

S B

2 4 4

1 of 2



# Editor

## Warding off 'raiders'

A NEW PRESSURE group is being formed with the purpose of preventing the spending of unallocated earnings from the state's Permanent Fund. About a billion dollars is involved.

The group plans to present itself to the people as defenders of the fund — the white knights who will fight off the "raiders" who want to destroy the state's savings account.

Former Gov. Jay Hammond is spearheading the new group. It is logical that he should. The fund was largely a creature of his regime when he was chief executive. Some consider the fund a monument to his foresight in finding a way to prevent all of Alaska's oil revenues from being spent.

Mr. Hammond is a man of great capability and has a reputation for honesty and integrity, a distinction that makes him stand out in the crowd in these times. He will give the movement great dignity and he can, with great sincerity, expound the virtues of preventing the present generation from leaving nothing for future generations.

**FLAMING RHETORIC** will no doubt arouse public concern, but it may involve a wrong use of the word "raid." It may not really be a raid. And the fund is really not in any danger of being impaired.

Actually, the question at issue is what should be done with the billion dollars in earnings that have accumulated from the Permanent Fund investments. The constitutional amendment, approved by the people, sets earnings aside for deposit in the state's general fund and, consequently, available for appropriation however the legislators deem fit.

The money might have been legally spent in past

ministrators have headed that off by retaining the money so it would not be available to the legislators.

In the 1986 legislative session, starting next January, the legislature will be under heavy pressure to use the billion dollars. The state's revenue for the 1987 fiscal year is forecast to be insufficient to carry the operating budget. Serious cuts will be necessary unless more revenue is found.

**BEFORE ANY ACTION** is taken, it would be well for the legislature to face up to two basic questions:

One is to define the ultimate purpose of the Permanent Fund. Now that it is safe from the fingers of the legislators, how should it be used?

Some want it to grow so big that it will support the entire state government, like an endowment. That would bring Alaska close to Utopia — no taxes but lots of people rendering lots of public service.

Even without a stated purpose, the state has deposited in the last four years 23 percent of all its oil revenues — much more than required by the constitutional amendment. The savings have totalled 18 percent of the state's total revenue. That's not a shabby savings program, and the figures do not include the billion dollars now unallocated nor the millions that have been paid out in dividends.

The other question to be decided is when is it a "rainy day." The earnings are considered by some to be a rainy day fund and they say the rainy day is here now.

Perhaps it is. The 1986 budget is projected to be \$3 billion. Revenue forecasts for 1987 are \$2.4 billion and the trend is downward as oil prices continue to fall.

We can count on Governor

Notified 9/16/85

"Friends of the Permanent Fund"

P.O. Box 4-0

Anc 99509

Jim Rhode

274-0352

1129 W 20<sup>th</sup> Ave, No. 2  
Anchorage, AK 99503

Times 8/17/85

adv. Edna \* 8/10

274-0352

**YOU'LL BE HEARING MORE** about a new organization formed by Jim Rhode of Anchorage and two of the state's better known political leaders, former Republican Gov. Jay Hammond and former House Finance Chairman Oral Freeman, a Democrat from Ketchikan. Their group is "Friends of the Permanent Fund," and its purpose is to preserve the state's big savings account from legislative raiders bent on using unallocated earnings to offset revenue declines and keep the pork barrels filled . . . Rhode, by the way, is an economist who recently resigned from the Permanent Fund management staff. He's the son of the late Clarence Rhode of Juneau, who back in territorial days was head of the U.S. Fish & Wildlife Service. The elder Rhode, one of true giants of game management in Alaska's history, died in a plane crash in the Brooks Range a quarter of a century ago.

\*\*\*

COMMITTEE REPORT  
SENATE

FURTHER: FINANCE

3/21/85

Date Jan 23, 1986

Mr. President

The Committee on C&RA considered <sup>SS</sup> SB 244

relating to the use of funds from the undistributed income account in the Alaska permanent fund for certain municipal aid programs, establishing a two-year funding cycle; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for \_\_\_\_\_
- new title
- same title and recommends \_\_\_\_\_
- and attached a "LETTER OF INTENT"  NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

[Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

MEMBERS HAVING  
OTHER RECOMMENDATIONS

Wischer NR (sounds good, but is it?)

\_\_\_\_\_

Artis Sturgulowski

\_\_\_\_\_

\_\_\_\_\_

Edna De Vries  
Chairman

Do Pass  
Chairman recommendation

CoRA - Jan 23

SB 244 - Coghill introduced  
sponsor substitute

sponsor substitute's only change is  
renumbering of sections to conform to  
new Title 29 (passed 1985)

Coghill

\$50,000 for Bettles --

Send memo to Sackett saying  
this is the only city that needs start-up  
money

Coghill

Draft memo on all items that are in  
shortfall 1986 shortfall and  
1987 shortfall

Sturz

Bettles is a different situation than the  
shortfalls

Memo on Bettles --

Bill on other shortfalls

Vic

- Like it - think Committee should introduce  
bill

Line 16 word "municipality" -- "a municipality"  
does it affect all -

(  
Edna - Meet on 4th & 6th  
to discuss decisions of LBC Commission

Vic  
Fischer

Notify legislators in District  
get their advice

Coghill

Notice public as to meeting --  
state what is there -- in report

1 IN THE SENATE

BY COGHILL

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 244

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the use of funds from the undis-  
7 tributed income account in the Alaska permanent fund  
8 for certain municipal aid programs, establishing a  
9 two-year funding cycle; and providing for an effec-  
10 tive date."

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

12 \* Section 1. AS 29.60 is amended by adding a new section to article 3  
13 to read:

14 Sec. 29.60.270. TWO-YEAR FUNDING CYCLE. (a) Entitlements under  
15 AS 29.60.010 - 29.60.180, 29.60.290, and sec. 9, ch. 95, SLA 1983,  
16 shall be estimated by the Department of Community and Regional Affairs  
17 based on a funding cycle of two fiscal years and recomputed each  
18 fiscal year. Legislative appropriations to carry out the provisions  
19 of AS 29.60.010 - 29.60.180, 29.60.290, and sec. 9, ch. 95, SLA 1983,  
20 shall be made for a period of two fiscal years.

21 (b) By January 15 of each fiscal year, the commissioner of  
22 revenue shall transfer from the undistributed income account in the  
23 Alaska permanent fund (AS 37.13.145) to the Department of Community  
24 and Regional Affairs an amount determined by the commissioner of  
25 community and regional affairs to be sufficient, when added to appro-  
26 priations for the purpose, to fully fund the entitlements under  
27 AS 29.60.010 - 29.60.180, 29.60.290, and sec. 9, ch. 95, SLA 1983.  
28 Only if, after the transfer of money from the undistributed income  
29 account, the amount available is still not sufficient to fully fund

1 the entitlements, shall entitlements be reduced and distributed on a  
2 pro rata basis.

3 \* Sec. 2. AS 29.60.280 is amended to read:

4 Sec. 29.60.280. ALLOCATION AND DISTRIBUTION. (a) Every two  
5 fiscal years [EACH YEAR], the department shall allocate money appro-  
6 priated to the accounts established in AS 29.60.060, 29.60.170, and  
7 for payments under sec. 9, ch. 95, SLA 1983, [FORMER AS 29.90.020] in  
8 the amounts determined by the legislature.

9 (b) Money in the miscellaneous services account established in  
10 AS 29.60.170 that exceeds the amount required to fully fund distribu-  
11 tions authorized by AS 29.60.100 - 29.60.180 during the two-year  
12 funding cycle shall be reallocated to the tax equalization account  
13 established in AS 29.60.060 and distributed according t the provi-  
14 sions of AS 29.60.010 - 29.60.080.

15 (c) Money allocated for payments under sec. 9, ch. 95, SLA 1983,  
16 [IN THE HOSPITAL AND HEALTH FACILITY CONSTRUCTION ASSISTANCE ACCOUNT  
17 ESTABLISHED IN FORMER AS 29.90.020] that exceeds the amount required  
18 to fully fund distributions authorized during the two-year funding  
19 cycle [BY SEC. 9, CH. 95, SLA 1983] shall be reallocated to the tax  
20 equalization account established in AS 29.60.060 and distributed  
21 according to the provisions of AS 29.60.010 - 29.60.080.

22 \* Sec. 3. AS 29.60.280 is amended by adding a new subsection to read:

23 (d) If money allocated or reallocated under this section is not  
24 sufficient to fully fund all entitlements under AS 29.60.010 - 29.60.-  
25 180, 29.60.290, and sec. 9, ch. 95, SLA 1983, during a fiscal year,  
26 the commissioner of community and regional affairs shall by January 1  
27 of that year notify the commissioner of revenue and request the trans-  
28 fer of additional money under AS 29.60.270.

29 \* Sec. 4. AS 29.60.350 is amended to read:

1           Sec. 29.60.350. MUNICIPAL ASSISTANCE FUND. (a) There is estab-  
2           lished in the department the municipal assistance fund. The legisla-  
3           ture may appropriate to the municipal assistance fund [DURING EACH  
4           FISCAL YEAR] an amount equal to or greater than 30 percent of the  
5           income tax revenue received by the state under AS 43.20.011(e) for the  
6           previous two fiscal years [YEAR]. Legislative appropriations shall be  
7           made for a period of two fiscal years.

8           (b) The department shall distribute money from the municipal  
9           assistance fund to each municipality on an annual basis as provided in  
10          AS 29.60.360 and 29.60.370. A municipality may not receive payment  
11          until it submits to the department a resolution approved by the gov-  
12          erning body of the municipality that requests the money. Distribution  
13          of money from the municipal assistance fund to a municipality with a  
14          fiscal year beginning on January 1 shall be made on February 1 [OF THE  
15          STATE FISCAL YEAR FOR WHICH THE APPROPRIATION TO THE FUND IS MADE].  
16          Distribution of money from the municipal assistance fund to all other  
17          municipalities shall be made on June 1 [OF THE STATE FISCAL YEAR FOR  
18          WHICH THE APPROPRIATION TO THE FUND IS MADE]. A municipality that  
19          incorporates after December 31 [OF A STATE FISCAL YEAR] is not eligi-  
20          ble for a distribution under this section until the following state  
21          fiscal year.

22          \* Sec. 5. AS 29.60.360 is amended to read:

23                Sec. 29.60.360. BASE AMOUNT OF ASSISTANCE. (a) The base amount  
24                to be distributed from the municipal assistance fund to each munic-  
25                ipality shall be estimated based on a funding cycle of two fiscal  
26                years and recomputed each fiscal year. The base amount to be dis-  
27                tributed from the municipal assistance fund to each municipality each  
28                [FOR THE] fiscal year shall be the amount received by the municipality  
29                during fiscal year 1978 under AS 43.70.080. A city incorporated

1 within a borough after June 30, 1977, shall receive as a base amount a  
2 share of the amount distributed to the borough in which it is located  
3 based on the ratio of population in the city to the total population  
4 in the borough. A city incorporated outside a borough after June 30,  
5 1977, shall receive as a base amount the amount received by the city  
6 in the state most closely approximating it in population at the time  
7 of its incorporation. A borough incorporated after June 30, 1977,  
8 shall receive as a base amount the amount received by the borough in  
9 the state most closely approximating it in population at the time of  
10 its incorporation.

11 (b) By January 15 of each fiscal year, the commissioner of  
12 revenue shall transfer from the undistributed income account in the  
13 Alaska permanent fund (AS 37.13.145) to the Department of Community  
14 and Regional Affairs an amount determined by the commissioner of  
15 community and regional affairs to be sufficient, when added to appro-  
16 priations for the purpose, to fully fund the base amounts computed  
17 under (a) of this section. If the amount appropriated to the municipi-  
18 pal assistance fund when added to the amount transferred from the  
19 undistributed income account [BY THE LEGISLATURE DURING A FISCAL YEAR]  
20 is insufficient for distribution of the full base amount to each  
21 municipality, the department shall prorate the amount available for  
22 distribution on the basis of amounts received during the fiscal year  
23 1978 under AS 43.70.080.

24 \* Sec. 6. AS 29.60.370(a) is amended to read:

25 (a) If the amount in the municipal assistance fund at the time  
26 of the last distribution during a two-year funding cycle exceeds the  
27 base amount to be distributed under AS 29.60.360, the excess amount  
28 shall be distributed to each municipality on the basis of population.  
29 Population for the purpose of this section shall be as certified by

1 the commissioner [OF COMMUNITY AND REGIONAL AFFAIRS]. In determining  
2 the population of a borough, the population of all cities in the  
3 borough shall be deducted from the total population of the borough.

4 \* Sec. 7. The initial two-year funding cycles for municipal aid pro-  
5 grams required by this Act begin July 1, 1986.

6 \* Sec. 8. This Act takes effect immediately in accordance with AS 01.-  
7 10.070(c).  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman

Members:

Senator Ferguson, Vice Chairman

Senator Coghill

Senator Sturgulewski

Senator V. Fischer

Pouch V

Juneau, Alaska 99811

Committee Meeting -- March 26, 1985

Special Guests -- Mayors from the Alaska Conference  
of Mayors

Mayors have been invited to bring before the Committee  
any item they feel is of concern to local government.

Public hearing on SB 244 -

"An Act relating to the use of funds from the  
undistributed income account in the Alaska  
permanent fund for certain municipal aid  
programs, establishing a two-year funding  
cycle; and providing for an effective date."

Committee folder includes:

1. Section analysis of the bill by its drafter, Tam Cook
2. Section from Feb '85 report from the Alaska Permanent Fund Corporation that includes a summary of the funds currently in the undistributed income account and a statement from the Trustees as to their interpretation as to how the fund is to be used.
3. Section from AS 37.13.145 which pertains to the disposition of income from the permanent fund.
4. The pertinent sections from Title 29 that are referenced in SB 244



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman  
Members:  
Senator Ferguson, Vice Chairman  
Senator Coghill  
Senator Thurgood  
Senator V. Foyt

Printed by  
Alaska State

#### MEMORANDUM

APR 8 1985

Date: April 8, 1985  
To: Senator Jack Coghill  
From: Senator Edna DeVries *Edna*  
Subject: SB 244 and SB 215

I have requested that Senator Fahrenkamp <sup>to</sup> refer SB 215 to Senate Community and Regional Affairs if she has no plans for holding hearings on it.

Could you please forward all backup information regarding SB 244 and SB 215 to my office. I would also appreciate a list of communities that you would like to be included in the interim hearings.

God bless you.

Edna

ED:mal

- NORTH POLE -
- FAIRBANKS -
- NENANA -
- DELTA -

SCRA I

The average life-to-maturity of fixed income marketable securities is six years.

Common stock dividend yield is estimated at 4.2 percent. The combination of dividend yield, realized gains on the sale of stock and unrealized gains on the stock portfolio indicates a total return of approximately 18 percent during the first eight months of this fiscal year.

The realized cash yield reflected on real estate equity investment is 7.18 percent. The addition of the unrealized gain on the investment in real estate equity pools indicates a total return of 13.85 percent during the first eight months of this fiscal year.

Commitments on Alaska mortgages are currently being made by the Corporation at 12.375 percent. Commitment rates are adjusted monthly.

✓ The following table sets forth the balance of commitments and net disbursements on Alaskan investments at February 28, 1985:

	<u>Committed</u>	<u>Net Disbursed</u>
Alaska home mortgages	\$ 80,000,000	\$ 46,113,000
Alaska bank certificates of deposit	200,000,000	102,500,000
Corporate bonds (AHFC)	23,500,000	23,500,000
	<u>\$323,500,000</u>	<u>\$172,113,000</u>
As a percent of Fund assets	5.08%	2.70%

Last month's analysis discussed the Statement of Changes in Fund Equity and the relationships between the corpus of the Fund and undistributed income (designated Reserve For Inflation And Dividends by the Trustees). Several individuals have suggested that this analysis be repeated each month, utilizing current month figures, to insure that there is a better understanding of these accounts. Therefore, it is important to note the following:

- ° The corpus of the Fund is \$5,385,867,000
- ° The Reserve For Inflation And Dividends is 979,174,000

The reserve account is very large because it serves several purposes. It contains reserves from prior years, it is a deposit account for all income received during the current year to date, and it is a holding account from which dividend payments and inflation-proofing disbursements are made. At the beginning of the fiscal year (July 1, 1984) the reserves amounted to \$557,347,000. To that amount, net income

for the past eight months of this fiscal year has been added in the amount of \$421,826,000. An amount to be utilized for dividend payments is set aside each month and for the eight months of this fiscal year that amount equals \$142,916,000. Similarly, amounts are set aside each month for inflation-proofing. The eight month amount is \$156,267,000. Graphically, funds can be traced through the account as follows:

Opening Balance, July 1, 1984	\$ 557,347,000	+ * #	<u>731,247,000</u>
Plus: Eight months net income	421,826,000		
Gross amount in account	<u>979,174,000</u>		
Less: Eight month set-aside for dividends	(142,916,000)		
Less: Eight month set-aside for inflation-proofing	(156,267,000)		
Less: Unrealized gain on real estate	( 3,898,000)		
Net balance	<u>\$ 676,092,000</u>		

↓  
 Est. balance in undistributed income acct as of 6/30/85

Updated projections for the period July 1, 1984 through June 30, 1985 based upon eight months operations are as follows:

- Realized net income	\$ 622,100,000
- Transfer to State for payment of dividends	214,100,000
- Transfer to corpus for inflation-proofing	234,100,000-
- Addition to reserves	173,900,000*

In making these projections, we estimate a 10.87 percent realized nominal return. The inflation rate has been established at 4.26 percent. This is the calendar year 1984 average increase over calendar year 1983 in the U.S. Consumer Price Index For All Urban Consumers. The projected realized real rate of return is 6.61 percent which is substantially above the long range average target rate of 3.0 percent.

DAR:aef/bn

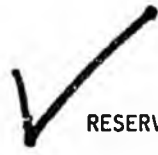
General Partnership

At February 28, 1985, the investment in real estate general partnerships was valued at market, which approximates cost. Future adjustments to market value will be based upon independent appraisals of the properties. The Corporation will participate to the extent of its percentage of ownership in future net cash flow derived from leasing the properties.

7. CONTRIBUTED EQUITY

The principal balance of the Alaska Permanent Fund at February 28, 1985 was composed of the following elements:

Dedicated state revenues	\$ 2,303,740,000
Appropriations from the State	2,700,000,000
Provision for inflation	<u>392,127,000</u>
	<u>\$ 5,385,867,000</u>



RESERVE FOR INFLATION AND DIVIDENDS

The Trustees of the Permanent Fund have designated the balance of the undistributed income account to be continuously reserved for future inflation impact and dividend payments. Although the State Legislature could legally appropriate this amount for other purposes, in the opinion of the Trustees, this designation is in accordance with the stated purpose of undistributed income, i.e., to provide a reserve for the current statutory uses of Corporation income against the possibility of future declines in that income. Such a reserve is intended to enable the Corporation to fully offset the impact of inflation and still maintain a constant level of dividends in years when Permanent Fund earnings are not enough to do both.

\*\*\*\*\*

The Board of Trustees  
Alaska Permanent Fund Corporation

Gentlemen:

The financial report and statements presented herein were prepared from the books of account without audit, and no independent opinion on the fairness of these statements has been rendered.

Sincerely,

Peter A. Bushre  
Comptroller

**Effect of amendments.** — The 1982 amendment rewrote this section.

**Sec. 37.13.145. Disposition of income.** At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index, shall be transferred from net income as defined in AS 37.13.140, excluding income on the undistributed income account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment. The balance of the net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska permanent fund. Money in the undistributed income account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the undistributed income account shall be treated as an addition to that account. (§ 9 ch 81 SLA 1982)

**Cross references.** — For transfer of the undistributed income account, see certain income earned by the Alaska § 15, ch. 81, SLA 1982. permanent fund prior to July 1, 1982, to

**Sec. 37.13.150. Corporation budget.** The revenues generated by the corporation's investments must be identified as the source of the operating budget of the corporation in the state's operating budget under the Executive Budget Act (AS 37.07). The unexpended balance of the corporation's annual operating budget does not lapse at the end of the fiscal year but shall be treated as income under AS 37.13.140. (§ 5 ch 18 SLA 1980; am § 10 ch 81 SLA 1982)

**Effect of amendments.** — The 1982 amendment rewrote this section.

**Sec. 37.13.160. Audits.** The Legislative Budget and Audit Committee may provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs. (§ 5 ch 18 SLA 1980; am § 11 ch 81 SLA 1982)

**Cross references.** — For the responsibilities of the Legislative Budget and Audit Committee, see AS 24.20.206.

**Effect of amendments.** — The 1982 amendment substituted "may provide" for "shall provide."

**Sec. 37.13.170. Reports and publications.** By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the Alaska permanent fund from each investment during the period covered, a statement of

he munic-  
in at least  
occur not  
v's budget.  
equisite to  
under AS  
under AS  
Regional  
9.88 and  
e that the  
A 1980)

he amounts  
t. the alloca-  
t of Commu-  
the accounts  
S.29.89.080,  
led) shall be  
reduces the  
qual propor-  
nts shall be  
For the first  
secs. 1 — 10  
ment of an  
er AS 29.88  
y if the bor-  
cate to each  
orough at  
t the service  
fiscal year  
ns of AS  
rdance with

centers.  
nmunica-  
e or more  
vice com-  
ices com-  
organized  
.20.  
is section  
board of  
er serves  
expenses.  
ized as a  
ay not be  
ssess the  
ommuni-  
ough one  
r may

(1) combine or coordinate the existing emergency services communi-  
cations programs of the participating municipalities and agencies;

(2) operate a dispatch center to receive all requests for emergency  
services and dispatch those services;

(3) study the need for improvement in the timely delivery of emer-  
gency services to residents of the participating municipalities;

(4) hold public hearings to obtain information concerning the timely  
delivery of emergency services;

(5) apply for and accept federal, state, municipal, and private money,  
property, or assistance for use in providing the timely delivery of emer-  
gency services;

(6) enter into contracts to carry out the provisions of this section;

(7) employ personnel necessary to carry out the provisions of this  
section.

