

ALASKA LEGISLATURE COMMITTEE FILES 1999-2000 8672

10005 HOUSE STATE AFFAIRS

# FISCAL NOTE

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

BILL NO. CSSSHB141(STA)

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Office of the Governor  
 Title An Act relating to preferential voting BRU Elections  
 Component \_\_\_\_\_  
 Sponsor Representative Kolt  
 Requester House Finance Committee Component Serial No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,872.0	535.0	35.0	535.0	35.0	535.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1,872.0</b>	<b>535.0</b>	<b>35.0</b>	<b>535.0</b>	<b>35.0</b>	<b>535.0</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,872.0	535.0	35.0	535.0	35.0	535.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>1,872.0</b>	<b>535.0</b>	<b>35.0</b>	<b>535.0</b>	<b>35.0</b>	<b>535.0</b>

Estimate of any current year (FY99) cost: \_\_\_\_\_

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

The \$1,872.0 includes the following: \$290.0 for increase in ballot printing costs; \$250.0 for programming enhancements to the GEMS software; \$1,092.0 for the purchase of 168 Accu-Vote precinct tabulators; \$40.0 for voter education/advertising; \$50.0 for an increase in election worker training; \$80.0 for an increase in postage and shipping; \$45.0 for additional election worker payments; \$25.0 for a contract with an outside accounting firm.

The division believes that in order to get the most accurate and quickest results, an Accu-Vote precinct tabulator must be purchased for the 168 hand-count precincts. If an Accu-Vote is not purchased in each hand-count precinct, the inaccuracy and timeliness of the ballot count will increase significantly. The division would prefer to deal with the logistics of shipping and storage of the additional Accu-Vote units versus the increase risk of counting errors in the 168 hand-count precincts.

Prepared by Gail Fenumiai *Gail Fenumiai* Phone 465-3935  
 Division Division of Elections Date/Time 4/6/99 9:42 AM  
 Approved by C. Lt. Governor Fran Ulmer *Fran Ulmer* Date 4/6/99  
 Agency Office of the Lieutenant Governor

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Fiscal Note - CSSH 141(STA)  
Prepared by the Division of Elections, 4/6/99  
Page 2 of 2

Analysis continued

The subsequent year funding includes: \$290.0 for ballot printing; \$35.0 for equipment maintenance; \$20.0 for voter education/advertising; \$40.0 for training; \$80.0 for postage/shipping; \$45.0 for election worker payments; \$25.0 for a contract with an outside accounting firm.

Re: fiscal notes

**Subject:** Re: fiscal notes  
**Date:** Thu, 25 Mar 1999 10:52:16 -0900  
**From:** Barbara Cotting <Barbara\_Cotting@legis.state.ak.us>  
**Organization:** Alaska State Legislature  
**To:** Shari Kochman <shari\_kochman@gov.state.ak.us>

Shari Kochman wrote:

> thanks for getting these in so early.  
> will take care of them.  
>  
> Barbara Cotting wrote:  
> >  
> > I have scheduled the following bills for hearing in House State Affairs  
> > on Tuesday, March 30, and need fiscal notes:  
> >  
> > HB 141      Preferential Voting Elections  
> >  
> > HB 153      State Employee Annual Leave                      Admin  
> > HB 157      PFD Allowable Absences                              Revenue  
> >  
> > Barbara

**HB**

**144**

AB 144 -

on hold.

Paul Scott  
& David  
4/21/99



**REPRESENTATIVE SCOTT OGAN**

**Alaska State Legislature**

House District 27 • Palmer • Greater Palmer • Sutton • Chickaloon • Sheep Mountain

**SPONSOR STATEMENT**  
**HB 144**

As appropriators of the public's resources, legislators need to have the legal right as stewards to reasonably inspect both, the physical, and the fiscal condition of any facility or program we fund.

HB 144 clearly provides such authority in statute.

# FISCAL NOTE

**STATE OF ALASKA  
1999 LEGISLATIVE SESSION**

**BILL NO. HB 144**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affect: Legislature  
 Title An Act relating to access to public buildings or BRU Budget & Audit Committee  
public facilities by legislators and to audit the public buildings or pub Component Legislative Audit  
 Sponsor Rep. Ogan  
 Requester \_\_\_\_\_ Component Serial No. \_\_\_\_\_

**Expenditures/Revenues (Thousands of Dollars) \$-0-**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE (Thousands of Dollars)**

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

Estimate of any current year (FY99) cost: \$-0-

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill does not create any new mandatory audit requirements for the Division therefore the fiscal note is \$-0-.

Prepared by Pat Davidson Phone 465-3830  
 Division Legislative Audit Date/Time 4/13/99 1:41 PM  
 Approved by Commissioner Pat Davidson Date 4/13/99  
 Agency Legislative Audit

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State of Alaska  
DIVISION OF LEGISLATIVE AUDIT  
P.O. Box 113300  
Juneau, AK 99811-3300

FAX TRANSMITTAL

DATE 4/13/99 TIME \_\_\_\_\_

TO Barbara Biting  
ATTN \_\_\_\_\_  
FAX NUMBER 465-2381  
FROM Pat Davidson

- For your comments
- For your information
- As you requested
- As we discussed
- Please respond by FAX or phone
- Please place the attached order

TOTAL NUMBER OF PAGES, INCLUDING THIS PAGE 2

If not all pages are received, contact us at:  
Phone number (907) 465-3830 FAX number (907) 465-2347

REMARKS Barbara -

Included is the 8-0- fiscal note for HB 144

Please let me know if there is any thing else I

can do

Pat Davidson

**Subject:** fiscal notes  
**Date:** Fri, 09 Apr 1999 07:37:32 -0800  
**From:** Barbara Cotting <Barbara\_Cotting@legis.state.ak.us>  
**Organization:** Alaska State Legislature  
**To:** Pam Varni <Pam\_Varni@legis.state.ak.us>

Pam,

Shari Kochman informs me that a fiscal note for HB 144 should come from leg affairs agency, not the governor's office.

I have it scheduled in House State Affairs April 15:

HB 144, Public Building and Facilities: Access and Audit.

Thanks,

Barbara Cotting, Committee Aide

**HB**

**156**

# HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: March 24, 1999

FURTHER REFERRALS:

Finance

Date of Committee Action: 4/15/99

The STATE AFFAIRS Committee considered:

HB 156

HOUSE BILL NO. 156

PERMANENT FUND INVESTMENTS

"An Act relating to investments by the Alaska Permanent Fund Corporation; and providing for an effective date."

recommends it be replaced with the following committee substitute CSHB 156 (STA)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_ APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_  
 fiscal note(s) REV  fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Janette James</i>	✓			
<i>Hal Smalley</i>	✓			
<i>Bern Bertulok</i>	✓			
<i>John Coffey</i>			✓	
<i>Bill Huder</i>	✓			
<i>Scott Gier</i> DO NOT RECORD →	✓			
			✓	

CHAIR'S SIGNATURE *Janette James*

AMENDMENT

OFFERED IN THE HOUSE  
TO: HB 156

BY REPRESENTATIVE KERTTULA

- 1 Page 6, line 20:
- 2 Delete "50"
- 3 Insert "55 [50]"

OK on CS!  
Jook final to Clerk  
4/15/99

 [return to table of contents](#)

*Business Officer* | February 1999

## College and University Endowments Continue to Run with the Bulls

1998 NACUBO Endowment Study

by Jay Teixeira

Each year in Pamplona, Spain, hundreds of people from around the world gather to watch the annual running of the bulls. The race, which can be dangerous, provides a thrill to both the runners and observers who do not know what the outcome will be.

This past fiscal year, college and university endowments resembled the annual event in Pamplona. Endowment managers worked hard to keep one step ahead, even with a bullish stock market and a strong economy, to propel institutional endowment earnings into the double digits.

Endowment pools for colleges and universities earned an average return of 18 percent in the fiscal year ending June 30, 1998. This became the seventh time in the 1990s that double-digit returns were recorded and represents the second highest rate of return in a decade, according to the results from the 1998 NACUBO Endowment Study (NES). Institutional returns ranged from 38 percent to 3.7 percent, according to the annual study conducted for NACUBO by Cambridge Associates Inc., an investment research firm.

The equal-weighted mean return of 18 was below last year's average return of 20.4 percent, but higher than fiscal 1996's return of 17.2 percent. In addition, benchmark market indexes also experienced investment growth in fiscal year 1998. The S&P 500 had a 30.2 percent return rate, above the Wilshire 5000's return rate of 28.9 percent. The Lehman Brothers Aggregate Bond Index registered a 10.5 percent return rate. The Consumer Price Index for the period was 1.7 percent.

The equal-weighted mean nominal total return of the 508 institutional investment pools represented in the NES was 18 percent, while the dollar-weighted mean was 18.6 percent. (The dollar-weighted mean is provided as a precise measure of the actual returns produced by aggregate invested assets of

**Resource Link**  
Institutions that are interested in participating in the fiscal year 1999 endowment study should contact Stephanie Woodfork, program manager in NACUBO's Center for Accounting, Finance, and Institutional Management, at telephone 202-861-2518 or e-mail [swoodfork@nacubo.org](mailto:swoodfork@nacubo.org)

**Tables:**

[Institutional Ranking](#)

[Investment Pool Asset Allocation](#)

[Investment Pool Nominal Returns](#)

NACUBO would like to thank these firms for their financial support of both the 1998 NACUBO Endowment Study and the 1998 NAIS/NACUBO Endowment Study.

**PRIMARY**

**CONTRIBUTOR**

Cambridge Associates Inc.

**PRESIDENT'S CIRCLE**

Grantham, Mayo, Van Otterloo & Co., LLC  
John W. Bristol & Company Inc.

**PLATINUM**

Alliance Capital Management L.P.  
Bankers Trust Company Commonfund  
Dresdner RCM Global Investors LLC  
Fayez Sarofim & Company  
Fidelity Investments Tax-Exempt Services Company  
First Union Corporation  
INVESCO  
Iridian Asset Management

Morgan Grenfell Inc.  
Pequot Capital Management Inc.

**GOLD**

Bank Boston  
BARRA Rogers Casey

participating institutions.) The median return was 17.9 percent.

Nearly 700 colleges and universities were surveyed, 503 responded, from 162 public and 346 independent institutions. Public institutions reported a 18 percent, equal-weighted mean nominal total return rate, while independent colleges and universities had a nominal total return rate of 17.9 percent.

## Investment Holdings Surpass \$178 Billion Mark

The responding 508 colleges and universities hold \$178.2 billion in endowment assets. More than 80 percent of the endowment wealth is held by the top 124 institutions, each with endowments of more than \$300 million. The 124 largest endowment pools had combined total assets of \$143 billion as of June 30, 1998, or 81 percent of all endowment assets reported, according to the study. In addition, 31 institutions or 6.1 percent have endowment assets over \$1 billion. Of the total pool, \$7.9 billion, or 4.4 percent, is held by 201 institutions, all with assets of \$75 million and under. The list of institutions ranked by market value of endowment assets begins on page 32.

Of the total endowment assets reported by endowment composition, \$77.95 billion or 58.5 percent, represented true endowments assets donated as permanent capital, with only the income available to be spent. The remaining assets constituted quasi-endowment (\$46.6 billion, or 35 percent), term endowment (\$2.81 billion, or 2.1 percent), and funds held in trust by others (\$5.9 billion, or 4.4 percent).

## Expenditures

Total expenditures from endowments were at 5.5 percent, down 0.2 percent from 5.7 percent in fiscal 1997, according to the NES. The equal-weighted mean total expenditures for public institutions was 5.9 percent, while the rate for independent institutions was 5.3 percent. Total expenditures from endowments include endowment payout, investment management and custody expenses, and other distributions from the endowment.

