

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

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

33. page 23, line 15
Substitute "investment committee" in place of "board of trustees".
34. page 23, line 18
Substitute "committee" in place of "board".
35. page 23, line 22
Substitute "investment committee" in place of "board of trustees".
36. page 23, line 23
Following the word "corporation" insert "are subject to AS 39.25.160" and delete the remainder of this sentence.
37. page 25, line 3
Following "tion" insert "and the Alaska Enterprise Investment Fund".
38. page 25, line 3
Substitute "30" in place of "10".
39. page 25, line 9
Substitute "AS 37.13.130(g)" in place of "AS 44.55.120(b)(3) in Section 4 of this Act".
40. page 25, line 11
Following "repealed" insert "at the time Sec. 7. Transition is completed."

It is further suggested that "small and medium scale" should be clearly defined in the bill, for example defining that concept in terms of a 1 percent investment limitation.

M E M O R A N D U M

TO: Rep. Clark Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

FROM: Mike Doogan

DATE: February 13, 1978

SUBJECT: White, Weld suggestions on HB 596 II

At your direction I have prepared this memorandum on the technical and grammatical changes in HB 596 suggested by committee consultants from White, Weld in their communication of January 30, 1978.

1. Page 1, line 16: add comma after "borrowing".
2. Page 1, line 19: add comma after "borrowing".
3. Page 2, line 1: add comma after "borrowing".
4. Page 2, line 7: add comma after "investment".
5. Page 2, lines 24-25: delete "reappointed or".
6. Page 3, line 20: replace "functions over" with "of".
7. Page 3, line 21: add comma after "borrowing".
8. Page 3, line 24: add comma after "documents".
9. Page 4, lines 1-2: change to read: "hold public hearings relating to the confirmation of the Alaska Permanent Fund Board of Trustees..."
10. Page 4, line 17: add comma after "reports".
11. Page 4, line 19: change "limit" to "limits".
12. Page 4, lines 22-24: change to read: "report to the legislature its recommendations relating to the confirmation of suggested appointees to the Alaska Permanent Fund Corporation Board of Trustees."
13. Page 4, line 28: add comma after "borrowing".
14. Page 5, line 2: add comma after "borrowing".
15. Page 5, line 5: add comma after "borrowing".

16. Page 5, lines 10-12: change to read "in conjunction with the finance committee of each house recommend annually to the legislature an investment policy for the general surplus and an application for the dispersible income from the Alaska permanent fund."
17. Page 8, line 12: change to read: "who shall exercise all powers and receive the honoraria and per diem and travel allowances of a permanent trustee.."
18. Page 8, lines 25-26: change to read: "in finance, investments or other business/management related fields. No two persons...".
19. Page 8, line 27: add period at end of sentence.
20. Page 9, lines 9-11: change to read: "The executive director and all other employees of the corporation are in the exempt service under AS 39.25".
21. Page 9, line 16: change to read: "... he shall immediately disclose such interest...".
22. Page 10, lines 3-4: change to read: "The board shall seek to maintain a reasonable diversification among corporation investments...".
23. Page 10, line 11: change "fund" to "corporation".
24. Page 10, line 14: change "its" to "corporation".
25. Page 10, line 18: change "stock and corporate obligations" to "securities".
26. Page 10, lines 20-24: change to read: "No portion of the assets of the corporation may be used in the purchase of stock of any corporation which is not paying cash dividends on such stock at the time of purchase or in the purchase of interest bearing securities of any corporation which has been in default on any interest bearing security at any time within five years before such purchase."
27. Page 10, line 28: change "stocks" to "stock".
28. Page 10, line 28: change "the purchase" to "such purchase".
29. Page 10, line 29: delete "market".
30. Rewrite of page 11 (attachment 1).
31. Page 12, line 5: change to read: "evaluations of the corporation and its investment programs".

32. Page 12, line 7: change "board" to "corporation".
33. Page 12, lines 10-11: change "permanent fund" to "corporation".
34. Page 12, line 12: change "permanent fund" to "corporation" twice.
35. Page 12, lines 13-14: change "the fund" to "corporation".
36. Page 12, line 16: change "fund portfolio" to "corporation's security portfolio".
37. Page 12, line 19: change "permanent fund" to "corporation".
38. Page 12, line 23: change to read: "The corporation may also publish other reports the board considers desirable...".
39. Page 13, line 6: change "officers and staff" to "employees".
40. Page 13, line 23: change "has legal existence" to "has a legal existence".
41. Page 13, line 28: change "permenent fund" to Alaska permanent fund".
42. Page 14, lines 4-16: see attachment 2.
43. Page 14, line 19: delete comma following "enterprises".
44. Page 14, line 25: change "branch of state government appointed by" to "branch of state government and appointed by".
45. Page 14, line 29: change to read: "recognized competence and wide experience in investment and finance."
46. Page 14, lines 1-2: change "and other officers" to "and other such officers".
47. Page 15, line 3: change "appointed" to "public".
48. Page 15, line 12: change "Members" to "appointed members".
49. Page 16, line 25: add comma after "consider".
50. Page 16, line 26: add comma after "committee".
51. Page 17, line 15: change "members" to "other persons".
52. Page 17, line 19: change to read "and other business/management related fields".

53. Page 17, line 21: change "members" to "other members".
54. Page 18, line 22: add comma after "personal".
55. Page 18, line 23: add comma after "federal".
56. Page 18, line 23: add comma after "convenient".
57. Page 19, lines 9-11: change to read "deposit surplus funds with the Alaska Permanent Fund Corporation for investment in such obligations as it may determine;".
58. Page 19, line 28: delete comma after "Alaskans".
59. Page 21, line 11: add comma after "social".
60. Page 23, line 8: add comma after "social".
61. Page 23, line 10: add comma after "legislature".
62. Page 23, line 11: change "it" to "the board".
63. Page 23, line 15: change "board of trustees" to "investment committee".
64. Page 23, line 19: change "officers" to "employees".
65. Page 23, lines 22-23: change to read: "The members of the policy board, members of the investment committee and other employees of the corporation...".
66. Page 24, line 15: add comma after "partnership".

Page 11, change to:

exceed 30 per cent of [the] corporation['s] assets at cost.

(h) The board shall establish and from time to time as necessary modify guidelines for the investment of [the] corporation['s] assets. [Before] Upon the adoption or modification of any guidelines, such guidelines or modifications shall be reported to the Investment Oversight Committee for review and comment.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities[,] not offset by gains on the sales of securities during that year[,] shall be computed; [with] a portion of such net losses is to be deducted each fiscal year from [the] interest and dividend income and the resulting amount of interest and dividend income added to the permanent assets of the [fund] corporation. Losses taken on the sales of [bonds] interest bearing securities shall be [accumulated] recovered over a period equal to the average remaining life of the [bonds] interest bearing securities sold, and losses taken on the sales of stocks shall be [accumulated] recovered within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the [principal] permanent assets of the [fund] corporation.

Sec. 37.13.150. INCOME. The interest and dividends received in a year are the income of the [fund] corporation for that year. [The] Dispersable income [available for disbursement] shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current

ATTACHMENT 1 (continued)

1 return, in which the latest fiscal year will replace the oldest
2 year. [The] Dispersible income [available for dispersment] will
3 be the lesser of the latest fiscal year's income, or the average
4 annual current income for the past five fiscal years of the
5 [fund] corporation at cost, and after adjustment for any
6 capital losses charged to that fiscal year as required in Sec. 140
7 of this chapter.

8 Sec. 37.13.160. BOARD BUDGET. The [board's] corporation's
9 operating budget is
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ATTACHMENT 2

Page 14 line 4, change to:

Sec. 44.55.020. FINDINGS. The legislature finds that

(1) there is a shortage of capital available on reasonable terms for financially sound, small and medium scale (A) productive private enterprises and (B) community development projects in the state;

(2) the corporation working with private financial institutions to supplement but not supplant their services can help to alleviate this shortage;

(3) investment in financially sound, small and medium scale (A) productive private enterprises and (B) community development projects in the state, for which sufficient capital is not available from other sources on reasonable terms, is of benefit to the citizens of the state.

FINAL DRAFT VERSION

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. Under art. IX, sec. 15, of the Alaska Constitution, there is established as a separate fund, in the Department of Revenue, the Alaska Permanent Fund.

Sec. 37.13.015. There is created the Alaska Permanent Fund, a Public corporation of the state. The corporation is an instrumentality of the state within the Department of Revenue but has a legal existence independent of and separate from the state and has continuing succession until its existence is terminated by law. The exercise by the corporation of the powers conferred by this chapter is considered an essential governmental function of the state. The corporation shall manage and invest the principal of the Alaska Permanent Fund and will distribute the income earned from the Alaska Permanent Fund in accordance with the provisions of this chapter.

Sec. 37.13.017. PURPOSE OF THE PERMANENT FUND. The purpose of the Alaska Permanent Fund is to provide a means of conserving a portion of the state's revenues from mineral resources to the ultimate benefit of present and future generations of Alaskans. The revenues so conserved shall be invested in income-producing investments which will provide further benefits to present and future generations of Alaskans.

Further benefits may be derived through use of the Permanent Fund to:

- (1) assist the diversification of the economy of Alaska by making sound investments in Alaska's renewable and non-renewable resources.
- (2) seek to smooth the cyclical pattern of growth of the Alaska economy.
- (3) encourage and assist the participation of private capital, from both within and without Alaska, in private enterprises of benefit to Alaskans.

(4) promote the investment of public and private capital for community development purposes.

(5) supplement private investment when sufficient private capital is not available on reasonable terms and conditions.

(6) also seek to preserve the Permanent Fund capital for future generations through sound investments in investment grade securities.

The Permanent Fund shall be guided in all its decisions by the purpose set forth above.

Sec. 37.13.020. COMPOSITION OF THE PERMENANT FUND. The Alaska Permanent Fund consists of fifty per cent (50%) of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and one hundred per cent (100%) of all bonuses received by the state. The commissioner of revenue shall deposit in the Permanent Fund fifty per cent (50%) of the receipts from all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and one hundred per cent (100%) of all bonuses at least once each month. Income from investment of the Permanent Fund does not become a part of the Permanent Fund and shall be deposited in the general fund annually, except that income in the following amounts shall be retained in the Alaska Permanent Fund:

(1) the amount needed to pay the operating and administrative expenses of the Alaska Permanent Fund;

(2) any amount allocated to a reserve account established under Sec. 37.13.090 of this chapter.

Sec. 37.13.025. INVESTMENT OF THE PERMANENT FUND. The Permanent Fund shall be used only for income-producing investments.

(a) At least forty per cent (40%) of the resources of the Permanent Fund shall be invested in investment grade securities.

(b) The Permanent Fund may invest not more than thirty per cent (30%) of its resources to provide a reasonable proportion of longer-term investment capital for financing the establishment, improvement, and expansion of productive private enterprises which will benefit Alaskans, and for which sufficient capital is not available from other sources on reasonable terms. These investments may take the form of equity, debt or debt guarantees.

(c) The Permanent Fund may invest not more than thirty per cent (30%) of its resources in financing a reasonable proportion of the longer-term investment capital needs for community development projects of municipalities and public corporate entities and private dwellings in Alaska for which sufficient financing is not available from other sources on reasonable terms. These investments may take the form of debt or debt guarantees.

Sec. 37.13.030. PERMANENT FUND POLICY BOARD. (a) There is established the Alaska Permanent Fund Policy Board, consisting of the Commissioner of Commerce and Economic Development, the Commissioner of Revenue, and seven members to be appointed by the Governor and confirmed by the legislature in joint session assembled. The seven appointed members must have been residents of Alaska for at least 3 years and may not be employees of the state. Their term of office is four years, and they may be reappointed. Terms shall be staggered. Initial terms shall be one member serving one year, two members two years, two members three years, and two members four years. Members may be removed for cause. Members will continue to serve until their successors are appointed.

(b) The president of the Alaska Permanent Fund shall serve as the chairman of the Policy Board, but shall not be a voting member.

(c) A quorum for the transaction of Board business shall consist of at least two-thirds of the members. Decisions of the Board shall be taken by a majority vote, including not less than a majority of the appointed members. The Board shall hold at least one public meeting each year.

(d) Members of the Policy Board shall receive \$250 per meeting day and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.040. DUTIES OF THE POLICY BOARD.

The Policy Board shall:

(1) select and appoint the President and other members of the Investment Committee (as established in Sec. 37.13.050).

(2) annually review and approve long-range 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 years.

(3) have sole responsibility for relations with the general public, legislature, executive branch, local communities, and interest groups concerning all matters other than specific investments of the Permanent Fund.

(4) review quarterly reports from the Investment Committee concerning investment decisions and investment supervision.

(5) review, consider and approve policies.

(6) review and publish an annual report including financial statements audited by independent outside auditors.

(7) establish an Audit Committee, consisting of the Commissioner of Revenue and other members of the Policy Board to be designated, which shall select the independent outside auditors, and receive all audit reports.

(8) decide appeals from interpretations of this chapter.

(9) determine the remuneration and terms of service of the President and other members of the Investment Committee (as established in Sec. 37.13.050).

(10) present a complete report of investment programs, plans, performance and policies to a joint meeting of the Senate and House Finance Committees of the Alaska Legislature within thirty (30) days after the beginning of each session.

