

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672  
6607 SENATE STATE AFFAIRS

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# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

March 26, 1985

SB 23  
AUDIT DIVISION  
POUCH W  
JUNEAU, ALASKA 99811-3300


*Handwritten notes:*  
to be produced  
some for  
legislation

SUMMARY OF: A Report on the Department of Health and Social Services, Division of Family and Youth Services, Juvenile Crime Statistics, March 25, 1986.

### PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we conducted a review of the statistics and analysis regarding the annual trends in juvenile crime in Alaska over the past five years (1979-1983). The review was conducted in order to reconcile the claims of law enforcement officials that juvenile crime is increasing with the statistical data that indicates the contrary.

### FINDINGS AND RECOMMENDATION

- 
1. The Legislature should consider legislation that would give the Department of Public Safety authority to require standardized recording and collection of statistics by local departments statewide.

The juvenile crime rate, as cited by the Department of Health and Social Services, Division of Family and Youth Services (DFYS) is measured by the number of arrests made and reported to the Department of Public Safety (DPS), compared to the annual population statistics developed by the Department of Labor (see Appendix A). Arrest statistics have traditionally been used by social scientists and policy makers as a measure of criminal activity.

We identified two factors which affect the way juvenile arrests are recorded and reported that may offer an explanation why law enforcement officials in the State dispute DFYS's assertion that the juvenile crime rate is declining. The statistics, as reported and analyzed by DFYS, support that agency's claim that the crime rate is in decline.

Currently DPS acts as the primary collector and reporter of arrest data for Alaska for the Federal Bureau of Investigation under the terms, definitions, and requirements of the Uniform Criminal Reporting code. DPS inherited this function from the now defunct Criminal Justice Planning Agency and does not have statutory authority to require how arrest information will be classified and reported.

Given the impact on public policy of these possible inconsistencies in the classification and reporting of arrest data between local jurisdictions in the State, the Legislature may want to consider legislation that would give DPS authority to establish a uniform system for collection of such information.

A REPORT ON THE  
DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
DIVISION OF FAMILY AND YOUTH SERVICES  
JUVENILE CRIME STATISTICS

March 25, 1986

Audit Control Number

06-4251-86-S

Commissioner, Department of  
Health and Social Services

John Pugh

Deputy Commissioner, Department  
of Health and Social Services

Connie Sipe

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# STATE OF ALASKA

AUDIT DIVISION  
POUCH W  
JUNEAU, ALASKA 99811-3300

**THE LEGISLATURE**  
BUDGET AND AUDIT COMMITTEE

March 27, 1986

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 and a special  
request of the Legislative Budget and Audit Committee, the  
attached report is submitted for your review.

A REPORT ON THE  
DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
DIVISION OF FAMILY AND YOUTH SERVICES  
JUVENILE CRIME STATISTICS

March 25, 1986

Audit Control Number

06-4251-86-S



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

## PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we conducted a review of the statistics and analysis regarding the annual trends in juvenile crime in Alaska over the past five years (1979-1983). The review was conducted in order to reconcile the claims of law enforcement officials that juvenile crime is increasing with the statistical data that indicates the contrary.

## ORGANIZATION AND FUNCTION

Title 47 of the Alaska Statutes charges the Department of Health and Social Services with the responsibility of directly providing, or arranging through contract, a range of services designed to remedy or prevent neglect, abuse, and exploitation of children, youth, and adults. They are also responsible for providing care and protection for juveniles committed to their custody by the Superior Court.

The Division's activities are mainly conducted by three sections: Family Services, Adult Services, and Youth Services. Family Services is responsible for offering a wide range of services including, but not limited to: individual and family counseling services, child protection services including the investigation of reported incidents of abuse and neglect, arranging and supervising emergency shelter and foster home care, and licensing and monitoring private non-medical community care facilities. The section has five regional offices in Ketchikan, Anchorage, Fairbanks, Bethel, and Nome and also twenty-nine field offices.

The Adult Services section is responsible for providing services to adults exposed to abuse, neglect, or exploitation. These services would include providing support to individuals who need out-of-home care.

The Youth Services section is responsible for providing a range of diversion, intervention, and rehabilitative services to juveniles found delinquent by the courts. The section has three district offices in Juneau, Anchorage, and Fairbanks and three youth facilities; McLaughlin Youth Center, Fairbanks Youth Facility, and Nome Youth Facility.

## AUDITOR'S COMMENTS

Statistics cited by the Department of Health and Social Services, Division of Family and Youth Services (DFYS) do indicate that the rate of juvenile crime has declined during the past five years (1979-83). As presented in the following Findings and Recommendation section, we found that there may be significant factors in how the statistics are collected and reported that could understate the actual level of juvenile crime.

The juvenile crime rate is measured by the number of arrests made and reported to the Department of Public Safety (DPS), compared to the annual population statistics developed by the Department of Labor. The information used by DFYS in their analysis is supported by the available statistics, and in our opinion, DFYS draws logical public policy conclusions from the information.

It should be noted that the factors we discuss in the Findings and Recommendation section that may lead to understating juvenile arrests should not have a direct impact on serious or violent crimes. Juveniles are consistently arrested for such crimes and we could expect them to be counted consistently on a year-to-year basis. Accordingly, although there may be some merit to those who dispute the crime rate statistical evidence, we believe that their argument is less convincing in the area of serious or violent crimes. The statistical evidence of decline in the rate of serious juvenile crime is more convincing and less open to question.

## FINDINGS AND RECOMMENDATION

### Recommendation No. 1

The Legislature should consider legislation that would give the Department of Public Safety authority to require standardized recording and collection of statistics by local departments statewide.

The juvenile crime rate, as cited by Division of Family and Youth Services (DFYS), is measured by the number of arrests made and reported to the Department of Public Safety (DPS), compared to the annual population statistics developed by the Department of Labor (see Appendix A for the narrative and graphs used in DFYS's analysis). Arrest statistics have traditionally been used by social scientists and policy makers as a measure of criminal activity.

DPS gathers information and reports on arrest statistics annually. DPS develops their statistics based on reports from over 20 police jurisdictions throughout the State. These various jurisdictions report to DPS in two different ways:

1. On an incident-by-incident format.
2. In a summary format.

Most of the local police departments that elect to participate in the DPS system use the incident format. As the name implies, these departments keep a log of all police calls they answer, coded in accordance with uniform standards, and submit this information to DPS monthly. DPS keypunches this raw data and produces various informational reports that are returned to the reporting police localities. Additionally, DPS maintains the information on their computer files and uses it to develop an annual statewide crime report.

The State's two largest police departments, Anchorage and Fairbanks, along with the Alaska State Troopers submit their arrest information in a summary format. These agencies do their own processing of incident data, using slightly different definitions or classifications systems, and submit the data to DPS already summarized. DPS then "fits" this information together with the incident format data and prepares their annual publication Crime In Alaska.

Due to the size of the jurisdiction, procedures and methodologies used in Anchorage, in the collection and classification of juvenile arrests, could distort the statewide crime statistics.

Given the impact on public policy issues of these possible inconsistencies in the classification and reporting of arrest data between local jurisdictions in the State, the Legislature may wish to consider legislation that would give DPS authority to establish a uniform system of recording and classifying collection of arrest data information.

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

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Due to the size of the jurisdiction, procedures and methodologies used in Anchorage, in the collection and classification of juvenile arrests, could distort the statewide crime statistics.

We contacted the Anchorage Police Department (APD) and interviewed two officers regarding the department's policies and recordkeeping procedures. Besides minor differences in how crimes are logged and counted, we also identified two other more policy type reasons why arrest statistics, as recorded and compiled by APD, may not necessarily reflect the level of juvenile "crime":

1. Juveniles are dealt with more informally, without arrest. With the exception of the more serious crimes, juveniles are generally not formally arrested by APD. Often, unless a juvenile is spotted in the act of committing a crime, APD does not usually actively pursue or arrest juveniles.

This attitude, according to APD personnel we spoke with, is brought on in large part by the way DFYS handles juveniles brought to them at McLaughlin Youth Center (MYC). Due to the crowded conditions at MYC, unless a juvenile was arrested for a major offense, they are either placed in a non-secured shelter on a temporary basis, or are placed with relatives or other adult. This perceived "revolving door" at MYC creates an indifferent attitude on the part of many officers, resulting in fewer juvenile arrests.

2. Runaways and Status Offenders. A lot of juveniles that cause problems, perhaps harass the public and are visible on the streets, are runaways. Their status as runaways is really not a violation of law, but they often cause a lot of problems. Status offenses are generally not counted as arrests in Anchorage, but usually are by other jurisdictions that report on an incident-by-incident basis. Status offenses are such things as minor consuming, curfew violation, etc. - petty crimes that are offenses only because of an individual's age or "status."

These factors represent some possible explanations why law enforcement officials in the State dispute DFYS's assertion that the juvenile crime rate is declining. Certainly, the statistics, as reported and analyzed by DFYS, support the agency's claim.

Currently DPS acts as the primary collector and reporter of arrest data for Alaska, for the Federal Bureau of Investigation under the terms, definitions, procedures, and requirements of the Uniform Criminal Reporting code. DPS inherited this function from the now defunct Criminal Justice Planning Agency and does not have statutory authority to require how arrest information will be classified and reported.

Given the impact on public policy issues of these possible inconsistencies in the classification and reporting of arrest data between local jurisdictions in the State, the Legislature may wish to consider legislation that would give DPS authority to establish a uniform system of recording and classifying collection of arrest data information.

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APPENDIX

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APPENDIX A

JUVENILE JUSTICE IN ALASKA  
a report to  
THE HONORABLE BILL SHEFFIELD  
GOVERNOR  
STATE OF ALASKA  
from the  
DIVISION OF FAMILY & YOUTH SERVICES  
March 19, 1985

John R. Pugh  
Commissioner  
Department of Health & Social Services

Michael L. Price  
Director  
Division of Family & Youth Services

## Executive Summary

Despite widespread and persistent beliefs, juvenile crime in Alaska is neither increasing nor becoming more violent. The best measures show that while adult crime has increased at the same rate as the Alaska's population, juvenile crime has declined both in total numbers and rate and is only one-fourth of total crime in the state. Only 2% of Alaska's juvenile crime is violent crime. This is 1/10 of serious, violent crime in the state and only 1/2 of 1% of total Alaska crime.

Because juveniles commit generally less serious crimes and have a greater potential for rehabilitation than adult offenders, Alaska's juvenile justice system operates differently from the criminal justice system. The vast majority of young offenders are first time and less serious offenders who can be successfully diverted from the formal juvenile justice system. Court action is reserved for repeat offenders and those who have committed serious offenses. Most are adequately controlled and rehabilitated in community settings. A small number require the control and structure of secure detention and treatment facilities.

Programs for juvenile offenders were separated from adult correction programs and transferred to the Division of Family and Youth Services four years ago. Since then juvenile delinquency has received greater attention and services provided to protect the public and rehabilitate young offenders have increased dramatically. The number of youth under probation supervision is up 45% and the average populations of juvenile detention and secure treatment facilities have increased by 58% and 30% respectively. With greater focus, remedial increases in service, and earlier intervention fewer youth are "slipping between the cracks." Serious or repeat offenders are identified and dealt with sooner reducing multiple offenses. In short, increases and improvements in service seem to have been a primary factor in reducing juvenile crime in Alaska.

Despite essential growth, detention facilities average 40% above capacity and there are waiting lists for entry into secure treatment programs. Even planned expansion will not meet projected needs for these services. Overburdened programs quickly become ineffective and continued reductions in juvenile crime cannot be expected in the face of a growing population and overburdened programs.

