

How do current Alaska Permanent Fund appropriations work?

- The principal balance of the Alaska Permanent Fund may not be spent. The expenditure of Fund income, however, is up to the Legislature. The resolution sponsors do not recommend any additional spending of Permanent Fund income; however, the Constitution has left that decision to the Legislature. That provision is not altered by this resolution.
- Income from the Permanent Fund is deposited into the Earnings Reserve Account, a separate account within the Permanent Fund.
- Each year, the Fund's realized earnings are divided by appropriation between the annual Permanent Fund Dividend and inflation-proofing (a transfer of funds from the Earnings Reserve Account to the principal).
 - Realized earnings are income from the sale of an investment.
 - Unrealized earnings represent the increase in value of an asset that has not been sold.
- Operating expenses and management fees incurred by the Alaska Permanent Fund Corporation, and certain expenses incurred by the Departments of Law and Natural Resources, are paid from Permanent Gross Receipts (revenues generated by Permanent Fund investments). The attached "Multi-year Allocation Summary" shows allocations made to these entities since FY06.
- Funds in the Earnings Reserve Account remaining after appropriation to the dividend and inflation-proofing are available for any purpose. The attached "Alaska Permanent Fund Financial History & Projections" spreadsheet shows funds available to be appropriated by the Legislature:
 - In the Assigned Fund Balance portion, the Statutory Net Income less Dividends less Inflation-Proofing/Other is the amount of the Fund that the Legislature would be permitted to appropriate.
 - In FY13 the amount available to be spent by the Legislature was:
 - $\$2,928,000,000 - \$604,000,000 - \$743,000,000 = \$1,581,000,000$
 - In addition, the General Fund/Other (a transfer of funding for Amerda Hess from the Earnings Reserve Account to the Alaska Capital Income Fund) and the Net Assigned plus the Prior Year Assigned Balance are also available for appropriation.

In short, the entire Earnings Reserve Account (FY-End Assigned Balance on the attached "Alaska Permanent Fund Financial History & Projections" spreadsheet) is available for appropriation, though the resolution sponsors do not recommend that this occur. At the end of FY13, this equaled just over \$4 billion. Note that some of those funds are unrealized, but could be spent.

The attached "Multi-Year Appropriation Summary" spreadsheet shows that in FY13, \$1,230,000,000 was appropriated by the Legislature for the dividend and inflation-proofing.

Multi-year Allocation Summary - Operating Budget - FY 2015 Governor Structure

Numbers
Fund Codes: 1105 PF Gross

Allocation	ID→ Session→ Column→	[1] 2006 06Fn1Bud	[2] 2007 07Fn1Bud	[3] 2008 08Fn1Bud	[4] 2009 09Fn1Bud	[5] 2010 10Fn1Bud	[6] 2011 11Fn1Bud	[7] 2012 12Fn1Bud	[8] 2013 13Fn1Bud	[9] 2014 14MgtP1n	[10] 2014 Gov
Administration											
Centralized Admin. Services											
Personnel		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriation Total		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Technology Services											
Enterprise Technology Services		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriation Total		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Law											
Civil Division											
Oil, Gas and Mining		1,477.0	1,477.0	1,477.0	1,477.0	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6
Appropriation Total		1,477.0	1,477.0	1,477.0	1,477.0	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6
Agency Total		1,477.0	1,477.0	1,477.0	1,477.0	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6
Natural Resources											
Oil & Gas											
Oil & Gas		2,930.9	3,067.5	3,423.2	3,472.6	3,491.2	3,596.4	3,709.9	3,797.6	3,840.4	3,860.6
Appropriation Total		2,930.9	3,067.5	3,423.2	3,472.6	3,491.2	3,596.4	3,709.9	3,797.6	3,840.4	3,860.6
Land & Water Resources											
Mining, Land & Water		0.0	0.0	0.0	0.0	0.0	0.0	1,750.7	1,787.6	1,803.5	1,811.8
Appropriation Total		0.0	0.0	0.0	0.0	0.0	0.0	1,750.7	1,787.6	1,803.5	1,811.8
Resource Development											
Mining & Land Development		1,321.4	1,394.2	1,599.4	1,635.5	1,661.7	1,709.4	0.0	0.0	0.0	0.0
Appropriation Total		1,321.4	1,394.2	1,599.4	1,635.5	1,661.7	1,709.4	0.0	0.0	0.0	0.0
Agency Total		4,252.3	4,461.7	5,022.6	5,108.1	5,152.9	5,305.8	5,460.6	5,585.2	5,643.9	5,672.4

