

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

128 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

Second, the crucial step of bringing ideas and entrepreneurs together with capital. This requires day-to-day contact with the business community, sound knowledge of the market prospects of various industries, and detailed awareness of government policies and programs that affect business. The chief executive is the focus of this effort, often supported by staff for public information, investment promotion, business relations, capital market liaison and government relations.

Third, systematic investigation and appraisal of ideas is essential to provide projects that can and should be financed. This is usually accomplished by operating departments staffed with professional economists, engineers, financial analysts, environmental specialists and industry specialists. Selective but intensive use is also made of outside consultants.

Fourth, monitoring and supervision of the projects financed, without interfering in their management, is a critical operating activity. Many new entrepreneurs need and welcome the advice of experts from DFCs, and it is, of course, in the DFC's best interest to take all reasonable steps to insure the success of its investments.

3. Financial Controls

In general, the financial controls of a DFC are designed along the World Bank/IFC model. They may include guarantees by governments, diversification of the portfolio, required independent audits and disbursement controls. It is also common practice to establish and maintain reserves for protection against losses.

4. External Reporting and Review

Publication of an audited annual report is commonly required for DFCs. Most DFCs also find it in their best interest to maintain a steady flow of information about their activities to the media, public and government. A reporting device frequently used is voluntary testimony to legislative bodies on matters of concern to the private sector.

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THE FOLLOWING PAGES WERE TREATED AS
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#26



601 WEST FIFTH AVENUE, ANCHORAGE, ALASKA 99501 · 907-279-1424

December 15, 1976

The Honorable Sterling Gallagher
The Honorable Jalmar Kerttula
The Honorable Hugh Malone

Gentlemen:

REPORT FOR THE DECEMBER 16-17, 1976
STATE INVESTMENT ADVISORY COMMITTEE (SIAC) MEETING

The enclosed report has been prepared in response to four questions submitted to us on behalf of the Committee. The questions have been considered within the framework of the tentative organization outline prepared at the SIAC Workshop on November 16, 1976.

The questions are:

- A. What are broad statements of priority which should be set in the Charter (bill) and what policies should be set at board level? How broad or how specific should they be? Give specific examples of broad statements from our experience with development banks.
- B. What loan standards should apply to prospective funding arrangements (financial return, environmental considerations, etc.)? Also, should interest rates be set by statute or by a policy-making board?
- C. Comment on pros/cons of electing all or part of the Board(s) of Directors.
- D. Give suggestions on alternate structures or modifications to the present proposal if greater (1) citizen, (2) legislative or (3) executive influence is desired.

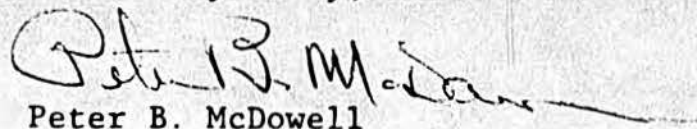
It was our pleasure to host the delegation from the Committee in Washington, D.C. on December 10, 1976. We arranged appointments

State Investment Advisory Committee

December 15, 1976
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with four senior executives of development institutions and, if desired, would be pleased to comment to the entire Committee on the discussions which took place during these meetings.

Yours very truly,


Peter B. McDowell

Enclosure
As above

ALASKA PERMANENT FUND
REPORT FOR THE DECEMBER 16-17, 1976
STATE INVESTMENT ADVISORY COMMITTEE MEETING

A.1. What broad statements of priority should be set in the Charter (enabling legislation) and what policies should be set at the board level?

An examination of the charters of various international and national government sponsored development institutions reveals that a relatively consistent set of broad statements of priorities, policies and principles are generally included in these documents. In order to clarify the terminology used, a development institution provides longer-term investment capital as opposed to operating (working) capital either directly or through intermediaries, in the form of equity or debt, to enterprises or projects. These general statements provide the framework for the establishment of policies by the board of the institution and the implementation of these policies by management, in the following areas of concern:

General

- (1) General purpose(s) of the institution, i.e., the function(s) it is established to perform.
- (2) General operating philosophy of the institution, i.e., how it is to perform its function(s).
- (3) Legal personality and capacities of the institution.
- (4) Sectoral coverage, in terms of both economic sectors and size sectors.
- (5) Geographic coverage. *[unworkable believe...]*
- (6) General criteria to be applied to the selection of capital investments.
- (7) Kinds of investment capital to be provided; equity, direct loans, loan guarantees, etc.

- (8) General relationship of loan interest rates, returns on equity, loan guarantee fees, etc. to market rates.
- (9) General provision for the establishment of adequate and appropriate organization, operating and financial controls within the institution.

Relationships with Other Persons and Institutions

- (10) Relationship with the private sector.
- (11) Relationship with governments.
- (12) Relationship with other (public and private) sources of investment capital.
- (13) Relationship with recipients of investment capital with regard to the identification and appraisal of potentially viable investment opportunities, and provision of funds for feasibility studies and management assistance.
- (14) Relationship to capital markets with regard to underwriting share issues for new enterprises and encouragement of local markets for shares of local enterprises and other financing matters.

Organizational

- (15) General powers and parliamentary rules of the board(s).
- (16) General powers of management.
- (17) Composition, qualifications, methods of selection and terms of board(s), management and staff.
- (18) Designation of the organizational levels with responsibility for relations with government, the general public, the financial community and prospective recipients of investment capital.
- (19) General conflict of interest policy(ies) for board members, management and staff.

Financial

- (20) General financial goals of the institution, i.e., level of profits to be attained, protection of capital, prudent management of assets.
- (21) Source and amount of capital of the institution.
- (22) Borrowing powers and limits, if any, of the institution.

income from fund
- 3 -

- (23) Source of funds to pay for all types of operating expenses; including general long-range economic and investment research.
- (24) Source of funds to pay for any subsidy(ies) of loan interest rates, return on equity, loan guarantee fees, etc. *Alberta approach?*
- (25) Disposition of net income from operations.
- (26) Proportion of the total capital (equity plus debt) of an enterprise or project which the institution may provide.

Accountability

- (27) General requirements for independent audit and public reporting.
- (28) General requirements for operational evaluations (post-audits) of capital investments.
- (29) General requirements for maintaining the confidentiality of information obtained from prospective and actual recipients of investment capital. *Private vs. Public proprietary info*

A.2. What are Specific Examples of Broad Statements From Our Experience with Development Banks

The following examples of actual charter provisions have been drawn from international and national development institutions that are considered representative. It is important to note the general absence of absolute quantities and percentages from charter provisions. In fact, the only absolutes normally provided in a charter are the numbers of board members and the size of the capital of the institution. The key words in many of the following statements are action verbs which have been underlined.

(1) Industrial Development Bank of Turkey

Its purposes are:

- to support and stimulate the establishment of new private enterprises and the expansion and modernization of existing private enterprises in Turkey.

- to encourage and assist the participation of private capital, both domestic and foreign, in industry established in Turkey.
- To encourage and promote the private ownership of securities pertaining to Turkish industry and to assist in the development of a securities market in Turkey.

(2) Sudan Development Corporation

Its purpose is:

- to attract foreign and domestic capital for investment in the economic development of the Sudan by initiating projects or assisting those wishing to initiate or participate in opportunities in the Sudan.

(3) Industrial Finance Corporation of India

Its purpose is:

- making medium- and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital-issue methods is impracticable.

(4) Industrial Credit and Investment Corporation of India

Its purposes include:

- To carry on the business of assisting industrial enterprises within the private sector of industry in India, in general by:
 - assisting in the creation, expansion and modernization of such enterprises
 - encouraging and promoting the participation of private capital, both internal and external, in such enterprises
 - encouraging and promoting private ownership of industrial investments and the expansion of investment markets ^{by Alusthan etc}

and in particular by:

- providing finance in the form of long- and medium-term loans or equity participation

- sponsoring and underwriting new issues of shares and securities
- guaranteeing loans from other private investment sources
- making funds available for re-investment by revolving investments as rapidly as prudent, and
- furnishing managerial, technical and administrative advice and assisting in obtaining managerial, technical and administrative services to Indian industry.

5) Inter-American Development Bank

ARTICLE I

PURPOSE AND FUNCTIONS

Section 1. Purpose

The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.

Section 2. Functions

(a) To implement its purpose, the Bank shall have the following functions:

- (i) to promote the investment of public and private capital for development purposes;
- (ii) to utilize its own capital, funds raised by it in financial markets, and other available resources, for financing the development of the member countries, giving priority to those loans and guarantees that will contribute most effectively to their economic growth;
- (iii) to encourage private investment in projects, enterprises, and activities contributing to economic development and to supplement private investment (when private capital is not available on reasonable terms and conditions:)

Last resort
loans

- (iv) to cooperate with the member countries to orient their development policies toward a better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade; and
- (v) to provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals.

ARTICLE II

OPERATIONS

Section 1. Use of Resources

The resources and facilities of the Bank shall be used exclusively to implement the purpose and functions enumerated in Article I of this Agreement.

Section 2. Categories of Operations (loans)

- (a) The operations of the Bank shall be divided into ordinary operations, inter-regional resources operations, and special operations.
- (b) The ordinary operations shall be those financed from the Bank's ordinary capital resources, as defined in Article II, Section 5. The inter-regional resources operations shall be those financed from the Bank's inter-regional capital resources, as defined in Article IIA, Section 4. Both types of operations shall relate exclusively to loans made, participated in, or guaranteed by the Bank which are repayable only in the respective currency or currencies in which the loans were made. Such operations shall be subject to the terms and conditions that the Bank deems advisable, consistent with the provisions of this Agreement.
- (c) The special operations shall be those financed from the resources of the Fund in accordance with the provisions of Article IV.

→ fund which allows subsidy of interest.

Section 3. Basic Principle of Separation

- (a) Subject to the amending provisions of Article XII (a)(ii), the ordinary capital resources, as defined in Article II, Section 5, the inter-regional capital

resources, as defined in Article VIIA, Section 4, and the resources of the Fund, as defined in Article IV, Section 3(h), shall at all times and in all respects be held, used, obligated, invested, or otherwise disposed of entirely separate from each other.

- (b) The ordinary capital resources and the inter-regional capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities or losses arising out of operations for which the resources of the Fund were originally used or committed.
- (c) The ordinary capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities or losses chargeable to the inter-regional capital resources, and, except as provided in Article VII, Section 3(d), the inter-regional capital resources shall under no circumstances be charged with, or used to discharge, obligations, liabilities, or losses chargeable to the ordinary capital resources.
- (d) The financial statements of the Bank shall show separately the ordinary operations, the inter-regional resources operations, and the special operations, and the Bank shall establish such other administrative rules as may be necessary to ensure the effective separation of the three types of operations.
- (e) Expenses pertaining directly to ordinary operations shall be charged to the ordinary capital resources. Expenses pertaining directly to inter-regional resources operations shall be charged to the inter-regional capital resources. Expenses pertaining directly to special operations shall be charged to the resources of the Fund. Other expenses shall be charged as the Bank determines.

Section 4. Methods of Making or Guaranteeing Loans

Subject to the conditions in this article, the Bank may make or guarantee loans to any member, or any agency or political subdivision thereof, and to any enterprise in the territory of a member.

Section 5. Limitations on Operations

- (a) The total amount outstanding of loans and guarantees made by the Bank in its ordinary operations shall not at any time exceed the total amount of the unimpaired subscribed ordinary capital of the Bank, plus the unimpaired reserves and surplus included in the ordinary capital resources of the Bank, as defined in Article II, Section 5, exclusive of income assigned to the special reserve established pursuant to Section 13 of this article and other income of the ordinary capital resources assigned by decision of the Board of Governors to reserves not available for loans or guarantees.

Section 7. Rules and Conditions for Making or Guaranteeing Loans

- (a) The Bank may make or guarantee loans subject to the following rules and conditions:
 - (i) the applicant for the loan shall have submitted a detailed proposal and the staff of the Bank shall have presented a written report recommending the proposal after a study of its merits. In special circumstances, the Board of Executive Directors, by a majority of the total voting power of the member countries, may require that a proposal be submitted to the Board for decision in the absence of such a report;
 - (ii) in considering a request for a loan or a guarantee, the Bank shall take into account the ability of the borrower to obtain the loan from private sources of financing on terms which, in the opinion of the Bank, are reasonable for the borrower, taking into account all pertinent factors;
 - (iii) in making or guaranteeing a loan, the Bank shall pay due regard to prospects that the borrower and its guarantor; if any, will be in a position to meet their obligations under the loan contract;
 - (iv) in the opinion of the Bank, the rate of interest, other charges and the schedule for repayment of principal are appropriate for the project in question;
 - (v) in guaranteeing a loan made by other investors, the Bank shall receive suitable compensation for its risk; and

Credit worthiness

No interest rate set by charter

→ however have flexibility to ... rates & categories

(vi) loans made or guaranteed by the Bank shall be principally for financing specific projects, including those forming part of a national or regional development program. However, the Bank may make or guarantee over-all loans to development institutions or similar agencies of the members in order that the latter may facilitate the financing of specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank.

(b) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing.

Section 8. Optional Conditions for Making or Guaranteeing Loans

- (a) In the case of loans or guarantees to nongovernmental entities, the Bank may, when it deems it advisable, require that the member in whose territory the project is to be carried out, or a public institution or a similar agency of the member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan.
- (b) The Bank may attach such other conditions to the making of loans or guarantees as it deems appropriate, taking into account both the interests of the members directly involved in the particular loan or guarantee proposal and the interests of the members as a whole.

Section 10. Payment Provisions for Direct Loans

Direct loan contracts made by the Bank in conformity with Section 4 of this article shall establish:

- (a) All the terms and conditions of each loan, including among others, provision for payment of principal, interest and other charges, maturities, and dates of payment; and
- (b) The currency or currencies in which payments shall be made to the Bank.

