

HB

411

Alaska State Legislature



Representative Bill Hudson

State Capitol
Juneau, Alaska
99801-1182
Phone: (907) 465-3744
Fax: (907) 465-2273

Committees
Co-Chair
House Resources
Chair
Utility Restructuring
Member
State Affairs
Transportation
Fisheries

SPONSOR STATEMENT

HB 411, Distribution of Permanent Fund Income

HB 411 was introduced to give the Permanent Fund strength, security and stability far into the future. This legislation allows for distributing income from the Permanent Fund as a percent of market value, rather than the current realized return formula.

Arguments in support of distributing Fund income as a percent of market value were first suggested by then PF Trustee Hugh Malone in the late 1980's. The Commission on the Future of the PF advised further study of this concept in 1990. In 1995, the Long-Range Financial Planning Commission recommended the market value approach for a long-term investment strategy. This year, Commonwealth North also recommended this blueprint for strengthening the Fund. This legislation fits in with the PF's long-term investment horizon. While not necessarily endorsing HB 411, The Permanent Fund Board supports a Percent of Market Value approach, recognizing that continuing the present realized return formula could lead to distortions in distributions due to gain taking and asset allocation decisions made as part of good investment policy. Passage of HB 411 would allow the PF to hold investments that historically need more time to mature. Another unique feature of the market value approach is that it produces a distribution program that is inherently more level. This is consistent with accepted methods of measuring PF performance and with the market value accounting requirement now mandated by the Governmental Accounting Standards Board.

First and foremost, House Bill 411 protects the principal of the Permanent Fund. Additionally, this approach maximizes the predictability and stability of annual distributions. This proposal is but one possible element of a long-range fiscal plan. It is however, an essential element if we are to close the troublesome fiscal gap, by most accounts, approximately \$800 million short annually.

HB 411 preserves and grows the permanent fund through statutorily required inflation proofing and actually maintains the PF Dividend at the status quo over the next 10 years of projected growth.

After inflation proofing the fund, the total amount of money available for distribution would be calculated. Out of this amount, HB 411 allocates 80% to the dividend and 20% to the General Fund. It produces stability in the fund management and clearly affords a first ever contribution for payment of essential services provided to the people of Alaska, while at the same time holding the dividend harmless.

It may be politically convenient to simply eat the public's savings as we have done since 1992, but that practice could easily lead to a full collapse of Alaska's economy.

(7)

HOUSE COMMITTEE REPORT

Date Referred to Committee: February 16, 2000

FURTHER REFERRALS:

Finance

Date of Committee Action: 3/28/00

The STATE AFFAIRS Committee considered:

HB 411

HOUSE BILL NO. 411

DISTRIBUTION OF PERMANENT FUND INCOME

"An Act relating to the market value of the permanent fund and to distribution of income of the permanent fund; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 411 (STA) 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) REV

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Jeanette James</i>		✓		
<i>John Sullivan</i>			✓	
<i>Bob Kattala</i>			✓	
<i>George [unclear]</i>			✓	
<i>Bill Hudson</i>	✓			
<i>[unclear]</i>			✓	
<i>Scott [unclear]</i>		✓		

CHAIR'S SIGNATURE Jeanette James

1-LS1443M
Cook
3/23/00

CS FOR HOUSE BILL NO. 411()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES HUDSON, Austerman, Phillips, Murkowski, Davies

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the market value of the permanent fund and to distribution
2 of income 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. AS 37.13.140 is amended to read:

5 Sec. 37.13.140. Income available for distribution. The market value [NET
6 INCOME] of the fund includes the market value [INCOME] of the earnings reserve
7 account established under AS 37.13.145. The market value [NET INCOME] of the
8 fund shall be computed annually as of the last day of the fiscal year in accordance
9 with generally accepted accounting principles [, EXCLUDING ANY UNREALIZED
10 GAINS OR LOSSES]. Income available for distribution equals 5.3 [21] percent of the
11 average year-end market value [NET INCOME] of the fund for the last three
12 [FIVE] fiscal years, including the fiscal year just ended, but may not exceed [NET
13 INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS] the
14 balance in the earnings reserve account described in AS 37.13.145.

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

2 (b) By October 1 [AT THE END OF] each [FISCAL] year, the corporation
3 shall transfer from the earnings reserve account to the dividend fund established under
4 AS 43.23.045, 75 [50] percent of the income available for distribution under
5 AS 37.13.140, or the balance in the account, whichever is less.

6 * **Sec. 3.** AS 37.13.145 is amended by adding a new subsection to read:

7 (e) By October 1 each year after the transfer under (b) of this section, the
8 corporation shall transfer from the earnings reserve account to the general fund 25
9 percent of the income available for distribution under AS 37.13.140, or the balance in
10 the account, whichever is less.

11 * **Sec. 4.** AS 37.13.300(c) is amended to read:

12 (c) Income or other money [NET INCOME] from the mental health trust
13 fund may not be included in the computation of [NET] income available for
14 distribution under AS 37.13.140.

15 * **Sec. 5.** AS 37.14.03!(c) is amended to read:

16 (c) The net income of the fund shall be determined by the Alaska Permanent
17 Fund Corporation annually as of the last day of the fiscal year in accordance with
18 generally accepted accounting principles, excluding any unrealized gains or losses
19 [IN THE SAME MANNER THE CORPORATION DETERMINES THE NET
20 INCOME OF THE ALASKA PERMANENT FUND UNDER AS 37.13.140].

21 * **Sec. 6.** AS 37.17.020(b) is amended to read:

22 (b) The endowment shall be held and invested by the Alaska Permanent Fund
23 Corporation subject to AS 37.13.120; however, net income from the endowment shall
24 be distributed under AS 37.17.010 - 37.17.110 and 37.17.225. Income or other
25 money [NET INCOME] from the endowment may not be included in the computation
26 of [NET] income available for distribution under AS 37.13.140.

27 * **Sec. 7.** AS 37.17.440(b) is amended to read:

28 (b) The principal and income of the endowment shall be held and invested by
29 the Alaska Permanent Fund Corporation subject to AS 37.13.120; however, net income
30 from the endowment and subsequent income earned on net income from the
31 endowment shall be held in a separate account until appropriated by the legislature.

1 Income or other money [NET INCOME] from the endowment may not be included
2 in the computation of [NET] income available for distribution under AS 37.13.140.

3 * Sec. 8. AS 37.13.145(c) is repealed.

4 * Sec. 9. The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 TRANSITION. Notwithstanding AS 37.13.140, as amended in sec. 1 of this Act,
7 income available for distribution following the end of fiscal year

8 (1) 2000 is equal to 5.3 percent of the year-end market value of the fund, but
9 may not exceed the balance in the earnings reserve account;

10 (2) 2001 is equal to 5.3 percent of the average of the year-end market value
11 of the fund for the last two fiscal years, including the fiscal year just ended, but may not
12 exceed the balance in the earnings reserve account.

13 * Sec. 10. This Act takes effect June 30, 2000.

