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207

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX 5  
JUNEAU, ALASKA 99811-0400  
PHONE: (907) 465-2300

April 17, 1987

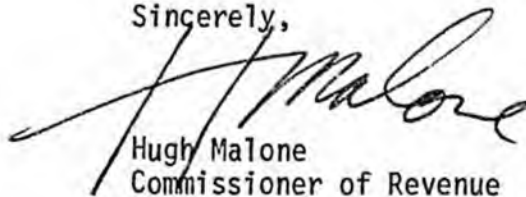
The Honorable John Sund  
Chairman, House Judiciary Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Chairman Sund:

The Administration, and this department, support CS for HB 207 with enthusiasm. In essence, the bill provides that capital gains, either of stocks or bonds, will be added to principal beginning next fiscal year. However, capital gains will continue to be used in calculations of the size of future dividends.

The advantages of the bill are two: it offers a way to build the Permanent Fund without external contributions (the size and timing of which are very uncertain at this juncture). It also assures that decisions to sell will be governed by the quality of various securities and by the best professional judgment on the direction of financial markets

Sincerely,



Hugh Malone  
Commissioner of Revenue

HM:mkw  
87-77

cc: The Honorable Fran Ulmer  
Chair, House State Affairs Committee

The Honorable Mike Davis, Sponsor



# Alaska State Legislature

Representative Mike Davis

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-4930/4941

Interim Office:  
P.O. Box 81435  
Fairbanks, Alaska 99708

## MEMORANDUM

To: House State Affairs Committee

From: Rep. Mike Davis *Mike Davis*

Re: Legislation relating to capital gains on sales of investments from the Alaska permanent fund

Date: April 13, 1987

The recent sale of permanent fund stocks has brought the management of permanent fund earnings to the attention of Alaska residents. Under current law, revenues generated from the sale of stock are deposited into the earnings of the permanent fund. This has not always been the case. In 1980 when the original law was enacted, it required that capital gains from the sale of permanent fund stock be deposited into the principle of the fund.

HB 207 requires that capital gains from the sale of permanent fund investments be deposited into the principle of the permanent fund. It is the intent of this legislation to remove the incentive of management decisions of the sale of investments from being based on the current state of the budget in any particular fiscal year. These decisions should be made based on the trends of the financial market and the long term investment plan of the Permanent Fund corporation.

In addition, this legislation could provide additional inflation proofing to the Fund for years when 50% of the earnings will not equal inflation proofing.

HB 208 would deposit the FY 87 capital gains from sale of investments into the principle of the permanent fund. This years capital gains is approximately \$220,829,214.78.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907.465-3800

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

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

H. JUD.            4-27-87            1:30p.m.

# HOUSE COMMITTEE REPORT

Date referred:

4/15/87

FURTHER REFERRALS:

Finance

DATE:

4-27-87

HB 207

the Judiciary

Committee has considered

an Act relating to capital gains on sales of investments from the Alaska permanent fund; and providing for an effective date."

### RECOMMENDS:

- replace with CS 43207(SA)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

OPTIONS:  \_\_\_\_\_ letter of intent

### ATTACHES NEW FISCAL NOTE(S):

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

### WHICH DO PASS:

*[Handwritten signatures]*

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### SIGNING OTHER RECOMMENDATIONS:

*[Handwritten signatures]*

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Chairman's signature



**Alaska Permanent Fund Corporation**

Pouch 4-1000 Juneau, Alaska 99802

(907) 465-2047 Telex 099-46-323

M E M O R A N D U M

DATE: April 13, 1987

TO: Representative Mike Davis

FROM: Jim Kelly *JK*  
Research & Liaison Officer

SUBJECT: Financial Projections for House Bills Nos. 207 and 208

Per your request, I have prepared several financial projections which depict the impact of your proposed legislation on future Permanent Fund balances, earnings and distributions.

STATUS QUO: This financial projection shows the projected principal balances, earnings and dividend distributions assuming no changes in existing law.

HOUSE BILL NO. 207: This financial projection shows the effect of enacting HB 207. This bill would leave the status quo unchanged except that at the end of each fiscal year (effective with fiscal 1987), all net realized capital gains would be added to Fund principal.

In a year such as fiscal 1987, when earnings are sufficiently high and the rate of inflation is sufficiently low to allow full payment of dividends and inflation-proofing, HB 207 would have the effect of transferring to Fund principal net realized capital gains that otherwise would remain in the Earnings Reserve Account in the Permanent Fund subject to appropriation by the legislature.

For fiscal 1987, from July 1, 1986 to March 13, 1987, the amount of net realized capital gains totals \$322.6 million.

In a year when there are insufficient earnings to fully pay both dividends and inflation-proofing, under the provisions of HB 207, dividends would still get first priority, and all the remaining income would be added to principal.