Section 11. Guarantees

- (a) In guaranteeing a loan the Bank shall charge a guarantee fee, at a rate determined by the Bank, payable periodically on the amount of the loan outstanding.

- (b) Guarantee contracts concluded by the Bank shall provide that the Bank may terminate its liability with respect to interest if upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.
- (c) In issuing guarantees, the Bank shall have power to determine any other terms and conditions.

ARTICLE III

TECHNICAL ASSISTANCE

Section 1. Provision of Technical Advice and Assistance

The Bank may, at the request of any member or members, or of private firms that may obtain loans from it, provide technical advice and assistance in its field of activity, particularly on:

- (i) the preparation, financing, and execution of development plans and projects, including the consideration of priorities, and the formulation of loan proposals on specific national or regional development projects; and
- (ii) the development and advanced training, through seminars and other forms of instruction, of personnel specializing in the formulation and implementation of development plans and projects.

Section 2. Cooperative Agreements on Technical Assistance

In order to accomplish the purposes of this article, the Bank may enter into agreements on technical assistance with other national or international institutions, either public or private.

Section 3. Expenses

- (a) The Bank may arrange with member countries or firms receiving technical assistance, for reimbursement of the expenses of furnishing such assistance on terms which the Bank deems appropriate.
- (b) The expenses of providing technical assistance not paid by the recipients shall be met from the net income of the ordinary capital resources, of the inter-regional capital resources, or of the Fund. However, during the first three years of the Bank's operations, up to three percent, in total, of the initial resources of the Fund may be used to meet such expenses.

ARTICLE VII

MISCELLANEOUS **POWERS** AND DISTRIBUTION OF PROFITS

Section 1. Miscellaneous Powers of the Bank

In addition to the powers specified elsewhere in this Agreement, the Bank shall have the power to:

- (i) borrow funds and in that connection to furnish such collateral or other security therefore as the Bank shall determine, provided that, before making a sale of its obligations in the markets of a country, the Bank shall have obtained the approval of that country and of the member in whose currency the obligations are denominated. In addition, in the case of borrowings of funds to be included in the Bank's ordinary capital resources or inter-regional capital resources, the Bank shall obtain agreement of such countries that the proceeds may be exchanged for the currency of any other country without restriction;
- (ii) buy and sell securities it has issued or guaranteed or in which it has invested, provided that the Bank shall obtain the approval of the country in whose territories the securities are to be bought or sold;
- (iii) with the approval of a two-thirds majority of the total voting power of the member countries, invest funds not needed in its operations in such obligations as it may determine;
- (iv) guarantee securities in its portfolio for the purpose of facilitating their sale; and
- (v) exercise such other powers as shall be necessary or desirable in furtherance of its purpose and functions; consistent with the provisions of this Agreement.

ARTICLE VIII

ORGANIZATION AND MANAGEMENT

Section 1. Structure of the Bank

The Bank shall have a Board of Governors, a Board of Executive Directors, a President, an Executive Vice President, a Vice President in charge of the Fund, and such other officers and staff as may be considered necessary.

Section 2. Board of Governors

- (a) All the powers of the Bank shall be vested in the Board of Governors. Each member shall appoint one governor and one alternate, who shall serve for five years, subject to termination of appointment at any time, or to reappointment, at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as Chairman, who shall hold office until the next regular meeting of the Board.
- (b) The Board of Governors may delegate to the Board of Executive Directors all its powers except power to:
 - (i) admit new members and determine the conditions of their admission;
 - (ii) increase or decrease the authorized ordinary capital stock and inter-regional capital stock of the Bank and the contributions to the Fund;
 - (iii) elect the President of the Bank and determine his remuneration;
 - (iv) suspend a member, pursuant to Article IX, Section 2;
 - (v) determine the remuneration of the executive directors and their alternates;
 - (vi) hear and decide any appeals from interpretations of this Agreement given by the Board of Executive Directors;
 - (vii) authorize the conclusion of general agreements for cooperation with other international organizations;
 - (viii) approve, after reviewing the auditor's reports, the general balance sheets and the statements of profit and loss of the institution;

- (ix) determine the reserves and the distribution of the net profits of the ordinary capital resources and of the inter-regional capital resources and of the Fund;
 - (x) select outside auditors to certify to the general balance sheets and the statements of profit and loss of the institution;
 - (xi) amend this Agreement; and
 - (xii) decide to terminate the operations of the Bank and to distribute its assets.
- (c) The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Executive Directors under paragraph (b) above.
 - (d) The Board of Governors shall, as a general rule, hold a meeting annually. Other meetings may be held when the Board of Governors so provides or when called by the Board of Executive Directors. Meetings of the Board of Governors also shall be called by the Board of Executive Directors whenever requested by five members of the Bank or by members having one fourth of the total voting power of the member countries.
 - (e) A quorum for any meeting of the Board of Governors shall be an absolute majority of the governors of regional members, representing not less than two thirds of the total voting power of the member countries.
 - (f) The Board of Governors may establish a procedure whereby the Board of Executive Directors, when it deems such action appropriate, may submit a specific question to a vote of the governors without calling a meeting of the Board of Governors.
 - (g) The Board of Governors, and the Board of Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.
 - (h) Governors and alternates shall serve as such without compensation from the Bank, but the Bank may pay them reasonable expenses incurred in attending meetings of the Board of Governors.

Section 3. Board of Executive Directors

- (a) The Board of Executive Directors shall be responsible for the conduct of the operations of the Bank, and for this purpose may exercise all the powers delegated to it by the Board of Governors.
- (b) (i) Executive directors shall be persons of recognized competence and wide experience in economic and financial matters but who shall not be governors.
- (ii) One executive director shall be appointed by the member country having the largest number of shares in the Bank, two executive directors shall be elected by the governors of the nonregional countries, and not less than eight others shall be elected by the governors of the remaining member countries. The number of executive directors to be elected in the last category, and the procedure for the election of all the elective directors shall be determined by regulations adopted by the Board of Governors by a three-fourths majority of the total voting power of the member countries, including, with respect to provisions relating exclusively to the election of directors by nonregional member countries, a two-thirds majority of the governors of the nonregional members, and with respect to provisions relating exclusively to the number and election of directors by the remaining member countries, by a two-thirds majority of the governors of regional members. Any change in the aforementioned regulations shall require the same majority of votes for its approval.
- (iii) Executive directors shall be appointed or elected for terms of three years and may be reappointed or re-elected for successive terms.
- (c) Each executive director shall appoint an alternate who shall have full power to act for him when he is not present. Directors and alternates shall be citizens of the member countries. None of the elected directors and their alternates may be of the same citizenship, except in the case of countries that are not borrowers. Alternates may participate in meetings but may vote only when they are acting in place of their principals.

- (d) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than 180 days before the end of his term, a successor shall be elected for the remainder of the term by the governors who elected the former director. An absolute majority of the votes cast shall be required for election. While the office remains vacant, the alternate shall have all the powers of the former director except the power to appoint an alternate.
- (e) The Board of Executive Directors shall function in continuous session at the principal office of the Bank and shall meet as often as the business of the Bank may require.
- (f) A quorum for any meeting of the Board of Executive Directors shall be an absolute majority of the total number of directors, including an absolute majority of directors of regional members, representing not less than two-thirds of the total voting power of the member countries.
- (g) A member of the Bank may send a representative to attend any meeting of the Board of Executive Directors when a matter especially affecting that member is under consideration. Such right of representation shall be regulated by the Board of Governors.
- (h) The Board of Executive Directors may appoint such committees as it deems advisable. Membership of such committees need not be limited to governors, directors, or alternates.
- (i) The Board of Executive Directors shall determine the basic organization of the Bank, including the number and general responsibilities of the chief administrative and professional positions of the staff, and shall approve the budget of the Bank.

Section 5. President, Executive Vice President, and Staff

- (a) The Board of Governors, by a majority of the total voting power of the member countries, including an absolute majority of the governors of regional members, shall elect a President of the Bank who, while holding office, shall not be a governor or an executive director or alternate for either.

Under the direction of the Board of Executive Directors, the President of the Bank shall conduct the ordinary business of the Bank and shall be chief of its staff. He also shall be the presiding officer at meetings of the Board of Executive Directors, but shall have no vote, except that it shall be his duty to cast a deciding vote when necessary to break a tie.

The President of the Bank shall be the legal representative of the Bank. The term of office of the President of the Bank shall be five years, and he may be re-elected to successive terms. He shall cease to hold office when the Board of Governors so decides by a majority of the total voting power of the member countries, including a majority of the total voting power of the regional member countries.

- (b) The Executive Vice President shall be appointed by the Board of Executive Directors on the recommendation of the President of the Bank. Under the Direction of the Board of Executive Directors and the President of the Bank, the Executive Vice President shall exercise such authority and perform such functions in the administration of the Bank as may be determined by the Board of Executive Directors. In the absence or incapacity of the President of the Bank, the Executive Vice President shall exercise the authority and perform the functions of the President.

The Executive Vice President shall participate in meetings of the Board of Executive Directors but shall have no vote at such meetings, except that he shall cast the deciding vote, as provided in paragraph (a) of this section, when he is acting in place of the President of the Bank.

- (c) In addition to the Vice President referred to in Article IV, Section 8(b), the Board of Executive Directors may, on recommendation of the President of the Bank, appoint other Vice Presidents who shall exercise such authority and perform such functions as the Board of Executive Directors may determine.
- (d) The President, officers, and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and shall recognize no other authority. Each member of the Bank shall respect the international character of this duty.

- (e) The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence and integrity. Due regard shall also be paid to the importance of recruiting the staff on as wide a geographical basis as possible, taking into account the regional character of the institution.
- (f) The Bank, its officers and employees shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purpose and functions stated in Article I.

Section 6. Publication of Reports and Provision of Information

- (a) The Bank shall publish an annual report containing separate audited statements of the accounts of the ordinary capital resources and of the inter-regional capital resources. It shall also transmit quarterly to the members summary statements of the financial position and profit-and loss statements showing separately the results of its ordinary operations and its inter-regional resources operations.
- (b) The Bank may also publish such other reports as it deems desirable to carry out its purpose and functions.

ARTICLE XI

STATUS, IMMUNITIES AND PRIVILEGES

Section 1. Scope of Article

To enable the Bank to fulfill its purpose and the functions with which it is entrusted, the status, immunities, and privileges set forth in this article shall be accorded to the Bank in the territories of each member.

Section 2. Legal Status

The Bank shall possess juridical personality and, in particular, full capacity:

- (a) to contract;
- (b) to acquire and dispose of immovable and movable property;
and
- (c) to institute legal proceedings.

Section 3. Judicial Proceedings

Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

No action shall be brought against the Bank by members or persons acting for or deriving claims from members. However, member countries shall have recourse to such special procedures to settle controversies between the Bank and its members as may be prescribed in this Agreement, in the by-laws and regulations of the Bank or in contracts entered into with the Bank.

Property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Section 4. Immunity of Assets

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be considered public international property and shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Section 5. Inviolability of Archives

The archives of the Bank shall be inviolable.

Section 6. Freedom of Assets from Restrictions

To the extent necessary to carry out the purpose and functions of the Bank and to conduct its operations in accordance with this Agreement, all property and other assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature, except as may otherwise be provided in this Agreement.

Section 7. Privilege for Communications

The official communications of the Bank shall be accorded by each member the same treatment that it accords to the official communications of other members.

ARTICLE XIII

INTERPRETATION AND ARBITRATION

Section 1. Interpretation

- (a) Any question of interpretation of the provisions of this Agreement arising between any member and the Bank or between any members of the Bank shall be submitted to the Board of Executive Directors for decision.

Members especially affected by the question under consideration shall be entitled to direct representation before the Board of Executive Directors as provided in Article VIII, Section 3(g).

- (b) In any case where the Board of Executive Directors has given a decision under (a) above, any member may require that the question be submitted to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the Bank may, so far as it deems it necessary, act on the basis of the decision of the Board of Executive Directors.

Section 2. Arbitration

If a disagreement should arise between the Bank and a country which has ceased to be a member, or between the Bank and any member after adoption of a decision to terminate the operation of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the country concerned, and the third, unless the parties otherwise agree, by the Secretary General of the Organization of American States. If all efforts to reach a unanimous agreement fail, decisions shall be made by a majority vote of the three arbitrators.

The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

(6) International Finance Corporation

ARTICLE I

PURPOSE

The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development (hereinafter called the Bank). In carrying out this purpose, the Corporation shall:

- (i) in association with private investors, assist in financing the establishment, improvement and expansion of productive private enterprises which would contribute to the development of its member countries by making investments, without guarantee of repayment by the member government concerned, in cases where sufficient private capital is not available on reasonable terms;
- (ii) seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and
- (iii) seek to stimulate, and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment in member countries.

The Corporation shall be guided in all its decisions by the provisions of this Article.

ARTICLE III

OPERATIONS

Section 1. Financing Operations

The Corporation may make investments of its funds in productive private enterprises in the territories of its members. The existence of a government or other public interest in such an enterprise shall not necessarily preclude the Corporation from making an investment therein.

Section 2. Forms of Financing

The Corporation may make investments of its funds in such form or forms as it may deem appropriate in the circumstances.

Section 3. Operational Principles

The operations of the Corporation shall be conducted in accordance with the following principles:

- (i) the Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms;
- (ii) the Corporation shall not finance an enterprise in the territories of any member if the member objects to such financing;
- (iii) the Corporation shall impose no conditions that the proceeds of any financing by it shall be spent in the territories of any particular country;
- (iv) the Corporation shall not assume responsibility for managing any enterprise in which it has invested and shall not exercise voting rights for such purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control;
- (v) the Corporation shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Corporation and the terms and conditions normally obtained by private investors for similar financing;
- (vi) the Corporation shall seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms;
- (vii) the Corporation shall seek to maintain a reasonable diversification in its investments.

