

~~Int~~ Peer Review

EXXON VALDEZ OIL SPILL TRUSTEE COUNCIL

Meeting
Thursday, March 16, 2000
10:30 o'clock a.m.

Federal Building, Room 445C
Juneau, Alaska

TRUSTEE COUNCIL MEMBERS PRESENT:

U.S. DEPARTMENT OF INTERIOR: (CHAIRMAN)	MS. MARILYN HEIMAN Special Assistant to the Secretary for Alaska
U.S. DEPARTMENT OF COMMERCE - NMFS:	MR. STEVE PENNOYER Director, Alaska Region
STATE OF ALASKA - DEPARTMENT OF LAW:	MR. CRAIG TILLERY Trustee Representative for the Attorney General
STATE OF ALASKA - DEPARTMENT OF FISH AND GAME: (Telephonically)	MR. FRANK RUE Commissioner
U.S. DEPARTMENT OF AGRICULTURE - U.S. FOREST SERVICE	MR. DAVE GIBBONS Trustee Representative
STATE OF ALASKA - DEPARTMENT OF ENVIRONMENTAL CONSERVATION:	MS. MICHELE BROWN Commissioner

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1 **TRUSTEE COUNCIL STAFF PRESENT:**

2	MS. MOLLY McCAMMON	Executive Director
3	MS. TRACI CRAMER	Director of Administration
4	MS. REBECCA WILLIAMS	Administrative Manager
5	DR. PHIL MUNDY	Science Coordinator
6	MR. BRUCE WRIGHT	NOAA
7	MR. GLENN ELISON	U.S. Fish and Wildlife Svc.
8	MR. ALEX SWIDERSKI	State of Alaska Department of Law
9	MS. MARIANNE SEE	Alaska Department of Environmental Conservation
10		
11	MR. GERON BRUCE	Alaska Department of Fish & Game
12		
13	MR. CHUCK MEACHAM	Public Advisory Group

14 **STAFF PRESENT TELEPHONICALLY**

14	MS. SANDRA SCHUBERT	Director of Restoration
15	DR. BOB SPIES	Chief Scientist
16	MR. HUGH SHORT	Community Facilitator
17	MR. JOE HUNT	Communications Specialist
18	MS. DEDE BOHN	U.S. Geological Service
19	MR. BUD RICE	National Park Service
20	MS. CATHERINE BERG	U.S. Fish and Wildlife Service
21		
22	MS. CLAUDIA SLATER	Alaska Department of Fish & Game
23		
24	MS. CAROL FRIES	Alaska Department of Natural Resources

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STAFF PRESENT TELEPHONICALLY (CONTINUED)

MR. DAN HULL

Public Advisory Group

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1 MR. TILLERY: Opposed?

2 (No opposing responses)

3 MR. TILLERY: All right, the meeting is
4 adjourned. Marilyn.

5 (Laughter)

6 MR. RUE: Let's take a break, that was kind
7 of.....

8 DR. SPIES: That's a long meeting.

9 MR. RUE: Yeah, I'm exhausted.

10 CHAIRWOMAN HEIMAN: I'm going to call our new
11 meeting to order today at 10:45 and welcome everyone here today
12 to the meeting. And we have a big long agenda and we hope to
13 get through it as quickly as we can, but there are important
14 issues to discuss.

15 First order of business is approval of the agenda. Any
16 comments on the agenda?

17 MR. RUE: Marilyn, this is Frank Rue. Just for
18 your information, I'll be having Geron Bruce sit in for me for
19 the afternoon part of the session, but the agenda looks good.

20 MR. TILLERY: This is Craig Tillery. There is
21 a possibility that we may need to add an item this afternoon
22 relating to the insurance proceeds from the Alaska SeaLife
23 Center. We're still awaiting some information on that, but
24 just to alert you that may be added to the agenda later. It'll
25 be a very brief session, but.....

1 CHAIRWOMAN HEIMAN: Okay. So if there's no
2 objections to the agenda. If people don't mind I'm just going
3 to ask if there are any objections instead of going through the
4 voting process, if that's okay? Any there any objections?

5 (No audible responses)

6 CHAIRWOMAN HEIMAN: If not, the agenda is
7 approved.

8 Now we have to approve the February 29th and March 2nd
9 meeting notes. Are there any objections or changes to those
10 meeting notes?

11 (No audible responses)

12 CHAIRWOMAN HEIMAN: If not.....

13 MR. TILLERY: Would you like a motion?

14 CHAIRWOMAN HEIMAN: Okay, I'll have a motion.

15 MR. TILLERY: Move to approve the meeting
16 notes.

17 MS. BROWN: I'll second it.

18 CHAIRWOMAN HEIMAN: Okay. All those in favor.

19 IN UNISON: Aye.

20 CHAIRWOMAN HEIMAN: Okay, those meeting notes
21 are approved.

22 First item of business is the investments. Molly, do
23 you have an order of business here?

24 MS. McCAMMON: Yeah, Madam Chairman. In your
25 packet are two items, one is the memo that describes a revised

1 timeline for decisions related to investment of the joint trust
2 funds. And the other is just a little bit of discussion on the
3 definitions and the roles that are played by investment
4 custodial services, consultants and managers. Where we are in
5 the timeline here now is that at its meeting at the end of
6 February the Council adopted investment policies. At this
7 meeting it's our plan to talk about income producing
8 obligations and other instruments and securities for the
9 purposes of developing an asset allocation plan.

10 We have Michael Chung from Department of Revenue and we
11 have Peter Bushre who is on our Investment Working Group, we
12 have Bob Storer who is also on our Investment Working Group and
13 they are providing advice to myself and we've been working
14 through a number of these issues. We had a very lengthy
15 meeting a couple of weeks ago and have put together some
16 information for the Council to kind of walk through how the
17 decision is made in terms of developing an asset allocation
18 plan. What kinds of information do you need to know, things
19 about risk, volatility, rates of return, things like that.

20 So this whole process is considered to be somewhat
21 educational, there's no intention to have any action taken at
22 this meeting, but I think our goal at the end would be to
23 ensure that you feel that you are getting the information that
24 you need in order to develop a proposal that would then come
25 back to you at a meeting in April. So kind of keep that in

1 mind as we go through, whether you think you're getting the
2 kind of information that you need to get you to the comfort
3 level to develop that plan.

4 So with that I'd like to get Michael and Peter and Bob
5 up here. And they have a presentation that they'd like to walk
6 us through and I think it should be considered fairly informal,
7 so if you're going through and, you know, there's just
8 something that's not making sense, just yell stop and they're
9 very good at explaining things to those of us who, this isn't
10 our area of expertise.

11 MR. STORER: Thank you. I guess I'll start. I
12 am Bob Storer and I think the number of areas we're going to
13 talk about are how the capital market assumptions are developed
14 and that's how the various asset classes are expected to
15 perform. And we're going to talk about asset allocation
16 modeling and then maybe on how some other endowment funds
17 approach the same issue.

18 I'm going to start by discussing the capital market
19 assumptions. You all, somewhere, I assume, have a spreadsheet
20 that says Asset Mix Alternatives and there's 10 scenarios.

21 MS. McCAMMON: It has not been passed out yet.

22 MR. STORER: Oh, okay.

23 MS. McCAMMON: And Traci may have walked out
24 the door get it.

25 MR. STORER: Oh, okay. I'll just speak broadly

1 then.

2 MS. McCAMMON: She wants it to be held secret.

3 MR. STORER: I don't blame her.

4 (Laughter)

5 MR. STORER: That makes us sound more important
6 if it's all secret.

7 What happens is you're going to see assumptions that
8 are actually developed by an independent consulting firm and
9 they -- what they develop are forward looking assumptions that
10 are looking over the next five years. And what they do is --
11 what the consulting firm does is annually they review all of
12 the assets classes and they project forward a median
13 expectation of what the returns will be for each asset class.
14 And, again, that's a median expected return over a five-year
15 period.

16 There are two other components in developing asset
17 allocation. I'll come back to the asset classes in a moment.
18 The other components are what will the volatility of each asset
19 class be. They all perform differently, some asset classes
20 have greater volatility, other asset classes have less
21 volatility. And when we speak in terms of risk what we're
22 speaking in terms of is volatility, and typically what it means
23 is one standard deviation or what the expected return of the
24 plus or minus one standard deviation. We'll get back into that
25 a little more.

1 The third component that goes into developing an asset
2 allocation model is the correlation. Asset classes typically
3 do not move in sync and so how do asset classes interrelate or
4 what is the correlation of volatility among asset classes. And
5 the consulting firm creates a matrix of the correlation of each
6 asset class with all the other asset classes.

7 Now, if I step back, what I'll talk about now is the
8 expected return of the respective asset classes. You're going
9 to see on your sheet in the beginning what are called domestic
10 equity components or subcomponents. What we're going to discuss
11 today is the broad U.S. equity market and that's at the top of
12 the list. Below that you'll see large cap and below that
13 you'll see small cap. The large cap would be akin to what is
14 the S&P 500 Index, that's sort of the standard benchmark for a
15 portfolio of 500 large companies, it's reported widely, it's a
16 standard benchmark. The small cap or the small equity
17 component would be companies that are significantly smaller
18 than the S&P 500 and, technically, that represents a much
19 broader range than 500 companies. Depending on the index it
20 can be anywhere from 2,000 to 4,000 company names.

21 So while some people develop asset allocation and they
22 segregate the decision of large company and small company
23 investment exposure in the U.S. equity market, many do not.
24 What we're going to discuss today is the asset allocation using
25 the broad representation of the entire U.S. equity market. So

1 the broad market represents an appropriate weighting of the S&P
2 500 plus the small company index.

3 International equities, that is developed countries, it
4 does not have any emerging markets, it's approximately 22
5 countries. The typical index is comprised of companies from
6 Europe, Australia and the Far East. Again, they're very well
7 developed countries. The largest, as you might expect, would
8 be Japan, England, Germany, France. Much small weighting,
9 maybe the smallest exposure might be in Hong Kong, as an
10 example.

11 The bond market we're using the, it's the Lehman
12 Brothers aggregate index and this is basically the benchmark
13 that most people use for representation of a broad U.S. bond
14 market. What I emphasize is this is the investment grade,
15 there are no high yield or junk bonds in this analysis, it's
16 primarily treasuries, government agencies and high grade
17 corporate securities, no high yield securities.

18 And then the last piece is just simply cash or what
19 would a money market return look like or should be considered
20 in the portfolio.

21 Just as a benchmark, the horizon over the next five
22 years, they project -- the consulting firm projects that the
23 broad bond equity market would have an expected return of 9.20
24 percent, with one standard deviation or a volatility of measure
25 of risk of 16.20 percent. As many of you professionals know,

1 far better than I, what standard deviation means, but what this
2 really means is two-thirds of the time you can expect a return
3 that is going to be 9.2 plus or minus 16.2 percent. And then a
4 third of the time you can expect a return that would be outside
5 of those spans.

6 The international market, the projection -- the median
7 projection over the next five years is 9.75. The bond market
8 6.70 and cash 5 percent.

9 Michael will talk more about the model, but what we
10 tried to do in developing asset allocation is -- I'll try to
11 say this once and then never bring it back. I used the term
12 efficient frontier. What that means is you can create a series
13 of different interest rates and there are portfolio model
14 scenarios that can be modeled and the goal is to achieve an
15 expected return that does not incur any unnecessary risk. In
16 the perfect world you want to model, you want to get your
17 expected return and you don't want to take on too much risk.
18 And so through the modeling process, and Michael will talk a
19 little bit more about that, that is what you're striving for.
20 No unnecessary risk to achieve an expected goal.

21 And what I will leave -- or I'll open to questions
22 before then, is the model that's been created by the Department
23 of Revenue can create 10 different scenarios and you run a
24 gamut of expected returns and then you say what would the
25 optimal portfolio get to achieve that expected return.

1 So with that I'd be happy to ask [sic] any questions or
2 I'll turn it over to Michael Chung to talk about the model.

3 MR. WRIGHT: I have a question, Bob.

4 MR. STORER: Uh-huh.

5 MR. WRIGHT: Risk equals volatility.

6 MR. STORER: Yes.

7 MR. WRIGHT: Is there a correlation between
8 risk and the amount of money -- the potential for earning funds
9 on our investment? In other words, is there -- is it always --
10 if you have a higher potential for making high yields, is that
11 equivalent to a higher risk, is that always the case?

12 MR. STORER: Yes. Yes. What you need to
13 understand is what the implications of incurring that higher
14 expected return and that higher level of risk and this model
15 was developed to help define or help people understand what
16 that means, but the answer is absolutely the higher expected
17 return you should expect greater -- you have to accept greater
18 risk. And, of course, the other thing is always to have an
19 appropriately diversified portfolio, that's another way you
20 diversify your risk.

21 Michael, do you want to talk a bit more about the
22 model?

23 MR. CHUNG: Sure. Thank you, Mr. Storer.
24 Bob mentioned that the foundation of building an asset
25 allocation model is the capital market assumptions. Every

1 year, as Bob mentioned, the Department of Revenue, we get
2 capital market assumptions from Callan Associates around
3 February of each year. From them we build these asset
4 allocation models, we can create up to 10 different asset class
5 mixes and for each asset class as well particular constraints
6 can do. What do we mean by constraints? Constraint is what
7 the minimum asset allocation you like to see in this particular
8 asset class. At the same time what is the maximum. And we
9 know the minimum is going to be zero percent and the maximum is
10 going to be 100 percent. And at the end you want to make sure
11 that all asset classes, you know, add up to 100 percent as a
12 total portfolio allocations.

13 So if you can refer to the report that Traci passed
14 out, we can just walk through that real briefly, kind of
15 explain that. So, for example, you look on the left-hand side
16 under assets mix one, with the constraints that we have set up
17 with this exercise here under that asset class mix, look at the
18 middle section of that you will see a projected return there.
19 Right now we put in, as an exercise, we put bonds at 6.75
20 percent return. And with Callan Associates the estimates of
21 going forward for the next five years, we're going to have an
22 inflation rate of 3.25 percent. That would give us a real rate
23 of return after adjusting for inflation of 3.5 percent.

24 Now how do we get there under asset class mix to get
25 the real return of 6.75 percent? If you look underneath

1 different asset classes, we would asset allocation of
2 approximately 10.6 percent to equity market. Approximately 4.8
3 percent to the international market and the bond market we will
4 have 63 percent and to the cash component about 21 percent.
5 That, as Bob mentioned, is an efficient portfolio. What it
6 means is at 6.75 percent return with the volatility of the
7 return you look underneath there around five percent or to be
8 more precise 4.96 percent. That is the most optimum portfolio
9 if you want to achieve a return of 6.75 percent. That will be
10 the volatility of the return over one year. Just to repeat one
11 more time, what is the volatility of the return, what does that
12 mean, again, that is standard deviations of the returns that we
13 expect to see going forward. And based on two-thirds of
14 observations going forward, you would expect to see the return
15 that's going to be plus or minus 4.96 percent from your total
16 expected return, which in this case is 6.75 percent.

17 There are different kinds of management for us to take
18 a look at. What is the probability of loss? I look at those
19 more or less like a gut check. And basically look at the
20 bottom see the probability of loss in one year is 8.7 percent
21 and over five years it's less than one percent, in this case
22 .119 percent.

23 Now, I mentioned this gut check, what do mean by gut
24 check? That's fine, we expect to earn a return of 6.75 percent
25 with a standard deviation of approximately five percent. So,

1 you know, subject to your own time horizons, let's say in this
2 case, five, 10 years, a long-term. What if there's some
3 changes in the capital market, we all know that that can
4 happen. What is the pain threshold? In this scenario, this
5 asset class mix we have presented here in one year time the
6 probability it's going to earn less than zero, it means
7 negative return, is 8.7 percent. But given a longer time
8 period, five years, the volatility of loss is going to be
9 drastically reduced, less than one percent, in this case,
10 again, it's 11 base points.

11 Go ahead.

12 MR. TILLERY: I don't understand on this
13 volatility, it's about plus or minus five percent which I sort
14 of took to mean that your return could range between, what,
15 1.75 and 11.75.

16 MR. CHUNG: Exactly.

17 MR. TILLERY: Yet there's at least an eight
18 percent chance it's going to be less than zero.

19 MR. CHUNG: Uh-huh.

20 MR. TILLERY: So what is that volatility
21 telling me, because it's not an upper or lower boundary?

22 MR. CHUNG: It's basically, you look at this as
23 under normal distributions you have a bell curve distributions.

24 MR. TILLERY: Uh-huh.

25 MR. CHUNG: Four is a plus or minus from the

1 mean. In this case, and the standard deviation is a five, plus
2 or minus from the mean there, so you are still at 1.75, but you
3 could go to the tail end of the distribution of the bell
4 curve.....

5 MR. TILLERY: Uh-huh.

6 MR. CHUNG:there's a certain point that
7 there's going to be some probability of occurrence, it's going
8 to be less than zero percent, it's going to be negative. And
9 that is the probability we're trying to calculate there, but in
10 this case actually it's going to be eight percent. The 8.7
11 percent is not return in this case, it's probability of
12 occurrence.

13 MR. WRIGHT: And probability of occurrence of
14 not making money for just that year?

15 MR. CHUNG: Yeah.

16 MR. WRIGHT: Just for that year.....

17 MR. CHUNG: Yeah.

18 MR. WRIGHT:not for the whole series.
19 Okay.

20 MR. CHUNG: So just to be more precise here,
21 the probability of low return is this percentage of occurrence.
22 And the volatility of returns is a performance number itself.

23 MR. TILLERY: What's the probability that
24 you're going to end up outside that volatility range?

25 MR. CHUNG: Which volatility range?

1 MR. TILLERY: Well, this five percent say, I
2 mean, you got this plus or minus five percent.....

3 MR. CHUNG: Uh-huh.

4 MR. TILLERY:but there's at least.....

5 MR. CHUNG: Sixty-six percent.

6 MR. TILLERY: A 66 percent chance you'll stay
7 within?

8 MR. CHUNG: Exactly.

9 MR. TILLERY: Good.

10 MR. STORER: If I may interject one thing at
11 this point, and it goes to all of these questions, it's a
12 question of investment time horizon that Michael mentioned.
13 You see the probability of a loss in a single year, then you
14 look at multiple years. The longer the investment time
15 horizon, typically, the more risk you can accept. And the
16 reason being is you can handle -- or interim volatility has
17 less meaning in the analysis.

18 MR. BUSHRE: In other words there's time for
19 the market to come back.

20 MR. CHUNG: Right.

21 MR. TILLERY: I understand.

22 CHAIRWOMAN HEIMAN: Didn't it have another
23 category, too, there's a probability of loss and then -- that's
24 the probability of negative return, it's the same thing as
25 probability of loss; is that right?

1 MR. CHUNG: Exactly.

2 CHAIRWOMAN HEIMAN: And then there's another
3 category which is probability that you won't need to target,
4 right?

5 MR. CHUNG: Exactly.

6 CHAIRWOMAN HEIMAN: Do you know what those are
7 or do you have what's in front of us?

8 MR. CHUNG: Well, if you think about it, Madam
9 Chair, it's going to be normal distributions, in this case
10 under all these different asset classes the total return is the
11 median return, so the probability is going -- over one year or
12 five year earn less than the median, which is in statistical
13 terms going to be 50 percent, less than that.

14 CHAIRWOMAN HEIMAN: Okay.

15 MR. CHUNG: But now asset class mix, as the
16 illustrations, are a very conservative portfolio, we earn only
17 6.75 percent.

18 Let's move on to asset class 10, a little bit more
19 aggressive portfolio in this case. We're trying to earn nine
20 percent here, so we have asset mix of 67 percent in equities,
21 20 percent international equities and only 12 percent in bonds,
22 nothing in cash, that's the safest investments out there. With
23 nine percent expected return the volatility returns now just
24 would increase. Originally we look at five percent of
25 volatility returns, now under asset class mix that shot up to

1 14.5 percent. A lot more volatile than when we're to earn 6.75
2 percent. Again, that is under two-thirds of the time, 66
3 percent occurrence, plus or minus from the nine percent. At
4 the same time look at probability of loss, over a one-year
5 period, probability of loss to earn less than zero, a negative
6 analysis, very high, too, 26 percent.

7 At the same time, like Mr. Bushre or Mr. Storer also
8 mentioned, as the time investment horizon extends beyond one
9 year, the longer time period of the investment horizon, you
10 should be able to incur more risk investments. At the same
11 time the divergence to means allows you to earn expected
12 returns also higher. Now, over a five-year period of time, the
13 probability of loss also decreases substantially down to eight
14 percent.

15 MS. McCAMMON: Michael -- this is Molly
16 McCammon. If the intent of the Council is to invest this as a
17 permanent endowment with a horizon well into the future, much
18 longer than one year or five years, do you build a longer time
19 horizon into your asset allocation mix or is there a maximum
20 number of years that you don't go beyond, like five years or 10
21 years or something like that?

22 MR. CHUNG: It's almost like industry practice,
23 right now we kind of rely on the five-year horizons.

24 MS. McCAMMON: Five years typical?

25 MR. CHUNG: Yeah. Do you have any point to

1 add, Bob?

2 MR. STORER: I guess I say it two different
3 ways, you -- typically the longer term your investment time
4 horizon the more risk you can accept and then be compensated
5 for that. A lot of endowment funds, retirement systems, use an
6 investment time horizon of between 25 years and perpetuity,
7 that allows them to take on greater risk. I think what Michael
8 was alluding to is at the Department of Revenue and something,
9 I've always used if you don't have -- you have to have at least
10 an investment time horizon of five years or greater to invest
11 in the equity market. If your time horizon is shorter than
12 that then you're probably incurring too much risk for what is,
13 in fact, a short time horizon.

14 MR. TILLERY: If what we're looking at
15 eventually is paying out money based on a five-year rolling
16 average.....

17 MR. STORER: Uh-huh.

18 MR. TILLERY:that would mean that
19 presumably every five years that's the amount of money we're
20 going to have to work with, so I would think that would suggest
21 that five years would be our appropriate time horizon; is that
22 right?

23 MR. STORER: Your time horizon in our
24 discussions is significantly greater than five years. And what
25 I've been hearing is discussions is your time horizon is in

1 perpetuity. The questions then would be do you want to protect
2 yourself against inflation, and so you want a return that is in
3 excess of inflation. And then the discussions are what should
4 you payout -- what should your payout policy be in excess of
5 inflation. We've been discussing a five-year rolling average
6 only for payout computations only and not from an investment
7 time horizon perspective. This fund that -- what I've been
8 hearing, again, are discussions that this fund should be used
9 -- it's goal is to be used in perpetuity and that it should
10 protect itself or the purchasing power of the fund by
11 protecting against inflation as well. So this fund -- five
12 years is merely for the payout model, not for the investment
13 decisions.

14 I'll try again.

15 MR. TILLERY: No, the reason I'm a little
16 puzzled.....

17 MR. STORER: Go ahead.

18 MR. TILLERY:it would seem to me that if
19 we're looking for a stable program.....

20 MR. STORER: Yes.

21 MR. TILLERY:and if we're going to be
22 taking -- as of each year we're going to be doing a payout
23 based on a five-year analysis, five-year average returns.

24 MR. STORER: Uh-huh.

25 MR. TILLERY: Then wouldn't we want those five

1 years -- wouldn't we want whatever investments we have, have
2 time to sort of go and come and wax and wane within that five
3 years?

4 MR. STORER: The five-year payout methodology
5 smooths the payout method so that you're not -- if you do a
6 shorter time horizon you could get significant increases in
7 availability of money or no money at all if you use shorter
8 time horizons because then you're more vulnerable to interim
9 volatility or interim time periods. So if you use a five-year
10 payout methodology of the average size of the fund over five
11 years, that's -- you've -- you know, it's 20 percent per year,
12 if you will, so you smooth out the volatility. That's an
13 important issue.

14 The other thing is that five-year time horizon. If you
15 look at your sheet, the probability of a negative return over a
16 five-year period is very small. That would be the
17 demonstration on why you want to avoid interim volatility.

18 MR. TILLERY: Uh-huh.

19 MR. BUSHRE: For what it's worth, the Permanent
20 Fund uses a five-year average for the dividend.

21 MR. TILLERY: Uh-huh.

22 MR. BUSHRE: And if you use a one year, as Bob
23 was saying, you're liable to find yourself in the midst of a
24 major market correction and be short of cash funds.

25 MR. STORER: Those are almost independent

1 decisions. If there's a hierarchy it's what is your investment
2 time horizon. Perpetuity. Your next decision would be what
3 excess return -- what return do you want to payout in excess of
4 inflation. And then the third piece, then, would be simply in
5 terms of the payout, what would be the methodology of the
6 payout and that would be a separate decision from the other
7 two.

8 MR. CHUNG: But look at the table, in essence
9 it derives as -- you know, as we all kind of understand now is
10 if you want to strive for a higher return, expect you can have
11 more portfolio volatility. At the same time that is being
12 balanced out by if you have a long investment horizon you
13 should be able to incur a higher amount of risk.

14 Mr. Bushre.

15 MR. BUSHRE: Madam Chair, does anybody have any
16 questions on that before I go into what other funds are doing?

17 MR. WRIGHT: One question. This is Bruce
18 Wright. Michael, at which point -- we're going out here to
19 scenario 10, at which point is the risk and the volatility too
20 high relative to our expected return? I'd like to have a
21 return of 20 percent.

22 (Laughter)

23 MR. WRIGHT: Obviously with the laughter that's
24 not an option but.....

25 (Laughter)

1 MR. WRIGHT:where do you draw the line?

2 MR. BUSHRE: It's an option.

3 MR. CHUNG: It is an option, we just have to
4 put in the number 20 and see what we can get. Maybe we bulk up
5 the computer and.....

6 MS. McCAMMON: A hundred percent equities.

7 MR. CHUNG: Yeah. Well, depending on what
8 you're striving for here. I mean, we put in here, you know,
9 the lower end was 6.75 and upper at nine. I guess anywhere
10 from mix five to mix eight is well within reasonableness. What
11 you're shooting for, a long period time, you know, in sync with
12 what all the national endowment funds or pension plans are
13 shooting for and the appropriate amount of risk that you're
14 looking for. Somewhere between, a volatility return in a given
15 year, from eight percent to 11.8. I think that's within
16 reasonableness.

