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**346**

STA, FIN

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 346

SPONSOR DUNCAN -

BILL TITLE Value of PFD

DATE REFERRED 1.8.90

HEARING SCHEDULED

FISCAL NOTE PREPARED

SPONSOR CONTACTED

INTERESTED PARTIES CONTACTED

see HB 563

OTHER

SENATE COMMITTEE REPORT  
FIRST COMMITTEE OF REFERRAL

DATE: January 8, 1990

FURTHER: Finance

Date of 5-Day Notice: 3.2.90  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 4.5.90

State Affairs Committee considered

SENATE BILL NO. 346

"An Act relating to public notice regarding the value of permanent fund dividends; and providing for an effective date."

and recommended:

replace with CS SB 346  same title  
 attached amendment(s)  new title

STATE AFFAIRS letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:

Department(s)/Date:

fiscal note(s) Rev. (PFD) 4.4.90

zero fiscal note(s) \_\_\_\_\_

appropriation-no fiscal note

Governor's bill w/fiscal note

SIGNING DO PASS:

Al Adams

OTHER RECOMMENDATIONS:

Jim Fair No Rec  
Paul Uel (No Rec)  
Tom Kelly (No Rec)

Pat Lauchlin do pass  
Chair: Signature and Recommendation

FISCAL NOTE

REQUEST

Revision Date: April 4, 1990  
Title: An Act relating to public notice on value of PFD  
Sponsor: DUNCAN  
Requestor: \_\_\_\_\_

Agency Affected: Revenue  
BRU: Permanent Fund Dividend Division  
Components: Permanent Fund Dividend Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	7.3	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
<b>TOTAL OPERATING</b>	<b>7.3</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>CAPITAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>REVENUE</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER (PFD)	7.3	-0-	-0-	-0-	-0-	-0-
<b>TOTAL</b>	<b>7.3</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	1	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See attached.

Prepared By: Ervin Jones  
Division: Permanent Fund Dividend Division

Phone: 465-2323  
Date: April 4, 1990

Approved by Commissioner: Walter J. Barber for  
Agency: Revenue

Date: 4-4-90

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

Department of Revenue  
 Permanent Fund Dividend Division  
 Fiscal Note Analysis  
 CS SB 346 (SA)  
 April 4, 1990

1. <u>Positions</u>	<u>FY 91</u>	<u>FY 92</u>
1 PPT Document Processor II, R8 @ \$2,446.08/Mo including salary and benefits for 3 months. FY 91 only =	\$7.3	\$0.0
This position is to answer increased phone calls and letters regarding the special notice		
2. <u>Other Expenditures:</u>		
a) <u>Travel:</u>	\$0.0	\$0.0
b) <u>Contractual:</u>	\$0.0	\$0.0
c) <u>Supplies:</u>	\$0.0	\$0.0
d) <u>Equipment:</u>	\$0.0	\$0.0
 Total Cost	 \$7.3	 \$0.0

Analysis:

The department supports full disclosure and clear accountability for expenditures from the dividend fund.

Section 2, line 20 through 25 requires additional information to be communicated to the public. It is feasible to print the information on the check stub. The department has only two concerns with this new requirement:

- a) We expect the public to be very interested in this breakdown of the source of their dividend. It is now an established fact that the public pays close attention to information on the permanent fund dividend check stub. We expect an increase in public contact. This increase is covered by the fiscal note request for one seasonal part-time Document Processor II to work at the Anchorage Dividend Information Office during October-December of 1990.
- b) Our second concern is the impact which the additional use of the check stub will have on the Department's tenuous agreement with the Internal Revenue Service that allows us to use the check stub as a "substitute 1099." Absent this agreement, the dividend program would incur approximately \$175,000 in additional postage and printing costs each year. If the Internal Revenue Service cancels our waiver because of their perception that the stub is being altered and will no longer serve as an acceptable "substitute 1099," then the next year's operating budget would have to reflect the additional costs.

FISCAL NOTE

REQUEST

Revision Date: \_\_\_\_\_  
Title: An Act relating to public  
notice on value of PFD  
Sponsor: DUNCAN  
Requestor: \_\_\_\_\_

Agency Affected: Revenue  
BRU: Permanent Fund Dividend Division  
Components: Permanent Fund Dividend  
Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	14.7	14.7	14.7	14.7	14.7	14.7
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	10.0	10.0	10.0	10.0	10.0	10.0
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
<b>TOTAL OPERATING</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>
<b>CAPITAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>REVENUE</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	24.7	24.7	24.7	24.7	24.7	24.7
<b>TOTAL</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>	<b>24.7</b>

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	2	2	2	2	2	2
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See attached.

Prepared By: Ervin Jones Phone: 465-2323  
Division: Permanent Fund Dividend Division Date: February 28, 1990  
Approved by Commissioner: Hugh Malone Date: 2/28/90  
Agency: Revenue

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

Department of Revenue  
 Permanent Fund Dividend Division  
 Fiscal Note Analysis  
 SB 346  
 February 28, 1990

1. <u>Positions</u>	<u>FY 91</u>	<u>FY 92</u>
2 PPT Document Processor IIs, R8 @ \$2,446.08/Mo including salary and benefits for 3 months	= \$14.7	\$14.7
This position is to answer increased phone calls and letters regarding the special notice		
2. <u>Other Expenditures:</u>		
a) <u>Travel:</u>	\$0.0	\$0.0
b) <u>Contractual:</u>		
Estimated cost to print and fold 525,000 flyers	= \$10.0	\$10.0
c) <u>Supplies:</u>	\$0.0	\$0.0
d) <u>Equipment:</u>	\$0.0	\$0.0
Total Cost	\$24.7	\$24.7

Analysis:

The department supports full disclosure and clear accountability for expenditures from the dividend fund.

Section 2, line 15 through 20 requires additional information to be communicated to the public. It is not feasible to include that type of information on the check stub itself due to limited space. An insert could be added to the envelope at a cost of approximately \$10,000 to cover printing.

Section 2, line 21-23 is a restatement of the existing requirements for disclosure. The department believes it would be better to expand this to cover any appropriations from the dividend fund which result in a reduction of the dividend.

Suggested Amendment:

Section 2, page 2, line 22-23 to be amended to read:

"costs of administering the dividend program, [AND] the hold harmless provisions of AS 433.23.075, or other appropriations from the dividend fund.

PERMANENT FUND DIVIDEND

WARRANT STOCK

1. The bid for printing the check stub goes out in July each year.
2. The warrant itself is strictly controlled by various banking and UCC rules, and by the needs of Treasury and the Division of Finance.
3. The "check stub" is available to some degree to transmit information to the recipient regarding the warrant amount, and information about the deductions. It is however limited in size and in use. Through a very tenuous agreement with the IRS, we are allowed to substitute the check stub for the 1099 form required by law to be issued in January of each year. The postage savings alone amounts to over \$85,000. If the check stub becomes so cluttered with information, that the IRS concludes that it does not meet the 1099 requirements, it will likely cost the dividend program over \$100,000.
4. The warrant stock is used for all dividend years, which means that space allocated for such information as "violent crimes compensation board" on subsequent 1989 warrants may be used for some other message on the 1990 warrant. Certain spaces are of course needed for all years (Date, batch, warrant amount, "assigned and/or attached," etc.).
5. As you can see from Attachment A and B, all 19 lines of computer print available were used and will be used on all 1989 warrant stubs. The lines which arguable would be available for printing further or different information on 1990 warrant stubs are lines 16 through 18. From the IRS' viewpoint, it would be best to put these lines at the very bottom or just above the "reductions per dividend check" line.

'1297G

This warrant will be deemed paid unless redeemed within two years after the date of issue per AS 37.05.130.

STATE OF ALASKA  
TREASURY WARRANT

No. 5254076  
89-52-1253

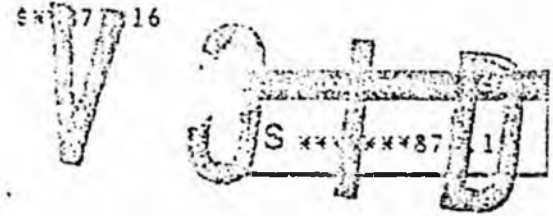
ALASKA PERMANENT FUND DIVIDEND

DATE OF ISSUE:

52540763

6x37 16

PAY TO THE ORDER OF:



*W. W. [Signature]*  
GOVERNOR

⑈52540763⑈ ⑈125200523⑈

NON NEGOTIABLE

No. 5254076

PAYER'S NAME STATE OF ALASKA 1989 PERMANENT FUND DIVIDEND \$ 873.16  
FEDERAL ID NO. 92-6001185

DATE BATCH WARRANT AMOUNT \$ 873.15  
VOUCHER DLN APPLICANT'S SSN  
APPLICANT'S NAME AND ADDRESS

REDUCTIONS PER DIVIDEND CHECK:  
COSTS OF ADMINISTERING DIVIDEND PROGRAM.....\$ 6.83 (DEPT. OF REVENUE)  
"HOLD HARMLESS" OF PERSONS WHOSE FEDERAL  
BENEFITS ARE CUT WHEN THEY RECEIVE DIVIDENDS..\$22.72 (DEPT. OF H&SS)  
SEX OFFENDER TREATMENT AND GATE MONEY FOR  
RELEASED PRISONERS.....\$ 1.47 (DEPT. OF CORRECTIONS)  
VIOLENT CRIMES COMPENSATION BOARD.....\$ 1.42 (DEPT. OF PUBLIC SAFETY)  
TOTAL.....\$32.44

IMPORTANT - This stub contains important tax and other information (see back).

This warrant will be deemed paid unless redeemed  
within two years after the date of issue per AS 37.05.180.

STATE OF ALASKA  
TREASURY WARRANT  
ALASKA PERMANENT FUND DIVIDEND

No. 52944073

89-52/1252

DATE OF ISSUE:

PAY TO THE ORDER OF:



VOID

DOLLARS	CENTS
\$	



⑈ 5 2 9 4 4 0 7 3 ⑈ ⑆ 1 2 5 2 0 0 5 2 3 ⑆

NON NEGOTIABLE

No. 52944073

IMPORTANT - This stub contains important tax and other information (see back).

VOID

**IMPORTANT FEDERAL  
TAX INFORMATION**

Keep this stub for your tax records. The Department of Revenue reports this information to the Internal Revenue Service (IRS). If you fail to report the PFD on your Federal income tax return, the IRS may require you to pay a penalty. Report the amount of your PFD on IRS form 1040 on the line for "OTHER INCOME".

