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HOUSE COMMITTEE REPORT

FILE

(11)

Date Referred: April 26, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/22/90

The FINANCE Committee considered:

HB 249

HOUSE BILL NO. 249 [INCOME OF PERMANENT FUND]
 "An Act relating to income from the permanent fund."

RECOMMENDATIONS:

- be replaced with CS HB 249 (FIN) the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S): _____ APPROVES PREVIOUS: _____
 (Dept) (Date/Dept)

- fiscal impact _____ fiscal note(s) _____
- zero fiscal note A-FIN CMTE. zero fiscal note(s) _____
- zero with analysis _____ zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
 (Check approp. column)

Do Not
Pass
No Rec
Amend

<u>[Signature]</u> Rieger	<u>[Signature]</u> CARSON		
<u>[Signature]</u> Swackhammer	<u>[Signature]</u> Hoffman	X	
<u>[Signature]</u> Brown	<u>[Signature]</u> Barnes	X	
<u>[Signature]</u> Koponen	<u>[Signature]</u> Shultz	X	
<u>[Signature]</u> Uimer	<u>[Signature]</u> wallis	✓	
<u>[Signature]</u> Phillips			

[Signature] Hoffman
 Chairman's signature CARSON
[Signature]

FISCAL NOTE

REQUEST: _____

Revision Date: _____
 Title: An Act relating to income from the permanent fund
 Sponsor: House Finance
 Requestor: House Finance committee

Agency Affected: Revenue
 BRU: Permanent Fund Dividend Division
Alaska Permanent Fund Corporation
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: House Finance Committee Phone: 465-3727
 Division: Co-Chairman Ron Larson Date: 4/22/90

Approved by Commissioner: Co-Chairman Lyman Hoffman Date: 4/22/90
 Agency: Lyman Hoffman

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

Adopted

Original sponsor(s): Finance Committee

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 249 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to income from the permanent fund."

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

8 * Section 1. AS 37.13.140 is amended to read:

9 Sec. 37.13.140. INCOME. (a) Real [NET] income of the corpora-
10 tion shall be computed annually as of the last day of the fiscal year
11 in accordance with generally accepted accounting principles, excluding

12 (1) any unrealized gains or losses; and

13 (2) an amount determined by the corporation to be suffi-
14 cient to offset the effect of inflation on principal of the Alaska
15 permanent fund during that year, as measured by the change in the
16 calendar year average United States consumer price index for all urban
17 consumers, multiplied by the average principal balance of the fund
18 during that year.

19 (b) The amount calculated under (a)(2) of this section shall be
20 treated as a return of capital to the principal of the permanent fund
21 and shall be transferred by the corporation to the principal of the
22 permanent fund.

23 (c) For reporting purposes, the corporation may compute net
24 income by any method that accords with generally accepted accounting
25 principles.

26 (d) Income available for distribution equals 21 percent of the
27 real [NET] income of the corporation for the last five fiscal years,
28 including the fiscal year just ended, but may not exceed real [NET]
29 income of the corporation for the fiscal year just ended plus the

1 balance in the earnings reserve account described in AS 37.13.145.
2 For years in which real income was not calculated, net income shall be
3 used for purposes of determining the income available for distribu-
4 tion.

5 * Sec. 2. AS 37.13.145 is amended to read:

6 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each
7 fiscal year, [AN AMOUNT SUFFICIENT TO OFFSET THE EFFECT OF INFLATION
8 ON PRINCIPAL OF THE ALASKA PERMANENT FUND DURING THAT YEAR, AS
9 MEASURED BY THE CHANGE IN THE CALENDAR YEAR AVERAGE UNITED STATES
10 CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS SHALL BE TRANSFERRED FROM
11 NET INCOME AS DEFINED IN AS 37.13.140, EXCLUDING INCOME ON THE EARN-
12 INGS RESERVE ACCOUNT IN THE ALASKA PERMANENT FUND, TO THE PRINCIPAL OF
13 THE ALASKA PERMANENT FUND FOR REINVESTMENT. THE BALANCE OF] the
14 income available for distribution under AS 37.13.140 shall be trans-
15 ferred by the corporation to the earnings reserve account in the
16 Alaska permanent fund. Money in the earnings reserve account shall be
17 invested in investments authorized under AS 37.13.120. Income from
18 the investment of the earnings reserve account shall be treated as an
19 addition to that account.

20 * Sec. 3. AS 43.23.045(b) is amended to read:

21 (b) Notwithstanding any contrary provision of law, each year the
22 Alaska Permanent Fund Corporation [COMMISSIONER] shall transfer to the
23 dividend fund 50 percent of the income of the Alaska permanent fund
24 earned during the fiscal year ending on June 30 of the current year
25 and available for distribution under AS 37.13.140(d). However, income
26 earned on money awarded after trial in State v. Amerada Hess, et al.,
27 [JU-77-847 Civ. (Superior Court, First Judicial District) shall be
28 treated in the same manner as other income of the Alaska permanent
29 fund, except that it is not available for distribution to the dividend

1 fund, and shall be annually deposited into the principal of the Alaska
2 permanent fund. If the commissioner of revenue determines that the
3 amount of a permanent fund dividend will be less than \$873, the com-
4 missioner shall notify the corporation. Notwithstanding AS 37.13.145,
5 the corporation shall transfer from the real income calculated under
6 AS 37.13.140 to the dividend fund the amount needed to ensure that the
7 dividend for that year equals \$873. If the amount of real income is
8 insufficient for this purpose, the corporation shall transfer from the
9 earnings reserve account the additional amount needed to ensure that
10 the dividend equals \$873, or the balance in the account, whichever is
11 less.

