

1999

Balanced

Budget

Plan...

**SFIN**

**FILE**

## Balancing the FY2000 Budget

Major cost increases in critical services that  
have been accommodated in the FY2000 budget:

all numbers in millions

|   |        |
|---|--------|
| K-12 school funding according to new statute                                | \$16.5 |
| K-12 exit exams and benchmark assessments                                   | 1.5    |
| Adult corrections   | 12.9   |
| Youth corrections   | 1.6    |
| Medicaid caseload growth  | 4.0    |
| Adult Public Assistance for the poor  | 2.0    |
| Foster care and subsidized adoptions  | 3.1    |
| Full funding for Public Safety troopers, crime lab, etc                     | 2.1    |
| University of Alaska  | 5.6    |
| Child support enforcement: replace federal funds lost due to welfare reform | 1.1    |

|   |
|---|
| <b>General Fund Changes from FY99 to FY2000</b> |
|---|

**Executive branch**

|  |        |
|--|--------|
| Capital budget reduction   | (3.9)  |
| Operating budget reduction   | (25.6) |
| K-12 Education and University increases  | 23.6   |
| Further budget balancing through efficiencies, consolidations,<br>new technology, user pay, service reductions, etc. | (15.0) |

Executive Branch budget cut before proposed investments in children and transportation (20.9)

Court System's proposed operating and capital budget increases 7.4

**General fund budget reduction before investments below (13.5)**

**Proposed long-term investments with sustainable new revenue sources:**

|  | <u>Expenditure</u> | <u>Revenue</u> | <u>Balance</u> |
|--|--------------------|----------------|----------------|
| Investment in child health & protection, tobacco control and public health | 21.9               |                |                |
| Tobacco settlement payment for FY2000                                      |                    | (21.9)         | 0.0            |
| Match to secure maximum federal highway funds                              | 26.7               |                |                |
| Motor fuel tax increase  |                    | (26.7)         | 0.0            |

OVERVIEW OF ALASKA'S TOBACCO SETTLEMENT AND  
THREAT OF FEDERAL RECOUPMENT

**Alaska's Share of the Tobacco Settlement**

On November 23, 1998, Alaska, and all states and territories that had not previously settled their lawsuits, entered into a settlement agreement with the tobacco industry. This settlement is the largest recovery by the State of Alaska under state consumer protection and antitrust laws in state history. The settlement calls for Alaska to receive the following payments through 2025.

Initial Payment:

April 1999-June 2000      \$8,194,049.54

Annual Payments:

|       |      |                 |       |      |                  |
|-------|------|-----------------|-------|------|------------------|
| June  | 2000 | \$21,890,915.48 |       |      |                  |
| April | 2001 | \$23,638,672.09 | April | 2013 | \$24,387,539.93  |
| April | 2002 | \$28,383,145.58 | April | 2014 | \$24,387,539.93  |
| April | 2003 | \$28,651,761.36 | April | 2015 | \$24,387,539.93  |
| April | 2004 | \$23,912,967.90 | April | 2016 | \$24,387,539.93  |
| April | 2005 | \$23,912,967.90 | April | 2017 | \$24,387,539.93  |
| April | 2006 | \$23,912,967.90 | April | 2018 | \$27,327,155.20  |
| April | 2007 | \$23,912,967.90 | April | 2019 | \$27,327,155.20  |
| April | 2008 | \$24,387,539.93 | April | 2020 | \$27,327,155.20  |
| April | 2009 | \$24,387,539.93 | April | 2022 | \$27,327,155.20  |
| April | 2010 | \$24,387,539.93 | April | 2023 | \$27,327,155.20  |
| April | 2011 | \$24,387,539.93 | April | 2024 | \$27,327,155.20  |
| April | 2012 | \$24,387,539.93 | April | 2025 | \$27,327,155.20  |
|       |      |                 | TOTAL |      | \$668,903,056.53 |

**Investing Alaska's Tobacco Settlement**  
**in Tobacco Control, Children's Health and Protection, and Public Health**

**FY 2000 Tobacco Settlement Payment = \$21.9 million**  
**A Sustainable Revenue Source for 25 Years**  
**Annual Amounts from \$23.6 million to \$28.7 million**

| Dept Name   | Investments   | Tobacco Settlement Funds | Federal & Mental Health Trust Funds |
|---|---|--------------------------|-------------------------------------|
| <b>Tobacco Control - Moving toward a Smoke-Free Alaska: 14%</b>   |   | <b>3,000.0</b>           |                                     |
| Health & Social Svcs  | Comprehensive State Tobacco Prevention and Control Initiative                                 | 3,000.0                  |                                     |
| <b>Health and Consumer Protection: 45%</b>                        |   | <b>9,832.4</b>           |                                     |
| Health & Social Svcs  | Children's Health Insurance Program: implement new law partially funded last year             | 4,568.4                  | 10,925.6                            |
| Health & Social Svcs  | Chronic Acute Medical Assistance  | 1,637.5                  |                                     |
| Health & Social Svcs  | Child Custody Related Medicaid Costs  | 1,334.8                  | 1,985.6                             |
| Health & Social Svcs  | Maternal, Child & Family Health: replace school based claim underfunding                      | 296.8                    |                                     |
| Health & Social Svcs  | Alcohol/Drug Abuse Grants: substance abuse treatment for women                                | 850.0                    | 706.0                               |
| Health & Social Svcs  | Village Mental Health and Substance Abuse Services  | 465.0                    | 150.0                               |
| Health & Social Svcs  | Fetal Alcohol Syndrome (FAS)/Alcohol Related Neurodevelopmental Disorder Prevention Grants    | 489.9                    | 275.0                               |
| Law   | Increase Consumer Protection Services   | 190.0                    |                                     |
| <b>Child Protection and Abuse Prevention: 33%</b>                 |   | <b>7,303.1</b>           |                                     |
| Health & Social Svcs  | Family Preservation: Independent Living Program   | 200.0                    |                                     |
| Health & Social Svcs  | Residential Child Care: emergency shelter and treatment care for children                     | 1,065.4                  | 303.0                               |
| Health & Social Svcs  | 26 New Child Protection Staff - Moving to Zero Tolerance                                      | 1,769.8                  | 387.1                               |
| Health & Social Svcs  | Kawerak Social Services for child protection  | 63.2                     |                                     |
| Health & Social Svcs  | Front Line Social Workers Training  | 145.9                    |                                     |
| Health & Social Svcs  | State Medical Examiner: HB375 fiscal note for pathologist                                     | 193.0                    |                                     |
| Health & Social Svcs  | Foster Care Special Need: parent training   | 135.0                    | 123.8                               |
| Health & Social Svcs  | Training for Adoptive Parents of Special Needs Children                                       | 200.0                    | 50.0                                |
| Health & Social Svcs  | Foster Care Augmented Rate: caseload growth   | 276.4                    | 92.1                                |
| Health & Social Svcs  | Foster Care special need: caseload growth   | 648.9                    | 142.4                               |
| Health & Social Svcs  | Healthy Families Home Visiting Program expansion: 220 more families                           | 978.0                    |                                     |
| Comm. & Reg Affairs Administration                                | Increase Child Care Grant amount from \$22 to \$33  | 880.0                    |                                     |
| Administration  | 2 Guardians Ad Litem for Child Protection - Office of Public Advocacy                         | 135.8                    |                                     |
| Administration  | 1.5 attorneys for Child Protection - Public Defender  | 225.0                    |                                     |
| Law   | 2 Attorneys for Children in Need of Aid and Paraprofessional Support                          | 386.7                    |                                     |
| <b>Full Year Funding for the FY99 Smart Start Initiatives: 8%</b> |   | <b>1,755.4</b>           |                                     |
| Health & Social Svcs  | Front Line Social Workers - annual costs for child protection: staff partially funded in FY99 | 631.5                    | 70.7                                |
| Health & Social Svcs  | Family Preservation - Dual track: Differential Response to Child Protection                   | 635.0                    | 37.0                                |
| Health & Social Svcs  | Subsidized Adoption & Guardianship - Project Succeed  | 48.9                     | 312.0                               |
|   |   | <u>21,890.9</u>          | <u>15,560.3</u>                     |
| New Revenue to Offset Expenditures                                |   | <u>-21,890.9</u>         |                                     |
| Impact on Constitutional Budget Reserve                           |   | 0.0                      |                                     |

**Information from 12/98 "Fiscal Survey of the States"  
Prepared by the National Association of State Budget Officers**

Percentage of budget increase from one year to next

| State          | 1996       | 1997       | 1998       | 1999       | Total       |
|----------------|------------|------------|------------|------------|-------------|
| Delaware       | 7.1        | 6.9        | 7.6        | 18.8       | 40.4        |
| Utah           | 11.3       | 16.0       | 2.0        | 8.4        | 37.7        |
| Oregon         | 6.3        | 10.5       | 8.8        | 8.3        | 33.9        |
| Minnesota      | 8.8        | 6.2        | 6.5        | 11.8       | 33.3        |
| Nevada         | -6.4       | 23.5       | 9.8        | 5.8        | 32.7        |
| California     | 8.3        | 7.7        | 8.7        | 7.3        | 32.0        |
| Colorado       | 12.8       | 2.9        | 4.4        | 11.6       | 31.7        |
| Missouri       | 11.8       | 13.2       | 2.1        | 4.4        | 31.5        |
| Arizona        | 2.4        | 8.1        | 8.9        | 11.8       | 31.2        |
| Virginia       | 2.2        | 8.2        | 7.8        | 12.5       | 30.7        |
| Wisconsin      | 5.0        | 14.2       | 7.4        | 3.7        | 30.3        |
| North Carolina | 2.9        | 8.1        | 9.3        | 9.5        | 29.8        |
| Nebraska       | 4.4        | 6.4        | 3.3        | 15.4       | 29.5        |
| Georgia        | 9.0        | 6.5        | 6.0        | 7.2        | 28.7        |
| Kentucky       | 5.6        | 6.9        | 5.5        | 9.9        | 27.9        |
| Oklahoma       | 3.2        | 9.3        | 8.2        | 6.8        | 27.5        |
| Kansas         | 4.9        | 3.5        | 7.5        | 10.3       | 26.2        |
| Maine          | -0.6       | 5.1        | 7.3        | 14.2       | 26.0        |
| Florida        | 3.8        | 5.6        | 10.6       | 5.7        | 25.7        |
| Idaho          | 5.4        | 4.1        | 3.9        | 11.4       | 24.8        |
| Tennessee      | 4.5        | 5.9        | 7.5        | 6.9        | 24.8        |
| Arkansas       | 7.3        | 5.3        | 5.9        | 5.8        | 24.3        |
| Louisiana      | 8.5        | 16.2       | 0.0        | -0.8       | 23.9        |
| South Dakota   | 4.6        | 3.8        | 9.9        | 4.6        | 22.9        |
| Illinois       | 4.9        | 2.4        | 6.0        | 9.2        | 22.5        |
| Maryland       | 5.5        | -0.1       | 8.0        | 8.9        | 22.3        |
| Indiana        | 2.6        | 8.0        | 4.7        | 6.9        | 22.2        |
| Ohio           | 5.9        | 3.4        | 4.2        | 8.1        | 21.6        |
| West Virginia  | 5.8        | 5.1        | 3.5        | 7.0        | 21.4        |
| Iowa           | 4.7        | 6.5        | 5.8        | 4.1        | 21.1        |
| Rhode Island   | 0.3        | 2.7        | 8.1        | 8.8        | 19.9        |
| Puerto Rico    | 1.0        | 2.9        | 7.3        | 8.7        | 19.9        |
| North Dakota   | 3.5        | 5.2        | 6.3        | 4.5        | 19.5        |
| Connecticut    | 5.5        | 5.2        | 5.5        | 1.5        | 17.7        |
| South Carolina | 7.0        | 6.4        | 6.3        | -2.0       | 17.7        |
| Mississippi    | 2.9        | 4.4        | 2.2        | 7.0        | 16.5        |
| New Jersey     | 2.8        | 2.0        | 5.1        | 6.5        | 16.4        |
| Alabama        | 2.1        | 5.7        | 4.3        | 3.4        | 15.5        |
| Texas          | 5.8        | 0.9        | 8.1        | 0.6        | 15.4        |
| New Mexico     | 2.2        | 7.3        | 2.9        | 2.8        | 15.2        |
| Washington     | 1.4        | 5.7        | 2.3        | 4.7        | 14.1        |
| Pennsylvania   | 3.5        | 1.7        | 4.5        | 4.1        | 13.8        |
| New Hampshire  | 2.2        | -0.5       | 8.2        | 3.5        | 13.4        |
| Massachusetts  | 3.7        | 5.1        | -2.3       | 6.7        | 13.2        |
| New York       | -2.2       | 0.7        | 4.4        | 7.1        | 10.0        |
| Michigan       | 7.4        | -3.8       | 4.0        | 1.7        | 9.3         |
| Wyoming        | -3.5       | 8.6        | 3.9        | 0.0        | 9.0         |
| Montana        | 3.9        | 1.3        | 2.5        | 1.1        | 8.8         |
| Vermont        | 1.8        | 2.6        | 13.6       | -12.9      | 5.1         |
| Hawaii         | -1.4       | 2.0        | 0.9        | -0.6       | 0.9         |
| Alaska         | -2.3       | 3.8        | 0.6        | -4.9       | -2.8        |
| <b>Average</b> | <b>4.1</b> | <b>5.9</b> | <b>5.7</b> | <b>6.0</b> | <b>21.7</b> |

# ALASKANS SPEAK OUT ON PUBLIC POLICY CHOICES

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The Role of the Permanent Fund in Alaska's Future:  
*The Principles & Interests Project*

**THE TRUSTEES PAPERS • VOLUME NO. 6**

**February, 1999**



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Dear Alaskan,

Now 22 years old, the Alaska Permanent Fund has exceeded the most optimistic expectations. Last year the Fund's net income exceeded revenue from oil taxes and royalties, heralding a new era for Alaska. For now, and at least into the near future, Fund earnings have become the state's largest source of income. While actual amounts may vary from year to year - based on oil prices, production levels and annual investment returns - it appears that the lines have finally crossed and Fund earnings have become the state's largest source of income for the future.

This new fiscal reality was underscored by two major developments. The Alaska Legislature voted last year to leave the Fund's so-called "surplus earnings" in the Earnings Reserve Account where it would be available for any purpose the legislature deemed appropriate. Surplus earnings represent the money left over after the payment of dividends and inflation-proofing. With the Fund's high earnings in recent years, and the low level of inflation, the Earnings Reserve Account totaled about \$5.8 billion as of Dec. 31, 1998.

More recently, Gov. Tony Knowles has proposed to transfer some \$4 billion from the Fund's Earnings Reserve Account into the Constitutional Budget Reserve to help create a sustainable, balanced budget.

As Trustees for the Fund, it is not our role to comment on the merits of the Governor's proposal or any other plan to use Fund earnings. Fund earnings are subject to legislative disposition. Indeed, the legislation that created the Alaska Permanent Fund Corporation (APFC) wisely separated the investment decisions from the political decisions. It is our job to ensure that the Fund is safely invested for the benefit of present and future Alaskans and to help provide the information Alaskans need to decide the future of their Fund.

It is in this latter role that we are pleased to present the sixth Trustees Paper, "The Role of the Permanent Fund in Alaska's Future: The *Principles & Interests* Project." This non-political, year-long project was organized by the Alaska Humanities Forum, with assistance from Alaska and outside businesses and supporters from all over the state. Through a two-day conference in Anchorage and 100 community forums in every corner of the state, *Principles & Interests* engaged many Alaskans in a spirited discussion of the Fund's purpose and potential.

The *Principles & Interests* project provided extremely valuable dialogue and set the stage for the current discussions on Alaska's most important asset. While it is very apparent that Alaskans have yet to reach consensus on the future of their Fund, exercises like *Principles & Interests* help define our choices and frame the discussion we need to engage in to determine the future of the Fund.

Eric Wohlforth

Chair, Board of Trustees

Byron I. Mallott

Executive Director, APFC

# TABLE OF CONTENTS

**I. An analysis of the Alaska Humanities Forum's *Principles & Interests* Permanent Fund project**  
 By Eric Wohlforth, Chair, Alaska Permanent Fund Corporation Board of Trustees. . . . . 1

    List of community forums . . . . . 9

*Principles & Interests* Conference program . . . . . 12

    How the Permanent Fund works . . . . . 14

**II. Opportunities and obligations of public wealth: leadership, stewardship, responsibility**  
 By Andrew Hacker, author and professor of political science at Queens College . . . . . 15

**III. Alaska's nest egg**  
 By Thomas Stauffer, international oil and finance consultant . . . . . 25

**IV. *Principles & Interests* roundtable discussion: The future of the Permanent Fund**  
 Moderated by Lee Gorsuch, chancellor, University of Alaska Anchorage. . . . . 29

**V. Forum gives citizens a rare chance for thoughtful discussion**  
 By Mike Doogan, columnist, *Anchorage Daily News* . . . . . 53

    What Alaskans think about the Fund. . . . . 55

    Constitutional allocation of the state's revenues. . . . . 56

**VI. The paradoxes of public wealth**  
 By Steve Lindbeck, executive director, Alaska Humanities Forum. . . . . 57

## AN ANALYSIS OF THE ALASKA HUMANITIES FORUM'S PRINCIPLES & INTERESTS PERMANENT FUND PROJECT

by Eric Wohlforth, Chair, Alaska Permanent Fund Corporation Board of Trustees

The Permanent Fund affects all Alaskans, and yet there has not been enough consideration of its purposes and objectives or the possible roles it could play in our lives. This was amply demonstrated during the six-month *Principles & Interests* project sponsored by the Alaska Humanities Forum, assisted by dozens of other groups, organizations, individuals and businesses from around the state. The question is: What will spark Alaskans to engage in the type of dialogue needed to reach consensus on the purpose of the Fund and the best use(s) of its earnings.

Support for the dividend program is very strong. In fact, it is so strong that some Alaskans feel that discussion of the existing Permanent Fund arrangement is "out of bounds." This point of view may be related to other phenomena observed during the project. One facilitator said the depth of antipathy and distrust of the state legislature shown during the town meeting portion of the project was disturbing. Another said the participants in the town meetings showed deep distrust of elected officials.

Andrew Hacker, who delivered the keynote speech during the conference portion of the project, reminded us of what James Madison said: that the important faculty which will dominate the country is the faculty to acquire property. The public dialogue refueled the fear that the dividend will be adversely affected by public discussion of the future of the Fund. Limited attendance at the 100 or so town meetings and vehemently emotional statements in support of the status quo at the meetings may be part of the



**Eric Wohlforth**  
Chair, Alaska  
Permanent Fund  
Corporation  
Board of Trustees

Eric E. Wohlforth was appointed to the Board of Trustees of the Alaska Permanent Fund Corporation in 1995, reappointed in 1998 and elected Chair in 1997.

Wohlforth has served as an attorney, senior partner and member of the law firm Wohlforth, Vassar, Johnson & Brecht (and predecessors) from 1966 to 1970 and 1973 to present. He developed Alaska's first public finance law practice, and has been lead bond attorney for public agency issuers such as Alaska Housing Finance Corporation, Alaska Energy Authority and Alaska Municipal Bond Bank Authority. Over a 26-year period he has formulated authorizing legislation and security documentation in issuances of more than \$12 billion of debt.

Wohlforth served as State of Alaska Commissioner of Revenue from 1970 to 1972 and was a member of the State Investment Advisory Committee from 1973 to 1980.

same phenomenon – fear of change in a very satisfactory institutional arrangement. There was, however, widespread support for increased state spending to meet public needs, most often identified as the needs of the University of Alaska, or K-12 education. Yet no consensus emerged for any alternative program.

There was support for a renewed state income tax, but it was not overwhelming. There was support as well for the options that involved creation of separate funds for various purposes – creating a community dividend and spending some Fund income. But none of the options spelled out in the *Principles & Interests* brochure given to people attending the meetings was specifically endorsed in the form presented.

Judging from comments heard at the town meetings, there were hopeful signs of an altruistic attitude. One of the facilitators noted a consistent concern for the well-being of people – mostly rural Alaskans – who depend on the dividend for their livelihood. There was frequently expressed a sense of urgency about the need to spend some of the money to meet pressing needs in the state.

In my view, the *Principles & Interests* project was a necessary and successful part of an ongoing public process in Alaska, an effort that should be repeated on a regular basis. People attending the town meetings expressed their appreciation for the chance to express their values and their views and to hear others do the same. The need for dialogue is especially strong at this juncture in the history

of Alaska when major decisions (or lack of decisions) about the use of public wealth could have such a profound effect on the future of the state.

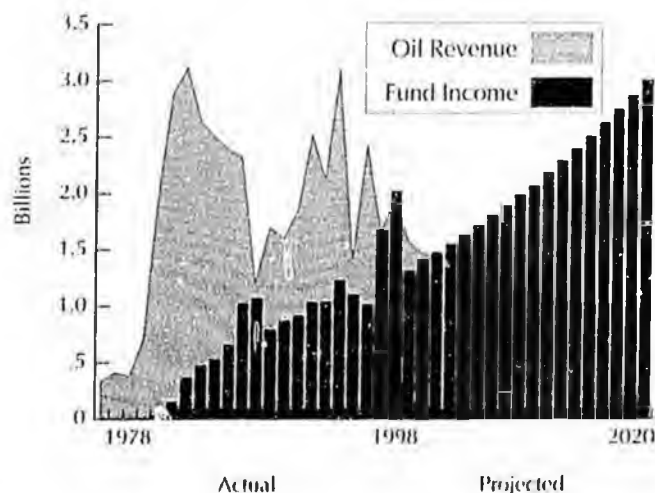
## Background

The Alaska Permanent Fund, created in 1976 to receive a portion of the state's oil royalties, had, by January 1997, increased in market value to approximately \$22 billion. The growth in the preceding two years had been very rapid. The Fund stood at \$15 billion in January 1995. In addition, the total income from the Fund had increased to nearly equal the rest of the state's income. A large portion of the income was paid out annually in dividends to each resident. The rapid increase in common stock valuations as well as the consistent legislative practice of adding undistributed income to the principal, was increasing the amount of this annual dividend to each resident. In 1997, the dividend was \$1,296. In 1998 it was \$1,540.88.

Notwithstanding the success of the Permanent Fund, the Alaska legislative leadership deemed that there existed a fiscal gap and budgets have been held nearly flat for the last several years. Oil production from the North Slope fields was dropping, and in 1998 the price of Alaska crude

### PERMANENT FUND STATUTORY NET INCOME AND STATE OIL REVENUE

(Excludes unrealized gains and losses on investments)



This graph shows the relationship between unrestricted state oil revenues and actual Fund earnings. The projections for the years 1999-2020 are based on Department of Revenue's mid-case forecast for future oil prices, and the APFC's forecast for future Fund earnings.



*Participants at an Anchorage town hall meeting consider the six options explained in a special brochure on the future of the Fund.*

plunged to historic low levels. Although the state was said to be running a large annual surplus if Permanent Fund income were taken into consideration, without this income the state was in deficit. A 1995 non-partisan, legislatively-sponsored committee effort to study the state's fiscal picture – the Long Range Fiscal Planning Commission – suggested a cap on dividends and a modest set of excise taxes. No action was taken. In the meantime, the Permanent Fund doubled in size. By 1997 the time seemed ripe for a new dialogue on the state's fiscal future. This was the background of the *Principles & Interests* project.

## Planning

On the occasion of the Fund's 20th anniversary, a steering committee representing a broad constituency of Alaskans proposed that a conference be held to study and discuss the Alaska Permanent Fund, its founding and evolving principles, and its purposes and objectives. The conference would be held under the aegis of the Alaska Humanities Forum.

It was determined that the conference would start with panel discussions on the Fund's history, its mechanics and Alaska's fiscal structure, and continue with panels structured around questions looking to the future. Months of planning and discussion pointed to a two-day conference, town meetings across the state and a statewide call-in

program. A budget of \$270,000 was established. Approximately half was ultimately donated by local businesses and individuals and half by Permanent Fund investment managers.

## The November 21 and 22, 1997, Conference

### Milestones and Management

The first morning of the two-day conference in November 1997 was devoted to details of the establishment of the Fund, the origin of the dividend program and the evolution of investment policy. It included a session on Permanent Fund management issues by outside investment advisors and managers.

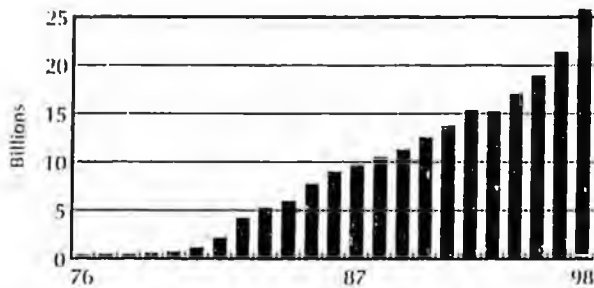
### Present at the Creation: *Personal Reflections on the Birth of the Permanent Fund*

The afternoon meeting featured a fascinating session on how the Fund evolved and included former Gov. Jay Hammond (thought of widely as the creator of the Fund), his attorney general and former legislators who held important public policy positions at the time the Fund was established by constitutional amendment. These speakers gave their views of the original purpose of the Fund and how they felt it should now contribute to life in Alaska.

Former Attorney General Avrum Gross speculated about Alaska in the year 2020 with the streets s *upt with wind*, holes in the road and mobs of uneducated people. In the center of town there would be a marble temple with an alabaster statue. The temple was the Permanent Fund headquarters and the statue depicted, presumably, Gov. Hammond. Each year the executive director of the Fund would announce the dividend and the throng of people would run to the airport. To avoid this, Gross said, it was time we started to talk about how we measured the success of the Fund when its purpose was to improve the quality of life.

Oral Freeman, another legislator present at the creation, said the Fund was created to moderate

GROWTH OF FUND  
SINCE INCEPTION  
(At market)



the boom/bust cycle that occurred when natural resources were extracted and then rapidly depleted. He said the Fund was doing exactly what it was intended to do. Gross talked about the fact that no one wants to revisit the dividend, but that previous governmental needs were met with current revenues and that no longer is the case. We should begin the debate on how we use income from the Fund to run government, he said.

Freeman said we should never curb dividends, but instead "claw money back in taxes."

Hammond advanced his unique state income tax scheme which would provide for a credit against a new state income tax in the amount of the dividend received by Alaskans. This would ensure that "outsider," non-residents paid most of the income tax. The dividend was the major theme and concern.

### Perspectives on Public Wealth and Public Obligations

The next panel included comments by former Commissioner of Revenue Mary Nordale. "When I grew up, the public issue of the question of statehood was extremely important and drew people together," she said. "Since we have acquired wealth, there has been a lack of discussion of public ideas and this means we do not have an opportunity to educate newcomers." She referred to the dividend as a strange sort of veil thrown over all of public life, diluting and misdirecting our attention away from real issues.

Michael Harper, President and Chief Executive Officer of Kuskokwim Corporation stated, "There is something wrong when we have such a large Fund and, at the same time, such large and unmet needs."

Judy Brady of the Alaska Oil & Gas Association observed that the fact that our economic system is based on public resources collides with the notion of small government.

### Perspectives on the Purposes of the Fund

In a panel on "Perspectives on the Purposes of the Fund," Michael O'Connor, President of Peak Oilfield Service Co., noted that there had been a 27-percent growth in dividends over the last two years and advocated that the Fund be established as an endowment. Former State Sen. Steve Rieger, stated that the legislature should increase the Fund's permitted stock ownership percentage to 60 percent from the present 50-percent limit. Rieger said the range of options available for the Fund in 1997 is greater than it was several years ago because the Fund is so much greater now.

Former state legislator Kay Brown advanced the unique notion of creating public/private foundations to spend income from the Fund. She cited four goals: (1) preserving public wealth, (2) establishing the Fund as a form of renewable resource, (3) sharing public wealth, and (4) preserving the Alaska quality of life. She would establish six, citizen-run, tax-exempt foundations for Alaska's future. Members would be elected by the people of the state and each would have a portion of the Fund to spend for their special purposes, which would include (1) early child development, (2) education, (3) social services, (4) the environment, and (5) the arts. She noted that education spending has not kept pace with the demands of the state, that child-abuse and neglect-prevention programs are at token levels, prisons are overflowing, and there are other urgent social needs.

Former governor Walter J. Hickel said it was time to give the Permanent Fund a public purpose. He advanced his community dividend program, which would appropriate Fund income in block amounts to Alaska's municipalities.

### **Future Consequences: How the Fund and the Dividend Affect Alaska**

Scott Goldsmith, of the Institute of Social and Economic Research at the University of Alaska Anchorage, led off the first Saturday morning panel, "Future Consequences: How the Fund and the Dividend Affect Alaska." He said that current Alaskans had the view that the legislature squandered the first large oil lease sale bonus of \$900 million in 1969 and, in all events, the Permanent Fund should be kept away from legislative appropriation. He noted that income from the Permanent Fund was now the equivalent of three times what the income from a sales tax would be and that it constituted the largest state program.

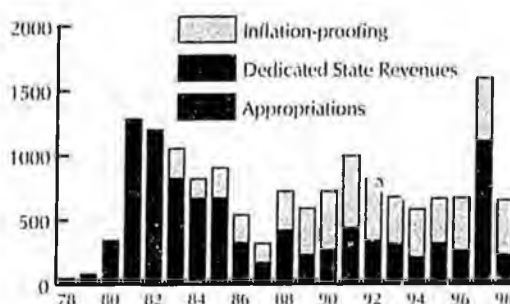
He said that it was hard, if not impossible, to interpret the impact of the dividend since it comes in a lump sum. He suggested a different way of distributing it which might be monthly and should not include minors. Goldsmith asked rhetorically that if the Fund belongs to individuals only and not to the community, why not distribute it entirely rather than having the state act in the paternalistic capacity of distributing only \$1,000 a year? He noted that 34 percent of Alaskans were under age 19, and 32 percent were between 20 and 39. He said the first category was not alive when the Permanent Fund started, and that no one under 30 today had ever paid an Alaska income tax.

Gregg Erickson, an economic consultant from Juneau, stated that the Permanent Fund affects the birth rate, since fecundity is a function of increased income. He said the Fund has brought about immigration of an estimated 40,000 people. Government services are being starved and taxation is very hard to institute when government is the richest guy on the block. He suggested the model of the other 49 states and asked: Why not let the tax process work? The state so far has had

a Hamiltonian approach to the problem and we should, instead, as Jeffersonians, privatize the Fund and distribute the money.

Gerald A. McBeath, Professor of Political Science, University of Alaska Fairbanks, said that the state was an investment banker, and that in theory public ownership should encourage equality and fraternity. In fact, it has encouraged divisiveness in Alaska. He said that when he attended the hearings for the educational endow-

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(Since inception)



ment sponsored by Gov. Cowper, he was appalled with the mean-spiritedness. The dividend has routinized the "rent-seeking behavior of Alaskans," such that every Alaskan is now a client of the government. He noted that the Permanent Fund dividend constituency was exceedingly conservative and discouraged debate. It represented a perversion of the democratic process and discouraged deliberation.

David A. Reaume, an economic consultant from Juneau, said creation of the Fund gave us options, but now these are not good enough and we are moving dangerously close to being like Hetty Green, the wealthy miser who denied her son a needed operation. He says we give a little to each of the many, namely all the citizens of the state, to support the few – 10 or 12 investment managers of the Fund who get several million dollars a year for investing in the Index. He

suggested an educational endowment proposal would reduce general funding for education. He said that since there was no fiscal crisis, none of the proposals advanced was compelling enough to sacrifice the dividend.



Anchorage attorney Cliff John Groh dressed up like Abe Lincoln to attract people to the town meetings. Groh is a former Special Assistant to the Commissioner of Revenue.

### **Keynote Address: Opportunities and Obligations of Public Wealth: Leadership, Stewardship, Responsibility**

In the keynote address on Saturday, Professor Andrew Hacker implied that the state needed more self-confident leadership unafraid to use shame ("Is this really how you wish the state to be?") as a weapon for change. (See Page 15 for a complete transcript of Hacker's presentation). As a people we need to build on the past rather than completely remake ourselves with each new generation.

### **The Future of the Permanent Fund**

After Hacker's address, Lee Gorsuch, Chancellor of the University of Alaska Anchorage, did a splendid job leading a roundtable entitled "The Future of the Permanent Fund." (See page 29 for a complete transcript).

Minority business advisor Debra Call suggested an infrastructure development fund, a human resource development fund, as well as a dividend

fund. Former Attorney General John Havelock in open forum said that ultimate privatization would cause a vast influx of persons. He noted that we are involved in the community and that we collect the money as a community. He asked rhetorically why are we not doing more? The answer to him was that alternate proposals to use the Fund were insufficiently articulated to warrant a detailed response.

Archbishop Francis Hurley stated that through the dividend we set a unique national precedent by establishing personal choice with respect to public funds. This is an extraordinary thing, he said. The question is, where do we go from here? He said it was going to take a long time to work things out but that we must start. Later the archbishop said our first target must be the poorest families in the state and that the question must be "Are you interested in narrowing the gap between low-income and high-income persons?"

Mano Frey, business manager of the Laborers Union, said the dividend program will not go away and that a cap is unnecessary.

Margie Johnson, Mayor of Cordova, said basic infrastructure needs were the most important and supported Gov. Hickel's community dividend proposal.

Thelma Buchholdt, a former legislator, in commenting on attendees, said she saw no new faces. She wished to see more Alaska workers and said the Fund should be used for basic rural resource needs as well as for education. She suggested that community councils be consulted.

Henry Springer, executive director of the Associated General Contractors, associated himself with the Long Range Fiscal Planning Commission which, in its final report, suggested modest user fees and excise tax increases. He was comfortable using half of the income for the state budget. He noted that the state has no capital budget, but that it was simply a tag onto to the federal government's matching funds. The federal-

ly mandated six-year capital improvement fund is a sham that changes with each legislature, he said. He added that half of the Fund should be put in an education fund.

Thomas Williams, former Commissioner of Revenue, said that limiting the dividend would be the dumbest tax and the only one that would affect only Alaskans.

Jay Hammond said that the essential question was how we addressed our spending needs: whether by the dividend or the income tax.

Several supported the income tax. Jerome Komisar, president of the University of Alaska, said we needed to determine the role of government first; then we should come to consider taxation issues. Thomas McCabe, a private citizen, said the appropriation process will never become completely honest until the income tax is reimposed.

### Conference Evaluations

Conference evaluations offered thoughts on various topics. Some suggested we find a way to involve younger people in the process. One person said "... there was remarkable consensus on the need for an income tax to fund urgent public purposes, especially education, but where were the Republicans, fundamentalists and transients? We the old guard with common values are no longer politically dominant Alaskans."

Most comments were in support of the notion of expanded and enriched public dialogue on the future of the state. One person said he heard some good ideas and many appalling ones and that his personal understanding and perspectives were enlarged. With respect to consensus, one attendee said it is very powerful when so many people have all the same sets of opinions and ideas. It moves us closer to consensus.

### Statewide Meetings

One hundred professionally facilitated discussions were held in 41 communities and schools

around the state. These meetings were publicized through advertising, flyers and word of mouth. The project concluded with a two-hour, statewide radio call-in program in June 1998.

The meetings were held in March and April. On May 3, 1998, an *Anchorage Daily News* editorial rated them a success. The paper editorialized that Alaskans were beginning to wonder whether we are doing harm by doing nothing with Fund earnings. There was talk of using money for education, health and infrastructure. The editorial stated that the process of the debates served a good purpose and offered a venue where ideas mingle and clash, sometimes with passion and without rancor. The editorial concluded that although thrift is vital, thrift doesn't mean hoarding, and that the theme of community participation was strong.



Facilitator Thea Agnew, right, talks with participants at the Senior Center meeting.

At the start of each meeting attendees were shown a short factual video about the Fund and were given a substantial explanatory brochure on the Fund entitled, "Background Notes for Public Conversation," which listed six options for the Fund. These were: Option 1, "Leave it Alone"; Option 2, "Create Separate Funds"; Option 3, "Create a Community Dividend"; Option 4, "Spend Some of the Income"; Option 5, "Invest it in Alaska"; and Option 6, "Privatize It." The pros and cons of each option were spelled out in detail.

It is important to remember that conclusions from these meetings do not necessarily reflect the opinions of Alaskans in general but merely those who participated in the discussions.

Gary Holthaus, a facilitator of meetings in Barrow, Nome, Kotzebue and Unalakleet in northern Alaska, and Juneau, Ketchikan, Sitka and Haines and other communities in the Southeast, reported that although there were disagreements, "there was a surprising unanimity over the run of the meetings: Most people want to spend some of the earnings now; no one wants to stop the dividends though most people would agree to a cap at some level; more people than the polls have indicated said they would like to see an income tax restored."

He noted that most of the people came to the meetings generally advocating options 2, 3 or 4, which were to create separate funds for special purposes, create a community dividend or spend some of the income. He said, "Perhaps the most disturbing discovery for me was hearing the depth of the antipathy and distrust toward the legislature. There is an edge to it now which I think threatens the survival of republican processes of government." He found great antipathy between the Bush and urban Alaska.

"What makes these conversations worthwhile is seeing the movement in people's thought as the evening progresses." In Unalakleet the adults were clear that the state operating budget had been cut so far that it seriously threatened the state's infrastructure and institutions. In Juneau, education was a big issue and there was a general feeling that the current effort to revise the foundation formula (Alaska's system of distributing state school aid) was a misguided and unfair attack on rural Alaska.

"At the second Juneau meeting some of the participants said the real questions lay in the realm of values. 'The issue isn't the Permanent Fund,' one man said, 'it's the future of Alaska. We are at a crossroads here; we have an opportunity no other state has; we can paint our own rosy

future.' One man in Juneau said our politics have become toxic: 'We don't talk about what we can do to make things better anymore, we just talk about who we can throw over the side.'

"At the Wrangell meeting the attendees were unaware that the budget had been cut in recent years and indeed found that hard to believe. This strange phenomenon occurred elsewhere in the state. At Wrangell, the public voice was 'leave it alone; don't give government a chance at it.'

"The second Wrangell meeting opened with a lot of suspicion of the forum and its motives, which apparently relaxed as the meeting proceeded.

"The first meeting in Ketchikan found even those who wanted no change in existing practice willing to spend more for education. In the next Juneau meeting the paradox of the perceived need to use some of the earnings to meet the state's needs and yet not permit the legislature to determine how to spend it was clear. At the end of a Haines meeting the vast majority of participants, all but about 3 of 15, felt we should be spending some of the earnings to meet current needs.

"At the second Haines meeting the problem of how to spend a community dividend was solved by a suggestion that each person be given a \$1,000 dividend and then a further \$1,000 dividend, which then would be required to be given back to the state for some specific purpose. Each person could specify: 'mine goes to education,' or 'mine goes to child abuse,' or 'mine goes to roads.' There was a lot of interest in this unconventional idea and someone quickly suggested that the state should compile a list of state agencies and non-profits that would be eligible to receive such funds."

In Anchorage a ground rule was suggested that any spending program has to "bring the state together rather than drive it further apart."

At a meeting at Bear Valley School in Anchorage someone said, "I've been out of the

state for awhile, then back about a year and a half. I look around and I see a dysfunctional place. Nothing seems to be working anywhere. The university, schools and other state institutions are being crippled, etc. There are only a couple of things doing well. I remember a time when it wasn't that way. Now we have all the money, we could create whatever we wanted up here, and we're just floundering around ... We should be the city on the hill, a beacon to the rest of the country ... the world, ... and we're not. What's lacking is political vision and moral vision."

Detailed reports for other Alaska communities were submitted. At Dillingham there was unanimous support for an income tax, current use of Permanent Fund earnings and a cap on the dividend.

In Delta Junction there was a suggestion of individual checkoffs for an educational endowment. Here the notion of a tax was considered in the context of: Let's not do it at the expense of creating a local borough (i.e., any local government) in this part of Alaska where there is no local government.

At the first Fairbanks meeting there was a perception that state institutions are in a condition of emergency and need immediate help – mainly the university. The second value was that the Fund was a nest egg that should benefit future generations as well as current generations. At the second Fairbanks meeting it was stated that "the real question isn't, 'Is the Permanent Fund big enough?,' but 'Big enough for what?'"

In Kenai the main theme was the need to invest more in our educational institutions. One person noted the inade-

## Community Forums were held in the following locations

| Community      | Date             | Location                         |
|----------------|------------------|----------------------------------|
| Anchorage      | April 1          | Loussac Library                  |
|                | April 1          | Kaladi Brothers                  |
|                | April 2          | Spenard Recreation Center        |
|                | April 6          | Cyrano's Bookstore Cafe          |
|                | April 7          | UAA Campus Center                |
|                | April 7          | Borders Books and Music          |
|                | April 8          | Kaladi Brothers                  |
|                | April 9          | Abbott Loop Community Church     |
|                | April 10         | Eagle River Elementary School    |
|                | April 13         | Fairview Recreation Center       |
|                | April 14         | Anchorage Chamber of Commerce    |
|                | April 15         | Chugiak Elementary School        |
|                | April 16         | Bear Valley Elementary School    |
|                | April 17         | Girdwood Elementary School       |
|                | April 20         | Sand Lake Elementary School      |
|                | April 21         | Qupqugiaq Cafe                   |
|                | April 22         | Baha'i Center                    |
|                | April 23         | Muldoon Elementary School        |
|                | April 24         | St. Mary's Episcopal Church      |
|                | April 25         | Mears Middle School              |
|                | April 27         | Mountainview Elementary School   |
|                | April 28         | Anchorage Senior Center          |
|                | April 29         | Anchorage Museum                 |
|                | April 30         | Qupqugiaq Cafe                   |
| Aniak          | April 17         | Aniak High School                |
| Barrow         | March 4, 5       | City Council Chambers            |
| Bethel         | April 1, 15      | Cultural Center                  |
| Cordova        | April 23, 24     | Library Meeting Room             |
| Delta Junction | March 17         | Community Center                 |
| Dillingham     | April 20, 21     | Museum                           |
| Fairbanks      | March 18         | Girl Scout Building              |
|                | March 21         | 431 Gold Dust Lane               |
|                | March 23         | Borough Assembly Chambers        |
|                | March 24         | UAF Wood Center                  |
|                | March 26         | Brice Center                     |
|                | March 27         | Borough Assembly Chambers        |
|                | March 30         | Brice Center                     |
|                | March 31         | Laborers Union Hall              |
| Ft. Yukon      | March 25         | Native Village building          |
| Galena         | March 20         | Community Hall                   |
| Girdwood       | April 17         | Girdwood Elementary School       |
| Haines         | April 8, 9       | Haines Borough Library           |
| Healy          | April 6          | Community Center                 |
| Homer          | March 2          | South Peninsula Hospital         |
|                | March 3          | City Council Chambers            |
| Iuneau         | March 16         | State Capitol                    |
|                | March 17         | Alaska State Museum              |
|                | March 25, 30     | Centennial Hall                  |
|                | March 31         | Auke Lake Campus                 |
| Kasilof        | March 5          | Tustemena School                 |
| Kenai          | March 12         | Visitors & Convention Bureau     |
| Ketchikan      | March 21, 23, 24 | Ted Ferry Civic Center           |
| Kodiak         | April 27, 28, 29 | Kodiak Auditorium                |
| Kotzebue       | March 12, 13     | Borough Assembly Chambers        |
| Nenana         | April 3          | Nenana School                    |
| Nikiski        | March 6          | Nikiski Senior Center            |
| Nome           | March 9, 11      | Elementary School Library        |
| North Pole     | March 28         | North Pole City Hall             |
|                | April 1, 2       | North Pole City Hall             |
| Palmer         | April 15, 16     | Matanuska Telephone Association  |
| Petersburg     | March 19, 20     | Mountain View Manor              |
| Ruby           | March 19         | Teen Center                      |
| St. Mary's     | April 16         | City Hall                        |
| Sitka          | April 2, 3, 4    | Sheldon Jackson College          |
| Seward         | March 9, 10      | AVTEC                            |
| Skagway        | April 6, 7       | Skagway School                   |
| Soldotna       | March 4          | Borough Assembly Chambers        |
| Talkeetna      | April 7          | Three Rivers Tesoro              |
| Togiak         | April 22         | Senior Center                    |
| Tok            | March 16         | Tok School Library               |
| Unalakleet     | March 10         | Elementary School                |
| Unalaska       | April 27, 28     | Senior Center                    |
| Valdez         | April 21, 22     | City Council Chambers            |
| Wasilla        | April 9, 13      | Senior Center                    |
|                | April 14         | Colony Middle School             |
|                | April 17         | Wasilla City Hall                |
| Willow         | April 8          | Willow Community Council Library |
| Wrangell       | March 18         | Wrangell Middle School Commons   |

quacies of Alaska universities, that it takes an average of five to six years to complete a four-year degree because of a lack of course availability and the infrequency of course offerings.

While facilitating meetings in Southeast Alaska between March 16 and March 25, Gary Holthaus reported:

"Seated in close circles and armed with the same 'video knowledge,' people began to talk, bringing their own knowledge and emotions to bear on the subject. The first to speak were often those who had come with a fear that the dividend would be taken away from them. Conversations about children or schools or infrastructure generally came next. ...

"There seemed to be slightly more (albeit reluctant) willingness to cap the dividends than to institute an income tax. On the couple of occasions when the Hammond proposal was discussed to any extent, there was a bit more acceptance of the possibility of an income tax – to capture some of the large amounts of money that leave the state and at the same time to protect low-income Alaskans. ...

"The 25 percent remaining in the earnings reserve after dividends and inflation-proofing often became a focal point as people tried to reconcile the need for money for both individual and public purposes.

"I was surprised and dismayed by the overwhelming number of people who expressed disappointment and frustration with our elected officials. There was a strong perception that the legislature was full of profligate spenders. Even when people could see the graph on page 13 of the booklet – which shows declining capital and operating expenditures for more than 10 years – many stuck by their idea that spending was increasing every year. Even when the video explained that the legislature returned most of the interest earnings to the Permanent Fund there were people who remained convinced that it was somehow being squandered, somewhere, on something unnecessary."

The final meetings in Anchorage were the best-attended of all the meetings: 27 at Q Cafe on April 21; 44 at St. Mary's Church on April 24; 33 at the Senior Center on April 28; 40 at the Museum on April 29; and 22 at the Q Cafe again on April 30 – the last meeting.

The museum meeting had 37 of the 40 participants raise their hands in support of a state income tax, either reinstated before or alongside any spending of Fund earnings.

The Senior Center meeting found many people in support of a state income tax "... believing that such a tax would actually help to make government accountable to their constituents." The need for legislative accountability was a strong theme at this meeting, along with some passionate opposition to state taxation.

I attended and promoted the large St. Mary's church meeting, where support for spending some income now for public purposes and support for simply letting the Fund grow were equally divided. At the end there was "more support for spending than saving." There was distrust of the legislature expressed as well as "a moral concern that the government was failing to adequately care for those who needed help most."

### **The "wrap-up" call-in radio show on June 11, 1998**

On June 11, 1998, a two-hour statewide public radio call-in show was scheduled as a summary of and reflection on the March and April meetings. Interestingly, the legislature, which adjourned in early May, had decided for the first time in many years to not appropriate "undistributed" or excess income to principal.

At the radio call-in show, town meeting facilitator Mia Oxley spoke of the themes that emerged from the March and April meetings, the first being a desire to continue the dividend program. The second theme revolved around inadequately addressed and unmet public needs – in particular, education. A third was what people see as waste

and mismanagement in state programs and government programs in general. A fourth theme was deep distrust of elected officials and their process of spending money – though there were “hopeful” people who expressed a faith in that process. Finally, she said there was support for reinstating an income tax.

He said public needs were a higher priority than an income tax. “I don’t think I should demand of state government that I always receive that check,” he said.

A panel guest said that the recent legislative decision to not appropriate undistributed income

***“We are no longer going to have the luxury of exporting our tax burden to the oil industry.”***

The call-in speakers personalized the issues. One said that he was “offended” by any statement urging spending of Fund income. Another equally vehement call-in said that the amount of income had grown so large that it was time to spend a small portion of it. He said that the choice was not cutting dividends or imposing an income tax. We could, he said, use only 10 percent of Fund income, undesignated income for urgent state needs.

One caller was a state senator who had been a leader in appropriating the Fund’s undesignated income to principal. He pointed out that most of the state’s income (85 percent) was oil royalties and taxes, which would be gone in 15 or 20 years. This fact argued for not spending any portion of Fund income. Local taxation was suggested as a means of providing for state needs. “We are no longer going to have the luxury of exporting our tax burden to the oil industry,” the senator said. “This political generation has spent two-thirds to three-fourths (\$60 billion to \$80 billion) of the combined wealth of the richest oil field in American history and we are passing some of it on to our kids,” he said.

In speaking of the next generation, a later call-in speaker pointed out that at the current reduced level of education funding, the next generation would be ill-equipped to make any expenditure decisions. A Petersburg speaker did not favor an income tax, but the use of Fund income instead.

to principal may be an expression of discomfort with the fact that we have reached the point where Fund income should be used to pay for urgent state needs.



*Participants at a town hall meeting fill out a survey on their personal vision for the Fund.*

## Principles & Interests Conference Program

Friday, November 21, 1997

- **Welcome, Launching the Principles & Interests Project**

*Steve Lindbeck, Executive Director,  
Alaska Humanities Forum*

Purpose and goals of the project and conference, structure of the project, roles of participants and attendees, social, economic, political and historical trends in Alaska since statehood, where Alaskans are today

- **Milestones and Management: What Every Stakeholder Should Know**

*MODERATOR: Esther Wunnicke, former Alaska  
Commissioner of Natural Resources*

*SPEAKERS: Byron Mallott, Executive Director,  
Alaska Permanent Fund Corporation; John  
Whitehead, Professor of History, University of  
Alaska Fairbanks; Clark Gruening, Vice Chair,  
Alaska Permanent Fund Board of Trustees and for-  
mer Chair, House Special Committee on the Alaska  
Permanent Fund; Wilson L. Condon, Alaska  
Commissioner of Revenue and Permanent Fund  
Trustee; and Cliff John Groh, Anchorage attorney  
and former Special Assistant to the Commissioner  
of Revenue*

Context within which the Permanent Fund emerged, establishment of the Fund, past proposals for use of the Fund, origin of the dividend program, the revenue outlook for Alaska, evolution of the Fund's investment policy, role of stakeholders, decision-making process of Fund management, sources and uses of Fund dollars, determination of income available for distribution, inflation-proofing and earnings reserve and the Fund's relationship to other public assets

- **Permanent Fund Management Issues**

*MODERATOR: Cheryl Frasca, former Budget  
Division Director, State of Alaska Office of  
Management and Budget*

*SPEAKERS: Eric Wohlforth, Chair, Alaska*

*Permanent Fund Corporation Board of Trustees and former Alaska Commissioner of Revenue; Dave Rose, Chairman, Alaska Permanent Capital Management and former Executive Director, Alaska Permanent Fund Corporation; Michael J. O'Leary, Jr., CFA, Executive Vice-President, Callan Associates; Robert Maynard, Executive Director, Public Employees Retirement System of Idaho and former Deputy Director, Alaska Permanent Fund Corporation; and Melody L. McDonald, Certified Investment Management Analyst*

Investment choices and considerations, asset allocation issues, defining the Fund's corpus and risks to the integrity of the Fund

- **Present at the Creation: Personal Reflections on the Birth of the Permanent Fund**

*MODERATOR: Mike Doogan, Columnist,  
Anchorage Daily News*

*SPEAKERS: Jay Hammond, former Governor of  
Alaska; Avrum R. Gross, former Alaska Attorney  
General; Hugh Malone, former Speaker, Alaska  
House of Representatives and former Alaska  
Commissioner of Revenue; Tom Fink, former  
Anchorage Mayor and former Speaker, Alaska  
House of Representatives; and Oral Freeman, for-  
mer Legislator and former Chair, Permanent Fund  
Board of Trustees*

Prominent Alaskans' reflections on the Fund's creation and evolution and predictions and recommendations for the Fund's future

- **Perspectives on Public Wealth and Public Obligations**

*MODERATOR: Andrew Hacker, author of "Money:  
Who Has How Much and Why"*

*SPEAKERS: Edward Rasmuson, Chairman of the  
Board, National Bank of Alaska; Thomas R.  
Stauffer, Ph.D, Adjunct Professor, Center for  
Contemporary Arab Studies, Georgetown  
University; Judy Brady, Executive Director, Alaska  
Oil & Gas Association and former Alaska*

## Principles & Interests Conference Program

Commissioner of Natural Resources; Mary Nordale, attorney and former Alaska Commissioner of Revenue; and Michael C. Harper, President and CEO, Kuskokwim Corporation, former Deputy Commissioner, Department of Community and Regional Affairs

Who owns the Alaska Permanent Fund, obligations of wealth, implications of public ownership, looking at Alaska from the Outside in and how the rest of the world sees us

- **Perspectives on the Purposes of the Permanent Fund**

*MODERATOR: Brian Rogers, consultant and former Legislator*

*SPEAKERS: Donald Gordon, Professor, Clemson University, and former adviser to the Alaska Legislature; Michael R. O'Connor, President, Peak Oilfield Service Co.; Walt Parker, member, Arctic Research Commission; Steve Rieger, former Legislator; Kay Brown, former Legislator and former Director, Alaska Division of Oil & Gas; and Walter J. Hickel, former Governor of Alaska*

Purpose of the Fund, vision for the purpose of the Fund and what the vision means for working Alaskans, future generations, the least fortunate Alaskans, the social fabric, personal freedom, the economy and long-term Alaskans vs. temporary Alaskans

### Saturday, November 22, 1997

- **Future Consequences: How the Fund and the Dividend Affect Alaska**

*MODERATOR: Eleanor Andrews, President and CEO, The Andrews Group and former Commissioner of Administration*

*SPEAKERS: Scott Goldsmith, Professor of Economics, University of Alaska Anchorage, Institute of Social and Economic Research; Gregg Erickson, Economic Consultant; Andrew Hacker, author of "Money: Who Has How Much and Why;" Arvin Dull, Bank Manger, First National*

*Bank in Bethel; Gerald A. McBeath, Professor of Political Science, University of Alaska Fairbanks; David Reaume, Economic Consultant; and Debra Call, Alaska Native Program Manager, Alyeska Pipeline Service Co.*

Political and social effects of public ownership of wealth, economic, political and social effects of the dividend and economic, political and social effects of other uses of Fund earnings

- **Keynote Address: Opportunities and Obligations of Public Wealth: Leadership, Stewardship, Responsibility**

*SPEAKER: Andrew Hacker, author of "Money: Who Has How Much and Why"*

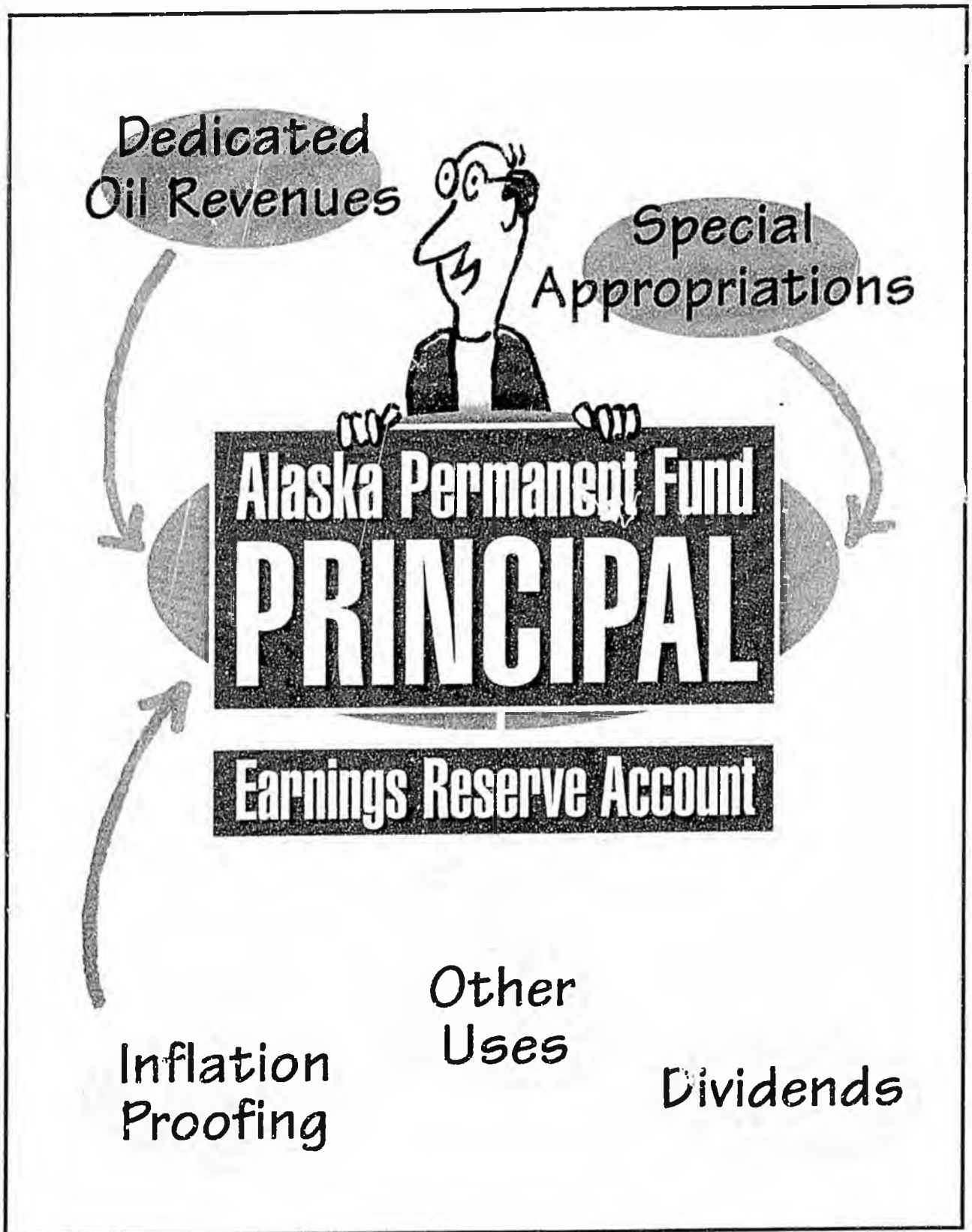
- **Roundtable Discussion: The Future of the Permanent Fund**

*MODERATOR: Lee Gorsuch, Chancellor, University of Alaska Anchorage*

*SPEAKERS: Thelma Buchholdt, former legislator; Bill Ennis, physics teacher; Kelly Haney, Anchorage School Board member, university student; Scott Heyworth, longshoreman; Archbishop Francis T. Hurley, Archbishop of Anchorage; Mano Frey, Business Manager/Secretary-Treasurer of L.I.U.N.A. Local #341; Margy Johnson, Mayor of Cordova, businesswoman; Jerome Komisar, president, University of Alaska; Jonathon Lack, attorney and legislative aide; Henry Springer, Executive Director, Associated General Contractors; Dennis Tiepelman, President and CEO, Maniilaq Association; Peg Tileston, Chairperson, Alaska Common Ground; and Tom Williams, former Commissioner of Revenue*

The Fund's role in realizing our vision for Alaska, policies to adopt in addressing Fund issues, implications of adopting these policies (social, economic, political, institutional), risks and roadblocks ahead and procedure for reaching consensus on issues

# HOW THE PERMANENT FUND WORKS



# “OPPORTUNITIES AND OBLIGATIONS OF PUBLIC WEALTH: LEADERSHIP, STEWARDSHIP, RESPONSIBILITY”

by Keynote Speaker Andrew Hacker, author of *“Money: Who Has How Much and Why”*

I was asked to come here, well, yes, from New York City, and by the way I went to the concierge at the Hilton Hotel to find out exactly how far it is from New York to Anchorage, and he guesses 3,696 miles. So, I’ve come this distance not because I’ve been among you in Alaska, but because I have been concerned with the philosophy and values informing the public fund debate, which is public wealth and the attendant responsibilities, stewardship and questions of leadership.

Now the American emphasis, since the very beginning, has been on individualism and individuality. These values, individualism and individuality, have been quintessentially expressed in Alaska. Put very simply, people have come to this state, particularly from the Lower 48, to better themselves.

This was expressed best by our fourth president, James Madison, in the *“Federalist Papers.”* The *“Federalist Papers,”* as you know, were to outline the kind of government we were to have; they talked about the Congress, the presidency, the courts. But Madison took off a little time to talk about the kind of people who would inhabit these United States.

He said, “In this population we would encounter” (and I’m quoting Madison) “a diversity of faculties among individuals.” But he said the most important faculty, the one that is really going to dominate this country, “is the faculty for acquiring property.” Now he didn’t just mean great fortunes, but he really meant income – bettering yourself economically.



**Andrew Hacker**

Andrew Hacker is currently a professor of political science at Queens College of the City University of New York. Prior to that, he taught 16 years at Cornell University.

Hacker is the author of eight books. His book *“Two Nations,”* a New York Times bestseller, is considered by many to be the definitive treatment of race in the United States. It has been adopted as a textbook on hundreds of college campuses. His credits also include the acclaimed *“Money: Who Has How Much and Why.”*

Hacker is selected to lecture widely in our country to college audiences and business and professional groups. He is a prolific contributor to national publications including the *Wall Street Journal*, *Fortune*, *Forbes*, *Newsweek*, *The Atlantic*, *Harper’s* and *The New York Times Review of Books*.

This has been at the forefront of most Americans’ minds. And indeed there is, let’s be frank, a competition that involves all of us. In other words, we’re all engaged in vying with one another to see who does better. Now I don’t want to put this in the crassest economic terms, but if any of you have been to a college class reunion, you find your classmates come up to you and ask, “What are you doing now?” They don’t mean that. They simply want to know, “Are you ahead of me or behind me?”



Alaska Sen. Ted Stevens introduced Andrew Hacker.

Now money is also, of course, a way of keeping score. Not just in the world outside, but for ourselves. Am I doing better? How much can I make? Can I really get to the point where I have seven figures stashed away? This becomes a competition not only among others, but with ourselves. Of course you get this at the higher realm with members of the *Forbes'* 400 who grab for the first issue each November to find out, for example, whether Ted Turner's doing better than Rupert Murdoch.

Another of our founders also set the pace. This was Alexander Hamilton, and I am a great aficionado of Alexander Hamilton. I think he deserves a lot more than the \$10 bill. In 1791 he wrote a document – still not well known – called *The Report on Manufacturers*, which he submitted to Congress and to President Washington. In it he envisaged an industrial, a competitive, a capitalist, indeed a high-tech America.

He pointed out that people would work in this country, work hard, often at more than one job in order to “multiply their acquisitions and their enjoyments.” And I think this is true. If I were to be asked, “What is the first American vocation?

What's the activity that really sums us all up, that we pursue most vigorously?” I think I would have to say – shopping.

This is the number one right guaranteed to us. If you go to a sample of Americans and say, “Look you've got two rights. One is the right to vote, the other is the right to shop. One of them won't be taken away. Which will you keep?” To ask the question answers itself. And, indeed, our quintessential institution is the great American shopping mall. Now I realize the one you have on Fifth Avenue near here is not quite like the Mall of America outside the Minneapolis Airport, but we're working on it.

Hamilton was the inventor of supply-side economics. Now, by supply-side economics, I don't mean that Laffer curve on a cocktail napkin, but rather that we depend on suppliers to array us with goods on the shelves, on the racks, to tempt us. And we then begin to feel the need for them. In other words, we as consumers are not very imaginative. If I had asked you, “Hey! Name a few things that haven't yet been created that you would like to have,” you'd draw a blank. But you do have a shopping list in your head, just as I do, of things that are currently on the shelves that you want. The list changes all the time. The suppliers at one point, for example, invented the Barbie doll. Now, you know, 8-year-olds didn't think they wanted a Barbie doll, but once it was there they certainly did. You could point to, oh, say McDonald's Big Mac; you could point to the sports utility vehicle. Once these things are put out there, we want them. Indeed, our wants appear to be endless.

I really believe that figures like James Madison, Alexander Hamilton, Alexis de Tocqueville – the French visitor – that we're standing on their shoulders. They assist and aid our thought, particularly in understanding today.

So I want to cite Tocqueville, who visited this country during the Jacksonian period – 1830 to 1835 – and wrote a straightforward book called

*"Democracy in America,"* which even today helps explain ourselves as no other volume does. Tocqueville said that as he arrived in the United States, what he saw was an inordinate love of material gratification.

be punk rock, it could have some Beethoven, Hip Hop, you know, it could have spirituals, whatever you like. But you know your collection of 117 recordings. And, by the way, you bought all these. This doesn't count gifts. Gifts are a whole other story. When a person gives you a gift, do you

***"What Tocqueville saw was how we express our identity through purchasing."***

Now what could he mean by that? Does he mean filling up our houses with overstuffed furniture? Does he mean greed, that we need more and more?

Not really. What Tocqueville saw was how we express our identity through purchasing. And, by the way, material does not have to mean hard stuff that you touch. It can also mean opera tickets; it can mean foreign travel; it can mean a variety of experiences of the sort that Hamilton called enjoyments.

For example, Judy Brady, a member of the panel I was on yesterday, talked of Alaskans as unique individuals. Well, let me suggest to you one way that we express our uniqueness. In a class of mine at Queens College, where I teach in New York, I sometimes illustrate this by asking students in the class, "Do you have a music collection?"

Music collection, what do I mean by that? Well, recordings. You know, CDs, cassettes, perhaps some LPs stashed under the bed. And the student says, "Yes, I have."

"Well," I ask, "How many items are in it?" Well, she doesn't quite know, so I say, "Give me an estimate."

"Well," she'll say, "110."

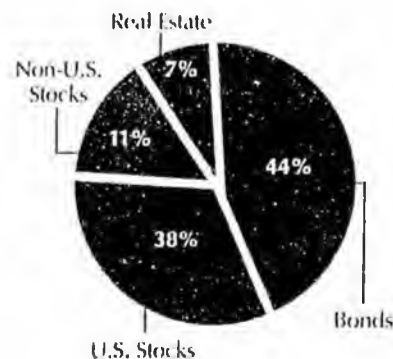
I say, Actually you have 117. Now, let's look at your collection of 117 recordings. Hey, it could

know what a gift is? I've finally worked it out. When a person gives you a gift like, say, a book or a recording, what they're saying is, "I'm not satisfied with the way you are, you need this."

Anyway, these are not gifts, you bought these for yourself. But, you know, that collection of 117 recordings – hey, I could say the same thing about books, but I'm sticking to music – that collection is unique. No other person in the world has the same 117 making up their music collection that you do.

Now this is the way we put together pieces of our identity, through our purchasing. We're not philosophers; we're not moralists; but we depend on this great American shopping mall for just that.

PERMANENT FUND'S  
ASSET ALLOCATION  
(June 30, 1998)



As for the question, will we ever have enough money? This depends. You know, if you ask people how much they're making, maybe they'll tell you. And then ask, "How much more would you like?" People generally want, say, if they have \$40,000 a year, they say, "If I had \$60,000, it would be fine." Well, that's great, but you know what happens once they get the 60. Well, maybe some of us stop. Maybe some of us don't need that extra dollar.

What we do, of course, is make a practice of so hobbling government that they make a mess of whatever they undertake. We see this, for example, with anything from child abuse prevention agencies to examples I've heard here about fish and game enforcement.

Of course the American presumption has been that individuals know best what to do with their money. Of course, we're anti-taxes, but we also

***"Most of the Declaration of Independence is not about life, liberty and the pursuit of happiness, but a bill of particulars against the British government and all the grief they caused us."***

I have a very wealthy friend, he's my oldest friend. His father died and left him \$15 million and my friend lives on his dividends. One day he says to me, "You know, Andrew, I can't live in New York City." And I say, "Why?" "Well," he says, "You know I'm trying to collect art. But do you know what a Matisse costs nowadays?" I try not to feel too sorry for him.

Now, a corollary of this individualism and individuality is, of course – and we have heard this theme throughout the conference and doubtless will hear it until it adjourns – a mistrust of government. This, too, has been an American tradition. If you look at the Declaration of Independence – independence from England – most of it is not about life, liberty and the pursuit of happiness, but is, rather, a bill of particulars about the British government and all the grief they caused us, with the particulars itemized.

The same thing is true today. You know, all of us trust UPS over the postal service without question. And in fact it's a challenge: Can you think of three government agencies at any level of government that you think are doing a very good job? It isn't easy, is it? Personally I think the Internal Revenue Service is doing a very good job. But not many people agree with that.

defend spending our money as we choose and the freedom to be frivolous. Now this is the great American presumption that really infects all of us. We want our own money, and as I suggested earlier today, even those of us who are above the national median, above the state median, well above it, still take the check and deposit it when it comes. That tells us a lot about ourselves.

Yesterday, one speaker said she didn't ask for the check. She just felt any perspective she might have on life in Alaska would be, I won't say corrupted, but touched and affected if she asked for it. But the vast majority, even those with six-figure incomes, take the check. And if I were living here I would take it as well.

The question is, "What happens to us when we do that?"

With respect to public wealth, this is a key question, and I want to address it. I could start with an agenda of how income from the Permanent Fund could be, let's say, distributed to education. But I've been in education too much to be sanguine about how the money would be spent.

One suggestion I've heard was to give a laptop to every student. Or there should be more guid-

ance counselors or more special education or more bilingual education. The only thing I can see from my long career in teaching that would really make an effect in improving the quality of education is to have a ceiling on pupil-teacher ratio in the classroom of 15 to one. Twenty to one won't do it. Eighteen to one won't do it. You've got to get to 15 to one. And you can imagine what that would cost.

Another consideration is that fewer and fewer people are having children. We have many people who are postponing marriage, not having kids at all. We have a higher proportion of the population who are now in what I call the "late post-children phase." Their children are finished with school, college, and they don't have that much of an interest – and I use "interest" in the serious sense – in the education of other people's children.

As far as health is concerned, of course we're concerned with that. But, again, the American way comes to the fore, doesn't it? And we don't have the highest infant survival rate in the world, do we? We're about ninth in infant survival. Even Portugal is very close to us now. One of the reasons for this is when we spend money on health we don't spend it on health, really, we spend it on medicines, hospitals and technology. As we know, countries that are far less wealthy than we have much better health and disease prevention because of the way people handle themselves and



Sen. Ted Stevens and former Gov. Jay Hammond listen to Hacker's address.

their lives. We are very reckless with ourselves and then we ask for the medical system to patch us up. And I'm not just talking about cigarettes, it's the whole thing, including such disparate elements as diet and the reckless way people drive their cars.

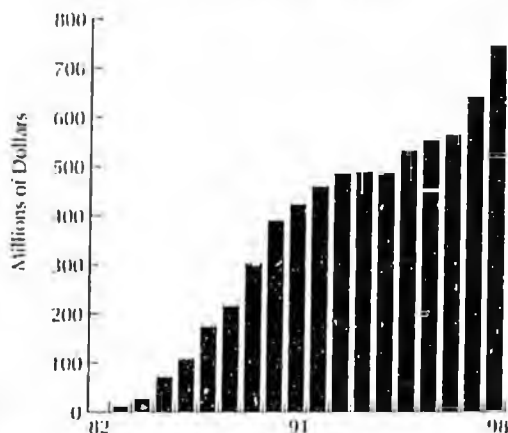
Now Alexis de Tocqueville was from a wealthy French family, an aristocrat, and he knew about the virtues and values of aristocratic rule. He said in his book on democracy in America, "The question is not how to reconstitute an aristocratic society, but how to make its values proceed out of the democratic state of society in which God has placed us."

He wrote about the effects of these values. He said, "They give a certain elevation to the human mind, to refine the habits, embellish the manners and cultivate the arts, promote the love of poetry, beauty and glory."

Now, even on Alaska's tundra there is poetry, beauty and glory. We have one life to live and the best in our lives, this is Tocqueville talking, is the aristocratic virtue of beauty, truth, learning about ourselves and expressing it through art, through music, through poetry, through dance.

Now, I'm not coming here to say Alaska should become the arts center of the world. But without those values, you begin to ask, "Are we making the most of our potentialities and our capacities?" This, I believe is what Avrum Gross

INCOME PAID OUT FOR DIVIDENDS



meant when he talked about the quality of life yesterday, and what Danny Boldun, who is quoted in the *Juneau Report*, meant when he said, "Keep our civilization civilized."

Now, what kind of leadership, what kind of stewardship approaches, emphasizes and maintains that kind of value? Well, there are various models for this, and I'm going to be very specific and focus on three ways in which this has been done.

There is first the aristocratic mode or model, if you like. For example, I hope that everybody in this room before you end your years here will have visited the Uffizi Gallery in Florence. If you haven't, you're a diminished person. I don't care whether your thing is football or hockey or anything else, this – the Uffizi – has shown what humanity can do. Now, the Uffizi Gallery and the whole art, the whole spirit of Florence were really built by the Medici family, aristocrats who were very wealthy, very powerful. But they knew they had responsibilities – that aristocracy has responsibilities. Power has it, privilege has it, and they devoted themselves to making Florence the art center of the Western world. Florence, by the way, is not a huge city – no bigger than Anchorage. But this can be done and was done.



*Andrew Hacker details his thoughts about personal responsibility.*

Another model is, shall we say, private business wealth. Again, if you're to be a full person, you must spend some time at New York's Metropolitan Museum of Art. As a single museum, it's the greatest museum in the world. It goes beyond European art to Egyptian art, Indian art – the entire world. The Metropolitan Museum was built by robber barons. Yes, the very same men who exploited the rest of us through their trusts and the rest. But after they made their millions – today that would be billions – they gave it back to the people in the form of the Metropolitan Museum. One of the finest collections in that museum was funded by a man who cornered the sugar market, drove up the price throughout the country, so that we all had to pay more for sugar. But, hey, he gave it back.

A third example of stewardship here is what I would call the state. But I don't mean the state in the sense of that government that we are constantly attacking.

Take, for example, the Louvre. You see, I'm using three museums here, Uffizi, the Metropolitan, the Louvre, the latter being the great museum in Paris. True, it was founded by the monarchy, but after the French Revolution when the monarchy was overthrown, France as a nation said, "This is our heritage, this is our gift to the world." And all the way through – whether it was Napoleon, whether it was Charles de Gaulle, whether it's today – France says the taxpayers will support the Louvre because it shows France at its best.

Now the question is how far any of these models are applicable in the United States. Well, it's an uphill struggle, but let's see how far we can move in that direction. Here I turn to another of my philosophers, and this is Edmund Burke. Edmund Burke is the foremost philosopher of conservatism. There's nobody who comes near him. As you know, he was an Anglo-Irish member of Parliament. He was, for many years, a great critic of the French Revolution. He felt it was destructive. But he was a great supporter of our American Revolution. He wrote not just on conservatism but

on society and how we should build and sustain a society. I'm going to read just a passage from Burke's *Reflections on the French Revolution*.

He started by saying society is indeed a contract. Well, we've had a lot of social contract theorists, such as Thomas Hobbes or John Locke, who said, yes, people get together and set up a government. No, no, Burke said, it's more than that. He said society is indeed a contract, but the state ought not to be compared as nothing better

them. And it also, and this is what Burke says, it diminishes us to feel that history just belongs with us. This is why I quote Edmund Burke, rather than simply saying, "Here's Andrew Hacker, he knows all the answers."

And of course, there's our obligation to those who are yet to be born. But that obligation is also to other people's children, not just to our own. Burke was very firm on this. This is where we're having real difficulties in the United States. People

***"Our contract is a partnership of all science, a partnership in all art, a partnership in every virtue and in all perfection."***

than a partnership agreement in a trade of pepper and coffee, calico or tobacco, or some other such low concern.

Now our contract, he said, is a partnership of all science, a partnership in all art, a partnership in every virtue and in all perfection. As the ends of such a partnership cannot be obtained in many generations, it becomes a partnership not only between those who are alive, but between those who are living, those who are dead and those who are yet to be born. Now really, I read this several times a year to each of my classes – a partnership between those who are living, those who are dead, and those who are yet to be born.

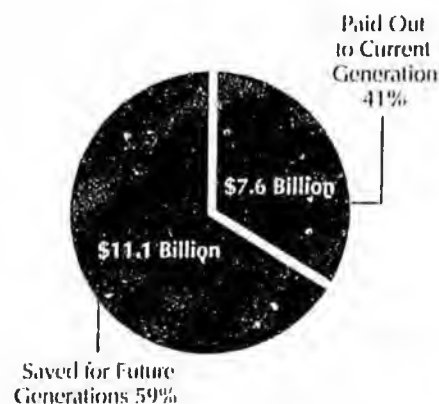
Now, let's just take a look at this conference. Let's ask, "What is our contractual obligation to dead people – to people who built Alaska and are no longer here?" Burke would say it's not so much that you've got an obligation to dead people, but it does tell me something about you if you don't feel an obligation to people who came before you.

Now I've been here as a visitor long enough to be told that people arrive here every day and believe Alaska's history begins the day they arrive. That's a bit sad, because there's no sense of what was built, what was put here before

may feel an obligation to their own children, but not to others. And how do you begin to tell people you feel that obligation? Well, once again, what we have to say is: "What kind of person are you if you don't feel an obligation to children, to the next generation?"

Consider this example: It's summertime. You see a recreational vehicle in front of you, a Winnebago, and you've probably seen the bumper sticker that says, "We're spending our children's inheritance." At that point, if I were a firearms person, I would want to take a gun out

USE OF FUND INCOME  
(Since inception)



and do a few things to their tires. No, no more than that. Because imagine what kind of person says, with glee, "We're spending our children's inheritance?" Because they're not just talking about their own children, you know. Imagine what kind of parents they were to raise children that they now reject. But they're also talking about

Now before I came here – because one of my avocations is statistics – I looked up a few figures about the two nations in Alaska. I would suggest to you that if one is to think about a better Alaska, there is a lot of unfinished business to be done on this score and in this area.

***"If you want to think about a better Alaska, there is a lot of unfinished business to be done."***

everybody's children. Well, I think a king of France once said: After us the deluge.

As the senator pointed out in introducing me, I wrote a book several years ago entitled *"Two Nations,"* and it was about race in America. And yes, I'm pleased to say it was a bestseller, and used very widely throughout the country. The two nations were black and white. The subtitle was, "Separate, Hostile, Unequal." That book, though, does not apply in Alaska, and I didn't expect it to, because if Alaska has two nations, they are not black and white. I know you have people of African origin here, but the dominant roots in Alaska, and I'll say races for the moment, are of course Caucasian Alaskans and Native Alaskans. And I use "Native," of course, in the serious sense of indigenous people. And of course, as I know and you know, you have the highest, largest indigenous population of any state and indeed the largest proportion of population that is indigenous. As was pointed out very well, the Native Alaskan population are not transients. They were here before those of us who are Caucasian came and, I dare say, will be here after us.

Now, as far as public wealth and stewardship are concerned, I was rather interested to see that people talked about sanitation, they talked about infrastructure, talked about education, health. But nobody cast this in racial terms. I wonder why. If I were to redo my work on race up here, I would certainly keep the Two Nations title.

Of the Alaskan population age 25 and over – this is from the last census – this is the proportion of Caucasians and Native Alaskans who have graduate degrees. Now as we know nowadays, a plain old B.A. doesn't get you very far. Those of you who have children certainly want your kids to have more than a B.A. Well, 10 percent of the Caucasians have graduate degrees, 1 percent of the Natives. If we take just plain B.A.s, 17 percent versus 3 percent. And of course a very high proportion of these Caucasians have brought their degrees up here with them.

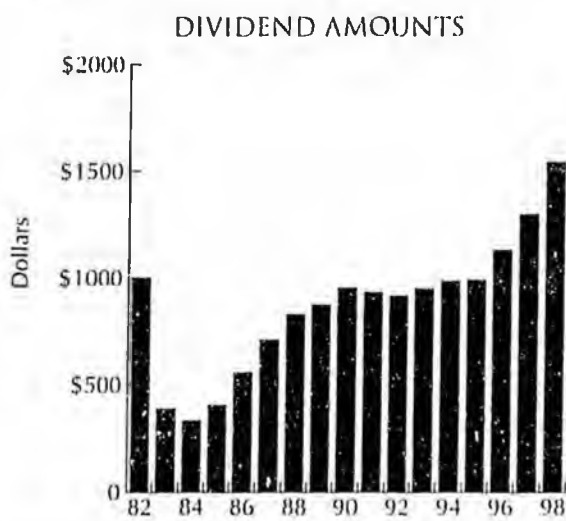
So what we have is a rather strong imbalance. If there is to be any thought of equity in the future, the question is: Can we get it to 27-27? Because that's what my goal was in writing about black and white in America, where there are similar disparities. I would presume something similar is here.

Now I understand, of course, that much of the indigenous population lives in subsistence settlements where this kind of education may not be a model. At the same time I also know that the indigenous population is growing and that, increasingly, members of that population are coming to cities like Anchorage and Fairbanks and elsewhere, where they're going to be tested on how much of this kind of qualification they have. So the question is one of imbalance.

Now let's talk families headed by mothers. Fourteen percent of Caucasian families in Alaska

are headed by mothers; 30 percent – almost a third – of the Native American families are headed only by the mother. Now I'm not being moralistic about this, but with such a family, with only the mother's income or earnings, those kids are not going to have the kind of chance that they would have with a two-parent family.

One has to ask: Why is the rate so high? Is this a Native Alaskan tradition? I daresay not. There's been something going on here which has caused fathers, husbands, men not to commit themselves



to families to a very high degree. Well, here, too, we're not saying that pouring in money into it is going to help in any great degree. But the question is, this is an imbalance that needs, in terms of equity, to be remedied.

Parallel to this are the figures that I got from the Department of Health and Human Services on AFDC, the welfare population. Aid to Families with Dependent Children. The welfare population is essentially 49 percent Caucasian, 40 percent Native Alaskan and the rest other groups. OK. Correcting for population, the odds are 4.7, almost 5 times greater that a Native Alaskan family will be on welfare than a Caucasian. Now welfare was not invented by indigenous peoples; it's something here which makes up for an imbalance that obviously arrived after the Caucasians came in.

Another consideration, if somebody's in prison, they can't support their family. I haven't put the figures down, but again, I got these from the Justice Department. When you look at those people who have been convicted of crimes, but are now either on probation or parole, the Caucasians have a much greater chance of being out on parole or getting probation than do Native Alaskans. Here, too, I leave it to you – this is your country, your turf – to answer these questions.

What I'm indicating here is that just in terms of equity, Native Alaskans were here first. Others – I won't say interlopers – came afterward. In many ways, the kinds of imbalances we have here were formed, created by people like ourselves, Caucasians, coming in here. Now, I'm not going to try to lay a guilt trip on everyone in this, but what I would simply say is that in terms of public wealth, this is unfinished business.

To sum up, I'm going to quote from Tocqueville again. When he finished his volume on "*Democracy in America*," he was really rather upset with the individualism, the individuality, the kind of democracy he saw. He said he wanted this country, which he thought had great potential, to develop a sense of public wealth, of stewardship, of leadership.

But he said we can't expect average people to be philosophers. Well, I'm going to quote him here. So he spoke of the principle of self-interest rightly understood. Self-interest rightly understood. He said it produces no great acts of self-sacrifice, but suggests daily small acts of self-denial. By itself, it cannot suffice to make a man virtuous, but it disciplines a number of persons in habits of regularity, temperance, moderation, foresight, self-command. And it does not lead them straight to virtue by the will, but it gradually draws them in that direction by their habits.

He goes on to say: "I am not afraid to say that the principle of self-interest rightly understood appears to me to be the best suited of all philosophical theories to the wants of men, the people

of our time. And I regard it as their chief remaining security against themselves." Now what could he mean by "self-interest rightly understood?" Well, I could say it in a rather obvious sense. Self-interest rightly understood is yes, you're looking for your self-interest, but not just directly. For

the gain can be something other than pocketing a \$1,300 check. The positions Alaskans take on the dividend are ultimately less economic than moral. Their views convey to others and themselves the manner of people they are. But how they conceive their self-interest also provides

***"The positions Alaskans take on the dividend are ultimately less economic than moral. Their views convey to others and themselves the manner of people they are. But how they conceive their self-interest also provides Alaskans with an opportunity to show how they wish to be measured in the chronicles of history."***

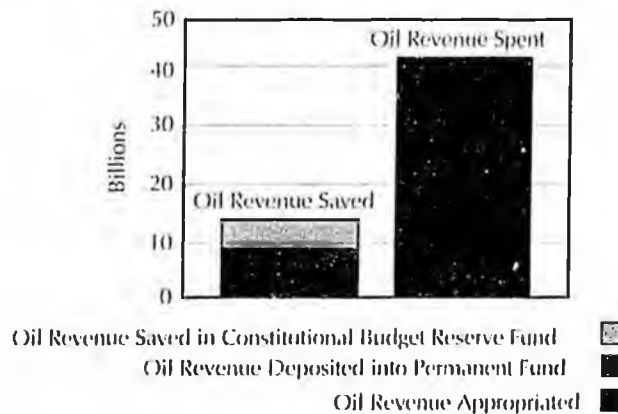
example, when we line up, when we get in line, it's a nuisance. But we do, and we wait, because it's in our self-interest to do so. Any other system we'd probably lose by.

Alaskans, as it does others, with an opportunity to show how they wish to be measured in the chronicles of history.

So Tocqueville realized, as I said, that we should not expect average citizens to be philosophers, nor should they be exhorted to make serious sacrifices, especially when they see so many people doing better than themselves. I alluded to this earlier. Half the population of the state has incomes below the \$51,000 median. And most of those \$51,000 families are two-earners, which may mean \$30,000 for one, \$20,000 for the other. No, we're not talking about that affluent a population.

Tocqueville's self-interest rightly understood does allow individuals to ask: How do I gain? But

SAVINGS VS. SPENDING  
State Oil Revenue (1977-1998: \$55.63 Billion)



## ALASKA'S NEST EGG

by Thomas Stauffer, from the December 1997 "Financial Times – Energy Economist"

Alaska has been prudent and saved the money from its oil revenues. But with oil receipts falling, some politicians are eyeing the Fund as a way of making up the budget shortfall.

"Dear Lord – send us another windfall, and we promise not to piss it away the next time." This plaintive cry was found on a T-shirt, appropriately sold in a hoar-frost encrusted trading post in Deadhorse, Alaska, then the desolate community serving the North Slope oil fields. The Lord did answer, the Prudhoe Bay oil fields did become a new oil bonanza, and Alaskans did keep their promise – much of the new oil wealth was not squandered. Instead the state has squirreled away a nest egg of almost \$30 billion, saved out of the North Slope windfalls.

Last month was the 20th anniversary of the establishment of the "Alaska Permanent Fund" – known, unofficially, as "Alaska, Inc." The "Fund," analogous to a mutual fund, received a large share of the state's oil receipts and has invested those moneys each year, accumulating as of September 1997, a total of \$23.6 billion from unilateral transfers, compulsory contributions from current oil revenues, reinvested profits and capital gains. The institution was crafted expressly to protect oil revenues from being dissipated by the "idiots" – the then governor's description of the state legislature – and to preserve those one-time windfalls for the future.

Oil-producing states elsewhere in the world have saved part of their oil revenues – if only because there were limits to the rate at which even governments could fritter away money – but



**Dr. Thomas Stauffer**

Dr. Thomas Stauffer is an international oil and finance consultant based in Washington, D.C. His specialties include oil and gas taxation, valuation in international law, geopolitics of the Middle East and comparative energy economics.

Stauffer has been a consultant in the Executive Office of the President, the anti-trust unit of the Federal Trade Commission and the International Energy Agency (Paris). His private sector clients include major US and foreign oil companies, as well as the oil or finance ministries of oil-producing countries in the Middle East and Europe.

Educated first as an engineer at M.I.T. and the University of Munich, Stauffer later received an M.A. in Middle Eastern Studies and a Ph.D. in Economics from Harvard. Until recently he taught economics at the School of Foreign Service at Georgetown University.

Alaska's providential Fund is unique in key respects. First, the capital is safe from encroachment by the government – a constitutional amendment is needed to touch the assets. Second, the investments are transparent – each Alaskan gets a detailed breakdown of what is invested and what is earned. Third, and most important, each Alaskan collects an annual dividend from "Alaska, Inc." Every man, woman and child documentably resident in the state, shares equally in the annual income from the Fund. This year \$750 million was disbursed in dividends, some \$1,300 per capita. Fourth, the funds were prudently invested

almost entirely outside of Alaska, rather than in unremunerative vanity infrastructural projects.

Permanent benefits from oil or mineral wealth are elusive. Dead cities such as Jerome, Ariz., or an opera house filled with weeds and trees rather than spectators, as in Manaus, Brazil, are monuments to the transience of resource-based booms. Alaska, almost miraculously, resisted such temptations. It did use part of its revenues, like other states, to bloat a bureaucracy and fund a spectrum of welfare measures, as well as to build infrastructure.



*The 1969 Prudhoe Bay lease sale netted the state more than \$900 million, almost nine times the preceding year's state budget.*

## Savings

But a large fraction was salted away for the rainy day when the oil boom, too, like its predecessors, might cease. The legislature in repeated acts of self-denial mandated that a fraction of each year's oil receipts be allocated, irreversibly, into the Permanent Fund. Even more astounding were further acts of statesmanship by the "idiots" who decreed that budget surpluses also be poured into the Permanent Fund. A total of about \$12 billion was diverted from the current account into the Fund over the years, safe from the clutches of the "pols."

The state legislature has continued to stoke the Fund, adding about \$1 billion this year, even though state revenues have shrunk and even though these repeated acts of self-denial mean that funds at the disposal of politicians are commensurably reduced. Each year some \$300 million is automatically deducted from oil receipts before they can be touched by state politicians.

Alaska's frugality is greater than might appear. It has saved more out of less, compared with OPEC producers. Its output is now 1.4 million-barrels-per-day, almost twice that of Qatar or equal to that of Libya. But its earnings per barrel are much less than that of governments in the Middle East. Alaska gleans severance taxes of circa \$1.80 per barrel, plus some royalties from state lands, income taxes on the companies' allocated wellhead income and a tax on the trans-Alaska pipeline system profits. But the total state government take is modest – it averages out to only \$3.90 per barrel, less than 25 percent of the estimated export value. The "take" by OPEC producers is typically four times higher per barrel, but they have saved relatively much less.

## Wise

The state's saving is also proving wise. The rain clouds are gathering and the feared rainy day is near. Oil production is fading away. The giant Prudhoe Bay field is beyond its peak – down to 750,000 barrels-per-day from over 2 million barrels-per-day – and restrictions on new exploration, imposed from Washington, have limited the discovery of replacement reserves. Alaska's overall production this year has drifted down to 1.3 million barrels-per-day.

There have been some new developments. Companies brought on the Kuparuk field, producing 250,000 barrels-per-day, and several smaller fields discovered 15-20 years ago – Point McIntyre, Milne Point and Endicott – have been developed. These aggregate to another 275,000 barrels-per-day. But the decline has only been stemmed, not reversed, and the prospects are bleak. A straggle of small fields – Badami,

Northstar, Alpine and others – will add almost 200,000 barrels-per-day in new production through 2002-4, but they together barely balance out the decline in Prudhoe Bay output.

Prospective revenues are doubly threatened. Total production is falling – several fields awaiting development are small and cannot offset other, aging reservoirs. But revenues per barrel are projected to decline as well, because the new fields have higher costs and lower well flow rates.

This wellhead tax is geared to well flow rates, governed by the uniquely bizarre formula – the “Economic Limit Factor” – so that the yields from the newer fields, with less prolific wells, fall off much faster than the physical decline in production. Thus both per-barrel severance taxes and total production are falling, compounding the future shortfall in cash revenue to the state.

### Fund in the spotlight

The budget crunch has turned the spotlight onto the Fund and, more particularly, on what to do with the Fund’s income. The Republicans, newly empowered in the state, have cut spending, tracked lower revenues, but deficits are projected to get worse. There is now a debate about whether dividends, now paid out directly to the populace, should be shifted, at least in part, to the state budget. Politicians are asking what is the best strategy for using this invaluable resource: Should the state continue the dividends and let each Alaskan decide his spending priorities – the libertarian option? Or should some of the income be reallocated to the general budget to offset falling direct state revenues? Although the Fund’s capital is sacrosanct, the legislature does have the right to dispose of the income.

Hitherto, the Fund’s income year has been broken into three parts – first, an amount equal to the annual inflation rate, measured by the CPI (consumer price index), is deducted and reinvested in order to “inflation-proof” the corpus of the fund. This is mandated by law and protects the Fund from the “inflation delusion,” so that its capital is truly



*New developments like Endicott have helped stem the decline from Prudhoe.*

preserved. Second, roughly half of the earnings are paid out as the annual dividend of “Alaska, Inc.”

The dividend was created to give to every Alaskan a personal stake in the integrity of the Fund. The trick worked. Efforts to nibble at the capital have been political suicide. Recently a candidate for state senate was eviscerated when an opponent only hinted that she was even considering attacking the capital.

Third, what’s left remains in the “earnings reserve.” There, too, the legislature has tied its own hands and transferred that surplus into the Fund’s principal.

### Fierce support

Alaskans fiercely support preserving the “permanence” of the Permanent Fund, partly because of bitter recollections of prior booms – and the busts which followed – and partly out of deep distrust of government. License plates carry the boast that Alaska is the “Last Frontier,” living closer to nature and its vagaries than Americans in the “lower 48.” Most Alaskans are close to libertarians at heart, if not neo-anarchists. Politically the frontier spirit is reflected in a marked swing in the political complexion of the state – once strongly Democratic, today it is Republicans who have won the overwhelming majority.

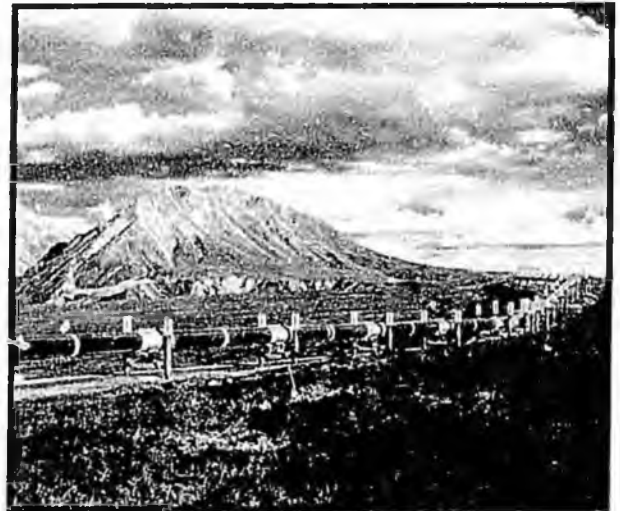
Alaska’s economy has been a roller coaster ride for almost a century. The gold boom was fol-

lowed by another tied to US military spending – Alaska was an icy buffer against the Russians during the Cold War. That was followed by the next boom – due to the \$1 billion in lease payments received in 1969-70, which was quickly spent without enduring benefit. Then came the boom when tens of thousands of out-of-state workers poured in to build the trans-Alaska pipeline; then another boom when oil prices peaked in the early 1980s. The ensuing bust after 1985, when oil prices collapsed, destroyed local real estate markets, bankrupted a number of the banks and sent many of the “carpet-baggers” back home. It is still a bitter memory, not just part of local lore. The multi-billion-dollar cleanup after the Exxon Valdez spill created its own mini-boom, but that was all too brief.

This time, however, there is a cushion for the future, but it may be needed all too soon. In the last year, and for the first time, the total income of the Fund was equal to total oil revenues. Past revenues saved now yield as much cash as the take from current production. But while the Fund’s revenues are destined to grow, oil revenues – barring a miraculous surge in oil prices – can only continue to fall. Therefore the share directly flowing to the state government, rather than the independently managed Permanent Fund, is falling, leaving the state ever more pressed for cash.

### Philosophical debate

Alaska is not poor, the debate now is less over cash and more over policy and political philosophy. The money is there – the question is what role should the government have in determining how it shall be spent, and by whom. The Permanent Fund holds \$24 billion, and the state also has other funds tucked away. The Alaska Housing Finance Corporation, a state entity which has accumulated large retained profits in spite of a program of subsidized loans to Alaskans, has almost \$2 billion in equity. The Constitutional Budget Reserve Fund holds another \$3.2 billion. The state, unique among government entities in North America, has no debt, while holding almost \$30 billion in earning financial assets.



*The volume of oil flowing through the trans-Alaska pipeline is expected to continue to decline.*

Alaskans therefore enjoy the luxury of choice. Some argue that state spending should be cut further, eliminating the revenue gap. Others argue that part of the dividend should revert to the government, which then can in its wisdom spend on behalf of the people. Still others argue that the state’s personal income tax – eliminated completely in the salad days when oil prices were high and state revenues five times higher in real terms – should be revived.

The income tax route is appealing – it hits high income families most; one-third would be paid by non-resident or seasonal workers and all would be deductible against Federal tax liabilities, so that the hated enemy within the Beltway would in substance pay part of the bill. Cutting the dividend also has political consequences – the check, now \$6,500 per family of five, is vitally important to rural Alaskans, especially the Eskimo and Indian peoples, for whom it is frequently the largest source of cash income.

# PRINCIPLES & INTERESTS ROUNDTABLE DISCUSSION: THE FUTURE OF THE PERMANENT FUND

MODERATOR: Lee Gorsuch, Chancellor, University of Alaska Anchorage

There are many things that have gone on in the past 20 years that are of phenomenal significance to us. We're no longer simply exploring the moon, we're actually unraveling the mysteries of the universe. We're no longer simply advancing in biology. We're actually discovering the genetic code that is the secret to many disabilities and long-term illnesses. We now have the capacity to clone species from a single cell. The communications revolution is connecting the entire world. We have the technical capacity to talk to anyone in the world, real time. There are innovations taking place in technology, which is increasingly smaller, cheaper and smarter than anything we possibly imagined, and which eliminates the necessity for that back-breaking, hard labor and brawn.

There are many fascinating things going on in the world that affect us here in Alaska – world phenomena that are extremely important for us, that will determine the future of the world, the



Moderator Lee Gorsuch led 13 Alaskans, representing diverse cultures, regions and occupations, in a discussion about the Fund's role in realizing a vision for Alaska.



**Lee Gorsuch, Chancellor,  
University of Alaska  
Anchorage**

Lee Gorsuch is chancellor of the University of Alaska Anchorage. In this capacity, he oversees the Anchorage and extended college campuses serving approximately 20,000 students. He is a frequent advisor to federal, state and local governments on a host of public policy issues.

nation, and the state of Alaska. As Dr. Hacker indicated, we've got some trouble signs on the horizon. He shared a few with us. I'll just reiterate a few more – and many of you are familiar with these.

Over the past few years we've gone from a net in-migration to a net out-migration. That means we have more people leaving Alaska than coming into Alaska. The people coming in are less skilled than the people who are leaving. This poses some fairly significant long-term issues for us. Although we've had some steady employment growth, it's been very modest, and it's been in sort of the semi-skilled, unskilled categories, and as a consequence Alaska's per capita personal income has been falling. Whereas we were number one in the mid-1980s, we're at number 19 now and are falling rapidly. I have no doubt by the turn of the century we'll be in the lower half of the lower 48 states in earned personal income.

In the areas of education we have some very significant problems. A very small percentage of

our high school graduates go on to college and, of those who do, the majority go to colleges outside of the state of Alaska. We are not educating our own. Just by contrast, in the state of Minnesota, 80 percent of the high school graduates go on to some form of post-secondary education.

Now these are the phenomena that are occurring in the world at large, exciting things that are happening, and yet here in Alaska we see some troubling signs.

The question I think all of us have is whether

this Permanent Fund is a property of the state of Alaska, as is the rest of our 104 million acre entitlement. The only thing that distinguishes this Fund from the natural resources and minerals is that it has a very high economic rent. It's enormously valuable. As I believe Scott Goldsmith indicated this morning, the thing that made it different was that instead of harvesting the trees and spending the trees to support education, health and social services and public safety, the rents were so large we put them into a special savings fund. But it's the same sustainable source of revenue that we had when we used those other sus-

## Participants in the Roundtable Discussion

**Andy Kwon** is the president of MC Corporation and has been instrumental in the Korean-American Citizens League of Alaska.

**Dr. Jerome Komisar** served several years as President of the University of Alaska system. Originally from New York, he was formerly a professor of economics.

**Bill Ennis**, an outstanding physics teacher at East High School, was named the 1996 BP Teacher of the Year for Anchorage. His award notes he not only imparts ideas and information to his students effectively, but also animates the students' curiosity and learning.

**Peg Tileston** has lived in Alaska since 1972. She is chair of Alaska Common Ground, a trustee for the Alaska Conservation Foundation, a board member of the Alaska Center for the Environment, a board member of Oil Watch Alaska and a member of the Governor's Oil and Gas Policy Council.

**Kelly Haney** was born and raised in Alaska, and is a 1995 graduate of Dimond High School in Anchorage. She is studying for a degree in science and technology at the University of Alaska Anchorage. Haney was the youngest person ever elected to the Anchorage School Board.

**Scott Heyworth** was born and raised in Alaska. He serves as chair

of the Ship Creek Enhancement Advisory Citizens Task Force, assists with Abused Women's Aid in Crisis Intervention Helpline and the Alaska Institute for Creative Studies, and is a board member of Easter Seals. Mr. Heyworth helped form the Anchorage Bucs Baseball team in 1981. He has been a longshoreman with Sea-Land/T.O.T.E. for 27 years.

**Archbishop Francis T. Hurley**, the Catholic Archbishop of Anchorage, was honored as the 1997 Alaskan of the Year. He was instrumental in the establishment of many important social services, such as Brother Francis Shelter, Clare House, Covenant House, McAuley Manor and new churches.

**Mano Frey** has been the business manager and secretary-treasurer of L.I.U.N.A. Loca! #341 since 1981. He was recognized by the Anchorage Chamber of Commerce in 1985 for his community service. Mr. Frey serves on the boards of several civic groups, including Commonwealth North and the Anchorage Chamber of Commerce.

**Margy Johnson** has dedicated herself to improving Cordova's economy. She served two terms as mayor of Cordova, and is the owner of Reluctant Fishermen hotel. She has also been involved for more than 20 years with the Alaska Visitors Association.

**Thelma Buchholdt** is a long-time Alaskan. She served in the Alaska

legislature and helped to establish the Alaskan-Asian cultural center in Anchorage. She is a proud mother and wife who is very active in the Filipino community.

**Henry Springer** is executive director of the Associated General Contractors, Alaska chapter. He was with the Alaska Department of Transportation and Public Facilities for 23 years as a surveyor, a Division Director and as Deputy Commissioner. From 1987 until 1989 Mr. Springer served in the Alaska State House of Representatives, representing western Alaska.

**Tom Williams**, in his capacity as Alaska Commissioner of Revenue, was on the original Board of Trustees of the Alaska Permanent Fund Corporation. He credits one of his major accomplishments the hiring of Dave Rose. Mr. Williams is Alaska tax counsel for BP Exploration (Alaska) Inc.

**Dennis Tjepelman** is a lifelong Alaska resident from Kotzebue. He has long been involved in Alaska Native affairs. In 1975 he helped create the regional non-profit corporation, Maniilaq Association, of which he is currently president and chief executive officer.

**Jonathon Lack** is an Anchorage attorney who also has extensive experience serving as a legislative aide on the state and federal level.

tainable revenues to support general government operations. But in this case we've treated it special just because it was so large.

It seems to me that when we look to the future of the Permanent Fund, the question is: If this is one of our major resources, how can it be used to advance our vision and our ambitions for the future?

What I'd like to do as we lead off with the panel is to break into two questions. The first question is: What is your vision? The question is for all of you in the audience as well as those of you on the panel. What is your vision for Alaska? What would you like Alaska to become?

A well-known psychologist in the early part of this century said that the question is not what the



*Panel participants included Tom Williams, left, Dennis Tjepelman and Jonathon Lack.*

child has been or is today, but rather what the child could be. If you use that sort of metaphor for Alaska, the question is not necessarily where we've been, where we are today, but where we'd like Alaska to be. So what I'd like everybody to do is just take two or three minutes to use an adjective to describe your vision of Alaska in the future.

When Lyndon Baines Johnson was elected President of the United States, his adjectives were "a great society." George Bush, later on in his administration, said he'd like to see a kinder, gentler America. That was how he described his vision for the nation. First Lady Hillary Clinton has talked about "it takes a village." So building a village might be her vision for Alaska.

I'd like to ask each of you to take just a moment to write down what you think are three adjectives that would characterize the kind of

Alaska, or as Professor Hacker indicated, the legacy that you'd like to leave in terms of describing this state that the Alaska Native community referred to as The Great Land. I'll come back and ask half of the panel to share with the rest of the audience their three descriptive visions, and then the follow-up with a Q and A on the questions about what role, if any, would the Permanent Fund play in trying to realize the vision you have for Alaska.

For the other half of the panel, I'll come back to the question and say that if this is in fact the vision and this is the role of the Permanent Fund, how could we achieve it? What three steps would we take in order to realize this vision for Alaska and this use of the Permanent Fund, and that'll be the second set of questions.

Let me go ahead and now ask each of the panelists if they would just very briefly share with us what their adjectives were, and then we'll come back and ask whether or not the Permanent Fund would play any role in trying to realize that descriptive state of Alaska. Andy, would you start off and share with us what your adjectives were for this great state of Alaska?

#### *Andy Kwon*

What I wrote down is growing prosperous and leading. That's my vision of Alaska.



*Education was a top priority for East Anchorage High School physics teacher Bill Ennis and former Anchorage School Board member Kelly Hancy.*

**Jerome Komisar**

I had welcoming, a place where people want to live. Dynamic, a place that allows people and communities to grow and be active. I have adventurous, a place where new truths are discovered and new methods are developed.

**Bill Ennis**

Beautiful, progressive, familial.

**Peg Tileston**

Community-spirited, acceptance of diversity and differing opinions in the sense of place.

**Kelly Haney**

Mine are kind of boring. I have educated, productive and stable.



*Cordova Mayor Margy Johnson talked about community needs while former legislator Thelma Buchholdt discussed social needs.*

**Scott Heyworth**

My first is collaborative, where the leaders – elected or not – the institutions – corporate and non-profit – and the citizens must work together. Second, compassionate. We must have a bigger heart for the less fortunate. And communicative – that we must accept the

word “diverse” and begin to know one another’s heritage, traditions and language.

**Archbishop Hurley**

First we must be thankful to God for the great benefit and wealth that He has given to us as a people. It does come ultimately from Him. Secondly, that we will be good stewards, as has been mentioned to us just previously; stewards that are genuinely concerned about other people. And thirdly, that we reflect a fundamental option for the poor.

**Lee Gorsuch**

Archbishop Hurley, let me ask you now:

Given your sense of this vision of Alaska in those powerful descriptors of the Alaska that you would like to see in the future, what role, if any, do you see the Permanent Fund playing in the realization of that vision?



*Former House Speaker and Anchorage Mayor Tom Fink was present at the creation of the Fund.*

**Archbishop Hurley**

Wherever you have money, you have the opportunity to put things into effect. If we start from the base that we are thankful for what we have, we’ll be motivated to give ourselves a good sense of direction. My primary thought here was to be thankful to God for the great gift we have. I would also like to be thankful for the people who have made this state what it is.

I use one example. When I first came here to Anchorage, one thing I discovered in my own community (and not just the Catholic community) was the number of very successful people and rather wealthy people who never forgot where they came from. I think that very critical and very important for us. So the Permanent Fund becomes a vehicle for living out our dreams, and so the question is, for me: What are the themes that keep putting us to the test? Every time I’m doing something I have to be thankful for the source of it.

Secondly, I have to be a good steward. Steward means, of its very nature, reaching out and being concerned about others, so it cannot be self-centered, which again was the main topic of our speaker today. I told him he stole most of what I wanted to say anyhow. I could put him in the pulpit tomorrow in our cathedral and he would be right on for the very things we like to hear about stewardship.

And then the fundamental option for the poor. It is my own conviction that if we are concerned about raising the level at the lower end of our

society, everybody goes up. We're never going to be free of the poor, we know that. But if that's one of the tests – in everything I'm doing, am I also concerned about the poor? – then I think the whole level's going to go up. Now, the Permanent Fund's just a vehicle for doing that. How we do that? We're looking to everyone here in these kinds of discussions to come up with practical thoughts.

#### **Lee Gorsuch**

From your perspective, is it appropriate to use the Permanent Fund to achieve some of these social purposes?

words like “cap the dividend” and maybe go into a civic donation or I think Kay Brown talked about six different non-profits or something like that – that in a collaborative way we could take this money and other pieces of this Fund that we have and reach down into other institutions or other needs or other areas of people in the social circles that need our help. I also agree with Mayor Fink about the importance of infrastructure, buildings and stuff. That's all just as important. So we need to make a broad sweep and look at the whole arena.

But coming back to my three words. If we can communicate with each other on these things,

***“If the Fund is one of our major resources, how can it be used to advance our vision and our ambitions for the future?”***

***Lee Gorsuch, Chancellor, University of Alaska Anchorage.***

#### **Archbishop Hurley**

I think the Permanent Fund can be used for anything that we have going on in our state. That's where the wisdom of the people, all the people, has to come into play. How do we take all of it and make it productive? The Permanent Fund's just a vehicle. It's a vehicle for accomplishing a lot of things, just as we have now. The dividend is a vehicle through which people can do individual things.

#### **Lee Gorsuch**

Scott Heyworth, what were your three adjectives and what role would you see the Permanent Fund play in realizing those, if any?

#### **Scott Heyworth**

They were collaborative and compassionate and communicative. I was thinking about the Permanent Fund – and I agree with Archbishop Hurley here – that as the dividend comes out each individual gets to make his or her own choices. But I've also begun to think – and I've heard a lot of the fine people talk about the idea that possibly we need to take this resource – and I heard the

collaborate together and not get in these testy fights that I see around this state all the time, which actually troubles me quite a bit, and to be more compassionate, to look at the whole, I think we can get along a lot better and move forward more quickly in this state.

#### **Kelly Haney**

My adjectives were educated, productive and stable. I don't exactly know how the Permanent Fund would play into each one of these but I think it already does. I think there's a great need for an education endowment fund, and I don't know whether that money should come from the Permanent Fund earnings or not. Possibly we need to set up one to mirror the Permanent Fund. But we have a problem in this state where we have, supposedly, a fiscal gap yet each citizen is



*Former Rep. Terry Martin was one of a number of legislators who participated in the conference.*

handed over \$1,000 each year. We can't appropriately fund education, we can't appropriately fund health and human resources and we can't build a jail. There's a problem that I see and I know that's quite controversial to say, but it's out there.

We need educated citizens, we need people in our high schools to go on to the University of

als that I was given for this conference, I see a lot of graphs that have our budget going up and down. We're prosperous this year and we're broke this year, and I think there's something that we need – stability – and we need it fast. And possibly the Permanent Fund, which keeps growing, would be a good way to achieve that.

***"We have a problem in this state where we have, supposedly, a fiscal gap yet each citizen is handed over \$1,000 each year."***

***Kelly Haney, Anchorage School Board***

Alaska system and to come out of the University of Alaska system with the degree of their choice and stay in Alaska and work in Alaska and become productive members of this society, whether that be a teacher, whether that be a pilot, whether that be a businessman, whatever the case may be.

That ties me into the productive part of it, as I think the Permanent Fund is already doing that. I work for a small business as a travel agent and when Permanent Fund dividends come out, life is good. We really enjoy those because people use their Permanent Fund dividends and it affects our small business.

I really don't know how the Permanent Fund can help stabilize Alaska. I don't even know if that's achievable, but looking through the materi-

#### ***Lee Gorsuch***

As David Reaume said earlier, one of the major accomplishments was that money that was non-recurring became recurring revenue, so just creating the Fund itself gave us options. Now of course, what we're trying to decide is what those options are and how you make discriminating choices among those options. Permanent Fund earnings have, in fact, brought a great deal of stability in the sense of a sustained stream of revenues that's not dependent entirely upon the Alaska economy. Peg, what are your thoughts on this question about the role of the Permanent Fund, given your vision for Alaska.

#### ***Peg Tileston***

The third point that I had as far as vision was concerned is a negative. And that's fragmentation. We continue to be fragmented.

One of the things I think the Permanent Fund can do is exactly what we're doing right now and it is this: the Permanent Fund and discussion of it can provide a springboard for Alaskans all over the state to come together and really start talking about what it is that we care about, what it is that we have in common, where our differences are and the ability to accept and appreciate those differences and stop the diversity or the division and inability to agree to disagree about things of importance and concentrate on those areas that bring us forward as a state and move us in the



*Rebecca Moore holds "Your Fund. Your Choice. Your Future," background notes for public conversations.*

direction that it seems to me there is a lot more agreement on.

I think the other thing that needs to be done is to look at programs writ large, rather than as we do now in small pieces – education, the criminal justice, etc., as small pieces of the budget. And we don't have a broad sense of the programs that we have in place, what they're doing and what they should be doing. So I think that the Permanent Fund's primary purpose right now – rather than trying to think of how it can change or should change – is to be used as a mechanism to do what we're doing at this meeting and broaden it throughout the whole state so that we get some of that building of camaraderie, sense of place, sense of people, together.

#### **Lee Gorsuch**

One of the arguments in support of the dividend program is that it's very egalitarian. Everyone gets an equal share. How is it, then, that we're getting increasing divisiveness when everyone gets the same.

#### **Peg Tileston**

I think it fosters a sense of selfishness. I know a number of people who turn around and give their Permanent Fund to their favorite charity. Nevertheless, it has fostered a sense of entitlement with no responsibility connected to it. It just comes in the mail or goes into the savings account or checking account, with no real connection with what the broader needs of the state are.

#### **Lee Gorsuch**

Bill, why don't you refresh our memory on what your descriptive adjectives were and what role you see the Fund playing in trying to realize your vision for Alaska.

#### **Bill Ennis**

I wanted to preface any comment I made with the idea that as a classroom teacher, I get very severe tunnel vision about the greater Alaska, and I don't think I've learned any more about anything than I have about this Permanent Fund situation,

reading the documents that were given to me. So the first thing is to bring everybody together someplace so that they have to read all these things. Most of us get tunnel vision about our job and we don't think about these other things.

I had beautiful, progressive and familial. I think that Alaska has an opportunity with the Permanent Fund as a base to become the environmental anchor of the world and the United States, and I am aware of the fact that perhaps some people might not agree with that statement here in the room, but that's okay.

Progressive, I think Alaska has an opportunity to become a true opinion leader in technology, education and natural resource use. No one else can possibly do that.

We not only have the Permanent Fund, but we have it because we are in Alaska.

Money doesn't fix everything. From a classroom perspective, I see the huge fluctuations in funding in my department at East High School, from say a high back in the '80s of \$12,000 for 12 teachers, down to

hundreds of dollars per teacher – which is a significant difference when a frog costs \$6. We've mentioned the lowering of the income and skill levels of occupations here in Anchorage and certainly if we have a more educated public, we could probably draw higher paying jobs. I know that that has happened Outside, where a community will specifically fund technical schools, colleges, etc., to educate the public and then the businesses come.

And the third was familial. I think everybody here has mentioned that we would like to reduce the controversies among the various groups. I think communication is going to require perhaps



*Archbishop Francis Hurley called the Fund a vehicle for betterment while labor leader Mano Frey said Alaska was both the poorest and richest of states.*

not roads, but greater electronic communication, and that is certainly a very specific task that can be handled with a few dollars here and there from the Permanent Fund.

### *Jerome Komisar*

I used three adjectives, but I was attempting to describe one kind of place that was welcoming, dynamic and adventurous. What I was trying to do was describe the state where people want to live, where they want to work and where they want to build families.



*Roundtable participants included, from left, longshoreman Scott Heyworth, Archbishop Francis Hurley, labor leader Mano Frey, Cordova Mayor Margy Johnson, former legislator Thelma Buchholdt and Henry Springer, executive director of Associated General Contractors.*

I think a state like that requires certain things. One is income protection, and the dividend program does afford income protection to the poor, as the negative income tax in the old framework had a particular value.

But there are other things the state needs as well: good schools, safe streets, dependable social services and a reliable economic infrastructure. For each of those, the Permanent Fund could play a very significant role and, I think, will have to play a significant role if the state is going to be the kind of state that I believe we all want.

### *Andy Kwon*

The three words I used were growing, prosperous and leading. I've been involved with the

school budget advisory commission, Anchorage YMCA and other things, and I've seen the tightness of funds all over the state as well as in Anchorage.

One way the Permanent Fund can help, I believe, is as follows: Imagine having a Stanford, MIT or Harvard in Anchorage. Think about the education level, think about associative business that would generate and also long-term prosperity. If we can take maybe \$200 million out of \$700 million, I'm sure we can get a lot of Nobel Prize professors and first-rate educators. They would generate a lot of enthusiasm.

I'm a product of the Anchorage School District who went Outside for school. But if we had a Harvard here, I would rather go here. This may be too simple, or seem too outrageous, but I think it can be done.

### *Lee Gorsuch*

Andy, while you have the mike, several of the panelists earlier today said they didn't think the public would come to that position – of supporting more for education, creating the sort of prestigious university you just referred to – unless there were a crisis. Do you concur with that position? Do you think there is a crisis, or do you think there is an alternative way to try to make that argument sufficiently persuasive that the rest of the state would agree with you?

### *Andy Kwon*

Competition is fierce. High-tech positions are paid more money. And so if you look at the long-term process, I don't think we have an option. Do we want to work at fast food joints and flip hamburgers at six bucks an hour? Or do we want to create higher-income positions so that we can compete as a state with the Lower 48, as well as internationally? If we want to do the latter, we need a Stanford or a Harvard – schools whose professors work with other companies and who create high-tech corporations. I see that as a very viable option. And if Alaskans are educated, I believe it's achievable.

**Lee Gorsuch**

Dr. Komisar, we're going through this crisis inside the university. It may be viewed as an internal crisis, but how do you see this question of trying to get to an enlightened self-interest, where the rest of the community sees itself as benefiting from the type of institution and programs that Andy's just described?

**Jerome Komisar**

I think that's the key question. How do you bring about a consensus to use the Permanent Fund to support a whole host of social services, as well as private activity? Part of the process is being handled by this meeting.

I think there has to be a structured way of getting public opinion to focus on the uses of the income of the Permanent Fund. I don't think we've come up with a solution on how to do that. We have multiple ideas on how to use the Permanent Fund. But we need to boil down the



*Fund Trustee Clark Gruening, left, talks to state Sen. Loren Leman.*

multitude of suggestions to really a handful, and get them out to a broad-based public referendum to begin to coalesce a feeling.

I don't see this as taking place in one election. But there would be multiple opportunities for the public to speak as to alternative uses. Finally,

these would be boiled down to one that would have a much more dynamic effect on the entire range of state needs.

**Lee Gorsuch**

To get back to you, Bill, since you are entrusted with many of our bright, aspiring young people, if you're having this conversation in your classroom and you suggest to them that some of their dividend money could go toward more frogs in the lab, and since they would benefit from this, what kind of response would they likely give you and what does that suggest in terms of whether or not it's a shared vision? Or have young people reached the maturity that you think is appropriate for engaging in this conversation?

**Bill Ennis**

Have a class, have a test. That's what teachers do.

I think if you asked my students you would certainly get some flippant answers to begin with. But I think all of them see the results of years of lower funding in education. They see the results of the perceived lack of importance of education here in Anchorage. And so I think almost across the board there would be complete support.



*Anchorage Assembly Member Charles Wohlforth was instrumental in creating an Anchorage permanent fund.*

I would even go so far as to say that if you asked the same question to a majority of students, perhaps in a traditional class – what we used to call general science, for example – I would think that you would get similar support. The kids know, most of them, that this is the key. They don't want minimum wage jobs. They want more than that. So I think there is support among students.

**Lee Gorsuch**

Kelly, you're on the school board. You've started charging fees for all types of extra-curricular activities, which creates a further difficulty – families that have resources that allow their children to participate versus those that don't. And yet obviously the school board felt this was the

classroom, and what they're going to provide to the community.

**Lee Gorsuch**

Peg, you've been active in Common Ground and a whole host of other activities that deal with these issues and yet I don't sense any

***The dividend has fostered a sense of entitlement with no responsibility attached."***

***Peg Tileston, Common Ground.***

only way to continue to keep dollars in the classroom. Do you share Bill's sentiment that young people and their families would actually look favorably on using the Permanent Fund to support education programs?

**Kelly Haney**

I really do. I've been very blessed because my parents saved all my Permanent Fund dividends



*Beth Rose of the Alaska Humanities Forum taped interviews with many Alaskans who helped shape the Fund.*

and the money is paying for college, moving expenses, that type of thing. And my parents are saving my sister's Permanent Fund dividends. That's for college expenses as well. But getting \$200 less a year in order to get more frogs into a science class, or in order to get a textbook that's current, or in order to fund a sports program, or in order

to fund more degree programs at the university – I think people would be very willing to pay for that.

I'm not saying give up your whole dividend or put it all towards education. But \$200, \$300 a year, for providing what students need in the classroom – that's nominal. I mean, that's nothing compared to what they're going to get out of that

groundswell. As a matter of fact, all the politicians I talked to say the reason they don't talk about taxes – when it comes to the Permanent Fund, they don't talk about doing anything other than dividends – is that the large voting electorate, at least, is saying "hands off." Do you sense that there's a change here and have you seen any indication of it, in terms of either polls or increased civic conversation?

**Peg Tileston**

Deliver me from polls! Probably not. I think part of the problem is how we phrase the questions. Maybe we ought to have a statewide Meyers-Briggs test, the kind featuring a series of questions that measures our skills, our temperaments and – important in this case – our priorities. I think most of the problem that we've had lies in the political rhetoric and in the way that questions have been asked.

Certainly if you ask somebody, "Do you want to give up any or all of your Permanent Fund Dividend," the answer's going to be no; it's the wrong way to ask the question. We need to start looking at positive, helpful ways of asking the questions. As an example, we've read recently about the tremendous work overload of social service workers. I know three social service workers who've left the field because they were so overloaded. That kind of thing begins to resonate with people, particularly when they see children who are not being protected, or taken care of. We need

to rephrase the questions so that we are not asking questions that get the obvious answers, but make people think – questions that promote more opportunities for people in our communities to sit



*Walt Parker of the Arctic Research Commission talked about the purpose of the Fund.*

down together and start examining where we want this state to go and how we want it to get there.

#### **Lee Gorsuch**

Scott, one of the counter-arguments has been that when the state was better off – in the early 1980s in particular – spending got out of control and state spending per capita

was enormous, three times the national average. It is proposed, therefore, that the way the state should deal with this issue is simply to cut the budget. That appears to have been a popular strategy; it appears to be the current political strategy.

From your perspective, how is the public to know when the budget has been cut enough because the numbers are still larger than those of other states? Our state may not be comparable in a variety of other ways, but nonetheless the perception is we're still spending more than most other states. Can it be said that we've really cut enough?

#### **Scott Heyworth**

I wouldn't know if we've really cut enough, but I know the citizens would know – when the arguments and the contention went away – that possibly the politicians had come to a place where they knew they'd cut enough. I really don't know the answer to that question, but I would like to say that the seven people on this side of the table seem to have come to a consensus on education, infrastructure, environment, social services – all in 25 minutes.

#### **Archbishop Hurley**

It's interesting that we've got so much here on education. One of the other speakers spoke about the fact that whenever there's a proposal that there be an educational trust, there's tremendous opposition because of doubts about what will happen to the money. Will they really get down to the frog in the classroom? What really is going to happen to the money? That is a major problem.

I'd like to raise a different consideration, which could lead to something very contentious. I think we have set, through the dividend, a unique precedent in our country. We have taken money that belonged to all of us. We've handed it to the people and said, "Now it's your choice." That to me is a great precedent, particularly if there's any effort to take all or even part of that back and say, "Well now, we want to use it the way that some group will decide," usually the politicians.



*Dave Rose, left, the first executive director of the Alaska Permanent Fund Corporation, talks about the dividend's impact with Scott Goldsmith, professor of economics, University of Alaska Anchorage, Institute of Social and Economic Research.*

I could say, as I sit here with my good friends from the University of Alaska, fine, I'm all for strengthening education, too. But may my portion go to Alaska Pacific University where I serve on the board? Could my share go to St. Elizabeth's School, or St. Mary's School? You see, we have established an element of personal choice about publicly owned funds which are commonly owned funds. I don't think that that's ever been done in the United States. A very interesting precedent.

Now, where do we go from here? We have to start poring over all the information out there and make sure everybody's in the mix. I'm talking about all these things that have been mentioned here. Every proposition that comes up is challenged and it's going to take a long time to work all this out. Let's accept that fact. But let us start getting all these ideas into the mix and then see



*Former legislator Oral Freeman, left, and former attorney general Avrum Gross played critical roles in the establishment of the Fund.*

what themes keep surfacing and try to respond to them. It's the kind of thing that's happening here; it's one reason why I so welcome this forum.

#### *Mano Frey*

The Permanent Fund itself was certainly a bold plan, as the Archbishop said, unique certainly within the United States and virtually the world. But once we headed down the track of the Permanent Fund Dividend program, that was something we couldn't vary from because there would be the strongest reaction among the citizens of this state to any kind of spending plan.

The Permanent Fund Dividend program cannot go away, will not go away. Frankly I don't think it's necessary to even have a cap, though it may make some sense to reduce the growth of the dividend program. If I were king, I would like to see portions of the Fund used – whether it were excess earnings or earnings of a percentage of the corpus itself – and used for specifically

identified purposes, whether it be education or infrastructure. But the uses would have to be specifically identified.

The problem that we have now is that we are both the poorest and the richest of states. We're the poorest primarily because of perception, because many of the politicians have talked about the bloated state budget for so long that people believe it. It's not a matter of reducing the state budget; it's a matter of allocating those funds that are available in a most sensible fashion, including some of the earnings of the Permanent Fund.

One point I want to make for those who were here prior to the oil line's being built. Many of you remember Gov. Bill Egan – along with a lot of other people here – discussed whether Alaska should, as a state, invest in building that oil line. Well imagine what the income stream to the state would be on a recurring basis today. The same is true with major projects like the gas line. Is that an area where, using the Permanent Fund and the leverage it would provide, investment by the state might not provide high-paying jobs? It would obviously allow a recurring income stream to the state or to the Permanent Fund. There are so many wonderful opportunities that we have that haven't been fully explored.

#### *Margy Johnson*

It occurs to me that crisis generally brings Alaskans together and nothing unifies The Great Land more quickly than anyone or any entity or government trying to take something from us. Maybe if there were the threat that we're going to lose our Permanent Fund, Alaskans would get together. We need to be together because there are critical issues facing the state today.

I have been intrigued listening to the comments for the past couple of days, particularly on the more worldly views of what to do with the Permanent Fund. I sincerely wish that I had the luxury of being worldly or being lofty. I don't. I can tell you, as mayor of Cordova, I have to worry every day about whether the toilets flush, whether

we have a sewer system that's adequate to handle the needs of our community. Do we have a water treatment facility that's adequate to handle the fish processors? The federal government in no uncertain terms has told the city of Cordova that we need a \$10 million water filter device. That's what you need. Being a good, little red-blooded Alaskan, I said we don't have the money, we don't have the bonding capacity. I have 750 taxpayers. You are welcome to my firstborn child and my second-born child, you can put me in jail, but we don't have that kind of money. What are you going to do? Simply close your fish processing plants, ma'am? So they've got a real heavy hammer over our heads.

I mean to say we need to be thinking about basic infrastructure needs. When I see the needs of the villages, when I see that the everyday needs of the citizens of Cordova just aren't being met, we need to do better as a state. We simply need to do better. And as the good professor said at lunch today, if we need to shame our citizens, maybe that's what we need to do. Maybe those in decision-making capacities should look at what we are talking about when we're talking about needs. Let me just tell you when somebody dies in Cordova, do you know what happens? It's not like in Anchorage where you just simply call a mortuary and somebody comes and picks up the body. We have to somehow find a way to get that



*Eric Wohlforth, left, who now chairs the Fund's Board of Trustees, talks with former chair Marc Langland.*

body to the airport. Then when it comes back, the community itself has nothing to offer the family, so the family will go out in a pickup truck, put Grandpa in, and then there's no place to put the casket because there's no, like, community building. So we put it in a gear shed or something like that.

This isn't good enough folks. This simply isn't good enough. In a state that's the richest, we need to do better. I think it's time Alaskans begin to consider the enormity of the problems out there, and also the great gifts at our disposal to make things happen. It's actually past time. I can honestly say that I totally support the idea of a community dividend. I think the merits are sound. Is it a perfect proposal? No. But we have the wisdom in Alaska to absolutely make that work. The proposal is out there, we simply have to embrace the concept and demand that it happen.

#### *Thelma Buchholdt*

What we need, probably, is more public information, more understanding about what's happening with the Permanent Fund. It's true that it has become an entitlement – used for vacation travel, home repair or bills. Which I think is wonderful, because in this way everybody gets a share of the Permanent Fund.

But what I see now is that people resent the idea that we would spend some for the improvement of roads, family care, care in the villages. Health and a clean environment are very important to all Alaskans. And those are the very things being neglected because we have to abide by the wishes of our constituents, who expect this money to arrive at their mailboxes at the end of the year.

We have to free up some of these funds to take care of, say, education. Education is very important to our families. In the Asian community, we all work one or two or three jobs to send our kids to school because we look at education as something that is going to be useful for the entire family and for our future as a family. That is very important.



*Acceptance of diversity and community-spirited were adjectives Peg Tileston, right, of Alaska Common Ground, used to describe her vision of Alaska. At left is Cheryl Frasca, who heads the Fiscal Policy Council of Alaska.*

We also are very concerned about our environment. We have to have a safe, clean environment. We can invest some of the Permanent Fund money to make sure that we have a continuing clean environment in Alaska.

The Fund might help people get medical care or help with the needs of neglected children. We don't have good day-care programs, not enough anyway. We're talking about the Alaskans of the future. What do we do about them?

Surely there are some people out there who are concerned, who would like to expand the use of the Permanent Fund, but they've never been asked. Maybe because they don't have the credentials, and maybe because they just have never been thought of as people with ideas. But there are people out there that we should involve. I know that my main concern is we lack communication with a great many more people than there are in this room.

#### *Lee Gorsuch*

Henry, we heard earlier this morning that we need a crisis. Joe Perkins, the Commissioner of the Department of Transportation, says, "I'm not sure

## ***"The Permanent Fund Dividend program cannot go away, will not go away."***

*Mano Frey, Labor Leader.*

Another thing that we have to be concerned about is respect for the diversity of cultures in Alaska. The issue of subsistence is one aspect of that. I think that people in Alaska respect the rights of our indigenous peoples here. I think those are areas where the Permanent Fund can come into the picture of educating the public about the rights of citizens, of individuals who are either in need of subsistence to promote their culture, or also to make sure that their culture remains viable through the centuries.

Archbishop Hurley talked about poverty, that there are people who are in poverty. I know health care is an issue that some of us Alaskans don't want to talk about. Many years ago I proposed that we should have health care insurance in this state and most people at the time thought it wasn't necessary. But there are some people who don't get any kind of help.

what you're waiting for. We've got boats, harbors, roads in significant disrepair; we have a one-billion-dollar deferred maintenance problem. How big a crisis do you need?" From your vantage point, how are we going to pay for this?

#### *Henry Springer*

Well, to me the Permanent Fund is not a sacred cow. It would have been suicidal, even five years ago, to talk about doing something with the Permanent Fund. But now we're reaching a point where people want to take a look at it. There's a certain paradox here. We are talking about a real fiscal gap in our state projections where we can't match up expenditures and revenues. At the same time we have a Permanent Fund of incredible magnitude just sitting there.

I think the Permanent Fund is an integral part of the state's fiscal situation and needs to be con-

sidered as such. If we have a fiscal gap, we need to do certain things to meet our long-term financial responsibility – a combination of things. We probably have to increase user fees and establish a dedicated fund for the fees. I think certain taxes – within limited applications – need to be considered. And I personally think that the earnings of the Permanent Fund should be part of the equation. Leave the principal intact, including the inflation-proofing, and take the earnings and split them – 50 percent to individual dividends and 50 percent going into the state budget.

And when I talk about the state budget, I think there are real limitations to what you can cut. Forty-four percent of the operating budget is arrived at either through formulas that involve federal grants, which we can't cut, or they are dedicated funds, designated by law to some projects. There is no way you can cut the government spending in the operating budget much further, at least not to the point where you're going to close the gap.

But I want to address the capital budget. When DOT Commissioner Perkins talks, he talks about the capital budget. The state doesn't have a capital budget. Our capital budget is a hang-on that is driven by political whims. It is not based on any kind of logic or long-range planning or the setting and achieving of goals. On top of it, we don't have a state program. Our program is driven by federal aid both in the aviation and the highway components. All we're doing, basically, is trying to use the federal dollars that are available and we have to furnish the matching funds.

We have a so-called six-year plan because the Feds demand it. That six-year plan is a sham. It gets changed every time the administration or the legislature changes. I think if we want to do some good with the earnings of the Permanent Fund, we need to take 50 percent of the earnings and put it in the state budget. It could be wisely used in a long-term education fund for the very simple reason that I think education funding is the most inadequate funding.

With the deficit reductions, it's not a real reduction of government spending; it's a shifting of government spending from state to local levels.

Then put the rest of this portion of the earnings into some capital program that is established and it would create the stability which we need to create the infrastructure which we need to get a sta-



*Former Anchorage Mayor Jack Roderick chats with UAA Chancellor Lee Gorsuch, right.*

ble economy going. That stability factor, I think, is a really, really integral part of everything because labor, the construction industry, manufacturers, suppliers, the financial institutions – they are all keenly interested to have a clear picture of what is coming down for three to six years.

#### **Lee Gorsuch**

Tom, what we're in part hearing is revenue requirements to support general government – education, health, roads. And Henry's position is that some of the earnings of the Permanent Fund, should be used for general government purposes. You've both been a Commissioner of Revenue, and have written on the question of Alaska's long-range financial future. Is it your view that, as Henry said, some of the earnings – if not a large chunk of them – should be used as a part of the state's long-range financial requirements, or are

you of the mind that the Fund is and should be regarded as a sacred cow, if not for political reasons then for other economic reasons?

### **Tom Williams**

The question, the way posed, invites an answer. But it's the wrong answer. The question is whether we want a Permanent Fund. Right now, we have a Permanent Fund because everybody shares in it equally. It's not invested so that my shopping mall gets a cheap loan from it and yours doesn't. It's not invested so that I get a greater share of the dividends than you do. Everybody has an equal stake in the government, and I think that's part of why the Permanent Fund has withstood the challenge to politicize its investments. People recognize that as soon as it's politicized in its investment power, all bets are off. Then we might as well divide it up 600,000 ways because you're going to have a better chance of getting a fair share that way – unless you're one of the privileged few that cuts the right deal with whoever are the Permanent Fund trustees.

I think the same thing is true with the income. That's where we have our direct stake in the Permanent Fund. Only two things affect how much we get. First, how many of us are here? And second, how well are the trustees managing it? If they manage it poorly, we'll feel it directly because we're dividing a smaller number by the population. So we have a direct stake in the performance of the Permanent Fund.

The other point I'd like to make is we're all walking around the issue that's really here, and that is we don't trust government to do the right thing with money. That's the fundamental problem. We don't trust government. Who's in favor of taxes? Well, I'm in favor of a tax if it will go to help education. I'm in favor of a tax on motor fuel if it will go to pay for street repairs and fill the potholes. I'm in favor of a tobacco tax if it'll go help cover health care costs for lung cancer patients. But if it isn't earmarked that way, do I trust the legislature to spend it wisely? Do I trust the administration to implement that wisely? I don't



*Longshoreman Scott Heyworth, right, came up with collaborative, compassionate and communicative to describe his vision of the state.*

think most of us in this room do. We don't trust that process.

The fact is, when we're talking about the Permanent Fund, you know what a tax is. A tax is when government takes money away from you. Now, I have a tax when I get a paycheck. Money is taken away from me before I got it. BP pays it in to the federal government. Used to be when I was commissioner we paid some to the state, too. But that's a tax. If you limit the dividend, that's a tax. And one of the questions is, why would we want to pick the dumbest possible tax we could? Who is it going to be impacted the worst? Hardly anyone in this room is below the \$51,000 median level. If we had more representation from that end of the spectrum we'd hear a lot more anecdotal evidence about their needs for that \$1,296. It's the only tax that we can create that will tax only Alaskans and it will fall heaviest on those Alaskans who can least afford to pay it. For my part, I'd a whole lot rather pay \$2,500 or \$3,000 a year in a state sales tax or state property tax or state income tax and keep the dividends and raise the money to pay for our legitimate needs of government, than to finance that on the backs of the people who are Alaskans and least able to afford it.

### **Lee Gorsuch**

Dennis, one of Tom's points is an issue that's out there in terms of people not trusting the gov-

ernment. Obviously rural Alaska is feeling increasingly disenfranchised by the government, feeling as though some of the budget cuts that have disproportionate impacts. Where are we, in your view, in terms of trying to find financial revenues to support these essential services? Are you looking at, as a service provider, earnings of the

is not working for us. I regret to say that I am not a graduate of the University of Alaska, but I did graduate from Fort Lewis College, a liberal arts college in Durango, Colorado. At the time I got accepted to go to school, I was accepted by the University of Alaska and I was going to go there, but right at the bottom of this brochure at

***"The Permanent Fund is an integral part of the state's fiscal situation and needs to be considered as such."***

***Henry Springer, executive director, Associated General Contractors.***

Permanent Fund, sales taxes, income taxes as Tom Williams has just argued? What is your view on where the money is to come from?

***Dennis Tjepelman***

I would preface my remarks by saying that as an Alaska Native, as an Inupiat, education is important to me because it brings me here to this table to discuss these things that a person might consider esoteric dogma that doesn't mean anything to them. So I have to say that education has to be looked at with the Permanent Fund in mind. We need a forum to discuss the fact that education is the livelihood and maybe the savior of diversity that we've not talked about. Alaska Natives are 15 percent of the population, and at some point in time in Alaska's history, we were 100 percent. Where are we going, does anybody care, or are we such a threat that somehow the sooner we get out of the picture and become an

even smaller minority, the better off Alaska will be? I don't buy that, and I don't think most people buy that argument.

But we do have that situation. We are surviving in spite of an educational system that

Fort Lewis College, it said, "Education free to American Indians and Alaska Natives." That, to me, said that I'm going to go Outside and get another perspective, knowing that I would come back and do something with the education that I was receiving.

The other argument is that in this day and age we have educational institutions out there. People talk about the fact that a BIA education was inferior. Well that education got me a college degree. I went to graduate school, but didn't stay. I regret that now, but at the time I was getting an master's in education and I said, what do I need it for? I'm going back to Alaska, nobody cares about having a Native with an master's degree. And I've regretted that.

Our university system and educational system constitute a savior as to how the future of Alaska can go. Rural Alaska is 100,000 natives. It's 15 percent of the population, but we're looked at as the devil of whatever is Alaska Native's politics from here on out. Three percent of the subsistence resources are spent by people who use it, but everybody else thinks that we're going to take it away from everybody else. So I think the Permanent Fund has to create a forum for dialogue and honest disagreements and honest differences of opinion to occur so that people do get what I consider an educated society here. Maybe enlightened is a better word, but I used my first adjective as educated, meaning that I can at least



*Former Commissioner of Revenue Mary Nordale said Alaska is not taking care of its needs. At left is Michael Harper, President, Kuskokwim Corporation.*

be at the table to discuss some of these issues and try to argue my point of view and maybe make it a better place for people to understand where other people are coming from.

And finally, about Alaska's villagers – the people who look at the Permanent Fund as maybe the only source of income they'll ever see in the course of a year. When you've got a family – hus-

Catch-22 with the Permanent Fund. Many people see the Fund as this 18-carat gold ambulance that's running around Alaska that's going to solve all these problems. It's really not because, as David Reaume said earlier today, there has to be a major crisis before we go in and take the Permanent Fund, because so many Alaskans consider it a sacred cow.

***"The people of Alaska see the Permanent Fund and dividend checks as some sort of savior, yet they're not willing to utilize it."***

***Jonathon Lack, attorney.***

band, wife and two or three kids, and they get \$6,000-7,000, and maybe all they have is seasonal employment in the summertime, that's a tremendous boost, especially when everybody wants to take away their subsistence way of life.



*Vic Fischer, former Constitutional Convention delegate and state senator, talks with Eleanor Andrews after she moderated a panel on the Fund and the dividends.*

action mode – do you have any closing thoughts on the question about the role of the Permanent Fund dividend, your vision of what you'd like to see Alaska become?

***Jonathon Lack***

I think I have a little different view than everybody else at the table. I see there's a kind of

So I firmly believe that what Tom said about taxes. When we talk about taxes, who taxes, who gets it, who does it benefit. The Alaska Native has to be part of it.

***Lee Gorsuch***

John, before we turn to look at another aspect of this – although we're evolving quickly into an

What has happened is that our legislators and the people of Alaska see the Permanent Fund and Permanent Fund checks as some sort of savior, yet they're not willing to utilize it. By saying we've got all this money here, and we can solve our problems with all the money, but then refusing to use it, we're not looking at real solutions to the problems.

We don't need to go into the Permanent Fund to solve the problems of Alaska today. We can do income tax programs, we can have a seasonal sales taxes. We can do something like that in Alaska without going into and jeopardizing what we have in the Permanent Fund.

The Permanent Fund is for when the oil money runs out. We have more known oil reserves in the state of Alaska today than we've ever had in our history. To say that now is the time to take and utilize Permanent Fund money to support the state is in error. There are other options that the people of Alaska have, and as long as we keep saying the Permanent Fund is this gold-plated ambulance out there that's going to save us, we're in trouble because we're not addressing the issue and it's not going to solve the problem because people in Alaska do see the Permanent Fund and their checks as a sacred cow. If we keep relying and focusing on the Permanent Fund as a possible solution, we're never going to solve the problems.



Byron Mallott, left, Executive Director of the Alaska Permanent Fund Corporation, talks with Eric Wohlforth, Chair of the Fund's Board of Trustees.

### **Lee Gorsuch**

Tom, let me go back quickly to this question about not trusting the government. We saw this start in California, with its legislation by referendum. And Alaska in its constitution actually put on a very strong prohibition against dedicated funds. Yet what you're suggesting implicitly is that the way to restore that faith is to allow the public to dedicate it – Archbishop Hurley's suggestion that we specify where we want that money spent, either in terms of cash or perhaps a portion of the endowment. You're a former Commissioner of Revenue, why didn't we have dedicated funds and to what extent are we looking at something different from dedicated funds that would restore confidence that the money's going where people would like to see it spent?

### **Tom Williams**

I'm not sure that I advocate having a whole bunch of dedicated funds. There are a lot of good reasons why dedicated funds were mistakes in other states. Mostly, once the fund is established, you find your needs shift to something else and you don't have the flexibility to use the money where the needs are anymore. That's the biggest problem with them.

It's a symptom. The people don't trust the political process to spend the money wisely. Just

a couple of facts. Since 1969, the petroleum industry has paid Alaska just a little under \$50 billion. Forty-eight, really. Six of those we put into the Permanent Fund directly as principal. Then we put \$900 million in, thanks to Oral Freeman, and we had another \$2.7 billion the following year that we took out of the general fund money. So that makes a total of \$3.5, \$3.6 billion that we put into the Permanent Fund out of \$42 that didn't automatically go in. Everything else that's in the Permanent Fund has been self-generated by the Permanent Fund. We can talk about \$22 billion, but in terms of what Alaska put in – nine and a half billion – that left us with about \$38 billion, \$37 billion to spend over that same period of time. With a average population of half a million people over that period, that's \$70,000 per man, woman and child.

What can you point to that you got that was worth \$70,000? That's the fundamental problem. People don't know where their \$70,000 went and they have no trust. We have to earn their trust as leaders, particularly our elected leaders. We have to earn the trust of the people. That they'll do a responsible thing if they get the money this time. Because otherwise people don't want to give it to them.

### **Lee Gorsuch**

Mayor Johnson says she's got a \$10 million problem in her town alone, and she has 750 taxpayers. Ten million dollars divided by 750 is going to be a large sum of money. My guess is a lot of that \$32 million went for things like that. What do you say to Mayor Johnson and her \$10 million problem?

### **Tom Williams**

I say to her that I'm willing to take one six-hundred-thousandth of it and pay it to her. Let's all step up together.

### **Lee Gorsuch**

What steps would you take to try to realize your vision? We've heard several different conversations taking place about people's steps.

Some of them involve the Permanent Fund, and other steps did not. So I'd ask the panel members to do the same thing. Flip over on the other side of the piece of paper and just enumerate three steps that you would like to see taken that would realize your vision, irrespective of whether or not those steps were associated with the role of the Permanent Fund or not.



*Cheryl Frasca, former budget director, moderated a panel on investment options that included Robert Maynard, executive director of the Public Employees Retirement System of Idaho.*

#### **Tom Williams**

My first step would be to have inflation-proofing come first of all, because otherwise we're withdrawing from the Fund. Second, I'd balance our tax revenues with our spending. If that means we're going to cut dividends, that's a tax. We have to bring taxes in line.

We're spending more money. We'll be spending even more money this year. The only thing that saved us last year was the high price of oil. And the fact that we've got this constitutional budget reserve.

The third thing is I'd keep the Permanent Fund a diversified trust. It is a trust, and it should be managed as a trust. It should be diversified to avoid losses. When you're talking about a 3 or 4

percent real rate of return, if you lose a dollar, that means another dollar is tied up at 3 percent, it's going to be tied up for the next 24 years earning that dollar back. So each dollar you lose by a bad investment ties up another dollar for a quarter of a century, if your target is 3 percent. If your target's 4 percent, then that comes down somewhat, but it's still 18 years or something close to that.

The point is, at some point you have a trade off. You get a higher reward for taking a higher risk, and there's an optimum point, where overall you're doing best to take, you're at the best position. If you take any more risk than what you're doing, your losses rise faster and you're not able to catch them up.

Now on the other hand, if you're too conservative, you don't earn as much as you could. The trustees seem to be at a good point there. I think 4 might be a little high, but the point is it takes an awful long time to make back a dollar once you've lost it.

#### **Jerome Komisar**

There are really very few ways to obtain the kind of dreams we were talking about for Alaska, and they're really investments in ourselves and first investment in the young, from prenatal care through pre-school to K-12 and then on to the university. So education would be a primary investment that we would have to tackle.

The second would be how do you develop a strong economic economy, how do you diversify the economy of Alaska so that when we go to taxes, there'd be a base upon which you can apply a tax scheme. And what you need there is a very large infrastructure which is the roads, which is water, which is a sewer system, which is a whole collective of activities that government normally supplies in regions.

The third element which I think is particularly crucial in this state, is to defend the culture and the diversity of the culture of Alaska. This is absolutely a remarkable state, and when I talk

about culture I'm talking about the environment, I'm talking about the multiplicity of languages, and talking mainly, simply about the strength and goodwill and the fascination I think we all have with The Great Land.

**Margy Johnson**

I would just like to point out that after inflation-proofing the Permanent Fund, I want everybody to realize you can't build a community with no

We need people who are willing to think through the questions and address the answers and be willing to take the chance of not being popular, but doing the right thing.

**Archbishop Hurley**

I would like to say that the target audience – the first target audience – has to be about the lower level of income right now. This has been mentioned previously. If we do not take that as a

***"If you limit the dividend, that's a tax. Why would we want to pick the dumbest possible tax we could?"***

***Tom Williams, former Commissioner of Revenue.***

money. It's simply impossible. We need to give the Fund a public purpose, and then bring the government to the people. I think we have that ability in Alaska, we have the knowledge, we simply have to commit and do it.

**Peg Tileston**

I think we need to have leadership, leaders with courage. Willingness to take these difficult questions, and the courage to place tough questions before the people and ask for their support and expect them to follow. But we can't have leadership by polls, or leadership out of a closet.

very high priority, to start right there, the rest of it is going to fall apart, because we're always going to be dealing with families which have to be strengthened, and if they're not strengthened then we're just going to continue to have additional problems that'll never be met. So I think it's most important. And I think I'd like to put the question this way. It's very easy to go to someone and say you are concerned about helping the poor. And almost everyone would say absolutely, I'm very pleased to help the poor. I would pose the question this way: Are you willing to tackle the question of narrowing the gap between the low income and the high income? This is one way of preserving what is the strength of our whole society in this country, a very strong middle class. And I fear very much for any kind of drift that would have that gap widening to the point that we might lose our middle class. History has shown us what has happened with that.

**Thelma Buchholdt**

I would like to comment on the lack of respect for legislatures today by pointing out that had it not been for a governor who led the fight for the Permanent Fund and legislators at the time, we wouldn't have the Permanent Fund. So I would contend that any kind of misgivings about public perception towards legislators has been brought about by lack of communications between con-



*Former Representative Glenn Hackney served in the legislature during the Fund's creation.*

stituents and the legislators themselves. I do agree that there are some issues out there that can be communicated in a forum or through the news media. Some require effort, and I think can be

other people's views, not having an intellectual debate of the issues, and not respecting that there can be two right answers to a question. If we're going to address the Permanent Fund issue, if

***"The challenge for Alaska and for all of us is to have our sense of paradise, to chart that course on our own and then to have the wherewithal to accomplish that goal."***

***Scott Heyworth, Longshoreman.***

done. I do agree with Tom. We have to inflation-proof the Fund to be sure that we don't lose it, and I look for it to exist way beyond generations from now. I'm really glad of the support of Alaskans when the Permanent Fund concept was instituted in '76 and their continuing support, not just for the money that comes to their pockets once a year, but there is a support for the program, and of course for the programs that will emanate from the Fund itself. Not the capital, but whatever we get from the interest.

#### ***Jonathon Lack***

I think we've got a problem much bigger than the Permanent Fund. We've got problem dealing with each other, and that is the basis of all the problems we have in Alaska. Too many times we are backbiting, making crude statements about

we're going to address an income tax, if we're going to address subsistence, we need to start working together with each other in a respectful manner. And until we have that, there are going to be no answers to any questions.

#### ***Mano Frey***

Let me add just a bit to those comments, and it is what I view as probably the most pressing need from an Alaska communities' perspective. If anybody ever wants to see what life is like in rural Alaska, where you have no sewer or water, and there are communities and villages and cities where there is no sewer or water, take the time to go visit some of those communities and see what that's really like and then try to figure out a way to deal with this problem throughout the state. It's a major, major problem that affects the health and well-being of many of the citizens of this state. That'd be a first step.

#### ***Scott Heyworth***

I'd just like to balance Jonathon Lack, and I couldn't agree more on the way to come at things from the intellectual side, but I really encourage us all to come from our hearts and to get into smaller groups. I heard that put out to us today, to get into smaller groups as just our neighborhoods and our communities, because I think there's a change going on in America, and I think we all should try to get ready for it. Communities and the people are coming up this way instead of the institutions coming down this way. I think we should be ready for a change. I hope we get in groups and talk about things with our head and our heart.



*Mike O'Connor, president of Peak Oilfield Service Company, discusses his endowment concept with Debra Call of Alyeska Pipeline Service, Co.*



*The Principles & Interests project was endorsed by organizations and businesses around the state, including Commonwealth North and its then executive director, Patty Ginsburg.*

### *Lee Gorsuch*

Let me close out the panel discussion with just a few final thoughts. I think one of our enormous problems in the state is that a large portion of Alaska is not homegrown, doesn't plan to live their lives here or die here. What that means, I think, is that those who plan to move and take another job,

those who plan to retire somewhere else, those who encourage their children to pursue education in other states, creates a different set of values about how they view the current versus the future. The economists sometimes talk about discount rates, and I remember years ago we thought that the appropriate discount rate for Alaska would be maybe two years. That was sort of the life cycle of the legislature, and maybe five years given some of the population turnover. It's extremely difficult to build a state, to build institutions on the basis of simply its current value and its return. So I think one of the challenges that face us is this issue of how do we grow this great state, how do we build the institutions that can well serve its population, how do we encourage the economy in such a way that it provides for the livelihoods and needs of our citizens in our respective communities.

But I see real challenges in front of us. I hear a lot of people who make arguments in defense of the dividend program, and we certainly heard a lot of them today. I hear a lot of arguments for those who continue to oppose any use of taxation because of what they perceive to still be sort of excessive expenditures in the state. I hear a lot of people who continue to say, I refuse to pay until I see there's a crisis. And others say

that when the crisis comes it may be too late. It's hard to restore a building once the deferred maintenance has become so severe that it simply has to be replaced and knocked down and then a new one built up, rather than providing for appropriate maintenance.

I hear a lot of people talk about the fundamental lack of trust in our elected representatives. And yet a represented democracy is exactly what we have, and it has served the nation well over our lifetime as a nation. How do we restore that faith and confidence in the legislature? How do we restore that faith and confidence in our respective state agencies and service providers?

Much of the commentary today has been around trying to build better communications. I certainly hope a large community dialogue will move us toward that end. But in the end, unless we're going to radically change our form of government, it is and will continue to be a representative democracy in which our elected representatives make the decisions that are vital to how much we save, how much we spend, how much we tax, and how much we pay out from the Permanent Fund earnings.



*Patrick Carnahan reviews the white papers prepared for the conference.*

There was an old labor leader who came to prominence in the 1920s and he would go around the country talking to laborers who were interested in the possibilities of organizing. And the question they would always ask him was whether or not they should or should not basically form the union. And I remember his quotation quite well. And he said, "If I could lead you into paradise, I would not, for if I could lead you in, someone else could lead you out."

The challenge for Alaska and for all of us is to have our sense of paradise, to chart that course on our own, and then to have wherewithal, the means, to accomplish that goal. The vision of paradise is one that only we can fashion for ourselves.

up to all of us, to go back to our families, our communities, our civic organizations, with the express purpose of having a genuine, heart-to-heart conversation about Alaska's future, and how it's going to be financed.

***"Our university system and educational system constitute a savior as to how the future of Alaska can go."***

***Dennis Tiepelman, President, Maniilaq Association***

I think the panelists have given us some insights as to what visions they have for Alaska, and we've had some very interesting dialogue about the steps that we ought to take in trying to realize that vision. But ultimately the test is back

And invariably, the question of finance is one that simply cannot be avoided. Someone will have to pay, but at the same time we would like to think that those who pay recognize that it is an investment that yields a return in the vision we have for this great state of Alaska.

## Visions for Alaska

Panelists and participants were asked to list three adjectives describing their vision for Alaska. Among the responses:

- Equitable, prosperous, community-minded
- Pre-pipeline, kindness, caring
- Developing, educating, prospering
- Center of research & science, crime-free, non-welfare state
- Compassionate, ecologically safe & sound, economically stable
- Safer, welcoming, a sense of permanence
- Educated, culturally tolerant, hospitable
- Pollution-free, literate, healthy
- Intellectual, competitive, tolerant

The word "educated," along with its variants, was the adjective most frequently listed.

Panelists and participants were also asked to list three major steps to realizing this vision. A few examples of the responses:

- Establish education as a priority, establish income tax, eliminate demagoguery
- Income tax, income tax, income tax
- Education; environment (if we continue exploiting, it will break down and destroy beyond Alaska); I agree with Archbishop Hurley: eliminate the low-income gap
- Build a Harvard (Stanford, Berkeley) here; increase university funding; decrease K-10 electives; stop drugs, alcohol abuse and enact death penalty; eliminate dividend; control immigration
- Eliminate the "gimme" attitude of our population; get more of our citizens to make a real commitment to this state as their long-term home; use the Permanent Fund earnings to support the state budget, but also reinstitute an income tax

## FORUM GIVES CITIZENS A RARE CHANCE FOR THOUGHTFUL DISCUSSION

by Mike Doogan, Columnist, *Anchorage Daily News*

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May 5, 1998 *Anchorage Daily News*

People talked about the Alaska Permanent Fund Wednesday night. They talked about the Fund's income and the annual dividend. All in all, they were pretty happy with the way things have gone with the Fund. They weren't looking for big changes.

"I'm very much a believer in leaving the Permanent Fund alone," one of them said. Most of the rest nodded.

We sat in a conference room in the museum. No elected officials, just 35 or 40 citizens who cared enough to devote a couple of hours. The meeting was one of more than 100 that have been held statewide since March 1 by the Alaska Humanities Forum. The meetings are part of a project called "*Principles & Interests: The Permanent Fund and Alaska's Future.*" The project is intended to let Alaskans talk about the Fund and listen to their neighbors do the same. No votes are taken or plans formulated.

"Really, our object here is to express our thoughts and opinions," said moderator Thea Agnew.

The Fund is going on 22 years old now, and it is worth \$24.5 billion. It is invested safely. The earnings pay a dividend to each Alaskan and protect the Fund from inflation. So far, the legislature has put the leftover earnings back into the Fund. Some people say it's time that stopped. They see Permanent Fund earnings as a handy source of money for their favorite form of government



**Mike Doogan**

Mike Doogan was born and raised in Alaska. He has worked as a journalist, an assistant to the House Special Committee on the Permanent Fund, campaign manager for gubernatorial candidate Chancy Croft, an aide to the House Finance Committee and a freelance writer.

For the past nine years, Doogan has written a three-days-a-week Metro column. His columns have been collected in "The Best of the Rest" and "Society: An Alaskan Perspective." He has received awards from the National Education Writers Association, the Society of Professional Journalists and the Alaska Press Club.

Doogan is the author of numerous magazine articles and two books of nonsense about Alaska, "How to Speak Alaskan" and "Fashion Means Your Fur Hat Is Dead."

spending: the university system, public education, social services, health insurance, construction. Each of these ideas had a supporter Wednesday night, but as a whole the group was leery of spending the earnings.

For one thing, they were not happy with the legislature. When Agnew said, "So, you trust the legislature," her answer was hoots, groans and laughter.

"At least we have a consensus on that," a woman said.

For another, everyone seemed to recognize the risks involved in using the Fund to pay for government.

"If we say 'yes' to one of these, we need to say 'yes' to 15 or 20 others," one man said, "and pretty soon we'll find we've done the same thing with the Permanent Fund that we did with the \$900 million."



Anchorage Daily News Columnist Mike Doogan moderated the panel "Present at the Creation: Personal Reflections on the Birth of the Permanent Fund." From left to right are Oral Freeman, former legislator and former Chair of the Permanent Fund Board of Trustees; Avrum Gross, former Alaska Attorney General; Tom Fink, former Anchorage Mayor and former Speaker of the State House; Doogan; Jay Hammond, former Governor; and Hugh Malone, former Speaker of the State House and former Commissioner of Revenue.

(The spending of the \$900 million from the 1969 Prudhoe Bay oil lease sale is thought to be one reason voters approved the Permanent Fund in 1976).

But there was agreement that the currently fashionable budget cutting is going too far.

"We are not taking care of the fundamental things we should be taking care of," one man said.

The group's solution? Believe it or not, taxes.

"The system we have now is perverse," a man said. "What we teach our children is that you get what you pay for, and we don't pay for anything."

Humanities Forum executive director Steve Lindbeck is quick to point out that these groups are not scientifically selected.

"It's people who decide to show up," he said. "Our impression is that it's people who cross the spectrum, but is very self-selecting."

Still, he said, distrust of the legislature and a willingness to consider taxation are themes that have come up again and again. They will be included, along with other results, in the final report on the project.

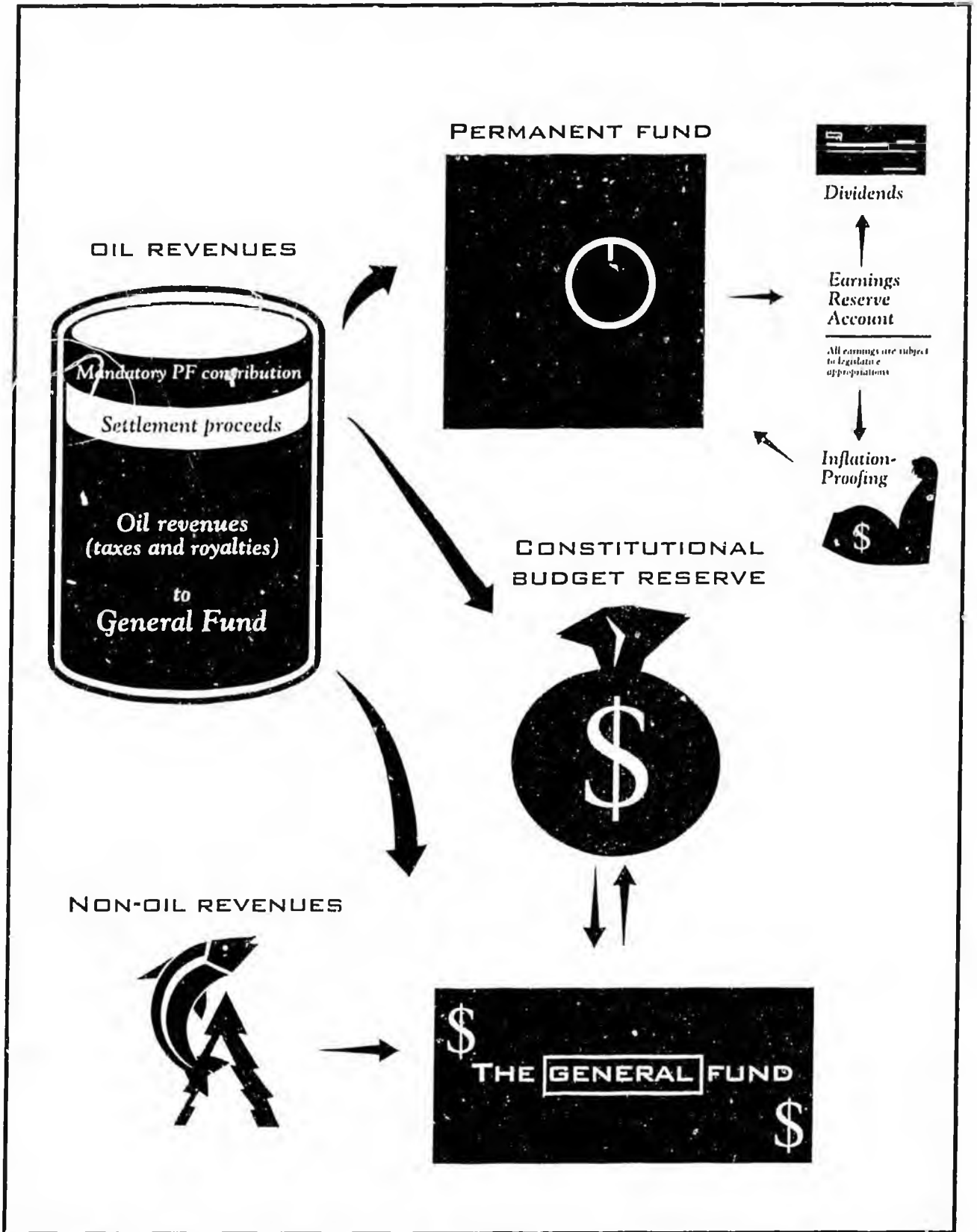
I came away from Wednesday's discussion feeling better about Alaska than I have in some time. Often it seems that all public discussion here is the same selfish voices spouting reactionary slogans. But this group was interested in thoughtful discussion and finding a way to make government work for everyone. Just to hear that kind of talk again made the whole project worthwhile.

# WHAT ALASKANS THINK ABOUT THE FUND

Participants in the town meetings were asked their opinions on the use of Fund earnings and other public policy questions. Here are their responses.

|   | Agree | Disagree |
|---|-------|----------|
| 1. What are your feelings about how Alaska's public wealth in the Permanent Fund should be shared? Please say whether you agree or disagree with the following statements.  |       |          |
| a. "Every Alaskan, young or old, new comer or old timer, has a right to an equal share in the public wealth of the Permanent Fund."   | 85%   | 15%      |
| b. "The public benefits of education, arts, sciences, etc., are important to the well-being of all Alaskans and should be a very high priority use of Permanent Fund public wealth."                                    | 69%   | 31%      |
| c. "We should invest Permanent Fund public wealth in commercial and industrial development to provide more jobs for Alaskans."  | 31%   | 69%      |
| d. "We should use Permanent Fund public wealth to support construction and maintenance of community infrastructure such as roads, health clinics, schools, etc."  | 61%   | 39%      |
| e. "We should use Permanent Fund public wealth to compensate for decreasing oil revenues."  | 51%   | 49%      |
| 2. How do you feel about these approaches to using Alaska's public wealth in the Permanent Fund? Please say whether you agree or disagree with the following statements.  | Agree | Disagree |
| a. Put all Fund earnings back into the Fund to provide maximum growth of dividends, EVEN IF this means continued cuts to the state budget to match decreasing oil revenues.   | 35%   | 65%      |
| b. Use the Fund or Fund earnings to create endowments for public programs, such as education, arts, etc., EVEN IF this means future dividend checks would not grow as fast.   | 56%   | 44%      |
| c. Use the Fund or Fund earnings to invest in commercial and industrial projects in Alaska, EVEN IF this means future dividend checks would stay the same or get smaller.   | 26%   | 74%      |
| d. Distribute some Fund earnings to communities to build infrastructure, EVEN IF this means future dividend checks would not grow as fast.  | 53%   | 47%      |
| e. Use some Fund earnings to increase the current level of state services, as determined by elected representatives, EVEN IF this means future dividend checks would not grow as fast.                                  | 46%   | 54%      |
| f. Give each Alaskan here today their share now, either \$38,000 lump sum or stock shares in the Fund, EVEN IF it means future Alaskans (unborn children or people who move here later) would not receive any benefits. | 13%   | 87%      |
| 3. People have views about who should benefit from the Permanent Fund wealth, and how that wealth should be distributed. How do you feel? Please say whether you agree or disagree with the following statements.       | Agree | Disagree |
| a. Sharing Permanent Fund wealth as cash to individuals is better than sharing wealth through non-cash forms such as roads, schools, health clinics, land fills, social services, etc.                                  | 50%   | 50%      |
| b. Putting a maximum on future dividends or reducing future dividends wouldn't be fair to the people who need the dividends the most.   | 44%   | 56%      |
| c. Giving equal Permanent Fund benefits to future Alaskans (unborn children and people who move here later) is as important as giving benefits to Alaskans here today.  | 74%   | 26%      |
| d. Individual Alaskans can decide how to spend their wealth better than the government.   | 71%   | 29%      |
| e. Using some Permanent Fund wealth to help Alaskans in need is fair.   | 65%   | 35%      |

# CONSTITUTIONAL ALLOCATION OF THE STATE'S REVENUES



# THE PARADOXES OF PUBLIC WEALTH

by Steve Lindbeck, Executive Director, Alaska Humanities Forum

**T**wenty-one years after its formation, the Alaska Permanent Fund has become a major factor in the state's finances, policies and politics. To give all Alaskans an opportunity to consider the role of the Fund in our state's future, the Alaska Humanities Forum in late 1997 and 1998 convened a major series of public activities devoted to high-quality civic discourse.

*Principles & Interests: The Permanent Fund and Alaska's Future* had three main purposes:

- **To promote the broadest and most robust possible public dialogue and education on a uniquely Alaskan topic of critical importance to the future of the state.**
- **To focus on the different principles and competing interests that underlie the continuing controversies surrounding the Permanent Fund.**
- **To ensure that the future of Alaska's largest public asset will be shaped by the informed participation of its major stakeholders, the people of Alaska.**

*Principles & Interests* included three major components: a major public policy conference in Anchorage in November 1997, 100 local discussion forums in 41 communities throughout the state in March and April 1998, and a final statewide radio call-in program on the Alaska



**Steve Lindbeck**

Steve Lindbeck is executive director of the Alaska Humanities Forum, an independent non-profit organization and state affiliate of the National Endowment for the Humanities. The Forum offers grants to

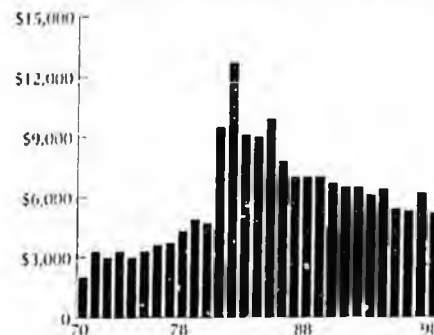
projects in the humanities, operates a statewide speakers bureau, conducts special projects and publishes a journal.

Lindbeck previously served as news editor and editorial page editor at the *Anchorage Daily News*, sports editor at the *Anchorage Times* and editorial page editor at the *Everett (Wash.) Herald*. He authored the report of the Alaska Oil Spill Commission in 1989-1990.

He has served on a variety of boards, including Big Brothers/Big Sisters of Anchorage, Alaska Common Ground, United Way of Anchorage and Commonwealth North.

Lindbeck is a graduate of West Anchorage High School and Stanford University.

PER CAPITA STATE SPENDING



State spending per Alaskan rose from \$1,965 in 1970 to \$9,479 in 1981. In 1998, spending per Alaskan was \$5,242.



Former Anchorage Mayor Jack Roderick, left, talks with former Governor Wally Hickel.

Public Radio Network in June 1998. All events were free of charge and open to the public.

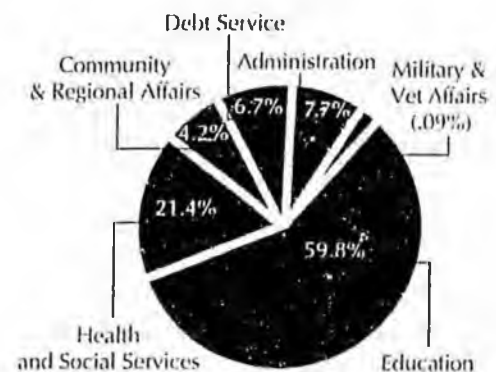
What emerged from all that discussion was a sense of the paradoxes that have come to surround Alaskans in their extraordinary public wealth:

- A state that is financially rich yet overwhelmingly dependent on one, diminishing resource.
- A populace that is devoted to the future yet fearful of the present, particularly the decline in public institutions and a perceived lack of leadership.
- A polity that, with \$25 billion in the bank, has more choices than ever before but less confidence and vision in exercising them.
- A statewide community that holds \$25 billion in common yet distributes the benefits of that wealth entirely through individuals.

What also emerged from the discussion were recurring themes – and paradoxes attached to them – that grew from the welter of ideas, perspectives, opinions and value choices of thousands of Alaskans who joined in-depth dialogues from Ketchikan to Kotzebue. And it must be stressed that this document is a broad compilation of themes. It cannot hope to express every viewpoint or even every debate. No single report can capture the full diversity and richness of views expressed. No short document can quite describe the combination of personal conviction, reflective listening, body language and community chemistry that elevated the best of these meetings from bull sessions to community encounters.

What follows is a description of the dialogues and the recurring themes they produced. These findings are not based on scientific methods, nor do they claim to represent a consensus of Alaskan thought. What they do represent is the ideas that emerged most frequently among thousands of Alaskans who, in good faith, came forward during the spring of 1998 to discuss the future with their friends and neighbors.

COMPOSITION OF STATE BUDGET  
(Fiscal 1999)



### The community forums

Some 100 well-advertised public forums were held in 41 communities around the state, reaching every region and every major population hub. At each forum a trained facilitator asked participants to consider six options for the future of the Permanent Fund. These options were

culled from discussions with community leaders, academicians and policy-makers, as well as public statements at the November 1997 conference. Prior to the community dialogues, participants viewed a 15-minute video that explained the history of the Fund, how the Fund works, and the six options for the future. Participants also were asked to fill out questionnaires both before and after the discussion.

### **1. Alaskans expect their Permanent Fund to be permanent, an inheritance to be passed along to future generations.**

This conviction is well established and virtually unassailable in all regions of the state. While some participants discussed diverting Permanent Fund earnings to current or future needs – even if that required capping or reducing dividend payments – very few were willing to consider invading the principal of the Fund, either now or in the future. They are pleased to see the Fund, which represents the lost oil resources that have been pumped from the ground, continue to grow steadily. Many expressed the hope of letting the Fund grow large enough to simply endow state government forever. Support for the Fund and its dividend program was rooted in their positive qualities – helping families meet their needs, boosting the economy as dividends are spent, individual choice in the use of the money. So natural and transparent is support for the Fund that hardly anyone mentioned one of former Gov. Jay Hammond's major reasons for creating the dividend program – building a self-interested constituency for the Fund itself. Alaskans are proud of the Fund and its growth and expect it to be there for their children and grandchildren.

*The paradox: While Alaskans want to pass along a nest egg to future generations, they have yet to reach agreement on how this asset might benefit the current generation.*

## SIX OPTIONS FOR THE FUTURE

- **“Leave It Alone”**

We could continue to use earnings for dividends, inflation-proofing and increasing the Fund's principal. The Permanent Fund is a great success that has grown faster than anyone imagined. It earns money for every Alaskan, and dividend recipients can spend their dividend as they please. This is real democracy at work.

- **“Create Separate Funds”**

We could use some or all of the earnings to strengthen deteriorating public services and institutions by creating separate funds for special purposes, such as education, maintenance, arts and cultural activities, children's services or the University of Alaska.

- **“Create a Community Dividend”**

We could use some or all of the Permanent Fund earnings to create a “community dividend” (above and beyond the current individual dividend) that would go to every community to be used for public purposes determined by that community.

- **“Spend Some of the Income”**

We could use some of the Permanent Fund earnings to help meet public needs. We could put some earnings into the General Fund and let the legislature, elected by us, decide how it should be spent.

- **“Invest It in Alaska”**

We could use Permanent Fund dollars to finance new businesses, projects and jobs, making the economy more productive and diverse.

- **“Privatize It”**

We could cash in the Fund corpus and distribute the shares to each Alaskan. If released into the hands of all Alaskans, this money would stimulate economic growth through individual incentives, investments and entrepreneurship.

## 2. Support for Permanent Fund dividends is overwhelming, but not absolute.

The great majority of participants expressed support for the current system of using approximately half of Permanent Fund earnings for dividends



*Cliff John Groh helped plan and organize the Principles & Interests project.*

paid in equal shares to every qualified Alaskan. Indeed, this was the reason many took part in the community dialogues at all – to insist upon the sanctity of dividends.

Participants recognized the importance of dividends in overcoming hardships for many families, especially in rural areas. Most participants believed the state can continue paying dividends and, if necessary, devote some Fund earnings to other purposes. A significant minority of participants, however, was willing to forego dividends in favor of some community purpose – most often education. A larger number was willing to use Permanent Fund earnings for community purposes if the dividend were protected at current levels.

***The paradox: Alaskans value individual choice and individual purposes, yet for those reasons have created the country's most far-reaching state entitlement program.***

## 3. Distrust of politics and public officials is rampant.

This sentiment, expressed in every part of the state but especially pronounced in communities along the road system, had no partisan, ideologi-

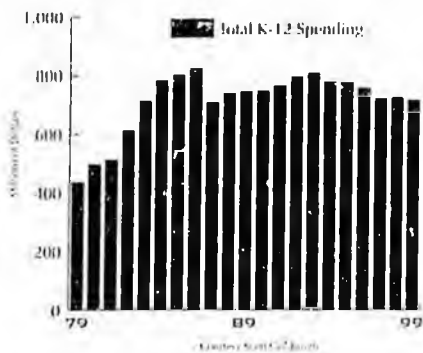


*Ira Perman, right, from the Anchorage Concert Association participates in an Anchorage town meeting.*

cal, or individual focus. It simply reflected an assumption that politics, and politicians, are wasteful, greedy, insatiable, out of control – that the \$25 billion Permanent Fund would be frittered away in no time if legislators had access to it. Legislators are seldom, if ever, credited for decisions over two decades to build the Fund through special appropriations of so-called excess earnings. Open-ended questions about the future of the Permanent Fund nearly always produced the response: "We don't want the politicians to get their hands on it!" Whether participants placed responsibility for this condition on irresponsible politicians or apathetic citizens, the dissatisfaction was vehement and universal – and so strong as to lead meeting facilitators to wonder about the future of our representative democracy.

***The paradox: The largest single contributor to the growth of the Fund has been supplemental appropriations by state legislatures, yet Alaskans view their elected representatives with distrust and vehemently oppose turning Fund decisions over to politicians.***

STATE SPENDING ON K-12 EDUCATION  
(Adjusted to 1998 dollars)



#### 4. Education is on everyone's mind, but there is no consensus on what should be done about it.

Support for a strong educational system – both K-12 and higher education – was virtually universal, but there the agreement ended. Some participants felt Alaska's schools were starved for funds and getting hungrier; others found them wasteful and fat. Some complained of decaying university facilities or cuts in class offerings; others found the problem in mismanagement or lack of vision. Alaskans seemed to understand that money is a necessary but not sufficient ingredient in educational excellence. Many expressed a willingness to trade Permanent Fund earnings for better education, but many also doubted that more money would bring better performance. Alaskans recognize that strong education at all levels will be essential for success in the 21st Century, but have little shared vision for how to bring that about.

*The paradox: While Alaskans have the financial means for an education system they never dreamed of at statehood, they are not convinced more money would bring better educational results.*

#### 5. Willingness to consider a progressive income tax or, less often, a statewide sales tax, came forth at virtually every meeting.

This standpoint was hardly universal, and denunciations of state taxes were often vehement. But to a surprising degree, given legislative reticence around taxation in recent decades, participants were willing to talk about taxes. This willingness was rooted in four attitudes. The first was apprehension about a state of affairs where individuals pay no taxes while receiving large checks from the government. This isn't reality, many said, and it made them vaguely uncomfortable. The second attitude concerned accountability, and the belief that politicians and public officials would pay closer attention to public interests if individuals were paying taxes. The third was the hope of capturing from non-resident workers a portion of the income they take out of the state (and, in the case of sales taxes, capturing some revenues from visitors). The fourth attitude was a willingness to pony up for desired services, most often education and child protection. Most often, this attitude was accompanied by a preference for instituting an income tax before capping, reducing or eliminating the dividend.

*The paradox: While the legislature has shied away from general tax measures since eliminating the personal income tax in the first flush of oil revenues, meeting participants easily and frequently discussed the subject of personal taxation.*

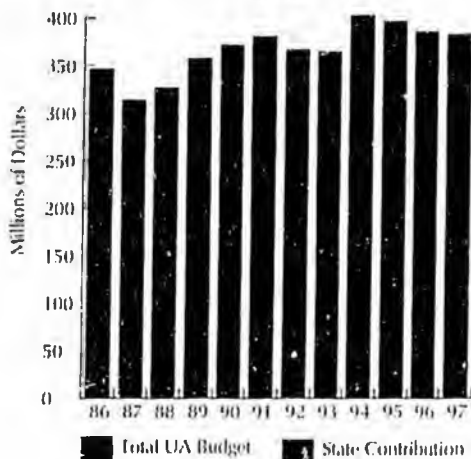
6. In the bush and the Anchorage, Fairbanks and Juneau areas, many people believe that the “rainy day” has come. That sentiment was less often shared in the Interior, Mat-Su Valley, Kenai Peninsula or Southeast regions.

For many participants, the proverbial “rainy day” against which we’ve been saving is here. Participants lamented shortcomings in state or local services, particularly for education, the university, public safety, sanitation and resource management. These participants expressed a will-



Speaking about the origins of the Fund are Hugh Malone, former Speaker of the House, right, and former Gov. Jay Hammond.

STATE SUPPORT OF UNIVERSITY OF ALASKA  
(Adjusted to 1998 dollars)

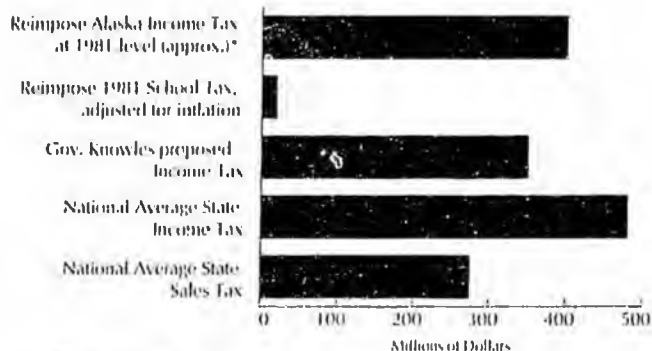


benefit – somebody else, they assumed, would devour the money before their own community got a chance.

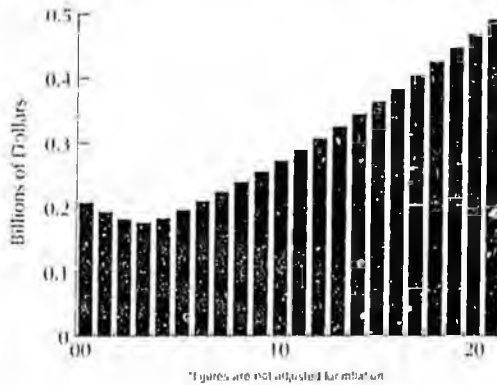
*The paradox: Even with \$25 billion in the bank, Alaskans see public services and institutions in a state of long-term decline and express little confidence in those institutions to help fashion a better future.*

ingness to use excess Fund earnings, cap the dividends or reinstate the state income tax to raise revenues for public institutions. Yet attitudes reflected a political standoff: while participants often expressed a willingness to meet public needs, they had little confidence in the state’s ability to spend public money wisely. Many had favorite stories of waste or abuse – stories that were generalized into an attitude about all government. Many were loathe to use Permanent Fund earnings for community needs because they doubted their own communities would see the

REVENUES RAISED UNDER VARIOUS TAX PROPOSALS



\* Graduated rate that phased out at 9.4% of taxable income.

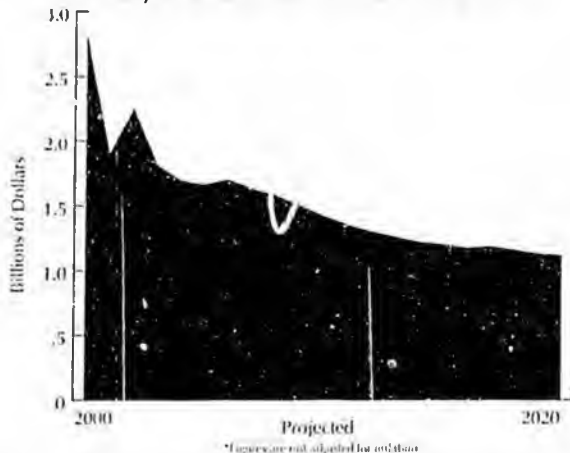
PROJECTED FUND EARNINGS AFTER  
DIVIDENDS AND INFLATION-PROOFING

\*Figures are not adjusted for inflation

### 7. Participants clearly appreciated being listened to and were willing to listen to each other in thoughtful dialogue.

Before encountering the process, a substantial number of people approached the dialogues with suspicion or even antagonism – most often because they feared their Permanent Fund divi-

## PROJECTED STATE OIL REVENUES



\*Figures are not adjusted for inflation

dends would be threatened by the dialogue. But these fears often were overcome – whether positions changed or not – as Alaskans encountered the opportunity to discuss thoughtfully their shared future. Given a supportive forum, people expressed themselves willingly, but also demonstrated flexibility, absorbed different points of view and often clarified or modified their own position.

Participants sometimes reported changing their position several times as a result of hearing other perspectives. Dialogue served to lower the levels of suspicion and mistrust, at least among people in the room. This dynamic – where hardened positions and antagonism are mediated by the civilizing influence of dialogue – would seem to mirror Alaskans' hopes for their broader political processes. Again and again, participants expressed the wish that their voices could be heard in this way more frequently in public life.

*The paradox: Public forums rarely attract a true cross-section of society, even though most citizens believe in the importance of public process and recognize that consensus can only be reached when they truly listen and talk with one another.*

### 8. Participants at the forums increased their understanding of the Permanent Fund and its workings.

Of those who returned post-forum surveys, 36 percent said their understanding of the issues increased a lot and 58 percent said their understanding increased a little. Only 6 percent said their understanding did not increase at all. Relatively few participants knew at the outset how the Fund's earnings are currently allocated or how different instruments in the state's fiscal structure fit together.

*The paradox: While the Permanent Fund was Alaska's largest source of revenue in 1998, its place in the state's fiscal structure is not well understood and Alaskans have yet to reach consensus on the use of its earnings.*

*The Trustees Papers, Volume No. 1*, printed in March, 1982, is a collection of papers prepared for the Board of Trustees as part of a series of seminars conducted that year to address such issues as the appropriate criteria for public investment, the pros and cons of investing the Permanent Fund in-state, and alternative methods of distributing Permanent Fund benefits.

*The Trustees Papers, Volume No. 2*, printed in April, 1988, is entitled, "Wealth Management: A Comparison of the Alaska Permanent Fund and Other Oil-Generated Savings Accounts Around the World."

*The Trustees Papers, Volume No. 3*, printed in August, 1989, is entitled, "The Role of the Permanent Fund in Alaska's Fiscal and Economic Future: A Collection of Public Policy Perspectives."

*The Trustees Papers, Volume No. 4*, printed in January, 1997, is entitled, "Changes to the Investment World During the Permanent Fund's First Two Decades and a Look into the Future."

*The Trustees Papers, Volume No. 5*, printed in February, 1997, is entitled, "The Early History of the Alaska Permanent Fund: Perspectives on the Origins of Alaska's Oil Savings Account."

Copies of *The Trustees Papers* and all other public information materials prepared by the Alaska Permanent Fund Corporation are available by request at the Corporation's office in Juneau. All volumes are also available at the Corporation's web site: [www.apfc.org](http://www.apfc.org)

The APFC Board of Trustees would like to thank the Alaska Humanities Forum, its executive director and staff for their assistance on this publication.

Photos courtesy of Beth Rose, the Alaska Humanities Forum and B-E Exploration (Alaska) Inc.

11/08/99  
SFC Secretary

## THE ROSE PLAN

It is refreshing to see so many Alaskans engaged in the current debate about the so-called "Fiscal gap". Many of us who have followed State budgets and expenditures know that we have a political problem, not a fiscal disaster. To date, politicians have been reluctant to make hard decisions like curtailing the flow of free money and engaging in long-term fiscal planning. The time has come, and hopefully there is political courage, to fully examine a proposal I made several years ago called "The Rose Plan". Its very simple and straightforward.

1. Continue the Constitutional Budget Reserve Account as it currently exists. Allow it to be a "spending" account which will be drawn down over the next few years as oil revenues remain low. Continue the requirement for a super majority vote to use it; a process that sometimes involves the expenditure of even greater sums as necessary super majority votes are "purchased" during legislative negotiations.
2. Create a second fund parallel to the Permanent Fund. Invest it exactly as the Permanent Fund is invested. Its principal is inviolate. Its earnings may be appropriated by the legislature for any lawful purpose.
3. This second fund which could be called a reconstituted budget reserve account (but I prefer to call it the TAF (Tax Aversion Fund) could be created from several sources. Residual Permanent Fund earnings (after providing for inflation proofing and dividends) could be SAVED in this account, special onetime capital gains could be SAVED to this account and residual funds in the Constitutional Budget Reserve Account could be SAVED in this account at such time as there are excess or unneeded funds in that account. Note that I think it is premature to SPEND Permanent Fund earnings. This should occur only after all other alternatives have been exhausted. Because of the beneficial effect of compounding, it makes sense to start building this account as soon as possible with as much funds as possible.
4. Finally, it is time to address the dividend payment question. There is no doubt that the payment of the dividend buys a constituency which protects the Fund. However, that strong constituency will exist even with a lower annual gift. This plan contemplates fixing the dividend at \$1,000 per capita. The dividend will cost between \$550-600 million annually which is about \$350 million less than the current cost. Coincidentally, this is the same amount as an income tax is projected to raise.

I sincerely appreciate the various plans advanced over the years by those with the vision and fortitude to consider long-term rather than quick fix solutions. I particularly like the Rieger Plan which protects the Fund and has about the same effect as mine. My only quarrel with it is that it SPENDS Fund earnings rather than saves them. The Cremo Plan could have worked well twenty years ago when it was first proposed. It or an endowment might work today if Alaskans wanted to convert its Permanent Fund from a savings to a SPENDING account and wished to co-mingle tax and natural resource revenues in a single pot and pay dividends from that pot. My friend Governor Hammond's plan to allow dividends to increase substantially and have the government "claw" back taxes; isn't practical. The current proposal to "claw" back \$350 million won't fly because of the tax rate which must be imposed and the inequality of its proposed application.

**Dave Rose is responsible for the development and operation of four major financial institutions. He was the first Executive Director of the Municipal Bond Bank, the Alaska Industrial Development Authority and the Alaska Permanent Fund. He is currently Chairman and CEO of the Alaska Permanent Capital Management Company; which invests funds for large Alaskan corporations, trusts, municipal governments and State instrumentalities.**

## THE ROSE PLAN – SIGNIFICANTLY DIFFERENT

Of the various plans offered for consideration on solving the “Fiscal Gap”, the Rose Plan stands alone in its pursuit of a truly long-term solution. More importantly, it is economically sound and produces benefits to Alaska that can serve future generations.

Most of the plans which have been advanced are spending plans. They suggest different variations of the same theme – spending a portion of the Permanent Fund. Some are more artful than others. Some work by formula, others create an endowment, another pools all tax and natural resource receipts and pays dividends and state expenses out of the earnings of the pot. All are spending plans which meet state fiscal needs but do not build for the future.

The Rose Plan and the Governor’s plan are significantly different from other proposals. Both emphasize saving all earnings of the Permanent Fund over and above dividends and inflation proofing. These earnings are saved to a second fund (Rose’s Tax Avoidance Fund and the Governor’s Constitutional Budget Reserve Fund). This savings aspect is critical to long-term state economics because it preserves and expands, permanently, the State’s asset and revenue bases.

Every barrel of oil sold to oil companies reduces the asset base or wealth of the State. True, the State receives payment for its oil but most of the funds flow to the General Fund and are spent. Only a small portion is saved. Thus Alaska’s asset base is being continuously eroded. The savings plan turns this around. Permanent Fund excess earnings which are saved rather than spent and are placed in a second fund add to the asset base from which state support is derived. Slowly, each year, as Permanent Fund earnings are saved, our asset base can grow to surpass our natural resource wealth that has been sold off. This process provides for a stronger asset base because it will no longer be composed predominately of natural resources but will be diversified by its security holdings in governmental, industrial and corporate America.

An examination of what has been achieved with the Permanent Fund points to how a diversified asset base can be created. Unfortunately, the Permanent Fund alone cannot replace the assets we are selling off. A second savings fund can.

The second fund savings plans also permanently create an expanded state revenue base. Our current revenue base is narrow. We are too dependent on oil. Our tax base is so small that high and disparately imposed income taxes have been suggested. We must expand and broaden our revenue base. If we could lure major companies to Alaska such as General Motors, Ford, Microsoft, et al the state could tax their infrastructure and income. Since we don’t seem to be able to attract these companies, lets create a second savings fund which holds a portion of debt and equity ownership of these entities. In lieu of an expanded tax base, we create a surrogate income stream from the same entities in the form of dividends and interest.

Under the savings plan approach where excess Permanent Fund earnings (over dividend and inflation proofing) flow to a second fund, our revenue base expands at a rate in excess of our population, and commercial growth.

Lets not take the easy way out of our predicament by simply spending Permanent Fund earnings – we can always do that if we really have to. Lets not impose unwanted and economically restrictive taxes ( similar to a Federal Reserve Board tightening). Lets carefully review the Rose Plan and the non-tax element of the Governor’s Plan for their long-term solutions of the fiscal gap problem and their prospective ability to offer constructive structural change to diversify and expand both the state’s asset and revenue bases.

**Dave Rose is the former Executive Director of the Alaska Permanent Fund and is a practicing economist with the Alaska Permanent Capital Management Company.**

## PFD options worth considering

I was interested to read Dave Rose's column in the March 27 paper (Forum). The column discussed his ideas about how to improve our financial position without the drastic measures the Legislature is planning. I appreciate his efforts to get people talking about, and thinking about, how to solve this dilemma.

This is, after all, a rather wealthy state, and we should be as wise about using the wealth as we were about amassing it in the first place.

I also appreciate Gov. Knowles' bringing the issue of long-term fiscal planning to the forefront. I would not object to an income tax, if there is no other way to raise the money. I do believe that Mr. Rose is offering an alternative that we should look at.

— Nancy Gross  
Anchorage

## Cap the PFD

I believe the "Rose Proposal" (Forum, March 27) has merit and should be studied and discussed more thoroughly. The Permanent Fund Dividend should be capped at \$1,000. This requires no new employees and raises the \$350 million or more that the proposed income tax would raise.

— Thomas A. Packer  
Anchorage

## Rose plan may be our savior

Thank you, Dave Rose, for your plan to solve Alaska's budget problem (Forum, March 27). Finally, here is a simple proposal that can form the nucleus for long-term fiscal planning. It involves the same basic goal most people use to improve their own financial security by saving vs. spending money.

To date most other proposals generate funds by imposing new taxes, spending from our Permanent Fund, large spending cuts, or a blend of these. None of these plans appears to have majority support among Alaskans.

The Rose plan imposes no new taxes and does not spend from our Permanent Fund. It saves money into a new fund he calls the "Tax Aversion Fund." Earnings from this fund

account are used to cover the budget gap.

Is the Rose plan too good to be true? The best way to answer this is through public scrutiny. Some people may not like how the plan caps Permanent Fund dividends at \$1,000. Others may question how it is funded. But does creating new income or sales taxes make more sense? Are severe cuts in state spending really in the best interests of Alaska? Do we dare open the door for politicians to start spending our Permanent Fund?

If this plan had been adopted when it was first proposed several years ago we probably would not face such a large fiscal problem today. Alaskans should contact their legislators and ask them to seriously consider the Rose plan as a potential solution.

— Donald Ince  
Anchorage

# The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

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## Rose-colored

**I**F YOU FOUND something familiar about the proposal the governor unveiled the other day to bridge the state's billion-dollar fiscal gap, it's probably because you heard a similar plan before.

Knowles' recommendation is to cash in \$4 billion of Permanent Fund investment earnings, deposit the money into the Constitutional Budget Reserve, then use the reserve's investment earnings of about \$550 million a year to help plug the fiscal gap.

The governor's plan resembles one advanced four years ago by Dave Rose, former Permanent Fund executive director. Both would involve votes of the public. However, there are substantial differences.

Under Knowles' proposal, the vote would be advisory — essentially asking for support of the governor's proposal to transfer the money. The rules governing the Constitutional Budget Reserve however, would remain unchanged — meaning the Legislature could continue to make withdrawals from the reserve's earnings and even the principal, provided it has the required three-quarter majority vote to do so.

Under the Rose plan, the Constitutional Budget Reserve would "reconstituted" through an amendment to the Alaska Constitution. The reserve would become, in effect, a second Permanent Fund account — the principal of which would be off limits to governors and legislators. Furthermore, investments by the reserve would be supervised by the managers of the Permanent Fund — in theory, not subject to politics.

Assuming that Alaskans want to consider a proposal to tap some of the Permanent Fund's earnings, there is a substantial advantage in following the constitutional approach recommended in the Rose plan. Otherwise, without putting the reserve's principal off limits, it would be only a matter of time before the state again faces a fiscal gap with additional transfers of Permanent Fund money needed.

The downside is that constitutional amendments can only be voted on in a general election — which in this case means November 2000. Knowles says he's concerned that the Permanent Fund's current unrealized profits may disappear by then if the stock market takes a deep dip. Besides, he argues, the state needs the additional revenue now — not two years from now.

A compromise might be an advisory vote to learn if the voters would bless the spending of unrealized earnings to meet the immediate shortfall, concurrent with legislative action to put on the next general election ballot a proposed constitutional amendment to make the principal of the reserve fund off limits to future withdrawals.

This might be more difficult to accomplish. But it would be a

# ce of The Times

## Rose plan less prickly than a porcupine

By DENNIS FRADLEY

It seems just about everybody these days has at least two cents worth of advice for the Legislature. Most of it, though, goes in one ear and out the other, because lawmakers would rather do things their own way.

One bit of free counsel for the Juneau crowd warrants more considered attention. It comes from the former executive director of the Alaska Permanent Fund, David Rose — who also is a business partner of Gov. Tony Knowles and served as Knowles' campaign manager two years ago.

Like many Alaskans, Rose has watched the public debate unfold in recent years over the best way for the state to bridge its fiscal gap. He followed the work of last year's Long-Range Financial Planning Commission, which now has the attention of the governor and some lawmakers and the support of a number of local businesses and civic organizations. Rose applauds the commission but sees a better way to accomplish the goal.

The long-range panel's job was advisory. It came up with its best recommendation on the steps the state should take to balance the level of annual state spending and annual revenues. Then it tossed the ball to the Legislature — where the ball has sat.

That's because from the point of view of legislators, it looks more like a rolled up porcupine than a ball — and who wants to embrace a porcupine?

Consider the barbs waiting to wound a political career. Among the commission's recommendations: cut Permanent Fund dividend checks; tie eligibility for the Longevity Bonus program to an individual's income; do away with the property tax relief program for senior citizens; raise taxes on tobacco, alcohol and gasoline; prepare the state for an income tax; and cut \$100 million in state spending over the next three years.

Those ideas present an awful lot of potential "ouches." It's no wonder, therefore, that the leadership in the Legislature came up with its own plan to bridge the gap earlier this week.

The shortcoming of that plan, however, is that it relies on future Legislatures



to implement four of the five years of proposed cuts in state spending. The plan doesn't bind future Legislatures to do anything.

The Rose alternative, which depends in part on a constitutional amendment, would be binding on future administrations and Legislatures. At the same time, it avoids much of the porcupine's punishment of the commission's plan.

To provide some idea of how down-to-earth Rose's plan is compared to the complex Long-Range Financial Planning Commission's proposal: His fits on one page; the commission needed more than 100 pages to describe its formula.

His is a simple, five-point strategy:

- This year, appropriate enough funds from Permanent Fund earnings to fully inflation-proof the Permanent Fund and pay a dividend of \$1,000 to every eligible person in the state.

- Save (not spend) all of this year's excess Permanent Fund earnings and funds now in the Earnings Reserve Account by appropriating them to a new version of the Constitutional Budget Reserve Fund, which Rose calls the "reconstituted budget reserve fund."

- Direct that the reconstituted budget reserve fund be invested in the same manner as the Alaska Permanent Fund; that its principal not be available for expenditure but that all of its earnings be available to the general fund each year. The reconstituted budget reserve fund would operate parallel to the Permanent Fund, but its earnings would be used exclusively to close the fiscal gap.

- Require future Legislatures to appropriate enough Permanent Fund earnings to provide inflation-proofing to the Permanent Fund itself, a \$1,000 dividend for every eligible Alaskan, and transfer residual earnings (whatever is left over) to the corpus of the reconstituted budget reserve fund.

That's it. Pretty straight forward and easy to comprehend. The Permanent Fund under the Rose plan stays protected and continues to grow. Permanent Fund dividend checks are not reduced. The corpus of the budget reserve fund, with its new name, is also protected. There wouldn't be any more tapping into the budget reserves — as there has been in recent years.

To accomplish the Rose plan would require a vote by Alaskans to amend the state constitution, in order to convert the present Constitutional Budget Reserve account into the restricted, reconstituted fund and to restrict future Legislatures from spending the corpus or earnings of the Permanent Fund or the principal of the Budget Reserve Fund.

You may have guessed, there is a catch. The Rose plan won't provide all the extra income the state needs to fund its present rate of spending.

Rose estimates the annual earnings from the reconstituted budget reserve in the initial years would amount to just over \$300 million — still leaving \$150 million or so of the gap to be addressed by taxation and cuts in spending. That's why neither the administration nor the Republican leadership in the Legislature supports it — yet.

He favors more cuts than taxes and suggests Alaska adopt zero-based budgeting techniques to reduce spending levels.

Not many Alaskans would object to balancing the budget without raising new taxes, cutting Permanent Fund Dividends checks, or penalizing seniors. I think everybody would cheer that solution.

Nor should many Alaskans object to using a small portion of the excess earnings of the state's savings accounts and reducing the size of state government in order to meet the goal of a balanced budget.

My two cents' worth: Legislators should grab the Rose idea and claim victory.

Dennis Fradley is an editor of The Anchorage Times.



Fradley

## **The Rieger Plan**

- 1. Use earnings on state's financial assets to supplement oil revenues**
- 2. Only spend earnings that exceed inflation ("Real Earnings")**
- 3. For the Permanent Fund, inflation-proof first, and split the remainder 50-50 between dividends and GF uses**
- 4. For the state's other financial assets, inflation-proof first and use some or all of the remainder for GF uses**
- 5. Since earnings have volatility, maintain earnings reserve and CBR as buffers along with a payout rule that smooths year-to-year fluctuations**

**Rieger Plan, Spreadsheet**  
**Example Using Budget Growth 1% Lower Than Inflation, And \$100 Million New Agency Dividends Or Other New Revenues**  
**NOTE: Unless Otherwise Labeled, Figures Are In Constant 1999 Dollars**

| Assumptions:                  |        |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Real Earnings:                | 5.50%  |        |        |        |        |        |        |        |        |        |        |        |
| Growth Rate, Real Spending:   | -1.00% |        |        |        |        |        |        |        |        |        |        |        |
| Year:                         | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   |
| GF Oil Revenues, Nominal      | 808    | 770    | 1,018  | 897    | 888    | 1,004  | 1,005  | 1,007  | 1,008  | 1,010  | 1,012  | 1,013  |
| GF Oil Revenues, Real         | 806    | 745    | 950    | 901    | 863    | 849    | 822    | 806    | 789    | 774    | 759    | 743    |
| GF Non-Oil, Nominal           | 450    | 489    | 470    | 480    | 490    | 501    | 512    | 523    | 535    | 548    | 558    | 571    |
| GF Non-Oil, Real              | 450    | 454    | 440    | 434    | 429    | 424    | 419    | 419    | 419    | 418    | 419    | 419    |
| 1/2 PF Earnings               | 657    | 660    | 663    | 667    | 672    | 677    | 681    | 685    | 689    | 692    | 696    | 700    |
| CBR Earnings                  | 196    | 187    | 177    | 178    | 177    | 176    | 174    | 173    | 172    | 172    | 171    | 172    |
| New Agency Dividends & Other  | 100    | 100    | 100    | 100    | 100    | 100    | 100    | 100    | 100    | 100    | 100    | 100    |
| GF Revenues, Real             | 2,208  | 2,145  | 2,330  | 2,281  | 2,240  | 2,225  | 2,197  | 2,183  | 2,169  | 2,156  | 2,145  | 2,134  |
| GF Expenditures, Real         | 2,361  | 2,337  | 2,314  | 2,291  | 2,268  | 2,245  | 2,223  | 2,201  | 2,179  | 2,157  | 2,135  | 2,114  |
| Draw/Deposit, CBR             | -153   | -192   | 16     | -10    | -28    | -20    | -26    | -18    | -10    | -1     | 10     | 20     |
| Information On Fund Balances: |        |        |        |        |        |        |        |        |        |        |        |        |
| Balance In PF, Real           | 23,877 | 23,988 | 24,108 | 24,270 | 24,433 | 24,602 | 24,752 | 24,897 | 25,039 | 25,179 | 25,315 | 25,449 |
| Deposits, Nominal             | 111    | 124    | 173    | 181    | 193    | 177    | 177    | 178    | 178    | 178    | 179    | 179    |
| Deposits, Real                | 111    | 120    | 162    | 164    | 169    | 150    | 145    | 143    | 139    | 136    | 134    | 131    |
| Ending Balance, Real          | 23,988 | 24,108 | 24,270 | 24,433 | 24,602 | 24,752 | 24,897 | 25,039 | 25,179 | 25,315 | 25,449 | 25,581 |
| Real Earnings                 | 1,313  | 1,319  | 1,326  | 1,335  | 1,344  | 1,353  | 1,361  | 1,369  | 1,377  | 1,385  | 1,392  | 1,400  |
| CBR Balance, Real             | 3,559  | 3,406  | 3,214  | 3,230  | 3,220  | 3,192  | 3,172  | 3,146  | 3,128  | 3,118  | 3,118  | 3,120  |
| Draw/Deposit                  | -153   | -192   | 16     | -10    | -28    | -20    | -26    | -18    | -10    | -1     | 10     | 20     |
| CBR Ending Balance, Real      | 3,406  | 3,214  | 3,230  | 3,220  | 3,192  | 3,172  | 3,146  | 3,128  | 3,118  | 3,118  | 3,128  | 3,148  |
| Real Earnings                 | 196    | 187    | 177    | 178    | 177    | 176    | 174    | 173    | 172    | 172    | 171    | 172    |
| Deflator:                     | 1      | 1.034  | 1.069  | 1.106  | 1.143  | 1.182  | 1.222  | 1.249  | 1.277  | 1.305  | 1.333  | 1.363  |

**Alaska Permanent Fund Simulation Model  
(Mother of Models, All - or MOMA)**

Understanding and Applying the Model:  
Percent of Market Value Distribution Rules

March 31, 1999

Gregory C. Allen  
EVP, Callin Associates Inc.



**Fundamental Objective**

To build a tool that allows us to understand the potential impacts of **any** policy change on:

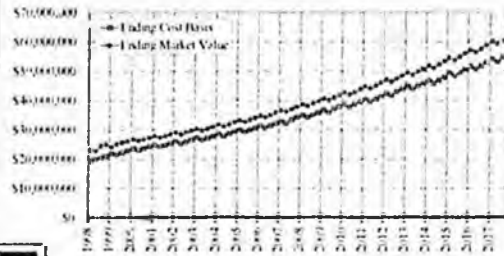
- Fund Value
- Earnings Reserve Balance
- Distributed Income
- Inflation-Proofing

across a complete range of possible capital market outcomes.



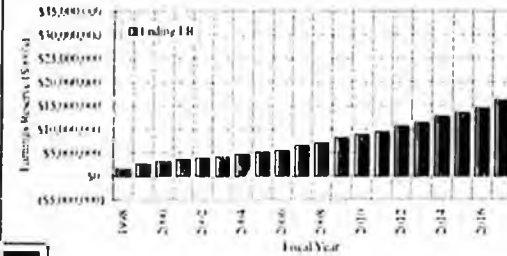
**Fund Value  
Base - Median Results**

Cost vs Market Value of Assets



**Reserve Account  
Base Case - Median Results**

Earnings Reserve Account - Ending Balance



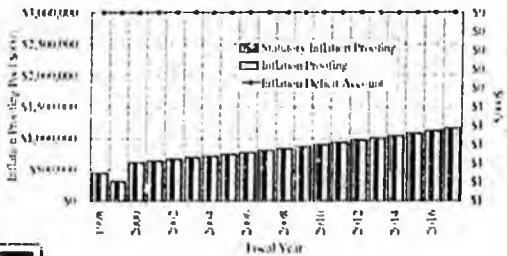
**Distributed Income  
Base - Median Results**

Distributed Income, Pre and Post Earnings Reserve Limitation

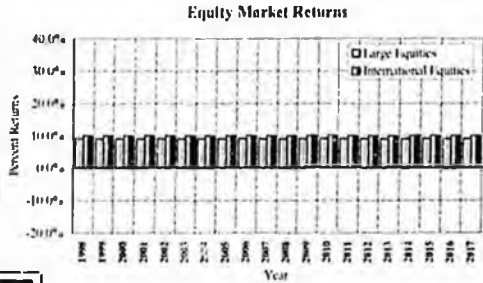


**Inflation-proofing to Principal  
Base - Median Results**

Statutory vs Actual Inflation Proofing

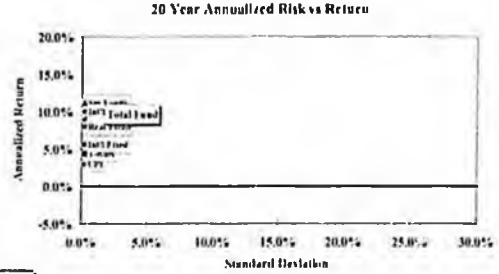


### Equity Market Returns Median Case - (Zero Risk)



7

### Risk vs Return Median Case - (Zero Risk)



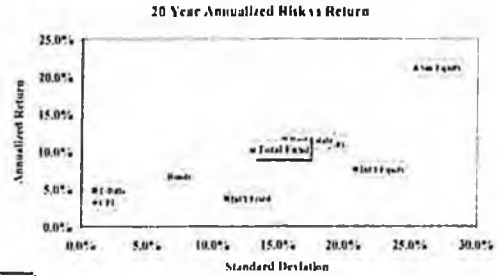
8

### Equity Market Returns Scenario #28 - (Introducing Risk)



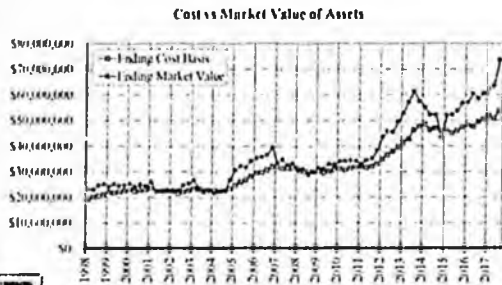
9

### Risk vs Return Scenario #28 - (Introducing Risk)



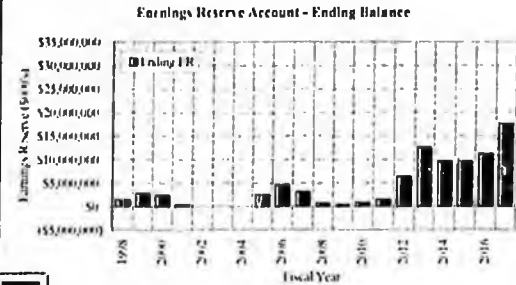
10

### Fund Value Scenario #28 - (Introducing Risk)



11

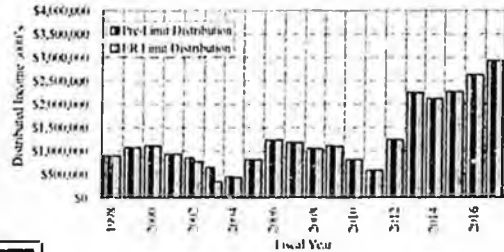
### Reserve Account Scenario #28 - (Introducing Risk)



12

## Distributed Income Scenario #28 - (Introducing Risk)

Distributed Income, Pre and Post Earnings Reserve Limitation

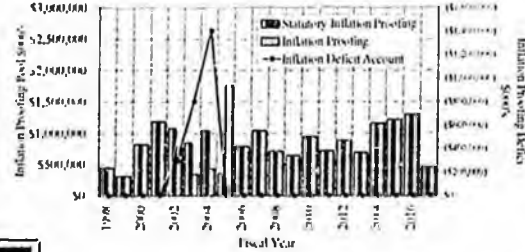


CAI

13

## Inflation-proofing to Principal Scenario #28 - (Introducing Risk)

Statutory vs Actual Inflation Proofing



CAI

11

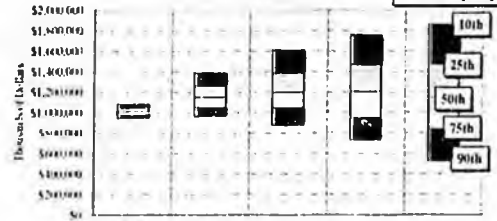
[Demo Model]

CAI

15

## Distributed Income Base Case - Range of Results

Distributed Earnings



CAI

16

## Applying the Model

Comparing the Status Quo to three variations on a Market-Value-Based Distribution Rule.

CAI

17

## 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.

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18

**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.



19

**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.



20

**Percent of Market Value - 5.5% 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: 68% Equity.
- Distributed Income: 5.5% of 5-year average market value.
- Inflation-Proofing: stays in Earnings Reserve.
- Earnings Reserve limitation: status quo.



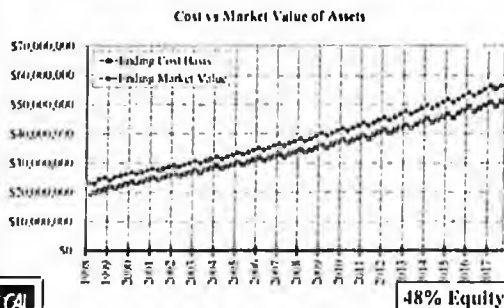
21

**Fund Value Base - Median Results**



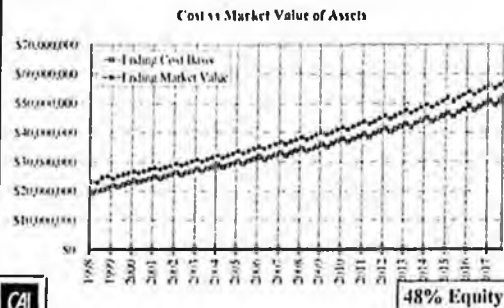
22

**Fund Value 4.5 % of MV - Median Results**



23

**Fund Value 4.5 % of MV, IP in ER - Median Results**

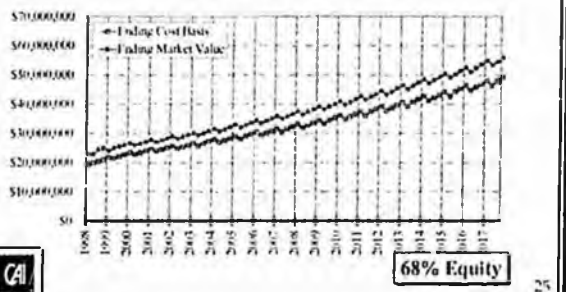


24

### Fund Value

5.5 % of MV, IP in ER - Median Results

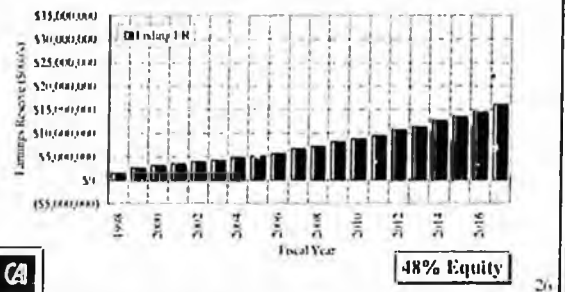
Cost vs Market Value of Assets



### Reserve Account

Base Case - Median Results

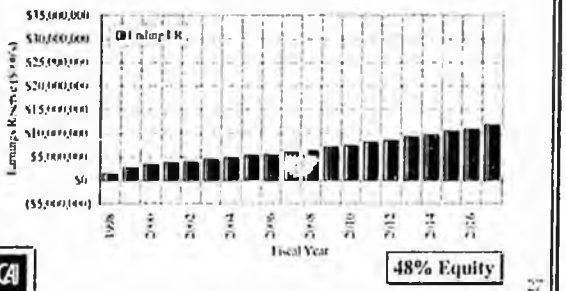
Earnings Reserve Account - Ending Balance



### Reserve Account

4.5 % of MV - Median Results

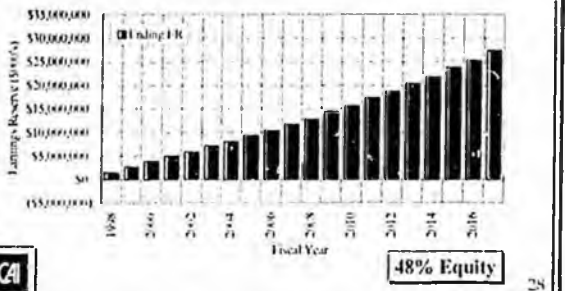
Earnings Reserve Account - Ending Balance



### Reserve Account

4.5 % of MV, IP in ER - Median Results

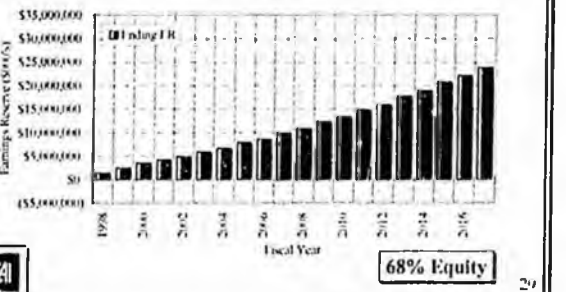
Earnings Reserve Account - Ending Balance



### Reserve Account

5.5 % of MV, IP in ER - Median Results

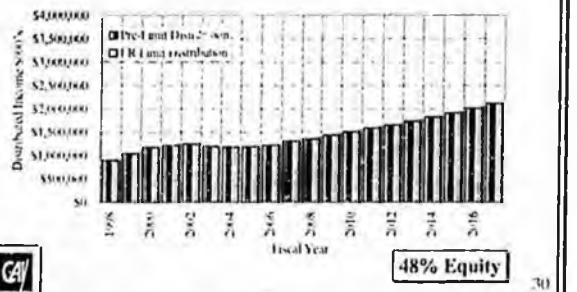
Earnings Reserve Account - Ending Balance



### Distributed Income

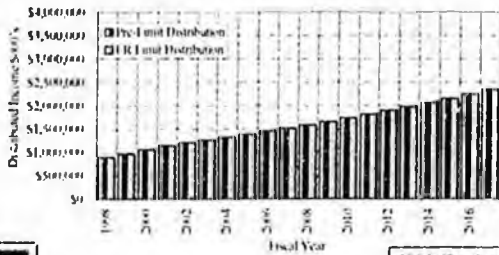
Base Case - Median Results

Distributed Income, Pre and Post Earnings Reserve Limitation



### Distributed Income 4.5% of MV - Median Results

Distributed Income, Pre and Post Earnings Reserve Limitation

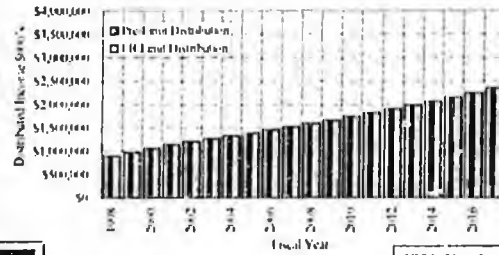


48% Equity

31

### Distributed Income 4.5% of MV, IP in ER - Median Results

Distributed Income, Pre and Post Earnings Reserve Limitation



48% Equity

32

### Distributed Income 5.5% of MV, IP in ER - Median Results

Distributed Income, Pre and Post Earnings Reserve Limitation

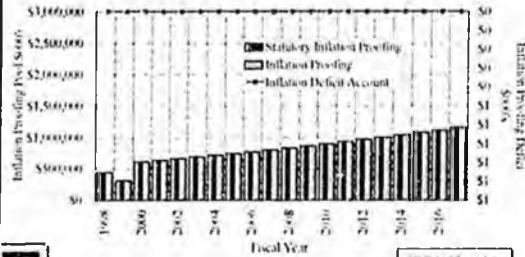


68% Equity

33

### Inflation-proofing to Principal Base - Median Results

Statutory vs Actual Inflation Proofing

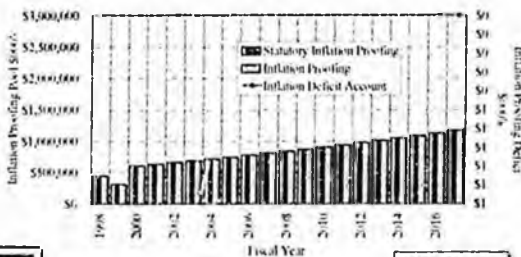


48% Equity

34

### Inflation-proofing to Principal 4.5% of MV - Median Results

Statutory vs Actual Inflation Proofing

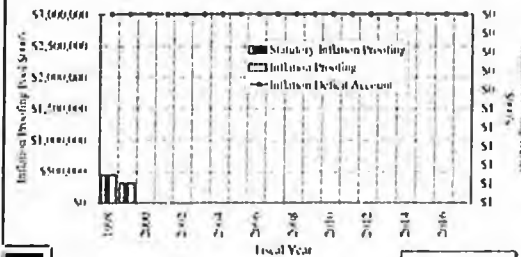


48% Equity

35

### Inflation-proofing to Principal 4.5% of MV, IP in ER - Median Results

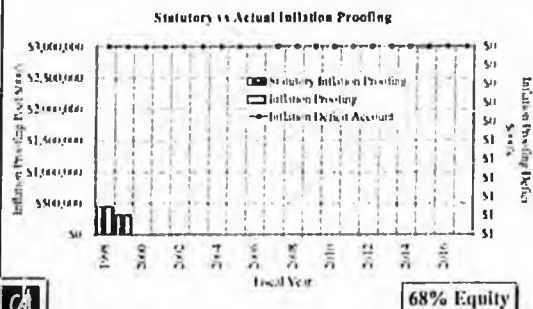
Statutory vs Actual Inflation Proofing



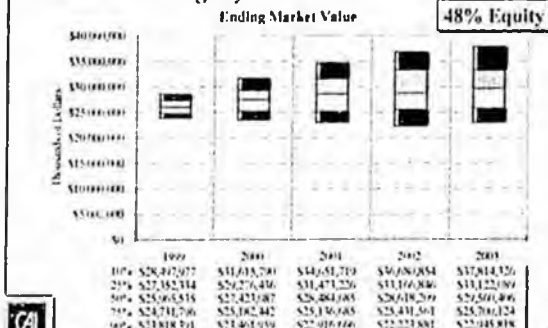
48% Equity

36

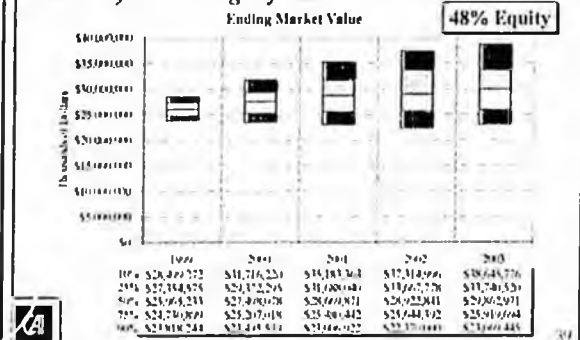
## Inflation-proofing to Principal 5.5 % of MV, IP in ER - Median Results



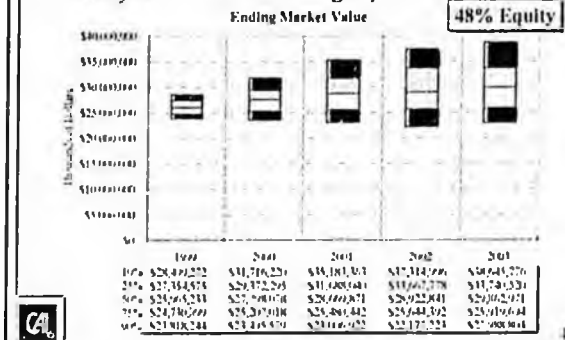
## Fund Value Base Case - Range of Results



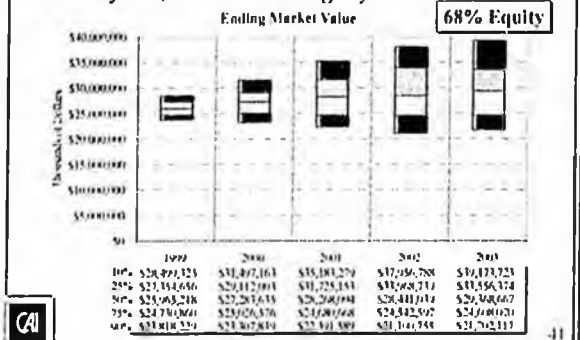
## Fund Value 4.5 % of MV - Range of Results



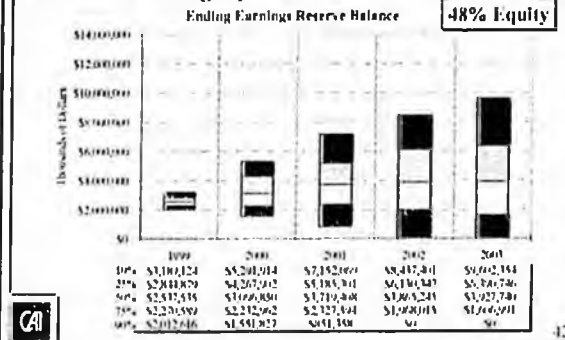
## Fund Value 4.5 % of MV, IP in ER - Range of Results



## Fund Value 5.5 % of MV, IP in ER - Range of Results

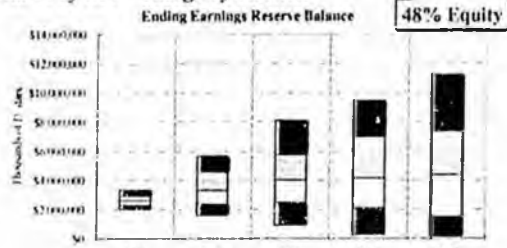


## Earnings Reserve Balance Base Case - Range of Results



### Earnings Reserve Balance

-1.5 % of MV - Range of Results



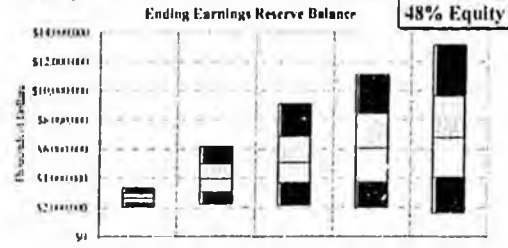
|     | 1999        | 2000        | 2001        | 2002        | 2003         |
|-----|-------------|-------------|-------------|-------------|--------------|
| 10% | \$3,327,316 | \$3,664,227 | \$8,060,958 | \$9,487,652 | \$11,239,928 |
| 25% | \$2,944,914 | \$4,579,640 | \$5,790,364 | \$6,987,266 | \$7,342,925  |
| 50% | \$2,740,896 | \$3,297,809 | \$4,183,527 | \$4,133,944 | \$4,367,698  |
| 75% | \$2,318,640 | \$2,338,442 | \$2,482,777 | \$2,919,889 | \$1,472,918  |
| 90% | \$1,031,195 | \$1,097,079 | \$14,833    | \$271,311   | 21,273       |

CAI

13

### Earnings Reserve Balance

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



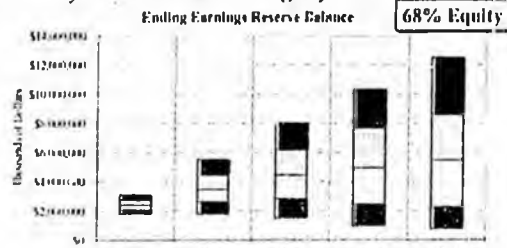
|     | 1999        | 2000        | 2001        | 2002         | 2003         |
|-----|-------------|-------------|-------------|--------------|--------------|
| 10% | \$3,327,316 | \$6,144,011 | \$9,000,814 | \$11,666,602 | \$11,134,759 |
| 25% | \$2,944,914 | \$3,092,413 | \$6,873,611 | \$8,493,327  | \$9,655,312  |
| 50% | \$2,740,896 | \$3,919,943 | \$3,076,612 | \$6,048,118  | \$6,784,366  |
| 75% | \$2,318,640 | \$3,031,284 | \$3,711,610 | \$3,751,172  | \$4,066,233  |
| 90% | \$1,031,195 | \$2,236,291 | \$2,133,406 | \$2,650,027  | \$1,634,928  |

CAI

11

### Earnings Reserve Balance

5.5 % of MV, IP in ER - Range of Results



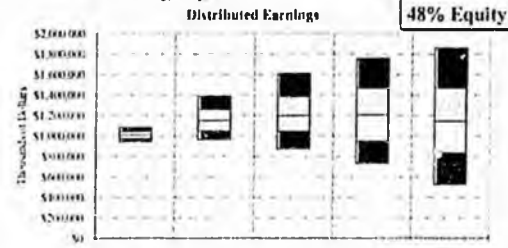
|     | 1999        | 2000        | 2001        | 2002         | 2003         |
|-----|-------------|-------------|-------------|--------------|--------------|
| 10% | \$1,111,366 | \$5,402,640 | \$8,042,186 | \$10,295,514 | \$12,403,442 |
| 25% | \$2,332,159 | \$4,407,284 | \$6,177,015 | \$7,683,436  | \$8,584,021  |
| 50% | \$2,102,215 | \$3,472,784 | \$4,442,805 | \$4,944,874  | \$5,455,977  |
| 75% | \$2,110,461 | \$2,643,843 | \$2,816,674 | \$2,476,319  | \$2,299,971  |
| 90% | \$1,226,044 | \$1,802,637 | \$1,563,634 | \$2,78,965   | \$788,937    |

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15

### Distributed Income

Base Case - Range of Results



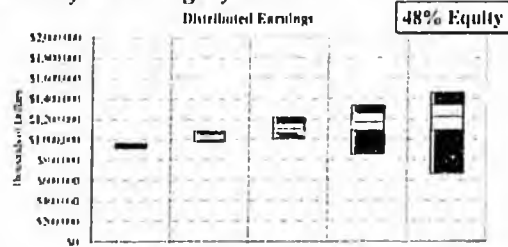
|     | 1999        | 2000        | 2001        | 2002        | 2003        |
|-----|-------------|-------------|-------------|-------------|-------------|
| 10% | \$1,002,403 | \$1,384,267 | \$1,602,959 | \$1,266,355 | \$1,856,466 |
| 25% | \$1,042,648 | \$1,266,137 | \$1,384,975 | \$1,408,382 | \$1,499,651 |
| 50% | \$1,007,166 | \$1,148,858 | \$1,199,251 | \$1,205,002 | \$1,142,829 |
| 75% | \$1,006,330 | \$1,051,148 | \$1,044,975 | \$988,607   | \$857,018   |
| 90% | \$946,531   | \$966,128   | \$874,533   | \$713,713   | \$525,149   |

CAI

16

### Distributed Income

4.5 % of MV - Range of Results



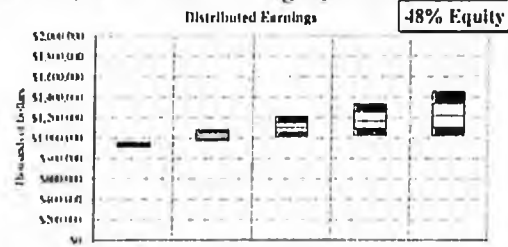
|     | 1999      | 2000        | 2001        | 2002        | 2003        |
|-----|-----------|-------------|-------------|-------------|-------------|
| 10% | \$957,877 | \$1,081,746 | \$1,214,267 | \$1,133,258 | \$1,454,661 |
| 25% | \$947,759 | \$1,096,432 | \$1,184,650 | \$1,256,287 | \$1,346,682 |
| 50% | \$935,479 | \$1,023,954 | \$1,102,302 | \$1,168,011 | \$1,225,040 |
| 75% | \$924,568 | \$998,015   | \$1,061,955 | \$1,094,428 | \$1,091,462 |
| 90% | \$916,561 | \$926,041   | \$1,006,565 | \$855,192   | \$644,064   |

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17

### Distributed Income

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



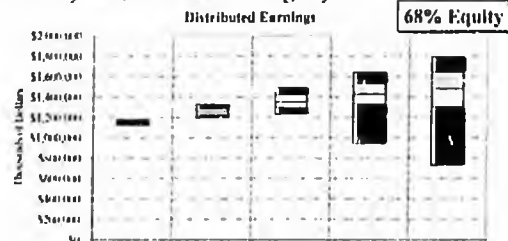
|     | 1999      | 2000        | 2001        | 2002        | 2003        |
|-----|-----------|-------------|-------------|-------------|-------------|
| 10% | \$957,877 | \$1,081,746 | \$1,214,267 | \$1,133,258 | \$1,454,661 |
| 25% | \$947,759 | \$1,096,432 | \$1,184,650 | \$1,256,287 | \$1,346,682 |
| 50% | \$935,479 | \$1,023,954 | \$1,102,302 | \$1,168,011 | \$1,225,040 |
| 75% | \$924,568 | \$998,015   | \$1,061,955 | \$1,094,428 | \$1,091,462 |
| 90% | \$916,561 | \$926,041   | \$1,006,565 | \$855,192   | \$644,064   |

CAI

18

### Distributed Income

5.5 % of MV, IP in ER - Range of Results



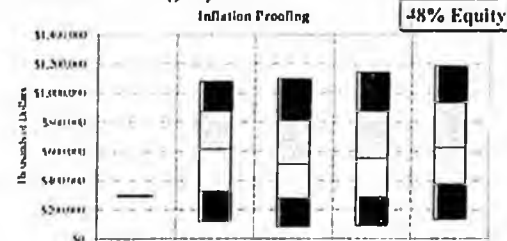
|     | 1999        | 2000        | 2001        | 2002        | 2003        |
|-----|-------------|-------------|-------------|-------------|-------------|
| 10% | \$1,177,478 | \$1,327,069 | \$1,499,000 | \$1,682,004 | \$1,748,400 |
| 25% | \$1,161,112 | \$1,286,291 | \$1,419,004 | \$1,535,009 | \$1,649,674 |
| 50% | \$1,138,101 | \$1,236,042 | \$1,380,008 | \$1,489,325 | \$1,479,440 |
| 75% | \$1,116,766 | \$1,225,453 | \$1,296,637 | \$1,329,671 | \$1,306,422 |
| 90% | \$1,126,000 | \$1,190,318 | \$1,244,000 | \$1,017,000 | \$736,115   |

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19

### Inflation-proofing to Principal

Base Case - Range of Results



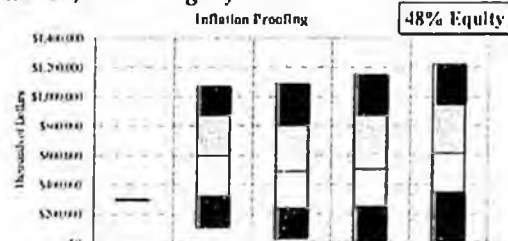
|     | 1999      | 2000        | 2001        | 2002        | 2003        |
|-----|-----------|-------------|-------------|-------------|-------------|
| 10% | \$392,572 | \$1,077,704 | \$1,092,629 | \$1,142,691 | \$1,184,857 |
| 25% | \$392,572 | \$876,313   | \$811,767   | \$874,173   | \$911,721   |
| 50% | \$392,572 | \$614,129   | \$511,241   | \$511,998   | \$624,412   |
| 75% | \$392,572 | \$329,274   | \$276,473   | \$281,911   | \$173,466   |
| 90% | \$392,572 | \$119,750   | \$83,306    | \$92,530    | \$112,500   |

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20

### Inflation-proofing to Principal

4.5 % of MV - Range of Results



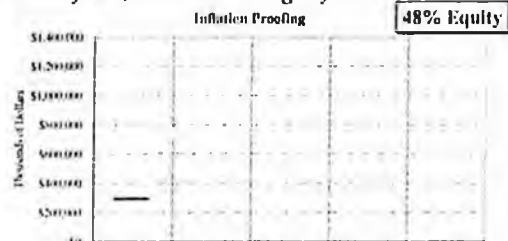
|     | 1999      | 2000        | 2001        | 2002        | 2003        |
|-----|-----------|-------------|-------------|-------------|-------------|
| 10% | \$392,572 | \$1,298,522 | \$1,185,876 | \$1,148,303 | \$1,221,627 |
| 25% | \$392,572 | \$879,436   | \$802,224   | \$870,646   | \$945,151   |
| 50% | \$392,572 | \$595,248   | \$490,148   | \$595,540   | \$613,346   |
| 75% | \$392,572 | \$321,616   | \$230,011   | \$291,731   | \$349,928   |
| 90% | \$392,572 | \$104,176   | \$28,864    | \$0         | \$0         |

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21

### Inflation-proofing to Principal

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



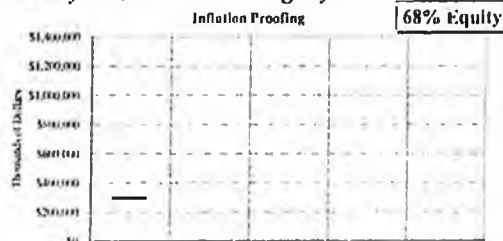
|     | 1999      | 2000 | 2001 | 2002 | 2003 |
|-----|-----------|------|------|------|------|
| 10% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 25% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 50% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 75% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 90% | \$392,572 | \$0  | \$0  | \$0  | \$0  |

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22

### Inflation-proofing to Principal

5.5 % of MV, IP in ER - Range of Results



|     | 1999      | 2000 | 2001 | 2002 | 2003 |
|-----|-----------|------|------|------|------|
| 10% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 25% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 50% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 75% | \$392,572 | \$0  | \$0  | \$0  | \$0  |
| 90% | \$392,572 | \$0  | \$0  | \$0  | \$0  |

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23

### Key Findings

- The Permanent Fund can support its three objectives under the current distribution formula across most market outcomes.
- A market-value-based distribution rule can result in a more stable distribution stream than the current income-based distribution rule.
- Higher levels of distributed income require greater allocations to higher-return, higher-risk assets (i.e. equities.)
- Distributing income in excess of sustainable levels creates potential shortfalls in future distributions due to the Fund's requirement to preserve principal ("if you pay out more today, you must pay out less tomorrow.")

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24

## Capital Market Assumptions

### Annualized Asset Class Assumptions

| Asset Class               | Return | Volatility | Correlation | Yield | Dividend |
|---------------------------|--------|------------|-------------|-------|----------|
| CPI                       | 3.00%  | 1.00%      | NA          | NA    | NA       |
| Cash Equivalents          | 4.00%  | 0.70%      | 4.00%       | 0.20% |          |
| Domestic Bonds            | 5.60%  | 5.50%      | 5.60%       | 0.60% |          |
| Large Cap Domestic Equity | 9.00%  | 15.00%     | 1.90%       | 0.90% |          |
| Small Cap Domestic Equity | 11.20% | 25.30%     | 1.30%       | 2.00% |          |
| International Equity      | 10.00% | 21.50%     | 1.20%       | 1.35% |          |
| Real Estate               | 8.00%  | 16.50%     | 6.50%       | 0.00% |          |
| International Bonds       | 5.60%  | 11.00%     | 5.60%       | 1.50% |          |



55

## Asset Allocation - 48% Equity

### 48% Equity Allocation

| Asset Class               | Jun-99 | Jun-00  | Jun-01  |
|---------------------------|--------|---------|---------|
| Cash Equivalents          | 0.5%   | 0.5%    | 0.0%    |
| Domestic Bonds            | 40.9%  | 39.5%   | 40.0%   |
| Active Large Cap Dom Eq   | 17.3%  | 15.5%   | 13.0%   |
| Passive Large Cap Dom Eq  | 13.0%  | 13.0%   | 13.0%   |
| Small Cap Domestic Equity | 6.9%   | 5.0%    | 8.0%    |
| International Equity      | 11.5%  | 13.0%   | 14.0%   |
| Real Estate               | 7.7%   | 8.5%    | 10.0%   |
| International Bonds       | 1.9%   | 2.0%    | 2.0%    |
| Total                     | 100%   | 100.00% | 100.00% |

**Expected Return: 8.25%\***



\*Includes premium of active management

56

## Asset Allocation - 68% Equity

### 68% Equity Allocation

| Asset Class               | Jun-99 | Jun-00  | Jun-01  |
|---------------------------|--------|---------|---------|
| Cash Equivalents          | 0.5%   | 0.0%    | 0.0%    |
| Domestic Bonds            | 40.9%  | 30.0%   | 20.0%   |
| Active Large Cap Dom Eq   | 17.3%  | 18.0%   | 20.0%   |
| Passive Large Cap Dom Eq  | 13.0%  | 15.0%   | 20.0%   |
| Small Cap Domestic Equity | 6.9%   | 9.0%    | 10.0%   |
| International Equity      | 11.5%  | 16.0%   | 18.0%   |
| Real Estate               | 7.7%   | 10.0%   | 10.0%   |
| International Bonds       | 1.9%   | 2.0%    | 2.0%    |
| Total                     | 100%   | 100.00% | 100.00% |

**Expected Return: 9.15%\***



\*Includes premium of active management

57

## Alaska Permanent Fund: Long-Term Investment Considerations



APFC Presentation to Senate Finance  
March 31, 1999

### Outline

- APFC focus: investment management and structures, not public policy
- Key assumptions
- How the Fund works
- A look at a distribution based on % of market value rather than % of income
- MOMA - correlated Monte Carlo simulation computer modeling



### Role of the APFC



## APFC mission

Maximize the value of Alaska's oil revenues through prudent long-term investment and protection of principal to produce income to benefit all current and future generations of Alaskans.

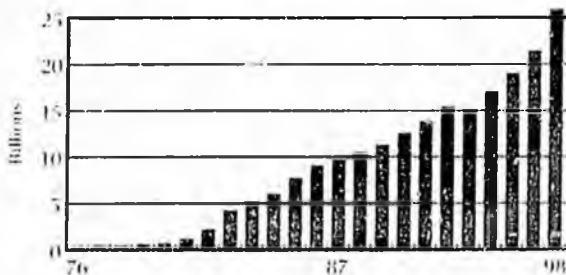
### Key assumptions

- Alaskans made a series of decisions 20 years ago about the Permanent Fund which have served us well.



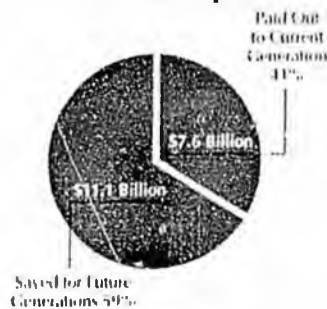
### Historical perspective

## Growth of Fund since inception



### Historical perspective

## Distribution of Fund income since inception



**Key assumptions**

- In the Trustees' view, it is not likely that the existing investment and distribution structures will work as well for Alaska in the next 20 years... and here's why...



**Key assumptions**

**Increased volatility in capital markets**

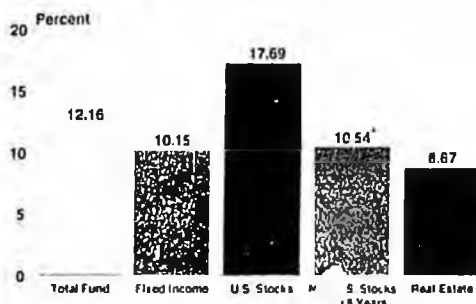
| Asset Class         | Index     | Expected Return |       |        | Expected Risk |       |        |
|---------------------|-----------|-----------------|-------|--------|---------------|-------|--------|
|                     |           | 1990            | 1999  | Change | 1990          | 1999  | Change |
| <b>Equities</b>     |           |                 |       |        |               |       |        |
| Large Cap           | S&P 500   | 9.0%            | 6.0%  | -3.0%  | 15.0%         | 15.0% | 0.0%   |
| Mid-Cap             | NYSE 250  | 10.0%           | 7.0%  | -3.0%  | 16.0%         | 16.0% | 0.0%   |
| International       | NYSE Intl | 8.0%            | 5.0%  | -3.0%  | 17.0%         | 17.0% | 0.0%   |
| <b>Fixed Income</b> |           |                 |       |        |               |       |        |
| Domestic            | 10 Yr     | 6.0%            | 5.0%  | -1.0%  | 5.5%          | 5.5%  | 0.0%   |
| International       | NYSE Intl | 6.5%            | 5.5%  | -1.0%  | 11.5%         | 11.5% | 0.0%   |
| <b>Other</b>        |           |                 |       |        |               |       |        |
| Real Estate         | REIT      | 7.5%            | 6.0%  | -1.5%  | 14.5%         | 14.5% | 0.0%   |
| Commodities         | NYMEX     | 12.5%           | 12.5% | 0.0%   | 15.0%         | 15.0% | 0.0%   |
| Cash Equiv          | Money Mkt | 6.0%            | 4.0%  | -2.0%  | 1.0%          | 1.0%  | 0.0%   |
| Leases              | Oil       | 1.0%            | 1.0%  | 0.0%   | 1.5%          | 1.5%  | 0.0%   |



**Historical perspective**

**Long-term total returns**

15 years ended December 31, 1998



**Key assumptions**

- GASB 31, the new financial accounting standard, changes the way the APFC reports income in the earnings reserve account...

**Statement of Assets, Liabilities, Principal and Earnings Reserve**

| Reported  | February 28, 1998 | Reported         |
|---|-------------------|------------------|
| (Millions of Dollars)                               | 1998              | 1997             |
| <b>Principal and Earnings Reserve</b>               |                   |                  |
| Principal   | \$2,545.2         | \$2,475.0        |
| Earnings Reserve                                    | 32.0              | 32.0             |
| Earnings Reserve -                                  |                   |                  |
| Earnings Reserve -                                  | 1,211.6           | 1,211.6          |
| Earnings Reserve -                                  | 1,078.6           | 1,078.6          |
| Earnings Reserve -                                  | 2,288.2           | 2,288.2          |
| <b>TOTAL PRINCIPAL AND EARNINGS RESERVE</b>         | <b>\$2,577.2</b>  | <b>\$2,507.0</b> |
| <b>TOTAL ASSETS LESS FUND AND LIABILITY RESERVE</b> | <b>\$ 2,628.0</b> | <b>\$2,558.0</b> |

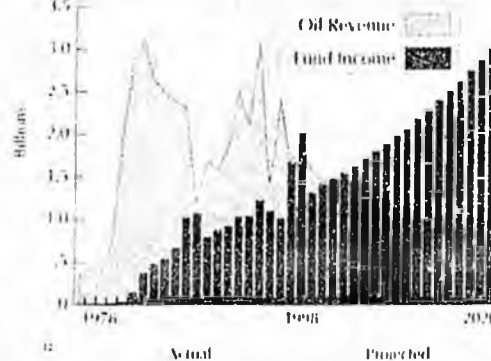
**Key assumptions**

- ... and that causes an inconsistency between current Generally Accepted Accounting Principles (GAAP) and state law, according to Morrison & Foerster and KPMG.
- The conflict arises in regards to the definition of "income available for distribution" ... more on that later.



**Key assumptions**

**"Crossing of the lines in 1998"**



**Key assumptions**

At the heart of APFC investment planning for the future will be the attempt to mediate among these conflicting objectives:

1. Maximize long-term total return.
2. Maximize annual spending distributions.
3. Preserve the *real* (i.e., inflation-adjusted) value of the Fund and the distributions.
4. Maximize the stability and predictability of spending distributions.



**Key assumptions**

**Q. How much can be distributed while still preserving the real (i.e., inflation-adjusted) value of the fund?**

**A. If you want to preserve the real value of the Fund, you must not spend more than the real rate of return on your investments over the long term.**



**Key assumptions**

And the real rate of return on your investments will be determined by:

1. Capital market returns
2. Your asset allocation



**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                   | 1998 ASSET ALLOCATION |                 |                      | 1999 CALLAN CAPITAL MARKET ASSUMPTIONS |                 |                      |
|-------------------------------|-----------------------|-----------------|----------------------|--|-----------------|----------------------|
|                               | PERCENTAGE            | EXPECTED RETURN | RISK ADJUSTED RETURN | PERCENTAGE                             | EXPECTED RETURN | RISK ADJUSTED RETURN |
| <b>Domestic Equities</b>      |                       |                 |                      |  |                 |                      |
| Passively Managed             | 1.00%                 | 7.00%           | 0.40%                | 11.63%                                 | 1.10%           | 1.21%                |
| Actively Managed              | 1.00%                 | 7.00%           | 0.40%                | 10.38%                                 | 1.02%           | 1.02%                |
| Sub-Total                     |                       |                 |                      | 14.00%                                 | 2.02%           | 2.20%                |
| <b>International Equities</b> |                       |                 |                      |  |                 |                      |
| Passively Managed             | 1.50%                 | 8.50%           | 10.00%               | 4.90%                                  | 0.39%           | 0.49%                |
| Actively Managed              | 1.50%                 | 8.50%           | 10.00%               | 8.10%                                  | 0.81%           | 0.81%                |
| Sub-Total                     |                       |                 |                      | 14.00%                                 | 1.33%           | 1.40%                |
| <b>Bonds</b>                  |                       |                 |                      |  |                 |                      |
| Domestic                      | 5.00%                 | 0.00%           | 5.00%                | 40.00%                                 | 2.24%           | 2.24%                |
| International                 | 5.00%                 | 0.00%           | 5.00%                | 2.00%                                  | 0.11%           | 0.11%                |
| Sub-Total                     |                       |                 |                      | 42.00%                                 | 2.35%           | 2.35%                |
| <b>Real Estate</b>            | 0.50%                 | 1.50%           | 0.00%                | 10.00%                                 | 0.78%           | 0.80%                |
| <b>Total</b>                  |                       |                 |                      |  |                 | <b>7.76%</b>         |

**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                   | 1998 ASSET ALLOCATION |                 |                      | 1999 CALLAN CAPITAL MARKET ASSUMPTIONS |                 |                      |
|-------------------------------|-----------------------|-----------------|----------------------|--|-----------------|----------------------|
|                               | PERCENTAGE            | EXPECTED RETURN | RISK ADJUSTED RETURN | PERCENTAGE                             | EXPECTED RETURN | RISK ADJUSTED RETURN |
| <b>Domestic Equities</b>      |                       |                 |                      |  |                 |                      |
| Passively Managed             | 1.00%                 | 7.00%           | 0.40%                | 10.77%                                 | 1.38%           | 1.38%                |
| Actively Managed              | 1.00%                 | 7.00%           | 0.40%                | 21.21%                                 | 2.28%           | 2.09%                |
| Sub-Total                     |                       |                 |                      | 28.00%                                 | 3.35%           | 3.67%                |
| <b>International Equities</b> |                       |                 |                      |  |                 |                      |
| Passively Managed             | 1.50%                 | 8.50%           | 10.00%               | 4.90%                                  | 0.39%           | 0.49%                |
| Actively Managed              | 1.50%                 | 8.50%           | 10.00%               | 14.00%                                 | 1.30%           | 1.48%                |
| Sub-Total                     |                       |                 |                      | 14.00%                                 | 1.30%           | 1.48%                |
| <b>Bonds</b>                  |                       |                 |                      |  |                 |                      |
| Domestic                      | 5.00%                 | 0.00%           | 5.00%                | 40.00%                                 | 2.24%           | 2.24%                |
| International                 | 5.00%                 | 0.00%           | 5.00%                | 2.00%                                  | 0.11%           | 0.11%                |
| Sub-Total                     |                       |                 |                      | 42.00%                                 | 2.35%           | 2.35%                |
| <b>Real Estate</b>            | 0.50%                 | 1.50%           | 0.00%                | 10.00%                                 | 0.78%           | 0.80%                |
| <b>Total</b>                  |                       |                 |                      |  |                 | <b>8.60%</b>         |

**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                   | 1998 ASSET ALLOCATION |                 |                      | 1999 CALLAN CAPITAL MARKET ASSUMPTIONS |                 |                      |
|-------------------------------|-----------------------|-----------------|----------------------|--|-----------------|----------------------|
|                               | PERCENTAGE            | EXPECTED RETURN | RISK ADJUSTED RETURN | PERCENTAGE                             | EXPECTED RETURN | RISK ADJUSTED RETURN |
| <b>Domestic Equities</b>      |                       |                 |                      |  |                 |                      |
| Passively Managed             | 1.00%                 | 7.00%           | 0.40%                | 10.92%                                 | 1.42%           | 1.78%                |
| Actively Managed              | 1.00%                 | 7.00%           | 0.40%                | 21.08%                                 | 2.38%           | 2.38%                |
| Sub-Total                     |                       |                 |                      | 14.00%                                 | 3.78%           | 4.16%                |
| <b>International Equities</b> |                       |                 |                      |  |                 |                      |
| Passively Managed             | 1.50%                 | 8.50%           | 10.00%               | 4.90%                                  | 0.39%           | 0.49%                |
| Actively Managed              | 1.50%                 | 8.50%           | 10.00%               | 8.10%                                  | 0.81%           | 0.81%                |
| Sub-Total                     |                       |                 |                      | 14.00%                                 | 1.30%           | 1.48%                |
| <b>Bonds</b>                  |                       |                 |                      |  |                 |                      |
| Domestic                      | 5.00%                 | 0.00%           | 5.00%                | 40.00%                                 | 2.24%           | 2.24%                |
| International                 | 5.00%                 | 0.00%           | 5.00%                | 2.00%                                  | 0.11%           | 0.11%                |
| Sub-Total                     |                       |                 |                      | 42.00%                                 | 2.35%           | 2.35%                |
| <b>Real Estate</b>            | 0.50%                 | 1.50%           | 0.00%                | 10.00%                                 | 0.78%           | 0.80%                |
| <b>Total</b>                  |                       |                 |                      |  |                 | <b>9.50%</b>         |

### Key assumptions

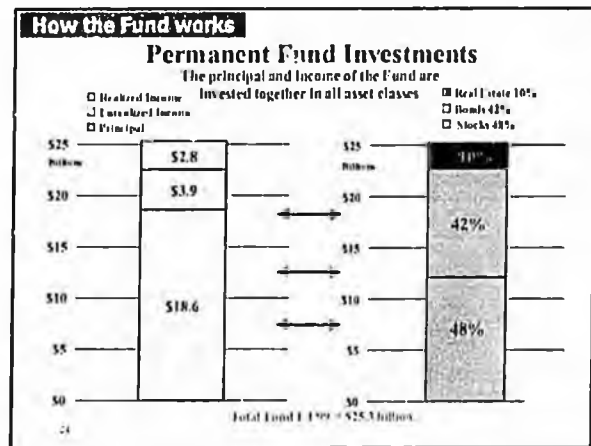
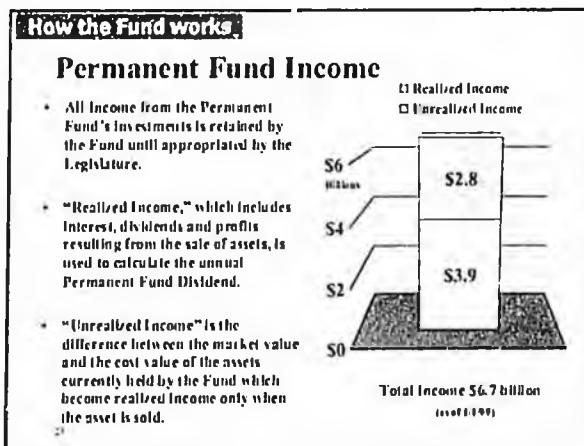
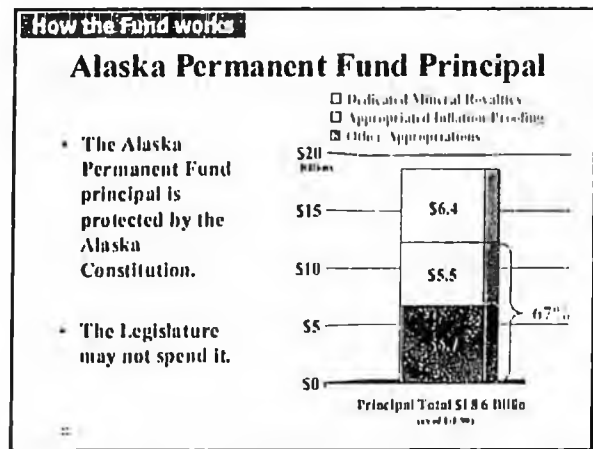
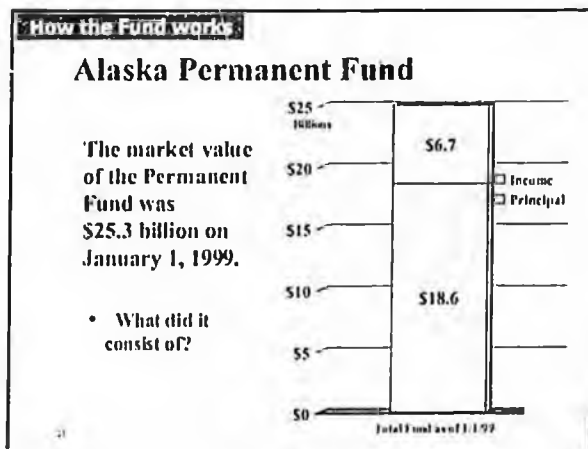
| GASB Income  | Fund Value |        |           |           |        |        |        |       |         |         |   |        |       |        |           |        |        |        |       |       |        |
|--|------------|--------|-----------|-----------|--------|--------|--------|-------|---------|---------|---|--------|-------|--------|-----------|--------|--------|--------|-------|-------|--------|
| <table border="1"> <tr><td>66,816</td><td>6,989</td><td>20,442</td><td>43,235.91</td><td>19,275</td><td>13,272</td><td>14,661</td><td>3,545</td><td>7,516</td><td>87,244</td></tr> </table> <p>STATUS QUO WITH 7.7%</p>  | 66,816     | 6,989  | 20,442    | 43,235.91 | 19,275 | 13,272 | 14,661 | 3,545 | 7,516   | 87,244  | <table border="1"> <tr><td>73,255</td><td>6,411</td><td>37,044</td><td>46,572.56</td><td>19,211</td><td>16,316</td><td>17,002</td><td>4,022</td><td>7,993</td><td>87,241</td></tr> </table> <p>STATUS QUO WITH 8.2%</p> | 73,255 | 6,411 | 37,044 | 46,572.56 | 19,211 | 16,316 | 17,002 | 4,022 | 7,993 | 87,241 |
| 66,816   | 6,989      | 20,442 | 43,235.91 | 19,275    | 13,272 | 14,661 | 3,545  | 7,516 | 87,244  |         |   |        |       |        |           |        |        |        |       |       |        |
| 73,255   | 6,411      | 37,044 | 46,572.56 | 19,211    | 16,316 | 17,002 | 4,022  | 7,993 | 87,241  |         |   |        |       |        |           |        |        |        |       |       |        |
| <table border="1"> <tr><td>82,048</td><td>7,966</td><td>35,671</td><td>50,335.19</td><td>19,249</td><td>19,066</td><td>21,351</td><td>4,529</td><td>8,500</td><td>117,344</td></tr> </table> <p>STATUS QUO WITH 8.6%</p> | 82,048     | 7,966  | 35,671    | 50,335.19 | 19,249 | 19,066 | 21,351 | 4,529 | 8,500   | 117,344 |   |        |       |        |           |        |        |        |       |       |        |
| 82,048   | 7,966      | 35,671 | 50,335.19 | 19,249    | 19,066 | 21,351 | 4,529  | 8,500 | 117,344 |         |   |        |       |        |           |        |        |        |       |       |        |

### Key assumptions

#### Daily Unaudited Position as of March 29, 1999

|                   |                         |             |
|-------------------|-------------------------|-------------|
| Fixed Income      | \$10,811,300,000        | 43%         |
| U.S. Equities     | \$9,165,500,000         | 36%         |
| Non-U.S. Equities | \$3,321,300,000         | 13%         |
| Real Estate       | \$1,937,600,000         | 8%          |
| Alaskan CDs       | \$190,000,000           | 1%          |
| <b>TOTAL</b>      | <b>\$25,425,700,000</b> | <b>100%</b> |

Source: www.apfc.org



**How the Fund works**

**Priority for use of Fund Income**

Alaska Statutes (AS 37.13.140 and 145) provide the following priority for the payment of dividends and inflation-proofing:

- 1) First, dividends are calculated and paid;  
then
- 2) Second, an amount of income sufficient to offset the effect of inflation is transferred to principal.

**How the Fund works**

**Dividend Calculation**

The dividend appropriation is the lesser of:

- 1) 1/2 of 21% of the sum of the last 5 years' realized earnings.
- Or
- 2) 1/2 of the earnings reserve account at the end of the current fiscal year.

Default to statute AS 37.13.140 and AS 37.13.145

**How the Fund works**

**Income available for distribution**

(calculation for the dividend distributed in October 1998)

| <u>1st Step</u>             |                        | <u>2nd Step</u>  |
|-----------------------------|------------------------|--|
| <u>Realized Income</u>      |                        | • Earnings reserve account at beginning of fiscal year was \$107 million.      |
| FY94                        | \$1,088 million        | • Add current year's, in this case FY98, realized earnings of \$2,595 million. |
| FY95                        | \$1,001 million        | • Total is <u>\$2,702 million</u> available for distribution.                  |
| FY96                        | \$1,790 million        |  |
| FY97                        | \$2,035 million        |  |
| FY98                        | <u>\$2,595 million</u> |  |
|                             | \$8,509 million        |  |
| multiply by 0.21 =          |                        |  |
| <u>\$1,787 million</u>      |                        |  |
| available for distribution. |                        |  |

1/2 of the lower amount in Step 1 or 2 is transferred to the dividend fund and paid out to qualified applicants. Since the beginning of the dividend program, the 1st step calculation has always been the lower amount.

**How the Fund works**

**Annual Permanent Fund Dividend**

(calculation for dividend distributed in October 1998 continued)

- Step 1 is less than Step 2;
- The dividend pool is 1/2 of Step 1;
- \$1,787 million divided by 2 = \$893 million;
- Then, after some minor adjustments, divide by eligible applicants = 1998 dividend per person;
- FY98 dividend = \$1,540.88 per person.

**How the Fund works**

**Hypothetical Calculation of Income available for distribution**

(when alternative 2nd step would apply)

| <u>1st Step</u>                                    |                     | <u>2nd Step</u>  |
|--|---------------------|--|
| <u>Realized Income</u>                             |                     | • Earnings reserve account at beginning of fiscal year is \$107 million.                 |
| FY94   | \$1,088 million     | • Add current year's, in this case FY98, hypothetical realized earnings of \$79 million. |
| FY95   | \$1,001 million     | • Total is <u>\$900 million</u> available for distribution.                              |
| FY96   | \$1,790 million     |  |
| FY97   | \$2,035 million     |  |
| FY98   | <u>\$79 million</u> |  |
|  | \$6,707 million     |  |
| multiply by 0.21 =                                 |                     |  |
| <u>\$1,408 million</u> available for distribution. |                     |  |

1/2 of the lower amount in Step 1 or 2 is transferred to the dividend fund and paid out to qualified applicants. In this hypothetical case, Step 2 is the lower amount.

**How the Fund works**

**Annual Permanent Fund Dividend**

(hypothetical calculation continued)

- Step 2 is less than Step 1;
- The dividend pool is 1/2 of Step 2;
- \$900 million divided by 2 = \$450 million;
- Then, after some minor adjustments, divide by eligible applicants = 1998 dividend per person;
- FY98 hypothetical dividend = \$756.06 per person.

**How the Fund works**

**Inflation-Proofing**

Specified in statute AS 37.13.145:

- Compute the average of the monthly U.S. Consumer Price Index for urban consumers for each of the two previous calendar years;
- Compute the percentage change between the first and second calendar year average; and
- Apply that rate to the value of the principal of Fund on the last day of the fiscal year.

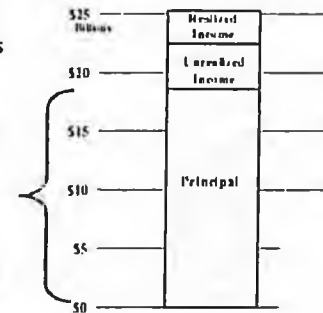
11

**How the Fund works**

**Inflation-Proofing**

- Only the principal is inflation-protected.

Principal amount of the Fund is multiplied times specific historical inflation rate to determine inflation-proofing amount.



12

**How the Fund works**

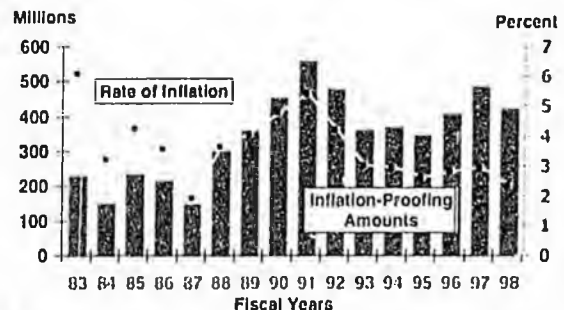
**Inflation-Proofing (example)**

- 2.34% change from average CPI for calendar year 1996 to average CPI for calendar 1997;
- Principal on June 30, 1998 was \$18,093 billion;
- Fund principal \$18,093 billion x 0.0234 CPI = \$423 million;
- \$423 million was appropriated and transferred from earnings reserve to principal.
- Transfer the inflation-proofing amount from earnings reserve to principal via an accounting entry.
- Assets do not really move.

13

**How the Fund works**

**Inflation-proofing**



**Market value-based distribution**

**Distribution based on percentage of market value**

- Trustee Hugh Malone first voiced support for this concept in the late 1980s
- Recommended for further study by the Commission on the Future of the PF in 1990
- Recommended by LRFPC in 1995



14

**Market value-based distribution**

**State of New Mexico Investment Council -- 1998 annual report:**

- The most significant accomplishment was the new distribution method that is now enshrined in the Constitution. Payouts from the two endowment Funds to support education and other designated state agencies will be based upon a percentage of the market value of each Fund. The selected percentage is pegged to the expected rate of return in the future, assuring that the Funds will be inflation-protected and will be available for future generations with their purchasing power intact.
- The second major achievement was the revision of the New Mexico investment restrictions in the Constitution and statutes. Those changes allow the the Funds to be invested like other large endowments, controlling risk and earning higher returns in every trust dollar.
- Distribution is 4.7% of 5-years' average market value (although there is a transition rule in effect right now); currently 62% is invested in equities.



15

**Market value-based distribution**

**Advantages:**

- 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



**The Trustees' Papers #6**



**"If the Permanent Fund is one of our major resources, how can it be used to advance all Alaskans' visions and values for the future?"**



**The Trustees' Papers #5**



**"Self-interest rightly understood."**



**For more information**

**For electronic copies of today's APFC PowerPoint presentations, send an email request to Jim Kelly, Director of Communications at [jkelly@alaskapermfund.com](mailto:jkelly@alaskapermfund.com)**



3/29/99  
SFC Secretary**MEMORANDUM**  
DEPARTMENT OF NATURAL RESOURCES**State of Alaska**  
DIVISION OF OIL AND GASTO Senators Parnell and Torgerson  
Co-chairs, Senate Finance

DATE: March 26, 1999

FROM:   
~~Ken Boyd~~  
Director

TELEPHONE: 269-8800

SUBJECT: Hearing Documents

Sorry for the informality of the memo but my secretary is out today and this is the best I can do.

Enclosed are a number of things related to your request. I've numbered them to make it a little easier (I hope) to identify what each piece is.

Page Number

- 1 - 2 The OLD (1998) production forecast by field.
- 3 - 4 The OLD (1998) production forecast by lessee.
- 5 - 6 The NEW (1999) production forecast by field (DRAFT).
- 7 - 8 The NEW (1999) production forecast by lessee (DRAFT).
- 9 Map, Northern Alaska Activity
- 10 Map, Cook Inlet Activity
- 11 Chart, Projects Under Development (2/99)
- 12 Chart, Undeveloped Oil Accumulations (2/99)
- 13 Map, NPRA

### TABLE 2A - OIL PRODUCTION FORECAST AND AVAILABLE ROYALTY OIL

| THOUSANDS OF BARRELS PER DAY. INCLUDES OIL, CONDENSATE AND NGL'S | 1998         | 1999            | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007       | 2008       |
|--|--------------|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| <b>PRODUCTION FORECAST</b>                                       |              |                 |              |              |              |              |              |              |              |            |            |
| <b>NORTH SLOPE</b>   |              |                 |              |              |              |              |              |              |              |            |            |
| Alpine   | -            | 35              | 34           | 31           | 28           | 25           | 23           | 21           | 19           | 18         | 16         |
| Badami   | -            | 48              | 42           | 37           | 35           | 33           | 31           | 30           | 28           | 27         | 26         |
| Endicott [1]   | 58           | 48              | 42           | 37           | 35           | 33           | 31           | 30           | 28           | 27         | 26         |
| Greater Point McIntyre Area                                      | 180          | 151             | 129          | 109          | 92           | 80           | 73           | 66           | 61           | 56         | 51         |
| Lisburne   | 10           | 11              | 11           | 10           | 9            | 8            | 8            | 7            | 7            | 6          | 6          |
| Niakuk [2]   | 30           | 27              | 25           | 22           | 19           | 17           | 16           | 14           | 13           | 12         | 11         |
| Point McIntyre   | 139          | 111             | 91           | 75           | 62           | 54           | 48           | 44           | 40           | 37         | 33         |
| West Beach-N. Prudhoe Bay State                                  | 2            | 2               | 2            | 2            | 2            | 1            | 1            | 1            | 1            | 1          | 1          |
| Kuparuk River Unit   | 265          | 278             | 285          | 275          | 266          | 255          | 235          | 219          | 203          | 189        | 178        |
| Kuparuk  | 262          | 256             | 244          | 227          | 209          | 190          | 172          | 157          | 142          | 129        | 118        |
| Tarn   | 4            | 10              | 19           | 17           | 16           | 15           | 13           | 12           | 11           | 10         | 10         |
| West Sak   | 4            | 12              | 22           | 31           | 41           | 50           | 50           | 50           | 50           | 50         | 50         |
| Liberty  | -            | -               | -            | 38           | 47           | 40           | 34           | 29           | 24           | 21         | 19         |
| Milne Point Unit   | 53           | 63              | 73           | 78           | 85           | 91           | 86           | 83           | 79           | 77         | 75         |
| Milne Point  | 45           | 45              | 45           | 42           | 40           | 37           | 33           | 30           | 27           | 25         | 23         |
| Sag River  | 4            | 6               | 6            | 5            | 4            | 4            | 3            | 3            | 2            | 2          | 2          |
| Schrader Bluff   | 4            | 12              | 22           | 31           | 41           | 50           | 50           | 50           | 50           | 50         | 50         |
| Northstar  | -            | -               | -            | 50           | 50           | 46           | 39           | 34           | 29           | 26         | 23         |
| Other Onshore [3]  | -            | -               | -            | 30           | 30           | 28           | 25           | 23           | 20           | 20         | 18         |
| Prudhoe Bay  | 700          | 660             | 630          | 610          | 589          | 568          | 545          | 515          | 481          | 447        | 415        |
| Satellites [4]   | 5            | 14              | 23           | 32           | 35           | 35           | 37           | 37           | 34           | 31         | 28         |
| <b>TOTAL</b>   | <b>1,263</b> | <b>1,249</b>    | <b>1,246</b> | <b>1,320</b> | <b>1,317</b> | <b>1,263</b> | <b>1,191</b> | <b>1,114</b> | <b>1,031</b> | <b>957</b> | <b>891</b> |
| <b>COOK INLET [5]</b>  |              |                 |              |              |              |              |              |              |              |            |            |
| Beaver Creek   | 0.31         | 0.29            | 0.28         | 0.27         | 0.25         | 0.24         | -            | -            | -            | -          | -          |
| Granite Point  | 6.50         | 6.00            | 5.50         | 5.10         | 4.60         | 4.30         | -            | -            | -            | -          | -          |
| McArthur River   | 12.60        | 11.35           | 10.20        | 9.20         | 8.27         | 7.45         | -            | -            | -            | -          | -          |
| Swanson River  | 2.20         | 1.76            | 1.40         | 1.13         | 0.90         | 0.72         | -            | -            | -            | -          | -          |
| Middle Ground Shoal  | 5.50         | 5.00            | 4.50         | 4.00         | 3.60         | 3.30         | -            | -            | -            | -          | -          |
| Trading Bay  | 1.50         | 1.45            | 1.37         | 1.30         | 1.24         | 1.18         | -            | -            | -            | -          | -          |
| West McArthur River  | 1.26         | 0.88            | 0.62         | 0.43         | 0.30         | 0.21         | -            | -            | -            | -          | -          |
| <b>TOTAL</b>   | <b>29.87</b> | <b>26.73</b>    | <b>23.87</b> | <b>21.43</b> | <b>19.16</b> | <b>17.40</b> | -            | -            | -            | -          | -          |
| <b>STATE TOTAL</b>   | <b>1,293</b> | <b>1,276</b>    | <b>1,270</b> | <b>1,341</b> | <b>1,336</b> | <b>1,280</b> | <b>1,191</b> | <b>1,114</b> | <b>1,031</b> | <b>957</b> | <b>891</b> |
| <b>AVAILABLE ROYALTY OIL</b>                                     |              |                 |              |              |              |              |              |              |              |            |            |
|  |              | Royalty Percent |              |              |              |              |              |              |              |            |            |
| <b>NORTH SLOPE</b>   |              |                 |              |              |              |              |              |              |              |            |            |
| Alpine   | 10.0% [9]    | -               | 6            | 3            | 6            | 6            | 6            | 6            | 5            | 5          | 4          |
| Badami   | 18.7%        | -               | 6            | 5            | 5            | 4            | 4            | 4            | 3            | 3          | 3          |
| Endicott [1]   | 14.4%        | 8               | 7            | 6            | 5            | 5            | 4            | 4            | 4            | 4          | 4          |
| Greater Point McIntyre Area                                      | 12.5%        | 23              | 19           | 16           | 14           | 12           | 10           | 9            | 8            | 7          | 6          |
| Lisburne   | 12.5%        | 1               | 1            | 1            | 1            | 1            | 1            | 1            | 1            | 1          | 1          |
| Niakuk [2]   | 12.5%        | 4               | 3            | 3            | 3            | 2            | 2            | 2            | 2            | 2          | 1          |
| Point McIntyre   | 12.5%        | 17              | 14           | 11           | 9            | 8            | 7            | 6            | 5            | 5          | 4          |
| West Beach-N. Prudhoe Bay State                                  | 12.5%        | 0               | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0          | 0          |
| Kuparuk River Unit   | 12.5%        | 33              | 35           | 36           | 34           | 33           | 32           | 29           | 27           | 25         | 22         |
| Kuparuk  | 12.5%        | 33              | 32           | 31           | 28           | 26           | 24           | 22           | 20           | 18         | 15         |
| Tarn   | 12.5%        | -               | 1            | 2            | 2            | 2            | 2            | 2            | 1            | 1          | 1          |
| West Sak   | 12.5%        | 1               | 2            | 3            | 4            | 5            | 6            | 6            | 6            | 6          | 6          |
| Liberty  | 14.6% [10]   | 8               | 9            | 11           | 11           | 12           | 13           | 13           | 12           | 11         | 11         |
| Milne Point Unit   | 14.6%        | 7               | 7            | 7            | 6            | 6            | 5            | 5            | 4            | 4          | 3          |
| Milne Point  | 14.6%        | 1               | 1            | 1            | 1            | 1            | 0            | 0            | 0            | 0          | 0          |
| Sag River  | 14.6%        | 1               | 1            | 1            | 1            | 1            | 0            | 0            | 0            | 0          | 0          |
| Schrader Bluff   | 14.6%        | 1               | 2            | 3            | 5            | 6            | 7            | 7            | 7            | 7          | 7          |
| Northstar  | 16.0% [11]   | -               | -            | -            | 8            | 8            | 7            | 6            | 5            | 4          | 4          |
| Other Onshore [3]  | 12.5%        | -               | -            | -            | 8            | 8            | 7            | 6            | 5            | 4          | 4          |
| Prudhoe Bay  | 12.5%        | 88              | 83           | 79           | 76           | 74           | 71           | 68           | 64           | 60         | 56         |
| Satellites [4]   | 12.5%        | 1               | 2            | 3            | 4            | 4            | 4            | 5            | 4            | 4          | 4          |
| <b>TOTAL</b>   |              | <b>160</b>      | <b>160</b>   | <b>159</b>   | <b>164</b>   | <b>163</b>   | <b>157</b>   | <b>148</b>   | <b>139</b>   | <b>129</b> | <b>111</b> |
| <b>COOK INLET [5]</b>  |              |                 |              |              |              |              |              |              |              |            |            |
| Beaver Creek   | 12.5% [12]   | 0.81            | 0.75         | 0.69         | 0.64         | 0.58         | 0.54         | -            | -            | -          | -          |
| Granite Point  | 12.5%        | 1.58            | 1.42         | 1.28         | 1.15         | 1.03         | 0.93         | -            | -            | -          | -          |
| McArthur River   | 12.5%        | -               | -            | -            | -            | -            | -            | -            | -            | -          | -          |
| Swanson River  | 12.5% [12]   | 0.69            | 0.63         | 0.56         | 0.50         | 0.45         | 0.41         | -            | -            | -          | -          |
| Middle Ground Shoal  | 12.5%        | 0.19            | 0.18         | 0.17         | 0.16         | 0.15         | 0.15         | -            | -            | -          | -          |
| Trading Bay  | 12.5%        | 0.16            | 0.11         | 0.08         | 0.05         | 0.04         | 0.03         | -            | -            | -          | -          |
| West McArthur River  | 12.5%        | -               | -            | -            | -            | -            | -            | -            | -            | -          | -          |
| <b>TOTAL</b>   |              | <b>3.42</b>     | <b>3.09</b>  | <b>2.77</b>  | <b>2.50</b>  | <b>2.25</b>  | <b>2.06</b>  | -            | -            | -          | -          |
| <b>STATE TOTAL</b>   |              | <b>163</b>      | <b>163</b>   | <b>161</b>   | <b>167</b>   | <b>165</b>   | <b>159</b>   | <b>148</b>   | <b>139</b>   | <b>129</b> | <b>111</b> |
| <b>IN-KIND ROYALTY OIL SALES</b>                                 |              |                 |              |              |              |              |              |              |              |            |            |
| Mapco [6]  |              | 35              | 35           | 35           | 35           | 35           | -            | -            | -            | -          | -          |
| Mapco #2 [7]   |              | 13              | -            | -            | -            | -            | -            | -            | -            | -          | -          |
| Tesoro [8]   |              | 32              | -            | -            | -            | -            | -            | -            | -            | -          | -          |
| <b>TOTAL</b>   |              | <b>80</b>       | <b>35</b>    | <b>35</b>    | <b>35</b>    | <b>35</b>    | <b>35</b>    | -            | -            | -          | -          |
| <b>IN-VALUE ROYALTY OIL TOTAL</b>                                |              | <b>83</b>       | <b>128</b>   | <b>126</b>   | <b>132</b>   | <b>130</b>   | <b>124</b>   | <b>148</b>   | <b>139</b>   | <b>129</b> | <b>111</b> |

NOTE: "-" = zero or no data; "0" = less than 0.001.

- [1] "Endicott" includes Endicott and Sag Delta.
- [2] "Niakuk" includes Niakuk, West Niakuk (27), Niakuk 26, and Niakuk 29.
- [3] "Other Onshore" includes one of several known discoveries which probably will be developed.
- [4] "Satellites" includes Prudhoe Bay and Kuparuk satellite fields.
- [5] The Cook Inlet forecast is arbitrarily cut off after 2003 because there are no public estimates of economic limits for the individual fields.
- [6] The Mapco contract is for 35,000BPD of Prudhoe Bay Unit royalty production, it expires December 2003.

OLD 1998

|                                 | 2008       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | Cumulative (Mbbbl) |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------------|
| <b>PRODUCTION FORECAST</b>      |            |            |            |            |            |            |            |            |            |            |            |                    |
| <b>NORTH SLOPE</b>              |            |            |            |            |            |            |            |            |            |            |            | 277,765            |
| Alpine                          | 39         | 36         | 33         | 30         | 28         | 26         | 24         | 23         | 21         | 20         | 19         | 132,860            |
| Badami                          | 15         | 14         | 13         | 13         | 12         | 11         | 11         | 10         | 10         | 5          | -          | 221,920            |
| Endicott [1]                    | 25         | 24         | 23         | 22         | 20         | 19         | 18         | 17         | 16         | 15         | 14         | 504,065            |
| Greater Point McIntyre Area     | 46         | 43         | 38         | 35         | 33         | 29         | 26         | 24         | 22         | 19         | 18         | 48,180             |
| Lisburne                        | 5          | 5          | 4          | 4          | 4          | 4          | 3          | 3          | 3          | 2          | 2          | 100,375            |
| Niakuk [2]                      | 10         | 9          | 6          | 7          | 7          | 6          | 5          | 5          | 4          | 4          | 4          | 348,210            |
| Point McIntyre                  | 30         | 28         | 25         | 23         | 21         | 19         | 18         | 16         | 15         | 13         | 12         | 7,665              |
| West Beach-N. Prudhoe Bay State | 1          | 1          | 1          | 1          | 1          | -          | -          | -          | -          | -          | -          | 1,476,615          |
| Kuparuk River Unit              | 168        | 159        | 151        | 143        | 135        | 124        | 117        | 111        | 106        | 98         | 90         | 1,075,655          |
| Kuparuk                         | 109        | 101        | 93         | 86         | 79         | 72         | 67         | 63         | 60         | 57         | 54         | 72,635             |
| Tarn                            | 9          | 8          | 8          | 7          | 7          | 6          | 6          | 6          | 6          | 3          | -          | 330,325            |
| West Sak                        | 50         | 50         | 50         | 50         | 49         | 46         | 44         | 42         | 40         | 38         | 36         | 118,625            |
| Liberty                         | 17         | 15         | 13         | 12         | 11         | 5          | -          | -          | -          | -          | -          | 544,945            |
| Milne Point Unit                | 73         | 69         | 68         | 66         | 64         | 60         | 56         | 53         | 50         | 47         | 44         | 195,275            |
| Milne Point                     | 21         | 18         | 17         | 15         | 14         | 13         | 11         | 10         | 9          | 6          | 7          | 19,345             |
| Sag River                       | 2          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 330,325            |
| Schrader Bluff                  | 50         | 50         | 50         | 50         | 49         | 46         | 44         | 42         | 40         | 38         | 36         | 150,380            |
| Northstar                       | 20         | 18         | 16         | 15         | 13         | 12         | 11         | 10         | -          | -          | -          | 105,850            |
| Other Onshore [3]               | 17         | 15         | 14         | 12         | 11         | 10         | 9          | 8          | 7          | 7          | 6          | 3,493,050          |
| Prudhoe Bay                     | 391        | 374        | 359        | 342        | 323        | 307        | 291        | 276        | 262        | 249        | 236        | 177,025            |
| Satellites [4]                  | 25         | 22         | 20         | 19         | 18         | 16         | 15         | 13         | 10         | 8          | 8          | 7,205,465          |
| <b>TOTAL</b>                    | <b>836</b> | <b>789</b> | <b>748</b> | <b>709</b> | <b>668</b> | <b>619</b> | <b>578</b> | <b>545</b> | <b>504</b> | <b>468</b> | <b>435</b> |                    |
| <b>COOK INLET [5]</b>           |            |            |            |            |            |            |            |            |            |            |            |                    |
| Beaver Creek                    | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 599                |
| Granite Point                   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 11,680             |
| McArthur River                  | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 21,561             |
| Swanson River                   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 2,960              |
| Middle Ground Shoal             | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 9,454              |
| Trading Bay                     | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 2,935              |
| West McArthur River             | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 1,351              |
| <b>TOTAL</b>                    | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 50,538             |
| <b>STATE TOTAL</b>              | <b>836</b> | <b>789</b> | <b>748</b> | <b>709</b> | <b>668</b> | <b>619</b> | <b>578</b> | <b>545</b> | <b>504</b> | <b>468</b> | <b>435</b> | <b>7,258,003</b>   |

|                                 | Royalty Percent | 2008       | 2010      | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019      |                |
|---------------------------------|-----------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------------|
| <b>AVAILABLE ROYALTY OIL</b>    |                 |            |           |           |           |           |           |           |           |           |           |           |                |
| <b>NORTH SLOPE</b>              |                 |            |           |           |           |           |           |           |           |           |           |           | 27,777         |
| Alpine                          | 10.0% [9]       | 4          | 4         | 3         | 3         | 3         | 3         | 2         | 2         | 2         | 2         | 2         | 22,188         |
| Badami                          | 16.7%           | 3          | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 31,956         |
| Endicott [1]                    | 14.4%           | 4          | 3         | 3         | 3         | 3         | 3         | 3         | 3         | 3         | 2         | 2         | 63,008         |
| Greater Point McIntyre Area     | 12.5%           | 6          | 5         | 5         | 4         | 4         | 4         | 3         | 3         | 3         | 2         | 2         | 6,023          |
| Lisburne                        | 12.5%           | 1          | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 12,547         |
| Niakuk [2]                      | 12.5%           | 1          | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 43,526         |
| Point McIntyre                  | 12.5%           | 4          | 4         | 3         | 3         | 3         | 2         | 2         | 2         | 2         | 2         | 2         | 958            |
| West Beach-N. Prudhoe Bay State | 12.5%           | 0          | 0         | 0         | 0         | 0         | -         | -         | -         | -         | -         | -         | 184,827        |
| Kuparuk River Unit              | 12.5%           | 21         | 20        | 19        | 18        | 17        | 16        | 15        | 14        | 13        | 12        | 11        | 134,457        |
| Kuparuk                         | 12.5%           | 14         | 13        | 12        | 11        | 10        | 9         | 8         | 8         | 8         | 7         | 7         | 9,079          |
| Tarn                            | 12.5%           | 1          | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 0         | -         | 41,291         |
| West Sak                        | 12.5%           | 6          | 6         | 6         | 6         | 6         | 6         | 6         | 5         | 5         | 5         | 5         | 79,289         |
| Liberty                         | [10]            | 11         | 10        | 10        | 10        | 9         | 9         | 8         | 8         | 7         | 7         | 6         | 28,413         |
| Milne Point Unit                | 14.6%           | 3          | 3         | 2         | 2         | 2         | 2         | 2         | 1         | 1         | 1         | 1         | 2,815          |
| Milne Point                     | 14.6%           | 0          | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 48,062         |
| Sag River                       | 14.6%           | 7          | 7         | 7         | 7         | 7         | 7         | 6         | 6         | 6         | 6         | 5         | 24,061         |
| Schrader Bluff                  | 14.6%           | 3          | 3         | 3         | 2         | 2         | 2         | 2         | 2         | -         | -         | -         | 13,231         |
| Northstar                       | 16.0% [11]      | 3          | 3         | 2         | 2         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 436,631        |
| Other Onshore [3]               | 12.5%           | 2          | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 2         | 22,128         |
| Prudhoe Bay                     | 12.5%           | 49         | 47        | 45        | 43        | 40        | 38        | 36        | 35        | 33        | 31        | 30        | 905,142        |
| Satellites [4]                  | 12.5%           | 3          | 3         | 3         | 2         | 2         | 2         | 2         | 2         | 1         | 1         | 1         | -              |
| <b>TOTAL</b>                    |                 | <b>105</b> | <b>99</b> | <b>94</b> | <b>89</b> | <b>84</b> | <b>79</b> | <b>74</b> | <b>70</b> | <b>64</b> | <b>59</b> | <b>55</b> |                |
| <b>COOK INLET [5]</b>           |                 |            |           |           |           |           |           |           |           |           |           |           |                |
| Beaver Creek                    | [12]            | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 1,460          |
| Granite Point                   | 12.5%           | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 2,695          |
| McArthur River                  | 12.5%           | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 1,182          |
| Swanson River                   | [12]            | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 367            |
| Middle Ground Shoal             | 12.5%           | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 169            |
| Trading Bay                     | 12.5%           | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | 5,872          |
| West McArthur River             | 12.5%           | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              |
| <b>TOTAL</b>                    |                 | -          | -         | -         | -         | -         | -         | -         | -         | -         | -         | -         |                |
| <b>STATE TOTAL</b>              |                 | <b>105</b> | <b>99</b> | <b>94</b> | <b>89</b> | <b>84</b> | <b>79</b> | <b>74</b> | <b>70</b> | <b>64</b> | <b>59</b> | <b>55</b> | <b>811,015</b> |

|                                  |   |   |   |   |   |   |   |   |   |   |   |   |        |
|----------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|--------|
| <b>IN-KIND ROYALTY OIL SALES</b> |   |   |   |   |   |   |   |   |   |   |   |   | 76,650 |
| Mapco [6]                        | - | - | - | - | - | - | - | - | - | - | - | - | 4,745  |
| Mapco #2 [7]                     | - | - | - | - | - | - | - | - | - | - | - | - | 11,787 |
| Tesoro [8]                       | - | - | - | - | - | - | - | - | - | - | - | - | 93,182 |
| <b>TOTAL</b>                     | - | - | - | - | - | - | - | - | - | - | - | - |        |

|                                   |            |           |           |           |           |           |           |           |           |           |           |  |                |
|-----------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|----------------|
| <b>IN-VALUE ROYALTY OIL TOTAL</b> |            |           |           |           |           |           |           |           |           |           |           |  | <b>817,833</b> |
| <b>TOTAL</b>                      | <b>105</b> | <b>99</b> | <b>94</b> | <b>89</b> | <b>84</b> | <b>79</b> | <b>74</b> | <b>70</b> | <b>64</b> | <b>59</b> | <b>55</b> |  |                |

[7] The Mapco #2 contract is for 11.6% of Prudhoe Bay Unit royalty production, it expires December 1998.  
 [8] The Tesoro contract is for 30% of Prudhoe Bay Unit royalty production, it expires December 1998.  
 [9] This percentage is the state's estimated share of the gross and does not include the royalty share attributable to Arctic Slope Regional Corporation.  
 [10] Liberty field likely lies entirely within federal leases and so will pay no state royalty.  
 [11] This is the estimated minimum state royalty share. It does not include federal royalty or the sliding scale Supplementary Royalty.  
 [12] Beaver Creek and Swanson River fields lie entirely within federal leases and so pay no state royalty.  
 Revised 3/10/98

2  
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### TABLE 2B - OIL PRODUCTION FORECAST FOR PRODUCING AND DEVELOPING NORTH SLOPE FIELDS, BY LESSEE

THOUSANDS OF BARRELS PER DAY. INCLUDES OIL, CONDENSATE, AND NGLs

|  | Working Interest | Total Offtake (1) | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006 | 2007 | 2008 | 2009 |
|--|------------------|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|------|
| <b>PRODUCTION FORECAST FOR NORTH SLOPE</b> |                  |                   |       |       |       |       |       |       |       |       |      |      |      |      |
| Alpine                                     |                  |                   |       |       | 30    | 60    | 60    | 60    | 60    | 65    | 50   | 45   | 42   | 39   |
| Arco                                       | 56.00%           |                   |       |       | 17    | 34    | 34    | 34    | 34    | 31    | 28   | 25   | 24   | 22   |
| Anadarko                                   | 22.00%           |                   |       |       | 7     | 13    | 13    | 13    | 13    | 12    | 11   | 10   | 9    | 9    |
| UTP  | 22.00%           |                   |       |       | 7     | 13    | 13    | 13    | 13    | 12    | 11   | 10   | 9    | 9    |
| Badami                                     |                  |                   |       | 35    | 34    | 31    | 28    | 25    | 23    | 21    | 19   | 18   | 16   | 15   |
| BP   | 70.00%           |                   |       |       | 25    | 24    | 22    | 20    | 18    | 15    | 13   | 13   | 11   | 11   |
| FINA                                       | 30.00%           |                   |       |       | 11    | 10    | 9     | 8     | 7     | 6     | 5    | 5    | 5    | 5    |
| Endicott [2]                               |                  |                   | 58    | 48    | 42    | 37    | 35    | 33    | 31    | 30    | 28   | 27   | 26   | 25   |
| Amoco                                      | 10.33%           |                   | 6     | 5     | 4     | 4     | 4     | 3     | 3     | 3     | 3    | 3    | 3    | 3    |
| Arco                                       | 0.02%            |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| BP   | 57.25%           |                   | 33    | 27    | 24    | 21    | 20    | 19    | 18    | 17    | 16   | 15   | 15   | 14   |
| CIRI                                       | 0.66%            |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| Doyon                                      | 0.12%            |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| Exxon                                      | 20.80%           |                   | 12    | 10    | 9     | 8     | 7     | 6     | 6     | 6     | 6    | 6    | 5    | 5    |
| NANA                                       | 0.40%            |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| Unocal                                     | 10.41%           |                   | 6     | 5     | 4     | 4     | 4     | 3     | 3     | 3     | 3    | 3    | 3    | 3    |
| Greater Point McIntyre [3]                 |                  |                   | 180   | 151   | 129   | 109   | 92    | 110   | 73    | 66    | 61   | 56   | 51   | 46   |
| Arco                                       | 28.87%           |                   | 52    | 44    | 37    | 31    | 27    | 22    | 21    | 19    | 18   | 16   | 15   | 13   |
| BP   | 37.84%           |                   | 68    | 57    | 49    | 41    | 35    | 30    | 28    | 25    | 23   | 21   | 19   | 17   |
| Exxon                                      | 33.28%           |                   | 60    | 50    | 43    | 35    | 31    | 27    | 24    | 22    | 20   | 19   | 17   | 15   |
| Kuparuk River Unit [4]                     |                  |                   | 266   | 278   | 285   | 275   | 266   | 255   | 235   | 219   | 203  | 189  | 178  | 168  |
| Arco                                       | 55.19%           |                   | 147   | 153   | 157   | 152   | 147   | 141   | 130   | 121   | 112  | 104  | 98   | 93   |
| BP   | 39.15%           |                   | 104   | 109   | 112   | 108   | 104   | 100   | 92    | 86    | 79   | 74   | 70   | 66   |
| Chevron                                    | 0.11%            |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| Exxon                                      | 0.22%            |                   | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1    | 1    | 1    | 1    |
| Mobil                                      | 0.37%            |                   | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1     | 1    | 1    | 1    | 1    |
| Unocal                                     | 4.97%            |                   | 13    | 14    | 14    | 14    | 13    | 13    | 12    | 11    | 10   | 9    | 9    | 8    |
| Milne Point Unit [5]                       |                  |                   | 53    | 63    | 73    | 78    | 85    | 91    | 86    | 83    | 79   | 77   | 75   | 73   |
| BP   | 91.19%           |                   | 48    | 57    | 67    | 71    | 78    | 83    | 78    | 76    | 72   | 70   | 68   | 67   |
| Oxy  | 8.81%            |                   | 5     | 6     | 6     | 7     | 7     | 8     | 8     | 7     | 7    | 7    | 7    | 6    |
| North Star                                 |                  |                   |       |       |       | 50    | 50    | 46    | 39    | 34    | 29   | 26   | 23   | 20   |
| BP   | 98.08%           |                   |       |       |       | 49    | 49    | 45    | 38    | 33    | 28   | 26   | 23   | 20   |
| Murphy                                     | 1.92%            |                   |       |       |       | 1     | 1     | 1     | 1     | 1     | 1    | 0    | 0    | 0    |
| Prudhoe Bay Unit [6]                       |                  |                   | 700   | 660   | 630   | 610   | 589   | 668   | 545   | 616   | 481  | 447  | 415  | 391  |
| Arco                                       | 29.01%           |                   | 203   | 191   | 183   | 177   | 171   | 165   | 158   | 149   | 140  | 130  | 120  | 113  |
| BP   | 37.74%           |                   | 264   | 249   | 238   | 230   | 222   | 214   | 206   | 194   | 182  | 169  | 157  | 148  |
| Chevron                                    | 1.04%            |                   | 7     | 7     | 7     | 6     | 6     | 6     | 5     | 5     | 5    | 5    | 4    | 4    |
| Exxon                                      | 29.13%           |                   | 204   | 192   | 183   | 178   | 172   | 165   | 159   | 150   | 140  | 130  | 121  | 114  |
| Forcenergy                                 | 0.03%            |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| Mobil                                      | 1.35%            |                   | 9     | 9     | 9     | 8     | 8     | 7     | 7     | 7     | 6    | 6    | 6    | 5    |
| Phillips                                   | 1.34%            |                   | 9     | 9     | 8     | 8     | 8     | 7     | 7     | 6     | 6    | 6    | 6    | 5    |
| Texaco                                     | 0.37%            |                   | 3     | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2    | 2    | 2    | 1    |
| TOTAL Amoco                                |                  |                   | 6     | 5     | 4     | 4     | 4     | 3     | 3     | 3     | 3    | 3    | 3    | 3    |
| TOTAL Anadarko                             |                  |                   |       |       | 7     | 13    | 13    | 13    | 13    | 12    | 11   | 10   | 9    | 9    |
| TOTAL Arco                                 |                  |                   | 402   | 388   | 394   | 394   | 378   | 362   | 342   | 320   | 297  | 275  | 257  | 241  |
| TOTAL BP                                   |                  |                   | 518   | 524   | 513   | 542   | 527   | 509   | 476   | 446   | 414  | 388  | 363  | 342  |
| TOTAL Chevron                              |                  |                   | 8     | 7     | 7     | 7     | 6     | 6     | 6     | 5     | 5    | 5    | 4    | 4    |
| TOTAL CIRI                                 |                  |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| TOTAL Doyon                                |                  |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| TOTAL Exxon                                |                  |                   | 276   | 253   | 236   | 222   | 210   | 199   | 190   | 179   | 167  | 155  | 144  | 135  |
| TOTAL Fina                                 |                  |                   |       | 11    | 10    | 9     | 8     | 8     | 7     | 6     | 6    | 5    | 5    | 5    |
| TOTAL Forcenergy                           |                  |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| TOTAL Mobil                                |                  |                   | 10    | 10    | 10    | 9     | 9     | 9     | 8     | 8     | 7    | 7    | 6    | 6    |
| TOTAL Murphy                               |                  |                   |       |       |       | 1     | 1     | 1     | 1     | 1     | 1    | 0    | 0    | 0    |
| TOTAL NANA                                 |                  |                   | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0    | 0    | 0    | 0    |
| TOTAL Oxy                                  |                  |                   | 5     | 6     | 6     | 7     | 7     | 8     | 8     | 7     | 7    | 7    | 6    | 6    |
| TOTAL Phillips                             |                  |                   | 9     | 9     | 9     | 8     | 8     | 8     | 7     | 7     | 6    | 6    | 6    | 5    |
| TOTAL Tesaco                               |                  |                   | 3     | 2     | 2     | 2     | 2     | 2     | 2     | 2     | 2    | 2    | 2    | 1    |
| TOTAL UTP                                  |                  |                   |       |       | 7     | 13    | 13    | 13    | 13    | 12    | 11   | 10   | 9    | 9    |
| TOTAL Unocal                               |                  |                   | 19    | 19    | 19    | 18    | 17    | 16    | 15    | 14    | 13   | 12   | 12   | 11   |
| TOTAL North Slope                          |                  |                   | 1,257 | 1,235 | 1,223 | 1,250 | 1,205 | 1,158 | 1,002 | 1,023 | 950  | 885  | 826  | 777  |

| PROJECTED NORTH SLOPE ROYALTY SHARE FROM ABOVE FIELDS | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|
|   | 162  | 161  | 163  | 163  | 156  | 150  | 141  | 132  | 122  | 114  | 106  | 100  |

NOTE: "-" = zero or no data; "0" = less than 0.5.  
 [1] Average from operator royalty statements of January through December 1997.  
 [2] "Endicott" production includes Endicott and Sag Delta North.  
 [3] "Greater Point McIntyre" production includes Lisburne, Niakuk, West Niakuk (27), Niakuk (28), Niakuk (29), North Prudhoe Bay State, Point McIntyre, and West Beach.  
 [4] "Kuparuk River Unit" includes Kuparuk, Tarn, and West Sak.  
 [5] "Milne Point" production includes Milne Point, Schrader Bluff, and Sag River.  
 [6] "Prudhoe Bay Unit" includes Prudhoe Bay and Satellites.

OLD 1998 3

|  | Working Interest | Total Offtake (\$) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Cumulative (MMbbl) |
|--|------------------|--------------------|------|------|------|------|------|------|------|------|------|------|--------------------|
| <b>PRODUCTION FORECAST FOR NORTH SLOPE</b> |                  |                    |      |      |      |      |      |      |      |      |      |      |                    |
| Alpine                                     |                  |                    | 36   | 33   | 30   | 28   | 26   | 24   | 23   | 21   | 20   | 19   | 288,716            |
| Arco                                       | 56.00%           |                    | 20   | 18   | 17   | 16   | 15   | 13   | 13   | 12   | 11   | 11   | 155,548            |
| Anadarko                                   | 22.00%           |                    | 8    | 7    | 7    | 6    | 6    | 5    | 5    | 5    | 4    | 4    | 61,108             |
| UTP  | 22.00%           |                    | 8    | 7    | 7    | 6    | 6    | 5    | 5    | 5    | 4    | 4    | 61,108             |
| Badarni                                    |                  |                    | 14   | 13   | 13   | 12   | 11   | 11   | 10   | 10   | 5    | -    | 132,860            |
| BP   | 70.00%           |                    | 10   | 9    | 9    | 8    | 8    | 8    | 7    | 7    | 4    | -    | 93,002             |
| FINA                                       | 30.00%           |                    | 4    | 4    | 4    | 4    | 3    | 3    | 3    | 3    | 2    | -    | 39,858             |
| Endicott [2]                               |                  |                    | 24   | 23   | 22   | 20   | 19   | 19   | 17   | 16   | 15   | 14   | 256,230            |
| Amoco                                      | 10.33%           |                    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 1    | 22,934             |
| Arco                                       | 0.02%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 51                 |
| BP   | 57.25%           |                    | 14   | 13   | 13   | 11   | 11   | 10   | 10   | 9    | 9    | 8    | 127,054            |
| CIRI                                       | 0.66%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 1,476              |
| Doyon                                      | 0.12%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 276                |
| Exxon                                      | 20.80%           |                    | 5    | 5    | 5    | 4    | 4    | 4    | 4    | 3    | 3    | 3    | 46,152             |
| NANA                                       | 0.40%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 885                |
| Unocal                                     | 10.41%           |                    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 1    | 23,092             |
| Greater Point McIntyre [3]                 |                  |                    | 43   | 38   | 35   | 33   | 29   | 26   | 24   | 22   | 19   | 18   | 504,065            |
| Arco                                       | 28.87%           |                    | 12   | 11   | 10   | 10   | 8    | 8    | 7    | 6    | 5    | 5    | 145,542            |
| BP   | 37.84%           |                    | 16   | 14   | 13   | 12   | 11   | 10   | 9    | 8    | 7    | 7    | 190,752            |
| Exxon                                      | 33.28%           |                    | 14   | 13   | 12   | 11   | 10   | 9    | 8    | 7    | 6    | 6    | 167,771            |
| Kuparuk River Unit [4]                     |                  |                    | 159  | 151  | 143  | 135  | 124  | 117  | 111  | 106  | 98   | 90   | 1,478,615          |
| Arco                                       | 55.19%           |                    | 88   | 83   | 79   | 75   | 68   | 65   | 61   | 59   | 54   | 50   | 816,072            |
| BP   | 39.15%           |                    | 62   | 59   | 56   | 53   | 49   | 46   | 43   | 41   | 38   | 35   | 578,832            |
| Chevron                                    | 0.11%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 1,612              |
| Exxon                                      | 0.22%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 3,224              |
| Mobil                                      | 0.37%            |                    | 1    | 1    | 1    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 5,414              |
| Unocal                                     | 4.97%            |                    | 8    | 8    | 7    | 7    | 6    | 6    | 6    | 5    | 5    | 4    | 73,461             |
| Milne Point Unit [5]                       |                  |                    | 69   | 68   | 66   | 64   | 60   | 56   | 53   | 50   | 47   | 44   | 544,945            |
| BP   | 91.19%           |                    | 53   | 52   | 50   | 58   | 55   | 51   | 48   | 46   | 43   | 40   | 496,940            |
| Oxy  | 8.81%            |                    | 6    | 6    | 6    | 6    | 5    | 5    | 5    | 4    | 4    | 4    | 48,005             |
| North Star                                 |                  |                    | 18   | 16   | 15   | 13   | 12   | 11   | 10   | -    | -    | -    | 150,380            |
| BP   | 98.08%           |                    | 18   | 16   | 15   | 13   | 12   | 11   | 10   | -    | -    | -    | 147,493            |
| Murphy                                     | 1.92%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | -    | -    | -    | 2,887              |
| Frudhoe Bay Unit [6]                       |                  |                    | 374  | 359  | 342  | 323  | 307  | 291  | 276  | 262  | 249  | 236  | 3,512,030          |
| Arco                                       | 29.01%           |                    | 108  | 104  | 99   | 94   | 89   | 84   | 80   | 76   | 72   | 68   | 1,013,263          |
| BP   | 37.74%           |                    | 141  | 135  | 129  | 122  | 116  | 110  | 104  | 99   | 94   | 89   | 1,318,131          |
| Chevron                                    | 1.04%            |                    | 4    | 4    | 4    | 3    | 3    | 3    | 3    | 3    | 3    | 2    | 36,166             |
| Exxon                                      | 29.13%           |                    | 109  | 105  | 100  | 94   | 89   | 85   | 80   | 76   | 73   | 69   | 1,017,415          |
| Forcenergy                                 | 0.03%            |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 1,163              |
| Mobil                                      | 1.35%            |                    | 5    | 5    | 5    | 4    | 4    | 4    | 4    | 4    | 3    | 3    | 47,301             |
| Phillips                                   | 1.34%            |                    | 5    | 5    | 5    | 4    | 4    | 4    | 4    | 4    | 3    | 3    | 46,830             |
| Texaco                                     | 0.37%            |                    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 12,851             |
| TOTAL Amoco                                |                  |                    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 1    | 22,934             |
| TOTAL Anadarko                             |                  |                    | 8    | 7    | 7    | 6    | 6    | 5    | 5    | 5    | 4    | 4    | 61,108             |
| TOTAL Arco                                 |                  |                    | 229  | 217  | 205  | 193  | 180  | 170  | 161  | 153  | 143  | 134  | 2,130,477          |
| TOTAL BP                                   |                  |                    | 324  | 309  | 295  | 278  | 260  | 245  | 232  | 210  | 194  | 179  | 2,952,203          |
| TOTAL Chevron                              |                  |                    | 4    | 4    | 4    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 37,779             |
| TOTAL CIRI                                 |                  |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 1,476              |
| TOTAL Doyon                                |                  |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 276                |
| TOTAL Exxon                                |                  |                    | 129  | 122  | 116  | 110  | 103  | 97   | 92   | 87   | 82   | 78   | 1,234,562          |
| TOTAL Finna                                |                  |                    | 4    | 4    | 4    | 4    | 3    | 3    | 3    | 3    | 2    | -    | 39,858             |
| TOTAL Forcenergy                           |                  |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 1,163              |
| TOTAL Mobil                                |                  |                    | 6    | 5    | 5    | 5    | 5    | 4    | 4    | 4    | 4    | 4    | 52,715             |
| TOTAL Murphy                               |                  |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 2,887              |
| TOTAL NANA                                 |                  |                    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 885                |
| TOTAL Oxy                                  |                  |                    | 6    | 6    | 6    | 6    | 5    | 5    | 5    | 4    | 4    | 4    | 48,005             |
| TOTAL Phillips                             |                  |                    | 5    | 5    | 5    | 4    | 4    | 4    | 4    | 4    | 3    | 3    | 47,267             |
| TOTAL Texaco                               |                  |                    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 12,851             |
| TOTAL UTP                                  |                  |                    | 8    | 7    | 7    | 6    | 6    | 5    | 5    | 5    | 4    | 4    | 61,108             |
| TOTAL Unocal                               |                  |                    | 10   | 10   | 9    | 9    | 8    | 8    | 7    | 7    | 6    | 6    | 90,553             |
| TOTAL North Slope                          |                  |                    | 737  | 701  | 666  | 628  | 588  | 554  | 524  | 487  | 453  | 421  | 6,804,037          |
|  |                  |                    | 94   | 90   | 85   | 80   | 75   | 71   | 67   | 62   | 58   | 53   | 878,145            |

OLD 1998 4

**TABLE 2A - OIL PRODUCTION FORECAST AND AVAILABLE ROYALTY OIL**

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THOUSANDS OF BARRELS PER DAY. INCLUDES OIL, CONDENSATE AND NGL'S

|                                     | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|------------|
| <b>PRODUCTION FORECAST</b>          |              |              |              |              |              |              |            |            |            |            |            |            |
| <b>NORTH SLOPE</b>                  |              |              |              |              |              |              |            |            |            |            |            |            |
| Alpine                              | -            | 25           | 75           | 75           | 75           | 75           | 72         | 68         | 67         | 59         | 52         | 48         |
| Badami                              | 3            | 5            | 6            | 5            | 4            | 4            | 4          | 3          | 3          | 2          | 2          | -          |
| Duck Island Unit                    | 47           | 44           | 39           | 35           | 31           | 28           | 24         | 20         | 17         | 15         | 13         | 11         |
| Elder                               | 5            | 5            | 5            | 5            | 4            | 3            | 2          | 1          | 1          | 1          | 1          | -          |
| Endicott (1)                        | 42           | 39           | 34           | 30           | 27           | 25           | 22         | 19         | 16         | 14         | 12         | 11         |
| Greater Point McIntyre Area (G/PMA) | 140          | 112          | 96           | 84           | 74           | 65           | 56         | 50         | 45         | 40         | 35         | 31         |
| Lisburne                            | 7            | 7            | 7            | 7            | 7            | 7            | 7          | 6          | 6          | 5          | 5          | 4          |
| Niakuk (2)                          | 26           | 23           | 21           | 19           | 16           | 13           | 11         | 10         | 9          | 8          | 7          | 6          |
| Point McIntyre                      | 104          | 79           | 65           | 56           | 49           | 43           | 38         | 33         | 30         | 26         | 23         | 21         |
| West Beach, N. Prudhoe Bay St.      | 3            | 3            | 3            | 3            | 3            | 2            | 1          | 1          | 1          | 1          | 1          | 1          |
| Kuparuk River Unit                  | 260          | 238          | 232          | 224          | 211          | 201          | 194        | 199        | 190        | 180        | 166        | 156        |
| Kuparuk (3)                         | 227          | 203          | 195          | 187          | 180          | 170          | 162        | 156        | 147        | 139        | 126        | 117        |
| Tarn                                | 22           | 22           | 22           | 22           | 17           | 14           | 12         | 10         | 9          | 8          | 7          | 7          |
| Tabasco                             | 9            | 10           | 10           | 10           | 7            | 6            | 5          | 4          | 4          | 3          | 3          | 3          |
| West Sak                            | 2            | 3            | 5            | 5            | 7            | 11           | 16         | 29         | 30         | 30         | 30         | 30         |
| Liberty                             | -            | -            | -            | 13           | 40           | 40           | 40         | 34         | 29         | 24         | 21         | 18         |
| Milne Point Unit                    | 50           | 49           | 51           | 51           | 49           | 52           | 56         | 67         | 67         | 66         | 65         | 64         |
| Milne Point                         | 45           | 44           | 43           | 42           | 40           | 39           | 38         | 37         | 36         | 35         | 34         | 33         |
| Saa River                           | -            | -            | 2            | 2            | 2            | 2            | 2          | 1          | 1          | 1          | 1          | 1          |
| Schrader Bluff                      | 5            | 5            | 6            | 7            | 7            | 11           | 16         | 29         | 30         | 30         | 30         | 30         |
| Northstar                           | -            | -            | 5            | 60           | 60           | 52           | 42         | 34         | 29         | 24         | 20         | 16         |
| Other Onshore (4)                   | -            | -            | -            | -            | 35           | 35           | 29         | 23         | 20         | 18         | 17         | 15         |
| Prudhoe Bay                         | 616          | 566          | 530          | 515          | 513          | 493          | 474        | 453        | 425        | 397        | 378        | 343        |
| Prudhoe Bay Pool (5)                | 610          | 555          | 516          | 487          | 462          | 439          | 417        | 398        | 376        | 354        | 339        | 309        |
| Prudhoe Bay Satellites              | 6            | 11           | 14           | 28           | 51           | 54           | 57         | 55         | 49         | 43         | 39         | 34         |
| <b>TOTAL</b>                        | <b>1,116</b> | <b>1,039</b> | <b>1,033</b> | <b>1,062</b> | <b>1,092</b> | <b>1,045</b> | <b>990</b> | <b>949</b> | <b>891</b> | <b>825</b> | <b>768</b> | <b>702</b> |
| <b>COOK INLET (6)</b>               |              |              |              |              |              |              |            |            |            |            |            |            |
| Beaver Creek                        | 0.29         | 0.28         | 0.27         | 0.25         | 0.24         | -            | -          | -          | -          | -          | -          | -          |
| Granite Point                       | 6.00         | 5.50         | 5.10         | 4.60         | 4.30         | -            | -          | -          | -          | -          | -          | -          |
| McArthur River                      | 13.10        | 12.45        | 11.82        | 11.23        | 10.67        | -            | -          | -          | -          | -          | -          | -          |
| Middle Ground Shoal                 | 5.82         | 5.53         | 6.25         | 4.99         | 4.74         | -            | -          | -          | -          | -          | -          | -          |
| Swanson River                       | 2.15         | 1.83         | 1.56         | 1.32         | 1.13         | -            | -          | -          | -          | -          | -          | -          |
| Tradina Bay                         | 1.82         | 1.73         | 1.64         | 1.56         | 1.48         | -            | -          | -          | -          | -          | -          | -          |
| West McArthur River                 | 2.85         | 2.42         | 2.06         | 1.75         | 1.49         | -            | -          | -          | -          | -          | -          | -          |
| <b>TOTAL</b>                        | <b>32.03</b> | <b>29.73</b> | <b>27.70</b> | <b>25.70</b> | <b>24.04</b> | <b>1,045</b> | <b>990</b> | <b>949</b> | <b>891</b> | <b>825</b> | <b>768</b> | <b>702</b> |
| <b>STATE</b>                        | <b>1,148</b> | <b>1,068</b> | <b>1,060</b> | <b>1,087</b> | <b>1,116</b> | <b>1,045</b> | <b>990</b> | <b>949</b> | <b>891</b> | <b>825</b> | <b>768</b> | <b>702</b> |

**AVAILABLE ROYALTY OIL**

|                                   | Royalty Percent | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       | 2009      | 2010      |
|-----------------------------------|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|-----------|
| <b>NORTH SLOPE</b>                |                 |            |            |            |            |            |            |            |            |            |            |           |           |
| Alpine                            | 10.0% (9)       | -          | 3          | 8          | 8          | 8          | 8          | 7          | 7          | 7          | 6          | 5         | 5         |
| Badami                            | 16.7%           | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 0          | 0         | 0         |
| Duck Island Unit                  | 14.2%           | 7          | 6          | 6          | 5          | 4          | 4          | 3          | 3          | 2          | 2          | 2         | 2         |
| Elder                             | 12.5%           | 1          | 1          | 1          | 1          | 1          | 0          | 0          | 0          | 0          | 0          | 0         | 0         |
| Endicott (1)                      | 14.4%           | 6          | 6          | 5          | 4          | 4          | 4          | 3          | 3          | 2          | 2          | 2         | 2         |
| Greater Point McIntyre Area (GPM) | 13.0%           | 19         | 15         | 13         | 11         | 10         | 9          | 7          | 7          | 6          | 5          | 5         | 4         |
| Lisburne                          | 12.5%           | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1         | 1         |
| Niakuk (2)                        | 12.5%           | 3          | 3          | 3          | 2          | 2          | 2          | 2          | 2          | 1          | 1          | 1         | 1         |
| Point McIntyre                    | 13.8%           | 14         | 11         | 9          | 8          | 7          | 6          | 5          | 5          | 4          | 4          | 3         | 3         |
| West Beach, N. Prudhoe Bay St.    | 12.5%           | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0         | 0         |
| Kuparuk River Unit                | 12.5%           | 33         | 30         | 29         | 28         | 26         | 25         | 24         | 25         | 24         | 23         | 21        | 20        |
| Kuparuk                           | 12.5%           | 28         | 25         | 24         | 23         | 23         | 21         | 20         | 20         | 18         | 17         | 16        | 15        |
| Tarn                              | 12.5%           | 3          | 3          | 3          | 3          | 2          | 2          | 1          | 1          | 1          | 1          | 1         | 1         |
| Tabasco                           | 12.5%           | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 0          | 0          | 0         | 0         |
| West Sak                          | 12.5%           | 0          | 0          | 1          | 1          | 1          | 1          | 2          | 4          | 4          | 4          | 4         | 4         |
| Liberty                           | 0.0% (10)       | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -         | -         |
| Milne Point Unit                  | 14.6%           | 7          | 7          | 7          | 7          | 7          | 8          | 8          | 10         | 10         | 10         | 9         | 9         |
| Milne Point                       | 14.6%           | 7          | 6          | 6          | 6          | 6          | 6          | 6          | 5          | 5          | 5          | 5         | 5         |
| Saa River                         | 14.6%           | -          | -          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0         | 0         |
| Schrader Bluff                    | 14.6%           | 1          | 1          | 1          | 1          | 1          | 2          | 2          | 4          | 4          | 4          | 4         | 4         |
| Northstar                         | 16.0% (11)      | -          | -          | 1          | 10         | 10         | 8          | 7          | 5          | 5          | 4          | 3         | 3         |
| Other Onshore (4)                 | 12.5%           | -          | -          | -          | -          | 4          | 4          | 4          | 3          | 3          | 2          | 2         | 2         |
| Prudhoe Bay                       | 12.5%           | 77         | 71         | 66         | 64         | 64         | 62         | 59         | 57         | 53         | 50         | 47        | 43        |
| Prudhoe Bay Pool (5)              | 12.5%           | 76         | 69         | 65         | 61         | 58         | 55         | 52         | 50         | 47         | 44         | 42        | 39        |
| Prudhoe Bay Satellites            | 12.5%           | 1          | 1          | 2          | 4          | 6          | 7          | 7          | 7          | 6          | 6          | 5         | 4         |
| <b>TOTAL</b>                      |                 | <b>143</b> | <b>132</b> | <b>130</b> | <b>134</b> | <b>134</b> | <b>128</b> | <b>121</b> | <b>116</b> | <b>109</b> | <b>101</b> | <b>95</b> | <b>87</b> |
| <b>COOK INLET (6)</b>             |                 |            |            |            |            |            |            |            |            |            |            |           |           |
| Beaver Creek                      | 0.0% (12)       | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -         | -         |
| Granite Point                     | 12.5%           | 1          | 1          | 1          | 1          | 1          | -          | -          | -          | -          | -          | -         | -         |
| McArthur River                    | 12.5%           | 2          | 2          | 1          | 1          | 1          | -          | -          | -          | -          | -          | -         | -         |
| Middle Ground Shoal               | 12.5%           | 1          | 1          | 1          | 1          | 1          | -          | -          | -          | -          | -          | -         | -         |
| Swanson River                     | 0.0% (12)       | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -         | -         |
| Tradina Bay                       | 12.5%           | 0          | 0          | 0          | 0          | 0          | -          | -          | -          | -          | -          | -         | -         |
| West McArthur River               | 12.5%           | 0          | 0          | 0          | 0          | 0          | -          | -          | -          | -          | -          | -         | -         |
| <b>TOTAL</b>                      |                 | <b>4</b>   | <b>3</b>   | <b>3</b>   | <b>3</b>   | <b>3</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>  |
| <b>STATE</b>                      |                 | <b>146</b> | <b>136</b> | <b>133</b> | <b>137</b> | <b>137</b> | <b>128</b> | <b>121</b> | <b>116</b> | <b>109</b> | <b>101</b> | <b>95</b> | <b>87</b> |

**IN-KIND ROYALTY OIL SALES**

|              |           |           |           |           |           |            |            |            |            |            |           |           |
|--------------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|-----------|-----------|
| Mapco 1 (7)  | 35        | 35        | 35        | 35        | 35        | -          | -          | -          | -          | -          | -         | -         |
| Mapco 3 (8)  | 26        | 24        | 24        | 24        | 25        | -          | -          | -          | -          | -          | -         | -         |
| <b>TOTAL</b> | <b>61</b> | <b>59</b> | <b>59</b> | <b>59</b> | <b>60</b> | <b>128</b> | <b>121</b> | <b>116</b> | <b>109</b> | <b>101</b> | <b>95</b> | <b>87</b> |

**IN-VALUE ROYALTY OIL**

|  |           |           |           |           |           |            |            |            |            |            |           |           |
|--|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|-----------|-----------|
|  | <b>86</b> | <b>74</b> | <b>75</b> | <b>78</b> | <b>77</b> | <b>128</b> | <b>121</b> | <b>116</b> | <b>109</b> | <b>101</b> | <b>95</b> | <b>87</b> |
|--|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|-----------|-----------|

(1) 'Endicott' includes Endicott and Saa Delta.  
 (2) 'Niakuk' includes all Niakuk wells.  
 (3) 'Kuparuk' includes Kuparuk River Unit Enhanced Oil Recovery (EOR) barrels taken as credit against royalty.  
 (4) 'Other Onshore' includes one of several known discoveries which probably will be developed.  
 (5) 'Prudhoe Bay Pool' includes NGL's produced from Prudhoe Bay pool then sent, via Oilkitok pipeline, to Kuparuk field. 30,000 Bad until the end of 2008 and 15,000 Bad thereafter.  
 (6) The Cook Inlet forecast is arbitrarily cut off after 2003 because there are no public estimates of economic limits for the individual fields.  
 (7) The Mapco 1 contract is for 35,000BPD of Prudhoe Bay Unit royalty production. The contract expires December 2003.

5  
New 1999

# DRAFT

| THOUSANDS OF BARRELS PER DAY. INCLUDES OIL, CONDENSATE AND NGLs |            |            |            |            |            |            |            |            |            |            | Cumulative (MMbbl) |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------------|
|   | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       |                    |
| <b>PRODUCTION FORECAST</b>                                      |            |            |            |            |            |            |            |            |            |            |                    |
| <b>NORTH SLOPE</b>  |            |            |            |            |            |            |            |            |            |            |                    |
| Alpine  | 41         | 36         | 30         | 28         | 26         | 24         | 23         | 22         | 21         | 20         | 350,409            |
| Badami  | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 14,600             |
| Duck Island Unit  | 11         | 10         | 10         | 9          | 9          | 8          | 8          | 7          | 7          | 6          | 149,103            |
| Elder   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 11,863             |
| Endicott (1)  | 11         | 10         | 10         | 9          | 9          | 8          | 8          | 7          | 7          | 6          | 137,240            |
| Greater Point McIntyre Area (GPMA)                              | 28         | 26         | 23         | 19         | 17         | 15         | 13         | 11         | 10         | 9          | 362,471            |
| Lisburno  | 4          | 4          | 4          | 3          | 3          | 3          | 3          | 2          | 2          | 2          | 37,413             |
| Niakuk (2)  | 5          | 4          | 4          | 3          | 3          | 2          | 2          | 2          | 1          | 1          | 69,533             |
| Point McIntyre  | 18         | 17         | 15         | 13         | 12         | 10         | 9          | 8          | 7          | 6          | 246,766            |
| West Beach, N. Prudhoe Bay St.                                  | 1          | 1          | 1          | -          | -          | -          | -          | -          | -          | -          | 8,760              |
| Kuparuk River Unit  | 146        | 133        | 115        | 104        | 91         | 81         | 75         | 70         | 65         | 59         | 1,236,255          |
| Kuparuk(3)  | 108        | 97         | 83         | 74         | 63         | 57         | 53         | 49         | 45         | 42         | 978,200            |
| Tarn  | 6          | 5          | 3          | 2          | 2          | 1          | 1          | 1          | 1          | 1          | 70,263             |
| Tabasco   | 2          | 2          | 2          | 2          | 1          | 1          | 1          | 1          | 1          | -          | 30,843             |
| West Sak  | 30         | 29         | 27         | 26         | 25         | 22         | 20         | 19         | 18         | 16         | 156,950            |
| Liberty   | 16         | 15         | 13         | 12         | 11         | 5          | -          | -          | -          | -          | 119,355            |
| Milne Point Unit  | 61         | 58         | 54         | 51         | 49         | 44         | 40         | 37         | 33         | 29         | 416,498            |
| Milne Point   | 30         | 28         | 26         | 24         | 23         | 21         | 19         | 17         | 15         | 13         | 248,781            |
| Saa River   | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | -          | -          | 7,848              |
| Schrader Bluff  | 30         | 29         | 27         | 26         | 25         | 22         | 20         | 19         | 18         | 16         | 159,870            |
| Northstar   | 13         | 10         | 8          | 6          | 5          | -          | -          | -          | -          | -          | 139,978            |
| Other Onshore (4)   | 14         | 12         | 11         | 10         | 9          | 8          | 7          | 7          | 6          | 5          | 100,770            |
| Prudhoe Bay   | 326        | 309        | 293        | 276        | 260        | 244        | 230        | 217        | 199        | 189        | 3,009,790          |
| Prudhoe Bay Pool(5)   | 297        | 284        | 271        | 257        | 245        | 232        | 221        | 210        | 199        | 189        | 2,798,455          |
| Prudhoe Bay Satellites  | 29         | 25         | 22         | 19         | 15         | 12         | 9          | 7          | -          | -          | 211,335            |
| <b>TOTAL</b>  | <b>655</b> | <b>608</b> | <b>556</b> | <b>514</b> | <b>476</b> | <b>429</b> | <b>396</b> | <b>370</b> | <b>339</b> | <b>316</b> | <b>5,899,228</b>   |
| <b>COOK INLET (6)</b>   |            |            |            |            |            |            |            |            |            |            | 485                |
| Beaver Creek  | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 9,308              |
| Granite Point   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 21,632             |
| McArthur River  | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 9,605              |
| Middle Ground Shoal   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 2,213              |
| Swanson River   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 3,004              |
| Trudna Bay  | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 3,856              |
| West McArthur River   | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 50,803             |
| <b>TOTAL</b>  | <b>655</b> | <b>608</b> | <b>556</b> | <b>514</b> | <b>476</b> | <b>429</b> | <b>396</b> | <b>370</b> | <b>339</b> | <b>316</b> | <b>5,950,031</b>   |

| AVAILABLE ROYALTY OIL             | Royalty Percent |           |           |           |           |           |           |           |           |           |                |        |
|-----------------------------------|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------------|--------|
| <b>NORTH SLOPE</b>                |                 |           |           |           |           |           |           |           |           |           |                |        |
| Alpine                            | 10.0% (9)       | 4         | 4         | 3         | 3         | 3         | 2         | 2         | 2         | 2         | 2              | 35,077 |
| Badami                            | 16.7%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 2,499  |
| Duck Island Unit                  | 14.2%           | 2         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1              | 21,297 |
| Elder                             | 12.5%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 1,528  |
| Endicott (1)                      | 14.4%           | 2         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 19,815         |        |
| Greater Point McIntyre Area (GPM) | 13.0%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 40,341 |
| Lisburno                          | 12.5%           | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 7,277          |        |
| Niakuk (2)                        | 12.5%           | 3         | 3         | 3         | 2         | 2         | 2         | 2         | 1         | 1         | 15,288         |        |
| Point McIntyre                    | 13.8%           | 1         | 1         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 29,920         |        |
| West Beach, N. Prudhoe Bay St.    | 12.5%           | 1         | 1         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 2,167          |        |
| Kuparuk River Unit                | 12.5%           | 2         | 2         | 2         | 2         | 1         | 1         | 1         | 1         | 1         | 116,940        |        |
| Kuparuk                           | 12.5%           | 0         | 0         | 0         | -         | -         | -         | -         | -         | -         | -              | 91,820 |
| Tarn                              | 12.5%           | 18        | 17        | 14        | 13        | 11        | 10        | 9         | 8         | 7         | 50,575         |        |
| Tabasco                           | 12.5%           | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 3,901          |        |
| West Sak                          | 12.5%           | 4         | 4         | 3         | 3         | 3         | 3         | 2         | 2         | 2         | 19,664         |        |
| Liberty                           | 0.0% (10)       | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | -      |
| Milne Point Unit                  | 14.6%           | 9         | 8         | 8         | 7         | 7         | 6         | 6         | 5         | 4         | 60,654         |        |
| Milne Point                       | 14.6%           | 4         | 4         | 4         | 3         | 3         | 3         | 3         | 2         | 2         | 36,251         |        |
| Saa River                         | 14.6%           | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 1,195          |        |
| Schrader Bluff                    | 14.6%           | 4         | 4         | 4         | 4         | 4         | 3         | 3         | 3         | 2         | 23,314         |        |
| Northstar                         | 16.0% (11)      | 2         | 2         | 1         | 1         | 1         | -         | -         | -         | -         | 22,455         |        |
| Other Onshore (4)                 | 12.5%           | 2         | 2         | 1         | 1         | 1         | 1         | 1         | 1         | 1         | 12,642         |        |
| Prudhoe Bay                       | 12.5%           | 41        | 39        | 37        | 35        | 33        | 31        | 29        | 27        | 25        | 376,269        |        |
| Prudhoe Bay Pool (5)              | 12.5%           | 37        | 36        | 34        | 32        | 31        | 29        | 28        | 25        | 24        | 349,853        |        |
| Prudhoe Bay Satellites            | 12.5%           | 4         | 3         | 3         | 2         | 2         | 2         | 1         | -         | -         | 26,463         |        |
| <b>TOTAL</b>                      |                 | <b>87</b> | <b>81</b> | <b>74</b> | <b>69</b> | <b>64</b> | <b>58</b> | <b>54</b> | <b>50</b> | <b>46</b> | <b>750,784</b> |        |
| <b>COOK INLET (6)</b>             |                 |           |           |           |           |           |           |           |           |           |                | 365    |
| Beaver Creek                      | 0.0% (12)       | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 1,209  |
| Granite Point                     | 12.5%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 2,750  |
| McArthur River                    | 12.5%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 1,246  |
| Middle Ground Shoal               | 12.5%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 365    |
| Swanson River                     | 0.0% (12)       | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 421    |
| Trudna Bay                        | 12.5%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 528    |
| West McArthur River               | 12.5%           | -         | -         | -         | -         | -         | -         | -         | -         | -         | -              | 6,656  |
| <b>TOTAL</b>                      |                 | <b>87</b> | <b>81</b> | <b>74</b> | <b>69</b> | <b>64</b> | <b>58</b> | <b>54</b> | <b>50</b> | <b>46</b> | <b>757,440</b> |        |

| IN-KIND ROYALTY OIL SALES   |           |           |           |           |           |           |           |           |           |           |                |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------------|
| Mapco 1 (7)                 |           |           |           |           |           |           |           |           |           |           | 63,875         |
| Mapco 3 (8)                 |           |           |           |           |           |           |           |           |           |           | 44,888         |
| <b>TOTAL</b>                |           |           |           |           |           |           |           |           |           |           | <b>108,763</b> |
| <b>IN-VALUE ROYALTY OIL</b> | <b>87</b> | <b>81</b> | <b>74</b> | <b>69</b> | <b>64</b> | <b>58</b> | <b>54</b> | <b>50</b> | <b>46</b> | <b>45</b> | <b>648,627</b> |

(6) The Mapco 3 contract reserves to Mapco an annually increasing percentage of Prudhoe Bay Unit (Prudhoe Bay+GPMA) royalty product 1999: 27.0%, 2000: 28.5%, 2001: 30.0%, 2002: 32.0%, 2003: 33.5%. The contract expires December 2003.  
 (7) Alpine's estimated state royalty share. It does not include the royalty share attributable to Arctic Slope Regional Corporation.  
 (8) This forecast allocates no Liberty production to state leases but the field will pay an assumed 27% of its revenue.  
 (9) Northstar's estimated minimum state royalty share. It does not include federal royalty or revenue nor the sliding scale state Supplemental.  
 (10) Beaver Creek and Swanson River fields lie entirely within federal leases and so pay no state royalty.  
 Revised 3/26/99

New 1999 6

**DRAFT**

**TABLE 2B - OIL PRODUCTION FORECAST FOR PRODUCING AND DEVELOPING NORTH SLOPE FIELDS, BY LESSEE**

THOUSANDS OF BARRELS PER DAY. INCLUDES OIL, CONDENSATE, AND NGU

|  | Working Interest | Total Oil/Acre(1) | 1999         | 2000         | 2001         | 2002         | 2003         | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       |
|--|------------------|-------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|------------|------------|
| <b>PRODUCTION FORECAST FOR NORTH SLOPE (2)</b>               |                  |                   |              |              |              |              |              |            |            |            |            |            |            |            |
| Alpine   |                  |                   | -            | 25           | 75           | 75           | 75           | 75         | 72         | 68         | 67         | 59         | 52         | 49         |
| Arco   | 56.00%           |                   | -            | 14           | 42           | 42           | 42           | 42         | 40         | 38         | 38         | 33         | 29         | 27         |
| Anadarko   | 22.00%           |                   | -            | 6            | 17           | 17           | 17           | 17         | 16         | 15         | 15         | 13         | 11         | 11         |
| UTP (3)  | 22.00%           |                   | -            | 6            | 17           | 17           | 17           | 17         | 16         | 15         | 15         | 13         | 11         | 11         |
| Badami   |                  |                   | 3            | 5            | 5            | 5            | 4            | 4          | 4          | 3          | 3          | 2          | 2          | -          |
| BP   | 70.00%           |                   | 2            | 4            | 4            | 4            | 3            | 3          | 3          | 2          | 2          | 1          | 1          | -          |
| FINA   | 30.00%           |                   | 1            | 2            | 2            | 2            | 1            | 1          | 1          | 1          | 1          | 1          | 1          | -          |
| Duck Island Unit (4)   |                  |                   | 47           | 44           | 39           | 35           | 31           | 28         | 24         | 20         | 17         | 15         | 13         | 11         |
| Amoco  | 10.20%           |                   | 5            | 4            | 4            | 4            | 3            | 3          | 2          | 2          | 2          | 2          | 1          | 0          |
| Arco   | 0.02%            |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| BP   | 58.77%           |                   | 28           | 26           | 23           | 21           | 18           | 16         | 14         | 12         | 10         | 9          | 7          | 6          |
| CIRI   | 0.02%            |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Dovon  | 0.13%            |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Exxon  | 20.31%           |                   | 10           | 9            | 8            | 7            | 6            | 6          | 5          | 4          | 3          | 3          | 3          | 2          |
| NANA   | 0.39%            |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Unocal   | 10.16%           |                   | 5            | 4            | 4            | 4            | 3            | 3          | 2          | 2          | 2          | 2          | 1          | 1          |
| Greater Point McIntyre (5)                                   |                  |                   | 140          | 112          | 96           | 84           | 74           | 65         | 56         | 50         | 45         | 40         | 35         | 31         |
| Arco   | 28.72%           |                   | 40           | 32           | 28           | 24           | 21           | 19         | 16         | 14         | 13         | 11         | 10         | 9          |
| BP   | 36.43%           |                   | 51           | 41           | 35           | 31           | 27           | 23         | 20         | 18         | 16         | 14         | 13         | 11         |
| Exxon  | 34.85%           |                   | 49           | 39           | 33           | 29           | 26           | 22         | 20         | 17         | 16         | 14         | 12         | 11         |
| Kuparuk River Unit (6)                                       |                  |                   | 260          | 238          | 232          | 224          | 211          | 201        | 194        | 199        | 190        | 180        | 166        | 156        |
| Arco   | 54.95%           |                   | 143          | 131          | 127          | 123          | 116          | 110        | 107        | 109        | 104        | 99         | 91         | 86         |
| BP   | 39.05%           |                   | 102          | 93           | 91           | 87           | 82           | 78         | 76         | 78         | 74         | 70         | 65         | 61         |
| Chevron  | 0.11%            |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Exxon  | 0.21%            |                   | 1            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Mobil  | 0.36%            |                   | 1            | 1            | 1            | 1            | 1            | 1          | 1          | 1          | 1          | 1          | 1          | 1          |
| Unocal   | 5.32%            |                   | 14           | 13           | 12           | 12           | 11           | 11         | 10         | 11         | 10         | 10         | 9          | 8          |
| Milne Point Unit (7)   |                  |                   | 50           | 49           | 51           | 51           | 49           | 52         | 56         | 67         | 67         | 66         | 65         | 64         |
| BP   | 91.56%           |                   | 45           | 45           | 46           | 47           | 45           | 48         | 51         | 61         | 61         | 60         | 60         | 59         |
| Oxy  | 8.44%            |                   | 4            | 4            | 4            | 4            | 4            | 4          | 5          | 6          | 6          | 6          | 5          | 5          |
| North Star   |                  |                   | -            | -            | 5            | 60           | 60           | 52         | 42         | 34         | 29         | 24         | 20         | 16         |
| BP   | 98.08%           |                   | -            | -            | 5            | 59           | 59           | 51         | 41         | 33         | 28         | 24         | 20         | 16         |
| Murphy   | 1.92%            |                   | -            | -            | 0            | 1            | 1            | 1          | 1          | 1          | 1          | 0          | 0          | 0          |
| Prudhoe Bay Unit (8)   |                  |                   | 616          | 566          | 530          | 515          | 513          | 493        | 474        | 453        | 425        | 397        | 378        | 343        |
| Arco   | 28.97%           |                   | 178          | 164          | 154          | 149          | 143          | 137        | 131        | 123        | 115        | 110        | 110        | 99         |
| BP   | 38.52%           |                   | 237          | 218          | 204          | 198          | 198          | 190        | 183        | 174        | 164        | 153        | 146        | 132        |
| Chevron  | 0.61%            |                   | 4            | 3            | 3            | 3            | 3            | 3          | 3          | 3          | 3          | 2          | 2          | 2          |
| Exxon  | 29.04%           |                   | 179          | 164          | 154          | 150          | 149          | 143        | 138        | 132        | 123        | 115        | 110        | 100        |
| Forceneray   | 0.03%            |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| Mobil  | 1.14%            |                   | 7            | 6            | 6            | 6            | 6            | 6          | 5          | 5          | 5          | 5          | 4          | 4          |
| Phillips   | 1.33%            |                   | 8            | 8            | 7            | 7            | 7            | 7          | 6          | 6          | 6          | 5          | 5          | 5          |
| Texaco   | 0.36%            |                   | 2            | 2            | 2            | 2            | 2            | 2          | 2          | 2          | 2          | 1          | 1          | 1          |
| TOTAL Amoco  |                  |                   | 5            | 4            | 4            | 4            | 3            | 3          | 2          | 2          | 2          | 2          | 1          | 1          |
| TOTAL Anadarko   |                  |                   | -            | 6            | 17           | 17           | 17           | 17         | 16         | 15         | 15         | 13         | 11         | 11         |
| TOTAL Arco   |                  |                   | 361          | 341          | 351          | 338          | 328          | 314        | 300        | 293        | 278        | 258        | 240        | 221        |
| TOTAL BP   |                  |                   | 465          | 426          | 407          | 446          | 432          | 410        | 388        | 378        | 356        | 332        | 311        | 285        |
| TOTAL Chevron  |                  |                   | 4            | 4            | 3            | 3            | 3            | 3          | 3          | 3          | 3          | 3          | 2          | 2          |
| TOTAL CIRI   |                  |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| TOTAL Dovon  |                  |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| TOTAL Exxon  |                  |                   | 238          | 213          | 196          | 186          | 181          | 172        | 162        | 153        | 143        | 132        | 125        | 113        |
| TOTAL FINA   |                  |                   | 1            | 2            | 2            | 2            | 1            | 1          | 1          | 1          | 1          | 1          | 1          | -          |
| TOTAL Forceneray   |                  |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| TOTAL Mobil  |                  |                   | 8            | 7            | 7            | 7            | 7            | 6          | 6          | 6          | 6          | 5          | 5          | 4          |
| TOTAL Murphy   |                  |                   | -            | -            | 0            | 1            | 1            | 1          | 1          | 1          | 1          | 0          | 0          | 0          |
| TOTAL NANA   |                  |                   | 0            | 0            | 0            | 0            | 0            | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| TOTAL Oxy  |                  |                   | 4            | 4            | 4            | 4            | 4            | 5          | 6          | 6          | 6          | 5          | 5          | 5          |
| TOTAL Phillips   |                  |                   | 8            | 8            | 7            | 7            | 7            | 7          | 6          | 6          | 6          | 5          | 5          | 5          |
| TOTAL Texaco   |                  |                   | 2            | 2            | 2            | 2            | 2            | 2          | 2          | 2          | 2          | 1          | 1          | 1          |
| TOTAL UTP (3)  |                  |                   | -            | 6            | 17           | 17           | 17           | 17         | 16         | 15         | 15         | 13         | 11         | 11         |
| TOTAL Unocal   |                  |                   | 19           | 17           | 16           | 15           | 14           | 14         | 13         | 13         | 12         | 11         | 10         | 9          |
| <b>TOTAL North Slope</b>                                     |                  |                   | <b>1,115</b> | <b>1,039</b> | <b>1,033</b> | <b>1,049</b> | <b>1,017</b> | <b>970</b> | <b>922</b> | <b>893</b> | <b>842</b> | <b>783</b> | <b>731</b> | <b>669</b> |
| <b>PROJECTED NORTH SLOPE ROYALTY SHARE FROM ABOVE FIELDS</b> |                  |                   |              |              |              |              |              |            |            |            |            |            |            |            |
|  |                  |                   | <b>143</b>   | <b>132</b>   | <b>130</b>   | <b>134</b>   | <b>134</b>   | <b>128</b> | <b>121</b> | <b>116</b> | <b>109</b> | <b>101</b> | <b>95</b>  | <b>87</b>  |

(1) Average from operator royalty statements of January through December 1998.

(2) "Liberty" and "Other Onshore" are not included.

(3) UTP is wholly owned by Arco.

(4) "Duck Island Unit" production includes Elder, Endicott and Sea Delta North.

(5) "Greater Point McIntyre" production includes Lisburne, all Niakuk wells, North Prudhoe Bay State, Point McIntyre, and West Beach.

(6) "Kuparuk River Unit" includes Kuparuk Tarn and West Sak.

(7) "Milne Point" production includes Milne Point, Schrader Bluff, and Sea River.

(8) "Prudhoe Bay Unit" includes Prudhoe Bay and Satellites.

Revised 3/26/99.

New 1999 7

# DRAFT









THOUSANDS OF BARRELS PER DAY, INCLUDES OIL, CONDENSATE, AND NGLs


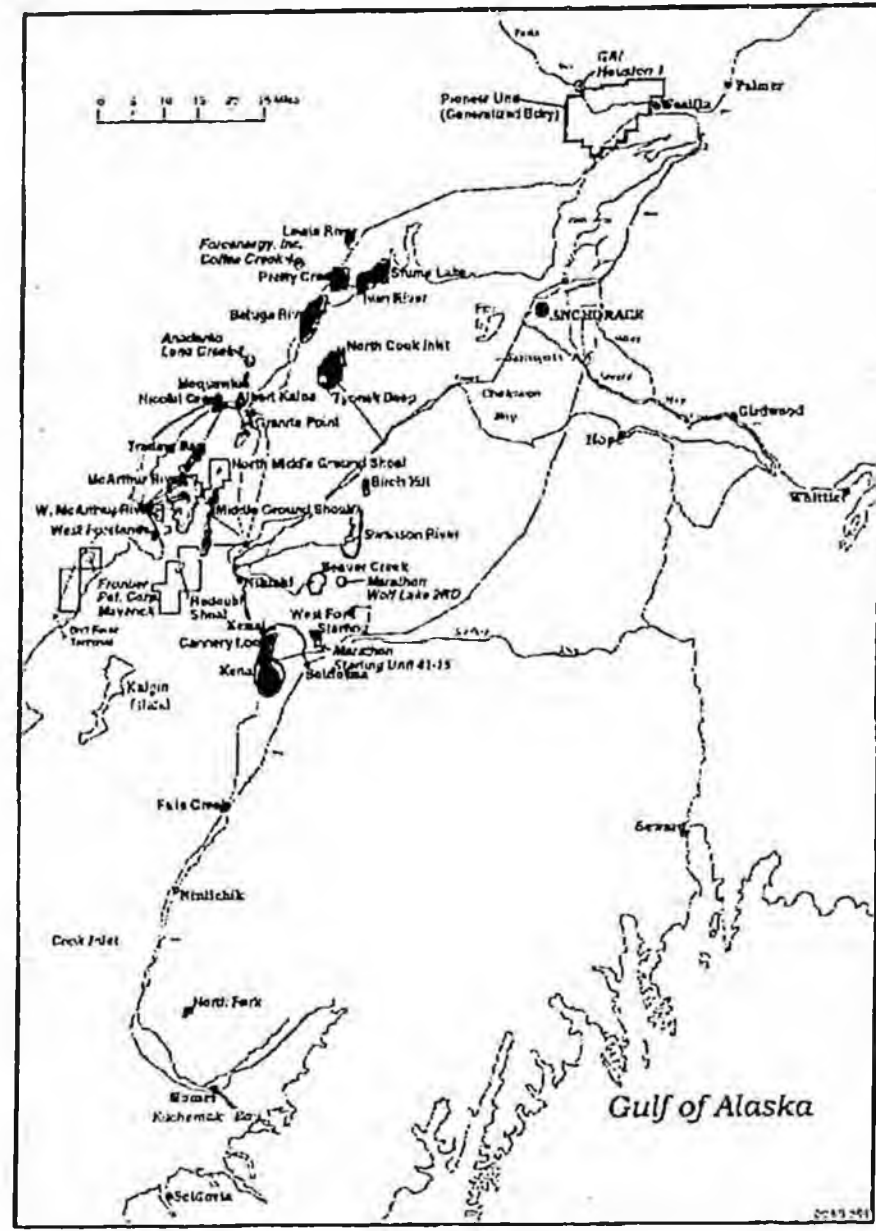
|  | Working Interest | Total Office(1) | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | Cumulative (Mbbbl) |
|--|------------------|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------------|
| <b>PRODUCTION FORECAST FOR NORTH SLOPE</b>                   |                  |                 |            |            |            |            |            |            |            |            |            |            |                    |
| Alpine   |                  |                 | 41         | 36         | 30         | 28         | 26         | 24         | 23         | 22         | 21         | 20         | 350,409            |
| Arco   | 56.00%           |                 | 23         | 20         | 17         | 16         | 15         | 13         | 13         | 12         | 11         | 11         | 196,433            |
| Anadarko   | 22.00%           |                 | 9          | 8          | 7          | 6          | 6          | 5          | 5          | 5          | 5          | 4          | 77,170             |
| UTP  | 22.00%           |                 | 9          | 8          | 7          | 6          | 6          | 5          | 5          | 5          | 5          | 4          | 77,170             |
| Badami   |                  |                 | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 14,600             |
| BP   | 70.00%           |                 | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 10,476             |
| FINA   | 30.00%           |                 | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 4,490              |
| Duck Island Unit (4)   |                  |                 | 11         | 10         | 10         | 9          | 9          | 8          | 8          | 7          | 7          | 6          | 149,103            |
| Amoco  | 10.20%           |                 | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 15,244             |
| Arco   | 0.02%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 30                 |
| BP   | 58.77%           |                 | 6          | 6          | 6          | 5          | 5          | 5          | 5          | 4          | 4          | 4          | 87,842             |
| CIRI   | 0.02%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 27                 |
| Doyon  | 0.13%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 194                |
| Exxon  | 20.31%           |                 | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 1          | 1          | 1          | 30,357             |
| NANA   | 0.39%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 583                |
| Unocal   | 10.16%           |                 | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 15,186             |
| Greater Point McIntyre (5)                                   |                  |                 | 28         | 26         | 23         | 19         | 17         | 15         | 13         | 11         | 10         | 9          | 362,471            |
| Arco   | 28.72%           |                 | 8          | 7          | 6          | 5          | 5          | 4          | 4          | 3          | 3          | 2          | 104,207            |
| BP   | 36.43%           |                 | 10         | 9          | 8          | 7          | 6          | 5          | 5          | 4          | 3          | 3          | 132,181            |
| Exxon  | 34.85%           |                 | 10         | 9          | 8          | 7          | 6          | 5          | 5          | 4          | 3          | 3          | 126,440            |
| Kuparuk River Unit (6)                                       |                  |                 | 145        | 133        | 115        | 104        | 91         | 81         | 75         | 70         | 65         | 59         | 1,236,255          |
| Arco   | 54.95%           |                 | 80         | 73         | 63         | 57         | 50         | 45         | 41         | 38         | 35         | 32         | 679,623            |
| BP   | 39.05%           |                 | 57         | 52         | 45         | 40         | 36         | 32         | 29         | 27         | 25         | 23         | 482,900            |
| Chevron  | 0.11%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 1,360              |
| Exxon  | 0.21%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 2,597              |
| Mobil  | 0.36%            |                 | 1          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 4,452              |
| Unocal   | 5.32%            |                 | 8          | 7          | 6          | 6          | 5          | 4          | 4          | 4          | 3          | 3          | 65,788             |
| Milne Point Unit (7)   |                  |                 | 61         | 58         | 54         | 51         | 49         | 44         | 40         | 37         | 33         | 29         | 416,498            |
| BP   | 91.56%           |                 | 56         | 53         | 49         | 47         | 44         | 40         | 37         | 33         | 30         | 27         | 381,680            |
| Oxy  | 8.44%            |                 | 5          | 5          | 5          | 4          | 4          | 4          | 3          | 3          | 3          | 2          | 35,183             |
| North Star   |                  |                 | 13         | 10         | 8          | 6          | 5          | -          | -          | -          | -          | -          | 139,978            |
| BP   | 98.08%           |                 | 13         | 10         | 8          | 6          | 5          | -          | -          | -          | -          | -          | 137,648            |
| Murphy   | 1.92%            |                 | 0          | 0          | 0          | 0          | 0          | -          | -          | -          | -          | -          | 2,695              |
| Prudhoe Bay Unit (8)   |                  |                 | 326        | 309        | 293        | 276        | 260        | 244        | 230        | 217        | 199        | 189        | 3,009,790          |
| Arco   | 28.97%           |                 | 94         | 90         | 85         | 80         | 75         | 71         | 67         | 63         | 58         | 55         | 872,042            |
| BP   | 38.52%           |                 | 126        | 119        | 113        | 106        | 100        | 94         | 89         | 84         | 77         | 73         | 1,159,512          |
| Chevron  | 0.61%            |                 | 2          | 2          | 2          | 2          | 2          | 1          | 1          | 1          | 1          | 1          | 18,362             |
| Exxon  | 29.04%           |                 | 95         | 90         | 85         | 80         | 76         | 71         | 67         | 63         | 58         | 55         | 874,149            |
| Forconergy   | 0.03%            |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 903                |
| Mobil  | 1.14%            |                 | 4          | 4          | 3          | 3          | 3          | 3          | 3          | 2          | 2          | 2          | 34,316             |
| Phillips   | 1.33%            |                 | 4          | 4          | 4          | 4          | 3          | 3          | 3          | 3          | 3          | 3          | 40,035             |
| Texaco   | 0.36%            |                 | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 10,837             |
| TOTAL Amoco  |                  |                 | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 15,208             |
| TOTAL Anadarko   |                  |                 | 9          | 8          | 7          | 6          | 6          | 5          | 5          | 5          | 5          | 4          | 77,090             |
| TOTAL Arco   |                  |                 | 205        | 190        | 171        | 158        | 145        | 133        | 124        | 117        | 107        | 101        | 1,851,619          |
| TOTAL BP   |                  |                 | 267        | 249        | 229        | 212        | 196        | 176        | 164        | 152        | 140        | 129        | 2,390,660          |
| TOTAL Chevron  |                  |                 | 2          | 2          | 2          | 2          | 2          | 1          | 1          | 1          | 1          | 1          | 19,720             |
| TOTAL CIRI   |                  |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 26                 |
| TOTAL Doyon  |                  |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 194                |
| TOTAL Exxon  |                  |                 | 107        | 101        | 95         | 89         | 83         | 78         | 73         | 68         | 63         | 59         | 1,033,243          |
| TOTAL FINA   |                  |                 | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | 4,380              |
| TOTAL Forconergy   |                  |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 903                |
| TOTAL Mobil  |                  |                 | 4          | 4          | 4          | 4          | 3          | 3          | 3          | 3          | 3          | 2          | 38,762             |
| TOTAL Murphy   |                  |                 | 0          | 0          | 0          | 0          | 0          | -          | -          | -          | -          | -          | 2,688              |
| TOTAL NANA   |                  |                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 581                |
| TOTAL Oxy  |                  |                 | 5          | 5          | 5          | 4          | 4          | 4          | 3          | 3          | 3          | 2          | 35,152             |
| TOTAL Phillips   |                  |                 | 4          | 4          | 4          | 4          | 3          | 3          | 3          | 3          | 3          | 3          | 40,030             |
| TOTAL Texaco   |                  |                 | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 10,835             |
| TOTAL UTP  |                  |                 | 9          | 8          | 7          | 6          | 6          | 5          | 5          | 5          | 5          | 4          | 77,090             |
| TOTAL Unocal   |                  |                 | 9          | 8          | 7          | 6          | 6          | 5          | 5          | 4          | 4          | 4          | 80,918             |
| <b>TOTAL North Slope</b>                                     |                  |                 | <b>625</b> | <b>582</b> | <b>532</b> | <b>493</b> | <b>457</b> | <b>416</b> | <b>389</b> | <b>363</b> | <b>334</b> | <b>311</b> | <b>5,679,100</b>   |
| <b>PROJECTED NORTH SLOPE ROYALTY SHARE FROM ABOVE FIELDS</b> |                  |                 |            |            |            |            |            |            |            |            |            |            |                    |
|  |                  |                 | 87         | 81         | 74         | 69         | 64         | 58         | 54         | 50         | 46         | 43         | 750,784            |

New 1999 8

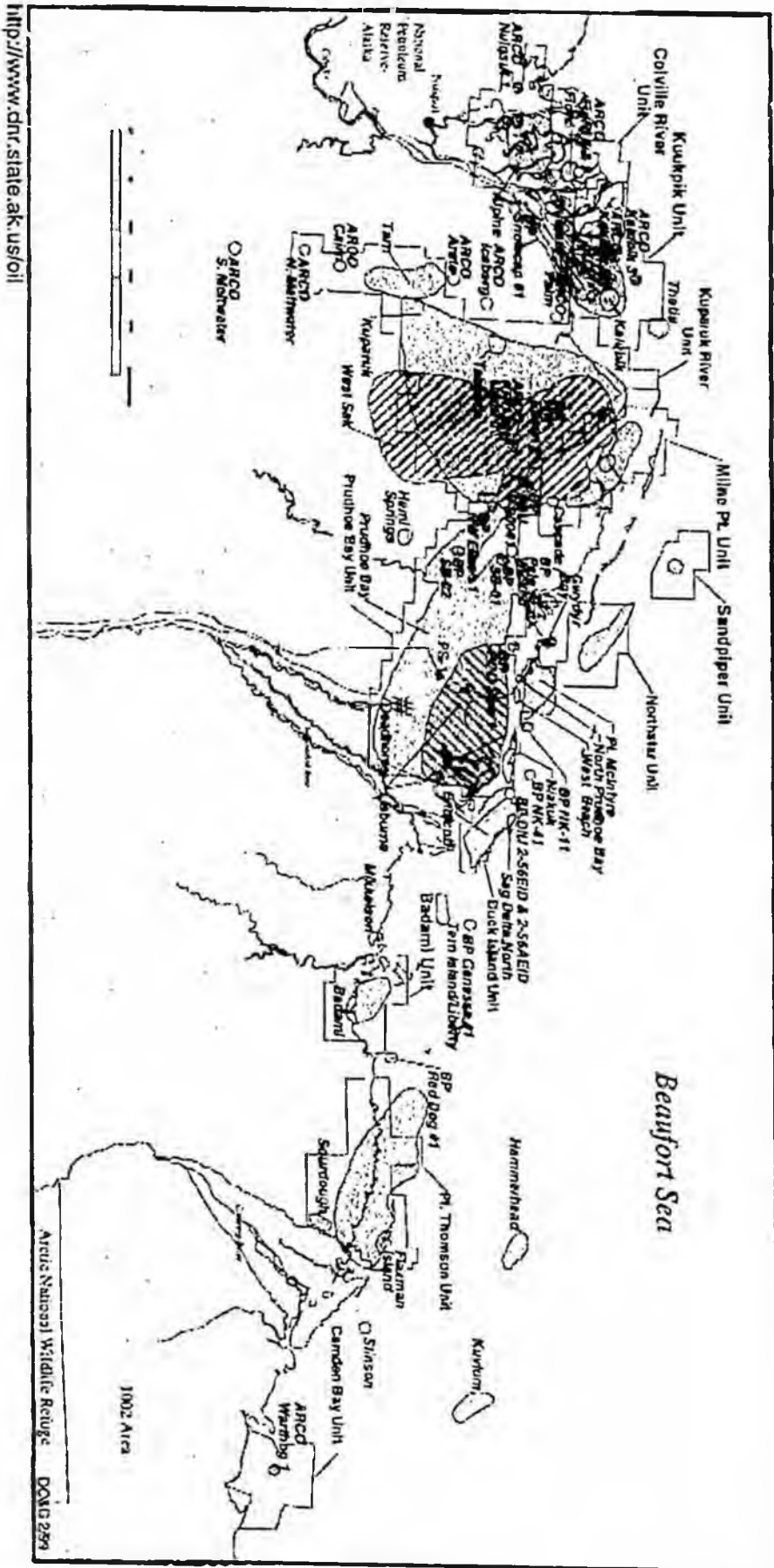
# Cook Inlet Activity

**Map Legend**

-  Unit Boundary
-  Oil Field / Accumulation
-  Gas Field / Accumulation
-  Selected Wells
-  Proposed / Active Wells
-  Platform
-  Pipelines
-  Production Facility

# Northern Alaska Activity



**Map Legend**

- Units
- Oil Field/Accumulation
- Selected Wells
- Proposed/Active Wells

<http://www.dnr.state.ak.us/oil>

# Projects Under Development

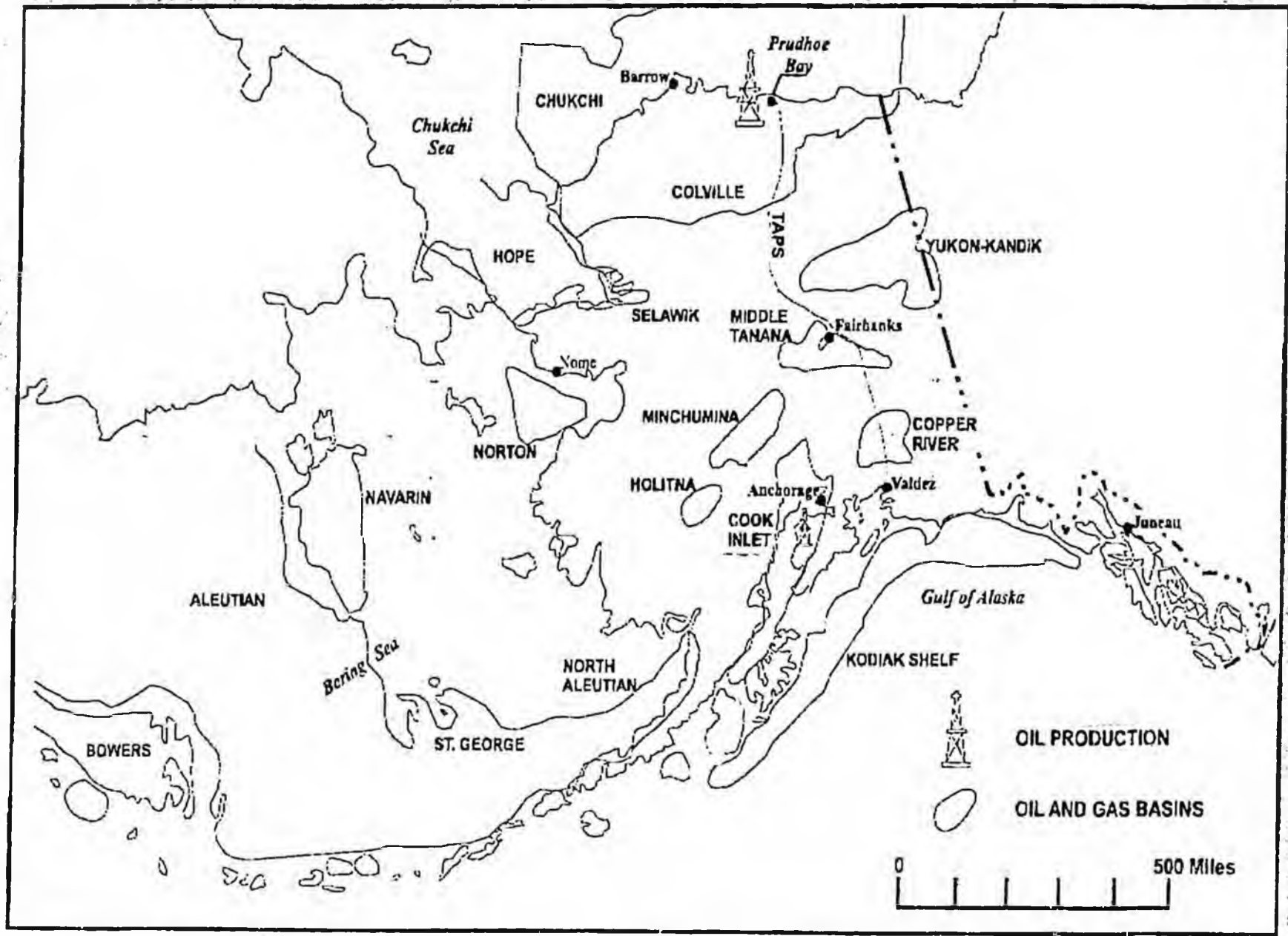
Northern Alaska (February 1999)

| Project                  | Status                                      | Expected Start Up Date | Expected Peak Production Rate (x 1,000 bbls/d) |
|--------------------------|---|------------------------|--|
| Badami                   | Production started, but currently shut-in   | N.A.                   | ?  |
| Northstar**              | Ice road construction and EIS work underway | 2001 ?                 | 60   |
| Alpine                   | Construction work underway                  | 2000                   | 70   |
| Prudhoe Bay Satellites   | Exploration/delineation/testing underway    | 1998 *                 | 40   |
| Kuparuk River Satellites | Exploration/delineation/testing underway    | 1998                   | 29   |
| West Sak                 | Initial development underway                | 1998                   | 16   |
| Schrader Bluff           | Expansion work slowed; under review         | N.A.                   | 16   |

\* Various Facility Sharing Agreements Needed Prior to Start-Up

\*\* Construction of modules halted, moving forward with permitting

# Alaska Oil and Gas Basins



P. 02

FRA NO. 502350Z

DIRECTORS OFFICE

1111-23-33 JUN 10 11 AM

# National Petroleum Reserve-Alaska (NPR-A) Northeast Planning Area



**State of Alaska**  
 Department of Natural Resource  
 Division of Oil & Gas  
 550 West 7<sup>th</sup> Avenue, Suite 800  
 Anchorage, AK 99501-3510  
 (907) 269-8784



### Fax Cover Sheet

|          |                 |          |       |
|----------|-----------------|----------|-------|
| TO:      | DEB/SEN DORNELL | PHONE:   |       |
| COMPANY: |                 | FAX NO.: |       |
| FROM:    | KEO BYD         | PHONE:   | (907) |

|       |         |          |                |
|-------|---------|----------|----------------|
| DATE: | 3/29/99 | FAX NO.: | (907) 269-8938 |
|       |         | TIME:    |                |

CC:

Number of pages including cover sheet: 2

- Urgent    
  For Review    
  Please Comment    
  As You Requested    
  FYI

Message:

THIS BECOMES PAGE 14 (LAST PAGE)  
 of HANDOUT for TODAY'S SEN  
 FINANCE COMMITTEE  
 SORRY FOR THE LATENESS -  
 DIDN'T OCCUR TO ME TO USE  
 THIS UNTIL LAST NITE!

# Undeveloped Oil Accumulations

Northern Alaska (February 1999)

| Name             | Discovery Date | Estimated Recoverable Reserves | Comments                                  |
|------------------|----------------|--------------------------------|---|
| Point Thomson    | 1977           | 200 MMBO<br>3.5 TCFG           | Near ANWR; gas, condensate, and oil       |
| Flaxman Island   | 1975           | ? Oil                          | Tertiary turbidites , in Pt. Thomson Unit |
| Sourdough        | 1994           | ? Oil                          | Adjacent to ANWR, in Pt. Thomson Unit     |
| Kuvlum           | 1992           | 325 MMBO                       | East Beaufort OCS, tested at 3400 BOPD    |
| Tern Is./Liberty | 1982           | 120 MMBO                       | Mikkelson Bay area OCS                    |
| Hammerhead       | 1986           | ? Oil                          | OCS waters north of Pt. Thomson           |
| Colville Delta   | 1985           | ? Oil                          | Near Kuparuk Field                        |
| Fiord            | 1992           | ? Oil                          | Two intervals at 1245 BOPD                |
| Kalubik          | 1992           | ? Oil                          | Two intervals at 1610 BOPD                |
| Northstar *      | 1984           | 144 MMBO                       | Beaufort Sea, including Seal Island       |
| Prudhoe Bay *    | Satellites     | 241 MMBO                       | Several separate accumulations            |

\* Development in progress or planned in the near term.

MMBO - millions of barrels of oil

TCFG - trillions of cubic feet of gas

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99  
SENATE FINANCE COMMITTEE  
LOGNOTES  
[ENTER MEETING DATE]

GENERAL SUBJECT(S): BALANCED BUDGET PRESENTATION

The following overview was taken in log note format. Tapes and handouts will be on file with the Senate Finance Committee through the 21st Legislative Session, contact 465-2618. After the 21st Legislative session they will be available through the Legislative Library at 465-3808.

Time Meeting Convened: 9:25 a.m.

Tape(s): SFC-99 #69, Side A (000 -

| <b>PRESENT:</b> |                   |   |                  |
|-----------------|-------------------|---|------------------|
| X               | Senator Parnell   | X | Senator Adams    |
|                 | Senator Torgerson | X | Senator P. Kelly |
| X               | Senator Donley    | X | Senator Green    |
| X               | Senator Leman     | X | Senator Phillips |
| X               | Senator Wilken    |   |                  |

| <b>ALSO PRESENT:</b> |  |  |  |
|----------------------|--|--|--|
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SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

| LOG | SPEAKER          | DISCUSSION   |
|-----|------------------|--|
| 000 | Co-chair Parnell | Reconvened the committee for DFYS Audit Review. He noted there will be two individuals to testify regarding this review.   |
|     | Pat Davidson     | Director, Division of Legislative Audit was invited to join the committee. January 1998 audit of Division of Health and Social Services. FY 97 DFYS social workers did not consistently conduct the department.<br>1. Legislature consider additional funding for social workers.<br>2. DFYS should report back to the Legislature how this was used.<br>3. Admin Services should report how funding was used.<br>Reports of harm be investigated.                           |
|     | Co-chair Parnell | Asked explain "work load adjustment"   |
|     | Ms. Davidson     | Delay or never investigate harm if it is a minor harm.<br>She continued specific position requests. Filled October 1998<br>Sept. 14, 1998 statute for child protection.<br>No evidence funds used inappropriately in 1998.<br>DFYS cannot investigate each report of harm.<br>Made significant progress to provide training for staff.<br>Deficiencies in case management status.<br>Recommends DFYS upgrade .   |
|     | Co-chair Parnell | Page 22 of audit report. Asked she explain prior recommendations no 5 and 8.   |
|     | Ms. Davidson     | Responds. When agency faced with workload that funding doesn't allow complete address must develop priorities. Difficult decisions must be made by management. Should not be left to individual social worker. Falls in line with recommendation #8 regarding workload. This is large agency, large staff involved. Need to develop workload measurement tool. How much time is a standard report of harm. Found no substantial progress on these two prior recommendations. |
|     | Senator Phillips | Concerned with page 24, prior recommendation #7.   |
|     | Ms. Davidson     | Does fall in line. Department always trying to respond to matters. Will be enhanced with better information system.  |
|     | Senator Phillips | Re: Division of Legislative Audit's current position on prior recommendation.  |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|  |                  |  |
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|  | Co-chair Parnell | Referred to Audit Report. Sort of sterile government terms. Asked definition of "child protection".  |
|  | Ms. Davidson     | More children at risk. Department needs to recognize and respond.  |
|  | Karen Perdue     | <p>Commissioner, Department of Health and Social Services was invited to join the committee. Introduced Russ Webb, Deputy Commissioner and Theresa Tanoury, Child Protection. She referred to their audit handout. Hired 28 new employees and got them trained by January.</p> <p>Re: Audit Number 1 released 8 recommendations.</p> <p>Re: Audit Number 2 released 6 recommendations.</p> <p>They have 30 offices and performance has increased dramatically in answering calls. Major progress in Mat-Su and Ketchikan. Fairbanks took dip same as Anchorage over summer because of training. Kenai and Juneau have increased. Increase in number of families receiving ongoing services. Trying to comply with new law asking them to act faster.</p> |
|  | Co-chair Parnell | Reports of Harm graph. Took in more calls and more cases assigned to CP workers. Is that what the increase shows?  |
|  | Ms. Perdue       | Numbers go up and down.  |
|  | Co-chair Parnell | Trying to distinguish depts graph and audit report graph.  |
|  | Ms. Perdue       | One month more priority ones and cases take longer to investigate. Response time is more.  |
|  | Co-chair Parnell | Percentage assigned for investigation. Asked for clarification.  |
|  | Ms. Perdue       | <p>Brief update on Anchorage. Knew they needed to focus on training because they had large turnover. Have to go see the child. Were getting a new case assigned every 3.5 hours. These were physically impossible to handle. Lost many case workers.</p> <p>Refers to Response to March 1998 Audit and January 1999 Follow-Up Audit. Have seen an improvement since January. Like law but tremendously impacting the department. February this year 44 child adjudications. As example. Focused in implementing the new law.</p> <p>Performance measures in missions and measures. Seems to be tracking and really likes them.</p> <p>Training: Have had workers pay for their</p>   |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|  |                  |   |
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|  |                  | own training.   |
|  | Co-chair Parnell | Legislature budgeted training last year. Is this not enough?  |
|  | Ms. Perdue       | Faced with specialized training for workers.  |
|  | Co-chair Parnell | Training monies only been encumbered recently.  |
|  | Ms. Perdue       | Has to do with RSA. Training is ongoing. Academy opened in August. Does not disagree with any recommendations. #5 and #8 within their work plan. Refers to chart on page 8 of handout. Explained Report of Harm Prioritization. Priority 3 has been workload adjusted. Offices doing this at their own speed. However, this is not appropriate. Trying to bring everyone up to the same level. Can't just take on workers to investigate cases, must have workers to provide follow-up. Can be improved. Cannot ask social worker to investigate more than two cases per day. No call comes in simple. Stories very complicated. Unless child is being tortured it is a subtle rating. Is everyone using the same information to rate calls. Working on having everyone using the same rating system. |
|  | Senator Phillips | Is this handout current procedure?  |
|  | Russ Webb        | From March audit last year. This procedure has been in place for many years.  |
|  | Senator Phillips | Is there an update?   |
|  | Russ Webb        | We have policy. Difficulty is applying that policy. One has to be applied consistently so all understand rating of priorities. Priority 1 and 2 are never allowed to remain uninvestigated. Question arises to workload and staff.  |
|  | Ms. Perdue       | Does not like work load adjustment.   |
|  | Senator Phillips | Have you achieved perfection?   |
|  | Ms. Tanoury      | Explained that when three reports received on one child they do investigate. Imminent danger is not there. Someone goes to check on the child. Only low risk priorities are not responded to immediately.   |
|  | Russ Webb        | Perhaps when one actually goes an investigates the call the priority is higher and more risk and danger to the child. Case worker struggles with the decisions that must be made.   |
|  | Senator Phillips | Audit report said there is not an established policy.   |
|  | Pat Davidson     | What you have is a very rough cut. Looking for policy it has to be more than a three way cut. General guidance is out there,  |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|  |                  |   |
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|  |                  | however not sufficiently for consistent across the state response.  |
|  | Russ Webb        | Believes they have not achieved perfection and there is room for improvement.   |
|  | Senator Kelly    | Referred to priority handout. 70 - 90 days to do training? If prioritization carried out by fully trained staff operating at full capacity?   |
|  | Ms. Davidson     | Prioritization is for initial reports of harm. HB 375 addressed when children were in custody.  |
|  | Senator Kelly    | Prioritization schedule does not seem to be that lacking. Trained staff and fully up to speed, perhaps this wouldn't be this way. Audit was a bit premature because audit was being done when new workers were coming on and not fully trained and up to speed at the time.   |
|  | Ms. Davidson     | Agrees that the audit was a little premature. Did not expect to see increase in reports of harm. Prioritization for first three cuts is reasonable. However, they see so much happening at all levels. And social workers where do you put them. Problem must be identified. Management must refine workload measurement. |
|  | Ms. Perdue       | Theory they would never go back on an office. Does not want to put too much faith in computer. This is complicated and tough decisions must be made. Trying to bring everyone up. There is still a great unevenness within the State. Risk assessment tool. They do have a lot of homework to do. And they are trying.    |
|  | Co-chair Parnell | Reports of harm in January down.  |
|  | Ms. Perdue       | Thanked for new help given. Some positions went into ongoing and community care licensing.  |
|  | Senator Phillips | Case load standards?  |
|  | Russ Webb        | Is in audit response. Would be happy to provide in further detail.  |
|  | Senator Wilken   | Re: page 5 Child Protection Status Report.<br>(Tape switch side B at log #586.)   |
|  | Ms. Perdue       | Explained briefly.  |
|  | Senator Wilken   | A year from now looking at standards and measurements are these the five we will see? Or are there more categories of success and failure?  |
|  | Ms. Perdue       | Performance measures which are in packet.   |
|  | Co-chair Parnell | Cautioned that will wrap this up in about a five minutes.   |
|  | Senator Phillips | Have you hired now staff in Anchorage?  |
|  | Ms. Perdue       | Yes. Mat-Su and Kenai pulled out of Anchorage area so they could get the  |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|  |                  |   |
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|  |                  | attention they needed.  |
|  | Russ Webb        | Responds. There is no particular average. Initial investigation, court time, etc.   |
|  | Senator Kelly    | Concern with reports of harm.   |
|  | Ms. Perdue       | HB 375 teachers are mandated reporters. But they cannot get back to them.   |
|  | Ms. Tanoury      | Meet once a month with mandated reporters. Mostly hear about low risk kids in classes. Coming into class hungry.  |
|  | Ms. Perdue       | Pilot project in Mat-Su. Hungry child living in home with no running water and parents between jobs. This is not a protection matter.   |
|  | Senator Kelly    | Actions taken resulted in better protection?  |
|  | Ms. Tanoury      | Has increased communication between department and mandated reporters. Feels situation will improve.  |
|  | Senator Green    | Breakdown in priorities. How do you base response time for priority three?  |
|  | Russ Webb        | Less timely on priority 2's and clear they are not timely on priority 3's. But they really must respond to all calls because they really never know the actual extent.  |
|  | Co-chair Parnell | Workload adjustment?  |
|  | Ms. Perdue       | Something they have been doing for years and would like to get out of it. However, something they have three year plan in budget that would get them to no more work load adjustment.   |
|  | Co-chair Parnell | Part of Smart Start?  |
|  | Ms. Perdue       | Yes.  |
|  | Senator Wilken   | Suggested audit was premature. He felt audit not premature, but drawing conclusions was premature. Huge project, huge task. Must be vigilant, however not an indication of lack of support for the project. He will continue to support.  |
|  | Co-chair Parnell | Moved in to Balanced Budget. Cautions committee they are still in order.  |
|  |                  | (brief at ease)<br>Reconvened the committee. Trying to keep everyone on time.   |
|  | Wilson Condon    | Commissioner, department of Revenue was invited to join the committee. Spring forecast be ready first of next week. Oil roughly at \$14.50/barrel. Over next five years expected revenue will be \$1 billion 400 million. That's what is expected on an average. May be some up and down periods over the next five years.<br>Refers to Constitutional Budget Reserve Exhausted.<br>Page 2, Annualize \$1.00/barrel impact on |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|  |                     |   |
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|  |                     | General Fund Unrestricted Revenue. Referred to graph. More than 50% decline 1990 to 2000. Dollar change worth less than half to us.   |
|  | Senator Torgerson   | \$14.50 anticipated use?  |
|  | Commissioner Condon | Figure they will arrive at within a couple of dimes.  |
|  | Senator Torgerson   | Working on looking at budget over 20-year time frame? Any suggestions or recommendations?   |
|  | Commissioner Condon | Oil prices will increase with inflation going forward. History a guide, then you would question that conclusion. North Slope oil averaging about \$16/barrel.   |
|  | Senator Torgerson   | Wasn't much help.   |
|  | Commissioner Condon | Believes if one takes \$16/barrel will be   |
|  | Co-chair Parnell    | How do the experts project out in 20 years? What measures are used?   |
|  | Commissioner Condon | Make judgments about what's going to happen in terms of demand, response to the demand, where will the supply come from, what's going to happen technologically. Also must factor in a political judgment. In response to Senator Wilken, staff has also done their own projections.  |
|  | Senator Wilken      | Change is projections?  |
|  | Commissioner Condon | Yes. How much oil is available.<br>(tape change to #70, Side A)   |
|  | Senator Phillips    | Any projection to replace diminishing oil? Relates to jobs and ANWR.  |
|  | Commissioner Condon | Would be easy to calculate but could not give number presently.   |
|  | Senator Wilken      | General number under which pipeline wouldn't work?  |
|  | Commissioner Condon | Estimate is 300,000 barrels/day would not perhaps be economical.  |
|  | Senator Leman       | Tring to figure out big drop this fiscal year and next fiscal year. Looking at charts with general decline in production, looks.  |
|  | Senator Phillips    | When do we reach 300,000 barrels/day?   |
|  | Commissioner Condon | About year 2020. Based on today's information.  |
|  | Co-chair Parnell    | Comments to Ken Boyd on line.   |
|  | Ken Boyd            | Director, Oil and Gas<br>Refers to his memorandum dated 3/26/99 Pages 5 & 6 current. Compared page 1 and 5. Starts with North Slope (Alpine) Alpine will come on a little later in year 2000. In response to Senator Parnell explained totals. "State total" is total of all columns. |
|  | Co-chair Parnell    | Production a little bit down?   |
|  | Ken Boyd            | Things have changed over night.   |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|                   |   |
|-------------------|---|
| Senator Wilken    | 9% reduction? He figures about 16% reduction.   |
| Mr. Boyd          | Responds.   |
| Senator Wilken    | Further query? Difference in reduction. Asked that be reconciled.   |
| Mr. Boyd          | Page 9, map. Can provide individual copy if need be.  |
| Senator Torgerson | Please identify projects listed on page 11.   |
| Mr. Boyd          | Offered brief clarification. Page 12.   |
| Senator Torgerson | Projected increase.   |
| Mr. Boyd          | Referred to several satellites. Estimate not an absolute number.  |
| Senator Torgerson | Added 50,000 barrels/day.   |
| Mr. Boyd          | Totals are there. See page 12. Undeveloped Oil Accumulations - Kuvlum and Tern Island/Liberty described. Fiord will get results shortly. Northstar waiting to see what the federal agencies battling each other come up with. Page 13 map. National Petroleum Reserve-Alaska (NPR-A) Will have to wait and see what happens in May. |
| Senator Torgerson | Query. Doesn't see Aurora.  |
| Mr. Boyd          | Aurora discovered last Friday. This is just a satellite. Will know more about Thompson by September.  |
| Senator Torgerson | Wants everything included if we know they are out there. Doesn't want any thing left out.   |
| Mr. Boyd          | Will be able to tell what is included and what was left out due to time.  |
| Senator Torgerson | What do you have for the new platform at Cook Inlet?  |
| Mr. Boyd          | Did not focus on Cook Inlet for this presentation. Can provide this information. Does not have any present data.  |
| Senator Torgerson | No other data?  |
| Mr. Boyd          | All kinds of estimates.   |
| Senator Torgerson | Mood to speculate. Should be able to put in a plan for production.  |
| Mr. Boyd          | Mo public available data at this time.  |
| Senator Torgerson | Asked Mr. Boyd's comments on ARCO - British Petroleum merger.   |
| Mr. Boyd          | Each company has a settlement agreement. Gave a few insights. As the day passes it will sink in.  |
| Senator Torgerson | Possible increase in gas production. Any comments?  |
| Mr. Boyd          | Numbers can't get much higher than what they are. Understands 90 some odd thousand is the limit. Numbers can't get much bigger.   |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/29/99

|                  |  |
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| Senator Wilken   | Refers to commissioner Condon's testimony slow down to 300,000/barrels/day. Do you agree?  |
| Mr. Boyd         | Yes.   |
| Senator Wilken   | Keep track of number of drill rigs operating on the slope over past 3 years and next 1 - 2 years.  |
| Mr. Boyd         | Will send requested information to Senator Wilken.   |
| Co-chair Parnell | Thanked Mr. Boyd. Called Department of Labor. Discuss population.  |
| Greg Williams    | Department of Labor was invited to join the committee. Will give brief overview on population projections. Projections go out 20 years. Assumptions made are continuation of historical trends. Age distribution in Alaska has some large and small groups of people. Refers to the baby boom. Most dominant factor is natural increase. Have seen booms and busts that do not last long periods of time. School age population and the elderly. Substantial increase starting now. Going to see significant increases. Substantial strain on resources by that time. Other group of interest is school age children. Fairly flat. |
| Co-chair Parnell | Asked for break-out over next five years. Concern Anchorage has lost jobs. What is impact on migration and children not in school.   |
| Mr. Williams     | Responds.  |
| Co-chair Parnell | Asked for forecast over next five years and take into account current economic status, loss of jobs.   |
| Mr. Williams     | Difficult project. Not prepared to do this. These numbers have been just released. The current changes account for relatively little school enrollment. Result of aging of trough born about 1975. Differential shift by regions.  |
| Co-chair Parnell | Governor planning for increase in student population. What are the realistic assumptions to be made?   |
| Senator Wilken   | Age 5 - 17. Hearing in Mat-Su Valley.  |
| Co-chair Parnell | Adjourned meeting at approximately 11:20 a.m.  |

# CALLAN ASSOCIATES<sup>INC</sup>

GREGORY C. ALLEN  
EXECUTIVE VICE PRESIDENT  
DIRECTOR OF OPERATIONS



---

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# Alaska State Legislature

*Chairman,*  
Judiciary Committee  
State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-3873  
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50 Front Street  
Suite 203  
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*Senator Robin L. Taylor*

**C**uts and Consolidation

**P**rivitization

**R**esource Development

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

# INDEX

|   | Page Numbers |
|---|--------------|
| I. Alaska CPR Paper   | 1 - 2        |
| II. Scenario Summary  | 3            |
| III. 1998 DNR Land Sales  | 4 - 5        |
| IV. Proposed Sales @ 30% sales price - \$1500/acre                    | 6            |
| V. Proposed Sales @ 25% sales price - \$1000/acre (5% down - 10 yr)   | 7            |
| VI. Proposed Sales @ 25% sales price - \$1000/acre (10% down - 10 yr) | 8            |
| VII. Proposed Sales @ DNR Average Price \$4609/ac (5% Down - 10 yr)   | 9            |
| VIII. Proposed Sales @ DNR Average Price \$4609/ac (10% Down - 10 yr) | 10           |
| IX. Proposed Sales @ DNR Average Price (5% Down - 15 yr)              | 11           |
| X. Proposed Sales @ DNR Average Price (10% Down - 15 yr)              | 12           |

# Alaska State Legislature

Chairman,  
Judiciary Committee

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*Senator Robin L. Taylor*

## ALASKA CPR

Recently a friend of mine suffered a heart attack. Fortunately, a bystander immediately recognized the symptoms and administered CPR. My friend has recovered now, and by watching his diet and exercising, his future looks bright. Alaska needs CPR and we need it NOW! The CPR we need is Cuts and Consolidation, Privatization, and Resource Development.

Over the past few years, Alaskans have watched as state leaders used our state reserve accounts instead of living within the state's income. Our economy has suffered one seizure after another:

- Fish prices have slid to historic lows
- Over 4,000 family support resource jobs in Southeast Alaska have been lost
- Opening of the AJ mine in Juneau was stopped
- The price of oil has sunk to a forty year low... 85% of our state's income depends on the price of oil.
- Over 6,000 oil industry and related jobs have been lost in the last six months

Despite these crises no effort has been made by the administration to reduce spending in any state agency. Instead our Governor wants to steal over 500 million dollars out of the wallets of working families and wants them to pay for 600 new state employees.

My CPR plan leaves your money in your pocket and creates new wealth for Alaskans.

1. *Cut and Consolidate* - We must reduce the size of state government and stop wasteful duplication in state agencies.
2. *Privatize* - Private enterprise can provide many government services more efficiently and at lower cost. Every state in the union, except Alaska, has experienced significant savings without the loss of essential services, by using the private sector where appropriate. This will also provide more opportunities for private sector development.

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

Attention: Lacey Travis  
 Free Delivery Coffee Supplies  
 Monthly Specials

Coffee, Tea, Cocoa,  
 Sugar, Creamer, Cups,  
 Cleaning & Maintenance



For the Month of April 1999

| <u>Item</u> | <u>Brand</u>               | <u>Original</u> | <u>Special</u> |
|-------------|----------------------------|-----------------|----------------|
| Coffee:     | Gourmet Medallion          | \$ 38.95        | \$ 35.75       |
|             | Maxwell FrRst Decaf        | \$ 45.95        | \$ 41.45       |
| Sweetener:  | Dixie Sugar Packets        | \$ 10.95        | \$ 10.15       |
| Creamer:    | Coffee Mate Fr Vanilla Can | \$ 2.95         | \$ 1.95        |
| Cocoas:     | SwissMiss Sugar Free Cocoa | \$ 8.95         | \$ 7.45        |
| Teas:       | Hot Spiced Cider           | \$ 4.95         | \$ 3.95        |



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### AGENDA

WEDNESDAY, 31 MARCH 1999

8:00 A.M.

- SB 9      PERS CREDIT FOR NONCERTIFIED EMPLOYEES
- SB 85     CREDITED SERVICE FOR TEMP EMPLOYEES:  
PERS
- SB 33     TASK FORCE ON PRIVATIZATION

**BALANCED BUDGET PLAN PRESENTATIONS:**

**JIM KELLY  
PERMANENT FUND CORPORATION**

**(CONTINUED NEXT PAGE)**

WEDNESDAY, 31 MARCH 1999

(PAGE 2)

6:00 P.M.

SB 101     DEFINITION OF DISASTER

SB 24     REGULATIONS: ADOPTION AND JUDICIAL  
REVIEW

SB 113    FINANCES OF ALASKA HOUSING FINANCE  
CORPORATION

SB 42     1999 REVISOR'S BILL

SB 84     CIGARETTE SALES: AGREEMENT/ESCROW

(BILLS PREVIOUSLY HEARD AND/OR SCHEDULED)

3. *Resource Development*- We need to develop and sell resources including land. At statehood, Alaska received over 103 million acres of land. These lands were selected for their valuable timber, mineral, agricultural and oil potential. Today less than 3/10 of 1% of Alaska is privately owned. If we sell 250,000 acres of land annually at 30% of the 1998 average sales price for land sold by DNR, we will generate annual revenues in excess of 350 million dollars a year. If we use DNR's actual average sales price, revenues will be in excess of 1 Billion dollars a year.

Our state owned forest is 25% larger than all the forests in Alberta, Canada. Alberta employs over 42,000 people in direct timber industry jobs, 4 times more people than the peak employment during our pipeline days. Presently, our forests support only a handful of workers and "millions of bugs". If we continue with the current administration's policies our children will inherit barren grasslands.

Let's try a little CPR, get this state back on its feet, then with a little TLC, a healthy diet and letting the people of Alaska exercise their inherent rights to own a piece of this great land, our future will be bright, and we won't be bleeding money away from working families.

# Alaska State Legislature

Chairman,  
Judiciary Committee  
Administrative Regulations  
Revenue Committee

Vice Chairman,  
Resources Committee



*Senator Robin L. Taylor*

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**The State of Alaska has 103 million acres of state land. These lands hold tremendous values in timber, agricultural, recreational, and other resources. The following scenarios are based on the actual 1998 Land Sales as documented by the Division of Lands.**

**Calculations were based on the average sales price of state land sold in 1998 of \$4609 per acre. If you were very conservative and only budgeted based on sales prices of \$1000 per acre (less than 1/4th the prices generated last year), the revenues to be generated in future years are shown on the next page.**

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

State of Alaska  
1998 Land Sales

| PARCEL | SUBDIVISION      | Extra Detail | MIN BID   | BID AMT   | ACREAGE | \$/ACRE  |
|--------|------------------|--------------|-----------|-----------|---------|----------|
| 6      | Coffman cove     |              | 12,000.00 | 14,200.00 | 1.08    | 13,148.1 |
| 9      | Coffman Cove     |              | 12,800.00 | 13,676.00 | 1.17    | 11,688.9 |
| 10     | Coffman Cove     | Waterfront   | 35,000.00 | 43,821.61 | 1.47    | 29,810.6 |
| 12     | Coffman Cove     |              | 10,900.00 | 13,000.00 | 0.93    | 13,978.5 |
| 18     | Naukati Bay West |              | 15,700.00 | 20,557.00 | 2.09    | 9,835.9  |
| 19     | Naukati Bay West |              | 11,700.00 | 20,557.00 | 1.56    | 13,177.6 |
| 24     | Naukati Bay East |              | 15,800.00 | 23,500.00 | 2.78    | 8,453.2  |
| 28     | Thorne Bay       | Waterfront   | 22,000.00 | 80,175.00 | 4.80    | 16,703.1 |
| 29     | Thorne Bay       |              | 24,000.00 | 40,100.00 | 4.63    | 8,660.9  |
| 30     | Thorne Bay       | Waterfront   | 23,000.00 | 36,000.00 | 4.92    | 7,317.1  |
| 31     | Thorne Bay       |              | 39,000.00 | 42,002.00 | 4.16    | 10,096.6 |
| 32     | Thorne Bay       | Waterfront   | 31,000.00 | 43,261.00 | 4.32    | 10,014.1 |
| 33     | Whale Passage    |              | 18,000.00 | 25,000.00 | 2.77    | 9,025.3  |
| 34     | Whale Passage    |              | 41,000.00 | 71,387.00 | 2.71    | 26,342.1 |
| 41     | Chase            |              | 7,900.00  | 10,010.00 | 15.71   | 637.2    |
| 52     | Peters Creek     |              | 8,900.00  | 10,252.00 | 4.68    | 2,190.6  |
| 54     | Peters Creek     |              | 9,800.00  | 12,556.00 | 4.90    | 2,562.4  |
| 55     | Peters Creek     |              | 10,000.00 | 15,106.99 | 5.00    | 3,021.4  |
| 56     | Peters Creek     |              | 8,200.00  | 21,002.00 | 4.09    | 5,135.0  |
| 57     | Peters Creek     |              | 10,000.00 | 23,500.00 | 5.00    | 4,700.0  |
| 58     | Peters Creek     |              | 9,900.00  | 13,600.00 | 4.93    | 2,758.6  |
| 59     | Peters Creek     |              | 8,800.00  | 10,005.99 | 4.86    | 2,058.8  |
| 61     | Peters Creek     |              | 9,600.00  | 15,125.00 | 4.79    | 3,157.6  |
| 64     | Peters Creek     |              | 8,200.00  | 10,256.00 | 4.30    | 2,385.1  |
| 69     | Robe Lake        |              | 29,000.00 | 32,159.00 | 4.91    | 6,549.7  |
| 70     | Robe Lake        |              | 30,000.00 | 31,323.00 | 5.00    | 6,264.6  |
| 73     | Robe Lake        |              | 20,000.00 | 27,007.00 | 4.64    | 5,820.5  |
| 74     | Robe Lake        |              | 15,000.00 | 21,092.00 | 3.95    | 5,339.7  |
| 76     | Robe Lake        |              | 28,000.00 | 32,000.00 | 4.27    | 7,494.1  |
| 80     | Robe Lake        |              | 30,000.00 | 30,500.00 | 5.00    | 6,100.0  |
| 81     | Robe Lake        |              | 26,000.00 | 31,111.00 | 4.86    | 6,401.4  |
| 82     | Robe Lake        |              | 21,000.00 | 26,110.00 | 4.96    | 5,264.1  |

State of Alaska  
1998 Land Sales

| PARCEL  | SUBDIVISION                        | Extra Detail | MIN BID                | BID AMT             | ACREAGE       | \$/ACRE          |
|---|------------------------------------|--------------|------------------------|---------------------|---------------|------------------|
| 83  | Robe Lake                          |              | 19,000.00              | 24,110.00           | 4.93          | 4,890.5          |
| 88  | Chena Hot springs II               |              | 7,800.00               | 19,000.00           | 4.75          | 4,000.0          |
| 89  | Chena Hot SpringsII                |              | 5,000.00               | 6,150.00            | 3.01          | 2,043.2          |
| 90  | Chena Hot SpringsII                |              | 5,400.00               | 6,000.00            | 4.91          | 1,222.0          |
| 91  | Chena Hot SpringsII                |              | 5,400.00               | 6,000.00            | 4.94          | 1,214.6          |
| 94  | Delta                              |              | 5,000.00               | 7,098.00            | 4.99          | 1,422.4          |
| 95  | Delta                              |              | 5,200.00               | 6,669.00            | 4.99          | 1,336.5          |
| 96  | Delta                              |              | 5,000.00               | 6,000.00            | 4.99          | 1,202.4          |
| 97  | Eagle                              |              | 7,700.00               | 9,220.00            | 4.72          | 1,953.4          |
| 98  | Eagle                              |              | 6,400.00               | 7,000.00            | 4.88          | 1,434.4          |
| 101   | McCloud                            |              | 6,500.00               | 15,503.00           | 5.23          | 2,964.2          |
| 102   | McCloud                            |              | 11,000.00              | 14,187.80           | 8.84          | 1,605.0          |
| 103   | Tenderfoot                         |              | 5,500.00               | 5,651.25            | 4.71          | 1,199.8          |
| 105   | Tenderfoot                         |              | 6,100.00               | 10,010.00           | 4.68          | 2,138.9          |
| 106   | Tenderfoot                         |              | 6,700.00               | 10,010.00           | 4.77          | 2,098.5          |
| 108   | Tok                                |              | 14,000.00              | 20,100.00           | 5.06          | 3,972.3          |
| 110   | Tok/Tetlin                         |              | 13,200.00              | 18,001.00           | 7.12          | 2,528.2          |
| 111   | Tok/Tetlin                         |              | 14,000.00              | 15,200.00           | 5.00          | 3,040.0          |
| 112   | Tok/Tetlin                         |              | 10,900.00              | 14,000.00           | 4.78          | 2,928.9          |
| 113   | Tok/Tetlin                         |              | 10,990.00              | 14,000.00           | 4.78          | 2,928.9          |
|   | <b>TOTALS</b>                      |              | <b>772,990.00</b>      | <b>1,093,862.64</b> | <b>237.32</b> | <b>312,217.2</b> |
|   | <b>Average Price per Acre =</b>    |              | <b>4,609.00</b>        |                     |               |                  |
|   | <b>Total Acreage to be sold/yr</b> |              | <b>250,000.0</b>       |                     |               |                  |
|   | <b>Revenues Generated *</b>        |              | <b>\$1,152,250,000</b> |                     |               |                  |
| <b>Revenues generated were 42% more than the minimum bid which represented the appraised price.</b> |                                    |              |                        |                     |               |                  |
| <b>*This is the total if paid in full at time of sale.</b>  |                                    |              |                        |                     |               |                  |
| NOTE: See next sheet for different payment scenarios.   |                                    |              |                        |                     |               |                  |

**Revenue Scenario for  
Proposed Land Sales**

10% Down -10% Interest  
10 Year Term

Sales price 30% of 1998 Land Sales by DNR.... \$1500/acre.

| YEAR  | Total acreage sold | Average \$ per Acre | Total Sales Price | 10% down   | Annual Payments @ 10% Int. | Total Annual Revenue |
|---|--------------------|---------------------|-------------------|------------|----------------------------|----------------------|
| 1   | 250,000            | 1500                | 375,000,000       | 37,500,000 |                            | 37,500,000           |
| 2   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 91,021,048           |
| 3   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 144,542,096          |
| 4   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 198,063,144          |
| 5   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 251,584,192          |
| 6   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 305,105,240          |
| 7   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 358,626,288          |
| 8   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 412,147,336          |
| 9   | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 465,668,384          |
| 10  | 250,000            | 1500                | 375,000,000       | 37,500,000 | 53,521,048                 | 519,189,432          |
| NOTE: If the land sold for cash, the total revenues would be \$375,000,000 per year. The above scenario reresents a 10% down, 10% interest, 10 year term financed by the state. |                    |                     |                   |            |                            |                      |
| After 10 years, we would have sold only 2% of the 103 million acres we were granted at statehood.   |                    |                     |                   |            |                            |                      |

**Revenue Scenario for  
Proposed Land Sales**

5% Down -10% Interest  
10 Year Term

Sales Price \$1000/acre

| YEAR | Total acreage sold | Average \$ per Acre | Total Sales Price | 5% down    | Annual Payments @ 10% Int. | Total Annual Revenue |
|------|--------------------|---------------------|-------------------|------------|----------------------------|----------------------|
| 1    | 250,000            | 1000                | 250,000,000       | 12,500,000 |                            | 12,500,000           |
| 2    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 50,162,960           |
| 3    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 87,825,920           |
| 4    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 125,488,880          |
| 5    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 163,151,840          |
| 6    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 200,814,800          |
| 7    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 238,477,760          |
| 8    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 276,140,720          |
| 9    | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 313,803,680          |
| 10   | 250,000            | 1000                | 250,000,000       | 12,500,000 | 37,662,960                 | 351,466,640          |

Revenue Scenario for  
Proposed Land Sales

10% Down -10% Interest  
10 Year Term

Sales Price \$1000/acre

Sales Price \$1000/acre

| YEAR | Total acreage sold | Average \$ per Acre | Total Sales Price | 10% down   | Annual Payments @ 10% Int. | Total Annual Revenue |
|------|--------------------|---------------------|-------------------|------------|----------------------------|----------------------|
| 1    | 250,000            | 1000                | 250,000,000       | 25,000,000 |                            | 25,000,000           |
| 2    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 60,680,704           |
| 3    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 96,361,408           |
| 4    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 132,042,112          |
| 5    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 167,722,816          |
| 6    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 203,403,520          |
| 7    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 239,084,224          |
| 8    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 274,764,928          |
| 9    | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 310,445,632          |
| 10   | 250,000            | 1000                | 250,000,000       | 25,000,000 | 35,680,704                 | 346,126,336          |

**Revenue Scenario for  
Proposed Land Sales**

5% Down - 10% Interest  
10 Year Term

| YEAR | Total acreage sold | Average \$ per Acre | Total Sales Price | 5% down    | Annual Payments @ 10% Int. | Total Annual Revenue |
|------|--------------------|---------------------|-------------------|------------|----------------------------|----------------------|
| 1    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 |                            | 57,612,500           |
| 2    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 231,201,086          |
| 3    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 404,789,672          |
| 4    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 578,378,258          |
| 5    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 751,966,844          |
| 6    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 925,555,430          |
| 7    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 1,099,144,016        |
| 8    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 1,272,732,602        |
| 9    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 1,446,321,188        |
| 10   | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 173,588,586                | 1,619,909,774        |

**Revenue Scenario for  
Proposed Land Sales**

10% Down - 10% Interest  
10 Year Term

|  | YEAR | Total acreage sold | Average \$ per Acre | Total Sales Price | 10% down    | Annual Payments @ 10% Int. | Total Annual Revenue |
|--|------|--------------------|---------------------|-------------------|-------------|----------------------------|----------------------|
|  | 1    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 |                            | 115,225,000          |
|  | 2    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 279,677,344          |
|  | 3    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 444,129,688          |
|  | 4    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 608,582,032          |
|  | 5    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 773,034,376          |
|  | 6    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 937,486,720          |
|  | 7    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 1,101,939,064        |
|  | 8    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 1,266,391,408        |
|  | 9    | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 1,430,843,752        |
|  | 10   | 250,000            | 4,609               | 1,152,250,000     | 115,225,000 | 164,452,344                | 1,595,296,096        |

Revenue Scenario for  
Proposed Land Sales

5% Down -10% Interest  
15 Year Term

| YEAR | Total acreage sold | Average \$ per Acre | Total Sales Price | 5% down    | Annual Payments @ 10% Int. | Total Annual Revenue |
|------|--------------------|---------------------|-------------------|------------|----------------------------|----------------------|
| 1    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 |                            | 57,612,500           |
| 2    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 191,339,588          |
| 3    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 325,066,676          |
| 4    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 458,793,764          |
| 5    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 592,520,852          |
| 6    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 726,247,940          |
| 7    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 859,975,028          |
| 8    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 993,702,116          |
| 9    | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 1,127,429,204        |
| 10   | 250,000            | 4609                | 1,152,250,000     | 57,612,500 | 133,727,088                | 1,261,156,292        |

**Revenue Scenario for  
Proposed Land Sales**

10% Down - 10% Interest  
15 Year Term

|  | <b>YEAR</b> | <b>Total<br/>acreage<br/>sold</b> | <b>Average \$<br/>per Acre</b> | <b>Total Sales Price</b> | <b>10% down</b> | <b>Annual<br/>Payments @<br/>10% Int.</b> | <b>Total Annual<br/>Revenue</b> |
|--|-------------|-----------------------------------|--------------------------------|--------------------------|-----------------|---|---------------------------------|
|  | 1           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     |   | 115,225,000                     |
|  | 2           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 256,381,372                     |
|  | 3           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 397,537,744                     |
|  | 4           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 538,694,116                     |
|  | 5           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 679,850,488                     |
|  | 6           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 821,006,860                     |
|  | 7           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 962,163,232                     |
|  | 8           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 1,103,319,604                   |
|  | 9           | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 1,244,475,976                   |
|  | 10          | 250,000                           | 4,609                          | 1,152,250,000            | 115,225,000     | 141,156,372                               | 1,385,632,348                   |

.. Senator Parnell by request ..



### Alas Alaska

It took a bargain struck by Seward and  
A Russian king for us to have this land  
Where we can live with whale and bear and tide,  
And sleep beneath a sun that cannot hide.

Still unfulfilled, we waited out the day  
That statehood's passage brought the feds to bay  
Before that boon, things never had been right,  
'Cause distant rule's as bad as rule by might.

Foundation laid, we turned to work and play.  
But now we know there's one more stone to lay:  
Without a full and steady flow of cash,  
Economy and government will crash.

We have the means, which Prudhoe's wells provide,  
Yet how to end this roller coaster ride?  
Look not too far - the answer's here and plain:  
Just spend no more than our wealth will sustain.

When considering statehood for Alaska, Congress knew that we would need wealth, as well as the tax power, to provide the money required for government. Therefore, it gave us land containing natural resources.

The amount of money that derives from the sale of those natural resources is enormous, **but it fluctuates**. Nevertheless the State treats the money as revenue to be spent rather than as capital to be invested. Consequently, spending goes up and down. Governmental programs, and an economy that depends on continuous spending, are always in jeopardy.

"Money is with propriety considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions." Those are the words of Alexander Hamilton in that classic treatise on government, "The Federalist". He warned that unless the "supply" of money is both "adequate" and "**regular**" (emphasis added), a government will "--- sink into a fatal atrophy, and in a short course of time perish."

The stone that is missing from Alaska's foundation is STABILITY, both fiscal and economic.

# Proposal

## How government is financed in Alaska

The state enjoys a silent endowment composed of the proceeds of the disposition of its natural resources.

The federal government gave the natural resources to the state. It was understood that in addition to the taxing power, which every state has, Alaska would need wealth to pay for government. Several funds make up the endowment, which has not been formalized: the Budget Reserve Fund, the General Fund (the natural resource proceeds in it), the Alaska Permanent Fund and the Earnings Reserve Account.

## There's a problem

The Legislature can invade the endowment's principal and spend it as if it were revenue.

Part of the principal (the part that is the Permanent Fund) cannot be spent. The state constitution prohibits it.

The amount of that spendable principal varies considerably because the natural resource proceeds, which feed the endowment, fluctuate.

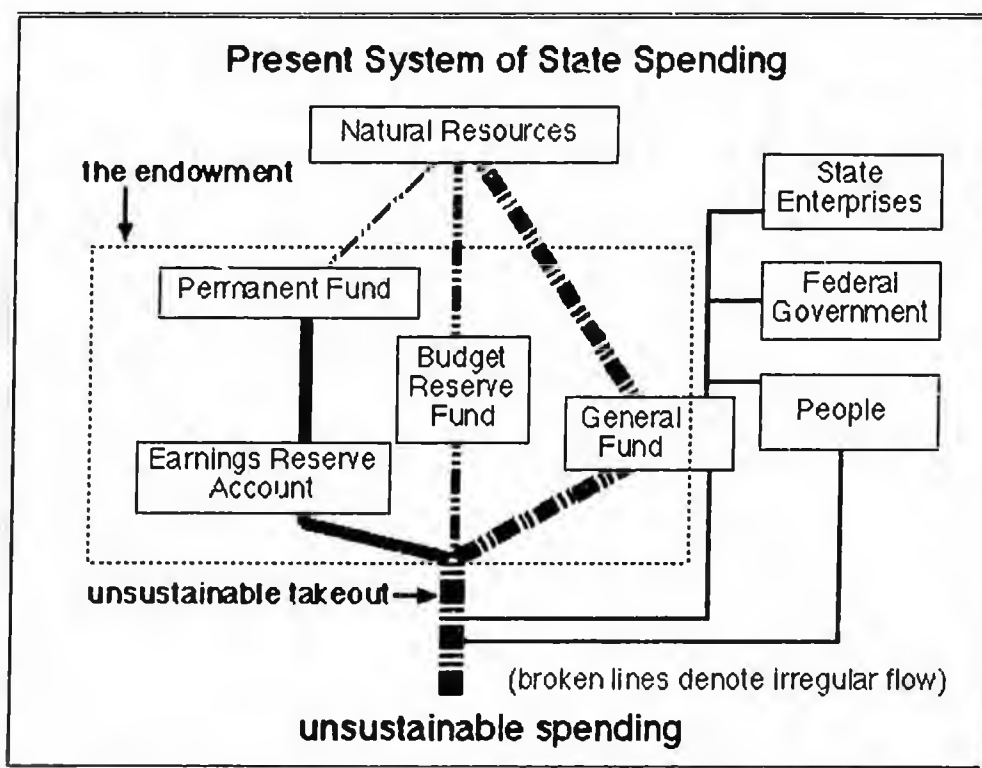
When there's a lot of spendable principal, particularly in the General Fund, the Legislature spends more than what is sustainable -- indeed it has no way to determine what is sustainable.

Subsequently, when there's much less spendable principal, spending must be cut.

State programs and services are curtailed.

And the economy suffers, because it's dependent on continuous state spending.

Spending was cut in 1986. The economy collapsed.



## The solution

Have the Legislature spend from the endowment at a sustainable rate.

In this outline, rate of spending is amount spent per year. The rate is sustainable if it's reasonable to expect that it generally won't decrease, in real (inflation-adjusted) terms.

**And that takes a new system of spending**

- The endowment has to be formalized.

That would consolidate all of the endowment's assets into a single fund (call it the Alaska Fund), retain in the endowment both investment income and gains, and prohibit spending from the endowment.

- And invested for long-term appreciation.
- Each year, its expected real growth from investment would be taken out for spending.

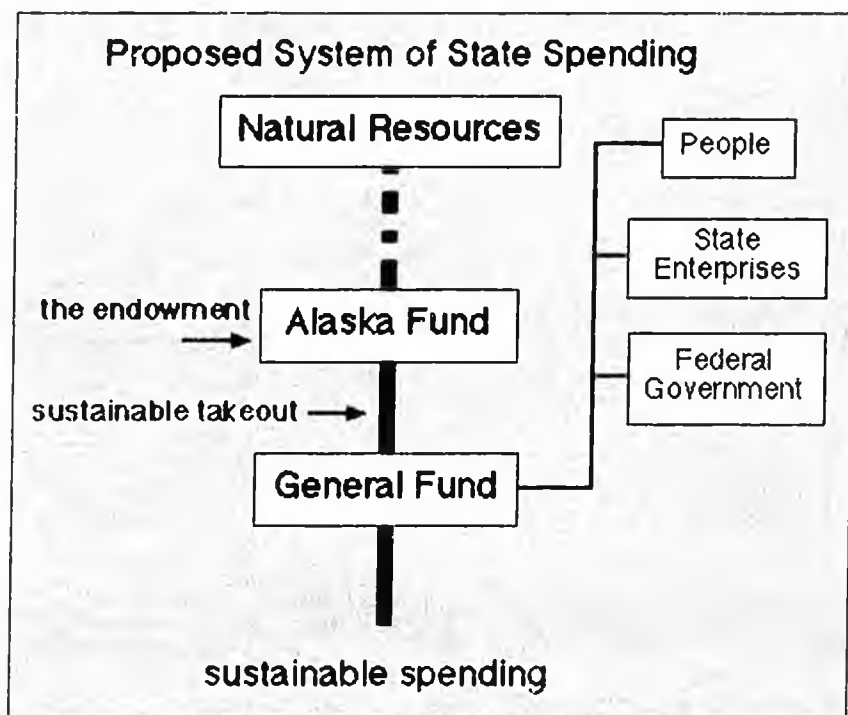
The expected real growth of the endowment from investment would be a function of an assumed rate of real total return (the same rate would apply in all years) and the average of the endowment's market value at the end of each of a prescribed number of preceding quarters.

- That rate of spending from the endowment would be the highest sustainable.

Highest, because taking out more than the growth from investment could jeopardize an endowment fed by fluctuating natural resource proceeds. Sustainable, because it's reasonable to expect that the size of the endowment, as averaged, generally wouldn't decrease, in real terms (although in a given year it would decrease, at least in real terms, if the growth from investment were less than the amount taken out and if that year's natural resource proceeds didn't make up the difference).

- If an accumulated surplus of revenue from the endowment and other sources exceeded a prescribed amount, the excess would be added to the endowment.

In the event of a substantial increase in price or production of oil, the endowment could grow so much that the state would have more revenue than it needs. Arguably, that would be the case now if this system had been installed before North Slope production began. The excess, if not added to the endowment, would accumulate and eventually be spent, again raising the rate of spending to an unsustainable level.



**The effect of the new system**

• Curtailment of state programs and services, and resulting economic busts, would be much less likely to occur.

**An incidental advantage**

• A meaningful budget would become feasible, because during the budgetary process the Legislature would be able to make a reasonably accurate estimate of revenue available for spending.

**Transition to the new system**

• During a period of many years the rate of spending from the endowment would be gradually decreased, at least in real terms, to the rate that is the highest sustainable.

A transition is necessary because the current rate of spending from the endowment is much greater than what is sustainable.

• The length of the period would be determined with the objective of providing the most money for spending during the period, yet allowing the endowment to grow.

Incongruously, a determination of the length of the transitional period must be based, in part, on the official forecast of natural resource proceeds.

**Method of adoption**

• The new system, with the transition, requires a constitutional amendment, because it limits the authority of the Legislature.

Constitutional amendments are proposed by the Legislature and approved by the people.

**Obstacles**

• The temptation to keep on spending from the endowment at an unsustainable rate rather than face the cuts that adoption of the new system would entail.

The cuts would be substantial, but manageable. As compared with the devastatingly abrupt cuts, which might occur under the present system, they would be gradual.

• The misconception that the new system necessarily would eliminate the dividend program.

That program, like most other governmental programs, is not constitutionally protected. Both now and under what's proposed, it is for the Legislature to decide whether to continue or eliminate it. And the fact that the Permanent Fund would no longer exist, having been consolidated with other funds into a new fund, is irrelevant. The revenue from the new fund would be the same as the revenue from the Permanent Fund - public money available for spending on public services and programs. (Including the dividend program. No one seems to doubt the authority of the Legislature to spend public money on that.)

**NEXT** constitutional amendment

# CONSTITUTION OF THE STATE OF ALASKA

(proposed amendment)

## ARTICLE IX, SECTION 18 - ALASKA FUND

**(a) Money derived by the State**

(1) from the disposition, by the State or the United States, of land, minerals, forestial resources or biological marine resources; and

(2) from taxes

(A) on the reservation, production, transportation or processing of those natural resources; and

(B) on property used in, or corporate income from, the exploration, production, disposition, transportation or processing of those natural resources; and

(3) from claims, against the United States or others, for deprivation of that money, or that land or those natural resources; and

(4) from the liquidation of State enterprises

shall constitute the Alaska Fund, which shall be invested and reinvested for long-term appreciation. Investment income and realized appreciation shall be retained in the fund and reinvested. Investments shall be made in accordance with standards prescribed by law.

**(b)** The fund's assets shall not be appropriated, except that every fiscal year an amount equal to 5.5 percent of the average of the fund's market value at the end of each of the quarters of the three calendar years immediately preceding shall be permanently withdrawn from the fund as revenue.

**(c)** For the purposes of (a), oil, gas, coal, sand, gravel, stone and water, without limitation, are minerals.

## ARTICLE IX, SECTION 19 - SURPLUS

To the extent that, at the end of a fiscal year, accumulated surplus of unrestricted revenue is greater in amount than five percent of unrestricted revenue expended that year, it shall be added to the Alaska Fund.

## ARTICLE XV, SECTION 29 - SPENDING (TRANSITION)

**(a)** The percentage prescribed in Article IX, Section 18, added in 2000, for determining the amount of money withdrawn annually from the Alaska Fund, shall be inapplicable in fiscal years 2002 through 2014. The applicable percentage shall be 9.6 in the first year of that period and decrease each fiscal year thereafter, geometrically, until the first year after that period, when it shall attain its permanent value.

**(b)** The assets of the Alaska Permanent Fund (Article IX, Section 15), the Budget Reserve Fund (Article IX, Section 17) and the Earnings Reserve Account (AS 37.13.145) shall be transferred to the Alaska Fund.

**(c)** For the purpose of establishing the value of the Alaska Fund, as required by Article IX, Section 18, added in 2000, the fund shall be deemed to have existed in fiscal years 1999, 2000 and 2001, and to have been composed of the then assets of the Alaska Permanent Fund, the Budget Reserve Fund and the Earnings Reserve Account. Also for that purpose, in fiscal years 2000, 2001 and 2002, average value shall be based on value at the end of a fiscal year rather than, as required by Section 18, at the end of a calendar quarter.

**(d)** Article IX, Sections 18 & 19, added in 2000, shall not affect existing dedications.

**(e)** Article IX, Sections 15, 16 & 17, and Article XV, Sections 27 & 28, are repealed.

**(f)** Article IX, Sections 18 & 19, added in 2000, and this section shall be effective July 1, 2001.

**NEXT** endowment

Data: Dept. of Revenue (projections: fall, 1998)  
 Transitional withdrawal: 10.0% in 2002 to sustainable withdrawal in 2016  
 Sustainable withdrawal: 5.5%  
 Total return: 9.0%  
 Inflation: 3.0%  
 Alaska Permanent Fund, cost, end 1999, 2000, & 2001, respectively: 19,021; 19,839;  
 20,724  
 Alaska Permanent Fund, unrealized appreciation, end 1999, 2000, & 2001, respectively:  
 2,600; 2,998; 3,436  
 Budget Reserve Fund, cost, end 1999, 2000, & 2001, respectively: 2,943; 2,237; 1,629  
 Earnings Reserve Account, cost, end 1999, 2000, & 2001, respectively: 1,936; 1,795; 1,691

Unit: one million dollars

### Proposed System of State Spending Endowment

| Fiscal Year | 1<br>Begin | 2<br>Resource<br>Proceeds | 3<br>Withdrawal<br>(7x6) | 4<br>Total Return<br>[rate x (1+2-3)] | 5<br>End<br>(1+2-3+4) | 6<br>End<br>(3-yr. average) | 7<br>Withdrawal<br>Percentage | 8<br>End<br>(FY 2002 \$) |
|-------------|------------|---------------------------|--------------------------|---------------------------------------|-----------------------|-----------------------------|-------------------------------|--------------------------|
| 1999        |            |                           |                          |                                       | 26,500                |                             |                               |                          |
| 2000        |            |                           |                          |                                       | 26,869                |                             |                               |                          |
| 2001        |            |                           |                          |                                       | 27,480                |                             |                               |                          |
| 2002        | 27,480     | 1,248                     | 2,695                    | 2,343                                 | 28,376                | 26,950                      | 10.0                          | 28,376                   |
| 2003        | 28,376     | 1,258                     | 2,642                    | 2,429                                 | 29,421                | 27,575                      | 9.6                           | 28,564                   |
| 2004        | 29,421     | 1,242                     | 2,610                    | 2,525                                 | 30,578                | 28,426                      | 9.2                           | 28,822                   |
| 2005        | 30,578     | 1,127                     | 2,592                    | 2,620                                 | 31,734                | 29,458                      | 8.8                           | 29,041                   |
| 2006        | 31,734     | 1,066                     | 2,578                    | 2,720                                 | 32,942                | 30,577                      | 8.4                           | 29,268                   |
| 2007        | 32,942     | 1,026                     | 2,565                    | 2,826                                 | 34,229                | 31,751                      | 8.1                           | 29,526                   |
| 2008        | 34,229     | 974                       | 2,552                    | 2,939                                 | 35,590                | 32,968                      | 7.7                           | 29,806                   |
| 2009        | 35,590     | 926                       | 2,540                    | 3,058                                 | 37,034                | 34,254                      | 7.4                           | 30,112                   |
| 2010        | 37,034     | 852                       | 2,531                    | 3,182                                 | 38,537                | 35,618                      | 7.1                           | 30,421                   |
| 2011        | 38,537     | 814                       | 2,523                    | 3,314                                 | 40,142                | 37,054                      | 6.8                           | 30,766                   |
| 2012        | 40,142     | 793                       | 2,517                    | 3,458                                 | 41,876                | 38,571                      | 6.5                           | 31,160                   |
| 2013        | 41,876     | 758                       | 2,512                    | 3,611                                 | 43,732                | 40,185                      | 6.3                           | 31,593                   |
| 2014        | 43,732     | 722                       | 2,511                    | 3,775                                 | 45,718                | 41,917                      | 6.0                           | 32,066                   |
| 2015        | 45,718     | 706                       | 2,513                    | 3,952                                 | 47,864                | 43,776                      | 5.7                           | 32,593                   |
| 2016        | 47,864     | 669                       | 2,517                    | 4,141                                 | 50,157                | 45,771                      | 5.5                           | 33,160                   |
| 2017        | 50,157     | 641                       | 2,635                    | 4,335                                 | 52,498                | 47,913                      | 5.5                           | 33,697                   |
| 2018        | 52,498     | 616                       | 2,760                    | 4,532                                 | 54,887                | 50,173                      | 5.5                           | 34,204                   |
| 2019        | 54,887     | 594                       | 2,888                    | 4,733                                 | 57,325                | 52,514                      | 5.5                           | 34,683                   |
| 2020        | 57,325     | 574                       | 3,020                    | 4,939                                 | 59,819                | 54,903                      | 5.5                           | 35,137                   |

## Notes

**Endowment.** The State has an endowment, but it has not been formalized. It is composed of the proceeds of the disposition of natural resources. Various funds make up the endowment. In the proposed system the assets of the Budget Reserve Fund, the Alaska Permanent Fund and the Earnings Reserve Account are transferred (as presented here, at the beginning of fiscal 2002) to a new fund, the Alaska Fund, which then constitutes the endowment.

In the proposed system all natural resource proceeds go into the endowment, and all investment income and gains remain in the endowment.

**Value of the endowment.** In the proposed system the average market value of the endowment at the end of a prescribed number of preceding calendar quarters (as presented here, three fiscal years) is the basis for determining the amount that is withdrawn from it for spending.

**Natural resource proceeds.** The natural resource proceeds are deposited into the endowment when they are received (as presented here, each year's receipts are treated as if they are deposited at the beginning of the fiscal year).

**Withdrawal from the endowment.** In the proposed system the amount withdrawn from the endowment for spending in a fiscal year is a function of the withdrawal percentage and the value of the endowment. Withdrawals are made as the money is needed for spending during the year (as presented here, withdrawals are treated as if they are made at the beginning of the year).

**Assigned values.** The values assigned here to length of transition, sustainable withdrawal percentage, rate of total return, et cetera, should be taken as illustrative only. Thus, it's the same system whether the sustainable withdrawal percentage is six or five.

|             |   |
|-------------|---|
| <b>NEXT</b> | <a href="#"><u>fiscal gap</u></a>               |
| <b>BACK</b> | <a href="#"><u>constitutional amendment</u></a> |
| <b>BACK</b> | <a href="#"><u>proposal</u></a>                 |
| <b>BACK</b> | <a href="#"><u>opening page</u></a>             |

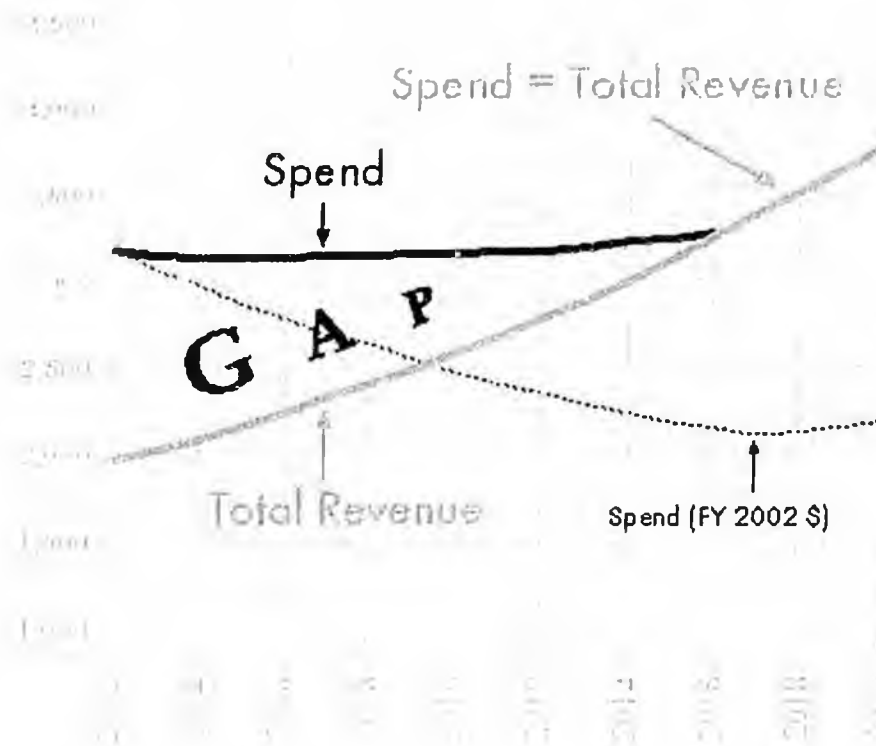
Data: Dept. of Revenue (projections: fall, 1998)  
 Transitional withdrawal: 10.0% in 2002 to sustainable withdrawal in 2016  
 Sustainable withdrawal: 5.5%  
 Total return: 9.0%  
 Inflation: 3.0%  
 Conventional revenue increase: 3.0% during transition and 1.0% after transition  
 Alaska Permanent Fund, cost, end 1999, 2000, & 2001, respectively: 19,021; 19,839;  
 20,724  
 Alaska Permanent Fund, unrealized appreciation, end 1999, 2000, & 2001, respectively:  
 2,600; 2,998; 3,436  
 Budget Reserve Fund, cost, end 1999, 2000, & 2001, respectively: 2,943; 2,237; 1,629  
 Earnings Reserve Account, cost, end 1999, 2000, & 2001, respectively: 1,936; 1,795; 1,691

Unit: one million dollars

### Proposed System of State Spending Fiscal Gap

| Fiscal Year | 1<br>Endowment<br>Withdrawal<br>(sustainable) | 2<br>Conventional<br>Revenue | 3<br>Total<br>Revenue<br>(1+2) | 4<br>Spend<br>(3+6) | 5<br>Gap<br>(3-4) | 6<br>Endowment<br>Withdrawal<br>(unsustainable) | 7<br>Spend<br>(FY 2002 \$) |
|-------------|---|------------------------------|--------------------------------|---------------------|-------------------|---|----------------------------|
| 1999        |   |                              |                                | 3,296               |                   |   |                            |
| 2000        |   |                              |                                | ?                   |                   |   |                            |
| 2001        |   |                              |                                | ?                   |                   |   |                            |
| 2002        | 1,482   | 484                          | 1,966                          | 3,179               | -1,213            | 1,213   | 3,179                      |
| 2003        | 1,517   | 498                          | 2,015                          | 3,140               | -1,126            | 1,126   | 3,049                      |
| 2004        | 1,563   | 513                          | 2,077                          | 3,123               | -1,046            | 1,046   | 2,944                      |
| 2005        | 1,620   | 529                          | 2,149                          | 3,120               | -971              | 971   | 2,855                      |
| 2006        | 1,682   | 544                          | 2,226                          | 3,122               | -896              | 896   | 2,774                      |
| 2007        | 1,746   | 561                          | 2,307                          | 3,125               | -818              | 818   | 2,696                      |
| 2008        | 1,813   | 578                          | 2,391                          | 3,129               | -738              | 738   | 2,621                      |
| 2009        | 1,884   | 595                          | 2,478                          | 3,135               | -656              | 656   | 2,549                      |
| 2010        | 1,959   | 613                          | 2,572                          | 3,144               | -572              | 572   | 2,482                      |
| 2011        | 2,038   | 631                          | 2,669                          | 3,154               | -485              | 485   | 2,417                      |
| 2012        | 2,121   | 650                          | 2,771                          | 3,167               | -395              | 395   | 2,356                      |
| 2013        | 2,210   | 670                          | 2,880                          | 3,182               | -302              | 302   | 2,299                      |
| 2014        | 2,305   | 690                          | 2,995                          | 3,201               | -206              | 206   | 2,245                      |
| 2015        | 2,408   | 710                          | 3,118                          | 3,223               | -105              | 105   | 2,195                      |
| 2016        | 2,517   | 717                          | 3,235                          | 3,235               | 0                 | 0   | 2,139                      |
| 2017        | 2,635   | 725                          | 3,360                          | 3,360               | 0                 | 0   | 2,157                      |
| 2018        | 2,760   | 732                          | 3,491                          | 3,491               | 0                 | 0   | 2,176                      |
| 2019        | 2,888   | 739                          | 3,627                          | 3,627               | 0                 | 0   | 2,195                      |
| 2020        | 3,020   | 747                          | 3,766                          | 3,766               | 0                 | 0   | 2,212                      |
|             |   |                              | 52,093                         | 61,624              |                   |   |                            |

Endowment, end 2020: 59,819



### Notes

**Endowment Withdrawal (sustainable).** During transition, which as presented here begins in fiscal 2002, the withdrawal from the endowment has a sustainable and an unsustainable component.

**Conventional Revenue.** Conventional revenue is the revenue that derives from sources separate from the endowment. As presented here, for fiscal 2002, conventional revenue is equal to the conventional revenue officially estimated for fiscal 2001, increased at the rate of inflation. It increases each year at that rate until transition ends. After transition it increases at a lower rate. (The increase beyond what is officially estimated is included only to illustrate the effect that it has on the fiscal gap and is not a component of the proposed system.)

**Total Revenue.** In the proposed system this consists of conventional revenue and the sustainable amount withdrawn from the endowment.

**Spend.** The budget adopted for fiscal 1999 was \$3.296 billion, which includes the dividend program. To hit the target suggested here of \$3.179 billion in fiscal 2002, it would be necessary to reduce spending by \$117 million in fiscal 2000 and 2001, combined. And this assumes that the fiscal 1999 budget is not supplemented.

The budget, as presented here, consists of the expenditures in the so-called "general fund budget" and the expenditure for the dividend program. It does not include (1) the expenses of state enterprises, to the extent that they are funded by their own income or reserves and (2) expenditures for various services and programs, to the extent that they are either federally funded or for which revenue is dedicated, legally or otherwise.

During the transitional period spending is equal to total revenue and the unsustainable amount withdrawn from the endowment, combined. Thereafter,

spending is equal to total revenue.

**Gap.** A fiscal gap is the amount by which spending exceeds revenue. Temporarily, it can be bridged by spending capital (taking more than a sustainable amount out of the endowment). Permanent closure is achieved when spending is limited to the sustainable withdrawal from the endowment and conventional revenue, combined.

There is a misconception that the fiscal gap can be closed, permanently, by lowering the level of spending (or increasing revenue). Overlooked is the fact that the fluctuating natural resource proceeds, which the state mistakenly treats as revenue, can decrease enough in a single year, let alone in the long term, to produce a fiscal gap at almost any level of spending.

Under the present system with natural resource proceeds treated as revenue, it is folly to think that the gap can be closed permanently. The official estimate is that such "revenue" will decrease radically in the years to come. Thus, it is inevitable that a fiscal gap would follow a "permanent closure". And a sudden drop in the price of oil could reopen the gap even sooner.

The proceeds of natural resources are not sustainable. However, the income from their investment, which is revenue, is sustainable.

**Endowment Withdrawal (unsustainable).** During the transitional period the unsustainable component of the withdrawal from the endowment serves to bridge the fiscal gap as it gradually narrows. When the transitional period ends, the gap closes, permanently.

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Web Site:

Written by Roger Cremo

(last updated 12/27/98)

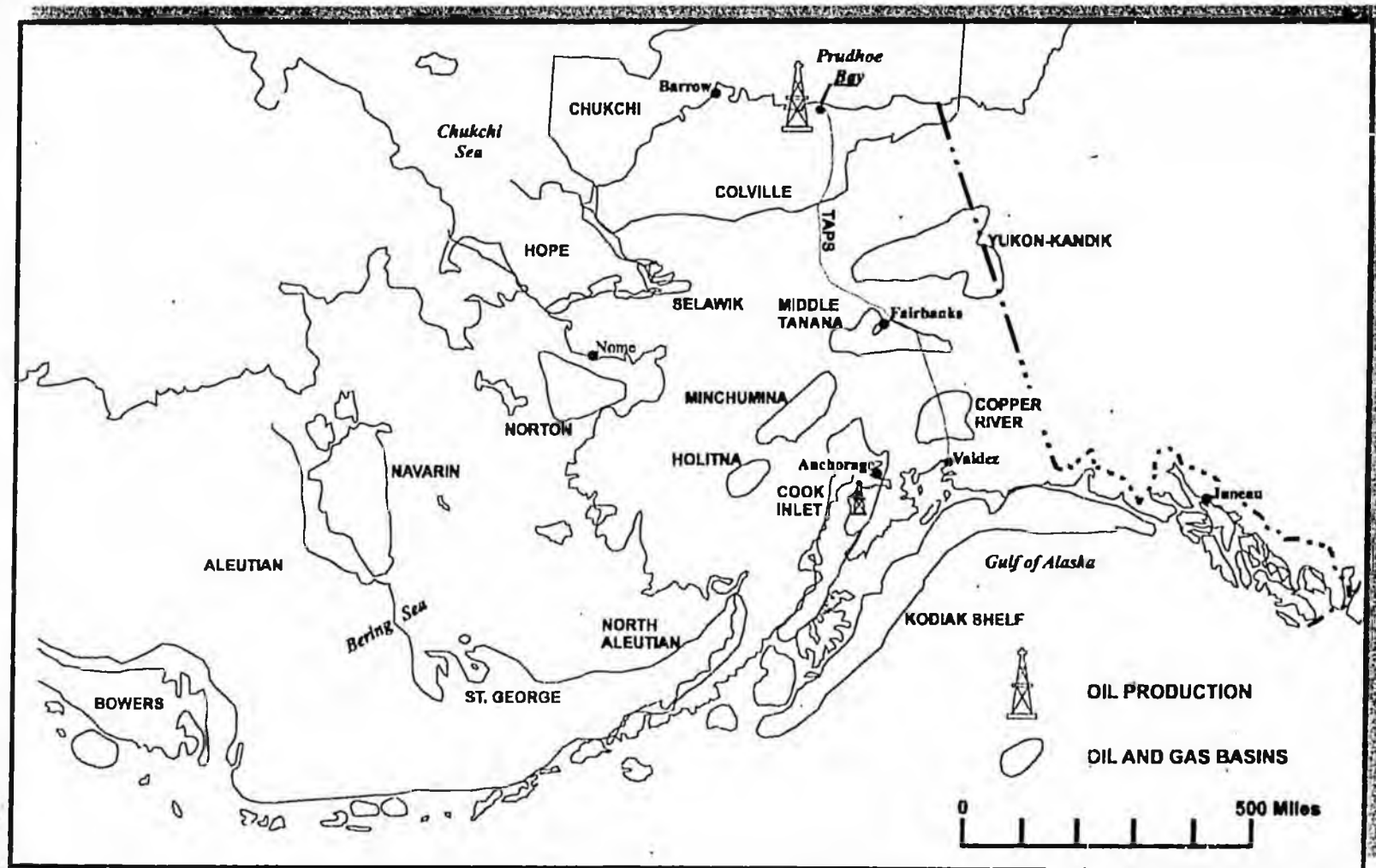
Source Code and Graphic Arts

by

[para-comm unlimited](#)








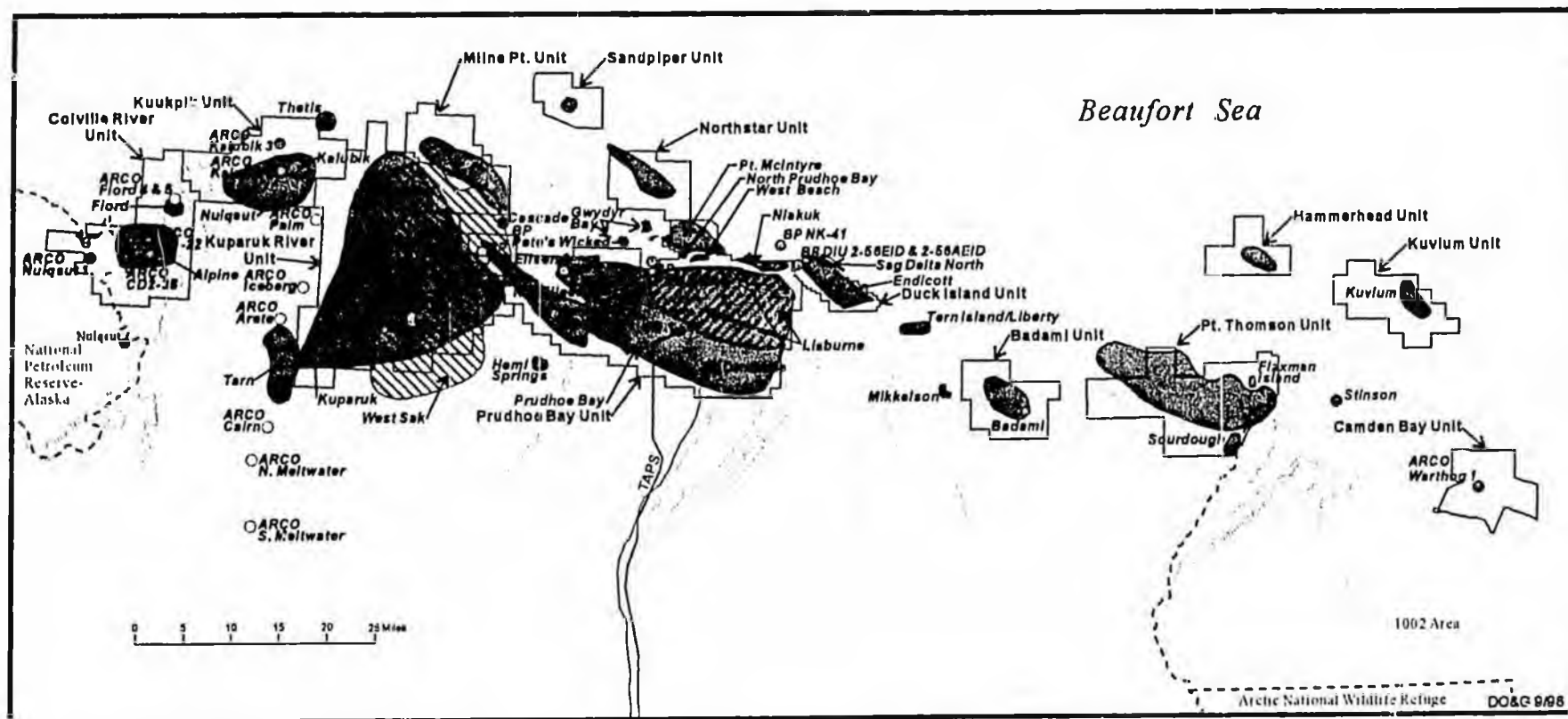
# Alaska Oil and Gas Basins



# Northern Alaska Activity

**Map Legend**

-  Units
-  Oil Field / Accumulation
-  Selected Wells
-  Proposed / Active Wells

# Month/Year

## Constitutional Budget Reserve Exhausted

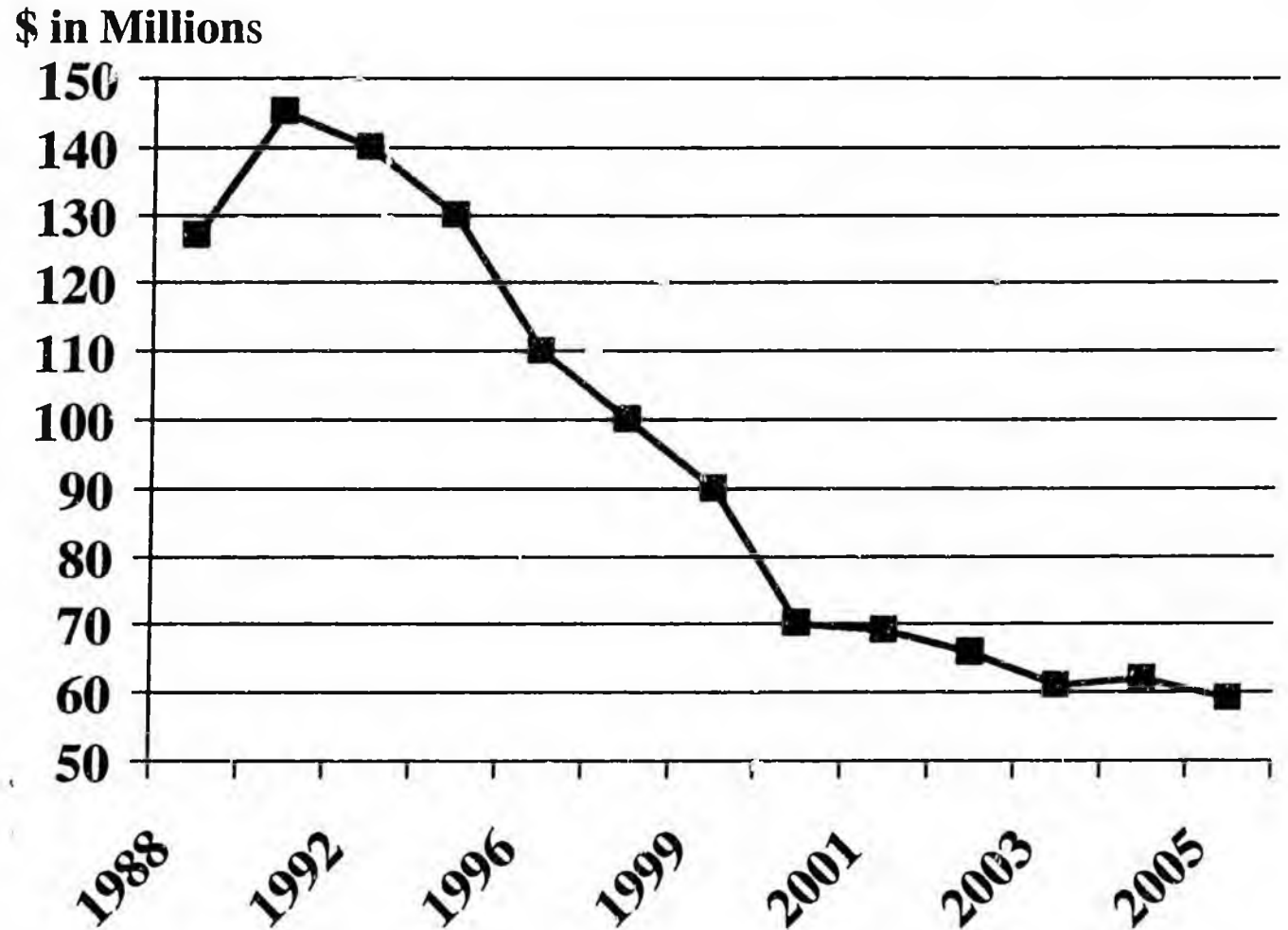
| <b>Operating<br/>Budget Annual<br/>Change</b> | <b>Average ANS Oil Price at West Coast<br/>Destination</b> |                |   |                |
|---|--|----------------|---|----------------|
|   | <b>\$10.50</b>   | <b>\$12.50</b> | <b>\$14.50<br/>Current<br/>Forecast</b> | <b>\$16.50</b> |
| <b>Up 1%</b>                                  | <b>Nov-01</b>  | <b>Mar-02</b>  | <b>Jul-02</b>                           | <b>Feb-03</b>  |
| <b>0.0%</b>                                   | <b>Dec-01</b>  | <b>Apr-02</b>  | <b>Sep-02</b>                           | <b>May-03</b>  |
| <b>Majorities'<br/>Budget-Cut Plan</b>        | <b>Jan-02</b>  | <b>Jun-02</b>  | <b>Dec-02</b>                           | <b>Sep-03</b>  |

Matrix based on DOR Spring 1999 Production Forecast.

# Annualize \$1.00 per Barrel Impact on General Fund Unrestricted Revenue

FY 1988 - 2005

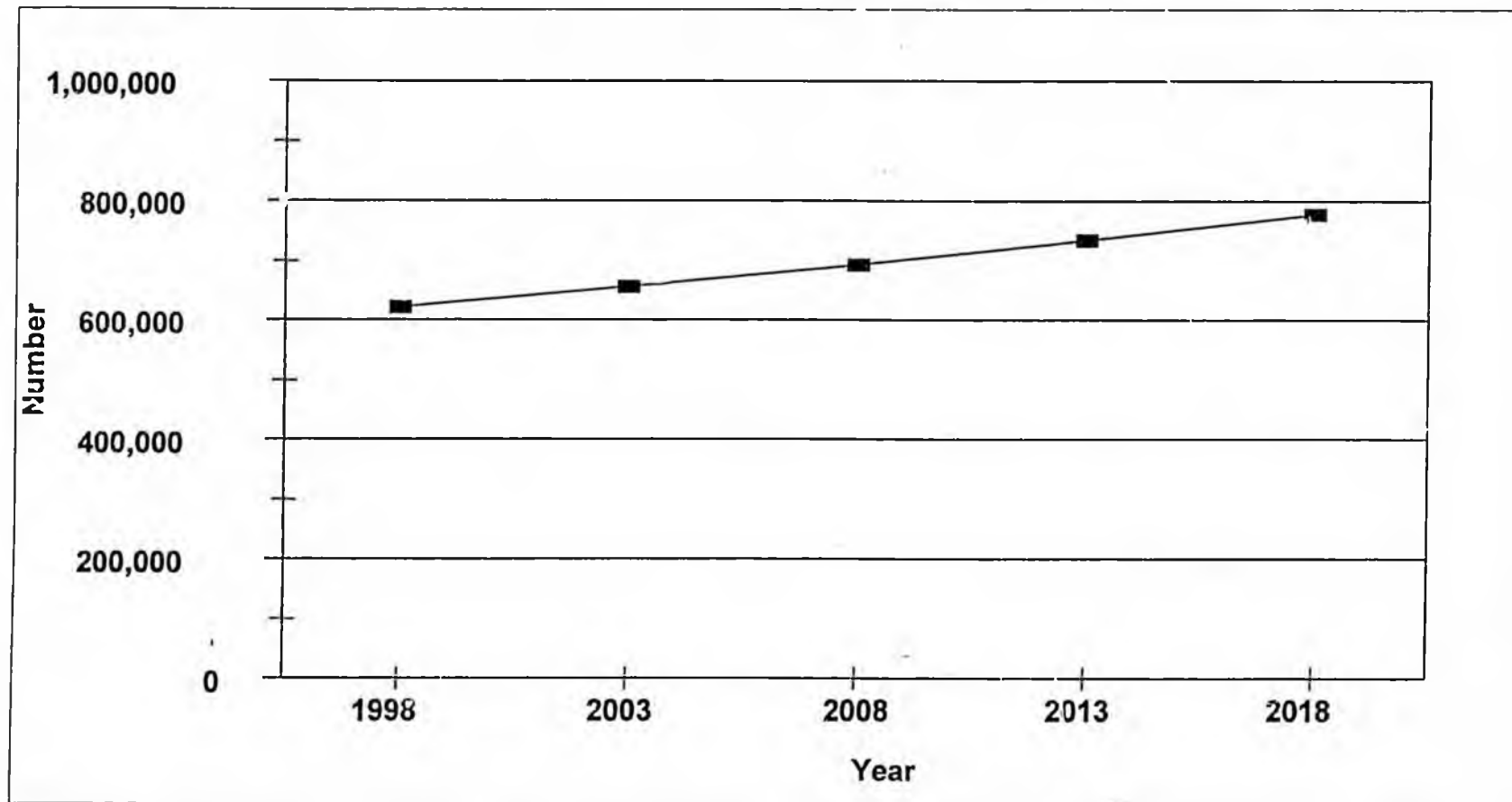
| Year | \$ in Millions |
|------|----------------|
| 1988 | 127            |
| 1990 | 145            |
| 1992 | 140            |
| 1994 | 130            |
| 1996 | 110            |
| 1998 | 100            |
| 1999 | 90             |
| 2000 | 70             |
| 2001 | 69             |
| 2002 | 66             |
| 2003 | 61             |
| 2004 | 62             |
| 2005 | 59             |



3/24/99  
SFC secretary



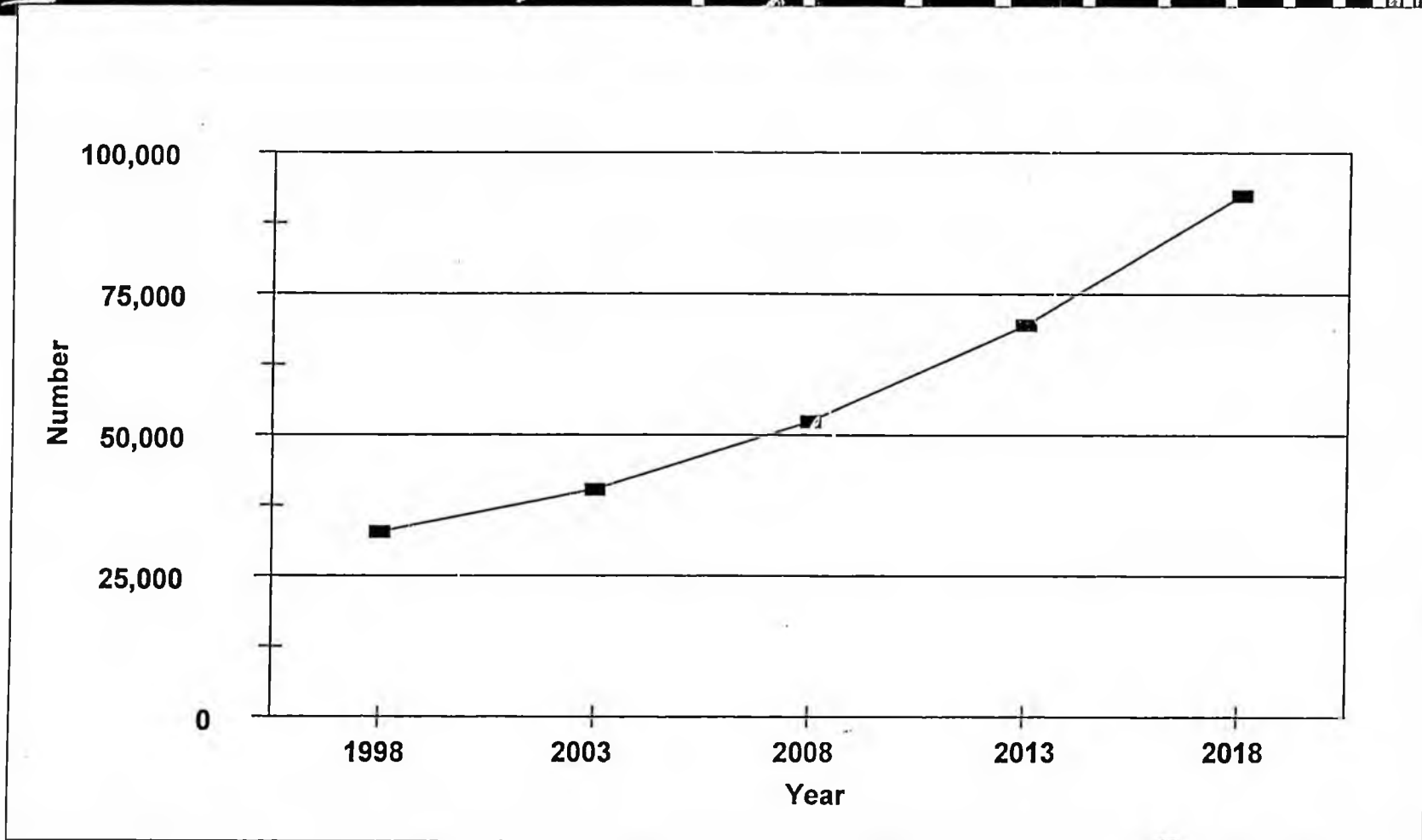
# Alaska Population Projections 1998 to 2018 - Statewide



Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

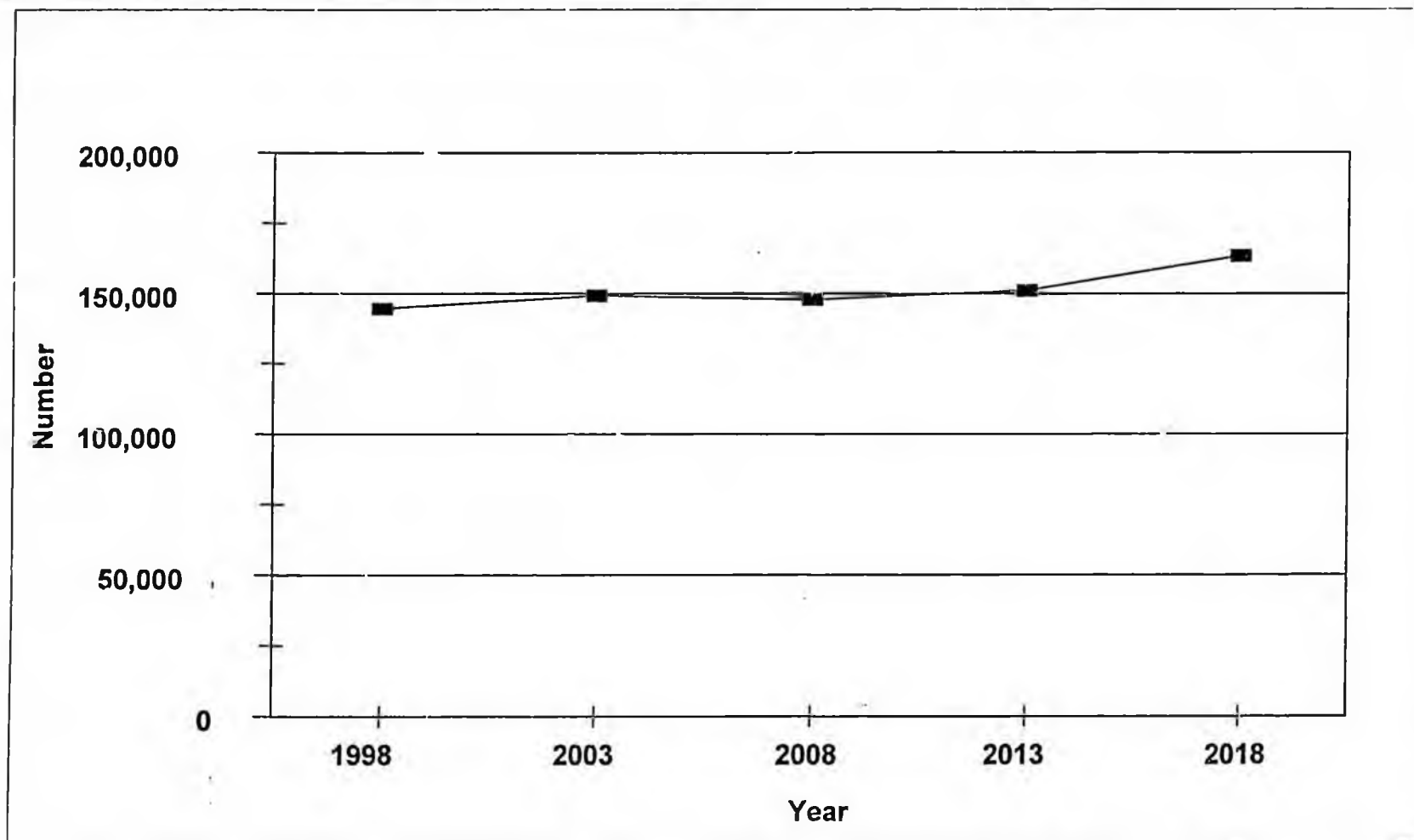


# Alaska Population Projections 1998 to 2018 - 65+ Years of Age





# Alaska Population Projections 1990 to 2018 - Age 5-17

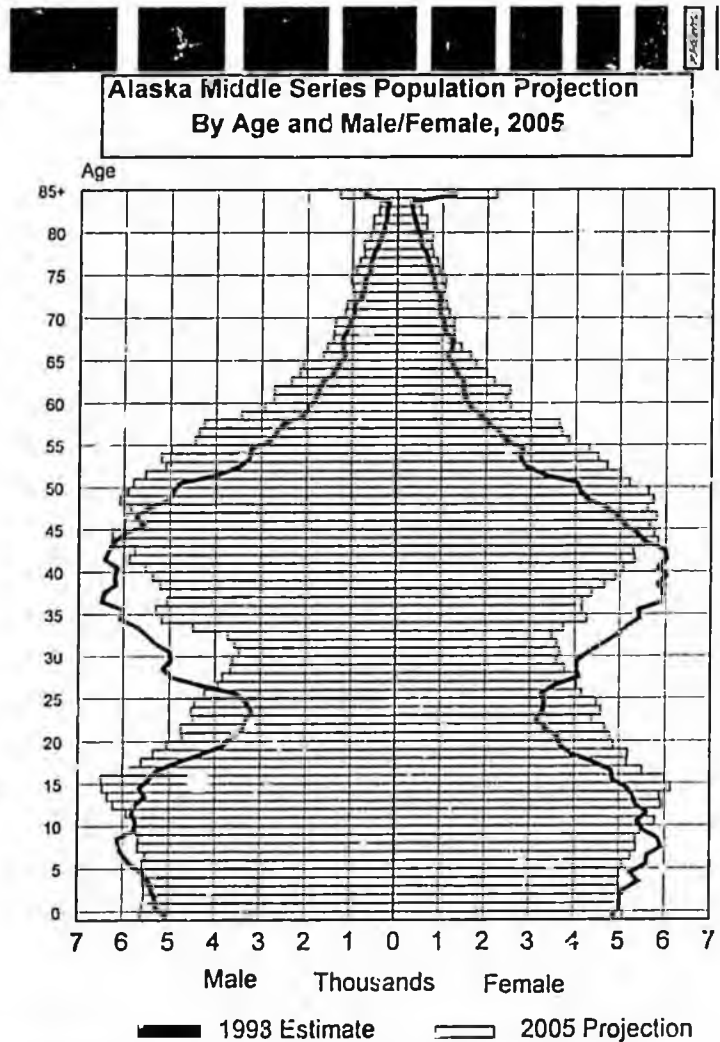


Alaska Department of Labor, Research and Analysis Section, Demographics Unit.



# Alaska Middle Series Population Projection by Age and Male/Female, 2005

- Baby Boom in their most productive years of employment
- Echo Boom in High School
- Fewer Elementary age children



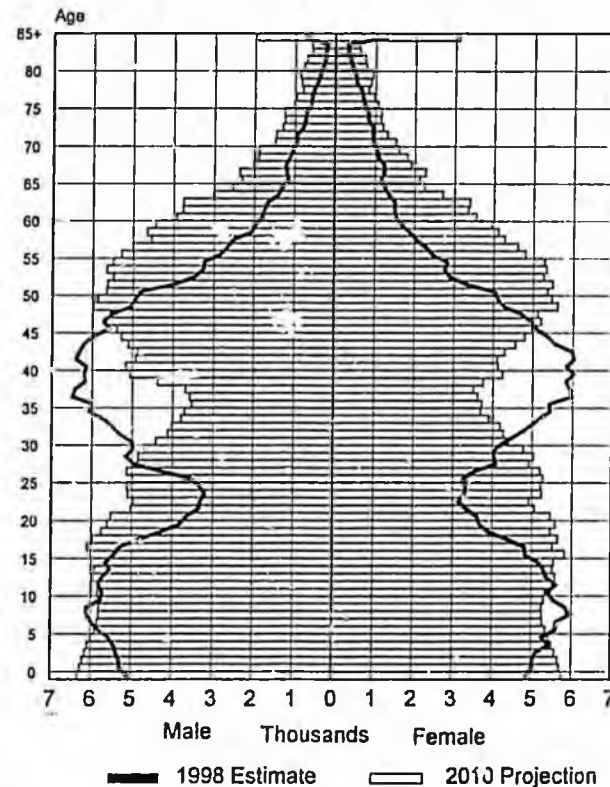
Alaska Department of Labor, Research & Analysis Section, Demographics Unit.



# Alaska Middle Series Population Projection by Age and Male/Female, 2010

- Leading edge of Baby Boom begins reaching retirement age
- Echo Boom enters the labor force
- Echo Boom begins to have families

Alaska Middle Series Population Projection  
By Age and Male/Female, 2010



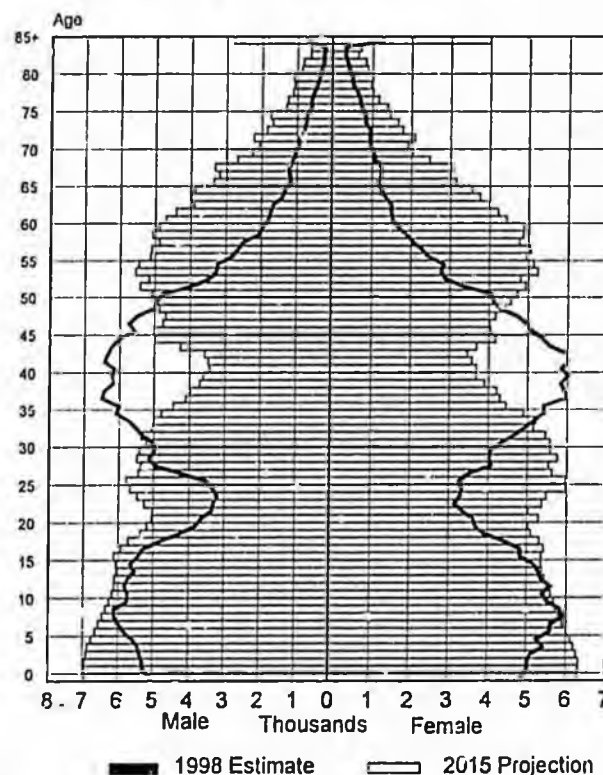
Alaska Department of Labor, Research & Analysis Section, Demographics Unit



# Alaska Middle Series Population Projection by Age and Male/Female, 2015

- Senior population begins to increase significantly
- Children of Echo Boom impacting schools

Alaska Middle Series Population Projection  
By Age and Male/Female, 2015



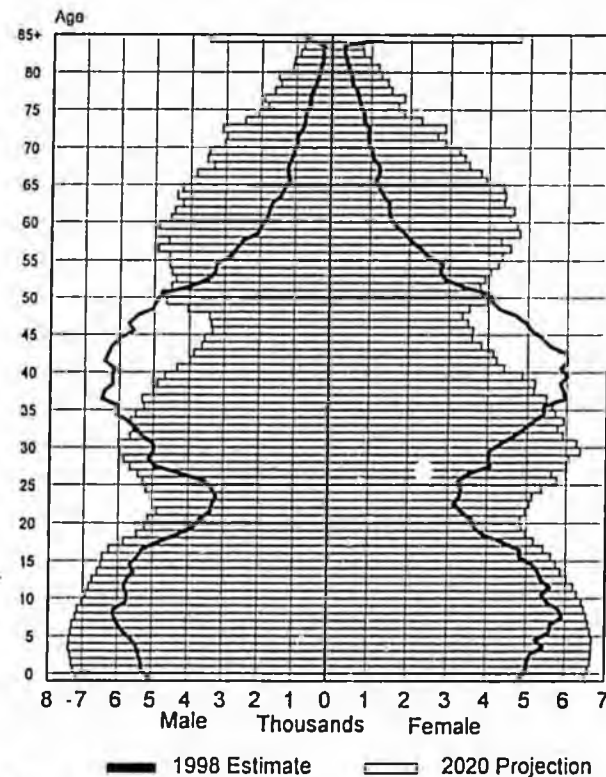
Alaska Department of Labor, Research & Analysis Section, Demographics Unit.



# Alaska Middle Series Population Projection by Age and Male/Female, 2020

- Baby Boom reaches their Golden Years
- Natural increase continues to drive school age population growth

Alaska Middle Series Population Projection  
By Age and Male/Female, 2020



Alaska Department of Labor, Research & Analysis Section, Demographics Unit

**Projected Population by Labor Market Region and Borough/Census Area  
Middle Case Scenario, July 1, 1998 - 2018**

| Labor Market Area                    | July 1           | July 1         | (%)                      | July 1         | (%)                      | July 1         | (%)                      | July 1         | (%)                      | State         | State         |
|--------------------------------------|------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|---------------|---------------|
|                                      | 1998<br>Estimate | 2003<br>Middle | Change<br>1998 -<br>2003 | 2008<br>Middle | Change<br>1998 -<br>2008 | 2013<br>Middle | Change<br>1998 -<br>2013 | 2018<br>Middle | Change<br>1998 -<br>2018 | Share<br>1998 | Share<br>2018 |
| <b>ALASKA</b>                        | 621,400          | 656,150        | 5.6                      | 693,018        | 11.5                     | 733,852        | 18.1                     | 776,488        | 25.0                     | 100.0         | 100.0         |
| Anchorage/Matanuska-Susitna Region   | 313,308          | 333,042        | 6.3                      | 353,770        | 12.9                     | 376,779        | 20.3                     | 401,631        | 28.2                     | 50.4          | 51.7          |
| Municipality of Anchorage            | 258,782          | 259,567        | 4.2                      | 279,707        | 8.1                      | 289,528        | 11.9                     | 298,875        | 15.5                     | 41.6          | 38.5          |
| Matanuska-Susitna Borough            | 54,526           | 63,475         | 16.4                     | 74,063         | 35.8                     | 87,251         | 60.0                     | 102,756        | 88.5                     | 8.8           | 13.2          |
| Gulf Coast Region                    | 73,028           | 76,771         | 5.1                      | 80,553         | 10.3                     | 84,737         | 16.0                     | 88,837         | 21.6                     | 11.8          | 11.4          |
| Kenai Peninsula Borough              | 48,815           | 52,382         | 7.3                      | 56,110         | 14.9                     | 60,234         | 23.4                     | 64,305         | 31.7                     | 7.9           | 8.3           |
| Kodiak Island Borough                | 13,848           | 14,030         | 1.3                      | 14,159         | 2.2                      | 14,277         | 3.1                      | 14,416         | 4.1                      | 2.2           | 1.9           |
| Valdez-Cordova Census Area           | 10,365           | 10,359         | -0.1                     | 10,284         | -0.8                     | 10,226         | -1.3                     | 10,116         | -2.4                     | 1.7           | 1.3           |
| Interior Region                      | 98,647           | 102,931        | 4.3                      | 106,963        | 8.4                      | 110,915        | 12.4                     | 114,459        | 16.0                     | 15.9          | 14.7          |
| Denali Borough                       | 1,864            | 1,993          | 6.9                      | 2,129          | 14.2                     | 2,303          | 23.6                     | 2,495          | 33.9                     | 0.3           | 0.3           |
| Fairbanks North Star Borough         | 83,928           | 88,012         | 4.9                      | 91,773         | 9.3                      | 95,367         | 13.6                     | 98,585         | 17.5                     | 13.5          | 12.7          |
| Southeast Fairbanks Census Area      | 6,402            | 6,814          | 6.4                      | 7,270          | 13.6                     | 7,753          | 21.1                     | 8,203          | 28.1                     | 1.0           | 1.1           |
| Yukon-Koyukuk Census Area            | 6,453            | 6,112          | -5.3                     | 5,791          | -10.3                    | 5,492          | -14.9                    | 5,176          | -19.8                    | 1.0           | 0.7           |
| Northern Region                      | 23,649           | 25,627         | 8.4                      | 28,098         | 18.8                     | 31,027         | 31.2                     | 34,236         | 44.8                     | 3.8           | 4.4           |
| Nome Census Area                     | 9,402            | 9,986          | 5.2                      | 10,725         | 14.1                     | 11,591         | 23.3                     | 12,527         | 33.2                     | 1.5           | 1.6           |
| North Slope Borough                  | 7,403            | 8,301          | 12.1                     | 9,421          | 27.3                     | 10,741         | 45.1                     | 12,211         | 64.9                     | 1.2           | 1.6           |
| Northwest Arctic Borough             | 6,844            | 7,340          | 7.2                      | 7,952          | 16.2                     | 8,695          | 27.0                     | 9,498          | 38.8                     | 1.1           | 1.2           |
| Southeast Region                     | 74,285           | 76,298         | 2.7                      | 78,687         | 5.9                      | 81,462         | 9.7                      | 83,976         | 13.0                     | 12.0          | 10.8          |
| Haines Borough                       | 2,476            | 2,606          | 5.3                      | 2,776          | 12.1                     | 2,961          | 19.6                     | 3,146          | 27.1                     | 0.4           | 0.4           |
| Juneau Borough                       | 30,236           | 31,388         | 3.8                      | 32,413         | 7.2                      | 33,475         | 10.7                     | 34,447         | 13.9                     | 4.9           | 4.4           |
| Kelchikan Gateway Borough            | 14,231           | 15,119         | 6.2                      | 16,428         | 15.4                     | 18,075         | 27.0                     | 19,774         | 39.0                     | 2.3           | 2.5           |
| Prince Of Wales-Outer Ketchikan C.A. | 6,884            | 7,067          | 2.7                      | 7,281          | 5.8                      | 7,485          | 8.7                      | 7,611          | 10.6                     | 1.1           | 1.0           |
| Sitka Borough                        | 8,779            | 8,590          | -2.2                     | 8,409          | -4.2                     | 8,226          | -8.3                     | 7,978          | -9.1                     | 1.4           | 1.0           |
| Skagway-Hoonah-Angoon C. A.          | 3,664            | 3,563          | -2.8                     | 3,459          | -5.6                     | 3,328          | -9.2                     | 3,140          | -14.3                    | 0.6           | 0.4           |
| Wrangell-Petersburg Census Area      | 7,205            | 7,045          | -2.2                     | 6,866          | -4.7                     | 6,706          | -6.9                     | 6,502          | -9.8                     | 1.2           | 0.8           |
| Yakutat Borough                      | 810              | 920            | 13.6                     | 1,055          | 30.2                     | 1,206          | 48.9                     | 1,378          | 70.1                     | 0.1           | 0.2           |
| Southwest Region                     | 38,483           | 41,481         | 7.8                      | 44,947         | 16.8                     | 48,932         | 27.2                     | 53,349         | 38.6                     | 6.2           | 6.9           |
| Aleutians East Borough               | 2,177            | 2,040          | -6.3                     | 1,918          | -11.9                    | 1,784          | -18.1                    | 1,738          | -20.2                    | 0.4           | 0.2           |
| Aleutian West Census Area            | 5,389            | 5,665          | 5.1                      | 5,908          | 9.6                      | 6,097          | 13.1                     | 6,242          | 15.8                     | 0.9           | 0.8           |
| Bethel Census Area                   | 15,997           | 17,438         | 9.0                      | 19,092         | 19.3                     | 21,043         | 31.5                     | 23,192         | 45.0                     | 2.6           | 3.0           |
| Bristol Bay Borough                  | 1,297            | 1,405          | 8.3                      | 1,506          | 16.1                     | 1,621          | 25.0                     | 1,734          | 33.7                     | 0.2           | 0.2           |
| Dillingham Census Area               | 4,708            | 5,027          | 6.8                      | 5,394          | 14.6                     | 5,842          | 24.1                     | 6,327          | 34.4                     | 0.8           | 0.8           |
| Lake & Peninsula Borough             | 1,852            | 1,962          | 5.9                      | 2,128          | 14.9                     | 2,282          | 23.2                     | 2,439          | 31.7                     | 0.3           | 0.3           |
| Wade Hampton Census Area             | 7,063            | 7,944          | 12.5                     | 9,000          | 27.4                     | 10,263         | 45.3                     | 11,677         | 65.3                     | 1.1           | 1.5           |

Source: Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

**Projected Population 65+ Years of Age by Labor Market Region and Borough/Census Area  
Middle Case Scenario, July 1, 1998 - 2018**

| Labor Market Area                  | July 1         | July 1         | (%)                      | July 1         | (%)                      | July 1         | (%)                      | July 1         | (%)                      | (%)                    | (%)                    |
|------------------------------------|----------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|------------------------|------------------------|
|                                    | 1998<br>Middle | 2003<br>Middle | Change<br>1998 -<br>2003 | 2008<br>Middle | Change<br>1998 -<br>2008 | 2013<br>Middle | Change<br>1998 -<br>2013 | 2018<br>Middle | Change<br>1998 -<br>2018 | State<br>Share<br>1998 | State<br>Share<br>2018 |
| <b>ALASKA</b>                      | 32,729         | 40,379         | 23.4                     | 52,298         | 59.8                     | 69,555         | 112.5                    | 92,356         | 182.2                    | 100.0                  | 100.0                  |
| Anchorage/Matanuska-Susitna Region | 15,692         | 19,953         | 27.2                     | 26,279         | 67.5                     | 35,210         | 124.4                    | 46,602         | 197.0                    | 47.9                   | 50.5                   |
| Municipality of Anchorage          | 12,703         | 16,146         | 27.1                     | 21,134         | 66.4                     | 28,058         | 120.9                    | 36,115         | 184.3                    | 38.8                   | 39.1                   |
| Matanuska-Susitna Borough          | 2,989          | 3,807          | 27.4                     | 5,145          | 72.1                     | 7,154          | 139.3                    | 10,487         | 250.9                    | 9.1                    | 11.4                   |
| Gulf Coast Region                  | 4,447          | 5,362          | 20.6                     | 6,913          | 55.5                     | 9,347          | 110.2                    | 12,685         | 185.2                    | 13.6                   | 13.7                   |
| Kenai Peninsula Borough            | 3,229          | 3,904          | 20.9                     | 5,022          | 55.5                     | 6,797          | 110.5                    | 9,318          | 188.6                    | 9.9                    | 10.1                   |
| Kodiak Island Borough              | 609            | 723            | 18.7                     | 913            | 49.9                     | 1,215          | 99.5                     | 1,615          | 165.2                    | 1.9                    | 1.7                    |
| Valdez-Cordova Census Area         | 609            | 735            | 20.7                     | 978            | 60.6                     | 1,335          | 119.2                    | 1,752          | 187.7                    | 1.9                    | 1.9                    |
| Interior Region                    | 4,400          | 5,305          | 20.6                     | 6,914          | 57.1                     | 9,074          | 106.2                    | 12,337         | 180.4                    | 13.4                   | 13.4                   |
| Denali Borough                     | 57             | 100            | 75.4                     | 184            | 222.8                    | 281            | 393.0                    | 501            | 778.9                    | 0.2                    | 0.5                    |
| Fairbanks North Star Borough       | 3,520          | 4,224          | 20.0                     | 5,472          | 55.5                     | 7,195          | 104.4                    | 9,766          | 177.4                    | 10.8                   | 10.6                   |
| Southeast Fairbanks Census Area    | 365            | 471            | 29.0                     | 675            | 84.9                     | 880            | 141.1                    | 1,157          | 217.0                    | 1.1                    | 1.3                    |
| Yukon-Koyukuk Census Area          | 458            | 510            | 11.4                     | 583            | 27.3                     | 718            | 56.8                     | 913            | 99.3                     | 1.4                    | 1.0                    |
| Northern Region                    | 1,211          | 1,424          | 17.6                     | 1,680          | 38.7                     | 2,118          | 74.9                     | 2,639          | 117.9                    | 3.7                    | 2.9                    |
| Nome Census Area                   | 544            | 617            | 13.4                     | 696            | 27.9                     | 851            | 56.4                     | 1,040          | 91.2                     | 1.7                    | 1.1                    |
| North Slope Borough                | 299            | 408            | 36.5                     | 540            | 80.6                     | 711            | 137.8                    | 917            | 206.7                    | 0.9                    | 1.0                    |
| Northwest Arctic Borough           | 368            | 399            | 8.4                      | 444            | 20.7                     | 556            | 51.1                     | 682            | 85.3                     | 1.1                    | 0.7                    |
| Southeast Region                   | 5,189          | 6,201          | 19.5                     | 7,930          | 52.8                     | 10,598         | 104.2                    | 13,869         | 167.3                    | 15.9                   | 15.0                   |
| Haines Borough                     | 246            | 277            | 12.6                     | 328            | 33.3                     | 436            | 77.2                     | 610            | 148.0                    | 0.8                    | 0.7                    |
| Juneau Borough                     | 1,821          | 2,167          | 19.0                     | 2,802          | 53.9                     | 3,903          | 114.3                    | 5,140          | 182.3                    | 5.6                    | 5.6                    |
| Ketchikan Gateway Borough          | 1,134          | 1,316          | 16.0                     | 1,735          | 53.0                     | 2,398          | 111.5                    | 3,211          | 183.2                    | 3.5                    | 3.5                    |
| Prince Of Wales-Outer Ketchikan C. | 354            | 501            | 41.5                     | 715            | 102.0                    | 919            | 159.6                    | 1,242          | 250.8                    | 1.1                    | 1.3                    |
| Sitka Borough                      | 700            | 868            | 24.0                     | 1,053          | 50.4                     | 1,295          | 85.0                     | 1,609          | 129.9                    | 2.1                    | 1.7                    |
| Skagway-Hoonah-Angoon C. A.        | 238            | 311            | 30.7                     | 404            | 69.7                     | 511            | 114.7                    | 629            | 164.3                    | 0.7                    | 0.7                    |
| Wrangell-Petersburg Census Area    | 652            | 703            | 7.8                      | 811            | 24.4                     | 1,019          | 56.3                     | 1,251          | 91.9                     | 2.0                    | 1.4                    |
| Yakutat Borough                    | 44             | 58             | 31.8                     | 82             | 86.4                     | 117            | 165.9                    | 177            | 302.3                    | 0.1                    | 0.2                    |
| Southwest Region                   | 1,790          | 2,134          | 19.2                     | 2,582          | 44.2                     | 3,208          | 79.2                     | 4,224          | 136.0                    | 5.5                    | 4.6                    |
| Aleutians East Borough             | 92             | 142            | 54.3                     | 180            | 95.7                     | 223            | 142.4                    | 345            | 275.0                    | 0.3                    | 0.4                    |
| Aleutian West Census Area          | 108            | 160            | 48.1                     | 266            | 146.3                    | 451            | 317.6                    | 665            | 515.7                    | 0.3                    | 0.7                    |
| Bethel Census Area                 | 835            | 946            | 13.3                     | 1,129          | 35.2                     | 1,348          | 61.4                     | 1,726          | 106.7                    | 2.6                    | 1.9                    |
| Bristol Bay Borough                | 46             | 56             | 21.7                     | 84             | 82.6                     | 104            | 126.1                    | 144            | 213.0                    | 0.1                    | 0.2                    |
| Dillingham Census Area             | 247            | 282            | 14.2                     | 343            | 38.9                     | 424            | 71.7                     | 575            | 132.8                    | 0.8                    | 0.6                    |
| Lake & Peninsula Borough           | 107            | 116            | 8.4                      | 140            | 30.8                     | 157            | 46.7                     | 202            | 88.8                     | 0.3                    | 0.2                    |
| Wade Hampton Census Area           | 355            | 432            | 21.7                     | 440            | 23.9                     | 501            | 41.1                     | 567            | 59.7                     | 1.1                    | 0.6                    |

Source: Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

**Projected Population Ages 5-17 by Labor Market Region and Borough/Census Area  
Middle Case Scenario, July 1, 1998 - 2018**

| Labor Market Area                    | 1998    | July 1  | (%)    | July 1  | (%)    | July 1  | (%)    | July 1  | (%)    | State | State |
|--------------------------------------|---------|---------|--------|---------|--------|---------|--------|---------|--------|-------|-------|
|                                      |         | 2003    | Change | 2008    | Change | 2013    | Change | 2018    | Change | Share | Share |
|                                      | 1998    | Middle  | 1998 - | Middle  | 1998 - | Middle  | 1998 - | Middle  | 1998 - | 1998  | 2018  |
|                                      |         |         | 2003   |         | 2008   |         | 2013   |         | 2018   |       |       |
| <b>ALASKA</b>                        | 144,767 | 149,307 | 3.1    | 147,811 | 2.1    | 151,044 | 4.3    | 163,411 | 12.9   | 100.0 | 100.0 |
| Anchorage/Matanuska-Susitna Region   | 70,900  | 74,948  | 5.7    | 73,696  | 3.9    | 74,066  | 4.5    | 79,328  | 11.9   | 49.0  | 48.5  |
| Municipality of Anchorage            | 56,621  | 60,261  | 6.4    | 57,465  | 1.5    | 54,651  | -3.5   | 55,017  | -2.8   | 39.1  | 33.7  |
| Matanuska-Susitna Borough            | 14,279  | 14,687  | 2.9    | 16,231  | 13.7   | 19,415  | 36.0   | 24,311  | 70.3   | 9.9   | 14.9  |
| Gulf Coast Region                    | 17,322  | 16,786  | -3.1   | 16,795  | -3.0   | 17,802  | 2.8    | 19,683  | 13.6   | 12.0  | 12.0  |
| Kenai Peninsula Borough              | 11,729  | 11,307  | -3.6   | 11,691  | -0.3   | 12,876  | 9.8    | 14,642  | 24.8   | 8.1   | 9.0   |
| Kodiak Island Borough                | 3,264   | 3,376   | 3.4    | 3,201   | -0.1   | 3,164   | -3.1   | 3,223   | -1.3   | 2.3   | 2.0   |
| Valdez-Cordova Census Area           | 2,329   | 2,103   | -9.7   | 1,843   | -22.9  | 1,762   | -24.3  | 1,818   | -21.9  | 1.6   | 1.1   |
| Interior Region                      | 22,703  | 23,376  | 3.0    | 23,116  | 1.8    | 23,030  | 1.4    | 23,631  | 4.1    | 15.7  | 14.5  |
| Denali Borough                       | 393     | 348     | -11.5  | 353     | -10.2  | 357     | -9.2   | 395     | 0.5    | 0.3   | 0.2   |
| Fairbanks North Star Borough         | 18,840  | 19,822  | 5.2    | 19,676  | 4.4    | 19,630  | 4.2    | 20,031  | 6.3    | 13.0  | 12.3  |
| Southeast Fairbanks Census Area      | 1,593   | 1,599   | 0.4    | 1,702   | 6.8    | 1,828   | 14.8   | 1,999   | 25.5   | 1.1   | 1.2   |
| Yukon-Koyukuk Census Area            | 1,877   | 1,607   | -14.4  | 1,385   | -26.2  | 1,215   | -35.3  | 1,206   | -35.7  | 1.3   | 0.7   |
| Northern Region                      | 7,163   | 7,422   | 3.6    | 7,742   | 8.1    | 8,542   | 19.3   | 10,152  | 41.7   | 4.9   | 6.2   |
| Nome Census Area                     | 2,731   | 2,858   | 4.7    | 3,021   | 10.6   | 3,311   | 21.2   | 3,865   | 41.5   | 1.9   | 2.4   |
| North Slope Borough                  | 2,232   | 2,136   | 3.3    | 2,399   | 7.5    | 2,715   | 21.6   | 3,338   | 49.6   | 1.5   | 2.0   |
| Northwest Arctic Borough             | 2,200   | 2,258   | 2.8    | 2,322   | 5.5    | 2,516   | 14.4   | 2,949   | 34.0   | 1.5   | 1.8   |
| Southeast Region                     | 16,022  | 15,051  | -6.1   | 14,287  | -10.8  | 14,620  | -8.8   | 15,823  | -1.2   | 11.1  | 9.7   |
| Haines Borough                       | 503     | 451     | -10.3  | 452     | -10.1  | 483     | -4.0   | 518     | 3.0    | 0.3   | 0.3   |
| Juneau Borough                       | 6,313   | 6,040   | -4.3   | 5,881   | -6.8   | 6,111   | -3.2   | 6,578   | 4.2    | 4.4   | 4.0   |
| Ketchikan Gateway Borough            | 2,998   | 3,100   | 3.4    | 3,144   | 4.9    | 3,447   | 15.0   | 4,060   | 35.4   | 2.1   | 2.5   |
| Prince Of Wales-Outer Ketchikan C.A. | 1,637   | 1,495   | -8.7   | 1,389   | -15.1  | 1,415   | -13.6  | 1,494   | -8.7   | 1.1   | 0.9   |
| Sitka Borough                        | 1,853   | 1,639   | -11.5  | 1,444   | -22.1  | 1,334   | -28.0  | 1,320   | -28.8  | 1.3   | 0.8   |
| Skagway-Hoonah-Angoon C. A.          | 839     | 659     | -21.5  | 544     | -35.2  | 481     | -42.7  | 462     | -44.9  | 0.6   | 0.3   |
| Wrangell-Petersburg Census Area      | 1,682   | 1,467   | -12.8  | 1,239   | -26.3  | 1,156   | -31.3  | 1,170   | -30.4  | 1.2   | 0.7   |
| Yakutat Borough                      | 197     | 200     | 1.5    | 194     | -1.5   | 193     | -2.0   | 221     | 12.2   | 0.1   | 0.1   |
| Southwest Region                     | 10,657  | 11,724  | 10.0   | 12,175  | 14.2   | 12,984  | 21.8   | 14,794  | 38.8   | 7.4   | 9.1   |
| Aleutians East Borough               | 500     | 429     | -14.2  | 315     | -37.0  | 257     | -48.6  | 244     | -51.2  | 0.3   | 0.1   |
| Aleutian West Census Area            | 876     | 1,031   | 17.7   | 870     | -0.7   | 663     | -24.3  | 615     | -29.8  | 0.6   | 0.4   |
| Belhel Census Area                   | 4,693   | 5,215   | 11.1   | 5,585   | 19.0   | 6,083   | 29.6   | 6,934   | 47.8   | 3.2   | 4.2   |
| Bristol Bay Borough                  | 325     | 360     | 10.8   | 366     | 12.6   | 386     | 18.8   | 439     | 35.1   | 0.2   | 0.3   |
| Dillingham Census Area               | 1,302   | 1,404   | 7.8    | 1,396   | 7.2    | 1,442   | 10.8   | 1,629   | 25.1   | 0.9   | 1.0   |
| Lake & Peninsula Borough             | 542     | 517     | -4.6   | 537     | -0.9   | 605     | 11.6   | 702     | 29.5   | 0.4   | 0.4   |
| Wade Hampton Census Area             | 2,419   | 2,768   | 14.4   | 3,106   | 28.4   | 3,548   | 46.7   | 4,231   | 74.9   | 1.7   | 2.6   |

Source: Alaska Department of Labor, Research and Analysis Section, Demographics Unit.

SENATE FINANCE COMMITTEE

SIGN-IN

BALANCED BUDGET PLAN PRESENTATION

NAME: James E. Fisker Sub./Bill No: General  
Co./Dept./Title: AK resident for almost 45 years Phone: 262-9601  
Address: 171 Farmworth, Loldotica Zip: 99669  
Do you wish to testify?  Yes  No  Respond to Questions

NAME: \_\_\_\_\_ Sub./Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond to Questions

NAME: \_\_\_\_\_ Sub./Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond to Questions

NAME: \_\_\_\_\_ Sub./Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond to Questions



# Alaska State Senate

## Senate Finance Committee

Official Business

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### AGENDA

THURSDAY, 25 MARCH 1999

9:00 A.M.-10:00 A.M.

**BALANCED BUDGET PLAN PRESENTATION:**

**MICHAEL O'LEARY, JR.  
CALLAN ASSOCIATES INC.**

10:00 A.M.-11:00 A.M.

**JIM LYNCH, FOUNDATION TREASURER  
UNIVERSITY OF ALASKA**

**(BILLS PREVIOUSLY HEARD AND/OR SCHEDULED)**



SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

| LOG | SPEAKER           | DISCUSSION   |
|-----|-------------------|--|
| 000 | Co-chair Parnell  |  |
| 044 | Phil Okeson       | <p>Fiscal Analyst, Division of Legislative Finance was invited to join the committee. He referred to the division handout and explained with the assistance of an overhead.</p> <p>Presentation Objectives: look at the current situation in order to understand the magnitude of the problem.</p> <p>Current Situation with High Oil Prices: total general fund revenues, Petroleum and all other revenues. They are using same projections as used in the Governor's model.</p>  |
| 134 | Co-chair Parnell  | Commented re prices of oil and said that we would deal with this later.  |
| 140 | Phil Okeson       | <p>Continued his presentation.</p> <p>Projected Revenues: Projected General fund Revenues show a downward trend.</p> <p>Current Situation - Assumptions: 3.0% inflation. Should be talking about what's the State's inflation rate.</p>  |
|     | Senator Leman     | Inflation may be overstated by 1.1% Have you factored this in?   |
|     | Phil Okeson       | Not really factored it in. Do use different inflation rates for different projects. But they have allowed for it.  |
|     | Senator Torgerson | Governor's plan does not show inflation?   |
|     | Phil Okeson       | Does have some for the education formula. Other agencies do not have inflation plan. Unreasonable to expect over a 20-year period, however. The model used today is based on 20-year plan.   |
|     | Senator Torgerson | Have you talked with the Administration in coming up with a zero percent inflation?  |
|     | Phil Okeson       | <p>No. Continued under Current Situation - Assumptions: 1.5% Population Growth in K-12 Education Formula Population. 2% Population Growth for Dividend ONLY No Growth in Population for all other Formula or Agency Expenditures.</p> <p>Permanent Fund Total Return of 7.75% Have done better in past years. There is a lot of volatility around the 7.75%. Some years may be double digit returns and other years may show losses or right close around 7.75%.</p> <p>CBR Total Return of 5.5% if less than \$3B and 8.1% if greater than \$3B.</p> <p>Current Situation: Revenues and</p> |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

|  |                   |   |
|--|-------------------|---|
|  |                   | Expenditures of the State.<br>Permanent Fund Dividends per Capita.<br>Cannot touch the principal because it is protected by constitution.   |
|  | Co-chair Parnell  | Asked to explain this further.  |
|  | Phil Okeson       | Must realize gains in order to cover inflation.<br>Alaska Savings Accounts.<br>Savings Account Analysis.  |
|  | Co-chair Parnell  | Current Situation -Savings Account Analysis. Is this all savings account?   |
|  | Phil Okeson       | All savings account. They are inflation proofing.   |
|  | Senator Torgerson | Is this all in one account?   |
|  | Phil Okeson       | No. Do not make distinction of where the State keeps their money. The key is how the purchasing power is maintained. However, the graph shows that we are not keeping up with the purchasing power. Budget Deficit - Fiscal Gap vs. Savings Account Earnings Used to Fill Fiscal Gap. If we are not careful with our fiscal gap we may be "killing the goose that lays the golden egg". |
|  | Senator Wilken    | Asked for clarification of why gap falls off in 2001.   |
|  | Phil Okeson       | Offered a brief explanation.  |
|  | Senator Torgerson | Said the 7.75% does not make sense.   |
|  | Phil Okeson       | First call is on dividend. More earnings being used. Amount available to fill the deficit is very small. Percentage of Capital Gains Realized. Mechanisms presently used combine to make things go bad quickly.   |
|  | Co-chair Parnell  | Specific graph was done at his request.   |
|  | Phil Okeson       | Unrealized gains no longer available to sell.   |
|  | Senator Torgerson | Dividends calculated on 5 years.  |
|  | Phil Okeson       | Would have to go and check on the exact percentage.   |
|  | Senator Torgerson | Taking into consideration any other revenues?   |
|  | Phil Okeson       | No revenues added that they do not know about at this time.   |
|  | Senator Torgerson | Afraid leaving the impression this is the path we are going down, however all facts have not been presented at this time.   |
|  | Phil Okeson       | This is only the beginning of the discussion. "Money now is better than money later."   |
|  | Co-chair Parnell  |   |
|  | Senator Kelly     | Page 9 of handout asked about growth pattern.   |
|  | Phil Okeson       | There are still stocks available.   |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

|  |                   |   |
|--|-------------------|---|
|  | Senator Kelly     | But cannot turn stocks to cash?   |
|  | Phil Okeson       | Restraint put on themselves.  |
|  | Senator Kelly     | Cash available even to go to the permanent fund is not available. You are not earning anything to turn into the principal.  |
|  | Phil Okeson       | <p>Probably still would, albeit, would be more difficult to earn 7.75%. Would prefer to refer to Permanent Fund. Cannot ever let the permanent fund go below a specific level. Would be better to pose this before Permanent Fund.</p> <p>\$34/bbl Oil Assumptions: Same as Current Scenario. Exceptions: Oil goes to \$34/bbl in FY 2000; oil never goes down from \$34/bbl; in fact it rises every year at the inflation rate of 3% (in FY2020 Oil = \$61.41/bbl) In good years we are going to put money away because in later years we are going to need it.</p> <p>What does all this mean? Model shows that the problem is not a cyclical problem, but rather it is a structural problem. These problems cannot be overcome by riding them out. It needs a structural solution. We will not be saved by oil prices in the long term.</p> <p>Issues Facing the Legislature: Pivotal moment in Alaska's History. Will not be making large deposits. Not a short term/cyclical problem, but rather a long term/structural problem. In response to Senator Torgerson, he explained the large amount of savings usually kept in the earnings reserve account.</p> <p>He referred to the "blow-up" factor. When things go bad, they go bad quickly.</p> |
|  | Senator Phillips  | When you refer to "Us" you mean the Alaska public?  |
|  | Phil Okeson       | Yes. Not just the Legislature.  |
|  | Co-chair Parnell  | House has set very strict cuts. If reductions can be made this year, that would mean money gained over the next twenty years. More revenues we bring in today the better off we will be in the long term.   |
|  | Phil Okeson       | <p>That is correct. Model doesn't care if it is cuts or raising revenues. They result in the same.</p> <p>Begin to systematically use the State's Savings Accounts.</p> <p>A combination of the Above. This is the best choice. End result will need a combination of the choices.</p>  |
|  | Senator Torgerson | Query.  |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

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|  | Phil Okeson       | Have looked at what the Legislature has suggested. But have not done an indepth analysis.<br>Potential Measureable Goals of a Long Range Plan: Sustainability - Protect the Principal (Traditional)   |
|  |                   | (Tape switch to side B at log #597)   |
|  |                   | Inflation Proofing<br>Is the goal to protect the purchasing power of the Alaska's Savings Accounts<br>What time horizon is appropriate?<br>Allocations of portfolios change.  |
|  | Senator Torgerson | What government looks at their budget for one hundred years? Perhaps with regards to investing?   |
|  | Phil Okeson       | It is prudent to look at budget over one hundred year period. Alaska's state government is different. We do have potential to think differently. Other states do not have the assets we do. Perhaps we should take advantage of that difference.  |
|  | Co-chair Parnell  | Is it realistic for us to look at this for one hundred years.   |
|  | Phil Okeson       | Systematic use of the permanent fund may want to look at over a longer period of time. Cautions a long term financial plan will have to be updated as the years pass. Only accuracy is in the first few years. However, it does provide guidelines. Suggests one could get fairly good detail five or ten year plan. In response to Senator Torgerson...this is a judgment call. Many variables involved which would have major effects. Must be careful incorporating a long term plan. Fascinating number problem.  |
|  | Senator Kelly     | We have to do some productive spending.   |
|  | Phil Okeson       | These are only potential suggestions in order to begin the discussion of what choices to choose.<br>Intergenerational Equity: Closely related to Sustainability.<br>All generations are held equal.<br>Many ways there can be intergenerational equity. The question is, do we really want it? This is also a possibility. There are good reasons to do this.<br>Refers to time spent in Washington State. Used up timber, for example, now using the profits for investments. There are benefits to providing for future generations.<br>Stability: Plans ability to weather worst |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

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|  |                   | <p>case scenarios.<br/>Plans ability to reduce the State's revenue volatility.<br/>Predictability: What level of predicability do we want to assume for: Revenue Assumptions, Expenditure Assumptions and Market Assumptions.<br/>Implications for Risk and Asset Allocation.</p>  |
|  | Senator Phillips  | Should be another piece for measurement and accountability.  |
|  | Phil Okeson       | Limited this to what could be measured.  |
|  | Senator Phillips  | Voters will be looking at us specifically.   |
|  | Phil Okeson       | Concurs.   |
|  | Co-chair Parnell  | Several guests who have come from around the State. Several individuals on line via teleconference. Thanked Mr. Okeson for his time and effort.  |
|  | Cheryl Frasca     | <p>Invited to join the committee. She referred to her handout from the Fiscal Policy Council of Alaska, Criteria to Evaluate Fiscal Plans.<br/>Explained they wanted to provide input and analysis of various proposals. Important choices that will be faced. Explained the evaluation criteria that was used. First was 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.<br/>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.<br/>Fairness: (a) trade-off's 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; (c) provides a smooth transition between any change in the size of dividends, taxes, or public services.</p> |
|  | Senator Torgerson | Governor's plan fair?  |
|  | Ms. Frasca        | Tax not a fair plan.   |
|  | Senator Lemam     | Not correct statement no one pays taxes. Don't have broad-based income tax or sales tax but do have means for collecting taxes from individuals. Should use the term correctly.  |
|  | Ms. Frasca        | Agrees with Senator Lemam. Thought she said "personal taxes".  |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

|                  |  |
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| Co-chair Parnell | Asked Ms. Frasca to continue.  |
| Ms. Frasca       | All seen what happened with the permanent fund dividend.   |
| Senator Phillips | Define connection with permanent fund dividend. Do individuals really understand this?   |
| Ms. Frasca       | Because they receive financial benefit from this, they usually pay more attention, however feels they don't really understand it. If individuals have to pay more would pay more attention. Another point is simplicity. Alaskans tend to be less trustful. Plans must be straightforward and unconfusing. Is the purpose for fund clear? What is it being used for? Complete and full disclosure. |
| Pam LaBolle      | President of Alaska State Chamber of Commerce. Not promoting further cuts across the board. Refers to SB 33. Permanent Fund should be inflation proof first. Whatever left to be filled should be filled with broad-based taxes. She outlined the Chamber of Commerce recommendations:   |
| Co-chair Parnell | Refers to item #2. What does the 30% refer to?   |
| Ms. LaBolle      | Said it would relate to the 6.2.   |
| Co-chair Parnell | Organization not going to ask for \$2 billion cuts?  |
| Ms. LaBolle      | Responds.  |
| Co-chair Parnell | This year or include a time frame?   |
| Ms. LaBolle      | What is the Legislature trying to look at?   |
| Co-chair Parnell | Trying to take as long a view as possible, but perhaps would be about 10 years.  |
| Senator Adams    | Would be worried about the stability of the economy. Referred specifically to the loss of jobs with the oil companies. Must look at this 30% reduction suggested by the Chamber of Commerce. This is not acceptable.   |
| Ms. LaBolle      | Dealing with businesses.   |
| Senator Leman    | Agrees that the approach is rather aggressive. Going to have to change how we deliver education. Make changes to other formula programs. Will the State Chamber support those changes?<br>Referred to page 3 of handout...per capita spending.   |
| Ms. LaBolle      | Very interested in participating in looking at all portions of government. Feels sure the Chamber would support Legislature decisions.<br>In response to Senator Torgerson taxes must be fair and equitable to all Alaskans.   |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

|  |                   |   |
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|  | Senator Torgerson | What does 15% represent? (item #4)<br>(Tape #62, Side A, log 000)   |
|  | Ms. LaBolle       | The Chamber will be happy to work with the committee.   |
|  | Ken Freeman       | <p>Executive Director, Resource Development Council for Alaska was invited to join the committee. (statement read into record.) Explained non-profit organization. RDC is a non-profit, economic development organization with a broad statewide base and focus. Members range from individuals to leading companies throughout Alaska's basic resource sectors, including oil and gas, mining, timber, tourism and fishing. Also included in the ranks are Native corporations, construction, labor and a number of local communities. All of these interests come together under RDC to work on common issues - issues which transcend all resource and economic sectors. RDC is represented statewide by a 78-member Board of Directors and a 22-member Executive Committee. The latter of which formulates policy and provides direction to a staff of four.</p> <p>With the fiscal gap as our number one public policy issue this session, RDC helped coordinate the economic summit held last month in Juneau and our resident testified the fiscal gap before the Anchorage Caucus in late February.</p> <p>What many have heard at the economic forum was an assessment of business in Alaska. From the development sectors you heard that low oil prices and a slumping Asian economy have hit Alaska hard. You also heard that the timber and fishing industries are in the tank, both hit hard by weak Asian markets. Timber production is down by 70 percent or more, budgets have been drastically cut and the industry employment has fallen to all-time lows. Meanwhile, the mining industry, which has shown record growth and production over the last several years, is now struggling to cope with low commodity prices.</p> <p>RDC is here today to express their support and encouragement of the Legislature in finding a long-term solution to the State's fiscal dilemma and to offer suggestions on specific tools to develop such a solution.</p> |
|  | Senator Adams     | Query.  |
|  | Mr. Freeman       | Has tried to work with the Legislature and offered suggestions. Lends their support. However, difficult for them because they   |

SENATE FINANCE COMMITTEE  
LOG NOTES  
03/24/99

|  |                   |   |
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|  |                   | only deal with particular segments of State agencies. Difficult to see what is important or not.  |
|  | Senator Leman     |   |
|  | Mr. Freeman       | Have discussed potential consolidations. Concerned with consolidating programs and who would take over functions. How impacting would it be? Would be extremely careful. Must not jeopardize programs.  |
|  | Co-chair Parnell  | Incorporates Ralph Samuels written statement into the record. Not able to be present.   |
|  | Karen Cowart      | General Manager of the Alaska Support Industry Alliance (The Alliance) was invited to join the committee. (statement read into record.) She thanked the committee for the opportunity to provide comment and perspective.<br>Alliance members oppose state income tax to balance the budget.<br>Conclusion: Would provide feedback at their request.<br>Encourages budget dialogue. Counting on the Legislature. Will answer any questions. |
|  | Co-chair Parnell  | Called last speaker.  |
|  | Roxanna Horschel  | Representing the Associated General Contractors Association of Alaska was invited to join the committee. (statement read into record.) State employees should compare more to private employees. AGC feels if all these points were implemented State income tax would not even need to be considered.  |
|  | Senator Phillips  |   |
|  | Senator Leman     | Why public construction projects in Alaska cost so much? Asked AGC to provide input. Was told they were doing a study.  |
|  | Roxanna Horschel  | Study not complete, but willing to share what they have learned. Together solutions can be found.   |
|  | Senator Torgerson | Motor fuel tax.   |
|  | Co-chair Parnell  | Committee has been summoned to the floor. Recessed until tonight at 6:00 p.m. Will continue this meeting tomorrow morning. Will incorporate any written testimony.  |
|  |                   | ADJOURNMENT:<br><br>Recessed at 11:05 a.m. Tape number 62, at log number 402, Side A.   |

Distributed by Senator Farnell  
by Request

**Subject:** Here is the executive summary. I will also have some Excel charts to finish the packet in 30 Mins.

**Date:** Thu, 25 Mar 1999 16:43:38 -0900

**From:** "Glen Biegel" <cmpinc@alaska.net>

**To:** <Dave\_Blaisdell@legis.state.ak.us>

## *The Alaska Moderator*

Executive Summary of Charge-back / Local cost-cutting Commission Budget Proposal called

### The Moderator Plan

Before giving specifics, I would like to explain the thinking behind the plan, and also the goals of what I call the Moderator Plan. First a simple statement, we have a 1.2 Billion dollar budget shortfall. This is an indication that we have both structural and institutional problems with the way we expend the money controlled by the State of Alaska. Tony Knowles is credited with the deduction that we cannot close the budget gap even if we released every State employee. I would like to be credited with the idea that we cannot close the budget gap even if we confiscated the wealth of the highest 10% of the wage-earners of the State; at least not for very long. These two extreme statements illustrate a critical part of the thinking behind this plan. A single sided approach is not going to provide the material necessary to build the bridge between where we are now, and where we need to be. Another important inference from these two statements is that we will not escape this budget difficulty without some discomfort.

The goals of this plan are foremost to minimize the discomfort for the Alaskan people and to stabilize the Alaskan economy. I also would suggest the following criteria to be considered against any solution to our budget shortfall: the solution must be fair and balanced, the solution must minimize middle-class flight, each citizen should have an investment in attaining the savings, the plan should not penalize those who do not have children, and/or who are young and just starting their professional lives. A primary concern of the Legislature should also be to implement a solution that the Alaskan people will have to deal with only once, so that it cannot be used as a political weapon time and again. I also would suggest that the varied nature of the State does not lend itself to a centralized solution to reduce spending, the cuts and savings that are necessary will vary wildly from area to area. In summary, the goals of this plan are 1.) To minimize pain, 2.) To be fair and balanced, 3.) To create a self-perpetuating solution of budget reductions, 4.) To remove the political nature of budget-cutting as much as possible, and 5.) To allow for localized cuts in the budget, which differ from area to area.

Keeping these many ideas in mind, I propose the following solution: use the two-sided

approach of a charge-back system against each individual's dividend with the simultaneous institution of local cost-cutting commissions tasked with finding local reductions to alleviate the charge-back. Specifically, each local cost-cutting commission will be tasked with finding 10% reductions in State expenditures in their area every 3 years. The charge-back system is a 10% assessment for State services received by the individual. Any reductions found by the cost-cutting commissions would apply directly against the 10% assessment on the dividend, and relieve the assessment for the following 3 years. A maximum of 80% of an individual's dividend could be assessed for State services, benefits and area expenditures. You will find some examples of how some average citizens would fare in different areas of the State in the extended discussion.

In the same spirit as the Federal base closing commission, the suggestions by each local cost-cutting commission report will be reviewed by the legislature and an up or down vote will be made for each area, or for all cost-cuttings combined. Each cost-cutting commission will be made up of individuals appointed by the legislature, local government and local organizations. Restrictions on certain types of cost-cutting will be given to the commissions to make sure that all applicable Federal and Constitutional mandates are upheld. The boundaries of the commissions will be based upon the School District boroughs.

The cost-cutting commissions could find reductions by privatizing State functions, reducing waste or improving efficiency, eliminating unnecessary expenditures in their area or any number of other approaches to finding the necessary %10 saving for the 3 year period. I would also expect that the State would require 2 or 3 iterations of the 3-year cost-cutting process to attain a sustainable size of government. The goal of the cost-cutting commission is to fully restore each person's dividend, and to choose the State services and the level of services most necessary in that area.

Another hidden benefit of this method of budget reduction is that each and every citizen of the State will have a stake in the budget reductions. The charge-back system against the dividend is a tool unique to Alaska, allowing each person in Alaska to participate in making the difficult determination about what is a truly necessary State expenditure, and whether or not waste in the government will continue to be tolerated.

Sincerely,

Glen M. Biegel, editor of The Moderator found at [www.intervine.net](http://www.intervine.net)

*The Alaska Moderator*

### Expected approaches by the local cost-cutting commissions.

This paper is written to explain what will I expect to occur if the local cost-cutting commissions were instituted.

First I will give an idea about what will be expected in the makeup of the local cost-cutting commissions themselves. First, the legislature would appoint someone who was well versed in the Federal programs that the State is involved in and how the funding for these projects must be approached. The local governments, city, borough, etc would have a contingent on the board that would likely be made up of varied business members who were well known for running "tight ships." These people would know how expenditures can be reduced and services still provided, while optimizing safety and health. The local organizations like the local chamber of commerce, native organizations, or tribal organizations shou'd have full input to these cost-cutting commissions as well. Whether this spells membership or *ex officio* status is a matter to be determined but I would suggest membership.

Example of Area A.

Receives 500 Million in area expenditures.  
Receives 500 Million in individual expenditures.

Option 1:

**Option 1: Do Nothing:** Each person in the area is assessed a portion of the 500 Million in area expenditures, and also their portion of the individual expenditures, including the amount of the dividend. This will be assessed against each adult recipient's dividend.

Option 2: Find reductions in area expenditures.

The road project for the area is assessed at 100 Million. The cost-cutting commission has in its possession a proposal from a private firm to manage the project, which will lead to a cost of 60 Million. Savings 40 Million or 4%.

Find reductions in individual expenditures.

The State support for the arts, and the hold harmless clause is dropped in the dividend program. Savings 10 Million or 1%

5% total savings: dividend restored by 50%.

In the following year, the commission puts in cost controls in the area for

**the various departments operating there. Savings 40 Million or 4%.**

**An additional State project is cut by 10 Million, yeilding the final 1%.**

**5% + 5% total savings: dividend restored by 100%.**

**Also remember that the 5% savings will be applied for each of the following 3 years. The same goes for the 5% found in the following year. If there were no further local reductions, the dividends would then be restored 50% for the first year, 100% for the following 2 years, and 50% for the fourth year.**

**Some alternatives could be put in place to supplement the proposal as it exists. These options are innumerable but I will propose the following 4:**

- 1. Any legislation suggested by a local cost-cutting commission that leads to statewide savings is credited 100% for any savings in the local area, and 25% of the savings realized elsewhere in the State.**
- 2. Any agencies found expending money in a wasteful manner will be penalized double the like amount in the following year.**
- 3. Privatization that leads to savings will be credited to the local area for 2 years.**
- 4. Privatization where a contract comes in under budget will be paid in full for the two following years and then at the lower level. The savings will be realized by the local cost-cutting commission.**

**I believe a system of cost-cutting commissions would most likely be made up of serious businessmen and women who watch the agencies expending money in their area. Through needs analysis and punitive measures if necessary, would find that the respective area spending is far out of line with the private sector, and therefore unnecessary. In short, I would trust an independent agency tasked with finding the 10% cuts over three years to be able to do so without cutting necessary programs, but by finding efficiency and novel approaches in providing the necessary services of the State.**

**If you feel that the Moderator Plan could be of some use to the State, I would be happy to present the idea to the legislature in Juneau near the end of March or early April.**

**Sincerely,**

**Glen M. Biegel, editor of The Moderator found at [www.intervine.net](http://www.intervine.net)**

Distributed by  
Senator Parnell by  
Request

**Subject:** Here is the article 'let's put something on the table'. Please distribute to each member.

**Date:** Thu, 25 Mar 1999 16:26:20 -0900

**From:** "Glen Biegel" <cmpinc@alaska.net>

**To:** <Dave\_Blaisdell@legis.state.ak.us>

## *The Alaska Moderator*

Let's put something on the table

### Proposal for a Citizen Cost-Cutting Commission Program & Further Balanced Budget Information

#### The Moderator Plan - Introduction

The goals of this plan are foremost to minimize the discomfort for the Alaskan people and to stabilize the Alaskan economy. I also would suggest the following criteria to be considered against any solution to our budget shortfall: the solution must be fair and balanced, the solution must minimize middle-class flight, each citizen should have an investment in attaining the savings, the plan should not penalize those who do not have children, and/or who are young and just starting their professional lives. A primary concern of the Legislature should also be to implement a solution that the Alaskan people will have to deal with only once, so that it cannot be used as a political weapon time and again. I also would suggest that the varied nature of the State does not lend itself to a centralized solution to reduce spending, the cuts and savings that are necessary will vary wildly from area to area. In summary, the goals of this plan are 1.) To minimize pain, 2.) To be fair and balanced, 3.) To create a self-perpetuating solution of budget reductions, 4.) To remove the political nature of budget-cutting as much as possible, and 5.) To allow for localized cuts in the budget, which differ from area to area.

Keeping these many ideas in mind, I propose the following solution: use the two-sided approach of a charge-back system against each individual's dividend with the simultaneous institution of local cost-cutting commissions tasked with finding local reductions to alleviate the charge-back. Specifically, each local cost-cutting commission will be tasked with finding 10% reductions in State expenditures in their area every 3 years. The charge-back system is a 10% assessment for State services received by the individual. Any reductions found by the cost-cutting commissions would apply directly against the 10% assessment on the dividend, and relieve the assessment for the following 3 years. A maximum of 80% of an individual's dividend could be assessed for State services, benefits and area expenditures. You will find some examples of how some average citizens would fare in different areas of the State in the extended discussion.

Simply stated, there are more State services than we can afford. I suggest this charge-back system for State services with a 10% charge for any State subsidy, benefit, or dividend. The charge-back would be paid for through deductions in each individual's dividend check,

depending on the level of area and individual subsidy they receive. A maximum of 80% of a person's dividend can be charged back to the State. Each chargeable region, determined by school borough, will have a citizen commission appointed by the Legislature, local mayor/board, and citizen groups, etc. to be responsible for finding savings in State spending for their area. These savings will cover the full spectrum of budget-cutting from privatization, to cutting non-essential services, to cutting costs on individual State projects. The citizens of the area will receive a 3 year forgiveness of the charge-back for the full amount of any savings found by the individual commissions. Following are examples of how the charge-back works:

Note: amounts listed are estimates and do not necessarily accurately reflect the actual subsidy level from State spending.

Citizen A: Living in Anchorage:

Dividend amount: \$1500

Highway Subsidies (State, not Federal) \$1500/person

Portion of State expenditure due for Courts, Public Safety, Administration, Parks, Etc.  
\$1500

Receives \$4,500 in State services, funding, and dividends

Owes \$450 back from the dividend, amount to receive: \$1050

Citizen B: Living in Juneau

Dividend amount: \$1500

Highway Subsidies: \$500

Portion of State expenditures: \$1500

Receives \$3,500 in State services and funding, and dividends

Owes \$350 back from the dividend, amount to receive: \$1,150

Citizen C: Living in Anchorage:

Dividend amount: \$1500,

Highway Subsidies (State, not Federal): \$1500

Portion of State expenditure due for Courts, Public Safety, Administration, Parks, Etc.:  
\$1500

Receives public assistance: \$15,000

Receives \$19,500 in State services and funding, and dividends

Owes \$1950 back from the dividend, amount to receive \$300, (100% - 80% = 20% or \$300 minimum dividend)

### Family A: Living in Anchorage: 2 Children in public school

Dividend amount: \$3000, (children not assessed)

Highway Subsidies (State, not Federal): \$3000

Portion of State expenditure due for Courts, Public Safety, Administration, Parks, Etc.:  
\$3000

State subsidy of public schools: \$7500

Receives \$16,500 in State services and funding, and dividends.

Owes \$1,650 back from the dividends, amount to receive: \$1,350

For each of the above citizens, let us say that the area where they live receives a total of \$1 billion in State subsidy, benefit and dividend. If the citizen commission found \$100 million in savings for their area, the citizens would receive the full benefit of this savings for the following 3 years. Since the \$100 million is 10% of the \$1 billion, the dividend would be fully restored. The hope is that a 10% reduction in State spending is realized through local cost-cutting commissions every 3 years. Because of this 3-year relief, there is a three-to-one incentive to find the local area reductions rather than pay for the current level of spending through the dividend charge-back. Finding 10% every 3 years would keep the dividends at full strength regardless of the amount of individual or area subsidy. After a period of 6 to 10 years, we may receive enough revenue, and have enough in our savings account, to sustain the more modest level of Government with a full dividend. Clearly, the hope is that the areas where State subsidies to over \$10,000 a year per citizen would be under great pressure to realize the 10% savings of State services and subsidies. These areas will, of course, have more options to cut than less highly subsidized areas. If they could accomplish this, they also would receive the full dividend.

Benefits of this system are that all citizens pay some of the cost of Government. Regional citizen commissions would review State spending in their area and determine where waste is taking place. Each citizen would have great interest in receiving the best services and response from their Government, as they would be paying for any waste or poor service through their dividend checks. Children's dividends would not be assessed the charge-back. Services from the State given to children would be assessed through the parent's dividend. People in Alaska will not continue to accept waste when it has a direct effect on their own livelihood, and will, therefore, only want to pay for what is absolutely necessary.

This plan can only be properly viewed in the context of the alternative plans that currently exist. Remember that the goals of this, and I believe of any truly workable plan, are 1.) To minimize pain, 2.) To be fair and balanced, 3.) To create a self-perpetuating solution of budget reductions, 4.) To remove the political nature of budget-cutting as much as possible, and 5.) To allow for localized cuts in the budget, which differ from area to area. Tony Knowles' plan to implement a 10% addition to the level of Federal taxation with

initial broad exemptions can also be measured against these 5 items.

#### Knowles Income Tax Plan:

- 1.) To minimize pain: The claim here is that the "rich" either have no feelings and can thus feel no pain, or that the increase in taxation will not cause those who can "afford it" any pain. Unfortunately, this plan will also affect the young professionals who are just starting out, and trying to pay off their loans for college. They do not have the protection of a multi-member household, and have no children. They, unfortunately for this tax plan, make a little too much money to be considered as poor as they really are.
- 2.) To be fair and balanced: I do not consider charging people to pay for State services that they do not receive to be fair or balanced. We cannot sustain the fairy-land level of expenditure and expect those who receive very little from the System to take on an ever-expanding portion of the payments for it.
- 3.) To create a self-perpetuating solution of budget reductions: Of all the other plans on the table, none respond to this in any way. As long as we can find someone to take additional money from citizens to fund State government, we will be able to significantly hide the true cost and waste in the same government.
- 4.) To remove the political nature of budget-cutting as much as possible: There is no part of the Knowles' plan to reduce expenditures of any kind. We can therefore look at the political nature of increasing revenue. The Knowles tax plan is actually very good on the surface as it relates to this item. We find a select group, the "super rich", and tax them. The actual exposure from this plan comes when the tax is inevitably expanded to include lower levels of income.
- 5.) To allow for localized cuts in the budget, which differ from area to area: The Knowles' plan is very bad at this particular point. It completely shields vast areas of the State from participating in the task of paying for State subsidies that they themselves actually receive. The tax plan would hit the Cities almost exclusively and cause a great disparity and distrust of the Government that transfers so much money from one community to another.

#### The Cap on the Permanent Fund Divident:

- 1.) To minimize pain: This plan actually maximizes pain. Citizens would have no ability to escape the tax. This would also withdraw vast amounts of money from the State economy and cause our State to undoubtedly slip into recession if it was a severe cap.
- 2.) To be fair and balanced. Also, rich and poor would both fare equally badly. It does have each area of the State contribute to the level of government, and in this it is balanced from area to area.

3.) To create a self-perpetuating solution of budget reductions: The cap on the permanent fund does nothing to address expenditures.

4.) To remove the political nature of budget-cutting as much as possible: Since there are no budget cuts, there can be no political nature to what does not exist. I would suggest though that removing hundreds of millions of dollars from citizens to spend late in the year will have a devastating effect on the economy. A devastating effect at the specific time that money is needed to boost business from the red to the black.

5.) To allow for localized cuts in the budget, which differ from area to area. Same as 4.

#### The Cost Cutting Commission:

1.) To minimize pain: By having a citizen commission that looks for waste and eliminates duplication and excess, we will have the ideal solution. No loss of essential services. The full benefit of the dividend. No additional taxes.

2.) To be fair and balanced. The basic idea of the plan is that in each area of the state we can find some amount of reductions and waste. Each area of the State will be responsible for determining the appropriate reductions in their area. In the event that 10% in cuts are not found every 3 years, then the burden is shared among all citizens in that area. I cannot think of a more equitable and simple way to include all citizens than to use both the area subsidies, that all citizens have equal share in, and individual subsidies in the charge-back system. Given the three-to-one rule, I do not expect the commissions to fall below the 10% cost-cutting every three years, very often.

3.) To create a self-perpetuating solution of budget reductions: This is truly one of the better aspects of this plan. This is the only plan that allows direct overview of waste in our state government. Once the plan is in place, the system will work every year to continue to reduce expenditures and waste while preserving the local services that are most critical.

4.) To remove the political nature of budget-cutting as much as possible: The greatest protection from the difficult decisions of reducing expenditures is to spread the responsibility across a wide area. Local commissions are truly capable of suggesting reductions in their area that will least affect the local economy, while protecting health and safety. The Legislature will have the oversight and implementation powers, but the cuts themselves will be the result of the careful determination of the local cost-cutting commission.

5.) To allow for localized cuts in the budget, which differ from area to area. Local control, and the great variety of the State of Alaska cry out for the solution that is powered by local cost-cutting commissions. One area may be more dependent on one form of State subsidy than another. It is the best situation that the local commissions can have the option to find local solutions and reductions that are not dependent on being matched across the State.

Keep in mind that this is just a working set of proposals. I believe the **Moderator Plan** is sound and that the numbers should be worked around by the Legislature to ensure fairness and balance. I would caution that extending the percentage of the charge-back too low or too high may have the negative effect of either removing the incentive for reductions, or being unfair to those who do not receive much in State subsidies. Solutions we need to look at should provide a perpetuating pressure to reduce waste, while identifying critical and necessary State functions. A fair system is one that charges all citizens of the State an equal percentage for services. That way, all citizens have equal interest in reducing administrative waste and expense.

Objections: One of the primary objections is that this charge-back system will hit the rural areas harder than the urban areas. This is due to the fact that the level of State subsidy for the outlying areas is much higher than the cities. While the higher level of subsidy is true, it is also true that these outlying areas will have a much broader number of services and subsidies to choose their 10% cuts from in order to restore their dividends to full status. Also, the dividend charge-back tops out at 80% of the amount of the dividend and is not charged to children, but only to parents. It is only fair that areas that receive high levels of subsidy share to a greater extent in the funding they receive. The number here should be massaged around until a fair and balanced result is found. The overall goal is not to take any money from the dividend. I believe that the three-to-one ratio will create sufficient pressure to reduce State spending that the dividend will likely never, or rarely, be impacted. Finally, I do not think it right to exclude the greatest per capita receivers of State largess from helping to find out how we can reduce our State spending to reasonable levels.

Objection 2: Parents of school children will pay a higher charge-back cost. Parents with school-age children make up about 20% of State households. Again, I think it is not only fair, but also wise, that people who receive State services in some measure pay for them. I also think that there would be a much greater involvement by parents in their child's education if they are charged back some portion of those costs. When we pay for something, we demand results. If schools continue to be "free", we will continue to accept our current rate of 90% failure in their primary mission, to prepare children for college. 18% of children go to college, and, of those, 45% require remedial courses in English or mathematics.

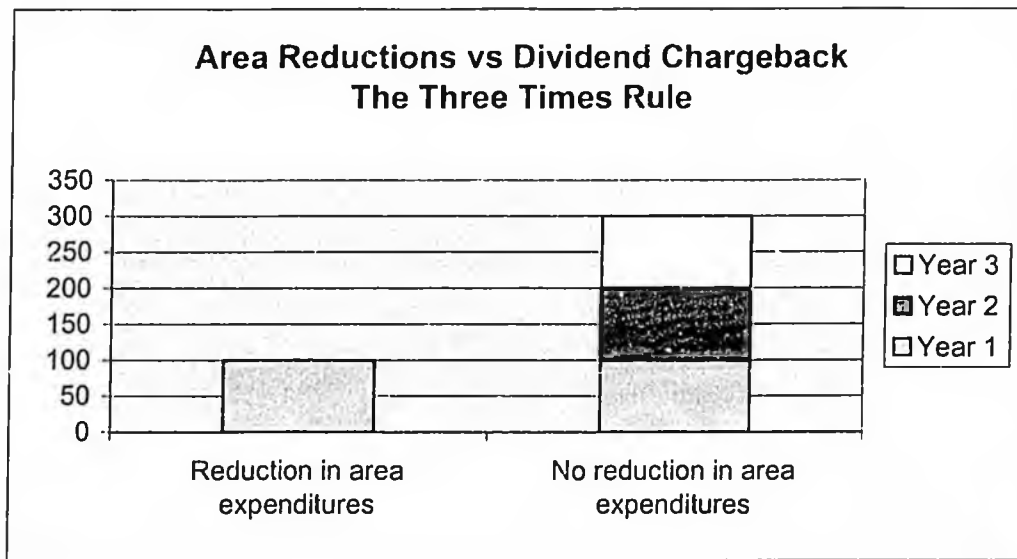
Objection 3: This will hurt the poorest of Alaska's residents. People who receive State largess directly through public assistance have a great responsibility to share in the burden of our unbalanced budget. We are all Alaskans and we all have a responsibility to help when our Ship of State heads for dangerous ground. People on public assistance generally receive over a thousand dollars a month from the State. Our \$1 billion deficit threatens ALL of this money. These recipients of State money will also be very interested in the 10% reduction every 3 years for their area in order to restore their full dividend. Also, their children's dividends are not charged back.

Again, let us look for methods of expenditure reduction that involves everybody in assisting ongoing reductions in spending. We are all going to need to pay if we are to have a chance at closing the large budget gap and still keep our citizens employed and Alaskan (watch for middle-class flight in the Knowles tax doomsday scenario). Shared burden, responsibility, and interest in correcting our imbalance of spending will result in the most wise choices, as well as the fairest choices. I hope the Legislature gives Alaskans a chance to demonstrate that wisdom.

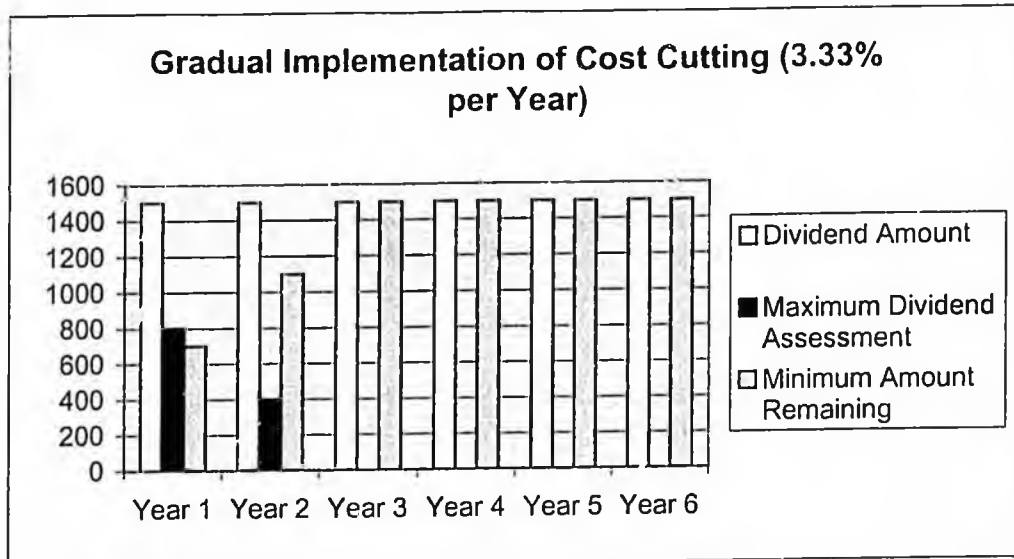
Glen M. Biegel

Editor, The Moderator [www.intervine.net](http://www.intervine.net)

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by request

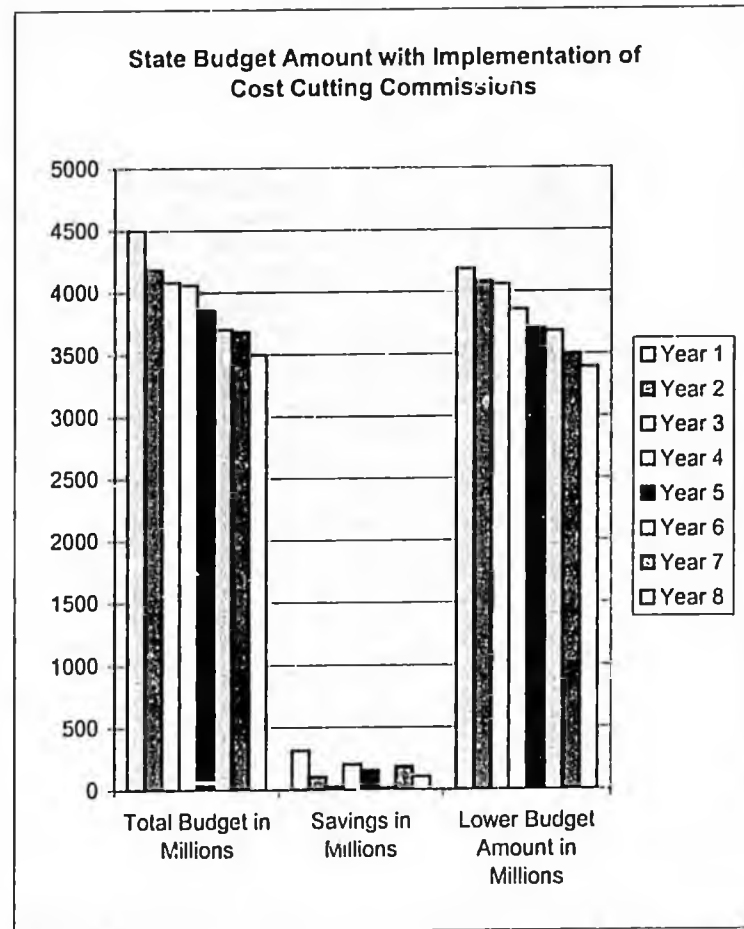
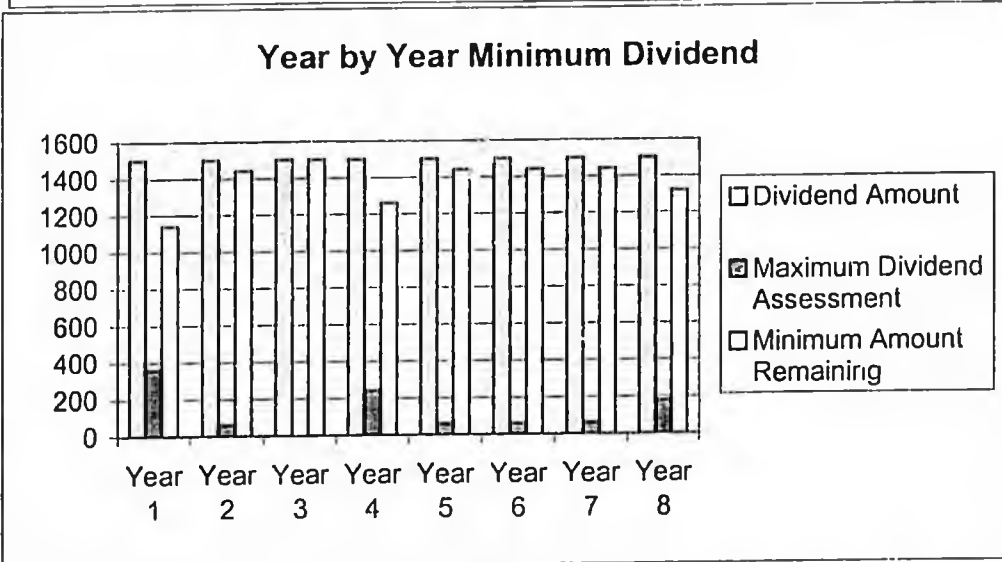
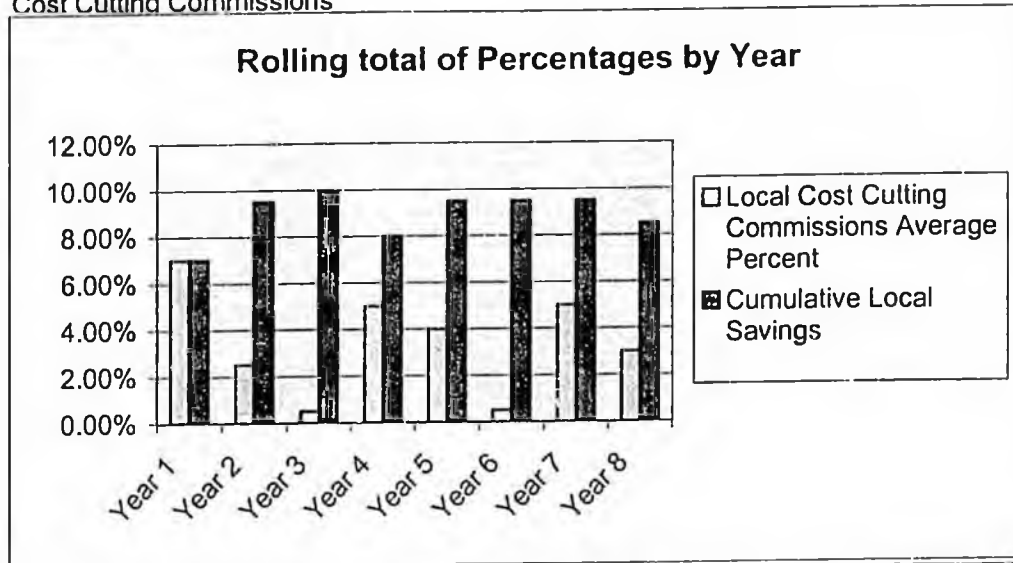


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by request

Cost Cutting Commissions



To: Peninsula Clarion

Re: (Alleged) Budget Gap

From: James E. Fisher, 171 Farnsworth Blvd, 99669  
Fax: 262-9641(a dedicated line) ph: 262-9601

Is there really a budget gap, when all public resources of Alaska are considered? There have been arguments that such does not exist. Wouldn't other states look at we Alaskans in bewilderment when we claim to be lacking in public resources to the extent of a "budget gap". I hope we aren't believed to be fools.

For a reasonable solution of the touted "budget gap", Alaska needs to accept responsibility for the existing conditions and our needs for the services we get (but are not always ready to acknowledge) from our various levels of government. We do receive essential services, i.e., education, public safety, health, etc. and etc.

First, analysis of cries to "cut the budget" is really a demand to reduce a service of somebody other than the demander. Have any of us heard with any frequency, or at all, from someone asking to cut a budget in which they might be immediately interested? Since we have had about 6 years of budget reductions, further slashes should be avoided.

For the most equitable spread of the costs, a state income tax based on ability to pay is fairest, and would reach even those outside of organized boroughs. It is also the most economical to administer requiring probably not more than 2% of receipts. A sales tax could cost up to 10%, or more to administer, and would badly impinge on the boroughs and cities, so should be avoided.

The most painless for needed revenues would come from Permanent Fund earnings (which are separate from the corpus, or body of the Fund).

Considering all the above, the most reasonable solution to a budget gap will include an income tax, based on ability to pay, and use of Permanent Fund earnings in amount which will enable continued PFD's.

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**KIP KNUDSON**

810 "O" Place / Anchorage Alaska 99501 / 907/274-8724 / golitely@alaska.net

Members of the Senate Finance Committee:

I want to pull you out of all the nitty gritty budget work, and examine the budget dilemma from the broadest perspective.

The big budget debate breaks down into two main areas:

- spending; and,
- revenues to pay for that spending.

You need to apply two standards to each area:

- spending needs to be sustainable and stable; and,
- revenues need to be sustainable and stable

Just by the nature of people's interest in government programs, spending tends to very stable, and the Legislature is constantly assessing how sustainable each program is. To illustrate how stable spending is, to make a one percent change in total spending takes all the political will and skill that you possess.

Because most of the sound and fury of budget debate centers on spending, I would like to focus your attention on the revenue side of your great debate. Alaskans have suffered a revenue stream that is neither stable nor sustainable.

When California experienced a great downturn in the early 90's, state revenues dropped about 20%. This drop was considered very extreme, and California has only recently begun to recover from the ensuing economic crisis.

Why are Alaskans willing to tolerate a revenue stream so unstable that 50% swings occur on a regular basis? I know you've heard from the oil price experts, and they try to make you feel certain about the future. However, trying to plan budgets around oil price forecasts is like gambling. What do you suppose the Vegas odds were two years ago on the bet that this year you'd be facing a one billion dollar shortfall? Such unstable revenues hardly provide you a basis upon which to build a long-term plan.

Now to the most important point: Alaska's fiscal system allows us to spend in an unsustainable manner. I don't say this to urge you to enact more taxes. You could impose the highest tax burden among the 50 states and still not have established a sustainable revenue stream.

How do other states achieve sustainable revenues? They base their revenues upon population and economic activity. When states lose population or experience economic downturn, it is

usually within a tolerable range, and thus spending can be adjusted without violating the principles of stable and sustainable spending. This finance system works very well for the other 49 states.

Alaska is different.

Congress understood how different we were, and endowed us with natural riches. Much like the land-grant universities of the early United States, we were granted land and resources to help fund government. Congress knew that our population and economy were, and still are, too small to finance government as other states do. I will call the land and resources granted to the state a "resource endowment."

Unfortunately, Alaska never created a formal finance system that could utilize our resource endowment properly.

I hope I can illustrate how we are violating the rules. The oil that we pump out of our resource endowment is the equivalent of principal. The rule that we have incorporated into our Constitution regarding the permanent fund - never allow principal to be spent - is violated every time we sell a barrel of oil, then book most of the cash as "income". We don't have the right to spend most of the cash we make on that barrel of oil, because my future grandkids own some of that oil too. When we let the first big Prudhoe lease in 1969, all but the sustainable cash income from that 900 million should have been set aside to produce income for us and for our grandkids.

Instead, most of the 900 million, and the succeeding billions, were spent immediately, in direct violation of the principles of endowment management.

On a personal level, the biggest asset that most people ever own is their house. Let's use this house as an analogy of how we use cash from oil sales: you sell your house, and then within a year, spend all your proceeds from the sale, equity and capital gain combined. Most would predict that this kind of financial behavior would lead to bankruptcy.

And yet for 30 years, Alaska has spent its assets in just the same disastrous way.

The creation of the permanent fund was a recognition that we should set money aside for the future, and protect it in the constitution. But, back to the house sale analogy, it is similar to saying that spending 75% of your equity and capital gain within one year will set you on the path to a solid financial future.

I haven't gotten very far today in helping you solve the budget worries, but hopefully I have explained the following:

- that sustainable and stable spending is almost a given, considering the political difficulties associated with increasing or decreasing spending.
- also, that we rely on a wildly unstable revenue stream, and spend in a sustainable manner from our resource endowment.

I am very aware of how hard you work on the spending side. Writing the budget is one of your primary constitutional duties, and you don't take it lightly.

But please, realize that Alaska is suffering from a broken fiscal system. Spend some critical months examining how to formalize the proper use of our resource endowment. The rules for this endowment need to be written in our constitution, and good amendments are never written quickly.

I did not get into many details today. Sometimes the simplest concepts are the most difficult to communicate, and I hope I was successful. I am at your disposal to discuss details of how we can begin using our endowment in a sustainable manner. Thank you for your time.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kap Knudson", with a long horizontal flourish extending to the right.

Kap Knudson

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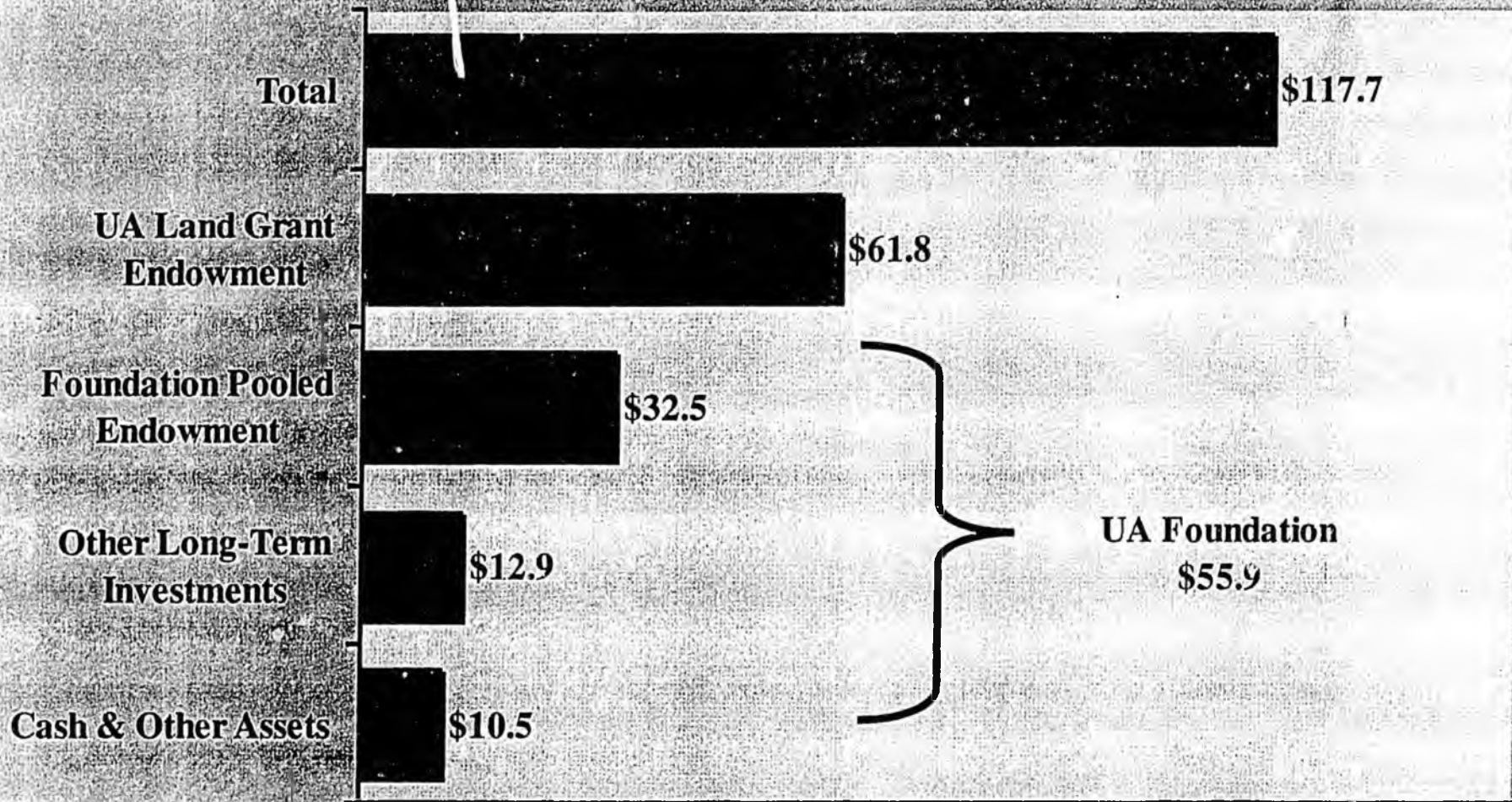
Kap Knudson

**University of Alaska  
Foundation**

**Endowment Management  
Development**

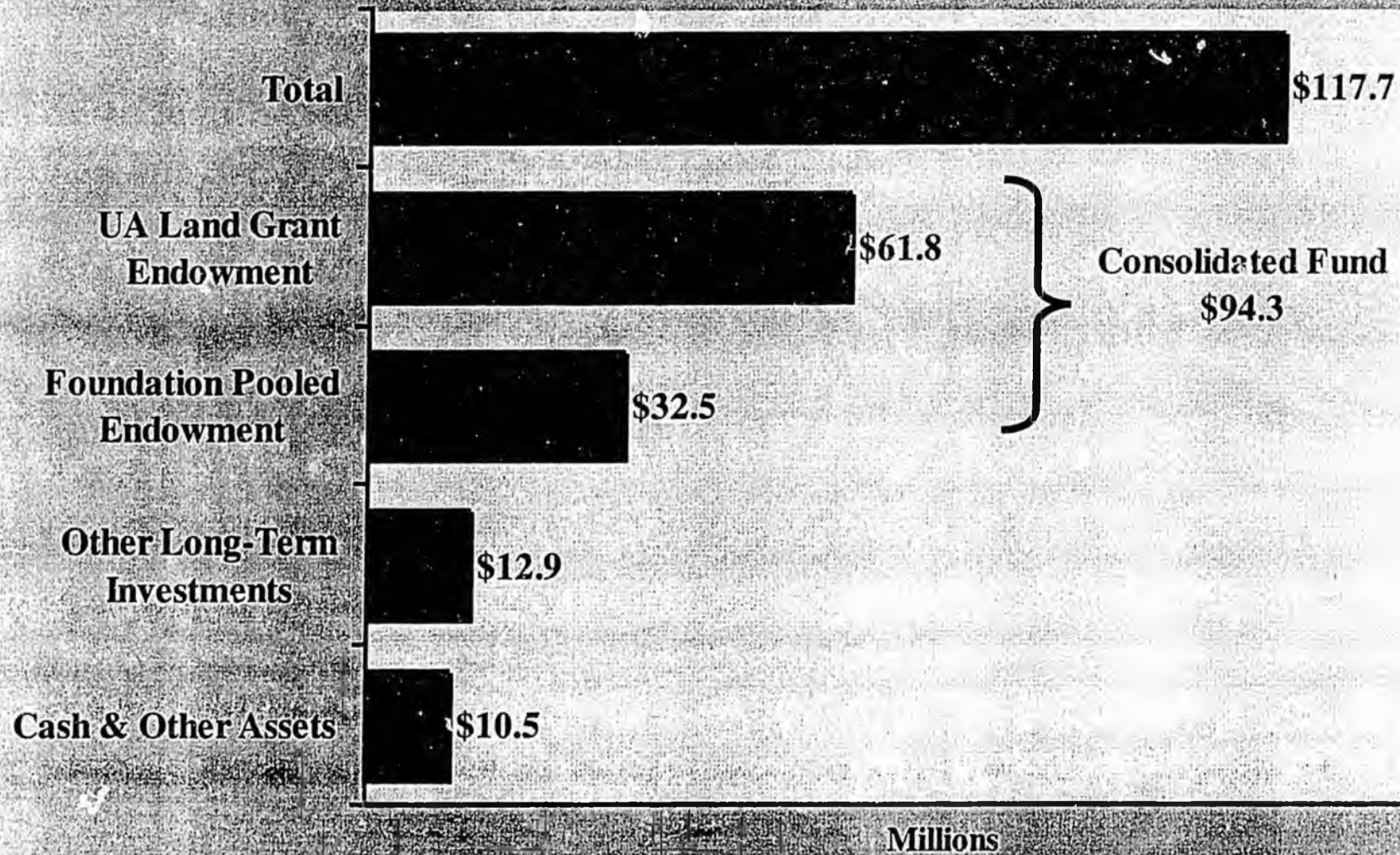
Jim Lynch, Treasurer

# University of Alaska Foundation Assets Under Management, December 31, 1998

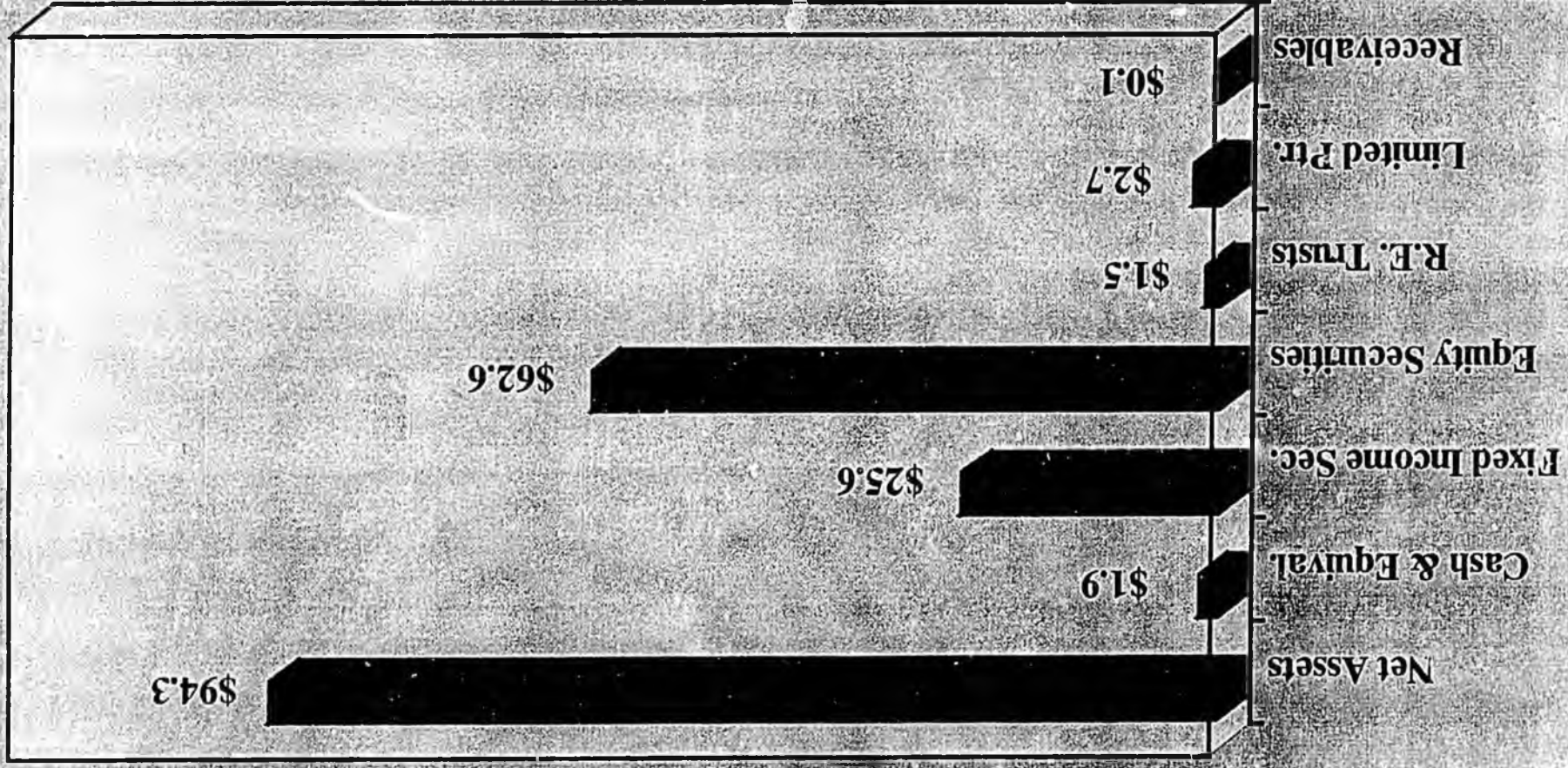


Millions

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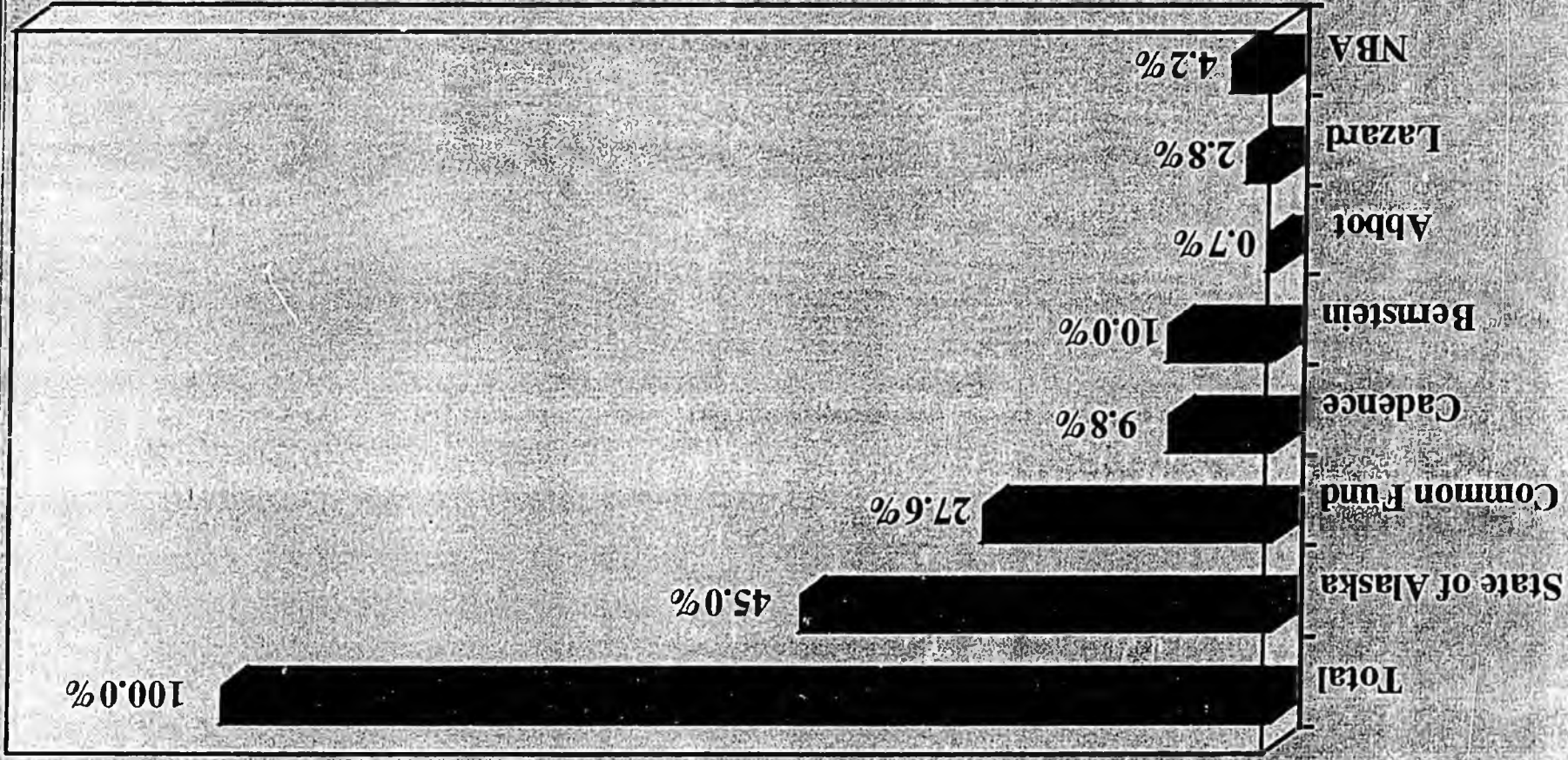


Consolidated Fund Assets  
December 31, 1998

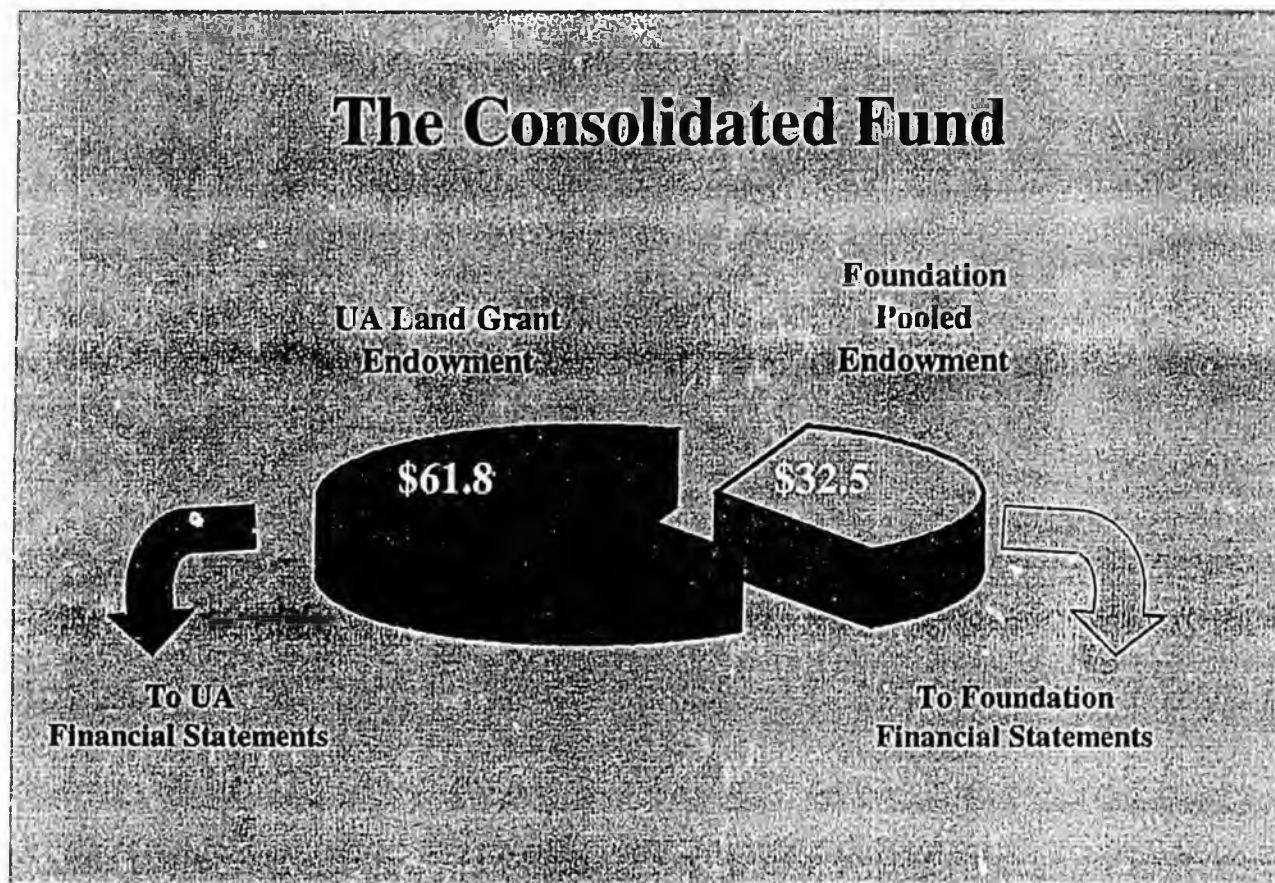


Millions

**Consolidated Fund  
Assets Distribution by Manager, December 31, 1998**



# University of Alaska Foundation



# University of Alaska Land Grant Trust Fund

- 1978
  - ▶ \$2.5 million
  - ▶ All cash and fixed income investments
  - ▶ Spending current income only

# University of Alaska Land Grant Trust Fund

- 1989
  - ▶ \$13.9 million
  - ▶ Equities authorized, minimal exposure
  - ▶ Spending current income only, after inflation proofing at CPI

# University of Alaska Land Grant Trust Fund

- 1997
  - ▶ \$43.2 million
  - ▶ Spending current income only after inflation proofing at 33% current income
  - ▶ Total return authorized
  - ▶ Consolidated with the UA Foundation's Pooled Endowment Funds

# **University of Alaska Foundation Pooled Endowment Fund**

- 1984
  - ▶ \$1.2 million
  - ▶ All cash and fixed income investments
  - ▶ Spending current income only

# University of Alaska Foundation Pooled Endowment Fund

- 1988
  - ▶ \$8.2 million
  - ▶ Balanced fund portfolio, fixed income bias
  - ▶ Unitized pool, total return
  - ▶ Spending 5.5% of market value

# University of Alaska Foundation Pooled Endowment Fund

- 1995
  - ▶ \$23.3 million
  - ▶ Spending 5.0% of 3 yr. moving average of market value

# University of Alaska Foundation Pooled Endowment Fund

- 1997
  - ▶ \$29.7 million
  - ▶ Consolidated with UA Land Grant Trust Fund
  - ▶ Spending 5.0% of 5 yr. moving average of market value

# **Endowment Management Conflicting Objectives**

- Preserving principal
- Maximizing distributions
- Minimizing payout fluctuations

# **Endowment Management**

## **Threshold Issues - Reducing Conflicts**

- Intergenerational Equity
- Total Return

# Intergenerational Equity

- Ability to purchase for future beneficiaries what the endowment can purchase for today's beneficiaries (inflation-proofing)

# **Total Return - Economics Perspective**

- Investing for maximum return
- No distinction between capital appreciation and current income
- No distinction between realized and unrealized earnings

# **Total Return - Management Perspective**

- Disconnects investment decisions from short-term spending considerations
- Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles

# **Endowment Management**

## **Conflicting Objectives - Trade-offs**

- Preserve purchasing power of endowment
- Maximize distributions (current and future)
- Predictable payouts

# Strategic Questions

- How much is needed for distribution to the beneficiary (spending)?
- How much is needed to preserve purchasing power (inflation-proofing)?
- Time horizon for major distributions?

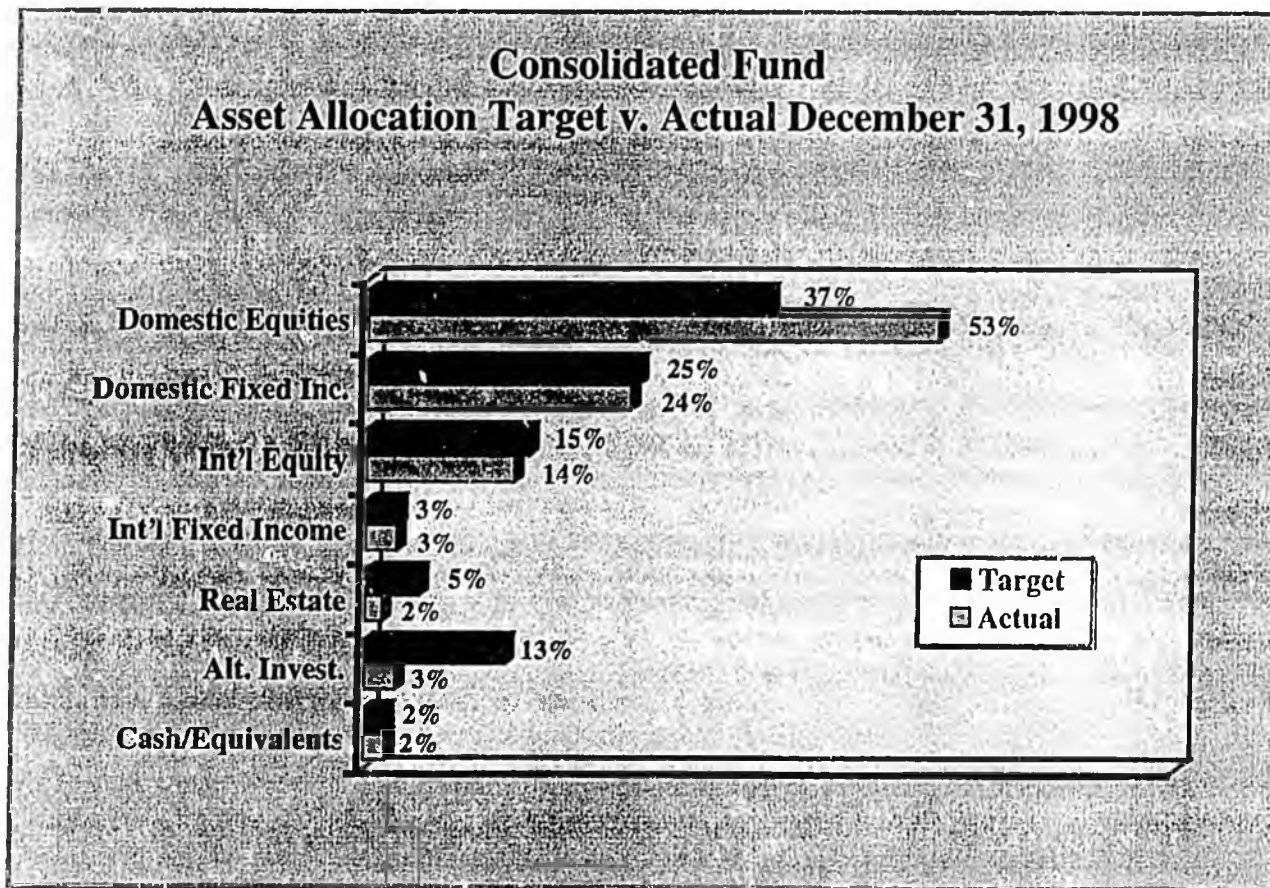
# Strategic Issues

- Expected or needed rate of return
- Risk tolerance
- Asset class preference

# Strategic Outcomes

- Portfolio asset allocation
- Spending Methodology

# Asset Allocation

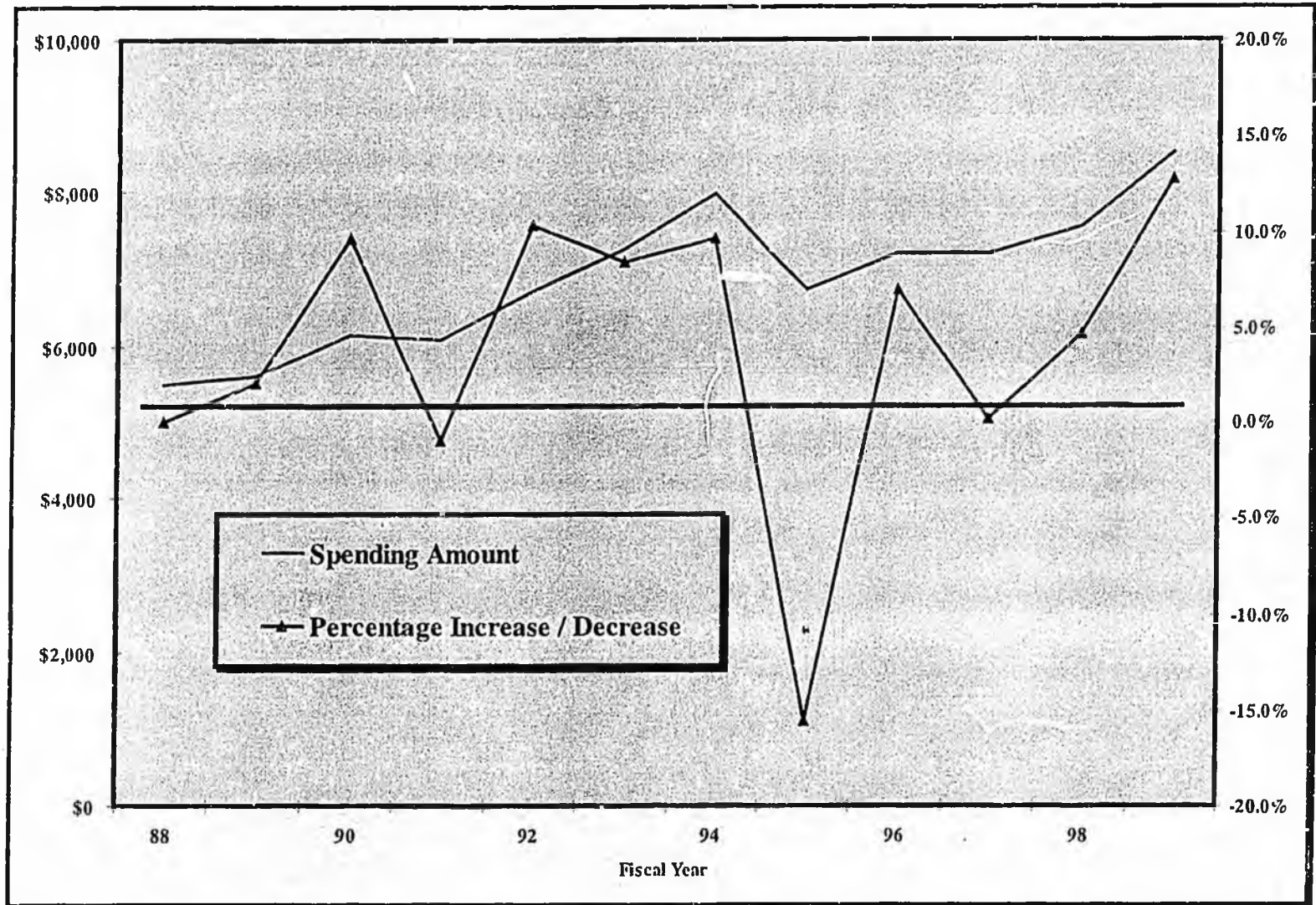


# Spending Methodologies

|                                       | <u>Utilization</u> |
|---------------------------------------|--------------------|
| Spend all current income              | 4%                 |
| Spend X% of current income            | 2%                 |
| Spend X% of beginning market value    | 5%                 |
| Spend X% of moving avg. of mkt. value | 70%                |
| Increase prior year spending by X%    | 6%                 |
| Decide each year                      | 5%                 |
| Other                                 | 9%                 |
| Total (506 respondents)               | <u>100%</u>        |

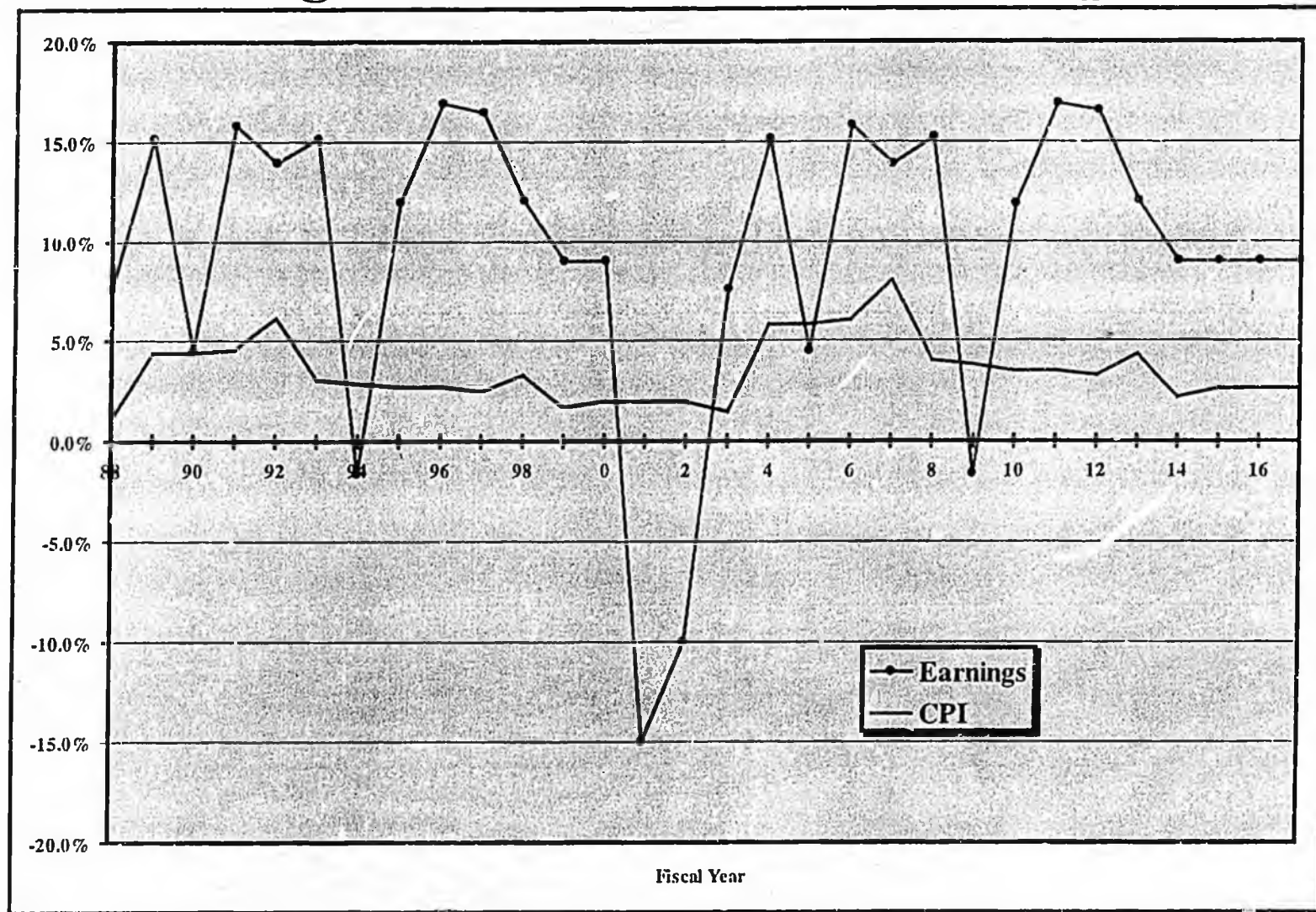
(Source: NACUBO Endowment Survey, 1998)

# Theoretical Fund Spending Allowance History



# Theoretical Fund

## Earnings Rate and Inflation Assumptions

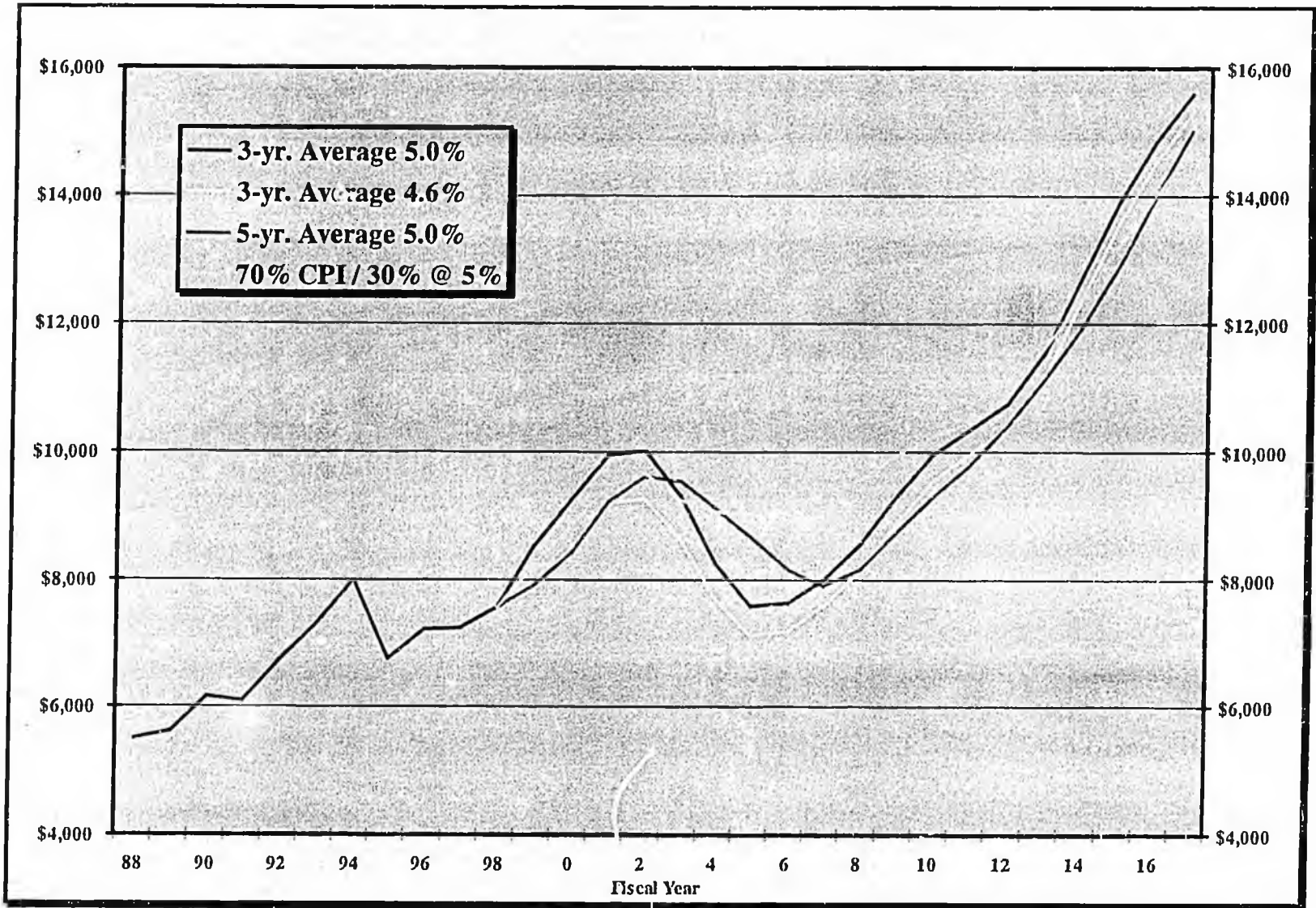


# Spending Alternatives Analyzed

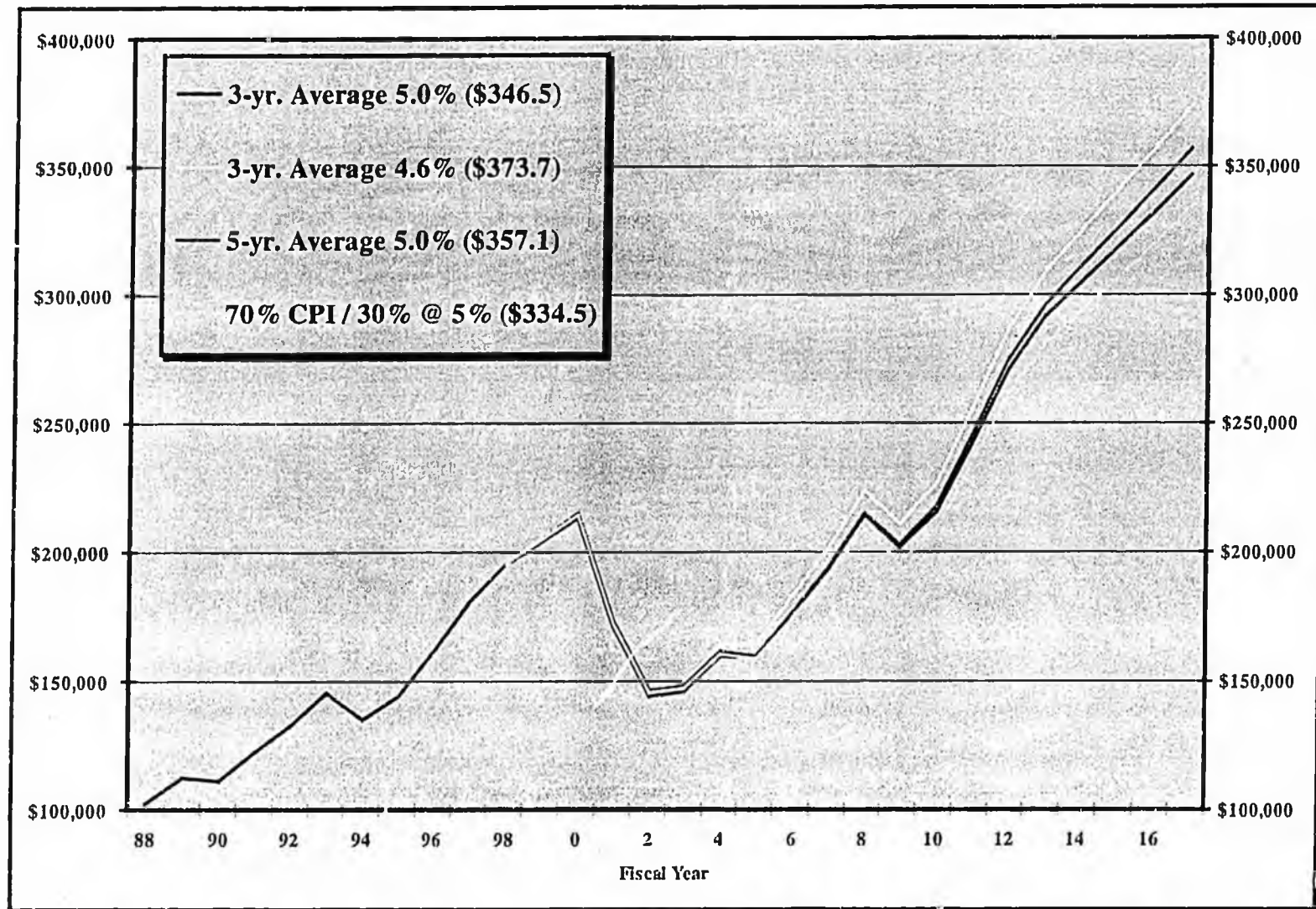
- 3-Year Average Market Value X 5.0%
- 3-Year Average Market Value X 4.6%
- 5-Year Average Market Value X 5.0%
- Yale Methodology - (70% Prior Year Spending adj. for inflation) + (30% of Market Value X 5.0%)

# Theoretical Fund Spending Allowance Alternatives

## Annual Distribution Amounts



# Theoretical Fund Spending Alternatives Endowment Principal Balances





CALLAN ASSOCIATES  
March 1999

Michael J. O'Connell  
Executive Vice President



# Alaska State Senate Finance Committee

# 1999 Capital Market Projections

## *Summary of Today's Presentation*

- Callan Associates background
- Recap of key concepts, tools & terms
- Review of historic returns
- Callan's 1999 five year projections
- Implications of new estimates

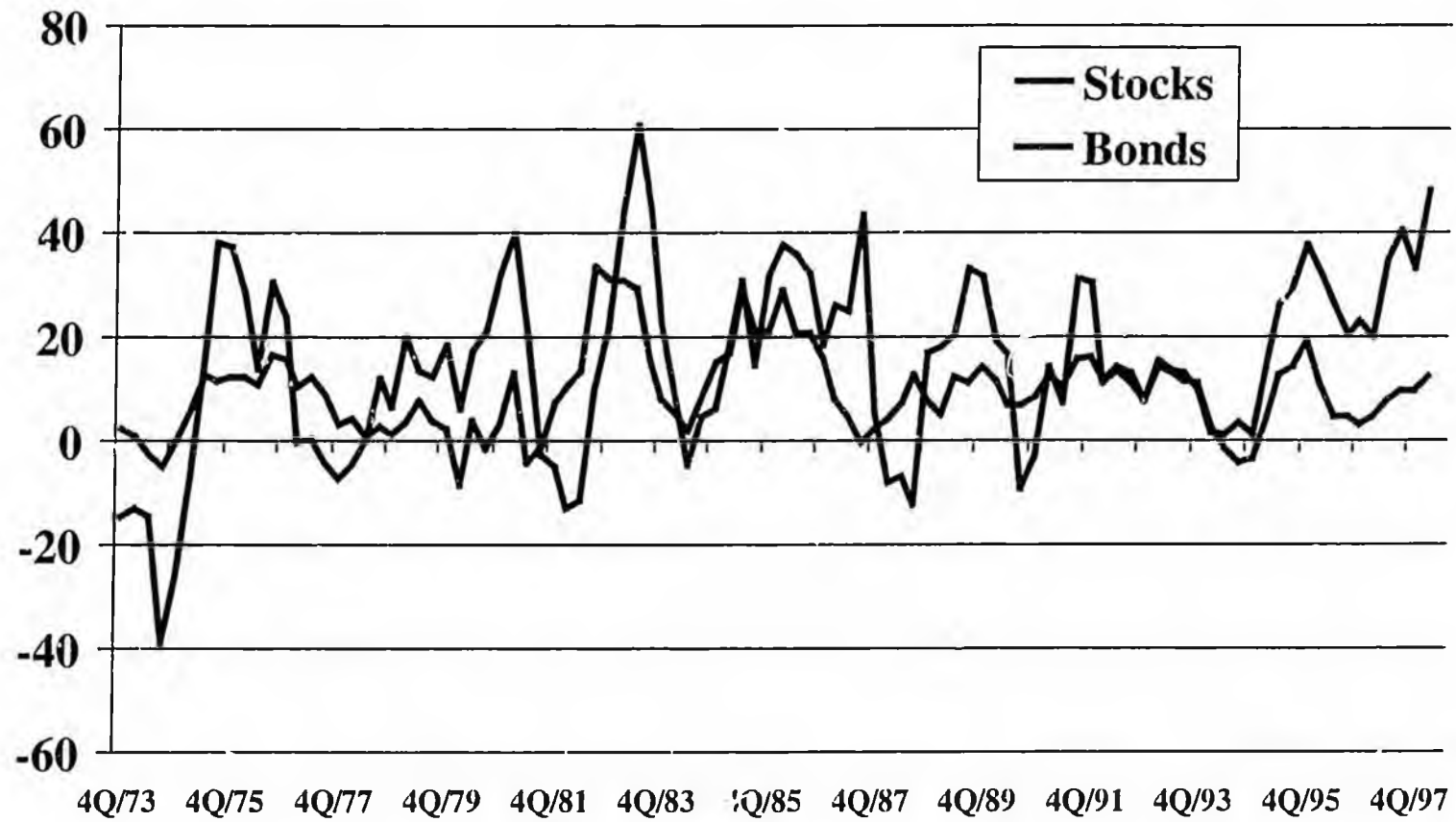
## Callan Associates Inc.

- National pure investment consulting firm
- 290+ Institutional clients nationally who in aggregate have more than \$600 billion
- Headquarters in S.F., offices in Atlanta, Chicago, Denver and Morristown, N.J.
- APFC client since 1989, ASPIB client since 1992
- Services include: strategic planning, asset allocation modeling, manager selection & performance evaluation

# Michael O'Leary CFA

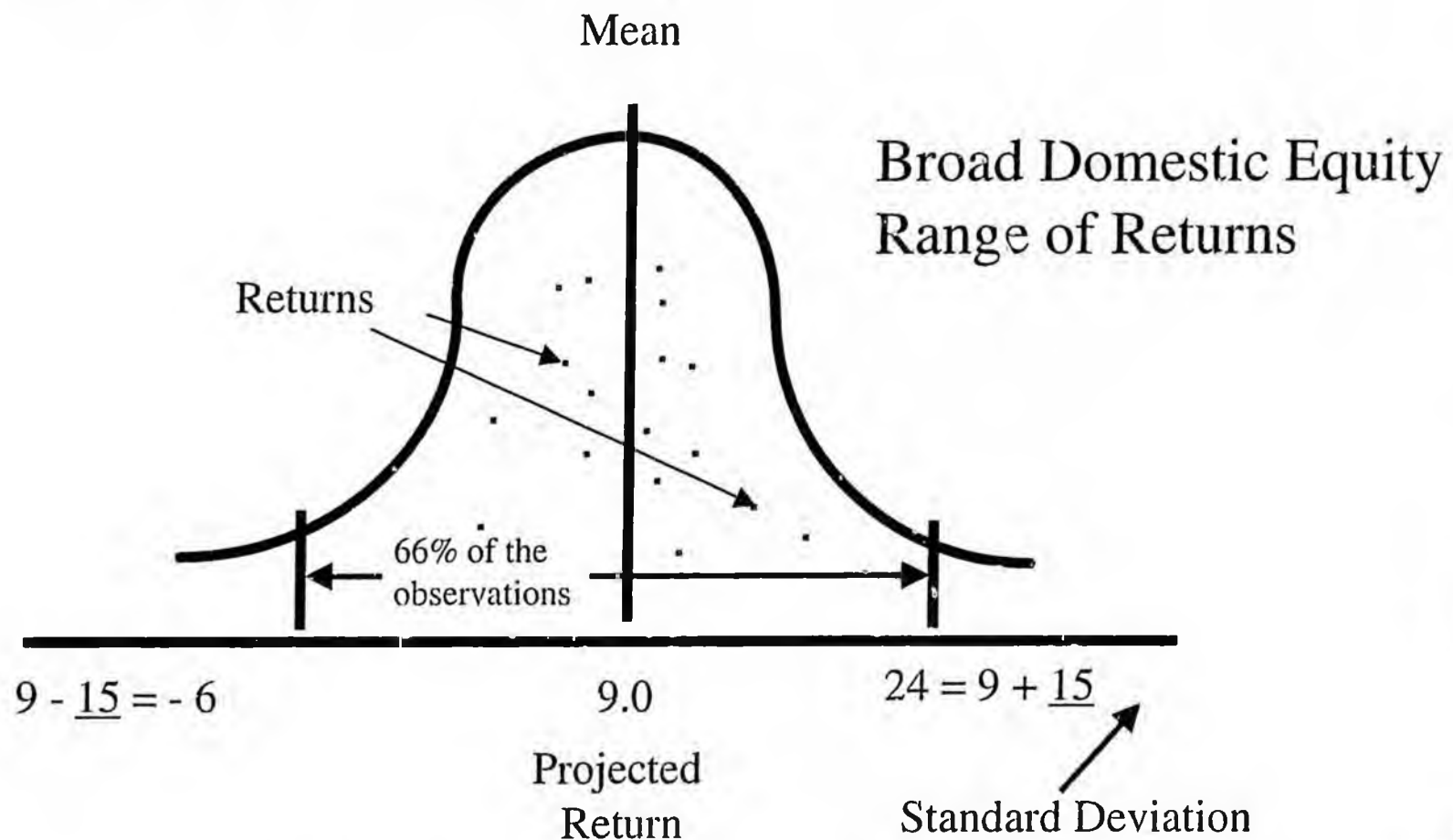
- 30 years of investment experience
- Joined Callan in 1984
- Prior experience with bank trust departments as: analyst, portfolio manager, research director, head of portfolio management
- Currently, Executive VP; member of Management Committee; Vice Chair of Client Policy Review Committee & Chair of Manager Search Committee

# Volatility / Uncertainty

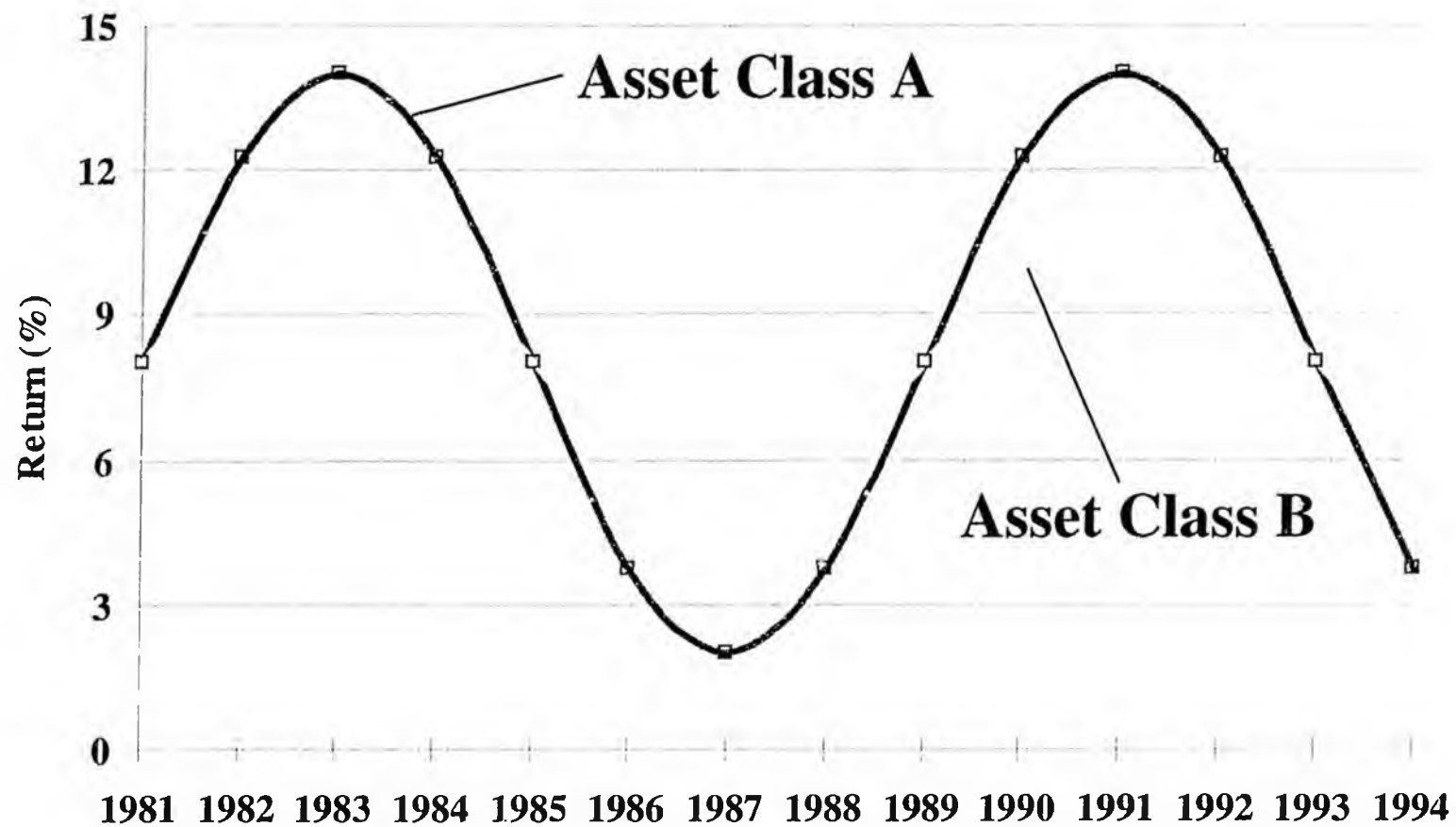


# Measuring Risk

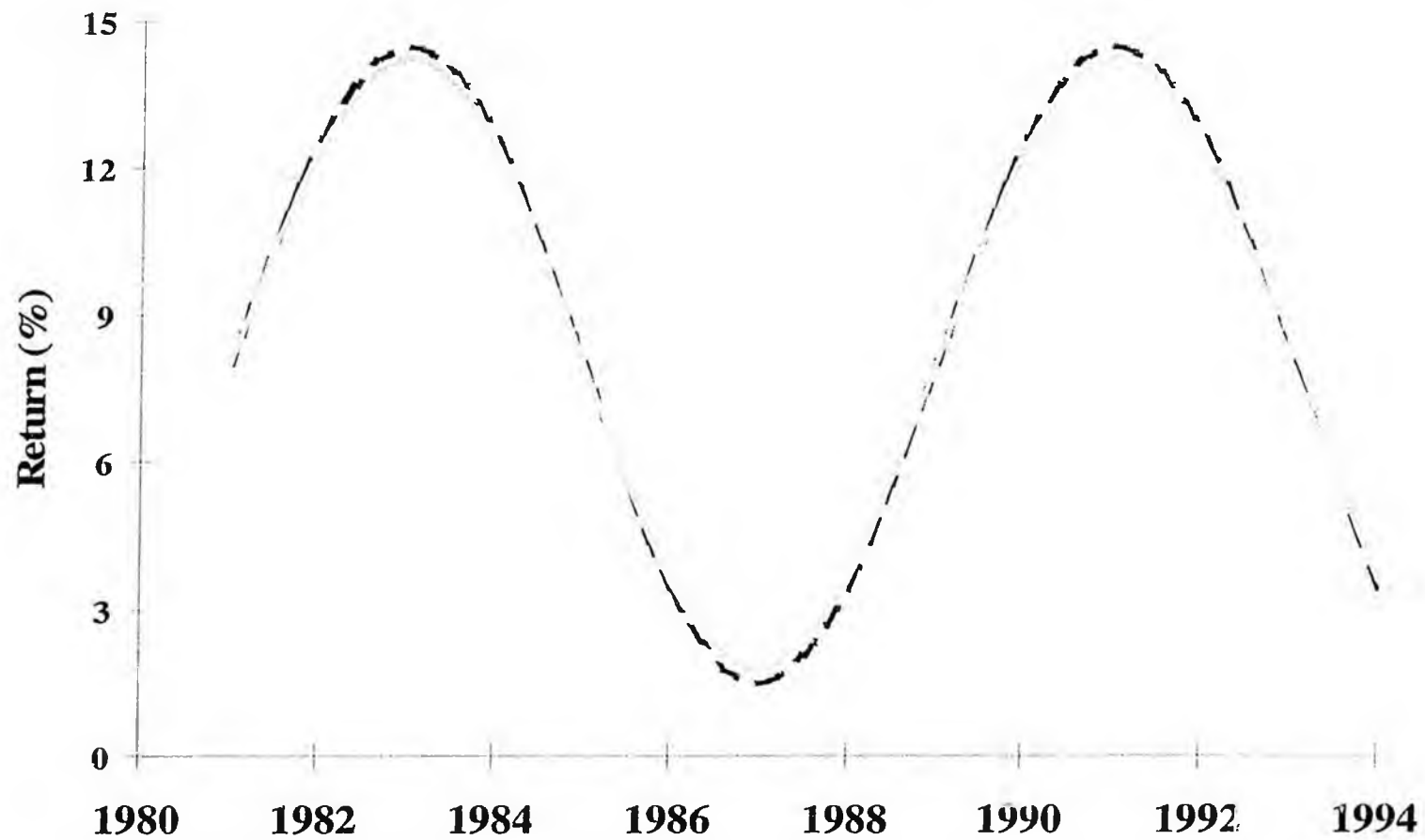
- Standard Deviation - Measures the Variability of Returns from Their Mean



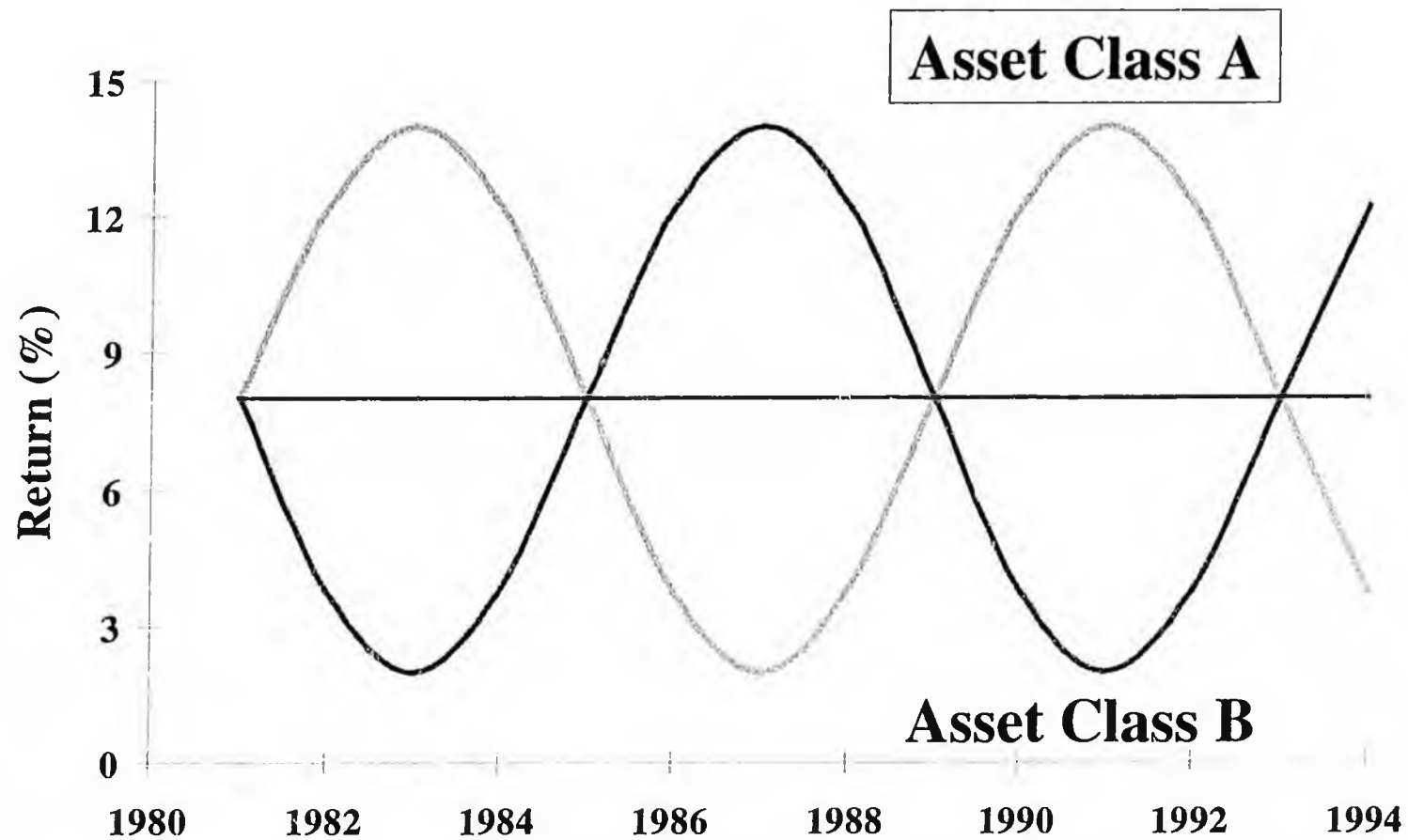
# Returns Will Go Up and Down



# Perfect Correlation (+1)

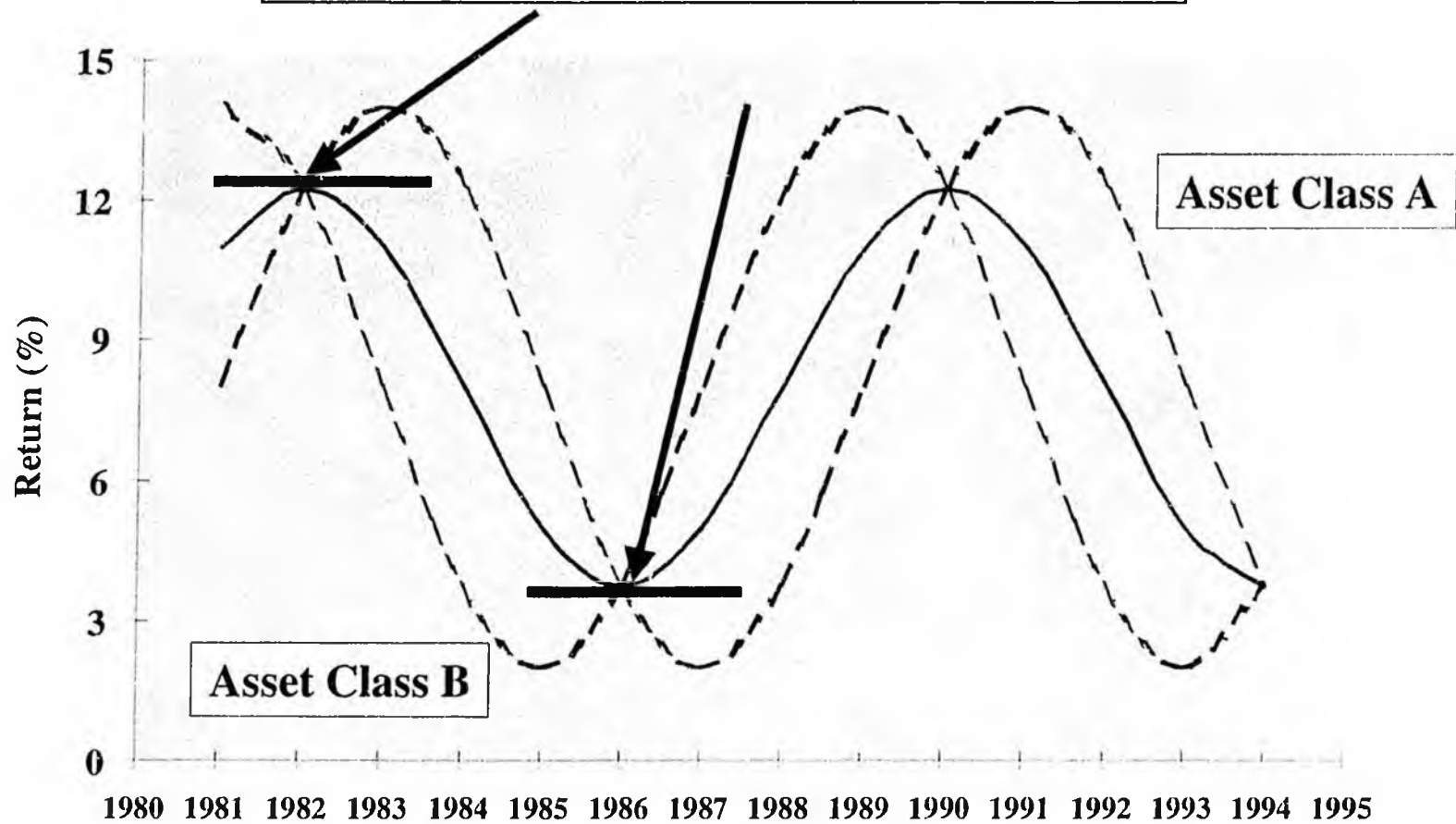


# Perfect Negative Correlation (-1)



# Correlation and Diversification

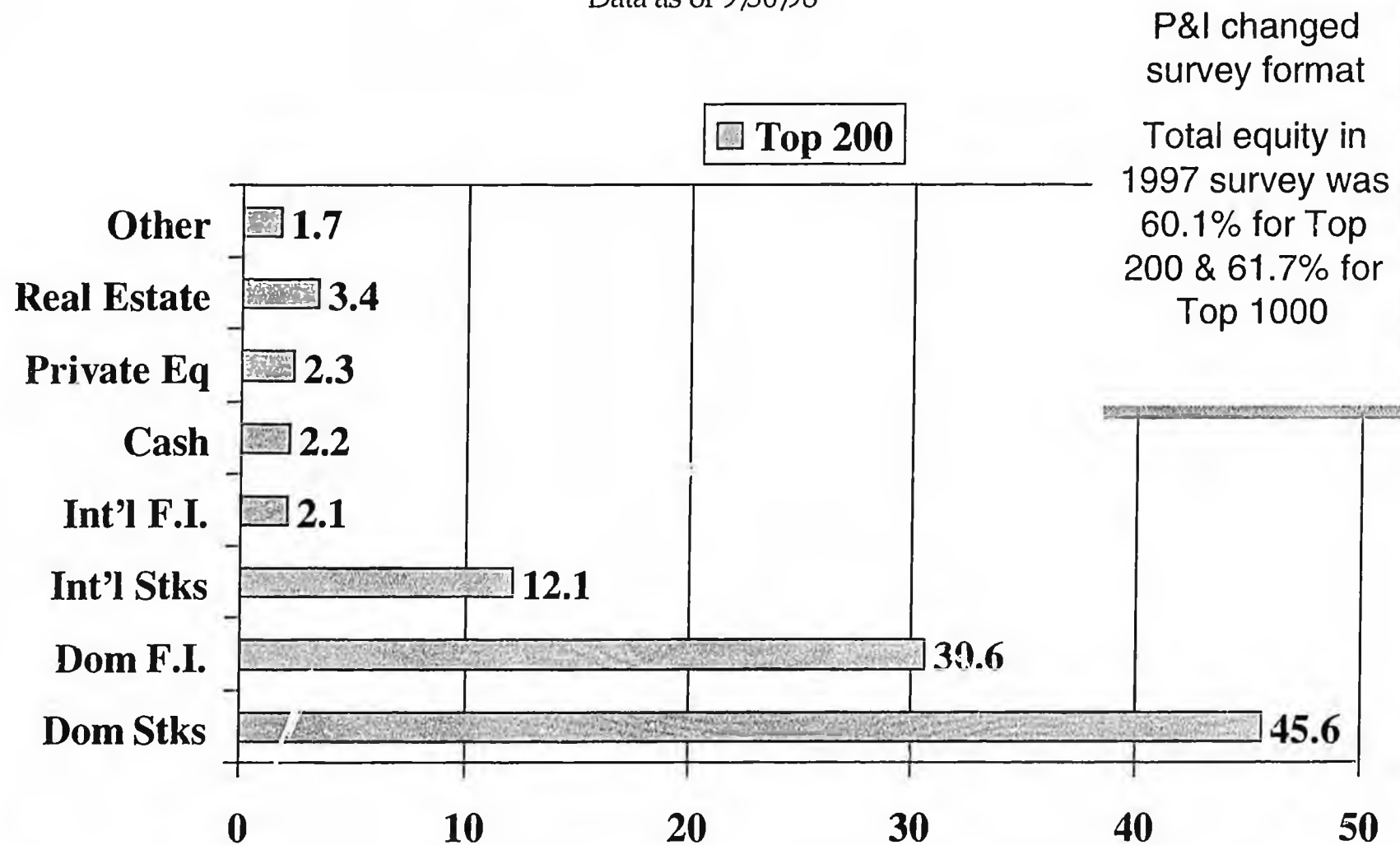
**Portfolio Volatility Reduced  
with 50% Asset Class A & 50% Asset Class B**



# Large DB Plan Diversification

Pensions & Investments 1/25/99

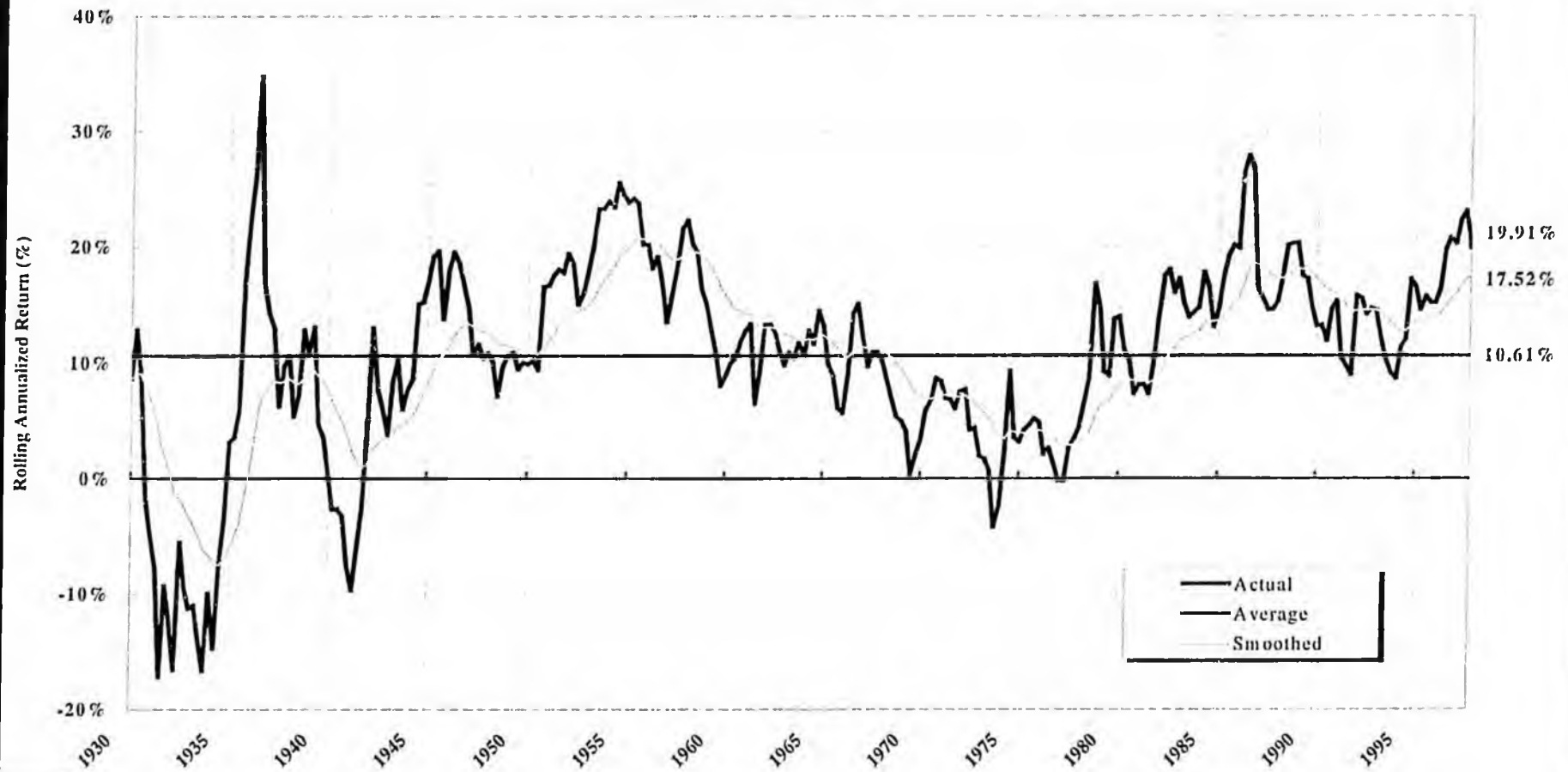
Data as of 9/30/98



# S&P 500

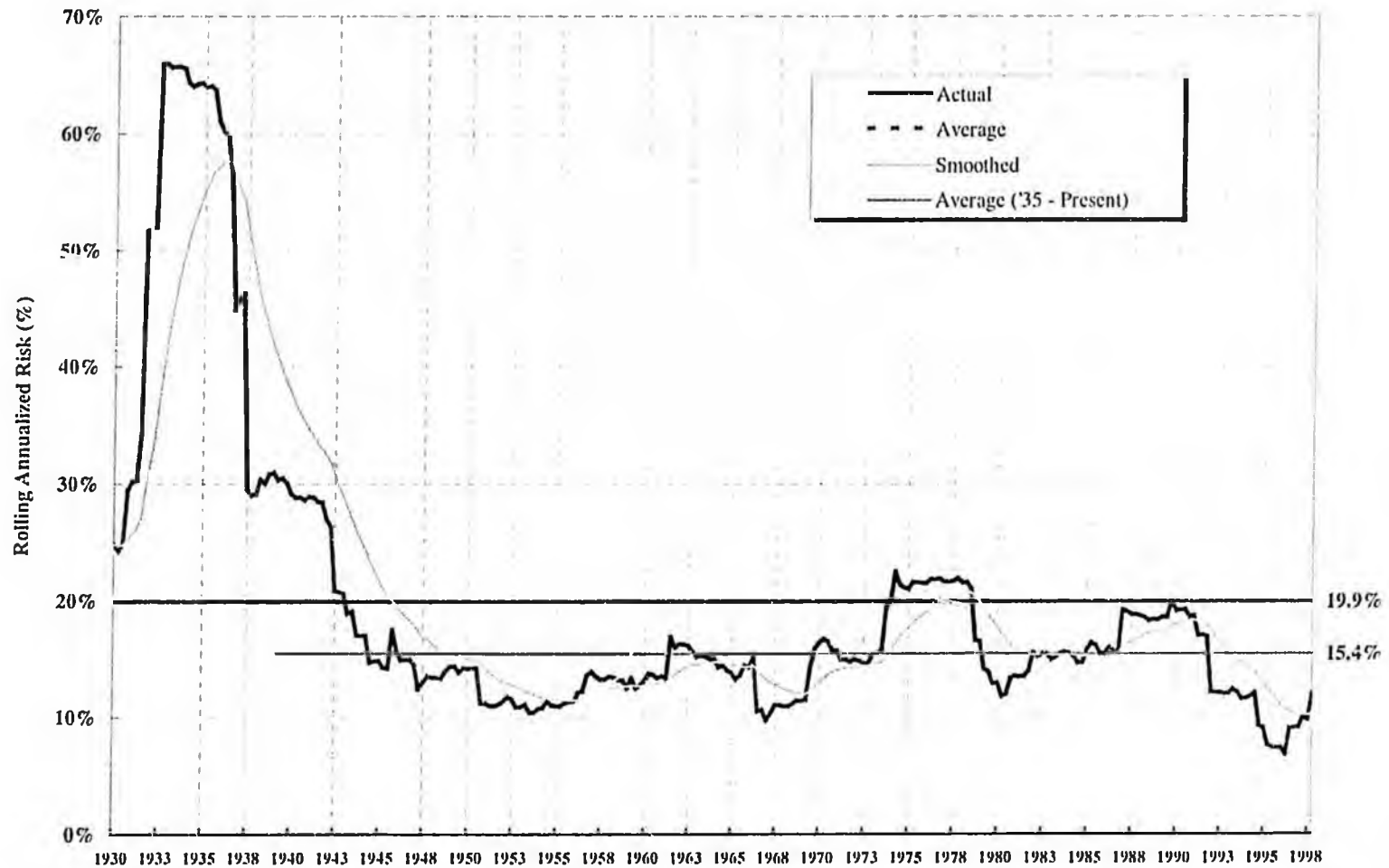
## Rolling 5 Year Returns

Rolling 5 Year Return for S&P 500  
(1926 - Present)



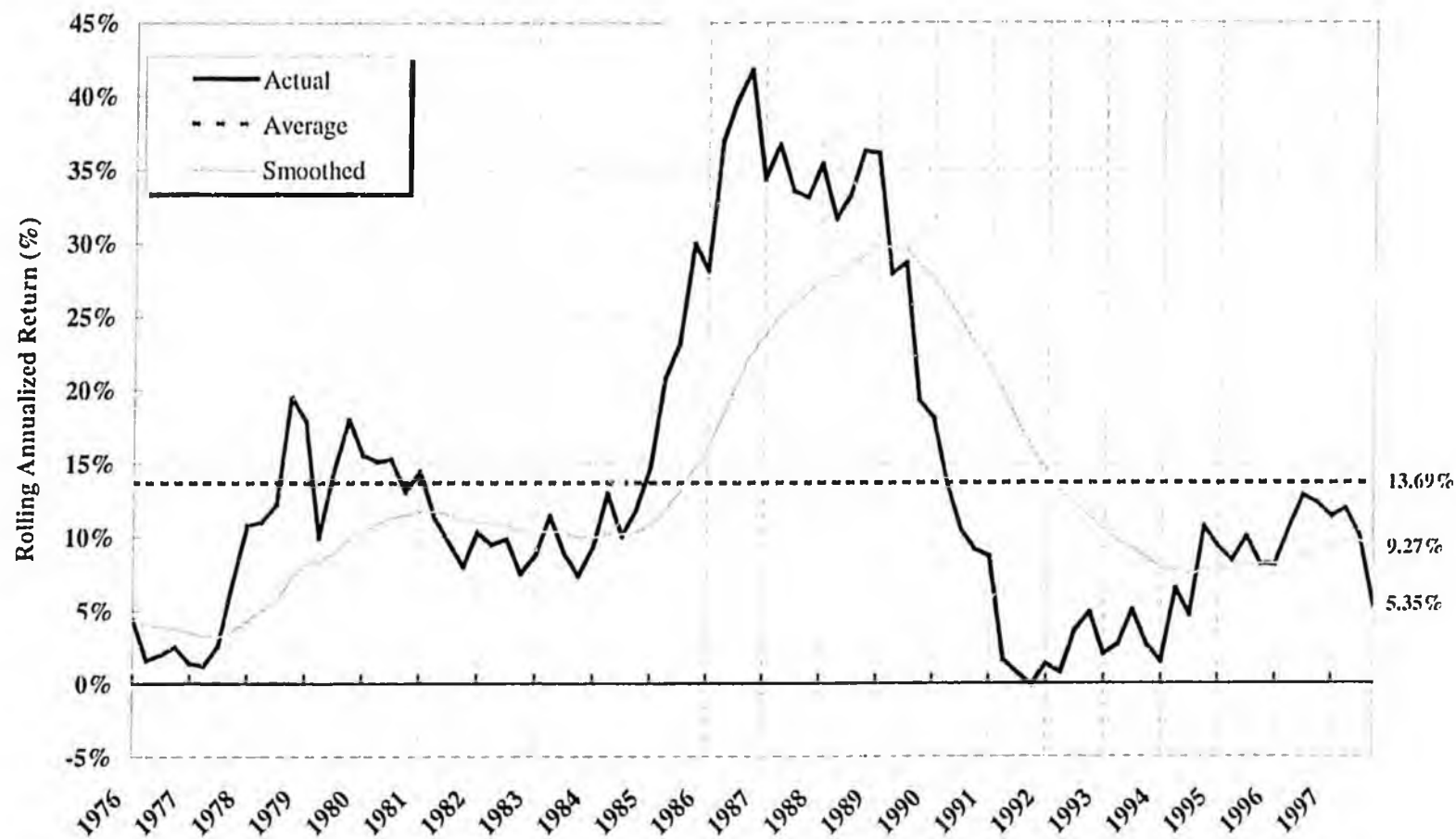
# S&P 500 Historic Risk Perspective

Rolling 5 Year Standard Deviation for S&P 500 (1926 to Present)



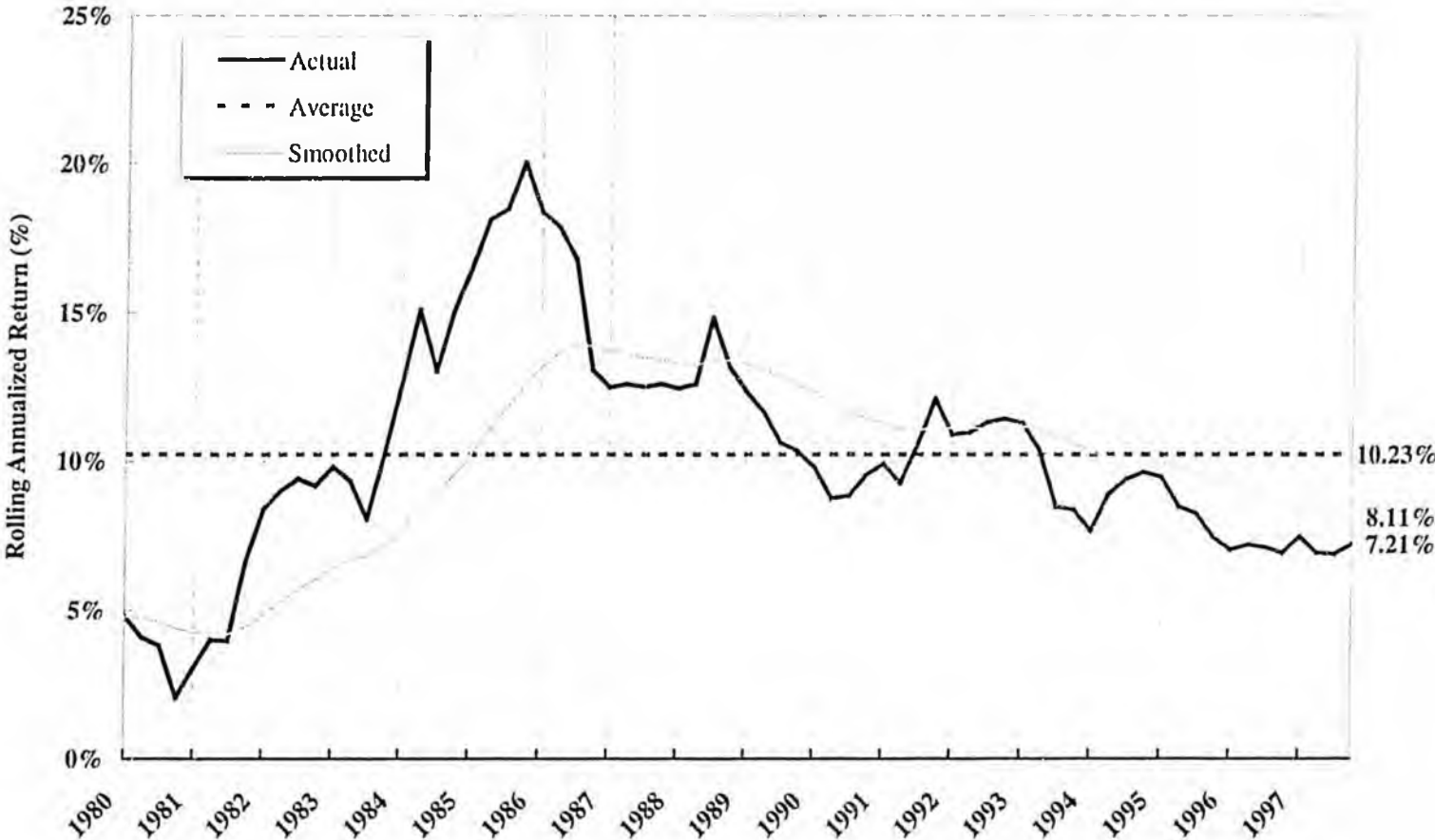
# International Equity Returns

## Rolling 5 Year Return for MSCI EAFE



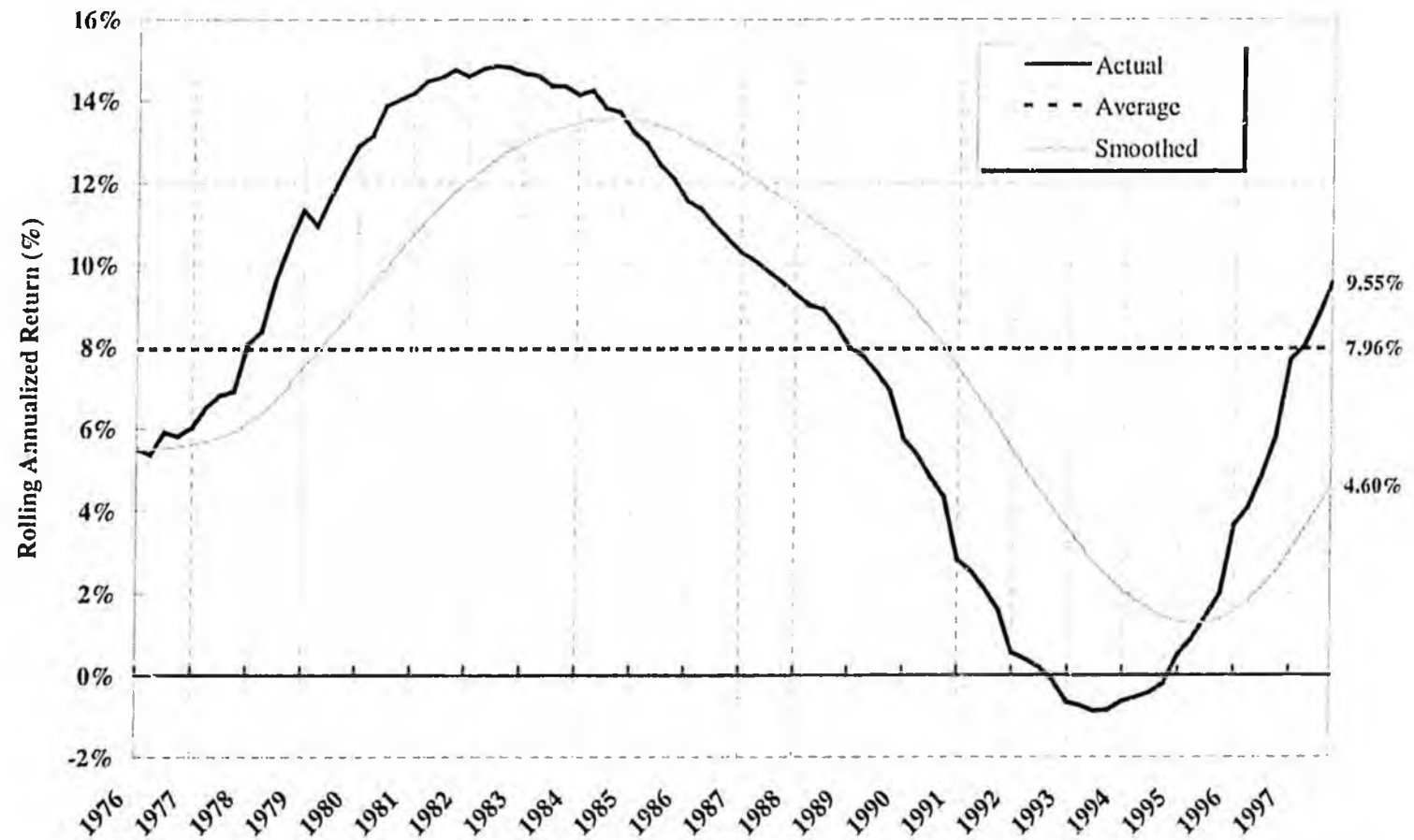
# Bond Returns

## Rolling 5 Year Return for Lehman Aggregate



# Real Estate Recovery

Rolling 5 Year Return for CRES



# Large Cap Domestic Equity

## 1950-1998

(195 quarters of rolling 5-year data - first five-year period begins in 1950)

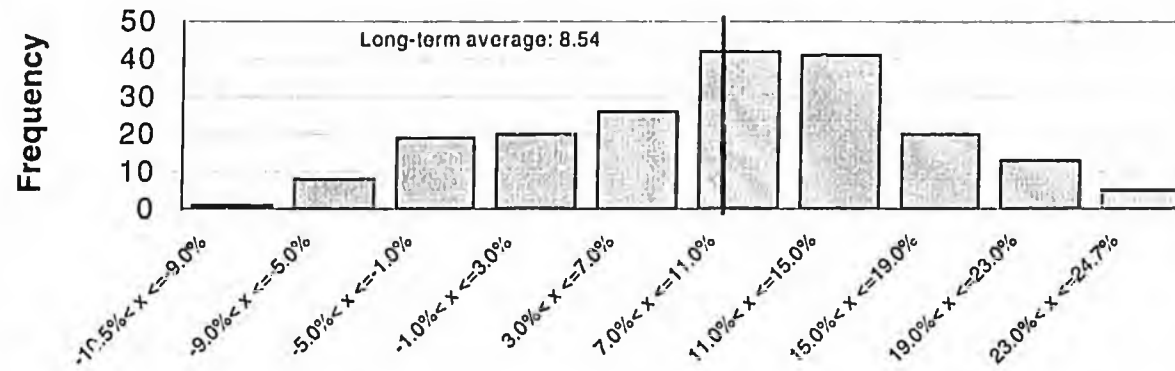
Defining flat inflation as -1.5 to 1.5 percent change in a five-year period

|  | Large Cap |                            | Large Cap |         |
|--|-----------|----------------------------|-----------|---------|
| <b>Real Returns</b>                              |           | <b>Standard deviations</b> |           |         |
| Decreasing Inflation                             | 12.35%    | Decreasing Inflation       | 13.16     | 57 qtrs |
| Flat Inflation                                   | 9.83%     | Flat Inflation             | 14.80     | 74 qtrs |
| Increasing Inflation                             | 3.63%     | Increasing Inflation       | 15.37     | 64 qtrs |
| Long-term Avg. - rolling 5-year real returns     | 8.54%     | Long-term Avg. Std. Dev.   | 14.51     |         |
| *Long-term compound real returns (Fisher method) | 8.70%     |                            |           |         |
| Long-term Avg. Nom. rtn                          | 12.70%    |                            |           |         |
| Long-term Avg. Inflation                         | 4.17%     |                            |           |         |

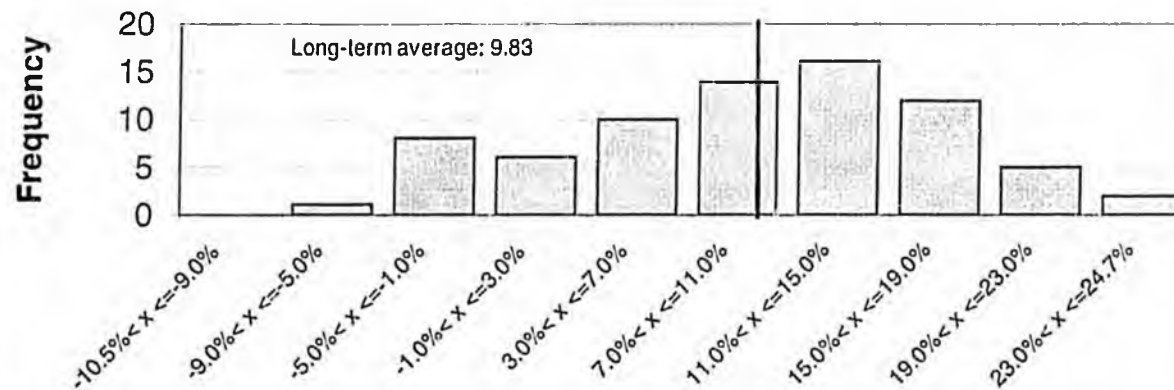
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# Distribution of Large Cap Real Returns

All Scenarios 1950-1998 (195 quarters)

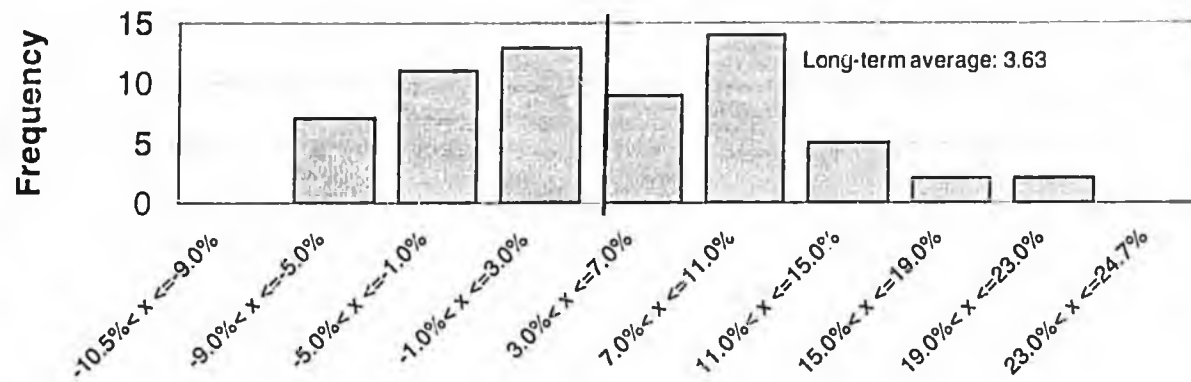


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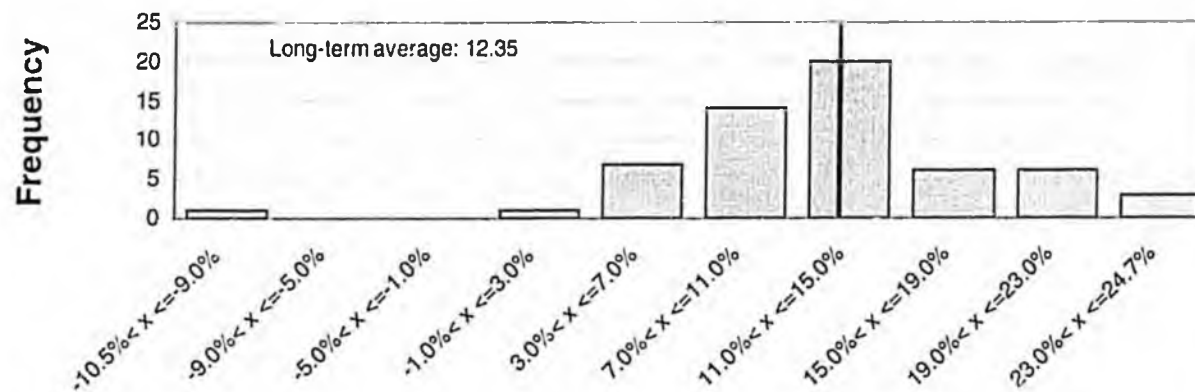


# Distribution of Large Cap Real Returns

Rising Scenario 1950-1998 (64 quarters)



Falling Scenario 1950-1998 (57 quarters)



# The Economic Environment for the Next Five Years

- U.S. economy coming off third straight year of GDP growth >3%, and is eight years into the current expansion...
- Despite troubles in Asia and Russia, and the potential for problems spreading to Latin America
- Inflation remains low, despite lowest unemployment in 28 years
- Real incomes are rising
- Risk of recession is real, but receding

## We Have a Point of View

- The U.S. economy will slow, but avoid recession
- Asian financial crisis has stabilized. Asia is in recession, but the bottom seems in sight.
- The dollar appears to have peaked.
- Inflation is near its trough.
  - We expect low but increasing inflation
  - We expect a flat to declining dollar
- Our Capital Market projections incorporate our economic expectations

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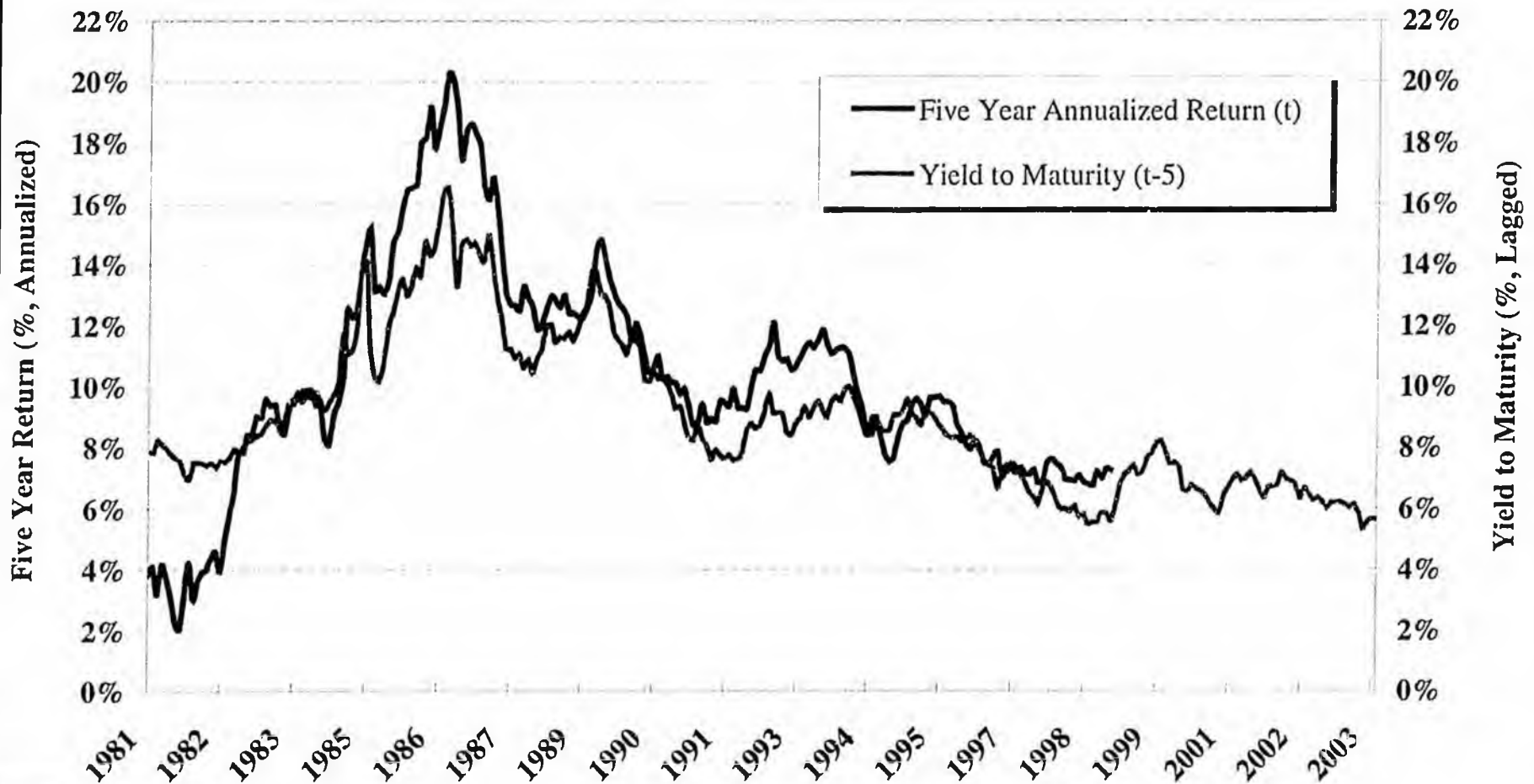
- Basic assumptions
  - ✓ Over the long term;
    - Stocks earn more than bonds
    - Bonds earn more than cash
    - Unlevered real estate something between the two
  - ✓ We forecast the range of returns
    - Stocks = 9% plus or minus 15%
    - Two thirds of the time, we expect the 12 month return for the S&P to be between 24% and negative 6.0%
    - One third of the time it may be either higher or lower
  - ✓ Stocks, particularly small cap & int'l stocks, are riskier than bonds

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- Interest rates are much lower than Dec. 1997
- Stock prices, particularly for a small group of large cap growth companies, are much higher
- P/E ratios are astoundingly high, but are not inconsistent with long-term interest rates
  - markets may be overvalued, but the high p/e overstates the problem
  - almost all appreciation in the S&P500 during 1998 was due to price appreciation - earnings growth has disappeared, and is not likely in 1999

# Current Yield To Maturity Future Bond Returns

Lehman Aggregate Bond Index 5 Year Returns vs. Lagged Yield to Maturity

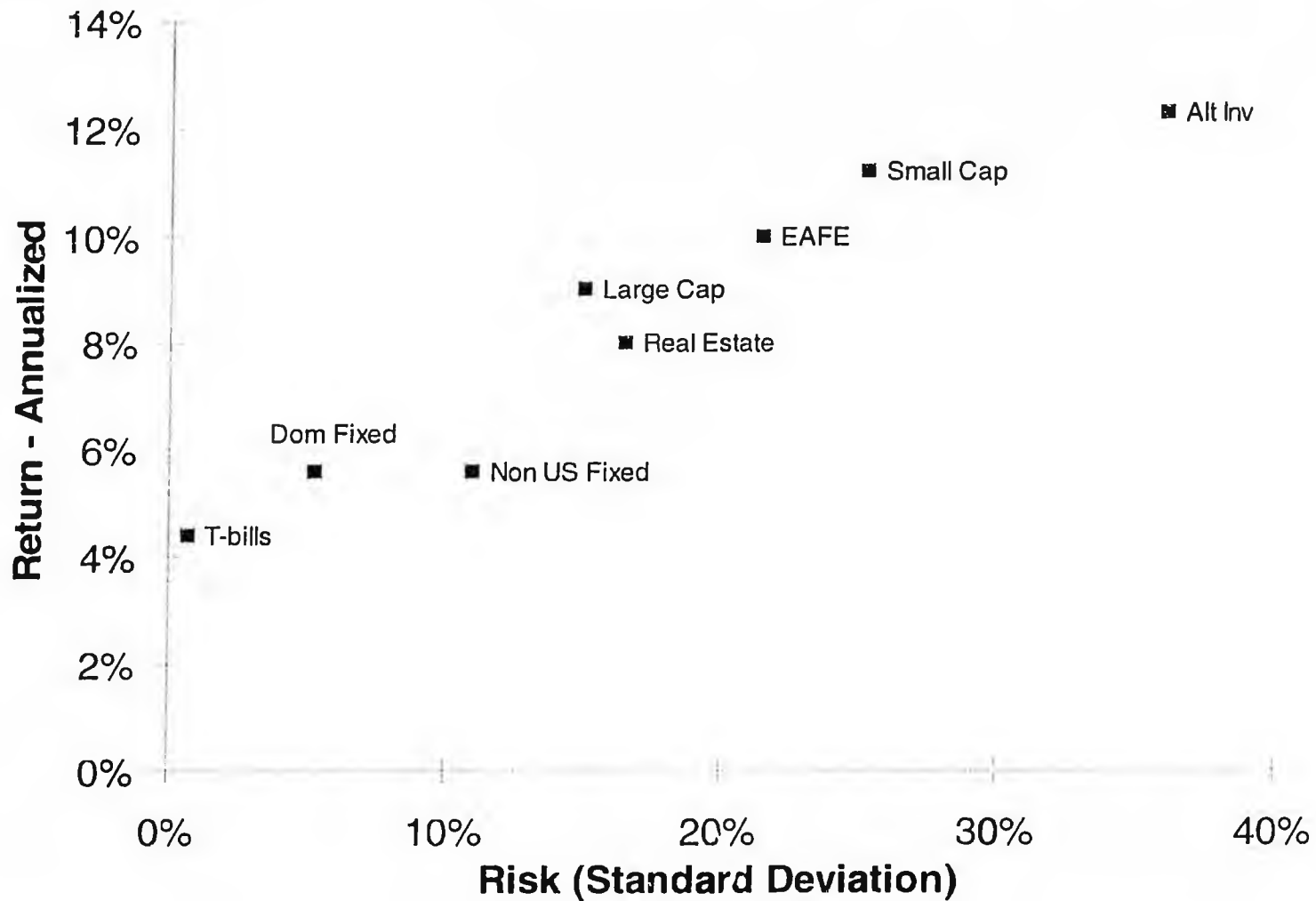


## 1999 Capital Market Projections

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

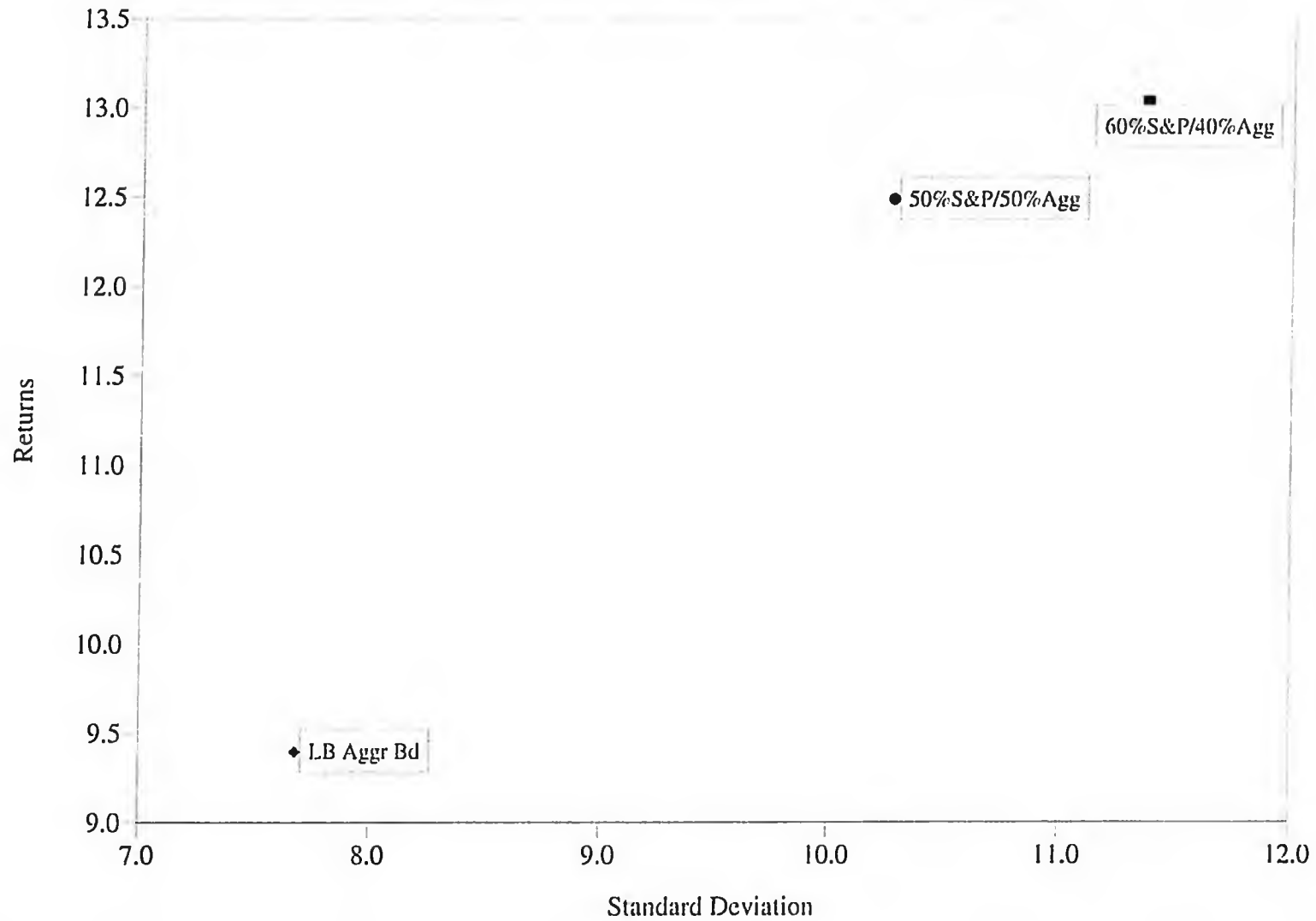
# Five-Year Capital Market Projections

*Higher Returns at the Price of Higher Risk*

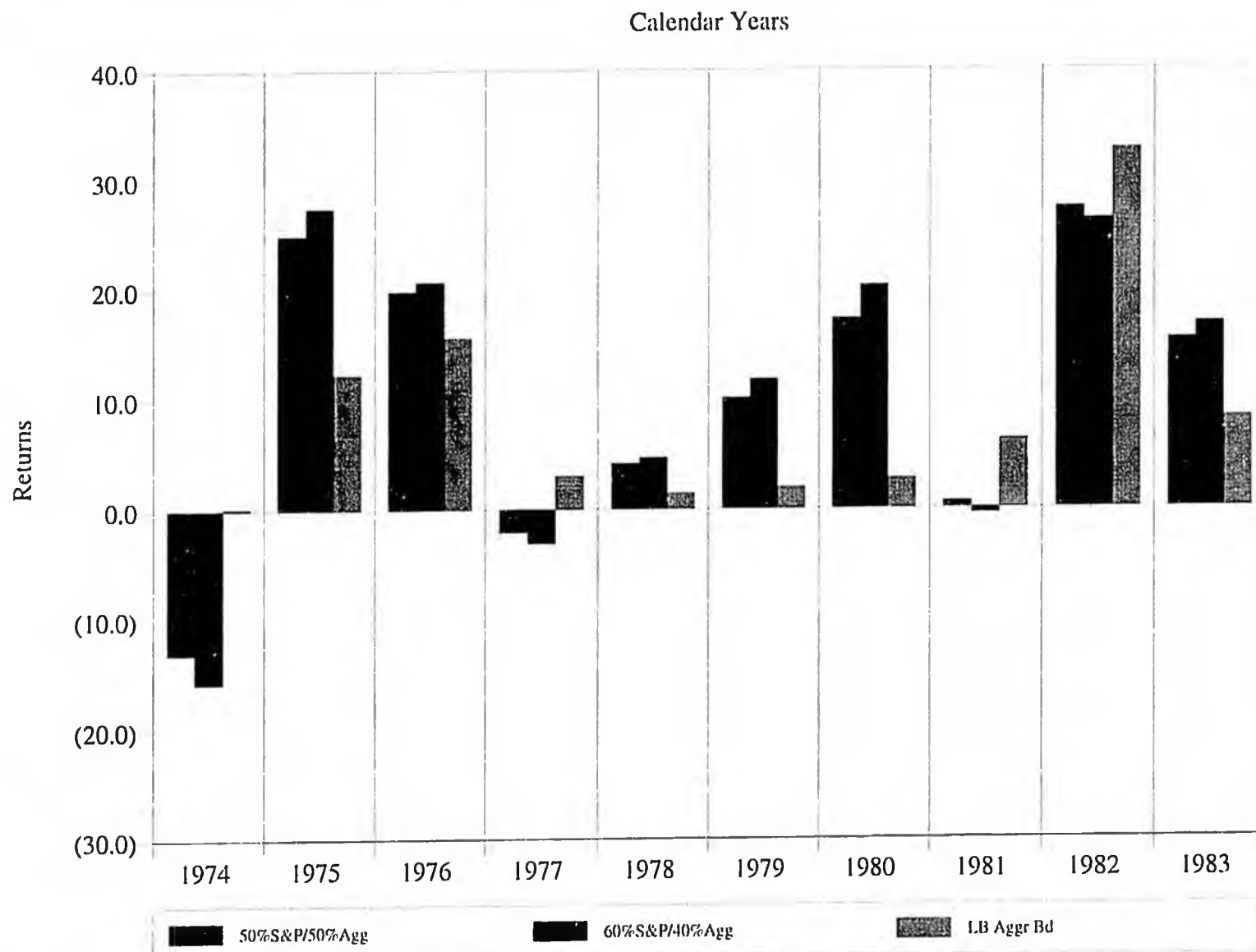


# Historical Risk and Reward

Scatter Chart for 25 Years Ended December 31, 1998

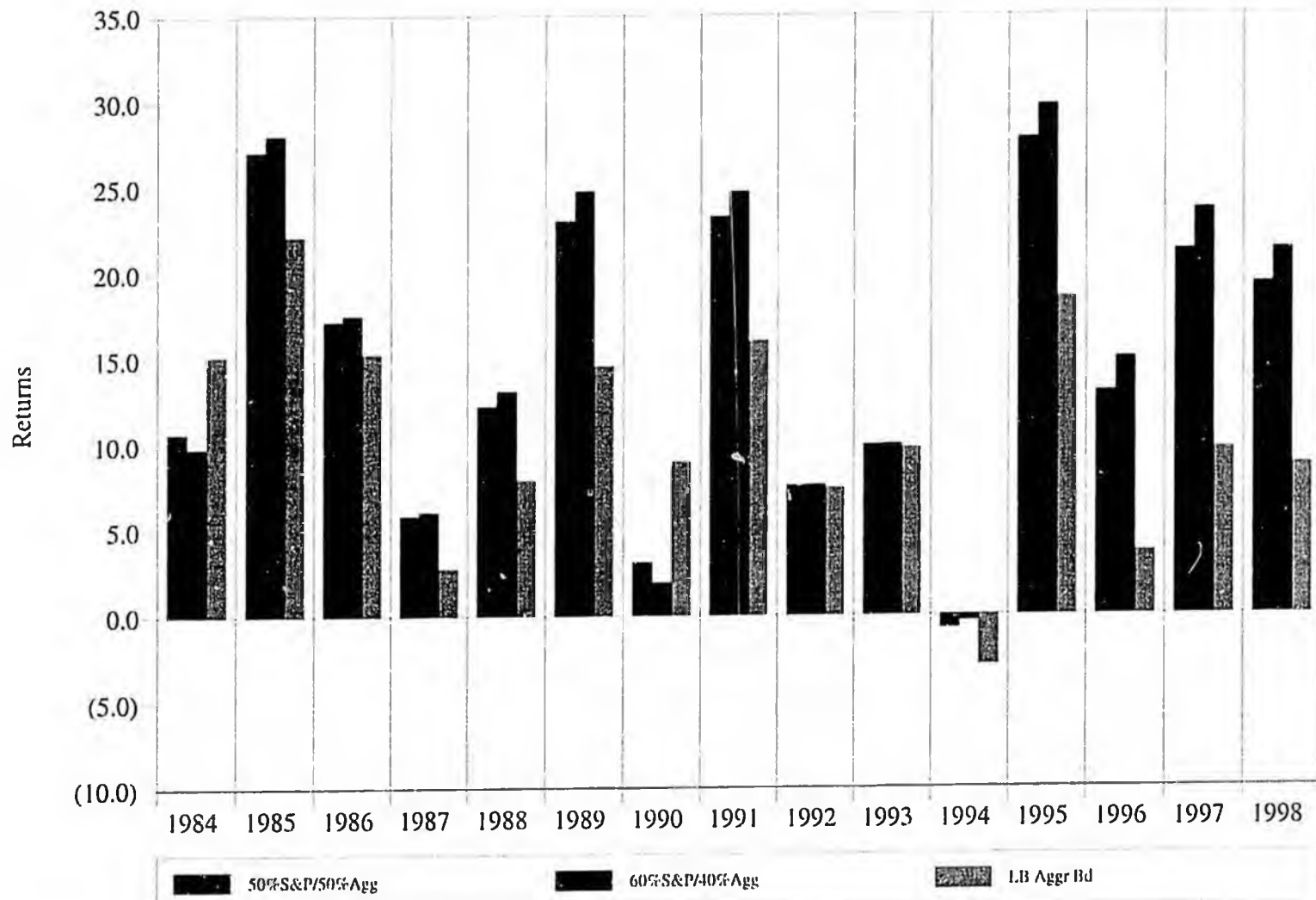


# Calendar Year Returns for 3 Policy Mixes



# Calendar Year Returns

Calendar Years

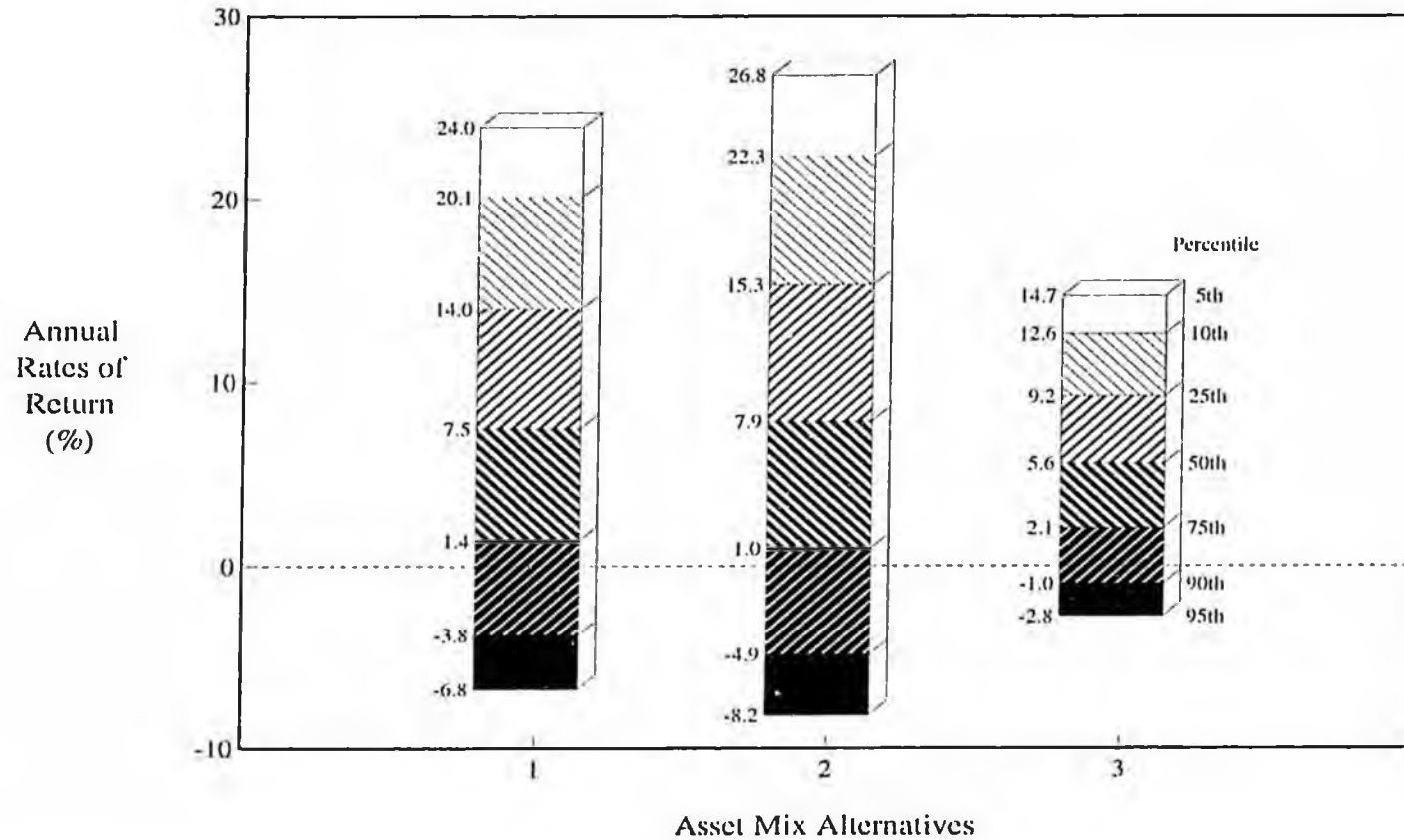


# Projected Return for 3 Policy Mixes

|                            | <u>Asset Mix Alternatives</u> |              |             |
|----------------------------|-------------------------------|--------------|-------------|
| <b>Portfolio Component</b> | <b>1</b>                      | <b>2</b>     | <b>3</b>    |
| <b>Broad Dom Equity</b>    | <b>50%</b>                    | <b>60%</b>   | <b>0%</b>   |
| <b>LB Agg</b>              | <b>50%</b>                    | <b>40%</b>   | <b>100%</b> |
| <b>Totals</b>              | <b>100%</b>                   | <b>100%</b>  | <b>100%</b> |
| <b>Median</b>              | <b>7.5%</b>                   | <b>7.9%</b>  | <b>5.6%</b> |
| <b>Std Dev</b>             | <b>9.4%</b>                   | <b>10.7%</b> | <b>5.3%</b> |

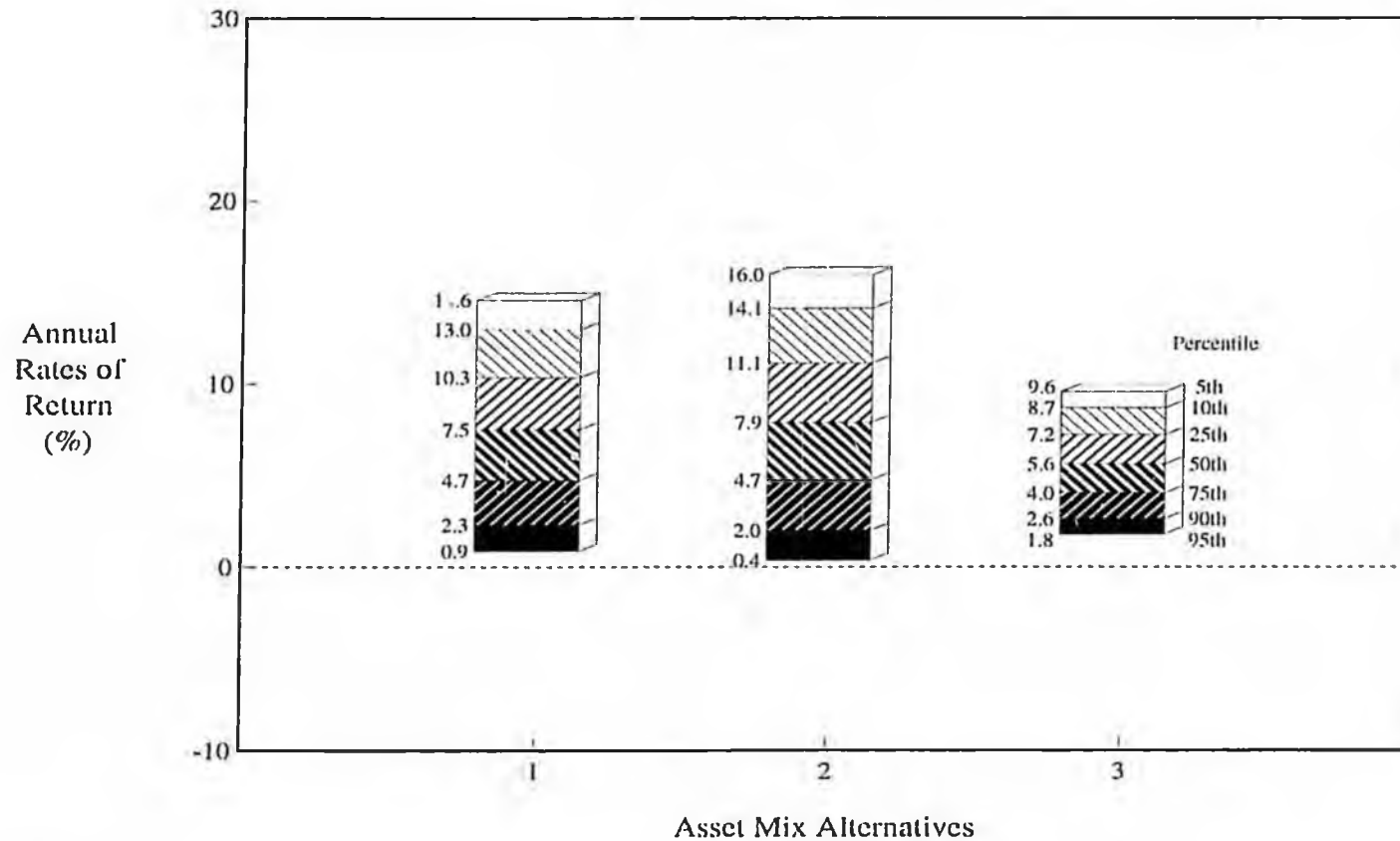
# Projected Range of Returns for the 3 Policy Mixes, over 1 year

Range of Projected Rates of Return  
(Projection period: one year)



# Projected Range of Returns for the 3 Policy Mixes, over 5 years

Range of Projected Rates of Return  
(Projection period: 5 years)



# Alaska State Senate Finance Committee

1999 Capital Market



March 1999  
CALLAN ASSOCIATES

Michael J. O'Connell  
Executive Vice President

# 1999 Capital Market Projections

## *Summary of Today's Presentation*

- Callan Associates background
- Recap of key concepts, tools & terms
- Review of historic returns
- Callan's 1999 five year projections
- Implications of new estimates

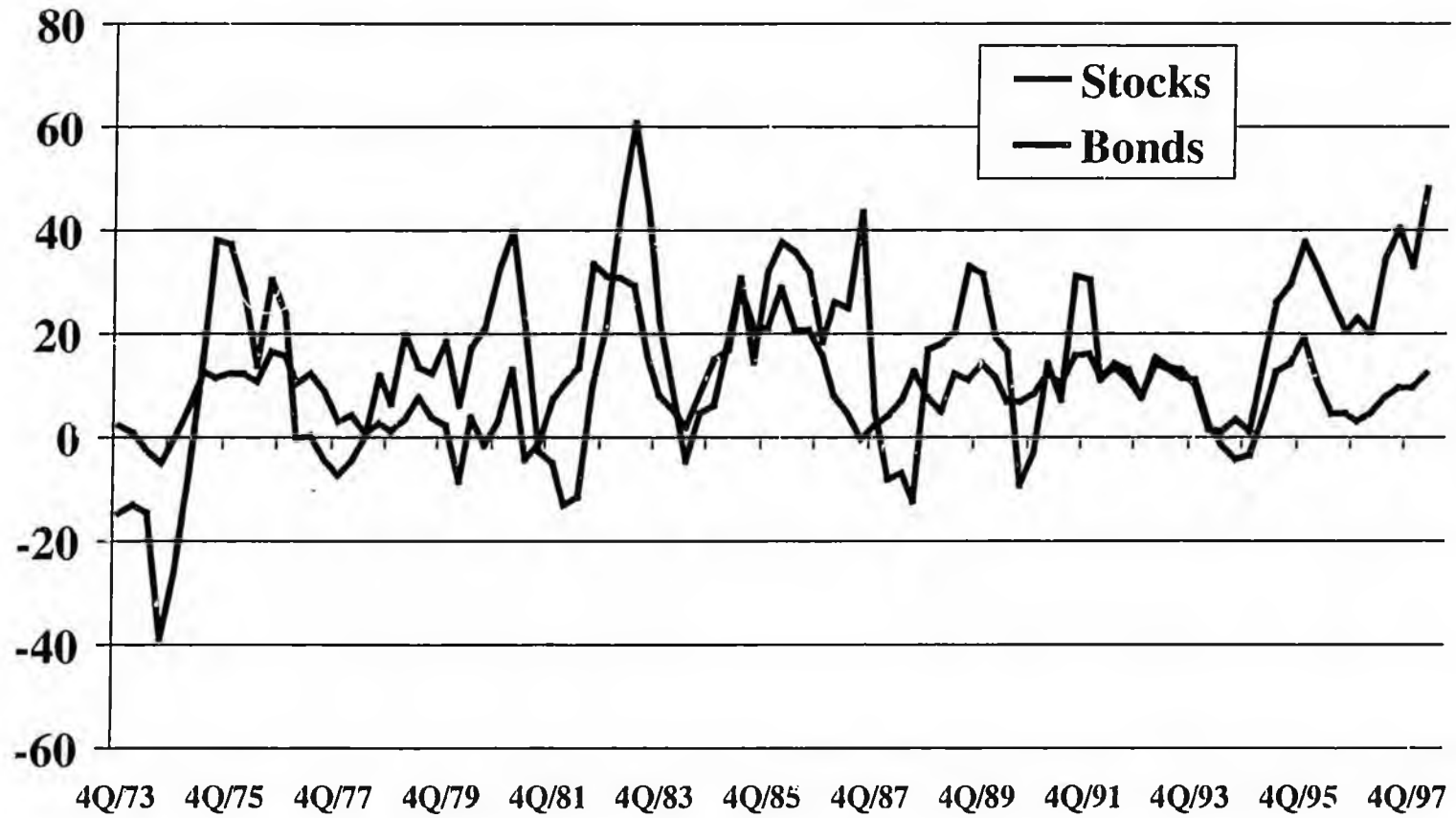
# Callan Associates Inc.

- National pure investment consulting firm
- 290+ Institutional clients nationally who in aggregate have more than \$600 billion
- Headquarters in S.F., offices in Atlanta, Chicago, Denver and Morristown, N.J.
- APFC client since 1989, ASPIB client since 1992
- Services include: strategic planning, asset allocation modeling, manager selection & performance evaluation

# Michael O'Leary CFA

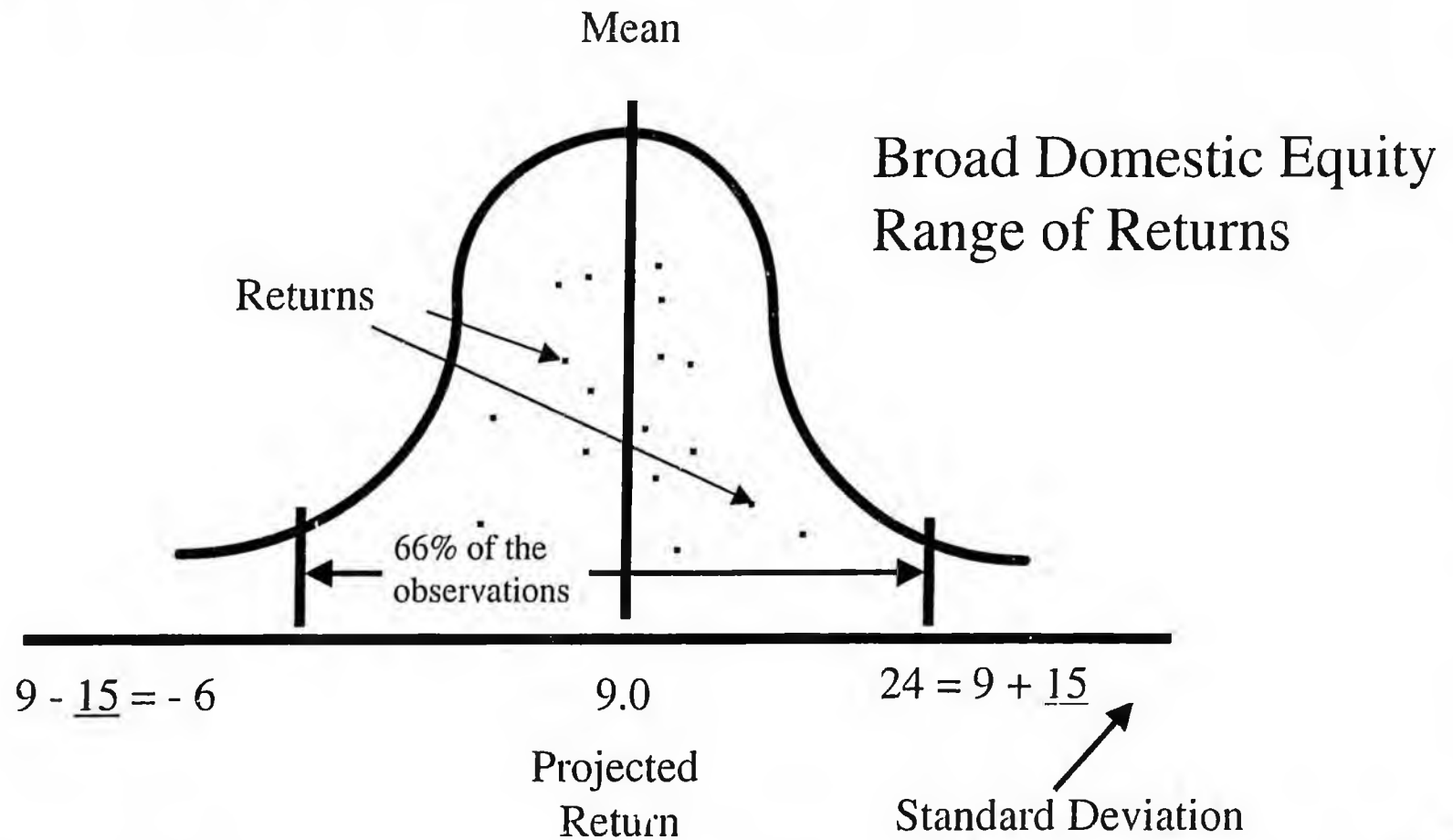
- 30 years of investment experience
- Joined Callan in 1984
- Prior experience with bank trust departments as: analyst, portfolio manager, research director, head of portfolio management
- Currently, Executive VP; member of Management Committee; Vice Chair of Client Policy Review Committee & Chair of Manager Search Committee

# Volatility / Uncertainty

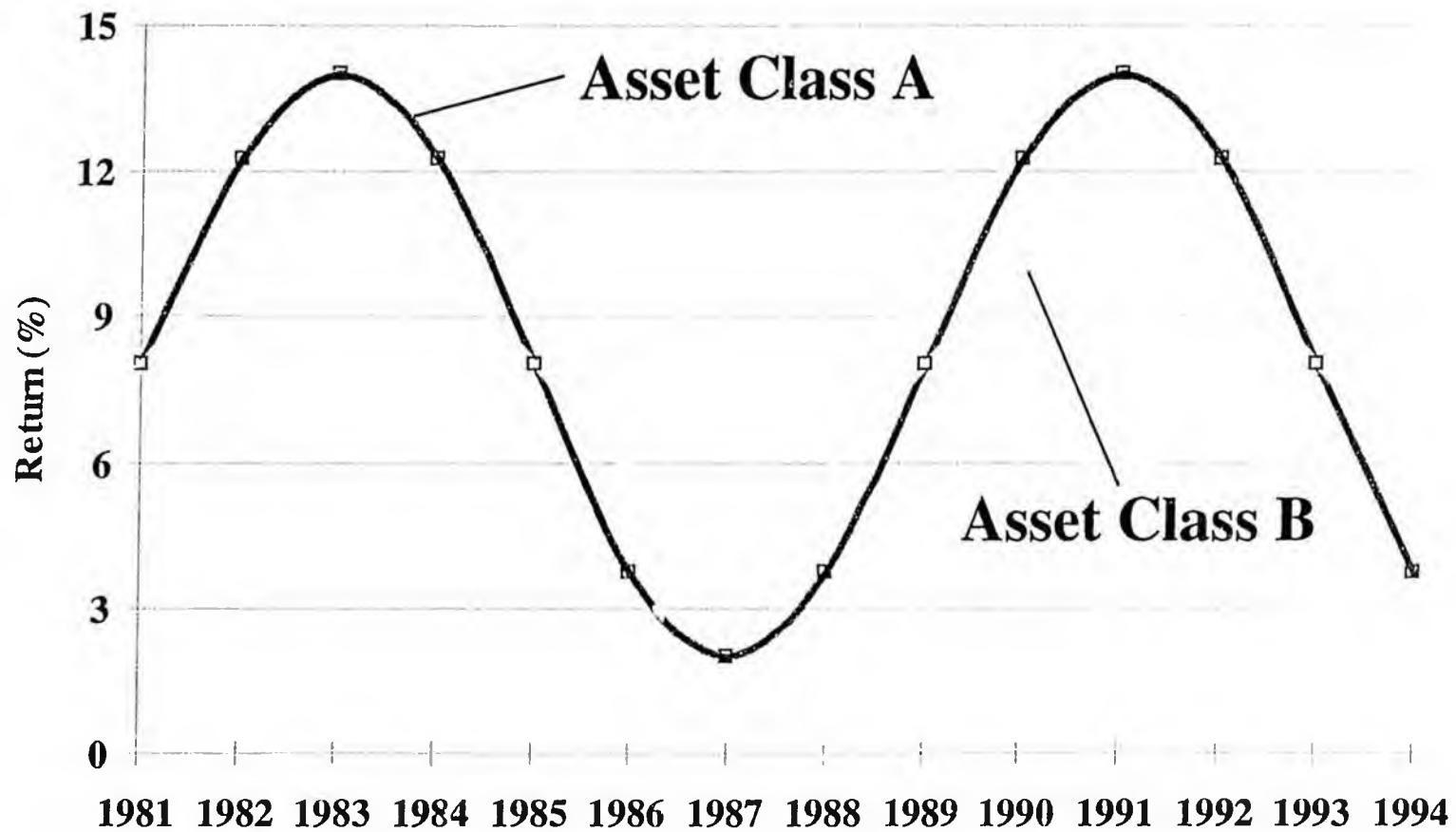


# Measuring Risk

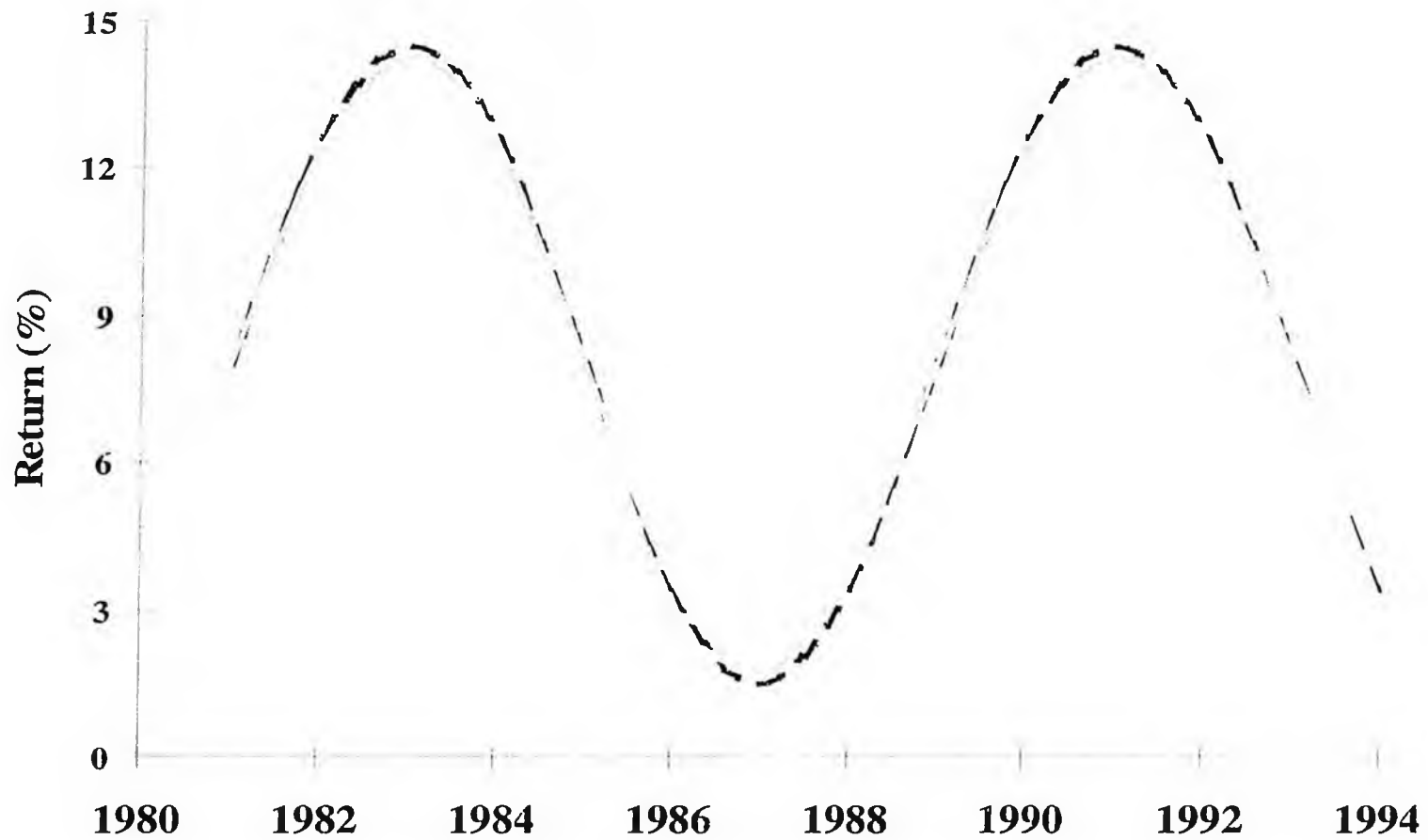
- Standard Deviation - Measures the Variability of Returns from Their Mean



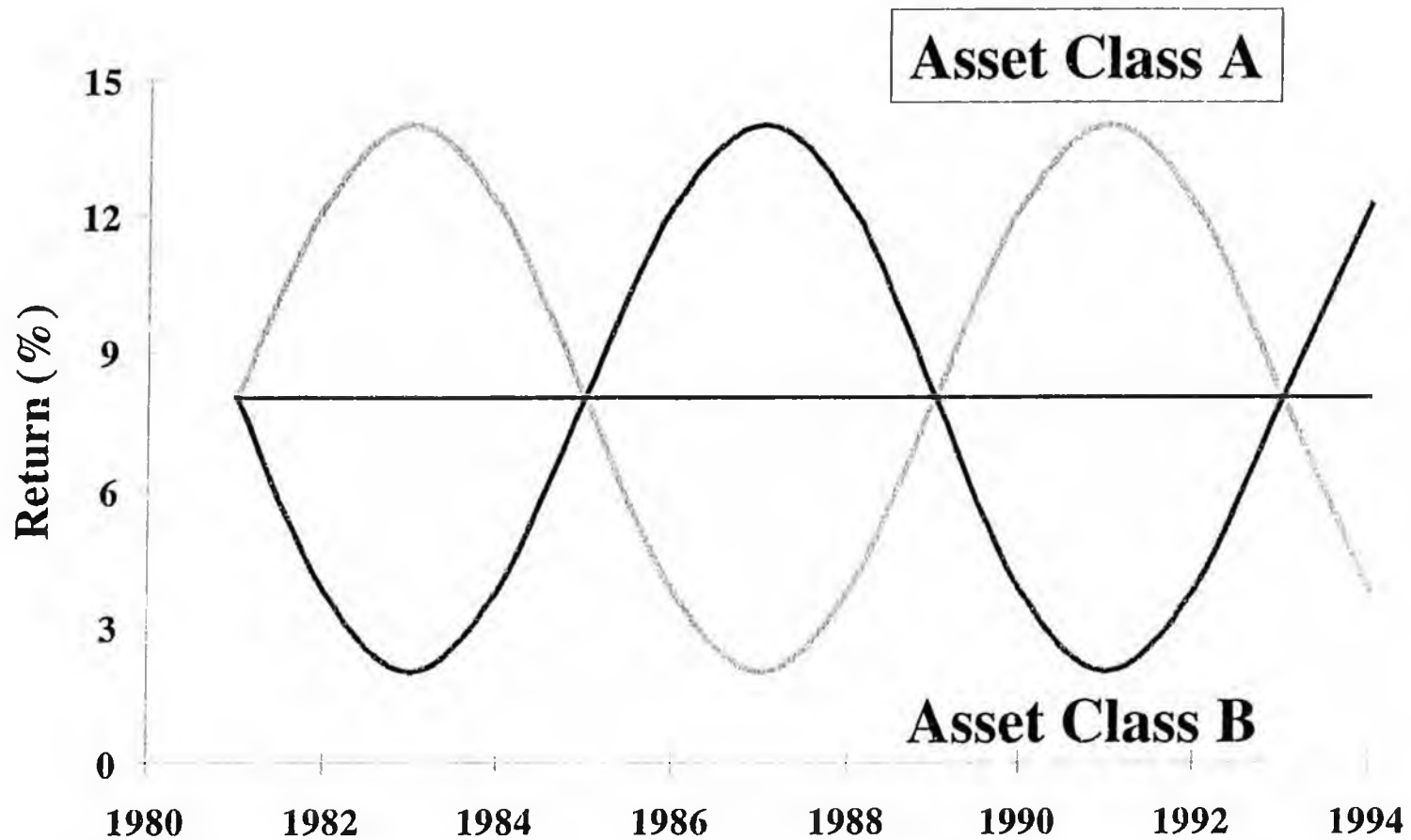
# Returns Will Go Up and Down



# Perfect Correlation (+1)

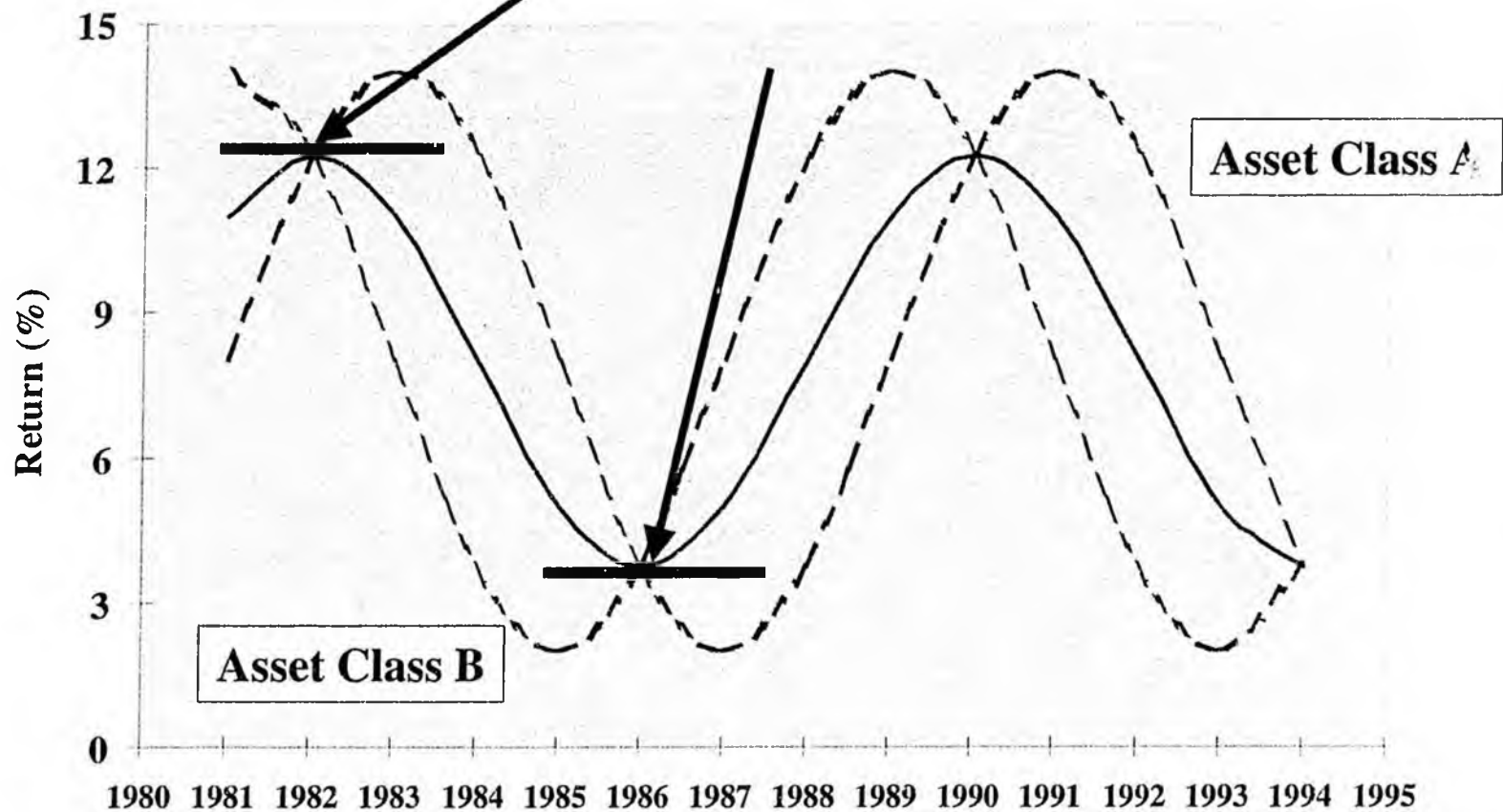


# Perfect Negative Correlation (-1)



# Correlation and Diversification

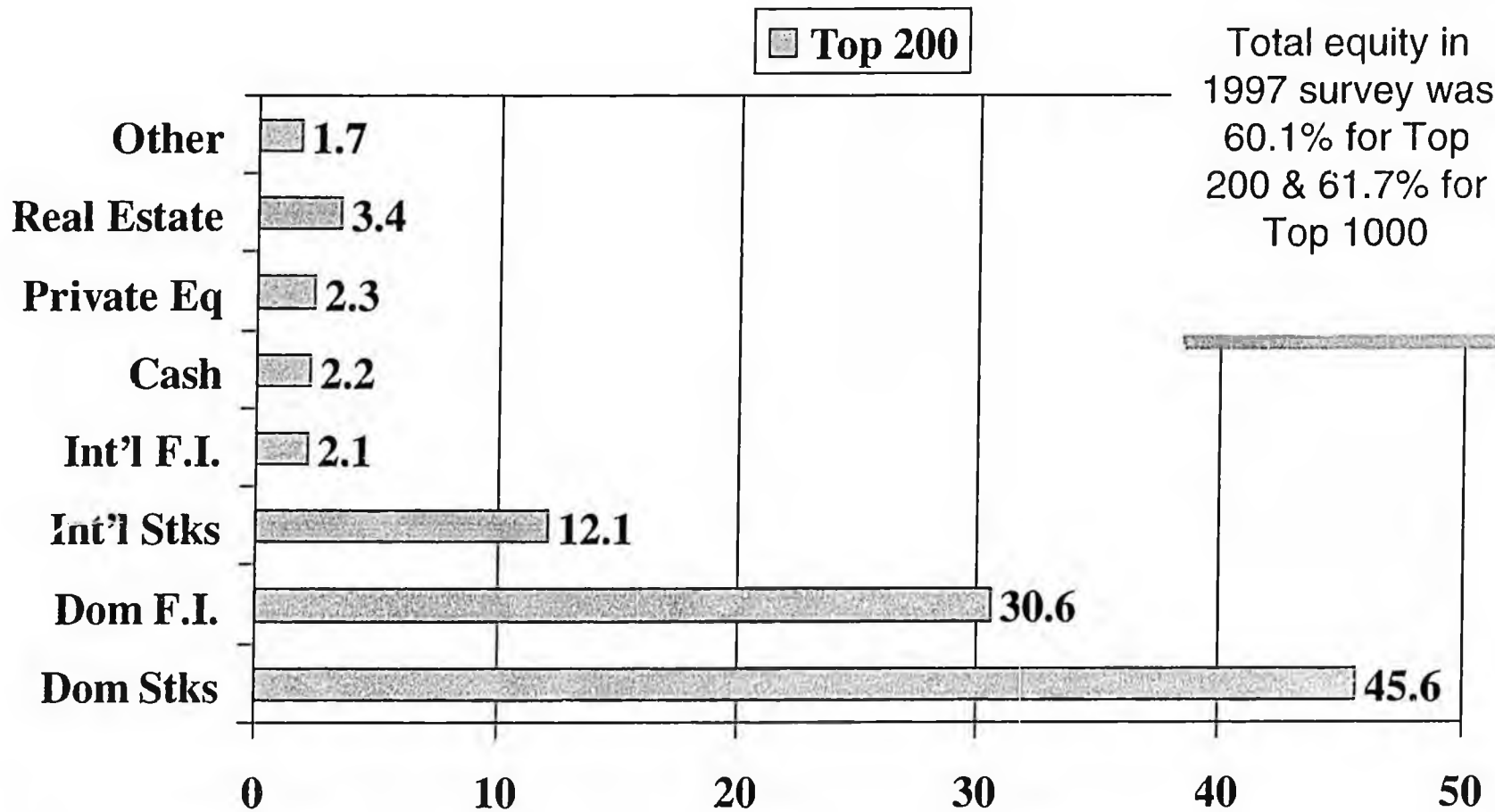
**Portfolio Volatility Reduced  
with 50% Asset Class A & 50% Asset Class B**



# Large DB Plan Diversification

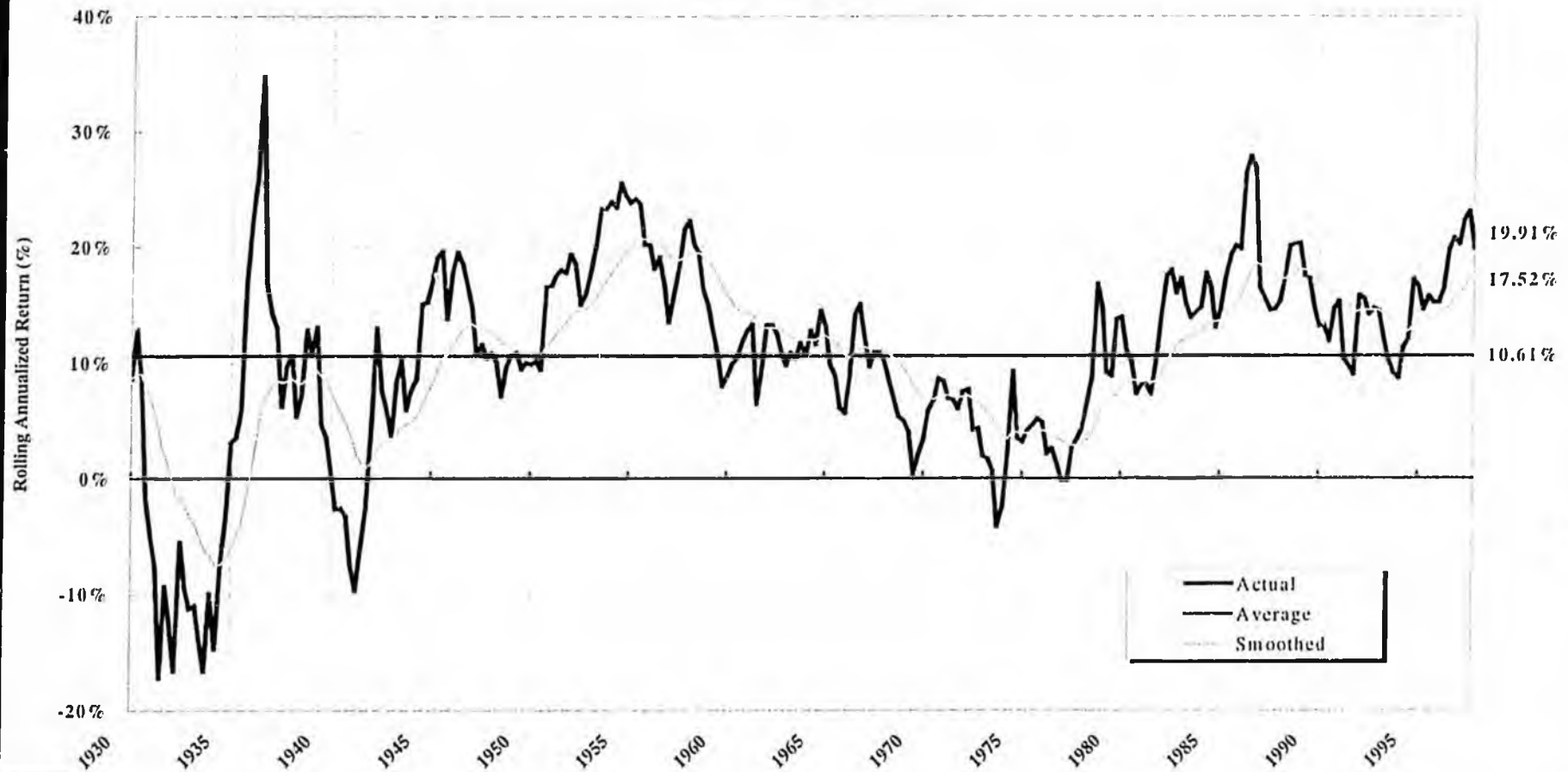
Pensions & Investments 1/25/99

Data as of 9/30/98



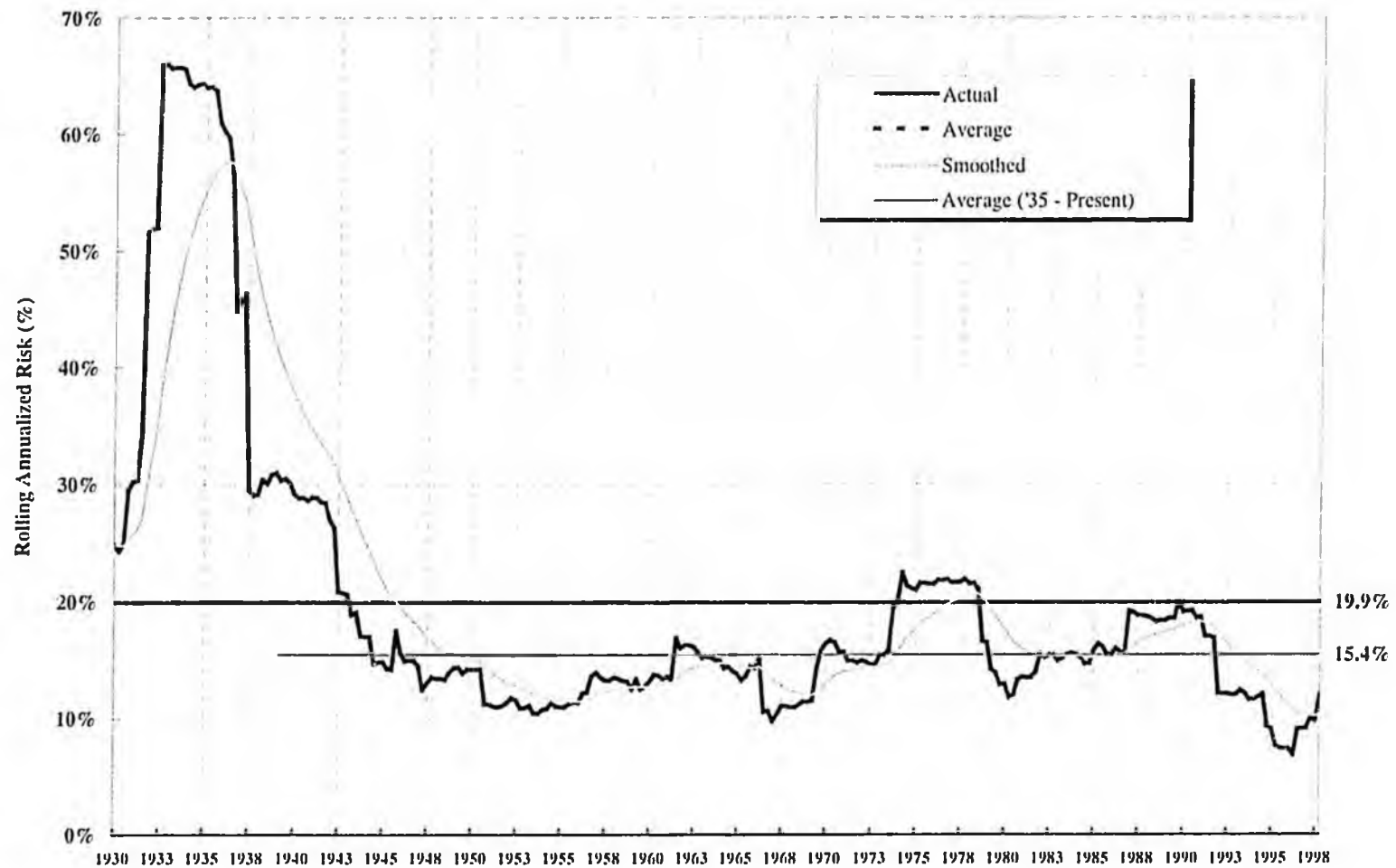
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(1926 - Present)



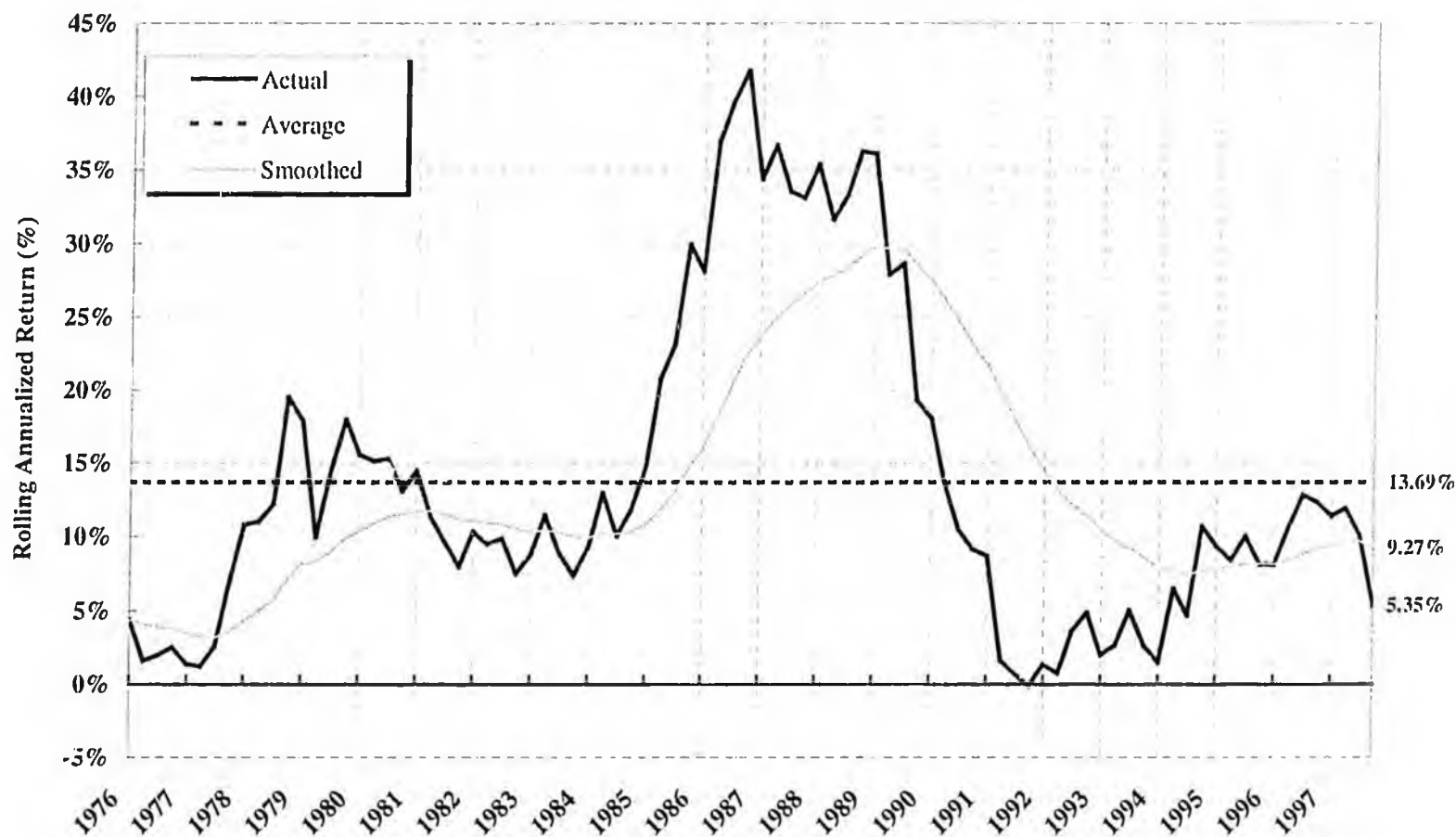
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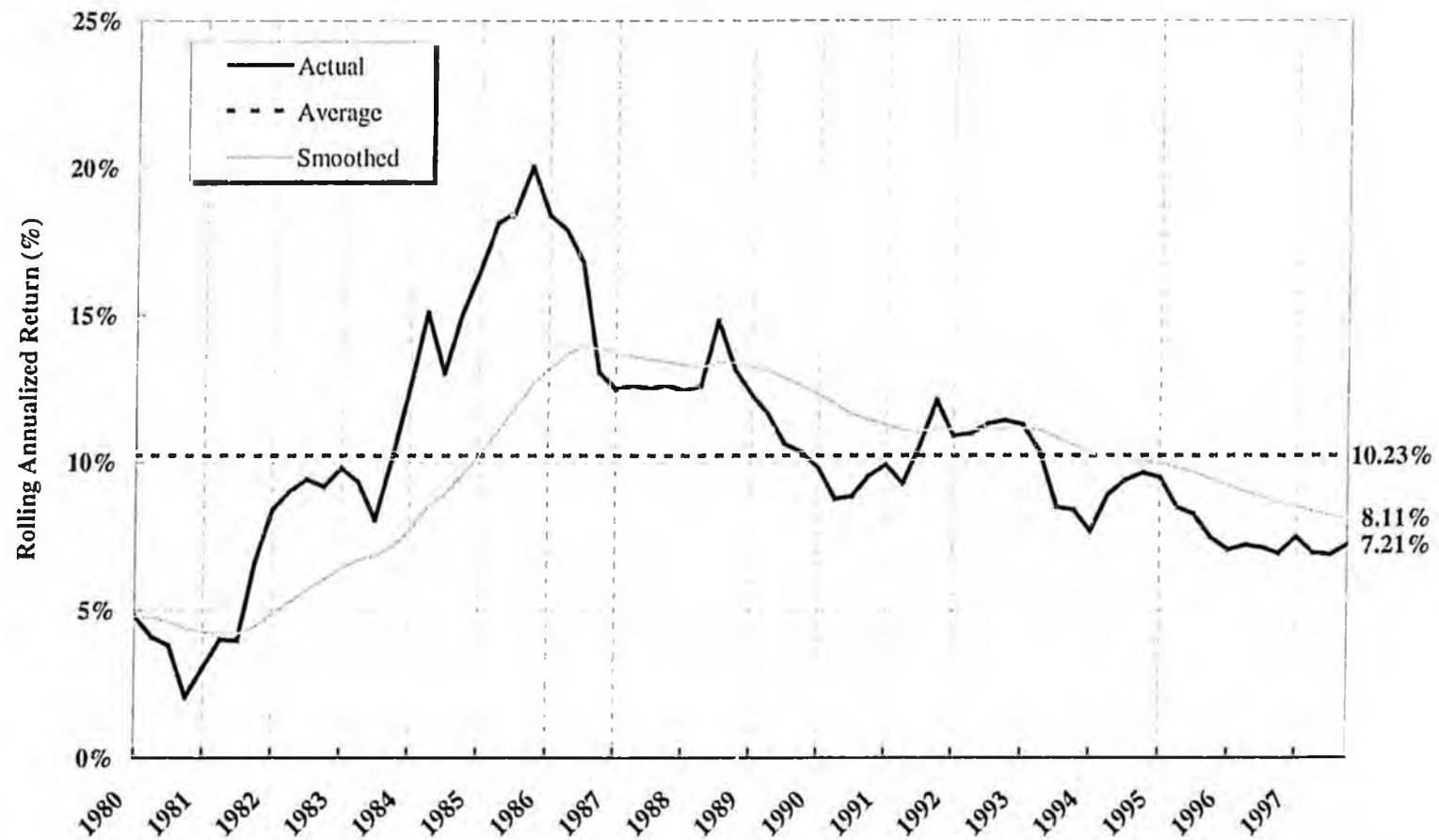
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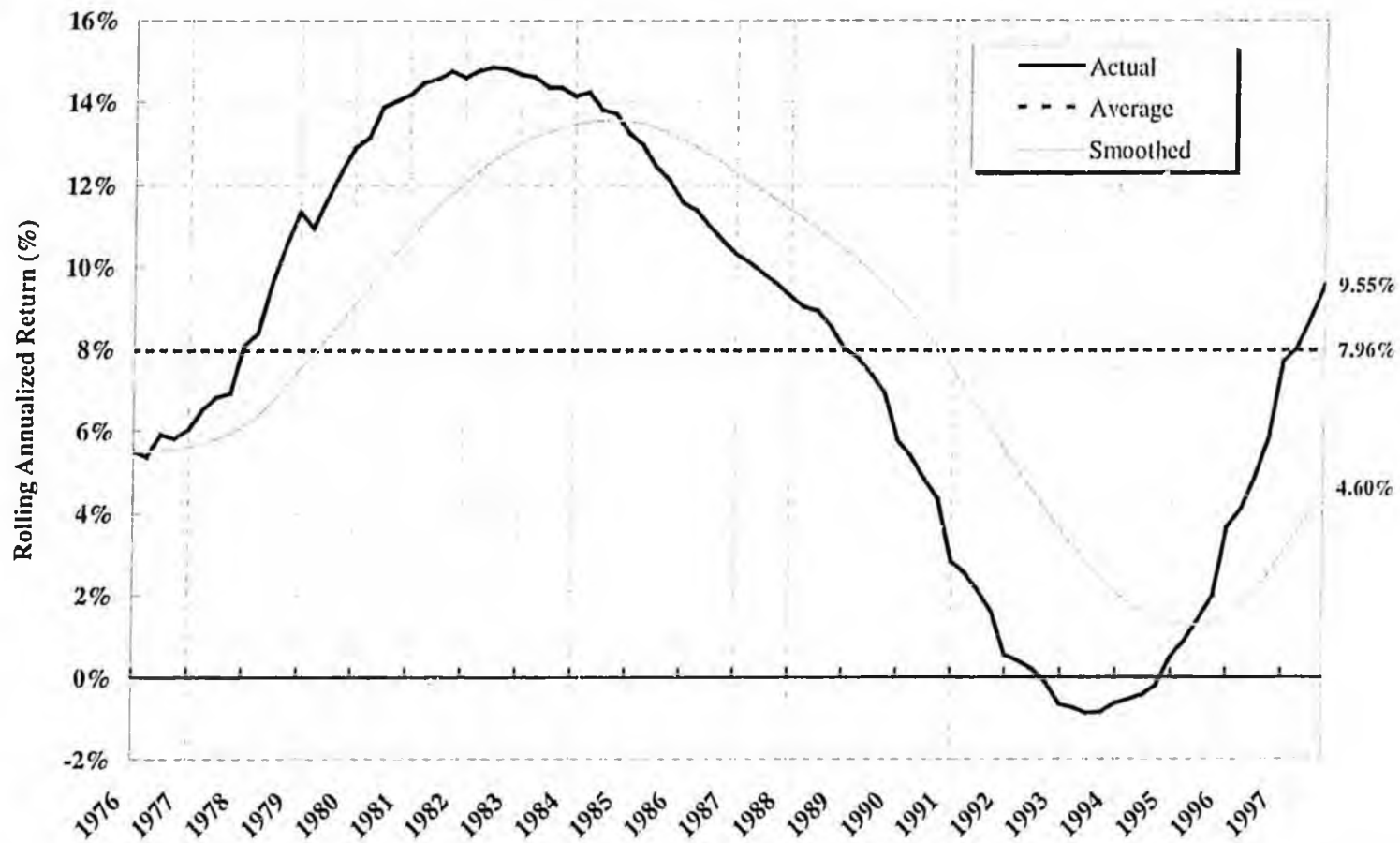
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Rolling 5 Year Return for CRES



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## 1950-1998

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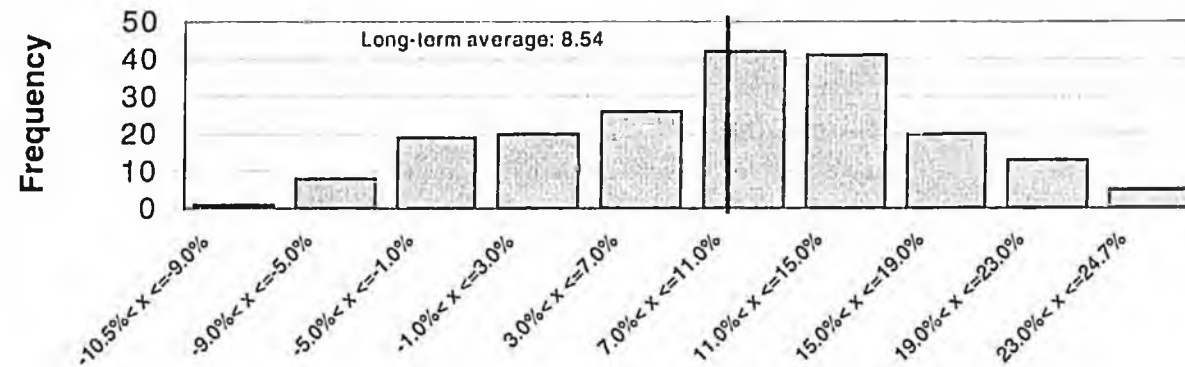
Defining flat inflation as -1.5 to 1.5 percent change in a five-year period

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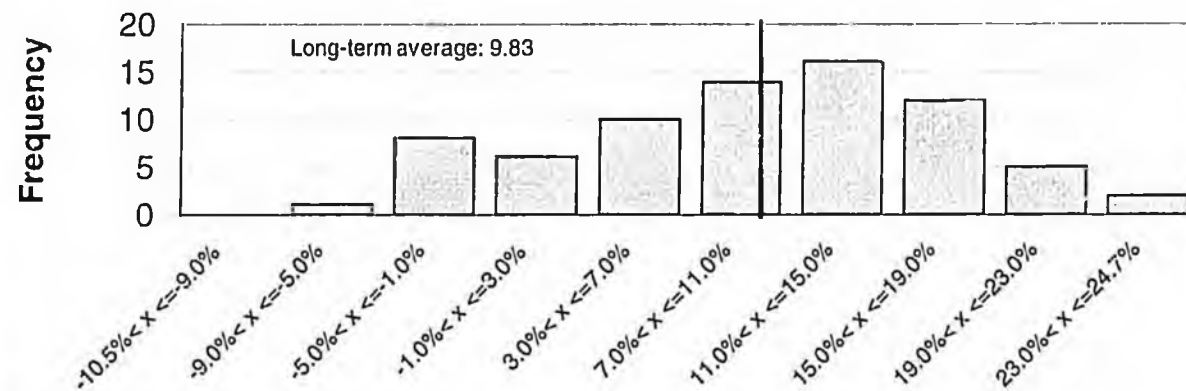
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# Distribution of Large Cap Real Returns

All Scenarios 1950-1998 (195 quarters)

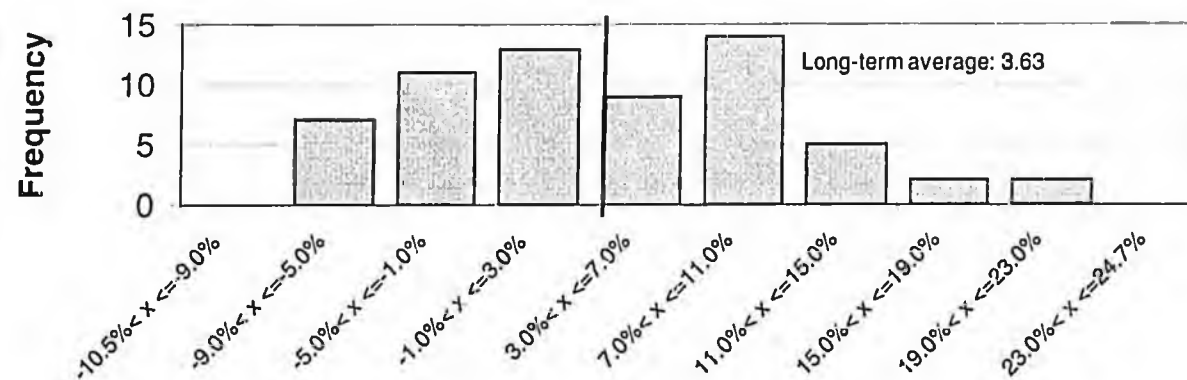


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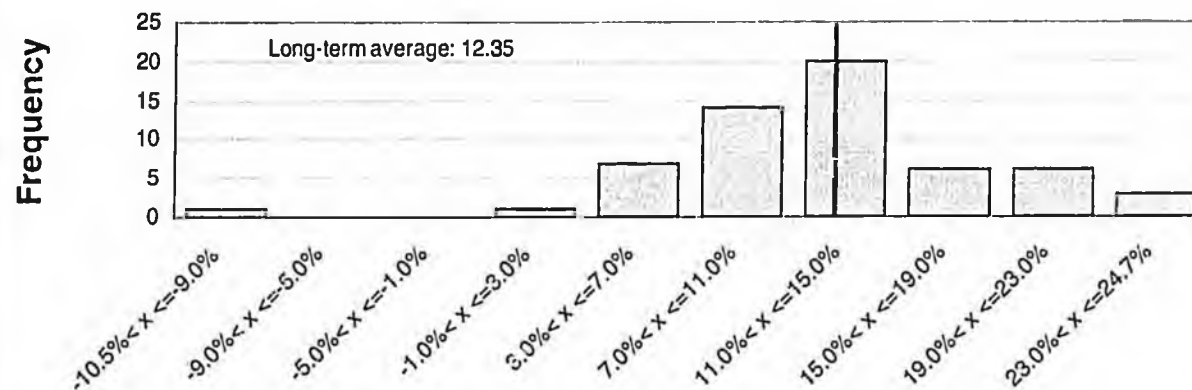


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Lehman Aggregate Bond Index 5 Year Returns vs. Lagged Yield to Maturity

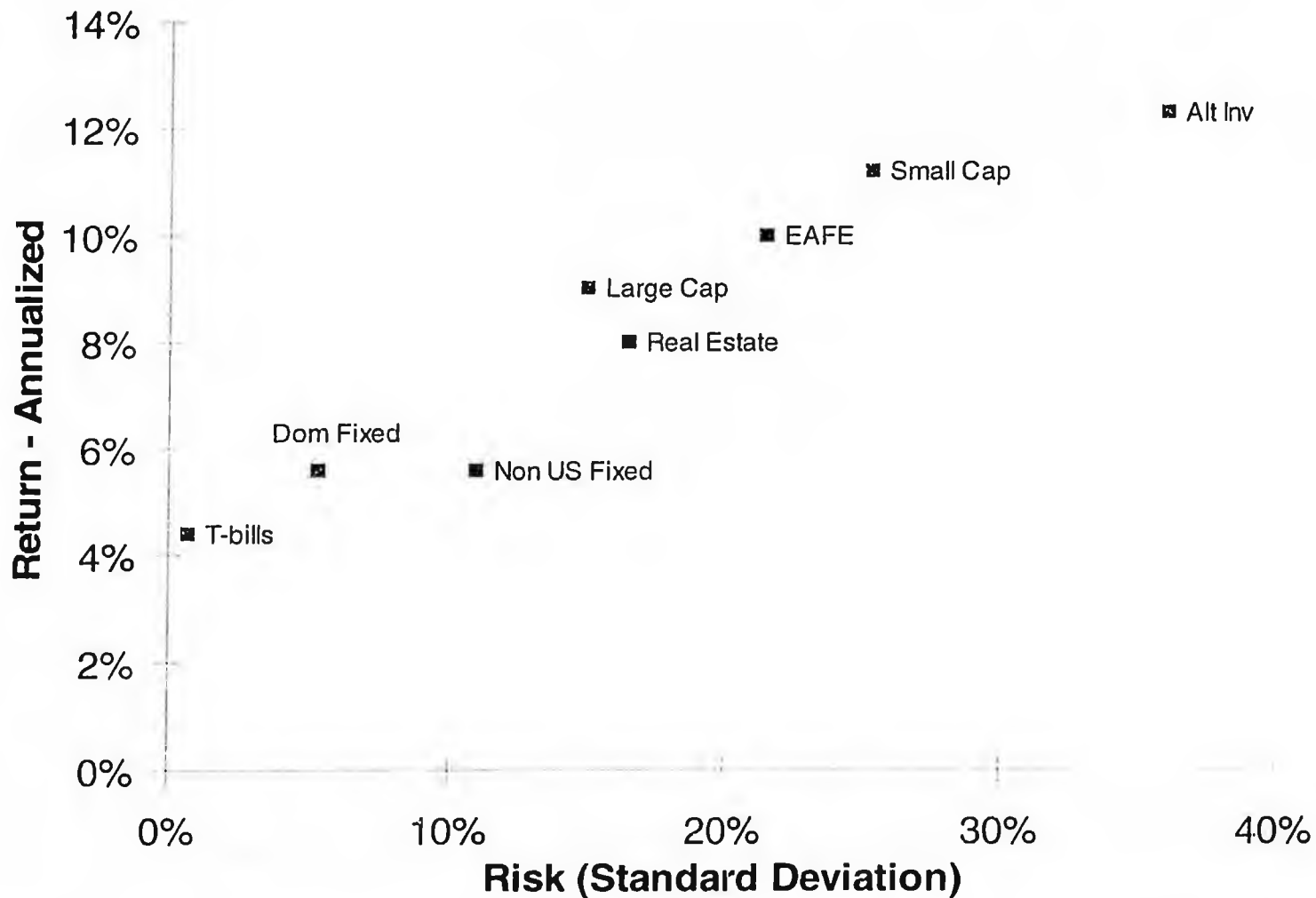


## 1999 Capital Market Projections

| Asset Class         | Index         | Expected Return |              |        | Expected Risk |              |        |
|---------------------|---------------|-----------------|--------------|--------|---------------|--------------|--------|
|                     |               | 1998            | 1999         | Change | 1998          | 1999         | Change |
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| Domestic            | LB Agg        | 6.60            | <b>5.60</b>  | -1.00  | 5.50          | <b>5.30</b>  | -0.20  |
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| Cash Equiv.         | 90-day T-bill | 4.80            | <b>4.40</b>  | -0.40  | 1.00          | <b>0.70</b>  | -0.30  |
| Inflation           | CPI-U         | 3.40            | <b>3.00</b>  | -0.40  | 0.95          | <b>1.75</b>  | 0.80   |

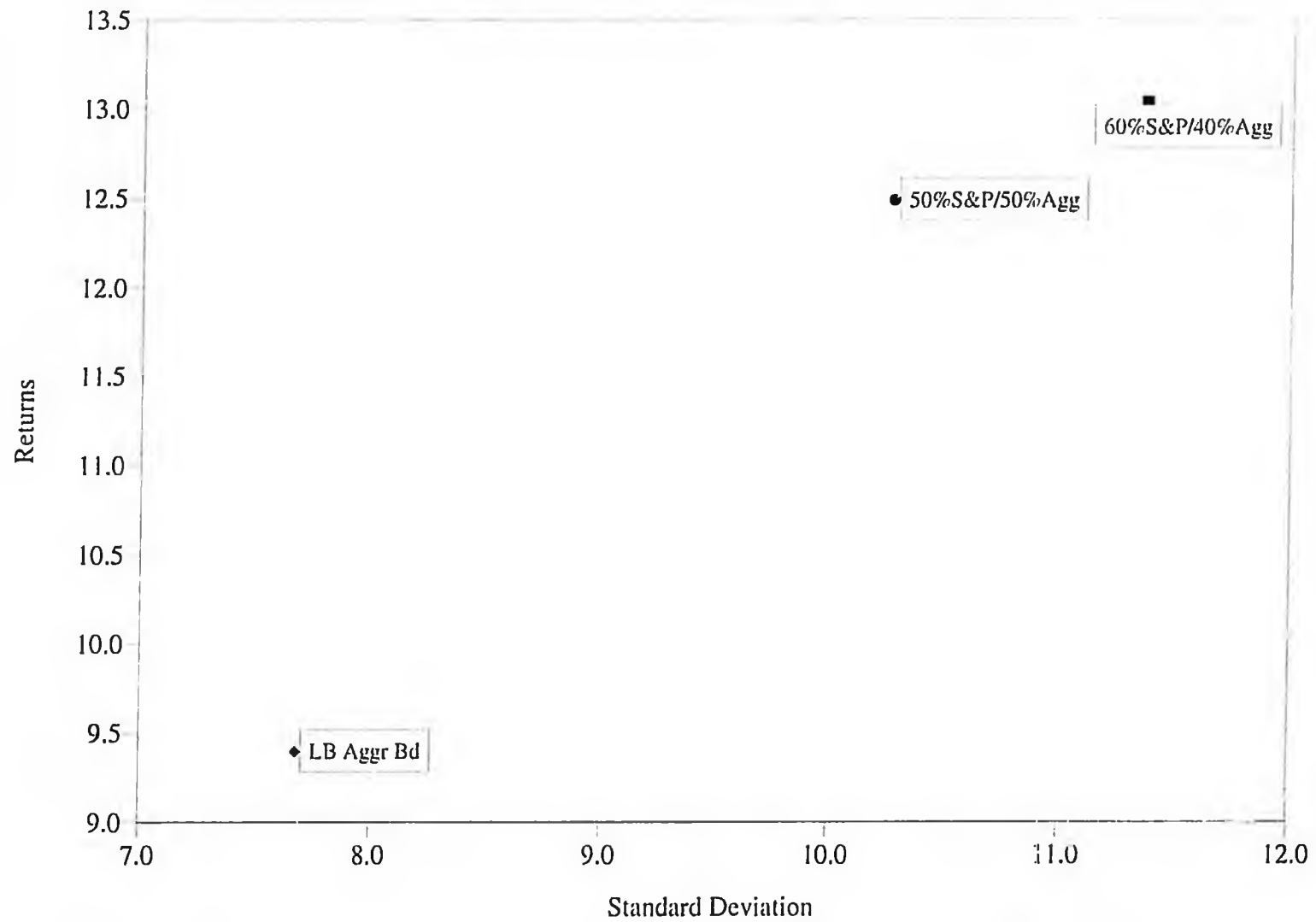
# Five-Year Capital Market Projections

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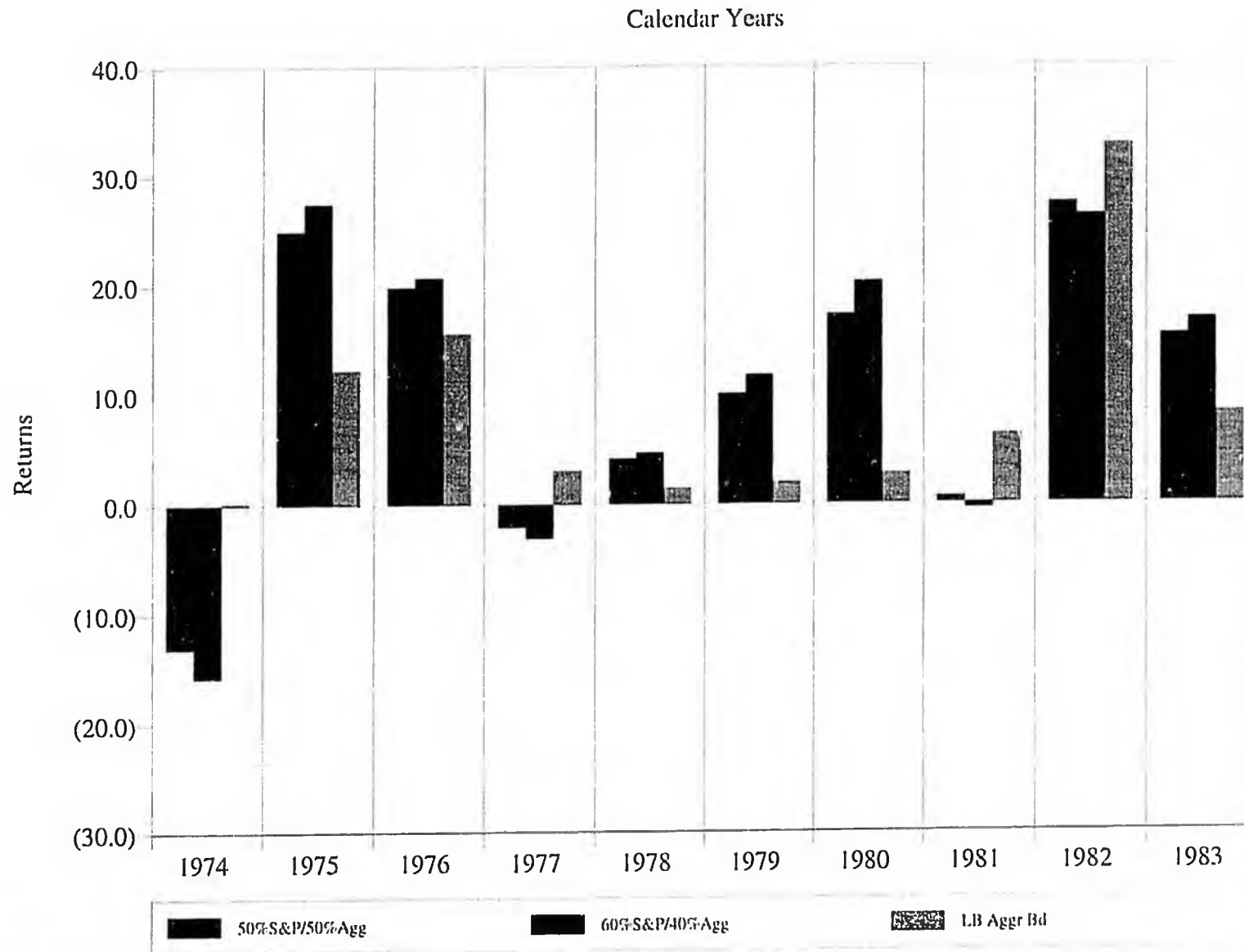


# Historical Risk and Reward

Scatter Chart for 25 Years Ended December 31, 1998

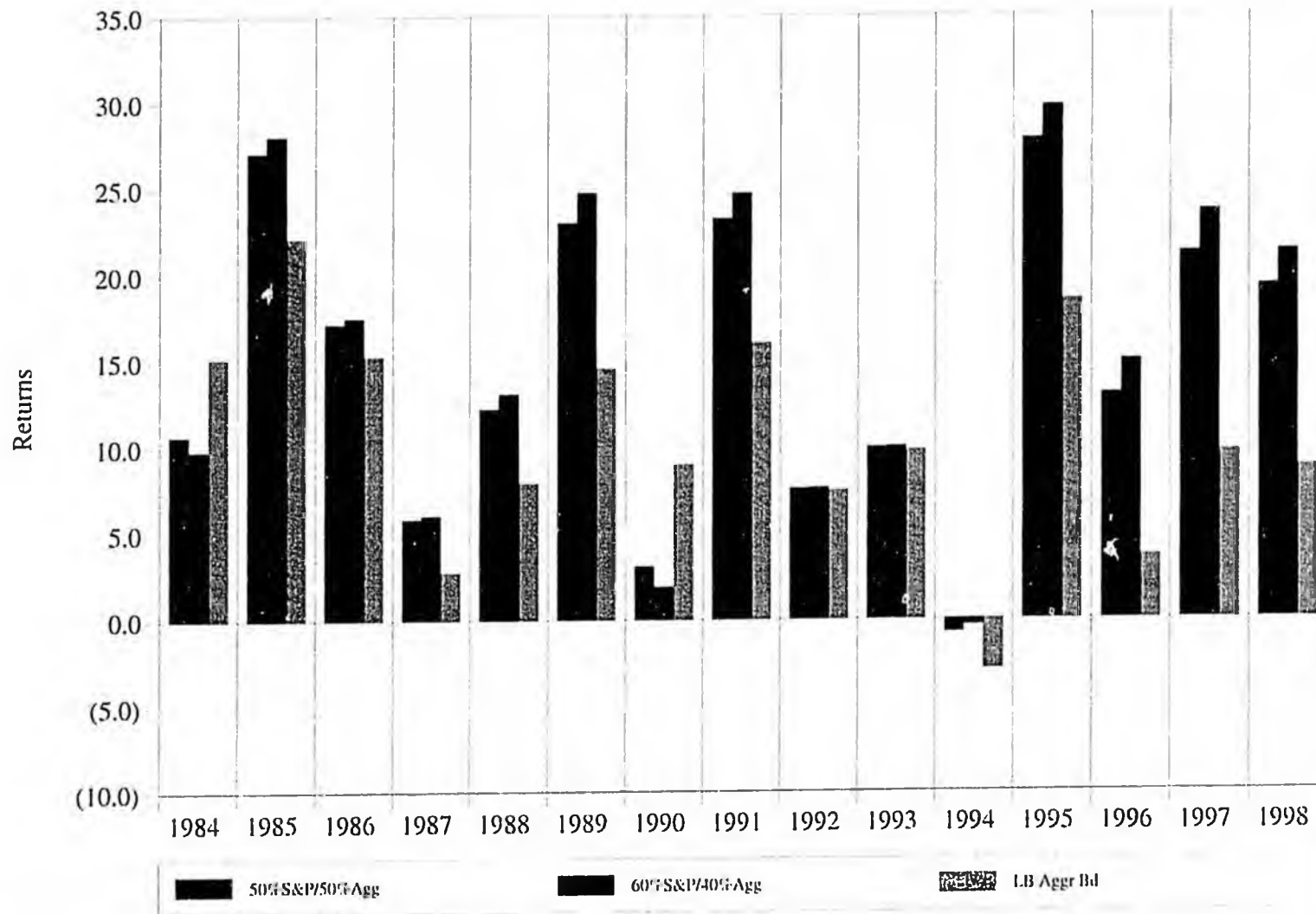


# Calendar Year Returns for 3 Policy Mixes



# Calendar Year Returns

Calendar Years

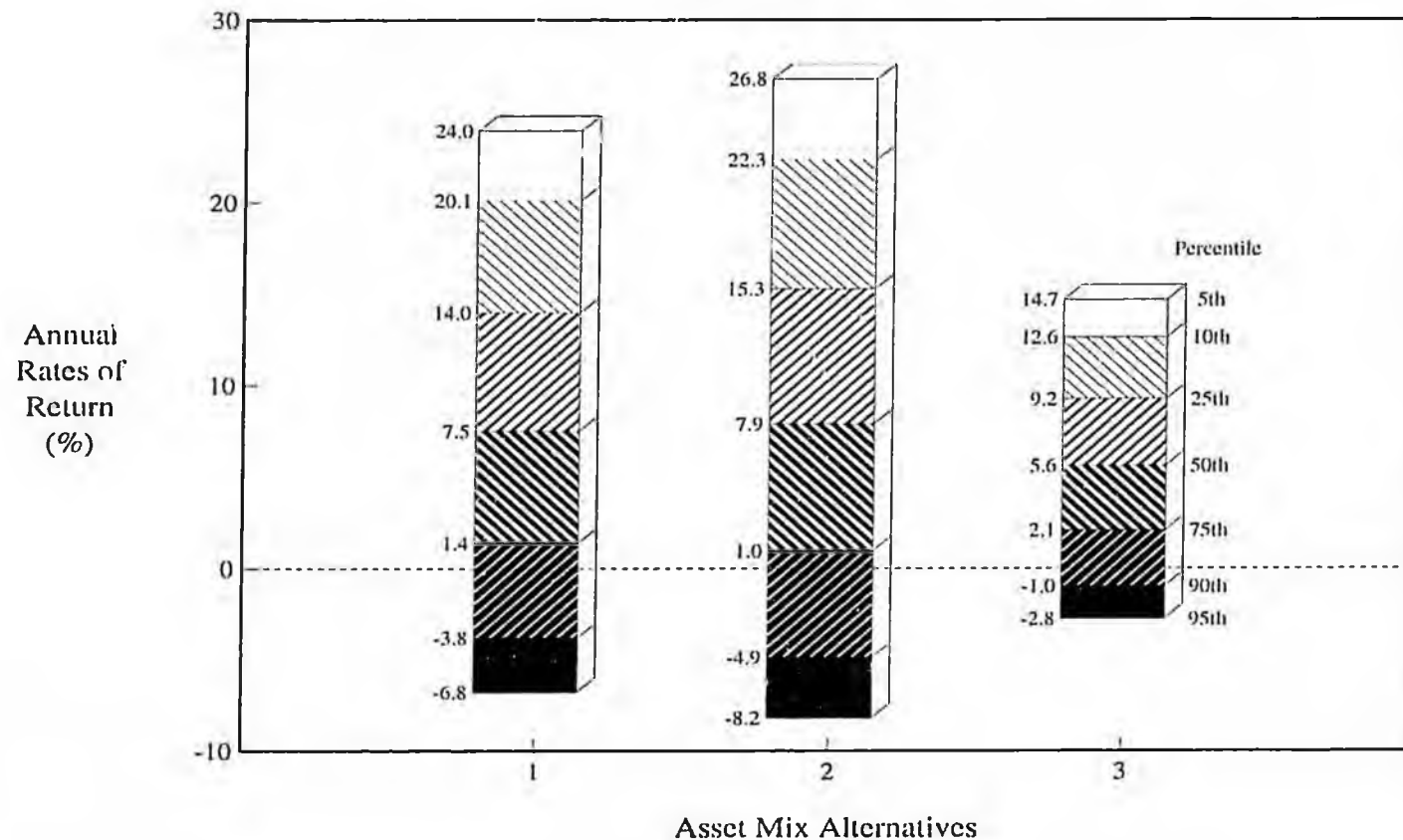


# Projected Return for 3 Policy Mixes

| Portfolio Component | <u>Asset Mix Alternatives</u> |       |      |
|---------------------|-------------------------------|-------|------|
|                     | 1                             | 2     | 3    |
| Broad Dom Equity    | 50%                           | 60%   | 0%   |
| LB Agg              | 50%                           | 40%   | 100% |
| Totals              | 100%                          | 100%  | 100% |
| Median              | 7.5%                          | 7.9%  | 5.6% |
| Std Dev             | 9.4%                          | 10.7% | 5.3% |

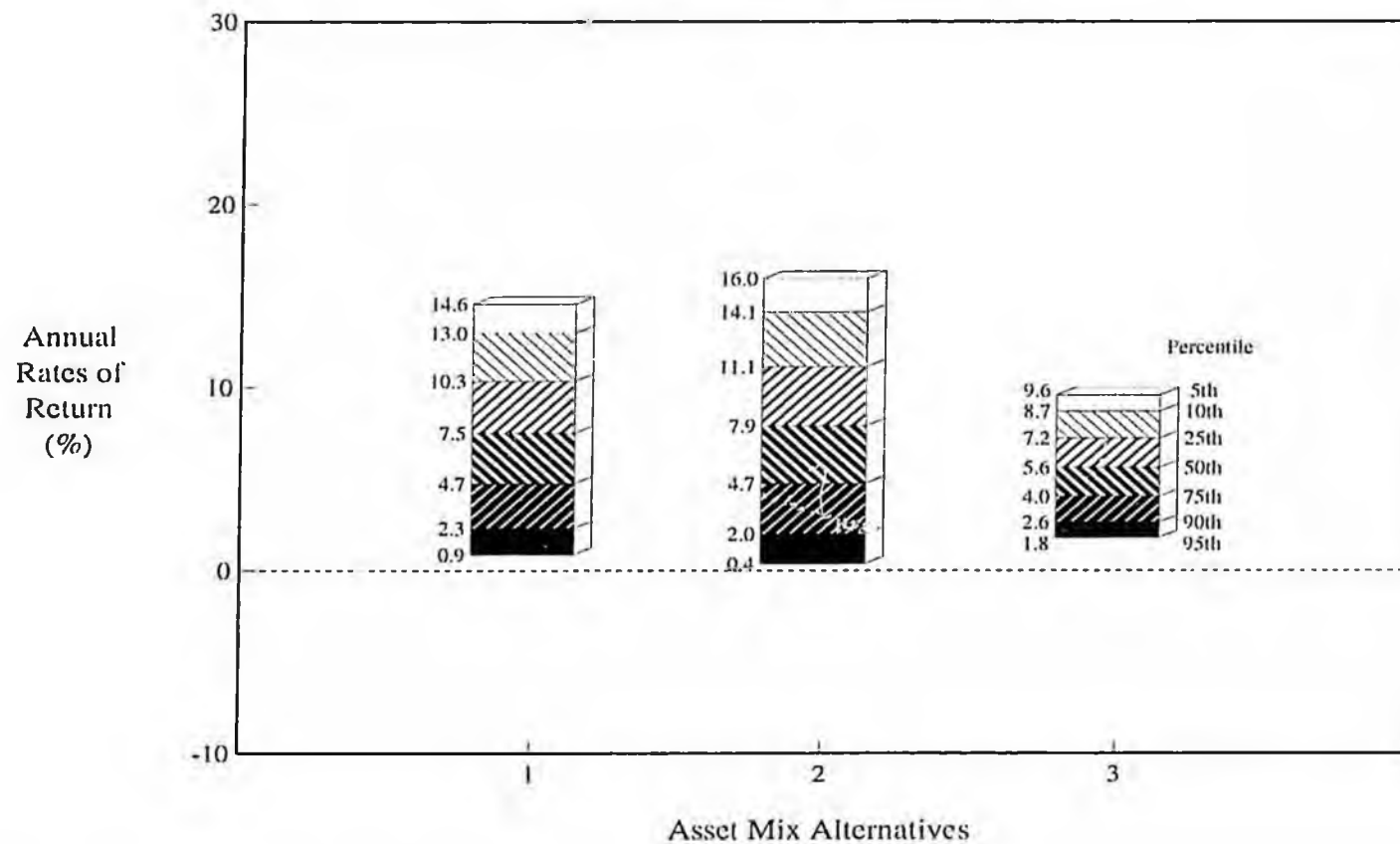
# Projected Range of Returns for the 3 Policy Mixes, over 1 year

Range of Projected Rates of Return  
(Projection period: one year)



# Projected Range of Returns for the 3 Policy Mixes, over 5 years

Range of Projected Rates of Return  
(Projection period: 5 years)

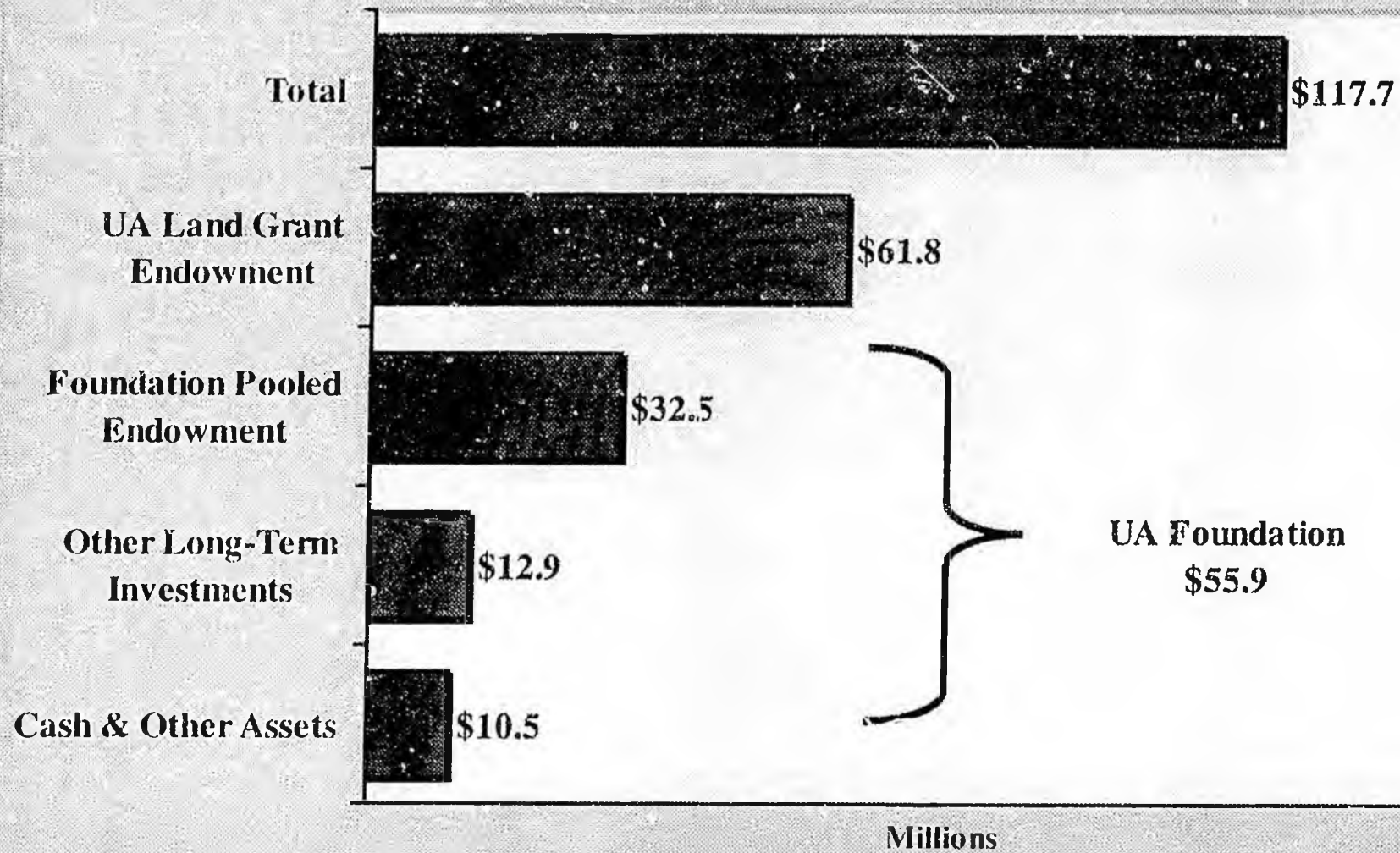


**University of Alaska  
Foundation**

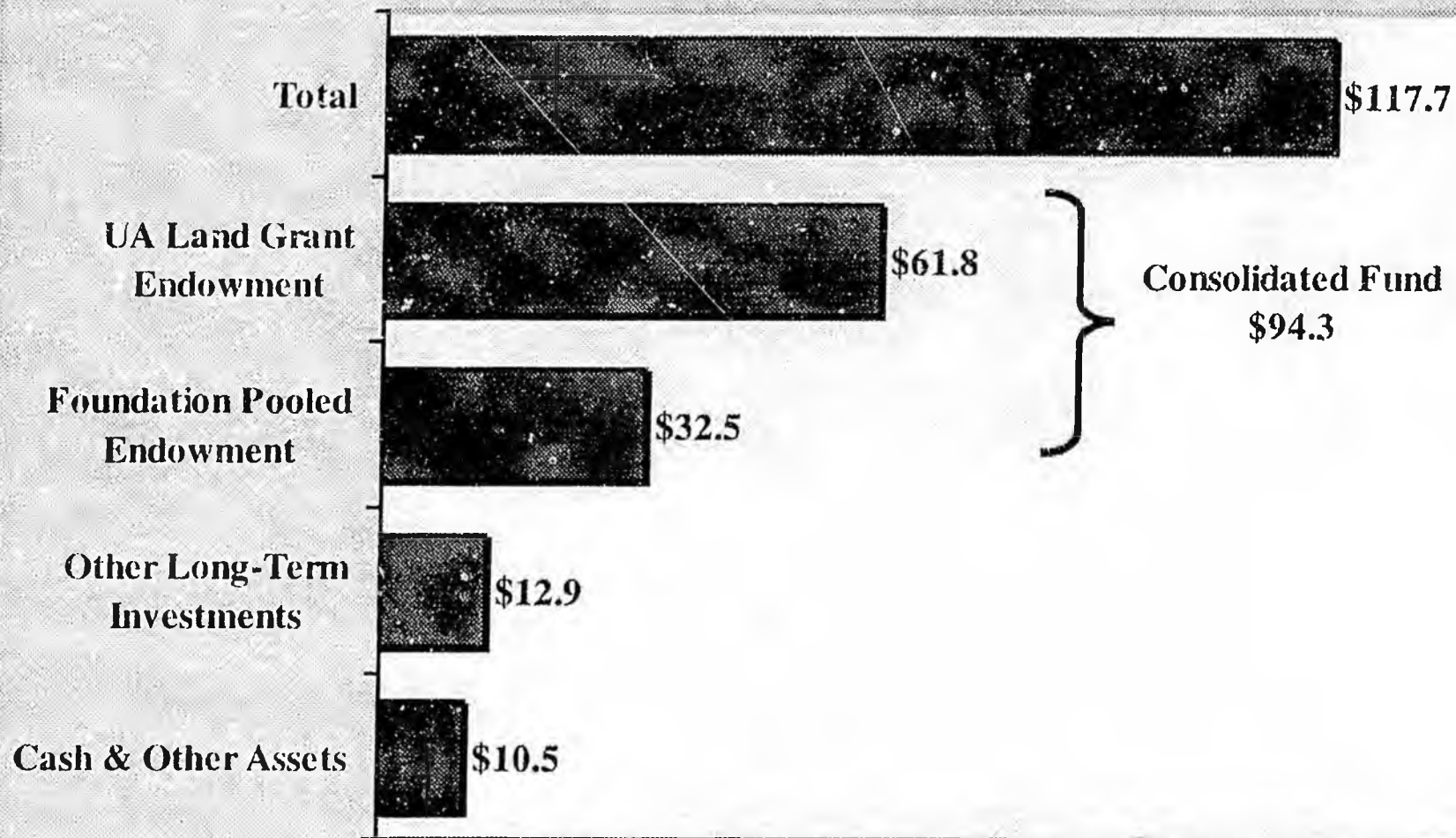
**Endowment Management  
Development**

Jim Lynch, Treasurer

# University of Alaska Foundation Assets Under Management, December 31, 1998

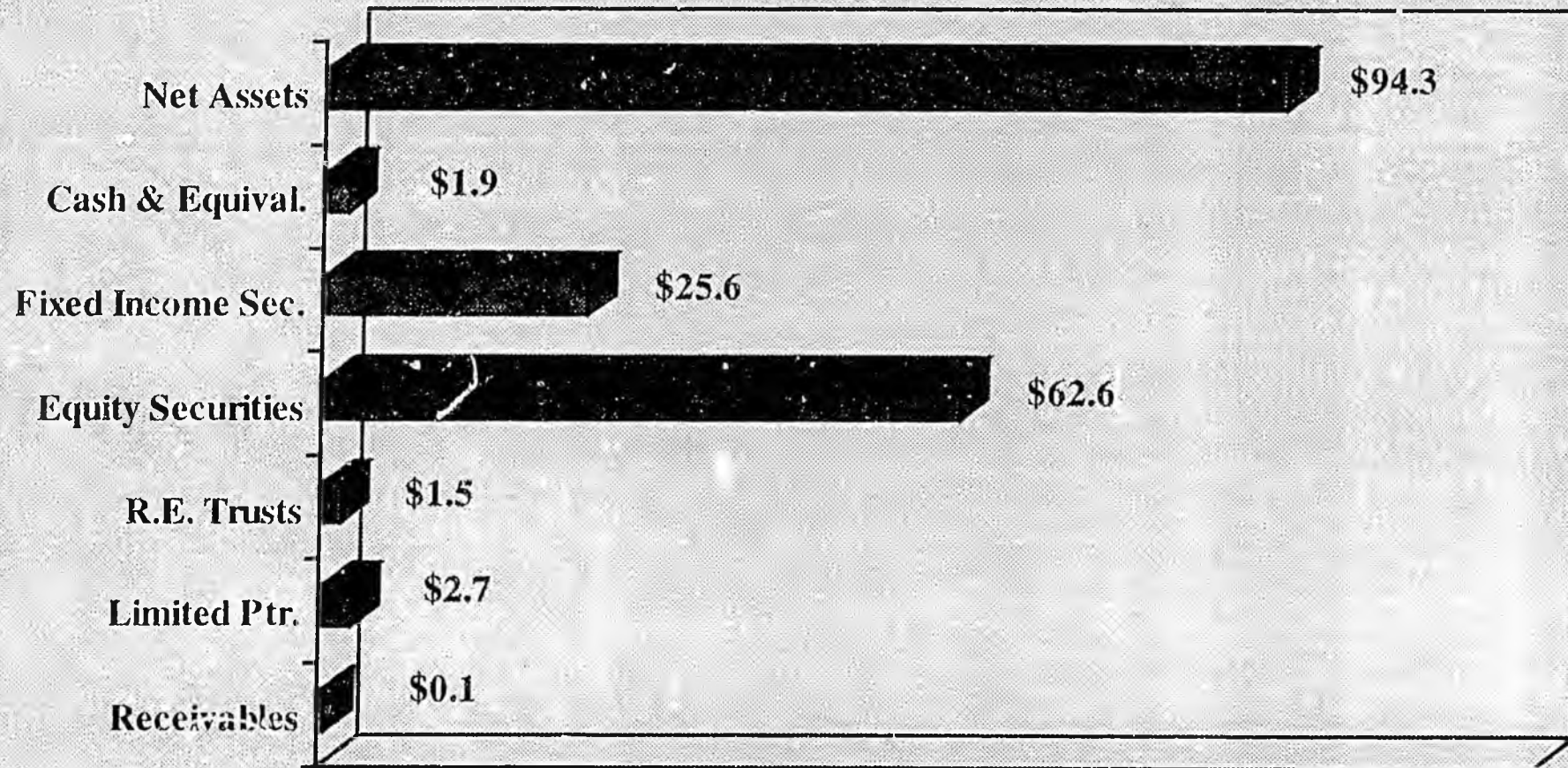


# University of Alaska Foundation Assets Under Management, December 31, 1998



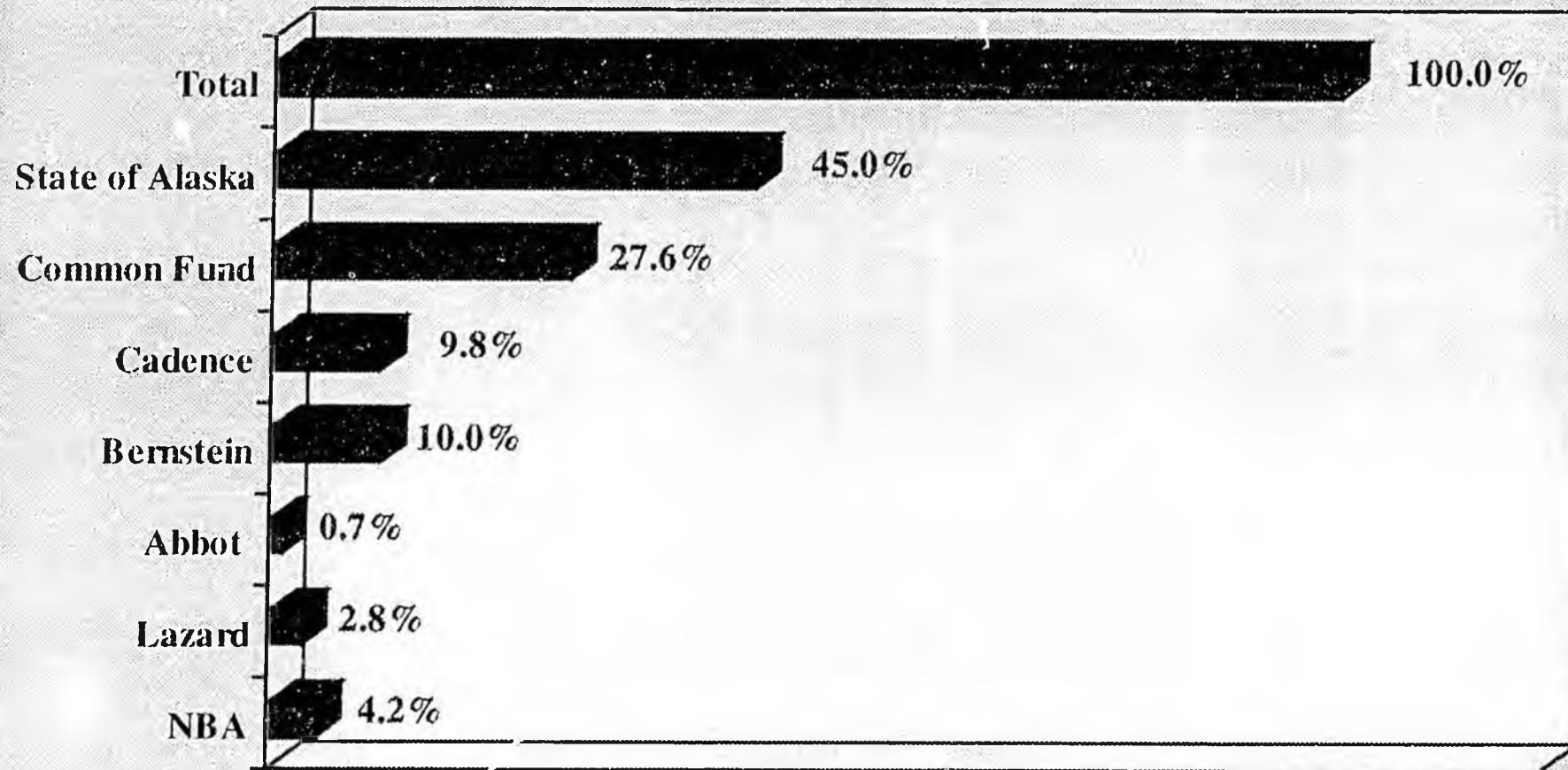
Millions

## Consolidated Fund Assets December 31, 1998



Millions

**Consolidated Fund**  
**Assets Distribution by Manager, December 31, 1998**



# University of Alaska Foundation

## The Consolidated Fund



# University of Alaska Land Grant Trust Fund

- 1978
  - ▶ \$2.5 million
  - ▶ All cash and fixed income investments
  - ▶ Spending current income only

# University of Alaska Land Grant Trust Fund

- 1989
  - ▶ \$13.9 million
  - ▶ Equities authorized, minimal exposure
  - ▶ Spending current income only, after inflation proofing at CPI

# University of Alaska Land Grant Trust Fund

- 1997

- ▶ \$43.2 million

- ▶ Spending current income only after inflation proofing at 33% current income

- ▶ Total return authorized

- ▶ Consolidated with the UA Foundation's Pooled Endowment Funds

# University of Alaska Foundation Pooled Endowment Fund

- 1984
  - ▶ \$1.2 million
  - ▶ All cash and fixed income investments
  - ▶ Spending current income only.

# University of Alaska Foundation Pooled Endowment Fund

- 1988
  - ▶ \$8.2 million
  - ▶ Balanced fund portfolio, fixed income bias
  - ▶ Unitized pool, total return
  - ▶ Spending 5.5% of market value

# University of Alaska Foundation Pooled Endowment Fund

● 1995

▶ \$23.3 million

▶ Spending 5.0% of 3 yr moving average of market value

# University of Alaska Foundation Pooled Endowment Fund

- 1997
  - ▶ \$29.7 million
  - ▶ Consolidated with UA Land Grant Trust Fund
  - ▶ Spending 5.0% of 5 yr. moving average of market value

# Endowment Management

## Conflicting Objectives

- Preserving principal
- Maximizing distributions
- Minimizing payout fluctuations

# Endowment Management

## Threshold Issues - Reducing Conflicts

- Intergenerational Equity
- Total Return

# Intergenerational Equity

- Ability to purchase for future beneficiaries what the endowment can purchase for today's beneficiaries (inflation-proofing)

# Total Return - Economics Perspective

- Investing for maximum return
- No distinction between capital appreciation and current income
- No distinction between realized and unrealized earnings

# Total Return - Management Perspective

- Disconnects investment decisions from short-term spending considerations
- Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles

# Endowment Management

## Conflicting Objectives - Trade-offs

- Preserve purchasing power of endowment
- Maximize distributions (current and future)
- Predictable payouts

# Strategic Questions

- How much is needed for distribution to the beneficiary (spending)?
- How much is needed to preserve purchasing power (inflation-proofing)?
- Time horizon for major distributions?

# Strategic Issues

- Expected or needed rate of return
- Risk tolerance
- Asset class preference

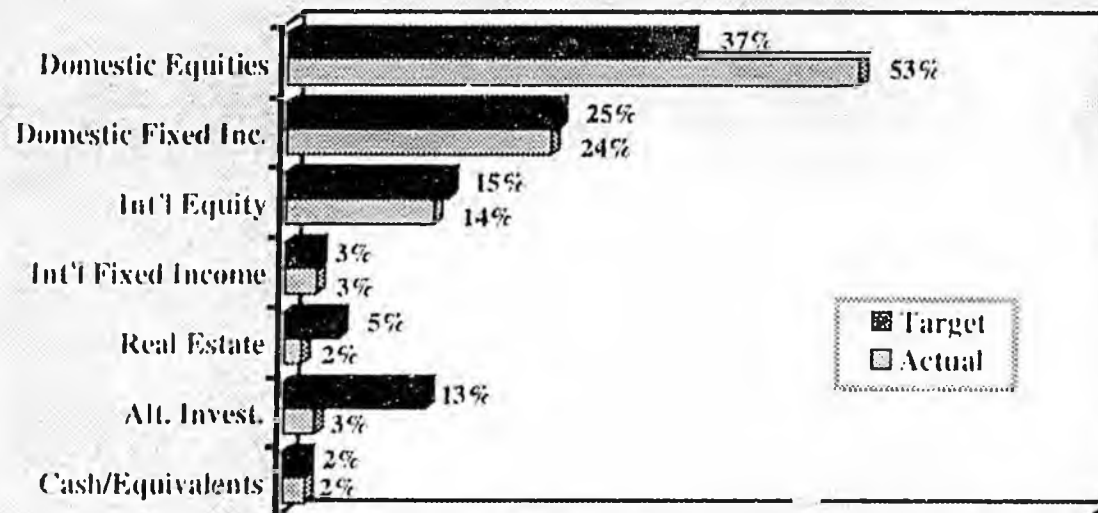
# Strategic Outcomes

- Portfolio asset allocation

- Spending Methodology

# Asset Allocation

**Consolidated Fund**  
**Asset Allocation Target v. Actual December 31, 1998**

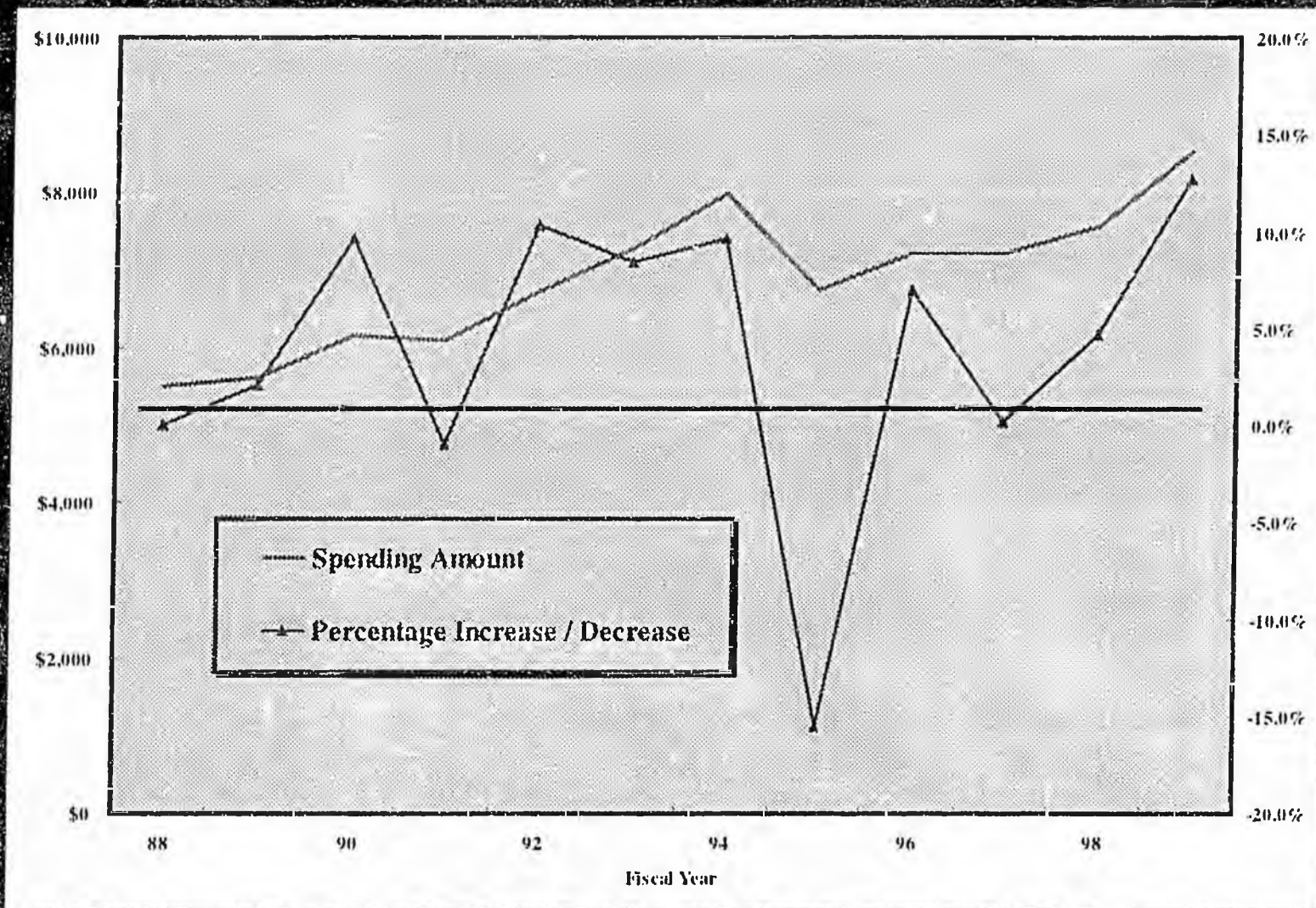


# Spending Methodologies

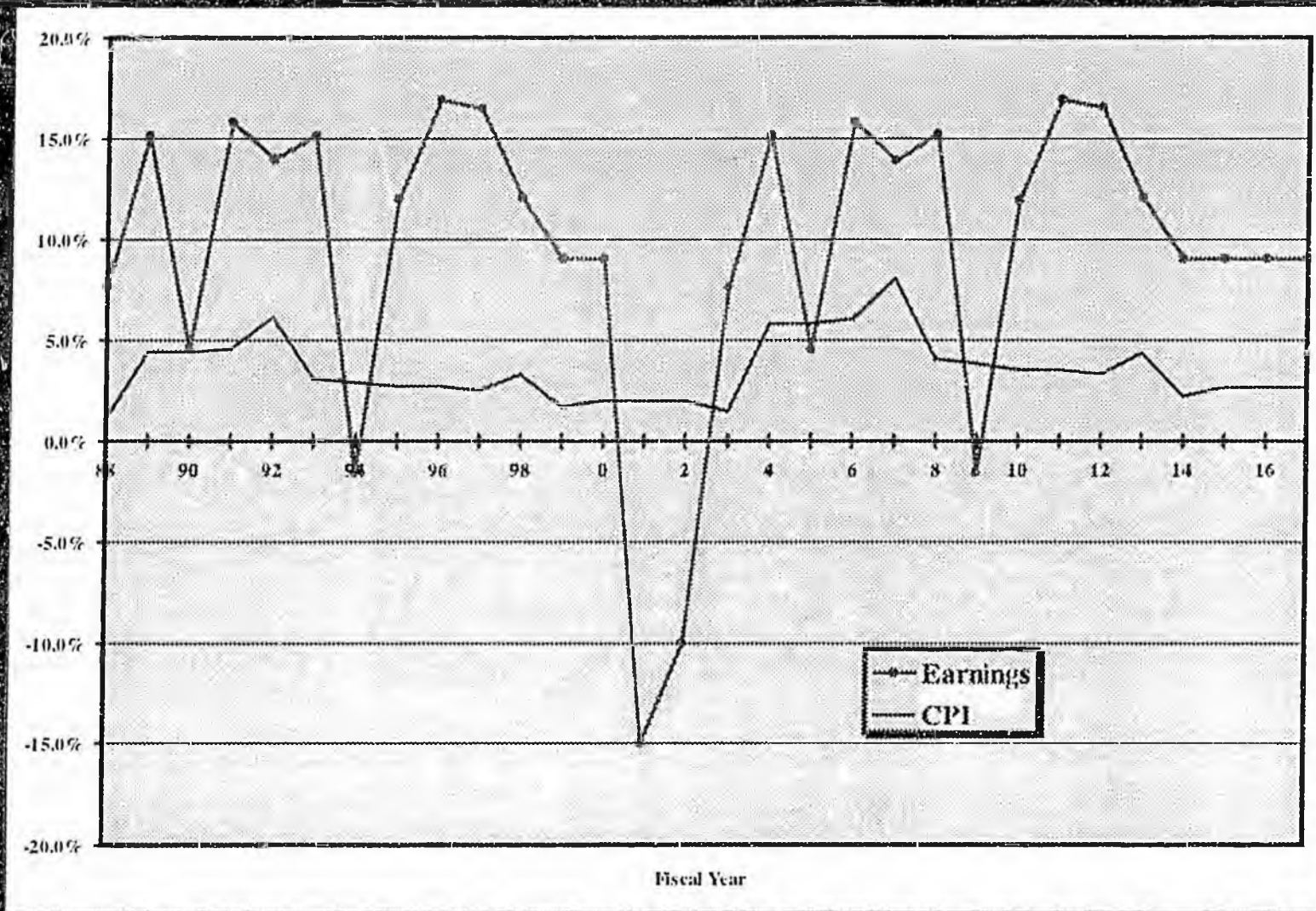
|  | <u>Utilization</u> |
|--|--------------------|
| Spend all current income               | 4%                 |
| Spend X% of current income             | 2%                 |
| Spend X% of beginning market value     | 5%                 |
| Spend X% of moving avg. of mkt. values | 70%                |
| Increase prior year spending by X%     | 6%                 |
| Decide each year                       | 5%                 |
| Other                                  | 9%                 |
| Total (506 respondents)                | <u>100%</u>        |

(Source: NACUBO Endowment Survey, 1998)

# Theoretical Fund Spending Allowance History



# Theoretical Fund Earnings Rate and Inflation Assumptions

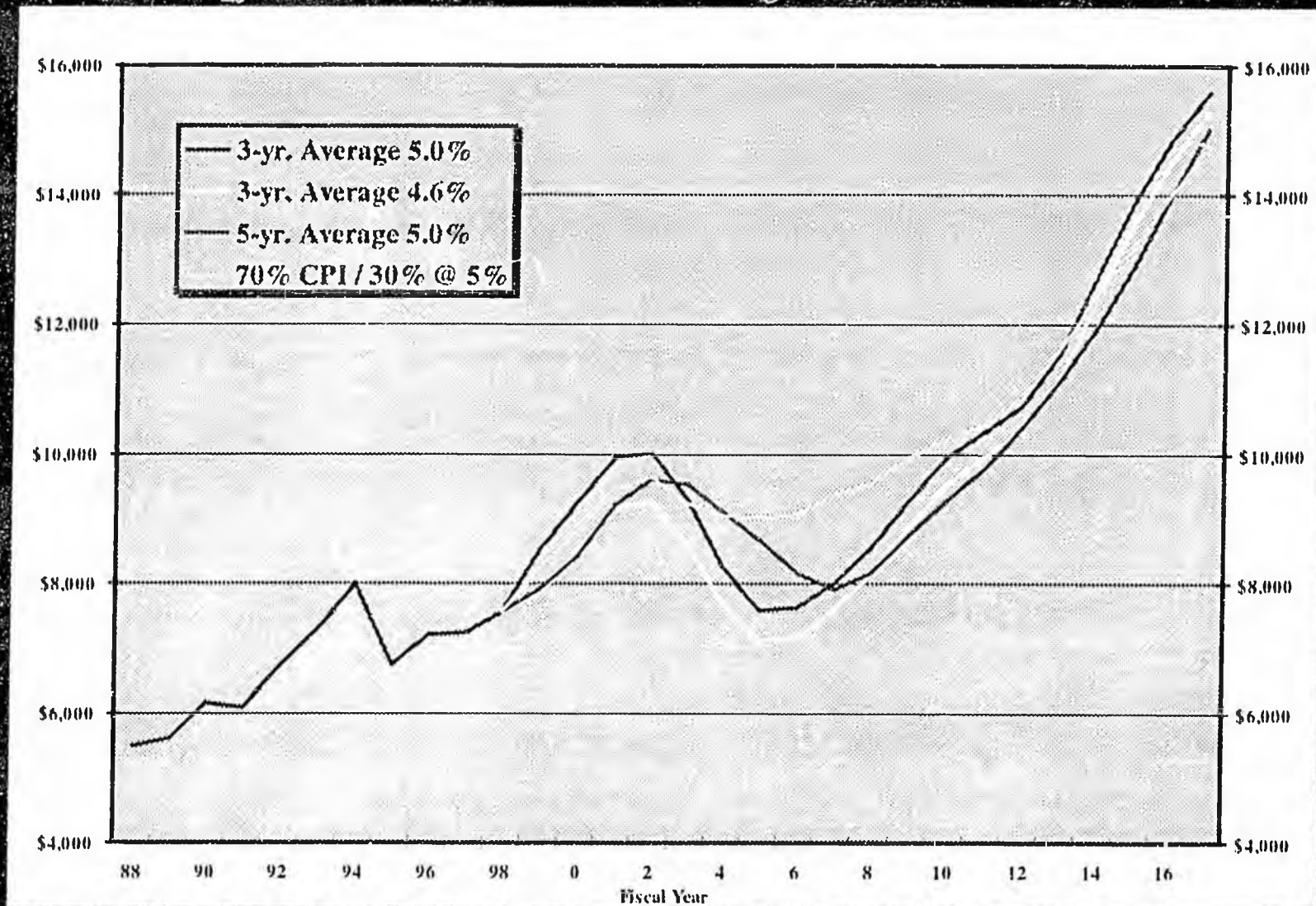


# Spending Alternatives Analyzed

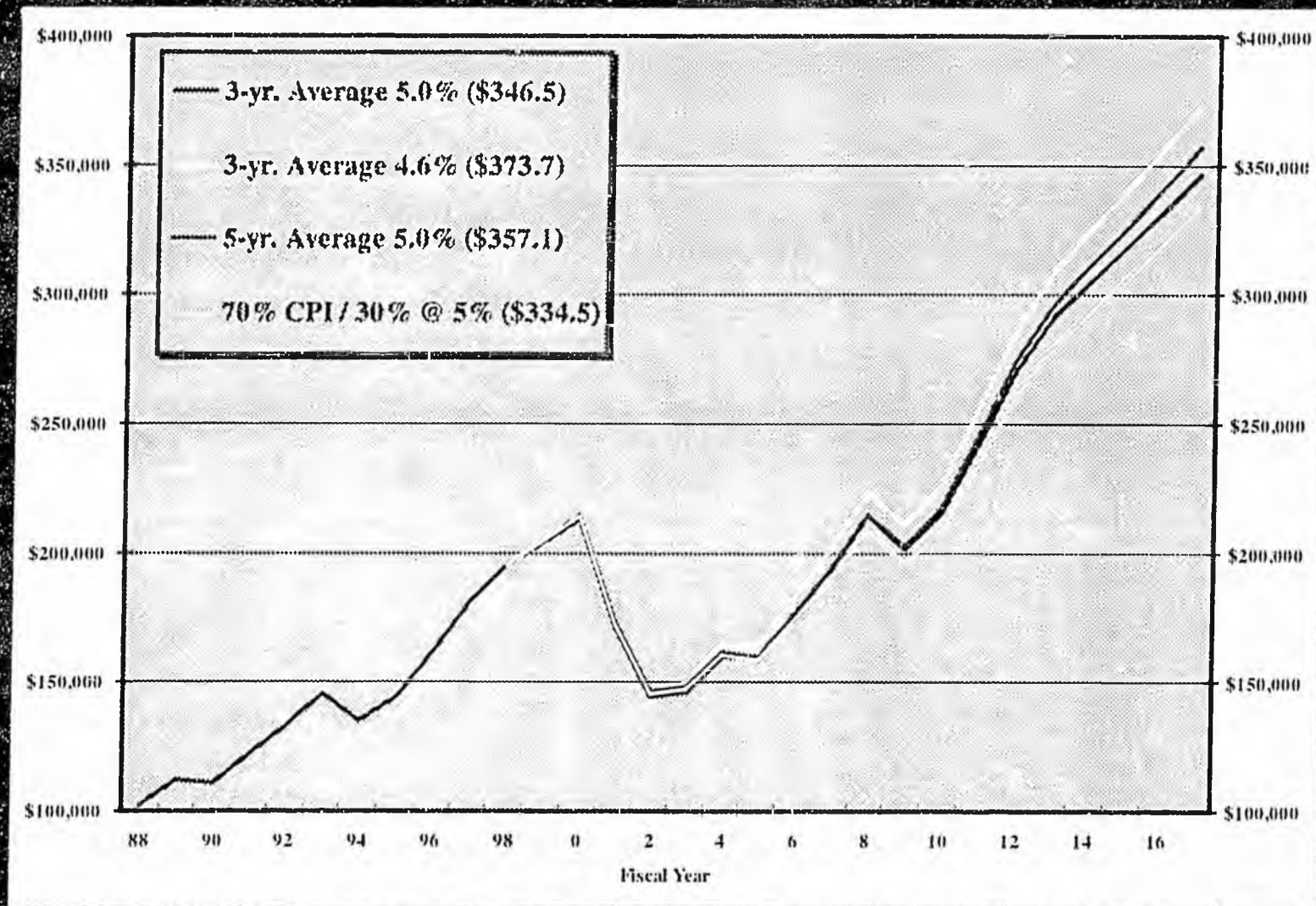
- 3-Year Average Market Value X 5.0%
- 3-Year Average Market Value X 4.6%
- 5-Year Average Market Value X 5.0%
- Yale Methodology - (70% Prior Year Spending adj. for inflation) + (30% of Market Value X 5.0%)

# Theoretical Fund Spending Allowance Alternatives

## Annual Distribution Amounts



# Theoretical Fund Spending Alternatives Endowment Principal Balances





Anchorage *Star of the North*  
Chamber of Commerce  
**Recommendations to Secure Alaska's Fiscal Future**

We recommend these steps be taken to bridge the gap between state spending and recurring revenues, and the tools be used in the following order:

1. **Take action on a long-term plan this legislative session.**
2. **Reduce state spending.**
  - *Establish a periodic process to identify and review essential and appropriate services. Through this process:*
    - Identify spending priorities that reflect a government's traditional responsibilities.
    - Promote state programs that encourage development of Alaska's economy, with special emphasis on development that generates a positive return to the economy and state treasury.
  - *Incorporate performance measures by which state services are evaluated on whether they are effective in meeting intended missions and efficient in the use of public dollars. Use this information to make spending reductions and investments.*
  - *Implement alternate ways to deliver state services such as privatization and contracting with the private sector.*
3. **Use earnings from financial investments and other instruments.**
  - *Use Permanent Fund earnings.*
    - Inflation-proof the Fund first.
    - Remainder of earnings is available for dividends and to support government services.
  - *Use the constitutional budget reserve fund or a similar fund as a "shock absorber" against oil price fluctuations.*
  - *Use general obligation debt, as appropriate, to finance the state's infrastructure needs on a long-term basis.*
4. **Implement broad-based taxes and implement/or increase consumption taxes.**
  - *Taxes should meet a standard of fairness and equity.*

Ralph Samuel, Chair

April Jensen, President



Comments by  
Cheryl Frasca  
before the Senate Finance Committee  
March 24, 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.

**Principles for a plan**

- 1. Stability
- 2. Sustainability
- 3. Fairness
- 4. Simplicity
- 5. Complete and full disclosure

**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
- c) Consistent presentation of plan

**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

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- d) Clearly accounts for all revenues, current spending and future financial commitments

3/24/99



# **THE ALLIANCE**

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

## **Alliance Testimony – State Fiscal Gap**

**March 24, 1999**

**by Karen Cowart, General Manager**

I am Karen Cowart, General Manager of the Alaska Support Industry Alliance (The Alliance). Thank for the opportunity to provide comment and perspective as you begin making important decisions on the state's budget.

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 at least 4,000 people have lost their jobs within our membership during the last quarter of 1998 and the first quarter of 1999. For the next 18 to 36 months, we expect downsizing and layoffs to continue. 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 business people, we understand that oil companies, our clients, must slow production, delay development and suspend exploration in times of low profits. These are necessary measures if investors are to maintain presence in the state until oil prices warrant an increase in activity.

In the meantime, 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. It is a starting point, serving as the catalyst for meaningful dialogue. We also deeply appreciate the legislature's ongoing commitment to a 5-year budget-balancing plan. In the days ahead, lawmakers can build on this foundation.

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.

The fact is that no one wants to pay more for products and services with a sales tax. No one wants to see less of their paycheck with a state income tax. And no one wants to receive a smaller Permanent Fund dividend. But no one can sensibly "just say no" to *everything* anymore. *Alaskans need to say "yes"* to a fiscally stable government and a sustainable economy.

We understand the legislature and the administration is looking to the people of Alaska to determine realistic ways to address the fiscal gap. We would like to give you the support industry's point of view. 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. They believe that there are many more efficiencies to be gained 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.

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*.

## **Permanent Fund Unrealized earnings and Dividend**

Using some portion of the Permanent Fund's unrealized earnings to fund government is acceptable to *eight out of 10* 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.

About half - 45% - picked use of unrealized earnings as their *second choice* of methods to balance the budget. About a quarter (23%) picked this tool as their third choice.

## **Permanent Fund Dividend**

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. About 42% ranked this method as their third choice; while 23% said it would be their second choice.

### **State Income Tax**

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. Six out of 10 (61%) ranked an income tax as the tool they prefer least.

### **State Sales Tax**

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 would support a state sales tax, *provided it would be levied statewide and on a fair and equitable basis*.

Four out of 10 said they did not support a state sales tax. About 46% ranked sales tax as the fourth choice among methods to balance the budget, 16% said it was their number three choice, and 17% ranked it last.

### **Conclusion**

We hope this input is valuable as the legislature develops and modifies its own specific budget proposals. We are willing to review and provide feedback on these proposals at your request. As plans are put forth, however, The Alliance does ask that they are presented to the people *with all the cards on the table*. We urge you to devise a simple way to show the full budget - *all revenues and expenses* - whether they flow through the general fund or not. This will allow us to see how much we are really paying for government services, in what form, and then come to our own conclusions on programs we feel are essential to the state and its residents.

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. The time for talk is long over. The state MUST take action now. We encourage you to continue budget dialogue with the intent to resolve the problem this year. Our sector of the economy, and commerce across the state, is counting on you.

Again, thank you for the opportunity to provide testimony on this important issue.



# THE ALLIANCE

4220 'B' Street, Suite 200 • Anchorage, AK 99503-5911 • Phone: (907) 563-2226 • Fax: 561-8870

## RESULTS OF ALLIANCE MEMBERSHIP "BUDGET" SURVEY

The Alliance surveyed its over 300 members in mid-March regarding the state's \$1 billion fiscal gap, and various proposed tools to close it. Response was excellent, and the oil and gas support industry's trade organization now has a clear picture of how the majority of members feel. Below is a summary of tabulated results. A copy of the original survey is attached for reference.

### 1. State Government Spending

|                        |                        |                          |                      |   |
|------------------------|------------------------|--------------------------|----------------------|---|
| <b>Recommendation:</b> | Cut Deeply: <b>42%</b> | Cut Moderate: <b>56%</b> | Don't Cut: <b>2%</b> | Increase Spending: <b>0%</b>            |
| <b>Ranking:</b>        | Number 1: <b>76%</b>   | Number 2: <b>12%</b>     | Number 3: <b>7%</b>  | Number 4: <b>2%</b> Number 5: <b>1%</b> |

Continued cuts in government spending are overwhelmingly (98%) supported by the majority of Alliance members. About three-fourths (76%) picked spending cuts as their top choice of methods to balance the budget.

### 2. Permanent Fund Unrealized Earnings

|                        |                      |                      |                       |  |
|------------------------|----------------------|----------------------|-----------------------|--|
| <b>Recommendation:</b> | Use All: <b>17%</b>  | Use Some: <b>64%</b> | Don't Use: <b>11%</b> | Never Use: <b>7%</b>                     |
| <b>Ranking:</b>        | Number 1: <b>10%</b> | Number 2: <b>45%</b> | Number 3: <b>23%</b>  | Number 4: <b>12%</b> Number 5: <b>5%</b> |

Use of some, but not all, of the Permanent Fund's unrealized earnings is supported by two-thirds (65%) of Alliance members. About half (45%) picked use of unrealized earnings as their second choice of methods to balance the budget; while about a quarter (23%) said this is their third choice.

### 3. Permanent Fund Dividend

|                        |                      |                      |                         |   |
|------------------------|----------------------|----------------------|-------------------------|---|
| <b>Recommendation:</b> | Eliminate: <b>9%</b> | Limit: <b>61%</b>    | Leave Alone: <b>16%</b> | Never Touch: <b>12%</b>                   |
| <b>Ranking:</b>        | Number 1: <b>1%</b>  | Number 2: <b>22%</b> | Number 3: <b>41%</b>    | Number 4: <b>11%</b> Number 5: <b>13%</b> |

Limiting (or eliminating) the Permanent Fund Dividend, and using the remaining earnings to fund government services, was acceptable to nearly three-quarters (72%) of Alliance members responding. About 42% ranked this method as their third choice; while 23% said it would be their second choice.

### 4. State Income Tax

|                        |                          |                              |                            |   |
|------------------------|--------------------------|------------------------------|----------------------------|---|
| <b>Recommendation:</b> | All Alaskans: <b>18%</b> | Upper Income Only: <b>1%</b> | Do Not Support: <b>33%</b> | Strongly Oppose: <b>47%</b>               |
| <b>Ranking:</b>        | Number 1: <b>2%</b>      | Number 2: <b>4%</b>          | Number 3: <b>9%</b>        | Number 4: <b>21%</b> Number 5: <b>60%</b> |

There is overwhelming opposition (81% "do not support" or strongly oppose) to a state income tax on the part of Alliance members. Six out of 10 (61%) ranked an income tax as the least preferable choice among methods to balance the budget.

### 5. State Sales Tax

|                        |                       |                               |                            |   |
|------------------------|-----------------------|-------------------------------|----------------------------|---|
| <b>Recommendation:</b> | Statewide: <b>52%</b> | Except Where Local: <b>7%</b> | Do Not Support: <b>23%</b> | Strongly Oppose: <b>16%</b>               |
| <b>Ranking:</b>        | Number 1: <b>3%</b>   | Number 2: <b>13%</b>          | Number 3: <b>16%</b>       | Number 4: <b>45%</b> Number 5: <b>17%</b> |

While taxes of any type were the least popular budget-balancing tools among Alliance members, a sales tax appeared to be the most palatable taxation, provided it would be applied on a statewide basis. About 46% ranked sales tax as the fourth choice among methods to balance the budget.



# THE ALLIANCE

4220 'B' Street, Suite 200 • Anchorage, AK 99503-5911 • Phone: (907) 563-2226 • Fax: 561-8870

## FAX-BACK STATE BUDGET SURVEY – by March 16

First, check how you feel each budget-balancing tool should be used, if at all. Then rank the methods by placing a "1" next to your top choice, "2" next to your second choice, "3" next to your third choice, "4" next to your fourth choice, and "5" next to the tool you prefer least.

### RANK

\_\_\_\_\_ State government spending                      Cut deeply                      Cut moderately                      Don't cut                      Increase Spending  
                                                                                       

Comments: \_\_\_\_\_

\_\_\_\_\_ Permanent Fund unrealized earnings.                      Use all                      Use some                      Don't use                      Never use  
                                                                                       

Comments: \_\_\_\_\_

\_\_\_\_\_ Permanent Fund dividend.                      Eliminate dividend                      Limit dividend                      Leave it alone                      Never touch  
                                                                                       

Comments: \_\_\_\_\_

\_\_\_\_\_ State income tax.                      On all Alaskans                      Upper income only                      Do not support                      Strongly oppose  
                                                                                       

Comments: \_\_\_\_\_

\_\_\_\_\_ Establish a state sales tax.                      Statewide                      Except where local tax                      Do not support                      Strongly oppose  
                                                                                       

Comments: \_\_\_\_\_

Company: \_\_\_\_\_

Voting Member or Representative: \_\_\_\_\_

Thank you for your input!

**Please fax back to The Alliance at (907) 561-8870 by Tuesday, March 16.**

**Responses will be tabulated by March 19.**

**ALL RESPONSES WILL BE KEPT CONFIDENTIAL**

3/24/99

A.G.C.

HELLO MY NAME IS ROXANNA HORSCHER.... I OWN A SMALL CONTRACTING BUSINESS AND I AM HERE TODAY REPRESENTING THE ASSOCIATED GENERAL CONTRACTORS ASSOCIATION OF ALASKA..

THE ASSOCIATION HAS CLOSE TO 600 MEMBERS FROM ANCHORAGE, FAIRBANKS, KENAI AND S.E. AREAS OF THE STATE. THE MEMBERSHIP IS MADE UP OF BUILDING, HIGHWAY, AND SPECIALTY CONTRACTORS AS WELL AS MATERIAL SUPPLIERS AND SERVICE RELATED COMPANIES.

BECAUSE THE AGC OF ALASKA IS QUITE CONCERNED OVER THE FISCAL GAP WE ARE PLEASED TO HAVE THIS OPPORTUNITY TO SHARE OUR POSITION, AND PRESENT THE FOLLOWING IDEAS FOR YOUR CONSIDERATION.

1. MAXIMIZE THE USE OF FEDERAL MATCH FUNDS FOR CAPITOL WORK.  
THE ASSOCIATION FEELS VERY STRONGLY THAT NO FEDERAL OFFERINGS SHOULD BE LOST BECAUSE OF THE LACK OF STATE FUNDING FOR MATCHING DOLLARS.
2. MAINTAIN A STRUCTURED APPROACH TO A CAPITOL PROGRAM. AS SET OUT IN THE STATE CONSTITUTION ARTICLE IX, SECTION 16 WHICH STATES IN PART THAT EXCEPT FOR A FEW SPECIFIC BOND APPROPRIATIONS, THE APPROPRIATIONS FROM THE STATE TREASURY SHALL NOT EXCEED 2.5 BILLION DOLLARS PER YEAR BY MORE THAN THE GROWTH IN POPULATION OR INFLATION SINCE JULY 1, 1981..... AND GOES ON TO STATE .."WITHIN THIS LIMIT AT LEAST ONE THIRD SHALL BE RESERVED FOR CAPITOL PROJECTS AND LOAN APPROPRIATIONS".
3. REDUCE STATE GOVERNMENT FUNCTION IN ACCORDANCE WITH ARTICLES III THRU X OF THE ALASKA CONSTITUTION. OTHER STATES OPERATIONS COULD SERVE AS A GUIDELINE TO DEFINE THE BASIC FUNCTIONS.  
ALSO STATE EMPLOYEES SHOULD MORE RESEMBLE PRIVATE SECTOR EMPLOYEES IN SIMILAR WORK. MANY CONTRACTORS COMPLAIN THEY CAN NOT COMPETE WITH WAGES, AND BENEFITS PAID BY THE DEEP POCKETS OF STATE GOVERNMENT.
4. LOWER STATE EXPENDITURES THROUGH INCREASED PRIVATIZATION OF SERVICES.
5. USE SOME OF THE NON DESIGNATED PERMANENT FUND EARNINGS TO BALANCE THE BUDGET.

6. BONDS FOR CAPITOL PROGRAMS SHOULD BE USED TO BRIDGE SHORT TERM FISCAL GAPS.

7 WE SUPPORT AN INCREASE TO THE STATE MOTOR FUEL TAX PROVIDED THE REVENUES ARE USED FOR ADDITIONAL MAINTENANCE OF OUR TRANSPORTATION INFRASTRUCTURE AND DISTRIBUTED THROUGH A DESIGNATED FUND..

The AGC feels if all these points were implemented a State income tax would not even need to be considered.

WE THANK YOU FOR THE ATTENTION YOU HAVE GIVEN US. IN CLOSING I WISH TO SAY THAT WE ALL RECOGNIZE THE DIFFICULT DECISIONS YOU MUST DEAL WITH THIS YEAR AND WE ENCOURAGE YOU TO ACT IN THE BEST LONG TERM INTEREST OF THE STATE OF ALASKA , WITH THAT WE PROMISE OUR SUPPORT AND DEFINITELY OUR RESPECT.

3/24/99

Dain LaBolle

**Alaska State Chamber of Commerce  
Recommendations on a Fiscal Plan for Alaska**

The ASCC supports a long-range budget plan that will bring state spending in line with revenues. Our recommendations are as follows:

1. Develop and enact a long-term fiscal plan this session. Establish the process for achieving a balanced budget, including a time frame, schedule, and spending/revenue targets.
2. Determine the appropriate role of state government, and through streamlining, consolidation, and privatization, reduce the size of state government. We believe an achievable target for reducing costs in this manner is at least 30%.
3. Utilize earnings from investments. After the Permanent Fund has been inflation-proofed, the remaining earnings should be used for dividends and to fund government services. General obligation debt should be used, as appropriate, to finance infrastructure needs on a long-term basis. We believe a reasonable funding target from investment earnings is approximately 50-55%.
4. The remaining 15% of the funding would come from broad-based taxes, fairly and equitably applied to all Alaskans.

# Looking Out For Business...

*A Report from the Alaska State Chamber of Commerce - the Voice of Alaska Business*



About sixty members of the Alaska State Chamber of Commerce (ASCC) were in Juneau recently to meet with Governor Knowles and the Legislature on behalf of business, commerce, jobs, and economic development. The primary topic of discussion was the \$1.2 billion budget deficit and what to do about it.

The Governor received praise for his leadership in opening the debate by putting his budget plan on the table. And, although the Legislature had yet to put forth its version of a plan for discussion, it was obvious that a lot of work was going on behind the scenes - sorting ideas and developing options for a plan that a majority of them could commit themselves to. The position presented by the Chamber was that a plan is needed this year - a plan for state government that emphasizes efficiency, consolidation, streamlining, and privatization.

"Any ideas on how this should be done?" was a question asked by many Legislators. Well, maybe this is a good time to look back in Alaska's history and see how another governor and another set of Alaska business leaders tackled a similar task - an assignment to reduce state costs by streamlining various government operations.

Finding efficiencies was the goal when Gov. Jay Hammond asked the State Chamber to assemble a team to make an in-depth study of the way things were done in state government - and to come up with recommendations for how to do things better and at less cost.

At the time, Alaska's general fund expenditures were running about \$700 million a year, and total state spending - including federal dollars coming in to support various programs - was just a little more than \$1 billion. Now, more than \$6 billion is pumping through the state's cash drawers, including \$2.3 billion in general fund spending.

But the crisis was much the same back in November 1975, when Hammond asked for help in controlling spending. The Chamber's response was to make a major commitment to the job.

Two leading Anchorage businessmen, banker Jim Curley and restaurateur Bill Pargeter, signed on as chairman and vice-chairman, respectively. Three others volunteered to serve on the committee's executive committee, and businesses in Anchorage and elsewhere loaned 14 of their top executives to the task on a full-time basis. Twenty-eight others signed up as part-time team members, many of them serving as many as 12 weeks at a time on assignment in Juneau. Others were aboard for briefer periods - and in all, 55 individuals took part in the work.

That work took two full years. On Nov. 1, 1978, Hammond issued a report to the people of Alaska on the results of the "Governor's Management & Efficiency Review."

Implementation of the recommendations over the two-year period resulted in annual savings of more than \$44 million and one-time benefits of more than \$6 million. At the time of the report, 247 of the study's 362 recommendations had been implemented, and others were in the works.

Reading it today, we see that some recommendations never implemented are still applicable. This would be a good place for the Commission on Privatization and the Delivery of Government Services to begin its work. Senate Bill 33, now under consideration by the Legislature, would create such a commission, made up of business and government leaders, to review and evaluate state procedures and services and provide recommendations for consolidating, privatizing, and streamlining state government.

It has been 24 years since state government was looked at with an eye for its overall shape and performance. It has grown considerably since then. Every gardener knows that pruning is necessary to keep a rose bush healthy, growing strong, and producing at its best. It's time for another look at the shape of state government.

---

**"The State Chamber is united in the position that we need to get the budget problem behind us now, so that we can concentrate all our energies on building Alaska for the future."**

---

*Pete Leathard, Chairman, ASCC*

---

## Cost of State Government – Then and Now

1978

Alaska's population – 403,099  
State Budget - \$1 billion

1998

Alaska's population – 621,400  
State Budget - \$6.2 billion

Accounting for inflation (at an estimated rate of 3.5% compounded over 20 years) today's budget is \$5.2 billion in 1978 dollars.

In today's budget, \$1.2 billion is paid in Permanent Fund dividends and is spent to inflation-proof the fund. Subtracting that reduces today's budget, in 1978 dollars, to \$3.9 billion.

The 1978 per capita cost of government was \$2,408.78. The 1998 per capita cost is \$6,276.15. This represents a 40% increase in per capita government spending in 20 years.

Alaska's population has increased 54%, while state spending has increased 290%.

In real dollars, if per capita spending had been maintained at the 1978 rate, today's budget would be \$3.06 billion, less than half of what it is.



# Resource Development Council for Alaska, Inc.

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Founded 1975

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## State Fiscal Gap - Potential Tools

Comments of Ken Freeman  
Executive Director  
Resource Development Council

Before the Senate Finance Committee, March 24, 1999

Good morning, for the record my name is Ken Freeman, I serve as executive director of the Resource Development Council. I appreciate the opportunity to present comments on our number one public policy issue this session -- implementation of a long-term fiscal plan for the State of Alaska.

As many of you know, RDC is a non-profit, economic development organization with a broad statewide base and focus. Our members range from individuals to leading companies throughout Alaska's basic resource sectors, including oil and gas, mining, timber, tourism and fishing. Also included in our ranks are Native corporations, construction, labor and a number of local communities. All of these interests come together under RDC to work on common issues -- issues which transcend all resource and economic sectors.

RDC is represented statewide by a 78-member Board of Directors and a 22-member Executive Committee. The later of which formulates policy and provides direction to a staff of four.

With the fiscal gap as our number one public policy issue this session, RDC helped coordinate the economic summit held last month in Juneau and our President testified on the fiscal gap before the Anchorage Caucus in late February.

What many of you heard at the economic forum was an assessment of business in Alaska. From the development sectors you heard that low oil prices and a slumping Asian economy have hit Alaska hard. You also heard that the timber and fishing industries are in the tank, both hit hard by weak Asian markets. Timber production is down by 70 percent or more, budgets have been drastically cut and industry employment has fallen to all-time lows. Meanwhile, the mining industry, which has shown record growth and production over the last several years, is now struggling to cope with low commodity prices.

RDC is here today to express our support and encouragement of the Legislature in finding a long-term solution to the state's fiscal dilemma and to offer suggestions on specific tools to develop such a solution.

I would like to applaud the Legislature and the Administration for making the budget issue the top priority this session - and in particular to the Senate and House Finance Committees which are working to evaluate the tools necessary to bridge the fiscal gap and create a long-term answer.

This issue is of extreme importance to our members and we are strongly advocating definitive action this session. RDC President Allen Bingham testified before the Anchorage Caucus in late February and said that RDC prefers all the tools available to close the fiscal gap be considered in the early deliberations of formulating a plan. He also said we have the tools to fix the problem before us but it will take cooperation and hard work - watching the session unfold we have seen both and it has encouraged us to come before the Legislature again to lend our support.

We appreciate the non-partisan and cooperative attitude expressed by both the Legislature and Administration to address the state's fiscal problems.

Over the course of many years, an assortment of ideas have been considered to close the fiscal gap. There are many good ideas out there and we look forward to providing input as appropriate. The state is fortunate that it has a very unique opportunity to identify and implement tools to close the fiscal gap before the Constitutional Budget Reserve is drained.

In terms of some specifics, RDC supports the use of the following tools presented in order of priority.

I. First, continue the Legislature's and Administration's reductions in state spending.

We appreciate the steps taken over the past few years to cut state spending. Without that leadership to bring spending more in line with recurring revenues, we would be in a much more serious situation.

We suggest that additional reductions could be achieved by establishing a periodic process to identify and review essential and appropriate services and recommend the establishment of priorities that reflect a government's traditional responsibilities to its citizens, i.e. public safety, transportation, education, and resource management.

The state must continue to promote programs that encourage development of Alaska's economy. Special emphasis must be directed to development that generates a positive return to both the local economy and state treasury.

Next, incorporate performance standards by which state agencies are evaluated as to their effectiveness in meeting intended missions and efficiency at the use of public dollars, -- results -- based budgeting.

And finally, evaluate and implement alternate ways to deliver state services such as privatization and contracting with the private sector.

RDC believes that additional budget cuts and increases in state efficiencies are achievable and will help, however, we all agree there is no way the state can realistically cut \$1 billion from the current budget.

Having said this, however, RDC believes any long-term fiscal plan should first establish spending priorities before addressing how those priorities will be funded.

II. Secondly, RDC further advocates for diversifying and stabilizing state revenues through the expanded use of the Permanent Fund earnings. Our Executive Committee believes the fund earnings should be used to fund appropriate state services, in addition to the traditional inflation proofing and dividend payment.

By using the permanent fund earnings to fund certain state government services, public interest in how and where their money is being spent will grow. Such a climate will hopefully generate more efficient state government.

There is an assortment of ideas that this committee may evaluate in terms of utilizing the Permanent Fund earnings to pay for state government services. We are not advocating one plan over another, but merely offering our support that using the earnings is a realistic and necessary measure that must be considered. On the revenue side, this is probably the most important tool that needs to be part of a long-term plan to fund state government. Members of our Executive Committee strongly believe this was the original intent of the fund and now is the time to begin to use some of those earnings to bring stability to public budgeting.

We believe further budget cuts and use of the Permanent Fund earnings will close the gap.

III. In the event these tools are not enough, RDC would entertain, as a final step, the implementation of a broad-based tax. Our members would have some comfort with a tax increase - such as the possible implementation of a sales tax. There is little support for an income tax.

New or increased taxes on industry are not the answer as such an action would shake the confidence of investors and harm a business climate already severely disturbed by global economic events. In fact, the fiscal gap itself is a significant hurdle in attracting investment capital here. Nervous investors may think twice about Alaska if they believe there is a serious risk of higher corporate taxes as a consequence of a continuing gap between recurring revenues and state spending.

RDC believes the solution can be found in using a combination of tools to solve the problem. No one tool — budget cuts, use of Permanent Fund earnings or a tax— solves the problem entirely.

Alaska is looking into the hour-glass, but RDC is confident the Legislature and the Administration will come to grips with this problem and do what is in the best interest of our state. Action is needed now while we have options rather than waiting until we are faced with a tougher dilemma down the road. Thank you for this opportunity to present our thoughts on this issue. I would be glad to try and answer any questions you may have.

3/24/99

(incorporated into record)

**Comments of Ralph Samuels,  
Anchorage Chamber of Commerce**

**Good morning, my name is Ralph Samuels, and I am the Chairman of the Board of Directors at the Anchorage Chamber of Commerce. I appreciate the opportunity to share with you some of the thoughts and concerns of the Anchorage business community.**

**The Anchorage chamber is an organization of over 1300 members. A vast majority of our members are small businesses. In addition to the large corporations that you are all familiar with, we represent small restaurants, gift shops, hotels, transportation companies, service companies and a myriad of other businesses in the Anchorage area.**

**For the past several years, the chamber has made the implementation of a long term fiscal strategy for the State its number one priority. We feel that in order for businesses to have the confidence to invest, expand and plan for their future, they must know that the State is going to have a stable fiscal policy. We are very much pleased that the Legislature has been active on this topic this session, and that the Administration is working in conjunction with the Legislature in order to get our fiscal house in order.**

**The Anchorage chamber board has spoken on the issue of long term fiscal planning with the following recommendations, to be used in the following order.**

**1. Take action to implement a plan this legislative session. If we wait until next year, the process will become embroiled in election year politics, and we will have spent one more years worth of reserves. Without a doubt, the time to act is now. The longer we wait the harder the decision will be.**

March 24, 1999

**2. Reduce State Spending-** Using a model of Government based on results, eliminate programs which do not achieve the desired, measurable results. Every dollar the State spends should be considered an investment that has a measurable return.

Privatization and contractual agreements with the private sector should be examined at every turn to more efficiently deliver State services which are determined to be essential. In the private sector, if we have a drop in revenues or even cash flow problems, we examine every employee, every expense, every purchase, every facet of the way we do business in order to make sure we are getting the most for our money. Although the State cannot operate entirely like a business, this business-like attitude must be pervasive in every department, and in every budget in State Government. If the State does not gain the confidence of the Alaskan people that we are getting the most return for our State dollars as possible, the path towards fiscal certainty will be even more difficult to travel than it already is. We must have the courage to declare that some programs do not work, and to eliminate them, or substantially change them. The Chamber realizes that this is not an easy task. We also realize that most, if not all, of the department heads will tell you that their programs are cost-effective, and that THEIR programs are doing exactly what they were intended to do, and if they had just a little bit more money, they would really get into the swing of things, and save the State a whole bunch of money. In short, we know that your job is not an easy one. However, it is not easy in the private sector to make cuts either. The recent oil industry layoffs were not easy for the oil companies, or the oil field service companies either, but they did what they had to do for the long-term health of their organizations. We are asking you to do the same.

When it comes to public sector vs. private sector employees, I will only make one comment. The wages and BENEFITS should be comparable between the two sectors for similar jobs. Anything other than this simply defies common sense.

3. After the paring of the budget, the revenue side of the equation must be examined. The first tool on the revenue side to be used should be the use of earnings from investments, including earnings from the Permanent Fund.

The Chamber feels that we should inflation proof the fund first, and that the rest of the earnings should be made available for dividends and to support vital State services. This means that PF dividends should compete for funds against other State expenditures.

We should still use the Constitutional Budget Reserve, or a similar fund, as a "shock absorber" against oil price fluctuations.

The use of general obligation debt should be carefully considered to keep a stable, sustainable capital budget to keep up with the States infrastructure needs on a long-term basis.

4. After all of these steps have been taking, and only then, the State must consider a broad-based tax, or increase consumption taxes. Any tax plan that is even to be considered must be fair and broad-based. The business community is concerned that increasing taxes will decrease the take-home pay of their most valuable employees, forcing the businesses to increase wages to keep the employees that contribute the most to the company. This,

combined with an already tight market for a productive work force, will have a detrimental effect on the business community.

In our past, Alaskans have done many things we can be proud of...we created the Permanent Fund, we created the Constitutional Budget Reserve. It is time to act now to do something else that we can be proud of, plan for the future for all of us. The Chamber feels that by following the priorities we have touched on here...

1. Handle the problem this session.
2. Identify appropriate budget reductions and take actions to implement a budgeting plan for all departments based on goals and results. We care not only about what we spend...we are very concerned about what we get for the money we do spend.
3. Use a revenue stream using investment earnings to cover budget shortfalls.
4. Then, and only then, implement a broad-based tax that is fair to all Alaskans.

By following these steps, Alaska's long term fiscal future will be far more secure than waiting too long to act.

I appreciate the time you have given the Chamber to voice our concerns, and we know that both the Legislature and the Administration are moving forward to solve our collective problem. Thank you.



# Analysis of Alaska's Budget Deficit

March 24, 1999

Senate Finance

1

3/24/99



# Presentation Objectives

- Identify potential goals and guidelines to be used to assess any long term financial plan

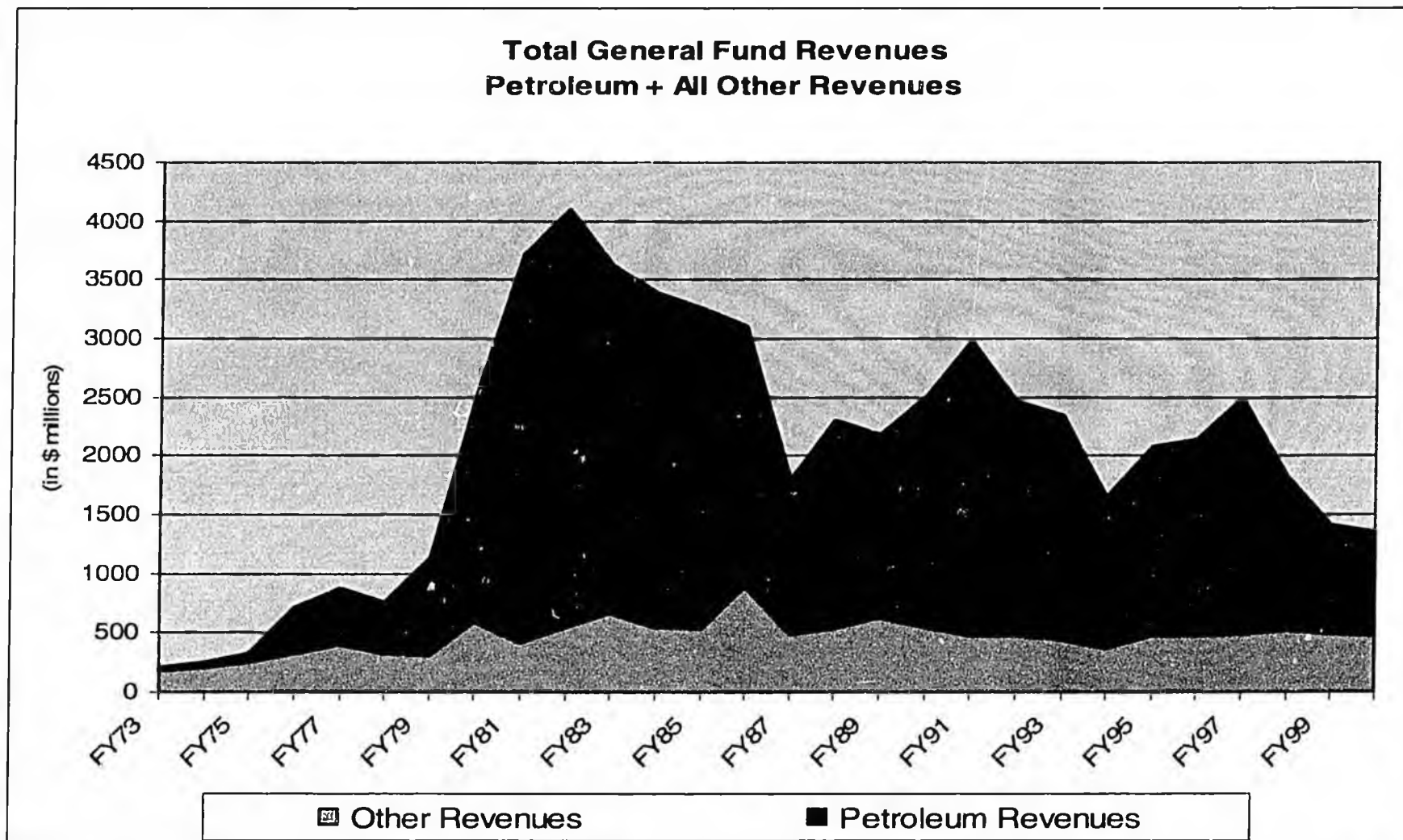
# How To Begin The Analysis?

## ■ Current Situation

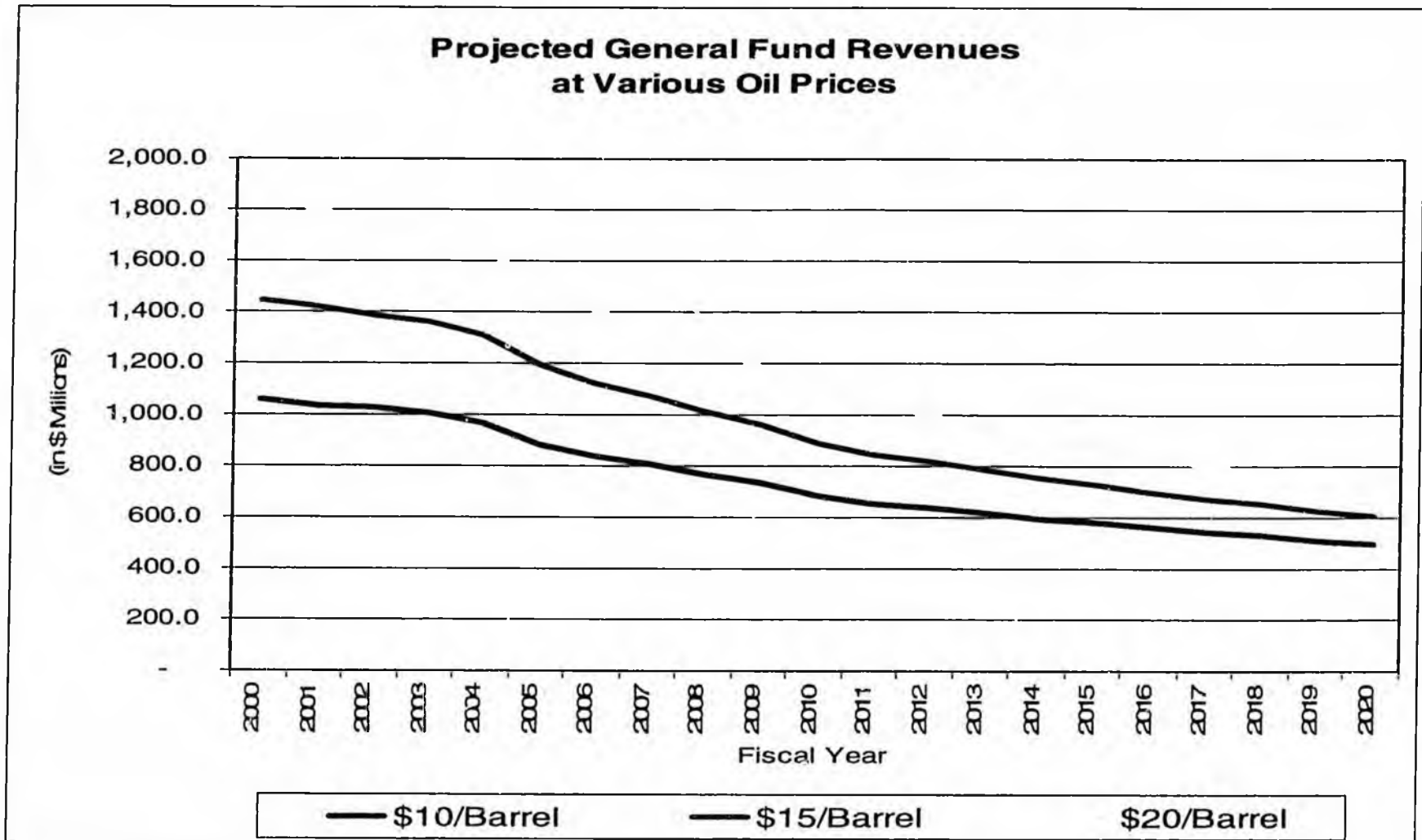
- ◆ Understand the magnitude of the problem
- ◆ Understand the model

## ■ Current Situation with High Oil Prices

# Historical State Revenues



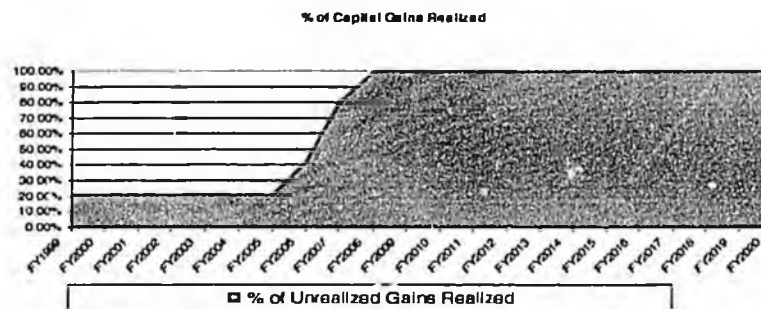
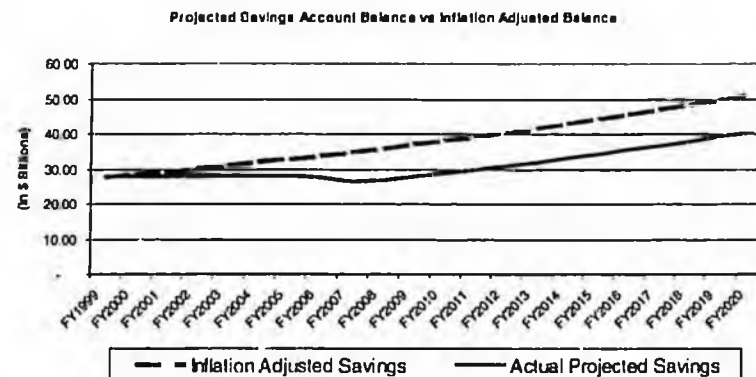
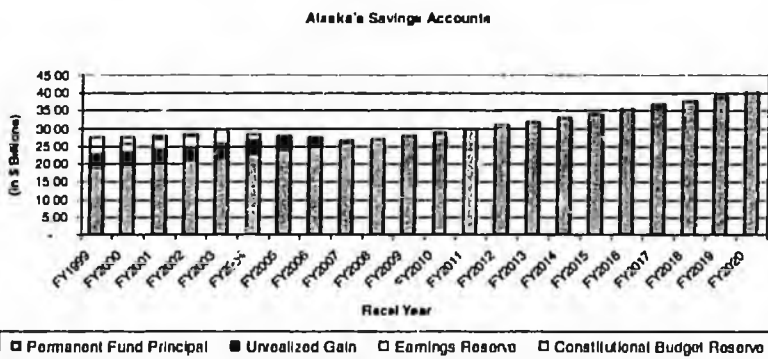
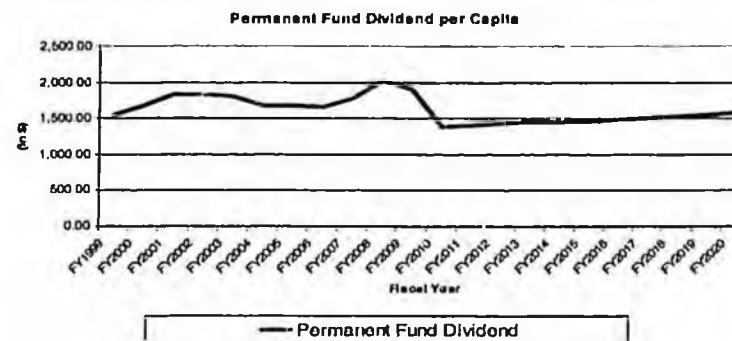
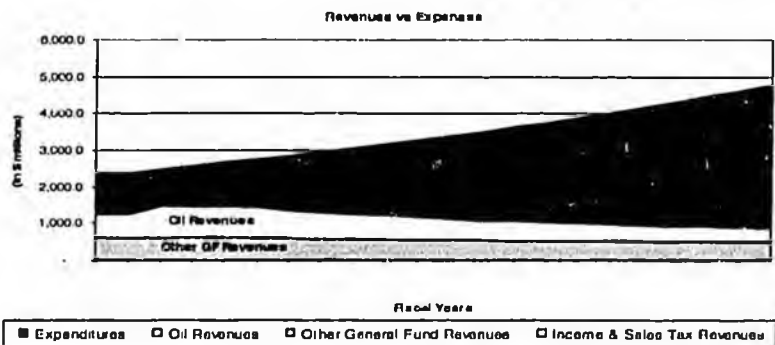
# Projected Revenues



# Current Situation - Assumptions

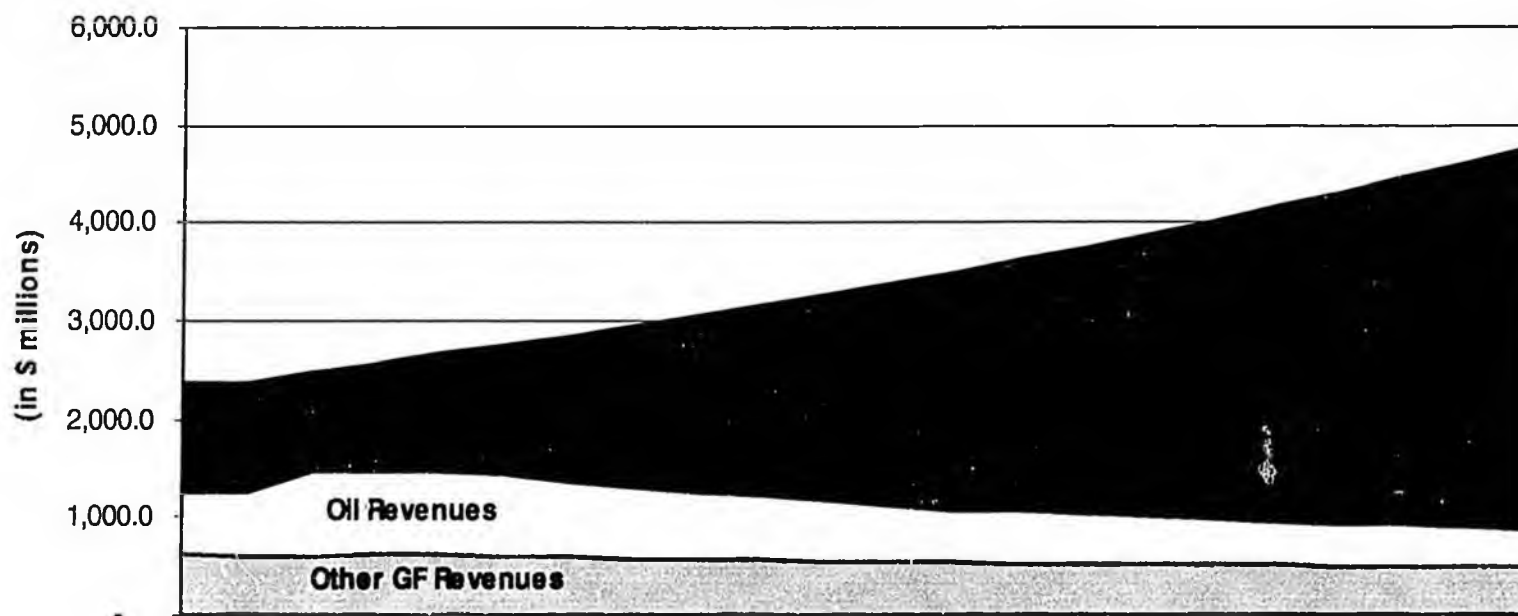
- 3.0% Inflation
- 1.5% Population Growth in K-12 Education  
Formula Population
- 2% Population Growth for Dividend ONLY!
- No Growth in Population for all other Formula or  
Agency Expenditures
- Permanent Fund Total Return of 7.75%
- CBR Total Return of 5.5% if less than \$3B and  
8.1% if greater than \$3B

# Current Situation

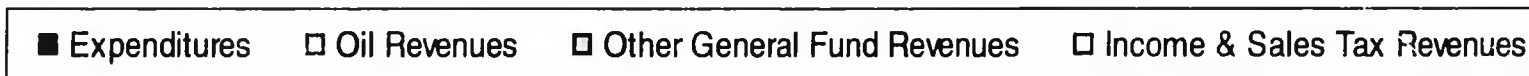


# Current Situation - Revenues & Expenditures

Revenues vs Expenses

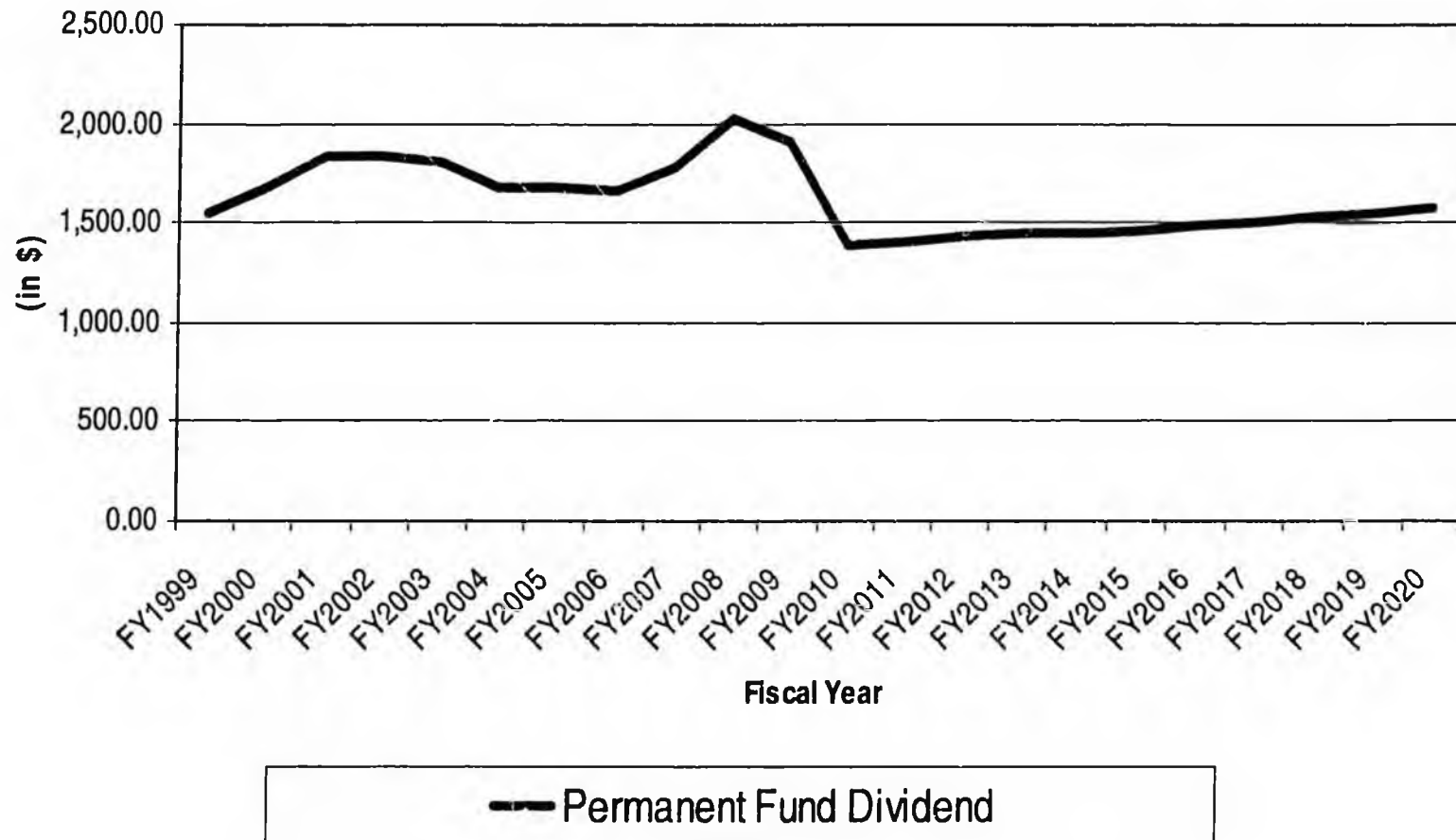


Fiscal Years



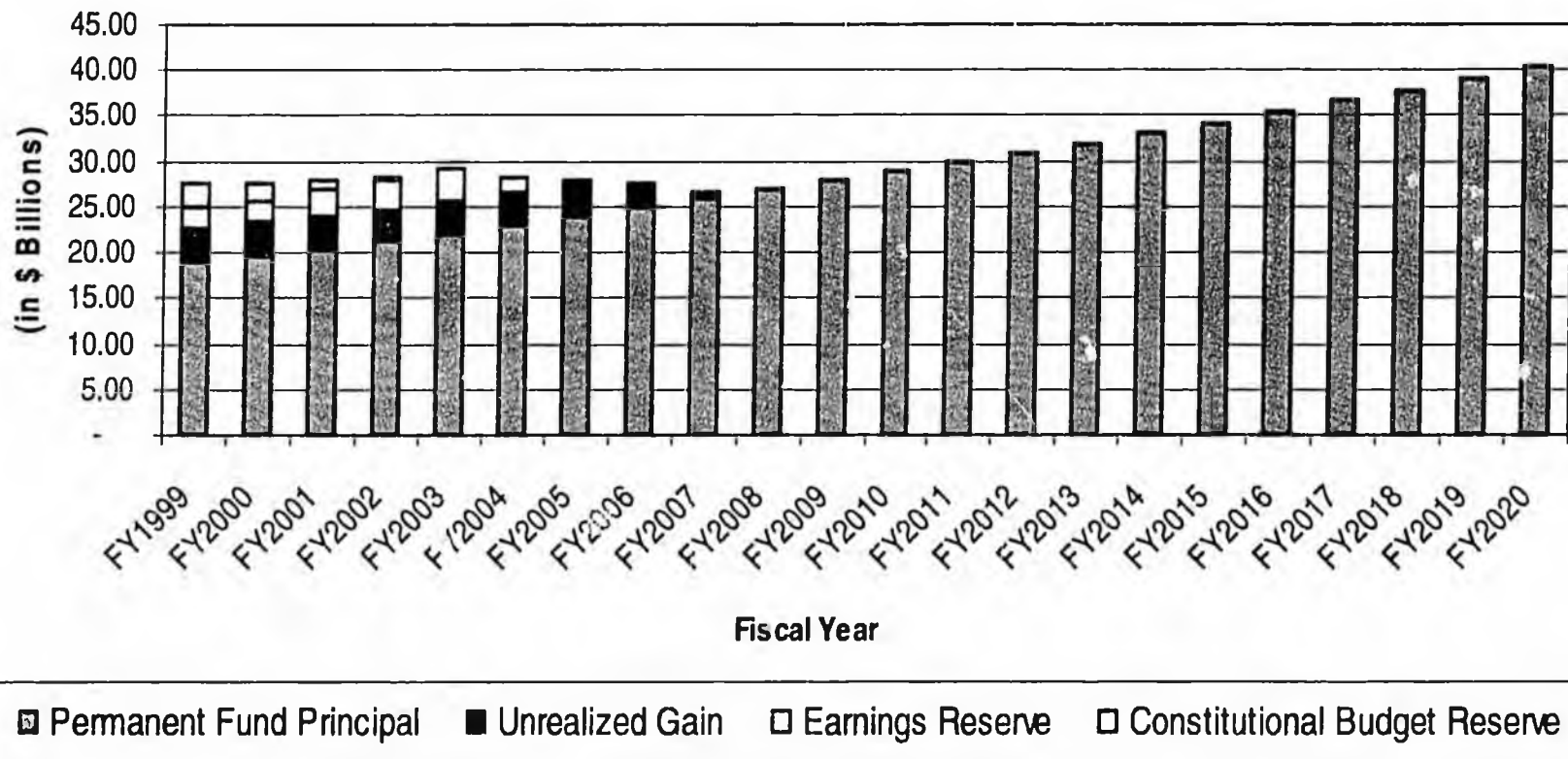
# Current Situation - Permanent Fund Dividends

Permanent Fund Dividend per Capita



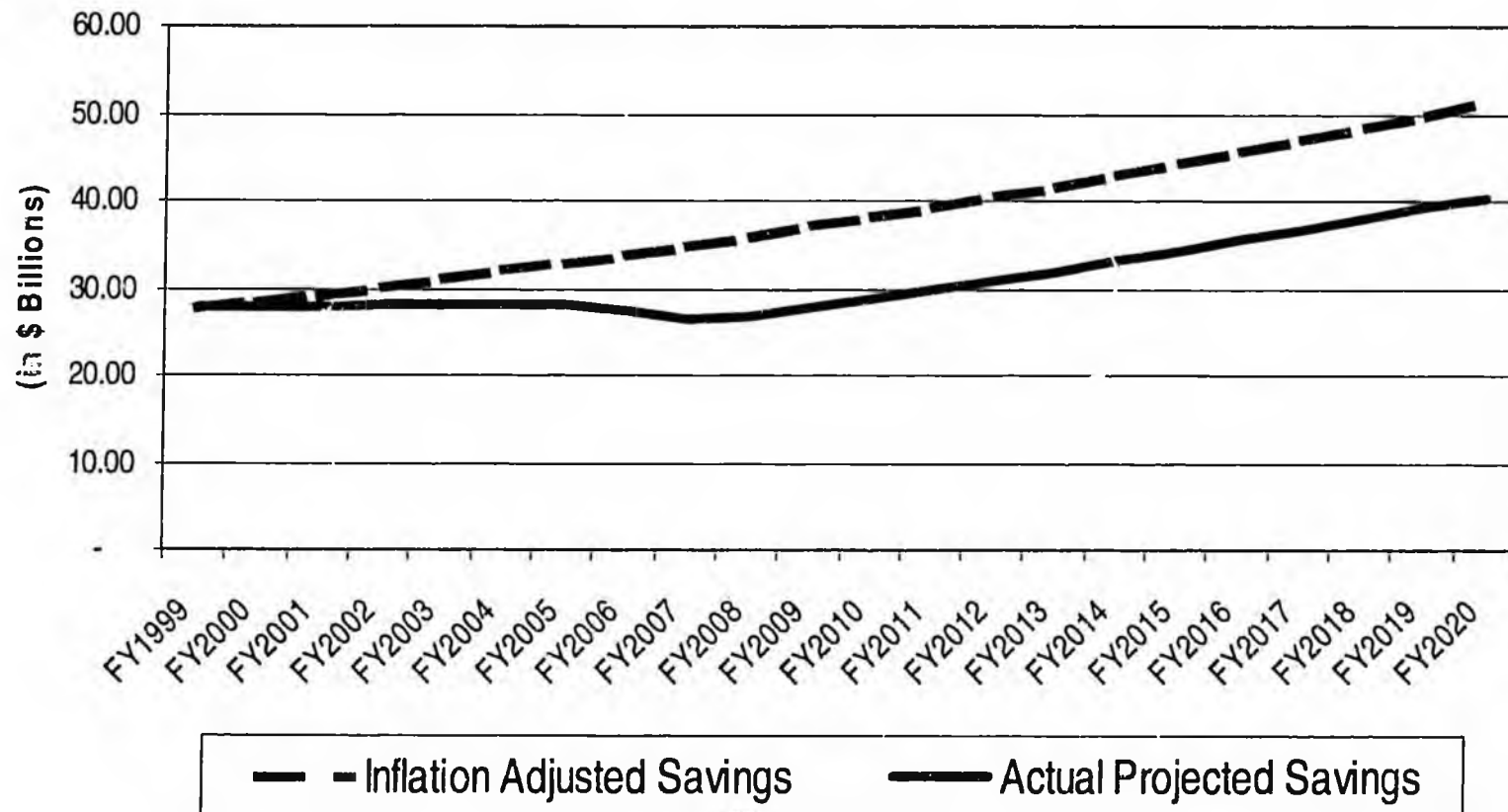
# Current Situation - Alaska's Savings Accounts

Alaska's Savings Accounts



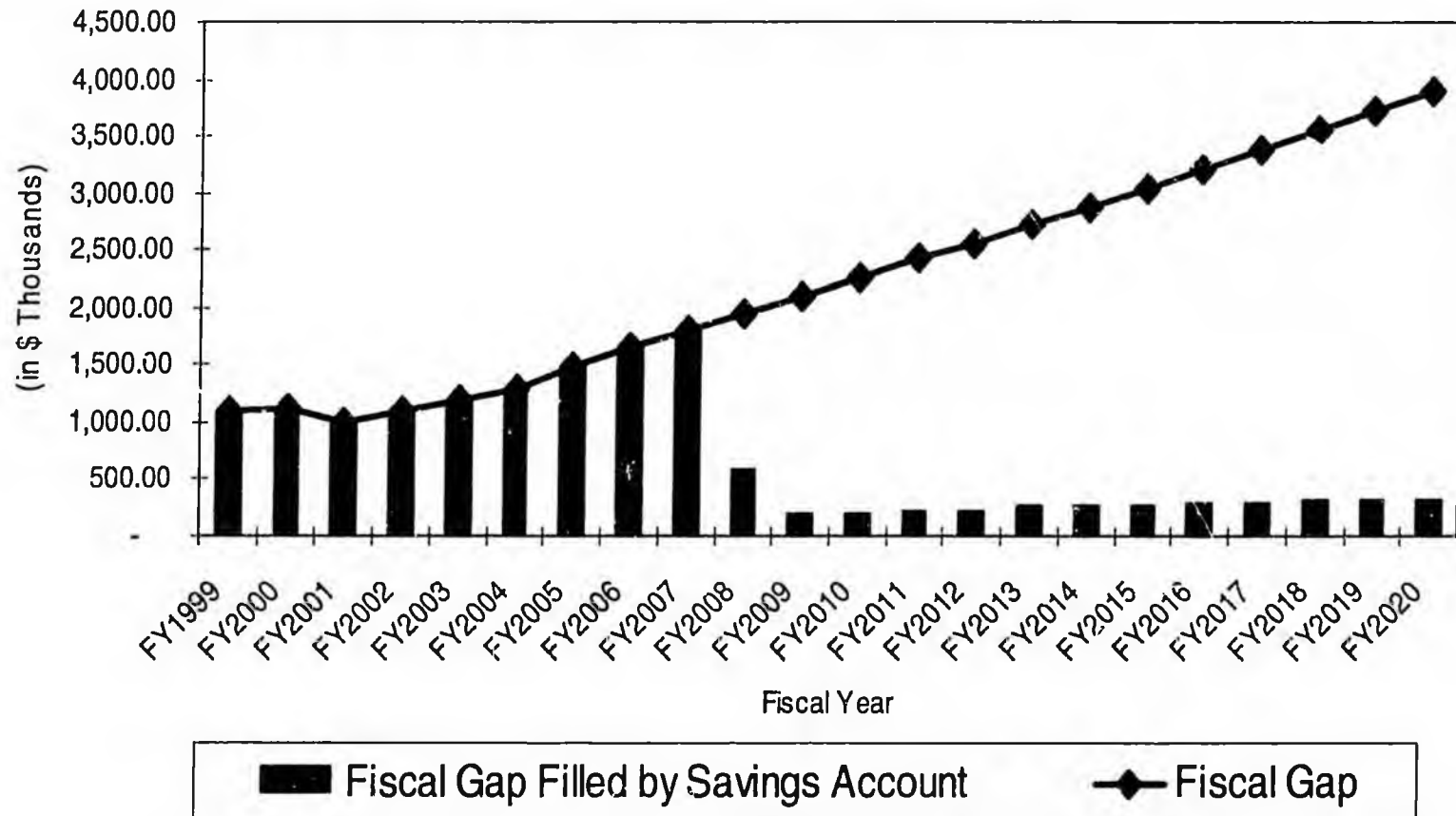
# Current Situation - Savings Account Analysis

Projected Savings Account Balance vs Inflation Adjusted Balance



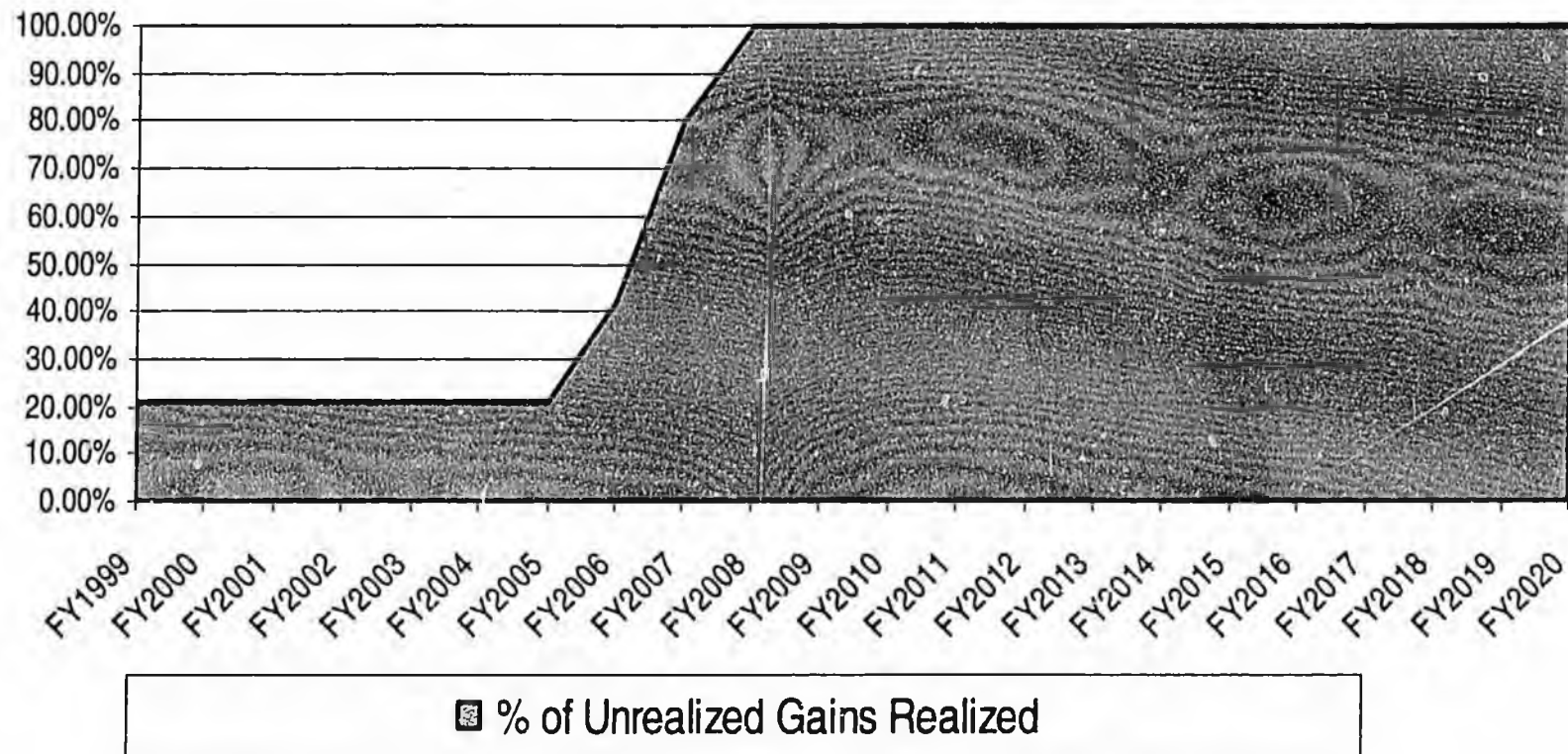
# Current Situation - Budget Deficit

## Fiscal Gap vs Savings Account Earnings Used to Fill Fiscal Gap



# Current Situation - % of Capital Gains Realized

% of Capital Gains Realized

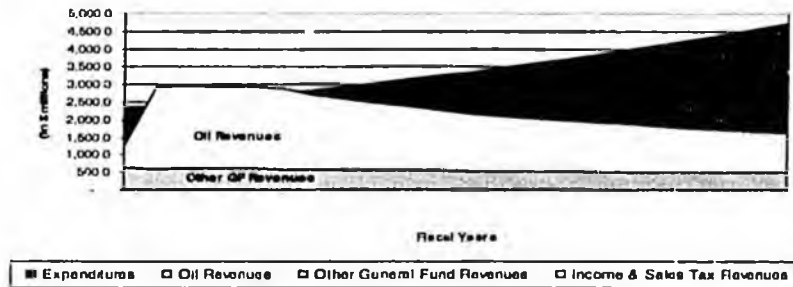


# \$34/bbl Oil Assumptions

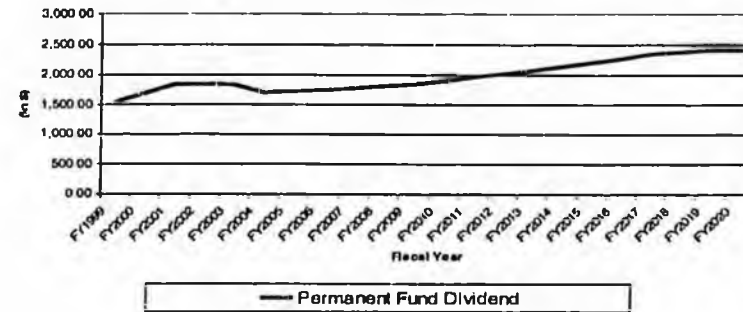
- Same as Current Scenario
- Except:
  - ◆ Oil goes to \$34/bbl in FY2000
  - ◆ Oil never goes down from \$34/bbl
  - ◆ In fact it rises every year at the inflation rate of 3% (In FY2020 Oil = \$61.41/bbl)
- Why \$34/bbl?
  - ◆ That is what it would take to create a sustainable budget until 2020 with no cuts and no taxes...But there are concerns.

# Current Scenario with \$34/bbl Oil

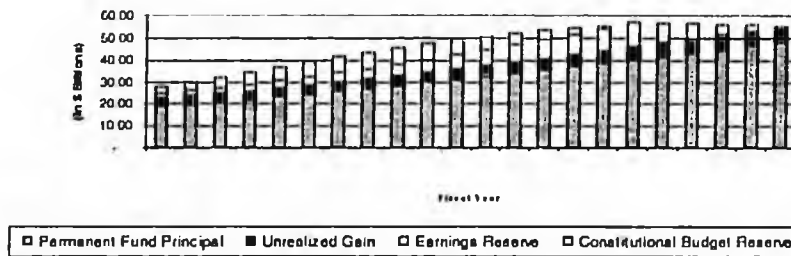
Revenues vs Expenses



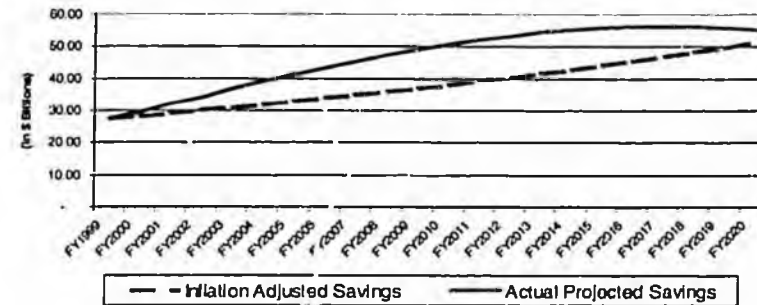
Permanent Fund Dividend per Capita



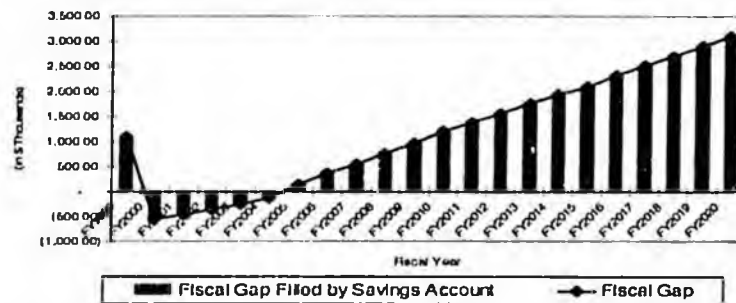
Alaska's Savings Accounts



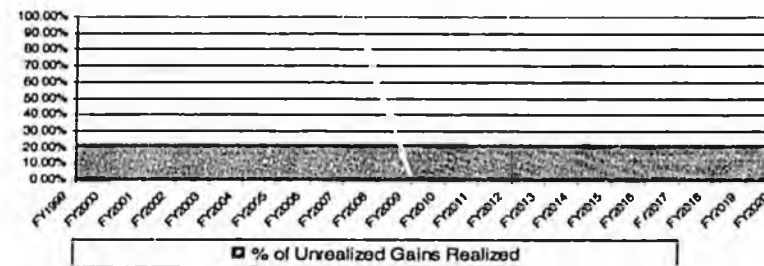
Projected Savings Account Balance vs Inflation Adjusted Balance



Fiscal Gap vs Savings Account Earnings Used to Fill Fiscal Gap

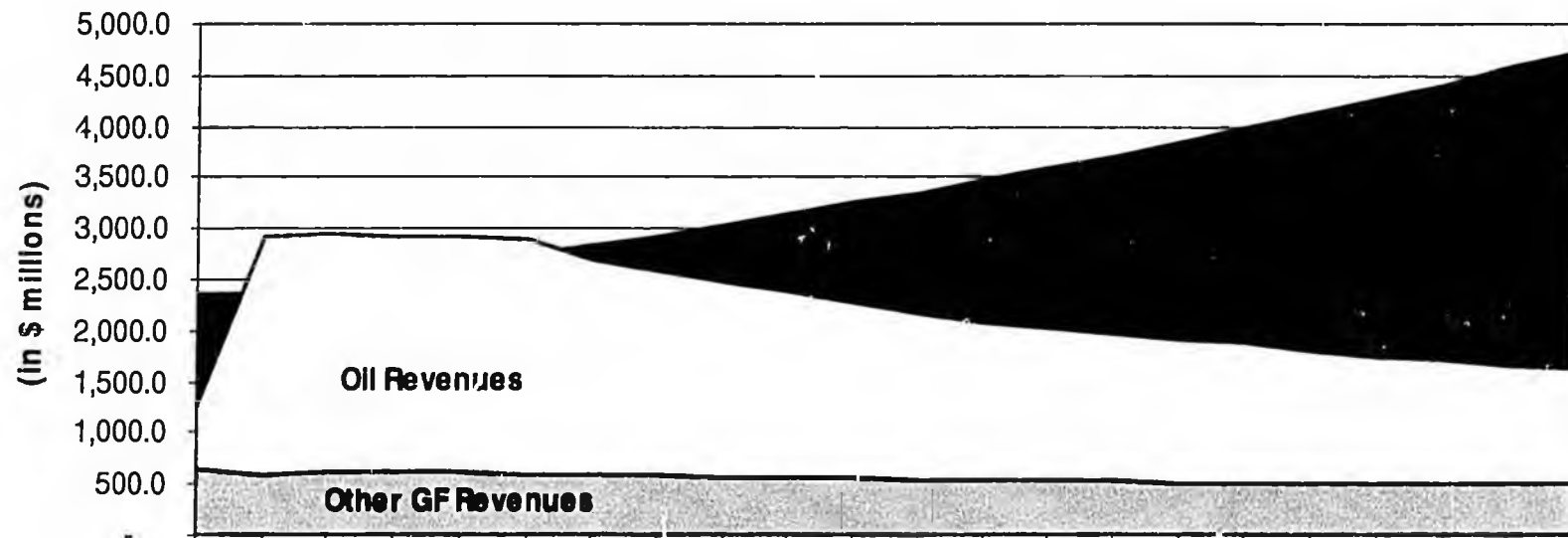


% of Capital Gains Realized

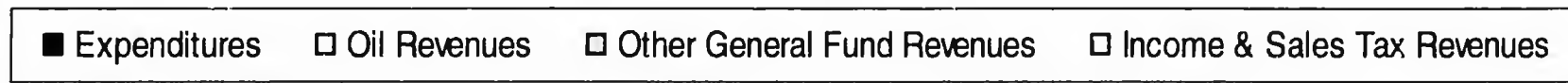


# Current Scenario with \$34/bbl Oil

Revenues vs Expenses

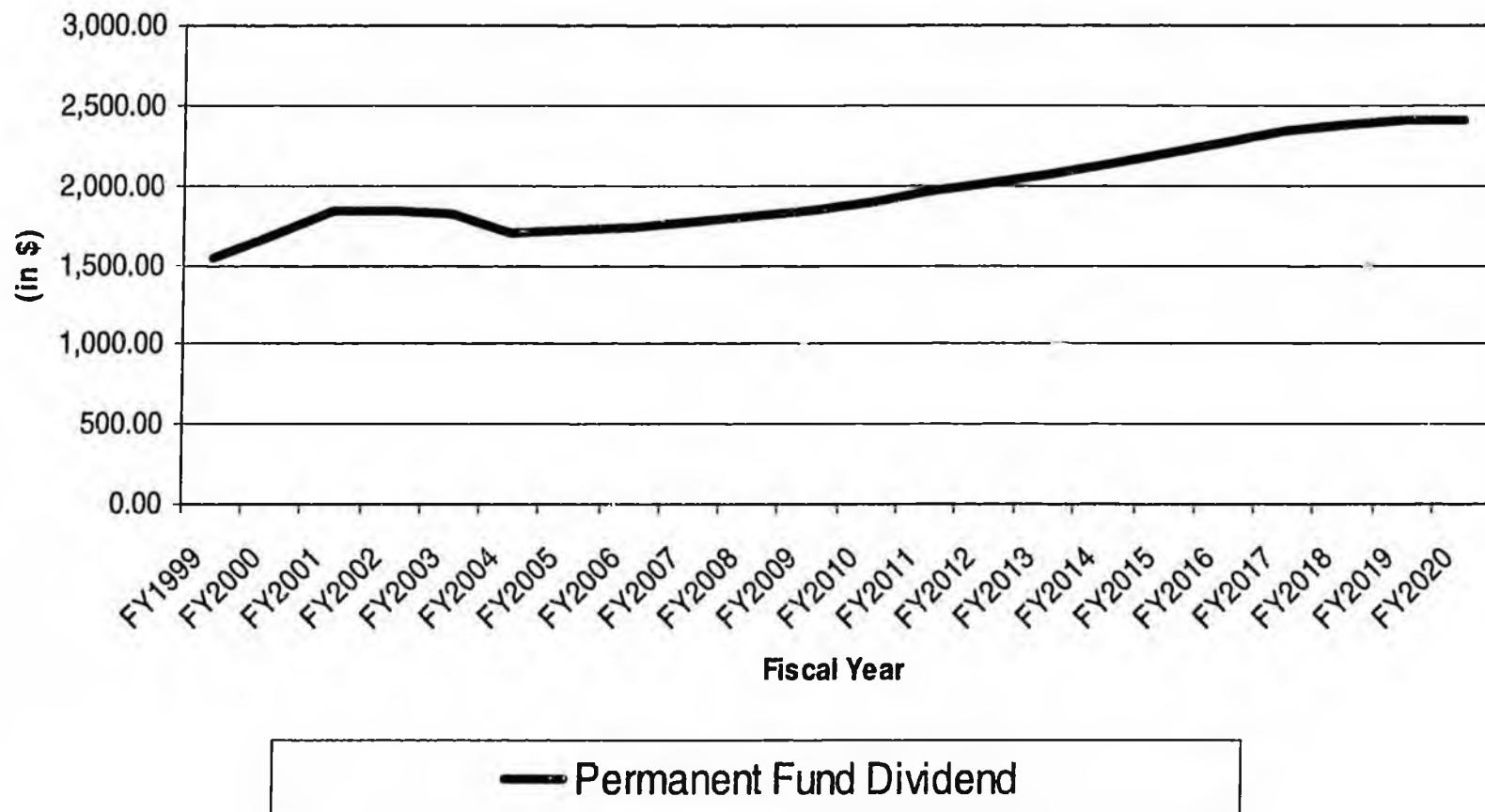


Fiscal Years



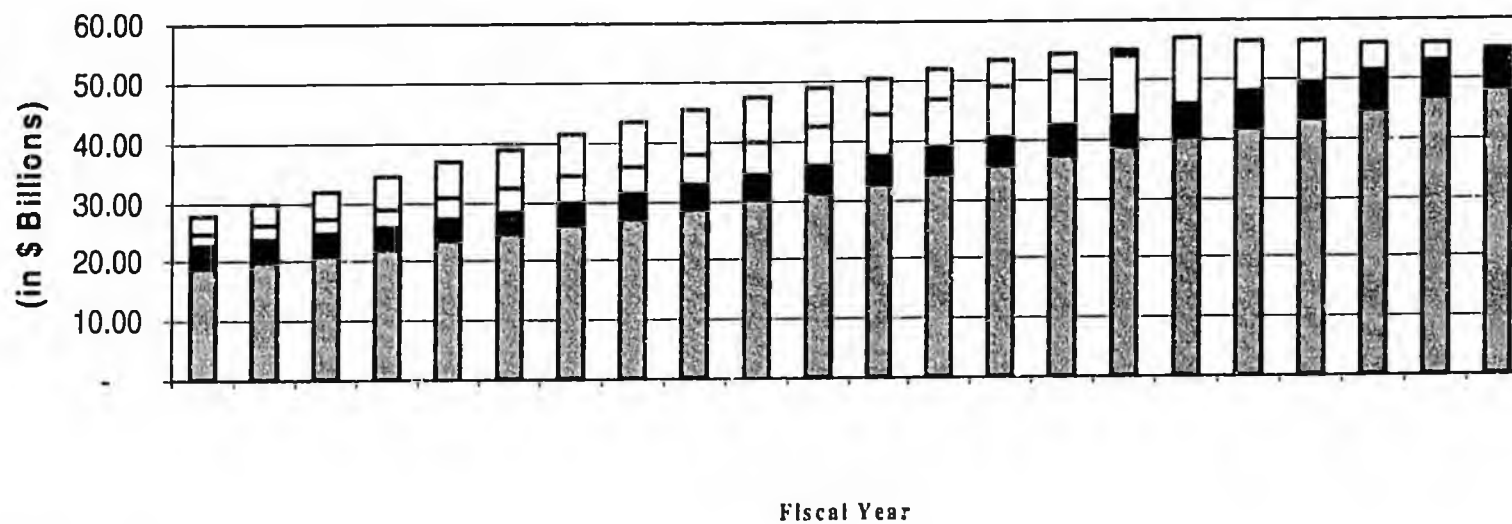
# Current Scenario with \$34/bbl Oil

## Permanent Fund Dividend per Capita



# Current Scenario with \$34/bbl Oil

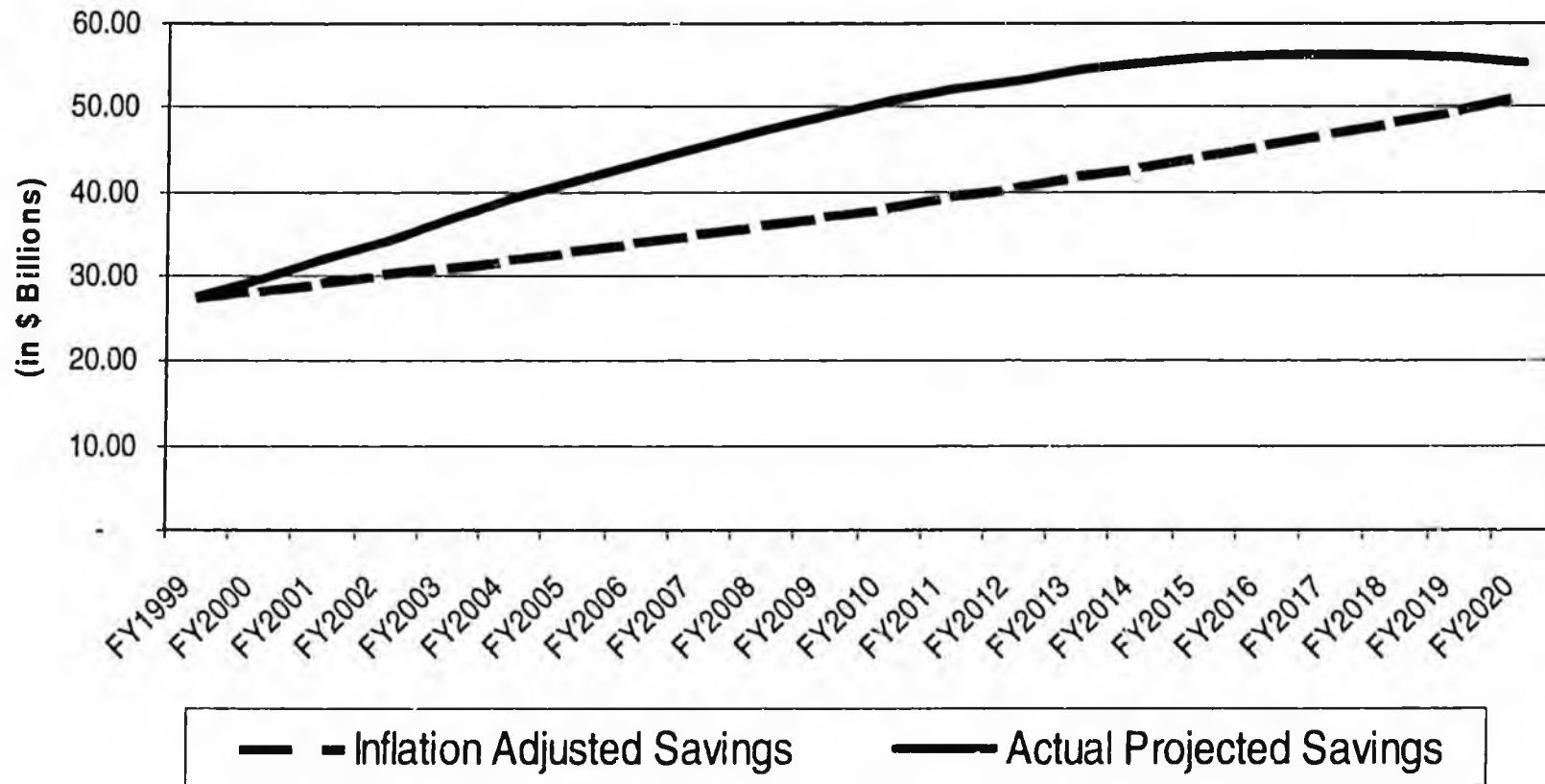
## Alaska's Savings Accounts



Permanent Fund Principal
  Unrealized Gain
  Earnings Reserve
  Constitutional Budget Reserve

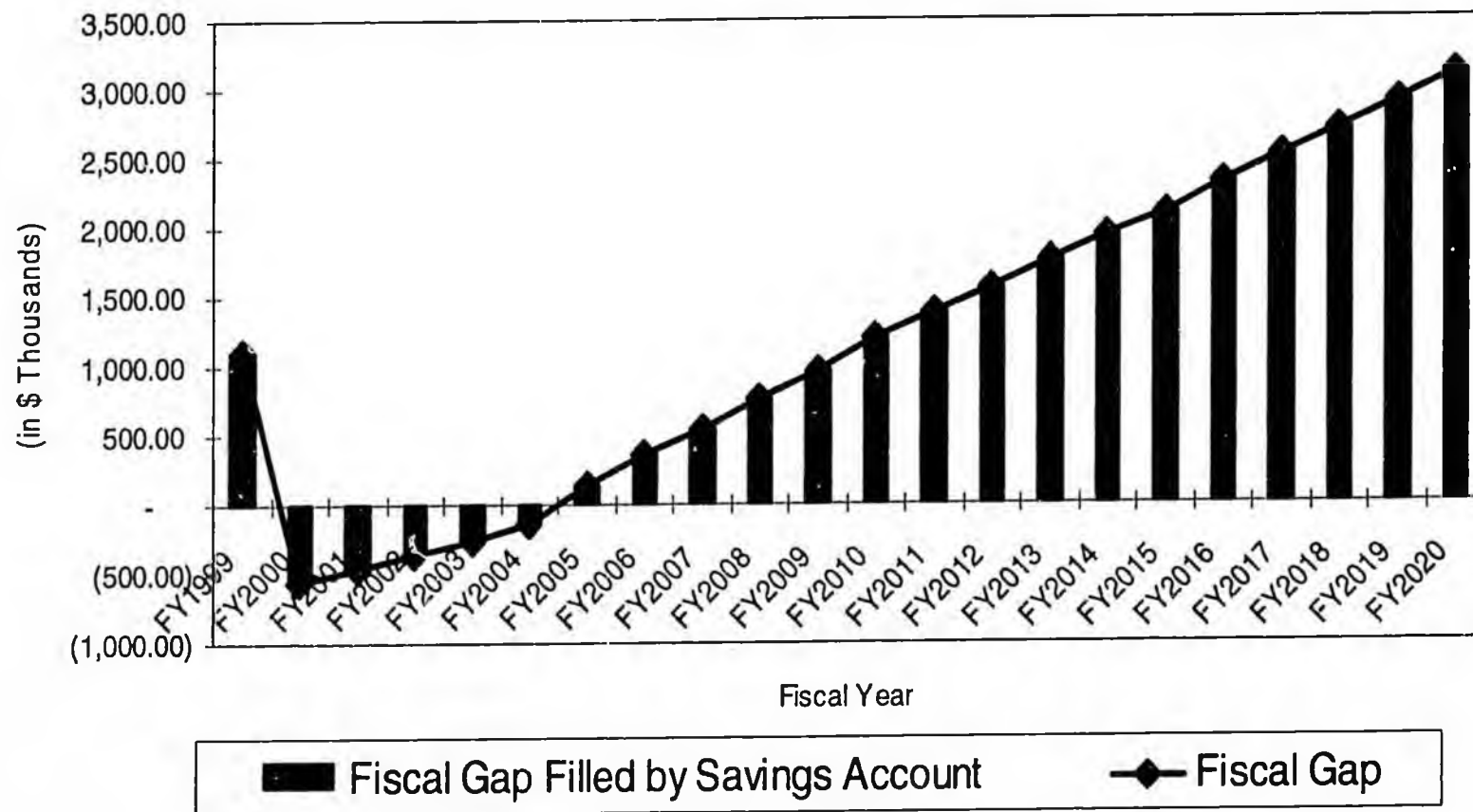
# Current Scenario with \$34/bbl Oil

Projected Savings Account Balance vs Inflation Adjusted Balance



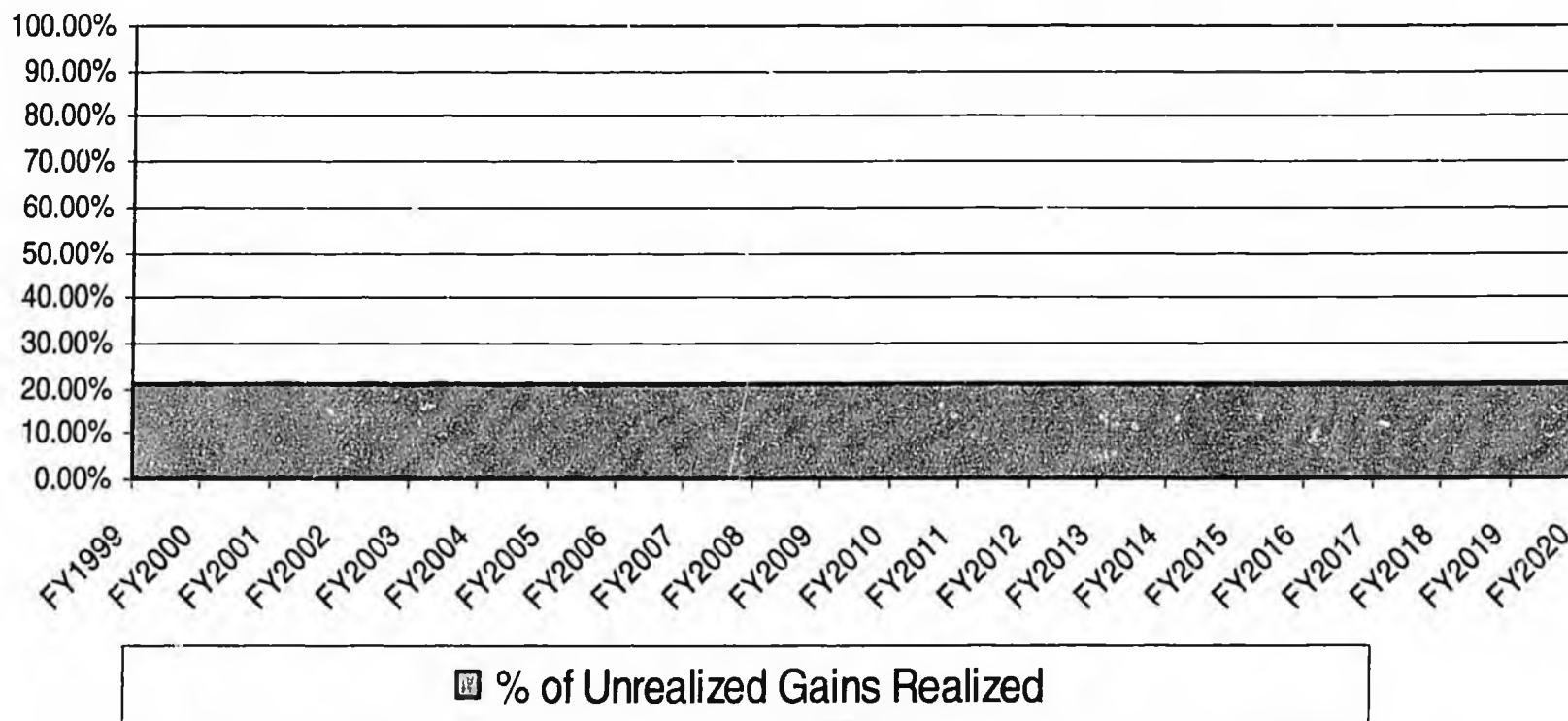
# Current Scenario with \$34/bbl Oil

## Fiscal Gap vs Savings Account Earnings Used to Fill Fiscal Gap



# Current Scenario with \$34/bbl Oil

**% of Capital Gains Realized**



# What Does this all mean?

- The model shows that the problem is not a cyclical problem, but rather it is a structural problem.
- Structural Problems cannot be overcome by riding it out.



# Issues Facing the Legislature

- Pivotal moment in Alaska's History
- Not a short term/cyclical problem, but rather a long term/structural problem



# Choices

- Cut Costs
- Raise Revenues
- Begin to systematically use the State's Savings Accounts
- A Combination of the above



# Potential Measurable Goals of a Long Range Plan

- Sustainability
  - ◆ Intergenerational Equity
- Stability
- Predictability
- Ability to fund Permanent Fund Dividends
- Ability to fund the Deficit

# Sustainability

- Protect the Principal (Traditional)
- Inflation Proofing
- Is the goal to protect the purchasing power of the Alaska's Savings Accounts?
- What time horizon is appropriate?



# Intergenerational Equity

- Closely related to Sustainability
- All generations are held equal.



# Stability

- Plan's ability to weather worst case scenarios
- Plan's ability to reduce the State's revenue volatility.

# Predictability

- What level of predictability do we want to assume for:
  - ◆ Revenue Assumptions
  - ◆ Expenditure Assumptions
  - ◆ Market Assumptions
  
- Implications for Risk & Asset Allocation

Presentation order for the Private Sector - Testimony  
Wednesday March 24, 1999

to Jerry Lee  
FROM  
DeB  


Fiscal Policy Council - Cheryl Frasca

Ak State Chamber - Pam LaBolle

Resource Development Council - Ken Freeman

Anchorage Chamber of Commerce - chairman Ralph Samuels

Ak Support Industry Alliance -General Mgr. Karen Cowart

Associated General Contractors- Roxanna Horschel

LOCATION: ANCHORAGE

BALANCED BUDGE

BALANCED BUDGE

CHARLES

ROGER

MCKEE

CREMO

TESTIFY

TESTIFY

03/24/99  
09:03:29

LEGISLATIVE TELECONFERENCE NETWORK SYSTEM  
PARTICIPANT LIST (ALL PARTICIPANTS)  
TCN:90429 SCHEDULED FOR:03/24/99 09:00 TO 11:00  
PUBLIC HEARING SENATE FINANCE

LTN1150  
BY:ANC  
FOR:ANC

LOCATION: ANCHORAGE  
BALANCED BUDGE

VINCENT

O'REILLY

TESTIFY