**FEDERAL BACK UP  
WITHHOLDING**

Federal law requires the Department of Revenue to withhold 20 percent of your PFD if you did not give us your Social Security Number, and if the amount of the PFD is \$600 or more. If taxes were withheld from your PFD, you must report the withheld amount on IRS form 1040 on the line for "FEDERAL TAX WITHHELD". The IRS will issue any refund due you.

902

**IMPORTANT FEDERAL  
TAX INFORMATION**

Keep this stub for your tax records. The Department of Revenue reports this information to the Internal Revenue Service (IRS). If you fail to report the PFD on your Federal income tax return, the IRS may require you to pay a penalty. Report the amount of your PFD on IRS form 1040 on the line for "OTHER INCOME".

**FEDERAL BACK UP  
WITHHOLDING**

Federal law requires the Department of Revenue to withhold 20 percent of your PFD if you did not give us your Social Security Number, and if the amount of the PFD is \$600 or more. If taxes were withheld from your PFD, you must report the withheld amount on IRS form 1040 on the line for "FEDERAL TAX WITHHELD". The IRS will issue any refund due you.

ATTACHMENT  
"B"

This warrant will be deemed paid unless redeemed  
within two years after the date of issue per AS 37.05.180.

STATE OF ALASKA  
TREASURY WARRANT  
ALASKA PERMANENT FUND DIVIDEND

No. 528  
89-52/1252

DATE OF ISSUE: 11 29 89

528

\$\*\*303.16



PAY TO THE ORDER OF:

MEADOW CREEK CORRECTION-  
AL CENTER  
EAGLE RIVER AK 99577

ALASKA

DOLLARS CENTS  
\$ \*\*\*\*\*303 16

HOLD

⑈ 5 28 3 7 6 8 0 ⑈ ⑆ 1 2 5 2 0 0 5 2 3 ⑆

NON NEGOTIABLE

No. 528

④ Reserved for Federal back-up  
withholding into where required

⑤ Reserved for Olympic check-off  
into where required. Note: Since  
many dividend checks will still  
be reduced by the check-off, we  
must reserve this space.

1. PAYER'S NAME STATE OF ALASKA  
2. FEDERAL ID NO. 92-6001185  
3.  
4. DATE 11/29/89 BATCH 02211  
5. VOUCHER 47 DLN 90  
6.

1989 PERMANENT FUND DIVIDEND \$ 873.16

⑥ ASSIGNED AND/OR ATTACHED \$ 570.00-  
WARRANT AMOUNT \$ 303.16  
APPLICANT'S SSN 574-  
APPLICANT'S NAME AND ADDRESS

MEADOW CREEK CORRECTION-  
AL CENTER  
EAGLE RIVER AK 99577

11.  
12. REDUCTIONS PER DIVIDEND CHECK:  
13. COSTS OF ADMINISTERING DIVIDEND PROGRAM.....\$ 6.83 (DEPT. OF REVENUE)  
14. "HOLD HARMLESS" OF PERSONS WHOSE FEDERAL  
15. BENEFITS ARE CUT WHEN THEY RECEIVE DIVIDENDS..\$22.72 (DEPT. OF H&SS)  
16. SEX OFFENDER TREATMENT AND GATE MONEY FOR  
17. RELEASED PRISONERS.....\$ 1.47 (DEPT. OF CORRECTIONS)  
18. VIOLENT CRIMES COMPENSATION BOARD.....\$ 1.42 (DEPT. OF PUBLIC SAFETY)  
19. TOTAL.....\$32.44

IMPORTANT - This stub contains important tax and other information (see back).

ATTACHMENT  
"A"

within two years after the date of issue per AS 37.05.180.

STATE OF ALASKA  
TREASURY WARRANT

No. 52944072  
89-52/1252

ALASKA PERMANENT FUND DIVIDEND

DATE OF ISSUE:

PAY TO THE ORDER OF:



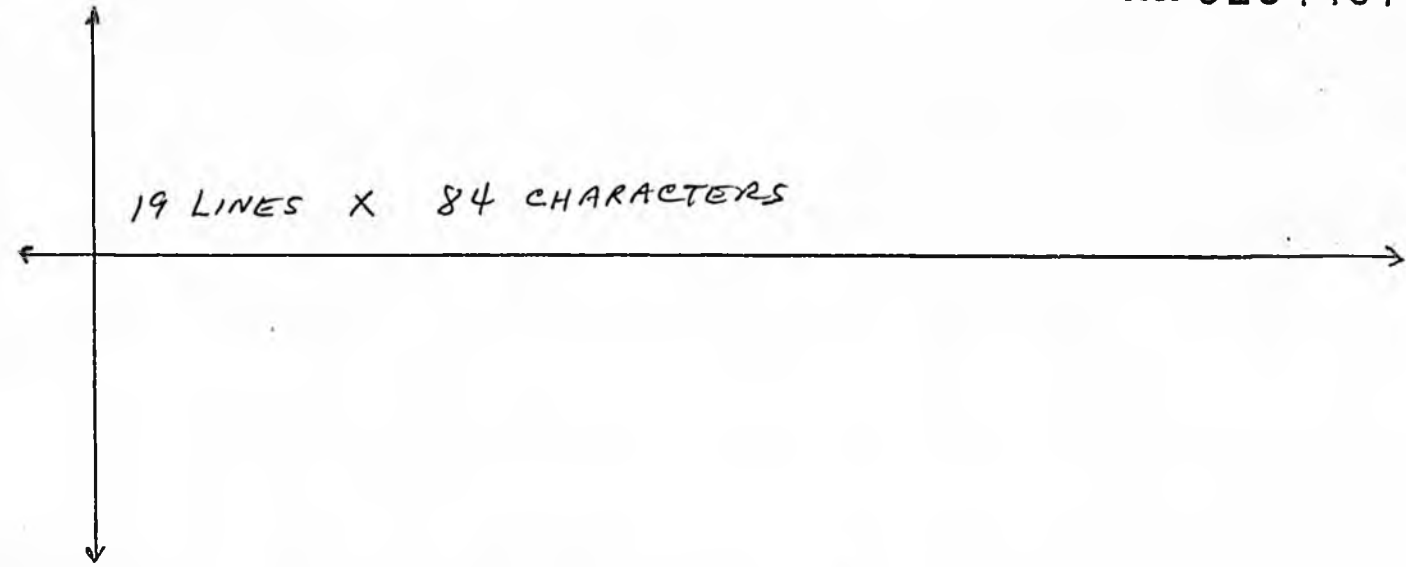
VOID

DOLLARS	CENTS
\$	

⑈ 5 2 9 4 4 0 7 2 ⑈ ⑆ 1 2 5 2 0 0 5 2 3 ⑆

NON NEGOTIABLE

No. 52944072



IMPORTANT - This stub contains important tax and other information (see back).

This warrant will be deemed paid unless redeemed within two years after the date of issue per AS 37.05.180.

STATE OF ALASKA  
TREASURY WARRANT

No. 52944073  
89-52/1252

ALASKA PERMANENT FUND DIVIDEND

DATE OF ISSUE:

DOLLARS	CENT

FY 90 and 91

1 the food stamp program settlement.

2 \* Sec. 23. The amounts necessary to refund to local governments their  
3 share of taxes and fees collected under the following programs are appro-  
4 priated to the Department of Revenue from the general fund for payment in  
5 fiscal year 1991:

- 6 Fisheries tax revenues for fiscal year 1990 (AS 43.75);
- 7 Amusement and gaming tax revenues for fiscal year 1991 (AS 43.35);
- 8 Aviation fuel tax revenues for fiscal year 1991 (AS 43.40.010);
- 9 Electric and telephone cooperative tax revenues for fiscal year 1991
- 10 (AS 10.25.570); and
- 11 Liquor license fee revenues for fiscal year 1991 (AS 04.11).

12 \* Sec. 24. The sum of \$2,000,000 is appropriated from the general fund  
13 to the Disaster Relief Fund (AS 44.19.048) for fiscal year 1991 disasters.

14 \* Sec. 25. The sum of \$14,000,000 is appropriated to the Department of  
15 Law to fund legal proceedings involving oil and gas revenue due or paid to  
16 the state or state title to oil and gas land, including the North Slope  
17 royalty case (State v. Amerada Hess, et. al.) and the Dinkum Sands case  
18 (United States v. Alaska), for fiscal year 1991 and succeeding fiscal years  
19 from the following sources, in the amounts listed:

20	General Fund	\$10,500,000
21	Permanent Fund Earnings Reserve	
22	Account (AS 37.13.145)	\$ 3,500,000

23 \* Sec. 26. The sum of \$7,000,000 is appropriated from the general fund  
24 to the Department of Law for litigation costs associated with the Exxon  
25 Valdez oil spill for fiscal year 1991 and succeeding fiscal years.

26 (SECTION 27 BEGINS ON PAGE 6)

## Disclose all uses of Fund earnings

The public indicated the dividend program should continue to be an equal distribution to all qualified Alaskans. Testimony was clear that reductions from the dividend checks, other than expenses directly associated with the administration of the dividend program within the Department of Revenue, are not acceptable. There was virtually no support for the "hold harmless", felon gate money, or sexual offender programs being funded from Fund earnings. Many individuals were upset to discover that reductions had been made in the past without being itemized on the check stub. Public testimony strongly suggested that reductions, other than inflation proofing and administrative expenses, should be eliminated.

Recommendation: All uses of the earnings of the Fund should be shown on the dividend check stub by listing the total amount of each use.

## In summary

The Permanent Fund is only one element of Alaska's economy. For example, it is not, of itself, the answer to diminishing state revenues. The Fund must be considered and utilized in the context of a total revenue and spending plan. The Commission hopes that this report will help in shaping such a plan and that the public will continue to be recognized as a key participant in the process.

Original sponsor(s): State Affairs Committee

1 IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 563 (State Affairs)

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 amount of a permanent fund  
7 dividend and to information regarding certain amounts  
8 by which dividends are reduced or increased; and  
9 providing for an effective date."

