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**COMMONWEALTH NORTH**

**Permanent Fund Earnings —  
Phase II  
A Cornerstone for  
Fiscal Certainty**

*A Commonwealth North Study*

May 1999

Max Hodel  
Joe Griffith  
Study Group Co-Chairs

# COMMONWEALTH NORTH

## Permanent Fund Earnings—Phase II A Cornerstone for Fiscal Certainty

### 1999 PERMANENT FUND STUDY GROUP

#### CO-CHAIRS

**MAX HODEL**, founding member of Commonwealth North

**JOE GRIFFITH**, executive manager, Chugach Electric Association

#### MEMBERS

Larry Baker, president/owner, Burger King franchise

Peter Brown, vice president, Key Trust Co. of Alaska

Patrick Burden, economist, Northern Economics

Milton Byrd, president and founder, Charter College

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Steve Lindbeck, executive director, Alaska Humanities Forum

Robert McManus, vice president, ARCO Alaska

Dennis McMillian, executive director, United Way of Anchorage

Tom Williams, Alaska tax counsel, BP Exploration (Alaska), Inc.

Thomas Wilson II, director of administration, Hughes Thorsness Powell Huddleston & Bauman

George Wuerch, Assembly chair, Municipality of Anchorage

Duane Heyman, executive director, Commonwealth North

#### PARTICIPANTS

The following persons appeared in front of the study group and provided information on which this report is based:

**Former Governor Jay Hammond**

**Former Governor Walter J. Hickel**

**Commissioner of Revenue  
Wilson Condon**

**Senator Rick Halford**

**Roy Huhndorf**

**Eric Wohlforth**

**Julie Kitka**

**Steve Rieger**

**Clem Tillion**

**Nancy Bear Usera**

**Dr. Scott Goldsmith**

# COMMONWEALTH NORTH

## Permanent Fund Earnings—Phase II A Cornerstone for Fiscal Certainty

### TABLE OF CONTENTS

	<u>PAGE</u>
Study group co-chairs, members, and participants.....	1
Table of contents.....	2
Summary of proposals and recommendations.....	3
Introduction.....	5
The study group's purpose.....	7
The study group's process.....	7
Background.....	8
Need for immediate action.....	8
Total fiscal package.....	9
Public uses of the Permanent Fund.....	10
Preservation of principal.....	10
Permanent Fund dividend.....	11
Community Dividend Program.....	12
Statewide capital needs.....	12
General government operating needs.....	12
Support bonding capacity.....	13
Rainy day account.....	13
Appendix A: Commonwealth North Use of Permanent Fund Earnings.....	14
Appendix B: Alaska Permanent Fund Financial Projections 1999-2020.....	15
Appendix C: Commonwealth North board members and officers.....	16

# COMMONWEALTH NORTH

## Permanent Fund Earnings—Phase II A Cornerstone for Fiscal Certainty

### SUMMARY OF PROPOSALS AND RECOMMENDATIONS

- 1. THE EARNINGS OF THE PERMANENT FUND MUST BE CONSIDERED PART OF ALASKA'S TOTAL FISCAL PACKAGE.**  
Permanent Fund earnings must be considered part of a total state fiscal package that includes getting the most from money spent for state government. This includes establishing performance measures, maximizing efficiency, eliminating redundancies, scrutinizing the validity and existence of programs, shifting costs to local governments where appropriate, and investing enough to manage commonly owned resources effectively.

Other fiscal tools that need to be employed are: enhancing the returns on other state owned assets, use of the Constitutional Budget Reserve (CBR), use of untapped bonding capacity for capital projects, an income or a sales tax, and more direct user fees for services.
- 2. THE PRINCIPAL OF THE PERMANENT FUND SHOULD REMAIN FULLY PROTECTED AGAINST INFLATION.** The principal (the corpus) of the Permanent Fund should be fully protected by preservation of the principal. It can be maintained and protected from inflation by asset allocation and use of an endowment concept.
- 3. THE PERMANENT FUND DIVIDEND PROGRAM SHOULD CONTINUE.** The current individual Permanent Fund Dividend Program should continue, using a portion of the Permanent Fund's earnings. The Permanent Fund Dividend should not be capped at any particular level, but 40% of the earnings of the Permanent Fund should be devoted to individual dividends.
- 4. THE EARNINGS OF THE PERMANENT FUND SHOULD BE USED TO SUPPORT GOVERNMENT AND FOR THE OTHER USES OUTLINED BELOW.** The biggest single departure from current practice is that Commonwealth North recommends using 30% of Permanent Fund earnings derived from an endowment concept to support state government and for additional purposes as outlined below. This 30% should be funneled through the Constitutional Budget Reserve account.

5. **CREATE A COMMUNITY DIVIDEND PROGRAM.** 20% of the Permanent Fund's earnings should be used to provide a means for local communities to meet capital needs. The closer that decisions can be brought to the people involved, the more efficient and responsive those decisions will be. Creation of a Community Dividend Program would meet this policy objective.
  
6. **SUPPORT STATEWIDE CAPITAL NEEDS.** 10% of the Permanent Fund's earnings should be used to fund statewide capital needs and deferred maintenance that provide and maintain infrastructure to support economic sustainability and growth.

# COMMONWEALTH NORTH

## Permanent Fund Earnings—Phase II A Cornerstone for Fiscal Certainty

### INTRODUCTION

To date, the earnings of the Alaska Permanent Fund have had no clearly defined public purpose beyond the personal dividend program. For the first time since the Permanent Fund's inception, current general fund revenues are insufficient to balance the general fund budget. The balance in the Constitutional Budget Reserve (CBR) is adequate for about three years of supplemental funding government at current levels.

The time has come to face this major fiscal issue.

This study addresses appropriate public purposes and uses of Permanent Fund earnings. So far, the only significant uses of Permanent Fund earnings have been preservation of capital through inflation proofing, and economic stimulus through the individual Permanent Fund Dividend.

Commonwealth North agrees in principle with these established uses, but goes further by taking a broad long-term view as to how they should fit into the total fiscal picture of the state. The biggest single departure from current practice is that Commonwealth North is recommending using Permanent Fund earnings to create revenue stability for Alaska.

Earnings available from the Permanent Fund will be defined as 5% of the five-year trailing average of the total value of the Permanent Fund. Only earnings will be expended. The corpus will remain untouched without a vote of the people, as specified in the Constitution.

In this concept, the Permanent Fund is defined as the total of all subaccounts within the overall Permanent Fund umbrella, with the exception of sufficient earnings reserve account to maintain the 5% earnings distribution. These subaccounts include the current corpus plus unrealized gains, realized gains, and a portion of the earnings reserve account. As of the date of this report, the aggregate of these subaccounts equals about \$26 billion. The value of these accounts will be protected against inflation by financial earnings produced by sound investment policy, asset allocation, and managing the aggregated subaccounts as one integrated portfolio to be maximized for long-term returns.

The current corpus of the Permanent Fund, increased by the addition of unrealized gains, realized gains, and a portion of the earnings reserve account, will continue to be Constitutionally protected. This enlarged corpus will further be increased by Constitutionally mandated resource revenues,

and additional annual discretionary deposits made by the Legislature from the earned surplus in excess of what is required to fund the annual endowment.

In the past, Permanent Fund market returns exceeded the 5% earnings distribution as outlined above. Historic real Permanent Fund earnings of 7.6% have been sufficiently in excess of the 5% distribution to accomplish this goal.

The Legislature has the Constitutional authority already to allocate and spend Permanent Fund earnings. Hence, no vote of the people is required for such expenditures.

In summary, Commonwealth North recommends that Permanent Fund earnings are best used to fund necessary government and sustain economic growth in Alaska. This can be accommodated by using earnings to:

- Protect the value of the fund through preservation of principal.
- Continue the individual Permanent Fund Dividend (PFD) which builds private sector economics through per capita expenditures.
- Institute a Community Dividend Program which will provide a better means for local communities to meet capital needs. The closer that decisions can be brought to the people involved, the more efficient and responsive those decisions will be.
- Support statewide needs for infrastructure to support economic sustainability and growth.
- Supplement other state revenues to provide for general government operations.
- Provide underwriting support for bonding capacity of the State of Alaska.

