

SJR

38

BOB STOKES
4111 VISCOUNT CIRCLE
ANCHORAGE, ALASKA 99502

Jan. 10, 1994

Sen. Johnny Ellis
State Capitol
Juneau, AK 99801-1182

Dear Senator Ellis:

How would this be for a practice sentence in high school typing:
"Now is the time for all good people to come to the aid of our
beloved state"? I refer of course to the price of oil, the decline
in North Slope production and the absolute necessity of getting
back on a sound financial track.

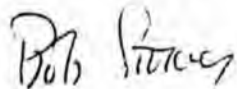
There seems to be a tsunami swelling up in support of the idea put
forth by Roger Cremo which incorporates the Permanent Fund into
long range financial planning for the state. On the back of this
letter is a copy of a column by Fritz Pettyjohn which gives a good
outline of the Cremo plan and I hope you will take the time to read
it.*

The initial role of the Legislature would be to get the proposed
constitutional amendment in front of the people in the 1994
election this November. If the electorate rejects it, so be it.
If it passes I sincerely believe the future of our children and
their children in Alaska will be secured as far as we can make it
so.

It is of the utmost importance that this not become a partisan
issue. It is my hope that both sides of the aisle will appreciate
the importance of this amendment and support it accordingly. This
seems to be the opportunity of a lifetime to literally save our
state by sponsoring or co-sponsoring the Cremo amendment.

Thank you for your time.

Sincerely,



Bob Stokes

*There is a typo in the column. \$35 billion was reversed and should
actually read \$53 billion.

BEAM: BUSINESS, EDUCATION AND MANAGEMENT CONSULTANT

Phone: (907) 277-8295, Fax: (907) 277-8354 540 L St., Suite #101 Anchorage, Alaska 99501-1945

KAREN ELIZABETH DEMPSTER B.A., M.ED., ED.S.

Specialist in:

Labor Relations, Contract Interpretation, Management & Budget Analysis

July 12, 1993

LETTERS TO THE DAILY NEWS

258-2157

Anchorage Daily News

P.O. Box 149001

Anchorage, Alaska 99514-9001

Dear Editor,

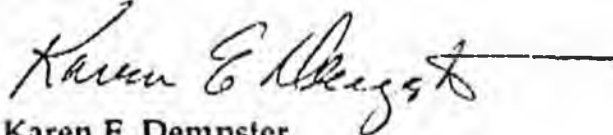
In response to Roger Cremo's Saturday, July 10, 1993 Compass piece, and its headline "We can indeed stabilize Alaska's economy, starting in '94", I thought of the line from a song: "There is nothing to it but to do it!"

The only cogent, comprehensive and systemic plan available to deal with the curse of the Alaska boom/bust economy is the one proposed by Roger Cremo. We have a unique economy in that our vast natural resources are locked up and owned by either the state or federal government. Our largest and most significant employer is the state and federal government. And, the words of the statehood act leave us no immediate way to change this ownership situation. Our only controllable capital asset is the Permanent Fund. If, as Mr. Cremo demonstrates, we can strengthen the Permanent Fund by placing all natural resource revenues into this reservoir, then metering out the earnings for dividends and the running of state government at a sustainable and predictable rate, we can achieve stability.

Stability means no more destructive boom/bust. It means we can forward fund for education and municipal government. Because we can predict state funding levels, we can achieve long term budgeting. Instead of politicians promising us reform, then excusing the lack of reform by citing the unpredictability of funding, we can hold our representatives responsible for planning and executing a budget as promised in their campaigns.

There is nothing to it, but to do it!

Sincerely,



Karen E. Dempster

NIB
Pg 2

KENAI PENINSULA CAUCUS
AN ORGANIZATION REPRESENTING
MUNICIPAL GOVERNMENTS AND CHAMBERS OF COMMERCE
OF THE KENAI PENINSULA BOROUGH
177 North Birch Street, Soldotna, AK 99669
Phone: 262-9107

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Betty Glick, Kenai Peninsula Borough
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Jack Brown, North Peninsula
Darlene Crawford, Seldovia
Elaine Nelson, Seward
John Torgerson, Soldotna

To: Senator John Ellis c/o Nina
Fax: 465-2529 - - Five (5) Pages
From: Richard Underkofler, Secretary, Kenai Peninsula Caucus
Date: January 13, 1994

I am forwarding copies of Resolutions from the Kenai Peninsula Borough and the cities of Soldotna, Homer and Seward petitioning the Alaska Legislature to place a constitutional amendment on the ballot for the next general election that would enable a state wide vote on Roger Cremo's proposal to enable a percentage of the market value of the permanent fund to be withdrawn and appropriated for financing state government.

It is my understanding that you have already received the City of Kenai's Resolution endorsing this proposition. A similar Resolution will be considered by the Kenai Peninsula Caucus at a meeting to be held January 28, 1994.

Roger Cremo's proposal appears to have broad, non-partisan support on the Kenai.

Thanks for introducing a Senate Resolution that would enable this proposition to be considered by the legislature.





First National Bank
of Anchorage

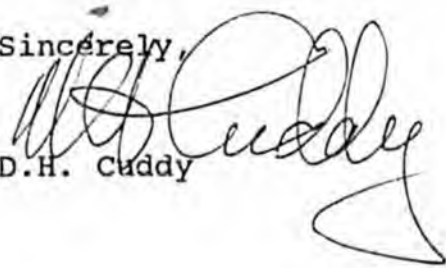
January 13, 1994

Senator Johnny Ellis
Room 9
Juneau, Alaska 99801

Dear Senator Ellis:

I endorse the Rodger Cremo Plan for the management of the Permanent Fund. You can't beat the magic of compounding.

Sincerely,


D.H. Cuddy

LETTER OF SUPPORT

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 14, 1994

SUBJECT: Constitutional amendment relating to revenues from natural resources (SJR 38)

TO: Senator Johnny Ellis

FROM: Tamara Brandt Cook
Director *TBC*

Here is the sectional summary you requested.

Sec. 1. The existing constitutional provision relating to the permanent fund is repealed and replaced with an entirely new section related to the Alaska permanent fund. Revenue from certain listed natural resource sources received by the state are not appropriable. These revenues constitute the Alaska permanent fund and are to be invested. Income is retained in the fund. Each fiscal year, money is withdrawn in an amount equal to six percent of the average of the market value of the fund at the end of each of the quarters of the three calendar years immediately preceding that fiscal year. The money withdrawn may be appropriated. A public corporation manages the fund. Revenues dedicated by this section do not include revenues that are the subject of other dedications permitted by the constitution.

Sec. 2. The percentage to be withdrawn from the fund in sec. 1 does not apply in fiscal years 1996-2005. In FY 1996 the percentage is twenty and it decreases each fiscal year geometrically until FY 2006, when the six percent level is reached. The assets of the constitutional budget reserve fund, the earnings reserve account of the permanent fund, the Railbelt energy fund, and the statutory budget reserve fund are added to the Alaska permanent fund. The assets of the permanent fund on July 1, 1995 are retained in the fund. The provisions of the first two sections of this resolution are effective July 1, 1995. The following constitutional sections are repealed effective July 1, 1995: sec. 16, art. IX-appropriation limit; sec. 17, art. IX-budget reserve fund; sec. 27, art. XV-reconsideration of amendment limiting increases in appropriations; sec. 28, art. XV-application of appropriation limit amendment.

Sectional Analysis

Senator Johnny Ellis
January 14, 1994
Page 2

Sec. 3. Requires the proposed amendments to be placed before the voters at the next general election (November, 1994 if this resolution is passed by the legislature this session).

TBC:pl
94-039.plm



Alaska Permanent Fund Corporation
P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: January 18, 1994

TO: Board of Trustees

FROM: Jim Kelly *JK*
Research & Liaison Officer

SUBJECT: **20 Questions (and Answers) on the Cremo Plan**

1) **What is the plan's purpose?**

To stabilize state resource revenues at a sustainable level, to increase the size of the Permanent Fund, and to minimize the negative consequences of the fiscal gap.

1) **How does the plan work?**

The plan requires this session's legislature to propose – and the voters in the fall election to approve – an amendment to the State Constitution to provide that beginning July 1, 1995 and henceforth, all natural resource revenues be deposited in the Permanent Fund along with the assets of the state's two budget reserve accounts and the Railbelt Energy Fund. All future income earned by the Fund would be retained in the Fund, but there would be an annual withdrawal from the Fund based on its average market value over the past 12 quarters. The first year, the withdrawal would equal 20 percent, but then would be reduced geometrically each year until the permanent withdrawal rate of 6 percent is reached in the year 2006.

Research

3) Will the plan stabilize state resource-derived revenues at a sustainable level?

Yes. However, that level would be insufficient, for at least the next 15 years, to fund the entire costs of state government. Matching projected state revenues with projected state spending would still require reductions in the state budget and increases in other non-resource-derived state revenues.

4) Will the plan increase the size of the Permanent Fund?

Yes, given the assumptions upon which the plan is based.

5) What are the assumptions?

The plan is based on the Department of Revenue's fall 1993 mid-case revenue projections, and assumes an annual total rate of return for the Permanent Fund of 10 percent and an annual inflation rate of 4 percent. The Alaska Permanent Fund Corporation's projections are based on the low-case revenue projections, and assume a long-term average rate of return for the Permanent Fund of 9 percent and a long-term average rate of inflation of 6 percent.

6) What happens if the more conservative estimates prove to be true?

If the Corporation's estimates prove accurate, the Fund would still grow larger than under the status quo, but the money provided each year to the treasury from the Permanent Fund would be significantly less than the plan projects.

7) Why is there a transition period before implementation of the permanent withdrawal rate?

The plan provides for a higher but gradually reduced withdrawal rate during a 10-year transition period in order to minimize the negative consequences of the fiscal gap. The economy depends to a significant extent on state spending and too sharp a reduction would directly and indirectly eliminate many jobs and sink the state into a serious recession.

8) What is the rationale for the 6 percent withdrawal rate?

Given the plan's assumptions, a 6 percent withdrawal rate provides the maximum amount of money to the state treasury while still protecting the Fund against inflation. Arguments can be made that the number should be higher or lower: the higher the rate of withdrawal, the more money is made available for state spending; the lower the number, the greater the protection to the Fund from inflation. From the Fund's perspective, it would be more prudent to base the annual withdrawals on the real growth of the Fund, not on an arbitrary number.

9) Does the plan provide the Permanent Fund with protection against inflation?

Only if the annual amount withdrawn by the treasury plus the amount "withdrawn" by inflation is less than the total earnings of the Fund for that year plus the new deposits. Using conservative estimates of all four variables – a 4 percent withdrawal rate, new deposits according to the DOR low-case revenue forecast, a 9 percent earnings rate, and a 6 percent rate of inflation – the Fund experiences a net inflation-proofing surplus in the first 15 years of the plan.

10) What has been the historic rate of inflation, and what does the Corporation project for the future?

Since 1926, inflation has averaged just over 3 percent. Since the Fund started in 1977, inflation has averaged just under 6 percent. The Corporation projects a 4 percent average rate of inflation for the next four years, and a 6 percent average rate of inflation over the long-term.

11) What have been the Fund's historic rate of return, and what does the Corporation project for the future?

Since the Permanent Fund started in 1977, the realized rate of return has averaged 11 percent. The Fund's total return for the past 9 and 3/4 years has been just over 12 percent. The Corporation projects a 8.37 percent rate of return for the next four years, and a 9 percent rate of return over the long term.

12) Does the plan provide for the payment of full dividends?

Technically, the plan would increase dividends because the current statutory dividend formula is based on the Fund's annual income, which would increase. However, using that current statutory dividend formula, the plan would produce significantly less resource revenue for state spending than would be produced under the status quo.

13) What if the dividends were capped at \$1,000 per capita?

Then, dividends would be reduced from the status quo, but the revenues made available for state spending would be increased.

14) How does the plan address the fiscal gap?

As mentioned above, the plan assumes some combination of state spending cuts and revenue increases. Given the plan's assumptions, a 12% annual increase in conventional revenues and a \$30 million cut in annual state spending would eliminate the fiscal gap.

15) Are the Cremo Plan's assumptions realistic?

The assumptions may be realistic, but they are not conservative.

16) What other effects would adoption of this proposal have on the Permanent Fund?

The plan would certainly create a need for more staffing and a higher operating budget for the Permanent Fund Corporation. Additionally, and more importantly, the plan might also affect public perceptions. It might blur the distinction between the Permanent Fund as a savings account and the General Fund as the state's spending account, and it might destroy the link which exists currently between the citizens and their savings account. Finally, if state government comes to rely on the Permanent Fund as its primary source of operating revenues, pressure would likely build on the Board of Trustees to take more risks with the investment policy in order to attempt to earn greater rates of return.

17) Does the plan have advantages over the current situation?

As the Commission on the Future of the Permanent Fund said about it in 1990, "A successful transition to this concept would remove substantial elements of doubt and uncertainty regarding future state revenues and the health of Alaska's economy."

18) Does it have disadvantages over the current system?

The plan forces the legislature to make a number of difficult decisions over the next several years. Based on the Corporation's estimates, it is likely that taxes would have to go up, state spending would have to go down, the dividend formula would have to be adjusted downward, and inflation-proofing would have to be curtailed.

19) What is the bottom line? Is this a good plan or not?

The plan is based on sound principles and could work, but there are significant risks involved. If the Fund's growth is significantly hindered, particularly in the early years, either by lower-than-expected oil deposits or deposits of other state reserves, low earnings or high inflation, this plan will not necessarily be an improvement over other alternatives.

20) What obstacles have to be overcome?

Before the legislature and the citizens of this state will approve this plan, they need to be convinced that it is clearly an improvement over the status quo. Unfortunately, there are a number of undesirable outcomes which might occur should actual conditions in the future vary significantly from the assumptions upon which the plan is based. Against these uncertainties, one thing is known for sure: the Permanent Fund as currently structured is not broken.



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS

(In millions)

as of October 31, 1993

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	388	235	6,741	
86	5,741		323	218	6,281	
87	6,281	1,264 **	170	148	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	228	377	12,995	
95	12,995	5	247	530	13,777	
96	13,777	5	257	562	14,601	
97	14,601	5	284	596	15,488	
98	15,488	6	308	632	16,432	
99	16,432	4	310	1,005	17,751	
00	17,751	4	292	1,083	19,130	
01	19,130	4	276	1,165	20,575	
02	20,575	4	266	1,251	22,098	
03	22,096	5	255	1,341	23,696	
04	23,696	5	243	1,437	25,380	
05	25,380	5	228	1,537	27,150	
06	27,150	5	211	1,642	29,008	
07	29,008	5	195	1,752	30,960	
08	30,960	5	181	1,784	32,930	85
09	32,930	5	169	1,838	34,743	349
10	34,743	8	150	1,725	36,632	389
Cumulative Totals Projected for FY 1994 - 2010:						
		5	3,949	20,055		803

USE OF FUND INCOME

FY	Net Income	Distributions			Reserves		FY
		Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	
78	2			1			78
79	8			7			79
80	32	12		12			80
81	150	28		28	59	59	81
82	368	71		71	185	244	82
83	471	108	231	110	110	354	83
84	530	175	151		203	557	84
85	658	217	235		206	763	85
86	1,021	303	216		501	1,264 **	86
87	1,069	391	148		529	529	87
88	789	424	303		82	581	88
89	868	460	360	4	44	635	89
90	916	487	454	4	(30)	605	90
91	1,030	489	659	4	(24)	581	91
92	1,036	488	477	5	64	645	92
93	1,228	532	362	5	320	865	93
94	1,028	550	377	5	90	1,055	94
95	1,238	584	530		120	1,176	95
96	1,318	614	562		137	1,312	96
97	1,403	652	596		149	1,462	97
98	1,494	681	632		176	1,638	98
99	1,718	753	1,005		(44)	1,594	99
00	1,837	818	1,063		(66)	1,528	0
01	1,960	883	1,166		(82)	1,438	1
02	2,087	955	1,251		(123)	1,313	2
03	2,218	1,031	1,341		(159)	1,154	3
04	2,354	1,098	1,437		(186)	968	4
05	2,494	1,167	1,537		(214)	754	5
06	2,640	1,238	1,642		(245)	508	6
07	2,791	1,312	1,752		(279)	230	7
08	2,948	1,389	1,784		(290)		8
09	3,112	1,468	1,638				9
10	3,282	1,531	1,725				10
	35,920	16,741	20,055	5			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
94:	7.47%	2.99%	4.48%
95 - 98: ***	8.37%	4.00%	4.37%
99 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall Mid-Case Revenue Forecast.

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

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1993.

MLC CASE 8801 10/11/93

Research

Table 23

Mid Scenario Detailed Revenue Projections
(Millions on Dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
FY	SEVERANCE TAX	PROPERTY TAX	OIL & GAS INC. TAX	GROSS ROYALTIES	MINERAL RENTS	BONUS SALES	INCOME FROM PRIOR YEARS	TOTAL PETROLEUM REVENUES	NON-PETR NON-INTR REVENUES	GEN FUND INTEREST REVENUES	TOTAL REVS W/ PERM FND DEDICATION
1981	1170.20	143.00	860.10	1501.60	7.90	14.10	0.00	3696.90	186.10	227.80	4110.80
1982	1581.70	142.70	668.90	1553.20	26.40	10.30	0.00	3983.20	209.00	324.70	4516.90
1983	1493.70	152.60	236.00	1447.40	54.20	73.10	0.00	3457.00	228.60	375.80	4061.40
1984	1393.10	131.00	265.10	1409.00	21.90	16.70	0.00	3236.80	245.80	282.70	3765.30
1985	1389.40	128.40	168.60	1390.30	23.70	23.60	0.00	3124.00	283.00	233.50	3640.50
1986	1107.90	113.50	133.90	1098.20	44.50	70.10	460.70	3028.80	222.40	195.20	3446.40
1987	648.50	102.50	120.40	591.60	29.10	1.00	85.20	1578.30	243.00	161.90	1983.20
1988	818.70	96.20	158.00	953.50	24.20	11.30	329.00	2390.90	223.60	132.60	2747.10
1989	698.80	89.70	166.00	818.70	18.00	23.00	259.70	2073.90	245.10	100.70	2419.70
1990	1001.60	89.80	117.20	1004.43	21.00	0.00	156.80	2390.83	271.33	117.90	2780.06
1991	1284.80	85.00	185.10	1292.83	21.30	38.30	398.59	3305.92	291.04	125.00	3721.96
1992	1053.20	69.00	165.50	1021.32	17.10	5.25	447.61	2693.44	353.40	101.80	3148.64
1993	1017.60	66.90	834.70	982.62	20.30	76.60	75.82	3074.54	325.58	70.90	3471.02
1994	942.80	63.20	189.90	851.20	21.85	1.10	9.40	2079.45	275.69	36.30	2391.44
1995	921.70	60.20	139.00	926.40	20.76	0.00	9.40	2077.46	280.11	27.20	2384.77
1996	924.90	56.70	139.00	967.40	19.72	0.00	9.40	2117.12	280.86	27.20	2425.18
1997	1011.70	53.10	127.00	1071.40	18.73	0.00	13.40	2295.33	289.29	32.20	2616.82
1998	1052.10	49.90	119.00	1164.20	17.80	0.00	13.40	2416.40	297.96	34.55	2748.91
1999	994.80	46.00	111.00	1172.60	16.91	0.00	13.40	2354.71	306.90	36.15	2697.76
2000	888.20	42.80	109.00	1105.60	16.06	0.00	13.40	2175.06	316.11	35.33	2526.50
2001	793.20	39.80	105.00	1042.20	15.26	0.00	13.40	2008.86	325.59	33.02	2367.47
2002	726.50	36.80	99.00	1006.20	14.50	0.00	0.00	1883.00	335.36	30.91	2249.26
2003	649.10	34.10	94.00	963.40	13.77	0.00	0.00	1754.37	345.42	29.50	2129.30
2004	574.20	31.50	89.00	918.40	13.08	0.00	0.00	1626.18	355.79	27.88	2009.85
2005	498.60	29.60	84.00	862.20	12.43	0.00	0.00	1486.83	366.46	26.29	1879.57
2006	406.60	27.70	79.00	796.70	11.81	0.00	0.00	1321.81	377.45	24.57	1723.83
2007	326.90	26.10	76.00	735.70	11.22	0.00	0.00	1175.92	388.78	22.50	1587.19
2008	265.60	24.70	71.00	685.20	10.66	0.00	0.00	1057.16	400.44	20.71	1478.31
2009	226.20	23.30	67.00	639.30	10.12	0.00	0.00	965.92	412.45	19.29	1397.67
2010	200.90	21.80	62.00	597.90	9.62	0.00	0.00	892.22	424.83	18.28	1335.32

(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
	TOTAL REVS W/ PERM FND	PUB SCH	NPR-A	OTHER	PERM FUND	BUDGET RESERVE	NET GEN FUND UNRESTRD REVENUES	
FY	DEDICATION	FUND	FUND	FUNDS	DEDICATN	FUND	NCMS	REAL 1992\$
1981	4110.80	7.50	0.00	74.30	385.10	0.00	3718.20	
1982	4516.90	8.00	0.00	0.00	400.50	0.00	4108.40	
1983	4061.40	9.40	0.00	0.00	421.00	0.00	3631.00	
1984	3765.30	9.00	0.00	0.00	366.20	0.00	3390.10	
1985	3640.50	7.10	5.40	0.00	368.00	0.00	3260.00	
1986	3446.40	6.50	41.00	0.00	323.40	0.00	3075.50	
1987	1983.20	3.30	9.90	0.00	170.60	0.00	1799.40	
1988	2747.10	6.60	1.00	15.80	417.90	0.00	2305.80	
1989	2419.70	4.30	0.80	0.00	228.40	0.00	2186.20	
1990	2780.06	5.13	0.60	0.00	267.10	0.00	2507.23	
1991	3721.96	8.83	0.37	0.00	435.00	291.20	2986.56	
1992	3148.64	15.04	0.13	0.00	337.80	333.07	2462.60	2462.60
1993	3471.02	6.80	0.19	0.00	315.30	67.13	3081.60	2991.84
1994	2391.44	4.37	0.40	0.00	228.07	0.00	2158.60	2032.71
1995	2384.77	4.74	0.30	7.00	246.83	0.00	2125.90	1941.73
1996	2425.18	4.94	0.10	7.00	257.24	0.00	2155.90	1895.76
1997	2616.82	5.45	0.00	7.00	284.09	0.00	2320.28	1964.35
1998	2748.91	5.91	0.00	10.00	308.03	0.00	2424.97	1976.56
1999	2697.76	5.95	0.00	10.00	309.99	0.00	2371.82	1861.27
2000	2526.50	5.61	0.00	10.00	292.31	0.00	2218.58	1676.20
2001	2367.47	5.29	0.00	10.00	275.57	0.00	2076.61	1509.86
2002	2249.26	5.10	0.00	10.00	265.99	0.00	1968.17	1377.14
2003	2129.30	4.89	0.00	0.00	254.65	0.00	1869.76	1259.02
2004	2009.85	4.66	0.00	0.00	242.74	0.00	1762.45	1142.08
2005	1879.57	4.37	0.00	0.00	227.93	0.00	1647.27	1027.25
2006	1723.83	4.04	0.00	0.00	210.70	0.00	1509.09	905.65
2007	1587.19	3.73	0.00	0.00	194.65	0.00	1388.81	802.08
2008	1478.31	3.48	0.00	0.00	181.34	0.00	1293.49	718.90
2009	1397.67	3.25	0.00	0.00	169.24	0.00	1225.18	655.30
2010	1335.32	3.04	0.00	0.00	158.32	0.00	1173.96	604.26