The response cannot be to simply build more and larger facilities. This simplistic approach focuses massive resources on a single aspect of juvenile delinquency and has been discredited by its failure elsewhere. Its virtually limitless costs alone preclude adoption of this approach. Instead the Department of Health and Social Services has developed a balanced strategy essential in a time of decreasing resources and increasing population. The strategy emphasizes regionalization and increases in prevention, early intervention and communitybased services accompanied by modest increases in secure detention and treatment capacity. Other management initiatives to implement this strategy are development of a systematic method of case management and implementation of a comprehensive management information system (SYSMIS).

A systematic method of case management will provide a framework for effectively allocating resources on individual client and overall program levels, and for short and long range planning. A comprehensive information system is essential to provide information needed for monitoring and evaluating services and programs, and for decision making.

This strategy will help limit the need for growth in costly institutions, make community-based services available on a broader basis throughout the state and insure that limited resources are used most effectively to protect the public and rehabilitate young offenders.

## DESCRIPTIVE ANALYSIS OF JUVENILE CRIME IN ALASKA

Certain misperceptions about juveniles and crime are widely accepted by the public and many policy makers and have influenced public policy relating to juvenile justice. These misperceptions are enforced periodically by sensational news reports and the entertainment media. It is important to consider these persistent perceptions in light of available facts if significant policy decisions are to be made wisely.

### Incidence of Juvenile Crime

The most widely accepted belief about juvenile crime is that it is widespread and increasing - that there is a juvenile crime wave far out of proportion with the number of juveniles and beyond the level of adult crime. Available facts, however, do not support this belief.

Conservative estimates of population growth indicate that the population of youth in Alaska (those 0 - 18 years of age) increased by approximately 15% from 1979 to 1983. As Chart I indicates this represents an increase of 19,000 juveniles from 134,000 to 153,000. The adult population is believed to have grown at about the same rate and to be slightly more than twice the size as the juvenile population - approximately 320,000 persons.

Despite the significant population increase juvenile crime as measured by arrests declined slightly. Chart 2 shows that juvenile arrests have remained relatively stable between 1979 and 1983, declining slightly - about 6%. In contrast adult arrests have shown a marked increase after 1980 and an overall increase during the five year period of about 13%. Juveniles arrests have declined despite population growth while increases in arrests of adults have essentially paralleled population growth.

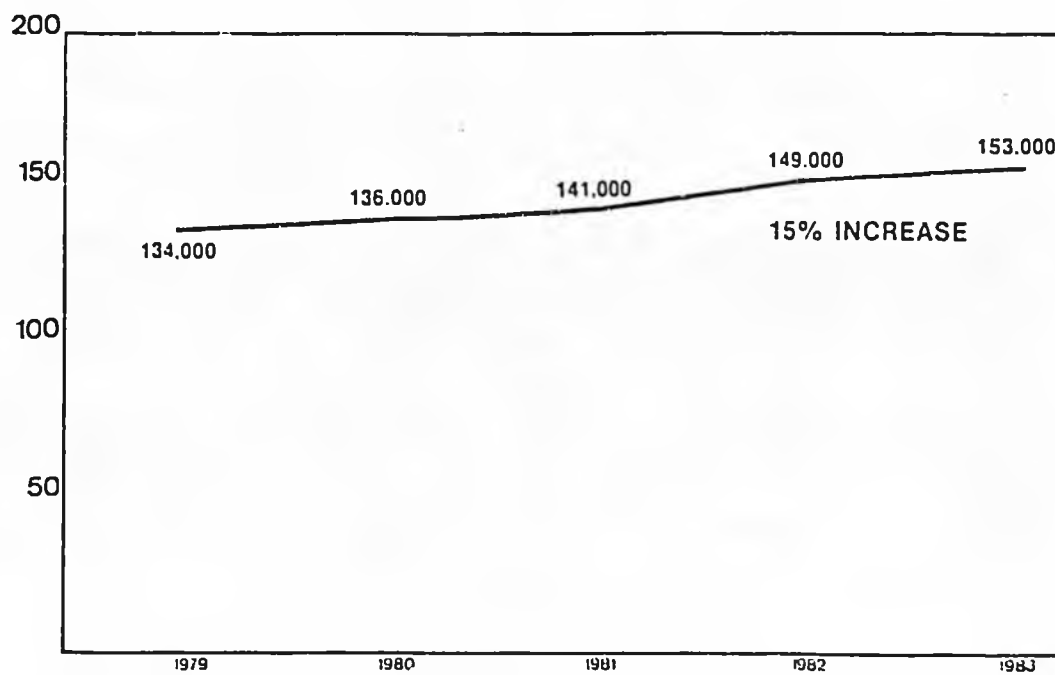
Chart 3 illustrates another important measure of crime, the rate of arrest. The rate of juvenile arrests (arrests per 1000 persons) was relatively stable until 1982 when it declined sharply. This decline continued in 1983 resulting in an overall decline of 24% during the period 1979 - 1983. This decline follows a national trend of decreasing juvenile arrest rates. However, Alaska's juvenile arrest rate, 32.24 per 1000, is less than one half the most recently calculated national rate. (1) In contrast Alaska's adult arrest rate does not show a similar trend although the 1983 level was slightly (8%) below the 1979 high of 46.56 arrests per 1000 persons.

In summary, juvenile arrests in Alaska are declining despite significant population increases and the rate of juvenile arrest has declined substantially. Alaska's juvenile arrest rate is far below the national juvenile rate and 25% lower than Alaska's adult arrest rate.

(1) Report to the Nation on Crime and Justice: The Data, U.S. Department of Justice, Bureau of Justice Statistics, 1983.

APPENDIX A

## ALASKA YOUTH POPULATION (0 to 18 Years)

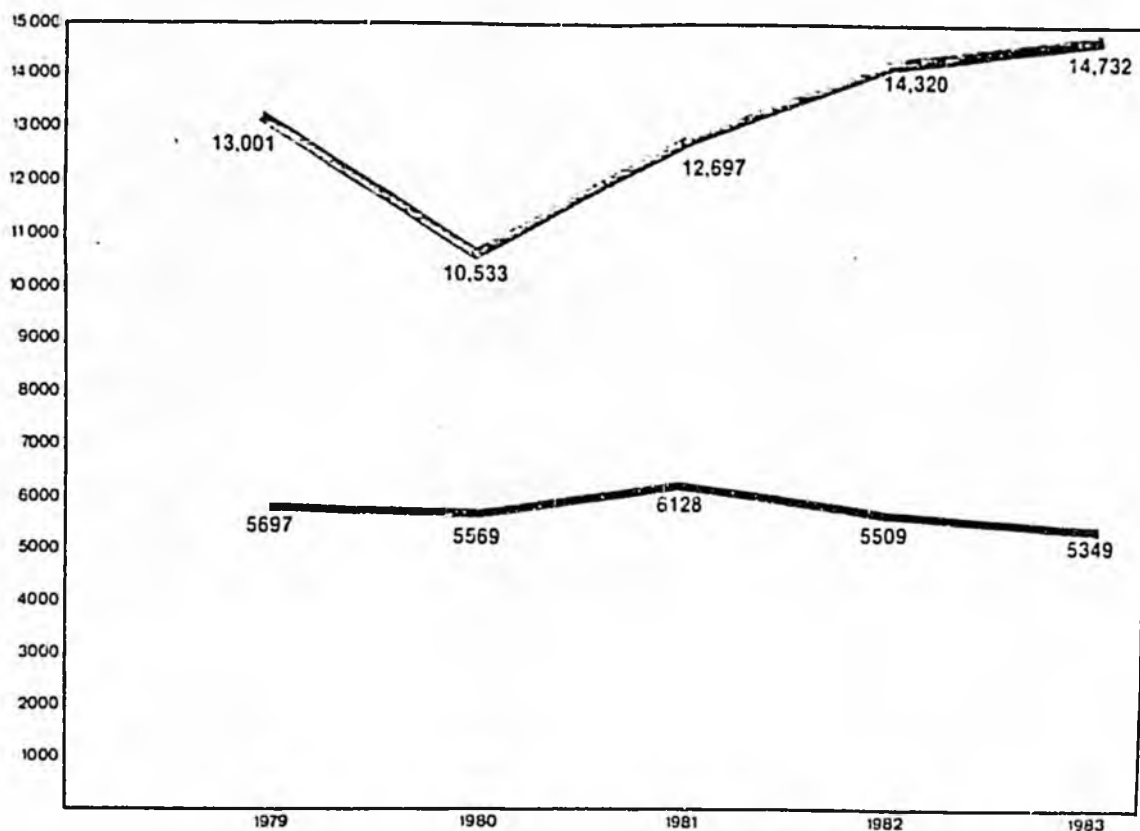


Source Data: Alaska Population Overview - 1981  
Alaska Department of Labor  
U.S. Bureau of Census 1980

CHART 1

APPENDIX A

# ARRESTS IN ALASKA



Source: *Crime in Alaska 1979-1983*, Department of Law  
Department of Public Safety

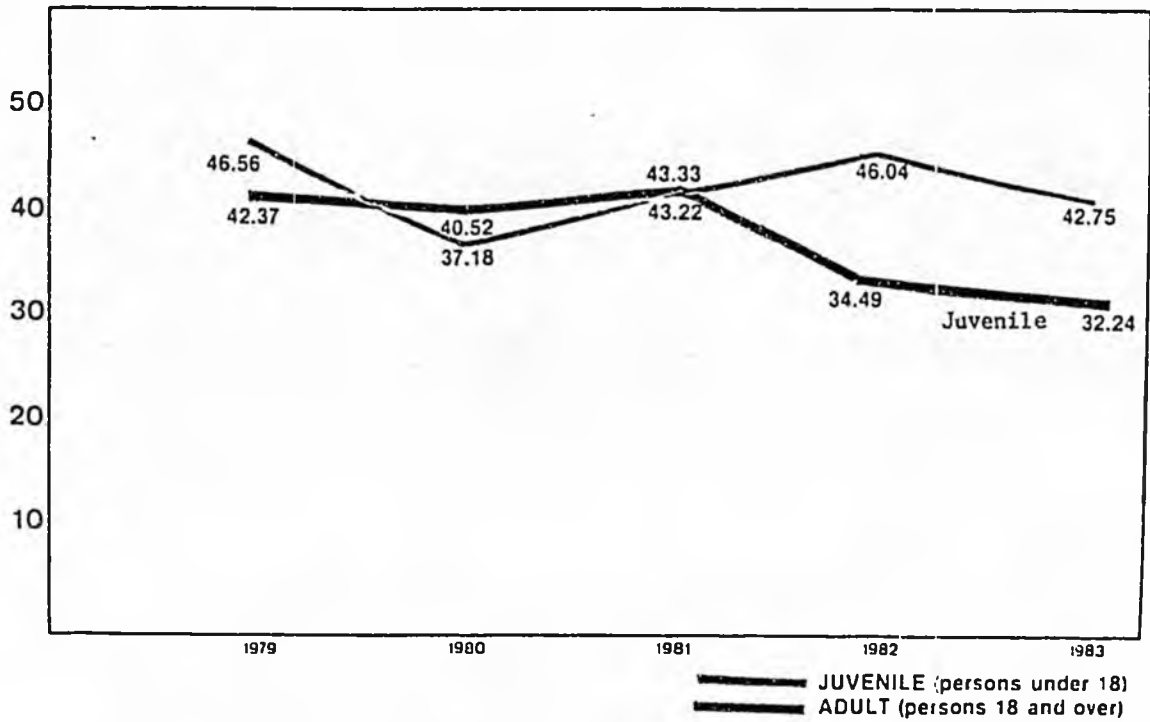
— JUVENILE (persons under 18)  
— ADULT (persons 18 and over)

CHART 2

APPENDIX A

# ALASKA ARREST RATES

ARRESTS  
PER 1000  
PERSONS



Data Sources: Arrest data: *Crime in Alaska - 1983*, Alaska Department of Public Safety  
Alaska Population Overview - 1982, Alaska Department of Labor

CHART 3

**DEPT. OF HEALTH AND SOCIAL SERVICES**

**OFFICE OF THE COMMISSIONER**

POUCH H 01  
JUNEAU, ALASKA 99811  
PHONE: 465-3030

May 9, 1986

Mr. Gerald L. Wilkerson  
Legislative Auditor  
Division of Legislative Audit  
Pouch W  
Juneau, AK 99811

MAY - 9 1986

Dear Mr. Wilkerson:

Concerning the preliminary audit report entitled "A Report on the Department of Health and Social Services, Division of Family and Youth Services, Juvenile Crimes Statistics, March 25th, 1986", our perspective does not differ greatly from that expressed by auditors. We agree with auditors that the conclusions we have drawn from available information on juvenile crime in Alaska are logical and appropriate. We believe also that our report on juvenile justice presented the best information from the most authoritative sources available. Similarly, we believe that the methodologies employed in our analysis of the information, though limited in level of sophistication by time and staff resources, were scientifically correct and defensible.