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

11 \* Section 1. AS 43.23.025(a) is amended to read:

12 (a) By October 1 of each year the commissioner shall give public  
13 notice of the value of each permanent fund dividend for that year.  
14 The public notice shall contain a statement disclosing the amount by  
15 which each individual dividend has been reduced due to each appropri-  
16 ation from the dividend fund, including amounts [IN ORDER] to pay the  
17 costs of administering the dividend program and the hold harmless  
18 provisions of AS 43.23.075. The commissioner shall also include the  
19 statement on the stub attached to each individual dividend check.  
20 Additional information fully explaining the legislative history and  
21 purpose of each appropriation shall be provided with the check. The

22 commissioner shall determine the value of a permanent fund dividend by  
23 (1) determining the total amount available for dividend  
24 payments, which equals

25 (A) the amount of income of the Alaska permanent fund  
26 transferred to the dividend fund under AS 43.23.045(b) during the  
27 current year;

28 (B) plus the unexpended and unobligated balances of  
29 prior fiscal year appropriations that lapse into the dividend

1 fund under AS 43.23.045(d);

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

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

9 (E) less appropriations from the dividend fund during  
10 the current year, including amounts to pay costs of administering  
11 the dividend program and the hold harmless provisions of AS 43.-  
12 23.075;

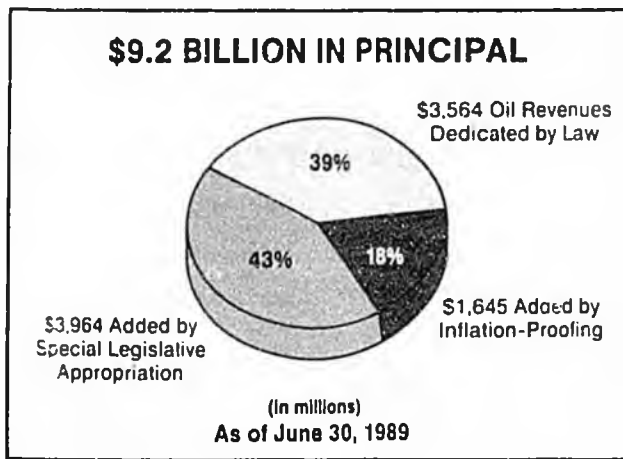
13 (2) determining the number of individuals eligible to  
14 receive a dividend payment for the current year; and

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

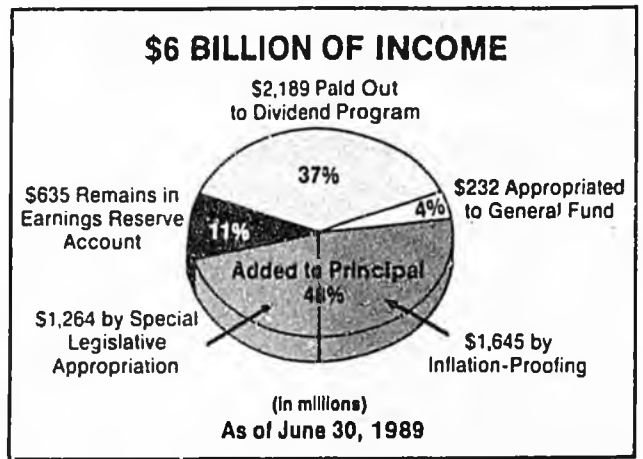
17 \* Sec. 2. The commissioner of revenue shall include with each permanent  
18 fund dividend check for 1990 information explaining the legislative history  
19 and purpose of appropriations from the dividend fund that reduced dividends  
20 for 1989. If money is made available, through appropriation or a decision  
21 of the court upholding the constitutionality of AS 43.23.005(d), to reim-  
22 burse the dividend fund for amounts by which the 1989 dividend was reduced,  
23 the commissioner shall include on the stub attached to each dividend check  
for 1990 a statement of the amount by which the check is increased due to  
the reimbursement.

\* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

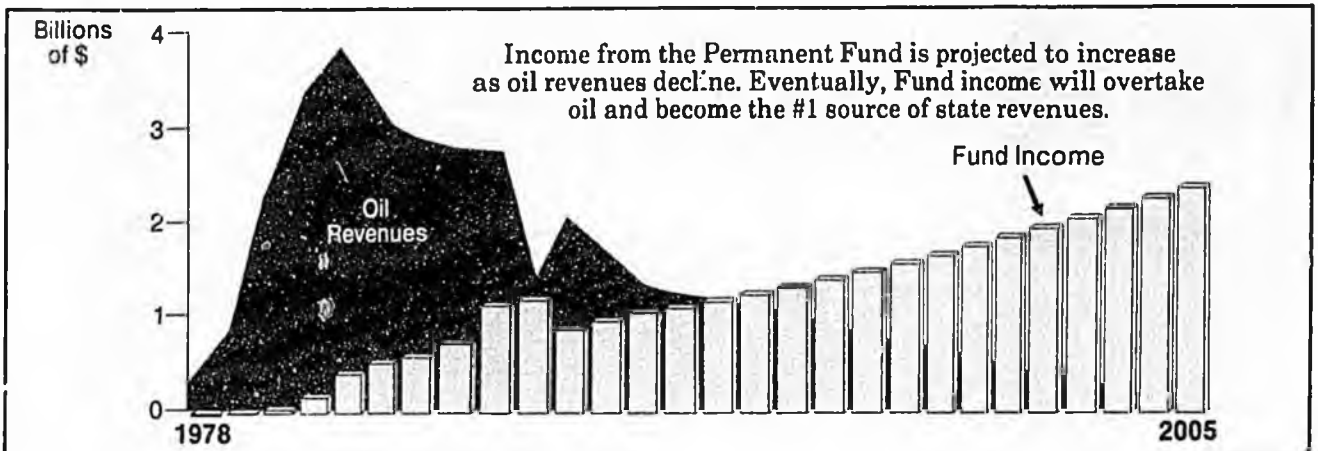
## Where has the money in the Permanent Fund come from?



## How has the income been used?



## What's in store for the future?



### BOARD OF TRUSTEES PERMANENT FUND CORPORATION

John T. Kelsey  
Marc Langland  
Douglas B. Baily  
Byron I. Mallott  
Hugh Malone  
Charles H. Parr



**A Public Trust  
Investing For Alaska's Future**

### FOR MORE INFORMATION

Yes... I want

- An Alaskan's Guide to the Permanent Fund
- 1989 Annual Report

Name \_\_\_\_\_

Address \_\_\_\_\_

Zip \_\_\_\_\_

To receive the item(s) requested, please fill in your address, detach this panel, and mail to:

David A. Rose, Executive Director  
Alaska Permanent Fund Corporation  
P.O. Box 4-1000, Juneau, Alaska 99802

This is not a true warrant  
and is not redeemable in cash.

STATE OF ALASKA  
NON-NEGOTIABLE WARRANT  
**ALASKA PERMANENT FUND**

No. 00000000  
89-52/1252

DATE OF ISSUE: 1989

PAY TO THE ORDER OF: *Your Name*

DOLLARS CENTS  
**\$10,000,000.00**

*The Benefits of Ten Billion Dollars*



## A PERMANENT FUND QUIZ

### How much do you know?

**1.** How many times has the legislature added money to Fund principal above what was required by law? (a) once (b) three times (c) never

**2.** What is the Board of Trustees' earnings goal for the Permanent Fund? (a) to consistently achieve a 9% annual return (b) to earn 3% more than inflation each year on average over the long term (c) to maximize income regardless of the level of risk

**3.** Who administers the PFD program? (a) the Permanent Fund Corporation (b) the Dividend Division in the Department of Revenue (c) an Outside firm

**4.** How much money is in the Permanent Fund? (a) \$5 million (b) \$900 million (c) \$10 billion

**5.** How much income has the Fund produced since it was created in 1976? (a) \$4.5 billion (b) \$6 billion (c) \$900 million

**6.** Which is the Fund's largest investment portfolio? (a) stocks (b) bonds (c) real estate (d) international

**7.** Which has made the largest contribution to the growth of Fund principal? (a) 12 years of dedicated oil revenues (b) 7 years of inflation-proofing (c) 3 special legislative appropriations

**8.** How large would Fund principal be in the year 2005 without any further inflation-proofing? (a) one-half as large as with inflation-proofing (b) a little bit less than otherwise (c) exactly the same

**9.** What is the purpose of the Permanent Fund? (a) to transform a non-renewable resource into a sustainable source of income to benefit all generations of Alaskans (b) to help lessen the tax burden on individual Alaskans when the oil money runs out (c) to pay dividends (d) all of the above

**10.** Who decides how Fund income is spent each year? (a) the people of Alaska through their elected representatives (b) the Board of Trustees (c) the State Constitution

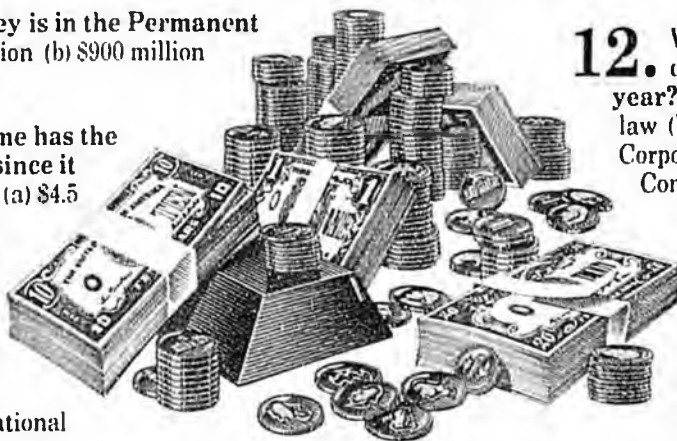
**11.** Why do we inflation-proof the Fund? (a) to protect the purchasing power of Fund earnings in the future (b) to protect the real value of Fund principal now (c) to help the Fund grow (d) all of the above

**12.** Who decides how big the dividends will be each year? (a) a formula in state law (b) the Permanent Fund Corporation (c) the State Constitution (d) *Bill Edwards*

**13.** Who created the Permanent Fund? (a) voters by constitutional amendment (b) a former governor (c) the legislature

**14.** How much was paid out to each Alaskan who qualified for and received all the Fund dividends distributed from 1982-1988? (a) \$1,000 (b) \$4,213 (c) \$2,945

**15.** Which of the following is true? (a) Fund principal can't be spent without a constitutional amendment (b) Fund income can't be spent without voter approval (c) both can be spent at any time



### ANSWERS

- |         |         |         |         |         |
|---------|---------|---------|---------|---------|
| 1. (b)  | 2. (b)  | 3. (b)  | 4. (c)  | 5. (b)  |
| 6. (b)  | 7. (c)  | 8. (a)  | 9. (d)  | 10. (a) |
| 11. (d) | 12. (a) | 13. (a) | 14. (b) | 15. (a) |

### HOW DID YOU DO?

If you answered more than 10 questions correctly, you are a knowledgeable Alaskan! If you would like more information about your Permanent Fund, simply fill out the panel on the reverse side and mail it to us.

