

4/22/99

Overview:

Long Term

Fiscal ...

HFIN

FILE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

**Introduced:
Referred:**

A BILL

FOR AN ACT ENTITLED

1 "An Act making a special appropriation from the budget reserve fund under art.
2 IX, sec. 17(c), Constitution of the State of Alaska, to the Alaska Income Account;
3 and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** The unappropriated balance in the budget reserve fund (art. IX, sec. 17,
6 Constitution of the State of Alaska) on July 2, 1999, is appropriated to the Alaska Income
7 Account (AS 37.13.145). This appropriation is made under art. IX, sec. 17(c), Constitution
8 of the State of Alaska.

9 * **Sec. 2.** This Act takes effect only if a version of a bill establishing the Alaska Income
10 Account in the Alaska permanent fund is passed by the Twenty-First Alaska State Legislature
11 and becomes law.

12 * **Sec. 3.** If this Act takes effect, it takes effect on the effective date of the provisions of
13 the bill described in sec. 2 of this Act that establish the Alaska Income Account in the Alaska
14 permanent fund.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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

March 30, 1999

SUBJECT: Appropriation to the Alaska Income Account (Work Order No. 21-LS0788\D)

TO: Representative Bill Hudson
Attn: Melinda Hofstad

FROM: Tamara Brandt Cook
Director *TBC*

Here is a sectional summary that you requested.

Sec. 1. Appropriates the balance in the budget reserve fund on July 2, 1999 to the Alaska Income Account. The July 2 date is intended to accommodate the possibility that money may be appropriated from the budget reserve fund in the FY 2000 budget, hopefully, with an effective date of July 1. This appropriation requires the 3/4 vote under the state constitution.

Sec. 2. This appropriation bill will take effect only if a substantive bill is enacted establishing the Alaska Income Account.

Sec. 3. If it takes effect, the effective date will coincide with the effective date of provisions of substantive law establishing the account.

TBC:pl:glc
98-041.plm

1-LS0787G
Cook/
3/30/99

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

Introduced:

Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act relating to income of the Alaska permanent fund, to the Alaska Income
2 Account, and to the permanent fund dividend program; and providing for an
3 effective date."

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

5 * Section 1. AS 37.13.140 is amended to read:

6 Sec. 37.13.140. **Income.** Net income of the fund includes income of the
7 Alaska Income Account [EARNINGS RESERVE ACCOUNT] established under
8 AS 37.13.145. Net income of the fund shall be computed annually as of the last day
9 of the fiscal year in accordance with generally accepted accounting principles,
10 excluding any unrealized gains or losses. [INCOME AVAILABLE FOR
11 DISTRIBUTION EQUALS 21 PERCENT OF THE NET INCOME OF THE FUND
12 FOR THE LAST FIVE FISCAL YEARS, INCLUDING THE FISCAL YEAR JUST
13 ENDED, BUT MAY NOT EXCEED NET INCOME OF THE FUND FOR THE
14 FISCAL YEAR JUST ENDED PLUS THE BALANCE IN THE EARNINGS

1 RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

2 * Sec. 2. AS 37.13.145(a) is amended to read:

3 (a) The Alaska Income Account [EARNINGS RESERVE ACCOUNT] is
4 established as a separate account in the fund. Net income [INCOME] from the fund
5 shall be deposited by the corporation into the account as soon as it is received. Money
6 in the account shall be invested in investments authorized under AS 37.13.120.

7 * Sec. 3. AS 37.13.145(b) is repealed and reenacted to read:

8 (b) On July 1 of each fiscal year, the corporation shall transfer from the
9 Alaska Income Account to the general fund an amount that equals 5.25 percent of the
10 total fair market value on that day of

11 (1) the fund, including the unappropriated balance of the Alaska Income
12 Account; and

13 (2) the unappropriated balance of the budget reserve fund (art. IX, sec.
14 17, Constitution of the State of Alaska).

15 * Sec. 4. AS 37.13.150 is amended to read:

16 **Sec. 37.13.150. Corporation budget.** The Alaska Income Account
17 [REVENUE GENERATED BY THE FUND'S INVESTMENTS] must be identified as
18 the source of the operating budget of the corporation in the state's operating budget
19 under AS 37.07 (Executive Budget Act). The unexpended balance of the corporation's
20 annual operating budget lapses into the Alaska Income Account [DOES NOT
21 LAPSE] at the end of the fiscal year [BUT SHALL BE TREATED AS INCOME
22 UNDER AS 37.13.140].

23 * Sec. 5. AS 43.23.025(a) is amended to read:

24 (a) By October 1 of each year, the commissioner shall determine the value of
25 each permanent fund dividend for that year by

26 (1) determining the total amount available for dividend payments,
27 which equals

28 (A) the amount appropriated from the general fund [OF
29 INCOME OF THE ALASKA PERMANENT FUND TRANSFERRED] to the
30 dividend fund [UNDER AS 37.13.145(b)] during the current year;

31 (B) plus the unexpended and unobligated balances of prior fiscal

- 1 year appropriations that lapse into the dividend fund under AS 43.23.045(d);
2 (C) less the amount necessary to pay prior year dividends from
3 the dividend fund in the current year under AS 43.23.005(h) and under
4 AS 43.23.055(3) and (7);
5 (D) less the amount necessary to pay dividends from the
6 dividend fund due to eligible applicants who, as determined by the department,
7 filed for a previous year's dividend by the filing deadline but who were not
8 included in a previous year's dividend computation;
9 (E) less appropriations from the dividend fund during the
10 current year, including amounts to pay costs of administering the dividend
11 program and the hold harmless provisions of AS 43.23.075;
12 (2) determining the number of individuals eligible to receive a dividend
13 payment for the current year and the number of estates and successors eligible to
14 receive a dividend payment for the current year under AS 43.23.005(h); and
15 (3) dividing the amount determined under (1) of this subsection by the
16 amount determined under (2) of this subsection.
17 * Sec. 6. AS 37.13.145(c) and 37.13.145(d) are repealed.
18 * Sec. 7. TRANSITION. The Alaska Income Account established in AS 37.13.145(a), as
19 amended in sec. 2 of this Act, is the successor to the earnings reserve account, and the balance
20 in the earnings reserve account on the effective date of this section shall be retained in the
21 Alaska Income Account until distributed to the general fund in accordance with
22 AS 37.13.145(b), as repealed and reenacted in sec. 3 of this Act.
23 * Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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

April 22, 1999

SUBJECT: Alaska Income Account (Work Order No. 21-LS0787\ G)

TO: Representative Bill Hudson
Attn: Melinda Hofstad

FROM: Tamara Brandt Cook *TBC*
Director

Sec. 1. Deletes the "income available for distribution" formula which is now used to calculate the amount to transfer to the permanent dividend fund. Renames the earnings reserve account the Alaska Income Account.

Sec. 2. Changes name of the earnings reserve account to the Alaska Income Account, but leaves it as a separate account in the permanent fund. Net income from the permanent fund is to be deposited in the account. "Net income" is described in existing law under AS 37.13.140.

Sec. 3. On July 1 each year the permanent fund corporation is directed to transfer from the Alaska Income Account to the general fund an amount based on the fair market value of the permanent fund and the budget reserve fund: 5.25 percent.

Sec. 4. Requires the budget of the permanent fund corporation to come from the Alaska Income Account.

Sec. 5. Bases the amount of the permanent fund dividend on the amount appropriated for that purpose from the general fund. The existing link between the amount of the dividend and the income of the permanent fund is eliminated.

Sec. 6. Repeals provisions relating to inflation proofing and treatment of certain income resulting from litigation.

Sec. 7. Provides that the Alaska Income Account, as the successor to the earnings reserve account, retains the balance that is in the earnings reserve account on the effective date.

Sec. 8. Immediate effective date.

TBC:jdr:lmb
99-056.lmb

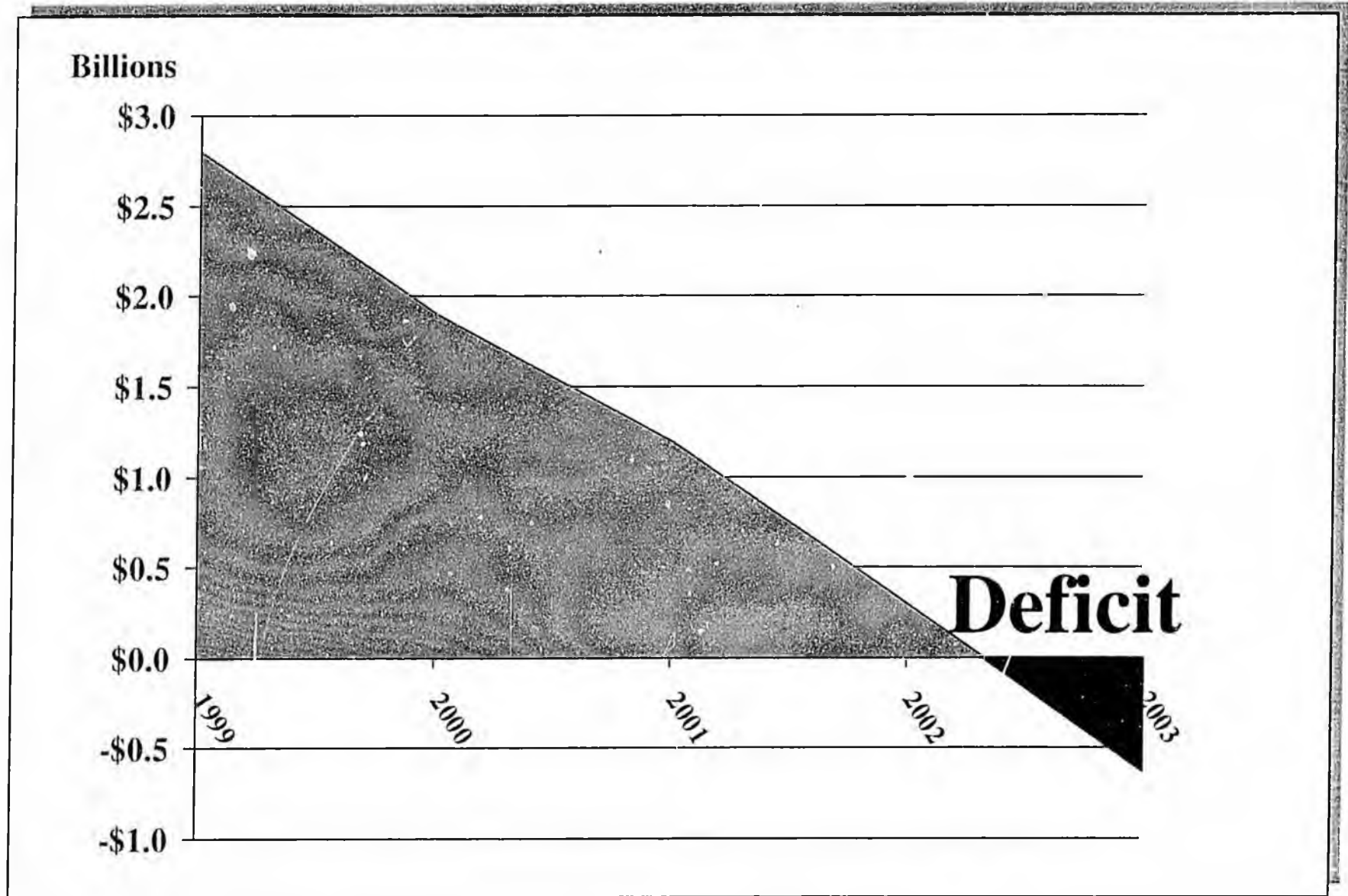
*A Balanced Budget Plan
for Alaska*

House Finance

4/22/99

- **We need a long-term balanced budget plan to provide Alaska families a secure economic future.**
- **Higher oil prices do not change the need to act now!**

Constitutional Budget Reserve



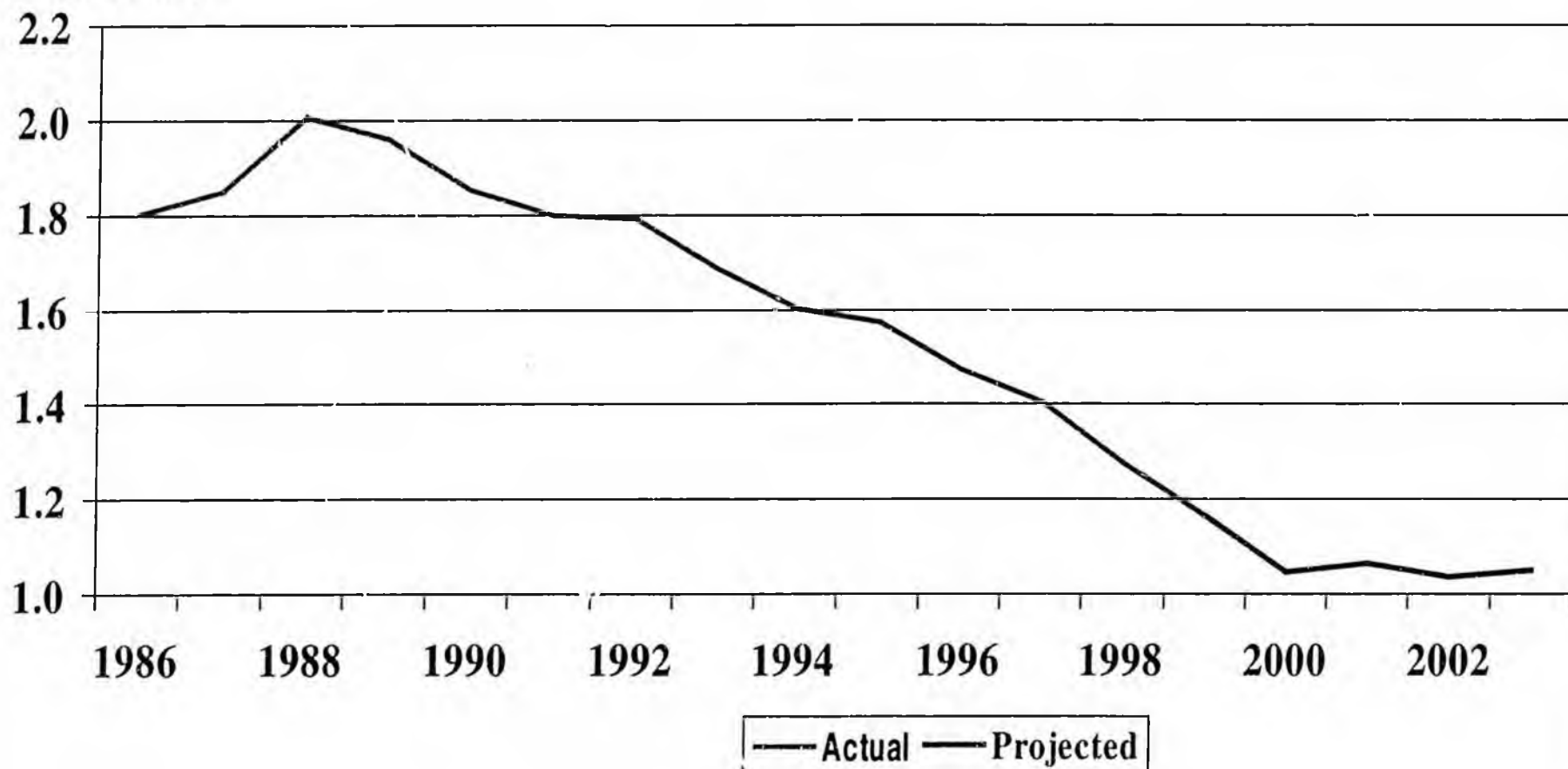
Month/Year

Constitutional Budget Reserve Exhausted

<i>Operating Budget Annual Change</i>	Average ANS Oil Price at West Coast Destination			
	\$10.50	\$12.50	\$14.50	\$16.50
Hold the line	Jan-02	Jul-02	Jan-03	Sep-03
Cut \$40 million this year then hold the line	Feb-02	Aug-02	Feb-03	Nov-03

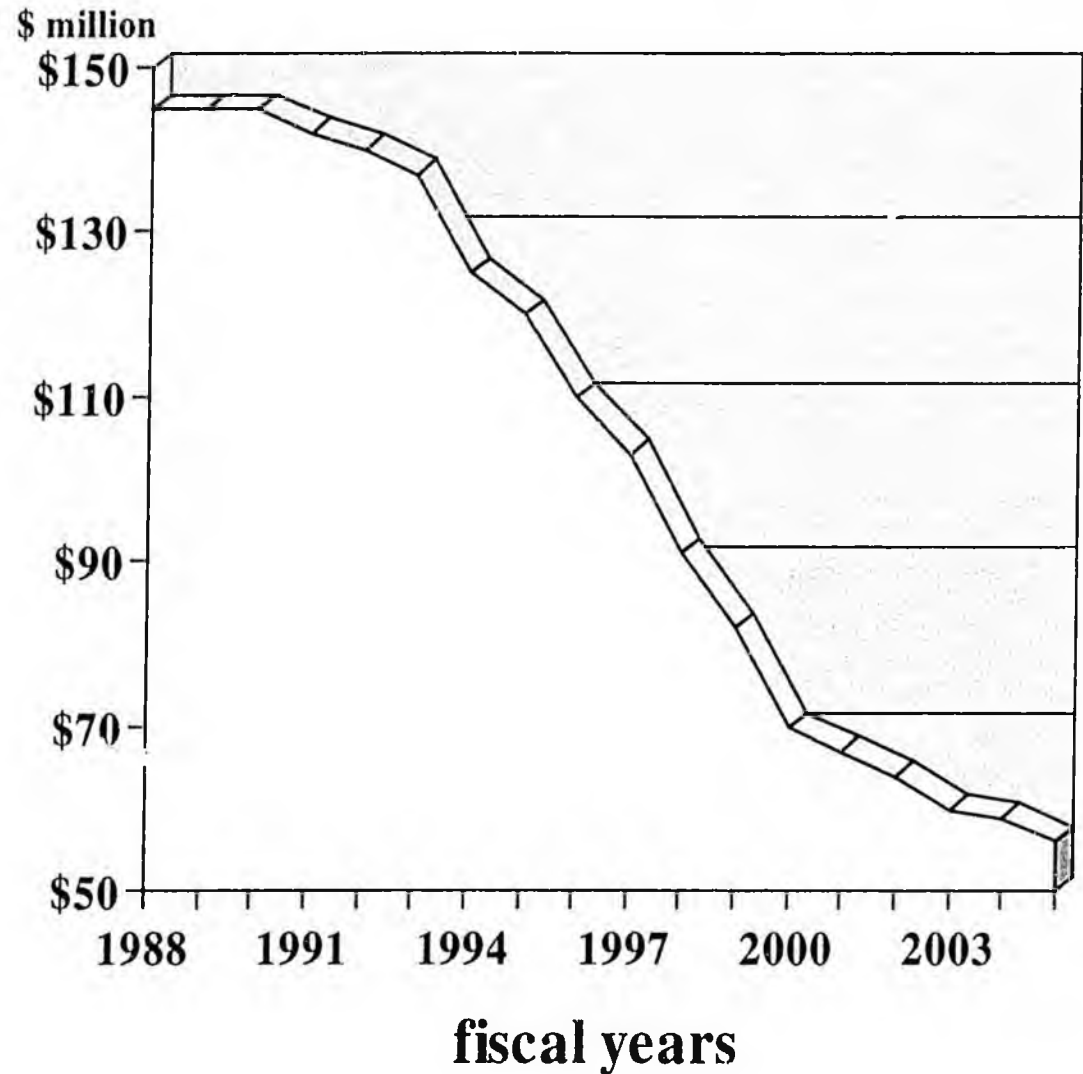
Alaska North Slope Production Volume

Million bbl/day



Annualize \$1 per barrel effect on general fund unrestricted revenue

FY	\$ million
1988	145
1990	145
1992	140
1994	125
1997	103
1998	91
1999	82
2000	70
2001	67
2002	64
2003	60
2004	59
2005	56



Governor Knowles believes any balanced budget plan should meet five principles:

- Produce a long-term balanced budget;
- Protect Alaska's children, maintain vital public services - especially schools - and our pro-business economy;
- Protect and grow our savings accounts;
- Continue a sizable Permanent Fund Dividend; and,
- Changes to the Alaska Permanent Fund or dividends should be made with a vote of Alaskans.

Principles Shape a Plan

- To preserve a healthy dividend, Alaska needs a broad-based tax.
- Eliminating a healthy dividend and avoiding a broad-based tax means non-residents don't pay for their use of Alaska's public services.

Governor Knowles' Proposal

- **Use Permanent Fund Earnings**
 - transfer \$4 billion in Permanent Fund earnings now to a separate fund (CBRF)
 - transfer additional earnings if and when needed (currently projected between 2010 and 2014)

- **New or Enhanced Revenue Sources**
 - a broad, general tax
 - more aggressive investment of separate fund (CBRF)

- **Responsible Budget Reductions**

Other approaches could balance the budget including:

- **A separate fund structured differently**
- **Annual use of Permanent Fund income**

But only a balanced approach which includes using (1) Permanent Fund earnings; (2) a broad-based tax; and (3) responsible budget cuts will both balance our budget and preserve a sizable annual Permanent Fund Dividend.

Principles on which the Governor is weighing balanced budget plans

- **Does it produce a long-term balanced budget as far into the future as one can reasonably predict?**
- **Does it keep a healthy Alaska pro-business economy and provide vital services, including schools and the protection of Alaska's children?**
- **Does it protect and grow our savings accounts, the Permanent Fund and the Constitutional Budget Reserve?**
- **Does it continue to generate a sizable Permanent Fund dividend?**
- **Does it require a vote of Alaskans before changing the Permanent Fund or dividends?**



THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

Written Testimony by the Alaska Support Industry Alliance to the Alaska State House Finance Committee

April 22, 1999

by Karen Cowart, General Manager

The Alliance is a statewide trade organization formed 20 years ago to provide a collective voice for companies that provide goods and services in support of oil and gas exploration, development and production. Although The Alliance does not include all support businesses in the state, most of the major players are members. Like most trade organizations, we believe our membership reflects the industry as a whole.

The Alliance has 300-plus member businesses, organizations and individuals that operate and work all across the state, from the North Slope to the Kenai Peninsula. Collectively, our membership employs about 25,000 Alaskan residents. While The Alliance is headquartered in Anchorage, we have active chapters and committees in Fairbanks, Kenai and Prudhoe Bay.

The Alaska oil and gas support industry is suffering difficult times in these days of low oil prices. We estimate over 3,000 people have lost their jobs within our membership during the last quarter of 1998 and the first quarter of 1999. According to industry experts, despite the recent upward fluctuation, overall low oil prices will likely go on for another one to two years, perhaps longer.

As difficult as times are, it is critical that we *do not lose sight of the future*, when the economic climate changes and opportunities re-emerge. The most important thing that state government can do *right now* is to ensure that Alaska is poised to encourage and take advantage of future resource development. And that means balancing the budget, *this year*.

I think it is important to note that The Alliance has advocated a balanced state budget virtually since its inception in 1979. Closing the state's fiscal gap *remains as our top priority* this year. Why? Because the financial status of state government will dictate our members' livelihood by either encouraging future petroleum investments, or by chasing investors away.

Unchecked, the rising fiscal gap between state revenues and expenditures projects an image of an unstable, irresponsible government. It generates uncertainty among potential and existing industry investors. It is critical that oil companies view Alaska as a *stable place to invest in* when oil prices rise in the future.

For this reason, The Alliance is heartened to see *bipartisan efforts* to address the state's most serious problem, the budget. We *applaud the governor* for coming to the table with a proposal that has served as the catalyst for meaningful dialogue on various measures to balance the state budget.

We understand that there are now several plans that address the budget gap. The Alliance Board of Directors has not reviewed these plans in detail, nor can we provide comment on specific plans at this time. We can, however, provide the support industry's perspective regarding several tools, many of which are included

as elements to the plans now on the table. The Alliance polled its membership in mid-March to discover which tools are most palatable. This is what we found:

State Government Spending Reductions

The vast majority - 98% - of Alliance members *support continued cuts* in government spending. About three-fourths (76%) picked spending cuts as the *top choice* of methods to balance the budget. Most agreed that *spending reductions should occur before any other revenue sources are established.*

The state of Alaska can no longer do business as usual. The Alliance looks to the leadership in the House, the Senate and the Administration to make thoughtful decisions that will realize greater efficiency in government, whether it be by results-based budgeting, consolidation of government programs, elimination of non-essential services, use of a two-year budget cycle, and/or privatization of some government functions.

Cutting the budget must be done in a way that will not cripple the state's economy and infrastructure. Over the years, government has incorporated more and more programs, not all of them mandated by the constitution. We must identify the essential programs, and closely review those programs that may be "nice" but not necessary.

As citizens, we may have our opinion on programs in government, but we are not privy to all the information that is available to legislators and administration officials. We have elected you to research information about government programs and then decide what can be reduced or eliminated without harming the state.

I'd like to emphasize that The Alliance has always supported efforts to reduce government spending as the *first and foremost* method of balancing the budget. We still do, but we also realize spending cuts alone will not close the billion-dollar-plus gap. The time has come to consider all options.

Permanent Fund Undistributed and Unrealized Earnings

Using some portion of the Permanent Fund's undistributed or unrealized earnings to fund government is acceptable to *eight out of 10* Alliance members. Two-thirds (64%) supported use of some, but not all of the fund's unrealized earnings, while 16% said use it all, if necessary.

Limiting (or eliminating) the Permanent Fund Dividend, and using the remaining earnings to fund government services, was acceptable to *seven out of 10* of responding Alliance members.

We understand that the Permanent Fund Dividend is a significant contributor to the economy, and that it is considered by some Alaskans as income to support their families. Even so, we must recognize that the permanent fund was originally established to help fund government in a time of declining oil production and revenue. That time has come, at least for now.

Taxes

The Alliance has never taken a position in support of taxes. We will not endorse a tax now, but we understand taxes may need to be considered. If a tax is absolutely necessary, we believe it should be levied so that all Alaskans share in the burden of funding public services. No one segment of commerce or the public should be singled out to shoulder the burden alone.

While taxes of any type were the least popular budget-balancing tools to Alliance members, a sales tax appeared to be the most palatable taxation. About half – 52% - said they could support a state sales tax, *provided it would be levied statewide and on a fair and equitable basis.*

Alliance members *overwhelmingly oppose a state income tax.* Eighty-one percent said they “do not support” or “strongly oppose” using this tool to balance the budget.

Conclusion

In closing, I would like to leave you with this thought. The Alaska oil and gas support industry IS in crisis. Businesses are taking *immediate measures* to survive in the long term. They are realigning budgets to reflect losses in project revenues and reducing expenditures accordingly. It is imperative that the state does the same. Time IS of the essence.

We recognize that these are tumultuous times, with budget decisions closely tied to emotional issues. The Alliance looks to state leaders to make sound decisions based on what is good for all Alaskans, not just a few. We are willing to do our fair share.

Thank you for the opportunity to provide testimony on this important issue.

April 21, 1999

Re: All-Alaskan Endowment

Representative Eldon Mulder:

You asked me to comment on various bills that, collectively, would change the way the State's financial assets are used to fund government. Those assets are in the Permanent Fund, the Budget Reserve Fund and the Earnings Reserve Account. I assume that the objective of the bills' proponents is to bring about sustainable spending.

I've read the bills and can only conclude that spending would still be unsustainable under the proposed system. The endowment that would be employed in the attempt to make spending sustainable lacks essential elements.

(1) Initially, the endowment must be composed of all of the financial assets that are subject to appropriation under the present system. The proposed endowment satisfies this requirement. Indeed it includes assets that are not subject to appropriation (the Permanent Fund's assets).

(2) All of the oil money received in the future must be added to the endowment. What's proposed does not satisfy this requirement, because most of that money would continue to go into the General Fund. Since it is paid to the State in such irregular amounts, it is not sustainable. (Do we need any more proof of this fact?)

(3) The amount withdrawn from the endowment for spending each year must be limited to expected real growth from investment (about 5% of the market value of the endowment's assets). That much is sustainable. Any more than that taken out of the endowment would not be sustainable. The proposal satisfies this requirement (if a favorable construction is given to the bills).

(4) Even if all three of the above requirements were satisfied, the endowment would have to be established by constitutional amendment. Otherwise, subsequent legislatures would change the system when they wanted more money to spend, and unsustainable spending would resume. Besides, isn't it for the people and not the Legislature to define legislative authority?

Note that a proper endowment would deprive the Legislature of resources that it is accustomed to having. The oil money in the General Fund and the Budget Reserve Fund would be missing. It would be good riddance, however, because that's the money that causes the problem.

The oil money comes into the General Fund in amounts that aren't sustainable. Thus, in some years estimated receipts are low and there's a gap between them and proposed expenditures. The Legislature struggles to close the gap by increasing non-oil receipts and reducing expenditures. If it isn't closed, the gap is conveniently bridged for one or more years with reserves from the Budget Reserve Fund. When the reserves are exhausted, however, the gap must be closed. At that point the drop in spending, particularly if the gap has grown during the period of bridging, can be precipitous.


An endowment takes that problem-causing money off the table, converts it to sustainable revenue and puts it back on the table. Spending becomes sustainable.

None of the problem-causing money can be allowed to by-pass the endowment, because if any substantial part of what is spent is unsustainable, necessarily spending is unsustainable. That's why the elements of the endowment, enumerated above, are essential.

Other comments that could be made about the bills would not go to the heart of the matter. For instance, one could question the authority of a legislature to direct a subsequent legislature, expressly or impliedly, to appropriate money for a certain purpose, or to impose a cap on what can be appropriated for that purpose, or to require that the money be appropriated from a certain fund. And a question could be raised as to a legislature's authority to avoid the constitutional requirement of a three-quarter vote by "appropriating" (since an appropriation is an authorization to spend, transferring) the assets of the Budget Reserve Fund to the Alaska Income Account.

And it's beyond the scope of this brief note to comment on the incidental advantages of an endowment, such as its effect on the State's credit and on private investment in resource development.

I hope these comments are helpful. Incidentally, this will be sent to two other legislators who have asked me to comment on the bills.



Roger Cremo



Comments by

Cheryl Frasca to House Finance Committee, April 22, 1999

Criteria to Evaluate Fiscal Plans

Purpose

Advance identification of a financial plan that closes the state's fiscal gap and fosters the long-term prosperity of the Alaskan economy and its people.

Evaluation Criteria

1. **Stability**
 - a) Stable and predictable annual flow of revenues
 - b) Predictable tax regime
 - c) Stable spending
 - d) Ability to adjust to changing needs
 - e) Can be implemented

2. **Sustainability**
 - a) Protects and grows the Permanent Fund
 - b) Maintains revenue generating capacity of other financial assets
 - c) Advances financial investment policies that achieve maximum financial return

3. **Fairness**
 - a) Trade-offs between taxes, dividends, and public services are balanced across all Alaskan households, businesses, and communities
 - b) Links economic activity and a return to the state treasury
 - c) Connects Alaskans to financial decisions
 - d) Provides a smooth transition between any change in the size of dividends, taxes, or public services

4. **Simplicity**
 - a) Disposition of revenues and financial earnings is understandable
 - b) Clear definition of each element's composition and purpose

5. **Complete and full disclosure**
 - a) Uses reasonable assumptions for revenue generating capacity of natural resources and financial assets
 - b) Uses reasonable assumptions for population growth and composition change, and inflation
 - c) Balances revenues and spending for at least twenty years
 - d) Clearly accounts for all revenues, current spending and future financial commitments





**Comments on
"All Alaskan Plan"
Cheryl Frasca
House Finance Committee
April 22, 1999**

The following comments are offered on the "Alaska Alaskan Plan," based on the Fiscal Policy Council's criteria it developed to evaluate fiscal plans.

Overall

- Real value of the state's financial assets remains approximately constant through 2025. As long as the withdrawal rate is consistent with the long-run real rate of return on financial assets, there is no significant decline in value.

Evaluation using the Council's criteria for long-term plans

1. Stability

- Flow of revenues from financial assets will be relatively stable if the withdrawal rate is constant.
- Flow of revenues from other sources is not necessarily stable. Fluctuating oil revenues can still impact revenues available in a particular year. A separate fund or account could serve as a "shock absorber" on a temporary basis and providing an opportunity to implement other revenue generating measures.

