

**SB**

**374**

**SFIN**

**FILE**

SB 374

was referred to the  
Senate Finance  
Committee

Hearing(s) were held

The bill did not move  
from Committee

Senator Ben Stevens  
Senate Majority Leader



## Sponsor Statement

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### SB 374 – Permanent Fund Earnings/Income Distribution

The State of Alaska's revenue structure is heavily dependent on the production and price of oil. The production of oil in Alaska has steadily declined over the years, and with national and local environmentalists' opposition to exploration and development of oil and gas in the Arctic National Wildlife Refuge and the National Petroleum Reserve, experts predict an irreversible decline in production.

Over the last decade, the State of Alaska has closed its budget deficit by borrowing funds from the Constitutional Budget Reserve (CBR). Office of Management and Budget (OMB) forecasts predict that under current budget levels, oil production, and oil prices, the CBR will no longer have funds available to close future budget deficits. OMB's forecast assumes no major rise in state expenditures and predictable oil prices. A major dip in world oil prices or major increases in the cost of education or formula-driven programs will undoubtedly turn a general fund budget deficit into a true fiscal crisis.

Unless our state's savings account - the CBR - is repaid, it is only a matter of time before the Governor and the State Legislature will be forced to enact draconian taxes - which may ravage the state's economy and overburden taxpayers - or will be forced to enact draconian cuts that will devastate Alaska's schools, leave infrastructure to deteriorate, and leave the most vulnerable Alaskans out in the cold.

Recognizing current and future budget realities, SB 374 is proposed as a conservative statutory change that will enable future legislatures and future Alaskans to meet the core services of government: education, public safety, transportation, and public health.

Senator Ben Stevens  
State Capitol  
Juneau, Alaska 99801  
907-465-4993  
Fax: 907-465-3872

SB 374 outlines the priority use of the realized earnings of the Permanent Fund:

**1. Permanent Fund Dividend**

As under current law, the amount available for appropriation from the permanent fund would be based on an average of realized earnings for the past five years, with half going to dividends.

**2. Inflation-Proofing**

The amount needed to inflation-proof the Permanent Fund remains similar to current law. However, new deposits from natural resources into the corpus of the Permanent Fund will be considered in the calculation of the amount needed from the realized earnings.

**3. Baseline Balance of the Earnings Reserve Account**

Unlike current law, SB 374 mandates that after Permanent Fund Dividends and inflation proofing, all monies in the Earnings Reserve Account up to \$250,000,000 must remain in the Earnings Reserve Account.

**4. Constitutional Budget Reserve**

After Permanent Fund Dividends, inflation proofing, and remaining within the baseline balance of the Earnings Reserve Account, excess monies would be transferred to the Constitutional Budget Reserve.

Unlike high tax rates and deep cuts in government services, SB 374 ensures that little to no damage will be inflicted on Alaska citizens and the economy. Based on a recent study by the Institute of Social & Economic Research (ISER), transferring excess earnings of the Permanent Fund after paying Dividends and inflation proofing would do the least harm to Alaskans.

Moreover, transferring excess earnings of the Permanent Fund to the Constitutional Budget Reserve will allow the funds to appreciate over time.

SB 374 would revert to current statutory language once the deposits to the Constitutional Budget Reserve equals the amount appropriated from the CBR to the state's general fund.

I would appreciate your support.


Senator Ben Stevens  
State Capitol  
Juneau, Alaska 99801  
907-465-4993  
Fax: 907-465-3872

To: Mindy

**Senator Ben Stevens**  
Senate Majority Leader



## Memorandum

**Date:** 3/31/04  
**To:** Senator Gary Wilken, Co-Chair  
Senate Finance Committee  
**From:** Senator Ben Stevens   
**Subject:** Fiscal Note for Senate Bill 374

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Senate Bill 374 was heard in the Senate Finance Committee on Monday, March 29. However, a fiscal note was not provided from the Department of Revenue or the Permanent Fund.

I respectfully request that a fiscal note for Senate Bill 374 be requested by the Senate Finance Committee in order for the committee to understand the full fiscal impact of the legislation.

Thank you for your consideration of my request.

