you'd probably feel it today when you issue that first issue of bonds.

Rogers: Are you saying that that would effectively put a lid on our other issuances that are completely unrelated; revenue bonds or G.O. bonds that were not secured by...?

Filkin: No, not necessarily. What I'm saying is that the way you would get your Permanent Fund bond program off the ground would be to show two things: first of all, that the debt service on that first issue can be well secured by the cash flow from the Permanent Fund; and secondly, that if you're going to incur more debt in the future, that the cash flow from the Permanent Fund will have to have increased sufficiently to support that debt as well.

Rogers: You're only referring to debt which is guaranteed by Permanent Fund income? You're not referring to other debt...?

Filkin: I was in an earlier comment and I'll get back to that, but on this question here that is all I'm referring to. If your principal and interest requirements are $5 million per year... and suppose you have $4 million of Permanent Fund income pledged to the payment of those bonds, then another bond issue is proposed a year or two years out that's going to have an additional $5 million of debt service; if it can't be shown that Permanent Fund income is going to increase at least proportionately to support that additional debt, then you've got problems not only doing it then but selling this first issue....

If there are ways in which the unappropriated General Fund balance, which I guess now becomes an unallocated reserve, can be utilized; in other words, if there are deficiencies in various accounts that have to be filled, and the Commissioner of Revenue or whoever is going to administer it is required or even has permission to fill those reserves because they've been drawn down to pay bonds or something due to the fact that the loan program itself hasn't been self-supporting, then that would have an impact on State borrowing for general obligation purposes.

Rogers: Because the market would realize that even though we've been keeping a fairly steady even revenue vs. expenditure you'd have in effect a possible sudden large expenditure drawing out all of our surplus...?

Filkin: The market would view that as a possible leak even though every year there is that possibility... this sort of a program, it might focus as a new program and focus on that....

Rogers: The market sort of weighs these as probabilities and this would increase just a new opportunity for leak as a higher probability...?

Filkin: That's a good way to put it, yes.

Rhode: Unless I'm ahead of your remarks, we spoke a moment ago about the possibility of issuing up to a billion in revenue bonds on behalf of the Northwest proposal, assuming we got an IRS exemption, and others are talking about the Susitna project, the current estimate of the Corps of Engineers brings the final cost of that up to 3½ billion. How interrelated are these things? Is the market going to judge Susitna or Northwest proposal strictly on its own without regard to a large revenue bond program of the kind in this bill or?

Filkin: That really depends on where the possible relationship between the State and these particular projects... what that relationship is. If it is truly a revenue bond project, payable only out of the revenues that flow from the gas pipeline or from the Susitna and the contracted sale of power, they should have little impact on the State's finances. The fact that they are so large and the fact that today the State is so committed to petroleum (means that) something that happens in the petroleum area does have an impact on how the market views the State of Alaska general obligation bonds. If that weren't the case, the State of Alaska probably would still be rated BAA1, but instead it's rated A1 and so that was a positive thing, but at the same time if negative things do happen in areas so vast as petroleum or in the future so vast as natural gas or hydro power, those each could have some impact on the State's loan financing arrangements.

Rhode: Maybe another way to put the question, when New York City got in trouble, did other agencies,say of the State of New York or revenue bonding authorities, ... (get in trouble)?

Filkin: For a time there was sort of a ripple effect or a neighborhood effect on municipals and it was felt the greatest on the East Coast. It was felt in greatest in New York City. To some extent it had little or no impact and in fact there were a number of municipalities in New York State that really suffered a close out from the market place for several months. As a result of New York City's problems, people didn't want to associate with anything close to New York. It was a little bit irrational but nevertheless that's what some of the investors as a group decided to do. They had enough of an alternative in the Midwest and the West and Alaska that they said, wait this one out. That's more temporary -- even though for somebody else it's minor, when it happens to you it's major -- but it was a temporary thing that ultimately corrected itself and the problem was zeroed in on and sort of isolated. Just to give you some idea, seven or eight years ago when the State of Alaska went to the market place to borrow money, the comparison was sort of three-way: should this be a slightly higher rate or slightly lower rate than New York City and Puerto Rico? Well, today the conversation is: how much more should it be than the State of California, which is AAA rated, or Virginia, or Minnesota or Illinois, and there's no discussion at all about how Alaska rates with New York State or Puerto Rico, because they have declined at a time when Alaska has improved. The one area, though, where there was some valid concern was if this is happening in New York, is it also happening in Boston and Baltimore and Detroit and Cleveland. And the fact is, it was, and people weren't focusing on it quite as much. So it did highlight the problem and probably bring it to light in other areas a little more clearly....

Malone: Are there other points you think you should touch on in the legislation?

Filkin: I hesitate to go through point by point in the legislation. I guess my concern is that it appears to be so all-inclusive that I would urge a little concern on that point alone. If I could cite just one example, the permitted investments have a long list, starting with U.S. Government and going all the way down through prime corporate bonds and then any other sorts of securities as a separate category.

Malone: This is the Permanent Fund you're referring to?

Filkin: Yes. Again, given the objective of the Permanent Fund as a source of security for another group of loans which needs that source of security, the opportunity to invest in such a broad range loses the impact that was designed for that fund. I'm not suggesting how the investments ought to be made, but the restrictions on the investments ought to be made with the objective of what the pledge of that fund is designed to do.

In the area of the municipal loan program, there is a section dealing with the fund's purchase of municipal bonds on a set formula.

Malone: It requires the loan fund to submit a bid for certain types of municipal bonds according to the formula.

Filkin: Where we've observed formulas like this in the past and there haven't been many but the experience has been roughly the same, the fund either buys all the bonds in a given market or none of them simply because there hasn't yet been devised a formula that is simple enough to administer and yet sensitive enough to react to the changes in the market place on a day-to-day basis. And I would say that even though there has been some care taken in drafting that section, I think the experience would prove to be true in Alaska, too, that the fund would wind up the purchaser of alot of bonds or no bonds depending on the market; and I guess a corollary to that is that the marketable bonds which might go to the rest of the bond market and the poor security or those that are not deemed credit worthy would line up in the portfolio of the Permanent Fund because there isn't any limitation other than A rated and better or BAA rated or worse, as I recall.

Rhode: Another witness from New York the other day gave his judgment that revenue bonds of the kind in this bill which are a mixture of everything from student loans to commercial lending would not, at least initially, be marketable without this guarantee of earnings coming off the Permanent Fund.

Filkin: I think that's a good generalization. You could always find a situation where the source of security for an unusual commercial loan or a student loan was so strong that it wouldn't need any additional security, but I think, by and large, a combination such as this with its broad ability to lend under just about any circumstances, is dependent on the fund. I think the pledge of a very strict source of pretty much unrelated security is a requirement.

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HOUSE SPECIAL PERMANENT FUND COMMITTEE

TRANSCRIPT OF TESTIMONY BY SAMUEL PLAIA ON SS SB 1

27 MARCH 1979

Plaia: Senator Hohman's bill is a very extensive one, but rather than make a detailed analysis of it, due to time constraints I'd prefer to make some general comments on the intent of the bill and what problems I feel may arise from the bill as it's presently constituted.

Your comments earlier about the use of the income of the Permanent Fund to support debt to provide the capital funds quickly to bring massive investment into the State to help the State develop a series of industries and help the State's citizens receive money under favorable terms and conditions is certainly the essence of Sen. Hohman's bill. The theory of it is that the income from the Permanent Fund could be used as the security for the sale of so-called revenue bonds (being revenue in the sense that they would be paid back not by the general obligation resources of the State, but from the income produced from the investments that such a loan program would make... i.e., the loans themselves when repaid or paid down on a schedule would presumably amortize the revenue bonds). But recognizing that such programs would require a substantial amount of time to put into action, as well as several of the purposes for such loans being ones which would require extensive time for their repayment, the attempt is made to provide the specific income from the Permanent Fund's investments as the security or collateral which would make an investor willing to buy the bonds. Because the investor does not have the specifics of what the particular loans would be made in and, therefore, could not make a judgment as to the value of that particular program and the likelihood as to whether the investment is going to be repaid through the earnings of that particular loan, he would need such additional collateral. In addition, it would provide the investor an opportunity to examine perhaps more closely the projected income of the P.F. over a period of years and give the investor a certain sense of security that without regard to whether the loan programs succeed or fail, in effect the money is going to be segregated and kept there so that principal and interest can be paid when due. It is also true that that kind of a collateral would allow bonds to be sold at a somewhat lesser interest rate and, as a matter of fact, without it, I don't think bonds for such programs as proposed here in this bill could be sold at least for some of the purposes which have been outlined in the bill.

Given that introduction, I'd prefer to address some of the loan purposes. There are certain areas I feel require comment.... (page # referred to are from original version of SB 1, and same as HB 279)

Starting on page 25, we have the loan purposes: residential housing, commercial purposes, public purposes, and education. In the case of residential housing, I see no general problems since that is a well-established public purpose and is being used in the State presently and throughout the lower 48.

The area that I have the prime concern with is commercial purposes... (here reads what bill says about commercial loans). It seems to me that the intent here is somewhat similar to that of the Federal government Small Business Administration, which is to provide loans for smaller industries which do not have ready access to capital from other sources, either because there's an inefficient market mechanism by which they can raise such funds or there are not appropriate investors prepared to make such funds available.

The record of the SBA has not been particularly good. The intent has been sound and despite the very elaborate documentation that is required before such loans are granted, there have been a significant and outstanding number of defaults. When I read this bill, I tried to imagine a situation which could arise, and that is let's assume we have an idea which we believe is commercial and can create cash flow and, presumably profit. And what I'm concerned about is what can happen as a result of the State making an investment in such a commercial venture. And that is that a group of people would get together as provided in the bill and form a corporation and put in a certain amount of capital and then go to this particular program and outline a plan for the expenditure of let's say one million. And they make projections and show that if they are successful they will be able to produce a profit and a cash flow and after administrative costs and expenses will then produce a source of funds which can be used to repay the loan. There will be an enormous temptation, if this program is put into effect, for somebody who's always wanted to be a successful entrepreneur to come up with some pretty good ideas which seem to be sound, and form a corporation and get let's say the million dollars, which will provide for salaries and the rent and overhead and travel expenses of the corporation, and set aside a certain amount as a reserve for the repayment program and successfully repay their obligation. Unfortunately, what they can also do.... (Here tape was changed; scenario of corporation that might default on loan payments was continued).

And the only recourse is that the State or the program can now go to the individual who has personally guaranteed the particular obligation and say now I want to collect from you or the group of shareholders the $750,000 that's not been paid back. And at that point any individual who does not have the money has available the appropriate mechanism through bankruptcy court to be relieved of that obligation.

As a result, the funds which made this investment have now lost this principal and the Permanent Fund income will now have to be used to make up that deficit. So that you have here a State going into the business of loaning funds to corporations in ways in which that corporation can very, very easily bleed off the assets leaving you with nothing at some particular time, either by intent or unintended, because of poor business judgment.

Malone: In the commercial loan section of the bill, it provides for collateralization... such safeguards... can they be built into the law so the loan fund or the Permanent Fund, I don't know, would have recourse against the collateral...?

Plaia: Yes, that can certainly be done, however if collateral is a building, it's pretty hard to move a building; and if collateral is inventory and expended money, then the collateral is not existent. A ship, for example, yes you could probably re-capture a ship... and we have records of the attempt to collect such collateral... but it's not so easy to collect....

Malone: ...To what extent would the legislation concept encourage defaults... Is the fact that the buyer of the revenue bond is not looking to the operation of the loan fund (unclear)...?

Plaia: It's the only security he has, and that's the only reason he would buy the bond. For example, several years ago the Small Business Administration encouraged the formation of private small businesses and corporations to get the private sector into particular businesses and it provided certain incentives and tax advantages to encourage them to develop these small business investment corporations (SBIC). And there was a great flurry of raising capital for these SBICs, publicly held but non-governmental corporations, to provide such funds because the assumption was that you could put together a sophisticated group of investment decision-makers and that they could provide the funds for let's say a small company that needed $350,000 for expansion of existing facilities or that had a new idea or a new patent which seemed to have a strong possibility of success. And the SBICs would provide the capital for this in return for a share in the equity of the corporation. The record of this as it stands today is pretty dismal despite the presumed sophistication... there were banks, for example, that had SBICs formed as subsidiaries and the record of investments is extremely poor, and these were investments that were made with the same intent and purposes as here by people who presumably had a great deal of sophistication and the record is that it was not successful. Not only was it not successful, but in most cases it failed. Now the value of these SBICs has (unclear) because the portfolios have not produced the income which would allow them to pay the dividends to the equity shareholders in a way which would make good market price on the security. In addition, ...over the last five years the SBA itself, in guaranteeing or making some of these loans, has found that the primary purpose of the loans seems to have been to feather the nest of the officers of the corporations who borrowed the money.

Malone: Why did the SBICs encounter these problems?

Plaia: The problem is the pressure for investment. If you have the funds sitting around, you want to put them to work. Now if the purpose in p tting them to work is not just to invest the principal and get a prudent income out of it, you're going to have to find investment opportunities, and you become far more willing to look at investment opportunities when the job that you have is to make investment in such opportunities. So while you may not seek them out, you certainly become far more receptive to them when they come in because who knows when the next opportunity is going to come along for you to make such an investment and fulfill your duties and responsibilities. Pressure -- the funds are there and they are supposed to be put to work.

Malone: What sort of standards do the officers of the SBIC have to meet...?

Plaia: Judgment, mature judgment, in terms of the people involved, what their record is in making a company go. They look at officers, they look at the product, they look at the product's share of the market or they make a judgment of how valuable the product is....

Malone: I understand that they do that... But what I'm getting at is what is the essential difference... I mean if we talk about a loan fund secured by a separate fund with its own earnings... maybe there's no incentive for the loan fund to turn in a good record as opposed to a bad one... What is the parallel with the SBICs?

Plaia: In the case of the SBICs, number one they would require far less equity than a bank because they are depending much more on their judgment.

Kocsis. Re. value limitations section of the bill, isn't that a fairly conservative way of approaching it and that would protect it about as much as a private bank or anyone could be protected?

Plaia: If banks are doing that, it's not for some of the kinds of purposes as these commercial loans. No bank would make a commercial loan on these standards, at least in my opinion. They might make it for housing... 90% is pretty standard but that's based on the theory and feeling that real estate is a continual and constantly increasing asset because of its diminishing availability... But this is not the case in commercial ventures. Take fishing for example, which depends solely on nature... Re. 95% of the appraised real property... I'm not sure the bank would go along with that. 80% of tangible personal property... what might constitute tangible personal property as security for the loan... car, furniture, paintings, jewelry... you can't get 80%....

(Comments from Haugen and Bushre unclear).

Rhode: Mr. Chairman, I just have a comment. Surely it must make a difference if I have some kind of plant and equipment worth a half million, but it's located in Barrow. If the State has to go in on a default and sell off the property, it's true the replacement cost of that project is as I stated in my appraisal, but can you get that kind of money? You are asking someone to come in to take over a failed business.

Plaia: You will sell it at so-called distress prices, so that even 75% would be good if this is in an area that is remote or has been chosen simply because that is the place where the incorporated individual has chosen to live and reside. If you want to encourage somebody else to come in there, you are going to have to give them a big carrot. The big carrot is that they are going to be able to buy something really cheap. The market place is pretty vicious when it comes to things like that.

Malone: To summarize the points you've raised so far... In at least the initial years, the operational loan fund may not be held to reasonable standards because at least in the issuance of bonds the buyer is going to be looking at the Permanent Fund for security, not the operation of a new loan fund. Secondly, you have said that the operators of the loan fund may be under considerable pressure to get the money out and that may lead to problems in getting money back again. (Plaia confirms these).

One of the things that came up in the last session of the last legislature... a very complicated area... The public purposes section here, particularly the section where the loan program or fund would purchase municipal bonds....

Plaia: (Referring to series of formulas on pp.32-3). First of all, let me give you a little background. Municipal securities for the most part are sold in what's called serial maturities, in other words the total loan will mature over let's say a 20-year period and in the first year x amount of principal will be paid and whatever the interest is and in the second year another amount of principal will be paid etc. so that in each year you have part of the debt maturing. So it's called a serial loan, as opposed to a so-called term loan... Serial maturities sell at generally increasing rates of yield. In other words, the shorter the maturity, the less the yield; the longer the maturity the higher the yield. For example, a bank would be willing to accept a much lesser rate of interest for a bond due in one year than it would for one due in several years. So we have then what is called a yield curve... that is a curve whereby the shorter maturities generally sell at a lower price, the longer maturities sell at a higher price... Now the yield curve itself is subject to constant changes and distortions in the market place, depending upon the amount of investment money available for certain maturity ranges. Therefore, you go into periods where you will have a so-called normal yield curve whereby the one year maturity will be much lower than the longest maturity... But in cases of fluctuations in interest rate patterns and the availability of money, there may be less money available for shorter term investments than are available for longer term investments. Therefore, to create an interest in the shorter term investments, the yield has to be raised so there you get what is called flattened yield curve...i.e. the differential between these two is much closer... we are currently going through what is called a flat yield curve... Now this formula fixes the rate at which the State must buy securities, and it fixes it in such a way that it does not take into account the distortions that may occur from time to time in the yield curve. So consequently, the State would be forced to buy securities whether it wanted to or not, because the investor would not under this formula be able to find a way in which he could develop a security and a yield curve that he could sell in the market place....

Malone: Then you're saying the formula set out in the bill may result in the director of the loan program buying bonds for more than they can be sold for. (Plaia confirms). Is that because the formula is defective?

Plaia: It's not that the formula itself is defective. It's not possible to accept such a formula. Any formula of this type would be defective. It might be effective at one particular time, but a year later that formula is still fixed, you haven't changed it, and the conditions in the market has changed so that distortions occur which would then force the State to buy not at so-called market rates.

(Discussion among members re. subsidies unclear).

(Comment from Bushre re. State loan programs unclear).

In this particular instance, I'm saying this formula simply will not work. It will encourage investment bankers to not bid on the bonds at times in certain maturities and under other conditions it will not only discourage them but it will make it impossible for them to submit bids for the bonds. So that in effect, the State would have to purchase those bonds... at rates which are not so-called market rates and therefore, the State would also lose the benefit of the additional income it could get by investing in non tax-exempt securities. (Discussion re. interest rates, guarantees, and more about yield curve unclear).

...If the yield curve proposed here is different from the yield curve in the market place, people are going to buy which is the more effective and in this instance they are not even going to be able to buy it because the State....

Kocsis: Do you think mixing the bonds together would still have that effect of lowering it?

Plaia: No, the market is the market. It makes its own curve and what makes the curve is the amount of money that's available for investment in a particular security range. For example, now we have a flattened yield curve where the differential between one year securities and thirty year securities is very narrow, the reason being that the banks do not have that much money available to put into tax-exempt securities. (Example of insurance companies having money to invest recently, compared to several years ago when natural disasters left them with less money but at that time banks had plenty of dough).

(Question from Malone re. municipal bonds and discussion unclear).

Malone: Re. commercial loans, to what extent are we likely to run into any problems for issuing tax-exempt bonds for that? How is this treated in other jurisdictions?

Plaia: One can under certain conditions issue tax exempt bonds for so-called industrial purposes, e.g. in the area of pollution control that's being done frequently. I believe the limit has recently been raised to $10 million from 5 million. Most of the bonds that I do see issued, however, for pollution control run from 1-3 million. That has been defined as a genuine public purpose. I think that what would happen in this particular program would be that the very people who would come to you to receive the benefits from this kind of a program would not qualify... therefore, there is serious question here as to whether the bonds that would be sold would be tax exempt. In other words, the bonds would be sold using the income of the Permanent Fund to provide the... to make these loans and there might be very serious questions and it would have to be examined, yes.

