

SCOMM

9:27

August 15, 1977

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

Dear Mr. Rogers:

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

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

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

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

Byron Rogers

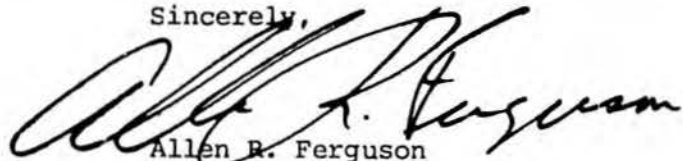
Page Two

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

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

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

Sincerely,



Allen R. Ferguson
President

ARF:bs

Enclosure: Proposal

1610 W. 14th Ave
Anchorage, Ak 99501

June 21, 1977

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

Dear Representative Gruening:

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

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

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

Municipal Finance
Community Planning & Development

RICHARD G. WILSON
& ASSOCIATES

1610 W. 14th Avenue
Anchorage, Alaska 99501

(907) 278-9277

June 20, 1977

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

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

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

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

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

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

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

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

Proposal:

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

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

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

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

Specifically suggest ways of assuring minimal environmental impact;

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

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

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

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

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

Sincerely,


Richard G. Wilson

Profile

Richard G. Wilson

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

EDUCATION

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

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

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

EXPERIENCE AND ACTIVITIES

1976-77 City Manager, Cordova, Alaska

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

Prepared and executed budget and intergovernmental revenue programs.

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

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

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

Worked closely with legislative leaders on City matters.

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

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

Directed Community Development Block Grant program.

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

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

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

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

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

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

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

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

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

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

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

Coordinated economic development assistance programs.

Directed two gubernatorial task forces.

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

References and supplementary information will be provided upon request.



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

June 13, 1977

Honorable Clark Gruening
940 Tyonek
Anchorage, AK 99501

Dear Clark:

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

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

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

Best Regards,

Ed Isenson
Chairman

bj

April 15, 1977

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

Dear Bill:

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

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

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

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

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

Representative William Miles

Page 2

April 15, 1977

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

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

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

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

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

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

Very truly yours,

Gilbert C. Fowers
Vice President
Resident Officer

GCF:pc
Enc.

CC Ernest A. Burgens

BCC James T. Love
San Francisco

BIOGRAPHICAL SKETCH - ROBERT E. BLIXT

CURRENT POSITION:

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

PREVIOUS POSITIONS:

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

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

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

EDUCATION:

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

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

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

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

PROFESSIONAL ORGANIZATIONS:

Admitted to the Minnesota Bar in 1955.

Admitted to the Twin Cities Society of Security Analysts in 1953.

President (1968-69), Vice President (1967-68).

Director, Financial Analysts Federation (1970-72, 1975-76).

Chairman, Professional Ethics Committee (1972-74); Delegate to the
Investment Analysis Standards Board (1974-76).

Admitted to the Institute of Chartered Financial Analysts in 1965.

President (1975-76), Vice President (1974-75), Trustee (1972-),

Member of the Council of Examiners (1972-75).

ACTIVITIES:

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

Member of Investment Advisory Committee of the Minneapolis Teachers'

Retirement Fund Association.

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

PERSONAL DATA:

Born July 9, 1927.

ADDITIONAL BIOGRAPHICAL DATA:

Who's Who in the Midwest 1965-1976 Editions

The Institutional Investor magazine, December 1973, Page 125.

Guest Editorial



Robert E. Blixt

Minnesota
State Board
of Investment,
speaks out:

**"Know
thyself"**

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

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

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

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

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

What is needed?

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

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

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

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

(Continued on next page)

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

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

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

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

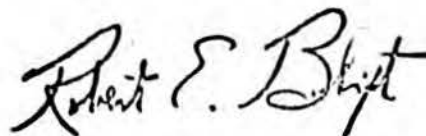
Is extreme regulation needed? No! But, "self-regulation" by the administrative, actuarial and investment professionals is not the answer. They have lobbied for the "status quo," "more time to study" and time to "grandfather" into the professions.

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

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

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

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



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

Robert Blixt of the State of Minnesota:

Pension performance on a shoestring

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

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

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

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

Blixt's third secret to operating on a



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

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

Total return

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

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

these funds.

