

SB

374

SCHOOL ACCOUNT PROPOSAL

HB 407/SB 374

SECTIONAL ANALYSIS

Section 1. This bill addresses a serious problem facing the state's public school system - large funding reductions resulting from Alaska's revenue downturn. A new, stable, and more predictable source of funds is necessary to help public schools restore programs cut by recent reductions, to alleviate the present high pupil/teacher ratios, and generally to improve the quality of public education in Alaska.

Section 2. The school account is established within the principal of the Alaska Permanent Fund for several reasons: first, it is a method of securing a new source of income for education in Alaska; second, the excellent investment record of the Alaska Permanent Fund Corporation assures, to the extent possible, a stable source of income for the school account; third, the effect on the Alaska Permanent Fund is minimal because the school account is within the principal. The net income of the corporation and Permanent Fund dividends will continue to grow; however, they will not grow quite as rapidly after the school account is established. The cost of the administration of the school account by the Corporation is estimated at zero. The school account money will be invested in the same manner as all other Permanent Fund investments. Net income from the school account is computed at the same time and in the same manner that net income of the Corporation is computed, and this amount is available for appropriation by the Legislature. The computation of the net income of the school account is made at the same time, but exclusive of, the computation of income "available for distribution" (income "available for distribution" is the basis on which Permanent Fund dividends are determined). Net income of the school account not appropriated by the Legislature is returned to the principal of the school account for reinvestment.

Section 3. The school account is established with funds that are by statute returned to the principal for inflation proofing for fiscal years 1988 and 1989. The principal of the fund is still "inflation proofed" by the addition of new capital to the fund. Net income from these amounts (and any other funds that may in the future be added to the account) is earmarked for the school account. The income that is earned between June 30, 1988 and January 31, 1989 to the amount to be allocated to the school account becomes part of the FY 89 earnings of the school account.

Section 4. In this section a conforming amendment is made to AS 37.13.140, so that it is clear that net income from the school account is not included in the computation of net income "available for distribution" for Permanent Fund dividends.

Section 5. At the November 1988 general elections, the voters can indicate whether they agree with the establishment of the school account. The effective date of the substantive parts of the bill is January 31, 1989; thus, there is time allowed for legislative repeal or for changes in the school account after the results of the advisory vote are known.

Sections 6 and 7. These provide the effective dates. The advisory vote provision has an immediate effective date. The substantive provisions are effective January 31, 1989.

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: SB 374
PUBLISHED DATE: 1/25/88
(SENATE) 1/27/88

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act establishing the School
Account in the Ak. Permanent Fund
Sponsor: Rules Committee
Requestor: Governor

Agency Affected: Revenue
BRU: Permanent Fund Corp.
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Royce Weller *RW*
Division: Commissioner's Office