(Reger)

6-0768M
Cook
4/3/90

Original sponsor(s): Finance Committee

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 249 ()
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the permanent fund, the Alaska
7 Permanent Fund Corporation, and disposition of income
8 from the permanent fund; and providing for an effec-
9 tive date."

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

11 * Section 1. AS 37.13.010(a) is amended to read:

12 (a) Under art. IX, sec. 15 of the state constitution, there is
13 established as a separate fund the Alaska permanent fund. The [ALASKA
14 PERMANENT] fund consists of

15 (1) 25 percent of all mineral lease rentals, royalties,
16 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
17 (g), and federal mineral revenue sharing payments received by the
18 state from mineral leases issued on or before December 1, 1979, and 25
19 percent of all bonuses received by the state from mineral leases
20 issued on or before February 15, 1980;

21 (2) 50 percent of all mineral lease rentals, royalties,
22 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
23 (g), and federal mineral revenue sharing payments received by the
24 state from mineral leases issued after December 1, 1979, and 50 per-
25 cent of all bonuses received by the state from mineral leases issued
26 after February 15, 1980;

27 (3) interest earned by the state on money described in (1)
28 and (2) of this subsection before that money is deposited in the fund;

29 (4) any other money appropriated to or otherwise allocated

1 by law to the [ALASKA PERMANENT] fund.

2 * Sec. 2. AS 37.13.020 is amended to read:

3 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
4 tional amendment, have required the placement of at least 25 percent
5 of all mineral lease rentals, royalties, royalty sale proceeds, and
6 federal mineral revenue sharing payments and bonuses received by the
7 state into a permanent fund. The legislature finds with respect to
8 the fund [ALASKA PERMANENT FUND CORPORATION] that

9 (1) the fund [CORPORATION] should provide a means of con-
10 serving a portion of the state's revenue from mineral resources to
11 benefit all generations of Alaskans;

12 (2) the fund's [CORPORATION'S] goal should be to maintain
13 safety of principal while maximizing total return;

14 (3) the fund [CORPORATION] should be used as a savings
15 device managed to allow the maximum use of disposable income from the
16 fund [CORPORATION] for purposes designated by law.

17 * Sec. 3. AS 37.13.030 is amended to read:

18 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
19 provide a mechanism for the management and investment of those [PERMA-
20 NENT] fund assets by [ALLOCATED TO] the Alaska Permanent Fund Corpora-
21 tion in a manner consistent with the findings in AS 37.13.020.

22 * Sec. 4. AS 37.13.040 is amended to read:

23 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is
24 established the Alaska Permanent Fund Corporation. The corporation is
25 a public corporation and government instrumentality in the Department
26 of Revenue managed by the board of trustees. The purpose of the
27 corporation [BOARD] is to manage and invest the assets of the perma-
28 nent fund and other funds designated by law [CORPORATION] in accor-
29 dance with this chapter.

1 * Sec. 5. AS 37.13.060 is amended to read:

2 Sec. 37.13.060. TERM OF OFFICE. The public members of the board
3 shall be appointed for terms of six [FOUR] years, and they may be
4 reappointed. The terms of the public members shall be staggered so
5 that no more than one term of a public member expires each year.

6 * Sec. 6. AS 37.13.110(b) is amended to read:

7 (b) If a member of the board or an employee of the corporation
8 acquires, owns, or controls an interest, direct or indirect, in an
9 entity or project in which fund [CORPORATION] assets are invested, the
10 member shall immediately disclose the interest to the board. The
11 disclosure is a matter of public record and shall be included in the
12 minutes of the board meeting next following the disclosure.

13 * Sec. 7. AS 37.13.120(a) is amended to read:

14 (a) The prudent-man rule shall be applied by the board in the
15 management and investment of [ALASKA PERMANENT] fund assets. The
16 prudent-man rule as applied to investments of the fund [CORPORATION]
17 means that in making investments the board shall exercise the judgment
18 and care under the circumstances then prevailing that an institutional
19 investor of ordinary prudence, discretion, and intelligence exercises
20 in the management of large investments entrusted to it not in regard
21 to speculation but in regard to the permanent disposition of funds,
22 considering probable safety of capital as well as probable income.

23 * Sec. 8. AS 37.13.120(b) is amended to read:

24 (b) The fund [CORPORATION] assets shall only be used for income-
25 producing investments.

