

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 8672

9736 SENATE STATE AFFAIRS

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

## MEMORANDUM

March 5, 1997

**SUBJECT:** Legislative ethics bill draft (SB 105)

**TO:** Senator Tim Kelly, Chair  
Senate Rules Committee  
Attn: Ben Brown

**FROM:** Teresa B. Cramer *TBC*  
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

**Section 1** amends AS 24.25.010(e) to include the Legislative Ethics Committee in the list of legislative committees that may issue a subpoena without securing the concurrence of the presiding officer.

**Section 2** amends AS 24.60.030(a) to permit the storing or maintaining of election campaign records in a legislator's office so long as the records are not displayed publicly. The subsection retains the prohibition in AS 24.60.030(b) against permitting a legislative employee to work on campaign matters on government time.

**Section 3** repeals and reenacts AS 24.60.030(c) to clarify that state funds other than the office allowance may not be used for mass mailings about legislators and legislative employees who are candidates for federal and municipal offices (and retains the prohibition against using state funds for mailings about candidates for state offices) or about other persons who are candidates for election to the legislature. The subsection also applies the prohibition to elections for telephone and electric cooperatives and clarifies that, when applied to a special election, the prohibition begins on the date of the governor's proclamation.

**Section 4** extends the prohibition in AS 24.60.030(d) against distributing or posting campaign communications to also prohibit distributing or posting notices about fund-raising

events for candidates. The amendment also applies the prohibition to legislative employees as well as legislators.

**Section 5** amends AS 24.60.030(f) to clarify that a legislator or legislative employee whose appointment to a board is disclosed in the House or Senate Journal does not need to make an additional disclosure to the Ethics Committee. The disclosures of membership on a board must be filed annually by February 15 with updates for new appointments or elections to boards due within 60 days after appointment or election. The committee is required to send copies of the disclosure to the Senate Secretary or House Clerk, as appropriate, for publication in the journal.

**Section 6** repeals and reenacts AS 24.60.030(g) to address when and to what extent a legislator or legislative employee who has a substantial financial interest in an issue can take legislative actions on the issue. Under the proposal, for votes and other activities in committee or on the floor of the House or Senate, the legislator or legislative employee would have to disclose his or her interest before acting. For other kinds of actions (requesting that research be done or a bill be drafted, for example), the legislator or legislative employee would have to disclose the substantial financial interest to the ethics committee in writing within seven days after taking the action.

**Section 7** adds a subsection (h) to AS 24.60.030 to address how to determine whether an employee is on government time or not. The committee is directed to consider the work schedule set by the employee's immediate supervisor. An employee is required to take leave for periods of political campaigning during the employee's work day. Incidental political activities (answering a phone call, forwarding incoming mail to the campaign committee) are excluded from the leave-slip requirement.

**Section 8** clarifies that, for purposes of the prohibition against fund-raising during sessions contained in AS 24.60.031(a), the legislature is considered to be in session on a day when either house is in session and also extends the prohibition to apply to campaigns for local, state, and federal elections as well as to state legislative campaigns.

**Section 9** amends AS 24.60.039 to permit the Ethics Committee to refer employment discrimination complaints that are filed with the committee to the State Human Rights Commission and to wait until the Human Rights Commission has completed its proceedings before considering the complaint itself.

**Section 10** amends AS 24.60.040(a) to permit legislators and legislative employees to enter into a state contract or lease that is let under any method permitted by the State Procurement Code or under similar procedures for agencies not subject to the Procurement Code. Currently legislators and legislative employees may only enter into those contracts and leases let through competitive sealed bidding. The bill also amends the provisions permitting small contracts and leases by increasing the ceiling to an annual value of \$5,000 or less.

Legislators and legislative employees who participate in a state contract or lease that has an annual value of \$5,000 or more, or who know of a family member who is participating in a state contract or lease worth \$5,000 or more must disclose the participation. A grant that results in a contract and that is not covered by AS 24.60.050 is subject to this section.

**Section 11** amends AS 24.60.040(c) to clarify that the statute on state contracts and leases does not apply to participation by legislators and legislative employees in state programs and loans.

**Section 12** amends AS 24.60.050(c) to permit the committee to refrain from publishing disclosures of participation in a state program where disclosure would invade the participant's privacy in violation of the constitutional right to privacy. This amendment is consistent with Advisory Opinion No. 94-07.

**Section 13** adds a new subsection to AS 24.60.060 to require a legislator or legislative employee who is the subject of a complaint before the Ethics Committee to comply with protective orders issued by the committee.

**Section 14** amends AS 24.60.070(b) to set deadlines for disclosures of close economic associations. The disclosures must be made by the date set under AS 24.60.105, which is added to the ethics law by sec. 25 of the bill.

**Section 15** adds a new subsection to AS 24.60.070 to require a legislator or legislative employee who is married to a lobbyist or who is maintaining a spousal-like relationship with a lobbyist to make disclosures concerning the lobbyist's employers and income from lobbying.

**Section 16** amends AS 24.60.080(a) to increase the gift exemption from \$100 per year to \$250 per year. The subsection also clarifies that other subsections of AS 24.60.080 make exceptions to the general prohibition against gifts.

**Section 17** amends AS 24.60.080(c) which sets out the existing exemptions to the prohibition against accepting gifts. Paragraph (c)(1)(A) forbids legislators and legislative employees from accepting a gift of hospitality at a person's vacation home located outside the state, although generally the statute continues to permit them to accept a gift of hospitality at a residence. Paragraph (c)(2)(B) permits legislators and legislative employees to accept discounts that are not generally available to the public or a large class of persons when on official state business but only if receipt of the discount benefits the state. Paragraph (7) permits legislators and the personal staff of legislators and committee staff to accept discounts and other gifts offered to welcome them to the capital city or in recognition of the beginning of the legislative session. Paragraph (7) does not apply to legislative employees who are employed by the Legislative Affairs Agency, the chief clerk or senate secretary, or the legislative budget and audit committee or the ombudsman.

**Section 18** amends AS 24.60.080(d) to change the reporting deadline for gifts that are not related to a person's legislative status from April 15 to February 15. Requires disclosure of gifts of travel and hospitality received while gathering information of legislative concern only if the gift is valued at \$250 or more. The current threshold is \$100. Requires that disclosure of gifts not connected to a person's legislative status include only a description of the gift and the identity of the donor. Currently, the recipient is also required to disclose the value of gifts worth more than \$250. The last sentence of the section requires the committee to forward copies of the disclosures concerning travel to gather legislative information to the Alaska Public Offices Committee.

**Section 19** amends AS 24.60.080(e) in response to changes made to the campaign finance laws last year. There are now low budget campaigns that do not have to report political contributions. A political contribution that is exempt from that reporting requirement does not have to be treated as a gift under the ethics code.

**Section 20** increases the gift threshold in AS 24.60.080(f) to \$250 for gifts from foreign governments and adds that legislators and legislative employees may accept gifts from the federal or other state governments on behalf of the legislature.

**Section 21** amends the definition of "immediate family" or "family member" for AS 24.60.080 to add that the relatives of the legislator's or legislative employee's spousal equivalent who fall within the categories listed in paragraph (5) are treated as relatives of the legislator or legislative employee for purposes of accepting gifts.

**Section 22** adds new subsections to AS 24.60.080. Proposed subsection (h) permits legislators and legislative employees to solicit, accept, and receive gifts on behalf of recognized, nonpolitical charitable organizations in accordance with guidelines adopted by the committee.

Proposed subsection (i) addresses the receipt of inheritances from persons other than family members and requires disclosure by the deadlines set out in AS 24.60.105, which is added to the ethics law by sec. 25 of the bill. The name of the person from whom the inheritance was received is to be disclosed but the value of the inheritance does not have to be reported.

Under proposed subsection (j), legislators, legislative committees other than the Ethics Committee, and legislative agencies may accept gifts of volunteer services so long as the person donating the services is not receiving compensation from another source for the services. However, the last sentence of subsection (j) makes clear that legislators and legislative employees may not accept a gift of services for nonlegislative purposes (unless the gift can be accepted under a different exception of the code). A legislative volunteer is required to comply with a substantial portion of the Legislative Ethics Code. However, the person does not have to comply with the sections on contracts and leases (AS 24.60.040), state program or loan participation (AS 24.60.050), close economic associations

(AS 24.60.070), nepotism (AS 24.60.090), or representation before state agencies (AS 24.60.100).

Proposed subsection (k) requires a legislator or legislative employee who knows or reasonable ought to know that a family member has received a gift because of the family member's connection to the legislator or employee to report the gift if it would have to be reported if it were given directly to the legislator or employee. For example, if a corporation gives a legislator's spouse airplane tickets and accommodations so that the spouse can attend a conference that the legislator is attending and if the gift is given because the recipient is married to the legislator (and not because the spouse is an expert on the topic of the conference), the legislator should disclose the gift.

Proposed subsection (l) clarifies that in determining the value of a gift, the fair market value should be used.

**Section 23** amends AS 24.60.085(a) to clarify that legislators and legislative employees may not receive significantly larger than usual payment for services but may charge less than the going rate for services if they wish.

**Section 24** amends AS 24.60.100 to require that disclosures concerning representations before state agencies be made under the deadlines set out in AS 24.60.105.

**Section 25** enacts AS 24.60.105 to set deadlines for disclosures.

**Section 26** amends AS 24.60.130(f) to clarify that members of the Ethics Committee serve without compensation but are entitled to reimbursement for travel expenses and per diem.

**Section 27** amends AS 24.60.130(h) to prohibit a legislator who supervises an employee who is the subject of an ethics complaint from taking part in the complaint proceedings concerning that employee. Because of the changes proposed by AS 24.60.130(o) in sec. 28 of the bill, the amendment to AS 24.60.130(h) also deletes requirements for appointment of alternate committee members.

**Section 28** amends AS 24.60.130 by adding a new subsection to direct the presiding officers to appoint legislative alternates to the Ethics Committee who will serve when the chair of the committee or a subcommittee designates them to serve on the committee or subcommittee because a regular member has been disqualified from participating in a complaint. The designation of the alternate to serve during a complaint proceeding is confidential to the same extent that the identity of the subject of a complaint is confidential.

**Section 29** amends AS 24.60.134(a) to clarify that the prohibition against participation in political management or in a political campaign that applies to public members of the committee, committee employees, and persons under contract to the committee extends to

campaigns for federal, state, and local offices regardless of whether the campaign is partisan or nonpartisan, applies to campaigns concerning ballot measures, and to political party fundraising events.

**Section 30** amends AS 24.60.134 by adding a new subsection (c). Under proposed subsection (c), persons under contract to the ethics committee may request the committee to exempt some of the members of the partnership or corporation from having to comply with some or all of the prohibitions against political activity. The committee may grant the request if doing so will not lead to the appearance that the committee is subject to undue political influence and if there is no appearance of impropriety.

**Section 31** amends AS 24.60.150(b) to permit the committee to adopt guidelines and provides that a person complying with the guidelines may not be penalized for having violated a provision of the statutes.

**Section 32** amends AS 24.60.160 to give the committee 60 days to respond to a request for an advisory opinion. The changes also permit the committee to issue opinions on the request of about-to-be legislative employees. Under new language in subsection (b), the committee deliberations concerning an advisory opinion are designated as executive sessions, not open to the requester.

**Section 33** amends AS 24.60.170(a) to prohibit the committee from considering a complaint against all members of the legislature or all members of one house of the legislature. The amendments also permits the committee to reinstitute proceedings that were filed against a legislative employee and then closed when the employee stopped working for the legislature or against a former legislator if the employee or former legislator resumes legislative service within five years after the alleged violation.

**Section 34** amends AS 24.60.170(b) to describe the required contents of a complaint and to require the committee to advise complainants that they may be asked to testify.

**Section 35** amends AS 24.60.170(c) to permit the committee to assign complaints to a staff member for preliminary investigation. The staff member may recommend to the committee whether the complaint warrants further investigation and proceedings, based on the information and evidence contained in the complaint as supplemented by the complainant and the subject of the complaint. The section also permits the committee to dismiss frivolous complaints and complaints for which there is insufficient credible information to warrant further investigation. The committee is also permitted to request additional information from the complainant and the subject of the complaint. Proceedings under the subsection are confidential as are documents and dismissals. The subject of the complaint may waive confidentiality as provided in AS 24.60.170(l).

**Section 36** amends AS 24.60.170(f) to provide that committee deliberations and votes on a dismissal order and decision are not open to the public or to the subject of the complaint.

**Section 37** amends AS 24.60.170(g) to address how the committee and the legislature should handle a situation in which the subject of the complaint initially agrees to comply with corrective action but later fails to do so.

**Section 38** makes changes to AS 24.60.170(h) to conform it to the changes made to AS 24.60.170(g).

**Section 39** amends AS 24.60.170(i) to permit the committee to adopt procedures concerning discovery.

**Section 40** amends AS 24.60.170(l) to clarify that the confidential proceedings of the ethics committee are also closed to other legislators and to prohibit the subject of the complaint from waiving the committee's confidentiality duty to others and right to deliberate confidentially.

**Section 41** amends AS 24.60.174(a) to require the committee to include a timetable with its recommended sanctions and to permit the committee to recommend fines.

**Section 42** adds a new subsection to AS 24.60.174 to require the House or the Senate to tell the ethics committee when it imposes a sanction other than expulsion on the subject of a complaint and to set a timetable for compliance. The committee can recommend additional action by the House or Senate if the timetable is not complied with.

**Section 43** amends AS 24.60.176 to require that supervisors of legislative employees enforce the sanctions they have imposed and report to the committee concerning the employee's compliance.

**Section 44** defines "appointing authority" for AS 24.60.176.

**Section 45** adds AS 24.60.178 to set out a list of possible sanctions including "any other appropriate measure." The new section also permits the committee to recommend that the subject of a complaint be required to pay all or a portion of the costs related to an investigation and adjudication.

**Section 46** amends AS 24.60.200 to require public members of the ethics committee and legislative employees who are compensated at Range 19 or above to file the same financial disclosure that legislators and legislative directors are now required to file. In paragraph (1), the requirement to report gifts to APOC is removed.

Senator Tim Kelly  
March 5, 1997  
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Section 47 conforms AS 24.60.210 to include those legislative employees who will be required to file disclosure statements and changes the due date on the report from April 15 to February 15.

Sections 48 and 49 amend AS 24.60.240 and 24.60.250 to reflect the legislative employees who will be required to file disclosure statements.

Sections 50 and 51 amend AS 24.60.260 to permit the ethics committee to impose a fine on persons who file late ethics disclosures.

Section 52 amends the definition of "immediate family" in AS 24.60.990(a)(5).

Section 53 adds definitions of "legislative employee who is required to disclose" and "person subject to disclosure requirements" and "spousal equivalent" to the definitions in the legislative ethics code.

Section 54 provides that the bill takes effect (if enacted) January 1, 1998.

TC:jdr  
97-141.jdr

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DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

## MEMORANDUM

April 29, 1996

**SUBJECT:** Technical changes to the Ethics Bill (CSSB 141(RLS) "Z" version dated 4/27/96)

**TO:** Senator Druc Pearce  
Attn: Laura Williams

**FROM:** Teresa B. Cramer *TBC*  
Legislative Counsel

*MOVED*

Since I have proposed a number of technical changes to the ethics bill, I thought it would be helpful if I listed them. If there are any that you don't want me to make the next time the bill is prepared, please let me know.