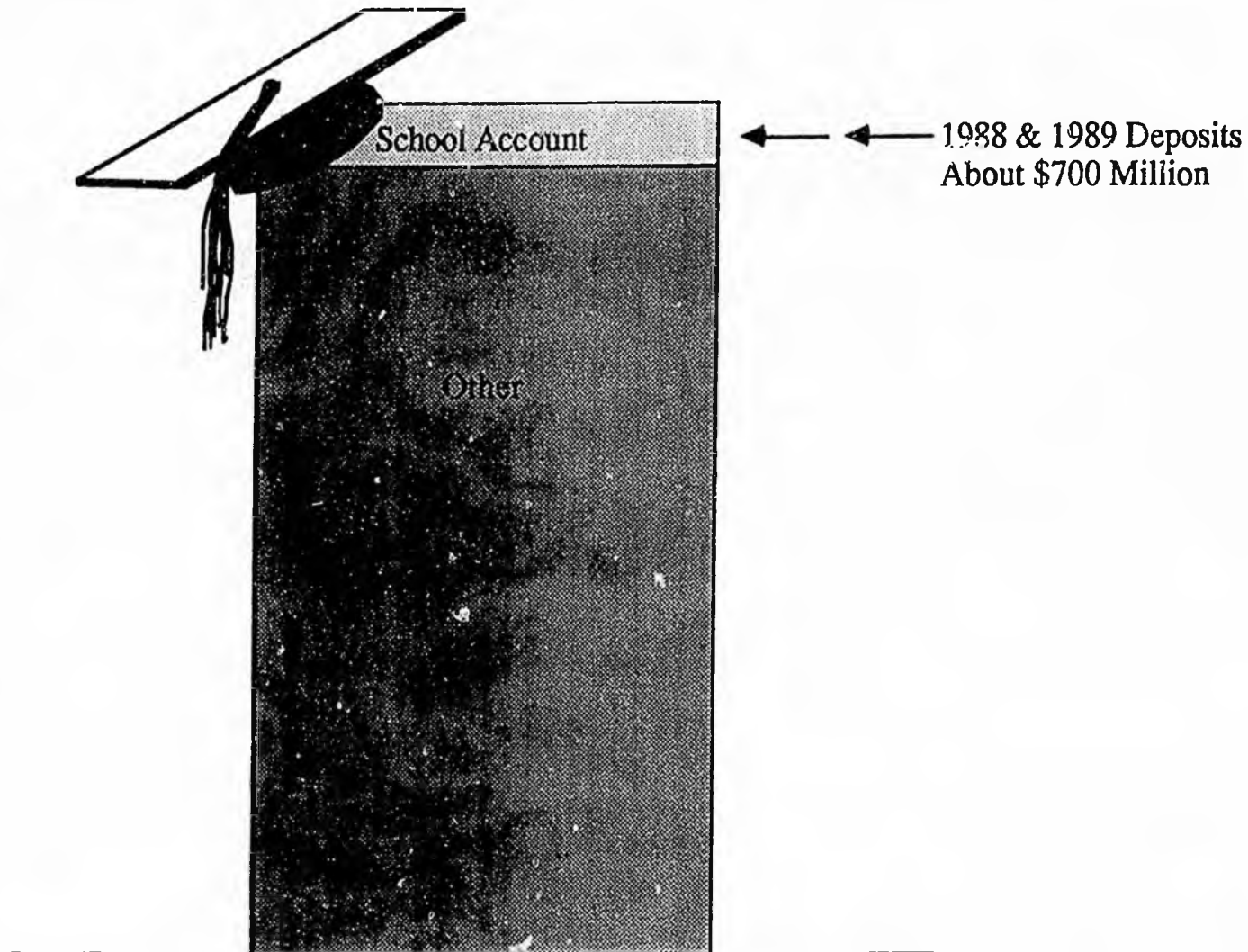
Phone: 465-2300
Date: 1/25/88

Approved by Commissioner: Hugh Malone *RW for*
Agency: Revenue

Date: 