

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 8672

9226 HOUSE JUDICIARY

amendment. I am afraid we will be in the same position we were in yesterday where we struck certain language and then we had to have an amendment to put the same language back in. As it now stands, we have stricken Section 6. If we take the motion to reconsider and if that

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motion to reconsider is against Mr. Buckalew's amendment, we will be in the position then of having failed to strike the section and then we have another motion come along to strike the section over again. It seems to me that the primary question at the minute is whether the body does or does not want an elective secretary of state.

PRESIDENT EGAN: Mr. Londborg.

LONGBORG: Mr. President, I would like to speak another word for the committee proposal as we drew it up. As I see the difference in the remarks now of Mr. Hellenthal and his would-be secretary of state, and the one that the Committee provided for, is this, of a time element as far as when the governor picks his partner. In other words, has the Committee made it possible that the governor would have a perfectly compatible working partner; he would choose that man or the party would work together and pick that man before the election, or if the law so provided, he may be picked in the primary to be the running partner of the successful nominee of the primary for governor. Now, as I see it, the pressure that is going to come upon the governor in selecting a secretary of state will be just the same as the pressure if he were to pick him before he was elected as governor. This man that will be selected as secretary of state after the governor is elected, will be a man who can take over the governor's office for a period of three or three and one-half years, maybe even more should the governor die. You can be sure there is going to be just as much pressure on the governor to attach on to him somebody the people don't want but somebody to whom the party owes a debt; but if you have the secretary of state as just a working man and not succeeding to the governor's chair, that would be a different thing, but if he is to fall in line for the governorship, then we stand the chance of having a person become governor for a period of one, two, three, three and one-half, and a day short of four years. The people would as

a whole perhaps reject just because of some pressures put upon the governor to put that man in as his secretary of state. I think the fair way to the people would be to have that man along with the governor on the general election ticket. Then if we don't feel that the governor chose wisely or the party chose wisely, they can both be rejected. The people have a choice. I can see that the strong executive would be one that would just pick all of his own men and those he doesn't want, he just throws away, but I think there are going to be pressures upon him in the selections, and that is one pressure that can be revealed before we take the whole "poke". We are going to know what we are getting and they can be accepted or rejected as a team.

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becoming governor? For your information Mr. Rivers, I'll give you the names. Thomas Dewey, Alfred E. Smith, Herbert Lehman and Franklin Delano Roosevelt.

PRESIDENT EGAN: Mr. Armstrong, would you take the Chair?
(Mr. Armstrong took the chair at this time.)

EGAN: Mr. Chairman, I would like to say that I realize that the Committee on the Executive has put in a lot of days, a lot of hours, just simply a lot of time on this particular question. What they have come up with they feel is the best that is possible. I know that and give them every credit and I have respect for their feelings, but I have not been completely in favor of this type of provision at any time since it was under Committee discussion. I am opposed to having the man who would be next in line in succession to the governorship not actually elected in some manner by the people of the new state. I would like to say as to that that I also have that feeling with relation to the Vice Presidency of the United States, that I am not in agreement with that particular means that we now use and have used all along through our history in providing for the Vice President of the United States. This feeling does not conflict at all with my feeling

on the national level relative to that question. I feel that as Mr. Victor Rivers has stated, that if such an amendment -- I voted for the deletion of Section 6 -- with that feeling in mind, that actually a secretary of state won't be running for any office. The people won't have one thing to say about who shall be secretary of state under Section 6 as I read it. Someone will choose that particular man and he will become as Section 6 reads, "the governor of the State of Alaska." Now, if as Mr. Victor Rivers has stated, he will offer an amendment that will definitely guarantee to the people of Alaska that the man who will become secretary of state will be elected by the people in a primary election, then I would agree with going along with Section 6 if I knew that that particular amendment was going to be offered, and that we were going to have a chance to vote upon that. I also don't agree with the line of succession, with the secretary of state being appointed. I can see no reason why we should not have Section 6 as it is as well as accepting an amendment that would allow the governor to pick his own successor. I am not any more in agreement with that than I am with Section 6 as it is written now. In thinking this over, I am also not in agreement with having an amendment produced that will let the direct line of succession go from the governor, say in the manner that was suggested, that the secretary of state if the governor died, would call the legislators into session and then they would select the governor. I am not in agreement with that because the people do not elect the representatives to the legislatures and their senators with the idea that one of their number will become the governor of Alaska. I think that the best idea so

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far that I have heard is this particular proposal that we nominate, at least give the people some choice in the matter, it will be a real choice. Let them nominate the man who will run in the package with the candidates for governor in the general election. I think that that would be a proper means of allowing the people to elect their governor and also the successor to the governor. I would go along wholeheartedly with such a proposed amendment. That is my feeling on this question, and if I knew that that amendment was going to be adopted, I would then vote against the motion to strike Section 6 from the proposal.

Another thing is that the voters become apathetic as time goes
on and pretty soon you

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have a small percentage of people electing your officials,
whoever they may be. One reason I don't think we should be
too fearful of the governor's making a bad appointment is that
we are giving him the authority to make all the other
appointments. The secretary of state is actually an
administrative official, really. Normally he has a lot of
administrative functions, just as our present Secretary of
Alaska has. He does not have to necessarily have the
qualities that would make him a good governor, although he
should be in very close touch with the governor as he would be
under our thinking here, so that in the event of an emergency
the executive department would continue to run smoothly when
the governor was absent. So there is a good deal to be said
on both sides, and so it seems to me it does boil down to just
one thing, do we want the people to elect this man or do we
want him appointed?

GRAY: I'll speak once and forever more on this subject. To me, I feel that the Committee's plan is the best. We are talking about one thing, we are talking about the governor and his successor. The probability of a successor is possible but

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in general we can assume that the elected governor will carry out his term. There is a great deal of emphasis placed on the secretary of state becoming the governor. Now what we are talking about is efficiency in the state government, and we are selecting our man by the voice of the people and they are selected on a popularity basis with efficiency as a second regard. We try to get the most efficient man that is popular. In the Committee plan I do believe that you will receive the most efficient secretary of state, because if he is selected and if he is unpopular, it will be a detriment to the man running as governor. I believe like Mr. Nerland, I believe that in selecting a secretary of state we must select him for popularity but primarily for efficiency, which is the purpose of the whole executive department.

PRESIDENT EGAN: Mr. Coghill.

COGHILL: Mr. President, I support the Buckalew amendment and in turn the proposed amendment which Mr. Hellenthal is trying to submit. I feel that this issue is entirely a political issue within parties. I can see that under the particular system that we have here that we are just trying to pull a veil over the voters' eyes as to allowing them to elect a secretary of state because it ties them too closely to the governor. I could see that in a political convention that this Section 6, as written, would enable a party to set up a fairly strong piece of political machinery. I can't see where the primary election would do so good because we all know there are factions in political parties, and you know that from time to time in our past history we have had very strong feelings and splits in both major parties in Alaska, so I can see where we would have a strong man of one faction running for secretary of state and a strong man of the other faction running for governor, and if they were tied together

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in the general election it would not give you your Utopia of a strong executive. I feel that by appointing, that your governor-elect or your governor that becomes elected, would be more or less the leading figure of the political party that gained control of our government, and feel that to this end he should have the prerogative of choosing his own cabinet or major officials.

NORDALE: Mr. President, I think that Mr. Davis put his finger on the problem when he said it was a matter of do we want to elect a secretary of state or do we want to appoint him. I am not too sure just how strong my convictions are, but I would like to say this, that one of the problems that has faced most of the states, and I think one of the reasons why there has been a swing away from elected officials is that for one thing, as the years go by the ballots become cluttered with elected officials. Of course, ours does not look as if it would be in much danger, except we do have our election of senators, representatives, and at least three members of Congress to elect plus initiatives and referendum and all that sort of thing, but the swing toward the appointment of officials has been to keep some sort of coordination in government. Any man elected by the people is pretty independent, and that is why you have a lack of coordination in government where you have a lot of elected officials.

SWEENEY: I just wanted to say that I want to have a secretary of state elected. I want him compatible with the governor. I want him nominated in the primary and I want him teamed with the governor in the general election. That is all I want, and I do not believe that it is destroying the strong executive. To talk about splinters in either party, I think if you did happen to get one from one faction or one from another, it might be just the thing that would cement your party, and I hope you vote down the Buckalew amendment.

AWES: I have an amendment, Mr. President.

PRESIDENT EGAN: You may present your amendment, Miss Awes.
The Chief Clerk may read the proposed amendment.

CHIEF CLERK: "Line 18, page 2, strike the words 'secretary of state' and substitute 'lieutenant governor'; line 21, strike from 'and' through word 'governor' ending on line 2, page 3; line 2, page 3, strike 'secretary of state' and substitute 'lieutenant governor'; lines 4, and 5, page 3, strike words 'secretary of state' on both lines and in each case substitute 'lieutenant governor'."

AWES: I move the adoption of the amendment.

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PRESIDENT EGAN: Miss Awes moves the adoption of the proposed amendment.

BUCKALEW: I second the motion.

AWES: Some of the delegates here were perhaps surprised at the amendment thinking that the idea of a lieutenant governor had been completely buried. That is what bothered me. I am afraid that the idea of a lieutenant governor was buried perhaps too soon. The only argument I have heard is that the lieutenant governor does not play too important a role and it costs money; therefore we should do away with him. Yes, it does cost something to have a lieutenant governor; you have to pay him a salary; you have a few extra lines on the ballot; you have to provide an extra room in the statehouse. When you come down to it, it costs only a drop in the bucket for the total cost of running a state. Therefore, I think the question is not what does he cost, but does he serve a purpose? I think he would serve one very real purpose. I

agree we should elect a successor to the governor. I think Alaskans have been so fed up in the last 50 or 75 years with appointive governors that they don't want to hear the word again. However, it bothers me considerably to elect the secretary of state. I don't think we should put over what some people call a package deal and give the people the form of electing a secretary of state without the choice. On the other hand, to elect the secretary of state independently, we know there are not only different parties in Alaska but there is a lot of factionalism in the parties, and if you get a lieutenant governor who is of a different faction than the governor, because he isn't too effective while serving as lieutenant governor it would not make too much difference, but the secretary of state is right-hand man to the governor, and if you get a secretary of state who is of a different party or of a different faction in the same party, he can hamstring the governor and make our whole government ineffective for the whole four years he is in office, and I think the fact that we want a strong executive makes the problem even more pressing, and therefore I suggest that we consider or reconsider, as the case may be, the idea of having a lieutenant governor in the State of Alaska.

PRESIDENT EGAN: The question is, "Shall the proposed amendment as offered by Miss Awes be adopted by the Convention?" Mr. McLaughlin.

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McLAUGHLIN: I am a bit confused. Would the secretary read the section as it would read if it were amended.

PRESIDENT EGAN: Would the secretary read the section as it would read if it were amended.

CHIEF CLERK: "There shall be a lieutenant governor who shall have the same qualifications as the governor. He shall be nominated in the manner provided by law for nominating candidates for other elective offices. He shall be elected at the same time and for the same term as the governor. The candidate for lieutenant governor who runs jointly with a successful candidate for governor shall be elected lieutenant governor. The lieutenant governor shall perform such duties

as may be prescribed by law and as may be delegated to him by the governor."

PRESIDENT EGAN: Mr. Riley.

RILEY: I would like to address one question to Miss Awes. In distinguishing between the two titles did you mean to distinguish between duties in your discussion, Miss Awes?

AWES: Yes, I did. I was proposing a lieutenant governor in the traditional sense and then have the usual appointment of secretary of state by the governor to perform the duties of a secretary of state.

CHIEF CLERK: "There shall be a secretary of state who shall have the same qualifications as the governor. New material. "He shall be nominated in the manner provided by law for nominating candidates for other elective offices. He shall be elected at the same time and for the same term as the governor and the procedure prescribed by law." Delete the word "election". "The procedure prescribed by law for general elections shall provide that the electors in casting their vote for governor shall also be deemed to be casting their vote for the candidate for secretary of state shown on the ballot as running jointly with the respective candidate for governor. The candidate for secretary of state who runs jointly with the successful candidate for governor shall be elected secretary of state. The secretary of state shall perform such duties as may be prescribed by law and as may be delegated to him by the governor."

PRESIDENT EGAN: The Chair feels that the question that was asked by Mr. Kilcher was, are there any other necessary amendments to the following sections in order to make them conform completely with Section 6 as it is now written. Is that right?

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signify by saying "aye", all opposed by saying "no". The "ayes" have it and the proposed amendment is ordered adopted. Are there amendments to Section 14? Mr. Barr.

BARR: Mr. President, I have an amendment to insert after Section 13. It is on the Secretary's desk.

PRESIDENT EGAN: Between Section 13 and Section 14?

BARR: Yes, it will be a new Section 14.

PRESIDENT EGAN: The Chief Clerk may read the proposed amendment.

CHIEF CLERK: "Page 6, line 16, after Section 13, insert a new Section 14, and renumber the following sections accordingly:

"An Attorney General shall be elected at the same time and in the same manner as the Governor, and his term of office shall be four years. He shall be the chief law officer of the State, shall represent the State in all courts of law, and shall see that all laws are uniformly and adequately enforced throughout the State. He shall be legal advisor to the Legislature and all State officers, and shall perform such other duties as may be prescribed by law. He shall be responsible to the Governor and the Legislature for the faithful performance of his duties. The Attorney General shall receive for his services a compensation fixed by the Legislature which shall not be increased or diminished during his term of office. He shall devote his full time to his office and shall not receive any salary, fees or other compensation from any other source. In case of vacancy in the office of Attorney General for any cause, the Governor shall appoint his successor to complete the term of office with the consent of a majority of both Houses of the Legislature in joint session assembled, or, when not in session, a poll of the members may be taken by mail by the President of the Senate and Speaker of the House."

PRESIDENT EGAN: What is your pleasure, Mr. Barr?

BARR: I move the adoption of this amendment.

PRESIDENT EGAN: Mr. Barr moves the adoption of the amendment. Is there a second to the motion?

KNIGHT: I'll second the motion.

PRESIDENT EGAN: Mr. Knight seconds the motion. The amendment is open for discussion. Mr. Barr.

BARR: Mr. President, as this is rather a long amendment --

BARR: I have had placed on all the delegates' desks a mimeographed copy of the text of this amendment. It is not the complete amendment showing the lines and paragraph, it is merely the text. It provides for the election of the attorney general, that is the gist of it. He shall be elected at the same time and manner as the governor. He shall be legal adviser to the legislature and all state officers, and shall perform such other duties as may be prescribed by law. It outlines his duties and it provides for his replacement in case there is a vacancy. Now, in presenting this amendment, I do not go against the thought of the Executive Committee in that we should have a strong executive. Some people will think so. I went along with their committee report and I still do not disagree with it; however, the reason I decided finally to put this amendment in was the fact that I met innumerable people, speaking to them privately, who thought that the attorney general should be elected. In fact, they stated it in broader terms, they said they would like to elect more officials than the state governor. None of them stated that they wanted to elect as many as we have now, that they wanted to reduce the governor's power, but they thought they should elect enough so that they felt they had a hand in the government themselves. I felt that if another official should be elected, it should be the attorney general. Why the attorney general? Because all these other department heads are there expressly to carry out the governor's program and should agree with him in every detail on his policy. That makes up a good working team. The attorney general also should work with the governor, he is the governor's legal counsel and the legislature's legal counsel and also counsel for all the department heads, but he has one other duty that does not quite conform to the usual idea of a department head's duty under administration and that is, he is called upon to interpret the law at times. That is a semi-judiciary function, I would call it, although it's not final. It is a temporary decision and may be taken into the courts. In interpreting the law, he should be impartial. Many times, of course, the governor might ask him to interpret the law to be

sure that he is on the right ground when he proposes something. In case we had a governor who wanted to bulldoze something through anyhow, if it were a little bit questionable, the attorney general might feel that he was obligated to the governor if he were appointed and his opinion might be biased a little bit. I wouldn't say that he would flout the law, but he could be biased a little bit to either one side or the other.

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And even if he were entirely honest and tried to render an impartial decision, I'm afraid his conscience would hurt him a little bit because he was obligated to the governor and went against the governor's wishes, so to remove him from that embarrassing position, I think that he should be elected. Now I grant you in electing any man we cannot be sure that we will get a good man, and on the other hand, by appointment we cannot insure that we will get a good man, but I believe that if we are going to elect another official because the people want it, then it should be the attorney general.

McLAUGHLIN: Mr. President, I voted against the governor and secretary of state as co-runners on the belief that we had merely one elective office in the executive arm and that would suffice, because my other voting had been predicated, and other proposals had been predicated, on that belief we were going to have a strong executive. This is merely the introduction to other offices. I notice we have a Delegate Proposal No. 45 submitted by Mr. Barr, and we have a Delegate Proposal No. 44 also,

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providing for the election of a commissioner of labor. If we yield ground in one respect, we might as well elect our commissioner of welfare, our commissioner of education, and having provided those, I feel that we should go right down the list and completely dissipate the theory upon which the voting has taken place. It was with reluctance that I even voted in favor of the secretary of state as a co-runner for the governor. I am violently opposed to the election of the attorney general. I don't think the election of him accomplishes any purpose. The blunt fact is that there is a general misconception as to the function of the attorney general. The attorney general is a lawyer and his opinion is the equivalent of any other lawyer's. It can be attacked. Any recommendation he makes, if acted upon, can always be attacked in the courts by private citizens. His opinion is worth the paper it is written upon. It's impressive upon the state and the officials are bound by it until some irate taxpayer attacks it and the actions taken under the authority of it, and the courts can promptly overrule it. There is a misconception about the function of the attorney general, his functions are not quasi-judicial. He is another attorney giving an opinion, and if you could assure yourselves that he

would have the wisdom of a deus, those lawyers don't exist in Alaska as it has been evidenced by the variety of opinions expressed here before this body. I do oppose it, I think if we are going to have an attorney general, the power should be vested in the governor to appoint him, and that is without any screening by any judicial council or anything of the sort. If you're going to elect him, elect him, but by and large if you're creating a strong executive, then give him the power to appoint his own attorney general. The discrepancy has been pointed out in New York under the series, Governors and Administration of New York, which is put out under the American Commonwealth Series, it's pointed out that because of the fact that the attorney general is an elective office under the constitution, that is, the governor, in substance, has to rely on a legislative act passed in 1900 authorizing him to have private counsel. You're putting a diverse and possibly a discordant element into the executive branch. It isn't necessary. The courts can protect the government from the opinions of an attorney general appointed by the governor, and that attorney general does, in a sense, bear the same relationship to the governor as any attorney bears to his private client. It is an attorney-client relationship and the relationship has to be based on faith and personal selection. I would strongly recommend that there be no other elective offices in the state.

