

ALASKA PERMANENT FUND CORPORATION
Special Meeting of the Board of Trustees
January 12, 2004

Location of Meeting
Alaska Permanent Fund Corporation
801 West 10th Street
Juneau, Alaska

SUMMARY MINUTES

Trustees Present: Carl Brady, Chair (via teleconference)
Steve Frank, Vice Chair (via teleconference)
William Corbus
William Hudson
Gregg Renkes (via teleconference)
Eric Wohlforth (via teleconference)

Staff Present: Robert Storer
Robert Bartholomew
Richard Shafer
Chris Phillips
Laura Achee
Freda Westman (via teleconference)
Joan Cahill
Sandra Firestack

Invited Participants: Ron Lorensen, legal counsel
Jim Baldwin, Atty. General's Ofc. (via teleconference)

Others Present: Debbie Reinwand, Bradley Reid (via teleconference)
Theresa Nangle Obermeyer (via teleconference)
Wesley Loy (via teleconference)
Rick Vanderkolk, of Rep. Harris' office

CALL TO ORDER

CHAIR BRADY called the meeting to order at 1:35 p.m. on Monday,
January 12, 2004.

ROLL CALL

All Trustees were present at roll call to form a quorum.

APPROVAL OF AGENDA

WILLIAM HUDSON moved to approve the agenda as presented.
WILLIAM CORBUS seconded the motion. The agenda was approved as
presented.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

DR. THERESA NANGLE OBERMEYER asked for an investigation of Chair Brady selling his business while serving as Chair of the Permanent Fund Board.

She stated Trustee Wohlforth's individual investment transactions were made in his capacity as a member of the Board and as former Chair.

CHAIR BRADY thanked Dr. Obermeyer for her comments, albeit he did not agree with her and would like to later allow time to talk to her.

PROPOSED LEGISLATION ON INVESTMENT AUTHORITY

ROBERT STORER stated the Chair of the Permanent Fund Legislative Oversight Committee (Committee) is Attorney General Renkes who is also on the APFC Board and was attending this meeting via teleconference. MR. STORER stated the Fund has been looking at expanding investment capabilities by revisiting the statutes and the basket clause. He has viewed this from several angles in hopes of moving the Permanent Fund forward to increase investment flexibility.

The APFC legal counsel RON LORENSEN directed the Trustee's attention to the briefing memorandum in the meeting packet. He said the packet material provided a detailed description of what the Committee considered at their last meeting on December 8, 2003. It also provided a description of where the Fund is right now in terms of questions regarding potential legislation the Board is considering for presentation to the legislature. The Committee did view the changes he initially brought to the Trustees at the Board Retreat in mid-August of 2003, which was the elimination of restrictions that prevent investments in certain types of alternative investments.

There were three minor amendments he suggested be made to the current legal list to enhance the ability of using alternative investments in certain situations. The Committee considered those amendments and felt they were appropriate changes to bring forward to the Board. There was an inquiry as to whether the allocation limits previously established for certain types of Fund investments, in particular the 55% limit for equities, were constitutionally required or not.

MR. LORENSEN spoke to Jim Baldwin the state assistant attorney general, and they both agreed there was no constitutional issue with respect to allocation limits, and that it is simply a statutory issue. The Committee suggested further discussion and consideration of imposing amendments that would eliminate each of the allocation limits in place right now for certain types of Fund investments. The allocation limits are

a 55% limit on equities, a 20% limit on certificates of deposit, term deposits and bankers acceptances and a 15% limit on real estate. MR. LORENSEN indicated the limit that really raises the issue, and Callan has expressed that this limit may be constraining Fund performance, is the 55% limit on equities. An area for discussion and consideration for the Board would be whether to recommend elimination of any or all of the allocation limits on certain types of Fund investments.

The discussion turned to a question as to the flexibility that is available with respect to the current, very detailed, legal list. The question arises because there is language in the Constitution that talks about Fund principal only being invested in income producing investments designated by law. MR. LORENSEN stated there has never been a legal opinion that indicates how flexible or how strict instruction of those words should be.

There was general discussion about the potential options of how that language might be interpreted. It was suggested that staff be prepared to address three different possibilities, either individually or in some combination with respect to changes in the legal list. He stated the first outcome of what the Committee discussed was the possibility of moving closer to a pure Prudent Investor Rule.

MR. LORENSEN briefly described the three issues discussed by the Committee:

- The first question is, how flexible is the Constitution and how close can the Fund move the list to a pure Prudent Investor Rule.
- The second question is the potential of being able to increase the size of the basket clause from its present 5% limit to somewhere between 10% and 15%, which would provide the ability for the Fund to invest in alternative investments at a level that could have a meaningful impact on the Fund's return. The 5% limit is viewed by Callan Associates to be relatively marginal.
- The third question (as a possibility or an alternative) would be to add additional types of investments to the existing legal list, thereby taking various forms of what they have now come to describe as alternative investments. Then describe some of those as permissible investments that would take the Fund out of the present basket clause, which would make the basket clause available to be used for other alternative investments. Staff's feeling in that regard is the basket clause can be increased to at least 10%. This is to not keep expanding the list, but instead to extend the list, which could be an option if the basket clause were constrained to a size of 10% or less.