← error
REAL 1992\$

Historical Petroleum Revenues (Millions of Dollars)

Table 34

FY	Corporate		Oil/Gas		Reserve Tax	Fed. Min. Rents & Royalties (1)	Bonus Sales	Rents (1)	Royalties (1)	Oil/Gas ⁽²⁾ Special Settlements	Total Petroleum Revenues	Total G.P. Unrestricted Revenues	% of Total Unrestricted Revenues
	Non-Petroleum	Petroleum	Severance Tax	Property Tax									
59	1.4					3.1					3.1	25.4	12
60	1.7					5.8	4.0	0.1			9.9	48.0	21
61	1.4					2.4	1.6	0.2			4.2	40.5	10
62	1.8		0.2			4.5	20.3	1.0			26.0	68.9	38
63	2.2		0.3			8.6	17.9	1.0			27.8	71.6	39
64	1.8		0.3			8.7	4.7	1.2			14.9	67.0	22
65	1.9		0.3			8.3	5.9	1.9	0.1		16.5	83.0	20
66	4.1		0.3			7.7	10.8	2.5	0.3		21.6	86.5	25
67	3.5		0.5			7.7	8.6	2.8	1.9		21.5	86.6	25
68	3.8	0.1	10.2			7.5	21.8	2.9	9.5		43.0	112.7	38
69	4.2	0.1	5.6			7.8	0.8	3.3	16.9		34.5	112.4	31
70	4.9	0.4	7.9			8.2	900.0	3.1	19.3		938.9	1067.3	88
71	5.2	0.9	10.5			8.6	0.2	2.9	23.9		47.0	220.4	21
72	5.3	1.2	11.4			7.9	0.3	3.0	24.6		48.4	219.2	22
73	5.9	0.9	12.0			6.7	3.8	3.4	23.5		50.3	208.2	24
74	7.0	1.2	14.8			7.1	24.8	3.6	28.7		80.2	254.9	31
75	14.8	2.5	26.6	6.6		9.8	1.0	3.9	40.0		90.4	333.4	27
76	26.2	4.9	28.0	83.4	223.1	5.1		3.7	43.3		391.5	709.8	55
77	30.8	5.0	23.8	139.1	270.6	2.0*		2.8*	34.3*		477.6*	874.3	55
78	25.1	8.4	107.7	173.0		1.0*		1.8*	149.6*		441.5*	764.9	58
79	24.8	232.6	173.8	163.4		1.0*		1.6*	249.2*		821.6*	1133.0	73
80	17.9	547.5	506.5	168.9		1.2*	342.4*	1.8*	688.2*		2256.5*	2501.2	90
81	34.8	860.1	1170.2	143.0		1.2*	7.6*	3.7*	1118.5*		3304.3*	3718.2	89
82	34.8	668.9	1581.7	142.7		17.1*	5.0*	2.1*	1157.3*		3574.8*	4108.4	87
83	30.1	236.0	1493.7	152.6		27.2*	36.2*	2.5*	1078.4*		3026.6*	3631.0	83
84	39.5	265.1	1393.1	131.0		11.0*	10.1*	3.8*	1047.5*		2861.6*	3390.1	84
85	36.0	168.6	1389.4	128.4		8.2*	11.5*	3.4*	1034.0*		2743.5*	3260.0	84
86	11.2	133.9	1108.4	113.5		14.3*	34.7*	4.2*	830.7*	418.2*	2657.9*	3075.5	86
87	20.5	120.4	648.5	102.5		9.0*	0.5*	3.8*	439.3*	70.5*	1394.5*	1799.4	77
88	23.4	158.0	818.7	96.2		6.7*	5.6*	5.7*	694.8*	163.9*	1949.6*	2305.8	85
89	38.0	166.0	698.8	89.7		5.6*	11.4*	5.3*	605.9*	257.7*	1840.4*	2186.2	84
90	45.3	117.2	1001.6	89.8	0.0	6.3*	0.0*	4.2*	747.4*	154.8*	2121.4*	2507.2	85
91	37.9	185.1	1284.8	85.0	0.0	7.1*	18.9*	5.8*	951.6*	33.5*	2571.8*	2986.6	86
92	33.7	165.5	1053.2	69.0	0.0	5.8*	2.6*	4.2*	702.4*	4.7*	2007.4*	2462.6	82

* Net of Permanent Fund contribution and constitutional Budget Reserve Fund deposits.

(1) These categories are primarily composed of oil/gas revenues; however, includes some additional revenues from other minerals (mostly coal).

(2) Not subject to budget reserve fund.

RAY KREIG

201 Barrow #1
Anchorage, Alaska 99501-2429
(907) 276-2025 • fax 258-9614

January 23, 1994

JAN 25 1993

Senator Loren Lemam
Alaska State Senate
PO Box V
Juneau Alaska 99811

Dear Loren:

I (admittedly along with many others) have been very concerned about the volatility of our state revenues and the effect on our economy that this causes. I was hurt by the crash of 1986 and I fear that I will be hurt again by the continuing spending of all available reserves by the state government. Soon the money will all be gone and we will be facing the edge of a cliff.

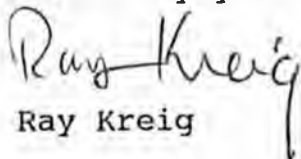
Recent months have yielded much discussion of the "Cremo Plan" which would even out our unpredictable resource revenue stream. I have studied the proposed plan and followed the debates in the newspapers.

I support the Cremo Plan. It will have the added benefit of forward funding our budget and ending the spectacle and disruption of oil price forecasts that aren't very accurate anyway.

Please write me with your views and comments on the companion resolutions that have been introduced into the legislature (SJR 38 and HJR 48).

Thank you.

Sincerely yours,


Ray Kreig



SENATOR LOREN LEMAN

Northwest Anchorage

716 W 4th Ave, Ste 540, Anchorage AK 99501 258-8189

Session: State Capitol, Juneau AK 99801 465-2095

February 8, 1994

Mr. Ray Kreig
201 Barrow St #1
Anchorage AK 99501-2429

Dear Ray,

Thank you for writing to me about SJR38, the Cremo Plan.

During the past two weeks we held several hearings on this resolution in the State Affairs Committee, which I chair. Mr. Cremo's plan has a lot of appeal. Although it is not a panacea for all of our budgeting ills, it is a better approach than the Legislature's spending program during the past decade.

Its major downside is that it creates a permanent fund for government rather than a permanent fund for the people. I want to ensure that government competes for dollars through the budgeting process like it does today. The Cremo plan could remove some of the incentive for close scrutiny.

I supported reporting this resolution from the State Affairs Committee on February 4. However, it still needs some work on the details.

Sincerely,

A handwritten signature in cursive script that reads "Loren Lemman".

Loren Lemman
Senator

LL/dl

JOHNNY ELLIS
SENATOR



STATE CAPITOL, ROOM 9
JUNEAU, ALASKA 99801-1182
(907) 465-3704
FAX: (907) 465-2529

ALASKA STATE LEGISLATURE
SENATE

Sponsor Statement for
SJR 38
"The Cremo Plan"

SJR 38 would allow the people of Alaska to vote on a constitutional amendment which would change the way we finance our state government.

Essentially, the amendment would remove all natural resource revenues from the appropriation process and put them into the Permanent Fund. Money systematically withdrawn from the fund would be used for the operation of state government, aid to local governments, dividends and other purposes. The object of the amendment is to get the state off the financial roller coaster that has caused fiscal and economic problems. State spending cannot be sustained at the current level. The end of our reserves is in sight, and oil revenues are falling as North Slope production slows.

It's apparent that we have to make some changes in order to get through the difficult period ahead and to prevent this from happening again in the future. The proposed constitutional provision in SJR 38 is designed to do that. It will force spending to a sustainable level by removing reserves from the table and by gradually reducing the amount of money available for appropriation. Also, by revoking the legislature's ability to go on spending sprees, it will prevent a return to unsustainable spending when oil revenues are high again.

All of us in the legislature have participated, to one degree or another, in spending as if there were no tomorrow. It's appropriate that we give the people the opportunity to change the system under which we operate. I encourage you to vote favorably on SJR 38.

Sponsor Statement

From the office of Senator Ellis
The State's Revenues and the Economy

Premises

- a substantial part of the state's revenues will continue to be derived from natural resources ¹
- revenues from natural resources fluctuate ²
- Alaska's economy will continue to be dependent on state spending

Existing system

- the state spends the natural resource revenues ³

Problem caused by existing system

- when natural resource revenues are plentiful, state spending creates a great demand in the private sector for goods and services
- if the revenues then decrease substantially, spending is cut and the demand evaporates
- the consequences of economic busts are well-known

Theory

- for a stable economy, the state must spend at a sustainable level
- but it can't do that, because of the fluctuation of natural resource revenues
- therefore, the state should not spend the natural resource revenues
- it should try to convert them into revenues that don't fluctuate, so that it can spend at a sustainable level

Proposed system

- natural resource revenues are not appropriable and are deposited into the Alaska Permanent Fund
- the fund is invested, and income is reinvested
- a fixed percentage of the fund (at its average market value over a period) is withdrawn annually for appropriation⁴
- the withdrawal feature is designed to provide revenues that continually increase (and thus are not fluctuating)⁵

Advantage of Proposed System

- state spending no longer causes economic busts

¹ In Alaska the chief source of wealth is natural resources. The state owns and can tax them or otherwise is entitled to the revenues from them.

² Because they are governed by discovery, production and world price.

³ Except about 10% of them, which goes into the Alaska Permanent Fund.

⁴ The fixed percentage is 6, which is the real annual rate of total return on investment if the nominal rate is 10% and the rate of inflation is 4%

⁵ If the actual rate of return or the actual rate of inflation differs adversely from the assumed rate, the amount withdrawn can decrease, depending on the extent of the difference and the amount of natural resource revenues deposited.

Some other advantages of proposed system

- since state spending is not only brought to a sustainable level but to the maximum sustainable level, the economy is supported to the greatest extent possible
- periodic curtailment of desirable state programs, for lack of funding, is avoided
- budgeting becomes feasible, because income for the subject year is known
- the state's assets are further diversified
- public works projects are no longer crammed into periods of high revenues, with inadequate planning and incomplete accounting
- the state's credit is reestablished
- long-range planning becomes feasible

Conversion to proposed system

- requires (1) the transfer of reserves to the fund, (2) a higher but gradually reduced withdrawal percentage factor during a transitional period and (3) the same spending cuts and new revenues that the coming "fiscal gap" would require under the present system⁶

Obstacles to change

- the legislature's reluctance to allow the people to vote on a constitutional amendment that would revoke its authority to spend natural resource revenues
- the misconception that the proposed system eliminates "dividends"
- a fear that the fund will be depleted if there is less investment return or more inflation than anticipated or, during transition, there is a greater decrease in oil revenues than forecasted
- a fear that if great wealth results,
 - the bureaucracy will expand
 - the state will lose its incentive to develop natural resources
 - Alaskans will become dependent, disinterested in government, lethargic and immoral

Schedule

- spring, 1994 - legislature passes resolution proposing constitutional amendment
- fall, 1994 - people vote in favor of proposed constitutional amendment
- July 1, 1995 - conversion to new system begins

⁶ Under the present system it is likely that the reductions in spending would be abrupt. Under the proposed system they would be gradual.

FISCAL NOTE

**STATE OF ALASKA
1994 LEGISLATIVE SESSION**

BILL NO. SJR 38

Revision Date: _____

Dept. Affected: Department of Revenue

Title: "Proposing amendments to the Constitution of the St. of AK relating to revenues from natural resources, the Alaska permanent

BRU: APFC

fund, the appropriation limit and the budget reserve fund; and providing for an effective date for the amendments."

Component: APFC

Sponsor: Senator Ellis

Requestor: _____

COMPONENT SERIAL NO. 109

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	-0-	70.0	208.0	271.5	271.5	271.5
TRAVEL	-0-	22.5	30.5	30.5	30.5	30.5
CONTRACTUAL	-0-	1605.5	1645.5	2849.6	4053.8	5257.9
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	6.0	12.0	6.0	-0-	-0-
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
----------------	-----	-----	-----	-----	-----	-----

REVENUE FUND SOURCE:	-0-	1704.0	1896.0	3157.6	4355.8	5559.9
-----------------------------	-----	--------	--------	--------	--------	--------

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Corporation Receipts)	-0-	1704.0	1896.0	3157.6	4355.8	5559.9
TOTAL	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

POSITIONS:

FULL-TIME	-0-	1	2	1	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY94) Impact: \$ -0-

ANALYSIS: (Attach a separate page if necessary)

(See Attached.)

Prepared by: William H. Scott, Executive Director *William H. Scott* Phone: 465-2047
 Division: Alaska Permanent Fund Corporation Date: 1/14/94
 Approved by: Darrel J. Rexwinkel, Commissioner *Darrel J. Rexwinkel* Date: 1/10/94
 Agency: Department of Revenue

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Fiscal Analysis: SJR No. 38

Proposing amendments to the Constitution of the State of Alaska relating to revenues from natural resources, the Alaska permanent fund, the appropriation limit and the budget reserve fund; and providing for an effective date for the amendments.

The Alaska Permanent Fund Corporation's operations are program-driven and program-financed. Operating cost levels are proportional to the actual and anticipated growth of the Fund and reflects the Corporation's ability to generate income. As funds under management increase, Fund custody and investment management fees increase; and the need for additional accounting and investment staff with associated support costs are also needed as portfolios grow.

Personal Services - Salary & Benefits for 4 new positions:

- FY 96: Data Processing Analyst/Programmer \$70.0
- FY 97: Investment Officer \$100.0; Accounting Clerk \$38.0
- FY 98: Portfolio Accountant \$63.5

Travel - Transportation, Per Diem, Honorarium:

- (a) 7th Trustee added to Board: Board meeting travel \$16.9; asset allocation/investment management related travel \$5.6
- (b) Investment officer travel: Board meeting and investment management travel \$8.0

Contractual Services:

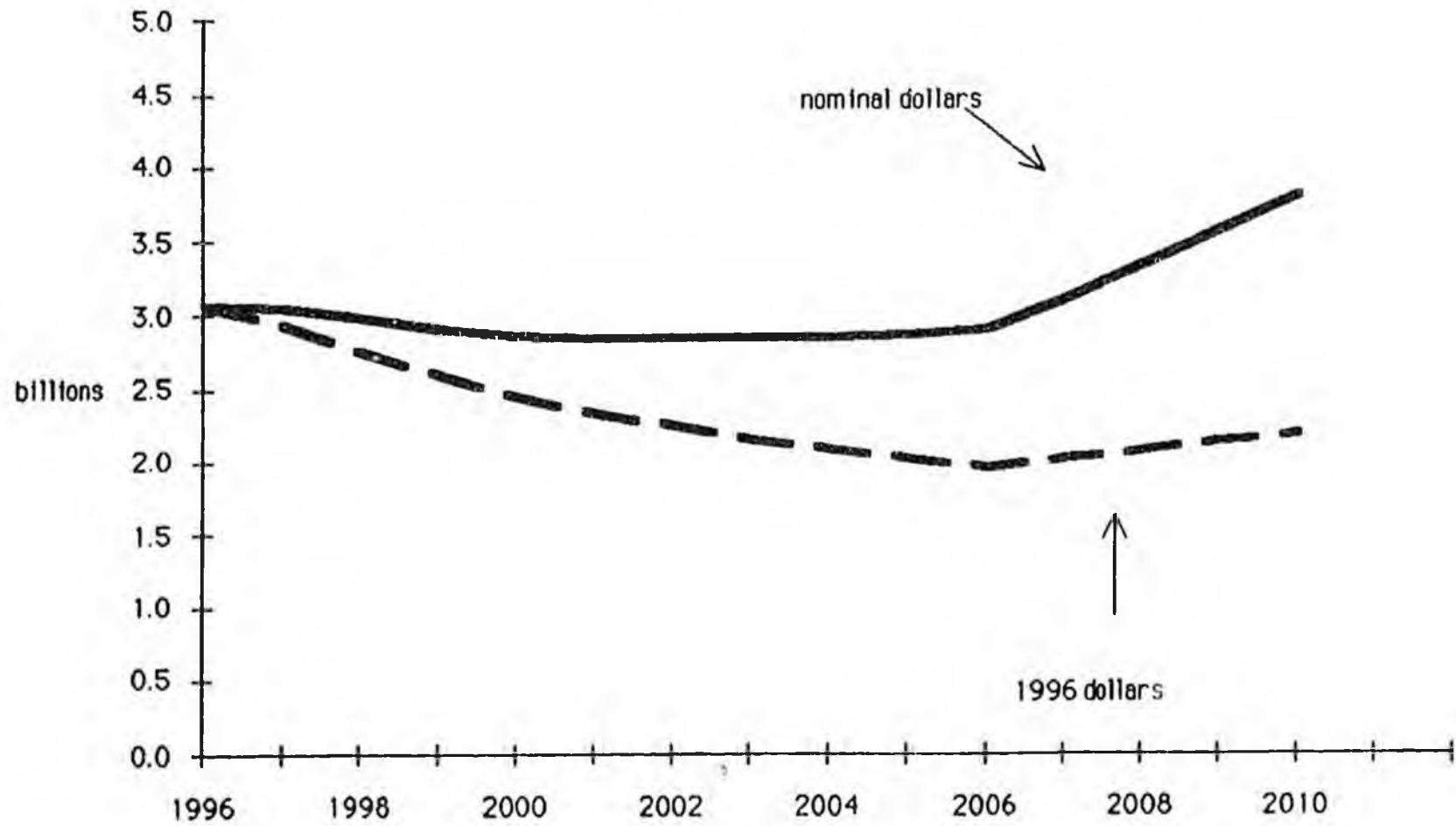
- (a) Equity management fees: This increment is due to increased funds under management.
- (b) Custody fees: This increase is due to the increase in the amount of assets requiring safekeeping.
- (c) Financial network fees: Cost for additional financial data, networks, and associated terminals for new Investment Officer.

	<u>Equity Mgmt</u>	<u>Custody Mgmt</u>	<u>Financial Data</u>
FY 96	1,423.4	182.1	0.0
FY 97	1,423.4	182.1	40.0
FY 98	2,491.0	318.6	40.0
FY 99	3,558.6	455.2	40.0
FY 00	4,626.2	591.7	40.0

Equipment - one-time associated costs of new positions: workstation furniture (desk, credenza, chair, telephone, file, computer)

- (a) FY 96: Analyst Programmer \$6.0
- (b) FY 97: Investment Officer \$6.0; Accounting Clerk \$6.0
- (c) FY 98: Portfolio Accountant \$6.0

Proposed State Financial System



Research

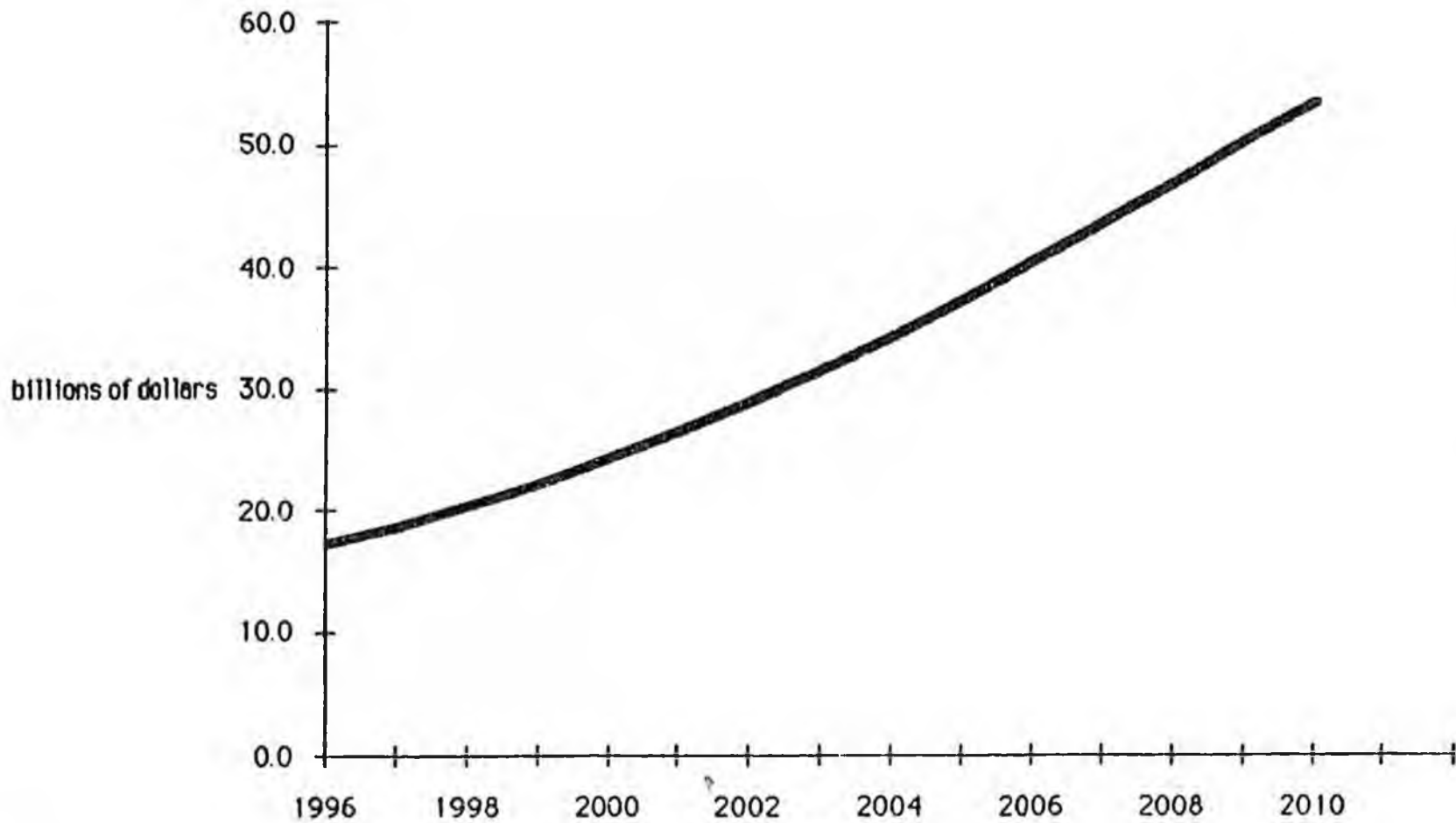
fall, 1993

20% in initial year to permanent % in

2006

Income Budget

Proposed State Financial System



fall, 1993

20% in initial year to permanent % in 2006

Permanent Fund

Data: Dept. of Revenue (projections: fall, 1993, mid case)

*Permanent Fund Corp. (projections: October 31, 1993, mid case)

Transitional withdrawal: 20% in initial year to permanent % in 2006

Permanent withdrawal: 6%

Total return: 10%

Inflation: 4%

Reserves: 2,500

Conventional revenue enhancement: 12%

Proposed State Financial System
(millions of dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Fiscal Year	Perm Fund Beginning Balance	Natural Resource Revenues	Withdrawal from Perm Fund	Perm Fund Ending Balance	Conventional Revenues	Income Budget	Income Budget (1996 \$)	Fiscal Year
1996	16,277	2,117	2,779	17,262	300	3,079	3,079	1996
1997	17,262	2,295	2,714	18,608	336	3,050	2,933	1997
1998	18,608	2,416	2,609	20,335	376	2,985	2,760	1998
1999	20,335	2,355	2,492	22,300	421	2,913	2,590	1999
2000	22,300	2,175	2,391	24,385	472	2,863	2,447	2000
2001	24,385	2,009	2,314	26,592	529	2,842	2,336	2001
2002	26,592	1,883	2,244	28,969	592	2,836	2,241	2002
2003	28,969	1,754	2,173	31,530	663	2,837	2,156	2003
2004	31,530	1,626	2,101	34,298	743	2,844	2,078	2004
2005	34,298	1,487	2,029	37,282	832	2,860	2,010	2005
2006	37,282	1,322	1,957	40,477	932	2,889	1,952	2006
2007	40,477	1,176	2,128	43,666	969	3,097	2,012	2007
2008	43,666	1,057	2,310	46,866	1008	3,318	2,072	2008
2009	46,866	966	2,499	50,100	1048	3,547	2,130	2009
2010	50,100	892	2,691	53,387	1090	3,761	2,183	2010

2 Market value (book in initial year *). Includes reserves (treated as added in twelve quarters preceding initial year).

3 Deposited into fund quarterly.

4 Function of withdrawal percentage and average of balance in twelve preceding quarters (in proposal, quarters of three preceding calendar years). Transitional withdrawal percentage decreases geometrically. Withdrawn quarterly.