Multi-year Allocation Summary - Operating Budget - FY 2015 Governor Structure

Numbers
Fund Codes: 1105 PF Gross

Allocation	ID→ Session→ Column→	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
		2006 06FnlBud	2007 07FnlBud	2008 08FnlBud	2009 09FnlBud	2010 10FnlBud	2011 11FnlBud	2012 12FnlBud	2013 13FnlBud	2014 14MgtPIn	2014 Gov
Taxation and Treasury											
Tax Division											
Appropriation Total		70.7	74.1	77.1	79.2	82.1	84.5	87.6	90.3	91.2	91.7
		70.7	74.1	77.1	79.2	82.1	84.5	87.6	90.3	91.2	91.7
Permanent Fund Corporation											
APFC Operations											
Appropriation Total		8,071.4	8,427.0	9,020.0	9,648.1	9,707.1	10,307.7	10,639.0	11,486.1	12,194.2	12,231.9
		8,071.4	8,427.0	9,020.0	9,648.1	9,707.1	10,307.7	10,639.0	11,486.1	12,194.2	12,231.9
APFC Custody & Management Fees											
APFC Custody and Mgt Fees											
Appropriation Total		54,430.0	63,200.0	79,800.0	92,415.0	82,415.0	94,675.0	0.0	106,600.0	114,800.0	138,575.0
		54,430.0	63,200.0	79,800.0	92,415.0	82,415.0	94,675.0	0.0	106,600.0	114,800.0	138,575.0
Agency Total		62,572.1	71,701.1	88,897.1	102,142.3	92,204.2	105,067.2	10,726.6	118,176.4	127,085.4	150,898.6
		62,572.1	71,701.1	88,897.1	102,142.3	92,204.2	105,067.2	10,726.6	118,176.4	127,085.4	150,898.6
Statewide Total		68,301.4	77,639.8	95,396.7	108,727.4	98,834.7	111,850.6	17,664.8	125,239.2	134,206.9	158,048.6
		68,301.4	77,639.8	95,396.7	108,727.4	98,834.7	111,850.6	17,664.8	125,239.2	134,206.9	158,048.6
Funding Summary											
Other State Funds (Other)											
		68,301.4	77,639.8	95,396.7	108,727.4	98,834.7	111,850.6	17,664.8	125,239.2	134,206.9	158,048.6



ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS

as of December 31, 2013

Projections extend ten years, and are based on best available information (\$ in millions)