MR. LORENSEN stated that the Fund should have received a legal

opinion prepared by DOL by this meeting, but timing has not permitted this. He said this is a complex and difficult question that requires quite a bit of research and analysis. At this point, there is no opinion from DOL, so the Fund is operating in the context of the options that are presently before them with respect to the legal list.

TRUSTEE RENKES said he has viewed the legislative history involved. They have not prepared a final Attorney General's opinion because he does not feel they have an internal consensus. He was traveling last week and was not able to effectively participate in the dialog on this opinion. He felt that this APFC Board of Trustees meeting should be held first to evaluate what they plan to do with the legal list.

He said the Board should have a discussion as to the policy perspective, rather than a legal perspective regarding what they should be advancing at this time. This is in light of the fact that they are attempting to educate the public about the Payout of Market Value (POMV) and the basis for expecting an 8% rate of return. They are also depending on the public's confidence in the return that the Fund has received over time. He questions whether the Fund should at the same time be explaining to the public a new legal scheme or new discretion for the Fund in terms of investments they can participate in. He is fearful that the public may see this as an attempt by the Fund to engage in riskier investments at a time that they are asking for the public's confidence in the Permanent Fund's judgment that we can obtain an 8% return overtime.

To some degree, he has a similar concern about eliminating the restrictions, which he considers technical amendments. He is in favor of eliminating the investment allocation limitations, but wonders if the Trustees should be advancing this at a time that they are proposing constitutional changes to the way the payout is determined.

TRUSTEE RENKES stated that the legal review that has been done on the legislative history shows that the legislature could probably more generically delegate its authority to the Permanent Fund Trustees. This could be to specifically designate investments in the law. Carrying out that delegation of authority would probably require adopting regulations by the Permanent Fund Trustees with respect to specific classes of investments. Of course, the Permanent Fund Trustees would be applying the Prudent Investor Rule in doing so. There would have to be specific guidelines and standards adopted by the Legislature to effectively delegate the authority granted through the Constitution, and carrying out those standards would probably require the regulations adoption process to designate the investments in law as required by the Constitution. He said there is some internal and legal disagreement among Trustees. They have different views as to what the Constitution might require.

CHAIR BRADY stated, politics aside, that the right thing to do is to attempt to increase the 5% basket clause, as they now have a private equity issue on the table, and a proposed pilot program on hedging. He concurs with the philosophy of most advisors that the 5% basket clause is too small, whether or not they decide to exclude or include real estate in the alternative. He said the Fund has the advantage and the knowledge in knowing that this idea is a better approach. He would prefer not to derail the work that was put into this subject. He feels the Fund is capable of putting together the funding of an asset allocation, and so far the Fund has not been very successful in the sense of funding these authorizations. CHAIR BRADY feels that the Permanent Fund should continue on this track rather than put this on hold for fear that politically it looks like we're changing too much. He does not want to lose the opportunity to change the 5% basket clause and the statutory list.

MR. STORER would like to differentiate item one from item two. Item one is essentially a cleanup of the basket clause. The intent of the basket clause is to have the flexibility to make investments in certain types of investment structures that are not on this statutory list. Staff's recommendation in one sense is merely a cleanup of the original intent of the basket clause. He noted that the statutory list has essentially been in force since the mid to late 70s and it has since been expanded on. For instance, in going back to his LA County days in the 70s where they had the constraint where a bond had to have made interest payments for some period of time, he noted that this is inconsistent with the modern world. They are already limited to investment grade by two rating agencies, which are Moody's and the S&P. So this is not only necessary from a cleanup perspective, but it is a piece of antiquity that he feels should be removed, at least as it applies to the basket clause.

The next item is to increase the Fund's investment flexibility in the future. He is comfortable in stating that the current statutes and asset allocations would allow the Fund to achieve a 5% real rate of return in the future. He also noted that the investment vehicles and approaches in the future to some degree are non-predictive. It is important that the Permanent Fund move to structure the investment criteria or statutes of the Fund to have the flexibility to meet the future and hopefully further guarantee that 5% real rate of return.

TRUSTEE WOHLFORTH feels that they should advance legislation to liberalize the Fund's investment permission. If the Board sees they are creating an overload of the liberalized permission that the Fund seeks is impeding or otherwise confusing the POMV issue, they could retreat back and not move forward. He suggested this as a possible compromise.