5 Function of deposit, withdrawal and total return on investment.

6 In initial year, assumed. Transitionally, function of amount in previous year and enhancement percentage. Thereafter, increases at inflation rate.

7 & 8 Sum of amounts in columns 4 and 6.

Data: Dept. of Revenue (projections: fall, 1993, mid case)

* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Transitional withdrawal: 20% In initial year to permanent % in 2006

Permanent withdrawal: 6%

Total return: 10%

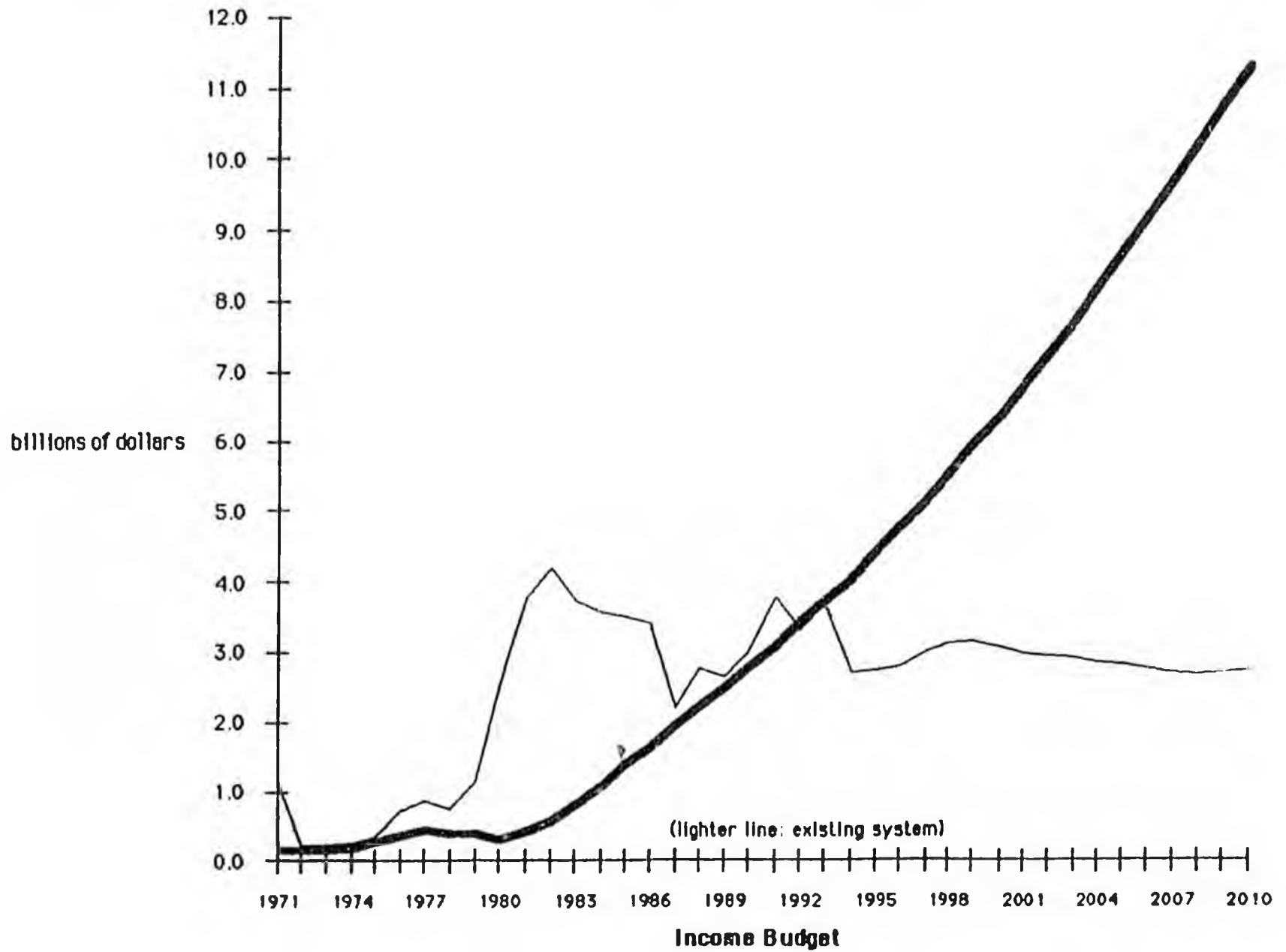
Reserves: 2,500

Proposed State Financial System
(millions of dollars)

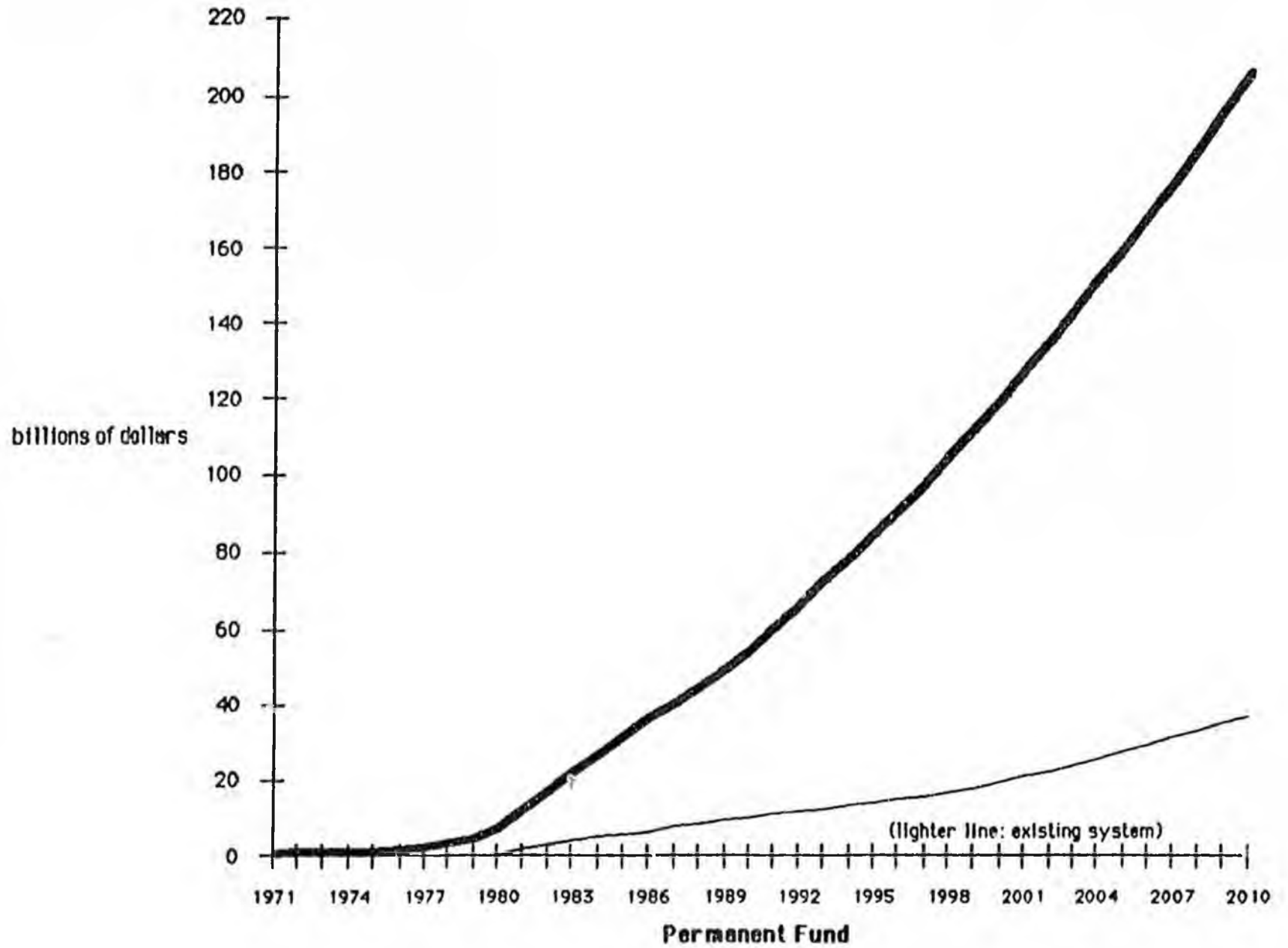
Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Wdrl %	Withdrawal
1993 *		11,911.33	12,238.08	12,564.83	12,891.58	13,218.33			
1994*		13,426.67	13,735.42	14,044.17	14,352.92	14,661.67			
1995*		14,870.00	15,221.75	15,573.50	15,925.25	16,277.00			
1996	2,117.12	16,277.00	16,514.25	16,757.44	17,006.70	17,262.19	13,896.29	20.00	2,779.26
1997	2,295.33	17,262.19	17,586.35	17,918.61	18,259.17	18,608.25	15,308.75	17.73	2,714.45
1998	2,416.40	18,608.25	19,024.06	19,450.27	19,887.13	20,334.91	16,597.68	15.72	2,609.17
1999	2,354.71	20,334.91	20,808.15	21,293.22	21,790.41	22,300.04	17,879.28	13.94	2,491.82
2000	2,175.06	22,300.04	22,802.17	23,316.86	23,844.42	24,385.16	19,351.89	12.36	2,391.12
2001	2,008.86	24,385.16	24,916.66	25,461.45	26,019.85	26,592.22	21,121.66	10.95	2,313.76
2002	1,883.00	26,592.22	27,164.51	27,751.10	28,352.37	28,968.66	23,106.11	9.71	2,244.03
2003	1,754.37	28,968.66	29,585.50	30,217.75	30,865.82	31,530.08	25,242.23	8.61	2,173.42
2004	1,626.18	31,530.08	32,196.66	32,879.90	33,580.22	34,298.05	27,523.42	7.63	2,101.02
2005	1,486.83	34,298.05	35,016.69	35,753.30	36,508.32	37,282.22	29,973.73	6.77	2,028.52
2006	1,321.81	37,282.22	38,051.51	38,840.03	39,648.26	40,476.70	32,616.75	6.00	1,957.00
2007	1,175.92	40,476.70	41,244.66	42,031.83	42,838.67	43,665.69	35,465.44	6.00	2,127.93
2008	1,057.16	43,665.69	44,436.30	45,226.18	46,035.81	46,865.67	38,499.19	6.00	2,309.95
2009	965.92	46,865.67	47,644.49	48,442.78	49,261.03	50,099.73	41,648.15	6.00	2,498.89
2010	892.22	50,099.73	50,891.33	51,702.71	52,534.38	53,386.84	44,847.48	6.00	2,690.85

fall, 1993, mid case

Proposed State Financial System - Retrospective



Proposed State Financial System - Retrospective



Data: Dept. of Revenue (projections: fall, 1993, mid case)

* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective

(millions of dollars)

(1) Fiscal Year	(2) Perm Fund Beginning Balance	(3) Petroleum Revenues	(4) Withdrawal from Perm Fund	(5) Perm Fund Ending Balance	(6) Non-Petrol Revenues	(7) Income Budget	(9) Existing System		
							(8) Income Budget	(9) Perm Fund Ending Balance*	(10) Earnings Res Ending Balance*
1971	900	47	54	986	95	149	1,138		
1972	986	48	56	1,080	104	159	219		
1973	1,080	50	59	1,184	115	173	208		
1974	1,184	80	61	1,327	134	195	255		
1975	1,327	90	68	1,489	205	272	333		
1976	1,489	392	75	1,980	287	361	710		
1977	1,980	482	86	2,607	362	448	874		
1978	2,607	492	105	3,289	279	385	765	54	
1979	3,289	906	135	4,451	252	387	1,133	139	
1980	4,451	2,601	176	7,494	125	300	2,501	483	
1981	7,494	3,697	243	11,947	186	429	3,754	1,769	59
1982	11,947	3,983	368	17,034	209	577	4,187	2,969	244
1983	17,034	3,457	570	21,874	229	799	3,748	4,021	354
1984	21,874	3,237	835	26,700	246	1,081	3,574	4,838	557
1985	26,700	3,124	1,125	31,599	283	1,408	3,490	5,741	763
1986	31,599	3,029	1,419	36,592	222	1,642	3,426	6,281	1,264
1987	36,592	1,578	1,712	40,249	243	1,955	2,204	7,864	529
1988	40,249	2,391	1,997	44,846	224	2,221	2,753	8,585	591
1989	44,846	2,074	2,266	49,297	245	2,511	2,651	9,173	635
1990	49,297	2,391	2,527	54,270	271	2,798	3,000	9,894	605
1991	54,270	3,306	2,791	60,452	291	3,082	3,776	10,888	581
1992	60,452	2,693	3,083	66,313	353	3,436	3,299	11,703	645
1993	66,313	3,075	3,405	72,845	326	3,731	3,688	12,385	965
1994	72,845	2,079	3,757	78,622	276	4,033	2,713	12,995	1,055
1995	78,622	2,077	4,126	84,605	280	4,406	2,722	13,777	1,175
1996	84,605	2,117	4,490	90,863	281	4,771	2,782	14,601	1,312
1997	90,863	2,295	4,854	97,573	289	5,143	2,985	15,486	1,462
1998	97,573	2,416	5,221	104,718	298	5,519	3,122	16,732	1,638
1999	104,718	2,355	5,609	112,127	307	5,915	3,141	17,751	1,594
2000	112,127	2,175	6,019	119,677	316	6,335	3,050	19,130	1,528
2001	119,677	2,009	6,451	127,374	326	6,776	2,975	20,575	1,436
2002	127,374	1,883	6,897	135,262	335	7,252	2,938	22,096	1,313
2003	135,262	1,754	7,353	143,346	345	7,699	2,906	23,696	1,154
2004	143,346	1,626	7,820	151,636	356	8,176	2,865	25,380	968
2005	151,636	1,487	8,298	160,131	366	8,664	2,819	27,150	754
2006	160,131	1,322	8,788	168,810	377	9,165	2,751	29,008	508
2007	168,810	1,176	9,289	177,701	389	9,678	2,705	30,960	230
2008	177,701	1,057	9,803	186,843	400	10,203	2,686	32,930	0
2009	186,843	966	10,329	196,276	412	10,742	2,696	34,743	0
2010	196,276	892	10,869	206,036	425	11,294	2,728	36,632	0

[2] At market value. In 1971, equal to bonuses from petroleum leasing in 1970.

[3] In proposal, various natural resource revenues. Deposited into fund quarterly.

[4] Function of withdrawal percentage and average of balance at beginning of twelve preceding quarters. Withdrawn quarterly.

[5] Function of deposit, withdrawal and total return on investment.

[6] Not including general fund interest.

[7] Sum of amounts in columns 4 and 6.

[8] Sum of appropriable petroleum revenues, non-petroleum revenues and "dividends" portion of fund income*. In 1971, includes surplus from 1970.

Date: Dept. of Revenue (projections: fall, 1993, mid case)

* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective
(millions of dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Withdrawal
1971	47.00	900.00	920.71	941.93	963.68	985.98	900.00	54.00
1972	48.40	985.98	1,008.71	1,032.01	1,055.89	1,080.37	931.58	55.89
1973	50.30	1,080.37	1,105.26	1,130.77	1,156.92	1,183.72	976.11	58.57
1974	80.20	1,183.72	1,218.13	1,253.40	1,289.55	1,326.60	1,023.52	61.41
1975	90.40	1,326.60	1,365.64	1,405.64	1,446.65	1,488.69	1,125.06	67.50
1976	391.50	1,488.69	1,607.05	1,728.38	1,852.74	1,980.21	1,246.89	74.81
1977	481.60	1,980.21	2,131.13	2,285.83	2,444.39	2,606.91	1,430.52	85.83
1978	492.00	2,606.91	2,771.17	2,939.54	3,112.12	3,289.01	1,755.25	105.31
1979	905.50	3,289.01	3,568.74	3,855.47	4,149.36	4,450.60	2,245.68	134.74
1980	2,601.30	4,450.60	5,183.44	5,934.59	6,704.52	7,493.70	2,927.82	175.67
1981	3,696.90	7,493.70	8,566.15	9,665.41	10,792.15	11,947.06	4,047.12	242.83
1982	3,983.20	11,947.06	13,172.07	14,427.69	15,714.71	17,033.91	6,137.76	368.27
1983	3,457.00	17,033.91	18,199.48	19,394.20	20,618.78	21,873.98	9,504.34	570.26
1984	3,236.60	21,873.98	23,036.25	24,227.59	25,448.71	26,700.35	13,918.78	835.13
1985	3,124.00	26,700.35	27,879.99	29,089.11	30,328.46	31,598.79	18,757.87	1,125.47
1986	3,028.80	31,598.79	32,801.23	34,033.74	35,297.05	36,591.95	23,652.57	1,419.15
1987	1,578.30	36,591.95	37,472.60	38,375.26	39,300.49	40,248.85	28,526.27	1,711.58
1988	2,390.90	40,248.85	41,355.92	42,490.87	43,653.78	44,845.97	33,289.03	1,997.35
1989	2,073.90	44,845.97	45,917.87	47,016.57	48,142.73	49,297.05	37,768.36	2,266.10
1990	2,390.83	49,297.05	50,494.56	51,722.02	52,980.16	54,269.75	42,117.72	2,527.06
1991	3,305.92	54,269.75	55,758.49	57,284.44	58,848.54	60,451.75	46,513.84	2,790.83
1992	2,693.44	60,451.75	61,863.24	63,310.03	64,792.98	66,313.01	51,381.51	3,082.89
1993	3,074.54	66,313.01	67,886.06	69,498.44	71,151.13	72,845.13	56,756.08	3,405.37
1994	2,079.45	72,845.13	74,236.35	75,662.35	77,124.00	78,622.20	62,618.99	3,757.14
1995	2,077.46	78,622.20	80,062.90	81,539.61	83,053.25	84,604.73	68,761.21	4,125.67
1996	2,117.12	84,604.73	86,111.80	87,656.55	89,239.92	90,862.88	74,832.87	4,489.97
1997	2,295.33	90,862.88	92,478.84	94,135.21	95,832.98	97,573.20	80,896.57	4,853.79
1998	2,416.40	97,573.20	99,293.85	101,057.52	102,865.28	104,718.23	87,016.74	5,221.00
1999	2,354.71	104,718.23	106,502.38	108,331.14	110,205.62	112,126.96	93,476.06	5,608.56
2000	2,175.06	112,126.96	113,945.05	115,808.60	117,718.73	119,676.61	100,321.43	6,019.29
2001	2,008.86	119,676.61	121,530.30	123,430.33	125,377.85	127,374.07	107,512.21	6,450.73
2002	1,883.00	127,374.07	129,273.62	131,220.66	133,216.38	135,261.98	114,947.65	6,896.86
2003	1,754.37	135,261.98	137,208.76	139,204.20	141,249.53	143,345.99	122,558.26	7,353.50
2004	1,626.18	143,345.99	145,342.44	147,388.81	149,486.33	151,636.29	130,335.36	7,820.12
2005	1,486.83	151,636.29	153,681.87	155,778.59	157,927.73	160,130.59	138,297.73	8,297.86
2006	1,321.81	160,130.59	162,220.76	164,363.18	166,559.16	168,810.04	146,459.38	8,787.56
2007	1,175.92	168,810.04	170,951.23	173,145.96	175,395.55	177,701.39	154,821.81	9,289.31
2008	1,057.16	177,701.39	179,902.80	182,159.24	184,472.10	186,842.78	163,383.41	9,803.00
2009	965.92	186,842.78	189,114.55	191,443.11	193,829.88	196,276.32	172,151.00	10,329.06
2010	892.22	196,276.32	198,626.72	201,035.88	203,505.27	206,036.39	181,147.39	10,868.84

Date: Dept. of Revenue (projections: fall, 1993, mid case)

*Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective
(millions of dollars)

Fiscal Year	Perm Fund Beginning Balance	Petroleum Revenues	Withdrawal from Perm Fund	Perm Fund Ending Balance	Non-Petrol Revenues	Income Budget	Existing System						
							Income Budget	Perm Fund Ending Balance*	Earnings Res Ending Balance*	Dividends*	Total Revenues	Perm Fund Dedication	
1971	900	47	54	986	95	149	1,138						
1972	986	48	56	1,080	104	159	219						
1973	1,080	50	59	1,184	115	173	208						
1974	1,184	80	61	1,327	134	195	255						
1975	1,327	90	68	1,489	205	272	333						
1976	1,489	392	75	1,980	287	361	710						
1977	1,980	482	86	2,607	362	448	874						
1978	2,607	492	105	3,289	279	385	765	54					
1979	3,289	906	135	4,451	252	387	1,133	139					
1980	4,451	2,601	176	7,494	125	300	2,501	483					
1981	7,494	3,697	243	11,947	186	429	3,754	1,769	59	28	4,111	385.10	
1982	11,947	3,983	368	17,034	209	577	4,187	2,969	244	71	4,517	400.50	
1983	17,034	3,457	570	21,874	229	799	3,748	4,021	354	108	4,061	421.00	
1984	21,874	3,237	835	26,700	246	1,081	3,574	4,838	557	175	3,765	366.20	
1985	26,700	3,124	1,125	31,599	283	1,408	3,490	5,741	763	217	3,641	368.00	
1986	31,599	3,029	1,419	36,592	222	1,642	3,426	6,281	1,264	303	3,446	323.40	
1987	36,592	1,578	1,712	40,249	243	1,955	2,204	7,864	529	391	1,983	170.60	
1988	40,249	2,391	1,997	44,846	224	2,221	2,753	8,585	591	424	2,747	417.90	
1989	44,846	2,074	2,266	49,297	245	2,511	2,651	9,173	635	460	2,420	228.40	
1990	49,297	2,391	2,527	54,270	271	2,798	3,000	9,894	605	487	2,780	267.10	
1991	54,270	3,306	2,791	60,452	291	3,082	3,776	10,888	581	489	3,722	435.00	
1992	60,452	2,693	3,083	66,313	353	3,436	3,299	11,703	645	488	3,149	337.80	
1993	66,313	3,075	3,405	72,845	326	3,731	3,688	12,385	965	532	3,471	315	
1994	72,845	2,079	3,757	78,622	276	4,033	2,713	12,995	1,055	550	2,391	228	
1995	78,622	2,077	4,126	84,605	280	4,406	2,722	13,777	1,175	584	2,385	247	
1996	84,605	2,117	4,490	90,863	281	4,771	2,782	14,601	1,312	614	2,425	257	
1997	90,863	2,295	4,854	97,573	289	5,143	2,985	15,486	1,462	652	2,617	284	
1998	97,573	2,416	5,221	104,718	298	5,519	3,122	16,732	1,638	681	2,749	308	
1999	104,718	2,355	5,609	112,127	307	5,915	3,141	17,751	1,594	753	2,698	310	
2000	112,127	2,175	6,019	119,677	316	6,335	3,050	19,130	1,528	816	2,527	292	
2001	119,677	2,009	6,451	127,374	326	6,776	2,975	20,575	1,436	883	2,367	276	
2002	127,374	1,883	6,897	135,262	335	7,232	2,938	22,096	1,313	955	2,249	266	
2003	135,262	1,754	7,353	143,346	345	7,699	2,906	23,696	1,154	1,031	2,129	255	
2004	143,346	1,626	7,820	151,636	356	8,176	2,865	25,380	968	1,098	2,010	243	
2005	151,636	1,487	8,298	160,131	366	8,664	2,819	27,150	754	1,167	1,880	228	
2006	160,131	1,322	8,788	168,810	377	9,165	2,751	29,008	508	1,238	1,724	211	
2007	168,810	1,176	9,289	177,701	389	9,678	2,705	30,960	230	1,312	1,587	195	
2008	177,701	1,057	9,803	186,843	400	10,203	2,686	32,930	0	1,389	1,478	181	
2009	186,843	966	10,329	196,276	412	10,742	2,696	34,743	0	1,468	1,398	169	
2010	196,276	892	10,869	206,036	425	11,294	2,728	36,632	0	1,551	1,335	158	

CITY OF SOLDOTNA

RESOLUTION 93-20

(Requested by Mayor Bill Reeder for a Public Hearing)

A RESOLUTION URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted state wide interest; and,

WHEREAS, a hearing held by the Soldotna City Council concluded that residents of Soldotna desire an opportunity to vote on this proposition.