Section 4. Protection of Interests

Nothing in this Agreement shall prevent the Corporation, in the event of actual or threatened default on any of its investments, actual or threatened insolvency of the enterprise in which such investment shall have been made, or other situations which, in the opinion of the Corporation, threaten to jeopardize such investment, from taking such action and exercising such rights as it may deem necessary for the protection of its interests.

Section 6. Miscellaneous Operations

In addition to the operations specified elsewhere in this Agreement, the Corporation shall have the power to:

- (i) borrow funds, and in that connection to furnish such collateral or other security therefor as it shall determine; provided, however, that before making a public sale of its obligations in the markets of a member, the Corporation shall have obtained the approval of that member and of the member in whose currency the obligations are to be denominated; if and so long as the Corporation shall be indebted on loans from or guaranteed by the Bank, the total amount outstanding of borrowings incurred or guarantees given by the Corporation shall not be increased if, at the time or as a result thereof, the aggregate amount of debt (including the guarantee of any debt) incurred by the Corporation from any source and then outstanding shall exceed an amount equal to four times its unimpaired subscribed capital and surplus;
- (ii) invest funds not needed in its financing operations in such obligations as it may determine and invest funds held by it for pension or similar purposes in any marketable securities, all without being subject to the restrictions imposed by other sections of this Article;
- (iii) guarantee securities in which it has invested in order to facilitate their sale;
- (iv) buy and sell securities it has issued or guaranteed or in which it has invested;
- (v) exercise such other powers incidental to its business as shall be necessary or desirable in furtherance of its purposes.

Section 9. Political Activity Prohibited

The Corporation and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in this Agreement.

Numerous additional examples of charter provisions are contained in the previous reports and reference documents submitted to the Committee by White, Weld & Co., Incorporated and Price Waterhouse & Co. All of these examples are also available for discussion with the Committee.

A.3. What policies should be set at board level?

The charter of a development institution is normally intended to be a document that will withstand the test of time without major modification. The interpretation of a charter is, however, a dynamic process that recurs from time to time in order to take changes in society, economic development and priorities into account. This process of interpretation is the setting of policies, a function normally performed at the board level. The board of a development institution usually examines policy proposals put forth by management, modifies them in accordance with its interpretation of the charter and judgment of prevailing conditions and factors, and then approves the policies. It is then the responsibility of management to implement these policies within the institution.

Specific examples of policies which have been set at board level are:

(1) Industrial Credit and Investment Corporation of India

- It will be the policy of the Company not to seek in any enterprise financed by it, a controlling interest or any other interest which would give it primary responsibility for the management of such enterprise. [The Company will to the maximum extent possible, consistent with the protection of its interests, and after satisfying itself that qualified and experienced management is and will continue to be available, leave the management in the hands of the enterprise so financed.]

- With the exception of intermediate investment of its liquid funds in short-term securities, the Company will keep its financing, whether through loans or equity participations or guarantees, diversified, both as among types of undertakings and within any one area of India and normally will not commit more than 10% of its original paid-up share capital and government investment to any single undertaking.
- The Company normally will revolve its funds by selling its investments at its discretion whenever it can receive a fair price therefor. In selling such investments the Company will pay due regard both to its own interests and to those of other participants in the particular investment.
- In undertaking obligations payable in foreign exchange the Company's management, to the fullest extent possible, will endeavor to cover the foreign exchange risk involved by taking obligations payable in the applicable foreign exchange or by forward exchange or by forward exchange contract or other means.
- It will be the policy of the Company to build reserves consistent with sound financial practices.

(2) Sudan Development Corporation (SDC)

In the case of the SDC, the following areas were not specified in the charter, and were eventually defined as policies by the board:

- The requirements and objectives of the Government of the Sudan in relation to SDC, including:
 - the relationships between SDC and other Government undertakings
 - the relationships of SDC's objectives to the overall economic objectives of the Sudan
 - the profit and dividend flows which the Government requires of SDC
- The methods of operation of SDC, including:
 - the scope and range of its activities

- its overall operating policies and objectives
- the criteria which should be adopted for assessing investment proposals
- its short-term and long-term profit objectives and targets

B.1. What standards should apply to prospective funding arrangements?

Only general standards (criteria) are normally stated in the charter of a development institution. For example, the World Bank charter requires only that loans be made in a prudent manner for high priority development projects on the basis of economic considerations. The Board of Executive Directors has established policies to the effect that priority is defined jointly by the staff and borrowing country, and that economic considerations should be defined to include employment, income distribution, environment, health and social considerations. These policies have been translated by management into operational procedures which include such evaluations as: Is the proposed project in a sector in which additional investment is needed? Does the project fit in with the most urgent needs of its sector? Does it contribute to diversification and/or better income distribution among regions or groups? Is the proposed timing of the investment appropriate? What are the environmental and health impacts of the project including benefits or hazards to the environment and human well-being? In addition, specific economic tests used include cost/benefit analysis, measured by the internal economic return and/or the benefit cost ratio.

The importance of this example is that the charter of the World Bank states very simply that loans are to be made prudently for high priority development projects on the basis of economic considerations. The determination of the best means to accomplish

these objectives has been delegated to management, subject to the review and approval of the Board of Executive Directors. This has enabled the Bank to revise its policy and operational standards over time to reflect the development of new and improved techniques (e.g. cost/benefit analysis) and changing priorities (e.g. the inclusion of non-economic considerations) in the most responsive manner and without revising its charter. The stimulus for these changes has come from a variety of sources, including Board members, management, staff and member countries (stockholders).

B.2. Should "interest rates" be set in the charter or by the board?

"Interest rates," i.e., the loan interest rates, returns on equity, loan guarantee fees, etc. charged by a development institution are a measurement of the financial returns on investments required to meet the financial objectives of the institution. In most cases these rates are required by charter to be appropriate or to approximate prevailing market rates, usually measured by the institution's cost of borrowed funds. This provides the board and staff with one objective indicator of whether a proposed investment in an enterprise or a project is viable in a market sense. In practice, "interest rates" are usually set by board policy decision.

how?
from
where?

Any subsidies to lower the interest cost to a borrower are normally provided by a separate appropriation for that purpose. This allows the institution to provide "soft" loans without compromising its overall financial objectives. It also requires that each stockholder government explicitly recognize and approve the financial effect of making investments at rates less than the approximate market rate. These appropriations are placed in separate funds by the World Bank, Inter-American Development Bank

and Alberta Heritage Savings Trust Fund, among others. In most instances, the institution is then reimbursed from the separate fund for the amount of the subsidy, and a separate accounting of the subsidy fund is rendered to the stockholders.

C. Comments on the pros and cons of electing all or part of the board of directors (the proposed policy board).

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Pros: Publicly elected members would directly represent the interests and views of their constituents, and would provide the most direct possible link between individual voters and the policy-making process.

Cons: Election of part of the board would create two unequal classes of directors. Election of all members of the proposed relatively small board would insure equality, but might not include representatives of significant minorities within the State. Finally, the practicalities of election support and campaign finance could result in elected members being subject to undue influence by special interest groups. ?

The Legislature and the Governor are elected officials and taken together, tend to provide elected representation of the majority and virtually all the minority views held by the people of Alaska. This implies that selection of the proposed policy board is an appropriate function of the Governor and Legislature. Use of the nomination/confirmation process also permits an element of measured inquiry into the background, independence, technical competence and suitability of proposed policy board directors prior to their confirmation.

D. Suggestions on alternate structures or modifications to the present proposal if greater (1) citizen, (2) legislative or (3) executive influence is desired.

Subject to the following comments and suggestions, the structure proposed at the November 16, 1976 workshop session appears to strike a reasonable balance among citizen, legislative and executive influence and involvement. The proposal, along with the process to establish the Alaska Permanent Fund (Fund) presently underway, incorporates significant participation by all three groups in the establishment as well as the future operation of the Fund.

Establishment of the Fund

Participation of private citizens includes membership on the State Investment Advisory Committee (SIAC), appearance before the SIAC public session, and the Alaska Public Forum. Legislators are members of the SIAC and will finally approve the entire charter (enabling legislation), the crucial element in the establishment of the Fund. The executive is deeply involved with the SIAC and will participate in the development of the enabling legislation.

Operation of the Fund

The proposed structure of the policy board appears to insure a balanced involvement of all three groups in the selection and membership of the policy board. A majority of the board members are to be private citizens. All board members are to be proposed by the executive and confirmed by the legislature. The policy board then will be accountable to the public, Legislature and executive for the policies of the Fund and progress toward the objectives outlined in the

charter through implementation of its purposes by management selected by the board. The power to amend the charter at any future date is, by definition, reserved to the Legislative.

Comments

The workshop proposals generally provide the important separation of responsibilities for policy and operation between two boards that is an essential prerequisite for accountability and freedom from undue and improper political and special interest pressures. The establishment of a policy board without responsibility for operational decisions on specific loans and investments provides an organization level that can be responsive to political, economic and social considerations, as well as the views of individuals or groups. It has the power to change the direction of the Fund through policy decisions and the selection of the chief executive and other members of the management board. The delegation of responsibility for investment decisions to the management board insures that the policy board is insulated from undue and improper pressures to make a particular investment.

Conversely, the specification of the policy board as the only appropriate forum for the expression of views by private citizens, special interest groups, the legislature and the executive insures that these views will be properly incorporated in policy and insulates the management board from undue and inappropriate pressures with regard to specific investment decisions.

The policy board can then properly be held accountable to the public, legislature and executive for the policies of the Fund and for progress toward its objectives. The management board can in turn properly be held accountable to the policy board for the results of its operations.

Suggestions concerning the policy board.

The functions of the proposed policy board should be defined as the responsibility for review and approval of Fund policies and oversight of the management and operations.

Its specific powers and responsibilities should include:

- selection and appointment of the chief executive officer and other members of the management board
- annual review and approval of long-range (say, five year) operating plans, to include an investment program based on sectoral analysis of the Alaska economy; the budget for the forthcoming year; and the financial plan for the following four years
- (sole) responsibility for relations with the general public, Legislature, executive and special interest groups concerning all matters other than specific investments of the Fund.
- quarterly review of management reports concerning investment decisions and investment supervision
- periodic review of management reports of operations evaluation (post-audits)
- periodic review, consideration and approval of policy proposals developed by management
- review and publication of an annual report including financial statements audited by independent auditors, preceded by delivery of the auditors report directly to the policy board

- interpretation of the charter of the Fund
- determination of the remuneration and terms of service of the chief executive officer and other members of the management board

Suggestions concerning the management board

Investment
Committee

The proposed management board should be made up of able individuals familiar with the Alaskan environment. Its members should possess some or all of the technical skills required to evaluate investment proposals made in accordance with standards established in the charter and defined in policy statements.

The management board should have the following powers and responsibilities:

- (sole) power to approve all investment proposals
- review and approve all plans, policy proposals and reports to be presented to the policy board (with the exception of the report of the independent auditors)
- responsibility for relations with any and all prospective or actual recipients of specific investments from the Fund

Suggestions concerning the chief executive officer

The proposed chief executive officer, (CEO), should also serve as the non-voting chairman of the policy board and voting chairman of the management board. Service in these three capacities is an appropriate recognition of the importance of this position and the fact that the CEO will be the single most accountable individual associated with the Fund.

The powers and responsibilities of the CEO should include:

- (sole) power to present investment proposals to the management board
- responsibility for the ordinary business of the Fund and the organization, appointment, dismissal and remuneration of the officers and staff.

Washington, D.C.
December 15, 1976

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

#24

REPORT TO THE SENATE AND THE HOUSE COMMITTEES
ON THE PERMANENT FUND

OUTLINE OF PRICE WATERHOUSE CONSULTANCY
DURING 1976 - 1977

PHASE I. PROVISION OF INFORMATION ABOUT ORGANIZATION AND
STRUCTURE ALTERNATIVES

1. Verbal presentations were made to the August and October meetings of the State Investment Advisory Committee. These concerned the organization, management and control of a variety of development institutions, ranging from small to large scale and operating in the developing countries.
2. A Report on the Organization, Management and Control of Development Banks was published on September 29, 1976. The report provided information about five institutions for the Committee's deliberations on: organization structure; relationships with governmental units and the public; selection of management and policy-making boards; and organizational, operating and financial controls which provide security and protection for the integrity of an institution.
3. Further information was provided through a report dated November 5, 1976 and verbal presentations to the November 6 and 7 Committee meetings about specific questions. The questions included examples of development banks which have experienced significant difficulties in meeting their objectives; specific criteria

by which development banks measure success; and suggestions about the overall organization structure for the Permanent Fund. This latter assignment resulted in a suggestion that the fund have a dual board structure, with a popularly elected top policy-making board having the power to select a board of directors to make investment decisions and a chief executive to manage the operations of the fund.

4. All of the preceding presentations and reports were then utilized at the November 16 Committee workshop at which an outline of a preliminary structural design was developed by the members of the Committee attending that workshop.

PHASE II. ASSISTANCE TO THE COMMITTEE WITH INTERPRETATION AND TECHNICAL ANALYSIS OF THEIR OUTLINE PROPOSALS AND DELIBERATIONS

1. A report dated December 15, 1976 was prepared in response to four questions submitted to Price Waterhouse on behalf of the committee. This report included specific examples of broad statements of priority which should be set in enabling legislation and of policies which should be set at board level. It also dealt with suggested loan standards which should apply to prospective funding arrangements, establishing interest rates by statute or at board level and comments on the pros and cons of electing all or part of the board of directors. Finally, the report was addressed to suggestions on alternative structures or modifications to the proposals of the Committee workshop concerning the level of citizen, legislative and executive participation inherent in the design of the Fund.