Senator Ben Stevens  
State Capitol  
Juneau, Alaska 99801  
907-465-4993  
Fax: 907-465-3872

**Subject:** Re: sb374 fn?

**Date:** Wed, 07 Apr 2004 10:35:33 -0800

**From:** Randy Ruaro <randy\_ruaro@gov.state.ak.us>

**Organization:** Alaska Office of the Governor

**To:** Robin Paul <Robin\_Paul@Legis.state.ak.us>

Hi Robin:

Actually, the fiscal information for SB 374 will be prepared separate from the fiscal note. Paul at the DOR is working on it, but apparently is out of the office this week.

Thanks

Randy

Robin Paul wrote:

> Morning Randy,  
> Just checking in with you re status of fn for SB 374. Our notes say  
> that a new DOR/Permanent Fund one was requested on 3/31. Any update?  
> this bill is on our calendar for today.  
> Appreciate it!  
> Thanks!  
> Robin

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: SB 374  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Permanent Fund Income RDU AK Permanent Fund Corporation  
Distribution Component AK Permanent Fund Corporation  
Sponsor Finance by Request  
Requester Senate Finance 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						
<b>TOTAL OPERATING</b>	<b>0.0</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						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</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 (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)

SB 374 would use incoming mineral revenues to offset a portion of the inflation proofing transfers from the unreserved to the reserved portion of the Permanent Fund. The bill also directs a portion of the realized earnings to be transferred to the Constitutional Budget Reserve on an annual basis.

SB 374 would not affect the management of the Fund and would have no effect on the APFC's operating budget.

Prepared by: Robert D. Storer, Executive Director Phone 465-2047  
Division Alaska Permanent Fund Corporation Date/Time 3/26/04 12:00 AM  
Approved by: Steve Porter, Deputy Commissioner Date 2/6/2004  
Agency Department of Revenue



# ALASKA PERMANENT FUND

## UPDATED FINANCIAL PROJECTIONS 2004 - 2014

### as of February 29, 2004

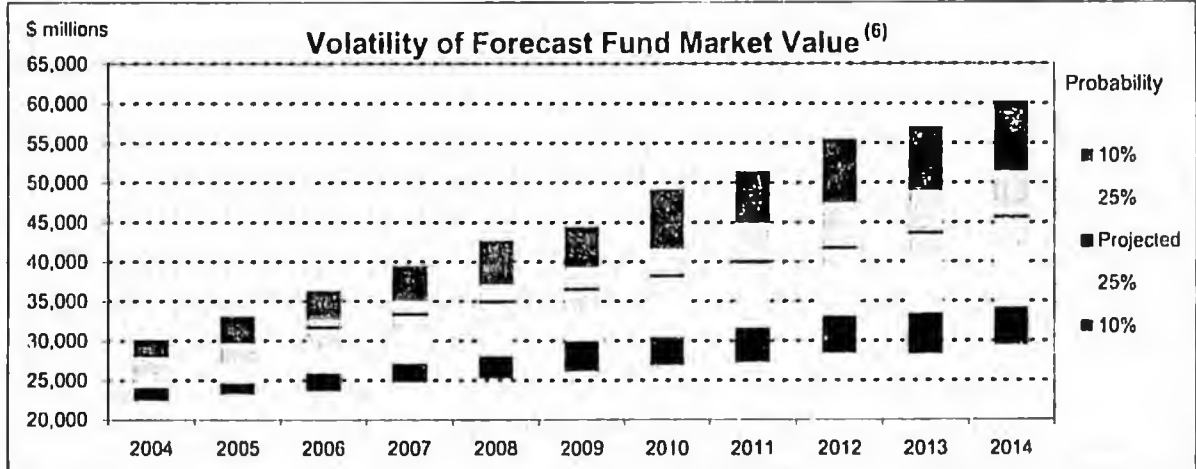
New projection for Feb 2004  
with updated asset  
allocation and 2004 capital  
market assumptions.

*Long-term projections will extend ten years, based on best available information (in millions)*