(d) In this section:

(1) "emergency services" means services provided by law  
enforcement agencies, fire departments, ambulance services, and other  
organizations that are intended to respond to emergency situations of  
imminent danger to life or property;

(2) "state agency" means a department, division, or office in the  
executive branch of state government. (§ 2 ch 107 SLA 1981)

Revisor's notes. — As enacted, (d) of graph was deleted and the paragraph  
this section contained a paragraph (2) that enacted as (d)(3) was renumbered (d)(2) in  
defined "emergency service agency." a 1981.  
term not used in the section. That para-

### Chapter 78. General Provisions.

#### Section

#### 10. Definitions

Sec. 29.78.010. Definitions. In this title, unless otherwise pro-  
vided, or the context otherwise requires,

(1) "areawide power" means a power of an organized borough exer-  
cised throughout the borough;

(2) "borough" means a general law first, second or third class orga-  
nized borough;

(3) "city" means a general law first or second class city;

(4) "conditional use" means exception, special exception, special use,  
or special permit designated in the zoning ordinance;

(5) "consolidation" means dissolution of two or more municipalities  
and their incorporation as a new municipality;

(6) "majority" means a simple majority;

(7) "merger" means dissolution of a municipality and its absorption  
by another municipality;

(8) "municipal election" includes but is not limited to elections to  
choose city councilmen, borough assemblymen, school board members  
and utility board members;

(9) "municipality" means a general law municipal corporation and political subdivision, which is a first or second class borough or city, or a third class borough, incorporated under the laws of the state;

(10) "nonareawide power" means a power of an organized borough exercised by the borough only in the area outside of cities;

(11) "owner", "record owner", or "owner of record" means owner of record or purchaser of record;

(12) "personal property" means tangible property other than real property, such as merchandise and stock in trade, machinery and equipment, furniture and fixtures, motor vehicles and vehicles, boats and vessels and aircraft;

(13) "property" means real and personal property;

(14) "published" means appearing at least once in a newspaper of general circulation distributed within the municipality or, if there is no newspaper of general circulation distributed within the municipality, posting in three public places for at least five days;

(15) "real property" means land and improvements and all possessory rights and privileges appurtenant to the property, and includes personal property affixed to the land or improvements;

(16) "regular election" means the municipal election held on the first Tuesday of October annually, or on an election date or at an interval of years provided by ordinance;

(17) "street" includes streets, avenues, boulevards, roads, lanes, alleys, and other ways;

(18) "subdivision" means the division of a tract or parcel of land into two or more lots, sites, or other divisions for the purpose, whether immediate or future, of sale or building development, includes resubdivision, and, when appropriate to the context, relates to the process of subdividing or to the land or area subdivided;

(19) "voter" means a United States citizen who is qualified to vote in state elections and has been a resident of the municipality for 30 days immediately preceding the election and who is registered to vote in state elections and is not disqualified under art. V of the state constitution. (§ 2 ch 118 SLA 1972; am § 7 ch 212 SLA 1976; am § 10 ch 93 SLA 1977)

Revisor's notes. — This section was reorganized in 1984 to place the defined terms in alphabetical order

NOTES TO DECISIONS

Term "sale" includes agricultural lotteries. State v. Weidner, Sup. Ct. Op. No. 2788 (File Nos. 6220, 6240, 6272), P.2d (1984).

Applied in *Liberati v. Bristol Bay Borough*, Sup. Ct. Op. No. 1735 (File No. 3365), 584 P.2d 1115 (1978).

Chapter 88. Municipal Tax Resource Equalization.

Section	Section
10. State equalization of tax resources for local government services	30. Limitation on computation and use of payments
15. Determination of population	35. Tax equalization account
20. Determination of millage rate equivalent	40. Administration
25. Reports	45. Definitions

Cross references. — For statement of purpose of 1980 Act that enacted this chapter, see § 1, ch. 155, SLA 1980 in the Temporary and Special Acts.

Editor's notes. — Section 12, ch. 155, SLA 1980 provides: "(a) Notwithstanding other provisions of secs. 1 — 11 of this act, (1) a municipality may not receive less than \$25,000 plus an area cost-of-living differential during the first fiscal year in which this act is effective, 1980-81; and (2) a municipality which would receive under AS 29.88, added by sec. 2 of this act, less than 125 percent of the amount which it received for the last fiscal year under AS 43.18.010 — 43.18.045, repealed by sec. 11 of this act, is, for each of the first five fiscal years during which secs. 1 — 10 of this act are effective, entitled to receive an amount equal to 125 percent of the amount which it received for the last fiscal year under the former provisions of AS 43.18.010 — 43.18.045 in accordance with those provi-

sions. (b) For the first five fiscal years during which secs. 1 — 10 of this act are effective, in order to pay the amounts required by (a) of this section, the allocations made by the Department of Community and Regional Affairs to the accounts established in AS 29.88.035, AS 29.89.080, and AS 29.90.020 (now repealed) shall be prorated by an amount which reduces the allocation to each account in equal proportion, and the prorated amounts shall be allocated to these accounts. (c) For the first five fiscal years during which secs. 1 — 10 of this act are effective, payment of an entitlement to a borough under AS 29.88 may be made to a borough only if the borough assembly agrees to allocate to each borough service area in the borough at least the amount of money that the service area received during the last fiscal year under the former provisions of AS 43.18.010 — 43.18.045, in accordance with those provisions."

Sec. 29.88.010. State equalization of tax resources for local government services. (a) During each fiscal year the department shall compute an equalization entitlement for local government services provided by a taxing unit.

(b) The equalization entitlement computed for a taxing unit is based on the population, relative ability to generate revenue, and local tax burden of the taxing unit and is determined by the application of the formula

$$\text{Entitlement} = P \times R$$

where P = population, and

R = millage rate equivalent, determined by dividing the sum of the locally generated revenue of the taxing unit by one-tenth of one percent (0.1) of the full and true value of assessed property of the taxing unit determined under AS 29.88.020(d); however, the property value used under this subsection may not be less than 15 percent of the statewide average per capita full and true assessed property value.

(c) For purposes of this section, locally generated revenue

(1) includes

(A) the actual revenue derived from the levy and collection of local taxes in the taxing unit for local government services during the preceding fiscal year of the taxing unit;

(B) motor vehicle payments received by the municipality during the preceding fiscal year under AS 28.10.431;

(C) revenue from fees, rentals, leases, penalties, licenses or permits received during the preceding fiscal year by the municipality for a function or service over which it has control, including revenues derived from parks and recreation services, mass transit, offstreet parking, and garbage and solid waste disposal services;

(D) special assessments received during the preceding fiscal year;

(E) payments received by a municipality from a utility which are in place of taxes levied and collected by the municipality;

(2) excludes

(A) revenue derived from the levy and collection of municipal taxes and appropriated for the operating expenses and debt service of utilities;

(B) revenue from interest earned on investments and from the sale and lease of land or equipment; and

(C) all other revenue from whatever service derived. (§ 2 ch 155 SLA 1980)

**Sec. 29.88.015. Determination of population.** (a) For purposes of this chapter, the population of a taxing unit shall be determined annually by the latest figures of the United States Bureau of the Census or other population data which, in the judgment of the department, is reliable.

(b) The population of the taxing unit includes the population of any military reservation which is a part of the taxing unit. (§ 2 ch 155 SLA 1980)

**Sec. 29.88.020. Determination of millage rate equivalent.** (a) The department may require a municipality to return a certification, signed by the municipal treasurer or manager and the mayor, which provides an estimate of the locally generated revenue received by the municipality during the preceding fiscal year.

(b) By October 15 of each year, the department shall make an initial determination of the millage rate equivalent of each taxing unit to be used for computing and distributing equalization entitlements for the current fiscal year under this chapter. The department shall base the initial determination on the estimates in the certification returned by a municipality under (a) of this section.

(c) As early as possible, but not later than December 15 of each year, the department shall make a final determination of the millage rate

equivalent of each taxing unit to use to compute and distribute equalization entitlements under this chapter. The department shall base the determination on audits, financial statements and other financial reports prepared and submitted by a municipality. The department shall adjust the locally generated revenue reported by a municipality to exclude the municipal revenue claimed by the municipality which does not qualify for inclusion in or recognition as locally generated revenue for local government purposes under AS 29.88.010(c)(1). The adjustment shall be made by deducting from total revenue claimed by the municipality the amount of the department's estimate of revenue which is not recognized for local government purposes.

(d) The full and true assessed property value shall be determined by the department in the manner provided for the computation of state aid to education under AS 14.17.140. When the determination of locally generated revenue includes revenue of a utility received under AS 29.88.010(c)(1)(E), the full and true assessed property value shall include the computed assessed value of the utility, determined by dividing the amount of the payment in place of taxes made by the utility by the millage rate which would apply to the utility if the utility were subject to levy and collection of taxes under AS 29.53.

(e) In addition to the computation for municipalities which levy and collect a property tax, the department shall determine an estimated full and true assessed property value under (d) of this section for

(1) each municipality which is a school district and which does not levy and collect a property tax;

(2) each second class city with a population of 750 or more persons; however, a computation is not required under this paragraph more often than once during a period of three successive calendar years; and

(3) all other second class cities, by determining the average per capita full and true assessed property value of all cities having a population of less than 750 persons in which an assessment has been completed by a municipality or for which a determination is not made under (1) or (2) of this subsection.

(f) The department shall annually compute a statewide average per capita full and true assessed property value. (§ 2 ch 155 SLA 1980)

**Sec. 29.88.025. Reports.** A payment of an equalization entitlement may not be made to a municipality under this chapter until the municipality has submitted its certificate of estimated revenue and its financial report to the department for the fiscal year preceding the year for which the equalization entitlement is sought, together with a budget for the municipality's current fiscal year. The financial report shall include a listing of general revenue collected from taxes levied and assessed by the municipality and any other revenue which, in the opinion of the municipal officials, is eligible for inclusion in computations of the locally generated revenue of the taxing unit. (§ 2 ch 155 SLA 1980)

**Sec. 29.88.030. Limitation on computation and use of payments.** (a) An equalization entitlement generated by the general tax levy of a taxing unit may be used only for authorized expenditures of that taxing unit, but up to 15 percent of the payment of an equalization entitlement generated by areawide revenue of a municipality may be used by the municipality for areawide or nonareawide purposes at the discretion of its assembly or council.

(b) An equalization entitlement determined with reference to revenue other than revenue obtained from the levy and collection of taxes may be used for areawide or nonareawide purposes, at the discretion of the assembly or council. (§ 2 ch 155 SLA 1980)

**Sec. 29.88.035. Tax equalization account.** The tax equalization account is established. Money to carry out the provisions of this chapter shall be allocated by the department to the account. The amount allocated to the account shall be fully distributed by the department as payments to municipalities to fulfill each municipality's share authorized under AS 29.88.010. The amount allocated to the account shall be distributed by the department pro rata among eligible municipalities. (§ 2 ch 155 SLA 1980)

**Sec. 29.88.040. Administration.** (a) The department may adopt regulations necessary to implement this chapter. The regulations shall include, among other provisions,

(1) procedures and filing dates for submitting certification and financial reports;

(2) procedures for obtaining information required to compute and determine the municipality's millage rate equivalent; and

(3) procedures by which the department shall notify a municipality in writing of the reasons for a proposed disallowance or adjustment of any factor bearing upon the determination of the municipality's entitlement and by which the municipality will be provided reasonable time in which to respond or to challenge the department's determination.

(b) The department shall make reasonable efforts to advise and assist municipalities in collecting information and completing reports necessary for the determination of entitlements under AS 29.88.010 — 29.88.045.

(c) The department shall, by regulation, classify for inclusion or exclusion as a component of a municipality's millage rate equivalent under AS 29.88.010 any tax revenue appropriated for a utility not included in the definition set out in AS 29.88.045(4). (§ 2 ch 155 SLA 1980)

**Sec. 29.88.045. Definitions.** In this chapter

(1) "department" means the Department of Community and Regional Affairs;

(2) "municipality" means a city, borough or unified municipality incorporated under the laws of the state;

(3) "taxing unit" means a municipality and

(A) in a borough or unified municipality, a service area or the entire area outside cities;

(B) in a city, a differential tax zone;

(4) "utilities" means electricity, water, sewer, gas, heat, or telephone services, and refuse and garbage collection services. (§ 2 ch 155 SLA 1980)

## Chapter 89. State Aid for Miscellaneous Municipal Purposes.

### Article

1. Miscellaneous Purposes (§§ 29.89.010 — 29.89.100)
2. Community Facilities Grants (§ 29.89.110)

### Article 1. Miscellaneous Purposes.

#### Section

10. Revenue sharing payable
20. State aid to municipalities for roads
30. State aid to municipalities and other eligible recipients for health facilities and hospitals
40. State aid to volunteer fire departments in the unorganized borough

#### Section

50. State aid to Native village governments
60. Population determination
70. Area cost-of-living differential
80. Miscellaneous services account
90. Regulations
100. Definitions

**Sec. 29.89.010. Revenue sharing payable.** In addition to the equalization entitlements paid under AS 29.88, during each fiscal year the department shall pay aid

(1) to a municipality or other eligible recipient which has the power to provide the services described in AS 29.89.020 — 29.89.040 and exercises the power in the manner required by this chapter;

(2) to a Native village government under AS 29.89.050. (§ 3 ch 155 SLA 1980)

**Sec. 29.89.020. State aid to municipalities for roads.** (a) The department shall pay to a municipality which has power to provide for road maintenance and exercises that power, \$2,500 a mile for each mile of road, street or highway maintained by the local government, excluding (1) the official state highway system, (2) roads, streets or highways not dedicated to public use, (3) roads, streets or highways maintained under the local service road program (AS 19.30.111 — 19.30.251), and (4) alleyways, in accordance with regulations adopted by the Department of Transportation and Public Facilities. A payment may not be made under this subsection for maintenance of a road which is not used by automotive equipment.

(b) A frozen waterway and a connection from an inhabited area to a waterway which may be safely used for public transportation by automotive equipment and is so used during a portion of a year is eligible for a payment of \$1,500 per mile if the waterway and connection are maintained during the period of use by a municipality or combination of municipalities. The department, after consultation with the Department of Transportation and Public Facilities, shall determine which waterways and connections qualify and, where the waterways or connections lie outside the corporate limits of a municipality, which municipalities shall receive the payments under this subsection, unless the municipalities involved have agreed in writing to a particular distribution. (§ 3 ch 155 SLA 1980)

**Sec. 29.89.030. State aid to municipalities and other eligible recipients for health facilities and hospitals.** (a) The department shall pay

(1) to a municipality which has the power to provide hospital facilities and services and which exercises that power, \$1,000 per bed for each bed actually used for patient care, limited to the number of beds provided for in the construction design of the hospital, or \$250,000 a hospital for those hospitals with 10 or more beds, or \$50,000 a hospital for those hospitals with less than 10 beds, as the municipality may elect; money received under this paragraph may be used only for hospitals and shall be apportioned among qualifying hospitals as the municipality determines;

(2) on the basis set out in (1) of this subsection to a municipality for a nonprofit hospital not operated by a municipality if the municipality first certifies to the department that the nonprofit hospital is in compliance with all standards for hospitals which have been adopted by the municipality; money may not be paid on behalf of a nonprofit hospital without this certification; payments to the municipality shall be transferred to the nonprofit hospital in accordance with the basis by which the payment was generated by the hospital, and shall be applied to the annual cost of operation and maintenance of the hospital or for the provision of health care service at the hospital as the directors of the hospital determine;

(3) to a municipality in which a health facility is operated, \$2,000 per bed for each bed actually used for patient care, limited to the number of beds provided for in the construction design of the health facility, or \$8,000 per health facility as the municipality determines.

(b) A hospital may not receive payment under both (a)(1) and (a)(2) of this section.

(c) Money received by a municipality under (a)(3) of this section shall be used for expenses of health services or operation and maintenance of health facilities as the municipality determines.

(d) Before money may be distributed under this section, the commissioner of health and social services shall certify to the commissioner of

community and regional affairs that any accumulation of assets by nonprofit corporations or other recipients under this section is dedicated irrevocably to a public purpose. (§ 3 ch 155 SLA 1980; am §§ 1, 2 ch 103 SLA 1981)

*Effect of amendments.* — The 1981 amendment substituted "\$250,000" for "\$75,000" preceding "a hospital" and substituted "\$50,000" for "\$25,000" preceding "a hospital" in paragraph (1) of subsection (a). The amendment also substituted "\$2,000" for "\$1,000" preceding "per bed" and substituted "\$8,000" for "\$4,000" preceding "per health facility" in paragraph (3) of subsection (a).

NOTES TO DECISIONS

For case interpreting the former revenue sharing scheme for hospitals and health care facilities, see *Municipality of Anchorage v. Sisters of Providence in Wash., Inc.*, Sup. Ct. Op. No. 2343 (File Nos. 5017, 5018, 5329), 628 P 2d 22 (1981).

**Sec. 29.89.040. State aid to volunteer fire departments in the unorganized borough.** (a) The department shall pay to a volunteer fire department registered with the state fire marshal and serving an area not in an organized borough or city a sum for protection purposes equal to \$10 per capita for the population served by the department, as determined by the state fire marshal.

(b) A grant shall be made under (a) of this section to facilitate the organization of a volunteer fire department in an area not in an organized borough or city, upon application of the proposed fire protection group to the state fire marshal and upon approval of applications according to standards of organization and service prescribed by regulations adopted by the state fire marshal. (§ 3 ch 155 SLA 1980)

**Sec. 29.89.050. State aid to Native village governments.** The state shall pay \$25,000 to a Native village government for a village which is not incorporated as a city under this title. In this section, "Native village government" means

(1) a local governing body organized by authority of the Act of Congress of 25 U.S.C. 476 (the Act of Congress of June 18, 1934)

(2) a traditional village council or, if there is no traditional village council, the paramount chief or other governing body of a Native village which meets the requirements of 43 U.S.C. 1601-1628 (Alaska Native Claims Settlement Act). (§ 3 ch 155 SLA 1980)

**Sec. 29.89.060. Population determination.** For purposes of AS 29.89.010 — 29.89.100, population shall be determined by the latest figures of the United States Bureau of the Census or other reliable population data, including but not limited to public school enrollment figures, public utility connection, registered voters or certified employment payrolls. (§ 3 ch 155 SLA 1980)

**Sec. 29.89.070. Area cost-of-living differential.** (a) Payments to a municipality or other eligible recipient under AS 29.89.020 — 29.89.030 shall reflect area cost-of-living differentials. Payments shall be based upon the sum of per capita, per mile and per bed or facility grants due each municipality or other recipient multiplied by the appropriate area cost-of-living differential. The area cost-of-living differential for each recipient shall be determined annually by election district under the provisions of AS 39.27.030. Application of the area cost-of-living differential may not result in distribution of an amount less than the amount of the payment determined without application of this section.

(b) The election districts used to establish area cost-of-living differentials under (a) of this section are those designated by the proclamation of reapportionment and redistricting of December 7, 1961, and retained for the house of representatives by proclamation of the governor September 3, 1965. (§ 3 ch 155 SLA 1980)

**Sec. 29.89.080. Miscellaneous services account.** The miscellaneous services account is established. Money to carry out the provisions of AS 29.89.010 — 29.89.100 shall be allocated by the department to the account in accordance with AS 29.95.010. If amounts in the account are insufficient to pay each municipality's or other recipient's share authorized under AS 29.89.010 — 29.89.100, the amounts which are available shall be distributed pro rata among eligible municipalities and other recipients. (§ 3 ch 155 SLA 1980)

**Editor's notes.** — Section 12, ch. 155, SLA 1980 provides: "(a) Notwithstanding other provisions of secs. 1 — 11 of this act, (1) a municipality may not receive less than \$25,000 plus an area cost-of-living differential during the first fiscal year in which this act is effective, 1980-81; and (2) a municipality which would receive under AS 29.88, added by sec. 2 of this act, less than 125 percent of the amount which it received for the last fiscal year under AS 43.18.010 — 43.18.045, repealed by sec. 11 of this act, is, for each of the first five fiscal years during which secs. 1 — 10 of this act are effective, entitled to receive an amount equal to 125 percent of the amount which it received for the last fiscal year under the former provisions of AS 43.18.010 — 43.18.045 in accordance with those provisions. (b) For the first five fiscal years during which secs. 1 — 10 of this act are

effective, in order to pay the amounts required by (a) of this section, the allocations made by the Department of Community and Regional Affairs to the accounts established in AS 29.88.035, AS 29.89.080, and AS 29.90.020 (now repealed) shall be prorated by an amount which reduces the allocation to each account in equal proportion, and the prorated amounts shall be allocated to these accounts. (c) For the first five fiscal years during which secs. 1 — 10 of this act are effective, payment of an entitlement to a borough under AS 29.88 may be made to a borough only if the borough assembly agrees to allocate to each borough service area in the borough at least the amount of money that the service area received during the last fiscal year under the former provisions of AS 43.18.010 — 43.18.045, in accordance with those provisions."