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PRESIDENT EGAN: If there is no objection, the rules will be suspended and Mr. Barr may have the floor on personal privilege.

BARR: I want to explain that since it is very clearly the intention of this body to have two elected officials, there is no point in me introducing this other amendment and holding up proceedings. I never intend to hold up proceedings at all. I realize the shortness of time here, so I will not introduce that amendment at this time, although in my own heart, I believe that we should have an attorney general and commissioner of labor elected.

SUNDBORG: I would like to know if we are creating anywhere in this constitution the office of the attorney general? And I ask it because in our article on direct legislation there is a provision that petitions for referendum and recall and the like, shall be filed with the attorney general who shall certify it to its sufficiency as to form, etc. Since we have not created that office, and I don't believe we should do it by indirection by assigning duties to the man whose office has not been created, I would like to be recognized at the end of this statement under the item of personal privilege, to make a motion and the motion would be that the rules be suspended and the Committee on Style and Drafting be instructed to make a substantive amendment in the article on direct legislation to provide that wherever the words "attorney general" appear, that they be changed to "secretary of state". I wonder if all of you recognize what the problem is. I think we have now agreed that in the executive department we are going to have one other officer at least besides the governor. He will be called the secretary of state. I wonder if all of you recognize what the problem is. I think we have now agreed that in the executive department we are going to have one other officer at least besides the governor. He will be called the secretary of state. It occurred to us in Style and Drafting that it would be entirely proper that the secretary of state should be the officer of the state with whom petitions under the initiative and under the referendum should be filed, that if he required legal services in order to satisfy himself that they were sufficient as to form, etc., he could get them from whatever officer of the state might be provided by

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legislation or otherwise for that purpose, but I think we are

probably being inconsistent and maybe we are making a mistake if we set up duties for an official called the "attorney general" and don't set up the office itself in the constitution.

Table 1—Qualifications, Selection, and Term of Attorneys General

Jurisdiction	Qualifications			Selection and Term		
	Minimum age	Citizenship & State Residency	Bar Admission Required	Elected	Appt'd By, With Consent Of	Term ^a (yrs.)
Alabama	25	U.S., 5 yrs.	Yes	x		4
Alaska	—	U.S., 1 yr.	No		Gov., Legis.	— ^c
Am. Samoa	—	U.S.	No		Gov., Legis.	— ^c
Arizona	25	U.S. (10 yrs.), 5 yrs.	No	x		4
Arkansas	21	U.S., elector, ^d 1 yr.	No	x		4
California	—	U.S., state	5 yrs.	x		4
Colorado	25	U.S., 2 yrs.	Yes	x		4
Connecticut	—	Elector	10 yrs.	x		4
Delaware	—	—	No	x		4
District of Columbia	—	D.C.	No		Mayor, D.C.	—
Florida	30	U.S., elector, 7 yrs.	5 yrs.	x		4
Georgia	25	U.S. (10 yrs.), 4 yrs.	7 yrs.	x		4
Guam	—	—	No		Gov., Legis.	— ^d
Hawaii	—	U.S., 1 yr.	Implied		Gov., Sen.	— ^d
Idaho	30	U.S., 2 yrs.	Yes	x		4
Illinois	25	U.S., 3 yrs.	Yes	x		4
Indiana	21	State	Yes	x		4
Iowa	—	Elector	No	x		4
Kansas	—	—	Yes	x		4
Kentucky	30	U.S., 2 yrs.	8 yrs.	x		4
Louisiana	25	U.S., elector, 5 yrs.	5 yrs.	x		4
Maine	—	—	No		Legis.	2
Maryland	—	U.S., 10 yrs.	10 yrs.	x		4
Massachusetts	—	5 yrs.	Yes	x		4
Michigan	21	Elector, 6 months	No	x		4
Minnesota	21	U.S. (3 mos.), elector	Implied	x		4
Mississippi	—	U.S., elector	5 yrs.	x		4
Missouri	—	U.S., 1 yr.	No	x		4
Montana	25	U.S., 2 yrs.	5 yrs.	x		4
Nebraska	—	—	No	x		4
Nevada	25	Elector, 2 yrs.	No	x		4
New Hampshire	—	—	Yes		Gov., Exec. Council	4
New Jersey	—	State	Implied		Gov., Sen.	4
New Mexico	30	U.S., 5 yrs.	Yes	x		4
New York	30	U.S., 5 yrs.	Implied	x		4
North Carolina	21	Elector	Yes	x		4
North Dakota	25	Elector, state	Implied	x		4
N. Mariana Is.	—	—	5 yrs.		Gov., Sen.	— ^d
Ohio	18	Elector	Implied	x		4
Oklahoma	31	U.S., elector, 10 yrs.	No	x		4
Oregon	18	Elector	No	x		4
Pennsylvania	30	State, 7 yrs.	Yes	x		4
Puerto Rico ^e	21	U.S.	Yes		Gov., Sen.	— ^c
Rhode Is.	21	Elector	Yes	x		2
South Carolina	—	U.S., elector	Implied	x		4
South Dakota	—	State	Yes	x		4
Tennessee	—	—	Implied		Supreme Ct.	8
Texas	—	—	No	x		4
Utah	25	U.S., elector	Yes	x		4
Vermont	21	U.S., elector	Implied	x		2
Virginia	30	U.S., state	5 yrs.	x		4
Virgin Is.	—	U.S.	Yes		Gov., Sen.	— ^d
Washington	21	Elector	Yes	x		4
West Virginia	25	U.S., 5 yrs.	Yes	x		4
Wisconsin	—	U.S., elector	Implied	x		4
Wyoming	21	Elector	4 yrs.		Gov.	— ^c

State Attorneys General

Qualifications, Selection, and Term

State Attorneys General

^aNote that all jurisdictions except Kentucky and New Mexico allow the Attorney General to serve successive terms. Beginning in 1991 New Mexico will also allow the Attorney General to serve successive terms.

^bFor a definition of "elector," see the constitution of the specific state that has this requirement.

^cThe term may run for an indefinite number of years.

^dThe term runs concurrently with the state governor.

^eThere are no statutory requirements in Puerto Rico for the office of Attorney General. Historically, qualifications related to U.S. citizenship and admission to the bar are required.

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

April 17, 1997

Honorable Joe Green
Representative
Alaska State Legislature
State Capitol Room 118
Juneau, Alaska 99801-1182

Re: HJR 19 - Proposing a constitutional
amendment to elect the attorney general

Dear Representative Green:

I am sending this memorandum for the record to accompany my testimony on HJR 19 (proposing a constitutional amendment to elect the attorney general).

In order to ensure that all of the debate at the constitutional convention is before the Judiciary Committee, I have attached a copy of the debate for the committee files. The debate includes discussion of whether to have elected officers other than the governor and lieutenant governor (then secretary of state), and specifically whether to elect an attorney general. Two strong points were made in favor of the concept of an appointed attorney general. The first point concerned the nature of the office of attorney general. Those in favor of an elected attorney general characterized the office as the "attorney for the people." In that connection, it was argued that the attorney general needed a franchise to office granted by the people rather than by the governor. This concept was strongly refuted by delegate McLaughlin when he said:

The blunt fact is that there is a general misconception as to the function of the attorney general. The attorney general is a lawyer and his opinion is the equivalent of any other lawyer's. It can be attacked. Any recommendation he makes, if acted upon, can always be attacked in the courts by private citizens. His opinion is worth the paper it is written upon. It's impressive upon the state and the officials are bound by it until some irate taxpayer attacks it and the actions taken under the authority of it, and the courts can promptly overrule it.

Minutes of the Alaska Constitution Convention at 2196.

The attorney general is the governor's chief legal advisor. In this capacity, he advises not only the executive, but the principal department heads and state agencies under the governor's

TONY KNOWLES, GOVERNOR

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supervision. By enjoying the confidence of the governor, the public interest is benefited by a consolidated law office that is both efficient and economical.

The second point made related to accountability of the government to the people. Convention delegates were prepared to make drastic changes from the diffused form of government provided through the Territory of Alaska. You will recall that many basic state responsibilities were under federal agency jurisdiction. The governor, collector of customs, adjutant general, U.S. marshal, judges, district attorneys, and other officials were federal appointees. To dilute the authority of these federally appointed officials, the territorial legislature provided for a number of locally elected officials including the attorney general, treasurer, highway engineer, and commissioner of labor. As a result of this fragmentation of authority, no single officer was accountable for the performance of government. The rationale for a minimum number of elected officials was expressed by Delegate Lundborg as follows:

We in our committee felt that it would be the wishes of the majority of the Convention to have a strong executive. By that we did not mean a dictator, one who would get into power and be the absolute power in the state, but one who through appointive powers would be able to select his co-workers down through the various offices so that when the state's functions would be successful, we could say that we had a good governor, and when they would not be successful we would know who to blame and could vote accordingly at the next election.

Minutes of the Constitutional Convention at 2217. I submit that these reasons have continued viability over 40 years after they were expressed. I have also enclosed a copy of a transcript of testimony on a senate resolution on this subject, and a copy of an article that appeared on the Opinion Page of the Anchorage Daily News.

I offer the following comments concerning specific provisions of the resolution:

(1) The Judiciary Committee should carefully consider sec. 2, which prohibits the governor from reorganizing the Office of the Attorney General. This would leave organization of the office entirely up to the attorney general and to a lesser degree, the legislature, which can influence organization by prescribing certain duties by law. This insulation of the attorney general may be desirable to preserve independence, but it may also create a wall between the governor and his lawyer that cannot be crossed. This could cause the governor to establish separate counsel within the Office of Governor and other principal departments.

(2) Section 5 of the resolution provides that the legislature may prescribe additional qualifications for the Office of the Attorney General. Proposed sec. 28(a). This provision is exceedingly broad, and tends to hand to the legislature a power that is not given for other statewide

officeholders. This provision needs some discussion in committee to develop the intent of the sponsor.

(3) Section 5 also contains a provision that will fundamentally alter the responsibilities of the attorney general. In proposed sec. 28(c), the attorney general is required to defend the state, state agencies, public corporations, or a state public enterprise. No mention is made of the power of the attorney general to bring suits on behalf of the state. This omission should be remedied. If the legislature fails to prescribe other non-litigation related duties for the attorney general, the office will devolve into an agency exclusively engaged in litigation on behalf of public agencies. This would be similar to the U.S. Department of Justice, which may have the unintended effect of hastening the establishment of agency counsel in the various principal departments who would be responsible for general advice to agencies not involving litigation.

(4) The resolution may have the unintended effect of expanding the powers of the attorney general concerning representation of public entities in civil matters. The list of entities to be represented by the elected attorney general mentioned in sec. 28 (c) could be interpreted to include state special service areas, and state chartered corporations not currently represented in litigation by the Office of the Attorney General. For example, the Alaska Railroad Corporation and the University of Alaska are typically represented by separate counsel.

(5) The requirement to defend violations of state criminal law including infractions and violations may have the unintended effect of shifting to the attorney general the burden of prosecuting motor vehicle, traffic and other minor offenses charged by municipal peace officers. This would have a significant fiscal effect on the budget of the Office of the Attorney General.

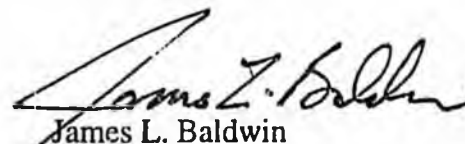
The department has prepared and will separately submit a fiscal note outlining the increased appropriations needed to implement the resolutions.

Thank -you for the opportunity to comment on the resolution.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By:



James L. Baldwin
Assistant Attorney General

JLB:clh
Enclosures

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. HJR 19

Revision Date (Note if correction) _____ Dept Affected Law
 Title "Proposing amendments to the Constitution
relating to the election and the duties of the attorney general" BRU All
 Component All
 Sponsor Representative Green
 Requester House Judiciary Component Serial No _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	*****	*****	*****	*****	*****

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

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	*****	*****	*****	*****	*****

Estimate of any current year (FY98) cost: 0.0

POSITIONS

Full-time	0	*****	*****	*****	*****	*****
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HJR 19 proposes an amendment to the Constitution of the State of Alaska making the attorney general an elected office. Further, the proposed amendment describes the duties of the attorney general, and prohibits the governor from making a change in organization or function of a unit of the executive branch headed by the attorney general. Assuming this constitutional amendment were approved by the voters of the State of Alaska in the November 1998 general election, the first elected attorney general would take office in January 2003, FY 03. However, it appears that changes in the duties of the attorney general would take place upon passage of the amendment, as early as January 1999.

The Department of Law cannot accurately quantify a fiscal impact from this resolution. However, it is clear that the impact on the state would be significant. In addition to the impacts on the Department of Law discussed below, another

Prepared by Joan M. Kasson *Joan M. Kasson* Phone 465-5370
 Division Attorney General's Office Date 2/2/98
 Approved by Commissioner Bruce M. Botelho, Attorney General Date 2/2/98
 Agency Department of Law

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FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. HJR 19

ANALYSIS CONTINUATION

major cost that may eventually occur as a result of changing from an appointed to an elected attorney general will be the proliferation of special counsel on the staffs of major departments. In other states with elected attorneys general, agency counsel have been employed to give department heads a "second" opinion in controversial matters. These counsel usually do not have the authority to litigate, but they provide legal advice to department heads and submit amicus briefs in litigation affecting their department's programs. It is not unusual in these states to see four or five separate briefs filed in a single matter, in addition to the attorney general's brief, representing the varying viewpoints of different agencies. Costs for a single special counsel, including secretarial assistance, total approximately \$150,000 per year in 1997 dollars. Although it is highly speculative at this time to accurately say how extensive the use of in-house counsel will be if there is an elected attorney general, over time, it could easily exceed \$1,500,000 per fiscal year.

The greatest potential fiscal impact on the Department of Law from the proposed constitutional amendment comes from expanded duties as described in Section 28 (c). This language is broader than the language currently in AS 44.23.020 in two ways. By inclusion of the language "state public corporation", the proposed amendment appears to include the Alaska Railroad Corporation and University of Alaska as entities that the attorney general shall defend in civil actions. Both of these organizations currently maintain their own counsel.

Secondly, Sec. 28 (c) requires the state "prosecute violations of State criminal law, including infractions and violations". The department assumes that the courts would continue to allow the attorney general broad discretion over the initiation, prosecution and disposition of cases, both civil and criminal. For example, under present law, district attorneys do not appear in court for most minor traffic violations. The charging police officer presents the state's case to the judge. If this language were to cause the court to rule otherwise, the expense to the state to have district attorneys appear in every case involving a minor infraction or violation would be substantial.

However, the department cannot make a similar assumption about the addition of state corporations to its workload. The Alaska Railroad Corporation (ARRC) has on staff three full time attorneys, and currently expends approximately \$200,000 a year on contract outside counsel. The University has a legal staff of four attorneys, and estimates their annual expenditures on outside counsel at approximately \$1 million. Presumably, legal services could be provided to these agencies through reimbursable services agreements, and the Department of Law would require sufficient interagency receipt authority to take over these functions. Practically, whether there would be additional costs (or savings) in implementing such a transfer would require a more detailed analysis to determine.

In addition, the proposed amendment removes the governor's organizational and supervisory controls over any function or unit headed by the attorney general. These controls are normally maintained through executive branch procedural requirements imposed on other executive branch agencies by the Department of Administration and the Office of Management and Budget on behalf of the governor.

It is anticipated that the Department of Law would continue to use centrally provided services such as accounting, purchasing, leasing and supply, professional services contracting, information management, and duplicating services on a "service bureau" basis and still maintain the attorney general's functions free from the governor's supervision. Personnel administration, however, is more problematic. To use the Department of Administration's classification system would retain an element of control by the governor over the Department of Law in terms of imposing functional changes in position descriptions and duties. The department assumes it would have to do its own classifications, create and maintain position eligibility lists, and maintain a more in-depth records system for personnel than it now does. The department estimates it would require 2 new PFT Personnel Assistant I (R12) positions, and 1 PFT Administrative Clerk III (R10) position, at an estimated cost of \$217,000 per year to perform these functions (using FY 98 salaries for illustration purposes).

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. HJR 19 | _____

Revision Date _____	Dept. Affected _____	Office of the Governor _____
Title "Proposing Amendments to the Constitution... relating to the election and duties of the attorney general."	BRU _____	Executive Operations _____
Sponsor Representatives Green, Barnes	Component _____	Executive Office _____
Requester House Judiciary	Component Serial No. _____	6 _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	*****	*****

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

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	*****	*****

Estimate of any current year (FY98) cost: 0.0

POSITIONS

Full-time					3	3
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This analysis emulates the organizational structure of the states of Washington, Oregon and Arizona. Each of these states has an elected attorney general, and each Governor has on-staff counsel to respond to general legal questions, public policy issues, internal matters, open meeting laws, ethics laws, revocation of appointments, handle extraditions and petitions, prepare administrative orders, deeds relating to the state's natural resources, etc., and to carry out the constitutional requirements of the Governor (i.e., executive clemency, messages to the Legislature, executive orders)

The constitutional amendments proposed by this resolution would be on the 1998 ballot. If approved by voters, the first election of an attorney general would occur in November 2002. Fiscal impact to the Office of the Governor would begin in FY03. The fiscal analysis is attached.