Reserved Fund Balance										Unreserved Fund Balance								TOTAL FUND (5) FY End Balance
FY	FY Begin Contrib. Balance	Appro- priations	Dedicated State Revenues	Inflation Proofing	FY End Balance Contributions	Unrealized Gain (Loss)		FY End Reserved Balance	Acct. Net Income (1)	Statutory Net Income	Distributions of Statutory Net Income			Realized Earnings Acct		FY		
						Net Change	FY End Balance				Dividends	Inflation Proofing	General Fund	Net Change	FY End Balance			
77-96	0	5,871	5,711	4,624	16,206	2,084	2,084	18,290	14,134	14,054	5,949	4,624	223	104	104	77-96	18,394	
97	16,206	828	308	486	17,828	1,085	3,169	20,997	3,149	2,036	747	486	1	3	107	97	21,104	
98	17,828	35	231	423	18,517	802	3,971	22,488	3,435	2,595	893	423	1	1,282	1,389	98	23,877	
99	18,517	41	155	288	19,001	(430)	3,541	22,542	2,148	2,544	1,045	288	3	1,201	2,590	99	25,132	
00	19,001	264	326	423	20,014	(12)	3,529	23,543	2,249	2,222	1,172	423	3	382	2,972	00	26,515	
01	20,014	8	339	686	21,047	(2,146)	1,383	22,430	(924)	1,199	1,113	686	4	(588)	2,384	01	24,814	
02	21,047	(23) (3)	258	602	21,884	(878)	505	22,389	(617)	257	926	602	5	(1,248)	1,136	02	23,525	
03	21,884	354 (7)	398	352	22,988	601	1,106	24,094	963	355	691	352	0	(1,035)	100	03	24,194	
<b>04</b>	<b>22,988</b>	<b>21</b>	<b>300</b>	<b>169 (7)</b>	<b>23,478</b>	<b>2,420</b>	<b>3,526</b>	<b>27,004</b>	<b>4,165</b>	<b>1,724</b>	<b>605</b>	<b>169 (7)</b>	<b>0</b>	<b>950</b>	<b>1050</b>	<b>04</b>	<b>28,054</b>	
05	23,478	22	252	618	24,369	(31)	3,495	27,864	2,097	2,106	592	618	0	896	1,947	05	29,811	
06	24,369	22	213	640	25,244	69	3,564	28,808	2,228	2,137	691	640	0	806	2,753	06	31,561	
07	25,244	26	205	662	26,138	(44)	3,519	29,657	2,359	2,378	913	662	0	802	3,555	07	33,212	
08	26,138	24	202	685	27,049	203	3,723	30,772	2,483	2,256	1,113	685	0	458	4,013	08	34,785	
09	27,049	29	199	709	27,986	38	3,761	31,747	2,601	2,535	1,198	709	0	627	4,640	09	36,387	
10	27,986	27	189	733	28,935	266	4,027	32,962	2,721	2,428	1,232	733	0	463	5,103	10	38,066	
11	28,935	32	182	758	29,907	61	4,088	33,996	2,847	2,754	1,297	758	0	699	5,802	11	39,798	
12	29,907	30	173	783	30,894	311	4,399	35,293	2,977	2,636	1,324	783	0	529	6,331	12	41,624	
13	30,894	37	164	808	31,904	71	4,470	36,374	3,114	3,006	1,403	808	0	794	7,125	13	43,499	
14	31,904	35	180	835	32,953	344	4,815	37,768	3,255	2,876	1,438	835	0	603	7,729	14	45,496	
<b>Cumulative Totals</b>																		
<b>Projected for 2004-2014</b>									<b>30,850</b>	<b>26,835</b>	<b>11,806</b>	<b>7,401</b>	<b>0</b>					

Assumptions:	Total Return	Inflation	= Total Real Return
FY 2004	17.30%	2.28%	15.02%
FY 2005-2014 (4)	7.61%	2.60%	5.01%

- (1) Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings
- (2) Earnings reserve appropriated to principal and settlement earnings transferred to principal per AS 37.13.145(d)
- (3) Final reconciliation on State of AK royalty case
- (4) Based on 2004 Callan capital market assumptions and median expected returns. Actual results will vary from projections
- (5) Total Fund equals reserved fund balance plus the realized earnings account
- (6) The MOMA volatility graph shows the range of possible outcomes with the extremes of the bars indicating the less likely probability (as of 6/30/03)
- (7) \$354 of FY04's projected inflation proofing of \$523 was prefunded in FY03. Currently there is pending legislation for the remaining \$169 balance