1/25/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

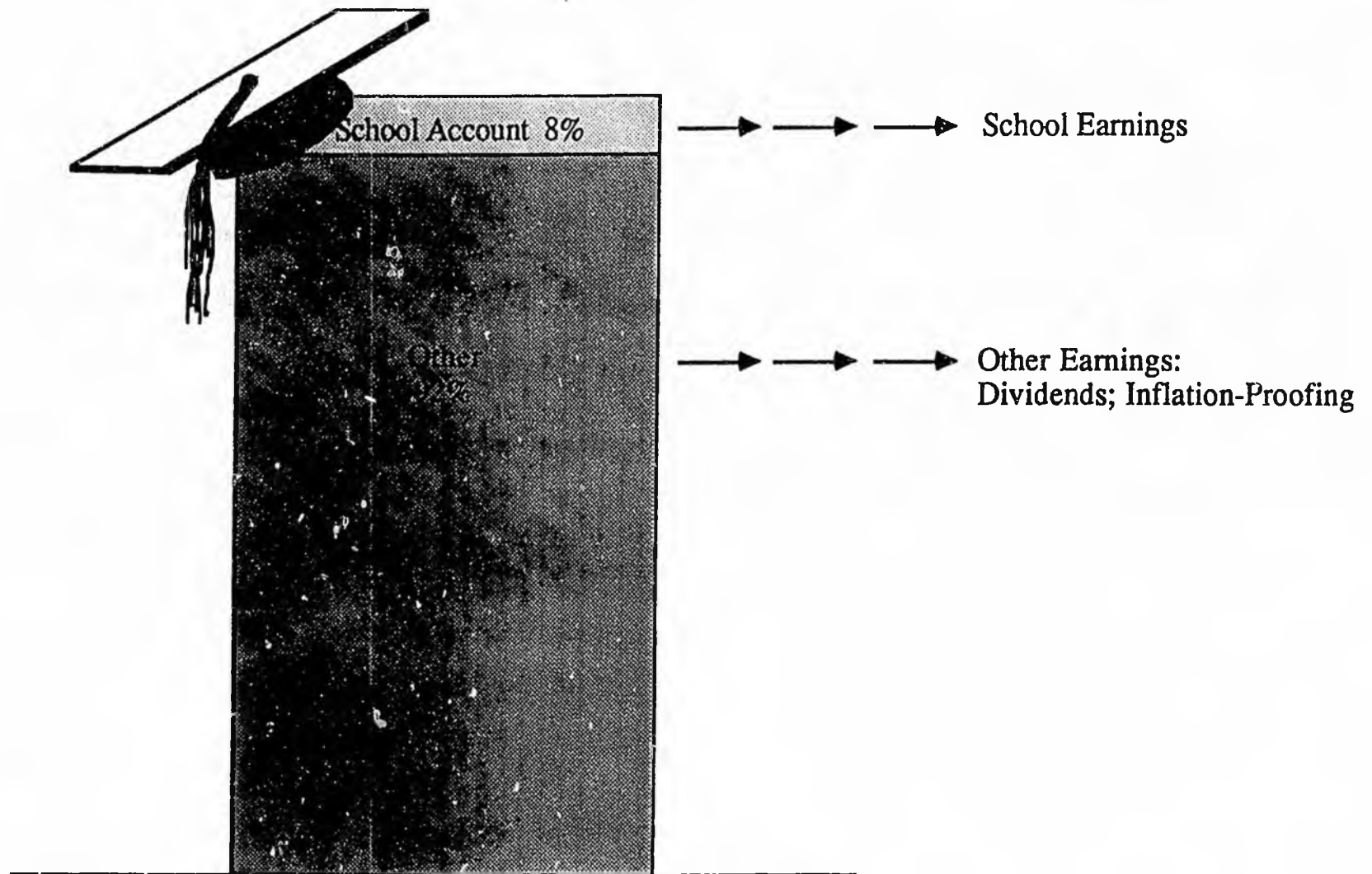
1988 and 1989 Deposits Would Establish School Account in Permanent Fund Principal



