

HB

18

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: January 19, 1999

FURTHER REFERRALS:

Date of Committee Action: 3/31/00

The FINANCE Committee considered:

HB 18

HOUSE BILL NO. 18

APPROP: EARNINGS RESERVE TO PERM FUND

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

recommends it be replaced
with the following committee substitute

CS HB 18 (FIN)

the same title
 a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal note(s) _____

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Tom Therman</i>	Therman	X			
<i>Robert Hill</i>	Hill	X			
<i>Chris Brando</i>	Brando			X	
<i>John Christy</i>	Christy			X	
<i>John 97</i>	J. Davis		X		
<i>M. Ben</i>	Grossman		X		
<i>Robert</i>	G. Davis		X		
<i>Scott Phillips</i>	Phillips		X		
<i>[Signature]</i>	[Signature]				
<i>[Signature]</i>	[Signature]				

CHAIR'S SIGNATURE _____

1-LS0163VD
Cramer
3/20/00

adopted No 3/28/00

CS FOR HOUSE BILL NO. 18(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE BARNES, Ogan, Sanders, Cowdery

A BILL

FOR AN ACT ENTITLED

*3/28/00
No (OB)
\$250 million dollar limit
MNO
Tlu
TTU*

**1 "An Act making a special appropriation from the earnings reserve account to the
2 principal of the permanent fund; and providing for an effective date."**

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

4 * Section 1. The sum of \$250,000,000 is appropriated from the earnings reserve account
5 (AS 37.13.145) to the principal of the permanent fund.

6 * Sec. 2. This Act takes effect June 30, 2000.



Official Business

MEMBER
Natural Resources
Committee

Alaska State Legislature

**Vice-Chair, Legislative Council
Chair, World Trade
And
State/Federal Relations**

REPRESENTATIVE
RAMONA L. BARNES
District 22

Anchorage
P O Box 103382
Anchorage, AK 99510
(907) 269-0100
Fax (907) 269-0105

State Capitol
Juneau, AK 99801-1182
(907) 465-3438
Fax. (907) 465-4565

**To make a Special Appropriation from the Earnings Reserve
to the principal of the Permanent Fund**

SPONSOR STATEMENT House Bill 18

I am offering House Bill 18 to ensure an alternative approach is available to the ongoing debate over the Permanent Fund and the use of its earnings.

As the title suggests, HB 18 would make a special, one-time appropriation from the Earnings Reserve to the corpus of the Permanent Fund. The appropriation would include the existing balance of the Earnings Reserve on June 30, 1999. As the bill's sponsor, I ask the Finance Committee to amend the effective date in HB 18.

I believe placing the existing balance of the earnings reserve into the corpus of the Fund would serve the dual purpose of further protecting the funds and ensuring the growth of the Permanent Fund.



Volatility Model -
Move Realized Earnings Reserve to Principal
at the end of FY00

ALASKA PERMANENT FUND CORPORATION

Ending the Century: Professionalism, Performance, Permanence.

Primary Assumptions

- **Actual Fund results through December, 1999.**
- **2000 Callan Associates Inc. capital market assumptions.**
- **Current APFC Asset Allocation.**
- **Dividend: Statutory Formula**
- **Earnings Reserve limitation: Realized Earnings Reserve.**
- **Oil Revenues: Fall 1999 estimates from Department of Revenue fall forecast.**
- **At the end of FY00 transfer remaining realized earnings reserve balance to principal.**