**Sec. 29.89.090. Regulations.** The department shall adopt regulations necessary to carry out the purposes of AS 29.89.010 — 29.89.100. The regulations shall include minimum standards required to qualify a municipality or other recipient for payments for each ser-

vice. The department may require a municipality or other recipient to submit a performance report adequate to demonstrate to the department that a service for which payment is requested under AS 29.89.010 — 29.89.100 was performed by the municipality or other recipient and meets minimum standards of service prescribed by regulation. (§ 3 ch 155 SLA 1980)

**Sec. 29.89.100. Definitions.** In AS 29.89.010 — 29.89.100

(1) "department" means the Department of Community and Regional Affairs;

(2) "health facility"

(A) means a facility which is licensed, when required, by the state under AS 18.20.010 — 18.20.130 and which is owned or operated or both by a municipality or by a nonprofit corporation or other nonprofit sponsor;

(B) includes a public health center, maternity home, community mental health center, facility for the mentally or physically handicapped, nursing home or convalescent center;

(C) excludes a facility operated or wholly supported by the state or the federal government;

(3) "hospital" means a licensed hospital determined by the Department of Health and Social Services to be a general hospital; the term excludes a facility operated or wholly supported by the state or the federal government. (§ 3 ch 155 SLA 1980)

## Article 2. Community Facilities Grants.

### Section

110. Civic, convention and community recreation centers

**Sec. 29.89.110. Civic, convention and community recreation centers.** (a) Within the limits of legislative appropriations for the purpose, the state shall make matching grants to local governments or their nonprofit designee equal to 50 per cent of the estimated reasonable costs of land acquisition, planning, and construction of municipal civic, convention and community recreation centers and 50 per cent of the cost of feasibility studies relating to these facilities, in accordance with the provisions of this section.

(b) Grants for only one study and one project may be awarded to a local government under this section. Applications for grants shall be made in a form prescribed by the commissioner. A grant shall be allotted according to an agreement made between the commissioner on behalf of the state and the local government receiving the grant. The agreement may include any provision agreed upon by the parties and shall include in substance the following provisions:

(1) estimates of reasonable costs of a study or project as approved by the commissioner after consultation with the Department of Transportation and Public Facilities Works;

(2) a schedule of grant disbursements, if, as determined by the commissioner, a grant is to be disbursed other than in one sum;

(3) agreement by the local government to

(A) proceed with and complete the proposed study or project expeditiously;

(B) not discontinue operation or dispose of all or part of a project for which it receives a grant without the approval of the commissioner;

(C) apply for, and make reasonable efforts to secure, federal assistance which may be available for the study or project, subject to any conditions the commissioner may require in order to maximize the amounts of that assistance received or to be received for all projects in the state;

(D) provide for payment of the local government's share of the cost of the study or project;

(4) agreement by the local government that, if federal assistance for a study or project becomes available to the local government which was not included in the calculation of the amount of a grant authorized and disbursed under this section, the value of the federal assistance shall be ascertained and subtracted from the total value of the project and the balance shall be equally divided between the state and local government;

(5) provision for alteration or modification of an approved study or project and for remedies in case of failure to perform the agreement between the parties or noncompliance with regulations promulgated by the commissioner under this section;

(6) provision for alteration or modification of an existing facility which would have qualified under this section as a civic, convention or community recreation center at the time of initial construction if this section had been in effect and provision for remedies in case of failure to perform the agreement between the parties or noncompliance with regulations promulgated by the commissioner under this section.

(c) If funds appropriated by the legislature to provide grants under this section are not adequate to satisfy amounts required by approved grant applications, funds shall be allocated on the basis of priority established by the Department of Commerce and Economic Development by regulations promulgated to carry out the provisions of this section.

(d) This section does not require that a local government receiving a grant for a feasibility study under this section must proceed with construction of a project, notwithstanding the project is determined to be feasible.

(e) The commissioner shall require in the negotiations and agreement with the local government that continued maintenance of

the facility is the responsibility of the local government and the local government must show the feasibility of this before authorization of state funds.

(f) The commissioner shall provide an annual report to the legislature with respect to grants made under this section.

(g) The commissioner may adopt regulations to carry out the purpose of this section.

(h) In this section

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "costs of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the cost of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary; it does not include the cost of feasibility studies;

(3) "local government" means a city of any class or a borough having power to implement the studies or projects for which grants are authorized in this section. (§ 1 ch 114 SLA 1971; am § 44 ch 71 SLA 1972; am § 26 ch 168 SLA 1978)

Revisor's notes. — Formerly AS 43.18.300. Renumbered in 1983.

The paragraphs in subsection (h) were reorganized in 1984 to place the defined terms in alphabetical order.

Cross references. — For bond issues to

finance improvements under this section that were rejected by the voters, see ch. 150, SLA 1972 and ch. 2, SLA 1973, in the 1972 and 1973 Temporary and Special Acts.

## Chapter 90. State Aid for Hospital and Health Facility Construction.

*(Repealed, § 10 ch 95 SLA 1983. For present provisions, see § 9, ch 95, SLA 1983, in the Temporary and Special Acts.)*

## Chapter 95. Administration of Municipal Financial Assistance Programs.

### Section

- 10 Allocation and distribution  
20 Qualification for minimum payment  
30 Proration of payments

**Editor's notes.** — Section 12, ch. 155, SLA 1980 provides: "(a) Notwithstanding other provisions of secs. 1 — 11 of this act, (1) a municipality may not receive less than \$25,000 plus an area cost-of-living differential during the first fiscal year in which this act is effective, 1980-81, and (2) a municipality which would receive under AS 29.88, added by sec. 2 of this act, less than 125 percent of the amount which it received for the last fiscal year under AS 43.18.010 — 43.18.045, repealed by sec. 11 of this act, is, for each of the first five fiscal years during which secs. 1 — 10 of this act are effective, entitled to receive an amount equal to 125 percent of the amount which it received for the last fiscal year under the former provisions of AS 43.18.010 — 43.18.045 in accordance with those provisions. (b) For the first five fiscal years during which secs. 1 — 10 of this act are

effective, in order to pay the amounts required by (a) of this section, the allocations made by the Department of Community and Regional Affairs to the accounts established in AS 29.88.035, AS 29.89.080, and AS 29.90.020 (now repealed) shall be prorated by an amount which reduces the allocation to each account in equal proportion, and the prorated amounts shall be allocated to these accounts. (c) For the first five fiscal years during which secs. 1 — 10 of this act are effective, payment of an entitlement to a borough under AS 29.88 may be made to a borough only if the borough assembly agrees to allocate to each borough service area in the borough at least the amount of money that the service area received during the last fiscal year under the former provisions of AS 43.18.010 — 43.18.045, in accordance with those provisions."

**Sec. 29.95.010. Allocation and distribution.** (a) Each year, the Department of Community and Regional Affairs shall allocate money appropriated to the accounts established in AS 29.88, 29.89.010 — 29.89.100, and former AS 29.90 in the amounts determined by the legislature.

(b) Money in the miscellaneous services account established in AS 29.89.080 which exceeds the amount required to fully fund distributions authorized by AS 29.89.010 — 29.89.100 shall be reallocated to the tax equalization account established in AS 29.88.035 and distributed according to the provisions of AS 29.88.

(c) Money in the hospital construction assistance account established in former AS 29.90.020 which exceeds the amount required to fully fund distributions authorized by former AS 29.90 shall be

reallocated to the tax equalization account established in AS 29.88.035 and distributed according to the provisions of AS 29.88. (§ 5 ch 155 SLA 1980)

**Revisor's notes.** — In 1984, the word "former" was inserted before references to AS 29.90 in this section to reflect the 1983 repeal of that chapter.

**Sec. 29.95.020. Qualification for minimum payment.** (a) A municipality qualifying for an entitlement under AS 29.88 or AS 29.89.010 — 29.89.100 shall receive a minimum payment of \$25,000 plus an area cost-of-living differential for each fiscal year if:

(1) the municipality has conducted a regular election under AS 29.28.010 — 29.28.050 during the fiscal year preceding the year for which payment of an entitlement is authorized by AS 29.88 or AS 29.89.010 — 29.89.100 and has reported the results of the election to the commissioner of the Department of Community and Regional Affairs;

(2) regular council meetings are held in the municipality in accordance with the requirements of AS 29.23.210 during the fiscal year preceding the year for which payment of an entitlement is authorized by AS 29.88 or AS 29.89.010 — 29.89.100 and a record of the proceedings is maintained;

(3) a municipal budget has been adopted for the fiscal year during which payment of an entitlement is authorized by AS 29.88 or AS 29.89.010 — 29.89.100 and an audit or financial statement for the preceding fiscal year has been prepared and furnished to the Department of Community and Regional Affairs in accordance with AS 29.23.560(a); and

(4) local ordinances adopted by the governing body of the municipality have been codified in accordance with AS 29.48.180.

(b) The area cost-of-living differential payable to each municipality under this section shall be determined annually by election district under the provisions of AS 39.27.030. Except as provided in AS 29.95.030, application of the area cost-of-living differential may not result in a payment which is less than the minimum payment determined under (a) of this section. For purposes of this subsection, the election districts used are those designated by the proclamation of reapportionment and redistricting of December 7, 1961, and retained for the house of representatives by proclamation of the governor September 3, 1965.

(c) The Department of Community and Regional Affairs shall pay to each municipality eligible to receive a minimum payment under this section an amount equal to the difference between the minimum payment determined under (a) and (b) of this section and the sum of the amounts payable for the same fiscal year under AS 29.88 and AS 29.89.010 — 29.89.100.

(d) A payment under this section may be prorated and reduced under AS 29.95.030.

(e) Payments under this section shall be made from the money allocated to the tax equalization account established in AS 29.88.035. (§ 5 ch 155 SLA 1980)

**Sec. 29.95.030. Proration of payments.** (a) Payments under AS 29.95.020 and AS 29.88 shall equal the amount allocated to the tax equalization account (AS 29.88.035), adjusted in accordance with AS 29.95.010.

(b) Adjustments of payments shall be determined by prorating amounts payable under AS 29.95.020 and amounts payable under AS 29.88 by a factor which, when applied, reduces all payments in equal proportion so that payments under AS 29.95.020 and payments under AS 29.88 equal the amount allocated to the tax equalization account established in AS 29.88.035. (§ 5 ch 155 SLA 1980)



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman  
Members  
Senator Ferguson, Vice Chairman  
Senator Coghill  
Senator Sturgulewski  
Senator V. Fischer

Pouch V  
Juneau, Alaska 99811

#### MEMORANDUM

November 12, 1985

TO: Senator Ferguson  
Senator Sturgulewski  
Senator Vic Fischer  
Senator Coghill

FROM: Committee Staff

SUBJECT: COMMUNITY & REGIONAL AFFAIRS COMMITTEE HEARINGS  
October 22-23, 1985

SB244 An Act relating to the Undistributed Income Account in the Alaska Permanent Fund for certain municipal aid programs, establishing a two-year funding cycle; and providing for an effective date.

---

Attached for your file is a copy of the subject committee minutes.

Attachments 3



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman

Members:

Senator Ferguson, Vice Chairman

Senator Coghill

Senator Sturgulewski

Senator V. Fischer

Pouch V

Juneau, Alaska 99811

May 15, 1985

John Sullivan  
Petersburg City Council  
P.O. Box 329  
Petersburg, AK 99833

Dear John:

Senate Bill 244 which has been introduced in the Legislature, provides for a funding cycle of two years for municipal assistance. The bill also has provisions to make up any shortfall in legislative funding for municipal assistance out of the undistributed income account of the Alaska Permanent Fund.

I plan to hold hearings on SB 244 during the interim and would be interested in any comments you may have on the bill. Also, if you feel there is sufficient interest in your area, I will try to include your town in a teleconference hearing.

The revisions to Title 29, HB 72, have passed the Senate and the House. If this bill becomes law this year, I will be happy to work with you on any suggested changes you would like in specific sections of the new Title.

I am attaching a copy of SB 306 which proposes changes in the regulation of taxicabs. I would be interested in your comments on the bill.

I am also attaching a copy of some revisions to the regulations on municipal assessment.

Sincerely,

A handwritten signature in cursive script, appearing to read "Edna DeVries".

Edna DeVries  
Senator

ED:ym:ta

Enclosures

*How are you doing?*



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman

Members:

Senator Ferguson, Vice Chairman

Senator Coghill

Senator Sturgulewski

Senator V. Fischer

Pouch V

Juneau, Alaska 99811

May 15, 1985

John Sullivan  
Petersburg City Council  
P.O. Box 329  
Petersburg, AK 99833

Dear John:

Senate Bill 244 which has been introduced in the Legislature, provides for a funding cycle of two years for municipal assistance. The bill also has provisions to make up any shortfall in legislative funding for municipal assistance out of the undistributed income account of the Alaska Permanent Fund.

I plan to hold hearings on SB 244 during the interim and would be interested in any comments you may have on the bill. Also, if you feel there is sufficient interest in your area, I will try to include your town in a teleconference hearing.

The revisions to Title 29, HB 72, have passed the Senate and the House. If this bill becomes law this year, I will be happy to work with you on any suggested changes you would like in specific sections of the new Title.

I am attaching a copy of SB 306 which proposes changes in the regulation of taxicabs. I would be interested in your comments on the bill.

I am also attaching a copy of some revisions to the regulations on municipal assessment.

Sincerely,

A handwritten signature in cursive script that reads "Edna".

Edna DeVries  
Senator

ED:ym:ta

Enclosures

*How are you  
doing?*



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman

Members:

Senator Ferguson, Vice Chairman

Senator Coghill

Senator Sturgulewski

Senator V. Fischer

Pouch V

Juneau, Alaska 99811

May 15, 1985

John Sullivan  
Petersburg City Council  
P.O. Box 329  
Petersburg, AK 99833

Dear John:

Senate Bill 244 which has been introduced in the Legislature, provides for a funding cycle of two years for municipal assistance. The bill also has provisions to make up any shortfall in legislative funding for municipal assistance out of the undistributed income account of the Alaska Permanent Fund.

I plan to hold hearings on SB 244 during the interim and would be interested in any comments you may have on the bill. Also, if you feel there is sufficient interest in your area, I will try to include your town in a teleconference hearing.

The revisions to Title 29, HB 72, have passed the Senate and the House. If this bill becomes law this year, I will be happy to work with you on any suggested changes you would like in specific sections of the new Title.

I am attaching a copy of SB 306 which proposes changes in the regulation of taxicabs. I would be interested in your comments on the bill.

I am also attaching a copy of some revisions to the regulations on municipal assessment.

Sincerely,

A handwritten signature in cursive script, appearing to read "Edna".

Edna DeVries  
Senator

ED:ym:ta

Enclosures

*How are you doing?*

Introduced: 3/21/85  
Referred: Community & Regional  
Affairs and Finance

1 IN THE SENATE

BY COGHILL

2

SENATE BILL NO. 244

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the use of funds from the undistributed income account in the Alaska permanent fund for certain municipal aid programs, establishing a two-year funding cycle; and providing for an effective date."

7

8

9

10

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

12

\* Section 1. AS 29.95 is amended by adding a new section to read:

13

Sec. 29.95.005. TWO-YEAR FUNDING CYCLE. (a) Entitlements under AS 29.88, AS 29.89.010 - 29.89.100, AS 29.95.020, and sec. 9, ch. 95, SLA 1983, shall be estimated by the Department of Community and Regional Affairs based on a funding cycle of two fiscal years and recomputed each fiscal year. Legislative appropriations to carry out the provisions of AS 29.88, AS 29.89.010 - 29.89.100, AS 29.95.020, and sec. 9, ch. 95, SLA 1983, shall be made for a period of two fiscal years.

14

15

16

17

18

19

20

21

(b) By January 15 of each fiscal year, the commissioner of revenue shall transfer from the undistributed income account in the Alaska permanent fund (AS 37.13.145) to the Department of Community and Regional Affairs an amount, determined by the commissioner of community and regional affairs, sufficient to fully fund the entitlements under AS 29.88, AS 29.89.010 - 29.89.100, AS 29.95.020, and sec. 9, ch. 95, SLA 1983.

22

23

24

25

26

27

28

\* Sec. 2. AS 29.95.010 is amended to read:

29

Sec. 29.95.010. ALLOCATION AND DISTRIBUTION. (a) Every two

1 fiscal years [EACH YEAR], the Department of Community and Regional  
2 Affairs shall allocate money appropriated to the accounts established  
3 in AS 29.88 and AS [,] 29.89.010 - 29.89.100, and for payments under  
4 sec. 9, ch. 95, SLA 1983, [FORMER AS 29.90] in the amounts determined  
5 by the legislature.

6 (b) Money in the miscellaneous services account established in  
7 AS 29.89.080 that [WHICH] exceeds the amount required to fully fund  
8 distributions authorized by AS 29.89.010 - 29.89.100 during the two-  
9 year funding cycle shall be reallocated to the tax equalization ac-  
10 count established in AS 29.88.035 and distributed according to the  
11 provisions of AS 29.88.

12 (c) Money all cated for payments under sec. 9, ch. 95, SLA  
13 1983, that [IN THE HOSPITAL CONSTRUCTION ASSISTANCE ACCOUNT ESTAB-  
14 LISHED IN FORMER AS 29.90.020 WHICH] exceeds the amount required to  
15 fully fund distributions authorized during the two-year funding cycle  
16 [BY FORMER AS 29.90] shall be reallocated to the tax equalization  
17 account established in AS 29.88.035 and distributed according to the  
18 provisions of AS 29.88.

19 \* Sec. 3. AS 29.95.010 is amended by adding a new subsection to read:

20 (d) If money allocated or reallocated under this section is not  
21 sufficient to fully fund all entitlements under AS 29.88, AS 29.89.-  
22 010 - 29.89.100, AS 29.95.020, and sec. 9, ch. 95, SLA 1983, during a  
23 fiscal year, the commissioner of community and regional affairs shall  
24 by January 1 of that year notify the commissioner of revenue and  
25 request the transfer of additional money under AS 29.95.005.

26 \* Sec. 4. AS 43.20.016(a) is amended to read:

27 (a) There is established within the department the municipal  
28 assistance fund. The legislature may appropriate to the fund [DURING  
29 EACH FISCAL YEAR] an amount equal to or greater than 30 percent of the

1 income tax revenue received by the state under AS 43.20.011(e) for the  
2 previous two fiscal years [YEAR]. Legislative appropriations shall be  
3 made for a period of two fiscal years. The department shall distrib-  
4 ute money from the fund to each municipality [ORGANIZED BOROUGH AND  
5 EACH CITY] of any class on an annual basis as provided in (b) and (c)  
6 of this section. A municipality [BOROUGH OR CITY] may not receive  
7 payment under (b) or (c) of this section until it submits to the  
8 department a resolution approved by the governing body of the munic-  
9 ipality that requests the funds. Distribution of money from the fund  
10 to a municipality [CITY OR ORGANIZED BOROUGH] with a fiscal year  
11 beginning on January 1 shall be made on February 1 [OF THE STATE  
12 FISCAL YEAR FOR WHICH THE APPROPRIATION TO THE FUND IS MADE]. Dis-  
13 tribution of money from the fund to all other municipalities [CITIES  
14 AND ORGANIZED BOROUGH] shall be made on June 1 [OF THE STATE FISCAL  
15 YEAR FOR WHICH THE APPROPRIATION TO THE FUND IS MADE]. A municipality  
16 [BOROUGH OR CITY] that incorporates after December 31 [OF A STATE  
17 FISCAL YEAR] is not eligible for a distribution under this section  
18 until the following state fiscal year.

19 \* Sec. 5. AS 43.20.016(b) is amended to read:

20 (b) The base amount to be distributed from the municipal assis-  
21 tance fund to each municipality shall be estimated based on a funding  
22 cycle of two fiscal years and recomputed each fiscal year. The base  
23 amount to be distributed from the fund to each municipality each  
24 [BOROUGH AND CITY FOR THE] fiscal year shall be the amount received by  
25 that municipality [THE BOROUGH OR CITY] during fiscal year 1978 under  
26 AS 43.70.080 [; HOWEVER, IF THE AMOUNT APPROPRIATED TO THE FUND BY THE  
27 LEGISLATURE UNDER (a) OF THIS SECTION IS INSUFFICIENT FOR DISTRIBUTION  
28 OF THE FULL BASE AMOUNT, THE DEPARTMENT SHALL PRORATE THE AMOUNT  
29 AVAILABLE FOR DISTRIBUTION ON THE BASIS OF AMOUNTS RECEIVED DURING

1 FISCAL YEAR 1978 UNDER AS 43.70.080]. A city incorporated within an  
2 organized borough after June 30, 1977 shall receive as a base amount a  
3 share of the amount distributed to the borough in which it is located  
4 based on the ratio of population in the city to the total population  
5 in the borough. A city incorporated outside an organized borough  
6 after June 30, 1977 shall receive as a base amount the amount received  
7 by the city in the state most closely approximating it in population  
8 at the time of its incorporation. A borough incorporated after  
9 June 30, 1977 shall receive as a base amount the amount received by  
10 the borough in the state most closely approximating it in population  
11 at the time of its incorporation.