17 MR. WRIGHT: And public funds -- public
18 foundations or foundations using public funds usually fall
19 within that group?

20 MR. BUSHRE: Well, Peter is going to talk about
21 that, too, he's got some research on that.

22 MR. WRIGHT: Okay.

23 MR. CHUNG: But as an example, for the State of
24 Alaska's retirement systems, we have a return of around 8.1
25 percent, expected return for the next five years.

1 MR. WRIGHT: Uh-huh.

2 MR. CHUNG: And in any given year we have a
3 portfolio of volatility around 10.7 percent. So somewhere
4 between mix six and seven.

5 MR. WRIGHT: Uh-huh. Thank you.

6 MR. BUSHRE: Madam Chair, before I talk about
7 payout rules and asset allocations that are prevalent in the
8 industry, I just want to point out, in case anyone has the idea
9 that a blue blazer is standard issue for investment people,
10 that I was not instructed to buy one when I went into
11 business.....

12 MR. STORER: The only jacket we own.

13 (Laughter)

14 MR. BUSHRE: I can't afford anything else.

15 (Laughter)

16 MR. BUSHRE: Anyway, Greenwich Associates
17 conducts a national survey of public and private endowments and
18 foundations and the information that we have from them is for
19 1998, it's a survey of 243 responding funds. And we also have
20 information for 1999, but it's a more restricted universe --
21 just of university endowments. So looking at the broader
22 universe and looking at payout rules to begin we found that
23 only three percent of endowments nationwide were less than four
24 percent payout. Seventeen percent of the responding funds paid
25 out between four and 4.3, 23 percent between 4.4 and 4.7 and 42

1 percent between 4.8 and five. The mean is 4.7 percent payout
2 and the median was 4.9 percent payout. Only 14 percent of
3 these funds paid out more than five percent.

4 Looking at 1999 data, it's a little lower, but again I
5 caution you this is just among universities, which could be a
6 little bit more conservative, but the mean payout was 4.2
7 percent and the median was four percent.

8 Now, you've been looking at these asset mix
9 alternatives and endowments responding to the study, it turns
10 out have committed, in 1998, 53 percent to domestic stocks, 13
11 percent to international stocks and 20 percent to domestic
12 bonds, 11 percent was allocated to other asset classes, like
13 real estate and, of course, there's always a residual amount in
14 cash, and in this case it turned out to be three percent. That
15 would put them closer to scenario.....

16 MS. McCAMMON: Between eight and nine.

17 MR. BUSHRE:eight.

18 MR. TILLERY: 8.5.

19 MR. BUSHRE: 8.5, 8.34 perhaps. But, of
20 course, these scenarios were not run with real estate or other
21 asset classes.

22 Any questions?

23 MS. McCAMMON: Those figures are what, Peter,
24 again?

25 MR. BUSHRE: This is a survey by Greenwich

1 Associates.....

2 MS. McCAMMON: But it's the average of what
3 most foundations.....

4 MR. BUSHRE: Yes.

5 MS. McCAMMON: Their investments?

6 MR. BUSHRE: Right.

7 MS. McCAMMON: Okay.

8 MR. BUSHRE: This is what the results show.

9 MS. McCAMMON: Yeah, right.

10 CHAIRWOMAN HEIMAN: Any questions?

11 MS. McCAMMON: I do have a question. Do you
12 have an idea of what kind of foundations that covered? I mean,
13 university foundations.....

14 MR. BUSHRE: Universities, public foundations
15 and endowments, private endowments, there are many private
16 endowments for universities that go to Ivy League schools, for
17 example.

18 MS. McCAMMON: Right.

19 MR. BUSHRE: The university study showed
20 similar results with approximately half in equities and about a
21 quarter in fixed income, and another 20 percent, perhaps, in
22 international equities.

23 CHAIRWOMAN HEIMAN: Which is fixed income?

24 MS. McCAMMON: Bonds.

25 MR. BUSHRE: Bonds. Bonds, sorry.

1 CHAIRWOMAN HEIMAN: That's okay.

2 MR. BUSHRE: I'll use the generic term, stocks,
3 bonds.

4 MR. TILLERY: Is the 3.25 percent estimated
5 rate of inflation sort of what is currently projected? If you
6 ask anybody.....

7 MR. BUSHRE: Well, if you ask Callan, correct?
8 That is the Callan capital assumption.

9 MR. STORER: That is the projection by the
10 consulting firm over the next five years.

11 MR. BUSHRE: And they're the consulting firm
12 for the Treasury Division and for the Permanent Fund.

13 MR. WRIGHT: So, Peter, the average mix of
14 asset classes for those foundations is about 8.5 percent. And
15 yet the average projected return, you know, 42 percent -- oh,
16 actually the average projected return was 4.7 percent.

17 MR. BUSHRE: No, that's the payout.

18 MS. McCAMMON: Payout.

19 MR. WRIGHT: Oh, that's -- okay, that.....

20 MR. BUSHRE: That was what -- two separate
21 subjects, that's what they're paying out currently

22 MR. WRIGHT: Oh, okay. So it doesn't line up
23 with the two charts which would indicate they would, what, have
24 additional funds that they would just roll back into their
25 foundation?

1 MR. BUSHRE: Well, exactly, above inflation.

2 MR. WRIGHT: Okay.

3 MR. BUSHRE: They fall somewhere between
4 scenario eight and scenario nine, but we did not run these
5 scenarios with other asset classes, other than stocks and bonds
6 and international stocks. And had we done so it might be a
7 little different, but that's where they're ending up and this
8 would assume an approximate 8.5-8.75 percent gross return with
9 a 5.25-5.5 percent net return. So they are keeping about 1-
10 1.25 percent in their funds to grow the funds.

11 MR. WRIGHT: To keep the -- yeah, okay.

12 MR. BUSHRE: Above inflation.

13 MR. WRIGHT: Okay, I understand. And so that's
14 a standard is they're looking for growth of their endowment in
15 addition to meeting their payout, in addition to meeting
16 inflation?

17 MR. BUSHRE: Exactly. And they are accepting
18 volatility of about 12 percent.

19 MR. WRIGHT: Uh-huh.

20 MR. BUSHRE: And with a probability of six
21 percent, roughly, over five years, of loss.

22 MR. WRIGHT: Uh-huh.

23 MR. STORER: If I may, I'm sorry, one of the
24 things that you need to think about is if you want to ensure
25 that you can achieve that payout of four percent, it would not

1 be inconsistent to have a high real rate of return of five
2 percent. What that means, of course, is then you would have
3 that one percent excess return. If you think about it, you're
4 accepting a lot more interim volatility, but by accepting that
5 greater volatility you will have a better chance of achieving
6 that four percent payout by overshooting. We can accept the
7 probability -- a 25 percent probability of a loss in a single
8 year, but over five years we know we've got a lot better chance
9 of making that four percent payout and maybe adding a little
10 bit extra. So that's the implication and there's people that
11 will accept a greater amount of interim volatility for the
12 greater probability of achieving the four percent payout.

13 MR. WRIGHT: Uh-huh.

14 MR. BUSHRE: And the greater volatility is only
15 about 1.5-1.75 percent more, but the probability of loss is not
16 that much different.

17 MR. WRIGHT: I see. I understand.

18 MS. McCAMMON: So it's actually to your
19 advantage to probably overshoot a little, be more conservative
20 on the payout.

21 MR. WRIGHT: Right.

22 MR. BUSHRE: Well, if the payout is set in
23 stone, you're going to have to make that payout -- you want to
24 be sure you have enough money there above inflation.

25 MS. McCAMMON: Well, we won't have a payout set

1 in constitution or in statute, so that's a help.

2 CHAIRWOMAN HEIMAN: Right.

3 MR. BUSHRE: But the dividend sure is.

4 MS. McCAMMON: At least we have a little bit
5 more flexibility than that.

6 MR. STORER: Yeah, I can't make an absolute
7 statement, but the answer is, yes. I know that the retirement
8 system approaches it that way. If you looked at the Permanent
9 Fund it's either implied or explicitly done. I think that most
10 endowment funds clearly are accepting that approach.

11 CHAIRWOMAN HEIMAN: Okay, keep moving forward.

12 MS. McCAMMON: Just one more question. The
13 probability of not achieving the target rate of return, then,
14 is 50 percent on either side because it's a median return?

15 MR. CHUNG: It's a median return. The target
16 set here is a median return.

17 MS. McCAMMON: A median return, okay.

18 MR. STORER: Your example would be your four
19 percent of real rate of return, so if you went to four plus the
20 three and a quarter, if you went to a seven and a quarter real
21 then your probability of hitting that target is 50 percent.
22 But remember you actually -- if you were more aggressive and
23 went to eight and a quarter your probability of hitting your
24 target return will be better than 50 percent, but again you're
25 accepting more volatility in the interim.

1 MS. McCAMMON: Right, right. Okay.

2 CHAIRWOMAN HEIMAN: So are we moving to this
3 next category, roles of investment consultants and managers?
4 Do we want to come to any kind of general.....

5 MS. McCAMMON: I think the main thing is -- you
6 know, we've been talking as a group and trying to focus on what
7 the group would come back to the Council with as a
8 recommendation and I think it's kind of -- internally we've
9 been kind of looking at probably scenario seven, eight,
10 somewhere around in that area. What I want to make sure is, do
11 you have enough information now that if the work group goes
12 back and we do -- you know, kind of what's the sense of the
13 Council so we can go back and work a little bit more and
14 develop a recommendation that we would come back to you with.

15 MR. TILLERY: Yeah, that was kind of my
16 question. What is the sense of the Council? But what are the
17 questions?

18 MS. McCAMMON: And what are the questions,
19 right.

20 MR. TILLERY: I mean, one of the obvious
21 questions is the payout that the Council is going to be looking
22 for, are there others, though? I mean the one question, I
23 guess, is the Council going to be looking for a payout where
24 you do build in a one percent real growth as kind of a hedge?
25 Other questions.....

1 MR. BUSHRE: Well, that's our recommendation is
2 that you build that real growth. The payout should -- should
3 be able to calculate that.

4 MS. McCAMMON: But your recommendation is
5 inflation proof a one percent real rate of growth and then have
6 whatever is left is your payout?

7 CHAIRWOMAN HEIMAN: So, for example.....

8 MS. McCAMMON: But you wouldn't back it out
9 that way.

10 MR. BUSHRE: Well, you will have a payout based
11 upon what you anticipate the needs will be. That will equate
12 to a certain percentage. So that has to be.....

13 MS. McCAMMON: But the needs are unlimited,
14 it's kind of hard to.....

15 MR. BUSHRE: Well, won't the Council have a
16 reasonable number in mind, perhaps?

17 (Laughter)

18 CHAIRWOMAN HEIMAN: Perhaps. Maybe we could
19 just run through a quick scenario and everyone can sort of.....

20 MR. STORER: If I may make an observation. I
21 think you've seen a lot of studies, but what is embedded in the
22 study are a lot of organizations that have evolved to where
23 they are, by that, these are not new foundations, they've been
24 around, they've learned and they've moved incrementally. I
25 would be willing to bet that nobody started at a 4.8 percent

1 payout and so I would encourage this group to think of
2 something very reasonable, but don't shoot for the moon right
3 away and reasonable is probably around four percent, would be
4 -- nobody asked me, but I would think in those kind of terms.
5 And then reevaluate at some time whether you want to revisit
6 the payout. I think newer organizations run the risk of trying
7 to get too high a payout schedule and not achieving your goals
8 and then saying, we're not doing this right, we got to do
9 something else. And so I think it's the walk before the run.

10 MS. McCAMMON: Well, then.....

11 MR. STORER: Yes.

12 MS. McCAMMON: Now, my question just lost me,
13 it'll come back. It was an important question.

14 MR. TILLERY: Would that be even more
15 significant if we're trying to ease into this five year rolling
16 average so then instead of starting -- if we're looking for
17 ultimately a five year rolling average of four percent, would
18 we really want the first few years to start off at three
19 percent payout?

20 MR. STORER: It's a very reasonable approach,
21 two, three or incrementally grow, say, by year five we'll
22 payout four, is -- I guess I would applaud that sort of
23 approach if you think it'll work.

24 MR. BUSHRE: For example -- I'm sorry.

25 MS. McCAMMON: My question did come back.

1 (Laughter)

2 MS. McCAMMON: It was an important one. It was
3 an important one, because I'll lose it again. If, let's say,
4 your goal is a four percent payout and you hit this bum year
5 where there's the stock market correction, do you decide that
6 year you're not going to do your four percent payout or would
7 you still go ahead and do your payout?

8 MR. STORER: Believe in the long-term
9 investment time horizon, do not get caught up in short-term
10 events. And I'll define short-term events as -- I mean, I
11 would define it as eight, but realistically it's at least five
12 years.

13 MS. McCAMMON: Okay.

14 MR. BUSHRE: Madam Chair.

15 CHAIRWOMAN HEIMAN: Yeah.

16 MR. BUSHRE: For example, scenario eight in
17 this paper, asset allocation alternatives, asset mix
18 alternatives, scenario eight would imply a payout -- if we
19 assume that you're going to retain the one percent above
20 inflation, it would assume the maximum payout of four and a
21 quarter percent, that you would not go beyond that.

22 CHAIRWOMAN HEIMAN: And I forget, Molly, did we
23 generally as a group think seven or eight? I can't remember.

24 MS. McCAMMON: We were homing in on eight.....

25 MR. TILLERY: Seven.

1 MS. McCAMMON:or seven, I'm sorry.
2 CHAIRWOMAN HEIMAN: I thought it was seven.
3 MR. STORER: Seven.
4 MR. BUSHRE: You and I were eight.
5 MS. McCAMMON: You were eight, but that was
6 before we actually had the benefit of the research and what
7 other endowments and foundations are doing, too.
8 CHAIRWOMAN HEIMAN: I see. So you were moving
9 more towards eight?
10 MS. McCAMMON: Well, now I'm moving more toward
11 eight or nine.
12 (Laughter)
13 MR. WRIGHT: But because this is such a long-
14 term program.....
15 MS. McCAMMON: Well, with the lower payout,
16 that idea of not paying out.
17 MR. WRIGHT: Right. And if we're conservative
18 up front.
19 (Multiple voices all shouting different numbers)
20 CHAIRWOMAN HEIMAN: Yeah, it's a good thing
21 where you started us or we'd be in trouble.
22 MR. TILLERY: Do I hear 11?
23 MR. RUE: Eleven.
24 MS. McCAMMON: We actually went around the room
25 and we were taking kind of bids on who was leaning towards

1 which one and Bob's the more conservative one of the bunch.

2 CHAIRWOMAN HEIMAN: That's why we're glad he's
3 managing the Permanent Fund.

4 MS. McCAMMON: Yes.

5 CHAIRWOMAN HEIMAN: Okay. So does everyone
6 feel comfortable with this discussion? And then like Craig
7 said, I think, and Molly, that's the real question, if this was
8 brought to us with a recommendation -- let's say, our committee
9 comes up with a recommendation of alternative eight, we'll
10 bring that to the full Council, does everyone feel comfortable
11 with making a decision next time on that?

12 MS. McCAMMON: Do we have to make a decision on
13 the payout schedule at the same time, because they're kind of
14 closely tied together?

15 MR. TILLERY: I don't think you have to make a
16 final decision, I don't think, but you really ought to have it
17 in mind, obviously.

18 MS. McCAMMON: Yeah.

19 MR. BUSHRE: If you make a decision on the
20 other it's going to constrain.....

21 MS. McCAMMON: Right.

22 MR. BUSHRE:the payout decision.

23 MS. McCAMMON: Right.

24 MR. STORER: You need to make a decision on
25 your real rate of return target. It doesn't have to be the --

1 you know, your driver would be, say, a targeted four percent or
2 greater than inflation, that's your starting point.

3 CHAIRWOMAN HEIMAN: Okay. So maybe at the next
4 meeting everyone should be prepared -- just generally feeling
5 comfortable that's the decision we're going to make, so if
6 there's questions that come up -- and Craig and I sort of will
7 meet with Molly and the committee in between. So will we put
8 something in writing ahead of time so people can look at it?

9 MS. McCAMMON: Yeah, we'll develop a
10 recommendation, yeah.

11 MR. TILLERY: But in terms of giving direction
12 to the committee, I would just say that my own inclination, at
13 this point, is to look, eventually, to a payout of about four
14 percent, if we build in a one percent, then you're looking at a
15 real rate of return of five percent. I would also sort of be
16 inclined not to start off with a payout of four percent until
17 we have a track record. That's where I'm kind of headed, if
18 that helps the committee, but maybe if other people state where
19 they're sort of headed, then the committee will know.....

20 MR. GIBBONS: That's about where I'm coming
21 out, too. I was looking at this and saying -- I'm really
22 toying between seven and eight, somewhere in that range, you
23 know, and for the payout, let's start the payout lower and then
24 look how that averages out over.....

25 MR. BUSHRE: Madam Chair, four percent would be

1 the 1999 median for 367 university endowments and
2 foundations.....

3 CHAIRWOMAN HEIMAN: Okay.

4 MR. BUSHRE:4.2 being the average.

5 CHAIRWOMAN HEIMAN: Okay. Ms.....

6 MR. RUE: Madam Chair, this is Frank. I'd
7 probably be a little bit more aggressive, but I've been reined
8 in.

9 MS. BROWN: I'd be a little bit more
10 aggressive, too, but considering, I would defer to the far
11 better knowledge of these matters to other folks.

12 (Laughter)

13 CHAIRWOMAN HEIMAN: We couldn't have better.

14 MR. BUSHRE: Remember, we can only afford a
15 blazer.

16 (Laughter)

17 MR. RUE: I guess in some ways being more
18 aggressive, our responsibility isn't to, you know, pensioners
19 or people on retirement or even a long-term institution, like a
20 university. To me, I feel a little less responsible, if you
21 will.

22 (Laughter)

23 MS. McCAMMON: Well, there are no contractual
24 obligations involved here.

25 MR. RUE: Right.

1 MS. McCAMMON: It's not like we're obligated to
2 make land payments or something like that.

3 MR. RUE: Right.

4 MS. McCAMMON: It's whether your, you know,
5 certain research projects get funded each year.

6 MR. RUE: I'm willing to be a little more risky
7 to perhaps have more money to throw at some important research.

8 CHAIRWOMAN HEIMAN: So are you, Frank, talking
9 about the real rate of return or the payout as far as the
10 riskiness?

11 MR. RUE: Well, you got to go to the real
12 return and then that, as I understand it, sort of drives your
13 payout.

14 CHAIRWOMAN HEIMAN: Right, but what I think
15 Craig is talking about being conservative on is a payout that's
16 much below our real rate of return.

17 MR. RUE: Oh, I agree. Yeah, I agree, I think
18 you should start with an expectation that's a little lower on
19 the early years for payout, but if you're shooting for a higher
20 rate of return your either going to grow the fund, if you're
21 good or you're optimistic assumptions come true, you'll have
22 more money to plow back into the fund or even payout if it's
23 higher than you want. But I think having conservative
24 expectations on payout early on is probably smart, but I'm
25 willing to be a little more risky in terms of real rate of

1 return.

2 CHAIRWOMAN HEIMAN: Okay.

3 MS. BROWN: I'd agree with Frank. I mean we
4 have -- we don't have any obligations, but we have real needs
5 and real momentum get some of these needs met, so if we could
6 maximize -- you know, I mean, I agree don't overbank on what
7 we're going to get in, but if we could maximize the ability I'd
8 go for more toward the nine range, considering it's not out of
9 the range of responsible management, which it sounds like it's
10 not.

11 MR. RUE: So in your sense of leaning, I'd kind
12 of lean on the aggressive side.

13 CHAIRWOMAN HEIMAN: So when you say aggressive,
14 are you talking about alternative nine?

15 MR. RUE: Eleven.

16 (Laughter)

17 MR. RUE: No, nine or 10, roughly in that
18 range, but I can -- I'm not irrevocably committed.

19 CHAIRWOMAN HEIMAN: And I know Craig is well
20 down below that, I've talked to him about it.

21 MR. RUE: Okay. Well, we'll -- this is the
22 purpose of having a group discussion.

23 MR. WRIGHT: This is Bruce Wright. Because
24 this is -- because we have a very long-term program it offers
25 us some protection if we are risky, if our asset classes are

1 riskier and so because of that and because we can control the
2 payout, we have total control over that, I lean more towards a
3 high risk. This is a very long-term program and so I would
4 lean more toward the nine percent. Not 10 percent, I think,
5 because that's so much beyond the median, the average, and I
6 don't want to be standing out there too far from the norm of
7 foundations in this country.

8 MS. McCAMMON: Another question would be, this
9 information was based on the most recent information from
10 February. And it's my understanding you go back at least once
11 a year, based on new information, and you would adjust. And
12 what -- do you adjust your asset allocation mix, do you adjust
13 your potential payout, I mean, what adjustments do you make on
14 an annual basis with new information?

15 MR. CHUNG: Well, basically, what we do is with
16 the new capital market assumptions, put in a model and then
17 take a step back as given the known fact that over, let's say,
18 five, 10 years, we still have this payout, put in number 3, 4,
19 whatever, we still try to achieve this real return and let's
20 say one percent above inflation. Now, tying in with one hand
21 the new capital market assumptions, what is the next optimal
22 asset mix that will still get us there?

23 MS. McCAMMON: Uh-huh.

24 MR. CHUNG: There may be times when you only
25 have to tweak the asset mix slightly, there may be times when

1 you have to tweak a little more drastic.

2 MS. McCAMMON: But you would do that tweaking
3 of the mix on an annual basis?

4 MR. CHUNG: On an annual basis, yeah. And then
5 the other thing is for your planning purpose, maybe when you
6 decide on this asset allocations, you might want to put in some
7 kind of a bend, because we all know the capital market is not
8 going into parallel fashion. Some asset classes are going to
9 go up, some are going to come down, so at times they will
10 fluctuate. So let's say -- as an example, let's say asset
11 class mix stock markets go on a roll, go on a tear here and the
12 return is 30, 40 or 50 percent, whatever, pick a number. Now,
13 in six months from now you find out the actual asset
14 allocations, now it's beyond what you initially planned. So
15 you want to bring some kind of plan so in your interim basis
16 you can rebalance a portfolio.

17 MS. McCAMMON: Uh-huh.

18 CHAIRWOMAN HEIMAN: Right.

19 MS. McCAMMON: Right.

20 CHAIRWOMAN HEIMAN: Okay. I think we're ready
21 to move to the next.....

22 MR. WRIGHT: Madam Chair.

23 CHAIRWOMAN HEIMAN: Yes.

24 MR. WRIGHT: One last question on that topic.
25 Within the equity broad market, would we -- I guess, do you

1 make different allocations within that market? I mean, like
2 right now you're buying high tech and maybe next week, you'll
3 go no, oil and gas prices -- or do you just pick, like, the S&P
4 500 and just.....

5 MR. CHUNG: For this discussion we're talking
6 about S&P broad market representations.

7 MR. WRIGHT: Okay.

8 MR. TILLERY: Now, that -- I guess, maybe, does
9 that bring up another issue about whether we are going to be
10 looking at index type investments versus directed or sort of
11 specific investments?

12 CHAIRWOMAN HEIMAN: Maybe we can discuss that
13 in the next category because that's where those consultant
14 managers -- if we go with the State system, they will, you
15 know, do a mix of those things and we sort of -- aren't we
16 relying on them to make those kinds of decisions?

17 MR. STORER: Yeah, I think the first question
18 is what asset allocation do you want to develop.

19 MR. TILLERY: Uh-huh.

20 MR. STORER: Then the next question is, how do
21 you want to implement that strategy and then you work through
22 those kinds of issues, whether it's the State or other
23 direction and you work through those kinds of things at that
24 point.

25 MS. McCAMMON: Which is the next issue which

1 we'd also like to get some movement on in the next month, which
2 is getting to the point of deciding who would be the investment
3 manager for the trust funds. And the options that we have
4 under the Federal statute are using -- continuing to stay in
5 CRIS, the Court Registry System, using the NRDA account, the
6 Federal NRDA account, but that doesn't meet our investment
7 goals. So really the only two possibilities are either using
8 the State Treasury or the private sector. And then the private
9 sector there's a whole range of options there in terms of
10 investment managers. So that's who actually develops the
11 portfolio and actually purchases and sells the assets, that
12 actually manages that.

13 There are two other functions before you get to that in
14 terms of the bank custodian, which is where the funds are
15 actually held, and then also an investment consultant who often
16 is employed by the investment manager or can be even
17 additionally independent, it depends. But they're independent
18 even to the investment manager even if they're provided by the
19 investment manager.

20 But maybe, Bob and Peter, Michael, you could give us a
21 little bit more information on that, because once the Council
22 decides on the asset allocation plan, and I think a payout, at
23 least an initial payout, some payout assumptions, that's the
24 next step in order to get the funds moved. Because it's the
25 basic decision of where do the funds get moved to, so.....

1 MR. BUSHRE: Did you want a description of the
2 role of each of these?

3 MS. McCAMMON: Yeah, just.....

4 MR. BUSHRE: I mean you've laid it out fairly
5 well here in this memo.

6 MS. McCAMMON: Well, maybe if there's just any
7 questions, if anybody -- I mean, the depth of my knowledge is
8 right here.....

9 CHAIRWOMAN HEIMAN: Excellent, that's about
10 what we needed.

11 MS. McCAMMON:and no further.

12 MR. BUSHRE: Well, the custodian, since it's
13 the first on the list, is really key to institutional
14 investing, you cannot be an institutional investor without a
15 custodian. You can without a consultant and you can without a
16 manager and do the managing yourself. But in order to buy the
17 securities and clear the trades you have to have a custodian,
18 and these are normally large money center banks. The
19 population of them is getting smaller and smaller, but they're
20 probably five, I would say, that are leading custodian banks in
21 the United States. And they will collect the money when you
22 sell something and deliver the security to the buyer or they
23 will pay the money to the seller and collect the security for
24 you, hold it in your account and provide you with periodic
25 reporting on activity, buys and sells, income that has come in,

1 dividends, interests, capital gains and value that portfolio
2 for you. And the services that they offer are quite
3 competitive and it's gotten to the point where you can get all
4 this information at the stroke of a computer keyboard,
5 depending on your interest in it. But it is the first and, I
6 would say, one of the most important decisions that you'll have
7 to make.