## Stable Investment Patterns

As of June 30, 1998, 88.5 percent of the assets of participating institutions was invested in marketable securities (including common stock, fixed income, cash and cash equivalents, hedge funds, distressed securities, event arbitrage, and high-yield bonds), 5.2 percent in nonmarketable securities (including venture capital, buyouts, and oil and gas), 4.3 percent in

Callan Associates Inc.  
Evaluation Associates  
Morgan Stanley Dean  
Witter & Company  
Nicholas-Applegate  
Capital Management  
Trusco Capital  
Management  
U.S. Trust Company  
W.P. Stewart & Company  
Inc.

### SILVER

American Express Asset  
Management Group Inc.  
BANK ONE  
CORPORATION  
Brandywine Asset  
Management  
Capital Guardian Trust  
Company  
Clay Finlay Inc.  
Dimensional Fund  
Advisors Inc.  
Dodge & Cox Inc.  
Fifth Third Bank  
John McStay Investment  
Counsel  
Luther King Capital  
Management  
Payden & Rygel  
PNC Private Bank  
PricewaterhouseCoopers  
LLP  
Scudder Kemper  
Investments Inc.  
The Northern Trust  
Company  
Vaughan, Nelson  
Scarborough &  
McCullough, L.P.  
Western Asset  
Management Company

### BRONZE

Columbus Circle  
Investors  
Jundt Associates Inc.  
T. Rowe Price Associates  
Inc.  
Trust Company of the  
West  
Wachovia Charitable  
Funds Management

### SPONSOR

David L. Babson & Co.  
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Montag & Caldwell Inc.  
Morgan Keegan &  
Company  
NM Capital Management  
Inc.  
Sanford C. Bernstein &  
Company Inc.  
State Street Global  
Advisors  
Trade Street Investment  
Association Inc.  
Trevor Stewart Burton &  
Jacobsen  
Trinity Investment

noncampus real estate, 0.4 percent in campus real estate, and 1.6 percent in other investments.

Management Corporation  
Virchow, Krause &  
Company LLP

Investment patterns have changed very little over the past several years. On average, independent institutions' allocations to marketable securities decreased from 88.3 percent last year to 87.1 percent in fiscal year 1998, while their investment in nonmarketable securities grew from 5.5 percent in fiscal 1997 to 6 percent. Public colleges and universities increased their allocation to marketable securities from 91.5 percent in fiscal year 1997 to 91.8 percent in fiscal year 1998. The average public institution decreased its allocation to nonmarketable securities from 3.6 percent to 3.3 percent in fiscal year 1998, the study found.

### Industry Standard

The NACUBO Endowment Study (NES), first published in 1974, provides colleges and universities with data to compare their year-end performance results with institutions that have similar endowment characteristics and investment objectives. The study also presents an overview of changes in endowment composition.

The NES measures the performance of a substantial majority of college and university endowments. The study is the industry standard for evaluating the institutional performance and management priorities of college and university endowments.

In 1992, NACUBO began an effort to provide endowment performance information to independent schools. The annual NAIS/NACUBO Endowment Study, which is published in March, is an abbreviated form of the endowment study for members of the National Association of Independent Schools.

Ordering Information: The 1998 NACUBO Endowment Study (Item No. NC 1480) is available for \$69.95 to NACUBO members and \$94.95 for nonmembers. The NES Executive Summary (Item No. NC 1485) highlights important data and provides analysis of survey results. The executive summary, which is aimed at presidents and governing board members, is \$24.95 for members and \$34.95 for nonmembers.

A 35 percent discount is offered for orders of five or more copies of the NES or the Executive Summary. To order, send credit card information, a check, or a purchase order to NACUBO Publications, P.O. Box 96164, Washington, DC 20090-6164. "NU 1231" must appear on all purchase orders.

Participating institutions and firms that support the NES receive a complimentary copy of the report.

### **The Stock Market Roller Coaster Ride: Institution Endowments Make Comeback**

Over the past several months, college and university endowments have taken a roller coaster ride on the stock market. Problems in Asia, Russia, and currently in Brazil, have caused the stock market to fall by as much as 19 percent in September, before roaring back in the final quarter of 1998.

The figures reported in the 1998 NACUBO Endowment Study are for the fiscal year ending June 30, 1998. Thus, this year's study does not reflect the current volatile conditions in the stock market.

Upon surveying college and university endowment managers, most said that their institution's endowments are back on track-earning sufficient returns. However, in August and September of 1998, when the market was experiencing the effects of the Asian and Russian economic crises, several college and university endowments experienced as much as a 13 percent decrease in their value, thereby causing many business officers to worry that the "boom years" might be coming to an end.

"We were affected by the drop in the market ... as much as 10 percent," said Alex Huppe, director of public affairs at Harvard University. "But we bounced back nicely when the market rebounded."

Harvard University has the largest endowment in the country and its recent activity mirrored that of other's institutions across the nation. However, college and university endowments are bouncing back, due to their diversified portfolios and upswings in the market, propelled by strong increases in technology stocks.

At the University of Texas System, the recent recovery in the stock market has helped, but the university has not regained all of its losses. The endowment at the university system was down about 13 percent, said Thomas Ricks, president and chief executive officer at the University of Texas Investment Management Co. As of early January 1999, the University of Texas System had recovered about 11 percent of its initial losses, Ricks stated.

September, the Pitt endowment was down 8 to 10 percent. However, the endowment has now recovered. The university has an overall endowment investment philosophy of having a diversified portfolio, stated Marlin Pease, director of finance and assistant treasurer at Pitt.

"We've made no changes in our investment strategy due to recent downturns in the market," Pease said. "We have an investment policy that's long-term. It's an all weather policy."

-Jay Teixeira



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Send comments and/or questions to [Pierce McManus](#)

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**Investment Pool Asset Allocation (%)**  
**As of June 30, 1997**

Responding Institutions	Domestic Common Stock	Foreign Currency Common Stock	Domestic Fixed Income	Foreign Currency Fixed Income	Domestic Cash and Cash Equivalents	Equity Real Estate	Mortgage Real Estate	Faculty Mortgages	Venture Capital	Buyouts	H F
<b>In Aggregate</b>											
Equal-Weighted Mean	52.6	11.2	23.4	1.8	4.8	1.6	0.3	0.1	0.9	0.3	1.
(Dollar-Weighted Mean)	45.3	14.8	17.4	2.5	3.5	4.0	0.1	0.1	3.0	1.9	3.
Median	53.7	11.6	23.1	0.0	3.2	0.1	0.0	0.0	0.0	0.0	0.
<b>By Investment Pool Size (Dollar-Weighted Mean):</b>											
\$25 million and under	51.8	7.3	29.9	1.3	6.1	0.8	0.4	0.1	0.2	0.0	1.
Over \$25 million-\$100 million	55.7	10.5	24.1	1.8	4.5	1.2	0.3	0.1	0.4	0.0	0.
Over \$100 million-\$400 million	51.6	12.8	21.7	1.8	4.3	1.9	0.2	0.2	1.1	0.3	2.
Over \$400 million	42.3	15.9	15.2	2.8	3.1	5.0	0.1	0.1	3.9	2.6	4.
<b>By Type (Dollar-Weighted Mean):</b>											
Public	51.5	12.8	21.2	3.6	3.7	2.0	0.0	0.7	1.2	0.4	0.
Independent	43.6	15.3	16.3	2.2	3.4	4.6	0.1	0.1	3.5	2.3	4.

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## Investment Pool Nominal Returns (%) Years Ended June 30

	1 Year	3 Years	5 Years	10 Years
Responding Institutions	1997	1995-97	1993-97	1988-97
<b>In Aggregate</b>				
Equal-Weighted Mean	20.4	17.7	13.7	11.5
Dollar-Weighted Mean	21.8	19.7	15.3	11.2
Median	20.3	17.6	13.8	11.5
<b>By Investment Pool Size (Equal-Weighted Mean):</b>				
\$25 million and under	19.0	15.9	12.0	10.4
Over \$25 million-\$100 million	20.1	17.4	13.4	11.2
Over \$100 million-\$400 million	20.9	18.0	14.1	11.7
Over \$400 million	21.6	19.4	15.1	12.2
<b>By Type (Equal-Weighted Mean):</b>				
Public	19.9	17.3	13.3	11.2
Independent	20.7	18.0	14.0	11.6
<b>Market Indexes:</b>				
S&P 500	34.7	28.9	19.8	14.6
Wilshire 5000	29.3	26.7	19.1	14.0
LB Aggregate	8.2	8.5	7.1	8.8
CPI (U)	2.3	2.7	2.7	3.5

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## Institutions Ranked by Fiscal Year 1997 Market Value of Endowment Assets

	Institution	Endowment Assets (\$000s)	Life Income Fund Assets (\$000s)	Reporting Period if Other Than June 30
1	Harvard University	10,919,670	513,532	
2	Texas System, University of	6,709,945	22,283	
3	Yale University	5,742,000	51,200	
4	Princeton University	4,940,900	124,458	
5	Stanford University	4,473,825	193,177	August
6	Emory University	4,273,543	14,832	
7	California, University of	3,133,252	36,165	
8	Massachusetts Institute of Technology	3,045,756	66,997	
9	Columbia University	3,038,907	NA	
10	The Texas A&M University System and Foundations	2,951,463	48,188	
11	Washington University	2,798,221	47,381	
12	Pennsylvania, University of	2,535,312	52,044	
13	Rice University	2,321,757	133,785	
14	Cornell University	2,125,070	129,934	
15	Chicago, University of	2,031,131	71,218	
16	Michigan, University of	1,988,835	56,402	
17	Northwestern University	1,798,900	125,000	
18	Notre Dame, University of	1,467,808	31,369	
19	Vanderbilt University	1,339,788	71,392	
20	Dartmouth College	1,277,753	63,530	
21	Southern California, University of	1,204,672	174,830	
22	Case Western Reserve University	1,157,600	30,297	
23	Johns Hopkins University	1,156,598	84,465	
24	Duke University	1,134,290	56,170	
25	Virginia, University of	1,098,539	14,438	
26	Minnesota and Foundation, University of	992,726	34,056	
27	California Institute of Technology	978,192	127,124	
28	Brown University	949,574	29,961	



**Alaska Permanent Fund Corporation**

P.O. Box 25500 Juneau, Alaska 99802-5500  
(907) 465-2047

April 7, 1999

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

Dear Representative James:

I am writing to request that you schedule House Bill 156 in the House State Affairs Committee at your earliest convenience.

This bill, which would provide increased flexibility investment for the Alaska Permanent Fund Corporation (APFC) Board of Trustees is an important piece of legislation which could help the state earn an additional \$300 million per year on average over the next 20 years.

We look forward to testifying in support of this bill at your earliest convenience. Thank you.

With warm regards,

Jim Kelly

Director of Communications

c: Byron I. Mallott  
Board of Trustees

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE KERTTULA

TO: HB 156

- 1 Page 6, line 20:
- 2 Delete "50"
- 3 Insert "55 [50]"

Yes ~~NI~~  
No II

# Alaska State Legislature

REPRESENTATIVE  
**GAIL PHILLIPS**  
Chair

**SESSION ADDRESS**  
State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-2689  
Fax: (907) 465-3472

## Legislative Budget and Audit Committee

**TO:** Representative Jeannette James, Chair  
House State Affairs Committee *Jeannette*

**FROM:** Representative Gail Phillips, Chair  
Legislative Budget and Audit Committee *Gail*

**DATE:** April 6, 1999

**RE:** HB 156 – Request for Hearing

On the behalf of the Legislative Budget and Audit Committee, I respectfully request a hearing be scheduled as soon as possible for HB 156 "An Act relating to investments by the Alaska Permanent Fund Corporation (APFC) and providing for and effective date".

I have attached a sponsor statement, a sectional analysis prepared by APFC legal counsel, and additional explanatory materials.

