

Public School Trust Fund

(A Revenue Source for the Foundation Program and Mt. Edgcumbe Boarding School in Governor's FY19 budget)

Mary Hakala, Staff to Rep. Ortiz
465-3642



Revenue Sources Book Fall 2017

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Errata – Dec. 14, 2017
For Table 2-2, two numbers were revised; totals did not change.
For Table 5-8, two numbers were revised; totals did not change.
For Appendix E, two numbers were revised.

Cover photo: Pikka Unit exploration activity on the North Slope. Photo by Judy Patrick, courtesy of Repsol.

Statutory Budget Reserve Fund

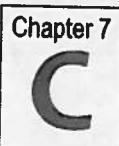
Asset allocation and summary

Investment Balance:

Sept. 30, 2017¹

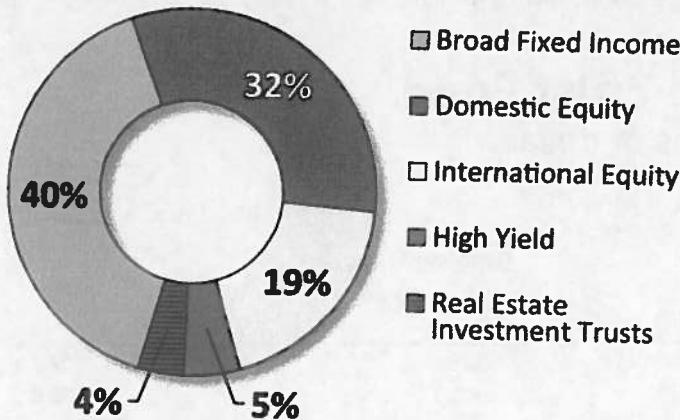
\$0.0 million

¹The SBRF balance at Sept. 30, 2017, reflects draws for general fund cash needs. For more information on the General Fund Sufficiency Balance, go to http://treasury.dor.alaska.gov/Portals/0/docs/cash_management/fy17a.pdf.



Public School Trust Fund – Principal Assets

Moderate risk: long-term investment horizon



Broad Market: Barclays U.S. Aggregate. Domestic Equity: Russell 3000 Index. International Equity: MSCI ACWI ex-U.S. High Yield: U.S. High Yield BA x-144As 2% Cap. Real Estate Investment Trusts: FTSE NAREIT All Equity Index.

In 2014, the Legislature approved a \$3 billion transfer from the CBRF to the Public Employees' Retirement System and Teachers' Retirement System. That transfer, as well as additional authorized withdrawals to balance the state's budget, will need to be paid back to the CBRF under law.

Since FY 2016, the CBRF has been used to cover the gap between state expenditures and the state's collected revenue. Assuming that trend continues – given the current oil price and production forecast and an assumption of an annual budget based on FY 2018 levels – the CBRF will be depleted in FY 2019.

Public School Trust Fund

Asset allocation and summary

Treasury Pool	Target Percent Allocation	Performance Benchmark
Broad Fixed Income	40%	Barclays U.S. Aggregate
Domestic Equity Pool	32%	Russell 3000 Index
International Equity Pool	19%	MSCI ACWI ex-U.S.
Short-Term Fixed Income Pool	0%	Allocation up to 5%
High Yield	5%	U.S. High Yield BA x-144As 2% Cap
Real Estate Investment Trusts	4%	FTSE NAREIT All Equity Index
Public School Fund Balance: Sept. 30, 2017	\$650.8	million
Long-Term Expected Rate of Return	5.80%	Callan's returns
Probability of Negative Return Over 1 Year	29.23%	

Public School Trust Fund

Revenue, in millions of dollars

Fiscal Year	Millions of Dollars		
	History	Forecast	2019
	2017	2018	2019

Restricted

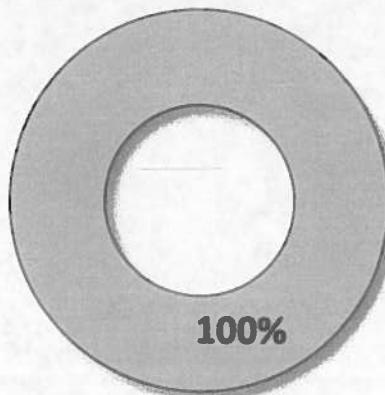
Restricted – Designated General Fund

Public School Trust Fund Total Investment Income	57.7	42.3	32.6
Public School Trust Fund Income Distributed ¹	36.8	15.0	10.0

¹Public School Trust Fund Income Distributed reflects the Alaska Department of Education and Early Development actuals for FY 2017. Projections show recommended income distributions to maintain a sufficient balance in the Income Fund to cover the current and next fiscal year's budget.

Public School Trust Fund – Income Assets

Low risk: short-term investment horizon



Short-Term Fixed Income

Short-term: three-month U.S. T-Bill.