Sec. 37.13.050. PERMANENT FUND INVESTMENT COMMITTEE. (a) There is established the Alaska Permanent Fund Investment Committee, consisting of the President of the Permanent Fund, who shall serve as chairman, and four members appointed by the Policy Board. No member of the Policy Board may be a member of the Investment Committee. All members must have been residents of Alaska for at least 3 years, may not be state employees and shall be persons of recognized competence and wide experience in investments, finance, and other business management related fields. Members may be reappointed or will continue to serve until their successors are appointed.

(b) A quorum shall consist of four (4) members of the Investment Committee. All decisions will be taken by majority vote.

Sec. 37.13.060. DUTIES OF THE INVESTMENT COMMITTEE.

The Investment Committee shall have sole responsibility to approve all investment proposals, and review all investments in investment grade securities.

Sec. 37.13.070. PERMANENT FUND PRESIDENT. The President of the Permanent Fund shall be appointed by the Policy Board for a term of five years, may be reappointed and shall serve at the pleasure of the Policy Board.

The President shall:

(1) have sole responsibility for presenting investment proposals to the Investment Committee.

(2) be responsible for the ordinary business of the Permanent Fund and the organization, appointment, dismissal, and remuneration of the officers and staff.

(3) be responsible for making investments in investment grade securities, subject to review by the Investment Committee.

(4) establish and maintain adequate and appropriate organizational, operating and financial controls.

Sec. 37.13.080. STATUS OF THE PERMANENT FUND. The Permanent Fund shall be excluded from the provisions of the Executive Budget Act. The President, officers, and staff of the Permanent Fund are in the exempt service.

The Alaska Permanent Fund has all powers necessary to carry out the purposes of this chapter including but not limited to the following:

(1) sue and be sued;

(2) adopt a seal;

(3) have perpetual succession;

(4) adopt and amend policies and operational procedures

when not inconsistent with this chapter;

(5) make and execute contracts and other instruments;

(6) in its own name, own, exchange, transfer, lease, rent, convey, acquire or dispose by other means real and personal property.

Sec. 37.13.090. RESERVES. The Permanent Fund shall establish, from income derived from its investments, reserve accounts to preserve the principal of the Permanent Fund, consistent with sound financial practices.

Sec. 37.13.100. OPERATIONAL PRINCIPLES. The operations of the Permanent Fund shall be conducted in accordance with the following principles:

(1) prudent person rule of investments; in making investments, the investment committee and staff shall exercise the judgment and care under the circumstances then prevailing which a person of ordinary prudence, discretion, and intelligence exercises in the management of his or her own affairs not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of principal.

(2) the Permanent Fund shall not undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms.

(3) the Permanent Fund shall not assume responsibility for managing any enterprise or project 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.

(4) the Permanent Fund shall only undertake its financing on terms and conditions which it considers appropriate, taking into account the terms and conditions normally obtained by private investors for similar financing, the requirements of the enterprise or projects, the risks being undertaken by the Permanent Fund, and the participation of other investors; unless the legislature has appropriated funds for subsidizing investments which, in the opinion of the Permanent Fund, are of such high priority that special terms and conditions are appropriate.

(5) the Permanent Fund may seek to revolve its funds by selling its investments to other investors whenever it can appropriately do so on satisfactory terms.

(6) the Permanent Fund shall seek to maintain a reasonable diversification in its investments:

(7) the Permanent Fund shall only consider investment proposals after the applicant for an investment shall have submitted a detailed proposal to the Permanent Fund staff and the staff of the Permanent Fund shall have prepared a written report recommending the investment after a study of its merits.

(8) the Permanent Fund shall analyze the economic and other effects of an investment decision, including the effects on employment, income distribution, environment, health, social and other factors. The Permanent Fund shall be sensitive to the views of affected local communities and shall include an analysis of those views in proposals for large investments.

(9) the Permanent Fund may make investments in financial intermediaries in order to facilitate investment by the intermediaries in specific enterprises or projects whose individual financing requirements are not, in the opinion of the Permanent Fund, large enough to warrant its direct supervision.

(10) the Permanent Fund shall provide for operational and performance evaluations (post-audits) of its investments and investment programs and report the results to the Policy Board Audit Committee.

(11) nothing in this Section shall prevent the Permanent Fund, 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 Permanent Fund, threaten to jeopardize such investment, from taking such action and exercising such rights as it may deem necessary for the protection of its interests.

Sec. 37.13.110. BORROWING POWERS. The Permanent Fund shall have the power to borrow funds, and in that connection to furnish such collateral or other security therefor as it shall determine necessary.

Sec. 37.13.120. REPORTS AND PUBLICATIONS. The Policy Board shall publish an annual report to the Governor, Legislature and the public. Each report shall include financial statements audited by independent outside auditors, a statement of the amount of money received by the Permanent Fund from each source during the period covered, a statement of Permanent Fund investments, a description of Permanent Fund investment activity during the period covered by the report, and any other information the Policy Board believes would be of interest to the Governor, the Legislature and the public. The annual income statement and balance sheet of the Permanent Fund shall be published in at least one newspaper in each judicial district. The Policy Board of the Permanent Fund is prohibited from any campaign or general advertising expenditures to either promote or defend its policies and operations.

The Permanent Fund may also publish such other reports as it deems desirable to carry out its purpose.

Sec. 37.13.140. TECHNICAL ASSISTANCE. The Permanent Fund may provide financing for pre-investment activities including feasibility studies, when, in the opinion of the Permanent Fund, the proposed investment is of high priority and the financing is not available from other sources on reasonable terms and conditions. Amounts so advanced may form a part of a later investment, if the enterprise or project is financed by the Permanent Fund.

The Permanent Fund may provide for technical and management advice and assistance to proposed and actual investments as it considers necessary in the circumstances.

Sec. 37.13.150. CONFLICT OF INTEREST POLICIES. Members of the Investment Committee shall disclose their financial interest in an investment proposal and disqualify themselves from voting on any investment proposal in which they have a financial interest. The Permanent Fund shall not make an investment in any project or enterprise in which the President or officers of the Permanent Fund have a financial interest. Members of the Policy Board are prohibited from all attempts to influence the Investment Committee, President, officers and staff in the discharge of their ordinary operating duties. The President, officers and staff of the Permanent Fund, in the discharge of their offices, owe their duty entirely to the Permanent Fund and no other authority.

Sec. 37.13.160. POLITICAL ACTIVITY. The members of the Policy Board, members of the Investment Committee, and officers and staff of the Permanent Fund shall not engage in partisan political activities which involve the Permanent Fund, and resources of the Permanent Fund shall not be used to finance any partisan political activities.

Sec. 37.13.170. PUBLIC ACCESS INFORMATION. Information in the possession of the Permanent Fund is a public record except information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.13.180. TAX EXEMPTION. The Alaska Permanent Fund is a public corporation and is exempt from all taxes and assessments in the state. All security instruments issued by the Permanent Fund, their transfer and their income are exempt from all taxes and assessments in the state.

Sec. 37.13.200. DEFINITIONS. In this chapter, unless the context indicates otherwise

(1) "board" means the Alaska Permanent Fund policy board created by sec. 37.13.030 of this chapter;

(2) "committee" means the Alaska Permanent Fund investment committee created by sec. 37.13.050 of this chapter;

(3) "investments" includes equity, debt and debt guarantees.

* Sec. 2. AS 39.25.110 is amended by adding a new paragraph to read:

(21) The Policy Board, Investment Committee, President, officers and staff of the Alaska Permanent Fund.

* Sec. 3. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(MM) Alaska Permanent Fund Policy Board and Investment Committee.

* Sec. 4. Investments outstanding as of the effective date of this Act, made from money in the Alaska Permanent Fund, shall be transferred to the corporation established in sec. 37.13.015 of this Act.

* Sec. 5. This Act takes effect immediately in accordance with AS 01.10.070(c).

COMMITTEE REPORT

HOUSE

FURTHER: FINANCE

1-11-78

Date: 2-22-78

Mr. Speaker:

The Committee on SPECIAL COMMITTEE ON THE
AK, PERMANENT FUND has had HB 596
"An Act relating to nonrenewable resource revenues; e.d."

under consideration and (a majority of the committee) (the committee reports it back as follows)

☒ recommends it do pass () recommends it do not pass

() recommends it do pass with attached amendment(s)

☒ recommends it be replaced with CS for House Bill 596

and _____ ☒ new title () same title

() AND attaches a Letter of Intent () New Fiscal Note

() reports it back without recommendation

() and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

Russ Meekens
Haugen
Ferry
Hardner
B. Duke
Carl G. Gunning

OTHER RECOMMENDATIONS:

Chairman

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W-ALASKA OFFICE BUILDINGFINANCE DIVISION
POUCH WF-STATE CAPITOL

JUNEAU 99801

March 15, 1978

MEMORANDUM

TO: Rep. Clark Gruening, Chairman
House Permanent Fund Committee

FROM: Milton B. Barker, Fiscal Analyst *MB*
Legislative Finance Division

SUBJECT: HB 596 Fiscal Note

At your request, I have reviewed the fiscal note for HB 596, comparing it to the fiscal note for HB 298 and also to similar items of expenditure contained in the FY 79 budget submissions for the Alaska Power Authority and Treasury Management. I would note the following:

1. The note for HB 298 contains \$150,000 for contracts and \$50,000 for miscellaneous contracts while HB 596 contains \$100,000 for Permanent Fund consulting and \$250,000 for Enterprise Corp. consulting.
2. Office rent is budgeted in HB 596 at \$60,000 apiece for the Permanent Fund and Enterprise Corp., both with staff of five. The same size staff, five, of the Alaska Power Authority has budgeted \$30,000 for rent and janitorial for FY 79. The HB 298 fiscal note had \$54,000 for rent for six, based on 3,000 sq. ft. @ \$1.50/month.
3. HB 596 calls for at least one meeting per year of the Enterprise Corp. policy board and no apparent minimum for the Permanent Fund board of trustees. The fiscal note for HB 596 assumes 12 meetings in-state and 3 meetings out-of-state per year for both the trustees and policy board. In-state meetings last 2 days, out-of-state 4 days. HB 298 anticipated only the 12 in-state meetings for its board. Full attendance is assumed at all meetings. Travel and per diem is apparently included in the fiscal note for the one state official on the Enterprise Corp. policy board.

Other costs seem to be appropriate given a total staff of 10 for HB 596, twice that of HB 298, due to the organizational bifurcation. The 18 part-time positions shown on the fiscal note summary appears to be a misprint given the personal service amount shown.

MB3:pw

Attachments

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 596

Title An Act relating to Nonrenewable Resource Revenues

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Legislative Finance

Program Category Affected General Government

Budget Request Unit(s) Affected Legislative Finance

EXP DITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES			65.4			
200 TRAVEL			22.5			
300 CONTRACTUAL			23.0			
400 COMMODITIES			.9			
500 EQUIPMENT			1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL			113.3			

FUNDING (Thousands of Dollars)

GENERAL FUND			113.3			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME			1			
PART TIME			2			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

PERSONAL SERVICES:

1 Adm. Asst., Range 18A, 6 mos. seasonal position (salary & benefits \$11,898+\$1,254)	\$13,152
1 Secretary, Range 14A, 6 mos. seasonal position, (salary & benefits \$8,862+\$936)	9,798
1 Staff Assistant, Range 22C, full-time position (salary & benefits \$34,404+\$8,064)	42,468

- CONTINUED ON ATTACHED PAGE -

IV. DATE _____ PREPARED BY _____

AGENCY _____

Original: Legislative Finance

PHONE _____

cc: Budget and Management

Prime Sponsor (First Legislator Named)

ATTACHMENT - Fiscal Note for HB 596

TRAVEL

5 interim two-day meetings, 8 members @175 airfare and \$50 per diem for 4 days which includes two days for travel =	\$ 18,000
Staff travel -	4,500

CONTRACTUAL

Consultant work	20,000
Memory Typewriter rental for 6 mos. during session @\$180/mo. =	1,080
Phone and Other	2,000

NOTE: It is assumed legislative office space
will be assigned by the Rules Committee
chairmen of each House.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SLB 2-98

Title Alaska Permanent Fund

Requested by Department of Revenue, Treasury

Date _____

II. FISCAL DETAIL

Agency Affected _____

Program Category Affected Development

Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		260.5				
200 TRAVEL		75.6				
300 CONTRACTUAL		414.7				
400 COMMODITIES		6.5				
500 EQUIPMENT		40.8				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		798.1				

FUNDING (Thousands of Dollars)

GENERAL FUND		798.1				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		6				
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This fiscal note enumerates expenses to provide for personal services and operating expenses for one year of operation for the Alaska Permanent Fund.

Personal Services, Equipment and Commodities expenses are for a President, Comptroller, 2 Investment Officers, and 2 Secretaries. Travel and Per Diem expenses are for 7 Board members, 4 Investment Committee members and for the President. Contractual services expenses are for normal office operating expenses, fire and bond insurance, safekeeping and management fees, and \$150,000 for various professional consulting services.

It is anticipated that this fiscal note will be for one year only as the Alaska Permanent Fund will prepare its own budget effective FY 79. In the event that there is no formal enabling legislation for the Permanent Fund the Department of Revenue will prepare the necessary budget for the interim management.