Model Output for HB 411

SUMMARY

Expenditures and Revenues

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Anticipated Expenditures	2,294.8	2,325.1	2,355.0	2,375.3	2,389.0	2,404.6	2,409.3	2,443.2	2,460.0	2,477.0	2,494.2
Anticipated Unrestricted GF Revenue	1,949.7	1,566.2	1,473.7	1,440.1	1,422.8	1,381.9	1,376.5	1,304.6	1,239.8	1,169.5	1,093.0
Estimated Fiscal Shortfall	(345.1)	(758.9)	(881.3)	(935.2)	(966.2)	(1,022.7)	(1,032.8)	(1,138.6)	(1,220.2)	(1,303.5)	(1,401.2)
HB411 Revenue to GF	0.0	389.9	390.0	393.5	400.8	411.8	423.2	434.8	446.6	458.8	471.1
Estimated Fiscal Shortfall	(346.1)	(369.1)	(491.3)	(541.7)	(565.4)	(610.9)	(609.6)	(703.8)	(773.5)	(849.7)	(930.1)
New GF Revenue	0.0	350.0	362.3	375.0	388.2	401.9	416.0	430.6	445.7	461.4	477.6
Estimated Fiscal Shortfall	(346.1)	(19.1)	(129.0)	(166.6)	(177.2)	(209.0)	(193.6)	(273.2)	(327.8)	(388.3)	(452.5)
Constitutional Budget Reserve Draw to GF	346.1	19.1	129.0	166.6	177.2	209.0	193.6	273.2	327.8	388.3	452.5
Estimated Fiscal Shortfall	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

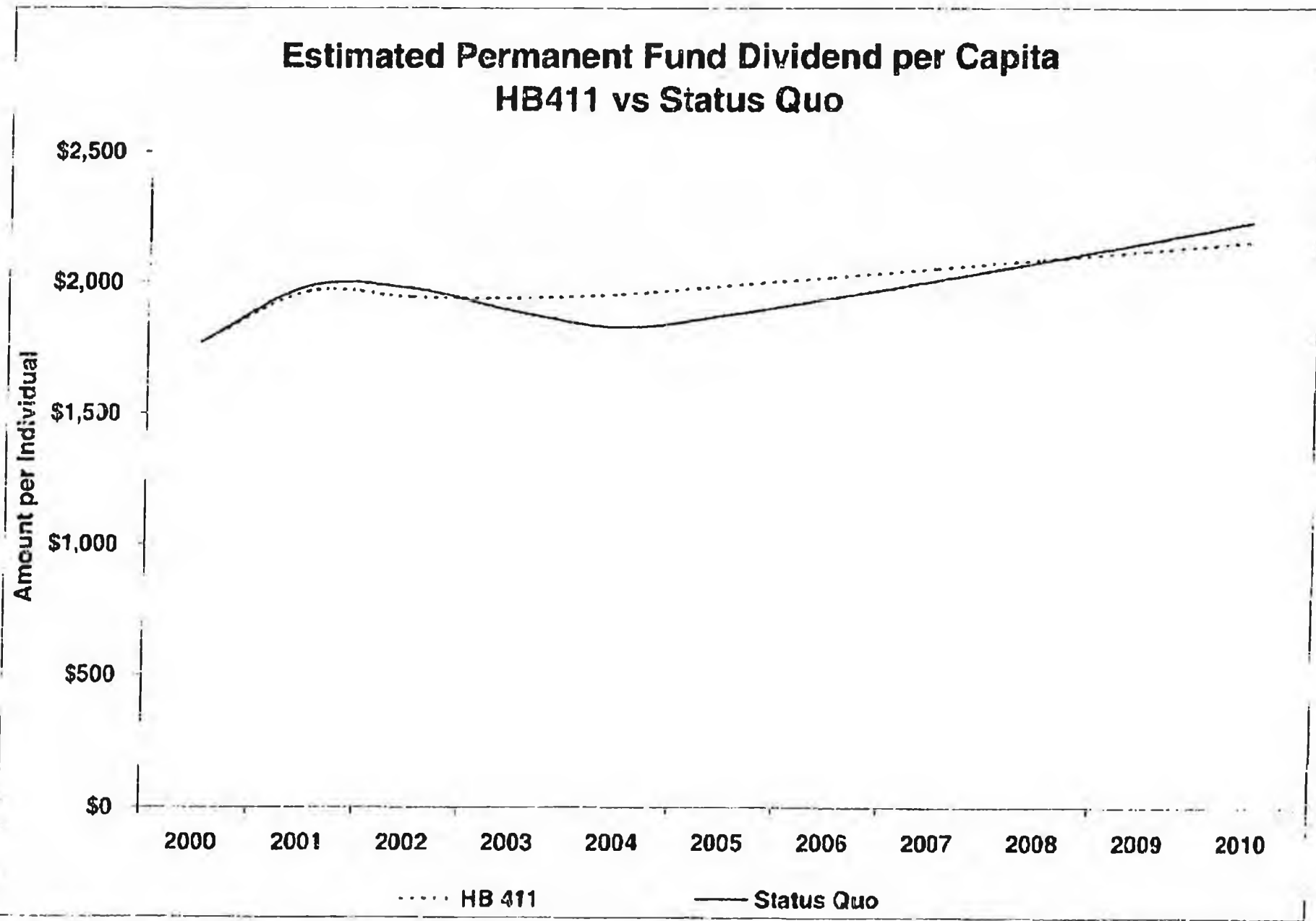
PER CAPITA DIVIDENDS

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Ten Year Total Dividends
HB411 Dividend	1,769.3	1,964.2	1,942.5	1,938.7	1,953.3	1,985.9	2,019.0	2,052.4	2,036.1	2,126.0	2,154.0	21,985.5
Per Capita Status Quo Dividend	1,769.3	1,902.5	1,976.0	1,837.1	1,827.0	1,874.2	1,938.9	2,007.1	2,078.6	2,153.0	2,229.7	21,723.4
Difference between HB411 Dividend and Status Quo Dividend	0.0	(10.3)	(33.5)	51.6	126.3	111.7	80.2	45.3	7.4	(33.0)	(75.7)	262.1