CHAIR BRADY said these are two completely different issues and one has nothing to do with the other. TRUSTEE WOHLFORTH agrees, but given the fact they have problems of understanding and interpretation that even though logically and rationally they are separate and have nothing to do with each other, he is fearful there may be some sense that the Fund is doing something that is not understood. He would like the Fund to proceed warily, so if there is any indication they are having a detrimental effect on the POMV they are able to stop.

TRUSTEE RENKES is fearful it will be communicated to the public that without this added flexibility that the Fund is not confident that we could achieve the rate of return to inflation proof the Fund and allow for up to 5% POMV of the Permanent Fund in the future. This is simply not the case; the fact is that even under the current constraints the Trustees are confident that they can achieve every return, but he is concerned that they might be communicating to the public that they want to advance the POMV to achieve an 8% return. He said they need the increased flexibility because they would rather invest in alternative categories in investments, or they would have to keep up with the other investment climate in order to achieve that return in the future. This is his principal concern.

There has been a lot of work done to try to increase the basket clause. Just increasing the basket clause to greater than 5%, in the technical amendments, probably is not his greatest concern. If the Board attempts to get rid of the statutory list of investments, and tries to eliminate the investment allocation limitation, they have to debate and figure out whether or not they would then adopt their investment strategies by regulation. They would be getting into a whole new method of managing the Fund that may lead the public to believe that the Trustees are not confident they could achieve the rate of return that provides the basis for the POMV proposal. This is how he sees the two issues linked.

ROBERT STORER asked if the first item to eliminate potential restrictions on alternative investments could be on a stand-alone basis. Staff encourages minimum consideration for what they view as merely a housecleaning measure on the basket clause.

TRUSTEE RENKES said they have cleanup of the basket clause, and then they have expansion of the basket clause as a separate issue. MR. STORER stated that was correct. One is merely to cleanup the basket clause, which he recommends be on a stand-alone basis, and the other items (two and three) are to increase the flexibility and they are both separate issues.

TRUSTEE HUDSON asked if this was the right time to go before the legislature and expose the public to the argument of whether or not these several different constructive changes will give them greater assurance to come in with the investment rate of returns that they are seeking. He also indicated that perhaps some of this could be done through the Fund's own auspices, which is through the Trustee's action of adopting the changes internally. TRUSTEE RENKES clarified that if they were to eliminate the statutory list of investments, then it is their feeling that the legislature would provide by law some standards or categories for investments. Those standards or categories would have to be specific enough to accomplish a delegation of authority to the Trustees. Then the Trustees would have to adopt regulations detailing the specific investment categories to invest the Permanent Fund principal. He said staff could do this on their own because they would still be bound by the statutory list of investments. If the statutory list is changed, it could be changed to provide more flexibility for Trustees by going to more general standards. He added they would have to exercise that discretion to a greater degree through some rule making process.

CHAIR BRADY said this is simply to protect the \$27.5 billion and in having this 5% distribution the Fund is going to grow at a greater rate that some are proposing may yield an 8% rate of return. There is a greater downside against hitting the principal in the future than if they had a greater rate of return. He feels the Fund stands to make a greater rate of return assuming the Trustees manage the Fund right. He added that just because Trustees have an allocation to authorize, doesn't necessarily mean they are going to do it. What it means is it adds authorization to their opportunity to make a greater rate of return than 8%, and he said there are people out there that are critical of only making 8%. The odds are they would have a higher upside potential and less exposure to hit the principal in the future. He stated he is not astute enough to tell them whether or not mixing apples and oranges will mess up what they are attempting to do, which is the POMV. It seems to him there is a greater opportunity for the Fund to make more money by discussing these opportunities; instead of locking the Permanent Fund into what has been done in the past and crossing their fingers that the traditional markets don't go down to the point where they are going to have a hit on principal. He is for arguing one side for the potential for building this

Fund, which he feels would be more apt to happen with the modification of the asset allocations and alternative opportunities than with the traditional method.

TRUSTEE RENKES asked if there was consensus as to what constraints the Trustees feel are most important at this time.

CHAIR BRADY thinks a 5% alternative investment flexibility is way too low and agrees with item number one.

MR. STORER views number one as merely a cleanup and strongly encourages consideration and passage.

CHAIR BRADY said that Trustee Renkes' suggestion that placing too much information into one legislative session could cause a failure to the Board's main goal of greater flexibility. He said it does not matter whether it is called statutory percentages or Prudent Investor Rule. It is arguable that there is always change in the market and the way the Fund conducts business. There are also changes in the way some of our contemporaries conduct business. He said the markets have changed and the world has changed. There are opportunities for the Fund to continue to make 8% or a greater return percentage even though we have a target. How do you read that into the mix when there are already controversial issues over POMV; he is not sure. From a non-political point of view, they need to modernize this authorization and in doing so we will have opportunities to have a greater rate of return. He asked that they remember they are not trying to build the principal of the Fund. He feels that if any other Fund had the opportunity to be around as long as the Fund has been, they would have been compounding rates of return. Most advisors would say that 5% of a basket clause of a Fund this size is just not going to do very much.