12 \* Sec. 6. AS 43.20.016(c) is amended to read:

13 (c) If the amount in the municipal assistance fund is not suffi-  
14 cient to fully fund all base amounts computed under (b) of this sec-  
15 tion and due to be distributed under (a) of this section, the commis-  
16 sioner of revenue shall transfer from the undistributed income account  
17 in the Alaska permanent fund (AS 37.13.145) an amount sufficient to  
18 fully fund the base amounts. If the amount in the fund at the time of  
19 the last distribution during a two-year funding cycle exceeds the base  
20 amounts [AMOUNT] to be distributed [UNDER (b) OF THIS SECTION], the  
21 excess amount shall be distributed to each municipality [BOROUGH AND  
22 CITY] on the basis of population. For the purpose of this subsection,  
23 the population of a city within an organized borough shall be deducted  
24 from the population of the borough. Population, for the purpose of  
25 this section, shall be as certified by the commissioner of community  
26 and regional affairs.

27 \* Sec. 7. The initial two-year funding cycles for municipal aid pro-  
28 grams required by this Act begin July 1, 1985.

29 \* Sec. 8. This Act takes effect immediately in accordance with

1 AS 01 10.070(c).

Introduced: 5/3/85  
Referred: Community & Regional Affairs

1 IN THE SENATE

BY SACKETT

2

SENATE BILL NO. 306

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to municipal regulation of vehicles  
for hire."

7

8

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

9

\* Section 1. AS 29.48.035 is amended by adding a new subsection to  
read:

10

11

(d) A municipality may license, control, and regulate taxicabs,

12

limousines or other vehicles for hire that are operated within the

13

boundaries of the municipality and may fix, establish, and change the

14

rates charged for the service. Based on the municipality's determina-

15

tion of need for the services, the municipality may regulate entry

16

into the business of providing taxicabs, limousines, or other vehicles

17

for hire.

CHAPTER 39. ERRORS IN MUNICIPAL ASSESSMENT,  
VALUATION OR TAXATION RECORDS.

Section

- 10. Inspection of records
- 20. Notice of errors found
- 30. Appeal
- 90. Definitions

19 AAC 39.010. INSPECTION OF RECORDS. (a) The state assessor may inspect municipal records dealing with assessment, valuation or taxation.

(b) If a municipality's assessment and valuation have been done by a private contractor, records concerning the assessment and valuation must be made available to the state assessor on request.

(c) If a complaint of an alleged major error in a municipality's assessment, valuation, or taxation procedures is submitted to the state assessor, the state assessor may investigate the complaint at its discretion. If an investigation is prompted by a complaint, the state assessor will give at least 30 days notice to the municipal assessor stating the nature of the complaint and the state assessor's intention to investigate the complaint. The municipal assessor may participate in the review process. (Eff. / / , Register )

Authority: AS 29.53.103  
AS 44.47.050(19)  
AS 44.47.980

19 AAC 39.020. NOTICE OF ERRORS FOUND. (a) Immediately following a review of municipal records dealing with assessment, valuation or taxation, the state assessor will discuss with the municipal assessor any errors found in the course of the review.

(b) The state assessor will inform a municipality of any major errors discovered in the municipality's assessment, valuation, or taxation records. The major error will be resolved in the manner described in (c) or (d) of this section, in the state assessor's discretion.

(c) The state assessor may inform a municipality of a major error verbally and work with the municipality informally to correct the problem.

(d) The state assessor may send an official notice of a major error by certified mail, return receipt requested, which will contain at least the following information:

(1) a brief description of the major error found;  
and

(2) a directive to the municipality to correct the major error before the beginning of the next fiscal year.

(e) A municipality that receives a notice of a major error under (d) of this section must correct its procedures.

before the beginning of the municipality's next fiscal year.

(f) The state assessor will provide a copy of all notices of major errors issued under (d) of this section to the commissioner and to the Alaska association of assessing officers. (Eff. / / , Register )

Authority: AS 29.53.105  
AS 44.47.050(19)  
AS 44.47.980

19 AAC 39.030. APPEAL. (a) If a municipality elects to appeal a determination by the state assessor that it has made a major error in assessment, valuation, or taxation procedures, it must file its appeal with the commissioner within 30 days after receipt of the notice of the major error. The municipality must also provide a copy of its appeal to the Alaska association of assessing officers.

(b) In deciding the appeal, the commissioner will consult with the Alaska association of assessing officers and may consult with others at the commissioner's discretion.

(c) Within 60 days after receipt of the appeal, the commissioner will send a decision by certified mail, return receipt requested, to the municipality. In addition, the commissioner will send a copy of the decision to the Alaska association of assessing officers. If the commissioner determines that a major error has been made in the municipality's assessment, valuation, or taxation procedures, the commissioner will notify the municipality of the changes that must be made. The municipality must correct its procedures before the beginning of the next fiscal year. (Eff. / / , Register )

Authority: AS 29.53.105  
AS 44.47.050(19)  
AS 44.47.980

19 AAC 39.090. DEFINITIONS. As used in this chapter,

(1) "commissioner" means the commissioner of the Department of Community and Regional Affairs; and

(2) "major error" means a violation of federal, state or municipal property tax law;

(3) "state assessor" means the state assessor in the Department of Community and Regional Affairs, or a designee from the office of the state assessor. (Eff. / / , Register )

Authority: AS 29.53.105



**Alaska Permanent Fund Corporation**

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

277-1496

September 16, 1985

Ms. Yvonne Alford  
c/o Senator Edna Devries  
P.O. Box 321  
Palmer, Alaska 99645

Dear Ms. Alford:

Enclosed, per your request, is a collection of information about the Alaska Permanent Fund which you may find useful as you prepare for your scheduled series of hearings on SB 244. Specifically, I have attempted to include everything the Corporation has available on the subject of the undistributed income account.

Enclosed are:

- \* Brochure describing Basic Information About Your Permanent Fund.
- \* General Description of the Undistributed Income (from the 1985 Annual Report).
- \* Memorandum to the Trustees on the subject of the Undistributed Income Account (dated February 25, 1985).
- \* Copy of correspondence between the Corporation and Senator Ferguson on the subject of the Undistributed Income Account (dated April 24, 1985).
- \* Statement of Changes to undistributed income (compiled from annual financial statements 1980-1985). The relevant sections of the financials are also attached.
- \* Earnings on undistributed income (actual and projected as of June 30, 1985).

If there is anything else you would like, please don't hesitate to contact me.

Sincerely,

Jim Kelly  
Research & Liaison



# Alaska State Legislature

## Senate

Official Business

Pouch V  
State Capitol  
Juneau, Alaska 99811

September 23, 1985

To: C&RA Committee

From: C&RA Staff *JA*

Subj: Contents of SB 244 Folder

Contents of the folder are as follows:

- 1) Statement by Senator Coghill on the purpose of bill
- 2) Sectional analysis of SB 244 by Division of Legal Services
- 3) Graphic explanation of the relationship of the permanent fund to the undistributed income account
- 4) Earnings on undistributed income account projected through 2003
- 5) Memorandum from Dept of C&RA on municipal assistance funding from FY 82 through FY 86
- 6) Memorandum from Legislative Finance stating their Mean case and Risk Adjusted case projections for the undistributed income account from 1985 through 1990. Attachments to the memo give detailed information through 1995.
- 7) A statement of changes in undistributed income over the period July 1, 1980 through June 30, 1985
- 8) Memoranda: From Senator Ferguson to Dave Rose and Dave Rose answer to the Senator on questions concerning the availability for appropriation of the undistributed income account
- 9) Memo from Jim Kelly, Perm Fund staff, to Perm Fund Trustees attaching certain resolutions passed by the Trustees, pertaining specifically to the undistributed income account.
- 10) Miscellaneous financial/fiscal information on the Permanent Fund

Senator John B. (Jack) Coghill  
Alaska State Legislature

Donch V  
Juneau, Alaska 99811  
(907) 165-1745

Box 158  
Kenai, Alaska 99760  
(907) 852-5171



TO: All members of the Committee on Community and Regional Affairs  
FROM: Senator John B. Coghill  
RE: SB 244, two-year funding of municipal programs

The main purpose of this bill lies with the commitment the state has made to the municipalities and subdivisions of the state under the Shared Revenue and Municipal Assistance programs. These programs can best be managed in declining revenues with a two-year funding cycle.

We are obligated legally, politically and morally to fund the two assistance programs. Using a two-year funding cycle will allow the local officials to manage their budgetary programs in times of declining revenue. This is very essential to assure proper services and stability. This is not a raid on the permanent fund or the interest account known as the undistributed income account.

The reason why I choose that conduit is the constitutional ability to bind one legislative process to the next legislative process i.e. from one two year cycle to another. This ability stems from Sect. 15, Article 9 of the constitutional amendment setting up the permanent fund allowing that "All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

In our forward funding proposal we would guarantee that the amount we are allocating is the amount we are appropriating. Therefore, it is necessary to say that if we find our treasury unable to meet that commitment the balance would be taken from the undistributed income account to make up that commitment.

If we appropriate the fund into the undistributed income account it would be in a holding position in that fund for distribution to the municipalities, then it would not be necessary to implement the clause I have in the bill establishing the shortfall provisions.

Regardless of the formula the program uses and regardless of requirements of statutes, the Legislature can shortfall appropriations because of lack of funds. When the Legislature allocates the forward funding under the bill, they will, by necessity, have to make it clear by legislative intent what the allocation is for the same as they do in a general appropriations bill.

Senator John B. (Jack) Coghill  
Alaska State Legislature

Batch V  
Juneau, Alaska 99811  
(907) 405-1715

Box 458  
Nenana, Alaska 99760  
(907) 852-5171



Some questions and answers regarding SB 244

1. Would SB 244 change the current shared revenue and municipal assistance formulae used by the state?

No. We are not addressing the issue of the calculation method of the formula. The Governor's Task Force on Shared Revenue is working on that.

2. When would the local governments receive their payments?

They would get their payments in one lump sum in June. They would receive notice of the amount they would receive the following June at the same time.

3. How will this assist in local government budget preparation?

This will be a revelation. Local government will be able to account on the amount of state funds available and will be able to plan with that in mind.

STATE OF ALASKA  
THE LEGISLATURE

FOURTH STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 26, 1985

SUBJECT: Use of money from the undistributed income  
account for municipal aid (SB 244)

TO: Senator Edna DeVries  
Chair, Community & Regional Affairs Committee

FROM: Tamara Brandt Cook *TBC*  
Deputy Director  
Division of Legal Services

Here is the sectional analysis that you requested of SB 244 dealing with funding shortfalls in certain municipal aid programs with money from the undistributed income account and establishing a two-year funding cycle.

Section 1. The Department of Community and Regional Affairs is required, based on a two-year funding cycle, to estimate entitlements under the various municipal aid provisions referred to collectively as the revenue sharing program. The entitlements are recomputed each fiscal year, but legislative appropriations for the revenue sharing program are to be made for a period of two fiscal years. By January 15 of each fiscal year, the amount of money needed to fully fund entitlements for that year is transferred from the undistributed income account in the Alaska permanent fund. Thus, if appropriations made during the two-year funding cycle are sufficient to fully fund the entitlement, subsection (b) of the new sec. 29.95.005 does not operate to transfer money.

Section 2. The section dealing with allocation of money for payments under the various revenue sharing provisions by the Department of Community and Regional Affairs is changed to reflect the two-year funding cycle. Reference to former AS 29.90, which provided payment for hospital construction, is deleted, and replaced with a reference to the temporary law provision under which payments for certain construction projects was continued.

Section 3. The commissioner of Community and Regional Affairs is required to request the transfer of money from the undistributed income account by January 1, if money allocated for the various revenue sharing provisions is not sufficient to fully fund all entitlements.

Section 4. Changes are made to the section dealing with distribution of revenue sharing entitlements to reflect the fact that appropriations are made for a period of two years rather than every year.

Section 5. The base amounts to be distributed under the municipal assistance program are required to be estimated based on a funding cycle of two years and then recalculated every year. The provision requiring that payments be prorated if insufficient funds are appropriated is deleted.

Section 6. If insufficient funds for payments under the municipal assistance program have been appropriated, the commissioner of revenue is required to transfer the amount needed to make up the deficit from the undistributed income account in the Alaska permanent fund.

Section 7. The initial two-year funding cycle for the municipal aid programs dealt with in this bill begins during the coming fiscal year.

Section 8. The bill has an immediate effective date.

TBC:mkr  
J13:026

# Undistributed Income Is Part of the Permanent Fund

The Permanent Fund is made up of two parts: principal and undistributed income. As of June 30, 1985:

The Principal of the Fund is:	\$5.7 billion
Undistributed Income is:	\$763.3 million

The principal of the Fund includes (1) the oil royalties deposited by constitutional dedication; (2) extra money deposited by legislative appropriation; and (3) income of the Fund which has been transferred to principal to inflation-proof the Fund. Expenditure of the principal is constitutionally prohibited.

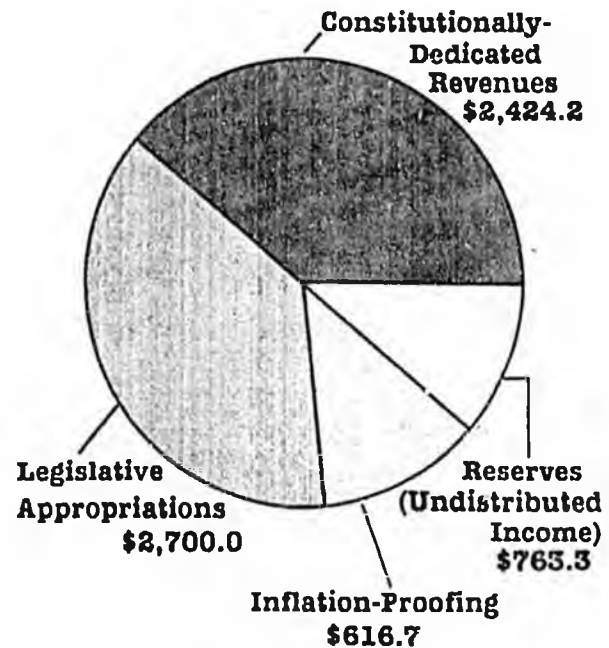
Undistributed income is all other net income — current and prior years' — which has not been paid out as dividends or transferred to principal for inflation-proofing. These accumulated earnings now represent over 11% of the total assets of the Permanent Fund. No constitutional prohibition is placed on the expenditure.

The trustees have designated the undistributed income as "reserves" to be used in future years when either poor earnings or high inflation leave insufficient funds to pay the full portion of dividends and inflation-proofing (the two currently authorized uses for Fund earnings). In this way, the reserves cushion the Fund against sharp fluctuations in income or monetary conditions.

There are two main reasons why the reserves have burgeoned in the recent past — and also two reasons why it is unlikely that this growth will continue into the future.

First, an unusually large percentage of earnings have been held back from distribution by a provision in the enabling act which calls for income to be paid out on the basis of a five-year average. In the early years of the Fund, as assets and income have increased dramatically each

**TOTAL EQUITY: \$6,504.2**  
(in millions)



This chart shows where the money in the Permanent Fund has come from.

year, this provision has had the arithmetic effect of limiting the distribution of income. As the Fund matures, however, the percentage of net income available for distribution will increase.

Second, earnings have been extraordinarily high in the past four years. In each of these years, the Fund's real rate of return — i.e., return after inflation — has been substantially above the target of 3%. A sense of history indicates that such high returns are not sustainable. In fact, the real rate of return for the Fund since inception in 1977 has been 3.8%.

As large as the reserves are, however, they may not be large enough. Current projections, which assume a long-term rate of return for the Fund of 9% and average inflation of 6%, indicate that all of the existing reserves will be needed over the next 15 years to meet future dividend and inflation-proofing needs.

Earnings on Undistributed Income

<u>Fiscal Year</u>	<u>Rate of Return</u>	<u>Previous Year's Ending Balance/U.I.A.</u>	<u>Earnings (in Millions)</u>
1982	15.10	58.7	\$ 8.9
83	12.76	243.8	31.1
84	10.89	353.8	38.5
85	11.61	557.4	64.7
86	10.53	763.3	80.4
87	9.0	1,001.1	90.1
88	9.0	997.2	89.8
89	9.0	986.8	88.8
90	9.0	969.4	87.3
91	9.0	952.0	85.7
92	9.0	937.2	84.4
93	9.0	914.8	82.3
94	9.0	884.5	79.6
95	9.0	845.5	76.1
96	9.0	796.6	71.7
97	9.0	737.0	66.3
98	9.0	665.5	59.9
99	9.0	581.3	52.3
2000	9.0	483.2	43.5
2001	9.0	370.0	33.3
2002	9.0	240.6	21.7
2003	9.0	93.3	8.4

Assumptions:

Rate of Return: 1982 - 15.10%  
 83 - 12.76  
 84 - 10.89  
 85 - 11.61  
 86 - 10.53  
 1987-2003 - 9.0

Inflation: 1982 - 10.37%  
 83 - 6.10  
 84 - 3.22  
 85 - 4.26  
 86 - 3.53  
 1987-2003 - 6.0

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPT. OF COMMUNITY & REGIONAL AFFAIRS

### OFFICE OF THE COMMISSIONER

September 4, 1985

POUCH B  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-4700

949 E. 36TH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99508  
PHONE: (907) 563-1073

SEP 9 - REC'D

The Honorable Edna DeVries  
Alaska State Senate  
P.O. Box 321  
Palmer, AK 99645

SB 244

Attn: Yvonne Alford

Dear Senator DeVries:

Thank you for notifying our office of your intent to hold Senate Community and Regional Affairs Committee hearings on SB 244 in September and October. The Department will be pleased to assist you and your committee staff by providing knowledgeable staff at each of the six hearings scheduled to be held in Southcentral and Interior Alaska. Tentatively, Mr. Doug Griffin, Deputy Director of the Division of Municipal and Regional Assistance will be in attendance at the Southcentral hearings scheduled for September 24-26. Mr. Griffin or Mr. James Plasman, the State Revenue Sharing/Municipal Assistance program manager, will be on hand for the October 22-24 hearings scheduled for the Interior.

Mr. Royce Weller, Special Assistant in the Department of Revenue assisted us in gathering the information you requested on Municipal Assistance funding over the last five years. Specifically, you requested a comparison between the actual level of appropriation and the formula suggested level for Municipal Assistance distribution. This comparison is as follows:

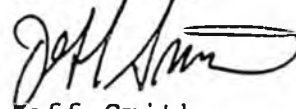
#### MUNICIPAL ASSISTANCE FUNDING (in thousands of dollars)

<u>Year</u>	<u>Formula Amount</u>	<u>Actual Appropriation</u>
FY 82	\$87,400.0	\$87,974.6
FY 83	85,630.0	71,300.0
FY 84	70,500.0	70,500.0
FY 85	84,900.0	81,306.8
FY 86	87,900.0	81,306.8

The Honorable Edna DeVries  
September 4, 1985  
Page 2

I hope this adequately responds to your request. If you need additional information or clarification please feel free to contact this office or Mr. Doug Griffin at 465-4750.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Smith", with a large, sweeping flourish at the end.

Jeff Smith  
Deputy Commissioner

# STATE OF ALASKA

AUG 30 RECD

## THE LEGISLATURE

August 29, 1985

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION  
POUCH WF-STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3795

Senator Edna DeVries, Chairman  
Senate Community & Regional Affairs Committee  
Box 321  
Palmer, Alaska 99645

ATTN: Yvonne Alford

Dear Senator:

As you requested, I am providing estimates of the Permanent Fund Undistributed Income Account.

Two sets of estimates are provided - - the Mean Case and the Risk Adjusted.

The Mean Case has a probability of 50 percent that the estimate will be that amount or more. Similarly, the Risk Adjusted estimate has a 70 percent probability.

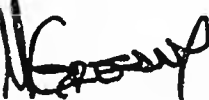
From the attached source tables I have extracted the information specific to your request:

Undistributed Income Account  
(\$\$\$ millions)

<u>Fiscal Year</u>	<u>Mean Case</u>	<u>Risk Adjusted</u>
1985	\$ 759.9	\$ 759.9
1986	871.5	871.4
1987	921.0	920.7
1988	1,005.6	1,004.3
1989	1,072.1	1,069.5
1990	1,153.9	1,149.3

Please let us know if Legislative Finance Division can assist further.

