

State Representative Sally Smith  
Alaska House of Representatives  
Pouch V  
Juneau, Alaska 99811

March 13, 1978


Dear Sally:

Over the last few months I have read a lot of articles appearing in the Fairbanks News Miner and in a couple Alaska periodicals concerning the investment of excess state oil revenues. I would like to make a couple points on this matter:

First, Alaskans are taxed heavier than any other people in the United States - does it not seem reasonable then, that if the State is going to have revenue surpluses over the next decade, that the resident tax payer can not expect a dramatic decrease in State income tax?

Second, I have heard a lot of proposals about where and how the state is going to invest these excess dollars, but I have not heard one proposal for investing in the safest of all investments - gold and silver. I recommend that the State invest at least half of the monies earmarked for the permanent fund for the purchase of Alaskan gold or free market gold and silver, to be stored in a high security bank vault. I greatly fear that mismanagement, corruption, devaluation, inflation, monetary crises, or more likely a combination of these, may render our permanent fund defunct in the not-to-distant future. By maintaining a sizable "hoard" of these precious metals we would then need only consider corruption as a viable diminution of assets - and this hopefully can be controlled. This idea has many other ramifications - all of which seem quite favorable for our future.

Respectfully submitted,



Rodney A. Blakestad  
P.O. Box 80747  
Fairbanks, Alaska 99708

# Alaska State Legislature

SPECIAL COMMITTEE ON  
THE ALASKA PERMANENT FUND  
(907) 276-3433

528 W. 5TH, SUITE 270  
ANCHORAGE, AK. 99501

[POUCH V. JUNEAU, AK. 99811]  
(907) 465-3875  
4955



## MEMBERS

REP. CLARK GRUENING, CHMN.  
REP. TERRY GARDINER, V. CHMN.  
REP. E. J. HAUGEN  
REP. RUSS MEEKINS  
REP. BILL MILES  
REP. LEO SCHAEFFER  
~~REP. RICK BRIS~~  
Rep. Joe Hayes

## House of Representatives

March 3, 1978

Mr. R. J. Miller, Jr.  
Alaska Bankers Association  
P. O. Box 659  
Anchorage, Alaska 99510

Dear Dick:

Thank you for your well supported position paper on the establishment of the Alaska Permanent Fund.

House Bill 596 provides for an Alaska Enterprise Investment Corporation. "The purpose of the corporation is to provide capital at market rates and terms for small and medium scale (1) productive private enterprises, and (2) community development projects for which sufficient capital is not available from other sources on reasonable terms."  
(Sec. 44.55.030)

Further, in Sec. 44.55.020 investment would be directed towards projects "for which sufficient capital is not available from other sources on reasonable terms". The Corporation "working with private financial institutions to supplement but not supplant their services can help to alleviate this shortage." Clearly, the intent is not to supplant the private lending institutions.

For your information, I have enclosed a copy of CSHB 596 which passed out of Committee February 22 and would welcome any further comments you might have.

Cordially,

Representative Clark Gruening

CG/jl

Enclosure

# ALASKA BANKERS ASSOCIATION

P.O. BOX 659  
ANCHORAGE, ALASKA 99510

February 16, 1978

## OFFICERS:

R. J. MILLER, JR.  
President  
Alaska Bank of Commerce

WILLIAM G. BROCK  
First Vice President  
The B. M. Behrends Bank

RICHARD T. HALL  
Second Vice President  
National Bank of Alaska

STEVEN J. JOHNSON  
Secretary - Treasurer  
Alaska Bank of Commerce

The Honorable Clark Gruening  
House of Representatives  
Pouch V  
Juneau, Alaska 99811

## DIRECTORS:

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Alaska Mutual Savings Bank

GARY ROTH  
First National Bank of Fairbanks

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First National Bank of Anchorage

ROBERT E. BARNES  
Alaska State Bank

ARNOLD W. GEITZ  
United Bank Alaska

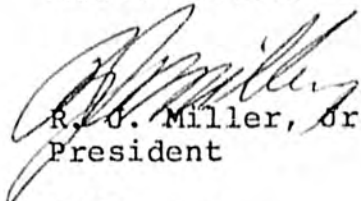
WILLIAM GREEN  
Alaska National Bank of North

Dear Clark:

Enclosed is information relative to the Alaska Bankers Associations position on the permanent fund. We hope this information will be useful in your deliberation.

Sincerely yours,

ALASKA BANKERS ASSOCIATION

  
R. J. Miller, Jr.  
President

RJMjr: rwc  
Enclosures

POSITION PAPER-ON THE PERMANENT FUND

by the  
Alaska Bankers Association  
for the  
State of Alaska Legislature

The Alaska banking system has performed well as a provider of funds to households and businesses in Alaska.

Over the past five years the total deposits in Alaska banks have doubled, coinciding with the doubling of the gross state product over the same period of time.

It is interesting to note that over the past five years bank loans have increased 150% -- a considerably greater rate of increase than the increase in bank deposits. This reflects both an ability and inclination on the part of Alaska banks to respond to a heavy demand for funds.

Alaskans have a wide variety of banking alternatives to choose from, and they enjoy a broad geographical distribution of banking facilities. ~~In 1976 there were twelve commercial banks in Alaska with twenty-eight branches among them.~~ There are three banks per 100,000 population in Alaska compared to an average of 2.3 banks for the other western states.

Like most young rapidly developing economies, Alaska is a net importer of capital. The Alaska banks have proven their effectiveness as conduits for capital from the "lower 48" to Alaska. By the end of 1977 Alaska banks were servicing approximately \$1 billion of loans from "outside" investors and financial institutions. This is virtually equal to the \$1 billion of loans which Alaska banks are carrying on their own books. Clearly, then, the Alaska banks have been able to channel into Alaska an amount of money equal to the amount of loans which they have made from their own deposits. The ability of Alaska banks to attract funds from the "lower 48" has resulted from broad and long lasting relationships which the Alaska banks have nurtured over the past years. It is our feeling that these relationships will play an important role in providing financing to Alaska households and businesses over the decades ahead. Therefore, the money markets in Alaska should not be so disrupted by actions by the Permanent Fund so as to jeopardize these relationships.

It is interesting to note that the private sector has been more than proportionately responsible for the generation of deposits and loans in Alaska over the last five years. From the end of 1972 to the end of 1977, government deposits as a percentage of total deposits in Alaska banks fell from approximately 34% to 20%. It can also be noted that Alaska banks tend to pay higher rates on certificates of deposit

than banks in the "lower 48." Therefore, the State of Alaska could achieve the dual benefits of (1) generating a higher return on part of its investment portfolio and (2) providing additional funds for loans to Alaskans simply by increasing the amount of money it keeps on deposit in Alaska banks. Further, the State of Alaska could permit the Alaska banks to make longer term loans to businesses simply by investing in longer term certificates of deposit of Alaska banks.

Although the State of Alaska could achieve many of its financing objectives through the existing banking system, it has established ten direct loan programs as indicated below.

#### STATE OF ALASKA LOAN PROGRAMS

<u>Name</u>	<u>Interest Rate</u>	<u>Amount As of 6/30/77</u>
Agriculture	6 & 4	\$ 4,564,000
AK State Dev. Corp.	Legal	1,949,000
Child Care Facility	6	10,000
Commercial Fishing	7	10,744,000
Fisheries Enhancement	8	1,400,000
Small Business Dev. Corp.	7	379,000
Small Business Loans	8	10,214,000
Tourism	8	10,077,000
Water Resources	5	450,000
Veterans Affairs	7.5	150,972,000
Total		<u>\$190,759,000</u>

Clearly the State of Alaska has already been a substantial supplier of funds to Alaskans, and the rate of increase in its activity has been accelerating. It seems that, prior to

initiating huge new loan programs from the Permanent Fund, consideration should be given to improving and expanding existing loan programs.

The flow of capital to and from any economy is an extremely precarious matter and can do as much harm as it does good. For example, an abrupt or unusually large injection of funds into an economy can cause severe inflationary pressures. Below is a table indicating the rates of change in the consumer price indexes of Anchorage and the United States over the past decade.

RATES OF CHANGE IN CONSUMER PRICE INDEXES

	<u>U. S. Urban Average</u>	<u>Anchorage, Alaska</u>
1967	2.9%	2.2%
1968	4.2%	2.6%
1969	5.4%	3.2%
1970	5.9%	3.6%
1971	4.3%	3.1%
1972	3.3%	2.7%
1973	6.2%	3.7%
1974	11.0%	10.3%
1975	9.1%	14.1%
1976	5.8%	8.1%
1977	6.2% (11-month)	6.7%

It can be seen readily that the historical pattern of a lower rate of inflation for Anchorage than the United States in general ended abruptly during the boom years of 1975 through 1977 when the Alaska economy was dramatically overheated by two events: rapid acceleration in spending by state and municipal governments and local expenditures associated with the trans-Alaska oil pipeline project.

The high inflationary bias of the injection of funds into the Alaska economy results from the fact that Alaska households and businesses are highly consumption oriented. That is, relatively few Alaska loans are used for increasing the productive capacity of the Alaska economy, because, of course, most local Alaska businesses are oriented toward wholesale and retail trade and services. Therefore, an over-injection of funds into the Alaska economy or the encouragement of heavy borrowing by lower interest rates or otherwise abnormally favorable terms presents the very real risk of over-extended without any sort of commensurate increase in the basic economy to support such expansion by local businesses. Accordingly, it seems considerably more appropriate that the Permanent Fund, if it is intended to make a sustainable long lasting contribution to the viability of Alaska businesses and the wellbeing of Alaska households, should pursue a strategy of making funds available to major projects that affect the level of industrial development in Alaska.

Over the past few years the Alaska banks have been increasing loans on their books and increasing the amount of funds from outside investors which they are channeling into Alaska loans at the rate of approximately \$300 million per year. The Permanent Fund is estimated to grow at an annual rate of approximately \$200 million during the mid 1980's. An injection of these funds into the Alaska economy as well as anticipated

heavy increases in expenditures by State General Fund runs a very real risk of severely disrupting the existing adequate and effectively functioning money markets in Alaska.

In summary, making funds available through the Permanent Fund to local businesses and households may provide only a short run, unsustainable and, therefore, "fictitious," boost to the economic well being of Alaska. On the other hand, the local Alaska banks and other financial institutions are already extremely effective in channeling the funds which are generated by expansion of basic industry in Alaska to Alaska households and businesses at a rate which keeps pace with the rate of growth of the economic base.