Prepared by <u>Michael A. Nizich, Administrative Director</u>	Phone <u>465-3876</u>
Division <u>Administrative Services</u>	Date <u>2/3/98</u>
Approved by <u>Jim Ayers, Chief of Staff</u>	Date <u>2/3/98</u>
Agency <u>Office of the Governor</u>	

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HJR 19 fiscal analysis:

This fiscal impact in below is for illustration purposes only and is based on FY98 costs and salaries. The fiscal impact associated with an elected attorney general would not be realized until FY03, and accurate costs will need to be identified then. Additionally, if the voters approve the constitutional amendment calling for an elected attorney general, the functions and duties of the attorney general will need to be defined and may result in further fiscal impact.

This note assumes an increase in Governor's staff by three positions -- an attorney, rg. 26, a paralegal, rg. 19, and an executive secretary, rg. 14. Fiscal note further assumes existing state-owned office space would be available and does not include lease costs.

Personal services:	three PFTs	196.0
Contractual:	comm., phones, postage, tolls courier svcs., subscripts, etc.	21.6
Supplies:	office/library supplies	10.1
Equipment:	office furniture, DP and communication equipment	<u>39.2</u> *
	Total first year costs:	266.9

* 39.2 first year set-up costs only and not required in subsequent years.

Alaska State Legislature



Representative Joe Green
District 10

Sponsor Statement

HJR 19 - Election of the Attorney General

HJR 19 proposes to amend the Alaska Constitution to elect the state attorney general.

The notion of electing, rather than appointing, the state's chief legal officer is not new. Presently, 44 other states elect their attorney general. Several resolutions proposing to do so have been introduced in preceding Alaska legislatures. In fact, the subject was considered by the Alaska Constitutional Convention. Fairbanks delegate Frank Barr proposed a resolution to the convention that would have allowed Alaskans to elect their attorney general, but was voted down.

My arguments for direct selection of the attorney general by the voters are: Election provides for greater autonomy for the attorney general and the department of law; election provides for freedom from political manipulation; and, election provides for a stronger link between the attorney general and his or her real clients -- the people of Alaska.

Current law defines the attorney general as "the legal advisor of the governor and other state officers" (AS 44.23.020). By definition, the relationship between the governor and his attorney precludes autonomous, independent action. Under the current arrangement, the attorney general, as a political appointee and member of the governor's cabinet, is obligated to take into account the same political considerations as other cabinet officers. While the attorney general may not necessarily interpret the law to satisfy the political needs of the governor, it is difficult to imagine that he would not take potential political consequences into consideration during his deliberations.

In summary, the question is: should the attorney general of Alaska represent the governor or be the chief legal officer representing the people of Alaska? If you believe, like I do, that the attorney general should represent the people, then I urge your support of HJR 19.

HJR

25

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. HJR 25

Revision Date	Dept Affected	Office of the Governor
Title	BRU	Elective Operations
Interest and Dividend	Component	General and Primary Elections
Sponsor	Representative Austerman	
Requester	House State Affairs	Component Serial No. #22

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Personal Services						
Travel						
Contractual		30				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	3.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES

CHANGE IN REVENUES []

FUND SOURCE

(Thousands of Dollars)

FUND SOURCE	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
1002 Federal Receipts						
1003 GF Match						
1004 GF		30				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	3.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost: none

POSITIONS

POSITIONS	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Full-time		0				
Part-time		0				
Temporary		0				

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

This figure includes the cost of providing information about this issue in the Official Election Pamphlet as required by AS 15.58, and the programming costs for counting votes cast on the measure. However, only four measures can be printed on a single ballot card. If this measure requires printing an additional ballot card, the costs will increase by \$56.0.

Prepared by Dana LaTour
 Division Division of Elections
 Approved by Co Lt. Governor Fran Ulmer
 Agency Office of the Lieutenant Governor

Phone 465-5347
 Date 3/7/97
 Date 3/7/97

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Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

MEMORANDUM

DATE: April 30, 1997

TO: Representative Joe Green
Chairman, House Judiciary Committee

FROM: Byron I. Mallott *Byron I. Mallott*
Executive Director

SUBJECT: **Permanent Fund Legal Issues**

I am herewith forwarding to you, for information purposes only, copies of two legal opinions we received this week from our legal counsel, Ron Lorensen of Simpson, Tillinghast, Sorensen and Lorensen. Although the issues raised in these two memoranda relate directly to SB 161, they are issues which also bear, in a broad context, on the subject discussed earlier this week in your committee regarding HJR 25.

I understand that House Judiciary voted to table HJR 25. On behalf of myself and the APFC staff who appeared before your committee, we appreciated the frank discussion and would be pleased to discuss any Permanent Fund issues with you or your committee anytime at your convenience in the future.

Attachments

ATTORNEYS AT LAW
SIMPSON, TILLINGHAST, SORENSEN & LORENSEN
A PROFESSIONAL CORPORATION

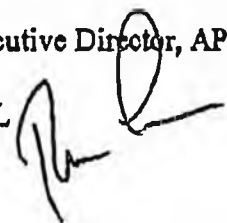
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DANIEL H. INOUIYE
KATHRYN L. KURTZ
L. MERRILL LOWDEN

MEMORANDUM

To: Byron I. Mallott, Executive Director, APFC

From: Ron Lorensen, STS&L 

Date: April 29, 1997

Re: Liability issues associated with SB 161, Relating to management of certain municipal assets by the Alaska Permanent Fund Corporation
Our File No.: 846.1

The provisions of proposed AS 37.13.310 (set out in SB 161) call for the Alaska Permanent Fund Corporation ("APFC") to manage certain assets of Alaskan municipalities on their behalf. You have asked whether and under what circumstances a municipality whose assets were managed by the APFC might be able to assert a claim against the corporation based on its investment policies or decisions.

As very general rules of thumb, liability would not arise where a loss is the result of external market forces over which the APFC had no control. The circumstances under which liability might arise are those in which the decision or action of the APFC (or its own investment managers) vary from those that a "prudent investment manager" would exercise under similar circumstances. Unfortunately, because of the myriad factual situations that could develop in the course of the APFC's investment activities, it is difficult to give a more specific or definitive answer to the question without developing a very comprehensive and lengthy opinion addressing the issues.

To the extent that it may seem advisable to the APFC and the Legislature to protect the corporation against these kinds of claims by municipalities, it may make sense for the Legislature

SIMPSON, TILLINGHAST, SORENSEN & LORENSEN, P. C.

Byron I. Mallott
April 29, 1997
Page 2

amend SB 161 by adding a provision to AS 37.13.310 that expressly limits the APFC's liability to municipalities whose assets it manages. The following is possible language to accomplish that result:

1. Re-designate present subsection (d) as (e).
2. Insert a new subsection (d) to read:

(d) A municipality that directs the corporation to manage its assets under this section accepts the investment policies and decisions of the corporation and has no right or authority to instruct the corporation with respect to the investment of all or any part of those assets. The corporation's liability to a municipality for which it manages the municipality's assets under this section is limited to claims of gross negligence or of conduct that is willful, wanton, or reckless in the handling or investment of those assets.

cc: Jim Baldwin, Assistant Attorney General

ATTORNEYS AT LAW
SIMPSON, TILLINGHAST, SORENSEN & LORENSEN
A PROFESSIONAL CORPORATION

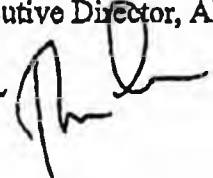
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KATHRYN L. KURTZ
L. MERRILL LOWDEN

MEMORANDUM

To: Byron I. Mallott, Executive Director, APFC

From: Ron Lorensen, STS&L 

Date: April 29, 1997

Re: SB 161, Relating to management of certain municipal assets by the Alaska Permanent Fund Corporation
Our File No.: 846.1

At your request, I have looked into the question of whether enactment of SB 161 to provide for management of certain municipal assets by the Alaska Permanent Fund Corporation ("APFC") might cause the APFC to be treated as an "investment advisor" under the federal Investment Advisors Act of 1940 (as amended). The answer is that it would not.

The Act is found at 15 U.S.C. §80b-1 et seq. Under 15 U.S.C. §80b-2(b), States and "any agency, authority, or instrumentality of [a State]" and "any officer, agent, or employee of the foregoing acting as such in the course of his official duty" are excluded from coverage of the Act unless a specific provision of the Act expressly applies. I have reviewed the entire Act and there are no provisions that attempt to regulate the investment activities of States or their officers, etc.¹

cc: Jim Baldwin, Assistant Attorney General

¹ I also looked at the related question of whether the APFC might be subject to federal regulation under the separate Investment Company Act of 1940 (15 U.S.C. §80a-1 et seq.). The answer is the same; that Act also expressly excludes States and their agencies and officers, etc.



Alaska Permanent Fund Corporation


P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

MEMORANDUM

DATE: April 28, 1997

TO: Representative Joe Green
Chairman, House Judiciary Committee

FROM: Jim Kelly 
Director of Communications

SUBJECT: **Permanent Fund Information**

Per your request, attached please find two sets of analysis performed for the Alaska Permanent Fund Corporation (APFC) by our investment consultant, Michael O'Leary, executive vice-president of Callan Associates, Inc.

The first attachment, "APFC Asset Allocation Stress Test," examines the impact on Permanent Fund total return and net income – assuming a variety of different asset allocations – during a period of an extended bear market.

The second attachment, "APFC Board Workshop" provides a primer on endowment management which outlines the investment policy questions faced by investment boards like the APFC Board of Trustees; and compares the impact of different distribution policies on Fund growth and spending.

If you would like to discuss any of the findings contained in this material or need additional information, please let me know. I hope this is responsive.

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Phone #		Phone #	405-2039		
Fax #	258-9869	Fax #	586-7657		

November 27, 1995

Alaska Permanent Fund Corporation
Board Workshop

Prepared by

Callan Associates Inc.
550 East 8th Avenue
Denver, CO 80203
(303) 861-1900

Michael J. O'Leary, Jr., CFA
Executive Vice President

Alaska Permanent Fund Corporation
Board Workshop

November 27, 1995

Callan Associates Inc.
550 East 8th Avenue
Denver, CO 80203

TABLE OF CONTENTS

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II	Comparison of the Impact of Distribution Policies on Growth and Spending	1-12
Appendix	Comparison Charts	1-20

Endowment Management A Primer

Our objective in this segment of the report is to outline the investment policy questions confronting overseers of endowment assets. We will briefly describe key management issues, basic investment concepts and modern endowment management practices and trends.

Purpose

Endowments typically represent the permanent funds of an educational or other institution. They are designed to provide revenues that will support the institution forever. Conceptually, most would argue that the level of support should be neutral from an intergenerational perspective. In other words, the support provided current operations should be maintained in perpetuity.

Goals

The goals implicit in an endowment's basic purpose are to preserve principal and to provide a meaningful and stable flow of revenue to help fund operations. These two basic goals inherently conflict. It also is obvious that both presume attainment in inflation adjusted terms. Preservation of principal is actually preservation of purchasing power. Maintaining a meaningful and stable contribution to operations dictates a revenue stream that grows with inflation.

The table below illustrates the effect of inflation on purchasing power.

<u>Inflation Rate</u>	<u>Time to Half Purchasing Power</u>
2%	36 Years
3%	24 Years
4%	18 Years
5%	14 Years
6%	12 Years

Mr. David Swensen, Chief Investment Officer of Yale University, illustrates the conflict between the dual endowment goals by contrasting two extreme distribution (spending) policies: "On one hand, if the institution could spend only the real returns generated by the portfolio, asset purchasing power could be maintained perfectly. Assume investment returns are 10% in one year and inflation is 4%. If the 6% real return on endowment value is distributed to the operating units and the 4% attributable to inflation is reinvested in the endowment fund to maintain purchasing power, all constituents are satisfied. In the following year, assume that investment returns are only 2% and inflation is 7%. Now the institution faces a serious problem. Compensation for inflation requires a 7% reinvestment in the endowment, but the fund only generated a return of

2%. The endowment manager cannot go to the operating units and ask for 5% rebates to maintain the purchasing power of assets. Thus, a policy that seeks to maintain asset purchasing power without exception is not feasible.

The other policy extreme, pursuing the goal of providing a completely stable flow of resources to the operating budget could be accomplished by spending a fixed amount that is increased each year by the amount of inflation. In the short-term, the flow of resources from the endowment to the operating budget will be perfectly stable and quite predictable. Under normal market conditions, such a policy might not be harmful. In a period of sustained declines in endowment market value, however, spending at a level independent of the value of assets could cause a loss of capital that would permanently damage the endowment fund.

A spending policy must be devised that addresses the conflicting objectives of preserving purchasing power and providing a stable flow of resources to the operating budget. Most institutions achieve the balance by determining a sensible long-term target rate of spending and applying that rate to a moving average of endowment market values."¹

Historical Perspective

Managing an endowment portfolio provides a fiduciary challenge similar to that of managing a trust in which there are distinct income beneficiaries and remaindermen. Taking actions to enhance the income beneficiary's return works to the disadvantage of the remaindermen and the converse, emphasizing growth penalizes the income beneficiaries. Prior to 1970, many, if not most, endowments had spending policies that were linked to income. Managers attempted to balance conflicting interests by investing a portion of the fund's assets for growth and a portion for income generation. The Ford Foundation, in 1972, published a study that strongly advocated the use of a "total return" investment approach and a market linked spending policy. While the timing of the study was unfortunate and many of its conclusions criticized, the basic principles have achieved wide spread acceptance among major endowments and foundations.

A 1992 Survey of Educational Endowments conducted by NACUBO found the following spending policies:

<u>Spending Rule</u>	<u>Percentage</u>
Spend all Current Income	17.4%
Spend a Percent of a Moving Average Market Value	48.4%
Spend a Percent of Prior Year Spending	5.7%
Determine Spending Rate Each Year	13.8%
Other Spending Rule	<u>14.7%</u>
Total	100.0%

¹ References throughout to Mr. Swensen are to: David F. Swensen, *AIMR Seminar Proceedings Investment Policy: Endowment Management*, Association for Investment Management and Research, 1994, Pgs. 30-40.

The extensive reliance on a spending policy that is independent of income is consistent with the heavy reliance that private educational endowments and foundations have placed on equity oriented investments and a "total return" investment philosophy.

It, however, should be noted that public sector funds, of which there are comparatively few, tend to employ spending policies that are linked to income (or realized return). There have been attempts to shift toward market linked approaches but they have not achieved notable success. Some opine that a primary factor slowing acceptance in the public arena is the heavy historic emphasis placed on fixed income assets. Movement away from an income based distribution approach might result in lower current distributions, a frequently unacceptable consequence.

Callan assisted the New Mexico State Investment Board evaluate the implications of a proposed constitutional change that was unsuccessful, but which may provide useful insight. Realized return from the State's Tax Severance Fund is added to the State's General Fund. Realized return from the State's Permanent Fund is used to support education. The proposed constitutional change would have changed spending from a realized return basis to a percent of moving average market value approach. Since current distributions exceeded the proposed moving average percentage, the proposed change also included a transitional element that stipulated that each year's spending had to, at a minimum, be 102% of the prior year level. The consequence of this feature was that perceived benefits of the change (in terms of inflation protection) were not likely to be realized for more than a decade. The proposed change also included provisions that would have liberalized the current legal list investment approach. Some opponents felt that limitation on spending was unnecessarily inflexible, that it would tie the hands of future state legislatures and administrations. Others were concerned that the 102% of prior year spending rule would result in an invasion of principal. Still others were concerned with the broadening of permissible investments. Supporters of the change felt that the current "realized return" distribution policy resulted in too heavy an emphasis on fixed income securities. They also argued that pressure to increase current earnings increased in periods of low interest rates. Some supporters of the change felt that achievement of a strategic asset allocation policy that would be consistent with maintenance of purchasing power could not be accomplished with the current spending approach. They noted that in the 1960's and 1970's, the funds failed to keep pace with inflation and, in fact, were distributing corpus. They viewed the 1980's and early 1990's as an extraordinary investment environment.

In the final analysis, proponents argued that something like a 50/50 asset mix policy was essential for attainment of long-term goals and that such a policy could best be implemented and maintained if distribution levels were determined independently from short-term earnings (i.e., a percentage of market value related approach). Opponents, while agreeing with the heavier than historic equity targets, argued that there was not need to change the constitution to implement the strategic asset mix target.

Essential Conclusion

Regardless of the approach utilized to determine distributions, it is obvious that inflation is the primary obstacle to achievement of long-term objectives. It is, therefore, apparent that some

portion of average current earnings must be retained to preserve purchasing power. For example, presume an all bond portfolio, steady inflation of 4% and a coupon return of 7%. If all earnings were distributed, the fund would, in effect, be distributing 4% of principal each year. If 5% of year-end market value were distributed, there would be a 2% average erosion of purchasing power corpus.

To achieve the dual long-term goals, the distribution policy must be reasonable and consistent with the fund's investment policy. For example, either an income based distribution policy or a market value linked spending policy combined with a risk averse short-term fixed income investment policy, will fail to preserve purchasing power. An income based spending approach combined with an 80% equity related investment policy probably would result in a comparatively low and volatile distribution stream.

As the survey of spending policies noted earlier demonstrates, comparatively few endowments and foundations rely on an income based spending approach.

Endowment Investment Practices

Major endowments and foundations tend to be comparatively aggressive investors. The 1995 Money Market Directory found that less than 35% of endowment and foundation assets were allocated to fixed investments. Public pension funds typically had 40-45% allocation to comparable investments. It also should be noted that the endowment and foundation universe is comparatively small and can be dominated by the investment practices of the larger entities. The Money Market Directory included the following:

	<u>Number</u>	<u>Assets</u>
Corporate Plans	45,554	\$1,698 billion
Union	1,520	240 billion
Government	1,1678	1,239 billion
Endowment	816	116 billion
Total	49,057	3,293 billion

Mr. Swensen, of Yale, explains the comparatively high equity orientation by opining: "The tension between the goals of an endowment can be relaxed by investing for high rates of return. Hence, investment with an equity bias is the first tenet of endowment investment philosophy."