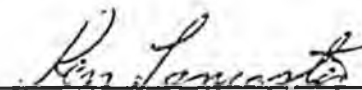
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SOLDOTNA, ALASKA:

Section 1. The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

- A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and,
- C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

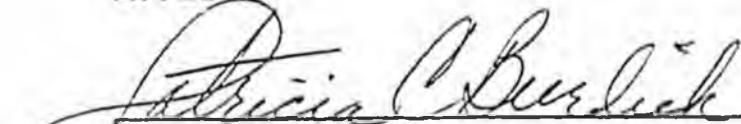
Section 2. The Clerk is hereby authorized and directed to forward a copy of this Resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gary Davis.

ADOPTED this 27th day of October, 1993.



Mayor

ATTEST:



City Clerk

RESOLUTION NO. 94-1 (Substitute)
Alaska Conference of Mayors

WHEREAS, the State of Alaska, due to current oil pricing, faces a budget shortfall; and

WHEREAS, municipalities receive substantial revenues through municipal revenue sharing, municipal assistance and other municipal aid programs; and

WHEREAS, there are numerous recommendations, including Governor Hickel's budget proposal and The Roger Cremo Plan, to resolve the budget problems; and

WHEREAS, the Alaska Conference of Mayors wants to provide positive recommendations to the Legislature and Governor on the fiscal gap problems; and

WHEREAS, the Alaska Conference of Mayors represents over _____ cities and boroughs comprising _____% of the population of the State;

NOW THEREFORE, be it resolved by the Alaska Conference of Mayors that:

- I. The Alaska Conference of Mayors supports a financial program which provides for:
 - A. Expenditure reductions which are:
 1. Meaningful
 2. Not crippling to necessary services of public safety
 3. Not destructive to the constitutional intent to provide for a statewide educational program
 4. Reasonable in providing for a balance of commonwealth needs such as health and welfare.
 - B. Tax and fee increases only after budget reductions.
 - C. Budget and budget mechanism changes which do not drastically threaten the State's private economic health.
 - D. Budget mechanism changes that will produce:
 1. A reduction in volatility of revenue availability over a long time period

2. An improvement in the State's credit reality and perception
 3. A provision for safety and growth of the Permanent Fund principal
 4. Public understanding and acceptance of the program.
- II. Copies of this Resolution shall be sent to all legislators and the Governor of the State of Alaska.
 - III. This Resolution takes effect immediately.

CITY OF HOMER
HOMER, ALASKA

RESOLUTION 93-99

A RESOLUTION OF THE HOMER CITY COUNCIL URGING
THE ALASKA LEGISLATURE TO PLACE A
CONSTITUTIONAL AMENDMENT RELATED TO THE
ALASKA PERMANENT FUND ON THE BALLOT FOR THE
NEXT GENERAL ELECTION.

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993
Economic Summit, a proposal was made for changing the State's
system of finance to achieve sustained spending, which has
attracted state wide interest; and

WHEREAS, a hearing held by the Homer City Council on
November 22, 1993 at the Regular City Council meeting concluded
that the residents of Homer desire an opportunity to vote on this
proposition.

NOW, THEREFORE, BE IT RESOLVED by the Homer City Council
that the Alaska State Legislature is urged to place a
constitutional amendment on the ballot for the next general
election which would generally dedicate all of the State of
Alaska's future natural resource revenues to the Alaska Permanent
Fund, transfer assets of various state reserve funds to the
Alaska Permanent Fund and enable a percentage of the market value
of the Alaska Permanent Fund to be withdrawn and appropriated by
the legislature for financing state government; and

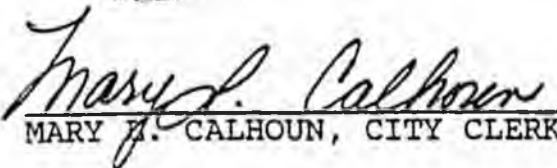
BE IT FURTHER RESOLVED that the City Manager is hereby
authorized and directed to forward a copy of this Resolution to
the Kenai Peninsula Caucus, Senator Suzanne Little and
Representative Gail Phillips.

PASSED and ADOPTED by the Homer City Council this 22nd day
of November, 1993.

CITY OF HOMER


HARRY E. GREGOIRE, MAYOR

ATTEST:


MARY J. CALHOUN, CITY CLERK

Sponsored by: Crane

CITY OF SEWARD, ALASKA
RESOLUTION NO. 93-172

A RESOLUTION OF THE CITY COUNCIL OF THE CITY
OF SEWARD, ALASKA, URGING THE ALASKA STATE
LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT
RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT
FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and

WHEREAS, the city of Seward desires an opportunity to vote on this proposition;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEWARD, ALASKA, that:

Section 1. The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

- A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and
- C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

Section 2. The City Clerk is hereby authorized and directed to forward a copy of this resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gary Davis.

Section 3. This resolution shall take effect immediately upon its adoption.

PASSED AND APPROVED by the City Council of the city of Seward, Alaska, this 10th day of January, 1994.

Introduced by: Glick, Torgerson
Date: 11/16/93
Action: Adopted
Vote: Unanimous

KENAI PENINSULA BOROUGH
RESOLUTION 93-129

A RESOLUTION URGING THE ALASKA STATE LEGISLATURE
TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA
PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and

WHEREAS, a hearing held by the Kenai Peninsula Caucus concluded that residents of the Kenai Peninsula Borough desire an opportunity to vote on this proposition;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

- A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and;
- C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

SECTION 2. That copies of this resolution be sent to Senators Suzanne Little and Judy Salo and Representatives Gail Phillips, Mike Navarre and Gary Davis.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 16th DAY OF NOVEMBER, 1993.

Betty J. Glick
Betty J. Glick, Assembly President

ATTEST:

Gaye J. Vaughan
Gaye J. Vaughan, Borough Clerk

Kenai Peninsula Borough, Alaska

Post-It™ brand fax transmittal memo 76/1		# of pages	1
To	Pat Bender	From	Bev-
Co.		Co.	
Dept.		Phone #	2-8608
Fax #		Fax #	

SUGGESTED BY: Mayor Williams

City of Kenai

RESOLUTION NO. 93-87

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA, URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION.

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted state-wide interest; and,

WHEREAS, hearings held by the Kenai Peninsula Borough, the City of Soldotna and the Kenai Peninsula Caucus, concluded residents desire an opportunity to vote on this proposition.

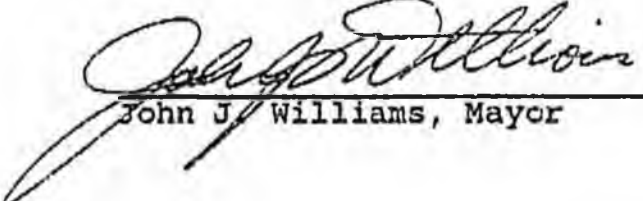
NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, as follows:

Section 1: The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

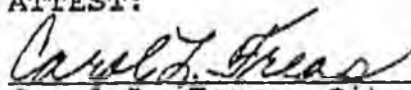
- a. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- b. Transfer assets of various state reserve fund to the Alaska Permanent Fund; and,
- c. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the Legislature for financing state government.

Section 2: The Kenai City Clerk is hereby authorized and directed to forward a copy of this resolution to each member of the Alaska State Legislature and Governor Walter J. Hickel.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this 17th day of November, 1993.



 John J. Williams, Mayor

ATTEST:


 Carol L. Freas, City Clerk

Traditional vs. Cremo Budgeting
Notes and Assumptions for Spreadsheet

Column 1

These figures are taken from the Department of Revenue Fall 1993 Revenue Sources Book (hereafter DoR Forecast), pages 40 and 41. In particular, the non-dedicated petroleum and interest revenues are determined by subtracting Non-petroleum, Non-interest Revenues on page 40, column 10, from Total Net G.F. Unrestricted Revenues on page 41, column 20.

Column 2

These figures are taken from DoR Forecast, page 40, column 10.

Column 3

These figures are determined by adding non-dedicated petroleum and interest revenues to non-petroleum revenues (columns 1 and 2), and are also found in DoR's Forecast, page 41, column 20.

Column 4

The dividend amounts are taken from the Alaska Permanent Fund Corporation financial projections as of October 31, 1993 (hereafter PFC projections). Rate of return assumptions call for a nominal return of 8.37% from FY96 - 98, and 9.00% from FY99 - 2010. All numbers in the worksheet are nominal, therefore inflation projections need not be considered.

Column 5

Combining columns 3 and 4 produces the amount available to the Legislature for appropriation under our traditional system. Dividends must be appropriated from this amount.

Column 6

Combining columns 7 and 8 produces the amount available to the Legislature for appropriation under the Cremo plan. Dividends must be appropriated from this amount.

Traditional vs. Cremo Budgeting
Notes and Assumptions for Spreadsheet

Column 7

These figures are determined by taking a percentage of the 12 quarter average balance of the Permanent Fund. The Cremo plan assumes a transition period beginning in FY96 and ending in FY06 when a permanent 6% withdrawal rate is achieved. Percentages during the transition are determined by a geometric progression. They are as follows:

FY96 20%	FY97 17.73%
FY98 15.72%	FY99 13.94%
FY00 12.36%	FY01 10.95%
FY02 9.71%	FY03 8.61%
FY04 7.63%	FY05 6.77%
FY06 6.00%	

After FY06, a 6% withdrawal rate is continued.

The withdrawal amount, relative to the Cremo plan's Permanent Fund year-end balance, is a lower withdrawal percentage. For example, the withdrawal amount in FY96 is actually 16.9% of the year-end balance of the Permanent Fund.

The Cremo plan assumes the identical rate of return assumptions for the Permanent Fund as contained in the PFC projections (i.e. 8.37% from FY96 - 98 and 9.0% from FY99 - 2010).

Column 8

These figures are identical to figures in column 2.

Column 9

Figures in this column are from PFC projections.

Column 10

To achieve financial parity with the traditional model, \$1.175 billion was added to the Permanent Fund in the Cremo plan, distributing this amount evenly through the 12 quarters prior to FY96. This number was taken from the PFC projections as the Earnings Reserve balance available at the end of FY95.

SUPPLEMENT

Testimony on SJR 38 "The Cremo Plan"

before the
Alaska Senate State Affairs Committee

by
Scott Goldsmith
Professor of Economics
University of Alaska Anchorage

February 1, 1994

The attached spreadsheet and graphs demonstrate the implications for the annual amount that can be withdrawn from the fund during the transition period of 1.) changing the withdrawal percentage and 2.) unexpected resource revenues.

Figure 1. is the annual withdrawal (in 1993 billion \$) if the assumptions used in the demonstration of the plan (attached) prove correct. These include a 10% nominal return on the fund with 4% inflation, initial balance of \$16.3 billion, and Alaska Department of Revenue Fall 1993 Midcase petroleum revenue projections. After falling to 2006 the purchasing power of the annual withdrawal begins to grow in 2007.

Figure 2. shows how a different transitional withdrawal rate changes the annual withdrawal. There is a tradeoff between how low the annual withdrawal goes before "bottoming out", and the subsequent withdrawal that can be maintained. The case in Figure 2. "bottoms out" about \$150 million higher, preventing a squeeze in the mid years of the next decade. The cost of this a slightly lower withdrawal amount in all subsequent years (about \$25 million lower in 2010).

This suggests the transitional withdrawal rates should be chosen with explicit recognition of this tradeoff.

Figure 3. repeats the annual withdrawal from Figure 1. and contrasts it with what would happen if the Department of Revenue high case scenario for petroleum revenues proved to be correct. (Neither analysis includes future petroleum settlement money.) This shows that with higher petroleum revenues the geometrical transitional withdrawal rates result in higher annual withdrawals. However the "bottoming out" becomes more pronounced, and a smoother transition might be preferable.

Figure 4. shows the transitional rates adjusted for a smoother transition, again at the price of slightly lower annual withdrawals in subsequent years. Furthermore the transitional rates used to create the smoother transition in Figure 4, are not the same as those used in Figure 2.

This suggests that the transitional plan, because its withdrawal rates are based upon one set of revenue assumptions which may turn out to be wrong, may not prevent an unnecessary squeeze on state spending and the economy. Furthermore it may not be possible to establish a prospective set of withdrawal rates that works under a broad range of potential future revenue scenarios.

Figure 1
WITHDRAWAL FROM FUND
CREWD ASSUMPTIONS



Figure 2
WITHDRAWAL FROM FUND
CREWD ASSUMPTIONS CHANGE & WITHDRAWAL

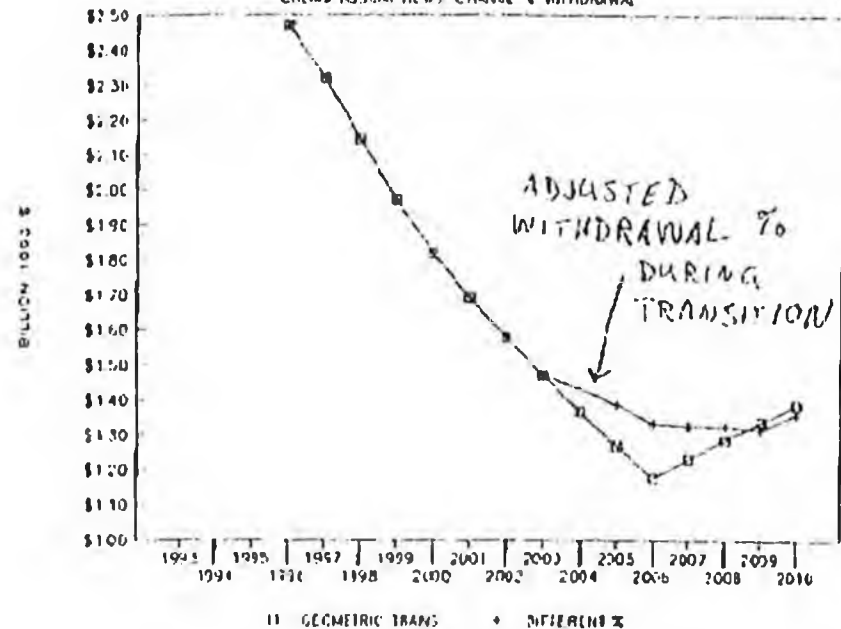


Figure 3.
WITHDRAWAL FROM FUND UNEXPECTED \$\$\$\$\$\$
COMPARISON OF WITHDRAWAL AMOUNTS

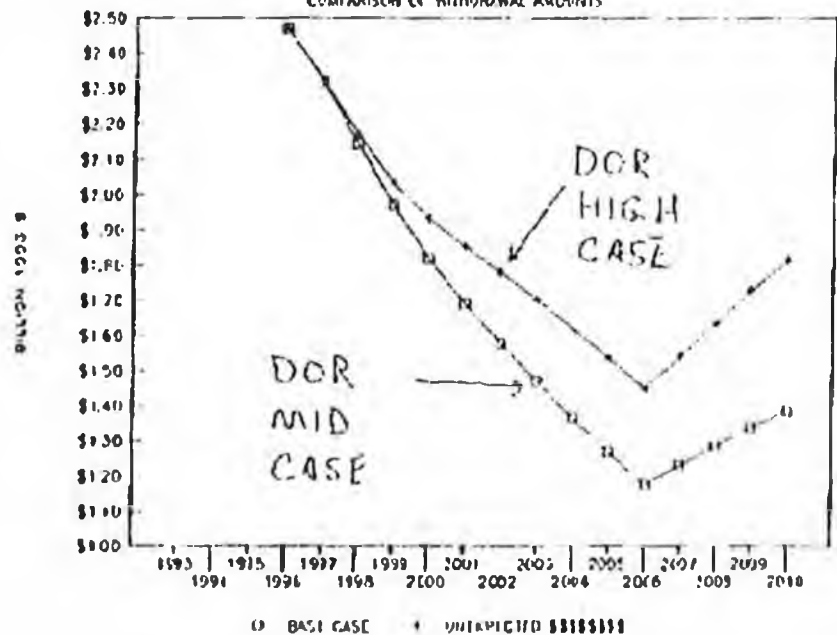
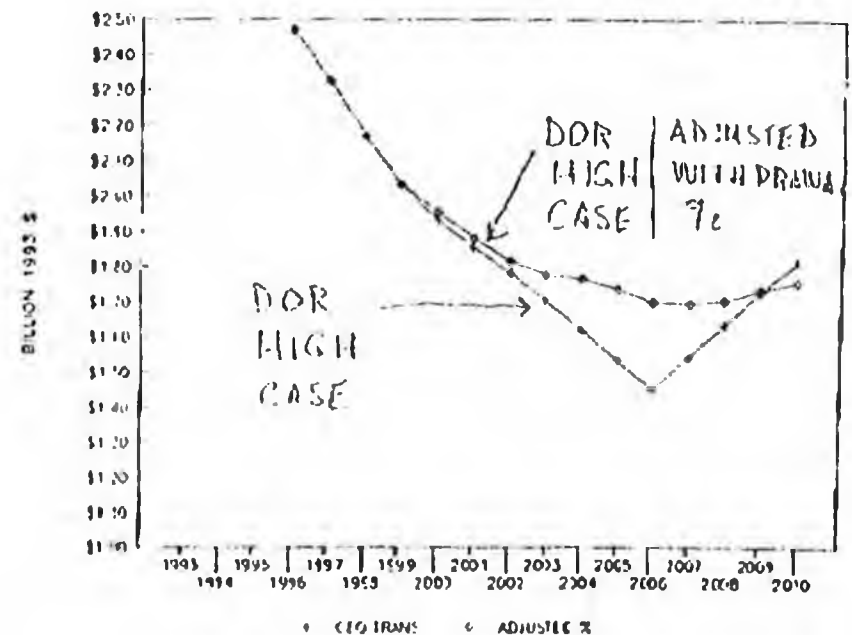


Figure 4.
WITHDRAWAL FROM FUND UNEXPECTED \$\$\$\$\$\$



CREMO BASE CASE

DEPOSIT			PERMANENT FUND					PF AVERAGE	WITHDRAWAL	PRESENT VALUE	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET	
UN-EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END	12 PRIOR QUARTERS	%	OF \$1 (1993)	FUND	WITHDRAWAL	NOM \$	1993 \$	IN 1993 \$	
1993			\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00						
1994			\$13,476	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96						
1995			\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92						
1996	\$2,117	\$2,117	\$16,277	\$16,518	\$16,766	\$17,019	\$17,279	\$13,896	20.00%	\$2,779	\$0.89	\$15,361	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$2,295	\$17,279	\$17,606	\$17,942	\$18,285	\$18,638	\$15,311	17.73%	\$2,715	\$0.85	\$15,932	\$2,520	\$335	\$287	\$2,608
1998	\$2,416	\$2,416	\$18,638	\$19,055	\$19,483	\$19,921	\$20,370	\$16,607	15.72%	\$2,611	\$0.82	\$16,743	\$2,446	\$376	\$309	\$2,455
1999	\$2,354	\$2,354	\$20,370	\$20,844	\$21,330	\$21,828	\$22,339	\$17,899	13.94%	\$2,495	\$0.79	\$17,655	\$1,972	\$421	\$333	\$2,385
2000	\$2,175	\$2,175	\$22,339	\$22,842	\$23,350	\$23,887	\$24,429	\$19,332	12.36%	\$2,396	\$0.76	\$18,564	\$1,820	\$472	\$359	\$2,179
2001	\$2,008	\$2,008	\$24,429	\$24,962	\$25,509	\$26,070	\$26,644	\$21,158	10.95%	\$2,317	\$0.73	\$19,469	\$1,693	\$529	\$386	\$2,079
2002	\$1,883	\$1,883	\$26,644	\$27,219	\$27,808	\$28,412	\$29,032	\$23,147	9.71%	\$2,248	\$0.70	\$20,397	\$1,579	\$592	\$416	\$1,995
2003	\$1,754	\$1,754	\$29,032	\$29,652	\$30,287	\$30,938	\$31,606	\$25,290	8.61%	\$2,177	\$0.68	\$21,352	\$1,471	\$663	\$448	\$1,919
2004	\$1,626	\$1,626	\$31,606	\$32,276	\$32,964	\$33,668	\$34,390	\$27,580	7.63%	\$2,104	\$0.65	\$22,339	\$1,367	\$743	\$483	\$1,849
2005	\$1,486	\$1,486	\$34,390	\$35,113	\$35,854	\$36,613	\$37,392	\$30,042	6.77%	\$2,034	\$0.62	\$23,355	\$1,270	\$832	\$520	\$1,790
2006	\$1,321	\$1,321	\$37,392	\$38,166	\$38,960	\$39,774	\$40,608	\$32,699	6.00%	\$1,962	\$0.60	\$24,388	\$1,176	\$932	\$560	\$1,738
2007	\$1,175	\$1,175	\$40,608	\$41,384	\$42,178	\$42,993	\$43,828	\$35,565	6.00%	\$2,134	\$0.58	\$25,310	\$1,232	\$1,044	\$603	\$1,835
2008	\$1,057	\$1,057	\$43,828	\$44,609	\$45,409	\$46,229	\$47,070	\$38,619	6.00%	\$2,317	\$0.56	\$26,136	\$1,287	\$1,169	\$649	\$1,936
2009	\$965	\$965	\$47,070	\$47,861	\$48,672	\$49,503	\$50,355	\$41,794	6.00%	\$2,508	\$0.53	\$26,885	\$1,339	\$1,309	\$699	\$2,038
2010	\$892	\$892	\$50,355	\$51,162	\$51,988	\$52,835	\$53,704	\$45,029	6.00%	\$2,702	\$0.51	\$27,570	\$1,387	\$1,466	\$753	\$2,140