2. Sustainability

- Plan's provisions that contribute to sustainability:
 - Proper selection of the withdrawal rate
 - Inclusion of market value of all financial assets in the base for withdrawal formula
 - Automatically Inflation-proofs
- An "endowment rule" creates the potential for the Permanent Fund to earn a maximum return consistent with an appropriate risk target

3. Fairness

- Dividend and general fund spending compete directly for available revenues. This can lead to more accountability and public involvement in the allocation of public resources
- Budget gap is filled through a combined use of tools: reduction of the dividend, use of financial earnings, budget cuts, and new taxes
- No broad-based tax is imposed in the near-term; recognizes the potential for a broad-based tax in the long term
- No solution to the "Alaska Disconnect" through which current economic development activity would not contribute to the state treasury through a broad-based tax



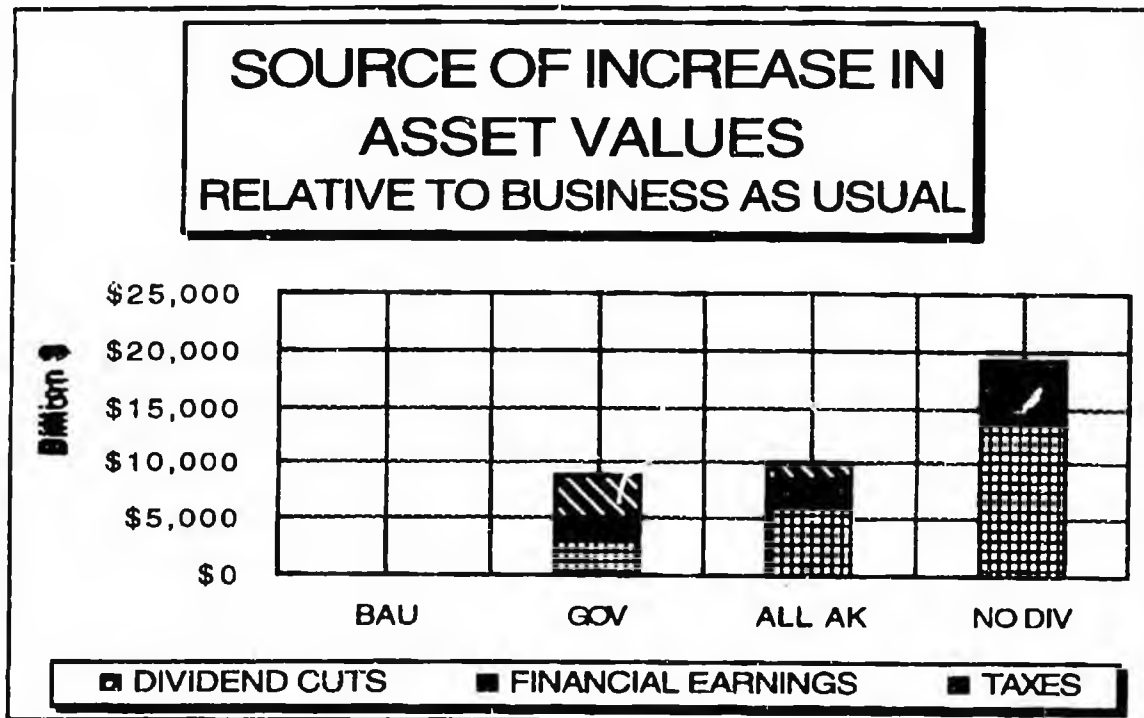
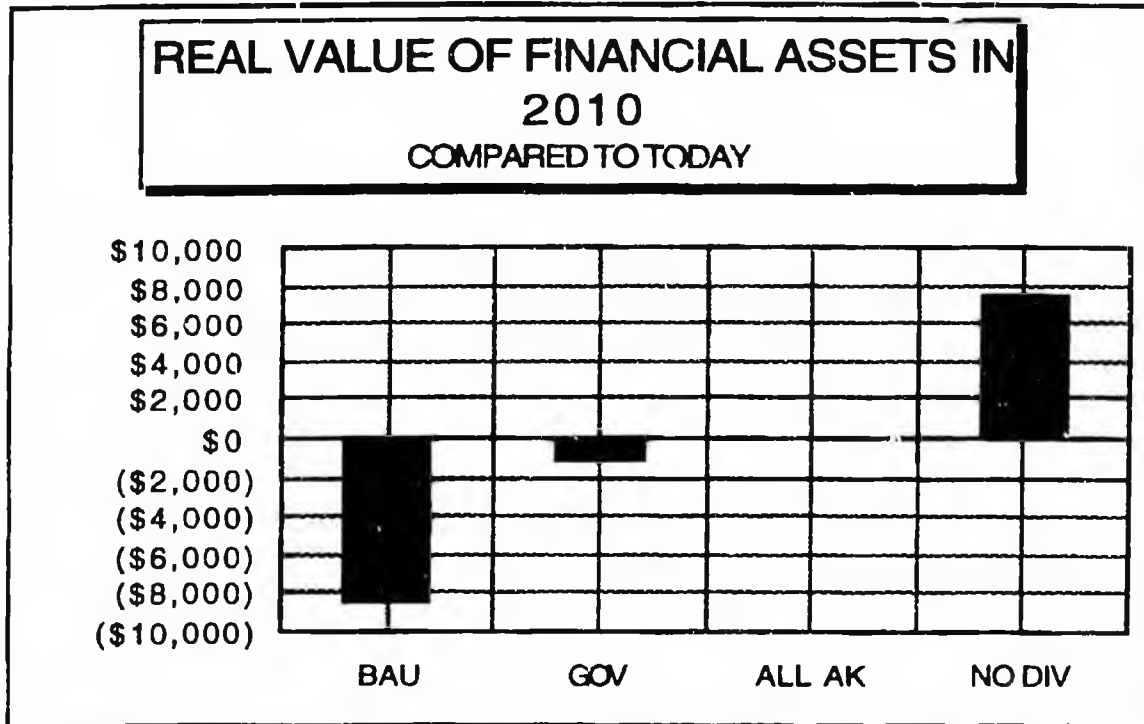
4. ***Simplicity***

- No new fund(s) created
- Permanent Fund and Alaska Income Fund have clear purpose
- Can be implemented with only a change to the CBR
- Retains flexibility in the use of earnings of financial assets (no dedication of earnings to particular purposes)

5. ***Completeness***

- Recognizes the need to use all the tools
- Assumptions are reasonable

Fiscal Policy Council of Alaska
 House Finance Committee * April 22, 1999



BAU="Business as Usual"

Analysis by
 Dr. Scott Goldsmith, UAA ISER

4



WORKING TO PROMOTE
ALASKA'S LONG-TERM
FISCAL CERTAINTY

FISCAL SENSE

AN UPDATE ON CLOSING ALASKA'S FISCAL GAP • ISSUE #5 • WEEK OF APRIL 12, 1999

In evaluation of fiscal plans . . .

Goal: Sustain value of state's financial assets

In between its work on next year's state budget, the Finance Committees are reviewing various ideas on how the state can close the gap between spending and revenues. Most use the same tools—spending reductions, permanent fund earnings, new and/or increased taxes—in different ways to get different results.

To evaluate ideas, the Council is working with Dr. Scott Goldsmith, an economist with UAA's Institute for Social and Economic Research (ISER). The Council believes any plan to secure the state's financial future must sustain the real value of the state's financial assets since they are the primary source of revenues for the foreseeable future. To "pass" this test, the inflation-adjusted value of the state's financial assets (CBR, Permanent Fund, and general

funds) must be at least as great in year 2010 as today.

To objectively compare proposals, the model standardizes assumptions. By using the same "inputs" (rate of return on financial assets, projected revenues from oil and non-oil, inflation, population, and general fund spending), a plan can be judged on how well it sustains asset value.

The accompanying charts describe three basic scenarios. Chart #1 and #2 represent the "extremes." Chart #1 is "business as usual" in which no structural fiscal changes are made. Chart #2 illustrates what happens if Permanent Fund dividends are no longer paid. Chart #3 shows how PF dividends are impacted when earnings are first used to sustain the real value of financial assets.

What happens if . . .

Chart #1: Business as Usual

Illustrates

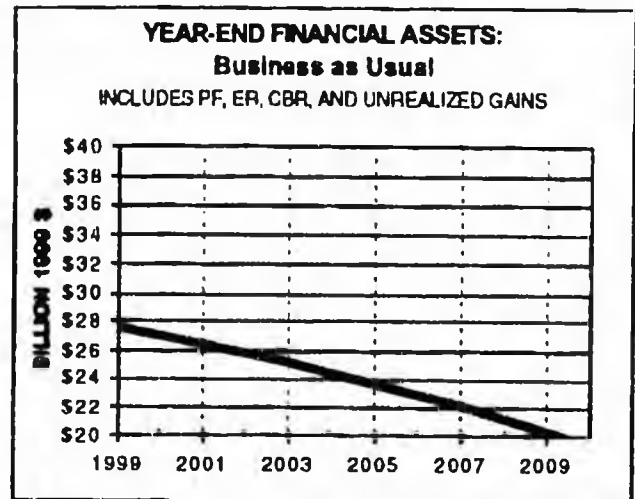
- How long financial assets last with no change in the state's fiscal policies

How works

- All financial assets (including the PF) and earnings are used as needed to pay for general fund spending and dividends

What it means

- CBR is exhausted in FY 2003
- Financial assets (including the PF) decline to less than 70% of current value by 2010
- Financial assets disappear entirely about 2020



FISCAL POLICY COUNCIL OF ALASKA • FISCAL SENSE • WEEK OF APRIL 12, 1999

What happens if . . . (continued)

Chart #2: No PF dividend

Illustrates

- If the state budget can be financed from current sources if the dividend were eliminated

How works

- Status quo except PF dividends are no longer paid

What it means

- Value of the state's financial assets grow 25% by 2010 and offset decline of oil revenues
- Financial assets continue growing well beyond 2025

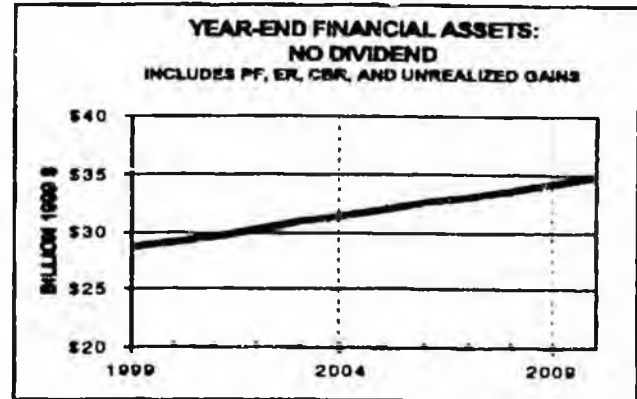


Chart #3: Sustain real value of assets

Illustrates

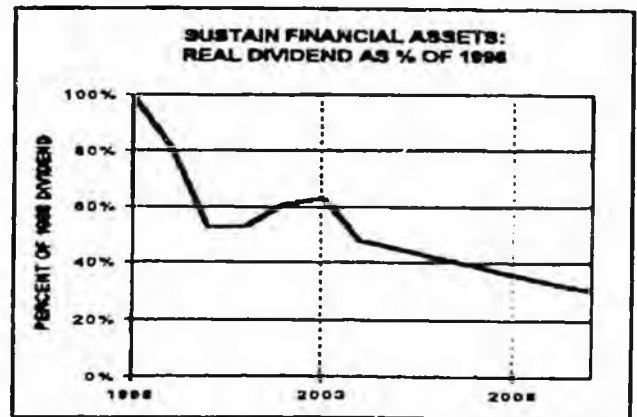
- What size of dividend is consistent with sustaining the real value of financial assets

How works

- Financial earnings are allocated among inflation proofing, the dividend, and GF spending to maintain the real value of financial assets

What it means

- The real value of the dividend falls to 30% of current value in 2010
- Dividend disappears about 2025



About the model . . .

The Council is using this model because it focuses on the "big picture" and highlights two important indicators of the state's long-term fiscal health: value of financial assets and the level of general fund and dividend spending.

By standardizing assumptions, it enables plans to be compared on a level playing field. Three sets of assumptions (base, optimistic, and pessimistic) allow plans to be compared under different conditions (the base case is reflected in the above charts).

Base case assumptions:

Years 1999 to 2003	Real	Nominal
Rate of Return long	4.5%	7.6%
Rate of return short	2.5%	5.6%
Oil revenues	DOR April 1999 forecast	
Non-oil revenues	Grow \$10 million/year	
GF spending	Flat except K-12 at 1.5%	
Inflation	3.0%	
Population	1.1%	

Years 2004+	Real	Nominal
Rate of Return long	4.5%	7.6%
Rate of return short	2.5%	5.6%
Growth rate oil revenues	-3.0%	-0.1%
Non-oil revenues	0.0%	3.0%
Growth rate personal inc tax	0.0%	
Growth rate other revs to GF	0.0%	
GF spending	0.0%	3.0%
Inflation	3.0%	
Population	1.1%	

The Fiscal Policy Council of Alaska, Inc. is a nonpartisan, nonprofit, member-supported organization dedicated to promoting the state's long-term fiscal certainty through research and providing objective information about Alaska's finances. "FISCAL SENSE" is written by FPCA board member Cheryl Frasca, a longtime budget-watcher. The Council can be reached by calling (907)258-2331; fax 258-2332; exdir@fiscalak.org.

Ken Lester
Box 373
Kodiak, AK 99615

Ph: (907)486-3376
Fax: (907)486-4488

From
Hon. Alan Austerman
Alaska State House
Juneau, Ak.

Dear Alan:

THE PROBLEM: How fund State Government into the Future.

ANSWER: Set up an account that makes enough earnings in FY This Year to fund FY Next Year.

SOLUTION: Begin an Alaska Income Account that the people of Alaska will get behind and support.

WHERE DO THE BEGINNING FUNDS COME FROM: Somehow this Account needs a substantial cash infusion that will allow it to quickly begin to earn enough to inflation proof itself and fund at substantial amount of Government as it builds to fund all of Government.

It is readily apparent to me, in talking to regular voters (I have not discussed this with Government Workers), that they would support moving half (50%) of the Permanent Fund Principal into this ACCOUNT if the Permanent Fund remainder stayed as is and was administered the same. They also do not understand how the Permanent Fund operates. (ie Inflation Proofing, Dividends, and Excess Earnings) When I suggest that the CBR and Excess Earnings could be added to this ACCOUNT they are lost.

It is also readily apparent that they are deathly afraid that the Legislature is going to gain excess to the Permanent Fund Principal and squander the principal. They seem to be supportive of establishing the ACCOUNT if it is set up in the same manner as the Permanent Fund. (ie. Inflation Proofing and the remaining earnings going into the General Fund)

I have found that they are really really set against having the Permanent Fund dry up and be gone with respect to the Annual Dividend Checks. They understand that some of the Permanent Fund will more than likely have to be used to balance the budget. Governor Knowles plan to move \$4 billion into the General Account went over like a ton of bricks on the top of the head. This would be spent and gone in no time is the feeling.

In explaining that the ACCOUNT would be set up by the Legislature and thus allowing the rules to change at their whim in respect to the principal of the ACCOUNT is also not acceptable. They are for a vote of the people to set up the ACCOUNT in such a manner that the People would have to allow, by vote, the principal to be used. The lesson of the Permanent Fund Principal needing a vote of the people is a safety net that they are well aware of and appreciate.

One of the ideas that Governor Knowles has now is that of set aside funds for certain costs of Government. Such as the Highway Funds coming from the gasoline taxes. This in my opinion is the worst mistake that can be made. I feel that it is imperative that the funding of Government needs to remain in the hands of the Legislature. Once special accounts are set up there will be more to come until all of the budget is accounted for prior to any discussion of what is need where. In order to continue funding as needed year to year we need to stay with the present system or Government will run without fiscal control.

The State Budget shortfall is approximately \$1.2 billion this year. The excess earnings of the Permanent Fund is close to this amount this year. If \$18 billion is the amount of the Permanent Fund Principal this year, then we need to start the ACCOUNT with about \$18 billion. If the CBR, Excess Earnings, and Unrealized Gains are \$9 billion and \$9 billion (50%) of the Permanent Fund were placed into the ACCOUNT the interest gained would be somewhere along the lines of the Permanent Fund Excess Earnings, thus funding the shortfall of the budget.

Whatever happens the PEOPLE need to be involved, educated, and supportive of the ACCOUNT. As I understand the proposals today, I am against them.

I would like to see and I believe the People would accept:

1. A vote of the people set up the ACCOUNT (so the Legislature can not reach the principal without our approval)
2. The ACCOUNT be inflation proofed as part of the vote to set up the ACCOUNT (thus removing the possibility of the Legislature not appropriating inflation proofing to increase the budget)
3. At least half (50%) of the Permanent Fund Principal remain in the Fund and the dividend program continued, even if the dividend is greatly reduced. Income to the Fund would continue to be deposited to the principal as it is today allowing the Fund to grow slowly. (I believe the People would accept this over the complete loss of the dividend)
4. The Excess Earnings of the Permanent Fund (after the 50% is moved to the ACCOUNT and after inflation proofing each year and after dividends are paid each year) would be deposited into the ACCOUNT. This would continue until such time as the ACCOUNT has grown to the extent that it earns enough to cover the complete budget.

5. At the time that the budget is fully funded by the earnings of the ACCOUNT the General Fund Income that is not from the ACCOUNT earnings could be deposited into the ACCOUNT principal.

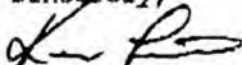
I realize that this may seem a simple plan and that the Legislature more than likely will not accept it as they will not have the control that it appears they are seeking over the Principal of the ACCOUNT. The greatest problems with the plans that I see that are being presented today is this control without input that the Legislature is trying to gain over the savings of the State.

The problems with the Governor's plans that have been and continue to be presented is that they all hinge on increased taxes without decreased Government.

It would be nice to sit down in a room full of People and debate the issues that the ACCOUNT brings to the surface and the good that it can have for the future of Alaska.

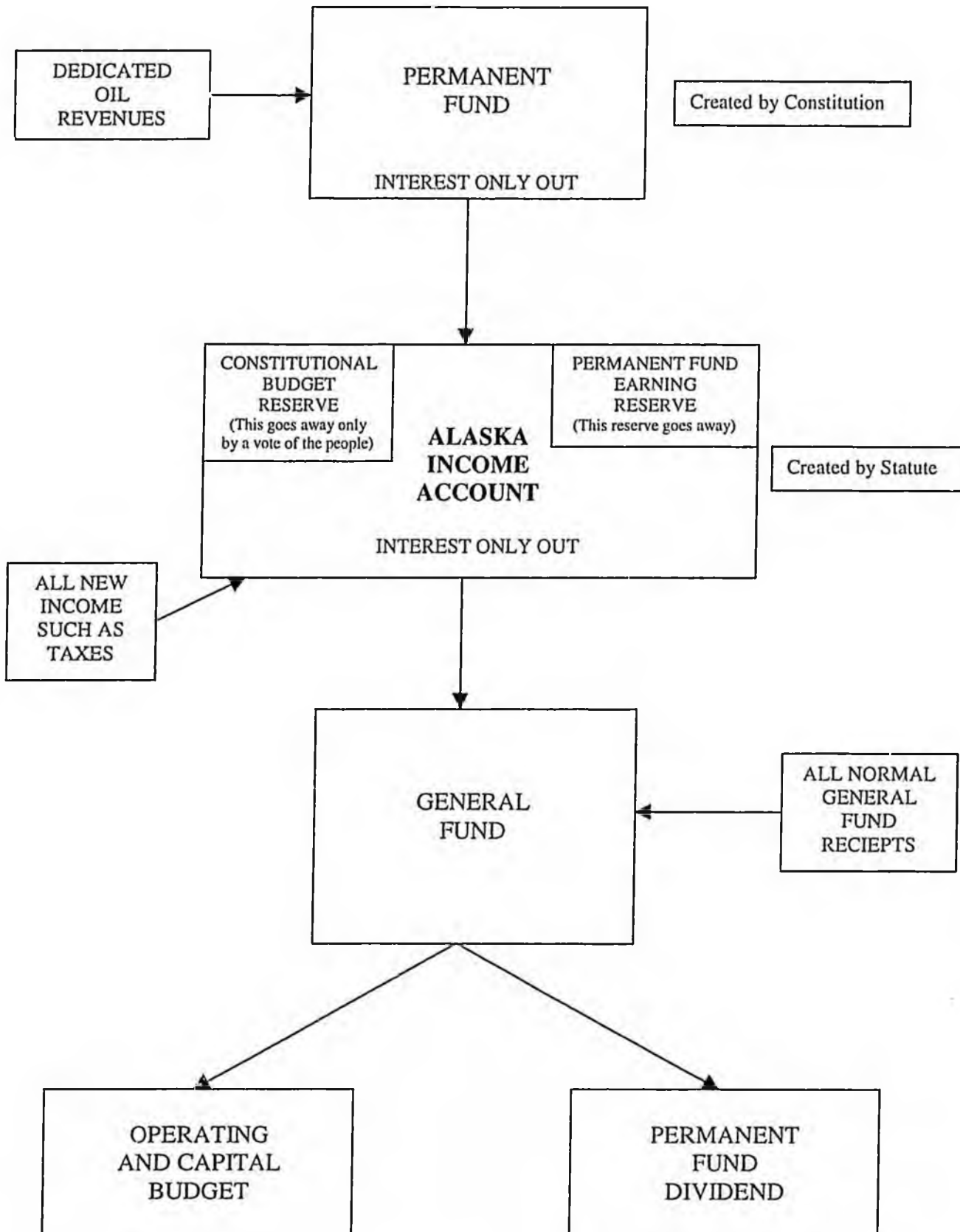
I wish you luck in trying to do the best with this idea of the ACCOUNT and thanks for trying. I will continue to beat my small drum around town and when I feel that I have enough answers and ideas I will be writing the Editor of the Mixxor, Anchorage News, Fairbanks Miner, and the Juneau paper.

Sincerely,

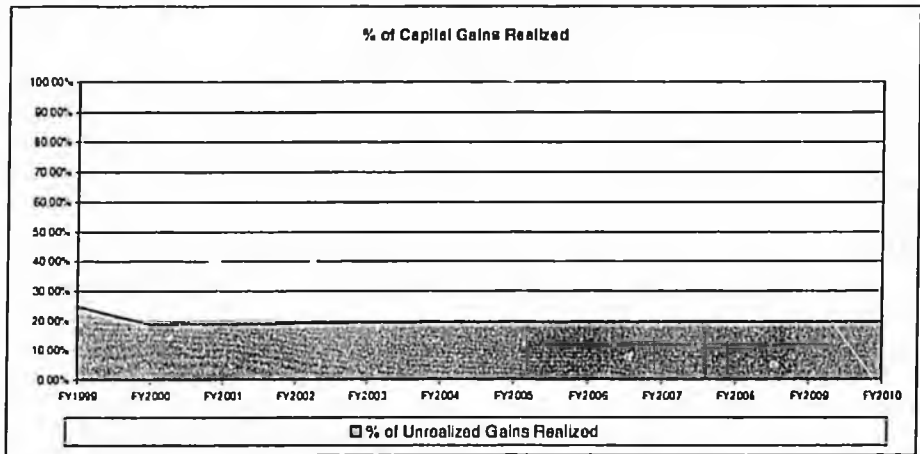
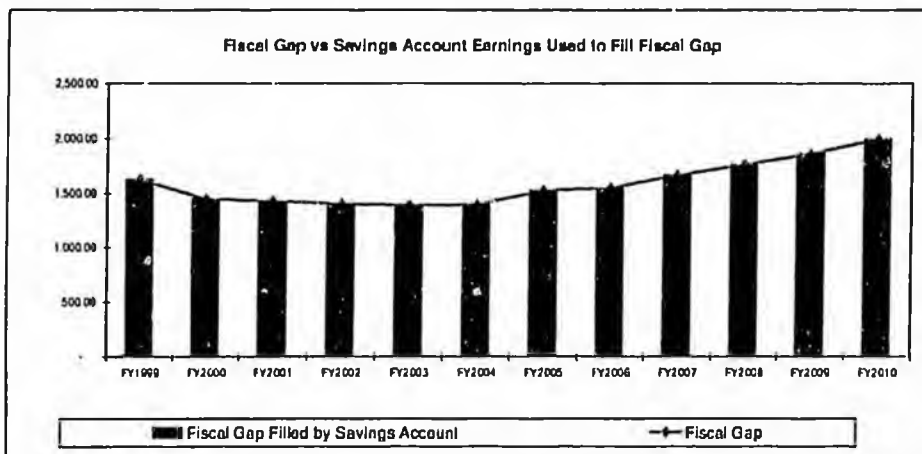
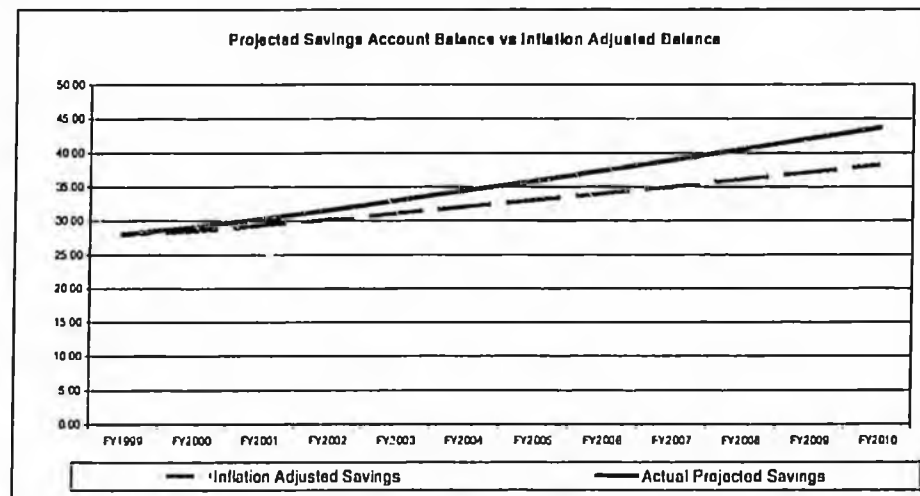
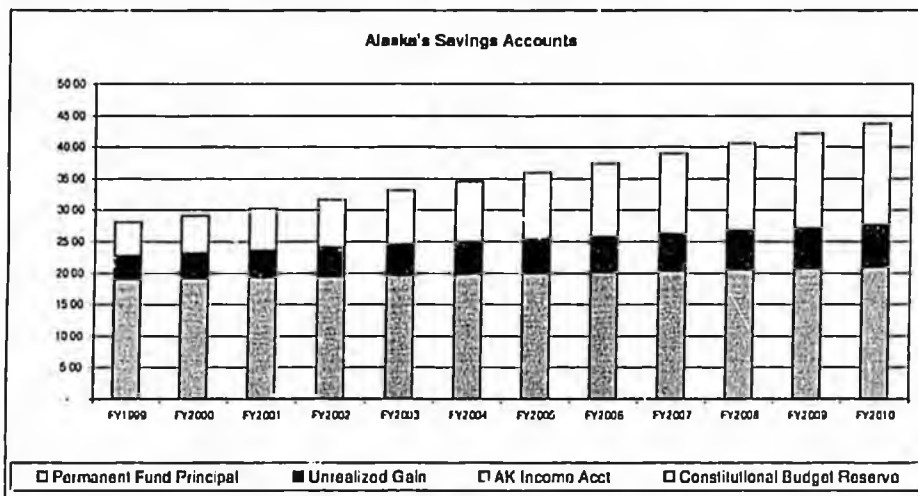
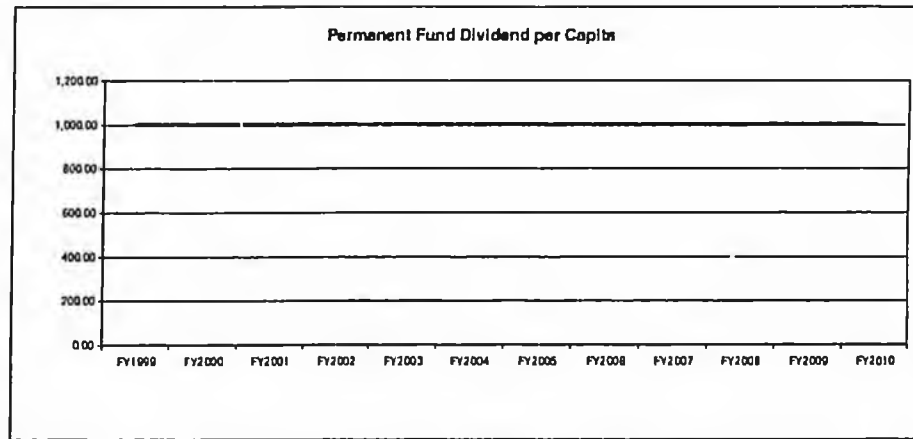
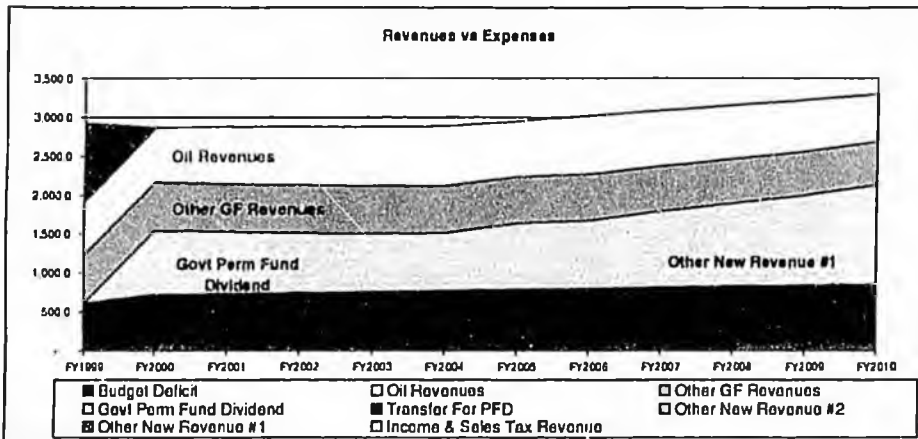


Ken Lester

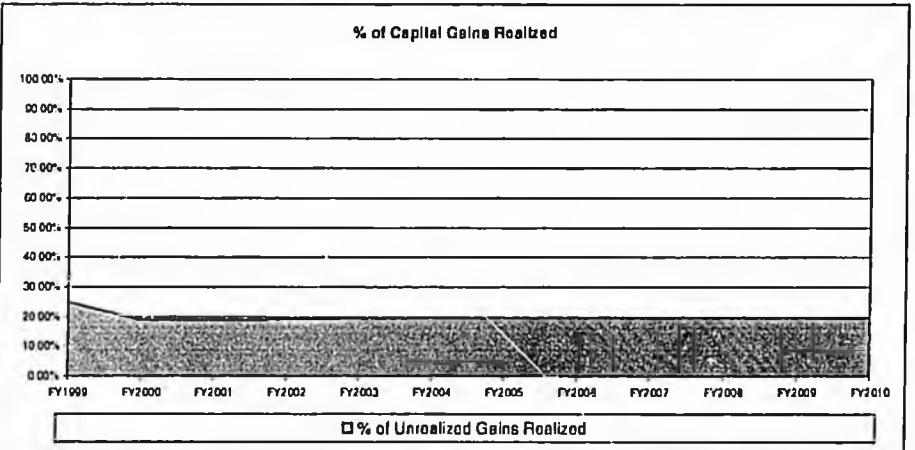
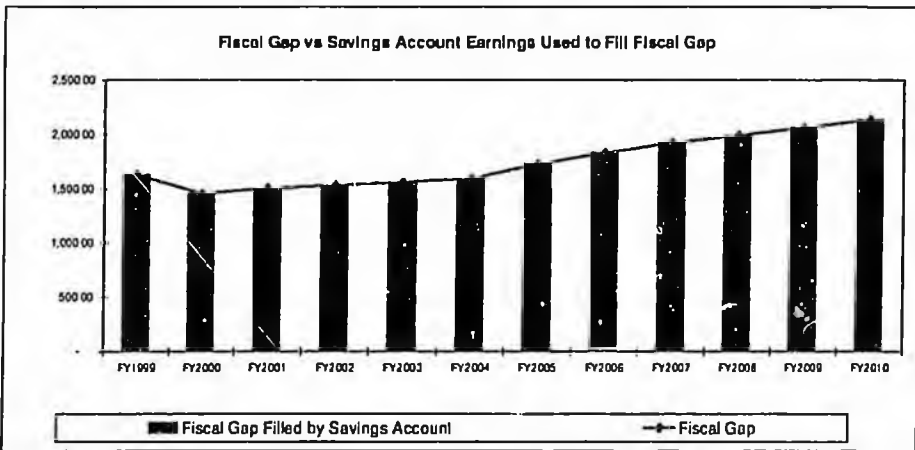
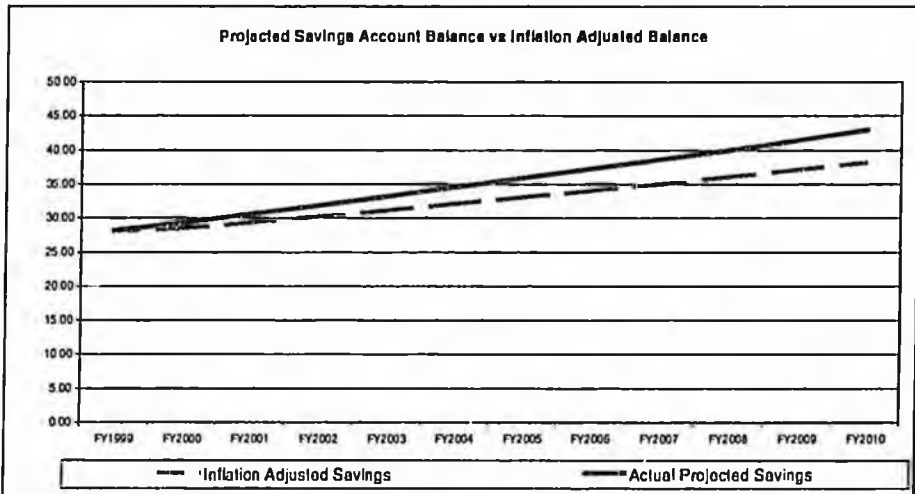
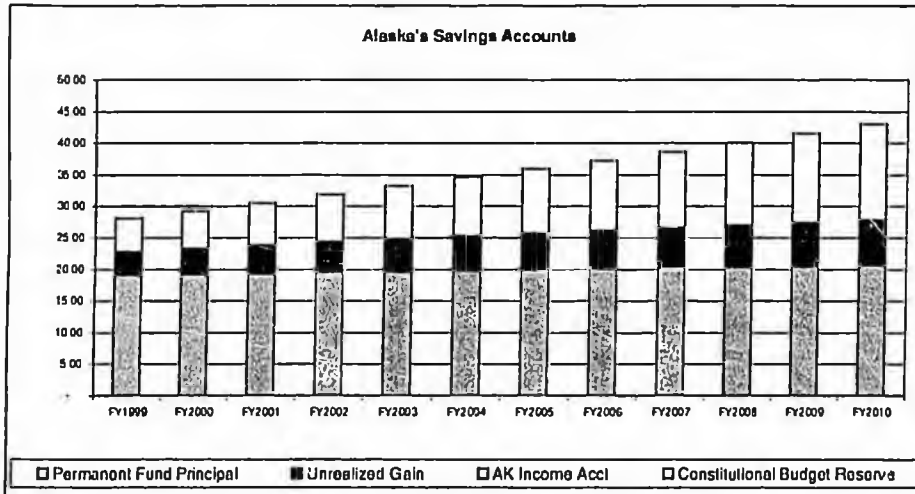
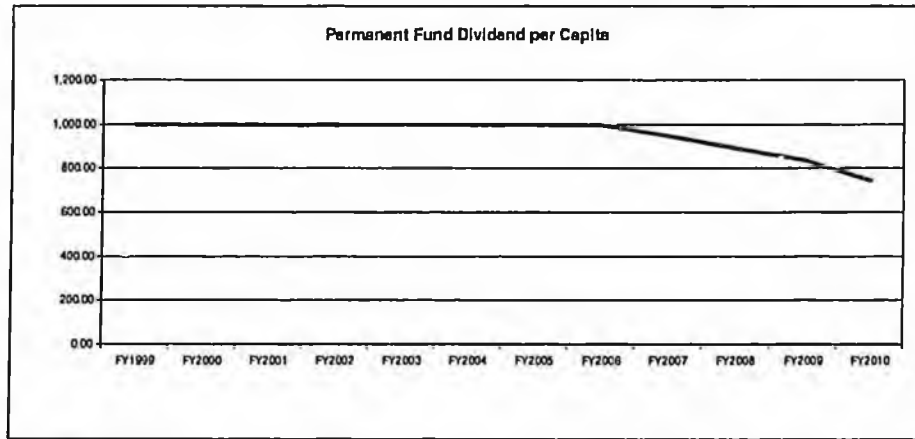
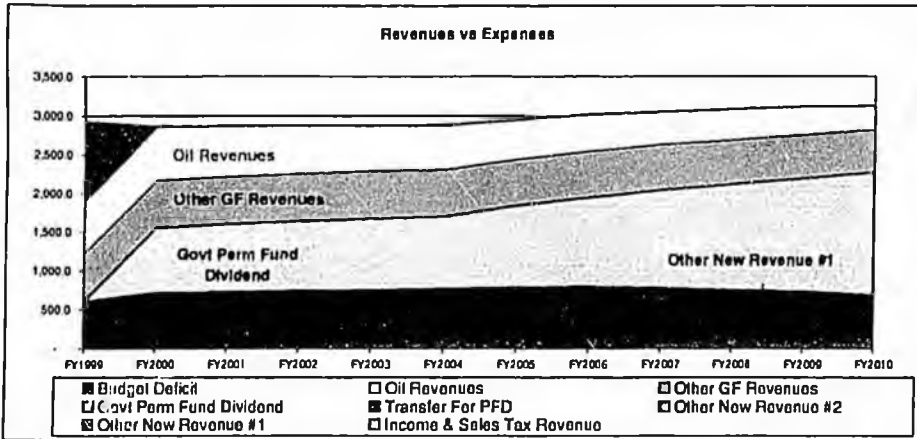
ALASKA INCOME ACCOUNT PLAN