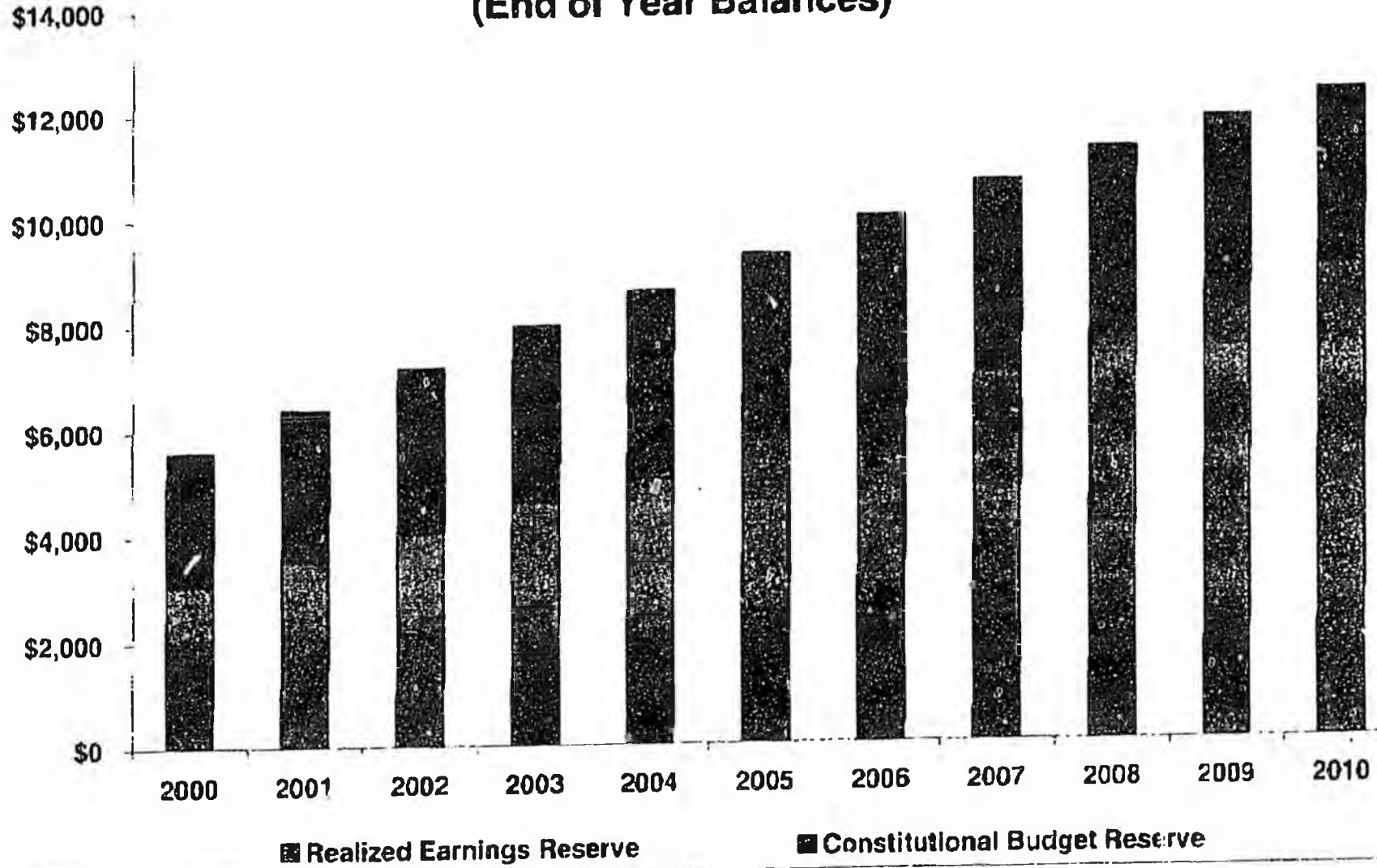
END OF YEAR BALANCES

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Permanent Fund Principal and Unrealized Earnings	23,567.1	23,843.8	24,083.7	24,314.9	24,547.4	24,773.7	24,994.9	25,235.1	25,467.5	25,691.9	25,909.0
Earnings Reserve Balance	3,069.4	3,528.5	4,038.5	4,586.6	5,156.7	5,748.7	6,354.5	6,978.6	7,617.9	8,270.8	8,936.1
Constitutional Budget Reserve Balance	2,523.7	2,862.5	3,118.5	3,357.3	3,448.8	3,515.6	3,603.2	3,618.3	3,579.9	3,478.1	3,303.9

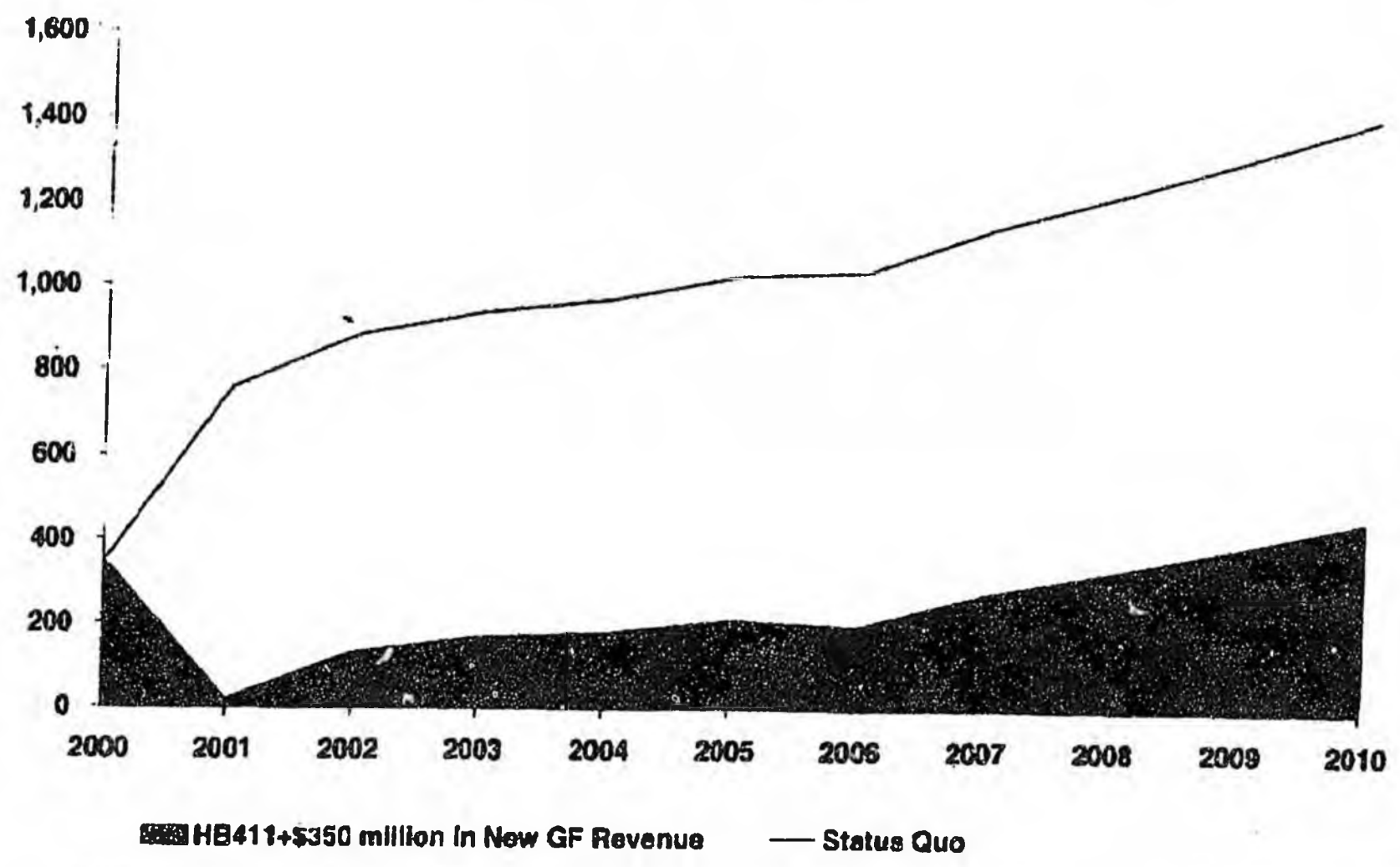
Estimated Permanent Fund Dividend per Capita HB411 vs Status Quo



House Bill 411 Alaska's Savings Accounts (End of Year Balances)



The Fiscal Gap HB411 vs. Status Quo



■ HB411+\$350 million in New GF Revenue — Status Quo



WORKING TO PROMOTE
ALASKA'S LONG-TERM
FISCAL CERTAINTY

FISCAL SENSE

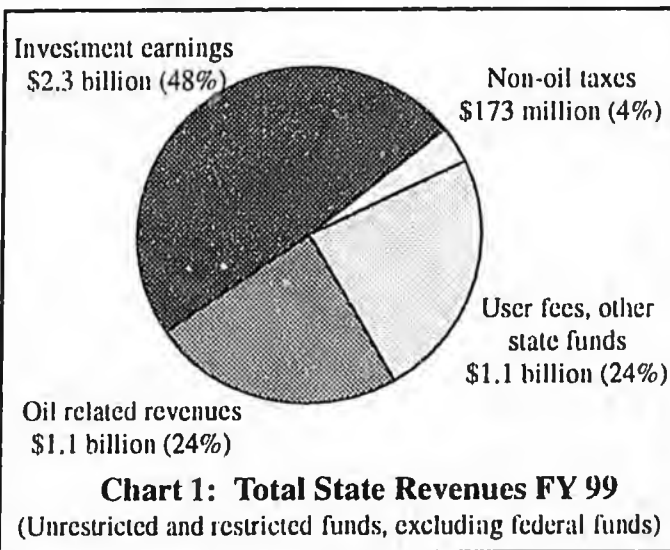
AN UPDATE ON CLOSING ALASKA'S FISCAL GAP • VOLUME 2, ISSUE #3 • WEEK OF FEBRUARY 21, 2000

Legislature urged to establish Ways and Means Committee

Financial assets key to future fiscal certainty

In FY 1980, the state's unrestricted general funds totalled \$2.5 billion. Of this amount, \$2.3 billion, or 90%, came from oil and gas taxes and royalties. In FY 99, it was a very different story. Of the \$1.4 billion in unrestricted general funds, \$913 million, or 68%, came from the oil and gas industry. (*"Unrestricted" means the funds can be spent for any public purpose.*)