26 * Sec. 9. AS 37.13.120(e) is amended to read:

27 (e) The corporation may not borrow money [FUNDS] or guarantee
28 from principal of the [ALASKA PERMANENT] fund the obligations of
29 others.

1 * Sec. 10. AS 37.13.120(g) is amended to read:

2 (g) Subject to the limitations contained in this section, the
3 board may invest fund [CORPORATION] assets at the competitive national
4 market rates or prices that are applicable to each investment only in

5 (1) obligations of, or obligations insured by or guaranteed
6 by, the United States or agencies or instrumentalities of the United
7 States;

8 (2) obligations secured by reserves paid in by the United
9 States or agencies or instrumentalities of the United States or obli-
10 gations of corporations in which the United States is a shareholder or
11 member;

12 (3) certificates of deposit and term deposits of United
13 States domestic banks that are members of the Federal Deposit Insur-
14 ance Corporation and that may be readily sold in a secondary market at
15 prices reflecting fair value or that are fully secured at all times as
16 to payment of principal and interest as described in (m) of this
17 section;

18 (4) [CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF FEDERALLY
19 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN ALASKA THAT MAY BE READILY
20 SOLD IN A SECONDARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE
21 FULLY SECURED AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS
22 DESCRIBED IN (m) OF THIS SECTION;

23 (5) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF STATE
24 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN ALASKA THAT MAY BE READILY
25 SOLD IN A SECONDARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE
26 FULLY SECURED AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS
27 DESCRIBED IN (m) OF THIS SECTION;

28 (6) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF MUTUAL
29 SAVINGS BANKS IN ALASKA THAT MAY BE READILY SOLD IN A SECONDARY MARKET

1 AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED AT ALL TIMES
2 AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN (m) OF THIS
3 SECTION;

4 (7) FIXED-TERM CERTIFICATES OF INDEBTEDNESS OF FEDERALLY
5 INSURED CREDIT UNIONS IN ALASKA THAT MAY BE READILY SOLD IN A SECON-
6 DARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED
7 AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN
8 (m) OF THIS SECTION;

9 (8)] domestic corporate debt securities that are rated AA
10 or better by a nationally recognized rating service, or nondomestic
11 corporate debt securities of comparable quality;

12 (5) [(9)] short-term

13 (A) domestic corporate promissory notes of the highest
14 ratings assigned by a nationally recognized rating service; [,]
15 or

16 (B) nondomestic corporate promissory notes of compara-
17 ble quality, the interest on which may be payable in either
18 United States dollars or nondomestic currencies;

19 (6) [(10)] bankers' acceptances drawn on and accepted by
20 United States banks each of which has a combined capital and surplus
21 aggregating at least \$200,000,000;

22 (7) [(11)] repurchase agreements, the securities underlying
23 the agreements being any of the items in (1) - (6) [(1) - (3) AND
24 (8) - (10)] of this subsection;

25 (8) [(12) THE GUARANTEED PORTION OF FEDERAL SMALL BUSINESS
26 ADMINISTRATION LOANS;

27 (13) THE PORTION OF FIRST LIEN REAL ESTATE MORTGAGES GUARAN-
28 TEED BY THE FEDERAL VETERANS ADMINISTRATION;

29 (14)] the portions of business and industrial loans made

1 under the Rural Development Act of 1972 that are guaranteed by the
2 Farmers Home Administration;

3 (9) [(15)] the guaranteed portion of Farmers Home Adminis-
4 tration loans;

5 (10) [(16)] notes secured by mortgages granting a first lien
6 on [COMMERCIAL OR] residential real estate improved by completed
7 buildings if the mortgages are insured by a private mortgage insurance
8 corporation that is authorized to do business in this state [ALASKA]
9 and has combined capital and surplus aggregating at least \$20,000,000,
10 and if loan-to-value ratios do not exceed [75 PERCENT FOR COMMERCIAL
11 MORTGAGES AND] 90 percent [FOR RESIDENTIAL MORTGAGES]; however,

12 [(A) MORTGAGE INSURANCE IS NOT NECESSARY FOR COMMERCIAL
13 LOANS HAVING LOAN-TO-VALUE RATIOS OF LESS THAN 50 PERCENT AND THE
14 MINIMUM COVERAGE OF OTHER COMMERCIAL LOANS SHALL BE 10 PERCENT
15 FOR THOSE HAVING A LOAN-TO-VALUE RATIO OF 50 - 60 PERCENT AND 15
16 PERCENT FOR THOSE HAVING A LOAN-TO-VALUE RATIO GREATER THAN 60
17 PERCENT BUT NO MORE THAN 75 PERCENT; AND

18 (B)] mortgage insurance is not necessary for residen-
19 tial loans having a loan-to-value ratio of less than 70 percent
20 and the minimum coverage of other residential loans shall be 10
21 percent for those having a loan-to-value ratio greater than 70
22 percent but less than 90 percent and 20 percent for those having
23 a loan-to-value ratio of 90 percent;