1	<b>Model Concept/Parameters:</b>	1) Consider Dedicated Revenue to the Permanent Fund Principal as Inflation proofing. Appropriate any additional amount necessary to meet											
2		Inflation in full from the ERA if the dedicated revenue is insufficient.											
3		2) Pay dividends according to current formula.											
4		3) Transfer any remaining balance in the ERA, less \$250 million, to the CBR.											
5													
6	<b>Assumptions:</b>	1) FY05 GF budget is at the FY04 Enacted level											
7		2) GF Revenue provided by the Dept. of Revenue's Fall 2003 Forecast											
8		3) Formulas built into the Permanent Fund are based on APFC Financial Projections											
9		4) Under Status Quo - the ERA is used to fill the fiscal gap after the CBR is drained and there are no other options											
10													
11		(millions)	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>
12	<b>General Inputs:</b>	Budget Growth Rate	-8.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
13		Inflation Rate	2.21%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
14		Projected population (thousands)	655	662	669	677	685	692	700	708	716	724	732
15		CBR Earnings Rate	2.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
16	<i>DOR-Fal 2003 Forecast</i>	Baseline GF Revenue	2,203	1,886	1,492	1,435	1,442	1,424	1,347	1,291	1,231	1,187	1,103
17													
18	<b>APFC Projection Inputs:</b>	Statutory Net Income	1,724	2,106	2,137	2,378	2,256	2,535	2,428	2,754	2,636	3,006	2,876
19		Principal Ending Balance	23,478	24,369	25,241	26,138	27,019	27,986	28,935	29,907	30,894	31,904	32,953
20	<i>(update with APFC monthly financials)</i>	Projected MV Ending Balance	28,054	29,811	31,561	33,212	34,785	36,387	38,066	39,798	41,624	43,499	45,496
21	<i>Latest update - Feb. 29, 2004 (11-revised)</i>	Accumulated Unrealized	3,526	3,495	3,564	3,519	3,723	3,761	4,027	4,088	4,399	4,470	4,815
22		Dedicated Revenue	300	252	213	205	202	199	189	182	173	164	180
23		Other/Special	21	22	22	26	24	29	27	32	30	37	35
24		Dividend Transfer	605	592	691	913	1,113	1,198	1,232	1,297	1,324	1,403	1,438
25		Inflation Proofing		618	640	662	685	709	733	758	783	808	835
26													
27	<b>Calculated Variables:</b>												
28		APFC Inflation Rate		2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
29		Realized as % of Prior Year Ending MV	7.1%	7.5%	7.2%	7.5%	6.8%	7.3%	6.7%	7.2%	6.6%	7.2%	6.6%
30		Accumulated Unrealized as % of Prior Year Ending MV	10.00%	-0.1%	0.23%	-0.14%	0.61%	0.11%	0.73%	0.16%	0.78%	0.17%	0.79%
31		Total as % of Prior Year Ending MV	17.13%	7.40%	7.40%	7.39%	7.41%	7.40%	7.40%	7.40%	7.40%	7.39%	7.40%

Provided by Senator Stevens

1	Status Quo	(millions)	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
2	<b>General Fund</b>	Unrestricted GF Revenue	2,203	1,886	1,492	1,435	1,442	1,424	1,347	1,291	1,231	1,187	1,103
3		GF Budget	(2,301)	(2,301)	(2,347)	(2,394)	(2,441)	(2,490)	(2,540)	(2,591)	(2,643)	(2,696)	(2,749)
4		Fiscal (Gap)/Surplus	(98)	(415)	(855)	(959)	(998)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,646)
5		Draw from CBR	98	415	855	959	115	0	0	0	0	0	0
6		Fiscal Gap After CBR Draw	0	0	0	0	(884)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,616)
7	<b>CBR Fund</b>												
8		Beginning CBR balance	2,097	2,079	1,764	1,012	110	0	0	0	0	0	0
9		Settlements	20	20	19	9	0	0	0	0	0	0	0
10		Earnings	59	80	83	48	5	0	0	0	0	0	0
11		CBR (Draw)/Payback	(98)	(415)	(855)	(959)	(115)	0	0	0	0	0	0
12		Ending CBR balance	2,079	1,764	1,012	110	0	0	0	0	0	0	0
13	<b>Permanent Fund</b>												
14		Market Value - Begin Bal	24,194	28,054	29,811	31,561	33,211	33,900	34,378	34,735	34,968	36,184	37,408
15		Principal - Begin Bal	22,988	23,478	24,465	25,441	26,442	27,468	28,527	29,605	30,713	31,844	33,006
16		Dedicated Revenue	300	252	213	205	202	199	189	182	173	164	180
17		Other/Special Appropriations	21	22	22	26	24	29	27	32	30	37	35
18		Inflation Proofing	169	713	741	770	800	831	862	895	927	961	997
19		Principal - Ending Bal	23,478	24,465	25,441	26,442	27,468	28,527	29,605	30,713	31,844	33,006	34,218
20		Accumulated Unrealized Gain(Loss)	3,526	3,195	3,564	3,519	3,723	3,760	4,011	4,067	4,340	4,402	4,699
21		Reserved - Ending Bal	27,004	27,960	29,005	29,961	31,191	32,287	33,616	34,780	36,184	37,408	38,917
22													
23		ERA Begin Bal	100	1,050	1,851	2,556	3,251	2,709	2,091	1,119	187	0	0
24		Realized Gain(Loss)	1,724	2,106	2,137	2,378	2,256	2,471	2,294	2,513	2,316	2,613	2,473
25		Informational only Income Available for Distribution		1,185	1,382	1,827	2,226	2,383	2,422	2,501	2,488	2,563	2,564
26		Transfer to Dividend Fund	(605)	(592)	(691)	(913)	(1,113)	(1,191)	(1,211)	(1,251)	(1,244)	(1,282)	(1,282)
27		Inflation Proofing/Special/Other	(169)	(713)	(741)	(770)	(800)	(831)	(862)	(895)	(927)	(961)	(997)
28		subtotal	1,050	1,851	2,556	3,251	3,594	3,157	2,312	1,487	332	370	195
29		Draw for Fiscal Gap	0	0	0	0	(884)	(1,066)	(1,193)	(1,300)	(332)	(370)	(195)
30		ERA - Ending Bal	1,050	1,851	2,556	3,251	2,709	2,091	1,119	187	0	0	0
31		Market Value - Ending Bal	28,054	29,811	31,561	33,211	33,900	34,378	34,735	34,968	36,184	37,408	38,917
32		Fiscal Gap After ERA Draw	0	0	0	0	0	0	0	0	(1,080)	(1,139)	(1,452)