Dear Fellow Alaskans:



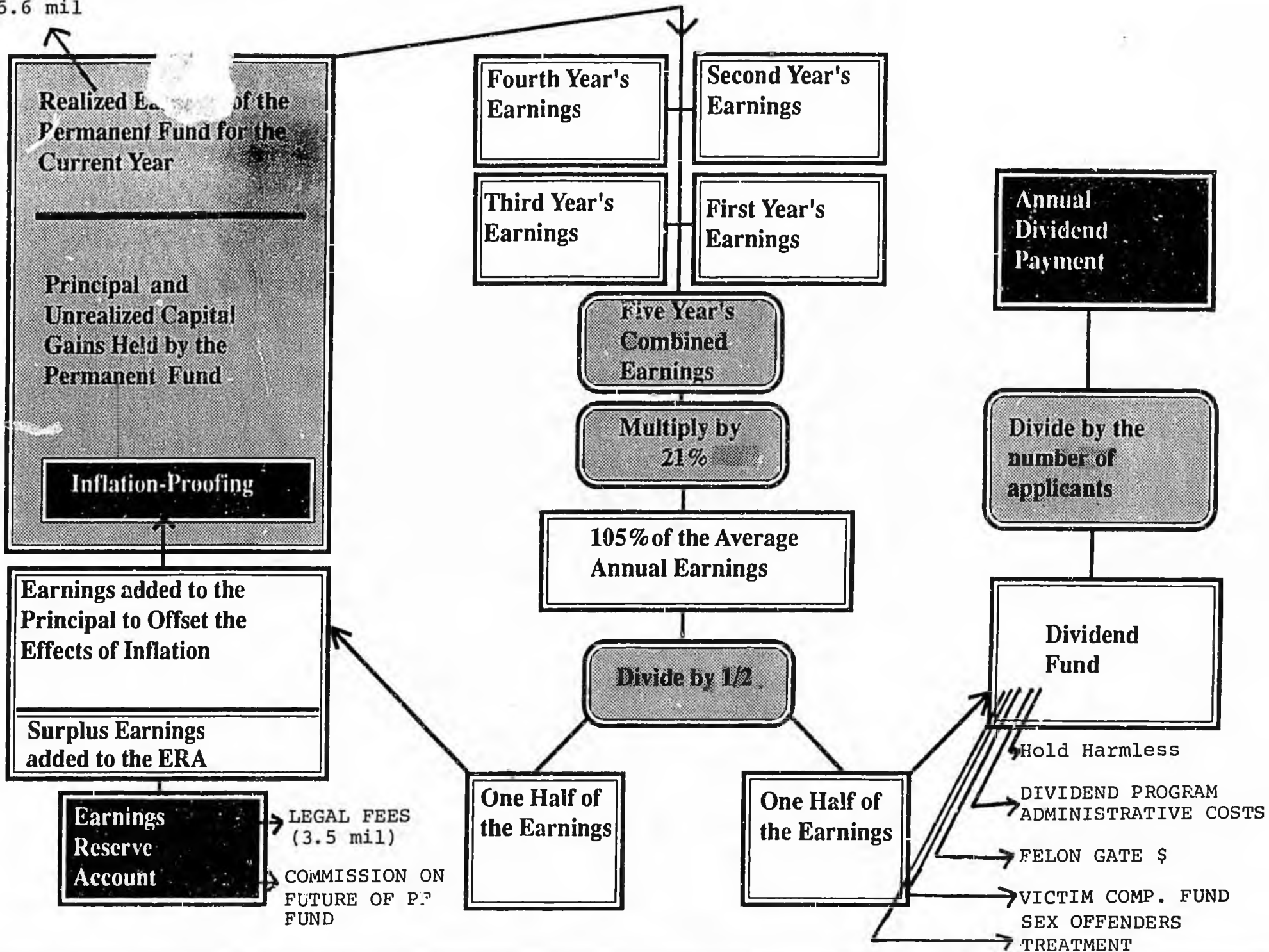
We hope you enjoy this light-hearted effort to educate you about the Permanent Fund — it is part of a new educational program which the Board of Trustees will be introducing to Alaska elementary schools this fall. Watch for other materials which we will be distributing soon, and let us know what you think.

Education is an important activity for us at the Fund because, although we can and do strive every day to invest this great public savings account safely, it is really up to you — the creators, the owners and the beneficiaries of the Permanent Fund — to keep it safe by being informed citizens and by regularly expressing your views to your elected representatives.

— John T. Kelsey  
Chairman, Board of Trustees

**Figure 1: ALASKA PERMANENT FUND - CURRENT SYSTEM**

PF Corporation  
 ADMINISTRATIVE COSTS  
 \$5.6 mil



10/26/89

# Duncan questions two dividend deductions

## Administration overstepped lawmakers' intent

By CHUCK KLEESCHULTE

THE JUNEAU EMPIRE

If you wonder about the two new deductions that reduced your Alaska Permanent Fund dividend check by \$2.89, you aren't alone.

Sen. Jim Duncan, D-Juneau, today charged the administration overstepped its authority by reducing all Alaskans' dividends to fund the Violent Crimes Compensation Board, provide prisoners with "gate money" and pay for sex offender treatment.

The Cowper administration went beyond legislative intent when it reduced each dividend by \$1.42 for compensation board and \$1.47 for prisoner treatment, Duncan said.

Lawmakers last year passed legislation that denied felons their dividends and stipulated that the \$1.5 million saved go to the compensation board. The board reimburses the victims of violent crimes for damages.

Last spring, lawmakers expanded

**NON NEGOTIABLE**

No. 52531425

PAYER'S NAME STATE OF ALASKA 1989 PERMANENT FUND DIVIDEND \$ 873.16  
FEDERAL ID NO. 92-6001185

DATE 10/12/89 BATCH 00473  
VOUCHER 476777 DLH 90094476 WARRANT AMOUNT \$ 873.16

REDUCTIONS PER DIVIDEND CHECK:  
COSTS OF ADMINISTERING DIVIDEND PROGRAM.....\$ 6.83 (DEPT. OF REVENUE)  
"HOLD HARMLESS" OF PERSONS WHOSE FEDERAL  
BENEFITS ARE CUT WHEN THEY RECEIVE DIVIDENDS..\$22.72 (DEPT. OF HEALTH)  
SEX OFFENDER TREATMENT AND GATE MONEY FOR  
RELEASED PRISONERS.....\$ 1.47 (DEPT. OF CORRECTIONS)  
VIOLENT CRIMES COMPENSATION BOARD.....\$ 1.42 (DEPT. OF PUBLIC SAFETY)  
TOTAL.....\$32.44

IMPORTANT - This stub contains important tax and other information (see back).

the effort by including intent language that shifted any excess money from the prisoners' dividends to inmate treatment, such as that for sex offenders, which previously have been funded in the operating budget.

Prisoners are challenging the moves in court.

"It was legislative intent that fel-

ons' dividends be used exclusively to fund these programs. Legislative intent was followed with the collection of these dividends, but overstepped when all dividends were reduced in response to a court order," said Duncan on Wednesday.

The state Department of Administration should have consulted with

the Legislative Budget and Audit Committee before cutting all Alaskans' dividends, he said. The committee could have authorized full funding for the dividend and then pledged support for a supplemental appropriation next session to offset the difference, if the prisoners win their lawsuit.

The case is extremely confusing but the administration believes it followed court directives by reducing all checks, not just the prisoner checks, until the court case is settled, said Alison Elgee, director of budget review.

If any mistake was made the administration will seek a supplemental appropriation next session and reimburse the permanent fund dividend account, she said. That would increase dividend checks by an equal amount next year.

"With legislative approval, we'll just roll the amount into next year's checks," said Elgee.

The deductions are the smallest of four totaling \$32.44 this year.

The two others have been subtracted for the past seven years.

This year \$6.83 is being cut from each check to pay for administering the dividend program, and \$22.72 is being taken out to cover the loss of federal welfare to low-income Alaskans because the dividend increases their incomes.

The Department of Revenue, which administers the dividend program, three weeks ago began mailing checks for \$873.16 to every Alaskan. Most of the checks will be dispensed before Christmas.

BY THE STATE AFFAIRS COMMITTEE

1 IN THE HOUSE

2

HOUSE BILL NO. 563

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 disclosure of expenditures of  
7 permanent fund income; and providing for an effective  
8 date."

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

10 \* Section 1. AS 43.23.025(a) is amended to read:

11 (a) By October 1 of each year the commissioner shall give public  
12 notice of the value of each permanent fund dividend for that year.  
13 The public notice shall contain a statement disclosing the amount and  
14 purpose of each expenditure made from income of the permanent fund  
15 during the previous fiscal year, and the amount by which each indi-  
16 vidual dividend has been reduced in order to pay the costs of adminis-  
17 tering the dividend program and the hold harmless provisions of  
18 AS 43.23.075. The commissioner shall also include the statement on  
19 the stub attached to each individual dividend check. The commissioner  
20 shall determine the value of a permanent fund dividend by

21 (1) determining the total amount available for dividend  
22 payments, which equals

23 (A) the amount of income of the Alaska permanent fund  
24 transferred to the dividend fund under AS 43.23.045(b) during the  
25 current year;

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

29 (C) less the amount necessary to pay dividends from

1 the dividend fund in the current year under AS 43.23.055(3);

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

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

9 (3) dividing the amount determined under (1) of this section  
10 by the amount determined under (2) of this section.

11 \* Sec. 2. This Act takes effect January 1, 1991.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 27, 1990

SUBJECT: Notice regarding Permanent Fund  
Dividends (SB 346)

TO: Senator Jim Duncan

FROM: Tamara Brandt Cook *TBC*  
Director  
Division of Legal Services

Here is the sectional summary that you requested of SB 346.

Section 1. Requires the commissioner of revenue to determine the value of a permanent fund dividend before October 1. Existing law requires the determination to be made by October 1. Eliminates notice provisions from the section on determination of value of the dividend and these are moved to a new section.

Section 2. Establishes a new statute dealing with notice requirements. Requires the commissioner to give public notice of the value of a dividend by October 1, and this is the existing requirement. The notice and the stub attached to each check must contain the following specific information;

(1) the amount of each dividend attributable to income earned on deposits to the permanent fund required by the constitution (not required by existing law);

(2) the amount attributable to income earned from appropriations to the permanent fund and from amounts added to offset the effects of inflation on the permanent fund (not required by existing law);

(3) the amount by which each dividend is reduced to pay costs of the hold harmless provisions and of administering the dividend program (this requirement is contained in existing law).

