

HB

158

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HOUSE COMMITTEE ON STATE AFFAIRS

RECAP OF
HB 158

Approp: Earnings Res. to PF Principal

Received February 8, 1989
by Reps. Boucher and Furnace

Heard March 30, 1989
Heard February 21, 1990

Passed Out of Committee February 21, 1990
1 Do Pass
3 No Recommendation

Rep. Bachelor Item 2

RZ
3/28/89

127 S. Franklin St., #407
Juneau, Alaska 99801
March 27, 1989

Governor Steve Cowper
State of Alaska
State Capital
Juneau, Alaska 99811

Dear Governor Cowper:

My letter of some seven weeks ago to ISER Director Lee Gorsuch was just carried last Monday in the Juneau Empire. I provided you and each member of the state legislature with a typescript copy at the same time that I mailed it up to Anchorage, February 3, 1989.

Now that we are that many more weeks deeper into the annual budget crunch, I have decided to circulate the printed text. "Chins-up" optimism, I hope you understand, is not part of my bag of tricks. But modesty and truth in fiscal matters are. That is the simple message that I am attempting to carry to you and to the members of the Sixteenth Alaska State Legislature.

Please allow me to extend to you, House Speaker Cotten and Senate President Kelley my heartfelt respect and admiration for the work that you are accomplishing for the Alaska public this spring. I do sincerely urge you to spend as liberally as necessary from the carryover surplus balance of the Alaska Permanent Fund earnings in order to close the FY 90 state operating budget in the black. I also want to encourage the adoption of formal constitutional restraints governing future spending from permanent fund earnings in order to ensure that the fund will survive into the indefinite future.

Sincerely,



Robert E. Newton

Incl.

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LETTERS

Congratulations on budget study

Editor's Note: A copy of the following letter to Lee Grosuch, director of the Institute for Social and Economic Research, was submitted for publication.

Dear Lee:

Congratulations on the excellent study which you recently produced for Governor Steve Cowper's management staff on the state operating budget. This report can but have a beneficial effect, and all the more so since it is broken down by election districts. This enables each member of the state legislature to better see just how wholesale budget reductions would actually affect the people and economy of his or her district. The undistributed income of the Alaska Permanent Fund should lose some of the sacred cow luster that has colored it for so many previous sessions of the legislature. I am optimistic that most legislators are going to act in a more or less prudent manner when they review your findings. Just personally I want to inform you that I hope this income will be expended to support state government operations to the full extent necessary.

I do fault the office that commissioned your study, and not you and the ISER staff, for distributing a less than complete report. Right and left I find dedicated and conscientious legislators who actually thank that the public dividend program must suffer at the expense of funding the necessary levels of governmental operations. As you and your seasoned experts well know, nothing could be further from the truth.

After the October 1987 sharp turn-down on the national market the earnings of the Alaska Permanent Fund did drop considerably. But they have risen considerably this year as a result of the \$720,800,000 new capital investment to the fund last July 1, 1988. The legislature faces no imminent need whatsoever to reduce the 1989 individual dividend, much less to consider eliminating the dividend program altogether. I regret very much that this very serious omission has to be contrasted with an otherwise timely and informative report

This would have been an appropriate time for Governor Cowper to have asked you to confirm your previous findings relative to the public dividend program. I know that they are still valid and are as true as ever. A more comprehensive report would have better informed the legislature as to where we really are standing right now. They need to be reassured that:

1. The dividend program markedly serves the needs of the least advantaged people in Alaska with regard to their food, clothing and shelter and any curtailment of this program at this time would create widespread, immediate hardships.

2. Dividend program dollars are turnover dollars which keep Alaska generated wealth within the state economy. Ranking just below tourism, the dividend program is a mainstay to the goods and services sector of the state's private economy. It does this much more efficiently than expenditures for governmental salaries. Even though this was not a planned result of the dividend program, it still makes the program a more vital part of the state economy.