The state also gets another \$3.8 billion in other types of revenues the state gets from taxes paid by non-oil businesses, financial asset earnings, and other state program activities (such as bonds, trusts, and user fees). Chart 1 illustrates a total of \$4.7 billion in



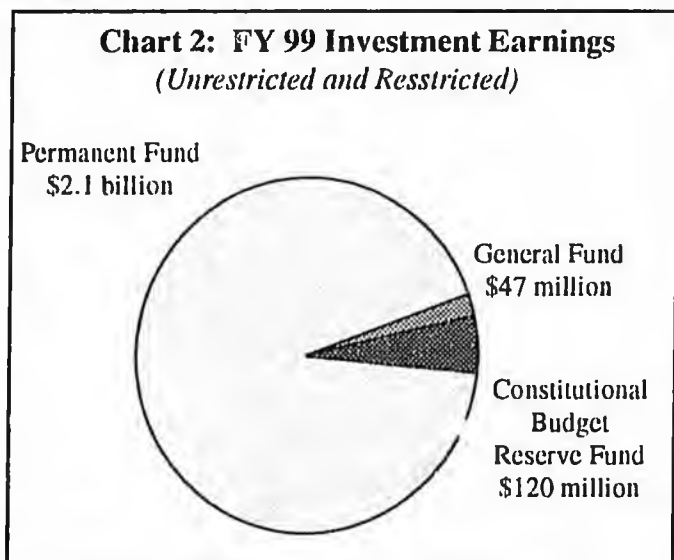
unrestricted and restricted state-generated revenues.

As chart 1 shows, nearly half of the state's revenues came from earnings from financial assets. These financial assets and their FY 99 earnings are illustrated in Chart 2.

While the Permanent Fund is the major revenue generating asset, all but \$771 million of its earnings were spent: \$1 billion for dividends and \$288 million was redeposited in the Fund for inflation-proofing. The \$771 million balance went into the Fund's Earnings Reserve Account, which had a balance of \$2.6 billion at the end of FY 99.

Financial assets require policy priority

In other states, the primary source of revenues is taxes based on in-state economic activity. As these charts illustrate, Alaska is unique. For this reason the Fiscal Policy Council believes a legislative committee with formal jurisdiction over state revenue policies should be created and has forwarded this recommendation to the Legislature. As discussed on page two, many states have a similar committee structure.



Source for charts: Alaska Department of Revenue "Fall 1999 Revenue Sources Book"

Clear policies, oversight required for maximum return

The Fiscal Policy Council has urged the Legislature to establish a Ways and Means Committee as part of its institutional structure. The purpose is to have a legislative committee with primary responsibility for policy and performance oversight of the state's financial assets.

Currently these areas are the responsibility of each body's respective Finance Committee which already has a burdensome workload that includes writing the state operating and capital budgets and reviewing all legislation that impacts state finances.

Committee jurisdiction

Given the important role that Alaska's financial assets will play in the state's financial future, it is extremely important that oversight and vigorous scrutiny be institutionalized in the Legislature instead of being conducted on an ad hoc basis. Policies that merit the attention of such a committee are:

- Clearly stated investment goals and standards for the state's financial assets;
- Systematic review and audit of returns on investment of all of the state's financial investments;

- Systematic examination of current investment practices, including inflation-proofing of the Permanent Fund;
- Evaluate the state's cash flow and determine appropriate interim alternatives;
- Identification of "value-added" opportunities to capture new revenue to the state treasury based on the state's current investments; and
- Careful and thorough examination of potential revenue-generating options, including impact on economic development and distribution policies of state revenues with local governments.

What other states do

Thirty-three state legislatures have more than one committee in each legislative body who work on state fiscal issues. It ranges from Colorado's traditional framework of an Appropriations Committee and a Finance Committee, to Maryland which also adds two joint committees: the Management of Public Funds Committee and the Spending Affordability Committee. The Connecticut Legislature only has joint committees: the Appropriations Committee and the Finance, Revenue, and Bonding Committee.

On the spending side . . .

House Finance subcommittees set to wrap up operating budget work . . . House and Senate Finance Committees do much of their state operating budget work through subcommittees, each of which is assigned a department's budget. A subcommittee develops recommended funding levels for that department's programs. **House Finance expects to wrap up its subcommittee work by March 1** (subcommittee reports will be available on the Internet (www.legfin.state.ak.us) by March 2. Subcommittee recommendations will go to the full Finance Committee, which will consider **amendments from March 6 to 9.**

House Finance will next report out the operating

budget as a bill (just like all other legislation). It will then go to the Rules Committee that will schedule it for the **full House's consideration (expected in mid-March)**. After passage, the operating budget goes over to the Senate, where the same steps are repeated. Senate Finance subcommittees, however, have been working simultaneously with the House on department budgets.

**House Finance Committee
Public Testimony on Operating Budget
Saturday, March 4 • 9 a.m.**
*Contact local Legislative Information
Office for teleconference details*

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 \$ENSE" 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; www.fiscalak.org



MAR 21 2000

March 23, 2000

The Honorable Bill Hudson
Alaska House of Representatives
State Capitol
Juneau, AK 99801

Dear Representative Hudson:

Thank you for taking time to brief the Fiscal Policy Council about your efforts with House Bill 411. We support the efforts of you and your colleagues to advance the Legislature's discussion of ways to achieve long-term fiscal certainty. We also appreciate the opportunity to offer the following comments on the legislation and proposed amendments:

- Recasting the Permanent Fund as an "endowment" or "trust" (we suggest that "trust" may be a better term based on the negative reaction "endowment" received when broached by the Long Range Financial Planning Commission) is a significant step in the right direction. Moving to an annual draw based on the Fund's market value will enhance stability in the amount of earnings available to meet public needs. It also will allow more flexibility in the Fund's management, which will maximize investment returns over the long term.
- Moving to an annual payout rate greater than five-percent runs the risk of diminishing the Fund's value over time. As written, HB 411 would maintain the Fund's market value in real dollars if all assumptions were realized in every year. In the real world, however, the rate of return and rate of inflation are not constant and the natural volatility in these parameters raises the possibility of the value of the Fund falling. A more conservative payout rate would reduce this possibility.
- We urge using a five-year average of the market value to calculate the payout rate because it will reduce the impact of annual fluctuations on the Fund's market value. A lesser time frame would diminish the advantage of shifting to an annual payout.
- All variables used in assessing the impact of proposals should be as realistic as possible. To assess the impact of HB 411 in closing the state's fiscal gap, we are concerned that a prediction of primarily flat spending is not realistic in what it will take to foster a growing and robust economic future for Alaskans. While we recognize that future legislatures will make the actual spending decisions, we urge you to build into your analysis the recognition that adequate spending levels will be necessary in order to meet the demands of a growing state.



- Evaluation of proposals for any new or increased tax must be realistic and consider potential impact on economic activity. For example, it would be misleading to assume the same amount of oil will be produced, regardless of the state's taxation structure. It would therefore be necessary to reassess future production levels based on the specifics of any oil and gas-related tax change(s).

Again, we commend your efforts. Please advise if the Fiscal Policy Council can provide you with any other comments, suggestions, or advice during your efforts to bring certainty to Alaska's fiscal future.

Sincerely,

A handwritten signature in black ink that reads "Marc Langland". The signature is written in a cursive style with a large, looping initial "M".

Marc Langland
President

cc: HB 411 co-sponsors:
Representative Alan Austerman
Representative Gail Phillips
Representative Lisa Murkowski
Representative John Davies

R - B

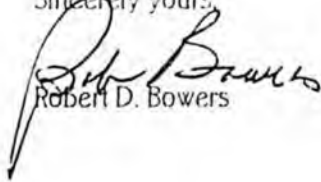
Wednesday, March 22, 2000

State Representative Bill Hudson
State Capitol
Juneau, AK 99801-1182

Dear Representative Hudson

I support wholeheartedly the passage of House Bill 111. I thank you and the others who support it for taking a balanced approach to our fiscal dilemma. We cannot afford to continue to destroy the infrastructure of this state any more than we can afford uncontrolled spending. We can afford some new taxes, including an income tax that taxes everyone who earns wages in Alaska. We are tired of the members of our state legislature putting their collective heads in the sand because it is politically inexpedient to advocate sound state planning. Thank you for your courage and resourcefulness.

Sincerely yours,



Robert D. Bowers

Bob Bowers, 104 Muldoon Road, Box 206, Anchorage, AK 99504
Phone & Fax: .907-337-2869. .e-mail: rdbowers@gci.net

March 23, 2000

TO: Representative Andrew Halcro
Representative Bill Hudson
Representative Gail Phillips
Representative Alan Austerman
Representative Lisa Murkowski
Representative John Davies
Representative Gary Davis

MAR 27 2000

Good Morning:

We are writing in strongest opposition to your latest tax proposal. The people of Alaska voted overwhelmingly last year against such a proposal. The people of Alaska wish to see state spending reduced, not increased or kept at the status quo. Your proposal goes against the wishes of the vast majority of the Alaskan people. Perhaps this is why Representative Hudson is against a public vote.

We find it interesting that this proposal comes so late in the legislative session. Perhaps it cannot stand the light of day and needs to be pushed as fast as possible. We suggest that it be put-off until the next legislative session as there is no pressing need for funds this year. With study the legislature will come to the same conclusion as the voters of Alaska and Representative Scott Ogan; there is no need for new taxes, we just need to reprioritize state government back to basics.

Why is it that government funding seems to be given a higher priority than private enterprise and taxpayer dollars. Why are the people of Alaska asked to pay more so government can continue to spend? Has anyone asked the people of the state of Alaska what they will be forced to give-up to pay these new taxes? Perhaps all members of the legislature should stop and ask why they were sent to Juneau and if they cannot do what the voters want done, resign.


Thank you

Michael and Rose Marie Citti
4641 Edinburgh Drive
Anchorage, Alaska 99515
(907) 243-2990

Alaska State Legislature



Representative Bill Hudson

State Capitol
Juneau, Alaska
99801-1182
Phone: (907) 465-3744
Fax: (907) 465-2273

Committees:
Chair
Fisheries
Utilities Restructuring
Member
Transportation
State Affairs

MEMORANDUM

TO: Representative Jeannette James
House State Affairs Committee
FROM: Representative Bill Hudson *Bill*
SUBJECT: Hearing Request
DATE: February 16, 2000

I respectfully request that you schedule a hearing for HB 411, Distribution of Permanent Fund Income. This legislation is my highest personal priority and I would appreciate a hearing next week, so that we can move this as quickly as possible on to the Finance Committee.

Thank you for your consideration.



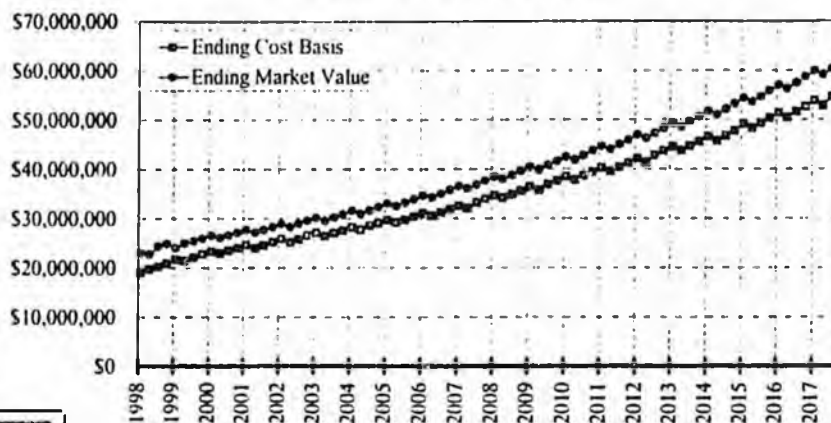
**Understanding POMV:
Percent of Market Value
Distribution of Fund Income**

**Prepared by the
Alaska Permanent Fund Corporation
February 2, 2000**

**Includes excerpts from a Callan Associates presentation
to the Senate Finance Committee on March 31, 1999**

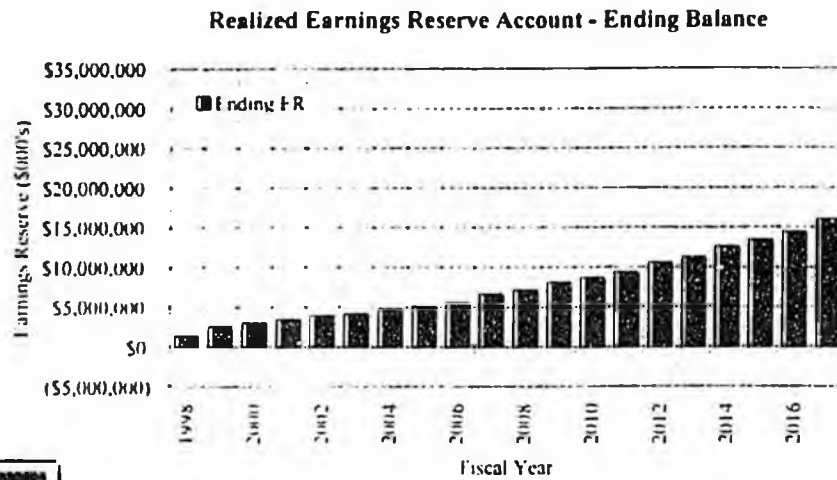
Fund Value
Base - Median Results

Cost vs Market Value of Assets



Reserve Account

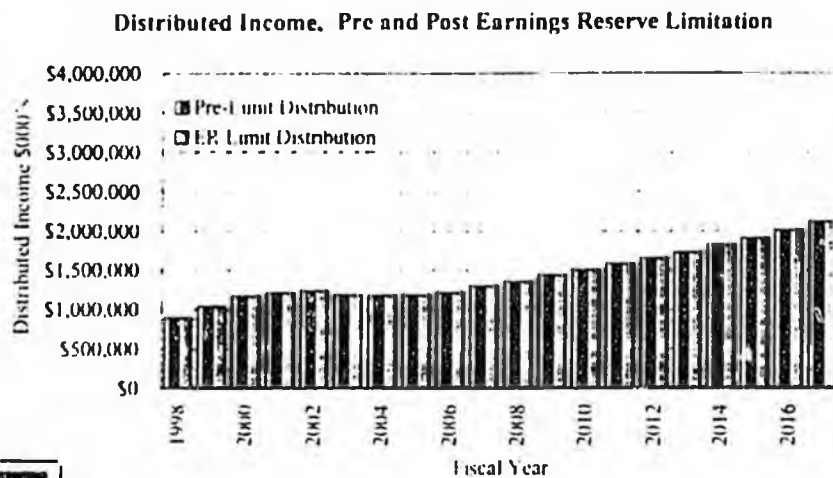
Base Case - Median Results



2

Distributed Income

Base - Median Results

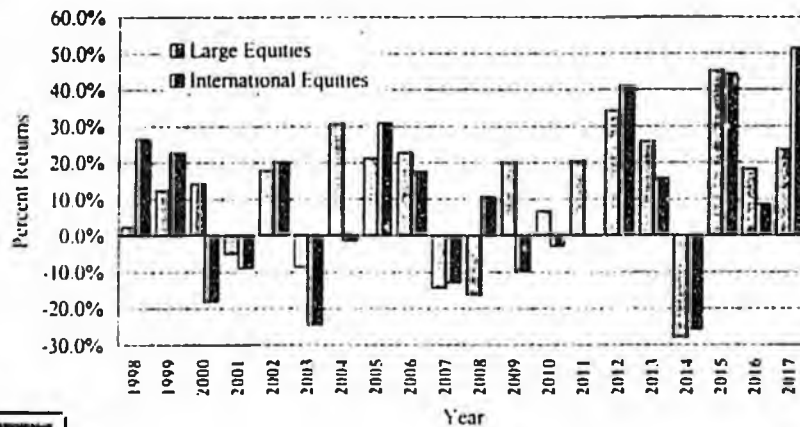


4

Equity Market Returns

Scenario #28 - (Introducing Risk)

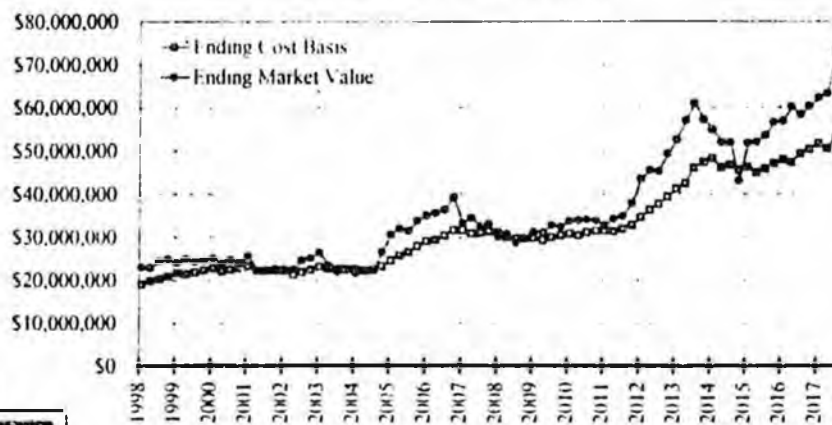
Equity Market Returns



Fund Value

Scenario #28 - (Introducing Risk)

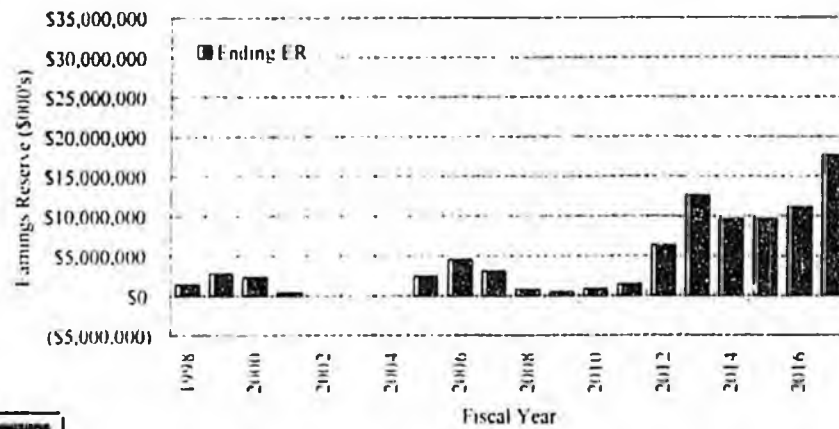
Cost vs Market Value of Assets



Reserve Account

Scenario #28 - (Introducing Risk)

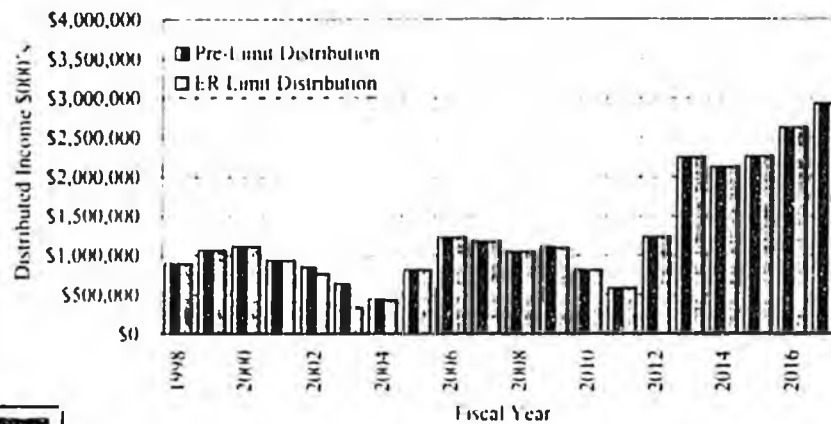
Realized Earnings Reserve Account - Ending Balance



Distributed Income

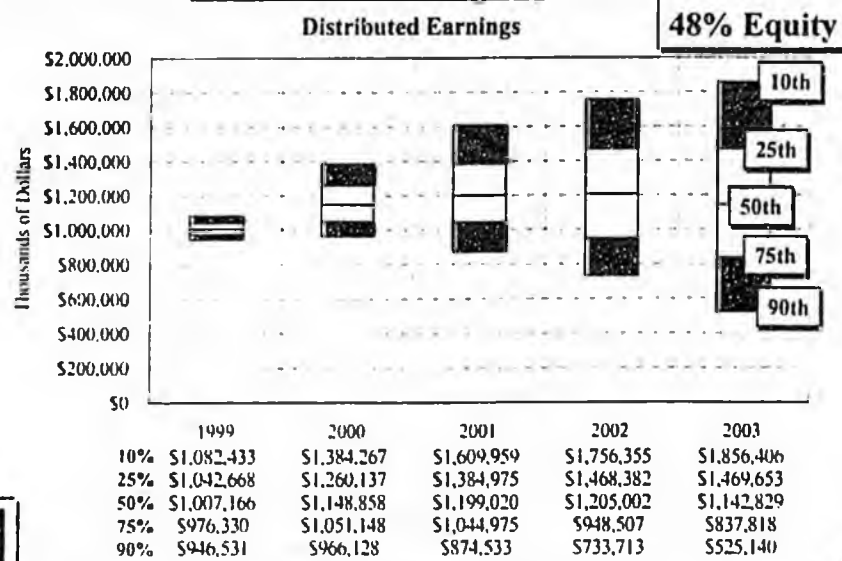
Scenario #28 - (Introducing Risk)

Distributed Income, Pre and Post Earnings Reserve Limitation



Distributed Income

Base Case - how to read Range of Results



Base Case

- Actual results through December 1998.
- No appropriation from ER in FY 1999.
- 1999 Callan capital market assumptions.
- Asset Allocation: 48% Equity.
- Distributed Income: status quo.
- Inflation-Proofing: status quo.
- Earnings Reserve limitation: status quo.



*Percent of Market Value - 4.5%
Distribution*

- Actual results through December 1998.
- No appropriation from ER in FY 1999.
- 1999 Callan capital market assumptions.
- Asset Allocation: 48% Equity.
- Distributed Income: 4.5% of 5-year average market value.
- Inflation-Proofing: status quo.
- Earnings Reserve limitation: status quo.



11

*Percent of Market Value - 4.5% Distribution
Inflation-Proofing stays in Earnings Reserve*

- Actual results through December 1998.
- No appropriation from ER in FY 1999.
- 1999 Callan capital market assumptions.
- Asset Allocation: 48% Equity.
- Distributed Income: 4.5% of 5-year average market value.
- Inflation-Proofing: stays in Earnings Reserve.
- Earnings Reserve limitation: status quo.



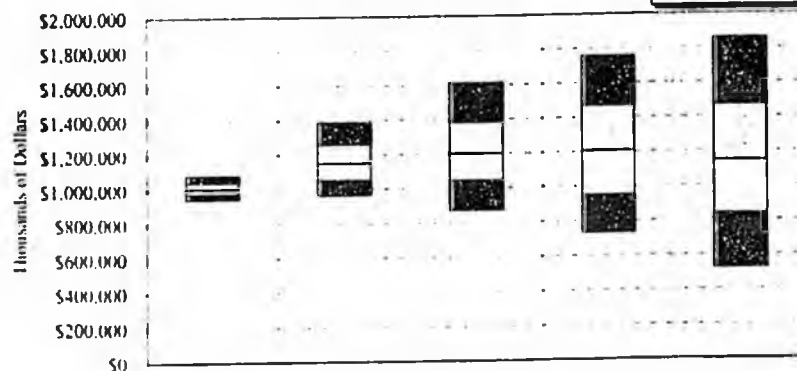
12

Distributed Income

Base Case - Range of Results

Distributed Earnings

48% Equity



	1999	2000	2001	2002	2003
10%	\$1,082,433	\$1,384,267	\$1,609,959	\$1,756,355	\$1,856,406
25%	\$1,042,668	\$1,260,137	\$1,384,975	\$1,468,382	\$1,469,653
50%	\$1,007,166	\$1,148,858	\$1,199,020	\$1,205,002	\$1,142,829
75%	\$976,330	\$1,051,148	\$1,044,975	\$948,507	\$837,818
90%	\$946,531	\$966,128	\$874,533	\$733,713	\$525,140



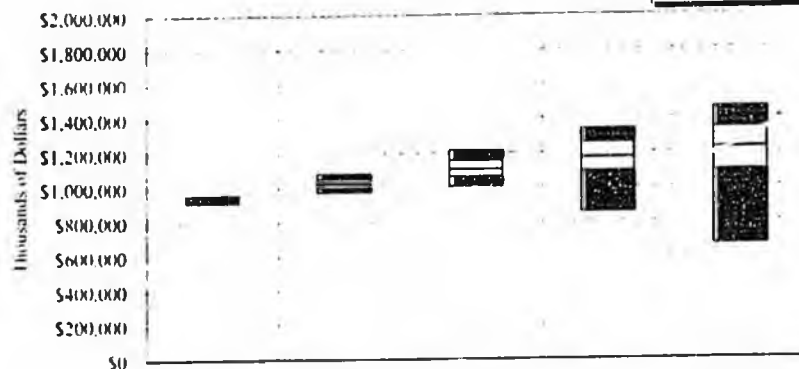
13

Distributed Income

4.5 % of MV - Range of Results

Distributed Earnings

48% Equity



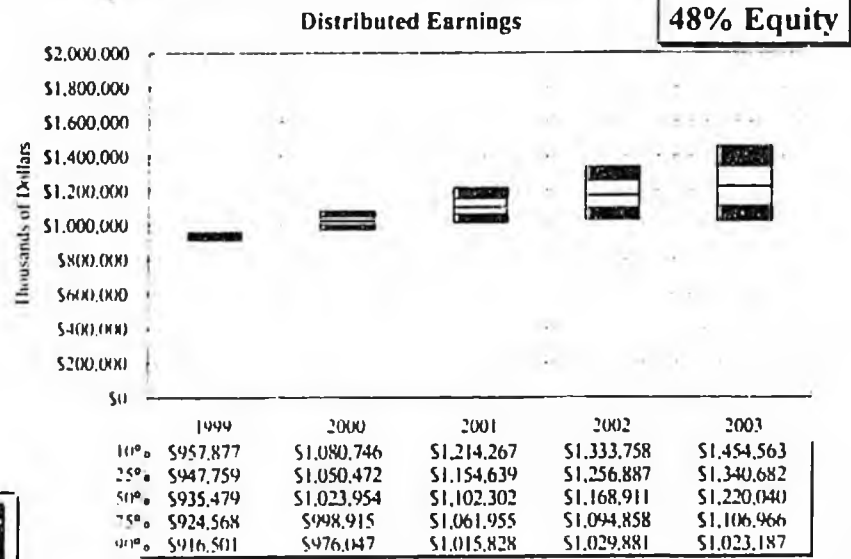
	1999	2000	2001	2002	2003
10%	\$957,877	\$1,080,746	\$1,214,267	\$1,333,758	\$1,454,563
25%	\$947,759	\$1,050,472	\$1,154,639	\$1,256,887	\$1,340,682
50%	\$935,479	\$1,023,954	\$1,102,302	\$1,168,911	\$1,220,040
75%	\$924,568	\$998,915	\$1,061,955	\$1,090,428	\$1,091,402
90%	\$916,501	\$976,047	\$1,006,505	\$855,192	\$664,984



14

Distributed Income

4.5 % of MV, IP in ER - Range of Results



Key Findings

- A market-value-based distribution rule results in a more stable distribution stream than the current income-based distribution rule... particularly if
- Inflation-proofing remains in the earnings reserve account rather than being transferred to principal

Percent of Market Value Payout Method

Percent of Market Value Method -

Assumptions: 7.97% rate of return (no market volatility in return assumptions, which makes the projections our best estimate of the median case; actual performance will vary with market volatility)
 Inflation-proofing at 3% - remains in earnings reserve account
 Amerada Hess earnings transferred to principal
 % of payout phased in over 4 years beginning in FY01 (2 years, then 3 years, then 4 years, then 5 years thereafter)
 This model allows the user to change the % of payout and the total rate of return assumption
 The user can also change the split of the total payout to a % to fund the dividend program and a % to fund government
 Investment returns based on 99 Capital Market Assumptions, Fall 99 revenue forecast for dedicated oil revenue (no HB 96)
 FY2000 based on 12/31/99 financial statements
 FY2000 status quo

Change to Percentage of Market Value beginning in FY01, using phase in of average market values for 2 years, 3 years, 4 years, 5 years

Alaska Permanent Fund Projections		FY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Permanent Fund Principal Balance - at start of fiscal year (protected by Alaska Constitution)			19,001	19,694	19,926	20,131	20,338	20,555	20,770	20,983	21,216	21,442	21,658
Total Earnings Reserve Balance - at start of fiscal year			6,130	7,344	8,022	8,757	9,544	10,386	11,258	12,159	13,091	14,053	15,047
Market Value of Total Permanent Fund Assets - at start of fiscal year			25,132	27,038	27,948	28,888	29,883	30,941	32,027	33,142	34,307	35,495	36,705
Dedicated Oil Revenue Deposits into principal during fiscal year			240	199	171	170	175	171	166	182	170	157	143
Total Return (FY01 - FY10)		7.97%	2,861	2,163	2,234	2,309	2,389	2,473	2,559	2,649	2,741	2,835	2,931
Deduct costs of running the Fund			42	43	43	44	45	45	46	47	47	48	49
Sub-Total Market Value - at end of fiscal year (before payouts)			28,190	29,357	30,309	31,323	32,402	33,539	34,706	35,926	37,171	38,439	39,730
Transfer from Earnings Reserve to Principal (inflation-proofing in FY00; Am Hess thereafter)			453	32	35	38	41	44	47	51	55	60	64
Inflation-proofing remains in earnings reserve account (FY01 - FY10)		3.00%		881	909	940	972	1,006	1,041	1,078	1,115	1,153	1,192
Payout % of 5-year Average Market Value (phased in over 4 years)		5.00%		1,410	1,422	1,440	1,462	1,512	1,564	1,619	1,676	1,734	1,794
Permanent Fund Principal Balance - at end of fiscal year (protected by Alaska Constitution)			19,694	19,926	20,131	20,338	20,555	20,770	20,983	21,216	21,442	21,658	21,865
Total Earnings Reserve Balance - at end of fiscal year			7,344	8,022	8,757	9,544	10,386	11,258	12,159	13,091	14,053	15,047	16,071
Market Value of Total Permanent Fund Assets - at end of fiscal year			27,038	27,948	28,888	29,883	30,941	32,027	33,142	34,307	35,495	36,705	37,936

		Payout Decision											
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Split			\$1,410	\$1,422	\$1,440	\$1,462	\$1,512	\$1,564	\$1,619	\$1,676	\$1,734	\$1,794	
Payment to fund government	20.0%		282	284	288	292	302	313	324	335	347	359	
Payout to dividend program	80.0%		1,128	1,137	1,152	1,169	1,210	1,252	1,295	1,341	1,387	1,435	
Dividend per person		1,933.97	1,870.38	1,865.07	1,868.54	1,876.00	1,920.57	1,966.61	2,014.31	2,063.18	2,112.65	2,162.60	21,653.88
Projected dividends - status quo		1,933.97	1,959.82	1,952.75	1,863.89	1,803.25	1,848.51	1,911.06	1,977.22	2,046.68	2,119.03	2,193.73	21,609.90
Effective payout rate			5.00%	4.88%	4.78%	4.69%	4.69%	4.69%	4.69%	4.69%	4.69%	4.69%	

Alaska Permanent Fund Analysis
Status Quo

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Alaska Permanent Fund Projections	FY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2	Permanent Fund Principal Balance - at Start of Fiscal Year (Protected by AK Constitution)		19,001	19,694	20,523	21,352	22,208	23,100	24,019	24,965	25,963	26,985	28,031
3	Realized Earnings Reserve Balance - at Start of Fiscal Year		2,590	3,049	3,307	3,617	4,033	4,547	5,100	5,684	6,300	6,951	7,637
4	Unrealized Earnings Reserve Balance- at Start of Fiscal Year		3,541	4,295	4,347	4,400	4,451	4,505	4,563	4,627	4,695	4,767	4,844
5	GAAP Earnings Reserve Balance - at Start of Fiscal Year		6,130	7,344	7,654	8,016	8,485	9,052	9,663	10,310	10,995	11,718	12,481
6	Market Value of Total Permanent Fund Assets - at Start of Fiscal Year		25,132	27,038	28,177	29,368	30,692	32,152	33,681	35,275	36,958	38,703	40,511
7	Dedicated Oil Revenue Deposits Into Principal during Fiscal Year		240	199	171	170	175	171	166	182	170	157	143
8	Statutory Net Income (Dividends, Interest & Realized Capital Gains)		2,034	2,036	2,121	2,213	2,312	2,417	2,528	2,645	2,767	2,894	3,025
9	Change In Unrealized Gains during the Fiscal Year		785	85	88	91	97	107	117	127	138	149	161
10	GAAP Net Income for the Fiscal Year		2,819	2,120	2,209	2,304	2,409	2,524	2,645	2,772	2,905	3,043	3,186
13	Payout for dividends and dividend program costs		(1,152)	(1,180)	(1,189)	(1,149)	(1,125)	(1,165)	(1,217)	(1,272)	(1,330)	(1,391)	(1,455)
14	Transfer from Earnings Reserve to Principal (Inflation-proofing and other transfers)		(422)	(598)	(622)	(647)	(673)	(700)	(727)	(756)	(786)	(816)	(848)
15	Projected rate for statutory Inflation-proofing		2.19%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
17	Market Value of Total Permanent Fund Assets - at End of Fiscal Year		27,038	28,177	29,368	30,692	32,152	33,681	35,275	36,958	38,703	40,511	42,385
18	Projected Dividend Check Per Person		\$1,933.97	\$1,959.82	\$1,952.75	\$1,863.89	\$1,803.25	\$1,848.51	\$1,911.06	\$1,977.22	\$2,046.68	\$2,119.03	\$2,193.73
19	Dividend Formula-5 Yr Realized Income or Statutory Earnings Rsv Limit (or Temp Adj)		5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc	5 Yr Inc
20													

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 411

Revision Date/Time (Note if correction) _____ Dept. Affected _____ Revenue _____
 Title Distribution of Permanent Fund Income BRU Permanent Fund Corp.
 Component Permanent Fund Corp.
 Sponsor Representative Hudson
 Requester House State Affairs Committee Component No. 109

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						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

See Attached

Prepared by: Chris Phillips, Director of Finance Phone 465-3172
 Division AK Permanent Fund Corporation Date/Time 2/22/00 7:18 AM
 Approved by Commissioner Wilson Condon Date _____
 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 Corporation

P.O. Box 25500 Juneau, AK 99802-5500

Telephone (907) 465-2047

Facsimile (907) 586-2057

MEMORANDUM

DATE: February 21, 2000

TO: Representative Bill Hudson

FROM: Jim Kelly
Director of Communications

SUBJECT: Analysis of House Bill 411

You have asked the Alaska Permanent Fund Corporation (APFC) to analyze the impacts of House Bill 411, "Act relating to the market value of the permanent fund and to distribution of income of the permanent fund; and providing for an effective date."

HB 411 redefines "income available for distribution." In current law, "income available for distribution" excludes unrealized gains and equals 21 percent of the Fund's net income for the past five years. In HB 411, "income available for distribution" includes unrealized gains and equals five percent of the Fund's market value averaged over the past five years (20 quarters).

HB 411 changes how "income available for distribution" is distributed. In current law, 50 percent of "income available for distribution" is transferred each year to the dividend fund. The remainder, after inflation-proofing, remains in the earnings reserve. In HB 411, 80 percent of "income available for distribution" is transferred to the dividend fund and the remaining 20 percent is transferred to the General Fund.

HB 411 changes the method of inflation-proofing. In current law, there is an annual transfer of realized income to Fund principal in an amount determined by a formula based on the amount of principal at fiscal year-

Analysis of HB 411
February 21, 2000
Page 2

end and an annual inflation rate. In HB 411, inflation-proofing is accomplished by the perpetual retention in the Fund's earnings reserve of all income not paid out.

The attached spreadsheet compares "income available for distribution" (payout) in the two scenarios, the annual transfers, inflation-proofing and growth of Fund value.

A key finding is that a market-value-based distribution rule results in a more stable distribution stream than the current income-based distribution rule, particularly if inflation-proofing remains in the earnings reserve rather than being transferred to principal.

Note: These projections are based on a 7.94% total rate of return, which is the current APFC expectation given 1999 Fund asset allocation and capital market assumptions. A word of caution: These projections represent only our best estimate of the median case rate of return; actual annual performance will vary with market volatility.

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

Attachment

c: Executive Director
Board of Trustees
Director of Finance



Analysis of HB 411

Alaska Permanent Fund Corporation

Based on December 31, 1999 APFC Financial Projections
(In millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TOTALS
Payout per HB 411	1,359	1,382	1,406	1,431	1,491	1,544	1,600	1,657	1,716	1,777	15,363
General Fund	272	276	281	286	298	309	320	331	343	355	3,073
Dividend Fund	1,087	1,105	1,125	1,145	1,193	1,235	1,280	1,326	1,373	1,422	12,290
Payout Status Quo (all Dividend)	1,180	1,189	1,149	1,125	1,165	1,217	1,272	1,330	1,391	1,455	12,475
Difference in annual payout	178	192	257	306	325	327	328	327	325	322	2,887
Retain for Inflation - HB 411	729	779	829	883	907	939	971	1,005	1,038	1,071	9,151
Retain for Inflation - Status Quo	598	622	647	673	700	727	756	786	817	848	7,173
Fund value in 2010 - HB 411										38,359	
Principal											21,864
Earnings Reserve											16,495
Fund value in 2010 - Status Quo										42,385	
Principal											29,019
Earnings Reserve											13,366

Re: fiscal notes

Subject: Re: fiscal notes

Date: Fri, 18 Feb 2000 08:47:54 -0900

From: Shari Kochman <shari_kochman@gov.state.ak.us>

Organization: Alaska Office of the Governor

To: Barbara Cotting <Barbara_Cotting@legis.state.ak.us>

ok
we're on it

Barbara Cotting wrote:

> I have scheduled the following bills for hearing in the House State
> Affairs Committee on TUESDAY, FEBRUARY 22, at 8:00 A.M., and need fiscal
> notes:
>
> HB 380, Insurer Tax Credit: Fire Standards Council; Division of
> Insurance
> HB 411, Distribution of Permanent Fund Income; Revenue
>
> Thanks.
>
> Barbara

*Not received as of 2/21/00.
bee*