As the report pointed out there are minor differences in the collection and reporting techniques employed by Alaskan police agencies in compiling crime and arrest data. We believe, however, that the effect of these differences on the validity of the data is relatively insignificant. The FBI Uniform Crime Reporting System, used by the Department of Public Safety in compiling information for the report Crime in Alaska, was designed for use nationwide and to accommodate such differences among police agencies and jurisdictions. In any event, the effect of these differences would apply equally to both adult and juvenile crime data and would not affect the relative levels of juvenile and adult crime or trends reflected by the data.

Similarly, we believe the validity of the data used in our report clearly withstands anecdotal criticism of the two Anchorage police officers noted in the audit report. Though we recognize the value of practitioner experience in testing or confirming policies or practices in any field, we believe the limitations of individual experience and anecdote must be weighted carefully against other information when the sample of practitioners is small. In this instance we believe the assertions of the two officers are more representative of their personal philosophies, attitudes, and dissatisfaction with Alaska law regarding detention of juveniles than of policy or practice of the Anchorage Police Department or police agencies in general.

Though the audit report does not discuss official APD policy concerning response to reported juvenile crime or arrest of juvenile suspects, we are certain that APD policy neither endorses nor permits the practice of ignoring reported or witnessed crime simply because the alleged

perpetrator is a juvenile. Nor do we believe APD policy encourages officers to arrest juveniles only when the offense involved is of the most serious nature. Even if these approaches were sanctioned by policy APD's statistical reports clearly show they are not practiced.

The assertion that juveniles are not usually arrested in Anchorage except for serious crimes is convincingly disproven by APD's own arrest reports. These show that arrests of juveniles for less serious offenses (such as thefts, liquor law violations, vandalism, and status offenses) comprise the vast majority of juvenile arrests in Anchorage. Arrests for violent crimes accounted for an average of only 1.6% of juvenile arrests in Anchorage from 1977 through 1984. In fact, the number of curfew arrests alone averaged more than three times the number of violent crime arrests from 1977 through 1983.

In practice, then, Anchorage police (and police statewide) do routinely arrest juveniles for petty offenses and report status offense arrests. And, though police certainly exercise discretion in making arrest decisions, this occurs with adults as well as juveniles and informal police action affects arrest data for both groups. In fact, contrary to conventional wisdom, national studies indicate that police may be less inclined to deal informally with juveniles than with adults who have committed the same or similar offenses. Other studies show that juveniles are probably more likely to be apprehended than adults because of the types of offenses they most commonly commit and their generally lower level of experience or sophistication in criminal activity. These studies seem to indicate that the upper limits of juvenile crime may be more accurately reflected by arrest data than is true for adult crime.

( We support the recommendation that consideration be given to empowering the Department of Public Safety to require uniform collection and reporting of crime data by all Alaska police agencies. Uniformity in data collection and reporting would be beneficial to the planning efforts of all criminal justice agencies and to policy makers by ensuring comparability, reliability and continuity in data. Standardization in the measurement and reporting of crime and the results of police activity would seem to be complementary to establishment of standards for the qualification and training of police personnel (recognized as an important need by the legislature in creation of the Alaska Police Standards Council.)

We could not, of course, comment definitively on the costs involved or the problems which may be encountered by individual police agencies in implementing a standardized reporting system. However, since most of Alaska's police agencies already participate in the FBI's Uniform Crime Reporting system, it seems likely that implementation of a mandatory system would not be overly burdensome.

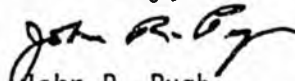
May 9, 1986

In summary, we believe that, though there are minor differences in the collection and reporting techniques among police agencies, these are insignificant in their effect on the validity of reported arrest data.

Further, we believe that the attitudes expressed in interviews with two Anchorage police officers, though they may be strongly held, are not reflective of Anchorage Police Department policy or the actual practice of the majority of Anchorage police officers as it relates to the arrest of juvenile offenders.

Most importantly, we agree with auditors that despite whatever limitations may exist in arrest data, it represents one of the best available measures of the level of criminal activity and has almost universal acceptance among social scientists and policy makers as a primary source for use in making significant public policy decisions. We also agree with auditors that empowering the Department of Public Safety to establish uniform standards for the collection and reporting of arrest data should be considered by the legislature. With standardization, reliability and validity could be increased and important public policy decisions based on arrest data could be more confidently made.

Sincerely,

  
John R. Pugh  
Commissioner

# Alaska State Legislature

Chairman  
(907) 465-4523



Jan Faiks  
Post Office Box V  
Juneau, Alaska 99811

## Senate Judiciary Committee

February 9, 1989

### MEMORANDUM

TO: All Senators

FROM: Senator Jan Faiks, Chairman  
Senate Judiciary Committee

SUBJECT: SB 23 "An Act relating to the recording and collection of crime statistics."

Senate Bill 23 is before the Senate today for consideration. This bill proposes an amendment to AS 44.41.020, which defines the duties of the Department of Public Safety (DPS). This bill is identical to CSSB 38 (Sta) which passed the Senate 16 - 0 in 1987. It died last year in the House Judiciary Committee.

At the present time, DPS collects crime data from local law enforcement agencies, processes it, and then returns it to the agencies in the form of statistical summaries of the crime situation in each community. These summaries are a part of the Alaska Uniform Crime Reports (UCR). DPS, however, has no authority to require that participating agencies submit the raw data in a uniform manner. The purpose of SB 23 is to give DPS the authority to establish and require the use of standardized methods of collecting and recording law enforcement and crime statistics by local departments.

SB 23 was introduced as a result of a recommendation contained in a 1986 Legislative Audit report on the Division of Family and Youth Services. A copy of that audit is attached. The audit was performed because of the conflict between crime statistics, which showed that juvenile crime was falling, and police officials, who said that juvenile crime was actually rising. The auditors found that flaws in the way the state

#### Members

Mike Szymanski, Vice-Chairman • Rick Halford • Drue Pearce • Pat Rodey

#### Out of Session

3111 C Street, Anchorage, Alaska 99503 • (907) 561-7610

collected crime data might understate the actual rate of juvenile crime.

Accordingly, the auditors recommended that DPS be given the authority to require standardized methods of recording and collecting crime statistics by local departments statewide.

The slightly different collection and classification procedures used by the more than 20 police jurisdictions in Alaska that elect to participate in the UCR can distort the statewide crime statistics for all crime, not just juvenile crime.

Most of the local police agencies that currently elect to participate in the Department's system use an incident-by-incident method of reporting all criminal calls they answer. However, the State's two largest police departments, Anchorage and Fairbanks, as well as the State Troopers, employ the summary method of data collection.

As the name implies, the incident-by-incident format requires departments to keep a log of all police calls they answer, coded in accordance with uniform standards, and submit this information to DPS monthly. DPS keypunches this raw data and produces various informational reports that are returned to the reporting localities. DPS additionally retains this information and uses it to develop an annual statewide crime report.

In the summary method, the local departments do their own processing of the raw data using slightly different classification systems, and submit the data to DPS already summarized. DPS then "fits" this information together with the incident data collected from other local agencies for the annual statewide report. This results in a distortion of statewide crime statistics.

The state participates in the FBI's Uniform Crime Reports, and provides statewide data to the FBI. The FBI recognizes the problems caused by different reporting methods, and is recommending that the incident-by-incident method be used, using standard reporting forms developed by that agency. This would be one option for standardization which SB 23 would give to DPS.

Current law does not require local communities to participate in the UCR, and this bill does not change that. It merely gives DPS the authority to require that those agencies which do elect to participate provide data in a uniform manner.

As legislators, we make important public policy decisions based upon our perception of the level and nature of crime in

our state. Without accurate data, we cannot make intelligent decisions. I urge your support for this measure.

February 9, 1989

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SJR 15 cont'd

Senator Szymanski moved and asked unanimous consent for the adoption of the Senate Special Committee on International Trade and Tourism Committee Substitute offered on page 293. Without objection, CS FOR SENATE JOINT RESOLUTION NO. 15 (ITT) (Supporting bilateral aviation agreements to better promote international tourism and the movement of cargo through the Alaska International Airport System) was adopted.

CS FOR SENATE JOINT RESOLUTION NO. 15 (ITT) was read the second time.

Senator Halford moved and asked unanimous consent that CS FOR SENATE JOINT RESOLUTION NO. 15 (ITT) be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

CS FOR SENATE JOINT RESOLUTION NO. 15 (ITT) was read the third time.

The question being: "Shall CS FOR SENATE JOINT RESOLUTION NO. 15 (ITT) (Supporting bilateral aviation agreements to better promote international tourism and the movement of cargo through the Alaska International Airport System) pass the Senate?" The roll was taken with the following result:

## CS SJR 15 ITT 3RD

Yeas:	18	Adams, Binkley, Coghill, Duncan, Eliason, Fahrenkamp, Faiks, Fischer, Frank, Halford, Jones, Kelly, Pourchot, Rodey, Sturgulewski, Szymanski, Uehling, Zharoff
-------	----	---

Nays:	0	
-------	---	--

Excused:	1	Pearce
----------	---	--------

Absent:	1	Kerttula
---------	---	----------

and so, CS FOR SENATE JOINT RESOLUTION NO. 15 (ITT) passed the Senate and was referred to the Secretary for engrossment.

## CITATION

Honoring - A Kid's Place, Anchorage Kid's Day  
by Senators Uehling, Pourchot, Pearce, Roday,  
Szymanski, Faiks, Sturgulewski, Kerttula,  
Halford and Kelly

Senator Halford moved and asked unanimous consent that the citation be adopted. Without objection, the citation was adopted and referred to the Secretary for transmittal.

## CONSIDERATION OF THE CALENDAR cont'd

## SENATE BILLS IN THIRD READING

SB 23

SENATE BILL NO. 23 (An Act relating to the recording and collection of crime statistics) and the motion on the adoption of the Letter of Intent were before the Senate.