SPONSOR SUBSTITUTE HOUSE BILL NO. 207: The proposed SS HB 207 differs from the original version of the bill in that each year's dividend calculations would exclude net capital gains realized effective with fiscal 1987.

As you can see, the amount paid to the Dividend Fund for fiscal 1987 would be reduced from \$389 million, under both the status quo and the original version of HB 207, to \$322 million. This would have the effect of reducing this year's per capita dividends from approximately \$723 to \$595. The sponsor substitute also has the effect of reducing dividends for the next four years, relative to the status quo.

However, beginning in fiscal 1992, dividends would become larger than under existing law because of the impact of the increased amount of Fund principal which, in turn, produces higher earnings. In fact, over the long term, compared to the status quo, SS HB 207 actually produces a cumulatively higher total amount of:

- \* dividends - \$13.655 billion versus \$13.631 billion;
- \* principal - \$26.577 billion versus \$25.927 billion; and
- \* net income - \$31.017 billion versus \$30.343 billion.

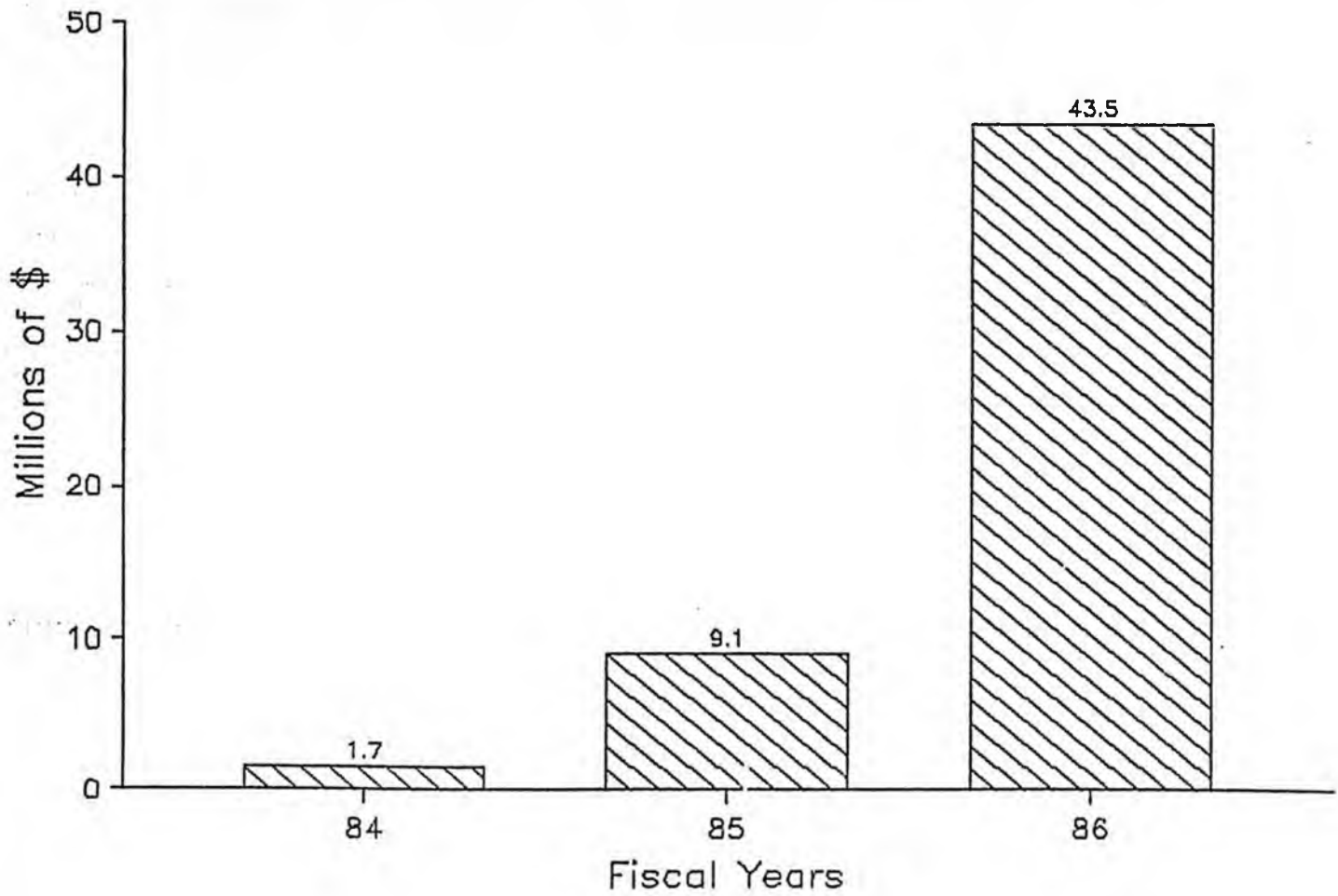
It should be noted that none of the financial projections produced by the Corporation include any future capital gains. This is not to say that there won't be any, but rather that it is impossible to project for them. Whether or not the Corporation will realize a particular capital gain in either stocks or bonds depends on the performance of the financial markets at a particular time and the current investment strategy of the Trustees.