TRUSTEE WOHLFORTH would support a motion that would encompass the three suggestions. His original caveat was that they proceed with this, but be very sensitive to the fact that their main priority is POMV. If they see or are advised that they are pushing the 55% limitation on the equity category too hard and it is becoming detrimental to POMV that they reconsider and withdraw.

TRUSTEE CORBUS said he would be inclined to support the elimination of the restrictions and also the expansion of the basket clause. However, he agrees with the Attorney General that there may be some sensitive matters. He would suggest that the Board move ahead and consider each of these items and make a separate motion on each of them. Then they would listen to what the Governor has to say at his *State of the State* speech, as this may impact how aggressively the Fund moves forward.

TRUSTEE RENKES said he has no problem with the three items being proposed, which is the cleanup, increasing the basket clause and even eliminating the investment allocation limitation. The section he is having the most trouble with that he felt raised the most issues and confusion was re-interpreting the Constitution to come up with a new statutory scheme to replace the current list of authorized investments. Then to have the Permanent Fund engage in a new process for the designation of that would require regulations. It was that fundamental structural change that gave him the most concern, and he felt would raise the most confusion. If they can accomplish their objectives by increasing the basket clause and eliminating the 55% limitation of equities for the time being, he feels this is a good path to move forward on. He does not feel this would raise as many questions and that it is consistent with all of the groundwork that has been done by the Trustees over time in relation to alternative investments.

TRUSTEE HUDSON stated that in his political assessment, he feels there are two different audiences that they are dealing with. He agrees with Trustee Renkes and the others about the idea of looking at the expansion of the basket clause to allow them the opportunity to look at private equities and hedging. He feels the debate will go before the legislature and ultimately the Governor for signature for these minor changes, as long as they do not become involved in anything that attempts to tamper with the Constitution. If it is strictly statutory, he feels that the Board should continue to work on this.

He added that the big campaign before the public would be one of public education in an attempt to convince them that the POMV is ultimately for the long-term benefit for each of them as well as to the State of Alaska. If the Trustees recognize they have two different campaigns: one before the legislature that is then signed by the Governor in four months and it is all over done with – whatever happens are all statutory changes and a few people might complain about it; but then later comes the argument for the hearts and souls of the public.

TRUSTEE WOHLFORTH moved that the Board direct staff to prepare to submit to the appropriate venue a change to the investment authority of the APFC under AS 37.13.120 to eliminate potential restrictions on alternative investments.

TRUSTEE HUDSON seconded the motion.

ROLL CALL VOTE. There being no objection, the motion passed unanimously by roll call vote.

TRUSTEE WOHLFORTH moved that staff prepare the appropriate legislative bill and submit it to the appropriate venue a change to the investment authority of the APFC under AS 37.13.120 to eliminate investment allocation limitations.

TRUSTEE HUDSON seconded the motion.

DISCUSSION. TRUSTEE CORBUS said as a point of clarification, he asked if this would eliminate the limitations on the basket clause also. MR. STORER said no, and added that it would be articulated by eliminating the 55% on equities, 15% on real estate, 15% on mortgages and 20% on certificate of deposits. As a practical matter, it is the 55% on equities. TRUSTEE WOHLFORTH stated all the percentage limitations on particular investments would be eliminated, but those particular investments would continue to be specified. He asked if this would eliminate the current 5%. CHAIR BRADY stated that this would not.

TRUSTEE FRANK asked if the Fund could be at 95 or 100% in stocks? MR. STORER responded by stating that yes that is technically correct. CHAIR BRADY asked if they could invest in 95% stocks and 5% in alternatives? MR. STORER responded that one could technically, but then they would move into other areas such as the Prudent Investor Rule, which includes diversification and other matters. While one could technically be at 100%, much like the Alaska State Pensions Investment Board (ASPIB), which does not have any constraints at all and they are not even close to 100%. He added that most funds that do not have this restriction and do in fact have between 55 to 70% invested in the equity market.

TRUSTEE RENKES said that it is not a limitation on the discretion of the Trustees that is required by the Constitution, but it is what the legislature has imposed in a statutory manner to constrain the discretion of the Trustees. Of course, they would have to make the case with the legislature that those figures simply do not allow the Fund to align the ideal asset allocation.

MR. STORER stated the 55% limitation is an arbitrary number. The Fund utilizes very sophisticated modeling with an optimizer that determines the appropriate asset allocation through rigorous work. He doesn't know how one would be able to defend the 55%.

TRUSTEE WOHLFORTH stated that the real argument is it is not consistent with the way Funds are managed. It also can, and has inhibited the Permanent Fund.