Regards,



Mike Greany, Director  
Legislative Finance Division

Attachments

MG/se

TABLE 4  
State of Alaska  
Permanent Fund Earnings & Balance  
Mean Case  
(Millions of nominal \$)

*50% probability*

Fiscal Year	Permanent Fund Contributions			Perm Fund Year-End Balance	Perm Fund Earnings	Undist'd Income Account	(1) Dividend Program
	Mineral Revenues	Appropriations	Inflation Proofing				
76	.0			.0			
77	4.0			4.0			
78	50.5			54.5	1.3		
79	83.9			138.4	6.5		
80	344.8			483.2	23.7		
81	385.1	900.0		1,768.5	149.6	105.1	
82	400.5	800.0		2,969.0	368.6	330.4	
83	421.0	400.0	231.2	4,021.2	471.5	353.3	481.6
84	366.2	300.0	150.9	4,838.3	530.0	557.3	190.9
85	354.3	300.0	234.0	5,726.5	653.9	759.9	163.2
86	309.3		230.9	6,266.8	605.4	871.5	217.4
87	277.8		259.5	6,804.0	594.6	921.0	262.9
88	264.3		310.0	7,378.3	703.3	1,005.6	285.5
89	269.5		364.0	8,011.8	762.5	1,072.1	308.7
90	270.3		394.2	8,676.3	825.1	1,153.9	332.0
91	263.5		425.5	9,365.4	891.6	1,242.3	349.1
92	272.7		458.8	10,096.9	961.6	1,330.7	377.7
93	278.9		515.7	10,891.4	1,085.8	1,448.2	414.4
94	267.7		578.0	11,737.1	1,170.9	1,547.6	452.7
95	269.8		622.0	12,628.8	1,259.7	1,648.4	493.5
Total	5,154.0	2,700.0	4,774.6	11,065.5			4,329.4

(1) FY 83 dividend amount includes an appropriation of \$440.1 million from the General Fund.

Source: "Revenue Sources", Department of Revenue, June 85 mean case.

TABLE 5  
State of Alaska  
Permanent Fund Earnings & Balance  
Risk-adjusted (30%)  
(millions of nominal \$)

70% probability

Fiscal Year	Permanent Fund Contributions			Perm Fund Year-End Balance	Perm Fund Earnings	Undist'd Income Account	(1) Dividend Program
	Mineral Revenues	Appropriations	Inflation Proofing				
76	.0			.0			
77	4.0			4.0			
78	50.5			54.5	1.3		
79	83.9			138.4	6.5		
80	344.8			483.2	23.7		
81	385.1	900.0		1,768.5	149.6	105.1	
82	400.5	800.0		2,969.0	368.6	330.4	
83	421.0	400.0	231.2	4,021.2	471.5	353.3	481.6
84	366.2	300.0	150.9	4,838.3	530.0	557.3	190.9
85	353.9	300.0	234.0	5,726.2	653.9	759.9	163.2
86	299.7		230.5	6,256.4	604.9	871.4	217.4
87	254.0		258.1	6,768.5	592.7	920.7	262.9
88	237.1		307.2	7,312.9	698.8	1,004.3	285.3
89	228.3		359.0	7,900.1	754.6	1,069.5	308.0
90	215.5		386.3	8,501.9	812.5	1,149.3	330.5
91	200.8		414.3	9,116.9	872.8	1,234.7	346.4
92	201.7		443.6	9,762.2	935.5	1,319.2	373.2
93	196.7		495.0	10,453.8	1,049.5	1,431.3	407.4
94	185.3		551.1	11,190.2	1,124.4	1,525.1	442.5
95	180.8		589.0	11,960.0	1,202.1	1,619.7	479.5
Total	4,609.8	2,700.0	4,650.1		10,852.9		4,288.6

(1) FY 83 dividend amount includes an appropriation of \$440.1 million from the General Fund.

Source: "Revenue Sources", Department of Revenue, June 85 (30% case).

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION  
POUCH WF-STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3795

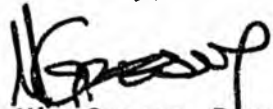
August 30, 1985

Sen. Edna De Vries  
P.O. Box 321  
Palmer, Alaska 99645  
Attn: Yvonne Alford

Dear Yvonne:

Attached is the additional information you requested regarding general fund revenues.

Sincerely,



Mike Greany, Director  
Legislative Finance Division

MG/gs  
enclosure

UNRESTRICTED GENERAL FUND REVENUES

<b>Fiscal Year</b>	<b>Risk Adjusted</b> <sup>70%</sup>	<b>Mean Case</b> <sup>50% likelihood</sup>
1976	709.8	709.8
1977	874.3	874.3
1978	764.9	764.9
1979	1,133.0	1,133.0
1980	2,501.2	2,501.2
1981	3,718.2	3,718.2
1982	4,108.4	4,108.4
1983	3,631.0	3,631.0
1984	3,390.1	3,390.1
1985	3,237.6	3,237.6
1986	2,872.8	2,939.6
1987	2,573.5	2,733.3
1988	2,267.6	2,443.0
1989	2,151.2	2,430.1
1990	2,052.4	2,452.6
1991	1,944.4	2,389.0
1992	1,931.5	2,430.5
1993	1,893.6	2,476.9
1994	1,805.8	2,393.6
1995	1,753.5	2,382.8

STATEMENT OF CHANGES IN UNDISTRIBUTED INCOME (in millions)

<u>Balance July 1, 1980:</u>	-0-
Add: Net income	\$149.6
Less: Distributable income to General Fund	<u>(90.9)</u>
<u>Balance June 30, 1981:</u>	58.7
Add: Net income	368.4
Less: Distributable income to General Fund	<u>(183.4)</u>
<u>Balance June 30, 1982:</u>	243.8
Add: Net income	471.1
Less: Distributions of income to General Fund and Dividend Fund	(129.9)
Provision for inflation	<u>(231.2)</u>
<u>Balance June 30, 1983:</u>	353.8
Add: Net income	529.5
Less: Provision for 1983 dividends supplement	(11.9)
Provision for 1984 dividends	(163.1)
Provision for 1984 inflation	(150.9)
Provision for future inflation and dividends	(557.3)
<u>Balance June 30, 1984:</u>	-0-
Add: Net income	657.8
Less: Provision for 1985 dividends	(217.3)
Provision for 1985 inflation	(234.6)
Provision for future inflation and dividends	<u>(205.9)</u>
Balance June 30, 1985:	-0-
Balance June 30, 1985 of Reserve for Inflation and Dividends	<u>\$763.3</u>



Official Business

# Alaska State Legislature

Senate

Pouch V  
State Capitol  
Juneau, Alaska 99811

RECEIVED  
APR 22 1985

ALASKA  
PERMANENT FUND CORPORATION 22, 1985

Mr. David Rose  
Executive Director  
Alaska Permanent Fund Corporation  
Pouch 4-1000  
Juneau, Alaska 99802

Dear Mr. Rose:

As a member of the Senate Finance Committee, I have spent considerable time and effort attempting to determine which state revenues are available of appropriation, and which are not. It is my understanding the Department of Revenue segregates funds which the State receives into three basis categories:

1. Unrestricted revenues--which are paid into the General Fund and may be appropriated for any purpose.
2. Restricted revenues--which are funds received for a specific purpose and primarily originate from the Federal government.
- 3: Special Fund revenues--which are funds received into statutorily established funds such as the International Airports Revenue Fund. These funds may or may not be available for appropriation and be treated as General Funds. I have attempted to determine into which category the Undistributed Income Account for the Permanent Fund falls. Logically, one would think that it would fall into the "Special Fund Revenues" category. However, in reviewing the Department of Revenue's last quarterly report, a listing for the undistributed Income Account is not shown. Neither is it listed in the "Restricted Revenues" nor in the "Unrestricted Revenues" categories of the quarterly report.

Therefore, I am confused as to the true nature of the undistributed Income Account. To clarify this issue, would you please answer the following questions:

PAGE 2


1. Is the Undistributed Income Account a dedicated fund, unavailable for appropriation?
2. Is the Undistributed Income Account an a count within the Permanent Fund, and therefore unavailable for appropriation?
3. If not then aren't the funds in the Undistributed Income Account simply General Funds bearing a different label?
4. If the Undistributed Income Account is simply a bookkeeping category for monies within the General fund, why aren't they listed as "Unrestricted Revenues?"
5. The March revenue forecast predicts an FY 1986 balance in the Undistributed Income Account of \$877 million, and increase of nearly \$140 million over the January forecast.

I understand that your office may have a forecast for the Undistributed Income account which predicts higher balances for both the short-and long-term.

Would you please send me the answers to the above questions and your office's predictions for FY 1986 through FY 2000 for the Undistributed Income Account?

Thank you for your assistance and corporation on this matter.

Sincerely,

  
Frank R. Ferguson  
Alaska State Senator

FRF/cc



**Alaska Permanent Fund Corporation**

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

April 24, 1985

The Honorable Frank R. Ferguson  
Alaska State Senator  
Pouch V  
State Capitol  
Juneau, AK 99811

Dear Senator Ferguson:

Thank you for your letter of inquiry dated April 22, 1985 pertaining to the Undistributed Income Account. Answers are keyed to the questions posed as follows:

Q # 1. Is the Undistributed Income Account a dedicated fund, unavailable for appropriation?

According to legal counsel, the Undistributed Income Account is a partially dedicated fund (see attached letter from Office of the Attorney General, dated March 10, 1983). It is: (1) available for appropriation for any lawful purpose; (2) available to make up any shortfall in dividend payments subject to appropriation; and (3) available to make up any shortfall in inflation-proofing transfers to the corpus of the Fund, without appropriation.

\* \* \*

Q # 2. Is the Undistributed Income Account within the Permanent Fund, and therefore unavailable for appropriation?

The Undistributed Income Account is an account ~~within the Permanent Fund~~ but does not constitute part of the "corpus" of the Fund. Thus, it is subject to appropriation while the "corpus" is not.

AS 37.13.145 states, in part, "...The balance of the net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska Permanent Fund" (emphasis added).

\* \* \*

Senator Frank R. Ferguson  
April 24, 1985  
Page 2

Q # 3. If not, then aren't the funds in the Undistributed Income Account simply General Funds bearing a different label?

Section 15, Article IX, the constitutional amendment which created the Permanent Fund states in part:

"...All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law" (emphasis added).

AS 37.13.145 specifically directs this income to the Undistributed Income Account in the Permanent Fund. Without these provisions, of course, income would automatically flow to the General Fund. More than just a label appears to be involved since substantive law was deliberately written to prohibit automatic flow to the General Fund.

\* \* \*

Q # 4. If the Undistributed Income Account is simply a bookkeeping category for monies within the General Fund, why aren't they listed as "Unrestricted Revenues?"

The Undistributed Income Account is not simply a bookkeeping category for monies within the General Fund, as previously stated. The Undistributed Income Account is a holding account for prior years' income not used for dividends or inflation-proofing. All income of the current year is added to the account during the year. At the close of the year, dividend payments and inflation-proofing are subtracted from the account. If there is a balance, it is carried forward. The Trustees have designated the balance in the Undistributed Income Account as a "reserve for dividends and inflation-proofing." This designation by the Trustees treats the account in a manner similar to other corporations' "retained earnings" -- a buffer to be utilized in poor earnings years. The Trustees' designation, however, does not infer that these funds may not be appropriated. See Resolution 84-12 in the attached memorandum.

\* \* \*

The Corporation makes projections each month. The current projection sheet (attached) reflects the following:

1. The Undistributed Income Account at June 30, 1985 is expected to be \$757.1 million.

Senator Frank R. Ferguson  
April 24, 1985  
Page 3

2. The balance of the Undistributed Income Account will be drawn down to zero to meet dividend and inflation-proofing by the year 1999, assuming an annual earnings rate of 9 percent and an inflation rate of 6 percent.

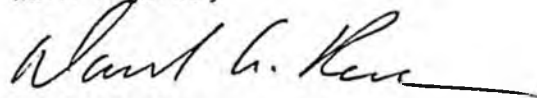
The Corporation's projections are more conservative than the Department of Revenue's because we assume a slightly higher long-term rate of inflation and a slightly lower real rate of return over time. The actual balance of the Undistributed Income Account on June 30, 1986 will depend on the actual earnings of the Corporation during the next fiscal year and on the actual inflation rate for 1985.

As I review your letter, it appears that the income held in the Undistributed Income Account after meeting the dual obligations of dividend payments and inflation-proofing transfers is unique.

I have also enclosed a recent memorandum, prepared by staff for the information of the Trustees, which describes the Undistributed Income Account, its purpose and how it works.

If you have further questions or need better clarity of explanation, please do not hesitate to contact me.

Warm regards,



David A. Rose  
Executive Director

DAR/bn

Attachment

ALASKA PERMANENT FUND CORPORATION

FINANCIAL PROJECTIONS AS OF 4/15/85

-----PRINCIPALS: ACTUAL & PROJECTED----- (in millions)						-----INCOME: ACTUAL & PROJECTED----- (in millions)					
Beginning FY Balance	Appro- priations	Dedicated		Inflation Adjusted		Net Income	Distributions		Reserves		Total Assets
		State Revenues*	Inflation Proofing	Ending Balance	Ending Shortfall		State General Fund	Inflation Proofing	Trans. Adj.**	Add (Delete)	
78		54.4		54.4		1.8		1.3	.5		55.0
79	54.4	84.1		138.5		8.0		6.6	1.4		140.5
80	138.5	344.4	.3	483.2		32.4	11.8	.3	9.5		502.9
81	483.2	900.0	.2	1,768.5		149.9	27.5	.2	36.0	58.7	1,874.6
82	1,768.5	800.0		2,969.0		368.4	71.1		41.1	185.1	3,301.7
83	2,969.0	400.0	231.2	4,021.2		471.1	197.9	231.2	( 87.5)	110.0	4,593.0
84	4,021.2	300.0	150.9	4,838.3		529.5	175.0	150.9		203.6	5,530.8
85	4,838.3	300.0	358.3	5,730.8		650.9	217.0	234.2		199.7	6,704.9
86	5,730.8		307.6	6,400.7		625.9	264.6	362.3		( 1.0)	7,421.4
87	6,400.7		283.8	7,085.6		687.8	296.5	401.1		( 9.8)	8,128.4
88	7,085.6		273.7	7,800.9		751.0	324.5	441.6		( 15.1)	8,856.6
89	7,800.9		267.1	8,552.1		816.7	353.2	484.1		( 20.6)	9,615.9
90	8,552.1		256.1	9,336.7		985.0	376.6	528.5		( 20.1)	10,403.8
91	9,336.7		237.1	10,148.2		956.1	409.7	574.4		( 28.0)	11,220.4
92	10,148.2		237.3	11,008.6		1,030.0	443.9	623.1		( 37.0)	12,078.0
93	11,008.6		229.5	11,912.4		1,107.2	479.5	674.3		( 46.6)	12,970.8
94	11,912.4		219.0	12,858.2		1,187.5	516.6	727.8		( 56.9)	13,896.8
95	12,858.2		207.8	13,850.0		1,270.7	555.2	784.0		( 68.5)	14,858.7
96	13,850.0		202.5	14,895.7		1,357.5	595.3	843.2		( 81.0)	15,863.5
97	14,895.7		199.6	16,001.0		1,448.3	637.1	905.7		( 94.5)	16,916.1
98	16,001.0		197.4	17,170.3		1,543.4	680.7	971.9		( 109.2)	18,019.8
99	17,170.3		195.0	18,407.2		1,643.2	726.3	1,041.9		( 125.0)	19,177.3
0	18,407.2		187.8	19,612.5	98.2	1,747.7	774.0	1,017.5		( 43.8)	20,386.5
1	19,612.5		267.8	20,916.8	156.3	21,073.1	1,860.9	1,036.5			21,741.2

\* Source: Alaska Department of Revenue

\*\* Chapter 81, SLA 1982, Sec. 15(b)

ASSUMPTIONS: 30% CASE FORECAST - 3rd Qtr FY85

- 25% Pre-1980 Contribution Rate
- 50% Post-1979 Contribution Rate
- 4.26% Inflation FY85
- 10.76% Return FY85
- 6% Average Inflation FY95-FY00
- 9% Average Return FY86-FY00



**Alaska Permanent Fund Corporation**

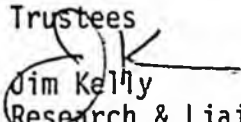
Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

MEMORANDUM

DATE: February 25, 1985

TO: Trustees

FROM:   
Jim Kelly  
Research & Liaison Officer

SUBJECT: The Undistributed Income Account

In response to legislative questions about the Undistributed Income Account, I have compiled the attached set of documents which describe its purpose and how it works, particularly in regard to inflation-proofing.

A) Resolution 83-2: Describes the purpose of the Permanent Fund and acknowledges the Trustees' fiduciary obligation to protect the principal of the Fund from the effects of inflation.

B) Resolution 84-12: Describes the purpose of the Undistributed Income Account and designates it as a reserve for inflation and dividends.

C) Resolution 83-8: Defines the term "principal balance" as used by the Corporation in the computation for inflation proofing.

D) Memorandum of September 23, 1983: Provides a legal review of Resolution 83-8 by the Attorney General and makes it clear that money in the Undistributed Income Account is "available for appropriation, or for reinvestment pursuant to AS 37.13.145 in a year when the current income earned on principal of the fund is insufficient to offset the effect of inflation in that year".

E) Legislative Budget and Audit Committee Resolution of January 17, 1984: Supports and approves Resolution 83-8 of the Board of Trustees of the Alaska Permanent Fund Corporation.

Undistributed Income Account  
February 25, 1985  
Page 2

F) Resolution 83-7: Adopts the U.S. Consumer Price Index as the index to be used in the computation for inflation-proofing.

G) Excerpt from the 1984 Annual Report: Describes the rate of inflation for each year from 1977-1984.

H) Resolution 83-11: Defines the term "net income" to include both the earnings on the principal of the Fund and the earnings of the Undistributed Income Account.

I) Alaska Statutes: Sections 37.13.140-145 describe State law pertaining to income of the Permanent Fund.

JK/bn

RESOLUTION OF THE BOARD OF TRUSTEES  
OF THE ALASKA PERMANENT FUND CORPORATION REGARDING  
THE PURPOSE OF THE PERMANENT FUND

RESOLUTION NO. 83-2


WHEREAS, the people of the state created the Alaska Permanent Fund by constitutional amendment in 1976, requiring that "...at least..." 25 percent of mineral royalties and related income be set aside for "...income-producing investments..." to benefit all generations of Alaskans, and

WHEREAS, the enabling law for the management and investment of the Permanent Fund directs the Trustees "...to maintain safety of principal while maximizing...disposable income..." AS 37.13.020(2) and (3),


NOW THEREFORE BE IT RESOLVED that the Trustees acknowledge the Permanent Fund to be an inviolate trust and recognize their prime obligation to be the protection of principal, not only against inordinate risk to current worth but also against the impact of inflation on future worth. They will honor this obligation by observing the Prudent Investor Rule in judging the quality and reasonable diversification of the Fund's investments (AS 37.13.120(a) and (c)) and in defending the rule of retaining sufficient income to offset the effects of inflation on principal, and

BE IT FURTHER RESOLVED, the Trustees recognize their obligation to provide maximum disposable income for the uses of the people of Alaska, as such uses may be designated by law. They will honor this obligation by pursuing an investment policy which offers the highest possible investment yield commensurate with minimal risk.

PASSED AND APPROVED by the board of trustees of the Alaska Permanent Fund Corporation, this 30th day of March, 1983.

  
\_\_\_\_\_  
Dr. George Rogers, Chairman  
Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:

  
\_\_\_\_\_  
David A. Rose, Executive Director

RESOLUTION OF THE BOARD OF TRUSTEES  
ALASKA PERMANENT FUND CORPORATION  
PERTAINING TO THE DESIGNATION OF A CONTINUING  
RESERVE OF UNDISTRIBUTED INCOME FOR THE PURPOSE  
OF FUTURE INFLATION IMPACT AND DIVIDEND PAYMENTS

RESOLUTION 84-12

WHEREAS, section 37.13.145 of the Alaska Statutes provides that net income of the Alaska Permanent Fund Corporation not required to offset the impact of inflation on principal during the previous fiscal year, and not appropriated for the payment of dividends during the current fiscal year, shall be held in an undistributed income account by the Alaska Permanent Fund Corporation; and

WHEREAS, the Legislature of the State of Alaska has defined the purpose of the undistributed income account as a reserve to insure a stable source of income from which the real earning power of the Fund can be sustained, and from which dividend payments and other distributions appropriated by the Legislature can be made; and

WHEREAS, dividend payments are the only distributions of net income currently defined by the Alaska Statutes; and

WHEREAS, the Board of Trustees is granted full authority to manage the assets of the Alaska Permanent Fund Corporation, including the undistributed income account, by the provisions of section 37.13.040 of the Alaska Statutes; and

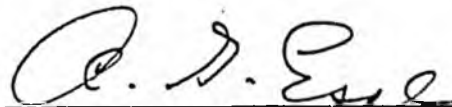
WHEREAS, the Board of Trustees have a fiduciary responsibility to provide for the future impact of inflation and for future distributions of net income by designating reserves of undistributed income; and

WHEREAS, regardless of accounting treatment, said account is subject to legislative appropriation pursuant to section 37.13.145 of the Alaska Statutes;

WHEREAS, the Board of Trustees believes that it is sound public policy and incumbent upon them as fiduciaries to designate such reserves;

NOW THEREFORE BE IT RESOLVED, that the balance of the undistributed income account shall be designated as a reserve to offset the future impact of inflation on the principal of the Permanent Fund and for the future payment of dividends.

PASSED AND APPROVED by the Board of Trustees of the  
Alaska Permanent Fund Corporation, this 21st day of September,  
1984.