FY	Non-spendable Fund Balance - Principal					Assigned Fund Balance										TOTAL FUND FY-End Balance
	FY-Begin Contrib. Balance	Appropriations	Dedicated Revenues	Inflation Proofing	FY-End Balance	Unrealized Gain (Loss) Change	FY-End Balance	Statutory Net Income	Distributions of Income	Dividends	Statutory Net Income	Unrealized Gain (Loss) Change	FY-End Balance	Net Assigned Change	FY-End Assigned Balance	
71-04	0	7,039	8,079	8,408	3,015	28,541	3,015	26,746	12,149	282	859	0	759	859	27,400	
05	23,526	0	480	641	3,874	28,522	2,640	1,754	532	27	1,440	0	561	1,440	29,962	
06	24,647	0	601	856	4,221	30,325	3,072	2,689	689	37	2,585	0	1,145	2,585	32,910	
07	26,104	0	532	860	6,198	33,684	5,448	3,429	1,022	42	4,132	0	(1,505)	4,132	37,826	
08	27,497	0	844	808	2,084	31,213	(3,486)	3,429	1,293	33	4,969	352	1,189	5,321	36,534	
09	29,149	0	651	1,144	30,944	(3,513)	(6,394)	2,938	875	0	441	(973)	(4,901)	420	28,916	
10	30,944	0	679	0	421	32,045	3,517	1,900	858	0	1,194	37	790	1,210	33,255	
11	31,624	0	887	533	4,788	37,832	6,812	2,143	801	13	2,016	276	1,098	2,308	40,140	
12	33,044	0	915	1,073	35,033	38,253	(1,568)	1,568	605	17	1,905	(117)	(227)	2,081	40,333	
13	35,033	0	840	743	36,615	40,800	4,314	2,928	604	30	3,487	392	1,973	4,054	44,853	
14	36,615	0	733	545	37,893	37,571	(3,282)	1,260	996	13	3,205	(594)	(876)	3,178	40,749	
15	37,893	0	733	545	37,893	40,152	(1,925)	1,925	1,031	16	3,502	(358)	(343)	3,150	43,863	
16	36,615	0	733	545	37,893	43,046	2,901	1,959	1,070	20	3,830	(46)	297	4,351	47,397	
17	36,615	0	733	545	37,893	46,272	4,195	2,335	1,109	23	4,167	(46)	921	5,089	51,361	
18	37,893	0	714	965	39,573	49,149	10,661	2,774	1,150	28	4,560	767	1,355	5,915	55,064	
19	39,573	0	711	1,007	41,281	45,346	3,067	2,352	1,150	22	4,067	73	593	4,661	50,006	
20	41,281	0	715	1,050	43,056	47,722	3,238	2,486	1,271	22	4,275	72	666	4,940	52,662	
21	43,056	0	711	1,094	44,862	50,183	3,412	2,621	1,382	22	4,464	73	739	5,202	55,385	
22	44,862	0	697	1,139	46,698	52,702	2,760	2,760	1,364	22	4,766	94	833	5,598	59,301	
23	46,698	0	641	1,183	48,522	55,275	3,781	2,909	1,378	22	5,157	114	947	6,104	61,379	
24	48,522	0	593	1,228	50,343	57,865	3,981	3,065	1,453	22	5,565	128	1,076	6,661	64,526	
25	50,343	0	592	1,273	52,208	60,483	4,186	3,274	1,531	22	6,051	143	1,219	7,280	67,752	
26	52,208	0	538	1,319	54,065	63,176	4,398	3,389	1,611	22	6,555	158	1,377	7,932	71,109	
27	54,065	0	501	1,364	55,930	65,882	4,616	3,559	1,695	22	7,101	176	1,553	8,654	74,546	
28	55,930	0	501	1,364	57,800	68,646	4,841	3,734	1,782	22	7,689	195	1,748	9,437	78,083	
Cumulative Totals							42,013	32,057	15,687	243	1,181		5,383			
Proj. for 2014-2024																

Assumptions: Total Return - Inflation = Total Real Return

10% FY 2014	-8.16%	1.46%	-9.64%	10%	Statutory Return	3.10%
25% FY 2014	-1.21%	1.46%	-2.67%	25%		3.84%
Mid FY 2014	6.70%	1.46%	5.24%	Mid		4.66%
25% FY 2014	15.56%	1.46%	14.10%	25%		5.50%
10% FY 2014	23.86%	1.46%	22.40%	10%		6.48%
FY 2015-2024	6.70%	2.50%	4.20%			5.25%

Income year-to-date as of December 31, 2013

Interest, dividends, real estate & other income	\$ 549.9
Realized gains (losses) on the sale of invested assets	850.7
Less operating exp / Legis. Appropriations	(57.7)
Less AK Capital Inc. Fund committed realized earnings	(12.1)
Statutory net income (loss)	\$ 1,330.8

Statutory net income (loss)	\$ 1,330.8
Unrealized gains (losses) on invested assets	2,671.6
AK Capital Income Fund committed realized earnings	12.1
Accounting (GAAP) net income (loss)	\$ 4,014.5