Kocsis: It was examined by E.F. Hutton and they felt it would be tax exempt.

Plaia: But in all due respect to E.F. Hutton, they are investment bankers as I am and they are not tax counsel....

To continue with my conerns about the loan purposes as drafted here, re. the student loans as it's drafted here I would think that it would be an encouragement to default on the loans... It's not so much an invitation but it's certainly a suggestion that if you do default you won't be punished very severely. And in effect that's a subsidy and that's all right, too, except that it's a little unfair because in effect the person who does pay the loan off is subsidizing the person who doesn't pay it off.

I believe those were the major concerns I had about the bill....

HOUSE SPECIAL PERMANENT FUND COMMITTEE

PARTIAL TRANSCRIPT OF TESTIMONY BY THEODORE SWICK

10 APRIL 1979

Swick: ...From my experience and from examination of the procedures that are outlined in this proposed legislation (HB 279), this method of aid to local government, in my judgment, will not work at all unless the intent of this provision is to have the State, in fact, buy all of the bonds put up for sale by these various cities. If that's the goal, then I think this will work. If it's a provision that's trying to help the weaker cities, why that's fine, too, and I think it will happen. But the fact that the State will be making a bid that is presumably competitive with the marketplace; I think this thing is all out of shape and all out of reality. In fact, I don't believe it even could be restructured to work. It'd really almost be re-inventing the wheel....

First of all, it's based on the Bond Buyer average. The Bond Buyer is a newspaper that services the municipal bond industry... That average is made up of a determination of the market every Thursday morning in New York by a series of phone calls and is established by the market price for a 20-year a-rated or aa-rated bonds....

The municipal market is a over-the-counter market in the purest sense... On any particular list of bonds,... if you ask ten traders what they're worth, you're going to get a disparity in the price. That's the way the Bond Buyer average is made up....

For example, Matanuska-Susitna recently sold $20 million in the public marketplace, a-rated bonds... If we took this formula in the bill and took the Bond Buyer average as it was that day, that issue would've been bought by the State. And it would've been bought at prices which were probably 50/100s off the marketplace... The State would've paid on the average about $7 per 1,000 more than competitive marketplace said the bonds were worth. I don't think the motive here was to provide a financing mechanism with State funds for a-rated (unclear) in Alaska. Now if it was, you've got it.

Again, based on ratings and on the index, the thing is I think unworkable because in the marketplace there are very subtle variations within a rating category... So when you apply a pricing mechanism based on credit rating as this does, there's no way that that formula is going to come up with a price that has any reality to the real market for those bonds.

Another flaw in it is we have what we call a yield curve and that deals with the fact that most municipal issues are issued in serial form... In so-called normal times, each year you go out in the life of the loan, and each principal installment attached to each year, has a yield on it higher than the one proceeding it. So as the bonds get longer in life the yield goes up, and as a result the interest rate goes up.

Now when you take an artificial arrangement, where you have every five years a set... where your yield curve is absolutely flat for five years... again, no reality to the marketplace at all.

...If the intent were to buy all the bonds put up for public sale by issuers in Alaska, then this thing would work like a charm. But you will not get any competition from Wall Street people.

Now the act goes on to say that the award will be made to a combination of bidders... that they will combine pieces of the best bids of several parties and come up with an award... From our point of view, on the underwriting side in Wall Street, if that is the prospect we would not even bid on the bonds... The reason for that being that the way your procedure is structured, the chances are that if we were going to make a split award, the State would buy the shorter years and we on Wall Street would end up with the longer years.

Again, the award of the securities is made on the best cost of money to the issuer. (Describes calculation of arrival at "net interest cost")... What happens is we have our profit built into the short bonds and we make no money or sell at a loss for long bonds... So again, in the marketplace, this is all out of reality... I don't think this thing will work and that's an attempt to explain why. If the State, through this formula, takes off the bonds where we have some profit in it and leaves us the ones where we have some loss in it, we're only going to do that once, and probably never....

(Re. proposal in HB 414 for use of Permanent Fund income to guarantee debt for power projects, Swick gives some history of how he and other consultants to prior committee came up with idea)... The opportunity appeared to be there to take advantage of this very high quality cash flow to contribute to other needs in the State of Alaska and at the same time not invade or violate the spirit or intent of this trusted part of the income. So what we came up with led to this 595. Here's the way we envisioned it. That money comes out of very high grade investments and we took this towards another developing major problem in Alaska which was the demand for energy....

So this seemed a positive place to go to make an important contribution with this very high grade cash flow. The idea then would be that under the Power Authority Act... they are only permitted to fund "feasible" projects... so first of all we want our projects to pass all those tests... and they'd be revenue projects which would be funded... in the bond market... the people who lend money to tax-exempt borrowers are used to that sort of thing....

So you have a project that already passed all those tests and seems feasible, but the lenders are still depending on estimates of experts that 10, 20, 30 years from now certain events are going to take place so that lender is going to get his money back. We can lend that guy alot of comfort in his examination of an Alaska revenue project as to whether he wants to lend them any money or not by saying we will take and pledge the income from this very high grade investment account and we will have that available in the event that the predicted results of the revenue producing project did in fact not occur in any given year, you would have access to the cash flow from the Permanent Fund to make you whole and pay the interest and principal.

Now, one thing that would accomplish would be to drive down the cost of borrowing for that particular project... And I think you could come up with aa bonds... I could envision that guarantee providing a aa-rating for project security.

Secondly,... I could see the cost of borrowing for a project getting down to within about 50/100s of the cost of your general obligation borrowing. In other words, if it cost the State of Alaska 5½ to borrow towards general obligation debt, I could envision these bonds selling for something like 5 3/4 or 6%, I think no more that 50/100s. I would go further to say that if that income flow guarantee was not there, the cost of borrowing could be anywhere from 6½ to 7, 7½, depending wholly on the belief of the figures in the feasibility study and the convictions of the consulting engineer. Now, the important thing in this is the expectation that the project will be self-supporting and that the money will never be used. If it's needed it is there and it will be used, of course. But the expectation is that the project will be self-supporting and feasible.

Now what happens -- every year that those bonds are outstanding, you have an obligation to either pay interest or interest and principal on the project debt. If that year goes by, and the project in fact does cover its debt service obligations, then that flow of money from the Permanent Fund income is freed up and can be used for anything else. If you didn't do anything with it, it would go to the General Fund. The legislature could provide a second use for it.

In very simple terms, you're getting a double dip on that money. And if you want to go on to a development program and use the money for that, or if you wanted to subsidize some other lesser feasible project after the guarantee has been removed, you have it. And the delay is only a year, one year's income. Once it isn't needed, you can do anything you want to with it. It is not committed to the debt issue for 30-year bonds.

I think it's a valuable thing to do with that flow. I think it can perform a great service for you. You're not tying up any money in a long term way. It would be possible because in the way we handle cash flow in a revenue project is (technical description)....

So it serves a purpose, it drives down the cost of borrowing, but it's a one-shot deal on that dollar income. And once you don't need it, you can do whatever you want to with it. I wouldn't want any grant program... As I see it, I want to hold that trusted part of this Permanent Fund so it can't be attacked at all. You could eat into the income as one of these projects goes by of course, but you could put into the agreements that... it can be recovered. You never violate the principal at all, and you never give anything away.

Malone: So the basic argument is this be done for projects that were, first of all, adjudged by standard criteria to be financially and economically feasible to begin with and that, secondly,... it'd be for those projects for which bonds could be sold but they'd be sold at higher rates than this would bring?

Swick: That's correct.

Freeman: What you're talking about here, isn't that what's normally referred to as double barrel bonds, guaranteed not only by the revenues but also backed up by funds...?

Swick: Yes,... it is... In a double barrel bond you have a revenue flow which is dedicated and you have a general obligation pledge which is there and they're both there all the time. But I guess that's right, once that revenue flow in any one year goes by then it's no longer an obligation... I hadn't thought of it that way. There are double barrel bonds that have a very enviable position in the market.

Haugen: Is it adviseable to get yourself into a double barrel bond... heavy front end costs in the development of hydro projects... if you pledged revenue and other income so you have the ability to say to the borrower here's what I can offer you...?

Swick: If it's a revenue producing project, you have the income flow which is pledged to the bonds... but you also, in a classic double barrel situation, you also pledge to the lender or the bond holder that you will use the full taxing power of your community if necessary. And the result of that is to drive down the cost of borrowing because the lender sees additional security for his protection.

Haugen: ...You're pledging the income of (unclear)?

Swick: No, I was talking about the double barrel bond itself. The suggestion here that this bill embraces is that you're not pledging anything but the revenues of the project. And the Permanent Fund income is there in the event that everybody who guessed what those revenues were going to be on a projected basis is totally wrong and the... revenue will not meet the obligations for bonds, then you have the Permanent Fund. But as I say... the project would have to pass the tests... in regards to what the Power Authority can do and what the legislature will in fact authorize them to do.

Hayes: I've heard the concern expressed about power projects that initially there is alot of front end costs and possibility of negative cash flow, but as any power project proceeds on into time it becomes more and more viable in terms of cash flow to retire bonds. To the extent that guarantees from the Permanent Fund would lower the interest rate on the bonds, it would accommodate the negative cash flow, the problem in the earlier years which is part of the problem that Ernie's concerned about....

Swick: ...You would be saving somewhere in the neighborhood of 100 (unclear)... it's the difference between a 5% and a 6% bond.

Hayes: It's enough to possibly make a very tight situation a viable project.

Swick: The point of the feasibility test that any of these engineers make is what is the cost of money.

(Duscussion of effect of difference of one percentage point).

Rhode: I want to clarify one point. The use of the earnings of the Permanent Fund as a guarantee was described as a double barrel and in a large sense I see that's true. But,... with a G.O. pledge you are at least initially cutting down your bond capacity....

Swick: Absolutely. That is a committment which lasts for the whole length of the debt.

Malone: We have a number of proposals to use income from the Permanent Fund to guarantee debt... As I understand the difference here is that, number one, that this would be done on a project basis and the particular project would meet standard criteria for practicality and feasibility. And that the debt or bonds would be issued pretty much on a project basis... so we wouldn't be aggregating apples and oranges....

Swick: That's my view. Again,... the point being is you can get something of value out of this income flow, you're putting it in very mild jeopardy if any, hopefully none, and it doesn't stop you from using it for whatever else at a very nearby later date. Two shots with the same dollar.

Malone: ...The reason this is probably possible in this case, does it rest on those points I raised or does it rest on other things? Because an argument made previously to the committee was that in the case of debt issued on the strength of a Permanent Fund income guarantee, that the creditor was going to look solely to the Permanent Fund income as his source of guarantee and was not going to pay any attention to the possibility of the project or the use of the proceeds paying back his loan that he's made. This is in cases where the Permanent Fund is guaranteeing revenue bonds that were issued to buy home mortgages or small business loans or fisherman's loans, etc. If there's a difference in this case, I want to isolate what it is....

Swick: Your points are right. That the project will be evaluated to the best of the professional peoples' ability that it will never in fact touch any of the Permanent Fund income money. That's the first series of tests but that's what it comes to. Now, if you had a loan program to which this revenue flow was pledged, particularly if it had multiple purposes, there is no way that anyone could make a prediciton that you were never going to touch that Permanent Fund money, because you're going to have a default ratio... You are right that the investor will forget about the ingredients of an issue unless in the marketing of the securities and the solicitation of lenders' money it is carefully pointed out that that's the intent of this thing and that's what the legislation says and that's the way it's going to be because it would be a very bad thing, in my judgment, if the cost of money as a result of this guarantee caused an unfeasible project to be made feasible. I don't think they should be in there.

Malone: Could you comment on the energy reserve account?

Swick: I don't believe that that fund, as it's presently legislated and constituted, is the basis for security for any borrowing. I just don't think it will work... Secondly, I think it could be a source of a grant program, whether it's an out-and-out contribution of, say, a couple of million dollars here and there... It could be used for early investigation of a project, for some of these front end costs we're talking about. The pot, if you will, as I understand it, renews itself at a fairly modest but regular rate each year... probably generating about, roughly, $20 million a year. I think you can use that in conjunction with all these other things we've been talking about as a source of money for, in effect, a subsidy type item where you put a little equity into a project to help a small thing get off the ground. It could be used for these small hydro developments that I think are going to be developed all over the lower 48... I don't think it can be an ingredient of security for borrowing in it's present state.

Malone: Because it's subject to appropriation?

Swick: That's correct.

Haugen: Way I understood, that fund would be used to leverage money for energy development projects.

Swick: In my judgment, I'm putting a squash on that. I'm saying that the way that money is generated and the way it's handled, it will not support debt, it will not support leverage, because the lender has no assurances that it's going to be there next year.

(End of testimony).

HOUSE SPECIAL PERMANENT FUND COMMITTEE 1979
reel-to-reel tapes

Tape No.	Date	Significant Information, etc.
1	3/6	Revenue estimates (Milt Barker), Alberta Heritage (Jime Rhode)
	3/8	"Capital Gap" (Arlon Tussing)
2	3/17	HB277, HJR23; Fran Ulmer, Pete Bushre, Bob Greeley
	3/20	HB400, HB162, HB414
	3/23	Sen. Sumner on SB122; Ken Vassar on Residency Requirement Legality
3	3/23-3/27	Ken Vassar (con't), Pete Bushre, Sam Plaia on SB122 and SSSB1
	3/29	George Wolf on SSSB1; Walter Filkin on "Marketing aspects of Bonds"
4	3/29	Filkin (con't), Martin Moore
	4/8	Preparation for mark-up
5	3/30	Clark Greuning
	4/26	Mark-up on HB281 - final draft review
6	4/10	Conference call--Robert Greeley; Theodore Swick
		cassettes:
7	4/11,4/12	Mark-up, conference call with Clark Greuning
8	4/12, 4/18	Mark-up
9	4/18, 4/21	"
10 and 11:	Library did not receive any tapes for these numbers	
12	4/23, 4/24	Mark-up
13	4/24	"
14	4/24	"

Note: see tape #5 for 4/26, final draft review

SEE COMMITTEE FILES FOR MINUTES AND NOTES FROM THESE MEETINGS

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE

March 6, 1979

This was the first meeting of the committee, aside from a previous brief organizational one. All members were present except for Representatives Schaeffer and Freeman.

Copies of a tentative schedule (attached) were distributed, and the schedule was discussed. Rep. Rogers said that he would like the AGSOC bills to also be considered by the committee.

Milt Barker, from Legislative Finance, passed out some hand-outs concerning revenue estimates and reviewed for the committee the permanent fund income prospects. Pete Bushre, from the Department of Revenue, was also present and commented on the estimates. The fund currently has about $100 million and is growing at a rate of $63 million per year; this is roughly half the rate estimated earlier. The committee questioned Barker and Bushre concerning the accuracy of the present estimates and the factors which might result in unpredicted decreases or increases.

Jim Rhode, committee aide, reviewed for the committee what he knew about the Alberta Heritage Fund, including the structure of it in three separate funds which correspond to trust and development bank elements. He pointed out in particular the provision that openly identifies any subsidies as such instead of concealing them. He read from a transcript of the Permanent

Fund Symposium in 1977, in which the Canadian economist Dr. Gordon identified some of the negative effects the Alberta Heritage Fund has had on Albertans (attached).

House Special Committee on the Permanent Fund

Proposed Schedule as of 6 March 1979

Agenda	Meetings		
Discussion of Schedule Review of Revenue Estimates Review of Alberta Heritage Fund Analysis of "Capital Gap" Issue	Tuesday 6 March 4:30 p.m.	Thursday 8 March 4:30 p.m.	Saturday (as needed)
Administration Testimony Analysis of Administration and 1978 House Proposals	Tuesday 13 March 4:30 p.m.	Thursday 15 March 4:30 p.m.	Saturday (as needed)
Testimony on HB 162 (Haugen); Other Proposals from the Committee Testimony on HB 280 (Sumner) Analysis of Sumner Proposal	Tuesday 20 March 4:30 p.m.	Thursday 22 March 4:30 p.m.	Saturday (as needed)
Testimony on HB 279 (Hohman) Analysis of Hohman Proposal	Tuesday 27 March 4:30 p.m.	Thursday 29 March 4:30 p.m.	Saturday (as needed)
Further Testimony as Required Committee Mark-up	Tuesday 3 April 4:30 p.m.	Thursday 5 April 4:30 p.m.	Saturday (as needed)
	Tuesday 10 April 4:30 p.m.	Thursday 12 April 4:30 p.m.	Saturday (as needed)

NOTE: This schedule is subject to change as the result of schedule conflicts by consultants, and by direction of the Committee. This schedule may also be altered by additional referrals.

GRUENING: Thank you, Chat. I didn't ask for that plug.

CHATTERTON: (inaudible) ...I really have two questions for the panel, that developed this morning, but I can't help feel a little bit facetious. There was a person who testified here a little earlier this afternoon and made a suggestion as to how to use some of the Permanent Fund funds. I felt I should provide you also with a corollary suggestion for their use. Instead of buying all of the federal lands that are put up for oil and gas leases or along with that, I suggest that we buy the national interest land and thereby immediately solving the D2 question.

Mr. Chairman, through you I would like to ask the panelists or anyone that would care to comment--we did hear earlier comments about: 1. loaning money; 2. investing money. It was even suggested earlier--there was some comment about investing in a pipeline or a petrochemical plant--state funds. My question to the panel and to the Economists--if they have any background on this, would they care to comment--does the potential for a conflict of interests develop when a taxing entity becomes a participant in the profitability of a taxable entity?

My next question is--is there a degree of parallelism, at least in some facets between what is before you, Mr. Chairman, with this Permanent Fund and what had to be before the U.S. Congress some years ago when they were faced with seeing that each and every native Alaskan got a fair share out of the Alaska Native Settlement Act? Is there a parallelism? That's my second question. Thank you, Mr. Chairman.

GRUENING: I'll leave that up to the panelists, the Economists, anyone who wants to speak up.

GORDON: I am really no expert on the problems of taxable entities. The notion that some of the investment proposals put forth recently here remind me very much of where I now live. I happen to have moved to Canada in the last few months. In Canada, there are truly an astounding number, they talk about free enterprise like everybody, there's just an astounding number of what they call their Crown Corporation, Federal Crown Corporations, and Provincial Corporations. Now when you say is there a conflict of interests, they attempt, at least, by this device called a Crown Corporation, to make the Crown Corporation totally operate like an individual enterprise, despite the fact that the state or the province or the nation owns all the shares--sometimes not all the shares, most of the shares. I think if you survey the record of those Crown Corporations, that it is dismal. They have a Crown Corporation selling what Westinghouse sells--atomic reactors. They got involved in a little bribery, but the most significant think is they managed to sell two of their atomic reactors to Argentine at a loss of $130 million. The Province of Alberta has something called Alberta Heritage Fund. They're visably in the business of setting up businesses that otherwise wouldn't be there--irrigation facilities, food packing plants, huge petrochemical operations. The other thing they're doing is providing more services than otherwise would be the case and lower taxes. They're the lowest tax province in Canada by some piece. The result is that an enormous number of people are leaving the rest of the country and going there. The wages are lower there than they are where I happen to live in British Columbia, but people are moving there--that's where the jobs are. It is not benefitting, as far as I can see, the average Albertan at all. Rents are going up. Land is getting scarce. I see very little merit, what apart from the conflict of interest problem.

GRUENING: Is there any comment on the second half of the question, which was--was there any parallel between the Native Land Claims and what we might be trying to do with the Permanent Fund? Mr. Love.