1	SB374 MODEL	(millions)	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
2	<b>General Fund</b>	Unrestricted GF Revenue	2,203	1,886	1,492	1,435	1,442	1,424	1,347	1,291	1,231	1,187	1,103
3		GF Budget	(2,301)	(2,301)	(2,347)	(2,394)	(2,441)	(2,490)	(2,540)	(2,591)	(2,643)	(2,696)	(2,749)
4		Fiscal (Gap)/Surplus	(98)	(415)	(855)	(959)	(999)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,646)
5		Draw from CBR	98	415	855	959	999	1,066	1,193	1,300	1,412	1,124	388
6		Fiscal Gap After CBR Draw	0	0	0	0	0	0	0	0	0	(385)	(1,258)
7	<b>CBR Fund</b>												
8	Beginning CBR balance		2,097	2,079	3,618	3,759	3,726	3,279	2,882	2,177	1,518	540	0
9	Settlements		20	20	19	9	0	0	0	0	0	0	0
10	Earnings		59	80	170	177	175	154	135	102	71	25	0
11	Transfer from ERA		0	1,853	807	740	377	515	352	538	362	559	388
12	CBR (Draw)/Payback		(98)	(415)	(855)	(959)	(999)	(1,066)	(1,193)	(1,300)	(1,412)	(1,124)	(388)
13	Ending CBR balance		2,079	3,618	3,759	3,726	3,279	2,882	2,177	1,518	540	0	0
14	<b>Permanent Fund</b>												
15	Market Value - Begin Bal		24,194	28,054	27,958	28,778	29,519	30,503	31,369	32,453	33,391	34,562	35,565
16	Principal - Begin Bal		22,988	23,478	24,213	24,968	25,750	26,553	27,386	28,241	29,126	30,036	30,980
17	Dedicated Revenue		300	252	213	205	202	199	189	182	173	164	180
18	Other/Special Appropriations		21	22	22	26	24	29	27	32	30	37	35
19	Inflation Proofing		169	461	620	551	577	604	639	672	707	743	756
20	Principal - Ending Bal		23,478	24,213	24,968	25,750	26,553	27,386	28,241	29,126	30,036	30,980	31,951
21	Accumulated Unrealized Gain(Loss)		3,526	3,495	3,560	3,519	3,700	3,733	3,963	4,015	4,276	4,335	4,617
22	Reserved - Ending Bal		27,004	27,708	28,528	29,269	30,253	31,119	32,203	33,141	34,312	35,315	36,568
23													
24	ERA Begin Bal		100	1,050	250	250	250	250	250	250	250	250	250
25	Realized Gain(Loss)		1,724	2,106	2,004	2,168	2,005	2,223	2,093	2,348	2,212	2,496	2,351
26	Transfer to Dividend Fund		(605)	(592)	(677)	(878)	(1,051)	(1,103)	(1,102)	(1,138)	(1,142)	(1,194)	(1,208)
27	<i>Informational only</i> Inflation proofing calculation		na	713	733	756	779	803	828	854	880	907	936
28	Inflation Proofing Transfer		(169)	(461)	(520)	(551)	(577)	(604)	(639)	(672)	(707)	(743)	(756)
29	subtotal		1,050	2,103	1,057	990	627	765	602	788	612	809	638
30	Transfer to CBR		na	(1,853)	(807)	(740)	(377)	(515)	(352)	(538)	(362)	(559)	(388)
31	ERA - Ending Bal		1,050	250	250	250	250	250	250	250	250	250	250
32	Market Value - Ending Bal		28,054	27,958	28,778	29,519	30,503	31,369	32,453	33,391	34,562	35,565	36,818

