

HB

160

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

450

Bill Version: CSIB 160(Fin)
Publish Date: HOUSE 5/15/87

REQUEST: _____
 Revision Date: _____
 Title: Establishing the Commission
on the Future of the Permanent Fund
 Sponsor: Boucher and Davidson
 Requestor: House Finance Committee

Agency Affected: Revenue
 BRU: _____
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

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Funds will be absorbed in FY ~~88~~ Permanent Fund Corporation's budget.

AYA

Prepared by: Al Adams, Chair Phone: 465-3706
 Division: House Finance Committee Date: 5/15/87

Approved by Commissioner: _____ Date: _____
 Agency: _____

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

TESTIMONY BY: DAVE ROSE

BEFORE HOUSE STATE AFFAIRS 04/03/88

IN SUPPORT OF HB 160

+1/87
APFC

THE FUND AND THE FUTURE

AS YOU KNOW, THE PERMANENT FUND WAS CREATED BY A VOTE OF THE PEOPLE IN NOVEMBER 1976, AND RECEIVED ITS FIRST DEPOSIT OF DEDICATED OIL REVENUES IN FEBRUARY 1977. NOW, IN THE SPRING OF 1987, THE FUND IS JUST A LITTLE OVER 10 YEARS OLD.

DESPITE ITS RELATIVELY RECENT CREATION, AND AFTER ONLY ONE DECADE OF PRUDENT INVESTMENT, THE PRINCIPAL OF THE PERMANENT FUND HAS ALREADY GROWN TO NEARLY \$8 BILLION, AND THE CUMULATIVE EARNINGS OF THE FUND HAVE ALREADY REACHED MORE THAN \$3.2 BILLION - WITH ANOTHER BILLION DOLLARS PLUS IN INCOME EXPECTED THIS FISCAL YEAR. WITH THAT KIND OF FINANCIAL CLOUT, YOUR FUND HAS, WITHOUT QUESTION, ESTABLISHED ITSELF AS A MAJOR FINANCIAL FORCE BOTH WITHIN AND WITHOUT THE STATE OF ALASKA.

LET'S CONSIDER FOR A MOMENT HOW THE PERMANENT FUND COMPARES IN SIZE TO OTHER LARGE FUNDS "OUTSIDE":

* THE ALASKA PERMANENT FUND IS LARGER THAN ANY ENDOWMENT FUND. IT IS LARGER THAN THE TEXAS PERMANENT SCHOOL FUND, THE HARVARD UNIVERSITY ENDOWMENT, AND THE PRINCETON, YALE AND STANFORD ENDOWMENTS ALL PUT TOGETHER.

* THE ALASKA PERMANENT FUND IS LARGER THAN ANY PRIVATE FOUNDATION. IT IS LARGER THAN THE FORD FOUNDATION, THE J. PAUL GETTY TRUST, AND THE ROCKEFELLER FOUNDATION.

* THE ALASKA PERMANENT FUND IS LARGER THAN ANY UNION PENSION TRUST. IT IS LARGER THAN ANY SINGLE RETIREMENT FUND OF THE TEAMSTERS, THE ELECTRICAL WORKERS, OR THE UNITED MINE WORKERS.

* IF THE ALASKA PERMANENT FUND WERE A CORPORATE PENSION FUND, IT WOULD BE THE FOURTEENTH LARGEST.

* IF THE ALASKA PERMANENT FUND WERE A GOVERNMENT PENSION FUND, IT WOULD BE THE EIGHTEENTH LARGEST.

* IF THE ALASKA PERMANENT FUND WERE A FORTUNE 500 COMPANY, IT WOULD RANK FIFTEENTH IN TERMS OF NET INCOME - SMALLER ONLY THAN GM, EXXON, MOBIL, FORD, IBM, TEXACO, CHEVRON, AT&T, DU PONT, GE, AMOCO, CHRYSLER, SHELL OIL, AND PHILIP MORRIS.