IV. DATE March 1, 1977

PREPARED BY Jim Edens

AGENCY Department of Revenue

PHONE 465-2350

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

Permanent Fund Fiscal Note

	Salary (100)	Travel & Per Diem (200)	Contractual Services (300)	Commodities (400)	Equipme (500)
7 Board Members:					
12 Meetings per year x 2 days x \$250 per day	\$	\$ 42,000	\$	\$	\$
12 Meetings per year x 2 days Travel x \$50		1,200			
12 Meetings x 7 x 2 Anchorage x 4		1,600			
2 Fairbanks x 5		3,000			
2 Juneau x 5		3,000			
President:	50,000				
Benefits	12,500				
Travel & Per Diem @ \$75 per day:					
12 Meetings x 4 (Per Diem)		3,600			
(Travel)		1,500			
6 In-State Meetings (Per Diem)		600			
(Travel)		1,500			
6 Out-of-State Meetings (Per Diem)		1,000			
(Travel)		3,500			
Ex. Desk, Ex. Chair, Credenza, 2 Bookcases, 4 side chairs					6,000
Conference Room:					
Table, 10 Chairs, 8 Side Chairs, Side Table					6,000
Visual Aids - Chalk Board, Cork Board					300
Investment Committee:					
\$500 each x 4 x 12	24,000				
Benefits	6,000				
12 Meetings x 40 x \$75 (Per Diem)		3,600			
(Travel)		6,000			
Staff Support:					
Comptroller	35,256				
Benefits - 24A @ \$2,938	8,814				
Ex. Desk, Ex. Chair, Credenza, 2 side chairs					3,000
Calculator, Dictaphone, Bookcase					1,500

	Salary (100)	Travel & Per Diem (200)	Contractual Services (300)	Commodities (400)	Equipment (500)
Investment Officer III - (2):					
24A @ \$2,938 x 2 x 12	\$ 70,512	\$	\$	\$	\$
Benefits	17,628				
2 Ex. Desks, 2 Ex. Chairs, 4 side chairs					6,000
2 Calculators, 2 Bookcases					2,500
Secretary to Comptroller & Investment Officer:					
Secretary II 11A @ 1,156 x 12	13,872				
Benefits	3,468				
Steno Desk, Chair, Credenza, Memory Typewriter, Distaphone unit					5,000
Secretary to President:					
Secretary III 12A @ 1,231 x 12	14,772				
Benefits	3,693				
Steno Desk, chair, credenza, Memory Typewriter, Dictaphone unit					5,000
Office Supplies and Facilities:					
Office Rent - Conference Room			54,000		
2 Executive offices - Staff area for 6 3,000 sq.ft. @ \$1.50 x 12 including janitorial, lights, heat, water, garbage					
310: Postage			2,500		
Telephone - LD & SC & Inst.			30,000		
Telex - LD use - month			5,700		
320: Printing - Office Stationary, advertising			7,500		
360: Equipment rental - Xerox, etc.			10,000		
370: Fire & Bond Insurance			55,000		
380: Contracts			150,000		
Safekeeping & Management		1,500	50,000		
Miscellaneous contracts for Fund		2,000	50,000		

Permanent Fund Fiscal Note

Page 3

	Salary (100)	Travel & Per Diem (200)	Contractual Services (300)	Commodities (400)	Equipment (500)
Commodities:					
470: Publications, Tec. books & Manuals	\$	\$	\$	\$ 2,000	\$
480: General Office Supplies				2,500	
Envelopes & Stationery				2,000	
Equipment:					
Supply Storage Cabinet (2)					300
Bookcases (4)					500
File Cabinets 4 Broadside					1,200
2 Fireproof					1,000
General Office Furniture					2,500
Totals	<u>\$260,515</u>	<u>\$ 75,600</u>	<u>\$414,700</u>	<u>\$ 6,500</u>	<u>\$40,300</u>
Total = <u>\$798,115</u>					

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 596 - "An Act relating to nonrenewable resource revenues;
Title and providing for an effective date."
Requested by Special Committee on the Alaska Permanent Fund Date 1/11/78

II. FISCAL DETAIL

Agency Affected Department of Revenue
Program Category Affected General Government
Budget Request Unit(s) Affected Treasury Management

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		338.6				
200 TRAVEL		155.4				
300 CONTRACTUAL		578.0				
400 COMMODITIES		10.0				
500 EQUIPMENT		30.0				
600 LAND & STRUCTURES		120.0				
700 GRANTS, CLAIMS, ETC.						
TOTAL		1,232.0				

FUNDING (Thousands of Dollars)

GENERAL FUND		1,232.0				
FEDERAL FUNDS						
OTHER (specify)						

POSITIONS

FULL TIME		10				
PART TIME		18				
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This note enumerates a portion of the fiscal impact of HB 596 upon Treasury Management. Costs of the following administrative structures are included above:

- Investment Oversight Committee - 8 members
- Board of Trustees - 3 members
- Policy Board - 7 members
- Alaska Permanent Fund - 1 Executive Director and staff
- Alaska Enterprise Investment Corporation - 1 President and staff

Fiscal years subsequent to FY 79 would properly be estimated by the emergent administrative body.

IV. DATE February 23, 1978

PREPARED BY JIM EDWARDS
AGENCY Department of Revenue

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

PHONE 465-2350

Notes on HB 596

HB 596 - Investment Oversight Committee

8 Member Committee of Legislature:

4 Trips per year	\$ 5,000
2 Days Per Diem per trip	1,000

Alaska Permanent Fund

3 Member Board of Trustees:

12 Trips per year (Alaska)	5,400
3 trips per year (out of State)	5,400

24 meeting days (Alaska)	
12 meeting days (out of State)	
36 meeting days at \$250/meeting days	27,000

1 Executive Director - Range 30	60,000
24 trips per year (Alaska)	3,600
6 trips per year (out of State)	3,600
90 days total travel plus per diem	4,500

1 Secretary II - Range 11	18,210
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1 Clerk III - Range 8	15,075
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1 Accountant IV - Range 18	29,745
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1 Investment Officer - Range 24	46,275
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Office Space	60,000
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Office Equipment	15,000
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Contractual:

Safekeeping	50,000
Consulting	100,000
Telephone	20,000
Postage	3,000
Printing/Advertising	10,000
Auditing	20,000
Equipment Rental	8,000
Miscellaneous	3,000

Commodities	5,000
-------------	-------

Alaska Enterprise Investment Corporation

Policy Board -- 6 Public Members

1 State Administrator

7 Member Policy Board

12 Trips per year (Alaska)	\$12,600
3 Trips per year (out of State)	12,600
24 Meeting days (Alaska)	
12 Meeting days (out of State)	63,000
36 Meeting Days at \$250/meeting day	
1 President - Range 30	60,000
24 Trips per year (Alaska)	3,600
6 Trips per year (out of State)	3,600
90 days total Travel plus Per Diem	4,500
1 Secretary II - Range 11	18,210
1 Clerk III - Range 8	15,075
1 Accountant IV - Range 18	29,745
1 Investment Officer - Range 24	46,275
Office Space	60,000
Office Equipment	15,000
Contractual:	50,000
Safeguarding	250,000
Consulting	20,000
Telephone	3,000
Postage	10,000
Printing/Advertising	20,000
Auditing	8,000
Equipment Rental	3,000
Miscellaneous	5,000
Commodities	

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 596

Title An Act relating to Nonrenewable Resource Revenues

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Legislative Finance

Program Category Affected General Government

Budget Request Unit(s) Affected Legislative Finance

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES			65.4			
200 TRAVEL			22.5			
300 CONTRACTUAL			23.0			
400 COMMODITIES			.9			
500 EQUIPMENT			1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL			113.3			

FUNDING (Thousands of Dollars)

GENERAL FUND			113.3			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME			1			
PART TIME			2			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

PERSONAL SERVICES:

1 Adm. Asst., Range 18A, 6 mos. seasonal position (salary & benefits \$11,898+\$1,254)	\$13,152
1 Secretary, Range 14A, 6 mos. seasonal position, (salary & benefits \$8,862+\$936)	9,798
1 Staff Assistant, Range 22C, full-time position (salary & benefits \$34,404+\$8,064)	42,468

- CONTINUED ON ATTACHED PAGE -

IV. DATE _____ PREPARED BY _____

AGENCY _____

Original: Legislative Finance

PHONE _____

cc: Budget and Management

Prime Sponsor (First Legislator Named)

ATTACHMENT - Fiscal Note for HB 596

TRAVEL

6 interim two-day meetings, 8 members @175 airfare and \$50 per diem for 4 days which includes two days for travel =	\$ 18,000
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Staff travel -	4,500
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CONTRACTUAL

Consultant work	20,000
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Memory Typewriter rental for 6 mos. during session	
@\$180/mo. =	1,080

Phone and Other	2,000
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NOTE: It is assumed legislative office space
will be assigned by the Rules Committee
chairmen of each House.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 298
Title Alaska Permanent Fund
Requested by Department of Revenue, Treasury Date _____

II. FISCAL DETAIL

Agency Affected _____
Program Category Affected Development
Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		260.5				
200 TRAVEL		75.6				
300 CONTRACTUAL		414.7				
400 COMMODITIES		6.5				
500 EQUIPMENT		40.8				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		798.1				

FUNDING (Thousands of Dollars)

GENERAL FUND		798.1				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		6				
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This fiscal note enumerates expenses to provide for personal services and operating expenses for one year of operation for the Alaska Permanent Fund.

Personal Services, Equipment and Commodities expenses are for a President, Comptroller, 2 Investment Officers, and 2 Secretaries. Travel and Per Diem expenses are for 7 Board members, 4 Investment Committee members and for the President. Contractual services expenses are for normal office operating expenses, fire and bond insurance, safekeeping and management fees, and \$150,000 for various professional consulting services.

It is anticipated that this fiscal note will be for one year only as the Alaska Permanent Fund will prepare its own budget effective FY 79. In the event that there is no formal enabling legislation for the Permanent Fund the Department of Revenue will prepare the necessary budget for the interim management.

IV. DATE March 1, 1977

PREPARED BY Jim Edens

AGENCY Department of Revenue

PHONE 465-2350

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

Permanent Fund Fiscal Note

	<u>Salary (100)</u>	<u>Travel & Per Diem (200)</u>	<u>Contractual Services (300)</u>	<u>Commodities (400)</u>	<u>Equipme (500)</u>
7 Board Members:					
12 Meetings per year x 2 days x \$250 per day	\$	\$ 42,000	\$	\$	\$
12 Meetings per year x 2 days Travel x \$50		1,200			
12 Meetings x 7 x 2 Anchorage x 4		1,600			
2 Fairbanks x 5		3,000			
2 Juneau x 5		3,000			
President:	50,000				
Benefits	12,500				
Travel & Per Diem @ \$75 per day:					
12 Meetings x 4 (Per Diem)		3,600			
(Travel)		1,500			
6 In-State Meetings (Per Diem)		600			
(Travel)		1,500			
6 Out-of-State Meetings (Per Diem)		1,000			
(Travel)		3,500			
Ex. Desk, Ex. Chair, Credenza, 2 Bookcases, 4 side chairs					6,000
Conference Room:					
Table, 10 Chairs, 8 Side Chairs, Side Table					6,000
Visual Aids - Chalk Board, Cork Board					300
Investment Committee:					
\$500 each x 4 x 12	24,000				
Benefits	6,000				
12 Meetings x 40 x \$75 (Per Diem)		3,600			
(Travel)		6,000			
Staff Support:					
Comptroller	35,256				
Benefits - 24A @ \$2,938	8,814				
Ex. Desk, Ex. Chair, Credenza, 2 side chairs					3,000
Calculator, Dictaphone, Bookcase					1,500

Permanent Fund Fiscal Note

Page 2

	Salary (100)	Travel & Per Diem (200)	Contractual Services (300)	Commodities (400)	Equipment (500)
Investment Officer III - (2):					
24A @ \$2,938 x 2 x 12	\$ 70,512	\$	\$	\$	\$
Benefits	17,628				
2 Ex. Desks, 2 Ex. Chairs, 4 side chairs					6,000
2 Calculators, 2 Bookcases					2,500
Secretary to Comptroller & Investment Officer:					
Secretary II 11A @ 1,156 x 12	13,872				
Benefits	3,468				
Steno Desk, Chair, Credenza, Memory Typewriter, Distaphone unit					5,000
Secretary to President:					
Secretary III 12A @ 1,231 x 12	14,772				
Benefits	3,693				
Steno Desk, chair, credenza, Memory Typewriter, Dictaphone unit					5,000
Office Supplies and Facilities:					
Office Rent - Conference Room			54,000		
2 Executive offices - Staff area for 6 3,000 sq.ft. @ \$1.50 x 12 including janitorial, lights, heat, water, garbage					
310: Postage			2,500		
Telephone - LD & SC & Inst.			30,000		
Telex - LD use - month			5,700		
320: Printing - Office Stationary, advertising			7,500		
360: Equipment rental - Xerox, etc.			10,000		
370: Fire & Bond Insurance			55,000		
380: Contracts			150,000		
Safekeeping & Management		1,500	50,000		
Miscellaneous contracts for Fund		2,000	50,000		

Permanent Fund Fiscal Note

Page 3

	<u>Salary (100)</u>	<u>Travel & Per Diem (200)</u>	<u>Contractual Services (300)</u>	<u>Commodities (400)</u>	<u>Equipment (500)</u>
Commodities:					
470: Publications, Tec. books & Manuals	\$	\$	\$	\$ 2,000	\$
480: General Office Supplies				2,500	
Envelopes & Stationery				2,000	
Equipment:					
Supply Storage Cabinet (2)					300
Bookcases (4)					500
File Cabinets 4 Broadside					1,200
2 Fireproof					1,000
General Office Furniture					2,500
Totals	<u>\$260,515</u>	<u>\$ 75,600</u>	<u>\$414,700</u>	<u>\$ 66,500</u>	<u>\$40,800</u>
Total = <u>\$798,115</u>					

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for HB 596 providing for an effective date.
Title An Act relating to nonrenewable resource revenues; to legislative oversight; and /
Requested by Special Committee on the Alaska Permanent Fund Date 2/24/78

II. FISCAL DETAIL

Agency Affected Department of Revenue

Program Category Affected General Government

Budget Request Unit(s) Affected Treasury Management

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		338.6				
200 TRAVEL		155.4				
300 CONTRACTUAL		578.0				
400 COMMODITIES		10.0				
500 EQUIPMENT		30.0				
600 LAND & STRUCTURES		120.00				
700 GRANTS, CLAIMS, ETC.						
TOTAL		1,232.0				

FUNDING (Thousands of Dollars)

GENERAL FUND		1,232.0				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		10				
PART TIME		18				
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This note enumerates a portion of the fiscal impact of CSHB 596 upon Treasury Management. Costs of the following administrative structures are included above:

Investment Oversight Committee - 8 members

Board of Trustees - 3 members

Policy Board - 7 members

Alaska Permanent Fund - 1 Executive Director and staff

Alaska Enterprise Investment Corporation - 1 President and staff

Fiscal years subsequent to FY 79 would properly be estimated by the emergent administrative body.

