

# FISCAL NOTE

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected \_\_\_\_\_ Revenue \_\_\_\_\_  
 Title Distribution of Permanent Fund Income BRU Permanent Fund Corp.  
 Component Permanent Fund Corp.  
 Sponsor Representative Hudson  
 Requester House State Affairs Committee Component No. 109

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

See Attached

Prepared by: Chris Phillips, Director of Finance Phone 465-3172  
 Division AK Permanent Fund Corporation Date/Time 2/22/00 7:18 AM  
 Approved by Commissioner Wilson Condon Date \_\_\_\_\_  
 Agency Department of Revenue

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**MEMORANDUM**

DATE: February 21, 2000

TO: Representative Bill Hudson

FROM: Jim Kelly  
Director of Communications 

SUBJECT: **Analysis of House Bill 411**

You have asked the Alaska Permanent Fund Corporation (APFC) to analyze the impacts of House Bill 411, "Act relating to the market value of the permanent fund and to distribution of income of the permanent fund; and providing for an effective date."

HB 411 redefines "income available for distribution." In current law, "income available for distribution" excludes unrealized gains and equals 21 percent of the Fund's net income for the past five years. In HB 411, "income available for distribution" includes unrealized gains and equals five percent of the Fund's market value averaged over the past five years (20 quarters).

HB 411 changes how "income available for distribution" is distributed. In current law, 50 percent of "income available for distribution" is transferred each year to the dividend fund. The remainder, after inflation-proofing, remains in the earnings reserve. In HB 411, 80 percent of "income available for distribution" is transferred to the dividend fund and the remaining 20 percent is transferred to the General Fund.

HB 411 changes the method of inflation-proofing. In current law, there is an annual transfer of realized income to Fund principal in an amount determined by a formula based on the amount of principal at fiscal year-

end and an annual inflation rate. In HB 411, inflation-proofing is accomplished by the perpetual retention in the Fund's earnings reserve of all income not paid out.

The attached spreadsheet compares "income available for distribution" (payout) in the two scenarios, the annual transfers, inflation-proofing and growth of Fund value.

A key finding is that a market-value-based distribution rule results in a more stable distribution stream than the current income-based distribution rule, particularly if inflation-proofing remains in the earnings reserve rather than being transferred to principal.

Note: These projections are based on a 7.94% total rate of return, which is the current APFC expectation given 1999 Fund asset allocation and capital market assumptions. A word of caution: These projections represent only our best estimate of the median case rate of return; actual annual performance will vary with market volatility.

**PLEASE NOTE THAT THE CORPORATION NEITHER SUPPORTS NOR OPPOSES ANY PROPOSED CHANGES TO THE CURRENT USE OF FUND INCOME, EXCEPT AS THEY MAY RELATE TO THE PROPER EXERCISE OF THE TRUSTEES' FIDUCIARY RESPONSIBILITIES AS REQUIRED UNDER THE PRUDENT INVESTOR RULE.**

Attachment

c: Executive Director  
Board of Trustees  
Director of Finance



# Analysis of HB 411 Alaska Permanent Fund Corporation

Based on December 31, 1999 APFC Financial Projections  
(in millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TOTALS
Payout per HB 411	1,359	1,382	1,406	1,431	1,491	1,544	1,600	1,657	1,716	1,777	15,363
General Fund	272	276	281	286	298	309	320	331	343	355	3,073
Dividend Fund	1,087	1,105	1,125	1,145	1,193	1,235	1,280	1,326	1,373	1,422	12,290
<b>Payout Status Quo (all Dividend)</b>	<b>1,180</b>	<b>1,189</b>	<b>1,149</b>	<b>1,125</b>	<b>1,165</b>	<b>1,217</b>	<b>1,272</b>	<b>1,330</b>	<b>1,391</b>	<b>1,455</b>	<b>12,475</b>
Difference in annual payout	178	192	257	306	325	327	328	327	325	322	2,887
Retain for Inflation - HB 411	729	779	829	883	907	939	971	1,005	1,038	1,071	9,151
Retain for Inflation - Status Quo	598	622	647	673	700	727	756	786	817	848	7,173
<b>Fund value in 2010 - HB 411</b>											<b>38,359</b>
Principal											21,864
Earnings Reserve											16,495
<b>Fund value in 2010 - Status Quo</b>											<b>29,019</b>
Principal											13,366
Earnings Reserve											15,653