24 (11) [(17)] NOTES SECURED BY MORTGAGES GRANTING A FIRST LIEN
25 ON COMMERCIAL REAL ESTATE IMPROVED BY COMPLETED BUILDINGS IF THE
26 ORIGINATING FINANCIAL INSTITUTION RETAINS AT LEAST 25 PERCENT OF THE
27 MORTGAGE UNTIL MATURITY;

28 (18)] preferred and common stock of corporations incorpo-
29 rated in the United States;

1 (12) [~~(19)~~] certificates of deposit, term deposits, or
2 bankers' acceptances, that are issued by a United States or nondomes-
3 tic bank or trust company located outside of the United States and are
4 denominated in United States or nondomestic currency, if either (A)
5 they may be readily sold in a secondary market at prices reflecting
6 fair value, or (B) the issuing bank or trust company has capital,
7 surplus, and retained earnings at the date of issue equaling at least
8 \$500,000,000; investments made under this paragraph are not subject to
9 the collateral requirements for domestic certificates under (m) of
10 this section;

11 (13) [~~(20)~~] equity interests in, and debt obligations se-
12 cured by mortgages granting a first lien on, real estate improved by
13 completed and substantially rented buildings and located in the United
14 States, if these investments are made

15 (A) in a corporation, partnership, trust, or other
16 entity in which, at the conclusion of each investment trans-
17 action, at least 60 percent of the beneficial ownership interests
18 are held by other institutional investors, and which is organized
19 and operated for the purpose of making real estate investments by
20 a bank, insurance company, or other manager of institutional
21 funds that has had at least five years of experience in the
22 management of real estate investments of institutional investors;
23 or

24 (B) with corporations, partnerships, trusts, or en-
25 tities in which, at the conclusion of each investment trans-
26 action, at least 60 percent of the beneficial ownership interests
27 in the co-investing entity or entities as a whole are held by
28 institutional investors, if

29 (i) at the time of investment the fund has no

1 more than a 40 percent beneficial ownership interest in the
2 real estate invested in as a whole;

3 (ii) the rights and obligations of the fund are
4 substantially similar to those of the other institutional
5 investors, except for the percentage interest in the proper-
6 ty; and

7 (iii) the property is managed and operated by an
8 entity that has had at least five years of experience in the
9 management of real estate investments of institutional
10 investors [IN CONJUNCTION WITH AND ON SUBSTANTIALLY THE SAME
11 TERMS AS AN ENTITY DESCRIBED IN (A) OF THIS PARAGRAPH];

12 (14) [(21)] securities of non-domestic governments and
13 non-domestic government agencies, the principal of, or interest on,
14 which is payable in either United States dollars or non-domestic
15 currencies;

16 (15) [(22)] securities of non-domestic corporations, includ-
17 ing common and preferred stock, whose dividends, if any, may be pay-
18 able in either United States dollars or non-domestic currencies;

19 (16) taxable municipal or state debt securities that are
20 rated "AA" or better by a nationally recognized rating service.

21 * Sec. 11. AS 37.13.120(i) is amended to read:

22 (i) The [ALASKA PERMANENT] fund may at no time own more than
23 five percent of the voting stock of a corporation. Domestic stocks,
24 except for bank and insurance company stocks, must be listed at the
25 date of purchase on an exchange registered with the Securities and
26 Exchange Commission. At the time of each investment, the aggregate
27 investment of the fund in each stated category of investment may not
28 exceed the following stated percentage of the total investments of the
29 fund:

1 (1) mortgages under (g)(10) [(g)(16)] of this section - 15
2 percent;

3 (2) real estate investments under (g)(13) [(g)(20)] of this
4 section - 15 percent;

5 (3) certificates of deposit, term deposit, or bankers'
6 acceptances under (g)(12) [(g)(19)] of this section - 20 percent;

7 (4) securities of nondomestic governments, nondomestic
8 government agencies, and nondomestic corporations under (g)(4), (14),
9 and (15) [(g)(8), (21), AND (22)] of this section, domestic corporate
10 stocks and debt securities under (g)(4) [(g)(8)] and (11) [(18)] of
11 this section, and short-term nondomestic corporate promissory notes
12 under (g)(5)(B) [(g)(9)(B)] of this section - 50 percent.

13 * Sec. 12. AS 37.13.120(j) is amended to read:

14 (j) The assets of the [ALASKA PERMANENT] fund may not be used
15 for the purchase of bonds of a corporation, upon which any regular
16 interest payment has been defaulted within five years before purchase,
17 except bonds never in default but which have been outstanding for less
18 than five years.

19 * Sec. 13. AS 37.13.120(k) is amended to read:

20 (k) The board shall establish and from time to time as necessary
21 modify guidelines for the investment of the assets of the fund [CORPO-
22 RATION]. Before adoption of any guidelines the guidelines shall be
23 reported to the Legislative Budget and Audit Committee for review and
24 comment.