LOVE: I don't have a comment on that but on Dr. Gordon's comment. Dr. Gordon, do you operate out of British Columbia right now?

GORDON: Right now, yes.

LOVE: Well, it is my understanding that in British Columbia, under the new democratic party, there's a lot of acquisitions in terms of the Crown Corporation. As a result, partially because of their policy for rapid acquisitions, there's a problem with the insurance industry that the new democratic party was defeated and replaced by the conservative government of Mr. Bennett. It's also my understanding that Mr. Bennett's conservative government has not devested themselves of any of the acquisitions made by the NDP and that most of them, in fact, are now on the whole profitable. Is that in an accurate summation? Just as a parallel to the experience the Federal Crown Corporation as looking to British Columbia where you teach.

GORDON: No, not entirely. You see, to describe the present government as conservative is, I think, quite incorrect. We have two kinds of parties in British Columbia. One is socialist and the other is more socialist. It is not true that those have become profitable. It's not true--they've all been losers. In fact, if you investigate in the theories of finance they teach in business schools, it is extremely difficult to lose money consistently by investing. The NDP did not succeed in doing so. But more serious, some of their acquisitions, a distressing number of their acquisitions, have lost money. They perhaps could have been defended on the grounds that they had some social purpose. There's a great dispute about what the social purpose was and whether it helped anybody significantly. I'd say in Canada, there's all kinds of conservative government of another province in far east. New Brunswick. They bought all kinds of things, setting up another conservative government. They got into an endless stream of business--nearly all of which went bankrupt. The one advantage, incidentally, of the Crown Corporation is it isn't like many of the Corporations into which the British government bails people out. When they set up a Corporation, it is like a private corporation. When it goes bankrupt, it's bankrupt. So it doesn't continue forever. It's just draining off the public purse. That is a legal device which, I think, is of some usefulness. I think there's a great parallel; it's a little hard to classify political opinion. It seems to be so simple

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 23, 1979

Agenda: SB 122

Members Cotten, Freeman and Hayes were absent.

Tape #2, Side 2 800	Sen. Sumner addressing concepts behind SB 122, why he supports it philosophically, questions concerning gains/losses on an individual's share.
943	Discussion of leveraging.
1059	Questions concerning management, eligibility.
1099	Sumner testimony ends.
1103	Ken Vassar, Legis. Affrs. Attorney, addressing legality of residency requirements for qualifying for shares of P.F. Committee concerned about creating two classes of people - one who are qualifying residents and other non-qualifying residents. Questions about implications if there is not a second distribution.
Tape #3, Side 1 0150	Vassar testimony ends.
0166	Pete Bushre, Deputy Comm. of Treasury, raising questions about language of bill and mechanics of administering it. Discussion re. how earnings and losses accrue to individuals and to Fund, losses generated by re-direction and mechanics of re-direction, panic selling, and advisability of direct involvement of body politic in P.F. investment.
0595	Bushre testimony ends.
0610	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 27, 1979

Agenda: Sam Plaia on SB 122 and SS SB 1

Members Freeman and Schaeffer were absent.

Tape 3, Side 1 0611	Call to order.
0645	Sam Plaia, Financial Consultant, making general comments concerning intent of SB 122 and comments paragraph by paragraph: re. distribution of income, transfer of shares, directed investments (burden on shareholder and "prudent person" rule), eligibility requirements.
0947	Discussion re. capital gains/losses.
0997	Discussion re. leveraging, including borrowing at tax exempt rates. Also questions concerning minor's rights, residency requirements, implications from banker's point of view of shareholder's freedom to re-direct investments.
1140	End of Plaia's comments and discussion on SB 122.
1144	Sam Plaia making general comments on Hohman bill SS SB 1.
1186 and onto Side 2	Analysis of specific elements of Hohman bill. Discussion re. loan purposes, with focus on concerns about loans for commercial purposes. Analogy of SBA and SBIC.
Tape 3, Side 2 0310	Discussion re. loans for public purposes, municipal bonding, fluctuations in yield curve.
0574	More discussion on commercial loans, concerning tax exempt bonds.
0612	Concern re. student loans.
0630	Plaia testimony ends.
0637	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 29, 1979

Agenda: Hohman bill w/ testimony from George Wolf and Walter Filkin

Member Schaeffer absent; members Chatterton, Haugen and Hayes left early to attend another meeting.

Tape #3, Side 2	
0639	Call to order.
0680	George Wolf, Attorney, discussing Industrial Development Bonds, non-commercial loans.
0722	Exceptions.
0749	Tracing.
0805	Tax exemptions, arbitrage aspects.
0918	Discussion of consequences of not getting advance ruling from IRS.
1005	Future trends.
1083	Summary by Malone and Wolf.
1114	Wolf testimony ends.
1117	Walter Filkin introduced.
1127	Filkin testimony begins, re. marketing aspects of bonds, and impact of loan programs on State borrowing program.
Tape #4, Side 1	
0212	Concern about permitted investments of P.F. being too all-inclusive.
0284	Reaction to Plaia's assessment of need for guarantee of earnings from P.F.
0304	Filkin testimony ends.
0306	Chairman introduces new documents.
0361	Other comments - Martin Moore.
0406	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

March 30, 1979

Agenda: General policy considerations, w/ testimony from Clark Gruening.

Member Hayes absent.

Tape #5, Side 1

0000-0035	Technical difficulty, not recording.
0036	Clark Gruening testimony in progress.
0100	Critical elements not now in law.
0179	Re. accountability.
0255	Re. trust concept and development banking.
0330	Goals P.F. can accomplish.
0385	Summary.
0397	Formal Gruening testimony ends.
0398	Questions and discussion with members.
0717	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 8, 1979

Agenda: Mark-up

Members Cotten, Guy, and Schaeffer absent.

Tape #4, Side 1	
0407	Call to order.
0410	Issues to consider in mark-up; Malone suggests handling ea. issue separately.
0837	Motion adopted with no objections to use HB 281 as mark-up vehicle re. management system.
0922	Bushre re. 4-7 memo from Revenue, with discussion from members.
Tape #4, Side 2	
0000-0322	Discussion with Bushre continues.
0337	Tom Singer re. 4-7 memo from DPDP, with discussion from members.
0572	What next.
0664	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 11, 1979

Agenda: Mark-up, conference call with Clark Gruening.

Members Guy and Schaeffer absent.

Tape # 7, Side 1

000	Call to order. Introduce memo from DPDP and list prepared by staff of issues for consideration in HB 281.
212	Pete Bushre with summary of comments in his letter re. gains/losses, and questions from members.
367	Conference call with Clark Gruening, re. Investment Oversight Committee (IOC).
616	Gruening call ends.
621	Bushre continues.
633	Questions and discussion with members re. IOC.

Tape # 7, Side 2

000	Discussion re. IOC continues.
510	Motion to assign purposes and duties of IOC to Budget & Audit Committee, and to include letter from the P.F. Committee requesting that B & A report to the legislature as to the workability of this and consideration of assigning responsibilities of IOC to a new or existing committee after one year. Also include Findings, p. 1, l. 18-27.
531	Motion adopted with no objections.
549	What next?
587	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 12, 1979

Agenda: Mark-up.

Members Cotten, Hayes and Schaeffer absent; member Haugen left early.

Tape # 7, Side 2	
589	Call to order. Review of motion adopted 4/11.
635	Sec. 2. No suggestions.
645	Sec. 3. Discussion of what percentage of mineral lease bonuses after deductions should go into P.F.
Tape # 8, Side 1	
000	Discussion of percentage of mineral lease bonuses continues.
361	Motion by Freeman to change 100% to 50%, p. 6, l. 5, and add word "remaining" after "bonuses." Discussion.
461	Motion adopted with no objections.
467	Motion by Rogers to change 30% to 50%, p. 6, l. 11. Discussion.
674	Vote on motion. Guy, Malone, Rogers in favor. Freeman, Chatterton opposed. Chair does not rule on motion. Not enough members present.
735	What next?
Tape # 8, Side 2	
000	Suggestion re. p. 6, l. 29. Chair wants full committee present.
120	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 18, 1979

Agenda: Mark-up.

Members Cotten and Schaeffer absent.

Tape #8, Side 2	
122	Call to order. Review of motion adopted 4/12 and motion chair did not rule on on 4/12.
171	Brian Rogers presents information prepared by Milt Barker re. how different leasing scenarios would affect Permanent Fund contributions.
343	Motion by Rogers to renew motion of 4/12 to change 30% to 50%, p. 6, 1. 11. Discussion.
542	Vote on motion. Guy, Haugen, Malone and Rogers in favor. Chatterton, Freeman, Hayes opposed. Rogers withdraws motion. Amends motion to read p.6, 1. 5 40%. p. 6, 1. 11 40%.
557	Vote on motion. Rogers in favor. Other members present opposed. Discussion of effect of not changing % in HB 281.
607	Malone introduces new topic, list of eligible investments.
650	Larry Eppenbach, of Legislative Affairs Research, comparing investments in House bill and in Administration bill.
Tape #9, Side 1	
000	Larry Eppenbach continues, with questions from members.
350	Pete Bushre responds to question re. long-term investments of P.F. in Alaska banks.
369	Eppenbach continues, with some suggestions. Additional comments from Bushre.
496	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 21, 1979

Agenda: Mark-up

Member Schaeffer absent. Member Haugen arrived mid-way into meeting.

Tape #9, Side 1	
498	Call to order. Review.
592	Discussion of contribution rates continues. Chair suggests committee take another look at motion passed on 4/12 now that more members are present and also because two questions (p. 6, l. 5, 11) are closely related.
Tape #9, Side 2	
000	Discussion of contribution rates continues.
336	Motion by Freeman to change 100% to 50% and after "bonuses" add "remaining", p. 6, l. 5. Discussion. Amendment to motion by Rogers to change 30% to 50%, p. 6, l. 11. Discussion.
489	Vote on amendment to motion. Cotten, Guy, Rogers in favor. Chatterton, Freeman, Hayes, Malone opposed. Amendment to motion fails.
545	Vote on main motion. Freeman, Guy, Hayes, Malone in favor. Chatterton, Cotten, Rogers opposed. Main motion carries.
553	Motion by Rogers to change 30% to 25%, p. 6, l. 11, and add "as of effective date of this act, and 50% of all... received from leases issued after effective date..." p. 6, l. 13. Discussion.
590	Motion by Chatterton to divide question. Discussion.
627	Rogers withdraws motion. New motion by Rogers to add "50% of all... from leases issued after effective date of this act", p. 6, l. 13.
636	Vote on motion. Cotten, Guy, Malone, Rogers in favor. Chatterton, Freeman, Hayes opposed. Motion carries.

658	Motion by Freeman to change 30% to 25%, p. 6, l. 11.
678	Motion adopted with no objections.
684	Discussion of language p. 6, l. 29 and p. 7, l. 1.
Tape #10, Side 1	
000	Discussion continues.
183	Motion by Rogers to change p. 6, l. 29 and p. 7, l.1 to read "The corporation's goal should be to maintain safety of principal while maximizing total return."
266	Motion adopted with no objections.
267	Motion by Rogers to change p. 6, l. 27-8 to read "...to benefit future generations of Alaskans."
370	Amendment to motion by Guy to delete "future." Vote on amendment to motion. Chatterton, Guy in favor. Other members opposed. Amendment to motion fails.
436	Amendment to motion by Freeman to substitute "all" for "future."
443	Amended motion adopted with no objections.
461	Sec. 030 Malone suggests deleting "a mechanism", p. 7, l. 6. Sec. 040 Discussion, no changes. Sec. 050 and 060 Discussion.
642	Motion by Guy to have Board of Trustees consist of five members, for better geographic representation. Discussion.
684	Vote on motion. Cotten, Guy, Haugen, Malone, Rogers in favor. Chatterton, Freeman, Hayes opposed. Motion carries.
691	Motion by Rogers that Board members be appointed for five-year terms. Discussion.

Tape #10, Side 2

000	Vote on motion. Hayes, Rogers in favor. Other members opposed. Motion fails.
012	Motion by Cotten to change 4 to 3, and after "reappointed" add "and must be reconfirmed", p. 7, l. 23. Also, change terms to read "two members for one year, two members for two years, one member for three years", p. 7, l. 24-26.
058	Vote on motion. Chatterton, Cotten, Freeman, Guy and Haugen in favor. Hayes, Malone, Rogers opposed. Motion carries.
081	Motion by Malone that members can't be appointed for more than two consecutive three-year terms. Discussion. Malone withdraws motion.
127	Sec. 070 Motion by Guy that if vacancy occurs, replacement must be from that geographic area. Discussion.
309	Vote on motion. Guy, Haugen in favor. Other members opposed. Motion fails.
319	Sec. 080 Motion by Cotten to delete p. 9, l. 2-4. Discussion.
392	Motion adopted with no objections.
401	Discussion of language p. 8, l. 29 and p. 9, l. 1-2.
514	Motion by Rogers to change p. 8, l. 29 to read "At least three members of the board...." Motion adopted with no objections.
542	Sec. 090 Suggestion by Freeman to change quorum from two to three members, p. 9. l. 5. Adopted with no objections.
552	Sec. 100 Discussion of language and fee. No changes adopted.

571	Sec. 110 Discussion of who determines salary. No changes adopted.
603	Sec. 120 Motion by Rogers to add after "board" the words "and Executive Director of the Board", p. 9, l. 18. Motion adopted with no objections.
636	Sec. 130 Discussion of language in (a) of this section.
708	Motion by Guy to change "means that" to "is when" p. 9, l. 29.
Tape #11, Side 1 000	Discussion of language continues.
093	Guy withdraws motion. Motion by Chatterton to change p. 9, l. 26-28 to read "The prudent-man rule shall be applied by the board in the management...." Motion adopted with no objections.
109	Sec. 130 (b) Discussion of language. Motion by Rogers to change "may" to "shall" p. 10, l. 7. Motion adopted with no objections.
148	Motion by Freeman to delete "seek to" p. 10, l. 9. Motion adopted with no objections.
195	Motion by Rogers to substitute "Budget and Audit Committee" for "Investment Oversight Committee" p. 10, l. 13. Motion adopted with no objections.
205	Discussion of language in (e) and (f), p. 10.
376	Discussion of desireability of prohibiting contracts with agencies or departments of the state. Motion by Rogers to add after "investments" the words "without approval of the legislature" p. 10, l. 19. Discussion continues.
549	Chair asks for adjournment with Rogers' motion pending, if no objection.
559	Adjournment, with Rogers' motion pending.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 10, 1979

Agenda: Mark-up, conference call with Greeley, testimony from Swick.

Member Cotten absent; member Schaeffer left early.

Tape #6, Side 1

000	Conference call with Robert Greeley, re. treatment of capital gains/losses.
155	Malone re. summary of basic theory on gains/losses. Questions and discussion with members.
263	Theodore Swick, discussing marketplace for state and local government securities.
369	Swick re. use of Permanent Fund income, with questions and discussion with members.
440	Malone with summary, and questions and discussion with members re. double barrel bonds.
490	Discussion of use of income from Permanent Fund to guarantee debt continues.
524	Swick on energy reserve account and leveraging.
554	Swick testimony ends.
555	Other business, what next.
572	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 23, 1979

Agenda: Mark-up

Members Cotten and Haugen absent. Members Chatterton and Hayes arrived mid-way into meeting.

Tape # 11, Side 1	
560	Call to order. Review by Chair of previous actions taken related to mark-up. Motion by Rogers from 4/21 pending, re. contracts with state agencies.
621	Discussion by Rogers of pending motion. Withdraws motion.
641	Motion by Rogers to delete p. 10, l. 17-19 beginning with "except...." Discussion.
685	Motion adopted with no objections.
687	Sec. 130 (g), Eligible Investments. Discussion.
Tape # 11, Side 2	
000	Discussion continues, comments from Doogan re. prior committee's rationale re. this section.
064	Discussion continues, with members, committee staff, and Sen. Rodey making comments.
403	Discussion continues, with comments from Bushre.
Tape # 12, Side 1	
000	Discussion of investment possibilities continues.
015	Motion by Chatterton to delete p. 10, l. 23. Discussion.
253	Vote on motion. Chatterton, Freeman, Hayes, Malone, Rogers, Schaeffer in favor. Guy opposed. Motion passes. Discussion continues.
462	Motion by Rogers to add "investment grade" to beginning of p. 10, l. 24. Discussion.
532	Motion adopted with no objections.

536	Motion by Rogers to delete p. 11, l. 6-8 after "stock."
542	Motion adopted with no objections. Discussion continues.
595	Motion by Chatterton to insert "common" before "stock" p. 10, l. 29, and before "stock" p. 11, l. 6. Amendment to motion by Chatterton to include only p. 11, l. 6 in motion. Discussion.
675	Motion by Freeman that after the word "used", the words "in the purchase ...at the time of the purchase; nor" be deleted, p. 10, l. 28.
688	Chatterton's motion still pending. Motion to insert "common" before "stock" p. 11, l. 6. Motion adopted with no objections.
695	Freeman's motion considered. Motion adopted with no objections. Discussion continues.
Tape # 12, Side 2 000	Discussion continues, between members and Bushre.
104	Motion by Chatterton to delete amended p. 10, l. 24-25 to "marketable;". Discussion.
471	Chatterton withdraws motion, if no objection, so can start fresh at next meeting.
510	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 24, 1979

Agenda: Mark-up

Members Cotten, Guy, Haugen and Rogers absent.

Tape #12, Side 2

511	Call to order.
530	Introduction of list prepared by Dept. of Revenue and committee staff on suggested alternatives for investments for Sec. 130 (g). Chair outlines two possible approaches - list broad categories or list specific types of investments that are eligible.
628	Questions from members to Pete Bushre re. suggested alternatives and current investment practices for pension fund.

Tape #13, Side 1

000	Discussion with Bushre continues.
088	Motion by Chatterton that committee takes suggested alternatives approach. Adopted with no objections.
099	Discussion of rating of corporate debt securities; Bushre provides definition of a-rated and aa-rated securities.
205	Motion by Chatterton to change "rated A" to "rated AA" in (4) of suggested alternatives list. Motion adopted with no objections.
216	Motion by Chatterton to limit investment in corporate debt securities to 30% of Fund. Discussion.
448	Motion by Freeman to amend to 25%. Amendment to motion adopted with no objections. Motion adopted with no objections.
463	Discussion on other alternatives.
505	Motion by Freeman to accept (1), (2), (3), and (4) as amended, and (5), (6), (7) from suggested alternatives list. Motion adopted with no objections.

516 — Motion by Hayes to adopt (11), (12), (13), and (14) from suggested alternatives list.
Discussion with Bushre about whether (12) refers to only guaranteed portion of mortgages.

Motion by Chatterton to amend motion to delete (12).
Vote on amendment to motion.
Freeman, Chatterton in favor.
Hayes, Malone, Schaeffer opposed.
Amendment fails.

Vote on main motion, with (12) changed to make it clear that it refers only to guaranteed portion.
Freeman, Hayes, Malone, Schaeffer in favor.
Chatterton opposed.
Main motion carries.

575 — Motion by Hayes to adopt (8) from suggested alternatives list.
Discussion.

644 — Vote on motion.
Hayes in favor.
Chatterton, Freeman, Malone, Schaeffer opposed.
Motion fails.

653 — Discussion of remaining sections. Rep. Hayes leaves temporarily to attend another meeting.
No quorum, for the moment no official action.

Tape #13, Side 2

000 — Unofficial discussion continues.

458 — Hayes returns, quorum present.
Chair reviews prior discussion.
Concensus is that committee is not inclined to add more investments to list.

