

HJR

101

FRANK H. MURKOWSKI
GOVERNOR

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STATE OF ALASKA
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JUNEAU

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June 21, 2004

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a joint resolution proposing amendments to the Alaska Constitution relating to and limiting appropriations from the Alaska Permanent Fund based on an averaged Percent of Market Value (POMV) approach. The question presented to legislators by the joint resolution is whether to allow Alaskans to decide if management of the Alaska Permanent Fund should be modernized to a POMV approach. The POMV approach limits annual spending to five percent of the Alaska Permanent Fund's market value.

If adopted by the voters, the constitutional amendments in this joint resolution would change the way in which amounts available for appropriation from the Alaska Permanent Fund are determined. The joint resolution contains the same provisions as CS House Joint Resolution 26(FIN), which passed the House of Representatives during the second session of this Legislature. Under the provisions of this joint resolution, the Legislature could appropriate an amount that would not exceed five percent of the averaged market values of the Alaska Permanent Fund for the first five of the six fiscal years immediately preceding the fiscal year in which the money is appropriated. The provisions do not allocate the amount available for appropriation for a specific purpose.

I remain convinced that Alaskans expect us to resolve the state's long-term fiscal problem this year. This resolution is an important part of what must be a bi-partisan solution to the state's fiscal gap.

I urge your prompt and favorable action on this measure.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frank H. Murkowski".

Frank H. Murkowski
Governor

HOUSE COMMITTEE REPOI

6-23-04

(7)

Date Referred to Committee: June 22, 2004

FURTHER REFERRALS: Finance

Date of Committee Action: June 23, 2004

The JUDICIARY Committee considered:

HJR 101

HOUSE JOINT RESOLUTION NO. 101

CONST. AM: PERM FUND P.O.M.V.

Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an averaged percent of the fund market value.

Recommends it be replaced with HCS or CS for _____ (_____)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- HSS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
REV	1			✓
GOV	2	✓		

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Oga	✓			
	ANDERSON				
	SAMUELS	X			
	Gava				✓
	McSivore				
Chair:					
Chair:					

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HJR 101
 (H) Publish Date: 6/22/01

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Constitutional Amendment RDU AK Permanent Fund Corporation
Permanent Fund Income Component AK Permanent Fund Corporation
 Sponsor Rules
 Requester Governor Murkowski Component No. 109

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This resolution would ask voters in the next general election whether to approve a constitutional amendment that would limit annual appropriations to no more than 5% of the average year-end market value of the Fund for the preceeding five years.

This resolution would not affect the budgeted costs to manage and invest the Permanent Fund, nor would it change the amount of income earned by Permanent Fund investments.

See the attached schedule for financial projections of the Fund comparing the "Status Quo" to a 5% POMV spending limit.

Prepared by: Robert D. Storer, Executive Director Phone 465-2047
 Division Alaska Permanent Fund Corporation Date/Time 6/19/2004 /11:43:00 AM
 Approved by: Steve Porter, Deputy Commissioner Date 6/19/2004
 Agency Department of Revenue



Alaska Permanent Fund Corporation
 Financial projection comparison of the Alaska Permanent Fund under
 current statutes versus POMV 5% lump sum payout, median case. All
 dollars in millions except per person dividend.