IV. DATE March 15, 1978

PREPARED BY Jim Edenso

AGENCY Department of Revenue

Original: Legislative Finance

PHONE 465-2350

cc: Budget and Management

Prime Sponsor (First Legislator Named)

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

MASTER FILE
ONLY

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 596

Title An Act relating to Nonrenewable Resource Revenues

Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Legislative Finance

Program Category Affected General Government

Budget Request Unit(s) Affected Legislative Finance

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES			65.4			
200 TRAVEL			22.5			
300 CONTRACTUAL			23.0			
400 COMMODITIES			.9			
500 EQUIPMENT			1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL			113.3			

FUNDING (Thousands of Dollars)

GENERAL FUND			113.3			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME			1			
PART TIME			2			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

PERSONAL SERVICES:

1 Adm. Asst., Range 18A, 6 mos. seasonal position (salary & benefits \$11,898+\$1,254)	\$13,152
1 Secretary, Range 14A, 6 mos. seasonal position, (salary & benefits \$8,862+936)	9,798
1 Staff Assistant, Range 22C, full-time position (salary & benefits \$34,404+8,064)	42,468

- CONTINUED ON ATTACHED PAGE -

IV. DATE _____

PREPARED BY _____

AGENCY _____

Original: Legislative Finance

PHONE _____

cc: Budget and Management

Prime Sponsor (First Legislator Named)

ATTACHMENT - Fiscal Note for HB 596

TRAVEL

6 interim two-day meetings, 8 members @175 airfare and \$50 per diem for 4 days which includes two days for travel =	\$ 18,000
Staff travel -	4,500

CONTRACTUAL

Consultant work	20,000
Memory Typewriter rental for 6 mos. during session	
@\$180/mo. =	1,080
Phone and Other	2,000

NOTE: It is assumed legislative office space
will be assigned by the Rules Committee
chairmen of each House.

Notes on HB 596

HB 596 - Investment Oversight Committee

8 Member Committee of Legislature:

4 Trips per year	\$ 5,000
2 Days Per Diem per trip	1,000

Alaska Permanent Fund

3 Member Board of Trustees:

12 Trips per year (Alaska)	5,400
3 trips per year (out of State)	5,400

24 meeting days (Alaska)	
12 meeting days (out of State)	
36 meeting days at \$250/meeting days	27,000

1 Executive Director - Range 30	60,000
24 trips per year (Alaska)	3,600
6 trips per year (out of State)	3,600
90 days total travel plus per diem	4,500

1 Secretary II - Range 11	18,210
---------------------------	--------

1 Clerk III - Range 8	15,075
-----------------------	--------

1 Accountant IV - Range 18	29,745
----------------------------	--------

1 Investment Officer - Range 24	46,275
---------------------------------	--------

Office Space	60,000
--------------	--------

Office Equipment	15,000
------------------	--------

Contractual:

Safekeeping	50,000
Consulting	100,000
Telephone	20,000
Postage	3,000
Printing/Advertising	10,000
Auditing	20,000
Equipment Rental	8,000
Miscellaneous	3,000

Commodities	5,000
-------------	-------

Alaska Enterprise Investment Corporation

Policy Board - 6 Public Members

1 State Administrator

7 Member Policy Board

12 Trips per year (Alaska)	\$12,600
3 Trips per year (out of State)	12,600
24 Meeting days (Alaska)	
12 Meeting days (out of State)	
36 Meeting Days at \$250/meeting day	63,000
1 President - Range 30	60,000
24 Trips per year (Alaska)	3,600
6 Trips per year (out of State)	3,600
90 days total Travel plus Per Diem	4,500
1 Secretary II - Range 11	18,210
1 Clerk III - Range 8	15,075
1 Accountant IV - Range 18	29,745
1 Investment Officer - Range 24	46,275
Office Space	60,000
Office Equipment	15,000
Contractual:	
Safekeeping	50,000
Consulting	250,000
Telephone	20,000
Postage	3,000
Printing/Advertising	10,000
Auditing	20,000
Equipment Rental	8,000
Miscellaneous	3,000
Commodities	5,000

M E M O R A N D U M

TO: Representative Clark Gruening
FROM: Tom Singer, AA *TS*
RE: Senate Permanent Fund Package:
Sectional Analysis of SCS for CSHB 596,
SCS for CSHB 365, SCS for HB 222, and SB 539.
DATE: 5/23/78

SCS
HB 596

I. SCS for CS for HB 596

Chapter 96. Alaska Loan Programs Fund

Sec.45.96.010. PURPOSE: This section states that a single loan fund would: 1) use the capital resources of Alaska more efficiently; 2) provide information on other capital sources; 3) provide strong assurance of repayment; and 4) lower the cost of borrowing to the state. The Fund's purpose is to provide funds at the lowest interest costs to Alaskans and to provide long-term financing not currently available.

Sec.45.96.020. CREATION OF FUND: This section creates, within the Dept. of Commerce and Economic Development, the Alaska Loan Programs Fund and the division of Alaska loan programs to manage it.

This approach to Permanent Fund management utilizes executive line agencies and civil service personnel, as opposed to the House-selected separate corporation approach.

Sec.45.96.030. REVENUE BONDING AUTHORITY: The state bond committee is empowered to issue bonds and bond anticipation notes to carry out the Fund's purposes.

Sec.45.96.030(d). leaves bond sale details to the determination of the state bond committee, while Sec.45.96.110 provides for competitive bidding on bond issues. This seems to be inconsistent.

Sec.45.96.040. VALIDITY OF PLEDGE: This section pledges the assets of the Fund to the repayment of its obligations.

Sec.45.96.050. REMEDIES: Holders of obligations are given the power to enforce all rights.

Sec.45.96.060. NEGOTIABLE INSTRUMENTS: All obligations are negotiable instruments under state law.

Sec.45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT: Obligations issued under this chapter are legal investments.

Sec.45.96.080. REFUNDING OBLIGATIONS: The fund may refund outstanding obligations.

Sec.45.96.090 CREDIT OF STATE NOT PLEDGED: Obligations are a debt of the state but are payable solely from revenues or assets of the fund.

While the full faith and credit of the state is not extended to these bonds, the state may face a "moral obligation" to back them.

Sec.45.96.100. TAX EXEMPTION: Fund property and bonds are exempt from all taxes of the state or its political subdivisions.

Sec.45.96.110. SALE OF BONDS: Bond issues are to be sold to the highest bidder in competitive bidding. See comment on Sec.45.96.030

Sec.45.96.120. UNALLOCATED RESERVE ACCOUNT: This section creates a special account to secure obligations of the fund, consisting of the income from the Permanent Fund or appropriations. Subparagraph (b) of this section establishes a subaccount, called the "general fund contribution account", which consists of the lesser of all revenue from the general fund from mineral lease rentals, royalty, etc., or any amounts remaining in the general fund which have not been obligated or for which the appropriation has not lapsed at the end of the fiscal year. The subaccount could be used for any purpose for which the unallocated reserve account may be used subject to legislative appropriation.

Sec.45.96.130. DEBT SERVICE RESERVE ACCOUNT: This section mandates that the fund capitalize in each bond issue the maximum permitted reserve fund to secure payment of the obligations being issued. This fund is to be used to repay obligations when other money is not otherwise available.

The statutory requirement to capitalize the maximum reserve allowable leaves no flexibility and may be inappropriate given the details of the bond issues.

Sec.45.96.140. CAPITAL RESERVE ACCOUNT: This is an additional account for securing fund obligations equal to 5% of the outstanding obligations and paid from the unallocated reserve. It is to be used for the same purposes as the debt service reserve account.

Again, the 5% fixed in law may not reflect actual market conditions or requirements.

Sec.45.96.150. LOSS RESERVE ACCOUNT: This is an account for securing fund loans equal to 5% of all loans outstanding and paid from the one percent spread between the rate of interest paid by a borrower and the rate of interest paid by the fund and, when necessary, from the unallocated reserve. It is to be used for losses realized from loans made under this chapter and creates a direct call on Permanent Fund income

to make up losses from loan defaults. Again the 5% may not always be appropriate.

Sec.45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT: This account provides that the Fund may insure loans without requiring proof of insurance against fire and liability if an additional charge of 6/10 of one percent per year is made.

A charge of 6/10 of 1% may bear no relation to the potential cost of the liability being assumed by the fund.

Sec.45.96.170. INVESTMENT OF RESERVE ACCOUNTS: This section provides for investment of the reserve accounts by the Director of the Div. of Treasury in certain securities, and also permits investment of the general fund contribution account directly in obligations and loans of the Loan Programs Fund.

Sec.45.96.180. INVESTMENTS: The Director of the Div. of Treasury shall determine investment policy and manage investment of cash balances and reserves. He shall provide monthly status reports to the Legislative Budget and Audit Committee.

Sec.45.96.190. BUDGET: The operating budget is from the general fund and subject to the Executive Budget Act.

Sec.45.96.200. ACCOUNTING: This section provides for accounting by the Dept. of Administration and quarterly reporting by the Legislative Budget and Audit Committee to the Legislature.

Overall management of the various parts of the Senate plan, which cuts across at least three departments, creates a formidable coordination and communication task among agencies.

Sec.45.96.210. LOAN PROCEDURES: This section states that the division of Alaska Loan Programs must establish offices in Juneau, Fairbanks, and Anchorage, and provides for approval of loans under \$350,000 by the District Director with a committee of two loan officers, while loans over \$350,000 must be approved by a state-level committee.

Sec.45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE:

Sec.45.96.230. RENEWABLE RESOURCES LOANS EVALUATIONS COMMITTEE: These sections set up committees charged with the responsibility for evaluating loans delinquent for a period in excess of 30 days with a view toward renegotiating the loans with alternative terms and conditions where possible, while at the same time protecting the state's interest. The Director of the Division of Collections in the Dept. of Revenue and the Director of the Alaska Loan Programs Division sit on both

committees, the Director of the Div. of Economic Enterprise in the Dept. of Commerce and Economic Development is on the Alaska Loan Programs Evaluation Committee; while the Director of the Div. of Renewable Resources Development in the Dept. of Commerce and Economic Development sits on the Renewable Resources Loans Evaluation Committee.

The potential for political pressure is created here because the borrower initiates reevaluation and refinancing of loans, not the state, yet no guidelines or criteria for this process are established.

Sec.45.96.240. COLLECTIONS: DIVISION OF COLLECTIONS:

This section sets up a division within the Dept. of Revenue headed by a classified employee, Range 27, who must be an attorney licensed to practice in Alaska with at least four years of experience in business law and business practices. Upon finding that a delinquent loan should not be renegotiated, and the loan is not brought current within 30 days, the loan is transferred to the loss reserve account and transmitted to the Division of Collections for collection.

Sec.45.96.250. LOAN PURPOSES: The fund may make loans for residential housing, commercial purposes, public purposes, and education.

Sec.45.96.260. RESIDENTIAL HOUSING: Loan purposes include construction loans, mortgage loans, purchase of mortgage loans, and the acquisition and resale of real property.

This section seems to be a substitute for the Alaska Housing Finance Corporation.

Sec.45.96.270. COMMERCIAL LOANS: Loan purposes include farm development, commercial fishing vessels, gear and permits, hatchery facilities, non-profit corporation hatchery facilities, industrial and manufacturing plant construction and land acquisition, general business expansion, child care facilities, public utilities, capital improvements for hydropower and water supply, small business loans, forestry development, and other renewable resource harvesting, manufacturing, or processing activities.

Sec.45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES: The Dept. of Community and Regional Affairs must determine the need for such facilities before they are eligible for loans.

Sec.45.96.290. VOLUNTARY ASSESSMENT ON THE SALE OF SALMON: This section establishes that an assessment levied under AS 16.05.540-.600 may be used to secure hatchery loans.

