

HJR

47



Alaska Permanent Fund Corporation
 P.O. Box 25500 Juneau, Alaska 99802-5500
 (907) 485-2047

MEMORANDUM

DATE: January 18, 2000
TO: Senator Mackie
FROM: Jim Kelly *[Signature]*
 Director of Communications

SUBJECT: APFC Financial Projection

You have asked the Alaska Permanent Fund Corporation (APFC) to do a financial projection using certain assumptions which you provided.

You asked us to draw down all Fund income and as much principal as necessary in order to pay each Alaskan a \$25,000 dividend in 2001. You have also asked us to assume that all Fund income in subsequent years would be used first to inflation-proof Fund principal, and the balance then would be transferred to the General Fund. You asked us to assume that the Fund earned a rate of return of 8%, 10% and 12%. Based on these assumptions, the table below indicates the amount of income in millions of dollars that would be transferred to the General Fund each year beginning in 2002:

<u>Year</u>	<u>8%</u>	<u>10%</u>	<u>12%</u>
2002	588	884	1,200
2003	615	923	1,252
2004	642	962	1,304
2005	671	1,004	1,360
2006	699	1,046	1,416
2007	729	1,090	1,474
2008	759	1,132	1,530
2009	788	1,176	1,580
2010	817	1,219	1,646
TOTALS:	6,308	9,436	12,762

*2001
 Personal base
 - student loans -
 - child support -*

Senator Mackie
January 18, 2000
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You have also asked our estimate of per capita dividends for the projection period, based on the status quo. These numbers appear in the following table:

2000	1,888.77
2001	1,900.53
2002	1,877.56
2003	1,772.58
2004	1,695.11
2005	1,768.48
2006	1,828.57
2007	1,894.01
2008	1,962.86
2009	2,034.48
2010	2,108.06
TOTAL:	20,731.00

Senator, I should point out that the rates of return you have asked us to assume – 8%, 10% and 12% – are in excess of what the APFC expects to earn given current Fund asset allocation and capital market assumptions. In addition, these projections represent only our best estimate of the median case; actual performance will vary with market volatility.

PLEASE NOTE THAT THE CORPORATION NEITHER SUPPORTS NOR OPPOSES ANY PROPOSED CHANGES TO THE CURRENT USE OF FUND EARNINGS, EXCEPT AS THEY MAY RELATE TO THE PROPER EXERCISE OF THE TRUSTEES' FIDUCIARY RESPONSIBILITIES AS REQUIRED UNDER THE PRUDENT INVESTOR RULE.

c: APFC Acting Executive Director
APFC Director of Finance

Federal windfall

Jan. 25, 2000

To the editor:

Bengt heard in Minnesota that an Alaska legislator proposed cashing out the permanent fund and giving \$25,000 to everyone who happens to be here this year. He called to say that if this actually occurred it would immediately, and unavoidably, send about \$5 billion from the principal of our permanent fund directly to the IRS of the U.S. government. Over and above normal taxes, it would be the biggest transfer of money from any state to the federal government in history.

Sincerely,
Carl S. Benson
Fairbanks

Carl S. and Ruth Benson
1551 Farmers Loop
Fairbanks, Alaska 99709

907 479 6912

We know IRS collects income tax on our dividends from earnings (last year nearly \$300 million), but to send \$5,000 million from our principal would be extremely foolish.

- The very fact that Sen. Mackie could propose such a wackie plan indicates an incompetent legislature. Let's get to raising revenue, like the real states do,
1. Reinstate our previous income tax
 2. Raise the gasoline tax (from the lowest in the nation)
 3. Raise the vehicle registration fee (also ")
 4. Use some of the Permanent Fund EARNINGS for their intended purpose of funding (in part) State Government
 5. Stop the witless, counterproductive, cuts to State Government.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HJR 47

Revision Date/Time (Note if correction) _____ Dept. Affected Office of the Governor
 Title Constitutional Amendment: relating to the BRU Elective Operations
permanent fund and payments to certain residents Component Elections
 Sponsor Representative Davis
 Requester House Judiciary Committee Component No. 21

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual	1.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1.5	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1.5					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	1.5	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. However, only six measures can be printed on an 8-1/2 by 14 inch ballot. If this measure requires printing an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Gail Fenumiai *Gail Fenumiai* Phone 465-3935
 Division Division of Elections Date/Time 2/25/00 10:06 AM
 Approved by: Lt. Governor Fran Ulmer *Fran Ulmer* Date 02/25/2000
 Agency Office of the Lieutenant Governor

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ALASKA STATE LEGISLATURE

REPRESENTATIVE GARY DAVIS

HOUSE JOINT RESOLUTION 47 SPONSOR STATEMENT

House Joint Resolution 47, if passed by the legislature and approved by the voters in the 2000 general election, will amend the constitutional provision relating to the Alaska Permanent Fund. Section 15 of Article 9 will be amended to require all realized income from the Permanent Fund principal to be deposited directly into the general fund. It allows the income to be used for any public purpose except for any program that provides dividends or other payments to all Alaska residents. This terminates the Permanent Fund dividend program as it is today and allows the earnings to be used to inflation-proof the Permanent Fund principal and to fund state services.

The resolution also provides for the payment of \$25,000 to each individual eligible to receive a 2001 Permanent Fund dividend (PFD). This is equivalent to more than 10 years of Permanent Fund dividends. It provides an opportunity for citizens to manage their own funds and make decisions that are best for their families. By requiring an individual to be eligible to receive a PFD in 2001, it removes the incentive for an influx of people coming to the state in the hopes of receiving the payment. Applicants would have needed to establish residency by January of 2000.