Asset Allocation Assumptions

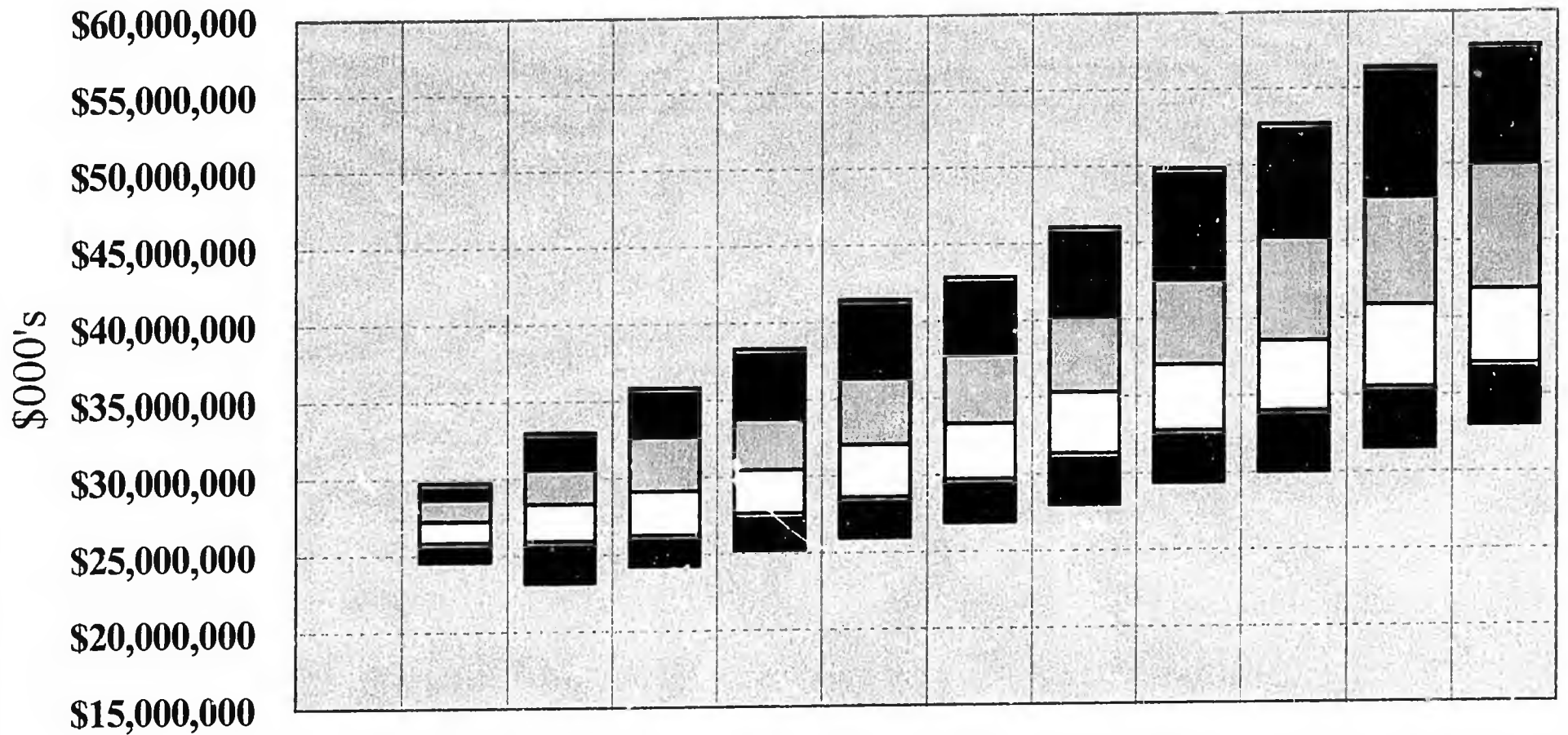
Asset Class	Target
Cash Equivalents	0.0%
Domestic Bonds	35.0%
Active Large Cap Dom Eq	17.0%
Passive Large Cap Dom Eq	13.0%
Small Cap Domestic Equity	7.0%
International Equity	16.0%
Real Estate	10.0%
International Bonds	2.0%
Total	100.00%

2000 Capital Market Assumptions

Asset Class	Expected Return	Standard Deviation
CPI	3.25%	1.00%
Cash Equivalents	5.00%	.70%
Domestic Bonds	6.70%	5.50%
Large Cap Domestic Equity	8.90%	15.00%
Small Cap Domestic Equity	10.40%	25.00%
International Equity	9.75%	21.50%
Real Estate	8.30%	16.50%
International Bonds	6.50%	10.00%