Sec.45.96.300. PUBLIC PURPOSES: This section provides that the Director of the Division of Alaska Loan Programs shall lend money to municipalities with populations of less than 5,000 and to corporations eligible under subparagraph (d) of this section. These are non-profit corporations either designated as tax exempt under 501(c)(3) and (4) of the Internal Revenue Code or a public corporation or other municipal instrumentality created under AS 29.59.010. This section provides that loans to municipalities should be made through the purchase by the fund of municipal bonds and that loans to non-profit corporations shall be made through revenue bonds issued on behalf of the corporation by the municipality in which the project is constructed. Under this section, loans to municipalities of 5,000 or less population could be made if certified to their legality by the borough or city attorney or if made outside the municipality by the Department of Law and that the loans be payable within 30 years on an even annual debt service basis. This section further provides that the Director of the Division of Alaska Loan Programs submit a bid for all general obligation bonds offered on a competitive basis by any municipality if the municipality provides its bid form to the Director at least 10 days before opening a bid. This section goes on to provide that the bid be determined on the basis of the Daily Bond Buyer 20-bond average with provisions for various maturities above or below the average depending on the rating of bonds. Bids for revenue bonds under subsection (c) issued on behalf of a non-profit corporation are also required to be submitted by the Director of the Division of Alaska Loan Programs again on a bid basis determined by the Daily Bond Buyer average.

This section is apparently designed to replace the Alaska Municipal Bond Bank Authority. It is objectionable in its design to internalize borrowing by municipalities instead of encouraging borrowing on the ordinary tax exempt market and because there is no apparent rationale for the bid scheme set forth in the statute particularly for revenue bonds. Revenue bonds vary substantially in quality according to the project being financed and no generally applicable bid scheme can be arbitrarily set as is attempted in this section.

Sec.45.96.310. DEFAULT ON MUNICIPAL BONDS: This section provides for a default provision for payment of state monies owing to municipalities directly to the fund similar to that contained in the existing Alaska Municipal Bond Bank Authority Act.

Sec.45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT: This section creates a special account to secure municipal and non-profit corporation bonds equal to 5% of the outstanding obligations and paid from the unallocated reserve.

Again, the percentage necessary to secure each obligation should be based on current market conditions.

Sec.45.96.330. INDUSTRIAL DEVELOPMENT BONDS: Under this section the fund is to make loans to businesses conducting exempt activities under Section 103(b)(4) and (5) of the Internal Revenue Code either directly or through purchase by the fund of industrial development bonds issued by the State Bond Committee. Such loans are conditional subject to certain local government requirements.

This section is apparently intended to replace the Alaska Industrial Development Authority.

Sec.45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING: This section defines all indirect project costs which are bondable under Secs. 300-330 of this chapter.

Sec.45.96.350. EDUCATION: This section allows the fund to make scholarship loans to eligible students, based on a set of criteria and conditions. If the student repays the first 60% of his loan with no delinquency, the remaining 40% is forgiven.

This section replaces the existing Alaska Scholarship Loan Program except for grants. The eligibility criteria would be stricter and the forgiveness provision more permissive than with the existing program.

Sec.45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS: This section provides, in addition to Section 270, loans to businesses involved in the tourist industry. It also provides loans under certain conditions for historical structures.

The section fails to mention anything about open space loans.

Sec.45.96.370. ELIGIBILITY: Eligibility criteria include:

- 1) five year residency
- 2) minimum age of 18 years
- 3) except for Industrial Development Loans, corporations must meet the following: a) more than 60% of the shareholders must be five-year residents; b) the chief executive officer and all board members must be five year residents; and c) the chief executive officer and board members must assume individual liability for the loan.

There are also several conditions establishing ineligibility:

- 1) 60 days or more delinquent on a state loan
 - 2) a loan in bankruptcy
- (Eligibility is restored after 10 years of correction of the violation.)

Sec.45.96.380. MAXIMUM LOAN AMOUNTS: This section sets up various loan limits for residential commercial and educational purposes. Individuals are limited to a total of three loans

from the program (other than education loans). Loan amount limits are scaled to increases in the consumer price index for Anchorage.

The limit of three loans per individual may lead to a situation where corporate borrowers are limited to three loans among them while individuals can have three separate loans.

Sec.45.96.390. AREA COST DIFFERENTIAL: This section establishes a formula based upon both the cost of living and the cost of construction as determined annually by the Dept. of Transportation and Public Facilities to increase the loan amount limits in Sec. 380.

Sec.45.96.400. ADDITIONAL LOAN LIMITATIONS: This section provides for the limits in Sec.380 to be decreased gradually by as much as 50% as the business experience of the applicant decreases below 5 years.

This criteria does not necessarily correlate with probability of success, and there is no provision for exceptions.

Sec.45.96.410. VALUE LIMITATION: Loans may not exceed 90% of the real property pledged or 80% of the equipment pledged as security.

Sec.45.96.420. MAXIMUM TERMS OF LOANS: Terms may not exceed the life of the property pledged as security or 30 years when secured by real property, 15 years when secured by equipment, or 7 years when secured by chattel. Working capital loans are for one year.

Sec.45.96.430. RATE OF INTEREST: The rate of interest charged to borrowers is set at one percent over the anticipated cost of money to the fund plus the amount required for insurance. Veterans and agricultural loans can receive a one percent reduction in interest cost.

In addition to violating the principles of economics and business and guaranteeing distortions in the in-state allocation of capital, a flat low interest rate regardless of risk or term may severely disrupt the state's banking industry.

Sec.45.96.440. ELIGIBILITY FOR VETERAN'S INCENTIVE: This section sets out the criteria for the special interest rates allowed veterans under Sec. 430(b).

Sec.45.96.450. EMPLOYMENT PRACTICES: This section provides that in the case of any contracts let by a recipient of a loan from the fund, the employees on those contracts be 95% residents where they are available and qualified. Also included are penalties for violation.

Sec.45.96.460. COOPERATION WITH OTHER AGENCIES: This requires that other state agencies provide information, services, and facilities to the fund on request (with reimbursement).

Sec.45.96.470. BANK PARTICIPATION: Provision is made here for participation in a loan with a financial institution and for the financial institution to act as an agent for the loan program in the initial processing of applications.

The maximum service fee, set at 1/8 of 1%, may be below the cost of service and would render this provision meaningless.

Sec.45.96.480. ASSURANCE REQUIRED: Borrowers must assure in contract that persons involved in preliminary phases of a project may not participate in their implementation.

This provision sacrifices expertise and efficiency to avoid conflict of interest.

Sec.45.96.490. DEFINITIONS

Chapter 13. ALASKA PERMANENT FUND

Sec.37.13.010. ALASKA PERMANENT FUND: This section repeats the provisions of the constitutional amendment establishing the permanent fund.

Sec.37.13.020. INVESTMENT OF THE PERMANENT FUND: The permanent fund may be invested according to this section in obligations of the U. S. or those insured or guaranteed by the U. S.; obligations secured by reserves paid in by the U. S. Farmer's Home Administration notes; certificates of deposit secured according to Alaska law; corporate obligations rated "A" or better; other securities, FHA mortgages, FVA mortgages, conventional mortgages; other secured loans; and banker's acceptances. Additional criteria on mortgages and secured loans are given. Investment policy is to be formulated by the Director of the Division of Treasury and approved by the Legislature. The commissioner of Revenue may contract for investment advice and other matters.

Sec.37.13.085. MANAGEMENT AND INVESTMENT POLICY: Management and investment policy for the renewable resources development fund is placed with the Director of the Division of Treasury, subject to legislative approval.

Article 4. ALASKA RENEWABLE RESOURCES DEVELOPMENT FINANCIAL ASSISTANCE PROGRAM

Sec.37.11.110. DECLARATION OF POLICY: This section contains a general policy statement that the state seeks to benefit residents through the development of self-sustaining renewable resources industries. It is also state policy to further

the most appropriate uses of the state's renewable resources for commercial, subsistence, and common use.

Sec.37.11.120. FINDINGS: This section contains a series of findings which underlie the purposes and provisions of the chapter.

Sec.³⁷11.130. DIVISION OF RENEWABLE RESOURCES CREATED: A division of renewable resources is created in the Dept. of Commerce and Economic Development to carry out the purposes of this chapter.

Sec.37.11.140. PURPOSES: The purposes of the division are to facilitate the long-range rehabilitation, enhancement, and development of the state's renewable resources. For rehabilitation and enhancement, the division is to demonstrate technologies and innovations; for development, the division is to identify products, markets, and technologies, stimulate their research and development and assist in their demonstration. The division is also to disseminate information.

Sec.37.11.150. APPROPRIATION: This section appropriates the receipts of the renewable resources development fund to the division.

Sec.37.11.160. DIRECTOR, DIVISION OF RENEWABLE RESOURCES: This section contains qualifications and criteria for the position of director.

Sec.37.11.170. COMPENSATION OF DIRECTOR: This section puts the director in the classified service at a Range 27.

Sec.37.11.180. CONFLICT OF INTEREST: This section provides for conflict of interest disclosure.

Sec.37.11.190. POWERS AND DUTIES OF DIRECTOR: The director may hire staff and shall seek to optimize a set of subgoals, consider investment proposals, establish criteria, monitor performance, make plans, and adopt regulations, among other duties.

Sec.37.11.200. ELIGIBILITY: Projects may be funded only if they further the purposes of the chapter, are technologically and economically feasible, the resultant businesses remain in the state, the applicant meets the eligibility criteria for the Alaska loan program's fund, and the applicant agrees to a salary and benefit scale reflecting current business standards. Grants to the private sector or loan forgiveness is prohibited.

Sec.37.11.210. FINANCIAL ASSISTANCE: This section lays out the types of financial assistance for use by the division, including 1) capital stock purchases of up to 50% only after the maximum loan amount has been borrowed from the loan program's fund; 2) interest incentives whereby the division services debt for an applicant until the applicant's business profits are sufficient to service the debt; and grants for public purposes. All assistance is paid from the Renewable Resources Development Fund.

Sec.37.11.220. LOAN GUARANTEES: This section instructs the division to guarantee all renewable resource-related loans from the Alaska loan program's fund.

Sec.37.11.230. REPAYMENT OF INTEREST INCENTIVES: This section establishes a profit sharing system for applicants to repay outstanding obligations. It also empowers the director to investigate all aspects of a business receiving interest incentives to insure a fair profit picture and therefore, repayment.

Sec.37.11.240. LOSS RESERVE ACCOUNT: This section establishes a loss reserve account to secure Alaska loan program's fund loans to renewable resources projects. It consists of payments from the Renewable Resources Development Fund equal to 10% of the loans outstanding which are guaranteed by the division.

Sec.37.11.250. INVESTMENTS: The Renewable Resources Development Fund and the loss reserve account are to be managed and invested by the director of the Division of Treasury, who shall provide status reports to the Legislative Budget and Audit Committee.

Sec.37.11.260. ACCOUNTING: This section provides for accounting for this program by the Dept. of Administration, including reporting to several departments and the Legislative Budget and Audit Committee.

Sec.37.11.270. BUDGET: The division is subject to the Executive Budget Act.

Sec.37.11.280. DEFINITIONS: The terms "rehabilitation, enhancement, and development" and "renewable resources" are defined.

The remainder of the SCS for CS for HB 596 contains 22 sections which, for the most part, amend or repeal all state loan programs and financial entities such as the Bond Bank and ASHA. Most of these changes eliminate existing policy statements and the lending powers of the programs (which are transferred to the Alaska loan program's fund).

SCS for
CS for
HB 365
(SB511)

II. SENATE CS FOR CS FOR HB 365 (SB 511) "An Act creating the division of energy and power development, and providing for an effective date".

Sec.44.53.030. DIVISION OF ENERGY AND POWER DEVELOPMENT IN

DEPT. OF COMMERCE AND ECONOMIC DEVELOPMENT: This section provides statutory authority for the existing Division in Commerce and Economic Development created by executive order in 1976. The division's purpose is to conserve, develop and use the water and other electric power resources of the state and to supply power to Alaskans at the lowest possible rates.

Sec.44.33.035. POWERS: This section is based on repeal of the Alaska Power Authority, placing the Authority's powers within the Division of Energy and Power Development. It's powers include:

- 1) providing a means of constructing, acquiring, financing and operating hydroelectric and fossil fuel generating projects;
- 2) entering into contracts, etc., for accepting grants, for constructing, acquiring, operating or maintaining power projects, or for sale or transmission of power;
- 3) performing feasibility studies; and
- 4) a general "all things necessary" power.

The Division shall wholesale power from its projects to municipal electric, rural electric, cooperative electric, or private electric utilities and regional electric authorities for distribution to retail customers. The section establishes several provisions for power contracts to insure payment of the project.

The bill ends with a repealer which repeals the Alaska Power Authority Act.

SCS for
HB 222
(SB510)

III. SENATE CS FOR HB 222 (SB 510) "An Act relating to public scrutiny of the budget formulation process, to the state budget, and to state bonding".

Chapter 07 Executive Budget Act

Sec.37.07.010(6). STATEMENT OF POLICY: This subsection amends the existing section and encourages public participation in the budget formulation process.

Sec.37.07.020. RESPONSIBILITIES OF THE GOVERNOR: This section replaces the existing section and directs the governor to prepare a budget based on expected revenues and expenditures, and to prepare a capital improvements program and financial plan covering a six year period.

Sec.37.07.030. RESPONSIBILITIES OF THE LEGISLATURE: This section amends the existing section and instructs the legislature to 1) review the budget, 2) analyze the operating and capital improvements programs and financial plans, 3) authorize implementing legislation, 4) provide post-audit functions, and 5) balance expenditures with revenues.

Sec.37.07.040(3),(4) and (7). DIVISION OF BUDGET AND MANAGEMENT: This section amends the existing section by instructing the division to disseminate budget information for public review and comment, and makes all budget-related documents public information.

Sec.37.07.050(g). AGENCY PROGRAM AND FINANCIAL PLANS: This section adds a new subsection to make all budget materials submitted to the division by state agencies under this section public information.