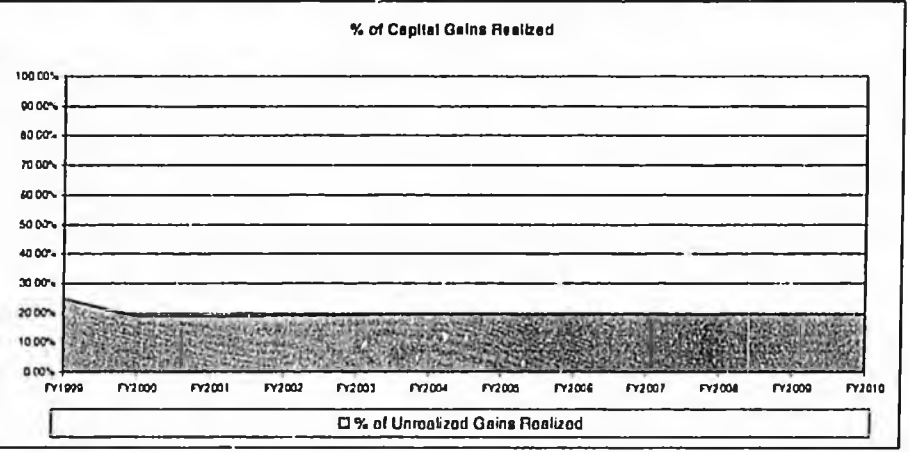
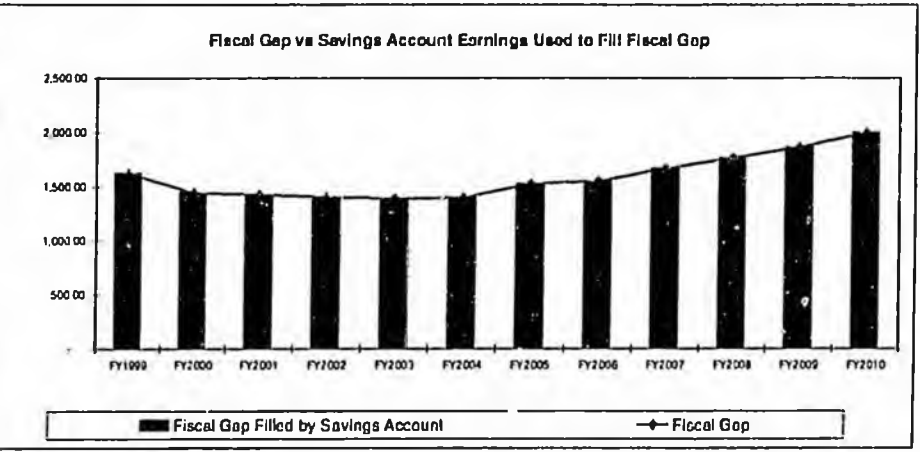
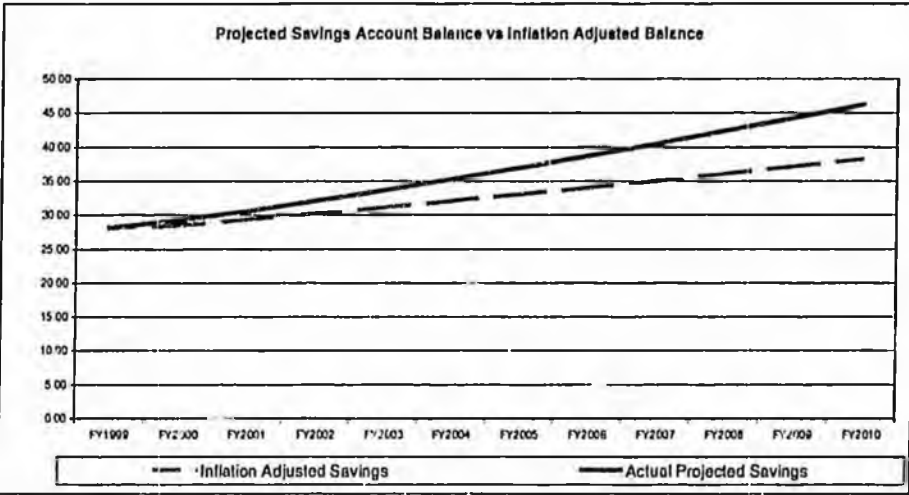
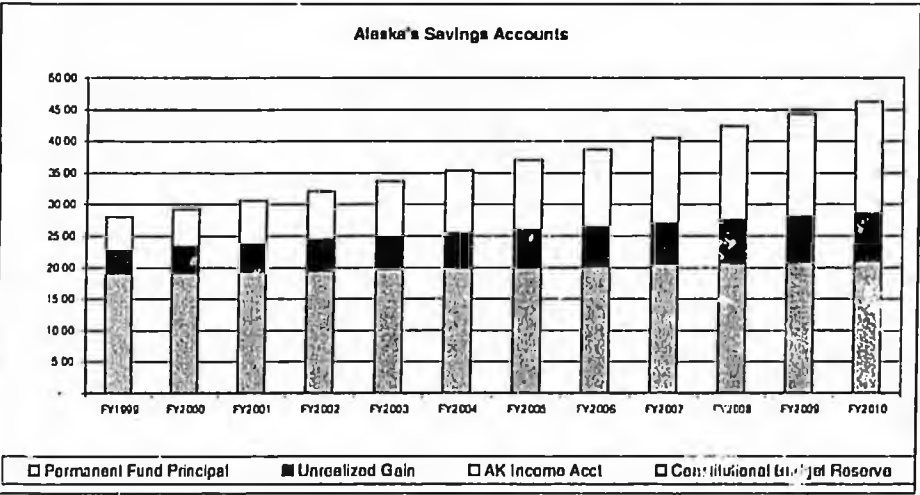
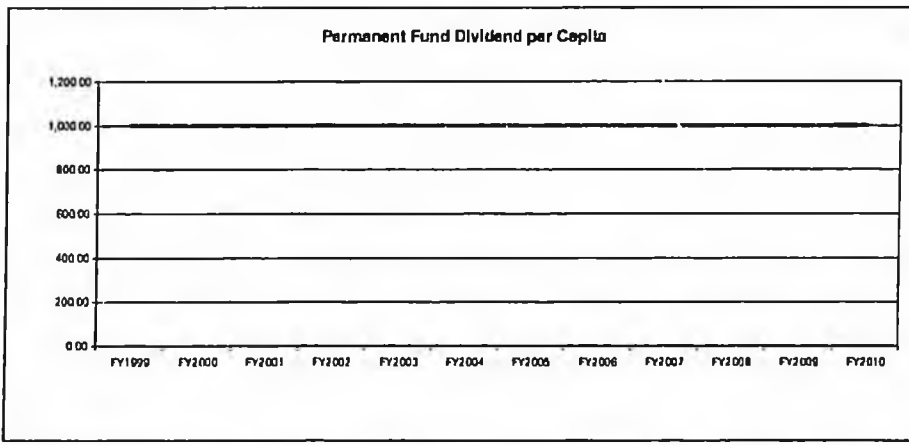
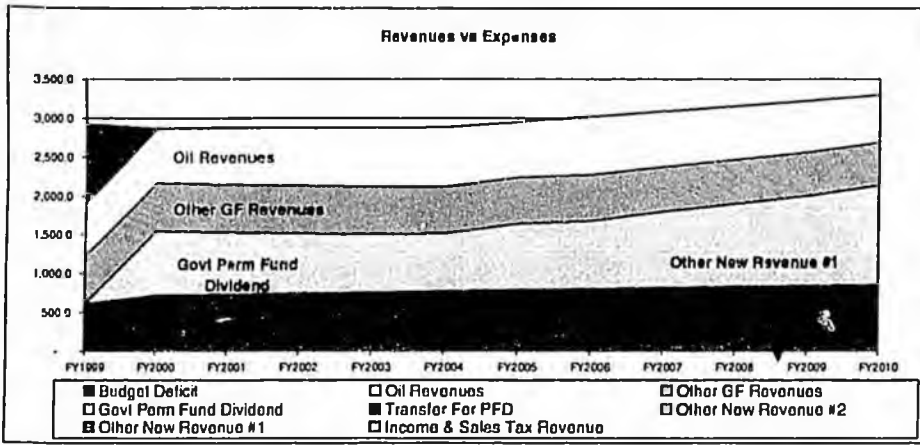




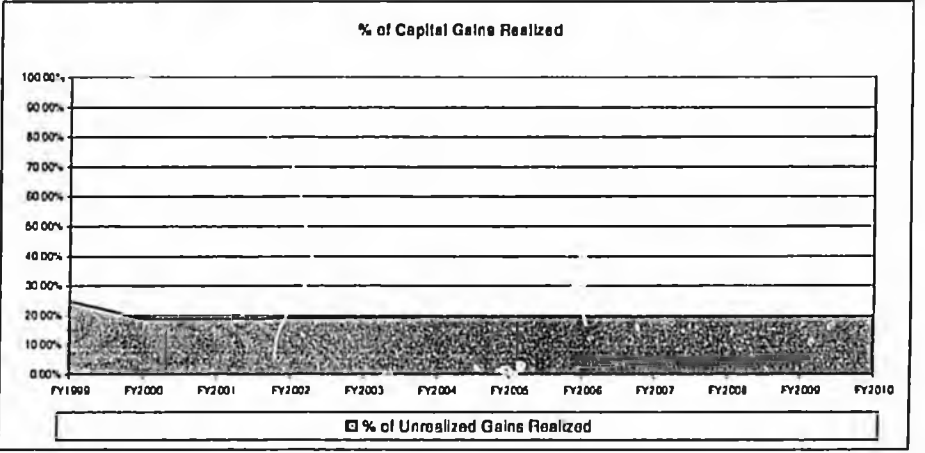
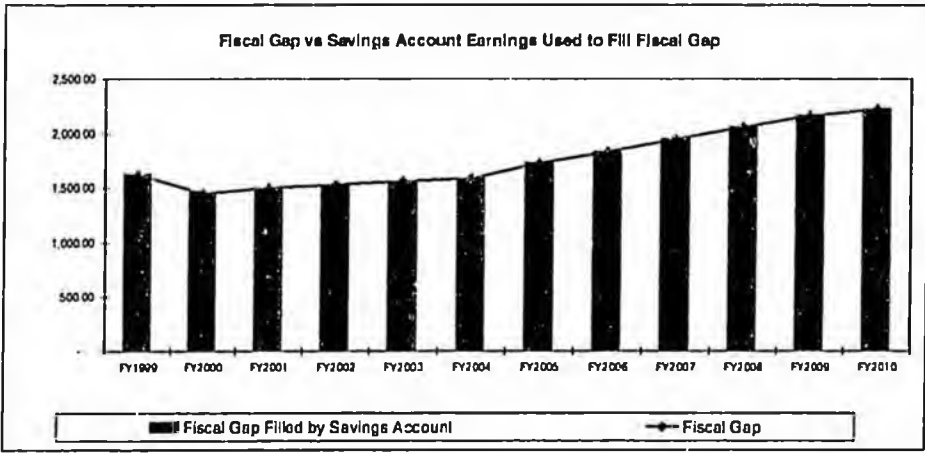
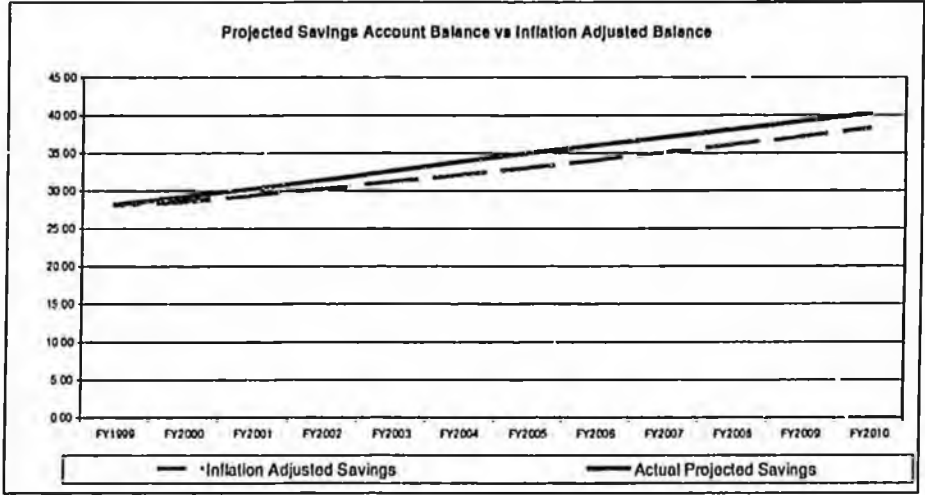
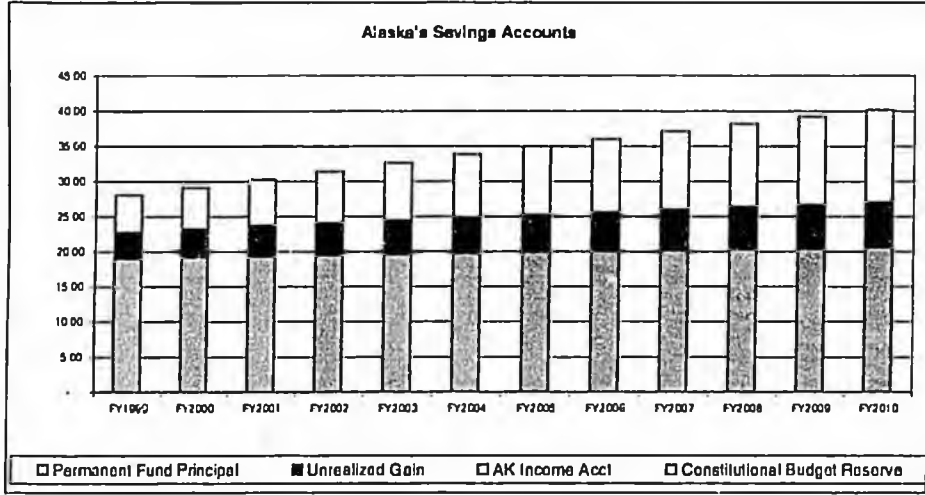
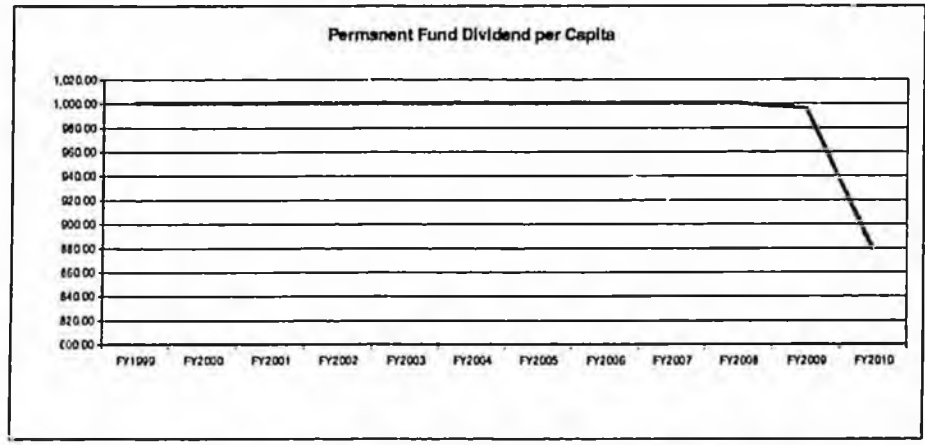
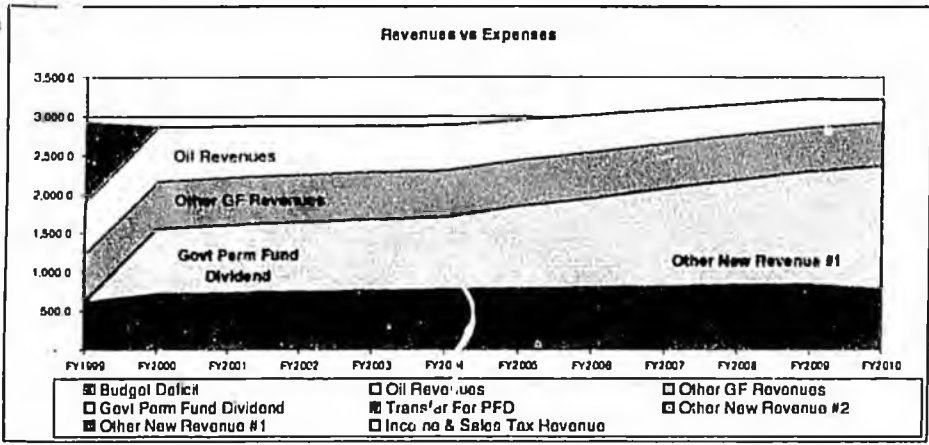
ALL-ALASKAN PLAN – USING SPRING FORECAST FOR OIL PRICES



ALL-ALASKAN PLAN – USING HIGHER PERMANENT FUND EARNINGS @ 8.69%



ALL-ALASKAN PLAN – USING SPRING FORECAST AND HIGHER PERMANENT FUND EARNINGS @ 8.69%



ALL-ALASKAN PLAN (REVISED)

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Revenue Assumptions													
Oil Price in \$/bbl	12.11	13.57	14.52	15.28	16.00	16.30	16.64	18.10	18.62	19.16	19.72	20.31	20.91
Volume in mbb/d	1.166	1.047	1.064	1.035	1.049	1.076	1.031	0.979	0.919	0.871	0.824	0.768	0.718
HB96 Passes (Y or N) - All Leases @ 25%	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Market Assumptions													
Perm Fund Total Return	7.910%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%
Yield of Dividends & Interest	4.000%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%
Expected Capital Gains/Losses	3.910%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%
% of Unrealized Gains Realized	24.820%	18.750%	18.900%	19.000%	19.230%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%
CBH Yield	6.080%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%	5.500%
<i>Anualized Return</i>	XXXX												
Dividend Assumptions													
Maximum Dividend to \$ per Person	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Calculated Dividend Amount	x \$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$996	\$879	\$518
Inflation Assumptions													
General Inflation Rate - Used for Inflation Proofing	1.540%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%
Growth of Agency Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Formula Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of School Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Capital Budget - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Population Growth Assumptions													
Agency Expenditures - Population	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Formula Expenditures - Population	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
School Expenditures - Population	1.500%	2.642%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%
Capital Budget - Population	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Dividends	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%
Inflation Proofing Assumptions													
Statutory Inflation Proofing Amount	x 287.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Question: Use the Statutory Method? (Y or N)	Y	N	N	N	N	N	N	N	N	N	N	N	N
Endowment Assumptions													
Payout %	N/A	5.55%	5.69%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.25%
Minimum Dividend		\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00
Split (Y or N)	N/A	N	N	N	N	N	N	N	N	N	N	N	N
% Split for Dividend	N/A												
% Split for General Government	N/A												

Budget Assumptions	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Revenues													
<i>Petroleum Revenue</i>	677.6	692.9	657.2	615.5	588.9	581.9	511.5	471.1	427.4	393.8	362.9	372.6	270.0
<i>Non-petroleum Revenue</i>	621.1	614.8	613.2	617.6	612.0	598.7	592.9	592.1	581.4	571.3	560.7	550.2	539.7
Alaska Credit Income Tax (Net receipts in millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Alaska Sales Tax (1% = \$60 million, exempts food & hca)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other New Revenue #1	0.0	100.0	103.0	106.1	109.3	112.6	115.9	119.4	123.0	126.7	130.5	134.4	138.4
Other New Revenue #2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	1,298.7	1,407.7	1,373.4	1,339.2	1,310.1	1,293.1	1,220.2	1,182.6	1,131.8	1,091.7	1,054.1	987.2	948.1
Expenditures													
Agency Operations	1,104.7	1,104.7	1,054.7	1,014.7	984.7	964.7	973.8	993.3	1,013.1	1,033.4	1,054.1	1,075.1	1,096.7
Formula Programs	372.5	372.5	372.5	372.5	372.5	372.5	380.0	387.5	395.3	403.2	411.3	419.5	427.9
K-12 Education	681.2	699.2	709.7	720.3	731.1	742.1	768.1	795.0	822.8	851.6	881.4	912.2	944.2
Perm Fund Dividends	x 572.4	581.6	590.9	600.4	610.0	619.7	629.6	639.7	650.0	660.4	668.1	599.0	359.1
Perm Fund Hold Harmless	28.6	29.2	29.8	30.4	31.0	31.6	32.3	32.9	33.6	34.2	34.9	35.6	36.3
Proposed Budget Cuts #1	0.0	(50.0)	(40.0)	(30.0)	(20.0)	(10.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proposed Budget Cuts #1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplemental Budget - Fires, Floods, (Y2K, FY99), etc.	13.6	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Debt Service (Net of non-GF School Fund and AHFC off	46.0	3.5	38.7	41.9	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8
Capital Budget	85.4	85.4	85.4	85.4	85.4	85.4	87.1	88.9	90.6	92.4	94.3	96.2	98.1
State Match for Loan Programs (Water, Sewer, etc.)	20.9	19.4	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Other #1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other #2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total General Fund Expenditures:	2,925.4	2,862.0	2,875.4	2,869.3	2,870.2	2,881.6	2,946.3	3,012.8	3,080.9	3,150.7	3,219.5	3,213.2	3,037.7
Budget (Deficit)/Surplus	(1,626.7)	(1,454.3)	(1,502.0)	(1,530.1)	(1,560.1)	(1,588.4)	(1,726.1)	(1,830.2)	(1,949.1)	(2,059.0)	(2,165.4)	(2,226.0)	(2,089.5)
Transfers													
<i>Transfer (to)/from CBR (Beg of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from CBR (Thru the Year)</i>	1,025.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from CBR (End of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Legislative Appropriations to Perm Fund Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from Alaska Income Acct (Beg of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from Alaska Income Acct (Thru the Year)</i>	0.0	843.5	881.3	899.3	919.1	937.1	1,064.2	1,157.5	1,265.6	1,364.4	1,462.4	1,591.4	1,694.1
<i>Transfer (to)/from Alaska Income Acct (End of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>PFM Transfer from Earn Reserve (End of Year)</i>	572.4	581.6	590.9	600.4	610.0	619.7	629.6	639.7	650.0	660.4	668.1	599.0	359.1
<i>PFM Transfer from Earn Reserve for Hold Harmless</i>	28.6	29.2	29.8	30.4	31.0	31.6	32.3	32.9	33.6	34.2	34.9	35.6	36.3
Total Transfers	1,626.7	1,454.3	1,502.0	1,530.1	1,560.1	1,588.4	1,726.1	1,830.2	1,949.1	2,059.0	2,165.4	2,226.0	2,089.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CBR Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Alaska Income Acct Balance	5,367.2	5,966.0	6,631.4	7,377.2	8,208.5	9,003.4	9,756.2	10,497.3	11,209.9	11,900.4	12,569.8	13,261.4	14,171.7
Unrealized Gain:	3,689.1	4,008.4	4,298.3	4,567.3	4,813.1	5,041.1	5,266.5	5,487.9	5,705.5	5,918.8	6,127.6	6,331.8	6,532.7
Unrealized Gains Realized %	24.820%	18.750%	18.900%	19.000%	19.230%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%
Continued Deficit													

CONSTITUTIONAL BUDGET RESERVE

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY 005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
TOTAL Const Budget Reserve (Beg of Yr)	3,559.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil & Gas Tax Dispute Resolutions (Thru the Year)	56.0	120.0	120.0	120.0	120.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Alaska Income Acct (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Alaska Income Acct (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Alaska Income Acct (End of Year)	(2,761.9)	(123.3)	(123.3)	(123.3)	(123.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Thru the Year)	(1,025.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings	172.4	3.3	3.3	3.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL Const Budget Reserve (End of Yr)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

ALASKA PERMANENT FUND**Principal/Corpus**

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
TOTAL Principal at Cost (Beg of Yr)	18,516.0	18,971.9	19,120.4	19,268.3	19,414.3	19,562.9	19,715.2	19,858.7	19,999.4	20,137.3	20,274.6	20,411.2	20,540.7
Dedicated Oil Revenues (Thru the Year)	130.0	122.2	119.2	114.8	114.6	115.4	103.6	97.5	91.2	86.9	82.2	70.7	64.8
Other Transfers (Amerada Hess) (End of Year)	38.2	26.3	28.7	31.2	34.0	37.0	39.9	43.2	46.6	50.4	54.4	58.8	63.5
Legislative Appropriations (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Alaska Income Acct (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Alaska Income Acct (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Alaska Income Acct (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statutory Inflation Proofing (End of Year)	287.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL Principal at Cost (Ending Bal)	18,971.9	19,120.4	19,268.3	19,414.3	19,562.9	19,715.2	19,858.7	19,999.4	20,137.3	20,274.6	20,411.2	20,540.7	20,669.0

Alaska Income Account

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
TOTAL Alaska Income Acct Acct Balance (Beg of Yr)	1,369.0	5,367.2	5,966.0	6,631.4	7,377.2	8,208.5	9,003.4	9,756.2	10,497.3	11,209.9	11,900.4	12,569.8	13,261.4
Transfer (to)/from APFC Principal (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Principal (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Principal (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Thru the Year)	(0.0)	(843.5)	(881.3)	(899.3)	(919.1)	(937.1)	(1,064.2)	(1,157.5)	(1,265.6)	(1,364.4)	(1,462.4)	(1,591.4)	(1,694.1)
Transfer (to)/from Gen Fund (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from CBR (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from CBR (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from CBR (End of Year)	2,761.9	123.3	123.3	123.3	123.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PFD Transfer (to) Gen Fund (End of Year)	(572.4)	(581.6)	(590.9)	(600.4)	(610.0)	(619.7)	(629.6)	(639.7)	(650.0)	(660.4)	(668.1)	(599.0)	(359.1)
PFD Transfer (to) Gen Fund for Hold Harmless (E x	(28.6)	(29.2)	(29.8)	(30.4)	(31.0)	(31.6)	(32.3)	(32.9)	(33.6)	(34.2)	(34.9)	(35.6)	(36.3)
Interest Income x	957.6	1,073.0	1,113.7	1,155.8	1,200.1	1,246.9	1,291.6	1,334.3	1,376.4	1,417.1	1,456.8	1,495.3	1,534.4
Realized Gains x	1,217.9	925.0	1,001.7	1,071.3	1,145.9	1,218.0	1,272.5	1,326.0	1,378.6	1,430.1	1,480.5	1,529.9	1,578.4
Statutory Inflation Proofing	(287.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Costs of APFC	(32.2)	(42.0)	(42.6)	(43.3)	(43.9)	(44.6)	(45.2)	(45.9)	(46.6)	(47.3)	(48.0)	(48.7)	(49.5)
Legislative Appropriations for Oil & Gas Litigator	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Legislative Appropriations for Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amerada Hess Settlement Earnings (not inc x	(38.2)	(26.3)	(28.7)	(31.2)	(34.0)	(37.0)	(39.9)	(43.2)	(46.6)	(50.4)	(54.4)	(58.8)	(63.5)
TOTAL Alaska Income Acct Balance (End of Yr)	5,367.2	5,966.0	6,631.4	7,377.2	8,208.5	9,003.4	9,756.2	10,497.3	11,209.9	11,900.4	12,569.8	13,261.4	14,171.7

Unrealized Gains

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Balance of Unrealized Gains (Beg of Year)	3,970.9	3,689.1	4,008.4	4,298.3	4,567.3	4,813.1	5,041.1	5,266.5	5,487.9	5,705.5	5,918.8	6,127.6	6,331.8
Current Year Unrealized Gains	936.1	1,244.4	1,291.5	1,340.3	1,391.7	1,446.0	1,497.9	1,547.4	1,596.1	1,643.4	1,689.4	1,734.1	1,779.4
Amount of Gains Realized	(1,217.9)	(925.0)	(1,001.7)	(1,071.3)	(1,145.9)	(1,218.0)	(1,272.5)	(1,326.0)	(1,378.6)	(1,430.1)	(1,480.5)	(1,529.9)	(1,578.4)
Additional Gains Realized	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bal Unreal Gain add to Market Value	3,689.1	4,008.4	4,298.3	4,567.3	4,813.1	5,041.1	5,266.5	5,487.9	5,705.5	5,918.8	6,127.6	6,331.8	6,532.7

Alaska State Legislature



HOUSE OF REPRESENTATIVES

TO: Representative Eldon Mulder, Co-Chair
Representative Gene Therriault, Co-Chair
House Finance Committee

FROM: The All-Alaskan Plan Working Group
Representative Alan Austerman Representative Lisa Murkowski
Representative Gary Davis Representative Gail Phillips
Representative Bill Hudson Representative Jim Whitaker
Representative Carl Morgan Representative Bill Williams

DATE: April 22, 1999

RE: All-Alaskan Plan

The members of the All-Alaskan Plan Working Group thank you for the opportunity to present the All-Alaskan Plan to the House Finance Committee. These are exciting times and if we have the courage to act now, we believe a tremendous opportunity exists to put our fiscal house in order for many, many years to come.

The following materials are attached for your review:

- Sponsor statement
- The All-Alaskan Plan with revised color copies of the plan's spreadsheet
- "The Case for Increased Flexibility: HB156"
- "Alaska Permanent Fund"
- "Alaska's Public Finances"
- "The Dividend – Four Different Scenarios"

We respectfully ask members of the House Finance Committee to fully consider the many merits of the All-Alaskan Plan.

Attachments

Alaska State Legislature



Official Business

State Capitol
Juneau AK
99801-1182

Sponsor Statement

The All-Alaskan Plan

The "All-Alaskan Plan" is the work product of a group of members of the House Representatives and will hopefully serve as a template for a long-term, sustainable fiscal solution for our state.

Why do we need a plan and why do we need it now?

Alaska needs a long-term, sustainable fiscal plan and we need it now. The State of Alaska has not had one budget that has stood on its own since 1992. Over \$3.4 billion has been borrowed from our savings accounts to balance these budgets despite over \$275 million in spending cuts over the past several years. Even with these difficult cuts, the legislature will have to withdraw another \$1.2 billion this year just to balance the budget. Some have suggested a personal income tax to bridge the gap. An income tax is estimated to generate a maximum of \$350 million annually, still leaving us almost \$850 million short! Others have expressed support for a statewide sales tax. Estimates are that the revenues produced by a 5% sales tax would produce only \$300 million, still leaving us with a deficit of \$900 million. These measures fall woefully short of the revenue needed to fund essential services. In addition, the public as a whole has indicated that they do not support the institution of such measures.

Every year that we just continue to spend our savings down to fill our billion dollar-plus deficit, forces us to take more drastic action later. The deficit does not go away this year. Next year's deficit is also projected to be close to a billion dollars. Without taking definitive action now, we put off the hard decisions that will, without a doubt, become only harder to make. Each year our options to bail ourselves out become more limited. As we continue to drain our savings, we forever lose the opportunity to generate income from these assets.

The All-Alaskan creates an endowment

The All-Alaskan Plan is an endowment plan. It creates the Alaska Income Account, which replaces the current Earnings Reserve Account. Net income from the Permanent Fund continues to accrue to this account. Each year 5.25%

to 5.75% of the market value of the Permanent Fund and our other savings accounts would be removed from the Alaska Income Account and deposited to the general fund to pay for essential services and dividends. The plan does not take a dime from the corpus of the Permanent Fund.

Additionally, the plan calls for the deposit of certain revenues directly to this new account could include a school tax of \$100 a year for every employed person, contributions from the Alaska Railroad, the Alaska Housing Finance Corporation, the Alaska Industrial and Export Authority, and the Science and Technology Foundation. The proceeds from the Governor's proposed nine cents a gallon motor fuel tax are also included. Any other new revenues that may be considered could be added to this account as well.

By coordinating all these funds into one account we can maximize our investment return. Like any good endowment, the corpus of the permanent fund remains untouched, is inflation proofed and continues to grow. The difference between the endowment payout from the Alaska Income Account and the Permanent Fund's long-term earnings of over 8% will remain in the corpus for inflation proofing.

The assumptions we have based this plan on could be called conservative and even a bit pessimistic. In it, the price of oil over 10 years does not exceed \$13.50 a barrel. The plan does not include any new revenue that may occur from additional resource development such as a new gas pipeline or added oil production. We have been making real cuts to our State budget for the past nine years. The plan continues responsible budget reductions, but in later years it realistically considers increased costs for education, formula programs and other state programs as our population grows.