Senator Faiks moved and asked unanimous consent to withdraw the motion to adopt the Letter of Intent. Without objection, it was so ordered.

A new Letter of Intent was offered by Senators Pourchot and Faiks:

Letter of Intent  
for  
Senate Bill No. 23

It is the intent of the Senate that the Department of Public Safety (DPS) work with local police departments statewide in order to develop methods of implementing SB 23 over time in a manner that have negligible financial impact on those departments and which do not create disincentives to participate in the collection of data for the Uniform Crime Reports (UCR).

Senator Faiks moved and asked unanimous consent that the Letter of Intent be adopted as a Senate Letter of Intent. Without objection, the Senate Letter of Intent was adopted.

**S B**

**24**

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 24

SPONSOR Faiks

BILL TITLE

DATE REFERRED 1-9-89

HEARING SCHEDULED

FISCAL NOTE PREPARED

SPONSOR CONTACTED

INTERESTED PARTIES CONTACTED

OTHER

# Alaska State Legislature



## Senate Judiciary Committee

February 6, 1990

Full on -  
ACLU  
Social Workers  
AG'S  
Sherri Goll

### MEMORANDUM

TO: Senator Pat Pourchot, Chairman  
Senate State Affairs Committee

FROM: Senator Jan Farks

SUBJECT: Senate Bill 24 - Entry into the Alaska Public Safety  
Information Network of Information Regarding Minors

Senate Bill 24, which relates to the entry of information regarding minors into the Alaska Public Safety Information Network is currently pending in your committee for consideration. I would appreciate your scheduling it at your earliest convenience.

Attached is a memo previously prepared which provides background about the legislation. Should you be in need of any additional information, please just let me know.

Thank you.

# Alaska State Legislature



## Senate Judiciary Committee

January 16, 1989

### MEMORANDUM

TO: Senator Pat Pourchot, Chairman  
Senate State Affairs Committee

FROM: Senator Jan Faiks, Chairman  
Senate Judiciary Committee

SUBJECT: SB 24 "An Act relating to the entry into the  
Alaska Public Safety Information Network  
of information regarding minors."

Senate Bill 24 has been referred to the Senate State Affairs Committee for consideration. The purpose of this bill is to enable the Alaska Public Safety Information Network (APSIN) to maintain information on minors who are on probation or who have been incarcerated.

APSIN is the state's criminal justice computer system. It contains information regarding the criminal activity of adults, but not minors. At the present time, law enforcement officers who detain juvenile suspects have no easy way of determining if the juvenile is a probationer acting in violation of the probation, or of learning necessary information about a juvenile who has escaped from a detention facility.

SB 24 requires the superior court to have certain facts entered into APSIN. These include the following:

1. The fact that a minor is incarcerated or on probation;
2. the dates of the incarceration or probation, and any terms and conditions of the probation which place restrictions on the minor's curfew hours or geographic location;
3. the name of the minor's probation officer; and
4. the offense committed, if the offense would be a crime if it were committed by an adult (for example, information about

minors on probation for violating juvenile curfew laws would not be entered into APSIN).

This information will provide law enforcement officers with the tools they need to investigate crimes in which minors on probation are suspects. It will also provide officers with the knowledge they require in order to take the necessary steps to protect themselves when they stop minors for questioning.

This information may be made available only to a member of a state or local public agency involved in law enforcement, who requires the information for official business purposes. The information will not be provided to federal agencies or to other states, since we cannot guarantee that those agencies will expunge their data base once the minor has completed his sentence.

DPS is required to remove the information from APSIN as soon as practicable after the date on which the minor is scheduled to complete the probation or incarceration.

The dates of the duration of the incarceration or probation must be entered into APSIN, so that law enforcement officers will be able to determine that inadvertently unexpunged information is no longer current, and so that the Department of Public Safety will know when to remove it.

SB 24 increases the ability of our police to protect themselves and the public, while maintaining the special treatment of minors which our juvenile justice system requires. I would appreciate your scheduling this bill at your earliest convenience. Please feel free to contact my office if you have any questions or comments.

Thank you.

This has been proposed before, & has been CONTROVERSIAL.

Introduced: 1/9/89  
Referred: State Affairs and  
Judiciary

6-0155A

→ Current law prohibits disclosure of a minor's records to anyone without the court's permission.

1 IN THE SENATE

BY FAIKS AND KELLY

2

SENATE BILL NO. 24

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the entry into the Alaska Public Safety Information Network of information regarding minors."

7

8

9

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

10

\* Section 1. AS 47.10.090 is amended by adding new subsections to read:

11

(d) Notwithstanding (a) of this section, if a minor is placed in

12

a juvenile facility under AS 47.10.080(b)(1) or released on probation,

13

the court shall transmit for entry into the Alaska Public Safety

14

Information Network the following information if applicable:

15

(1) the fact that the minor is in a juvenile facility or on

16

probation;

17

(2) the dates of the placement or probation and any terms

18

or conditions imposed that restrict the minor's curfew hours and

19

geographic area;

20

(3) the name of the minor's probation officer; and

21

(4) any offense for which the minor is in a juvenile facil-

22

ity or on probation if the offense would be a crime if committed by an

23

adult.

24

(e) The Department of Public Safety shall make the information

25

transmitted under (d) of this section available to a member of a state

26

or local law enforcement agency, as defined in AS 12.62.070, who

27

requests the information for official business purposes.

28

(f) (As soon as practicable) after the date on which the minor is

29

scheduled to complete the period of detention or the terms of

SB0024a

-1-

SB 24

→ Current law requires juvenile's records to be sealed within 30 days of the date on which the court relinquishes jurisdiction.

1       probation, the Department of Public Safety shall remove the informa-  
2       tion transmitted under (d) of this section from the Alaska Public  
3       Safety Information Network.



Official Business

# Alaska State Legislature

## Senate

P.O. BOX V  
State Capitol  
Juneau, Alaska 99811

### MEMORANDUM

January 16, 1989

TO: Senator Pat Pourchot, Chairman  
Senate State Affairs Committee

FROM: Senator Jan Faiks, Chairman  
Senate Judiciary Committee

SUBJECT: SB 24 "An Act relating to the entry into the  
Alaska Public Safety Information Network  
of information regarding minors."

Senate Bill 24 has been referred to the Senate State Affairs Committee for consideration. The purpose of this bill is to enable the Alaska Public Safety Information Network (APSIN) to maintain information on minors who are on probation or who have been incarcerated.

APSIN is the state's criminal justice computer system. It contains information regarding the criminal activity of adults, but not minors. At the present time, law enforcement officers who detain juvenile suspects have no easy way of determining if the juvenile is a probationer acting in violation of the probation, or of learning necessary information about a juvenile who has escaped from a detention facility.

SB 24 requires the superior court to have certain facts entered into APSIN. These include the following:

1. The fact that a minor is incarcerated or on probation;
2. the dates of the incarceration or probation, and any terms and conditions of the probation which place restrictions on the minor's curfew hours or geographic location;
3. the name of the minor's probation officer; and
4. the offense committed, if the offense would be a crime if it were committed by an adult (for example, information about minors on probation for violating juvenile curfew laws would not be entered into APSIN).

This information will provide law enforcement officers with the tools they need to investigate crimes in which minors on

probation are suspects. It will also provide officers with the knowledge they require in order to take the necessary steps to protect themselves when they stop minors for questioning.

This information may be made available only to a member of a state or local public agency involved in law enforcement, who requires the information for official business purposes. The information will not be provided to federal agencies or to other states, since we cannot guarantee that those agencies will expunge their data base once the minor has completed his sentence.

DPS is required to remove the information from APSIN as soon as practicable after the date on which the minor is scheduled to complete the probation or incarceration.

The dates of the duration of the incarceration or probation must be entered into APSIN, so that law enforcement officers will be able to determine that inadvertently unexpunged information is no longer current, and so that the Department of Public Safety will know when to remove it.

SB 24 increases the ability of our police to protect themselves and the public, while maintaining the special treatment of minors which our juvenile justice system requires. I would appreciate your scheduling this bill at your earliest convenience. Please feel free to contact my office if you have any questions or comments.

Thank you.

## SECTIONAL ANALYSIS

SB 24 "An Act relating to the entry into the Alaska Public Safety Information Network of information regarding minors."

Section 1. Adds new subsections to AS 47.10.090 as follows:

AS 47.10.090(d): Requires the court to transmit the following information regarding a minor placed in a juvenile facility or on probation to the Department of Public Safety (DPS) for entry into the Alaska Public Safety Information Network (APSIN):

- (1) the fact that a minor is incarcerated or on probation;
- (2) the dates of the placement or probation and any terms of probation that restrict a minor's curfew hours and geographic area;
- (3) the name of the minor's probation officer; and
- (4) the offense for which the minor is incarcerated or on probation, if the offense would be a crime if it had been committed by an adult.

AS 47.10.090(e): DPS shall make this information available to a member of a state or local law enforcement agency who requires the information for official business purposes.

AS 47.10.090(f): DPS shall remove the information from APSIN as soon as practicable after the minor completes the period of detention or the terms of probation.

**S B**

**27**

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 27

SPONSOR Sturgulewski

BILL TITLE International investments by Permanent Fund

DATE REFERRED 1-9-89

HEARING SCHEDULED 2-13-89

FISCAL NOTE PREPARED ✓

SPONSOR CONTACTED Frank 3818

INTERESTED PARTIES CONTACTED

Jim Kelly <sup>out till 2-21</sup> 2647 Peter Brushberg

✓ Dave Rose - will bring charts  
? John Kelsey, Hugh Malone

with my ✓ Or Gary Anders, UAS 789-4402

Ernie Polley, State Chamber of Commerce

OTHER

Gov. intro'd. same bill in House

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title: An Act relating to purchase of international investments by PFC  
 Sponsor: Senator Sturgulewski  
 Requestor: Senator Sturgulewski

Agency Affected: Revenue  
 BRU: Permanent Fund Corporation  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	35.0	500.0	500.0	500.0	500.0	500.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>35.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	35.0	500.0	500.0	500.0	500.0	500.0
<b>TOTAL</b>	<b>35.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** (Attach a separate page if necessary)

FY 89: Contractual services for manager search, and associated costs.

FY 90 - FY 94: Management fees.

Prepared by: Alaska Permanent Fund Corporation Phone: 465-2047  
 Division: \_\_\_\_\_ Date: January 25, 1989

Approved by Commissioner: David A. Rose, Executive Dir Date: January 25, 1989  
 Agency: Alaska Permanent Fund Corporation

Distribution (by preparer):

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

H. Malone 1/26/89

### LEGISLATION

Senate Bill 27 and House Bill 69, identical bills which would permit investment of a portion of the Permanent Fund in non-domestic stocks and bonds, have been introduced in the legislature. The Trustees are seeking passage of the legislation for three (3) reasons:

- (1) global investing will further diversify the Fund and reduce overall portfolio risk.
- (2) rates of return earned over time on non-domestic equities have historically equalled or exceeded returns earned in the U.S. stock market.
- (3) the U.S. share of the global securities market is shrinking due to the rapid expansion of other national economies. Investment opportunities have increased with this expansion and the Fund should be positioned to take advantage of these opportunities.

Upon passage of this legislation the Trustees are committed to a cautious and patient approach to entry into these markets.

### FISCAL YEAR 1989 PROJECTIONS

Projected net income for the year is \$818 million. This would represent an increase of \$29 million over fiscal 1988's total of \$789 million. This net income projection assumes a nominal earnings rate of 9.01 percent for the year. The fiscal 1989 projected inflation is 4.00 percent compared to 3.65 percent last year.