1. AS 24.60.030(g), page 7, lines 24, 25, and 27. These references to the ethics committee will be changed from "committee" to "ethics committee" to distinguish the reference from the reference to "legislative committee" in lines 19 and 21. *X*

2. AS 24.60.030(a), page 9, lines 19 - 20. The list will be changed to read: "generally available to the public at large or to [,] members of a profession, occupation, or group. *X*

3. Definitions of "spousal equivalent" in AS 24.60.080(g), page 13, line 11; AS 24.60.990(a)(5), page 29, line 14; AS 39.52.130(m), page 40, line 31; AS 39.52.155(c), page 42, line 30; and AS 39.52.960(11), page 48, line 13. The definition as presented in the bill has one too many repetitions of "with the person." I will change the definition to read: *X*

another person cohabiting with the person in a conjugal relationship that is not a legal marriage.

4. AS 24.60.134(c), page 18, line 27. This new subsection prohibits the employees and contractors of the ethics committee from participating in or attending a political party fund-raising event. The new proposed (d), on page 19, allows the ethics committee to make an exception for partners of the person actually doing the work if there won't be any undue political influence or appearance of impropriety. The exception in (d) was intended to apply to the prohibition in (c), as I understand it. Therefore, I will change the beginning of (c), line 27, to read: *X*

(c) In addition to the prohibitions under (a) of this section and except as provided in (d) of this section,"

5. AS 24.60.176, page 25, line 2. I am going to change "that" to "which".

6. AS 39.50.020(a), page 30, line 1. In replacing the list of types of public officials in the first sentence of this subsection with the defined phrase "public official," I neglected to note that the governor and the lieutenant governor are not now included in the list in that sentence nor are elected municipal officers. (The governor and lieutenant governor file their statements as candidates for state elective offices, which is addressed in the second sentence of the subsection, beginning on line 10. Elected municipal officers file as provided in the third sentence, beginning on line 13.) Therefore, the beginning of the subsection on line 1 will be changed to read:

A public official as defined in AS 39.50.200, other than the governor, the lieutenant governor, or an elected municipal officer,

7. AS 39.50.200(a)(8), page 33, line 31, through page 34, line 2. At your request, I have clarified the reference to commissioners, deputy commissioners, and division directors. The new language, if enacted, will read:

a person hired or appointed as the head or deputy head of a department in the executive branch or as the director of a division in a department in the executive branch

8. Sec. 39.52.134, page 41, line 19. When I changed this new provision from "public officer" to "state official" I neglected to note that there are no classified employees who are state officials. Therefore, I propose to delete the phrase "in the exempt, partially exempt, or classified service."

9. AS 39.52.960(23), page 48, line 25. In the definition of "state official" I copied the language in AS 39.50.200(a) for the definition of "public official" (and then added the Range 21's). When "state commission or board" is referred to in AS 39.50.200(a), the definition of that term that is set out in AS 39.50.200(b) automatically applies. That definition does not automatically apply in this section (which is in chapter AS 39.52), so I intend to add the reference, to read (in line 25) "member of a state commission or board as defined in AS 39.50.200(b)".

10. Sec. 94, effective date. The reference to "sec. 92" of this Act should read "sec. 93".

# Alaska State Legislature

## Select Committee on Legislative Ethics

716 W. 4th, Suite 230  
Anchorage AK  
(907) 258-8172  
FAX: 258-2106

Mailing Address:  
P.O.Box 101468  
Anchorage, AK  
99510 - 1468

### SB 105

### AN ACT RELATING TO LEGISLATIVE ETHICS

SB 105 is the result of four years of work by the Ethics Committee to clarify and improve the ethics code. The legislators and public members who serve on the committee adopted the draft version of SB 105 February 11, 1997. Most of the language in this bill was included in the bill introduced during the 19th Legislature, which passed the Senate and was heard in House Finance in the final days of the regular session.

**General Housekeeping Sections:** The majority of this bill reflects minor changes to the ethics code, based on the committee's working experience with the code. The following sections of this bill, which were in the previous bill before the 19th legislature are considered housekeeping measures. They have not been changed (or changes were considered non-substantive) by either the Ethics Committee or the legislative committees which reviewed the previous year's bill:

- |  |  |
|--|--|
| Sec. 1: Subpoena Powers                              | Sec. 29: Restrictions on Public Members                                |
| Sec. 5: Board Membership disclosure<br>/deadline     | Sec. 30: Restrictions on Contractors<br>with Committee                 |
| Sec. 6: Conflicts of Interest                        | Sec. 31: Guidelines  |
| Sec. 8: Fundraising During Session                   | Sec. 32: Advisory Opinions   |
| Sec. 9: Employment Discrimination                    | Sec. 33: Complaints: Comm. Jurisdiction.                               |
| Sec. 12: Refrain from Publication                    | Sec. 35: Complaints: Preliminary Exam,<br>Dismiss Frivolous Complaints |
| Sec. 13: Protective Order                            | Sec. 36: Lack of Probable Cause  |
| Sec. 14: Deadline for Close Economic<br>Associations | Sec. 50: Fines for late disclosures                                    |
| Sec. 16: Gifts                                       | Sec. 51: Fines   |
| Sec. 20: Gifts from Governments                      | Sec. 54: Effective Date  |
| Sec. 22: Gifts                                       |  |
| Sec. 23: Earned Income/ Honoraria                    |  |
| Sec. 24: Representation                              |  |
| Sec. 25: Deadlines for filing Disclosures            |  |
| Sec. 26: Committee Per Diem & Travel                 |  |
| Sec. 27: Member Disqualification                     |  |
| Sec. 28: Committee Alternates                        |  |

Sections which have substantive changes to the ethics code or which have been added or changed since introduction of the committee's previous bill:

Sec. 2: Campaign Records

At the recommendation of 19th Legislature Senate State Affairs Committee (SSTA/19) this new sub-paragraph is an allowed exception to use of state resources. It permits storing and maintaining campaign records in an office so long as they are not in public view.

Sec. 3: Mass Mailing using non-office allowance state funds.

The code currently prohibits the use of state funds to distribute a political mass mailing from or about a legislator who is candidate for a state office during certain election periods. The ethics committee recommends adding several categories of people to that list, including any person who is a candidate for the legislature.

Sec. 4: Campaign Literature

The committee recommends allowing legislators to post materials related to past elections in his/her office.

Sec. 7: Government Time

The committee responded to concerns expressed by legislators by including language to allow incidental campaign activities which are part of normal legislative duties, such as answering the phone and handling incoming mail.

Secs. 10 & 11: Contracts and Leases

This section eliminates the prohibition on participation in certain state contracts and leases and sets a new requirement for full disclosure of participation.

Sec. 15: Spousal/Spousal Equivalent Lobbyist

The issue as to whether spouses and spousal equivalents of legislators and legislative employees should be banned from lobbying has been widely debated. The committee has not taken a position on that issue but instead has increased disclosure requirements for those in the legislative branch who have lobbying spouses/equivalents.

Sec. 16: Gift Limit

Increases the annual gift limit from \$100 to \$250.

Sec. 17: Gift Exemptions

In response to legislative concern, the committee recommends that a stay in a vacation home in Alaska and discounts offered, in the

capitol city during session, to legislators and their personal staff be included on the list of allowable gifts.

Sec. 18: Gift Reporting

The committee originally proposed that all gifts be publicly disclosed. The SSTA/19 Committee amended that language to keep confidential those gifts unrelated to legislative status. The committee adopted the confidential language.

Sec. 19: Low Budget Campaigns

The Campaign Finance Reform Act made changes that exempt candidates who have a \$2500 campaign limit from having to report contributions to APOC. The ethics code states that contributions reported to APOC are not gifts. This change clarifies that contributions to low-budget campaigns are not subject to the gift restrictions in the ethics code.

Sec. 21: Family

This section expands the definition of "family" to families of spousal equivalents, in relation to accepting gifts.

Sec. 34: Complainant

In response to concerns brought forward in the 20th Legislature House Rules Committee, the ethics committee included language that clarifies that the complainant must sign a statement that he/she has reason to believe there has been a violation and further clarifies that he/she may have to testify before the committee.

Secs. 37 & 38: Corrective Actions

This language was added in the SSTA/19 Committee, to clarify procedures when a person does not comply with corrective actions.

Sec. 39: Discovery

The proposed language clarifies discovery procedures. The committee did not include an amendment adopted by the SSTA/19 Committee to tie discovery to restrictions on the complainant because the complainant is not usually under the committee's jurisdiction. Furthermore, the complainant is not a party to discovery.

Sec. 40: Attendance at Executive Session and Waiver of Confidentiality

This language allows the committee to permit the subject of the complaint to attend executive sessions, with the exception of deliberations on complaints. It also adds a protective clause that does not allow one person to waive confidentiality for another.

Secs. 41 & 42: Timetable for Sanctions

This language was adopted by SSTA/19 to clarify procedures concerning sanctions on legislators.

Sec. 43 & 44: Employee Violator/Appointing Authority.

The committee adopted the version recommended by the SSTA/19 committee which set the legislator as the appointing authority for personal staff instead of naming the Rules Committees as the authorities.

Sec. 45: Sanctions

The committee adopted the SSTA/19 committee version of this section, which expanded the list of possible sanctions to include removal of a legislator from a leadership position or committee membership position, and a determination that the legislator would not be appointed to a leadership or committee membership position for the remainder of that legislature.

Secs. 46, 47, 48, 49, 53: Range 19 and Above Legislative Employees/Public Members of the Ethics Committee/Filing Financial Disclosure

The SRLS/19 Committee version included Range 19 and above legislative employees in the annual financial filing requirements, deadlines and penalties. At its February 1997 meeting the ethics committee included the public members of the ethics committee in the filing requirement, as well as adding spousal equivalents to the list of those whose income must be reported.

Sec. 52: Immediate Family

The committee added the family of the spousal equivalent to the definition of immediate family.

March 7, 1997

**Alaska State Legislature**  
**Select Committee on Legislative Ethics**  
**STATEMENT**  
**in support of**  
**SB 105**

This bill represents extensive work by our Legislation Subcommittee, chaired by Senator Pearce. The subcommittee based its recommendations on actual committee experiences, such as the need to clarify the restrictions on fundraising during session. The full committee reviewed the recommendations in detail and voted unanimously to forward the draft to the legislature for your consideration.

Most of the proposed changes are of a housekeeping nature. Examples include: specifying deadlines for certain disclosures, setting procedures for designating committee alternates and adding "notices of candidate fundraising events" to those items that can not be posted in state facilities.

The more substantive changes include increasing the gift threshold from \$100 annually to \$250, permitting the ethics committee to impose fines at \$2 per day to a maximum of \$25 for late disclosures, listing the possible sanctions the committee could recommend for violations of the ethics code and changing the contract and lease section by eliminating the prohibition on legislators and legislative employees participating in certain state contracts and leases as long as the participation is fully disclosed.

The committee recognizes that the issue of a legislator's or legislative employee's spouse or spousal equivalent acting as a lobbyist is a volatile one. The committee did not take a position as to whether or not this should be allowed. However, if allowed, the committee has recommended expanding disclosure requirements for those in the legislative branch who have lobbying spouses or equivalents.

We welcome the opportunity to testify on this legislation and to answer any questions you may have. The committee encourages you to discuss these and other proposed amendments with members who have served on the Ethics Committee in the past four years. Those members are: Senator Pearce, Senator Duncan, Representative Bunde, Representative Elton, Representative Porter, Senator Mackie, Margie Mac Neille, Shirley McCoy, Joe Donahue, Edith Vorderstrasse, Ed Granger, Cynthia Toohey and Jalmar Kerttula.

**SB**

**116**

TONY KNOWLES  
GOVERNOR

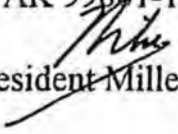


P.O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500  
Fax (907) 465-3532

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 4, 1997

The Honorable Mike Miller  
Senate President  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

  
Dear President Miller:

Last year I signed into law a bill commonly referred to as welfare reform, but I called it a bill to put Alaskans to work. Today I am sending to the Legislature part two of that effort to take people off the welfare rolls and put them on the payrolls. With this bill I am launching my Alaska Business Investment Incentive Plan which will include several measures to be presented over the next two weeks.

This bill establishes the Alaska welfare to work program which offers a tax credit to corporations that hire people who receive public assistance. The tax credit will provide an incentive to corporations to hire public aid recipients which will assist in the state's effort to move people off of welfare.

This new program would offer an employer a tax credit of 15 percent of an employee's eligible wages, capped at \$1,000 per employee. Additional credit of up to \$500 may be earned if the employer provides training that qualifies as a "work activity" under last year's reform bill. To compare that with our current costs under welfare, the average public assistance payment is \$778 per month, or \$4,668 over six months--far exceeding the \$1,000 to \$1,500 tax credit proposed in this legislation.

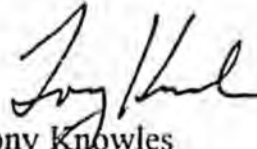
In order for an employer to earn the credit, the employee must remain in the job for 180 days or 400 hours. The employment does not, however, have to be uninterrupted or within a year of initial hire. This ensures that employers who experience a need for a temporary layoff, or work in seasonal industries, are eligible for the tax credit.

The Honorable Mike Miller  
March 4, 1997  
Page 2

The Alaska Welfare to Work program mirrors the federal work opportunity tax credit program and should operate seamlessly with that national effort so the Department of Labor can easily administer both programs and avoid confusion for employers. Unlike the federal program, though, the Alaska credit would only apply to the hiring of people in Alaska. Because that's the whole point of this program--hiring Alaskans--this bill also eliminates a current provision in state law that allows out-of-state corporations to take a credit on their Alaska income tax for hiring someone on public assistance in Los Angeles, or Detroit, or anywhere in the other 49 states. That federal credit is actually relatively small compared to the credit in this proposal. Corporations hiring Alaskans stand to gain much more under the Welfare to Work plan than they would lose in applying the federal credit to Alaska corporate income tax.

Jobs are the answer to reducing our welfare rolls. To the extent this new program can encourage the private sector to help people work their way off public assistance, we are all better served. Let's continue the work we began last year by passing this bill and getting Alaskans to work.

Sincerely,



Tony Knowles  
Governor

## WELFARE TO WORK TAX CREDITS

This bill establishes an Alaska welfare to work corporate income tax credit of 15 percent of qualifying first year wages paid to targeted welfare recipients and other social services recipients. The credit ceiling is \$1000, with an additional \$500 allowed if the employer provides on the job training. The standards for the Alaska credit mirror those for the federal work opportunity tax credit, except for the credit amount, the additional training credit provision, and the requirement that the qualifying circumstances must occur in Alaska.

Certifications for the Alaska welfare to work credit can be processed in tandem with the certifications for the federal work opportunity tax credit. Staff costs are federally funded, so the Alaska certifications under this bill will have negligible personal services impact. The federal procedures do not include a training certification, but ESD intends to make the additional Alaska training credit automatic if the appropriate social service agency certifies that the employer has provided training which meets the standards in the bill. The training certification should therefore not add any significant work load.

**NOTE:** The federal work opportunity credit will expire on September 30, 1997. If the federal program is not re-authorized, there will be a personal services impact from FY98 forward of approximately one full time equivalent position, to replace lost federal funds.

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Welfare To Work  
March 4, 1997  
0-GH0082.A  
Page 2 of 5

**DRAFT BILL ANALYSIS**

**Section 1** directs the Department of Labor to prescribe standards for the director of the Division of Employment Security to administer and implement certifications for the work opportunity tax credit requirements under AS 43.20.044. These requirements are further discussed in section 3.

**Section 2** disallows taxpayers from applying the apportioned portion of their federal work opportunity tax credit against their corporate tax liability. Currently, qualifying taxpayers can apply a portion of the federal work opportunity credit against their Alaska corporation tax liability, whether or not the activity giving rise to the federal credit occurred in Alaska. See p. 5.