Permanent Fund earnings must be considered part of a total state fiscal package that includes, in order of priority:

- Getting the most from money spent for state government. This includes establishing performance measures, maximizing efficiency, eliminating redundancies, scrutinizing the validity and existence of programs, shifting costs to local governments where appropriate, and investing enough to manage commonly owned resources effectively.
- Enhancing the returns on other state assets as outlined in the October, 1998 Commonwealth North study "Alaska's Asset Portfolio: Managing for Maximum Return."

- Allocation of some Permanent Fund earnings: to pay the costs of government, for a Community Dividend Program, and to bolster the statewide capital budget.
- Prudent use of the Constitutional Budget Reserve (CBR) as a vehicle through which Permanent Fund earnings allocations are funneled to support the general fund budget.
- Use of untapped bonding capacity for capital projects within appropriate debt management guidelines.
- More direct user fees for services.
- Institute income or sales taxes only when all of the above are not sufficient to balance the budget.

The time to act is now. The aforementioned issues are within the Constitutional authority of the Legislature and the Governor to act, and should be immediately implemented.

#### The study group's purpose

In September 1998 this study group's purpose was defined to recommend appropriate uses for Permanent Fund earnings. However, a workable earnings distribution cannot be addressed without looking at the total state fiscal picture. A primary assumption is that economic growth is not only a fundamental purpose of government, but it is also indispensable for Alaska's long-term prosperity.

#### The study group's process

Upon receiving its direction from the board, a group of 25 men and women met weekly from October, 1998 to April, 1999.

Meetings included in-person interviews with a wide range of resource people who were well-informed about the history and practice of the Permanent Fund. These people include (in alphabetical order): Commissioner of Revenue Wilson Condon, Dr. Scott Goldsmith of UAA's I.S.E.R., Senator Rick Halford, former Governor Jay Hammond, former Governor Walter Hickel, Roy Huhndorf, Julie Kitka, Steve Rieger, Clem Tillion, Nancy Bear Usera, and Eric Wohlforth.

In addition to this strong resource base, many Commonwealth North members submitted suggestions. Newspaper and magazine articles, and position papers were studied and analyzed. Legislators were consulted. In short, the study group actively solicited input from a widely diverse group of

knowledgeable sources. From this large volume of information, the study group crafted an approach and, in an interactive dialogue with the Commonwealth North board of directors, forged a consensus on key points.

### **Background**

Alaska is faced with a paradox. On the one hand, the projected state budget has a billion dollar annual shortfall that is prompting a search for additional sources of revenue through taxes—either income or sales. On the other hand, the \$25+ billion Permanent Fund is paying out personal dividends that could eliminate the shortfall. Diversion of the dividend from personal to collective use could solve the problem from a purely financial point of view. However, in practical terms, the situation is more complicated.

The Alaskan public has developed a fierce loyalty to the Permanent Fund Dividend (PFD). No public official has yet felt comfortable with the concept that Permanent Fund earnings be appropriated without a vote of the people. This political reality overshadows any discussion of public purposes for Permanent Fund earnings.

Any recommendation that does not win either tacit or overt public support is likely politically doomed. The fierce loyalty of the public to the Permanent Fund may overshadow any proposal to alter the Permanent Fund in any election, notwithstanding the need to do so. As such, the study group and board of directors have made recommendations that are politically pragmatic and represent sound public policy.

We have been quite specific in recommending allocation of Permanent Fund earnings.

What is crafted herein is a recommendation for using the earnings of the Permanent Fund for public purposes beyond simply a personal dividend.

### **Need for immediate action**

Use of Permanent Fund earnings must be addressed immediately:

- a. Waiting until the entire Constitutional Budget Reserve is depleted will severely limit options, reduce income generated by the CBR, and lead to severe short-term cash flow problems in three to four years.
- b. We have an immediate political crisis, not an immediate fiscal crisis. With approximately \$28 billion in liquid reserves, and a \$1 billion annual revenue shortfall (3.6% of liquid reserves), Alaska has the tools to solve its financial problems. However, the political crisis, if unresolved, could lead to a fiscal crisis.

- c. While short and intermediate term cash management issues must be addressed immediately, it is important to not lose sight of long-term asset management and policy goals. It is just as important to maintain and enhance the wealth of Alaska as it is to balance the state's checkbook.

### Total fiscal package

Permanent Fund earnings must be considered part of a state fiscal package that includes, in order of priority:

- a. Getting the most from money spent for state government. This includes establishing performance measures, maximizing efficiency, eliminating redundancies, scrutinizing the validity and existence of programs, shifting costs to local governments where appropriate, and investing enough to manage commonly owned resources effectively. Appropriate tools to encourage and reward efficiency are still largely absent from Alaska's laws. Spending cuts must be part of any solution to the state's fiscal gap, but cannot close the gap by themselves. Non-need based programs that are widely seen as wasteful or of little value other than for their beneficiaries should be ended as quickly as possible.
- b. Enhancing the returns on other state assets (as outlined in the October, 1998 Commonwealth North study "Alaska's Asset Portfolio: Managing for Maximum Return.") This additional revenue can become a significant part of the state's financial picture.
- c. Use of the Constitutional Budget Reserve (CBR). Under guidelines established by the Legislature, use available funds in the CBR in conjunction with the use of Permanent Fund earnings and/or taxes for general government purposes.
- d. Use of some Permanent Fund earnings to pay the costs of government is required under any workable solution to the state fiscal gap.
- e. Use of untapped bonding capacity for capital projects within appropriate debt management guidelines.
- f. Even with a significant reduction in state spending, more direct user fees for services, and use of Permanent Fund earnings, there will remain a need to generate additional revenue through a statewide general tax such as a sales tax or personal income tax at some point in the future. Instituting an income or sales tax should be the last resort for additional revenues.

### Public uses of the Permanent Fund

Commonwealth North considers the following to be beneficial public priorities of the Permanent Fund:

- a. Preservation of principal. The value of the Permanent Fund must at least stay even with inflation to maintain its purchasing power. This includes the corpus, the earnings reserve account, and unrealized gains.
- b. Remain a vehicle for converting income from non-renewable natural resource wealth into renewable financial wealth.
- c. Build private sector economics through per capita expenditures. The practical implementation of this policy is continuation of the individual Permanent Fund Dividend (PFD).
- d. Provide a means for local communities to meet their capital needs. The closer that decisions can be brought to the people involved, the more efficient and responsive those decisions will be. Creation of a Community Dividend Program would meet this policy objective.
- e. Support state-wide capital needs that provide infrastructure to support economic sustainability and growth.
- f. Supplement other revenues to provide for general government operations.
- g. Provide underwriting support for bonding capacity of the state of Alaska.
- h. Remain a "rainy day" safety net account for unforeseen financial emergencies that are beyond the capacity of the Constitutional Budget Reserve.

### Preservation of principal

- a. Inflation proofing is a crucial aspect of the health of the Permanent Fund. Inflation transforms part of Permanent Fund principal each year so that it appears to be income. Spending some or all of this inflation-created "income" would, in effect, constitute a withdrawal from the Fund's real principal. Returning the inflation-created "income" to the Fund corpus (i.e. inflation-proofing) is necessary to keep the corpus whole. Redefining the principal as the original corpus plus earnings reserve and unrealized gains yields a larger basis for investment allocation and calculation of the 5% earnings. Sound long-term investment policy will be the main engine of

earnings as fund managers strive to achieve a return greater than the defined endowment rate of 5%.

- b. Asset allocation should be the foundation of the investment process. Commonwealth North urges use of a real total return concept in defining Permanent Fund earnings. Earnings above the anticipated long-term level of inflation can be available for distribution. Most large college endowments and foundations use this concept. The earnings available for all uses would be defined as 5.0% of the average total value of the Permanent Fund for the last five years. While investment returns will vary year-to-year, under this endowment concept historical perspective indicates that in the long run the real earnings of the Permanent Fund will be sufficient to make the 5% payout and also inflation proof the corpus of the Fund.
- c. Creating a more predictable and steady source of income will facilitate better financial planning by the state and local governments.
- d. The total return concept, in conjunction with stable annual distributions, removes the political temptation to realize gains to increase the annual dividend, or to limit realized gains to minimize the dividend.
- e. Preliminary projections indicate that after inflation proofing, and after the Permanent Fund Dividend, the state will have over \$850 million per year to spend on contributions to the CBR, the Community Dividend Program, and the statewide capital budget. (Note: See the attached spreadsheet for reference.)