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

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

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

crisis, Blixt sold \$2 million in bonds and reinvested in 1971 to allow Blixt to deal with the \$60 million in bonds turned over to the adjustable fixed benefit fund in 1969 by the Minneapolis retirement fund. Blixt found himself with 184 issues of bonds he'd never heard of. "As an investment man," Blixt says, "I simply had to reorganize the portfolio, but I couldn't take hefty bond losses because it would prevent our retirees from getting a much-needed benefit boost. The 'reserve that ain't there' was the answer, and now we use it in all our funds so that we can continuously upgrade our bond portfolios."

Two hats

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

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

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

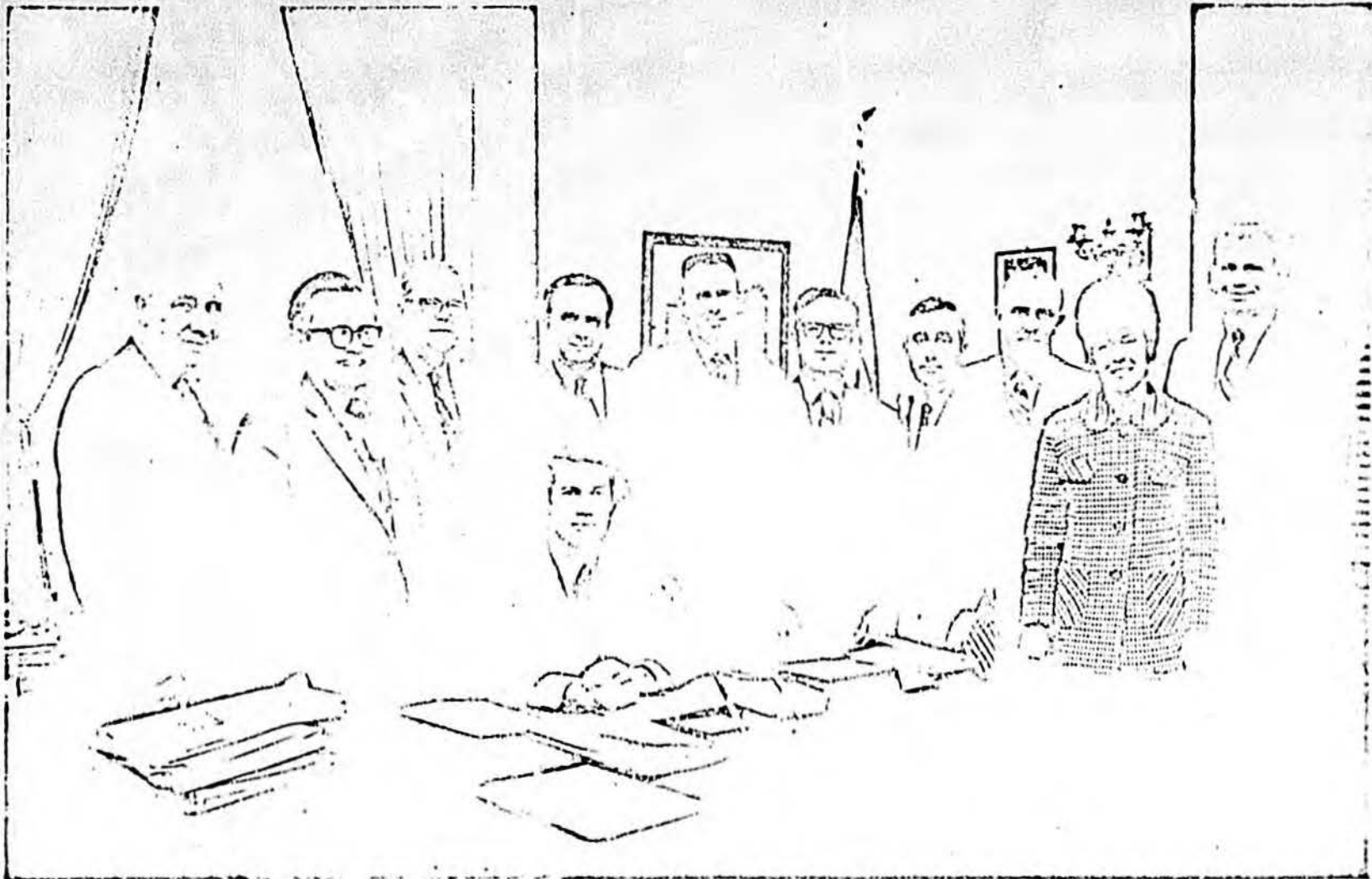
COMMERCIAL WEST

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Hatfield, Blixt, Bjornson, Spannaus, Erdahl, Derksen, Feldman, Parsons, Adams, Ibeling — with Gov. Anderson

Report to Governor —

More Than \$1.040 Billion
In Retirement & Trust Funds

Oct. 19, 1975
St. Paul Sunday
Pioneer Press

Robert Blixt is keeping the state funds in tune

By GARY DAWSON
Staff Writer

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

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

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

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

ney general, secretary of state, treasurer and auditor.