### REWARD VERSUS RISK ANALYSIS

Attached to this memorandum is a chart which depicts the level of risk your Fund has been exposed to over the past five years (October 1, 1983 through September 30, 1988), and the level of earnings enjoyed by your Fund over the same period of time. It was prepared for the Corporation by SEI Funds Evaluation Services, a national performance measurement firm.

The circle represents the Alaska Permanent Fund and the asterisks represent other similar (mostly smaller) trust funds.

Note that the Permanent Fund has achieved slightly above-average earnings for the past five years with extremely low risk. No other fund being measured earned more money for the degree of risk involved.



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telecopy (907) 586-2057

January 18, 1989

The Honorable  
Senator Pat Pourchot  
Chairman, Senate State Affairs Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Senator Pourchot:

I am writing to request that you schedule in the Senate State Affairs Committee, as soon as possible, Senate Bill No. 27, "An Act relating to the purchase of international investments by the Alaska permanent fund; and changing certain requirements related to the purchase of domestic investments by the Alaska permanent fund." This bill has the support of Governor Cowper as well as the leadership of both the House and the Senate.

After several years of researching this issue, the Board of Trustees is convinced that international investing provides substantial opportunities not only to reduce the level of risk in the Permanent Fund's total portfolio, but also to enhance the Fund's overall returns. Since reducing risk and increasing return are our two main fiduciary responsibilities under current law, this bill has the full and unqualified support of the Board.

As I'm sure you are aware, nearly identical legislation passed the House last session by a vote of 34-5-1, and passed through four committees in the Senate without any dissenting votes. Consequently, the level of awareness and support among your colleagues on this issue is high.

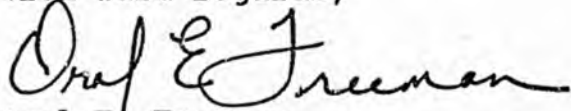
The Trustees look forward to testifying in support of this bill at your earliest convenience. Our staff, working with Senator Sturgulewski, the primary sponsor of the bill, will provide your committee with whatever back-up material you desire.

If you have any questions, please don't hesitate to contact any of the trustees or members of the staff of the Alaska Permanent

January 18, 1989  
Page 2

Fund Corporation. Thank you and best wishes for a successful  
1989 session.

With warm regards,

A handwritten signature in cursive script that reads "Oral E. Freeman". The signature is written in dark ink and is positioned above the typed name and title.

Oral E. Freeman  
Chairman, Board of Trustees

STATE OF ALASKA  
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

January 9, 1989

SUBJECT: Investments by the Permanent Fund (SB 27)  
TO: Senator Arliss Sturgulewski  
FROM: Tamara Brandt Cook *TBC*  
Director  
Division of Legal Services

You have requested a sectional analysis of SB 27 dealing with investments of the permanent fund.

Sections 1 - 4 make changes to AS 37.13.120(g) which lists investments that the Alaska Permanent Fund Corporation may make.

Section 1. Permits investments in nondomestic corporate debt securities of a quality comparable to a rating of AA or better.

Section 2. Permits investments in short-term nondomestic corporate promissory notes, the interest on which may be payable in U.S. or other currencies.

Section 3. Permits investments in certificates of deposit, term deposits, or banker' acceptances issued by a nondomestic bank or trust company in certain instances. Allows retained earnings to be considered in determining whether these types of investments may be made with respect to a particular issuing bank or trust company.

Section 4. Permits investments in securities of nondomestic governments and in securities of nondomestic corporations.

Section 5. Allows the board to enter into future contracts for the sale of nondomestic currencies.

Section 6. Sets out percentages of the total investments which each stated category of investments may not exceed.

TBC:gc  
WKG5/059



ALASKA STATE CHAMBER OF COMMERCE

310 Second Street  
Juneau, Alaska 99801  
(907) 586-2323

January 9, 1988

The Honorable Arliss Sturgulewski  
Senate Rules Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Arliss:

Thank you for introducing SB 27 relating to international investment by the Alaska Permanent Fund.

We have reviewed the Bill and strongly support the legislation.

The Alaska State Chamber favors passage for the following reasons:

1. The Fund has developed (and earned) a reputation for conservative, careful, and deliberate investment. It clearly has the professional competence to utilize the additional proposed investment tools for the betterment of the State and its citizens.
2. The expansion of investments to the international arena provides further diversification of the Fund's stock and bond portfolios. This blending and diversifying permits the Fund to continue its investment mission at lower risk than that currently being experienced.
3. Generally, foreign investments generate higher earnings than domestic investments. While this should not be a compelling argument for foreign investment, it is clearly indicative that expected returns, over time, will be at least equal to domestic investments.
4. Finally, and perhaps most important from our viewpoint, is the by-product benefit of foreign investment. The contacts made by the Fund will be extremely valuable. As it researches foreign corporations; confers, meets, and enters into business arrangements with major non-domestic bankers and financiers; and creates dialogue with business leaders throughout the world, the Fund will bring business visitors and potential investors to our state. As these visitors

Arliss Sturgulewski  
January 9, 1989  
Page 2

establish relationships with the Fund, they will gain firsthand exposure to Alaska and its business and economic opportunities.

The global outreach which will be facilitated by international investment is most timely in these difficult economic times for Alaska. We must do everything possible to expand our horizons and develop increased economic activity. Enactment and implementation of SB 27 will help us accomplish this.

We recommend its adoption.

Cordially,



George Krusz  
President

GK:ly/102

# Alaska State Legislature



Sen. Pat Pourchot, Chairman

Sen. Jan Falks, Vice Chairman

Sen. Al Adams

Sen. Tim Kelly

Sen. Rick Uehling

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

907-465-3712

## Senate State Affairs Committee

### MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot, Chairman

RE: February 13 Committee Hearing

DATE: February 10, 1989

On Monday, February 13 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SB 27. An Act relating to purchase of international investments by the Alaska permanent fund; and changing certain requirements related to the purchase of domestic investments by the Alaska permanent fund.

SB 27 would permit investment of a portion of the Permanent Fund in nondomestic stocks and bonds. The percentage of the Fund's total investments which could be invested in each stated category would remain as under current law:

15%	mortgages
15%	real estate
20%	certificates of deposit, term deposits, bankers' acceptances issued by a domestic <u>or nondomestic</u> bank
50%	<u>domestic or nondomestic securities, domestic stocks, nondomestic corporate promissory notes</u>

Similar legislation introduced last year failed to reach final passage. The primary difference between last year's version and SB 27 is in the investment categories. Last year's bill allowed investment of up to 20% of the fund in foreign stocks and bonds in addition to the 50% in domestic stocks and bonds.

SB 27 is supported by the Permanent Fund Board of Trustees as a way to reduce the Fund's overall risk and enhance the Fund's overall performance. Statistical information on international investments is attached.

SB 117, An Act relating to special request university license plates.

In response to concerns expressed at our earlier hearing on SB 117, a draft committee substitute has been prepared. The committee substitute: (1) allows for the design of license plates carrying the names, rather than the acronyms, of the state university campuses; and (2) specifies that legislative appropriations of license proceeds to the university should be limited to those revenues that are in excess of the cost of issuing the plates.

SB 113, An Act authorizing the Violent Crime Compensation Board to pay compensation for personal injury or death to the victim of an assault in any degree, had been scheduled for a committee hearing February 13. This bill has been removed from the calendar at the sponsor's request.



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telecopy (907) 586-2057

M E M O R A N D U M

DATE: March 16, 1988

TO: The Honorable  
Pat Pourchot  
Alaska State Representative

FROM: *William L. Means*  
William L. Means  
Chief Investment Officer  
Alaska Permanent Fund Corporation

SUBJECT: Foreign Investment

In response to your question as to what effect foreign investment might have on the Alaska Permanent Fund, staff has calculated the value of \$1.0 billion invested in the U.S. Standard & Poors 500 Stock Index for the two calendar year period 1986-1987. At the end of 1987, the value of this portfolio, assuming reinvestment of the dividends, would have been \$1,209,720,000.

If on the other hand, 80% of the original \$1.0 billion investment had been invested in the S & P 500 Index and the remaining 20% had been invested in the Morgan Stanley Capital International Europe, Australia, Far East Index (EAFE), with appropriate allocation adjustments at the end of 1986, the value of the original \$1.0 billion would have increased to \$1,588,082,800. Investing 20% of this stock portfolio in foreign stocks would have produced an additional increment of return of \$378.3 million.

Although such substantial earnings increases, of course, cannot be projected for the future, most importantly, all studies indicate that the inclusion of a foreign stock commitment will reduce risk in what otherwise would be a domestic U.S. portfolio. In addition, these studies show that an additional increment of earnings can be anticipated.

WLM:vs



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telecopy (907) 586-2057

January 6, 1989

The Honorable  
Senator Arliss Sturgulewski  
P. O. Box V  
Room 427  
Juneau, AK 99811

Dear Senator ~~Sturgulewski~~ *Arliss*:

Thank you for pre-filing SB 27, "An Act relating to purchase of international investments by the Alaska permanent fund; and changing certain requirements related to the purchase of domestic investments by the Alaska permanent fund." As you know, this bill is supported by formal action of the Board of Trustees.

There are two primary reasons why the trustees are seeking passage of this legislation:

- 1) Investing a small portion of the Permanent Fund in non-U.S. securities will provide increased diversification in both the equities and fixed-income portfolios. Modern portfolio theory clearly indicates that the chief benefit of increased diversification is decreased investment risk. The trustees view minimizing investment risk, within the context of trying to earn a long-term real rate of return of three percent per year, as a fiduciary imperative.
- 2) Extensive research indicates that non-U.S. investments have outperformed U.S. investments in most of the past 17 years. While there is no guarantee that future performance will mirror historical performance, certainly there is great potential for increasing Permanent Fund returns by investing a small portion of the Fund in non-U.S. stocks and bonds.

In addition to decreasing risk and quite possibly increasing return, international investing by the Permanent Fund will provide valuable contacts with major non-domestic financiers, bankers and business leaders. This international outreach reasonably can be

The Honorable Senator Arliss Sturgulewski  
January 6, 1989  
Page 2

expected to enhance the State's efforts to boost Alaskan exports as well as in-state economic development.

Attached is a relatively-slim package of background material on the issue of international investing which you may find useful in upcoming legislative hearings. Corporation staff stands ready to provide whatever additional information you may desire or require.

As this bill, in substantially the same form, has been before the legislature in each of the last three sessions - and has met with very little opposition at any time - it is hoped that SB 27 will receive prompt attention and early passage in 1989.

Thanks again for your continuing interest and support for the Permanent Fund, and best wishes for a productive and harmonious session.

Sincerely,



David A. Rose  
Executive Director

Attachment

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 217 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to purchase of investments by the  
7 board of trustees of the Alaska permanent fund."