FOR FALL 1993 MID CASE PROJECTIONS

INFLATION RATE	4.00%
RATE OF RETURN	10.38%
CONVENTIONAL REVENUE GROWTH RATE	12.00%

CREMO BASE CASE WITH REVISED TRANSITIONAL WITHDRAWAL RATE

DEPOSIT			PERMANENT FUND					PF AVERAGE 12 PRIOR QUARTERS	WITH % WITHDRAWAL	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET IN 1993 \$	
UN- EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END				FLND	WITHDRAWAL	NOM \$	1993 \$		
1993			\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00						
1994			\$13,426	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96						
1995			\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92						
1996	\$2,117	\$2,117	\$16,277	\$16,518	\$16,766	\$17,019	\$17,279	\$13,896	20.00%	\$2,779	\$0.89	\$15,361	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$2,295	\$17,279	\$17,606	\$17,942	\$18,285	\$18,638	\$15,311	17.73%	\$2,715	\$0.85	\$15,932	\$2,320	\$336	\$287	\$2,608
1998	\$2,416	\$2,416	\$18,638	\$19,055	\$19,483	\$19,921	\$20,370	\$16,607	15.72%	\$2,611	\$0.82	\$16,743	\$2,146	\$376	\$309	\$2,455
1999	\$2,354	\$2,354	\$20,370	\$20,844	\$21,330	\$21,828	\$22,339	\$17,899	13.94%	\$2,495	\$0.79	\$17,655	\$1,972	\$421	\$333	\$2,305
2000	\$2,175	\$2,175	\$22,339	\$22,842	\$23,358	\$23,887	\$24,429	\$19,382	12.36%	\$2,396	\$0.76	\$18,564	\$1,820	\$472	\$359	\$2,179
2001	\$2,008	\$2,008	\$24,429	\$24,962	\$25,509	\$26,070	\$26,644	\$21,158	10.95%	\$2,317	\$0.73	\$19,469	\$1,693	\$529	\$336	\$2,079
2002	\$1,883	\$1,883	\$26,644	\$27,219	\$27,808	\$28,412	\$29,032	\$23,147	9.71%	\$2,248	\$0.70	\$20,397	\$1,579	\$592	\$416	\$1,995
2003	\$1,754	\$1,754	\$29,032	\$29,652	\$30,287	\$30,938	\$31,606	\$25,290	8.61%	\$2,177	\$0.68	\$21,352	\$1,471	\$663	\$448	\$1,919
2004	\$1,626	\$1,626	\$31,606	\$32,251	\$32,912	\$33,590	\$34,284	\$27,580	8.00%	\$2,206	\$0.65	\$22,271	\$1,433	\$743	\$483	\$1,916
2005	\$1,486	\$1,486	\$34,284	\$34,957	\$35,647	\$36,355	\$37,079	\$30,029	7.40%	\$2,222	\$0.62	\$23,160	\$1,398	\$832	\$520	\$1,908
2006	\$1,321	\$1,321	\$37,079	\$37,782	\$38,502	\$39,240	\$39,997	\$32,626	6.80%	\$2,219	\$0.60	\$24,021	\$1,332	\$932	\$560	\$1,892
2007	\$1,175	\$1,175	\$39,997	\$40,716	\$41,453	\$42,209	\$42,983	\$35,351	6.50%	\$2,298	\$0.58	\$24,822	\$1,327	\$1,044	\$603	\$1,930
2008	\$1,057	\$1,057	\$42,983	\$43,726	\$44,486	\$45,266	\$46,065	\$38,185	6.25%	\$2,387	\$0.56	\$25,579	\$1,325	\$1,169	\$649	\$1,974
2009	\$965	\$965	\$46,065	\$46,842	\$47,637	\$48,452	\$49,288	\$41,120	6.00%	\$2,467	\$0.53	\$26,315	\$1,317	\$1,309	\$699	\$2,016
2010	\$892	\$892	\$49,288	\$50,081	\$50,894	\$51,727	\$52,581	\$44,153	6.00%	\$2,649	\$0.51	\$26,994	\$1,360	\$1,466	\$733	\$2,113

DDR FALL 1993 MID CASE PROJECTIONS

INFLATION RATE	4.00%
RATE OF RETURN	10.38%
CONVENTIONAL REVENUE GROWTH RATE	12.00%

CREM) WITH UNEXPECTED REVENUES

	DEPOSIT			PERMANENT FUND					FF AVERAGE 12 PRIOR QUARTERS	WITH %	WITHDRAWAL	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET IN 1993 \$
	UN- EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END					FUND	WITHDRAWAL	MON \$	1995 \$	
1993				\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00						
1994				\$13,426	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96						
1995				\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92						
1996	\$2,117	\$242	\$2,359	\$16,277	\$16,579	\$16,888	\$17,206	\$17,531	\$13,896	20.00%	\$2,779	\$0.89	\$15,585	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$552	\$2,847	\$17,531	\$18,001	\$18,482	\$18,976	\$19,482	\$15,361	17.73%	\$2,720	\$0.85	\$16,654	\$2,325	\$336	\$287	\$2,612
1998	\$2,416	\$708	\$3,124	\$19,482	\$20,090	\$20,714	\$21,352	\$22,007	\$16,794	15.72%	\$2,640	\$0.82	\$18,088	\$2,170	\$376	\$309	\$2,479
1999	\$2,354	\$842	\$3,196	\$22,007	\$22,713	\$23,436	\$24,178	\$24,938	\$18,465	13.94%	\$2,574	\$0.79	\$19,709	\$2,034	\$421	\$333	\$2,367
2000	\$2,175	\$845	\$3,020	\$24,938	\$25,680	\$26,441	\$27,221	\$28,021	\$20,580	12.36%	\$2,544	\$0.76	\$21,294	\$1,933	\$472	\$359	\$2,292
2001	\$2,008	\$875	\$2,883	\$28,021	\$28,807	\$29,614	\$30,440	\$31,287	\$23,188	10.95%	\$2,539	\$0.73	\$22,861	\$1,855	\$529	\$386	\$2,242
2002	\$1,883	\$927	\$2,810	\$31,287	\$32,137	\$33,009	\$33,903	\$34,819	\$26,125	9.71%	\$2,537	\$0.70	\$24,463	\$1,782	\$592	\$416	\$2,198
2003	\$1,754	\$961	\$2,715	\$34,819	\$35,737	\$36,679	\$37,644	\$38,634	\$29,292	8.61%	\$2,522	\$0.68	\$26,099	\$1,704	\$663	\$448	\$2,152
2004	\$1,626	\$939	\$2,615	\$38,634	\$39,630	\$40,651	\$41,698	\$42,771	\$32,675	7.63%	\$2,493	\$0.65	\$27,783	\$1,619	\$743	\$483	\$2,102
2005	\$1,486	\$1,012	\$2,498	\$42,771	\$43,850	\$44,956	\$46,090	\$47,252	\$36,319	6.77%	\$2,459	\$0.62	\$29,513	\$1,536	\$832	\$520	\$2,055
2006	\$1,321	\$1,042	\$2,363	\$47,252	\$48,420	\$49,617	\$50,844	\$52,102	\$40,263	6.00%	\$2,416	\$0.60	\$31,291	\$1,451	\$932	\$560	\$2,010
2007	\$1,175	\$1,074	\$2,249	\$52,102	\$53,299	\$54,526	\$55,783	\$57,072	\$44,534	6.00%	\$2,672	\$0.58	\$32,958	\$1,543	\$1,044	\$603	\$2,146
2008	\$1,057	\$1,066	\$2,123	\$57,072	\$58,293	\$59,544	\$60,826	\$62,141	\$49,126	6.00%	\$2,948	\$0.56	\$34,505	\$1,637	\$1,169	\$649	\$2,286
2009	\$965	\$1,073	\$2,038	\$62,141	\$63,394	\$64,679	\$65,996	\$67,346	\$53,965	6.00%	\$3,238	\$0.53	\$35,957	\$1,729	\$1,309	\$699	\$2,428
2010	\$892	\$1,048	\$1,940	\$67,346	\$68,630	\$69,946	\$71,295	\$72,676	\$58,971	6.00%	\$3,538	\$0.51	\$37,311	\$1,816	\$1,466	\$753	\$2,569

DOR FALL 1993 HIGH CASE PROJECTIONS

INFLATION RATE

4.00%

RATE OF RETURN

10.38%

CONVENTIONAL REVENUE GROWTH RATE

12.00%

CREMO WITH UNEXPECTED REVENUES AND REVISED TRANSITIONAL WITHDRAWAL RATE

DEPOSIT			PERMANENT FUND					FF AVERAGE 12 PRIOR QUARTERS	WITH % WITHDRAWAL	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET IN 1993 \$		
UN- EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END				FUND	WITHDRAWAL	NON \$	1993 \$			
1993			\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00							
1994			\$13,426	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96							
1995			\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92							
1996	\$2,117	\$242	\$2,359	\$16,277	\$16,579	\$16,888	\$17,206	\$17,531	\$13,896	20.00%	\$2,779	\$0.89	\$15,585	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$552	\$2,847	\$17,531	\$18,001	\$18,482	\$18,976	\$19,482	\$15,341	17.73%	\$2,720	\$0.85	\$16,654	\$2,325	\$335	\$287	\$2,612
1998	\$2,416	\$708	\$3,124	\$19,482	\$20,090	\$20,714	\$21,352	\$22,007	\$16,794	15.72%	\$2,640	\$0.82	\$18,088	\$2,170	\$376	\$309	\$2,479
1999	\$2,354	\$842	\$3,196	\$22,007	\$22,713	\$23,436	\$24,178	\$24,938	\$18,465	13.94%	\$2,574	\$0.79	\$19,709	\$2,034	\$421	\$333	\$2,367
2000	\$2,175	\$845	\$3,020	\$24,938	\$25,673	\$26,427	\$27,199	\$27,991	\$20,580	12.50%	\$2,573	\$0.76	\$21,271	\$1,955	\$472	\$358	\$2,314
2001	\$2,008	\$875	\$2,883	\$27,991	\$28,768	\$29,555	\$30,381	\$31,218	\$23,184	11.10%	\$2,573	\$0.73	\$22,811	\$1,880	\$529	\$386	\$2,267
2002	\$1,883	\$927	\$2,810	\$31,218	\$32,055	\$32,913	\$33,792	\$34,693	\$26,106	9.90%	\$2,565	\$0.70	\$24,375	\$1,816	\$592	\$416	\$2,232
2003	\$1,754	\$961	\$2,715	\$34,693	\$35,581	\$36,492	\$37,425	\$38,381	\$29,243	9.00%	\$2,632	\$0.68	\$25,929	\$1,778	\$663	\$448	\$2,226
2004	\$1,626	\$989	\$2,615	\$38,381	\$39,314	\$40,271	\$41,252	\$42,257	\$32,573	8.35%	\$2,720	\$0.65	\$27,449	\$1,767	\$743	\$483	\$2,249
2005	\$1,486	\$1,012	\$2,498	\$42,257	\$43,242	\$44,253	\$45,288	\$46,350	\$36,116	7.70%	\$2,781	\$0.62	\$28,950	\$1,737	\$832	\$520	\$2,257
2006	\$1,321	\$1,042	\$2,363	\$46,350	\$47,392	\$48,459	\$49,554	\$50,676	\$39,871	7.10%	\$2,831	\$0.60	\$30,435	\$1,700	\$932	\$560	\$2,260
2007	\$1,175	\$1,074	\$2,249	\$50,676	\$51,771	\$52,893	\$54,043	\$55,222	\$43,834	6.70%	\$2,937	\$0.58	\$31,890	\$1,696	\$1,044	\$603	\$2,299
2008	\$1,057	\$1,066	\$2,123	\$55,222	\$56,366	\$57,537	\$58,738	\$59,969	\$48,015	6.40%	\$3,073	\$0.56	\$33,299	\$1,706	\$1,169	\$649	\$2,355
2009	\$965	\$1,073	\$2,038	\$59,969	\$61,165	\$62,392	\$63,648	\$64,937	\$52,417	6.20%	\$3,250	\$0.53	\$34,670	\$1,735	\$1,309	\$699	\$2,434
2010	\$892	\$1,048	\$1,940	\$64,937	\$66,189	\$67,474	\$68,790	\$70,139	\$57,035	6.00%	\$3,422	\$0.51	\$36,008	\$1,757	\$1,466	\$753	\$2,509

FOR FALL 1993 HIGH CASE PROJECTIONS

INFLATION RATE

4.00%

RATE OF RETURN

10.38%

CONVENTIONAL REVENUE GROWTH RATE

12.00%

2.5 billion = 93 budget
 1.8 new (full 93)
 \$ 700 shortfall

unrealized gain
 705 over
 (37) land
 782 diff
 \$ 1450

Date: Dept. of Revenue (projections: fall, 1993, mid case)
 * Permanent Fund Corp. (projections: October 31, 1993, mid case)
 Transitional withdrawal: 20% in initial year to permanent % in 2006
 Permanent withdrawal: 6%
 Total return: 10%
 Reserves: 2,500

4% inflation

Proposed State Financial System
 (millions of dollars)

\$ 12,385

Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Wdr %	Withdrawal
1993*		11,911.33	12,238.08	12,564.83	12,891.58	13,218.33			
1994*		13,426.67	13,735.42	14,044.17	14,352.92	14,661.67			
1995*		14,870.00	15,221.75	15,573.50	15,925.25	16,277.00			
1996	2,117.12	16,277.00	16,514.25	16,757.44	17,006.70	17,262.19	13,896.29	20.00	2,779.26
1997	2,295.33	17,262.19	17,586.35	17,918.61	18,259.17	18,608.25	15,508.25	17.73	2,714.45
1998	2,416.40	18,608.25	19,024.06	19,450.27	19,887.13	20,334.91	16,597.68	15.72	2,609.17
1999	2,354.71	20,334.91	20,808.15	21,293.22	21,790.41	22,300.04	17,679.20	13.94	2,491.82
2000	2,175.86	22,300.04	22,802.17	23,316.86	23,844.42	24,385.16	19,351.89	12.36	2,391.12
2001	2,008.86	24,385.16	24,916.66	25,461.45	26,019.85	26,592.22	21,121.66	10.95	2,313.76
2002	1,803.00	26,592.22	27,164.51	27,751.10	28,352.37	28,968.66	23,106.11	9.71	2,244.03
2003	1,754.37	28,968.66	29,505.50	30,217.75	30,865.82	31,530.08	25,242.23	8.61	2,173.42
2004	1,626.18	31,530.08	32,196.66	32,879.90	33,580.22	34,298.05	27,525.42	7.63	2,101.82
2005	1,486.83	34,298.05	35,016.69	35,753.30	36,508.32	37,282.22	29,973.73	6.77	2,028.52
2006	1,321.81	37,282.22	38,051.51	38,840.03	39,648.26	40,475.70	32,616.75	6.00	1,957.00
2007	1,175.92	40,475.70	41,244.66	42,031.83	42,838.67	43,665.69	35,465.44	6.00	2,127.93
2008	1,057.16	43,665.69	44,436.30	45,226.18	46,035.81	46,865.67	38,499.19	6.00	2,309.95
2009	965.92	46,865.67	47,644.49	48,442.78	49,261.03	50,099.73	41,648.15	6.00	2,498.89
2010	892.22	50,099.73	50,891.33	51,702.71	52,534.39	53,386.84	44,847.48	6.00	2,690.85

1773
 1788
 1812

2536

Projected IP

add 2 years of revenue + inflation proofing

16,735 at current value
 15,285 at cost

94 2.09 500 = 700
 95 2.09 500 = 700

add revenue at end of 1995
 \$ 1.5 billion

Testimony on SJR 38 "The Cremo Plan"

before the
Alaska Senate State Affairs Committee

by
Scott Goldsmith
Professor of Economics
University of Alaska Anchorage

January 28, 1994

The Cremo proposal would establish, by constitutional amendment, a system under which all natural resource revenues would be deposited into the Alaska Permanent Fund and each year a fixed percentage of the fund assets, equal to the long run average real return on the Fund, would be withdrawn for appropriation by the legislature. During an initial 10 year transition period the fixed percentage withdrawal rate would decline geometrically from 20 to 6 percent.

The purpose of the plan is to eliminate the booms and busts associated with state spending driven by periodic fluctuations in natural resource revenues. It accomplishes this through the prohibition of direct appropriation of natural resource revenues.

An additional feature of the plan is that it forces a transition from the present unsustainable high level of state spending and reliance on petroleum revenues to a level which can be maintained using a combination of the annual fund withdrawal and conventional revenues. Each year during the transition phase less revenue is withdrawn from the fund and made available for appropriation. The legislature and administration are forced to fund the operating and capital budgets as well as the Permanent Fund Dividend through a combination of this declining withdrawal and non-resource revenues (the income budget).

Based upon the analysis provided by Mr. Cremo, the amount available for appropriation (income budget) would be \$3.079 billion in 1996, the first year of the transition phase, and \$2.360 in 2005, the last year of the transition phase. (Fall 1993 revenue projections, 12% annual growth rate for non-resource revenues (conventional revenues), 10% rate of return on the fund, and 4% rate of inflation). At a 4% inflation rate the \$2.860 income budget would have the equivalent purchasing power of \$2.00 billion in 1996. In other words, the transition to the level which could be maintained requires a 1/3 reduction in spending. The veracity of this estimate of course depends upon the accuracy of all the assumptions.

This plan is the only systematic proposal to deal with the many problems associated with state financial dependence on both fluctuating and declining natural resource revenues. As such it should get serious consideration. An obvious study which should precede endorsement of this plan is a sensitivity analysis of the projected income budget with different assumptions regarding revenues, rate of return, etc. This would give some idea of whether the plan produces comparable results if the future turns out to be different than currently envisioned. Time has not permitted me to conduct such a study.

In evaluating this plan the potential risks and costs should be identified and the plan should be compared to alternative methods of addressing the problems targeted in the plan. In my testimony I want to discuss the potential problems I see with the plan and suggest some alternative policies for addressing specific problems associated with our dependence on oil revenues.

1. There is No Magic and Painless Solution to the Fiscal Gap Problem.

The critical problem facing the state is how to deal with the decline in petroleum revenues from depletion of the Prudhoe Bay field at the same time that demands for government services continue to expand with population growth. Solution to this problem will require a transition over a number of years involving a reduction in government spending, the imposition of taxes, and restructuring the use of the Permanent Fund including the dividends.

The Cremo plan is one way to implement what we have characterized in the ISER Fiscal Policy Papers as the "Soft Landing". Three points are important in thinking about the plan as a means of accomplishing the "Soft Landing".

a. No increase in revenues results from plan implementation.

There may be the appearance of more resources under the Cremo proposal for three reasons. First, it assumes an average annual 6% real rate of return on Fund assets is possible compared to more conservative estimates of annual average long term rate of return made by the Permanent Fund Corporation, ISER, and others. However, since the real rate of return depends on the investment portfolio of the fund and not on whether all or a portion of petroleum revenues are deposited in the Fund, it is inappropriate to compare the Cremo proposal and its high real rate of return with other proposals using lower rates of return. All should be compared using the same rate of return.

Second, the Cremo analysis is presented in **Nominal** dollars whereas most other analyses are in **Real** dollars. Since its analysis assumes a 10% nominal return on investment with a real return on investment of 6%, the inflation rate in the analysis is 4% annually. Consequently its projections of available revenues in future years will appear to be higher than other projections simply because inflation is driving up all its variables at the rate of 4% each year. Furthermore its projections of available revenues in any

particular year cannot be compared to any subsequent year because inflation reduces the purchasing power of those later dollars by 4% each year.

Third, the flow of revenues for appropriation each year under the Cremo proposal (income budget) includes the revenues used to fund the Permanent Fund dividend. It is inappropriate to compare this flow with the revenues under alternate proposals which assume funding of the dividend by some alternate means.

b. With the plan in force budget cuts, restructuring of the dividend, and the imposition of new taxes are all necessary. For example using the assumptions in the current version of the plan, in 2000 there will be enough revenues to fund \$2.4 billion of spending at the current price level (a drop of \$700 million from 1996). With the \$100 million in new taxes assumed, we would still be forced to choose between keeping the operating budget and eliminating both the capital budget and the dividend, retaining the dividend while eliminating the capital budget and cutting 20% out of the operating budget, or some compromise plan.

c. The plan does not speak to the questions of how or what taxes will be imposed, how the budget will be reduced, or how the dividend may be restructured.

I am not suggesting that the plan needs to answer all those questions, but I am concerned that the public may be getting the wrong message about what the plan will do and that this misconception may inflate expectations above what the legislature and administration can deliver. Specifically if people approve a plan they think will painlessly eliminate the state budget gap without the need to reduce services, impose taxes and restructure the dividend only to discover otherwise, they may be understandably upset.

2. This Proposal Represents a Risk to the Permanent Fund, our Biggest Asset.

The advantages of the Cremo plan have been clearly identified in the proposal. Among the more important I would highlight the fiscal discipline that results from its implementation, and the forced instant awareness that solving the problem of the budget gap will require a tradeoff among the budget, the Permanent Fund dividend, and taxes. (A cynic would add the fact that its passage would allow the postponement of hard choices among these alternatives until after the next election.)

The potential risks should also be clearly identified. This plan puts the Permanent Fund at risk in exchange for solving two pressing problems--the need to inject fiscal discipline into the budget making process and the need to convince the electorate that the legislature and administration are serious about fiscal responsibility. Other ways exist to accomplish both of these objectives. Caution should be the watchword when considering changes that put the Permanent Fund at risk.

The Permanent Fund works. In its 16 years it has not only survived but grown and

prospered during both boom and bust times so that today its \$14 billion represents our largest and most important financial asset as we move toward the Post-Prudhoe economy. One reason for its success has been the fact that it stands outside the annual budget appropriation cycle. There is no thought that the assets of the Permanent Fund could be available for appropriation when the budget is being built.

Its structure is not perfect. For example it could be producing a higher rate of return, and there is no constitutional guarantee against erosion of the corpus from the effects of inflation. These problems could be addressed without exposure of the corpus to the annual budgetary cycle.

The Cremo plan is a radical departure from the past. It brings the Permanent Fund to the center stage during the annual appropriation cycle, and during the "transition period" establishes a precedent for spending of the corpus. Budgetary attention will immediately focus on the Fund corpus. In politics as in economics INCENTIVES MATTER and a \$14 billion asset in the middle of the budget process is a big temptation for anyone.