3. True economy can be achieved with the dividend program by putting a statutory limit of \$1,000 on individual dividends at some future date - exactly what wiser heads have been counseling for many years. And genuine equity will automatically ensue if and when dividends are subject to a state income tax. For the present the legislature can comfortably and safely leave the dividend program alone.

The dividend program and governmental operations can both be sustained at the present time with the revenues currently available to the legislature. True, only a handsome half billion plus carryover surplus from previous years permanent fund earnings makes this possible now. But the disastrous deflationary policy of reinvesting more permanent fund earnings than necessary to safeguard the \$6 billion fund principal can be halted by the legislature. (That principal must be augmented annually by new capitalization to maintain its absolute value on the world market. This is a basic, routine yearly necessity for all low-risk/low yield investment trust funds.) Constitutionally dedicated Prudhoe Bay revenues alone, however, which still go into the principal every year, however, are usually

more than enough to do this. During times of low earnings and high inflation a marginal amount of annual earnings can easily cover the difference.

The bonanza years of Alaska petroleum production are over. If, and when, a new bonanza era arrives the Alaska Permanent Fund provides a perfect mechanism to commence massive savings again. In the meantime we must prudently use the fund's annual earnings which are available to us. There is no reason why we should not use them regularly so long as the integrity of the principal is constantly maintained.

Sincerely,

Robert E. Newton
 Juneau

Reference

127 So. Franklin St., #407
Juneau, Alaska 99801
March 27, 1988

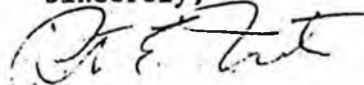
Senator Jalmar M. Kerttula, Chairman
Budget and Audit Committee
Alaska State Legislature
State Capital
Juneau, Alaska 99801

Dear Senator Kerttula:

Both of these documents have been provided to you over the past several weeks. Other parties, members of the legislature, the executive branch, the Alaska Permanent Fund Corporation have reviewed both of them too, or in some cases, one or the other.

Since I want to share them both at this time with every member of the legislature, I am addressing this forwarding communication to you. I am also sending you a formal certification as to their authenticity, given the scope of the detail which the documents cover and the gravity of their import. Prepared over a period of many months with the cooperation and assistance of many parties, I can offer any person who reviews them all reasonable assurance as to the accuracy of the statements made and the validity of all fiscal computations and citations. To the best of my knowledge I do state to you at this time that I am unaware of any errors, but I would be pleased to acknowledge any which might be called to my attention.

Sincerely,



Robert E. Newton

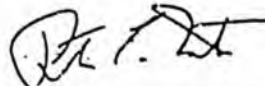
Incl.

ATTEST

This certification is provided on the date below to Senator Jalmar M. Karttula, Chairman of the Budget and Audit Committee of the Sixteenth Legislature of the State of Alaska for the purpose of authenticating facsimile reproductions of certain original communications which are no longer available to the undersigned.

I certify as to the authenticity of the following reproductions:

- a. A memorandum addressed to the Legislative Auditor, dated December 5, 1988.
- b. A letter to the Alaska Commissioner of Revenue, dated March 20, 1989.



Robert E. Newton
127 So. Franklin St., #407
March 24, 1989

Subscribed to and sworn before me on this twenty-fourth day of March, Nineteen Hundred and Eighty-nine:

Arthur A. Pihl
Notary Public in and for the State of Alaska

My Commission expires 07-04-89

MEMORANDUM

December 5, 1988

TO: Mr. Randy Walker, Legislative Auditor
Legislative Audit Division
P.O. Box W
Juneau, Alaska 99811-3380

FROM: Robert E. Newton *REN*
127 So. Franklin St., #407 2010
Juneau, Alaska 99801 (907) 586-~~1200~~

This memorandum conveys to you a summary analysis of account activity since July 1, 1985 which I have compiled recently on the Earnings Reserve Account of the Alaska Permanent Fund. As a private citizen I have been working over the past eighteen months in conjunction with many other Alaska citizens who are very much concerned with the future disposition of the funds in this account.