#### Permanent Fund Dividend

- a. The Permanent Fund Dividend (PFD) should not be capped as such, but be subject to the discipline of other uses of Permanent Fund earnings under allocations to be established by the Legislature.
- b. We think forty percent (40%) of Permanent Fund earnings (as defined above) should be allocated to the PFD. While this results in a drop in personal PFD from that of recent times, the total amount going to local economies when including the Community Dividend is about the same as recent payouts.
- c. Alaskans will maintain an interest in, and connection with, the performance of the Permanent Fund as their dividend will still be based on the investment performance of the Fund.

**Community Dividend Program**

- a. A Community Dividend Program (CDP) should be created as a part of the state fiscal package.
- b. We recommend that twenty percent (20%) of Permanent Fund earnings should be allocated to a CDP.
- c. The CDP could be linked to incentives for local participation.
- d. The CDP should not be an added burden to the operating budget. To the extent it supports local capital project initiatives, or replaces other local funding in the state operating budget, it would not be considered additive.
- e. It may be advisable to use an updated and strengthened version of the Municipal Bond Bank to allow communities to leverage their CDP income streams, and allow for a vote of the people before capital projects are approved.

**Statewide capital needs**

- a. Economic growth is dependent on basic public infrastructure and its maintenance. Without sufficient capital investment, the economy will suffer and citizens will lead diminished lives.
- b. Alaska has also deferred maintenance of its capital assets beyond what is prudent. Regularly appropriated capital funds can be used to restore the value and quality of such assets.
- c. We believe that ten percent (10%) of Permanent Fund earnings should be allocated to statewide capital needs.
- d. Many local capital needs could be met through the Community Dividend Program, thereby lowering the need for additional capital appropriations at the state level.

**General government operating needs**

- a. The Legislature should emphasize spending money on essential services, with consideration of clearly defined "trigger points" based on state income levels available to spend, or on the CBR (as mentioned below) which would mandate previously determined cuts in specific programs.

- b. The Legislature should allocate thirty percent (30%) of Permanent Fund earnings for general government operating needs to be funneled through the CBR fund. The crucible of the legislative process, while imperfect and frustrating, is the alternative most open and responsive to ongoing public scrutiny.
- c. The role of the CBR is as a fund administered by the Department of Revenue as a short-term cash management vehicle.
- d. While the CBR is not part of the Permanent Fund, Commonwealth North does not recommend liquidating any portion of the Permanent Fund to add to the CBR. However, the CBR should be used as a vehicle to funnel Permanent Fund earnings to the general government operating budget. In this process, the Legislature must decide what is an appropriate level of funds to remain in this "rainy day" account and alter Permanent Fund earnings accordingly. When some minimum balance in the CBR cannot be maintained, this "trigger point" will mandate reduction of expenditures down to a core of only absolutely essential services.

#### Support bonding capacity

Since Alaska has almost no general obligation bonds (GO) outstanding, serious consideration must be given to using GO bonds as part of the state fiscal plan.

Traditionally, GO bonds have been used for capital improvements. Maintaining the value of the corpus of the Permanent Fund will provide very real collateral and assurance for bond investors. The Permanent Fund will reduce the cost of borrowing for the State of Alaska.

#### Rainy day account

Even with the continuance of the Constitutional Budget Reserve and other smaller savings accounts, a truly huge unforeseen natural or social disaster could require additional resources. The corpus of the Permanent Fund itself would remain an account of last resort for such emergencies.

## Appendix A

### Commonwealth North Use of Permanent Fund Earnings

YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil price (\$/bbl) (from state reference-case scenario, spring 99 linear forecast post 2005)	\$13.57	\$14.52	\$15.28	\$16.00	\$16.30	\$16.64	\$17.53	\$18.14	\$18.75	\$19.36
ANS oil production (Mbbbl/day) (from reference-case scenario, spring 99)	1.047	1.064	1.035	1.049	1.076	1.031	1.047	1.046	1.046	1.045
General fund revenue (\$M) (from reference-case scenario, spring 99)	\$1,301	\$1,331	\$1,342	\$1,348	\$1,341	\$1,280	\$1,317	\$1,315	\$1,313	\$1,311
General fund expenditures (\$M) (from Governor's budget less 60% of community dividend)	2,136	2,178	2,187	2,194	2,201	2,208	2,215	2,222	2,229	2,237
General Fund deficit (\$M)	(1,119)	(1,136)	(1,141)	(1,150)	(1,170)	(1,244)	(1,222)	(1,238)	(1,255)	(1,271)
Constitutional Budget Reserve balance (start of year) (\$M)	2,948	2,677	2,390	2,098	1,800	1,480	1,083	707	312	(104)
CBR balance (end of year) (\$M)	2,537	2,265	1,989	1,706	1,403	1,027	670	295	(98)	(511)
Permanent Fund corpus balance @7.6% nominal growth (\$M)	28,348	28,978	29,621	30,279	30,951	31,638	32,340	33,058	33,792	34,542
Income @ 5% of corpus balance (\$M)	1,417	1,449	1,481	1,514	1,548	1,582	1,617	1,653	1,690	1,727
PF balance (eoy) (\$M)	26,931	27,529	28,140	28,765	29,403	30,056	30,723	31,405	32,102	32,815
PF dividend (\$/applicant) (population statistics from ISER)	980	970	1,002	1,013	1,025	1,036	1,047	1,059	1,071	1,083
PF earnings for capital programs (\$M) (not included in GF expenditures)	142	145	148	151	155	158	162	165	169	173
PF earnings for community dividend (\$M) (included in GF expenditures but not reflected in line 6)	283	290	296	303	310	316	323	331	338	345

#### Assumptions and boundary conditions:

- > Allocation of Permanent Fund earnings: 40% to personal dividend, 30% to CBR, 20% to community dividend, 10% to capital program
- > General fund expenditures from state forecast, no growth except population, reduced 60% of the annual community dividend, dividend added as an expenditure in calculation of line 7, GF deficit.
- > Spring 99 reference case oil price projections, linearly forecasted from 2006
- > CBR fund drawn down by \$1B in 99, grows @5.5%.
- > Permanent fund earnings allocation for general fund deposited in CBR
- > PF corpus defined as earnings reserve, unrealized gains and principal balance from 1999; grows at 7.6% annual nominal growth thereafter
- > Income defined as 5% of new PF corpus, earnings plowed back each year
- > PF dividend applicants based on ISER population forecast.
- > PF personal dividend based only on 1 year return

Appendix B



# ALASKA PERMANENT FUND FINANCIAL PROJECTIONS 1999 - 2020

as of March 31, 1999

(in millions)

PRINCIPAL (AT COST)					
FY	FY Begin Balance	Appro- riations	Dedicated State Revenues <sup>(2)</sup>	Inflation- Proofing	FY End Balance
77-96	0	5,854	5,727	4,624	16,205
97	16,205	829 <sup>(3)</sup>	308	486	17,828
98	17,828	35	230	423	18,516
<b>99</b>	<b>18,516</b>	<b>41 <sup>(4)</sup></b>	<b>138</b>	<b>288</b>	<b>18,984</b>
00	18,984	27	135	574	19,720
01	19,720	29	146	597	20,492
02	20,492	31	151	620	21,294
03	21,294	33	166	645	22,138
04	22,138	36	177	671	23,021
05	23,021	38	165	697	23,922
06	23,922	41	176	724	24,863
07	24,863	44	170	752	25,830
08	25,830	47	169	781	26,827
09	26,827	51	167	811	27,857
10	27,857	55	156	842	28,909
11	28,909	59	150	874	29,991
12	29,991	63	149	906	31,109
13	31,109	68	143	940	32,260
14	32,260	73	138	974	33,444
15	33,444	78	133	1010	34,665
16	34,665	84	128	1046	35,923
17	35,923	90	124	1084	37,220
18	37,220	96	120	1123	38,560
19	38,560	103	117	1163	39,944
20	39,944	111	115	1205	41,373
Cumulative Totals					
Projected for: 1999 - 2020:			3,231	18,328	41,373