He, however, also emphasized the importance of diversification. For example, he notes the dismal performance of equities in the early 1930's and expresses a view that a heavy equity policy probably would not have survived. He rationalizes Yale's very heavy equity orientation by stating that: "Diversification without the opportunity costs of investing in fixed income can be achieved by identifying high-return asset classes that are not highly correlated with domestic marketable securities."

According to Mr. Swensen, Yale's Asset Allocation and Expected After Inflation Return Targets were:

<u>Asset Class</u>	<u>Target Weight</u>	<u>Expected After-Inflation Return</u>
U.S. Bonds	15.0%	2.0%
U.S. Stocks	22.5%	6.0%
Non-U.S. Stocks	12.5%	6.0%
Private Equity	20.0%	14.0%
Absolute Return	20.0%	7.0%
Real Estate	<u>10.0%</u>	<u>6.0%</u>
Total	100.0%	7.2%

Yale's spending rate was recently raised from 4.5% to 4.75%.

Yale's investment policy, based on Callan's experience, is significantly more aggressive than most. However, other major educational endowments such as Harvard and Stanford also employ comparatively aggressive strategies.

Major endowments have been particularly receptive to the use of "private equity" (including leveraged buyout, management buyout, and venture capital funds). Many have been receptive to non-traditional investment strategies such as "merger" arbitrage, investment in distressed securities, and "market neutral" investment approaches.

Obviously APFC cannot currently pursue investment approaches utilized by these educational endowments. Current law limits overall equity exposure and precludes the types of arrangements that are the norm for investing in private equity. Statute also precludes the use of many of the instruments and techniques that are employed in the absolute return category (e.g., short selling, futures, options, and derivatives).

Comparison of the Impact of Distribution Policies on Growth and Spending

The long-term returns achieved from equity and high quality fixed investments are well known and documented. In sum, equity investments have far outpaced fixed investments, albeit with greater volatility.

What is less well documented but critically important is the impact of alternative distribution policies on long run growth.

To examine this question, in conjunction with staff, we developed two alternative distribution rules. They were:

1. 1/2 of average five year total return is distributed.
2. 4% of average five year market value is distributed.

Using Ibbotson Associates return data, we then modeled three alternative investment policies. The policies were:

1. 50% equity (S&P 500) and 50% bonds (Salomon Brothers High Grade Long-Term Corporate)
2. An aggressive policy (70% equity), and
3. A conservative policy (30% equity).

For each of the three investment policies, we calculated market values and annual distributions (spending). For each, we used data from 1926, for the past 40, 30, 20, and 10 year periods. We considered the multiple timeframes to minimize the risk of drawing conclusion that had a particular time period bias.

The distribution rule based on 1/2 of five year average earnings is similar to, but different from, APFC's actual distribution pattern. Your distributions are based on "realized" return not total return. Thus, the distributions associated with our model are more volatile than those that you have actually observed. However, in a true economic sense, the total return approach utilized is very meaningful.

Data limitations precluded the use of international equities, real estate and broader measures of the bond market. Inclusion of these additional asset categories should dampen overall observed volatility but not distort the conclusions of the analysis.

Graphs portraying the results of the analysis for the 50/50 policy follow this text. Results for the aggressive and conservative policies are presented in the Appendix.

Review of the output demonstrates the following conclusions:

1. The policy of distributing half of average return erodes the growth in assets relative to the market value based distribution policy when returns are high. As should be expected, the greater spending in these periods does not allow as much reinvestment to take advantage of subsequent market returns.
2. The second conclusion is that the return based distribution policy leads to more volatile cash flows than the market value policy.
3. Whichever policy produces lower initial spending produces greater subsequent market values (growth). On balance, the 4% spending policy produced lower spending than the half return policy, and, therefore, fund growth was greater with the market value spending approach.

Several other points pertaining to the historic analysis are noteworthy. Regardless of spending policy, the asset growth and long-term spending are greater with higher equity commitments. At the 50/50 investment policy, there were extended periods where the half return policy produced higher market values. However, for the entire period and for the 40, 30, 20, and 10 year periods, the market value distribution approach resulted in higher ending market values. Market value differences were greater with the more aggressive policy and mixed with the more conservative investment policy.

Technical Note: In order to develop spending comparisons in the initial five years for each comparison, we used averages of increasing duration. Spending in the initial year was based on the first year market value, in the second year on the average of the first and second year market values, and so forth. In order to make the comparison apples-to-apples, we followed the same procedure for calculating the average returns. These assumptions have the greatest impact on shorter timeframes by introducing additional time period bias.

Other Conclusions

While not apparent from the analysis, we believe the following additional observations are important:

1. Long run returns have been positive, thus, lengthening the period used for averaging (e.g., from 5 to 7) tends to reduce the effective distribution. Lower distributions result in more rapid asset growth. Conversely, shortening the averaging period would result in larger distributions, thereby retarding asset growth.
2. The magnitude of the impact on asset growth would vary significantly with the investment policy and the time period considered.

ALASKA PERMANENT FUND CORPORATION

ASSET ALLOCATION "STRESS TEST"

MARCH 1997

ALASKA PERMANENT FUND CORPORATION

ASSET ALLOCATION "STRESS TEST"

Introduction and Overview

In recent years, APFC's equity allocation has been increased. The increase has contributed importantly to the Fund's growth because stocks have significantly outperformed fixed income investments. At present, the Fund's equity allocation is essentially at current statutory limits. As an important part of the Board's regular asset allocation policy review, Callan has been asked to examine how the current policy and two alternative policies, with even greater equity exposure, would have fared in a weak market environment.

We believe that this is a particularly useful exercise since investors, over the past 10-15 years, a period that corresponds to APFC's entire experience in equity investing, have enjoyed exceptional returns.

To complete the assignment, we examined two five-year periods. The first, 1973-1977, was a five-year period which includes a severe bear market (1973 and 1974) and a strong subsequent recovery.

The second five-year span is the most recent five-year period ended 12/31/96. It illustrates the potential rewards associated with the current policy and two alternatives with heavier equity commitments.

Simulation Process

In order to evaluate the alternatives, we had to make certain important simplifying assumptions. First, owing to limited market index history, we had to exclude international bonds from the analysis. Second, we had to approximate the income and appreciation components of real estate index returns.

The three policies considered for both time periods are presented in Table 1 below. The S&P 500 Stock Index was used as the proxy for domestic equities, the Lehman Government/Corporate Bond Index as the proxy for the bond market, the Morgan Stanley Capital Index - Europe, Australia and Far East Index (EAFE) as the proxy for international stocks, and the Callan Real Estate Index for real estate.

TABLE 1
ASSET MIX ALTERNATIVES EVALUATED

Asset Mix Alternatives Evaluated

Asset Class	Current Mix	Mix A	Mix B
Domestic Equity	36%	38%	41%
International Equity	12%	14%	16%
Domestic Fixed-Income	42%	37%	30%
Real Estate	10%	11%	13%
	100%	100%	100%

Decision Rules

A hypothetical portfolio was constructed at the beginning of each period. Each asset category was presumed to achieve market returns. At the end of each calendar quarter, the total equity allocation (sum of domestic and international) was examined. If it exceeded a limit, rebalancing to the policy was conducted at no cost. At the end of each calendar year, the portfolio was rebalanced to the policy target. The maximum equity commitment for the current policy was set at 50%; 55% for Mix A and 60% for Mix B.

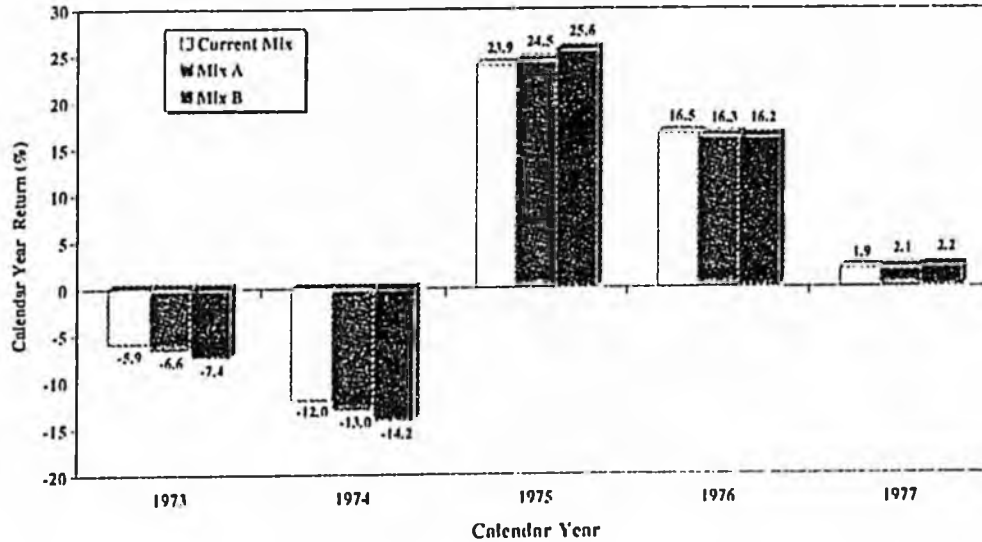
52.7

57.7

1973-1977 Results

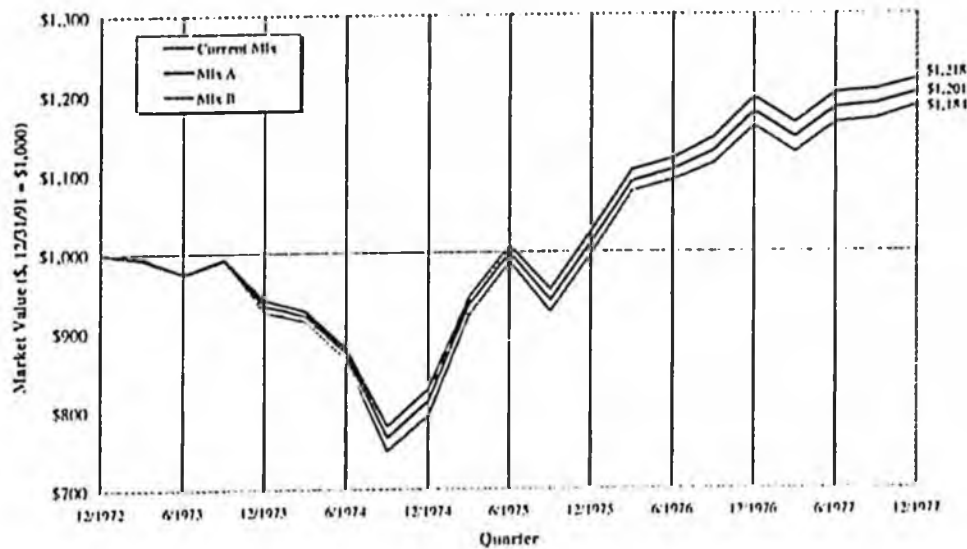
Graph 1 below depicts the total return for each of the three alternative policies. As one would expect, the current policy, owing to its lower equity commitment, had the best returns in the two bear market years (1973 and 1974). Over this two year span, the current policy had a negative cumulative return of 17.2%. A dollar of value at the beginning of 1973 had declined to 82.8 cents by the end of 1974. Policy B, total equity exposure of 57%, declined 20.55% over the same span.

GRAPH 1
Calendar Year Total Returns
 (1973 - 1977)



Graph 2 depicts the cumulative return for each policy over the full five-year period. The most conservative policy achieved the highest cumulative return. Over this span, \$1,000 invested in the current policy would have grown to \$1,218, an annualized compound return of 4.02%. The most aggressive policy (Mix C) would have produced an ending value of \$1,184 for a compound annual return of 3.44%.

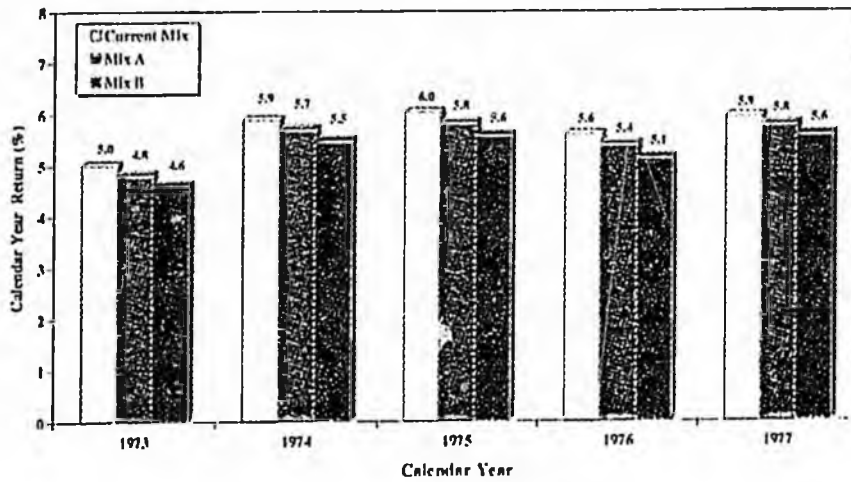
GRAPH 2
Cumulative Portfolio Growth
 (1973 - 1977)



Income Return

The current mix total return was positively affected by its greater income component. Graph 3 depicts the income return by calendar year for each policy.

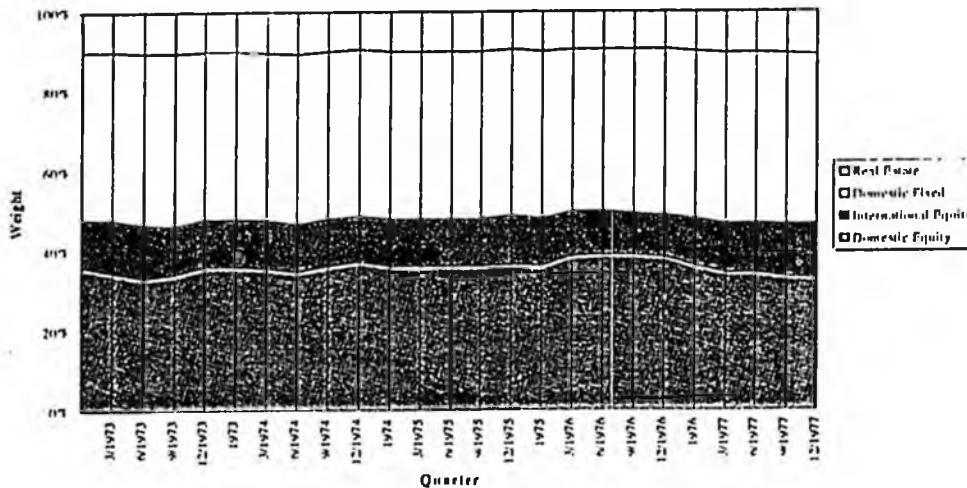
GRAPH 3
Calendar Year Income Returns
(1973 - 1977)



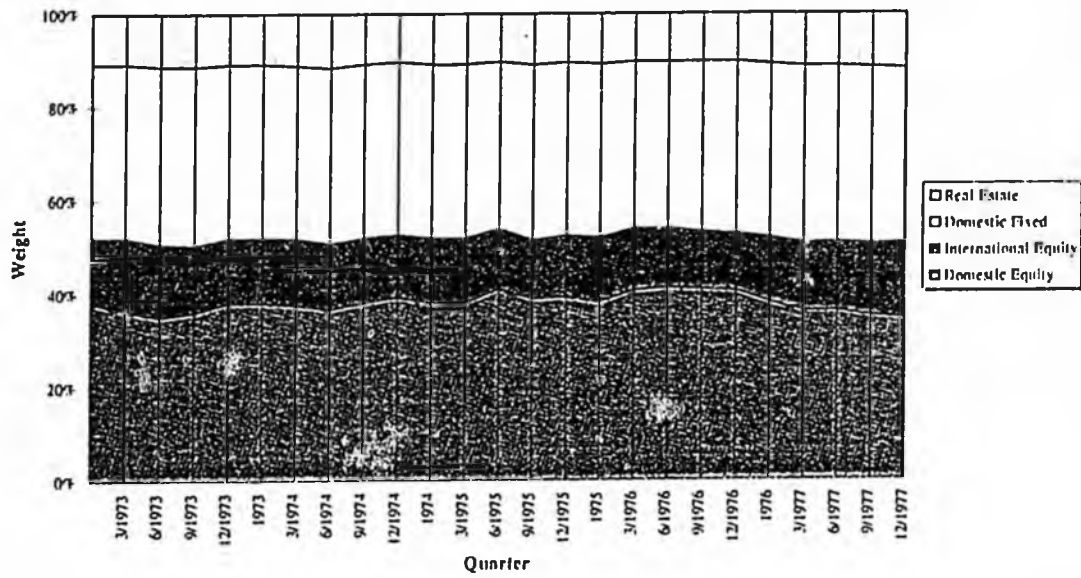
Portfolio Composition

Details of portfolio composition and return for each policy by calendar quarter are presented in the Appendix. The graphs below illustrate the composition of the three hypothetical portfolios throughout the five-year period. It is clear that each policy's broad diversification and the rebalancing rules resulted in only minor shifts in portfolio composition throughout the period.

