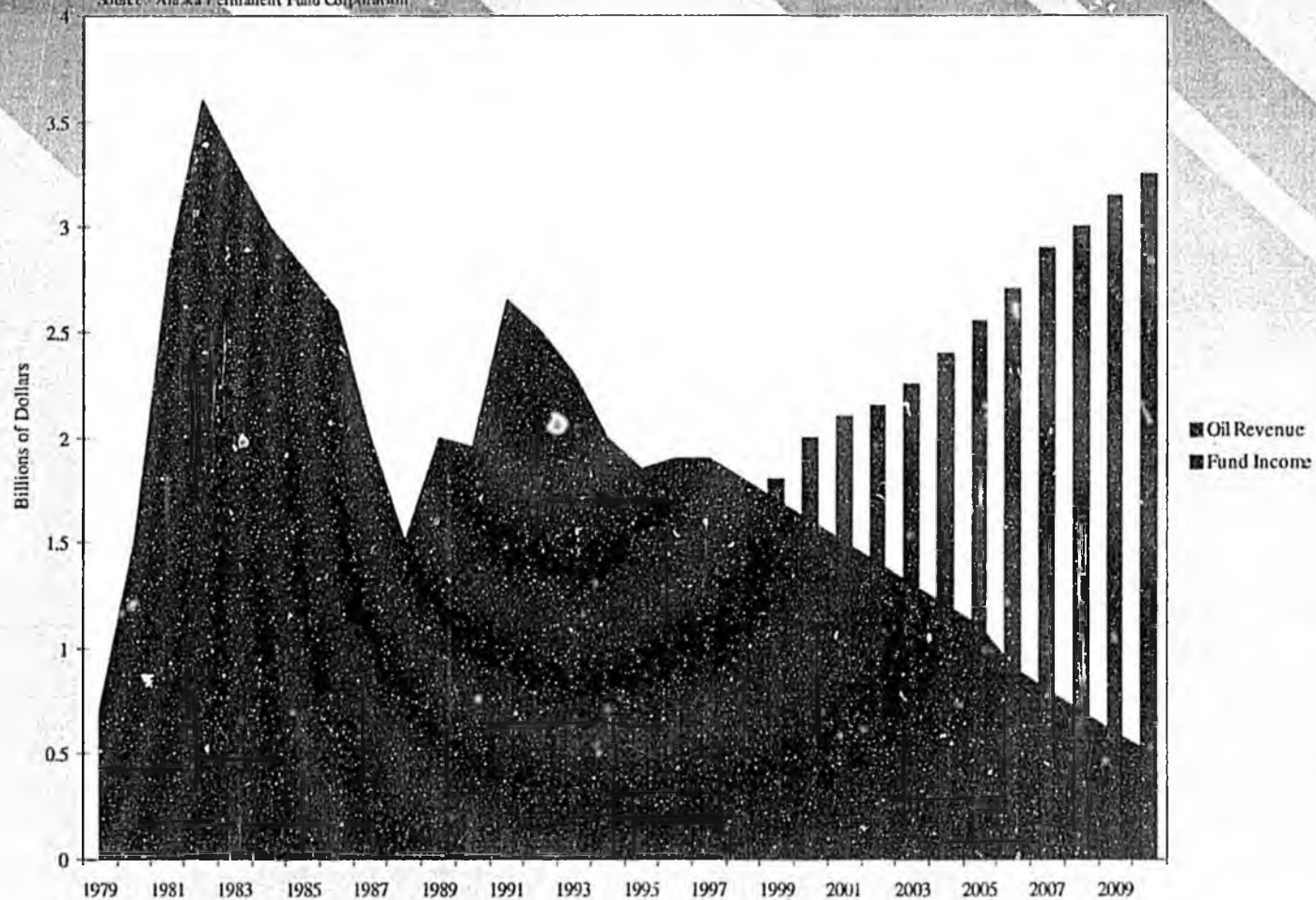


ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

8788 HOUSE STATE AFFAIRS

State of Alaska Permanent Fund Income and State Oil Revenues

Source: Alaska Permanent Fund Corporation



Michael J. Kirk

P.O. Box 20844
Juneau, Alaska 99802

March 15, 1996

Jeannette James, Chair
House State Affairs Committee
Room 102
State Capitol
Juneau, Alaska 99811

Re: HB 345

Dear Representative James:

I am vitally concerned about House Bill 345, which is scheduled for a hearing in your committee on March 21st. I view this bill as a blatant "pension raid", an attempt to use pension fund monies to benefit a few well-off members of the investment community at the expense of retired teachers and other retirees.

Enclosed are two letters I have written which explain my concerns. I would appreciate it if you would make them part of the committee record on this bill and distribute them to the committee members before the hearing next week.

Thank you.

Sincerely,


Michael J. Kirk

FINAL

CC

Michael J. Kirk
P.O. Box 20844
Juneau, Alaska 99802

March 11,
~~February 29,~~ 1996

Editor
The Alaska Journal of Commerce
3710 Woodland Drive, Suite 2100
Anchorage, Alaska 99517

Re: Robin E. Ward's opinion column of February 5, 1996

Dear Editor:

In your February 5th issue you printed an opinion essay which advocated investing the Alaska Permanent Fund and the pension funds of the Public Employees and Teachers Retirement Systems in mortgage investments offered by Alaskan brokers. As a retired teacher, I can only speak to use of the Teachers Retirement System fund: Hands off the hard-earned life savings of Alaskan pensioners!

The PERS, TRS, and smaller public employee pension funds are invested by the Alaska State Pension Investment Board. That Board has an excellent record of stewardship. It has brought in high earnings in safe investments by strictly abiding by the legal requirement that pension funds be invested solely for the benefit of the beneficiaries, the retired workers. This important principle is even enshrined in the Alaska Constitution, which mandates that the benefits of the retirement systems "shall not be diminished or impaired" (Art. XII, Sec. 7).

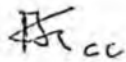
There is good reason to pay attention to this wise provision. All across the United States we have seen unscrupulous attempts to loot private and public employee pension funds by using them for purposes other than to optimize the benefit to the pension beneficiaries. There have been attempts to fund state operations with pension funds and even to steer investments to politically well-connected private interests. So far we have avoided these pension funds raid in Alaska, but for how long?

At least one mortgage investment broker is now lobbying intensively for passage of legislation which would require that the State Pension Investment Board and the Permanent Fund invest in instruments offered by Alaskan brokers. Perhaps, some day, such investments may become sound enough to be in the best interests of the beneficiaries, but for now the State Pension Investment Board has concluded that it would be unwise. That judgment must be respected and not interfered with by politicians and by investment advisors who stand to make money from a shift in fund investments.

Pension funds are not public money. Nor do the funds belong to private

investment brokers to use for their own benefit. The pension funds belong solely to me and my fellow beneficiaries who worked hard for our pensions and who depend on them. Hands off my life savings!

Sincerely,

A handwritten signature in black ink, appearing to read "MJ Kirk". The signature is stylized and somewhat cursive.

Michael J. Kirk

Michael J. Kirk
P.O. Box 20844
Juneau, Alaska 99802

RECEIVED BY

MAR 15 1996

Rep. Jeannine J. J...

March 11, 1996

Editor
The Alaska Journal of Commerce
3710 Woodland Drive, Suite 2100
Anchorage, Alaska 99517

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Sincerely,

Michael J. Kirk

What Is Mine Is Yours?

A bill has been introduced in the Legislature which is the first step in a blatant raid on the public employee (PERS) and teacher (TRS) pension funds. This bill (HB No. 345) is entitled "An Act relating to the procurement of investment and brokerage services by the Alaska State Pension Investment Board". It requires the Board to "... increase the board's utilization of brokerage and investment services provided by persons located in the state to at least seven percent of the brokerage and investment services that the board procures by contract ...". This is a quota that handicaps the ability of the Pension Board to obtain the best investment advice at the least cost. Our pensioners deserve the best advice and security they can get. They have worked long and hard to make Alaska a better place for all of us to live.

When the State procures goods and services for itself, it does not use a quota system. Instead, it uses an in-state bidder's preference allowing in-state providers of goods and services to be 5% more expensive than out-of-state providers, and yet still be competitive. This is a balancing act that helps to promote in-state businesses, while at the same time fostering competition to keep the price the state pays down. A quota system as proposed in HB No. 345 flies in the face of that competition. When the procurement of goods and services are restricted to a small group, that group does not have to be anywhere near as competitive on either price or quality of services as when it is competing against a bigger group.

As mentioned above, this is just the first step in a raid on PERS and TRS. The next steps are laid out quite clearly by Robin E. Ward (Legislative Chair of the Alaska State Home Builders Association) in her guest editorial "Time to Invest in Alaska Instruments" (Alaska Journal of Commerce, Feb. 5, 1996). She calls for the investment of PERS and TRS funds in projects in Alaska that are not considered good investments by the Permanent Fund. She implies this should be done out of a sense of duty to the State. She states that this investment can be facilitated by using in-state financial advisors. For some reason she believes an investment advisor's time of residence is more important than his or her investment track record. One can only wonder at her motivation.

As Ms. Ward points out, there has been an ongoing debate in this State over the wisdom of using public funds to invest in private sector projects. Private funds are available for projects that are believed by investors (the "market") to have sufficient yield to compensate for the perceived risk. Some people argue that public funds should be used for riskier private sector projects such as commercial hanger expansion at the Anchorage airport because of the benefit to the State to complete a given project. Other projects using public funds, such as the Delta barley project, have not been as successful. As a matter of policy to aid the private sector with public funds, the State has created several entities including the Alaska Housing Finance Corporation, the Alaska Industrial Development Export Authority, and the Alaska Science and Technology Foundation. Also, as Ms. Ward points out, the Permanent Fund has been directed to

What Is Mine Is Yours?

invest in State projects where the risk and yield are at least the same as available investments elsewhere. A common thread in all of these investment activities using public funds is the sharing of risk by all Alaskans.

Ms. Ward evidently believes it is appropriate to expect our pensioners to bear all of the risk on investments other investors will not make. This is asking a small segment of the citizens of the State to bear the risk for the supposed good of all the State. Is it fair to ^{require} ~~demand~~ that our pensioners ^{a small segment of the population} ~~population~~ risk their ^{life savings} ~~financial security~~ ^{the} ~~for~~ ^{of others} ~~benefit~~? ~~Further, it should be noted that~~ ~~The~~ dollars in the pension funds are not public funds. Courts have consistently declared that State pension funds, like all other pension funds, are not public funds, but belong only to the pensioners they cover and no one else.

Both PERS and TRS have the ability to invest in sound projects in Alaska along with the rest of the "market". Prudent investors gravitate naturally to sound investments. To expect our pensioners to gamble with their financial futures in projects in which others would not invest is both unreasonable and unwise.

Help stop this raid on our pensioner's futures. Contact your legislators and tell them you are opposed to HB No. 345.

Sincerely,

Michael J. Kirk

8030 N. Douglas Hwy.
Juneau, Ak. 99801
March 25, 1996

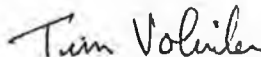
re: House Bill 345

I am opposed to House Bill 345, in particular Section 2 a. (10). It is an attack upon the integrity of the Pension Investment Board's purpose, which is to protect the principal of retirement funds and earn money to pay for pensions. I support the independence of the Pension Investment Board. No strings should be attached to the ability of the Board to hire managers and advisers which it believes to be the best people to provide investment returns which will meet the future financial obligations of paying for teachers and state workers retirement.

The Pension Investment Board was set up to give employees a voice and some control over the investment decisions regarding our retirement funds. The junk bond investments of Executive Life went sour, which put SBS funds at risk of huge losses. That is the reason that the Pension Investment Board was set up in the first place. The Legislature should not make the Pension Investment Board hire local managers, or invest a certain percentage in Alaska, for that matter. The Board concept is working well in actuality, and it should be allowed to continue in its present form. The Board is free to hire Alaskan managers if it chooses, but only if it chooses freely without political mandates or pressure.

Teacher and state employee pension funds should be managed for the sole benefit of employee retirement funds. They should not be seen as another pot of money for the Legislature to earmark for job creation, economic development, or infrastructure projects in Alaska. Those projects should be funded with general fund money or the AIDEA. Pension funds are compensation for many years of dedicated service to Alaskans by teachers and state employees. Prudent independent investment decisions by the Pension Investment Board will result in money being delivered to retirees who can then spend it themselves to help Alaska's economy.

Sincerely,



Tim Volwiler, vested member
Teacher's Retirement System

Alaska Valuation Service, Inc.

1320 EAST 68TH AVENUE • SUITE A • ANCHORAGE, ALASKA 99518
(907) 522 1031 FAX (907) 522 2554

February 29, 1996

Mr. Jim Crawford
City Commerce Corporation
3201 C Street
Anchorage, Alaska

Dear Jim,

This letter is in response to our conversation relative to rates found in the real estate market in Alaska which are used in the capitalization process. You inquired as to reasons why the Alaska capitalization rates appear to be consistently higher than those demonstrated in similar markets in the other states as evidenced by your conversations with stateside lenders and national statistics.

We too often receive comments and queries from outside lenders who read the appraisals and ask for clarification on the rates because in most states a lower rate means a higher value and Alaska real estate looks like a real bargain. The fact is that over the 30 years I have been a fee appraiser, all of the various markets in Alaska have consistently shown yields and rates of return at higher levels than are required by investors in other states.

Part of this may be due to the fact that Alaska for many decades was considered the "frontier" and in such environments the risk is perceived to be greater, therefore the reward needs to be higher. The reward is of course the rate of return, and that is demonstrated both by the cash flow and the rate of capitalization. Even though the risk is now no greater than in comparable areas of the other states, the higher rates of return have remained. This higher yield requirement has been maintained by a variety of ways, most importantly is the relative lack of reasonable term and cost financing on commercial properties. Because of the loan terms and interest rates, fewer purchasers are able to participate in the commercial market, and those that are able to purchase have been able to require investment yields well above like property returns in other states.

Even in the best of times here capitalization rates rarely get as low as 10%, and most often are in the 11 to 12% range. This does make for excellent personal investments if you have the ability to participate in the market. The lack of financing however has had an effect on the ability of property to be absorbed when the

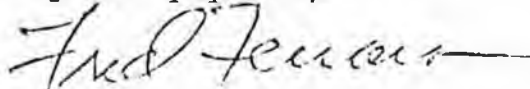
market slows. Buyers who see prices softening want to purchase to secure long term investment properties at better prices but are not able to get financing. As a result, market declines have the potential to become more pronounced than they would be if the real estate market had more liquidity by virtue of having more users and investors able to participate.

An example of what lack of liquidity can do in a market was demonstrated in our condominium market in the late 1980's when most of the loans were non assumable, and buyers were not able to find reasonable financing. Buyers would have assumed many of the loans were they able, but could not, and the properties declined in value until they were purchased at fire sale prices for cash.

In conclusion, high capitalization rates and their subsequent higher investment yields to commercial property owners has been present in Alaska markets for many years. We believe the somewhat limited availability of financing for such properties is part of the reason for that. Another reason however is that investors have gotten used to higher yields in real estate, and I believe that slightly higher yields will continue in this state even if better financing were available. The disparity in rates between Alaska and the other states would not be as stark if property were more easily financed.

These comments are of course my view of the market, but I believe you will find general consensus from other appraisers and Realtors in this area.

Very truly yours,



Alfred J. Ferrara, MAI, SRA

NCREIF CLASSIC PROPERTY INDEX

ANNUAL PERFORMANCE
YEARS ENDING JUNE 30, 1995

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
TOTAL													
Income	8.04	7.42	7.44	7.49	7.08	7.06	6.91	6.61	6.84	7.29	8.13	8.93	9.34
Capital	1.19	7.79	3.05	1.49	-2.10	-0.02	-0.05	-0.80	-7.67	-13.38	-11.00	-4.55	-1.30
Total	9.31	15.63	10.65	9.06	4.86	7.03	6.86	5.76	-1.22	-6.83	-3.55	4.08	7.95
S&P 500													
Total	61.03	-4.70	30.75	35.43	25.09	-7.10	20.40	16.32	7.39	13.47	13.59	1.33	26.11
LEHMAN G/C													
Total	29.12	1.77	28.70	20.66	4.68	7.48	12.34	7.10	10.23	14.17	13.15	-1.45	12.77
T-BILLS													
Total	9.46	9.45	9.24	6.90	5.74	6.06	8.23	8.21	6.93	4.65	3.13	3.33	5.35
CPI													
Total	2.57	4.22	3.76	1.76	3.65	3.96	5.16	4.67	4.70	3.09	2.99	2.48	3.05
WAREHOUSE													
Income	7.97	7.59	7.98	7.91	7.90	7.87	7.51	7.17	7.26	7.73	8.46	9.52	10.20
Capital	1.00	4.08	4.07	3.71	0.67	3.86	1.92	2.00	-6.66	-9.84	-11.19	-6.23	2.36
Total	9.03	11.90	12.30	11.84	8.61	11.95	9.54	9.27	0.24	-2.68	-3.44	2.84	12.74
RETAIL													
Income	9.08	8.53	8.05	7.52	6.94	7.04	6.86	6.32	6.50	6.57	7.31	7.67	8.27
Capital	0.43	8.05	5.36	3.54	4.00	5.79	6.44	2.93	-3.51	-10.16	-6.72	-2.12	-2.05
Total	9.54	17.08	13.73	11.26	11.22	13.13	13.63	9.38	2.82	-4.09	0.23	5.44	6.09
OFFICE													
Income	7.73	6.78	7.05	7.26	6.70	6.53	6.49	6.03	6.48	7.10	7.98	9.14	9.88
Capital	1.38	8.11	2.06	0.35	-5.43	-3.73	-2.35	-3.62	-11.81	-17.68	-16.91	-9.65	-3.72
Total	9.19	15.29	9.21	7.63	1.00	2.61	4.03	2.25	-5.90	-11.54	-9.95	-1.17	5.89
R&D/OFFICE													
Income	8.26	8.19	8.18	8.03	7.59	7.49	7.39	7.60	7.68	8.15	8.99	9.69	9.76
Capital	2.52	13.59	3.20	1.83	-0.96	-0.24	-2.18	-1.52	-7.95	-16.52	-13.02	-5.65	-1.98
Total	10.94	22.60	11.57	9.96	6.58	7.23	5.08	5.99	-0.72	-9.39	-4.92	3.64	7.64
APARTMENTS													
Income	NA	NA	NA	7.71	7.61	7.11	6.79	7.14	7.35	7.75	8.63	9.20	9.08
Capital	NA	NA	NA	1.76	-3.05	1.03	-1.31	0.31	-2.89	-9.88	-3.10	4.00	2.88
Total	NA	NA	NA	9.57	4.40	8.20	5.42	7.46	4.31	-2.68	5.33	13.47	12.16

Source: Reprinted with permission from National Council Real Estate Investment Fiduciaries (NCREIF)

The following is a summary of characteristics for the NCREIF property types:

Apartments
"Guarded optimism"

Office
"Navigating on the road to recovery"

Retail
"Seeking directions"

R&D
"Worth the risk?"

Warehouse
"Leads in returns!"

The second quarter 1995 marked the first quarter of formal publication of the newly expanded NCREIF Property Index.