Attached for your information are two charts which shows the capital gains which the Corporation has realized on an historical basis.

HOUSE BILL NO. 208: This financial projection shows the effect of adding to principal the capital gain realized from the extraordinary sale of stock which took place between February 26 - March 13 of this year: \$220,829,000.

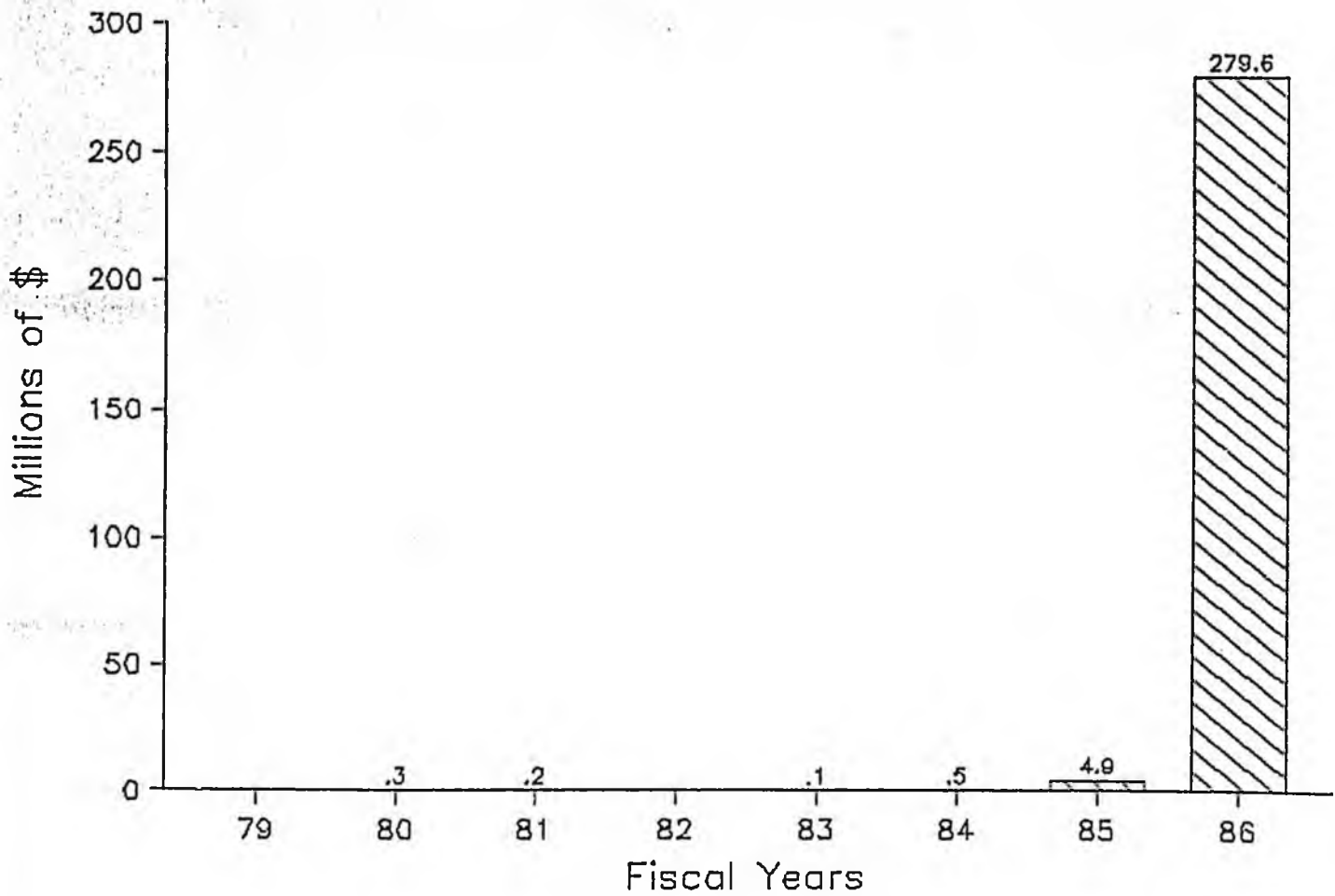
# REALIZED GAINS IN STOCKS

Permanent Fund Stock Portfolio



# REALIZED GAINS IN BONDS

Permanent Fund Bond Portfolio





## Alaska Permanent Fund Corporation

### FINANCIAL PROJECTIONS (in millions)

as of March 20, 1987

FY	PRINCIPAL					INCOME					Reserves		
	FY Begin Balance	Appropriations	Dedicated State Revenues <sup>a</sup>	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Dividends	Per Capita Dividends <sup>**</sup>	Inflation Proofing	General Fund	Add (Delete)	FY End Balance
78			54		54		2				1		
79	54		84		139		8				7		
80	139		344		483		32	12			12		
81	483	900	385		1,769		150	28			28	59	59
82	1,769	800	401		2,969		358	71	\$1,000.00		71	185	244
83	2,969	400	421	231	4,021		471	108	\$386.15	231	110	110	354
84	4,021	300	366	151	4,838		530	175	\$331.29	151		204	557
85	4,838	300	368	235	5,741		658	217	\$404.00	235		206	763
86	5,741		323	216	6,281		1,021	303	\$556.26	216		501	1,264
87	6,281	1,264	150	148	7,843		1,047	389	\$723.21	148		510	510
88	7,843		165	320	8,329		795	423	\$789.05	320		51	561
89	8,329		187	511	9,026		847	457	\$848.03	511		( 121)	440
90	9,026		206	554	9,787		902	483	\$892.96	554		( 135)	306
91	9,787		194	599	10,580		960	477	\$878.35	599		( 116)	190
92	10,580		211	647	11,438		1,025	476	\$870.63	647		( 98)	92
93	11,438		225	682	12,345	18	1,097	507	\$925.18	682		( 92)	
94	12,345		230	633	13,208	122	1,174	542	\$984.27	633			
95	13,208		230	677	14,114	130	1,256	579	\$1,047.94	677			
96	14,114		229	722	15,065	138	1,341	619	\$1,116.03	722			
97	15,065		231	769	16,066	149	1,431	661	\$1,188.59	769			
98	16,066		231	819	17,115	159	1,525	706	\$1,264.46	819			
99	17,115		228	870	18,213	170	1,624	753	\$1,343.66	870			
0	18,213		223	924	19,360	182	1,727	803	\$1,426.43	924			
1	19,360		217	980	20,557	195	1,835	855	\$1,512.75	980			
2	20,557		215	1,038	21,811	208	1,947	909	\$1,602.37	1,038			
3	21,811		210	1,100	23,120	222	2,065	966	\$1,695.85	1,100			
4	23,120		208	1,164	24,491	236	2,189	1,025	\$1,792.98	1,164			