**Section 3** details the eligibility and allowable credit amounts. A taxpayer may apply 15% of the wages of employees who qualify (up to a maximum of \$1000 per employee) as a credit against their corporate tax liability. An additional \$500 is available if the employer meets training requirements determined by the director of employment security. To qualify for the Alaska work opportunity tax credit, the employee must meet the requirements of the federal work opportunity credit (26 U.S.C. 51) and some or all of these requirements must have been realized in Alaska or the employee or immediate family must be receiving or eligible for benefits under AS 47. The taxpayer may not claim a credit on a particular employee more than once and must employ the employee for a total of 180 days or 400 hours (these hours or days do not have to be taken consecutively) after December 31, 1996. The Alaska work opportunity credit continues to remain in effect even if the federal work opportunity credit is no longer in effect.

**Section 4** repeals AS 23.20.030 (section 1 of this bill) and AS 32.20.044 (section 3 of this bill) at the future effective date in section 7.

**Section 5** makes section 1-3 of this Act retroactive to January 1, 1997.

**Section 6** establishes an immediate effective date for sections 1-3 and 5 of this Act.

**Section 7** establishes a sunset provision of January 1, 2002 for sections 1 and 3 of this Act.

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Welfare To Work  
March 4, 1997  
0-GH0082.A  
Page 3 of 5

**Operating Expenditures**

The Department of Revenue is not requesting any additional funds for meeting its obligations under this Act.

**Revenue Collected**

The attached spreadsheet details revenue reductions from credits taken under this bill.

**Alaska Department of Revenue**  
**Income and Excise Audit Division**  
*Projected Revenue Decreases from Implementation of Welfare to Work Proposal*

Welfare To Work  
 March 4, 1997  
 0-GH0082.A  
 Page 4 of 5

**Assumptions:** Employers will hire 880 qualifying employees who all receive the \$1,000 maximum credit for hiring and the \$500 credit for training (i.e. total credit is \$1,500). Congress extends the federal work opportunity credit in its current form. Assumes percentage change in number of employees hired off of welfare is proportional to percentage change in incentive.

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03*
Alaska Welfare to Work Credits	(\$1,320,000)	(\$1,320,000)	(\$1,320,000)	(\$1,320,000)	(\$1,320,000)	\$0
Savings from Fed. Work Opport. Credits	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>
<b>Total Alaska Welfare to Work Credits</b>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>\$262,533</b></u>

\* Sunsets after 3 years with a 2 year carry forward.

**DEPARTMENT OF REVENUE  
Work Opportunity Credit Illustration  
March 4, 1997**

Fiscal Note Analysis  
Page 5 of 5.

The Federal Tax Code currently offers a "Work Opportunity Tax Credit," which is a successor to the old Targeted Jobs Tax Credit.

Alaska currently permits a corporate income taxpayer to claim, as a credit on its Alaska tax return, a portion (18%) of the federal income tax credit.<sup>1</sup> Multistate taxpayers must, of course, apportion their net income amongst the states in which they do business.

The following table shows the Alaska tax effects to a multistate business with (for example) one quarter of its activities in Alaska, and an all-Alaska business when that business hires one qualified person in Alaska. It should be noted that the credit taken by a multistate corporation is the same even if the qualified employee is in Detroit or Texas instead of Alaska. It then shows the effect under the proposed legislation.

	<b>Multistate Corporations</b>	<b>Alaska Corporations</b>
<b><u>Overview of Current Federal Credit</u></b>		
• Credit claimed on federal return for hiring one worker (regardless of in or out of state hire)	\$2,100	\$2,100
• Apportionment Factor (% of business in Alaska)	.25	1.0
• Portion of credit allowed under Alaska Tax Statute	.18	.18
	_____	_____
Credit taken from Alaska Tax Liability	<u>\$95</u>	<u>\$378</u>
 <b><u>Proposed Alaska Work Opportunity Credit</u></b>		
• Eligible credit from hiring one qualified worker in Alaska (including training)	<u>\$1,500</u>	<u>\$1,500</u>

---

<sup>1</sup>Alaska is the only state that does this. No other state incorporates federal credits as a part of state taxes.

**SB**

**118**

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Alaska Permanent Fund Corp. Investments BRU: Alaska Permanent Fund Corporation  
 Component: Alaska Permanent Fund Corporation  
 Sponsor: Senate Rules Committee  
 Requestor: Legislative Budget & Audit Committee COMPONENT SERIAL NO. 109

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	4,265.0	4,986.0	6,118.0	7,278.0	8,508.0	9,863.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>4,265.0</b>	<b>4,986.0</b>	<b>6,118.0</b>	<b>7,278.0</b>	<b>8,508.0</b>	<b>9,863.0</b>
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-Corporate Receipts	4,265.0	4,986.0	6,118.0	7,278.0	8,508.0	9,863.0
<b>TOTAL</b>	<b>4,265.0</b>	<b>4,986.0</b>	<b>6,118.0</b>	<b>7,278.0</b>	<b>8,508.0</b>	<b>9,863.0</b>

Estimate of any current year (FY97) cost \$ 586.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

SB118 as proposed amends AS 37.13.120(f) which established the Alaska Permanent Fund Corporation's legal investment classes and their respective level of authorization. SB118 increases the percentage level of domestic and nondomestic corporate stocks to 60% of the total investments of the fund.

The projected costs above are calculated based on a 60% exposure to domestic and nondomestic stocks with 35% invested in passive manager accounts and the remaining in active portfolios.

Prepared by: Peter A. Bushro *Peter A. Bushro* Phone: 465-3172  
 Division: Alaska Permanent Fund Corporation Date: March 18, 1997  
 Approved by Commissioner: Wilson L. Condon Date: March 18, 1997  
 Agency: Revenue

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# Alaska Permanent Fund Corporation



SB 118 Presentation to the  
Senate State Affairs Committee

April 22, 1997



# Items to Present

- ◆ Arguments in favor of SB 118.
- ◆ Equities outperform
- ◆ Comparison with other large institutional funds
- ◆ Implications of increased equity authority
- ◆ Comments on current market environment
- ◆ Volatility in fiscal 1997
- ◆ Proposed 1997 Permanent Fund asset allocation
- ◆ Fiscal Note



# Arguments in Favor of SB 118

- ◆ Equities significantly outperform other asset classes over the long term.
- ◆ The Fund would produce more net income for use by both current and future generations.
- ◆ The Fund's principal would be better protected against inflation.
- ◆ The Fund's asset allocation would become more comparable to that of other large institutional funds.
- ◆ The increased volatility would be largely mitigated by the existing provision for 5-year averaging of income available for distribution.



# Equities Outperform

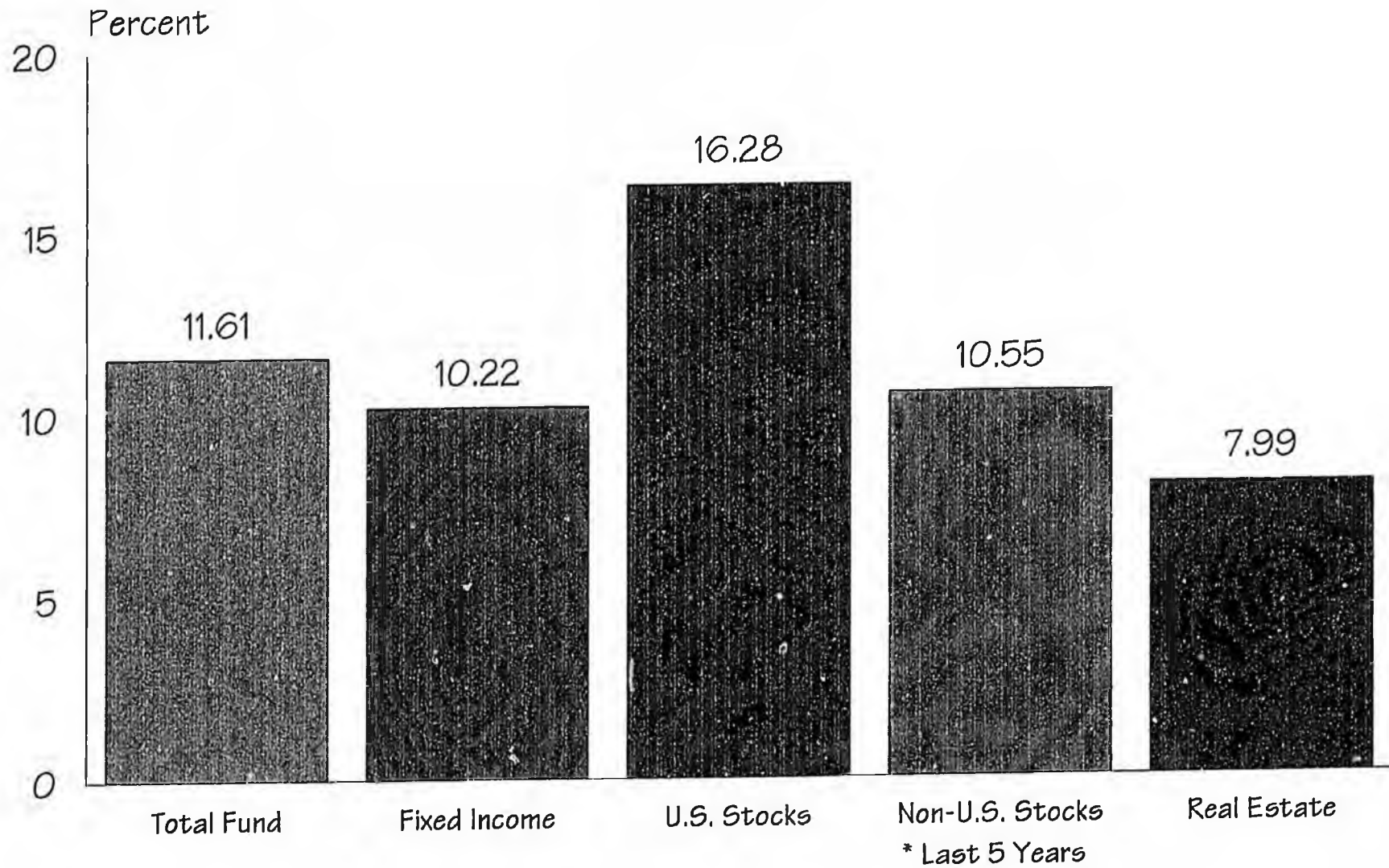
Consider the growth of \$1.00 invested in various U.S. asset classes from Dec. 31, 1925 to Dec. 31, 1995:

◆ Inflation	\$	9
◆ Treasury bills		13
◆ Treasury bonds		34
◆ Large company stocks		1,114
◆ Small company stocks		3,822



# Long-Term Total Returns

13 Years Ending December 31, 1996





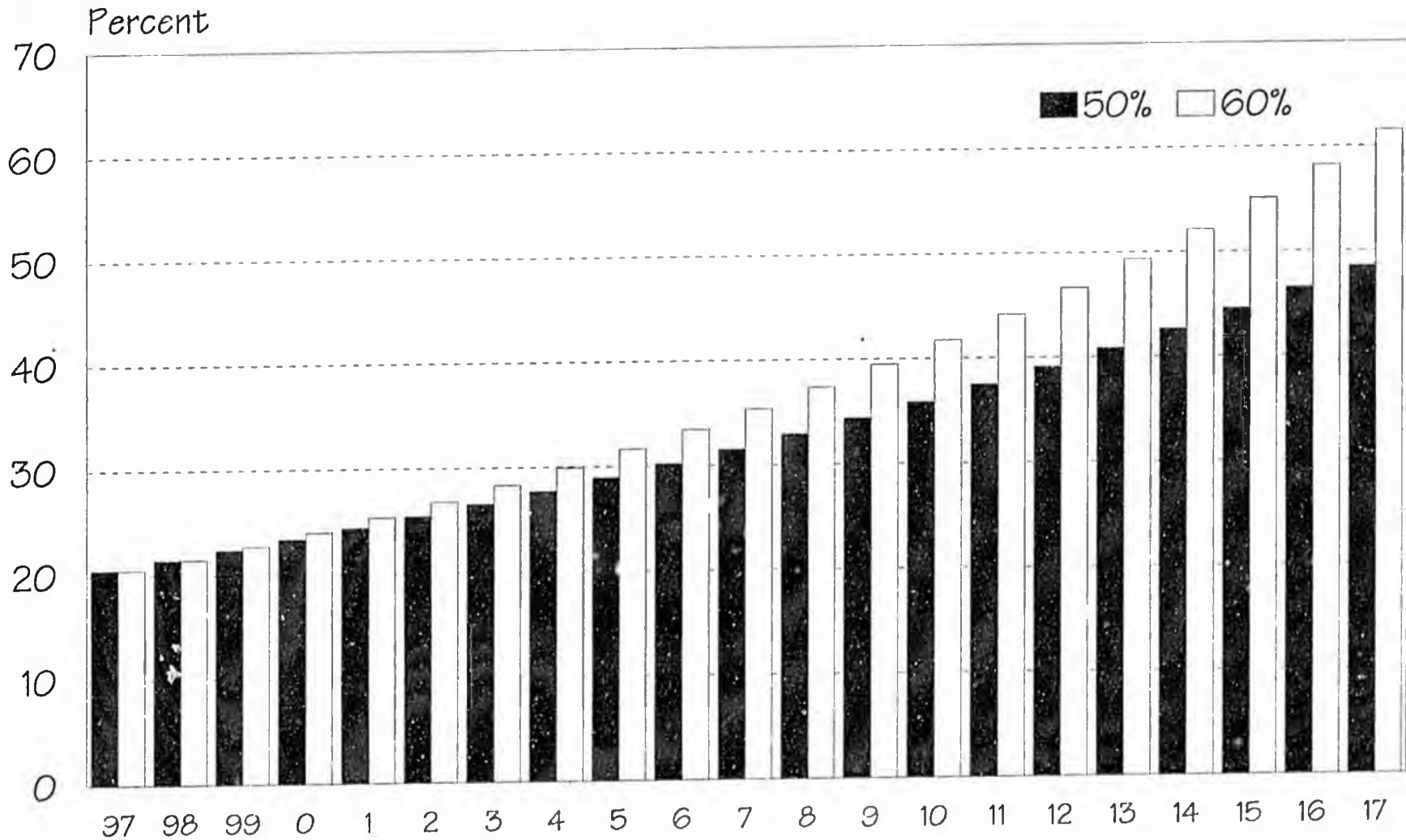
# Other Large Institutional Funds Invest More in Stocks

According to Pensions and Investments Age, these are the average allocations to equities of the top 200 largest U.S. defined benefit pension funds as of September 30, 1996:

◆ Corporate	63%
◆ Public	54%
<hr/>	
◆ Alaska PERS	54%
◆ Alaska Permanent Fund	49%



