

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 304(FIN)
 (H) Publish Date: 3/27/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Permanent Fund Income BRU Permanent Fund Corp.
 Component Permanent Fund Corp.
 Sponsor Representative Whitaker
 Requester House Finance Committee Component No. 109

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Page 2 outlines our understanding of how the distributions of Permanent Fund earnings would work after the adoption of HB 304.

Page 3 is a schedule estimating the financial effects of HB 304.

As an explanation, the model on Page 3 shows dividend amounts under the fiscal year in which the liability to the Permanent Fund accrues -- not the fiscal year in which the individual dividends are paid to Alaskans. For example, the model shows an estimated \$1,540 dividend under the Fiscal 2002 column, although the actual dividend would be paid in October 2002, which is Fiscal 2003. The same one-year "shift" applies to all of the fiscal years listed.

Prepared by: Robert D. Storer, Executive Director Phone 465-2047
 Division: Alaska Permanent Fund Corporation Date/Time 3/26/2002 04:00: PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/26/2002
 Agency: Department of Revenue

Alaska Permanent Fund Corporation

Analysis for CSHB 304(FIN) - FN#2
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OVERVIEW

CSHB 304(FIN) contains the following provisions:

1. Leaves existing statutory distributions (dividends and inflation-proofing) in place for June 30, 2002, but after those transfers are accounted for, appropriates the next day, July 1, 2002, \$300 million from the earnings reserve account to the General Fund.
2. For Fiscal 2004, appropriates 7 percent of the Fund's market value for the five fiscal years ended June 30, 2003 for payouts as follows: 45% to the dividend fund, 35% to the education fund and 20% to the infrastructure and economic development fund. (Note: All payouts under this bill are established as liabilities on the preceding June 30 and paid out in the next fiscal year.)
3. For Fiscal 2005, appropriates 6 percent of the Fund's market value for the five fiscal years ended June 30, 2004 for payouts per the same 45/35/20 division.
4. For all subsequent years, appropriates 5 percent of the Fund's market value for the five fiscal years just ended for payouts per the same 45/35/20 division.
5. Statutory inflation-proofing is repealed effective June 30, 2003.
6. The bill includes a new subsection, AS 37.13.145(g), which states that if the amount in the earnings reserve account is not sufficient to fully fund the three payouts - the 45% to the dividend fund, 35% to the education fund and 20% to the infrastructure and economic development fund - then "the amount of each transfer shall be reduced on a pro rata basis so that the total amount transferred equals the balance in the earnings reserve account."
7. The bill infers that the distributions referred to in HB 304 will be made in the beginning of the fiscal year. Currently the large dividend distribution is not paid out of the fund until late September, after completion of our annual audit. To assure accuracy we would recommend all major distributions being made in late September of each fiscal year.
8. The APFC's Operating and Investment Manger Fees BRUs FY03 budget request totals \$49 million. It is our understanding that the appropriations for these budgets are separate and in addition to distributions under HB 304.

Assumptions: Callan 2002 CMA, APFC 2001 asset allocation, Fall 2001 revenue forecast, financial statements through 2/28/02, POMV begins in FY03. All payouts are liabilities at year end, to be paid out in the next fiscal year.

CSHB 304(FIN) - FN#2

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	Totals FY02-FY12
<u>POMV (7%, 6%, 5%)</u>		7%	6%	5%	5%	5%	5%	5%	5%	5%	5%	
Total Return	1.29%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	
Principal - end of year (after payouts)	21,873	22,114	22,385	22,637	22,869	23,097	23,322	23,544	23,759	23,939	24,123	
ER - end of year (after payouts)	2,204	2,228	2,527	3,135	3,786	4,464	5,172	5,906	6,663	7,442	8,242	
Total Assets End of Year (after payouts)	24,077	24,342	24,912	25,772	26,655	27,561	28,494	29,450	30,422	31,381	32,365	
Total Annual Return in million \$	281	1,883	1,905	1,949	2,016	2,085	2,156	2,229	2,304	2,379	2,455	\$21,643
Total Payout in million \$	1,241	1,834	1,576	1,307	1,327	1,367	1,404	1,448	1,496	1,546	1,596	\$16,141
Education Fund - 35% of POMV - FY03	0	642	551	457	465	478	491	507	524	541	559	\$5,215
Infrastructure - 20% of POMV - FY03	0	367	315	261	265	273	281	290	299	309	319	\$2,980
Dividend - 45% of POMV (lump sum) - FY03	941	825	709	588	597	615	632	652	673	696	718	\$7,646
Transfer to General Fund	300	0	0	0	0	0	0	0	0	0	0	\$300
Dividend Per Person	\$1,540	\$1,330	\$1,120	\$910	\$910	\$930	\$950	\$970	\$990	\$1,010	\$1,030	\$11,690
Transfer Inflation-proofing (to principal)	602	0	0	0	0	0	0	0	0	0	0	\$602
5 year average market value		26,199	26,260	26,138	26,549	27,330	28,075	28,957	29,925	30,914	31,920	