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

9 \* Section 1. AS 37.13.120(g)(8) is amended to read:

10 (8) domestic corporate debt securities that [WHICH] are  
11 rated AA or better by a nationally recognized rating service, or  
12 foreign corporate debt securities of comparable quality;

13 \* Sec. 2. AS 37.13.120(g)(19) is amended to read:

14 (19) certificates of deposit, term deposits, or bankers'  
15 acceptances, which are issued by a United States or foreign bank or  
16 trust company located in a foreign country and are denominated in  
17 United States or foreign currency, if either (A) they may be readily  
18 sold in a secondary market at prices reflecting fair value, or (B) the  
19 issuing bank or trust company has capital, [AND] surplus, and retained  
20 earnings at the date of issue equaling at least \$500,000,000; invest-  
21 ments made under this paragraph are not subject to the collateral  
22 requirements for domestic certificates under (m) of this section;

23 \* Sec. 3. AS 37.13.120(g) is amended by adding a new paragraph to read:

24 (21) securities of foreign governments, foreign govern-  
25 mental agencies, and foreign corporations the principal of which is,  
26 or the interest or dividends on which are, payable in either United  
27 States dollars or foreign currencies.

28 \* Sec. 4. AS 37.13.120(h) is amended to read:

29 (h) The board may enter into future contracts for the sale of

1 investments purchased under (g) of this section, or for the sale of  
2 foreign currencies, only for the purpose of hedging an existing equiv-  
3 alent ownership position in these investments [SECURITIES].

4 \* Sec. 5. AS 37.13.120(i) is amended to read:

5 (i) [AT THE TIME OF EACH INVESTMENT, THE AGGREGATE INVESTMENT OF  
6 THE ALASKA PERMANENT FUND IN EACH STATED CATEGORY OF INVESTMENT MAY  
7 NOT EXCEED THE FOLLOWING STATED PERCENTAGE OF THE TOTAL INVESTMENTS OF  
8 THE FUND: MORTGAGES UNDER (g)(16) OF THIS SECTION. 15 PERCENT; REAL  
9 ESTATE INVESTMENTS UNDER (g)(20) OF THIS SECTION, 15 PERCENT; FOREIGN  
10 CERTIFICATES OF DEPOSIT OR THE EQUIVALENT UNDER (g)(19) OF THIS SEC-  
11 TION, 20 PERCENT; CORPORATE STOCKS AND DEBT SECURITIES UNDER (g)(8),  
12 (9), AND (18) OF THIS SECTION, 50 PERCENT.] The Alaska permanent fund  
13 may at no time own more than five percent of the voting stock of a  
14 corporation. Domestic stocks, except for bank and insurance company  
15 stocks, must be listed at the date of purchase on an exchange regis-  
16 tered with the Securities and Exchange Commission. At the time of  
17 each investment the aggregate investment of the fund in each stated  
18 category of investment may not exceed the following stated percentage  
19 of the total investments of the fund:

20 (1) mortgages under (g)(16) of this section - 15 percent;

21 (2) real estate investments under (g)(20) of this section -  
22 15 percent;

23 (3) foreign certificates of deposit, foreign term deposits,  
24 and foreign bankers' acceptances under (g)(19) of this section, and  
25 securities of foreign governments, foreign governmental agencies, and  
26 foreign corporations under (g)(8) and (21) of this section - 20 per-  
27 cent;

28 (4) domestic corporate stocks and debt securities under  
29 (g)(8), (9), and (18) of this section - 50 percent.

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 17, 1988

The Honorable Ben F. Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box 7  
Juneau, AK 99811

Dear Ben,

I am writing to request that you vote yes on passage of Committee Substitute for House Bill No. 217 (Finance, "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund." The bill is in House Rules now, and should be before the body for a vote on Monday.

In my view, and in the view of the Board of Trustees of the Alaska Permanent Fund Corporation, there are two very good reasons for supporting global investing for the Permanent Fund: (1) it will reduce the Fund's overall risk; and (2) it will increase the Fund's overall return. Considering that the primary responsibility of the Legislature has given the Trustees is to maintain the safety of Fund principal while maximizing total return, those seem to me to be pretty persuasive arguments.

I am confident that the Board of Trustees will be as careful and as deliberate in their implementation of this new investment authorization as they were five years ago when you (the Legislature) granted them the authority to invest in domestic stocks and equity real estate.

I think it is important to pass this legislation this session. Please join with me to help the Trustees to keep the Permanent Fund safe - and growing - for the benefit for present and future generations of Alaskans.

Thank you.

Sincerely,

Steve Cowper  
Governor

cc: All Members of the House

CSHB 217(Fin)

## CSHB 217(FIN)

Yeas: 34 Adams, Barnes, Boucher, Boyer,  
Brow, Cato, Cotten, Davidson,  
Davis, Donley, Ellis, Frank, Goll,  
Gruenberg, Grussendorf, Hanley,  
Herrmann, Hudson, Koponen, Larson,  
Martin, Miller, Navarre, Pearce,  
Pettyjohn, Pourchot, Rieger,  
Shultz, Springer, Sund,  
Swackhammer, Ulmer, Wallis,  
Zawacki

Nays: 5 Furnace, Hoffman, Menard,  
Phillips, Taylor

Excused: 1 Collins

Absent: 0

And so, CSHB 217(Fin) passed the House and was referred to the Chief Clerk for engrossment.

HB 386

The following was read the second time:

## HOUSE BILL NO. 386

"An Act relating to rewards to promote the apprehension and conviction of certain offenders; and providing for an effective date."

with the:

Judiciary Committee report	p. 2333
Zero fiscal note published 2/24/88	p. 2333
Finance Committee report	p. 2556
Zero fiscal note with analysis published 3/14/88	p. 2557

Representative Gruenberg moved and asked unanimous consent that the following committee substitute be adopted in lieu of the original bill:

## CS FOR HOUSE BILL NO. 386 (Judiciary)

"An Act relating to enforcement of alcoholic beverage control laws; and providing for an effective date."

There being no objection, it was so ordered.

# House OKs foreign ventures for permanent fund

By LARRY PERSILY  
The Associated Press

JUNEAU — The permanent fund would be allowed to invest part of its \$9.2 billion in foreign stocks and bonds under legislation approved Monday by the House.

Directors of the state's oil-wealth savings account have asked for legislative approval of foreign investments as a means of expanding the fund's earning potential.

Foreign investments also would allow the permanent fund to reduce the risk of being dependent solely on U.S. investments, said Rep. Steve Rieger, R-Anchorage.

The bill (HB217) passed the House 34-5. It now moves to the Senate.

The legislation would allow investment of up to 20 percent of the fund in foreign government bonds and corporate stocks and bonds, said permanent fund spokesman Jim Kelly.

"It will be a long time before we're even up to 2 or 3 percent," Kelly said.

About 10 percent of the fund now is invested in U.S. corporate stock, 80 percent in government and corporate bonds, and about 5 percent in real estate.

In submitting the bill for legislative action, Gov. Steve Cowper said, "Returns from foreign investment have exceeded those from investments in the United States

over most recent 10-year periods.

"No one national market consistently produces superior or inferior returns," Cowper said, citing the need to allow the permanent fund to pick and choose between U.S. and foreign stocks and bonds as it looks for the best earnings at the lowest risk.

Not everyone in the House spoke in support of the bill.

"This is a \$9.2 billion decision ... it's a decision that says do you have confidence in America or is there a better

crap shoot over in Hong Kong?" said Rep. Robin Taylor. "Is that all we're about in Alaska any more?"

"I can't vote against Alaska and I can't vote against America and I think that is what this is saying," the Wrangell Republican said.

The Alaska State Chamber of Commerce supports the bill. Allowing foreign investments by the fund will bring business visitors to the state, the chamber said, leading to increased potential for foreign business with Alaska companies.

**WE GUARANTEE THE**

MAR 22 '88 11:02 AM PERM FUND ANCH 1 X 1 PREV ahead

# Foreign routing of state fund debated

By Robert Laurie  
Times Journal Bureau

JUNEAU — Up to 20 percent of Alaska's \$9 billion savings account could be invested overseas if the Senate goes along with a measure approved Monday by the House.

But Senate President Jan Faiks says she "totally opposes" the idea.

The Permanent Fund Board of Trustees asked for the authority to put some of its money in foreign stocks and bonds to help diversify its portfolio.

They say they don't want to put all their eggs in one basket, but have found that the fund has grown so large that it has become more and more difficult for fund managers to avoid that.

Opponents of the idea in the House framed their arguments in patriotic terms.

Referring to the American flag lawmakers face each morning to recite the Pledge of Allegiance, Rep. Curt Menard, R-Wasilla, said "I think we do owe some allegiance to it."

Rep. Robin Taylor, R-Wrangell, asked if the fund

## Estimated 1988 fund dividend: \$813

JUNEAU (AP) — Alaskans will begin getting their permanent fund dividend applications April 1, and the state is urging people to make sure they have social security numbers to avoid having federal income tax withheld from the oil money payments.

The IRS requires 20 percent of any dividend of more than \$600 to be withheld unless the applicant provides a social security number. The 1988 dividend is estimated at \$813.

Applicants who provide social security numbers will receive the full dividend amount.

In 1987, 3,287 adults and 24,973 children had \$141.64 withheld from their \$708 dividends because of failure to provide social security numbers.

The Alaska Department of Revenue is urging Alaskans who do not have social security num-

bers to apply for them as soon as possible so they can have them by the time permanent fund dividends are due June 30.

It takes three to four weeks to get a social security card from the Social Security Administration Office, state officials said. Numbers may be obtained by submitting federal form SS-5 to a social security office. The forms are available there, at post offices and at state dividend information offices.

State revenue officials said permanent fund applications will be distributed by the U.S. Postal Service beginning April 1. Applications also will be available at dividend information offices after April 11.

Generally, people who file their dividend applications early receive their dividends soonest when checks are issued beginning in October.

would invest in a Japanese company cutting lumber from Alaska wood rather than an Alaska company simply because the Japanese company had a higher return on its investment.

"Is that all we're about in Alaska anymore?" Taylor asked, "How much money we can make off the yen? Or are we supposed

to be up here seeing what we can do about developing some jobs for this state?"

"It is not un-American, it is not un-Alaskan," countered Rep. Ron Larson, D-Palmer. "It is a good move for Alaska."

Larson told the House that investments by the Permanent Fund in foreign securities will in-

crease the fund's earnings, resulting in higher dividend checks and reducing the overall risks facing it.

"This is the same thing we already allow the Teacher's Retirement Service and the Public Employee's Retirement Service to do," said Larson.

# Salons: User complaints investigated

tanning industry. radiation, he said. The skin is like a plant, he  
cation process for people giving some combination of UVA and vive but will survive up if it is

Won

P.1

HB 217

CS FOR HOUSE BILL NO. 217 (Finance)  
"An Act relating to purchase of investments by the  
board of trustees of the Alaska permanent fund."

Recommending do pass (6): Larson, Boyer, Rieger, Frank,  
Brown, Davis

No recommendation (5): Adams (Chairman), Pourchot,  
Swackhammer, Wallis, Goll

A fiscal note was published March 9, 1988.

HB 217 was referred to the Rules Committee for placement on  
the calendar.

HB 293

The Rules Committee has considered:

HOUSE BILL NO. 293  
"An Act relating to elections."

and recommends it be replaced with the following committee  
substitute:

CS FOR HOUSE BILL NO. 293 (Rules)  
"An Act relating to conduct and administration of  
elections by the director of elections; and  
providing for an effective date."

Recommending do pass (4): Navarre (Chairman), Gruenberg,  
Hoffman, Grussendorf

No recommendation (2): Pettyjohn, Martin

HB 293 was returned to the Rules Committee for placement on  
the calendar.

HB 310

The Labor & Commerce Committee has considered:

HOUSE BILL NO. 310  
"An Act relating to payment under public  
construction contracts."

and recommends it be replaced with the following committee  
substitute:

Letter to All House Members from the Governor re: HB 217

I am writing to request that you vote yes on passage of Committee Substitute for House Bill No. 217(Finance), "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund." The bill is in House Rules now, and should be before the body for a vote within the next few days.