ROLL CALL VOTE: There being no objection, the motion passed unanimously by roll call vote.

TRUSTEE WOHLFORTH moved that staff prepare a bill and present it appropriately to effectuate a change to increase the size of the basket clause from up to 5% of Fund asset value to up to 15% of Fund asset value.

BILL HUDSON seconded the motion.

DISCUSSION: CHAIR BRADY asked if #3 confused #2? MR. STORER said no it does not, and added that instead they are compatible.

TRUSTEE RENKES asked Mr. Lorensen how large the basket clause could be under the current legal constraints? MR. LORENSEN responded, that's the unknown. He does not have an answer. He said in his discussions with Jim Baldwin, he sensed the 15% may still be okay, but that is a question to be addressed by DOL. TRUSTEE RENKES confirmed that is a question that there is no real answer to. MR. LORENSEN agreed, and added that he would certainly be prepared to argue that 15% is okay. But he could not provide any assurance in terms of a legal opinion.

TRUSTEE FRANK asked if this was because they haven't lifted the options of funding private equity, and if they did constrain them to 15%, would that eliminate any question as to whether or not they were constitutional? TRUSTEE RENKES responded by stating no, because the Constitution requires that the investments be specifically designated by law. TRUSTEE WOHLFORTH said the constitutional mandate is unclear as to what specificity is required.

JIM BALDWIN the Assistant Attorney General for DOL stated if you identify a piece of the Permanent Fund rather than the entire Fund as being subject to the delegation, the court decisions in Alaska indicate that there will be more flexibility allowed. When a piece of the Fund becomes a major part of this, the 15% certainly figures in the realm of possibilities that a court would give a wide latitude to the legislature to provide broad categories, which is being done now. There currently are standards in the law for the existing 5%, which are tied to the Prudent Investor Rule and other categories. There might be more latitude granted and a broader delegation may perhaps be valid for the basket clause expansion, than would be the case if the Fund were trying to receive this for the entire assets of all of the Permanent Fund.

ROLL CALL VOTE. There being no objection, the motion passed unanimously by roll call vote.

OPERATING BUDGETS - AMENDMENTS/SUPPLEMENTAL

ROBERT BARTHOLOMEW said this is basically moving forward from the December 8th Legislative Oversight Committee (Committee) meeting on the communication plan and education effort related to the POMV. With the assistance of Laura Achee and Bradley Reid Communications they have looked at various levels of outreach that may be available to the Permanent Fund. The corporate operating budget was passed for FY04 and FY05 prior to the work on this communication and education plan.

He explained that the type of plan staff is recommending that the Board and Corporation move forward with would cause change in the FY04 and FY05 budgets. There are two guidelines that the Fund would have to live within, in providing public information and education if this is approved by the legislature. This would mean eventual advocacy for the POMV. The first guideline is the existing statute, which is specific to the Permanent Fund that does not allow Trustees or staff to be political in their activities (AS 37.13.190). He added that they now live with this restriction with the existing communications efforts when they produce and distribute publications and when they are educating people about the POMV. They have to be balanced in the information they portray and the Fund cannot be political. The second statutory limitation that would come into play if the legislature passes the constitutional amendment and it is placed on a ballot. AS 15.13.145 states that the Fund cannot spend state resources to influence or affect a public vote without specific authorization from the legislature. When he is talking about amending the budget for authorization, this is the statute that is triggering the Permanent Fund to ask for permission to advocate once there is a ballot initiative. Of course, if this does not pass they would not need that authority. He added if the Board approves this, they might be asking for this permission ahead of time in case the legislature does pass the constitutional amendment.

MR. BARTHOLOMEW explained the phases of the education and outreach campaign process by the Permanent Fund. There would be an educational insert in the newspapers across the State on January 14. Phase I focuses on print, publications and asking Bradley Reid Communications to assist the Fund in determining the level of understanding the public currently has about how the Permanent Fund works and how POMV would change this. Staff is asking Bradley Reid to do research with the public. Phase I is currently underway primarily with print publications and funds are available in the existing budget. They have existing authority to do this, so no action is required by the Board for Phase I.

Phase II states that while the legislature is considering POMV, the Committee recommends that the Board has an educational responsibility

to start an outreach and education campaign. They would like this to began sooner rather than later, so they don't find themselves in a trap this summer of not having enough time to have a phased in slow process to educate the public versus doing this in a matter of two or three months. The Committee recommended that the Fund begin implementing in February through the passage of a legislative constitutional amendment and some education on radio and TV. This does require a supplemental to the Fund budget. Currently, there is approximately \$200,000 for professional services; primarily legal and consulting work related to real estate that the Fund won't be using between now and June 2004. If the Board decides to undertake an education program, the Fund has \$200,000 to utilize and they do not have to ask the legislature for authorization and they already have this authority. Staff is proposing that if they start the program and decide they wanted to run the advertisements more often or develop additional advertisements to continue the education, the top end of the Phase II education campaign would cost approximately \$600,000. Staff would ask that the FY04 budget be increased by \$350,000 to allow them to do this full scale. This project could range between \$0 and \$600,000 and is dependant on the Board's comfort level.

