

SB

29



Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

MEMORANDUM

DATE: January 28, 1993

TO: Senator Bert Sharp

FROM: William H. Scott
Executive Director

SUBJECT: Fiscal Analysis of Senate Bill No. 29

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

Financial Projection #1: This is the status quo case as of December 31, 1992. It provides the benchmark against which to compare and contrast any changes to current law.

Senate Bill No. 29: SB 29 makes the following change to the status quo: \$600 million is appropriated from the Fund's earnings reserve account to Fund principal. Although the bill has an immediate effective date, this projection assumes the transfer takes place July 1, 1993.

This analysis concerns itself with the following impacts on the Permanent Fund:

- ✓ How would the changes affect the growth of Fund principal?
- ✓ How would they affect the level of Fund net income produced in the future?
- ✓ How would they affect total dividend distributions (in millions), and the amounts of annual per capita dividends?

- ✓ How would they affect inflation-proofing transfers?
- ✓ How would they affect amounts available for distribution to the General Fund.

To provide analysis-at-a-glance, the impacts for the fiscal years 1993, 2000, 2005 and 2010 are pulled off the projection sheets and juxtaposed below

Fund Principal Balance (in millions)

<u>Year</u>	<u>Status Quo</u>	<u>SB 29</u>	<u>Difference</u>
June 30, 1993	\$12,319	\$12,319	\$0
June 30, 2000	19,534	20,205	\$672
June 30, 2005	26,629	26,629	\$0
June 30, 2010	34,200	34,200	\$0

Compared to the status quo, the impact on the Permanent Fund of passage of **Senate Bill No. 29** would be as follows:

Permanent Fund principal will grow larger in the short term because of the one-time appropriation of \$600 million from the Fund's earnings reserve account to principal. However, because the status quo projection assumes that all the money in the earnings reserve account eventually is added to principal to offset future inflation-proofing shortfalls, the principal becomes identical under both projections in 2004. Note: If there were sufficient income available to completely offset inflation over the long term, then SB 29 would result in a larger Fund principal balance over the long- as well as the short-term.

Annual Net Income (in millions)

<u>Year</u>	<u>Status Quo</u>	<u>SB 29</u>	<u>Difference</u>
Fiscal 1993	\$1,069	\$1,069	\$0
Fiscal 2000	1,802	1,802	0
Fiscal 2005	2,386	2,386	0
Fiscal 2010	3,071	3,071	0

Net income is unaffected because SB 29 makes no change in the amount of money invested. Note: Net income of the Permanent Fund includes income of the earnings reserve account (see AS 37.13.140).

Dividend Distribution
 (in millions)

<u>Year</u>	<u>Status Quo</u>	<u>SB 29</u>	<u>Difference</u>
Fiscal 1993	517	517	\$0
Fiscal 2000	807	807	0
Fiscal 2005	1,126	1,126	0
Fiscal 2010	1,464	1,464	0

Future *dividend distribution* amounts are determined by a statutory formula based on net income. Because net income is not changed by SB 29, neither are dividend distributions.

Per Capita Dividends
 (in actual dollars)

<u>Year</u>	<u>Status Quo</u>	<u>SB 29</u>	<u>Difference</u>
1993	\$920.87	\$920.87	\$0.00
2000	1,232.05	1,232.05	0.00
2005	1,551.24	1,551.24	0.00
2010	1,848.29	1,848.29	0.00

Per capita dividends are determined by a statutory formula based on net income. Because net income is not changed by SB 29, neither are per capita dividend distributions.

Inflation-Proofing Transfers
 (in millions)

<u>Year</u>	<u>Status Quo</u>	<u>SB 29</u>	<u>Difference</u>
Fiscal 1993	\$360	360	\$0
Fiscal 2000	1,106	994	111
Fiscal 2005	1,259	1,259	0
Fiscal 2010	1,607	1,607	0

Inflation-proofing transfers are larger in the short term because the principal to be inflation-proofed is larger. In the intermediate term (the years between the time the earnings reserve account is depleted under SB 29 and the time the earnings reserve account is depleted under the status quo, the transfers are smaller. Eventually, when the earnings reserve account is depleted under both projections (2004), the transfers under both scenarios become identical. However, the cumulative inflation-proofing shortfall under SB 29 is larger than under the status quo.

**Distributions to the General Fund
(in millions)**

<u>Year</u>	<u>Status Quo</u>	<u>SB 29</u>	<u>Difference</u>
Fiscal 1993	\$3	3	\$0
Fiscal 2000	0	0	0
Fiscal 2005	0	0	0
Fiscal 2010	0	0	0

The *distributions to the General Fund* are identical under both projections. However, under SB 29, the \$600 million appropriated from the earnings reserve account to principal would no longer be available for appropriation by the legislature - without a voter-approved change to the State Constitution.