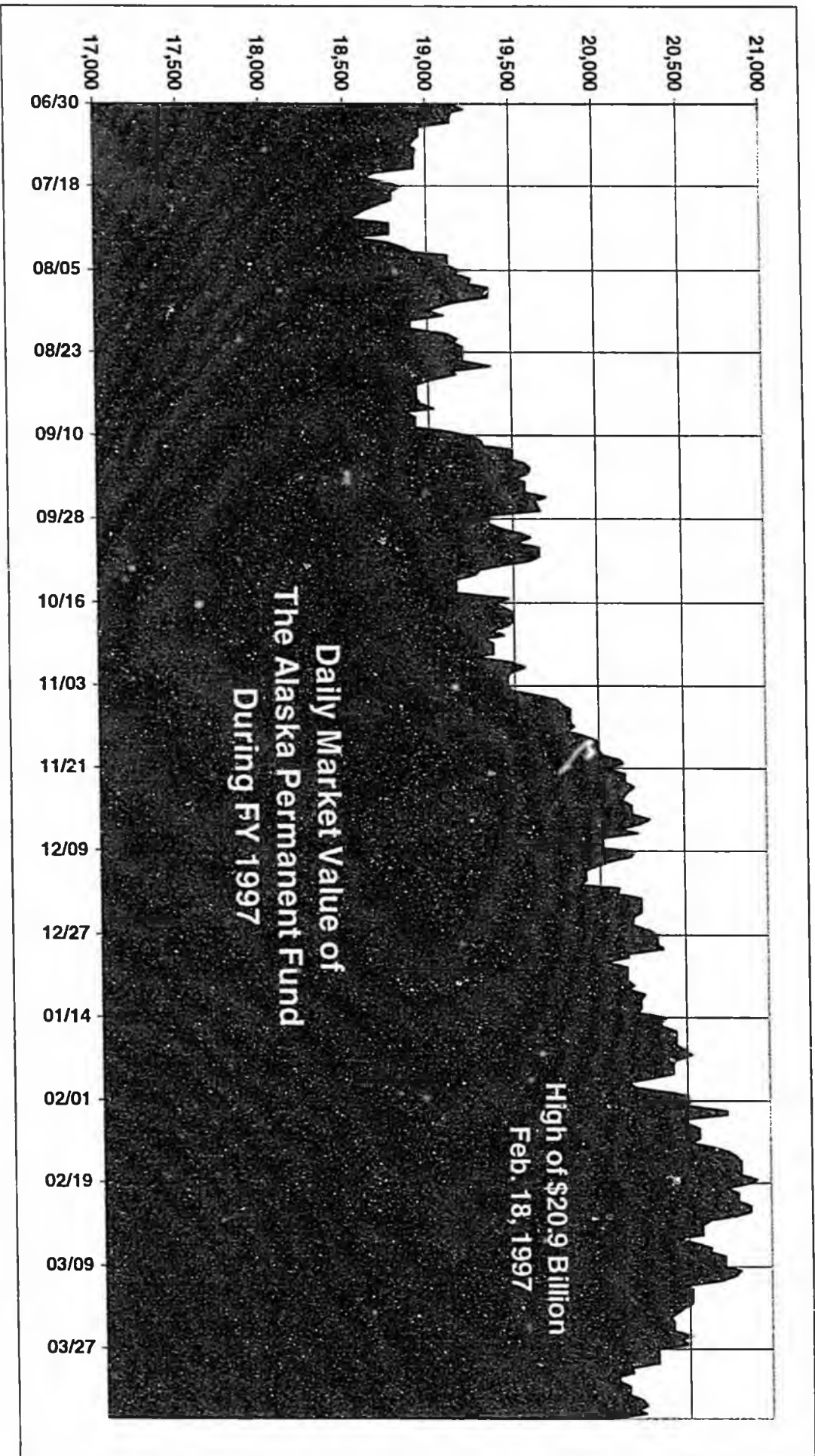
# Growth of the Permanent Fund Equities at 50% vs 60%



Assumptions: Fund with 50% equities earns 8.4%, Fund with 60% equities earns 8.7%  
Growth is net of a 4% annual income distribution



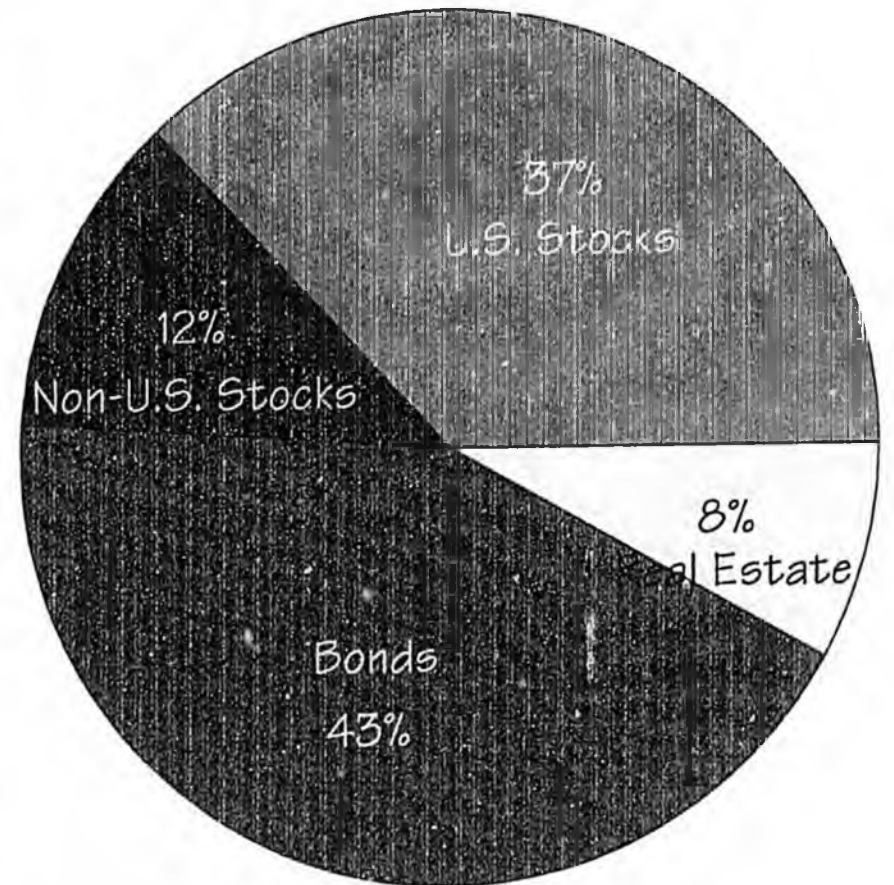
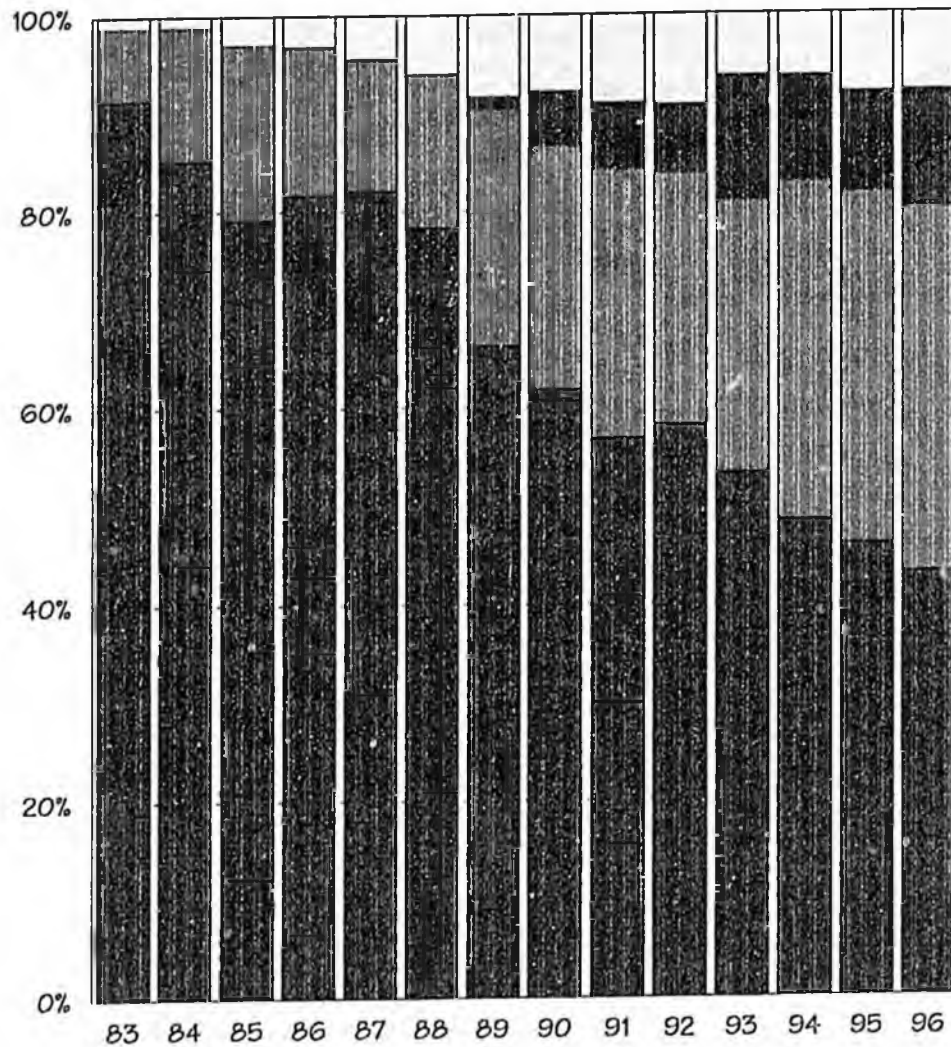
# Volatility in Fiscal 1997



# Permanent Fund Asset Allocation

Since 1983

Current



## IMPLICATIONS OF INCREASED EQUITY AUTHORITY

Each year, Callan prepares an asset allocation analysis for the Alaska Permanent Fund Corporation. The purpose of the analysis is to provide the Board with an objective comparison for a range of asset allocation policy options.

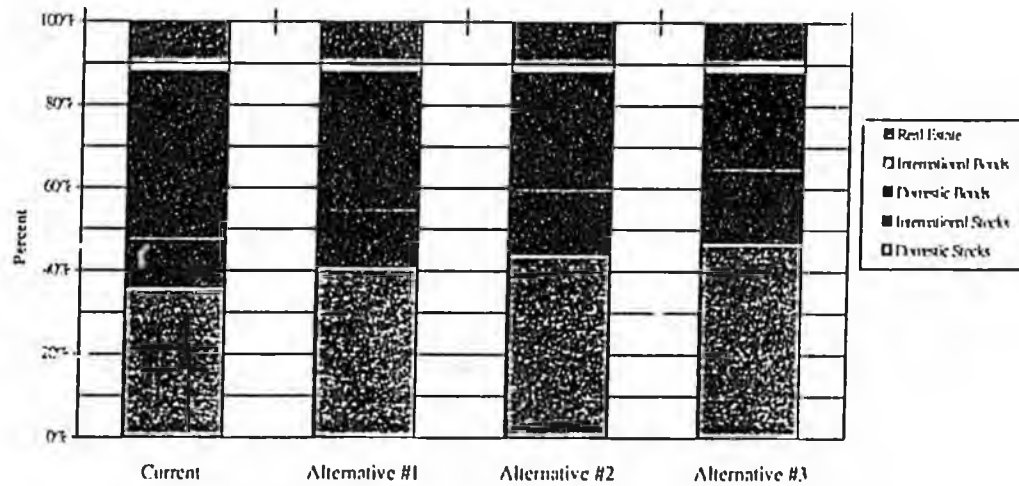
While the analysis is conducted annually, the capital market projections employed are long-term estimates that change only modestly from one year to another. In recent years, the Corporation's commitment to equities has been increased substantially. In 1996, the Legislature further liberalized statutory investment authority. At present, APFC is essentially at the upper limit of the allowable range.

Callan has been asked to provide information regarding the possible policy consequences of further equity authority. We have prepared a comparison of APFC's current policy with three alternative policies. Each of the alternatives is expected to produce a higher, but more volatile, return pattern than the current policy. The analysis should help policy makers better understand the return and risk tradeoffs associated with further, albeit still very reasonable, statutory liberalization.

The current and alternative policies are outlined below:

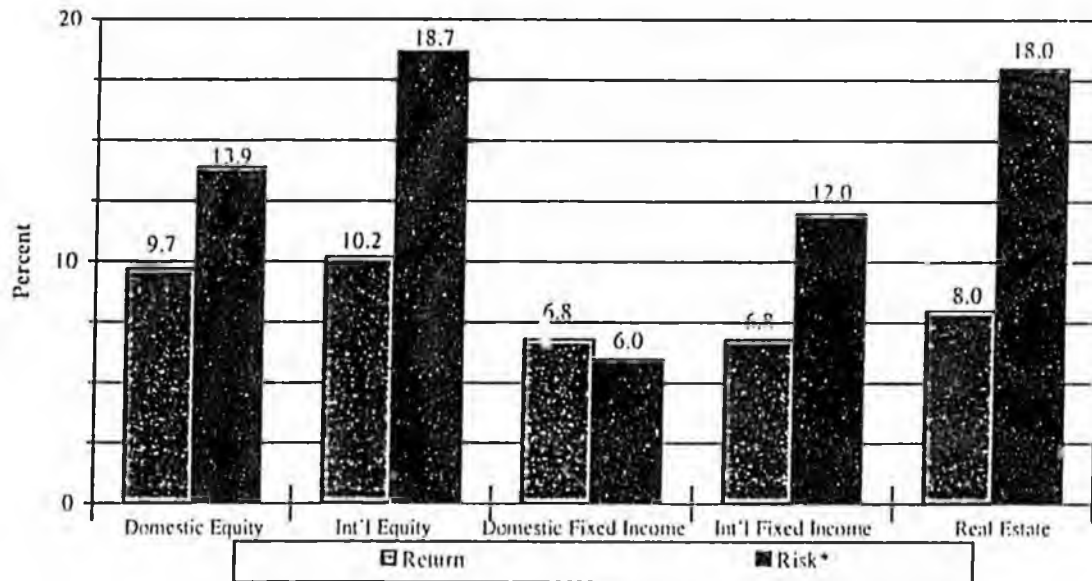
- Current Policy - total equity commitment of 48% including a 12% international exposure. Total bond target of 42% including a 2% international bond exposure. A 10% real estate target exposure.
- Alternative 1 - same as the current except total equity is raised to 55% including a 14% international exposure. Total bond exposure is reduced to 35%.
- Alternative 2 - total equity exposure is 60% including 16% in international equities. Total bond exposure is reduced to 30%.
- Alternative 3 - total equity exposure is 65% including an 18% international commitment. Bonds are 25%.

The alternatives are depicted graphically below.



	Current	Alter #1	Alter #2	Alter #3
Domestic Stocks	36%	41%	44%	47%
International Stocks	13%	14%	16%	18%
Domestic Bonds	40%	33%	28%	23%
International Bonds	2%	2%	2%	2%
Real Estate	10%	10%	10%	10%

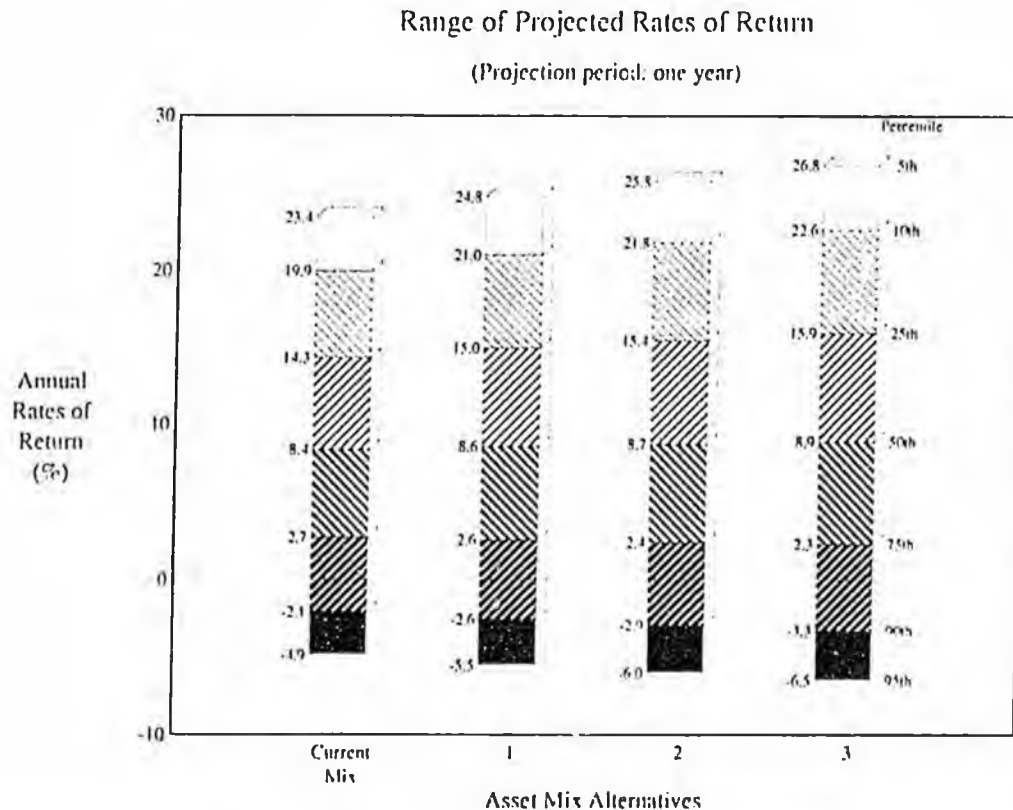
The return and risk estimates used to drive the analysis are Callan's 1996 5-year capital market projections. These are the same projections used earlier in 1996 in the development of the current policy.