Loans  
- (Thousands)

12-31-72

12-31-73

	Bank Amount	Participant Balance	Bank Amount	Participant Balance
Real Estate:				
Construction & land development	16,371		17,698	
Farm	1,868		1,325	
1-4 Family	150,527		150,958	20,496
Multi Family	20,173		21,961	
Non farm - non residential	53,391		65,902	
Participation		5,850	219	14,382
Total Real Estate	242,330		258,063	34,878
Commercial:				
Commercial and Industrial	133,526		147,143	
Participation				
Total Commercial	133,526		147,143	
Personal:				
Auto	31,748		34,187	
Credit card and related plans	5,618		10,212	
Mobile Homes	27,548		29,368	
Consumer goods	11,651		15,874	
Home improvement	4,474		4,988	
Other	14,502		12,647	
Total Personal	95,541		107,776	
Other:				
Financial inst.	590		21,693	
Securities	644		392	
Farmers non real estate	1,776		1,036	
All other	2,094		3,661	
Total Other	5,104		25,782	
Total Loans (Gross)	476,501	5,850	539,764	34,878

Investor Loans

	258,717		332,334	

Loans  
(Thousands)

12-31-74

12-31-75

	Bank Amount	Participant Balance	Bank Amount	Participant Balance
Real Estate:	<del>306,259</del>	<del>66,484</del>	<del>367,312</del>	<del>102,691</del>
Construction & land development	30,289	2,076	38,532	2,126
Farm	1,458		1,190	
1-4 Family	168,342	20,942	227,257	26,238
Multi Family	25,000		22,957	
Non farm-non residential	80,793		76,843	
Participation	377	43,466	533	74,327
Total Real Estate	306,259	66,484	367,312	102,691
Commercial:				
Commercial and industrial	198,336		218,431	4,000
Participation				
Total Commercial	198,336		218,431	4,000
Personal:				
Auto	39,844		62,098	
Credit card and related plans	16,441		17,257	
Mobile Homes	36,290		57,041	
Consumer goods	16,678		24,578	
Home improvement	5,453		5,531	
Other	18,342		40,082	
Total Personal	133,048		206,587	
Other:				
Financial institutions	977		4,733	
Securities	823		686	
Farmers- non real estate	866		690	
All other	8,021		10,990	
Total Other	10,687		17,099	
Total Loans (Gross)	643,330	66,484	809,429	106,691
	<u>Investor Loans</u>			
	418,531		545,900	

Loans  
(Thousands)

12-31-76

6-30-77

	12-31-76		6-30-77	
Real Estate:				
Construction & land development	106,386	6,352	96,645	10,729
Farm	712		460	
1-4 Family	237,184	64,126	266,781	83,900
Multi Family	29,021		34,424	100
Non farm - non residential	89,707		96,078	
Participation	1,811	62,349	3,299	66,279
Total Real Estate	464,821	132,827	497,687	161,008
Commercial:				
Commercial and industrial	287,631	2,953	314,880	4,857
Participation	1,469	1,753	3,567	6,354
Total Commercial	289,100	4,706	318,447	11,211
Personal:				
Auto	62,117		66,479	
Credit card and related plans	21,102		21,815	
Mobile Homes	78,873		61,670	
Consumer goods	30,913		42,573	
Home improvement	7,581		10,068	
Other	25,471		29,152	
Total Personal	226,057		231,757	
Other:				
Financial institutions	5,385		2,211	
Securities	413		610	
Farmers - non real estate	41		501	
All other	8,909		25,355	
Total Other	14,748		28,687	
Total Loans (Gross)	994,726	137,533	1,076,578	172,219
		Investor Loans		
	695,249		816,095	

Deposits  
(Thousands)

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77
<b>Demand:</b>						
IPC	272,558	294,710	429,954	568,522	593,567	647,933
Public Fndas.	30,641	41,755	50,712	59,236	60,572	61,426
Bank	1,695	2,908	2,179	2,103	2,267	1,854
Foreign	-	-	-	27	32	5
Officers checks	8,786	8,994	13,142	21,112	26,500	35,442
Total demand	313,680	348,367	495,997	651,000	682,938	746,660
<b>Savings:</b>						
IPC	170,930	180,577	214,451	317,540	409,889	405,371
Public Funds	-	-	-	-	166	267
Total savings	170,930	180,577	214,451	317,540	410,055	405,638
<b>Time:</b>						
IPC	91,959	118,760	139,261	159,886	234,858	223,791
Public Funds	247,477	236,155	247,700	238,231	203,858	191,741
Banks	-	-	-	-	-	100
Total time	339,436	354,915	386,961	408,167	438,716	415,632
Total time & savings	510,366	535,492	601,412	725,707	848,771	821,270
Total Deposits	824,046	883,859	1,097,409	1,376,707	1,531,709	1,567,930

Capital and Reserves  
(Thousands)

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77
<b>Capital:</b>						
Common	15,990	20,038	22,692	30,424	33,770	33,064
Surplus	27,352	30,324	37,673	43,431	59,143	62,588
Undivided Profits	13,150	14,898	16,119	23,369	32,509	37,108
Other Reserves	1,409	1,783	1,396	1,607	3,258	1,693
Total Capital	58,911	67,048	77,380	98,831	128,680	139,453
Notes and Debentures	5,717	6,185	6,244	6,640	7,290	7,179
Total capital, notes & debrs.	64,628	73,233	84,124	105,471	135,970	146,632
<b>Reserves:</b>						
Bad Debt	7,031	7,575	9,148	11,100	13,619	9,679
Other loan reserves	-	-	-	-	791	806
Securities	123	123	123	123	-	123
Total Reserves	7,154	7,698	9,271	11,223	14,410	10,608

(Thousands)

Loans

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
Real Estate	242,330	258,063	306,259	367,312	464,821	497,687	105.4
Commercial	133,526	147,143	198,336	218,431	289,100	318,447	138.5
Personal	95,541	107,776	133,048	206,587	226,057	231,757	142.6
Other	5,104	26,782	10,687	17,099	14,748	28,687	462.0
Gross Total	476,501	539,764	648,330	809,429	994,726	1,076,578	125.9

Participation	5,850	34,878	66,484	106,691	137,533	172,219	2,843.9
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Housing related *	202,722	207,775	235,085	312,786	352,659	372,943	83.9
% of total loans	42.5	38.5	36.3	38.6	35.5	34.6	

\* 1-4 family, multi family, mobile home, home improvement.

Investor	258,717	337,334	418,531	545,900	695,249	816,095	215.4
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Reserves

	7,154	7,698	9,271	11,233	14,410	10,608	48.3
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\* \* \* \* \*

Deposits

Demand	313,680	348,367	495,997	651,000	632,938	746,660	138.0
Savings	170,930	180,577	214,451	317,540	410,055	405,638	137.3
Time	339,436	354,915	386,961	408,167	438,716	415,632	22.4
Time & Savings	510,366	535,492	601,412	725,707	848,771	821,270	60.9
Total Deposits	824,046	883,859	1,097,409	1,376,707	1,531,709	1,567,930	90.3

Public Funds in Total Deposits	278,118	277,910	298,412	297,517	264,430	253,167	(8.9)
% of total	33.8	31.4	27.2	21.6	17.3	16.1	

\* \* \* \* \*

Capital, Notes and Debentures

Capital:							
Common	16,990	20,038	22,692	30,424	33,770	38,064	124.0
Surplus	27,352	30,324	37,673	43,431	59,143	62,588	128.8
Undivided	13,160	14,898	16,119	23,369	32,509	37,108	131.9
Cap. Reserves	1,409	1,788	1,396	1,607	3,258	1,693	20.2
Total Capital	57,911	67,048	77,880	98,831	128,380	139,453	136.7
Notes & Debrs.	5,717	6,185	6,244	6,640	7,290	7,179	25.6
Total Cap, notes & debentures	64,628	73,233	84,124	105,471	135,970	146,632	126.9

Source:

Reporting banks.

Department of Commerce & Economic Development,  
Division of Banking & Securities, State of Alaska.

Alaska

Savings and Loan Associations  
(Thousands)

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
Loans	131,699	123,748	130,038	175,537	207,983	221,554	68.2
Deposits	109,843	115,603	128,587	160,054	188,061	205,960	87.5
Assets	153,098	152,843	163,972	213,253	240,141	260,024	69.8

Source:  
Federal Home Loan Bank Board.

Investor Loans

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
	6,792	9,804	13,065	17,450	24,331	57,421	

Source:  
Reporting associations.

Participation Loans

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
	7,867	9,826	11,300	10,993	13,325	8,034	

Source:  
Reporting associations.

\* \* \* \* \*

Credit Unions  
(Thousands)

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
Loans	NA	NA	* 121,676	195,797	277,486	NA	128.1
Shares	NA	NA	* 128,834	199,145	302,763	NA	135.0
Assets	NA	NA	143,149	221,902	331,844	NA	131.8

Source:  
Alaska Credit Union League.  
\* Estimated based on total assets.

\* \* \* \* \*

State of Alaska

Department of Revenue  
Mortgage Loans Purchased  
and  
Serviced by Others\*

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
PERS	18,100	22,300	29,200	32,200	49,000	74,700	312.7
TRS	15,600	20,800	25,300	28,100	45,300	61,900	296.8
Total	33,700	43,100	54,500	60,300	94,300	136,600	305.3

Source:  
Department of Revenue.  
\* Serviced exclusively by Alaska commercial banks, mutual savings banks and savings and loan associations.

Department of Commerce

Division of Veterans Affairs

	6-30-72	6-30-73	6-30-74	6-30-75	6-30-76	6-30-77	% Increase
Loans	17,560	24,794	32,744	67,786	105,922	150,972	759.7

Source:  
Division of Veterans Affairs

State Loan Programs  
(Thousands)

Name	Interest Rate	FY	72	73	74	75	76	77
Agruculture	6 & 4	Unable to contact for further information						4,564
Alaska State Development Corp.	legal rate		4,590	3,860	3,434	3,055	2,237	1,949
Child Care Facility	6	Originated 7-1-77						10
Commercial Fishing	7			12	1,120	2,820	5,725	10,744
Fisheries Enhancement	8	Originated 7-1-77						1,400
Small Business Development Corporation	7		202	347	402	440	393	379
Small Business Loans	8			711	1,200	4,099	6,161	10,214
Tourism	8			1,336	2,439	4,808	8,612	10,077
Water Resources	5	Originated 7-1-77						450
Veterans Affairs	7.5		17,560	24,794	32,744	67,786	105,922	150,972
<b>Total</b>			<b>22,352</b>	<b>31,060</b>	<b>41,339</b>	<b>83,008</b>	<b>129,050</b>	<b>190,759</b>

\*\*\*\*\*

U. S. Government  
(Thousands)

FY 77  
142,900

Small Business Administration  
No other information available. Amount shown includes some duplication of loans reflected in bank loan portfolios.

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Recapitulation  
(Thousands)

	12-31-72	12-31-73	12-31-74	12-31-75	12-31-76	6-30-77	% Increase
<b>Loans:</b>							
Bank	476,501	539,764	648,330	809,429	994,726	1,076,578	125.9
S & L	131,699	123,748	130,038	175,537	207,983	221,554	68.2
Credit Union	NA	NA	* 121,600	195,797	277,486	NA	128.2
<b>Total</b>	<b>608,200</b>	<b>663,512</b>	<b>899,968</b>	<b>1,880,763</b>	<b>1,480,195</b>	<b>1,298,132</b>	<b>113.4</b>
<b>Participations:</b>							
Bank	5,850	34,878	66,484	106,691	137,533	172,219	2,843.9
S & L	7,867	9,826	11,300	10,993	13,325	8,034	2.1
<b>Total</b>	<b>13,717</b>	<b>44,704</b>	<b>77,784</b>	<b>117,684</b>	<b>150,858</b>	<b>180,253</b>	<b>1,214.1</b>
<b>Investor:</b>							
Bank	258,717	337,334	418,531	545,900	695,249	816,095	215.4
S & L	6,792	9,804	13,065	17,450	24,331	57,421	745.4
<b>Total</b>	<b>265,509</b>	<b>347,138</b>	<b>431,596</b>	<b>563,350</b>	<b>719,580</b>	<b>873,516</b>	<b>229.0</b>
<b>Grand Total</b>	<b>887,426</b>	<b>1,055,354</b>	<b>1,409,348</b>	<b>2,561,797</b>	<b>2,350,633</b>	<b>2,351,901</b>	<b>165.0</b>

\* Estimated on total assets.

Census #	324	330	351	405	413	NA
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# Estimated by Department of Commerce, Division of Economic Enterprise.