Section 3. The bill takes effect January 1, 1991.

TBC:gc  
G13/108

# Alaska State Legislature



SENATOR JIM DUNCAN

P. O. Box V JUNEAU, ALASKA 99811-3100  
(907) 465-4766

COMMITTEES:  
FINANCE  
VICE CHAIR -  
HEALTH EDUCATION  
& SOCIAL SERVICES  
BUDGET & AUDIT  
BANKING &  
ECONOMIC  
DEVELOPMENT

TO: SENATOR PAT POURCHOT  
CHAIR  
STATE AFFAIRS COMMITTEE

FROM: SENATOR JIM DUNCAN

REGARDS: REQUEST FOR HEARING ON SB 346

DATE: JANUARY 9, 1990

I WOULD APPRECIATE THE EARLIEST POSSIBLE HEARING DATE FOR SB 346.

SB 346 AMENDS ALASKA STATUTE 43.23. REQUIRING THE COMMISSIONER OF THE DEPARTMENT OF REVENUE TO DISCLOSE ON PERMANENT FUND DIVIDEND STUBS THE AMOUNT OF THE DIVIDENDS AS THE RESULT OF CONSTITUTIONALLY MANDATED DEPOSITS AND THE AMOUNT ATTRIBUTABLE TO LEGISLATIVE APPROPRIATIONS.

I FEEL ITS IMPORTANT FOR ALASKANS TO KNOW THAT A SIGNIFICANT MAJORITY OF THE DIVIDEND CHECK IS THE RESULT OF ADDITIONAL APPROPRIATIONS TO THE PERMANENT FUND BY THE LEGISLATURE. SINCE ITS INCEPTION, THE LEGISLATURE HAS APPROPRIATED OVER \$5.6 BILLION OR 61% OF THE PERMANENT FUND'S PRINCIPAL. THIS INCLUDES SPECIAL APPROPRIATIONS AND MONIES ADDED FOR INFLATION PROOFING. CONSTITUTIONALLY MANDATED FUNDS ACCOUNT FOR JUST OVER \$3.5 BILLION OF THE FUND, OR 39%.

I WAS SPURRED TO INTRODUCE THIS BILL FOLLOWING THE DISCLOSURE OF UNAUTHORIZED DEDUCTIONS FROM THE 1989 DIVIDEND BY THE ADMINISTRATION. A LEGISLATIVE AUDIT I REQUESTED CONCLUDED, "...THE DECISION TO MAKE DEDUCTIONS FROM THE GENERAL PUBLIC'S DIVIDEND CHECKS FOR THE PUBLIC SAFETY AND CORRECTIONS PROGRAMS WAS CLEARLY CONTRARY TO THE LEGISLATURE'S INTENT."

AS YOU KNOW, THE INTENT INVOLVED USING FELON'S DIVIDENDS FOR THESE PROGRAMS. WHEN A COURT RULING FORECLOSED THIS USE, THE ADMINISTRATION REDUCED THE DIVIDENDS OF ALL ALASKANS. THE ADMINISTRATION SHOULD HAVE REQUESTED A SUPPLEMENTAL APPROPRIATION INSTEAD. THE ADMINISTRATION HAS INDICATED IT WILL MAKE SUCH A REQUEST IF ULTIMATE COURT RULINGS FORBID THE USE OF FELON'S DIVIDENDS AND ROLL THE UNAUTHORIZED REDUCTIONS INTO THE 1990 DIVIDEND. LEGISLATORS, INCLUDING MY OFFICE, FIELDERD MANY CONSTITUENT INQUIRIES ON THIS MATTER. MANY CONSTITUENTS WERE CONFUSED AND HELD THE LEGISLATURE TO BLAME. AS A RESULT, I FEEL ALASKANS NEED TO KNOW THE LEVEL OF SUPPORT THE LEGISLATURE HAS GIVEN TO THE PERMANENT FUND. A DISCLOSURE ON THE DIVIDEND STUB WILL REVEAL THIS LEVEL OF SUPPORT.

YOUR CONSIDERATION OF THIS REQUEST IS MOST APPRECIATED.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

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(3) the amount by which each dividend is reduced to pay costs of the hold harmless provisions and of administering the dividend program (this requirement is contained in existing law).

Section 3. The bill takes effect January 1, 1991.

TBC:gc  
G13/108

# STATE OF ALASKA

AUDIT DIVISION  
P.O. BOX W  
JUNEAU, ALASKA 99811-3300

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

### M E M O R A N D U M

DATE: November 2, 1989

TO: Chairman and Members of  
the Legislative Budget  
and Audit Committee

*relates to SB 346*

FROM: Randy S. Welker *Randy*  
Legislative Auditor

RE: Permanent Fund Dividend (PFD) Checks

As requested at the October 20, 1989 meeting of the Committee, we have completed our initial review of the circumstances leading up to the deductions from the PFD checks to fund certain programs within the Departments of Revenue, Health and Social Services, Public Safety, and Corrections. As you are all well aware by now, the deductions from each individual PFD check as disclosed on the check stub has generated much public interest and concern. The following information is provided to summarize our review of the issues.

The 1989 permanent fund dividend was calculated by the Department of Revenue to be \$873.16. Each dividend check stub contained the following information:

**REDUCTIONS PER DIVIDEND CHECK:**

COSTS OF ADMINISTERING DIVIDEND PROGRAM .....	\$ 6.83 (DEPT. OF REV.)
"HOLD HARMLESS" OF PERSONS WHOSE FEDERAL BENEFITS ARE CUT WHEN THEY RECEIVE DIVIDENDS..	\$22.72 (DEPT. OF H&SS)
SEX OFFENDER TREATMENT AND GATE MONEY FOR RELEASED PRISONERS.....	\$ 1.47 (DEPT. OF CORR.)
VIOLENT CRIMES COMPENSATION BOARD.....	\$ 1.42 (DEPT. OF P.S.)
TOTAL.....	\$32.44

Departments of Revenue and H&SS Programs

The funding source for the administration of the dividend program and the hold harmless program in H&SS has been from the Permanent Fund Dividend Fund since FY 84 and FY 83, respectively. Disclosure of the amount by which each dividend check was reduced for these programs was required by the passage of Chapter 57, SLA 1987. That chapter also required the Department of Revenue to disclose this information on the stub attached to each individual dividend check.

Since these two programs are longstanding, specifically provided for in statute, and have appeared on the check stubs in the past, this memo will center on the Department of Corrections and the Department of Public Safety programs funded by specific deductions from the dividend checks for the first time this year. However, the legislature should continue to review the increasing costs of the dividend program administration and the hold harmless program as they represent \$29.55 of the \$32.44 deducted from each check this year. The enclosed memo dated October 25, 1989 from Mike Greany to Senator Rick Uehling provides a summary of appropriations for these programs.

Departments of Public Safety and Corrections Programs

Chapter 54, SLA 1988 amended the eligibility statutes for permanent fund dividends to state that "...an individual who has been convicted of a felony is not eligible for a permanent fund dividend for a year when, during all or part of the fiscal year ending June 30 of the current year, as a result of the conviction the individual is incarcerated" (AS 43.23.005(d)). However, the incarcerated felons were to be considered eligible for the purposes of calculating the amount of a dividend (AS 43.23.035(b)). In other words, the felons would be included in the count of eligible individuals to be divided into the total dollar amount available for distribution as dividends; however, they would not be eligible to receive their dividend.

Chapter 54, SLA 1988 also included the following intent statement:

It is the intent of the legislature that an amount approximately equal to the money that would otherwise be paid as permanent fund dividends to individuals determined to be ineligible under AS 43.23.005(d), as enacted by sec. 1 of this Act, be appropriated annually from the dividend fund to the crime victim compensation fund (AS 18.67.162) to carry out the purposes of AS 18.67.

The actions taken by the legislature in debating and passing this legislation clearly show that their intent was neither to increase the amount of the general public's dividend by declaring felons ineligible nor to reduce the amount of the general public's dividend to pay for certain programs. It was the intent of the legislature to take the dividend away from otherwise eligible individuals and use those funds to pay for those programs.

The Governor's proposed FY 90 budget included a variety of uses for the funds withheld from the felons, estimated to be approximately \$1,500,000. The legislature amended the Governor's proposal by shifting more funding to the Violent Crimes Compensation Board as reflected below:

(In Thousands)

<u>Department/ Program</u>	<u>Governor</u>	<u>Legislature</u>
Corrections:		
Post Secondary Education	\$ 200.0	
Substance Abuse	200.0	
Sex Offender Treatment	123.5	
Anger Management	150.0	
Community Residential Expansion	400.0	
Sex Offender Treatment		
Hiland Mt. CC		\$ 328.2
Fairbanks CC		150.2
Lemon Creek CC		150.0
Gate Money	<u>225.0</u>	<u>135.0</u>
Total Corrections	<u>\$1,298.5</u>	<u>\$ 763.4</u>
Public Safety:		
Violent Crimes Compensation Board	<u>\$ 201.5</u>	<u>\$ 736.6</u>
<u>Total</u>	<u>\$1,500.0</u>	<u>\$1,500.0</u>

A lawsuit challenging the constitutionality of Chapter 54, SLA 1988 was decided by the Superior Court in favor of the felons. However, the Court did not require the State to immediately distribute the dividend checks to the felons; allowing the State time to appeal the case to the Supreme Court. As a result, the amount that may be required to pay the felons is being held in trust. The Court has directed that interest be accumulated on this amount and paid to the felons if the State's appeal is unsuccessful.

Faced with the court ordered trust in addition to the appropriations summarized above, the Department made the decision to deduct amounts from each individual's dividend check to provide funding for the programs since the intended source of funding (the felons dividends now held in trust) was not available. According to Commissioner Malone, no serious consideration was given to any alternative ways of

resolving the funding demands. It appears that the Office of the Governor's decision to seek supplemental funding, if necessary, to add to next year's dividend was not made until after the deductions were calculated and the check distribution had begun.

The Commissioner also stated that, in keeping with the intent of the legislature in reference to the disclosure of the uses of the dividend funds, he directed specific wording to be shown on the check stubs for the Corrections and Public Safety programs.

#### Auditor's Observations

The Department of Revenue's actions were not contrary to any provision of law. However, the decision to make deductions from the general public's dividend checks for the Public Safety and Corrections programs was clearly contrary to the legislature's intent.

Once the decision was made to deduct the amounts from the individual dividend checks, it was appropriate, although not required, to disclose the amount deducted on the check stub.