8 Now, should you go with the State, if you should use
9 the State Treasury, they have a custodian and all of these
10 functions would be performed by their custodian on your behalf.
11 You would inherit that, so to speak, just like you would
12 inherit their managers and their consultant. They would
13 provide you with the performance reports and the asset
14 allocation studies and so on.

15 If you go the private sector route, you would have to
16 contract for each of these things separately and pay for them
17 obviously. The consultant.....

18 MS. McCAMMON: But the State Treasury doesn't
19 keep it -- there's not an account here, it's with State Street
20 Global, so it's one of the.....

21 MR. BUSHRE: Well, it would be a State Street
22 -- well, I haven't been working.....

23 MS. McCAMMON: The funds are not kept within
24 the state, correct?

25 MR. BUSHRE:at the Treasury in 20 years,

1 so I shouldn't step out there.

2 MS. McCAMMON: The funds aren't kept within the
3 state, correct?

4 MR. STORER: They're not kept.....

5 MR. BUSHRE: No.

6 MR. STORER: Only from an accounting
7 perspective, they are safekept at State Street.

8 MR. BUSHRE: Right.

9 MR. STORER: All the assets in the State
10 Treasury are safekept at State Street.

11 MR. CHUNG: If you go with the State Treasury,
12 the Council's account will be assigned an account number within
13 our Treasury accounting system with the custodian bank and all
14 the money will be managed accordingly within that account.
15 We'll track accounting-wise separately of everything.

16 MR. BUSHRE: And although you're
17 participating.....

18 MR. RUE: I hate to interrupt. Would you all
19 get a little closer to the mike?

20 MR. CHUNG: Okay. I'm sorry about that.

21 MR. RUE: It's hard to hear once in a while.

22 MS. McCAMMON: You're actually talking into
23 this one here.

24 MR. CHUNG: Okay.

25 MR. RUE: That would be great, thank you.

1 MR. CHUNG: If the money is being managed by
2 the State's Treasury the Council will be assigned an account
3 number and all the investment functions, activities will be
4 reflected within that investment account. And our custodian
5 bank will furnish periodic monthly reports including accounting
6 reports and performance reports.

7 MR. STORER: And will be audited annually by an
8 independent accounting firm.

9 MR. BUSHRE: And although you would be
10 participating in different investment pools with other funds
11 there would be a separate accounting for the Exxon Valdez Oil
12 Spill Trust.

13 MS. McCAMMON: Okay.

14 MR. TILLERY: If you went privately, would
15 these functions be provided by one entity, like they would be
16 if you went with the State, or would you go with three
17 different entities to provide each function?

18 MR. BUSHRE: The custody and the management and
19 consulting?

20 MR. TILLERY: Right.

21 MR. BUSHRE: Well, Bob outlined a number of
22 different scenarios, I think it was two months ago, probably at
23 our first meeting, and the answer to your question is yes. I
24 mean, you could have it all rolled into one or you can have
25 them all three separate.

1 MR. TILLERY: And there's not a policy issue in
2 terms of, I don't know, checks and balances, that sort of thing
3 that says you need to do one or the other?

4 MR. BUSHRE: Well, as an old auditor I would
5 say there is an internal control issue when you give your money
6 to someone and they have the custody, they give you the
7 accounting to tell you what they did and they make all the
8 decisions on what you buy and sell. There's no independent
9 check on what they're doing until the annual audit.

10 CHAIRWOMAN HEIMAN: But the State does have
11 that built into their system, right?

12 MR. BUSHRE: No, that's not the State's system,
13 they have a separate custodian, they have separate managers,
14 they have a separate consulting firm.

15 MS. McCAMMON: So they separated them out.

16 CHAIRWOMAN HEIMAN: Right, that's what I was
17 trying to say.

18 MR. STORER: And an independent auditor.

19 MR. BUSHRE: And independent auditor.

20 CHAIRWOMAN HEIMAN: So if we picked to go with
21 the State we would get the benefit of three different.....

22 MR. STORER: Three different.

23 MR. BUSHRE: Right.

24 MR. TILLERY: Which provides that check and
25 balance?

1 MR. BUSHRE: Exactly. There are -- we all know
2 from our own personal experience, those of us who invest and
3 buy stocks from, say, Merrill Lynch Brokerage Firm that they
4 safekeep the assets, they perform the custody, they perform the
5 brokerage. You can sign over management of your portfolio to
6 them, in which case they would make the decision of what you
7 buy and what you sell, and they would probably provide
8 consulting and advisory services, too.

9 MR. CHUNG: As an example, let's say, if the
10 Treasury manages the money on behalf of the Council, a
11 custodian bank they can generate a performance report. We, as
12 a manager, we do not generate the performance report and we
13 will not send it out to you. You will receive a monthly
14 performance report, it's coming directly from a custodian bank
15 where they keep track of daily performance of each securities
16 on different asset classes. They perform the independent
17 performance evaluations.

18 MR. BUSHRE: You see, they have no conflict of
19 interest.

20 MR. CHUNG: Yeah.

21 MR. BUSHRE: They weren't managing this money,
22 they didn't decide what to buy and sell.

23 MS. McCAMMON: Right.

24 MR. BUSHRE: They're just reporting the results
25 of those decisions to you.

1 CHAIRWOMAN HEIMAN: Maybe we could just walk
2 through how the State -- who is the bank custodian for the
3 State, who's the consultant, just one more time, and who's the
4 manager and how it works.

5 MR. CHUNG: The custodian bank for the State is
6 State Street Bank and Trust in Boston.

7 CHAIRWOMAN HEIMAN: State Street Bank?

8 MR. CHUNG: That's right, Bank and Trust in
9 Boston. They're one of the leading custodian banks in the
10 world.

11 MS. McCAMMON: Can I ask a quick question here?
12 Are there any custodian banks in Alaska?

13 MR. CHUNG: I think National Bank of Alaska,
14 maybe First National Bank of Alaska, they may have performed
15 some custodial service, subcontract.

16 MS. McCAMMON: It is a unique ability to be a
17 custodian bank?

18 MR. STORER: If I may, typically the services
19 provided in Alaska are -- actually they become an intermediary
20 for one of these money center banks, so there may or may not be
21 custody provided in Alaska, but in every instance I heard of
22 the local bank was merely an intermediary, and typically it's
23 been with State Street Bank and Trust as the ultimate
24 custodian.

25 MR. BUSHRE: And I'll second that. That has

1 been my experience, too, they just subcontract the work to a
2 money center bank.

3 MR. CHUNG: And why we at times, you know, how
4 come only the money center banks are able to do that, the thing
5 about that you have investments ranges from securities in
6 London, to Tokyo, to New York, to San Francisco, you need to
7 have, at times, a local representative office there.

8 CHAIRWOMAN HEIMAN: Uh-huh.

9 MR. CHUNG: You know, so the money center banks
10 they have the resources, they have the labor capability, the
11 technologies to do that.

12 And as far as consultant for the State, we use Callan
13 Associates, they're based in San Francisco.

14 CHAIRWOMAN HEIMAN: And that's the kind of
15 thing that - to follow on Molly's questioning -- we have
16 investment consultants in Alaska, don't we?

17 MR. STORER: The local brokerage firms do
18 provide consulting service.

19 MS. McCAMMON: But Callan Associates is -- I
20 mean there are, like, three or four kind of large big firms,
21 kind of like the big auditing firms, this is one of the larger
22 ones would you say?

23 MR. STORER: Yes.

24 MR. BUSHRE: Oh, yes.

25 MR. STORER: If not the largest. There are a

1 few that are very large, then there are some that are more
2 regional or boutique in nature and then you get the gamut where
3 you get the -- sort of the supermarket of products which would
4 be your brokerage firms where you can get consulting, money
5 management, et cetera, et cetera.

6 CHAIRWOMAN HEIMAN: And then as far as the
7 managers, who does -- how does the State do that? Is the State
8 the manager?

9 MR. CHUNG: For fixed income investments the
10 State Treasury Division manage the fixed incomes, we call that
11 internally or we do it ourselves. As for equity managers, we
12 do a lot of index fund type management. Index funds means the
13 equity performance -- trying to replicate the equity indices of
14 -- and we retain a subsidiary of the State Street Bank which is
15 State Street Global Advisor. Again, they are the leading index
16 fund managers out there in the world.

17 MR. STORER: Well, they're also -- besides
18 State Street Global Advisors they're negotiating with
19 Lazar.....

20 MR. CHUNG: Yes, we are.

21 MR. STORER:(indiscernible - interrupted)

22 MR. TILLERY: So that I understand. Was the
23 State -- for index funds, was the State the manager or was
24 State Street Bank or is it a mixture?

25 MR. CHUNG: State Street Global Advisory.

1 MR. BUSHRE: State Street Bank.
2 MR. TILLERY: State Street Bank.
3 MR. BUSHRE: Well, State Street Global
4 Advisors.
5 MR. CHUNG: State Street Global Advisors.
6 CHAIRWOMAN HEIMAN: But for bonds, the
7 State.....
8 MS. McCAMMON: They do it internally.
9 MR. TILLERY: They do internally.
10 MR. STORER: The Treasury manages about nine
11 billion dollars in fixed income securities.
12 CHAIRWOMAN HEIMAN: Nine billion?
13 MR. STORER: Uh-huh. (Affirmative)
14 MR. WRIGHT: Madam Chair.
15 CHAIRWOMAN HEIMAN: Yes.
16 MR. WRIGHT: Peter, the public endowment,
17 university endowment funds, how do they typically manage their
18 funds, how do they typically do this? Do they have -- do they
19 do it internally, contract it out?
20 MR. BUSHRE: No. They do both, the investments
21 in stocks are typically contracted out, investments in bonds
22 probably more than half of the funds in the survey were
23 contracted out, but a good portion, 30 to 40 percent would
24 manage it internally, like the State Treasury does.
25 MR. WRIGHT: I see. So they're very active in

1 their management of these -- of their fund?

2 MR. BUSHRE: Well, I don't know if I would say
3 very active, but quite a number of them are active, yeah.

4 MR. RUE: Again, we're having a hard time
5 hearing up here, folks are fading out as they talk.

6 MR. WRIGHT: Frank, I was just asking how the
7 public endowment or university endowment funds manage their
8 funds and if they manage them internally or if they contract
9 the whole mess out or part of it.

10 MR. BUSHRE: And the answer was there are
11 examples of both, probably the majority of funds contract out
12 their -- the vast majority contract out their investments in
13 stock and a small majority contract out their investments in
14 bonds, about 30 to 40 percent manage them internally.

15 MR. WRIGHT: Thank you.

16 MR. BUSHRE: They all contract out their
17 custody.

18 MR. WRIGHT: Sure, right.

19 MR. BUSHRE: For obvious reasons.

20 MR. WRIGHT: Right.

21 MS. McCAMMON: Is there any other questions
22 about this?

23 (No audible responses)

24 MS. McCAMMON: Under the time line that we had
25 in here, what we would come back then -- what we have in here

1 for April, and we don't have a meeting scheduled, but we'll be
2 looking for a date, is to adopt an asset allocation plan. And
3 I think what we would want to build into that is some
4 recommendations in terms of payout and kind of how we see
5 things going for the next five years, so -- and in terms of
6 where that fits in terms of development of GEM and how much
7 would be available, you know, over the next five years, so we
8 have some sense of what would be coming in and what might be
9 used for a long-term program.

10 We have in here, also, a motion requesting the
11 Department of Law and the U.S. Department of Justice to amend
12 the order for deposit and submit to the court allowing for the
13 transfer of the funds. And I know there is a draft motion
14 that's been circulating among the attorneys, I don't think it's
15 too far away from getting done. So that still has to go
16 through the final review and the way -- it's my understanding
17 the way it's drafted it doesn't say specifically what fund it
18 goes into, it gives the ability to transfer it. So we can do
19 that and still not know who the final investment manager or the
20 final custodian is necessarily.

21 And the question at that meeting, also, and the group
22 needs to work through this a little bit, is to determine if an
23 investment consultant is needed at this time to provide some
24 advice to the Council in terms of whether it would be better to
25 go with the State Treasury route or the private sector route

1 and do some evaluation of that. We still have to talk about
2 that and if we are going to recommend that and what that person
3 might do.

4 So those things would be coming back, though, at the
5 April meeting.

6 MR. TILLERY: Is it.....

7 MS. McCAMMON: You look like I didn't capture
8 something right.

9 MR. TILLERY: Well, I was kind of -- is there
10 not some possibility of actually hiring somebody before that
11 April meeting to come up with a recommendation on that? Hiring
12 somebody from outside?

13 MS. McCAMMON: We have funds in the Council's
14 operating budget, in the 100 budget, for investment advice, so
15 -- I don't think it takes a Council motion to do that. And
16 maybe this is something just if the work group or do we want a
17 decision by the Council or a sense of the Council?

18 (Pause)

19 MS. McCAMMON: We're kind of looking at each
20 other, so maybe we need to think about this a little bit more.

21 MR. GIBBONS: Madam Chair, I'd like to hear the
22 pros and cons of it, because to me it sounds like it's down to
23 between the State and private.

24 CHAIRWOMAN HEIMAN: Right.

25 MR. GIBBONS: CRIS funds and those things are

1 kind of, you know.....

2 MS. McCAMMON: Yeah.

3 MR. GIBBONS: But I'd like to hear the pros and
4 cons of.....

5 MR. TILLERY: Right. What I'm suggesting is
6 one step back from that, which is do you want to hear the pros
7 and cons of whether we should spend two or \$3,000 to hire
8 somebody to help us evaluate.....

9 MR. GIBBONS: No.

10 MR. TILLERY: You don't want to hear about
11 that? You just want to hear about the pros and cons.

12 MR. GIBBONS: Right.

13 MR. TILLERY: So the investment work group
14 could this take this money that's already budgeted and perhaps
15 go ahead and do a small contract to get some outside advice on
16 these two.....

17 MR. GIBBONS: Right.

18 MR. TILLERY: Okay and you just bring that
19 decision.....

20 MR. GIBBONS: I'm comfortable with that.

21 MR. TILLERY: Okay.

22 MS. McCAMMON: Okay.

23 MR. TILLERY: That was my.....

24 MR. RUE: Go ahead, yeah, good idea.

25 MS. McCAMMON: Okay.

1 CHAIRWOMAN HEIMAN: So we will discuss that at
2 a subcommittee and decide how we want to go forward?

3 MS. McCAMMON: Yeah.

4 CHAIRWOMAN HEIMAN: Okay. Great.

5 MS. McCAMMON: I think that's it for today.

6 CHAIRWOMAN HEIMAN: Any other questions overall
7 on the investment issues?

8 (No audible responses)

9 CHAIRWOMAN HEIMAN: I just want to thank all
10 three of you, it's been fabulous having you work with us on
11 this, it's just.....

12 MR. BUSHRE: We've enjoyed it.

13 CHAIRWOMAN HEIMAN: Yeah, we really appreciate
14 having the caliber of people that we get to do this with us,
15 it's great.

16 MS. BROWN: And you can even make it
17 understandable.

18 CHAIRWOMAN HEIMAN: Yeah.

19 (Laughter)

20 MS. McCAMMON: Well, they had to do a trial run
21 with us first, so I think that helped.

22 CHAIRWOMAN HEIMAN: It took us about three
23 times as long as you guys to figure it out.

24 MS. McCAMMON: Yeah.

25 CHAIRWOMAN HEIMAN: Okay. Well, then let's

1 move on. Thank you very much.

2 MR. STORER: Thank you.

3 MR. BUSHRE: Thank you.

4 MR. CHUNG: Thank you.

5 MS. McCAMMON: Thank you, yeah, it was really
6 helpful.

7 CHAIRWOMAN HEIMAN: I think that we would like
8 to get our Public Advisory Group report before we go to lunch.
9 And I think Chuck is here. Great, why don't you join us and we
10 look forward to -- why don't you come down here to the end?

11 MR. RUE: So, Madam Chair, you're changing the
12 agenda here?

13 CHAIRWOMAN HEIMAN: Oh, I apologize.

14 MR. RUE: That's fine.

15 CHAIRWOMAN HEIMAN: We -- okay, okay.

16 (Laughter)

17 CHAIRWOMAN HEIMAN: We do not need an executive
18 session today because we have no further information on Koniag,
19 so we are going to do the report from Chuck, then we'll
20 probably have lunch, if that's okay, when he's done and maybe
21 -- how long is your report do you think?

22 MR. MEACHAM: I can be short if you'd like it
23 so.

24 CHAIRWOMAN HEIMAN: Well, we want to hear what
25 the Public Group [sic] has to say, so probably we'll try to eat

1 about.....

2 MR. GIBBONS: Keep it under three hours, Chuck.

3 MR. MEACHAM: Absolutely.

4 MS. McCAMMON: We should reconvene at one for
5 the public comment period anyway.

6 CHAIRWOMAN HEIMAN: Okay, that's what we'll try
7 to do. So is that okay, Frank?

8 MR. RUE: Sure.

9 CHAIRWOMAN HEIMAN: Reconvene at one for public
10 comment?

11 MR. RUE: That's fine.

12 CHAIRWOMAN HEIMAN: Okay.

13 MS. BROWN: But we're not breaking now.

14 CHAIRWOMAN HEIMAN: We're not going to break
15 until.....

16 MR. MEACHAM: Yeah, this really shouldn't be
17 long, it's -- there are components that will come up later in
18 Molly's presentation on GEM as well. In fact, that's where
19 most of our time was spent.

20 All right. I'll report briefly on actually two Public
21 Advisory Group meetings that took place, one is February 10th,
22 I chaired that one, and then yesterday's meeting, March 15th,
23 was chaired by Rupe Andrews, we're co-chairs for the PAG.

24 MR. RUE: Could I -- sorry, Chuck, could I
25 interrupt one -- do you mind speaking right into a microphone,

1 it's.....

2 MS. McCAMMON: Chuck, why don't you come right
3 here?

4 MR. RUE:very hard to hear you. Thank
5 you very much.

6 MR. WRIGHT: It's this NMFS equipment, Frank,
7 sorry.

8 MR. MEACHAM: All right. How's this?

9 MR. RUE: Good.

10 MR. MEACHAM: Okay. Yes, I'll report briefly
11 on two Public Advisory Group meetings that have taken place.
12 First was on February 10th, and I chaired that one, and the
13 second was yesterday, March 15th, which was chaired by Rupe
14 Andrews.

15 There were three areas of emphasis during the two
16 meetings and I'll just combine the topics since they overlap
17 anyway. But GEM being one of the, the GEM Program, and that's
18 where we spent most of our time. The second general topic was
19 Public Advisory Group self-evaluation, how to be more
20 effective, how to be more efficient, and that's still ongoing.
21 And the third area of emphasis I'll mention is how to improve
22 community involvement within the EVOS GEM process, and most of
23 those efforts were -- took place at the February 10th session.

24 First, with regard to the GEM, considerable discussion
25 took place relative to both the organization of the report,

1 including ideas of moving sections, one being the modeling
2 section, into an appendix perhaps. As well as some specific
3 content elements. And Molly will actually outline some of
4 these areas to you when she covers the GEM Program in more
5 detail. But I will mention at least one here.

6 In our review of the document we found really a need to
7 have a better linkage between some of the programmatic goals
8 and science and ultimately measure benefits to people or the
9 ecosystem. In terms of the programmatic links, those, for
10 instance, are the need to identify research and monitoring
11 gaps, leveraging funds, prioritizing research and monitoring
12 needs, synthesizing research and monitoring and tracking these
13 efforts as well as those of others that take place in the Gulf
14 of Alaska. But it appears that there really needs to be a
15 better linkage between these and what science is involved, what
16 science would be involved, should be involved to do the job
17 best. And ultimately there needs to be consideration, as well
18 as explanation of how this really is of benefit to people as
19 well as to the ecosystem. And so that's a need.

20 Before I go further, though, I'll say that across the
21 board the PAG membership involved in these discussions felt
22 very positive about the document, that it appeared to be
23 improving with each iteration. Clearly a lot of effort has
24 gone into it and there are a lot of good ideas included.

25 And, again, we do not have meeting proceedings from

1 yesterday's session, but those will be made available later.
2 We do have minutes from the February 10th session, and while
3 those are not approved, I think they pretty well reflect the
4 consensus of our group.

5 Second item, I'll mention briefly, has to do with the
6 PAG self-evaluation process. And the objective here was to
7 evaluate the effectiveness of the PAG and, in fact, really see
8 whether it should continue into the new era of GEM or if
9 perhaps another method would be better suited. But within the
10 evaluation process we looked at some specific things, such as
11 costs of the operation and there have been reductions in costs,
12 but that probably there is still room for greater reductions.
13 The allocation for FY99 was something just in excess, I think,
14 of \$100,000 and currently that's down to, I think, on the order
15 of \$20,000. Much of that's associated with transfer of a
16 position out of that particular budget unit to a different
17 budget unit. But anyhow costs are going down at this point,
18 it's reasonably efficiently run. Many of our meetings take
19 place by teleconference.

20 Another thing we looked at is staggered terms
21 associated with the membership and term limits as well of the
22 PAG members. Again, we haven't put together a formal proposal,
23 nor have we really amongst ourselves made a determination of
24 how we best think some of these changes could be made, but
25 that's an area where we're actively working.

1 The third area, and this was covered exclusively at the
2 February 10th meeting, and when you see those meeting
3 proceedings that meeting is pretty well -- the details are well
4 outlined there, but I'll just briefly mention a couple of
5 items.

6 First of all, the PAG does feel that it is very
7 important to continue building on the community involvement
8 efforts that exist. We've made improvements along those lines
9 over the years in our view, but there is still additional
10 improvement necessary. As part of the process we heard from
11 four individuals outlining processes used in Alaska, as well as
12 elsewhere. One was George Rose from Canada and he discussed a
13 program that they have in place that links fishermen and
14 scientists together in improving stock assessment efforts. It
15 uses local knowledge and scientific method combined to actually
16 look at results of fishing activities and provide those then to
17 Department of Fish and Oceans so that they can be used in a
18 quantitative fashion in their program. I think it's a very
19 good program and has a lot of potential for Alaska since we do
20 have active commercial fisheries throughout the oil spill area.

21 Had another presentation from Dr. Elena Sparrow and she
22 provided information about a program called GLOBE and this
23 program is implemented through primary and secondary schools
24 and teachers are actually trained and provided an instrument
25 pack to work with the students. There are actually 62 GLOBE

1 schools in Alaska and three located in the spill area.

2 Had another presentation from Bob, I think it's
3 Shavelson and he gave an overview of the Cook Inlet Keepers
4 Water Quality Monitoring Program that's located in Homer.

5 And we had one other presentation by Patty Brown-
6 Schwalenberg that summarized the duties and responsibilities of
7 the Chugach Regional Resources Commission.

8 And once again these presentations were detailed in our
9 meeting notes and I'd let you read those if you want additional
10 information.

11 And that would conclude my formal presentation. If you
12 have any questions, I'd be happy to try and answer them.

13 MR. RUE: Madam Chair, I have a question.

14 CHAIRWOMAN HEIMAN: Yes, go ahead, Frank.

15 MR. RUE: Chuck, on the link question, you all
16 had some recommended language or way of better -- or depicting
17 how those things could be better linked?

18 MR. MEACHAM: We did not come up with specific
19 language at our PAG group, I don't know at this point whether
20 Phil or Molly have actually given that any thought.

21 MS. McCAMMON: Well, I've thought about it a
22 little bit, and I assume this is the links from the goals to
23 the rest of the science plan.

24 MR. MEACHAM: Yes.

25 MS. McCAMMON: And, you know, what this all

1 gets to is -- you know, this has been an evolving document and
2 over the last two months, three months, Phil and I have given
3 presentations to, I don't know, 40 different groups or so, on
4 this whole document and program. And as we talk about it more
5 and more and get questions from people what has kind of clearly
6 evolved is a little bit different understanding of what GEM is
7 at this stage of the game. And we can get into this now or
8 further along, but I think a lot of the questions about the
9 model and what would actually be monitored and the links and
10 things, those will end up getting developed in a research and
11 monitoring plan.

12 And the document we have today is not a science plan,
13 it is not a research plan. It's the starting elements of it
14 and certain areas are more well developed than other elements.
15 Sections I through III, I think, provide the framework for a
16 program, it describes a process for how to develop future
17 plans. It establishes the guiding principles for a future
18 program. The first part of Section IV basically describes the
19 science as we know it today. Here's what we know about how the
20 gulf systems works, here's what's happening with the resources
21 in the gulf to the extent of our best knowledge today. And I
22 think that stuff is all very solid.

23 Where we start getting less developed is towards the
24 end and developing, you know, what model do you use, what do
25 you monitor, how often, where, what questions are you going to

1 focus on and that aspect of it is going to -- it's not going to
2 hold true forever, I mean, that's something that's going to
3 change as you build up additional information.

4 And what I think we're looking for, especially from an
5 NRC review is to look at the framework to look at the
6 scientific underpinnings of the program and to give some
7 strategies as we go about the next stage of the game, which is
8 developing -- further developing the research and monitoring
9 plan. As you develop those plans then you deal with how do you
10 link that to the goals of problem solving, informing, do we
11 need a public involvement plan. We know we need a data
12 management plan. We want to have a community involvement
13 program as part of it. Those are all elements, I think, that
14 tie into that longer term plan. I mean we can flesh out a
15 little bit more some of the possibilities, but to actually lay
16 out how things will be done, I think, will be further developed
17 in the long-term plan.

18 Does that make sense? I mean, this is all kind of
19 evolving.

20 MR. MEACHAM: Yeah, as a PAG we spent a fair
21 amount of time trying to understand the difference between a
22 GEM Program and a GEM Research Plan, and I think you did a
23 better job than I did of outlining the thoughts there.