I have noted some serious apparent discrepancies in the meagre transfers which have been made to this account from fund earnings over the period July 1, 1987 - September 30, 1988. The main questions in my mind relate to the declining percentages of total fund income which are now being deposited to the Earnings Reserve Account.

The disposition of annual Alaska Permanent Fund net earnings is governed by state law. The applicable statutes allow for no latitude in administrative discretion in the computation of deductions from net fund earnings for the purpose of determining annual public dividend costs. (Ref. AS. 43.23.045, AS. 37.13.140). For purposes of computation of deductions from net earnings to provide for annual inflationary reinvestment, state law allows for only a narrowly circumscribed administrative discretion subject to legislative oversight. (Ref. AS. 37.13.145). These statutory provisions would seem to have been disregarded over the fifteen month period which I have indicated with the consequence that several hundred million dollars in general fund monies are not being properly reported to the state legislature.

The data included in the attached account summary has been abstracted from the 1987 and 1988 Annual Reports of the Alaska Permanent Fund Corporation and from that agency's September 1988 Monthly Financial Report. The speculative statements and the economic theories in these annual reports (see pp. 10-13, 1987; and p. 7, 1988) to the effect that the function of the Earnings Reserve Account is to support corporation activities in prospective years during periods of low earnings and high inflation are unsubstantiated by state law and do in fact contradict established public policy. The entire Earnings Reserve Account constitutes an unencumbered general fund balance, available to the state legislature for appropriation. The constitution and laws of the State of Alaska provide for no exception to the plenary powers of the state legislature to appropriate monies from this general fund sub-account.

Copies of this memorandum and the attached summary have been provided to the Legislative Counsel, the Attorney General, and to the Chairman, Vice-chairman and members of the Legislative Budget and Audit Committee.

ALASKA PERMANENT FUND

Earnings Reserve Account

Summary of Account Activity - July 1, 1985 - September 30, 1988

Balance, July 1, 1985 (Fund Principal: \$5,740,942,000)	\$ 763,264,000 ¹
FY 86 Net Earnings: \$1,020,922,000	
Public Dividends 303,425,000 (29.72%)	
Infl. Reinv. 216,376,000 (21.19%)	
Earnings Reserve 501,121,000 (49.09%)	501,121,000 ²
Balance, June 30, 1986	1,264,385,000 ³
Balance, July 1, 1986 (Fund Principal: \$6,280,753,000)	- 0 -
FY 87 Net Earnings: \$1,068,753,000	
Public Dividends 390,983,000 (36.59%)	
Infl. Reinv. 148,142,000 (13.86%)	
Earnings Reserve 529,417,000 (49.55%)	529,417,000 ⁴
Balance, July 1, 1987 (Fund Principal: \$7,863,856,000)	529,417,000
FY 88 Net Earnings: \$789,152,000	
Public Dividends 424,376,000 (53.78%)	
Infl. Reinv. 302,861,000 (38.38%)	
Earnings Reserve 61,915,000 (7.85%)	61,915,000 ⁵
Balance, July 1, 1988 (Fund Principal: \$8,584,647,000)	591,332,000
FY 89 (1st. Qtr.) Net Earnings	210,000,000
Public Dividends 114,500,000 (54.49%)	
Infl. Reinv. 86,000,000 (40.93%)	
Earnings Reserve 9,617,000 (4.58%)	9,617,000 ⁶
Balance, September 30, 1988	\$ 599,884,000

1. Total net earnings over the preceding four (4) fiscal years which produced this Earnings Reserve Account Balance were \$2,026,800,000. The \$763,264,000 figure represents 32.23% of total net profit for these years AFTER ALL STATUTORY DEDUCTIONS HAD BEEN MADE TO PAY PUBLIC DIVIDENDS AND FOR INFLATIONARY REINVESTMENT.