Thanks for your consideration of this request.

attachments

cc: Jim Kelly, APFC

GP:tm

### INTERIM ADDRESS

345 W. Sterling Highway, Suite 102B, Homer, Alaska 99603 (907) 235-2921 Fax: (907) 235-4008

# Alaska State Legislature

REPRESENTATIVE  
**GAIL PHILLIPS**  
Chair

**SESSION ADDRESS**  
State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-2689  
Fax: (907) 465-3472

## Legislative Budget and Audit Committee

### SPONSER STATEMENT / House Bill 156

#### **“An Act relating to investments by the Alaska Permanent Fund Corporation; and providing for an effective date”.**

The Legislative Budget and Audit Committee (LBAC) is charged with oversight of the Alaska Permanent Fund Corporation (APFC). Specific to this legislation, AS 24.20.151 (2) under purposes of the Committee reads “holding these agencies (lending or investment entities) accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature”.

On March 4, the APFC submitted this legislation in draft along with explanatory materials to LBAC members for their review. On March 23, the APFC presented this legislation to the Committee and the members present agreed unanimously to introduce it, without revision, in both bodies.

House Bill 156 modernizes the operations of AS 37.13.120, the statutes that set out the “legal list” of permissible investments of APFC assets. The revisions requested in this legislation are aimed at providing increased investment flexibility, reduced risk, and hopefully increased returns for the Permanent Fund.

Specifically House Bill 156 allows the trustees to invest up to 5% of Fund assets to: (1) make or retain greater asset class commitments than currently allowed; and /or (2) invest in individual securities or instruments that are not expressly permitted. However, the legal list approach is maintained and current asset allocations, while modestly expanded, remain in place.

This legislation is accompanied by a detailed sectional prepared by APFC legal counsel and a letter from the Fund’s investment consultant, Callan Associates which addresses the need for the most significant proposed change, the 5% “basket clause”.

As you know, any revisions to APFC investment policy require careful consideration on our part, the legislature. The APFC stands ready to assist you in your review of the more detailed aspects of this legislation.

#### INTERIM ADDRESS

345 W. Sterling Highway, Suite 102B, Homer, Alaska 99603 (907) 235-2921 Fax: (907) 235-4008




**Alaska Permanent Fund Corporation**

P.O. Box 25500 Juneau, Alaska 99802-5500  
(907) 465-2047

**MEMORANDUM**

**DATE:** April 2, 1999

**TO:** Representative Gail Phillips  
Chair, Legislative Budget & Audit Committee

**FROM:** Jim Kelly   
Director of Communications

**SUBJECT:** Bill Analysis for HB 156/SB 115

*Attached below is a bill analysis prepared for HB 156/SB 115, "An Act relating to investments by the Alaska Permanent Fund Corporation; and providing for an effective date." Originally drafted March 4, 1999 by APFC legal counsel Ron Lorensen, it has been slightly revised to conform with the bill as approved for introduction by the Legislative Budget & Audit Committee.*

At the Board of Trustees' request, I have prepared a draft of proposed legislation to make a number of technical and other changes to improve and modernize the operation of AS 37.13.120, the section that sets out the "legal list" of permissible investments of Fund assets. Working within the framework of the existing "legal list," the proposed changes are intended to provide more internal consistency and greater flexibility for Fund investments in light of the tremendous changes in financial markets and investment vehicles that have occurred since the list was enacted in the early '80's.

The draft has been prepared in regular legislative drafting style, with additions to existing text underlined and deletions shown in square brackets and in all capital letters. These changes are summarized, by investment category (fixed income, equity, or real estate), below. As appropriate to illustrate a particular change, further explanation and/or "real world examples" of the effect of a proposal are separately set out in italicized text.

1. Fixed Income.

(a) Amending paragraph (g)(8)(A) (at page 2, line 24) to delete the requirement that short-term domestic promissory notes be "of the highest ratings assigned by a nationally recognized rating service" and to require, instead, that these notes be "investment grade."

*"Investment grade" is the quality level required of all other debt instruments under the statute, so this change will provide for consistency.*

(b) Amending paragraphs (g)(7) (at page 2, line 19) and (g)(19) (at page 5, line 12) to change the existing reference to "debt securities" to "debt instruments."

*For many purposes, the terms "debt securities" and "debt instruments" are used interchangeably. However, their formal definitions as set out in Barrons' Dictionary of Finance and Investment Terms are slightly different, with "debt instruments" having a somewhat broader scope than "debt securities." This change would avoid any issue that a particular instrument does not qualify as a "debt security" for investment of Fund assets. Since the quality of a particular investment would still have to be rated investment grade, this change would not affect applicable risk considerations.*

(c) Amending subsection (j) (at page 6, line 23), which prohibits investment in bonds on which any regular interest payment has been defaulted within the last five years, to substitute "debt instruments" for "bonds."

*This change would conform the terminology used in this provision to the change in terms from "debt securities" to "debt instruments" described above at (b). There is no apparent reason why the restriction in investing in debt that has defaulted on interest payments should be limited only to bonds.*

2. Equities.

(a) Amending subsection (h) (at page 5, line 29), which limits the situations in which the Board may enter into futures contracts for the sale of assets held by it, to permit the use of futures contracts to implement asset allocation strategies in the Fund's equity portfolio.

*APFC experience has shown that there are a number of situations in which the use of futures contracts in furtherance of its asset allocation strategies can improve performance in the Fund's equity portfolio. For example, when one of the APFC's managers is holding cash as part of its portfolio (either in anticipation of a planned purchase of new or additional equities or as the result of the liquidation of a part of its portfolio at the direction of the APFC), the manager can avoid the opportunity cost of not being fully invested in equities by purchasing S&P 500 Futures contracts, in effect "equitizing" the cash balance until it is needed, at which point the S&P 500 Futures would be sold. The same benefit from the use of S&P 500 Futures can also be seen on a larger scale when realignments in the Fund's investments are made either to implement changes in the Board's asset allocation plan or to bring the Fund's asset mix back within established allocation guidelines.*

(b) Amending the first sentence in subsection (i) (at page 6, line 3), which establishes a five percent limitation on ownership of voting stock of a corporation, to change the word "own" to "acquire" for purposes of determining when the percentage limitation is to be applied.

*As presently worded, the limitation on "ownership" might actually come into operation at some time after the stock is purchased (acquired) by the Fund, thus forcing the Fund to sell a portion of its holdings in the corporation, even though the Fund satisfied the five percent limit at the time the stock*

*was purchased. This could happen, for instance, if a corporation were to buy back and then retire a portion of its own voting stock, thereby reducing the total shares outstanding and--at the same time--effectively increasing the Fund's percentage ownership of those remaining shares.*

3. Real Estate.

(a) Amending subsection (e) (at page 1, line 5), which prohibits the Alaska Permanent Fund Corporation (APFC) from borrowing money, to explicitly permit borrowings against real estate assets so long as the obligation to repay those borrowings is secured and can not be enforced directly against the APFC or the Fund.

*In connection with real estate, properly managed leveraging may improve the rate of return on the Fund's real estate investments or reduce risk by reducing the cash investment in an asset. In addition, several title-holding general partnerships through which the Fund currently invests in real estate have borrowed money in the past, and there is some question whether, given the Fund's status as a general partner in those partnerships, those borrowings might constitute either borrowings by the Fund or a guaranty of the obligations of another. The change would address this uncertainty by specifically authorizing debt financing for a particular real estate investment without subjecting any other investment of the Fund to the risks of the borrowing.*

*A real world example is the Fiesta Mall in Mesa, Arizona. A tenant of the mall requested that the mall be expanded to accommodate its square footage needs. Although the APFC considered the additional investment to be appropriate, one of the APFC's partners in the property was either unable or unwilling to invest more cash in the property. The only way to retain the tenant was to finance the expansion of the property through debt which was*

*incurred in the name of the partnership and which was without recourse to the APFC.*

(b) Substantially revising paragraph (g)(16) (beginning at pages 3, line 27), which deals with limitations on investments in real estate. Presently, that provision includes a set of investment limitations that apply only to real estate investments in which the Fund has invested more than \$150 million, one of which is the requirement that the Fund not own more than 67% of an investment exceeding the \$150 million threshold. The existing provision also effectively precludes the Fund from acquiring undeveloped real estate, even though that real estate offers the opportunity to enhance the value of an existing Fund-owned property through expansion.

*The proposed amendment eliminates the 67% ownership limitation for real estate investments that exceed \$150 million. This current restriction limits the APFC's ability to negotiate on large transactions, since competitors are aware that the Fund is limited to 67% ownership. A real world example of this problem is where the contract of a partnership or limited liability company contains a "buy-sell" provision in which one of the partners can either take full control of an asset or exit the asset by picking a price and forcing the remaining partners to decide whether to buy or sell at that price. The Fund currently owns three assets with total values exceeding \$150 million. If a partner in one of those properties were to exercise a buy-sell option, the price it offered might be artificially affected because it knows that the APFC could not legally elect to be a buyer of more than 67% of that asset.*

*The amendment also allows the APFC the ability to acquire undeveloped real estate tied to an existing property in order to enhance that property and/or to retain tenants. A real world example of the problem this amendment addresses is where a tenant whose business is growing decides that it needs more space. The tenant might request that the property owner(s) expand the building that it is currently*

*renting. Sometimes this expansion can only occur by purchasing a neighboring vacant lot and constructing a build-to-suit project in close proximity to the property. Under the statute as it presently reads, the Fund could not acquire the vacant lot for that purpose and might lose the tenant as a result.*

(c) Adding a new paragraph (21) to subsection (g) (at page 5, line 19) to authorize the Fund to make real estate investments through title holding corporations and "securitization" structures or other investment vehicles, so long as the assets owned by the entity in which the Fund invests consist predominantly of real estate equity and debt investments of a type in which the Fund would otherwise be permitted to invest.

*This change would address two lingering legal questions regarding the permissible contours of the Fund's real estate investment portfolio. First, it would make clear that the Fund may hold real estate assets indirectly through separate title-holding entities or other investment vehicles (such as real estate investment trusts--REITs--and commercial mortgage-backed securities programs) by explicitly authorizing those alternate investment forms. Second, it would allow the Fund's real estate portfolio to include pools of real estate assets that might contain some foreign properties, so long as a particular pool of assets is predominantly made up of U.S. real estate. Currently, because the statute limits the Fund to investments in real estate located in the United States, the APFC's REIT manager has been advised that it may not purchase shares of a REIT which contains even one foreign property. This restriction has precluded investment in several REITs from which the investment manager believes the Fund could obtain solid returns, even though the foreign property holdings of those REITs are quite limited.*

(d) Amending subsection (i) (at page 6, line 3), which establishes a five percent limitation on ownership of voting stock of a

corporation, to make the five percent limitation inapplicable to interests in real estate title-holding corporations, REITs, and other real estate co-investment vehicles.

*On its face, the current language prohibits the Fund from investing in more than five percent of the voting stock of any corporation. A literal application of this limitation would have the effect -- presumably not intended by the original drafters -- of precluding the Fund from engaging in the typical institutional practice of setting up separate title-holding corporations to insulate itself from liabilities arising from ownership of real estate. A real world example of this concern is a limited liability company in which the APFC is a majority co-owner. It may at some point be advantageous to convert the ownership to common stock, yet the APFC would not be able to do this because of the five percent limitation since the Fund would then own more voting stock than legally allowed.*

4. General/Non-specific Changes:

(a) Revising paragraphs (g)(7), (g)(8) (beginning at page 2, line 19), (g)(14) (at page 3, line 17), and (g)(18) (at page 5, line 9), paragraph (i)(4) (at page 6, line 19), and subsection (j) (at page 6, line 23) to explicitly authorize investments in debt instruments and equity interests issued by entities other than just those legally organized as corporations.