2. On December 10 Price Waterhouse arranged appointments for a working party of the Committee with four senior executives of development institutions in Washington D.C. Each of these executives was able to comment on practical problems faced by their institutions which appeared to have potential relevance to the Permanent Fund.
3. Price Waterhouse representatives participated with the Committee at their meeting on December 16 and 17. During this meeting the Committee requested that Price Waterhouse participate in the preparation of draft enabling legislation during the following week. This draft was completed on December 21 and sent to all members of the Committee for their consideration.
4. A Price Waterhouse representative met with the Committee on January 6 to assist with their interpretation and understanding of the draft enabling legislation. The product of that meeting of the Committee has been submitted to the Legislature in the form of House Bill number 298.
5. During January and February, additional advice was provided concerning questions and modifications to the draft enabling legislation. House Bill number 300 resulted from the suggested improvements to House Bill number 298 developed during this period.

P. B. McDowell
April 20, 1977

Jamie P. Lischer:

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Go to public!

This seems like the changing of

the guard. The torches passed from

I.A.C. to P.T. flyers. ~~The~~ 😊



601 WEST FIFTH AVENUE, ANCHORAGE, ALASKA 99501 · 907-279-1424

November 5, 1976

The Honorable Sterling Gallagher
Commissioner
Department of Revenue
Pouch S
Juneau, Alaska 99811

The Honorable Jalmar Kerttula
Alaska State Senator
Pouch Z
Palmer, Alaska 99645

The Honorable Hugh Malone
Alaska State Representative
P.O. Box 9
Kenai, Alaska 99611

Gentlemen:

On September 29, 1976 we submitted our Report on the Organization, Management and Control of Development Banks. As an outgrowth of that report, several additional questions have been asked of us which, for the most part, request additional and more in-depth examination of the matters previously presented. These questions are as follows:

- A. Which development banks have experienced significant difficulty in meeting their objectives and why?
- B. From our experience with development banks, what are our views as to an appropriate policy level and operating structure for the Alaska Permanent Fund?
- C. What are some of the specific criteria by which development banks measure success?

Development Bank Problems

The only widely-known case of serious problems with a development bank occurred in the Development Bank of Ethiopia, the very first Development Finance Company recipient of a loan from World Bank. Our information indicates that the EDB initially operated successfully with responsibility for both agriculture and industrial sectors. Problems began to occur, however, after the industrial sector was assigned away to another bank. The primary causes for problems after this split apparently occurred because:

- A. Lending confined to agriculture did not provide adequate portfolio diversification.
- B. The loans were too small to be adequately supervised, too costly to process and apparently made to unsophisticated borrowers who did not use the proceeds to expand production.
- C. Management was not adequate for the assignment.
- D. The financial and operational control systems were similarly inadequate to deal with the high volume of loans.

On recognition of the foregoing, EDB was remerged with the industrial bank and the enlarged unit is again operating successfully.

While we stated that there have been no known failures of development banks, it should be recognized, particularly with DFC's, that they are chosen instruments of governments and can be prevented from failing. Understandably, therefore, it is difficult to obtain specific case information about problem banks. However, on a no-name basis, our discussions with World Bank and others have disclosed that those development

banks which have had problems generally can be attributed to incompetent management, undue political influence resulting from lack of a clear operating mandate and overextension caused by making too many loans too fast.

A summary of lessons to be learned from these experiences would indicate the following:

- A. Operating management must be highly capable and salaries must be adequate to attract and retain personnel of this quality.
- B. Appointment power must be removed from political processes and must follow sound recruiting, screening and other personnel practices.
- C. The charter of the institution must include clearly defined objectives and accountability requirements. However, it must not impair management independence to carry out objectives in the most productive manner.
- D. Impossible objectives should not be set. For example, a too ambitious program can produce too much lending too soon, before the institution has built up adequate capacity or experience.
- E. Finally, as pointed out in our prior report, government influence must be reasonably controlled so as not to dilute independence.

Organizational Structure

There are no directly parallel situations with the Alaska Permanent Fund from which a model organizational structure may be drawn. However, assuming that the Fund will have a significant development lending role, it would be our

initial suggestion that the Alaska Permanent Fund be a state-owned corporation with a dual board structure. This structure would be as follows:

A. Board of Citizens -

*is in the
Charter
legislation or not*

The overall governing body should be the Board of Citizens, consisting of two members elected by popular vote from each senatorial district to a term of either two or four years, to coincide with the election of state representatives or the election of the governor and members of the legislature. The Board of Citizens should hold annual meetings which would be analogous to the annual meeting of shareholders of ordinary corporations. A quorum should consist of at least two thirds of the members and decisions should be taken by a majority of the members present. The Board of Citizens should be empowered to recommend changes to the state legislature with regard to the "Charter" of the Alaska Permanent Fund and to receive, consider and vote on statements of policy for the Alaska Permanent Fund submitted to it by the President and Board of Directors. The members should serve without compensation except for reimbursement of expenses.

Popular election of the Board of Citizens would ensure that the Alaska Permanent Fund is responsive to:

- (1) the wishes of the majority of the people of the state, and
- (2) the views and concerns of significant minorities.

The members would, inter alia, represent the citizens of the district from which they are elected. This method of election will also help to ensure that the views of all regions of the state are represented and it would give life to the concept of the Fund as Alaska, Inc. The limitations of power will help ensure that

the Board of Citizens is not involved with day-to-day operations and that any major changes in how the Fund is organized and financed will be subject to the political processes of the legislature, as intended by the constitutional amendment. Finally, the prospective size and impact of the Fund justify the establishment of such a large and representative special body concerned solely with the Fund.

B. Board of Directors -

A Board of Directors, of say seven members, should be appointed by the Governor to staggered terms, the majority of which do not coincide with gubernatorial elections and subject to confirmation by one or both houses of the legislature. The Board of Directors should be delegated all powers of the Alaska Permanent Fund, except those reserved to the Board of Citizens. These include the power to decide on all financing operations (loans or equity investments) proposed to it by the staff. Its powers would not include, and in fact the Board of Directors should be explicitly prohibited from, either suggesting or recommending that any particular financing operation be considered or made by the Fund. The Board of Directors should meet at least monthly, in order to consider and make decisions on financing operations and questions of policy submitted to it by the staff. A quorum would consist of five directors and decisions taken by a majority of at least four directors. The Board of Directors should be compensated in accordance with conventions normally established by U.S. corporations and banks of comparable size. The President of the Alaska Permanent Fund should serve, ex officio, as the Chairman of the Board of Directors. Provision should be made for conversion to

full-time directors and an expanded size at a future date, if the volume of financing operations becomes too large for the original Board to deal with effectively.

C. President -

The President of the Alaska Permanent Fund should be appointed by the Board of Directors and his term should be of a reasonable duration, say five years. The position should be constituted as a strong chief executive officer with delegated powers to conduct the ordinary business of the Fund and to establish the organization, appointment, dismissal and compensation of its officers and staff.

Measurement

The measurement techniques of success of development banks is designed to be both inward and external. As discussed in our prior report, there is a formal post-audit process in most development banks which involves collaboration between the bank project staff, the borrower and third parties (e.g. consultants associated with the project) to assess the results. The overall evaluation, including post auditing, is threefold:

- A. The primary thrust is a comparison of actual to planned financial performance including ability to repay the loan (measured by financial statements), timing-schedule achievement, economic rate of return, employment effect, environmental impact (positive or negative), distribution of income among regions and/or population groups. Next is determination of reasons for any major differences between original projections and measured results. A project is, therefore, a success if it has met or exceeded the objectives, most of which are quantifiable.

- B. The secondary thrust is measurement of the impact on the overall development of the economy. Bank economists carefully measure macro-economic statistics for each member country and can infer that projects have helped or hindered overall growth, incomes, employment, balance of trade, etc. Measurements of the quality of life are far more inexact but attempts are being made through survey methods in places where absolute poverty (lot of the poorest in Bangladesh for example) do not exist.
- C. Finally, the analysis thrust is inward. Results of past performance are applied to future operations. Questions asked and answered include:
- (1) Was diagnosis of needs appropriate?
 - (2) Was the definition of project objectives and loan conditions appropriate to these needs?
 - (3) Was bank influence on the project design and composition constructive, in retrospect?
 - (4) Were there unintended effects? Good or bad?
 - (5) Was the bank participation efficient and productive at the level of man-hours expended with regard to the risk level of the project?

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In summary, many of the factors discussed in our prior report, upon closer examination, reinforce the similarity of successful attributes of development banks. The characteristics of a strong and well-defined charter, reasonable independence from political influence (while retaining positive public input),

operational autonomy, quality of personnel and prudent, business-like practices seem to be dominant throughout our study. We are pleased to be of assistance to the State Investment Advisory Committee and welcome any additional questions on the points presented.

Yours very truly,

Rice Waterhouse & Co.



601 WEST FIFTH AVENUE, ANCHORAGE, ALASKA 99501 • 907-279-1424

September 1, 1976

The Honorable Sterling Gallagher
Commissioner, Department of Revenue
Mr. J. B. Rhode,
Liason for the Legislative
Members of the State Investment
Advisory Committee
Juneau, Alaska 99801

Dear Sirs:

As requested, we have prepared this letter for the purpose of outlining the areas in which Price Waterhouse will assist the State Investment Advisory Committee in the development of its recommendations relative to the permanent fund envisioned by HR39.

Role of Price Waterhouse & Co.

Generally, we envision our prospective role to relate to question 4 posed by Governor Hammond in his August 25, 1976 letter to Commissioner Gallagher and the State Investment Advisory Committee (SIAC) as follows:

- "a. The structure of the organization.
- b. The relationship of its organization to the legislature, the State Administration and the public.
- c. The selection of the management and policy making board (or boards).
- d. Criteria for insuring that the fund retains its integrity.
- e. Security and protection from fraud and political influence.
- f. Reporting requirements to the public."

Generally, our role would involve addressing questions relative to management and organization of the permanent fund drawing upon our experience in related fields or with analogous-purpose organizations. In our present discussions, the related experience which has provided the greatest food for thought by SIAC had been Mr. McDowell's personal consulting experience and comments relative to World Bank and other development funding arrangements throughout

the world. We believe that this experience is most likely to be the central core from which advice would be provided to SIAC in such areas as organization controls necessary to mitigate undue political influence, operating controls over loan policies, external reporting requirements, post-audit examination of programs, and the many other questions which must necessarily be explored in developing an appropriate response to the questions of management and organization of the fund. Further, we would expect to draw upon our firm-wide experience with organizations other than described above where certain analogies make such experience relevant. For example, our association with Alaska Housing Finance Corporation could be relevant in this respect because of its independent quasi-government status involving a separate board with both public and private members.

Integration with Other Consultants

We would, of course, expect to coordinate and work directly with any other consultants of the Committee, such as White Weld and Company, Inc., in order to share information and ensure that there are no overlapping responsibilities. In this respect, it is important to note that Price Waterhouse and White Weld have worked closely together in the past, each concentrating on its preincipal area of expertise for the mutual benefit of the project.

Fees

Fees for our services would be based upon regular hourly rates for the category of personnel involved in the engagement. We would also expect to recover any out-of-pocket expenses for travel or similar costs incurred as a result of the project. As you can appreciate, it is most difficult (if not impossible) to precisely define the scope of our work at this time but we would feel that it is in the State's and our best interests to set a present fee ceiling at \$20,000; we will, of course, timely advise you should the definition of requested services begin to approach this limit.

Initial Project

From our attendance at the SIAC's meeting of last week, we understand that no further meetings are to be held until the consultants's reports are available with respect to the questions posed to them. In accordance with the general time frame which was discussed, we believe that our report on the questions relative to management and organization of the permanent fund could be ready by early October, 1976 .

Summary

As we have discussed with you, our firm is uniquely equipped to assist you in the area of management and organization

of the fund and we welcome this opportunity to be of service to the State. We look forward to signing a contract for the services discussed herein. Please call either one of us should you wish additional information.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Peter B. McDowell".


Peter B. McDowell
Partner

A handwritten signature in cursive script, appearing to read "Daniel C. Regis".

Daniel C. Regis
Partner

THE AUDIT COMMITTEE

A
WORKING
GUIDE
FOR
AUDIT
COMMITTEE
MEMBERS

rice
aterhouse & Co.

THE AUDIT COMMITTEE

A
WORKING
GUIDE
FOR
AUDIT
COMMITTEE
MEMBERS

The following material, extracted from Appendix B of the booklet "The Audit Committee—The Board of Directors and The Independent Accountant," provides an informal guide to members of directors' audit committees of suggested topics which may be discussed during meetings with independent accountants, financial management representatives, internal auditors and others. The topics are not intended to be all inclusive nor appropriate in all circumstances. Knowledge of the topics to be discussed at a given meeting, an understanding of the company's operations, the industry and the general state of the economy are all essential to enable committee members to effectively elicit the information they require in order to fulfill their responsibilities.

REVIEW OF FINANCIAL STATEMENTS WITH INDEPENDENT ACCOUNTANTS

Broad areas of inquiry:

1. Changes in accounting principles or practices, or in the application thereof, which had a significant impact on the amounts reported for the current year or which will have a significant impact on future amounts reported and the independent accountants' concurrence with the change and reasons therefor.
2. Sensitive reporting, accounting practices or judgments which may generate adverse comments from business writers, analysts or legal adversaries. Significant unusual items included in current operations but not separately disclosed.
3. Possible adjustments to the financial statements which were discussed with and/or proposed to financial management but not recorded and substantive reasons.
4. Overall evaluation of degree of comparability and conservatism reflected in preparation of the current financial statements as compared to recent prior years. Degree of conformity with accounting policies followed within the industry.

5. All disclosures necessary for a fair presentation or required by the SEC or other agencies made in the financial statements. Any additional disclosure recommended.
 - Litigation which management or the company's legal counsel believes to have possible significant effect.
 - Circumstances, such as possible government actions, the loss or anticipated loss of substantial, profitable contracts, etc. which, while not affecting the financial position or results of operations of the current year, may have a serious impact on the company's future profitability.
 - Contracts entered into which the company presently does not have the ability to fulfill without sustaining losses.
 - Unusual transactions with officers or affiliates.
 - Deviations between information in the financial statements and the other sections of the annual report.
6. New pronouncements by the FASB, AICPA, SEC or others having an effective date subsequent to this year end which will require accounting policy changes or additional disclosures in future financial statements and the anticipated effect. The independent accountants' views as to desirability of early

adoption for reporting this year.