Index	Returns
NPI	2.00%
NCPI	2.35%
Lehman G/C	6.49%
Lehman G/O 10 Yr.	2.52%
Salomon 3 mo. T-bills	1.45%
NAREIT Share Price-Equity	5.88%
CPI	0.73%

QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

Respondent	Property Types in Preference Order	Internal Rate of Return (%)	Going-In Capitalization Rate (%)	Residual Capitalization Rate (%)	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income: Years 1 to 3/ Years 4 to 10 (%)	Expense: Years 1 to 3/ Years 4 to 10 (%)		
National Real Estate Investor and Advisor	1 Industrial - Warehouse	11.5	9.5 - 10.0	10.0	4.0	4.0		4.0
	2 Office - Suburban	11.5	9.0 - 9.5	9.5	4.0	4.0		4.0
	3 Apartment	11.0	9.0	9.5	4.0	4.0		4.0
	4 Retail - Power Center	11.0	9.0 - 10.0	10.0	4.0	4.0		4.0
	5 Office - CBD	11.5	9.0 - 9.5	9.5	4.0	4.0		4.0
	6 Retail - Regional Mall	11.5	8.0 - 9.0	9.5	4.0	4.0		4.0
	7 Hotel	12.0	10.0	10.5	4.0	4.0		4.0

Comments: According to this investor, there has been a strong return of leveraged buyers due to favorable economic conditions.

National Real Estate Lender and Advisor	1 Apartment	11.5	9.0	9.5	3.5	3.5	3.0	3.5
	2 Retail - Regional Mall	11.5	8.5	9.0 - 9.3	4.0	3.5	10.0	3.5
	3 Retail - Power Center	11.5	9.0	9.5 - 9.8	4.0	3.5	4.0	3.5
	4 Retail - Neighborhood	12.5	10.5	11.0 - 11.3	3.0	3.5	4.0	3.5
	5 Office - Suburban	12.0	10.0	10.5	3.5	3.5	10.0	3.5
	6 Office - CBD	12.0	10.0	10.5	3.5	3.5	10.0	3.5
	7 Hotel	13.0	12.0	13.0	4.5	3.5	5.0	3.5

Comments: According to this advisor, the real estate market is gaining confidence, even though there has been a slowdown in investment activity, due to competition.

National Lender and Investor	1 Apartment	10.5	8.0	8.5	5.0	3.5	5.0	3.5
	2 Industrial - Warehouse	11.0	8.5	9.0	3.0	3.5	5.0	3.5
	3 Retail - Regional Mall	11.0	8.0	8.5	4.5	3.5	5.0	3.5
	4 Retail - Power Center	11.5	8.5	9.0	4.5	3.5	5.0	3.5
	5 Office - Suburban	11.5	9.0	9.5	3.0	3.5	5.0	3.5
	6 Retail - Neighborhood	12.0	9.0	9.5	4.0	3.5	5.0	3.5
	7 Industrial - R&D	12.0	9.5	10.0	3.0	3.5	5.0	3.5
	8 Office - CBD	12.0	9.5	10.0	2.0	3.5	5.0	3.5

Comments: Capital availability will continue to improve and competition for prime properties will grow. Competition on deal making seems to be very high.

National Investment Advisor	1 Industrial - Warehouse	11.0	9.0	9.5	3.0		10.0	4.0
	2 Office - Suburban	12.0	10.0	10.0	5.0	5.0	5.0	4.0
	3 Industrial - R&D	12.0	10.0	10.0	5.0		5.0	4.0
	4 Apartment	11.0	8.5	9.5	4.0	4.0	8.0	4.0

Comments: This investment advisor feels that stretching is taking place in the apartment market, as well as bulk distribution space.

National Investment Advisor	1 Industrial - Warehouse	11.5	8.8 - 9.5	8.8 - 9.5	3.5	3.5	8.5	3.5
	2 Office - Suburban	12.5	9.5 - 10.0	9.5 - 10.0	3.0	3.5	8.5	3.5
	3 Retail - Neighborhood	11.5	9.3 - 9.8	9.3 - 9.8	3.5	3.5	8.5	3.5
	4 Apartment	11.0	8.5 - 9.0	8.5 - 9.0	4.0	3.5	8.5	3.5
	5 Retail - Power Center	11.3	9.0 - 9.5	9.0 - 9.5	3.5	3.5	8.5	3.5

Comments: This investment advisor feels that competition is intensifying, which will result in increased prices. As markets become more aggressive, it's better to wait for the right deal to come along.

National Investment Advisor	1 Industrial - Warehouse	11.0	8.5 - 9.5	9.0 - 10.5	3.0	3.0	8.5	3.0
	2 Apartment	11.0	8.5	9.0	4.0	3.0	8.5	3.0

Comments: According to this advisor, the market is quite similar to the second quarter. Is it me, or are buyers stretching to purchase properties again?

QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

(continued)

Respondent	Property Types in Preference Order	Internal Rate of Return (%)	Going-In Capitalization Rate (%)	Residual Capitalization Rate (%)	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income:	Expense:		
					Years 1 to 3 Years 4 to 10 (%)	Years 1 to 3 Years 4 to 10 (%)		
Southern Investment Advisor	1 Office - Suburban	11.0	8.0	9.0	5.0	4.0	6.0	2.8
	2 Apartment	10.5	8.3	8.8	4.5	4.0	6.0	2.8
	4 Retail - Neighborhood	10.3	8.5	9.0	4.0	4.0	8.5	2.8
	5 Retail - Power Center	9.8	8.3	9.0	3.5	4.0	6.0	2.8
	6 Industrial - R&D	10.5	9.0	10.0	3.5	4.0	8.0	2.4
	7 Office - CBD	12.0	9.0	10.0	4.0	4.0	8.5	2.8
	8 Retail - Regional Mall	10.3	8.0	9.0	3.0	4.0	10.0	2.8
	9 Industrial - Warehouse	9.8	8.3	9.0	4.0	4.0	6.0	2.8
	Comments:	This advisor believes that the market for acquisitions has improved, but they are waiting for the right property to cross their path.						
National Investment Advisor	1 Office - Suburban	12.0 - 15.0	8.0 - 9.0	9.0 - 9.5	5.0	4.0	10.0	4.0
	2 Industrial - Warehouse	11.0 - 12.0	9.0 - 9.0	9.5	4.5	4.0	10.0	4.0
	3 Retail - Neighborhood	11.0 - 12.0	9.3 - 9.3	9.5	4.5	4.0	10.0	4.0
	4 Retail - Power Center	11.0 - 12.0	9.5 - 9.5	9.5	4.0	4.0	10.0	4.0
	5 Retail - Regional Mall	10.5 - 11.0	7.5 - 7.5	8.0	4.0	4.0	10.0	4.0
	6 Office - CBD	12.0 - 15.0	9.0 - 10.0	10.0	2.0	4.0	10.0	4.0
Comments:	The suburban office market is "hot" and prices continue to increase due to the large amount of buyers entering the market. Buyers are racing to purchase properties for fear of missing the next big real estate cycle.							
National Insurer and Investor	1 Industrial - Warehouse	11.0	8.5	10.0	3.5	3.5	8.5	3.25
	2 Retail - Power Center	11.5	9.0	9.5	2.5	3.5	7.5	3.25
	3 Apartment	11.0	9.5	9.5	3.8	3.5	7.5	3.25
	4 Office - Suburban	11.5	8.5	10.0	3.5	3.5	8.5	3.25
	5 Retail - Neighborhood	12.0	10.0	11.0	3.0	3.5	7.5	3.25
	6 Office - CBD	11.5	9.5	10.0	3.0	3.5	11.0	3.25
	7 Retail - Regional Mall	11.0	8.0	9.0	2.5	3.5	13.5	3.25
	8 Hotel	12.0 - 15.0	11.0		3.8	3.5		3.25
	9 Industrial - R&D	12.0	11.0	10.0	2.0	3.5	7.5	3.25
Comments:	Buyers are rushing to purchase properties so as to ride the next real estate cycle. At present, quality is driving down cap rates, but there is a wider gap in quality than is usually seen.							
East Coast Investor and Advisor	1 Industrial - Warehouse	11.0	9.0	10.0	4.0	4.0	10.0	4.0
	2 Apartment	11.5	9.0	10.0	4.0	4.0	10.0	4.0
	3 Retail - Regional Mall	11.0	8.0	9.0	4.0	4.0	10.0	4.0
	4 Retail - Power Center	11.5	9.0	10.0	4.0	4.0	10.0	4.0
	5 Office - Suburban	11.5	9.0	10.0	4.0	4.0	10.0	4.0
	6 Industrial - R&D	11.5	9.5	10.0	4.0	4.0	10.0	4.0
	7 Office - CBD	12.0	9.0	9.5	4.0	4.0	10.0	4.0
	8 Retail - Neighborhood	12.0	9.0	10.0	4.0	4.0	10.0	4.0
	9 Hotel	12.5	10.0	12.0	4.0	4.0	10.0	4.0
Comments:	This investor believes that the change in market forces is leading buyers to stretch to purchase properties.							
National Investment Advisor	1 Office - Suburban	11.0 - 13.0	10.0	10.5	4.0	4.0	10.0	3.0
	2 Industrial - Warehouse	11.0	9.0 - 9.5	10.0	4.0	4.0	10.0	3.0
	3 Retail - Neighborhood	11.0 - 13.0	10.0 - 11.0	10.0	4.0	4.0	10.0	3.0
	4 Apartment	11.0	8.5 - 9.0	9.0	4.0	4.0	10.0	3.0
Comments:	According to this national investment advisor, prices continue to be bid up without a corresponding increase in rent. Presently, capital is way ahead of the rent curve.							

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QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

(continued)

Respondent	Property Types in Preference Order	Internal Rate of Return (%)	Going-In Capitalization Rate (%)	Residual Capitalization Rate (%)	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income: Years 1 to 3/ Years 4 to 10 (%)	Expense: Years 1 to 3/ Years 4 to 10 (%)		
National Investment Advisor	1 Apartment	11.0 - 11.5	8.8	9.1	3.5	3.5	10.0	3.0
	Comments:	This national investor has noted that sellers are asking for more non-monetary concessions from purchasers. All in all, more deals are closing because purchaser's and seller's expectations are being met.						
National Real Estate Investor and Advisor	1 Industrial - Warehouse	11.3	9.3	9.5		4.0	10.0	4.0
	1 Apartment	11.5	8.8	9.0		4.0	10.0	4.0
	2 Retail - Regional Mall	10.5	7.5	7.8		4.0	10.0	4.0
	3 Retail - Neighborhood	11.3	9.0	9.3		4.0	10.0	4.0
	4 Retail - Power Center	10.8	10.0	10.3		4.0	10.0	4.0
	5 Office - Suburban	11.0	9.0	9.3		4.0	10.0	4.0
	6 Office - CBD	11.0	8.8	9.0		4.0	10.0	4.0
	7 Industrial - R&D	11.3	9.3	9.5		4.0	10.0	4.0
	Comments:	This advisor envisions a continued availability of funds, although buyers are still cautious since the last real estate downswing.						
Investment Advisor	1 Retail - Power Center	10.5	8.8	9.3	4.0	4.0	10.0	4.0
	2 Office - Suburban	10.8	8.5	9.0	4.0	4.0	10.0	4.0
	2 Apartment	10.8	8.3	9.0	4.0	4.0	10.0	4.0
	3 Retail - Regional Mall	11.0	7.3	7.8	4.0	4.0	10.0	4.0
	3 Industrial - Warehouse	11.0	8.5	9.0	4.0	4.0	10.0	4.0
	4 Retail - Neighborhood	11.3	9.3	9.8	4.0	4.0	10.0	4.0
	5 Office - CBD	11.8	9.0	9.5	3.5	4.0	10.0	4.0
	6 Industrial - R&D	12.0	9.3	9.8	4.0	4.0	10.0	4.0
	7 Hotel	12.5	10.0	11.0	4.0	4.0	10.0	4.0
	Comment:	Continued strong bidding on suburban office buildings and power centers is leading to a greater supply of properties for sale in response to higher prices.						
National Developer and Investment Advisor	1 Apartment	11.5 - 12.0	8.4 - 8.6	8.8	4.0	4.0	7.5	4.0
	Comments:	According to this advisor, there is not a noticeable change in the overall market, except that transactions seem to be slowing down.						
National Investment Advisor	1 Apartment	12.0	9.0	9.5				
	2 Retail - Neighborhood	11.3	9.5	10.0				
	3 Industrial - Warehouse	11.0	8.5	9.0				
	4 Retail - Regional Mall	10.8	7.8	8.3				
	5 Retail - Power Center	10.8	9.8	10.3				
	6 Office - Suburban	11.0	9.0	9.5				
	7 Industrial - R&D	12.0	10.0	10.5				
	8 Office - CBD	13.0	9.5	10.0				
	9 Hotel	13.0	10.9	11.5				
	Comments:	This investment advisor feels that there is too much capital chasing in various markets and is willing to wait for the right property.						

QUARTERLY SURVEY OF INVESTMENT CRITERIA: THIRD QUARTER 1995

(continued)

Respondent	Property Types in Preference Order	Internal Rate of Return	Going-In Capitalization Rate	Residual Capitalization Rate	Growth Rates		Anticipated Holding Period (years)	Long-Term Inflation Expectation (%)
					Income:	Expense:		
					Years 1 to 3/ Years 4 to 10	Years 1 to 3/ Years 4 to 10		
National Real Estate Investor	1 Apartment	12.5	9.5	9.7	3.5	3.5	10.0	3.5
Comments:	This investor is waiting to see a shift from apartments into other property types.							
West Coast Investment Advisor	1 Apartment	11.0	8.8	9.3	3.5	3.5	7.5	3.5
	2 Industrial - Warehouse	11.0	8.5	9.0	3.5	3.5	7.5	3.5
	3 Office - Suburban	11.5	9.0	10.0	3.5	3.5	7.5	3.5
	4 Industrial - R&D	12.0	9.5	10.0	3.5	3.5	7.5	3.5
	5 Retail - Neighborhood	11.5	9.3	9.8	3.5	3.5	7.5	3.5
	6 Retail - Power Center	11.5	9.8	10.3	3.5	3.5	7.5	3.5
	7 Retail - Regional Mall	11.0	8.5	9.0	3.5	3.5	7.5	3.5
Comments:	This west coast investment advisor has noticed a slight decrease in investor activity.							
West Coast Real Estate Investor	1 Industrial - Warehouse	12.0	7.0 - 10.5	9.0	4.0	2.5	3.0	3.0
	2 Office - Suburban	13.0	8.0 - 11.0	9.5	2.5	2.0	10.0	3.0
	3 Retail - Regional Mall	11.5	7.0 - 9.0	8.5	4.0	3.5	10.0	3.0
	4 Retail - Power Center	12.5	7.0 - 10.0	9.5	3.0	3.0	10.0	3.0
	5 Retail - Neighborhood	12.5	8.0 - 10.0	9.5	3.5	2.5	10.0	3.0
	6 Office - CBD	15.0	8.0 - 12.0	9.5	1.5	2.0	10.0	3.0
	7 Industrial - R&D	15.0	11.0	10.0	3.5	2.5	10.0	3.0
Comments:	According to this investment advisor, there is a resurgence of insurance companies as buyers, while foreign investors are sellers. REIT activity has been greatly curtailed, with some exceptions in the retail sector.							
Pension Fund Advisor	1 Industrial - Warehouse	11.2 - 11.6	9.4 - 9.8	9.8	3.3	3.0	6.0	2.8
	2 Apartment	11.0 - 11.5	8.8 - 9.3	9.0 - 9.3	3.8	2.8	5.0	2.8
	3 Office - Suburban	11.5 - 12.0	9.5 - 9.8	9.8	3.0	3.0	6.0	2.8
	4 Retail - Neighborhood	11.5 - 12.0	9.4 - 9.8	9.8	3.3	2.8	6.0	2.8
	5 Industrial - R&D	11.5 - 12.0	9.5 - 9.8	9.8	3.0	3.0	6.0	2.8
	6 Retail - Power Center	11.5 - 12.0	9.5 - 9.8	9.8	3.3	2.8	6.0	2.8
Comments:	According to this pension fund advisor, there is a greater buyer interest in suburban office markets and industrial parks. Due to the increase in buyers, yields are being pushed down.							
National Investment Advisor	1 Apartment	11.5	8.8	9.3	4.0	4.0	8.0	4.0
	2 Industrial - Warehouse	11.5	8.8	9.3	4.0	4.0	10.0	4.0
	3 Retail - Neighborhood	11.5	8.8	9.3	4.0	4.0	10.0	4.0
	4 Retail - Power Center	11.5	10.5	11.0	4.0	4.0	5.0	4.0
	5 Industrial - R&D	13.0	11.5	12.0	4.0	4.0	5.0	4.0
Comments:	This national investment advisor feels that institutional funds have pushed up prices, therefore, buyers are stretching purchases to stay in the game.							

DEFINITIONS:

YIELD (IRR)

Internal rate of return (IRR) is the rate of interest that discounts the pre-income tax cash flows received by the equity investors(s) back to a present value that is exactly equal to the amount of the original equity investment. It is in effect a time-weighted average return on equity and as used here, is synonymous with the term "yield."

GOING-IN CAP RATE

First-year NOI divided by present value (or purchase price), unless otherwise noted.

RESIDUAL CAP RATE

Usually a capitalization rate used to estimate resale or reversion value at the end of the holding period.

GROWTH RATE

Annual compounded rate of increase in revenue and expenses over current-year levels. Further expenses are typically forecast on a line-by-line basis.