5	24,491		205	1,231	25,927	251	2,318	1,087	\$1,833.77	1,231			
-----													
Cumulative Totals:	3,964		6,742	15,220	25,927	2,180	30,343	13,631	\$25,474.11	15,220	229	1,264	
-----													

ASSUMPTIONS: 1.92% Inflation Rate FY 87  
 ----- 13.94% Rate of Return FY 87

4.00% Inflation Rate FY 88  
 9.60% Rate of Return FY 88

\* SOURCE: Alaska Department of Revenue  
 30% Case Forecast - March 1987

STATUS QUO

6.00% Inflation Rate FY 89-05  
 9.00% Rate of Return FY 89-05

\*\* SOURCE: Population Projections From  
 DOR Revenue Source Book - Page 44



## Alaska Permanent Fund Corporation

### FINANCIAL PROJECTIONS (in millions)

as of March 20, 1987

FY	PRINCIPAL						INCOME				Reserves	
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Distributions			Add (Delete)	FY End Balance
								Per Capita Dividends	Inflation Dividends**	General Fund		
78			54		54	2				1		
79	54		84		139	8				7		
80	139		344		483	32	12			12		
81	483	900	385		1,769	150	28			28	59	59
82	1,769	800	401		2,969	368	71	\$1,000.00		71	185	244
83	2,969	400	421	231	4,021	471	108	\$386.15	231	110	110	354
84	4,021	300	366	151	4,838	530	175	\$331.29	151		204	557
85	4,838	300	368	235	5,741	658	217	\$404.00	235		206	763
86	5,741		323	216	6,281	1,021	303	\$556.26	216		501	1,264
87	6,281	1,264	150	470	8,166	1,047	389	\$723.21	470		107	187
88	8,166		155	333	8,664	795	423	\$789.05	333		39	226
89	8,664		137	531	9,382	847	457	\$848.03	531		( 141)	85
90	9,382		206	504	10,092	902	483	\$892.96	504		( 85)	
91	10,092		194	483	10,769	960	477	\$878.35	483			
92	10,769		211	549	11,530	1,025	476	\$870.63	549			
93	11,530		225	590	12,345	1,097	507	\$925.19	590			
94	12,345		230	633	13,208	1,174	542	\$984.27	633			
95	13,208		230	677	14,114	1,256	579	\$1,047.94	677			
96	14,114		229	722	15,065	1,341	619	\$1,116.03	722			
97	15,065		231	769	16,066	1,431	661	\$1,188.59	769			
98	16,066		231	819	17,115	1,525	706	\$1,264.46	819			
99	17,115		228	870	18,211	1,624	753	\$1,343.66	870			
0	18,213		223	924	19,360	1,727	803	\$1,426.43	924			
1	19,360		217	980	20,557	1,835	855	\$1,512.75	980			
2	20,557		215	1,038	21,811	1,947	909	\$1,602.37	1,038			
3	21,811		210	1,100	23,120	2,065	966	\$1,695.85	1,100			
4	23,120		208	1,164	24,491	2,189	1,025	\$1,792.83	1,164			
5	24,491		205	1,231	25,927	2,318	1,087	\$1,893.77	1,231			
Cumulative Totals:		3,964	6,742	15,220	25,927	2,592	30,343	13,631	\$25,474.11	15,220	229	1,264