To get a sense of the potential risk to the Fund it is useful to run out some scenarios that include political motivations. For example, suppose oil prices linger below the Department of Revenue Fall 1993 projection through 1996 and the first year draw on the Fund at the 20% rate were to come up short of projections by a couple hundred million dollars. The capital budget would be the likely first casualty of the resulting budget squeeze, but the construction lobby would not give up without a fight. A logical line of attack would be for them to remind everyone that a 20% draw on the fund was a mandate to dip into its principal. A painless way to do that would be to fund the capital budget with a loan from the Permanent Fund that would be repaid when the oil price bounced back. Although this may sound far-fetched who would have believed the scenario just played out surrounding the Constitutional Budget Reserve.

3. This Proposal has Neither a Safety Valve nor Wiggle Room.

An impressive argument for this plan is that if we had instituted it in 1969 the Permanent Fund balance would be \$70 billion now and we could draw \$3.8 billion this year. I find it difficult to believe that such a Fund could have survived at all through the 70s and 80s. Consider 1982 when petroleum revenues were \$4 billion and projections were for revenues to grow to between \$8 and \$10 billion by 1992. Under this plan the withdrawal in 1982 would have been a mere \$400 million. It is inconceivable that the political pressure to spend could have been kept in check under those conditions.

In fact one of the things that kept the Permanent Fund healthy and insulated from attack during those boom years was the safety valve we had in the form of the oil money that stayed CUT of the Fund. This money was available to pay for the capital, operating, loan, and other programs that seemed so essential at the time and that some now feel could have so easily been denied. In reality without that safety valve the pressure on the

Fund would have been impossible to contain.

Wiggle room allows us the flexibility to deal with future issues and events that we cannot anticipate. We think we know what the future will bring, but Alaska continues to be the land of surprises.

For example, another scenario, which I personally think has a very low probability, would be that the oil price rebounds and we discover an oil field much larger than Prudhoe Bay. This field has a productive life of 100 years and can generate \$3 billion each year for 100 years. (This would really move us into the Saudi Arabia class.) The sensible course of action in this case would be to allow spending of \$3 billion each year and the population explosion such a discovery would create would demand it. With the Cremo plan in force we would be constrained to spending only 6 percent of the new annual revenues in the first year--\$180 million, 12 percent in the second year--\$360 million, and so on. Without wiggle room this constraint would be difficult to maintain.

4. No Plan Involving \$14 billion is Simple.

The plan is elegant in its simplicity. Its implementation would surely be as complex as only the lawyers can conceive. The Constitutional Budget Reserve is an all too recent example of a simple idea that got complicated fast partly because the original idea was not subjected to enough review of how it would work once it emerged from the laboratory in the real world of politics.

5. The Benefits and Costs of This Proposal Should be Compared with Less Radical Alternatives.

The objectives of the Cremo plan can be achieved in other ways without endangering the Permanent Fund through exposure of the corpus during the difficult transition years. None alone is sufficient to deal with the fiscal gap and each individual policy should be evaluated as an element in an overall plan. For example capping the budget would force the tradeoff between spending cuts and taxes only if the cap was low or if the cap squeezed spending down over time. Neither would a budget cap force a decision on reformulation of the Permanent Fund dividend. A sample of alternate solutions to the main problems addressed by the Cremo plan includes the following:

1. Problem: Instability from year to year in government spending. (This is the immediate problem facing the legislature and administration.)

Solution: CAP THE BUDGET AT \$2.5 BILLION FOR 4 YEARS AND FORBID GROWTH TO ACCOMMODATE POPULATION INCREASE AND INFLATION. If instability in spending is the problem, the solution is to force stability directly. Wiggle room is retained by making the solution temporary, but renewable.

2. Problem: Price induced fluctuations in petroleum revenues from year to year.

Solution: RESTRUCTURE THE CONSTITUTIONAL BUDGET RESERVE TO FILL ALL OR A PORTION OF ANY SHORTFALL OF CURRENT REVENUES BELOW THE BUDGET CAP.

3. Problem: Petroleum revenues declining with production.

Solution: CAP THE BUDGET AT \$2.5 BILLION FOR 4 YEARS AND FORBID GROWTH TO ACCOMMODATE POPULATION INCREASE AND INFLATION. Government spending is unsustainable with the gap between spending and recurring revenues growing as oil production declines. Capping appropriations for 4 years uses inflation to cut the budget and yet retains longer term flexibility to deal with the uncertain conditions at the turn of the century.

4. Problem: Minimize long term economic booms and busts associated with the cycles of resource extraction and depletion.

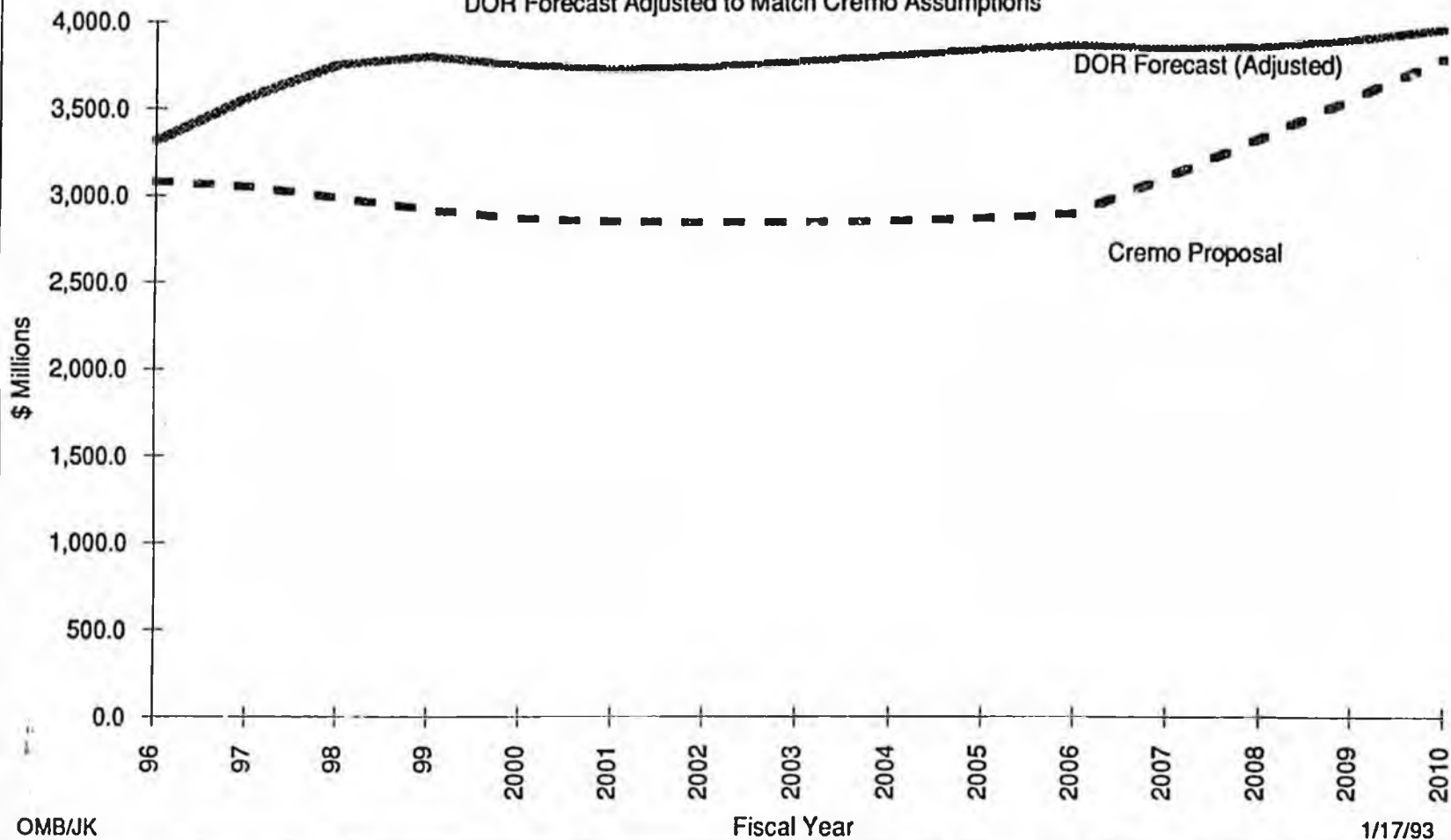
Solution: DOUBLE THE PERMANENT FUND CONTRIBUTION RATE FOR ROYALTIES ON NEWLY DISCOVERED NATURAL RESOURCE PRODUCTION TO 100%. Although the Cremo plan was originally proposed as a solution to this problem, it works only if put in place before the problem arises, not when the bust hits. The likelihood of a Prudhoe Bay sized boom again occurring in Alaska is slight although not impossible. The problem of boom and bust which a new Prudhoe discovery would create could be eliminated if the Permanent Fund contribution rate for royalties (and perhaps taxes) from yet to be discovered natural resources were set at 100% compared to the 50% rate currently in place for new discoveries (and the 25% rate for Prudhoe Bay).

5. Problem: Maximize the return on the Permanent Fund.

Solution: BASE THE DIVIDEND ON THE LONG TERM AVERAGE TOTAL RETURN OF THE FUND INCLUDING UNREALIZED GAINS AND LOSSES. This eliminates the need to hold interest bearing assets to produce cash for the dividends and allows more flexibility in choosing a portfolio to maximize long term rate of return.

GF Revenues: Cremo Proposal Vs. DOR Forecast (Including Permanent Fund Real Earnings)

Nominal Dollars/Fall 93 Mid-Case Forecast
DOR Forecast Adjusted to Match Cremo Assumptions



OMB/JK

1/17/93

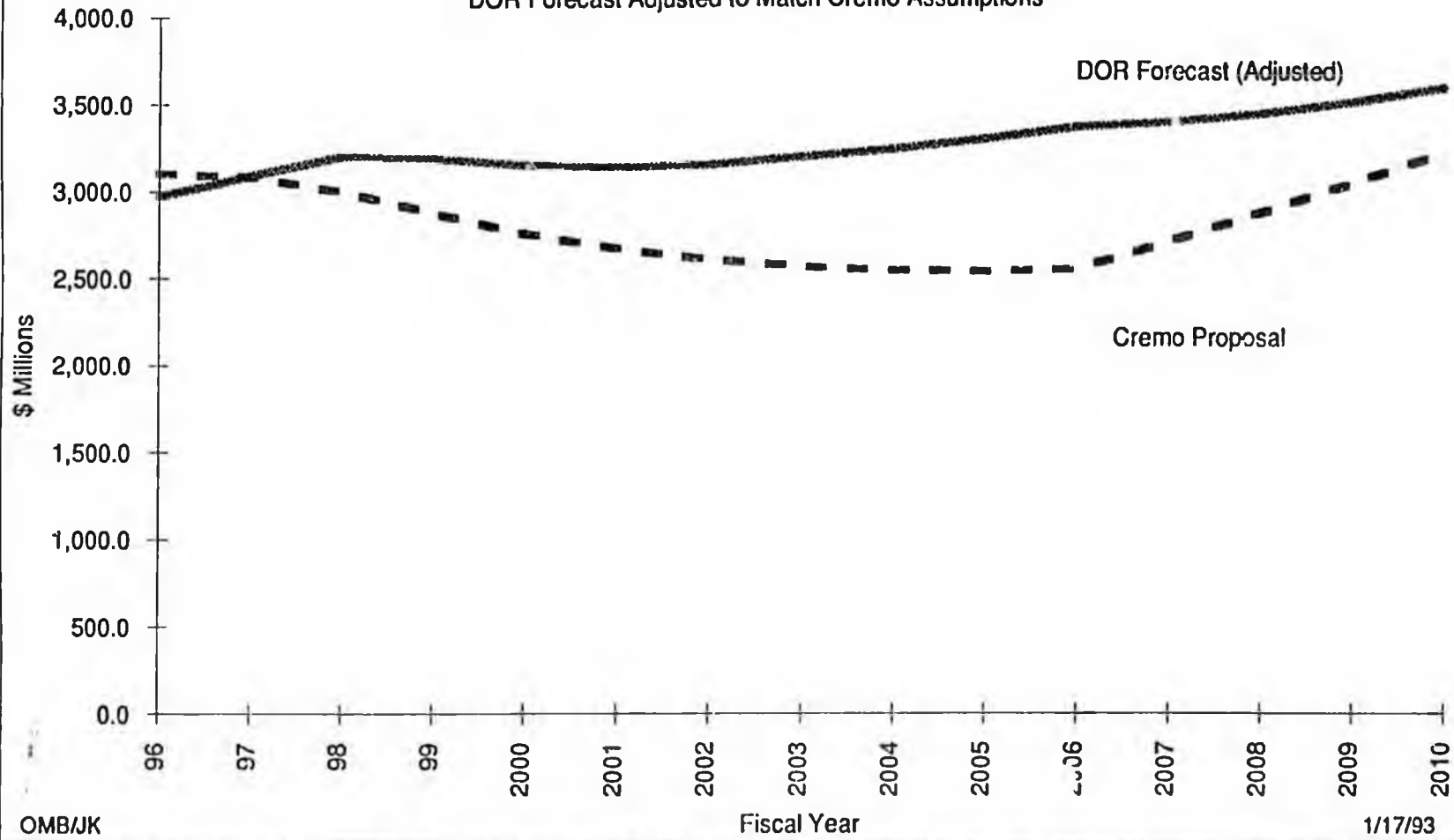
Crema/DOR Revenue Comparison - DOR Fall 93 Mid Case Adjusted to Match Crema Assumptions

<i>Fiscal Year</i>	<u>96</u>	<u>97</u>	<u>98</u>	<u>99</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	TOTALS
REVENUES:																
UGF FORECAST	2,155.9	2,320.3	2,425.0	2,371.8	2,218.6	2,076.6	1,968.2	1,869.8	1,762.5	1,647.3	1,509.1	1,388.8	1,293.5	1,225.2	1,173.96	27,406.5
ADJUSTMENTS TO MATCH CREMA																
Additional Conventional Revenues	19.1	46.7	78.4	114.6	155.9	203.1	256.8	317.8	387.0	465.5	554.3	580.2	607.3	635.6	665.2	5,087.6
PF Real Earnings (@6% Real Return)	1,046.6	1,100.4	1,150.1	1,219.6	1,283.4	1,348.5	1,415.4	1,484.2	1,554.9	1,627.8	1,702.5	1,779.1	1,857.7	1,938.7	2,022.1	22,539.0
Interest on \$1.5 billion in reserves	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	1,350.0
Total Adjusted UGF Revenues	3,311.6	3,557.4	3,751.4	3,786.0	3,747.9	3,718.2	3,730.4	3,761.8	3,794.4	3,830.6	3,855.9	3,838.1	3,848.5	3,809.5	3,951.3	56,383.1
Crema Permanent Fund Withdrawal	2,779.3	2,714.5	2,609.2	2,491.8	2,391.1	2,313.8	2,244.0	2,173.4	2,101.0	2,028.5	1,957.0	2,127.9	2,310.0	2,498.9	2,690.9	35,431.2
Crema Conventional Revenues	300.0	336.0	376.3	421.5	472.1	528.7	592.1	663.2	742.8	831.9	931.8	1,069.0	1,007.8	1,048.1	1,090.0	10,311.3
Crema Total	3,079.3	3,050.5	2,985.5	2,913.3	2,863.2	2,842.5	2,836.1	2,836.6	2,843.8	2,860.4	2,888.8	3,096.9	3,317.7	3,547.0	3,780.9	45,742.5
Difference (Forecast less Crema)	232.3	506.9	765.9	882.7	884.8	875.7	894.2	925.2	950.6	970.1	967.2	741.2	530.8	342.6	170.3	10,640.5

JK/OMB
1/27/93

GF Revenues: Cremo Proposal Vs. DOR Low Forecast (Including Permanent Fund Real Earnings)

Nominal Dollars/Fall 93 Low-Case Forecast
DOR Forecast Adjusted to Match Cremo Assumptions



OMB/JK

1/17/93

Cremo/DOR Revenue Comparison - DOR Fall 93 Low Case Adjusted to Match Cremo Assumptions

<i>Fiscal Year</i>	<u>96</u>	<u>97</u>	<u>98</u>	<u>99</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	TOTALS
REVENUES:																
UGF Low Case Forecast	1,813.1	1,852.8	1,873.5	1,764.2	1,616.2	1,491.9	1,383.7	1,238.5	1,204.5	1,109.7	1,013.2	935.8	877.9	837.8	807.1	19,882.9
ADJUSTMENTS TO MATCH CREMO																
Additional Conventional Revenues	19.1	46.7	78.4	114.6	155.9	203.1	256.8	317.8	387.0	465.5	554.3	580.2	607.3	635.6	665.2	5,087.6
PF Real Earnings (@6% Real Return)	1,046.6	1,100.4	1,158.1	1,219.6	1,283.4	1,343.5	1,415.4	1,484.2	1,554.9	1,627.8	1,702.5	1,779.1	1,857.7	1,938.7	2,022.1	22,539.0
Interest on \$1.5 billion In reserves	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	1,350.0
Total Adjusted UGF Revenues	2,971.8	3,089.9	3,200.0	3,188.4	3,145.5	3,133.5	3,145.9	3,190.5	3,236.4	3,293.0	3,360.0	3,385.1	3,432.9	3,502.1	3,584.4	48,859.5
Cremo PF Revenues	2,802.5	2,748.5	2,624.1	2,453.1	2,282.0	2,137.2	2,011.1	1,897.5	1,784.3	1,700.1	1,613.9	1,730.5	1,856.2	1,987.8	2,122.3	31,761.0
Cremo Conventional Revenues	300.0	336.0	376.3	421.5	472.1	528.7	592.1	663.2	742.8	831.9	931.8	969.0	1,007.8	1,048.1	1,090.0	10,311.3
Cremo Total	3,102.5	3,084.5	3,000.4	2,874.6	2,754.1	2,665.9	2,603.3	2,560.7	2,537.1	2,532.1	2,545.6	2,699.5	2,864.0	3,035.9	3,212.3	42,072.3
Difference (Forecast less Cremo)	-130.7	5.4	199.6	313.8	391.5	467.6	542.6	623.7	699.3	760.9	814.4	685.6	569.0	466.3	372.1	6,787.1

JK/OMB
2/3/94



1

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1993

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	
88	7,864		418	303	8,585	
89	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	5 ***	315	362	12,385	
94	12,385	5	209	372	12,971	
95	12,971	5	209	527	13,713	
96	13,713	5	214	557	14,489	
97	14,489	5	221	589	15,304	
98	15,304	6	230	622	16,161	
99	16,161	4	222	983	17,370	
0	17,370	4	204	1,055	18,633	
1	18,633	4	189	1,130	19,956	
2	19,956	4	177	1,208	21,345	
3	21,345	5	165	1,291	22,806	
4	22,806	5	153	1,378	24,342	
5	24,342	5	139	1,469	25,955	
6	25,955	5	126	1,565	27,651	
7	27,651	5	115	1,666	29,438	
8	29,438	5	106	1,773	31,322	
9	31,322	6	98	1,552	32,977	334
10	32,977	6	90	1,629	34,702	355
Cumulative Totals Projected						
For FY 1994 - 2010:			2,777	19,365		689

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	59	81
368	71		71	185	244	82
471	108	231	110	110	354	83
530	175	151		203	557	84
658	217	235		206	763	85
1,021	303	216		501	1,264 **	86
1,069	391	148		529	529	87
789	424	303		62	591	88
868	460	360	4	44	635	89
916	487	454	4	(30)	605	90
1,030	489	559	4	(24)	581	91
1,036	488	477	5	64	645	92
1,226	532	362	5	320	965	93
1,075	555	372	5	139	1,104	94
1,239	589	527		118	1,221	95
1,314	619	557		133	1,355	96
1,394	656	589		144	1,498	97
1,478	683	622		168	1,667	98
1,691	747	983		(44)	1,623	99
1,800	806	1,055		(65)	1,558	0
1,912	869	1,130		(91)	1,467	1
2,027	935	1,208		(121)	1,346	2
2,147	1,006	1,291		(155)	1,192	3
2,269	1,066	1,378		(180)	1,012	4
2,396	1,129	1,469		(207)	805	5
2,528	1,194	1,565		(236)	569	6
2,665	1,261	1,666		(267)	303	7
2,808	1,330	1,773		(300)	2	8
2,957	1,402	1,552		(2)		9
3,112	1,477	1,629				10
34,812	16,322	19,365	5			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.81%	2.95%	4.86%
FY 95 - 98: ****	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	6.00%	3.00%

- * Department of Revenue Fall 1993 Low-Case Revenue Forecast.
- ** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
- *** Transferred to principal from earnings reserve account per AS 37.13.145(d).
- **** Based on capital market assumptions adopted by the Trustees in April 1993.

STATUS QUO



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (Millions)

as of December 31, 1993

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Surplus
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	
88	7,864		418	303	8,585	
89	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	5 ***	315	362	12,385	
94	12,385	5	209	372	12,971	
95	12,971	7	209	INCOME	13,187	
96	13,187	7	4,563.69		17,758	3,861
97	17,758	8	2,295.33		20,061	1,501
98	20,061	8	2,416.40		22,486	1,525
99	22,486	9	2,354.71		24,849	1,369
0	24,849	9	2,175.06	100	27,134	1,203
1	27,134	10	2,008.86	373	29,526	1,226
2	29,526	10	1,883.00	683	32,102	1,320
3	32,102	11	1,754.37	1,029	34,896	1,439
4	34,896	12	1,626.18	1,403	37,938	1,580
5	37,938	12	1,486.83	1,799	41,236	1,721
6	41,236	13	1,321.81	2,221	44,792	1,853
7	44,792	14	1,175.92	2,397	48,379	1,748
8	48,379	15	1,057.16	2,565	52,016	1,659
9	52,016	16	965.92	2,731	55,728	1,593
10	55,728	17	892.22	2,901	59,538	1,544
Cumulative Totals Projected						
For FY 1994 - 2010:			27,503	18,575	25,141	

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	59	81
368	71		71	185	244	82
471	108	231	110	110	354	83
530	175	151		203	557	84
658	217	235		206	763	85
1,021	303	216		501	1,264 **	86
1,069	391	148		529	529	87
789	424	303		62	591	88
868	460	360	4	44	635	89
916	487	454	4	(30)	605	90
1,030	489	559	4	(24)	581	91
1,036	488	477	5	64	645	92
1,226	532	362	5	320	965	93
1,075	555	372	5	138	1,103	94
1,493	615	528		343	1,447	95
1,629	678	710	2,520 ****			96
1,991	778	802	2,437			97
2,239	885	899	2,487			98
2,491	1,034	994	2,586			99
2,731	1,164	1,081	2,631			0
2,962	1,304	1,166	2,589			1
3,208	1,431	1,257	2,524			2
3,472	1,561	1,355	2,443			3
3,760	1,694	1,461	2,356			4
4,072	1,835	1,578	2,273			5
4,411	1,987	1,703	2,190			6
4,778	2,152	1,839	2,380			7
5,149	2,328	1,978	2,584			8
5,527	2,513	2,120	2,796			9
5,914	2,707	2,266	3,013			10
56,901 25,219 22,109 37,815						

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.81%	2.95%	4.86%
FY 95 - 98:	10.00%	4.00%	6.00%
FY 99 - 2010:	10.00%	4.00%	6.00%

* Department of Revenue Fall 1993 Mid-Case Revenue Forecast.