REAL ESTATE INVESTMENT CRITERIA BY PROPERTY TYPE

(HISTORICAL SERIES)

	1990	1990	1990	1990	1991	1991	1991	1991	1992	1992	1992	1993	1993	1993	1993	1994	1994	1994	1994	1995	1995
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>
All types																					
Pre-tax yield (IRR)(%)	11.3	11.7	11.6	12.2	11.9	12.0	12.2	12.4	12.4	12.2	12.2	12.0	12.3	12.1	11.7	11.9	11.8	11.7	11.9	11.6	11.5
Going-in cap rate (%)	8.0	7.9	8.3	8.6	8.7	8.7	8.8	9.0	9.0	9.4	9.5	9.6	9.6	9.5	9.5	9.6	9.4	9.4	9.4	9.5	9.2
Terminal cap rate (%)	8.6	8.7	8.9	8.7	9.0	9.1	9.0	9.3	9.2	9.9	9.9	9.7	10.0	9.8	9.5	10.0	9.8	9.6	9.8	9.9	9.6
Office - CBD																					
Pre-tax yield (IRR)(%)	11.7	11.7	11.6	12.1	12.1	12.3	12.6	12.9	12.8	12.5	12.4	13.0	12.8	12.8	12.5	12.8	12.4	12.1	12.5	12.1	11.9
Going-in cap rate (%)	8.2	8.0	8.3	8.4	9.2	8.4	8.7	9.2	8.8	9.6	9.6	9.7	10.3	10.4	9.9	10.2	9.7	9.8	9.8	9.7	9.2
Office - suburban																					
Pre-tax yield (IRR)(%)	14.0	11.5	12.0	12.4	12.5	NA	12.5	13.0	12.6	12.9	13.1	13.0	12.8	12.7	12.0	12.4	12.1	11.9	12.2	11.9	11.8
Going-in cap rate (%)	8.5	8.0	9.6	9.6	10.0	11.0	10.3	10.1	9.9	10.2	10.3	10.3	10.5	10.6	10.2	10.0	9.9	9.9	9.8	9.8	9.2
Industrial - Warehouse																					
Pre-tax yield (IRR)(%)	11.2	11.5	11.5	11.9	11.9	12.1	12.1	12.1	12.0	11.9	11.8	11.3	11.8	11.7	11.1	11.6	11.4	11.3	11.2	11.1	11.2
Going-in cap rate (%)	8.7	8.1	8.2	9.0	9.2	9.2	9.4	9.6	9.5	9.5	9.4	9.7	9.5	9.4	9.5	9.6	9.3	9.4	9.2	9.4	9.2
Industrial - R&D																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	13.0	12.8	13.4	12.9	12.6	11.3	12.8	12.2	12.3	12.6	12.3	12.1
Going-in cap rate (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	10.3	10.0	10.5	10.1	10.4	9.9	10.3	10.4	10.4	10.2	10.1	9.6
Retail - Regional Mall																					
Pre-tax yield (IRR)(%)	10.9	11.3	11.4	11.7	11.8	11.4	11.8	11.7	11.8	11.3	11.5	10.9	11.4	11.2	11.0	10.9	11.1	11.0	11.1	10.9	11.1
Going-in cap rate (%)	6.9	7.1	7.3	7.4	7.6	7.2	7.2	7.4	7.5	7.7	7.6	7.9	7.7	7.8	7.7	7.9	7.7	7.7	8.0	8.2	7.9
Retail - Power Center																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	12.5	12.2	12.3	11.8	11.9	12.1	11.2	11.9	11.8	10.5	11.3	11.1	11.4	11.4	11.4	11.1
Going-in cap rate (%)	NA	NA	NA	NA	NA	9.8	9.6	10.5	10.0	9.6	9.5	9.8	9.4	9.3	9.6	9.7	9.1	9.3	9.2	9.4	9.4
Retail - Neighborhood/Comm.																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	12.3	12.6	12.9	12.8	12.2	12.0	11.7	12.1	12.3	12.1	11.5	11.5	11.8	11.6	11.3	11.3
Going-in cap rate (%)	NA	NA	NA	NA	NA	8.4	8.7	9.2	8.8	9.5	9.5	10.0	9.8	9.6	9.7	9.8	9.8	9.8	9.6	9.7	9.5
Apartments																					
Pre-tax yield (IRR)(%)	11.7	12.4	11.4	12.4	11.9	12.2	12.5	12.5	12.4	11.9	11.8	11.9	11.6	11.4	11.4	11.3	11.3	11.6	11.2	11.1	11.1
Going-in cap rate (%)	8.2	7.9	8.2	8.5	8.7	8.5	8.8	8.8	8.7	8.9	9.1	9.1	8.9	8.9	8.8	8.8	8.8	8.8	8.7	9.0	8.9
Hotels																					
Pre-tax yield (IRR)(%)	NA	NA	NA	NA	NA	NA	NA	16.0	16.0	14.6	14.3	14.5	14.5	14.0	14.2	13.5	13.7	13.3	13.7	12.9	12.5
Going-in cap rate (%)	NA	NA	NA	NA	NA	NA	NA	12.0	12.0	12.1	11.4	11.7	11.6	11.8	11.1	11.4	11.1	10.8	11.5	11.2	10.9

- Notes:
- 1) This data is derived from RERC's Quarterly Investment Survey. Data reflects desired returns by institutional investors in each quarter.
 - 2) Due to a change in the method by which data is gathered, there is no First Quarter 1992 survey.
 - 3) The Industrial: R&D category was introduced in Third Quarter 1992.
 - 4) The Hotel category was introduced in Fourth Quarter 1991.
 - 5) Before First Quarter 1991, Retail-Power Center and Retail-Neighborhood/Community were combined under Retail-Other category.

Source: Real Estate Research Corporation (RERC)

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act Relating to The Procurement of BRU: Revenue Operations
Investment and Brokerage Services by ASPIB Component: Alaska State Pension Investment Board
 Sponsor: Foster
 Requestor: State Affairs COMPONENT SERIAL NO. 1961

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	145.0	125.0	125.0	125.0	125.0	125.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	145.0	125.0	125.0	125.0	125.0	125.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1024 Public Employees' Trust Fund	92.8	80.0	80.0	80.0	80.0	80.0
1034 Teachers' Trust Fund	52.2	45.0	45.0	45.0	45.0	45.0
TOTAL	145.0	125.0	125.0	125.0	125.0	125.0

Estimate of any current year (FY96) cost \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Brokerage fees are incurred by the investment managers and are a component of the cost (or proceeds) of the buy (or sell) transaction. Managers are encouraged to use brokerage firms who have offices in Alaska, if their use will not result in a decreased benefit to the system beneficiaries (i.e. through increased cost or poor execution). Generally, our managers are trading for many large institutional investors and often do so through bulk lot buys and sells. To specifically trade through an Alaska broker would require the Alaska trades to be handled after all bulk trading, and at higher cost.

Our fiscal note reflects \$125,000 per year in consultant fees to first quantify the cost associated with these trades, and secondly to monitor the managers to ensure that they are directing the required amount of activity through Alaska brokers. Additionally, there is \$20,000 included in the first year to perform a manager search in Alaska. For purposes of this analysis we are assuming Alaskan investment manager's fees will be competitive with those of the institutional managers currently utilized by the board.

Prepared by: Betty Martin, Comptroller *Betty Martin*
 Division: Treasury
 Approved by Commissioner: Ross A. Kinney, Deputy Commissioner *Ross A. Kinney*
 Agency: Department of Revenue

Phone: 465-2350
 Date: March 19, 1996
 Date: March 19, 1996

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STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
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FEB 06 1996

February 6, 1996

The Honorable Richard Foster
Alaska State Legislature
Capitol, Room 410
Juneau, AK 99801-1182

Dear Representative Foster:

As you have acknowledged in your discussions with our department, your January 22 letter requested a great deal of information regarding the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). To respond to this information request as quickly as possible, we will forward information as we collect it. Here's what we have been able to accomplish on each of your requests.

1. **Please supply a copy of the audited financial report for the investment portion of the TRS and PERS systems for the fiscal year ended June 30, 1995.**

Response: I have enclosed copies of the audited Alaska State Pension Investment Board 1995 Annual Report of Investments for PERS and TRS. Also, I have included a copy of the 1995 State of Alaska Comprehensive Annual Financial Report for PERS and TRS published by the Department of Administration, Division of Retirement & Benefits.

2. **Please provide a break out of gross purchases and sales of marketable debt securities for FY 95.**

Response: We are preparing the data and will provide it as soon as possible.

3. **Please indicate the percentage of gross purchases and sales of marketable debt securities (referenced in item #2 above) that were transacted through brokers or investment firms in Alaska. If possible, please provide a summary of all transactions, listing amounts, firms and salesperson responsible for the transaction.**

Response: We will provide information when we respond to item Number 2.

- 4. Please provide a listing of amounts paid to bank custodians during FY 95. Include the amount, the particular banking institution and location of the bank.**

Response: PERS paid State Street Bank & Trust Company \$913,485.74 to provide global custody in FY 95. TRS paid \$528,312.27 for the same service. Please see enclosed money managers and consultant list for the address of the bank.

- 5. Please provide a table listing all real estate held, as of June 30, 1995, by the TRS and PERS funds. Include the location of the property, date and cost of purchase as well as current market value. Please summarize real estate sales during the fiscal year (i.e. sales) using a similar spreadsheet format indicating date of purchase, location, purchase price, sales price, etc.**

Response: We are preparing the data and we will provide it as soon as possible.

- 6. Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property.**

Response: We are preparing the data and we will provide it as soon as possible.

- 7. Please provide a listing of the amount of mortgage backed securities held by the TRS and PERS funds as of June 30, 1995. In addition, list the value of each investment, name, year purchased and location of each property making up the security.**

Response: Neither PERS nor TRS owned mortgage backed securities during FY 95. Enclosed is a copy of quarterly reports from the Alaska State Pension Investment Board, prepared by Callan Associates, for each quarter. These reports reflect that the funds had made no investments in mortgage backed securities.

- 8. Please prepare a schedule indicating the amounts paid during FY 95 to all money managers and investment advisors. In addition, please indicate the name of the firm, contact person and location of the active office.**

Response: With the exception of real estate management, the Comprehensive Annual Report lists on pages 66 and 132, all management and consulting fees paid by PERS and TRS respectively during FY 95. Historically, real estate fees have been netted from the income of the commingled real estate investment pools. We are preparing data, and we will provide it as soon as possible.

The Honorable Richard Foster
February 6, 1996
Page 3

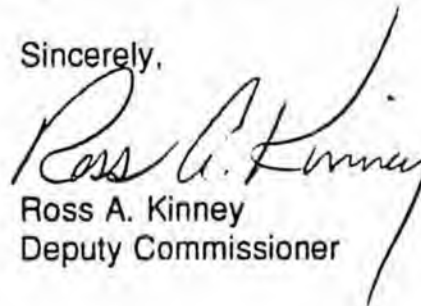
9. Please prepare a schedule indicating the amounts paid during FY 95 to regular and special consultants, auditors and actuaries. In addition, please indicate the name of the firm, contact person and location of the active office.

Response: Investment Advisors, performance measurement and real estate consulting fees for PERS and TRS during FY 95 are set forth on pages 66 and 132 of the Comprehensive Annual Financial Report. PERS paid \$28,428 and TRS paid \$28,428 respectively to members of the Investment Advisory Council. Auditing cost PERS \$35,000 and TRS \$20,500 during FY 95. Actuarial services cost PERS \$145,813 and TRS \$89,367 for the same time period. Obtaining actuarial service is the responsibility of the Department of Administration, Division of Retirement & Benefits. I have enclosed the pertinent names and addresses.

10. Please provide a summary of amounts paid during FY 95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities and the source of funds for all travel related expenditures. Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.

Response: We are preparing the data and we will prepare it as quickly as possible.

Sincerely,



Ross A. Kinney
Deputy Commissioner

Enclosures

96-013

**Alaska State Pension Investment Board
Treasury Division
External Money Managers and Consultants**

Investment Consultants

Michael J. O'Leary, Jr., CFA
Callan Associates Inc.
550 East 8th Avenue
Denver, CO 80203
PH: 303-861-1900; FAX: 303-832-8230

Ron Payton
Callan Associates Inc.
71 Stevenson Street, #1300
San Francisco, CA 94105
PH: 415-974-5060; FAX 415-512-0524

Domestic Equity Large Cap

H. Scott Higgins/Charley Hetzel
Ark Asset Management Co., Inc.
One New York Plaza
New York, NY 10004
PH: 212-668-5203; FAX: 212-668-6191

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EX Japan**

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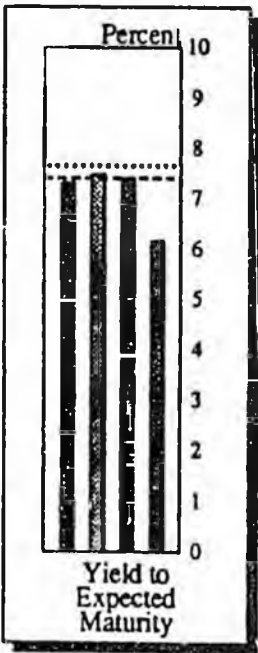
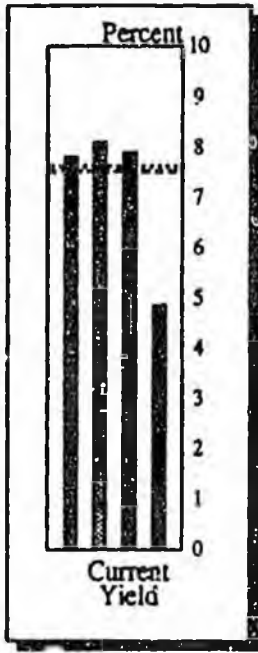
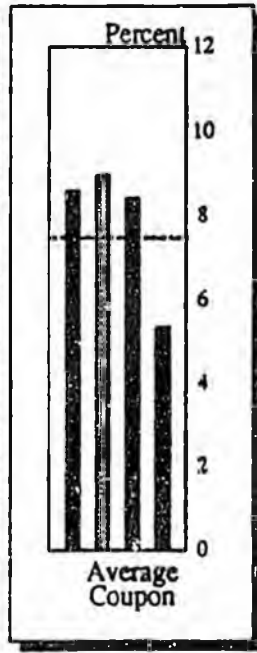
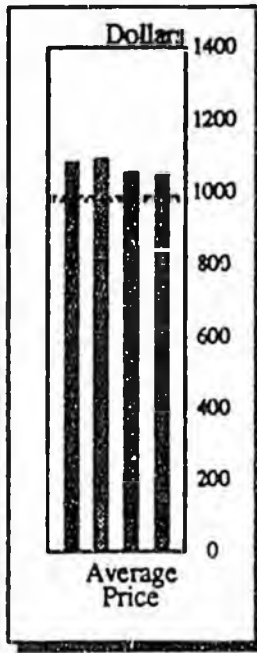
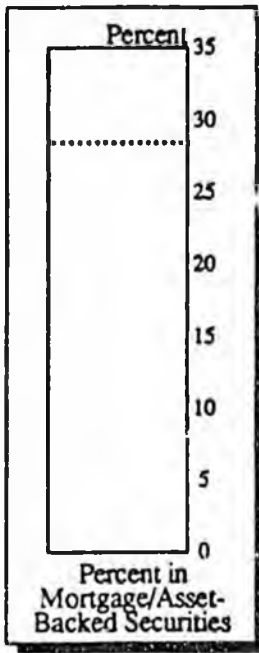
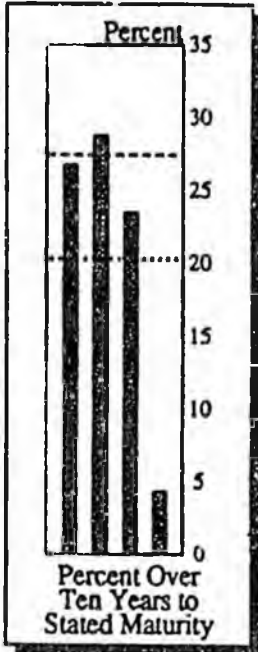
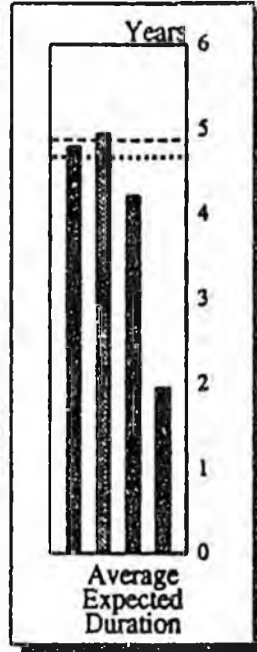
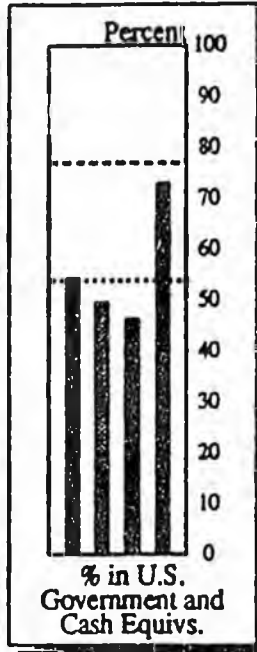
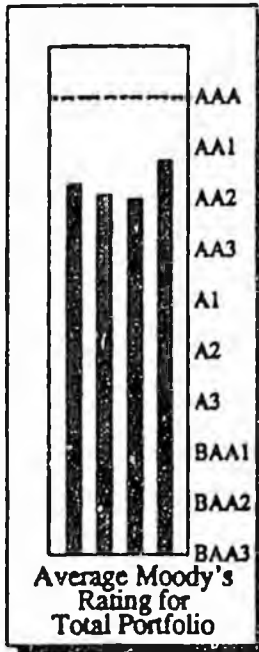
Auditor




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Actuary

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PH: 206-292-7000

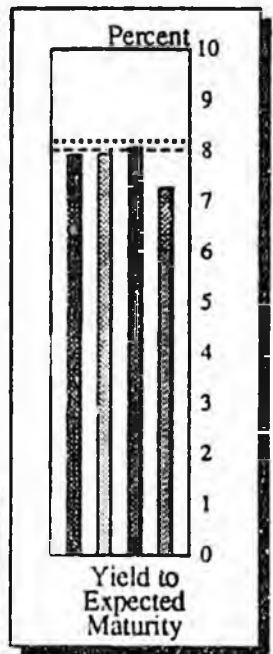
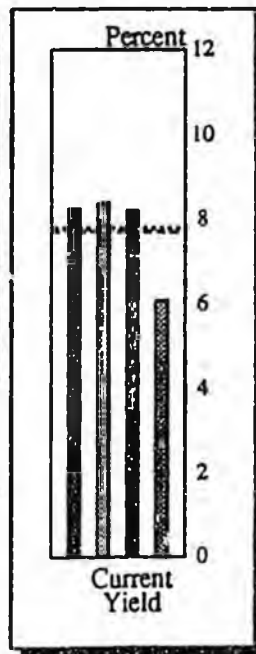
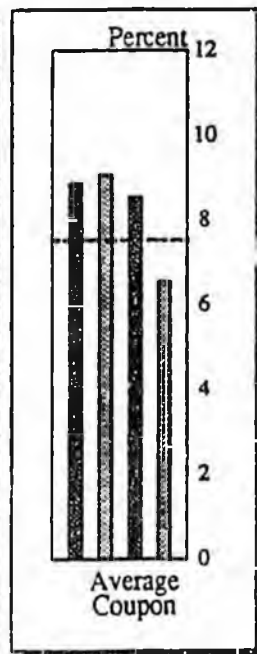
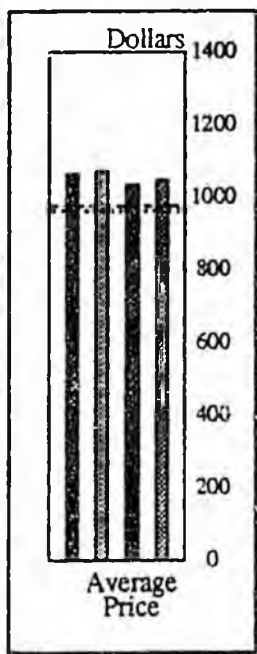
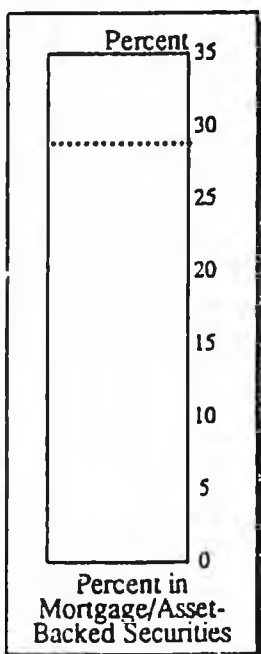
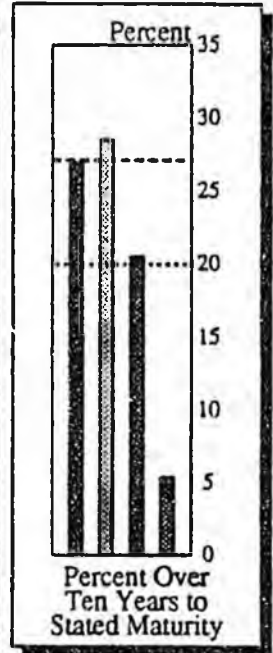
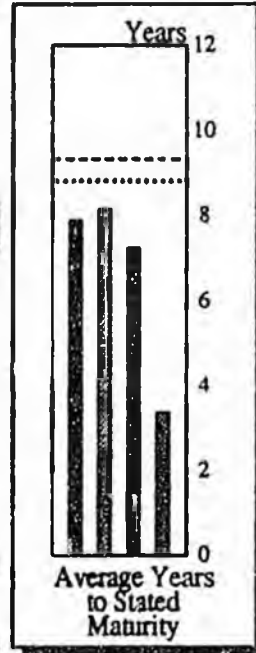
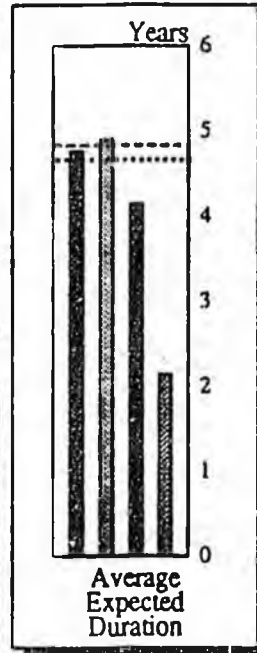
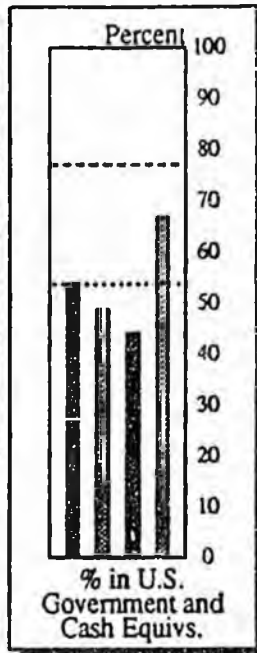
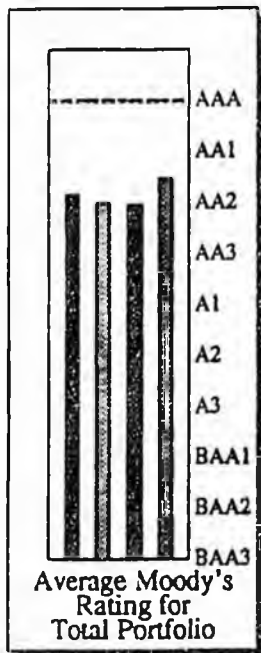
STATE OF ALASKA - PENSION FUNDS
 FIXED-INCOME PORTFOLIO CHARACTERISTICS
 SEPTEMBER 30, 1994