FN #1, HJR 101

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05-FY15
Current Statutes												Totals
Contributions & appropriations (principal)	24,452	25,383	26,278	27,189	28,120	29,077	30,053	31,049	32,061	33,090	34,139	
Unrealized appreciation/depreciation on assets	1,683	1,913	2,160	2,425	2,702	2,993	3,304	3,624	3,965	4,317	4,684	
Realized earnings account (REA, after payouts)	1,297	1,879	2,375	2,778	3,185	3,617	4,074	4,568	5,092	5,658	6,263	
Total market value end of year (after payouts)	27,433	29,176	30,814	32,393	34,007	35,688	37,431	39,241	41,118	43,065	45,087	45,087
Total lump sum dividend appropriation	512	576	750	924	1,002	1,058	1,114	1,170	1,228	1,288	1,350	10,972
Per person dividend under current statute	\$ 790	\$ 890	\$ 1,160	\$ 1,420	\$ 1,530	\$ 1,600	\$ 1,670	\$ 1,740	\$ 1,810	\$ 1,880	\$ 1,950	\$ 16,440
Transfer status quo Inflation-proofing (REA to Principal)	620	643	666	689	713	737	762	787	812	839	865	8,132
POMV - 5% (beginning in FY05)												Totals
Contributions & appropriations (principal)	23,840	24,128	24,358	24,580	24,800	25,021	25,237	25,447	25,648	25,841	26,026	
Unrealized appreciation/depreciation on assets	1,683	1,892	2,103	2,322	2,548	2,781	3,026	3,274	3,532	3,793	4,059	
Realized earnings account (REA, after payouts)	1,173	1,687	2,243	2,809	3,382	3,965	4,561	5,179	5,811	6,465	7,139	
Total market value end of year (after payouts)	26,695	27,707	28,703	29,712	30,730	31,768	32,824	33,900	34,991	36,099	37,224	37,224
5 year average market value lagged one year	25,851	25,902	26,508	27,614	28,846	30,012	31,066	32,140	33,234	34,344	35,472	
Total 5 % lump sum average market value available for appropriation	1,293	1,295	1,325	1,381	1,442	1,501	1,553	1,607	1,662	1,717	1,774	16,549

Assumptions:

Callan Associates 2004 Capital Market Assumptions, APFC 2004 asset allocation, Spring 2004 revenue forecast, financial statements through 06/30/03. All payouts are assumed to happen at fiscal year end, all dollar values in millions.

POMV payout assumes calculation methodology is 5% of the ending market value (pre payout) for the first five of the last six fiscal years.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HJR 101
(H) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: _____
Title Constitutional amendment relating to and RDU Elections
limiting appropriations from the APF based on an averaged Component Elections
percent of the fund market value.
Sponsor Rules
Requester Governor Component No. 21

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual	1.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1.5	0.0	0.0	0.0	0.0	0.0

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

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

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)						
TOTAL	1.5	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 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: Lauri Allred Phone 465-5347
Division: Division of Elections Date/Time 6/18/04 8:44 AM
Approved by: Laura A. Glaiser, Director Date 6/18/2004
Agency: Office of the Lt. Governor, Division of Elections



Alaska Permanent Fund Corporation
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Sectional Analysis of WD 0168

Overview

The Resolution proposes changes to the Alaska Constitution Article IX, Section 15, which governs the Alaska Permanent Fund.

Summary of Changes

- 1) Page 1, line 9. Adds a reference to the new subparagraph (b) being added to the constitution.
- 2) Page 1, line 10. Removes the words "the principal of which" from the constitution. This change removes the distinction between the principal and the earnings reserve. The Fund becomes one pool of money versus two.
- 3) Page 1, lines 12 & 13. Deletes the guidance for where income of the Fund should be deposited. The intent is for all income to remain in the Fund until appropriated by the Legislature.
- 4) Page 2, lines 1 - 3. Adds a new subparagraph (b) that establishes an annual payout limit of 5% of the total market value of the Fund. The market value will be based on a five-year average. This is to protect the Fund from inflation and preserve the real value over the long term. Additionally, this provision allows the legislature and the administration to know one year in advance the amount available for appropriation.
- 5) Page 2, lines 6 - 9. Adds a transitional provision that makes clear the balance in the Fund's earnings reserve remains in the Permanent Fund. Some have argued that the earnings reserve belongs in the General Fund.
- 6) Page 2, lines 10 - 12. States that the changes first apply to appropriations for fiscal year 2006.
- 7) Page 2, lines 13 - 15. States that the amendments will be placed before the voters at the next general election.



Alaska Permanent Fund

A Fund overview and discussion of POMV

ACCOUNTABILITY

1

TO ALASKANS, FOR ALASKANS



"To benefit all generations..."