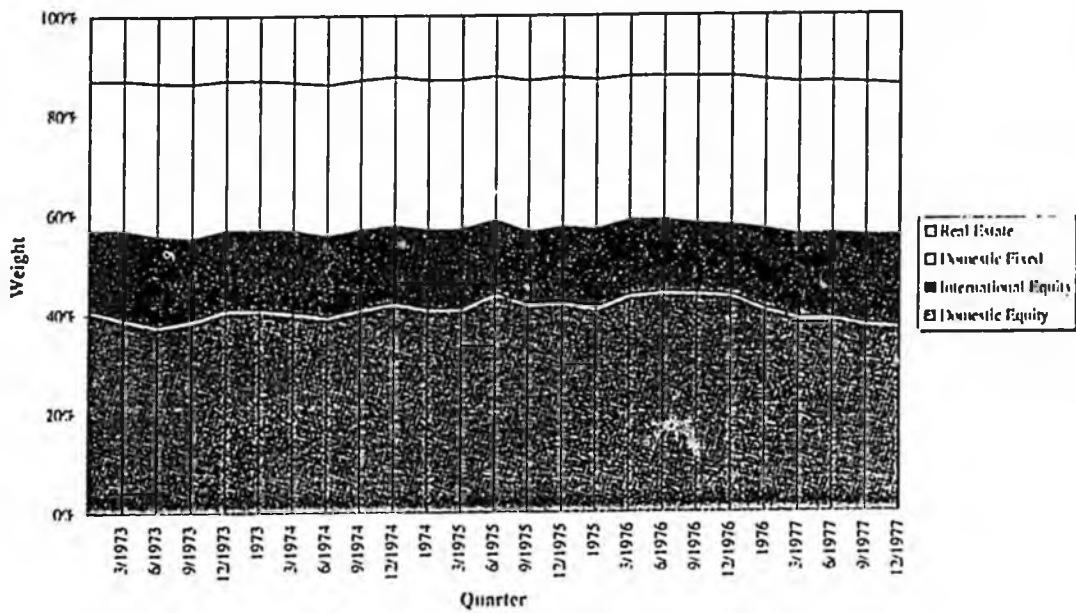
GRAPH 4
Asset Class Weights - Current Mix
(1973 - 1977)



GRAPH 5
Asset Class Weights - Mix A
 (1973 - 1977)



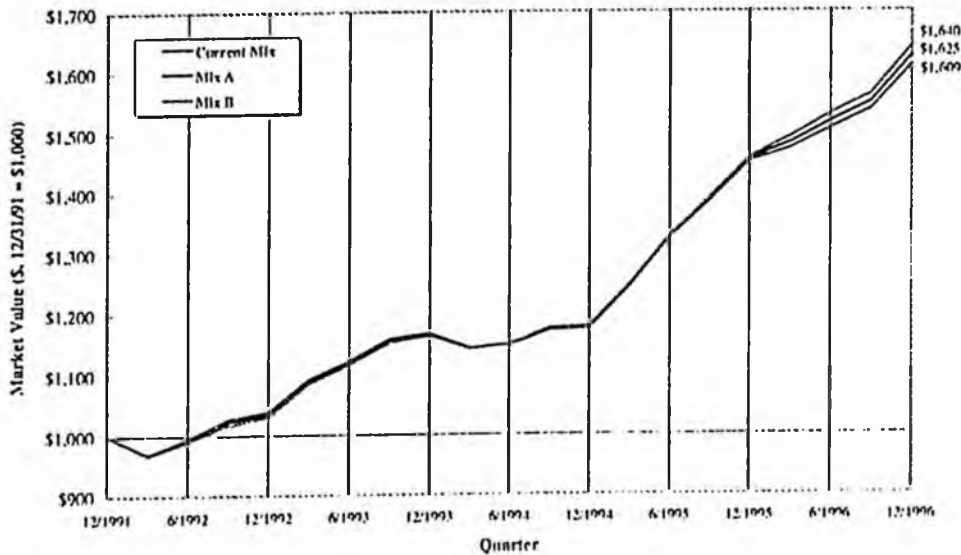
GRAPH 6
Asset Class Weights - Mix B
 (1973 - 1977)



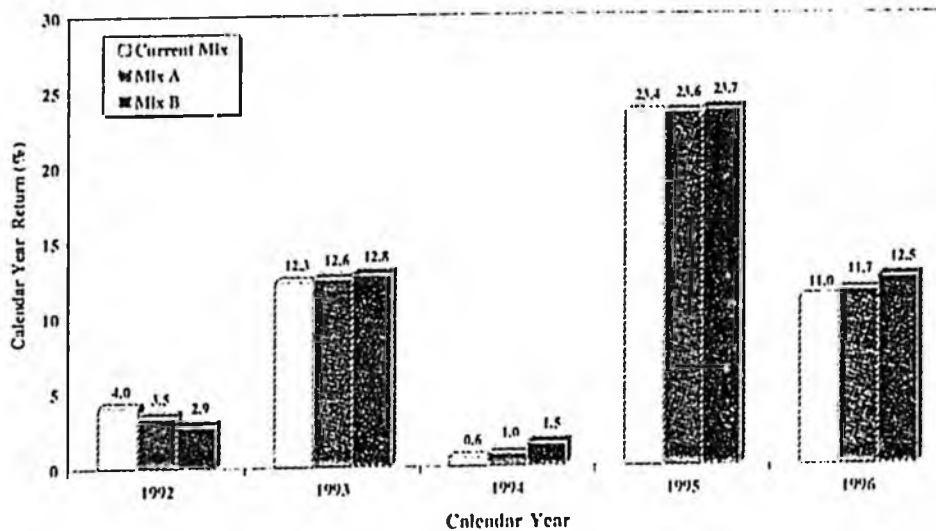
1992-1996

As one should expect, the results for the 1992-1996 period were the mirror image of the 1973-1977 analysis. The most aggressive policy produced the highest return. Graphs 7 and 8 depict the cumulative and calendar period performance for the three policies. Policy B produced a compound annualized return of 10.4% while the current policy returned 9.98%.

GRAPH 7
Cumulative Portfolio Growth
 (1992 - 1996)

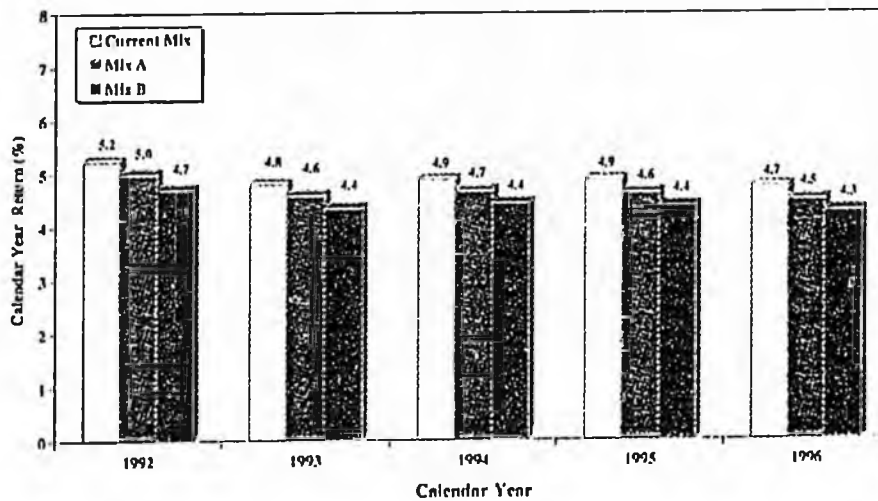


GRAPH 8
Calendar Year Total Returns
 (1992 - 1996)



The income return pattern was as expected; the most conservative policy had the highest income. It is, however, important to note that for all three policies, the income component of overall return was less than half of the total return. In contrast, during the 1973-1977 span, the income component of return was actually greater than the total return (i.e., losses detracted from the income return).

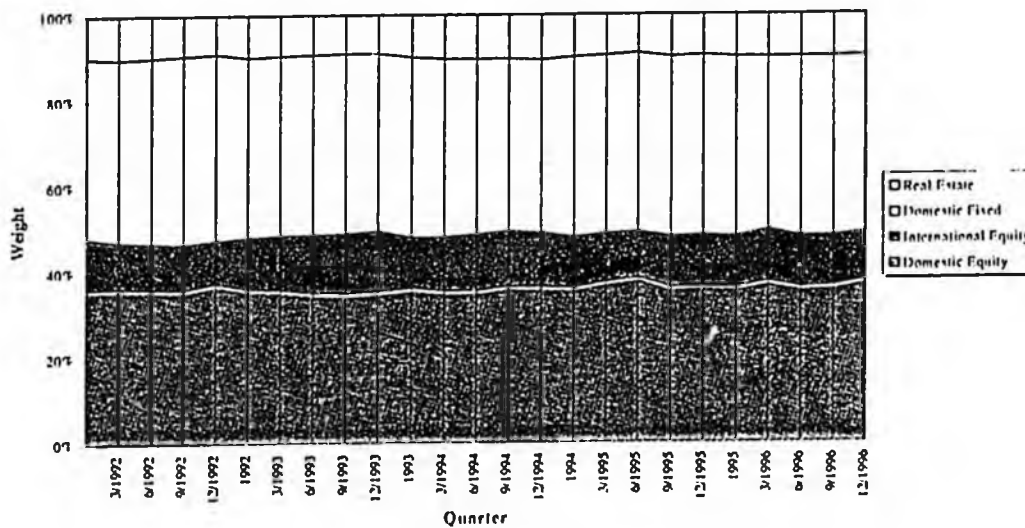
GRAPH 9
Calendar Year Income Returns
 (1992 - 1996)



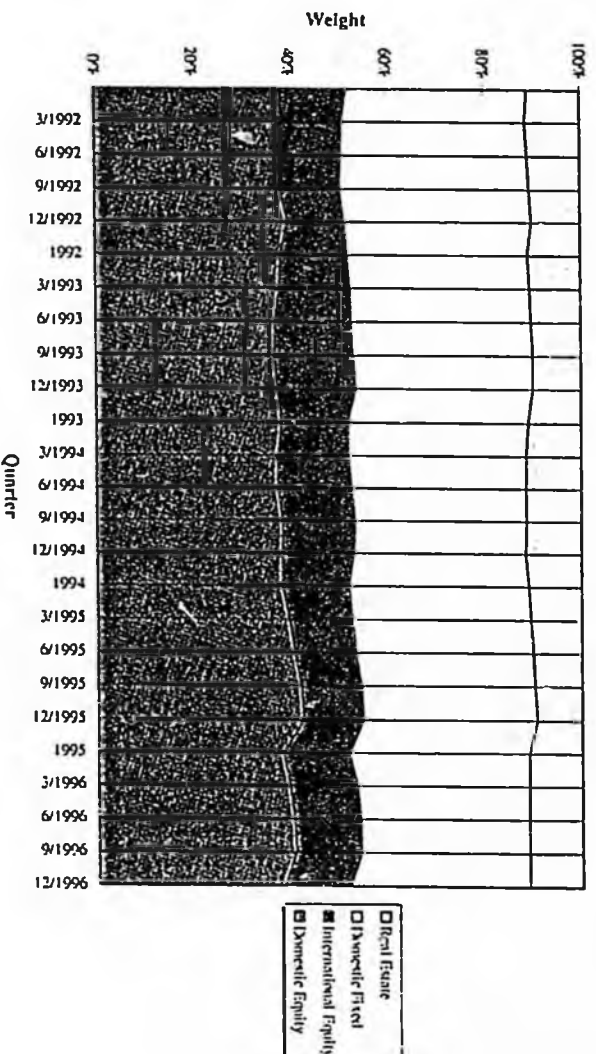
*
 dividends since 1982 have never been based on a yr of realized return of less than 8.75%; these #'s (also mix 3) are not 1/2 of what it would be reduced further by realized losses; the effect would likely be no \$ available for i-p

Graphs 10-12 illustrate the asset mix composition throughout the five-year period. Owing to the strong equity market, the maximum equity limitation forced more frequent rebalancings.

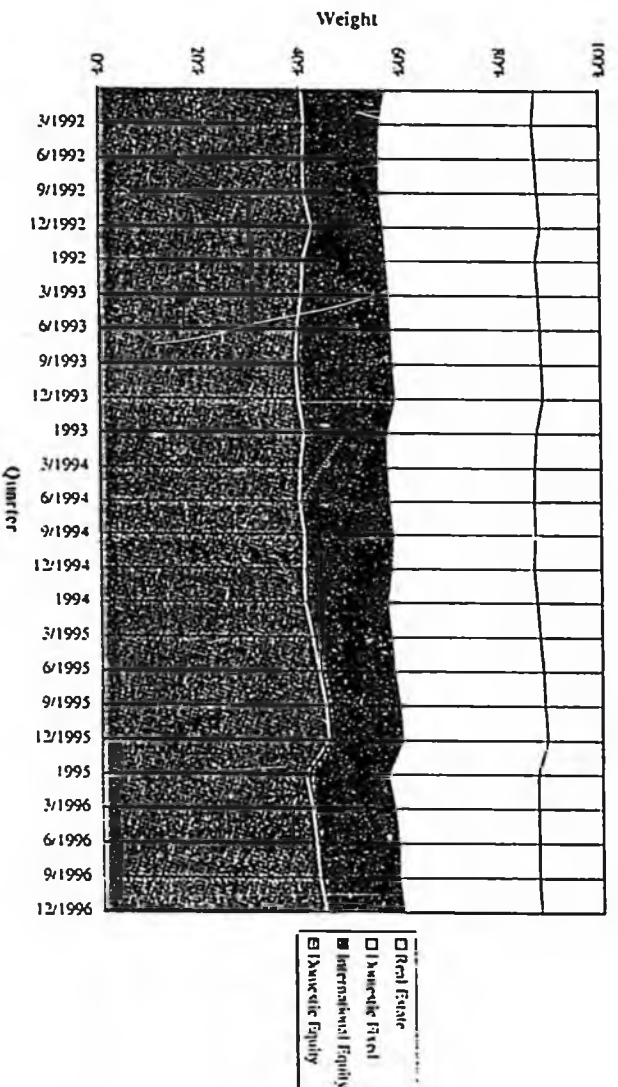
GRAPH 10
Asset Class Weights - Current Mix
 (1992 - 1996)



GRAPH 11
Asset Class Weights - Mix A
 (1992 - 1996)



GRAPH 12
Asset Class Weights - Mix B
 (1992 - 1996)

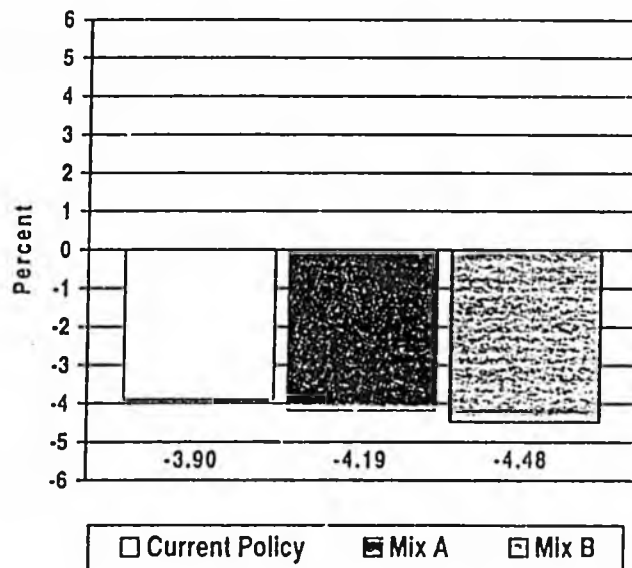


Summary

The stress test helps illustrate the worst reasonable case that one might expect for each of the three policies. One might think that the differences are comparatively small. They are. However, the range of policies was narrow. The most aggressive policy only had 9% more in total equity than the most conservative (57% versus 48%). Nonetheless, during a weak market environment, the differences in return were meaningful. It also is important to recognize that despite the fact that a positive total return was achieved in the 1973-1977 period, the real return was negative. This is depicted in Graph 13.

GRAPH 13

1973 - 1977 Real Return Comparison



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Executive Vice President
Callan Associates Inc.
March 13, 1997

Total Return (1973 - 1977)

Date	Domestic Fixed				
	Domestic Equity	International Equity	Income	Real Estate	Inflation
3/1973	-4.86%	10.63%	-0.44%	-0.36%	1.96%
6/1973	-5.79	-1.16	0.30	1.21	2.00
9/1973	4.78	-7.03	2.50	2.74	2.34
12/1973	-9.25	-16.32	-0.05	-1.01	2.21
1973	-14.77	-14.93	2.30	2.56	8.78
3/1974	-2.81	1.13	-1.79	1.61	3.32
6/1974	-7.54	-6.03	-3.47	-2.12	2.71
9/1974	-25.05	-21.24	0.06	-1.03	3.25
12/1974	9.41	2.62	5.60	0.95	2.55
1974	-26.31	-23.19	0.17	-0.63	12.36
3/1975	22.90	31.67	3.71	3.62	1.53
6/1975	15.31	-0.37	2.83	1.47	1.70
9/1975	-10.92	-8.89	-1.08	-0.17	1.86
12/1975	8.64	13.37	6.44	2.61	1.64
1975	37.15	35.50	12.29	7.70	6.90
3/1976	14.96	2.39	3.90	2.33	0.72
6/1976	2.46	-1.77	1.12	1.20	1.60
9/1976	1.89	-3.09	4.33	2.57	1.40
12/1976	3.18	5.20	5.45	3.77	1.04
1976	23.83	2.54	15.59	10.22	4.84
3/1977	-7.44	1.62	-0.80	1.33	2.22
6/1977	3.28	4.51	3.02	2.61	2.01
9/1977	-2.80	5.65	0.82	2.27	1.31
12/1977	-0.13	5.16	-0.04	4.19	1.13
1977	-7.20	17.99	2.99	10.79	6.83
Cumulative Annualized Return	-0.20	1.38	6.50	6.03	7.92

Income Return (1973 - 1977)

Date	Domestic Equity	International Equity	Domestic Fixed Income	Real Estate	Inflation
3/1973	0.67%	0.56%	1.64%	1.65%	1.96%
6/1973	0.77	0.49	1.67	1.58	2.00
9/1973	0.78	0.57	1.71	1.70	2.34
12/1973	0.90	0.52	1.72	1.78	2.21
1973	3.16	2.16	6.91	6.88	8.78
3/1974	0.86	0.71	1.76	1.64	3.32
6/1974	0.99	0.66	1.83	1.52	2.71
9/1974	1.17	0.70	1.97	1.61	3.25
12/1974	1.35	0.90	2.04	1.49	2.55
1974	4.44	3.00	7.82	6.41	12.36
3/1975	1.19	1.13	1.98	1.52	1.53
6/1975	1.07	0.78	1.96	1.63	1.70
9/1975	1.03	0.70	1.95	1.33	1.86
12/1975	1.05	0.90	2.03	1.38	1.64
1975	4.41	3.56	8.16	5.98	6.90
3/1976	0.91	0.64	1.94	1.52	0.72
6/1976	1.00	0.69	1.92	1.60	1.60
9/1976	0.98	0.69	1.93	1.24	1.40
12/1976	1.00	0.87	1.89	1.09	1.04
1976	3.95	2.91	7.90	5.57	4.84
3/1977	1.03	0.70	1.80	1.44	2.22
6/1977	1.19	0.75	1.86	1.42	2.01
9/1977	1.14	0.78	1.83	1.64	1.31
12/1977	1.39	0.78	1.85	1.98	1.13
1977	4.84	3.05	7.54	6.64	6.83
Cumulative Annualized Return	4.16	2.94	7.67	6.30	7.92