469 — Motion by Chatterton that aggregate summation of (11), (12), (13), and (14) not exceed 25% of Fund.
Motion adopted with no objections.

492 — Sec. 130 (h)
Technical change "IOC" to "B&A", p. 11, l. 12.

528 — Sec. 130 (i)
Motion by Chatterton to keep as is.
Motion adopted with no objections.

572	Sec. 140 and 150. Malone proposes to adopt both sections with conforming language needed re. list of investments and deletions needed re. stocks and dividends. No objections.
595	Sec. 155 Discussion re. how mortgage loss reserve account is no longer needed.
601	Motion by Freeman to delete Sec. 155. Motion adopted with no objections.
604	Sec. 160 Motion by Chatterton to retain as is. Motion adopted with no objections.
610	Sec. 170 Retained as is except for technical change of "B&A" instead of "IOC", p. 12, l. 16.
Tape #14, Side 1 000	Sec. 180 Motion by Hayes to retain as is. Motion adopted with no objections.
010	Sec. 190 No changes.
071	Sec. 200 Motion by Malone to delete first sentence, p. 13, l. 14-16. Motion by Chatterton to add "or influence" after "finance", p. 13, l. 16. Discussion of definition of "partisan." Motion by Freeman to retain only second sentence and delete word "partisan." Combined motion adopted with no objections.
193	Discussion of disclosure.
254	Sec. 210 Motion by Hayes to retain as is. Motion adopted with no objections.
295	Sec. 220 No objections to language as written.
358	What # should be used on bill?
386	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE -- TAPE LOG

April 26, 1979

Agenda: Final draft review.

Members Freeman, Guy and Schaeffer absent.

Tape #5, Side 1

0718	Call to order. Review final draft of HB 281. Technical error - p. 9, l. 19. "5" should be "4". Motion by Chatterton to add "in the aggregate" after "not to exceed", p. 9, l. 21. Motion adopted with no objections. Lorde raises question of whether "or influence" should be inserted after "finance", p. 12, l. 1. Chair thinks this was included in motion adopted 4/24. Discussion - Chatterton explains his intention. That language to be incorporated if no objections. No objection. Hayes raises question of whether p. 8, l. 9 would read better as "prudent not to do so" or "prudent to not do so." Discussion. Retained as is.
0809	Distribute draft letter of intent to accompany bill. Concensus that it reflects intent of committee. Discussion of fiscal note - will ask Leg. Fin. Div. to prepare it.
0837	Discussion of meeting with Governor and staff yesterday. Chair has asked that Governor consider only the issue of management of the principal of the Fund as the Governor determines whether or not to support bill.
0883	Discussion of what number to put on bill. Motion by Chatterton to use 281. Motion adopted with no objections.
0898	Motion by Cotten to report bill out of committee, with technical changes made. Motion adopted with no objections. Motion by Cotten to incorporate letter of intent with bill. Motion adopted with no objections.
0909	Adjournment.

MEETING OF THE HOUSE SPECIAL PERMANENT FUND COMMITTEE

March 8, 1979

All members were present except for Rep. Schaeffer.

The meeting's topic was "the capital gap," with Arlon Tussing as the guest speaker. In 1977 Tussing was asked by the House Permanent Fund Committee to do a study about the adequacy of capital, to determine if there was a gap and, if so, where it was. His report on that, "Economic Considerations in Establishment of Alaska's Permanent Fund," was handed out to committee members, and Tussing explained that, since he has not been working on the question recently, he doesn't have any new conclusions.

Some of the main points which Tussing made are summariazed here:

If we invest the permanent fund entirely in Alaska at market rates and terms, the effect is neutral. We merely displace what the banks normally do.

If we invest all of the permanent fund in Alaska, we put all our eggs in one basket and leave them vulmerable to the ups and downs of the Alaskan economy. It makes much better economic sense to diversify by investing outside of the state.

Tussing's "survey" found that the existing capital markets are adequate for large-scale projects. For medium-size projects, he saw no need to intervene unless it's decided that a particular sector needed an advantage. For small projects, there are widely contrasting, polarized, perceptions concerning the adequacy of existing capital markets. Although the lending institutions and successful businesspeople feel that the supply of capital is adequate, many other Alaskans believe that money is unavailable.

There _is_ a problem is rural Alaska, where banks are not anxious to lend. It is simply not good business to lend in the bush, for various reasons.

Normal financing might not be available for certain projects, such as fish enhancement projects. Others, like the barley project and the bottomfishery, can use subsidies to build infrastructures so that the critical mass can be reached.

If you give soft loans to everyone indiscriminately, you give a windfall to the person who doesn't need it as well as helping the one with the marginal operation. If you help only the one who really needs it, you support and favor the poor businessman at the expense of the good one.

There are two ways to subsidize through soft loans-- to loan at an interest rate lower than market rates or to relax the conditions of the loan. Since the interest rate is not the main factor in determining a project's viability, the latter method is preferable.

ECONOMIC CONSIDERATIONS IN FSTABLISHMENT OF ALASKA'S PERMANENT FUND

by
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for
Legislative Affairs Agency
State of Alaska

July 7, 1977

I. INTRODUCTION

The following report was prepared under a contract between the State of Alaska Legislative Affairs Agency and the University of Alaska Institute of Social and Economic Research. Its object was to explore some of the fundamental economic questions involved in establishing the structure and policies for the permanent fund authorized by a 1976 amendment to the Alaska Constitution. Research for this report was devoted mainly to an initial exploration of the question to what extent capital markets serving Alaska are reasonably efficient, and consisted largely of unstructured and unsystematic interviews with businessmen on both sides of those markets --- officers of financial institutions and other investors and lenders, and corporate officers and entrepreneurs in Alaska industries or with Alaska interests.

In line with the contract between the Legislative Affairs Agency and ISER, the study and report were to be "...in the nature of a general reconnaisance, and need not involve the collection or processing of original quantitative data." Among the tasks of the study, however, was to prescribe "the analytical and policy issues" which deserve further investigation in depth. A number of the issues raised in this report do warrant collection and processing of original data. In line with the report's terms of reference, I have not proposed final conclusions on any of the six interrelated questions set out in the contract, but have only attempted to explore and define them sufficiently to propose how the Legislature might proceed with such investigations, particularly some quantitative testing of the hypotheses offered here.

Uses of the Permanent Fund

Public officials, "experts" of various kinds and voters generally have envisioned several different purposes for an Alaska permanent fund. The constitutional amendment which authorized the fund reflects a consensus that at least one-fourth of Alaska's non-recurring mineral leasing revenue should be excluded from the regular stream of state spending. A corollary of this consensus is that the fund should be profitably invested to give state government a permanent stream of revenue independent of current mineral leasing income and independent of economic conditions in the state generally. Because state government spending is a large part of Alaska's economic base (and will grow proportionately larger as tax and royalty income from North Slope oil begins to flow), the spending of income from permanent fund investments and their respending in Alaska's private economy could have a stabilizing effect on employment and income in the state.

There is little doubt that the operation of the fund would have the effect of reducing the immediate fiscal impact of oil and gas income and a stretching out and smoothing of its long-term impact, however the fund is organized and whatever its investment strategy. But the size of these impacts will depend on how much of the permanent fund's capital is invested or lent in Alaska and on what terms. Given certain assumptions about the size and structure of the state's economy, the revenues committed to the fund, the yields of the fund's investments and the disposition of income from those investments, we can forecast its effect on the shape of long-term growth of state product, personal income, employment and per capita income. Some elementary projections of this sort have already been made by ISER under the Man in the Arctic Program.

Beyond this, there is little agreement on the proper purposes or the long-term effects of permanent fund investment strategies, and there has been little examination of the economic fundamentals which determine whether these purposes can actually be achieved by an instrument by the fund, or what its actual effects (intended and unintended) are likely to be. Apart from the purpose of delaying and smoothing the fiscal impact of non-recurring mineral leasing revenue, other goals that have been suggested for the permanent fund are to accelerate the growth of the state's non-oil economy and at the same time to expand state government's non-oil tax base.

In pursuit of this end it is usually assumed, and there seems to be a near-consensus in the unofficial statement of legislators, that permanent fund moneys invested or lent in Alaska be confined to creditworthy projects and enterprises, and at market rates and terms. If capital markets in Alaska (and in the United States) are workably efficient, however --- and my investigation so far suggests that they are --- investment of permanent fund moneys in Alaska will have exactly the same effect on the state's economy as investing them outside Alaska.

(The quality of the fund's investment portfolio may, however, be affected by the choice.) That is, permanent fund money would tend to replace the same amount of money that otherwise would have been provided from private financial sources.

Unless it provides capital subsidies, permanent fund activity will not accelerate growth of non-oil industry and thereby diversify the state's economy. If capital markets are generally efficient, moreover, non-subsidized permanent fund outlays would not tend to smooth out Alaska's business cycle or the growth rate of employment and population, even if there were no other fundamental difficulties (treated in part IV of this report) in using state investment policy as a counter-cyclical tool. In the absence of capital subsidies, any attempt to disperse economic activity or to foster rural industries will also tend to be futile if the absence of growth in rural Alaska or in particular small communities is a result of factors other than the failure of financial institutions to bring enterprise and investors together on mutually acceptable terms. If poverty or stagnation is caused by deficiencies in natural resources, the skills or attitudes of the labor force, transportation, communications and energy costs, or an unsatisfactory institutional environment, the permanent fund cannot cure these ills, nor even mitigate them unless it is treated as a source of capital available for investments which will not meet market tests.

II. CAPITAL MARKET EFFICIENCY

Every proposed strategy for Alaska's permanent fund depends upon stated or unstated assumptions about the "efficiency" of national or international capital markets. The proposition that Alaska as a whole, certain regions of Alaska, or certain Alaska industries suffer a chronic capital shortage which can be remedied by permanent fund investment strategy amounts to saying that existing capital markets do not, in fact, function efficiently.

By "efficiency" in the capital market, we mean the ability of loanable or investible funds to move readily in and out of Alaska, among industries and among different kinds of capital instruments of different term and risk (common stocks, bonds, loans, etc.) in response to the differences in anticipated yields.

The most important elements of capital market efficiency are mobility, cost and information. Legal limitations on the flow of loanable funds can clearly reduce capital market efficiency as defined here (though there may be good social reasons for the restrictions). An example of a legal restriction on the mobility of capital for social reasons, the federal government limits the rate of interest payable by banks and thrift institutions on savings deposits, in order to channel funds to, and reduce interest costs for, the residential mortgage market (but it also restricts the funds available to savings institutions). The fees of brokers, underwriters, lenders, and "finders" of venture capital, and taxes such as capital gains and stock transfer taxes also increase the cost of moving funds from one investment to another. A lack of competition can both erect barriers to capital mobility and increase transactions costs.

The element of capital market efficiency most often held to be deficient in Alaska is information. If funds are to move easily and at competitive rates of return from areas or industries with cash flow surpluses to those with excess demand for capital, entrepreneurs must know where equity and debt money is available and on what terms, and potential investors or lenders must have the means to appraise the earning capacity and risk of the ventures they are asked to underwrite.

Capital mobility, transactions costs and the adequacy of information are all a function of market size and diversity (which is in turn a function of market size). A region with large and diversified capital demands will attract a large number of financial institutions of different kinds, who will serve as intermediaries between entrepreneurs and investors or lenders. They will compete among one another for business, thereby lowering capital transactions costs to ultimate borrowers and lenders. And most critically, they will make it their business to understand the industries and kinds of enterprises they serve and their local and regional economies, thereby increasing market information necessary to evaluate individual ventures.

This issue has important implications for the permanent fund's investment strategy. If capital markets serving Alaska business are workably efficient, permanent fund moneys dedicated to Alaska investment will have no impact on the aggregate level of investment (and thereby the rate of economic growth), the industrial structure, or on the profitability of investment in Alaska, unless these moneys are offered on subsidized terms. Loans from the permanent fund at market rates would simply displace private capital that would otherwise be available at the same rates. The only material result might be a reduction in the diversity--and thereby safety--of the permanent fund's own investment portfolio because it would be imprudently concentrated on Alaska issues and unduly sensitive to business fluctuations special to the state.

If, on the other hand, institutional barriers to capital movements, excessive fees or taxes on capital transactions, or inadequate information result in a shortage of capital for Alaska ventures at normal market terms, then it will indeed make a significant difference to Alaska's economy how much of the permanent fund is allocated to investment within the state. The conclusion that investment strategy would, in fact, make a difference need not necessarily carry with it the implication, however, that the difference would be great, or cost-effective or even in the right direction. To the extent there are demonstrated inefficiencies--barriers, costs or ignorance--in Alaska's capital markets, it may well be cheaper and more effective to remedy those problems directly rather than to offset them with permanent fund investments.

The paridigm (pattern of concepts and theories) of capitalistic finance presented in business school textbooks is one of efficient capital markets. Within the terms of this paradigm, it is very unlikely that Alaska could suffer a chronic capital shortage. Outside investors and lenders, in their search for the highest rates of return consistent with a given degree of security, would make an effort to discover investment opportunities in the state, while entrepreneurs with Alaska interests would shop the world's capital markets for venturers or lenders of funds on appropriate terms. Whatever lack of information existed about capital sources, the particular industry, Alaska's institutions or business conditions, or regarding the particular firm could be remedied at a price, and at least for large ventures, that price would be relatively small compared to the funds involved. A variety of financial intermediaries and investment services would compete with one another to bring together borrower and lender or entrepreneur and investor, and to furnish either side with needed information. This competition would increase capital mobility and lower both transactions costs (the spread between the yield to lenders and the cost to borrowers, for example) and the cost of information.

Capital market efficiency is obviously a relative matter. The mobility of funds is seldom totally unfettered; there are almost always fees and taxes or other transactions costs; and information itself comes only at a price and is never perfect. The relevant questions here are to what extent and for what regions and industries in Alaska are capital markets significantly less efficient than elsewhere in the national economy and to what extent, if at all, can the investment strategy of the permanent fund remedy or offset these inefficiencies.

Alaskan Capital Markets

In my conversations with businessmen inside and outside of Alaska, it appeared that bankers and officers of financial institutions generally, officers of large corporations, successful real estate developers and the most successful entrepreneurs in contracting, tourism and fishing tended to "believe in" the efficient markets paradigm and conduct their businesses as if it were an accurate view of the world. It is true that several of them spoke of a national "capital shortage"; the reference is to the aggregate effect of high taxes and inflation, and few of the businessmen in these categories seem to believe that there is a shortage of investment or debt capital peculiar to Alaska or to their own industries. The officers of banks, finance companies and other money market institutions believe that their companies actively seek out investment opportunities in Alaska and consistently denied that they insisted on higher rates of return or greater security for Alaska issues. Two West Coast bankers active in Alaska stated a belief that it was probably <u>easier</u> to place large issues generated by their Alaska correspondents than comparable issues from California or Washington State because of the widespread confidence in Alaska's wealth and continued industrial growth. Two corporate officials made a similar observation, one of them alluding to the "glamor" of Alaska investment.

Officers of national or multinational corporations in petroleum, mining and fish processing indicated that for them, the procedures, problems and costs involved in the financing of Alaska ventures were for all practical purposes identical with those for financing comparable ventures in the Lower 48 or in other politically stable advanced capitalist states. Their own sources were national and international, and their ability to raise funds rested in part on the overall strength and reputation of the company, and in part on their ability to communicate to potential investors and lenders the reasons (resource base, engineering cost estimates, market factors, etc.) why they themselves believed that the proposed Alaska investment was sound. One successful developer scoffed at the notion of an Alaska information gap: "Information, salesmanship--that's what business leadership, what you call entrepreneurship is all about. It's your job as a developer to get all the information your banker needs into his hands. Make him as confident about your project as you are yourself."

Many small businessmen including, it appears, most prospectors, inventors, independent merchants, and operators of hotel, restaurant and other tourist-related businesses outside of Anchorage, and some contractors do not, however, believe in the efficient markets paradigm. I heard many complaints about treatment by banks and finance companies and a feeling that "the system" is biased against small businessmen and against Alaskan enterprise. I heard anecdotes purporting to show that even Alaska banks favor outside-owned businesses. Many persons in this group expressed a hope that the permanent fund could correct this bias and make more funds available for ventures like their own. It was especially noteworthy to me that most state and federal civil servants in the economic development or business assistance field expressed views more consistent with the capital shortage paradigm than with that of efficient markets and believed that government should provide more financial assistance to private industrial development in Alaska. Whether or not these sentiments express an accurate view of the way in which the economy and financial markets operate, it seems likely that it is a more representative view than the more sophisticated textbook, "big business" view of capital markets, and constitutes a substantial political constituency for an activist policy by the permanent fund's managers.

In preparing this report, I encountered several instances where entrepreneurs or corporate managers were working on financing a fisheries, mining or tourist venture, a shopping center or a residential subdivision. Those in this group who seem to accept the efficient markets paradigm regarded it as the essence of their own job as a developer or manager to assemble and integrate the necessary information on resources, markets, costs, economic and environmental regulation and to draft credible profit and loss projections and pro forma financial statements acceptable to their corporate boards or to outside investors or lenders.

A common situation among small and medium Alaska business enterprises seems to be a rate of growth (with sales increasing at 20 to 100 percent per year) that leads to a need for additional fixed and working capital far outstripping internally generated cash flow. It is "obvious" to the owners and operators of these businesses that money borrowed to sustain this growth would earn a very good rate of return, but that there is never enough credit available. Businessmen in this situation seem to express two strikingly different attitudes toward their own "capital shortages." Those who operate by the efficient markets paradigm (and these seemed generally to be the most successful) expressed their problems objectively in terms of necessary cash flow and debt-equity ratios acceptable to lenders, while there were others who attributed their cash crunch to the institutional incapacity of financial institutions to serve their kind or business, or to the laziness, ignorance or malice of particular lenders.

It is clear that there are widely contrasting perceptions among Alaska businessmen and others about the adequacy of financial institutions and the supply of capital to Alaska ventures. Curiously, the distribution of these perceptions seems to be bimodal; that is, they cluster at one extreme or the other with only a scattering of individuals in the middle. Perceptions also seem to be highly correlated by industry and by size of enterprise. In general the bigger the firm, or the faster it is growing, the more satisfied its spokesmen are with existing capital markets. Without exception, representatives of large financial enterprises doing business in Alaska and of large national and multinational corporations spoke as if they believed in efficient markets and, without exception, they rejected the notion that lack of information, high transactions costs or institutional barriers created a capital shortage in Alaska or in the industries with which they are connected or whose financial needs they serve.

On the other hand, hardly any local merchants, service industry operators or tourist business operators outside of Anchorage and Fairbanks, and hardly any entrepreneur or developer who was still trying to put together his first "big deal" (capitalized at $1 million or more), believed that financial institutions operated efficiently or fairly, and most of them felt that Alaskan enterprise was at a substantial disadvantage compared with firms in the same business elsewhere. As I mentioned before, almost every public official interviewed believed that there was an Alaska capital shortage that could, and should, be treated by application of government money. Anchorage and Fairbanks merchants, contractors and real estate developers seem to fall into both groups, as do operators of independent businesses connected with forestry, fisheries and mining.

The time and resources available for preparing this report did not make it possible to separate perceptions and ideology from reality. Each group's perceptions were supported with convincing anecdotes. Nevertheless, most of the correlations between attitude and situation were predictable, and the perceptions surely contain a measure of self-interest and self-justification. Officers of financial institutions who have the job of searching out and appraising investment opportunities are likely to believe that their jobs are useful and effective, and they are unlikely to emphasize the problems of those kinds of enterprise that they do not serve (and which may not, in fact, be served well by any sector of the capital market). And it is not surprising that public officials feel that government financial and technical assistance (like economic regulation) is essential to a healthy business economy. But among businessmen, are the first group satisfied with the status quo because it served them well, or are those who accept, understand, and work easily within the status quo the people who are for that reason most likely to succeed as corporate managers and entrepreneurs?