However, an appropriation from the Permanent Fund Dividend Fund for State operating programs does not require an immediate transfer of monies out of the Fund. The state accounting system is appropriately capable of allowing agencies to expend against an appropriation prior to actual receipt of the funds, as long as the actual receipt occurs at some point during the legal life of the appropriation. Therefore, using this legitimate accounting approach, there was no urgency mandating the deductions from the individual dividends.

Approaching the program funding decision in this manner would not be without some risk. If the State ultimately prevails in its appeal, funds now held in trust would be available to fund the programs. However, if the felons prevail and the Department is required to distribute the amounts to the felons, the Dividend Fund would not have the available unobligated funds to transfer to the programs and without a supplemental from the legislature, the programs would be in a shortfall situation. Assessing the potential risk, therefore, would involve assessing the likelihood that the legislature would favorably consider a supplemental request.

The assessment of that risk could have been accomplished with relative ease through communication with the leadership of the House and Senate, and the Finance Committees, as well as the Legislative Budget and Audit Committee which is the

permanent interim committee of the legislature assigned the responsibility of advising the executive branch on interim budgetary matters. The Department of Revenue used this avenue in the past when they presented a proposal to the Committee on distributing remaining balances of prior year dividend appropriations. While the outcome of that presentation was not what the Department had hoped, at least they had a clear understanding of the intended action of the legislature, as viewed by the Committee.

Commissioner Malone, in a letter dated November 1, 1989, (copy enclosed) recognizes the value of this approach and believes it should be followed in the future if problems arise with the dividends.

### Recommendations

You have asked that we provide any recommendations that may help to avoid similar situations in the future. There are two primary areas where legislative action may be warranted.

First is the enabling legislation for withholding dividends from the incarcerated felons. The current issue under appeal rests with the incarceration aspects of the statutes and not with the overall concept of denying dividends to felons. It is important to note that while the appeal of this case is narrowly focused on the incarceration issue, another case is currently at the trial court level that challenges the legislation on several bases. It is unlikely that the second case will be finally decided before the end of the 1990 legislative session. We recommend that no legislative changes be attempted until both the cases are concluded. If the State is ultimately unsuccessful in defending the legislation, the Division of Legal Services should review the final decisions and supporting opinions to determine if the statutes can be amended without defeating the intended goal of the legislation.

Secondly, the legislature should consider making conditional appropriations when there is uncertainty surrounding the intended outcome of legislation, as there was at the time the appropriations were made for the Corrections and Public Safety programs. The Division of Legal Services can draft conditional language, for example, that the source of funding for the Violent Crimes Compensation Board appropriation is from money available from withholding dividends from felons and if no money is available, the source of funding is the General Fund. The condition might instead be for the affected agency to seek a supplemental appropriation during the next legislative session. However the condition is established, the legislature would be providing specific direction to the administration.

The legislature might also want to consider not using the Permanent Fund Dividend Fund as a funding source until all the legal challenges to the legislation have been resolved. The Department of Revenue could continue to withhold dividends from incarcerated felons and place the monies in trust until resolution. If the State ultimately prevails, the amount held in trust would eventually be available for appropriation for designated programs or distribution as future dividends.

If you need additional information or would like to discuss the issues involved, please contact me.

Enclosures

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION  
P.O. BOX WF  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3795

### MEMORANDUM

DATE: October 25, 1989

TO: Senator Rick Uehling, Co-Chair  
Senate Finance Committee

FROM: Mike Greany, Director *MG*  
Legislative Finance Division

SUBJ: PERMANENT FUND PROGRAMS

OCT 25 1989

LEGISLATIVE  
AUDIT

This is in response to your request for information concerning the various programs supported by appropriations from the permanent fund dividend fund.

### PERMANENT FUND DIVIDEND ADMINISTRATION - DEPARTMENT OF REVENUE

The Alaska Permanent Fund Dividend Program was established by Chapter 21, SLA 80, which became effective April 16, 1980. Sections of that bill were retroactive to January 1, 1979. New legislation (Chapter 102, SLA 82, effective June 17, 1982) provided for a \$1,000 dividend payment to each Alaska resident for the claim year 1982.

The Permanent Fund Dividend Division was established on January 1, 1984 (AS 43.23, 15 AAC 23). Prior distributions of the PFD checks were completed by the Department of Revenue using general fund dollars. The Division is responsible for ensuring that the public is aware of the program and its eligibility and filing requirements. Other responsibilities include distributing application forms, assisting the public (especially rural Alaska) in completing and filing the applications, issuing receipts, determining eligibility, making payment to eligible applicants, denying ineligible applicants, and providing an appellate process for those denied.

Previous appropriations made to the Division from the PFD Fund are listed below:

FISCAL YEAR		(\$ 000)
1984	actual	3,512.6
1985	"	2,703.2
1986	"	2,652.8
1987	"	3,007.8
1988	"	3,016.8
1989	(authorized)	3,185.6
1990	(conference)	3,537.4

PERMANENT FUND DIVIDEND HOLD HARMLESS - DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Chapter 102, SLA 1982 (SB 842) allows individuals to participate in state administered programs that depend on financial need for eligibility without taking into account the receipt of a permanent fund dividend check. It also requires the Department of Health and Social Services to provide through the general relief program equivalent state welfare coverage to individuals if they have been denied participation in any federal assistance program due to the receipt of a permanent fund dividend check. The legislation states that this period of being held harmless will be in effect for four months. When an individual receives a dividend check they may be over income and therefore ineligible for assistance in the month they receive the dividend. Also, if they don't spend all of it right away, they can be considered ineligible due to excess resources in following months. The four month period allows them to spend their dividend checks in a less pressured manner.

SB 842 was introduced at the request of the Governor in response to the lawsuit that was pending in the United States Supreme Court concerning the validity of the existing permanent fund dividend program. While on the Senate floor Senator Vic Fischer introduced amendments to add the language dealing with the eligibility of

public assistance and other state programs. The amendments were unanimously adopted and the bill was sent to the House. In the House Finance Committee amendments were introduced that provided the same language concerning hold harmless for the medical assistance program and set the effective period at four months.

The following is an historical view of expenditures and authorizations related to the permanent fund dividend hold harmless programs:

FISCAL YEAR	ADMINISTRATION	PROGRAM
1983 (actual)	209.2	3,928.7
1984 "	258.1	5,092.8
1985 "	268.3	3,910.0
1986 "	259.8	3,265.1
1987 "	293.2	3,616.1
1988 "	294.0	8,067.7
1989 (authorized)	334.3	9,516.4
1990 (conference)	347.1	11,763.5

VIOLENT CRIMES COMPENSATION BOARD - DEPARTMENTS OF PUBLIC SAFETY AND CORRECTIONS

The justification for the appropriations to the Department of Public Safety, Violent Crimes Compensation Board and the Department of Corrections may be found in Chapter 54, SLA 1988. This legislation was sponsored by Representative Barnes. The law concerns permanent fund dividends and individuals incarcerated after the conviction of a felony. The law specifies that an individual who has been convicted of a felony would not be eligible for a permanent fund dividend for the year in which the individual is incarcerated. In addition, legislative intent was incorporated into the law. Legislative intent specifies that the amount that would otherwise be paid as permanent fund dividends to ineligible felons should be appropriated annually from the fund to the crime victim compensation fund.

For FY90 the Governor's Office of Management and Budget (OMB) estimated that \$1,500,000 would be withheld from ineligible felons. It was the assessment of OMB that the crime victim compensation fund could only use \$736,600. OMB and the Department of Corrections proposed to use the remaining balance of \$763,400 to fund special programs within Corrections. Two programs within Corrections received funding from the dividend fund; "gate money" and "sex offender". The gate money program (\$135,000) provides a minimum amount of money to offenders being released from institutions. The sex offender program (\$628,400) provides psychological counseling for sex offenders while they are in the institution. Funds were not appropriated from the withheld felons' dividends prior to FY90.

At the time the Legislature was holding budget deliberations concerning the funding of programs in Corrections and Public Safety, a superior court judge issued a decision on a lawsuit that challenged the constitutionality of Chapter 54, SLA 88. The judge determined that felons should be included in the pool of eligible applicants for dividends. The decision was based upon the assumption the statute does not treat all convicted felons the same way. There would be instances where convicted felons would never be ineligible because of the timing of their incarceration. The attorney general does not agree with the superior court decision and has appealed the ruling to the supreme court. As of this date it is not known when the supreme court will hear this case.

It is important to note that when the Department of Revenue was calculating the number of eligible applicants, the Department was aware of the superior court decision and included the estimated number of felons in the pool of eligible applicants. Money for their dividends (\$1,500,000) is being held in a trust account pending the outcome of the appeal to the supreme court. To fund the programs in Corrections and Public Safety the Department of Revenue withdrew another \$1,500,000 from the dividend account. The dividend account

Senator Rick Uehling  
October 25, 1989

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has been charged twice, once for the dividends deposited in the trust account and, again for the previously described programs.

I hope that this answers your questions concerning these programs. If you require any further information, please let me know.

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX 5  
JUNEAU, ALASKA 99811-0400  
PHONE: (907) 465-2300  
TELEFAX: (907) 465-2389

November 1, 1989

Randy S. Welker, CPA  
Legislative Auditor  
Division of Legislative Audit  
P.O. Box W  
Juneau, AK 99811

RECEIVED

NOV 1 1989

LEGISLATIVE  
AUDIT

Dear Mr. Welker:

I appreciated the opportunity to discuss with you the accounting for the deductions as shown on the 1989 dividend check. This letter responds to your request for a written description of the issues and decisions involved in that process.

As you know, under Alaska statute, the Commissioner of Revenue is charged with giving public notice by October 1 of the amount of the permanent fund dividend for the year.

Basically, the amount of the dividend is figured by dividing the amount of permanent fund earnings available for dividends by the number of eligible Alaskans who apply. 1/

However, there are some twists in figuring the number of "eligible" Alaskans. The law directs that people who have been in jail under a felony conviction be counted into the total of "eligible" people. The law requires these people to be included in the division of the available money even though these felons are not eligible to receive dividends. In fact, they are added in even if they do not apply. The effect of including these felons in the calculation is to divide the total amount available for dividends among more people, thus making the amount of the dividend smaller.

In addition, the law requires the commissioner to disclose the amount by which the dividend has been reduced to pay the costs of administering the permanent fund dividend program and the amount of the hold harmless provisions of AS 43 23.075 (eligibility for public assistance).

The law also states that the commissioner shall include the statement on the check attached to each individual dividend check.

