

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
SPECIAL TELECONFERENCE MEETING

Location of Meeting
11th Floor Conference Room, State Office Building
Willoughby Avenue, Juneau, Alaska

MINUTES OF
February 23, 2007

CALL TO ORDER

Chair GAIL SCHUBERT called the meeting of the Alaska Retirement Management Board (ARMB) to order at 1:33 p.m.

ROLL CALL

Six trustees were present at roll call to form a quorum.

ARMB Board Members Present

Gail Schubert, *Chair*
Sam Trivette, *Vice Chair*
Gayle Harbo, *Secretary*
Commissioner Annette Kreitzer
Larry Semmens
Mike Williams
Commissioner Patrick Galvin (joined at 1:40 p.m.)

ARMB Board Members Absent

Martin Pihl (excused)

Department of Revenue Staff Present

Brian Andrews, Deputy Commissioner
Gary M. Bader, Chief Investment Officer
Judy Hall, Board Liaison

Department of Administration Staff Present

Melanie Millhorn, Director, Division of Retirement and Benefits
Charlene Morrison, Chief Financial Officer

PUBLIC MEETING NOTICE

Judy Hall confirmed that the meeting had been properly noticed.

APPROVAL OF AGENDA

The agenda was approved as presented.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

There was no one present in Juneau or on teleconference who wished to address the board.

DISCUSSION: HB 48 RELATING TO ARMB PURCHASE OF PPT TAX CREDIT

Chief Investment Officer GARY BADER reviewed the staff report, included in the meeting packet, regarding House Bill 48, currently being considered by the House Finance Committee. The bill would allow the Alaska Retirement Management Board (ARMB) to purchase transferable tax credits established under the Petroleum Profits Tax (PPT) and to obtain reimbursement of the credits through the Alaska Department of Revenue. Staff recommended that the board endorse passage of HB 48 with a set discount rate of 92% for purchase of the investment tax credits.

MS. HARBO asked if there was any guarantee on turnaround time. MR. WILLIAMS said he was not aware of any. MS. HARBO inquired about the time frame for any subsequent audit, per staff's mention of audit adjustments in the last paragraph of the memorandum. MR. WILLIAMS said most of the transactions would be audited within two years, although the general time frame is three years.

MR. WILLIAMS stated that while he supported the opportunity to purchase the tax credits, it is turning a tax credit into a marketable security that might not otherwise have been intended to be a marketable security. He believed that the ARMB should not be making the market as much as it should be just participating in the market like anyone else.

MR. BADER said it is philosophical question, and he has thought on it from the standpoint of someone who would be in this market. This market would have no transparency. Investment staff are in the market daily and are accustomed to negotiating prices. However, in this instance investment staff would be in a market where all the players knew each other except the ARMB. So he viewed being able to buy something at 92 cents on the dollar and turning it over quickly as a healthy return on investment without the ARMB having to potentially negotiate against itself. But he agreed that Mr. Williams's point was entirely valid.

MS. HARBO asked how many oil companies would be involved. COMMISSIONER GALVIN replied that there are probably four to six companies that would have production sufficient to go

over the \$25 million in transferable tax credits per year.

COMMISSIONER GALVIN explained how the proposed bill would not only allow the ARMB to make an additional profit but create a much more efficient marketplace than what would exist otherwise. There is little advantage to the State under the current transferable tax credit system.

MR. TRIVETTE inquired if the commissioner saw any down side to HB 48. COMMISSIONER GALVIN said the main question will be making sure that the margin for purchasing the tax credits is more than enough to compensate for the transactional costs, which he guessed would be small. So there was not much of a down side for the ARMB because it is basically recognizing an opportunity in an inefficient market.

MR. TRIVETTE asked if 8% was a reasonable figure. COMMISSIONER GALVIN replied that he thought the 8% would be reduced significantly once the ARMB steps in. MR. BADER noted that under the current legislation the ARMB could only participate at 92% and could not bid up. COMMISSIONER GALVIN commented that that was establishing the floor of the market.

MR. TRIVETTE stated that, after listening to part of the hearings and the comments of the commissioner and the chief investment officer today that 92% was a reasonable place to be, he supported passage of HB 48.

COMMISSIONER GALVIN said that in observing the bill's progress he did not think the board should necessarily object if the 92% transfer rate were pushed upwards. The board should get from the CIO some sense of the projected transactional costs, what marginal rate would begin to make it profitable for the board to consider it, and then set the rate just south of that number.

MR. BADER stated that staff's recommendation was deliberately broad enough to allow an array of possibilities. There is some talk about only using this investment to offset PERS and TRS unfunded liabilities, and/or it might be used to reduce contribution rates.

COMMISSIONER KREITZER called for the question.

Roll call vote

Ayes: Galvin, Harbo, Kreitzer, Semmens, Trivette, Williams, Schubert

Nays: None

The motion passed unanimously, 7-0.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

MR. TRIVETTE reported that the Alaska Budget Report mentions an issue put forth by the Transition Committee that possibly the Department of Revenue was charging the retiree funds too much for the work it was doing for the funds. He suggested that the board place this item on

the agenda for a brief explanation at the next meeting. He viewed this as part of the board's fiduciary responsibility.

CHAIR SCHUBERT requested that staff calendar that agenda item.

PUBLIC/TRUSTEE COMMENTS - None.

ADJOURNMENT

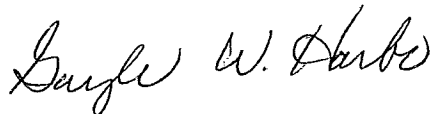
THERE BEING NO OBJECTION AND NO FURTHER BUSINESS TO COME BEFORE THE BOARD, THE MEETING WAS ADJOURNED AT 1:55 P.M., ON A MOTION MADE BY MS. HARBO AND SECONDED BY MR. SEMMENS.



Chair of the Board of Trustees
Alaska Retirement Management Board

ATTEST:

Corporate Secretary



Note: The summary minutes are extracted from staff's tape recording of the meeting and are prepared by an outside contractor. For in-depth discussion and presentation details, please refer to tapes of the meeting and presentation materials on file at the ARMB office.

Confidential Office Services
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