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

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

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

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

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

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

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

See Blixt, Page 4

Financial 'wizard' Robert Blixt



Blixt: Surplus nets big profit for state

Continued from Page 1

Investment policies.

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

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

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

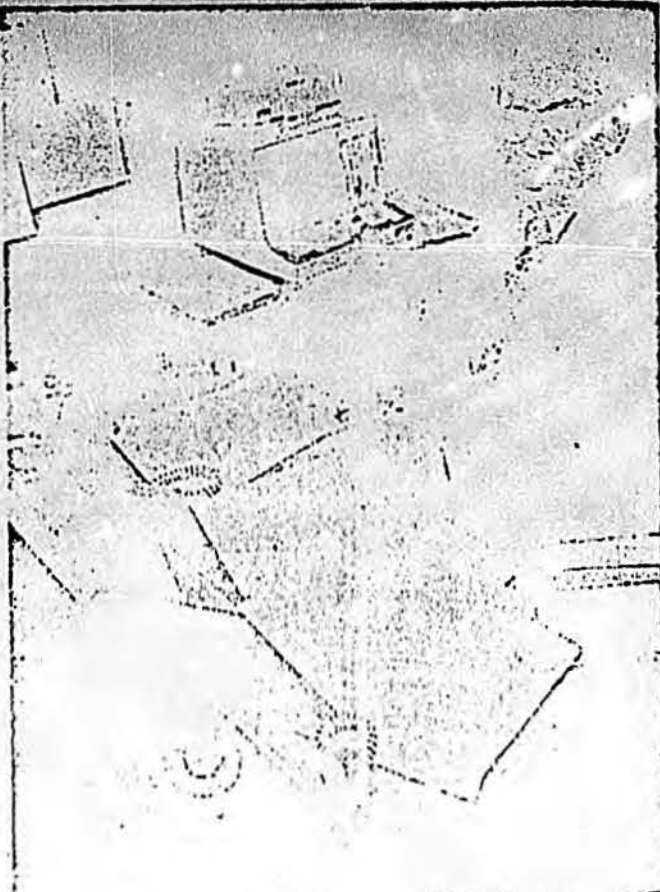
"God, I felt like standing up and applauding when he was finished."

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

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

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

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



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

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

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

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

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

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

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

Collecting just one day's interest

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

Recently, at six per cent, \$20 million one-day investments have earned \$3,333 in interest.

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

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

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

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

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

Oct. 19,

1975

St. Paul Sunday
Pioneer
Press

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

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

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

How the Minnesota State Pension Fund turned pro

by Frank Wright

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

The year was 1961.

The place was the floor of the Minnesota state legislature.

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

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

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



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

Those expensive municipals

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

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

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

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

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

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



Minnesota Governor Harold LeVander

Senator Karl F. Grittner
Minnesota legislature



Orville L. Freeman
United States Secretary of Agriculture

Three who helped
Minnesota
turn pro

Hiring the pros

Pressure for change began to build during the late 1950's. It came from a couple of progressive Board members, including then-Governor Orville Freeman, public employees who were contributing to the retirement funds, a number of legislators, and a few experts in private investment. A bipartisan desire for better fund performance developed. A legislative commission on retirement funds was formed. Freeman, a Democratic-Farmer-Laborite, appointed a Republican-dominated industry committee to study the school fund.

The legislative commission started pushing for establishment of a new, separate, professional state agency to invest the retirement money. The Board, threatened by this possible loss of authority, offered a compromise. The lawmakers accepted. Under the agreement, a professional staff was to be hired by the Board, and in return, the Board was to be allowed to retain control over all investments.

Enter Blixt.

The new law setting up the investment department to serve as the Board's staff went into effect July 1, 1959. Board members tried to find an older man of conservative mein and experience to head the department. They failed. No one they sought wanted to jump into what was generally considered a political and financial jungle for the \$12,500 annual salary that was being offered.