To implement this plan there is no income tax required and no statewide sales tax is proposed. The endowment works because of increased earning power, reductions in state spending, and reduced dividends not to exceed \$1000. Please understand, however, that higher oil prices, higher investment earnings, new production, lower population growth or just less government spending could serve to raise the dividends in later years. As there are only so many components in any fiscal plan, a higher dividend would require the addition of an income tax or statewide sales tax. At this time we believe most people would find that combination unacceptable.

Even under our current system, the continued payout of dividends is not certain. We have been blessed with a bull equities market for many years. The possible reversal of this market trend, combined with the required statutory inflation proofing of the fund and increased population growth could also severely impact our future dividends.

The All-Alaskan Plan assures a stable financial future

The All-Alaskan Plan closes the fiscal gap and provides sustained funding for essential and responsible state programs and services. By removing much of the uncertainty about the State's role in our overall economy, this plan will also serve to stabilize employment, protect property values and foster economic growth.

We are a young and growing state. We must take action sooner, not later, to assure that we can support our priorities of education, transportation, energy, public safety, deferred maintenance, water and sewer, resource development and social services. The All-Alaskan Plan can do all that – and still pay a dividend for many years to come.

It's safe and logical

The endowment approach is the safe and logical template on which to design our fiscal future. We believe that this plan or some variation of it must be enacted before this session ends. We urge the Alaska people, the Legislature and the Governor to fully consider the merits of the All-Alaskan Plan. We encourage your ideas, suggestions, and recommendations as we make progress in resolving the fiscal gap. If anyone has a better idea or improvements to this plan, we remain open to listen. To do nothing is not an option.

Representative Alan Austerman
Representative Gary Davis
Representative Bill Hudson
Representative Carl Morgan

Representative Lisa Murkowski
Representative Gail Phillips
Representative Jim Whitaker
Representative Bill Williams

THE ALL-ALASKAN PLAN

CONTENTS

- I. ELEMENTS OF THE PLAN**
- II. LONG RANGE PRIORITIES**
- III. SUSTAINABLE REVENUE BASE**
- IV. BILLS FOR INTRODUCTION**
- V. SPREAD SHEET RUN**

I. ELEMENTS OF THE ALL-ALASKAN PLAN

1. Prioritizes spending and services
2. Develops a sustainable revenue base
3. Establishes the Alaska Income Account which will grow over the years
4. Includes the following new revenues and places all in the Alaska Income Account:

A. Tobacco settlement/annual	\$ 30.0 Million
B. School Tax - \$100/year due July 1 st each year	\$ 28.6 Million
C. Fuel Tax (Governor's Bill)/annual	\$ 27.0 Million
D. Cigarette Tax/annual	\$ 32.0 Million
E. Rental Car Tax/annual	\$ 5.0 Million
F. Business Licenses Doubled/annual	\$ 4.0 Million
5. Consideration of annual deposits from the following:
 - A. Alaska Railroad
 - B. AHFC
 - C. AIDEA
 - D. ASTF
6. Inflation proofs at the long term rate of 3%
7. Establishes price of oil for planning purposes at no higher than \$13.50 bbl.
8. Continues budget cuts through year 2004
9. Assumes population growth to 775,000 by 2015

II. LONG RANGE PRIORITY FOR SPENDING & SERVICES

EDUCATION

K-12 Education

1. Put into place curriculum, testing and money to make sure every Alaskan school child graduates from high school in the top 1/3 of the National Rating System.
2. Prioritize vocational education of all opportunities applicable in Alaska today; develop direct apprenticeship programs for students going from high school into a vocational job.
3. Reformulate college-bound students into a grades 10-14 program so they receive first two years of college in our university system and can intermingle beginning college classes during their last year of high school.
4. Put into place program to reduce and delete high school drop-out rates.

University

1. Delete beginning or remedial courses; high school students will have to qualify for full college status; the grades 10-14 program can be tied into this goal – local school districts must be educating high school graduates to enter a full university curriculum – not to take remedial courses in college because they didn't get the education in high school.
2. Reorganize all the community colleges and have their mission focus on tele-education and vocational education. Have only the campuses in Fairbanks, Anchorage and Juneau provide four-year curriculum.
3. As much as possible, consolidate all schools of study into one location *and* make each community college develop a specific specialty, such as Arctic environmental study in Kotzebue, mining in Nome or whatever. By doing this, we strengthen the missions of the community colleges and give them the opportunity for expansion and growth.
4. Increase Alaskan student enrollment through incentives, scholarships and availability of diversified curriculum through expanded community colleges and tele-education delivery.

STATEWIDE TRANSPORTATION SYSTEM

1. Prioritize expansion of transportation network to all viable resource projects in the State.
2. Insure transportation access throughout the state – finalize all RS2477 designations.
3. Expand and build a Northwest rail system from the Arctic Coal Project south to Kotzebue, Nome, Unalakleet and the mouth of the Yukon at St. Michael. Expand this rail line north to Point Lay and possibly Pt. Barrow. Not only will this expansion provide cheaper energy source to this whole section of Alaska, but it also creates a vast transportation system in which Alaskans can create commerce.
4. Build a trans-Alaska rail line from Fairbanks to Nome; tie this into the Arctic Rail line
5. Build roads into all mining projects that are now in the process of being developed, such as the Donlin Creek Mine, Pogo Mine, etc.
6. Upgrade all harbors in the state that need it and transfer ownership to local municipalities. Develop a program with local governments to designate marine fuel tax for maintenance of harbors.
7. Build a fast, light rail commuter train to serve Anchorage from the Matanuska Valley.
8. Designate the highway fuel tax now being paid for maintenance of highways throughout the state.

STATEWIDE ENERGY NETWORK

1. Fully develop Cook Inlet gas reserves.
2. If gas pipeline is built, guarantee percentage of gas to in-state users.
3. Distribution of Red Dog excess energy to users in the NANA Region.
4. Build an Arctic rail distribution system to bring Arctic coal to areas of Northwest Alaska.

5. When development of ANWR and NPR-A occurs, ensure distribution of this energy resource to residents of Arctic Alaska.
6. Develop all known types of energy, fuel cells, LNG, cold water fuels, shallow gas wells; and, build a transmission system for providing cheaper power to all communities in the state.

DEFERRED MAINTENANCE

1. Complete all deferred maintenance projects on the 1998 priority list.
2. Provide legislation protecting the maintenance portion of every budget to insure the deferred maintenance problem does not reoccur.

PUBLIC SAFETY

1. Make sure public safety is a priority in all populated areas of the state.
2. Coordinate state efforts with that of local communities for insuring local involvement.
3. Wage a statewide war on the debilitating effects of drug and alcohol abuse.
4. Create intense work programs for non-violent offenders.

WATER, SEWER, PUBLIC HEALTH

1. Complete water and sewer projects to all population centers in Alaska.
2. Coordinate public health and medical care through statewide network of tele-medicine delivery.

RESOURCE DEVELOPMENT AND COMMERCE

1. Actively solicit investors and entrepreneurs to develop all major resources in our state.
2. Complete all RS2477 designations and acquire guaranteed title for Alaska in order to guarantee access.

3. Ensure access and transportation networks in order to develop resources.
4. Establish and Arctic Gold Exchange in Alaska in cooperation with Canada, Russia and Japan.
5. Continue work on the development of ANWR and NPR-A.
6. Capitalize on renewable fisheries.

III. SUSTAINABLE REVENUE BASE

Short-term

1. Fund K-12 education from earnings of the Earnings Reserve Account
2. Cut \$45 – 50 million in this year's budget
3. Put tobacco settlement into health care budget
4. Fuel Tax to go into maintenance of highway and harbors

Long-term

1. Coordinate all funds into one income account to be managed for maximum return and for guaranteeing draw for the gap – this would include funds from the CBR, Earnings Reserve, AIEDA, AHFC, ASTF, the railroad, etc. These funds would be accessible by a majority vote of the legislature. Include legislation for a constitutional vote to de-authorize the CBR. All future tax settlements will go directly into the this income account
2. Institute a \$100/year school tax to be paid by every employee in Alaska on July 1
3. Mandate that all state travel mileage be placed into the state transportation budget and none to anyone's personal account
4. Divest the state of the Matanuska Maid Dairy. Turn this over to private sector at *NO* further expense to the state.
5. Make certain all fuel taxes collected - both highway and marine - go to maintenance. Check to see where aviation fuel tax goes, and designate it for maintenance, if not already there.
6. All tobacco taxes and tobacco settlements go directly into income account

IV. BILLS FOR INTRODUCTION

1. 5 Bill Drafts
2. Sectional analyses for these 5 bills
3. Bills already introduced
4. Two additional bills have been requested
 - a. Implements a \$100 per year tax on every employed person That would be due on the 1st paycheck of July each year.
 - b. Implements a business license fee increase from \$25.00 to \$50.00 per year – or \$100 per two-year license.

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to income of the Alaska permanent fund, to the Alaska Income
2 Account, and to the permanent fund dividend program; and providing for an
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * Section 1. AS 37.13.140 is amended to read:

6 **Sec. 37.13.140. Income.** Net income of the fund includes income of the
7 Alaska Income Account [EARNINGS RESERVE ACCOUNT] established under
8 AS 37.13.145. Net income of the fund shall be computed annually as of the last day
9 of the fiscal year in accordance with generally accepted accounting principles,
10 excluding any unrealized gains or losses. [INCOME AVAILABLE FOR
11 DISTRIBUTION EQUALS 21 PERCENT OF THE NET INCOME OF THE FUND
12 FOR THE LAST FIVE FISCAL YEARS, INCLUDING THE FISCAL YEAR JUST
13 ENDED, BUT MAY NOT EXCEED NET INCOME OF THE FUND FOR THE
14 FISCAL YEAR JUST ENDED PLUS THE BALANCE IN THE EARNINGS

1 RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

2 * Sec. 2. AS 37.13.145(a) is amended to read:

3 (a) The Alaska Income Account [EARNINGS RESERVE ACCOUNT] is
4 established as a separate account in the fund. Net income [INCOME] from the fund
5 shall be deposited by the corporation into the account as soon as it is received. Money
6 in the account shall be invested in investments authorized under AS 37.13.120.

7 * Sec. 3. AS 37.13.145(b) is repealed and reenacted to read:

8 (b) On July 1 of each fiscal year, the corporation shall transfer from the
9 Alaska Income Account to the general fund an amount that equals three percent of the
10 total fair market value on that day of11 (1) the fund, including the unappropriated balance of the Alaska Income
12 Account; and13 (2) the unappropriated balance of the budget reserve fund (art. IX, sec.
14 17, Constitution of the State of Alaska).

15 * Sec. 4. AS 37.13.150 is amended to read:

16 **Sec. 37.13.150. Corporation budget.** The Alaska Income Account
17 [REVENUE GENERATED BY THE FUND'S INVESTMENTS] must be identified as
18 the source of the operating budget of the corporation in the state's operating budget
19 under AS 37.07 (Executive Budget Act). The unexpended balance of the corporation's
20 annual operating budget lapses into the Alaska Income Account [DOES NOT
21 LAPSE] at the end of the fiscal year [BUT SHALL BE TREATED AS INCOME
22 UNDER AS 37.13.140].

23 * Sec. 5. AS 43.23.025(a) is amended to read:

24 (a) By October 1 of each year, the commissioner shall determine the value of
25 each permanent fund dividend for that year by26 (1) determining the total amount available for dividend payments,
27 which equals28 (A) the amount appropriated from the budget reserve fund
29 (art. IX, sec. 17, Constitution of the State of Alaska) [OF INCOME OF THE
30 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund
31 [UNDER AS 37.13.145(b)] during the current year;

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

3 (C) less the amount necessary to pay prior year dividends from
4 the dividend fund in the current year under AS 43.23.005(h) and under
5 AS 43.23.055(3) and (7);

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

10 (E) less appropriations from the dividend fund during the
11 current year, including amounts to pay costs of administering the dividend
12 program and the hold harmless provisions of AS 43.23.075;

13 (2) determining the number of individuals eligible to receive a dividend
14 payment for the current year and the number of estates and successors eligible to
15 receive a dividend payment for the current year under AS 43.23.005(h); and

16 (3) dividing the amount determined under (1) of this subsection by the
17 amount determined under (2) of this subsection.

18 * Sec. 6. AS 37.13.145(c) and 37.13.145(d) are repealed.

19 * Sec. 7. TRANSITION. The Alaska Income Account established in AS 37.13.145(a), as
20 amended in sec. 2 of this Act, is the successor to the earnings reserve account, and the balance
21 in the earnings reserve account on the effective date of this section shall be retained in the
22 Alaska Income Account until distributed to the general fund in accordance with
23 AS 37.13.145(b), as repealed and reenacted in sec. 3 of this Act.

24 * Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

**Introduced:
Referred:**

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to income of the Alaska permanent fund, to the Alaska Income
2 Account, and to the permanent fund dividend program; and providing for an
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * Section 1. AS 37.13.140 is amended to read:

6 **Sec. 37.13.140. Income.** Net income of the fund includes income of the
7 Alaska Income Account [EARNINGS RESERVE ACCOUNT] established under
8 AS 37.13.145. Net income of the fund shall be computed annually as of the last day
9 of the fiscal year in accordance with generally accepted accounting principles,
10 excluding any unrealized gains or losses. [INCOME AVAILABLE FOR
11 DISTRIBUTION EQUALS 21 PERCENT OF THE NET INCOME OF THE FUND
12 FOR THE LAST FIVE FISCAL YEARS, INCLUDING THE FISCAL YEAR JUST
13 ENDED, BUT MAY NOT EXCEED NET INCOME OF THE FUND FOR THE
14 FISCAL YEAR JUST ENDED PLUS THE BALANCE IN THE EARNINGS

1 RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

2 * Sec. 2. AS 37.13.145(a) is amended to read:

3 (a) The Alaska Income Account [EARNINGS RESERVE ACCOUNT] is
4 established as a separate account in the fund. Net income [INCOME] from the fund
5 shall be deposited by the corporation into the account as soon as it is received. Money
6 in the account shall be invested in investments authorized under AS 37.13.120.

7 * Sec. 3. AS 37.13.145(b) is repealed and reenacted to read:

8 (b) On July 1 of each fiscal year, the corporation shall transfer from the
9 Alaska Income Account to the general fund an amount that equals three percent of the
10 total fair market value on that day of

11 (1) the fund, including the unappropriated balance of the Alaska Income
12 Account; and

13 (2) the unappropriated balance of the budget reserve fund (art. IX, sec.
14 17, Constitution of the State of Alaska).

15 * Sec. 4. AS 37.13.150 is amended to read:

16 Sec. 37.13.150. Corporation budget. The Alaska Income Account
17 [REVENUE GENERATED BY THE FUND'S INVESTMENTS] must be identified as
18 the source of the operating budget of the corporation in the state's operating budget
19 under AS 37.07 (Executive Budget Act). The unexpended balance of the corporation's
20 annual operating budget lapses into the Alaska Income Account [DOES NOT
21 LAPSE] at the end of the fiscal year [BUT SHALL BE TREATED AS INCOME
22 UNDER AS 37.13.140].

23 * Sec. 5. AS 43.23.025(a) is amended to read:

24 (a) By October 1 of each year, the commissioner shall determine the value of
25 each permanent fund dividend for that year by

26 (1) determining the total amount available for dividend payments,
27 which equals

28 (A) the amount appropriated from the budget reserve fund
29 (art. IX, sec. 17, Constitution of the State of Alaska) [OF INCOME OF THE
30 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund
31 [UNDER AS 37.13.145(b)] during the current year;

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

3 (C) less the amount necessary to pay prior year dividends from
4 the dividend fund in the current year under AS 43.23.005(h) and under
5 AS 43.23.055(3) and (7);

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

10 (E) less appropriations from the dividend fund during the
11 current year, including amounts to pay costs of administering the dividend
12 program and the hold harmless provisions of AS 43.23.075;

13 (2) determining the number of individuals eligible to receive a dividend
14 payment for the current year and the number of estates and successors eligible to
15 receive a dividend payment for the current year under AS 43.23.005(h); and

16 (3) dividing the amount determined under (1) of this subsection by the
17 amount determined under (2) of this subsection.

18 * Sec. 6. AS 43.23.025 is amended by adding a new subsection to read:

19 (c) Notwithstanding (a) of this section, the value of a permanent fund dividend
20 for a year may not exceed \$1,000.

21 * Sec. 7. AS 37.13.145(c) and 37.13.145(d) are repealed.

22 * Sec. 8. TRANSITION. The Alaska Income Account established in AS 37.13.145(a), as
23 amended in sec. 2 of this Act, is the successor to the earnings reserve account, and the balance
24 in the earnings reserve account on the effective date of this section shall be retained in the
25 Alaska Income Account until distributed to the general fund in accordance with
26 AS 37.13.145(b), as repealed and reenacted in sec. 3 of this Act.

27 * Sec. 9. This Act takes effect immediately under AS 01.10.070(c).

1-LS0787G
Cook/
3/30/99

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to income of the Alaska permanent fund, to the Alaska Income
2 Account, and to the permanent fund dividend program; and providing for an
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * Section 1. AS 37.13.140 is amended to read:

6 **Sec. 37.13.140. Income.** Net income of the fund includes income of the
7 Alaska Income Account [EARNINGS RESERVE ACCOUNT] established under
8 AS 37.13.145. Net income of the fund shall be computed annually as of the last day
9 of the fiscal year in accordance with generally accepted accounting principles,
10 excluding any unrealized gains or losses. [INCOME AVAILABLE FOR
11 DISTRIBUTION EQUALS 21 PERCENT OF THE NET INCOME OF THE FUND
12 FOR THE LAST FIVE FISCAL YEARS, INCLUDING THE FISCAL YEAR JUST
13 ENDED, BUT MAY NOT EXCEED NET INCOME OF THE FUND FOR THE
14 FISCAL YEAR JUST ENDED PLUS THE BALANCE IN THE EARNINGS

1 RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

2 * Sec. 2. AS 37.13.145(a) is amended to read:

3 (a) The Alaska Income Account [EARNINGS RESERVE ACCOUNT] is
4 established as a separate account in the fund. Net income [INCOME] from the fund
5 shall be deposited by the corporation into the account as soon as it is received. Money
6 in the account shall be invested in investments authorized under AS 37.13.120.

7 * Sec. 3. AS 37.13.145(b) is repealed and reenacted to read:

8 (b) On July 1 of each fiscal year, the corporation shall transfer from the
9 Alaska Income Account to the general fund an amount that equals 5.25 percent of the
10 total fair market value on that day of

11 (1) the fund, including the unappropriated balance of the Alaska Income
12 Account; and

13 (2) the unappropriated balance of the budget reserve fund (art. IX, sec.
14 17, Constitution of the State of Alaska).

15 * Sec. 4. AS 37.13.150 is amended to read:

16 **Sec. 37.13.150. Corporation budget.** The Alaska Income Account
17 [REVENUE GENERATED BY THE FUND'S INVESTMENTS] must be identified as
18 the source of the operating budget of the corporation in the state's operating budget
19 under AS 37.07 (Executive Budget Act). The unexpended balance of the corporation's
20 annual operating budget lapses into the Alaska Income Account [DOES NOT
21 LAPSE] at the end of the fiscal year [BUT SHALL BE TREATED AS INCOME
22 UNDER AS 37.13.140].

23 * Sec. 5. AS 43.23.025(a) is amended to read:

24 (a) By October 1 of each year, the commissioner shall determine the value of
25 each permanent fund dividend for that year by

26 (1) determining the total amount available for dividend payments,
27 which equals

28 (A) the amount appropriated from the general fund [OF
29 INCOME OF THE ALASKA PERMANENT FUND TRANSFERRED] to the
30 dividend fund [UNDER AS 37.13.145(b)] during the current year;

31 (B) plus the unexpended and unobligated balances of prior fiscal

1 year appropriations that lapse into the dividend fund under AS 43.23.045(d);
2 (C) less the amount necessary to pay prior year dividends from
3 the dividend fund in the current year under AS 43.23.005(h) and under
4 AS 43.23.055(3) and (7);

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

9 (E) less appropriations from the dividend fund during the
10 current year, including amounts to pay costs of administering the dividend
11 program and the hold harmless provisions of AS 43.23.075;

12 (2) determining the number of individuals eligible to receive a dividend
13 payment for the current year and the number of estates and successors eligible to
14 receive a dividend payment for the current year under AS 43.23.005(h); and

15 (3) dividing the amount determined under (1) of this subsection by the
16 amount determined under (2) of this subsection.

17 * Sec. 6. AS 37.13.145(c) and 37.13.145(d) are repealed.

18 * Sec. 7. TRANSITION. The Alaska Income Account established in AS 37.13.145(a), as
19 amended in sec. 2 of this Act, is the successor to the earnings reserve account, and the balance
20 in the earnings reserve account on the effective date of this section shall be retained in the
21 Alaska Income Account until distributed to the general fund in accordance with
22 AS 37.13.145(b), as repealed and reenacted in sec. 3 of this Act.

23 * Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

1-LS0787D
Cock/
3/30/99

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to income of the Alaska permanent fund, to the Alaska Income
2 Account, and to the permanent fund dividend program; and providing for an
3 effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * Section 1. AS 37.13.140 is amended to read:

6 **Sec. 37.13.140. Income.** Net income of the fund includes income of the
7 Alaska Income Account [EARNINGS RESERVE ACCOUNT] established under
8 AS 37.13.145. Net income of the fund shall be computed annually as of the last day
9 of the fiscal year in accordance with generally accepted accounting principles,
10 excluding any unrealized gains or losses. [INCOME AVAILABLE FOR
11 DISTRIBUTION EQUALS 21 PERCENT OF THE NET INCOME OF THE FUND
12 FOR THE LAST FIVE FISCAL YEARS, INCLUDING THE FISCAL YEAR JUST
13 ENDED, BUT MAY NOT EXCEED NET INCOME OF THE FUND FOR THE
14 FISCAL YEAR JUST ENDED PLUS THE BALANCE IN THE EARNINGS

1 RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

2 * Sec. 2. AS 37.13.145(a) is amended to read:

3 (a) The Alaska Income Account [EARNINGS RESERVE ACCOUNT] is
4 established as a separate account in the fund. Net income [INCOME] from the fund
5 shall be deposited by the corporation into the account as soon as it is received. Money
6 in the account shall be invested in investments authorized under AS 37.13.120.

7 * Sec. 3. AS 37.13.145(b) is repealed and reenacted to read:

8 (b) On July 1 of each fiscal year, the corporation shall transfer from the
9 Alaska Income Account to the general fund an amount that equals 5.25 percent of the
10 total fair market value on that day of

11 (1) the fund, including the unappropriated balance of the Alaska Income
12 Account; and

13 (2) the unappropriated balance of the budget reserve fund (art. IX, sec.
14 17, Constitution of the State of Alaska).

15 * Sec. 4. AS 37.13.150 is amended to read:

16 **Sec. 37.13.150. Corporation budget.** The Alaska Income Account
17 [REVENUE GENERATED BY THE FUND'S INVESTMENTS] must be identified as
18 the source of the operating budget of the corporation in the state's operating budget
19 under AS 37.07 (Executive Budget Act). The unexpended balance of the corporation's
20 annual operating budget lapses into the Alaska Income Account [DOES NOT
21 LAPSE] at the end of the fiscal year [BUT SHALL BE TREATED AS INCOME
22 UNDER AS 37.13.140].

23 * Sec. 5. AS 43.23.025(a) is amended to read:

24 (a) By October 1 of each year, the commissioner shall determine the value of
25 each permanent fund dividend for that year by

26 (1) determining the total amount available for dividend payments,
27 which equals

28 (A) the amount appropriated from the general fund [OF
29 INCOME OF THE ALASKA PERMANENT FUND TRANSFERRED] to the
30 dividend fund [UNDER AS 37.13.145(b)] during the current year,

31 (B) plus the unexpended and unobligated balances of prior fiscal

1 year appropriations that lapse into the dividend fund under AS 43.23.045(d)
2 (C) less the amount necessary to pay prior year dividends from
3 the dividend fund in the current year under AS 43.23.005(h) and under
4 AS 43.23.055(3) and (7);

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

9 (E) less appropriations from the dividend fund during the
10 current year, including amounts to pay costs of administering the dividend
11 program and the hold harmless provisions of AS 43.23.075;

12 (2) determining the number of individuals eligible to receive a dividend
13 payment for the current year and the number of estates and successors eligible to
14 receive a dividend payment for the current year under AS 43.23.005(h); and

15 (3) dividing the amount determined under (1) of this subsection by the
16 amount determined under (2) of this subsection.

17 * Sec. 6. AS 43.23.025 is amended by adding a new subsection to read:

18 (c) Notwithstanding (a) of this section, the value of a permanent fund dividend
19 for a year may not exceed \$1,000.

20 * Sec. 7. AS 37.13.145(c) and 37.13.145(d) are repealed.

21 * Sec. 8. TRANSITION. The Alaska Income Account established in AS 37.13.145(a), as
22 amended in sec. 2 of this Act, is the successor to the earnings reserve account, and the balance
23 in the earnings reserve account on the effective date of this section shall be retained in the
24 Alaska Income Account until distributed to the general fund in accordance with
25 AS 37.13.145(b), as repealed and reenacted in sec. 3 of this Act.

26 * Sec. 9. This Act takes effect immediately under AS 01.10.070(c).

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE HUDSON

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act making a special appropriation from the budget reserve fund under art.
2 IX, sec. 17(c), Constitution of the State of Alaska, to the Alaska Income Account;
3 and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** The unappropriated balance in the budget reserve fund (art. IX, sec. 17,
6 Constitution of the State of Alaska) on July 2, 1999, is appropriated to the Alaska Income
7 Account (AS 37.13.145). This appropriation is made under art. IX, sec. 17(c), Constitution
8 of the State of Alaska.

9 * **Sec. 2.** This Act takes effect only if a version of a bill establishing the Alaska Income
10 Account in the Alaska permanent fund is passed by the Twenty-First Alaska State Legislature
11 and becomes law.

12 * **Sec. 3.** If this Act takes effect, it takes effect on the effective date of the provisions of
13 the bill described in sec. 2 of this Act that establish the Alaska Income Account in the Alaska
14 permanent fund.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2026
Mail Stop 3101

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

MEMORANDUM

March 30, 1999

SUBJECT: Alaska Income Account (Work Order No. 21-LS0787\D and G)

TO: Representative Bill Hudson
Attn: Melinda Hofstad

FROM: Tamara Brandt Cook
Director *TBC*

Here is the sectional summary you requested for two versions of bill draft 1-LS0787.

Version D

Sec. 1. Deletes the "income available for distribution" formula which is now used to calculate the amount to transfer to the permanent dividend fund. Renames the earnings reserve account the Alaska Income Account.

Sec. 2. Changes name of the earnings reserve account to the Alaska Income Account, but leaves it as a separate account in the permanent fund. Net income from the permanent fund is to be deposited in the account. "Net income" is described in existing law under AS 37.13.140.

Sec. 3. On July 1 each year the permanent fund corporation is directed to transfer from the Alaska Income Account to the general fund an amount based on the fair market value of the permanent fund and the budget reserve fund: 5.25 percent.

Sec. 4. Requires the budget of the permanent fund corporation to come from the Alaska Income Account.

Sec. 5. Bases the amount of the permanent fund dividend on the amount appropriated for that purpose from the general fund. The existing link between the amount of the dividend and the income of the permanent fund is eliminated.

Sec. 6. Sets an upper limit on the value of a permanent fund dividend of \$1,000.

Sec. 7. Repeals provisions relating to inflation proofing and treatment of certain income resulting from litigation.

Representative Bill Hudson

March 30, 1999

Page 2

Sec. 8. Provides that the Alaska Income Account, as the successor to the earnings reserve account, retains the balance that is in the earnings reserve account on the effective date.

Sec. 9. Immediate effective date.

Version G

This is identical to version D except that the \$1,000 permanent fund dividend cap in sec. 6 is eliminated. The amount of the dividend would still depend on the level of appropriations in any given year. Bill sections are renumbered after the deletion of sec. 6.

TBC:jdr

99-172.jdr

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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

March 30, 1999

SUBJECT: Alaska Income Account (Work Order No. 21-LS0789\D and G)

TO: Representative Bill Hudson
Attn: Melinda Hofstad

FROM: Tamara Brandt Cook
Director *TBC*

Here is the sectional summary you requested for two versions of bill draft 1-LS0789.

Version D

Sec. 1. Deletes the "income available for distribution" formula which is now used to calculate the amount to transfer to the permanent dividend fund. Renames the earnings reserve account the Alaska Income Account.

Sec. 2. Changes name of the earnings reserve account to the Alaska Income Account, but leaves it as a separate account in the permanent fund. Net income from the permanent fund is to be deposited in the account. "Net income" is described in existing law under AS 37.13.140.

Sec. 3. On July 1 each year the permanent fund corporation is directed to transfer from the Alaska Income Account to the general fund an amount based on the fair market value of the permanent fund and the budget reserve fund: 3 percent.

Sec. 4. Requires the budget of the permanent fund corporation to come from the Alaska Income Account.

Sec. 5. Bases the amount of the permanent fund dividend on the amount appropriated for that purpose from the constitutional budget reserve fund. The existing link between the amount of the dividend and the income of the permanent fund is eliminated.

Sec. 6. Sets an upper limit on the value of a permanent fund dividend of \$1,000.

Sec. 7. Repeals provisions relating to inflation proofing and treatment of certain income resulting from litigation.

Representative Bill Hudson

March 30, 1999

Page 2

Sec. 8. Provides that the Alaska Income Account, as the successor to the earnings reserve account, retains the balance that is in the earnings reserve account on the effective date.

Sec. 9. Immediate effective date.

Version G

This is identical to version D except that the \$1,000 permanent fund dividend cap in sec. 6 is eliminated. The amount of the dividend would still depend on the level of appropriations in any given year. Bill sections are renumbered after the deletion of sec. 6.

TBC:jdr
99-174.jdr

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 96
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES ROKEBERG, Phillips, Green

Introduced: 3/5/99

Referred: State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to deposits to the Alaska permanent fund; and providing for
 2 an effective date."

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

4 * Section 1. AS 37.13.010(a) is amended to read:

5 (a) Under art. IX, sec. 15, of the state constitution, there is established as a
 6 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

7 (1) 25 percent of all mineral lease rentals, royalties, royalty sale
 8 proceeds, net profit shares under AS 38.05.180(f) and (g), 25 percent of [AND]
 9 federal mineral revenue sharing payments received by the state from mineral leases
 10 [ISSUED ON OR BEFORE DECEMBER 1, 1979], and 25 percent of all bonuses
 11 received by the state from mineral leases [ISSUED ON OR BEFORE FEBRUARY 15,
 12 1980]; and

13 (2) [50 PERCENT OF ALL MINERAL LEASE RENTALS,
 14 ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER

1 AS 38.05.180(f) AND (g), AND FEDERAL MINERAL REVENUE SHARING
2 PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED
3 AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED
4 BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15,
5 1980;

6 (3)] any other money appropriated to or otherwise allocated by law or
7 former law to the Alaska permanent fund.

8 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

HOUSE BILL NO. 59

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/22/99

Referred: Transportation, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the motor fuel tax; and providing for an effective date."

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

3 * Section 1. AS 43.40.010(a) is amended to read:

4 (a) There is levied a tax of 17 [EIGHT] cents a gallon on all motor fuel sold
5 or otherwise transferred within the state, except that

6 (1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

7 (2) the tax on motor fuel used in and on watercraft of all descriptions
8 is five cents a gallon;

9 (3) the tax on all aviation fuel other than gasoline is three and
10 two-tenths cents a gallon; and

11 (4) the tax rate on motor fuel that is blended with alcohol is the same
12 tax rate a gallon as other motor fuel; however,

13 (A) in an area and during the months in which fuel containing
14 alcohol is required to be sold, transferred, or used in an effort to attain air
15 quality standards for carbon monoxide as required by federal or state law or

1 regulation, the tax rate on motor fuel that is blended with alcohol is six cents
 2 a gallon less than the tax on other motor fuel not described in (1) - (3) of this
 3 subsection;

4 (B) notwithstanding (A) of this paragraph, through June 30,
 5 2004, the tax on motor fuel sold or otherwise transferred within the state is
 6 eight cents a gallon less than the tax on other motor fuel not described in (1)
 7 - (3) of this subsection if the motor fuel

8 (i) is at least 10 percent alcohol by volume, has been
 9 produced from the processing of lignocellulose derived from wood, and
 10 was produced in a facility that processes lignocellulose from wood, but
 11 this reduction in the rate of tax applies to motor fuel sold or transferred
 12 that contains alcohol that was produced only during the first five years
 13 of the facility's processing of lignocellulose from wood; or

14 (ii) is at least 10 percent alcohol by volume, has been
 15 produced from the processing of waste seafood, and was produced in
 16 a facility that processes alcohol from waste seafood, but this reduction
 17 in the rate of tax applies to motor fuel sold or transferred that contains
 18 alcohol that was produced only during the first five years of the
 19 facility's processing of alcohol from waste seafood.

20 * Sec. 2. AS 43.40.010(b) is amended to read:

21 (b) There is levied a tax of 17 [EIGHT] cents a gallon on all motor fuel
 22 consumed by a user, except that

23 (1) the tax on aviation gasoline consumed is four and seven-tenths cents
 24 a gallon;

25 (2) the tax on motor fuel used in and on watercraft of all descriptions
 26 is five cents a gallon;

27 (3) the tax on all aviation fuel other than gasoline is three and
 28 two-tenths cents a gallon; and

29 (4) the tax rate on motor fuel that is blended with alcohol is the same
 30 tax rate a gallon as other motor fuel; however,

31 (A) in an area and during the months in which fuel containing

1 alcohol is required to be sold, transferred, or used in an effort to attain air
 2 quality standards for carbon monoxide as required by federal or state law or
 3 regulation, the tax rate on motor fuel that is blended with alcohol is six cents
 4 a gallon less than the tax on other motor fuel not described in (1) - (3) of this
 5 subsection;

6 (B) notwithstanding (A) of this paragraph, through June 30,
 7 2004, the tax on motor fuel consumed by a user within the state is eight cents
 8 a gallon less than the tax on other motor fuel not described in (1) - (3) of this
 9 subsection if the motor fuel

10 (i) is at least 10 percent alcohol by volume, has been
 11 produced from the processing of lignocellulose derived from wood, and
 12 was produced in a facility that processes lignocellulose from wood, but
 13 this reduction in the rate of tax applies to motor fuel consumed by a
 14 user that contains alcohol that was produced only during the first five
 15 years of the facility's processing of lignocellulose from wood; or

16 (ii) is at least 10 percent alcohol by volume, has been
 17 produced from the processing of waste seafood, and was produced in
 18 a facility that processes alcohol from waste seafood, but this reduction
 19 in the rate of tax applies to motor fuel consumed by a user that contains
 20 alcohol that was produced only during the first five years of the
 21 facility's processing of alcohol from waste seafood.