The Permanent Fund

State of Alaska
Office of the Governor
Division of Policy 1/25/88

School Account Proposal Establishes Two Earning Streams

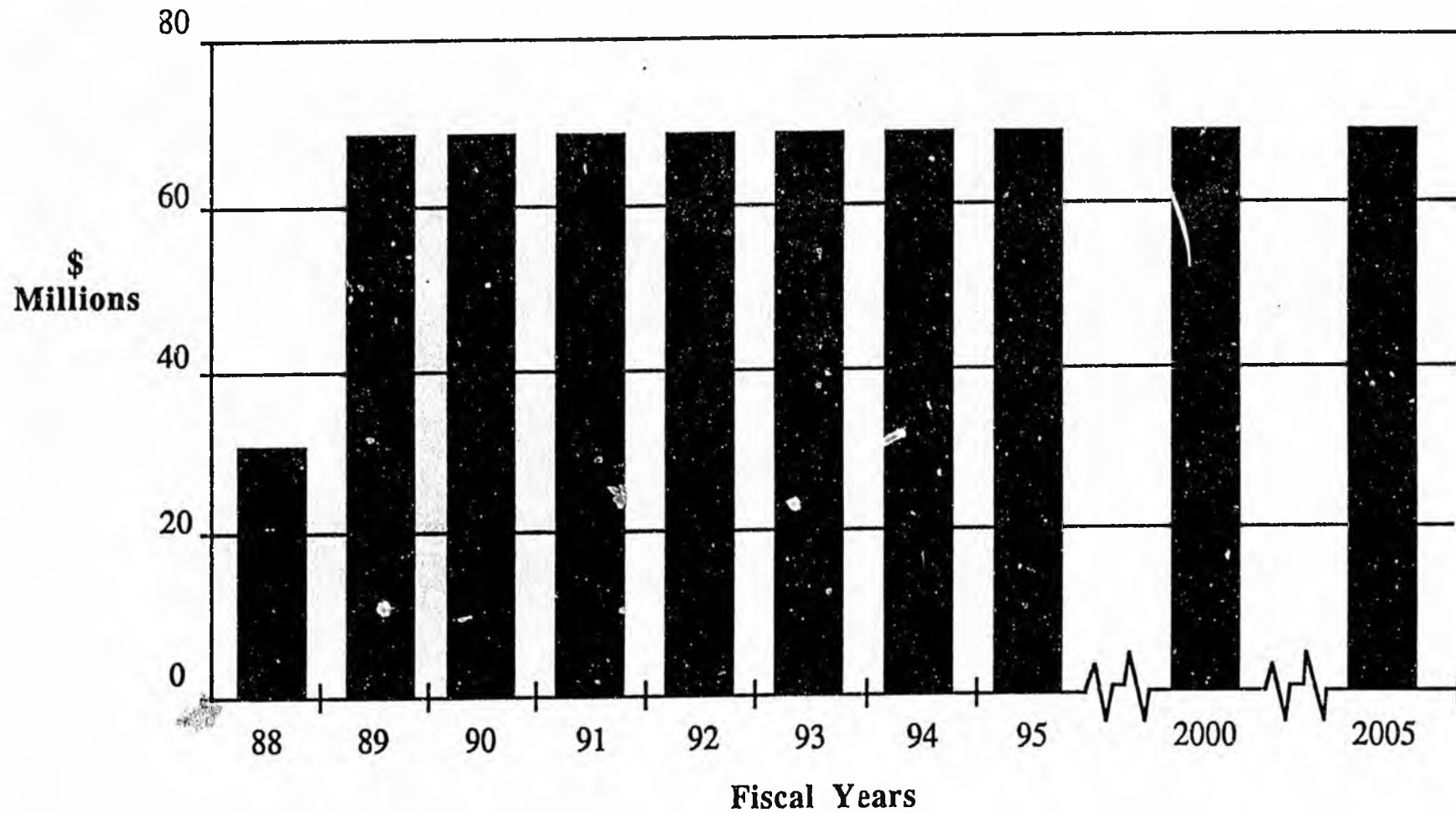


The Permanent Fund

State of Alaska
Office of the Governor
Division of Policy 1/25/88

School Account Earnings Available for Education

From 1988 and 1989 Deposits

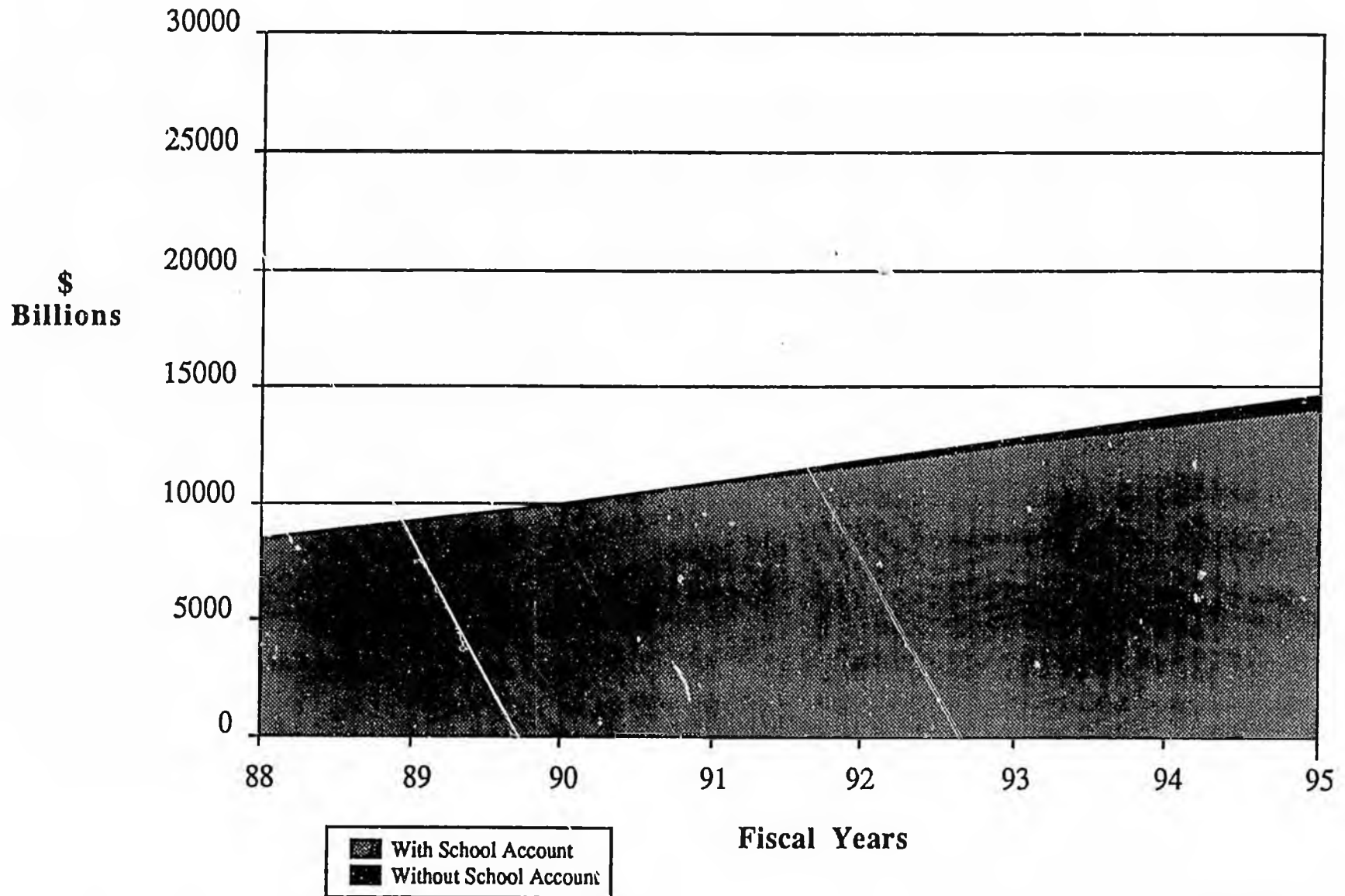


Source: Alaska Permanent Fund Corporation

State of Alaska
Office of the Governor
Division of Policy, 1/25/88

Permanent Fund Principal

With School Account and Without School Account

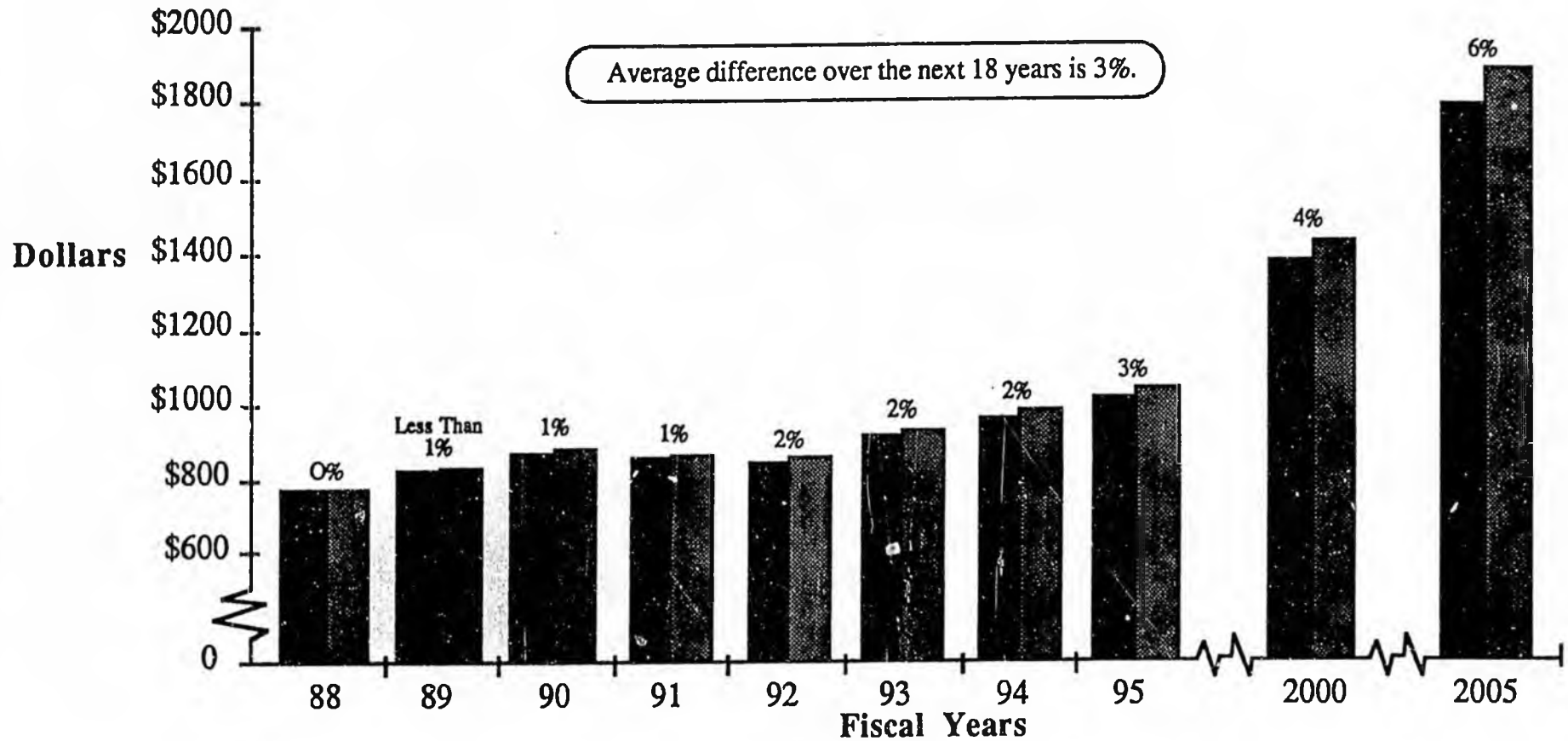


Source: Alaska Permanent Fund Corporation

State of Alaska
Office of the Governor
Division of Policy 1/25/88

Permanent Fund Dividends, Per Person

With School Account and Without School Account



With School Account
 Without School Account
 % Difference

Source: Alaska Permanent Fund Corporation

State of Alaska
 Office of the Governor
 Division of Policy, 1/25/88

Growth in Permanent Fund Dividends

(Actual Dollars)

1987 Permanent Fund Dividend Amount: \$ 701.19

