

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 31
Fiscal Note Number:	3
(S) Publish Date:	4/10/2017

Identifier: SB031-DOR-APFC-03-28-17  
 Title: NO ST. EMPLOYEE PAY INCREASE FOR 2 YRS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Senate Finance Committee

Department: Department of Revenue  
 Appropriation: Alaska Permanent Fund Corporation  
 Allocation: APFC Operations  
 OMB Component Number: 109

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>OPERATING EXPENDITURES</b>	<b>FY 2018</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
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>0.0</b>

## Fund Source (Operating Only)

None							
<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>	<b>0.0</b>

## Positions

Full-time							
Part-time							
Temporary							

## Change in Revenues

None							
<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>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2017) cost:** 0.0 (separate supplemental appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2018) cost:** 0.0 (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version:

Not applicable; initial version. Note: APFC is not included in the Department-wide fiscal note prepared by OMB.

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 Date: 03/28/2017 01:00 PM  
 Date: 03/28/17

**REPORTED OUT OF  
SFC 04/07/2017**

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

Section 3 of the bill identifies the officers and employees of the Alaska Permanent Fund Corporation (AS 39.25.110(11)(B)) as being covered by a two year salary freeze commencing on July 1, 2017 and ending on June 30, 2019.

Funding for APFC salary increases is not automatic. Personal services increments, including any adjustments in recognition of high performing teams, are brought forward to the Board of Trustees for consideration, and if approved are then forwarded to the Governor and the Legislature for consideration in the operating budget. High performance can be identified in review of APFC's achievements over the last 5 years and the added value of over \$4 billion to the portfolio by: 1) Beating Passive Performance Benchmark: Outperformed 60% stock, 30% bond, 10% real assets mix by 2.07% (8.36% versus 6.29%); 2) Improving Diversification: Reduced value-at-risk from 24% to 19% by increasing private markets investments from 22% to 30%; 3) Reducing Management Expenses: Declined from 42bps on assets-under-management to 29bps (a 31% reduction).

This zero fiscal note is reflective of the fact that the Corporation's FY18 request for an increase of \$168,950 in personal services to fund performance based adjustments, as approved by the Board of Trustees, was not included in the FY18 Governor's Operating Budget request, nor has it been amended into the budget at this time. Also, given this bill proposes to 'freeze' salaries of all APFC employees for two years at the June 30, 2017 level of compensation, it is anticipated that a FY19 increment request would not be forwarded in the operating budget.

The Alaska Permanent Fund Corporation's mission is to generate a consistent and significant investment return, a return that can be used to partially fund the budget deficit the state now faces. Freezing the salary of the employees that generate this return could: (1) lead to the loss of one or more of the APFC employees that are integral to the Permanent Fund's investment return; or (2) hamper the ability to recruit new APFC employees, which is tied to the cost savings associated with internal asset management. Similarly, when attempting to recruit new employees to work at APFC, the discovery of a salary freeze may cause/has caused prospective employees to conclude that: (1) their prospects for promotion at APFC are limited; or (2) they need to negotiate for a higher starting salary because standard salary increases will not be available for some time.