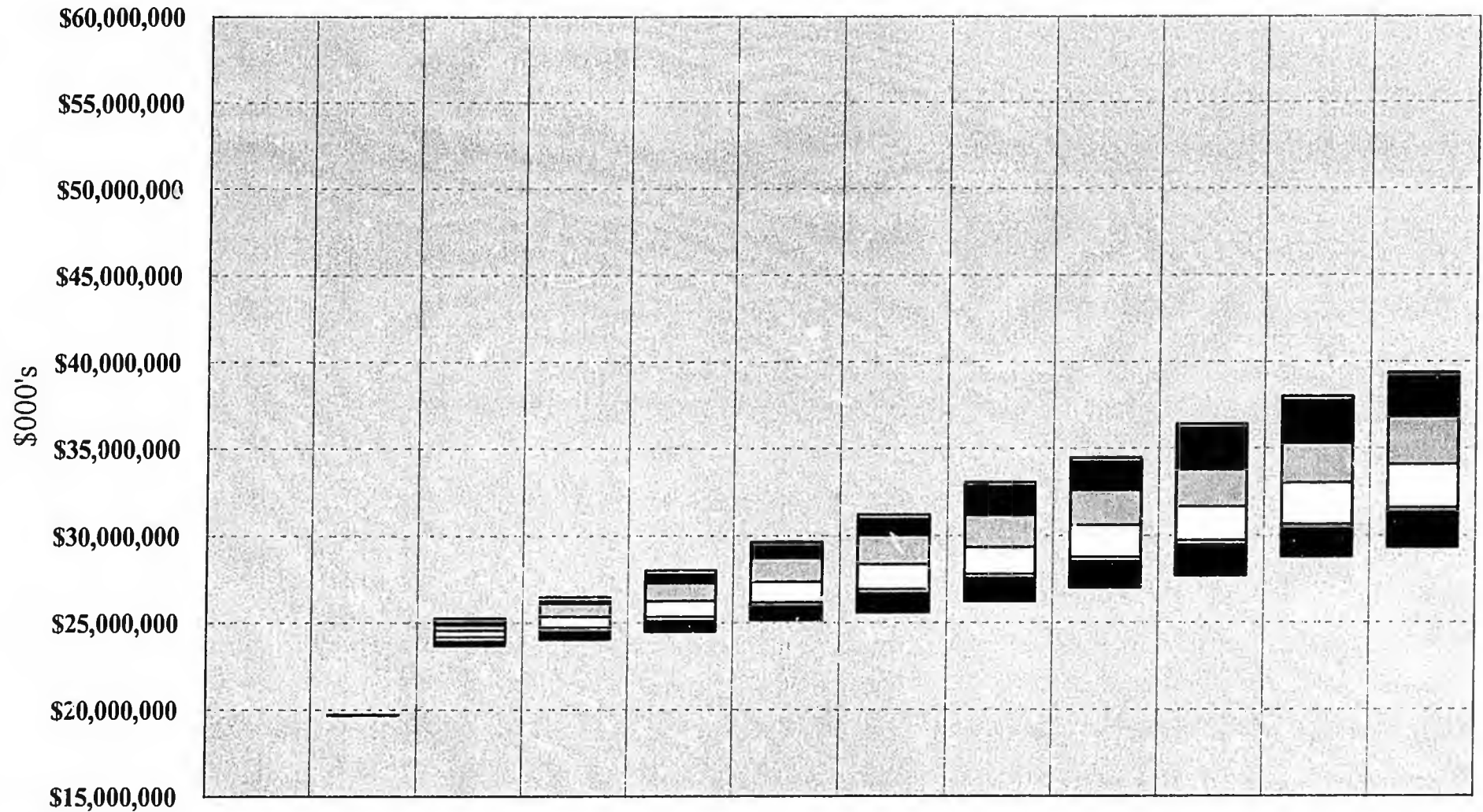
Expected Average Total Rate of Return 8.25%