The amount of dividend money appropriated to the Department of Revenue for running the dividend program this year was \$3,537,400.

Dividing this amount by the estimated number of payable applicants for 1989, which is 517,693 Alaskans, gives a reduction per dividend check of \$6.83.

Randy S. Welker  
November 1, 1989  
Page 2

The legislature appropriated \$11,763,500 to the Department of Health and Social Services for the hold harmless program. This program is designed to try to make sure that Alaskans who lose federal benefits (such as AFDC or Old Age Assistance) due to receiving the permanent fund dividend do not suffer a drop in income from the loss in benefits. This works out to a reduction of \$22.72 per dividend.

This year the legislature also appropriated funds from the permanent fund dividend account for additional programs.

One of these appropriations from the permanent fund dividend account was for \$763,400 to the Department of Corrections for sex offender treatment and "gate money" (a payment to prisoners on release). This amounts to a reduction of \$1.47 in each check.

The other appropriation from the permanent fund dividend account was for \$736,600 to the Department of Public Safety for the operation of the violent crimes compensation board. This accounts for the remaining deduction of \$1.42 in the dividend.

I note that the law does not require the commissioner to show the deductions per check for programs other than administrative cost and hold harmless programs. However, showing the additional appropriations from the permanent fund dividend account as reductions is a consistent way to treat the expenses.

I also believe that the intent of the law is to let people know how much of the permanent fund dividend money is being spent on things other than dividends and what those things are. This helps to provide public accountability. Deductions shown on check stubs are a fairly effective way to communicate.

As set out above, the legislature appropriated an additional \$1,500,000 from the permanent fund dividend account to fund the newly listed programs this year (sex offender treatment, "gate money", and violent crimes compensation), essentially using these funds to replace the traditional general fund money for these purposes.

I understand that there have been expressions by concerned legislators and others that the appropriation of the additional \$1,500,000 should not be shown on the check stub. If I understand the reasoning for not showing the amount of these deductions, it is that the legislators did not intend to reduce the dividends going to other Alaskans, because the amount taken from the dividend fund was expected to offset the amount of money that would not be paid to Alaskans who were in jail for a felony conviction sometime during the past year, since the legislature passed a law that was intended to make these people ineligible to receive dividends.

The law denying the incarcerated felons dividends was held invalid by the Alaska superior court. It turned out that the way the law was written that two people in jail for the same length of time on the same felony conviction would be treated differently. One could get the dividend, and the other could not. The superior court decision is being appealed.

In the meantime, the state has been ordered by the court to set aside enough money in an interest-bearing trust account to pay the dividends for these people if they win their appeal. This set-aside comes out of the total that is available for dividends, and has the effect of reducing the dividends for 1989.

\$1,500,000 of permanent fund dividend account money was appropriated by the legislature for funding the sex offender treatment, "gate" money, and violent crimes compensation programs.

You have asked me what consideration was given to using general fund money or other funds different from the permanent fund dividend account money appropriated by the legislature for these programs once the court issued the order requiring that the trust account be set up .

As far as I know, there was no serious consideration given to using other funds for these programs. As far as I know there were no other funds appropriated, just the money from the permanent fund dividend account.

I know there have been suggestions that the executive branch could have advised the legislative budget and audit committee of the potential reduction in the dividends, and sought agreement on replacement funding in the next regular session. I think that suggestion is a valuable one and should be followed in the future if a problem arises with the dividends.

As for now, I believe that you have received a copy of Budget Director Alison Elgee's letter to Senator Duncan advising him that it is the administration's intent to request a special appropriation to replace the lost dividend money if the state loses the appeal in the felons' lawsuit.

You asked that I list my recommendations on the matter.

I recommend:

1) That all uses of permanent fund dividend money, other than the amounts used to pay dividends, be shown on the check stub as a deduction per check.

I recommend this because amounts appropriated from the permanent fund dividend account for other purposes do in fact reduce the dividends. If they were not being used for something else, clearly the dividend check amount would be larger .

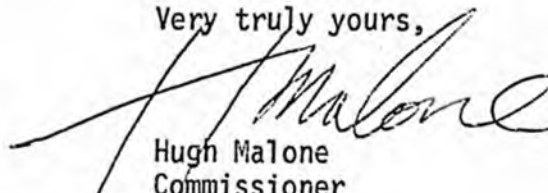
I recommend that showing these deductions be made a requirement of the law so that the people would know what was happening to their money. This would end the arguments over what should be shown to the people on the stub and what should not be shown. The people of Alaska have a high level of interest in the dividend program. This requirement would make sure that folks at least knew enough to ask questions.

Randy S. Welker  
November 1, 1989  
Page 4

2) I recommend that the law denying a dividend to a felon be changed so that the felon does not get the dividend, but instead the individual dividend would be put in a special account to pay any costs that are owed to the state or to private individuals by the felon. This could include the cost to the state of keeping the person in jail .

I hope this letter answers your questions. I would be glad to discuss these recommendations with you or other interested people. I will be sending to you a separate letter addressing some of the other, more technical, accounting issues in the permanent fund dividend program that are not directly connected to this question.

Very truly yours,



Hugh Malone  
Commissioner

HM:m11  
89-225

Enclosure: Copy of check stub.

1/ The calculation also includes other steps, such adding in the amount of money carried forward and subtracting the amounts due for prior years dividends.

This warrant is to be cashed and must be redeemed within two years after the date of issue per AS 37.05.140.

STATE OF ALASKA  
TREASURY WARRANT

No. 5254076

33-52-1253

ALASKA PERMANENT FUND DIVIDEND

DATE OF ISSUE:

52540763

6437716

PAY TO THE ORDER OF:



*W. W. W.*  
GOVERNOR

# 52540763# 1: 252005230

NON NEGOTIABLE

No. 5254076

PAYER'S NAME STATE OF ALASKA 1989 PERMANENT FUND DIVIDEND \$ 873.16  
FEDERAL ID NO. 92-6001185

DATE VOUCHER BATCH DLN WARRANT AMOUNT \$ 873.15  
APPLICANT'S SSN  
APPLICANT'S NAME AND ADDRESS

REDUCTIONS PER DIVIDEND CHECK:  
COSTS OF ADMINISTERING DIVIDEND PROGRAM.....\$ 6.83 (DEPT. OF REVENUE)  
"HOLD HARMLESS" OF PERSONS WHOSE FEDERAL  
BENEFITS ARE CUT WHEN THEY RECEIVE DIVIDENDS..\$22.72 (DEPT. OF HISS)  
SEX OFFENDER TREATMENT AND GATE MONEY FOR  
RELEASED PRISONERS.....\$ 1.47 (DEPT. OF CORRECTIONS)  
VIOLENT CRIMES COMPENSATION BOARD.....\$ 1.42 (DEPT. OF PUBLIC SAFETY)  
TOTAL.....\$32.44

IMPORTANT - This stub contains important tax and other information (see back).

# Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman  
Sen. Al Adams  
Sen. Tim Kelly  
Sen. Rick Uehling



P.O. Box V  
State Capitol  
Juneau, Alaska 99811

907-465-3712

## Senate State Affairs Committee

### MEMORANDUM

TO: Senate State Affairs Committee Members  
FROM: Senator Pat Pourchot  
RE: Wednesday, April 4 Committee Hearing  
DATE: April 3, 1990

On Wednesday, April 4 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

TELECONFERENCE; Anchorage, Mat-Su, Petersburg, Fairbanks, Delta Junction

SB 537. Longevity Bonus Program, efd. SB 537 would phase out the Longevity Bonus Program over a 10-year period. Contrary to previous "stair-stepping" proposals, this bill would "grandfather" a recipient into the program at the amount of the bonus payment for the year in which he/she qualifies. Persons currently receiving \$250 per month would continue to do so for as long as they remain in Alaska.

SCR 52. relating to the leasing of space by the state. Sponsored by Senator Rodey, the resolution encourages state agencies to avoid leasing practices that would cause the construction of substandard commercial structures, practices that are referred to as the "capital lease process" and/or the "design, build, lease back process". In the capital lease process, leases are awarded to the lowest bidder, with no mechanism in place to ensure that facilities are economical to operate and maintain or are responsive to the needs of the agency or the communities. The Committee Substitute passed by House Finance is included in your packet. Senator Rodey requests that the committee consider revising SCR 52 to be identical to CS HCR 52. The CS would establish a State Lease Task Force to study the problems with the Capital Lease process and to submit its findings and recommendations to the governor and legislature by 1/21/91.

SB 399. An Act approving leases of office space by the Department of Administration; and providing for an effective date. This bill would approve the leases of office space, each of which may which may exceed \$1 million in rent, for the following buildings: Juneau: Goldbelt Building, Anchorage: Labor Offices at 33rd Street/Eagle Street and the Law Offices in the Peterson Towers (near the Court Building.)

SB 346. An Act relating to public notice regarding the value of permanent fund dividends; and providing for an effective date. In your packet is the proposed CS, which contains the original language of SB 346, requiring the

Commissioner of Revenue to disclose on Permanent Fund Dividend check stubs the amount of dividends as the result of constitutionally mandated deposits and the amount attributable to legislative appropriations and additional language that requires all deductions from the Dividend Fund be listed on the check stub. A letter of intent would accompany this bill clarifying that all deductions from earnings, i.e. administration costs, oil litigation fees and inflation-proofing amounts be included in the Permanent Fund brochure that is mailed with the PFD checks.

SB 346.txt

Pat:

The Permanent Fund Disclosure and Value Bill:

1. Chart show you which "pot" monies come out of, please let me know if this is not what you wanted.

2. In response to your question of where Dinkum Sands money came from in FY 90, (and is listed the same for FY 91), it's Sec. 25 of the Budget Bill, see attached.

3. The two other Coghill Permanent Fund bills that we heard on PF Day, were SB 395, which would fund the costs of the hold harmless provisions through appropriations rather than from the dividend fund and SB 312, which deletes "income averaging" from the determination of distributable income, requires transfer of up to 25% of the income of the PF to the principal at the end of the year to offset inflation, with 75% of the net income being transferred to the dividend fund. I have made the assumption that you do not want to pursue either concept at this time. Again, please let me know if that is not true.