7. Any other matters which the independent accountants wish to discuss with the committee or the full board prior to the release of the annual report or the press release announcing the company's earnings.
8. Status of completion of the examination and the expected form of the opinion.

Other topics which may be relevant dependent on the company and its activities:

1. Formal or informal compensating balances required in connection with loans or other financing agreements or other restrictions on cash items.
2. Bases of accounting for marketable securities, changes in the market value since year end, method of determining market value of securities not publicly traded and marketability of all items included in this classification
3. Adequacy of the allowance for doubtful receivables, status of collection of receivables, particularly large individual amounts, and credit policy in comparison with previous year. Large or unusual receivables from officers or other employees.

4. Steps taken to afford physical safeguards of inventories and other portable items, methods of valuing inventories, the adequacy of procedures in effect to identify obsolete inventory.
5. Basis of recording long-term investments and any factors which may indicate a permanent impairment of the value of these investments or substantial exposure to future losses. Any subsidiary or affiliated companies not included in the consolidated amounts or valued on the equity method and reasons therefor.
6. Brief description of the company's capitalization policies regarding property, plant and equipment and methods of depreciation. Method of recording leases and amortization thereof when such leases are capitalized.
7. Basis for the recorded value of intangible assets and how they are amortized.
8. Restrictions on company activities imposed by lenders and compliance with loan covenants.
9. Outstanding assessments of taxes, years still subject to review and the adequacy of the accrual for taxes payable.
10. Senior stock issues which expressly or effectively limit company activities,

restrictions on retained earnings, treasury stock acquisitions during the year and the purposes for which treasury stock was acquired. The effect given to any outstanding stock options, convertible debt, etc. in the calculation of earnings per share.

11. Major branches, divisions, subsidiaries or lines of business operating at a loss.

RELATIONS WITH THE INDEPENDENT ACCOUNTANTS

Scope and plan of the audit:

1. The independent accountants' overall evaluation of the audit coverage. Any areas where the independent accountants believe scope has been compromised more than they feel comfortable with because of fee pressures.
2. Those units or companies which are to be examined annually and those which are rotated whereby different ones are examined in different years.
3. Those units or companies not examined by the principal independent accountants and whether they are examined by other independent accountants; their materiality to the consolidated financial statements.
4. The extent to which the examination has

been coordinated with the internal auditors in order to avoid unnecessary duplication of work, including reasons for the independent accountants and the internal auditors performing the same or similar work at the same locations and the extent to which the internal auditors will perform certain audit tests as part of the overall internal control procedures.

5. Extent of the review to ascertain the adequacy of the company's "Business Ethics" policy and tests performed to determine compliance with such policy.
6. Extent to which electronic data processing (EDP) is utilized in processing information supporting the financial statements and the extent of the review of the EDP functions.
7. The extent to which changes in the internal accounting controls within the company have been reflected in the audit plan.
8. The extent organizational changes or increases in company activity have been considered in the plan for the examination.

Internal accounting controls, personnel and organization:

1. The independent accountants' evaluation of the overall adequacy of internal controls, in-

cluding their evaluation of the internal audit function, based on their most recent evaluation and testing of such controls and functions, including an evaluation of whether there is a proper balance between cost of controls and risks assumed.

2. Recommendations made related to internal controls or other procedures which the independent accountants or internal auditors believe will enhance the safeguarding of the company's assets and actions taken by management or reasons for lack thereof.
3. Observations about the company's system of management reporting or operational controls not strictly in the independent accountants' field or within the scope of their engagement.
4. The independent accountants' evaluation of the staffing, personnel and organizational structure of the controller's department and the internal audit department.
 - Scope of activities and relationship with operating management.
 - Adequacy of subsidiary and branch accounting organizations and staffing.
5. Any areas where alternative or extended audit procedures have been required because of unsatisfactory records or inadequate controls.

6. Internal controls and procedures relating to EDP:

- Brief explanation of what financial data is processed in whole or in part by EDP, including the significant types of accounting transactions processed and the applications performed.
- Generally, the types of input-output controls established to facilitate the accuracy of processed data.
- Organization, staffing and supervision of the EDP Department including an evaluation of whether there is effective control over the use of computer services throughout the corporation.
- Whether the review of the EDP function indicated that internal controls over processing and the procedures for safeguarding records and files are adequate.

Other topics related to the independent accountants' service:

1. Steps taken by the independent accountants to ensure sufficient continuity of staff to enable the examination to be efficiently conducted.
2. Steps taken by the independent accountants to ensure that staff members are rotated in a

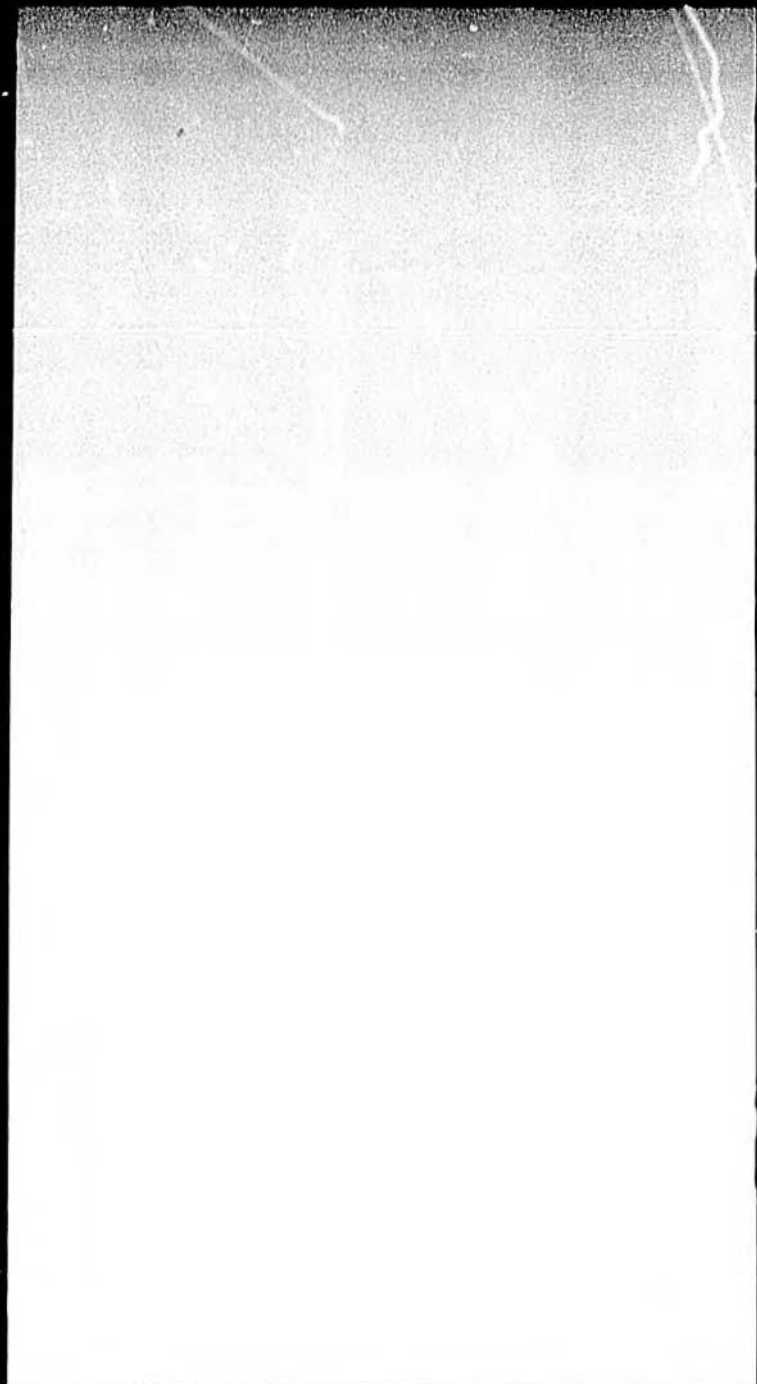
- systematic manner to provide fresh ideas and approaches as well as maintain the proper independence of thought necessary.
3. Services available through the independent accountants' firm which enable them to effectively perform the audit of the company and to provide other assistance when necessary.
 4. Reports issued by the independent accountants in connection with their review of companies being considered for acquisition or relating to other special studies requested by management.

Cooperation of management:

1. All information requested by the independent accountants promptly furnished.
2. All reports of the internal auditors made available for the independent accountants' review. The extent the independent accountants have read such reports and reviewed working papers and work programs in support thereof.
3. Whether the independent accountants are satisfied that management at the various operating levels advised them of matters which may have a bearing on the company's financial position, results of operations or fu-

ture profitability, including any reasons the independent accountants have to believe that information was withheld or that information furnished was incomplete or incorrect.

4. Deviations from the preliminary audit plan, and alternate steps taken to satisfy the independent accountants with regard to the procedures omitted, occasioned by:
 - Restrictions imposed by management
 - Lack of cooperation from management
 - Lack of cooperation from customers, legal counsel or other outsiders
5. Adequacy of improvements in the system of internal control which have been implemented as a result of recommendations made during the current or prior examination.



SCOMM

9:27



PUBLIC INTEREST ECONOMICS FOUNDATION

August 15, 1977

Byron Rogers
Alaska Permanent Fund Commission
Pouch V
Juneau, Alaska 99801

Dear Mr. Rogers:

The Public Interest Economics Foundation (PIE-F) is pleased to submit the proposal attached in response to an inquiry made of our West Coast Office, Public Interest Economics West (PIE-W), by you. PIE-F proposes to undertake an introductory study of some of the broad decisions that must be made concerning the nature and uses of the Permanent Fund. The proposed project would be under my personal supervision, as president of PIE-F. To take advantage of geographic convenience, it would be performed largely in our West Coast Office. The contemplated project manager, Professor Richard Norgaard, would report to Robert Wolcott, director of PIE-West.

At this distance from Juneau, it is not easy to be sure what particular analyses would be most useful to the Governor or to the Commission. The topic detailed in the proposal is, we feel sure, among the areas of greatest concern. However, PIE-F, with its very broad competence and its access to economists throughout the nation, has the capability of addressing a wide range of topics in addition to those indicated. Mr. Wolcott, Professor Norgaard, and I would be happy to come to Alaska to discuss this proposal or other topics of potential mutual interest.

PIE-F is devoted to involving economists systematically in public policy to advance the broad public interest. PIE-F and its affiliate, Public Interest Economics Center (PIE-C), are described more fully in the attached proposal. Here it may suffice to point out that PIE-C performs high quality research over a wide range of public policy issues, and in carrying out its research and other programs has the support of two highly qualified boards of advisors that include several past presidents of the American Economic Association, one of the Nobel Laureates in economics, many competent but less prominent economists, and many representatives of public interest advocacy groups with national or local reputations.

Several members of the proposed study team have, as indicated in their resumes included in the proposal, extensive experience in Alaskan affairs. Further, PIE-C has analyzed many aspects of development and infrastructure problems. PIE-W has recently completed a major study for the State of California of environmental and economic impacts of the development of off-shore petroleum resources. Other PIE-C research encompasses policy problems in transportation, health, environment, technology, and finance.

Byron Rogers

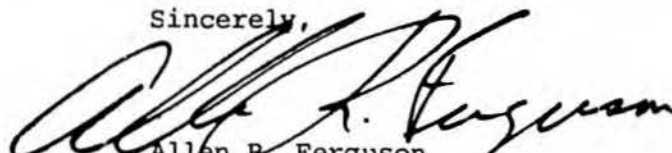
Page Two

In all these areas of research PIE-C has focused on the kinds of solutions that would advance the interest of the public at large rather than that of special interests.

The research proposed would lay the ground work for providing decision makers in Alaska with the full benefit of existing economic knowledge on the issues in question, as that knowledge relates to the economic consequences of major investment in infrastructure in Alaska, at its present state of economic development. The project could be accomplished, as indicated, for about \$36,500 plus the transportation and per diem costs of the necessary visits to Alaska.

We look forward to learning of your interest in the prospect of PIE-F's undertaking the work proposed or other research in policy economics that might be of greater value to the State. We would be happy to come to Juneau to discuss PIE-F and the problems associated with the Permanent Fund.

Sincerely,



Allen R. Ferguson
President

ARF:bs

Enclosure: Proposal

1610 W. 14th Ave
Anchorage, Ak 99501

June 21, 1977

Representative Clark Gruening
Interim Committee on Alaska Permanent Fund
528 W. 5th Ave.
Anchorage, Ak 99501

Dear Representative Gruening:

Following our conversation yesterday I am submitting the attached rough draft outlining some thoughts on the Permanent Fund and municipalities.

As municipalities become aware of the potential good and bad points it will be well to have taken a close look at this delicate relationship.

Please give a call if there is anything beyond this particular proposal that I can assist in.

Municipal Finance
Community Planning & Development

RICHARD G. WILSON
& ASSOCIATES

1610 W. 14th Avenue
Anchorage, Alaska 99501

(907) 278-9277

June 20, 1977

Can the State Benefit by Permanent Fund
Investments in Municipal Government?

Yes, because upgrading the current quality of local government through incentives like these should result in lasting improvements in fiscal accountability, management and general credibility in the public's eye.

Local government in Alaska today has severe problems of credibility and, too often, money management. The culprits are many:

Untrained personnel
High turnover
Traditions of "running to the Legislature/Governor"
Volatile local and regional economic conditions
Growing pains
Lack of commonality in accounting and budgeting techniques
Laxness on the part of the State in holding municipalities to their word in financial matters.