PROJECTIONS

Commercial and Mutual  
Savings Banks  
(Thousands)

	12-31-76	12-31-77	12-31-78	12-31-79	12-31-80	12-31-81	12-31-82	Incr. %
Loans 16.2% incrs.	994,726	1,155,872	1,343,123	1,560,708	1,813,542	2,107,335	2,448,723	146.2
Reserves 1.5% of loans	14,410	17,338	20,146	23,410	27,203	31,610	36,730	154.9
Deposits 17% incrs.	1,531,709	1,792,099	2,096,755	2,453,203	2,870,247	3,358,188	3,929,079	156.1
Public Funds 20% of depsts.	264,430	358,419	419,351	490,640	534,049	671,637	785,815	197.1
Capital: Equity 7.5% of depsts.	128,680	141,907	157,256	183,990	215,268	251,864	294,680	129.0
Cap & Debrs 8.1% of depsts.	135,970	145,160	169,837	198,709	232,490	272,013	318,255	134.1
Assets 16.3% incrs.	1,779,749	2,069,848	2,407,233	2,799,611	3,255,947	3,786,666	4,403,892	147.1

	12-31-82	% Assets	% Deposits
Loans	2,448,723	55.6	62.3
Deposits	3,929,079	89.2	
Public Funds	785,815		19.9
Reserves	36,730		
Capital	294,680	& resrvs 7.5	8.4
Cap., Notes & Debrs	318,255	& resrvs 8.1	9.0
Assets	4,403,892		

\* \* \* \* \*

Savings and Loan  
Associations

	12-31-76	12-31-77	12-31-78	12-31-79	12-31-80	12-31-81	12-31-82	Incr. %
Loans	207,983	225,227	254,507	237,592	324,979	367,226	414,965	99.1
Deposits	188,061	206,232	233,042	263,337	297,571	336,255	279,968	102.1
Assets	240,141	271,359	306,635	346,497	391,541	442,441	499,958	108.1

The savings and loan industry in Alaska experienced a decrease in loans and assets in 1973 as compared to 1972. By year end 1974 loans still were not at the 1972 level. Deposits, however, increased every year from 1972. Because of these factors the results of projections to 1982 were not in line with the historical figures of 1972 through 1976 when using percent of increase ratios. However, loans to assets and deposits to assets remained fairly constant and averaged 83 and 76 percent respectively. It was therefore decided to use an average rate of increase for assets of 13% through 1982 and develop loan and deposit figures based on percentage of those assets.

PROJECTIONS

Credit Unions  
(Thousands)

	12-31-76	12-31-77	12-31-78	12-31-79	12-31-80	12-31-81	12-31-82	% Increase
Loans	277,486	310,273	341,300	375,430	412,973	454,270	499,691	80.1
Shares	302,763	328,745	361,377	397,514	437,265	480,992	529,084	74.6
Assets	331,844	365,028	401,530	441,683	485,851	534,436	587,872	77.2

The only information available for credit unions was for the years ended 1974 through 1976. During this period substantial growth was experienced averaging over 50% per year. With the recent liberalization of the Federal Credit Union Act enabling credit unions to become more competitive with banks and savings and loan associations, continued good growth is anticipated but it is not believed they will increase at the rate of 50% per year over the next five years. Using a 23% increase, total assets would be 1,149,113,000, or a 246% increase over 1976. Using a 15% increase, total assets would be 767,572,000 for a 131% increase over 1976. It was decided to use a 10% increase which is set forth above. This approach is believed well within the realm of possibility and represents a 77% increase over 1976. Loans and shares were figured on the basis of 85% and 90% of assets respectively which is the average for credit unions during 1975 and 1976.

\* \* \* \* \*

Recapitulation  
(Thousands)

	12-31-76	12-31-77	12-31-78	12-31-79	12-31-80	12-31-81	12-31-82	% Increase
Loans:								
Bank	994,726	1,155,872	1,343,123	1,560,708	1,813,542	2,107,335	2,448,723	146.2
S & L	207,983	225,227	254,507	287,592	324,979	367,226	414,965	99.5
Credit Union	277,486	310,273	341,300	375,430	412,973	454,270	499,691	80.1
Total	1,480,195	1,691,372	1,938,930	2,223,730	2,541,494	2,928,831	3,363,379	127.2
Deposits:								
Bank	1,531,709	1,792,099	2,096,755	2,453,203	2,870,247	3,353,188	3,929,079	156.5
S & L	188,061	206,232	233,042	263,337	297,571	336,255	379,968	102.0
Credit Union	302,763	328,745	361,377	397,514	437,265	480,992	529,084	74.6
Total	2,022,533	2,327,076	2,691,174	3,114,054	3,605,083	4,175,435	4,838,131	139.2
Assets:								
Bank	1,779,749	2,069,848	2,407,233	2,799,611	3,255,947	3,786,666	4,403,892	147.4
S & L	240,141	271,359	306,635	346,497	391,541	442,441	499,958	108.2
Credit Union	331,844	365,028	401,530	441,683	485,851	534,436	587,872	77.2
Total	2,351,734	2,706,235	3,115,398	3,587,791	4,133,339	4,763,543	5,491,722	133.5

Alaska State Legislature

Clark

SPECIAL COMMITTEE ON  
THE ALASKA PERMANENT FUND  
(907) 276-3433

528 W. 5TH, SUITE 270  
ANCHORAGE, AK. 99501

[POUCH V, JUNEAU, AK. 99811]

(907) 465-4955  
465-4955



MEMBERS

- REP. CLARK GRUENING, CHMN.
- REP. TERRY GARDINER, V. CHMN.
- REP. E. J. HAUGEN
- REP. RUSS MEEKINS
- REP. BILL MILES
- REP. LEO SCHAEFFER
- ~~REP. XXXXX XXXXX~~
- Rep. Joe Hayes

House of Representatives

February 27, 1978

Mr. R. D. Stevenson  
 Special Assistant  
 Office of the Commissioner  
 Department of Revenue  
 Pouch S  
 Juneau, Alaska 99811

Dear Mr. Stevenson:

Thank you for the Fiscal Notes on HB 595, HB 596 and  
 HB 682 prepared by Deputy Commissioner Edenso and recently  
 received by the Committee.

CSHB 596 will be before the Finance Committee March 6, 1978  
 and it would be helpful to have the appropriate Fiscal Note  
 at that time.

I will also be forwarding a Committee Substitute for HB 682  
 for your review and subsequent Fiscal Note in the near future.

Again, thank you for your time and effort and feel free to  
 contact me if I can be of further assistance.

Cordially,

Representative Clark Gruening

CG/jl



# UNIVERSITY OF ALASKA. ANCHORAGE

3221 PROVIDENCE DRIVE  
ANCHORAGE, ALASKA 99504

SCHOOL OF BUSINESS  
AND PUBLIC ADMINISTRATION

February 8, 1978

Rep. Clark Gruening, Chairman  
Special Committee on the Alaska Permanent Fund  
Pouch V  
Juneau, Ak 99811

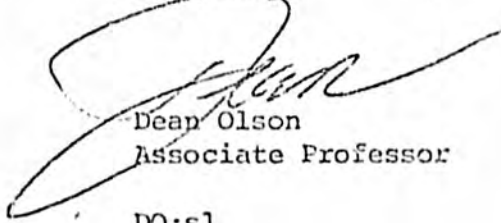
Dear Mr. Gruening:

Thank you for your recent letter and associated material on the Permanent Fund and Renewable Resources Development Fund.

I am enclosing a few comments which I believe pertain to Alaskan business development and to entrepreneurship generally.

Please let me know if I can be of further assistance.

Sincerely,



Dean Olson  
Associate Professor

DO:sl

cc: Garth Jones, Dean  
School of Business and Public Administration, UAA  
✓ Terry Gardiner, Representative

Enc.

ALASKAN ORGANIZATIONS AND PROGRAMS FOR INTERVENTION  
IN THE INNOVATIONS AND ENTREPRENEURSHIP  
DEVELOPMENT PROCESS

A comment on relative roles for the Alaska Renewable Resource Corporation; the Alaska Enterprise Investment Corporation; the Alaska Native Village Management Assistance Program and the University of Alaska

-By-

Dr. Dean F. Olson

## INTRODUCTION

Providing stimulatory assistance to the innovative process and providing sustained management and technical assistance to entrepreneurship has attracted nation-wide attention. Concern is directed primarily toward the small business because it is the small business and independent inventor which generate nearly two-thirds of the more important innovations.<sup>1</sup> The rate of technological innovation in the United States is decreasing relative to other nations.<sup>2</sup>

In spite of the importance of the small business in the innovation process, the Federal Government has yet to mount the sustained 'out reach' effort to reduce the mortality rate in this important basic resource area. Small businesses employ some 55 per cent of the workforce and produce 44 per cent of the gross national product, yet nearly half (44%) of all small businesses fail within their first two years of existence.<sup>3</sup> The primary cause (93%) of failure is found in the lack of adequate management skills.<sup>4</sup>

Federal agency programs in Alaska that are designed to assist business development consist primarily of the Economic Development Administration, the Small Business Administration, the General Services Administration (CEDC), and the Bureau of Indian Affairs. While the personnel in these agencies are to be commended for their hard work, their combined effectiveness is severely hampered by regulatory constraints, narrowly focused programs, and uncertain funding levels. It is also generally true that these agencies operate in established business sectors, albeit often with new business clients. The opportunity for these agencies to engage in the early stages of the innovative process is restricted programatically and budgetarily.

For the first time since its beginning, the State of Alaska is contemplating providing organized support to innovation and entrepreneurship through the proposed Alaska Renewable Resources Corporations. The ARRC would be funded through the Renewable Resources Development Fund. Its goal would be to broaden the economic base of the State through the orderly commercial development of renewable resources. The level of funding is dependent upon the rate of growth in tax revenues from non-renewable resource extraction but is estimated to fall somewhere between \$140 and \$240 million over the years, 1979 to 1985.

Legislation establishing the Alaska Enterprise Investment Corporation (AEIC) is also under consideration. As currently envisaged, the AEIC would not engage early in the innovation process but reserve itself to support of proven businesses. The proposed legislation provides \$100 million to the AEIC. One-half of that amount is to be used in direct or indirect support of the private sector.

1. F.M. Seltene, Industrial Market Structure and Economic Performance. (Chicago: Rand McNally, 1970) p. 348 -and- Gerald G. Udell, Director of the Experimental Center for the Advancement of Invention and Innovation, Testimony before the Select Committee on Small Business (April 26, 1977) p. 368.
2. Udell, Idid p. 366 -also- "The Breakdown of U.S. Innovation", Business Week, (February 16, 1976).
3. Kurt Mayer, "Small Business as a Social Institution", Small Business and Society (Wash. D.C.: U.S. Gov't. Printing Office, 1975) p. 425.
4. SBA Facts (Washington, D.C.: Small Business Administration, 1975) p. 12.

Another significant development of importance to Alaska's effort to encourage small business development is the creation of over 200 small village corporations under the Alaska Native Claims Settlement Act of 1971. These corporations are just now awakening. The investment capital endowment per corporation ranges from a few thousand to several million but, in the aggregate, totals some \$450 million. Recently, under a grant from the Department of Labor, the Alaska Native Foundation has launched an 'out-reach' program designed to intervene and assist in the development of these small village corporations. This out-reach effort is appropriately entitled the Alaska Village Management Program.

Finally, over the past decade the University of Alaska has made significant progress toward attracting and retaining competent staff in business and engineering. While rapid growth has produced well-known administrative difficulties, the basic structure of the University - the Community College campuses in larger rural communities, extension centers in smaller communities, four-year degree and graduate degree programs in urban centers - has been established. Successful intervention in the innovation process will require a University well-endowed in business and engineering with the out-reach capability afforded by a state-wide organization.

#### THE INNOVATION CENTER CONCEPT AND THE INNOVATION PROCESS

In 1973 the National Science Foundation (NSF) initiated an experiment in the development of technical innovation centers. The objective of the centers is to provide assistance to entrepreneurs, innovators, and small businesses in need of technical assistance. As a part of this experiment, innovation centers were established at Massachusetts Institute of Technology (focusing on entrepreneurial training), Carnegie-Mellon University (focusing on initiating technically based growth businesses), and the University of Oregon (focusing on idea and invention evaluation and the provision of marketing assistance to independent inventors and small businesses). Center activities and results are reported elsewhere.<sup>5,6</sup> In general, center experiences which might pertain to Alaska are listed below:

- (1) That funding for a center must be set to allow for a long-term commitment by University personnel and to provide lead-time for curricula and program development.
- (2) That it may take two to three years to develop a 'full service' center. A full service center would ultimately provide management assistance to businesses, offer technical assistance to the independent inventor and business, encourage entrepreneurship through education, serve as a repository of business and technical publications and feasibility studies, and conduct research in the applied sciences as pertains to the commercialization of Alaskan renewable resources.