<u>Fiscal Year</u>	<u>Year-by-Year Increase Without School Account</u>	<u>Year-by-Year Increase With School Account</u>	<u>Year-by-Year Difference</u>
88	62.89	62.89	0
89	62.79	56.98	5.81
90	48.60	40.78	7.82
91	(9.26)	(10.88)	(1.62)
92	(4.64)	(7.35)	(2.71)
93	64.67	60.68	3.99
94	61.97	56.36	5.61
95	65.60	59.17	6.43
96	69.17	62.56	6.61
97	72.52	65.42	7.10
98	75.06	67.67	7.39
99	77.91	70.03	7.88
2000	80.87	72.88	7.99
2001	83.93	75.65	8.28
2002	87.30	78.56	8.74
2003	90.45	81.42	9.03
2004	93.89	84.23	9.66
2005	100.90	91.15	9.75



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of November 30, 1987

FY	PRINCIPAL						INCOME					Reserves		FY
	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	
								Dividends	Per Capita Dividends**	Inflation Proofing				
78			54		54		2				1			78
79	54		84		139		8				7			79
80	139		344		483		32	12			12			80
81	483	900	385		1,769		150	28			28	59	59	81
82	1,769	800	401		2,969		368	71	\$1,000.00		71	185	244	82
83	2,969	400	421	231	4,021		471	108	\$386.15	231	110	110	354	83
84	4,021	300	366	151	4,838		530	175	\$331.29	151		203	557	84
85	4,838	300	368	235	5,741		658	217	\$404.00	235		206	763	85
86	5,741		323	216	6,281		1,021	303	\$556.26	216		502	1,264	86