\_\_\_\_\_  
A.G. Espe, Chairman  
Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:



\_\_\_\_\_  
David A. Rose, Executive Director

C

RESOLUTION OF THE BOARD OF TRUSTEES  
OF THE ALASKA PERMANENT FUND CORPORATION  
DEFINING THE TERMS "PRINCIPAL BALANCE" AS UTILIZED BOTH  
IN THE COMPUTATION FOR INFLATION PROOFING AND FOR  
COMPUTATION OF EARNED INCOME OF THE UNDISTRIBUTED  
INCOME ACCOUNT

RESOLUTION 83-8

WHEREAS, an end-of-year calculation must be made to determine the amount of money to be retained for inflation proofing; and

WHEREAS, another end-of-year calculation must be made to determine the amount of money represented by income earned on the Undistributed Income Account which will be placed in a restricted sub-account; and

WHEREAS, both calculations must be based on a single-point-in-time valuation of the corpus of each account identified as a "principal balance"; and

WHEREAS, the Trustees desire to establish the definition of each "principal balance" for the above stated calculations;

NOW THEREFORE BE IT RESOLVED that the Trustees direct the Executive Director to utilize the following definition of "principal balance" for the purpose of inflation proofing calculations:

THE PRINCIPAL BALANCE OF THE PERMANENT FUND

That balance of the Fund at the end of each fiscal year that is to be protected from the ravages of future inflation. This sum is comprised of all:

1. Constitutional and statutory contributions to the Fund since its inception;
2. Special appropriations paid to the Fund since its inception;
3. All prior "inflation proofing" funds retained.


AND BE IT FURTHER RESOLVED that the Trustees direct the Executive Director to utilize the following definition of "principal balance" for the purpose of computing income earned on the Undistributed Income Account so that the appropriate amount of funds can be removed from the income of commingled investments, segregated for reporting purposes and placed into the Undistributed Income Account:

THE PRINCIPAL BALANCE OF THE UNDISTRIBUTED INCOME ACCOUNT

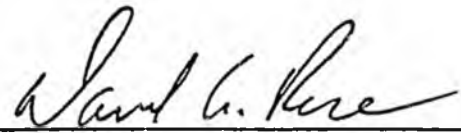
That balance of the Undistributed Income Account which has been invested, along with Permanent Fund revenues on a commingled basis, during the entire fiscal year just ended. This is the sum reported

in the prior-year audited financial statements of the Alaska Permanent Fund Corporation for the Undistributed Income Account. This balance will include, as of the end of the prior year, all accrued interest payable regardless of when paid and all transfers due from the Permanent Fund regardless of when transfer has actually taken place.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 22nd day of July, 1983.

  
\_\_\_\_\_  
Chairman, Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:

  
\_\_\_\_\_  
David A. Rose, Executive Director

# MEMORANDUM

# State of Alaska

TO: David Rose, Executive Director      DATE: September 23, 1983  
 Alaska Permanent Fund Corporation

FILE NO: 366-104-84

TELEPHONE NO: 465-3600

FROM: Norman C. Gorsuch      SUBJECT: Resolution defining  
 Attorney General      principal balance

By: *Laura L. Davis*  
 Laura L. Davis  
 Assistant Attorney General  
 Governmental Affairs-Juneau

At your request, I have reviewed resolution no. 83-8 of the board of trustees of the Alaska Permanent Fund Corporation, which addresses the method of determining annually (1) the amount of income to be reinvested to offset the effect of inflation and (2) the amount of income to be credited to the undistributed income account. I believe the resolution is a reasonable interpretation of AS 37.13.145. However, I see a few potential questions or problems which could be avoided by changes to this resolution. In addition, I recommend that you adopt it in the form of a regulation as authorized by AS 37.13.205.

First, AS 37.13.145 provides for the reinvestment as principal of "an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index." The resolution provides that this amount shall be determined with reference to the principal balance at the end of each year (i.e., including all deposits to principal made during the year). The resolution does not specify the "nationally recognized index" to be used.

The permanent fund will continue to receive regular monthly deposits to principal as provided by both constitution and statute as long as the state receives revenue from mineral lease rentals, royalties, and royalty sale proceeds, and federal mineral revenue sharing payments. Alaska Const. art IX, § 15; AS 37.13.010. As long as the principal is growing, it may overcompensate somewhat for the effect of inflation on the principal during the year to use the year end principal balance as a referent. A more precise figure could be obtained by using an average monthly principal balance or using a sum of monthly computations. 1/ However, the statute does not establish a precise stan-

---

1/ For example, you could provide that the "amount sufficient to offset the effect of inflation on principal" means the sum of the amounts which are calculated for that purpose at the end of each month during a fiscal year, and based on the principal balance at

dard, but simply requires reinvestment of an amount "sufficient to offset the effect of inflation."

The concept of inflation itself is a composite of economic circumstances rather than a unitary force or event capable of precise measurement. The board is not required to select a method which will minimize the amount of income to be reinvested. 2/ The resolution adopts a simple and convenient method of calculation which will use the regular accounting practices of the corporation and will result in the reinvestment of an amount sufficient to offset the effect of inflation on the principal of the fund.

If this resolution were challenged in a legal action, the court would use one of two standards of judicial review. If it determined that the board's interpretation of AS 37.13.145 either involved the formulation of fundamental policy or required particular administrative expertise, it would inquire only whether the resolution has a rational or reasonable basis. Kelly v. Zamarello, 486 P.2d 906 (Alaska 1971). Otherwise, the court would exercise its independent judgment to determine whether the board's interpretation of AS 37.13.145 is correct. Union Oil Co. v. Dept of Revenue, 560 P.2d 21, 23 (Alaska 1977); State v. Aleut Corp., 541 P.2d 730, 736 (Alaska 1975). Under the former standard, we expect the resolution would be sustained. Under the latter standard, the result is less predictable. 3/

---

1/ Cont....

the end of each month in accordance with the definition of principal balance as stated in the resolution.

2/ Had the legislature intended to limit the trustees' discretion or to minimize the amount to be reinvested, it could easily have provided for reinvestment of an amount "no more than that sufficient to offset inflation." There is no indication that the legislature intended this result. The pertinent part of AS 37.13.145 was added to SB 684 by amendment on the floor of the Senate on May 6, 1982 without debate. 1982 S. Jour. at 1178. (Tape recording of Senate proceedings on May 6, 1982, Alaska State Film Library.)

3/ The Alaska Supreme Court has found that decisions regarding the allocation of scarce fishery resources and procedures for disposal of state land do not involve fundamental policy formulation or require particular administrative expertise. CFEC v. Templeton, 598 P.2d 77 (Alaska 1977); State v. Aleut Corp., 541 P.2d at 736. We expect that the court would find no fundamental

As a practical matter, regardless of which test applies, the result may depend on the magnitude of the actual financial consequences. 4/ If the difference between the amount to be reinvested pursuant to this resolution and the amount estimated using an average monthly balance or a sum of monthly calculations were insignificant, the resolution would undoubtedly be sustained. On the other hand, if the difference were so large as to substantially interfere with the use of the fund income for other purposes, the resolution would probably be found to be inconsistent with AS 37.13.145. We cannot say that the present estimated difference of \$34 million in the context of total net income of \$471 million is insignificant. However, the total amount to be reinvested pursuant to the resolution is still less than one-half of the net income of the fund. This amount should be sufficient to offset the effect of inflation on principal without interfering with the permanent fund dividend program under AS 43.23 or other uses of the income chosen by the legislature. If the monthly principal deposits to the fund are relatively uniform or declining, this situation would remain. However, if the deposits to principal increase toward the end of a fiscal year, the difference between the amount reinvested pursuant to the resolution and the amount otherwise estimated as suggested above could become more significant. We believe that the resolution reasonably interprets this aspect of the statute under present circumstances but that the likelihood of avoiding or surviving a potential legal challenge could be enhanced by using a monthly average or series of monthly figures for the principal balance.

Second, AS 37.13.145 provides that the balance of net income after the reinvestment to offset inflation is deposited in an undistributed income account. Income generated by that account accrues to that account. AS 37.13.145. The resolution defines "principal balance of the undistributed income account" to mean the amount credited to the account in the prior year's financial statement, including "all accrued interest payable re-

---

3/ Cont....

policy issue involved or particular expertise needed to determine the amount needed to offset the effect of inflation and would use its independent judgment to interpret the statute.

4/ We understand that the amount to be reinvested for fiscal year 1983 in accordance with this resolution is approximately \$231 million, and that the amount estimated using an average monthly principal balance is \$34 million less. The total net income of the corporation for fiscal year 1983 is approximately \$471 million.

David Rose, Executive Director  
Alaska Permanent Fund Corporation  
366-104-84

September 23, 1983  
Page #4

ardless of when paid and all transfers due from the Permanent Fund regardless of when transfer has actually taken place." This apparently means that income due the undistributed income account is measured using the prior year end balance of that account as a referent and using the accrual method of accounting, which is adopted by implication as part of "generally accepted accounting principles" under AS 37.13.140. While this appears to be a reasonable interpretation of AS 37.13.145, we see some potential for confusion in the wording of the resolution.

The resolution uses the term "principal balance of the undistributed income account." "Principal" is used in the applicable constitutional and statutory provisions only to refer to the principal of the fund, which is constitutionally dedicated for permanent prudent investment, and may not be appropriated or used for any other purpose. Alaska Const. art. IX, § 15; AS 37.-13.020, 37.13.145. It would be preferable to avoid using the term "principal balance" in connection with the undistributed income account. In addition, the resolution refers to transfers due "from the Permanent Fund." This is somewhat confusing since AS 37.13.145 refers to the undistributed income account as being "in the Alaska permanent fund." As we understand it, the undistributed income account consists of all that money generated as income by the fund which is neither reinvested pursuant to AS 37.13.145, nor appropriated or dedicated (to the extent that a dedication is constitutionally permitted under article IX, section 7). This money is available for appropriation, or for reinvestment pursuant to AS 37.13.145 in a year when the current income earned on principal of the fund is insufficient to offset the effect of inflation in that year.

These sources of confusion could be avoided by revising the resolution so that it defines or implements only the precise terms used in AS 37.13.145. In addition, we suggest that the board consider promulgating a regulation under AS 37.13.205 to give this resolution the force and effect of law. This would ensure that interested persons have the opportunity to comment on the board's interpretation of AS 37.13.145, and may increase the deference or weight given to the board's interpretation if it is challenged. Please let us know if you would like any further assistance in this matter.

LLD/pjg

cc: Members of the board of trustees

State of Alaska

E

211 CUSHMAN STREET  
FAIRBANKS, ALASKA 99701  
907-452-3421  
907-452-3471



ROOM 500, CAPITOL BUILDING  
POUCH V  
JUNEAU, ALASKA 99811  
907-465-4984

LEGISLATIVE BUDGET & AUDIT COMMITTEE  
REP. ROBERT BETTISWORTH, CHAIRMAN

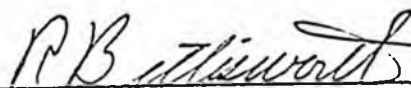
RECEIVED  
JAN 25 1984

ALASKA  
PERMANENT FUND CORPORATION


DATE: January 17, 1984  
TO: Dave Ross, Executive Director  
Alaska Permanent Fund Corporation  
FROM: Rep. Robert Bettisworth, Chairman  
Legislative Budget & Audit Committee  
SUBJECT: Resolution 83-8

Please be advised that at the January 12, 1984 meeting of the Legislative Budget and Audit Committee, the Committ passed a resolution sustaining resolution 83-8 of the Board of Trustees of the Alaska Permanent Fund Corporation.

A copy of said resolution is enclosed.

  
Rep. Robert Bettisworth, Chairman  
Legislative Budget & Audit Committee

encl.



RESOLUTION  
OF THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE

WHEREAS the Board of Trustees of the Alaska permanent fund has found it necessary to define the term "principal balance" as used in the statutory computation of "inflation-proofing" and the computation of earned income on the undistributed income account of the permanent fund; and

WHEREAS the Board of Trustees has elected to use a balance fixed at a single point in time rather than an averaged balance to define the term "principal balance"; and

WHEREAS, on July 22, 1983, the Board of Trustees adopted Resolution 83-8, approving the single balance method for computing "principal balance" for purposes of implementing the provisions of the Alaska Statutes with regard to the Alaska permanent fund; and

WHEREAS the Executive Director of the Alaska Permanent Fund Corporation requested an opinion from the Attorney General on Resolution 83-8; and

WHEREAS, on September 23, 1983, the requested opinion indicated that Resolution 83-8 is a reasonable interpretation of the Alaska Statutes; and

WHEREAS the Executive Director of the Alaska Permanent Fund Corporation has requested that this committee sustain

RESOLUTION OF THE BOARD OF TRUSTEES  
OF THE ALASKA PERMANENT FUND CORPORATION  
PERTAINING TO DETERMINATION OF A NATIONALLY RECOGNIZED INDEX  
FOR THE RETENTION OF CERTAIN EARNINGS ("INFLATION PROOFING")

RESOLUTION 83-7

WHEREAS, Alaska Statute 37.13.145 provides:

"At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index, shall be transferred from net income as defined in AS 37.13.140, excluding income on the undistributed income account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment."; and

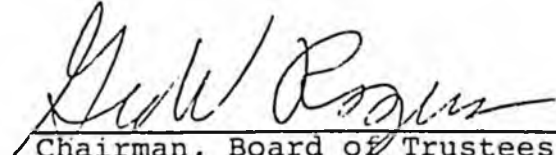
WHEREAS, the Trustees have reviewed the philosophy and composition of the United States Consumer Price Index calendar year average for all urban consumers and the Gross National Product Implicit Price Deflator as set forth in a Memorandum of the Executive Director on the subject dated July 22, 1983; and

WHEREAS the Trustees desire to adopt an index which (i) accurately measures the impact of inflation on the Alaska Permanent Fund, and (ii) is generally recognized as a representative measure of inflation throughout the nation;

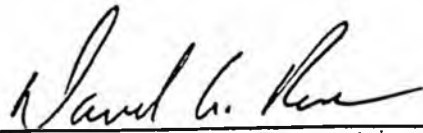
NOW THEREFORE BE IT RESOLVED that the Trustees adopt the United States Consumer Price Index calendar year average for all urban consumers as the index to calculate the impact of inflation as required by AS 37.13.145;

AND BE IT FURTHER RESOLVED that the Trustees direct the Executive Director to utilize the percentage change in that index for the preceding calendar year just ended as the basis for calculation on June 30 of each year.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 22nd day of July, 1983.

  
\_\_\_\_\_  
Chairman, Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:

  
\_\_\_\_\_  
David A. Rose, Executive Director



**Alaska Permanent Fund Corporation**  
Pouch 4-1000 Juneau, Alaska 99802  
TEL 907/465-2047 TLX 099-46-323

M E M O R A N D U M

DATE: July 22, 1983

TO: Trustees

FROM: David A. Rose, Executive Director

SUBJECT: Inflation Proofing Index

It is recommended that the Consumer Price Index (CPI) calendar year average for all urban consumers be selected as the inflation proofing index of the Alaska Permanent Fund Corporation. The background to this recommendation and a review of the two major indices are outlined below. A schedule of annual inflation rates for the past ten years is also attached.

BACKGROUND

AS 37.13.145 directs the Trustees to select a nationally recognized index for inflation proofing, but does not specify which. The choice is at the discretion of the Trustees as long as the index (i) accurately measures the impact of inflation, and (ii) is generally recognized as a representative measure of inflation throughout the nation.

The most frequently cited measures of national inflation are the CPI (which we recommend) and the Gross National Product Implicit Price Deflator (GNP Deflator). Each of them weights the prices of goods and services according to predetermined criteria and are known as representative measures of inflation, but they are very dissimilar in character and in the results which they produce.

CONSUMER PRICE INDEX

The CPI measures changes in price of certain economic goods and services using base year consumption patterns. The most widely used version of the CPI reflects the consumption patterns of all urban consumers.

Advantages

- °Most accurate measure of changes in price.
- °Most widely recognized measure of inflation.

Trustees  
July 22, 1983  
Page 2

- °Covers the price of everything people buy for living.
- °Includes imports (e.g. petroleum) which have a significant impact on consumption patterns.

Disadvantages

- °Housing is treated as a commodity subject to annual consumption.
- °Ignores changes in consumption patterns.
- °Luxury items are overweighted and necessities are underweighted.
- °Limited to specific population groups.
- °Does not distinguish price change from price movement due to change in quality.
- °Does not measure trends in national output.
- °Averages the consumption patterns of many population groups.
- °More volatile than the GNP Deflator.

GNP DEFLATOR

The GNP Deflator is a weighted average of each item in the national output using current period consumption patterns. Changes in the GNP Deflator reflect both changes in composition of output and changes in prices.

Advantages

- °Most comprehensive measure of trends in the national economy.
- °Change in the level of GNP closely reflects change in the level of economic activity.
- °Less volatile than CPI.

Disadvantages

- °Not recognized by the general public.
- °Tends to underestimate changes in price.
- °Mixes changes in composition with changes in price.
- °Does not measure true domestic consumption; excludes imports.

AVERAGE ANNUAL  
INFLATION INDEXES: RATES OF INCREASE  
1972 - 1982

<u>Year</u>	<u>GNP Deflator</u>	<u>CPI</u>
1972	4.1	3.3
1973	5.8	6.2
1974	9.7	11.0
1975	9.6	9.1
1976	5.2	5.8
1977	6.0	6.5
1978	7.3	7.7
1979	8.8	11.3
1980	8.0	13.5
1981	9.4	10.4
1982	6.0	6.1

---



---

# Alaska Permanent Fund Corporation

A Public Trust Investing For Alaska's Future

---



---

Alaska Permanent Fund Realized Rates of Return 1984 - 1977 (Percent)			
<u>Year</u>	<u>Nominal</u>	<u>Inflation</u>	<u>Real</u>
1984	10.89	3.22	7.67
1983	12.76	6.10	6.66
1982	15.10	10.37	4.73
1981	16.00	13.52	2.48
1980	11.29	11.26	.03
1979	8.24	7.66	.58
1978	7.53	6.45	1.08
1977*	5.54	5.77	(.23)

\*Four months ended June 30.

The inflation rate used consistently by the Trustees is the published U. S. Consumer Price Index previous calendar year average for all urban consumers.

RESOLUTION OF THE BOARD OF TRUSTEES  
OF THE ALASKA PERMANENT FUND CORPORATION  
REPEALING RESOLUTION 83-9 DEFINING "NET INCOME"  
AND ADOPTING A REPLACEMENT DEFINITION

RESOLUTION 83-11

WHEREAS, the Trustees adopted Resolution 83-9 on July 22, 1983 defining "net income" for purposes of income averaging; and

WHEREAS, the resolution was further reviewed at a meeting on August 29, 1983 attended by representatives of the Department of Law, Department of Revenue, Permanent Fund Staff, and accountants Price Waterhouse (Memorandum of September 6, 1983 is attached hereto); and

WHEREAS, aforementioned representatives now believe that Resolution 83-9 improperly interprets AS 37.13.140 and AS 37.13.145 taken in full context; and

WHEREAS, generally accepted accounting principles would, more properly, treat the undistributed income account as corporate retained earnings available for distribution;



NOW THEREFORE, BE IT RESOLVED that the Trustees repeal their approval of Resolution 83-9 dated July 22, 1983; and

BE IT FURTHER RESOLVED that the Trustees determine that earnings on undistributed income are earnings of the Corporation; and

BE IT FURTHER RESOLVED that the Trustees direct the Executive Director to account for "net income" and utilize same for the calculation of "net income available for distribution" in such a manner as to include both earnings on the corpus of the Fund and earnings on the undistributed income account.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 27th day of September, 1983.

\_\_\_\_\_  
Steve Cowper, Chairman  
Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:

\_\_\_\_\_  
David A. Rose, Executive Director

RESOLUTION OF THE BOARD OF TRUSTEES  
OF THE ALASKA PERMANENT FUND CORPORATION  
DEFINING "NET INCOME" FOR PURPOSES OF INCOME AVERAGING

RESOLUTION 83-9

WHEREAS, AS 37.13.140 specifies in part:

"Sec. 37.13.140. Income. Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, ..."; and

WHEREAS, the Statute does not specifically include or exclude earnings on the Undistributed Income Account from the term "net income"; and

WHEREAS, the Trustees wish to clarify the terminology as it has a bearing on calculations of income available for distribution; and

WHEREAS, earnings on the Undistributed Income Account are calculated separately and are restricted in that they cannot be utilized for inflation proofing; and

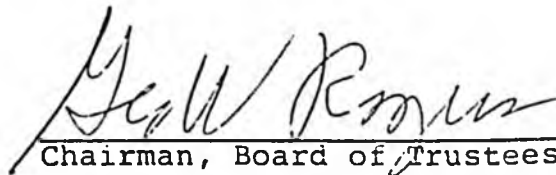
WHEREAS, these earnings are in investment and custody status with the Corporation and not subject to its use;

NOW THEREFORE, BE IT RESOLVED that the Trustees determine that the term "net income" as used in AS 37.13.140 pertains to the net income earned from the investment of those funds belonging to the Alaska Permanent Fund which it considers its corpus and over which it has total ownership, control and use; and

BE IT FURTHER RESOLVED that the Trustees determine that the net income of other funds such as the Undistributed Income Account which are invested on a commingled basis, shall be separately computed and applied to its respective parent account or fund as appropriate; and

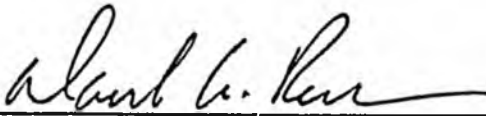
BE IT FURTHER RESOLVED that the Trustees direct the Executive Director to account for "net income" and utilize same in computations required by AS 37.13.140 in such a manner as to exclude earnings on the Undistributed Income Account from "net income" and thus also exclude these earnings from computations involving "income available for distribution."