25 * Sec. 14. AS 37.13.120(1) is amended to read:

26 (1) The board shall invest the assets of the fund [CORPORATION]
27 in in-state investments to the extent in-state investments are avail-
28 able if the in-state investments

29 (1) have a risk level and expected yield comparable to

1 alternate investment opportunities; [AND]

2 (2) are included in the list of permissible investments in
3 (g) of this section; and

4 (3) are consistent with prudent portfolio diversification.

5 * Sec. 15. AS 37.13.120(m) is amended to read:

6 (m) Certificates of deposit or the equivalent instruments that
7 are not of a quality that may be readily sold in a secondary market at
8 prices reflecting fair value must be secured by a pledge as collateral
9 of

10 (1) investments authorized for the [ALASKA PERMANENT] fund
11 under (g)(1), (2), (4), or (8) - (10) [(8), OR (12) - (17)] of this
12 section;

13 (2) [OR BY A PLEDGE AS COLLATERAL OF] obligations of the
14 state or instrumentalities of the state that are rated at least "A" by
15 a major bond rating service and have a demonstrated secondary market,
16 which investments or obligations have value at least equal to the face
17 value of the certificate of deposit;

18 (3) the guaranteed portion of Federal Small Business Admin-
19 istration loans;

20 (4) the portion of first lien real estate mortgages guaran-
21 teed by the federal Veterans Administration; or

22 (5) notes secured by mortgages granting a first lien on
23 commercial or residential real estate improved by completed buildings
24 if the originating financial institution retains at least 25 percent
25 of the mortgage until maturity. [THE BOARD MAY REQUIRE SUBSTITUTION
26 OF COLLATERAL IN ORDER TO ENSURE CONTINUED SATISFACTION OF THE RE-
27 QUIREMENTS SET OUT IN THIS SUBSECTION.]

28 * Sec. 16. AS 37.13.120 is amended by adding a new subsection to read:

29 (n) The board may require substitution of collateral in order to

1 ensure continued satisfaction of the requirements set out in (m) of
2 this section.

3 * Sec. 17. AS 37.13.140 is amended to read:

4 Sec. 37.13.140. INCOME. (a) Real [NET] income of the fund
5 includes income of the earnings reserve account established in AS 37.-
6 13.145 and [CORPORATION] shall be computed annually as of the last day
7 of the fiscal year in accordance with generally accepted accounting
8 principles, excluding

9 (1) any unrealized gains or losses; and

10 (2) an amount determined by the corporation to be suffi-
11 cient to offset the effect of inflation on principal of the fund
12 during that year, as measured by the change in the calendar year
13 average United States consumer price index for all urban consumers,
14 multiplied by the average principal balance of the fund during that
15 year.

16 (b) The amount calculated under (a)(2) of this section shall be
17 treated as a return of capital to the principal of the fund and shall
18 be transferred by the corporation to the principal of the fund.

19 (c) For reporting purposes, the corporation may compute net
20 income by any method that accords with generally accepted accounting
21 principles.

22 (d) Income available for distribution equals 21 percent of the
23 real [NET] income of the fund [CORPORATION] for the last five fiscal
24 years, including the fiscal year just ended, but may not exceed real
25 [NET] income of the fund [CORPORATION] for the fiscal year just ended
26 plus the balance in the earnings reserve account described in AS 37.-
27 13.145. For years in which real income was not calculated, net income
28 shall be used for purposes of determining the income available for
29 distribution.

1 * Sec. 18. AS 37.13.145 is repealed and reenacted to read:

2 Sec. 37.13.145. DISPOSITION OF INCOME. (a) The earnings re-
3 serve account is established as a separate account in the fund. At
4 the end of each fiscal year, the income available for distribution
5 calculated under AS 37.13.140 shall be transferred by the corporation
6 to the account. Money in the account shall be invested in investments
7 authorized under AS 37.13.120.

8 (b) At the end of each fiscal year, the corporation shall trans-
9 fer from the earnings reserve account to the dividend fund (AS 43.23.-
10 045) 50 percent of the income available for distribution calculated
11 under AS 37.13.140. However, income earned on money awarded after
12 trial in State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior
13 Court, First Judicial District) shall be treated in the same manner as
14 other income of the permanent fund, except that it is not available
15 for distribution to the dividend fund, and shall be annually deposited
16 into the principal of the permanent fund.

17 (c) After the transfer under (b) of this section, if the commis-
18 sioner of revenue determines that the amount of each permanent fund
19 dividend for that year will be less than \$873, the commissioner shall
20 notify the corporation. The corporation shall transfer from the real
21 income calculated under AS 37.13.140 to the dividend fund the amount
22 needed to ensure that the dividend equals \$873. If the amount of real
23 income is insufficient for this purpose, the corporation shall trans-
24 fer from the earnings reserve account the additional amount needed to
25 ensure that the dividend equals \$873 or the balance in the account,
26 whichever is less.

27 * Sec. 19. AS 37.13.150 is amended to read:

28 Sec. 37.13.150. CORPORATION BUDGET. The revenue generated by
29 the fund's [CORPORATION'S] investments must be identified as the

1 source of the operating budget of the corporation in the state's
2 operating budget under AS 37.07 (Executive Budget Act). The unexpend-
3 ed balance of the corporation's annual operating budget does not lapse
4 at the end of the fiscal year but shall be treated as income under
5 AS 37.13.140.