The Fund would be asking for a maximum increase of \$350,000 in the FY04 budget. Staff is also asking for permission from the legislature to use FY04 money in May and June if the constitutional amendment passes. They would be at the end of the budget year, but if they do pass the constitutional amendment they wouldn't want to delay a possible opportunity to run an advertisement in June. They would need specific legislative authority the day the constitutional amendment passes. He recommends for FY04 both an action to increase the dollars available and to ask the legislature to specifically allow the Fund to spend a portion of that money once the constitutional amendment passes.

Phase III is to continue to provide the public some background by providing speeches to the community, businesses and Rotary groups. MR. BARTHOLOMEW believes the Fund has been very successful in doing this already. The more they talk to the public, the more the public understands POMV. He said they are hitting a small percentage of the pubic when they target Rotaries and Chambers of Commerce. If the Board really desires to hit a broad base cross section of the public and educate them on the Permanent Fund both how it works today as well as the proposed change, then they have to go to radio and TV to gain the coverage that is necessary to reach these people. Under Phase III, to produce and place advertisements, especially later in the summer and fall when a lot of the people are going to be buying radio and TV time, the cost of placement will rise.

MR. BARTHOLOMEW said they would need a minimum of \$400,000 to

implement a bare-bones campaign and education effort, but could spend up to a \$1,000,000 to allow the flexibility to respond to other advertisements and provide additional insight.

In the FY05 budget, there is approximately \$250,000 that could be allocated from other line items. The supplemental in FY05 would be the maximum amount of \$700,000. Phases II and III would all be sent out to bid and they would not be utilizing the existing APFC communication contractor. This is mainly due to the size of change and that they believe the procurement code requirements can be best met by going through a competitive solicitation. If approved, they would be bidding this effort. Certain portions of the project could begin immediately, and other portions would be dependent on legislative action.

CHAIR BRADY feels it is important that the public has easy access to solid information to decide whether they support POMV or not. They are going to see editorials and special interest articles that may persuade a small percentage of the population. It is difficult for the public to understand this issue, but they should have the benefit of information. He said the idea of putting this out to bid is a good plan. He feels that the state owes the populace a clear and precise understanding on the debate of POMV.

CHAIR BRADY asked that their picture in the newspaper be updated to include Trustee Hudson. MR. STORER stated that staff is already planning a new photo session and they are making arrangements for the February Board of Trustees meeting.

MR. BARTHOLOMEW said they would continue to focus on education and assist the public to understand the mechanics of the POMV proposal and how it affects the Permanent Fund, and not focus as much on swaying them. As they see this develop in the legislative process, he feels the highest chance of success would be if the house, senate, Governor, republicans and democrats would all come together on the POMV proposal. If they do not, they have a very, very difficult challenge. If they can come together, then the Permanent Fund would play a critical role in providing the information and education, but the advocacy would come from outside the Permanent Fund. They are asking for specific authority to do this, because they do not want to get in trouble if they get into a challenge. For instance, supposing a particular advertisement was more advocacy than education, this could place them at risk by not having the legislative authority to say that they have already been given that authority to advocate. Their intent is not to become a public relations machine attempting to sell this. The Permanent Fund's role is to educate and provide information. They do not want the Fund caught in the gray area.

TRUSTEE HUDSON asked Mr. Bartholomew, while viewing the graph ranging from \$100,000 to \$350,000 as a supplemental to FY04, what do the experts tell you, and are you looking for the full \$350,000? MR. BARTHOLOMEW said he was seeking funds in the mid-range, when staff asked the experts what a reasonable-sized budget would be to develop between two and five radio spots and between two and five TV spots and run those, not a lot, but enough so the public becomes aware, they recommended a \$400,000 budget for that campaign. So that would be right in the middle of the \$300,000 to \$600,000. They stated a medium-sized budget to get the job done would be at \$400,000. TRUSTEE HUDSON asked if this was an additional \$200,000 supplemental, as he clarified that staff already has \$200,000, and questioned that they were adding \$200,000 more to that. MR. BARTHOLOMEW said this was correct. If they wanted to run the mid-case scenario, this would drive how many times they could run the advertisements. You would be saying the total project is going to be \$400,000, of which \$200,000 is currently available and they would ask for an additional \$200,000. TRUSTEE HUDSON referred to Phase III in FY04 that reflects \$50,000 and asked what the supplemental would be? He added that FY05 will not be a supplemental, but instead an increment. MR. BARTHOLOMEW said that is correct and the FY05 budget that is currently before the legislature that has not been acted on would be amended. They have the same range from a bare-bones project of \$400,000 to an extensive outreach campaign of \$1,000,000. The experts gave the Fund a number of \$700,000 as a medium outreach campaign for a statewide effort.