 Employees
 Teachers
 Judicial

 Military
 Lehman Brothers Aggregate
 Lehman Brothers Govt/Corp

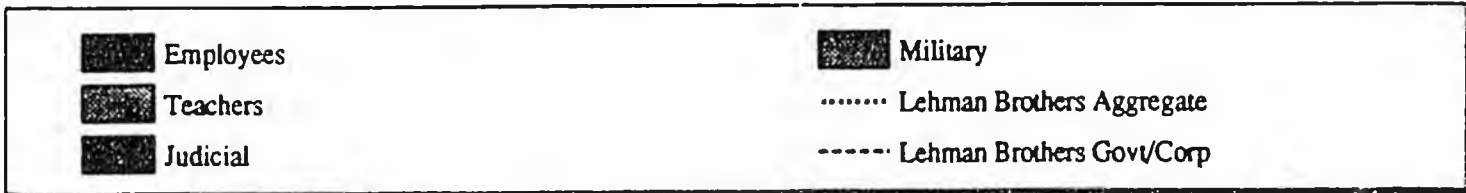
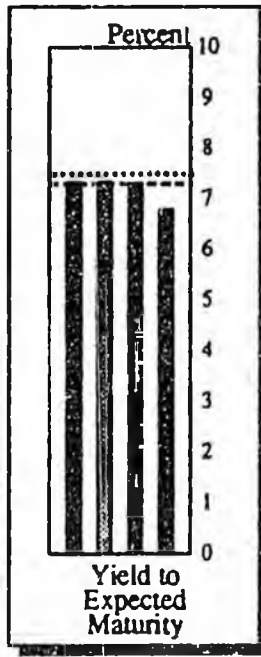
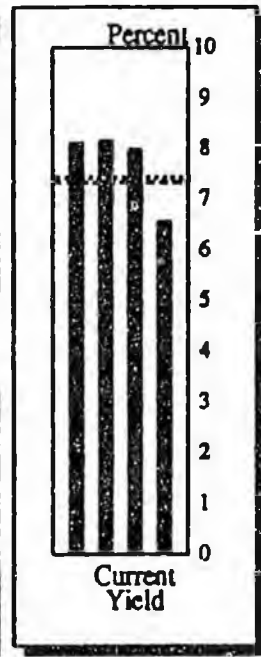
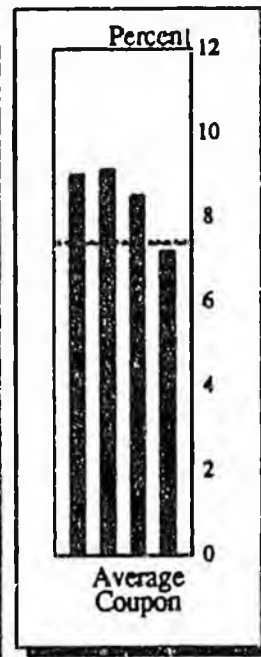
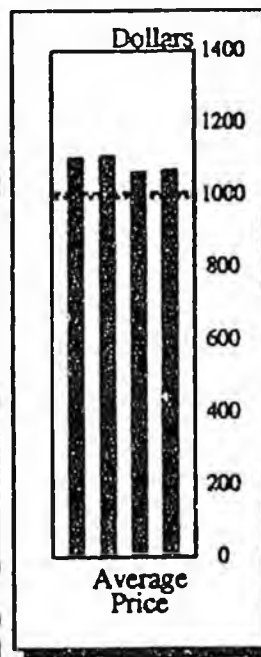
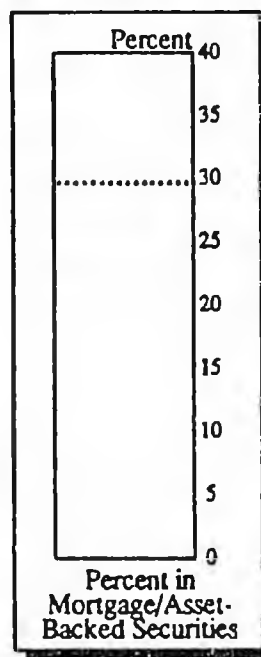
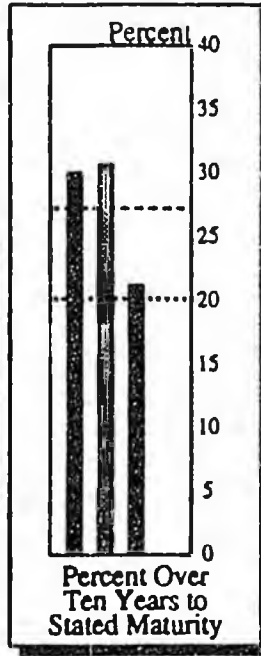
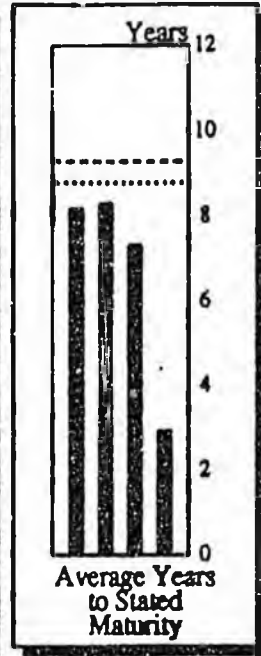
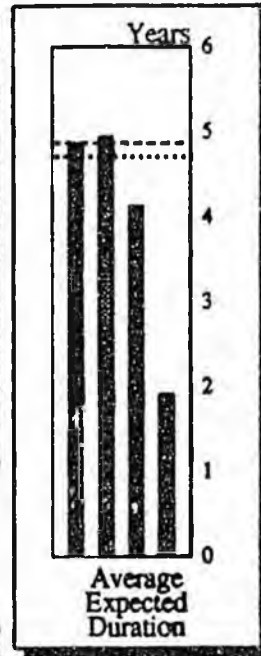
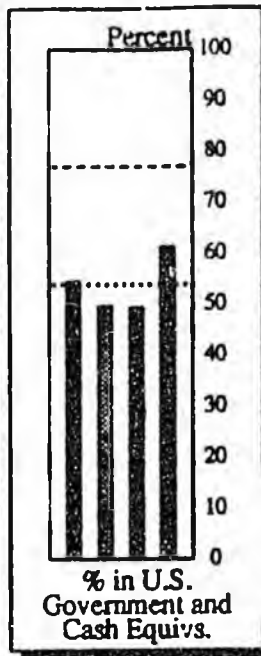
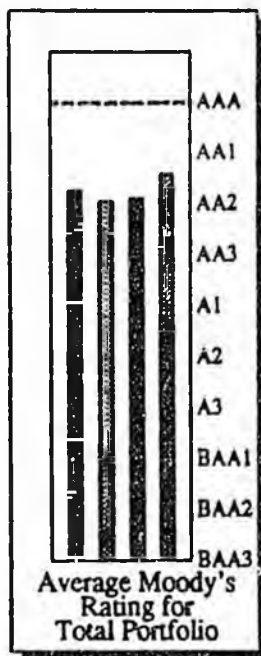
STATE OF ALASKA - PENSION FUNDS
 FIXED-INCOME PORTFOLIO CHARACTERISTICS
 DECEMBER 31, 1994



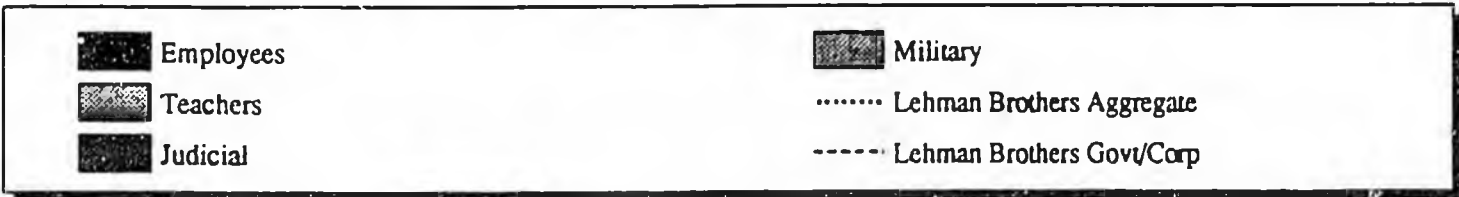
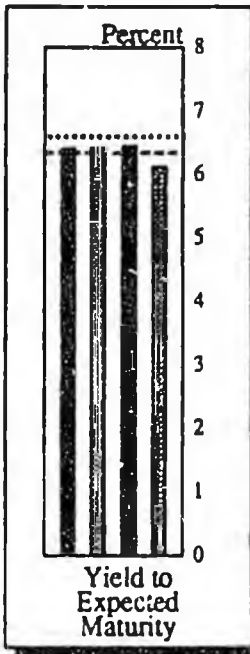
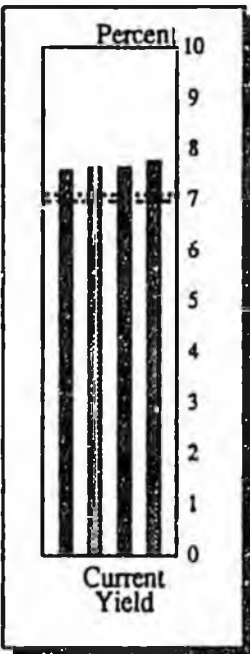
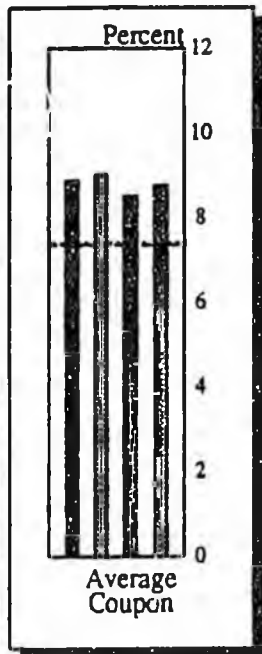
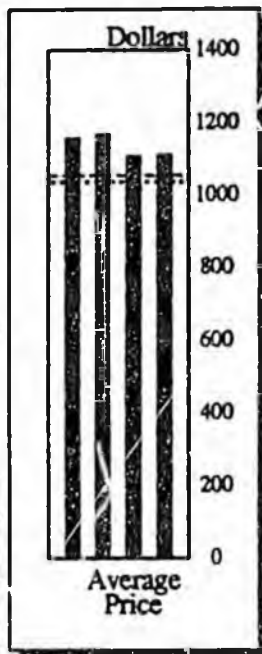
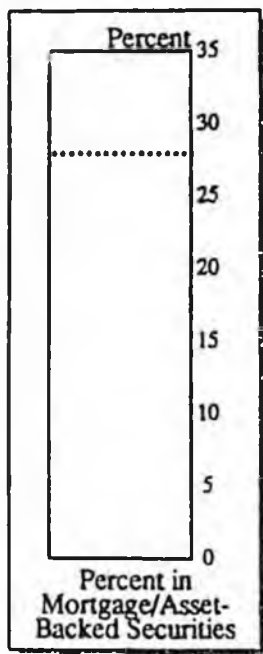
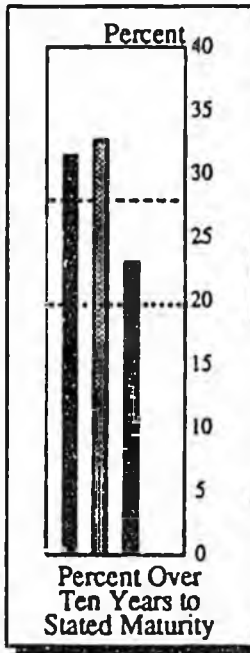
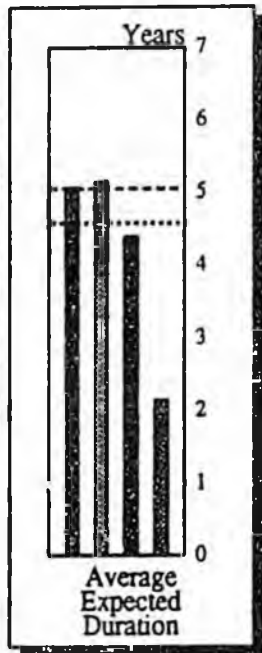
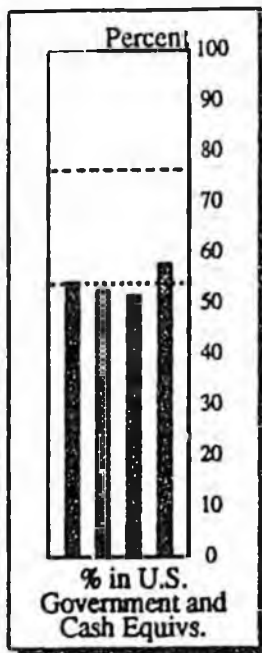
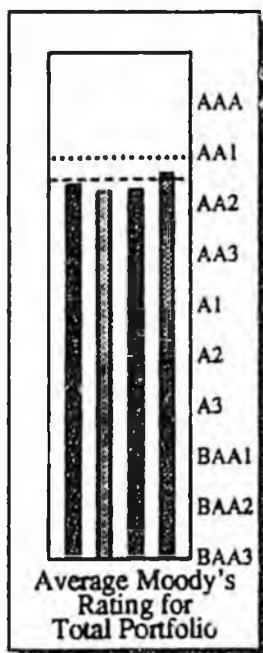
Employees
 Teachers
 Judicial

Military
 Lehman Brothers Aggregate
 Lehman Brothers Govt/Corp

**STATE OF ALASKA - PENSION FUNDS
FIXED-INCOME PORTFOLIO CHARACTERISTICS
MARCH 31, 1995**



**STATE OF ALASKA - PENSION FUNDS
FIXED-INCOME PORTFOLIO CHARACTERISTICS
JUNE 30, 1995**



DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 110400
 JUNEAU, ALASKA 99811-0400
 TELEPHONE: (907) 465-2300
 FACSIMILE: (907) 465-2389

March 19, 1996

The Honorable Richard Foster
 Alaska State Legislature
 Capitol, Room 410
 Juneau, AK 99801-1182

Dear Representative Foster:

In response to your January 22, 1996 letter requesting information about the Public Employees' and Teachers' Retirement Systems, following are the responses to the rest of your questions:

I provided answers to your questions numbered 1, 4, 7 and 9 in my letter dated February 6, 1996.

#2 Please provide a breakout of gross purchases and sales of marketable debt securities for FY 95.

	PERS	TRS
Gross Purchases	\$(1,269,976,322)	\$(528,771,413)
Gross Sales	<u>1,056,455,230</u>	<u>469,215,795</u>
Net (Purchases)/Sales*	<u>\$ (213,521,092)</u>	<u>\$ (59,555,618)</u>

* Agreed to June 30, 1995 audited financial statement, Statement of Cash Flows

#3 Please indicate the percentage of gross purchases and sales of marketable debt securities (referenced in item #2 above) that were transacted through brokers or investment firms in Alaska. If possible, please provide a summary of all transactions, listing amounts, firms and salesperson responsible for the transaction.

No debt security purchases or sales were transacted by brokers through their Alaska offices.

#5 Please provide a table listing all real estate held as of June 30, 1995, by the TRS PERS funds. Include the location of the property, date and cost of purchase as well as current market value. Please summarize real estate sales during the fiscal year (i.e., sales) using a similar spreadsheet format indicating the date of purchase, location, purchase price, sales price, etc.

See Attachment A.

The Honorable Richard Foster
March 19, 1996
Page 2

- #6 Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property.**

See Attachment B.

- #8 Please prepare a schedule indicating the amounts paid during FY 95 to all money managers and investment advisors. In addition, please indicate the name of the firm, contact person and location of the active office.**

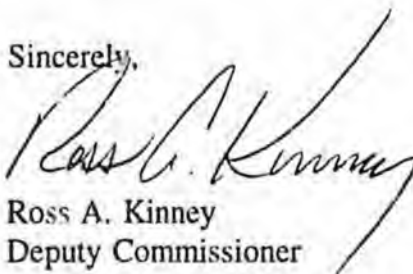
Attachment C provides a list of real estate management fees which were not included in my February 6 response.

- #10 Please provide a summary of amounts paid during FY 95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities and the source of funds for all travel related expenditures. Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.**

Attachment D provides the requested details of staff travel during FY 95. Detailed agendas of meetings are not generally prepared or if prepared, not usually attached to staff Travel Authorization forms. However, the final column does note if staff took personal leave in conjunction with the trip.

No staff members have reported the receipt of gratuities with a value in excess of the State's reportable guidelines (\$50).

Sincerely,



Ross A. Kinney
Deputy Commissioner

RAK/dcm

Attachments

REAL ESTATE EQUITIES

Page 2, Paragraph 5:

"Please provide a table listing all real estate held, as of June 30, 1995 by the TRS and PERS funds. Include the location of the property, date and cost as well as current market value. Please summarize real estate sales during the fiscal year (i.e. sales) using a similar spreadsheet format indicating date of purchase, location, purchase price, sales price, etc."

Neither PERS nor TRS purchase individual properties as a means of real estate equity investment. Rather, equity investments have been made through the purchase of ownership interests in real estate commingled funds.