2. This figure represents the balance transferred to the Earnings Reserve Account for that year alone.

3. This entire balance was transferred from the Earnings Reserve Account to the principal of the Alaska Permanent Fund by the state legislature in the exercise of their residual sovereign powers under the Alaska State Constitution which grants to the legislature alone the plenary power to appropriate general fund monies.

4. Senate Bill 307 which would have transferred this entire balance to the principal of the Alaska Permanent Fund was not passed that year by either house of the state legislature.

5. Note the unprecedented decline in the surplus net income transferred to the Earnings Reserve Account.

6. Note the even sharper decline in the surplus transferred to the Earnings Reserve Account from the previous year.

127 So. Franklin St., #407
Juneau, Alaska 99801
March 20, 1989

Mr. Hugh Malone
Commissioner of Revenue
State of Alaska
Juneau, Alaska 99811

Dear Commissioner Malone:

For some weeks I have held your letter of January 9, 1989, written in response to my memorandum of December 5, 1988 to the Legislative Auditor in abeyance. Last week I decided to call the matter to the attention of the Attorney General. I did so, and I want to inform you of this at this time and to thank you cordially for your considerate attention.

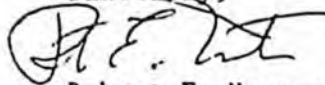
By all means please feel to write again to me if you do not concur with me on the following issues:

1. A.S. 37.13.145 provides the sole legal warrant for withdrawing monies from the earnings of the Alaska Permanent Fund and transferring said monies to the principal of the fund for purposes of inflationary reinvestment.
2. A.S. 37.13.145 is applicable strictly to current year earnings and has no retrospective applicabilty to accumulated income available for distribution from previous year's earnings.
3. A.S. 37.13.145 establishes a narrowly circumscribed statutory standard for withdrawing monies and confers no unlimited discretionary power upon the Alaska Permanent Fund Corporation.
4. All powers which the corporation should exercise under the lawful warrant of A.S. 37.13.145 are subject to legislative oversight and review.

If I am mistaken in any respect with regard to the foregoing, I would be very obliged if either you or the Attorney General would explain my error or errors to me. But I hold neither of you obligated to respond to this communication from a private citizen.

Thank you again for the thoughtful attention which you have given me.

Sincerely,



Robert E. Newton

cc. Gov. Cowper
Atty. Gen.
Legis. Audit
Ex. Dir., APFC

Sec. 37.13.130. Gains and losses. [Repealed, § 13 ch 81 SLA 1982.]

Sec. 37.13.140. Income. Net income of the corporation shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent of the net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145. (§ 5 ch 18 SLA 1980; am § 8 ch 81 SLA 1982; am § 1 ch 28 SLA 1986)

Effect of amendments. — The 1986 amendment in the first sentence substituted "shall" for "must" and in the second sentence substituted "21 percent of the net income" for "the average net income" and "earnings reserve" for "undistributed income."

Sec. 37.13.145. Disposition of income. At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by the change in the calendar year average United States consumer price index for all urban consumers shall be transferred from net income as defined in AS 37.13.140, excluding income on the earnings reserve account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment. The balance of the income available for distribution under AS 37.13.140 shall be transferred to the earnings reserve account in the Alaska permanent fund. Money in the earnings reserve account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the earnings reserve account shall be treated as an addition to that account. (§ 9 ch 81 SLA 1982; am § 2 ch 28 SLA 1986)

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

Effect of amendments. — The 1986 amendment in the first sentence substituted "the change in the calendar year average United States consumer price index for all urban consumers" for "a nationally recognized index," in the second sentence substituted "income available for distribution under" for "net income as defined in," and substituted "earnings reserve" for "undistributed income" throughout the section.