My own provisional conclusions on the issue of capital market efficiency are as follows, but they are subject to modification on the basis of a quantitative study of attitudes and actual workings of the financial system in Alaska:

1. Investors and entrepreneurs, would-be lenders and would-be borrowers alike believe that the existing capital market institutions are adequate to finance large industrial or commercial developments in oil and gas, mining, petrochemicals, fisheries, timber, trade, and tourism anywhere in Alaska. I have found utterly no reason to doubt this consensus, and see no way in which the permanent fund could improve on the mobility of capital, transactions costs, or the information made available to investors by the sponsors themselves and through existing financial institutions.

It follows, therefore, that the permanent fund's investment activity in these areas will not significantly influence the profitability or growth of basic industry in Alaska unless loans are made at less than current market rates or under less secured terms (e.g., more highly leveraged, lower coverage rates, less collateral) than is customary. If the permanent fund invests in Alaska industrial ventures at market rates and terms, therefore, it will divert private capital elsewhere that would otherwise be attracted to the venture. In short, there is no need and no useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless there are grounds to subsidize that enterprise.

2. Despite the disagreement of those who do not believe in the efficient markets paradigm, the working and fixed capital requirments of residential and commercial real estate developers, contractors, retail and wholesale merchants and purveyors of services <u>in Fairbanks and Anchorage</u> are being served by existing banks, thrift institutions, finance companies, mortgage brokers and the like, in exactly the same way and at approximately the same rates and under the same conditions as in other communities throughout the nation.

Some businessmen will always have grievances against their bankers (and many Alaskan businessmen have some gruesome yet convincing tales to tell) or against the financial system generally. But Anchorage and Fairbanks banks do compete aggressively for business customers, and some of the "atrocity" stories can be attributed to understandable disagreements over the creditworthiness of a particular borrower or venture rather than a systematic failing of the system. Again, apart from any argument that a particular line of business or kind of investment ought to be subsidized, there seems to be no case for the permanent fund or one of its subsidiaries to enter the commercial capital markets in these communities. I am not certain at this point how well these needs are being served in other urban places in Alaska.

3. Several alternatives exist for financing the purchase or lease of standardized machinery used in business, including motor vehicles, construction equipment, aircraft, boats, electrical generators, compressors, machine tools and the like. Commercial banks, finance companies, credit unions, manufacturers and vendors all offer some kind of financing for this kind of chattel, and one or more of these forms of financing seems to be available to creditworthy borrowers in any Alaska industry or location. Higher servicing and collection costs do tend to limit borrowers in the more remote areas of Alaska to higher interest rate alternatives, but on balance this reflects not a failure of the market to reflect true costs but the opposite, it does not constitute a case for permenent fund involvement in the install-

ment credit business, unless there is also a case for a capital subsidy to rural enterprise generally.

4. The general feeling of local businessmen in small communities and rural areas of Alaska is that they face a genuine capital shortage and that they are at the mercy of one or two financial institutions that are indifferent to their aspirations or the facts of their business situation. There seems to be some merit to these complaints. Lending in small towns or the bush is exceptionally expensive, however; the cost of investigating and servicing small commercial, real estate and installment loans and lease purchase contracts and the like, and the costs of collection, foreclosure, repossession and resale can easily exceed the potential earnings from loan fees and interest. These excess cost burdens, together with unfamiliarity with local conditions, understandably make the statewide (Anchorage and Fairbanks) banks and other financial institutions reluctant to provide capital even for the larger locally-owned development, such as resorts, hotels, apartment houses, fish processing plants, etc., and where they do make loans they are willing to finance a smaller portion of total investment. In these cases, governmental participation or guarantees (EDA, SBA, Farmer's Home, Alaska Veterans loans, etc.) have often been essential to obtaining conventional private financing. This portion of the demand for capital in Alaska may then be a legitimate area for permanent fund activity.

In sumamry, it appears that most attempts of the permanent fund to serve as a development bank for Alaska would duplicate functions that private financial institutions (backed up in many cases by other governmental assistance programs, e.g., FHA, Farmer's Home, VA, etc.) perform or are capable of performing adequately. At this stage in my investigation, I have been able to identify only one function in which a new public financing source might function better than the current machinery of the private capital market, and that is in provision of commercial credit and financing of small and medium scale industrial and commercial enterprises in small communities and rural areas.

III. SUBSIDIES AND SOFT LOANS

Diversification of Alaska's economy is widely regarded as a desirable goal for state policy and as a proper purpose of permanent fund strategy. The benefits argued for such a policy are reduction of economic fluctuations and creation of a permanent employment, income and revenue base not dependent upon oil and gas or other exhaustible resources. The line of reasoning in the previous section of this report suggests that the existing concentration of Alaska economic activity by region tends to reflect real resource location and cost factors (such as transportation expense and small market scale) rather than capital market failures. It appears that a reduction of existing barriers to capital mobility and improving information flows would not necessarily accelerate the rate of development in Alaska fisheries, agriculture or tourist industries, for example, or in rural Alaska generally.

Making capital more readily available at lower rates to Alaska enterprise generally could be expected to increase investment in all sectors of the state's economy, but there is no reason to believe that it would influence the concentration of investment in the desired direction, that is, in favor of economic diversification or geographical dispersion (if the latter is indeed a desirable objective). Lower capital costs would likely have their biggest impact precisely where development would proceed most rapidly in any event. If investment activity is already concentrated in oil and gas-related activity, fish processing and in Anchorage residential and commercial real estate development, that is probably where more abundant, cheaper capital would go. There is a strong confirmation of this proposition in the investment behavior of the rural-based regional and village corporations.

Making capital cheaper and easier to obtain will undoubtedly have one effect which may be regarded as counterproductive; business will be given an added incentive to substitute capital for labor and the state's economy will tend to become more capital intensive than it otherwise would be. If investment policy is to be in any way directed toward "job creation," it must be highly selective and not simply a matter of lowering capital costs across the board.

If the legislature deems it desirable to influence private investment in Alaska in the direction of greater economic diversification by means of permanent fund investments, it will have to authorize the fund's managers to make loans to the favored types of venture on terms other than those of the private market. There is a serious question, however, how many new ventures will be made feasible simply by a reduction of interest rates on borrowed capital below customary rates. There is in fact good reason to believe that investment demand in new speculative industrial, agricultural or tourist-related development are relatively insensitive to interest cost. This is becuase private investors are not likely to commit their own equity to such ventures unless they have a prospect of recovering their total investment in five years or less. Such an outcome requires an annual cash flow equal to 30 to 50 percent on total investment, a situation in which two or three percentage points interest expense is seldom crucial. More important parameters are the standards for the creditworthiness of the venture and requirements for equity and collateral. In other words, it is likely to be more critical for a new venture in fish processing or tourism whether it can borrow three-fourths rather than two-thirds of its total requirements, than it is whether the interest rate on that loan is 9 or 12 percent.

In this situation, subsidized loans by the permanent fund can without question have an influence on the shape and direction of economic growth in Alaska, and that influence will be greater the greater the proportion of permanent fund moneys devoted to the favored types of enterprise. The form the subsidy is likely to take to make it effective, however, will not be (and should not be) lower interest rates, but rather a relaxation of lending standards to enhance the availability of funds. One danger here, even if the legislature deliberately authorizes the fund's managers to make such loans, is that the nature and the degree of actual subsidy may not begin to appear for many years, until it begins to show up as defaults on principal and interest payments. This danger will be aggravated if, as is often the case with governmental loan programs, there is not a rigorous policy of classifying problem loans and of promptly writing off those which are uncollectable. Banks and thrift institutions are required by law and regulation to do this, but even there the requirement is only very loosely implemented or enforced, because lending officers are reluctant to expose their own imprudence in making bad loans or to write down the capital position of their institutions.

In any event, there is sure to be some opportunity for the permanent fund to influence the sectoral and geographic direction of economic development in Alaska by manipulation of credit terms. The most aggressive (and in conventional terms, imprudent) lending policy cannot, however, create an industry where resources, markets, skilled labor and other requisites are missing, and the fund's managers should never become so "soft" as to finance enterprises whose promoters are not taking a substantial risk themselves, or which do not have convincing prospects of long-term viability.

The most relevant model of a development bank for Alaska is not the IBRD (the World Bank) or the regional development banks, but the International Development Agency, the World Bank's "soft loan" subsidiary. If the permanent fund is to direct the shape of economic growth in Alaska, it will not be through normal commercial investments on normal commercial terms, but through a postponed or hidden subsidy in the form of higher loss rates in future years. This is not the appropriate place to judge the desirability or assess the ultimate beneficiaries of capital subsidies directed at changing the structure of Alaska's economy, but the Legislature may well wish to assure that those implicit subsidies are not totally hidden, by setting out (or requiring the fund's managers to set out) explicit and rigorous standards for the granting, servicing, classification and writeoff of soft loans, and by requiring a rigorous annual audit of the fund's loan quality.

There is another dimension to the capital subsidy issue which the Legislature should keep in mind as it authorizes any soft or subsidized loan program under the permanent fund. Granting credit at terms more liberal than the market will almost certainly make some enterprises viable that would not otherwise be so, but it is difficult to draw lending standards in such a way that other ventures which would be viable anyway do not recieve a windfall that serves no social purpose. This consideration suggests a policy that might be adopted toward the soft loan program --- that loans under this program be made at rates perceptibly above market rates (as is appropriate to the greater risk). If my earlier observation is correct that speculative investment in Alaska is more sensitive to the degree of leveraging permitted than to interest rates as such, higher interest rates would screen out some of those enterprises which did not need assistance from the fund and would at the same time help build up a reserve for loan losses to offset the subsidy aspect of the program.

IV. COUNTER-CYCLICAL INVESTMENT

There are several possible concepts of the permanent fund as an economic stabilization device for Alaska. The one basic concept of the fund on which there is a near-consensus is that it is to be regarded as a savings account for a "rainy day." That is, Alaska's government is about to experience an extraordinary surge of income from oil and gas royalties that is not likely to be sustained. Since petroleum revenues will not only be the main source of general government income but will for some time be a principal support for the private economy and the main engine of economic growth, the permanent fund would be used to reduce the injection of income into the state's economy during the boom phase, and then the income from investing these revenues would be used to sustain state expenditures and their fiscal impacts after the boom has ended.

It has also been suggested that the permanent fund could help even out short-term business fluctuations in Alaska, or maintain long-term economic growth (as measured by the growth of state product, real personal income or employment) at some optimum rate. Such stabilization policies could in principle operate through varying appropriations to the permanent fund, working through the fiscal impacts of general fund expenditures;

through varying the permanent fund's rate of new lending in Alaska, working through the fiscal impact of investments supported by these loans; or with both appropriation and investment policy. The basic principle is simple: when the state'e economy was booming, larger appropriations would be made to the permanent fund (thereby reducing revenue available to the Legislature for general fund outlays) and/or a smaller proportion of permanent fund assets would be invested within Alaska. When the state was in a recession, the flows would be reversed: less revenue would be appropriated to the permanent fund and more to the regular capital and operating expenses of state government, and/or the permenent fund would inject more investment money into the Alaska economy (presumably by selling off non-Alaska investments in its portfolio).

There are, however, both conceptual and practical problems with using the permanent fund as a stabilizing device on any more sophisticated basis than is implied by the "savings account" notion. One of them has been identified previously --- to the extent that existing financial institutions make up a reasonably efficient capital market, the volume of unsubsidized loans or investment the fund makes in Alaska may not have a significant effect on economic activity in the state.

Even if there were significant capital market deficiencies which gave permanent fund outlays a real effect on aggregate investment in Alaska, or even if the fund had a policy of subsidizing Alaska business (thereby expanding the level of investment beyond what it otherwise would be), it is still not obvious whether a policy of varying state expenditures or permanent fund investment in response to economic conditions would in fact reduce business fluctuations in the state, increase them or be on balance neutral. The crucial question here is the relationship between our ability to forecast economic conditions or recognize cyclical turning points, and the time it takes for a change in appropriations or in lending policy to show up in unemployment rates or rates of economic growth.

Some very gross economic changes, such as the buildup and decline of pipeline construction activity, obviously could be anticipated and their fiscal effects projected with some degree of confidence. But the Alyeska pipeline is likely to be historically unique in size and specific gravity in the state's economy. Future ups and downs are more likely to be the resultant of a number of smaller influences, many of which (general business confidence, for example) cannot be mapped out in advance and are difficult to quantify even retrospectively. If booms and recessions often cannot be recognized clearly until after they have been with us awhile, and their turning points recognized only after they have passed, it is also true that significant delays are inevitable between the recognition of a new trend, the fiscal action that is appropriate and the actual movement of new dollars into (or out of) the private economy. Depending upon the relative lengths of the various lags, attempts to stabilize Alaska's economy or smooth its growth rate might be successful, but it seems equally likely that state fiscal policy would zig when it should be zagging, that the amplitude of the business cycle would thereby be increased, or even that the permanent fund's intervention could create oscillations in the state's economy where otherwise there would be none.

It is not obvious which of these outcomes would in fact result from an attempt to use the permanent fund as a stabilizing influence. The effect would depend in part on whether it was appropriations, lending or both which were being varied, and what economic indicators were being used to trigger policy changes. A business cycle model could be developed which would simulate the behavior of Alaska's economy under the influence of various decision rules.

Intuitively, I expect that such a model would show that the various lags in recognizing trends and implementing policy, and in the actual economic impact of that policy, would preclude using the permanent fund to offset economic fluctuations with a term of less than about three years. If the fund is to be useful as a stabilizing device, it will probably be only as an instrument to regulate growth rates in very gross terms and only in the very long run. If, for example, the social impacts of a continuing growth rate in employment below 2 percent per year or above 8 percent were determined to be unacceptable, the legislature might conceivably key permanent fund appropriations or investment policy to the average growth of employment in Alaska over the <u>previous five years</u>, with the understanding that no individual year's growth is ever likely to be on track because of the fund's policies, and that excessive growth in one year might be offset by stagnation in another, or vice versa. It is likely, in other words, that long-term stability in growth rates might be achieved at the expense of greater instatilibу in the short run.

The practical problems in establishing a stabilization policy for the permanent fund are political and administrative. If permanent fund appropriations (and their complement, operating expenditures from the general fund) are to be varied, it is the Legislature which would have to vary them. While there would be little difficulty persuading the executive branch to propose and the Legislature to authorize increases in capital and operating expenses during a recession if money is readily available to be committed, it may be too much to expect a sharp reduction in outlays to offset an economic boom in the state, particularly when revenues and "needs" have both been increasing at exceptional rates precisely because of the boom. The fate of the state government's announced interest to "stockpile" public works projects until the end of the Alyeska construction boom should be instructive on this point. It is not clear, moreover, that the managers of the permanent fund would be immune from similar pressure with respect to their lending and investment policies, if they were granted the discretion to alter those policies according to economic conditions in the state.

V. PUBLIC ENTERPRISE

Another suggested use for permanent fund moneys is to finance public works projects. The works most often proposed are hydroelectric plants and fisheries improvements such as hatcheries and habitat enhancement. These two examples are of course quite different; electrical generating facilities can be and usually are self-supporting from the sale of power. The principal reason for governmental investment in such facilities, ideology aside, is the exemption from federal taxes of the income of a public utility and of the interest it pays on its debt. This very consideration suggests that revenue bonds of the Alaska Power Authority or other governmentally owned utilities would not be an appropriate permanent fund investment, because the permanent fund (whose own income is tax exempt) could be expected to earn a higher rate of return from investments in taxable federal or corporate bonds than the Power Authority would have to pay in interest or its own tax-exempt bonds, assuming that the securities were equally rated. This consideration does not, however, necessarily foreclose the permanent fund from providing all or a part of the equity component of Power Authority capital (and in earning a rate of return appropriate to the risk taken by an equity investor), or from providing a guarnatee of Power Authority bonds, or from subsidizing electric power development.

The crucial characteristics of some public works, such as hatcheries and habitat improvement, is that they cannot be financed conventionally. Benefit-cost analysis may well show that the new benefits to society exceed the capital and operating outlays, but the burdens and the benefits may not fall on the same people, and it may be impractical (or impolitic) to collect a user charge from the beneficiaries. In the case of these fishery-related investments, however, costs could be allocated at 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 ex[illegible] 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, excppt 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, 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 thes 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.

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, Haugen, Cotten, Malone, Rhode, Guy, Rogers
0611 – Called to order.
Hohman can't come.
Sam ~~Pia~~ M. Plaia – Con. ~~to~~ PF Comm in House.
0645 – Sam Plaia ~~[illegible]~~
1. Re. SB 122 – general understanding
2. Comments ¶ by ¶

1. Proposes ea. cit. rec. 1 share in prin. + entitlemt to income frm. 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.
and 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 det. what's most approp. investment. Also wld encourage investmt. grps. to solicit shareholders. Also, difficult to think we cld come up w/ list of 100 that'd follow prudent person rule.

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

Eligibility requiremts – 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?
Q: Chatterton: Does loss for indiv. share mean loss for everyone.
↳ to 807

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

Cotten: 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
Brushre: Re. "p.m." rule.

913
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. Persons 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 investmts. No provisions in bill for acctng. for cap. gains/losses ...
Presently PF earning close to 8%. Tax free.
1. What wld. be treatmt of earnings from directed investmt. program.
2. Also, tax treatmt of gains & losses if buying & selling

~~Sam~~: Any income recd. 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
ord. c. 987 of cap. gains/losses...

997 Malone: Re. leveraging - ~~we~~ 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 PF will have to pay interest on debt + ∴ less income for distribution.

Malone: What if indiv. investmts. leveraged.
1040-1056
Sam: In effect, create secondary lein on income of fund. Primary lein is ~~debtor~~ debt holder.

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. cld. 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 $ can be jerked 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, e 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.

1144 - Sam Plaia's 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 hsing, 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. Scenario: 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 extend wld. legislation in concept encourg defaults to happen.

0089 Sam: ...

SBIC (Small Business Investmt. Corporations) analogy.

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

Sam: Primary prob. is pressure for investmt. If have funds siting around, want to put them to work. You're more willing to look for accept invest. oppor. when your job is to make investmts.

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 wld. go along w/ these Standards for commercial loans.

0260 Haugen: Relating it to starting fishing business.

0270 Bushre: 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 acctg. 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.

Bushre & Haugen re. State loan programs.

0457
Malone: Re. subsidizing interest rates.

0477 Sam: Re. municipal bonding.
This ~~formula~~ will simply not work. Will encourage bidding under cert. conditions & make bidding impossible at other times.

0504 Rob: Re. guarantee.
Sam: Don't think so. Re. different yields curves.
Rob: 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. issuing tax exempt bonds for this?
Sam: Yes. Ex. of pollution control facilities being exception. Serious ques. here as to whether bonds you sold wld. be tax exempt.
Rob: Was examined by E.F. Hutton. Felt wld. be tax exempt.
(Hutton **not** tax counsel however).

0612:
Sam: Concerned mainly w/ loan programs. Stud. loans as drafted here wld. be encouragement to default on loans.
0630 End Sam's testimony. 0637 Adjournment

Re. overall policy considerations

3/30 Clark Gruening
Tape 5

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

0000 - Call to order
0035 - Not recording
0036 - Clark Gruening
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. shld. not be dissipated.
3. Shld make snd. investmts in AK
4. Use of income earnings for pres + future Alaskans
6. 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
Wisc. management sys. - separate investmt. functions from others.