Range of Ending Market Value



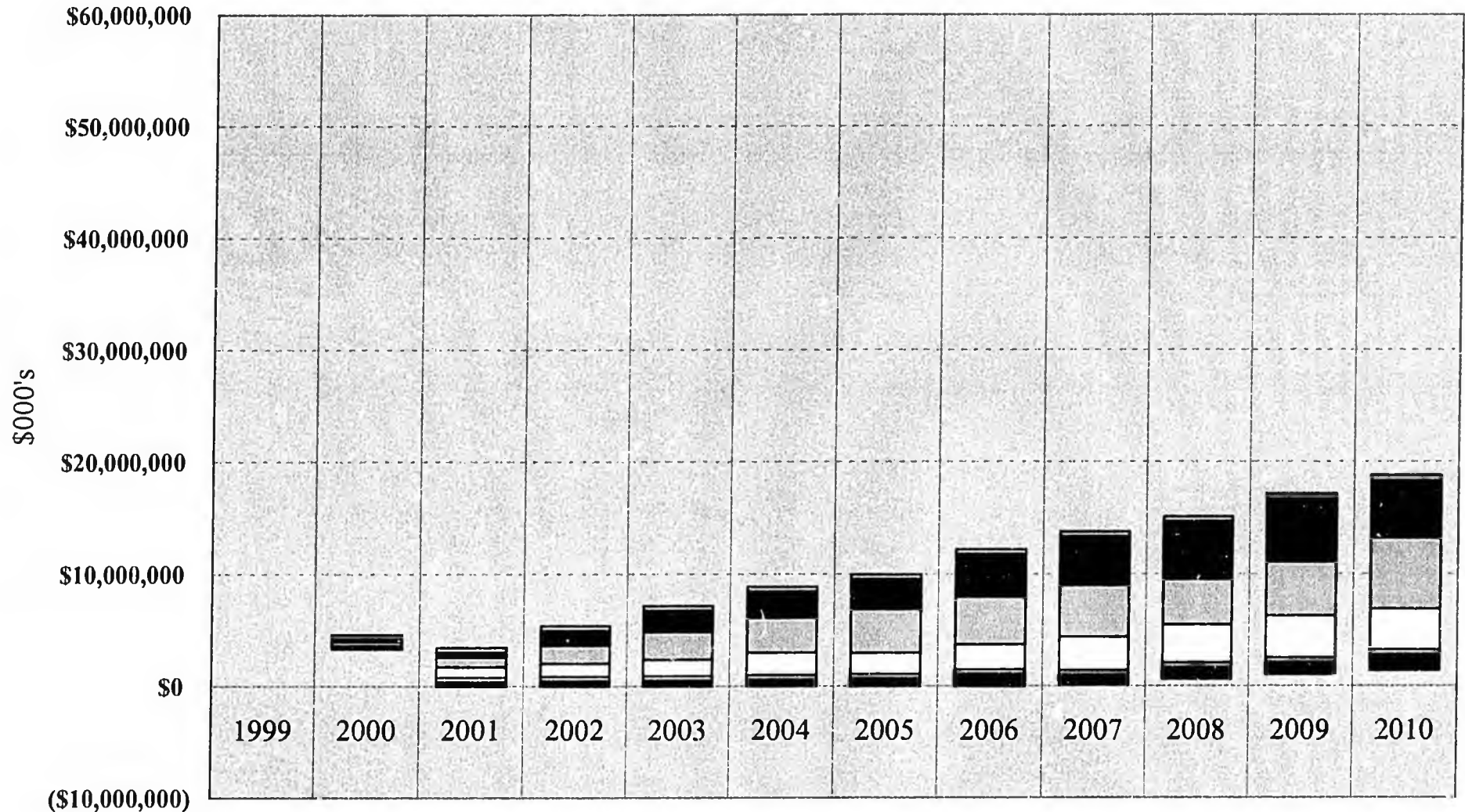
Percentile	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
10th	\$25,132	\$29,703	\$32,939	\$35,808	\$38,292	\$41,416	\$42,849	\$46,014	\$49,796	\$52,654	\$56,344	\$57,773
25th	\$25,132	\$28,655	\$30,560	\$32,658	\$33,744	\$36,297	\$37,763	\$40,203	\$42,521	\$45,249	\$47,834	\$49,999
Median	\$25,132	\$27,216	\$28,304	\$29,093	\$30,453	\$32,005	\$33,319	\$35,307	\$37,023	\$38,537	\$40,843	\$41,850
75th	\$25,132	\$25,848	\$25,912	\$26,265	\$27,633	\$28,613	\$29,715	\$31,325	\$32,778	\$34,015	\$35,529	\$37,045
90th	\$25,132	\$24,602	\$23,190	\$24,255	\$25,246	\$25,981	\$26,897	\$27,989	\$29,373	\$30,028	\$31,534	\$33,018