24 MS. McCAMMON: Yeah. Because, I mean, we got a
25 lot from -- well, this is incomplete. Well, yeah, because that

1 stuff we're doing in the next two years, you know, we still
2 have all these projects out there that are doing some bits and
3 pieces of it and we'll be doing that in the next two years.
4 Then why are you calling this a plan? Well, it's not really a
5 plan, it's a program, it's a framework and so, you know, we've
6 actually started characterizing it differently then we did at
7 the very beginning of the whole process.

8 MR. GIBBONS: Sure. That's appropriate.

9 MS. McCAMMON: And it's appropriate as we go
10 through and we get more input and think about things more and
11 it gets better developed.

12 MR. MEACHAM: So I guess in direct answer to
13 your question, Frank, we have not provided any specific
14 wording, suggestions, that I recall at all, at this point, it's
15 just been in terms of concept, in terms of identifying areas
16 that need to be expanded or emphasized, perhaps structurally.
17 There was some discussion that took place as to whether, you
18 know, the modeling component ought to go into an appendix or
19 stay within the main document, so those are the kind of things
20 that we're in the process of doing now.

21 MR. RUE: All right. Helpful.

22 CHAIRWOMAN HEIMAN: Any other questions for
23 Chuck?

24 MR. RUE: I appreciate the thought the PAG put
25 into that, it's helpful.

1 MS. McCAMMON: The meeting yesterday was very
2 helpful, I mean all of these meetings have been, because it
3 gives you another chance to say things and people kind of --
4 boy, they really hone in on your weak spots, too, if you don't
5 have good answers to these questions. And it has really
6 strengthened the process to do this and it was very helpful to
7 have that discussion and I really want to thank the PAG also
8 for the work that they're doing in looking at the future of
9 public advice and public involvement and looking at the
10 community involvement programs, too, because I think their work
11 on that will be very helpful to the Council in the future.

12 That's another element of the program and we're very
13 clear in the document that that will be an element, but it's
14 not well developed right now, and we're very clear about that,
15 because -- but we have set in stage a process for trying to
16 develop it further. And I think some of those other links
17 will, too.

18 MR. MEACHAM: Thank you.

19 CHAIRWOMAN HEIMAN: Thank you very much.

20 MR. WRIGHT: Thanks, Chuck.

21 CHAIRWOMAN HEIMAN: Okay. So we will just.....

22 MS. McCAMMON: Have lunch.

23 CHAIRWOMAN HEIMAN: Yeah, take a break from the
24 teleconference and we will rehook up at 1:00 o'clock and we're
25 just going to take a lunch break right now.

1 MS. McCAMMON: Yep. Sorry, Frank.

2 MR. RUE: I'll hang up.

3 (Off record - 12:17 p.m.)

4 (On record - 1:07 p.m.)

5 CHAIRWOMAN HEIMAN: Welcome back, everyone,
6 we're ready to start and our first order of business this
7 afternoon is public comment. I don't know who's on line to
8 comment, so I'm just going to -- actually I have a list, but I
9 don't know who wants to actually speak, so I'm going to start
10 with Cordova. Is there anyone in Cordova who would like to
11 make any comments today?

12 MR. ADAMS: Yes, yes, there is, this is Ken
13 Adams in Cordova.

14 CHAIRWOMAN HEIMAN: Thank you, Ken. Go ahead.

15 MR. ADAMS: Okay, thank you. Let's see, I'd
16 like to offer some comments to the Trustees on the GEM
17 document. First off, thank you for the opportunity to
18 participate in the process. It's another wonder of science
19 that you folks can all be sitting there in Juneau and I right
20 here in my tiny office in Cordova.

21 I'd like to say yesterday I participated in the PAG
22 meeting, also discussing GEM, I thought the meeting was good,
23 it lead to some good discussions on a number of topics during
24 the public comment session and afterwards, so I'm told. I'd
25 just like to say today before the Trustees that I wanted to

1 bring a presence to this meeting to let the Trustees know that
2 the public is indeed watching, we are interested in the subject
3 and very concerned at the direction that GEM is to take is
4 really reflective of the needs of the people who live in the
5 spill-impacted areas.

6 Let's see, I would like to congratulate the Trustees
7 before going into that subject further. I'd like to
8 congratulate the Trustees, indeed, for the formation of the
9 endowment, which had been talked about for quite a while, I
10 recall. I think this topic first arose as a distinct
11 possibility back in '92 and '93, so it's nice to see it has
12 taken flesh. I think it's a wise decision fundamentally.

13 Concerning using these investment awards or the
14 investment returns to support a GEM Program, I think the
15 question before all of us is how best to craft the plan to
16 serve the needs of residents and users in the spill-impacted
17 area. And I think asking the question how, begs the question
18 of what's the best approach to take. And this is part of the
19 discussion we had yesterday, whether it was better to take a
20 bottom up approach as opposed to a top down approach. It was
21 my perception that the revision of the GEM document presented a
22 bottom up, that is the conceptual model that I read in GEM
23 appeared to be taking that direction. And it raises questions
24 among a lot of people. What with the labyrinth of
25 interconnections from on the trophic level or one -- well,

1 trophic level, I guess, is about as good a term as any. By the
2 time you reach the top, would a research program of this type
3 actually yield some tangibles, some positive benefits which
4 could be of benefit to, let's say, managing or otherwise
5 implementing the research findings to the advantage of fish or
6 other top predators?

7 There are other people that question -- there are
8 people that question taking this approach. The feeling from
9 the folks at Cordova District Fishermen United would -- their
10 feeling would advocate for top down approach. And their
11 sentiments are incorporated in the SSRT document, the Sound
12 Science Research Team document, which was presented to the
13 Trustees. Basically on the focus on that SSRT document would
14 be to focus on interactions of pink salmon, hatchery and wild
15 stock in Prince William Sound. So the thought is to focus on
16 the organism itself. And I would offer also that monitoring as
17 a continuation of some of the work done by the SEA also be
18 incorporated in that approach. So you focus on the organism
19 and also the habitat the organism is in.

20 So I think there's concern on which is the best
21 approach to take here in crafting the GEM document. During the
22 PAG meeting yesterday Molly made some remarks that this
23 controversy will be addressed by the NRC and perhaps more
24 insightful minds will help to provide some best answers on how
25 to deal with this question. To make the GEM document, to make

1 the plan as meaningful and as rewarding as we possibly can
2 instead of gathering a set of -- perhaps reams of data on which
3 we cannot actually draw much conclusion.

4 We also discussed at the meeting yesterday
5 incorporation of prior research. What caught my eye in reading
6 through the revision of GEM was the omission of the SEA
7 supported -- the Trustee supported SEA research. On page 40
8 under the title of "Incorporation of Prior Research Knowledge".
9 I'm sorry, I don't have that exact wording at my fingertips,
10 but it gave me the appearance that a revision of GEM would not
11 be relying upon prior research information that was, I think,
12 pretty thoroughly gathered through the SEA approach. Both
13 Molly and, I believe, Bob Spies afterwards gave me some
14 reassurances that the document did indeed mention SEA, perhaps
15 not by name, but by content and that information would be
16 incorporated into the GEM.

17 And my concern is after you folks have done such a, I
18 think, commendable job in supporting APEX Projects and the SEA
19 document and the nearshore predator work, not to incorporate
20 those findings in future Trustee supported GEM research, I
21 think that would be unconscionable to just walk away from that
22 information. Just close the book and focus instead on the
23 offshore environment, I think that would be unconscionable. So
24 I'm glad to hear from the discussion yesterday that there was,
25 indeed, the plan to incorporate that information.

1 I'd like to raise another question.....

2 CHAIRWOMAN HEIMAN: Ken, this is Marilyn
3 Heiman, I just want to make sure -- we have -- we may have
4 other people to testify, plus we have a lot to do here to
5 finalize our discussions on GEM today, so I'd ask you to try to
6 wrap up your comments if you can.

7 MR. ADAMS: Yeah, okay, I didn't realize what
8 the timeline was, I should have asked.

9 CHAIRWOMAN HEIMAN: Well, I should have
10 mentioned it and I apologize, we usually give about three to
11 five minutes.

12 MR. ADAMS: Yeah, okay, then I'll be quick. I
13 do have two other comments here. One concerns the timeline.
14 I'm concerned about the timeline from reception of the GEM
15 revision until the timing of these meetings. I think
16 fundamentally the issue is adequate public involvement in the
17 process. I think we need the opportunity to voice support or
18 dissent concerning the direction, the goals, the proposed means
19 to accomplish the goals within the GEM document. And I'll just
20 raise a question. How will the Trustees accommodate public
21 input as the plan takes flesh and is implemented? And
22 specifically, who will provide oversight? Will the PAG be an
23 organization to actually provide oversight for this program?
24 How best to ensure accountability during the GEM process?

25 And I'll leave you with those questions and thank you

1 for the opportunity this afternoon.

2 CHAIRWOMAN HEIMAN: Yeah, thank you, Ken, and I
3 want you to know the questions that you're grappling with and
4 that you're asking, we've been doing that same grappling with
5 some of those very same issues, so you're right on target with
6 those concerns and I think there are many folks involved in
7 this process that have had those same concerns, so thank you
8 for those comments.

9 Anyone have any questions for Ken?

10 MR. RUE: This is Frank Rue in Anchorage.

11 CHAIRWOMAN HEIMAN: Go ahead, Frank.

12 MR. RUE: Quick question. I would just
13 reiterate or iterate what Marilyn said and perhaps ask --
14 appreciate your thoughts, Ken, and ask you -- one thing I've
15 been struggling with in my own mind is how we take sort of the
16 less developed part of the plan, which is the scientific
17 questions, long-term monitoring, where we kind of started to
18 flesh that out, I think a lot of us feel that's where we really
19 need to put a lot of work, and relate that back to the
20 programmatic goals, where I think we do cover some of the
21 issues. And I guess my question is, do you think that link was
22 clear enough, how we're going to link back the questions to the
23 programmatic goals? And, also, do you think it was clear
24 enough or we ought to elaborate on the realistic expectation,
25 which is EVOS will never fund even a small percentage of the

1 possible questions out there and our real work will be to sort
2 of integrate with other research ongoing, help direct other
3 research into areas that are needed? I'm not sure it's a
4 question or a statement.

5 MR. ADAMS: I see that as questions A and B.
6 I'll approach question B first. I think it's commendable to
7 try to dovetail in with existing programs. I see the mention
8 made of GLOBEC and other programs, such as PICES and I'm not
9 familiar with the others. However, I think it's partly a
10 question of environment. Cannot we interface with some of
11 these existing programs by focusing on nearshore organisms and
12 environmental conditions? That is, can we not look at similar
13 parameters, can we not look at the habitat in inshore waters as
14 well as the organisms in inshore waters and relate that to
15 perhaps similar parameters offshore? That is, rather than
16 trying to fill voids in the offshore environment, why not try
17 to extend the hand across the water, so to speak, from
18 nearshore concerns to offshore concerns?

19 I don't know if I'm putting this in.....

20 MR. RUE: That's fine.

21 MR. ADAMS:clear enough terms.

22 MR. RUE: That's fine.

23 MR. ADAMS: I'm just advocating -- I'm
24 advocating for a continuance of the research which has been --
25 which has focus in the nearshore waters, a continuance of that.

1 Sort of like -- take SEA, for example, SEA broke extensive
2 ground in Prince William Sound. I'm not speaking exclusively
3 Prince William Sound, I'm talking about the entire spill
4 impacted area perhaps could benefit from SEA type work, work
5 which was initiated in Prince William Sound. Let that approach
6 be maintained in the spill-impacted area, let the main focus of
7 the GEM be within those waters and rather than spread oneself
8 too thin by getting offshore, to complement the Federal
9 programs, I advocate we stay inshore and perhaps start trying
10 to relate oceanographic conditions inshore to what is happening
11 offshore.

12 CHAIRWOMAN HEIMAN: Ken, thank you very much
13 for those comments, I really appreciate you taking the time to
14 explain that to us because I think those are some -- like we
15 said, some of the same issues we're grappling with, so thank
16 you.

17 MR. ADAMS: It is my pleasure and I apologize
18 if I'm not making myself clear as I would like to.

19 CHAIRWOMAN HEIMAN: Oh, no, I think you're
20 making yourself very clear.

21 MR. ADAMS: Well, I thank you then for the
22 opportunity.

23 CHAIRWOMAN HEIMAN: Thank you very much. Okay.
24 Is there anyone else in Cordova, Ken, that you know of to
25 testify?

1 MR. ADAMS: I do not know of anyone else here.
2 I'm alone at this phone.

3 CHAIRWOMAN HEIMAN: Okay. Did I hear.....

4 MS. RIEDEL: Hello, this is Monica Riedel.

5 CHAIRWOMAN HEIMAN: Hello, Monica, are you in
6 Cordova?

7 MS. RIEDEL: Yes, I am, I'm in my office and I
8 did call in to be on the list today.

9 CHAIRWOMAN HEIMAN: Great. I have you on my
10 list here, so would you like to make some comments?

11 MS. RIEDEL: Yes, Marilyn, and the rest of the
12 Council members. My name is Monica Riedel and I'm the
13 Executive Director of the Alaska Native Harbor Seal Commission.
14 I would just like to make four points today regarding GEM.

15 First of all, the Harbor Seal Commission through it
16 biosampling program already is in a position to help detect
17 annual and long-term changes in the ecosystem as it affects a
18 significant (phone noise) to the harbor seal. Scientists
19 believe that decreases in harbor seal and sea lion populations
20 in the Gulf of Alaska are the results of changes in the fish
21 communities. Some samples collected in the harbor seal
22 biosampling program will help us understand how changes in the
23 Gulf ecosystem have affected harbor seal populations.

24 Secondly, the Harbor Seal Commission is working hard to
25 inform the public, resource managers, industry and policy

1 makers about the status of harbor seal populations in the Gulf
2 and elsewhere in Alaska.

3
4 Thirdly, the Harbor Seal Commission in collaboration
5 with the University of Alaska and the Alaska Department of Fish
6 and Game is seeking to increase our collective ability to
7 predict changes affecting the populations of harbor seals and
8 other marine predators in the Gulf. This collaborative
9 research is developing tools that will provide better tracking
10 of harbor seal population size, thus allowing for better
11 management of these resources.

12 Finally, harbor seals are important as a major
13 subsistence resource, as APEX predators and in an injured
14 population that has not recovered from the Exxon Valdez oil
15 spill. It's important that they be the focus of long-term
16 study and monitoring under the GEM Program, especially
17 involving the local community members, such as those that are
18 already trained in the scientific protocols of biological
19 sample collection.

20 And I thank you for your time to let me comment. I
21 would gladly offer to answer any questions and I have submitted
22 this written comment.

23 CHAIRWOMAN HEIMAN: Thank you, Monica, we do
24 have your testimony here. Is there any Trustee member that
25 would like to ask any question of Monica?

1 (No audible responses)

2 CHAIRWOMAN HEIMAN: Thank you very much.

3 MS. RIEDEL: Go ahead.

4 CHAIRWOMAN HEIMAN: Just feedback, I think.

5 All righty, is there anyone else in Cordova or anywhere else,
6 outside of Anchorage, that would like to testify?

7 MR. PATRICK: Yeah, I have a few comments, this
8 is Vince Patrick.

9 CHAIRWOMAN HEIMAN: Go ahead, Vince.

10 MR. PATRICK: I think most of you know I was a
11 PI on the SEA projects, so just to give my -- let my biases be
12 known. I was reading through the GEM document and listening to
13 the discussion and the testimony. I detect a -- I see a lot of
14 sort of split personality, a multiple personality aspect to the
15 plan. And it's not surprising because it's arising in other
16 areas again, there was a similar debate going on in the IT2
17 document of last year. About 10 to 15 years ago, maybe 20
18 years ago, there was a big transition from basic research to
19 research being more applied, more applicable, and that trend
20 continues. If you listened to the congressional budget
21 testimony yesterday you know that there's some tendency now to
22 be drifting back to basic research. It may be with the health
23 of the economy and the IRD and basic sciences it may swing back
24 a little bit.

25 But I see throughout the GEM Plan this wrestling with

1 four scales of effort. One is a basic science long-term
2 program, 10 years, generational, a hundred years. Then I see
3 in the document the next paragraph will reference applied
4 science issues relevant to the stakeholder, relevant
5 management. The next paragraph will reference, oh, the program
6 has to be -- its success is determined by conservation
7 management issues. And then the next paragraph will mention
8 the economics of the region, how the ecosystem is really the
9 economic foundation of the region.

10 Those four issues, basic science, applied science,
11 conservation management and economics, all are interested in
12 very different issues on very different time scales. The GEM
13 Plan, to me, has not decided which of those four issues it
14 wants to address, it can't do them all, it can probably only do
15 one. Its roots are in economics and conservation, the bottom
16 two. The IT2 documents (phone noise) the industry that uses
17 NFS results, and this is primarily informational technology,
18 made the point then that, you know, our time horizon is 18
19 months maximum, anything beyond that we don't care about. And
20 the hatcheries operate on that scale, the fishing fleet often
21 operates on that scale and the processors operate on that
22 scale. Conservation management may go two, three, four years
23 or a life cycle for a stock.

24 So their concerns are shorter than the long-term
25 monitoring program that's presently in the GEM, and you heard

1 Ken Adams' remarks reflect that different time scale. So I
2 think one of your first problems is you got to decide which of
3 those four you're going to tackle and you really can't resolve
4 these issues until whether you decide whether you're going to
5 have a restoration reserve resources into very basic science,
6 do monitoring, no application, basic monitoring, key
7 fundamental ecosystems issue on whatever scale you decide they
8 be or whether you're going to do applied science or whether
9 you're actually going to do the short-term stuff.

10 I think the expertise that EVOS has developed is on the
11 short-term stuff. It was born out of crisis, it was born out
12 of an episodic event, all the technology, the corporate
13 knowledge that it's developed has focused on very short-term
14 issues. Next year, year after -- the models that are going to
15 develop all are based on now-cast forecast, they're short-term
16 predictions. You can go into a basic science, if you want to,
17 but your expertise is elsewhere. If you do go to the basic
18 science one and you do go offshore and you do work with
19 international communities that are interested in the North
20 Gulf, there isn't a big advantage to EVOS and it leverages a
21 lot of resource and a lot of big programs.

22 The downside, to me, is in the nearshore communities
23 EVOS is the only (phone noise) although you'll leverage a lot
24 of things by going on the North Gulf and Central Gulf, you
25 could work with GLOBEC and you'll get maybe a bigger bang for

1 you buck, who will replace you in the state waters? Without
2 you the concept of the outer Kenai, the Kodiak and Prince
3 William Sound working ecosystems, those are ecosystems whose
4 bio-productivity is a critical component of the economy of the
5 region. Those ecosystems can't become State or national parks,
6 they can't become esturine reserves, they support tanker
7 traffic everyday, two or three tankers a day. Those are
8 working ecosystems. It's unlikely you're going to get a lot of
9 Federal attraction out of sympathy because of endangered
10 species, those things are unique in that they're not only
11 working, they're working and they're pristine. EVOS is the
12 mechanism by which the State of Alaska can maintain that
13 resource, that asset.

14 That's the end of my comments.

15 CHAIRWOMAN HEIMAN: Vince, thank you very much.
16 Do any of the Trustees have any questions for Vince Patrick?

17 (No audible responses)

18 CHAIRWOMAN HEIMAN: Vince, I just have a very
19 quick question for you. My question may cause a longer answer
20 than I like. I just want to understand clearly when you say
21 short-term, if you can define that, in a sentence or two, what
22 you mean?

23 MR. PATRICK: Short-term is less than annual,
24 it's on the order of some of the events that determine
25 population formation are on the order of weeks, sometimes a

1 month, sometimes a season, certainly subannual. By the time
2 you get to annual you're working with -- you're getting into
3 the boundary of where things are starting to go chaotic. It's
4 the same as weather, it's like asking somebody to predict the
5 weather for March 16th, 2001, they probably won't take the
6 challenge on.

7 CHAIRWOMAN HEIMAN: Okay.

8 MR. RUE: Madam Chair, I have a question.

9 CHAIRWOMAN HEIMAN: Yes, please, go ahead.

10 MR. RUE: I guess I'm trying to -- I think Vince
11 gave very good testimony, I appreciate it. This is Frank Rue,
12 by the way. My question of Vince is, do you think it's a
13 mistake, then, to have the broad vision we have, the broad kind
14 of programmatic principles, the broad long-term monitor -- sort
15 of the broadness of our plan or are you suggesting it's okay to
16 be broad in your view and maybe try and get the North Sea
17 Research Board and/or the, you know, the salmon fund crowd
18 that's going to form in Southeast, direct some of their
19 research and perhaps agencies, but focus your implementation
20 effort, which -- your funding effort on the things that you've
21 developed an expertise? Or do you think we should jettison the
22 long -- the sort of broad view in the program? I was kind of a
23 little bit unclear whether we -- your comment was directed more
24 towards how we would implement or how we would pick our share
25 of the effort within a large certain plan or whether you think

1 we ought to get rid of the large focus plan?

2 MR. PATRICK: I really didn't make a
3 recommendation, I pointed out to you where I saw how -- what I
4 hoped would be a clarification of the issues. The issue
5 between science as the goal -- applied science, conservation
6 management, and economics, those are on different time scales
7 and they often have different domains. The board view -- I
8 believe your first statement is the one that I would lean to,
9 but I wasn't really pressing that. I think your first
10 statement is you certainly want to know what's going on around
11 you and what resources are being committed to understand the
12 big system and what you have at hand to work with. One ought
13 to do that and that could well be a major component of the
14 project management aspect, the awareness and the inclusion and
15 the incorporation.

16 I don't see PICES, GLOBEC, the large -- NSF coming in
17 and covering, making a big investment into the spill-affected
18 area as part of their resource thrust. It is -- for one thing
19 it's tightly linked to the state economy, so it has a strong
20 State interest and they might not wish to do that for that
21 reason and look for the State to pick it up. It's just hard to
22 imagine who's going to replace you if you move the stuff
23 farther offshore. You're going to leave this band of
24 unattended issues that, as Ken described, you can't address the
25 short-term things, economics and conservation, without working

1 there.

2 MR. RUE: Thank you, I appreciate it.

3 CHAIRWOMAN HEIMAN: Thank you, Vince. Is there
4 anyone else, outside of Anchorage area, that is on line to
5 testify?

6 (No audible responses)

7 CHAIRWOMAN HEIMAN: Okay, then, why don't we go
8 to Anchorage. I see David Young's name on the list, I don't
9 know if you're at the -- on a separate line or at the
10 teleconference site.

11 MR. YOUNG: Yes, I hope I'm on the
12 teleconference site.

13 CHAIRWOMAN HEIMAN: Okay.

14 MR. YOUNG: Molly, my name is David Young, I
15 work with Merrill Lynch and I want to thank you and Rebecca for
16 keeping us informed of this whole process. It sounds like the
17 group that you've got is terrific. Mr. Storer, Mr. Chung and
18 Mr. Bushre are terrific. I just had some comments for
19 discussion purposes on the payout, for one. It was brought up
20 that the average payout is around four percent or 4.2 percent,
21 and I was wondering what is that based on? Is it 4.2 percent
22 of the last year of the balance after five years, so a
23 five-year rolling average or is it the average balance over
24 five years or is it the beginning balance starting five years?
25 And in terms of dollars, because I'm looking at this from the

1 beneficiary standpoint of wherever the funds are going to go
2 to, for budgeting purposes, you know, I think that they would
3 probable like to know, well, geez, what are we going to
4 receive.

5 And so if you run four percent on, just say,
6 170,000,000, that's 6.8 million. Now, if you -- and I'm
7 assuming that would be, like say, the beginning balance. But
8 if you were growing at nine percent of which, you know, there
9 was talk about like a targeted rate of return, at nine percent
10 on five years that would end up being 261,000,000 total and
11 four percent of that would be 10 million or 10.4 million, so
12 you're talking a 3.6 million dollar increase if you use it at
13 the end of five years.

14 But if you go on a 15 percent return, then all of a
15 sudden you're talking about 341,000,000 after five years or
16 13.6 million, double, you know, what would be the return at the
17 same rate, four percent on 170,000,000, so I was curious what
18 is that based on?

19 (Laughter)

20 MS. McCAMMON: This is Molly McCammon, David.
21 All of our advisors have exited the room and you have gone well
22 beyond anyone's expertise here. I believe it's the percentage
23 of the assets in the fund at that time, but I don't know
24 anything beyond that, but I'd be happy to get that information
25 to you.

1 MR. YOUNG: That would be great. Because also
2 when you look at nine percent, and I was going to comment on
3 that as well. Nine percent -- now if you look at the Permanent
4 Fund and -- because these funds are to perpetuity. If you look
5 at the Permanent Fund, and I've got an annual report sitting in
6 front of me that's the fiscal year ending 1997 which would be
7 middle of 1997, through the 13 and a half years of the
8 Permanent Fund, up through that day, the return was a 11.9
9 percent, well ahead of nine. The last five years it was 11.7.
10 And then the last three years it was 14.99 or 15 and then the
11 last one year, through '97 it was 17.07. And you know what the
12 indexes have done just on the S&P, 28 for 1998 and 21 for 1999.
13 But it's driven by asset allocation and what they were
14 saying was is that because it's to perpetuity and, you know --
15 and I look at the Permanent Fund being to perpetuity, too, but
16 it's got a -- at this time it had a 50 percent allocation
17 basically to bonds and real estate, 45 percent bonds, six
18 percent real estate, 12 percent to international stocks and 37
19 percent to domestic stocks with those returns. So that if this
20 was to perpetuity and you were to take your asset classes, you
21 know, with a heavy weighting towards the equity market, you
22 know, then you would probably substantially outperform the
23 rates return that I just read that the Permanent Fund has got
24 because of its asset allocation heavily bent, you know, to
25 bonds. And so when you talk about nine percent and then

1 someone brings up 12 and another person brings up 15 and then
2 one says why not 20, honestly, when you -- depending on the
3 asset allocation those are not unreasonable returns.