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

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Note: The GF income minus the dividends equals \$ available for government.
CREMO PLAN WITH DOR MID-CASE, \$1 BILLION TRANSFER FROM BUDGET RESERVES, PLUS ERA, 10% TOTAL RATE OF RETURN AND 4% INFLATION



#3

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1993

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated State Revenues ^a	Inflation-Proofing	FY End Balance	Inflation-Proofing Surplus
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	
88	7,864		418	303	8,585	
89	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	5 ***	315	362	12,385	
94	12,385	5	209	372	12,971	
95	12,971	5	209	INCOME	13,185	
96	13,185	5	2,995		16,185	2,353
97	16,185	5	1,788		17,978	1,074
98	17,978	6	1,812		19,796	1,026
99	19,796	4	1,686		21,486	401
0	21,486	4	1,513		23,003	137
1	23,003	4	1,366		24,373	(92)
2	24,373	4	1,239	201	25,817	(93)
3	25,817	5	1,124	448	27,393	(41)
4	27,393	5	1,010	712	29,120	22
5	29,120	5	891	982	30,999	77
6	30,999	5	773	1,260	33,036	131
7	33,036	5	675	1,339	35,054	(4)
8	35,054	5	598	1,410	37,067	(127)
9	37,067	6	539	1,476	39,088	(236)
10	39,088	6	490	1,543	41,127	(336)
Cumulative Totals Projected						
For FY 1994 - 2010: 18,426 9,742 4,292						

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	59	81
368	71		71	185	244	82
471	108	231	110	110	354	83
530	175	151		203	557	84
658	217	235		206	763	85
1,021	303	216		501	1,264 **	86
1,069	391	148		529	529	87
789	424	303		62	591	88
868	460	360	4	44	635	89
916	487	454	4	(30)	605	90
1,030	489	559	4	(24)	581	91
1,036	488	477	5	64	645	92
1,226	532	362	5	320	965	93
1,075	555	372	5	138	1,103	94
1,239	589	527		118	1,221	95
1,283	615	647	2,520 ****			96
1,492	663	719	2,390			97
1,650	708	792	2,350			98
1,945	799	1,289	2,354			99
2,096	889	1,380	2,332			0
2,232	989	1,462	2,255			1
2,356	1,079	1,537	2,155			2
2,486	1,167	1,617	2,039			3
2,629	1,239	1,705	1,917			4
2,787	1,312	1,801	1,804			5
2,958	1,388	1,907	1,698			6
3,145	1,471	2,023	1,807			7
3,332	1,559	2,140	1,922			8
3,519	1,653	2,257	2,042			9
3,707	1,749	2,375	2,164			10
39,932	18,423	24,549	31,755			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.81%	2.95%	4.86%
FY 95 - 98:	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

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

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Note: The GF income minus the dividends equals \$ available for government.

CREMO PLAN WITH DOR LOW-CASE, \$0 TRANSFER FROM BUDGET RESERVES, PLUS ERA, 9% TOTAL RATE OF RETURN AND 6% INFLATION



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS

(in millions)

as of December 31, 1993

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Surplus
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	
88	7,864		418	303	8,585	
89	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	5 ***	315	362	12,385	
94	12,385	5	209	372	12,971	
95	12,971	5	209	INCOME	13,185	
96	13,185	5	2,997		16,188	2,355
97	16,188	5	1,788		17,981	1,074
98	17,981	6	1,812		19,799	1,026
99	19,799	4	1,686		21,488	400
0	21,488	4	1,513		23,005	136
1	23,005	4	1,366		24,376	(92)
2	24,376	4	1,239	201	25,820	(93)
3	25,820	5	1,124	448	27,396	(41)
4	27,396	5	1,010	712	29,122	22
5	29,122	5	891	982	31,001	77
6	31,001	5	773	1,260	33,038	130
7	33,038	5	675	1,339	35,057	(4)
8	35,057	5	598	1,410	37,070	(127)
9	37,070	6	539	1,477	39,091	(236)
10	39,091	6	490	1,543	41,130	(336)
Cumulative Totals Projected						
For FY 1994 - 2010:			18,428	9,743		4,293

USE OF FUND INCOME						
Net Income	Distributions			Reserves		FY
	Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	
2			1			76
8			7			79
32	12		12			80
150	28		28	59	59	81
368	71		71	185	244	82
471	108	231	110	110	354	83
530	175	151		203	557	84
658	217	235		206	763	85
1,021	303	216		501	1,264 **	86
1,069	391	148		529	529	87
789	424	303		62	591	88
868	460	360	4	44	635	89
916	487	454	4	(30)	605	90
1,030	489	559	4	(24)	581	91
1,036	488	477	5	64	645	92
1,226	532	362	5	320	965	93
1,075	555	372	5	138	1,103	94
1,239	586	527		120	1,223	95
1,283	601	648	2,520 ****			96
1,492	616	719	2,390			97
1,650	630	792	2,350			98
1,946	646	1,289	2,354			99
2,097	661	1,380	2,333			0
2,233	677	1,463	2,255			1
2,356	692	1,537	2,155			2
2,486	708	1,617	2,039			3
2,630	723	1,705	1,918			4
2,787	739	1,801	1,805			5
2,958	753	1,907	1,699			6
3,146	768	2,023	1,807			7
3,332	783	2,140	1,923			8
3,519	797	2,257	2,043			9
3,707	811	2,375	2,164			10
39,935	11,746	24,551	31,757			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.81%	2.95%	4.86%
FY 95 - 98:	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

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

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Note: The GF income minus the dividends equals \$ available for government.

CREMO PLAN WITH DOR LOW-CASE, \$0 TRANSFER FROM BUDGET RESERVES, PLUS ERA, 9% TOTAL RATE OF RETURN AND 6% INFLATION, AND WITH A \$1,000 PER CAPITA DIVIDEND CAP

as of November 30, 1993

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Surplus
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	
88	7,864		418	303	8,585	
89	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	5 ***	315	362	12,385	
94	12,385	5	209	376	12,975	
95	12,975	5	209	INCOME	13,189	
96	13,189	5	2,979		16,173	2,337
97	16,173	5	1,788		17,966	1,074
98	17,966	6	1,812		19,784	1,027
99	19,784	5	1,686		21,475	617
0	21,475	6	1,513		22,994	369
1	22,994	6	1,366		24,366	154
2	24,366	6	1,239	201	25,812	165
3	25,812	6	1,124	448	27,390	231
4	27,390	7	1,010	712	29,118	309
5	29,118	7	891	982	30,999	380
6	30,999	7	773	1,260	33,039	451
7	33,039	7	675	1,339	35,060	335
8	35,060	8	598	1,410	37,076	233
9	37,076	8	539	1,477	39,100	143
10	39,100	8	490	1,544	41,143	63
Cumulative Totals Projected For FY 1994 - 2010:			18,410	9,749		7,887

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
1,226	532	362	5	320		93
1,061	553	376	5	122	1,087	94
1,238	587	528		118	1,205	95
1,283	614	647	2,520			96
1,491	661	719	2,390			97
1,649	706	791	2,349			98
1,944	799	1,074	2,352			99
2,095	889	1,150	2,331			0
2,232	988	1,218	2,253			1
2,355	1,079	1,281	2,154			2
2,486	1,167	1,347	2,038			3
2,629	1,239	1,420	1,917			4
2,787	1,311	1,501	1,804			5
2,958	1,388	1,589	1,698			6
3,146	1,471	1,686	1,807			7
3,333	1,560	1,783	1,923			8
3,520	1,653	1,881	2,043			9
3,708	1,750	1,980	2,164			10
39,914	18,412	20,970	31,748			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98:	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	5.00%	4.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

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

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

CREMO PLAN WITH DOR LOW-CASE, \$0 TRANSFER FROM BUDGET RESERVES PLUS ERA, 0% TOTAL RATE OF RETURN AND 5% INFLATION

Traditional vs. Cremo Budgeting

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10	Column 11	Column 12		
Non-dedicated Petroleum & Interest Revenues	Non-petroleum Revenues	Net GF Unrestricted Revenues (Columns 1 + 2)	PFC Dividend	Traditional Budget (Columns 3 + 4)	Cremo Budget (Columns 7 + 8)	Cremo Withdrawal	Non-petroleum Revenues	Traditional PF Balance	Cremo PF Balance	Net Withdrawal (Cols. 7 - 1/Avg. Bal.)	Withdrawal Percentage (Geometric)		
FY95			589.0					13,777.0	14,998.00	FY95			
FY96	1,553.8	262.3	1,816.1	619.0	2,435.1	2,434.2	2,171.9	262.3	14,489.0	15,873.70	FY96	4.67%	16.40%
FY97	1,582.6	270.2	1,852.8	656.0	2,508.8	2,389.8	2,119.7	270.2	15,304.0	16,894.73	FY97	3.76%	14.83%
FY98	1,595.2	278.3	1,873.5	683.0	2,556.5	2,329.9	2,051.6	278.3	16,161.0	18,101.73	FY98	2.98%	13.41%
FY99	1,477.6	286.6	1,764.2	747.0	2,511.2	2,264.1	1,977.5	286.6	17,370.0	19,387.46	FY99	3.07%	12.13%
FY00	1,321.0	295.2	1,616.2	806.0	2,422.2	2,202.1	1,906.9	295.2	18,633.0	20,678.26	FY00	3.37%	10.97%
FY01	1,187.9	304.1	1,491.9	869.0	2,360.9	2,147.7	1,843.6	304.1	19,956.0	21,995.06	FY01	3.53%	9.92%
FY02	1,070.5	313.2	1,383.7	935.0	2,318.7	2,094.4	1,781.2	313.2	21,345.0	23,359.14	FY02	3.58%	8.97%
FY03	975.9	322.6	1,298.5	1,006.0	2,304.5	2,039.4	1,716.8	322.6	22,806.0	24,789.89	FY03	3.50%	8.11%
FY04	873.3	332.3	1,205.5	1,066.0	2,271.5	1,983.2	1,650.9	332.3	24,342.0	26,296.18	FY04	3.46%	7.34%
FY05	767.4	342.2	1,109.7	1,129.0	2,238.7	1,927.6	1,585.4	342.2	25,955.0	27,879.13	FY05	3.42%	6.63%
FY06	660.7	352.5	1,013.2	1,194.0	2,207.2	1,873.8	1,521.3	352.5	27,651.0	29,543.57	FY06	3.39%	6.00%
FY07	572.7	363.1	935.8	1,261.0	2,196.8	1,976.5	1,613.4	363.1	29,438.0	31,154.35	FY07	3.87%	6.00%
FY08	504.0	374.0	877.9	1,330.0	2,207.9	2,083.1	1,709.2	374.0	31,322.0	32,724.90	FY08	4.23%	6.00%
FY09	452.6	385.2	837.8	1,402.0	2,239.8	2,191.4	1,806.2	385.2	32,977.0	34,269.18	FY09	4.50%	6.00%
FY10	410.4	396.7	807.1	1,477.0	2,284.1	2,298.9	1,902.2	396.7	34,702.0	35,796.14	FY10	4.71%	6.00%

Traditional assumes low-case Fall '93 DoR Revenue Forecast and Permanent Fund Corporation December 31, 1993 Forecast, low-case

Cremo assumes same DoR Revenue Forecasts, PFC earnings assumptions,

10 year transition, and PFC assumptions on Earnings Reserve balance

Traditional vs. Cremo Budgeting

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10	Column 11	Column 12
Non-dedicated Petroleum & Interest Revenues	Non-petroleum Revenues	Net GF Unrestricted Revenues (Columns 1 + 2)	PFC Dividend	Traditional Budget (Columns 3 + 4)	Cremo Budget (Columns 7 + 8)	Cremo Withdrawal	Non-petroleum Revenues	Traditional PF Balance	Cremo PF Balance	Net Withdrawal (Cols. 7 - 1/Avg. Bal)	Withdrawal Percentage (Geometric)
			589.0					13,777.0	14,998.00	FY95	
FY95			619.0	2,435.1	2,434.2	2,171.9	262.3	14,489.0	15,873.70	FY96	4.67%
FY96	1,553.8	262.3	1,816.1	2,508.8	2,389.8	2,119.7	270.2	15,304.0	16,894.73	FY97	3.76%
FY97	1,582.6	270.2	1,852.8	2,556.5	2,329.9	2,051.6	278.3	16,161.0	18,101.73	FY98	2.98%
FY98	1,595.2	278.3	1,873.5	2,511.2	2,264.1	1,977.5	286.6	17,370.0	19,387.46	FY99	3.07%
FY99	1,477.6	286.6	1,764.2	2,422.2	2,202.1	1,906.9	295.2	18,633.0	20,678.26	FY00	3.37%
FY00	1,321.0	295.2	1,616.2	2,360.9	2,147.7	1,843.6	304.1	19,956.0	21,995.06	FY01	3.53%
FY01	1,187.9	304.1	1,491.9	2,318.7	2,094.4	1,781.2	313.2	21,345.0	23,359.14	FY02	3.58%
FY02	1,070.5	313.2	1,383.7	2,304.5	2,039.4	1,716.8	322.6	22,806.0	24,789.89	FY03	3.50%
FY03	975.9	322.6	1,298.5	2,271.5	1,983.2	1,650.9	332.3	24,342.0	26,296.18	FY04	3.46%
FY04	873.3	332.3	1,205.5	2,238.7	1,927.6	1,585.4	342.2	25,955.0	27,879.13	FY05	3.42%
FY05	767.4	342.2	1,109.7	2,207.2	1,873.8	1,521.3	352.5	27,651.0	29,543.57	FY06	3.39%
FY06	660.7	352.5	1,013.2	2,196.8	1,976.5	1,613.4	363.1	29,438.0	31,154.35	FY07	3.87%
FY07	572.7	363.1	935.8	2,207.9	2,083.1	1,709.2	374.0	31,322.0	32,724.90	FY08	4.23%
FY08	504.0	374.0	877.9	2,191.4	2,083.1	1,806.2	385.2	32,977.0	34,269.18	FY09	4.50%
FY09	452.6	385.2	837.8	2,284.1	2,298.9	1,902.2	396.7	34,702.0	35,796.14	FY10	4.71%
FY10	410.4	396.7	807.1								

Traditional assumes low-case Fall '93 DoR Revenue Forecast and Permanent Fund Corporation December 31, 1993 Forecast, low-case

Cremo assumes same DoR Revenue Forecasts, PFC earnings assumptions,

10 year transition, and PFC assumptions on Earnings Reserve balance

FORUM

Alaska still has a shot at long-term prosperity

Of my years as governor, both my greatest regret and gratification relate to creation of the permanent fund.

Gratitude, that Alaskans elected to constitutionally mandate the fund. Regret, that we fell short of creating as large a fund as we should have.

Even my original "Alaska, Inc." proposal (which would have created a constitutionally mandated, dividend-dispersing fund into which would go 50 percent of all lease, bonus, royalty and severance tax dollars) would have failed to meet my often-stated objective of transforming oil wells into "money wells" pumping in perpetuity.

To fully meet that objective, we should have done precisely what Anchorage attorney Roger Cremo has been crusading for since 1970 when the state got its first oil bonanza of \$900,000,000. At that time, Roger and some of then-Gov. Miller's Cabinet urged the governor to put all that \$900 million into an investment account. Recognizing the legislature would never forego the opportunity to spend much, if



JAY
HAMMOND

not all, of that initial bonanza, Gov. Miller agreed to try to put half into such a fund. Regrettably, only a handful of us then in the legislature supported his efforts. Instead, the \$900 million was quickly exhausted.

Belatedly recognizing the wisdom of putting all the oil money into a fund, most legislators swore that should we again receive a bonanza, we'd not use it for instant gratification. Yet when the oil pipeline gushed more billions into our laps, once more prudence was sluiced aside and I could find few who would even support the

Alaska Inc. concept, though it was but half as restrictive (and prudent) as what had been proposed to Gov. Miller in 1970.

Instead of a constitutionally mandated, dividend dispersing Alaska Inc. type fund, the legislature chose to create a "semi-permanent" fund by simple statute. Into this fund was to go, not 50 percent of all lease, bonus, royalty and severance taxes, but only 25 percent. Severance taxes were excluded and no mention was made of a dividend.

Convinced a statutorily created fund would be invaded the first time the legislature wanted some money, I vetoed the measure and demanded the public be allowed to vote on whether the fund should be placed in our constitution.

Having worked, unsuccessfully, since the mid '60s (when I was manager of Bristol Bay Borough) to sell the Alaska Inc. concept, it was very painful to have to veto the first piece of legislation which even came close to that idea.

Later, after the public voted the fund into our con-

stitution, I again proposed a dividend program. Legislative reluctance to even bring the dividend bill out of committee was finally overcome by assurances that should they fail to at least bring the bill up for a vote, they'd be called back into special session the day after adjournment and all who attempted to bury the bill in committee should expect to see their "goodies" excised from the budget.

When some offended legislators charged me with issuing unseemly threats which bordered on "blackmail," I happily acknowledged that was precisely what I was doing, though I preferred the term "graymail."

After all, I assured them, no one would be punished for voting against the dividend bill, only for failing to bring it to the floor for a vote. Apparently, suspicion that I'd not keep that promise persuaded them to not only disgorge the bill from committee, but pass it almost unanimously. Any resentment I might have had relating to their apparent lack of confidence in my integrity cooled in the

breeze created by those subsequently rushing to come aboard as alleged "prime sponsors" of the dividend program.

But all that is history and what satisfaction as may be derived from creation of the permanent fund pales by contrast to what we could have had were we to have put all natural resource revenues into a fund from the beginning.

Only about 11 percent of our oil wealth (and none from fish, timber, or minerals) flows into our \$12 billion permanent fund. Had we placed all of our resource wealth into such a fund since 1970; earned income on par with the existing permanent fund; retained fund earnings and withdrawn but 7 percent of the fund's value each year, that fund would now contain over \$62 billion, according to Mr. Cremo's projections.

It would be pumping over \$4 billion annually into state coffers — more than enough to fund current government state spending and pay a dividend. Most importantly, it would be producing a steadily increasing and

reasonably predictable revenue stream, thereby avoiding anticipated, traumatic revenue shortfalls and increased taxes.

At the governor's recent economic summit, Mr. Cremo gave a most convincing account of how we could still do what we should have done years ago. At least he convinced me and many of the too few who got to hear him.

I urge the governor to diligently explore his proposal. If he is as persuaded as I that such a plan may be our best hope for the future economic health and stability of Alaska, I hope he will, in turn, persuade the legislature to at least bring it up for a vote — even if a little "graymail" is required to do so.

Should he succeed, I predict that some years hence, rather than being condemned for failure to set us on course, the governor may well be canonized.

() Jay Hammond was governor of Alaska from 1974-1982.

FORUM / LETTERS

We can indeed stabilize Alaska economy, starting in '94

By ROGER CREMO

We Alaskans can count many blessings, but the most important one is that our state government's revenues are enormous. In the last dozen years they have amounted to more than \$40 billion, plus billions in federal grants. They fund state services and public works, and they subsidize local government. They make an income tax unnecessary and provide us with half a billion dollars in cash every Christmas. Yet the situation is intolerable.

There is an economic problem that overshadows all else. The economy is unstable. It can thrive for several years, but inevitably it fails, with disastrous consequences. People leave in droves, thousands who remain are without jobs, property values plunge, and homes and businesses are lost to foreclosure and bankruptcy. Even the banks go broke.

The reason for this condition of boom or bust is that the state's revenues fluctuate. When they're high, as they were from 1980 to 1985, public spending creates a demand for goods and services that makes the economy expand. When the revenues decline, the state has to cut its spending, as it did in 1986 and probably will have to do again soon. Then the economy contracts.

The revenues fluctuate because they come mainly from the sale and taxation of natural resources. They rise and fall with production and world price.

We need sustained state spending. But the revenues are unre-



dictable, at least in the long term, so we don't even know what amount of spending is sustainable. If we are ever to achieve stability, however, we must determine that amount. And it has to be the highest amount that is sustainable, because the economy depends heavily on state spending. After all, wealth in Alaska is in the natural resources and the state owns them.

In order to determine how much of the natural resource revenues can safely be spent each year and to prevent the legislature from spending more than that, the state's financial system must be redesigned. But not by the legislature. Only the people have the power to change the system, and that's done by amendment to the constitution. If it were otherwise, the legislature could define its own authority.

A proposed new system attacks the problem by putting all natural resource revenues where they can't be appropriated — in the Alaska Permanent Fund. There they would be invested and the income reinvested.

But the legislature must have money for the operation of the state government and for purposes that it deems appropriate, such as aid to cities and "dividends." So money in some amount would have to be transferred from the perma-

nent fund to the general fund. The amount, of course, should be the highest sustainable amount.

The unpredictability of natural resource revenues makes it impossible to determine a sustainable level of spending. The shift to investment securities makes it possible.

A couple of assumptions must be made. One has to do with the return on investment of the permanent fund, and the other, the rate of inflation. An average rate of total return of 10 percent a year, which is lower than the corporation has achieved thus far, should be attainable with good management. And an average inflation rate of 4 percent a year, which is higher than the historical average, can be used.

With the fund increasing 10 percent in value annually from investment and decreasing 4 percent from inflation, it follows that an amount equal to 6 percent of its value could be withdrawn from the fund every year. The only other factor affecting the size of the fund would be the deposit of natural resource revenues. Regardless of how much it varied from year to year, that deposit would cause the withdrawal amount to increase continually.

The proposed system does work. Had it been adopted in 1970, the year after the state leased the North Slope for \$900 million in bonuses, state spending would have continued to rise when the oil price dropped to \$10 a barrel in 1986. The support that state spend-

Had the proposed system been adopted in 1970, state spending would have continued to rise when the oil price dropped to \$10 a barrel in 1986. The support that state spending provides for the economy would have continued, averting the economic disaster we experienced. And today we would be enjoying substantial increases in state spending rather than the anticipated decline.

ing provides for the economy forecast, natural resource revenues would have continued, averting the economic disaster we experienced. And today we would be enjoying substantial increases in state spending rather than the anticipated decline. are somewhat predictable for the short term.

Since we have chosen not to have a constitutional convention for at least a decade, the only available method for restricting the authority of the legislature is to ask the legislature's permission. If granted (in the form of a resolution passed by a two-thirds majority of the house and the senate), the people would vote on the proposed constitutional amendment. All of that could happen in 1994.

Conversion to the new system requires that at the outset the permanent fund be built up by adding available reserves. Then, during a transitional period of 10 years, the withdrawal percentage factor must be higher than the permanent factor of 6 percent. For that reason substantial oil revenues are needed during the transitional period, but not more than what has been forecasted by the Department of Revenue. Although, ironically, we must rely on that

Roger Cremo is an Anchorage lawyer.

Cremo plan can save the dividend fund

A strange thing happened as I was filling out my permanent fund dividend application. An old Rolling Stones tune came on the radio, the one that goes, "This could be the last time. This could be the last time. May be the last time, I don't know ... Oh, no ... OH NO!"

This eerie occurrence prompted a reflection on the future of the dividend. Will it soon be under attack? How long can it last?