With the position still vacant early in 1960, Blixt made himself available. He had spent three years as investment counselor to the University of Minnesota and wanted to move into a bigger league. He was exactly the type of aggressive young whippersnapper some Board members

had hoped to avoid. But he was hired anyway, almost by default.

Blixt figured he wouldn't last long. He strenuously opposed the Board's pet policy of buying municipals and decided to make an issue of it immediately. "Those bonds," he says, "were of comparatively low quality from a rating standpoint, were only semimarketable, and were in odd lots which defied all normal bookkeeping, accounting and securities handling procedures."

If this be treason—

Blixt recommended at his first Board meeting that purchase of municipals be terminated permanently. To his surprise, the Board agreed. Local bond agents who had been sharing in the lucrative commissions "accused me of treason," Blixt says. But the decision held, and Minnesota has not bought a municipal since.

That action marked the beginning of the turnaround in investment policy. Operating under existing state law and at Blixt's recommendation, the Board started selling off the old municipals whenever it could find buyers. Proceeds, plus new monies which came in, were invested in first mortgage utility bonds and in federal obligations at higher interest rates.

A campaign also was started to change the laws and broaden investment opportunities. With Blixt pushing and prodding, the legislature in 1961 permitted gradual investment of up to 40 percent of the retirement funds in corporate bonds and up to 25 percent in stocks. In 1963 the bond limit was raised to 50 percent. The stock limit went up to 30 percent in 1965. That same year purchase of finance company bonds was authorized for the first time. So was investment in short-term commercial paper — up to 5 percent of the funds. The current maximums of 60 per-

cent on bonds and 35 percent on stocks were approved by the 1967 legislature, as was a new supplemental fund for Minnesota's 900 state and junior college faculty members.

The supplemental fund, which has just gotten under way, is expected to total about \$1.2 million by this spring. It is Blixt's pride and joy.

Under the law establishing the fund, up to 100 percent of its growth share account may be invested in stocks. Ten percent of the money may be invested without regard for past corporate earnings.

"That was a real breakthrough," says Blixt.

Loosening the restrictions

And there wasn't a ripple of opposition, in contrast to that day of misgiving about Las Vegas and Wall Street in 1961.

Similar change has occurred in the school fund. Acting at the suggestion of Freeman's industry committee and supported by a new Republican governor, Elmer L. Andersen, the legislature in 1961 approved a constitutional amendment. It allowed investment of 40 percent of the fund in corporate bonds and 20 percent in stocks. Voters overwhelmingly approved the amendment at the 1962 election.

Highway fund investment has been liberalized, too. In 1965 the legislature permitted placement of up to 15 percent in commercial paper. The maximum was raised to 25 percent last year.

Blixt instigated many of the changes, promoted most of them, wrote a good share of the new statutory language himself. Now 40, Blixt is short (5 feet, 8 inches), pudgy (180 pounds), and has owl-like eyes that blink out at you from

pusher. He does not look like a pusher and a prodder, but he is.

"If an advisor isn't going to be one jump ahead, isn't going to lead, he ought to be fired," he says. "You can get a yes man for \$6000. I am paid to do something more." His big pitch with the legislature is that state investments these days must "protect against the purchasing power risk."

Public investments, he tells the legislators, must move more and more into a "situation that grows with the economy, that keeps pace with inflation."

So far this has meant stocks. Blixt and the Board have not yet gone to Las Vegas. But they have been going to Wall Street.

Up to the limit

Every fund is invested practically to the legal limit, for all practical purposes, in stocks and corporate bonds. The \$330 million corporate bond portfolio yields an average of about 4.9 percent, almost double the yield from the government-heavy funds of 10 years ago.

Blixt is not satisfied with that, especially in view of the current market. With the average interest rate now about 6 percent, "our bonds overall are worth about 90 to 92 cents on the

dollar," he says. In recent months, to protect against this interest rate risk, Blixt has demanded that bond sellers guarantee they will not recall their

bonds at less than the issued rate for at least 10 years.

The stock portfolio cost about \$160 million and is worth about \$170 million on paper. Purchases were made primarily over the past four years, while the Dow Jones average was above present levels much of the time.

Initially looking for immediate yield, the Board went heavily into utilities, and they once amounted to about one-third of the stock holdings. Banks and insurance companies also were considered attractive at the outset.

Purchases lately have been less and less traditional. Increasing attention is paid to companies with growth and earnings potential and less, within the limits of the law, to current yield.