Sec.37.07.060. GOVERNOR'S RECOMMENDATION: This section replaces the existing section and instructs the governor to formulate operating and capital improvement plans including goals and policies, implementation plans, an operating program for the succeeding fiscal year, a capital improvements program for the succeeding six fiscal years, and revenue measures needed to support the programs. The section instructs the governor to present these plans to the legislature, and includes a detailed list of what the report shall contain. The six year capital improvements program must include project by project detail along with timing and financing considerations for each project and for the state's capital improvements program as a whole.

Sec.37.07.062. CAPITAL BUDGET: This new section establishes a separate section in the general appropriations bill for capital outlays and defines its format. The section must list, for each project, the 1) project identification number, 2) project title, 3) source of funding, 4) amount expended during previous fiscal year and amount authorized for the current fiscal year, and the proposed expenditure for the succeeding fiscal year, 5) estimated start for construction, and 6) schedule of bond elections. The section also establishes what financial information shall appear on the balance sheet for each capital projects fund.

Sec.37.07.070. LEGISLATIVE REVIEW: This technical amendment brings the existing section into conformance with the changes made in the previous sections.

37.05 FISCAL PROCEDURES ACT

Sec.37.05.157. GENERAL FUND; "RESERVE FOR CAPITAL OUTLAY" ACCOUNT: This new section creates a "reserve for capital outlay" account to consist of 30% of the receipts paid the state from mineral lease bonuses, rentals for state land and royalties from state minerals (same source as the permanent fund). These proceeds are subject to appropriation.

37.15 STATE BONDING ACT

Sec.37.15.215. OFFICIAL STATEMENTS: This new section states that documentation issued in connection with state or local government securities offerings should comply with guidelines of the Municipal Finance Officers Association or other nationally recognized guidelines.

44.42 DEPT. OF TRANSPORTATION

Sec.44.42.020(a). POWERS AND DUTIES: This section amends the existing subsection and instructs DOT to inventory all state facilities and the facilities of municipalities under 12,000 people to cooperate with inventories of larger municipalities, and to recommend to the governor projects needed in communities according to the following categories:

- i) sewage transmission and treatment systems
- ii) water transmission and treatment systems
- iii) electrical generation and distribution systems
- iv) health care facilities
- v) school facilities
- vi) transportation facilities
- vii) community development projects providing employment
- viii) public safety and justice facilities

This section also provides for prioritization of projects according to the following criteria:

- i) date of incorporation of the municipality
- ii) absence of basic facilities
- iii) projected needs of community to meet anticipated growth

Sec.44.42.080. CAPITAL PROJECTS FUNDS: This new section creates eight capital projects funds in DOT. They are:

- 1) educational, cultural, and related facilities
- 2) transportation and related facilities
- 3) public institutions and related facilities
- 4) public safety, justice and related facilities

- 5) health and related facilities
- 6) natural resource development facilities
- 7) new capital site and related facilities
- 8) general purpose facilities

SB
539

IV. SENATE BILL 539 "An Act relating to eligible costs for state grants for capital improvement projects, and providing for an effective date".

02.15 ALASKA AERONAUTICS ACT OF 1949

Sec.02.15.120. ASSISTANCE TO CONSTRUCT, ENLARGE, OR IMPROVE AIR NAVIGATION FACILITIES: This section amends the existing section to include the term project costs.

Sec.02.15.140. STATE FINANCIAL ASSISTANCE : This section amends the existing section to include the term projects costs.

Sec.02.15.155. DEFINITIONS: This is a new section which defines "project costs" as both direct project costs and indirect financing and implementation costs (such as design, feasibility and site acquisition and preparation costs).

03.20 AGRICULTURAL AND INDUSTRIAL FAIRS

Sec.03.20.010. STATE AID: This amendment adds the term "project costs" to the existing section.

Sec.03.20.080. DEFINITIONS: This section repeats the definition of "project costs" established in Sec.02.15.155. above.

18.55 HOUSING, URBAN RENEWAL AND PLANNING ASSISTANCE

Sec.18.55.934. STATE AID FOR AN URBAN REDEVELOPMENT OR URBAN RENEWAL PROJECT IN A DISASTER AREA: This section repeats the definition of "project costs" established in Sec.02.15.155 above.

19.30 ACCESS ROADS

Sec.19.30.030 COMMISSIONER TO APPROVE APPLICATION: This section repeats the definition of "project costs" established in Sec.02.15.155 above.

43.18 STATE AID TO LOCAL GOVERNMENTS

Sec.43.18.010. STATE AID TO LOCAL GOVERNMENTS: This section repeats the definition of "project costs" established in Sec.02.15.150. above.

Sec.43.18.100(g)(2). STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT: This section changes the existing definition of "costs of school construction" to conform to the definition of "project costs" established in Sec.02.15.155. above.

Sec.43.18.300(h)(3). CIVIC, CONVENTION AND COMMUNITY RECREATION CENTERS: This new section adds a definition of "costs of construction" similar to the definition of "project costs" established in Sec.02.15.155. above (feasibility studies are excluded).

44.33 DEPT. OF COMMERCE AND ECONOMIC DEVELOPMENT

Sec.44.33.150. QUALIFYING FOR MATCHING MONEY: This section amends the existing section to add the term cost of construction, improvement, or operation.

Sec.44.33.150(b). QUALIFYING FOR MATCHING MONEY: This new sub-section adds definition of "cost of construction" identical to the definition of "project costs" established in Sec. 02.15.155. above.

46.03 ENVIRONMENTAL CONSERVATION

Sec.46.03.030(b) and (d) GRANTS AND LOANS FOR WATER SUPPLY AND SEWAGE SYSTEMS: This section adds the words in accordance with (d) of this section and adds a section (d) which defines "eligible costs" as "project costs" is defined in Sec.02.15.155 above.

46.07 VILLAGE SAFE WATER ACT

Sec.46.07.040. CONSTRUCTION OF FACILITIES: This new section defines "cost of the construction of a facility" as "project costs" is defined in Sec.02.15.155. above.

47.30 MENTALLY ILL AND INSANE PERSONS

Sec.47.30.475(c) and .500. GRANT-IN-AID PROGRAM: These sections add the term costs in Sec.475(c) and define "costs of improvement, renovation or new construction of facilities" in Sec.400 as "project costs" is defined in Sec.02.15.155. above.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

TO: Rep. Cowper, Chairman
House Finance Committee

DATE: 8 March 1978

FROM: James B. Rhode, AA

SUBJECT: Economic Premises of HB 596 (Alaska Permanent Fund) and
Related Bills

You have asked for a brief comment on the economic premises that emerge in HB 596 and related bills. They are grouped below under three broad headings: (1) public savings, (2) closing the "capital gap", and (3) subsidies.

(1) The trust in HB 596 is a "nest egg" or public savings account for the future. This serves a number of compatible purposes:

- to support the budget as oil revenues decline
- to check the use of revenues for lower state priorities
- to hold revenues that are not immediately needed (but otherwise might not be collected)
- to give time for the state to better assess its priorities

These purposes are met by the historic trust rule of maximum return consistent with safety of principle.

(2) The Enterprise Fund is to close the "capital gap" in Alaska, private and public. This gap is measured by economists as the amount of capital that would normally be provided by private markets but is not because of "institutional barriers" in the financial community as a whole. Such barriers include lack of information, lack of experience with particular kinds of investment, and racial and other bias. Local regulatory practice can be a barrier, but the effects are probably not great due to the relatively free flow of capital within and even between countries.

A capital gap is not a sheer absence of funds. Money can usually be obtained at some price. Rather, the usual reason that funds are not forthcoming is that other areas, offering better returns and lesser risks, can pay more for capital and enjoy more investor confidence.

The full scale of this gap in Alaska is not documented. However, the evidence is that the shortfall is in the millions, not billions, of dollars and is focused in rural Alaska, mainly in small and medium ventures. Elsewhere, there is no proof that large, attractive loans are being missed or rejected by the private capital markets (banks and their lines of credit, bond and money markets, insurance companies).

(3) Many appropriations are made to further economic goals that are not met, or met as well, by the growth of the private economy. We concentrate here on spending meant to spur development, including

capital items (whether from bond proceeds or the general fund), loan programs, technical assistance programs, job training, and, soon, the renewable resources fund. The economic goals of these efforts include reducing the seasonal and cyclical nature of the Alaskan economy, stable employment, improving resident and minority hire, raising personal incomes, lowering the cost of living, and the like. For the most part, the money spent on these goals represent a subsidy, direct or indirect. They provide a good or service for which people are unable to pay or, at times, unwilling to pay.

HB 596, in turning away from subsidies, is not opposing them as such. Indeed, they are permitted for the Enterprise Fund under special conditions. Yet most subsidies are expected to be made in the state budget process. And that forum is to receive more scrutiny as the result of a new legislative committee for investment oversight. The premise of this approach is simply that more intelligent subsidies will be made if they are openly voted---if the public can see what money is at stake, who gets it, and who wanted them to have it.

cc: Rep. Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

Transcript of testimony by Speaker Hugh Malone on the Alaska Permanent Fund (HB 596) before the House Finance Committee, March 17, 1978:

Without going deeply into the history of the enabling legislation of the Alaska Permanent Fund, I think the Permanent Fund was voted on and established by the people of Alaska as a savings account approach to reserve some of the wealth or income that's coming into the State from production of a high-value resource for a relatively short time for the future. I think that that there should appear in any final enabling legislation that the Legislature passes or, failing that, that any Legislature should adopt. I think that the basic 25% of the revenues accruing from the ownership interest in mineral development within the State was considered by the people of Alaska to be a bottom-line savings account; and I think that any legislation adopted should reflect that. I think than anything less than that is inconsistent with public purposes and the adoption of the constitutional amendment.

One of the points that impressed me very early on in consideration of what should be done with the enabling legislation of the Alaska Permanent Fund springs from a discussion with some of the people from Alberta on how they are managing the Alberta Heritage Trust and some of the points that they consider important there. One specific thing that I recall, and I think it's very important to keep in mind in the enabling legislation, is that a very large portion or percentage of the money for investments of the fund should be in a highly liquid form of investment. The reason for that is this. Right now, we do not know what the future holds. It would be very easy, of course, to commit the Permanent Fund and all of the other revenues that the State has to purposes that we can identify right now. But if we do that, we are foreclosing the opportunity in the future to perhaps place those investments in returns which would be much more important in the State. I think the only way to preserve that option is to keep a significant portion of the fund in highly liquid form of investment. For instance, right now, in comparison with the general fund, we have a relatively high proportion of non-liquid investment in the general fund. We can, if we had to, I suppose, dispose of those investments at a discount to produce "free money" so that we can spend it; but I don't think the Alaska Permanent Fund should face that sort of trade-off. I think there should always be a high percentage of money in highly liquid investments--investments that can be sold quickly and at rates near the face or original value of the investment. That means, I suppose, that a good portion of the fund needs to be biased toward what people would call blue-chip investments; and the reason for that is to prevent too much of bias in the fund itself and to prevent foreclosing of the opportunity, in the future, of making investments that might be more important than any we see today.

When the original concept was under discussion in the last Legislature, there were a lot of times that I had reservations about the bill in 1975--which was finally vetoed--and the constitutional amendment itself, because if we do create public corporation in the State of Alaska, with cash assets on the order of several billions of dollars, we might also be creating an economic and political monster in the State. I think the next most important point in the development of the enabling legislation, to me at least, is accountability. I don't think that the fund, in being composed of public money and serving a public purpose, should be beyond the control of the public. I think that accountability is important if we don't want the corporation, or whatever form this finally takes, dictating political or economic policy to the people of the State of Alaska. I think you can point to minor instances right now where some other operations have run into those sort of difficulties--difficulties in accountability to the public for public operation. After a great deal of consideration over the last three years, I have come to the conclusion that to preserve the accountability to the public, at a minimum, the operating budget of the Alaska Permanent Fund should be subject to the same budget review and processes as the rest of our State government budgets; that is,

that the fund has to be accountable through the Executive Budget Act or accountable through a system of review that provides at least the same degree of public input through elected representatives of the people of the State of Alaska, including the Governor and the Legislature.

I guess everyone who talked about the fund, whether office holders or members of the public that have commented on the fund in a consulting capacity, have different ideas of what the Alaska Permanent Fund should accomplish, and naturally it is not going to accomplish all these ideas. We would need 10 or 20 permanent funds to do that. But an argument that was made for the fund, at the time of its adoption by the people, was that it held the potential, at least, for economic diversification in the State, and I think that that is a rational goal. I think it is one of the things that the fund could possibly accomplish if handled properly. I think that, in order to allow that opportunity to be there, we have to go back again to the question of the liquidity of the fund and also the question of if the fund being involved in merely replacing existing sources of capital or capital funding and whether those capital funds come through the private sector or through the State or federal government budgets. I would say, generally, we ought to look for opportunities for investment of the fund that do not simply replace existing capital sources. I think that that is where the greatest potential for the fund is--in new opportunities. You can make a somewhat rational political decision that we would rather have money that is owned by Alaska--Alaska Permanent Fund--in a given industry or a given capital area over money that comes from the East Coast or money that comes from Japan or some other place. But I am not sure that they provide for economic diversification in the State. I think, on the contrary, that what it does is provide for more of the same things that we have right now. In some cases that is probably good, but it won't lead to economic diversification. I think that we need to look for the areas that, because of lack of information in the past and because of political or other institutional barriers, capital is not available now--areas that represent real economic potential. Those areas are probably fairly small in terms of the total capital required right now, but I think those are the areas that the fund should focus on if economic diversification is to be a goal of the fund. Personally, I think it should be one of the goals of the fund.