22 * Sec. 3. AS 43.40.010(g) is amended to read:

23 (g) The proceeds of the revenue from the tax on all motor fuels, except as
 24 provided in (e), (f), and (j) of this section, shall be deposited in a special highway
 25 construction and maintenance [HIGHWAY FUEL TAX] account in the state general
 26 fund. The legislature may appropriate money [FUNDS] from the account [IT] for
 27 expenditure by the Department of Transportation and Public Facilities first directly or
 28 as matched with available federal-aid highway money for planning, design, and
 29 [MAINTENANCE OF HIGHWAYS,] construction of highway projects, [AND] ferries,
 30 and ferry terminals included in the program provided for in AS 19.10.150, and
 31 second for secondary road paving and deferred maintenance projects included in

1 **the program provided for in AS 19.10.150. Eligible construction projects include**
 2 [INCLUDING] approaches, appurtenances and related facilities and acquisition of
 3 rights-of-way or easements, and other highway costs including surveys, administration,
 4 and related matters. All departments of the state government authorized to spend
 5 **money** [FUNDS] collected from taxes imposed by this chapter shall perform, **if**
 6 [WHEN] feasible, all construction or reconstruction projects by contract after the
 7 projects have been advertised for competitive bids, except that, when feasible,
 8 arrangements shall be made with political subdivisions to carry out the construction
 9 or reconstruction projects. If it is not feasible for the work to be performed by state
 10 engineering forces, the commissioner of transportation and public facilities may **issue**
 11 **a best interest determination and** contract on a professional basis with private
 12 engineering firms for road design, bridge design, and services in connection with
 13 surveys. If more than one private engineering firm is available for the work, the
 14 contracts shall be entered into on a negotiated basis.

15 * Sec. 4. AS 43.40.010(h) is amended to read:

16 (h) All motor fuel tax receipts shall be paid into the general fund and
 17 distributed to the proper accounts in the general fund. Valid motor fuel tax refund
 18 claims shall be paid from the **highway construction and maintenance** [HIGHWAY
 19 FUEL TAX] account in the general fund.

20 *Sec. 5. AS 43.40.030(a) is amended to read:

21 (a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to
 22 operate an internal combustion engine is entitled to a refund of **13** [SIX] cents a gallon

23 **if**

24 (1) the tax on the motor fuel has been paid;

25 (2) the motor fuel is not aviation fuel, or motor fuel used in or on
 26 watercraft; and

27 (3) the internal combustion engine is not used in or in conjunction with
 28 a motor vehicle licensed to be operated on public ways.

29 *Sec. 6. AS 43.40.070 is amended to read:

30 **Sec. 43.40.070. Refund warrants.** Upon approval of a refund claim by the
 31 department, a warrant shall be drawn on the **highway construction and maintenance**

1 [HIGHWAY FUEL TAX] account in the general fund in favor of the applicant in the
2 amount of the claim.

3 * Sec. 7. AS 43.40 is amended by adding a new section to read:

4 **Sec. 43.40.087. Civil penalties and enforcement.** (a) Notwithstanding the
5 provisions of AS 43.05.130 or 43.05.220, the department shall assess a civil penalty
6 in accordance with this section for a violation of this chapter or a regulation adopted
7 under this chapter. The department shall establish the amount and other standards for
8 the assessment by regulations adopted under AS 43.05.080, but the maximum penalty
9 assessed under this section may not exceed

10 (1) \$10,000 for the first violation;

11 (2) \$50,000 for each subsequent violation.

12 (b) A civil penalty assessed under (a) of this section is in addition to any
13 criminal penalty imposed under AS 43.05.290.

14 (c) In addition to a civil penalty assessed under (a) of this section, any
15 criminal penalties imposed under AS 43.05.290, interest imposed under this title, and
16 any other remedy or other means of enforcement available under this title, for a
17 violation of this chapter or a regulation under this chapter the department may, in
18 accordance with regulations adopted under AS 43.05.080,

19 (1) revoke a license issued under this chapter; and

20 (2) assess restitution in an amount of up to twice the amount of unpaid
21 tax or unwarranted refund received.

22 * Sec. 8. AS 43.40.100(2) is amended to read:

23 (2) "motor fuel" means fuel used in an engine for the propulsion of a
24 motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a
25 stationary engine, machine, or mechanical contrivance that is run by an internal
26 combustion motor; "motor fuel" does not include

27 (A) fuel consigned to foreign countries;

28 (B) fuel sold for use in jet propulsion aircraft operating in
29 flights

30 (i) to foreign countries; or

31 (ii) that continue from foreign countries, unless

1 exemption of the motor fuel from taxation is disallowed because of the
2 refiner's failure to comply with the provisions of a voluntary agreement
3 under AS 43.40.092 in conjunction with expansion of refinery capacity;

4 (C) fuel used in stationary power plants operating as public
5 utility plants and generating electrical energy for sale to the general public;

6 (D) fuel used by nonprofit power associations or corporations
7 for generating electric energy for resale;

8 (E) fuel used by charitable institutions approved under
9 26 U.S.C. 501(c)(3);

10 (F) fuel sold or transferred between qualified dealers;

11 (G) fuel sold to federal, state, and local government agencies
12 for official use;

13 (H) fuel used in stationary power plants that generate electrical
14 energy for private residential consumption;

15 (I) fuel used to heat private or commercial buildings or
16 facilities;

17 (J) fuel used for other nontaxable purposes as prescribed by
18 regulations adopted by the department;

19 (K) fuel used in stationary power plants of 100 kilowatts or less
20 that generate electrical power for commercial enterprises not for resale; or

21 (L) residual fuel oil used in and on watercraft if the residual
22 fuel oil is sold or transferred in the state or consumed by a user; for purposes
23 of this subparagraph, "residual fuel oil" means the heavy refined hydrocarbon
24 known as number 6 fuel oil that is the residue from crude oil after refined
25 petroleum products have been extracted by the refining process and that may
26 be consumed or used only when sufficient heat is provided to the oil to reduce
27 its viscosity rated by kinetic unit and to give it fluid properties sufficient for
28 pumping and combustion;

29 * Sec. 9. This Act takes effect July 1, 1999.

HOUSE JOINT RESOLUTION NO. 30
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE JAMES

Introduced: 3/19/99

Referred: Judiciary, Finance

A RESOLUTION

1 **Proposing amendments to the Constitution of the State of Alaska repealing**
2 **provisions relating to the constitutional budget reserve fund and providing that the**
3 **balance in the fund be deposited into the budget reserve fund established by**
4 **statute.**

5 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 *** Section 1.** Article XV, Constitution of the State of Alaska, is amended by adding a new
7 section to read:

8 **Section 30. Disposition of Constitutional Budget Reserve Fund Balance.**

9 On the effective date of the 2000 amendment repealing provisions relating to the
10 constitutional budget reserve fund (art. IX, sec. 17), the balance in the fund shall be
11 deposited into the budget reserve fund established by statute.

12 *** Sec. 2.** Article IX, sec. 17, Constitution of the State of Alaska, is repealed.

13 *** Sec. 3.** The amendments proposed by this resolution shall be placed before the voters of
14 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
15 State of Alaska, and the election laws of the state.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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

March 30, 1999

SUBJECT: Appropriation to the Alaska Income Account (Work Order No. 21-LS0788\D)

TO: Representative Bill Hudson
Attn: Melinda Hofstad

FROM: Tamara Brandt Cook
Director *TBC*

Here is a sectional summary that you requested.

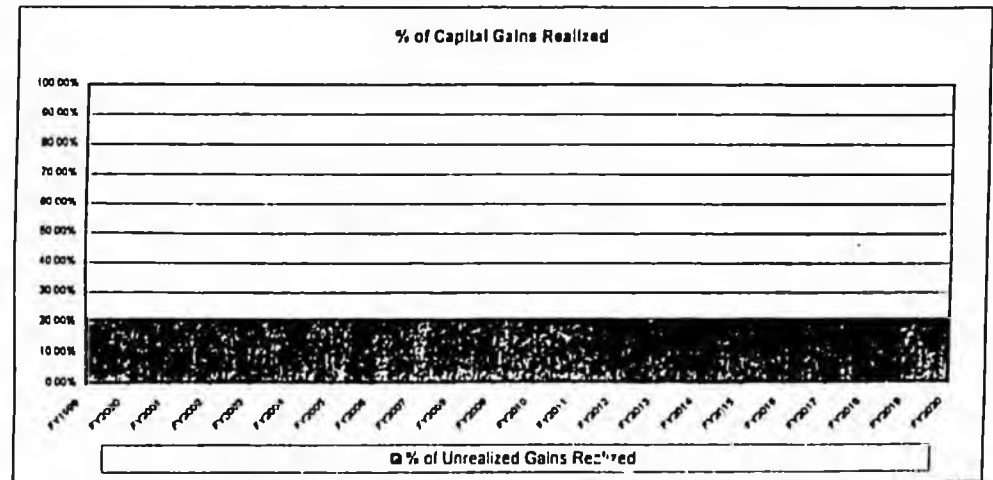
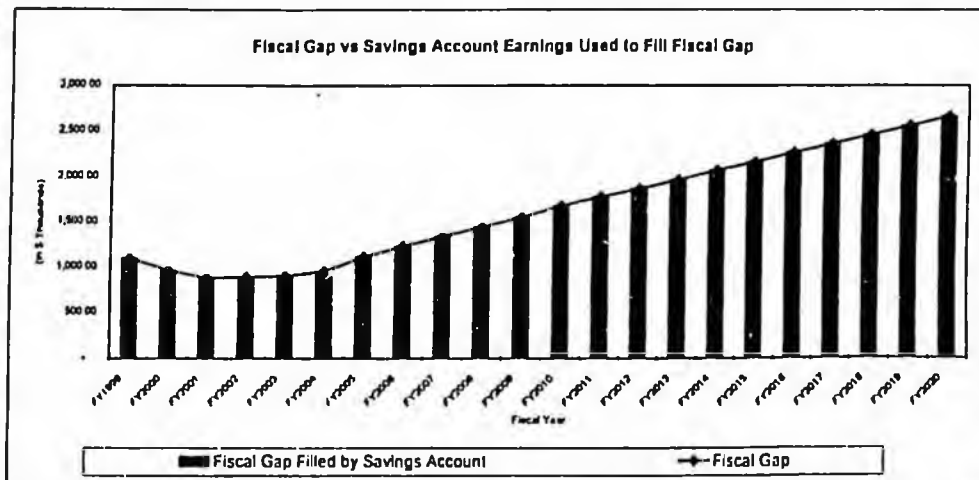
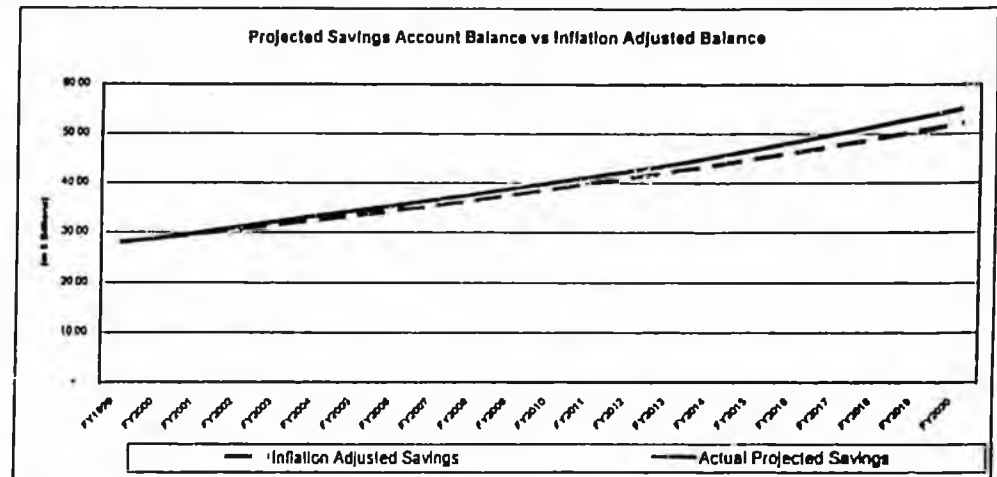
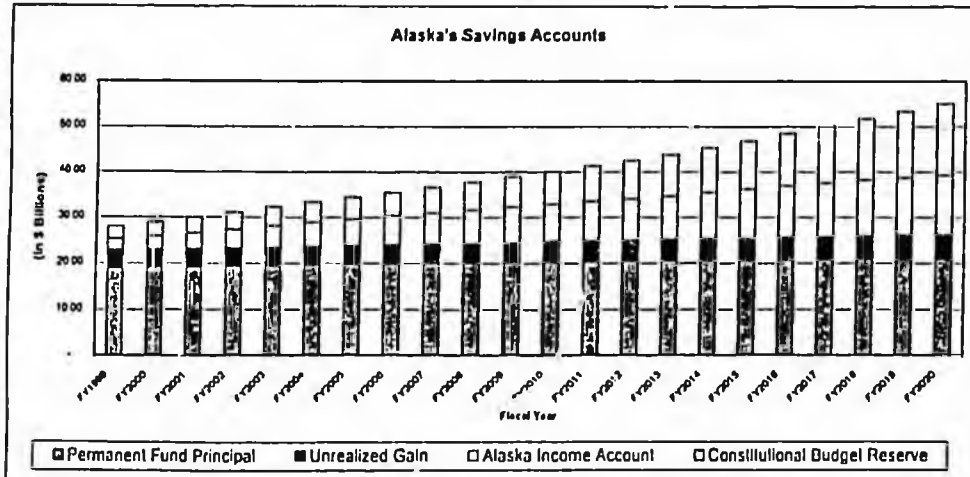
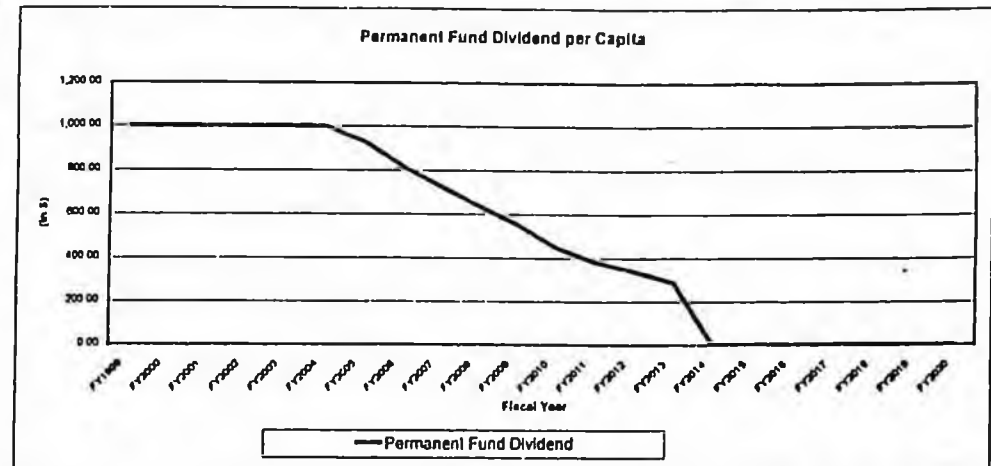
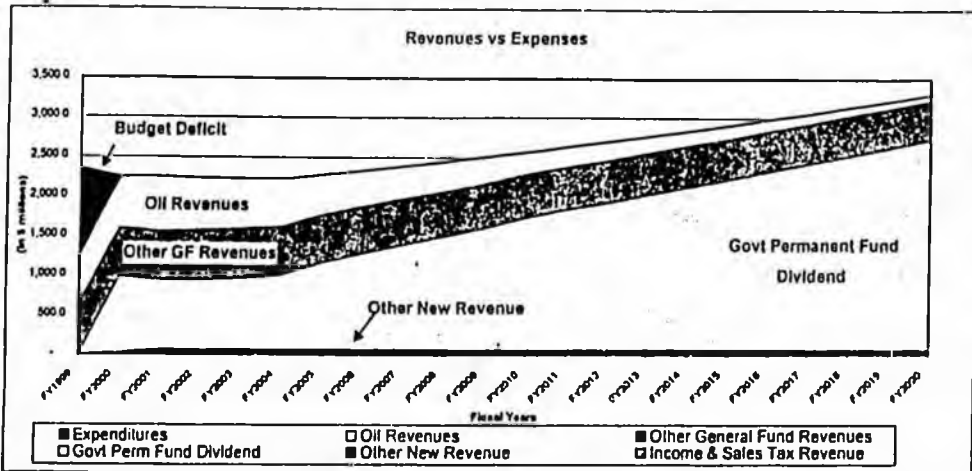
Sec. 1. Appropriates the balance in the budget reserve fund on July 2, 1999 to the Alaska Income Account. The July 2 date is intended to accommodate the possibility that money may be appropriated from the budget reserve fund in the FY 2000 budget, hopefully, with an effective date of July 1. This appropriation requires the 3/4 vote under the state constitution.

Sec. 2. This appropriation bill will take effect only if a substantive bill is enacted establishing the Alaska Income Account.

Sec. 3. If it takes effect, the effective date will coincide with the effective date of provisions of substantive law establishing the account.

TBC:pl:glc
98-041.plm

V. SPREAD SHEET RUNS



Average Rate of Return 8.23% Payout Rate 5.00% Dividend Goes Away After \$ 250.00

INPUTS

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	
Estimated Inflation Rate (%)	1.54%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Growth in Non-Oil Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Growth of Agency Expenditures - Inflation	1.54%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Agency Expenditures - Population	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Growth of Formula Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Formula Expenditures - Population	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Growth of School Expenditures - Inflation	1.54%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of School Expenditures - Population	0.00%	2.13%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Growth of Capital Budget - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Capital Budget - Population	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Population Growth for Dividends	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Permanent Fund Est. Total Rate of Return (%)	7.91%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
CBR Estimated Yield (%) (Div + Interest)	6.08%	5.50%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%	8.10%
Inflation Proof JUST Beginning Balance - Yes or No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
% of Unrealized Capital Gain Realized	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
Limit Dividend to Fixed \$ Per Person	1,000.00	1,000.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Oil Price (\$/bbl.)	11.58	12.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Oil Production (MMbbl/day)	1.18	1.12	1.15	1.18	1.18	1.14	1.08	0.99	0.93	0.86	0.80	0.75	0.70	0.65	0.60	0.56	0.53	0.48	0.45	0.42	0.38	0.37	

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	
Permanent Fund & Earnings Reserve (Beg of Yr)	23,876.83	25,243.88	25,834.83	26,548.60	27,296.99	28,076.01	28,852.96	29,544.92	30,228.66	30,904.93	31,570.33	32,222.65	32,854.16	33,468.36	34,066.20	34,641.43	35,429.90	36,183.15	36,894.33	37,558.08	38,169.82	38,728.77	39,236.11
+ Dedicated Oil Revenues	110.78	123.82	136.57	149.13	162.44	177.94	192.45	207.23	222.79	238.67	254.61	270.76	287.63	304.88	322.34	340.11	358.21	376.64	395.40	414.49	433.91	453.66	473.75
+ Interest	1,079.34	1,141.17	1,167.92	1,200.07	1,233.74	1,262.81	1,303.47	1,334.49	1,365.20	1,395.53	1,425.38	1,454.93	1,484.87	1,510.31	1,537.34	1,563.42	1,599.89	1,632.81	1,664.69	1,694.43	1,722.02	1,747.15	1,770.13
+ Unrealized Gains(Losses)	813.70	946.33	961.32	993.18	1,023.13	1,052.19	1,080.92	1,106.65	1,132.11	1,157.27	1,182.02	1,206.19	1,229.70	1,252.62	1,274.87	1,296.49	1,325.91	1,354.04	1,380.47	1,405.14	1,428.02	1,449.85	1,470.85
- Dividend	(603.61)	(613.97)	(628.59)	(641.46)	(654.61)	(668.03)	(681.43)	(694.70)	(707.13)	(719.56)	(731.99)	(744.33)	(756.66)	(768.94)	(781.16)	(793.34)	(805.48)	(817.58)	(829.64)	(841.66)	(853.64)	(865.58)	(877.48)
- Operating Expenses & Oil Litigation Expenses	(31.16)	(31.64)	(32.59)	(33.56)	(34.57)	(35.61)	(36.68)	(37.78)	(38.91)	(40.08)	(41.28)	(42.52)	(43.81)	(45.11)	(46.46)	(47.85)	(49.29)	(50.77)	(52.29)	(53.84)	(55.43)	(57.06)	(58.73)
+/- Transfers (to)/from CBR	-	(9.30)	(13.80)	(18.30)	(23.40)	(28.30)	(33.00)	(37.00)	(40.00)	(43.00)	(46.00)	(49.00)	(52.00)	(55.00)	(58.00)	(61.00)	(64.00)	(67.00)	(70.00)	(73.00)	(76.00)	(79.00)	(82.00)
+/- Transfers (to)/from General Fund	-	(965.26)	(884.25)	(822.65)	(767.75)	(715.09)	(664.77)	(616.14)	(569.49)	(524.81)	(482.14)	(441.51)	(401.91)	(363.34)	(325.81)	(289.32)	(253.87)	(219.46)	(186.09)	(153.76)	(122.47)	(92.22)	(63.01)
Permanent Fund & Earnings Reserve (End of Yr)	25,243.88	25,834.83	26,548.60	27,296.99	28,076.01	28,852.96	29,544.92	30,228.66	30,904.93	31,570.33	32,222.65	32,854.16	33,468.36	34,066.20	34,641.43	35,429.90	36,183.15	36,894.33	37,558.08	38,169.82	38,728.77	39,236.11	39,693.45

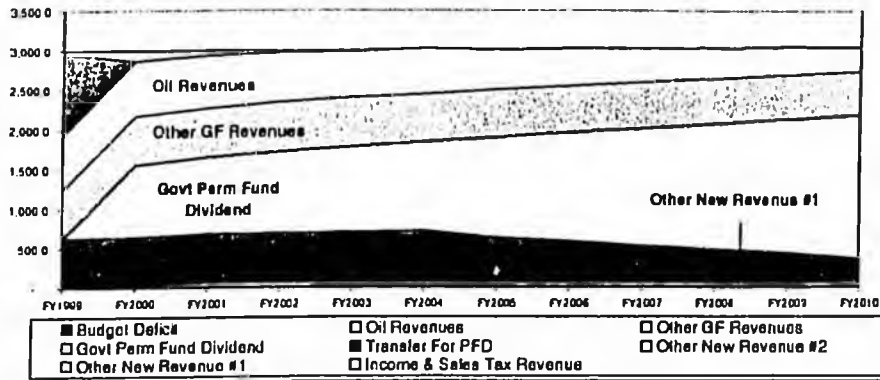
Permanent Fund Dividend	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	910.03	816.74	727.01	636.88	554.39	466.66	382.69	300.93	218.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
-------------------------	----------	----------	----------	----------	----------	----------	--------	--------	--------	--------	--------	--------	--------	--------	--------	------	------	------	------	------	------	------	------

Constitutional Budget Reserve (Beg of Yr)	3,559.10	2,780.22	3,042.01	3,198.74	3,284.34	4,201.16	4,541.45	4,909.31	5,306.97	5,736.83	6,201.51	6,703.84	7,246.85	7,833.84	8,468.38	9,154.32	9,893.82	10,697.38	11,563.87	12,500.54	13,513.09	14,607.63	15,790.87
+ Interest	219.62	153.83	210.70	279.59	310.82	310.29	367.86	397.61	429.86	464.68	502.22	543.01	586.99	634.54	685.94	741.50	801.56	866.49	936.67	1,012.54	1,094.54	1,183.22	1,278.91
+ Oil & Gas Tax Dispute Resolutions	106.00	106.00	106.00	106.00	106.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
+/- Transfers (to)/from Permanent Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
+/- Transfers (to)/from General Fund	(1,104.50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Constitutional Budget Reserve (End of Yr)	2,780.22	3,042.01	3,398.74	3,784.34	4,201.16	4,541.45	4,909.31	5,306.97	5,736.83	6,201.51	6,703.84	7,246.85	7,833.84	8,468.38	9,154.32	9,893.82	10,697.38	11,563.87	12,500.54	13,513.09	14,607.63	15,790.87	

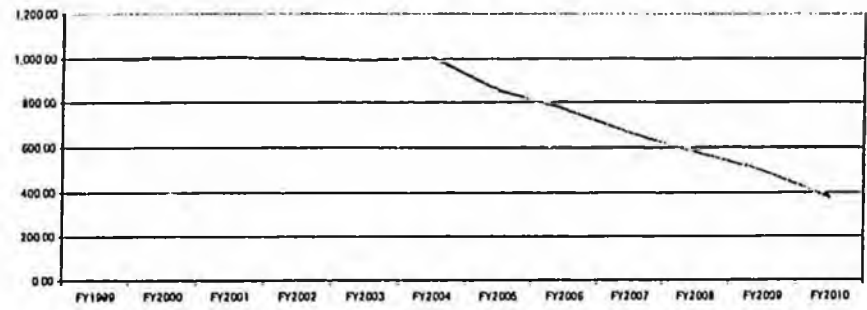
Total of Alaska's Savings Accounts	28,026.10	28,876.87	29,947.34	31,031.32	32,277.17	33,594.47	34,954.23	35,535.63	36,641.76	37,721.75	38,926.48	40,101.01	41,302.40	42,534.58	43,795.75	45,233.72	46,833.53	48,458.20	50,056.60	51,682.90	53,336.41	55,019.33
------------------------------------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	-----------

Revenues & Expenditures	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	
Oil Revenues	623.6	649.9	694.9	656.4	632.8	604.3	503.7	455.4	417.6	376.2	339.4	302.3	253.3	236.9	213.7	189.9	174.0	151.6	132.3	114.6	91.4	83.8	
Other General Fund Revenues	632.6	602.3	607.4	621.3	620.4	602.5	593.8	582.3	572.2	562.9	553.3	544.2	536.2	529.2	515.8	510.3	503.3	500.6	499.3	499.3	493.3	492.2	
Income & Sales Tax Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other New Revenue	-	32.3	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	64.6	
Transfers	1,104.50	965.3	884.3	822.7	767.7	715.1	664.8	616.2	569.5	524.8	482.1	441.5	401.9	363.3	325.8	289.3	253.9	219.5	186.1	153.8	122.5	93.3	
Total Revenue and Transfers	2,360.7	2,249.9	2,251.1	2,234.9	2,225.6	2,216.5	2,210.8	2,216.6	2,202.9	2,152.8	2,113.4	2,073.6	2,033.9	2,000.2	1,972.7	1,944.0	1,915.2	1,886.4	1,857.6	1,828.8	1,800.0	1,771.2	
Agency Operations	1,104.7	1,104.7	1,054.7	1,014.7	984.7	964.7	973.8	993.3	1,013.1	1,033.4	1,054.1	1,075.1	1,096.7	1,118.6	1,141.0	1,163.8	1,187.0	1,210.8	1,235.0	1,259.7	1,284.9	1,310.4	
Formula Programs	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	372.5	
K-12 Education Formula Programs	681.2	693.7	704.1	716.7	727.5	738.4	749.3	760.3	771.4	782.5	793.6	804.7	815.8	826.9	838.0	849.1	860.2	871.3	882.4	893.5	904.6	915.7	
Proposed Budget Cuts	-	(30.0)	(40.0)	(50.0)	(60.0)	(70.0)	(80.0)	(90.0)	(100.0)	(110.0)	(120.0)	(130.0)	(140.0)	(150.0)	(160.0)	(170.0)	(180.0)	(190.0)	(200.0)	(210.0)	(220.0)	(230.0)	
Supplemental Budget	30.0	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	
Debt Service (Net of non-GF School Fund & AIFC offsets)	46.0	5.7	38.7	41.9	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	
Capital Budget	85.4	83.4	85.4	85.4	85.4	85.4																	

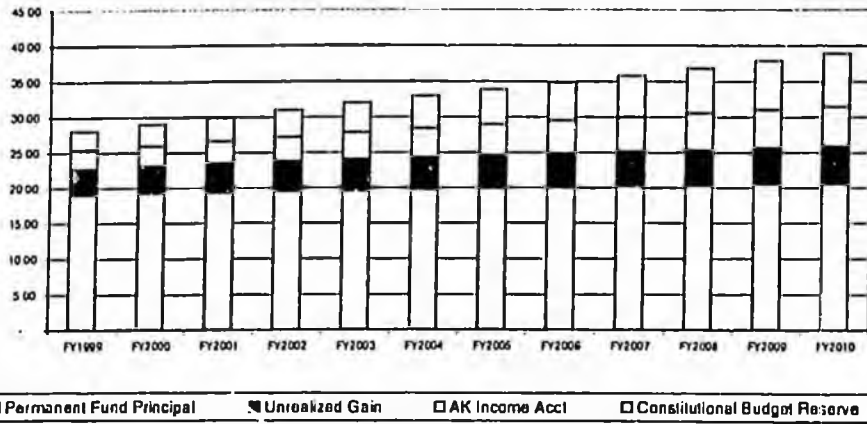
Revenues vs Expenses



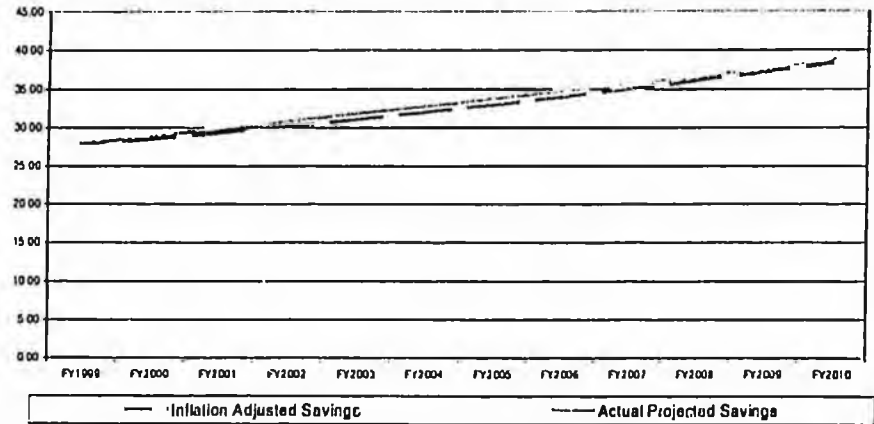
Permanent Fund Dividend per Capita



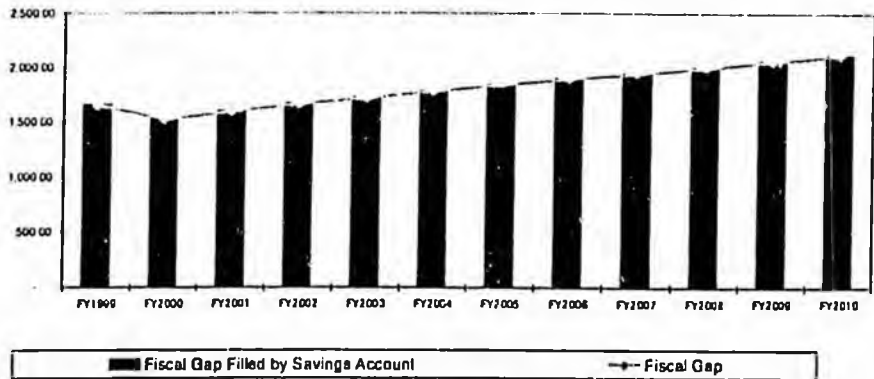
Alaska's Savings Accounts



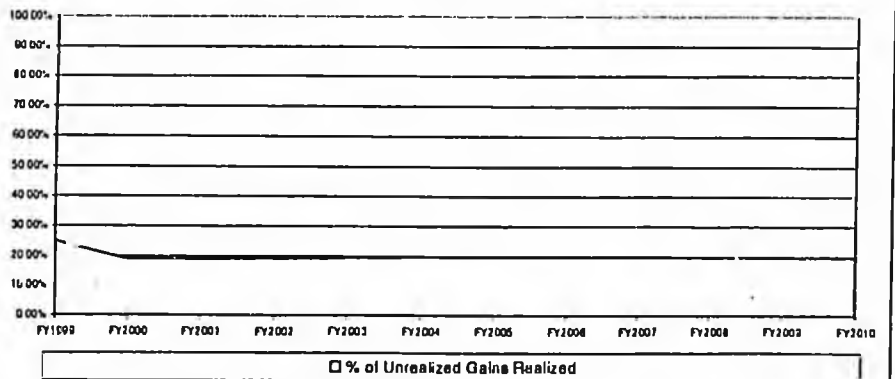
Projected Savings Account Balance vs Inflation Adjusted Balance



Fiscal Gap vs Savings Account Earnings Used to Fill Fiscal Gap



% of Capital Gains Realized



	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Revenue Assumptions													
Oil Price in \$/bbl	12.11	13.57	14.52	15.28	16.00	16.30	16.64	18.10	18.62	19.16	19.72	20.31	20.91
Volume in mbb/d	1.166	1.047	1.064	1.035	1.049	1.076	1.031	0.979	0.919	0.871	0.824	0.768	0.718
HB96 Passes (Y or N) - All Leases @ 25%	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Market Assumptions													
Perm Fund Total Return	7.910%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%
Yield of Dividends & Interest	4.000%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%	3.820%
Expected Capital Gains/Losses	3.910%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%	4.430%
% of Unrealized Gains Realized	24.820%	18.750%	18.900%	19.000%	19.230%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%
CBR Yield	6.080%	5.500%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%	8.250%
Annualized Return	XXXX												
Dividend Assumptions													
Limit Dividend to \$ per Person	\$1,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Calculated Dividend Amount	x \$1,000	\$1,001	\$1,005	\$1,002	\$993	\$1,004	\$855	\$771	\$667	\$581	\$500	\$377	\$0
Inflation Assumptions													
General Inflation Rate - Used for Inflation Proofing	1.540%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%	3.000%
Growth of Agency Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Formula Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of School Expenditures - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Growth of Capital Budget - Inflation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Population Growth Assumptions													
Agency Expenditures - Population	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Formula Expenditures - Population	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
School Expenditures - Population	1.500%	2.642%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%	1.500%
Capital Budget - Population	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Dividends	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%	1.600%
Inflation Proofing Assumptions													
Statutory Inflation Proofing Amount	x 287.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Question: Use the Statutory Method? (Y or N)	Y	N	N	N	N	N	N	N	N	N	N	N	N
Endowment Assumptions													
Payout %	N/A	5.55%	5.69%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.25%
Minimum Dividend		\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00
Split (Y or N)	N/A	N	N	N	N	N	N	N	N	N	N	N	N
% Split for Dividend	N/A												
% Split for General Government	N/A												