House Joint Resolution 47 sets the stage for another balanced budget proposal. It is a huge step towards addressing the budget deficit. It takes the constant debate over the permanent fund dividend program off the table. With that debate removed, the legislature can concentrate on dealing with the state's essential needs without being distracted by the effects of withdrawals from the earnings reserve account on the PFD program.

House Joint Resolution 47 offers an opportunity to expand the Permanent Fund's purpose: to utilize revenue from non-renewable resources to assist funding state government services now that oil production and revenues are declining and new revenues are needed.

HJR47022500



ALASKA STATE LEGISLATURE

REPRESENTATIVE GARY DAVIS

HOUSE JOINT RESOLUTION 47 SECTIONAL ANALYSIS

- Section 1: Amends Article 9, Section 15 of the Alaska Constitution to state that all realized income from the permanent fund shall be deposited in the general fund. Additionally the income may be used for any public purpose except for any program that provides dividends or other payments to all state residents.
- Section 2: Adds a new section Article 15, Transitional Measures, to provide a 1-time, \$25,000 payment to each individual eligible to receive a 2001 Permanent Fund dividend under current statute.

Provides that funds in any Alaska Permanent Fund account are to be used for these payments and allows the additional amount necessary to make these payment to be withdrawn from the Permanent Fund principal.

HJR47022500

Session: State Capitol, Juneau, AK 99801 • Phone 907/465-2693 or 800/463-2693 • Fax 907/465-3835
Interim: 145 Main St. Lp., Ste. 223, Kenai, AK 99611 • Phone 907/283-7095 or 907/224-2051 • Fax 907/283-3075
Email: Representative_Gary_Davis@legis.state.ak.us

Estimate of Permanent Fund Income Transferred to the General Fund
 If HJR 47/SJR 33 Receives Voter Approval
 (in Millions of Dollars)

Fiscal Year	Annual Rate of Return			
	7.97%	8.00%	10.00%	12.00%
2002	584.0	588.0	884.0	1,200.0
2003	610.0	615.0	923.0	1,252.0
2004	638.0	642.0	962.0	1,304.0
2005	665.0	671.0	1,004.0	1,360.0
2006	695.0	699.0	1,046.0	1,416.0
2007	723.0	729.0	1,090.0	1,474.0
2008	754.0	759.0	1,132.0	1,530.0
2009	782.0	788.0	1,176.0	1,580.0
2010	812.0	817.0	1,219.0	1,646.0

Source: Alaska Permanent Fund Corporation, 1/26/00

Comparison of \$25,000 Lump Sum Payout to 10-year annual Permanent Fund Dividend

	Before Taxes	After Federal Income Taxes				
		15.0%	28.0%	31.0%	36.0%	39.6%
Lump Sum	25,000	21,250	18,000	17,250	16,000	15,100
	Would receive:					
Annual PFDs						
2001	1,900.53	1,615.45	1,368.38	1,311.37	1,216.34	1,147.92
2002	1,877.56	1,595.93	1,351.84	1,295.52	1,201.64	1,134.05
2003	1,772.58	1,506.69	1,276.26	1,223.08	1,134.45	1,070.64
2004	1,695.11	1,440.84	1,220.48	1,169.63	1,084.87	1,023.85
2005	1,768.48	1,503.21	1,273.31	1,220.25	1,131.83	1,068.16
2006	1,828.57	1,554.28	1,316.57	1,261.71	1,170.28	1,104.46
2007	1,894.01	1,609.91	1,363.69	1,306.87	1,212.17	1,143.98
2008	1,962.86	1,668.43	1,413.26	1,354.37	1,256.23	1,185.57
2009	2,034.48	1,729.31	1,464.83	1,403.79	1,302.07	1,228.83
2010	2,108.06	1,791.85	1,517.80	1,454.56	1,349.16	1,273.27
Total Received	18,842.24	16,015.90	13,566.41	13,001.15	12,059.03	11,380.71

If after tax PFD's were invested annually with a 5% rate of return						
2001		1,615.45	1,368.38	1,311.37	1,216.34	1,147.92
2002		3,292.15	2,788.64	2,672.45	2,478.79	2,339.36
2003		4,963.45	4,204.33	4,029.15	3,737.19	3,526.97
2004		6,652.47	5,635.03	5,400.24	5,008.92	4,727.16
2005		8,488.30	7,190.09	6,890.50	6,391.19	6,031.68
2006		10,467.00	8,866.16	8,496.74	7,881.03	7,437.72
2007		12,600.25	10,673.16	10,228.44	9,487.25	8,953.59
2008		14,898.70	12,620.07	12,094.24	11,217.84	10,586.84
2009		17,372.94	14,715.90	14,102.74	13,080.80	12,345.01
2010 Cumulative Total		20,033.44	16,969.50	16,262.44	15,084.00	14,235.53

If after tax \$25,000 payment was invested to yield 5% annually						
2001		21,250.00	18,000.00	17,250.00	16,000.00	15,100.00
2002		22,312.50	18,900.00	18,112.50	16,800.00	15,855.00
2003		23,428.13	19,845.00	19,018.13	17,640.00	16,647.75
2004		24,599.53	20,837.25	19,969.03	18,522.00	17,480.14
2005		25,829.51	21,879.11	20,967.48	19,448.10	18,354.14
2006		27,120.98	22,973.07	22,015.86	20,420.51	19,271.85
2007		28,477.03	24,121.72	23,116.65	21,441.53	20,235.44
2008		29,900.88	25,327.81	24,272.48	22,513.61	21,247.22
2009		31,395.93	26,594.20	25,486.11	23,639.29	22,309.58
2010 Cumulative Total		32,965.72	27,923.91	26,760.41	24,821.25	23,425.06

NOTE: assumes that no money is withdrawn from the ERA between now and 2010 for any reason