Two schedules are attached which include the following information:

The commingled funds in which PERS and TRS had an ownership interest as of June 30, 1995.

PERS and TRS commingled fund ownership interests which were sold during the fiscal year ended June 30, 1995.

Information on individual property location is not included because of the large number of properties involved. As of June 30, 1995 the six real estate commingled funds, in which PERS and TRS had an ownership interest, owned a total of about 220 properties. All of these properties were located in the continental United States.

The Equitable Prime Property Fund, which was sold during the year, had two investments in Anchorage, Alaska.

PERS and TRS do own individual properties obtained through foreclosure. Details on those properties are included in the information provided in the mortgage portfolio information regarding Page 2, Paragraph 6.

**Pension Funds' Sale of Ownership Interests in Real Estate
Commingled Funds During the Fiscal Year Ending June 30, 1995**

Public Employees' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	June 30, 1995 Market Value
John Hancock Equity Real Estate Account ^{1.}	1980	\$ 6,250,000	\$ 4,294,029	\$ (1,071,114)	\$ 0	\$ 9,472,915	\$ 0
Equitable Prime Property Fund ^{2.}	1980	9,251,580	13,475,807	(3,341,916)	0	19,385,471	0
Total PERS:		\$ 15,501,580	\$ 17,769,836	\$ (4,413,030)	\$ 0	\$ 28,858,386	\$ 0

Teachers' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	June 30, 1995 Market Value
John Hancock Equity Real Estate Account	1980	\$ 6,250,000	\$ 4,294,029	\$ (1,071,114)	\$ 0	\$ 9,472,915	\$ 0
Equitable Prime Property Fund ^{2.}	1980	5,750,350	8,888,022	(2,034,106)	0	12,604,266	0
Total TRS:		\$ 12,000,350	\$ 13,182,051	\$ (3,105,220)	\$ 0	\$ 22,077,181	\$ 0

1. During the quarter ended December 31, 1994, PERS and TRS received their final liquidation payments of \$27,241 each from the John Hancock, Equity Real Estate Account. This closed-end fund liquidated over a nine year period.
2. During the quarters ended December 31, 1994 and March 31, 1995, PERS and TRS redeemed all of their shares in the Equitable Prime Property Fund.

**Pension Funds' Ownership Interests in
Real Estate Commingled Funds**

As of June 30, 1995

Public Employees' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	End of Period Market Value
AETNA Real Estate Separate Account	1980	\$ 7,750,531	\$ 11,982,942	\$ (4,000,060)	\$ 0	\$ 0	\$ 15,733,413
Heitman/JMB Group Trust III	1984	13,000,000	9,701,394	(3,792,229)	1,900,275	0	17,008,890
Heitman/JMB Group Trust IV	1987	15,000,000	4,741,878	(8,238,076)	1,274,216	0	10,229,586
JP Morgan Real Estate Fund	1984	7,151,870	4,840,153	(1,726,057)	0	1,212,672	9,053,294
Karsten / First Interstate Fund 1	1984	6,947,405	3,969,320	(1,137,425)	3,141,522	0	6,637,778
Sentinel Real Estate Fund	1984	41,000,000	28,997,122	(19,760,970)	8,631,862	0	41,604,290
PERS Total:		\$ 90,849,806	\$ 64,232,809	\$ (38,654,817)	\$ 14,947,875	\$ 1,212,672	\$ 100,267,251

Teachers' Retirement System

Commingled Fund	Date of Original Investment	Amount of Investment	Accounting Income	Appreciation	Distribution of Income and Realized Gains	Return of Capital	End of Period Market Value
AETNA Real Estate Separate Account	1980	\$ 7,250,354	\$ 11,292,500	\$ (3,715,665)	\$ 0	\$ 0	\$ 14,827,189
Heitman/JMB Group Trust III	1984	7,000,000	5,223,834	(2,041,969)	1,023,232	0	9,158,633
Heitman/JMB Group Trust IV	1987	10,000,000	3,161,254	(5,492,052)	849,478	0	6,819,724
JP Morgan Real Estate Fund	1984	4,743,836	3,261,783	(1,161,865)	0	808,587	6,035,167
Karsten / First Interstate Fund 1	1984	2,977,460	1,701,138	(487,467)	1,346,368	0	2,844,763
Sentinel Real Estate Fund	1984	19,000,000	14,049,884	(9,296,933)	4,081,368	0	19,671,583
TRS Total:		\$ 50,971,650	\$ 38,690,393	\$ (22,195,951)	\$ 7,300,446	\$ 808,587	\$ 59,357,059

SCHEDULE OF MORTGAGES

Page 2, Paragraph 6:

"Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property."

See the attached mortgage portfolio schedules.

Note: On the "Active Loans" category listings attached, no loan loss reserve is included. For reference, the loan loss reserves, as of June 30, 1995, are shown below:

FUND	INDIVIDUAL	NBA RESERVE	TOTAL RESERVE
PERS:	\$ 997,000.00	\$ 543,028.63	\$ 1,540,028.63
TRS:	1,057,000.00	913,619.46	1,970,619.46
Total Combined:	\$ 2,054,000.00	\$ 1,456,648.09	\$ 3,510,648.09

ACTIVE LOANS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995

MME # ^{1.}	Principal Balance	Location	Year Purchased
0821119	\$ 72,734.88	Kenai	07/79
0621049	45,363.62	Anchorage	12/80
2121031	117,815.07	Pennsylvania	02/85
2021012	150,005.26	Anchorage	02/81
4121094	27,181.92	Kentucky	03/82
0421002	469,706.58	Anchorage	09/78
1721164	94,076.40	Fairbanks	09/90
2421050	41,371.90	Anchorage	06/74
1521002	368,852.30	Anchorage	06/76
0821057	184,528.99	Anchorage	03/80
0821101	54,150.40	Anchorage	12/78
0421008	163,964.66	Sitka	08/85
1721178	124,735.52	Anchorage	03/93
1721179	146,190.61	Anchorage	10/93
2021053	271,009.28	Anchorage	10/78
2424001	764,001.03	Dillingham	03/78
2021066	95,430.13	Unsecured Note	^{2.} 08/93
0821018	4,215.65	Unsecured Note	^{3.} 04/79
0821110	2.00	Unsecured Note	^{4.} 03/79
Total PERS:	\$ 3,195,336.20		
<p>1. The names on these accounts have been omitted on the advice of the Attorney General's Office.</p> <p>2. Balance of Chapter 7 Bankruptcy liquidation.</p> <p>3. To be written off - Uncollectible.</p> <p>4. Collection doubtful in near term - Possible recovery of balance of debt including accrued interest and costs totaling approximately: \$ 105,000.</p>			

REO PROPERTIES
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995

Loan Name	Book Balance	Location	Year Loan Purchased	Comment
Eubank, Wm.	\$ 58,584.65	Sandpoint	06/78	
Cardin, F. - L4	53,554.45	North Pole	03/91	Hazardous Waste ^{1.}
Cardin, F. - L5	53,554.44	North Pole	03/91	Hazardous Waste ^{2.}
Cardin, F. - L6	53,554.46	North Pole	03/91	Hazardous Waste ^{3.}
Kocurek, M.	20,000.00	Anchorage	09/90	
Tovsen, Oliver	115,000.00	Anchorage	08/86	
Chena Hot Springs	2.00	Chena	03/80	
Hickel, Vernon	230,009.66	Anchorage	04/77	
Holland, Jack	390,000.00	Anchorage	06/77	
Miller, J&F	212,512.64	Fairbanks	04/77	
Northgate Square	350,888.09	Fairbanks	08/84	
Wise, Dennis	69,524.86	Fairbanks	02/79	Hazardous Waste ^{4.}
Sager Enterprises	50,847.71	Delta Junction	11/79	Hazardous Waste ^{5.}
Porter/Weeks	424,659.57	Kotzebue	02/77	
Total PERS:	\$ 2,082,692.53			
<ol style="list-style-type: none"> 1. Leaking underground storage tank - Phase II completed - Remediation underway. 2. Leaking underground storage tank - Phase II completed - Remediation underway. 3. New - Leaking storage tank - Phase II remediation underway. 4. Leaking underground storage tank - Submersion well - Extensive remediation underway. 5. Surface contamination - Floor drain contamination - Phase II completed. 				

**PERFORMING JUDGMENTS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995**

MME # ^{1.}	Book Balance ^{2.}	Date of Judgment
0621015A	\$ 1,780.69	06/21/88
0621015C	3,228.05	06/21/88
0621185	787.47	11/10/90
0621015B	4,073.20	06/16/92
0821127A	76,509.17	10/01/91
2921015A	23,449.93	10/28/88
1221001C	2,038.02	01/14/94
1521001B	6,640.28	07/16/90
0621034B	17,771.88	06/14/91
2021066A	28,821.27	02/22/94
Total PERS:	\$ 165,099.96	
<p>1. The names on these accounts have been omitted on the advice of the Attorney General's Office.</p> <p>2. Negotiated dollar amount - May be different than the original judgment amount.</p>		

**NON-PERFORMING JUDGEMENTS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
As of June 30, 1995**

Name	Date of Judgment	Original Judgment Amount
Bennett, William	06/16/92	\$ 11,250.00
Olympic Inc.	12/14/89	193,040.16
Clay & Anderson	07/20/87	343,184.45
Cardin, F&B L#4	10/12/94	16,036.26
Cardin, F&B L#5	10/12/94	24,130.04
Cardin, F&B L#6	10/12/94	35,380.04
Anderson/Neville	05/25/90	207,248.09
Humphrey/Dinkins	01/08/90	27,087.68
Lewdon's Inc.	05/07/91	1. 273,283.52
Guidry, Joseph (Mrs.)	01/22/91	75,433.01
DonnyBrook Supply	06/14/91	1. 112,472.60
Littleton, Wayne	05/29/92	310,599.50
Guertin / Lambert	11/01/91	5,126.15
Miller, Francis	08/01/89	11,250.00
Porter / Weeks	12/15/94	30,842.58
Bicaci, Carlos	01/29/93	50,731.87
Sullivan/Geraty	12/17/93	12,143.04
Tovsen, Oliver & Mark	05/23/93	288,485.00
W.W. Wilson	09/01/91	45,000.00
May, Elizabeth	07/14/93	20,820.06
Lakeside Co.	03/26/91	1. 503,408.72
Lakeside Co.	08/23/90	1. 240,750.00
Total Judgments-PERS:		\$ 2,837,702.77
<p>1. This amount reflects the full judgment, however, term settlements have been negotiated with debtor. If the negotiated settlements, reflected in the performing judgments, are paid off as agreed these amounts will be forgiven.</p>		

ACTIVE LOANS
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995

MME # ^{1.}	Principal Balance	Location	Year Purchased
0431036	\$ 74,358.66	Anchorage	03/85
0431049	387,595.21	Anchorage	04/84
0431165	173,184.78	Anchorage	05/84
0431094	233,579.88	Anchorage	09/79
2431007	152,579.83	Anchorage	02/82
0431228	300,000.00	Hatcher Pass	04/91
2031026	52,621.84	Anchorage	07/89
0631058	63,212.68	Anchorage	10/76
0431014	469,706.58	Anchorage	09/78
0432003	14,489.64	Anchorage	04/70
0431045	54,141.60	Anchorage	10/76
0431136	167,533.53	Wasilla	01/85
0431240	88,843.86	Bethel	01/93
0431241	275,683.81	Eagle River	12/92
1131007	333,393.77	Juneau	02/83
2431104	411,499.92	Anchorage	06/84
3231005	39,773.22	Kansas	01/84
Total TRS:	\$ 3,292,198.81		
<p>^{1.} The names on these accounts have been omitted on the advice of the Attorney General's Office.</p>			

**REO PROPERTIES
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995**

Loan Name	Book Balance	Location	Year Purchased	Comment
Curry, Lucille	\$ 67,500.00	Anchorage	02/93	
Ebenbeck, R.	2.00	Anchorage	02/86	Hazardous Waste ^{1.}
Holland, S. L3/4/5	96,308.61	Anchorage	09/84	Hazardous Waste ^{2.}
Seair	93.28	Anchorage	05/78	
Slaymaker/Duffin	221,358.01	Kenai	11/83	
Cole, Claudie	28,856.48	Kenai	07/78	
Gilfillian, Robert	105,000.00	Wasilla	02/85	
Holland/Hofseth	390,000.00	Anchorage	06/77	
Lethin Investments	225,637.41	Anchorage	09/77	Hazardous Waste ^{3.}
Total TRS:	\$ 1,134,755.79			
1. Floor drain & surface contamination - Remediation underway.				
2. Surface contamination - Remediation underway.				
3. Leaking underground storage tank - Floor drain contamination - Buried materials - Remediation underway.				

**PERFORMING JUDGMENTS
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995**

MME # ^{1.}	Book Balance ^{2.}	Date of Judgment
1631001C	\$ 3,470.62	05/08/89
1631001B	6,854.56	05/08/89
0431058A	1,083.16	08/09/91
2431106B	2,158.72	01/26/94
2431106A	8,698.50	08/03/90
0431213A	30,000.00	01/22/94
2431199A	65,450.30	06/13/90
0431185A	74,692.50	01/17/95
Total TRS:	\$ 192,408.36	
<p>1. The names on these accounts have been omitted on the advice of the Attorney General's Office.</p>		
<p>2. Negotiated dollar amount - May be different than the original judgment amount.</p>		

**NON-PERFORMING JUDGMENTS
TEACHERS' RETIREMENT SYSTEM
As of June 30, 1995**

Name	Date of Judgment	Original Judgment Amount
Duff/Kennedy/Pritchard	03/23/90	\$ 123,304.76
Zimmerman, Gerald	07/21/92	28,371.11
Hrubes, A & S	10/01/92	30,000.00
Van Geystel, Albert	02/02/93	128,167.95
Gilfilian	10/04/93	296,049.27
Chappell/Imlach	11/18/88	157,823.55
Lomax, B	04/06/91	37,301.52
Poole / Kovacs	06/25/91	273,283.52
Miller, Richard	06/18/94	1.00
Lakeside Co.	03/26/91	1. 503,408.72
Lakeside Co.	08/23/90	1. 240,750.00
Total Judgments - TRS:		\$ 1,818,461.40
<p>1. This amount reflects the full judgment, however, term settlements have been negotiated with debtor. If the negotiated settlements, reflected in the performing judgments, are paid off as agreed these amounts will be forgiven.</p>		

REAL ESTATE EQUITY INVESTMENT MANAGEMENT FEES

Page 2, Paragraph 8:

"Please prepare a schedule indicating the amounts paid during FY95 to all money managers and investment managers. In addition, please indicate the name of the firm, contact person, and location of the active office."

See attached fee schedule for Fiscal Year 1995.

**Schedule of Public Employees' and Teachers' Retirement System's
Real Estate Investment Management fees
for the 12 Month Period Ending June 30, 1995**

Manager	Fund		Contact Person	Address
	PERS	TRS		
Aetna Realty Investors, Inc.	\$ 171,176	\$ 159,006	Thomas J. Anathan	242 Trumbell Street Hartford, CT 06156-9622
Heitman/JMB Advisory Corporation	\$ 428,448	\$ 252,738	Herbert W. Kuehne	180 North LaSalle Street Chicago, IL 60601-2886
JP Morgan Investment Management, Inc.	\$ 96,481	\$ 64,316	Earling Asheim	522 Fifth Avenue at 44th Street New York, NY 10036
Koll Investment Management (Karsten /First Interstate Fund I)	\$ 91,841	\$ 39,361	Tom Arai	4343 Von Karman Avenue Newport Beach, CA 92660
Sentinel Real Estate Corporation	\$ 619,109	\$ 29,2731	David Weiner	666 5th Avenue New York, NY 10103-2698

REAL ESTATE CONSULTANT FEES

Page 2, Paragraph 9:

"Please prepare a schedule indicating the amounts paid during FY95 to regular or special consultants, auditors, and actuaries. In addition, please indicate the name of the firm, contact person, and location of the active office."

See attached consultant fee schedule for fiscal year 1995.

Real Estate Consultant Fees Paid During Fiscal Year 1995

Name of Firm	Contact Person	Location of Active Office
The Townsend Group	Kevin W. Lynch	M.K. Ferguson Plaza 1500 West Third Street, Suite 410 Cleveland, OH 44113

Amount paid by PERS to the Townsend \$ 31,962

Amount paid by TRS to the Townsend \$ 31,692

REAL ESTATE TRAVEL INFORMATION

Page 2, Paragraph 10:

"Please provide a summary of amounts paid during FY95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities, and the source of funds for all travel related expenditures.¹ Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.

See attached listing.

¹ It is assumed that the underlined issues would be handled with general statements regarding all travel expenses.