Current Mix - Returns, Weights & Dates of Rebalancing (73-77)

Date	Portfolio Total Return (%)	Portfolio Income Return (%)	Asset Class Weights at End of Each Period				Total Equity Allocation	
			Domestic Equity	International Equity	Domestic Fixed Income	International Fixed Income		
			36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
3/1973	-0.69	1.16	34.5%	13.4%	42.1%	0.0%	10.0%	47.9%
6/1973	-1.90	1.19	33.1%	13.5%	43.1%	0.0%	10.4%	46.6%
9/1973	2.00	1.25	34.0%	12.3%	43.3%	0.0%	10.4%	46.3%
12/1973	-5.28	1.30	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
1973	-5.89	4.99	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1974	-1.47	1.30	35.5%	12.3%	41.9%	0.0%	10.3%	47.8%
6/1974	-5.09	1.36	34.6%	12.2%	42.6%	0.0%	10.6%	46.8%
9/1974	-11.34	1.50	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
12/1974	6.15	1.60	37.1%	11.6%	41.8%	0.0%	9.5%	48.7%
1974	-11.99	5.88	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1975	13.96	1.55	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
6/1975	6.80	1.46	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
9/1975	-5.47	1.41	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
12/1975	7.68	1.48	36.3%	12.6%	41.5%	0.0%	9.5%	49.0%
1975	23.90	6.03	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1976	7.54	1.37	38.5%	11.4%	40.6%	0.0%	9.5%	49.9%
6/1976	1.31	1.39	38.9%	11.1%	40.5%	0.0%	9.5%	50.0%
9/1976	2.39	1.36	38.7%	10.5%	41.3%	0.0%	9.5%	49.2%
12/1976	4.38	1.36	38.3%	10.6%	41.7%	0.0%	9.5%	48.8%
1976	16.45	5.60	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1977	-2.69	1.36	34.2%	12.5%	42.8%	0.0%	10.4%	46.8%
6/1977	3.25	1.45	34.3%	12.7%	42.7%	0.0%	10.3%	46.9%
9/1977	0.34	1.44	33.2%	13.4%	42.9%	0.0%	10.5%	46.5%
12/1977	1.07	1.57	32.8%	13.9%	42.4%	0.0%	10.9%	46.7%
1977	1.90	5.94						
	4.02	5.69	Cumulative Annualized Return					

Portfolio automatically rebalanced if total equity exceeds 50%. The portfolio is rebalanced annually regardless of total equity. Annual returns are shown in the rows labeled with just the years.

Current Mix - Dollar Returns, Capital Gains/Losses (73-77)

Date	Market Value	Total Change in Market Value	Change Due to Income	Change Due to Capital Gain/Loss	Total Return (%)	Income Return (%)	Capital Gain/Loss (%)
12/1972	1,000.00						
3/1973	993.05	(6.95)	11.61	(18.56)	(0.69)	1.16	(1.86)
6/1973	974.14	(18.91)	11.86	(30.77)	(1.90)	1.19	(3.10)
9/1973	993.59	19.45	12.15	7.30	2.00	1.25	0.75
12/1973	941.14	(52.44)	12.91	(65.35)	(5.28)	1.30	(6.58)
1973		(58.86)	46.99	(105.85)	(5.89)	4.99	(10.49)
3/1974	927.34	(13.80)	12.22	(26.03)	(1.47)	1.30	(2.77)
6/1974	880.13	(47.21)	12.57	(59.78)	(5.09)	1.36	(6.45)
9/1974	780.32	(99.80)	13.19	(113.00)	(11.34)	1.50	(12.84)
12/1974	828.30	47.98	12.50	35.48	6.15	1.60	4.55
1974		(112.84)	48.70	(161.54)	(11.99)	5.88	(17.11)
3/1975	943.97	115.67	12.81	102.86	13.96	1.55	12.42
6/1975	1,008.19	64.22	13.82	50.39	6.80	1.46	5.34
9/1975	953.06	(55.13)	14.18	(69.32)	(5.47)	1.41	(6.88)
12/1975	1,026.26	73.20	14.08	59.12	7.68	1.48	6.20
1975		197.95	61.85	136.10	23.90	6.03	17.12
3/1976	1,103.67	77.41	14.09	63.33	7.54	1.37	6.17
6/1976	1,118.16	14.49	15.39	(0.90)	1.31	1.39	(0.08)
9/1976	1,144.90	26.74	15.17	11.56	2.39	1.36	1.03
12/1976	1,195.10	50.20	15.61	34.60	4.38	1.36	3.02
1976		168.84	66.94	101.91	16.45	5.60	10.42
3/1977	1,162.99	(32.11)	16.20	(48.31)	(2.69)	1.36	(4.04)
6/1977	1,200.82	37.83	16.82	21.01	3.25	1.45	1.81
9/1977	1,204.94	4.12	17.32	(13.20)	0.34	1.44	(1.10)
12/1977	1,217.84	12.90	18.90	(6.00)	1.07	1.57	(0.50)
1977		22.74	72.34	(49.60)	1.90	5.94	(3.86)

Mix A - Returns, Weights & Dates of Rebalancing (73-77)

Date	Portfolio Total Return (%)	Portfolio Income Return (%)	Asset Class Weights at End of Each Period				Real Estate	Total Equity Allocation
			Domestic Equity	International Equity	Domestic Fixed Income	International Fixed Income		
			38.0%	14.0%	37.0%	0.0%	11.0%	52.0%
3/1973	-0.56	1.12	36.4%	15.6%	37.0%	0.0%	11.0%	51.9%
6/1973	-2.04	1.15	35.0%	15.7%	37.9%	0.0%	11.4%	50.7%
9/1973	1.83	1.20	36.0%	14.3%	38.2%	0.0%	11.5%	50.3%
12/1973	-5.80	1.26	38.0%	14.0%	37.0%	0.0%	11.0%	52.0%
1973	-6.57	4.82	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1974	-1.39	1.26	37.5%	14.4%	36.9%	0.0%	11.3%	51.8%
6/1974	-5.21	1.31	36.5%	14.2%	37.5%	0.0%	11.7%	50.8%
9/1974	-12.27	1.45	38.0%	14.0%	37.0%	0.0%	11.0%	52.0%
12/1974	6.12	1.56	39.2%	13.5%	36.8%	0.0%	10.5%	52.7%
1974	-12.99	5.70	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1975	14.91	1.51	38.0%	14.0%	37.0%	0.0%	11.0%	52.0%
6/1975	6.97	1.42	41.0%	13.0%	35.6%	0.0%	10.4%	54.0%
9/1975	-6.03	1.35	38.8%	12.6%	37.4%	0.0%	11.1%	51.5%
12/1975	7.75	1.44	39.2%	13.3%	37.0%	0.0%	10.6%	52.5%
1975	24.45	5.83	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1976	7.72	1.32	40.6%	12.3%	35.7%	0.0%	10.4%	53.9%
6/1976	1.29	1.35	41.6%	12.7%	35.6%	0.0%	10.4%	53.9%
9/1976	2.19	1.31	40.9%	12.7%	36.4%	0.0%	10.5%	53.1%
12/1976	4.31	1.32	40.5%	12.3%	36.8%	0.0%	10.4%	52.8%
1976	16.30	5.40	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1977	-2.75	1.31	36.2%	14.6%	37.7%	0.0%	11.5%	50.8%
6/1977	3.29	1.41	36.2%	14.8%	37.6%	0.0%	11.4%	51.0%
9/1977	0.39	1.40	35.0%	15.6%	37.8%	0.0%	11.6%	50.6%
12/1977	1.23	1.54	34.5%	16.2%	37.3%	0.0%	11.9%	50.7%
1977	2.08	5.78						
	3.73	5.51	Cumulative Annualized Returns					

Portfolio automatically rebalanced if total equity exceeds 55%. The portfolio is rebalanced annually regardless of total equity. Annual returns are shown in the rows labeled with just the years.

Mix A - Dollar Returns, Capital Gains/Losses (73-77)

Date	Market Value	Total Change In Market Value	Change Due to Income	Change Due to Capital Gain/Loss	Total Return (%)	Income Return (%)	Capital Gain/Loss (%)
12/1972	1,000.00						
3/1973	994.39	(5.61)	11.20	(16.81)	(0.56)	1.12	(1.68)
6/1973	974.09	(20.30)	11.45	(31.74)	(2.04)	1.15	(3.19)
9/1973	991.89	17.80	11.73	6.06	1.83	1.20	0.62
12/1973	934.31	(57.58)	12.49	(70.07)	(5.80)	1.26	(7.06)
1973		(65.69)	45.03	(110.72)	(6.57)	4.82	(10.99)
3/1974	921.28	(13.03)	11.76	(24.79)	(1.39)	1.26	(2.65)
6/1974	873.29	(47.99)	12.09	(60.07)	(5.21)	1.31	(6.52)
9/1974	766.11	(107.18)	12.69	(119.87)	(12.27)	1.45	(13.73)
12/1974	812.99	46.88	11.95	34.93	6.12	1.56	4.56
1974		(121.32)	46.35	(167.67)	(12.99)	5.70	(17.91)
3/1975	934.18	121.19	12.27	108.92	14.91	1.51	13.40
6/1975	999.33	65.16	13.26	51.90	6.97	1.42	5.56
9/1975	939.04	(60.30)	13.45	(73.75)	(6.03)	1.35	(7.38)
12/1975	1,011.77	72.74	13.48	59.26	7.75	1.44	6.31
1975		198.78	59.02	139.76	24.45	5.83	17.86
3/1976	1,089.87	78.10	13.38	64.72	7.72	1.32	6.40
6/1976	1,103.90	14.03	14.70	(0.67)	1.29	1.35	(0.06)
9/1976	1,128.05	24.15	14.44	9.71	2.19	1.31	0.88
12/1976	1,176.72	48.67	14.87	33.80	4.31	1.32	3.00
1976		164.95	63.58	101.37	16.30	5.40	10.48
3/1977	1,144.36	(32.36)	15.46	(47.83)	(2.75)	1.31	(4.06)
6/1977	1,181.95	37.59	16.09	21.51	3.29	1.41	1.88
9/1977	1,186.57	4.62	16.61	(11.99)	0.39	1.40	(1.01)
12/1977	1,201.16	14.59	18.24	(3.66)	1.23	1.54	(0.31)
1977		24.44	69.47	(45.03)	2.08	5.78	(3.55)

Mix B - Returns, Weights & Dates of Rebalancing (73-77)

Date	Portfolio Total Return (%)	Portfolio Income Return (%)	Asset Class Weights at End of Each Period					Total Equity Allocation
			Domestic Equity	International Equity	Domestic Fixed Income	International Fixed Income	Real Estate	
			41.0%	16.0%	30.0%	0.0%	13.0%	57.0%
3/1973	-0.47	1.07	39.2%	17.8%	30.0%	0.0%	13.0%	57.0%
6/1973	-2.23	1.10	37.8%	18.0%	30.8%	0.0%	13.5%	55.7%
9/1973	1.68	1.15	38.9%	16.4%	31.0%	0.0%	13.6%	55.4%
12/1973	-6.44	1.21	41.0%	16.0%	30.0%	0.0%	13.0%	57.0%
1973	-7.42	4.61	41.0%	16.0%	30.0%	0.0%	13.0%	
3/1974	-1.30	1.21	40.4%	16.4%	29.9%	0.0%	13.4%	56.8%
6/1974	-5.35	1.26	39.4%	16.3%	30.4%	0.0%	13.8%	55.7%
9/1974	-13.46	1.40	41.0%	16.0%	30.0%	0.0%	13.0%	57.0%
12/1974	6.08	1.51	42.3%	15.5%	29.9%	0.0%	12.4%	57.8%
1974	-14.24	5.48	41.0%	16.0%	30.0%	0.0%	13.0%	
3/1975	16.04	1.46	41.0%	16.0%	30.0%	0.0%	13.0%	57.0%
6/1975	7.26	1.36	44.1%	14.9%	28.8%	0.0%	12.3%	58.9%
9/1975	-6.47	1.28	42.0%	14.5%	30.4%	0.0%	13.1%	56.5%
12/1975	7.86	1.37	42.3%	15.2%	30.0%	0.0%	12.5%	57.5%
1975	25.57	5.59	41.0%	16.0%	30.0%	0.0%	13.0%	
3/1976	7.99	1.26	43.6%	15.2%	28.9%	0.0%	12.3%	58.8%
6/1976	1.28	1.29	44.2%	14.7%	28.8%	0.0%	12.3%	58.9%
9/1976	1.94	1.24	44.1%	14.0%	29.5%	0.0%	12.4%	58.1%
12/1976	4.21	1.26	43.7%	14.1%	29.8%	0.0%	12.3%	57.8%
1976	16.18	5.14	41.0%	16.0%	30.0%	0.0%	13.0%	
3/1977	-2.86	1.26	39.1%	16.7%	30.6%	0.0%	13.6%	55.8%
6/1977	3.32	1.35	39.1%	16.9%	30.5%	0.0%	13.5%	56.0%
9/1977	0.42	1.36	37.8%	17.8%	30.7%	0.0%	13.7%	55.6%
12/1977	1.43	1.50	37.2%	18.5%	30.2%	0.0%	14.1%	55.7%
1977	2.23	5.59						
	3.44	5.28	Cumulative Annualized Return					

Portfolio automatically rebalanced if total equity exceeds 60%. The portfolio is rebalanced annually regardless of total equity. Annual returns are shown in the rows labeled with just the years.

Mix B - Dollar Returns, Capital Gains/Losses (73-77)

Date	Market Value	Total Change In Market Value	Change Due to Income	Change Due to Capital Gain/Loss	Total Return (%)	Income Return (%)	Capital Gain/Loss (%)
12/1972	1,000.00						
3/1973	995.29	(4.71)	10.70	(15.40)	(0.47)	1.07	(1.54)
6/1973	973.12	(22.18)	10.93	(33.10)	(2.23)	1.10	(3.33)
9/1973	989.47	16.35	11.22	5.13	1.68	1.15	0.53
12/1973	925.79	(63.68)	11.98	(75.66)	(6.44)	1.21	(7.65)
1973		(74.21)	42.67	(116.88)	(7.42)	4.61	(11.63)
3/1974	913.76	(12.03)	11.18	(23.21)	(1.30)	1.21	(2.51)
6/1974	864.86	(48.91)	11.49	(60.39)	(5.35)	1.26	(6.61)
9/1974	748.44	(116.42)	12.08	(128.50)	(13.46)	1.40	(14.86)
12/1974	793.95	45.51	11.27	34.24	6.08	1.51	4.58
1974		(131.84)	43.48	(175.31)	(14.24)	5.48	(18.93)
3/1975	921.30	127.35	11.59	115.76	16.04	1.46	14.58
6/1975	988.17	66.87	12.55	54.31	7.26	1.36	5.90
9/1975	924.27	(63.90)	12.67	(76.57)	(6.47)	1.28	(7.75)
12/1975	996.96	72.69	12.67	60.02	7.86	1.37	6.49
1975		203.01	55.71	147.29	25.57	5.59	19.20
3/1976	1,076.60	79.65	12.53	67.12	7.99	1.26	6.73
6/1976	1,090.34	13.74	13.91	(0.17)	1.28	1.29	(0.02)
9/1976	1,111.54	21.20	13.55	7.65	1.94	1.24	0.70
12/1976	1,158.28	46.74	13.96	32.78	4.21	1.26	2.95
1976		161.33	59.58	101.75	16.18	5.14	10.63
3/1977	1,125.18	(33.11)	14.62	(47.72)	(2.86)	1.26	(4.12)
6/1977	1,162.48	37.30	15.23	22.07	3.32	1.35	1.96
9/1977	1,167.35	4.87	15.80	(10.92)	0.42	1.36	(0.94)
12/1977	1,184.08	16.72	17.55	(0.83)	1.43	1.50	(0.07)
1977		25.79	66.21	(40.41)	2.23	5.59	(3.23)

Total Return (1992 - 1996)

Date	Domestic Equity	International Equity	Domestic Fixed Income	Real Estate	Inflation
3/1992	-2.56%	-11.87%	-1.50%	0.26%	0.81%
6/1992	1.98	2.12	4.05	-0.84	0.80
9/1992	3.11	1.50	4.89	-1.03	0.72
12/1992	5.10	-3.86	0.08	-3.13	0.50
1992	7.69	-12.18	7.59	-4.69	2.86
3/1993	4.26	11.99	4.65	1.00	0.93
6/1993	0.53	10.06	3.00	0.62	0.64
9/1993	2.57	6.63	3.31	0.37	0.42
12/1993	2.24	0.87	-0.29	-0.27	0.49
1993	9.91	32.57	11.03	1.73	2.50
3/1994	-3.84	3.49	-3.13	1.19	0.77
6/1994	0.40	5.11	-1.24	1.29	0.69
9/1994	4.91	0.10	0.49	1.46	1.03
12/1994	-0.01	-1.02	0.37	2.31	0.20
1994	1.27	7.78	-3.51	6.39	2.72
3/1995	9.73	1.86	4.98	1.72	1.02
6/1995	9.53	0.73	6.49	1.58	0.81
9/1995	7.99	4.17	1.91	1.29	0.47
12/1995	5.95	4.05	4.66	1.05	0.20
1995	37.51	11.21	19.24	5.76	2.52
3/1996	5.47	2.89	-2.34	2.24	1.33
6/1996	4.53	1.58	0.47	1.85	0.78
9/1996	3.09	-0.12	1.76	2.31	0.65
12/1996	8.35	1.59	3.06	2.46	0.52
1996	23.14	6.05	2.90	9.16	3.32
Cumulative Annualized Return	15.21	8.16	7.18	3.56	2.78