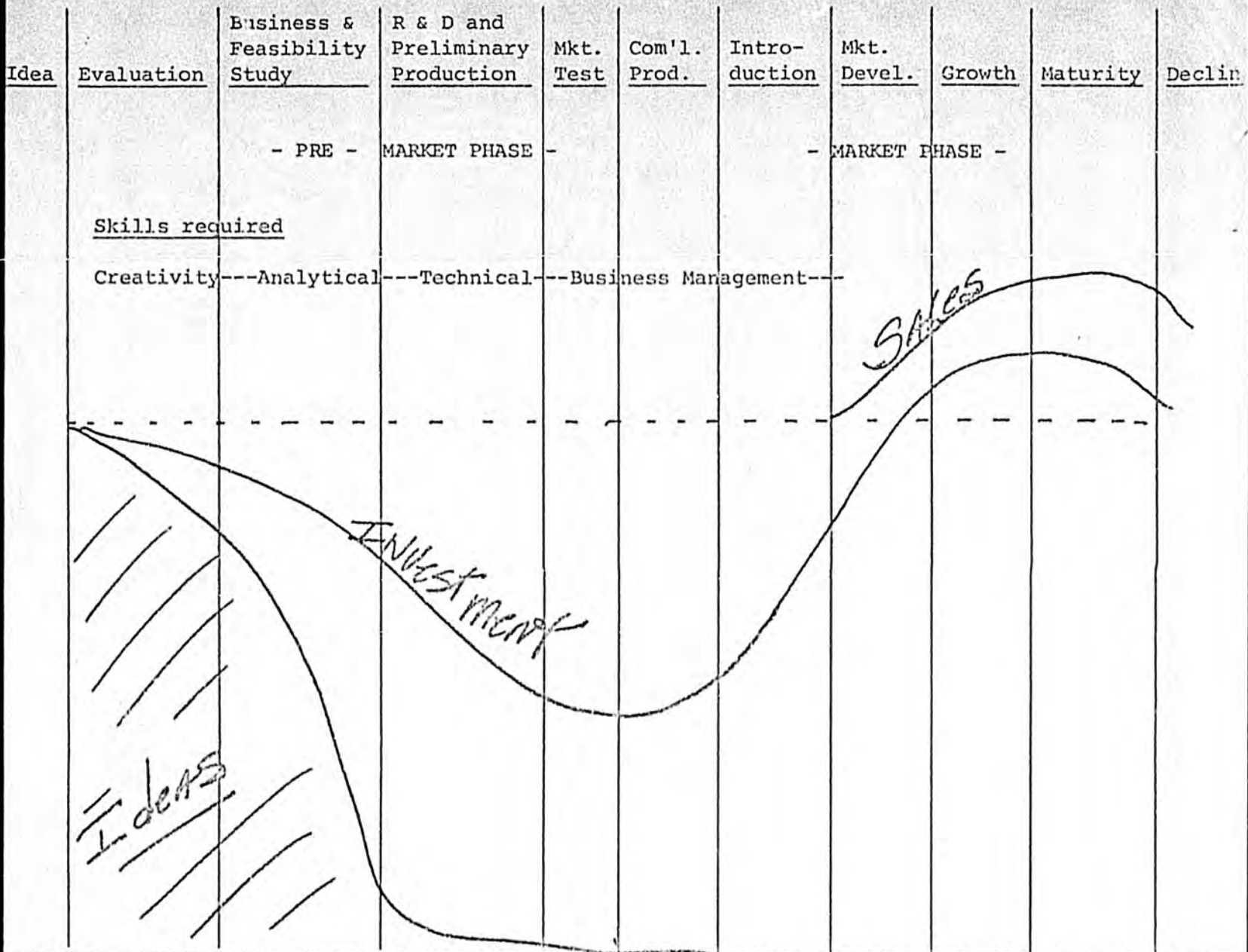
5. Robert M. Colton & Gerald G. Udell, Journal of Small Business Management, Vol.14, No. 2, April 1976; Gerald G. Udell & Robert M. Colton, Journal of the Licensing Executives Society, Volume XI, No. 2, June 1976; Karl Vesper, "Venture Initiation Courses in U.S. Schools", Univ. of Washington (NSF Grant DI 43579) 1975.

6. Robert M. Colton, Program Manager, National Science Foundation, Testimony before the Select Committee on Small Business (April 26, 1977) pp. 334-7.

The Innovation Center at the University of Oregon has found that innovation is a multi-faceted interdisciplinary process requiring a wide spectrum of technical and managerial skills to successfully encourage and stimulate. Figure I illustrates the several stages of the innovation process and the differing skills which are required along the way.<sup>7</sup>

Figure I

The Innovation Process



7. Udell, Op. cit. p. 373 (Adapted by author)

It is clear from the depiction that few ideas survive the evaluation stage. About 1% of all ideas reach the market place. About 80% of all new products (and 80-90% of new businesses) fail within the first five years. Yet the average business relies upon products less than five years old for 50% of its profits. Thus new product generation, evaluation, development and marketing are vital to economic stability and, in Alaska, to the broadening of the economic base.

The investment/sales time lag shown in Figure I is familiar to all businessmen. New ideas, new concepts and products require a good deal of dedication, time and money prior to fruition if, indeed, the innovation ever reaches the market introduction stage. In Alaska, new products have great obstacles to overcome in the market phase as well. These obstacles stem from lack of maturity in marketing channels, probable customer resistance to new Alaskan brands, a poorly developed or costly communication and transportation network.

#### STIMULATING INNOVATION

The underlying intent of the Alaska Renewable Resources Corporation is to reach out and stimulate the pre-market phase of the innovation process. This is the expensive portion of the development spectrum. It is inherently more expensive due to the risk of failure (reduced output per unit input) and more expensive because traditional investment capital is not responsive. The NSF experience is that management assistance costs \$1,000 to \$3,000 per client, while technical assistance (the premarket spectrum) could amount to \$20,000 to \$30,000 per client.<sup>8</sup> Alaskan costs, particularly if there is to be an 'out-reach' effort, will run well above these amounts.

Stimulating innovation is, in part, a matter of developing linkages - linkages between those with innovative ideas, those with technical and managerial skills, those with knowledge of markets and market demands, and those with venture and other responsible capital. This is not to say it is a passive role for indeed it is not. Stimulating innovation is creatively intervening in a creative process. Intervention in this process is necessarily a multi-disciplinary, multi-industry affair. The skills required simply do not obtain in a given individual or government agency. Furthermore, successful intervention requires that there be trust and confidence between the assisting organization and the innovator. Ideas are the property of those who know of them. Finally, intervention and successful gestation of the idea through to successful marketing of a product seems to be a coordinated process. To anticipate that several intervening organizations could coordinate their separate involvement in process seems idealistic. Thus, one organization should not limit its involvement to one part of the process to the preclusion of following through the process with the client.

#### THE ALASKA INNOVATION CENTER

The experiences of the NSF Innovation Centers suggest it is improbable that the ARRC could successfully intervene in the innovation process independently. It also casts some doubt on the wisdom of having several State corporations, rather than one, engaging in the provision of client services throughout the various stages of the innovation process.

8. Colten, Op. cit p. 335

The probability for successful intervention might be enhanced if the AARC and the AEIC were to, jointly with the University of Alaska - Schools of Business and Engineering, establish an innovative center aiming toward the 'full service' concept outline above.

Furthermore, the Village Corporations established under ANCSA provide an extraordinary opportunity in the linkages these organizations provide to rural areas. Rural Alaska is the homeland of most of the State's renewable resources. As major surface land owners, Village Corporations will constitute one important ingredient to economic stability in Alaska. Another vital linkage in this context is the new ANF Village Management Assistance Program. The VMA program could represent the 'out reach' dimension which might be needed throughout the innovation process.

Stimulating innovation and entrepreneurship in Alaska will require a maturity of institutional purpose and administrative competence which is not currently widespread in Alaska. Considerable time, money, and skill will be required to collect the personnel within the State who will become the core of competence to drive the innovative center.

Long-term success will depend upon the development of entrepreneurship seminars and other programs designed to help small businesses and innovators undertake the business planning requisite to their success.

Given the time which is apparently required to achieve institutional maturity in innovative center development, we should begin work now. By 1980, the Alaska Innovation Center could be providing:

- (1) Management assistance to Alaskan small businesses near or into the market phase of the innovation cycle;
- (2) Technical and analytical assistance to businesses and innovators in the premarket phase;
- (3) Seminars, courses and workshops on entrepreneurship and business planning;
- (4) Repository services, an inventory of possible ideas, studies of feasibility and technical data;
- (5) Research into the applied sciences as pertains to the commercialization of Alaska's renewable resources.

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

MEMORANDUM

February 2, 1978

SUBJECT: HB 596 Permanent Fund

TO: Representative Clark Gruening  
Chairman  
Special Committee on the Permanent Fund

FROM: Billy G. Berrier *BGB*  
Director  
Division of Legal Services

We have found certain technical corrections that we feel should be made to HB 596. These changes reflect changes correlative to decisions made by the interim committee but not picked up in the final re-draft.

SUGGESTED CHANGES

1. Page 1, lines 6 and 7, following the word "revenues" on line 6, add "and to legislative oversight." (With broadening of the legislative oversight committee responsibility to include all agencies involved in lending, borrowing or investing, there is a question as to compliance of the title with the requirement of the Constitution that the subject of the bill shall be expressed in the title.)

2. Page 12, line 25 through page 13, line 4, delete all material. (Because of the wide nature of publicly held stocks the permanent fund corporation will invest in, the conflict of interest was changed from prohibitory to disclosure. The later section now appears as Sec. 37.13.120 on page 9. This Sec. 37.13.190 should have been deleted when it was replaced by the rewritten section.)

3. Page 12, line 25, add:

Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation,

their transfer, and their income are exempt from all taxes and assessments in the state.

(The tax exemption section in Sec. 44.55.190 on page 24 should apply to the Permanent Fund Corporation and the Alaska Enterprise Fund Corporation. Because of the organization of the bill, this requires specific sections for each.)

4. Page 14, lines 10 - 13, delete all material and substitute:

(2) there is a shortage of investment capital available from other sources on reasonable terms for financially sound small and medium scale productive private enterprise and community development projects;

Page 14, lines 17 - 21 delete all material and substitute:

Sec. 44.55.030. PURPOSE. The purpose of the corporation is to provide capital at market rates and terms which are not available from other sources on reasonable terms for small and medium scale productive private enterprises and community development projects.

(Under the existing language, the application of the modifier "for which sufficient capital is not available from other sources on reasonable terms" is unclear. It was intended that this apply to both types of projects as in the suggested change.)

5. Page 15, line 12, following "(d)" insert the word "Public". (The member of the executive branch who is on the policy board would be on a full-time pay status. This was not picked up when the section was changed to coincide with the change in trustees in Sec. 37.13.100.)

6. Page 19, line 10, delete the word "it" and substitute "the investment committee". (The referent of the word "it" in the existing language is the investment committee but that referent is somewhat unclear in the existing language.)

Representative Clark Gruening  
Page 3  
February 2, 1978

7. Page 19, line 27, following the word "of" add:

"financially sound small and medium scale"

(This addition is for consistency since these modifiers are otherwise used uniformly.)