ASSUMPTIONS: 1.92% Inflation Rate FY 87  
13.94% Rate of Return FY 87

4.00% Inflation Rate FY 88  
9.00% Rate of Return FY 88

\* SOURCE: Alaska Department of Revenue  
30% Case Forecast - March 1987

6.00% Inflation Rate FY 89-95  
9.00% Rate of Return FY 89-95

\*\* SOURCE: Population Projections From  
DOR Revenue Source Book - Page 44



## Alaska Permanent Fund Corporation

### FINANCIAL PROJECTIONS (in millions)

as of March 20, 1997

FY	PRINCIPAL						INCOME					Reserves	
	FY Begin Balance	Appro- priations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Distributions			General Fund	Add (Delete)	FY End Balance
								Per Capita Dividends	Per Capita Dividends**	Inflation Proofing			
78			54		54	2				1			
79	54		84		139	8				7			
80	139		344		483	32	12			12			
81	483	900	385		1,769	150	28			28	59	59	
82	1,769	800	401		2,969	368	71	\$1,000.00		71	185	244	
83	2,969	400	421	231	4,021	471	108	\$386.15	231	110	110	354	
84	4,021	300	366	151	4,838	530	175	\$331.29	151		204	557	
85	4,838	300	368	235	5,741	658	217	\$404.00	235		206	763	
86	5,741		323	216	6,281	1,021	303	\$556.26	216		501	1,264	
87	6,281	1,264	150	470	8,166	1,047	322	\$594.79	470		255	255	
88	8,166		165	333	8,664	801	356	\$661.63	333		112	367	
89	8,664		187	531	9,382	860	391	\$723.80	531		( 52)	305	
90	9,382		206	575	10,164	923	453	\$836.19	575		( 105)	199	
91	10,164		194	622	10,979	986	450	\$827.83	622		( 86)	113	
92	10,979		211	671	11,862	1,055	486	\$889.52	671		( 102)	12	
93	11,862		225	621	12,708	1,130	520	\$949.21	621		( 12)		
94	12,708		230	652	13,590	1,209	557	\$1,012.28	652				
95	13,590		230	696	14,516	1,292	595	\$1,078.61	696				
96	14,516		229	742	15,487	1,379	637	\$1,149.16	742				
97	15,487		231	790	16,508	1,470	680	\$1,223.23	790				
98	16,508		231	840	17,579	1,567	726	\$1,300.79	840				
99	17,579		229	893	18,700	1,667	774	\$1,381.84	893				
0	18,700		223	948	19,871	1,773	825	\$1,466.27	948				
1	19,871		217	1,005	21,093	1,883	878	\$1,554.23	1,005				
2	21,093		215	1,065	22,373	1,998	933	\$1,645.84	1,065				
3	22,373		210	1,127	23,710	2,118	991	\$1,741.11	1,127				
4	23,710		208	1,193	25,110	2,244	1,052	\$1,840.28	1,193				
5	25,110		205	1,261	26,577	2,376	1,115	\$1,943.27	1,261				
-----													
Cumulative Totals:	3,264		6,742	15,370	26,577	2,326	31,017	13,655	\$25,497.60	15,870	229	1,264	
-----													