*At present, these provisions expressly refer to "corporate" securities, but for purposes of sound investment policy, there seems to be no good reason to distinguish between securities issued by corporations and those issued by limited partnerships, trusts, limited liability companies, or other entities.*

*Examples of the effect of this change in the fixed income area are securities such as Equipment Trust Certificates (ETC's) and Asset Backed Securities*

*(ABS's) which would become eligible for purchase, since they are issued out of a trust, rather than by a corporation. These securities are generally of higher quality because of structured collateral backing the investment, thereby providing relative value alternatives that may offer greater safety, return, or a combination of the two.*

(b) Adding language to subsection (k) (beginning at page 6, line 29) to authorize the Board to invest up to five percent of the Fund's assets either (or both) in (i) types of investments other than those specifically set out in subsection (g)'s "legal list;" or (ii) in additional investments in a category of investment authorized under subsection (g), but for which the investment percentage "caps" established under subsection (i) (e.g., the 50 percent limitation on equities) has been reached. Under this new language, these investments would still have to satisfy the prudent-investor rule.

*Examples of other types of investments for which this limited authority could be used include private debt, venture capital, timber, gas, and agriculture/farmland.*

(c) Adding a new subsection (p) (at page 7, line 13) to authorize the Board to decide what category a particular form of investment belongs to if that investment could be included in more than one category for purposes of applying the asset allocation caps established under subsection (i) (beginning at page 6, line 3).

*This change would permit the Board to refine asset allocation targets and would help clarify for the purpose of asset allocation decisions how a particular asset should be categorized. A relevant example is a REIT, where the underlying asset is real estate, but it trades like a stock and may even be included in the S&P 500 index.*

cc: Board of Trustees, APFC  
Byron I. Mallott, Executive Director, APFC  
Terry Brown, CIO, APFC  
Peter Bushre, CFO, APFC

MAR 03 1999

ALASKA PERMANENT  
FUND CORPORATION

March 1, 1999

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

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Jim Kelly  
Director of Communications  
Alaska Permanent Fund Corporation  
801 West 10<sup>th</sup> Street, Suite 302  
Juneau, AK 99801

**Re: Proposed "Basket" Clause Flexibility**

Dear Jim:

As promised, I want to give you my thoughts on the proposed language that would enable the APFC to invest in a very limited way beyond the specific securities identified in current statute.

Specifically, the proposed change would allow the APFC to invest 5% of fund assets beyond otherwise permitted investments. This latitude could be used to:

- 1) make or retain greater asset class commitments than otherwise specifically allowed; and/or;
- 2) invest in individual securities or instruments that are not expressly permitted.

Clearly, the use of such flexibility would have to be prudent and appropriate for the fund. I should at this point add the requisite disclaimer that neither Callan Associates Inc. nor I are attorneys so my comments are offered from an investment professional's perspective not from a legal perspective.

Over the years, many public funds that operated under a "legal" list type of standard have sought and obtained authority to invest beyond the detailed list. In recent years many public entities have moved toward a "prudent" person standard and away from a legal list. Typically, under a pure prudent person standard there are no statutory limits with regard to either asset class restrictions or individual securities. In other cases, public funds may have asset class limitations but no individual security limitations and obviously there are still some that have both asset class and security limitations. In Alaska, the State Pension Investment Board operates under a prudent person standard without asset class or security limitations while the APFC obviously is governed by both asset class and security limitations.

As you know, the Institute for Fiduciary Education (IFE) maintains a web site that includes information on a number of public funds. The information is provided by the funds and, of course, may not be current and may be misinterpreted by IFE. Nonetheless, we have found that it is a useful source of data regarding general trends and practices. By searching that site, we found 24 U.S. based public funds that reported having a "basket" clause in their investment language. Of this total, 13 were domiciled in either Michigan or New York.

While both Michigan and New York have comparatively permissive investment statutes, the "basket" clause provides authority for subject public funds to invest either in securities or asset categories beyond the statutory limitations. For example, New York has a 70% maximum equity constraint and a 15% basket limitation. A fund subject to the statute could invest a total of 85% in equity like assets (including real estate and alternative investments). In practice, the authority has been used by one of our clients to invest a greater than statutory limit in foreign equities and in alternative investments.

The Michigan basket clause provides that retirement systems with assets of less than \$250 million may invest up to 5% of their assets in investments not otherwise qualified under statute. It provides up to 10% flexibility for larger funds. In Michigan's case, the basket liberalization does not apply to asset class limitations. So for example, a large fund could not use the basket provision to invest up to 75% in equities (the equity limit was 65%).

There appear to be two common themes behind trends toward liberalization of investment provisions. The first is that investment professionals recognize that risk should be considered primarily at the total fund level. An individually "risky" investment may well serve to reduce overall risk by offsetting some of the risk associated with another investment. The best illustration of this acceptance may be the Department of Labor's statement that in considering fiduciary conduct under ERISA the Department will utilize a "total portfolio" standard. The second motivating factor is that investment practices and commonly used instruments are changing rapidly. A good illustration is the evolution of fixed income securities. For example, asset backed securities are commonly utilized in high quality bond portfolios today. They are included in common bond market indices such as the Lehman Aggregate Bond Index. They are not currently permitted under APFC's governing statute. While other proposed changes in the draft statute would address this specific issue, we and others expect to see continued evolution of new fixed income instruments.

In my opinion, APFC might use the basket primarily at the asset class level. As you know, the current statutory limit for equity investments is 50%. In practice, the APFC must actually target a slightly lower level (currently 48%). This lower level is utilized to minimize the frequency and magnitude of portfolio rebalancings. If the basket clause were approved, the board could consider actually establishing a 50% target. Should the

Mr. Jim Kelly  
Alaska Permanent Fund Corporation  
Page 3 of 3

equity market subsequently advance such that the equity exposure increased to 52 or 53% there would be no need to mechanically reduce equity exposure and incur the resultant transaction costs. The other potential application is at the individual security level. While other changes included in the proposed statute address many of the obvious limitations of the current list (e.g. asset backed securities), the change would provide the board with flexibility to deal with other instruments that may evolve. Similarly, the basket clause might be utilized to opportunistically purchase securities such as BB rated bonds should spread differences more than offset the potential credit risk.

I hope that you find this letter helpful and I look forward to discussing it with you later this week.

Sincerely,



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

cc: Terry Brown - APFC

**Why Applicants Were Absent From the State**  
**(For Applicants Absent more than 90 days in 1997)**

Dividend application forms ask applicants if they were absent from the state for more than 90 days and 180 days. Reasons why applicants were absent from the state are listed below.

Absence reason	Number of Applicants		
	Adult	Child	Total
Enrolled as a full-time student	8,459	690	9,149
Was on vacation	5,812	611	6,423
Served on active duty in the US Armed Forces	4,419	N/A	4,419
Other reasons	2,595	800	3,395
Accompanied an Alaska resident who was eligible for a PFD	2,106	4,629	6,735
Sought employment out of the state	1,457	N/A	1,457
Cared for a direct relative with a critical life-threatening illness	890	N/A	890
Received continuous medical treatment	460	94	554
Settled the estate of a deceased direct relative	257	N/A	257
Employed by the State of Alaska	54	N/A	54
Served as a volunteer in the Peace Corps	49	N/A	49
Served as a member of Alaska's congressional delegation or staff	45	N/A	45
Was a member of the U.S. National Athletic Team	15	N/A	15
Part of a legal custody agreement	N/A	273	273

N/A - Not Applicable to application type

Note: Applicants may claim more than one type of absence on their application.

Effective for 1999 dividends, absences (over 180 days) for the following reasons are no longer allowable for claiming a dividend:  
 Serving as a Peace Corps volunteer or member of the U.S. National Athletic Team.

## State of Alaska Employees at out-of-state Work Locations

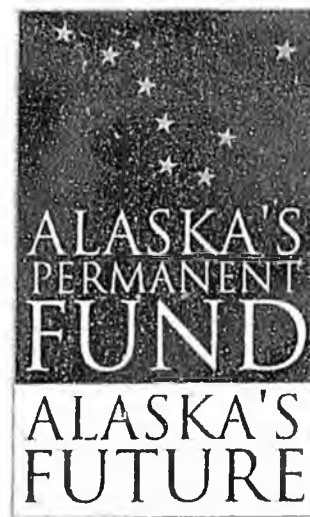
Department	Location	Employee	Job Class Title	Last Hire Date	Status
<i>Commerce and Econ Development</i>					
	Seattle				
		BARSNES, CHERYL A	MARKETING SPECIALIST	04/27/1992	Totally Exempt
		BAUER, GARY	MARKETING ASSISTANT	10/07/1994	Totally Exempt
		DELAROSA, LINDA W	DEVELOPMENTAL MANAGER	03/21/1991	Totally Exempt
		DRISCOLL, LINDA M.	ASST MARKETING DIRECTOR	03/19/1992	Totally Exempt
		HOGUE, CLAUDIA S	FOODSERVICE DIRECTOR	03/08/1995	Totally Exempt
		JACKSON, J WAIN	DEVELOPMENTAL MANAGER	01/17/1995	Totally Exempt
		KASTANAS, JOHN N.	SR MARKETING SPEC/RES ANALY	05/04/1992	Totally Exempt
		LUKWARTZ, MARYLYN E	ADMINISTRATIVE SUPPORT TECH	04/01/1998	Totally Exempt
		TARANTINO, STEPHANIE M	MARKETING SPECIALIST	07/06/1994	Totally Exempt
<i>Fish and Game</i>					
	Montana				
		CLARK, JOHN H	FISHERIES SCIENTIST	12/11/1995	Project Long-Term
<i>Office of the Governor</i>					
	Washington, D.C.				
		KATZ, JOHN W	DIR STATE AND FED RELATIONS	01/01/1983	Totally Exempt
		KERTTULA, ANNA M.	POLICY & PROGRAM SPECIALIST	02/02/1998	Totally Exempt
		LOWE, KARA Y.	EXECUTIVE SECRETARY I	07/08/1996	Totally Exempt

Thursday, April 01, 1999

Page 1 of 2

Page 2 of 2

# **The Case for Increased Investment Flexibility: HB 156**



**APFC Presentation to House State Affairs  
April 15, 1999**

## **Need for HB 156**

- **Modernizes statutes, responsive to current market opportunities and challenges**
- **Requested change is conservative and maintains the legal list approach**
- **Allows your Fund managers to add incremental value**
- **Improves total portfolio risk management**