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 future dedicated State oil revenues are taken from the Department of Revenue's most recent "low case" forecast. The population assumptions used in the computation of future per capita dividend payments are derived from the Middle Series of the Department of Labor's "Population Projections" dated November 1991.

Senator Bert Sharp
January 28, 1993
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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, 1992

GROWTH OF FUND PRINCIPAL						USE OF FUND INCOME							
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall	Net Income	Distributions		Reserves		FY	
								Dividends	Inflation-Proofing	General Fund	Add (Delete)		FY End Balance
78	0		54		54		2		1			78	
79	54		84		139		8		7			79	
80	139		344		433		32	12	12			80	
81	483	900	385		1,769		150	28	28	59	59	81	
82	1,769	800	400		2,969		368	71	71	185	244	82	
83	2,969	400	421	231	4,021		471	108	231	110	354	83	
84	4,021	300	366	151	4,838		530	175	151	203	557	84	
85	4,838	300	368	235	5,741		658	217	235	206	763	85	
86	5,741		323	216	6,281		1,021	303	216	501	1,264 **	86	
87	6,281	1,264 **	170	148	7,864		1,069	391	148	529	529	87	
	7,864		418	303	8,585		789	424	303	62	591	88	
	8,585		228	360	9,173		868	460	360	44	635	89	
90	9,173		267	454	9,894		916	487	454	(30)	605	90	
91	9,894		435	559	10,888		1,030	489	559	(24)	581	91	
92	10,888		38	477	11,703		1,036	488	477	64	645	92	
93	11,703		256	360	12,319		1,069	517	360	3	190	835	93
94	12,319		241	565	13,125		1,121	543	565	12	847	94	
95	13,125		249	602	13,976		1,190	572	602	16	864	95	
96	13,976		255	640	14,872		1,264	596	640	27	890	96	
97	14,872		248	680	15,800		1,341	628	680	32	923	97	
98	15,800		235	962	16,997		1,587	683	962	(58)	865	98	
99	16,997		209	1,032	18,239		1,693	743	1,032	(82)	783	99	
0	18,239		189	1,106	19,534		1,802	807	1,106	(111)	672	0	
1	19,534		172	1,182	20,887		1,912	875	1,182	(145)	526	1	
2	20,887		158	1,263	22,308		2,026	947	1,263	(184)	342	2	
3	22,308		143	1,347	23,798		2,141	1,005	1,347	(211)	131	3	
4	23,798		129	1,327	25,255	108	2,261	1,065	1,327	(131)		4	
5	25,255		115	1,259	26,629	263	2,386	1,126	1,259			5	
6	26,629		102	1,325	28,056	279	2,514	1,189	1,325			6	
7	28,056		79	1,393	29,528	293	2,648	1,255	1,393			7	
8	29,528		25	1,462	31,014	312	2,784	1,322	1,462			8	
9	31,014		25	1,532	32,571	331	2,924	1,392	1,532			9	
10	32,571		22	1,607	34,200	345	3,071	1,464	1,607			10	
Cumulative Totals Projected							35,733	16,730	19,645	3			
For FY 1993 - 2010:													

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 93	8.33%	3.01%	5.32%
FY 94 - 97: ***	8.10%	4.50%	3.60%
FY 98 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1992 Low-Cost Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Based on capital market assumptions adopted by the Trustees in March 1992.

STATUS QUO



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1992

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall
78	0		54		54	
79	54		84		139	
80	139		344		483	
81	483	900	385		1,769	
82	1,769	800	400		2,969	
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	
	7,864		418	303	8,585	
	8,585		228	360	9,173	
90	9,173		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703		256	360	12,319	
94	12,319	600	241	592	13,752	
95	13,752		249	630	14,631	
96	14,631		255	670	15,556	
97	15,556		248	711	16,515	
98	16,515		235	1,005	17,756	
99	17,756		209	1,057	19,022	21
0	19,022		189	994	20,205	158
1	20,205		172	1,037	21,414	186
2	21,414		158	1,079	22,650	216
3	22,650		143	1,136	23,929	252
4	23,929		129	1,196	25,255	247
5	25,255		115	1,259	26,629	263
6	26,629		102	1,325	28,056	279
7	28,056		79	1,393	29,528	295
8	29,528		25	1,462	31,014	312
9	31,014		25	1,532	32,571	330
10	32,571		22	1,607	34,200	349
Cumulative Totals Projected						
For FY 1993 - 2010:			2,852	19,045		2,887