6 * Sec. 20. AS 37.13.160 is amended to read:

7 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Com-
8 mittee may provide for an annual post audit and annual operational and
9 performance evaluations of the fund's [CORPORATION'S] investments and
10 investment programs.

11 * Sec. 21. AS 37.13.170 is amended to read:

12 Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of
13 each year, the board shall publish a report of the fund [CORPORATION]
14 for distribution to the governor, legislature, and the public. The
15 report shall be written in easily understandable language. The report
16 must include financial statements audited by independent outside
17 auditors, a statement of the amount of money received by the [ALASKA
18 PERMANENT] fund from each investment during the period covered, a
19 statement of investments of the fund [CORPORATION] including an ap-
20 praisal at market value, a description of fund [CORPORATION] invest-
21 ment activity during the period covered by the report, a comparison of
22 the fund [CORPORATION] performance with the intended goals contained
23 in AS 37.13.020, an examination of the impact of the investment cri-
24 teria of this chapter on the fund [CORPORATION] portfolio with recom-
25 mendations of any needed changes, and any other information the board
26 believes would be of interest to the governor, the legislature, and
27 the public. The annual income statement and balance sheet of the fund
28 [CORPORATION] shall be published in at least one newspaper in each
29 judicial district. The income statement and balance sheet for the two

1 fiscal years preceding the publication of the election pamphlet under
2 AS 15.58 shall be included in that pamphlet.

3 * Sec. 22. AS 37.13.180 is amended to read:

4 Sec. 37.13.180. TAX EXEMPTION. The corporation and the fund
5 are [IS] exempt from all taxes and assessments in the state. All
6 security instruments issued by the corporation or the fund, their
7 transfer, and their income are exempt from all taxes and assessments
8 in the state.

9 * Sec. 23. AS 37.13.190 is amended to read:

10 Sec. 37.13.190. POLITICAL ACTIVITIES. The resources of the
11 corporation or the fund may not be used to finance or influence polit-
12 ical activities.

13 * Sec. 24. AS 37.13.210 is amended by adding a new paragraph to read:

14 (3) "fund" means the Alaska permanent fund established
15 under art. IX, sec. 15, Constitution of the State of Alaska.

16 * Sec. 25. AS 43.23.025(a) is amended to read:

17 (a) By October 1 of each year the commissioner shall give public
18 notice of the value of each permanent fund dividend for that year.
19 The public notice shall contain a statement disclosing the amount by
20 which each individual dividend has been reduced in order to pay the
21 costs of administering the program and the hold harmless provisions of
22 AS 43.23.075. The commissioner shall also include the statement on the
23 stub attached to each individual dividend check. The commissioner
24 shall determine the value of a permanent fund dividend by

25 (1) determining the total amount available for dividend
26 payments, which equals

27 (A) the amount of income of the Alaska permanent fund
28 transferred to the dividend fund under AS 37.13.145(b) and (c)
29 [AS 43.23.045(b)] during the current year;

1 (B) plus the unexpended and unobligated balances of
2 prior fiscal year appropriations that lapse into the dividend
3 fund under AS 43.23.045(d);

4 (C) less the amount necessary to pay dividends from
5 the dividend fund in the current year under AS 43.23.055(3);

6 (D) less the amount necessary to pay dividends from
7 the dividend fund due to eligible applicants who, as determined
8 by the department, filed for a previous year's dividend by the
9 filing deadline but who were not included in a previous year's
10 dividend computation;

11 (2) determining the number of individuals eligible to
12 receive a dividend payment for the current year; and

13 (3) dividing the amount determined under (1) of this sec-
14 tion by the amount determined under (2) of this section.

15 * Sec. 26. AS 43.23.045(b) is repealed.

16 * Sec. 27. Notwithstanding AS 37.13.060, as amended in sec. 5 of this
17 Act, the members of the board of the Alaska Permanent Fund Corporation in
18 office on the effective date of this Act serve only the period of the term
19 of office to which they were appointed.

20 * Sec. 28. This Act takes effect July 1, 1990.

Item 3

Back-up



Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telecopy (907) 586-2057

MEMORANDUM

DATE: April 7, 1989

TO: Representative Steve Reiger

FROM: Jim Kelly JK
Research & Liaison Officer

SUBJECT: Analysis of Proposed Committee Substitute for
House Bill No. 249 (State Affairs)

Attached are three financial projections prepared by the Alaska Permanent Fund Corporation at your request.

Financial Projection #1: This is the status quo case as of February 28, 1989. It provides the benchmark against which to compare and contrast any changes to current law.

Financial Projection #2: This projection depicts the impacts of the proposed Committee Substitute for House Bill No. 249 (State Affairs). It is the Corporation's understanding that this bill would work as follows:

- 1) beginning in fiscal 1990, inflation-proofing would be made the first priority use of Fund income;
- 2) the dividend formula would be changed to figure the calculations on "real" income rather than "net" income; this change in the formula would begin phasing in in fiscal 1990;
- 3) notwithstanding the dividend formula, a \$750 floor would be in place for per capita dividends for every year in the future.