Notes related to financial history and projections FY1977 - FY2024:
 (1) Appropriations include special general fund, realized earnings, and other miscellaneous appropriation transfers into principal.
 (2) Dedicated State Revenues in current and future fiscal years are based on the Fall 2013 Department of Revenue forecast.
 (3) Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP). Statutory net income is accounting net income, excluding any unrealized gains and losses on investments, and excluding earnings of the Alaska Capital Income Fund (AM Hess, et al principal).
 (4) FY05 and forward, Amarada Hess, et al. annual net positive settlement earnings are transferred to Alaska Capital Income Fund (ACIF) per AS 37.13.145(d).
 (5) Beginning in FY08, based on legal opinion, unrealized gains and losses were allocated between the non-spendable fund balance (principal) and the assigned fund balance (earnings reserve). Prior to FY08, all unrealized gains and losses were included with principal.
 (6) Current year returns and inflation are based on 2013 Callan capital market assumptions.
 (7) Future returns are based on 2013 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.
 (8) During FY 2009, the ACIF realized losses of \$33.3 million, which are excluded from statutory net income, and are included in the ending unreserved balance as a deficit account.
 (9) During FY 2010 and FY 2011, the ACIF had realized income of \$20.8 and \$25.3 million, which is excluded from statutory net income, and served to reduce the FY 2009 deficit.
 (10) The statutory inflation calculation for FY 2010 was -36%; therefore, there was no inflation proofing transfer during FY 2010.
 (11) FY77-04 includes special appropriations to principal of \$4 billion.

PERFORMANCE SUMMARY
 (Preliminary as of December 31, 2013)

	Current Month	Last 3 Months	Fiscal Y-T-D	Calendar Y-T-D	Last 12 Months	Last 3 Years	Last 5 Years
Domestic Fixed Income	-0.38%	0.38%	1.03%	-1.87%	-1.87%	4.09%	6.16%
Non-Domestic Fixed Income	-0.52%	0.39%	1.17%	0.01%	0.01%	3.32%	3.49%
Domestic Equities	3.08%	10.59%	19.78%	37.04%	37.04%	16.85%	19.76%
Non-Domestic Equities	0.80%	4.60%	13.78%	12.41%	12.41%	4.08%	12.43%
Global Equities	2.02%	8.32%	17.00%	26.24%	26.24%	12.29%	15.52%
Real Estate	0.17%	1.93%	3.97%	9.42%	9.42%	10.88%	6.41%
Private Equity	N/M	N/M	4.57%	14.71%	14.71%	14.52%	10.32%
Absolute Return	0.52%	2.32%	3.78%	8.49%	8.49%	5.20%	7.84%
Infrastructure	N/M	N/M	4.33%	6.55%	6.55%	4.81%	4.25%
External CIO/Real Return Mandate	0.03%	2.35%	4.33%	1.89%	1.89%	6.57%	
AMRC Investments	-0.91%	0.62%	0.57%	18.00%			
AKRC Investments	-0.64%						
Total Fund	0.88%	4.00%	8.86%	12.27%	12.27%	8.25%	11.09%
Total Fund Benchmark Return	0.40%	0.77%	2.28%	6.50%	6.50%	7.07%	7.09%

Multi-year Appropriation Summary - Operating Budget - FY 2015 Governor Structure

**Numbers and Language
Fund Codes: 1041 PF ERA**

Appropriation Fund Transfers	ID⇒ Session⇒ Column⇒	[1] 2006 06MgtPIn	[2] 2007 07MgtPIn	[3] 2008 08MgtPIn	[4] 2009 09MgtPIn	[5] 2010 10MgtPIn	[6] 2011 11MgtPIn	[7] 2012 12MgtPIn	[8] 2013 13MgtPIn	[9] 2014 14MgtPIn	[10] 2014 Gov
Permanent Fund Transfers		1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0
Agency Total		1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0
Statewide Total		1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0
Funding Summary											
Designated General (DGF)		1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0

Fund Source Report

1041 PF ERA

Permanent Fund Earnings Reserve Account

Year Authorized 1982	Year Repealed	Active? Yes	Mental Health? No	Duplicated? No	Fund Group Designated General
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No Expenditures during last 10 years

Legal Authority
AS 37.13.145

Source of Revenue
Income of the Permanent Fund.

Restrictions on Use

AS 37.13.145 states that the Permanent Fund Corporation shall transfer earnings from the Earnings Reserve Account to the dividend fund and to principal (for inflation proofing). These annual transfers have not occurred without appropriations, implying that the transfers are designations of use rather than a Constitutionally dedicated use of money. The balance of the earnings reserve account remaining after the transfers is available for any purpose.

Description and History

The Permanent Fund was established by Constitutional amendment in 1977. The amendment directed that at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state be placed in the Permanent Fund. The principal of the Permanent Fund may be used only for income producing investments; it is not available for appropriation.