Budget Assumptions

	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Revenues													
<i>Petroleum Revenue</i>	677.6	692.9	657.2	615.5	588.9	581.9	511.5	471.1	427.4	393.8	362.9	302.6	270.0
<i>Non-petroleum Revenue</i>	621.1	614.8	613.2	617.6	612.0	598.7	592.9	592.1	581.4	571.3	560.7	550.2	539.7
Alaska Credit Income Tax (Net receipts in millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Alaska Sales Tax (1% = \$60 million, exempts food & health)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other New Revenue #1	0.0	32.3	64.6	64.6	64.6	64.6	65.9	67.2	68.6	69.9	71.3	72.8	74.2
Other New Revenue #2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	1,298.7	1,340.0	1,335.0	1,297.7	1,265.5	1,245.2	1,170.2	1,130.4	1,077.4	1,035.0	994.9	925.5	883.9
Expenditures													
Agency Operations	1,104.7	1,104.7	1,104.7	1,104.7	1,104.7	1,104.7	1,126.8	1,149.3	1,172.3	1,195.8	1,219.7	1,244.1	1,269.0
Formula Programs	372.5	372.5	372.5	372.5	372.5	372.5	380.0	387.5	395.3	403.2	411.3	419.5	427.9
K-12 Education	681.2	699.2	709.7	720.3	731.1	742.1	768.1	795.0	822.8	851.6	881.4	912.2	944.2
Perm Fund Dividends	601.1	582.3	593.7	601.8	605.8	622.0	538.6	493.3	433.3	383.4	335.2	257.0	0.0
Perm Fund Hold Harmless	28.6	29.2	29.8	30.4	31.0	31.6	32.3	32.9	33.6	34.2	34.9	35.6	0.0
Proposed Budget Cuts #1	0.0	(50.0)	(40.0)	(30.0)	(20.0)	(10.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proposed Budget Cuts #1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplemental Budget - Fires, Floods, (Y2K, FY99), etc.	13.6	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Debt Service (Net of non-GF School Fund and AIFC off)	46.0	3.5	38.7	41.9	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8	41.8
Capital Budget	85.4	85.4	85.4	85.4	85.4	85.4	87.1	88.9	90.6	92.4	94.3	96.2	98.1
State Match for Loan Programs (Water, Sewer, etc.)	20.9	19.4	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Other #1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other #2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total General Fund Expenditures:	2,954.0	2,862.7	2,928.2	2,830.7	2,986.1	3,023.8	3,008.3	3,022.3	3,023.4	3,036.2	3,052.2	3,040.1	2,814.6
Budget (Deficit)/Surplus	(1,655.3)	(1,522.6)	(1,593.2)	(1,663.0)	(1,720.6)	(1,778.6)	(1,838.1)	(1,891.9)	(1,946.1)	(2,001.2)	(2,057.3)	(2,114.6)	(1,930.7)
Transfers													
<i>Transfer (to)/from CBR (Beg of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from CBR (Thru the Year)</i>	1,025.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from CBR (End of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Legislative Appropriations to Perm Fund Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from Earnings Reserve (Beg of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Transfer (to)/from Earnings Reserve (Thru the Year)</i>	0.0	911.2	969.7	1,030.8	1,083.8	1,125.0	1,267.2	1,365.8	1,479.2	1,563.5	1,687.2	1,821.9	1,930.7
<i>Transfer (to)/from Earnings Reserve (End of Year)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>PFD Transfer from Earn Reserve (End of Year)</i>	601.1	582.3	593.7	601.8	605.8	622.0	538.6	493.3	433.3	383.4	335.2	257.0	0.0
<i>PFD Transfer from Earn Reserve for Hold Harmless</i>	28.6	29.2	29.8	30.4	31.0	31.6	32.3	32.9	33.6	34.2	34.9	35.6	0.0
Total Transfers	1,655.3	1,522.6	1,593.2	1,663.0	1,720.6	1,778.6	1,838.1	1,891.9	1,946.1	2,001.2	2,057.3	2,114.6	1,930.7
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CBR Balance	2,781.9	3,037.1	3,412.6	3,819.1	4,259.2	4,610.5	4,990.9	5,402.7	5,848.4	6,330.9	6,853.2	7,418.5	8,030.6
Earnings Reserve Balance	2,576.7	2,854.4	3,137.2	3,418.1	3,711.7	4,013.2	4,303.8	4,587.0	4,860.6	5,122.0	5,368.1	5,595.7	6,043.6
Unrealized Gains	3,689.1	3,909.0	4,103.4	4,278.1	4,428.7	4,558.5	4,683.8	4,804.5	4,921.2	5,034.0	5,143.1	5,248.4	5,349.7
Unrealized Gains Realized %	24.820%	18.750%	18.900%	19.000%	19.230%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%	19.460%
Continued Deficit													

CONSTITUTIONAL BUDGET RESERVE	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
TOTAL Const Budget Reserve (Beg of Yr)	3,559.1	2,761.9	3,037.1	3,412.6	3,819.1	4,250.2	4,610.5	4,990.9	5,402.7	5,848.4	6,330.9	6,853.2	7,418.5
Oil & Gas Tax Dispute Resolutions (Thru the Year)	56.0	120.0	120.0	120.0	120.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Earnings Reserve (Beg of Yr)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Earnings Reserve (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Earnings Reserve (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Thru the Year)	(1,025.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings	172.4	155.2	255.5	286.5	320.0	351.4	380.4	411.7	445.7	482.5	522.3	565.4	612.0
TOTAL Const Budget Reserve (End of Yr)	2,761.9	3,037.1	3,412.6	3,819.1	4,259.2	4,610.5	4,990.9	5,402.7	5,848.4	6,330.9	6,853.2	7,418.5	8,030.6

ALASKA PERMANENT FUND

Principal/Corpus

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
TOTAL Principal at Cost (Beg of Yr)	18,516.0	18,971.9	19,121.3	19,270.3	19,417.5	19,567.3	19,721.2	19,866.3	20,008.9	20,148.7	20,288.2	20,427.2	20,559.4
Dedicated Oil Revenues (Thru the Year)	130.0	122.2	119.2	114.8	114.6	115.4	103.6	97.5	91.2	86.9	82.2	70.7	64.8
Other Transfers (Amerada Hess) (End of Year)	38.2	27.3	29.8	32.4	35.3	38.5	41.6	45.0	48.6	52.6	56.9	61.5	66.5
Legislative Appropriations (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Earnings Reserve (Beg of Yr)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Earnings Reserve (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Earnings Reserve (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statutory Inflation Pooling (End of Year)	287.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL Principal at Cost (Ending Bal)	18,971.9	19,121.3	19,270.3	19,417.5	19,567.3	19,721.2	19,866.3	20,008.9	20,148.7	20,288.2	20,427.2	20,559.4	20,690.7

Earnings Reserve

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
TOTAL Earnings Reserve Acct Balance (Beg of Yr)	1,389.0	2,576.7	2,854.4	3,137.2	3,418.1	3,711.7	4,013.2	4,303.8	4,587.0	4,860.6	5,122.0	5,368.1	5,595.7
Transfer (to)/from APFC Principal (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Principal (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from APFC Principal (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from Gen Fund (Thru the Year)	(0.0)	(911.2)	(969.7)	(1,030.8)	(1,083.8)	(1,125.0)	(1,167.2)	(1,365.8)	(1,479.2)	(1,583.5)	(1,687.2)	(1,821.9)	(1,930.7)
Transfer (to)/from Gen Fund (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from CBR (Beg of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from CBR (Thru the Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer (to)/from CBR (End of Year)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PFD Transfer (to) Gen Fund (End of Year)	(601.1)	(582.3)	(593.7)	(601.8)	(605.8)	(622.0)	(538.6)	(493.3)	(433.3)	(303.4)	(335.2)	(257.0)	0.0
PFD Transfer (to) Gen Fund for Hold Harmless (E x	(28.6)	(29.2)	(29.8)	(30.4)	(31.0)	(31.6)	(32.3)	(32.9)	(33.6)	(34.2)	(34.9)	(35.6)	0.0
Interest Income x	957.6	967.5	992.2	1,016.0	1,039.0	1,061.7	1,083.9	1,105.2	1,125.9	1,146.1	1,165.6	1,184.3	1,201.9
Realized Gains x	1,217.9	902.1	956.3	1,003.5	1,054.4	1,101.4	1,131.7	1,160.9	1,189.1	1,216.3	1,242.7	1,268.1	1,292.6
Statutory Inflation Pooling	(287.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Costs of APFC	(32.2)	(42.0)	(42.6)	(43.3)	(43.9)	(44.6)	(45.2)	(45.9)	(46.6)	(47.3)	(48.0)	(48.7)	(49.5)
Legislative Appropriations for Oil & Gas Litigation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Legislative Appropriations for Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Amerada Hess Settlement Earnings (not inc x	(38.2)	(27.3)	(29.8)	(32.4)	(35.3)	(38.5)	(41.6)	(45.0)	(48.6)	(52.6)	(56.9)	(61.5)	(66.5)
TOTAL Earnings Reserve Acct Balance (End of Yr)	2,576.7	2,854.4	3,137.2	3,418.1	3,711.7	4,013.2	4,303.8	4,587.0	4,860.6	5,122.0	5,368.1	5,595.7	6,043.6

Unrealized Gains

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Balance of Unrealized Gains (Beg of Year)	3,970.9	3,689.1	3,909.0	4,103.4	4,278.1	4,428.7	4,558.5	4,683.8	4,804.5	4,921.2	5,034.0	5,143.1	5,248.4
Current Year Unrealized Gains	936.1	1,122.0	1,150.6	1,178.2	1,204.9	1,231.3	1,256.9	1,281.7	1,305.7	1,329.1	1,351.8	1,373.4	1,393.9
Amount of Gains Realized	(1,217.9)	(902.1)	(956.3)	(1,003.5)	(1,054.4)	(1,101.4)	(1,131.7)	(1,160.9)	(1,189.1)	(1,216.3)	(1,242.7)	(1,268.1)	(1,292.6)
Additional Gains Realized	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bal Unreal Gain add to Market Value	3,689.1	3,909.0	4,103.4	4,278.1	4,428.7	4,558.5	4,683.8	4,804.5	4,921.2	5,034.0	5,143.1	5,248.4	5,349.7

25,237.7

	Permanent Fund			CBR	Total Endowment	Payout Rate	Amount for Govt & PFD's
	Corpus/ Principal	Unrealized Gains	Alaska Inc Acct				
Balance @ 6/30/98	18,516	3,971	1,389	3,559	27,435	5.55%	1,523
Dedicated Revenues	130			56			
Interest Income			958	172			
Unrealized Capital Gains		936					
Realized Capital Gains		(1,218)	1,218				
Transfer to General Govt			(0)	(1,026)			
Perm Fund Dividends			(630)				
Inflation Proofing & Other Expenses	326		(326)				
			(32)				
Balance @ 6/30/99	10,972	3,689	2,577	2,762	28,000	5.69%	1,593
Dedicated Revenues	122			120			
Interest Income			968	158			
Unrealized Capital Gains		1,122					
Realized Capital Gains		(902)	902				
Transfer to General Govt			(911)	0			
Perm Fund Dividends			(611)				
Inflation Proofing & Other Expenses	27		(27)				
			(42)				
Balance @ 6/30/00	19,121	3,909	2,854	3,037	28,922	5.75%	1,663
Dedicated Revenues	119			120			
Interest Income			992	258			
Unrealized Capital Gains		1,151					
Realized Capital Gains		(956)	956				
Transfer to General Govt			(970)	0			
Perm Fund Dividends			(624)				
Inflation Proofing & Other Expenses	30		(30)				
			(43)				
Balance @ 6/30/01	19,270	4,103	3,137	3,413	29,924	5.75%	1,721
Dedicated Revenues	115			120			
Interest Income			1,016	266			
Unrealized Capital Gains		1,178					
Realized Capital Gains		(1,004)	1,004				
Transfer to General Govt			(1,031)	0			
Perm Fund Dividends			(632)				
Inflation Proofing & Other Expenses	32		(32)				
			(43)				
Balance @ 6/30/02	19,417	4,278	3,418	3,819	30,933	5.75%	1,779

	Permanent Fund			CBR	Total Endowment	Payout Rate	Amount for Govt & PFD's
	Corpus/ Principal	Unrealized Gains	Alaska Inc Acct				
Balance @ 6/30/98	18,516	3,971	1,389	3,559	27,435	5.55%	1,523
Dedicated Revenues	130			56			
Interest Income			958	172			
Unrealized Capital Gains		936					
Realized Capital Gains		(1,218)	1,218				
Transfer to General Govt			(0)	(1,026)			
Perm Fund Dividends			(630)				
Inflation Proofing & Other Expenses	326		(326)				
			(32)				
Balance @ 6/30/99	18,972	3,689	2,577	2,762	28,000	5.69%	1,593
Dedicated Revenues	122			120			
Interest Income			968	155			
Unrealized Capital Gains		1,122					
Realized Capital Gains		(902)	902				
Transfer to General Govt			(911)	0			
Perm Fund Dividends				(611)			
Inflation Proofing & Other Expenses	27		(27)				
			(42)				
Balance @ 6/30/00	19,121	3,909	3,466	2,426	28,922	5.75%	1,663
Dedicated Revenues	119			120			
Interest Income			992	256			
Unrealized Capital Gains		1,151					
Realized Capital Gains		(956)	956				
Transfer to General Govt			(970)	0			
Perm Fund Dividends				(624)			
Inflation Proofing & Other Expenses	30		(30)				
			(43)				
Balance @ 6/30/01	19,270	4,103	4,372	2,178	29,924	5.75%	1,721
Dedicated Revenues	115			120			
Interest Income			1,016	286			
Unrealized Capital Gains		1,178					
Realized Capital Gains		(1,004)	1,004				
Transfer to General Govt			(1,031)	0			
Perm Fund Dividends				(632)			
Inflation Proofing & Other Expenses	32		(32)				
			(43)				
Balance @ 6/30/02	19,417	4,278	5,285	1,952	30,933	5.75%	1,779

The Case for Increased Investment Flexibility: HB 156



**APFC Presentation to House State Affairs
April 15, 1999**

Need for HB 156

- **Modernizes statutes, responsive to current market opportunities and challenges**
- **Requested change is conservative and maintains the legal list approach**
- **Allows your Fund managers to add incremental value**
- **Improves total portfolio risk management**



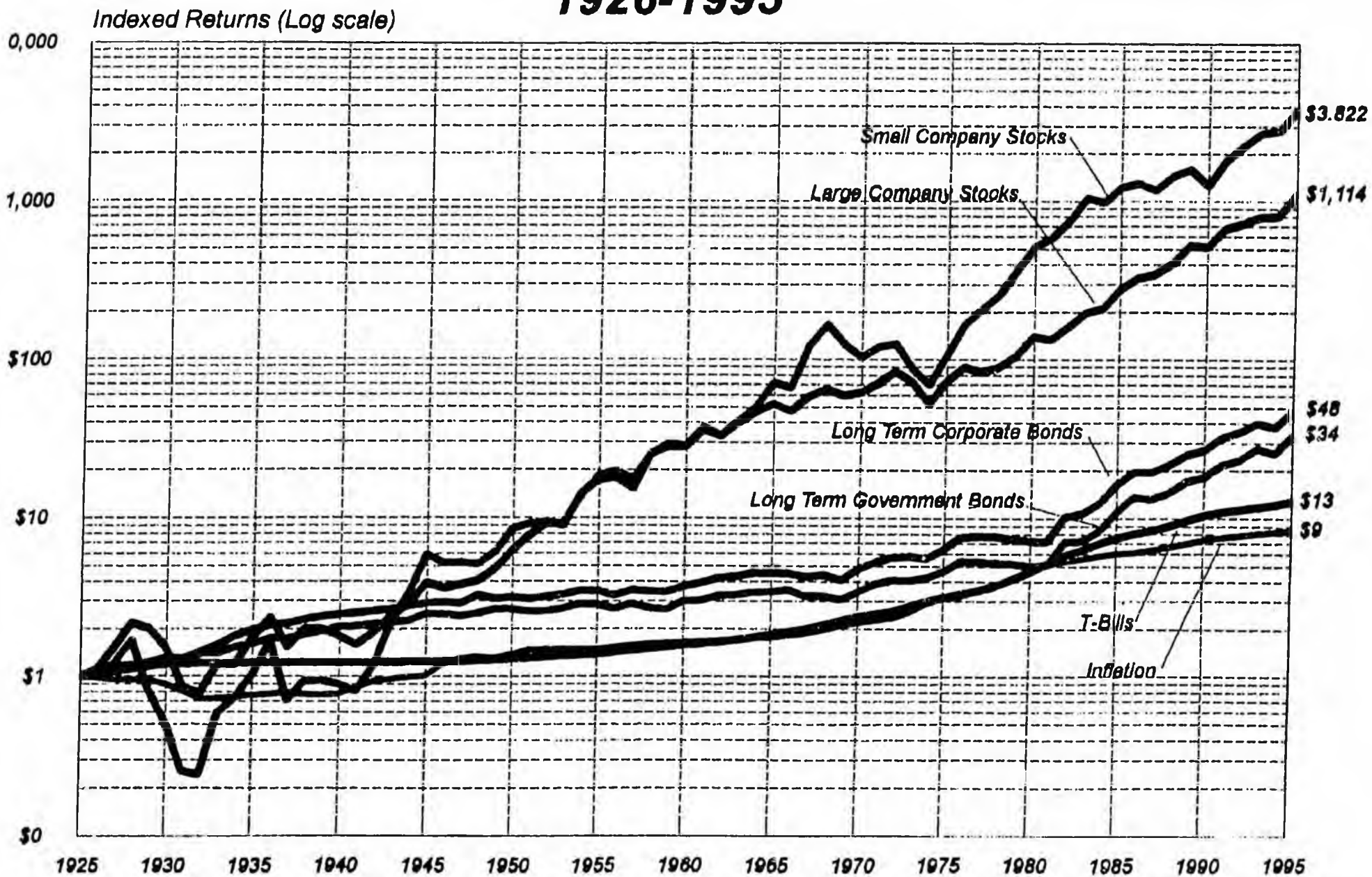
Long-term perspective

Asset class performance

Consider the growth of \$1.00 invested in various U.S. asset classes from Dec. 31, 1925 to Dec. 31, 1995:

◆ Inflation	\$	9
◆ Treasury bills		13
◆ Treasury bonds		34
◆ Large company stocks		1,114
◆ Small company stocks		3,822

Cumulative Growth of Investments in U.S. Stocks, Bonds and Treasury Bills 1926-1995

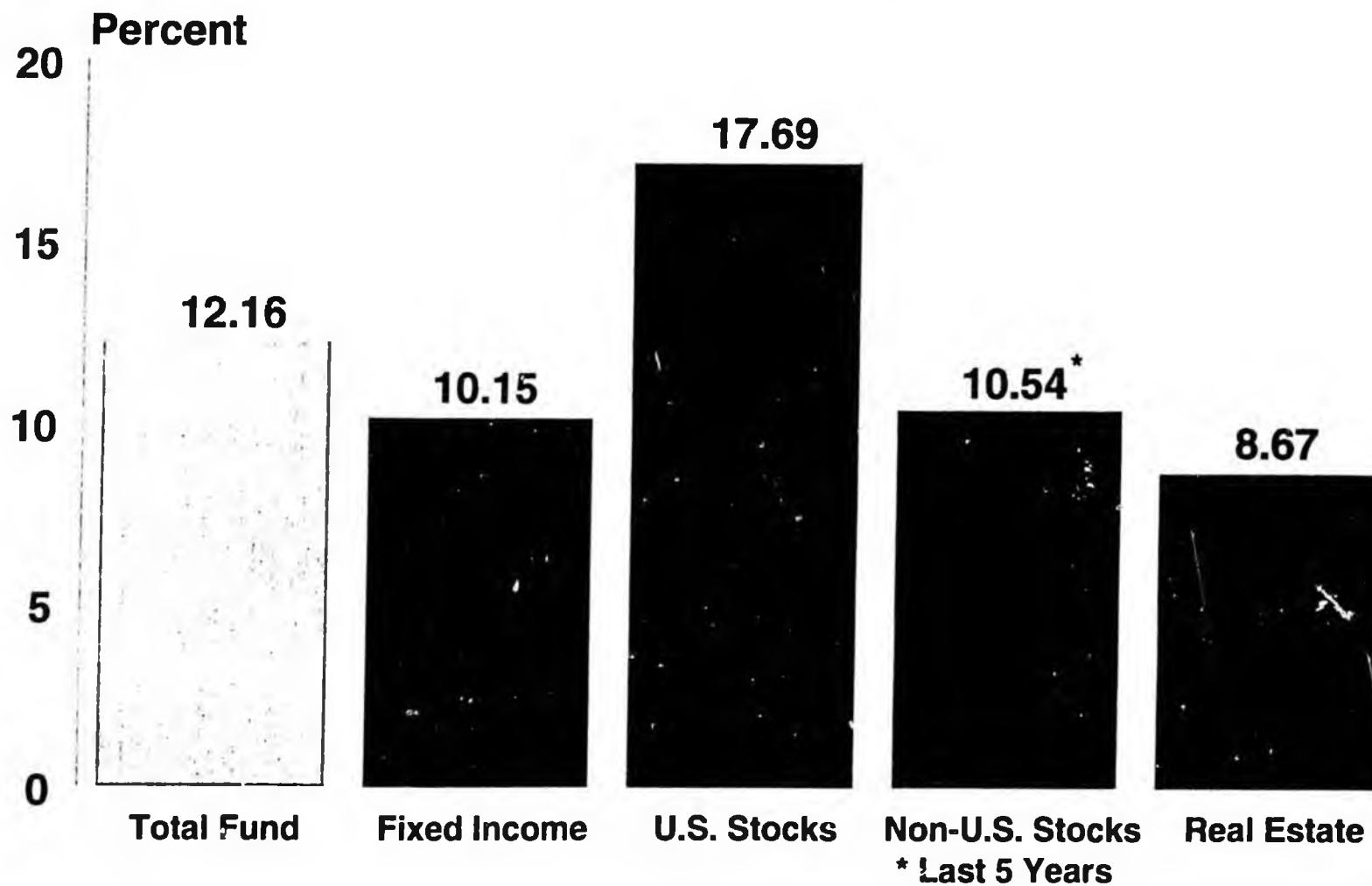


APFC performance



Long-term total returns

15 years ended December 31, 1998



Opportunity Cost: 1997-1998

APFC Actual Rates of Return

	<u>Fixed Income</u>	<u>U.S. Stocks</u>	<u>Difference</u>
1997	9.52%	31.00%	21.48%
1998	9.90	23.62	13.72

	<u>10% of Fund</u>	<u>Returns</u>	<u>Increased Income</u>
1997	\$2.07 billion	21.48%	\$324 million
1998	\$2.36 billion	13.72%	\$444 million

Total: \$770 million



Key assumptions

Long-term

Increased volatility in capital markets

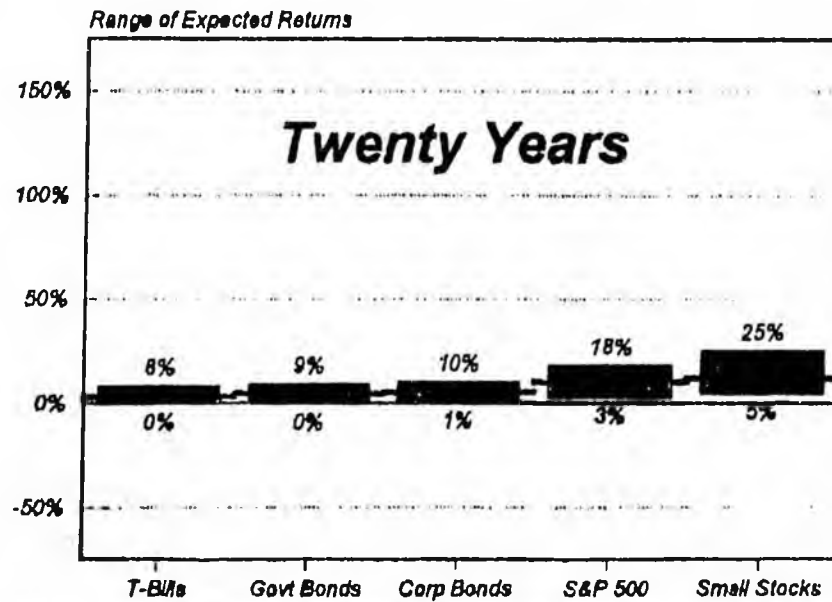
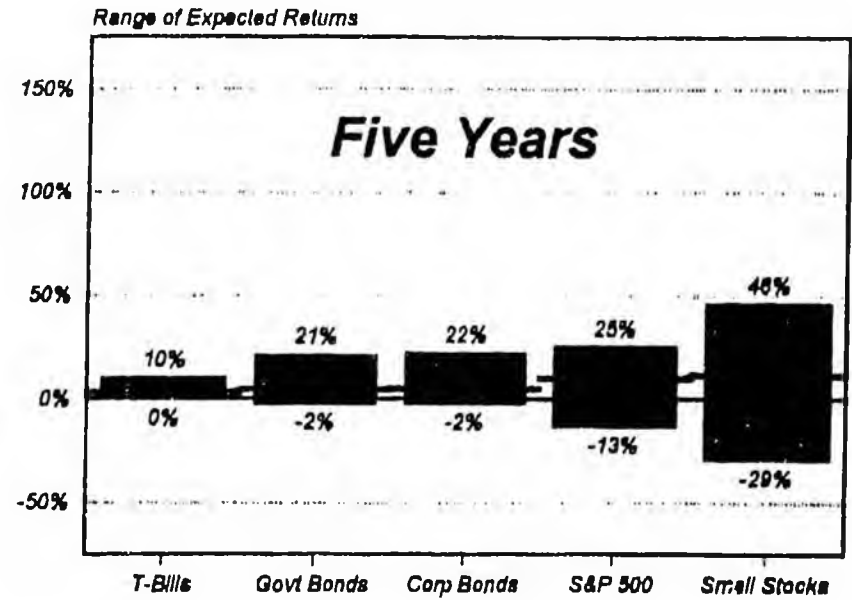
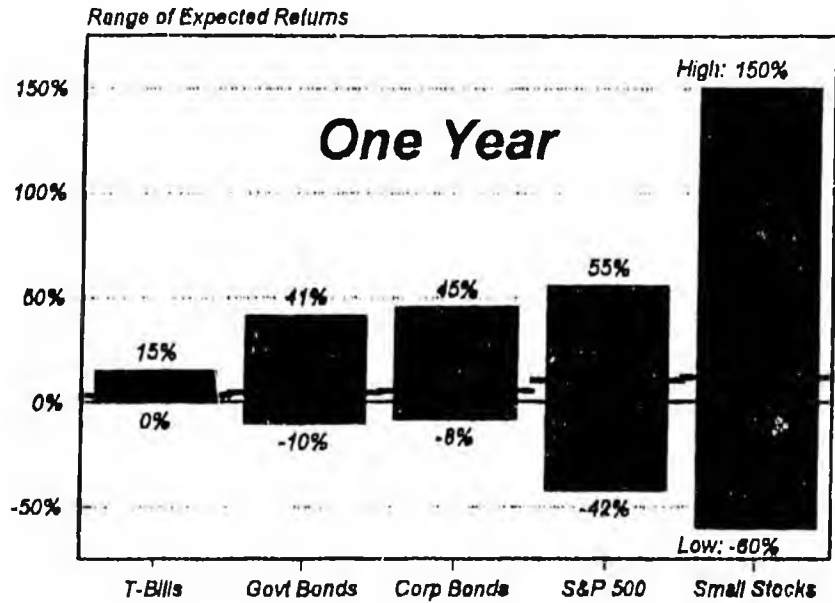
Asset Class	Index	Expected Return			Expected Risk		
		1998	1999	Change	1998	1999	Change
Equities							
Large Cap	S&P 500	9.10	9.00	-0.10	13.30	15.00	1.70
Small Cap	CAI Small	10.10	11.20	1.10	19.10	25.30	6.20
International	MSCI EAFE	9.60	10.00	0.40	18.50	21.50	3.00
Fixed Income							
Domestic	LB Agg	6.60	5.60	-1.00	5.50	5.30	-0.20
International	SB Non-US	6.55	5.60	-0.95	11.20	11.00	-0.20
Other							
Real Estate	CRES	8.25	8.00	-0.25	14.50	16.50	2.00
Alternatives	Veco 100	12.30	12.30	0.00	35.00	36.00	1.00
Cash Equiv.	90-day T-bill	4.80	4.40	-0.40	1.00	0.70	-0.30
Inflation	CPI-U	3.40	3.00	-0.40	0.95	1.75	0.80

LONG-TERM RETURNS

LONG-TERM RISK



Risk Diminishes Over Time



Percent Of Market Value distribution of income

Another way to manage risk is a POMV distribution of income:

- **Provides more predictability and stability in annual distributions**
- **Disconnects investment decisions from short-term spending considerations**
- **Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles**

Key assumptions



Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
Domestic Equities:						
Passively Managed	1.80%	7.60%	9.40%	14.62%	1.10%	1.37%
Actively Managed	1.80%	7.60%	9.40%	19.38%	1.82%	1.82%
Sub-Total				34.00%	2.92%	3.20%
International Equities:						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
Sub-Total				14.00%	1.30%	1.40%
Bonds:						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
Sub-Total				42.00%	2.35%	2.35%
Real Estate:	6.50%	1.50%	8.00%	10.00%	0.76%	0.80%
					7.33%	7.75%
<i>NOTE: Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.</i>					Minus 3.00% Inflation = Real Rates of Return	
					4.33%	4.75%

Key assumptions



Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
Domestic Equities:						
Passively Managed	1.80%	7.60%	9.40%	16.77%	1.26%	1.58%
Actively Managed	1.80%	7.60%	9.40%	22.23%	2.09%	2.09%
Sub-Total				39.00%	3.35%	3.57%
International Equities:						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
Sub-Total				14.00%	1.30%	1.40%
Bonds:						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
Sub-Total				37.00%	2.35%	2.35%
Real Estate:	6.50%	1.50%	8.00%	10.00%	0.76%	0.80%
					7.76%	8.22%
<i>NOTE: Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.</i>					Minus 3.00% Inflation = Real Rates of Return	
					4.76%	5.22%

Key assumptions



Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
Domestic Equities:						
Passively Managed	1.80%	7.60%	9.40%	18.92%	1.42%	1.78%
Actively Managed	1.80%	7.60%	9.40%	25.08%	2.36%	2.36%
Sub-Total				44.00%	3.78%	4.14%
International Equities:						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
Sub-Total				14.00%	1.30%	1.40%
Bonds:						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
Sub-Total				32.00%	2.35%	2.35%
Real Estate:	6.50%	1.50%	8.00%	10.00%	0.76%	0.80%
					8.19%	8.69%
<i>NOTE: Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.</i>					Minus 3.00% Inflation = Real Rates of Return	
					5.19%	5.69%

Key assumptions



GASB Income

Fund Value



GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.
 Earnings reserve appropriated to principal.

STATUS QUO WITH 7.75%



GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.
 Earnings reserve appropriated to principal.

STATUS QUO WITH 8.22%



GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.
 Earnings reserve appropriated to principal.