INCOME						
GASB Net Income <sup>(1)</sup>	Statutory Net Income	Distributions of Statutory Income		Earnings Reserve		
		Dividends	Inflation- Proofing	General Fund	Add (Delete)	FY End Balance
16,153	14,034	5,993	4,624	223	2,188	2,188
3,149	2,036	747	486	1	1,088	3,276
3,435	2,595	893	423		2,084	5,360
<b>2281</b>	<b>2,294</b>	<b>1019</b>	<b>288</b>		<b>933</b>	<b>6,293</b>
1922	1,789	1,101	574		220	6,513
1996	1,857	1,110	597		260	6,773
2076	1,930	1,099	620		325	7,098
2163	2,010	1,037	645		448	7,546
2263	2,102	1,017	671		540	8,086
2372	2,203	1,061	697		576	8,661
2486	2,308	1,108	724		613	9,274
2606	2,418	1,159	752		650	9,924
2730	2,532	1,214	781		687	10,611
2860	2,651	1,272	811		726	11,337
2995	2,775	1,332	842		766	12,103
3135	2,903	1,394	874		809	12,912
3281	3,037	1,459	906		852	13,764
3432	3,176	1,527	940		898	14,662
3590	3,320	1,597	974		946	15,608
3754	3,470	1,670	1,010		997	16,605
3925	3,626	1,746	1,046		1,049	17,654
4103	3,788	1,825	1,084		1,104	18,758
4288	3,956	1,907	1,123		1,162	19,920
4481	4,132	1,992	1,163		1,222	21,142
4682	4,314	2,081	1,205		1,285	22,427
<b>67,420</b>	<b>62,590</b>	<b>30,727</b>	<b>18,328</b>			<b>22,427</b>

TOTAL FUND At Market	
<sup>(6)</sup>	FY
18,393	77-96
21,104	97
23,876	98
<b>25,276</b>	<b>99</b>
26,233	00
27,265	01
28,393	02
29,684	03
31,107	04
32,583	05
34,137	06
35,754	07
37,439	08
39,193	09
41,012	10
42,903	11
44,873	12
46,922	13
49,052	14
51,270	15
53,577	16
55,979	17
58,480	18
61,086	19
63,800	20
<b>63,800</b>	

Rate of Return Assumptions				
	Total	- Inflation	= Real	Realized
FY 99	9.51%	1.54%	7.97%	11.03%
FY 2000-20 *	7.75%	3.00%	4.75%	7.33%

(1) GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.

(2) Per Department of Revenue's Most Recent Revenue Forecast.

(3) Earnings reserve appropriated to principal.

(4) Settlement earnings transferred to principal per AS 37.13.145(d).

(5) Based on 1999 Callan capital market and inflation assumptions.

(6) Total Fund (at market) equals Principal (at cost) plus the Earnings Reserve plus Unrealized Gains.

**Appendix C: Commonwealth North board members and officers**

President—Karen L. Hunt

Acting President—James D. Linxwiler, attorney, law firm of Guess & Rudd

Secretary—Eleanor Andrews, president, The Andrews Group

Treasurer—Joe Griffith, executive manager, finance & planning, Chugach Electric Association

Richard F. Barnes, president, ENSTAR Natural Gas

James F. Branch, production manager, Exxon USA

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**First National Bank of Anchorage**

For further information regarding the  
Commonwealth North Report

**Permanent Fund Earnings—Phase II**  
**A Cornerstone for Fiscal Certainty**

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## **Permanent Fund Earnings—Phase II: A Cornerstone for Fiscal Certainty**

Current general fund revenues are insufficient to balance the general fund budget. The Constitutional Budget Reserve will run out in a few years at the current level of spending. The earnings of the Permanent Fund must be considered part of Alaska's total fiscal package.

### **RECOMMENDATIONS**

1. Consider Permanent Fund earnings part of the State's total fiscal package.
2. Add unrealized gains, realized gains, and a portion of the earnings reserve account into the corpus of the Permanent Fund.
3. Define earnings as 5% of the five-year trailing average of the total value of the Permanent Fund.
4. Protect Permanent Fund principal against inflation.
5. Use 40% of earnings to continue personal permanent fund dividends.
6. Use 30% of earnings to support state government.
7. Use 20% for a community dividend plan.
8. Use 10% for statewide capital expenditures.

### **CONCLUSION**

The personal dividend stays about \$1000 per year. Combined individual and community dividends equal an amount similar to recent individual permanent fund dividends. Local governments receive financial help. State government funded with minimum cuts in operating budget for eight years. State capital program augmented. The Permanent Fund corpus continues to grow.

## **Alaska's Asset Portfolio: Managing for Maximum Return**

State assets should be managed consistently with the constitutional mandate to maximize their use and benefit to the people of Alaska. Maximizing returns on these assets can enhance revenue to the state, assist in achieving economic stability and provide direct and indirect benefits to the citizens of Alaska. Alaska has successfully implemented a number of asset management models that can be used to improve returns. These include the AHFC, AIDEA, APFC, ASTF, among others. However performance could be improved if certain policy guidelines were implemented.

### **RECOMMENDATIONS**

1. Clarify roles and responsibilities.
2. Measure and disclose performance.
3. Manage assets as a portfolio.
4. Pay returns to the general fund.
5. Create a system to achieve these recommendations.

### **CONCLUSION**

It is in every Alaskan's interest to participate in developing a sustainable system for funding government that is adequate to fulfill the state's obligations. Income taxes, or other methods of individual taxation, will never be sufficient to meet Alaska's financial needs. The responsible development, use, and management of Alaska's assets are the only means of achieving this goal.

## **Agenda 2000: Alaska's Future in a New World**

The condition of Alaska's economy, quality of life, educational system, and government is at a pivotal point in history. Oil production remains the foundation of the state's economy. Improving transportation and communications will shrink distances and open opportunities for new commerce. However, Alaska is eroding its potential by not adequately investing in the education of its youth and the development of a skilled workforce. Alaska must reach a state of fiscal certainty, develop priorities for investing in new initiatives, and pay for those investments without undermining current economic activity.

### **RECOMMENDATIONS**

1. Use Alaska's unique ownership position and geographic location to expand and encourage natural resource development; add value to development through instate processing; and stimulate investment in a broader range of resource activities.
2. Make Alaska an international logistics center. (i.e. air freight)
3. Build Alaska's full potential as an international tourism Mecca.
4. Strengthen Alaska's sense of community and collective vision for the future.
5. Make Alaska technologically competitive. (i.e. training)
6. Adopt higher education as a full partner in Alaska's development.

## What is Commonwealth North?

Commonwealth North is a public policy membership organization with approximately 400 members comprised of Alaska leaders in business, labor, education, public service, and Alaska Natives. Our mission is to address issues affecting Alaska and the nation in an objective, non-partisan way, and to make recommendations to benefit Alaska's future.

## What makes Commonwealth North studies relevant?

Community leaders and experts in a wide array of disciplines are drawn together to participate in Commonwealth North studies. Members include a cross-section of political parties and viewpoints. Recommendations presented in the reports offer realistic solutions to critical issues facing Alaska.

## When were the Commonwealth North studies conducted?

*Agenda 2000* -- June 1997.  
*Alaska's Asset Portfolio* -- December 1998.  
*Permanent Fund Earnings* -- May 1999.

## Why did Commonwealth North conduct these studies?

Commonwealth North seeks to participate in public debate that will influence Alaska's future. These studies address subjects currently under discussion by policy makers and in households throughout the state. The actions taken with respect to these issues and their outcomes will affect Alaska and Alaskans for generations to come.

## Commonwealth North Purpose

To educate ourselves and all other Alaskans on relevant public policy issues and assist in their resolution.

## Commonwealth North Vision

Commonwealth North leads Alaskans to adopt economic, social, educational, political and cultural policies that provide the fulfilling prosperous lifestyle of their choice and meet the challenge of common ownership of Alaska's assets.

- ◆ We define & analyze strategic Alaskan issues.
- ◆ We objectively bring the best minds, ideas & creativity to Alaskan issues
- ◆ We lead Alaska to develop sound policies.