8. Page 20, line 11, delete the word "bank" and substitute "corporation". (Terminology change not picked up when name changed.)

9. Page 23, lines 13 and 14, following the word "members" delete "of the board of trustees" and substitute "of the policy board and investment committee".

Page 23, line 15, following the word "members" delete "of the board of trustees" and substitute "of the policy board and investment committee".

Page 23, lines 22 and 23, following the word "member" delete "of the board of trustees" and substitute "of the policy board and investment committee". (Each reflect name changes for which the necessary correlative changes these sections were not made.)

BGB:jpd

# MAC INC.

MANAGEMENT ANALYSIS CENTER, INC.  
550 CALIFORNIA AVENUE  
SUITE 300  
PALO ALTO, CALIFORNIA 94306  
(415) 328-1600

**January 24, 1978**

**Mr. V. Kent Dawson**  
**Executive Assistant to the Governor**  
**Office of the Governor**  
**Pouch A**  
**Jueanu, Alaska 99811**

**Dear Kent:**

Following the discussion last week among you, Clark Gruning, Fran Ulmer and me, I gave additional thought to the best way in which research by our firm could help the state resolve some of the key issues involved in structuring the Alaska Permanent Fund Development Corporation. In priority order, five important issues which will have to be resolved by state policymakers are:

1. Should Alaska have a development bank at all?
2. What objectives should the development bank have?
3. How much capital should be put into the bank—initially and long-term—for it to achieve its objectives?
4. What types of projects and companies should the development bank finance—those in sectors of the economy Alaska would like to encourage, those unable to obtain financing in the private sector, or those selected by other criteria?
5. How activist should the development bank be—in seeking out investments, in encouraging similar loans by private sector banks through loan syndications, loan guarantees, or publicity about investment opportunities, and in providing management assistance to companies in which it has invested?

These issues are inter-related. For example, an activist development bank seeking out investment opportunities might have great capital requirements. On the other hand, one which has an active program of contact with private

Mr. V. Kent Dawson  
January 24, 1978  
Page 2

sources of capital may have reduced capital requirements due to private participation. Most importantly, whether the state should have a development bank at all and what the capitalization of the bank and the bank's mode of operation should be ultimately depend on the state's objectives in forming the bank.

I propose that MAC assist Alaska in making decisions on these issues by research on issues 2, 3, 4 and 5. We would interview about ten domestic and international development bank authorities and five development economics professors (Ezra Solomon, Peter Briant, Belden Daniels and two others) and would review relevant published materials on development banks in putting together our findings. To the extent that relevant economic data on Alaska is available, I have assumed that state personnel will be primarily responsible in collecting and analyzing it for MAC. Our findings will address the expected results and implications of each major option open to Alaska's decision-makers on issues 2, 3, 4 and 5. In addition, the effect of decisions relating to one issue on the other issues to be decided will also be discussed. For each major option, we will indicate those development banks we know of which have followed a similar strategy and the degree of success they have experienced. The major arguments for and against each option will be indicated. The options will range from a cautious approach to funding with passive investment management through an activist management approach with high capitalization.

The options would be presented and discussed in one or a series of meetings in Juneau including Professors Solomon and Briant and key members of the Legislature, Governor's office and the Department of Revenue. Professor Daniels or other experts would also be welcome to participate; however, at the proposed level of funding for this work, I have budgeted only for the participation of Professors Solomon and Briant.

The meeting to discuss options is an open, educational process which avoids fixed positions or a situation where consultants tell policymakers what to do. There is no single "right" answer. There are instead choices to be discussed. The options process with experts involved in the discussion and with a basis of research data provides a framework for intelligent policy-making.

The research work could be completed, the options paper written and the meeting(s) in Juneau held within six weeks of your authorization to proceed. Total fees and expenses would be \$20,000 including those for Professors Solomon and Briant.

Mr. V. Kent Dawson  
January 24, 1978  
Page 3

I am hopeful we can begin very soon, so that the meeting can be held in late February or early March and the issues resolved so legislation can be finalized at that time. I would appreciate your discussing this and I will contact you shortly.

Best regards,



Martin H. Behr

Vice President

MHB:m

cc: Fran Ulmer  
Clark Greuning  
Sterling Gallagher

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

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

**Price  
Waterhouse & Co.**  
Chartered Accountants

*recd: 2-0-78*  
*#161*  
WESLEY HOUSE 21 MARINA  
P O BOX 2419 LAGOS NIGERIA  
TEL 26384 26385  
CABLES: PRICEWATER (LAGOS)

PBM/1T

19 January 1978

M Doogan, Esq  
House Permanent Fund Committee  
Pouch V  
Juneau Alaska 99801  
USA

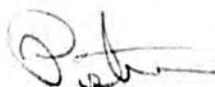
Dear Mike

DRAFT LEGISLATION

Enclosed is a memorandum of my comments on the Committee's draft bill which I hope you will find useful. A copy of the bill with minor notations and corrections is also enclosed.

Please let me know if I can be of any further help. In any case, I will look in on you during my next visit around mid-May.

Yours sincerely



PB McDowell

cc w/enclosures  
DC Regis, Esq PW Anchorage

Resident in Nigeria  
PB McDowell  
MC Tayleur  
C Ameko

RM Anson-Cartwright  
AH Chapman  
MA Coates

SM Duncan  
JW Etherington

GI Mills  
TR Watts

MEMORANDUM OF COMMENTS  
ON THE DRAFT LEGISLATION  
FOR THE ALASKA PERMANENT FUND

GENERAL COMMENTS

- 1 The scope of the Investment Oversight Committee is very broad. The inclusion of agencies with "borrowing" functions can extend jurisdiction to the University of Alaska, for example. It might be desirable to restrict the committee's responsibility to oversight only of agencies with lending or investment functions to permit the members to concentrate on a set of reasonably similar agencies. This would encourage the development of useful specialized knowledge by both committee members and staff.
- 2 The proposed capitalization of the Alaska Enterprise Investment Corporation (\$100,000,000 equity plus \$100,000,000 debt) is not large enough to warrant the organization structure proposed, ie Policy Board, Investment Committee, President, Staff, etc. Only if it is contemplated that the Corporation may be expanded in future, is such a complex organization required. If the Corporation remains at the proposed level, consideration should be given to reducing the size of the Policy Board and the Investment Committee and making the Investment Committee part-time.

SPECIFIC COMMENTS

Sec 37.13.080 (b)

Should the restriction also be applied to persons who hold local government office, position or employment?

Secs 37.13.110 - 130

The proposed organization structure appears to present potential problems similar to those encountered by the University of Alaska. The trustees have been given authority and responsibility for day-to-day investment operations. However, by virtue of the part-time nature of their positions, they will in practice have to rely on their executive director and his staff to carry out these functions. The executive director and the board will thus become one with regard to outside review and criticism. The board will not be in a position to provide effective, independent review of management performance, and the additional accountability provided by separation of responsibilities will be lost.

Consideration should be given to statutory separation of the board from management, with the board ultimately accountable for policies and the selection of executive director. The executive director would be accountable to the board for investment performance and would be hired and/or fired on the basis of the board's evaluation of his performance.

The important distinction is that the board is held accountable for its performance with regard to selecting executive directors, while the executive director is held accountable for the performance of his day-to-day investment activities.

This arrangement would place accountability and responsibility for activities that are manageable by a part-time board, with the board, and full-time activities with the full-time executive.

Sec 37.13.140

The meaning of the phrase " . . . . unless these losses are offset by gains on future sales of securities" is confusing. The intended calculation to be made should be clarified, ie, are losses to be absolutely measure each year and fully reimbursed from future income, or will future net gains be carried back against past losses to reduce the amount of those losses that must be funded from future income?

Sec 44.55.020

Consideration should be given to including the three-year minimum residence criterion and prohibition of government office holding as qualifications of the public Policy Board members. This would be similar to Sec 37.13.080 (a) and (b) for the Permanent Fund Corporation Board of Trustees. It would not be appropriate, however, to impose residence requirements for the President and other members of the Investment Committee. These are technical positions and require the most skilled persons available.

Sec 44.55.080

It would be preferable to require the Corporation to meet its operating expenses out of operating income. Sufficient legislative oversight should be provided by the Investment Oversight Committee's review of budgets. Subjecting the Corporation to the Executive Budget Act may dilute the accountability of the Corporation President with little or no offsetting benefit. Exemption should encourage the Corporation to operate as a profit-making enterprise, if that is considered a desirable characteristic.

Sec 44.55.120 (b) (1)

*considered*  
This appears to be an unintentional error if the limit is intended to apply to total investments. Total available funds may amount to \$200,000,000 if the Corporation borrows in accordance with 44.55.120 (a) (4).

Sec 44.55.125 (b)

This clause will certainly discourage guarantees, if that is the intention! A more realistic limitation will automatically be imposed by the bond rating agencies when the Corporation issues public borrowings. Corporation securities will be rated in accordance with its guarantee obligations, among other factors.

Sec 44.55.125 (e)

The limitation appears restrictive in the Alaskan context, ie high construction costs. Consideration should be given to a higher dollar limit, which combined with the restrictions in 44.55.120 (b) (1) should still provide adequate diversification of investments.

Sec 44.55.130

This section is probably unnecessary. The rating agencies and investment houses will stipulate any such requirements at the time the Corporation borrows from the market. As the market restrictions may be higher than those stated, the section could be interpreted as an upper limit thereby inhibiting the Corporation's ability to borrow on market terms.

PB McDowell  
Lagos, Nigeria  
18 January 1978

McDowell

To Do

Review & send comments to:

- Mike Doogan
- Bouch V
- Joncas

w.o. 4350

BY THE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE COUNCIL (for the Interim Committee on the Alaska Permanent Fund)

1 IN THE HOUSE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to nonrenewable resource revenues; and  
7 providing for an effective date."

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

9 \* Section 1. AS 24.20 is amended by adding new sections to read:

10 ARTICLE IV. INVESTMENT OVERSIGHT COMMITTEE.

11 Sec. 24.20.600. INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED. The  
12 Investment Oversight Committee is established as a permanent interim  
13 committee of the legislature. The establishment of the committee  
14 recognizes the need of the legislature for technical review and over-  
15 sight of the performance of all agencies of the state <sup>which have little</sup> ~~which perform~~  
16 lending, borrowing or investment functions.

17 Sec. 24.20.610. FINDINGS. The legislature finds that there is a  
18 substantial need for oversight of the performance of all agencies of the  
19 state which perform lending, borrowing or investment functions since  
20 these functions do not receive the detailed review to which other  
21 expenditures <sup>uses,</sup> of public money are subject, and therefore the knowledge  
22 necessary for sound legislation in this area is not readily available.  
23 There is a need for legislative oversight which will provide information  
24 on the policy <sup>ies</sup> and performance of these agencies, the extent to which the  
25 agencies conform to statutory intent, and the impact of their perfor-  
26 mance on the economy and treasury.

27 Sec. 24.20.620. PURPOSES. The purposes of the committee are to

- 28 (1) monitor and report
- 29 (A) the performance of the agencies of the state which

1            <sup>have</sup>  
~~perform~~ lending, borrowing or investment functions,

2            (B) the extent to which the performance of these agen-  
3            cies has contributed to the fiscal, financial, economic and social  
4            improvement of the state and its citizens,

5            (C) the extent to which these agencies and the executive  
6            have prepared and coordinated short and long term economic, fiscal,  
7            investment and financial planning;

8            (2) hold these agencies accountable to statutory intent in  
9            their performance by recommending, where appropriate, changes in policy  
10           to the agencies or changes in legislation to the legislature;

11           (3) annually review the extent of capitalization of the  
12           investment funds of the state and alternative investment policy for the  
13           general fund surplus and recommend needed legislation.