IN SHORT, THERE ARE FEW FUNDS LARGER THAN THE PERMANENT FUND, BUT YOUR FUND IS ONE OF THE LARGEST IN THE COUNTRY, AND CERTAINLY THE MOST UNIQUE. IN ALASKA, IT IS THE LARGEST PRODUCER OF NET INCOME IN OUR STATE OTHER THAN THE PETROLEUM INDUSTRY.

TO GIVE YOU AN IDEA JUST HOW SIGNIFICANT THE EARNINGS OF THE PERMANENT FUND ARE BECOMING WITHIN ALASKA, CONSIDER THE IMPACT OF JUST THAT PORTION OF FUND INCOME WHICH IS PAID OUT ANNUALLY IN DIVIDENDS. DID YOU KNOW THAT DIVIDENDS CONTRIBUTE MORE TO THE ECONOMY OF THE STATE OF ALASKA THAN SPENDING BY THE U.S. ARMY? IT'S TRUE. THIS YEAR, THE U.S. ARMY IS EXPECTED TO SPEND \$369 MILLION IN PURCHASES AND SALARIES IN ALASKA. THE 1987 PERMANENT FUND DIVIDEND PROGRAM ALONE WILL EXCEED THAT BY \$20 MILLION.

O.K. NOW LETS GET TO THE HEART OF THE MATTER. LETS DISCUSS HOW SHORT-TERM DECISIONS, BASED ON SHORT-TERM PROBLEMS CAN DO DAMAGE IN THE LONG RUN.

LETS TALK ABOUT THE NEED TO COMMUNICATE, THE NEED TO GET THE PUBLIC INVOLVED, THE NEED TO BE MORE DELIBERATIVE AND LESS "KNEE-JERK" IN CHARACTER.

LETS START BY LOOKING AT THIS CHART. (EXPLAIN THE DIFFERENCE A QUARTER'S PROJECTIONS CAN MAKE)

WHAT ARE THE LESSONS OF ALBERTA'S HERITAGE FUND? A FUND STARTED THE SAME YEAR AS OURS BUT OPERATING UNDER DIFFERENT GROUND RULES. WE HAVE LEARNED THAT A PUBLIC WHICH ISN'T KEPT INFORMED AND INVOLVED IN THE DECISION-MAKING, CAN FIND ITSELF WITH A FUND THAT IS CHARACTERIZED BY A LACK OF ACCOUNTABILITY WHICH, IN TURN CAN LEAD TO POLITICAL (MIS)MANAGEMENT, POOR INVESTMENTS, AND A NOT-VERY-BRIGHT-FUTURE.

WE CAN LEARN FROM ALBERTA THAT:

- A FUND (NO MATTER HOW LARGE IT IS) CANNOT BE ALL THINGS TO ALL PEOPLE; IT IS BETTER TO HAVE A MORE REALISTIC EXPECTATION;

- IN 1983, THE 30% OF OIL REVENUES THAT USED TO FLOW TO THE FUND WAS REDUCED TO 15%, AND ALSO ALL EARNINGS FROM THAT POINT ON WERE DEVOTED TO THE GENERAL FUND;

- NOW, JUST TWO DAYS AGO, THE DECISION WAS UNDERTAKEN NOT TO CONTRIBUTE EVEN THE 15%; IN OTHER WORDS, NO NEW MONEY WILL BE GOING INTO THE ALBERTA HERITAGE TRUST. NOT ONLY WILL IT STOP GROWING IN NOMINAL TERMS, IT WILL, OF COURSE, BEGIN TO DISSIPATE IN REAL TERMS BECAUSE IT WILL NOT BE KEEPING UP WITH INFLATION, AND THE QUALITY OF ITS INVESTMENTS ARE SUCH THAT THE PRINCIPAL HAS ALREADY BEGUN TO ERODE (EVEN IN NOMINAL TERMS). IN ADDITION, THE FUND HAS BEGUN MAKING INTEREST FREE LOANS TO THE GOVERNMENT. IT IS NOW COMPLETELY A TOOL OF

GOVERNMENT FISCAL MANAGEMENT, AND MANY OF THE PEOPLE OF ALBERTA PROBABLY NEVER WILL HAVE ANYTHING TO SHOW FOR ITS EXISTENCE IN THE FUTURE.