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**COMMONWEALTH NORTH**

## RECENT STUDY RECOMMENDATIONS

*Permanent Fund Earnings – Phase II:  
A Cornerstone for Fiscal Certainty*

*Alaska's Asset Portfolio:  
Managing for Maximum Return*

*Agenda 2000:  
Alaska's Future in a New World*

*Commonwealth North  
Study Summaries*

# Executive Summary

## Introduction

Alaska's financial health depends on the state's achieving a sustainable level of revenue sufficient to meet the needs of the state and its people. The Alaska Statehood Compact anticipated the use of publicly held assets for this purpose. Alaska received 104 million acres from the federal government at the time of statehood in 1959. The purposes for the endowment are set forth in Alaska's Constitution. It mandates that the state's land and resources be used, developed, and conserved for maximum benefit of its people.

If managed effectively, these assets have the potential of producing reliable and stable revenues for the state and providing continued economic benefit to the people of Alaska. This is critical to Alaska's future because no income or other individual tax will ever be sufficient to pay for necessary state services and infrastructure.

Commonwealth North wondered if the state could improve its return on these assets. Accordingly, it established a study group with 32 of its members to "identify and recommend unifying policies and principles to guide management of Alaska's public assets to maximize their return and assure their benefit to the people of Alaska."

The study group specifically looked at land and resource assets as well as the business and financial assets the state has created with its oil wealth over the past 20 years. These are the assets that are available for development and that can generate earnings. The study group did not look at conventional public assets such as public schools, office buildings, and transportation infrastructure.

## Assumptions

The study's recommendations are predicated on a set of assumptions that reflect underlying principles for successful management and the operating realities of public sector management. These basic assumptions are:

1. The assets which are derived from Alaska's land-grant should be managed consistent with the Constitutional mandate to maximize their use and benefit to the people of Alaska.
2. The Constitutional prohibition against dedicated funds is recognized as a policy principle which provides that the public interest is served when all state revenues, regardless of source, are available for appropriation by the Legislature to meet Alaska's total needs.
3. There are two types of returns derived from an asset's management: financial and beneficial, and each must directly or indirectly benefit all the people by serving a public purpose.
4. Asset management is most effective within a structure which provides flexibility for maximizing returns while assuring accountability to the state and its people.
5. Performance measures for determining efficiency, results and returns are essential for public accountability.
6. Private enterprise should be the first option for obtaining expertise, goods and services to develop public assets. To the extent that public sector programs compete with the private sector, their activities should be priced in a manner which minimizes adverse effects on private sector competition.
7. Maximizing returns for all assets will enhance revenue to the state as well as provide greater diversity and stability of state revenues.

## Recommendations

The result of extensive research, interviews, and discussions is a set of five sequential recommendations for enhancing state revenue, assuring public accountability, and maximizing the use of state assets to benefit Alaskans.

### 1. Clarify Roles and Responsibilities

- A. Elected leaders should establish policy and managers should be given authority and flexibility to implement those policies.
- B. Assets available for development should be managed independently of the organizational authority responsible for promulgating regulations affecting the development of that asset.
- C. Activities to develop assets and produce returns, to the fullest extent possible, should be carried out by, or in partnership with, the private sector.

### 2. Measure and Disclose Performance

- A. Management performance and agency operations should be measured based on meeting mission, efficiency and financial objectives.
  1. Three types of performance measures should be adopted to evaluate management of each asset:
    1. Appropriate efficiency measures to evaluate the cost of operations.
    2. Measures that show the organization's results in meeting its statutory mission.
    3. Quantifiable measures that state the monetary value of the asset's beneficial and financial returns.
  - C. Financial and operational performance based on these measures should be reported to the public annually, for each asset under management, using consistent accounting and reporting standards.

### 3. Manage Assets as a Portfolio

- A. The state should strategically manage its assets in a manner that provides for an integrated assessment of risk, potential return, debt, market conditions and cross investment opportunities.
- B. Financial and beneficial returns on all assets under state management should be annually reported to the public on both an aggregated and individual basis using consistent accounting standards.
- C. The portfolio of assets should be used strategically to achieve long-term sustainable revenue and return objectives.

### 6. Pay Returns to the General Fund

A. To the extent that financial returns exceed the need for efficient operations, beneficial returns and appropriate capitalization as determined by the Legislature, they should be deposited into the state Treasury for allocation by the Legislature based on the state's overall priority needs.

B. Every asset management organization should have an expectation to contribute a financial return to the state General Fund based on a formula appropriate to its activities and maturity.

### 5. Create a System to Achieve These Recommendations

A. Establish an integrated system of portfolio management which oversees, monitors and reports asset management performance on an aggregated basis.

B. Incorporate state owned natural resources available for development into the state asset management portfolio.

## Conclusion

It is in every Alaskan's interest to participate in developing a sustainable system for funding government that is adequate to fulfill the state's obligations. Income taxes, or other methods of individual taxation, will never be sufficient to meet Alaska's financial needs and responsibilities. The responsible development, use and management of Alaska's assets are the only means of achieving this goal.

Fortunately, Alaskans already have considerable experience with successful models for state asset management, and must capitalize on those successes. Our purpose in setting forth these recommendations is to stimulate a public dialog on the goals of public asset management and the best means of achieving those goals.

To receive a complete copy of the  
Commonwealth North Report  
Alaska's Asset Portfolio: Managing for Maximum Return

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COMMONWEALTH NORTH

*Alaska's Asset Portfolio*

## Managing for Maximum Return

*A Commonwealth  
North Study*

Executive Summary  
December, 1998

*Commonwealth North*

*Alaska's Asset Portfolio*

*Managing for Maximum Return*



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**COMMONWEALTH NORTH**

*Alaska's Asset Portfolio*

**Managing for  
Maximum Return**

*A Commonwealth North Study*

**December, 1998**

*Scott Goldsmith*

*Nancy Bear Usert*

*Study Group Co-Chairs*



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1998 -1999

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## About Commonwealth North

The mission of Commonwealth North is to educate its members and all Alaskans on relevant public policy issues and to assist in their resolution. The organization addresses state and national long-term issues and involves leaders from Alaska business, labor, education, public service, and Native community. The goals of Commonwealth North include: strengthening the private sector of Alaska's economy, understanding Alaska's role in the larger world, educating members on major issues affecting our state and nation, and influencing state and national public policy decisions.

# Table of Contents

1. Executive Summary . . . . .	2
2. Background and Current Conditions . . . . .	4
3. Charge and Goals . . . . .	5
4. Approach and Methodology . . . . .	5
5. Defining Concepts . . . . .	5
6. Assumptions . . . . .	8
7. Findings . . . . .	8
8. Recommendations . . . . .	9
9. Conclusion . . . . .	15
10. Acknowledgements . . . . .	15
11. Appendix	
Study Group Members . . . . .	16

# Executive Summary

## Introduction

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Fortunately, Alaskans already have considerable experience with successful models for state asset management, and must capitalize on those successes. Our purpose in setting forth these recommendations is to stimulate a public dialog on the goals of public asset management and the best means of achieving those goals.

# Background and Current Condition

Alaska received 104 million acres from the federal government at the time of statehood in 1959. The purpose for the endowment was to provide an economic base for the development of the state and to provide the revenues necessary to operate the new state.

The policy of the state, reflected in its Constitution, is to use, develop, and conserve this land and its resources consistent with the public interest for the maximum benefit of its people (Sections 8.1 and 8.2):

8.1. It is the policy of the state to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.

8.2 The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters, for the maximum benefit of its people.

The economic history of Alaska since statehood has been largely driven by the development of its petroleum resources, first in Cook Inlet and later on the North Slope. The development of the state's petroleum reserves has resulted in a flow of revenues that has paid virtually the entire cost of operating government and building the physical infrastructure to meet the state's needs.

However, recognizing that petroleum is a depleting resource, the state has invested a large portion of the revenue from oil in other, renewable assets with earnings potential. Although the Alaska Permanent Fund is the largest and best known of these, there is an entire portfolio of financial and real assets derived from the transformation of oil. For example, the

Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority were both capitalized with oil revenues. Additionally, Alaska continues to hold a wealth of other resource reserves available for revenue generation through responsible development.

Although oil continues to be the dominant natural resource industry in the state, production has been declining since 1988, and revenues from oil are no longer sufficient to provide for all the needs of state government. Oil revenues will continue to be an important source of state revenues for the foreseeable future. However, the state must increasingly generate other revenues to take their place to provide a stable fiscal future.

The Permanent Fund has become the focus of public attention because it is Alaska's largest asset and because it pays a return directly to all Alaskans. But we cannot overlook the other assets in the state's portfolio that can also make a significant contribution to the state's economic welfare.