Summary Analysis of Impact: Compared to the status quo, adoption of this proposal would increase future Fund principal and income, reduce annual dividend payments, and add to Fund reserves. These results occur for two reasons: (1) making inflation-proofing the first priority use of Fund income eliminates the inflation-proofing shortfalls which otherwise would be expected to occur; and (2) changing the dividend formula to use "real" income rather than

Representative Steve Reiger
April 7, 1989
Page 2

"net" income reduces the amount of Fund income paid out for dividends.

Financial Projection #3: This projection is identical to #2 above except that rather than assuming a long-term real rate of return for the Fund of 3% (9% nominal return minus 6% inflation), this assumes a long-term real rate of return of 4% (10% nominal return minus 6% inflation).

Summary Analysis of Impact: Assuming a 1% increase in the Fund's long-term average real rate of return results in the production of nearly \$6 billion more net income over the next 16 year, a more-than-doubling of the amount of real income added to reserves in future years, and the provision of per capita dividends in amounts exceeding the \$750 floor beginning in the fiscal 2000.

For Your Information: These projections are based on a certain set of basic assumptions; the numbers shown on these sheets would change if different assumptions were used. The assumptions used in the preparation of each projection are listed at the bottom of each projection sheet, and explained herein.

It is the Corporation's policy to use conservative assumptions wherever possible. Thus, the Fund's long-term rate of return is projected to average 3% per year after inflation; long-term inflation is projected to average 6% per year; and the assumptions for numbers of future dividend recipients and amounts of future dedicated State oil revenues are taken from the Department of Revenue's Fall 1988 "low case" forecast.

PLEASE NOTE THAT THE CORPORATION NEITHER SUPPORTS NOR OPPOSES ANY PROPOSED CHANGES TO THE CURRENT USE OF FUND EARNINGS, EXCEPT AS THEY MAY RELATE TO THE PROPER EXERCISE OF THE TRUSTEES' FIDUCIARY RESPONSIBILITIES AS REQUIRED UNDER THE PRUDENT INVESTOR RULE.



1

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of February 28, 1989

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 Proofing	General Fund					
78			54		54		2								
79	54		84		139		8								
80	139		344		483		32	12							
81	483	900	385		1,769		150	28				59	59		
82	1,769	800	402		2,969		368	71	\$1,000.00			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	4,833	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		418	303	8,585		789	424	\$826.93	303		62	591		
89	8,585		184	358	9,127		829	458	\$837.42	358		13	604		
90	9,127		190	466	9,783		819	476	\$861.10	466	(123)	(123)	481		
91	9,783		83	592	10,457		971	472	\$844.58	592	(92)	(92)	389		
92	10,457		89	633	11,179		1,026	468	\$829.90	633	(75)	(75)	315		
93	11,179		88	676	11,942		1,087	497	\$873.55	676	(86)	(86)	229		
94	11,942		85	722	12,749		1,151	531	\$925.08	722	(101)	(101)	128		
95	12,749		81	770	13,600		1,217	573	\$990.14	770	(125)	(125)	2		
96	13,600		77	682	14,359	138	1,286	606	\$1,038.15	682	(2)	(2)			
97	14,359		74	716	15,150	150	1,357	640	\$1,088.12	716					
98	15,150		69	755	15,974	159	1,431	676	\$1,139.46	755					
99	15,974		65	795	16,834	168	1,509	714	\$1,192.10	795					
0	16,834		62	836	17,732	177	1,589	753	\$1,246.38	836					
1	17,732		58	880	18,670	187	1,674	794	\$1,302.22	880					
2	18,670		55	926	19,651	198	1,762	836	\$1,360.04	926					
3	19,651		51	974	20,676	209	1,854	881	\$1,419.60	974					
4	20,676		47	1,024	21,746	220	1,951	927	\$1,479.95	1,024					
5	21,746		43	1,076	22,865	232	2,051	976	\$1,543.92	1,076					
Cumulative Totals:			3,964	4,737	14,163	22,865	1,836	28,662	13,006	\$23,184.55	14,163	229			

ASSUMPTIONS:

4.08% Inflation Rate FY 89
9.12% Rate of Return FY 89

5.00% Inflation Rate FY 90
8.00% Rate of Return FY 90

* SOURCE: Alaska Department of Revenue
Low Case Forecast - November 1988
With Consensus Revenue Estimates for FY 89-90