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 22nd day of July, 1983.



Chairman, Board of Trustees  
Alaska Permanent Fund Corporation

ATTEST:



David A. Rose, Executive Director



**Alaska Permanent Fund Corporation**  
Pouch 4-1000 Juneau, Alaska 99802  
TEL 907/465-2047 TLX 099-46-323

MEMORANDUM

DATE: September 6, 1983

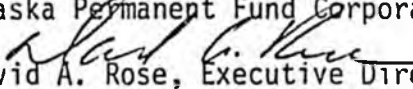
TO: Laura Davis, Assistant Attorney General  
Department of Law

Milton B. Barker, Deputy Commissioner  
Treasury, Department of Revenue

Vincent Wright, Chief of Research  
Department of Revenue

Bill Smart  
Price Waterhouse, Anchorage

Peter A. Bushre, Comptroller  
Alaska Permanent Fund Corporation

FROM:   
David A. Rose, Executive Director  
Alaska Permanent Fund Corporation

SUBJECT: Distributions of Permanent Fund Income

This memorandum will confirm the decisions made at our meeting on Monday, August 29, 1983. The meeting was called to resolve certain questions surrounding interpretations of AS 37.13.140, AS 37.13.145 and Section 15 of Chapter 81, SLA 1982. Specifically, the questions discussed and the decisions agreed upon by everyone present were as follows:

1. Does Sec. 15 of Ch. 81, SLA 82 include a partial distribution of FY 83 earnings? Section 15(a) provides that all of the income earned (including accrued income) prior to July 1, 1982 that was not distributable under prior law is to be transferred to the undistributed income account. The provision includes the portion of FY

81 and FY 82 earnings retained by the Fund (the undistributed portion of current income not distributable on an averaging basis) and accrued income at the end of FY 82. The section further provides that this amount is to be reduced by an amount equal to one-half of FY 83 distributable income, i.e., an amount equal to one-half of FY 83 distributable income is not retained by the Fund in the undistributed income account.

Section 15(b) provides that this amount is to be transferred to the general fund. The history of section 15 is that the legislature wanted a distribution of FY 83 earnings at least equal to the FY 82 accrual basis liability. The amount credited to the undistributed income account would be reduced by the amount of that distribution.

Conclusion: Ch. 81, SLA 82 includes a distribution of FY 83 earnings equal to one-half of distributable income for that year.

2. Is distributable income a cash basis or accrual basis calculation under Sec. 15 of Ch. 81, SLA 82? Section 15(b) provides that distributable income is to be calculated by the formula in AS 37.13.140 before it was amended by Ch. 81, SLA 82. Under prior law, AS 37.13.140 specified that the income of the Corporation was the interest received each fiscal year. Distributable income is a moving average of the income received each fiscal year.

Conclusion: Distributable income is a cash basis calculation under Ch. 81, SLA 82.

3. Is distributable income a cash basis or accrual basis calculation under AS 43.23.045(b)? Subsection (b) provides for the transfer of an amount to the dividend fund from Permanent Fund earnings (or undistributed income if current year earnings are not adequate) equal to one-half of the amount available for distribution. The amount available for distribution is determined by AS 37.13.140 which provides that it is an average of the net income of the Corporation for the last five fiscal years. Net income is defined by that section as being in accordance with generally accepted accounting principles, which is accrual basis income.

Conclusion: Distributable income is an accrual basis calculation

under AS 43.23.045(b).

4. Is net income for the years prior to adoption of Ch. 81, SLA 82, which is used in the calculation of distributable income for FY 83, calculated under current law for years prior to FY 83 or the law in effect when it was earned? AS 37.13.140 before the adoption of Ch. 81, SLA 82 specified that income was the interest received by the Corporation; after the adoption of Ch. 81, SLA 82 it was in accordance with generally accepted accounting principles. Under current law, AS 37.13.140 defines income available for distribution as an average of the net income of the Corporation for the last five fiscal years, and specifies that net income is to be computed in accordance with generally accepted accounting principles. The law makes specific reference to an accrual basis income for each of the five years in the average. Reference to an August 11, 1982 memorandum drafted by Thomas K. Williams which explains the intent of the Trustees revealed that income as calculated under the amendments of Ch. 81, SLA 82 was to be used in each year of the average.

Conclusion: Net income for the years prior to adoption of Ch. 81, SLA 82 used in the calculation of distributable income for FY 83 is determined by current law.

5. Is the liability to the Dividend Fund determined by AS 37.13.140 or by appropriation? The income distributable to the Dividend Fund for FY 83 under AS 37.13.140 is more than the appropriation for FY 83. Reference was made to an opinion of the Attorney General (file: 366-484-83) dated March 10, 1983, which held, in essence, that all or a portion of Permanent Fund earnings can be retained in the Fund by operation of law, but an appropriation is necessary for distributions to any fund other than the general fund.

Conclusion: The liability to the Dividend Fund is the amount of the appropriation.

6. Are earnings on undistributed income included in the calculation of income available for distribution? AS 37.13.145 makes specific reference to the definition of income in AS 37.13.140 as the income

Re: Distributions of Permanent Fund Income  
September 6, 1983  
Page 4

available for inflation-proofing, excluding the income attributed to the investment of undistributed income. AS 37.13.140 defines income available for distribution as the average net income of the Corporation for the last five fiscal years. The undistributed income account is identified by AS 37.13.145 as an account within the Permanent Fund, and its income is to be treated as an addition to that account.

Generally accepted accounting principles would treat the undistributed income account as corporate retained earnings available for distribution. A dividend or other distribution could be declared at any time by appropriation, but until it is, they are corporate earnings retained for reinvestment.

Conclusion: Earnings on undistributed income are included in the calculation of income available for distribution.

DAR/aef

**Sec. 37.13.140. Income.** Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145. (§ 5 ch 18 SLA 1980; am § 8 ch 81 SLA 1982)

**Effect of amendments.** — The 1982 amendment, effective July 1, 1982, rewrote this section.

§ 37.13.145

ALASKA STATUTES SUPPLEMENT

§ 37.13.170

**Sec. 37.13.145. Disposition of income.** At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index, shall be transferred from net income as defined in AS 37.13.140, excluding income on the undistributed income account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment. The balance of the net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska permanent fund. Money in the undistributed income account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the undistributed income account shall be treated as an addition to that account. (§ 9 ch 81 SLA 1982)

**Effective dates.** — Section 16, ch. 81, SLA 1982, makes this section effective July 1, 1982.

**Editor's notes.** — Section 15, ch. 81, SLA 1982, provides: "TRANSITION. (a) All income earned by the Alaska permanent fund before the effective date of this Act [July 1, 1982] that is not income available for disbursement shall be transferred to the undistributed income account established in AS 37.13.145 added by sec. 9 of this Act. However, the amount transferred

under this section shall be reduced by an amount equal to one-half of the income available for disbursement for fiscal year 1983.

"(b) The amount equal to the reduction in income under (a) of this section shall be transferred to the general fund.

"(c) The amount of income available for disbursement shall be determined as set out in AS 37.13.140 before amendment by this Act."

# ALASKA PERMANENT FUND Corporation

## Statement of Changes in Fund Balance

For the Years Ended June 30, 1982 and 1981

	Total	Appropriations, Royalties and Other State Receipts	Undistributed Income
<b>Balance, July 1, 1980</b>	\$ 483,208,000	\$ 483,208,000	
Appropriations from State of Alaska General Fund	900,000,000	900,000,000	
Royalties and other state receipts	385,128,000	385,128,000	
Investment income	149,867,000		<b>\$149,867,000</b>
Transfer of net investment gains to principal		219,000	<b>(219,000)</b>
Distributable income due to State General and Segregated Funds	<u>(90,904,000)</u>		<b>(90,904,000)</b>
<b>Balance, June 30, 1981</b>	1,827,299,000	1,768,555,000	<b>58,744,000</b>
Appropriation from State of Alaska General Fund	800,000,000	800,000,000	
Royalties and other state receipts	400,522,000	400,522,000	
Investment income	368,426,000		<b>368,426,000</b>
Distributable income due to State General and Segregated Funds	<u>(183,411,000)</u>		<b>(183,411,000)</b>
<b>Balance, June 30, 1982</b>	<b>\$3,212,836,000</b>	<b>\$2,969,077,000</b>	<b>\$243,759,000</b>

See accompanying notes to financial statements

**Note 5 — Amount Due to the State General and Segregated Funds:**

The amount due to the State General and Segregated Funds is determined on the basis of the current year's distributable income as provided by statute adjusted for actual cash distributions and prior year's accrued amount due to the Funds. Summarized below is the activity for the fiscal years ended June 30, 1982 and 1981.

Balance, July 1, 1980		\$ 19,669,000
Add: 1981 accrual of distributable income		90,904,000
Less: Cash transfers made —		
Amounts transferred applicable to 1980	(19,669,000)	
Amounts transferred applicable to 1981	(43,565,000)	(63,234,000)
Balance, June 30, 1981		47,339,000
Add: 1982 accrual of distributable income		183,411,000
Less: Cash transfers made —		
Amounts transferred applicable to 1981	(47,339,000)	
Amounts transferred applicable to 1982	(94,592,000)	(141,931,000)
Balance, June 30, 1982		\$ 88,819,000

**Note 6 — Administrative Expenses (Unaudited):**

Administrative and other expenses are paid by the State of Alaska General Fund and are not included in the accompanying statements. The related budget and actual expenses for 1982 and budgeted expenses for 1983 for operations of the Permanent Fund Corporation are as follows (unaudited):

	<u>1982</u>		<u>1983</u>
<u>Budget</u>		<u>Actual</u>	<u>Budget</u>
<b>\$450,500</b>		<b>\$391,200</b>	<b>\$3,070,500</b>

# Alaska Permanent Fund Corporation

Statement of Changes in Fund Equity  
For The Years Ended June 30, 1983 and 1982

	<u>Total</u>	<u>Contributed Equity</u>	<u>Undistributed Income</u>
<del>Balance, June 30, 1981</del>	\$1,827,299,000	\$1,768,555,000	\$ 58,744,000
Appropriations from the State	800,000,000	800,000,000	
Dedicated state revenues	400,522,000	400,522,000	
Investment income	368,426,000		368,426,000
Distributions of income	<u>(183,411,000)</u>		<u>(183,411,000)</u>
<del>Balance, June 30, 1982</del>	3,212,836,000	2,969,077,000	243,759,000
Appropriations from the State	400,000,000	400,000,000	
Dedicated state revenues	420,957,000	420,957,000	
Net income from operations	471,125,000		471,125,000
<del>Distributions of income</del>	<u>(129,882,000)</u>		<u>(129,882,000)</u>
<del>Provision for inflation</del>		<u>231,192,000</u>	<u>(231,192,000)</u>
Balance, June 30, 1983	<u>\$4,375,036,000</u>	<u>\$4,021,226,000</u>	<u>\$353,810,000</u>

See accompanying notes to financial statements

Income Distributable to the State of Alaska

	<u>Total</u>	<u>Dividend Fund</u>	<u>General Fund</u>
Balance, June 30, 1981	\$ <del>12,339,000</del>	\$ 23,670,000	\$ 23,669,000
Add: 1982 accrual of distributable income	<u><del>183,411,000</del></u>	<u>91,706,000</u>	<u>91,705,000</u>
	<u><del>230,750,000</del></u>	<u>115,376,000</u>	<u>115,374,000</u>
Less: Cash transfers - Applicable to 1981 accruals	<u><del>(47,339,000)</del></u>	<u>(23,670,000)</u>	<u>(23,669,000)</u>
Applicable to 1982 accruals	<u><del>(94,592,000)</del></u>	<u>(47,296,000)</u>	<u>(47,296,000)</u>
	<u><del>(141,931,000)</del></u>	<u>(70,966,000)</u>	<u>(70,965,000)</u>
Balance, June 30, 1982	<u><del>88,819,000</del></u>	44,410,000	44,409,000
Add: 1983 accrual of distributable income	<u><del>217,410,000</del></u>	<u>107,875,000</u>	<u>109,535,000</u>
	<u><del>306,229,000</del></u>	<u>152,285,000</u>	<u>153,944,000</u>
Less: Cash transfers applicable to 1982	<u><del>(1,291,000)</del></u>	(646,000)	(645,000)
Transition rule adjust- ment	<u><del>(87,528,000)</del></u>	<u>(43,764,000)</u>	<u>(43,764,000)</u>
	<u><del>(88,819,000)</del></u>	<u>(44,410,000)</u>	<u>(44,409,000)</u>
Balance, June 30, 1983	<u><del>\$217,410,000</del></u>	<u>\$107,875,000</u>	<u>\$109,535,000</u>

	<u>Total</u>	<u>Dividend Fund</u>	<u>General Fund</u>
<u>1983 Provision Charged To:</u>			
Earnings on undistributed income	<u><del>\$ 31,104,000</del></u>	\$ 31,104,000	
Balance of undistributed income	<u><del>98,778,000</del></u>	<u>3,007,000</u>	<u>\$ 65,771,000</u>
Sub-total	<u><del>129,882,000</del></u>	<u>64,111,000</u>	<u>65,771,000</u>
Transition rule adjustment	<u><del>87,528,000</del></u>	<u>43,764,000</u>	<u>43,764,000</u>
Income distributable to the State	<u><del>\$217,410,000</del></u>	<u>\$107,875,000</u>	<u>\$109,535,000</u>

# Alaska Permanent Fund Corporation

## Statement of Changes in Fund Equity For The Years Ended June 30, 1984 and 1983

	Total	Contributed Equity	Reserve for Inflation and Dividends	Unrealized Loss On Common Stock	Undistributed Income
<b>Balance, June 30, 1982</b>	\$3,212,836,000	\$2,969,077,000			<del>\$243,759,000</del>
Appropriations from the State	400,000,000	400,000,000			
Dedicated state revenues	420,957,000	420,957,000			
Net income from operations	471,125,000				471,125,000
Provision for 1983 dividends	(64,111,000)				(64,111,000)
Provision for distributions to the state general fund	(65,771,000)				(65,771,000)
Provision for 1983 inflation		231,192,000			(231,192,000)
<b>Balance, June 30, 1983</b>	4,375,036,000	4,021,226,000			<del>353,810,000</del>
Appropriations from the State	300,000,000	300,000,000			
Dedicated state revenues	366,183,000	366,183,000			
Net income from operations	529,457,000				529,457,000
Provision for 1983 dividend supplement	(11,869,000)				(11,869,000)
Provision for 1984 dividends	(163,116,000)				(163,116,000)
Provision for 1984 inflation		150,935,000			(150,935,000)
Allowance for unrealized loss on common stock	(20,871,000)			\$(20,871,000)	
Provision for future inflation and dividends			\$557,347,000		<del>(557,347,000)</del>
<b>Balance, June 30, 1984</b>	<u>\$5,374,820,000</u>	<u>\$4,838,344,000</u>	<u>\$557,347,000</u>	<u>\$(20,871,000)</u>	<u>\$</u>

See accompanying notes to financial statements

Income Distributable to the State of Alaska

	<u>Total</u>	<u>Dividend Fund</u>	<u>General Fund</u>
<del>Balance due, June 30, 1982</del>	<del>\$ 44,410,000</del>	\$ 44,410,000	\$ 44,409,000
Add: 1983 appropriation and transition rule liability	<u><del>217,410,000</del></u>	<u>107,875,000</u>	<u>109,535,000</u>
	<del>206,229,000</del>	<u>152,285,000</u>	<u>153,944,000</u>
Less: Cash transfers— Applicable to 1982 Transition rule adjustment	<del>(1,224,000)</del>	(646,000)	(645,000)
	<del>(87,528,000)</del>	<u>(43,764,000)</u>	<u>(43,764,000)</u>
	<del>207,819,000</del>	<u>44,410,000</u>	<u>(44,409,000)</u>
<del>Balance due, June 30, 1983</del>	<del>217,410,000</del>	<u>107,875,000</u>	<u>109,535,000</u>
Add: 1983 supplemental appropriation	<del>11,869,000</del>	11,869,000	
1984 appropriations	<del>163,116,000</del>	<u>163,116,000</u>	
	<del>374,985,000</del>	<u>174,985,000</u>	
Less: Cash transfers— Applicable to 1983	<del>(119,744,000)</del>	(119,744,000)	(109,535,000)
Applicable to 1984	<del>(7,986,000)</del>	(7,986,000)	
	<del>(127,730,000)</del>	<u>(127,730,000)</u>	<u>(109,535,000)</u>
<del>Balance due, June 30, 1984</del>	<del>\$155,130,000</del>	<u>\$155,130,000</u>	<u>\$</u>

Note 8 - Contributed Equity:

The principal balances of the Alaska Permanent Fund at June 30, 1984 and 1983 are as follows:

	<u>June 30,</u>	
	<u>1984</u>	<u>1983</u>
Dedicated state revenues	\$2,056,217,000	\$1,690,034,000
Appropriations from the State	2,400,000,000	2,100,000,000
Cumulative provision for inflation	<u>382,127,000</u>	<u>231,192,000</u>
	<u>\$4,838,344,000</u>	<u>\$4,021,226,000</u>

In 1980, the State Legislature appropriated \$900,000,000 from general fund revenues to the Permanent Fund. This appropriation has been paid in full. In 1981, the Legislature appropriated an additional \$1,800,000,000 from general fund revenues to the Permanent Fund. This appropriation bill directs the Commissioner of Revenue to make monthly deposits of general fund operating surplus until the balance is reached. As of June 30, 1984, \$1,500,000,000 (June 30, 1983, \$1,200,000,000) of this appropriation had been deposited in the Permanent Fund.

ALASKA PERMANENT FUND CORPORATION  
STATEMENT OF CHANGES IN FUND EQUITY  
FOR THE YEARS ENDED JUNE 30, 1985 AND 1984

	<u>Total</u>	<u>Contributed Equity</u>	<u>Reserve for Inflation and Dividends</u>	<u>Unrealized Loss on Common Stock</u>	<u>Undistributed Income</u>
<b>Balance, June 30, 1985</b>	\$4,375,036,000	\$4,021,226,000			\$ 353,810,000
Appropriations from the State	300,000,000	300,000,000			
Dedicated State revenues	366,183,000	366,183,000			
Net income from operations	529,457,000				529,457,000
Provision for 1983 dividend supplement	(11,869,000)				(11,869,000)
Provision for 1984 dividends	(163,116,000)				(163,116,000)
Provision for 1984 inflation		150,935,000			(150,935,000)
Allowance for unrealized loss on common stock	(20,871,000)			\$(20,871,000)	
Provision for future inflation and dividends			\$557,347,000		(557,347,000)
<b>Balance, June 30, 1984</b>	3,744,820,000	4,838,344,000	557,347,000	(20,871,000)	
Appropriations from the State	300,000,000	300,000,000			
Dedicated State revenues	368,027,000	368,027,000			
Net income from operations	657,761,000				657,761,000
Citizen contributions	1,000	1,000			
Provision for 1985 dividends	(217,274,000)				(217,274,000)
Provision for 1985 inflation		234,570,000			(234,570,000)
Recovery of unrealized loss on common stock	20,871,000			20,871,000	
Provision for future inflation and dividends			205,917,000		(205,917,000)
<b>Balance, June 30, 1985</b>	<u>\$6,504,206,000</u>	<u>\$5,740,942,000</u>	<u>\$763,264,000</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to financial statements

Income Distributable to the State of Alaska 10

	Total	Dividend Fund	General Fund
<del>Balance due, June 30, 1983</del>	<del>\$ 217,410,000</del>	\$ 107,875,000	\$ 109,535,000
Add: 1983 supplemental appropriation	<del>11,869,000</del>	11,869,000	
1984 appropriations	<del>163,116,000</del>	163,116,000	
	<del>174,985,000</del>	174,985,000	
	Total	Dividend Fund	General Fund
Less: Cash transfers - Applicable to 1983	<del>(229,279,000)</del>	(119,744,000)	(109,535,000)
Applicable to 1984	<del>( 7,986,000)</del>	( 7,986,000)	
	<del>(237,265,000)</del>	(127,730,000)	(109,535,000)
<del>Balance due, June 30, 1984</del>	<del>155,130,000</del>	155,130,000	
Add: 1985 appropriation	<del>217,274,000</del>	217,274,000	
Less: Cash transfers - Applicable to 1984	<del>(155,130,000)</del>	(155,130,000)	
<del>Balance due, June 30, 1985</del>	<del>\$ 217,274,000</del>	\$ 217,274,000	\$ _____

7. CONTRIBUTED EQUITY:

The principal balances of the Alaska Permanent Fund at June 30, 1985 and 1984 are as follows:



Official Business

# Alaska State Legislature

## Senate

### Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman

Members:  
Senator Ferguson, Vice Chairman  
Senator Coghill  
Senator Sturgulewski  
Senator V. Fischer

Pouch V  
Juneau, Alaska 99811

137 E. Arctic  
Palmer, Alaska 99645

#### MEMORANDUM

*Copy*

October 4, 1985

TO: Senator Ferguson, Vice Chair  
Senator Sturgulewski  
Senator V. Fischer  
Senator Coghill

FROM: Committee Staff

SUBJECT: COMMITTEE HEARING MINUTES -- held consecutively in Anchorage,  
Wasilla and Soldotna, Alaska on September 24, 25 & 26, 1985

SB 244 An Act relating to the undistributed income account in the  
Alaska Permanent Fund for certain municipal aid programs,  
establishing a two-year funding cycle; and providing for an  
effective date.