0179 Re. Accountability

[redacted]

0250 HB 281 provisions will provide an accountability.
0255 Re. trust concept + development banking

[redacted]

0330 Goals P.F. can accomplish

0377 Re. use of income

0385 Summary
1. Need liquidity of investmt
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 fund.

Ans. to 0427

0434
Malone: Re. trust concept, + eligible investmt. idea. Criticism of eligible investmt. idea.
~~How can~~ Do investmts. 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 – 0521 – 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
% stuff – Gov's bill. Legal opinion on %

0662 to 0671
Doogan re. statutory limits re. 25%
To 0684
Malone re. HJR 23 not rec.

0688 Jim: Re. admin. bill
Re. admin. explanation of how 75% of
royalties can be placed in P.F.

0717 – adjournment

1.

Agenda: Hohman

3/29/79 Present - Hayes, Chatt, Haugen, Rogers, Cotten
Tape 3 Side 2 Freeman, Cox, Malone
0639 - Call to order Chatt + Hayes, Haugen - leave for min. mtg.

0680 George Wolf

Indus. dev. bonds ^IDB - proceeds of bond issue used entirely or mgr. 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, H_2O, sewage, poll. control)

90% test - If issue rev. bonds to finance these, will be tax-exempt given 90% restriction.

- Small issue exemption - up to $1,000,000 to priv. bus.

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 replacmt. 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 ~~ex~~ completely reflect story for priv. non-profit corp.

0991 Re. loan elig. & loan limits

0996 Re. bank particip. in loan servicing.

1005 assessmt. 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 judgmt. procedure. New stream of judicial decisions in tax-exempt area will be relatively unsettling. Novel program could suffer.

1073 Guy: Re. trader business + security interest ~~test~~.

1083: Summary by Malone.
And Wolf.

1114: End of Wolf testimony

1117 Walter <u>Philkin</u>
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.

AGSOC

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 ~~[illegible]~~ P.F. pledge not necessary ?

1159 Malone — re. major divisions bill falls into.

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

1196 Impact of loan progs. on State borrowing prog.

Tape 4 Side 1

~~[illegible]~~

0128 — Jim:

Re. revenue bond projects

Jim: Re NYC & municipals

0212: 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 would lose impact hoped for from P.F. security.

0244: Re. municipal loan prog., section dealing w/ Fund's purchase of mun. bonds on set formula. Experience w/ ~~Formulas~~ like this in past.

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

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

Walter's reaction.

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

0306: New documents.
From Ulmer, Mar. 29.

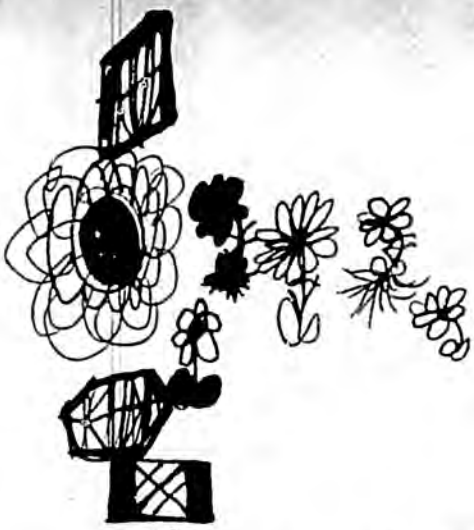
Feb. 21 memo on SB 1

Mar. 23 memo from Wohlforth & Flint

Other comments:

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

0406 Adjournment



Rep. Fraoth of Sen. Sumner's remarks on ~~leveraging~~ borrowing $ on future oil revenues

Permanent Fund Committee
March 23, 1979
780 Present: Chatterton, Gey, Malone, Rhode,
[redacted] Sen. Sumner, ? , Rogers,
Haugen,
call to order HB 280
790 SB 280
800 approx Sen. Sumner: described concept behind SB
If p.f. is really peoples $, people ought to have some option or selection in way $ is invested: directed trust or investmt concept.
Commissioner would est. types of investmts.
S. thought legis. would est. investmts. + thought we'd have 100 or more investmts. GSOPs could be incorporated into this concept - become line item investmt under this plan. Scope of accomodating many concepts,
825 all w/in body of one bill.

826 Rogers: So ea. indiv. could choose bet. ~~several~~ several plans.
S: Yes, if approved way to invest.
Non-invested $ wld. stay in mutual fund.
Rogers: Fiscal note on this?
S: Not yet.

S: 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~~
R: What if on my share, that invest. loses $
S: Fund would share loss. On some % of earnings

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

877

878 Malone: concept is that indiv. would have
abil. to det. 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"

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.
Ea. 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.

Is 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 someway to use it w/out
benefits accruing to all people.

Summary of concept of his bill

942

anything

~~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.f. together.

S: We have presently 25% of non-renewable income $ going into p.f.
Plus renewable tax base whose taxes go into gen. fund.
Would like to re-structure leverage to broaden ~~tax~~ economic base.
Offset 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
1011 broaden econ. base.

Chat: in other wds. want perm fund that's generating enough income to
1024 meet needs of State gov't.

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 Freidman to Jim & me few yrs. ago.
S: I'm trying to put together skeleton
1058 that brains & wisdom can build on

1059. ~~Chatt~~ Haugen: What would mgt. of this whole 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

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Either way, not fatal to concept.
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1103

Kenf re: elig. ques. re. residency requirement Vassar, attny 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.

~~Q~~ 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 cd. push time lag bet. effective date + beginning of residency. Could we make it July 2, 1978.

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).

~~Bo~~
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 its unconstitutional. Cause fixed asset at time of distribution.

Rhode: Thinking by analogy to Bernie initiative.
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.

S: 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 & income goes to gen fund.

M: 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.

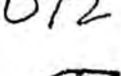
Chatt: - - -

0070 Guy: pg 2+3 line 26 - p1
line 1 - p.3
ques abt. language

[redacted] 0070

0113 Sumner: assuming people move & shares turned back in, there's nothing to stop reinvestmt 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" [redacted]

Does public have knowledge + expertise to choose bet. the investmt. alternatives?
Perhaps better to ~~impose~~ propose invest. areas to public rather than spec. investmts.
Distinction bet. trust investments - steady income stream + in-State investments (development capital for in-State dev.).

Mechanics of administrating 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 + them 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 ~~being~~ between 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 open the fund.
Chatt: If p.f. could be divorced from politics,
would you say Sumner's bill goes
counter to this, cause body politic so
involved.
Sum - don't know. But politics of nine member
0595 investmt panel + appointmt of those
members is real scary to me.

O6O Adjourned

Meeting of the House Special Permanent Fund Committee

March 23, 1978

? agenda: HB 280 + SB 122

Members Cotten, Freeman and Hayes were absent.

Tape #2

800 Sen. Sumner described the concept behind

\- SB ~~280~~ 122. If the Permanent Fund is really the peoples' money, then the people ought to be able to ~~decide~~ invest ~~this~~ it ~~money~~ as they wish, given certain ~~selections~~ investments ~~options~~ sectors to choose from (with each ~~particular investment~~ one having its ~~own~~ individual ~~res~~ criteria). ~~restrictions.)~~ This is known as the directed trust or Investment concept. The Commissioner

? of Revenue (~~or the legislature~~'s prefers legis) would establish approved investment options, ~~options~~ ~~sectors~~, 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~~ ~~administrative costs~~ ~~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 he does not thinks 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~~ Would Lish, or perhaps a Reserve Fund cld. be est. for the purpose of covering losses.

~~ought not suffer 100% of their losses. The Fund would share the burden.~~

~~Questions were raised~~ Committee expressed concern abt. ~~how mtg. of~~ Regarding losses, question was also ~~raised~~ about costliness to Fund if many ~~Maintained~~ investors were persuaded to invest in a "scam." ~~Sen. Sumner said Commissioner's~~

? Sen. Sumner was also asked how leverage of P.F. principal is addressed in SB 122.
~~Questions were also asked about eligibility~~
~~Questions were also raised about leverage.~~
~~Sen. Sumner~~ He said it isn't, but ~~he~~ the idea is ~~that~~ ~~One part of Sen. Sumner's concept, which is not incorp. in the bill, is leveraging P.F.~~ ~~I.e.~~ P.F. ~~$ would be used~~ wld. be used to ~~borrow~~ on, w/ goal to borrow ~~so eventually there'd be~~ $4 bill. ~~in working capital.~~ ~~The~~ If this ~~were~~ could be invested in Alaskan businesses, this would broaden economic base, ~~and~~ offset inflation, and displace the non-~~renewable~~ recurring $ now going into the P.F. ~~He suggested that we need to embrace the concept of backing more renewable $ into P.F. so that~~ By leveraging P.F. ~~enough~~ increased ~~investment~~ capital would stimulate private economy + income could eventually be generated to meet needs of State gov't. This would eliminate ~~w/out~~ depending on non-~~renewable~~ recurring $ for increasing principal of Fund.

to borrow against the future $s contrib. to the P.F.,

How do you pay borrowing was not addressed enough.

Tape #2
1103 Ken Vassar, ~~[illegible]~~ Legislative Affairs attorney, addressed the ~~[illegible]~~ legality of the 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.

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 people ~~residents - 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. ~~Everything~~ all shares would eventually revert 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 Bushre, 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.

E C/E

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 clarified?~~ be 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. Would these be borne by everyone.

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

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

Discussion ~~with~~ among Committee members also raised these concerns:

If any investment 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.

0610 Adjourned

April 10 Present: Haugen, Hayes, Freeman, Chatterton, Rogers, Guy, Malone, Rhode, Schaeffer
*came late left early

0000 Call w/ Bob Greely
~~How~~ imp. is it to ~~treat~~ cap. gains as corpus of fund.

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 - treatmt 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.

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

Malone thinks cap. gains need to be treated as addition to principal.

Refers to Blixt's comments.

~~Re. Sect. on treatmt. of in~~

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.

Artificial arrangement where change every 5 yrs., bears 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 Ques. from Guy re. ratings.

369 Malone: Re HB 414 - proposal for use of PF. income. Would guarantee certain types of debt. Comm. hasn't made any decision on allocation of income. Need to examine.
Refer to Ted's letter of Dec '77.

Ted ON

440 Malone: Summarize main points

Freeman: Same as double-barrel bonds?

Swick: Yes.

Haugen: Re. double barrel bonds

Hayes: Re. concerns abt. power projects

Malone: Re. cost of benefits

Jims: Re. use of earnings as guarantee being a double barrel - 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 eg?)

Swich: can get value out of this income flow while putting it in min 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 Swich's response.

~~Malone: Can Ted comment on energy~~

524 Ted on energy reserve acct.

Haugen: Re. leveraging for energy dev. projects.

Swich's resp - way $ is generated + handled it will not support debt or leverage.

555 Other business
Let's list issues section by section, What are options.

572 Adjournment

(1)

House Special P.F. Committee
April 11, 1979
Agenda: 281 Mark-up

Present: Malone, Freeman, Chatterton, Haugen, Hayes, Rogers, Cotten

Tape 7 (cassette), side 1

000 Call to order.
Intro memo from BPDP + ~~info~~ list of issues in HB 281 prepared by staff.

110 First issue deals w/ investment 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 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 Investmt. Oversight.

679 Hayes re. IOC.

695 Chatt. re. IOC.

714 Cotten re. IOC operative functions.
Malone response. Refer to p. 4 thru L. 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. Pete - 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 here. + 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. Delegate to standing comm i.e. Finance.

251 Hayes response to ↑.

268 Jim ? - 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 ↑. 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
24.20.221
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. 1. – let's incorporate that into motion.

400 Hayes – re. p. 5 l. 12 does B&A presently have that capability?
Malone – new concept, new staff function.
434 Rhodes: on 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 ↑. 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.

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:
me at bathroom
109 Freeman: Problems re. putting everything into PF
Rather than make 100%, make 50%.

137 Chatt
173 Rogers: What putting 100% in ~~dep~~ 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 & 5-10 ...

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 aft. word "bonuses" the word "remaining" to make clear talking about net aft. 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 46½ %.

461 Motion adopted w/ no objections.

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

477 Chatt: Concerned abt. "single source of revenue" in Ak.

492 Freeman: Re. bread + butter.

521 Haugen: Need some $ for G.F. to spend. If raise this to 50%, hasten 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.

(2)
412

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 cse. 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 abt. saving some ~~for~~ future,
also abt. 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
What next. present.

735 Chatt – suggests changing p.6 L.29

Tape 8
Side 2 Suggests changing p.6 L. 29 to:
000 Rogers. 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, Gray, Rogers, Chatterton
Tape #8 Side 2

122 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 ~~Milt~~ Barker, abt. 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% ~~line 6~~ 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 gov't. Not willing to increase contrib. to PF, esp. if have to raise taxes to keep gov't operating.
Chatt: State gets abt $800,000/day from

royalties. Would be $60 million going into PF that's now going into GF if increase to 50%.
Malone: Bill 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: % you put in would depend on whether someone paid in cash or installmts.
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 misunderstood.
Rogers withdrew motion bec. of misunderstanding.
P. 6, L. 5 40%
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%

bec. 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 (Nancy's handout). Also Larry Eppenbach will discuss w/ committee.

650 Larry Eppenbach

Tape 9 Side 1

me at bathroom { 000 Eppenbach
99 Questions from members.
153 Freeman: Which order do these fall in in terms of safety.

~~34~~
350 Bushre on long-term investments of PF $ in Ak. 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.
Brishre: 1, 2, 3, 4, 5, sometimes 6.

461 Rhode: re list of investmts for 277,
no ak mortgages tho do under #2
of 281.
Brishre 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."
~~Guy 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.

3

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 objects - 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."

C58 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 3-year terms.

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

Malone withdraws motion.

5

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. 18 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. Vasar explains this is "boiler-plate" lang re. prudent-man rule.
708 Motion by Guy: p. 9, l. 29 change "means that" to "is when."

Tape #11, Side 1
000 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.

7

376 Discussion of (E) 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 investmts 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 Guy
1 Cotter
1 Rogers
1 Haugen

(1)

House Special Permanent Fund Committee
April 24, 1979
agenda: Mark-up Present: Malone, 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 investmt. today but may not be good a few yrs. from now. Also, have possibility of someone coming along w/ one line bill + including item legislation, to add their favorite to the list.

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

612 Malone on list.

628 Chatterton asks Bushre if he'd feel comfortable thru #7. Bushre - yes. Gives manager good latitude.
Hayes: How about last 7?
Bushre: 14 items are ones currently used for pension fund + feels comfortable w/ them
Freeman: What if you were mr.
Bushre: 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.
Bushre: Very. 8-10 also conservative as can be in mortgage field.
Malone re #7, w/ explanation by Bushre.

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 investmts. that are on list of investmts. prohibited by ommission?

Tape #13, Side 1

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

019 Malone re. 2 approaches - categories or list? Can we decide on that.

Chatt: Wants specific list.

Hayes: Supports suggested alternatives w/ limit of 25-40% 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 % & even $ 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 investmt 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.
Chatl: 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 investmts. 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.
448 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 ~~qua~~ 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.

575 Hayes: Move #8.
Freeman: Objects.
Bushre - #8, 9, 10 higher risk than 11-14.
~~Freeman:~~
Discussion.
Freeman w/draws objection.

(5)

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 to more 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 limitation of 5 yrs. p. 11 l. 2-4.

Bushre - 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).

Bushre: 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.
Brushke: Yes.
Rhode: What purpose does that serve.
Brushke responds.
Rhode: Contradictory.
185 Freeman: Explain how reserve works. Brushke 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.
Brushke: 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.
Brushke: 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 investmts 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 - ~~[illegible]~~ 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 Back to (h). No other suggestions.
528 (i) Admin. bill says "preference will be given..."
Chatt: Move to keep as is.
No objection.
Schaeffer - ques. 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 accts.
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.
~~[illegible]~~ Discussion of "requiring" audit rather

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

668 Chatt: Thinks annual audit is too frequent.

673 Chatt: Motion to delete "an annual" & replace w/ "a biannual," p.12 l.17. Does this refer to fin. audit or operational & performance evaluations?

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

Doogan & Rhode on what thinking was of prior committee.

Chatt: W/draws motion.

731 Sec. 180

Tape # 14, Side 1

000 Hayes: Motion to keep 180 as is.

010 Sec. 190

No objections.

071 Sec. 200

Malone: ~~[illegible]~~ Move that delete 1st sentence ~~[illegible]~~ 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: sj 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.

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

Malone - Discloses only interest.

Not resolved.

⑨

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; ~~m~~ membership of Board of Trustees + length of term + experience, confirmation of appointmt. + 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, + bec. 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, Bushre, Milt(?)

~~721 Rogers~~
~~729 Malone:~~

Tape 11, Side 2

000 Doogan: why previous committee wrote list in this way. ~~Allows wide degr~~ 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 Eppenbach gave as to how would compare for safety. Of the 4 types in 281, least desireable 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 Ak, so even if seems less safe look at wider benefit.

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

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

225 Rodey: 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. investmt guidelines by regulation. legislature could annul 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 delete l. 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 Chatt: 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).

~~[illegible]~~

253 Vote on motion.
Malone, Freeman, Hayes, Chatt, Rogers, Schaeffer in favor.
Guy opposed.
Motion passes.

260 Rogers w/ substitute language.
Malone suggests changing "loans secured by..." + add

306 Chatt: 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 laws + 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 these 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.F. 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 "stock."
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 "stock."
595 Chatt: motion that insert "common" before "stock" ~~p~~ p. 10, l. 29, + before "stock" 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 prohibit only purchase of 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 l. 29 reference to stock. Investment grade would meet higher standard than that.

666 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" bef. "stock."
Adopted w/ no objections.

695 Vote on Freeman's motion.
Adopted w/ no objections.
Malone: standard on bonds would also be covered under investment grade securities. Does Bushre agree? Yes. Expands w/ more comments on ratings & interpretation of "investment grade." Is lang. necessary at all?

Tape #12 Side 2

000 Discussion bet. Malone & Bushre continues.
Bushre: this lang. 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.
Bushre: 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?
Bushre: Yes, in my opinion?
178 Guy: question re. limitations, ratings of allowable investmts.
Malone refers to (h).
~~229~~
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, + 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 few, 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. gov't, # no good anyway.

What % now in obligations to U.S. - 50% approx.

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

Chatt: Withdraws motion, if no objection so can start fresh w/ more members.

510 Adjournment

House Special Committee on the Permanent Fund
April 8, 1979
Agenda: Mark-up

Present: Malone, Chatterton, Freeman, Hansen, Hayes, Rogers
Tape # 4, Side 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 is 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 follow 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 Investmt. statute for interim P.F. - comments by Bushre
0562 Comments by Malone, Bushre

0595 Hayes: Re. HB281, dev. by PF Comm. last yr.
Good mark-up vehicle for looking at
mgt. sys. Malone agrees

0620 Malone: Refers to Gruening's testimony p. 5-7
re. why interim law not sufficient.

0637 Thinks it's timely that PF mgt. law
be set up for 25% now; if can also
do rest, so much the better.

0660 Malone's recommendation for time line +
strategy as to how to proceed today + Tues.

0672 Freeman

0712 Rogers

0747 Chatterton

0774 Hayes

0786 Chatterton

0793 Rogers: Re. trust vs. loan fund.
Need to decide what they're managing
before can decide what mgt. structure
will be.

0801 Chatterton: people have already decided they
want 25% as trust fund.

0808 Malone: Re. 25%.

0814 Freeman: first need to decide what type
of organization will handle 25%.

0830 Malone

0837 Motion adopted to use HB 281 as
mark-up vehicle, no objections.

0839 Review of HB 281 by Malone.

③

0865 Freeman: Re. separation of managers of fund from political pressure, concerned abt. pressure from legislative oversight committee.