Income Return (1992 - 1996)

Date	Domestic Equity	International Equity	Domestic Fixed Income	Real Estate	Inflation
3/1992	0.68%	0.41%	1.90%	1.44%	0.81%
6/1992	0.85	0.51	1.95	1.42	0.80
9/1992	0.71	0.52	1.89	1.55	0.72
12/1992	0.79	0.46	1.81	1.48	0.50
1992	3.07	1.92	7.77	6.92	2.86
3/1993	0.61	0.50	1.80	1.69	0.93
6/1993	0.78	0.44	1.73	1.69	0.64
9/1993	0.69	0.39	1.69	1.48	0.42
12/1993	0.66	0.37	1.64	1.92	0.49
1993	2.77	1.71	7.04	6.96	2.50
3/1994	0.63	0.35	1.64	1.71	0.77
6/1994	0.75	0.37	1.72	1.75	0.69
9/1994	0.75	0.36	1.78	1.75	1.03
12/1994	0.71	0.37	1.81	1.89	0.20
1994	2.88	1.47	7.13	7.28	2.72
3/1995	0.67	0.41	1.84	1.77	1.02
6/1995	0.66	0.42	1.80	1.82	0.81
9/1995	0.64	0.42	1.72	1.88	0.47
12/1995	0.55	0.42	1.71	1.91	0.20
1995	2.54	1.68	7.26	7.59	2.52
3/1996	0.61	0.40	1.64	1.92	1.33
6/1996	0.61	0.38	1.69	2.08	0.78
9/1996	0.57	0.41	1.72	2.09	0.65
12/1996	0.57	0.40	1.72	1.89	0.52
1996	2.38	1.60	6.94	8.23	3.32
Cumulative Annualized Return	2.73	1.67	7.23	7.21	2.78

Current Mix - Returns, Weights & Dates of Rebalancing (92-96)

Date	Portfolio Total Return (%)	Portfolio Income Return (%)	Asset Class Weights at End of Each Period				Real Estate	Total Equity Allocation
			Domestic Equity	International Equity	Domestic Fixed Income	International Fixed Income		
			36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
3/1992	-2.95	1.23	36.1%	10.9%	42.6%	0.0%	10.3%	47.0%
6/1992	2.59	1.34	35.9%	10.8%	43.2%	0.0%	10.0%	46.8%
9/1992	3.29	1.28	35.9%	10.7%	43.9%	0.0%	9.6%	46.5%
12/1992	1.15	1.27	37.3%	10.1%	43.4%	0.0%	9.2%	47.4%
1992	4.02	5.23	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1993	5.03	1.20	35.7%	12.8%	41.8%	0.0%	9.6%	48.5%
6/1993	2.79	1.22	35.0%	13.7%	41.9%	0.0%	9.4%	48.7%
9/1993	3.23	1.14	34.7%	14.2%	42.0%	0.0%	9.2%	48.9%
12/1993	0.75	1.15	35.2%	14.2%	41.5%	0.0%	9.1%	49.4%
1993	12.28	4.80	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1994	-2.16	1.13	35.4%	12.7%	41.6%	0.0%	10.3%	48.1%
6/1994	0.41	1.21	35.4%	13.3%	40.9%	0.0%	10.4%	48.7%
9/1994	2.10	1.23	36.4%	13.0%	40.3%	0.0%	10.4%	49.4%
12/1994	0.25	1.23	36.3%	12.9%	40.3%	0.0%	10.6%	49.1%
1994	0.56	4.88	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1995	5.99	1.24	37.3%	11.5%	41.6%	0.0%	9.6%	48.8%
6/1995	6.49	1.22	38.3%	10.9%	41.6%	0.0%	9.2%	49.2%
9/1995	4.43	1.18	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
12/1995	4.69	1.16	36.4%	11.9%	42.0%	0.0%	9.7%	48.4%
1995	23.39	4.88	36.0%	12.0%	42.0%	0.0%	10.0%	
3/1996	1.56	1.15	37.4%	12.2%	40.4%	0.0%	10.1%	49.5%
6/1996	2.26	1.17	36.0%	12.0%	42.0%	0.0%	10.0%	48.0%
9/1996	2.07	1.18	36.4%	11.7%	41.9%	0.0%	10.0%	48.1%
12/1996	4.75	1.16	37.6%	11.4%	41.2%	0.0%	9.8%	49.0%
1996	11.04	4.75						
	9.98	4.91	Cumulative Annualized Return					

Portfolio automatically rebalanced if total equity exceeds 50%. The portfolio is rebalanced annually regardless of total equity. Annual returns are shown in the rows labeled with just the years.

Current Mix - Dollar Returns, Capital Gains/Losses (92-96)

Date	Market Value	Total Change In Market Value	Change Due to Income	Change Due to Capital Gain/Loss	Total Return (%)	Income Return (%)	Capital Gain/Loss (%)
12/1991	1,000.00						
3/1992	970.50	(29.50)	12.34	(41.84)	(2.95)	1.23	(4.18)
6/1992	995.60	25.10	13.01	12.09	2.59	1.34	1.25
9/1992	1,028.37	32.77	12.79	19.98	3.29	1.28	2.01
12/1992	1,040.23	11.86	13.07	(1.21)	1.15	1.27	(0.12)
1992		40.23	54.41	(14.17)	4.02	5.23	(1.16)
3/1993	1,092.51	52.28	12.53	39.75	5.03	1.20	3.82
6/1993	1,123.01	30.50	13.32	17.18	2.79	1.22	1.57
9/1993	1,159.28	36.27	12.82	23.45	3.23	1.14	2.09
12/1993	1,168.02	8.75	13.31	(4.56)	0.75	1.15	(0.39)
1993		127.79	56.03	71.76	12.28	4.80	7.23
3/1994	1,142.80	(25.22)	13.18	(38.40)	(2.16)	1.13	(3.29)
6/1994	1,147.47	4.66	13.81	(9.15)	0.41	1.21	(0.80)
9/1994	1,171.60	24.13	14.06	10.07	2.10	1.23	0.88
12/1994	1,174.55	2.95	14.44	(11.49)	0.25	1.23	(0.98)
1994		6.53	57.34	(50.81)	0.56	4.88	(4.17)
3/1995	1,244.90	70.35	14.58	55.77	5.99	1.24	4.75
6/1995	1,325.66	80.76	15.14	65.62	6.49	1.22	5.27
9/1995	1,384.40	58.74	15.61	43.13	4.43	1.18	3.25
12/1995	1,449.33	64.93	16.03	48.91	4.69	1.16	3.53
1995		274.78	70.72	204.06	23.39	4.88	17.88
3/1996	1,471.90	22.57	16.66	5.91	1.56	1.15	0.41
6/1996	1,505.19	33.29	17.16	16.13	2.26	1.17	1.10
9/1996	1,536.32	31.13	17.83	13.30	2.07	1.18	0.88
12/1996	1,609.31	72.99	17.89	55.09	4.75	1.16	3.59
1996		159.97	76.39	83.58	11.04	4.75	6.08

Mix A - Returns, Weights & Dates of Rebalancing (92-96)

Date	Portfolio Total Return (%)	Portfolio Income Return (%)	Asset Class Weights at End of Each Period					Total Equity Allocation
			Domestic Equity	International Equity	Domestic Fixed Income	International Fixed Income	Real Estate	
			38.0%	14.0%	37.0%	0.0%	11.0%	52.0%
3/1992	-3.16	1.18	38.2%	12.7%	37.6%	0.0%	11.4%	51.0%
6/1992	2.46	1.29	38.1%	12.7%	38.2%	0.0%	11.0%	50.8%
9/1992	3.13	1.23	38.1%	12.5%	38.9%	0.0%	10.6%	50.5%
12/1992	1.16	1.22	39.5%	11.9%	38.5%	0.0%	10.1%	51.4%
1992	3.51	5.00	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1993	5.13	1.15	37.7%	14.9%	36.8%	0.0%	10.6%	52.6%
6/1993	2.87	1.17	36.8%	16.0%	36.9%	0.0%	10.3%	52.8%
9/1993	3.26	1.09	36.6%	16.5%	36.9%	0.0%	10.9%	53.1%
12/1993	0.83	1.10	37.1%	16.5%	36.5%	0.0%	9.9%	53.6%
1993	12.60	4.60	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1994	-2.00	1.08	37.3%	14.8%	36.6%	0.0%	11.4%	52.1%
6/1994	0.60	1.16	37.2%	15.4%	35.9%	0.0%	11.4%	52.7%
9/1994	2.19	1.18	38.2%	15.1%	35.3%	0.0%	11.4%	53.3%
12/1994	0.23	1.18	38.1%	14.9%	35.4%	0.0%	11.6%	53.1%
1994	0.98	4.68	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1995	5.99	1.19	39.3%	13.5%	36.6%	0.0%	10.6%	52.8%
6/1995	6.39	1.17	40.5%	12.7%	36.7%	0.0%	10.1%	53.2%
9/1995	4.60	1.13	41.8%	12.7%	35.7%	0.0%	9.8%	54.5%
12/1995	4.77	1.08	42.3%	12.6%	35.7%	0.0%	9.4%	54.9%
1995	23.58	4.65	38.0%	14.0%	37.0%	0.0%	11.0%	
3/1996	1.86	1.11	39.3%	14.1%	35.5%	0.0%	11.0%	53.5%
6/1996	2.38	1.12	40.2%	14.0%	34.8%	0.0%	11.0%	54.2%
9/1996	2.09	1.11	40.6%	13.7%	34.7%	0.0%	11.0%	54.3%
12/1996	4.94	1.09	38.0%	14.0%	37.0%	0.0%	11.0%	52.0%
1996	11.72	4.51						
	10.20	4.69	Cumulative Annualized Return					

Portfolio automatically rebalanced if total equity exceeds 55%. The portfolio is rebalanced annually regardless of total equity. Annual returns are shown in the rows labeled with just the years.

Mix A - Dollar Returns, Capital Gains/Losses (92-96)

Date	Mrkrt Value	Total Change in Market Value	Change Due to Income	Change Due to Capital Gain/Loss	Total Return (%)	Income Return (%)	Capital Gain/Loss (%)
12/1991	1,000.00						
3/1992	968.39	(31.61)	11.76	(43.37)	(3.15)	1.18	(4.34)
6/1992	992.17	23.78	12.44	11.34	2.46	1.29	1.17
9/1992	1,023.22	31.05	12.21	18.84	3.13	1.23	1.90
12/1992	1,035.07	11.85	12.49	(0.64)	1.16	1.22	(0.06)
1992		35.07	51.79	(16.72)	3.51	5.00	(1.44)
3/1993	1,088.15	53.08	11.94	41.14	5.13	1.15	3.97
6/1993	1,119.39	31.24	12.77	18.47	2.87	1.17	1.70
9/1993	1,155.91	36.53	12.22	24.31	3.26	1.09	2.17
12/1993	1,165.49	9.58	12.75	(3.17)	0.83	1.10	(0.27)
1993		130.42	53.59	76.83	12.60	4.60	7.74
3/1994	1,142.21	(23.28)	12.63	(35.91)	(2.00)	1.08	(3.08)
6/1994	1,149.03	6.83	13.27	(6.44)	0.60	1.16	(0.56)
9/1994	1,174.15	25.11	13.51	11.60	2.19	1.18	1.01
12/1994	1,176.90	2.76	13.89	(11.13)	0.23	1.18	(0.95)
1994		11.41	55.12	(43.71)	0.98	4.68	(3.58)
3/1995	1,247.39	76.49	14.00	56.50	5.99	1.19	4.80
6/1995	1,327.14	79.74	14.55	65.20	6.39	1.17	5.23
9/1995	1,388.16	61.02	15.02	46.01	4.60	1.13	3.47
12/1995	1,454.37	66.21	15.01	51.21	4.77	1.08	3.69
1995		277.47	67.58	209.89	23.58	4.65	18.31
3/1996	1,481.48	27.10	16.10	11.01	1.86	1.11	0.76
6/1996	1,516.69	35.21	16.63	18.58	2.38	1.12	1.25
9/1996	1,548.40	31.71	16.89	14.82	2.09	1.11	0.98
12/1996	1,624.86	76.46	16.91	59.56	4.94	1.09	3.85
1996		170.49	73.27	97.22	11.72	4.51	6.98

Mix B - Returns, Weights & Dates of Rebalancing (92-96)

Date	Portfolio Total Return (%)	Portfolio Income Return (%)	Asset Class weights at end of each period					Real Estate	Total Equity Allocation
			Domestic Equity	International Equity	Domestic Fixed Income	International Fixed Income			
			41.0%	16.0%	30.0%	0.0%	13.0%	57.0%	
3/1992	-3.37	1.10	41.3%	14.6%	30.6%	0.0%	13.5%	55.9%	
6/1992	2.25	1.21	41.2%	14.6%	31.1%	0.0%	13.1%	55.8%	
9/1992	2.89	1.16	41.3%	14.4%	31.7%	0.0%	12.6%	55.7%	
12/1992	1.18	1.16	42.9%	13.7%	31.4%	0.0%	12.0%	56.6%	
1992	2.87	4.71	41.0%	16.0%	30.0%	0.0%	13.0%		
3/1993	5.19	1.09	40.6%	17.0%	29.8%	0.0%	12.5%	57.7%	
6/1993	2.90	1.12	39.7%	18.2%	29.9%	0.0%	12.2%	57.9%	
9/1993	3.26	1.03	39.4%	18.8%	29.9%	0.0%	11.9%	58.2%	
12/1993	0.93	1.05	39.9%	18.8%	29.5%	0.0%	11.7%	58.7%	
1993	12.81	4.36	41.0%	16.0%	30.0%	0.0%	13.0%		
3/1994	-1.80	1.03	40.1%	16.9%	29.6%	0.0%	13.4%	57.0%	
6/1994	0.83	1.11	40.0%	17.6%	29.0%	0.0%	13.5%	57.6%	
9/1994	2.32	1.12	41.0%	17.2%	28.5%	0.0%	13.3%	58.2%	
12/1994	0.23	1.12	40.9%	17.0%	28.5%	0.0%	13.6%	57.9%	
1994	1.55	4.45	41.0%	16.0%	30.0%	0.0%	13.0%		
3/1995	6.00	1.12	42.4%	15.4%	29.7%	0.0%	12.5%	57.8%	
6/1995	6.28	1.10	43.7%	14.6%	29.8%	0.0%	11.9%	58.3%	
9/1995	4.82	1.08	45.1%	14.5%	28.9%	0.0%	11.5%	59.5%	
12/1995	4.74	1.02	45.6%	14.4%	28.9%	0.0%	11.1%	60.0%	
1995	23.69	4.40	41.0%	16.0%	30.0%	0.0%	13.0%		
3/1996	2.29	1.06	42.3%	16.1%	28.6%	0.0%	13.0%	58.4%	
6/1996	2.54	1.07	43.1%	15.9%	28.1%	0.0%	12.9%	59.0%	
9/1996	2.10	1.06	43.5%	15.6%	28.0%	0.0%	12.9%	59.1%	
12/1996	5.05	1.04	44.9%	15.1%	27.4%	0.0%	12.6%	60.0%	
1996	12.52	4.30							
	10.40	4.44	Cumulative Annualized Return						

Portfolio automatically rebalanced if total equity exceeds 60%. The portfolio is rebalanced annually regardless of total equity. Annual returns are shown in the rows labeled with just the years.

Mix B - Dollar Returns, Capital Gains/Losses (92-96)

Date	Market Value	Total Change in Market Value	Change Due to Income	Change Due to Capital Gain/Loss	Total Return (%)	Income Return (%)	Capital Gain/Loss (%)
12/1991	1,000.00						
3/1992	966.35	(33.65)	11.00	(44.65)	(3.37)	1.10	(4.46)
6/1992	988.12	21.77	11.72	10.05	2.25	1.21	1.04
9/1992	1,016.66	28.53	11.7	17.06	2.89	1.16	1.73
12/1992	1,028.69	12.04	11.75	0.29	1.18	1.16	0.03
1992		28.69	48.46	(19.76)	2.87	4.71	(1.78)
3/1993	1,082.08	53.39	11.21	42.18	5.19	1.09	4.10
6/1993	1,113.48	31.40	12.09	19.31	2.90	1.12	1.78
9/1993	1,149.81	36.32	11.46	24.87	3.26	1.03	2.23
12/1993	1,160.48	10.67	12.08	(1.41)	0.93	1.05	(0.12)
1993		131.79	50.55	81.24	12.81	4.36	8.19
3/1994	1,139.59	(20.89)	11.94	(32.83)	(1.80)	1.03	(2.83)
6/1994	1,149.03	9.44	12.61	(3.17)	0.83	1.11	(0.28)
9/1994	1,175.67	26.65	12.83	13.81	2.32	1.12	1.20
12/1994	1,178.42	2.75	13.21	(10.46)	0.23	1.12	(0.89)
1994		17.94	52.42	(34.47)	1.55	4.45	(2.81)
3/1995	1,249.18	70.76	13.25	57.51	6.00	1.12	4.88
6/1995	1,327.66	78.48	13.80	64.68	6.28	1.10	5.18
9/1995	1,391.72	64.06	14.28	49.78	4.82	1.08	3.75
12/1995	1,457.64	65.93	14.25	51.68	4.74	1.02	3.71
1995		279.22	64.12	215.10	23.69	4.40	18.70
3/1996	1,491.09	33.44	15.41	18.03	2.29	1.06	1.24
6/1996	1,529.02	37.93	16.00	21.94	2.54	1.07	1.47
9/1996	1,561.20	32.18	16.24	15.94	2.10	1.06	1.04
12/1996	1,640.11	78.91	16.18	62.73	5.05	1.04	4.02
1996		182.47	70.46	112.00	12.52	4.30	7.97



REPRESENTATIVE ALAN AUSTERMAN Alaska State Legislature

P.O. Box 2368, Kodiak, Alaska 99615 (907) 486-5930 • Session: State Capitol, Juneau, Alaska 99801 465-2487

April 22, 1997

9

Representative Joe Green
Chairman, Judiciary Committee

Reference: HJR25 – Changes to Permanent Fund

Chairman Green,

You had asked a question at the committee hearing yesterday on HJR25 if the 25% of all royalties that is addressed in Section 2 of this resolution would have any effect on the 50% royalty that is covered in AS 37.13.010.