**Travel Expenditures
FY 95**

Attachment D

Traveler Title	Origination	Departure Date	Return Date	Destination	Purpose/Meet With	Airfare	Hotel	Meals/Other *	Total Cost of Travel	Charged to ASPIB	Charged to Non-ASPIB	Hotel Rate/Night	* Notes
Accountant	Juneau	6/12/95	6/14/95	Anchorage	Meet with CSED, Key Bank	200.00	194.40	130.74	525.14	-	525.14	194.40	6/14 meeting was canceled, stayed at her own expense
Debt Manager	Juneau	3/6/95	3/7/95	Anchorage	AMBBA meeting, meetings with Moody's	118.00	72.36	165.33	355.69	-	355.69	72.36	
Debt Manager	Juneau	5/4/95	5/5/95	Anchorage	Municipal Finance Officers meeting	286.00	65.00	105.25	456.25	-	456.25	65.00	
Debt Manager	Juneau	5/22/95	5/23/95	Anchorage	AMBBA meeting	286.00	74.52	110.30	470.82	184.82	286.00	74.52	
Loan Manager	Juneau	7/26/94	7/31/94	Fairbanks, Anchorage	Property inspections	371.00	366.00		737.00	737.00	-		Went on a straight per diem rate- Hotel and meals listed under "hotel"
Investment Officer III	Juneau	8/23/94	8/23/94	Anchorage	Presentation to Exxon Valdez Oil Spill Council and meet with AK Permanent Capital	218.00	-	102.00	320.00	-	320.00	-	
Investment Officer III	Juneau	9/8/94	9/10/94	Fairbanks	ASPIB meeting	250.00	190.08	108.00	548.08	-	-	95.04	
Investment Officer III	Juneau	10/15/94	10/23/94	Minnesota, New York	Meet with professionals in mortgage-backed securities	1,104.50	801.41	408.85	2,314.76	2,314.76	-	63.99	10/15 Personal day, no per diem, one night no hotel claim
Investment Officer III	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	281.00	208.44	150.00	639.44	639.44	-	72.36	Had to stay an extra night due to weather
Asst. Comptroller	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	281.00	208.44	83.50	572.94	572.94	-	72.36	Had to stay an extra night due to weather
RE Investment Officer	Juneau	9/8/94	9/12/94	Fairbanks	ASPIB meeting	293.00	190.08	103.00	586.08	-	-	95.04	Two days personal leave-no per diem or hotel
RE Investment Officer	Juneau	10/20/94	10/30/94	Phoenix, San Francisco	Pension real estate conference, meet with real estate investment managers	969.00	838.02	371.50	2,178.52	2,178.52	-	209.51	10/20,21,29,30 no per diem or hotel, personal time
RE Investment Officer	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	281.00	144.72	111.80	537.52	537.52	-	72.36	
RE Investment Officer	Juneau	3/11/95	3/15/95	California	Real estate seminar	504.00	407.28	164.65	1,075.93	1,075.93	-	77.28	3 breakfasts, 2 lunches, and 3 dinners were provided by seminar, no per diem
RE Investment Officer	Juneau	5/30/95	6/1/95	San Francisco	Meet with Callan Associates	977.00	221.76	165.20	1,363.96	1,363.96	-	110.88	
RE Investment Officer	Juneau	6/17/95	6/20/95	Milwaukee, WI Newark, NJ	Site inspections on JMB properties	2,005.00	207.62	206.66	2,419.28	2,419.28	-	58.40	
RE Investment Officer	Juneau	6/21/95	6/24/95	Anchorage	ASPIB meeting	444.00	306.72	120.20	870.92	870.92	-	153.36	
Deputy Commissioner	Seattle	4/3/95	4/4/95	Anchorage	AHFC briefing, meet with Anchorage Daily News	444.00	81.00	151.85	676.85	-	676.85	81.00	Was in Seattle on personal business. Paid airfare difference to bring cost of airfare to \$-444: the Juneau-Anchorage rate
Deputy Commissioner	Juneau	4/12/95	4/13/95	Anchorage	AHFC worksession & board meeting	152.00	-	149.68	301.68	-	301.68	-	

* May include cost of pre-authorized car rental

**Travel Expenditures
FY 95**

Traveler Title	Origination	Departure Date	Return Date	Destination	Purpose/Meet With	Airfare	Hotel	Meals/Other *	Total Cost of Travel	Charged to ASPIB	Charged to Non-ASPIB	Hotel Rate/Night	* Notes
Deputy Commissioner	Juneau	5/19/95	5/31/95	Boston	Educational meetings	752.50	789.84	226.13	1,768.47	1,768.47	-	197.46	On personal leave as of noon 5/26, no per diem or hotel
Deputy Commissioner	Juneau	6/2/95	6/7/95	Wyoming	W State Treasurer's conference	798.60	444.96	105.07	1,348.63	-	1,348.63	111.24	6/2 had to overnight in Sea due to late departure
Deputy Commissioner	Juneau	6/21/95	6/23/95	Anchorage	ASPIB meeting	444.00	306.72	85.00	835.72	835.72	-	153.36	
Deputy Commissioner	Juneau	7/20/95	7/20/95	Anchorage	AMBBA meeting	321.00	-	26.00	347.00	-	347.00	-	
Investment Officer II	Juneau	9/9/94	9/10/94	Fairbanks	ASPIB meeting	408.00	95.04	69.00	572.04	-	-	95.04	
Investment Officer II	Juneau	11/4/94	11/13/94	New York	"Grant's investment conference", meet with brokers	963.00	821.20	318.06	2,102.26	2,102.26	-	164.24	11/5,12 Personal days-no per diem, made personal arrangements for hotel on 11/4,5,11,12
Investment Officer II	Juneau	6/22/95	6/23/95	Anchorage	ASPIB meeting	444.00	153.36	91.00	688.36	688.36	-	153.36	6/23 lunch was provided, no per diem
Comptroller Secretary	Juneau	4/15/95	4/20/95	Boston	Meet with SSB, Portia training	744.00	499.15	213.91	1,457.06	-	1,457.06	99.83	
	Juneau	12/7/94	12/10/94	Anchorage	ASPIB meeting	118.00	208.44	116.00	442.44	442.44	-	72.36	Had to stay an extra night due to weather
Investment Officer I	Juneau	12/7/94	12/8/94	Anchorage	ASPIB meeting	281.00	72.36	64.00	417.36	417.36	-	72.36	
Investment Officer I	Juneau	3/4/95	3/11/95	New York, Boston	Fixed income seminar in NY, visit brokerage firms and SSB in Boston	930.00	842.30	338.95	2,111.25	1,414.54	696.71	76.59	Had to overnight in Seattle due to weather
												100.08	
												99.88	
												162.82	
Chief Investment Off	Juneau	8/18/94	8/26/94	Idaho, New York, Minnesota	Meet with external managers, economists, SSB	2,360.00	819.35	361.85	3,541.20	3,541.20	-	-	
Chief Investment Off	Juneau	9/7/94	9/10/94	Fairbanks	ASPIB meeting	250.00	285.12	127.00	662.12	662.12	-	95.04	
Chief Investment Off	Juneau	10/9/94	10/12/94	San Francisco	Meet with external managers and performance measurement cons.	454.00	299.90	164.46	918.36	918.36	-	76.59	
												146.72	
Chief Investment Off	Juneau	10/22/94	10/26/94	Arizona	Pension real estate conference	538.00	640.04	267.87	1,445.91	1,445.91	-	160.01	
Chief Investment Off	Juneau	10/31/94	11/2/94	Anchorage	ASPIB, PERS, TRS meetings	444.00	162.00	112.00	718.00	718.00	-	81.00	
Chief Investment Off	Juneau	2/22/95	2/22/95	Anchorage	PERS meeting regarding SBS structure	118.00	-	51.00	169.00	169.00	-	-	
Chief Investment Off	Juneau	3/6/95	3/10/95	Anchorage, Fairbanks	SBS public meetings	572.00	261.36	172.00	1,005.36	1,005.36	-	72.36	
												58.32	
Chief Investment Off	Juneau	5/2/95	5/2/95	Anchorage	AIIFC audit committee meeting	444.00	-	57.75	501.75	-	501.75	-	
Chief Investment Off	Juneau	5/20/95	5/27/95	Boston, San Francisco	Educational meetings	904.00	1,230.03	330.00	2,464.03	2,464.03	-	197.46	
												146.72	
Chief Investment Off	Juneau	6/21/95	6/23/95	Anchorage	ASPIB meeting	444.00	306.72	124.00	874.72	874.72	-	153.36	6/23 lunch was provided, no per diem
Chief Investment Off	Anchorage	12/7/95	12/10/94	Anchorage	ASPIB meeting	281.00	208.44	150.00	639.44	639.44	-	72.36	
												63.72	
Cash Manager	Juneau	10/8/94	10/12/94	Texas	TMA conference	659.00	386.46	301.72	1,347.18	-	1,347.18	128.82	

* May include cost of pre-authorized car rental

j:\debbie\excel\trav95 TRAVEL.XLS

Travel Expenditures
FY 95

Traveler Title	Origination	Departure Date	Return Date	Destination	Purpose/Meet With	Airfare	Hotel	Meals/Other *	Total Cost of Travel	Charged to ASPIB	Charged to Non-ASPIB	Hotel Rate/Night	* Notes
Cash Manager	Juneau	5/17/95	5/22/95	Wash. DC	NASACT conference	804.00	274.20	184.00	1,262.20	-	1,262.20	137.10	5/21 personal time. Stayed over weekend to lower airfare-no lodging reimbursement requested
Accounting Tech	Juneau	9/18/94	9/28/94	Boston	Portia users' conference, meet with SSB	731.50	959.91	301.50	1,992.91	-	-	137.13	

* May include cost of pre-authorized car rental

j:/debbie/excel/betty TRAVEL5.XLS



COPY

ALASKA STATE LEGISLATURE
REPRESENTATIVE RICHARD FOSTER

Session STATE CAPITOL, ROOM 410, JUNEAU, ALASKA 99811 • 907 465 3789 • FAX 907 465 3242
Interim PO BOX 1630 NOME, ALASKA 99762 • 907 443 5036 • FAX 907 443 2162

January 22, 1996

Mr. Ross Kinney
Deputy Commissioner
Department of Revenue
MS 0400
Juneau, AK 99811

**RE: Procurement of Investment & Brokerage Services.
HB 345.**

Dear Mr. Kinney:

In order to prepare for hearings on HB 345, I am requesting information from your offices regarding investment history and practices of the PERS and TRS accounts. As you are aware, it is the intention of the proposed legislation that increased investment activity be conducted through qualified Alaskan investment firms. Additionally, I am interested in expanding the actual direct investments made through these investment funds in Alaska's economy. Your response to the following questions will assist my office in developing a workable recommendation for the entire legislature to consider, one that benefits all Alaskans.

1. Please supply a copy of the audited financial report for the investment portion of the TRS and PERS systems for the fiscal year ended June 30, 1995.
2. Please provide a break out of gross purchases and sales of marketable debt securities for FY 95.
3. Please indicate the percentage of gross purchases and sales of marketable debt securities (referenced in item #2 above) that were transacted through brokers or investment firms in Alaska. If possible, please provide a summary of all transactions, listing amounts, firms and salesperson responsible for the transaction.

4. Please provide a listing of amounts paid to bank custodians during FY95. Include the amount, the particular banking institution and location of the bank.

5. Please provide a table listing all real estate held, as of June 30, 1995, by the TRS and PERS funds. Include the location of the property, date and cost of purchase as well as current market value. Please summarize real estate sales during the fiscal year (i.e. sales) using a similar spreadsheet format indicating date of purchase, location, purchase price, sales price, etc.

6. Please provide a schedule showing the mortgages held by the TRS and PERS funds as of June 30, 1995. In addition to the value of the mortgage, please include the name, year purchased and location of each property.

7. Please provide a listing of the amount of mortgage backed securities held by the TRS and PERS funds as of June 30, 1995. In addition, list the value of each investment, name, year purchased and location of each property making up the security.

8. Please prepare a schedule indicating the amounts paid during FY95 to all money managers and investment advisors. In addition, please indicate the name of the firm, contact person and location of the active office.

9. Please prepare a schedule indicating the amounts paid during FY95 to regular and special consultants, auditors and actuaries. In addition, please indicate the name of the firm, contact person and location of the active office.

10. Please provide a summary of amounts paid during FY95 for staff travel, destinations, purpose of travel, dates of travel, place of lodging, cost of lodging, business and personal agendas during travel, summary of gratuities received, the name and sponsor of all gratuities and the source of funds for all travel related expenditures. Additionally, please provide an explanation for any deviation of travel itinerary outside of the business destination.

I recognize that this is a considerable research request and appreciate the time and effort necessary to respond to each of the queries.

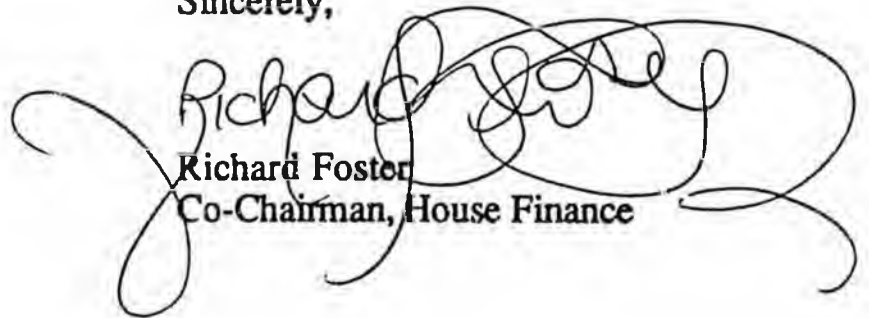
Mr. Ross Kinney
1/22/96
Page 3 of 3

If you wish to discuss this request further, please contact Mr. John Walsh in my office (5-3722).

I have enclosed an advance copy of an article addressing the need for review of in-state investment policies of both the Alaska Permanent Fund and the TRS and PERS retirement investment accounts.

Thank you.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Richard Foster". The signature is written over the typed name and title.

Richard Foster
Co-Chairman, House Finance

Enclosure

It's Time To Invest In Quality Alaskan Investments

By Robin E. Ward, Legislative Chair
Alaska State Home Builders Association

Alaskans need to understand where and how our state is investing its savings accounts. We are told that our economy is boom and bust, that we do not pay our bills as well as others in the lower forty-eight and therefore long term investment in Alaska should not be considered. Every state in the nation, except Alaska, makes a point of investing in their local economies.

Alaska has thirty billion dollars in state held investment funds, not counting the billions of dollars held in private or municipal pension funds. This money is controlled by "Outside" investment advisors who unanimously recommend against investing in Alaska. Alaska Statute 37.13.120 states that the Alaska Permanent Fund (APF) Board shall invest in 'in-state investments' if the 'in-state investments' are comparable in risk and yield. That is very clear language. Shortly after adoption, an APF Resolution was issued to implement the statute. The resolution established minimum qualifications of \$10,000,000 per investment and a population of 200,000 people per community. How many urban or rural Alaskan communities qualify?

Let's examine the 'comparability of risk' issue. Housing is a basic economic indicator in Alaska and in the rest of the nation. We can compare risk by comparing housing investments in Alaska to housing investments in other states. In the early seventies, investment advisors were adamantly opposed to housing loans in Alaska. These advisors judged the Alaska economy to be unstable, and believed that Alaska is prone to earthquakes. The Alaska Housing Finance Corporation (AHFC) stands as a successful repudiation of that judgment by maintaining their AAA bond ratings. The truth is that Alaskans have and will handle their debts responsibly, just as others do in other states.

Alaska does have an economic cycle -- as does every other state. If you compare our job growth, housing appreciation, diversification and long term growth trends, we find that our economy is one of the strongest in the nation and adds tremendous fiscal stability.

However, even with our stable economy, investment advisors' recommendations for Alaskan funds do not include "in-state investments". The Alaska State employees retirement system, PERS - TRS, is a good example. During a recent allocation of assets, the PERS - TRS Board discussed the subject of "in-state investments" and rejected it. This is a seven billion dollar State fund with no active "in-state investment" program and no Alaska resident investment advisor.

Not all investment advisors are anti-Alaskan. In recent years, four Alaskan investment advisory firms have been registered with the SEC and handle millions of dollars for retired and employed Alaskans. These local firms are well respected in the national community of investment advisors. Such proven competent investment advisors as Dave Rose, Jane Cuddy, David Gottstein, Jim Crawford, Jack Diamond and Bob Gillam are principals in these Alaska based SEC registered investment advisory firms. Currently, none of the thirty billion dollars of state investment funds are handled by any of these Alaskan advisors, but are instead controlled by outside firms.

During Alaska's recession, national investors "red-lined" (red-lining means NO Loans In Alaska) our state. Some still refuse to finance multi-family or income-producing properties because these loans are too small by their standards or because "Alaska is too far away." Fannie Mae's apartment loans, for example, start at \$1,500,000 while most Alaskan apartments are valued between \$500,000 to \$1,000,000.

Multi-family income producing and commercial property owners in other states enjoy terms with up to thirty year amortization and eight per cent or lower interest rates. Local property owners have had to finance their purchases at prime plus two percent to four percent (today that would be 10.5% to 12.5%), and on pay back schedules of seven to ten years. That means less capital available for building maintenance, higher rents and an affordable housing shortage. A direct result of this short term financing over the last ten years is a deteriorating multi-family housing stock and very little construction of new apartments. There is a new loan program to finance multi-family properties now available through HUD called the 223(f) program, however, HUD has been targeted for a national overhaul and the future of this program is uncertain.

The Alaskan apartment market is in severe shortage and is creating a current crisis for renters. Towns like Juneau, Kodiak, Barrow, Bethel and Fairbanks all have dangerously low vacancy rates. Since the late eighties Alaskan homeowners have enjoyed an increase in the value of their residential investments. Income producing property owners have not been so lucky. When local lenders attempt to bring long term capital to Alaska they frequently hear "If your own state retirement and investment funds do not have enough faith in the Alaskan economy to invest at home, why should we?"

In a policy comparison, the Washington state pension system, through its State Investment Board, invests some twenty billion dollars on behalf of state employees and retirees. Their allocation to real estate equity and mortgage debt for the period 1994 through 1996 was 5%, or one billion two hundred and twenty-five million dollars. **Six hundred million dollars will be available for investment in 1996 alone!** Quality investment can be made in Alaska where it will be underwritten by local professionals and enjoy a favorable return on investment.

For a growing and healthy economy in 1996, Alaska needs investment policies that are not exclusively run by investment advisors who oppose Alaskan investment. "Buy Alaska" also means investing in Alaska. Encouragingly, a few Alaska Taft Hartley funds, (funds associated with organized labor), have overridden the anti-Alaskan bias and invested in our local economy. The Alaska Laborers' Employers' Retirement Trust's (ALERT) Alaska investment is an example that performance can be outstanding and an excellent reflection of Alaskan quality. Investing at home should be our finest investments and would create potential long term loans for multi-family properties. Single family homes are not the only answer to a housing shortage.

If you agree that it's time to invest at home, please contact the Governor and your local legislator and ask that change be made now.

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City Commerce CORPORATION

Commercial Mortgage Banker, SEC and State of Alaska Registered Investment Advisor, ERISA Fiduciary

January 15, 1996

The Honorable
Terry Martin
Alaska State House Of Representatives
State Capitol
Room 502,
Juneau, AK 99801-1182

Dear Mr. Martin: *Terry*

The last chapter of Alaska by James Michener describes the subservience of Alaska to Seattle. It's simple really, they control Alaska's money. That book rekindled a parochial fire in me to change the third world status of Alaskans. Being only a third generation Alaskan may not be much compared to the heritage of some of your constituents but it does establish how I view our Alaskan problems and opportunities.

My business is long term lending. I founded City Mortgage Corporation in 1981 and grew the company to be the dominant lender in Alaska in the one to four family residential market. During 1995, we enjoyed over a 35% market share statewide. In 1995, we were the 52nd largest Alaska based company as judged by Alaska Business Magazine.

In 1990, I retired from City Mortgage although I still maintain control as Chairman and CEO. In 1992, after examining Alaska's long term financing needs, I reactivated my father's bank holding company, City Commerce Corporation, to bring in commercial and multifamily long term loans. We're just delivering a 7.97% fixed rate or 7.58% floating rate, 25 year amortization (10 year call) \$4,000,000 Anchorage loan from a major national bank. A \$5.5 million loan is also in the works for a Fairbanks investor.

In January, we will close over \$2,000,000 in HUD 223F apartment loans. These are 35 year, fully amortizing, 7 7/8%, fixed rate and non recourse. We've closed \$5,000,000 in multifamily and commercial loans in our pension program, the Alaska Small Business Development Fund. We even closed a \$1.7 million strip mall refinance for a village corporation - just to prove that we could.

Although we have succeeded in bringing in capital, we have a long way to go to reestablish a fluid market in commercial and apartment real estate, unrestricted by financing. I've enclosed a copy of an important Opinion Piece authored by Robin Ward, Legislative Chair of the Alaska Home Builders Association. It should run in newspapers statewide shortly. Robin's article describes the capital exclusion practiced by investment and pension funds as well as national lenders, and mentions our Small Business Fund as a solution. Our Fund reconnects Alaska to the national markets so that the financing is supplied from Alaska, not Seattle or other money centers. We're informing investment advisors and state government leaders that Alaskans are good risks for "in state investments". Mr. Alex Miller and Mr. Sam Kito are assisting us in this project.

It is critical to have legislative support for our attack on the housing crisis. I believe that we will be better able to serve our clients and your constituents through local ownership and Alaska financing of profitable multifamily and commercial buildings. Our Small Business Fund financing is available throughout Alaska, not just in the urban centers.



Page 2
January 15, 1996


Dan Fauske, Executive Director of Alaska Housing Finance Corporation also believes in long term financing. AHFC is precluded from solving the statewide apartment crisis since their personnel and available lending were capped by the legislature. It is unlikely, in a time of budget cuts, that Dan can beef up staff. His current multifamily staff consists of one and one half who handle the entire state. Dan and his staff, however, have worked with us to explain our "in state" investment program as a cooperative effort between the public and private sectors to solve the problem. AHFC has agreed to serve as a Performance Analyst for City Commerce and the APF and advise us on securitizing loans.