To maximize the return from these assets, they must be managed strategically and efficiently. The state has considerable experience with successful models for state asset management. However, the question was posed whether there is room for improvement. Accordingly, Commonwealth North formed a study group from its membership to explore the answers to this question and commended it with a charge to meet specific goals.

# The Charge and Goals

## The Charge

Commonwealth North's board of directors asked the study group to identify and recommend unifying policies and principles to guide management of Alaska's public assets in order to maximize their return and assure that they benefit the people of Alaska.

## The Goals

The goals of the study are:

- To encourage and contribute to a public debate about the appropriate management principles applicable to Alaska's public assets;
- To produce a statement defining public expectations for management and return on Alaska's assets; and
- To recommend appropriate business management principles that can be used compatibly with government's obligations to protect the public interest.

# Approach and Methodology

Thirty two Commonwealth North members participated in this study through a series of meetings, discussions and research assignments over a period of six months. Recognizing that a detailed investigation of all state assets was beyond its capabilities, the study group adopted the following guidelines:

1. The study group will evaluate general principles (not the specifics) of the management of Alaska's public assets.

2. The study group will develop a statement of general policy, principles, priorities and recommendations for the improved management of Alaska's public assets.

3. The study will be successful if it encourages and contributes to the public awareness of, and debate about, the appropriate overall management objectives applicable to Alaska's public assets.

The study group limited its investigation to Alaska's land and resource holdings received at the time of statehood, as well as the business and financial assets created with the state's oil wealth. This represents the portfolio of assets available for development and for the generation of earnings to benefit all Alaskans. Excluded from review were the conventional public assets used in the delivery of standard public services such as public schools, office buildings and transportation infrastructure.

Assets in the following agencies were identified:

## State Resource Agencies

- Land, Real Estate
- Fish and Game
- Minerals
- Oil and Gas
- Timber

## Business Management Agencies

- Marine Highway System
- International Airport System

## Independent Agencies

Created in Statute/Boards Appointed by Governor

- Alaska Permanent Fund Corporation
- Alaska Railroad Corporation
- Alaska Housing Finance Corporation
- Alaska Industrial Development and Export Authority
- Alaska Science and Technology Foundation
- Alaska Aerospace Development Corporation

## Independent Support Service Agencies

- Alaska Tourism Marketing Council
- Alaska Seafood Marketing Council
- Alaska Student Loan Corporation
- Alaska Mental Health Trust Authority

Five sub-groups were formed to investigate various categories of assets: financial assets; transportation; land; natural resources; and research, development and support activities.

The study group then adopted the following study plan:

### Task 1: Gather information

Each sub-group collected information on as many assets as possible, using a standard format. This included information on the management structure of the agency in control of the asset, its mission and goals, its fiscal structure, reporting requirements, methods of evaluation, decision-making process, and planning and projections. (Report addendum available upon request from Commonwealth North.)

### Task 2: Management interviews

Each sub-group engaged in a series of discussions with current and former asset managers. These discussions were used not only to collect information on current management practices but also to investigate what works, what does not work, and what improvements could be made in current practices.

### Task 3: Determine findings

Based on information and interviews, each sub-group developed a list of preliminary findings covering management practices of the agencies reviewed. This list was synthesized as a result of a series of discussions among all study group members.

### Task 4: Develop recommendations

Based on the findings, the entire study group developed a set of recommendations for management of public assets.

# Defining Concepts

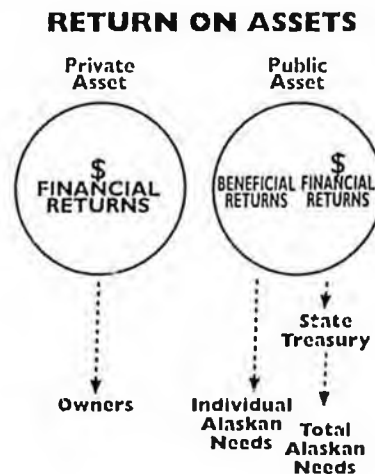
Critical to the review was reaching a common understanding of certain basic terms and concepts.

## Returns on public assets

In a review of public assets, the concept of "returns" takes on a broader meaning than merely the financial bottom line. In fact, the use of public assets results in two distinct types of returns: financial and beneficial. They are mutually exclusive, but each directly affects the other. Both are intended to satisfy a public purpose.

*Financial returns* are paid to the Treasury and then appropriated to meet the state's needs. They directly contribute to the state's solvency. Through the appropriation process, these returns are also used to sustain management operations.

*Beneficial returns* benefit individuals directly through program subsidies, or indirectly through the multiplier effect of job creation and business activity. Beneficial returns serve a public purpose by providing goods and/or services otherwise unavailable or unaffordable to meet a perceived public need. But beneficial returns are not free. They are achieved by a reduction in the financial return potential.



### The Alaska Disconnect

The concept of economic development as a public purpose frequently surfaces in evaluating beneficial returns. Clearly, customers, vendors, contractors and others benefit when the state uses its assets for business activity. However, unlike revenue structures in virtually all other states, this business activity does not produce a financial return to the state from personal income tax revenues.

Consequently, the state's expenditures to promote economic development, while laudable, do not produce a direct return on investment. This "Alaska Disconnect" presents a paradox. The more jobs created, the greater the population growth—which results in greater demand for government infrastructure and programs. The demand for government services, including education, creates a need for greater revenue with no off-setting funding source.

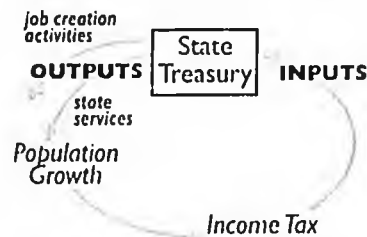
This phenomenon points out the dramatic need to evaluate the cost of beneficial returns. Determining their value provides a means for measuring beneficial returns against the potential for financial return which could be used to help fund state services.

### Mission Creep

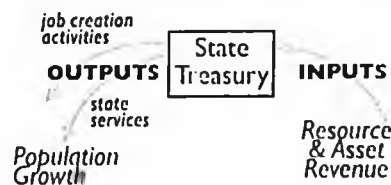
Most asset development agencies have a mission statement embedded in their authorizing statute. Over time, the activities, priorities and operation of these agencies will normally evolve due to changing needs and outdated programs. This can result in inconsistencies between the agency's activities and its stated mission.

Frequently, however, agency priorities will be driven by other factors that divert resources and interfere with an agency's ability to achieve its mission. These factors can include engaging in activities for which there is additional funding available, or responding to political pressure to participate in specified activities. The result can be performance tied to these external factors, rather than to the agency's primary mission. We call this diversion away from mission direct activities "mission creep".

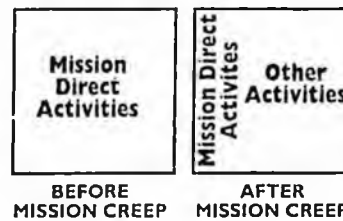
#### TYPICAL STATE REVENUE GENERATION



#### ALASKA DISCONNECT



#### TOTAL MANAGEMENT RESOURCE



# Assumptions

To evaluate Alaska's current system of asset management, it is important to begin with a common understanding of management standards and performance expectations. The study group used the following assumptions as the basis for its analysis.

1. The assets derived from Alaska's land grant should be managed consistent with the Constitutional mandate to maximize their use and benefit to the people of Alaska.
2. The Constitutional prohibition against dedicated funds is recognized as a policy principle which provides that the public interest is served when all state revenues, regardless of source, are available for appropriation by the Legislature to meet Alaska's total needs.
3. There are two types of returns derived from an asset's management: financial and beneficial. Each must directly or indirectly benefit all the people by serving a public purpose.
4. Asset management is most effective within a structure that provides flexibility for maximizing returns while assuring accountability to the state and its people.
5. Performance measures for determining efficiency, results and returns are essential for public accountability.
6. Private enterprise should be the first option for obtaining expertise, goods and services to develop public assets. To the extent that public sector programs compete with the private sector, they should be priced in a manner which minimizes adverse effects on private sector competition.
7. Maximizing returns for all assets will enhance revenue to the state, and provide greater diversity and stability of state revenues.