87	6,281	1,264	171	148	7,864		1,069	391	\$708.19	148		529	529	87
88	7,864		374	297	8,534		752	423	\$771.08	297		32	561	88
89	8,534		211	437	9,183		867	455	\$828.06	437	30	(56)	506	89
90	9,183		238	565	9,986		924	480	\$868.84	565	67	(188)	318	90
91	9,986		238	613	10,837		982	477	\$857.96	613	67	(175)	143	91
92	10,837		236	646	11,719	18	1,046	476	\$850.61	646	67	(143)		92
93	11,719		239	538	12,496	180	1,116	511	\$911.29	538	67			93
94	12,496		228	576	13,300	187	1,188	545	\$967.65	576	67			94
95	13,300		219	616	14,135	195	1,264	581	\$1,026.82	616	67			95
96	14,135		213	657	15,005	204	1,342	618	\$1,089.38	657	67			96
97	15,005		210	699	15,914	214	1,424	658	\$1,154.80	699	67			97
98	15,914		211	743	16,868	224	1,510	699	\$1,222.47	743	67			98
99	16,868		206	790	17,864	235	1,599	743	\$1,292.50	790	67			99
0	17,864		200	838	18,903	246	1,693	788	\$1,365.38	838	67			0
1	18,903		194	889	19,986	257	1,791	835	\$1,441.03	889	67			1
2	19,986		186	941	21,113	269	1,892	884	\$1,519.59	941	67			2
3	21,113		177	996	22,285	282	1,998	935	\$1,601.01	996	67			3
4	22,285		175	1,053	23,513	295	2,108	989	\$1,685.24	1,053	67			4
5	23,513		172	1,113	24,797	309	2,224	1,044	\$1,776.39	1,113	67			5