IF YOU DON'T MAKE LONG-TERM DECISIONS AND POLICY TO FIT A LONG-TERM FUND --- YOU WILL HAVE A SHORT-TERM FUND OR NO FUND AT ALL!!
WHEN CONSIDERING CHANGE OF THE FUND'S MANAGEMENT ACT, I CANNOT EMPHASIZE TOO STRONGLY BOTH THE NEED FOR A DELIBERATIVE PROCESS AND ONE IN WHICH THE PUBLIC IS INVOLVED.

* IT TOOK FOUR YEARS - FROM 1976 TO 1980 - TO CONCEIVE, CONSIDER, DEBATE AND DECIDE UPON THE EXISTING MANAGEMENT SYSTEM FOR THE PERMANENT FUND, AND ANOTHER TWO YEARS TO SETTLE ON THE EXISTING DISTRIBUTION SYSTEM - I.E. DIVIDENDS, INFLATION-PROOFING AND RESERVES. ALL ALASKANS HAVE BEEN AND CONTINUE TO BE WELL-SERVED BY THIS KIND OF CAREFUL DELIBERATIVE PROCESS.

* ALOT OF EFFORT HAS BEEN SPENT OVER THE LAST TEN YEARS ENSURING THAT ALL ALASKANS UNDERSTAND THAT THE PERMANENT FUND BELONGS TO THEM, THAT IT IS THEIR MONEY, THEIR CHILDREN'S MONEY, AND THAT HAS BEEN AN IMPORTANT AND WORTHWHILE EFFORT. MUCH OF THE CREDIT FOR THE SPECIAL APPROPRIATIONS MADE BY THE LEGISLATURE (WITH ALL DUE RESPECT TO THE LEGISLATORS) IS REALLY DUE TO THE PUBLIC AT-LARGE WHO HAVE VOICED SUCH STRONG AND CONSISTENT SUPPORT FOR THEIR PERMANENT FUND.

* AT THE CORPORATION, PUBLIC INFORMATION IS A HIGH PRIORITY. WE GIVE ALOT OF SPEECHES, DISTRIBUTE ALOT OF WRITTEN MATERIAL - ANNUAL REPORTS, DIVIDEND BROCHURES, MONTHLY FINANCIALS, ETC, AND WE FIND AN ENORMOUS NEED AND DESIRE FOR THE INFORMATION, AND AN ENORMOUS GRATITUDE WHEN IT IS PROVIDED.

* ALLOWING AND ENCOURAGING THE PUBLIC TO GET INVOLVED IN DECISION-MAKING REGARDING THE BEST USE OF THE PERMANENT FUND (AND ITS EARNINGS) WILL PAY BIG DIVIDENDS IN THE FUTURE - IN TERMS OF CONTINUED SUPPORT FOR ADDITIONAL APPROPRIATIONS IN THE FUTURE, IN TERMS OF ENSURING THAT THE PUBLIC UNDERSTAND THE COMMENDABLE PUBLIC RECORD THAT THE LEGISLATURE HAS DEVELOPED AS REGARDS THE PERMANENT FUND, IN TERMS OF A HEIGHTENED AWARENESS OF ALL THE MAJOR PUBLIC POLICY ISSUES WHICH WILL BE DEBATED IN THE FUTURE (BECAUSE IN DEBATING WHETHER OR NOT TO USE PERMANENT FUND EARNINGS, ONE HAS TO CONSIDER THE QUESTION IN TANDEM WITH ITEMS LIKE THE INCOME TAX, LIKE THE ELF, LIKE CAPITAL PROJECTS.)

* YOU CANNOT POINT TO ANY DISADVANTAGE OF AN INFORMED CONSTITUENCY. IN EVERY INSTANCE, INFORMED DECISION-MAKERS MAKE THE BEST DECISIONS. IN A CASE LIKE THIS WHERE WE ARE TALKING ABOUT A LONG-TERM INSTITUTION LIKE THE PERMANENT FUND, YOU CAN TAKE THE TIME TO MOVE SLOWLY. ON THE TRUSTEE AND STAFF SIDE, WE MOVE SLOWLY, AND IT HAS PAID OFF.