4 MR. WRIGHT: I'm going to Vegas.

5 MR. YOUNG: And sitting in front of me I've got
6 an index that Callan provides of all the indexes going back to
7 1980 and the various asset classes and it's quite incredible to
8 see the return. So you may not want to set the -- it's just a
9 comment, but you may not want to set it so low that you end up
10 having you asset classes weighted, you know, so heavy towards
11 bonds because you set your return so low, you know, at a nine
12 percent return. That's just a thought that I thought I'd bring
13 up, you know, just for discussion purposes, but it's something
14 that I noticed.

15 MS. McCAMMON: Those comments are very much
16 appreciated, David, thank you. And I will get that information
17 to you.

18 MR. YOUNG: Okay, Molly, and we would be happy
19 to, you know, participate in any way possible, you know,
20 through Merrill Lynch, you know, on this whole process. It's,
21 frankly, fascinating.

22 CHAIRWOMAN HEIMAN: Great. Thank you very
23 much, David.

24 MR. YOUNG: Okay.

25 CHAIRWOMAN HEIMAN: Now we'd like to go to the

1 Anchorage site, is there anybody -- oh, go ahead, I'm sorry,
2 were there any questions?

3 MR. TILLERY: I got a question. You were
4 suggesting at nine percent, and as I understand it the bond
5 percentage would be 12.4 percent and the equities would be
6 essentially 87 percent, based on the numbers that I have here.
7 Are you suggesting that it should be even more heavily
8 weighted, that we should think of going beyond that?

9 MR. YOUNG: No, I'm not. In fact, those are
10 probably great percentages, and given those percentages,
11 historically -- and let's use the Permanent Fund as an example.
12 With the Permanent Fund having a 45 percent bond position and a
13 six percent in reaks [sic], the return for the last five years
14 has been 11.7 percent, in the last three years the total return
15 has been 14.99, so that if -- and let me tell you what the
16 asset classes have been because I'm going back to this nine
17 percent return because, see, if you can -- if your returns are
18 higher than your payouts are going to be a lot higher.

19 If you look at the U.S. stock position, the domestic
20 stocks, the last five years, you know, and that's going through
21 June 30, 1997, it's actually been much higher than these
22 figures that I'm giving you. But the U.S. stock position
23 inside the Permanent Fund has averaged 20.3 percent for the
24 last five years from June 30th, 1997 and going backwards. The
25 non-U.S. stock position has averaged 14.5. So if you had an

1 asset allocation heavier than the Permanent Fund then you
2 should not be satisfied that you've met your target of nine
3 percent, because I think that that would completely underwhelm,
4 you know, the beneficiaries that are going to receive -- you
5 know, that you want your money to go to. I think the
6 percentage is great, you know, the asset allocation, but I
7 think nine percent is such a low number that I think it's
8 almost unrealistic, given the history of the Permanent Fund
9 with a much heavier asset allocation towards bonds. I mean the
10 Permanent Fund has averaged almost -- well, probably more than
11 12 percent over the last 15 and a half years with an asset
12 allocation way heavier towards bonds.

13 And I was just kind of throwing numbers out at you, but
14 if you run a nine percent return on 170,000,000 then that means
15 you could pay out -- let's assumed you used the end of each
16 five-year rolling period, you could payout 10.4 million, but if
17 you did 15 percent you're paying out 13.6, 7 million, it's a
18 huge difference. And that's what the Permanent Fund has
19 basically been averaging. So I just think nine is so low, I
20 think that some of the people that had actually had target
21 rates -- because what it does is it forces your money managers
22 and -- to not -- to beat the index, because when you were
23 saying, I wonder where I should put our money in the meanwhile.
24 Well, if you knew your asset class you could just by the
25 indexes until you selected your money managers. Because,

1 frankly, when you look at the indexes versus the money
2 managers, and again, you could use this report that I'm looking
3 at, the index, the domestic index actually outperformed most of
4 the money managers, within the Permanent Fund even, for this
5 particular year. But it's just a -- those are just things that
6 we see.

7 CHAIRWOMAN HEIMAN: Any other comments?

8 (No audible responses)

9 CHAIRWOMAN HEIMAN: Thank you very much, David,
10 you have made us all think about this even more than we have.
11 And we'll probably be in touch with you again about this.

12 MR. YOUNG: That would be wonderful.

13 CHAIRWOMAN HEIMAN: All right.

14 MR. YOUNG: Molly, thanks again.

15 MS. McCAMMON: Thank you.

16 CHAIRWOMAN HEIMAN: All righty. Now we'll move
17 to the teleconference site in Anchorage. Is there anyone there
18 that would like to testify.

19 MS. SCHUBERT: Madam Chairman, this is Sandra
20 Schubert in Anchorage. Frank Rue had to leave the meeting, so
21 I'm speaking up here and we have two people.

22 CHAIRWOMAN HEIMAN: Great.

23 MS. SCHUBERT: Terry Burrell and then Dan Hull.

24 MS. BURRELL: I'll go after Dan, he's on first.

25 CHAIRWOMAN HEIMAN: Go ahead, Terry.

1 MS. SCHUBERT: Dan's going to first.

2 CHAIRWOMAN HEIMAN: Okay.

3 MR. HULL: Okay. Thank you, Madam Chairman,
4 this is Dan Hull, I reside here in Anchorage and I'm a
5 commercial fisherman in Cordova. First, I'd like to -- I'm
6 also a member of the Public Advisory Group, but today I'm going
7 to just speak on my own behalf.

8 First, I'd like to thank the Trustee Council and Molly
9 and staff for their continued commitment to this program and
10 their thorough and (phone noise) manner in which you conduct
11 your work. I don't always agree with the decisions you make or
12 the proposals that come out of this, but I do believe that the
13 process works very well and I'm very supportive of that.

14 Secondly, I'd like to thank the Trustee Council for
15 your support of the SEA Program over the years. I believe that
16 as the results and knowledge of SEA become more widely
17 disseminated to the managers and stakeholders and general
18 public that the success of the program will become more
19 apparent and the benefits will take root.

20 I have a couple of comments I'd like to make about the
21 GEM Program and also about the Habitat Protection Program.
22 First, with respect to GEM, I support the revisions that have
23 been made in the second draft, in particular the refinement of
24 the program goals, I think that those are admirable. However,
25 I do have some concerns about addressing these program goals

1 through focusing on institutional goals, and this is described
2 on the top of page 26 in the document. My concern is that this
3 requires -- my concerns are several. One is that perhaps this
4 requires some legal authority that EVOS doesn't have over how
5 individual agencies or other non-governmental organizations and
6 other institutions outside of the program work.

7 Secondly, it seems that it requires that the
8 personalities or it places a great importance on the
9 personalities and goals of individual Trustee Council members
10 in order to make sure that institutional goals are carried out.
11 And, finally, perhaps it also requires that individual Trustee
12 Council members have some broad authority or power or control
13 over how individuals within their agencies work and how they
14 spend their funds. And it's not clear to me that that exists
15 in all cases and I understand that this is a work in progress
16 but it does raise some concerns for me.

17 As GEM does develop I want to ask that you pay
18 attention to several things. First is the application of
19 research. I think that it will be easy to justify basic
20 science of any kind because it adds pieces of the puzzle to
21 what we know about our marine resources in the Gulf. It's
22 going to be very difficult to figure out how to apply this
23 research. And I know that that's hard wired into the thinking
24 of Phil Mundy and Dr. Spies as well. I just want to stress as
25 a resource user this is of critical importance and I believe

1 that you've heard that from Ken Adams as well.

2 Secondly, I hope that as GEM develops that you keep the
3 public and including the Public Advisory Group, involved in the
4 development of GEM through the National Resource Council's
5 review -- Research Council's review. This will be critical, I
6 think, to make sure that you have the public support, that the
7 public understands and is willing to go forward.

8 With respect Habitat Protection Program. I support the
9 ideas of trying (phone noise) more efficiently, and I myself
10 donate to the Nature Conservancy because I agree with the
11 things they do, but I don't believe that it -- that these
12 nonprofits can represent the general public. And while I
13 understand that this is just one proposal and that the
14 definition of administration of these habitat protection funds
15 is still vague and under consideration, I'm concerned that
16 either the control of these funds or the authority of these
17 organizations could have undue influence on spending funds that
18 rightly are the public's funds.

19 And I guess I would give one example, if a nonprofit is
20 willing to administer these funds and could find additional
21 funds to match them, to purchase some habitat or to protect
22 some habitat, perhaps they would be unwilling to do that unless
23 it was the habitat that they wanted themselves and so it raises
24 some concerns for me about how the public's interests are going
25 to be maintained.

1 And I'll leave my comments at that and would be happy
2 to answer any questions.

3 CHAIRWOMAN HEIMAN: Thank you very much. Are
4 there any Trustee Council members that have any questions? Go
5 ahead.

6 MR. TILLERY: Dan, this is Craig Tillery. The
7 last concerns that you raised, does it ease your mind if the
8 Trustee Council, for example, were to give -- or were to get a
9 nonprofit to do the administrative work, solicit proposals,
10 negotiate, appraise perhaps, but that the ultimate decision on
11 which parcels, well, initially to go after and then whether or
12 not to buy a parcel remained with the Council, but, in essence,
13 the nonprofit sort of did all the other work, bringing their
14 particular advantages, does that solve your concerns?

15 MR. HULL: It might in part provided that the
16 general public's interests in pursuit of different parcels were
17 addressed, so that it wasn't just the nonprofit's desired
18 purchases that were brought forward, but those of the general
19 public.

20 MR. TILLERY: Uh-huh. Okay. So you think that
21 the Council should essentially have a role both in the decision
22 initially on which parcels go forward, recommend ultimately
23 whether to buy or not buy?

24 MR. HULL: Without knowing more precisely what
25 this will look like, I'd say generally yes. There may be other

1 features that would be necessary as well, but I'm just
2 concerned that one organization that could never -- one
3 nonprofit that could ever possibly represent all the general
4 public's interest could have undue influence over the spending
5 of public funds.

6 CHAIRWOMAN HEIMAN: Go ahead, Mr. Pennoyer.

7 MR. PENNOYER: Dan, this is Steve Pennoyer. I
8 was interested in your comments about authority over agencies'
9 priorities and spending and the fact that you didn't think
10 members had that. I think you're quite correct, I'm not sure
11 who in any agency actually has ultimate authority over
12 controlling of the spending of that agency, but obviously
13 various people influence it. But by that comment, and while we
14 might seek to influence that spend pattern by logic or
15 priorities, the results of our assessment of other analysis,
16 basically the institutional goals listed here, what's the
17 substitute for that? Are you suggesting that this concept of
18 trying to coordinate, leverage, prioritize or, at least, send
19 out lists of priorities people would have to respond to is not
20 a good goal and, in fact, we should concentrate simply on
21 funding individual projects in inshore waters? I'm not sure
22 what the relationship is between your comment and what we
23 likely can do with this amount of money.

24 MR. HULL: Well, to be honest, I can't provide
25 you with a better alternative or even a different alternative,

1 I'm just concerned that it may be difficult to achieve the
2 programmatic goals by focusing on the institutional goals.

3 MR. PENNOYER: Okay, I understand that. Thank
4 you.

5 CHAIRWOMAN HEIMAN: Any further questions?

6 (No audible responses)

7 CHAIRWOMAN HEIMAN: Okay, who was next?

8 MS. BURRELL: Do I push a button?

9 MS. SCHUBERT: Yes.

10 MS. BURRELL: Terry Burrell.

11 CHAIRWOMAN HEIMAN: Great, go ahead.

12 MS. BURRELL: Hi, this is Terry Burrell, I'm a
13 40-year resident. I agonized during the spill. I saw our
14 wildlife, sealife, come all the way up into Anchorage floating
15 in tubs in the backs of veterinarian's offices. I find that
16 one of our most marvelous things that has come out of this
17 money that's been given is the SeaLife Center. I think that
18 the SeaLife Center is a very important infrastructure and it
19 needs to be fully funded yearly so that it not only supports
20 your research but it also there in case of another tragedy. I
21 would hate to say what kind of a tragedy, but I do think that
22 the SeaLife Center is excellent, I wish everybody would put
23 their influence to Anchorage and stop them putting an aquarium
24 in the railroad yard. I've been told that it's kind of dead,
25 but I don't know if it is or not. But the SeaLife Center needs

1 the small amount of revenue that comes from tourists, but more
2 important Seward sealife needs the prestige and the really
3 glamour of their whole project. I think that you must be
4 commended for that.

5 I sure disagree with David from Merrill Lynch. I sat
6 there squirming and worming. The point is that what was really
7 marvelous in past years, as the five years or so lumped into so
8 many years, your real estate could very well crash at this
9 time. I deal in commercial real estate. I think that the idea
10 that they said, hey, let's keep it to bonds, I think that's on
11 page 26, I think U.S. Treasuries are great. I would like to
12 see the U.S. Treasury staggered over the years to take
13 advantage to the increase that we will eventually have by
14 inflation that is bound to come on. But I'll leave all that
15 computation to you, but for heaven's sakes stay away from
16 Merrill Lynch, not that they aren't charming.

17 We need to cut overhead, but I don't think putting a
18 nonprofit in is an idea that they're going to cut overhead. My
19 interpretation of nonprofits are that they're extremely high
20 spenders and they take in money, yes, from other places, but it
21 is not equally applied. I look at -- I would hate to have CIRI
22 take over and form some kind of a nonprofit and run it like
23 they run Southcentral. Our neighborhood is overrun with land
24 grabbing and lack of sensitivity to the area. And I don't
25 think that Dan Hull is out of line when he questions whether

1 there will be adequate and fair distribution of projects and
2 information seeking if it is on a nonprofit basis.

3 I would -- I'm thrilled, I've come to talk about sealife
4 and I'm also am thrilled with one of the studies which is on
5 page 79 and where it talks about the fact that you have these
6 influences of El Nino, you have the atmospheric influence, you
7 have a long-term item which is going to let you program how you
8 are taking in the moment. In other words, if you know a
9 certain atmospheric condition or El Nino or whatever is coming
10 on, you should start planning to reserve stock in relationship
11 to what this page 79 on over to 80 are telling you, your 20- to
12 30-year atmospheric changes. I don't think your lunar tides
13 are as specifically oriented to anything but the sea mass. And
14 I look at the sea mass as being such a gigantic body that
15 really is a slow -- turn slow, unless it's full of oil, slowly
16 acting body that I think we have -- and I'm sorry Mr. Rue left,
17 but I think we have an extremely good tool which will say to
18 people up in McGrath that, hey, wait a minute, it's not a
19 matter of counting noses and antlers, it's a matter of what is
20 the basic ecology of the area and what period are we coming
21 into. And let's don't start banging away at one little one
22 year problem when we're going to be facing and have to program
23 for a future long-range problem.

24 It seems to me that I agree with Mr. Vince Patrick, if
25 he was proposing annual assessments, but long-term, because I

1 think that your studies are great, you had a lot of basic
2 research. I think you can back off on some of these studies
3 and save some of the money one year and then compound the
4 interest, is what you call it, and then go assess within the
5 five- to 10-year period what, at this point, will benefit
6 greatly from the research. I think that your impacted areas
7 have been taken care of in lots of ways, but I do think you
8 need to emphasize the broad view.

9 Thank you very much.

10 MR. GIBBONS: Thank you, Ms. Burrell. Are
11 there any questions for.....

12 (No audible responses)

13 MR. GIBBONS: Hearing none, thank you for your
14 testimony.

15 Ms. Heiman had to step out for a teleconference, so I'm
16 stepping in for her right now, this is Dave Gibbons with the
17 Forest Service. Is there any other people who would like to
18 testify in Anchorage?

19 MS. McCAMMON: Could we also note that Geron
20 Bruce is now here sitting in for Trustee Frank Rue.

21 MR. GIBBONS: Okay. So noted. Is there
22 anybody else on line that would like to testify?

23 (No audible responses)

24 MR. GIBBONS: Anybody here in Juneau?

25 (No audible responses)

1 MR. GIBBONS: Okay. Public comment period is
2 closed. And I'll note that Ms. Heiman is back and I'll turn it
3 back over to Marilyn.

4 CHAIRWOMAN HEIMAN: Okay, great. Well, I think
5 we're ready to move to the next item, which is the Gulf
6 Ecosystem Monitoring Program or GEM. Molly.

7 MS. McCAMMON: Yeah. Thanks, Madam Chair. We
8 also have here Dr. Mundy, the Science Coordinator for the
9 Council, and Dr. Spies is also on the line and available to
10 answer questions.

11 You have a couple of documents -- papers in front of
12 you. One is called a March 7, 2000 Version of GEM Document.
13 And what this is is a description of the changes that were made
14 to this document from the October version. And I'd like to go
15 through those really briefly just to highlight the changes that
16 were made.

17 MR. PENNOYER: Molly, I'm sorry, these are
18 papers.....

19 MS. McCAMMON: They should be in front of you
20 somewhere, but here's another copy if you need it. We're
21 working from this here.

22 MR. PENNOYER: Excuse me for stepping in late
23 and.....

24 MR. WRIGHT: Yeah, there's the summary
25 revisions.

1 MR. PENNOYER: Okay, I got it, thank you.

2 MS. McCAMMON: And I should say that these
3 revisions are based on discussion that we've had with Trustee
4 agencies, with Trustees, with some of the groups that we've
5 done presentations to over the last two and a half months. You
6 know, groups as varied as Prince William Sound and Cook Inlet
7 RCACs, the Board of Fisheries, let's see, who all have we done?
8 The Alaska Marine Conservation Council, the Kenai River Special
9 Management Advisory Group, fishing groups, we were with CDFU in
10 Cordova, we've been to -- we met with the community
11 facilitators several times and the tribal councils. So we've
12 probably in all did close to 30 or so individual presentations
13 to a number of groups. So we've gotten lots of feedback and
14 questions and information about people.

15 I would say, overall, the support for this program in
16 this effort is overwhelming. People really appreciate the fact
17 that the Council has committed this fund to this effort. The
18 questions or the concerns or whatever usually come into the
19 details. Well, what does this really mean and what is it
20 really going to do in the long run?

21 And so I'd like to go through the document real briefly
22 and talk to you a little bit about how we think we've answered
23 some of those questions. I also have in front of you even
24 since this draft went out on the web, just our discussions with
25 some Trustee agencies and with the Public Advisory Group

1 yesterday, we have some suggested revisions to this draft. And
2 then there's also a proposed motion for you.

3 But going through the March 7th document the big
4 addition was adding an executive summary at the beginning that
5 kind of gave an overall description of the program, it was
6 really obvious that there was no single place in the document
7 that kind of just in a very quick version said what it was
8 intended to do. So that section was added.

9 The introduction section provides the general
10 background and rationale for the proposed program. The major
11 revisions there, the Human Uses and Activities section was
12 basically a socioeconomic profile of the region and the
13 subregions, Prince William Sound, the Kenai Peninsula, the
14 Kodiak/Afognak Archipelago. And what we did is we called that
15 a socioeconomic profile, we added some additional information
16 to it and then we -- for the Human Uses and Activities section
17 we actually described the key human activities throughout the
18 GEM region, which are the activities that could provide
19 stressors to the resources that people are concerned about.
20 And there we talked about oil and gas development, commercial
21 fishing and recreation and tourism, subsistence and logging.
22 And stresses to the ecosystem are all in the form of resource
23 consumption, pollution, including contaminants, and habitat
24 loss and degradation and those were discussed within those
25 sections.

1 We also included in a section on Fishery and Ecosystem-
2 Based Management a discussion of policy mandates for
3 sustainable use of natural resources. The Alaska Constitution,
4 the Magnuson-Stevens Act, the Endangered Species Act. So we
5 brought that into this whole concept of managing fisheries on
6 an ecosystem basis.

7 In Section G on Marine Habitat Protection we added some
8 discussion about sensitive areas and critical seasons, and also
9 talked a bit more about the potential causes and effects of
10 habitat alteration and degradation.

11 In Section II the major change was to the Mission and
12 that was to add the concept of sustainability, sustaining a
13 healthy ecosystem and sustaining the human use of the marine
14 resources in that ecosystem. So that was where sustainability
15 was pulled in.

16 As we discussed at an earlier meeting, we also revised
17 the goals or kind of reorganized them and I think better
18 articulated them into five programmatic goals and then separate
19 institutional goals. So the five programmatic goals, Detect,
20 Understand, Predict, Inform, Solve.

21 The Geographic Scope was revised to include the
22 watershed, the central-gulf concept as it relates to the marine
23 ecosystem and marine resources. So this is still a marine
24 program, but it recognizes the importance of the terrestrial --
25 the linkages from terrestrial environment to marine

1 environment.

2 And then the funding potential was revised to reflect
3 the passage of our investment language last fall.

4 In Section III, Structure and Approach, there were
5 major revisions in this to streamline it, there was a lot of
6 redundancy through it. And also to emphasize the concepts of
7 leadership and coordination. And this was at the direction of
8 the Council at our last meeting.

9 So leadership, taking the lead and working with others
10 to integrate, synthesize and interpret, to try to form that big
11 picture of what is really happening overall. And to convey
12 that information in accessible and useful formats to
13 scientists, resource managers, policy managers, stakeholders
14 and the public. One tool for doing that is modeling. Another
15 tool is providing periodic workshops and reports assessing the
16 status of the North Gulf. And then also ensuring that this
17 effort is helping to lead and work with other efforts regarding
18 the health of the entire North Pacific.

19 Coordination: Need for coordination, joint planning,
20 setting up priorities and program details with other programs
21 and projects. Maintaining or supporting maintenance of the
22 database matrix of who is doing what, where and when, which
23 we've done in the initial draft, the response to that database
24 has been really positive.

25 Long-term Monitoring: The monitoring priorities for

1 GEM to be based on the key species and the processes in the
2 ecosystem. And this is watershed, nearshore, central-gulf,
3 that concept. The current and potential stressor or threats,
4 contaminants, fishing, climate change. And these would be
5 picked on the basis of their ecological importance, human
6 relevance and their ability to indicate ecosystem disturbance.
7 Working with others to determine key resources and stressors,
8 which stressors could affect their health. So emphasizing that
9 it will be a process of working with others to identify what
10 are those most important things.

11 Building a matrix of who is doing what, where and when.
12 GEM will attempt to fill in critical gaps, to leverage and try
13 to get others to pay for other gaps. And to develop a
14 monitoring plan that would be every three to five years. And
15 emphasizing that there would be a balance between retrospective
16 analysis and synthesis and actual active data acquisition.
17 There would also be a balance between large scale ecological
18 change and more localized effects.

19 Traditional Knowledge, we added some language to that.
20 We still need to have further thought on whether there should
21 be community involvement, traditional knowledge, local
22 stewardship, whether there should be one comprehensive program
23 or kind of a loose conglomeration of smaller, more separate
24 efforts.

25 And the next heading, Program Administration and

1 Management was revised, mainly organizationally and some of the
2 principles were put in other sections. So it was more of a
3 structural organization.

4 In Section IV, the Scientific Context, there's a new
5 introductory section that emphasizes the fact that GEM is
6 program, an approach and a process, that this document, at this
7 stage of the game, is not a research plan. It highlights some
8 of the questions that must be answered in developing a
9 monitoring and research plan.

10 In the section on existing agency programs and
11 projects, we added ones that are monitoring human use efforts
12 done by DEC and EPA. This is an ongoing effort and as we
13 continue to get more information we'll continue to make it
14 updated and more relevant.

15 The ecological setting for the Gulf of Alaska
16 ecosystem, we added more detail, including terrestrial
17 boundaries, coastal boundaries, marine-terrestrial linkages.
18 We added the watershed concept as it relates to the larger
19 marine ecosystem.

20 The conceptual model emphasizes that the direct effects
21 and interactions among related natural and human factors
22 control the productivities of all species of birds, fish,
23 shellfish and mammals in the watersheds and waters of the gulf.

24 And finally in that section, figure 11 and 12 were
25 revised and you should have gotten these separately. That's

1 the descriptions of the negative and positive PDOs to emphasize
2 the importance of fronts in the shelf break, as well as runoff
3 with contaminants, the importance of marine nutrients and
4 terrestrial plant carbon.

5 The Scientific Questions, we added anthropogenic and
6 natural -- sections on anthropogenic effects and natural
7 contaminants to the Scientific Questions. And we emphasized
8 that this is just a starting list.

9 And the Long-term Monitoring section, we started with
10 the key resources and functions to be monitored and the leading
11 hypotheses as to the approach for the interaction of the
12 physical, biological and anthropogenic processes. And we added
13 a Section 10 on monitoring indicators of human use.

14 And, of course, the Literature Cited, there were a lot
15 of major additions there. And Appendices were reordered.

16 So I just wanted to go through those. And before I
17 answer any questions or we have any additional comments on it,
18 I wanted to emphasize something that we talked a little bit
19 about when Chuck Meacham was giving the Public Advisory Group
20 report, and that is when we started this process, at your
21 direction, last summer and started putting out drafts for
22 review and working on it, you always kind of hold a target up
23 to yourself when you put anything out for review and comment.
24 But it has been an evolving document. And as we have gone
25 through the process it's been interesting because there's been

1 a lot of focus and attention on Section IV, in particular, the
2 Model. In fact, one of the public commentators yesterday at the
3 PAG said, forget all the verbiage at the front, let's just cut
4 right to that model and I was actually kind of horrified by
5 this because, to me, the model and all of that is the verbiage
6 and let's focus on the first parts of the program. Because, to
7 me, at this stage of the game, that's the heart of the program.

8 But it's clear that that seems to have caused some of
9 the concern from various folks and, in fact, that is the least
10 well developed of the sections, and it is not final at all, and
11 won't be for at least another year to two years. And, in fact,
12 what we're kind of looking at are almost, in effect, three
13 volumes to this document, and the first volume is basically
14 Sections I through III, which establishes the framework for the
15 program. The principles, the guiding policies, the general
16 approach to the program.

17 The second volume is basically the science of the Gulf
18 as we know it today. What is the literature telling us, what
19 do we know about the systems, how do things work to the extent
20 that we know them today?