ASSUMPTIONS: 1.92% Inflation Rate FY 87  
 ----- 13.94% Rate of Return FY 87

4.00% Inflation Rate FY 89  
 9.00% Rate of Return FY 88

\* SOURCE: Alaska Department of Revenue  
 30% Case Forecast - March 1987



## Alaska Permanent Fund Corporation

### FINANCIAL PROJECTIONS

(in millions)

as of March 20, 1987

FY	PRINCIPAL						INCOME					Reserves	
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Distributions			General Fund	Add (Delete)	FY End Balance
								Dividends	Per Capita Dividends**	Inflation Proofing			
78			54		54		2				1		
79	54		84		139		8				7		
80	139		344		483		32	12			12		
81	483	900	385		1,769		150	28			28	59	59
82	1,769	800	401		2,969		368	71	\$1,000.00		71	185	244
83	2,969	400	421	231	4,021		471	108	\$386.15	231	110	110	354
84	4,021	300	366	151	4,838		530	175	\$331.29	151		204	557
85	4,838	300	368	235	5,741		658	217	\$404.00	235		206	763
86	5,741		323	216	6,281		1,021	303	\$556.26	216		501	1,264
87	6,281	1,264	150	369	8,064		1,047	389	\$723.21	369		289	289
88	8,064		165	329	8,558		795	423	\$789.05	329		43	332
89	8,558		187	525	9,270		847	457	\$848.03	525		( 135)	197
90	9,270		206	569	10,045		902	483	\$892.96	569		( 149)	48
91	10,045		194	530	10,769	84	960	477	\$878.35	530		( 48)	
92	10,769		211	549	11,530	109	1,025	476	\$870.63	549			
93	11,530		225	590	12,345	115	1,097	507	\$925.18	590			
94	12,345		230	633	13,208	122	1,174	542	\$984.27	633			
95	13,208		230	677	14,114	130	1,256	579	\$1,047.94	677			
96	14,114		229	722	15,065	138	1,341	619	\$1,116.03	722			
97	15,065		231	769	16,066	149	1,431	661	\$1,188.59	769			
98	16,066		231	819	17,115	159	1,525	706	\$1,264.46	819			
99	17,115		228	870	18,213	170	1,624	753	\$1,343.66	870			
0	18,213		223	924	19,360	182	1,727	803	\$1,426.43	924			
1	19,360		217	980	20,557	195	1,835	855	\$1,512.75	980			
2	20,557		215	1,038	21,811	208	1,947	909	\$1,602.37	1,038			
3	21,811		210	1,100	23,120	222	2,065	966	\$1,695.85	1,100			
4	23,120		208	1,164	24,491	236	2,189	1,025	\$1,792.88	1,164			
5	24,491		205	1,231	25,927	251	2,318	1,087	\$1,893.77	1,231			
Cumulative Totals:		3,964	6,742	15,220	25,927	2,470	30,343	13,631	\$25,474.11	15,220	229	1,264	

ASSUMPTIONS: 1.92% Inflation Rate FY 87  
 ----- 13.94% Rate of Return FY 87

4.00% Inflation Rate FY 88  
 9.00% Rate of Return FY 88

\* SOURCE: Alaska Department of Revenue  
 30% Case Forecast - March 1987

6.00% Inflation Rate FY 89-05  
 9.00% Rate of Return FY 89-05

\*\* SOURCE: Population Projections From  
 OOR Revenue Source Book - Page 44



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Revised  
The copy  
10/10

P.O. Box Y, State Capitol  
Juneau, Alaska 99811-3100  
Mail Stop 3100  
(907) 465-3991

April 13, 1987

MEMORANDUM

TO: Representative Mike Davis

ATTN: Marilyn Heiman

FROM: Ginny Fay *g.fay*  
Legislative Analyst

RE: Alaska Permanent Fund Capital Gains  
Research Request 87.261

You requested information regarding how investment funds similar to the Alaska Permanent Fund define and manage capital gains. You indicated that you are specifically interested in the Harvard Management Corporation that manages the Harvard Endowment Fund. Under the current time constraint, information from the Harvard Management Corporation was not available. This memorandum does provide, however, information on the Alberta Heritage Fund, the Montana Investment Fund, and the State of Wisconsin Investment Board. The two former funds are more similar to the Alaska Permanent Fund than the Harvard Fund (Table 1). Management decisions on capital gains and other earnings are significantly influenced by fund objectives which should be considered when making comparison between funds.

Alberta Heritage Savings Trust Fund (AHST)

The Alberta Heritage Savings Trust Fund is often considered most comparable to the Alaska Permanent Fund (APF). The AHST was created as a permanent trust for future residents from nonrenewable natural resources revenues. While the APF principal is managed and invested as a single unit, the AHST is divided into smaller funds that are managed for varied purposes. A portion (approximately 10 percent) of the \$15 billion fund is invested similarly to the APF in income-producing common stock and government securities. The majority of the fund, however, is dedicated to "social investing." These are investments in Alberta to further economic development. The social investing management policy has resulted in a significantly lower rate of return for the fund.<sup>1</sup>

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<sup>1</sup>Sheila F. Helgath and Sarah A. Bibb, "The Alaska Permanent Fund Legislative History, Intent, and Operations," Alaska State Senate, Rural Research Agency, 1986, p. 110.