14           Sec. 24.20.630. MEMBERSHIP. The committee is composed of eight  
15           members: the president of the senate, the speaker of the house, and  
16           three members appointed from each house by the respective presiding  
17           officer. The membership from each house shall include at least one  
18           member from each of the two major political parties. The committee  
19           shall select its own chairman.

20           Sec. 24.20.640. TERM OF MEMBERSHIP. (a) The committee shall be  
21           organized within 15 days after the organization of each legislature.  
22           Members serve for the duration of the legislature during which they are  
23           appointed. If a member is reelected or his term of office extends into  
24           the next succeeding legislature, he continues to serve until reappointed  
25           or the appointment of his successor.

26           (b) When a member of the committee files a declaration of candi-  
27           dacy for an elective office other than that of member of either house of  
28           the legislature, and he has not resigned from membership on the com-  
29           mittee, his committee membership terminates on the date of filing.

1           Sec. 24.20.650. VACANCIES. When a vacancy occurs in the statutory  
2 or appointive membership of the committee, the presiding officer of the  
3 house incurring the vacancy shall choose a successor. If the office of  
4 the president of the senate or speaker of the house of representatives  
5 becomes vacant and a vacancy from the affected house occurs among the  
6 membership of the committee, the remaining committee members from the  
7 house incurring the vacancy shall appoint a new member.

8           Sec. 24.20.660. MEETINGS. The committee may meet during sessions  
9 of the legislature and during the interim between sessions at such times  
10 and places in the state as the chairman may determine. Members may  
11 receive, for the minimum time required to get to and from meetings and  
12 for the period while attending meetings, the same travel and per diem  
13 allowances provided by law for members of the legislature when attending  
14 sessions, except that members of the committee receive no per diem  
15 during legislative sessions other than the per diem allowance paid to  
16 other members of the legislature.

17           Sec. 24.20.670. POWERS. The committee has the power to

18           (1) organize, adopt rules for the conduct of its business,  
19 and prescribe procedures for the comprehensive fiscal analysis, budget  
20 review and post-audit functions over those agencies of the state which  
21 ~~perform~~ <sup>have</sup> lending, borrowing or investment functions;

22           (2) hold public hearings, administer oaths, issue subpoenas,  
23 compel the attendance of witnesses and production of papers, books,  
24 accounts, documents and testimony, and have the depositions<sup>A</sup> of witnesses  
25 taken in a manner prescribed by court rule or law for taking depositions  
26 in civil actions;

27           (3) require all state officials and agencies of state govern-  
28 ment to give full cooperation to the committee or its staff in assem-  
29 bling and furnishing requested information;

1 (4) hold public hearings relating to the confirmation of  
2 members of the Board of Trustees of the Alaska Permanent Fund Corporation, the Board of Trustees  
3 of the Alaska Renewable Resources Corporation, and the Alaska Enterprise  
4 Investment Corporation Policy Board;

5 (5) prepare and distribute reports, memoranda, or other  
6 necessary materials;

7 (6) make recommendations concerning the structure and operat-  
8 ing practices of all agencies of the state which <sup>have</sup> ~~perform~~ lending,  
9 borrowing or investment functions;

10 (7) receive and review reports and post-audit analyses con-  
11 ducted by independent outside auditors and/or the Legislative Budget and Audit Committee relating to all  
12 agencies of the state which <sup>have</sup> ~~perform~~ lending, borrowing or investment  
13 functions;

14 (8) enter into and enforce all contracts necessary or desira-  
15 ble for the functions of the committee.

16 Sec. 24.20.680. STAFF. The legislative audit division and the  
17 legislative finance division shall provide audits, reports and analyses  
18 requested by the committee. The committee may hire and determine the  
19 salary of the staff it considers necessary within the limit of the  
20 budget approved by the legislature.

21 Sec. 24.20.690. DUTIES. The committee shall

22 (1) report to the legislature its recommendations relating to  
23 the confirmation of suggested appointees to the Board of Trustees of the Alaska Permanent Fund  
24 Corporation, the Board of Trustees of the Alaska Renewable Resources  
25 Corporation, and the Alaska Enterprise Investment Corporation Policy  
26 Board;

27 (2) annually review the long-range operating plans of all  
28 agencies of the state which <sup>have</sup> ~~perform~~ lending, borrowing or investment  
29 functions;

1 (3) review periodic reports from all agencies of the state  
2 which ~~perform~~<sup>have</sup> lending, borrowing or investment functions;

3 (4) present a complete report of investment programs, plans,  
4 performance, and policies of all agencies of the state which ~~perform~~<sup>have</sup>  
5 lending, borrowing or investment functions to the legislature within 30  
6 days after the convening of each regular session;

7 (5) present to the legislature within 30 days after the con-  
8 vening of each regular session a review of the report of the governor  
9 under AS 37.09.020(b) with recommendations for any needed legislation;

10 (6) in conjunction with the finance committee of each house  
11 recommend annually to the legislature the investment policy for the  
12 general fund surplus and the income from the permanent fund.

13 Sec. 24.20.700. RECORDS. The committee shall keep a complete file  
14 of all reports presented to it and all reports presented by it to the  
15 legislature or any legislative committee.

16 \* Sec. 2. AS 37.07.020 is amended by adding a new subsection to read:

17 (b) The governor shall annually, before the convening of the  
18 legislature, report to the legislature through the Investment Oversight  
19 Committee the long-range fiscal and economic consequences of

20 (1) alternate levels of capitalization of the investment  
21 funds of the state; and

22 (2) alternative investment policy for the general fund  
23 surplus.

24 \* Sec. 3. AS 37 is amended by adding a new chapter to read:

25 CHAPTER 13. ALASKA PERMANENT FUND.

26 Sec. 37.13.010. ALASKA PERMANENT FUND. Under art IX, sec. 15 of  
27 the state constitution, there is established as a separate fund the  
28 Alaska permanent fund. The permanent fund consists of 100 per cent of  
29 mineral lease bonuses after deduction of any amounts allocated to the  
30

1 Alaska Native Fund under the Alaska Native Claims Settlement Act and  
2 implementing state legislation and any amounts allocated by law to the  
3 Alaska renewable resources development fund and 30 per cent of all  
4 mineral lease rentals, royalties, royalty sale proceeds, and federal  
5 mineral revenue sharing payments received by the state and any other  
6 money allocated by law or appropriated to the principal of the fund  
7 which shall be paid to the fund at least once each month. The permanent  
8 fund consists of (1) the Alaska Permanent Fund Corporation established  
9 in this chapter to which five-sixths of the receipts from these sources  
10 is allocated and (2) the Alaska Enterprise Investment Corporation  
11 established in AS 44.55 to which one-sixth of the receipts from these  
12 sources is allocated until the amount so allocated reaches the sum of  
13 \$100,000,000. Thereafter the total receipts from these sources is  
14 allocated to the fund established in this chapter.

15 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-  
16 tional amendment, have required the placement of at least 25 per cent of  
17 all mineral lease rentals, royalties, royalty sale proceeds, and federal  
18 mineral revenue sharing payments and bonuses received by the state into  
19 a permanent fund. The legislature finds with respect to the Alaska  
20 Permanent Fund Corporation that

21 (1) it should provide a means of conserving a portion of the  
22 state's revenues from mineral resources to the ultimate benefit of  
23 future generations of Alaskans;

24 (2) the primary goal of the corporation should be to maximize  
25 total return while maintaining safety of principal;

26 (3) it should be used as a savings device managed to allow  
27 the maximum use of disposable income from the corporation as needed for  
28 purposes designated by law.

29 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to  
30

1 provide a mechanism for the management and investment of permanent fund  
2 assets in a manner consistent with the findings established in sec. 20  
3 of this chapter.

4 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is  
5 established the Alaska Permanent Fund Corporation. The corporation  
6 is a public corporation and government instrumentality in the Department  
7 of Revenue managed by a board of trustees but has a legal existence  
8 independent of and separate from the state. The purpose of the board is  
9 to manage and invest the assets of the corporation in accordance with  
10 the guidelines established in this chapter.

11 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board  
12 of trustees consists of three members appointed by the governor and  
13 confirmed by a majority of the members of the legislature in joint  
14 session.

15 (b) The board shall annually elect a chairman from among its  
16 members.

17 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be  
18 appointed for terms of four years, and they may be reappointed. Terms  
19 shall be staggered. Initial terms shall be one member serving for two  
20 years, one member serving for three years, and one member serving for  
21 four years.

22 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
23 remove a trustee from office by and with the consent of a majority of  
24 the members of the legislature in joint session. A removal by the  
25 governor shall be in writing and state the reason for removal. If the  
26 legislature is not in session, the governor may suspend a member of the  
27 board. Upon suspension, a trustee may not participate in board business  
28 and may not be counted for purposes of establishing a quorum. The  
29 joint session shall be held within 30 days from the date of removal if

1 the removal occurs while the legislature is in session or within 30 days  
2 of convening of the legislature if the legislature is not in session.  
3 If the legislature refuses to consent to his removal, the trustee shall  
4 be reinstated to his position.

5 (b) A vacancy on the board shall be promptly filled by appointment  
6 by the governor and confirmation by a majority of the members of the  
7 legislature in joint session, and an appointee to fill a vacancy shall  
8 hold office for the balance of the term for which his predecessor on the  
9 board was appointed. If a vacancy arises on the board while the legis-  
10 lature is not in session, the governor may appoint an interim trustee  
11 who shall exercise all powers of a permanent trustee until such time as  
12 the legislature in joint session fails to confirm the interim trustee's  
13 appointment.

14 (c) A vacancy on the board does not impair the authority of a  
15 quorum of the board to exercise all the powers and perform all the  
16 duties of the board.

17 Sec. 37.13.080. QUALIFICATIONS OF TRUSTEES. (a) No trustee may  
18 be appointed to the board who has not been a resident of the state for  
19 at least three years.

20 *local gov't?* (b) No member of the board may hold any other state or federal  
21 office, position or employment, either elective or appointive, except as  
22 a member of the armed forces of the United States or of this state.

23 (c) At least one member of the board shall have recognized com-  
24 petence and wide experience in finance, investments, or other business  
25 management-related field. No two members may be appointed to the board  
26 who share substantially similar professional or occupational backgrounds.

27 Sec. 37.13.090. QUORUM. Two members of the board constitute a  
28 quorum for the transaction of business and the exercise of the powers  
29 and duties of the board.

1           Sec. 37.13.100. COMPENSATION OF TRUSTEES. Trustees receive an  
2 honorarium of \$250 for each meeting day if they attend the meeting and  
3 are entitled to per diem and travel allowances as provided by law for  
4 members of state boards and commissions.

5           Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and  
6 determine the salary of an executive director. The executive director  
7 may, with the approval of the board, select and employ additional staff  
8 as necessary. The executive director may not be a trustee. The execu-  
9 tive director and all employees of the board are in the exempt service  
10 under AS 39.25.

11           Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Trustees are subject  
12 to the provisions of AS 39.50.

13           (b) If a member or employee acquires, owns or controls an interest,  
14 direct or indirect, in an entity or project in which corporation assets  
15 are invested, he shall immediately disclose the interest to the board.  
16 The disclosure is a matter of public record and shall be included in  
17 the minutes of the board meeting next following the disclosure.

18           Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-<sup>PERSON</sup>man-rule is  
19 applicable to the board in its management and investment of permanent  
20 fund assets. The prudent-<sup>PERSON</sup>man-rule as applied to investments of the  
21 corporation means that in making investments the board shall exercise  
22 the judgment and care under the circumstances then prevailing which an  
23 institutional investor of ordinary prudence, discretion, and intelligence  
24 exercises in the management of large investments entrusted to it not in  
25 regard to speculation but in regard to the permanent disposition of  
26 funds, considering the probable income from them as well as probable  
27 safety of capital.

28           (b) The corporation assets may only be used for income-producing  
29 investments.