The last thing I want to say is that the effect of the investment of the Alaska Permanent Fund is something that is not going to occur today, of course. It is going to occur down the road--three years, five years, longer than that--as amounts in the fund grow to significant proportions. Because of that, I think it is unwise to bias the investment policy of the fund, either through the legislation itself dealing with the corpus of the savings account or trust, whichever way you want to describe it, or through the use of the revenues of the fund. I think what we might do by taking that sort of approach is to eliminate, in the future, potential for economic diversification and potentials that otherwise might never be developed. So I would caution the Committee and the Legislature that any specific dedications or biases might be necessary in the political process to adopt this legislation or because existing needs seem to be so pressing should be looked at very carefully and by keeping as small as realistically possible. As far as the use of the fund income, for instance, I think it would be a major mistake to bias the investment policy of the fund and the opportunities to which it can be put in the future by an immediate dedication of the income from the Alaska Permanent Fund, and there is no doubt in my mind that it would do that, if we allocate now all the income from the fund or even a very large percentage of it for specific programs and purposes that are identified today. What will naturally happen is constituency groups will grow up around those purposes. It will be very unlikely that those things will be changed. I think that by doing that, we may have foreclosed an opportunity to areas five years, 10 years, 15 years into the future. I realize some of those things might be necessary--some compromises might be necessary--along those lines. There are substantial needs that exist in the State--very pressing ones that people on this Committee are very familiar with. I would

urge the Committee to keep those sort of dedications, or biases is what they are, as far as investment policy of the fund in the future to a minimum because I think that what we would do by building in those biases at the outset is: one, through the creation of the constituent group outside the fund and the public to make it politically very difficult to meet a high purpose when that came along; and secondly, and maybe just as importantly, is that you can create a constituent group within the fund itself that was directed toward those specific purposes and don't have the vision or breadth of vision to look at what else was happening or could happen in the economy in the State of Alaska.

Those are my basic concerns on the Alaska Permanent Fund. I think, consistent with the idea that this money was going to be a savings account when the people voted on it--I think that was their main argument, up until at least this year it has been the main argument for the Alaska Permanent Fund--is that within the context of keeping that fund accountable and the necessary review by the people through the elected officials of the State that every step of it to be taken to keep the fund from falling prey to the buracracy that inevitably grows in government. By that, I mean to say that I don't think it should be located within the executive department. I think the history pretty well shows that in those cases either one or two things happens; buracracy would become the captive of the project or, more likely, visa-versa, and I don't think that's in the interest of the people of the State of Alaska either.

If the importance and the need for the immediate dedication of revenues exceeds what might be available from the revenues that fall from a 25% Alaska Permanent Fund, immediate investments might be available from other places. I suggest that the Committee and the Legislature consider increasing the dedication--I realize that is at the expense of the general fund revenues--by the 25% constitutional minimum to meet those purposes so that in the end, the 25% that was approved by the people of the State of Alaska in 1976 remains intact.

I think that pretty well sums up the major concerns that I have with the fund, except that beyond the actual investment policy and the things that happen as a result of the fund investment policy, I think the Alaska Permanent Fund exists in a context of what the philosophy of the State and the people is. I think, to a large or important extent, what happens with the Alaska Permanent Fund will be not only a reflection of existing philosophy in terms of what the people of Alaska want to see happen, but to some extent will condition or dictate the philosophy of the future. I think it's very important in its symbolism, and I think that this is something that has to be kept in mind when we are dealing with the subject. That is a personal observation.

EFC 78-51 #0748 - #1083

Rec'd March 13
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ONE LIBERTY PLAZA

91 LIBERTY STREET, NEW YORK, N. Y. 10006

ROBERT E. GREELEY

FIRST VICE PRESIDENT

812/28012100

March 13 1978

CABLE ADDRESS "WHIEWEL"

Mr. Clark S. Gruening, Chairman
Special House Committee on the Alaska Permanent Fund
Mr. Steve C. Cowper, Chairman
House Finance Committee
Pouch V
Juneau, Alaska 99811

Gentlemen:

We would like to offer the following comments on CS for House Bill 596 (2-24-78):

Sec. 37.13.130 Powers and Duties (g)

While United States Agency issues are considered to be slightly lower quality than direct obligations of the United States Treasury, the quality of these securities are such that they should be considered as alternative investments for the Fund. By adding "and its Agencies" after Page 10, line 18 "may invest corporation assets in obligations of the United States (and its Agencies) or obligations etc.", the investment criteria can be expanded clearly to include United States Agency obligations.

It may be desirable to add at the end of (g) Page 10 line 21, "the Securities Act of 1933 are freely marketable.", the following, "and other investments that meet the requirements of (a) and (b), but not to exceed 2% of assets." This would allow the Trustees of the Fund, and the investment manager some leeway to invest in new classes of securities that may not be clearly outlined in other sections of (g). We would prefer this to expanding the list in order to include every conceivable type of approved investment.

Sec. 37.13.140 Gains and Losses

This method of calculating gains and losses is used to protect the principal of the Fund. Attractive exchanges of bonds and stocks would not be penalized immediately under this system, even though they might result in a current loss. The intent of this system is to allow the Fund to admit mistakes and match them against success whenever possible.

(continued.....)

Mr. Clark S. Gruening
Mr. Steve C. Cowper

Page 2
March 13, 1978

Sec. 37.13.150 Income

This section compliments the prior one (140), and uses a five year averaging program for payout of income. The principle objective of this system is to provide an orderly payout of income, that does not result in an unusually large payout in any one year, followed by a lower payout in a following year. The five year averaging would lessen some of the cyclical factors in dispensing income. The Fund under this system would always have more income than it was currently disbursing.

Sec. 37.13.170 Audits

It might be wise to include on Page 12, after line 10 (by an outside auditor) following "investment programs". While use of an outside auditor is stated later on in Sec. 180, line 14, it is not clear whether the Investment Oversight Committee will have an outside audit available to them.

Sec. 37.13.180 Reports and Publications

It should be noted in this section that the Fund should be valued at current market value or worth. Seeing the changes in market value that have occurred since the investments have been made, will be an important part of my review. Therefore, an analysis of the condition of the Fund, as if it were converted into current value, will be helpful in determining the relative success of the Fund's investment program.

We will be pleased to discuss the above in greater detail at your convenience.

Respectfully yours,

Bob Greeley

Robert E. Greeley,
First Vice President

REG/km

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

March 8, 1978

JAY S. HAMMOND, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH S3
JUNEAU, ALASKA 99811

The Honorable Steve Cowper
Chairman, House Finance Committee
State Capital
Juneau, Alaska 99811

Dear Representative Cowper:

The attached amendments were submitted to the Special Committee on the Permanent Fund in the House in an effort to maximize the cooperation between the administration and the Special Committee in the House in drafting the enabling legislation for the Alaska Permanent Fund. Beginning in 1976 the Department of Revenue, the State Investment Advisory Committee, and the Governor's Office have made every effort to cooperate with the House of Representatives in a continuing process of investigations on the enabling legislation. Initially, the administration submitted a bill, HB 298, and had hoped that that bill would be considered by the legislature. It now appears that Committee Substitute for House Bill 596 is the bill which this committee will consider as the enabling legislation on the Permanent Fund.

To continue the cooperative efforts between the administration and the House these amendments reflect the concerns of the administration for the proposed bill.

Amendment #1 amends Section 010. This amendment includes the Alaska Enterprise Investment Corporation as the recipient of a portion of the principal to be allocated to the Permanent Fund. It should be considered in conjunction with amendments 2 and 3. Amendment 2 decreases the amount of principal to be contributed into the Alaska Permanent Fund Corporation to 50 per cent of the receipts and increases the amount contributed to the Alaska Enterprise Investment Corporation to 50 per cent of the receipts.

The first three amendments reflect in a positive manner the administration's concern first that the savings account concept be adopted (the trust fund) and, secondly, that there be a greater amount of funds available for investment through the Enterprise Investment Corporation in Alaska than the \$100 million limitation.

The fourth amendment under section 020 merely removes the limitation that only future generations of Alaskans benefit from the Permanent Fund. This administration has made it clear that the Permanent Fund should benefit present generations of Alaskans as well as future generations.

The fifth amendment under section 040 includes the Commissioner of Revenue as a non-voting member of the Board of Trustees. The Commissioner of Revenue is responsible for all of the State's funds and therefore should be included as a member of the Board of Trustees.

Amendment #6 under section 090 increases from two members to three members the Board of Trustees for quorum purposes.

Amendment #7 deals with a policy issue which requires that the Department of Revenue provide the management and staff for the trust fund corporation. It includes a provision that the Commissioner of Revenue or his designee shall serve as the executive director of the corporation.

Amendment #8 is a minor technical amendment in section 130, POWERS AND DUTIES, paragraph (a) which clarifies the wording for the prudent-man rule for investment.

Amendment #9 section 130 clarifies the reasonable diversification clause found in paragraph (c).

Amendment #10 section 130, paragraph (f) deals with prohibition of the corporation on working with existing State agencies or departments. The administration clearly thinks that it is desirable for the Permanent Fund to cooperate and coordinate with existing State programs.

Amendment #11 is two-fold and it deletes the section entitled GAINS AND LOSSES and replaces it with a new section entitled RESERVES. The establishment of reserve accounts for losses on investments is desirable as these accounts would help to preserve the principal of the Permanent Fund.

Amendment #12 deletes section 150 entitled INCOME. The moving average income current return is confusing and unnecessary as current accounting practices clearly allow for the identification of income through investments.

Amendment #13 excludes the officers and staff from the State's Hatch Act but includes the Board of Trustees in the Hatch Act.

Amendment #14 section 44.55.010(b) is amended to increase the amount of contributions to the Enterprise Investment Corporation from 1/6 to 50 per cent. This amendment is in keeping with the administration's desire to provide a greater amount of principal for investments in Alaska.

Amendments # 15 and 16 should be considered together and are intended to allow the payment of principal directly into the Enterprise Investment Corporation.

Amendment #17 changes the composition of the proposed Policy Board to include the Commissioners of Commerce and Economic Development and Revenue and five public members.

Amendment #18 is in conjunction with Amendment #17.

Amendment #19 is self-explanatory but includes the president of the Enterprise Investment Corporation as the Chairman of the Policy Board but a non-voting member.

Amendments 20, 21, 22, and 23 are in conjunction with the recomposition of the Policy Board.

Amendment #24 amends the sentence to include a majority of appointed members.

Amendment #25 deletes section 44.55.100 entitled BUDGET and replaces it. The new wording for this section allows the Enterprise Investment Corporation to retain income for administrative operating expenses of up to 1/2 of 1 percent of the corporation's paid-in capital and requires that expenditures in excess of 1/2 of 1 percent of paid-in capital be approved by the legislature.

Amendment #26 re-states the diversification rule to limit investments to 1 percent of the resources of the corporation from the 5 percent limit found in the bill. It does not change the \$5 million limitation.

Amendment #27 and Amendment #29 allow the corporation to make guarantees but require approval by the legislature and establishes reserves.

Amendment #28 prohibits the corporation from investing in participation with other entities when current participating investments are 2 per cent or greater in delinquencies.

Amendment # 30 is clarifying language.

Amendment # 31 section 44.55.170 entitled POLITICAL ACTIVITIES includes the Policy Board and Investment Committee in the Hatch Act for the State (AS 39.25.160) and deletes the language including the officers and staff of the corporation in the Hatch Act.

Amendment #32 is in conjunction with the administration's desire to put 50 percent of the principal paid to the trust corporation and 50 per cent to the Enterprise Investment Fund.

Amendment #33 section 7 TRANSITION. It is necessary to have 30 days to transfer all funds to the trust fund corporation and the enterprise investment fund corporation in order to comply with the existing contracts the Department of Revenue has for safekeeping the Alaska Permanent Fund portfolio securities.

Amendments 34, 35, and 36 all in the Transition section tie together the activities in the repealers of existing interim management legislation.

It is my hope that the House Finance Committee will thoroughly review, evaluate, and sincerely consider these proposed amendments. Thank you for the opportunity to appear here today.

Sincerely,

Sterling Gallagher
Commissioner

COMMENTS ON PERMANENT FUND AMENDMENTS

In the presentation of its proposed amendments to CS for HB596, the department has made five points to which I would like to respond.

The points raised by the amendments themselves are:

1. That the size of the Alaska Enterprise Investment Corporation should be increased. The House Special Committee limited the size of the AEIC to insure that it would have to establish a ~~track~~ track record of sound investments before returning to the legislature for more money.
2. That the executive ~~branch~~ branch should have a hand in managing the permanent fund. The committee decided to create management structures independent of the executive and legislative branches on the basis of public testimony and consultant advice. The public expressed repeatedly its preference for a permanent fund ~~free~~ free from any taint of political pressure in its investment decisions. The committee's consultants gave similar advice, pointing to worldwide examples of investment funds that failed due to political pressure. To inject into the management of the permanent fund employees of the executive would be to fly in the face of both public wishes and sound management principles.

3. That the legislature should have less oversight of the permanent fund. The committee decided that legislative oversight, along with executive and public oversight ~~which~~ also in the bill, was essential. Although the bill is consistent on the matter of insulating the permanent fund managers from politics, it does not seek to insulate them from policy. As elected representatives directly responsible to Alaskans, legislators must have the ability to effectively oversee the performance of permanent fund managers.