6.00% Inflation Rate FY 91-05



#2

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of February 28, 1989

FY	PRINCIPAL					INCOME									
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Distributions			Reserves					
							Net Income	Inflation Proofing	Per Capita Dividends**	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					368		71	71	185	244
83	2,969	400	421	231	4,021		231	108	\$386.15	471		175	110	110	354
84	4,021	300	366	151	4,838		151	175	\$331.29	530		217	203	203	557
85	4,838	300	368	235	5,741		235	217	\$404.00	658		303	206	206	763
86	5,741		323	216	6,281		216	303	\$556.26	1,021		148	501	1,264	
87	6,281	1,264	171	148	7,864		148	391	\$708.19	1,069		424	529	529	
88	7,864		418	303	8,585		303	424	\$826.93	789			62	591	
89	8,585		184	358	9,127		358	458	\$837.42	829			13	604	
90	9,127		190	466	9,783		466	427	\$770.01	819			(74)	530	
91	9,783		83	592	10,458		592	420	\$750.00	976			(36)	494	
92	10,458		89	633	11,179		633	425	\$750.00	1,036			(21)	473	
93	11,179		88	676	11,943		676	429	\$750.00	1,102			(3)	471	
94	11,943		85	722	12,750		722	433	\$750.00	1,174			19	490	
95	12,750		81	770	13,600		770	438	\$750.00	1,252			44	534	
96	13,600		77	821	14,498		821	442	\$750.00	1,336			73	606	
97	14,498		74	874	15,447		874	447	\$750.00	1,427			106	712	
98	15,447		69	931	16,447		931	451	\$750.00	1,526			144	856	
99	16,447		65	991	17,503		991	456	\$750.00	1,634			187	1,043	
0	17,503		62	1,054	18,618		1,054	461	\$750.00	1,751			236	1,278	
1	18,618		58	1,121	19,797		1,121	466	\$750.00	1,878			291	1,570	
2	19,797		55	1,191	21,043		1,191	471	\$750.00	2,016			354	1,924	
3	21,043		51	1,266	22,360		1,266	476	\$750.00	2,167			425	2,349	
4	22,360		47	1,344	23,752		1,344	482	\$750.00	2,331			505	2,854	
5	23,752		43	1,428	25,222		1,428	487	\$750.00	2,509			595	3,449	
Cumulative Totals:		3,964	4,737	16,521	25,222					30,859	16,521	9,397	\$17,070.25	229	

ASSUMPTIONS:

4.08% Inflation Rate FY 89
9.12% Rate of Return FY 89

5.00% Inflation Rate FY 90
8.00% Rate of Return FY 90

* SOURCE: Alaska Department of Revenue
Low Case Forecast - November 1988
With Consensus Revenue Estimates for FY 89-90

4/7/89

6.00% Inflation Rate FY 91-05
9.00% Rate of Return FY 91-05

** SOURCE: Population Projections From
Revenue Low Case Forecast - November 1988



#3

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of February 28, 1989

FY	PRINCIPAL				INCOME					Reserves	
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing Balance	Inflation Proofing Shortfall	Net Income	Inflation Proofing	Per Capita Dividends**	General Fund	Add (Delete)	FY End Balance
78			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	71	185	244
83	2,969	400	421	231	4,021	471	231	108	110	110	354
84	4,021	300	366	151	4,838	530	151	175		203	557
85	4,838	300	368	235	5,741	658	235	217		206	763
86	5,741		323	216	6,281	1,021	216	303		501	1,264
87	6,281	1,264	171	148	7,864	1,069	148	391		529	529
88	7,864		418	303	8,585	789	303	424		62	591
89	8,585		184	358	9,127	829	358	458		13	604
90	9,127		190	466	9,783	819	466	427		(74)	550
91	9,783		83	592	10,458	1,092	592	420		78	608
92	10,458		89	633	11,179	1,170	633	425		112	720
93	11,179		88	676	11,943	1,257	676	429		152	873
94	11,943		85	722	12,750	1,354	722	433		199	1,071
95	12,750		81	770	13,600	1,459	770	438		252	1,323
96	13,600		77	821	14,498	1,575	821	442		312	1,635
97	14,498		74	874	15,447	1,702	874	447		381	2,016
98	15,447		69	931	16,447	1,842	931	451		459	2,476
99	16,447		65	991	17,503	1,995	991	456		548	3,024
0	17,503		62	1,054	18,618	2,164	1,054	484		626	3,650
1	18,618		58	1,121	19,797	2,347	1,121	533		693	4,343
2	19,797		55	1,191	21,043	2,544	1,191	589		764	5,108
3	21,043		51	1,266	22,360	2,755	1,266	649		840	5,948
4	22,360		47	1,344	23,752	2,982	1,344	716		922	6,870
5	23,752		43	1,428	25,222	3,226	1,428	788		1,010	7,880
<hr/>											
Cumulative Totals:		3,964	4,737	16,521	25,222	36,207	16,521	10,314	\$18,578.80	229	

ASSUMPTIONS:
4.08% Inflation Rate FY 89
9.12% Rate of Return FY 89
4/7/89

5.00% Inflation Rate FY 90
8.00% Rate of Return FY 90

6.00% Inflation Rate FY 91-05
10.00% Rate of Return FY 91-05

* SOURCE: Alaska Department of Revenue
Low Case Forecast - November 1988
With Consensus Revenue Estimates for FY 89-90

** SOURCE: Population Projections From
Revenue Low Case Forecast - November 1988