Poor management, particularly fiscal management, can be turned around at the local level by

1. Providing loans, loan guarantees and other financial arrangements, only on the condition that fiscal management improvements recommended by qualified specialists are being taken seriously.
2. Implementing a sound uniform chart of municipal accounts (much as utilities must use a common system)
3. Periodically evaluating progress through appropriate monitoring techniques.
4. Encouraging municipal officials to seek technical assistance from Community and Regional Affairs Department, non-profit organizations and qualified consultants.

The Permanent Fund can meet legislative and constitutional standards by distributing benefits through municipal corporations meeting standards such as those outlined above. How?

1. Direct loans, revolving or otherwise.
2. Loan guarantees on municipal borrowing
3. Matching grants
4. Impact assistance, for environmental, economic or emergency conditions.
5. Full funding of the revenue sharing program.
6. Approval power for investments of the Fund within the affected municipality's jurisdiction.
7. Housing loan or loan guarantee assistance.
8. Utilizing local economic development organizations to help new businesses get started.

Proposal:

One of the gaps facing the Special Committee on the Permanent Fund in House Bill 298 is scope and meaning of "community development". Beyond that, there are several important questions on how Fund investment policies and procedures mesh with existing municipal policies and financial methods.

I propose to address these broad issues and several other specific ones, including

Identify possible targets within the meaning of "community development";

Recommend ways in which the Fund policy and investment entities can set criteria and review applications from communities;

Specifically suggest ways of assuring minimal environmental impact;

Identify and analyze alternative forms of Fund investments in community development projects of municipalities;

Review, with assistance of qualified legal counsel, the above for legal acceptability.

Describe how an incentive system can be used by the Fund to improve and upgrade local government fiscal management.

Where there is a need, I have made arrangements to draw upon the best talent available in such areas as municipal law, bond consultation, and environmental planning. I would like to start immediately in light of other commitments which will be coming up later in the year. I estimate the project report(s) can be in the Committee's hands four months after notice to begin.

I look forward to hearing from you and the Interim Committee.

Sincerely,


Richard G. Wilson

Profile

Richard G. Wilson

1610 West 14th Avenue, Anchorage, Alaska 99501 907/278-9277

EDUCATION

Pomona College, Claremont, B. A., political science.

Syracuse University School of Citizenship and Public Affairs, Syracuse, M. P. A., public finance.

Univ. of Wisconsin, Madison, School of Urban Planning, post-graduate, environmental law and real estate development.

EXPERIENCE AND ACTIVITIES

1976-77 City Manager, Cordova, Alaska

As chief administrator of normal City functions plus regional services such as telephone, electric, water, port and hospital, I was responsible to the City Council in this home rule city.

Prepared and executed budget and intergovernmental revenue programs.

Administered sewer, water and port improvements contracts. Obtained financing for new City Hall and Public Safety complex and administered design-construct contract award.

Analyzed the potential impact of El Paso Natural Gas Pipeline on the Cordova region, including benefits and costs to the existing community.

Prepared OCS and Coastal Zone Management studies of policies and facility needs.

Worked closely with legislative leaders on City matters.

1974-76 Executive Assistant/Office of Management and Budget, City of Anchorage, Alaska

As assistant to the City Manager for community planning and development, I was responsible for program administration and special projects.

Directed Community Development Block Grant program.

Analyzed with community participation the Oil Pipeline project's impact on housing.

Served as adjunct staff to Interim Legislative Committee on Revenue Sharing and directed staff analysis of alternative legislative proposals.

Directed analysis leading to organizing City and Borough agencies into a unified framework; assisted in establishing a new office of management and budget; directed project to convert procedures to a program-performance budget system.

1972-74 Project Manager/Planning Officer, Housing and Urban Development Office of New Communities, Wash., D. C.

As new towns staff member, I specialized in financial and environmental review of proposals for federal underwriting of long term financing.

Analyzed financial strength of new town developers, their development assumptions and their cash flow projections.

Reviewed financial and environmental aspects of private proposals such as Cedar-Riverside (Minneapolis) and public projects including Pontchartrain New Town (City of New Orleans), Audobon (New York Urban Development Corp.) and Oak Openings New Town (Dayton, Ohio).

Authored a chapter in a publication of the National Housing Policies Task Force (H. U. D.) on "Tax Increment Financing" for municipal projects.

1967-72 Budget Analyst/Executive Assistant, State of Wisconsin, Madison.

Analyzed major agency budgets and assisted in conversion to program budgeting.

Evaluated the State's investment portfolio as managed by the Investment Board.

Coordinated economic development assistance programs.

Directed two gubernatorial task forces.

Provided staff assistance to the Joint Finance Committee and other legislative bodies.

References and supplementary information will be provided upon request.



UNIVERSITY OF ALASKA ANCHORAGE
CITIZENS' ADVISORY COMMITTEE
2651 PROVIDENCE DRIVE
ANCHORAGE, ALASKA 99504

June 13, 1977

Honorable Clark Gruening
940 Tyonek
Anchorage, AK 99501

Dear Clark:

Heck, being a legislator isn't all that hard. You work 41 days and then go home--nothing to it. That last month or so that you wrestled with the budget must have been easiest of all. Now how's that for gratitude!

I think you did a hell of a job. I am especially pleased that UAA did not come off as poorly as it could have. In fact, I think it came off very well under the circumstances; and I know you were a large part of the reason.

We are going to have a real university in Anchorage, and the effort that you put forward will help bring that about sooner. Thanks much!

Best Regards,

Ed Isenson
Chairman

bj

April 15, 1977

Representative William Miles
Alaska State Legislature House
120 - 4th Street
Juneau, Alaska 99801

Dear Bill:

Thank you for your patience in awaiting this response with regard to who might be appropriate and available to consult the Legislative Committee on the Alaska Permanent Fund's structure. Please appreciate that after extensive investigation into who would have these important qualifications, the real difficulty came in making the contacts and establishing communications.

The following individuals are most experienced and eminently qualified to discuss and advise on state fund structure. I can assure you that the newness and unique composition of the Permanent Fund would make the structuring of same a personal professional challenge for anyone who might be involved in a consulting capacity. It is always gratifying to be in the creative stages of a pioneer project that is so close to one's experiences.

This was made quite clear to me by Robert E. Blixt, Executive Secretary of the Minnesota State Board of Investment, who would be not only interested, but complimented to consult. Bob's excellent credentials are enclosed for your perusal. He is very close to Kidder, Peabody & Co. and we, of course, have absolute confidence in recommending him to you.

That same confidence can be expressed for John A. Hitchman, Executive Secretary-State Finance Committee for Washington State. John is a good friend of ours and would be most happy to offer his experience and foresight in permanent fund structure.

Daniel J. Forrester III, President of First International Investment Management, Inc. of Dallas, Texas, is also eminently well qualified and strongly versed in the management of state funds which derive their revenues from "analogous" sources. Dan would be most willing to be called upon.

Representative William Miles
Page 2
April 15, 1977

On a source-of-funds basis, the University of Texas Permanent School Fund would, of course, be quite parallel. I am confident that, with your authorization and on your behalf, we could solicit a most valuable contribution from the administrators of that fund.

At Kidder, Peabody & Co. the most experienced person in the area of fund management and structure would be Mr. Beirne O. Chiselm, President of Webster Management Corporation. Webster Management is a wholly-owned subsidiary company of Kidder, Peabody & Co. registered under the Investment Advisors Act of 1940 and is responsible for the management of what is currently about \$500,000,000.00 in private funds.

I know that these individuals would be most willing to contribute their time and energies without consulting fees and would look only for the defrayal of travel expenses. They would not expect to be paid fees and in most cases it would represent a conflict of interest.

Certainly, all can help with the development of one phase or another, whether it be setting up a system of checks and balances in investments, the creation of a harmonious advisory committee, the establishment of logical percentages of permanency, or the difficult tasks of deciding what to own and what pitfalls to avoid.

Please know that at a moment's notice I will be most pleased to provide any introductions or arrange any meeting that might be desired. I sincerely hope this has been helpful and do hope you know we are most anxious to help to the extent that we are able.

Both Ernie Burgess and I look forward to hearing from you soon.

Very truly yours,

Gilbert C. Powers
Vice President
Resident Officer

GCP:pc
Enc.

CC Ernest A. Burgess

BCC James T. Love
San Francisco

BIOGRAPHICAL SKETCH - ROBERT E. BLIXT

CURRENT POSITION:

Executive Secretary of the Minnesota State Board of Investment since 1960.
(Manages approximately \$3.0 billion of trust, retirement and current funds.)

PREVIOUS POSITIONS:

Investment Counsel to the Board of Regents of the University of Minnesota,
1957-1960.

Securities Analyst and Account Portfolio Supervisor, Northwestern National
Bank of Minneapolis, 1953-1956.

Instructor in Finance, University of Colorado, 1950-1953.

EDUCATION:

Associate in Arts (with distinction), Worthington Junior College, Worthington,
Minnesota, 1947.

Bachelor of Arts (magna cum laude), St. Olaf College, Northfield, Minnesota,
1949.

Master of Science (Business Management and Finance), University of Colorado,
Boulder, Colorado, 1951.

Juris Doctor, University of Colorado, Boulder, Colorado, 1953.

PROFESSIONAL ORGANIZATIONS:

Admitted to the Minnesota Bar in 1955.

Admitted to the Twin Cities Society of Security Analysts in 1953.
President (1968-69), Vice President (1967-68).

Director, Financial Analysts Federation (1970-72, 1975-76).
Chairman, Professional Ethics Committee (1972-74); Delegate to the
Investment Analysis Standards Board (1974-76).

Admitted to the Institute of Chartered Financial Analysts in 1965.
President (1975-76), Vice President (1974-75), Trustee (1972-),
Member of the Council of Examiners (1972-75).

ACTIVITIES:

Lecturer, University of Wisconsin Graduate School of Banking (1963-1969).

Member of Investment Advisory Committee of the Minneapolis Teachers'
Retirement Fund Association.

Trustee and Treasurer of the Baptist Hospital Fund (operating Mounds Park
and Midway Hospitals in St. Paul and the Mounds-Midway School of Nursing).

PERSONAL DATA:

Born July 9, 1927.

ADDITIONAL BIOGRAPHICAL DATA:

Who's Who in the Midwest 1965-1976 Editions

The Institutional Investor magazine, December 1973, Page 125.

Guest Editorial



Robert E. Blixt

Minnesota
State Board
of Investment,
speaks out:

**"Know
thyself"**

Public pension administrators, trustees, investment personnel and, particularly, the beneficiaries— are amazed, confused and hurt by the conflicting disclosures of the past few years— the conspicuous abuses in all areas of administrative and financial management of assets representing post-retirement benefits.

The cry to "do something" naturally resulted in ERISA, but the law is understood by comparatively few and has resulted in the elimination of some pension programs— which may have achieved a degree of worthiness under longer trial periods. These problems of ERISA, however, cannot be used to discount the necessity for some controls or guidelines.

The demand for regulation of public pension funds is even more justified, due to the tax monies involved, than the "ERISA" for private accounts.

Can the public accounts wait for appropriate legislation? The many problems disclosed by the New York situation and, especially, the apparent widespread use of pension accounts for "local purposes"— public buildings, housing within the locality or state, loans to potential beneficiaries and mortgages to political favorites— may not be solved through legislation. Someone will always find a way of beating prudence for politics.

What is to be done? Complete disclosure by all concerned, as to financial interests and investments, could be the answer!

What is needed?

• First, the assets of all funds must be fully disclosed to all participants and made available to appropriate agencies, whether it be state departments, congressional committees or the SEC. This in itself could deter the use of retirement assets for "public purposes" such as, local or state "needs." We could decelerate a future New York situation!

• Second, all salaries of retirement administrators, legal fees, lobbying expenditures and other pertinent financial information must be available to members of the press, beneficiaries and the tax-paying public.

• Third, all trustees or directors of public retirement funds must make full disclosure as to sources of personal income, private interests and other relevant affiliations.

• Fourth, public opinion could be focused on the uses of public pension monies for projects which should be financed through tax-exempt bonds. The states and municipalities deserve the lowest tax-exempt interest rates for the buildings. But, the pension funds must have

(Continued on next page)

the highest yields on quality debt for financial favoritism to be met
demanding the luxury or prestige of edifices unattainable through usual taxing
and bonding processes must not be financed through lower-than-market interest
income to the funds.

• Fifth, any claims as to professional "performance measurement statistics" in investment management, actuarial soundness and accounting procedures must be implemented by public disclosure of all statistics regarding actual assets and investments, the methods of computation and—in instances pertaining to large institutional investors—by information indicating that the particular funds used as examples accurately present the total investment philosophy and performance.

• Sixth, all investment and actuarial procedures must be open to inspection and review—not, necessarily, regulation—on a regular and periodic basis by appropriate agencies of the Labor Department, the SEC or state agencies.

• Seventh, the budgets of retirement funds, particularly those meant for administration, must be used for the purposes of providing pensions—not for lobbying aimed at the avoidance of regulation and fiscal soundness.

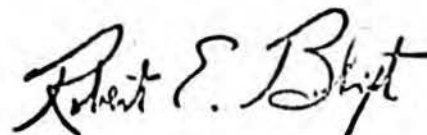
Is extreme regulation needed? No! But, "self-regulation" by the administrative, actuarial and investment professionals is not the answer. They have lobbied for the "status quo," "more time to study" and time to "grandfather" into the professions.

There has been a tendency to condemn those who dare criticize present investment practices, current laxities in the measurement of investment performance, or possible weaknesses of investment counsels, retirement lawyers, actuaries and advisers. But, complete disclosure may convey unexpected answers!

Additional laws and rules may be justified. But they may never be implemented in a meaningful way. Nevertheless, appropriate governmental agencies and professional groups could stress—with the help of legislative pressures and action, if necessary—a complete openness in all investment, actuarial, advisory and pricing procedures. The resulting public discussion and concern could lead to a betterment of the entire pension situation, if not a quick solution to the problems.