In fact, it is under assault as you read these words. Gov. Hickel's suggestion, in his state of the budget speech, that dividends be capped is but the opening salvo in the siege. The future of PFDs is bleak, unless something is done — quickly. More on that later.

There are a lot of powerful people who don't like the dividend program for a variety of reasons.

Calvinist conservatives think it's morally wrong for the government to distribute money to people who have done nothing to earn it. Better to spend the money on roads, bridges, dams, ports and airfields, in the hope of attracting private investment to projects that would not otherwise be feasible.

Some liberals object to the fact that it's not needs based. The needy get dividends, and that's OK. But well off Alaskans also get checks they could easily do without, and that's not fair.

The socialist left doesn't even want the poor to get a dividend. It's so often spent inappropriately. It would be far better for the government to keep the money, and distribute benefits instead of cash.



FRITZ PETTYJOHN

Our congressional delegation — Ted Stevens in particular — has complained that the dividend program makes it more difficult for them to obtain special goodies for Alaska. Sen. Stevens delights in bringing home not just slabs of bacon, but entire pork bellies — occasionally even the whole hog! He resents anything that interferes with his handiwork.

Certain state legislators, especially grizzled veterans who have brought home millions of dollars of pork over the years, have never liked the dividend program. They can't take personal credit for the dividends their constituents receive. And getting such credit is the only reason some of them are tolerated by their voters.

Other legislators know they're incapable of serious spending cuts. They also know they can't tax their way out of the mess they're in, and that tapping reserve accounts is only a stopgap. They need money, and they'll go after the dividend after a simple process of eliminating the alternatives.

Over the past dozen years they've received \$4.5 billion that would have otherwise been gone with the wind. They'll almost surely prevail again — this year. But soon — very soon — the pressure on the dividend will be overwhelming.

The people have prevailed, and kept their dividend, despite all this opposition in the past. Over the past dozen years they've received \$4.5 billion that would have otherwise been gone with the wind. They'll almost surely prevail again — this year. But soon — very soon — the pressure on the dividend will be overwhelming.

Under the current system, the legislature simply can't cut spending and raise taxes enough to cover the ever widening fiscal gap. PFDs will have to go.

Unless.

Unless the current system is changed. If the constitutional amendment devised by Anchorage attorney Roger Cremo is adopted, there's a chance the people can save their dividend.

The annual revenue stream created by this amendment (along with tax hikes or spending cuts totaling \$60 per year, per capita) is enough to finance a stable operating budget, a small capital budget, and a dividend program at the current level.

Under this proposal there's no guarantee the legislature would fully fund dividends.

There's no such guarantee today. A future legislature could, just as the current legislature could, abolish PFDs and increase state spending by \$500 million.

But under the Cremo plan, they wouldn't be forced to do it. They'd have a way to keep the dividends, if they wanted to.

Voters could extract blood oaths from legislative candidates not only to keep the permanent fund dividend program intact, but to take its financing up as their first order of business.

Each session, early funding of PFDs — long before squabbles over the relative size of operating and capital budgets, and before fights over the mix of spending cuts and tax increases — would be the legislators' chance to honor their commitment to the people.

Dividends can be saved, and with them the permanent fund itself. The proprietary interests Alaskans have in the fund is fueled by dividends. Take them away and the fund won't be far behind.

□ Fritz Pettyjohn is a lawyer from Anchorage who has served in both houses of the Alaska Legislature.

1/2/94

FORUM / LETTERS

Legislators have dim hope of overcoming Fiscalgap

Sometimes, before things can get any better, they first have to get a lot worse.

How poorly must Alaska's political system perform before fundamental change is possible? Very possibly, the answer to that question may come in the 1994 legislative session.

The problem facing state government is quite simple, really. This year, and in future years, there's a fiscal gap of about \$1 billion. In other words, the state of Alaska is now spending about \$1 billion more per year than it's taking in.

As they prepare to grapple with this dilemma, our solons operate under some severe handicaps. A partial list includes:

1. A governor who seems to believe all that's required is the power of positive thinking. According to Walter Hickel, Alaskans must, above all, "think rich." I am not making this up.

To those who don't share



**FRITZ
PETTYJOHN**

the governor's galactic vision, a big part of the answer to Fiscalgap is cutting spending. Meaningful cuts can't really be accomplished by the legislature alone, however. It's the nature of the beast. When the legislature is faced with an administration hostile to significant reductions in the cost of operating state government, it's virtually impossible for it to make the cuts.

Even if the governor did decide to exercise the leadership Alaska's constitution vests in him, he'd have a tough task. Neither a Republican nor a Democrat, Hickel has no built-in base of support in the legislature. In the past, he's pursued a curious policy of cultivating his enemies and taking his friends for granted. This record will work against him. And, with his re-election something of a long shot, he has some of the problems of a lame duck leader.

2. Fear and loathing between House and Senate. House Speaker Ramona Barnes and Senate President Rick Halford have trouble being in the same room together, much less communicating. Under normal circumstances this would be a problem. This year it could be a calamity. Faced with an indifferent and rudderless administration, close cooperation between House and

Senate will be required. Good luck.

3. A Senate majority with problems. The Jacko problem. An 11-member organization — no votes to spare, every member with a veto. A united, bitter fractious minority. Senators who are mightily embarrassed by last year's spending spree, and determined to somehow rehabilitate their reputation as fiscal conservatives. Jockeying in preparation for the fight for leadership posts in the next organization.

4. A House majority with incipient problems. With two-thirds of them freshmen, last year's majority pretty much did what Speaker Barnes told them to do. As these new lawmakers look ahead to their first campaign for re-election, they'll be much less likely to march in lock step.

5. The sanctity of the permanent fund. It's extraordinarily difficult to imagine a way out of Fiscalgap that

doesn't involve using the money in the permanent fund's earnings reserve account. In the past, this has been taboo — big time. By spending what the people perceive as permanent fund money, legislators will expose themselves to the wrath of the voters. This issue alone could cost them a whole lot of elections. And they know it.

6. A whole bunch of legislators promised the voters they'd never support new or higher taxes unless major reductions in the operating budget were made first. With such reductions highly unlikely, raising taxes to deal with the Fiscalgap will prove extremely difficult.

In light of all of the above, 1994 promises to be the session from hell. As it winds down, legislators will know their constituents will be saying of them, "What's wrong with those people?"

But because things will likely be so bad, there is a

chance for change. The constitutional amendment proposed by Anchorage attorney Roger Cremo is by far the most comprehensive, practical and politically feasible way to handle Fiscalgap. Legislators may come to believe the voters will forgive them their sins if they pass it. It's the last best hope for the '94 session.

There is a fly in the ointment, however. If one legislator, or group of legislators, seeks to take personal credit for the Cremo amendment, the effort could be doomed by political jealousy. Here's hoping the legislators who believe in this solution are able to resist the temptation to use it for self-aggrandizement.

□ Fritz Pettyjohn, an Anchorage lawyer, served in both the state Senate and the state House of Representatives.

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Herewith a way to slay the fiscal dragon

11/21/53

According to UAA's Scott "Jeremiah" Goldsmith's letter to the editor, Roger Cremo is a charlatan — a Rumpelstiltskin claiming to weave gold from straw.

For years Professor Goldsmith has paced the halls of his ivory tower, wearing a hair shirt, forehead smeared with ash, direly warning all that judgment day was nigh, that Alaskans must renounce their profligate ways. "Repent!" he's cried, "Or dread Fiscalgap will devour us all!"

Alas, few have paid heed to his prophecy, and the fearsome dragon does, in fact, now stalk the land.

While most politicians ignored the Professor of the Fevered Brow, Anchorage attorney Cremo committed a far more grievous sin. Working independently, far from the sacred halls of Academe, he's devised a way to slay beast Fiscalgap.

Here's how, in a nutshell. From now on, have all the state's resource revenues deposited into the permanent fund. Additionally, put all the money in all reserve accounts in the fund.

In year one of the plan, withdraw 20 percent of the fund. To this \$2.8 billion add the \$300 million from conventional state revenues, and the legislature has enough for running state government at current levels, a small capital budget, and dividends. Over 10



**FRITZ
PETTYJOHN**

years, gradually reduce the annual withdrawal out of the permanent fund from 20 percent to 6 percent. At the same time, increase revenues from conventional sources by 12 percent a year (\$36 million in year one).

Over the 10-year phase-in period, the funds available to the legislature decline from \$3.1 billion to \$2.9 billion. This assumes each year, for a decade, they cut state spending by \$20 million, in nominal terms. At the same time, they'd have to eat the inflation factor, estimated at 4 percent a year. Any given legislature would always be free, of course, to cut spending more or less, increase revenues from conventional sources more or less, or some combination thereof. During the same 10-year period, the value of the permanent fund grows to \$35 billion.

Aside from taming Fiscal-

gap, this plan has a number of attractive features. It captures all future windfalls, and thus dampens Alaska's tendency to boom-and-bust economic cycles. Long-term planning becomes feasible. Budgeting would be based on hard numbers, as opposed to the whimsical guess work of today. Massive, sudden cuts in government services are avoided.

Contrary to the howls of Goldsmith, this is not magic. It is a practical and realistic way to handle Fiscalgap, while also making the permanent fund truly permanent.

Goldsmith proposes, instead, that a succession of governors and legislatures voluntarily cooperate to gradually reduce spending and increase revenues. Based on past performance, this expectation is self-delusion.

Mr. Cremo has been trying to interest Alaska politicians in his constitutional amendment for a number of years, without much success. Next year may be different. Fiscalgap finally has them cornered.

In the past, when threatened by this dragon, our legislators have behaved like certain native peoples of remote New Guinea. Instead of an airplane, they erected a crude replica of an oil derrick. To the sound of sacred drums they ran round and round this totem, chant-

ing "O-pec! O-pec!" Remarkably, this technique has occasionally proved effective, coinciding with spikes in world oil prices. But while you can run, you can't hide, from Fiscalgap.

When the 18th Alaska Legislature approaches adjournment next May, the carnage may resemble the final scene of a Shakespearean tragedy. Solons will know the public's reaction to this spectacle of political bloodletting, and will be looking for a way to make amends. After all, most of them will be campaigning for re-election next summer.

What better way to expiate their offenses than by allowing the people to vote on a constitutional amendment that saves the permanent fund and puts Alaska on the road to fiscal probity? It would be a bipartisan act of statesmanship that occurs no more than once in a generation. And it might get a lot of them re-elected. Gov. Hickel is reportedly opposed to this idea (it's not "thinking rich"), but governors have no formal role to play in the passage of constitutional amendments.

You may say I'm a dreamer. But I'm not the only one.

□ Fritz Pettyjohn, an Anchorage lawyer, served in both the state Senate and the state House of Representatives.

11/7/93 ADN

Roger Cremo

Change fund, slay 700-pound deficit gorilla

For years the gorilla sat quietly in the corner, his big brown eyes calmly surveying the frolic of Alaska politicians raging on about him. He made no move. He knew his day would come.

The few who've tried to pull him into attention were derided as party poopers. We'll ignore him, and maybe he'll just go away!" the pipsy revelers assured one another.

But he hasn't gone away. Lurching ceaselessly on bananas (which in this conceit represent the fall of oil production on the North Slope) he's gotten bigger and bigger. Now, at 700 pounds, this huge, hairy beast can be ignored no more. Sadly, the party's just about over.

Each pound of the great ape represents a million dollars of state spending in excess of revenue. The governor's preparing the next operating budget at the current level, or about \$2.4 billion. An additional \$100 million is needed for a minimal capital budget and a supplemental budget. State revenue is projected at around \$1.8 billion. The difference, or deficit, of \$700 million is the gorilla that before long will put an end to the festivities.

Unless, of course, Dame Fortune intervenes. There could be a \$700 million windfall in the form of tax and royalty settlements with the oil companies. Or civil war in Russia could push oil prices up to \$25 a barrel. Such things have happened before, and could happen again. But we'd be fools to bet on it.

Don't count on big cuts in the operating budget, either.



**FRITZ
PETTYJOHN**

And don't expect an income tax. Both require 21 votes in the House and 11 in the Senate. The votes aren't there.

What we can expect is a huge draw on reserve accounts — including the permanent fund's reserves. There's enough in them to get through one more year — but only one — of spending as usual.

So it is that the governor, and legislature, elected a year from now will be faced with a fiscal dilemma of enormous proportions. The gorilla could be swollen to 900 pounds by then, given further declines in North Slope production.

With no reserves to fall back on, where will they come up with \$900 million? A state income tax would only bring in \$350 million or so. Where can they get the rest?

Answer: the permanent fund.

The fund earns close to a billion dollars a year. Under current law, about half those earnings are plowed back into the fund, as inflation-proofing. The other half goes

If the 1995 Alaska Legislature stops inflation-proofing the (permanent) fund and spends the money instead, it could continue the dividend program and also avoid big spending cuts.

out as dividends. If the 1995 Alaska Legislature stops inflation-proofing the fund and spends the money instead, it could continue the dividend program and also avoid big spending cuts.

The permanent fund would still continue to grow, in nominal terms. As long as oil is being produced, the constitutional amendment that created the fund will require mandatory contributions to it. But in real, inflation-adjusted dollars, the value of the fund will soon begin to fall. The North Slope bonanza that created the fund also caused huge state spending — spending that could eventually devour it.

A few years after 1995 the legislature will need even more permanent-fund money, so they'll put a cap on the amount of the dividend. And a few years after that they'll eliminate it.

This scenario could be avoided by adopting a version of a constitutional amendment devised by Anchorage attorney Roger Cremo. Under his plan, all re-

source revenues and reserve accounts are deposited into the permanent fund. Then, in the first year, a big chunk — as much as 20 percent — of the fund would be withdrawn and available for dividends and the state budget. Throughout the decade, and forevermore, all resource revenues would continue to be deposited into the permanent fund.

Busts, and booms, in state spending would be eliminated. Each legislature would know how much would be available to spend. And the permanent fund would be secure — and permanent.

There's only one way our legislature will allow the people to vote on such an amendment next year — as an act of atonement for their inability to come to terms with the financial realities facing the state of Alaska.

Don't hold your breath.

Fritz Pettyjohn, an Anchorage lawyer, served in the state Senate and state House of Representatives.

Peninsula
Clarion
Jan 12, '94

Time to give new budget plan a try

Alaskans who think talk of the state budget crisis is just another "wolf" cry may soon be in for a rude awakening.

Kenai Peninsula Borough Schools Superintendent Robert Holmes perfectly summarized the situation now facing not only the school district, but the borough and municipalities when he said: "We just flat out have fewer dollars to deal with."

What that means, on the borough level, is a hike in property taxes is possible. For peninsula schools, it likely means not filling some new teaching positions, as well as cutting funds for equipment, textbooks, library aides, food service and field trips. Soldotna is discussing a sales tax hike from 3 to 3.5 percent to make up a predicted budget shortfall.

For everyone, fewer state dollars means changes are inevitable.

The state's current budget situation points out how the system is flawed. How can you have a stable state economy when the price of oil, the primary factor in figuring the budget, fluctuates as much as it does? The answer is you can't.

A new way of figuring the budget, however, could eliminate the roller coaster budget rides the state now experiences. When there's lots of money around, the state tends to spend as much as is possible. When there's not, everyone scrambles to cut what can be cut and make ends meet. At best, it's not an efficient way to finance the state's business.

Under a plan getting lawmakers' attention all the state's resource revenues would go into the Permanent Fund and the Legislature would receive a set percentage of the fund's annual earnings to pay for the cost of operating government.

Proponents say the proposal — known as the "Cremo Plan," after the Anchorage attorney who devised it — would give legislators a more reliable and predictable amount of money to spend.

It's a sound idea; one that deserves more than discussion. The current system of financing state government isn't working, and the Legislature desperately needs to try something else.

Otherwise, Alaskans can expect more of the same, spend-spend-spend in the fat years and cut-cut-cut in the lean. And, if the experts' crystal ball is correct, there are a lot more lean years ahead as oil production declines.

If the Cremo Plan can stop the roller coaster budgets of the past and present, it's time to hop on for the ride.

App Clintor

By TERENCE HUNT
AP White House Cor

WASHINGTON
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The jury's still
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Resolution seeks change in state spending

by Hal Spence
Staff Writer

A proposal for an amendment to the Alaska Constitution that would completely overhaul the way the state spends money is gaining support among municipal governments on the Kenai Peninsula.

Its chief proponent, Anchorage attorney Roger Cremo, was in Homer on Monday to pitch the idea to the Homer City Council, which later voted to support a resolution asking the Alaska Legislature to put the amendment on the ballot. Last week, the Kenai Peninsula Borough and the city of Kenai each adopted similar resolutions.

The proposal is as simple as it is far-reaching, Cremo said. Based on the premise that the state's economy will continue to depend on revenue generated by the exploitation of natural resources and that that revenue stream tends to fluctuate, Cremo proposes to place all resource revenue into the Alaska Permanent Fund, rather than into the state's General Fund as is done currently.

A fixed percentage of the Permanent Fund would be withdrawn each year to cover state spending needs. Cremo said such a system would provide continually increasing revenue levels and an economy which would not fluctuate.

"The problem is our economy is utterly unstable and it always has been," Cremo said.

The existing state spending system, he said, leads to a boom and bust economy — a high demand for services when revenues are plentiful, followed by crunch-time when the money flow slows down. To achieve a stable

economy, the state must find a way to spend at sustainable levels. That can be done, Cremo said, by not spending resource revenues directly, but rather by first converting them into revenues that don't fluctuate.

Putting all resource revenue into a giant Permanent Fund bank account which is then invested — as the Permanent Fund is now — would create a stable state spending source.

"Logically, the first thing to do is to take the money away from the Legislature" and "put them on an allowance," he said.

The amount Cremo proposes be withdrawn from the fund each year would be tied to the average rate of return on investments over the previous three years, adjusted for the current rate of inflation. He suggested that percentage could be around 6 percent per year after a 10-year transition period that would initially require a much higher withdrawal level, and a good measure of belt-tightening by the Legislature.

Assuming voters pass the amendment, the 1996 Legislature would need 20 percent of the Permanent Fund to pay for government services. That percentage would decrease each year until 2005 when it would bottom out at 6 percent.

During the transition, state spending would fall slowly from an initial high of around \$3.1 billion in 1996 to a low of \$1.9 billion in 2006. Thereafter, the actual dollar amount the 6 percent would represent would rise by about \$200 million per year as the Permanent Fund itself grew.

Cremo said meeting the 2005 deadline would require state lawmakers to cut state

spending to meet the coming fiscal gap, something they face even under the present system.

There is likely to be a lot of resistance to such a radical change, Cremo said. For one thing, state lawmakers have been reluctant in the past to put amendments on the ballot. Another fear is that the new system would eliminate the popular annual dividends the Permanent Fund now provides Alaska residents.

Cremo said the new system would continue to set aside \$500 million a year for dividends, roughly what covered the dividend payments this year.

The proposed amendment to Article XV of the constitution would set aside revenues from the sale of natural resources and from taxes on resources produced or on reserve, on property used in exploration, production or transportation of resources, and on income from production or transportation of resources. These moneys would constitute the Alaska Permanent Fund and would be invested for long-term capital appreciation, he said.

The amendment also would require that the assets of the Budget Reserve Fund, itself created by a constitutional amendment in 1990, and the Permanent Fund Earnings Reserve Account be added to the Permanent Fund.

A public corporation would be created to manage the fund. It would be governed by a seven-member board of directors comprised of Alaska residents appointed by the governor with the consent of the Legislature. Four would serve for six years, three for four years.

Resolution gets council nod

Homer City Council members voted unanimously Monday night to ask the state Legislature to let voters decide the fate of the "Cremo Amendment," even though some said they're skeptical it would work and others said they'd personally vote against it.

Roger Cremo, the Anchorage banking attorney who has written the amendment, presented it to the council Monday night. It would place all revenue generated from resource exploitation into the Permanent Fund, rather than into the state's General Fund, and use a percentage of the interest income to pay for state government. The idea is to create a stable source and rate of funding.

Councilman Mike McHone said he'd like to put the idea to the voters and get people thinking about other creative solutions to the state's money dilemmas. "I like the sound of it. It's a good shaker-upper," he said.

Councilman Dennis Leach said while he hasn't decided whether or not he's personally for it, he thinks it would spell the end to the Permanent Fund dividend program. Cremo said it wouldn't affect the program.

Jack Cushing, another councilman, predicted that the premise of touching the state's much-loved Permanent Fund would turn people against the Cremo amendment. He said the 90 percent of state natural resource revenues that aren't going into the present Permanent Fund now should go into a second "permanent fund" for state operating costs.

Budget postponed

Anchorage Daily News
Letters to the Editor
July 29, 1993

Proposal may be a winner -

In a recent Compass piece attorney Roger Cremo advanced an imaginative proposal to revamp Alaska's economic system. It is hoped his plan will be reprinted in other state newspapers and given publicity on local TV and radio talk shows as well. Perhaps the Daily News will consider reprinting the essay on the editorial page. Thorough statewide examination and discussion is needed before the legislature reconvenes. Mr. Cremo may have a winner!

— *Mary E. Schenker*

■ **MORE LETTERS** Readers write. B-8

ADN 12/18/93
Roger Cremo is the answer

It's a sad state of affairs when our legislature can't read the laws it writes and unconstitutionally spends \$924 million. But it adds insult to injury for Sen. (Rick) Halford, et al. to spend additional money filing a frivolous lawsuit with no intent to stop the spending. Any first-year law student knows what an injunction is and how to use it. It would be very appropriate and perfectly within the jurisdiction of the court to issue an injunction ordering the state not to spend this money until the constitutional budget reserve was made whole. Yet no injunction was sought. Why?

Being of sinister mind, I believe there's a concerted effort afoot to spend all reserves so the governor can get his way and cap the dividend at \$750 and then tax us on it.

The upcoming legislative session could prove to be the most devastating in our history if we let it. These same people are going back into seclusion in Juneau with a lame-duck attitude because of their \$924 million faux pas last session, and we could see a repeat of this budget or worse, the price of oil notwithstanding.

It's time to impose fiscal responsibility upon government. Roger Cremo's Money Reservoir Plan takes the guesswork out of budgeting and stabilizes the entire process. We need a resolution passed to put this on the 1994 ballot.

Invest the time to call or write our legislators or spend time filling out another tax form every year. The choice is ours.

— *Meivin L. Schaub*
Sterling

Anchorage Daily News
Letters to the Editor
December 29, 1993

— JOHN TINSOP

Cremo plan forces tax issue

Matthew Scully says that the revenue system Roger Cremo proposes is lacking something — that it doesn't give people an incentive to keep the bureaucrats from spending too much.

Although he deserves credit for being concerned about spending, Mr. Scully should learn more about the proposed system. Actually, it does what he wants it to do and more. It takes the existing reserves, and all of the oil revenues from now on, completely out of the control of the legislature. The money goes into the permanent fund. And the income that the fund generates from investments remains in the fund.

Of course, money has to be taken out of the fund each year to run the government, pay dividends, etc., but the amount is limited to a fixed percentage of the fund's value. And we — not the legislature — establish the percentage. About the only other money that the legislature could spend is what it can get by taxing us — exactly the problem that Mr. Scully wants the legislature to be faced with.

Since the 1970s the legislature has been spending at an unsustainable level. The new system will bring spending down to a sustainable level.

— Leslie MacLellan