The amendment also directed that all income from the Permanent Fund be deposited in the general fund unless otherwise provided by law. AS 37.13.145 establishes the Earnings Reserve Account (ERA) as a separate account in the Permanent Fund and directs that all income from the Permanent Fund shall be deposited in the ERA as soon as it is received.

Money in the ERA is commingled with money in the Permanent Fund for investment purposes; the account is tracked separately in order to comply with the Constitutional prohibition of appropriation of Permanent Fund principal.

Although the ERA is in the Permanent Fund for investment purposes, it can be appropriated for any purpose. The situation indicates that the ERA could be classified as unrestricted general funds. Historically, the legislature has avoided appropriations from the ERA for purposes other than deposits to the corpus and for appropriations associated with dividends. Both inflation proofing and PFDs are uses designated by AS 37.13.145.

Because PF earnings--and the ERA balance--are excluded from revenue as reported in the fiscal summary and because of historical reluctance to use the ERA for purposes other than inflation proofing and PFDs, the ERA is classified as designated GF.

Fund Source Report

Money leaves the ERA via code 1041 to:

- a. transfer money from the ERA to the Permanent Fund Dividend Fund. (Dividends and associated costs are then paid from the Dividend Fund using codes 1050 and 1171.) Appropriations to the Dividend Fund appear in the transfers (non-add) section of budget reports. When money from the Dividend Fund is spent via codes 1050 and 1171, it appears as designated GF appropriations.
- b. transfer money from the ERA to the principal of the Permanent Fund. (Annual appropriations to "inflation proof" the Fund are routine, but special appropriations may occur as well.) Because appropriations to the Permanent Fund are not expenditures (in the sense that the money remains in the hands of the State), appropriations to the Fund appear as deposits in the transfers (non-add) section of budget reports. Once money is in the Permanent Fund, there is no fund code to remove it.
- c. transfer money to the Alaska Capital Income Fund (beginning in FY05). Because the Capital Income Fund is a savings account, appropriations to it appear in the transfers (non-add) section of budget reports. When money from the Capital Income Fund is spent, it appears as designated GF appropriations in order to match the classification of the original source of funds (i.e., the ERA).

Appropriations for dividends are conditional; transfers (code 1041) are subject to earnings and ERA balance requirements described in AS 37.13.140 and .145. An appropriation for inflation proofing is effective only if a transfer for dividends occurs. Code 1041 would also be used for any appropriation from the ERA to the general fund or to any project or program.

Code 1105 is gross receipts of the fund (rather than net earnings) and can be considered as corporate receipts. The code is used for the management fees and operational costs of the Permanent Fund Corporation. Although use of corporate receipts outside the corporation may be prohibited by AS 37.05.144, some expenses of the Department of Law, Department of Revenue and Department of Natural Resources that are related to oil and gas litigation and permitting have been funded with code 1105 for a number of years.

By tradition, typical uses of the ERA appear in a separate section of the fiscal summary; earnings are not counted as general fund revenue, and dividend payments, inflation-proofing and transfers to the Capital Income Fund appear as non-additive transfers.