In my view, and in the view of the Board of Trustees of the Alaska Permanent Fund Corporation, there are two very good reasons for supporting global investing for the Permanent Fund: (1) it will reduce the Fund's overall risk; and (2) it will increase the Fund's overall return. Considering that the primary responsibility the legislature has given the Trustees is to maintain the safety of Fund principal while maximizing total return, those seem to me to be pretty persuasive arguments.

I am confident that the Board of Trustees will be as careful and as deliberate in their implementation of this new investment authorization as they were five years ago when you (the legislature) granted them the authority to invest in domestic stocks and equity real estate.

I think it is important to pass this legislation this session. Please join with me to help the Trustees to keep the Permanent Fund safe - and growing - for the benefit of present and future generations of Alaskans.

Thank you.



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telex 099-46-323

January 4, 1988

The Honorable Rick Halford  
Co-Chairman  
Senate Finance Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Senator Halford:

I am writing to request that you schedule in the Senate Finance Committee, early in the upcoming session, Senate Bill No. 218, "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund."

This bill was originally recommended by the trustees on September 26, 1986 (see attached Board Resolution 86-13).

The trustees believe that international investing provides substantial opportunities not only to reduce the level of risk in the Permanent Fund's total portfolio, but also to enhance the Fund's overall returns. These opportunities exist because non-U.S. investments now comprise more than one-half of the \$7 trillion invested in fixed income securities worldwide, and almost two-thirds of the \$7 trillion invested in the equities markets worldwide.

I look forward to testifying in support of this bill at your earliest convenience. Within the next two weeks, our staff will be providing your committee with additional back-up material. If you have any questions, please don't hesitate to contact any of the trustees or members of the staff of the Alaska Permanent Fund Corporation. Thank you and best wishes for a successful 1988 session.

Sincerely,

A handwritten signature in dark ink, appearing to read "Byron I. Mallott", is written over the typed name.

Byron I. Mallott  
Chairman, Board of Trustees

Attachment

RESOLUTION OF THE BOARD OF TRUSTEES  
THE ALASKA PERMANENT FUND CORPORATION  
REGARDING INVESTMENTS IN FOREIGN SECURITIES

RESOLUTION 86-13

WHEREAS, returns from foreign investment have exceeded those in the United States over most recent ten year periods; and

WHEREAS, the United States represents less than one-half of the world's equity capitalization and is declining in share as foreign economies experience more rapid long-term growth; and

WHEREAS, equity participation in many emerging and fast growth industries can only be attained through foreign investment; and;

WHEREAS, foreign securities markets exhibit a low correlation with the U.S. market therefore reduced overall portfolio volatility will result from international investments; and

WHEREAS, no one national market consistently produces superior or inferior returns; and

WHEREAS, combining U.S. and international investments has consistently provided both increased return and reduced risk compared to a portfolio of all U.S. equities; and

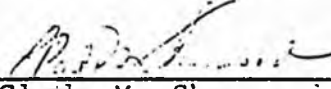
WHEREAS, growth in the U.S. economy remains slow while many foreign economies enjoy more rapid and accelerating growth; and

WHEREAS, increased disposable income and low inflation abroad is spurring consumer demand and domestic growth; and


WHEREAS, a continuation of the dollar's gradual descent will enhance U.S. investors' total return from foreign security holdings;

NOW THEREFORE BE IT RESOLVED that the Board of Trustees recommend that the State of Alaska Legislature consider and adopt legislation permitting purchase of foreign securities similar in content to the suggested Bill attached hereto as Appendix A.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 26th day of September, 1986.

  
\_\_\_\_\_  
Clyde M. Sherwood, Chairman  
Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:

  
\_\_\_\_\_  
David A. Rose, Executive Director

*Superseded*

1 IN THE SENATE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

SENATE BILL NO. 218

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to purchase of foreign investments  
by the board of trustees of the Alaska permanent  
fund."

7

8

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

10

\* Section 1. AS 37.13.120(g)(8) is amended to read:

11

(8) domestic corporate debt securities that [WHICH] are

12

rated AA or better by a nationally recognized rating service, or

13

foreign corporate debt securities of comparable quality;

14

\* Sec. 2. AS 37.13.120(g)(19) is amended to read:

15

(19) certificates of deposit, term deposits, or bankers'

16

acceptances, which are issued by a United States or foreign bank or

17

trust company located in a foreign country and are denominated in

18

United States or foreign currency, if either (A) they may be readily

19

sold in a secondary market at prices reflecting fair value, or (B) the

20

issuing bank or trust company has capital and surplus at the date of

21

issue equaling at least \$100,000,000 [\$500,000,000]; investments made

22

under this paragraph are not subject to the collateral requirements

23

for domestic certificates under (m) of this section;

24

\* Sec. 3. AS 37.13.120(g) is amended by adding a new paragraph to read:

25

(21) securities of foreign governments, foreign govern-

26

mental agencies, and foreign corporations the principal of which is,

27

or the interest or dividends on which are, payable in either United

28

States dollars or foreign currencies.

29

\* Sec. 4. AS 37.13.120(h) is amended to read:

1           (h) The board may enter into future contracts for the sale of  
2           investments purchased under (g) of this section, or for the sale of  
3           foreign currencies, only for the purpose of hedging an existing equiv-  
4           alent ownership position in these investments [SECURITIES].

5           \* Sec. 5. AS 37.13.120(i) is amended to read:

6           (i) At the time of each investment, the aggregate investment of  
7           the Alaska permanent fund in each stated category of investment may  
8           not exceed the following stated percentage of the total investments of  
9           the fund: mortgages under (g)(16) of this section, 15 percent; real  
10          estate investments under (g)(20) of this section, 15 percent; foreign  
11          certificates of deposit, foreign term deposits, and foreign bankers'  
12          acceptances [OR THE EQUIVALENT] under (g)(19) of this section, 20  
13          percent; securities of foreign governments, foreign governmental  
14          agencies, and foreign corporations under (g)(8) and (21) of this  
15          section, 20 percent; domestic corporate stocks and debt securities  
16          under (g)(8), (9), and (18) of this section, 50 percent. The Alaska  
17          permanent fund may at no time own more than five percent of the voting  
18          stock of a corporation. Domestic stocks, except for bank and insur-  
19          ance company stocks, must be listed at the date of purchase on an  
20          exchange registered with the Securities and Exchange Commission.

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: An Act relating to purchase of  
foreign securities by PFC.  
Sponsor: Rules  
Requestor: Governor

Agency Affected: Revenue  
BRU: Permanent Fund Corporation  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	35.0	500.0	500.0	500.0	500.0
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LAND & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	35.0	500.0	500.0	500.0	500.0

CAPITAL	-	-	-	-	-	-
---------	---	---	---	---	---	---

REVENUE	-	-	-	-	-	-
---------	---	---	---	---	---	---

**FUNDING:** (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	35.0	500.0	500.0	500.0	500.0
<b>TOTAL</b>	-	35.0	500.0	500.0	500.0	500.0

**POSITIONS:**

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

**ANALYSIS :** (Attach a separate page if necessary)

FY 89: Contractual services for manager search.

FY 90 - FY 93: Management fees.

Prepared by: Alaska Permanent Fund Corporation Phone: 465-2047  
Division: \_\_\_\_\_ Date: February 8, 1988

Approved by Commissioner: David A. Rose, Exec. Director Date: February 8, 1988  
Agency: Alaska Permanent Fund Corporation

**Distribution (by preparer):**

Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)



**Alaska Permanent Fund Corporation**

Pouch 4-1000 Juneau, Alaska 99802

(907) 465-2047 Telex 099-46-323

April 13, 1987

Senator Rick Uehling, Chairman  
Senate Special Committee on International Trade  
P.O. Box V  
Juneau, Alaska 99811

Dear Senator Uehling:

I am writing to request that you schedule Senate Bill No. 218, "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund."

This bill is supported by the board of trustees of the Alaska Permanent Fund Corporation. It was originally recommended by the Trustees on September 26, 1986 (see Board Resolution 86-13 attached). Since the Board membership at that time was quite a bit different than at present, the bill was discussed again at the most recent Board meeting on March 9, 1987, and the original recommendation for passage of this bill still stands.

We think it is important for the legislature to expand the Fund's authorized list of investments to include foreign securities, and we look forward to testifying in support of this bill at your earliest convenience. Staff will be providing your committee with back-up material on this bill in particular and global investing in general.

Thank you.

With warm regards,

David A. Rose  
Executive Director

Attachment



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100  
(907) 465-2047 Telecopy (907) 586-2057

April 29, 1988

The Honorable Rick Halford  
Alaska State Senate  
P. O. Box V  
Juneau, Alaska 99811

Dear Senator Halford:

House Bill 217 relating to the purchase of foreign investments by the Alaska Permanent Fund has been passed out by Senate Judiciary and is now in Senate Finance.

The bill, which passed the full House with a bipartisan 34-5 vote, is acceptable to the trustees in its current form and timely action by your committee and adoption by the Senate is in the best interests of the Permanent Fund and the people of Alaska.

This bill and an earlier version (SB 218) already have had extensive hearings in the Senate; in the International Trade, State Affairs, Judiciary and Finance Committees. Immediate scheduling of HB 217 for action by the Finance Committee would be sincerely appreciated.

Respectfully,

A handwritten signature in cursive script, which appears to read "David A. Rose".

David A. Rose  
Executive Director

DAR/mm

cc: Board of Trustees

RECEIVED  
MAY -4 1988

May 2, 1988

ALASKA  
PERMANENT FUND CORPORATION

The Honorable Jim Duncan  
Senate Finance Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

RECEIVED  
ALASKA DEPARTMENT OF REVENUE

MAY 04 1988

OFFICE OF THE COMMISSIONER

Dear Jim,

I am writing to request that you schedule Committee Substitute for House Bill 217 (Finance), "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund," for a hearing in your committee as soon as possible and urge you to recommend its passage.

In my view, and in the view of the Board of Trustees of the Alaska Permanent Fund Corporation, there are two very good reasons for supporting global investing for the Permanent Fund: (1) it will reduce the Fund's overall risk; and (2) it will increase the Fund's overall return. Considering that the primary responsibility the Legislature has given the Trustees is to maintain the safety of Fund principal while maximizing total return, those seem to me to be pretty persuasive arguments.

I am confident that the Board of Trustees will be as careful and as deliberate in their implementation of this new investment authorization as they were five years ago when you (the Legislature) granted them the authority to invest in domestic stocks and equity real estate.

I think it is important to pass this legislation this session. Please join with me to help the Trustees to keep the Permanent Fund safe - and growing - for the benefit for present and future generations of Alaskans.

Thank you.

Sincerely,

s/s Steve Cowper

Steve Cowper  
Governor

cc: Senate Finance Committee  
SC/RAE/lb

LEGOFF  
HB 217

SENATE FINANCE COMMITTEE  
February 10, 1988  
9:05 a.m.

SFC-88, # 9, Side 2 (336-end)  
SFC-88, #10, Side 1 (000-end)  
SFC-88, #10, Side 2 (000-462)

CALL TO ORDER

Co-chairman Halford convened the meeting at approximately 9:05 a.m.

PRESENT

In addition to Co-chairman Halford, Co-chairman Binkley and Senators Duncan, Fischer, and Uehling were present. Senator Zharoff arrived shortly after the meeting began. Senator Hensley did not attend.