As I tried to explain to the committee, under Section 15 of the Alaska Constitution, the language is quite clear, "*At least* twenty-five per cent of all mineral lease...." The "At least" language gives the legislature the authority to put a larger amount into the Permanent Fund. The legislature, under AS37.13.010, have increased the amount to 50% after certain dates. HJR 25 does not address AS 37.13.010, so has no effect upon the percentage of royalty.

The language in HJR25 dealing with percentages of royalties is what is currently in the Alaska Constitution and we are not trying to change the percentage language.

I spoke to Tam Cook this morning and she agrees with my above statements. If there are still questions in your mind about this, please let me know and I will get a written opinion from Tam Cook.

A handwritten signature in cursive script, appearing to read "Alan".

Alan Austerman

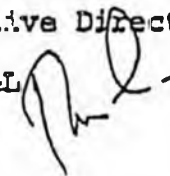
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DANIEL H. INOUE
KATHRYN L. KURTZ
L. MERRILL LOWDEN

MEMORANDUM

To: Byron I. Mallott, Executive Director, APFC
From: Ronald W. Lorensen, STS&L 
Date: March 10, 1997
Re: HJR 25 & SJR 18, Proposing amendments to the Alaska
constitution relating to the permanent fund
Our File No.: 846.1

The purpose of this memo is to express a cautionary note regarding possible issues relating to the tax status of the permanent fund that may arise if the amendments to Article IX, sec. 15 of the Alaska Constitution proposed by HJR 25 and SJR 18 are ultimately adopted. Based on the analysis set out in certain studies with which I am familiar, it appears that adoption of the proposed amendments might weaken the State's long-standing position that the income of the fund is not subject to federal taxation. Unfortunately, because of the sensitive nature of the fund's tax status, I am not able to address specific concerns in a public record such as this memorandum. However, with the permission of the APFC, I could provide information about those studies on a confidential basis to appropriate legislative committees or staff.

HJR 25
Page 2 of 4

CALLAN ASSOCIATES.

March 10, 1997

MICHAEL J. O'LEARY, JR., CFA
EXECUTIVE VICE PRESIDENT



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Jim Kelly
Alaska Permanent Fund Corporation
801 W. 10th Street, Suite 302
P.O. Box 25500
Juneau, AK 99802-5500

RE: Proposed Constitutional Amendment

Dear Jim:

As requested, I want to share several initial thoughts regarding the proposed constitutional amendment that you forwarded to me (Senate Joint Resolution 18). Obviously, the intent of the proposal is to limit distributions from the Permanent Fund to dividends (a percent of average realized income) unless the electorate specifically approved other distributions. Naturally, any decision regarding the use of Permanent Fund earnings is entirely a decision for the people of Alaska and their representatives.

Current statute and the proposed amendment both have significant investment related implications that may influence policy makers in their deliberations. I have attempted to succinctly outline several significant issues that warrant careful consideration as the legislature proceeds with its analysis.

1. Stocks will make the earnings stream both higher and more volatile. Investing a meaningful proportion of the Fund's assets in stocks is critical for attainment of its long-term goals. However, the pattern of stock returns is much more volatile than the pattern of bond returns. The current statutory language and the proposed constitutional amendment, combined with the growing proportion of equities in the APFC, result in greater volatility of earnings (and hence, dividends) than may have been originally perceived.
2. APFC has not yet experienced the downside of equity investment. Fortunately, the Fund has experienced "good" volatility, not both "good" and "bad" volatility. However, there inevitably will be meaningful periods of "bad" (i.e., poor markets) volatility. For example, in 265 rolling five year periods from 1926 to 1996, a 50/50 stock/bond combination had zero or negative real returns 21% of the time (55 periods of 0% or negative real returns).

Mr. Jim Kelly
Page Two
March 10, 1997

3. Other "endowments" have moved away from distribution policies tied to earnings. The majority of endowments and foundations link distributions to a percent of market value, not to a proportion of earnings. They do this to ensure a more consistent and reliable distribution pattern.
4. New Mexico moves from income to market value approach. The citizens of New Mexico passed a constitutional amendment that changed the distribution pattern for that State's Permanent and Tax Severance funds to a percent of market value approach. In part, the rationale for the change was a recognition that tying distributions to "realized" earnings resulted in sub-optimal investment policy. In effect, a dollar of income return was more valuable than a dollar of unrealized return. This tended to push policy toward higher current income at the expense of future growth.
5. At AFPC's direction, Callan is "stress" testing APFC's current and alternative asset allocation policies to help the Board and staff understand how earnings may be affected by a poor market environment. In this analysis, we will examine the 1973-1977 market environment and illustrate how APFC's current asset allocation policy would have performed. By looking at this poor market period, policy makers may better understand the implications of the current statutory and proposed constitutional amendments implications for dividend payments and inflation proofing.

I hope that this letter helps you address the questions confronting you.

Sincerely,



Michael J. O'Leary, Jr., CFA
Executive Vice President

MJO:dsb

HJR 25
page 4 of 4

*** TOTAL PAGE. 23 ***

Article 1. Alaska Permanent Fund.

Section

- 10. Alaska permanent fund
- 20. Findings
- 30. Purpose
- 40. Alaska Permanent Fund Corporation
- 50. Composition and qualifications of board of trustees
- 60. Term of office
- 70. Removal and vacancies
- 80. Quorum and voting
- 90. Compensation of board members
- 100. Corporation staff

Section

- 110. Conflicts of interest
- 120. Investment responsibilities of the board
- 140. Income
- 145. Disposition of income
- 150. Corporation budget
- 160. Audits
- 170. Reports and publications
- 180. Tax exemption
- 190. Political activities
- 200. Public access to information
- 205. Regulations

Sec. 37.13.010. Alaska permanent fund. (a) Under art. IX, § 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) any other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund within three banking days after the day the amount due to the fund reaches at least \$3,000,000 and at least once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter. (§ 5 ch 18 SLA 1980; am § 2 ch 134 SLA 1992)

Effect of amendments. — The 1992 amendment, effective July 1, 1992, inserted "within three banking days after the day the amount due to the fund reaches at least \$3,000,000 and at least" in subsection (b).

Legislative history reports. — For the Free Conference Committee Report on ch. 18, SLA 1980 (FCCSSB 161), see 1980 House Journal, Joint Supplement No. 7, April 2, 1980.

NOTES TO DECISIONS

Stated in State, Dept of Revenue v. Cosio, 858 P.2d 621 (Alaska 1993).

Sec. 37.13.020. Findings. The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the fund that

(1) the fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;

(2) the fund's goal should be to maintain safety of principal while maximizing total return;

(3) the fund should be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law. (§ 5 ch 18 SLA 1980; am § 3 ch 134 SLA 1992)

The transfer shall be

fund" or "unreserved, restricted by law to a accepted principles of g system established

the State of Alaska, of each house of the n affirmative vote of ch 5 SLA 1994)

of the unconstitutionally tion sources identified in elf relies primarily on the graph (a)(1); it cannot be ephs and therefore is also Cowper, 374 P.2d 922

is to consider all amounts appropriation' within the f the state constitution in payment obligation, it is Cowper, 374 P.2d 922

The Department of portion of the budget (aska) to the Alaska

after consulting with out the balance in the (Alaska) on January 1 all state the nominal, ne nominal, real, and the previous calendar

Funds.

oration.

Corporation.

investments to the extent
 appropriate investment opportu-

of this section.

that are not of a quality that
 fair value must be secured

(4), or (8) — (10) of this

that are rated at least "A"
 secondary market;
 administration loans;
 issued by the federal Depart-

commercial or residential real
 financial institution retains at

(m) of this section must
 deposit being secured. The
 the continued satisfaction of

means a Standard & Poor's
 Service, Inc., rating of Baa or
 other variations that occur
 nationally recognized rating
 AS 2; am § 1 ch 33 SLA 1986;
 am § 1 ch 56 SLA 1994; am

inserted "the total value held by
 an investment does not exceed
 of the total value held by the fund
 exceeds \$150,000,000," and made
 change in the introductory lan-
 "33 percent" for "50 percent" in
 and (B), and substituted "57 per-
 cent" in item (F) (i).
 Amendment, effective June 26, 1996,
 "investment grade" for "A or better" in
 and (g)(19), rewrote paragraph
 (i)(5), and added subsection

tory reports. — For Senate letter
 to the 1989 amendments to this
 AS 1989 (CSHB 69(SA)), see 1989
 1.

SLA 1982.)

des income of the earnings
 come of the fund shall be
 in accordance with generally
 gains or losses. Income avail-
 ne fund for the last five fiscal
 ed net income of the fund for
 reserve account described in

AS 37.13.145. (§ 5 ch 18 SLA 1980; am § 3 ch 31 SLA 1982; am § 1 ch 28 SLA 1986; am
 § 18 ch 134 SLA 1992)

Effect of amendments. — The 1992 amendment, effective July 1, 1992, inserted near the beginning and substituted "fund" for "corporation" in three places. "fund includes income of the earnings reserve account

Sec. 37.13.145. Disposition of income. (a) The earnings reserve account is established as a separate account in the fund. Income from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120.

(b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140.

(c) After the transfer under (b) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund an amount sufficient to offset the effect of inflation on principal of the fund during that fiscal year. The corporation shall calculate the amount to transfer to the principal under this subsection by

(1) computing the average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years;

(2) computing the percentage change between the first and second calendar year average; and

(3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended.

(d) Notwithstanding (b) of this section, income earned on money awarded in or received as a result of *State v. Amerada Hess, et al.*, 1JU-77-847 Civ. (Superior Court, First Judicial District), including settlement, summary judgment, or adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or interest earned on the money, or on the earnings of the money shall be treated in the same manner as other income of the Alaska permanent fund, except that it is not available for distribution to the dividend fund, and shall be annually deposited into the principal of the Alaska permanent fund. (§ 9 ch 31 SLA 1982; am § 2 ch 28 SLA 1986; am § 19 ch 134 SLA 1992)

Conditional repeal of subsection (d). — Under § 28, ch. 134, SLA 1992, subsection (d) "is repealed on the day that the revisor of statutes certifies to the legislature that the Alaska Supreme Court has made a final determination that, in the absence of AS 43.23.045(e), repealed by sec. 29 of this Act, or AS 37.13.145(d), added by sec. 19 of this Act, no judge or juror is disqualified from serving as a judge or juror

solely because the judge or juror may qualify to receive a permanent fund dividend."

Cross references. — For transfer of certain income earned by the Alaska permanent fund prior to July 1, 1982, to the undistributed income account, see § 15, ch. 31, SLA 1982.

Effect of amendments. — The 1992 amendment, effective July 1, 1992, rewrote this section.

NOTES TO DECISIONS

Stated in *State, Dep't of Revenue v. Cosio*, 858 P.2d 621 (Alaska 1993); *Exxon Corp. v. Heinze*, Nos. 92-35266, 92-35323, 32 F.3d 1399 (9th Cir. 1994).

Sec. 37.13.150. Corporation budget. The revenue generated by the fund's investments must be identified as the source of the operating budget of the corporation in the state's operating budget under AS 37.07 (Executive Budget Act). The unexpended balance of the corporation's annual operating budget does not lapse at the end of the fiscal year but shall be treated as income under AS 37.13.140. (§ 5 ch 18 SLA 1980; am § 10 ch 31 SLA 1982; am § 20 ch 134 SLA 1992)

Effect of amendments. — The 1992 amendment, effective July 1, 1992, substituted "fund's investments" for "corporation's investments."

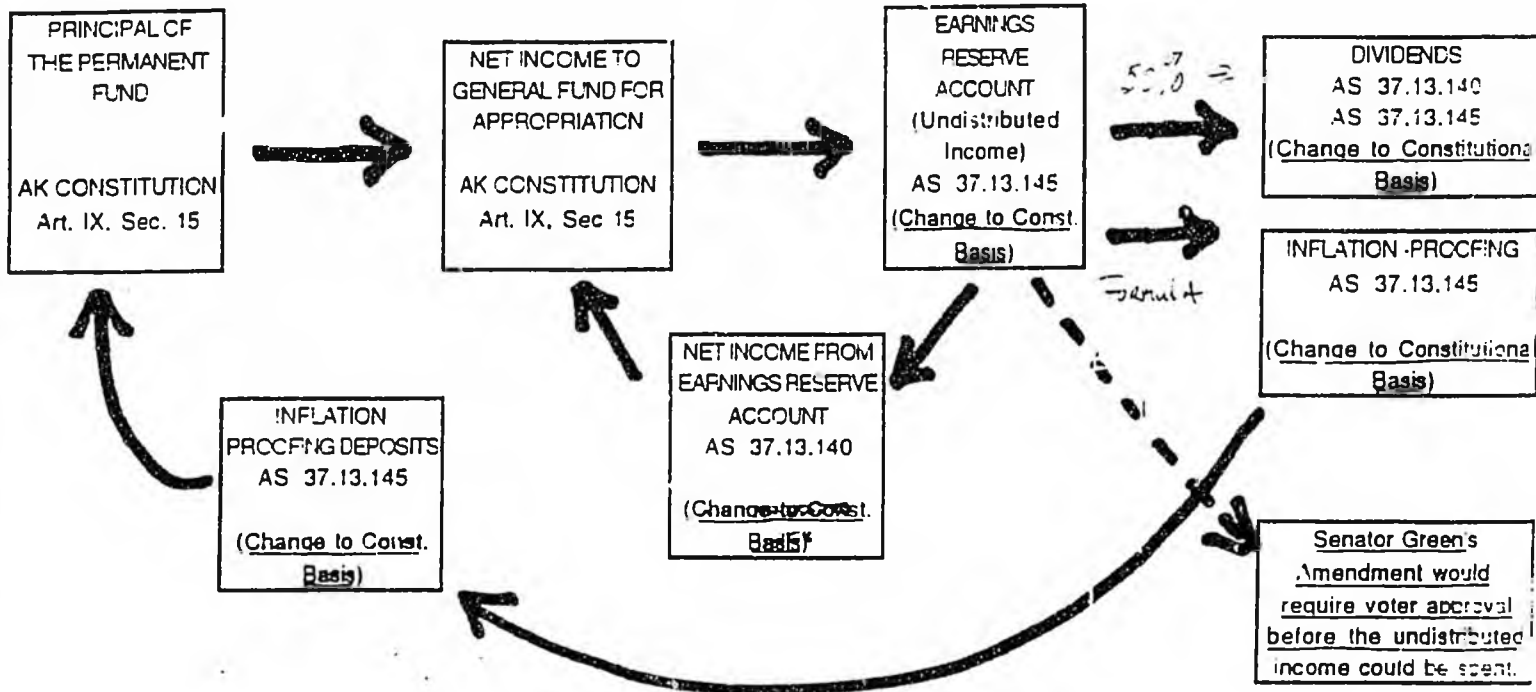
Deposits Into the Permanent Fund by the Alaska Legislature

Oil Royalties 1978 - 1996	\$5.711 Billion
Inflation Proofing 1983 - 1996	\$4.624 Billion
Additional <u>Legislative Appropriations</u>:	
1981	\$900 Million
1982	\$800 Million
1983	\$400 Million
1984	\$300 Million
1985	\$300 Million
1987	\$1.264 Billion
1995/6	\$1.842 Billion
Additional <u>Legislative Appropriations Total</u>	<u>\$5.807 Billion</u>
Total Deposits 1978 - 1996	\$16.142 Billion*

* Does not represent the total amount in the Fund at this time; does not include some earnings.

Source: Jim Kelly, Alaska Permanent Fund Corporation

MM/pckp



WHAT HAPPENS TO PERMANENT FUND INCOME?

Present Use of Fund Income

Income earned during the fiscal year is credited during the year to the earnings reserve account in the Permanent Fund. On June 30 of each year, appropriations are made from that account first for dividends, then for inflation-proofing.

the earnings reserve account to the Dividend Fund in the General Fund by legislative appropriation.

The amount transferred for inflation-proofing is calculated by multiplying the percentage change in the prior calendar year average of the U.S. consumer price index for all urban

If any income remains after the transfers, it remains in the earnings reserve account as undistributed income. In future years, if there is insufficient net income to fully pay dividends or inflation-proofing, the trustees would request that any previously-accumulated undistributed income in the earnings reserve account be drawn down for those purposes. This happened in fiscal 1990 and 1991. The legislature may appropriate funds from the earnings reserve account at any time for any lawful purpose.

On June 30 of each year, appropriations are made from the earnings reserve account first for dividends, then for inflation-proofing... if there is insufficient net income to fully pay dividends or inflation-proofing, any previously-accumulated undistributed income in the earnings reserve account would be drawn down for those purposes.

The dividend formula is calculated to produce a stable flow of dividends over time: (1) add together the Fund's net income for the last five years; (2) multiply that number by 21%; and (3) divide that number in half. That amount is transferred from

consumers by the Fund's principal balance at the end of the fiscal year. That amount is automatically transferred from the earnings reserve account to the Permanent Fund's principal on June 30 of each year by legislative appropriation.

The Dividend Program

The dividend program is a finely-crafted piece of public policy which was specifically intended to create a broad and powerful constituency to protect the Fund, encourage its growth, and distribute a significant portion of Fund income for the benefit of the current generation of Alaskans. And it has worked.

Since every man, woman and child who is an Alaska resident is entitled to a portion of each year's earnings, there is strong interest in the Fund's operating and investment activities. Further, earnings of the Fund undergo special public scrutiny since any expenditure of such earnings must be subject to the legislative appropriation process.

No other state in the U.S. has anything like Alaska's dividend program. Each Alaska resident who makes application and qualifies, no matter how young or old, rich or poor, gets a personal share of the