# Findings

The study group reviewed Alaska's asset management practices to reach an understanding of the public operating environment and conditions affecting return on assets. The findings listed below describe existing circumstances. Not all findings apply to all agencies or assets. However, each of the findings represents a condition that materially contributes to the state's ability to produce returns and develop its assets.

The findings are statements of fact as perceived by the study group. Most, if not all, of the findings can be interpreted either positively or negatively, depending on the reader's point of view.

## Mission and Goals

1. Vague statutory mission statements result in broad and often inconsistent interpretations.
2. Goals are frequently defined by activity rather than by returns.
3. Missions may be adapted because of funding, political prioritization, and short-term expediency, which results in mission creep.
4. The public's interests are not clearly defined or reported.

## Performance Standards and Accountability

1. There is no monetary value assigned to or reported on beneficial returns.
2. Performance measures, where they exist, are often tied to activities rather than to mission or returns.
3. There is no standard format for reporting operational costs and benefits returned.

### Structure

1. Regulatory and asset management functions within a single agency are often incompatible for achieving optimum results.
2. Operational mandates created in statute and regulation do not allow for the flexibility necessary to efficiently adapt to evolving missions and priorities.
3. Independent agencies have greater flexibility than executive branch departments in operations and funding.
4. Assets are managed independently, with no portfolio integration that would ensure diversification of risk and return, compatibility in objectives, performance standards and measures, and coordination of activities and reporting.

### Management

1. The state's annual budget process does not provide effective integrated review of asset management, does not promote a long-term view of returns, and instead focuses on operational activity as opposed to results.
2. The vagaries of the annual appropriation process and the volatility of state general fund revenues influence asset development potential.
3. Availability of, and access to, alternative funding sources influence operational activity.
4. Politicization of management appointments creates personnel turnover, which impairs continuity and returns.
5. There are few management or budgetary incentives for maximizing returns.
6. Long-term plans, and the accumulation of capital to meet long-term needs, may be used for political purposes, which creates a disincentive for strategic asset management.
7. Special interests significantly influence returns and allocation of returns.

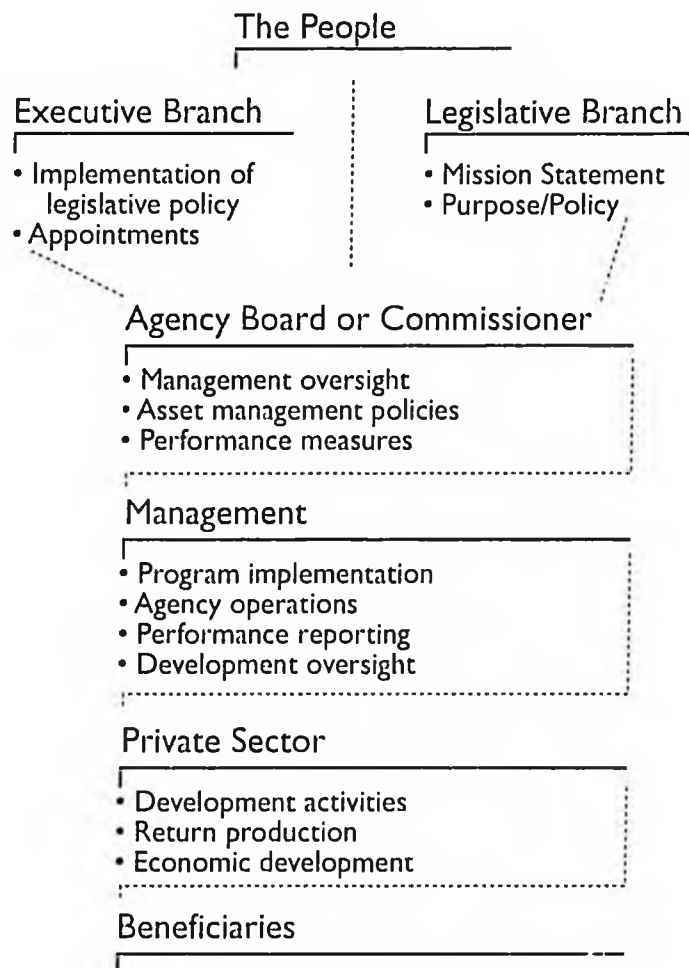
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## Recommendations

*After considerable debate, Commonwealth North offers the following recommendations to Alaskans for their consideration. The recommendations are progressive—that is, each builds on the previous ones toward a more effective asset management system.*

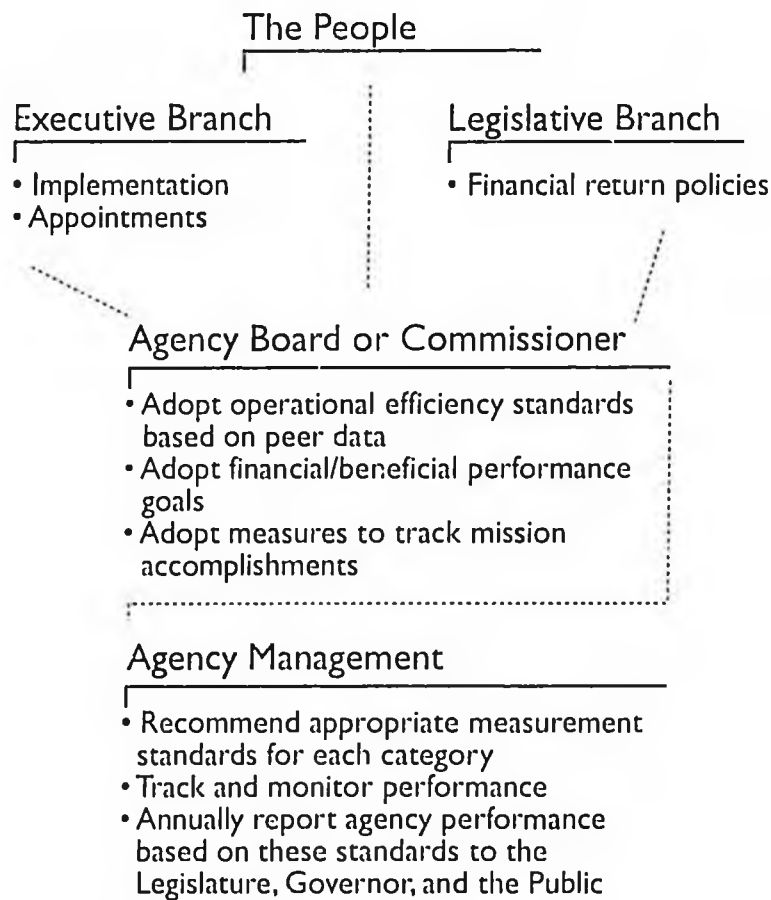
# 1. Clarify Roles and Responsibilities

- A. Elected leaders should establish policy, and managers should be given authority and flexibility to implement those policies.
- B. Assets available for development should be managed independently of the organizational authority responsible for promulgating regulations affecting the development of that asset.
- C. Activities to develop assets and produce returns, to the fullest extent possible, should be carried out by or in partnership with the private sector.