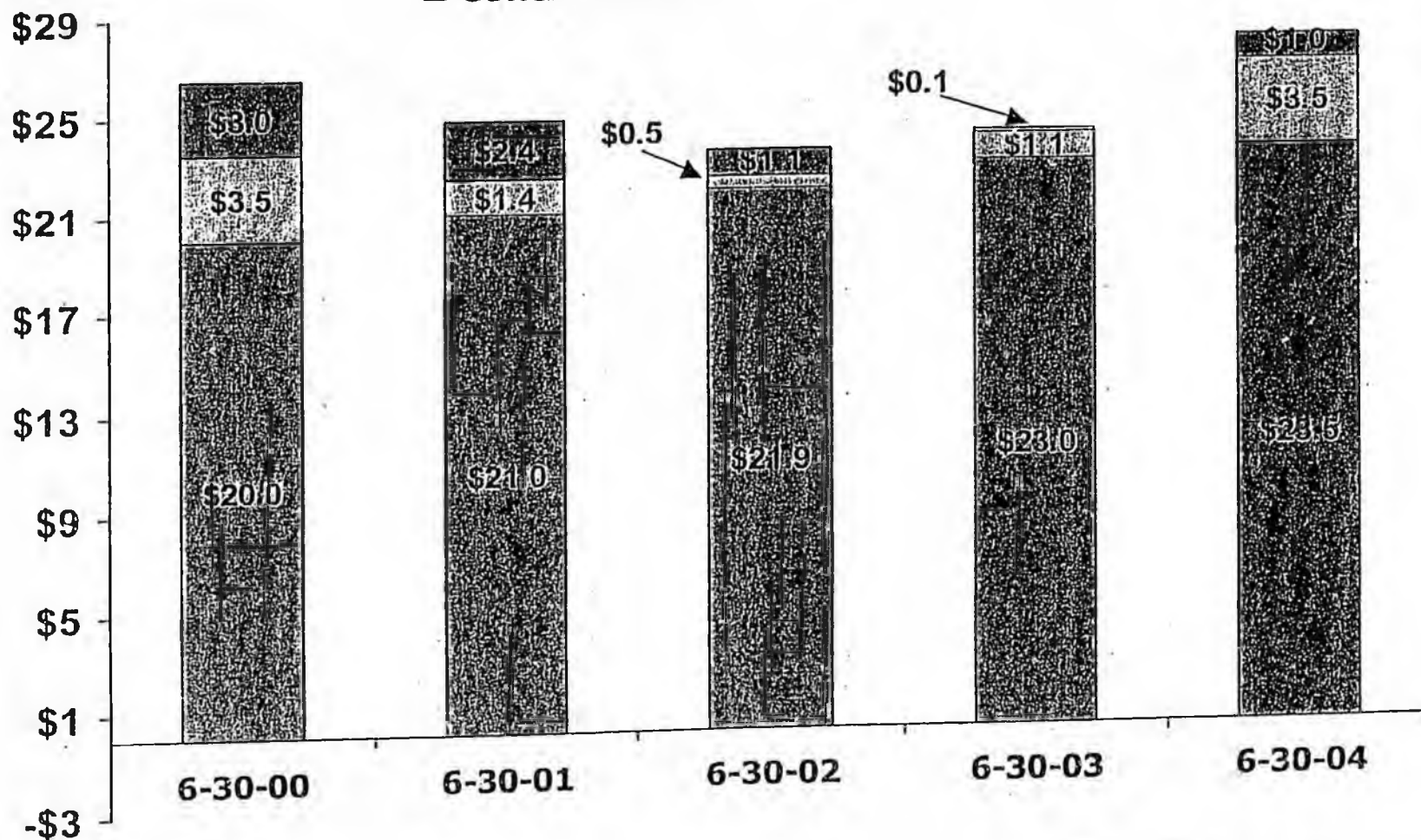
AS 37.13.020 (1)

...the Fund should provide
a means of conserving a portion
of the state's revenue from mineral resources
to benefit all generations of Alaskans.