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

Item 3



Alaska Permanent Fund Corporation

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

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

M E M O R A N D U M

DATE: February 7, 1989

TO: Representative Red Boucher

FROM: Jim Kelly *JK*
Research & Liaison Officer

SUBJECT: Analysis of House Bill No. 158

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

Financial Projection #1: This is the status quo case as of December 31, 1988. It provides the benchmark against which to compare and contrast any changes to current law. Please note that included in the assumptions are the consensus revenue estimates for FY 89-90 as agreed upon by the Budget Summit on January 24, 1989.

Financial Projection #2: This projection makes one change to the status quo: it appropriates the entire unencumbered, unobligated balance of the Earnings Reserve Account on June 30, 1989 to the principal of the Permanent Fund.

Summary Analysis of Impact: Adoption of HB 158 would increase the principal of the Permanent Fund at the end of the current fiscal year by \$601 million. Under this scenario, Permanent Fund principal would reach \$10 billion in fiscal 1990, one year sooner than the status quo.

The larger Fund principal and zero balance in the Earnings Reserve Account, however, would result in an inflation-proofing shortfall next year, as compared to fiscal 1996 under the status quo. To understand what that means, consider the following: Next year, the Fund is projected to earn \$818 million under either scenario, and the payout for dividends under either scenario is projected to require \$475 million. That leaves \$344 million of available FY 90 income, in either case, to inflation-proof Fund principal.

In the case of the status quo, there would be an inflation-proofing requirement next year of \$466 million. Under current law, that \$122 million shortfall would be eliminated by an automatic drawdown from the Earnings Reserve Account.

Representative Red Boucher
February 7, 1989
Page 2

In the case of HB 158 (because of the larger principal balance), the inflation-proofing requirement next year would be \$496 million, or \$30 million more than the status quo. With a zero balance in the Earnings Reserve Account, there would be no Fund income source to cover the shortfall.

It should be noted, however, that over the long term, - assuming all of the current earnings reserves are ultimately transferred to Fund principal - HB 158 and the status quo balance out, and the ultimate size of Fund principal is identical in both cases.

HB 158 and the status quo also have identical effects on the amount of income produced in the future and the size of future dividends. This is true because both income growth and dividend size are based on the amount of total assets under investment, and total assets include the combined total of Fund principal and earnings reserves.

HB 158's real effect is to ensure that money currently in the Earnings Reserve Account is deposited in Permanent Fund principal, and not used for any other purpose.

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 most recent "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.



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS

(in millions)

as of December 31, 1988

FY	PRINCIPAL					INCOME							
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Distributions			Reserves			
							Net Income	Per Capita Dividends**	Inflation Proofing	General Fund	Add (Delete)	FY End Balance	
78			54		54					1			
79	54		84		138					7			
80	138		344		483					12			
81	483	900	385		1,769		28			28	59	59	
82	1,769	800	401		2,969		71	\$1,000.00		71	185	244	
83	2,969	400	421	231	4,021		471			112			
84	4,021	300	366	151	4,338		175				203	237	
	4,838	300	366	235	5,741		217	\$404.00	235		206	763	
	5,741		323	216	6,281		303	\$556.26	216		501	1,264	
87	6,281	1,264	171	148	7,864		391	\$708.19	148		529	529	
88	7,864		418	303	8,585		424	\$826.93	303		62	591	
89	8,585		184	351	9,120		457	\$835.17	351		10	601	
90	9,120		190	466	9,776		475	\$858.87	466		(122)	480	
91	9,776		83	592	10,450		470	\$842.18	592		(91)	388	
92	10,450		89	632	11,171		467	\$827.34	632		(74)	315	
93	11,171		88	676	11,934		496	\$870.83	676		(85)	230	
94	11,934		85	721	12,740		530	\$924.55	721		(101)	129	
95	12,740		81	769	13,590		572	\$989.43	769		(125)	4	
96	13,590		77	684	14,351	136	605	\$1,037.44	684		(4)		
97	14,351		74	716	15,142	149	640	\$1,087.43	716				
98	15,142		69	754	15,965	159	676	\$1,138.76	754				
99	15,965		65	794	16,824	168	714	\$1,191.42	794				
0	16,824		62	836	17,722	177	753	\$1,245.53	836				
1	17,722		58	880	18,660	187	793	\$1,301.55	880				
2	18,660		55	925	19,640	198	836	\$1,359.21	925				
3	19,640		51	973	20,664	208	880	\$1,418.77	973				
4	20,664		47	1,023	21,735	220	927	\$1,479.13	1,023				
5	21,735		43	1,075	22,853	232	975	\$1,543.11	1,075				
Cumulative Totals:		3,964	4,737	14,151	22,853	1,834	28,638	12,994	\$23,163.53	14,151	229		