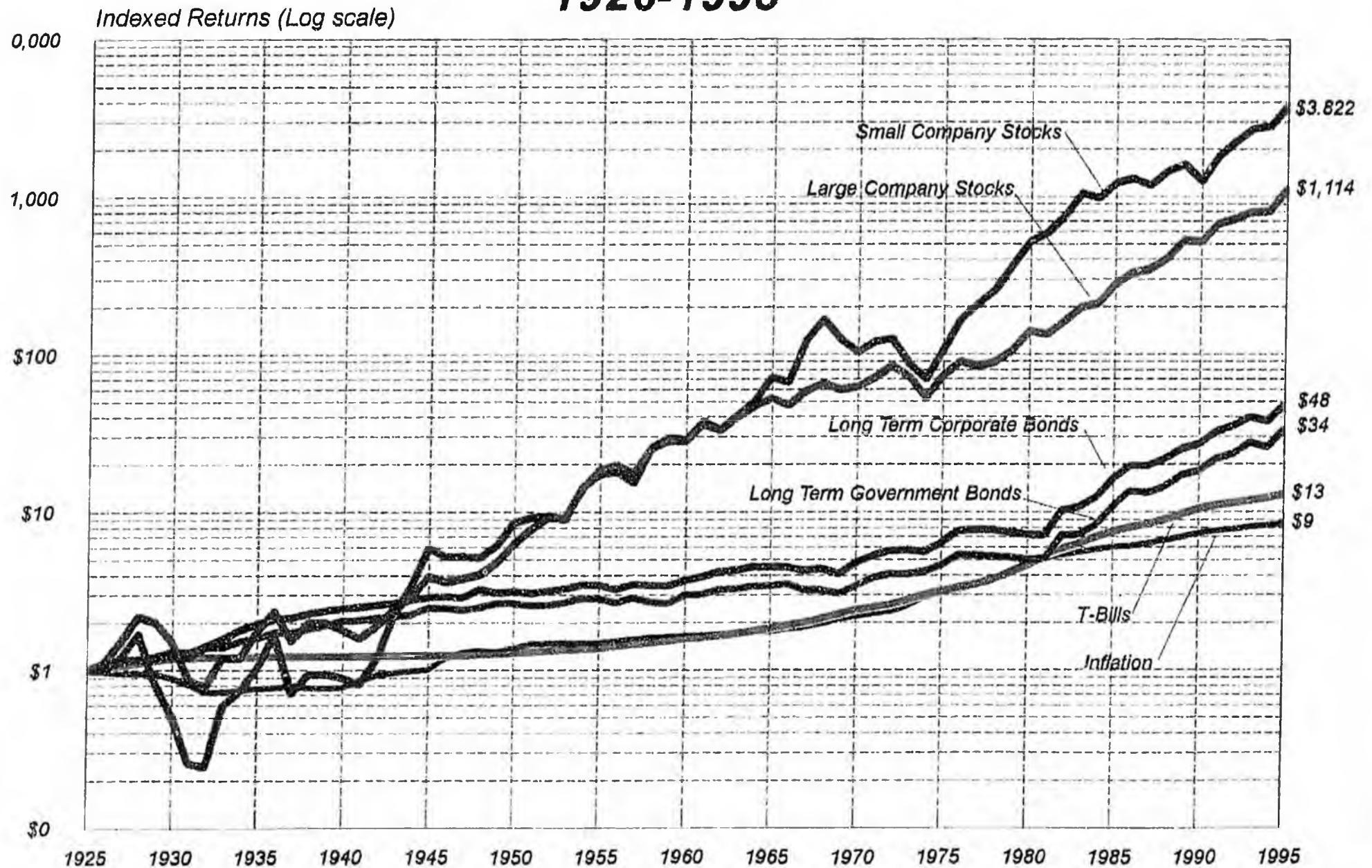


# **Asset class performance**

**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

# Cumulative Growth of Investments in U.S. Stocks, Bonds and Treasury Bills 1926-1995

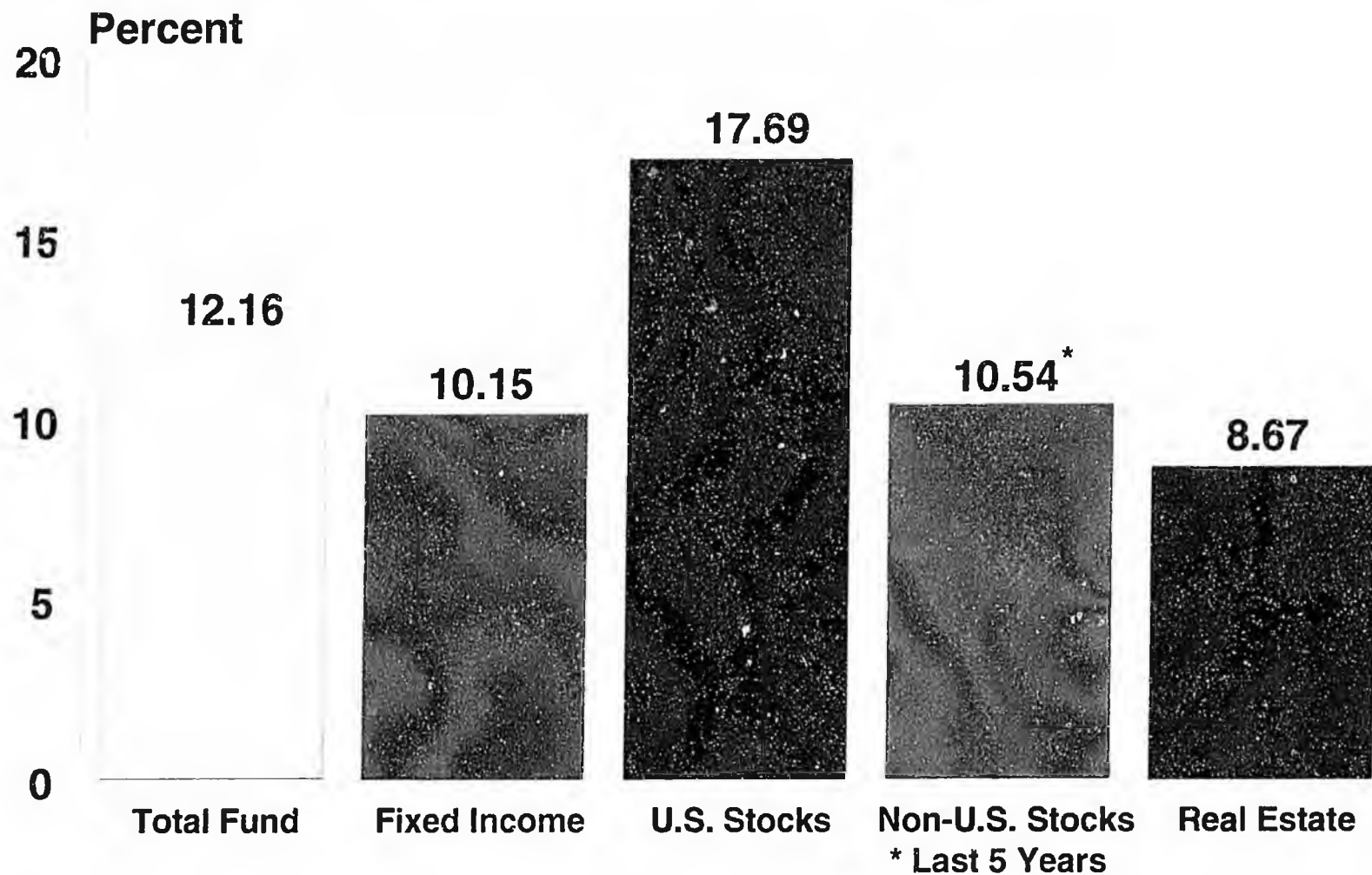


# APFC performance



## Long-term total returns

15 years ended December 31, 1998



# Opportunity Cost: 1997-1998

## APFC Actual Rates of Return

	<u>Fixed Income</u>	<u>U.S. Stocks</u>	<u>Difference</u>
1997	9.52%	31.00%	21.48%
1998	9.90	23.62	13.72

	<u>10% of Fund</u>	<u>Returns</u>	<u>Increased Income</u>
1997	\$2.07 billion	21.48%	\$324 million
1998	\$2.36 billion	13.72%	\$444 million

**Total: \$770 million**



## Key assumptions

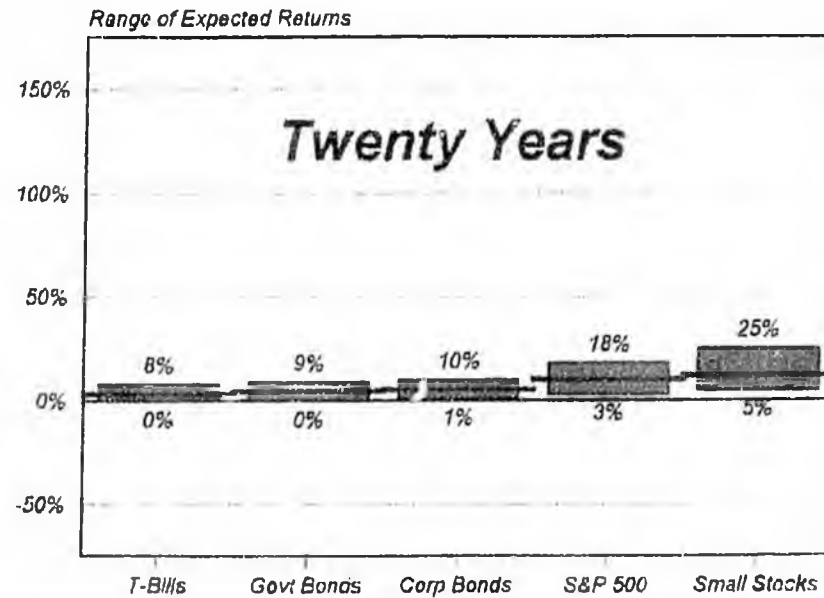
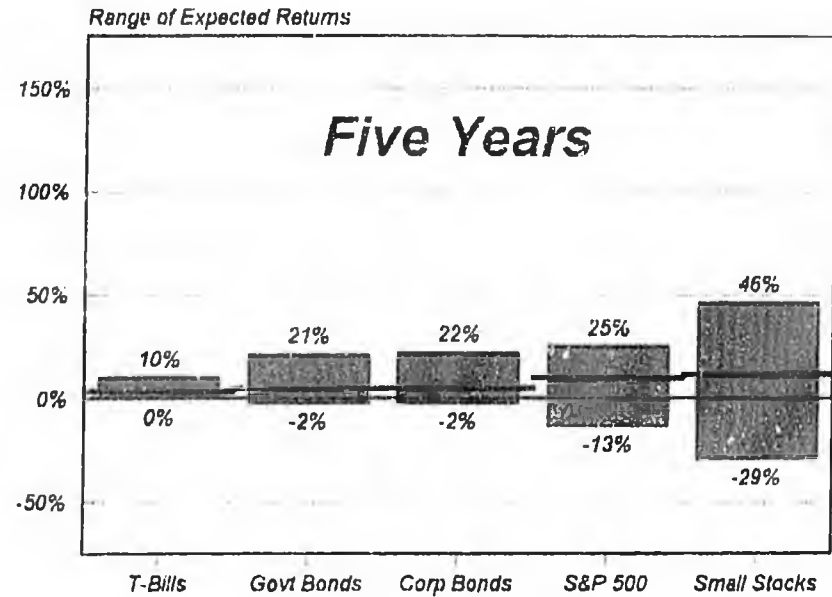
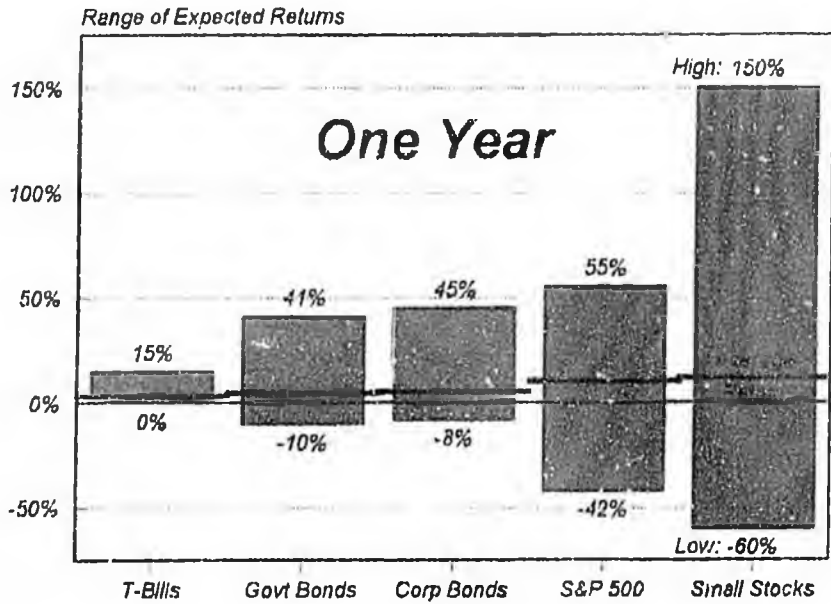
# Increased volatility in capital markets

Asset Class	Index	Expected Return			Expected Risk		
		1998	1999	Change	1998	1999	Change
<b>Equities</b>							
Large Cap	S&P 500	9.10	9.00	-0.10	13.30	15.00	1.70
Small Cap	CAI Small	10.10	11.20	1.10	19.10	25.30	6.20
International	MSCI EAFE	9.60	10.00	0.40	18.50	21.50	3.00
<b>Fixed Income</b>							
Domestic	LB Agg	6.60	5.60	-1.00	5.50	5.30	-0.20
International	SB Non-US	6.55	5.60	-0.95	11.20	11.00	-0.20
<b>Other</b>							
Real Estate	CRES	8.25	8.00	-0.25	14.50	16.50	2.00
Alternatives	Veco 100	12.30	12.30	0.00	35.00	36.00	1.00
Cash Equiv.	90-day T-bill	4.80	4.40	-0.40	1.00	0.70	-0.30
Inflation	CPI-U	3.40	3.00	-0.40	0.95	1.75	0.80