Permanent Fund market value

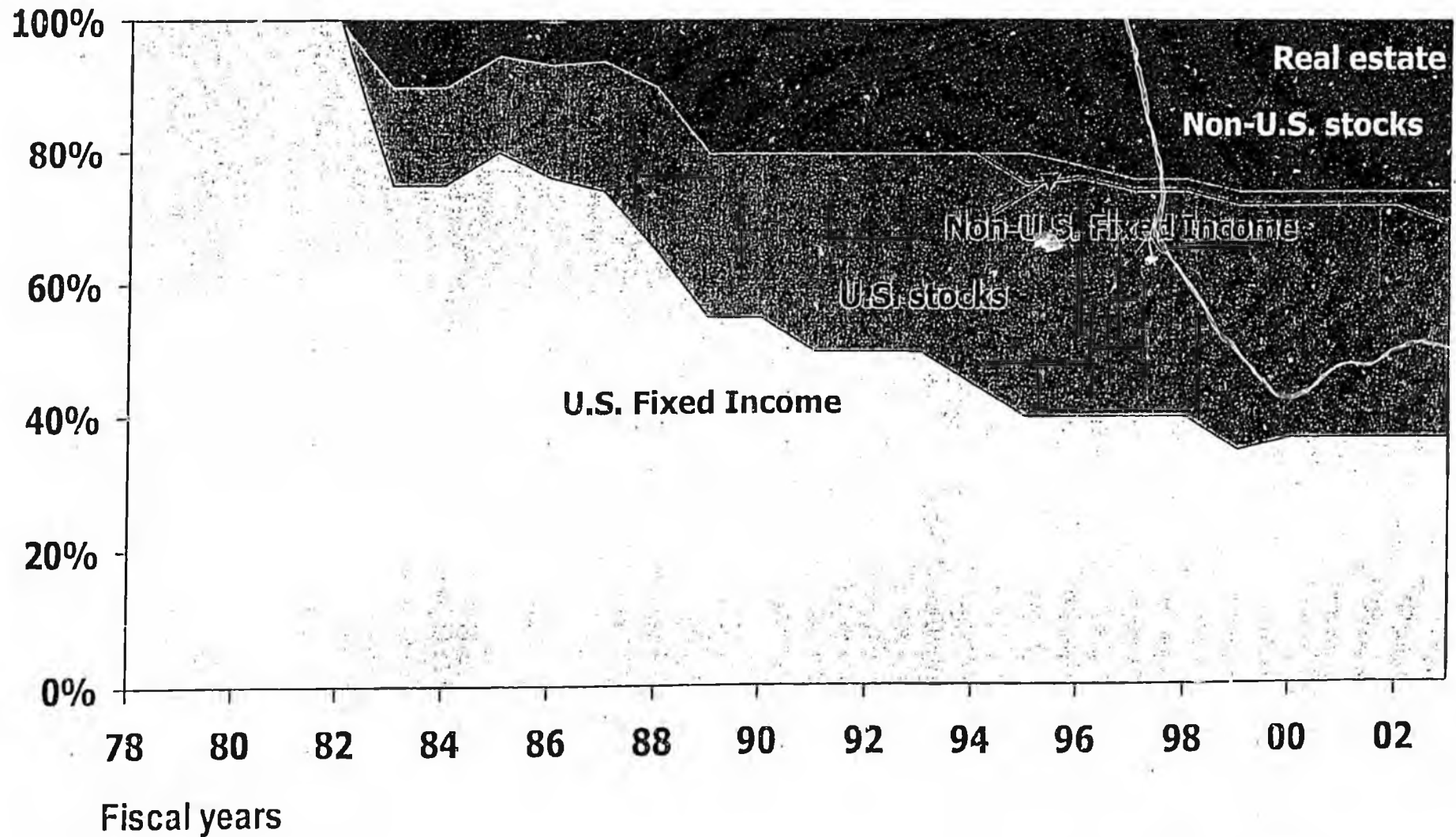
- Realized income account
- Unrealized earnings
- Contributions



ACCOUNTABILITY



Fund's historical asset allocation





What is POMV?

POMV is a spending limit for the Permanent Fund.

Under POMV, no more than five percent of the Fund's market value may be withdrawn each year.

Under the current system, all realized earnings are available for spending from the Fund.



Inflation Proofing

	FY94 to FY03	FY05 to FY14
Total return	7.8%	7.6%
Inflation rate	2.5%	2.6%
Real rate of return	5.3%	5.0%

If no more than 5% is withdrawn from the Fund each year, the gains that result from inflation will remain in the Fund. This will preserve the Fund's purchasing power for future generations.