*A PFC  
Board  
similar to  
UA Regents?  
i.e. part-time  
& no separation between  
Board & executive*

1 (c) The board shall seek to maintain a reasonable diversification  
2 in its investments unless under the circumstances it is clearly prudent  
3 not to do so.

4 (d) The board shall submit long-range and quarterly investment  
5 reports to the Investment Oversight Committee.

6 (e) The corporation may not borrow funds or guarantee the obli-  
7 gations of others.

8 (f) The board may enter into and enforce all contracts necessary,  
9 convenient or desirable for purposes of the fund except it may not  
10 contract with agencies or departments of the state to recommend or  
11 select investments.

12 (g) Subject to (a) of this section the board may invest its assets  
13 in obligations of the United States or obligations for which the full  
14 faith and credit of the United States are pledged for payment of princi-  
15 pal and interest; loans secured by first liens on unencumbered realty or  
16 leaseholds; and corporate stock and corporate obligations which under  
17 the Securities Act of 1933 are freely marketable.

18 (1) No portion of the assets of the fund may be used in the  
19 purchase of stock of any corporation which is not paying dividends on  
20 that stock in cash at the time of purchase; nor in the purchase of bonds  
21 of any corporation, upon which any regular interest payment has been  
22 defaulted at any time within five years before purchase, except bonds  
23 never in default but which have been outstanding for less than five  
24 years.

25 (2) No portion of the assets of the fund may be used in the  
26 purchase of stocks if immediately following the purchase the proportion-  
27 ate market value of all stocks held by the corporation would exceed  
28 30 per cent of the corporation's assets.

29 (h) The board shall establish and from time to time as necessary

1 modify guidelines for the investment of the corporation's assets.  
2 Before adoption of any guidelines the guidelines shall be reported to  
3 the Investment Oversight Committee for review and comment.

4 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,  
5 the total amount of losses on the sales of securities, not offset<sup>\*</sup> by  
6 gains on the sales of securities during that year, shall be computed,  
7 with a portion of these losses to be deducted each fiscal year from the  
8 interest and dividend income and the resulting amount of interest and  
9 dividend income added to the principal of the fund. Losses taken on the  
10 sales of bonds shall be accumulated over a period equal to the average  
11 remaining life of the bonds sold, and losses taken on the sales of  
12 *Contract?* stocks shall be accumulated within a period of five years, unless these  
13 losses are<sup>\*</sup> offset by gains on future sales of securities. In any fiscal  
14 year in which the gains on the sales of securities exceed the losses on  
15 the sales of securities, the excess shall be added to the principal of  
16 the fund.

17 Sec. 37.13.150. INCOME. The interest and dividends received in a  
18 year are the income of the fund for that year. The income available for  
19 disbursement shall be determined on an averaging basis. For the first  
20 five years, income will be the simple averaging of the annual current  
21 return at cost. Subsequently, there will be a moving average current  
22 return, in which the latest fiscal year will replace the oldest year.  
23 The income available for disbursement will be the lesser of the latest  
24 fiscal year's income, or the average annual current income for the past  
25 five fiscal years of the fund at cost, and after adjustment for capital  
26 losses charged to that fiscal year.

27 Sec. 37.13.160. BOARD BUDGET. The board's operating budget is  
28 from the general fund and is subject to the Executive Budget Act  
29 (AS 37.07).

1           Sec. 37.13.170. AUDITS. The Investment Oversight Committee shall  
2 provide for an annual <sup>(by independent outside auditors)</sup> ~~post~~ audit and annual operational and performance  
3 evaluations of the board's investments and investment programs.

4           Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than Septem-  
5 ber 30 of each year, the board shall publish a report to the governor,  
6 legislature, and the public in easily understandable language. Each  
7 report must include financial statements audited by independent outside  
8 auditors, a statement of the amount of money received by the permanent  
9 fund <sup>revenue source and the income from each</sup> from each investment during the period covered, a statement of  
10 permanent fund investments, a description of permanent fund investment  
11 activity during the period covered by the report, a comparison of the  
12 fund performance with the intended goals contained in sec. 20 of this  
13 chapter, an examination of the impact of the investment criteria of this  
14 chapter on the fund portfolio with recommendations of any needed changes  
15 and any other information the board believes would be of interest to the  
16 governor, the legislature, and the public. The annual income statement  
17 and balance sheet of the permanent fund shall be published in at least  
18 one newspaper in each judicial district. The income statements and  
19 balance sheets for the two fiscal years preceding the publication of the  
20 election pamphlet under AS 15.57 shall be included in that pamphlet.  
21 The board may also publish other reports it considers desirable to carry  
22 out its purpose.

23 \* Sec. 4. AS 44 is amended by adding a new chapter to read:

24       CHAPTER 55. THE ALASKA ENTERPRISE INVESTMENT CORPORATION.

25       Sec. 44.55.010. CREATION OF CORPORATION; FUNDING. (a) There is  
26 created the Alaska Enterprise Investment Corporation. The corporation  
27 is a public corporation and government instrumentality in the Department  
28 of Revenue but has legal existence independent of and separate from the  
29 state. The exercise by the corporation of the powers conferred by this

1 chapter is considered an essential governmental function of the state.

2 (b) One-sixth of the receipts of all mineral lease rentals, roy-  
3 alties, royalty sale proceeds, and federal mineral revenue sharing pay-  
4 ments and bonuses allocated to the permanent fund shall be paid directly  
5 into the corporation which is the paid-in capital of the corporation  
6 until a total of \$100,000,000 has been paid in.

7 *small?* Sec. 44.55.020. ALASKA ENTERPRISE INVESTMENT CORPORATION POLICY  
8 BOARD. (a) There is established the Alaska Enterprise Investment  
9 Corporation Policy Board consisting of a person employed in the execu-  
10 tive branch of state government appointed by the governor and six public  
11 members appointed by the governor with due regard for geographical  
12 representation and confirmed by a majority of the members of the legis-  
13 lature in joint session. At least two of the public members shall have  
14 recognized competency and wide experience in investment finance. The  
15 board shall elect one of the public members as chairman and other  
16 officers they determine desirable.

17 (b) The six appointed <sup>public</sup> members shall serve for four-year terms, and  
18 they may be reappointed. Terms shall be staggered. Initial terms shall  
19 be two members serving for two years, two members serving for three  
20 years, and two members serving for four years. A member continues to  
21 serve until his successor is appointed and confirmed.

22 (c) A majority of the policy board members constitutes a quorum  
23 for the transaction of business by the board. Decisions of the board  
24 shall be taken by a majority vote. The board shall hold at least one  
25 public meeting each year.

26 (d) Members of the policy board receive an honorarium of \$250 for  
27 each meeting day if they attend the meeting and are entitled to per diem  
28 and travel allowances as provided by law for members of state boards and  
29 commissions.  
30

1           Sec. 44.55.030. REMOVAL AND VACANCIES ON BOARD. (a) The governor  
2 may remove a policy board member from office by and with the consent of  
3 a majority of the members of the legislature in joint session. The joint  
4 session shall be held within 10 days from the date of removal if the  
5 removal occurs while the legislature is in session or within 30 days of  
6 convening of the legislature if the member was suspended. If the  
7 legislature is not in session, the governor may suspend a member of the  
8 policy board for cause. Upon suspension, a board member may not par-  
9 ticipate in policy board business and may not be counted for purposes of  
10 establishing a quorum. If the legislature refuses to consent to his  
11 removal, the member shall be reinstated to his position.

12           (b) A vacancy arising on the policy board shall be promptly filled  
13 by appointment by the governor and confirmation by a majority of the  
14 members of the legislature in joint session, and an appointee to fill a  
15 vacancy shall hold office for the balance of the term for which his  
16 predecessor on the board was appointed. If a vacancy arises on the  
17 board while the legislature is not in session, the governor may appoint  
18 an interim board member who shall exercise all powers of a permanent  
19 board member until such time as the legislature in joint session fails  
20 to confirm the interim member's appointment.

21           (c) A vacancy on the policy board does not impair the authority of  
22 a quorum of the board to exercise all the powers and perform all the  
23 duties of the board.

24           Sec. 44.55.040. DUTIES OF THE POLICY BOARD. The policy board  
25 shall

- 26           (1) select and appoint the president and other members of the  
27 Investment Committee established in sec. 60 of this chapter <sup>and</sup>  
28 <sup>determining the remuneration of the president;</sup>  
29           (2) annually review and approve long-range operating plans,  
30 the budget for the forthcoming year, and the financial plan for the

1 following years;

2 (3) have responsibility on behalf of the <sup>Corporation</sup> bank for relations  
3 with the general public, legislature, executive branch, local communi-  
4 ties, and interest groups concerning all things excepting only those  
5 matters that are the responsibility of the Investment Committee;

6 (4) review quarterly reports from the Investment Committee  
7 concerning investment decisions and investment supervision, but the  
8 board may not impose an investment decision upon, or override an invest-  
9 ment decision of, the Investment Committee;

10 (5) review, consider and approve policies;

11 (6) establish an audit committee which shall select inde-  
12 pendent outside auditors, and receive all audit reports.

13 Sec. 44.55.050. PRESIDENT. The president of the corporation is  
14 appointed by the policy board for a term of four years, may be reap-  
15 pointed, and serves at the pleasure of the policy board. The president  
16 shall

17 (1) have sole responsibility for presenting investment pro-  
18 posals to the Investment Committee;

19 (2) be responsible for the ordinary business of the corpo-  
20 ration and the organization, appointment, dismissal, and remuneration of  
21 the officers and staff;

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

24 (4) establish and maintain adequate and appropriate organi-  
25 zational, operating and financial controls.

26 Sec. 44.55.060. INVESTMENT COMMITTEE. (a) There is established  
27 the Investment Committee, consisting of the president and four members  
28 appointed by the policy board. No member of the policy board may be a  
29 member of the committee. Members of the committee shall be persons of

1 recognized competence and wide experience in investments, finance, and  
2 other business management-related fields. A member may be reappointed  
3 and continue to serve until his successor is appointed. ~~The president~~  
4 ~~and members~~ shall serve for four-year terms. Terms shall be staggered.  
5 Initial terms shall be one member serving for one year, one member  
6 serving for two years, one member serving for three years, and one  
7 member ~~and the president~~ serving for four years.

8 (b) Three members of the committee constitute a quorum. Decisions  
9 of the committee shall be taken by majority vote.

10 (c) Members of the committee other than the president receive an  
11 annual salary within Range 30 in the salary schedule for state employees  
12 established by AS 39.27.011.

13 Sec. 44.55.070. DUTIES OF THE COMMITTEE. The committee has sole  
14 responsibility to approve all investment proposals.

15 Sec. 44.55.080. BUDGET. The corporation operating budget is from  
16 the general fund and is subject to the provisions of the Executive  
17 Budget Act (AS 37.07).

18 Sec. 44.55.090. PERSONNEL OF CORPORATION. Policy board members,  
19 <sup>investment</sup> committee members, and officers and staff of the corporation are in the  
20 exempt service under AS 39.25.

21 Sec. 44.55.100. FINDINGS. The legislature finds

22 (1) that investment in financially sound small and medium  
23 scale productive private enterprises and community development projects  
24 in the state, particularly in rural areas, is of benefit to the citizens  
25 of the state;

26 (2) there is a shortage of investment capital for financially  
27 sound small and medium scale productive private enterprises and for  
28 community development projects particularly in rural areas of the state;

29 (3) that the corporation working with private financial

institutions to supplement but not supplant their services can help to alleviate this shortage.

Sec. 44.55.110. PURPOSE. The purpose of the corporation is to provide <sup>medium and long-term</sup> capital at market rates and terms for small and medium scale productive private enterprises, and community development projects particularly in rural areas of the state.