STATUS QUO WITH 8.69%



Key assumptions



Daily Unaudited Position

as of April 13, 1999

Fixed Income	\$10,752,900,000	41%
U.S. Equities	\$9,727,800,000	37%
Non-U.S. Equities	\$3,560,700,000	14%
Real Estate	\$2,035,100,000	8%
<u>Alaskan CDs</u>	<u>\$190,000,000</u>	<u>1%</u>
TOTAL	\$26,266,500,000	100%

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB 156

Revision Date/Time (Note if correction) _____ Dept. Affects Revenue _____
 Title An Act relating to investments by the Alaska RRU Revenue Operations
Permanent Fund Corporation Component Alaska Permanent Fund Corporation
 Sponsor _____
 Requester House State Affairs Committee Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	------------	------------	------------	------------	------------	------------

CHANGE IN REVENUES ()	49,067.5	51,016.9	53,154.4	55,607.3	58,280.6	61,050.8
-------------------------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Corporate Receipts	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
TOTAL	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *This fiscal note assumes an increase in costs and revenues associated with a 5% increase in public equity investments. It is likely over the 5 year period of this fiscal note that the APFC will use this increased investment flexibility in other asset types as well, e.g., real estate, fixed-income, and alternative investments such as private equity. The new investments would be entered into in order to add incremental value to a very large asset base. Investments with the potential to add significant value may require significant increased costs. All new investments will be reviewed by the Board of Trustees prior to implementation and presented to the APFC's oversight committee, the Legislative Budget & Audit Committee, for review and comment.*

Prepared by Peter A. Bushre *Peter A. Bushre* Phone 465-2301
 Division Alaska Permanent Fund Corporation Date/Time _____
 Approved by _____
 Commissioner William J. London *William J. London* Date 4/14/99
 Agency Department of Revenue

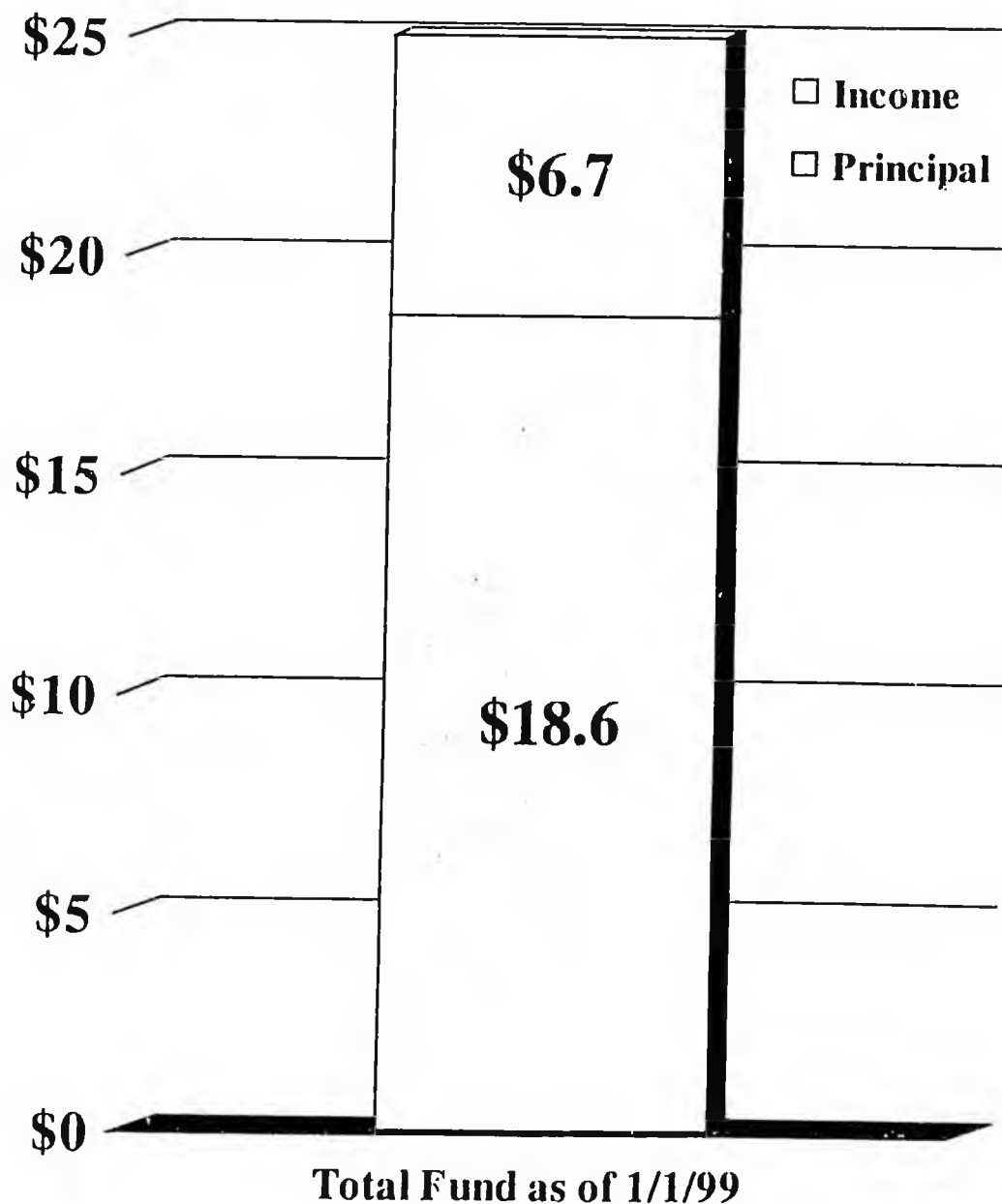
PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

Alaska Permanent Fund

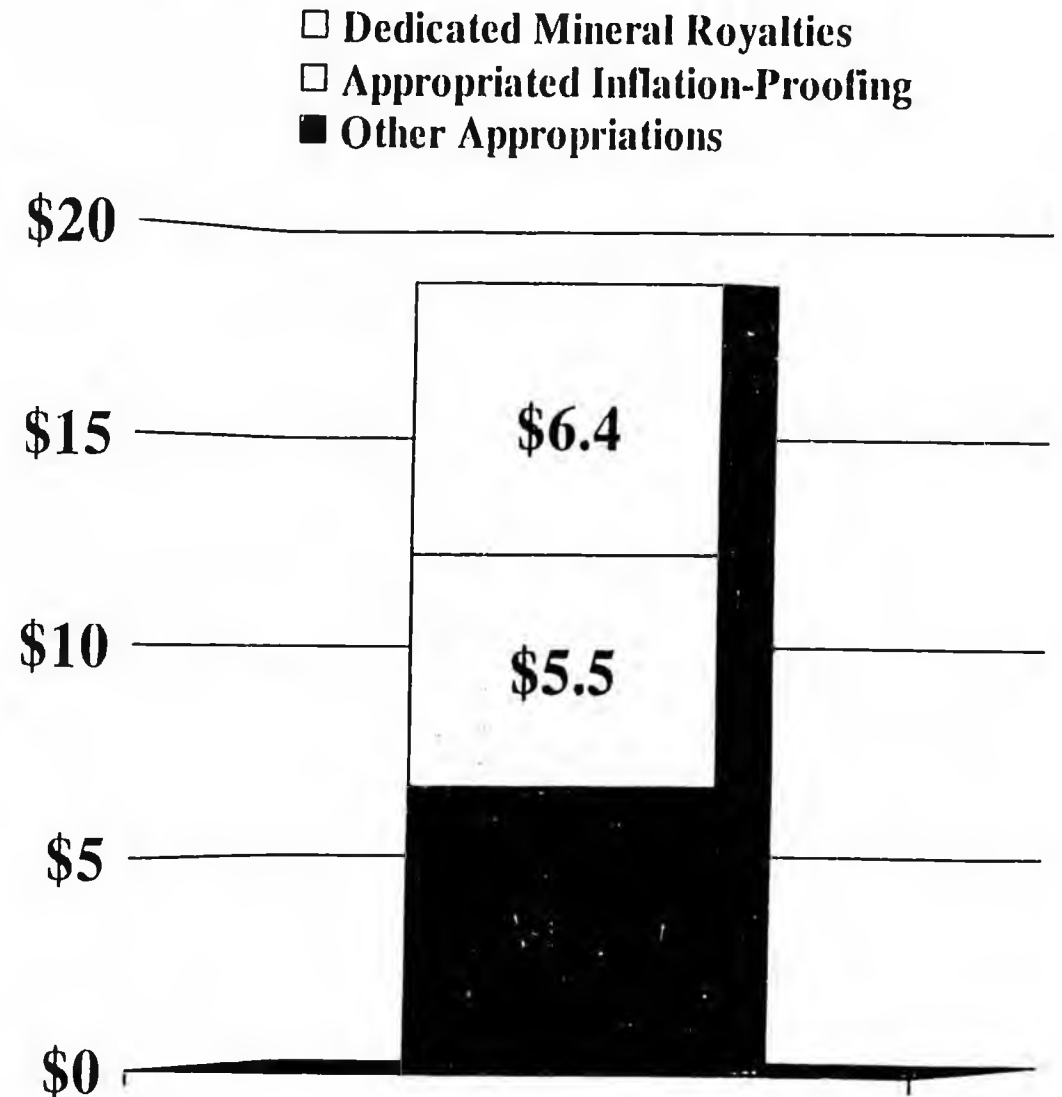
The market value of the Permanent Fund was \$25.3 billion on January 1, 1999.

- **What did it consist of?**



Alaska Permanent Fund Principal

- **The Alaska Permanent Fund principal is protected by the Alaska Constitution.**
- **The Legislature may not spend it.**
- **The principal consists of:**
 1. **Dedicated mineral royalties;**
 2. **Money the Legislature has appropriated to inflation-proof the principal; and**
 3. **Other money the Legislature has appropriated into the principal.**



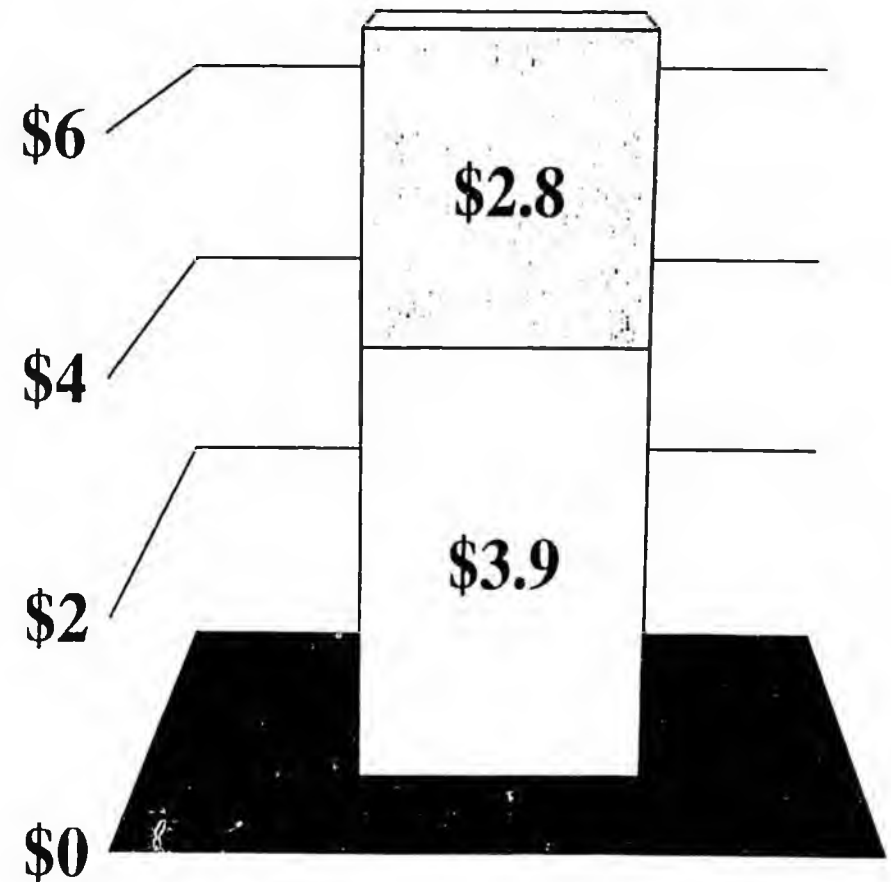
Principal Total \$18.6 Billion
(as of 1/1/99)

Permanent Fund Income

- All income from the Permanent Fund's investments is retained by the Fund until appropriated by the Legislature.
- "Realized Income," which includes interest, dividends and profits resulting from the sale of assets, is used to calculate the annual Permanent Fund Dividend.
- "Unrealized Income" is the market value over the purchase price of the assets currently held by the fund which become realized income only when the asset is sold.

☐ Realized Income

☐ Unrealized Income



Total Income \$6.7 billion

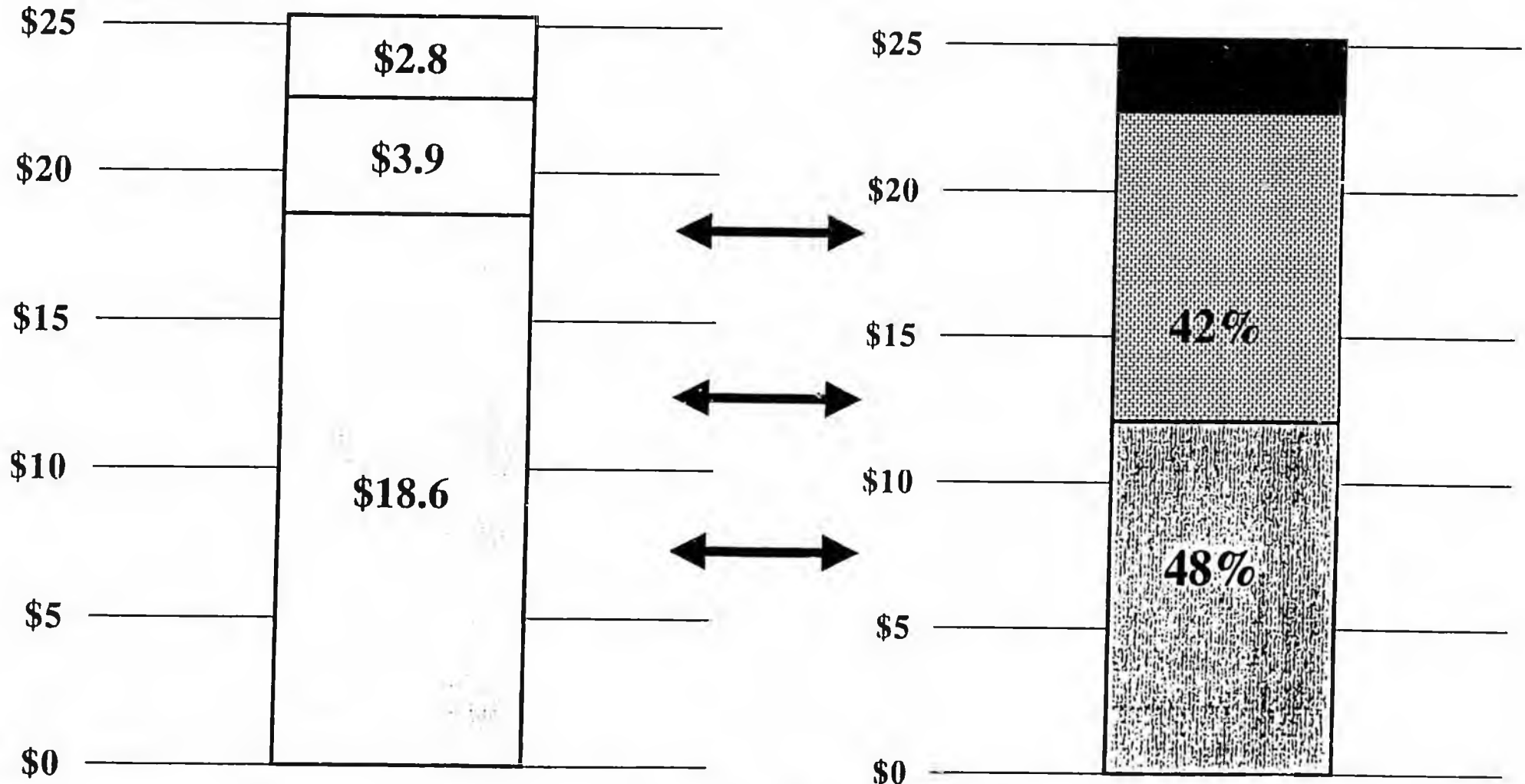
(as of 1/1/99)

Permanent Fund Investments

The principal and income of the Fund are
invested together in all asset classes

- Realized Gains
- Unrealized Gains
- Principal

- Real Estate 10%
- ▒ Bonds 42%
- Stocks 48%



Total fund 1/1/99 = \$25.3 billion

Annual Permanent Fund Dividend

How is it calculated?

- You add the realized income for the last five years.
- Take 10.5% of that total.
- That amount of money (with some small adjustments) is divided by the eligible applicants.

Realized Income

FY94	\$1,088.74 million
FY95	\$1,001.80 million
FY96	\$1,790.60 million
FY97	\$2,035.43 million
FY98	<u>\$2,619.16 million</u>
	\$8,535.73 million

multiply by **0.105 = \$896.25 million**
then divide by eligible applicants =
1998 dividend per person = **\$1,540.88**

Fact: Since inception, the AK Permanent Fund Dividend Program has paid out \$14,777.55 in total to applicants who were eligible for every year the program has existed.

Inflation-Proofing

How is inflation-proofing done?

- Determine the % change in the CPI over the last calendar year.
- Multiply that rate times the principal value of the fund at the next June 30.
- Transfer this amount from earnings reserve to principal via an accounting entry.
- Assets do not really move.

- 1.54% = change in CPI for calendar year 1998;
- Principal at June 30 is approximately \$18.6 billion;
- Fund principal value of \$18.6 billion x 0.0154 CPI = \$286 million;
- \$286 million is appropriated to the principal by an accounting transfer from earnings reserve.

**Alaska's
Public
Finances**

Alaska's Public Finances

We have a problem!

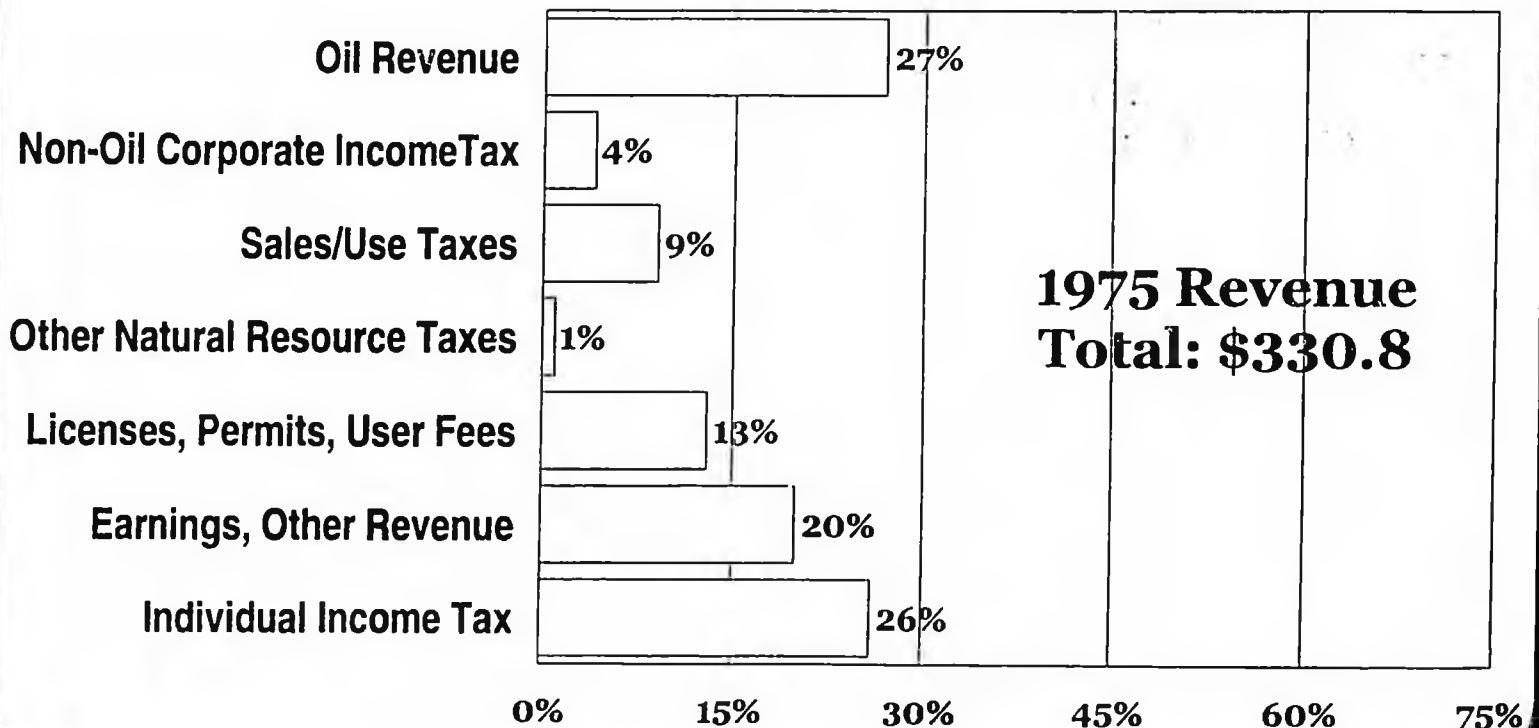
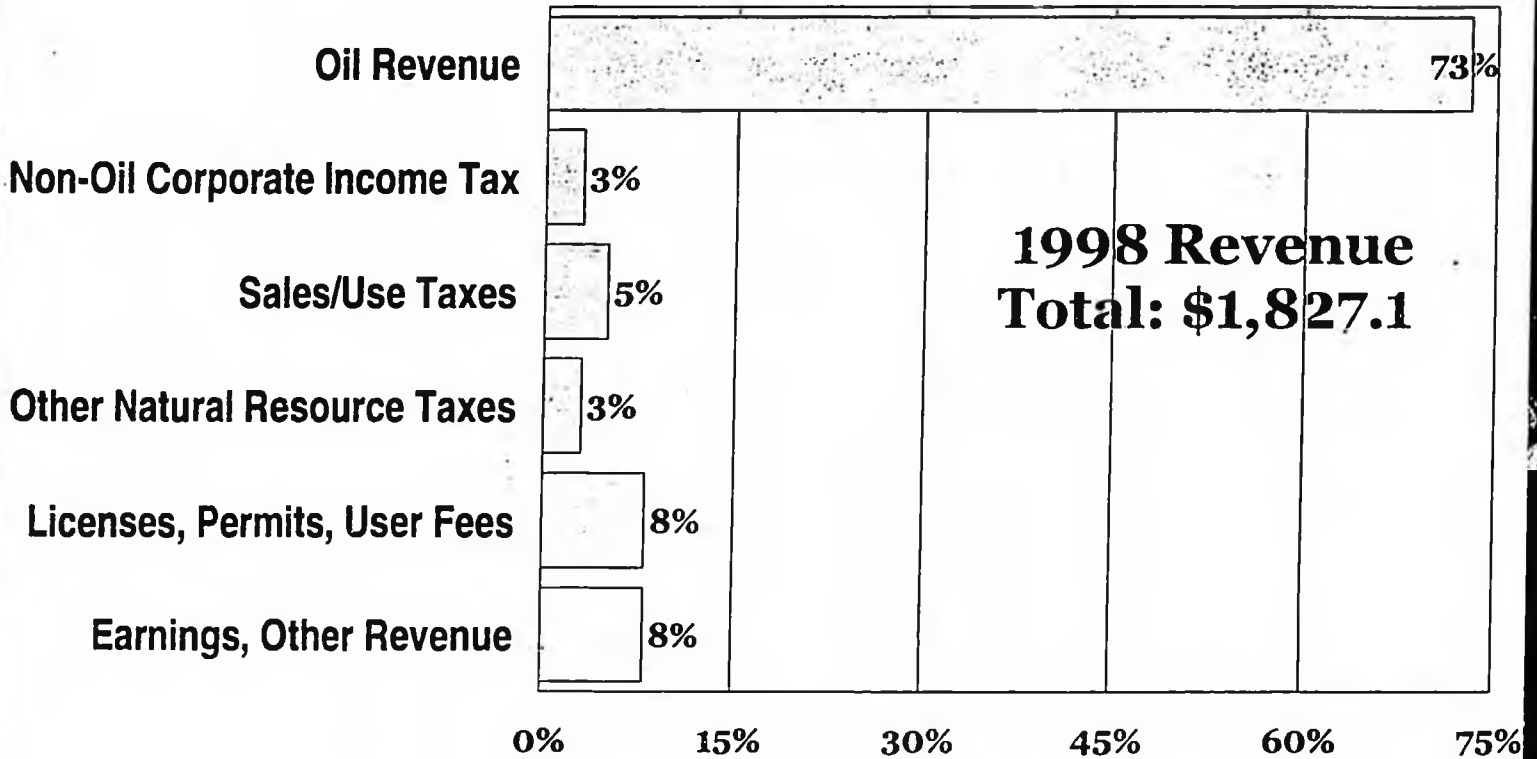
How did we get here?

Alaska's Public Finances

General Fund Revenue

Now and Then

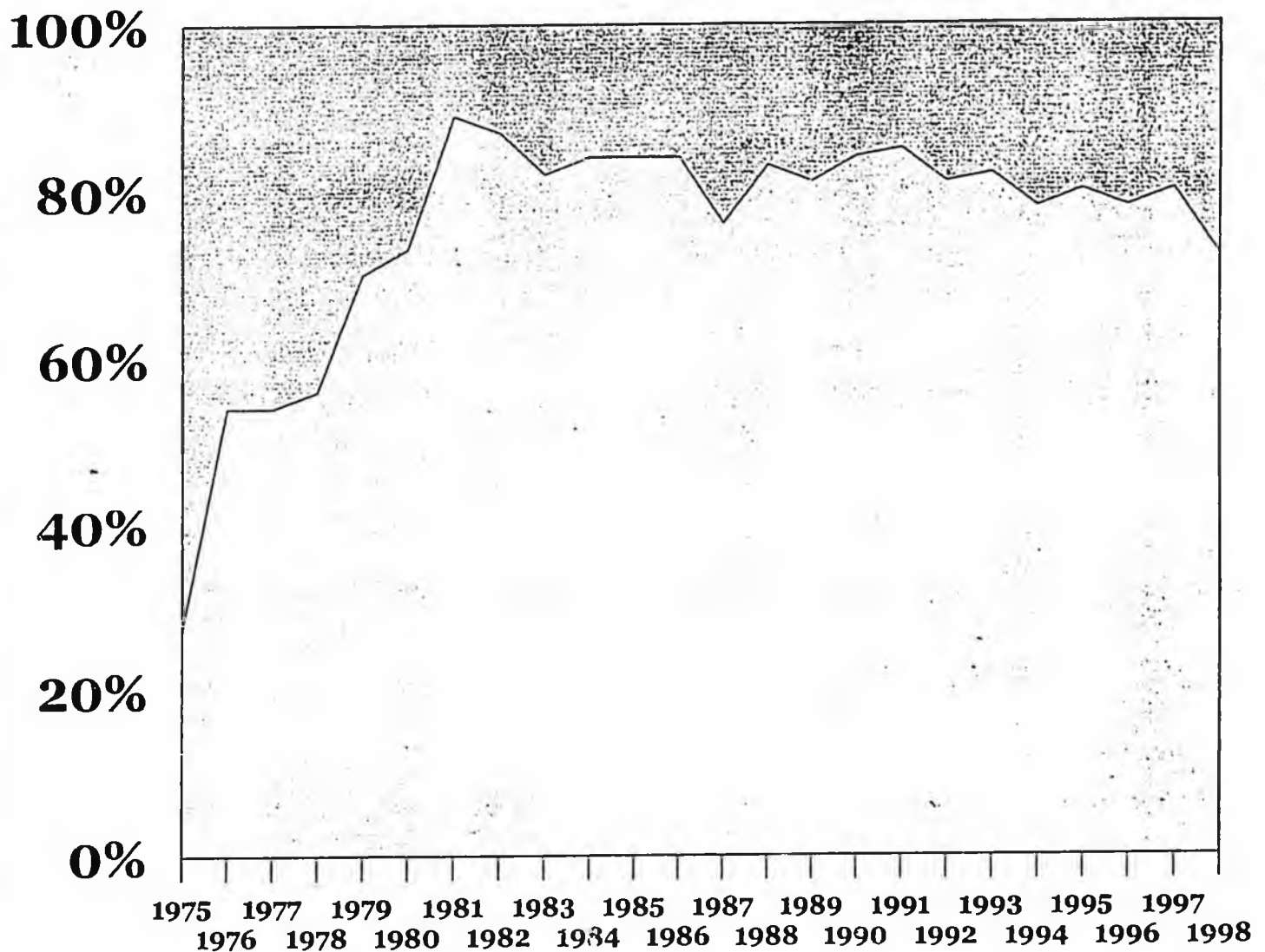
(\$ millions)



Alaska's Public Finances

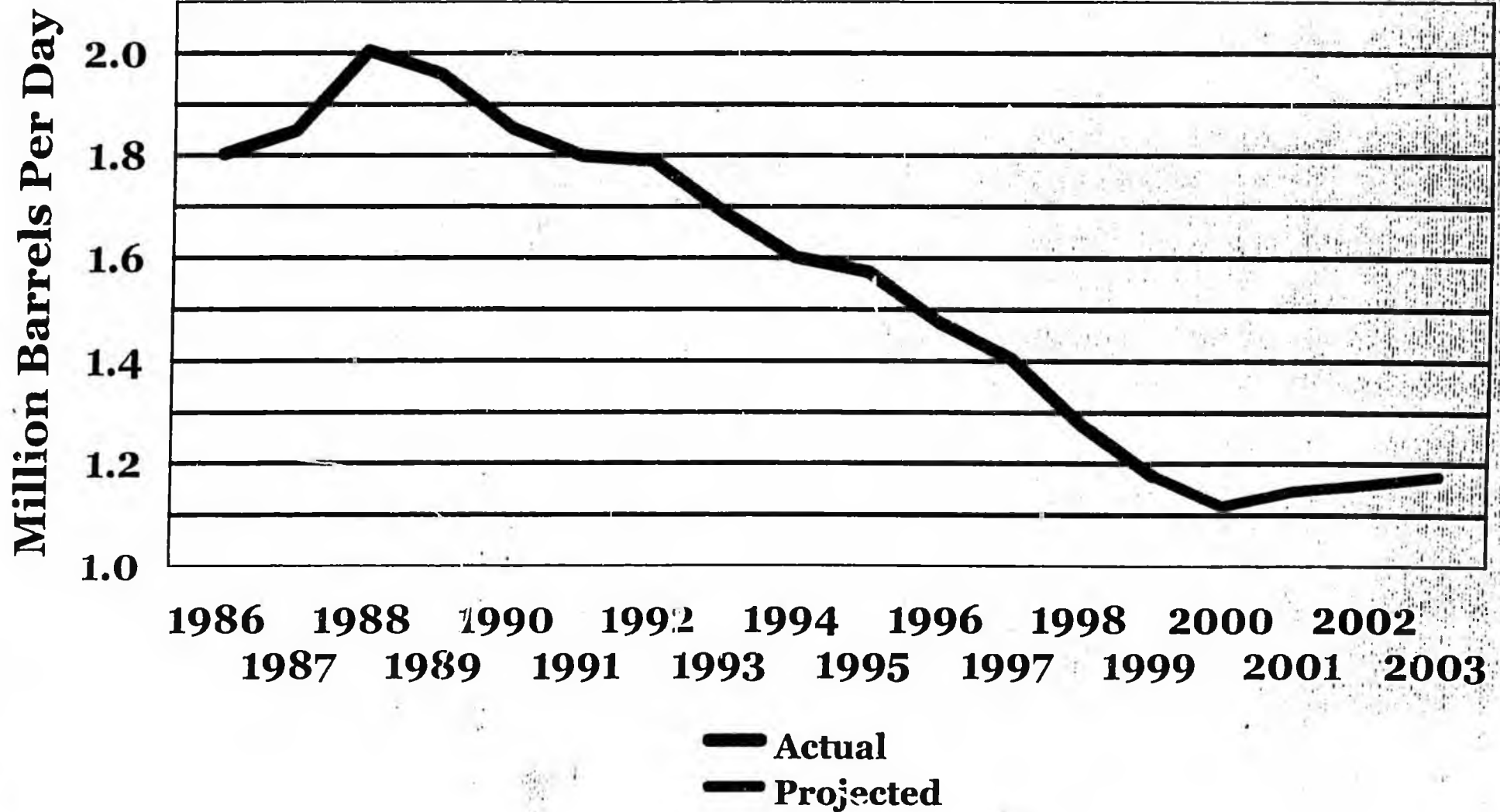
Oil Revenue as a Percentage of Total General Fund Revenue

- Non-Oil Revenue
- Oil Revenue



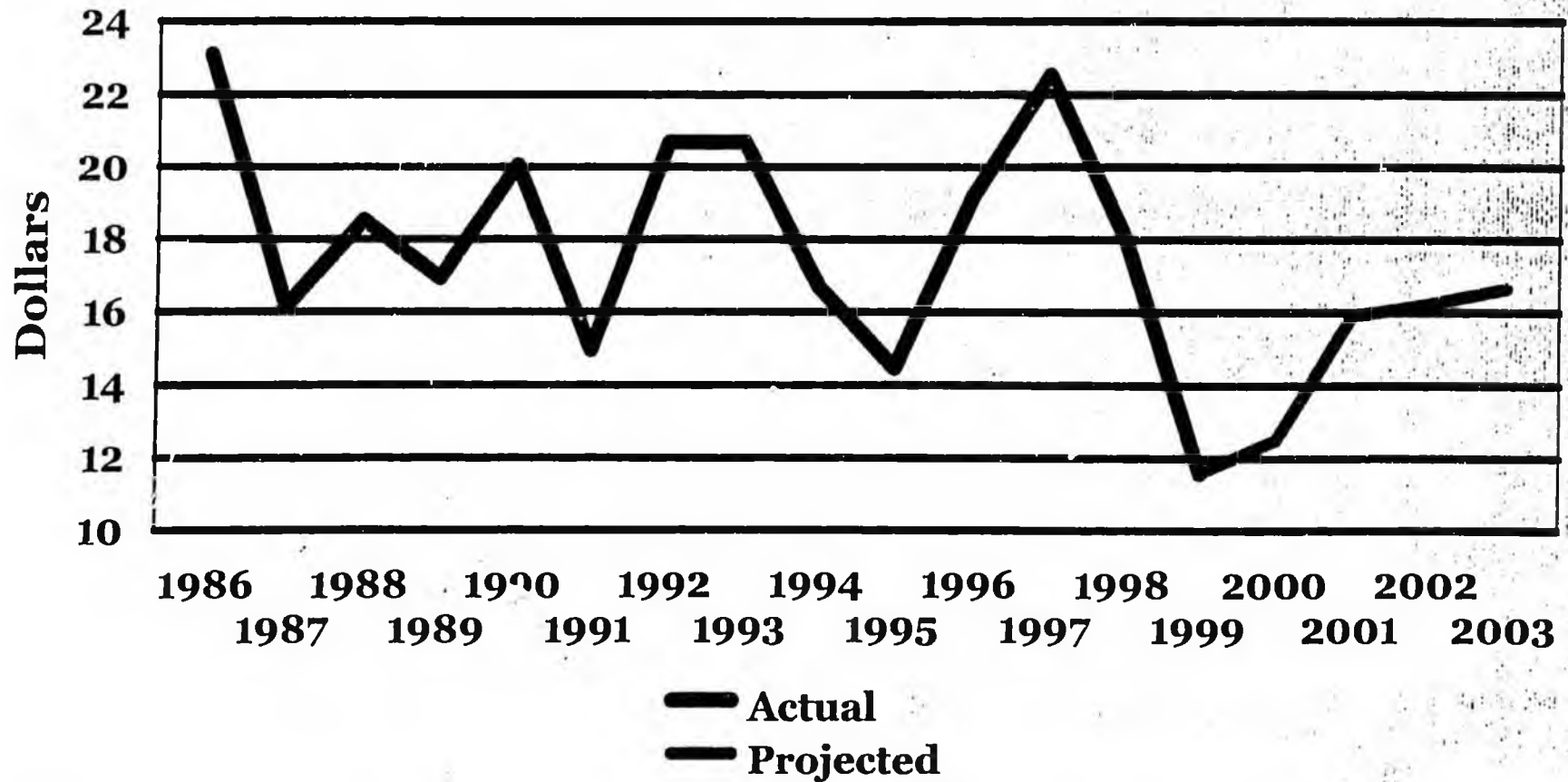
Alaska's Public Finances

Alaska North Slope Production Volume



Alaska's Public Finances

Alaska North Slope Destination Price (\$ per barrel)