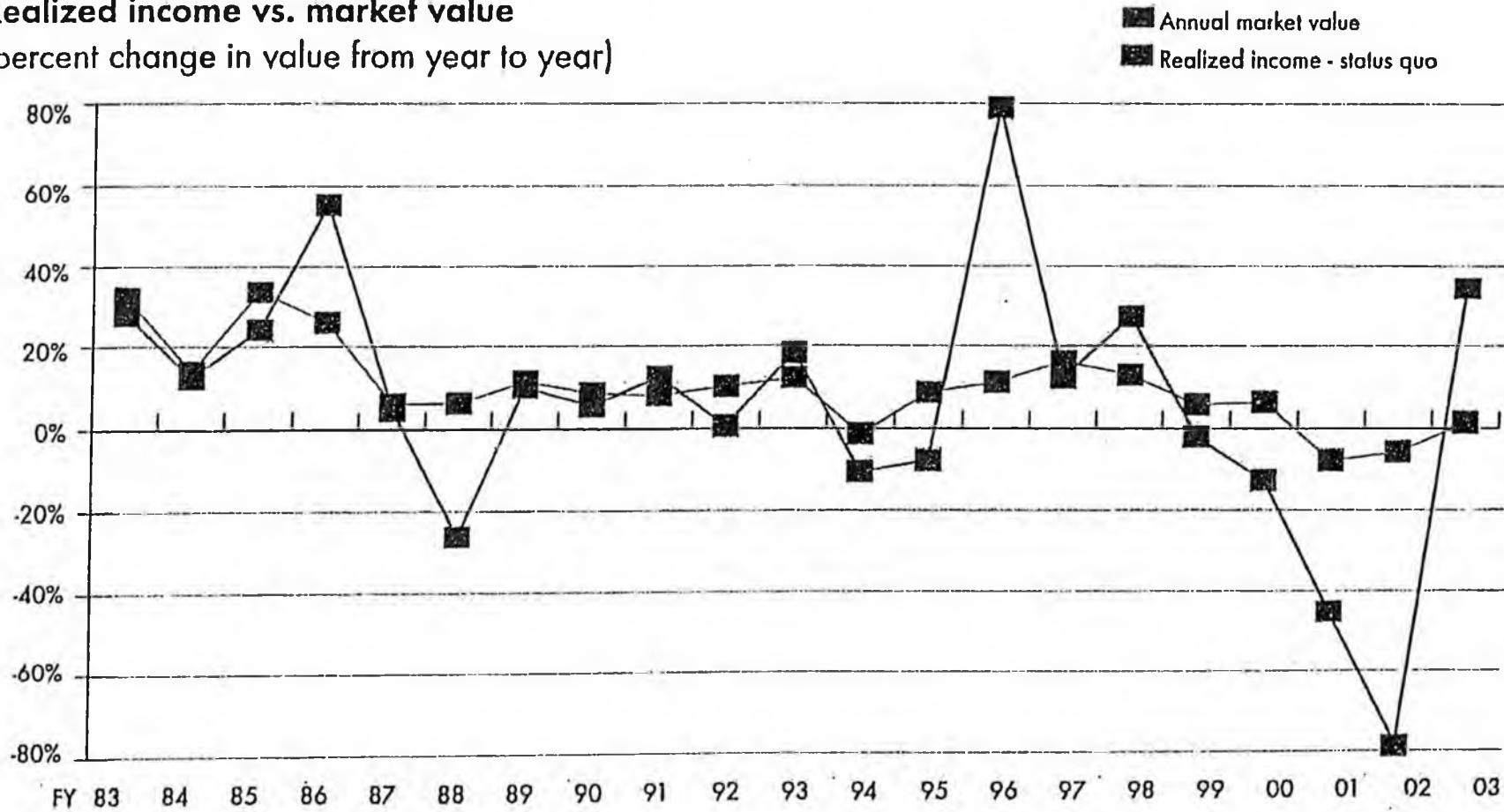


Realized income v. market value

Volatility

Realized income vs. market value

(percent change in value from year to year)