ALSO ATTENDING: Senate President Jan Faiks; Hugh Malone, Commissioner of Revenue, and member of the board of trustees of the Alaska Permanent Fund Corporation; David A. Rose, Executive Director, Alaska Permanent Fund Corporation; Byron Mallott, Chairman, Board of Trustees, Alaska Permanent Fund Corporation; Oral Freeman, Vice-chairman, Board of Trustees, Alaska Permanent Fund Corporation; Grace Schaible, Attorney General, State of Alaska, and member of the board of trustees of the Alaska Permanent Fund Corporation; John Kelsey, Board of Trustees, Alaska Permanent Fund Corporation; William L. Means, Chief Investment Officer, Alaska Permanent Fund Corporation; Alison Farnan, Office Manager, Alaska Permanent Fund Corporation; Jim Kelly, Alaska Permanent Fund Corporation; Jack McNamara and Mike Palone of Baring International Investment Ltd.; Don Pulver, SEI; Kathleen Condon, Banker's Trust; Bob Manners, Executive Secretary, NEA-Alaska; Pushpinder Dhillon, Special Assistant, Dept. of Administration; Mike Clemens, Assistant Director, Division of Administrative Services, Dept. of Public Safety; Cameron Kashani, Revenue Analyst, Legislative Finance Division; Jim Slocum, Fiscal Analyst, Legislative Finance; Marylou Cooper, Capital Information Group; aides to committee members and other members of the legislature; and representatives from the press.

SUMMARY INFORMATION

SB 120 - An Act relating to the entry of information regarding minors on the Alaska Public Safety Information Network.

CSSB 120 (JUD) was REPORTED OUT of committee with a unanimous "do pass" recommendation, accompanied by a new \$8.5 fiscal note from the Dept. of Administration, updated zero fiscal note from the Dept. of Health and

Public Safety, zero note from the Dept. of Health & Social Services, and \$5.3 fiscal note from the Alaska Court System.

(Senator Zharoff arrived at the meeting at this time.)

SENATE BILL NO. 218

An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund.

BYRON MALLOTT, Chairman, Board of Trustees, Alaska Permanent Fund Corporation, came before committee, advising that board members Oral Freeman, Hugh Malone, Grace Schaible, and John Kelsey, as well as Executive Director, David Rose, and Chief Investment Officer, William Means, were present.

He explained that consultants had traveled to Juneau to work with the board on asset allocation classifications for the coming year, and he introduced Jack McNamara and Mike Palone from the investment banking firm of Baring International and Kathy Condon from Banker's Trust Corporation.

As background information, Mr. Mallott explained that the issue of foreign investment had been under consideration for a number of years. The trustees of the Alaska Permanent Fund had, in fact, submitted legislation similar to SB 218 several years ago. At the time SB 218 was introduced, the board was unanimous in its support. Mr. Mallott further advised of strong majority support among current trustees, and explained that in order to meet fiduciary obligations as investors of the assets of the permanent fund, the corporation needs broad investment authority to create maximum diversification in a manner which also reduces risk. This is more important than the secondary opportunity to generate a greater return to the fund.

Speaking to the impact of the permanent fund upon the state, Mr. Mallott said that, over time, the ability of the corporation to invest within Alaska is a function of diversification of the fund elsewhere.

JACK McNAMARA from the Boston office of Baring International, a British investment management firm, next came before committee. Directing attention to a slide presentation (copies of graphs and charts accompanying the presentation are attached to these minutes), he advised that he would speak to:

1. Why pension and other funds invest overseas, and
2. Things which must be considered once the decision to engage in foreign investments has been made.

Mr. McNamara explained that by 1980 approximately \$2.0 billion had been invested in overseas markets by U.S. public and private pension funds. By the end of 1987, investments totaled \$50 to

\$55 billion. Growth in investments by major and small pension plans has been dramatic in the seven-year period.

Mr. McNamara noted that global events are now affecting what was once considered to be a domestic economy (the U.S. economy). Many Fortune 500 companies have been impacted by events which were not only extraneous to individual companies but to the United States as well.

Referring to gross national product figures presented on his initial slide, Mr. McNamara explained that in 1970, the United States accounted for 47% of the world's output of goods. By 1986, that share was down to 39%. While the domestic economy continued to grow, growth was at a slower rate than many economies outside of the United States. As a result, the United States is less of a source of gross national products to the world.

Speaking to the U.S. market as a percentage of world total, Mr. McNamara said that in 1970 the United States accounted for 66% of market capitalization for the world. By the end of 1986, it accounted for 38%.

Mr. McNamara noted that only the Japanese market, which is now larger than that of the U.S., rivals the United States in size. He then asked if it made sense for U.S. investors to limit themselves to less than 40% of the world's investment opportunities. By failing to invest in overseas markets, investors are ignoring 60% of the opportunities to make money. This might make sense if companies outside of the United States were not good. That is not the case, however. While on an international basis the largest chemical company is DuPont, numbers two and three are both German companies. Exxon is the largest company in terms of oil refining, but numbers two and four are foreign (Royal Dutch and British Petroleum). In the field of metals and mining, an Italian steel-making company is the largest while the second is Korean. In the banking industry, the largest five banks are all Japanese--the largest Japanese bank is, in fact, larger than the combination of Citibank, Commerce Bank in Germany, Barkley's Bank in Japan, and J. P. Morgan. Mr. McNamara acknowledged that movement of the yen has influenced the above ranking. He added, however, that Japanese rather than U.S. Banks now have the major influence in the world. Industries such as semiconductors and services are also dominated by foreign firms.

The theory behind investment outside the United States is based on:

1. Expectation of a higher rate of return.
2. Belief that diversification through foreign investment will reduce risks to the investment portfolio.

Mr. McNamara explained that for a five-year period ending in 1982, both Europe and the Pacific basin substantially outperformed the U.S. market when measured in U.S. dollars. The same is true for 1983 through 1987. When the ten years are combined, the EAFE (Europe, Australia, and the Far East) combination dramatically outperformed the U.S. market, producing a 19% return per year while the U.S. market produced 12.6%.

Directing attention to a tabulation of market performance for seventeen countries (1977 through 1986), Mr. McNamara advised that the U.S. has never been the best performing market in the world. Over the ten-year period, the Japanese market has performed best in spite of the fact that only once in that period was it the best.

Mr. McNamara noted that a common objection to investment in international equities is the fact that most people assume there is a "huge currency risk when you invest overseas." He advised that while currency can have a dramatic impact in a single year, over a ten year period it is a "very small part of the return on an equity portfolio." (Mr. McNamara noted as an aside that, during the past year, currency was 100% of the return from foreign markets.) Of the above noted 19% EAFE return, approximately 3% came from currencies. The remainder resulted from market and stock movements, etc.

Speaking to potential reduction of risk for investment portfolios, Mr. McNamara advised of a "low correlation" between domestic and foreign assets. Domestic and foreign markets do not move in the same direction at the same time. Because the assets move "countercyclically," there is less risk to the portfolio. Directing attention to the next slide, Mr. McNamara explained that had a domestic investment been held for a ten-year period ending in 1986, a return of 13.8% per year would have been realized. He then explained that risk is measured in terms of "standard deviation." While the return was 13.8%, the standard deviation was approximately 14% per year. If 10% of the portfolio had been invested in foreign stocks, the rate of return would have been higher and the standard deviation lower. The rate of return increases and the volatility decreases as the ratio moves to 80/20, 70/30, etc. When the ratio reaches 60/40, the portfolio begins to take on more risk. Had the portfolio held foreign equities over the ten-year period, it would have had a higher rate of return and lower level of risk. A review of nine, ten-year periods evidences similar asset characteristics over time.

Senator Halford raised questions concerning the years 1982, 1983, and 1984 where a reduction of standard deviation is indicated but there was no increase in return. Mr. McNamara explained that the foregoing time period reflects years in which the dollar was particularly strong. Return on foreign investments was then relatively lower than for other years. Mr. McNamara further noted great diversity in market movement, advising that the

relatively flat return might reflect years in which the markets "didn't behave particularly well." In further discussion with Co-chairman Halford concerning variables in the market, Mr. McNamara stressed that the greatest variable is movement of the market.

Mr. McNamara acknowledged past perceptions that investing in foreign markets was "un-American," but noted that large pension funds such as General Motors, GTE, and Caterpillar now invest overseas as do the states of California, Massachusetts, Colorado, Illinois, etc. State and municipal funds have come to accept the fact that international investments reduce rather than add to risk.

Senator Zharoff inquired concerning constants rather than variables relating to overseas markets. Mr. McNamara answered that there are no constants. There are, however, four variables which Mr. McNamara advised that he would address at a later time.

Once the decision to invest internationally has been made, the state must decide how it wishes to invest:

1. Does it wish to invest in international equities?
2. Does it invest in fixed income?
3. Does it give its manager a global or international range or concentrate on a particular region?
4. Does it wish investment management to be active or passive?

Historically, a combination of domestic and international equities has reduced risk at the same time that it increased return.

(End SFC-88, #9, Side 2)  
(Begin SFC-88, #10, Side 1)

Addressing the question of whether investment should be in equities or fixed income, Mr. McNamara explained that international equities present the strongest case for reducing risk and increasing returns. For non-dollar, fixed-income investments in assets outside of the United States, the diversification argument is not as strong. Here, currency risk is very important since it represents virtually all of the returns in an international fixed-income portfolio. Mr. McNamara advised that Alaska should probably "have a place for fixed income" in its portfolio, but it "probably should be a global brief." The manager would thus have "the whole world at his hands" when investing rather limiting investment to foreign, fixed income.

Alaska must decide whether it will be a global, international, or regional investor. A global investor has access to all of the markets of the world, including the U.S. This provides the greatest range of opportunities, but it also reduces the impact of diversification. The reason is twofold:

1. Thirty-eight percent of the index against which the manager is competing is in the United States.
2. In giving the manager a global investment brief, he decides how much money will be invested outside the United States. The state thus gives up decisions as to how assets will be invested.

Mr. McNamara noted that if the state is risk-reduction oriented, it might not want to consider global equities.

The most common investment brief given by corporate and public pension funds is international as defined by EAFE. This provides the most opportunities for diversification but ignores the world's largest market. As of December 31, 1987, 61% of the EAFE index was in the Japanese market. This is the common range of opportunities given to international managers when the EAFE index is utilized, and it is about \$2 trillion dollars in size.

Mr. McNamara spoke briefly to "opportunistic investing," advising that in that instance the stewards of the assets allow a manager to invest anywhere in the world with the understanding that performance will be compared to the EAFE index. A manager can then invest in the U.S. market if he wishes to do so, but his performance will be measured against the non-U.S. index.

Regional management allows trustees of assets to designate areas of the world where investments may be made. Investments might be targeted to the Pacific basin or as narrowly defined as a single country. Mr. McNamara cautioned that under this management scheme, diversification may be limited, depending upon selected markets and the manner in which those markets perform. Most important, however, is the fact that trustees of the assets are forced to select the markets. That is a difficult task. Based on current economic fundamentals, it would be assumed that Pacific markets (Hong Kong, Korea, Japan, Australia, etc.) which have grown the fastest would provide the best return. However, a review of the past 24 quarters, demonstrates that investments would have been better placed in European markets. Mr. McNamara advised that regional management makes sense if the state is capable of selecting the best performing markets. He cautioned again that selection is not an easy task since economics and market movements are only loosely related.

Following selection of the range of management, the state must decide whether management will be active or passive. Active management includes management of "all four variables:"