The location of a property should not solely dictate its financing. If a project pencils in Barrow or Kwethluk, it should be financed on equal terms as those available in Anchorage, Seattle or Minneapolis - St. Paul. Capital exclusion has gone on too long in Alaska. In rural areas, it comes close to redlining. The Small Business Fund provides financing access statewide. We have proven through experience that Alaskan loans are every bit as good as "outside" loans. The next step, to be taken with AHFC and the Alaska Permanent Fund, is to increase available funds, then package and sell or securitize the loans. That's a business City Mortgage and AHFC have practiced successfully for the last fifteen years with single family loans. Sale of the loans allows recycling of funds, establishing a permanent capital source for Alaska commercial and multifamily ventures.

It is much easier to invest in virtually any venture outside Alaska than it is at home. Changing the financing of Alaska ventures changes that equation. As a Realtor and a mortgage banker, it is my professional embarrassment to see the run down state of our housing and commercial buildings. I ask you to join me in solving this problem in 1996.

As Alaskans, you and I have a simple choice. We can continue to wait (in a time of budget cuts) for the federal governments to solve our crisis, or we can solve it ourselves. This program does not cost the state of Alaska one thin dime. In fact, it earns a premium rate of return when compared with other fixed rate investments. With financing readily available under reasonable terms, we can, in a decade, solve a century old problem. This is an exciting challenge and I hope you'll join me in accepting it. Let's talk soon. Thanks for your consideration.

With best regards,



James M. Crawford
President

Enclosure

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City Commerce CORPORATION

Commercial Mortgage Banker. SEC and State of Alaska Registered Investment Advisor. ERISA Fiduciary

January 31, 1996

The Honorable Terry Martin, Chair
Legislative Budget and Audit Committee
Alaska State Legislature
P. O. Box 113200
Juneau, Alaska 99811-3200

Dear Representative Martin:

Thank you for your letter of January 25, 1996. You indicated that my letter was about affordable housing. In a sense, it was. Privately owned apartment rents are substantially higher in your district and around the state than they need to be. Rents for commercial buildings are higher than they need to be. Both are due to the lack of access to national capital markets. Our state is excluded from normal capital access by misperceptions of our economy, by remoteness from the markets and by smaller loan demand as compared to other states. The crime, Terry, is that our own state's investment funds participate in and encourage this continued capital exclusion.

Privately owned apartment and commercial building financing need be not subsidized nor should it be a cost burden to the State of Alaska. This is not financing for subsidized or non profit projects. This is financing for apartments in Mountain View that will allow local people to recapture ownership of their neighborhoods. Surely you are aware of the apartment crisis which is ongoing throughout the state. It is caused by lack of long term financing.

We've documented that Alaskan investment is good quality investment. You and your compatriots in the Legislature even passed AS 37.13.120 which directs the Alaska Permanent Fund Corporation Board of Trustees to invest in 'in state' investments if the 'in state' investment is comparable in yield and risk. Our studies have proven the comparability of risk and the comparability, indeed, the superiority of yield. And yet none of the funds are investing in Alaska. While I applaud the Permanent Fund's award of a contract to an Anchorage fund manager for \$75 million, I must also point out that a fixed income investment is a bond market investment which increases employment in Chicago not Alaska.

You need not defend policies that provide for safe investment of the Alaska Permanent Fund and the pension funds with me. When Governor Hammond appointed me to the Investment Advisory Committee in 1978, we shaped the safe investment policies of the Alaska Permanent Fund. I was and still remain unwavering in my demands for protecting those funds from the kind of wasteful programs practiced by the Alberta Heritage Foundation. As a third generation Alaskan with a fourth generation growing at home, I have every reason to be just as protective as yourself regarding the investment policies of the funds. On the safety factors, we certainly do agree.

Paternal protection, however, should not be used to justify excluding Alaskan investments which would be financed by virtually any other state's investment funds but Alaska's. The Washington state employee pension fund, for example, (roughly the same size as our Permanent Fund will finance about \$500 million dollars in 1996, 44% of it in their home region. PERS and TRS are allowed to invest in Alaska - but simply refuse.

At your hearing, let's find out why a program that works in every other state's pension funds and has been proven to work in Alaska is not practiced by funds financed by the Alaskan taxpayers' money. I want to hear the managers tell us why they feel that Alaska apartments and commercial buildings should not be funded. Do they seriously feel that Alaskan investment carries inordinate risk? If so and with your permission, I will document how the Alaska apartment and commercial building markets outperform other comparable markets like Los Angeles, Dallas or New York City where our funds do invest. We have compared other states' whole economies to Alaska's economy to prove the risk comparability of Alaskan investment. And yet, even with this proof, which no one denies, Alaskans are still being excluded from investing our own funds at home, as every other state does. That is just simply wrong.

A safe and secure investment program can be managed by the private sector within a context of cautious investments and in fulfillment of the fiduciary responsibilities of trustees of the funds. We have presented such a program, the Alaska Small Business Development Fund, to the funds which would safely provide access to the national capital markets by packaging small Alaskan loans and pooling them with loans from other states to sell into the secondary market. As an SEC registered Investment Advisor, we have suggested a format that is virtually identical to the methods the funds use to invest in the stock, bond and "outside" real estate markets. Alaska Housing Finance Corporation has even agreed to be a Performance Analyst to both the Permanent Fund and City Commerce Corporation to facilitate the program.

The Permanent Fund's local investments which you mentioned in your letter are acknowledged. Yes, they did participate some years ago in the Frontier Building which is primarily leased to the State of Alaska. And, yes, they did invest in the Goldbelt office building in which they are the primary occupants. And, yes, they did buy Commissioner Lloyd Hames' shopping center in Ketchikan during the Hickel Administration. The conclusion then is that if you are the state or the Permanent Fund, your project in Alaska can be funded? There are private sector investments in Alaska just as attractive as those made to facilitate state related activities.

Every other state in the nation manages their pension and investment funds in such a way that they help the local economy, not hurt it. When I travel and bring back markets for Alaskans, I hear, if your own state's pension funds exclude Alaskan investment, why should our pension fund (or savings and loan or bank or Wall Street dealer) invest there?

Rather than defending the status quo of absolute control of these investment funds by "outside" Investment Advisors, (funding Seattle's ability to compete against your constituents' businesses), I would think you would want to foster a safe investment program which would grow the independence and success of our local businesses. Defending bureaucratic inaction strengthens the competition against your constituents' businesses. You have always been a strong supporter of the local small business community, as I have been.

With regard to Alaskan investment, you have a clear choice: to support continued bureaucratic inaction and excuses about why investment in Alaska is wrong or support a proven in state investment program which makes a premium rate of return for the funds and doesn't cost the state a dime to manage. The program is funded by the origination receipts and still provides a premium rate of return to the funds.

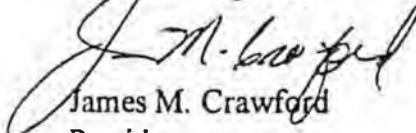
Alaskan pay their bills every bit as well those who reside outside. Yes, we had a recession. So has every other state in the nation. The Alaskan economy is a cyclical economy. And so is every other states' economy. There is no reason to exclude quality Alaskan investment. Protection of the status quo delights those who currently control our money. They get to use it to fuel their economies instead of ours but that is not appropriate public policy for Alaska.

Perhaps it is parochial to suggest that Alaskan investment can be of good quality but I'll take that risk. My companies have provided hundreds of millions of dollars of investment all over our state. Our investment experience has been good and we continue to invest over \$1,000,000 per day in Alaska's economy. I believe that Alaskans should invest their money at home as I have done. Even state pension funds, Terry, should invest our money at home.

Diversity of investment? Of course. A balanced investment portfolio? Yes. Competent and accountable Investment Advisors? Definitely. We back our program with a \$1,000,000 errors and omission policy which is pretty tough to get. We accept full fiduciary responsibility for our actions. But, we have chosen to make a market in financing Alaskan apartments and commercial properties since others have excluded them. Your constituents need your support for this program not your defense of the bureaucratic blockage of Alaskan investment.

I look forward to furthering our discussion personally before your panel in Juneau on February 7, 1996 at 4:15 PM. The investment policies of the state's investment and retirement funds can be a vital part of a healthy economy in Alaska for 1996.

With best regards,



James M. Crawford
President

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Finance



P.O. Box 113200
Juneau, AK 99811-3200
(907) 463-3795
FAX (907) 463-4885

January 25, 1996

Mr. James M. Crawford
President
City Commerce Corporation
P.O. Box 241446
Anchorage, AK 99524-1446

Dear Mr. Crawford:

Thank you for your recent letter expressing concern about the financing of affordable housing in Alaska. Your letter and the enclosed article by Robin Ward are thought provoking, and many pertinent points are made. The Legislative Budget and Audit Committee will be meeting jointly with the House Finance Subcommittee for the Department of Revenue in the House Finance Committee room in Juneau's Capitol Building on February 7th at 4:30 pm. The meeting has been scheduled to examine the investment strategies and performance of the Permanent Fund and the three major state retirement funds. Your letter and the attachment, as well as this response, will be provided to the participants of that meeting.

The state of Alaska has subsidized affordable housing for its residents in the amount of approximately \$1 billion through the Alaska Housing Finance Corporation. This level of assistance is higher than any other state in the country. It is my view that any additional funds for housing should be supplied by the private sector.

I feel I must come to the defense of the investment funds for which I have oversight as chairman of the Legislative Budget and Audit Committee. Although I will mostly speak to the Permanent Fund, I feel that the state's three major investment funds are similarly positioned. The most important investment goal of the Permanent Fund is to protect the principal of the Fund. The Fund's investment strategy is aimed first at this important goal, and then at creating income from its investments to provide for dividends,

Mr. James M, Crawford

-2-

January 25, 1996

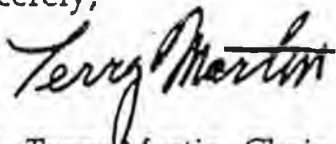
and at facilitating long-term growth of the Fund. Although Permanent Fund principal investments in Alaska are limited, hundreds of millions of dollars in dividends are put into the hands of Alaska consumers every year. I am sure much of that money finds its way into local financial institutions to be used to finance housing and in many other ways which benefit Alaska's economy.

The Supplemental Benefits System (SBS) Fund may invest up to 20 percent of its portfolio in mortgages, but no direct investment in real estate is allowed. The Public Employees Retirement System (PERS) Fund and the Teachers Retirement System (TRS) Fund are allowed up to 5 percent investment in real estate, and a moderate amount of investment in mortgage instruments. The Permanent Fund may invest up to 5 percent of its portfolio in real estate and 15 percent in mortgages, and in fact, the Fund has several real estate investments in Alaska. The Fund owns 40 percent of the Goldbelt office building in Juneau, and it holds participating mortgages in both the Frontier office building in Anchorage, and in Plaza Port West, a shopping center in Ketchikan. In addition, the Permanent Fund has a special program called the Alaska Certificates of Deposit program, which makes funds available to Alaska banks at market rates of return. You might also be interested to know that the Permanent Fund recently contracted with the Alaska Permanent Capital Management Company in Anchorage (of which Dave Rose is a principal) to manage \$75 million of its funds.

Yes, the Permanent Fund Corp and the State Pension Investment Board are cautious about their investments, but they are fulfilling their mandates and helping Alaska's economy in many ways. These funds can't be everything to every citizen. Let us not forget the lessons learned from the Alberta Heritage Foundation, which invested heavily in the Alberta economy and suffered great losses from such action.

Again, I thank you for your concern. Please feel free to contact me again, and to attend the February 7th Legislative Budget and Audit Committee Meeting.

Sincerely,



Rep. Terry Martin, Chair
Legislative Budget & Audit Committee

HB

348

9-LS1187F ✓
Luckhaupt
3/5/96

Rep. James

CS FOR HOUSE BILL NO. 348(STA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES JAMES, Therriault, Kelly, Toohey

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing the interagency work group on agency accountability and
2 child interview methods."

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

4 * Section 1. AS 47.17 is amended by adding a new section to read:

5 Sec. 47.17.100. INTERAGENCY WORK GROUP AND MEMORANDUM OF
6 AGREEMENT ON AGENCY ACCOUNTABILITY AND CHILD INTERVIEW
7 METHODS. (a) The interagency work group to increase agency accountability for and
8 to improve methods of interviewing minors who are alleged to have been abused or
9 neglected is established in the department. The work group consists of five
10 representatives, whose job description includes participation in the work group, from the
11 following departments:

12 (1) two persons from the department, one of whom shall be an employee
13 of the division of family and youth services;

14 (2) one person from the Department of Public Safety;

15 (3) one person from the Department of Education; and

1 (4) one person from the Department of Law.

2 (b) The interagency work group shall prepare a memorandum of agreement that
3 will guide all participating agencies in their involvement with interviews of minors who
4 are alleged to have been abused or neglected. At a minimum, the memorandum of
5 agreement must

6 (1) identify the best and most effective methods to establish
7 accountability for those who interview minors who are alleged or suspected to have been
8 abused or neglected;

9 (2) identify the best and most effective methods for

10 (A) videotaping;

11 (B) audiotaping;

12 (C) team interviews;

13 (D) note taking;

14 (E) documentation; and

15 (F) enforcing file content standards;

16 (3) provide for interagency cooperation in

17 (A) initial and continuing training or education for interviewers,
18 including education regarding new and updated methods of interviewing minors
19 and regarding new equipment useful for interviewing minors;

20 (B) establishing respect for family members during the interview
21 process;

22 (C) maintaining family unity during the interview process; and

23 (D) sensitivity to public response and public input;

24 (4) focus on increasing agency and interviewer accountability and
25 minimizing negative effects on families; and

26 (5) review the statutory definition of "abuse or neglect" to determine if
27 the definition leads to uniform and fair results.

28 (c) The memorandum of agreement shall be made available for review by the
29 legislature and the public. The work group shall notify the legislature that the
30 memorandum of agreement is available for review.

31 (d) The interagency work group shall meet at the times the members of the work
32 group consider necessary. At a minimum, the memorandum of agreement must be

1 reviewed and updated in the year following each gubernatorial election year as
2 determined under AS 15.35.010, and must be completed in those years before the
3 beginning of the next regular session of the legislature the following year. Each revised
4 and updated memorandum of agreement shall be made available to the legislature and
5 the public for review. The work group shall notify the legislature that the memorandum
6 of agreement is available for review.

7 * Sec. 2. The initial memorandum of agreement required to be prepared under AS 47.17.100,
8 added by sec. 1 of this Act, shall be completed by January 1, 1997. Unless an earlier revision
9 and update to the memorandum of agreement is determined to be necessary by the interagency
10 work group created in sec. 1 of this Act, the first revision and update shall be conducted in 1999
11 and completed before the beginning of the regular legislative session in 2000.

9-LS1187G
Luckhaupt
3/8/96

CS 117 F
7/1/8

CS FOR HOUSE BILL NO. 348(STA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES JAMES, Therriault, Kelly, Toohey

A BILL

FOR AN ACT ENTITLED

1 **"An Act establishing the interagency work group on agency accountability and**
2 **child interview methods."**

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

4 *** Section 1. AS 47.17 is amended by adding a new section to read:**

5 **Sec. 47.17.100. INTERAGENCY WORK GROUP AND MEMORANDUM OF**
6 **AGREEMENT ON AGENCY ACCOUNTABILITY AND CHILD INTERVIEW**
7 **METHODS. (a) The interagency work group to increase agency accountability for and**
8 **to improve methods of interviewing minors who are alleged to have been abused or**
9 **neglected is established in the department. The work group consists of four**
10 **representatives, whose job description includes participation in the work group, from the**
11 **following departments:**

- 12 (1) **one person from the department;**
- 13 (2) **one person from the Department of Public Safety;**
- 14 (3) **one person from the Department of Education; and**
- 15 (4) **one person from the Department of Law.**

1 (b) The interagency work group shall prepare a memorandum of agreement that
2 will guide all participating agencies in their involvement with interviews of minors who
3 are alleged to have been abused or neglected. At a minimum, the memorandum of
4 agreement must

5 (1) identify the best and most effective methods to establish
6 accountability for those who interview minors who are alleged or suspected to have been
7 abused or neglected;

8 (2) identify the best and most effective methods for

9 (A) videotaping;

10 (B) audiotaping;

11 (C) team interviews;

12 (D) note taking;

13 (E) documentation; and

14 (F) enforcing file content standards;

15 (3) provide for interagency cooperation in

16 (A) initial and continuing training or education for interviewers,
17 including education regarding new and updated methods of interviewing minors
18 and regarding new equipment useful for interviewing minors;

19 (B) establishing respect for family members during the interview
20 process;

21 (C) maintaining family unity during the interview process unless
22 the nature of the investigation clearly indicates otherwise; and

23 (D) sensitivity to public response and public input;

24 (4) focus on increasing agency and interviewer accountability and
25 minimizing negative effects on families; and

26 (5) review the statutory definition of "abuse or neglect" to determine if
27 the definition leads to uniform and fair results.

28 (c) The interagency work group shall meet at the times the members of the work
29 group consider necessary. At a minimum, the memorandum of agreement must be
30 reviewed and updated in the year following each gubernatorial election year as
31 determined under AS 15.35.010, and must be completed in those years before the
32 beginning of the next regular session of the legislature the following year. Each revised

1 and updated memorandum of agreement shall be made available to the legislature and
2 the public for review. The work group shall notify the legislature that the memorandum
3 of agreement is available for review.

4 * Sec. 2. The initial memorandum of agreement required to be prepared under AS 47.17.100,
5 added by sec. 1 of this Act, shall be completed by January 1, 1997. Unless an earlier revision
6 and update to the memorandum of agreement is determined to be necessary by the interagency
7 work group created in sec. 1 of this Act, the first revision and update shall be conducted in 1999
8 and completed before the beginning of the regular legislative session in 2000.

1996 LEGISLATIVE SESSION

Revision Date: _____ Dept. Affected: Public Safety
 Title: Video/audiotape Interview of Abused Minor BRU CDVSA
 Component: CDVSA
 Sponsor: Representative James
 Requestor: H. State Affairs COMPONENT SERIAL NO. 0521

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES ()	-0-	-0-	-0-	-0-	-0-	-0-
Code Revenue						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 96) impact: \$ _____

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)
 No fiscal impact is anticipated to the Council at this time.