Periods ending June 30

ACCOUNTABILITY

7

TO ALASKANS, FOR ALASKANS



The dangers of overspending

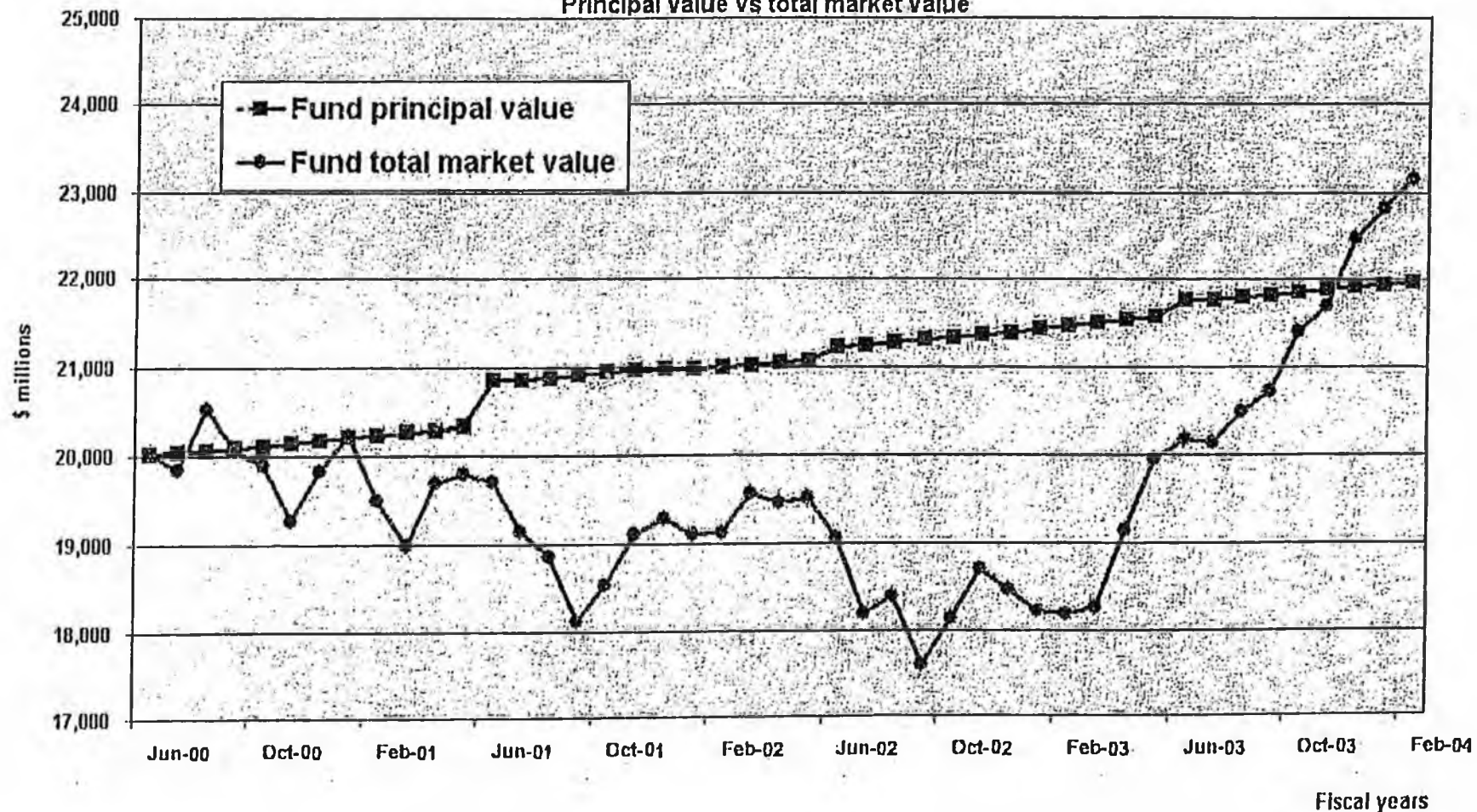
- Overspending in good years means there will be no cushion for down years, and funds may not be available for distribution.
- Overspending in the present decreases a fund's benefit to future generations.
- Overspending can cause recipients to become dependant on an inflated income stream. This will cause hard decisions in the down years, when income isn't as high.