No one can legislate correctly if the facts are not known, regulation is impossible until we know what is needed.

Both public and private pension funds have suffered onerous and burdensome criticism; much may be justified; some is not. But those of us in the profession do not yet know our own strengths and weaknesses. We hear the criticisms and fight against them. We may be weak because we do not know the facts. But, disclosure is not new. We need only to follow the ancient Biblical teaching, "Know thyself."



Robert E. Blyth, C.F.A.
Executive Secretary

*PENSION WORLD welcomes responses to its Guest Editorial.

Robert Blixt of the State of Minnesota:

Pension performance on a shoestring

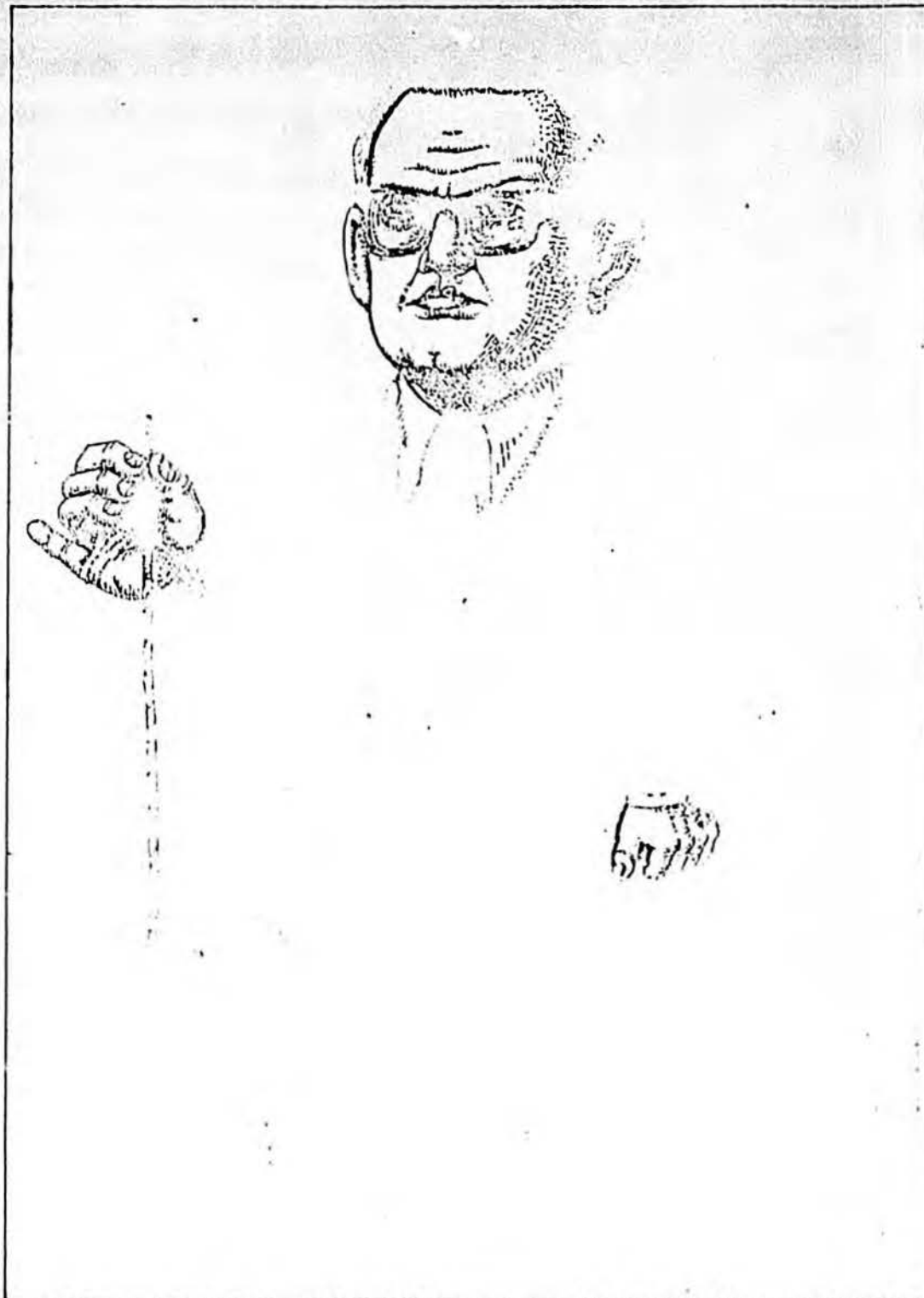
If you pass out enough commissions, you can manage money on a shoestring, as proved by the experience of Robert Blixt of the Minnesota State Board of Investment. He's also proved that a money manager can prod a legislature into letting him do his job—which has included a shift toward equities in the state retirement funds. Here, *Institutional Investor* describes how Blixt serves both his public employers and the state's employees.

The state of Minnesota has got itself a bargain. With a budget of only \$360,000, the Minnesota State Board of Investment is running \$1.1 billion in public employee retirement money and an additional \$900 million in other state funds with all the verve and imagination of the highest-priced money management firms. "We're paper thin on common stock analysis" says Robert E. Blixt, the board's piano-playing executive secretary. "In fact, we're even short of people just to go through the piles of Wall Street reports that arrive in our office every week."

But Blixt's heroically small staff has achieved an investment performance and a political performance that is the envy of other public fund managers, and it has done so by making use of every imaginable resource. At the moment, for example, review of Wall Street reports is done by two young women with only high school educations. "You don't need a CFA," says Blixt, "to figure out that all the major firms issued buy recommendations on Monsanto last summer. The girls may not have been able to tell us *why* we should buy Monsanto, but their tabulations told us that we should look into it."

Blixt also takes advantage of his advisory committee on common stocks, ten men from leading Minnesota financial institutions who work for free. "If these men got together for any other reason than to offer us advice on public money," Blixt says, "they'd be slapped with an anti-trust suit. And no amount of money could compensate them for the insights they've given to the investment department."

Blixt's third secret to operating on a



"Blixt's heroically small staff has achieved an investment performance and a political performance that is the envy of other public fund managers."

shoestring is the size of the assets he manages. The commissions these assets generate are sufficient to attract plenty of attention from brokers and Blixt feels they will continue to be effective after fully negotiated rates are introduced. "Actually," he says, "we're getting more information now than we need. Over the next year, we're going to isolate the firms that give us the best input, and once rates are fully negotiated, we'll continue to pay them well." Blixt, in fact, doesn't even balk at the prospect of paying in hard dollars. He already pays cash — \$40,000 — to Paine, Webber for a computer service, and he is intrigued with an offer by an investment counseling firm to serve up all its written research reports for \$15,000 a year. Such plans will mean that Blixt will be spending more money, but Minnesota will still come out ahead. "Even if our budget goes to \$500,000," Blixt says, "that's still a lot less than the \$2 million it would cost to farm the money out."

Total return

It would cost the state even more than that to operate under the medieval restrictions that were in effect when Blixt took over in 1960, after three years of running the University of Minnesota endowment fund. At that time, state law prohibited the investment board from investing in either common stocks or corporate bonds, and some 70 per cent of the retirement funds under its jurisdiction was committed to Minnesota municipal bonds. The predictable result was that return was under 3 per cent. Starting in 1961, Blixt gradually won legislative approval to put more and more of the retirement portfolios into stocks and corporate bonds and to revamp actuarial and accounting procedures so that emphasis was placed on total return.

It is now permissible for corporate bonds to constitute 60 per cent of the retirement funds' cost value, and, after this year, the equity ceiling was raised from 45 to 53 per cent — also at cost. Accordingly, the basic retirement funds — five separate funds for teachers, public employees, police and firemen, state employees and highway patrolmen — were about 45 per cent in common stocks and 41 per cent in corporate bonds in the fall of this year. When figured at market value, more than half of the portfolio is in equities. Municipal bonds now make up less than 2 per cent of

these funds.

In addition to \$740 million in the basic retirement funds, Blixt is also responsible for a \$26 million supplemental retirement fund, a \$13 million variable annuity fund and a \$360 million adjustable fixed benefit fund from which benefits are paid to retirees. Benefits are "fixed" in the sense that members are guaranteed a minimum benefit at the date of their retirement but "adjustable" because they are subject to upward adjustment if investment performance warrants. Blixt is particularly proud that the 1973 legislature was able to vote a 25 per cent increase in retirees' benefits because the adjustable fixed benefit fund has returned significantly more than the actuarially assumed rate of 3½ per cent. Such increases will be more difficult to win in future years, however, because the legislature also upped actuarial assumption on interest to a more realistic 5 per cent.

Meeting the new actuarial assumption will be facilitated by the fact that a part of unrealized capital appreciation from stocks can be recognized as an increase in book value for actuarial and accounting purposes. The formula is conservative: Whenever the portfolio has shown a total market valuation exceeding cost by 10 per cent for six consecutive valuation dates — the portfolio is valued every two months — the book value is raised by 3 per cent. "We adopted this formula," says Blixt, "because it avoids sharp gyrations in book value that would affect the state's contribution and the benefits to retired persons."

As the author of and chief lobbyist for much of the legislation affecting the investment of retirement assets, Blixt, now 46, has become something of a politician himself. He has learned when to fight, when to coax and when to make a joke. He still calls his method of amortizing bond losses "the reserve that ain't there." As a joke, it's not exactly a sidesplitter, but as an accounting procedure, it's imaginative. The sum of all realized bond losses is called the deferred yield adjustment account. At the end of each fiscal year, aggregate bond losses are divided by the average maturity of the bonds sold, and the quotient is subtracted from the fund's investment return. In fiscal 1972-73, realized losses totaled some \$2 million. The average maturity of the bonds sold was fourteen years, so that \$150,000 will be subtracted from investment return each year for the next fourteen years.

credit, about \$20 million. When the portfolio was reorganized in 1971 to allow Blixt to deal with the \$60 million in bonds turned over to the adjustable fixed benefit fund in 1969 by the Minneapolis retirement fund, Blixt found himself with 184 issues of bonds he'd never heard of. "As an investment man," Blixt says, "I simply had to reorganize the portfolio, but I couldn't take hefty bond losses because it would prevent our retirees from getting a much-needed benefit boost. The 'reserve that ain't there' was the answer, and now we use it in all our funds so that we can continuously upgrade our bond portfolios."

Two hats

Being both an investment man and a public employee can sometimes be a contradiction in terms, and Blixt is frankly worried about some of the pressures that have lately been brought to bear on him. The local press has pictured him as a foe of consumerism because of recent testimony in which he defended higher utility rates. "You have to realize," Blixt explains, "that public retirement funds hold a good percentage of the outstanding utility securities. If the utilities cannot pass on their costs to the consumer and make a profit, our retirees will suffer. I am in favor of good, healthy corporations because I want our investments to do well. I'm not a foe of social purposes; I believe that providing an adequate pension for public employees is a social purpose in itself."

Blixt's trips to financial conferences, two of which were held in Hawaii, have also been highlighted by the press. "They expect me to sit at my desk reading 3-week-old research reports written by some 22-year-old kid who has never invested a penny of his own or anyone else's," Blixt complains. "Sure, reading research reports is part of my job, but so is talking to analysts and other portfolio managers. Those of us who are associated with public funds have to be able to act like the rest of the investment community or our investments will suffer."

Still, getting a competitive return for Minnesota's retirement funds is no nine-to-five job. For several years now, Blixt has spent his vacations in Charlottesville, Virginia, grading CFA exams — because it provides an opportunity for him to meet with the other examiners and expand his knowledge of the financial community. Bob Blixt is also a family man — both proud and sentimental about the six generations of his family who are buried in a Swedish churchyard in Worthington, Minnesota. He speaks often of his wife, Mary Ellen, and of his four children who, like their father, are amateur musicians. At the office, however, Blixt is an energetic, driven man who demands a similar commitment from his staff, who feel that he frequently lives up to his great-grandfather's adopted name — "Blixt" like the German "Blitz" means "lightning." ■