Range of Principal Balance



Percentile	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
10th	\$19,001	\$19,709	\$25,263	\$26,466	\$27,999	\$29,627	\$31,211	\$33,051	\$34,445	\$36,399	\$37,983	\$39,348
25th	\$19,001	\$19,703	\$24,858	\$26,095	\$27,282	\$28,702	\$30,030	\$31,195	\$32,608	\$33,776	\$35,257	\$36,798
Median	\$19,001	\$19,699	\$24,551	\$25,340	\$26,250	\$27,347	\$28,344	\$29,336	\$30,604	\$31,651	\$33,016	\$34,051
75th	\$19,001	\$19,694	\$24,196	\$24,724	\$25,339	\$26,168	\$26,928	\$27,788	\$28,768	\$29,717	\$30,643	\$31,598
90th	\$19,001	\$19,690	\$23,710	\$24,050	\$24,497	\$25,155	\$25,605	\$26,197	\$27,028	\$27,701	\$28,783	\$29,332

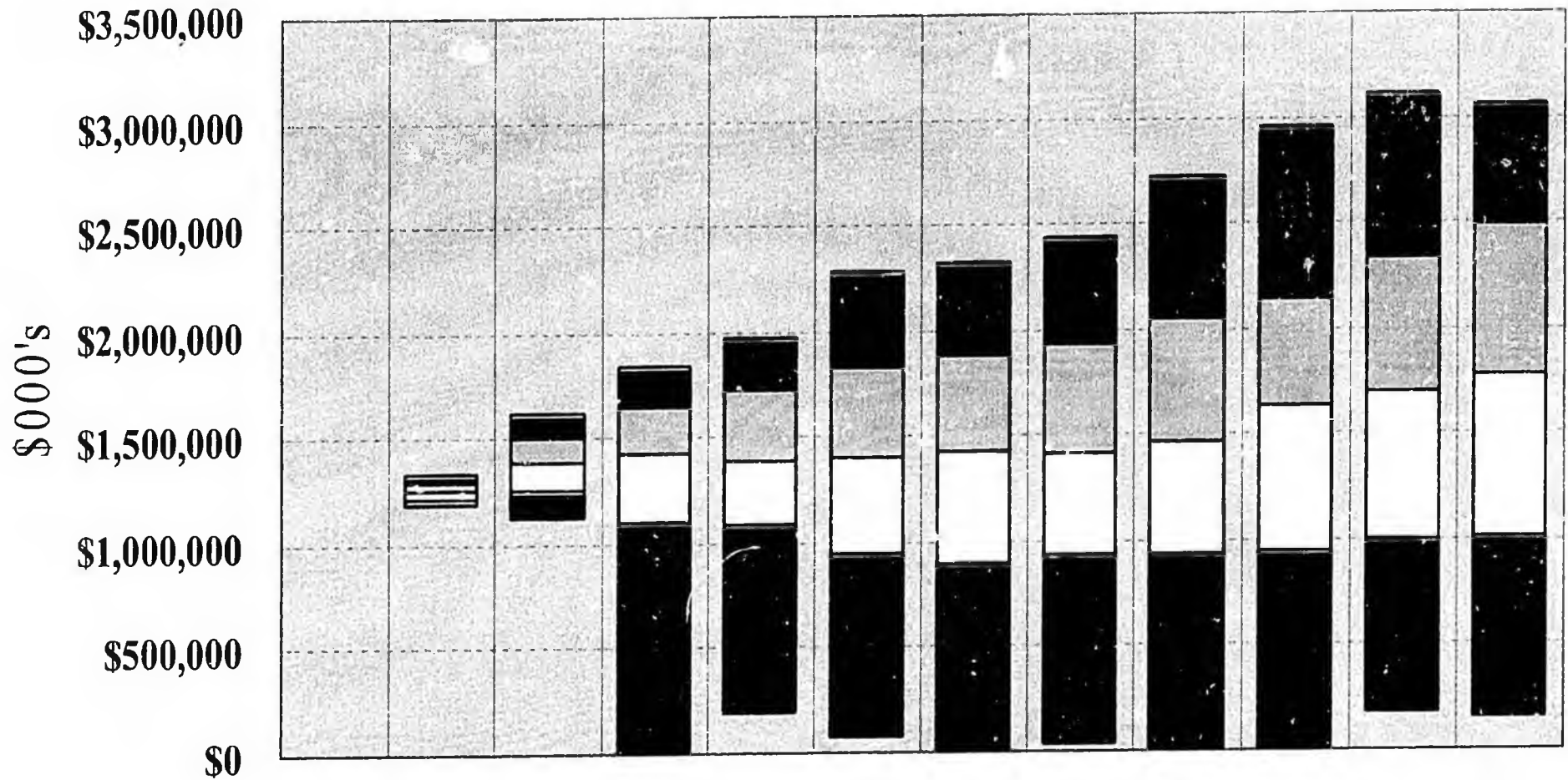
Range of Ending Realized Earnings Reserve Balance



Percentile

10th	\$2,590	\$4,569	\$2,629	\$4,525	\$6,182	\$7,931	\$9,396	\$11,767	\$13,741	\$15,087	\$17,086	\$18,712
25th	\$2,590	\$4,219	\$1,812	\$2,771	\$3,869	\$5,189	\$6,301	\$7,539	\$8,978	\$9,497	\$11,053	\$13,197