TRUSTEE HUDSON asked if in FY04 you have \$50,000. Would the \$100,000 be the supplemental that you are seeking authority to ask for? MR. BARTHOLOMEW responded that was right.

He said the FY04 budget has two different issues. There is a campaign and educational effort pre-passage of a constitutional amendment, which is the \$200,000 that he spoke to in Phase II. Once the constitutional amendment passes, they would like to start working on the new pieces and could spend up to \$150,000. There is \$50,000 available and the supplemental is \$100,000 that is predicated on the constitutional amendment passing and is a starting effort. So you would add the amount you came up with in line 2 to how much you wanted to allocate from Phase III and that would be the total FY04 supplemental.

TRUSTEE HUDSON said what the Trustees are being asked is whether or not they can approve this request subject to the allocations from the experts that are advising staff that the \$200,000 for the TV radio production and placement in FY04 would be a supplemental, and an additional \$100,000 for print production and placement prior to June 30,

2004. This would be approximately \$300,000 in a supplemental, and then an additional \$700,000 in FY05 as an increase to the Governor's budget. He feels this has to be done if they believe this is an important enough issue to take out before the public.

MR. BARTHOLOMEW stated the one detail they have not distributed to the Trustees is the production timeline, which reflects the low, medium and high case scenarios. This information is broken out in a matrix of how many times they could run the advertisement, such as once a week for three months. The details of what their message would state and the proposed length of the TV and radio spots would be developed once the Fund hired a successful contractor. In the updated communication plan, each Phase is broken out as to what they proposed to do regarding radio, TV and print. He said their current emphasis is on speaking engagements, which is very low cost.

TRUSTEE FRANK asked during Phase II if the Fund was not going to spend any money until they receive a supplemental? MR. BARTHOLOMEW said no, and added if the Board of Trustees provided a certain level of outreach during the legislative session outlined in Phase II, they would have the ability to complete \$200,000 worth of work without any legislative authority. If they have to spend more than \$200,000, they would be required to have a legislative budget supplemental for FY04 for the increased dollars. TRUSTEE FRANK asked if the idea was to spend money in advance of any legislative action to advocate the adoption of POMV. MR. BARTHOLOMEW responded it is not to advocate, but instead it is to educate. They are attempting to remain within the guidelines of education, so they focused on how the Fund was originally adopted, what it looked like, how does it work today given that the Fund has been changed by statute over time, and then finally how would it work under POMV. They are asking the public to listen and read the educational pieces to prepare themselves in case POMV comes to fruition later this year. He said actual advocacy would not take place until the legislature passed it.

MR. BARTHOLOMEW said they are focusing on educating the public about how the Fund works today and they feel they are getting good value out of the money that is being spent. TRUSTEE FRANK asked if he was talking about how it works today and how it would work under POMV? MR. BARTHOLOMEW said it was both of these factors. TRUSTEE FRANK had mixed emotions about the advisability of placing information out there that may change. Once the legislature adopts the constitutional amendment changes could include other items, such as how the money should be spent, etc. The Fund will have to educate the public on how a clean POMV would work.

MR. BARTHOLOMEW said originally at the Committee held on December 8, they were not proposing radio and TV during the session. The concern was the very tight timeframe. The Trustees did not want the public to feel as though they were being pressured. He said the final recommendation was to attempt to complete some type of education during this upcoming legislative period. TRUSTEE FRANK feels there is a long timeframe, as they would still have June, July and August.

TRUSTEE HUDSON stated the Board knows that to amend the Constitution there has to be successful action on all three fronts, the House, Senate and the Governor to achieve the three-quarters vote necessary to put the resolution out to the public for a vote. The Permanent Fund's effort during the session and through this fiscal year is going to be that the Permanent Fund staff and Trustees are available to provide good education through testimony before the house and senate. He believes this would be the Fund's predominate activity. At the same time, they have to continue to respond to requests for public appearances before the Rotaries, Chambers, etc. If the legislature comes up with the two-thirds vote to put this on the ballot, then the Fund would have to be prepared to go with just a one-month preparation time to go before the public with a very comprehensive education effort. TRUSTEE FRANK stated that he does not feel the Fund should be educating the public in the manner we have been. For the Fund to be running TV and radio before the legislature takes action when we don't know what form the final amendment is in if it does pass is just not going to accomplish much. Right now the Fund is only looking at a clean version for educational purposes. It is likely that the legislature may change it and do something that is different than a simple approach. He feels five months is plenty of time to have an effective campaign, both from a standpoint of production and placement. He doesn't know if the Fund would be accomplishing a whole lot, because there is a lot of confusion about what the POMV means. The confusion is centered on how the money is going to be spent, which the Fund is staying away from. He feels that the Fund would further confuse the matter if we were to say we want a clean version, and yet the legislature is obviously considering other alternatives. He feels that the Fund should concentrate their efforts after they see what the legislature does. They have to educate the legislature one-on-one and he doesn't feel they need a public campaign to accomplish this.