---

Attached for your file are copies of the subject committee minutes.

Atchs 3

BILL SHEFFIELD, GOVERNOR

**DEPT. OF COMMUNITY & REGIONAL AFFAIRS**

OFFICE OF THE COMMISSIONER

POUCH B  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-4700

949 E. 35TH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99508  
PHONE: (907) 563-1073

September 24, 1985

TESTIMONY FOR SB 244

"An Act relating to the use of funds from the undistributed income account in the Alaska permanent fund for certain municipal aid programs, establishing a two-year funding cycle; and providing for an effective date."

On behalf of Commissioner Notti I would like to thank the Senate Community and Regional Affairs Committee for the invitation to come before it today. The Department has been asked to present background information that we hope will assist you in evaluating Senator Coghill's proposal to "forward fund" the two major programs of State aid to municipalities and communities. I have been assigned the duty of acting as a technical resource for the committee and will be on hand for all of the hearings scheduled for Southcentral Alaska.

In order to put Senator Coghill's bill in perspective, I would like to give the committee a briefing on the history and background of the State Revenue Sharing and Municipal Assistance programs.

These programs, which are presently funded at over \$140 million, have a significant impact on virtually every city, borough, village, and community in the State. Most municipalities and villages rely on these program funds to provide vital local services and curb the need for increased local taxation. While the programs have generally been accepted as a reasonable way for the State to share its substantial revenues with its political subdivisions and villages, interest remains in seeking ways to improve the programs so that they may be more useful to local governments. The Governor's Task Force on State Shared Revenue has for the past nineteen months grappled with these programs in some detail in an attempt to offer sound recommendations to the Governor for ways to make the programs more responsive to local needs. The Task Force is working under a timetable which calls for offering proposed legislation to the Governor in early December.

The State Revenue Sharing (SRS) program is the oldest of the programs under discussion as it was enacted in 1969 and started operation in FY 70. The stated objectives of the program were to: help ease the fiscal problems facing local governments; stabilize or reduce local property tax rates; stimulate local governments to provide adequate levels of services; and improve resource allocation by sharing funds with local governments which, by virtue of being closer to the people, are superior at providing public goods and services in accord with taxpayer preferences.

*Present to  
Muni  
League  
19  
Nov*

SRS began with a \$2 million appropriation and shared funding solely with municipalities. Allocations were based on population and seven categories of service the municipality could provide plus aid for roads on the basis of mileage and health facilities and hospitals based on facilities or patient beds. The program rewarded municipalities that provided a wider range of services for the greatest number of people.

If the amount appropriated by the Legislature to fund the program was insufficient, all municipal entitlements were prorated by whatever amount was necessary to bring appropriations and entitlements into balance. Each year there was pressure brought to bear on the Legislature to fully fund the program. Increases in population, incorporation of new municipalities, increased road mileage, additional health facilities, and the assumption of new services by municipalities put a constant upward pressure on the need for increased funding to fully fund the demand created by new residents and new services.

The categorical State Revenue Sharing program remained in effect for ten years. However, after about five years of operation, the formula for allocating funding came under increasing scrutiny and attack. The criticism focused on three main, somewhat related, perceived shortcomings in the

allocation formula. First, the allocation of revenue was not "needs based" and did not take into account the relative wealth of a municipality. A city or borough that had a large tax base could provide a wide range of services and, therefore, receive a larger share of SRS, even though local tax effort might be relatively low. Conversely, a poorer local government with a low tax base could not afford to provide many services (and in rural Alaska the relatively higher costs of many services may have made them prohibitive), even with relatively higher taxes, yet the SRS formula penalized them by not providing them with adequate aid to expand service delivery. In effect, the rich got richer and the poor got poorer.

Second, the categories tied to SRS dictated implicitly what services were important and would be reimbursed by the State. While the categories covered basic life, health, and safety services, many people felt the local governments were best equipped to decide what services were important to their residents and that a block grant approach would be fairer and more useful for local governments.

Third, small local governments, which had some of the same basic overhead costs as larger cities, received inadequate levels of funding and were, therefore, unable to carry out the intent of the program to provide essential local service.

As a result of these shortcomings, work began during the mid-1970's to improve the State Revenue Sharing program in such a way as to distribute funds more fairly to those municipalities which needed the aid most. Interest was focused on replacing the categorical per capita approach with a formula that would equalize the tax resources of municipalities. In other words, the formula would benefit those local governments that were helping themselves as much as they could through local revenue sources while the formula provided relatively less to those municipalities that enjoy a broader tax base requiring less taxation. This formula would focus a greater share of State aid to those cities and boroughs that demonstrated through their tax structure a greater need.

After several years of discussion, the Eleventh Legislature, in 1980, passed HB 192 to drastically change the emphasis and intent of the State Revenue Sharing program. To aid in the transition to the new formula, a five year hold harmless provision was provided and the appropriation to the program was substantially increased. The legislative intent of the program was now to: improve the revenue raising and distribution system for the benefit of residents of home rule and general law municipalities by providing for more equitable allocation of financial resources among municipalities to improve their fiscal capacities and to insure that no municipality suffers impoverishment of necessary public services, relative to other municipalities, because of the chance location of taxable wealth in the state.

The new program was divided into three parts, each in a different chapter of Title 29. The seven per capita categories were replaced with the municipal tax equalization formula (Chapter 88) which allocated funding based on population and relative local tax effort. Initially \$34.9 million was allocated to this account and by FY 86 this appropriation had increased to \$38 million. The formula apportions the account's appropriation based on the prorated share of the municipality's population times a millage rate equivalent. The millage rate equivalent measures the local revenue raising effort of the municipality by dividing local tax and fee collections by one mill of the municipalities full and true property value. In effect, all eligible locally generated revenues are converted to a millage rate for purposes of comparability. It is this millage rate equivalent and the municipality's population which determine what portion of Chapter 88 funds will be allocated to each local government.

Chapter 89 contained the miscellaneous services account and allocated funding for various services and entities. Municipalities were eligible to receive \$2,500 per mile of road, \$1,500 per mile of ice road, \$2,000 per bed or \$8,000 per facility, whichever was greater, for health facilities, and \$250,000 per hospital, all adjusted to reflect cost of living differentials in various regions of the State. Unincorporated communities for the first time were eligible to receive \$25,000

under this chapter and volunteer fire departments serving residents of the unorganized borough were eligible to receive \$10 per capita. If funding was inadequate to fully fund all of the demand under this chapter, the entitlements were prorated. In FY 85 the proration factor was approximately 94%.

Chapter 90 reimbursed municipalities or nonprofit hospitals for up to 25% of total project construction costs. This reimbursement was usually made at a rate of 5% of the construction cost for five years. Two years ago this chapter was repealed and presently the Department is paying off the last two hospitals who began participation in the program before repeal. These hospitals, should be paid off within a couple of years and this portion of the program will then be put to rest.

The application process for the program remains relatively simple and straightforward and gives participants from mid-July until December 1 of each year to apply. The statutes for the program require approved budgets and audits or, in the case of second class cities, certified financial statements as part of the application process. Upon receipt of applications and budgets in the Fall, a prepayment of up to 50% of the preceding year's entitlement is issued. Final entitlement checks cannot be mailed until all applications have been processed and appeals resolved. Theoretically, this process should be

completed by April, unfortunately unforeseen problems or events can often delay this timetable. The Department has attempted to respond to these problems by releasing a substantial portion of the final amount through issuance of provisional final payments.

The Municipal Assistance program has been existence since FY 80. The program was begun as a replacement for the former Gross Business License Tax which was repealed in 1979. The stated intent for Municipal Assistance was for "local governments which levy property taxes to reduce those levies in reasonable proportion to the amount of state aid received by a local government." The program has been administered for these last five years, along with other Shared Tax programs, by the Department of Revenue. Only incorporated municipalities are eligible to participate in the program.

There are two parts to Municipal Assistance. First, each municipality receives a "base" amount of funding equal to the amount it received during the last year of the Gross business receipts Tax program. This amount totals about \$10.6 million statewide. Second, excess funding over the base amount is allocated to municipalities on a per capita basis. A borough's per capita allocation is based only on the population which resides outside of incorporated cities within the borough. In FY 85, the excess amount totaled about \$70.7 million based on a total appropriation of \$81.3 million.

The statute provides guidance to the legislature on the level of appropriation for the program. Initially, the appropriation was set at 10 percent of the prior years receipts from the Corporate Oil and Gas Tax. However, when the separate oil and gas tax was repealed in 1982 the law was changed and now states that "the legislature may appropriate to the municipal assistance fund during each fiscal year an amount equal to or greater than 30 percent of the income tax revenue received by the state under AS 43.20.011(e) for the previous year."

A resolution requesting funding must be submitted to fulfill application requirements. Population figures used to calculate allocations are supplied by our Department from the State Revenue Sharing program. Those municipalities that operate on a calendar fiscal year receive payments on February 1 with all other municipalities receiving their funding on June 1 of each year.

Grant funds under this program are unrestricted and can be spent for any public purpose. The Title 29 revision passed last year will transfer the administration of the Municipal Assistance program from the Department of Revenue to our Department as of the effective date of January 1, 1986. This transfer of responsibility has already taken place to some degree since we must prepare to make our first payments under the program only one month after the statutory transfer.

Testimony for SB 24<sup>6</sup>  
September 24, 1985  
Page 10

I hope this has proved to be a concise and useful summary of the programs. If you have any technical questions about how the programs function I will be happy to respond to them.

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

S CRA 1-23-86 3:35 pm

3-26-85 3:39 pm

(In FBKS) 10-22-85 9:30 AM

(In North Pole) 10-22-85 2:10 pm

(In Anch.) 9-24-85 2:00 pm

(Wasilla) 9-25-85 2:00 pm

(Soldotna) 9-26-85 2:00 pm

# MEMORANDUM

*Linger*  
# 18-221

TO:  Frances A. Ulmer, Director  
Div. of Policy Development & Planning

DATE: April 11, 1979

FILE NO: J-66-614-79

TELEPHONE NO:

FROM: AVRUM M. GROSS  
ATTORNEY GENERAL

SUBJECT: Use of Permanent  
Fund income as debt  
guarantee, HB 414

By:  
Rodger W. Pegues  
Assistant Attorney General



You have asked us to review HB 414, and to advise whether the legislature may provide for the use of the income from the Permanent Fund to guarantee bonds, notes, and other indebtedness issued to finance public power projects.

While HB 414 will require substantive amendment, the income from the permanent fund probably can be used for this purpose.

The constitutional amendment establishing the permanent fund provides in pertinent part that "[a]ll income from the permanent fund shall be deposited in the general fund unless otherwise provided by law." Alaska Const., art. IX, § 15. \*/ The concluding clause: "unless otherwise provided by law" was intended to give the legislature maximum flexibility in using the fund. 1976 H. Jour. 684-685. It may be that the record of proceedings before the several committees which considered the amendment and of proceedings on the floor of the legislature would show its purpose in more detail. Its purpose is not discussed in the ballot summary or voter's pamphlet. Both simply advised the electorate that the income would go into the general fund and be available for appropriation unless otherwise provided by law. The title of the joint resolution by which the legislature proposed the amendment makes no reference to the disposition of the Permanent Fund's income. Disposing of it so as to establish still another dedicated fund probably encompasses a whole new and different subject from establishing the

---

\*/ The clause, "unless otherwise provided by law" was added to the proposed constitutional amendment by a House Judiciary Committee Substitute. Compare SSHJR 39, 1/15/76, with CSSS HJR 39, 3/24/76. It was dropped by SCS CSSS HJR 39, 4/7/76 (which would have authorized additional dedications), and restored by SCS CSSS HJR 39 (Res), 5/21/76. It remained in SCS CSSS HJR 39 (Res) am S, 5/21/76, the final version.

Frances A. Ulmer  
April 11, 1979  
Page #2

Alaska Permanent Fund. As a general rule, separate subjects must be treated separately in adopting constitutional amendments, and each must be summarized for the voters. Our conclusion is, therefore, that the clause does not exempt the fund's income from the prohibition against dedicated funds.

We turn to the question of whether the clause permits the legislature to provide for the Permanent Fund's income to be pledged as a guarantee for financing public power projects. While we doubt that the clause exempts the fund's income from the prohibition against dedications for a special purpose, we believe that neither repaying debts nor guaranteeing their repayment comes within the constitution's prohibition against dedicated funds and that, therefore, the income can be used as a security to repay or guarantee the repayment of a debt for a given capital improvement. \*/

The next question is whether an appropriation is required to make payments on the debt as may become necessary.

The relevant provisions of the constitution provide as follows:

No money shall be withdrawn from the treasury except in accordance with appropriations made by law.

Alaska Const., art. IX, § 13. \*\*/

It appears that an appropriation would be necessary either to make the guaranty at the outset or subsequently to make payments. A guaranty is a promise that payment will be made in accordance with its terms. ~~Aside from those cases where~~

---

\*/ This conclusion is based on a reading of the Minutes of the Constitutional Convention and the files of the Convention's Committee on Finance and Taxation. The wording, "proceeds of any tax or license," in article IX, section 7, of the constitution was intended to allow exemptions for pension fund payments, bond proceeds, sinking fund receipts, and the like. 1975 Op. Atty. Gen. No. 9, 6-9.

\*\*/ A related provision, article II, § 13, requires appropriations to be made in bills that are confined to appropriations.

Frances A. Ulmer  
April 11, 1979  
Page #3

the promise is unconditional. However, any promise to pay made by the state is necessarily conditioned on the appropriation of the monies to be paid. Id. In order to meet this constitutionally imposed condition, an appropriation is necessary. It can be made at the outset as a conditional appropriation, e.g., "\$x million is appropriated annually to pay the guaranty on the condition that it becomes due." It can be made, as is done for general obligation bonds, as the payments become due, i.e., in the case of a guaranty, an annual, conditional appropriation.

While there is authority that no money can be paid from the treasury even on a judgment, United States v. Commonwealth, 288 S.W.2d 664 (Ky. 1956), the better view is that the provisions of a state constitution requiring an appropriation to be made by law must give way under the combined effect of the federal constitution's contracts and supremacy clauses. \*/ Cf., Virginia v. West Virginia, 246 U.S. 565 (1918). A guaranty is a contract and cannot be impaired. The legislature's refusal to honor it would constitute its impairment. A court would render judgment for the debtor and levy on the fund's income to enforce the judgment. Therefore, no appropriation would be required in order to enforce payment. Nevertheless, to avoid the necessity for obtaining a judgment, an appropriation should be made.

It appears that the concluding clause of the 1976 amendment authorizes the legislature to make an appropriation from the income on a continuing basis for the purpose of paying or guaranteeing payment of a debt for a public power project, i.e., provide in a single Act for a given sum of monies to be expended annually from the income of the fund. Thus, a conditional appropriation could be made at the time the guaranty is made, and no further appropriations would be required. With respect to a guaranty, our best guess is that a continuing appropriation would probably be upheld. The guaranty would probably include a promise not to repeal the appropriation so long as the guaranteed debt remains outstanding. Any repeal would then be invalidated by a court.

---

\*/ U.S. Const., art. VI, cl. 2; Amend. V, XIV, § 1.

Frances A. Ulmer  
April 11, 1979  
Page #4

The next question is whether the guaranty must be made by law and approved by the voters. Because the guaranty would be a contract for a conditional debt which could result in the state's being, in effect, in debt to the creditor, it appears that the approval of the electorate would be required to make the guaranty. Article IX, section 7, of the Alaska Constitution prohibits contracting debt unless it is for a capital improvement and is ratified by the electorate. The court places a great premium on this ratification. Thomas v. Rosen, 522 P.2d 1120 (Alaska 1974). The constitutional exceptions from the requirement of ratification do not expressly apply to a guaranty. Alaska Const., art. IX, § 11. Our best guess is that the requirement, therefore, applies to guaranties and that any proposed guaranty would have to be presented to the voters as a ballot proposition. It would almost certainly, therefore, require as well that, as with a bond issue, the guaranty be authorized by law in the first instance and then submitted to the voters. Enactment of a law is what the language of the 1976 amendment requires on its face.

We do not believe that a one-time-only ratification by the voters of an Act generally authorizing the Permanent Fund's managers to guarantee debts for public power projects would satisfy the constitutional requirement for contracting debt. However, it might aid the court in deciding that those requirements do not apply to a guaranty which is based solely on the Permanent Fund's income. There is a line of cases which hold that debt restrictions similar to those contained in article IX, section 8, of the Alaska Constitution apply solely to debts which the state's full faith and credit is pledged to pay. The likelihood that the rationale of these cases would be applied by the Alaska Supreme Court to a guaranty based solely on the income from the Permanent Fund could possibly be increased by the voter's having ratified the concept. Nothing prevents the legislature from making the statutory authorization for guaranties contingent on voter approval. Accordingly, while we do not believe it will be valid, a general authorization for the Permanent Fund managers to make guaranties could be enacted and then tested in court.

Finally, the constitution provides that the "public credit [cannot] be used except for a public purpose." Alaska Const., art. IX, § 6. We believe that only the most

Frances A. Ulmer  
April 11, 1979  
Page #5

irrational of power projects would be barred under this provision. E.g., Wright v. City of Palmer, 468 P.2d 326 (Alaska 1970). We assume that the projects would be public works. Whether the income from the Permanent Fund could be used to guarantee financing for private works is an entirely different question which involves entirely different issues.

RWP/pjg

cc: Jerry Reinwand  
Office of the Governor

Ron Lind  
Div of Budget & Management

Keith Specking  
Office of the Governor

bcc: Tom Singer  
Div of Policy Development  
& Planning

# STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

0 1  
JAY S. HAMMOND, GOVERNOR

*Per*

POUCH K - STATE CAPITOL  
JUNEAU 99511

January 3, 1976

## M E M O R A N D U M

TO: The Honorable Jay S. Hammond  
Governor

FROM: Avrum M. Gross *by LAW*  
Attorney General

RE: Proposed joint resolution calling for a  
constitutional amendment establishing a  
permanent fund.

Attached is the proposed joint resolution calling for a constitutional amendment to establish a permanent fund to which mineral leasing revenues would be dedicated.

In contrast to HJR 39 which you introduced last year, the attached resolution would establish a constitutional permanent fund into which 10 percent of all mineral leasing revenue and mineral production taxes would automatically be dedicated without further legislative action. Last year's resolution would simply have given the legislature the authority to establish a permanent fund by law which could be changed or repealed by subsequent legislatures.

The revenues that would be dedicated include mineral leasing rentals, royalties and bonuses. Questions do arise, however, as to some special circumstances. For example, what is to occur when the state takes its royalty in kind? Should 10 percent of the proceeds from the sale of royalties taken in kind be dedicated to the fund? I have assumed that this would be the case and have included language in the draft transmittal letter to clarify our intent in this respect.

Also, what is to occur if the state changes its leasing policy from the traditional bonus bidding with a 1/8 or 1/6 royalty to a royalty bidding arrangement with a nominal cash bonus with the state instead receiving a larger royalty share such as 50 percent? Again I have assumed that you have intended that a full 10% of this larger royalty

The Honorable Jay S. Hammond  
Governor

January 3, 1976

- 2 -

share would be dedicated to the fund, and I have included language in the transmittal letter to state your position on this.

Also, what is to occur with respect to the revenue sharing which the state receives from federal mineral leasing? If this revenue is to be included, we should add some appropriate language in the resolution and in the transmittal letter to accomplish it.

Other revenue that would be dedicated to the fund would include mineral production taxes. I have assumed that this would only include the state's oil and gas properties production tax ("severance tax"), the oil and gas conservation tax (conservation tax), and the mining license tax regardless what form they may take in the future. Taxes that have not been included are the oil and gas exploration, production and pipeline property tax (20-mil property tax) and the oil and gas reserves ad valorem tax (reserve tax). If it is intended that these taxes should also be dedicated then the resolution and draft transmittal letter should be changed accordingly.

A question can be raised as to what amount of tax should be dedicated. For example, what is to occur with respect to any production taxes which the state must transmit to the Native Fund? Should 10 percent of taxes which the state receives and then transmits to the Native Fund be dedicated? I have assumed not and have so stated in the draft transmittal letter.

Also, what is to occur with respect to the production taxes which the state does not receive in cash but in effect receives through the application of accumulated "reserve tax" credits? For example, a taxpayer having a production tax liability of \$100,000 may credit his accumulated reserve tax against the production tax up to \$50,000 and only pay the remaining amount. Again, I have assumed that the production tax paid by the reserve tax credit would not be dedicated. If it is intended that more than just the net amount of cash tax revenue received by the state should be dedicated, then some additional changes should be made to the transmittal letter.

The resolution specifies that the fund will be used for investment only, with the legislature specifying the types of investment. A question has arisen whether the

The Honorable Jay S. Hammond  
Governor

January 3, 1975

- 3 -

fund should be used to purchase obligations financing capital expenditures. For example, may the fund be used to purchase bonds issued to finance relocation of the capital? I have assumed this was not intended and have so stated in the transmittal letter.

If you wish to acknowledge, or go to the extent of withdrawing, the currently pending HJR 39, you may wish to add a comment on it in the transmittal letter to the legislature.

AMG:md:JRM