0885 Rogers: Re. safeguards. If don't have legislative oversight, left w/ governor oversight.

0897 Malone: Re. oversight options, presuming you believe oversight is necessary.

0905 Chatterton: start top of p. 6.
0917 Proposed changes by admin. in 281, memos from Ulmer, Bushre 4-7.
0922 Bushre: Re. 281.
0953 Rogers: Re. auditors.
0962 Bushre: Re. ↑
0976 Bushre continues.
1016 Tom Singer
1022 Bushre
1028 Freeman: Re. losses.
1039 Bushre
1071 Jim: Re. protection agnst. losses, capital gains.
1085 Rogers: Re. ↑
1087 Freeman: Re. ↑
1099 Chatterton: Re. trust principle vs. Freeman: re. paper appreciation.

(4)

1118 Malone: How you offset difference if investment loses. This section designed to net capital gains + losses; what happens if there are losses.

1148 Rogers: Re. issue of defining what is income of fund.

1167 Freeman: Response to ↑

1171 Hayes: "

1184 Rogers: "

1189 Malone: Re. testimony of Bob Blicks - about protecting principal

1194 Jim's recounting of Blick's points.

Tape Change
Side 2

0000 Bushre

0071 Malone

0083 Freeman: Re. losses. Doesn't want any. Attaches more importance to integrity of trust than size of earnings. Doesn't want any gambling w/ principal of fund.

0134 Malone's response to ↑.

0166 Malone: Bushre put suggestions in writing + committee staff recover dialogue from last yr. on this question.

0175 Chatterton: Should we get consensus from committee re. what we think would be mark of excellence for fund mgr. - fund protector or good income raiser.

0189 Malone's response to ↑.

0223 Bushre's response to ↑. Way to truly avoid a realized loss.

(5)

0236 Malone's response to ↑.

0243 Rogers: Votes for protection. More important than income produced. If this is concensus, will affect what we'll do w/ income.

0260 Malone: How do we want to treat capital gains + losses – wants written explanation from Bushre.

0280 Rhode: Mr. Greeley handled this before. Malone wants to know how he expects this would work.

0322 Chatterton

0338 ~~[illegible]~~ Tom Singer: Re: memo from DPDP

0354 Malone response to ↑

0394 Singer: 3rd pt.

0411 Singer: 4th & 5th pts.

0441 Singer: Re. safety of principal

0448 Singer: next pt.

0456 Rogers: Re. ↑

0468 Singer: last pt, re. operating budget of PF corporation. Take out of PF income.

0492 Rogers: Response to ↑

0505 Rhode: Re. ↑

0510 Bushre: Re. ↑

0522 Hayes: Re. ↑

0544 Rogers: Re. "partisan politics" section. Staff should define this.

0553: Malone: Response to ↑

0572 Freeman: What's next step.
0577 Malone: Need more info on capital gains/losses, oversight. Make decisions on pts. raised re HB281 at next mtg.
0602 Haugen: Wants fiscal note. How much to run corp. Buhre will do.

Next mtg - Tuesday 4-10 4 pm.

0664 Adjournment

4/8/79

House Special Permanent Fund Committee
April 26, 1979
Agenda: Final draft review
Present: Chatterton, Cotten, Haugen, Hayes, Malone, Rogers.

Tape #5, Side 1

0718 Call to order.
Review final draft of HB 281.
Technical error, p. 9, l. 19 - "5" should read "4."
Chatterton: Motion to add "in the aggregate" after "not to exceed," p. 9, l. 21.
Motion adopted with no objections.
Nancy Corde: on p. 12, l. 2, should "or influence" be inserted after "finance."?
Chair thinks this was included in motion adopted 4/24.
Discussion. Chatterton explains his intention.
That language will be incorporated if no objection.
No objection.
Hayes: p. 8, l. 9 - should it read "prudent not to do so" or "prudent to not do so."
Discussion.
No change made.

0809 Distributed draft letter of intent to accompany bill.
Consensus that it reflects intent of committee.
Rogers: Has fiscal note been requested?
Malone: No, because no draft to work on.
Propose that responsibility for development of fiscal note be placed w/ J. Hogan, head of Legis. Fin. Div.
Also, maybe should make formal request to Finance Committee to develop fiscal note so won't be overlooked.

0837 Malone: Update on politics surrounding activities of Fund. Met yesterday w/ Governor, Ulmer, Brushe, Lt. Governor, Tillion. Malone asked Governor + staff to review bill and decide if bill as proposed for management of principal of Fund could be supported by Governor. Should decide in 1-2 days. Concern expressed by Miller was that list of eligible investments too conservative, + value of principal would decline due to inflation.

Re. confirmation issue, not critical to bill. Can be resolved in court if necessary.

Thinks main issue now in this bill is management of principal; does not preclude or foreclose opportunities to dispose of income.

In terms of management of principal, this bill is consistent with bills in Senate (except for Sumner's).

Hammond still interested in distributing income directly to residents, but discussion yesterday just dealt with mgt. of principal.

0883 Malone: What # should be put on bill? Might be good reason for using Governor's #, because there will be some unanimity between committee + Governor on issues of mgt. Discussion - Governor will support regardless of #.

Chatterton: Motion to use # 281.

adopted with no objections.

0898 Cotten: Motion to report bill out of committee, with technical changes made.

Adopted with no objections.

Cotten: Motion to incorporate letter of intent with bill. adopted with no objections.

0909 Adjournment.

get copies Clark's stmt.

3/30 Perm. Fund

Clark Gruening - last yr. chairman

2 important sources - constitution + public input.

Q - Do we need a bill at all? We could set as is and let fund build. BUT with passage of time, pressure will grow as size of fund grows. Special int. groups then fight for their use. Firmly believe we need better guidelines than present. Critical elements -

1. safe depository
2. principal not dissipated
3. Ak. sound investments w/o duplicating
4. income for current + future Aks.
5. accountability

   a. need dif. st. ment of management goal
   b. administration - should not be by Rev.

3 Provisions
1. liquidity
2. accountability
3. this session - don't delay

adm. bill all things being equal prefer investments in state - but as drafted would have opposite effect. could discourage in-state investment.

drafting problem - D.

P.F. 3/20

agenda: HB400, 414, 162

Ernie asks to put HB162 over, wants REA act, not take principal from fund.

Malone explain HB400 + reason basically FY 80 royalty receipts
Brian 77 M unallocated balance, according to fiscal projections, wants it to go elsewhere than gen fund. $360 M oil + gas royalties.
25% capital
5% energy fac
2½ RCDF dev.
1½ mental health
½ school

25% PF
16% native claims
2½% PCIF mostly

	99
	1.00
	21.5
	78.5

leaves 21½% royalties not designated for any purpose

Ron Lind - gov. requested no $ for capital outlay or energy facilities bec needed the $ for [illegible]. Even though leg. may have stall the [illegible].

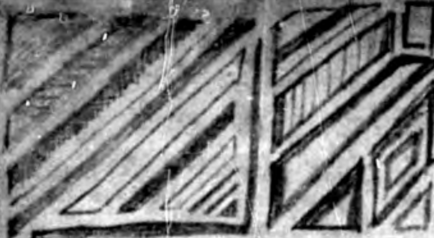
Ma[illegible] [illegible] to [illegible] before TC
4.5 need legal advice [illegible]

Rogers - [illegible] royalties [illegible]

[illegible] urges discussion of philosophy regarding

P.F. 3/17

Fran Ulmer - explain rational for increasing contributions to 75%. Will allow moderate increase in spending but not allow excessive state spending.
management provisions HB 277 - should be trust conservative bill.
Pete Bashre - defines trust common law. 277 has list of investments. preservation of corpus. may not engage in trade or bus - i.e. could not own controlling interest in any business. ERISA - pension fund trust. prudent. diversify. infrequent trading.
277 - how fits classic def. of trust responsibility
Charleston - Where does it say in const. amend. pf is trust
trust + corp. trust - initial 25%. income available for distribution - 50% tax credits, 50% g.f. inviolate, not available for state operation or investment beyond narrow list.
corp - 50%. investments same as trust except Ak. mortgages in addition + power debt guarantee. income then available same as trust. Rev. today managing 3 trusts - p.f., employee retirement, teacher retirement. prudent annual audits, p.f. management costing less than 50,000/yr. 277 leaves this with Rev - economical + responsible.
Fran - Dev. Bank - 2 state-sponsored studies re: capital gap. Tussing - rural. AD Little - "Ec. Dev in Ak." - concluded can stimulate ec. dev. However adm. believes better to hold for study, not doing # on market. Unlike study



O-890 - administration
Fran + Pete

conclusion So gov's d.b. requires clear identification & amendment. Corp must report each yr., if no c.g. identified, # stays in trust. As with AHT, any subsidies must be appropriated by leg. Distributes profit.
Public expectations - Public forum conclusion - many more ways to use # money than #. Cannot be all things to all people.
Rogers - Why tax credits instead of At. Inc.
Fran - A. Inc. not warmly rec'd by leg - so this is alternative.
Collins - could list include gasoline? Pete - no.
Rogers - concerned about investment council am. (executive).
guarantees of indebtedness
130% - what does gov. intend to do w/ the dedicated funds
(attached to min)
Bob Greeley - Merrill, Lynch, White, Weld.
financial advisor to com. for last 3 yrs.
summarizes what pf can do + can't.
don't compose pf w/ econ. dev. or enterprise funds
national trend - once trust funds invaded, they seem to disappear forever.
make it simple. keep trust + bank separate.
should have own identity, own management.
Malone - what about Rev. managing?
G - 2 function 1. investment process 2. trustee function

Fran explains reasons for gov. - ex. oversight - by ex. control, elected officials being responsible. Implication

SAgp 1216

c/ policy ltd. an info link.

Haugen M/R
next mtg Tues. HB 162 + HB 400

PF. Mtg March 6

Discussion of schedule
Rogers wants GSOC considered by com
Hayes - Alberta Fund material wanted
Mark-up? Will we adopt one of these or draft new?
Malone - up to committee.
Chet - HB 99 needs to come to the com.
Malone wants adm. to attend mtgs

Milt Barker - review of revenue estimates.
Malone - points out that Fund is growing at only half rate earlier projected.
Barker - long range picture we're in trouble.
Malone - how good are the projections beyond '80? Are the assumptions safe?
Buckley - Dept of Rev. guy says $8 illiquid investments won't exceed $500 M. They currently are more than that.
Anticipates balance to increase to more than $600 M this yr.
Chet - How does that affect PF balance? It doesn't, directly.
Malone - Unless [illegible] $ doesn't amount too much maybe this committee shouldn't do anything
Buckley - Think we've factored anything in conservative estimates.
PF now growing at $6 M/yr.
Malone - Any factors that could result in dramatic increase?

Barker - exports, price increases, Iran all could affect. Speculative.
Rhode - What if state wins field game lawsuit? B - $40-50 M more.
cash bonus lease sale? yes, would add to.
Malone - possibility of increasing 25-75%. would affect both P+G funds, so imp. to look at whole fiscal picture.
Malone asks Rev to provide info to com on CD's
Barker goes over projected revs have out
1960-78 - annual budget increase = 19% (10% adjusted for inflation)
Some population 16.5% in current dollars (5% real)
So - growth rate has decreased in recent yrs.
Malone asks Milt to figure PF bal. if earnings are added to it.
Lauch asks about HB222 - capital outlay act.
Chat - we should look at how much of royalties is now dedicated - add up pk - 78% dedicated in some way.
PF now has about $100M.
Chat - some assumptions are suspect. Revenue doesn't have the knowledge to run meaningful simulations. Such as amount of oil in Sadlerochit.

Alberta Heritage Fund - Jim Rhode
Dec. '76 - Gruening, Rep. Rhode, + Gallagher.
party swept to victory on this platform 30% oil
1. capital projects division (not to exceed 20%)
2. investment division (not to exceed 50%)

5 Sep 1976

3. Alberta investments - ~~for projects to provide people benefits but not~~ must be return to fund. (#1 doesn't require return, just social benefits).

2 of these ideas are in adm. proposal -
diversif. 30% last yr, not this.
any loans made are to be openly subsidized.
identifies subsidies as such.

Where is AHF taking Alberta - R reads from transcript - Dr. Gordon.
Started with $1.5 billion, now has 3.
P4 - Alberta's effective taxes higher than Ak.
Malone asks for fund balances, oil production, etc. for comparison.
Malone - 1 difference is they started with a lot more $.
Croft - Would like to see enabling act. + also like to keep track of how it's doing.
Malone - explains his change of mind on capital gap - topic for Thursday.

of money would be "hot money"; that is, since the [illegible] can be [illegible] around, the short term markets will not make as much money as [illegible]. In addition, because the [illegible] will not be able to count on the money [illegible] with [illegible] they will not be able to make it [illegible] for loans and the money market [illegible] [illegible]

[illegible] H, [illegible]

3/29 Perm Fund - Hohman bill

George Wolf - tax lawyer
specialize in bonds.
[illegible] testimony

Section 103 IRS Code

[illegible] Bond Department [illegible]
[illegible]
[illegible]
[illegible]

[illegible]

[illegible]

[illegible]

Fund could wind up purchaser of bonds, especially the ones not credit-worthy.

Martin Moore - mouth of Yukon : native wants PF $ very secure for future. All income, apart from what needed for loans, etc., should also be saved.
wants to be able to borrow from fund - fishing, etc.
village corps - should borrow.

3/27 Perm. Fund - Sumner + Hohman bills

Sam Plaio - financial advisor to committee

Sumner bill -

concerned about possible dislocation of people - more babies & in-migrants.

interest of minors

non-transferability - giving w/1 hand, taking away w/other

directed investments - lack of ability of citizens to choose. not 100 prudent ones.

difficult to administer - quick changes

principal can be eroded.

eligibility reqs. - hard to administer. bush.

Chatterton - concerned about fund erosion.

eligible directed - 100 prudent.

Cotten - prudent man rule - standard def or figure of speech.

P - requires principal protected more than income increased.

Guy - wants to be able to pass down to children, not go to state.

P - residency def. - constitutional problem, encourage lawsuits.

Malone - leverage.

Jim - hot $. Bushre - short-term $ not loaned in Ak. but sent outside for investmt.

Hohman bill -

theory - income of PF used for security for sale of revenue bonds to fund loan machine.

Cot - dif. in SS - fund principal managed by rev. instead of independent.

P - concerned about commercial loans. similar to SBA. record of SBA poor. gives scenario corp can bleed off assets intentionally or not, use up pf income.

SBIC program a failure - similar example.

pressure for investmt - If funds sitting around, you seek investmt. opportunities and take greater risks.

Rob - p. 43 - value of limitation. Aren't we as protected as a normal bank?

P - No bank would make a commercial loan on these standards. Housing probably.

Buskee - pension fnd investmt mortgags - don't accept any personal prop. as security, 75% com. real estate, 90% residential.

p. 32-33. formulas for maturities - municipal bonds. The formula fixes the rate, does not take into acct. the fluctuations. So state would have to buy bonds at more than it could sell them at. Not possible to set such a formula to work. Can't be fixed.

Malone - Any problem selling tax-exempt bonds?
P - very possible. must be "public purpose". Very serious question here whether these would qualify.
Rob - E.F. Hutton last yr. said they would qualify.
P - They are investmt bankers like myself, not tax lawyers.
P - student loans as drafted encourage default.

P.F. 3/23 HB280 Sumner bill Freeman, 2 others
SB 122

If this really people's + govt. in past has not done such a good job of investing in past, let people invest.

Not com. of rev., but leg. should establish types of investments under "directed." Could start w/ less than 100, then increase. Ultimately could become vehicle for CSOCs.
General concept - flexible on details. Allows people who don't want to direct other possibilities - Ak. Inc, Hohman, etc.
Loan programs could be 1 investment. Approved investments - each will carry own set of restrictions.
Rogers - What if losses? S - Fund can share loss. or have some % of earnings return to fund as guarantee

Thinks legal if you don't say that will be the only division of shares. 10 yrs. good, then maybe again.

Chat - worried about public relations blitz - everyone invests in a scam + destroys fund.
S - don't foresee any plan being approved that is a scam

ex - people in Bethel want building - make that 1 investment for them to choose.
S - Is it the people's money or not? Then let them decide.

Malone - Where do you mention leverage?
S - It's not. Didn't want fight here - just address concept. Plenty of room for input
Talked to Kelso about it.
Mal - How wk in relation to PF
S - Vol 4 working on model.
Would like to take 25%, leverage it
Talked to guy in Wa. when Boeing closed down, said S only one he knows talking about this. Back some $ to PF + use that to broaden economy

Jim - PF ~~have one~~ generate incr inc. to fuel state's economy.

~~Jim~~ leverage can replace tax $ coming from oil industry now.

When we get model, we can talk in real terms.

Most investmts. would be in Ak.

Rogers - similar to something Milton Friedman has laid out.

S - seed that other brains can build on.

$ leveraged, used to fuel ec. instead of oil $, so oil $ can go to PF. full circle.

Haugen - compliments S on imagination.

Gray - lapsed shares. S - need to protect integrity of principal. New residents become vested at next distribution of fund.

Kim Vassar LAA

effect '79 issuance Feb

eligibility requirements. July 1, 1980. durational residency requirement. not sure about constitutionality. Think sustainable. bec. 1 time shot. The closer you bring qualifying date to effective date, more questionable. This very unique. Not tried in court.

Malone - What if there isn't 2nd distribution.

Doogan - If person leaves state before 1994, another duration res. req. interferes w/ right to travel.

Jim - dif betw. Ind + $.

Bushre - discussed w/ Summer previously.

2 gen. concepts - distribution of income similar to Ak. Dr.

supported by gov.

2 enable people to have voice in p.f. investmt.

Wants to raise Qs + touch on specific lang.

Operating expenses of Fed?
100 investments need definition.
Does public have knowledge to choose?
Mechanics of administrating investments.
Administration cost - brokerage operation.
S doesn't see as complicated - like moving $ from savings to checkg acct.
S treasury not involved in transactions.
Special forms - certificates -
PB safeguard by statute needed to prevent panic selling.
S Adm. does no work. Computer does all start + termination orders - can control how often.
Didn't envision such wide-ranging investments as discussed here.
Can show that there are sizable returns to be made.
S - enthusiastic to work w/ U + experts.

Cotten, Seattle, Cy about

4/8 Permanent Fund

beginning of mark-up.

High recs to separate disc - how to manage 25%, increase?, how to manage it separately + interest separate issue.
1. management of principal of existing fund.
2.

Hayes - 281 as mark-up for first component.

Malone - Clark's testimony about only interest inquest not sufficient.

Freeman - agrees trust. separate "board accountable to leg. staggered term - not too long. Bid insulating from pol. wind 1st cons. - integrity + safety of fund more weight than level of earnings. Add. $ + interest could have other uses not hung up on it

Rogers - 281 good m-u vehicle. 25% vs., start trust over 25% - Another 40% already reserved. Would like 100% of capital assets kept out of operating budget. interest real open - should be separate bill - benefit all people.

Challison - Already have fund management structure 1st order is get management structure regardless of all other issues. [illegible] 281 [illegible] [illegible] for [illegible] [illegible] to incorporate other management ideas [illegible]

Hayes [illegible] [illegible] [illegible]
to [illegible] [illegible]

Chat - Let's not muddy our minds until we settle management Q.

Rogers - Little trouble w/ that. Trust or loan fund. Have to decide what managing as well as how.

Chat - People decided for us - trust fund for 25%

Malone - To clarify, %'s don't have to add up to 100%

Freeman - Agree w/ Chat. Let's get on w/ it.