At the end of 1966 about 7 percent of the retirement funds, for example, were in utilities stocks, 4 percent in financial service companies, 3 percent in consumer goods, 4 percent in research firms, 3 percent in oil and 6 percent in such durables as the auto industry, steel, machinery, electrical and electronic equipment and transportation.

"IBM, 3M, Kodak, Corning Glass, Xerox, Northwest Airlines, Boeing, Honeywell, the chemical companies — these are what we're getting into now," Blixt says. He adds that some of the standard blue chip prices

How Minnesota's investment decisions are made

State investment board

Five members: governor (Harold LeVander), state auditor (Stafford King), state treasurer (Val Bjornson), secretary of state (Joseph Donovan), attorney general (Douglas Head). Created by state constitution. Has final authority over investment of all state funds. Members seldom have had investment experience. Political control changes frequently, now rests with Republicans, 4 to 1. Meets about every six weeks to review past transactions and authorize new ones, based on recommendations by State Investment Department and Advisory Committee On Common Stocks.

State investment department

Staff of eight, headed by Executive Secretary Robert Blixt. Employed by board. Makes recommendations to the board, executes trades authorized by the board. Final decisions to exercise trading authority rest with Blixt, depend on daily market conditions. Specific limits usually set by board on sale or purchase of individual stocks. Authority for trades in corporate bonds and government securities is broader.

Advisory Committee on Common Stocks

First appointed by board, at Blixt's suggestion, in 1961. Ten members, all of whom are or were investment managers for large private Minnesota financial institutions. Original members still serving. None are dealers, sell nothing to Minnesota. Members receive no pay, no expenses. Meet bimonthly to review state's stock portfolio, recommend changes to the board. Meetings conducted by Blixt. Committee has no legal standing but great influence; recommendations never have been rejected. Provides expertise and continuity often lacking on board.

Committee members:

- HERMON J. ARNOTT, president of Farmers & Mechanics Savings Bank, Minneapolis.
- FRANKLIN BRIESE, president of Minnesota Mutual Life Insurance Company, St. Paul.
- ROBERT S. DAVIS, vice president of St. Paul Fire & Marine Insurance Company.
- CAYLORD W. CLARKER, vice president of First Trust Company, St. Paul.
- JAMES C. HARRIS, executive vice president of Northwestern National Bank, Minneapolis.
- JOHN M. HARRIS, vice president and trust investment officer of Northern City National Bank, Duluth.
- FRANCIS HASSING, investment counsel for the University of Minnesota.
- MAXWELL D. HIGHT, investment officer for the Mayo Foundation, Rochester.
- DONALD E. JORDAHL, vice president of Northwestern National Life Insurance Company, Minneapolis.
- NORMAN E. KILLIGER, executive secretary of the Minneapolis Teachers Retirement Association.

have dropped enough to look interesting again.

The basic investment law restricts stock purchases to companies that have assets of at least \$10 million, meet specified earnings levels and have paid dividends for at least the past five years. No more than 1 percent of the funds can be invested in any corporation, nor can the funds own more than 5 percent of any firm.

Over the years, the Board has approved a total of 150 stocks for investment. No favoritism is shown Minnesota firms, unless they are at least the equal of firms elsewhere in the same industry. Only about 20 of those listed are based in the state.

All of the stocks listed will be available to the new supplemental fund. Other stocks will be added for the new fund only. The first four being considered by the Board are Control Data, Communications Satellite, Emerson Electric and Hewlett-Packard, all technically oriented growth companies with little current yield but good growth potential.

Research and service

In its trading, the state follows a policy of getting the best available price and the best possible service. Competitive bids must be sought whenever the public market place is used. If a Minnesota securities-handling firm or a national firm with a Minnesota office offers the best deal, it gets the business. But not otherwise. Research assistance also is a factor in parceling out the trades, since Blixt's small, seven-member staff is unable to do enough research on its own.

The state invests through about 100 trading firms. Approximately 50 have Minnesota offices. Only half a dozen have their home base in the state.

"Some individuals have suggested that all brokers and dealers in the state should share the state's business at standard commissions," Blixt says. "We feel that this is no more logical than having the state purchase its furniture, automobiles or other articles and supplies through

every dealer in the state at list prices."

As a protective device, Blixt publishes in his annual reports a complete list of all business given to each dealer. To those people, including legislators and other public officials who occasionally ask him to favor a friend, Blixt has a stock answer that cuts them off at the knees. "Sure," he says. "I'll be glad to do it. And in the annual report I will add a footnote saying it was done at your request."