Prepared By: Jayne E. Andreen Phone: 907-465-4356
 Division: Council on Domestic Violence and Sexual Assault Date: 3/6/96
 Approved by Commissioner: *Ronald L. Otte* Date: 3-6-96
 Agency: Ronald L. Otte, Dept. of Public Safety

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB348

Revision Date: _____
 Title: Videotape/Audiotape Interviews with
Children
 Sponsor: Representative James
 Requestor: House (CRA)

Dept. Affected: Health and Social Services
 BRU: Family and Youth Services
 Component: Southcentral Region
 COMPONENT SERIAL NO. 254
 See also (SN#): _____

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	1,189.0	1,189.0	1,189.0	1,189.0	1,189.0	1,189.0
TRAVEL	18.6	4.4	4.4	4.4	4.4	4.4
CONTRACTUAL	844.1	823.5	823.5	823.5	823.5	823.5
SUPPLIES	43.1	36.4	36.4	36.4	36.4	36.4
EQUIPMENT	31.6	7.3	7.3	7.3	7.3	7.3
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	2,126.4	2,060.6	2,060.6	2,060.6	2,060.6	2,060.6

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGES IN REVENUES ()						
-------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	2,126.4	2,060.6	2,060.6	2,060.6	2,060.6	2,060.6
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (please specify)						
TOTAL	2,126.4	2,060.6	2,060.6	2,060.6	2,060.6	2,060.6

POSITIONS:

FULL-TIME	29	29	29	29	29	29
PART-TIME						
TEMPORARY						

Estimate of any current year (FY96) cost: \$0.0

ANALYSIS: (Attach a separate page if necessary)

This bill would require that an inte view with children alleged to have been abused or neglected be videotaped. DFYS would need to purchase video camera's for every field office, multiple cameras for larger offices where generally several interviews are occurring at the same time; for example, Anchorage may have four to six interviews proceeding at the same time. DFYS would have to hire six Social Service Associate III's to operate camera's and to support the cataloging and organization of tapes. There would be cleaning, repair, maintenance and replacement cost for the videotape and audiotape recorders. There would be transcription cost assuming two hours of transcription per each report of harm received by DFYS and translation cost assuming 10% of the tapes would requiro translation from Native languages.

[Signature]
 Prepared by:
 Division:

L. Diane Worley
Family & Youth Services

Phone: 465-3191
 Date: 01/22/96

Approved by Commissioner:
 Agency:

[Signature]
Karen Herdrie, Commissioner
Department of Health & Social Services

Date: 1/22/96

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB348

Revision Date: _____
 Title: Vidiotape/Audiotape Interviews with
Children
 Sponsor: Representative James
 Requestor: House (CRA)

Dept. Affected: Health and Social Services
 BRU: Family and Youth Services
 Component: Northern Region
 COMPONENT SERIAL NO. 255
 See also (SN#): _____

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	615.0	615.0	615.0	615.0	615.0	615.0
TRAVEL	27.4	3.2	3.2	3.2	3.2	3.2
CONTRACTUAL	511.3	500.2	500.2	500.2	500.2	500.2
SUPPLIES	32.0	22.2	22.2	22.2	22.2	22.2
EQUIPMENT	21.1	3.8	3.8	3.8	3.8	3.8
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	1,206.8	1,144.4	1,144.4	1,144.4	1,144.4	1,144.4

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGES IN REVENUES ()						
-------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

FUND SOURCE	FY97	FY98	FY99	FY00	FY01	FY02
1002 Federal Receipts						
1003 GF Match						
1004 GF	1,206.8	1,144.4	1,144.4	1,144.4	1,144.4	1,144.4
1005 GF/Program Receipts						
1008 GF/MHTIA						
Other (please specify)						
TOTAL	1,206.8	1,144.4	1,144.4	1,144.4	1,144.4	1,144.4

POSITIONS:

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	15	15	15	15	15	15
PART-TIME						
TEMPORARY						

Estimate of any current year (FY96) cost: \$0.0

ANALYSIS:

(Attach a separate page if necessary)

This bill would require that an interview with children alleged to have been abused or neglected be videotaped. DFYS would need to purchase video camera's for every field office, multiple cameras for larger offices where generally several interviews are occurring at the same time; for example, Anchorage may have four to six interviews proceeding at the same time. DFYS would have to hire six Social Service Associate III's to operate camera's and to support the cataloging and organization of tapes. There would be cleaning, repair, maintenance and replacement cost for the videotape and audiotape recorders. There would be transcription cost assuming two hours of transcription per each report of harm received by DFYS and translation cost assuming 10% of the tapes would require translation from Native languages.

Prepared by: L. Diane Worley Phone: 455-3191
 Division: Family & Youth Services Date: 11/22/96

Approved by Commissioner: Karen Perdue, Commissioner Date: 11/22/96
 Agency: Department of Health & Social Services

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB348

Revision Date: _____
 Title: Videotape/Audiotape Interviews with
Children
 Sponsor: Representative James
 Requestor: House (CRA)

Dept. Affected: Health and Social Services
 BRU: Family and Youth Services
 Component: Southeastern Region
 COMPONENT SERIAL NO. 258
 See also (SN#): _____

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	246.0	246.0	246.0	246.0	246.0	246.0
TRAVEL	6.5	2.0	2.0	2.0	2.0	2.0
CONTRACTUAL	185.4	181.8	181.8	181.8	181.8	181.8
SUPPLIES	11.3	9.1	9.1	9.1	9.1	9.1
EQUIPMENT	8.7	1.5	1.5	1.5	1.5	1.5
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	457.9	440.4	440.4	440.4	440.4	440.4

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGES IN REVENUES ()						
-------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	457.9	440.4	440.4	440.4	440.4	440.4
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (please specify)						
TOTAL	457.9	440.4	440.4	440.4	440.4	440.4

POSITIONS:

FULL-TIME	6	6	6	6	6	6
PART-TIME						
TEMPORARY						

Estimate of any current year (FY96) cost: \$0.0

ANALYSIS: (Attach a separate page if necessary)

This bill would require that an interview with children alleged to have been abused or neglected be videotaped. DFYS would need to purchase video camera's for every field office, multiple cameras for larger offices where generally several interviews are occurring at the same time; for example, Anchorage may have four to six interviews proceeding at the same time. DFYS would have to hire six Social Service Associate III's to operate camera's and to support the cataloging and organization of tapes. There would be cleaning, repair, maintenance and replacement cost for the videotape and audiotape recorders. There would be transcription cost assuming two hours of transcription per each report of harm received by DFYS and translation cost assuming 10% of the tapes would require translation from Native languages.

5/22/96 Prepared by: L. Diane Worley Phone: 465-3191
 Division: Family & Youth Services Date: 01/22/96
 Approved by Commissioner: Karen Perdue, Commissioner Date: 1/22/96
 Agency: Department of Health & Social Services

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Alaska State Legislature

REPRESENTATIVE
JEANNETTE JAMES
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North Pole, Alaska 99705
(907) 488-1546
FAX (907) 488-9006



While in Juneau
State Capitol
Juneau, Alaska
99801-1182
(907) 465-3743
FAX (907) 465-2381

House of Representatives
House District 34

SPONSOR STATEMENT HOUSE BILL 348

"AN ACT REQUIRING TAPING OF ALL OFFICIAL INTERVIEWS WITH CHILDREN WHO ARE ALLEGED TO HAVE BEEN ABUSED OR NEGLECTED"

The intent of this bill is to have a video camera or audio tape recorder turned on immediately at the start of the original, initial official interview with an allegedly abused or neglected child and to record the entire interview and all subsequent interviews with the child.

When dealing with emotion-laden situations, adults' perceptions and memories are not necessarily reliable; and children can be led to make imaginary happenings sound like fact and to finally believe these fantasies themselves. The credibility of all parties can become suspect and an accurate objective judgment is then impossible. This bill would help dispel incorrect perceptions and allow fairness to all parties involved.

I met with strong resistance from DFYS and other state agencies when I introduced a similar bill two years ago. This year the agencies should be much more receptive due to a recent Ombudsman's investigation, which found:

"Arguments in favor of videotaping or at least audiotaping are as compelling as those against the practice....

"Administrative convenience does not justify lack of agency accountability in this sensitive area....

"Where video and audio recorders might have intimidated children in the 1960's, the same likely cannot be said in the 1990's. (Sponsor's insert: I also believe that taping makes the child feel validated, not intimidated.) And finally....

"Social workers questioned by the ombudsman investigator either said that audio taping would not be a problem and might be easier than note taking, or said that a videotape would be the best way to review a case."

HB 348 will help implement sound public policy by requiring accountability of agency action in the sensitive area of state interference in private family life, and I strongly urge your support for this important piece of legislation.



State of Alaska
ombudsman
 A Legislative Service Agency

LEGISLATIVE INFORMATION

F A X T R A N S M I T T A L M E M O

TO: Bill Hoover

DEPT: _____ FAX #: _____

FROM: Bureau PHONE _____

CO: _____ FAX #: _____
 Post-it and fax for ST 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000

NO. OF
 PAGES

Date: June 21, 1995
 From: Stuart C. Hall, Ombudsman

Subject: Division of Family and Youth Services' accountability concerning
 initial interviews with children who are subjects of child abuse reports.

Summary of the Complaint

On February 22, 1993, the Bethel field office of the Division of Family and Youth Services (DFYS) received a telephone call ("report of harm") reporting possible mental and/or sexual abuse of a five year old child. The "reporter" named the child's father as the alleged abuser. The reporter based the allegations upon the reporter's observations of the child and the child's family some months previously, viewed in light of a booklet the reporter had recently received regarding reporting child sexual abuse.

To investigate the report, two social workers interviewed the child at her preschool. As a result of what the child allegedly said in that interview, the social workers stopped the interview, took the child into emergency custody, and saw in while the child was interviewed again, this time by an Alaska State Trooper. During the second interview the trooper determined that the child's father's wrist had accidentally touched the child's bottom during play. After having been in emergency custody for approximately two hours, the child was returned to her parents' home. The DFYS case was closed as invalid.

The child's father complained to the Ombudsman that the whole experience was extremely upsetting and that the family now lives in fear that DFYS might return on any pretext and take the child. The father alleged that interviewing the child and taking emergency custody of her was unreasonable because the particular "report of harm" was insubstantial and because what went on in the initial interview was unreasonably shielded from review. In response to the father's complaint to them, DFYS said, "participating Division personnel acted within full scope of the law and in accordance with Division policy and procedure."

The father was not satisfied with this answer and complained to the Ombudsman that if social workers actually acted within DFYS policy and procedure in this case, then the policy and procedures should be changed. After an extensive review of the circumstances of the incident, the Ombudsman agreed with the father in several respects.

Summary of Findings

Although the Ombudsman agreed with DFYS that the social workers acted lawfully, the Ombudsman found partially justified under its own standards the overall allegation: *the Division of Family and Youth Services abused its discretion by deciding to interview complainant's child based on an insubstantial report of harm and by thereafter taking complainant's child into emergency custody.* DFYS did not accept the Ombudsman's finding.

The Ombudsman investigation found that, standing alone, the initial report of harm did not provide sufficient basis to launch a child support investigation. The social worker's intake notes left unanswered fundamental questions about the basis for the reporter's conclusions. For example, although the reporter alleged the child's actions were "seductive", the caseworker failed to support that value judgment with examples indicating the "seductive" nature of the behavior. In addition, although the social workers had available information which would have lessened the credibility of the report, that information was

Legislative Information Memorandum

-2-

June 21, 1995

apparently not used to determine whether the interview should take place. Finally, uninvolved professionals from child protective services in Washington and Oregon, as well as an experienced teacher in the field of child protection, regarded DFYS' written report of harm as bordering, vague, and lacking in specific factual observations which would back up the jargon used on the intake notes.

However, from a public policy perspective, the Ombudsman found another issue even more compelling: the only persons present during the interview were the social workers and the young child. As a result, the Ombudsman was unable to independently review the social workers' decision to take emergency custody because (1) DFYS policy does not require caseworkers to keep their original notes, (2) the interview was not audio or video recorded, and (3) the child's teacher was excluded from witnessing the interview without sufficient basis.

Given these circumstances, the Ombudsman was forced to find indeterminate, the allegation that the agency abused its discretion by taking emergency custody based upon the interview at the preschool. The Ombudsman believes an indeterminate finding is unacceptable when it is based on an insufficiency of agency accountability.

Summary of Recommendations

In the belief that sound public policy supports accountability of agency action, especially in the sensitive area of state interference in private family life, the Ombudsman made the following recommendations:

(1) Caseworkers should never dispose of their original file notes, but should retain them as part of the case file at issue.

(2) DFYS should conduct a feasibility study regarding audiotaping/videotaping of initial interviews with alleged victims of child abuse and neglect. The study will include a cost analysis, review of appropriate literature, pros and cons related to Child Protective Services (CPS) investigations, training needs, legal issues and specified situations that would benefit from taping. This study should be completed by the start of the January 1996 Alaska legislative session.

(3) DFYS policy makers and trainers should continue their efforts to improve social workers' skills, competence and casework knowledge through comprehensive, consistent and timely training opportunities for all DFYS staff.

Agency Response: Ombudsman Disposition

The agency has accepted final recommendations 2 and 3. The agency has refused to accept final recommendation 1. As a result this complaint was closed as partially justified and partially rectified.

The recommendations in this case were a compromise between the Ombudsman's Office and DFYS. DFYS continues to support the actions of its social workers and the Ombudsman continues to believe the agency made several errors in this case. The agency was unwilling to make a commitment to routinely audio or videotape interviews with children based purely on an Ombudsman recommendation. However, the agency recognizes that whether interviews with children should be recorded in some fashion is an important public concern. Therefore, the agency committed to do a timely review of the issue prior to the upcoming legislative session. HB 348, which would require videotaping of interviews with children was introduced at the end of the first session of the 1995 Nineteenth Alaska Legislature. The Ombudsman hopes that this investigation will be helpful in legislative consideration of the issues that are the subject matter of HB 348.

A full public version of the Ombudsman report of this investigation is available upon request.

This report is available to the public upon request

Abuse interviews may be taped

The Associated Press

ANCHORAGE—The state agency in charge of investigating child abuse will consider videotaping its initial interviews with alleged victims following an ombudsman review.

The Department of Family and Youth Services planned to complete its study in time for the next legislative session in January. A bill requiring recorded interviews has been filed for consideration next year.

Bea Hagen, an ombudsman investigator in Fairbanks, said Thursday that the issue arose when a Bethel man complained that his 5-year-old daughter was taken into emergency custody for two hours based on abuse charges that turned out to be false.

Hagen said the ombudsman accepted the case when it turned out that agency policies had been followed and there was no requirement for video or audio recordings of initial interviews with children.

Hagen said there also was no policy requiring case workers to keep original notes made during the children's interviews. Alaska is among states where notes may be reconstructed later and originals may be destroyed.

The department has agreed to study whether interviews should be recorded. It has rejected a recommendation that initial interview notes be retained, Hagen said.

The ombudsman said that failing to record the interviews and permitting original notes to be discarded made it impossible to retrace steps leading up to emergency custody.

"The father was very upset," said Hagen, who said confidentiality rules barred her from identifying the family. "He wanted to know why original notes weren't kept."

Hagen said the 1993 case raised policy issues about how to hold the department more accountable for one-on-one interviews with children.

The ombudsman's office said the department had acted legally in the Bethel case. Telephone messages left with a DFYS supervisor in Fairbanks were not immediately returned Thursday.

Hagen said the case began when DFYS officials received a hot-line report claiming the 5-year-old asked if she was "pretty" and acting in a "seductive" way.

The report also said the child appeared to hate boys and was always with her father when he was not at work.

Hagen said that taken alone, the behavior seemed "fairly benign." But she said she could see how a professional could interpret the girl's actions as symptoms of abuse.

"This vague, social service jargon was used to justify interviewing the child at her preschool," Hagen said. State law permits authorities to approach a child, without a parent's knowledge, if a report of harm appears worth investigating.

But Hagen said the department had erred by failing to check with others before going ahead with an interview. Among sources available was another social worker who knew the family well, Hagen said.

The ombudsman said the child was taken into protective custody and state troopers were called when she made disturbing statements during the initial interview.

Hagen said that after questioning that same day by a trooper, the social workers concluded that the child's bottom had been touched during innocent play. She was released to her parents and remains with them today, Hagen said.

The department has resisted recording initial interviews because it would be expensive, require staff training and may intimidate a child.

Danger lurks in suggestive interviews

In January, 1989, a parent charged Bob Kelly of sexually abusing her son at the Little Rascals Day Care Center in North Carolina. Panic swept the town as the police, parents, and therapists relentlessly questioned the preschoolers. After months of repeated questions, 90 children made charges not only against Bob Kelly but against dozens of people in the town. The charges included rape, sodomy, and fellatio.

Some children said that pins and magic markers were put into their vaginal and anal openings. Others claimed Bob burned a cat with a candle and murdered babies.

Some children said they were taken away on a boat and thrown into a sea of circling sharks.

The jury convicted Bob Kelly and all the other defendants. Bob Kelly was sentenced to serve 12 consecutive life terms. Last May, his conviction was overturned on appeal.

In their new book, *Jeopardy in the Courtroom: A Scientific Analysis of Children's Testimony* (Washington, D.C.: American Psychological Association, 1995), psychologists Stephen Ceci of Cornell University and Maggie Bruck of McGill University examine what goes wrong in such cases.

Their conclusions are the



Judith
Kleinfeld

more convincing because they refuse to cash in on their expertise. They have declined hundreds of requests to serve as expert witnesses. In the five cases where they did testify, sometimes for the prosecution and sometimes for the defense, they refused any fees. Preschool children are able to provide accurate testimony about sexual abuse, Ceci and Bruck conclude, but they are also suggestible.

Aggressive interviewing about events that never happened can distort their memories to the point where the truth may be buried forever.

Researchers have devised clever experiments to examine how children react to false suggestions about being touched.

One fascinating set of studies examined children's memories of ordinary visits to the doctor. The researchers knew what had happened at the doctor's office—a routine examination. But what would children say if

adults asked them leading questions with a sexual whiff, such as "Did the nurse lick your knee?"

The 7-year-old children stuck to the truth 90 percent of the time. The 3-year-old children were far less reliable, especially when asked about the doctor's visit three months later. The researchers discovered a valuable clue to the truth of children's testimony. When the event never happened, many children at first laughed at the question. This happened in the Little Rascals case. As a mother testified:

Mother: I asked him has Mr. Bob ever touched your pee-bug...

Attorney: And what were his responses?

Mother: He thought it was funny. He was laughing at me...

If we want accurate testimony, say Ceci and Bruck, we should watch for such clues.

We also need to watch out for the powerful impact of interviewer bias where parents or investigators think they know what has happened and attempt to get the child to confirm it.

In a dramatic experiment, Ceci and his colleagues asked preschool children to play a game a lot like "Simon Says." The children touched their stomachs and other children's noses.

A month later trained social workers interviewed them about the game. Some of the social workers were told the truth. Others were misled. They were told, for example, that the children's knees had been licked.

What the social worker believed to be true had an astonishing impact on what the children ending up saying. When the social worker knew the truth, the preschool children gave accurate reports 95 percent of the time.

When the social worker had wrong information, more than a third of the children confirmed these false beliefs. At first the children appeared hesitant when they agreed that someone had done something like licking their knees. But their confidence increased as the interview went on. When these social workers passed on their notes to other social workers, who interviewed the children again two months later, the children stuck to their errors with even greater confidence.

Ceci and Bruck do not deny the reality of sexual abuse. But they provide convincing evidence that suggestive questioning during investigation can provide confident child witnesses testifying to things that never happened.

Judith Kleinfeld is a professor of psychology at the University of Alaska Fairbanks.

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO: HB348

Revision Date: _____ Dept. Affected: Public Safety
 Title: Video/Audio taping of interview, with abused BRU: Alaska State Troopers
minors Component: Detachments
 Sponsor: Representative James
 Requestor: H. 570 COMPONENT SERIAL NO. _____

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES	2.6	2.6	2.6	2.6	2.6	2.6
EQUIPMENT	22.0					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	24.6	2.6	2.6	2.6	2.6	2.6
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES () Revenue Code	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 95) impact: \$ _____

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)

See Attached.

Prepared By: Lt. Dan Lowden Phone: 65-5505
 Division: Alaska State Troopers Date: January 22, 1996
 Approved by Commissioner: *Ronald L. Otte* Date: 1/22/96
 Agency: Ronald L. Otte, Department of Public Safety

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