21 The third section is the very beginning discussions of
22 a long-term -- of a research and monitoring plan for the next
23 five to 10 years. And that part is something -- is the least
24 well developed of the entire section.

25 When we go forward for review it's been our thinking,

1 and again I should reiterate that this is an evolving process,
2 we've all learned a lot just talking to people and having to
3 explain this and answering questions over time, it's really, I
4 think, clarified things a lot more in our minds. That what we
5 are looking to in going to the National Research Council is to
6 say, okay, here's the framework for a program, based on your
7 experience with other national and international efforts, are
8 there things that you can bring to this for advice? Are there
9 warning signals here in this document that you want to call our
10 attention to? Are there potential problems in taking any of
11 these approaches?

12 The second section on the science of the gulf as we
13 know it today, is this science sound? Is this good? Is there
14 something that's being misinterpreted here in terms of how
15 things are functioning now? Is somehow the science, as we put
16 it, is it off base in any way?

17 And then, thirdly, regarding the long-term plan, what
18 guidance can you give us -- what kind of strategies and help
19 can you give us as we go about in the next two years developing
20 this plan? Not so much -- don't critique the plan yet because
21 it's not there, it's not ready to be critiqued yet, but what
22 kind of strategy and guidance? And just as an example, some of
23 the kinds of things that we'll be grappling with is this
24 question of -- and Phil calls it the breadth versus depth
25 question, do you take one measurement in 200 places across the

1 region or do you take 20 measurements in five places? What
2 gives you the most useful information over time? How do you
3 balance that need for wanting to know things over a larger
4 scale and longer -- a broader geographic scale and a longer
5 time period with people's desire to see more immediate
6 information over a shorter period of time? And being able to
7 respond to large scale change over decades, but also more
8 localized effects that may be caused by just a local activity
9 or a local problem that really isn't an indicator of a big
10 systemwide change.

11 So it's going to be a balancing between those, and I
12 don't have an answer to give as to what the final
13 recommendation or the final follow-up for the next five to 10
14 years would be. I think it will be a process that we develop
15 over the next couple of years in working with the agencies,
16 with communities, with CDFU, with other folks to help shape and
17 craft that balance. And I think we have to use the leveraging
18 and leadership principles in the guiding document and force
19 others to step to the table also and bring their resources to
20 bear to kind of address jointly these common resource
21 priorities.

22 So with that, we do have also some suggested revisions
23 that I can go over for you, I can answer questions here. Both
24 Bob and Phil are available here to answer any questions.

25 CHAIRWOMAN HEIMAN: Council members, are there

1 questions?

2 MR. PENNOYER: Uh-huh.

3 (Laughter)

4 CHAIRWOMAN HEIMAN: Mr. Pennoyer, please
5 proceed.

6 MR. PENNOYER: That's called taking a bite of a
7 large piece of cookie before somebody asks you.

8 CHAIRWOMAN HEIMAN: Oh, well, I can ask a quick
9 question first, if you like, while you chew.

10 MR. PENNOYER: Go ahead and I'll finish
11 chewing.

12 CHAIRWOMAN HEIMAN: I would, at some point in
13 this discussion, like to be reminded, did we already run this
14 by peer reviewers? A set of scientific peer reviewers, this
15 model?

16 MS. McCAMMON: Yes.

17 CHAIRWOMAN HEIMAN: And maybe we could get a
18 summary of each of the reviewer's comments or do we have that
19 somewhere or has that been done?

20 MS. McCAMMON: Well, it's not individual
21 comments, it's gone through our core review group so, you know,
22 Pete Peterson, George Rose, that group, that core group. We
23 also had an ad hoc working group of a large group of folks last
24 summer who met several times, it's been through their review.
25 It's been on the web and available to every scientist in

1 Alaska, and believe me they have not been shy about providing
2 any kind of critique, so I don't know, Phil or Bob, if you have
3 any.....

4 CHAIRWOMAN HEIMAN: But did we have -- remind
5 me, we have core reviewers.

6 MS. McCAMMON: Yes.

7 CHAIRWOMAN HEIMAN: What did they say, our
8 people we really count on, what did each of those have to say
9 and was there, you know, comments that were strong or that were
10 not incorporated into the final document?

11 DR. MUNDY: Okay, the document in its present
12 form, okay, the document that was put on the web on the 10th
13 has not, you know, as a whole piece, been through what I would
14 call.....

15 MS. BURRELL: Excuse me, this is Anchorage,
16 could you speak up a little bit?

17 DR. MUNDY: Yes.

18 MS. SCHUBERT: Could I also point out that Bob
19 Spies had to leave to catch a plane.

20 MS. McCAMMON: Thank you.

21 DR. MUNDY: Oh, boy.

22 MS. McCAMMON: You're on your own, Phil.

23 (Laughter)

24 MS. McCAMMON: We'll report back to him.

25 DR. MUNDY: The document as it was put on the

1 web on Friday, March the 10th, has not been the subject of what
2 I would call a formal peer review where people have written
3 down and looked at the whole thing in one piece and put it
4 together. Nonetheless, as Molly said, pieces of the science
5 program, and this is Section IV, have been through what I would
6 call a fairly intense peer review and we have a big log of
7 comments that we've received from scientists all over Alaska
8 and our core peer reviewers. And in those cases where we
9 needed specialists who weren't stepping forward, like in
10 physical oceanography, we went out and beat the bushes pretty
11 hard. We weren't paying people to do this, we had to ask them
12 to do this on a volunteer basis, and we've gotten what I call a
13 fairly warm response given the fact that I was coming not
14 bearing gifts but asking favors.

15 We've had quite positive comments. There are
16 scientists in the agencies and elsewhere who have spent some
17 time with this document since it's been out and I have heard,
18 generally, positive comments. We haven't heard that we're
19 missing big pieces, we haven't heard that there's flaws in the
20 logic or flaws in the arguments. In general, I would say that
21 we've gotten accolades for what we've done in this amount of
22 time. Again, not saying that it's perfect, because we're only
23 in this process since last August, we've put it together. But
24 generally I'd say that the scientific community has been very
25 supportive and generally positive in their comments on it.

1 CHAIRWOMAN HEIMAN: And so they don't put
2 anything in writing, they just talk to you?

3 DR. MUNDY: I do have a file.

4 MS. McCAMMON: We have a file.

5 DR. MUNDY: I have a -- we just had to pull it
6 out, I have -- I keep all the Internet correspondence I get, I
7 keep that in a file and that's available. And I also keep a
8 file of written comments that come in, in word processor format
9 that, you know, that are attached.

10 CHAIRWOMAN HEIMAN: But as far as our core
11 reviewers, did they write comments?

12 MS. McCAMMON: We had a meeting with them and
13 they gave informal comments, verbally.

14 CHAIRWOMAN HEIMAN: Okay, I see. I got it.

15 DR. MUNDY: I have written comments on file
16 from Pete Peterson and George Rose. I'm trying to think if I
17 have written comments on file from anyone else. In general,
18 Pete Peterson is quite supportive of the document. George Rose
19 made some comments, in particular about community involvement
20 and those sorts of things, how you get data out of the
21 community and how you get that information and use it in a
22 resource management program which I thought were very helpful.
23 But those are the sorts of comments.

24 The NRC itself, I look at that as the ultimate peer
25 review and something that will be really important in moving

1 this down the road.

2 CHAIRWOMAN HEIMAN: Mr. Pennoyer.

3 MR. PENNOYER: Thank you. Well, as usual, a
4 specific comment, because something jumps off the table at you
5 when you're halibut commissioner and it says.....

6 DR. MUNDY: Oh-oh.

7 MR. PENNOYER:all living marine resources
8 in the continental shelf off Alaska, except halibut, were
9 probably negatively impacted by the international fishing
10 fleets until about '75.

11 MS. McCAMMON: What page are you?

12 MR. PENNOYER: Page 20. They think there's a
13 major decline in the halibut resource that occurred then
14 because of overharvest of juveniles for thing and there's some
15 arguments as to by-catch, so that's just a -- not necessary
16 but.....

17 DR. MUNDY: Would it do me any good to give you
18 a response or shall I just be quiet?

19 MR. PENNOYER: No, you can give me a response.

20 (Laughter)

21 MR. PENNOYER: I'll take it back to them and
22 argue with them.

23 DR. MUNDY: I think the comment referred to the
24 fact that we had the Halibut Commission and the fact the
25 Halibut Commission was responsible for some of the first

1 oceanographic observations we have on water temperatures and
2 currents in the Gulf of Alaska. There was an organized effort
3 and they had a rationale about how to manage them and they were
4 out there trying as opposed to some of the other species that
5 were just being taken at will by domestic fishing fleets and
6 foreign fishing fleets, so that was the origin of that comment,
7 not meaning to imply, which it may, more than it should, that
8 everything was fine, but that we had an International Pacific
9 Halibut Commission in place and they were trying to.....

10 MR. PENNOYER: Okay. I think the context in
11 which it says it is probably hard to interpret though.

12 DR. MUNDY: Okay.

13 MR. PENNOYER: Because they were impacted not
14 by directed foreign fisheries but by foreign by-catch at that
15 point. We made a big issue out of it at various times, so --
16 in all the by-catch discussions.

17 May I follow-up with a couple?

18 CHAIRWOMAN HEIMAN: Please do.

19 MR. PENNOYER: One more on the section, which,
20 by the way, is very good, and the type of thing you really need
21 to go after on what various agencies and groups are doing.
22 What that didn't give me was much of a feeling for how much
23 resources are going into what their doing. And I don't know
24 your database included that, for example, GLOBEC is doing this,
25 that and something or they're spending one million, five

1 million, 20 million. There's a consistent expenditure pattern,
2 they're just getting up or do we even know that? I mean those
3 are the type of things when you get to this -- these
4 discussions about filling in gaps and so forth, it's harder to
5 understand when you take this.....

6 MS. McCAMMON: But if you'll recall, we had one
7 draft of that before we got totally shot down and it's very
8 difficult.....

9 MR. PENNOYER: Well, I think you got shot down
10 because nobody could understand the numbers.

11 MS. McCAMMON: Well, it's.....

12 MR. PENNOYER: I just know if.....

13 MS. McCAMMON:very difficult because if
14 you have -- if the program is a 10 million dollar national
15 program it was very difficult for them to pull out what piece
16 of it is actually in this geographic region. And we just
17 couldn't get good numbers, so the best way of doing it was to
18 delete all the numbers, so.....

19 MR. PENNOYER: Okay. I don't -- for purposes
20 of this report it's probably not even necessary. I'm just
21 thinking as you follow up on this.....

22 MS. McCAMMON: It is.

23 MR. PENNOYER:with the context of your
24 principles, it's pretty important to understand from
25 people.....

1 MS. McCAMMON: Yeah.

2 MR. PENNOYER:who are criticizing the
3 effort justly as to whether we're going to try to fill in on
4 these international programs versus do something in this bay
5 over here to understand what is actually happening out there.
6 And I don't -- and I know what you're saying, but at some point
7 those groups are going to have to do that. That is exactly
8 what they're going to have to do, they're going to have to say
9 what we're spending on the Gulf of Alaska, not nationally.
10 Because I don't care what they're spending on zooplankton
11 studies on the east coast that haven't necessarily gotten
12 anywhere.....

13 MS. McCAMMON: Right.

14 MR. PENNOYER:in terms of overall
15 practical management application, yet I do care what they're
16 doing in the Gulf of Alaska and what we might or might not have
17 to fill in so.....

18 DR. MUNDY: Right and we will -- we are
19 collecting that information when we can. I would note that we
20 found a lot of reluctance to share that information and then in
21 some cases.....

22 MR. PENNOYER: Oh, I'm sure you did.

23 MS. McCAMMON: Even from public agencies.

24 CHAIRWOMAN HEIMAN: Yeah, not surprising.

25 DR. MUNDY: Even from public agencies?

1 MS. McCAMMON: Especially from public agencies.

2 MR. WRIGHT: Especially.

3 MR. PENNOYER: Some of them don't know. I know
4 that from experience.

5 DR. MUNDY: And we had several researchers on
6 big projects who had funding from multiple source.....

7 MR. PENNOYER: Right.

8 DR. MUNDY:who did not, for a fact, know
9 exactly.

10 MR. PENNOYER: And, again, I'm not asking that
11 because I know we did go through this once before and I never
12 saw the results of why we didn't -- couldn't get to there, but
13 in terms of your principles, those are important considerations
14 that people like Patrick are bringing up and talking about. An
15 inability to get to that is going to lead to a real problem in
16 leveraging or influencing or even filling the gaps.

17 MS. McCAMMON: Uh-huh.

18 MR. PENNOYER: And so right now it's important
19 to know that GLOBEC doesn't know how much money their spending
20 this versus that versus something else. That's a good piece of
21 information. I don't know if you need to put it in here, but
22 that's a good piece of information to have.

23 Okay, the other -- can I go ahead one more?

24 CHAIRWOMAN HEIMAN: Please.

25 MR. PENNOYER: Would you -- I'd just like to

1 hear your response to Mr. Patrick's comments about our
2 expertise in inshore versus offshore. And that's kind of
3 something we're hearing a lot, are you going spend all your
4 money in oceanography? And obviously if you have five million
5 dollars you can spend it on oceanography and not get anywhere,
6 so what -- at least in terms of a lot of these programs out
7 here, so what is the answer to that? What -- I don't think
8 your principles implied to me that we were going to do that.

9 DR. MUNDY: Right.

10 MR. PENNOYER: But maybe it does and maybe it
11 does to other people.

12 DR. MUNDY: Sure. I think that, first of all,
13 there are a number -- when you're managing fisheries, and I
14 think the comments of Dr. Patrick were directed at managing
15 fisheries and I think principally he's worked in the management
16 of herring and salmon fisheries within Prince William Sound.
17 In the jargon of Alaska fisheries management getting
18 information close to the event of the fishery is called
19 inseason management. And, in fact, nowadays the term they use,
20 they don't use inseason management, they call it now casting.
21 And so the -- as opposed to forecasting. And so these kinds of
22 -- you know, and we were doing, as I now understand it, we were
23 doing now casting for salmon fisheries management in Bristol
24 Bay starting about 1974. So I think the -- and I know we were
25 doing it by 1976 because I was doing it.

1 MR. PENNOYER: You were doing it in '63 by the
2 way, but that's all right.

3 (Laughter)

4 DR. MUNDY: But I don't know anybody whose old
5 enough to remember.

6 MR. PENNOYER: Only nearly retired people.

7 MR. MEACHAM: I fished there then and I
8 remember this.

9 DR. MUNDY: Okay. Well, I wasn't going to
10 admit it. But in any event, and I do mean to say that we are
11 familiar with those concepts in fisheries because fisheries
12 has, particularly in its practice on the west coast, long been
13 an applied science, a heavily applied science. And, indeed,
14 outfits like the National Science Foundation where they tend to
15 fund basic science would not touch, during my academic career,
16 they just -- in my experience, they just would not touch
17 fisheries problems, they would defer to that SEA grant or to
18 departments of fish and game and those types of funding
19 agencies. And so in looking at fisheries, I'd say that we have
20 applied science.

21 Now, you get into the area -- one of the things that
22 came to mind when I was listening to Dr. Patrick's comments,
23 very thought provoking, is the concept of normal management
24 agency function, which also rears its head. Because you have
25 the -- you know, the aspect of a management agency has the

1 responsibility to assess the abundance of the populations well
2 enough to be able to assure government and the people that they
3 aren't doing harm when they take these fish, whatever else
4 they're doing. That they know well enough what they're doing
5 either by the rate of harvest or the timing of harvest or
6 whatever other method they have is that they're assuring the
7 public that they're not doing harm. And that would seem to me
8 to be a normal management agency function from a very long way
9 back.

10 That having been said, there are lots of things that
11 people who do ecological research in the nearshore area would
12 like to know about salmon and herring particularly that are not
13 normal management agency functions. So that's going to be a
14 challenge for the Council to sort out in those areas there.
15 But I would say, from my perspective and having put together a
16 lot of the science in here, I think that the Council, in terms
17 of basic and applied research, the Council is -- in terms of
18 the instructions I received, is definitely looking at applied
19 science.

20 And I'll just read you here from page 30, Section C,
21 this is one that says Long-term Monitoring. It says, the Gulf
22 of Alaska ecosystem is a complex network of thousands of
23 species, Section IV describes our current understanding of how
24 biological productivity of the Northern Gulf is influenced by
25 natural and manmade factors. It will not be possible for GEM

1 to answer all or even most of the questions that could be
2 posed. Instead, GEM is likely to be focused to a large extent
3 on key species and ecological processes in the system. Species
4 and processes would be picked on the basis of ecological
5 importance, human relevance and their ability to indicate
6 ecosystem disturbance, as well as their importance for
7 understanding the physical and biological basis for production.

8 CHAIRMAN HEIMAN: What page is that again,
9 please?

10 MR. MUNDY: It's on Page 30. Then down, skip
11 one paragraph, at the bottom of the page, it says, accordingly
12 the GEM program will continue its work with resource managers,
13 stakeholders, and scientific community and the public to refine
14 a common understanding of which marine resources of the
15 Northern Gulf are key and what stressors or potential threats
16 could affect their overall health and so forth.

17 So my understanding of the instructions that we've
18 received in developing the program is just that, okay. Is just
19 that we are moving -- that everything that we do would have an
20 application and that we would be taking this -- that there will
21 be a significant portion of the effort here and the
22 organizational structure that will be devoted to getting this
23 information to the ground.

24 MR. PENNOYER: Can you separate basic and
25 applied in terms of time scale or possible utility of

1 information? How are you making that separate so where we can
2 argue these concepts endlessly but what -- in terms of this
3 program, when you say, applied, were you talking about the now-
4 casting, you're talking about or forecasting or what context
5 would you put that in?

6 MR. MUNDY: I think the near -- I think, again,
7 the closer you get to the event of the fishery and the more
8 oriented it is towards -- and, again, this is just a personal
9 opinion, I want to emphasize that, it's just something for the
10 Council to consider. But if we have to sort out normal
11 management agency function, again, the closer we are to the
12 event of the fishery and the less related we are to other
13 ecosystem functions and to other species of interest like birds
14 and mammals, then I would say the closer that it is to normal
15 management agency function.

16 I think that just about everything that we're talking
17 about here can be applied. And I wouldn't distinguish between
18 monitoring and basic research, I think that's kind of a false
19 dichotomy and I'll give you an example.

20 One of our monitoring or longest time series in the
21 state of Alaska are counts of salmon escapements. This is one
22 of the oldest and most reliable time series that we've got.
23 And we use those for management purposes. We use those to
24 assure the public and the government that we weren't doing harm
25 to the salmon resources and, in fact, we were managing them

1 well. Later on, fisheries oceanographers took those basic
2 monitoring data and put them together with other basic
3 monitoring data from the National Weather Service and published
4 some papers, some of the most exciting papers on how the ocean
5 works and how the ocean produces biological entities that we've
6 seen in the last 25 years. So it's the way that you take the
7 -- the research and monitoring go hand in glove. Research is
8 defined by monitoring because research involves analyzing
9 monitoring data. So what kinds of research you can do is
10 defined by the kinds of monitoring programs you've got out
11 there. So I don't see the dichotomy between, you know,
12 monitoring and research. Monitoring and research go hand in
13 glove. And it's really looking at the resources that people
14 are interested in, the birds and the fish and the mammals and
15 figuring out where that information is. And particularly if
16 there are any gaps in that information that agencies can't
17 handle that might be picked up. That's kind of the way I'm
18 looking at it so I see all of this as in the applied arena more
19 or less.

20 CHAIRMAN HEIMAN: Any other questions or
21 comments. Mr. Tillery.

22 MR. TILLERY: Yes. The concept of breaking
23 this up into sort of three parts, would that -- how would that
24 relate to what goes forward to the NRC? Would we only go
25 forward with Parts I through III at this time and hold back the

1 others until later or would they go with this; what's the plan?

2

3 MS. McCAMMON: I think all three go forward at
4 this time. I think the Sections I through III, the process is
5 ready for review. I think the science part of it, the
6 scientific context is ready for review. I mean you can always
7 keep adding new references to it and new knowledges you gain
8 but I think it's very solid, it's been through extensive review
9 by scientists from all over the state. And I think the Section
10 III is ready for review with the caveat that we're not asking
11 them to review that in detail but to help provide some
12 strategies in terms of how we get towards answering some of
13 these bigger questions on how do you do that balancing.

14 I mean there's other efforts across the country that
15 have had to face that same challenge of trying to balance
16 things, trying to leverage monies from other sources. They
17 have not had the luxury of a guaranteed source of funding like
18 this program has for at least a certain part of the program,
19 but certainly there's a lot of experience elsewhere and there
20 could be some guidance there. I mean the other option is just
21 taking it completely off the table and saying we'll come back
22 to you in two years. But I think it would be to our benefit to
23 have them look at it and give, at least, some indication of
24 guidance, not specific detail because we'll be developing that
25 over the next couple of years. But if there can be some

1 further guidance on that I think it'd be helpful.

2 But that's how the request for review would be caveated
3 or laid out.

4 MR. TILLERY: And your suggestion here about
5 putting into an appendix or something is.....

6 MS. McCAMMON: Well, one suggestion, you know,
7 we were trying to -- people kept focusing on the models, would
8 it make you feel more comfortable if that is the least well
9 developed part of it and for now, I don't know, you could call
10 it Volume III, still undeveloped in big letters or something or
11 put it as an appendix just to somehow ease people's minds about
12 it.

13 Just sitting here, for the last couple of days, too,
14 I'm almost thinking that part of the problem with this -- with
15 that perception that all the money is going to go to the open
16 gulf has been with the title of the program: Gulf Ecosystem
17 Monitoring. When people look at themselves in the Spill area,
18 they don't think themselves as residents of the Gulf, they
19 think of themselves as residents of Prince William Sound or
20 Cook Inlet or Kodiak, Shelikof Straits. When they think of the
21 Gulf, it is that blue, deep ocean water out there in the
22 center. When we've described the Gulf ecosystem, we have not
23 described it that way, we've described it as the watersheds to
24 the central Gulf but that's not how people view that and I
25 really question now our use of that term and -- kind of having

1 going out with this document because I think it's caused maybe
2 more confusion than it's helped.

3 MR. PENNOYER: Got a catchy term to bring out?

4 MS. McCAMMON: That's just something that's
5 occurred to me in the last couple of days, is whether that's
6 part of the problem.

7 CHAIRMAN HEIMAN: Good observation. Do you
8 have more?

9 MR. TILLERY: So I understand then, this idea
10 of breaking up really isn't going to affect what goes forward
11 to the NRC in the near future?

12 MS. McCAMMON: No. No.

13 MR. TILLERY: Okay. But it will be an effort
14 to de-emphasize the finality of things.

15 MS. McCAMMON: And even the finality, Sections
16 I through III, you haven't adopted it yet. It's just going to
17 the next level of review, it could change substantially in the
18 next year.

19 MR. MUNDY: Mr. Chairman [sic], there is a
20 point I'd like to make because I've heard that comment a number
21 of times and we are two and a half years from writing the first
22 checks for projects under this program. I think that.....

23 MS. McCAMMON: At least.

24 MR. MUNDY:and I think that that is
25 something people ought to bear in mind. We're fortunate, in

1 that, we are a long way out on this and people -- I think some
2 people have the feeling that they're kind of heading towards
3 the process in short order here but we are looking at making
4 changes in this document and improving it for quite some time.

5 CHAIRMAN HEIMAN: I guess I don't have to raise
6 my hand, do I? I actually think this document has been much
7 improved and I'm really pleased to see an emphasis on
8 contaminants in here. I'm also pleased to see more of an
9 emphasis and I'm glad that you pointed out, Phil, this
10 paragraph, because, this, I believe, is what we're all very
11 much focused on and it makes me feel more comfortable with what
12 you're saying, Molly, that what is in the front part of the
13 section is much more fully developed and more reflects the
14 direction that we're going than the model and the scientific
15 questions.

16 Although I still have some concerns about the model and
17 scientific questions, I'd like to raise a couple of them.

18 I think that what you say in this paragraph on Page 30
19 about the species and the biological productivity and all of
20 that is not reflected in the scientific questions and the
21 priorities that are placed on those questions. For example, if
22 you look at any of these questions under climate or any of
23 them, ocean fertility, fish and fisheries, the starred items
24 are those that deal with these, I'm sure I'll say it wrong, the
25 Pacific Decadal Oscillation -- everybody says something else.

1 MR. MUNDY: Just hold what you got, you had it
2 right the first time.

3 CHAIRMAN HEIMAN: Pacific Decadal Oscillations.

4 MS. McCAMMON: PDO.

5 MR. MUNDY: PDO.

6 CHAIRMAN HEIMAN: PDOs. And so what concerns
7 some of the people that I work with is that instead of those
8 areas that are oriented more around the species and the
9 nearshore being identified as the priority scientific
10 questions, it is rather these oceanographic questions that are
11 highlighted. So that is one comment that I have. Another
12 is.....

13 MS. McCAMMON: We'd be happy to delete all
14 asterisks in that section.

15 CHAIRMAN HEIMAN: Another specific comment that
16 I have is that if you look at your long -- I believe it's the
17 long-term -- yes, F, long-term monitoring, there's some very
18 general language that is used sometimes and then some very
19 specific language that is used. Like for example on Page 93, I
20 think this needs to be fleshed out a little bit more before it
21 would go forward, and I'll give you my example that has been
22 pointed out to me. For seabird colonies, it says every four
23 years, you know, there'll be monitoring of seabird colony
24 attendance and then chick productivity every year where some of
25 these others don't talk about -- they just say periodic look at

1 what's going on, and I think some of the scientists who
2 actually -- you know, the biologists that just work on birds,
3 they look at this and they say, well, we don't know yet. We
4 don't know if it's every four years or one year or three years
5 or different kinds of things. So they get a little nervous
6 when they see specific numbers when others are general.

7 MS. McCAMMON: They wrote it, I should point
8 out.

9 CHAIRMAN HEIMAN: Maybe they did but I don't
10 know, it was a raised concern and I think it was valid, you
11 know, that there was different levels of specificity in these.