Malone - Gen. agreement on com. - motion adopted.

Freeman - Investmt. arm of Com - nervous about com being vulnerable to pressure

Rogers - not a big worry. Need some check - other choice is gov.

Malone - Can address later.

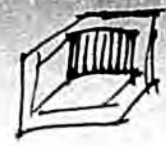
Chat - oversgt com. might be desirable regardless of p.f. Let's start with p. 6.

Discussion - to change Budget + Audit Com. to Audit Division

Bushre - (see Ulmer memo) -
p. 10 line 18 - prevents contracts w/ Revenue. Suggest it be left as option. Eliminate "except" thru "investats."

Rogers - Think still needs check - Suggests add at end "w/o approval of inv. oversight com."

B p. 10 20-27 investmts which qualify.
lang too broad + vague. Prefer lang. similar to interim man. better - specific list.
Under this lang. could invest in gasoline ~~Stanger~~ with short term notes + very little security.
p. 11 - line 21 losses ~~taken for~~ made up ~~for~~ from income. His staff confused how this goes with sec. 150 - Income.
Hayes - Seems to be conflict
Malone - Don't think so. Interpretation.
Rhode - Capital gains not to be pd. to public - go to principal fund. Dividends only go out as income.
Freeman - Whatever the earnings are they should go out to the people.
Chat - Gives ex. capital gain as appreciation. Do you want to spend it?
Malone - This section designed to 1) net capital gains + losses 2) For stocks, accumulate 5 yrs. or remaining life - offset loss from other income.
Brian - Need to define what is income. Think capital gains should be treated dif. from int. + dividends. capital gain reflects inflation - not income. Should remain in corpus.
Freeman - Misconstruing my point. We don't disagree.
Malone - Bob Blixt (Minn) spoke last yr. about this.
Rhode - Numerous dedicated funds in Minn. Blixt was emphatic that fund managers should not pour cap. gains into income stream.
In standard trusts - capital gains go to trust.
Bradner - Tends to "bleed" best investmts so manager looks good.
Bradner - 5-year thing helps manager take loss rather than trying to hide it.
Fund earning 9% today - inflation 14%
Malone - The 2 sections work together.



Freeman Dobson't want fnd invested anywhere that there could be losses. Re: stock market Integrity much more imp. than size of earnings.

Malone Prior com. agreed w/you.
Suggest - Ask Bushre to put in writing suggestions for wide changes here + staff recover last com's dialogue re: this.

Chat Let's reach concensus to direct Bushre.

Bushre You can lose $ in anything - even treasury bills. Pt to keep in mind - way to avoid losses is never sell - hold to maturity. But - sometimes better to realize loss to move $ to greater gain.

Rolls My vote for safety first.

Rhode - Greedy can help.

Malone - Need narrative how would work. Then com. can make stricter or less.

~~Brian Q.p. [illegible]~~

Singe DPDP recs.
p. 6 line 29 - spell out goals. trade-offs involved. other drafts have primary + sub goals.
give dir. about safety - maximum income trade-off.
3 members or 5 - prefer 5.

Chat Can leg. appoint bd. members, constitutionally.
Adm. says leg. has no right to confirm.

Singe p. 10 line 14 agree
p. 11 l 13 - word comparable may be a problem.
Should tighten to "no higher than".

Brian Dif. betw. active + passive - Either give preference or don't preclude.

Singe p. 12 l 13 budget - could come out of pf income + receive more scrutiny, hence efficiency.

Brian could have technical problem. Rather specify it is up to Finance Committee.
- Using PF earnings rec'd favorably by com.

Brian p. 13 l 16-17 "partisan poli. activities":
Suggest ~~staff~~ draw up def.

Malone - agree

Brian - could make disclosure rather than prohibition.

Freeman - What is our schedule?

Malone - get add. info. from Qs raised today.
(capital gains).
want to continue w/ 281 ~~(Monday?)~~

Haugen - want fiscal note - cost of rung corp.

Bioshire - will do it ↑.

Malone - next mtg. 4:00 Tuesday.
(Swick)
Think about how should oversgt function be carried out?
1. responsibility should be fixed by law
2. scope defined - minimum requirements.

4/10 Retirem. Fund

1. Blixt transcript
2. call to Greeley
3. Swick

Greeley - review fa com. cap. gains + losses.
inc. designed to keep income flow as steady as possible
gains + losses designed for flexibility + to prevent losses felt in 1 yr.
need to clearly state what income is.
→ tables: show over 10 yrs. using this method.

Chat - should allow 30% stock? Too much latitude?
G - Should at least allow consideration. If omitted could be serious handicap. Most corp. pension funds are 50%, school funds etc. similar. State pension funds lower. In structuring guidelines for long-term, should not exclude. Nothing magic about 30%.
Chat - No limit on bonds?
G - This gives manager great flex.
.140 just an acctg mechanism.
.150 how income distributed.
Gains + losses almost always treated as principal.
1960's started in pension funds giving some gain as inc. but corrected now + almost universal. Dividend + income construed as income

Haugen - like to ~~see~~ restrict fund investment in treasury bills etc. - very conservative. Avoid bldg ~~a~~ big management structure.

Malone - That's a diff Q from how to handle gains + losses. We could go back + tighten up list of investments.

Freeman - No trouble w/ lang. Want to hear from anyone who does.

Hayes - Need to prevent management from just building up fund & not have income.

Freeman - Wants lang. that primary goal is protect integrity of fund. Strict limits on elig. investments.

Chat - 140 + 150 - I feel very comfortable w/ language. We should move on unless com. wants common stock deleted.

Malone - We could be more explicit about inc., but can't ask management to take risks or get blood out of stone. Comment that Blixt made - says it all.

Swick - SB 2 + 8F inc for energy development + reserve for energy acct.
- expert in marketplace for state + local securities.
SB 2 - municipal bonds - bid from state itself
Bottomline - This method will not work, unless intention is for state to buy all bonds put up by all cities. All out of shape. Can't be restructured to work. Formula does not fit market realities.
Will not get any interest from Wall St.
HB 414 - (595) power debt guarantee.
will drive down cost of bonds for revenue-producing projects.
AA rating.
very close to 9.0. bonds in cost of bonds
expectation is it will never be used - project will be self-supporting. If 1 yr. goes by + project covers its debt obligations, then income freed for 2nd use.
A valuable thing to do - not tying up the long-term. Needs trust to be secure, inviolate principal.

Drive down your cost of borrowing $.

~~Watson~~

Energy reserve acct. - Don't believe that fund as set up now serves any basis for borrowing against. Good for grant program - direct approp. Used for Gov't incl costs - studies, etc. (May generate $20M/yr) Source of money for subsidies. Small hydro. Not ingredient for security (b/c. subject to approp.)

Hansen - I understood it would be used for leverage.

Scrivel - Will not support debt.

Next mtg - Go down thru bill listing issues - mark up + send off for CS.

4/11 Retm. Fund

brief outline of issues raised

Clark Gruening - teleconference

last best shot

Buskey - rec. rather than amortization of gains + losses ~~reserve~~ accts. Charge against reserve rather than income. Same end result - fits better w/what is generally accepted by industry today. 281 involves a new def. of income. Industry use of this income def. is pretty much in-house now. Gain would be counted as income. Whether or not you distribute it is another Q.

Discussion of .150 income available for distribution the lessor of 2.

Hugh - Why is IOC superior to alternatives.
Clark - 2 alternatives - LB+A com. or establish new com. Swayed to IOC for 2 reasons 1) afraid oversgt wouldn't get done because of press of business LB+A has. 2) greater contact with leg for separate com. - leg. w/ specific interest in IO would be involved. Some sharing of staff. Important enuf to warrant sep. com. If LB+A, afraid 1 person would become the "expert" + either have all control or do nothing.
Bruce - How about subcommittees of LB+A + leg. Council, the 2 interim bodies. Afraid of proliferation of committees.
Chat - What about broadening over-sight functions so could oversee land management etc.
Clark - Then you are overlapping reg. + special standg

coms. That's prob w/ B+A.

Back to Bushre-

Haugen - thinks IOC too expensive. Rather simply have Corp submit report to leg. ea. yr.

Rogers - My thinkg changed a little too. Think it should be B+A, w/ 2 Statutory sub-committees - 1 budget, 2 investmt. oversight.

Hayes - Lot of merit in Ernie's position. Gets into too many coms - full-time leg.

Chat - IOC addresses itself to all lendg + investmt. functions - need more than annual report - So support IOC.

Cohen - Which duties most important + biggest workload? [#4 p 5.] Support concept as drafted.

Haugen - Why not have them report to B+A monthly?

Hayes - p. 1 l 19 - "all agencies" - how many?
gen fund surplus, 2 pension funds, p.f.
Bushre - 25 separate funds.
Hayes - seems to duplicate some of B+A

Chat - We get reports now but can't get at the details. Only adm. knows. leg. should do the spadework to get the info.

Rogers - B+A appropriate place, but would require amendmts to their duties.

Malone - Substantial workload there. If up to me, assign duties to B+A, then ask them after 1 yr. how it goes. Argument for settg up nother com, but not compellg. Next referral Finance: that's another option.

Hayes - like that.

Malone like Brian's suggestion, but want B+A to have chance to have input.

Chair - What does B+A do now?

Freeman - Mechanics?

~~Cotten~~ -
Malone - take "duty" section + have added to B+A. + letter of intent - askg com. how that duty might be improved by assigng to nother com.

21.20. Brian - affects statutes LB+A, Aid + Div. + Leg F. Incorporate fndgs in motion.

Hayes p 5 l 12. Does B+A have that responsibility?
Haugen - trouble w/ that lang too "conjunction with F"
Malone - prefer to leave in for F

restating Cotten's motion. Malone - 1. assign in bill purposes + duties of [illegible] to B+A 2. include in com. letter discussion - ask B+A to report back about creation of new com. + include fndgs.
MOTION ADOPTED.

Chair - Can we discuss 100% bonuses now?

Malone - Meet tomorrow at noon.

4/12 Rum. Fund

Sec. 2 approved

Sec. 3 -

Freeman - considering lack of facilities W. Coast, transport problems, leg + adm. spend all $ they can get - wonder whether we should have any leases for a while. Inclined to stick with 25% because future too unknown. Open mind, but people voted 25%.

Rogers - In general, concur. Setting another % could affect policy. High impetus to spend $. Holding off leasing would be prudent. But if leases - don't want it dumped in gen. fund. 2 dedicated funds, really - P.F. + gen. Go w/25%, auto increase to 100% bonuses + perhaps higher royalties, say 1982

Chat - Very mixed emotions. 1 time windfall should go in PF. What worries is if 100% bonuses, we discourage ex. branch from leasing. Damned if we do, damned if we don't. Should go 'PF but if, remove incentive for ex. to continue evaluating our lands + leasing procedures.

Malone - Think bonus should go in PF. Money in one FY - "pouring fuel on fire" - Leveling effect on ec. is worth it. Alternative might be - at end of each yr. review g.f. balance + decide how much to give to PF. - But not sure you can

Rogers - Same dilemma as Chat. What concerned bonuses best for Beaufort, Adm might want to build PF + so elect for that. Rather delay sale.

Freeman - Want some now, some later. Maybe make 50% instead of 100.

Chat - Rationale for 100% - would remove incentive for leasing by bonus. Could come a time down rd. when leg. wants instant $. There's a time delay to get $ from leasing, while bonus is instant. When in doubt, split down the middle.

Rogers - Int. that members have dif. perspectives of how adm. would react. Support 50/50.

Chat - May be advantage for state to have liquidity re. cash bonus.

Guy - P.F. ~~[illegible]~~ cap. would be shortchanged. - / 50% went to gen. fund. PF would get less than 50 because of paymts to natives etc.

Malone - Solve by chang. lang.

Brian - Eliminate L 1-10

Malone - Handle secs 1 by 1

Chat - 2%

Freeman - ~~Line~~ 5

Malone motion to add "remaining after bonuses". (p. 6 line 5)

Freeman - change 100 to 50.

Rogers - Want 50 in L 11 also.

Malone - Handle Q 1 at a time

Rogers 100 - 7 = 93 ÷ 2 = 46.5

Check on 37.11.020

Motion - adopt 50% - unanimous.

Rogers - line 11 - 30-50. Any other allocation could affect [illegible] methods.

Chat - Not convinced we can go lower than 30% + still have $ for govt. Already 78%.

Freeman - Dif. betw. the 2. Bonus 1 shot deal. Royalties - bread + butter $. So included to be more thrifty w/ bonus. Nothing wrong using royalties now.

Haugen - Agree w/ Oral. Need some $ for g.f. [illegible] raise, then we'll need other taxes. Could go either way.

Rogers - Royalty not [illegible] Taxes are. Materially no dif. betw. bonus + royalty - both sale of capital assets. Only dif. how fast they come in. Should treat them the same. Either one a windfall.

Chat - This would mean 100% dedicated or reserved. Although you can do it, who do you fool?

Malone - explains

Rogers would agree to 39.5% (50% after native claims etc.)

Chat - Doesn't satisfy me.

Freeman - Philosophical dif of opinion. Nothg wrong w/ spendg oil $. Great dif. betw. bonus + royalty.

Rogers - ex. of hypothetical oil field. Dependg on bidg method - varying amts go to PF.

Vote 3Y (Rogers, Guy, Malone) to 2N (Chat, Freeman)
Malone - Bare quorum - don't want to decide on that

Chat - integrity of fund. p. 6 l 29

Rogers "maintain safety of principal" first.

Malone - want to defer decision on % until full committee.

Rogers - then ask that hold off on first % too.

Malone - what Senate is doing. This com. must be cohesive etc. if we want to win in Conf.
Have to carry over to Monday
Adjourn -

Malone - Rather have no bill than 2. Hold up next mtg. Mon.

Cotten, Schaeffer absent.

4/18 Perm. Fund.

Contributions level—

Rogers - Barker memo - hypothetical examples
argues for equal amounts.
renews motion - 30 - 50 line 11

Haugen - depends on where $ will go.

Hayes - we should deal w/ just structuring
management of original fund.

Freeman - wants the money now.

Chat - can we afford it?

Freeman - land. Why not treat same as oil &
add that to PF.

Rhode - That's in SJR 23 (in this com.)

Brian - Withdraw motion + set both at 40%

Vote - No.

Brian - Since missing 2 members, rather leave
this & come back when have all 9.

Malone - Go on to list of eligible investmts.

Eppenbach -
decisions to make
CD's - long or short?
corp securities - investmt. grade or 1933?
281(4) - short-term lang.

loan question - have it or not?
constrain it or not?
could limit it to %.

Bushre - currently investing in 1-5, sometimes 6,
not 7 or 8.

Hayes
Hages } about
Shaeffer

4/21 Rem. Fund

discussion of percentages again
review for Cotter. still no full committee.
same old song + dance.
question of whether % in excess of 25 would
be subject to annual approps - Vassar
says no.
Guy dreamt about gains + losses lang.
Freeman moves p.6 line 5 100-50, insert
remaining.
Y3 N4 - Brian's amendment to make 5 + 11 same.
Y4 N3 - main motion.
line 22 - Brian moves - 25% existing, 50%
all leases after effective date.
withdrawn. new motion - 50% from all leases
after ED. Y4 N3
motion adopted w/o objection - 25% existing lease.
adopted [line 5 - 50 + remaining
line 11 - 25 existing leases
line 13 - new section 50 new leases.

next question - line 27 - primary goal.
which is main goal - safety of prin. or max return?
discussion of all 3 findings.
Brian move delete "primary", "maximize",
"total" ... should read "goal should
be to maintain safety of principal while
maximizing the total return."
Chat - Language throughout concerns a trust, so
don't need to worry about this lang - redundant.
Chat - how about - primary goal is to operate as
a trust.
Doogan - same Q last yr. wouldn't hurt to be
redundant. Brian's motion adopted.
Brian motion p.6 line 27 - delete "ultimate"

Guy - amd to and -
Chat - to the benefit of Alaskans.
withdraw.
"resources to benefit all generations of Alaskans"
2-5 fail
main motion - read "to benefit fut. generations of Alaskans." (delete "the ultimate... of")
Freeman - "to the benefit of all generations of Alaskans." unanimous.

050 - comp. of B.T. - 2 Qs. - how many members? confirmation?

Brian add lang. that if conf. not allowed, whole section is void.
Malone think we should stay w/ bill lang.

Guy wants 5 members. Motion. (3 means Anc, Fbks, Jun - no rural members.)
Freeman - All will be banker types, hence city. Fewer we have, more # for us rural types
5-3 motion adopted.

060 Brian motion - 5-yr. terms staggered 1-2-3-4-5
2-6 motion fails.
Cotten - 3 yr. terms - 2 1 yr. 2 2 yr. 1 3 yr.
5-3 Motion adopted

~~Malone - not more than 2 3-yr. terms~~

070 Guy wants appt. by geographic area.
2-6 motion fails.

080 Cotten delete p 9 line 2-4. Adopted.

Brian - motion - 3 shall have competence be.

090 change quorum to 3

100 honorarium

110 personnel

120 Brian - add ex. dir. to conflict of int. AS 39.50.
Unanimous

130 powers + duties
Guy motion - delete "means that" (line 29, p. 9)
- fail.

motion pending p. 10 line 19 (Rogers).

Cotter, Hargen, ~~[illegible]~~ absent

4/23 Perm. Fund.

start w/ p. 10 (f)
missed this discussion

e.g.
"laundry list" vs. "blanket list"
real estate loans
Chat moves to delete lines 23-24 (p. 10)
the com doesn't like the [illegible] language
motion carries 6-2.
Rogers motion to insert "investment grade" l 24
carried
Rogers motion to delete p 11 l 6-8 "if immed. corp.
Chat - deletes p10 l 24-25 (investment grade ... marketable)

Rm - Cotten
greenland - Guy
Fc - Rogers
Fc - Haugen
} absent

4/24 Perm. Fund

~~No quorum Hayes, Rogers,~~

Buskie presents new laundry list.

Policy decision - shat list a long.
Chat - long
Hayes - likes all 14 w/ limit on real estate
no objection to taking long approach.
Chat - would like to raise to AA + limit to %.
Freeman - Investment grade
Buskie read defs. of AA + A categories.
Freeman - go along w/ Chat.
Chat - move to change A to AA. No objection
Chat - move to limit to 30%. (Limit in original bill
because stock was included in category.)
Hayes - amend to 10%. withdraws amendmt.
Freeman - amend to 25% no objection
Freeman - move adopt 1-7. no objection
Hayes - move adopt 11-14
Malone - technical Q #12
Chat - move to delete #12 Reason: selecting out
veterans to receive benefits. 2-3. Fail.
Main motion 4-1
Hayes - Adopt #8. (the most secure of 8-10)
~~Freeman~~ want direct benefits to Alaskans.
Malone - 8-10 are most marketable, so we wouldn't
be helping anything. Concern is diversification
but that taken care of.
~~H~~ Motion fails 1-4.
Malone - limit % in mortgages.
Chat - move 11-14 limited to 25%. ~~Not a quorum~~
no objection - adopted.
Finished (9)

(h) p. 11 - change JOC to B+A.

(i) p. 11 - active or passive.
Chat - motion to keep as is. adopted.

155 - Freeman move delet. No obj.

160 - Chat move retain as is. No obj.

170 - ~~Chat delete annual, insert bi-annual~~
as is

180 - as is

190 - as is

200 - poli. activity
Malone - delete 1st sentence.
Chat - add "or influence" after "finance."

Malone - how to require bd. members to disclose conversations w/others re p.f.

210 - public access - as is.

Now need clean draft.

What # to use? 281 or 277

Freeman - Senate bill?