USE OF FUND INCOME						
Net Income	Distributions			Reserves		FY
	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	
2				1		78
8				7		79
32	12			12		80
150	28			28	59	81
368	71			71	185	82
471	108	231		110	110	83
530	175	151			203	84
658	217	235			206	85
1,021	303	216			501	86
1,069	391	148			529	87
789	424	303			62	88
868	460	360	4		44	89
916	487	454	4		(30)	90
1,030	489	559	4		(24)	91
1,036	488	477	5		64	92
1,069	517	360	3	190	835	93
1,121	543	592		(615)	220	94
1,190	572	630		(12)	209	95
1,264	596	670		(3)	206	96
1,341	628	711		2	207	97
1,587	683	1,005		(101)	106	98
1,693	743	1,057		(106)		98
1,802	807	994				0
1,912	875	1,037				1
2,026	947	1,079				2
2,141	1,005	1,136				3
2,261	1,065	1,196				4
2,386	1,126	1,259				5
2,514	1,189	1,325				6
2,648	1,255	1,393				7
2,784	1,322	1,462				8
2,924	1,392	1,532				9
3,071	1,464	1,607				10
35,733	16,730	19,045	3			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 83:	8.33%	3.01%	5.32%
FY 84-97:	8.10%	4.50%	3.60%
FY 98-2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1992 Low-Case Revenue Forecast.
 ** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1997.
 *** Based on capital market assumptions adopted by the Trustees in March 1992.

SB 29: APPROPRIATES \$600 MILLION FROM THE EARNINGS RESERVE ACCOUNT TO PERMANENT FUND PRINCIPAL ON JULY 1, 1993

AMS

DIVISION OF LEGAL SERVICES

**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

January 29, 1993

SUBJECT: Budget Reserve Fund (Work Order No. 8-LS0534)
TO: Senator Bert Sharp
FROM: Tamara Brandt Cook
Director

TBC

Under Article IX, Section 17(b) of the state constitution amounts may be appropriated from the budget reserve fund when ". . . the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year. . ." You have asked how the amount available for appropriation is to be determined. Unfortunately, since the matter has not yet been considered by the court, any answer I provide to your question will be speculative at best.

At the very least this language includes the balance in the unrestricted general fund available at the beginning of a fiscal year plus revenue received by the general fund during that year and money lapsed into the general fund during that year.

In addition, there are certain statutory funds within the general fund with restrictions on expenditure. Money in these funds may be appropriated, either for the limited uses set out in the statute or for other uses by amending the restrictions contained in the statute or relying upon the legislature's "power of the purse" and ignoring the restrictions. Since these funds may be appropriated, I believe a court would tend to conclude that amounts in them are "available for appropriation" under Section 17(b). An example of such a fund is the Railbelt Energy Fund (AS 37.05.520).

Likewise, federal funds are made available to the state for restricted uses but can only be expended if appropriated. I would think a court would find these to be "available for appropriation."

However, because subsection (b) is not limited to money that is available for appropriation from the general fund while subsection (d) specifically requires repayment only from general fund money, I would think that a court would find that money available for appropriation under subsection (b) is not limited to general fund money. If it were, like subsection (d), it could have said so. All of the income of the

FEB 01 1993

Permanent Fund would, I believe, be considered available for appropriation. Once a portion of it is appropriated to the dividend fund, that money should not be counted as available for appropriation again, since the Department of Revenue has authority to distribute it without further legislative action. You will recall that under Article IX, Section 16, the earnings of the permanent fund are to be deposited in the general fund unless otherwise provided by law, and the legislature has so provided by denominating the earnings reserve as an account in the permanent fund. Yet the legislature has also regularly made appropriations from the earnings reserve account, so it would seem difficult for a court to find that that money, along with all other permanent fund income, is not "available for appropriation."

On the other hand, the principal of the permanent fund is certainly not "available for appropriation." Article IX, Section 15 states specifically that the principal may only be used for income-producing investments.

There are dozens of other accounts and funds established by statute, ranging from loan funds to trust funds to funds required under federal law. Other accounts have been established by administrative agencies. To the extent that those funds contain unencumbered and unobligated balances, they may provide a resource for reappropriation purposes, but because they are typically appropriated to the fund for a specific program and can still be expended under the original appropriation, a fair argument could be made for the proposition that they are not balances "available for appropriation" within the terms of the constitution (because they have already been appropriated) and that they do not become available until the original purpose is accomplished and the remaining funds are lapsed or the program is repealed.

TBC:gc
93-085.glc

SB - 29

SPONSOR STATEMENT

SB-29 proposes to appropriate \$600 million dollars from the Permanent Fund Earnings Reserve for deposit into the Permanent Fund's Principal Account.