* AS THIS COMMITTEE KNOWS (BECAUSE YOU HAVE RECEIVED SO MANY OF THE BILLS), THERE IS A GREAT DEAL OF LEGISLATIVE INTEREST IN THE PERMANENT FUND. TO DATE, THERE HAVE BEEN 44 SEPARATE PIECES OF LEGISLATION INTRODUCED RELATING EITHER DIRECTLY OR INDIRECTLY TO THE PERMANENT FUND. THERE WILL BE MORE, PROBABLY NEXT WEEK. IN ADDITION, STAFF HAS DONE FINANCIAL PROJECTIONS ON AT LEAST ANOTHER 25 OTHER PROPOSALS WHICH HAVE NOT YET BEEN INTRODUCED AS LEGISLATION, BUT WHICH ARE OPTIONS UNDER CONSIDERATION. AND THERE ARE LIKELY TO BE MORE OF THESE AS WELL. TOGETHER, THESE PROPOSALS TELL ME SEVERAL THINGS:

* FIRST, THE PERMANENT FUND IS GOING TO PLAY A BIG ROLE IN ALASKA'S FUTURE. IT'S UNAVOIDABLE, WHETHER YOU ARE TALKING ABOUT POSSIBLY FUNDING GOVERNMENT PROGRAMS WITH DIVIDEND CHECKOFFS, USE OF THE EARNINGS RESERVE ACCOUNT, CAPPING THE DIVIDENDS, ETC. THE PERMANENT FUND WILL BE A PART OF THE DEBATE.

* SECOND, THERE ARE A LOT OF ALTERNATIVES TO CONSIDER, AND EACH ONE DESERVES CAREFUL CONSIDERATION FOR ITS IMPACT IN THE PRESENT AND THE FUTURE.

* THIRD, IT IS GOING TO TAKE SOME TIME TO MAKE ALL THE OPTIONS AVAILABLE TO THE PUBLIC IN A MEANINGFUL WAY SO THEY CAN MAKE INFORMED DECISIONS.

* FOURTH, GIVEN THE RECENT RISE IN OIL REVENUES, PERHAPS WE HAVE THE OPTION ONCE AGAIN, TO PUT OFF MAKING ANY MAJOR DECISIONS ABOUT THE USE OF PERMANENT FUND EARNINGS FOR AWHILE. MAYBE WE OUGHT TO USE THAT TIME TO BUILD UP THE FUND AS MUCH AS POSSIBLE FOR THE RAINY DAY WHICH WILL SURELY FOLLOW THE DECLINE OF REVENUES.

THE ALASKA PERMANENT FUND CORPORATION WOULD BE HAPPY TO WORK WITH THE COMMISSION. WE THINK IT IS IMPORTANT TO ALLOW THE DEBATE TO FOCUS JUST AS MUCH - PERHAPS MORE - ON THE LONG-TERM CONSEQUENCES AS THE SHORT-TERM. THERE IS NO DOUBT THAT THE DECISIONS WHICH WILL BE MADE ABOUT THE PERMANENT FUND IN THE NEXT FEW YEARS WILL HAVE IMPORTANT AND FAR-REACHING CONSEQUENCES IN 25, 50, EVEN 100 YEARS FROM NOW. WE

CAN BE CONFIDENT, HOWEVER, THAT IF WE ARE AS PRUDENT, IF WE ARE AS DELIBERATIVE, IF WE ARE AS INFORMED, AND IF WE ARE AS COMMUNICATIVE WITH THE PUBLIC IN THE FUTURE AS WE HAVE BEEN IN THE PAST, THEN ALL OF US --- AND THOSE OF THE GENERATIONS AHEAD --- WILL BE WELL SERVED. I BELIEVE THAT HB 160 SETS THE STAGE FOR THIS FUTURE.