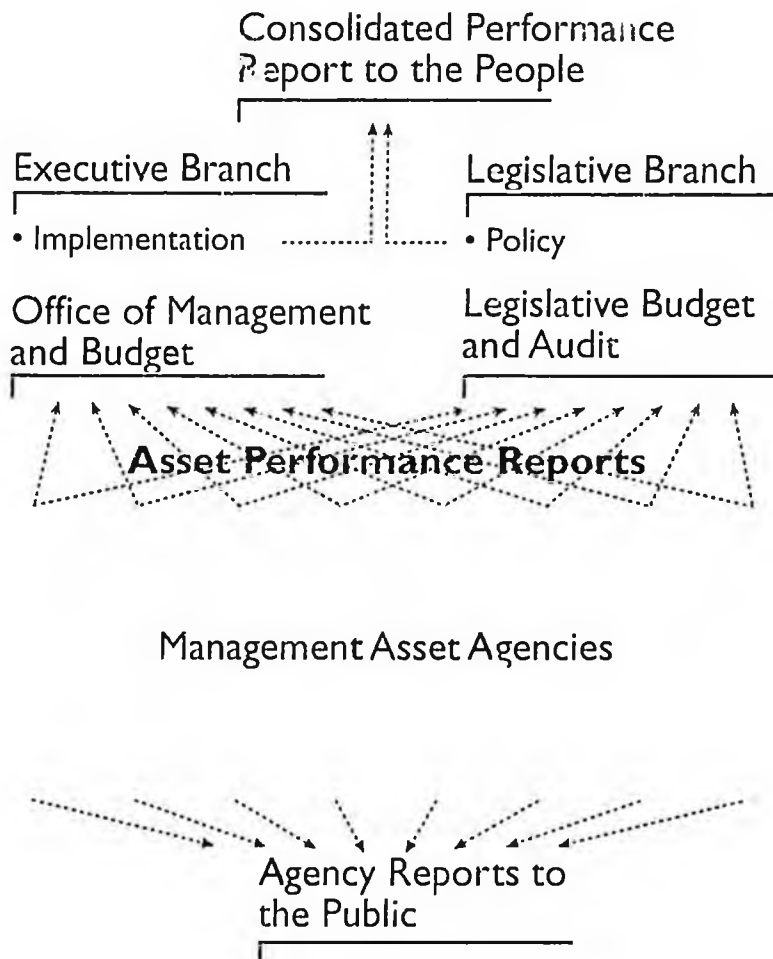
## 2. Measure and Disclose Performance

- A. Management performance and agency operations should be measured based on meeting mission, efficiency, and financial objectives.
- B. Three types of performance measures should be adopted to evaluate management of each asset:
  1. Appropriate efficiency measures to evaluate the cost of operations.
  2. Measures that show the organization's results in meeting its statutory mission.
  3. Quantifiable measures that state the monetary value of the asset's beneficial and financial returns.
- C. Financial and operational performance based on these measures should be reported to the public annually for each asset under management, using consistent accounting and reporting standards.



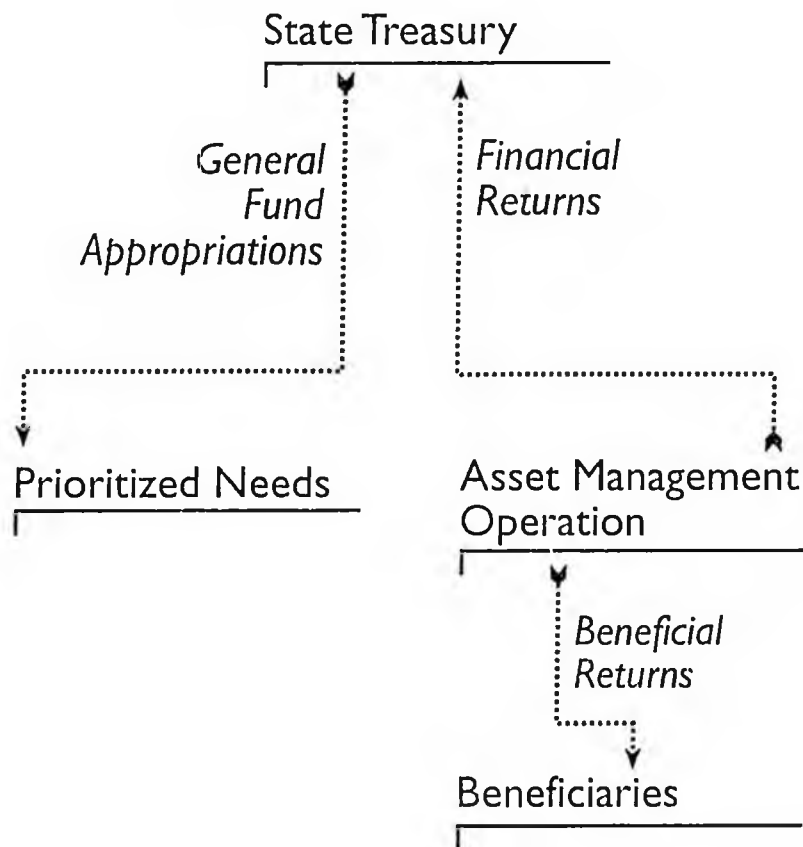
### 3. Manage Assets as a Portfolio

- A. The State should strategically manage its assets in a manner that provides for an integrated assessment of risk, potential return, debt, market conditions and cross investment opportunities.
- B. Financial and beneficial returns on all assets under state management should be annually reported to the public on both an aggregated and an individual basis using consistent accounting standards.
- C. The portfolio of assets should be used strategically to achieve long-term sustainable revenue and return objectives.



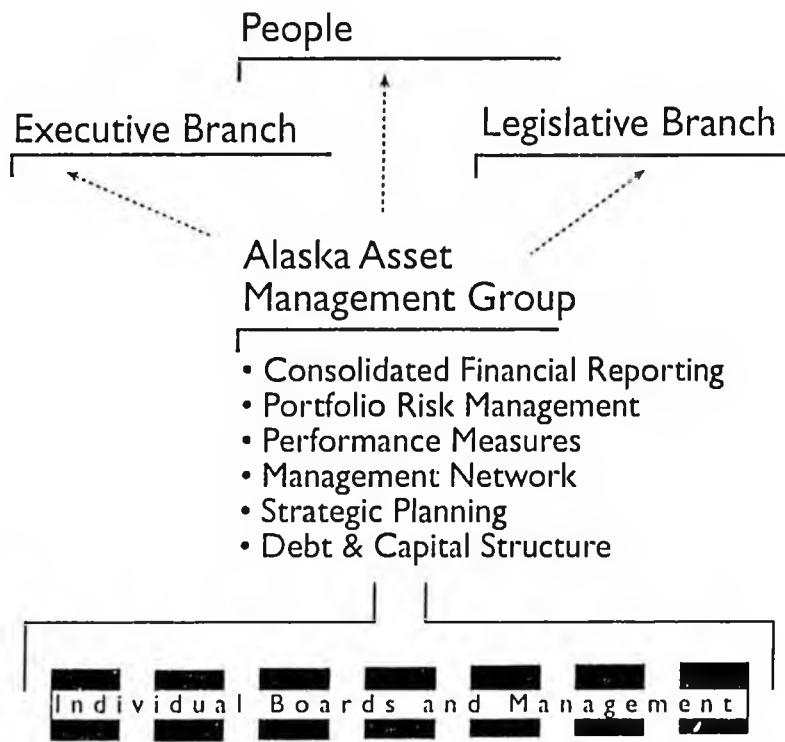
## 4. Pay Returns to the General Fund

- A. To the extent that financial returns exceed the need for efficient operations, beneficial returns, and appropriate capitalization as determined by the Legislature, they should be deposited into the State Treasury for allocation by the Legislature based on the State's overall priority needs.
- B. Every asset management organization should be expected to contribute a financial return to the State general fund, based on a formula appropriate to its activities and maturity.



## 5. Create a System to Achieve These Recommendations

- A. Establish an integrated system of portfolio management which oversees, monitors, and reports asset management performance on an aggregated basis.
- B. Incorporate state-owned natural resources available for development into the State asset management portfolio.



Asset Management Agency Portfolio

## Conclusion

*It is in every Alaskan's interest to participate in developing a sustainable system for funding government that is adequate to fulfill the state's obligations. Income taxes, or other methods of individual taxation, will never be sufficient to meet Alaska's financial needs and responsibilities. The responsible development, use and management of Alaska's assets are the only means of achieving this goal.*

*The Alaska Constitution directs that all these state assets be used for both the development of the state and the maximum benefit of the people. This means that Alaska's assets, both those created by the transformation of oil and those received as an endowment at the time of statehood, must increasingly contribute to Alaska's economic welfare. The state can accomplish this goal by generating earnings that provide both financial and beneficial returns. Financial returns paid into the General Fund will help pay the necessary costs of public services for the benefit of all Alaskans. Beneficial returns will help achieve the targeted public purposes identified for each asset.*

*Fortunately, Alaskans already have considerable experience with successful models for state asset management, and must capitalize on those successes. Our purpose in offering these recommendations is to stimulate a public dialogue on the goals of public asset management and the best means of achieving those goals.*

## Acknowledgements

*The study group thanks all those who helped in the development of this report, and without whom this study would not have been possible.*

*We particularly appreciate the contributions of former and present state asset managers who generously shared their time and perspective. Thanks also go to the Commonwealth North staff and the Hartig Fellow who aided considerably in the completion of this report.*

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Alaska's Asset Portfolio: Managing for Maximum Return

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