Cumulative Totals:		3,964	6,843	13,990	24,797	3,113	30,029	13,444	\$24,616.00	13,990	1,331	1,264	-----	

ASSUMPTIONS:

3.60% Inflation Rate FY 88
8.92% Rate of Return FY 88

5.00% Inflation Rate FY 89
9.00% Rate of Return FY 89

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

1/22/88

"School Account" Established
Within the Principal of the PF;
Capitalized With \$329M of FY 88 Earnings and \$409M of FY 89 Earnings

6.00% Inflation Rate FY 90-05
9.00% Rate of Return FY 90-05

** SOURCE: Population Projections From
DOR Revenue Source Book - Page 46



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of November 30, 1987

FY	PRINCIPAL						INCOME					FY End Balance
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall ¹	Net Income	Distributions			Reserves Add (Delete)	
								Per Capita Dividends**	Inflation Proofing	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	354
84	4,021	300	366	151	4,838		530	175	\$331.29	151	203	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	171	148	7,864		1,069	391	\$708.19	148	529	529
88	7,864		374	297	8,534		752	423	\$771.08	297	32	561
89	8,534		211	437	9,183		867	458	\$833.87	437	(29)	533
90	9,183		238	565	9,986		927	487	\$882.47	565	(126)	407
91	9,986		238	613	10,837		991	485	\$873.21	613	(108)	299
92	10,837		236	664	11,737		1,061	485	\$868.57	664	(89)	210
93	11,737		239	719	12,695		1,137	523	\$933.24	719	(105)	106
94	12,695		228	763	13,685	12	1,217	560	\$995.21	763	(106)	
95	13,685		219	701	14,605	133	1,300	599	\$1,060.84	701		
96	14,605		213	746	15,564	143	1,386	641	\$1,130.01	746		
97	15,564		210	792	16,567	154	1,477	684	\$1,202.53	792		
98	16,567		211	841	17,619	165	1,571	730	\$1,277.59	841		
99	17,619		206	893	18,718	177	1,670	778	\$1,355.50	893		
0	18,718		200	946	19,864	189	1,773	827	\$1,436.37	946		
1	19,864		194	1,002	21,060	201	1,881	879	\$1,520.30	1,002		
2	21,060		186	1,060	22,306	215	1,994	933	\$1,607.60	1,060		
3	22,306		177	1,121	23,603	229	2,111	990	\$1,698.05	1,121		
4	23,603		175	1,184	24,962	243	2,233	1,049	\$1,791.94	1,184		
5	24,962		172	1,250	26,383	258	2,361	1,111	\$1,892.84	1,250		

Cumulative Totals:	3,964		6,843	15,575	26,383	2,120	31,016	13,947	\$25,517.10	15,575	229	1,264
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ASSUMPTIONS: 3.60% Inflation Rate FY 88 5.00% Inflation Rate FY 89 * SOURCE: Alaska Department of Revenue
 ----- 8.92% Rate of Return FY 88 9.00% Rate of Return FY 89 30% Case Forecast - September 1987

1/22/88 Status Quo; Includes Dinkum Sands Deposit 6.00% Inflation Rate FY 90-05 ** SOURCE: Population Projections From
 ----- 9.00% Rate of Return FY 90-05 DOR Revenue Source Book - Page 46



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

Comparison of "School Account" Proposal Vs. Status Quo (Page 1 of 2)