As of December 31, 1992, the principal [contributed equity] balance of the fund totaled \$11,848,626,000. This amount was accumulated via \$4,749,697,000 in dedicated state revenues, \$3,964,384,000 in appropriation by the legislature and \$3,134,540,000 from inflation proofing contributions.

The last special appropriation into the principal of the fund occurred in 1987 when \$1,264,000,000 was moved from the Permanent Fund Earnings Reserve by the legislature.

The Permanent Fund Report of December 31, 1992, projects a year end unencumbered balance in the Earnings Reserve account of \$835,000,000.

SB-29's proposal to move \$600,000,000 will leave an estimated balance of \$235,000,000 in the Earnings Reserve Account.

This balance should prove more than adequate to meet other needs and a cushion for assuring that inflation proofing obligations are met.

SPONSOR STATEMENT

SECTION ANALYSIS

SB-29

"An Act making a special appropriation to the principal of the Alaska permanent fund; and providing for an effective date."

*Section 1. This appropriation will transfer \$600,000,000 from the Alaska permanent fund reserve account to be deposited into the Alaska permanent fund principal account.

*Section 2. This appropriation will go into effect July 1, 1993.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. Senate Bill No. 29

Revision Date: _____
Title: "An Act making a special appropriation to the principal of the
Alaska permanent fund."

Dept. Affected: Department of Revenue
BRU: APFC
Component: APFC

Sponsor: Senator Sharp

Requestor: _____

COMPONENT SERIAL NO. 109

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY94	FY95	FY98	FY99	FY98	FY99
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE FUND SOURCE:	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) Impact: \$0 _____

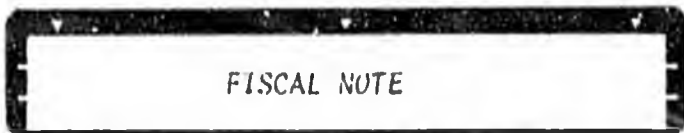
ANALYSIS: (Attach a separate page if necessary)

See attached two sheets.

Prepared by: William H. Scott, Executive Director *William H. Scott*
Division: Alaska Permanent Fund Corporation
Approved by
Commissioner: *David Reynolds*
Agency: _____

Phone: 465-2047
Date: January 27, 1993
Date: 1/27/93

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Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1992

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall
78	0		54		54	
79	54		84		139	
80	139		344		483	
81	483	900	385		1,769	
82	1,769	800	400		2,969	
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96	14,631		255	670	15,556	
97	15,556		248	711	16,515	
98	16,515		235	1,005	17,756	
99	17,756		209	1,057	19,022	21
0	19,022		189	994	20,205	158
1	20,205		172	1,037	21,414	186
2	21,414		158	1,079	22,650	216
3	22,650		143	1,136	23,929	232
4	23,929		129	1,196	25,255	247
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9	31,014		21	1,532	32,571	330
10	32,571		22	1,607	34,200	349
Cumulative Totals Projected						
For FY 1993 - 2010:-						
			2,852	19,045		2,887

USE OF FUND INCOME

Net Income	Distributions		Reserves		FY End Balance	FY
	Dividends	Inflation-Proofing	Add (Delete)	FY End		
2				1		78
8				7		79
32	12			12		80
150	28			28	59	81
368	71			71	185	82
471	108	231	110	110	354	83
530	175	151		203	557	84
658	217	235		206	763	85
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1,030	489	559	4	(24)	581	91
1,036	488	477	5	64	645	92
1,069	517	360	3	190	835	93
1,121	543	592		(615)	220	94
1,190	572	630		(12)	209	95
1,264	596	670		(3)	206	96
1,341	628	711		2	207	97
1,587	683	1,005		(101)	106	98
1,693	743	1,057		(106)		99
1,802	807	994				0
1,912	875	1,037				1
2,026	947	1,079				2
2,141	1,005	1,136				3
2,261	1,065	1,196				4
2,386	1,126	1,259				5
2,514	1,189	1,325				6
2,648	1,255	1,393				7
2,784	1,322	1,462				8
2,924	1,392	1,532				9
3,071	1,464	1,607				10
35,733						3
16,730						19,045

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 93:	8.33%	3.01%	5.32%
FY 94 - 97: ***	8.10%	4.50%	3.60%
FY 98 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1992 Low-Case Revenue Forecast

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Based on capital market assumptions adopted by the Trustees in March 1992.

SB 29: APPROPRIATES \$600 MILLION FROM THE EARNINGS RESERVE ACCOUNT TO PERMANENT FUND PRINCIPAL ON JULY 1, 1993