4. House State Affairs has dealt with the issue of disclosure of all uses of the earnings of the fund. The Commission made a recommendation (see attached) that all uses of the earnings of the Fund should be shown on the dividend check stub by listing the total amount of each use. Boucher introduced HB 563 in response to that recommendation. House State Affairs combined components of HB 381, Phillips bill on disclosure. Current law is that only the disclosure of administrative costs and the hold harmless costs are legally required. They spent quite a bit of time debating the same issues we did, WHAT WILL LOGICALLY FIT ON A CHECK STUB? Result, the CS for HB 563 provides for all appropriations from the dividend fund be listed on the check stub and that all additional deductions including 1. PF operating budget, inflation-proofing, legal fees and and other deductions from the Earning Reserve Account, the Dividend Fund of earnings of the PF be disclosed on an informational flyer. *DJW*

5. I received an OK from Duncan's staff to incorporate the components in CS HB 563 into his bill, SB 346.

6. I have requested a blank CS combining the two bills,. After your review, I will request a CS for the Wednesday hearing. The important part of Boucher's bill is the "letter of intent" which will hopefully direct the PF to do the disclosure. They currently do not include their \$5.6 mil operating costs in the brochure that goes out with the checks.

7. The thing we want to avoid at the hearing is the size of type to use on the check stub to try to fit in all the disclosures. . .we will probably want to consider a letter of intent as well.

*Pat, please return materials to Susie.*

# Alaska State Legislature



SENATOR JIM DUNCAN

P. O. BOX V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:  
FINANCE  
VICE CHAIR -  
HEALTH EDUCATION  
& SOCIAL SERVICES  
BUDGET & AUDIT  
BANKING &  
ECONOMIC  
DEVELOPMENT

TO: SENATOR PAT POURCHOT  
CHAIR  
STATE AFFAIRS COMMITTEE

FROM: SENATOR JIM DUNCAN

REGARDS: REQUEST FOR HEARING ON SB 346

DATE: JANUARY 9, 1990

I WOULD APPRECIATE THE EARLIEST POSSIBLE HEARING DATE FOR SB 346.

SB 346 AMENDS ALASKA STATUTE 43.23. REQUIRING THE COMMISSIONER OF THE DEPARTMENT OF REVENUE TO DISCLOSE ON PERMANENT FUND DIVIDEND STUBS THE AMOUNT OF THE DIVIDENDS AS THE RESULT OF CONSTITUTIONALLY MANDATED DEPOSITS AND THE AMOUNT ATTRIBUTABLE TO LEGISLATIVE APPROPRIATIONS.

I FEEL ITS IMPORTANT FOR ALASKANS TO KNOW THAT A SIGNIFICANT MAJORITY OF THE DIVIDEND CHECK IS THE RESULT OF ADDITIONAL APPROPRIATIONS TO THE PERMANENT FUND BY THE LEGISLATURE. SINCE ITS INCEPTION, THE LEGISLATURE HAS APPROPRIATED OVER \$5.6 BILLION OR 61% OF THE PERMANENT FUND'S PRINCIPAL. THIS INCLUDES SPECIAL APPROPRIATIONS AND MONIES ADDED FOR INFLATION PROOFING. CONSTITUTIONALLY MANDATED FUNDS ACCOUNT FOR JUST OVER \$3.5 BILLION OF THE FUND, OR 39%.

I WAS SPURRED TO INTRODUCE THIS BILL FOLLOWING THE DISCLOSURE OF UNAUTHORIZED DEDUCTIONS FROM THE 1989 DIVIDEND BY THE ADMINISTRATION. A LEGISLATIVE AUDIT I REQUESTED CONCLUDED, "...THE DECISION TO MAKE DEDUCTIONS FROM THE GENERAL PUBLIC'S DIVIDEND CHECKS FOR THE PUBLIC SAFETY AND CORRECTIONS PROGRAMS WAS CLEARLY CONTRARY TO THE LEGISLATURE'S INTENT."

AS YOU KNOW, THE INTENT INVOLVED USING FELON'S DIVIDENDS FOR THESE PROGRAMS. WHEN A COURT RULING FORECLOSED THIS USE, THE ADMINISTRATION REDUCED THE DIVIDENDS OF ALL ALASKANS. THE ADMINISTRATION SHOULD HAVE REQUESTED A SUPPLEMENTAL APPROPRIATION INSTEAD. THE ADMINISTRATION HAS INDICATED IT WILL MAKE SUCH A REQUEST IF ULTIMATE COURT RULINGS FORBID THE USE OF FELON'S DIVIDENDS AND ROLL THE UNAUTHORIZED REDUCTIONS INTO THE 1990 DIVIDEND. LEGISLATORS, INCLUDING MY OFFICE, FIELDERD MANY CONSTITUENT INQUIRIES ON THIS MATTER. MANY CONSTITUENTS WERE CONFUSED AND HELD THE LEGISLATURE TO BLAME. AS A RESULT, I FEEL ALASKANS NEED TO KNOW THE LEVEL OF SUPPORT THE LEGISLATURE HAS GIVEN TO THE PERMANENT FUND. A DISCLOSURE ON THE DIVIDEND STUB WILL REVEAL THIS LEVEL OF SUPPORT.

YOUR CONSIDERATION OF THIS REQUEST IS MOST APPRECIATED.

MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot

RE: Friday, March 2 Committee Hearing

DATE: Friday March 2, 1990

On Friday, March 2 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SB 395. An Act relating to the hold harmless provisions of the permanent fund dividend program; and providing for an effective date. Senator Coghill's bill would fund the costs of the hold harmless provisions through appropriations rather than from the dividend fund.

SB 312. An Act relating to the income of the permanent fund; and providing for an effective date. Introduced by Senator Coghill, this bill deletes "income averaging" from the determination of distributable income, requires transfer of no more than 25% of the income of the PF to the principal at the end of each fiscal year to offset inflation, with 75% of the net income being transferred to the dividend fund.

SCR 43. An Act relating to the permanent fund educational program for elementary students. Senator Coghill's resolution is a statement of support for the educational program funded by the Alaska Permanent Fund Corporation.

SB 346. An Act relating to public notice regarding the value of the permanent fund dividends; and providing for an effective date. Introduced by Senator Duncan, this bill requires the Commissioner of Revenue to disclose on the PFD stubs the amount of the dividends as the result of constitutionally mandated deposits (approximately 39% since inception) and the amount attributable to legislative appropriations (approximately 61% since inception).

Pat, what I would like to present to the committee is this:

How lack of clear Permanent Fund statutory priorities and lack of clear statutes is driving major fiscal policy-making by default and often without legislative awareness:

Examples, all of which need to be explained:

1. Inflation-proofing - Corp. staff maximizes deposits
2. Automatic inflation-proofing transfer under AS 37.13.145, probably unconstitutional
3. Lack of "net income" definition - yet "net income" drives amount of money available for pfds and inflation-proofing
4. Potential General Fund monies sitting in ERA now
5. Royalty interest earnings disposition:  
    \$72 million in 1988 Dinkum Sands  
    About \$425 million at stake in future royalty interest earnings
6. 50% statutory dedication issue:  
    \$80 million at issue in 1988 Dinkum Sands  
    More at issue in future
7. General operational inconsistencies

Other key points:

Asset allocation will have major impacts on legislature in future  
Entire purchasing power of Permanent Fund now tied up in dividends

Future performance measures & need for strong legislative oversight

MARY HALLORAN

# Alaska State Legislature

Legislative Research Agency




P.O. Box Y  
Juneau, AK 99811-3100  
Phone: (907) 165-3991  
Fax: (907) 163-3351

February 15, 1990

## MEMORANDUM

TO: Senator Pat Pourchot

ATTN: Susan Barnett

FROM: Gordon S. Harrison   
Director

RE: Permanent Fund Issues

You asked for suggestions about issues involving the permanent fund that could be addressed in committee oversight hearings on the fund and its management.

Profound and philosophical questions, such as, "Is the dividend program the *raison d'être* of the Alaska permanent fund?", are probably not productive to debate at the present time. Therefore, my proposal for an issue to add to the committee agenda deals with a more prosaic topic: the prospect of deteriorating financial performance of the fund in the 1990s. The possibility that financial markets may not be as generous in the future as they have been in the past seems to underlie several of the issues now before the permanent fund corporation and the legislature.

### Successes of the 1980s

During the 1980s, permanent fund managers achieved unusually high real rates of return on fixed-income investments that involved very little risk. This impressive performance was due largely to the uncharacteristic spread in the capital markets between interest rates and inflation rates, and to the substantial annual contributions to the principal (which mitigated the adverse effects on income of rising interest rates). It was possible for the fund managers to be conservative and successful.

Because the fund was heavily invested in fixed-income, interest-bearing instruments, it generated a lot of cash. It generated enough cash to pay dividends, fully inflation proof the principal, and build up the earnings reserve account. Everyone was happy, and the fund's management has been widely praised. Indeed, it seems very likely that the public now regards this as the natural order of things, and that it will continue indefinitely. The fund managers are worried that the historical earning patterns of interest-bearing investments (low real returns) will reassert themselves. If that were to happen, especially in an inflationary period, the earnings reserve account

Senator Pourchot  
February 15, 1990  
Page 2

would be drawn down quickly and inflation-proofing goals could not be met. How will the public respond? How will the legislature respond? What can be and what should be done now to prepare for the day when the bloom is gone from the fund's annual reports?

#### Issues for Discussion

An understanding of the fund's past and projected earnings is important for informed debate about management of the fund's investments and disposition of income generated by the fund. The prospect of reduced real earnings has prompted discussion about giving inflation proofing the first call on income, and authorizing cumulative inflation proofing. The merits of the payout proposal in HB 564 depends in large measure on the assessment of the future earning capability of the fund. Also, concern about reduced real returns from fixed-income investments is behind pressure to invest a higher percentage of the fund's principal in stocks (i.e., change the asset allocation of the fund in favor of equities).

The prospect of lackluster (or poor) performance of the fund gives rise to a general issue that is never very far from the minds of the permanent fund board members, and should be pondered at times by the legislature as well; namely, the degree of tolerance of the public (and legislature) for poor returns. My own suspicion is that the public will prove to be intolerant of a poor showing, and very intolerant of losses. The "time horizon" of elected officials tends to be short, and I fear it is even shorter for the public as a whole.

I recall that in the summer of 1987, when the Dow Jones Industrial Index continued to ascend after the fund managers had sold a substantial holding of stocks in the spring, the Anchorage Daily News ran a front page story about the \$400 million the fund had lost (failed to make) by selling. When the crash came that fall, nothing was said (by the News at any rate) about the wisdom of the move. The point is that the performance of the fund is big news, and that those responsible for it will not have the luxury of waiting out a down market. It may be that anything other than a very short-term investment horizon is impractical for the fund, and that the consequences of that reality should be acknowledged by the legislature and the public (for example, that the fund will inevitably forego dramatic returns of a bull market).