The dangers of overspending

Alaska Permanent Fund

Principal value vs total market value



Assumption: June 30, 2000 all available earnings are paid out, total Fund value equals principal, all realized earnings are paid out in distributions and inflation proofing when possible.

ACCOUNTABILITY

9

TO ALASKANS, FOR ALASKANS



Who uses POMV?

- Anchorage, Fairbanks, North Slope Borough and Sitka residents voted to use POMV for municipal trust accounts.
- Private foundations such as the Rasmuson Foundation and the Ford Foundation are required by the IRS to pay out at least 5% of their market value.
- 83% of colleges and universities polled by the National Association of College and University Business Officers use some form of a POMV payout method.



Why do we need POMV?

For the present

- Ensure the option of an annual payout
- Make payout amounts more stable from year to year
- Make payout method compatible with investment strategy

For the future

- Prevent overspending in the good years
- Maintain purchasing power for the entire Fund



What are Alaskans asking?

- **Will this change leave the principal unprotected?**
- **How will POMV affect my dividend?**
- **Is POMV a raid on the Permanent Fund?**
- **Why fix the Permanent Fund if it isn't broken?**

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June 21, 2004

The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill relating to the income of and appropriations from the Alaska permanent Fund under article IX, section 15(b), Constitution of the State of Alaska, and making conforming amendments. This bill is substantially the same as CS House Bill 298(FIN) am, which passed the House during the second regular session, but with a few new provisions.

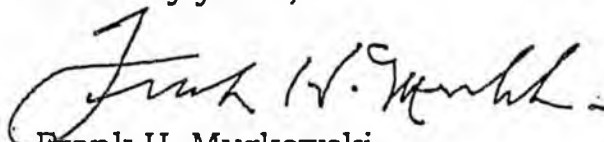
I have separately transmitted to you a joint resolution proposing a "Percent of Market Value" (POMV) amendment to the Alaska Constitution. This bill would make conforming amendments to the enabling act of the Alaska Permanent Fund Corporation necessary to implement that amendment. This bill also would make allocations of the amount available for appropriation from the Alaska Permanent fund after the POMV amendment is adopted. These allocations make provision for aid to municipalities and other communities, public education, and the Permanent Fund dividend. The allocation provisions would give moral force to the Legislature's intent to pay for these important public purposes. A new provision has been added that would adjust the allocation of amounts available for appropriation from the Alaska Permanent Fund so that the dividend will be kept at \$1,000 or more each year. The bill also contains provisions that will conform the Mental Health Trust fund revenue availability and accounting provisions to those proposed for the Alaska Permanent Fund. The Mental Health Trust fund is invested by the Alaska Permanent Fund Corporation and it will be more efficient if the computation of revenue available for appropriation is consistent for both funds.

The Honorable Pete Kott
June 21, 2004
Page 2

I believe that this bill provides a vehicle the Legislature can use to resolve how the POMV amendment would be implemented. By placing the implementing provisions in statute, the Legislature retains the power to make necessary adjustments to meet unforeseeable events.

I urge your prompt and favorable consideration of this bill.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Frank H. Murkowski".

Frank H. Murkowski
Governor

Enclosure

AMENDMENT # 1

OFFERED IN THE HOUSE
TO: HJR 101

BY REPRESENTATIVE GARA

1 Page 1, line 1:

2 Delete "and limiting"

2 Gara McGuire
5

3
4 Page 1, line 2, following "fund":

5 Insert "and limiting those appropriations"

6
7 Page 1, line 15:

8 Delete "a new subsection"

9 Insert "new subsections"

10
11 Page 2, following line 3:

12 Insert a new subsection to read:

13 "(c) Each fiscal year at least seven and one-half percent of the total amount
14 available for appropriation under (b) of this section shall be appropriated as State aid
15 to municipalities and other communities. The balance remaining available may be
16 appropriated for other public purposes, including a program of dividend payments for
17 residents of the State established by law."