See also

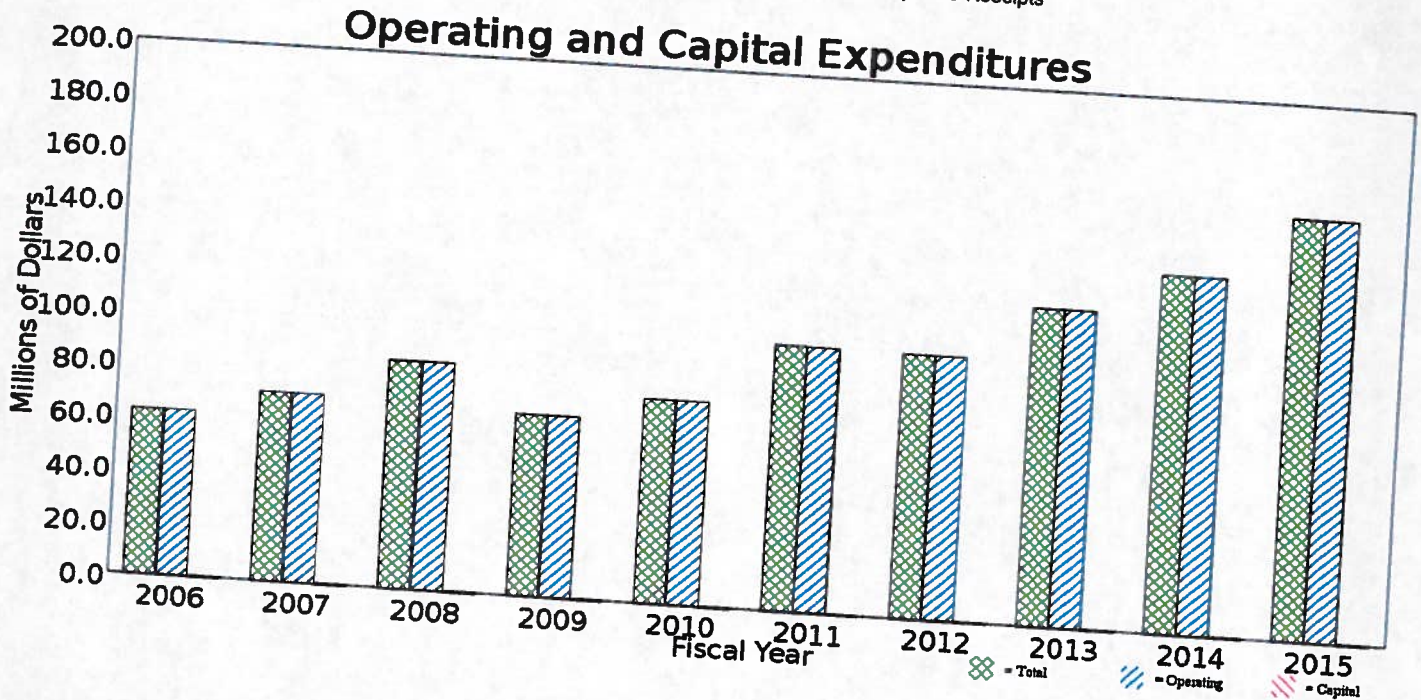
- 1105 Permanent Fund Corporation Receipts
- 1050 Permanent Fund Dividend Fund
- 1171 PFD Appropriations in lieu of Dividends to Criminals
- 1197 Capital Income Fund

Fund Source Report

1105 PF Gross

Permanent Fund Gross Receipts

Year Authorized 1997 Year Repealed Active? Yes Mental Health? No Duplicated? No Fund Group Corporate Receipts



Legal Authority

Article IX Section 15 AS 37.05.146(b)(4)(E), AS 37.13.150

Source of Revenue

Revenue generated by Permanent Fund investments

Restrictions on Use

Permanent Fund revenue, as opposed to income, is the source of the Permanent Fund Corporation's budget

Description and History

The Permanent Fund was established by Constitutional amendment in 1977. The amendment directed that at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in the Permanent Fund. The principal of the Permanent Fund may be used only for income producing investments; it is not available for appropriation.

Code 1105 is used for the management fees and operational costs of the Permanent Fund Corporation. These costs are broadly interpreted to include some expenses of the Department of Law and Department of Natural Resources that are related to oil and gas litigation and permitting. Although arguments can be advanced for use of an alternative fund source code for activities outside the corporation itself, DNR and Law costs have been funded directly with code 1105 for many years.

Appropriations for Permanent Fund Corporation (and associated) operations are not conditioned on the balance of the ERA; they depend upon realized cash flow rather than the market value of the ERA. Per AS 37.13.145, income of the Permanent Fund goes through the Corporation into the ERA as soon as it is received. However, AS 37.13.150 states that the corporation's operating budget shall come from revenue generated by investments. Appropriations not used for costs of operations become income and flow to the ERA at year-end. This differentiation of "income" and "revenue generated" provides the Corporation with a source of operating funds even if the ERA market value is negative and the Corporation experiences negative net realized income. In effect, appropriations to the Corporation (and for associated costs) occur before the revenue reaches the ERA; the costs reduce the amount of Permanent Fund earnings deposited in the ERA.

State corporation receipts were budgeted in one fund code called "corporate receipts" until 1998 when a budget fund was created for each states corporation in order to clarify the budget process.

See also 1041 Permanent Fund Earnings Reserve Account