**LOWER RETURNS**

**HIGHER RISK**

# Risk Diminishes Over Time



**Another way to manage risk is a POMV distribution of income:**

- **Provides more predictability and stability in annual distributions**
- **Disconnects investment decisions from short-term spending considerations**
- **Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles**

# Key assumptions



## Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
<b>Domestic Equities:</b>						
Passively Managed	1.80%	7.60%	9.40%	14.62%	1.10%	1.37%
Actively Managed	1.80%	7.60%	9.40%	19.38%	1.82%	1.82%
<b>Sub-Total</b>				<b>34.00%</b>	<b>2.92%</b>	<b>3.20%</b>
<b>International Equities:</b>						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
<b>Sub-Total</b>				<b>14.00%</b>	<b>1.30%</b>	<b>1.40%</b>
<b>Bonds:</b>						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
<b>Sub-Total</b>				<b>42.00%</b>	<b>2.35%</b>	<b>2.35%</b>
<b>Real Estate:</b>	<b>6.50%</b>	<b>1.50%</b>	<b>8.00%</b>	<b>10.00%</b>	<b>0.76%</b>	<b>0.80%</b>
					<b>7.33%</b>	<b>7.75%</b>
<i>NOTE: Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.</i>					Minus 3.00% Inflation = Real Rates of Return	
					<b>4.33%</b>	<b>4.75%</b>

# Key assumptions



## Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
<b>Domestic Equities:</b>						
Passively Managed	1.80%	7.60%	9.40%	16.77%	1.26%	1.58%
Actively Managed	1.80%	7.60%	9.40%	22.23%	2.09%	2.09%
<b>Sub-Total</b>				<b>39.00%</b>	<b>3.35%</b>	<b>3.67%</b>
<b>International Equities:</b>						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
<b>Sub-Total</b>				<b>14.00%</b>	<b>1.30%</b>	<b>1.40%</b>
<b>Bonds:</b>						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
<b>Sub-Total</b>				<b>37.00%</b>	<b>2.35%</b>	<b>2.35%</b>
<b>Real Estate:</b>	<b>6.50%</b>	<b>1.50%</b>	<b>8.00%</b>	<b>10.00%</b>	<b>0.76%</b>	<b>0.80%</b>
					7.76%	8.22%
					Minus 3.00% Inflation = Real Rates of Return	
					4.76%	5.22%

**NOTE:** Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.

# Key assumptions



## Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
<b>Domestic Equities:</b>						
Passively Managed	1.80%	7.60%	9.40%	18.92%	1.42%	1.78%
Actively Managed	1.80%	7.60%	9.40%	25.08%	2.36%	2.36%
<b>Sub-Total</b>				<b>44.00%</b>	<b>3.78%</b>	<b>4.14%</b>
<b>International Equities:</b>						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
<b>Sub-Total</b>				<b>14.00%</b>	<b>1.30%</b>	<b>1.40%</b>
<b>Bonds:</b>						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
<b>Sub-Total</b>				<b>32.00%</b>	<b>2.35%</b>	<b>2.35%</b>
<b>Real Estate:</b>	<b>6.50%</b>	<b>1.50%</b>	<b>8.00%</b>	<b>10.00%</b>	<b>0.76%</b>	<b>0.80%</b>
					<b>8.19%</b>	<b>8.69%</b>
					<b>5.19%</b>	<b>5.69%</b>

**NOTE:** Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.

Minus 3.00% Inflation = Real Rates of Return

# Key assumptions



## GASB Income

## Fund Value

66,816	61,989	30,442	43,035.61	18,275	13,272	14,661	3,545	7,516	63,344
--------	--------	--------	-----------	--------	--------	--------	-------	-------	--------

GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.  
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.  
 Earnings reserve appropriated to principal.

**STATUS QUO WITH 7.75%**

73,255	61,811	32,984	46,592.58	18,311	16,516	17,905	4,022	7,993	67,241
--------	--------	--------	-----------	--------	--------	--------	-------	-------	--------

GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.  
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.  
 Earnings reserve appropriated to principal.

**STATUS QUO WITH 8.22%**

80,089	71,986	35,671	50,346.19	18,349	19,966	21,355	4,529	8,500	71,388
--------	--------	--------	-----------	--------	--------	--------	-------	-------	--------

GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.  
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.  
 Earnings reserve appropriated to principal.

**STATUS QUO WITH 8.69%**



## Key assumptions



# Daily Unaudited Position

as of April 13, 1999

Fixed Income	\$10,752,900,000	41%
U.S. Equities	\$9,727,800,000	37%
Non-U.S. Equities	\$3,560,700,000	14%
Real Estate	\$2,035,100,000	8%
<u>Alaskan CDs</u>	<u>\$190,000,000</u>	<u>1%</u>
<b>TOTAL</b>	<b>\$26,266,500,000</b>	<b>100%</b>

# FISCAL NOTE

**STATE OF ALASKA**  
**1999 LEGISLATIVE SESSION**

**BILL NO. HB 156**

Revision Date/Time (Note if correction) 4-15-99 Dept. Affected Revenue  
 Title Permanent Fund Investments BRU Revenue Operations  
 Component Alaska Permanent Fund Corporation  
 Sponsor Rules  
 Requester House State Affairs Committee Component Serial No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1,577.3</b>	<b>3,087.9</b>	<b>3,217.2</b>	<b>3,365.7</b>	<b>3,527.5</b>	<b>3,695.2</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>	<b>49,067.5</b>	<b>51,016.9</b>	<b>53,154.4</b>	<b>55,607.3</b>	<b>58,280.6</b>	<b>61,050.8</b>

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Corporate Receipts	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
<b>TOTAL</b>	<b>1,577.3</b>	<b>3,087.9</b>	<b>3,217.2</b>	<b>3,365.7</b>	<b>3,527.5</b>	<b>3,695.2</b>

Estimate of current year (FY99) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** *This fiscal note assumes an increase in costs and revenues associated with a 5% increase in public equity investments. It is likely over the 5 year period of this fiscal note that the APFC will use this increased investment flexibility in other asset types as well, e.g., real estate, fixed-income, and alternative investments such as private equity. The new investments would be entered into in order to add incremental value to a very large asset base. Investments with the potential to add significant value may require significant increased costs. All new investments will be reviewed by the Board of Trustees prior to implementation and presented to the APFC's oversight committee, the Legislative Budget & Audit Committee, for review and comment.*

Prepared by Peter A. Bushre  
 Division Alaska Permanent Fund Corporation  
 Approved by Wilson L. Condon  
 Commissioner Wilson L. Condon  
 Agency Department of Revenue

Phone 465-2301  
 Date/Time \_\_\_\_\_  
 Date 4/15/99

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# FISCAL NOTE

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

BILL NO. HB 156

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affecte Revenue \_\_\_\_\_  
 Title An Act relating to investments by the Alaska RRU Revenue Operations  
Permanent Fund Corporation Component Alaska Permanent Fund Corporation  
 Sponsor \_\_\_\_\_  
 Requirer House State Affairs Committee Component Serial No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1,577.3</b>	<b>3,087.9</b>	<b>3,217.2</b>	<b>3,365.7</b>	<b>3,527.5</b>	<b>3,695.2</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
-----------------------------	------------	------------	------------	------------	------------	------------

<b>CHANGE IN REVENUES ( )</b>	<b>49,067.5</b>	<b>51,016.9</b>	<b>53,154.4</b>	<b>55,607.3</b>	<b>58,280.6</b>	<b>61,050.8</b>
-------------------------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Corporate Receipts	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
<b>TOTAL</b>	<b>1,577.3</b>	<b>3,087.9</b>	<b>3,217.2</b>	<b>3,365.7</b>	<b>3,527.5</b>	<b>3,695.2</b>

Estimate of current year (FY99) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** *This fiscal note assumes an increase in costs and revenues associated with a 5% increase in public equity investments. It is likely over the 5 year period of this fiscal note that the APFC will use this increased investment flexibility in other asset types as well, e.g., real estate, fixed-income, and alternative investments such as private equity. The new investments would be entered into in order to add incremental value to a very large asset base. Investments with the potential to add significant value may require significant increased costs. All new investments will be reviewed by the Board of Trustees prior to implementation and presented to the APFC's oversight committee, the Legislative Budget & Audit Committee, for review and comment.*

Prepared by Peter A. Bush *Peter A. Bush* Phone 465-2301  
 Division Alaska Permanent Fund Corporation Date/Time \_\_\_\_\_  
 Approved by \_\_\_\_\_ Date 4/14/99  
 Commissioner Wilson *Wilson*  
 Agency Department of Revenue

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**HB**

**157**

April 15<sup>th</sup> 1999

Good morning madame chair, members of the committee.

This is an honor for me to be testifying before you this morning.

My name is Harold Holten and I am the representative for the Seafarers International Union. Although I would like it clear that I'm here on behalf of all Merchant Seaman, who are denied their permanent fund dividend.

I was born in Ketchikan, raised in Ketchikan, Petersburg, and Juneau, upon my completion of 6 years in the Marine Corps, I came back to Alaska and became a state trooper for a short period of time. I was a Salmon tender captain for 15 years, before becoming a union rep.

The Seafarers opened an office in Anchorage, almost 2 years ago to the day. Our objective is to recruit Alaskans to go to our unlicensed apprenticeship program in Piney Point, Maryland, and give them an opportunity to obtain good paying jobs with good benefits when they complete the program.

I first became alerted to the fact that Merchant Seaman were being denied their permanent fund, by a Merchant Seaman from a different union. His name is Ross Perrine from Palmer, and he owns a home, has an Alaska drivers license, voter reg card, etc. he has been denied the fund since the inception. I went to one of our ships, and found that a boatswain on the Tote ship Northern Lights has also experienced the same problems. His name is John Glenn and he will be testifying this morning.

My recruiting effort has taken me around a lot of the state, and in my interviews with young people, I seem to have their interest in the program until the question of the Permanent Fund dividend comes up, then I am told they are no longer interested. I thought to myself and have shared this view, that these people seemed awfully shortsighted, until I really thought about it, this is probably the only steady money

they have ever seen, and are reluctant to let it go under any circumstance.

One of our recent graduates (Jessie Sharp) who will testify this morning, that already this year he has been denied the Permanent Fund dividend

These merchant seaman being denied, do not have a choice when they sail, as to whether they can sail in Alaska or not. Sailing is based on a seniority system, and believe it or not, our Alaska routes, are in high demand. The ones that have the Alaska routes Ross and John are denied because they are not physically in state a minimum of 180 days.

All of our Alaskans have been accepted to Piney Point because they are Alaska residents. I would hate to discourage good young people, (short sighted as they may be) from enjoying such a career opportunity.

Right now we have 18 Alaskans who have graduated from Piney Point, and we presently have 2 in school.

Besides the 18 graduates, we have created a Riding Maintenance gang. These merchant seaman go on oil tankers and do preventative maintenance. We hired 10 Riding gang a year ago, and all have done an outstanding job. When they have a year of sea time, they will be sent back to Piney Point and upgraded to Able bodied seaman. We will start training and working a new crew. This crew averages \$3,200.00 per month, with full benefits. Two of these Merchant Seaman have recently put money down on homes in the Wasilla arear. They also will be denied their Permanent Fund dividend.

An article in the Anch news last Monday the 12<sup>th</sup> did an article on our first native Alaskan. This has generated such a positive response it is hard for me to keep up with it. The first day generated about 20 phone calls, and yesterday I received 71 inquires. This has resulted in 6 tests being given yesterday, and 6 more scheduled on Friday. Plus 2 in Soldotna, 1 in Anchor Point, 2 in Kodiak, 2 in Ketchikan, and several from Willow. These numbers are candidates that are qualified.