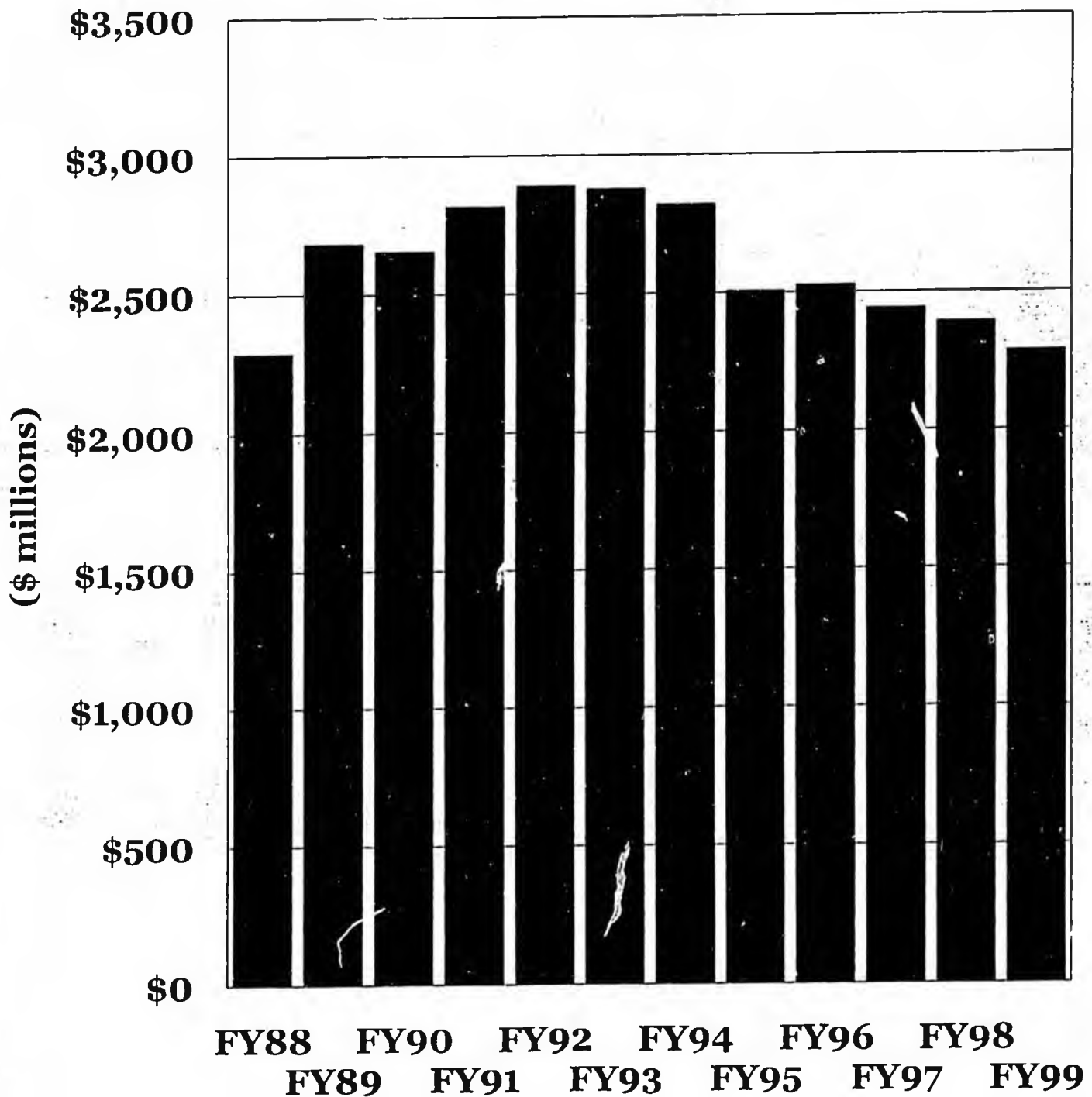
Alaska's Public Finances General Fund Revenue

Oil Revenue	1998	1999
Property Tax	\$51.2	\$49.2
Corporate Income Tax	200.1	120.0
Severance Tax	577.8	337.4
Royalties	480.4	295.5
Bonuses and Rentals	23.0	33.7
Total Oil Revenue	\$1,332.6	\$835.8
Non-Oil Revenue	1998	1999
Sales/Use Taxes	\$98.9	\$93.1
Corporate Income Tax	53.4	55.0
Natural Resources Tax	43.8	45.9
Estate Tax	5.5	1.7
Charitable Gaming Tax	2.1	1.9
Non-Tax Revenue	290.9	261.6
Total Non-Oil	\$494.5	\$459.2
Total GF Revenue	\$1,827.1	\$1,295.0

Alaska's Public Finances

General Fund Budgets

(\$ millions)



Alaska's Public Finances

CBRF Settlement Contributions

(\$ millions)

Production Tax	\$2,105
-----------------------	----------------

Corporate Income Tax (AS 43.20)	1,162
--	--------------

Corporate Income Tax (AS 43.21)	843
--	------------

Royalties	820
------------------	------------

Property Tax	1
---------------------	----------

Total:	\$4,931
---------------	----------------

Alaska's Public Finances
Constitutional Budget Reserve Fund
Opiate of the '90s
(\$ millions)

	Settlement Contributions	Investment Income	Net Loans to General Fund	Balance Available to Loan GF at Year-End
FY91	\$291	\$6	-----	\$297
FY92	247	19	-----	563
FY93	914	57	<849>	685
FY94	437	61	<569>	614
FY95	1,543	122	<285>	1,994
FY96	586	111	<173>	2,518
FY97	570	167	<83>	3,172
FY98	343	369	<325>	3,559
FY99 (Proj)	106	220	<1,104>	2,780
FY00 (Proj)	106	130	<1,080>	1,940
FY01 (Proj)	106	88	<865>	1,269
FY02 (Proj)	106	50	<888>	536
FY03 (Proj)	106	8	<899>	<248>
Total:	\$5,461	\$1,408	<\$7,120 >	-----

Alaska's Public Finances

Constitutional Budget Reserve Exhausted Month/Year

**Operating
Budget
Annual
Change**

**Average ANS Destination Price
\$/barrel**

	\$10.50	\$11.50	\$12.50	\$13.50	\$14.50	Forecas †	\$15.50	\$16.50
+2.0%	Dec-01	Feb-02	Apr-02	Jul-02	Oct-02	Sep-02	Jan-03	Jun-03
+1.5%	Dec-01	Feb-02	May-02	Aug-02	Nov-02	Oct-02	Mar-03	Jul-03
+1.0%	Jan-02	Mar-02	Jun-02	Sep-02	Dec-02	Nov-02	Apr-03	Aug-03
+0.5%	Jan-02	Apr-02	Jun-02	Sep-02	Jan-03	Jan-03	May-03	Oct-03
0.0%	Feb-02	Apr-02	Jul-02	Oct-02	Feb-03	Feb-03	Jun-03	Nov-03
-0.5%	Feb-02	May-02	Aug-02	Nov-02	Mar-03	Mar-03	Aug-03	Jan-04
-1.0%	Mar-02	May-02	Sep-02	Dec-02	Apr-03	Apr-03	Sep-03	Mar-04
Maj. Plan	Apr-02	Jun-02	Oct-02	Jan-03	May-03	Jun-03	Nov-03	May-04

Alaska's Public Finances

Principles

- **Balance the budget on a sustainable basis.**
- **Budget reductions must be responsible.**
- **Maintain a healthy Permanent Fund dividend.**
- **Grow the state's savings accounts.**
- **Any new tax should be fair and broad-based.**
- **No change to the Permanent Fund or the dividend program without a vote of the people.**

Alaska's Public Finances
FY 1999 General Fund Operating Budget
(\$ millions)

General Fund Operating Budget
\$2,229.3

**Core State
Government**
\$783.8

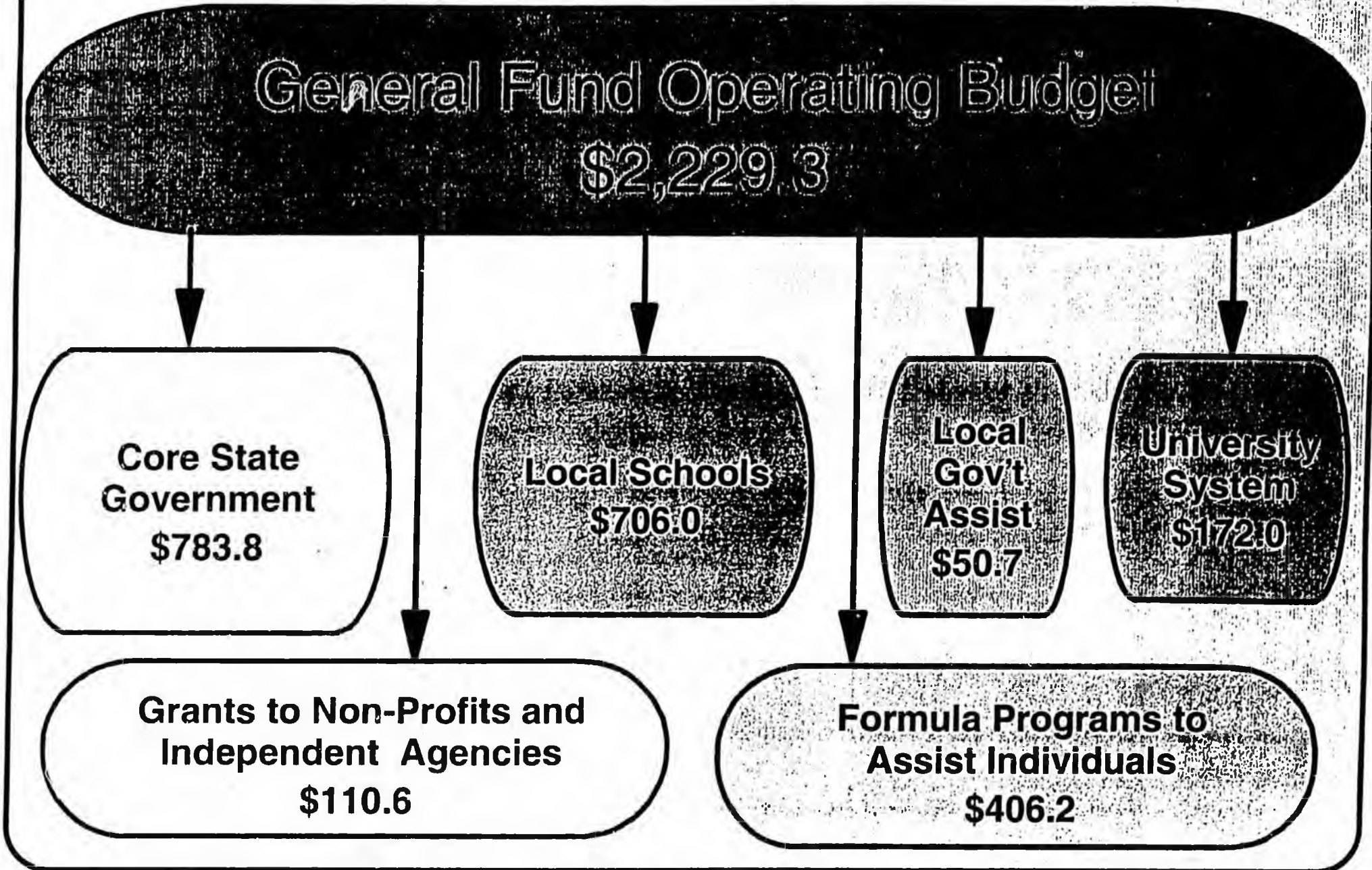
Local Schools
\$706.0

**Local
Gov't
Assist**
\$50.7

**University
System**
\$172.0

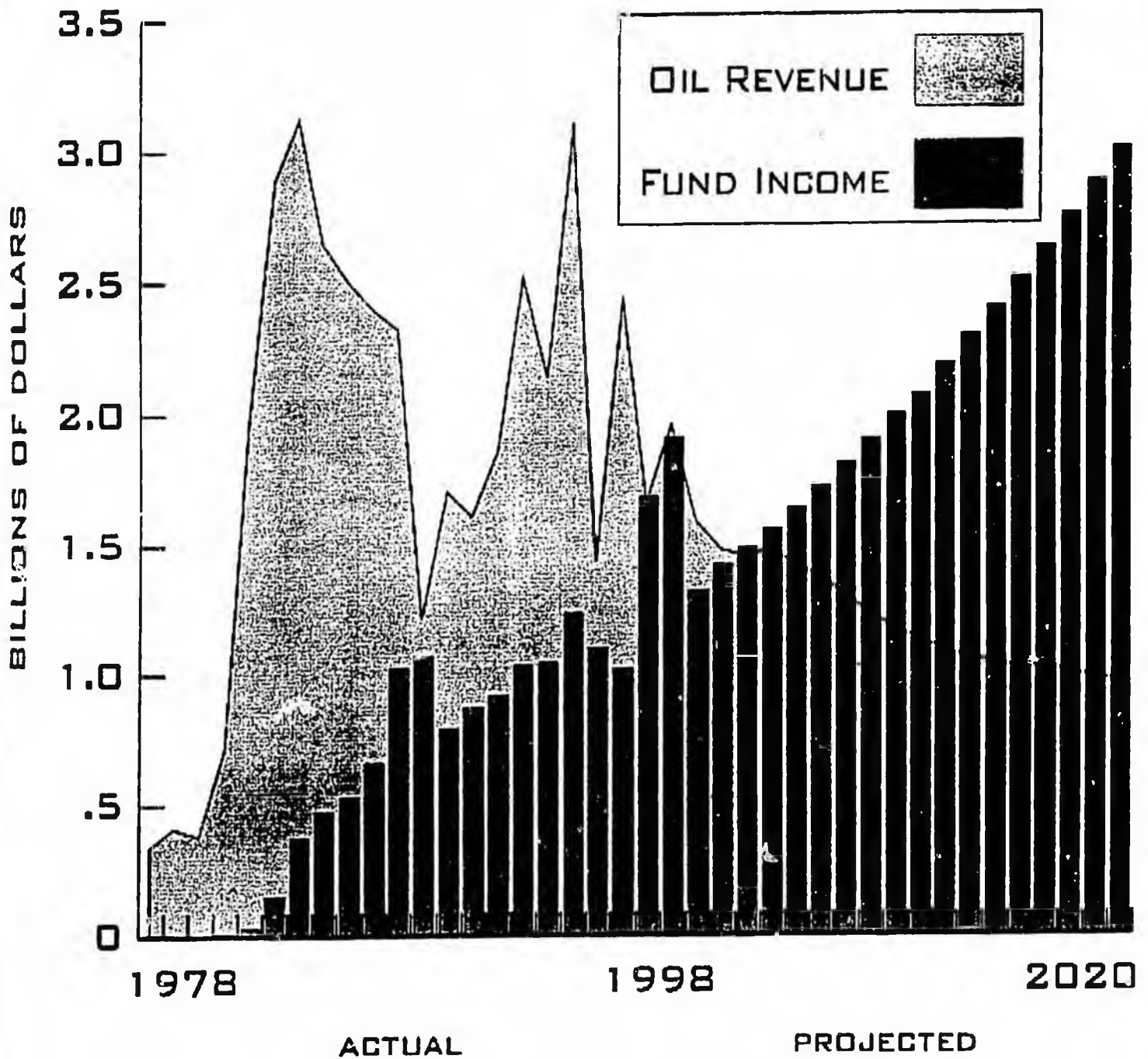
**Grants to Non-Profits and
Independent Agencies**
\$110.6

**Formula Programs to
Assist Individuals**
\$406.2



Alaska's Public Finances

What About the Permanent Fund? Oil Revenue vs. Permanent Fund Income



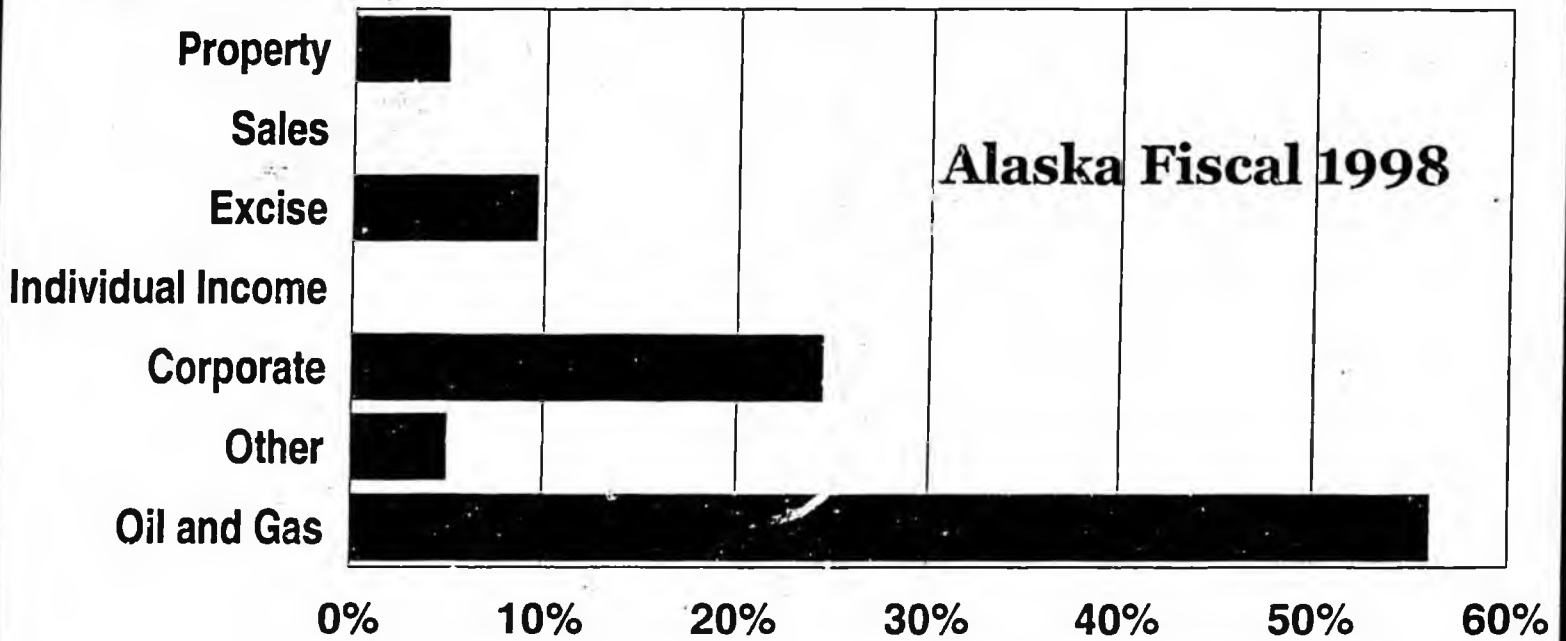
*figures are not adjusted for inflation

Alaska's Public Finances

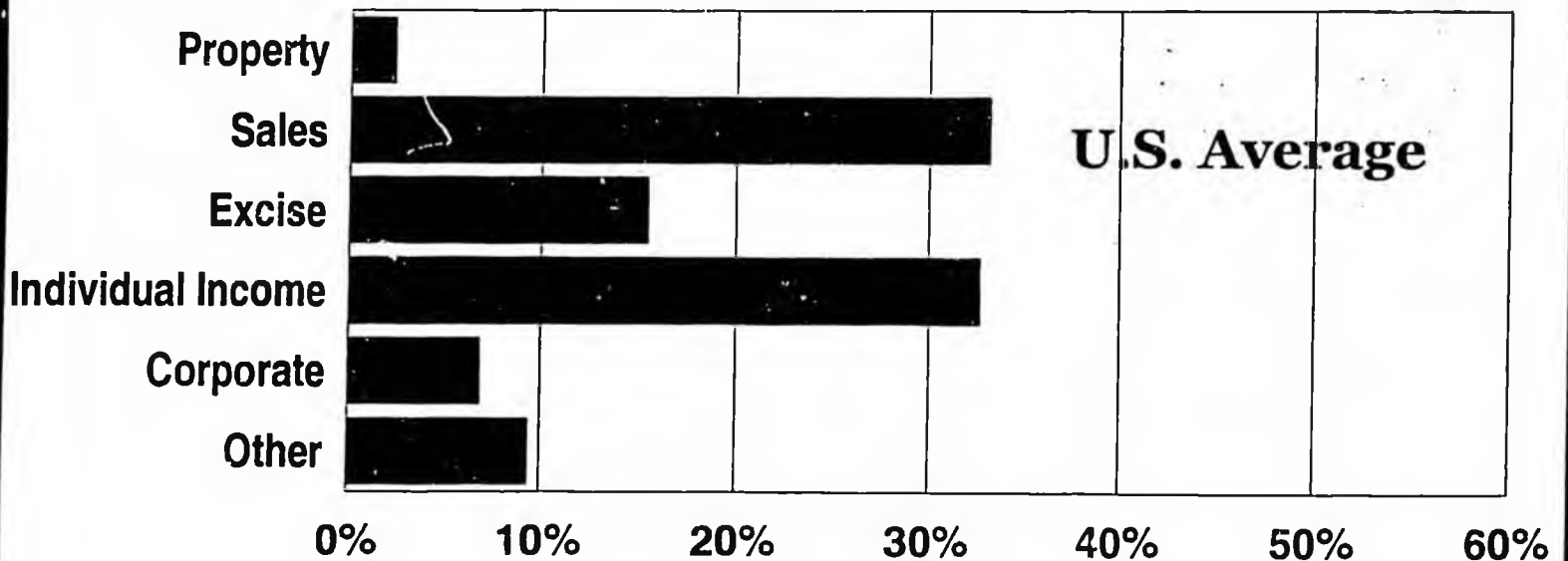
Tax Revenues

Comparison with Other States

TAX TYPE

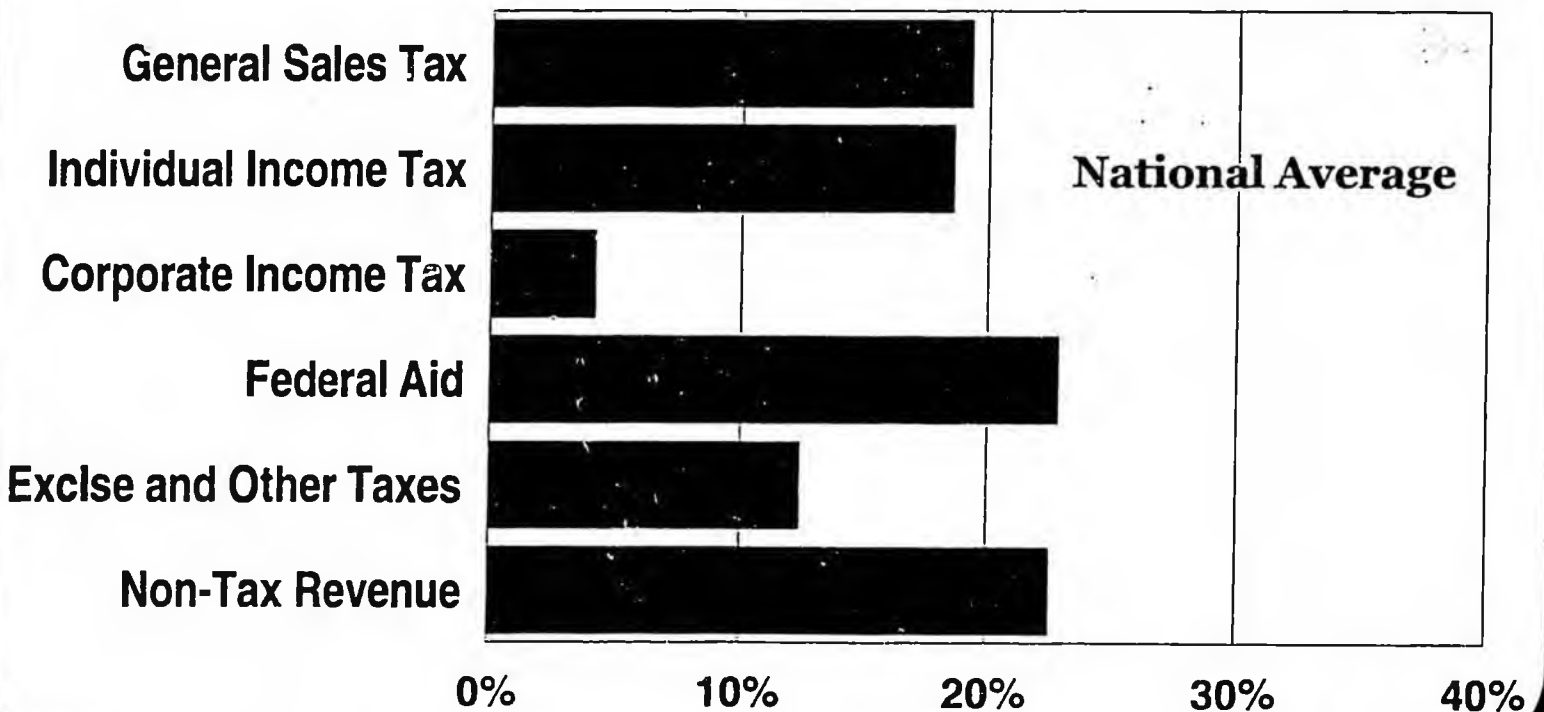
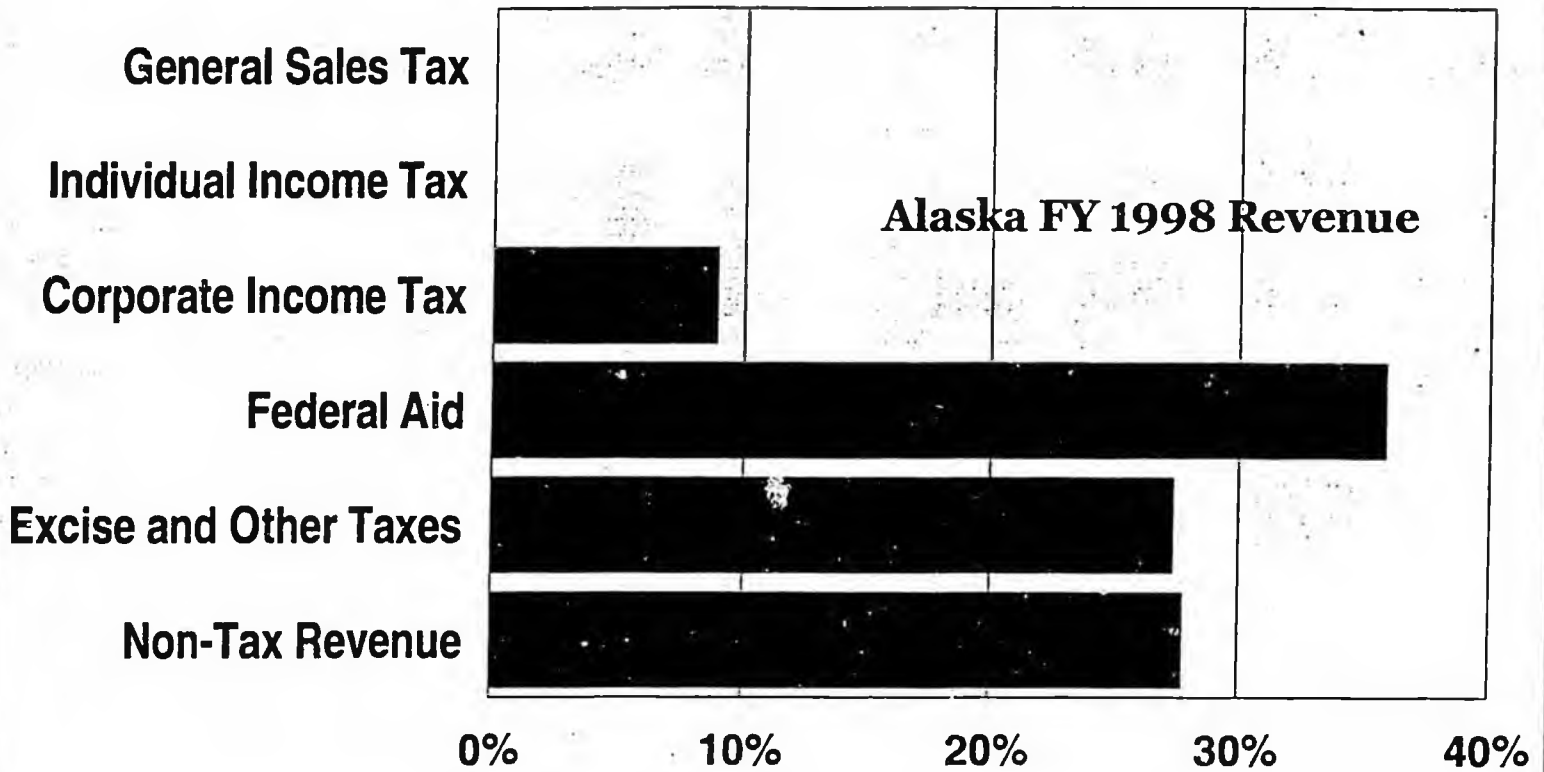


TAX TYPE



Alaska's Public Finances

Total Revenue Comparison with Other States



Alaska's Public Finances

Sales and Personal Income Taxes

▶ **States with no state sales tax:**

1. **Alaska**
2. **Delaware**
3. **Montana**
4. **New Hampshire**
5. **Oregon**

▶ **States with no individual income tax:**


1. **Alaska**
2. **Florida**
3. **Nevada**
4. **South Dakota**
5. **Texas**
6. **Washington**
7. **Wyoming**


▶ **Alaska is the only state with neither tax.**


Alaska's Public Finances

States with No Sales or Personal Income Tax



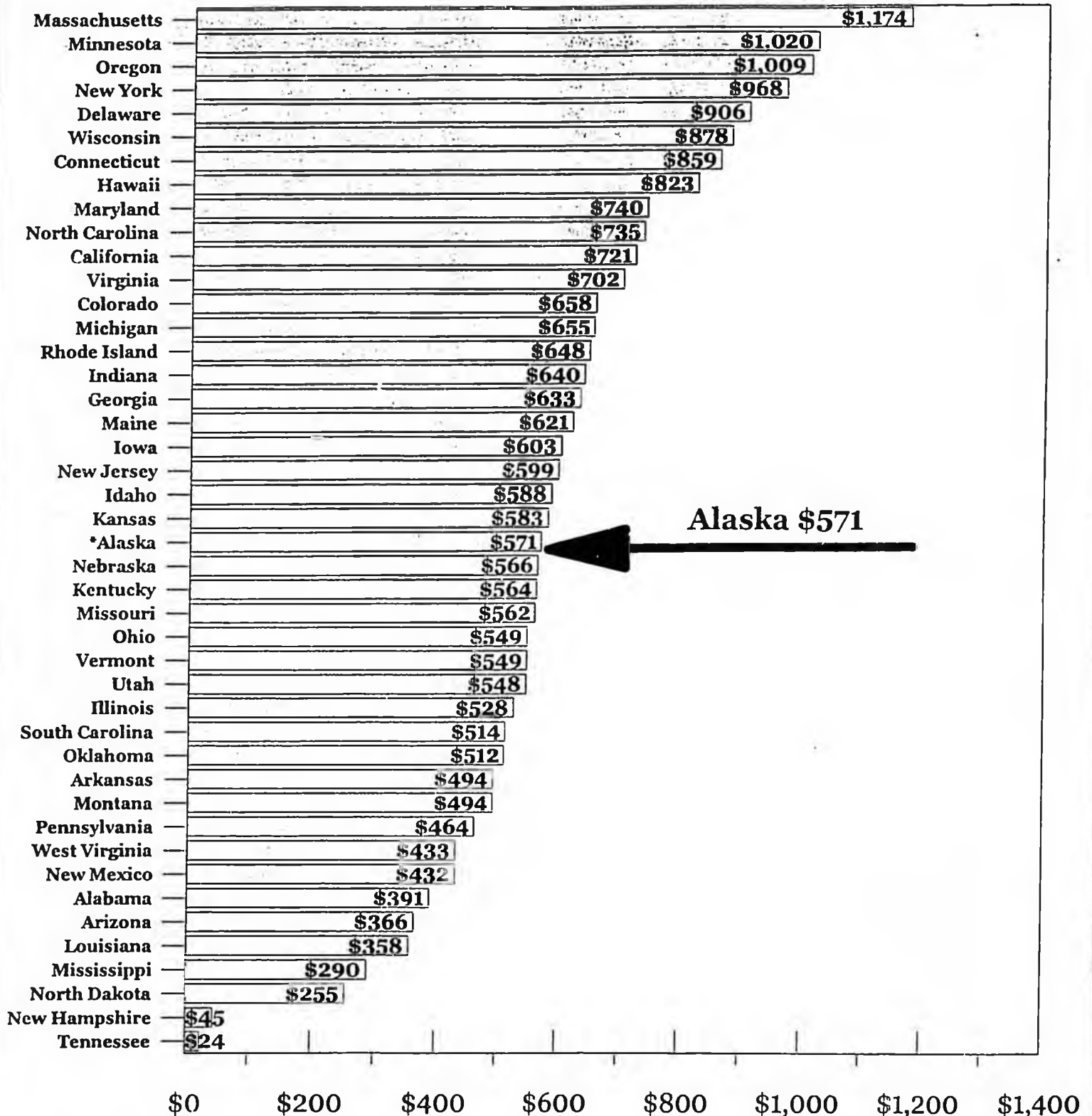
 States with no personal income tax

 States with no sales tax

 States with no personal income tax and no sales tax

Alaska's Public Finances

Per Capita Comparison of Individual Income Tax Collections (\$ millions)



*Based on FY 2000 projections in Governor's income tax bill.