The AHST considers all capital gains earnings of the fund. Since September 1982, all earnings are placed in the general fund. This policy was developed as a result of the down turn in the Alberta economy. The government expenditure of fund earnings is directed toward stimulating the economy and encouraging economic activities based on their assessment that the private sector alone is not capable of boosting the economy given the current recession. They also believe that it is not politically acceptable to retain earnings under the present economic conditions that have resulted in a rise in unemployment. Not only are fund earnings being placed in the general fund, natural resources revenues are being placed in the general fund this year to maintain the level of government services and to cushion the shock to the regional economy from the decline in the price of oil. This policy is likely to change when oil prices rebound and stabilize. The AHST does not inflation proof; the only mechanism for increasing the principal of the fund is through transfer of resource revenues into the fund.

#### Montana Permanent Coal Trust Fund (MPCT)

The Montana Permanent Coal Trust Fund is similar to the Alaska Permanent Fund and the Alberta Heritage Savings Trust Fund in that it also invests a portion of nonrenewable resource revenues. The MPCT is jointly invested with other funds in the state.<sup>2</sup> Capital gains are considered and managed as earnings by the MPCT. Because the Montana trust is comprised of several different funds, earnings are managed differently depending on the intent of the original fund. Earnings from retirement fund earnings, for example, are returned to the principal. Earnings from the Nonrenewable Resource Fund, however, are placed in the general fund. Approximately 75 percent of these earnings are dedicated and paid to 25 different agencies. Approximately 25 percent are undedicated funds in the general fund. Overall, approximately 25 percent of the fund's earnings contributes to education funding in Montana.

Similar to the Alberta fund, the Montana fund's current policy is to use earnings to help pay budget deficits, maintain the same level of government services, and offset the current economic recession. There has been no significant cutting of the state budget with the exception of funding for highways and public works. Social services and the university budget have been maintained. The Montana legislature is currently considering legislation to place resource revenues into the general fund this year rather than into the MPCT.

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<sup>2</sup>Ibid., p. 112.

Representative Mike Davis  
April 13, 1987  
Page 3

### State of Wisconsin Investment Board (SWIB)

This fund, which serves as a clearinghouse for a wide variety of government investments, is actually quite different from the APF.<sup>3</sup> Because of the difference in objectives and portfolio composition, it is difficult to compare capital gains management strategies. The bulk of the SWIB is comprised of funds from retirement accounts. Capital gains from retirement funds and other moneys are considered earnings which are put in an amortization account which serves as a buffer account to smooth out earnings of the fund. Annually seven percent of the amortization account is returned to the principal of the retirement funds. "Excess" earnings in the buffer account are periodically "raided" by the legislature. But because of the relatively low earnings of the SWIB, this is fairly unusual. This year, as a result of the exceptional performance of the stock market, the amortization account contains \$2.5 million in excess funds. Legislation has been introduced to use these funds as general funds by returning them to the retirement accounts in lieu of contributions by state agencies. Legislatively, Wisconsin has a nonrenewable resource trust fund. With the fall in the price of copper, however, the project to contribute these funds was cancelled and no earnings have been received.

I hope this information is useful. If you have any questions or wish additional information, please contact this agency.

Attachment

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<sup>3</sup>Ibid., p. 111.

Table 1. Comparison of Large Pension, Endowment and Government Investment Funds with the Alaska Permanent Fund.

FUND	ASSET COMPOSITION	RETURNS
<b>ALASKA PERMANENT FUND</b> Objectives: Preservation of principal and annual income stream. Size: \$5.7 billion Year: 1984 Started: 1977 Staff: 11 Administrative Cost: \$2,695,000. Inflation Proofing: CPI Index	81% fixed income, CD's government and corporate securities,	Dollar-Weighted
	12% common stock	Year NOM
	2% real estate	1977 5.54%
	1% conventional mortgages	1978 7.53%
	2% Alaska CD's	1979 8.24%
		1980 11.3%
		1981 6.00%
		1982 15.1%
		1983 12.8%
		1984 10.9%
	1985 11.6%	
<b>MONTANA INVESTMENT FUNDS</b> Objectives: Variable the Coal Trust is a similar to APFC. Size: \$1.8 billion, \$200 million in fund Year: 1984 Started: 1971 Staff: 17 Administrative Cost: \$449,164. Annual Inflation Proofing: 15% of earnings	83% Government Securities & Corporate bonds	Time-weighted Equities
	5% Canadian Obligations	1974-84
	5% common stocks	11.3%
	4% short term commitments	1984
	8% Montana mortgages & business loans	-4.8%
		<b>Fixed Income</b>
		1977-84
		7.2%
		1984
		2.4%

Table 1. Comparison of Large Pension, Endowment and Government Investment Funds with the Alaska Permanent Fund. (continued)