\* Risk is defined as standard deviation of annual returns. This is a statistical measure designed to capture two-thirds of the possible returns. For example, the bond return projection (+6.8%) combined with the bond standard deviation estimate of 6.0% would suggest that in two of three annual periods, bond returns would be within one standard deviation from the expected return -- no less than 0.8% nor more than 12.8%. The greater the standard deviation, the greater the range of potential returns.

Since stocks, bonds and real estate do not always move together, the risk (standard deviation) for a mixed asset portfolio will be less than the weighted average risk of the components. In order to estimate this "diversification" benefit, one needs to estimate the statistical inter-relationship of each asset category with one another. Callan's estimates (correlation coefficients) are presented in the Appendix. As with our return and risk estimates, the correlation estimates are based primarily on historic experience.

Using these capital market projections and the alternative policies described earlier, we developed a range of projected returns for a number of different time periods. The results are presented graphically below.



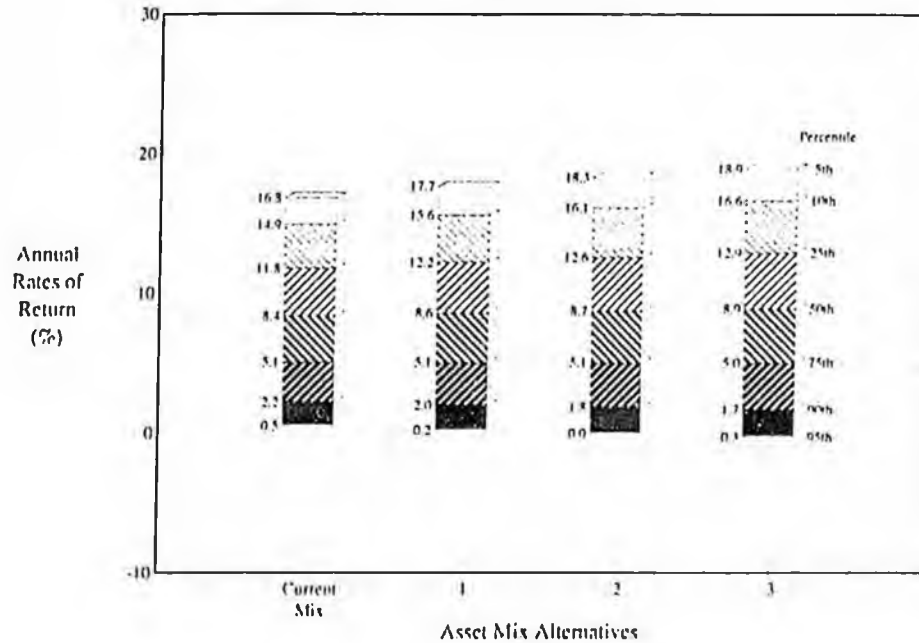
This graph illustrates that APFC's current policy has a median expected return of 8.4%. Based on the inputs, there is a 5 in 100 chance that the return may be greater than 23.4% in a one year period and a similar probability that the total return could be worse than negative 4.9%. As one mix is compared with another, it is useful to focus on the change in expected return (at the median, or 50th percentile) and the change in the "downside risk" -- the expected return at the 95th percentile.

Each alternative, owing to progressively greater equity exposure, produces a higher median expected return but also widens the range of possible returns. For example, Alternative #3, with a total 65% equity commitment, is expected to produce a 0.5% greater median return (8.9% vs. 8.4%) but also has a downside risk that is lower by 1.6% (the 95th percentile return of negative 6.5% compared to the negative 4.9% associated with the current policy).

Over time, the range of possible returns for all mixes narrows. This is intuitively reasonable. The odds of having two or three very good or very bad years in a row are less than those of having a single good or bad year. This can be readily seen by examining the range of compound annual returns for 3 and 5 year periods.

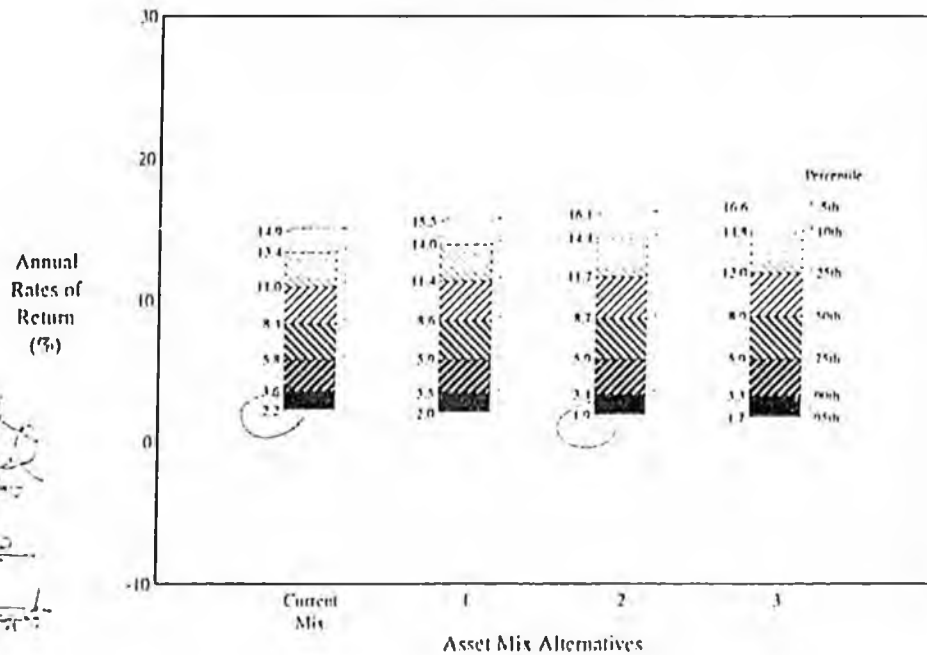
### Range of Projected Rates of Return

(Projection period: 3 years)



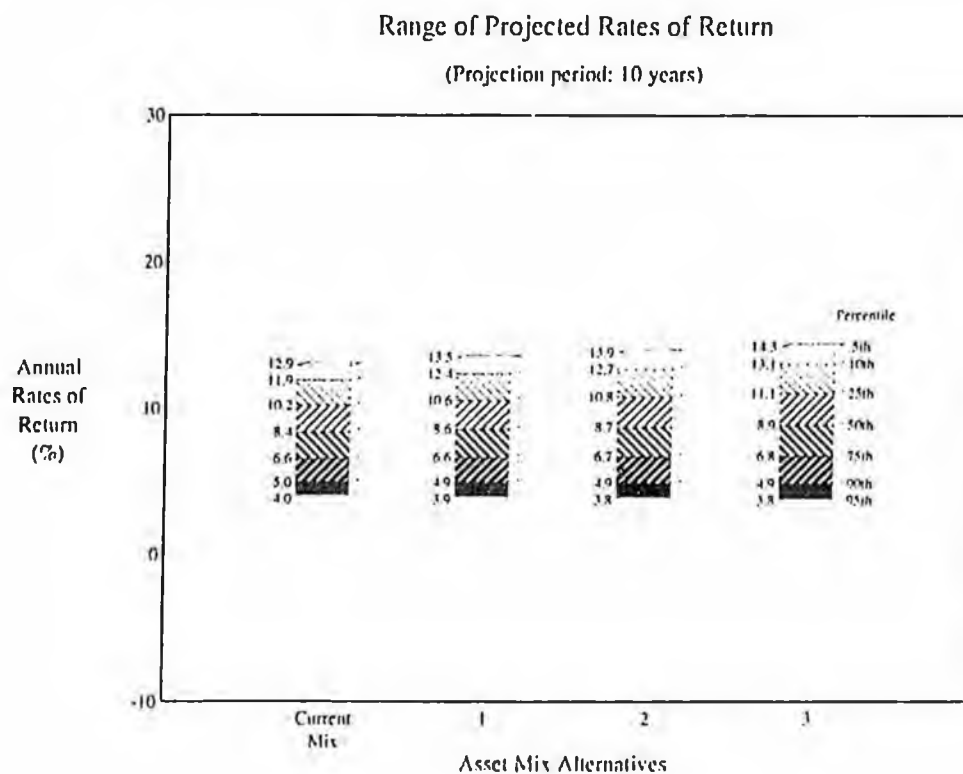
### Range of Projected Rates of Return

(Projection period: 5 years)



*Note the decrease in risk in investment all four of these funds (Current Mix, 1, 2, 3)*

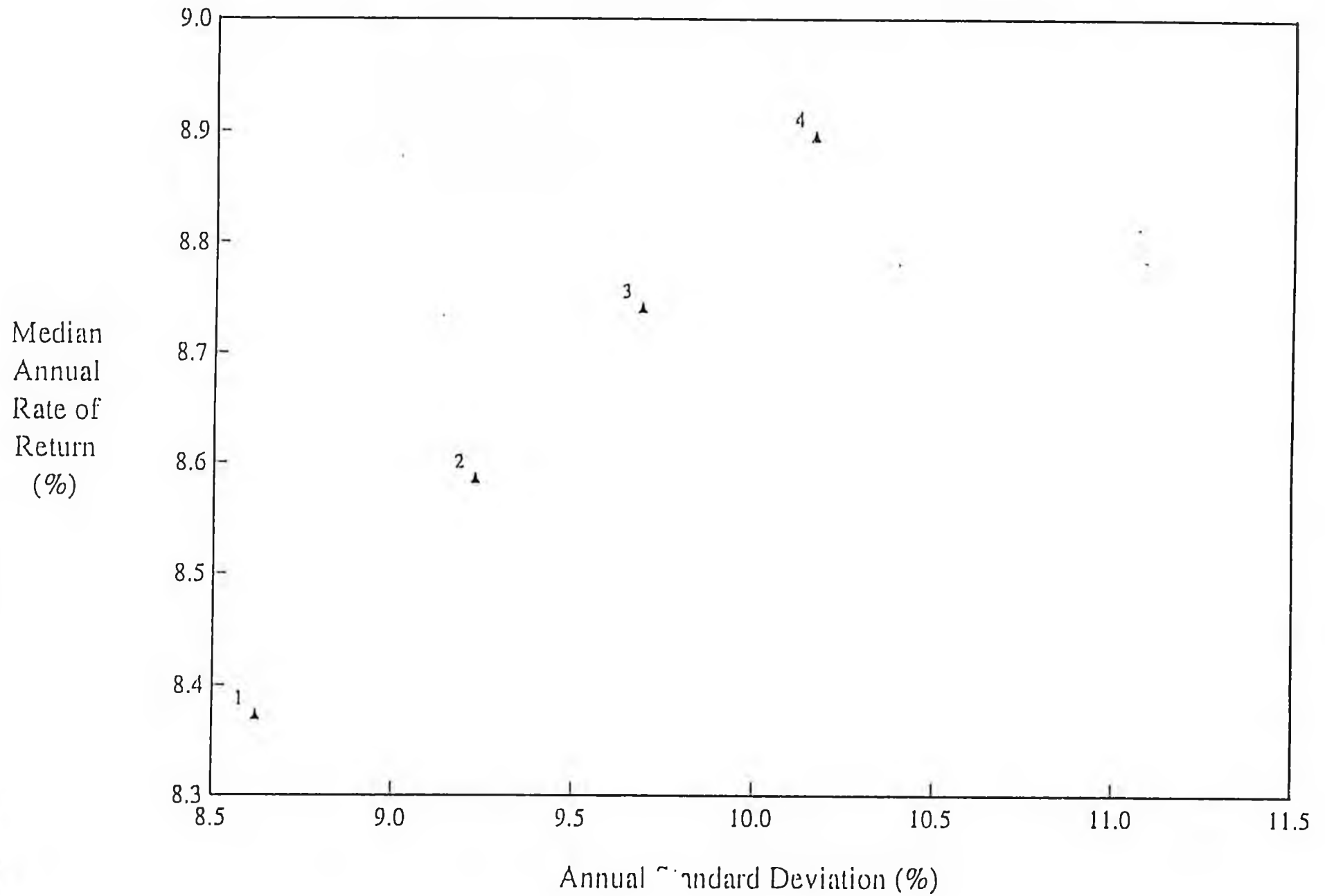
The longer the period considered, the less significant the short-term volatility. For example, if one focuses on a 10 year period, there is very little difference in the downside risk (95th percentile) outcomes for the more aggressive policies when compared with the current policy. Simultaneously, there is a distinct advantage (looking at the median) of the greater equity commitment.



This pattern results from the greater average return expected from stocks relative to bonds. It demonstrates statistically the importance of time horizon in investment policy formulation. Clearly, over the very long-term, equities should produce higher returns than bonds. But, the return pattern will be more volatile. So, for the long-term investor, the real question is how much discomfort can he/she accept both financially and emotionally over the short run. Inevitably, poor short run results produce tremendous pressure to alter the long-term policy. This results in the worst of two worlds (realization of the short-term risk of an aggressive policy and the lower long-term return of a more conservative policy). Finding the right balance is an ongoing challenge. In the fund's early years, any volatility was difficult to accept. Conversely, over the recent past, extraordinary stock market returns may make it easy to ignore the inherently more volatile pattern of stock returns. The 20 year flood level may only occur once in 20 years, but you don't want to build your house in that flood plain.

Financially, as a perpetual fund with limited distribution requirements, the fund can afford to pursue high return policies. The limiting factors are the various stakeholders' reactions to the inevitable shorter-term periods of weak performance. You must have the staying power to reap the long-term benefits. Currently, distributions are a function of average five year results. One could argue that this is the most appropriate time frame on which you should focus. It is long

# Asset Mix Risk & Return



20

APM Files: SEP20.ADT  
September 20, 1996

Projected average results (\$millions) for asset mix 1:

Year	Starting Date	Starting Assets	Ending Assets
1	07/01/96	1.00	1.08
2	07/01/97	1.08	1.17
3	07/01/98	1.17	1.27
4	07/01/99	1.27	1.38
5	07/01/00	1.38	1.49
10	07/01/05	2.06	2.23
Annual change:		8.4%	8.4%

Projected range of assets (\$millions) for asset mix 1:

Percentile	1 year	3 years	5 years	10 years
5th	1.23	1.59	2.00	3.36
10th	1.20	1.51	1.88	3.10
25th	1.14	1.39	1.69	2.63
50th	1.08	1.27	1.49	2.23
75th	1.03	1.16	1.32	1.90
90th	.98	1.07	1.19	1.61
95th	.95	1.02	1.12	1.49

Projected average results (\$millions) for asset mix 3:

Year	Starting Date	Starting Assets	Ending Assets
1	07/01/96	1.00	1.09
2	07/01/97	1.09	1.18
3	07/01/98	1.18	1.29
4	07/01/99	1.29	1.40
5	07/01/00	1.40	1.52
10	07/01/05	2.13	2.31
Annual change:		8.7%	8.7%

Projected range of assets (\$millions) for asset mix 3:

Percentile	1 year	3 years	5 years	10 years
5th	1.25	1.65	2.10	3.63
10th	1.22	1.56	1.96	3.34
25th	1.16	1.42	1.74	2.78
50th	1.09	1.29	1.52	2.31
75th	1.02	1.16	1.33	1.92
90th	.97	1.06	1.18	1.60
95th	.94	1.00	1.10	1.47



**Alaska Permanent Fund Corporation**

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

(907) 465-2047

**MEMORANDUM**

**DATE:** April 3, 1997

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

**THROUGH:** Terry A. Brown  
Chief Investment Officer

**FROM:** Michael T. Bell  
Assistant Investment Officer

**SUBJECT:** Comment on Alaska Permanent Capital Management  
Move From Equities (20%) to Cash

**PREFACE**

Byron, you asked me to comment on the notes – the first attachment to this memorandum – from the special meeting of the Alaska Permanent Capital Management Company's Investment Committee. I intended to make my comments brief; however, as I wrote, I felt compelled to expand my comments and provide additional detail on key points and issues.