In my estimation, we are not talking about any more than 200 Merchant Seaman over a ten year Period. (Although I hope for many more than that).

This concludes my statement, I urge you to support the HB 157

I thank the committee for their time.



Official Business

# Alaska State Legislature

REPRESENTATIVE  
**JERRY SANDERS**  
District 19

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COMMITTEES:  
Co-Chair Resources  
Labor and Commerce  
Transportation

## HB157: Permanent Fund Dividend for Alaskan Merchant Mariners Sponsor Statement

This legislation is sought to enhance maritime job opportunities for Alaskans and, in particular, Alaskan youth.

I first learned of the need for this legislation when I spoke to several parties involved in Alaska's maritime transportation industry. I was advised of an effort launched to attract Alaskans to job opportunities in the U.S. Merchant Marine. This effort has been a unique and successful partnership between Alaska's three Private Industry Councils and the Seafarers International Union (SIU) that has contributed greatly to workforce and economic development in Alaska. This partnership on occasion is having difficulty recruiting as a result of an oversight in Alaska's Permanent Fund dividend program. Alaskans who make their living aboard deep-sea, U.S. flag vessels may often be working aboard these ships for over 180 days per year. This makes them ineligible for their dividend check because their desired profession requires them to be aboard ships. In many cases these Alaskans could be aboard the cargo or tank vessels serving Alaska – yet still be denied a Permanent Fund check.

Since the inception of this partnership in September 1997 to the present, 25 eligible Alaskan residents have successfully completed the SIU apprenticeship-training program and are now fully employed.

The average salary for those Alaskans newly employed through this program is \$32,000/year and all receive full family medical, dental, pension, education, and vacation coverage. As Alaskans committed to "local hire", we should not be upholding obstacles for employment opportunities for our youth.

More importantly, this award winning training and placement program would have an improved ability to recruit Alaskan youth for quality training and high skill/family wage employment.

Another case I am familiar with is a ten-year Alaskan resident who sails aboard tankers in the TAPS trade. He has consistently been denied the Permanent Fund dividend since his work as a merchant seaman is not considered an allowable absence. This determination is not a question of his residency.

Passage of this bill will give these limited number of people their rightful claim to the Permanent Fund dividend.

Endorsement: Alaska State Chamber of Commerce

# Bill History/Action Display



BILL: HB 157 SHORT TITLE: PFD ALLOWABLE ABSENCES  
BILL VERSION:  
SPONSOR(S): REPRESENTATIVES(S) SANDERS

CURRENT STATUS: (H) STA STATUS DATE: 3/24/99  
THEN FIN

TITLE: "An Act relating to absences from the state while serving on oceangoing vessels of the United States merchant marine for purposes of eligibility for permanent fund dividends; and providing for an effective date."

Full Text  No Fiscal Information for Bill/Resolution

Committee Action With Bill History

Jrn-Date	Jrn-Page	Action
3/24/99		(H) READ THE FIRST TIME - REFERRAL(S)
3/24/99		(H) STA, FIN

Similar Subject Match or Exact Subject Match  
PERMANENT FUND  
RESIDENCY

Bill Root:   Display History/Action  Clear Bill Root

Return to BASIS Main Menu(21th Legislature)  
BASIS Last Updated 3/24/99 11:20 AM

**Subject:** Hb157  
**Date:** Thu, 25 Mar 1999 10:23:06 -0900  
**From:** Edward Burke <Edward\_Burke@legis.state.ak.us>  
**Organization:** Alaska State Legislature  
**To:** Barbara Cotting <Barbara\_Cotting@legis.state.ak.us>

Barbara,

Please accept this e-mail as formal notice that Representative Sanders wish to have HB157 Schedule for a hearing. The earliest date possible after Easter break.

I will provide all documents as you request.

Thank you very much.

Eddie Burke  
Legislative Staff  
Representative Sanders

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Story by MIKE DUNHAM  
Daily News reporter

Photos by ERIK HILL  
Anchorage Daily News

# Anchors Away

St. Marys teen leaves village,  
becomes first Alaska Native  
to sail as merchant mariner



**M**usic swelled at Chris Ledlow's bon voyage party. Fiddle, guitar, dobro and one electric keyboard manned by two players joined two dozen voices in polkas, hymns and Hank Williams songs. In the middle of the living room floor sat a hat full of cash collected from the guests, a little spending money for the trip. From the kitchen wafted the smells of wild fish and game accompanied by a pungent hint of seal oil.

It will be awhile before Ledlow savors those smells again. At this writing, he is on his way to the Seafarers International Union's Harry Lundeborg School of Seamanship in Piney Point, Md. Over the next few weeks, he plans to complete his training as a merchant mariner — a commercial sailor licensed to work on large cargo ships. By summer, the soft-spoken, square-shouldered and resolutely cheerful 19-year-old should be in the engine room of an oceangoing vessel somewhere out on the seven seas. Ledlow, from the Yukon River village of St. Marys, is among the

"My whole family's really enthusiastic about what I'm doing. Except my grandmother. I think she's a little worried."

— Chris Ledlow of St. Marys,  
on becoming a merchant mariner

first Alaskans to complete the merchant marine employment program offered by the union. Upon graduation, he'll be placed in a job making about \$30,000 a year, eligible for rapid additional training and advancement up the wage scale.

Please see Page E-4, MARINER



Above, future merchant mariner Chris Ledlow chats with his grandmother Marie Tyson, center, and his cousin Susie Mike Tyson before boarding his flight to the East Coast. At left, Ledlow gets a hug from Mike Tyson watches Wednesday evening at Anchorage International Airport.

## Merchant mariners in high demand

The Seafarers International Union opened an Anchorage office two years ago. According to the union's Anchorage representative, Harold Holten, there's a rising demand for qualified sailors as more big ships come on-line.

"We can take as many into the merchant marine employment program as will apply," he said.

To date, 28 Alaskans have entered in the program, and 18 have graduated. Applicants must be at least 18, have eighth-grade level

scores in reading and math, be drug-free and have no felony convictions. The national cut-off age is 25, but an exception is made for Alaskans. Individuals wanting to know more about the program should call Holten at 561-4988.

# MARINER: Teen joins up

Continued from Page E-1

That's not a bad start for a teenager from the Bush. As he approached the end of high school, Ledlow realized that job options in rural Alaska would be limited. In St. Marys, he might work at the airport, in the volatile fishing industry, change tires like he did at his father's mechanic shop, or work at one of the local grocery stores, which he also did for a while.

"I was at a point I wasn't really sure what to do," he said. "I was working at a cannery in Dillingham when one of the merchant mariners there talked to me about this program and let me know how to get in touch with them."

A few weeks after he called the union's Anchorage office, Ledlow found himself in Piney Point learning basics of shipboard terms and procedures, nautical history, math, first aid and how to use a lifeboat.

He also was learning new things about himself. The school is run along military lines. Students wear uniforms, march to meals, learn to reply with a snappy "Yes, sir" or "No, sir."

"I didn't know what to think," Ledlow said. "A few years ago, I told myself that I would never be military, never wear a uniform and never do dishes. In three months, I did all three and didn't mind."

The first land-based phase of training was followed by hands-on experience at sea. Ledlow was assigned to the *Greatland*, one of the large container ships making weekly runs between Tacoma, Wash., and Anchorage.

This part of the course lets students get a feel for different jobs and find out what they are most comfortable with. Ledlow spent time working on deck and in the galley, but discovered that what he really liked was the

engine room. The regime of wiping down giant machines, dismantling, cleaning and re-assembling parts, reading gauges and standing watch struck a chord in the kid who grew up watching his dad fix cars and outboard motors.

"I was down there for a month, but it seemed like two weeks," he said.

The *Greatland's* schedule put him in Anchorage every Sunday, where he could spend time with family and take his grandmother to church.

Grandma — Marie Tyson — is a well-respected tradition-bearer from the lower Yukon. William Tyson Elementary School is named for her late husband. It was at her house that the bon voyage party took place. She told callers she was inviting "just a few people. Not a big crowd." But guests' cars filled both sides of the street for a block, and a mountain of shoes marked the entry.

"Actually, it's *not* crowded compared to her usual get-togethers," said Rose Tyson, Ledlow's aunt. "Let's just say you can see the floor."

Every man in the room was familiar with boats and water. Most had done commercial or subsistence fishing at some time in their lives. But while no special credentials are needed to be a hand on a fishing boat, you need to have the right papers and certifications to work on a big ocean-going vessel.

When Ledlow completes his next few weeks of training, he'll be the first Alaska Native to earn those papers through this program. The room filled with a sense of respect and hope for the young man as friends and kin sang the Lord's Prayer in Yup'ik.

"We're all so proud of Chris," Rose Tyson said, "and we always have been. He's never been in any trouble. We've never had to worry about him getting into drugs

or anything like that."

"My whole family's really enthusiastic about what I'm doing," Ledlow said. "Except my grandmother. I think she's a little worried."

In his final phase of training, Ledlow will get specialty training in his area of interest — the engine room. He'll graduate with the designation of "unlicensed apprentice" and immediately go to work making about \$30,000 a year. After four months on the job, he'll be able to upgrade to "able-bodied seaman." Advanced ratings to "bosun" or "first mate" could follow.

School costs are largely covered by the companies that contract with the union for men and women to run their ships. In Ledlow's case, he also received assistance through the state's Jobs Training Partnership Act office.

Ledlow said the idea of travel and a flexible work schedule appealed to him. Union members typically work four months on, two off. That's plenty of time to reconnect with family in Alaska, even if his ship doesn't call on Anchorage every Sunday.

Anchorage union representative Harold Holten is betting it won't.

"Of the 18 Alaskans who've graduated from this program so far, not one is working on an Alaska ship," he said. "And this one won't either. I can see that glitter in his eye."

Ledlow grinned at that, and his eyes did seem to glitter. But he admitted to already missing one thing from home — Grandma's salmon.

"I had salmon down there in Maryland," he said. "It wasn't the same. I couldn't taste the fish."

■ Daily News arts editor Mike Dunham can be reached by e-mail at [mdunham@adn.com](mailto:mdunham@adn.com).

# FISCAL NOTE

**STATE OF ALASKA**  
**1999 LEGISLATIVE SESSION**

**BILL NO. HB 157**

Revision Date/Time (Note if correction)	<u>March 29, 1999</u>	Dept. Affected	<u>Revenue</u>
Title	<u>PFD Allowable Absences</u>	BRU	<u>Revenue Operations</u>
		Component	<u>Permanent Fund Dividend</u>
Sponsor	<u>Rep. Sanders</u>		
Requester	<u>House State Affairs</u>	Component Serial No.	<u>981</u>

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

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

Estimate of current year (FY99) cost: 0.0

**POSITIONS**

Full-time	0					
Part-time	0					
Temporary	0					

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

This bill adds an allowable absence while serving on ocean-going vessels of the United States merchant marine for purposes of eligibility for Permanent Fund dividends. As a result of this amendment, all other allowable absences in this section are renumbered.

We do not expect these provisions to have a fiscal effect on the Permanent Fund Dividend Program.

