

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: SB 188
 (S) Publish Date: 4/23/01

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Education Fund / Land Endowment BRU: Revenue Operations
 Component: Treasury
 Sponsor: Senator Ward
 Requester: Senate Health, Education & Social Services Component Number: 121

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
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						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill as written includes no appropriations to the new fund, so at this time there would be no cost for the department to fulfill its duties in Sec 37.14.610.

When Treasury begins to manage a new fund, the fund is charged a share of the Treasury Division's existing costs as well as any incremental costs directly associated with the new fund. Generally, custody, accounting, audit and overhead costs = 1 basis point on total assets (0.01%); fixed-income investment management fee = 1 basis point (0.01%) of assets invested in fixed-income securities; domestic equity management fee = approximately 1 basis point (0.01%) of assets invested in domestic equities; and international equity investment management fee = approximately 15 basis points (0.15%) of assets invested in international equities.

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 Division: Treasury Division Date/Time 4/17/01 12:40 PM
 Approved by: Larry Persily, Deputy Commissioner Date 04/17/2001
 Agency: Department of Revenue

Department of Revenue Fiscal Note and Analysis

SB 188 #4 – April 17, 2001

Bill analysis of investment-related provisions (Section 1).

This bill would create an endowment to be managed by the Department of Revenue. The investment provisions of the bill raise the following concerns:

- Contrary to current endowment practice, this bill would create an endowment that preserves the distinction between principal and income. More modern statutes do not follow this practice but instead recognize that endowments should be managed for both capital appreciation and interest income. For example, AS 14.25.180 provides that “the Alaska State Pension Investment Board may invest the fund on the basis of probable total rate of return without regard to the distinction between principal and income or the generation of income.” Over the long term, this approach yields more income for the endowment than the approach that would be adopted under this bill.
- The bill does not incorporate the prudent investor rule. The statute should incorporate AS 37.10.070, which sets out the prudent investor rule.
- By incorporating AS 37.14.170, the bill would require that the fund be invested for “increasing net income over long-term period to the funds beneficiaries.” This provides confusing direction to the fiduciary investing fund regarding the long-term return objectives. It is better to express investment objectives in real terms, such as specifying an after-inflation return objective (5 percent is common), or allowing the fiduciary to determine what objective is appropriate under the circumstances.
- The bill makes available for appropriation only the net income of the fund. This makes the annual pay-out unnecessarily volatile and ties it to short-term investment performance. A better approach is to pay out a fixed percent of the market value of the fund, which will fluctuate much less than year-to-year market performance.