I also took the liberty to make comments not only on the points brought up in the Investment Committee's notes, but to add in additional details and commentary concerning the current state of the U.S. equity market.

Please do not interpret my comments to be a formal recommendation from the Alaska Permanent Fund Corporation's (APFC's) Investment Department. While I do feel strongly, any staff recommendations regarding shifts in the APFC's asset allocation should and will come to you via Terry Brown, Chief Investment Officer.

**COMMENTARY**

The recent move by Alaska Permanent Capital Management of 20% of its equity assets into cash is understandable given the tremendous increase in the valuation of the market over the past two years, recent market volatility as more investors have begun to doubt companies' ability to continue to deliver ever greater earnings, and the prospect of higher interest rates from additional Fed rate hikes as it tries to head off potential future inflation from what it may see as a more vigorous than desired economy.

Information from numerous sources of financial information indicate there are investors taking money off the table as they have become more nervous and wish to preserve current gains, especially as some market analysts are claiming there is increased probability of a market correction, something in the neighborhood of 10%, and that we might be in the midst of one now.

A move by the APFC equivalent to the Alaska Permanent Capital Management move of 20% of its equity assets to cash, would have the APFC sell about \$1.4 billion of domestic equities, putting another 7% of the APFC portfolio into cash, on top of the cash and cash equivalents we currently hold, approximately \$1.0 billion, or 5% of the entire portfolio. This would put 12% of the portfolio in cash.

The Alaska Permanent Capital Management Investment Committee did make important observations about indicators that historically have had great significance, heralding potentially dangerous investing environments, and while a significant move by the APFC to cash now might seem attractive, I do not feel that it is appropriate for the Fund to do so at this time.

Among other measures, the Alaska Permanent Capital Management Investment Committee noted that the market's PE ratio, 21.43, was higher than 1987, the dividend yield was 1.81%, and the price-to-book ratio at 4.56, was also higher than it was in 1987.

Although I do not personally believe as some investors do, that the investing world has changed such that the old indicators no longer have relevance, I do feel that there have been some important changes in the

marketplace that explain the paradox of how this bull market can continue moving upward even as these indicators are in what used to be considered dangerous territory.

For example, stocks' **dividend yield** is indeed at or near historical lows, but this is not alarming for corporations are finding that rather than spinning cash off to investors in the form of dividends as they have in the past, they can bring better value to their shareholders by using that cash to acquire other companies, buy back their own stock, or invest in other projects that bring a higher net present value to their shareholders when compared to a payout of dividends.

**Price/Earnings** ratios, another statistical measure historically used to gauge the value and health of the equity markets, have moved up beyond 20, raising many eyebrows – the S&P 500's PE was approximately 21.44 when the S&P 500 reached its high point of 816.29 on Feb. 18, 1997. Yet it has been higher before, for example, it hit 26.12 in 1991 and 22.82 in 1992, but with the current market pullback, the PE for the S&P 500 is now about 19.7, and the PE based on projected 1997 corporate earnings is about 18.8, both considered to be much closer to the typical ratio, though at the higher end of the normal range.

The U.S. economy, too, has changed, having totally remade itself since 1980, going from the one of the world's least productive to one of the world's most productive economies. This higher level of productivity is having a profound, positive effect upon the economy and corporate earnings, thus helping move companies' stock prices to higher levels.

Many stock market watchers attribute much of the stock markets' performance over the past two years to tremendous cash inflows from the demographic cohort known as the "Baby Boomers." These individuals have made their major purchases – houses, cars, appliances, etc. – and are now in the period in their lives when their disposal income is at its greatest. Additionally, they are now realizing that retirement is not that far away, and they feel that Social Security may not be able to support them in the lifestyle to which they have become accustomed.

The conventional wisdom is that Boomers, with retirement in mind, have been directing ever increasing amounts of their income into stock mutual

funds, intending to keep the investments for the long haul. Additionally, it is thought, backed by survey information, that these investors are much more savvy than previously believed, having watched market recoveries from the 1987 and 1989 corrections, having heard that investing in equities is a long term investment decision, and understanding that for greater long term returns one has to accept greater short and medium term volatility.

Furthermore, it appears that the equity market has, in fact, experienced three or four "rolling corrections" over the past two years where investors have rotated their investments from one sector to another when valuations were perceived to have become too high and unsustainable. This has happened twice to the technology sector, with a similar occurrence in the energy sector and in small cap stocks. The bright side of this, though, is that each of these rolling corrections has taken some of the worrisome froth out of the market, giving it a chance to consolidate before moving higher.

Even so, this may not be a time to vastly increase one's exposure to equities; valuations are high now and there are questions now about the potential for higher future inflation and whether future corporate earnings will indeed continue to increase. Yet if prices decline much further, the valuations may become low enough that a compelling case could be made for buying into the market and increasing our tactical allocation to equities.

We must keep in mind, however, that overvalued markets can stay overvalued for years and corrections do not always look like steep drop-offs. Corrections can simply be plateaus and trading ranges that securities reach and stay in for months or even years.

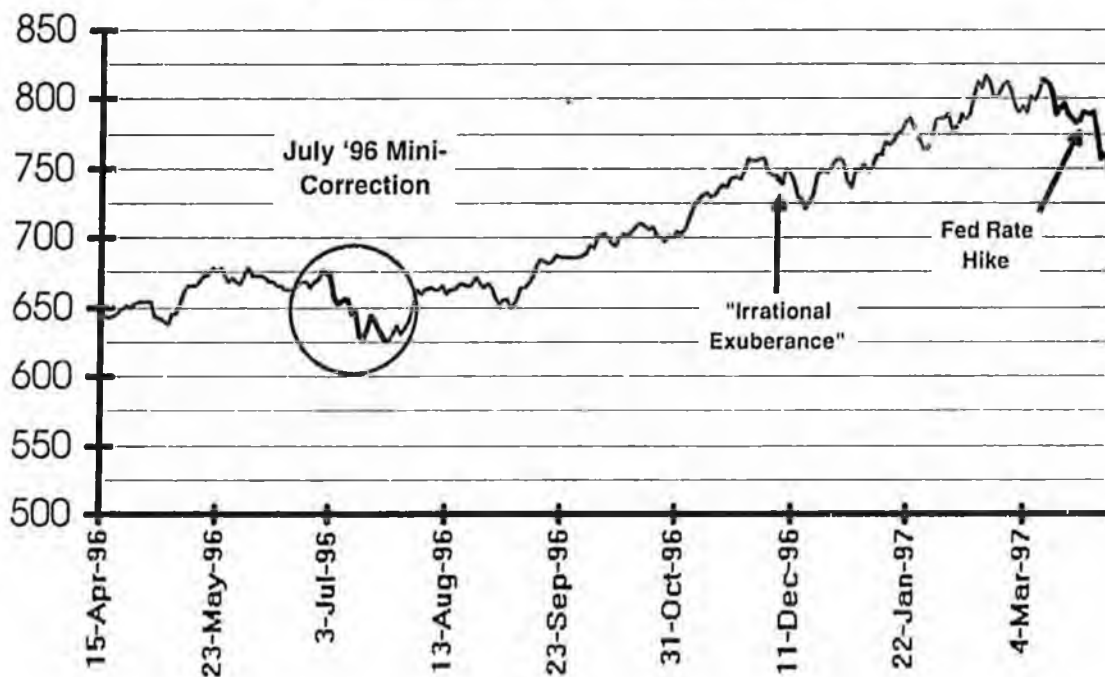
As for stock market volatility, while the stock market has become increasingly volatile in the past several months, it has only reverted back to a more normal, albeit higher, level of volatility. Thus, the U.S. equity market now moves more quickly and significantly up or down, both intra-day and inter-day, yet while the absolute price movement number may be large, the relative percentage of movement up or down is much less at these high levels in the major indices as the table on the next page illustrates:

A 100 Point Move		A 10 Point Move	
With Dow At	% Move In the Index	With S&P 500 At	% Move In the Index
1,000	10.0%	100	10.0%
2,000	5.0%	200	5.0%
3,000	3.3%	300	3.3%
4,000	2.5%	400	2.5%
5,000	2.0%	500	2.0%
6,000	1.7%	600	1.7%
7,000	1.4%	700	1.4%
8,000	1.3%	800	1.3%
9,000	1.1%	900	1.1%
10,000	1.0%	1,000	1.0%

We have witnessed increased volatility on the upside since last summer when we last saw a sizable downdraft in the market. Of course, there were analysts at that time – July – calling for investors to move out of equities into cash and other assets, yet once the market had bottomed out, down anywhere from 7% for large cap to 16% for small cap, it

resumed its upward momentum, regaining its loss and then moving beyond to new highs. Those who exited the market and did not reenter in a *timely* fashion, lost out on the upside the market has enjoyed since. The chart below shows the movement of the S&P 500 for the past year.

### S&P 500 Index



This points out a fundamental issue, it is difficult to time the market: you have to be right not once but twice to succeed. You have to be right about your exit point, but you have to also be right about your reentry point as well. Historically, investors who are tactical asset allocators, also known as market timers, have had portfolio returns that are significantly below those of investors who maintain an asset allocation based on a longer term investing time horizon and who move assets with less frequency.

That does not mean that I propose that we stick our head in the sand and ignore market conditions, rather I believe we have been directed, through our current asset allocation, adopted by a Board of Trustees who have stated their long term investment horizon, to maintain that allocation discipline even in the face of adverse short term market conditions.

However, in recognition of unfavorable short term market conditions, the Board of Trustees-mandated asset allocation does have control bands around each asset target that give us the option to tactically increase or decrease our weighting of a particular asset class relative to an alternative when we feel that it is appropriate to do so.

These control bands also direct staff to trim positions when an asset class increases in value at faster rate than other APFC investments and exceeds its control band's upper limit. This rebalancing both preserves gains and Board of Trustees-mandated asset allocation and diversification.

As of the close of business April 2, the APFC has 34.6% of its investments in domestic equities and 12.1% in international, for a total allocation to equities of 46.7%. According to Resolution 96-4, the allocation to equities is 48%, +2%/-3%. The suballocation to domestic equities is 36%  $\pm$  4%, and the suballocation to international is 12%  $\pm$  4%. Therefore, the APFC is within its control bands for equity investments, and it is already underweighted domestic equities, at 34.6%, relative to its target of 36%.

A dramatic move to cash by APFC staff would take the allocation to domestic equities below the lower limit of its control band, and, in effect, have staff override a Board of Trustees asset allocation decision, thus setting a historic precedent. However, with management's emphasis on frequent communication with the Board of Trustees and its desire to

obtain Trustees' concurrence on actions of major importance to the Fund, I seriously doubt such a large amount of assets would be moved from one asset class to another without Board of Trustees' approval.

The alternative would then be for staff to go to the Board and recommend the Board adopt a measure calling for a move from equities to cash – an asset with no allocation to it currently. Such a move could potentially have a tremendous detrimental effect on the long term total return of the Fund, as the Fund's new expected total return would potentially be less than its current expected total return target, due to a higher allocation to cash, a lower yielding asset historically.

Staff then has a difficult challenge, in between Board of Trustees asset allocation reviews, it must watch the markets and monitor extraordinary investing environments when they appear in light of their potential effect on *both* short term *and* long term returns, constantly balancing the probable net result of recommending the Board of Trustees maintain the existing asset allocation versus recommending the implementation of one of various alternative allocations.

#### **SUMMARY**

The primary emphasis in all Fund decision-making is maintaining the safety of Fund principal, with maximizing the return on its investments an important but secondary consideration. So, the APFC has capital preservation as a primary mandate, thus leading to its conservative investment philosophy and investing practices. The APFC's current asset allocation and portfolio diversification is a direct result of this mandate, and is recognized as prudent management practice. Additionally, we must remember that one of the primary benefits of asset diversification is that the Fund is protected from severe price movements within single asset classes.

It is my sincere hope that the move by the Alaska Permanent Capital Management Company is ultimately a successful strategy. Certainly its staff called the move down quite well, however, the company's investment committee must move back into the market equally successfully at an opportune time if it wishes to preserve the gains it booked.



# ALASKA PERMANENT FUND CORPORATION

## RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA PERMANENT FUND CORPORATION PERTAINING TO ASSET ALLOCATION GOALS FOR THE PERIOD 1997-2000

### RESOLUTION 97-6

*(This Resolution supersedes portions of Resolution 94-6 pertaining to sub-allocations of International Equities and Domestic Equities.)*

The Alaska Permanent Fund Corporation (the "APFC") is managed by a Board of Trustees charged with broad powers to safeguard, protect, invest and account for the Alaska Permanent Fund (the "Fund") and other State assets entrusted to its care. The Board formulates policy and supervises an executive director who, in turn, retains staff and conducts day-to-day operational, administrative, communications, and investment functions of the APFC in accordance with Board policy.

#### INVESTMENT PHILOSOPHY

- Risk Posture

The Board's overriding investment objective for the Fund is to maintain the safety of principal while maximizing total return. Therefore, it will always act to ensure that the level of investment risk in the Fund is prudent and does not jeopardize that primary objective.

- Return

The Board believes, however, that over the long term, there exists a relationship between the level of investment risk taken and the rate of investment return realized. The Board therefore believes that the assumption of a moderate level of investment risk is reasonable and justified in order to enhance potential long-term returns. Furthermore, the Board will attempt to maximize the return to the Fund by selecting a moderately aggressive asset mix that will produce higher median returns, having a wider range of expected returns than more conservative asset mixes. This range of expected returns will narrow as the investment time horizon is lengthened, which fits well with the Fund's role as a long-term investor.

- Diversification

The primary technique employed by the Board to reduce risk and enhance returns is diversification. Therefore, Fund investments are spread among three major asset classes: equities, fixed income and real estate. An asset allocation review is conducted each year to determine what portion of the Fund to invest in each of these asset classes in the coming 36-month period. Fixed-income assets are further diversified by type of

investment, by duration; equities by investment style, by manager, by geographic region, and by individual security; and real estate by type of investment, by region, and by manager.

- Liquidity

The Permanent Fund is managed with a long-term investment horizon, but seeks to avoid major fluctuations in year-to-year results. Although major consideration is given to capital growth over the long term, appropriate consideration is also given to current income. This meets the statutory requirement to provide benefits for both current and future generations of Alaskans.

#### LONG-TERM GOALS

- Protect the principal of the Fund.

The Prudent Investor Rule applies to all investments.

- Maximize the Fund's total return over time.

Achieve a long-term, average, annualized real rate of return of 4%. It is recognized that there may be years, or a period of years, when the Fund does not achieve this goal, and other years when the goal is exceeded. But, over the long-term, the Permanent Fund will achieve a total return at least 4% greater than the rate of inflation.

- Maintain the real value of the Permanent Fund over time.

The Fund must be fully inflation-proofed to maintain its value over time.

- Recognize the long-term importance of the Permanent Fund to the State of Alaska and its people.