FY	PRINCIPAL			INFLATION-PROOFING SHORTFALL			NET INCOME			PER CAPITA DIVIDENDS			FY
	Governor's Proposal	Status Quo	(Difference)	Governor's Proposal	Status Quo	Difference	Governor's Proposal	Status Quo	(Difference)	Governor's Proposal	Status Quo	(Difference)	
78	54	54					2	2					78
79	139	139					8	8					79
80	483	483					32	32					80
81	1,769	1,769					150	150					81
82	2,969	2,969					368	368		\$1,000.00	\$1,000.00		82
83	4,021	4,021					471	471		\$386.15	\$386.15		83
84	4,838	4,838					530	530		\$331.29	\$331.29		84
85	5,741	5,741					658	658		\$404.00	\$404.00		85
86	6,281	6,281					1,021	1,021		\$556.26	\$556.26		86
87	7,864	7,864					1,069	1,069		\$708.19	\$708.19		87
88	8,534	8,534					752	752		\$771.08	\$771.08		88
89	9,183	9,183					867	867		\$828.06	\$833.87	(\$5.81)	89
90	9,986	9,986					924	927	(3)	\$868.84	\$882.47	(\$13.63)	90
91	10,837	10,837					982	991	(8)	\$857.96	\$873.21	(\$15.25)	91
92	11,719	11,737	(18)	18	18		1,046	1,061	(15)	\$850.61	\$868.57	(\$17.96)	92
93	12,496	12,695	(199)	180	180		1,116	1,137	(22)	\$911.29	\$933.24	(\$21.95)	93
94	13,300	13,685	(386)	187	12	175	1,188	1,217	(29)	\$967.65	\$995.21	(\$27.55)	94
95	14,135	14,605	(470)	195	133	62	1,264	1,300	(36)	\$1,026.82	\$1,060.84	(\$34.03)	95
96	15,005	15,564	(559)	204	143	61	1,342	1,386	(44)	\$1,089.38	\$1,130.01	(\$40.63)	96
97	15,914	16,567	(653)	214	154	60	1,424	1,477	(53)	\$1,154.80	\$1,202.53	(\$47.72)	97
98	16,868	17,619	(751)	224	165	59	1,510	1,571	(62)	\$1,222.47	\$1,277.59	(\$55.12)	98
99	17,864	18,718	(854)	235	177	58	1,599	1,670	(71)	\$1,292.50	\$1,355.50	(\$63.00)	99
0	18,903	19,864	(961)	246	189	57	1,693	1,773	(80)	\$1,365.38	\$1,436.37	(\$70.99)	0
1	19,986	21,060	(1,075)	257	201	56	1,791	1,881	(91)	\$1,441.00	\$1,520.30	(\$79.27)	1
2	21,113	22,306	(1,193)	269	215	54	1,892	1,994	(101)	\$1,519.59	\$1,607.60	(\$88.01)	2
3	22,285	23,603	(1,318)	282	229	53	1,998	2,111	(113)	\$1,601.01	\$1,698.05	(\$97.04)	3
4	23,513	24,962	(1,449)	295	243	52	2,108	2,233	(124)	\$1,685.24	\$1,791.94	(\$106.70)	4
5	24,797	26,383	(1,586)	309	258	50	2,224	2,361	(137)	\$1,776.39	\$1,892.84	(\$116.45)	5
Cumulative Totals:		(1,586)		3,113	2,120	993	30,029	31,016	(987)	\$24,616.00	\$25,517.10	(\$901.10)	

ASSUMPTIONS: Based on November 30, 1987 Financial Projections, Including Deposit of \$145M From Dinkum Sands.

1/22/88



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

Comparison of "School Account" Proposal Vs. Status Quo (Page 1 of 2)

FY	DIVIDEND DISTRIBUTION			GENERAL FUND DISTRIBUTION			TOTAL INCOME PAID OUT		
	Governor's Proposal	Status Quo	(Difference)	Governor's Proposal	Status Quo	Difference	Governor's Proposal	Status Quo	Difference
78				1	1		1	1	
79				7	7		7	7	
80	12	12		12	12		24	24	
81	28	28		28	28		56	56	
82	71	71		71	71		142	142	
83	108	108		110	110		218	218	
84	175	175					175	175	
85	217	217					217	217	
86	303	303					303	303	
87	391	391					391	391	
88	423	423					423	423	
89	455	458	(3)	30		30	485	458	27
90	480	487	(7)	67		67	547	487	60
91	477	485	(8)	67		67	544	485	59
92	476	485	(10)	67		67	543	485	57
93	511	523	(12)	67		67	578	523	55
94	545	560	(15)	67		67	612	560	52
95	581	599	(19)	67		67	648	599	48
96	618	641	(22)	67		67	685	641	45
97	658	684	(26)	67		67	725	684	41
98	699	730	(31)	67		67	766	730	37
99	743	778	(35)	67		67	810	778	32
	788	827	(40)	67		67	855	827	27
1	835	879	(44)	67		67	902	879	23
2	884	933	(50)	67		67	951	933	18
3	935	990	(55)	67		67	1,002	990	12
4	989	1,049	(61)	67		67	1,056	1,049	7
5	1,044	1,111	(66)	67		67	1,111	1,111	1
Cumulative Totals:	13,444	13,947	(503)	1,331	229	1,102	14,775	14,176	599

ASSUMPTIONS: Based on November 30, 1987 Financial Projections, Including Deposit of \$1451 From Dinkum Sands.

1/22/88