Sec. 44.55.120. POWERS OF THE CORPORATION. (a) In carrying out the corporate purposes of the corporation, the policy board has power to

- (1) adopt, alter and use a corporate seal;
- (2) prescribe, adopt, amend, and repeal bylaws;
- (3) sue and be sued in the name of the corporation;
- (4) borrow funds, and in that connection furnish such collateral or other security as it determines <sup>Necessary</sup> ~~except~~ that corporation borrowing may not exceed its paid-in capital;

(5) guarantee obligations of another corporation or legal entity in order to facilitate their sale;

(6) enter into agreements necessary or convenient in the exercise of its powers and functions;

(7) acquire, hold, use, lease, sell or otherwise dispose of property of any kind, real, personal or mixed, or any interest in it;

(8) contract with state, federal and other agencies to develop needed information and analyses;

(9) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

(b) In carrying out the corporate purposes of the corporation, the committee has the power to

- (1) invest, in such form and such amounts not to exceed \$100,000,000, as it considers appropriate, by purchasing the capital stock of, or lending money to, projects, except that any investment in

Handwritten mark resembling a stylized 'A' or 'H' with a vertical line through it.

Handwritten note:  $\frac{1}{2}$  of total capitalization

Handwritten note: or does it mean per project?

1 the capital stock of or other ownership interest in a project may not  
2 exceed 25 per cent of the capital stock of, or other ownership interest  
3 in the project, and no loan or other investment in the project by the  
4 corporation may exceed 90 per cent of the cost of the project unless, in  
5 the judgment of the committee, additional amounts must be loaned to  
6 protect the interests of the <sup>corporation</sup> investment fund;

7 (2) deposit surplus funds, or invest surplus funds through  
8 the permanent fund <sup>corporation</sup> in such obligations as it may determine;

9 (3) buy and sell securities the corporation has issued or  
10 guaranteed or in which it has invested;

11 (4) do all acts and things necessary, convenient or desirable  
12 to carry out the powers granted or implied in this chapter.

13 Sec. 44.55.120<sup>5</sup>. INVESTMENTS. (a) In making investments, the  
14 committee and staff shall exercise the judgment and care under the  
15 circumstances then prevailing which a person of ordinary prudence,  
16 discretion, and intelligence exercises in the management of his own  
17 affairs taking into consideration the probable income from the invest-  
18 ments as well as probable safety of principal.

19 (b) An amount equal to at least 150 per cent of all guarantees by  
20 the corporation shall be invested in investment-grade securities.

21 (c) The committee may invest not more than 50 per cent of the  
22 resources of the corporation to provide a reasonable proportion of  
23 <sup>medium and</sup> longer-term investment capital for financing the establishment, improve-  
24 ment, and expansion of productive private enterprises which will benefit  
25 Alaskans, and for which sufficient capital is not available from other  
26 sources on reasonable terms. These investments may take the form of  
27 equity, debt, or debt guarantees.

28 (d) The committee may invest not more than 50 per cent of the  
29 resources of the corporation in financing a reasonable proportion of the

This is now provided for  
in Sec. 37.13.120(9)

Medium and

1 longer-term investment capital needs for financially sound small and  
2 medium scale community development projects of municipalities and public  
3 corporate entities ~~and private dwellings~~ in the state for which suf-  
4 ficient financing is not available from other sources on reasonable  
5 terms. These investments may take the form of equity debt or debt  
6 guarantees.

7 (e) The committee may not invest <sup>IN</sup> or guarantee obligations totaling  
8 more than five per cent of the resources of the bank or \$2,500,000,  
9 whichever is less, in a single project unless the legislature has  
10 approved the investment by concurrent resolution.

11 (f) The committee may not undertake any financing for which, in  
12 its opinion, sufficient private capital could be obtained on reasonable  
13 terms.

14 (g) The <sup>corporation</sup> ~~committee~~ may not <sup>in ordinary circumstances</sup> assume responsibility for managing any  
15 enterprise or project in which it has invested and may not exercise  
16 voting rights for that purpose or for any other purpose which, in its  
17 opinion, properly is within the scope of managerial control.

18 (h) The committee shall only undertake its financing on terms and  
19 conditions which it considers appropriate, taking into account the terms  
20 and conditions normally obtained by private investors for similar fi-  
21 nancing, the requirements of the enterprise or project, the risks being  
22 undertaken by the corporation, and the participation of other investors  
23 unless the legislature has appropriated funds for subsidizing invest-  
24 ments which in the opinion of the corporation are of such high priority  
25 that special terms and conditions are appropriate.

26 (i) The committee may seek to revolve the corporation's money by  
27 selling its investments to other investors whenever it can appropriately  
28 do so on satisfactory terms.

29 (j) The committee shall seek to maintain a reasonable

1 diversification in its investments.

2 (k) The committee shall only consider investment proposals after  
3 the applicant for an investment has submitted a detailed proposal to the  
4 ~~committee's~~ <sup>corporation</sup> staff and the staff has prepared a written report recommend-  
5 ing the investment after a study of its merits.

6 (l) The <sup>corporation</sup> ~~committee~~ shall analyze the economic and other effects of  
7 an investment decision, including the effects on employment, income  
8 distribution, environment, health, social and other factors. The  
9 committee shall be sensitive to the views of affected local communities.

10 (m) The committee may guarantee qualifying loans made by financial  
11 intermediaries in order to facilitate investment by the intermediaries  
12 in specific enterprises or projects whose individual financing require-  
13 ments are not, in the opinion of the committee, large enough to warrant  
14 ~~its~~ direct supervision.

15 (n) The committee shall provide for operational and performance  
16 evaluations (post-audits) of its investments and investment programs and  
17 report the results to the policy board.

18 (o) Nothing in this section prevents the <sup>corporation</sup> ~~committee~~, in the event  
19 of actual or threatened default on any of its investments, actual or  
20 threatened insolvency of the enterprise in which the investment has been  
21 made, or other situations which, in the opinion of the committee,  
22 threaten to jeopardize the investment, from taking such action and  
23 exercising such rights as it may consider necessary for the protection  
24 of its interests.

25 }  
26 Sec. 44.55.130. CAPITAL RESERVE ACCOUNT. For the purpose of secur-  
27 ing its obligations, the corporation shall establish a special account  
28 called the capital reserve account. The corporation shall pay into that  
29 account the income of the corporation until the amount in the capital  
30 reserve account is equal to 25 per cent of the outstanding obligations

1 of the corporation. Subsequently, at the beginning of each fiscal year  
2 the corporation shall withdraw from the capital reserve account any  
3 amount in the account in excess of 25 per cent of the obligations  
4 secured or, if the amount in the account is less than 25 per cent of the  
5 obligations secured, pay into the account from income the amount neces-  
6 sary to bring the reserve to 2<sup>5</sup>? per cent. All money held in the capital  
7 reserve account may be used as required solely for (1) the payment of  
8 the principal of obligations, (2) the purchase or redemption of obliga-  
9 tions, (3) the payment of interest on obligations, or (4) the payment of  
10 any redemption premium required to be paid when those obligations are  
11 redeemed before maturity.

12 *Good!* Sec. 44.55.140. INITIAL DETERMINATIONS. Before beginning its  
13 financing operations, the policy board shall render a detailed report to  
14 the legislature which shall

15 (1) define the sectors which need financing for expansion of  
16 existing projects or the development of new projects;

17 (2) define the size and nature of projects which are feasible  
18 for corporation financing;

19 (3) determine specific projects which are feasible for corpo-  
20 ration and private financing;

21 (4) determine the availability of private investment capital  
22 for the projects it determines are feasible;

23 (5) forecast the capital requirements of the corporation for  
24 the first three years of its operations.

25 Sec. 44.55.150. REPORTS AND PUBLICATIONS. The policy board shall  
26 publish an annual report to the governor, legislature and the public.  
27 Each report shall include financial statements audited by independent  
28 outside auditors, a statement of the amount of money received by the  
29 corporation from each source during the period covered, a statement of

1 corporation investments, a description of corporation investment acti-  
2 vity during the period covered by the report, an analysis of economic  
3 and other effects of investment decisions including, but not limited to,  
4 the effects on employment, income distribution, environment, health,  
5 social and other factors, and any other information the policy board  
6 believes would be of interest to the governor, the legislature and the  
7 public. The corporation may also publish such other reports as it  
8 considers desirable to carry out its purpose.

9 Sec. 44.55.160. CONFLICT OF INTEREST. (a) Members of the policy  
10 board and the committee are subject to the provisions of AS 39.50.

11 (b) Members of the committee shall disclose their financial inter-  
12 est in an investment proposal and disqualify themselves from voting on  
13 any investment proposal in which they have a financial interest. The  
14 committee may not make an investment in any project or enterprise in  
15 which officers of the corporation have a financial interest. Members of  
16 the policy board are prohibited from all attempts to influence the  
17 committee, its president or staff in the discharge of their ordinary  
18 operating duties. All officers of the corporation in the discharge of  
19 their offices owe their duty entirely to the corporation and no  
20 other authority.

21 Sec. 44.55.170. POLITICAL ACTIVITIES. The members of the policy  
22 board, members of the committee, and officers and staff of the corpo-  
23 ration may not engage in partisan political activities. The resources  
24 of the corporation may not be used to finance any partisan political  
25 activities.

26 Sec. 44.55.180. PUBLIC ACCESS TO INFORMATION. Information in the  
27 possession of the corporation is a public record, except that infor-  
28 mation which discloses the particulars of the business or affairs of a  
29 private enterprise or investor is confidential and is not a public

1 record. Confidential information may be disclosed only for the purposes  
2 of an official law enforcement investigation or when its production is  
3 required in a court proceeding. These restrictions do not prohibit the  
4 publication of statistics presented in a manner that prevents the  
5 identification of particular reports, items, persons, or enterprises.

6 Sec. 44.55.190. TAX EXEMPTION. The corporation is exempt from all  
7 taxes and assessments in the state. All security instruments issued by  
8 the corporation, their transfer, and their income are exempt from all  
9 taxes and assessments in the state.

10 Sec. 44.55.200. DEFINITIONS. In this chapter

11 (1) "board" or "policy board" means the Alaska Enterprise In-  
12 vestment Corporation Policy Board established by sec. 20 of this chapter;

13 (2) "business enterprise" means a private corporation, firm,  
14 partnership or sole proprietorship;

15 (3) "committee" means the Investment Committee established by  
16 sec. 60 of this chapter;

17 (4) "corporation" means the Alaska Enterprise Investment  
18 Corporation.

19 \* Sec. 5. AS 39.25.110 is amended by adding new paragraphs to read:

20 (21) members of the policy board and Investment Committee, and  
21 the president, officers, and staff of the Alaska Enterprise Investment  
22 Corporation;

23 (22) members of the board of trustees, the executive director,  
24 and staff of the Alaska Permanent Fund Corporation.

25 \* Sec. 6. AS 39.50.200(9) is amended by adding new subparagraphs to read:

26 (NN) Alaska Enterprise Investment Corporation Policy  
27 Board and Investment Committee;

28 (OO) Alaska Permanent Fund Corporation Board of Trustees.

29 \* Sec. 7. TRANSITION. (a) The commissioner of revenue shall transfer

1 all funds of the Alaska permanent fund to the Alaska Permanent Fund Corpora-  
2 tion established by this Act within 10 days after request for transfer is  
3 made by the corporation board of trustees.

4 (b) The Alaska Enterprise Investment Corporation may not expend funds  
5 for any purpose other than normal operating expenses of the corporation until  
6 the paid-in capital of the corporation reaches \$50,000,000. Other funds of  
7 the corporation including the funds received under AS 44.55.010 in sec. 4 of  
8 this Act shall be invested as surplus funds under AS 44.55.120(b)(3) in sec.  
9 4 of this Act until the paid-in capital reaches \$50,000,000.

10 \* Sec. 8. AS 37.10.065 is repealed.

11 \* Sec. 9. This Act takes effect immediately in accordance with AS 01.10.-  
12 070(c).

7  
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