Provide reliable and objective information to the Administration, the Legislature, and the people of Alaska on all public policy matters affecting the Fund.

- Asset Allocation shall minimize the Fund's risk through asset diversification.

The Board of Trustees has engaged in extensive discussions and analyses of Fund asset allocation posture, plans, and policies during the meetings of February 12-13 and April 10, 1997. Staff and consultants have been fully involved in formulating the 1997 Asset Allocation Plan.

BE IT RESOLVED:

THAT the Board of Trustees adopts (1) the capital market returns and risk assumptions prepared by the APFC's consultant Callan Associates, dated February, 1997; and (2) an asset allocation plan which targets the following asset allocation percentages for the period ending June 30, 2000:

Domestic Equities (Broad Market)	34% ± 4%
International Equities	<sup>(1)</sup> 14% ± 4%
<u>Total Equities</u>	<u>48% (+ 2%/-3%)</u>
Domestic Bonds	<sup>(2)</sup> 40% (+ 6%/-4%)
Non-Dollar Bonds	2% ± 2%
<u>Total Bonds</u>	<u>42% (+ 6%/-4%)</u>
Real Estate	<sup>(3)</sup> 10% (+2%/-3%)

<sup>(1)</sup> Includes an allocation of 2% of the total Fund to Emerging Markets

<sup>(2)</sup> Includes an allocation of \$300,000,000 for Alaska Financial Institutions' Certificates of Deposit.

<sup>(3)</sup> 1% is anticipated in REITs and mortgages.

FURTHER RESOLVED:

THAT the Board of Trustees adopts the Asset Allocation Plan recommended by staff on this date. The Plan has two primary objectives: (1) to *increase* the amount of large-cap domestic equity that is passively managed from the present sub-allocation target of 35% to a revised target of 45% with a tactical control band range of 40% to 50%, with a corresponding *decrease* in the amount of large-cap domestic equity that is actively managed from 65% to 55% with a tactical control band range of 50% to 60%; and (2) to *increase* the amount of the international equity from the present sub-allocation target of 12% ± 4% to a revised target of 14% ± 4% to include an allocation of 2% Emerging Markets equity with a control band range of 0% to 4%.

In addition, the Plan (1) maintains style neutrality and balanced capitalization; (2) ensures continuing APFC management flexibility; (3) continues the emphasis on global equity management with broader international diversification and the goal of providing low cost, superior risk-adjusted returns.

FURTHER RESOLVED:

THAT policy control bands as set out below will provide staff and equity managers flexibility in tactically managing Fund assets while at the same time maintaining the purpose and intent of the Asset Allocation Plan:

CONTROL BANDS

Domestic Equity: Asset Allocation 34% ± 4%

<i>By Style:</i> *		<u>% of Domestic Equities</u>	<u>Control Band</u>
	Value Portfolios	50%	40-60%
	Growth Portfolios	50%	40-60%

\* *Passive portfolios will be evenly split between value and growth for compliance measurement.*

<i>Cap Size:</i>		<u>% of Domestic Equities</u>	<u>% of Large Cap Portfolio</u>	<u>Control Band</u>
	Large Cap Portfolios	80%		70-90%
	<i>Active Portfolios</i>		55%	50-60%
	<i>Passive Portfolios</i>		45%	40-50%
		<u>% of Domestic Equities</u>	<u>% of Smaller Cap Portfolio</u>	<u>Control Band</u>
	Smaller Cap Portfolios	20%		10-30%
	<i>Active Portfolios</i>		65%	55-75%
	<i>Passive Portfolios</i>		35%	25-45%

International Equity:\*\* Asset Allocation 14% ± 4%

<i>Market:</i>		<u>% of International Equities</u>	<u>% of Developed Portfolio</u>	<u>Control Band</u>
	Developed	85%		70-100%
	<i>Active Portfolios</i>		65%†	55-75%
	<i>Passive Portfolios</i>		35%	25-45%
	Emerging Markets	15%		0-15%

\*\* *Unusually broad range reflects consequences of potential global manager shifts.*

† *Active includes regional developed markets exposure and EAFE portfolios.*

FURTHER RESOLVED:

THAT the Executive Director shall develop and initiate an implementation plan which will include detailed matters such as, but not limited to, funding schedules, asset shifts, benchmarks, performance, style effects, and manager relationships and shall report this plan to the Board at the next regularly scheduled meeting after the adoption of this Resolution. Additionally, staff shall provide periodic written and oral reports to the Trustees on the status of the implementation plan until the plan is completed.

APPROVED AND ADOPTED by the Board of Trustees of the Alaska Permanent Fund Corporation this 24th day of April, 1997.

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*Chair, Board of Trustees  
Alaska Permanent Fund Corporation*

ATTEST:

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*Byron I. Mallott, Corporate Secretary*

**SB**

**124**

# Alaska State Legislature



## Committee Membership

Senate Finance  
Senate Resources  
Senate Rules  
Legislative Budget & Audit

*Senator John Torgerson*

District Address:  
145 Main St. Loop; Ste. 226  
Kenai, AK 99611  
(907) 283-2690  
fax 283-9267

Session Address:  
State Capitol; Room 514  
Juneau, AK 99801-1182  
(907) 465-2828  
fax 465-4779

## Sponsor Statement

### SB 124: Charitable Gaming Salmon & Race Classic

This legislation amends AS 05.15.100(a) by including race classics as one of the games of skill and chance which municipalities or qualified organizations are allowed to conduct. The purpose of this amendment is to authorize a classic for the Seward Mt. Marathon Race, to be operated by the Seward Chamber of Commerce Convention & Visitors' Bureau.

It also amends AS 05.15.690(40) by extending the definition of a salmon classic to include the Seward Silver Salmon Derby Classic and the Sterling Area Senior Citizen's, Inc. Sockeye Salmon Crossing Classic.

Both the Seward Chamber of Commerce Convention & Visitors' Bureau and the Sterling Area Senior Citizen's, Inc., are non-profit corporations. Both entities provide a valuable community service and, like many local service organizations, they are searching for ways to supplement their revenues.

Providing these potential revenue vehicles will assist these service organizations in the continuation of the services they provide for their respective communities.

SS: SB 124 S(STA): 3/18/97: mj

# Alaska State Legislature



## Committee Membership

Senate Finance  
Senate Resources  
Senate Rules  
Legislative Budget & Audit

*Senator John Torgerson*

**District Address:**  
145 Main St. Loop; Ste. 226  
Kenai, AK 99611  
(907) 283-2690  
fax 283-9267

**Session Address:**  
State Capitol: Room 514  
Juneau, AK 99801-1182  
(907) 465-2828  
fax 465-4779

## Sectional Analysis

### SB 124: Charitable Gaming Salmon & Race Classic

**Section 1:** Amends AS 05.15.100(a) by inserting "race classics".

**Section 2:** Amends AS 05.15.115(c) by inserting "race classics".

**Section 3:** Amends AS 05.15.180(b) by inserting "race classics".

**Section 4:** Amends AS 05.15.690(40) by inserting:

- (A) New subsection "A" to renumber for additions (B) and (C);
- (B) New subsection and language authorizing a Seward Silver Salmon Derby Classic;
- (C) New subsection and language authorizing a Sterling Area Senior Citizen's, Inc. Sockeye Salmon Crossing Classic.

**Section 5:** Amends AS 05.15.690 by inserting new subsection (\$%) which defines a "race classic".

**Sections 6-8:** These bill sections amend a 1995 session law. They are necessary due to the sunset or repealer provided in ch. 13, SLA 1995. That session law provided for mushing sweepstakes and for the sunset of those sweepstakes in 2000. The sunset was accomplished by having sections 2, 4, and 6 of the session law take effect in the year 2000. Because those sections are going to be repealed and reenacted in 2000, it is necessary to amend the session law to include any intervening amendments to those sections to avoid the repeal of intervening amendments - like this one for "race classics".

SA: SB 124 S(STA): 3/18/97: mj

**SB**

**129**

1986-87 R.L.P. Savings - Sources February 1989 Legislative Audit, and Retirement and Benefits Statistics

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	# Participants	Savings
State	1,095	\$ 14,448,520
School Districts	603	31,182,600
Political Subdivisions	412	4,756,800
University of Alaska	<u>217</u>	<u>22,305,400</u>
Totals	2,327	\$ 72,693,320

1989-90 R.L.P. Savings - Source - 1991 Legislative Audit

	# Participants	Savings
State	739	\$ 6,033,100
School Districts	748	10,016,000
Political Subdivisions	132	2,617,900
University of Alaska	<u>145</u>	<u>4,317,800</u>
Totals	1,764	\$ 22,984,800

**Retirement Incentive Program**

**Status Report on Approved  
RIP Plans**

3/25/97

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As of .....

Department/Agency	Total In Department (Full Time)	Positions In RIP Plan(s)	Positions Deleted In Plan	Positions Downgraded In Plan	Hold Open At Least 3 Months	Can Be Refilled - No Delay	Application Period	Must Retire by	Applications Received (as of 2/1/97)	Retired To Date (by 2/1/97)
Administration	1,091	12	3	2	3	2	multiple plans	mult. plans	4	2
AIDEA	32	3		2		3	2/1/97 - 3/31/97	9/1/97		
Commerce	390	15	1	1	1	13	1/10/97 - 2/28/97	6/30/97	3	0
Community and Regional Affairs	171	5		1	1	4	multiple plans	mult. plans	1	1
Corrections (Corr. & Probation Officers)	1,352	238				234	1/13/97 - 2/12/97	7/1/97	24	11
Education	463	42	1	6		41	3/17/97 - 4/17/97	7/1/97		
Environmental Conservation	483	23	2	9		17	1/16/96 - 2/15/97	7/1/97	1	
Fish and Game	757	24	6	18		18	11/7/96 - 12/31/97	5/1/97	19	4
Governor's Office	178	2		1		2	12/2/96 - 1/20/97	7/1/97	1	1
Health and Social Services	2,049	69	15	2		54	multiple plans	mult. plans	12	6
Labor	645	44	7			37	11/3/96 - 12/2/96	1/1/97	11	11
Natural Resources	569	26	4	7		22	multiple plans	mult. plans	12	9
Revenue	791	3	2	1		1	9/1/96 - 9/30/96	3/1/97	2	1
Public Safety	869	59		3		59	3/8/97 - 4/8/97	6/30/97		
Transportation and Public Facilities	2,704	95			45	50	2/18/97 - 3/19/97	7/1/97	4	
<b>DEPARTMENT TOTALS</b>	<b>12,544</b>	<b>660</b>	<b>41</b>	<b>53</b>	<b>50</b>	<b>557</b>			<b>94</b>	<b>46</b>
University of Alaska	3,469	481					11/11/96 - 12/31/96	6/30/97	101	26
Legislature	224	17	1					12/1/96	10	10
Court System	653	81					1/16/97 - 2/28/97	7/1/97	16	3
<b>GRAND TOTALS</b>	<b>16,890</b>	<b>1,239</b>							<b>221</b>	<b>85</b>

(as of 2/1/97) (by 2/1/97)

Note: R.P. savings cannot be accurately projected yet for most departments because it is uncertain how many employees will actually retire, when they will retire, and which employees (high or low savings) will retire.

86-87

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MAR 2 1989  
Ans'd.....

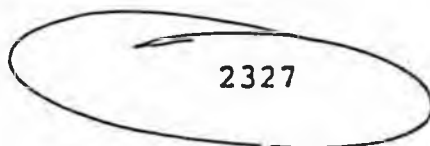
RETIREMENT INCENTIVE PROGRAM  
STATUS REPORT  
February 27, 1989

Employer	Eligible By Age/Svc	89-90 Designated By Empl.	89-90 Retired
Governor's Office	30	5	5
Administration	229	174	101
Law	41	18	11
Revenue	55	29	23
Education - PERS	72	71	28
Education - TRS	38	36	19
Health & Social Svc.	335	304	150
Labor	147	138	54
Commerce	88	55	28
Military Affairs	29	6	4
Natural Resources	160	139	65
Fish & Game	160	143	78
Public Safety	193	182	101
Environmental Consv.	36	34	12
Corrections	154	139	38
Comm. & Regional Aff.	21	18	7
Transportation	854	809	355
Ombudsman	1	0	0
Legislative Affairs	53	20	13
Legislative Finance	2	0	0
Legislative Audit	5	3	3
Court System	98	0	0
Total State PERS	2762	2287	1076
Total State TRS	<u>38</u>	36	19
University of Ak - PERS	325	319	107
University of Ak - TRS	372	349	95
Geophysical Inst - PERS	27	27	7
Geophysical Inst - TRS	38	35	8
Total University - PERS	352	346	114
Total University - TRS	410	384	103
Total Poly - Subs PERS	2661	1272	412
Total Schl Dists TRS	1773	1668	603
Grand Total PERS	5775	3905	1602
Grand Total TRS	2221	2088	725
Overall Total	7996	5993	2327

2949

2569

740



- # Participants 1986-87 -

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

## MEMORANDUM

March 18, 1997

**SUBJECT:** Sectional Summary of SB 129. (Employer's required savings under the RIP)

**TO:** Senator Jim Duncan  
Attn: Roxanne Stewart

**FROM:** Teresa B. Cramer *TBC*  
Legislative Counsel

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MAR 18 1997  
Ans'd.....

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1 amends the requirement in the retirement incentive plan (RIP) for state and municipal employees that an employer show a savings within three years after an employee retires under the RIP to extend the period to five years.

Sec. 2 reflects the amendment made by sec. 1 of this bill, requiring that a savings be shown in five years instead of the three-year period enacted last year.

Sec. 3 is an immediate effective date.

TC:glc  
97-191.glc



**SENATOR JIM DUNCAN**  
*ALASKA STATE LEGISLATURE*

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Alaska State Senate

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State Capitol • Room 119 • Juneau, Alaska 99801-1182 • (907) 465-4766 • Fax 465-4748

**SPONSOR STATEMENT**

**SB 129**  
**RETIREMENT INCENTIVE PROGRAM**

**5 YEAR SAVINGS CALCULATION FOR STATE EMPLOYEES**

SB 129 amends the provisions of the Retirement Incentive Program for state employees to allow five years to be considered in calculating the cost and savings of the program.

In this time of budget cutting, any tool to downsize government in a humane and rational way should be made available to the Administration. The purpose of the Retirement Incentive Program is to allow senior employees the opportunity to retire, rather than laying off (rifling) junior employees as normally happens in times of declining revenues. This proves to be cost effective for the state, and beneficial to the retirees who chose to participate since they receive a three year credit towards their retirement. It is also beneficial to the employees with less seniority who remain on the job rather than being laid off.

Currently the allowable savings calculation only includes three years experience even though savings usually extends for five or more years. The result is that many individuals are not eligible to participate due to the three year counting period in current statute. I know of a number of potential retirees who are ineligible due to a net cost of \$15.00 to \$500.00. With the five year calculation in place, these individuals would qualify to participate.

Since the Retirement Incentive Program for state employees began in June 30, 1996, only 51 state employees have retired under the program. With a five year window for calculation of savings, many more state employees would become eligible, resulting in a much larger savings in cost to the state.

It is difficult to compare earlier Retirement Incentive Programs with the current program in which State agencies may request a number of window periods prior to the end of the program in June, 1999. However, a look at the following statistics and anecdotal statements from high level administration officials indicate the probability that the number of designated employees may only double by the end of the program.

March 18, 1997

RIP PROGRAM	Eligible by Age or Service	Designated to Participate	% Total
86-87 State	2800	2323	82
89-90 State	2949	2569	87
96-99 State	6200	582	9.4

If that is true, then the total percentage of employees potentially eligible who are actually designated to participate will rise only to 18.8. This compares with 82 and 87 percent in the 1986-87 and 1989-90 programs respectively.

Based on this information, it is clear that the three year calculation of savings is severely limiting participation in the program. The two previous Retirement Incentive Programs both used the 5 year savings calculation proposed in SB 129.