ASSUMPTIONS:

4.00% Inflation Rate FY 89
9.01% Rate of Return FY 89

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

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

2/7/89

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

STATUS QUO INCLUDING
BUDGET SUMMIT CONSENSUS REVENUE ESTIMATES FOR FY 89-90



#2

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1988

FY	PRINCIPAL						INCOME							
	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Distributions			Reserves			
								Dividends	Per Capita Dividends**	Inflation Proofing	General Fund	Add (Delete)	FY End Balance	
78			54		54		2				1			
79	54		84		139		2				1			
80	139		144		283		2				1			
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	221	3,811		471							
84	4,838	300	366	151	5,354		530	175	\$322.25	151		203	557	
	5,741	300	368	235	6,144		658	217	\$404.00	235		206	763	
	6,281	1,264	323	216	7,684		1,021	303	\$556.26	216		501	1,264	
87	7,864		171	148	8,183		1,069	391	\$708.19	148		529	529	
88	8,585		418	303	9,306		789	424	\$826.93	303		62	591	
89	8,585	601	184	351	9,722		818	457	\$835.17	351		10	601	
90	9,722		190	344	10,255	152	818	475	\$858.87	344				
91	10,255		83	500	10,838	120	970	470	\$842.18	500				
92	10,838		89	559	11,486	97	1,026	467	\$827.34	559				
93	11,486		88	591	12,164	103	1,087	496	\$870.83	591				
94	12,164		85	620	12,869	115	1,150	530	\$924.55	620				
95	12,869		81	644	13,595	133	1,217	572	\$989.43	644				
96	13,595		77	680	14,351	141	1,285	605	\$1,037.44	680				
97	14,351		74	716	15,142	149	1,356	640	\$1,087.43	716				
98	15,142		69	754	15,965	159	1,430	676	\$1,138.76	754				
99	15,965		65	794	16,824	168	1,508	714	\$1,191.42	794				
0	16,824		62	836	17,722	177	1,589	753	\$1,245.53	836				
1	17,722		58	880	18,660	187	1,673	793	\$1,301.55	880				
2	18,660		55	925	19,640	198	1,761	836	\$1,359.21	925				
3	19,640		51	973	20,664	209	1,853	880	\$1,418.94	973				
4	20,664		47	1,023	21,735	220	1,950	927	\$1,479.13	1,023				
5	21,735		43	1,075	22,853	232	2,050	975	\$1,543.11	1,075				
Cumulative Totals:							28,638	12,994	\$23,163.69	13,550	229			

ASSUMPTIONS:

4.00% Inflation Rate FY 89

5.00% Inflation Rate FY 90

* SOURCE: Alaska Department of Revenue

8.72% Rate of Return FY 89

8.00% Rate of Return FY 90

Revenue Low Case Forecast - November 1988

2/7/89

6.00% Inflation Rate FY 91-05

With Consensus Revenue Estimates for FY 89-90

HB 158: APPROPRIATION OF UNENCUMBERED BALANCE OF

9.00% Rate of Return FY 91-05

** SOURCE: Population Projections from

EARNINGS RESERVE ACCOUNT TO PERMANENT FUND PRINCIPAL ON JUNE 30, 1989

Revenue Low Case Forecast - November 1988



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1989

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall
79	54		84		139	
80	139		344		483	
81	483		305		788	
82	788		300		1,088	
83	2,969	400	421	231	4,021	
84	4,021	300	366	151	4,838	
85	4,838	300	368	235	5,741	
86	5,741		323	216	6,281	
87	6,281	1,264 **	170	148	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		212	450	9,835	
91	9,835	629	189	453	11,105	80
92	11,105		216	573	11,894	107
93	11,894		212	613	12,720	113
94	12,720		217	656	13,592	121
95	13,592		211	700	14,503	128
96	14,503		190	739	15,431	142
97	15,431		173	783	16,388	153
98	16,388		160	829	17,376	164
99	17,376		140	875	18,390	176
00	18,390		122	923	19,434	188
01	19,434		111	972	20,518	201
02	20,518		100	1,024	21,642	213
03	21,642		83	1,077	22,803	226
04	22,803		74	1,133	24,009	240
05	24,009		61	1,191	25,261	254
Cumulative Totals Projected						
For FY 1990 - 2005:			2,469	12,990		2,505

USE OF FUND INCOME							
FY	Net Income	Distributions			Reserves		FY
		Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Delete)	
78	2					1	78
79	8					7	79
80	32	12				12	80
81	150	53				39	81
82	211	71	\$1,022.00			105	82
83	471	108	\$386.15	231	110	110	83
84	530	175	\$331.29	151		203	84
85	658	217	\$404.00	235		206	85
86	1,021	303	\$556.26	216		501	86
87	1,069	391	\$708.19	148		529	87
88	789	424	\$826.93	303		62	88
89	868	460	\$873.16	360	4	44	89
90	935	492	\$998.00	450		(6)	90
91	937	484	\$814.00	453			91
92	1,057	484	\$797.00	573			92
93	1,131	518	\$837.00	613			93
94	1,209	553	\$879.00	656			94
95	1,291	591	\$921.00	700			95
96	1,376	637	\$976.00	739			96
97	1,462	679	\$1,022.00	783			97
98	1,552	723	\$1,069.00	829			98
99	1,644	769	\$1,116.00	875			99
00	1,739	816	\$1,162.00	923			00
01	1,837	865	\$1,208.00	972			01
02	1,938	915	\$1,255.00	1,024			02
03	2,044	966	\$1,301.00	1,077			03
04	2,152	1,020	\$1,347.00	1,133			04
05	2,266	1,075	\$1,393.00	1,191			05
24,570 11,586 \$16,995 12,990							

ASSUMPTIONS:

	Nominal Returns	Inflation	Real Rates of Return
FY 90:	9.21%	4.79%	4.42%
FY 91:	8.50%	5.00%	3.50%
FY 92-05:	9.00%	6.00%	3.00%

ENTIRE EARNINGS RESERVE ACCOUNT APPROPRIATED TO PRINCIPAL EFFECTIVE JULY 1, 1990

* SOURCE: Dedicated oil revenue estimates are from the Department of Revenue Fall '89 Low-Case Forecast; population estimates used to calculate per capita dividends are from the Department of Revenue Spring '89 Low-Case Forecast, except FY 90 estimate of 530,000 PFD qualified applicants by DOR Dividend Division. NOTE: The FY 90 per capita PFD calculation assumes (per HB 500) that the following amounts are deducted (in millions): \$3.6 admin costs, \$12.3 hold harmless, \$.763 to Corrections, and \$.736 to Public Safety; in addition, it assumes that \$1.5 million is added to the PFD fund from the General Fund (per HB 428).

** The FY 86 Earnings Reserve Account end balance was appropriated by the legislature to the principal of the Permanent Fund effective July 1, 1986.