FUND	ASSET COMPOSITION	RETURNS
<b>WISCONSIN INVESTMENT BOARD</b> Objective: Invest state pension funds Size: \$1.575 billion Year: 1984 Started: U.K. Staff: 10 no secretarial reported Administrative Cost: \$1,821,354 annual Inflation Proofing: UK	46.9% public bonds and private loans includes foreign bonds	Time-Weighted  <u>Fixed Fund</u> 1978-84 9.8% 1983 38.2% 1984 -1.0%
	36.4% common and preferred stock includes foreign stock  14.8% State Investment Fund  0.1% real estate  1.8% mortgages	<u>Variable (equities) Fund</u> 1978-84 13.3% 1984 1.3%
<b>ALBERTA HERITAGE FUND</b> Objective: Multi objective fund, savings, strengthen diversify economy, and improve quality of life of citizens. \$1.5 billion portion similar to APFC but a sizable portion in development bank non commercial rate loans located within Alberta. Fund from dedicated non renewable resource revenues. Size: CD\$15.08 billion Year: 1985 Started: 1976 Annual Administrative Cost: \$1,966,000. entire fund Inflation Proofing: None as of 1983	17% common stocks  83% CD's, government securities, and bonds  Represents only portion most similar to the Alaska Permanent Fund	Dollar-weighted? nominal rate of return 1980 10.8% 1981 12.6% 1982 13.9% 1983 13.4% 1984 13.7%

Table 1. Comparison of large Pension, Endowment and Government Investment Funds with the Alaska Permanent Fund. (continued)

<b>HARVARD ENDOWMENT FUND</b>	25.8%	Cash Reserves	1982	0.1%
Objective: To provide continuous income for Univ.	21.7%	Bonds	1983	42.0%
Size: \$2.48 billion	56.8%	Stocks	1984	3.6%
Year: 1984		includes a small percentage in foreign stocks and bonds.		
Started: 1974				
Administrative Cost: \$7.7 million				
Inflation Proofing: Unknown Amount: \$7.7 million				
Inflation Proofing: Unknown				
Staff Size: 85				

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Source: Sheila F. Helgath and Sarah A. Bibb, "The Alaska Permanent Fund Legislative History, Intent and Operations," Alaska State Senate, Rural Research Agency, 1986, p. 110.



STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: HB207

Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_

Revision Date: \_\_\_\_\_

Title: An Act relating to capital gains  
on sales of investments from...APF...

Sponsor: Davis et al

Requestor: House State Affairs

Agency Affected: REVENUE

BRU: \_\_\_\_\_

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Millions of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

Prepared By: Mary Ellen Frank ME 7

Division: Research

Phone: 465-2174

Date: 4/14/87

Approved by Commissioner: [Signature]

Agency: \_\_\_\_\_

Date: 4/16/87

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

No estimate of the proportion of projected PF earnings that will be capital gains is possible because of unknown timing and investment decisions which depend on market conditions. Recent numbers actually realized are depicted below but are not necessarily indicative of what the future sources of PF income might be.

(\$ millions)	Capital Gains as a % of Total Earnings			
	1984	1985	1986	1987 to date
Capital gains	2,126	17,912	332,716	152,254
PF earnings	532,152	661,740	1,026,240	617,885
Cap. Gains/PF earnings	.4%	2.7%	32.4%	24.6%

The overall effect of the legislation is to transfer amounts that would have been in the Earnings Reserve Account (ERA) to the principal of the PF. Current earnings forecasts indicate that the PF cannot be fully inflation proofed. Without this legislation, the shortfalls begin in FY1995 and total \$1468 million by FY2005, (with a total PF principal of \$27,134 million). The table below indicates what cumulative (by FY2005) changes would result from a range of percentages of PF earnings that are capital gains. Inflation proofing demands on current earnings and the ERA prevent the full amount of net capital gains from being retained, as can be seen in column four compared to column six.

Percent of Earnings that are Cap. Gains	Cumulative Difference Through FY2005 .....(\$ millions).....				(\$millions) Total Capital Gains
	PF Prin'l	PF ERA	Retained Capital Gains	Dividend Fund	
5%	+295	-295	+295	0	+1493
10%	+437	-437	+437	0	+2986
20%	+593	-593	+593	0	+5972
30%	+676	-676	+676	0	+8958

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: HB 207  
Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: An Act Relating to Capital Gains  
and Permanent Fund  
Sponsor: Rep. Davis  
Requestor: (H) S.A.

Agency Affected: Revenue  
BRU: PFC

Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	0	0	0	0	0
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

Prepared By: Royce Weller Phone: 465-2300  
Division: Info. provided by Permanent Fund Corporation Date: April 13, 1987

Approved by Commissioner: Hugh Malone Date: April 13, 1987  
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary