

HB

141

Alaska State Legislature
House of Representatives



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1-888-478-3438 (toll free)
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(phone) 1-907-269-0100
(fax) 1-907-269-0105

Representative Harry Crawford
District 21

Memorandum

TO: Representative Bruce Weyhrach
Chair House State Affairs Committee

FROM: Representative Harry T. Crawford

DATE: February 28th, 2003

RE: House Bill 141

I respectfully request that House Bill 141 be scheduled for hearing in the House State Affairs Committee at your earliest possible convenience. I have attached a sponsor statement, and background information.

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Representative Harry Crawford
District 21

SPONSOR STATEMENT: HOUSE BILL 141
The Permanent Fund Protection Act of 2003

There has been concern as of late that there may not be sufficient funds in the Earnings Reserve Account of the Permanent Fund to pay out dividends in October 2003.

The Permanent Fund Dividend gives the Alaskan economy a much-needed boost. Since Alaska has a near stagnant economy, this direct infusion of funds allows the economy to stay afloat. A year without the dividend would be the equivalent to a \$1 billion hit to an already flat-line economy.

This bill would allow for a dividend to be paid in full while still allowing the Permanent Fund principle to remain intact and untouched. It is a question that the legislature need decide, whether the dividend is sufficiently valuable to protect in the coming year.

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ALASKA AP

Alaskans can expect \$1,200 dividend if market holds up

By ALLEN BAKER, Associated Press Writer

ANCHORAGE(December 31, 6:05 p.m. AST) - If Wall Street doesn't take a downturn in the next six months, eligible Alaskans will get a full permanent fund dividend of roughly \$1,200 this coming fall.

But the margin in the nearly \$23 billion permanent fund right now is razor-thin - just \$35 million, or less than less than two-tenths of one percent. And stock market fluctuations can change the value of the fund by \$200 million in a day.

Just three months ago, the fund actually held less than the untouchable principal amount. That would have precluded any dividend at all.

The fund balance dropped under \$22 billion then, well below the estimated \$22.21 billion that is needed for principal on the coming June 30, when the dividend is calculated.

But as of Monday, the fund had recovered to a value of \$22.96 billion.

That's enough to subtract the \$715 million projected dividend amount and still not dip into principal, which is barred by the state constitution.

It's not enough for inflation-proofing. But that's done after the dividend payment is made.

And there are still six months of income to add to the fund.

"About \$500 million will flow in as cash income from bond interest, stock dividends, and cash from real estate investments," says Robert Bartholomew, chief operating officer for the Alaska Permanent Fund Corp.

On top of that, the fund is now receiving about \$30 million a month in oil revenue, the flow that started the fund in the first place. That will add roughly another \$200 million to the fund by June 30.

Still, stock market volatility can be more than a match for that hefty income stream. A 10 percent decline in the value of the fund's \$11.1 billion in domestic and international stocks would lop \$1.1 billion off the fund balance, enough to counterbalance that \$700 million in income and cut the dividend by more than half.

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"You can't predict the market," Bartholomew says. "There's uncertainty out there. What if we go to war?"

Another wrinkle in the law on the permanent fund says only half of the earnings reserve can be used for dividends. So that fund needs to hold \$1.43 billion by June 30 for a full dividend. At this point, Bartholomew says, fund managers expect the reserve will hold the needed amount plus about a cushion of nearly \$300 million on June 30.

But that's another projection, and it's subject to market swings, as well as investment moves by managers of the fund's billions.

As for the dividend itself, it's likely to continue dropping in future years, after reaching a high of \$1,963.86 in 2000. Last year's dividend was \$1,540.76.

The fund pays out an average of the income over the last five years, and the big years, when the fund had gains in the neighborhood of \$2.5 billion, are dropping out of the equation, replaced by years when the market has been in decline. In stark contrast, the fund cleared \$250 million in the fiscal year that ended last June 30. Fund managers are projecting income of \$590 million for the current fiscal year, according to Bartholomew.

While Alaskans still face uncertainty about the 2003 dividend, Bartholomew notes, "the thing that would make it all simpler is a big market rally."



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ALASKA AP

Lawyers may determine dividend's fate

By ALLEN BAKER, Associated Press Writer

ANCHORAGE(February 27, 4:00 p.m. AST) - The principal of the Alaska Permanent Fund can't be touched, even to pay dividends, under the Alaska Constitution.

But just how you define "principal" could determine whether this year's dividends will be slashed, or maybe not paid at all.

So the audit committee of the Alaska Permanent Fund Corp. wants an opinion from the state attorney general on the issue.

Using the permanent fund's current definition, there's only \$283 million in the fund that could be used for dividends, based on Wednesday's market calculation. That would mean a dividend of about \$470 for each Alaskan.

The actual determination doesn't come until June 30.

Between now and then, the stock market could erase the dividend entirely or push it back to around \$1,140. In the roller-coaster world of high finance, the fund's value can rise or fall by \$100 million or more in a single day.

The fund's protected principal has been defined over the years as the amount collected from oil revenues, plus legislative appropriations and inflation-proofing. Amounts beyond that can be used for dividends, or appropriated by the Legislature, though the latter has never been done.

By the time June 30 rolls around, the protected principal by that definition will be a little over \$22.2 billion. The market value of the fund on Wednesday was just under \$22.4 billion. The difference is the \$283 million available for a dividend.

But that's under the current definition.

The permanent fund corporation has assumed that it can't pull money out of the fund for dividends if that would push the market value below the protected principal amount.

But can the corporation's board ignore the market value and simply pay out money that's been earned from dividends, interest and the like? By June 30, there most likely will be enough money in the earnings account to pay the higher dividend.

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"The question is, 'Do we have an accurate definition of principal?'" says Robert Bartholomew, chief operating officer for the fund corporation.

That's the basic question the audit committee wants the state's lawyers to answer. The audit committee, three of the fund board's seven members, can only make a recommendation. It's up to the full board to decide whether to ask for the attorney general to consider the question. That could come next month.

"We believe the issue needs to be clarified," Permanent Fund executive director Bob Storer told the Anchorage Daily News. "It's important that ambiguity be eliminated."

Attorney General Gregg Renkes, who is a fund board member but not a member of the audit committee, said Wednesday his office would write an opinion if asked.

It's our obligation," he told the Daily News.

February 28, 2003

Fairbanks, AK

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Article Last Updated: Wednesday, February 26, 2003 - 3:00:08 AM AKST

Dermot Cole

Daily columnist



Threat to dividend prompts debate on permanent fund profits

WHEN THE CALCULATIONS are made this summer to decide how much money from the earnings of the Alaska Permanent Fund will be available for dividends, there may be a big problem. To put it simply, if the value of the Permanent Fund on June 30 is what it is today, expect the dividend next fall to be less than half of what it was last year.

If the stock market declines over the next four months, the dividend could be zero.

As of Monday, the earnings reserve from which dividends are paid contained about \$400 million, which would put the next dividend in the \$700 per person range.

Last year, the fund paid \$926 million for dividends or more than \$1,500 per person. The earnings reserve also supplied \$602 million for inflation proofing.

There would be no money for inflation proofing the principal if the fund ends the fiscal year close to its current value.

In one sense, this discussion of what will happen June 30 is premature because the market value of the \$22 billion fund changes every day, with swings of \$300 million up or down possible in a day.

In another sense, the discussion is long overdue. The laws the fund operates under worked well for the great bull market of the 1990s, but they appear inadequate for the great bear market that began in 2000.

In the latest fund quarterly report, Eric Wohlforth, chair of the fund and Robert Storer, executive director of the fund, repeated the possible bad news that first arose as an issue last fall.

"Recent market conditions warn us that the potential does exist that there could be a reduced payout or even no payout," they said. "The ramifications of having reduced or no funds available for distribution warrant a careful review of the payout policies and statutes."

For one thing, the fund managers want Alaskans to review the definition of the earnings reserve, the account that supplies money for dividends and inflation proofing.

In 1997, the permanent fund adapted the new rules established by the accounting profession and determined that the earnings reserve should consist of the realized and unrealized earnings or losses. This was to give the most accurate picture of the fund's performance.

Unrealized profits and losses are those that occur in the trading value of stocks, bonds and other holdings. If a stock is bought for \$10 and its value drops to \$5, the owner has an unrealized loss of \$5. The loss on paper becomes a realized loss when the owner sells the stock.

During the bull market, the realized and unrealized earnings of the permanent fund kept building and building. Over the past three years, however, the unrealized losses to the permanent fund have been in the billions.

So even with the fund earning about \$70 million a month from bonds and real estate, those realized profits are offset by paper losses. Adding to the confusion is the state law that provides that realized earnings are to be the basis for determining payouts.

This conflict is between the rules of the accounting profession and a state law that came about at a time when fund investments were thought to fit clearly into "principal" and

"income." The law didn't cover changes in market value for assets after they were purchased.

Because the 2003 dividend is in doubt, look for an intense debate over whether a change in the definition of the earnings reserve is warranted. This is likely to be a major issue in the coming months for the Legislature, the Murkowski administration and the permanent fund board.

If the fund no longer plugs unrealized losses into its formula, there would be enough in the earnings reserve to pay for dividends with the current value of the fund, but the principal of the fund would be smaller.

A change of that type would misrepresent the performance of the fund and run counter to the accepted national accounting standard followed by the fund since 1997.

The permanent fund is supposed to represent a balance between the needs of the present and the needs of the future. Acting as if the huge unrealized losses don't exist would tip that balance to the detriment of the future.

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THE WAY THE COOKIE CRUMBLES: Here's a matter that may be even harder to digest.

The Girl Scouts say the 133,920 boxes of Thin Mints, Samoas, Tagalongs and other cookies they were expecting here March 1 have been delayed until March 8 because of weather problems with Lower 48 trucking.

This means the Scouts won't be selling them in the malls this weekend.

The Girl Scout office is looking for other booth sale opportunities where girls can sell cookies at businesses or special events later in the month. Call Karen Taylor at 456-4782.

n n n

SAFEWAY OPENED its new pharmacy in the University Center Mall Tuesday.

n n n

THE FIFTH ANNUAL Jewish Film Festival, with six independent films you won't see elsewhere, takes place Saturday and Sunday evening at the Alaska Coffee House on Geist Road. For details call, 474-6439.

If you have items to submit to Dermot Cole's column contact him at cole@newsminer.com. write to him in care of the Daily News-Miner at Box 70710, Fairbanks, AK 99707 or call 459-7530.

 **RETURN TO TOP**

From aksuperstation.com

CAPITOL IDEAS

ALTERNATE ANGLES ON THE PERMANENT FUND

By Bill McAllister

Mar 3, 2003, 14:59:00

It's as if the Murkowski-Ulmer campaign was just released on video and DVD.

When it comes to the permanent fund, suddenly the details of the gubernatorial face-off from four to six months ago are back before us.

So it was that John Manly, Gov. Murkowski's press secretary, today passed out to reporters copies of an Associated Press story from Oct. 9. In it, Murkowski's campaign manager, now Attorney General Gregg Renkes, says that the endowment approach to the fund "has a lot of merit as a mechanism for protecting the long-term integrity of the fund."

Manly seemed to be implying that this proves something -- namely, that no one should have been surprised last week when House Speaker Pete Kott said the administration was considering a constitutional amendment that would tap permanent fund money for an "educational endowment" (that in fact wouldn't endow schools with any more money than they're currently getting).

But the AP story doesn't quote the Murkowski campaign as saying that the proposed distribution from the permanent fund would be used for government. In the collective memory of the Capitol press corps, candidate Murkowski never made such a statement. Rather, he often said the opposite.

With this abrupt shift, Murkowski has managed to partially absolve Fran Ulmer of the low point of her campaign:

Then-U.S. Sen. Murkowski came on "Capital Focus" in September. He said a few different times that no new revenue measures were required to bridge the fiscal gap. When I asked about the percent-of-market-value concept that would turn the fund into an endowment and eliminate the distinction between principal and earnings, Murkowski said he hadn't decided on that yet. He then went into a *non sequitur* about the original purpose of the permanent fund as a rainy day fund, and said, "It's raining outside."

Ulmer seized on that sound bite and cut a TV ad saying Murkowski intended to crash into the permanent fund. The bite was surgically removed from his lengthy quote, the very next sentence of which had Murkowski acknowledging the importance of dividends to rural residents. It was an ethically dubious use of an out-of-context quote, and I said so on the next broadcast of "Capital Focus."

With regard to that one interview, Ulmer's TV ad was a misrepresentation. Murkowski clearly meant to leave the impression that he wasn't interested in using permanent fund money for government. Ulmer seemed to feel that it was excusable to imply otherwise because, in her heart, she knew what he really was up to.

Amazingly, the governor is now on the verge of validating Ulmer's gut instincts.

During the campaign, Murkowski was repeatedly asked about his fiscal stance and how it was possible to balance the budget without new sources of revenue. At no time -- at least at no time that I've seen documented, as someone who followed the campaign closely -- did he say he would ask voters to approve a constitutional amendment freeing up permanent fund money for government. He did say that the permanent fund shouldn't be altered without a vote of the people, but he didn't say that he favored having the vote.

His newly unveiled willingness to consider the use of permanent fund money for government is a deleted scene that he is restoring to the "director's cut" of the campaign. I can't wait to see what some of the other "bonus features" are.

Actually, it seems everybody's got something provocative to say about the permanent fund lately.

Speaker Kott said today that the dividend is "one of the worst things we got ourselves into." House Finance Co-Chairman John Harris emphasized that the dividend is not an entitlement, however much Alaskans might think so. Republicans apparently used to say those kinds of things all the time in private, but now they do it with microphones. Whether it's politically courageous or crazy is a judgment call.

Kott and Harris were reacting to the bill by Democratic Reps. Eric Croft and Harry Crawford to ensure dividends this year at the level of the statutory formula, even if there's not enough money in the permanent fund's earnings reserve account on the critical date of June 30. The Croft-ford bill would take the necessary money from the Constitutional Budget Reserve, thus using government to finance the permanent fund.

Both sides might have overlooked what a Republican concept this is. Instead of government holding on to money that eventually would be used to support bureaucracy, you would give it to the people directly and let them decide how to spend it.

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Speaker calls dividend one of Alaska's worst mistakes

By CATHY BROWN, Associated Press Writer
(Published: March 3, 2003)

JUNEAU (AP) - House Speaker Pete Kott said Monday that creating the permanent fund dividend program was one of the worst mistakes Alaska ever made.

The Eagle River Republican does not propose eliminating the dividend because he said it's become an important part of the economy.

But he said the Alaska Permanent Fund, the state's oil-wealth savings account, needs to shift from being a "sacred cow" to become a "cash cow for the state."

Kott and leaders of the House Finance Committee discussed proposals dealing with the permanent fund and the budget during a news conference Monday.

The comments come at a time when Republican Gov. Frank Murkowski is considering introducing a proposal to use income from the fund to pay for government. It's also a time when the fund's losses in the stock market for the first time threaten the state's ability to pay dividends to residents.

"Many Alaskans believe this is an entitlement. I don't," Kott said. "I think the permanent fund dividend was one of the worst things we got ourselves into a number of years ago.

"But having said that, since we're there, I think it's important to recognize that the dividend has played an important part in the economy of Alaska, and to just cut that off would be, I think, totally an embarrassment to this Legislature and to the state," Kott said.

Alaskans receive dividends every year based on an average of the last five years' income from the \$22.5 billion permanent fund. Last year's dividend was around \$1,500 per person.

Kott and Finance Co-Chairmen John Harris, R-Valdez, and Bill Williams, R-Saxman, were asked about a bill introduced Friday by Rep. Harry Crawford, D-Anchorage.

Crawford proposes using some of the \$1.9 billion Constitutional Budget Reserve, a state savings account, to pay dividends should the permanent fund losses continue.

Dividends are supposed to be paid from the earnings reserve account of the permanent fund, but because of declines in the stock market, there may not be enough money in that account to fully fund the dividend this year.

The constitutional budget reserve was created by voters in 1990 and has been used in most years since to make up for state budget shortfalls. At the state's current rate of spending, the budget reserve account is expected to be empty by June 2005.

Crawford said he knows using money from the fund to pay dividends this year would hasten the

day the budget reserve runs dry.

But he said Alaska's economy will suffer a double hit this year if dividends can't be paid, and if Murkowski makes deep cuts in the budget. Murkowski is scheduled to reveal his budget Wednesday.

"It will absolutely devastate the economy if there's no permanent fund dividends," Crawford said. "I don't intend to sit around here and let the economy tank by just saying we lived well in the good times and we're going to live real bad in the bad times."

The Republican majority leaders voiced little support for Crawford's plan.

"What would the constituents out there think? 'We're just trying to change the formula for our political behind,'" Williams said. "I don't think we should. We should stick to what the formula says."

There are many other important needs the state does not have enough money for, such as education, public safety and transportation, Williams said.

Kott said the Crawford proposal is a "novel approach" that deserves a look. But he said Alaskans need to recognize that the permanent fund will go up and down with the market, and how much is available for dividends each year is not up to the Legislature.

"We'll have those \$1,500 dividends and we'll have those \$200 dividends," Kott said. "That fluctuation is built into the system right now and there may be a point where there is no dividend."

The House Republican leaders expressed more interest in an idea being considered by the Republican governor. Murkowski is considering a constitutional amendment that asks voters to change the method of determining annual payouts from the permanent fund. The proposal may also include a provision to replace state funds spent on education with permanent fund earnings.

Murkowski's spokesman John Manly said the proposal is being considered and the governor may outline it further during his budget address to the Legislature Wednesday.

The concept - without the provision for spending part of the money on education - was recommended by the permanent fund board two years ago.

The board's proposal assumed the fund will grow by an average of 8 percent a year. It called for using 5 percent of the fund's market value each year for dividends or other spending. That would leave the remaining 3 percent of growth for inflation proofing.

Proponents say that proposal would provide for a less volatile income stream than the current method of determining dividends.

"I'm beginning to lean more in that direction," Harris said.

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(Published: March 5, 2003)

Permanent Fund value

Make it a cash cow, not a sacred cow, says House Speaker

More and more, legislators are talking sensibly about the Alaska Permanent Fund. The fund and its yearly dividend payment are not an entitlement, said House Speaker Pete Kott on Monday. But they're important to Alaska's economy and shouldn't be just cut off.

Anything that puts \$1 billion a year, in round terms, into the economy is important to all of us. State Rep. Harry Crawford recognizes that in proposing the Constitutional Budget Reserve be used to dampen the decline in dividends if markets continue to batter fund earnings. His notion also anticipates the negative economic impact of huge state budget cuts likely to be proposed by Gov. Murkowski.

Both legislators -- Kott a Republican, Crawford a Democrat -- recognize that state dollars play a huge role in Alaska's economy and that state decisions will have serious consequences, not only for individual pocketbooks today, but also for economic prospects tomorrow. The question is: How do we spread the burdens fairly? And how do we get over the free-lunch mentality of the Prudhoe Bay era?

Alaskans who expect to keep getting public services for nothing are living in a dream world. Last year each Alaskan received more than \$5,000 in state services and benefits, including the dividend, while contributing virtually nothing. Ultimately, that's a self-destructive policy, no matter how much we may enjoy it.

In the big picture it's untenable for any state -- even with the North Slope on hand to pay for things -- to both run 20 percent in the red and keep handing out a free lunch to everyone. That's what Alaska is doing now.

Gov. Murkowski's answer this week will be to eat a lot less lunch but keep it free. He's also said to be considering ways to let the Permanent Fund -- which is a financial asset belonging to all of us collectively, not an entitlement to be handed out individually -- help pay for lunch too. The endowment approach long favored by the Permanent Fund trustees (and former Gov. Tony Knowles) is a start.

Now Rep. Kott has offered a line worth remembering: The Permanent Fund needs to be changed from a "sacred cow" to a "cash cow." As long as he doesn't make it another excuse for the free lunch, he's on the right track.

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Fairbanks Daily News-Miner

Dividend a mistake, Kott says

By CATHY BROWN

Tuesday, March 04, 2003- Associated Press Writer

JUNEAU--House Speaker Pete Kott said Monday that creating the permanent fund dividend program was one of the worst mistakes Alaska ever made.

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Fairbanks Daily News-Miner

Bill would tap reserve for dividends

By TOM MORAN

Saturday, March 01, 2003 - News-Miner Juneau Bureau

Rep. Harry Crawford, D-Anchorage, has introduced an appropriations bill that would guarantee a full permanent fund dividend this year by using money from the state's budget reserve.

"As it is right now the dividend is in danger, and we're just trying to head that off," Crawford said. "The dividend has become such an integral part of our state's economy that we have to be able to guarantee a dividend."

A terrible year in the stock market has left the permanent fund's earnings reserve account too low to pay full dividends, which are calculated through an average of the past five years' earnings of the fund. As of Thursday there was \$320 million in the reserve, enough to pay a dividend of around \$540 to each Alaskan.

The actual dividend amount isn't calculated until June 30. The volatile stock market could erase the dividend entirely by that date or bounce back and push the value back up to around \$1,100, well short of last year's \$1,540 checks.

If the stock market doesn't rebound, Crawford's bill would appropriate whatever money is needed to fully fund the dividend through its usual statutory formula from the state's Constitutional Budget Reserve.

If the dividends were calculated today that would involve an appropriation of around \$364 million from the reserve, which has a balance of \$1.93 billion.

The CBR has been used repeatedly throughout the last decade to pay for state government and is expected to be empty in a few years. While Crawford said the appropriation could hasten the CBR's demise, he said the state needs to face up to the day when it has to find other revenue to pay for government.

At this point, he argued, the effect of the dividend is too important to lose, especially as Gov. Frank Murkowski's upcoming budget is widely rumored to contain major cuts.

"I was here in the mid-'80s when there was a double hit to the economy because of huge cutbacks in government and layoffs in a lot of companies, and I don't want to be a part of cutting back government and cutting dividends at the same time," he said. "That'd just be like a double whammy on the state's economy."

The bill, which is co-sponsored by Rep. Eric Croft, D-Anchorage, would authorize a onetime appropriation to deal with the 2003 dividends. Crawford said he sees the ultimate solution to dividend volatility as a system like the percent of market value proposal under consideration by Murkowski, which would set the dividend based on the year-end value of the entire fund rather than its earnings.

"I believe that until we come up with a better way to guarantee folks a dividend, then we should continue along with our present calculations or formula to pay out the dividend," he said. "To do that we're going to have to use money from the Constitutional Budget Reserve."

House Majority Leader John Coghill, R-North Pole, said he doesn't expect the Republican majority caucus will support the bill.

"I think generally--from the way I understand this caucus discussion we had--if the market's down, then so be it," he said. "I think there's a general agreement that, let it be what it is."

Coghill said he believes shoring up the dividend with other funds changes the payout into an entitlement.

"You're going into a totally different source of money to pay a dividend, which at that point would not be a dividend, because it's not based on what a fund is producing," he said.

Coghill argued that the point of the dividend is not to guarantee a regular payout, but to give all Alaskans a share of natural resource wealth and to keep the government from diving into the fund principal.

"It's kind of a protective layer for the principal, as well as a benefit of common trust to Alaskans," he said.

"That is something that we have designed in law directly linked to the earnings of the permanent fund. If we go outside of that and try to take in money from another source of savings, then I think we have violated the very purpose of the dividend."

Crawford's bill was introduced on Friday and has been referred to the House State Affairs and Finance committees.

Reporter Tom Moran can be reached at tmoran@newsminer.com or (907) 463-4893.



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Kott calls PFD one of Alaska's worst mistakes

House speaker says fund needs to become a 'cash cow for the state'

Tuesday, March 4, 2003

**By CATHY BROWN
THE ASSOCIATED PRESS**

House Speaker Pete Kott says creating the permanent fund dividend program was one of the worst mistakes Alaska ever made.

The Eagle River Republican said he does not propose eliminating the dividend because it has become an important part of the economy. But he said the Alaska Permanent Fund, the state's oil-wealth savings account, needs to shift from being a "sacred cow" to become a "cash cow for the state."

Kott and leaders of the House Finance Committee discussed proposals dealing with the permanent fund and the budget during a news conference Monday.

The comments came at a time when Republican Gov. Frank Murkowski is considering introducing a proposal to use income from the fund to pay for government. It's also a time when the fund's losses in the stock market for the first time threaten the state's ability to pay dividends to residents.

"Many Alaskans believe this is an entitlement. I don't," Kott said. "I think the permanent fund dividend was one of the worst things we got ourselves into a number of years ago.

"But having said that, since we're there, I think it's important to recognize that the dividend has played an important part in the economy of Alaska, and to just cut that off would be, I think, totally an embarrassment to this Legislature and to the state," Kott said.

Alaskans receive dividends every year based on an average of the past five years' income from the \$22.5 billion permanent fund. Last year's dividend was around \$1,500 per person.

Kott and Finance Co-Chairmen John Harris, a Valdez Republican, and Bill

Williams, a Saxman Republican, were asked about a bill introduced Friday by Rep. Harry Crawford, an Anchorage Democrat.

Crawford proposes using some of the \$1.9 billion Constitutional Budget Reserve, a state savings account, to pay dividends should the permanent fund losses continue.

Dividends are supposed to be paid from the earnings reserve account of the permanent fund, but because of declines in the stock market, there may not be enough money in that account to fully fund the dividend this year.

The constitutional budget reserve was created by voters in 1990 and has been used in most years since to make up for state budget shortfalls. At the state's current rate of spending, the budget reserve account is expected to be empty by June 2005.

Crawford said he knows using money from the fund to pay dividends this year would hasten the day the budget reserve runs dry. But he said Alaska's economy will suffer a double hit this year if dividends can't be paid, and if Murkowski makes deep cuts in the budget. Murkowski is scheduled to reveal his budget Wednesday.

"It will absolutely devastate the economy if there's no permanent fund dividends," Crawford said. "I don't intend to sit around here and let the economy tank by just saying we lived well in the good times and we're going to live real bad in the bad times."

The Republican majority leaders voiced little support for Crawford's plan.

"What would the constituents out there think? 'We're just trying to change the formula for our political behind,' " Williams said. "I don't think we should. We should stick to what the formula says."

Many other important needs exist that the state cannot fully fund, such as education, public safety and transportation, Williams said.

Kott said the Crawford proposal is a "novel approach" that deserves a look. But he said Alaskans need to recognize that the permanent fund will go up and down with the market, and how much is available for dividends each year is not up to the Legislature.

"We'll have those \$1,500 dividends and we'll have those \$200 dividends," Kott said. "That fluctuation is built into the system right now and there may be a point where there is no dividend."

House Republican leaders expressed more interest in an idea being considered by the Republican governor. Murkowski is considering a constitutional amendment that asks voters to change the method of determining annual payouts from the permanent fund. The proposal also may include a provision to replace state funds spent on education with permanent fund earnings.

Murkowski's spokesman John Manly said the proposal is being considered and the governor may outline it further during his budget address to the Legislature on Wednesday.

The concept - without the provision for spending part of the money on education - was recommended by the permanent fund board two years ago.

The board's proposal assumed the fund will grow by an average of 8 percent a year. It called for using 5 percent of the fund's market value each year for dividends or other spending. That would leave the remaining 3 percent of growth for inflation proofing.

Proponents say that proposal would provide for a less volatile income stream than the current method of determining dividends.

"I'm beginning to lean more in that direction," Harris said.

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Speaker calls dividend one of Alaska's worst mistakes

Monday, March 03, 2003 - House Speaker Pete Kott says creating the permanent fund dividend was one of the worst mistakes Alaska ever made.

The Anchorage Republican made the remarks at a weekly news conference today in the Capitol.

Kott says he doesn't propose eliminating the dividend because it's become an important part of the economy.

But he says the state's oil-wealth savings account needs to shift from being a "sacred cow" to being a "cash cow for the state."

Kott and House Finance Co-chairmen Bill Williams and John Harris expressed little support for a proposal to guarantee Alaskans get dividends this year.

Representative Harry Crawford of Anchorage has proposed paying dividends this fall out of another state savings account if there's not enough money in the permanent fund's earnings reserve.

Harris says people need to understand the dividend will fluctuate with the market.

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