In addition to these three points, the department has made two ~~points~~ others during testimony here.

1. That the trust portion of the permanent fund cannot make investments in Alaska. In response I can only point to professional opinion, offered by one of the nation's leading financial management firms after consultation with the nation's largest trust ~~firm~~ law firm and one of the state's leading bond attorneys. Unless ~~the~~ the department can offer testimony of similar weight ~~to~~ to support their opinion, I can only conclude that the Alaska Permanent Fund Corporation can make investments in Alaska.

2. That a capital gap of such proportions exists in Alaska that the assets of the permanent fund are needed to fill it. Now, a capital gap is not just an absence of loan money. A capital gap is best defined as a lack of ~~money~~ money for loans the private market would make if not for institutional barriers, such as lack of knowledge about Alaska, competition from loans closer to home and so on. The committee, during

its deliberations, was unable to get a firm estimate of the size of such a gap. In order to believe the commissioner's estimates of that size, we would first have to believe that there are no banks but Alaska banks and ~~that~~ that the bond market has ceased to ~~be~~ exist. If the commissioner's point is that the state needs money for loans that, because of risk or low return, cannot attract private capital, I can only assume that ^{he wants to} ~~we~~ employ the permanent fund as a tool for making social or political policy rather than sound investment policy. Even if such a social or ~~political~~ political loan gap exists, I question the wisdom of using the permanent fund, meant to ~~be~~ be a savings account for Alaskans, to fill it.

add "social loans" rap

CLARK: The following is a suggested summary/response on Revenue's amendments to HB596 for your consideration.

The department's ammendments do two things:
(1) Expand greatly the size of the Alaska Enterprise Investment Fund; (2) Give the opportunity for effective control of both corporations to the administration, especially the Department of Revenue.

The committee's reasonⁿ ~~was~~ for limiting the size of the AEIC was to force it to establish a track record of sound invetments. In addition, consultant advice and public testimony were unable to offer proof of - "capital gap" of any great size. Likewise, the department has been unable to offer such proof, unless we are to assume from the commisiioner's presentation that (1) there are no banks but Alaska banks willing to lend in Alaska; (2) the bond market has ceased to exist.

The committee's reason for removing ~~both~~ both corporations from the executive branch was the public's frequently expressed conviction that the management of the permanent fund ought to be insulated from politics.

If the department is prepared to argue that its amendments ~~do~~ do not offer the opportunity of ~~the~~ control, let me state the obvious. The adoption of the amendments would make the commissioner (1) the executive director of ~~the~~ the APFC. The commissioner, as we all know, is responsible to the governor, in who's hands the commissioner's job resides. It would take a very strong commissioner to obey

the board of trustees¹ in the face of conflicting direction by the governor. (2) ~~the~~ possibly the chairman of the AEIC policy board. As such, a full time commissioner would have at his disposal the staff and information necessary to overwhelm a part time policy board. And, again, a commissioner serving at the pleasure of the governor would be powerfully attracted² to making the AEIC policy conform³ to that of the governor.

Finally, on the point of a trust fund being able to make in-state loans. The committee's record of intent is clear. The committee's position is backed by the considered opinion of one of the nation's most prestigious financial consulting firms, prepared in consultation with the nation's largest⁴ trust law firm and the state's own bond counsel. Clearly, the APFC can make in-~~the~~ state loans.

CLARK:

The proposed amendments to HB596 signed by Mr. Specking have two major policy changes.

First, the amendments would split the permanent fund contribution 50-50, thereby substantially enlarging the Alaska Enterprise Investment Fund.

Second, the amendments would place the ^{APFC}AEIC directly in the department of revenue by making the commissioner of revenue or his designee the ^{APFC}AEIC's executive director.

With these two policy changes in mind, the amendments shake out as follows:

1. This removes the "flow through" funding mechanism in the bill (recommended by Billy Berrier as a constitutional matter) and puts the AEIC on an equal footing to receive funds directly from the department of revenue on a monthly basis.

2. Self explanatory

3. Ditto

4. The deletion would eliminate the foundation for the trust structure from the findings.

5. The addition of the commissioner of revenue is at variance from consultant advice (particularly Price Waterhouse) and has been rejected by the committee previously.

6. Making all three trustees necessary for a quorum is contrary to the general rule of thumb for making quorums and would create insurmountable problems in the case of a suspension.

7. Self explanatory

8. The effect of this amendment would seem to be to release the board from its direct responsibility under the prudent man rule defined in this section.

9. The language that this amendment would delete was inserted on the advice of Bob Greeley and Bob Blixt.

10. This amendment would allow using the executive to manage APFC assets. The language it deletes was added specifically by the committee to prevent using the executive.

11. The language deleted by this amendment was contributed by White, Weld.

12. Ditto

13. This has been done in the CS

14. The effect of this amendment is unclear, although it seems to weaken the prohibition against partisan political activity.

15. Self explanatory

16. See #1 above

17. See #2 above

18. This amendment would (a) limit the governor's discretion and (b) add an additional administration member.

19. This amendment would reduce the public members of the policy board from six to five.

20. This amendment was rejected by the committee previously.

21. This amendment would allow an administration member to be chairman of the policy board.

22. See #19 above

23. This amendment would make the duration of terms jibe with the reduction in public members.

24. 44.55.040(c) as written seems to make this amendment unnecessary.

25. This amendment would take the AEIC out of the Executive Budget Act.

26. See #2 above

27. Deleted in CS

28. This amendment would eliminate the dollar figure, allowing the loan limit to grow as the resources of corporation grow.

29. This has not been previously addressed to the best of my knowledge.

30. Deleted in CS

31. The necessity for and effect of this amendment is unclear.

32. This amendment would apply the conflict of interest requirements to the investment committee rather than the board of trustees.

33. Ditto

34. Ditto

35. Ditto

36. See #14 above

-3-

37. This amendment is inconsistent with the transition provisions of Sec. 7 (b).

38. This would lengthen the time between the call for the money and its delivery.

39. This amendment would seem to limit the 'short term' investments that could be made until the AEIC gets going.

adopted

40. This would allow the interim amangement statute to continue until such time as the APFC gets going.

ALASKA HOUSE OF REPRESENTATIVES

SECOND SESSION

ROLL CALL

TENTH LEGISLATURE

YEA N-V NAY

Akers _____
 Anderson _____
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 Bennett _____
 Bradley _____
 Brown _____
 Buchholdt _____
 Carpenter _____
 Chatterton _____
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34-6

Speaker

PROCEDURAL MOTIONS

Amended _____
 Amended Senate _____
 Amended House _____

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TOTALS

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BILL NUMBER

DATE

HOUSE
SENATEBILL
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J't.	500	50	5
Conc.	600	60	6
Quo.	700	70	7
Mot.	800	80	8
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 Apr. 1
 May 2
 June 3
 July 4
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 Oct. 7
 Nov. 8
 Dec. 9

ALASKA HOUSE OF REPRESENTATIVES

SECOND SESSION

ROLL CALL

TENTH LEGISLATURE

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YEA N-V NAY

Osterback _____
Parr _____
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Swanson _____
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Speaker

PROCEDURAL MOTIONS

Amended _____
Amended Senate _____
Amended House _____

Special _____
Effective Date _____

TITLES

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House Comm Sub _____
Senate Comm Sub _____

Comm Sub _____
Sponsor Sub _____

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BILL NUMBER

DATE

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Mot.	800	80	8
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3rd R	000	00	0

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ALASKA HOUSE OF REPRESENTATIVES

SECOND SESSION

ROLL CALL

TENTH LEGISLATURE

am 2
cash 596 (7m)

YEA N-V NAY

Akers _____
Anderson _____
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Bennett _____
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Osterback _____
Parr _____
Phillips _____
Rhode _____
Rudd _____
Schaeffer _____
Smith _____
Snider _____
Swanson _____
Urion _____

Speaker

PROCEDURAL MOTIONS

Amended _____
Amended Senate _____
Amended House _____

Special _____
Effective Date _____

TITLES

Free Conf Comm Sub _____
House Comm Sub _____
Senate Comm Sub _____

Comm Sub _____
Sponsor Sub _____

TOTALS

YEAS

N-V

NAYS

0 0
1 1
2 2
3 3
4 4
5 5
6 6
7 7
8 8
9 9

0 0
1 1
2 2
3 3
4 4
5 5
6 6
7 7
8 8
9 9

0 0
1 1
2 2
3 3
4 4
5 5
6 6
7 7
8 8
9 9

BILL NUMBER

DATE

HOUSE
SENATE

BILL
RESO.

1000 100
2000 200
3000 300
4000 400
J'l. 500
Conc. 600
Quo. 700
Mot. 800
2nd R 900
3rd R 000

10 1
20 2
30 3
40 4
50 5
60 6
70 7
80 8
90 9
00 0

Jan. 1
Feb. 2
Mar. 3
Apr. 1
May 2
June 3
July 4
Aug. 5
Sept. 6
Oct. 7
Nov. 8
Dec. 9

→ *Sup. Clark Greenberg*

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TRANSAMERICA PYRAMID
600 MONTGOMERY STREET
SAN FRANCISCO, CALIF. 94111

April 20, 1978

Mr. Nels A. Anderson, Jr.
Representative of the
State of Alaska
Route 6
Box 6283
Juneau, Alaska 99803

Dear Nels:

I have set forth below summary opinions of Senate Bill 429, House Bill 596 and House Bill 682. As you can appreciate, my expertise is in the field of conventional investments which is a different world than rural economic development.

Senate Bill 429: If I have interpreted this bill correctly, the basic premise is for the Alaska Loan Programs Fund to issue tax-exempt bonds of its own and then invest the proceeds in taxable government and corporate obligations. Presumably, as money is needed from the Permanent Fund, Capital Improvements Reserve, Renewable Resources Development Fund, etc., the government and corporate obligations would be liquidated. If this is the intent of the bill, it is illegal under current Internal Revenue Code statutes. You cannot create a tax-exempt entity such as the Alaska Loan Programs Fund and raise proceeds that are invested in higher yielding obligations. This is called arbitraging and would disqualify the entity as tax-exempt. Furthermore, it is my understanding that when an entity issues tax-exempt bonds it must have a stated purpose in mind and the proceeds must be expended over a short period of time. Consequently, you could not sell tax-exempt bonds without a specific project such as road repair or a loan for a renewable resource development.

House Bill 596: It may be desirable to consolidate the lending and investment functions of the State but House Bill 596 is not an efficient means of doing so, in my opinion. Establishment of an Investment Oversight Committee plus 3 members of the permanent Fund plus 7 members of the Alaska Enterprise Investment Corporation has the potential for creating bureaucratic inefficiency.

Mr. Nels A. Anderson, Jr.

-2-

April 20, 1978

The major legislative purpose of stimulating rural economic development is to provide a mechanism for channeling capital into areas not serviced by existing State or private lending institutions. In my opinion, House Bill 596 does not accomplish this goal. Most of the text of the bill deals with the selection of committee members, terms of memberships, filling of vacancies, meetings, duties, etc. There is not enough substance of how the Alaska Enterprise Investment Corporation would function, which would seem to be the most important issue in rural economic development. House Bill 682 is a better bill in my opinion.

House Bill 682: This bill focuses on the problem of Alaska's renewable resources and provides a means for channeling capital in those areas where it is badly needed. The critical factor is the selection of the three trustees. Needless to say it is imperative that the three individuals possess the highest integrity in order to resist the inevitable political pressures that will develop.

As you know, capital is not scarce in Alaska if the project is economically feasible. Witness the expansion of BBNC through the utilization of private capital. However, there is a scarcity of private venture capital and thus the creation of a Renewable Resource Corporation should be a top priority item.

The specifics of how much money should be allocated to the Renewable Resource Corporation, lending limitation, interest rates to be charged, etc., are details that can be worked out in committee. The three bills you asked me to review are not sharply different in these respects. One important point I would make is that the investment responsibility of the Renewable Resource Corporation funds should reside with the Treasury Division. They have the knowledge and experience to carry out whatever investment objectives are established by the Trustees (and it should be the Trustees who set investment objectives).

I hope you find these comments helpful.

Sincerely,



Cary N. Coburn

GNC:ros

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 596 - "An Act relating to nonrenewable resource revenues;
Title and providing for an effective date."
Requested by Special Committee on the Alaska Permanent Fund Date 1/11/78

II. FISCAL DETAIL

Agency Affected Department of Revenue
Program Category Affected General Government
Budget Request Unit(s) Affected Treasury Management

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		338.6				
200 TRAVEL		155.4				
300 CONTRACTUAL		578.0				
400 COMMODITIES		10.0				
500 EQUIPMENT		30.0				
600 LAND & STRUCTURES		120.0				
700 GRANTS, CLAIMS, ETC.						
TOTAL		1,232.0				

FUNDING (Thousands of Dollars)

GENERAL FUND		1,232.0				
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		10				
PART TIME		18				
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This note enumerates a portion of the fiscal impact of HB 596 upon Treasury Management. Costs of the following administrative structures are included above:

Investment Oversight Committee - 8 members
Board of Trustees - 3 members
Policy Board - 7 members
Alaska Permanent Fund - 1 Executive Director and staff
Alaska Enterprise Investment Corporation - 1 President and staff

Fiscal years subsequent to FY 79 would properly be estimated by the emergent administrative body.

IV. DATE February 23, 1978 PREPARED BY Jin Edens
AGENCY Department of Revenue
Original: Legislative Finance PHONE 465-2350
cc: Budget and Management
Prime Sponsor (First Legislator Named)