Prepared by	<u>Nanci A. Jones, Director</u>	Phone <u>465-2323</u>
Division	<u>Permanent Fund Dividend</u>	Date/Time <u>March 29, 1999</u>
Approved by		Date <u>March 29, 1999</u>
Commissioner		<u>Wilson L. Condon</u>
Agency	<u>Department of Revenue</u>	

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

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**Subject:** Re: fiscal notes  
**Date:** Thu, 25 Mar 1999 10:52:16 -0900  
**From:** Barbara Cotting <Barbara\_Cotting@legis.state.ak.us>  
**Organization:** Alaska State Legislature  
**To:** Shari Kochman <shari\_kochman@gov.state.ak.us>

Shari Kochman wrote:

> thanks for getting these in so early.  
> will take care of them.  
>  
> Barbara Cotting wrote:  
> >  
> > I have scheduled the following bills for hearing in House State Affairs  
> > on Tuesday, March 30, and need fiscal notes:  
> >  
> > HB 141      Preferential Voting Elections  
> >  
> > HB 153      State Employee Annual Leave                      Admin  
> > HB 157      PFD Allowable Absences                              Revenue  
> >  
> > Barbara

**HB**

**159**

STATE OFFICE  
**ALASKA PEACE OFFICERS ASSOCIATION**

P.O. Box 240106 Anchorage, Alaska 99524-0106 Phone (907) 277-0515 Fax (907) 272-5355

January 27, 2000

**Business Manager**

Joseph E. Young  
Anchorage

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John Charbonneau, President  
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Craig  
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John Lucking, Jr., Member  
Unalaska  
Pres. Aleutian Islands Chapter

Representative Jeannette James  
Alaska State Legislature  
State Capital  
Juneau, Alaska 99801-1182

Dear Representative James:

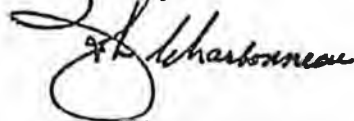
At a recent meeting of the APOA Board of Directors, we unanimously agreed to oppose HB 159.

We oppose the proposed amendment to AS 39.35.680(28)(B) regarding the definition of a peace officer under the retirement system. Our opposition is based on our interpretation of the amendment language. Specifically, (B) appears to allow clerks, typists, and janitors to qualify.

We feel this amendment is inappropriate and should not be enacted.

You may contact us at the APOA office in Anchorage at 277-0515.

Sincerely,



John Charbonneau  
State President

cc: Representative Gary Davis

**RECEIVED BY**  
**FEB - 1 2000**  
Rep. Jeannette James

# HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: March 25, 1999

FURTHER REFERRALS:

Finance

Date of Committee Action: 4/27/99

The STATE AFFAIRS Committee considered:

HB 159

HOUSE BILL NO. 159

PERS PEACE OFFR STATUS CORRECTION EMPLOYE

"An Act granting certain employees in correctional facilities status as peace officers under the public employees' retirement system."

recommends it be replaced with the following committee substitute \_\_\_\_\_  the same title  a new title

additional referral to \_\_\_\_\_ Committee

attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) GOV

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Jennette James</i>		<input checked="" type="checkbox"/>		
<i>Ben Kerelle</i>	<input checked="" type="checkbox"/>			
<i>Hal Smalley</i>	<input checked="" type="checkbox"/>			
<i>W. G. ...</i>		<input checked="" type="checkbox"/>		
<i>Bob Hudson</i>	<input checked="" type="checkbox"/>			
<i>M. ...</i>			<input checked="" type="checkbox"/>	
<i>S. ...</i>		<input checked="" type="checkbox"/>		

CHAIR'S SIGNATURE *Jennette James*

# RETIREMENT BENEFITS FOR CORRECTIONAL WORKERS

Assumption that start pay is \$30,000

Year	COLA@1.5%	Annual Salary	Retirement Rate	Annual	Accumulated	Monthly
				Accrued Retirement	Retirement	Retirement Pay
Year 1	Start Pay	\$ 30,000.00	2.00%	\$ 600.00	\$ 600.00	\$ 50.00
Year 2	\$ 450.00	\$ 30,450.00	2.00%	\$ 609.00	\$ 1,209.00	\$ 100.75
Year 3	\$ 456.75	\$ 30,906.75	2.00%	\$ 618.14	\$ 1,827.14	\$ 152.26
Year 4	\$ 463.60	\$ 31,370.35	2.00%	\$ 627.41	\$ 2,454.54	\$ 204.55
Year 5	\$ 470.56	\$ 31,840.91	2.00%	\$ 636.82	\$ 3,091.36	\$ 257.61
Year 6	\$ 477.61	\$ 32,318.52	2.00%	\$ 646.37	\$ 3,737.73	\$ 311.48
Year 7	\$ 484.78	\$ 32,803.30	2.00%	\$ 656.07	\$ 4,393.80	\$ 366.15
Year 8	\$ 492.05	\$ 33,295.35	2.00%	\$ 665.91	\$ 5,059.70	\$ 421.64
Year 9	\$ 499.43	\$ 33,794.78	2.00%	\$ 675.90	\$ 5,735.60	\$ 477.97
Year 10	\$ 506.92	\$ 34,301.70	2.00%	\$ 686.03	\$ 6,421.63	\$ 535.14
Year 11	\$ 514.53	\$ 34,816.22	2.25%	\$ 783.37	\$ 7,205.00	\$ 600.42
Year 12	\$ 522.24	\$ 35,338.47	2.25%	\$ 795.12	\$ 8,000.11	\$ 666.68
Year 13	\$ 530.08	\$ 35,868.55	2.25%	\$ 807.04	\$ 8,807.16	\$ 733.93
Year 14	\$ 538.03	\$ 36,406.57	2.25%	\$ 819.15	\$ 9,626.30	\$ 802.19
Year 15	\$ 546.10	\$ 36,952.67	2.25%	\$ 831.44	\$ 10,457.74	\$ 871.43
Year 16	\$ 554.29	\$ 37,506.96	2.25%	\$ 843.91	\$ 11,301.65	\$ 941.80
Year 17	\$ 562.60	\$ 38,069.57	2.25%	\$ 856.57	\$ 12,158.21	\$ 1,013.18
Year 18	\$ 571.04	\$ 38,640.61	2.25%	\$ 869.41	\$ 13,027.62	\$ 1,085.64
Year 19	\$ 579.61	\$ 39,220.22	2.25%	\$ 882.45	\$ 13,910.08	\$ 1,159.17
Year 20	\$ 588.30	\$ 39,808.52	2.25%	\$ 895.69	\$ 14,805.77	\$ 1,233.81
Year 21	\$ 597.13	\$ 40,405.65	2.50%	\$ 1,010.14	\$ 15,815.91	\$ 1,317.99
Year 22	\$ 606.08	\$ 41,011.73	2.50%	\$ 1,025.29	\$ 16,841.21	\$ 1,403.43
Year 23	\$ 615.18	\$ 41,626.91	2.50%	\$ 1,040.67	\$ 17,881.88	\$ 1,490.16
Year 24	\$ 624.40	\$ 42,251.31	2.50%	\$ 1,056.28	\$ 18,938.16	\$ 1,578.18
Year 25	\$ 633.77	\$ 42,885.08	2.50%	\$ 1,072.13	\$ 20,010.29	\$ 1,667.52
Year 26	\$ 643.28	\$ 43,528.36	2.50%	\$ 1,088.21	\$ 21,098.50	\$ 1,758.21
Year 27	\$ 652.93	\$ 44,181.29	2.50%	\$ 1,104.53	\$ 22,203.03	\$ 1,850.25
Year 28	\$ 662.72	\$ 44,844.01	2.50%	\$ 1,121.10	\$ 23,324.13	\$ 1,943.68
Year 29	\$ 672.66	\$ 45,516.67	2.50%	\$ 1,137.92	\$ 24,462.05	\$ 2,038.50
Year 30	\$ 682.75	\$ 46,199.42	2.50%	\$ 1,154.99	\$ 25,617.03	\$ 2,134.75
Year 31	\$ 692.99	\$ 46,892.41	2.50%	\$ 1,172.31	\$ 26,789.34	\$ 2,232.45
Year 32	\$ 703.39	\$ 47,595.79	2.50%	\$ 1,189.89	\$ 27,979.24	\$ 2,331.60
Year 33	\$ 713.94	\$ 48,309.73	2.50%	\$ 1,207.74	\$ 29,186.98	\$ 2,432.25
Year 34	\$ 724.65	\$ 49,034.38	2.50%	\$ 1,225.86	\$ 30,412.84	\$ 2,534.40
Year 35	\$ 735.52	\$ 49,769.89	2.50%	\$ 1,244.25	\$ 31,657.09	\$ 2,638.09

### 20 yr employee

3 highest yrs	\$ 39,808.52	1st ten years = 10 X .020 =	\$ 7,844.62
	\$ 39,220.22	2nd ten years = 10 x .0225 =	\$ 8,825.20
	<u>\$ 38,640.61</u>	Total Annual Retirement	<u>\$ 16,669.82</u>
	\$ 117,669.35	Monthly retirement	\$ 1,389.15
divided by three	\$ 39,223.12		

**25 yr employee**

3 highest yrs	\$ 42,885.08	1st ten years = 10 X .020 =	\$ 8,450.89
	\$ 42,251.31	2nd ten years = 10 x .0225 =	\$ 9,507.25
	<u>\$ 41,626.91</u>	Total Annual Retirement	<u>\$ 17,958.13</u>
	\$ 126,763.30	Monthly retirement	\$ 1,496.51
divided by three	\$ 42,254.43		

**30 yr employee**

3 highest yrs	\$ 46,199.42	1st ten years = 10 X .020 =	\$ 9,104.01
	\$ 45,516.67	2nd ten years = 10 x .0225 =	\$ 10,242.01
	<u>\$ 44,844.01</u>	Total Annual Retirement	<u>\$ 19,346.01</u>
	\$ 136,560.10	Monthly retirement	\$ 1,612.17
divided by three	\$ 45,520.03		

**35 yr employee**

3 highest yrs	\$ 49,769.89	1st ten years = 10 X .020 =	\$ 9,807.60
	\$ 49,034.38	2nd ten years = 10 x .0225 =	\$ 11,033.55
	<u>\$ 48,309.73</u>	Total Annual Retirement	<u>\$ 20,841.15</u>
	\$ 147,114.00	Monthly retirement	\$ 1,736.76
divided by three	\$ 49,038.00		

# ALASKA STATE LEGISLATURE

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## REPRESENTATIVE GARY DAVIS

April 7, 1999

### MEMORANDUM

TO: Representative Jeannette James, Chair  
House State Affairs Committee

FROM: Representative Gary Davis 

RE: Request for Hearing on House Bill 159 *"An Act granting certain employees in correctional facilities status as peace officers under the public employees' retirement system"*

Please schedule a committee hearing on the House Bill 159 at your earliest convenience. Attached are the following materials for inclusion in the committee packet:

- Sponsor Statement
- Sectional Analysis
- Affected Statutes
- Letters of support

Thank you for your consideration of this request. If you have any questions or would like additional information, please contact Deb Davidson of my staff.

Attachment





# ALASKA STATE LEGISLATURE

REPRESENTATIVE GARY DAVIS

## HOUSE BILL 159

### SPONSOR STATEMENT

Correctional officers, like police officers, parole officers and fire fighters have the opportunity to retire after acquiring 20 years of service. This opportunity is offered primarily as an employment incentive. The state recognizes that these individuals are in a highly stressful and dangerous type of employment and offers this as an inducement to them to remain with their careers.

Correctional officers, however, are not the only employees at Alaska's facilities faced with stressful, dangerous situations. Nor are they the only ones who have consistent contact with inmates on a daily basis. Most other employees also have constant contact. It doesn't matter whether they are working in the kitchen, in the infirmary, in maintenance, in the library or in the administrative offices. These employees work alongside of inmates every day. If there is a problem requiring a "lock down" situation, these employees are included in that lock down. It is this type of stress that can and does lead to high employee turnover. Allowing them to retire after 20 years of service instead of the current 30-year requirement can provide the incentive needed to keep them on the job.

House Bill 159 provides non-correctional officer employees this opportunity and incentive. In essence, it allows an individual to retire after 20 years of credited service at a correctional facility. The required employee contribution increases from 6.75 percent to 7.5 percent to match that of correctional officers. Credit for prior correction facility employment may be purchased for the cost of the additional employee contribution plus any required interest. Like correctional officers, these employees would be able to irrevocably terminate this coverage if they so chose.

House Bill 159 recognizes that any type of employment at correctional facilities can be stressful and dangerous. It provides individuals who work there with an incentive to remain at their jobs. It can also result in benefits to the state. With less employee turnover, fewer funds are needed to train new employees. These savings can revert to the general fund, or they can be used to provide additional on-going training for existing personnel.