TRUSTEE RENKES stated that his feeling, and the Governor's feeling, is that they hope the Trustees and staff would get out and fill in the gaps in the public's knowledge of how the Fund works and what the basis is for the POMV proposal, why is it needed, what does it intend to accomplish and why is it important to protect the Fund. He sees these as completely separate issues from how the legislature decides to spend the income from the Fund, or whether or not part of the income is spent on government

and whether or not the dividend or type of government spending is dedicated in the Constitution. These are questions that are going to be subject to debate in the legislature and may or may not be apart of a ballot initiative.

If the public is confused, or not knowledgeable, or supportive of what the Trustees have proposed with respect to changing the management of the payout mechanism for the Fund (the spending limitation), they are never going to get the public informed from the Trustee's perspective or the Governor's perspective. They would not be able to go to the public to the second level of engaging their support to use a portion of the Permanent Fund as a payout. The hope was that the Trustees would see this gap in the public's knowledge and attempt to address this earlier rather than later when the message should be more focused on use of Fund income and less on the need to change the Constitution to impose a spending limitation.

CHAIR BRADY stated that he was inclined to agree with Trustee Renkes. His feeling is the public might regard the Trustee's opinions better, more so than if they were coming from the legislature. That being the case, the level of public confidence in the Fund seems to be higher, which might assist in persuading the legislature. Although it is a long time away, he feels that starting a public campaign earlier rather than later makes more sense. The Permanent Fund has to influence the legislature, but they are not able to do this without influencing the public.

TRUSTEE WOHLFORTH said he would support the recommended appropriations for the public relations campaign. His sense is a lot of the campaign is going to depend on how closely the Trustees engage in the monitoring. They need to pay close attention to the quality, format and message they are portraying.

TRUSTEE WOHLFORTH moved to support the budget amendment for education and advocacy and authorize staff to request the legislature to amend the Fund's FY04 and 05 budgets, to provide specific authority to advocate for the POMV constitutional amendment.

AMENDMENT TO THE MOTION. TRUSTEE HUDSON indicated there are two things staff is proposing. One is a supplemental and the other is an increment. The supplemental is \$300,000. The increment is an additional \$700,000 and would only be required if the legislature took some action that sent this program forward seeking the public vote. He feels the first motion ought to be to authorize the \$300,000 additional funds for TV, radio, production and placement essentially between now and the end of this session in the form of a supplement. TRUSTEE WOHLFORTH accepted this as an amendment to the original motion.

TRUSTEE RENKES seconded the motion.

DISCUSSION. TRUSTEE CORBUS stated that the message the Permanent Fund puts out should be very clear. It's important that they do not set themselves up as causing confusion at a later date. He supports the motion, but stated that the Fund should make every attempt to alleviate potential confusion in the messages they deliver.

TRUSTEE FRANK believes they have a better chance of educating the public if they wait until they hear what type of proposal is coming out of the legislature. Then at that time, the Fund could inform the public how it works now and what the legislature would be proposing regarding POMV. He feels it would be less confusing if the Fund waits until this is done. He would like to wait to do the TV and radio spots until they are clear in knowing what the legislature is going to do. He said he would be voting against spending money until this happens.

ROLL CALL VOTE. Trustees Hudson, Wohlforth, Renkes, Corbus and Brady voted yes. Trustee Frank voted no. The motion passed in favor five to one by roll call vote.

TRUSTEE HUDSON moved to authorize the preparation and submittal of an increment in the amount of \$700,000 to be spent subject to the final appropriate action by the legislature. These funds would only be spent or be available for spending if this action took place.

TRUSTEE WOHLFORTH seconded the motion.

DISCUSSION. TRUSTEE RENKES asked if this was the \$700,000 for FY05 from June to November 2005? TRUSTEE HUDSON said yes. TRUSTEE RENKES said this was not scheduled in staff's proposal, but is until June 2004 in any event? TRUSTEE HUDSON said yes.

ROLL CALL VOTE. There being no objection, the motion passed unanimously by roll call vote.

OTHER MATTERS

There were no other matters.

TRUSTEE COMMENTS

CHAIR BRADY reinforced his desire that a new photo shoot of the current Board of Trustees be scheduled to take place as soon as possible.

FUTURE AGENDA ITEMS

There were no other matters.

ADJOURNMENT

The Chair adjourned the meeting at 3:37 p.m. on January 12, 2004.

APPROVAL OF MINUTES

Carl Brady, Chair

Date