12 I guess I want to follow up a little on what Craig was
13 talking about, given that the model -- I guess if I had a
14 general comment, the only real general concern that I have is
15 that the things that I think we're trying to focus on and the
16 language on Page 30 is really not reflected in the model as
17 much as we would like to see. I understand what you're saying,
18 that there's a whole bunch more work that will go on, but my
19 concern comes in if we're going to spend 437,000 to actually
20 have National Research Council review this, I would feel like
21 there needs to be a little bit more work done on some of the
22 scientific questions and the model. And I guess, I wonder, if
23 it's not a good idea to do it in two separate submissions if --
24 you know, if it's worth six months more work or six to eight
25 months of more work on this aspect. I guess I would prefer

1 maybe something that Craig was alluding to, which is, you know,
2 get them focused on the first part of this, even if they can
3 get the whole thing and then say, you know, we want to do a
4 little more work on some of these scientific questions and
5 other aspects of it and then submit that to them, you know,
6 upon a little more fleshing out of it.

7 Yeah.

8 MR. MUNDY: May I?

9 CHAIRMAN HEIMAN: Yes, please.

10 MR. MUNDY: Let me take the last part first.
11 You can't buy this GEM document anywhere. You can't call your
12 librarian and get it. This is the most recent up to-date
13 collection and explanation of the scientific literature
14 relevant to biological and physical oceanography and production
15 of birds, fish and mammals in the Gulf of Alaska, okay, we
16 built on all the previous sources. We've referenced all the
17 previous sources. So if we don't send this to the NRC panel,
18 the first thing they would do is they would start rooting
19 around for this kind of background, they would root around for
20 these kinds of authorities because they would want to assure
21 themselves that they had this in hand.

22 CHAIRMAN HEIMAN: You're talking about the
23 first part of the document, Section I, II, III?

24 MR. MUNDY: Section IV.

25 CHAIRMAN HEIMAN: Section IV.

1 MS. McCAMMON: Section IV, the first part of
2 Section IV.

3 MR. MUNDY: And that brings me to another point
4 and that is the thing that I need to get to the Council is the
5 approach of the staff in putting together Section IV and what
6 we thought Section IV was for. And that is it's building a
7 scientific foundation for the Council. We have not linked
8 Section IV specifically, this comment was made by the PAG and
9 it's certainly appropriate and it's true, but at this stage of
10 development of the document, we have not linked specific
11 aspects of the science in Section IV to the programmatic goals
12 that have been laid down by the Council, detect and understand
13 and forecast or predict. We have not done that, specifically
14 or that way, we could do that and we should do that but that's
15 not how we approached Section IV. This is a scientific
16 foundation so the Council can make whatever decisions it wants
17 to make on how to implement the program and how to spend its
18 money in full view of the best available scientific
19 information; so that's the way that we put this together. So
20 the model -- and the model itself is a conceptual model and the
21 way that that works.....

22 MS. McCAMMON: Yeah, can you explain the role
23 of the model because I think there may be some confusion on
24 that, too?

25 MR. MUNDY: Yeah. One of the comments that we

1 got from an eminent ecologist who happens to work with birds
2 was that he gave us some comments on the document that were
3 fairly favorable and then he said, the model, the model -- he
4 says, well, it's only a model. And what he meant by that, is
5 that, it's a stalking horse, it's a straw dog. And the model
6 has done its -- has served its purpose because it has generated
7 a lot of interest and it has generated a lot of comment and
8 people have really picked up on this and thought about the
9 problem and thought about the situation and thought about their
10 areas of interest and their agencies' responsibilities in terms
11 of this model, so it did its job, okay.

12 But its job is not, again, to tell the Council how to
13 spend its money or how to implement its program but simply to
14 provide something that scientists and policy makers and others
15 who are interested in this can shoot at. And the way that the
16 model changes is someone shows up with some work or a good idea
17 or a synthesis of work and says, hey, wait a minute, you know,
18 this ought to be in there because this fits. And then we say,
19 okay.

20 It's not like it's something that's carved in stone,
21 it's a conceptual model that's out there to generate thought
22 and enthusiasm among people for the idea. So I understand that
23 a lot of people are thinking ahead to the implementation of the
24 program at this stage but that's not where we are, where the
25 staff is, in developing this document, we're way, way back.

1 We're just trying to get our facts straight and get our
2 literature down and make sure that the Council's document is
3 the best available scientific information in all of the
4 scientific information.

5 For example, in talking about the Central Gulf and
6 shelf break productivity and weather impacting shelf break
7 productivity, we're not implying that the Council would ever
8 want to spend money to measure shelf break productivity. On
9 the other hand, it could be very important to some of the
10 programs that the Council funds, to understand that there are
11 programs out there measuring shelf break productivity, the
12 weather impacts shelf break productivity and that that's a big
13 driver in the system. And that when you're looking at damages,
14 for example, in the nearshore area and you've got a link
15 between shelf break productivity in the nearshore area, it's
16 always possible as happened in the oil spill for somebody to
17 pop up and go, nope, that's not an oil spill effect, that was
18 due to the fact that we had lower productivity out here and it
19 was coupled to that. And these are exactly the same kinds of
20 problems that we run into with managing salmon or managing all
21 kinds of resources, is that, distinguishing between human use
22 and human impacts and the effects of other things in the system
23 is tough if you don't have a broad range of information.

24 CHAIRMAN HEIMAN: Mr. Pennoyer.

25 MR. PENNOYER: I'm not sure I understand

1 completely the concern about the model discussion. We're not
2 being asked to fund the model. We're not being asked to fund a
3 particular study. I agree, I think you ought to take the
4 asterisks out of here, by the way, because I don't think you'll
5 get common agreement. If somebody says to me harbor seals and
6 fatty forage fish are not one of the asterisks things I'll
7 throw them right out of the room because that's the next thing
8 upon our heads, is it going to affect fisheries inshore in
9 Prince William Sounds and a lot of other places, it could very
10 well have a major effect deciding on the reason this population
11 is fluctuating and how those fisheries operate has nothing to
12 do with the abundance of salmon or herring necessarily.

13 But I'm not clear why we're concerned. I think your
14 comment is very well placed, that this word, Gulf, has got
15 everybody kind of torn up. All of a sudden it becomes a North
16 Pacific Council Offshore Fishery when in actual fact, even the
17 North Pacific Council of Groundfish Fishery occur in the Gulf
18 of Alaska, probably a majority of it within 20 miles of the
19 beach not out in that blue water area, nobody fishes out there.
20 There's no bottomless depth, there aren't that many fish and
21 it's not that productive in what they're after, at least
22 they're distributed too broadly. So even in that context,
23 Gulf, in a Gulf management plan for the North Pacific Council
24 primarily means within 20 miles of the coast not out in the
25 open ocean. But what happens there is strongly driven by

1 what's happening out in the open ocean as well as what's coming
2 from coastal waters and runoff and so forth, it's interactive.
3 So I'm not sure why people, unless it's just this concept of
4 the Gulf meaning that we're focused somewhere like essential
5 fish habitat, way, way offshore, and aren't paying attention to
6 the places where people live, where people fish or where people
7 carry out their endeavors. But one of the main reasons for
8 salmon abundance in Alaska is both better survival in fresh
9 water due to ameliorating climate and probably offshore
10 productivity so it's not -- there are a lot of things that go
11 into that. And I'm sure that back a few years ago people who
12 fished for king crab in the Bering Sea and Gulf would have
13 loved to know about Pacific Decadal Oscillations and what was
14 coming when they all disappeared in '84 and all of a sudden
15 everybody's out of business and had to find out -- go fishing
16 for bottomfish, and now we may be heading in reverse and
17 pollack fisheries may have to find something else to do. But
18 this type of explanation is needed. And that doesn't mean that
19 this program would fund it. And this program might be much
20 more concerned with filling in the gaps that are affecting
21 directed fisheries that we're managing and we can see but I
22 would tell you, those are broader than just a bay, just one
23 piece of something. The sea lion issue right now stands a good
24 chance of shutting down some very major fishing areas and it's
25 a matter of debate with us and the courts and others right at

1 the moment. Part of the problem there is a lack of
2 understanding of how the system works. So people don't know
3 what to blame or not to blame or take into account. And sea
4 lions, of course, were not one of our species that was knocked
5 in the head in the spill but they were certainly affected in
6 the affected area, and as fish populations were drifting down
7 they were probably affected even if it was a little harder to
8 pin down. And harbor seals are right in there and they're a
9 big issue in this process.

10 So I'm not as hung up on anything except the fact that
11 people may think we're sending something out here that's going
12 to involve into a huge oceanographic program, that I don't
13 think any of us would support. One thing, you cannot afford
14 it. You cannot get mired down into offshore oceanography,
15 vessel charters, big vessel oceanographic vessels cost \$5,000 a
16 day, you're not going to get into that in a big way with this
17 type of funding. You might influence somebody else to pay
18 attention that somebody else is already doing that and you
19 don't really need to be doing that, you can't tell them not to
20 but you may influence that and groups like GLOBEC and PICES are
21 supposed to based on the fact that they're looking at what
22 people are doing and not doing unnecessary things, and we may
23 be able to point out what's necessary or unnecessary or should
24 be coordinated.

25 But I'm not sending this thing forward -- I'm not yet

1 totally sure in my mind what the NRC's going to tell us, but
2 sending this thing forward as a package doesn't bother me as
3 much. I would take the asterisks out of the section there
4 because I think you'll get endless arguments about people are
5 going to focus on this question's more important than that
6 question and right now that's irrelevant. I don't think we've
7 made up our minds. We haven't looked at the background enough
8 to tell. But I don't have a problem with including some
9 concept of a model of how this thing might work but don't
10 infer, we know how that's how it works, because that's part of
11 what the study is about is to try and figure it out. And I
12 don't know if you've done that in here, I can't find anywhere
13 you've actually said this is the way it works and we know all
14 about it otherwise we wouldn't have a reason to have the study.

15 So I don't know, I'm not sure of the comment. I think
16 more words, the contaminants, more discussion of other
17 influences is needed so people realize that the scope's broader
18 than -- I don't think it's even in offshore -- to tell you the
19 truth, I would be real surprised if we funded very many
20 expensive offshore oceanography projects even after we get
21 going. That's other people's bag. And they may not be doing
22 it right, you get an applied result and we need to comment on
23 that, but I'd be surprised if we would.

24 MS. McCAMMON: Well, the kinds of things we've
25 talked about for oceanography are maybe a few extra buoys like

1 the GAK one, buoy, in a couple of other areas, it is not
2 expensive -- it's not ocean cruises, it's very low-tech kinds
3 of things.

4 MR. PENNOYER: And maybe cooperatively doing it
5 with somebody so there is partial funding.

6 MS. McCAMMON: Cooperatively doing some things
7 with other folks. It's not a major intensive effort.

8 MR. PENNOYER: But I think -- may I continue?

9 CHAIRMAN HEIMAN: (Nods affirmatively)

10 MR. PENNOYER: I think the concept of this,
11 which obviously is a problem with a lot of people, is what the
12 focus of this program is, Gulf. We've gone from an essence
13 mostly of shoreside driven oil spill investigation, oil that
14 generally adhered -- generally the coastline, it wasn't out as
15 much in -- well, we don't know exactly but not much results out
16 in the open Gulf and we weren't worried about them, to
17 something that appears to be that we're going to deal with PDO
18 and we're going to get somewhere off in the Aleutians and be
19 looking at storms out in Siberia or something, and I don't
20 think that's true. I don't get that from reading this. But if
21 you -- I don't know what you'd use instead of GEM. I mean the
22 acronym would be GULF, inshore, I can't even figure out what
23 the initials would be.

24 MS. McCAMMON: Spill area affected -- area -- I
25 don't know.

1 MR. MUNDY: Near Gulf.

2 MR. PENNOYER: Oh, my God, I've got a.....

3 UNIDENTIFIED VOICE: You don't really want me to read
4 this do you, Bruce?

5 MR. PENNOYER: SCAMM. I don't think we can
6 handle that one either.

7 MR. MUNDY: SCAMM?

8 MS. McCAMMON: SCAMM or.....

9 MR. PENNOYER: Southcentral Alaska Marine
10 Monitoring, no, I don't think that's appropriate just at this
11 moment.

12 MS. McCAMMON: SCAMM.

13 CHAIRMAN HEIMAN: In response, I guess, to what
14 you were talking about, commenting on my comments, I agree with
15 everything you've just said, couldn't agree more. But I don't
16 think -- I did read this. I've read the whole thing, you know,
17 gone through a review with the scientists that have been
18 reading this over and over and over, and I guess my concern is
19 that the model, as described, maybe we just need to say
20 something in there, the model is not going to drive the
21 research.

22 MR. PENNOYER: That's probably true.

23 CHAIRMAN HEIMAN: This is a model.

24 MR. PENNOYER: Yeah.

25 CHAIRMAN HEIMAN: That tells us about what's

1 happening in the Gulf and how to predict what's happening in
2 the Gulf, but that doesn't necessarily mean we will follow this
3 model in order to make our decisions about -- I mean what --
4 I'm very new at all this stuff and I haven't had the time to
5 spend on it as much as you guys have and I think there's valid
6 comments on all sides of this. But I guess, what's going to
7 drive the research? Are we going to be trying to figure out
8 what's happening in the oceans and then see how that affects
9 our species or are we going to look at the species and say, oh,
10 this is what's happening with the oceans, you know, it's sort
11 of a -- which is the focus? And I think that I would say our
12 focus and our interest, for the Department of Interior, is more
13 around the species, much more around the species than it is
14 around what's happening with the physical oceanography. And I
15 think you're right, we couldn't begin to spend the kind of
16 money that we need to spend to look at that and there will be
17 other people looking at it. But I think there's a fear that
18 because of this model it sets the tone of the direction we're
19 going. And so if there's a way for us to incorporate into this
20 model does not drive the research, this is just telling us
21 what's happening and will help us to keep track of it through
22 time. You know, I don't know, however you write it.

23 MS. McCAMMON: I'm not sure you can totally say
24 that it doesn't drive the research or influence the research
25 because, correct me if I'm wrong, but.....

1 MR. PENNOYER: Don't use drive.

2 MS. McCAMMON:it's not drive but I mean
3 it's -- I mean it's my understanding the purpose of a model is
4 to do a straw dog of this is our explanation -- or based on our
5 current knowledge of what we think is happening in the whole
6 system and how productivity comes from the bottom to influence
7 the top species and then you have various factors coming in at
8 the side and the effect of contaminants or harvest levels or
9 whatever that are affecting population abundance at various
10 points of the system. And this is how we think the current
11 system works and how things are affected.

12 So you use that to help. Then you decide, okay, what
13 are the species that really count, that are the ones that
14 people are the most concerned about, and we know what they are
15 for the most part, I mean we've been working in the Spill area
16 now for 11 years, people know what the most important things
17 are to people. What are the processes that are driving those
18 and those are bottom up processes that are driving the
19 productivity of those. What are the key threats to those?
20 Right now the biggest signal for most of this is probably
21 weather but you want to have it set up so that as things change
22 over time, you can be testing alternate hypotheses that you do
23 have a more degraded environment at some point and be able to
24 figure that out and know so that then you can respond
25 accordingly.

1 MR. PENNOYER: Madame Chair.

2 CHAIRMAN HEIMAN: (Nods affirmatively)

3 MR. PENNOYER: But the problem is that people,
4 we ran into this in US/Canada for a long time and had a model
5 guru down in Washington that had a model for Pacific salmon
6 abundance up and down the coast and, Phil, you've been
7 acquainted with this, too. And the fear in the fishing public
8 was that the model was driving the management and since nobody
9 understood the model we were just letting somebody plug
10 something at this end and we had something pop out at the other
11 end and we did it, that's all that mattered. And you could
12 make this thing -- what popped out at the other end, who
13 understood the model could tweak some of the parameters and
14 different things would pop out all the time. And at least,
15 that was the public's view -- general public views of how the
16 world worked and there was a general lack of acceptance of a
17 system that worked that way. So that's why I say don't use
18 drive.

19 This model is not going to spit the research out for
20 us.

21 MS. McCAMMON: Right.

22 MR. PENNOYER: We aren't just lavishly looking
23 at this and saying, okay, plug in \$5 million here and out the
24 other end will pop 16 research priorities and nobody will.....

25 MS. McCAMMON: Right.

1 MR. PENNOYER:have to do a thing.

2 MS. McCAMMON: Right.

3 MR. PENNOYER: Just the model is putting it
4 together. So it doesn't do that, the model is there really
5 just to help you understand.....

6 MS. McCAMMON: Right.

7 MR. PENNOYER:how the system might work.

8 MS. McCAMMON: Right, how the system works.
9 Right.

10 MR. PENNOYER: It's a conceptualization of the
11 system that will change as you get more information. This is a
12 starting point and I don't think people are willing yet to live
13 with that concept that we're not just going to sit around here
14 and be sort of lavishly held to a model that's going to spit
15 out answers of research priorities. And so it lends an
16 impression that this is a mechanistic thing that we don't want
17 driven or people don't want driven by PDO or some more, to
18 them, obscure concept offshore, and if there's some way to
19 state that, this modeling is to -- and it's a Christmas tree
20 you can hang all your ornaments on is what it amounts to. If
21 you don't have the Christmas tree you don't know where to hang
22 the ornaments, they just sit in a box somewhere.

23 CHAIRMAN HEIMAN: Michele.

24 MS. BROWN: Okay. Yeah, I think you two have
25 really sort of hit on the problem and I actually feel a lot

1 better now having heard this discussion. I think a lot of the
2 angst that you heard is because so much work has been done to
3 change the first section in a way that you have very, very
4 artfully got a lot of people's concerns in there in an
5 integrated, thoughtful fashion, but this part hasn't quite kept
6 up with that. And so this part looks to people who are not as
7 steeped and educated as you are in it as if, gee, those
8 concerns we got in I aren't here anymore, we're back to
9 oceanography and basics there. And I think this can be solved
10 by some very good caveats and context setters at the beginning,
11 you know, this is kind of the setting out the context from
12 which we will then grow the tree and put the ornaments on it as
13 opposed to what I think a lot of us thought when we looked at
14 it is, gee, now, we're back to setting the research stage. So
15 I think it's more of a -- it can probably be solved by setting
16 a context couple of paragraphs.

17 MS. McCAMMON: You think?

18 MS. BROWN: Yeah. I mean I have a lot of faith
19 in you guys after what you've done from the first time to here.

20 CHAIRMAN HEIMAN: Yeah, very good job.

21 MS. BROWN: I think you guys can do anything
22 so.....

23 MS. McCAMMON: Well, I'll tell you this whole
24 model has driven me so crazy that I have gone to Phil and Bob
25 numerous times saying can't we just ditch this stupid model,

1 this is the problem. Sorry, Phil, he goes crazy whenever I say
2 that.

3 CHAIRMAN HEIMAN: Let's just get rid of it. I
4 don't want to lose Phil, only if we could ditch it and not lose
5 Phil.

6 MR. MUNDY: After all the favors I've begged
7 off of scientists all over the state and the rest of the
8 country to get that model put together and we move it into the
9 back.....

10 CHAIRMAN HEIMAN: Oh, my God.

11 MR. MUNDY:and they say, what did you do
12 with my model.

13 MS. McCAMMON: But I mean the problem is you
14 look at all the NRC reviews and they're all looking at
15 reviewing these ecosystem studies and approaches throughout the
16 country and, you know, they really harp on anybody who doesn't
17 have a conceptual model of how the system works, that's the
18 first thing they criticize. So we're a little reluctant.....

19 CHAIRMAN HEIMAN: I see.

20 MS. McCAMMON:to say totally ditch the
21 model because that will be the first one; well, what's your
22 understanding, what's your model of how the system currently
23 works?

24 MS. BROWN: All right. So the scientists bash
25 you if you ditch the model and we bash you if you.....

1 MR. MUNDY: Conceptual foundation, that's the
2 buzz phrase. And they'll say you lack a conceptual foundation
3 and, therefore, everything else you say is.....

4 MS. McCAMMON: Yeah.

5 MS. BROWN: Well, that doesn't trouble us.

6 CHAIRMAN HEIMAN: Craig, did you have a
7 comment?

8 MR. TILLERY: Yeah, I had the same rationale
9 Michele had, which is a lot of the trouble with the model, and
10 I'm one of the people that had a problem when they got to the
11 model section. Really coming from of more of a historical
12 perspective of the whole document.

13 MS. BROWN: Yeah.

14 MR. TILLERY: I looked at the document, things
15 that changed, that hadn't, oh, they're trying to get it back in
16 what I thought we dealt with in the front section.

17 MS. McCAMMON: We're trying to back door you.

18 MR. TILLERY: But then as I listen to this
19 conversation. I mean I think of a model, I think of a model
20 like it's a hypothesis, it's something that you prove. And
21 then I thought I heard that that's not what it is, it's just a
22 conceptual basis. And then Molly started drawing a diagram and
23 I thought she was back to proving the model again.

24 MS. McCAMMON: But I may be wrong because I
25 don't know what I'm talking about.

1 MR. TILLERY: And then Steve.....

2 MS. BROWN: So maybe we need a new word than
3 model.

4 MR. TILLERY: And then Mr. Pennoyer took us
5 back away from proving this model so I've been kind of going up
6 and down and where am I really supposed to be? And if this
7 isn't driving it, if we're not trying to prove this, what are
8 we trying to prove and what is going to drive the research; is
9 it the scientific questions?

10 MR. MUNDY: The language that I've jotted down
11 here as I listened going around the table, the model does not
12 describe what the Council will fund. The model advises the
13 Council's expenditures about the ecological context for its
14 actions.

15 MR. TILLERY: Okay.

16 MR. MUNDY: In other words, where does what
17 you're doing, ecologically looking at it, where does what
18 you're doing fit into the picture? How does it relate to other
19 studies and our knowledge of ecological processes and those
20 kinds of things? This model is not cast in a formal statement
21 that can be, you know, as a testable or an operational
22 hypothesis, this is a conceptual foundation. It's what's
23 called a conceptual -- the buzz phrase for it is conceptual
24 foundation. But that doesn't mean, however, that it's not
25 rooted in science. It is the best -- it's rooted in the

1 published science. Now, that doesn't mean that there are other
2 things that we know that might not be incorporated in here.
3 But in general it's a reflection of what we believe and I think
4 that's the right word, believe about how the system works based
5 upon our reading of the science.

6 Now, having said that, I know that the model, in
7 certain regards, must surely be wrong because we have so little
8 information in some areas but that doesn't mean that we don't
9 want to put out a straw dog, you know, a stalking horse that
10 will stimulate people to get them interested and say, okay, I
11 can write an operational hypothesis to test this aspect of that
12 conceptual foundation and I'm going to go out there and I'm
13 going to collect these data or I'm going to take these data
14 that have already been collected and I'm going to make it.....

15 MR. TILLERY: Okay, but you just came back to
16 this being a hypothesis that the whole point of this is people
17 are going to want to test and then when I look at the model I
18 see that what they're going to be testing is El Nino and La
19 Nina and PDOs, et cetera, et cetera. So again, I'm backed up
20 now. I mean I keep going up and down and up and down.

21 MS. BROWN: I have to say I do, too.

22 MR. MUNDY: It's not a hypothesis but it's a
23 stone from which a hypothesis can be struck is kind of the way
24 I'd say it. If you're -- recall that we're out here to look at
25 human impacts and natural effects. Okay, human impacts and

1 natural effects. That was the thicket we were in from the
2 beginning with the oil spill impact studies. Is it Mother
3 Nature or was it oil, okay. So what we're saying here is that
4 if you're studying something inshore, if you're looking at
5 intertidal effects of the Whittier Road, you might and, indeed,
6 if you're coming to us and asking us for our money to
7 understand this, you're going to need to address the ecological
8 context within which you want to study this thing. You're
9 going to have to tell us if this is coupled, or it's not
10 coupled or what your thinking is on that and also identify
11 where you could pick up data, you know, to help you with this
12 thing. I think that in most cases that, you know, the data are
13 out there, I didn't say the truth is out there but I said the
14 data is out there. I think in most cases to look at the stuff
15 we've got a strong beginning, there are other programs that are
16 coming on-line, coastal oceanography programs, NOAA studies. I
17 never cease to be amazed by what I find when I start working
18 the web under NOAA's banner.

19 MR. PENNOYER: Amazing.

20 MR. MUNDY: It's an endless labyrinth of.....

21 MR. PENNOYER: Some of the judges around us in
22 court might be amazed, I might be amazed in trying to explain
23 to the judges.

24 MR. MUNDY: But I mean that in a good sense,
25 it's an endless labyrinth of science and there's lots and lots

1 out there.

2 But in any event, what we're saying is, is that for so
3 many years, resource management agencies have had to stick to
4 some relatively narrow information and again I come from Fish
5 and Game so that's what I talk about. And, you know, we
6 managed fisheries, salmon fisheries for a long time based on
7 certain assumptions about what the escapement goals were in
8 areas. But I'll tell you what, there's not an escapement goal
9 that I know of and I got Chuck Meacham sitting over here
10 looking at me, but there's not an escapement goal that I know
11 of that is today the same that it was in the year I started
12 working out there. Okay, it's changed. And it changed -- you
13 know, in those days we believed in steady state, but then we
14 realized that the environment changes and that the stuff that
15 we do when we're looking at the inshore and the nearshore and
16 we're working with birds fish and mammals that people care
17 about, is that, we need to understand the ecological context
18 for our actions. And that's the way it's going, I mean that's
19 what the Magnuson-Stevens Act says now as opposed to what it
20 said in 1976 which was a little different.

21 But I mean that's kind of where we're going with this.
22 And we're not saying -- the model does not prescribe what the
23 Council will fund, it advises the Council's expenditures about
24 the ecological context of its actions. Our job is to make sure
25 that you've got the best available scientific information. And

1 if I didn't tell you about El Nino, La Nina, PDO, shelf break
2 productivity, macro nutrients, micro nutrients, I didn't do my
3 job. I didn't give you what you're supposed to have in hand
4 when you make a decision.

5 CHAIRMAN HEIMAN: I guess I should comment here
6 right now Michele has to leave and I don't know how we want to
7 go from here on this discussion but any suggestions?