HOUSE BILL NO. 213

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE PARISH

Introduced: 4/5/17

Introduced: 4/3/17

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the investment, appropriation, and administration of the public
2 school trust fund."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

⁴ * Section 1, AS 37.14.110(c) is amended to read:

11 * Sec. 2. AS 37.14.160 is amended to read:

(1) in carrying out investment duties under this section, exercise the

1 same powers and duties established for the Alaska Retirement Management Board in
 2 AS 37.10.220;

3 (2) deposit the principal and income from investments in separate
 4 principal and income accounts for the fund;

5 (3) invest and maintain accounting records that distinguish between the
 6 principal and income of the fund;

7 (4) provide reports to the board established under AS 37.14.120 on the
 8 condition and investment performance of the fund;

9 **(5) determine, on July 1 of each year, the monthly average market**
 10 **value of the fund for the previous 10 fiscal years.**

11 * **Sec. 3.** AS 37.14 is amended by adding a new section to read:

12 **Sec. 37.14.165. Use of the public school trust fund.** Each year, the legislature
 13 may appropriate 4.75 percent of the amount determined by the commissioner of
 14 revenue under AS 37.14.160(5) for the following purposes:

15 (1) funding support of the state public school program; and

16 (2) reimbursement of the costs of administration of the fund.

17 * **Sec. 4.** AS 37.14.170 is amended to read:

18 **Sec. 37.14.170. Investments.** The commissioner of revenue is the fiduciary of
 19 the trust fund and shall invest the fund to provide increasing returns from capital
 20 appreciation and net income over long-term periods to the fund's current
 21 [INCOME] beneficiaries. The commissioner may invest the money in the fund on the
 22 basis of probable total rate of return to promote the long-term generation of capital
 23 appreciation and income. In managing the trust fund, the commissioner shall

24 (1) consider the status of the fund's capital and the income generated
 25 on both a current and a probable future basis;

26 (2) determine the appropriate investment objectives;

27 (3) establish investment policies to achieve the objectives; and

28 (4) act only in regard to the financial interests of the fund's
 29 beneficiaries.

30 * **Sec. 5.** AS 37.14.140 is repealed.

**2018 H FIN DEED Subcommittee Information & Action
(Last Year)**

Public School Trust Fund



EXCERPT FROM
DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT
FY2018 HOUSE FINANCE BUDGET SUBCOMMITTEE NARRATIVE REPORT
February 24, 2017

SUBCOMMITTEE MEMBERS:

Rep. Dan Ortiz, Chair	Rep. Drummond	Rep. Fansler
Rep. Johnston	Rep. Kopp	Rep. Parish
Rep. Spohnholz	Rep. Talerico	Rep. Thompson

SUBCOMMITTEE MEETINGS:

The House Finance Budget Subcommittee for the Department of Education and Early Development held twelve meetings with the department during the review of the FY18 budget request.

STATUTORY RECOMMENDATIONS

The Subcommittee reviewed the Public School Trust Fund which is currently one revenue source for the Foundation Program. There is no specific approach being advanced at this time. There is, however, recognition that the Fund is not maximizing earnings potential and a review of restructuring options is warranted with the goal to increase revenues available to support public education.



State of Alaska

An Update on the Public School Trust

February 17, 2017 Department of Revenue
 Treasury Division

Jerry Burnett
Deputy Commissioner
Alaska Department of Revenue

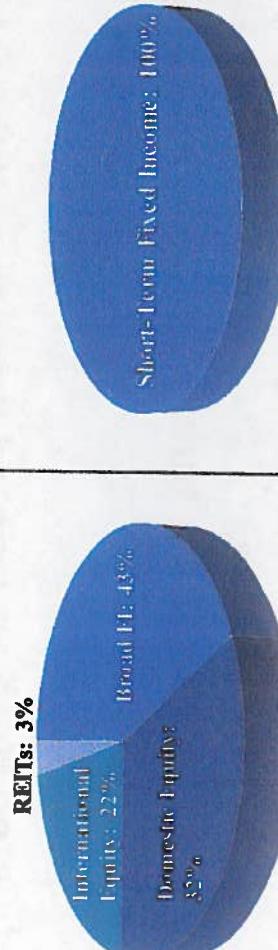


Public School Trust Fund Overview

- Created by Congress as a Land Trust in 1915
- Converted to Cash Trust in 1978 AS 37.14.110 – 37.14.170.
- Funded by one-half of one percent of State receipts from the management of all State lands
- Principal and capital gains are retained in fund
- Net income must be used for the State public school program Alaska AS 37.14.140
- Constitutionally dedicated fund as existed prior to statehood and created by Federal Act

Public School Trust Fund (Principal and Income)

Fiduciary oversight: Commissioner of Revenue

Public School Trust Fund (Principal)		Public School Trust Fund (Income)									
Investment Objective	Moderate Risk, Long Term investment horizon	Low Risk, Short investment horizon									
 <p>Target Asset Allocation</p> <p>REITs: 3% Broad FI: 43% International Equity: 22% Domestic Equity: 32%</p>											
Market Value (\$thousands)	12/31/2014	12/31/2015	12/31/2016								
Returns @ 6/30/16	FY16	FYTD	1 Year Actuals	3 Year Actuals	5 Year Actuals	Callan Projected 10 Year Return: Principal 6.08%					
>Returns	2.11%	2.99%	6.06%	4.27%	6.77%	Actuals	Benchmark ¹	Actuals	Benchmark ¹	Actuals	Benchmark ¹
12/31/16 (Rolling)											

¹Short-term 3-month U.S. Treasury Bill; Broad Fixed Income: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI ACWI ex-US; REITs: FTSE NAREIT All Equity Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates.