

**SJR**

**13**

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: SJR 13  
 (S) Publish Date: 4/17/02

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: OOG  
 Title: Constitutional amendment relating BRU: Elections  
inflation-proofing the permanent fund Component: Elections  
 Sponsor: Rules  
 Requester: Senate State Affairs Component No. 21

**Expenditures/Revenues (Thousands of Dollars)**

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual	1.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	1.5					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
<b>TOTAL</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2002) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 This figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. If this measure requires the printing of an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Gall Fenumial, Election Administrative Supervisor Phone 465-3935  
 Division: Division of Elections Date/Time 2/15/02 2:43 PM  
 Approved by: Lieutenant Governor Fran Ulmer Date 02/15/2002  
 Agency: Office of the Lieutenant Governor



**Alaska Permanent Fund Corporation**

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


Telephone (907) 465-2047

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**MEMORANDUM**

**DATE:** April 19, 2002

**TO:** Senator Robin Taylor  
Chair, Senate Judiciary Committee

**FROM:** Robert D. Storer   
Executive Director

**SUBJECT:** Request for a hearing on SJR 13

This is to request that you schedule a Senate Judiciary Committee hearing at your earliest convenience to consider Senate Joint Resolution 13, "Proposing amendments to the Constitution of the State of Alaska relating to inflation-proofing the permanent fund."

SJR 13 is supported unanimously and with passion by the Alaska Permanent Fund Corporation (APFC) Board of Trustees. It is an important piece of legislation which, if approved by the legislature and the voters in the 2002 General Election, will ensure that the Permanent Fund remains permanent and able to provide dependable and growing benefits for current and future generations.

As the state struggles to plan for its future in a period of declining oil revenues, two outcomes are certain: (1) Fund income will play an increasingly important role in the state's fiscal and economic future; and (2) passing SJR 13 and providing for complete and protected inflation-proofing is the only way to ensure that the Fund's income stream in the future will be maximized on a sustainable basis.

Senator Taylor, the staff and the Board of the APFC look forward to working with you and the members of your Committee on this critical issue.

**REQUEST FOR  
HEARING**



**Alaska Permanent Fund Corporation**

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

Telephone (907) 465-2047

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**MEMORANDUM**

**DATE:** April 23, 2002

**TO:** Senator Robin Taylor  
Chair, Senate Judiciary Committee

**FROM:** Robert D. Storer *RDS*  
Executive Director

**SUBJECT:** Request for amendments to CSSJR 13(STA)

We have reviewed CSSJR 13(STA) and offer the following comments, along with a request for two specific changes.

Although the State Affairs Committee Substitute made a number of changes to the constitutional amendment as originally proposed by the APFC Board of Trustees, we believe that it continues to achieve the Board's primary concerns. Those concerns are assuring that (1) only Fund income can be spent and (2) the amount of income that can be spent annually is limited by a percent of market value computation that will assure inflation-proofing of the Fund over the long term.

A derivative concern, which arose in the course of State Affairs' deliberations on the bill, is assuring that "income" for purposes of the constitutional provision is not limited to just "realized income," but includes also "unrealized income" of the Fund. Inclusion of unrealized income as a part of Fund income is appropriate because doing so is consistent with applicable generally accepted accounting principles (GAAP) for financial reporting purposes. Subject to adoption of our amendment proposed below, we believe that the State Affairs adopted version of SJR 13 properly addresses that concern.

**REQUEST FOR  
AMENDMENT**

After reviewing the State Affairs adopted version of the bill, APFC counsel raised a question about the intended effect of the transitional provision set out in Sec. 3 of the bill. He pointed out that the statutory earnings reserve account established by AS 37.13.145 consists only of income of the Fund. He was concerned, therefore, about the effect of the transitional provision which presently states that "...*the portion of the earnings reserve account (AS 37.13.145) that consists of income of the permanent fund is transferred...*"(emphasis added). The italicized language creates a potential interpretation problem, as it suggests that there is some other portion of the earnings reserve account that is not to be transferred to the earnings reserve account established by the constitutional amendment. Our understanding of the transitional provision (and, we believe, the intent of State Affairs) is that the entire value of the statutory earnings reserve account is to be transferred to the constitutional account.

We also note what appears to be a typographical error in the text of the proposed transitional provision which transfers the balance of the statutory earnings reserve account to the newly created constitutional earnings reserve account. In referring to the constitutional account, the transitional provision describes it as "the earnings reserve account established in Section 15(b) of Article IX." In looking at the proposed amendments to art. IX, sec. 15, however, this constitutional account is actually established by new language inserted into the newly created subsection (a) of Section 15, rather than the new subsection (b).

APFC counsel has discussed both concerns with Tam Cook, Director of Legislative Legal. Ms. Cook agrees that the italicized language creates an unnecessary issue and stated that she would not object to an amendment to the transitional provision that deleted it. She also agrees that the reference to Section 15(b) should be changed to Section 15(a). Accordingly, we recommend that the language of the new art. XV, sec. 30 of the Alaska Constitution proposed by Sec. 3 of the bill be revised to read as follows (shown in legislative drafting style for clarity of changes):

**Sec. 30. Transition.** On the effective date of the 2002 amendments relating to the Alaska permanent fund (art. IX, sec. 15), the balance [PORTION] of the statutory earnings reserve account (AS 37.13.145) [THAT CONSISTS OF INCOME] of the permanent fund is transferred to the earnings reserve account established in Section 15(a) [15(b)] of Article IX.

In addition to adopting the above amendment, we would also urge the Judiciary Committee to change the bill's title back to the way it read when this constitutional amendment was initially proposed by the Board of Trustees and then introduced in the Senate as SJR 13 ("*Proposing amendments to the Constitution of the State of Alaska relating to inflation-proofing the permanent fund.*") Particularly as the language of the bill becomes more complex, we believe it is important to present the voters with a simple, yet

Proposed SJR 13 Amendments

April 23, 2002

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accurate, description of the purpose of the bill which they can readily identify and understand. In the voting booth, we believe that the voters are more likely to support the bill and vote in favor of it if the bill's title explicitly describes it as providing for inflation-proofing.

Thank you for your consideration. Please let me know if you have any additional questions.

cc: Board of Trustees  
Governor's Chief of Staff  
Governor's Legislative Liaison  
Members, Senate State Affairs Committee

Senator Gene Therriault, Chairman  
Senate State Affairs Committee  
Capitol Building, Room 121  
Juneau, Alaska 99801

February 21, 2002

Chairman and Members of Senate State Affairs,

My name is Jay Hogan, my wife and I live at 10741 Horizon Drive in Juneau Alaska and I am here today representing no one other than myself. For the record let me stipulate that at an earlier time, it would never have occurred to me to appear before any committee of the Alaska Legislature in opposition to a measure introduced by the Legislative Budget and Audit Committee!

In January 1970, Governor Keith Miller requested introduction of three measures to establish a "resources permanent fund". In a transmittal letter, Governor Miller stated, the "objective is to assure maximum long-term growth [of the fund] while providing an annually increasing source of income to the general fund." The two bills in the package passed the Senate but failed to move in the House. The third, a Constitutional amendment, made five percent of permanent fund market value annually available for "appropriation for general purposes"; this resolution failed to pass the Senate.

In March 1975, prompted by public concern over the disappearance of the \$900 million North Slope lease bonus, 36 Members of the House co-sponsored HB 324 establishing the "Alaska mineral lease bonus permanent fund". Fund principal was to be "invested in perpetuity"; fund income could be, "appropriated to provide funding for operating or capital expenditures for loan or grant programs" eligible for funding under the law. The Legislature passed this statutory permanent fund only to have it vetoed by Governor Jay Hammond as an "unconstitutional dedication of revenue".

In January of 1976, Governor Hammond submitted a sponsor substitute for HJR 39, his 1975 end-of-Session "fix" for the dedicated revenue problem. The substitute was a Constitutional amendment establishing the Alaska Permanent Fund. In his transmittal letter Governor Hammond emphasized, "The income of the fund would be deposited into the general fund without any permanent fund restrictions." The Resolution as introduced read; "All income from the permanent fund shall be deposited in the general fund." House Finance added, "unless otherwise provided by law" completing the sentence as it stands today, unchanged from 1976.

Mike Bradner, Speaker of the House in 1975-76, wrote in the March 1988 Juneau Report:  
"The constitutional action creating the fund was also "not about" a lot of things. It was not about dividends, investment policy, unreserved income, and in fact, did not even attempt to tell Alaskans "when" and under "what" circumstances the proceeds of the fund might one day accrue to future Alaskans.

Discussion over the Permanent Fund often takes on a biblical connotation. But amidst all this rhetoric, the simple foundation of the Fund is embraced in the two

**INFORMATION  
STATEMENT**

previously stated commandments – *to preserve a portion of current oil income, and to preserve it as a future "trust"*.

All the rest of the development of the Alaska Permanent Fund is essentially left to statutory construction. Future Legislatures through general law, as opposed to constitutional law, were left to fill in the details of the Fund. These details included creation of the Alaska Permanent Fund Corporation, the rules of "inflation-proofing" (injecting some Fund earnings into the principal to account for inflation), creation of the dividend program, investment policy, and so on. These details were to be created, and to be changed as need be, by future generations of lawmakers.

What the lawmakers of 1976, in creating the Fund, were trying to avoid was "playing god". They did not want to try to foretell the future – to dictate future policy. As much as possible, commensurate with the basic task of creating the fund, the architects of the Fund did not want to tie the hands of future generations of lawmakers."

On average, SJR 13 would reduce by one third the amount of Permanent Fund income annually available for appropriation by the Alaska Legislature. Currently the Legislature appropriates that "third" as shown in the following appropriation from Chapter 60, SLA 2001:

"Sec. 8. ALASKA PERMANENT FUND CORPORATION. (a) . . .

(b) After money is transferred to the dividend fund under (a) of this section, the amount calculated under AS 37.13.145 to offset the effect of inflation on the principal of the Alaska permanent fund is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund.

The 2001 Permanent Fund Corporation Annual Report gives credit to the long running success of this method of appropriation for inflation proofing. On close inspection, the caption for the inflation graphic on page 17 reads, "Inflation has eroded the purchasing power of \$1.00 in 1982 to 48 cents in 2001 . . . — but inflation-proofing has maintained the Fund's real value".

Unlike most other state permanent funds, the Alaska Permanent Fund has been inflation proofed for the past 20 Years. Largely "under reported" throughout the 26-year history of the Alaska Permanent Fund is the part played by the Alaska Legislature in increasing Fund principal. Relegated to the "Notes to Financial Statements" on page 38 of the Permanent Fund Corporation's Annual Report 2001, the principal balance of the Fund at June 30, 2001, was listed by source:

Dedicated State revenues	\$7,070,741,000
Appropriations from the State	6,885,906,000
Inflation-proofing	6,929,350,000
Settlement earnings	161,582,000
Total Principal	\$21,047,579,000

The Constitutional provision dedicating 25% of certain mineral revenues to the Permanent Fund produced a \$7.1 billion Fund principal as of June 30, 2001. But, with the numerous special Legislative appropriations and 12 years of Legislative appropriations

for inflation proofing, the Legislature has nearly tripled Fund principal over that funded by the Constitutional dedication of revenue.

The Permanent Fund Corporation Board of Trustees proposal contained in SJR 13 and HJR 15 would repeal existing Legislative authority to appropriate Permanent Fund income established 25 years ago. With the State's Constitutional Budget Reserve Fund approaching "empty" and increased national/state concern with internal security matters, does this Legislature really want to repeal the existing authority to use all Permanent Fund earnings for what ever purpose this, or any future Legislature, determines to be the best public use at the time?

If the existing flexibility to appropriate earnings is to be changed, I would suggest that discussion and resolution of the part Permanent Fund earnings/payout are to play in the annual State budget should run concurrently with deliberation of the Trustees' proposed amendment to imbed inflation proofing of the Permanent Fund in the Constitution. If the 2002 Legislative Session is not the time for deliberation and resolution of the statutory use of all Permanent Fund earnings/payout, consideration of the Trustee's amendment should be postponed to a time when all Permanent Fund earnings/payout can be allocated by statute. The existing statutory system of annual appropriations for, "the amount calculated under AS 37.13.145 to offset the effect of inflation on the principal of the Alaska permanent fund" has done the job well, and can continue to do so.

Thank you very much for providing this opportunity to appear before the Senate State Affairs Committee.

Jay Hogan  
PO Box 21073  
Juneau, Alaska 99802

ORIGINAL SENATE  
FILE NO. 0045

ENGROSSED

ENROLLED ACT NO. 41, SENATE

FIFTY-SIXTH LEGISLATURE OF THE STATE OF WYOMING  
2002 SPECIAL SESSION

AN ACT relating to investment of state funds; modifying spending policy amounts from investments of permanent Wyoming mineral trust funds and the common school account within the permanent land fund; repealing a separate inflation proofing provision for the common school account within the permanent land fund; and providing for an effective date.

*Be It Enacted by the Legislature of the State of Wyoming:*

**Section 1.** W.S. 9-4-305(b) and 9-4-713(c), (d)(ii), (iii), (g), (h)(ii) and (iii) are amended to read:

**9-4-305. Disposition of public land revenue.**

(b) Proceeds from the sale of the public lands, mineral royalties and any money designated by the Wyoming constitution or Wyoming statutes as collected shall be transmitted to the state treasurer and credited to the proper accounts within the permanent land fund, except as provided by article 7, section 2 of the Wyoming constitution, thirty-three and one-third percent (33 1/3%) of the mineral royalties received from the lease of any school lands but not to exceed eight million dollars (\$8,000,000.00) during any one (1) year, shall be deposited into the public school capital construction account within the earmarked revenue fund. To the extent constitutionally permissible and notwithstanding any other provision of law, at the end of every fiscal year, the state treasurer shall transfer to the corpus of each account within the permanent land fund, except the common school account, from the income earned on the corresponding account within the permanent land fund, to the extent available, an amount as provided by this subsection. In determining the amount to be withheld, the state treasurer shall calculate the fiscal

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year beginning balance and ignore any appropriations made from the account within that fiscal year. For the fiscal year 2000, he shall transfer an amount equal to five percent (5%) of the inflation rate for the previous twelve (12) month period as determined by the department of administration and information multiplied by the beginning balance of each permanent land fund account, except the common school account. At the end of each succeeding fiscal year, the state treasurer shall increase the amount to be multiplied by that year's inflation rate by five percent (5%) until such time as the multiplier reaches one hundred percent (100%) of the inflation rate, and then multiply that amount by the beginning balance of each permanent land fund account, except the common school account.

**9-4-713. Investment earnings spending policy - permanent funds.**

(c) The earnings from the permanent Wyoming mineral trust fund under W.S. 9-4-204(n) during each ~~of the fiscal years~~ year beginning ~~July 1, 2000, and July 1, 2001,~~ in excess of the spending policy established in subsection (d) of this section are appropriated from the general fund to the permanent Wyoming mineral trust fund reserve account. The appropriation shall be credited to the fund as soon as practicable after the end of the fiscal year but no later than ninety (90) days after the end of the fiscal year.

(d) The annual spending policy for the permanent Wyoming mineral trust fund is as follows for the fiscal year (FY) specified:

(ii) FY 2002 - ~~One hundred twenty three million dollars (\$123,000,000.00)~~ an amount equal to eight percent (8%) of the previous five (5) year average market value of

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the trust fund, calculated from the first day of the fiscal year;

(iii) FY 2003 and each fiscal year thereafter - One hundred twenty four million dollars (\$124,000,000.00); the amount specified in paragraph (ii) of this subsection shall be reduced by three hundred seventy-five thousandths percent (.375%) increments each fiscal year until the amount equals five percent (5%) of the previous five (5) year average market value of the trust fund, calculated from the first day of fiscal year for the fiscal year 2010 and for each fiscal year thereafter.

(g) There is annually appropriated from the general fund to the common school permanent fund reserve account an amount determined under this subsection. The amount shall be computed and calculated by the state treasurer. The amount shall be equal to the extent to which earnings from the common school account within the permanent land fund under W.S. 9-4-204(k) exceed the spending policy established in subsection (h) of this section for that fiscal year. ~~For purposes of calculating earnings from the common school account within the permanent land fund under this subsection, earnings transferred to the corpus of the common school account pursuant to W.S. 9-4-305(b) shall not be included. Earnings transferred to the common school account under W.S. 9-4-305(b) shall not be included when determining spending policy under subsection (h) of this section.~~ The appropriation shall be credited to the account as soon as practicable after the end of the fiscal year but no later than ninety (90) days after the end of the fiscal year.

(h) The annual spending policy for the common school account within the permanent land fund is as follows for the fiscal year (FY) specified:

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(ii) ~~FY 2002 - Sixty eight million dollars~~  
~~(\$68,000,000.00)~~ An amount equal to eight and two-tenths  
percent (8.2%) of the previous five (5) year average market  
value of the account, calculated from the first day of the  
fiscal year;

(iii) ~~FY 2003 and each fiscal year thereafter -~~  
~~Seventy two million dollars (\$72,000,000.00);~~ the amount  
specified in paragraph (ii) of this subsection shall be  
reduced by three hundred seventy-five thousandths percent  
(.375%) increments each fiscal year until the amount equals  
five percent (5%) of the previous five (5) year average  
market value of the account, calculated from the first day  
of fiscal year for the fiscal year 2011 and for each fiscal  
year thereafter.

Section 2. W.S. 9-4-713(d) (i) and (iv) and (h) (i) and  
(iv) is repealed.

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**Section 3.** This act is effective immediately upon completion of all acts necessary for a bill to become law as provided by Article 4, Section 8 of the Wyoming Constitution.

(END)

\_\_\_\_\_  
Speaker of the House

\_\_\_\_\_  
President of the Senate

\_\_\_\_\_  
Governor

TIME APPROVED: \_\_\_\_\_  
DATE APPROVED: \_\_\_\_\_

I hereby certify that this act originated in the Senate.

\_\_\_\_\_  
Chief Clerk

**INVESTMENT ACCOUNT BALANCES**  
**As Of June 30, 2001**

<u>FUND/ACCOUNT NAME</u>	<u>CASH &amp; RECEIVABLES</u>	<u>INVESTMENTS</u>	<u>NET DISC/PERM PURCHASED</u>	<u>ACCOUNT BALANCE (Corpus)</u>
Miner's Hospital	\$22,991,625.14			\$22,991,625.14
Public Buildings At Capitol	75,405.45			75,405.45
Fish Hatchery	218,235.96			218,235.96
Common School	165,166,812.69 *	\$760,379,527.04 ***		925,546,339.73
Common School II	5,000,000.00			5,000,000.00
D.D. & B. Asylum	671,097.20			671,097.20
Carey Act	335,130.33			335,130.33
Omnibus	1,506,753.39			1,506,753.39
State Hospital	986,726.80			986,726.80
State Training School	301,044.60			301,044.60
Penitentiary	658,754.46			658,754.46
Agricultural College	5,489,106.54			5,489,106.54
University	13,671,032.56			13,671,032.56
<b>Subtotal-Permanent Land Fund</b>	<b>217,071,725.12</b>	<b>760,379,527.04</b>		<b>977,451,252.16</b>
Mineral Trust Fund	282,423,892.59	1,557,268,027.92 ***	(\$26,195.73)	1,839,665,724.78
Tobacco Settlement Fund	973,071.85	33,995,548.79		34,968,620.64
<b>Subtotal-All Permanent Funds</b>	<b>500,468,689.56</b>	<b>2,351,643,103.75</b>	<b>(26,195.73)</b>	<b>2,852,085,597.58</b>
Worker's Compensation	71,107,981.29	284,262,140.15 ***		355,370,121.44
Water Development	90,599,797.02 **	65,587,938.54 ***		156,187,735.56
<b>TOTAL</b>	<b>\$662,176,467.87</b>	<b>\$2,701,493,182.44</b>	<b>(\$26,195.73)</b>	<b>\$3,363,643,454.58</b>

\* Does not include debt service deposit (\$57,984,859.00).

\*\* Includes loans receivable.

\*\*\* All or a portion of these funds are now invested by Investment Managers, rather than directly invested by the State Treasurer.

"Cash and Receivables" is actually included with, and part of, the State Agency Pool investments. This investment Pool represents the cash balance of all funds and accounts for which specific investments have not been made. The State Agency Pool investments are not summarized in this report.