Blixt's constant interest in pushing ahead occasionally causes friction with some of the older members of the Board. Except for that, however, he is highly respected by lawmakers, most Board members and leading private investors in Minnesota.

Talking to both sides

Political control of the Board has alternated regularly since Blixt was hired and he serves at its pleasure. But no attempt ever has been made to fire him.

Legislators appreciate not only his ability as a financial expert but his political awareness as well. "He tells you all you expect him to about an issue and more besides," says State Senator Karl Grittner. "And when he talks to me, he checks in with the political opposition, too. And vice versa. You learn quickly to appreciate a department head like that. You know he's not playing games." Grittner is floor leader of the senate's Democratic-Farmer-Labor minority and a member of the legislature's retirement fund study commission. Blixt's attention to such political niceties has had a great deal to do with the success of his proposals and those of others to which he gives his support.

Blixt has four college degrees: an associate of arts from Worthington, Minnesota Junior College; a bachelor of arts from St. Olaf College in Northfield, Minnesota, where he majored in music composition, took a few economics courses and dabbled in the campus Republican club; master of science from the University of Colorado, where he switched to business management and finance; and a bachelor of law, also from Colorado. He became a chartered financial analyst in 1965.

He lectures frequently before

MINNESOTA STATE PENSION FUND

FROM PAGE 87

professional groups, teaches a cram course for the financial analyst exams, is vice president of the Twin Cities Society of Securities Analysts and will become president later this year. He was a church choir director and Sunday School teacher, and serves as chairman of the investment committee for the Baptist Hospital Fund, which operates two hospitals in St. Paul, the state capital. He is married, has four children, is presently building an addition to his St. Paul home. ("I must say I didn't have any trouble getting financing in St. Paul").

Blixt hopes for continued improvement in the state's investment program. He wants to see even greater investment in stocks and a more limber investment procedure. He intends to seek legal authority for investments in real estate mortgages, the paper of individual government agencies and the new forms of corporate debt. He is working to upgrade his staff, which is well educated but young, and in some cases inexperienced. It is better paid than most Minnesota state employees, but the rates fall short of private business and make recruiting of top talent difficult.

Blixt's salary has been raised to \$20,000 by the legislature, for which he is grateful. He

knows he could earn more elsewhere, however, in salary and through personal investments. To avoid conflicts of interest, he says, his personal investments now are limited to a small investment club at the university.

The members include Walter Heller, former chairman of the President's Council of Economic Advisors. Blixt chuckles about the club. "The members," he says, "talk a lot, but I'm not sure how much money we make." "

The Minnesota Funds

Public employee retirement funds	\$420 million
Corporate bonds.	51 per cent
Stocks	27 per cent
Government bonds.	22 per cent
(Contributions from state and local governments and 140,000 public employees increase fund capital at rate of \$4 million monthly. Investment proceeds help to pay pensions.)	
Permanent school trust fund	\$265 million
Federal obligations	43 per cent
Corporate bonds.	39 per cent
Stocks	18 per cent
(Fund capital, now relatively stable, derived mainly from royalties and occupation taxes paid by mining firms that developed state land on Mesabi Iron Range. Investment proceeds help to pay current education costs.)	
State treasurer's cash	\$225 million
Federal obligations,	
3 years maximum term.	100 per cent
(Fund is liquid, size varies greatly. Investment proceeds appropriated by legislature for current state expenses.)	
Highway funds	\$105 million
Federal obligations,	
10 years maximum term	75 per cent
Short-term corporate notes	25 per cent
(Size of fund varies greatly, depending on construction season. Fund will grow as new \$100 million highway bond issue is sold during next 5 years. Investment proceeds used for roads.)	
Miscellaneous funds	\$25 million
TOTAL	\$1,040 billion

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STATE BOARD OF INVESTMENT

MEMBERS OF BOARD:

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STATE TREASURER JIM LORD
SECRETARY OF STATE JOAN ANDERSON GROWE
ATTORNEY GENERAL WARREN SPANNAUS

ROBERT E. BLIXT
EXECUTIVE SECRETARY

PROSPECTUS

MINNESOTA SUPPLEMENTAL RETIREMENT FUND

MAY 1, 1976

Office of the Executive Secretary
State Board of Investment
105 MEA Building, 55 Sherburne Avenue
Saint Paul, Minnesota 55155