Median	\$2,590	\$3,943	\$928	\$1,166	\$1,423	\$2,084	\$2,410	\$3,309	\$4,368	\$5,443	\$6,242	\$6,839
75th	\$2,590	\$3,629	\$2	\$18	(\$55)	\$97	\$539	\$1,076	\$1,399	\$2,055	\$2,504	\$3,215
90th	\$2,590	\$3,337	(\$797)	(\$840)	(\$953)	(\$884)	(\$531)	(\$387)	\$90	\$624	\$1,041	\$1,407

Range of Total Distributed Income



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Percentile												
10th	\$1,045	\$1,333	\$1,621	\$1,836	\$1,976	\$2,281	\$2,314	\$2,436	\$2,722	\$2,960	\$3,106	\$3,062
25th	\$1,045	\$1,292	\$1,507	\$1,641	\$1,720	\$1,824	\$1,877	\$1,937	\$2,044	\$2,144	\$2,331	\$2,488
Median	\$1,045	\$1,260	\$1,381	\$1,432	\$1,390	\$1,402	\$1,426	\$1,418	\$1,464	\$1,629	\$1,697	\$1,770
75th	\$1,045	\$1,223	\$1,252	\$1,108	\$1,095	\$941	\$897	\$933	\$939	\$942	\$994	\$1,012
90th	\$1,045	\$1,189	\$1,122	\$0	\$190	\$80	\$0	\$42	\$0	\$0	\$176	\$149

Range of Per Capita Dividend