The 1987-88 program saved state government \$14.5 million, and the 1989-90 program saved a little more than \$6 million. With increased participation brought about by the amendments in SB 129, I am hopeful we will achieve at least the savings realized in 1989-90, if not more.

**S B**

**1 3 3**

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Small Business Development Tax Credit  
March 4, 1997  
Page 2 of 3

**DRAFT BILL ANALYSIS**

**Section 1** describes the purpose of this Act.

**Section 2** describes which corporations qualify for the tax credit and the maximum size of the credit. A corporation must be nonaffiliated (not have any parents, children, brother or sister corporations) and have fewer than 50 employees. A corporation qualifying for the credit may claim a credit of 10% of the first \$100,000 of qualified investment in new property first placed into service in Alaska. These investments must be made in any tax year after December 31, 1996 and before January 1, 2000. Unused credit can be carried forward two years. The tax may not exceed 50% of the taxpayer's corporate tax liability. This section also describes the penalties for disposing or removing from the state equipment for which the taxpayer claimed a credit.

**Section 3** repeals section 2 of this Act.

**Section 4** provides that sections 1 and 2 are retroactive to January 1, 1997.

**Section 5** provides for an immediate effective date for sections 1, 2 and 4.

**Section 6** establishes an effective date for section 3 of January 1, 2002 unless prior to January 1, 2002 section 2 is found to violate the commerce clause of the United States Constitution.

**Operating Expenditures**

The Department of Revenue is not requesting any additional funds for meeting its obligations under this Act.

**Revenue Collected**

The attached spreadsheet details revenue reductions from credits taken under this bill.

**Alaska Department of Revenue**  
**Income and Excise Audit Division**  
**Projected Revenue Decreases from the Small Business Tax Credit**

Small Business Tax Credit  
 March 4, 1997  
 0-GB0097.A  
 Page 3 of 3

**Assumptions** - All small businesses (defined as nonaffiliated corporations with less than 50 average annual employees) opt to use all of their maximum available credit (50% of a taxpayer's corporate liability up to 10% of \$100,000 in qualifying annual expenditures). For corporations with liabilities greater than or equal to \$20,000 this maximum would be \$10,000. For corporations with less than \$20,000 in liability they will use up all of 50% of their liability.

	Number	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03*
Credits for Corp. with >\$20,000 Liab.	59	(\$590,000)	(\$590,000)	(\$590,000)	\$0	\$0	\$0
Credits for Corp. with \$10,000-20,000 Liab.	61	(\$438,265)	(\$438,265)	(\$438,265)	(\$183,000)	\$0	\$0
Credits for Corp. with \$1,000 - 9,999 Liab.	532	(\$873,912)	(\$873,912)	(\$873,912)	(\$873,912)	(\$873,912)	\$0
Credits for Corp. with \$100 - 999 Liab.	696	(\$135,758)	(\$135,758)	(\$135,758)	(\$135,758)	(\$135,758)	\$0
Credits for Corp. with \$1-\$99 Liab.	1113	(\$17,408)	(\$17,408)	(\$17,408)	(\$17,408)	(\$17,408)	\$0
<b>Total Credits</b>	<b>2461</b>	<b>(\$2,055,343)</b>	<b>(\$2,055,343)</b>	<b>(\$2,055,343)</b>	<b>(\$1,210,078)</b>	<b>(\$1,027,078)</b>	<b>\$0</b>

\* Sunsets after 3 years with a 2 year carry forward

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-2867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

## MEMORANDUM


March 24, 1997

RECEIVED  
MAR 24 1997  
Ans'd.....

**SUBJECT:** Senate Bill 133, establishing a small business development tax credit under the Alaska Net Income Tax Act -- sectional analysis (Work Order No. 0-GS0097A)

**TO:** Senator Lyda Green, Chair  
Senate State Affairs Committee  
ATTN: Shelton

**FROM:** Jack Chenoweth  
Legislative Counsel



This measure submitted by the administration proposes a small business development tax credit under the state's Net Income Tax Act. The credit, limited in duration as to its availability, is tied to new capital investments made by qualifying businesses. As drafted, to qualify for the small business development tax credit, the small business must make the capital investment and place it into service during calendar year 1996, 1997, 1998, or 1999, but the claim of the credit may be made by the business against its taxes due beginning in tax year 1996 and as late as tax year 2001.

**Bill section 1** offers a suggested statement of purpose for the measure.

**Bill section 2:** This is the bill's operative section. It makes provision for the following --

Subsection (a) sets the definition for business taxpayers that qualify for the credit. The credit may be claimed by a taxpayer having

a monthly average of fewer than 50 employees . . . not a member of an affiliated group

and may claim against tax liability under the Alaska Net Income Tax Act

10 percent of the first \$100,000 of qualified investment in new property first placed into service exclusively in the state

(that is, \$10,000), if the qualified investment is made after December 31, 1996, but "beginning" before January 1, 2000.

Subsection (b) sets limits on the credit: The credit "may not exceed 50 percent of the taxpayer's tax liability under [AS 43.20]" and must be claimed ahead of other credit that may be available to the taxpayer under AS 43.20.

Subsection (c) allows a portion of the tax credit that is unused in a tax year to be claimed in either or both of the succeeding two tax years.

Subsection (d) imposes a reinstatement of tax liability on a declining basis if the investment property on which the credit was previously given is subsequently disposed of or removed from the state.

Subsection (e) explains that, for purposes of the reinstatement of tax liability provision, property is not "disposed of or removed" if it is retained in the business of the taxpayer if the form of the business changes.

Subsection (f): The Alaska Net Income Tax Act is based on the federal tax code. This subsection addresses treatment of the investment property on which the credit is taken with reference to federal tax code provisions.

Subsection (g) disallows the investment credit provided under this section against any of the tax credit allowed under AS 13.

Subsection (h) spells out how, for purposes of determining the taxpayer's number of employees, the taxpayer's monthly average number of employees is to be determined.

Subsection (i) disallows the investment credit to a qualifying business that is in arrears on payments due under the Alaska Employment Security Act (unemployment payments) or under a tax levied and collected under AS 43.

Subsection (j) supplies definitions for terms used in the small business development tax credit.

**Bill section 3** proposes to repeal the small business development tax credit.

**Bill section 4** makes the proposed small business development tax credit retroactive to January 1, 1997, to allow credits made for qualifying investments at any time in this calendar year.

**Bill section 5** gives the operative section, the statement of purpose, and the retroactive provision an immediate effective date.

Senator Lyda Green

March 24, 1997

Page 3

**Bill section 6** gives the small business development tax credit's repeal provision a December 1, 2002, effective date. (This strikes me as an odd choice of date and wonder whether it should read "December 31, 2002." You may want to check with the administration.)

JBC:jdr

97-208.jdr

**SB**

**141**

# ALASKA STATE LEGISLATURE



*Interim:*

600 East Railroad Avenue  
Wasilla, Alaska 99654  
(907) 376-3370  
(907) 376-3157 Fax

*Session:*

State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-6600  
Fax (907) 465-3805

## SENATOR LYDA GREEN SENATE DISTRICT N

### SB141

#### REVISIONS TO ALASKA'S CONCEALED HANDGUN PERMIT LAW:

Smaller, smarter government: less bureaucracy and more clarity for citizens

The intent of SB141 is simple:

There is no reason the permitted few should be more restricted than the unregulated many. Treat people and their handguns equally. All Alaskans, who are not otherwise prohibited by federal or state law from owning or possessing handguns, can carry handguns openly in certain places and can carry concealed without a permit in certain places. If 300,000 adult Alaskans can legally carry a handgun openly, there is no reason to have greater restrictions for the 6,000 Alaskans who have been fingerprinted, checked, trained and permitted.

### OBSERVATIONS

There have been almost 6,000 permits issued in Alaska for carrying concealed handguns since that right was recognized in state law in 1994. The Department of Public Safety has done a remarkable job of ensuring fair and speedy processing of applications.

However, Alaskans have voiced some complaints on overly restrictive and confusing prohibitions and regulations leading to a burdensome waste of time. Many of these stipulations were included in the original legislation due to courteous consideration of the dire predictions of mayhem in the streets from some members of the legal community and law enforcement. None of those dire

predictions has proven accurate during years of experience and it is appropriate to restore equal rights for law-abiding citizens.

For the most part, the law is working. Crime is down. According to the information we have from the Department of Public Safety, of 6,000 permittees, not one person has used their concealed handgun to commit a crime.

Similar legislation (SB177) passed last session by large majorities, but was vetoed by the Governor. Even though legislation last year prohibited anyone from drinking and carrying a concealed handgun, some felt that whether one was drinking or not, no concealed handguns should be allowed in bars. In the spirit of compromise, we have drafted SB141 to allow concealed handguns in restaurants regulated under AS 04.16.049 and not in bars.

This bill does not change other state law restricting carrying weapons in bars or schools. All the other existing laws restricting handguns in bars and schools remain in force.

If SB141 is passed, the simple effect would be that anywhere you can carry a handgun openly (which you can do without training, without background checks, without fingerprinting, and without a permit) you will be able to carry a permitted concealed handgun.

The existing law is too restrictive, too confusing and too expensive. For example, under current law you are prohibited from walking into a financial institution with a permitted concealed handgun, but you are allowed to take the handgun out and carry it openly into the bank. Existing law too often turns common sense on its head.

**Sections 1, 2 and 9** of the bill make several things much clearer and easier to enforce. If a person is a concealed handgun permit holder from another state and comes to Alaska to visit, we will recognize that permit. However, that person is responsible for following the laws regulating Alaskan permit holders. In addition, Section 12 requires that the visitor must, within 90 days, inform the Department of Safety of their presence so that, just as with Alaskan permit holders, the Department knows who is allowed to carry concealed handguns in Alaska.

These amendments simply recognize equality of Americans as requested by SJR14, which supports legislation in the U.S. Congress

seeking nationwide recognition of concealed carry permits issued by any government agency or subdivision.

**Sections 1 and 2** improve definitions and still attempt to permit a municipality or village to prohibit possession of concealed handguns.

**Section 2** does not change existing law making bars off limits to concealed handguns, but does allow access to restaurants identified under AS 04.16.049. If the Alcohol Beverage Control Board finds that a business, or a specific area of a business, is not a bar you will be allowed to carry concealed.

**Sections 3 and 6** ensure that the applicant for a permit receives a copy of state law and regulations and certifies the applicant read them.

**Section 4** requires the Department to process the permit if the permittee is otherwise eligible without having to wait for weeks or months for the F.B.I. to complete fingerprinting checks. The Department is given authority to immediately revoke a conditional permit whenever it receives information from checking fingerprinting making the permittee ineligible. This conforms statute to what is actually being done already in practice.

**Section 5** simplifies for law enforcement and for citizens the standards for qualifications to apply for a permit.

Under existing law, in order to carry openly you must be 21 years of age or older and be allowed by state or federal law to own or possess a handgun.

Under existing state law, in order to carry concealed during recreation activities, in your dwelling, in your business, where you are employed or on land owned or leased by the person (see AS 11.61.220) you must be 16, and you must be allowed by state and federal law to own or possess a firearm.

Under existing law, in order to carry concealed in other places than those mentioned above, you must acquire a permit. If SB141 is passed, in order to do that you must be 21, you must be allowed by state and federal law to own or possess a firearm, you must be a 90 day resident of the state immediately preceding your application for

a concealed handgun permit, you must receive training and education and you must demonstrate competence with a handgun.

A restrictive laundry list of prohibitions for the fingerprinted, trained, permitted carriers make little sense when state law allows you to carry openly in those places and federal and state law already address who may own or possess a handgun.

**Section 7** simply reduces the fees from \$125 to \$99 for initial application and from \$60 to \$30 for renewal or replacement to better reflect the true cost. Other States have even lower fees or no fees at all.

**Section 8** amends language to clearly give the Department the authority to immediately suspend permits for anyone who is ineligible under state or federal law to own or possess a handgun.

**Section 10** repeals a long list of special prohibitions that don't apply to open carry or, in some cases, to concealed carry unpermitted. Instead, there is a flat prohibition for possession of a concealed handgun wherever federal or state law prohibits possession of a handgun.

**Section 11** sets up a cascading penalty system beginning with an infraction subject to a fine, and subsequent offenses being a class B misdemeanor and the third time (or more) a class A misdemeanor.

**Section 12** simplifies definitions so that shotguns, rifles and all weapons prohibited under AS 11.61.200 do not qualify for concealed carry. Otherwise, just as in every other state, any handgun not otherwise prohibited by state or federal law is treated equally. There are no examples, apparently, anywhere in the United States, where a permittee has used a derringer or "miniature" handgun in a crime.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

## MEMORANDUM

March 19, 1997

**SUBJECT:** Sectional Summary of SB 141. (W.O. 0-LS0706\K)

**TO:** Senator Lyda Green  
Attn: Tuckerman Babcock

**FROM:** Gerald P. Luckhaupt *[Signature]*  
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, please note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill - the bill itself is the best statement of its contents.

**Section 1 of the bill** makes available a new affirmative defense to a charge of carrying a concealed deadly weapon if the person charged was at the time of possession the holder of a valid permit to carry a concealed handgun in another state or political subdivision or was lawfully able to carry a concealed handgun in the state where the defendant resides, the concealed weapon was a concealed handgun, the possession did not occur in a municipality or established village that by local option has banned the possession of concealed handguns, and the defendant was considered a permittee under AS 18.65.748.

**Section 2 of the bill** provides a new affirmative defense to a charge of possessing a loaded firearm at any place where intoxicating liquor is sold for consumption on the premises to a person who is a permittee under AS 18.65.700 - 18.65.790 or is licensed in another state or political subdivision or is legally able to carry a concealed handgun in the person's state of residence, when the firearm possessed is a concealed handgun, the possession occurred at a place designated as a restaurant under AS 04.16.049 and did not occur in a municipality or established village that has banned the possession of concealed handguns by local option, and the defendant is from another state and has met the requirements of being a permittee under AS 18.65.748.

**Section 3 of the bill** requires the department of public safety to supply a copy of the state laws and regulations relating to firearms to each person to whom they provide an application for a concealed handgun permit.

**Section 4 of the bill** requires the department to issue a permit to carry a concealed handgun to each applicant within 15 days even if the department has not received the results of the

Senator Lyda Green  
March 19, 1997  
Page 2

fingerprint check. If the fingerprint results later disclose the applicant is ineligible, the permit can be revoked.

**Section 5 of the bill** prohibits the department from using for any other purpose or making copies of fingerprint cards submitted to obtain a permit.

**Section 6 of the bill** allows the department in its discretion to issue an emergency concealed handgun permit, valid for 90 days, to a victim of domestic violence.

**Section 7 of the bill** rewrites the qualifications to receive a concealed handgun permit.

**Section 8 of the bill** requires an applicant to acknowledge receipt of a copy of the laws and regulations relating to firearms.

**Section 9 of the bill** provides that an honorably retired peace officer who applies for a permit does not have to demonstrate competency with firearms.

**Section 10 of the bill** revises the fees the department may charge for new permits, renewals, and replacements.

**Section 11 of the bill** revises the circumstances when the department may suspend permits.

**Section 12 of the bill** provides that a permit holder from another state or political subdivision is an Alaska permit holder for purposes of AS 18.65.750 - 18.65.765 if the person has been in Alaska for 90 days or less or has informed the department of the person's presence in the state.

**Section 13 of the bill** revises the list of places where a permittee may not possess a concealed handgun.

**Section 14 of the bill** revises the penalties for violations of AS 18.65.755(a).

**Section 15 of the bill** amends the definition of "concealed handgun" to provide that derringers and miniature handguns can be concealed and carried by a permittee.

**Section 16 of the bill** provides repealers.

GPL:jdr  
97-193.jdr