8 MR. TILLERY: I have one suggestion.

9 CHAIRMAN HEIMAN: Uh-huh.

10 MR. TILLERY: Which is the original suggestion,
11 was an approval in concept of this draft.

12 CHAIRMAN HEIMAN: Uh-huh.

13 MR. TILLERY: And I guess my thought is that we
14 probably ought not to do an approval in concept that would not
15 then come back for Council review. I think Molly has got the
16 Council's views on this but that rather than any kind of a
17 formal motion, the sense of the Council, which you've already
18 got back, go back and deal with it and we need to come back and
19 have the Council meet which the question is timing because I'm
20 not sure if it's going to be the April 16th or whenever it is
21 meeting or if it needs to be done before then.

22 CHAIRMAN HEIMAN: Can I add to that as far as
23 questions, have we set a specific date with NRC and is there
24 flexibility with NRC at all?

25 MS. McCAMMON: Well, we've made it very clear

1 to NRC that they do not drive this review process, that the
2 Council does, and whenever this document is ready for review.
3 That being said, it already is delayed substantially. April
4 14th we start getting all the proposals in, that is the
5 deadline for the proposals for the 2001 work plan. We're
6 totally booked between April 15th and June 15th doing the next
7 year's work plan. Once we get into this summer the NRC will
8 not start a review. So if we don't get them something by April
9 15th it's delayed until the fall. The problem with that is
10 getting their review is a year to a year and a half so, you
11 know, it's just -- I really strongly feel we need to get it out
12 of here and get that review started by April 15th.

13 MR. PENNOYER: Well, I'm not sure I'm hearing
14 anything different than that. I'm not even -- you've heard us,
15 I'm not sure exactly what we think you're going to do between
16 now and somewhere but it's sort of.....

17 MS. McCAMMON: Work miracles somehow.

18 MR. PENNOYER:adding a few explanation
19 paragraphs. A few explanatory paragraphs on what the model
20 means or doesn't mean. The fact it doesn't drive the research,
21 maybe highlight that a little bit more and take the asterisks
22 out in the priorities -- some of those things are not going to
23 be that dynamic that you couldn't do that and.....

24 MS. McCAMMON: Yes, okay.

25 MR. PENNOYER:mail it back out to us and

1 get us on a teleconference call and have it approved in two
2 weeks.

3 MS. McCAMMON: Yes.

4 CHAIRMAN HEIMAN: Michele.

5 MS. BROWN: I was going to say the same thing.
6 I don't think the changes are that dramatic. I mean I can
7 appreciate the frustration and the, oh my God again but.....

8 MS. McCAMMON: No, I'm not -- no.

9 MS. BROWN: You know, I don't think it's that
10 extensive. I mean I feel a lot better having heard what the
11 model truly means to people who are expert in the field and
12 with that kind of caveat I really don't think we would miss
13 your deadline.

14 MR. GIBBONS: Yeah, I've been with Craig, I've
15 been up and down and I'm not sure where I am now but I like the
16 concept of the conceptual framework. Model, to me, is the same
17 thing that Steve was saying. You push numbers in here and it
18 spits it out here and there you go. And we're talking about an
19 ecological framework which, to develop, you know, ecosystem
20 type work and that would make me feel more comfortable rather
21 than the term, model, it's got a lot of connotations with it.

22 MR. MUNDY: The conceptual foundation.

23 MS. BROWN: Yeah. Scientific foundation or
24 something.

25 MR. PENNOYER: It is a model but like for

1 example in the Bering Sea, we've got, I think, eight or 10
2 models to look at pollack abundance and productivity and we
3 choose between them and sometimes mix and match them to come up
4 with a single number for the Council, and I don't think that's
5 what we're talking about here. We're not spitting out a number
6 for somebody to set a quota on or do something like that, we're
7 looking at a way to explain things, it's an explanation how the
8 system might work that you're going to improve on with the
9 research you got but it's going to help guide you in
10 identifying gaps.

11 And I think that concept here, is a lot of people have
12 been feeling that it's something that's going to pump something
13 in and crank something out and that's what you're tied to. And
14 obviously it's going to be a PDO or it's going to be an
15 offshore thing or it's going to be, you know, that's not what
16 we're saying.

17 CHAIRMAN HEIMAN: Is there any way that you can
18 create a nearshore ecosystem model and then say that these are
19 the two models, you know, that there's -- you know, there's
20 more than one model out there that's going to drive this.

21 MS. McCAMMON: The system all works together.

22 CHAIRMAN HEIMAN: Yeah.

23 MR. PENNOYER: This thing has trees on it.

24 MS. McCAMMON: We added those trees for Dave.

25 (Off record comments)

1 MR. TILLERY: But just timing-wise, is it
2 possible to get this back and then back out to us so then we
3 can meet early.

4 MS. BROWN: Like early April because.....

5 MR. TILLERY: Yeah.

6 MS. BROWN:you'll be back.

7 MR. TILLERY: April 2nd.

8 MS. BROWN: You're talking about the school
9 spring break.

10 MS. McCAMMON: A lot of people are gone from
11 March 23rd to April 2nd, I mean that's what we're also dealing
12 with is spring break.

13 CHAIRMAN HEIMAN: After the 10th I have -- from
14 the 10th to the 15th or 20th I'm not going to be around.

15 MS. BROWN: So we want to aim towards the 9th
16 or something.

17 MS. McCAMMON: We'll try to get something --
18 yeah.

19 MR. TILLERY: If you can get something back by
20 the 23rd, a lot of us could take that with us and then maybe
21 deal with it right when we get back or even while we're gone.

22 MS. McCAMMON: I think that would probably be
23 overly optimistic but.....

24 MR. TILLERY: Okay.

25 MS. McCAMMON:we'll see, we'll try.

1 MR. PENNOYER: Again, I'm not sure.....

2 MS. McCAMMON: I don't know, we'll try.

3 MR. PENNOYER:that if you send something
4 out and then we review it that first week in April, for
5 example, or.....

6 MS. McCAMMON: I mean there are only pieces
7 actually overall.....

8 MR. PENNOYER: It's not that big of deal you're
9 going to have to do.

10 MS. McCAMMON:are the main things that
11 people are concerned about so it's not like we have to send the
12 entire.....

13 MS. BROWN: No, no, it's just the.....

14 MR. TILLERY: I think your list is pretty good
15 but you got a bunch of things you promised to do on here
16 so.....

17 MS. McCAMMON: Yeah. And most of these aren't
18 that extensive, you know, they won't take that long to do.

19 CHAIRMAN HEIMAN: So the consensus here is that
20 we will try to get a document by at least the first week in
21 April for us to take another look at and we'll try to help you
22 in the meantime so that it's not -- we're all happy with it by
23 the time it gets to us.

24 MS. McCAMMON: Actually what we'll try doing,
25 too, is getting you the potential -- the controversial pieces

1 or whatever as early as possible, and not even give you an
2 entire document to begin with, but if we could start
3 circulating the little pieces that might answer some of those
4 questions.

5 CHAIRMAN HEIMAN: My feeling would be that
6 those sections dealing with, you know, IV.....

7 MS. McCAMMON: Yeah.

8 CHAIRMAN HEIMAN:on are the ones that
9 we're going to be the most interested in. Okay, any other
10 comments on the GEM program?

11 MR. MEACHAM: Madame Chairman, can I make about
12 a 30-second correction to the report?

13 CHAIRMAN HEIMAN: Yes, sir.

14 MR. MEACHAM: This should be real quick.

15 CHAIRMAN HEIMAN: Okay.

16 MR. MEACHAM: When I was talking about the
17 benefits associated with better linkage, with the programmatic
18 goals and the specific science projects, I said programmatic
19 goals but then I think I proceeded to read institutional goals,
20 so just for the record my intent was to mention the five
21 programmatic goals and not the institutional goals.

22 CHAIRMAN HEIMAN: Okay, great. Thank you for
23 that.

24 MR. MEACHAM: Thank you. Sorry.

25 CHAIRMAN HEIMAN: No problem. Next topic is

1 habitat protection. Molly, is there an overview?

2 MS. McCAMMON: Okay. And you probably know,
3 for the record, Marianne See is here also for Michele Brown.

4 CHAIRMAN HEIMAN: Right.

5 MS. McCAMMON: We have two items on habitat
6 protection for -- two action items here today. The first of
7 them, if you'll recall last October, the Council discussed
8 possible options for a future habitat protection. And one of
9 the options was the possibility of transferring all or some of
10 the functions of that program to a non-profit organization. A
11 couple of months ago, staff and some of the agency folks who
12 have worked with habitat acquisition activities met with the
13 Nature Conservancy and the Conservation Fund. They currently
14 do administer habitat protection programs in Alaska, and you
15 have the notes from the results of that meeting included here
16 as Attachment C. We think, based on the discussion, that there
17 are some distinct advantages that might be offered by a non-
18 profit administration. Those advantages include such things as
19 their ability to move more quickly than the government when
20 parcels become available. They have a better ability to
21 leverage funds by developing financial partnerships with
22 others. Requiring -- they have a track record of purchasing at
23 below appraised value and then using that additional income to
24 lower administrative costs to pay for the cost of appraisals
25 and title searches and things like that.

1 They have more flexibility in protection approaches.
2 They would be able to do things like purchase a parcel, sell
3 off half of it for development purposes, keep the other half
4 for protection purposes. They have the potential to do it at a
5 cheaper cost and I think something that the conservation groups
6 proposed or the non-profits proposed is the possibility to use
7 this fund to leverage other funds. They were very excited at
8 that opportunity. So I think one of the distinct possibilities
9 here, potential benefits, is increasing the amount of funding
10 available for habitat protection by doing this.

11 So what I am bringing forward for your possible
12 consideration is a draft motion that would basically direct me
13 to develop, for consideration by the Council, a proposal to
14 create a permanent habitat protection program to be
15 administered by a non-profit organization. The proposal should
16 include the following elements; process for transfer of funds
17 to a non-profit. There's still a lot of legal questions about
18 how and if you could do it. Administrative structure and cost,
19 the role of the Trustee Council in the future, the process for
20 solicitation and nomination of parcels, criteria for
21 prioritizing parcels for purchase, process for meeting agency
22 appraisal, title and other standards, public involvement,
23 financial management of the fund and requirement for matching
24 funds. This does not, in any way, commit the Council, to this
25 kind of an approach but it does give a little more urgency to

1 the staff here to go out at least and start putting together a
2 proposal and see if we can bring something forward to you that
3 might work.

4 CHAIRMAN HEIMAN: Would someone like to make a
5 motion?

6 MR. GIBBONS: I'll make a motion that we move
7 this proposal forward.

8 MR. BRUCE: I'll second it.

9 CHAIRMAN HEIMAN: Are there any objections to
10 this proposal?

11 MR. GIBBONS: I'd like to have some discussion
12 now if I can?

13 CHAIRMAN HEIMAN: Oh, yes, you may have
14 discussion. I forgot about that part. I'm getting it.

15 MR. GIBBONS: Yeah, I had some concerns and
16 Molly and I visited earlier in the week about this and one
17 thing about matching funds, one of my concerns was, I had a
18 concern that it was parcel by parcel, and if we can match it
19 like program-wide so if a good parcel comes up, say on the
20 Kenai River, something we need to move quickly and we don't
21 have matching funds for the specific parcel, that we can still
22 move forward with that one but do it on a program-wide rather
23 than every parcel has to have matching funds. That's one of my
24 thoughts.

25 And today I heard that there's some concern about

1 prioritizing parcels for purchase and we should -- I'd like to
2 say that the Trustee Council needs to have a real good hand in
3 that process of prioritizing the parcels rather than have some
4 non-profit select and prioritize the parcels for us to look at.
5 But that's a couple comments.

6 CHAIRMAN HEIMAN: I guess I would like to
7 actually make a friendly amendment but I haven't figured out
8 the wording to the motion; is it too late, it's been seconded.

9 MR. TILLERY: You can do it.

10 CHAIRMAN HEIMAN: Okay, good, just asking my
11 procedure. Criteria for prioritizing parcels for purchase, I
12 guess I would want to make this language broad enough so that
13 it could involve conservation easements rather than fee simple
14 or does that do that in the way it's written?

15 MS. McCAMMON: That would certainly be our
16 intent, yeah, that's kind of built into it, yeah.

17 MR. TILLERY: That's an interest in a land that
18 I think it's included. I don't think you need to amend it.

19 CHAIRMAN HEIMAN: How about could we say
20 protection instead of purchase?

21 MS. McCAMMON: Sure.

22 CHAIRMAN HEIMAN: Okay.

23 MS. McCAMMON: Yeah, that covers it.

24 CHAIRMAN HEIMAN: Is there any opposition to
25 that friendly amendment? Okay. Go ahead, Mr. Pennoyer.

1 MR. PENNOYER: I have a question, you list a
2 lot of things here but I don't get a feeling for how you're
3 going to address each of them or the priorities or that you've
4 had discussion amongst the Council as to which things might be
5 more important than others or more concern. So, for example,
6 the Trustee Council role, would you then advance us a series of
7 options or have you heard enough discussion from public
8 testimony and here around the table that you have some idea of
9 where we're going; I don't know how you actually address those
10 things and maybe you're not prepared yet to do that?

11 MS. McCAMMON: I'm not.

12 MR. PENNOYER: Okay.

13 MS. McCAMMON: I mean there's a whole range and
14 I think there's probably a range of use on that, too, as to how
15 strong of a role the Council has to have to still maintain its
16 trust responsibilities; so there's a big legal question on
17 that.

18 MR. PENNOYER: So you're just going to scope
19 these and.....

20 MS. McCAMMON: We'll be scoping them out and
21 kind of doing as we go along.

22 MR. PENNOYER: Scope these things out and bring
23 back kind of the options that would exist under these because
24 each of them have different policy or legal questions
25 associated with them.

1 MS. McCAMMON: Right. And there may be
2 something that kind of, you know, you kind of clearly hone in
3 on one approach for each of these but for others there may be
4 more of a spectrum of approaches.

5 MR. PENNOYER: Thank you.

6 CHAIRMAN HEIMAN: Any other discussion?

7 MR. TILLERY: I concur with the idea of doing
8 this and I think it's actually very well set out and also the
9 fact that one of the reasons of doing this is to create a
10 little bit more urgency. One of the things that I think is
11 very -- is critically important if this is going to move
12 forward is that the process for transfer of funds, that, as
13 Molly indicated does involve a legal analysis and I think that
14 the Council members need to sort of commit that their legal
15 teams will provide real answers in the near future on that one
16 and not some vague, sort of we think we can do it or we might
17 be able to do it but that we get some kind of a commitment on
18 that one because that's going to drive at a lot of stuff.

19 I know you can't commit the Department of Justice but
20 at least.....

21 CHAIRMAN HEIMAN: Good point.

22 MR. TILLERY:but at least.....

23 CHAIRMAN HEIMAN: I understand what you're
24 getting at. Okay, any other discussion on this? Is there any
25 objection to the motion, hearing none, the motion passes.

1 All right, the next topic is update on archeological
2 repository.....

3 MS. McCAMMON: No, we got one more on habitat
4 and that's the appraisal of the Karluk parcels.

5 CHAIRMAN HEIMAN: Karluk, how could we
6 skip.....

7 MS. McCAMMON: Yeah. And as you know we are
8 continuing our discussions with Koniag for the part of the
9 Karluk River that is within the refuge, this is Karluk Lake in
10 the upper part of the Karluk River, and I would like to report
11 that things are -- that we're going back and forth and so
12 hopefully we'll have something to come back to.

13 The lower part of the Karluk, near the mouth, is owned
14 by the Karluk Village IRA Council, and this is the part of the
15 river that the Fish and Game weir site is on and the weir --
16 acquisition of that site of the weir has always been a priority
17 of the State's. The Council has never been interested in
18 selling either a conservation easement or fee acquisition to
19 that parcel. They have not been interested in having really
20 negotiating anything along those lines with the Council up
21 until just recently. They have hired Walt Ebell as their
22 attorney, they have no money to spend on this but they have
23 said that they are willing to talk to the Council about
24 possibilities of long-term protection of that part of the
25 river.

1 To me this is a unique opportunity that if we were to
2 try to get something to keep the momentum going and to do this,
3 we can't wait until June 15th when kind of all the small
4 parcels are up for consideration and discussion. If we wait
5 until then we lose the chance to get an appraisal contracted,
6 committed and underway for the summer so that this becomes an
7 option for the fall.

8 It's about 1,200 acres so it's -- it kind of ranges
9 between a small parcel and a large parcel. There are also
10 about 650 acres of lands within the Kodiak Refuge around
11 Sturgeon, Grant and Halibut Lagoons. They're parts of large
12 parcels that were previously evaluated. They're all really
13 great lands because they're right on the lagoon.

14 So I'm bringing this with the recommendation to
15 authorize, to authorize the Department of Natural Resources to
16 move forward with an appraisal, hazardous material survey and
17 title search for those lands, the funds, which are an estimated
18 \$23,000, would come from the funds already approved under
19 Project 00126 for habitat protection support. So no new money
20 is being requested at this time but you do have to authorize
21 whether the appraisal goes forward.

22 CHAIRMAN HEIMAN: Does someone want to make a
23 motion?

24 MR. BRUCE: I make a motion to go forward with
25 the appraisal.

1 MR. PENNOYER: Second.

2 CHAIRMAN HEIMAN: Is there any discussion? Is
3 there any -- now, what do I do -- all those in favor, I'll just
4 do that.

5 IN UNISON: Aye.

6 CHAIRMAN HEIMAN: All those opposed.

7 (No opposing votes)

8 CHAIRMAN HEIMAN: Hearing none, the motion is
9 passed.

10 MS. McCAMMON: Okay, archeology, there is a
11 memo in here that updates you on where we are with this program
12 and then there's a draft motion that was circulated to you
13 also.

14 Basically, as you'll recall, the project has three
15 components, the regional repository, local display facilities
16 and traveling exhibits. The business plan for the repository
17 should be done by next week. The consulting firm of Northern
18 Economics will review it in late March and report to the
19 Council in April. So probably by the time we meet, April -- in
20 mid-April again, we should have a report back to you on whether
21 we go forward with that proposal as they've kind of
22 reconfigured it.

23 In the meantime, the local display facilities component
24 is also moving forward. We've gone through that part of the
25 review and are ready to -- and have authorized \$180,000 of the

1 grant funds which you have already approved to solicit
2 proposals for local display facilities for four of the
3 facilities. And they're having a pre-proposal meeting for
4 April 6th. You have already approved those funds. I have
5 approved expenditure under our contracting authority for the
6 \$180,000. What we haven't approved are the support costs. And
7 what we told you at the time is that as each component went
8 forward we would come back to you with the agency support costs
9 as it moved forward, just because so much of it seemed kind of
10 uncertain in the future. For the next stage, the support cost
11 to DNR are in the amount of \$23,500. This would include
12 project management costs and general administration. And so
13 the proposal is for you to consider approving those support
14 costs.

15 CHAIRMAN HEIMAN: I would entertain a motion.

16 MR. PENNOYER: Move we approve the support
17 costs in the amount of \$23,500 for local display facilities
18 component.

19 CHAIRMAN HEIMAN: Is there a second?

20 MR. TILLERY: Second.

21 CHAIRMAN HEIMAN: Any discussion.

22 MR. GIBBONS: Molly, could you explain what --
23 about half of it is for general administration, do you have
24 some more information on that? You got 7,300 for one month of
25 project management, 38 for a half a month of SHPO and then you

1 got 12,4 for general administration. Is there some more detail
2 of what that is?

3 MS. McCAMMON: Well, the general administration
4 cost is based on the formula of seven percent for the
5 first.....

6 MS. CRAMER: Seven percent for the first 250 of
7 contractual, two percent thereafter.....

8 MS. McCAMMON: Right.

9 MS. CRAMER:and 15 percent on the personal
10 services.

11 MS. McCAMMON: Right.

12 MR. GIBBONS: So that would be in reference to
13 the 180,000 that we've approved or that's what I'm confused
14 about?

15 MS. CRAMER: The 180 that we're getting from
16 the court at this point.....

17 MS. McCAMMON: Yes.

18 MS. CRAMER:and the money for SHPO and
19 project management, the GASOC with that.

20 MS. McCAMMON: Yes.

21 MR. GIBBONS: Okay, that wasn't clear to me
22 that the 12.4 was, you know, is general administration dealing
23 with the contract of the 180,000.

24 MS. McCAMMON: Right.

25 MS. CRAMER: The contract and then the personal

1 services.

2 MR. GIBBONS: Right.

3 MS. McCAMMON: Yes.

4 CHAIRMAN HEIMAN: Was there any objection to
5 the motion?

6 (No audible responses)

7 CHAIRWOMAN HEIMAN: Hearing none, it passes.
8 Okay, now, we can -- well, do we need to do the item on
9 insurance proceeds?

10 MR. TILLERY: I think we do.

11 CHAIRMAN HEIMAN: Okay, please.

12 MR. SWIDERSKI: And I think we can do it in two
13 or three minutes. At the time that the State contracted with
14 the operators of SeaLife Center to build the SeaLife Center,
15 various entities were identified as second insureds and loss
16 payees on the insurance policies and among those was the
17 Trustee Council. Approximately a year ago after the Center was
18 completed, the operators came to me and asked if they could
19 remove, among others, the Trustee as a loss payee. We did and I
20 don't recall specifically how we brought it to the Council's
21 attention but after discussion with the Council we actually
22 amended the agreement to remove the Council as a loss payee,
23 although, they are still named as an insured.

24 Now, I received a call yesterday from an attorney for
25 one of the insurance companies that indicated his company was

1 about to pay \$88,000 in claims and they were intending to name
2 the Trustee Council as a loss payee, i.e., an additional payee
3 on the check unless the Council authorized someone to waive its
4 claim to those insurance proceeds.

5 I pointed out to them that we had already done that and
6 done that retroactively and he said that the insurance company
7 insisted on a current waiver of that claim. I think it has
8 something -- it's a construction-related claim. What I've done
9 is prepared a motion which I will read and then if the Council,
10 anybody has questions, somebody can so move or not, as you
11 desire. And the motion tracks the letter I received from the
12 counsel for the insurance company, a letter I received this
13 morning.

14 And it would read -- the motion is to authorize the
15 Executive Director of the Exxon Valdez Oil Spill Council to
16 execute a consent form or other appropriate release waiving the
17 Trustee Council from being included as a loss payee with
18 respect to \$88,000 in insurance proceeds to be paid by the
19 Greenwich Insurance Company and Affiliated FM Insurance Company
20 on claims made pursuant to Builders all risk insurance policies
21 issued in connection with the construction of Alaska SeaLife
22 Center.

23 CHAIRMAN HEIMAN: I would entertain a motion.

24 MR. TILLERY: I so move.

25 CHAIRMAN HEIMAN: Is there a second?

1 MR. PENNOYER: Second. I'd like just a minute
2 of discussion. Does that cost us anything once you come down
3 to whatever you're saying.....

4 MS. McCAMMON: Whatever that is, did that cost
5 any money?

6 MR. SWIDERSKI: No, basically what it means is
7 somewhere during the construction process somebody in SeaLife
8 Center, I presume, filed a claim asserting something like the
9 faulty construction.

10 MR. PENNOYER: Uh-huh.

11 MR. SWIDERSKI: The company has agreed to pay
12 because of the way the policies are drafted, the Trustee
13 Council is named as a payee of any claims that are paid and all
14 you would be saying with this motion is....

15 MR. PENNOYER: We're not going to.....

16 MR. SWIDERSKI:you don't want that
17 proceeds.

18 MR. PENNOYER: And we're not going to get the
19 proceeds.

20 MR. SWIDERSKI: You're not going to get the
21 proceeds.

22 MR. PENNOYER: Well, we're not going to take
23 them either.

24 MR. SWIDERSKI: And I probably should advise
25 you, in fact, the proceeds are being interpleaded due to the

1 litigation between the Sealife Center and its contractor, they
2 will be placed in a court account and we would either be -- the
3 Council would either be a party receiving notification and
4 asked if it wanted to participate in that litigation or simply
5 washing its hands of the litigation and a claim that you
6 probably wouldn't receive anyway.

7 CHAIRMAN HEIMAN: Any other discussion?

8 MS. McCAMMON: Note the washing of hands for
9 the record.

10 MR. PENNOYER: Thank you.

11 CHAIRMAN HEIMAN: All those in favor.

12 IN UNISON: Aye.

13 CHAIRMAN HEIMAN: Opposed.

14 (No opposing votes)

15 CHAIRMAN HEIMAN: Motion passes.

16 MR. PENNOYER: Thank you.

17 MR. SWIDERSKI: Thank you.

18 CHAIRMAN HEIMAN: I guess we have to have a
19 motion to adjourn.

20 MS. McCAMMON: So I guess our next meeting,
21 actually would probably be final approval of GEM.....

22 MR. TILLERY: Conceptual approval of GEM.

23 MS. McCAMMON: Final conceptual approval, thank
24 you. Final conceptual approval of the draft conceptual plan.

25 MR. PENNOYER: Right, something like that.

1 MS. McCAMMON: Plus the asset allocation plan.

2 MR. TILLERY: But this GEM thing might happen
3 at a teleconference earlier than the asset allocation.

4 CHAIRMAN HEIMAN: Yes, it sounds like that
5 should happen sooner.

6 MR. PENNOYER: Right. So we should recess.

7 MS. McCAMMON: If we need to, yes. Okay.

8 MR. TILLERY: I move that we recess.

9 MR. PENNOYER: Second.

10 CHAIRMAN HEIMAN: Any opposition to that?
11 Hearing none, we are recessed. Thank you all for coming today
12 and your patience with my chairing capabilities.

13 (END OF PROCEEDINGS)

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I, Joseph P. Kolasinski, Notary Public in and for the State of Alaska and owner of Computer Matrix do hereby certify:

of: THAT the Transcript has been prepared at the request

DATED at Anchorage, Alaska this 28th day of March 2000

Joseph P. Kolasinski
Notary Public in and for Alaska
My Commission Expires: 04/17/00