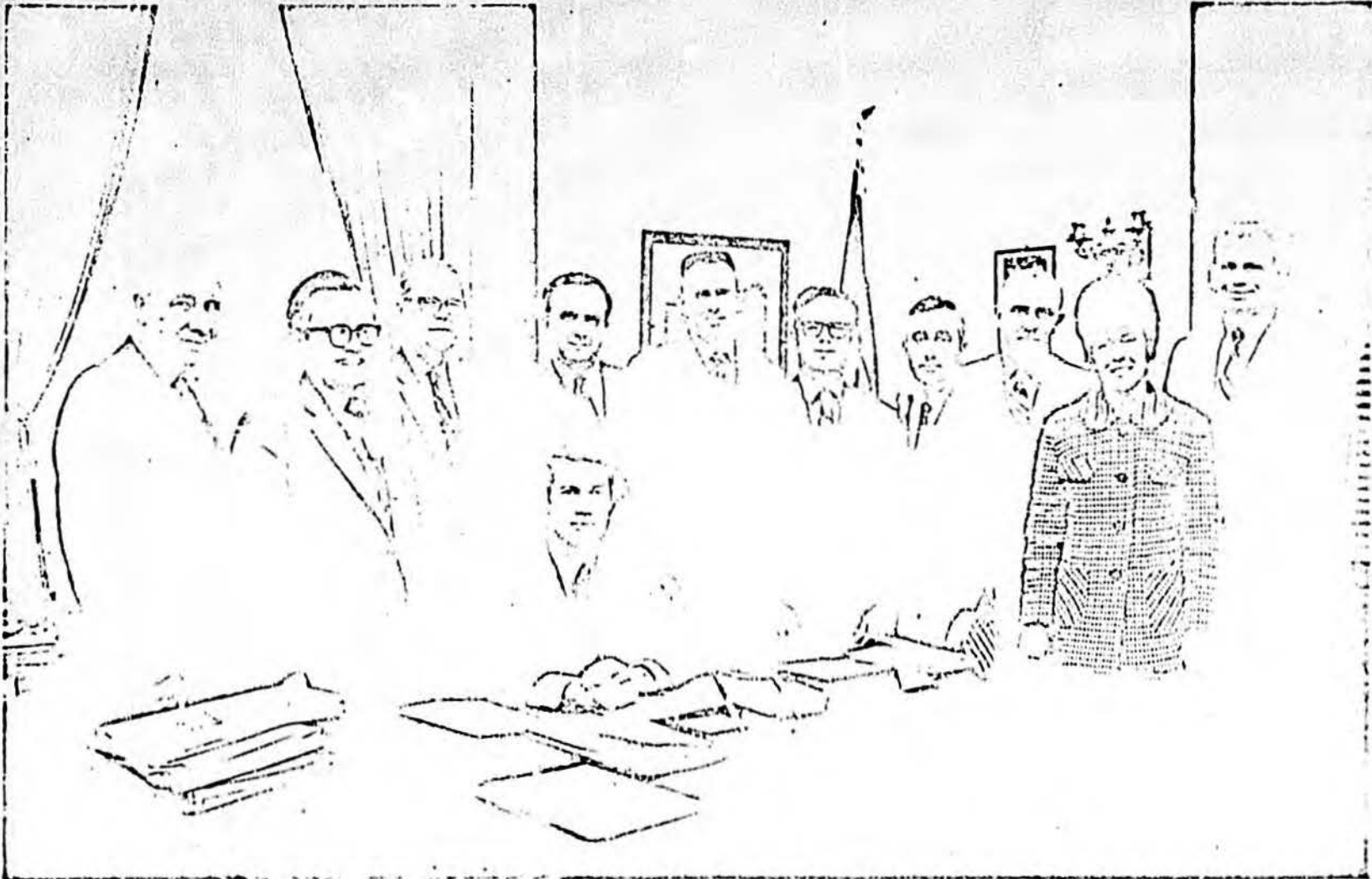
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Report to Governor —

More Than \$1.040 Billion
In Retirement & Trust Funds

Oct. 19, 1975
St. Paul Sunday
Pioneer Press

Robert Blixt is keeping the state funds in tune

By GARY DAWSON
Staff Writer

Want to play tycoon? Sell and buy millions of dollars worth of securities a day? And be successful at it?

"The key in this business is don't get too smart or it will be your downfall," says Robert Blixt, the colorful executive secretary of the state Investment Board. The board manages a \$2.6 billion investment portfolio — one of the largest in the nation.

BLIXT SAYS HE'S never gotten "too smart." But he does get energetic and is generally credited with being the pepper pot of state government — with the evangelistic-like Agriculture Commissioner Jon Wefald coming in a close second.

Blixt, who has been executive secretary since 1960 and served under five governors, works for the board, which consists of the governor, attor-

ney general, secretary of state, treasurer and auditor.

THE BOARD HAS custody of \$2.63 billion in invested funds. That includes \$257 million in the permanent school aid fund; \$1.52 billion in public employe and teacher retirement pensions; \$162 million of highway trust funds; \$81 million in endowment and welfare funds; and \$612 million in invested tax receipts not needed for immediate state government expenditures.

Fifteen years ago, when Blixt took the job, the funds totaled \$570 million.

WHEN BLIXT, 48, of Roseville, and a descendant of Swedish immigrants, received a degree from Worthington Community College in 1947 he had little thought he would end up handling that kind of money. Dealing daily with the largest financial institutions in New York, Chicago, and in

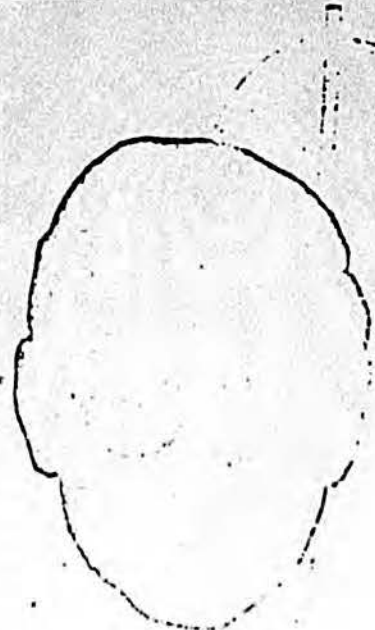
West Coast cities was also far from his mind when he graduated from St. Olaf College in 1949. An accomplished pianist at the time, his chief interest at St. Olaf was music.

But then he took a course in finance and, "I guess I got hooked."

PIANO CONCERTOS gradually gave way to playing the market as Blixt obtained a master's degree in business management and finance at the University of Colorado in 1951. Then while obtaining his law degree from the same school, he was asked to teach finance, and before graduating he had taught most of the finance courses offered at Colorado.

From there it was back to Minnesota, where he was admitted to the bar, became a bank securities analyst and then eventually went to work for the state. He also advises other organizations on

See Blixt, Page 4



Financial 'wizard' Robert Blixt

Blixt: Surplus nets big profit for state

Continued from Page 1

Investment policies.

He admits to having a "gift of gab" that resulted in his being offered an instructor's position at Colorado. That same ability to express himself — both with vigor and at length — has earned him the respect of the Investment Board and the legislature.

"HE NEVER GIVES you half an answer," says Atty. Gen. Warren Spannaus.

One state legislator, after hearing Blixt give a rousing, arm-waving pitch on how easy it would be for the state to sell low interest bonds to finance the new state zoo, said:

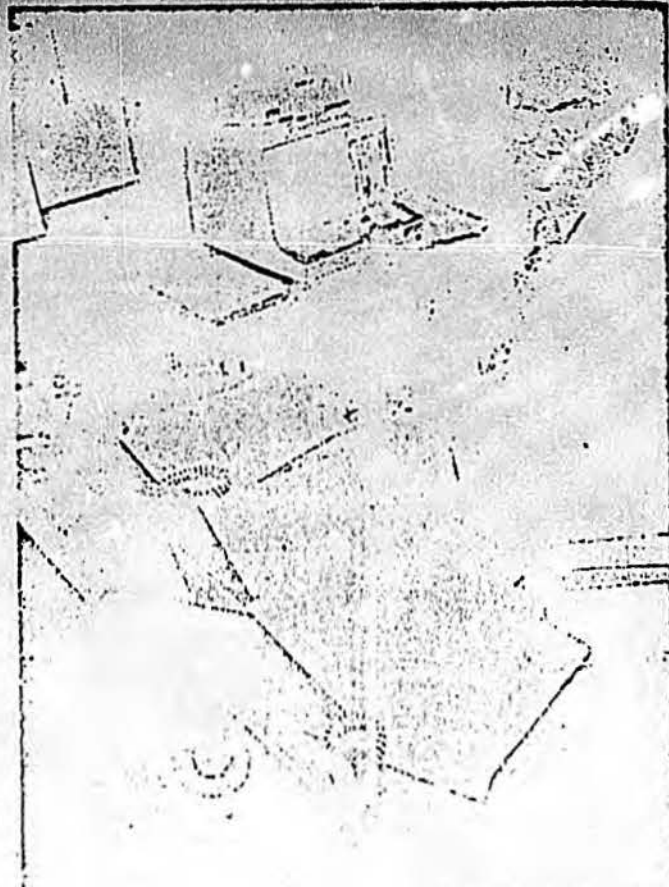
"God, I felt like standing up and applauding when he was finished."

Last month, Blixt, who is careful about updating the state's investment picture, nearly caused a pause in the Investment Board's quarterly meeting when he reported the state had hit an all time high of \$637 million in invested tax receipts. These general fund monies are not needed for daily state government operations and are invested in short term securities. That way the state earns interest on the money.

BLIXT, WHO NEVER lets the dullness of financial figures dull his speech, couldn't resist comparing the rosy picture in Minnesota to the plight of New York City when a reporter asked for his comment on the invested surplus.

"While others are struggling to meet their daily payrolls, we are investing the greatest amount of tax receipts in the history of the state," Blixt said.

These short term investments, some of which are held as short as one day, require cooperation between Blixt, state Treasurer Jim Lord and Finance Commissioner Gerald Christenson. When it ap-



State Investment Board Executive Secretary Robert Blixt seated at his command post. It is from here Blixt supervises the investment of \$2.6 billion in state funds. He sometimes buys and sells at the rate of \$50 million a day. —Staff Photo by Sponce Hollstadt

pears tax receipts are coming in for above current needs, Lord and Christenson will inform Blixt that he has an extra \$10 million to invest. Usually U.S. Treasury Bills, similar to Savings Bonds used by

the federal government to finance its operations, are purchased. Likewise, if the state needs operating funds, Blixt, perhaps the same day he invests \$10 million, will sell \$5 million in Treasury bills.

FISCAL ANTICS might start about 8:45 a.m. with a call from Lord and Christenson that the state has another \$10 million in Tax receipts it will not need for expenditures for at least 48 hours.

Blixt, noting that the time in New York is 9:45 a.m., with banking activity in high gear, will contact several eastern banks to get price quotes on short term Treasury Bills. The reason Morgan Guaranty or the Chase Bank in New York often sells bills they hold is that they often need short term cash to meet a heavy run on loans.

The purchase is wired to New York in minutes. A day or two later the banks will repurchase the Treasury Bills from Minnesota.

ABOUT NOON the same day Blixt might sell \$5 million in securities to First National Bank of Chicago to meet a sudden state financial commitment. Later in the same day, when Eastern financial houses close, Blixt shifts the dealing to California. Bank of America is a frequent contact in San Francisco.

Collecting just one day's interest

on six per cent interest bills on a \$10 mill on purchase nets the state \$1,000 in interest. When interest rates ran as high as 10 per cent in 1974, Blixt was collecting \$2,777 daily interest on a \$10 million investment.

Recently, at six per cent, \$50 million one-day investments have earned \$3,333 in interest.

"NOT BAD FOR an old piano player," noted one fan of Blixt's.

But Blixt is cautious about playing the investment game too well. He believes in diverse investments. The only fund which is heavily invested in common stock is the retirement fund. And only 50 per cent of it is in stock. The only other fund holding common stock is the School Fund. Twenty per cent of it consists of stock.

The stock holdings consist of about 125 different issues ranging the gamut of American industry.

The man often credited with having all the answers on state investments, along with his advisory committee, claims it is best that he not think he's so smart.

"We like to hedge our bets." And that's how, Robert Blixt keeps his financial piano in tune.

Oct. 19,
1975
St. Paul Sunday
Pioneer
Press

Reforming a state pension fund, even slightly, is a delicate task. Since the state pension fund operates in the public eye, a fear of mistakes can be the real investment philosophy, because mistakes with public money can be politically damaging. Together with the relatively low salaries paid to the managers, the atmosphere of fear and caution can keep a state fund in the backwater of managed money.

In the past few years, Minnesota has managed to bring a degree of professionalism to its \$1.1 billion state pension fund. Behind the changes were the energies of one manager, Robert Blixt, a state legislature willing to be educated and a state government aware that change is not inherently evil.

Frank Wright covers the Minnesota legislature for the Minneapolis Star and Tribune, for which he has been reporting since 1954.

How the Minnesota State Pension Fund turned pro

by Frank Wright

His eyes filled with tears, the old rural lawmaker stood at his desk and plaintively cried, "We're going to be letting this young man take our money to Las Vegas and invest it in Wall Street."

The year was 1961.

The place was the floor of the Minnesota state legislature.

The young man in question was Robert E. Blixt, then 33, who for less than a year had been serving as the State Investment Board's first executive secretary. Blixt and other reformers were seeking legislative approval for the first in a series of proposals to liberalize state investment policies.

Until then, the state laws of Minnesota had restricted investments to U.S. government obligations, state and municipal bonds, and first mortgage utility bonds. Blixt and his fellow reformers wanted permission to buy stocks and corporate bonds. It was something of a battle. But after extended discussion, the legislature overcame its initial fears and gave approval.

Since then Blixt, the legislature, individual members of the Investment Board, and advisors in the private sector have combined to make Minnesota's state investment practices professional. Yield on the approximately \$1.1 billion in



state funds invested by the Board has improved to the point of respectability, and the program has been moving steadily — sometimes dramatically — into common stocks.

Those expensive municipals

Minnesota, which centralizes investment of more than 90 separate funds under the five-man elected State Board, for years had followed a more conservative policy than state law required. It was a conservative policy that actually cost the state money.

The Board had invested the permanent school fund, one of its biggest, entirely in U.S. government bonds. Yield hovered around 2.6 percent annually.

Close to 70 percent of the retirement funds were in tax-exempt bonds of Minnesota municipalities. No other state had a higher percentage of its money in such investments. Yield hovered around 2.9 percent.

The tax-exempt bonds, from the standpoint of return earned for the general public, obviously were a poor investment. The state, of course, pays no taxes. It thus was losing money every time it bought municipals, which paid less interest than other kinds of investment. The state mon-

ey readily could have been put into paper that was not tax-exempt and which paid a higher return.

The Board had statutory authority to invest the retirement funds in utility mortgage bonds, but none had been purchased. Municipalities claimed the state had an obligation to buy their bonds and help finance new facilities needed by their residents. This approach was particularly popular with many Minneapolis and St. Paul suburbs, which began to expand rapidly after World War II and stepped up bond sales for schools, streets and sewers accordingly. In addition, a dozen or so municipal bond agents who handled most of the transactions with the state prevailed successfully on the Board to maintain their favored and profitable position. There were other difficulties. Some of the older Board members, with the Depression of the 1930's still a very real memory, had honest reservations about the wisdom of pushing into new types of investment. Also, lack of professional staff and expert advice was a drawback. Investment details were handled perfunctorily by an administrative office that was untrained in finance and whose services had to be shared with other state agencies. Expert counsel from sources that had no special interest was nonexistent.