1	OUTPUT - Status Quo vs SB 374 Model											
2	(millions)	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
3	Total Paid Applicants (thousands)	593	600	607	613	620	628	635	642	649	656	663
4	Dividend Checks											
5	Status Quo	na	\$ 987.29	\$ 1,138.82	\$ 1,489.21	\$ 1,794.12	\$ 1,898.64	\$ 1,907.92	\$ 1,948.69	\$ 1,917.46	\$ 1,953.77	\$ 1,932.96
6	Model	na	\$ 987.29	\$ 1,115.83	\$ 1,430.57	\$ 1,693.70	\$ 1,757.94	\$ 1,735.63	\$ 1,772.99	\$ 1,760.71	\$ 1,820.12	\$ 1,820.66
7	diff		\$ -	\$ (22.99)	\$ (58.63)	\$ (100.43)	\$ (140.70)	\$ (172.30)	\$ (175.70)	\$ (156.75)	\$ (133.65)	\$ (112.30)
8												
9	Permanent Fund Ending Market Value											
10	Status Quo	na	29,811	31,561	33,211	33,900	34,378	34,735	34,968	36,184	37,408	38,917
11	Model	na	27,958	28,778	29,519	30,503	31,369	32,453	33,391	34,562	35,565	36,818
12	diff		(1,853)	(2,783)	(3,693)	(3,397)	(3,009)	(2,282)	(1,577)	(1,622)	(1,843)	(2,099)
13												
14	Permanent Fund Principal Ending Balance											
15	Status Quo	na	24,465	25,441	26,442	27,468	28,527	29,605	30,713	31,844	33,006	34,218
16	Model	na	24,213	24,968	25,750	26,553	27,386	28,241	29,126	30,036	30,980	31,951
17	diff		(252)	(473)	(692)	(914)	(1,141)	(1,364)	(1,587)	(1,808)	(2,026)	(2,267)
18												
19	ERA Ending Balance											
20	Status Quo	na	1,851	2,556	3,251	2,709	2,091	1,119	187	0	0	0
21	Model	na	250	250	250	250	250	250	250	250	250	250
22	diff		(1,601)	(2,306)	(3,001)	(2,459)	(1,841)	(869)	63	250	250	250
23												
24	Accumulated Unrealized Gain											
25	Status Quo	na	3,495	3,564	3,519	3,723	3,760	4,011	4,067	4,340	4,402	4,699
26	Model	na	3,495	3,560	3,519	3,700	3,733	3,963	4,015	4,276	4,335	4,617
27	diff		0	(4)	(0)	(23)	(27)	(49)	(52)	(65)	(67)	(82)
28												
29	"Effective Inflation Proofing"											
30	Status Quo	na	4.1%	3.9%	3.8%	3.8%	3.7%	3.7%	3.6%	3.6%	3.5%	3.6%
31	Model	na	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
32	diff		-1.1%	-0.9%	-0.8%	-0.8%	-0.7%	-0.7%	-0.6%	-0.6%	-0.5%	-0.5%
33												
34	Fiscal Gap "After CBR Draw"											
35	Status Quo	na	0	0	0	(884)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,616)
36	Model	na	0	0	0	0	0	0	0	0	(385)	(1,258)
37	diff		0	0	0	884	1,066	1,193	1,300	1,412	1,124	388

### Permanent Fund Market Value

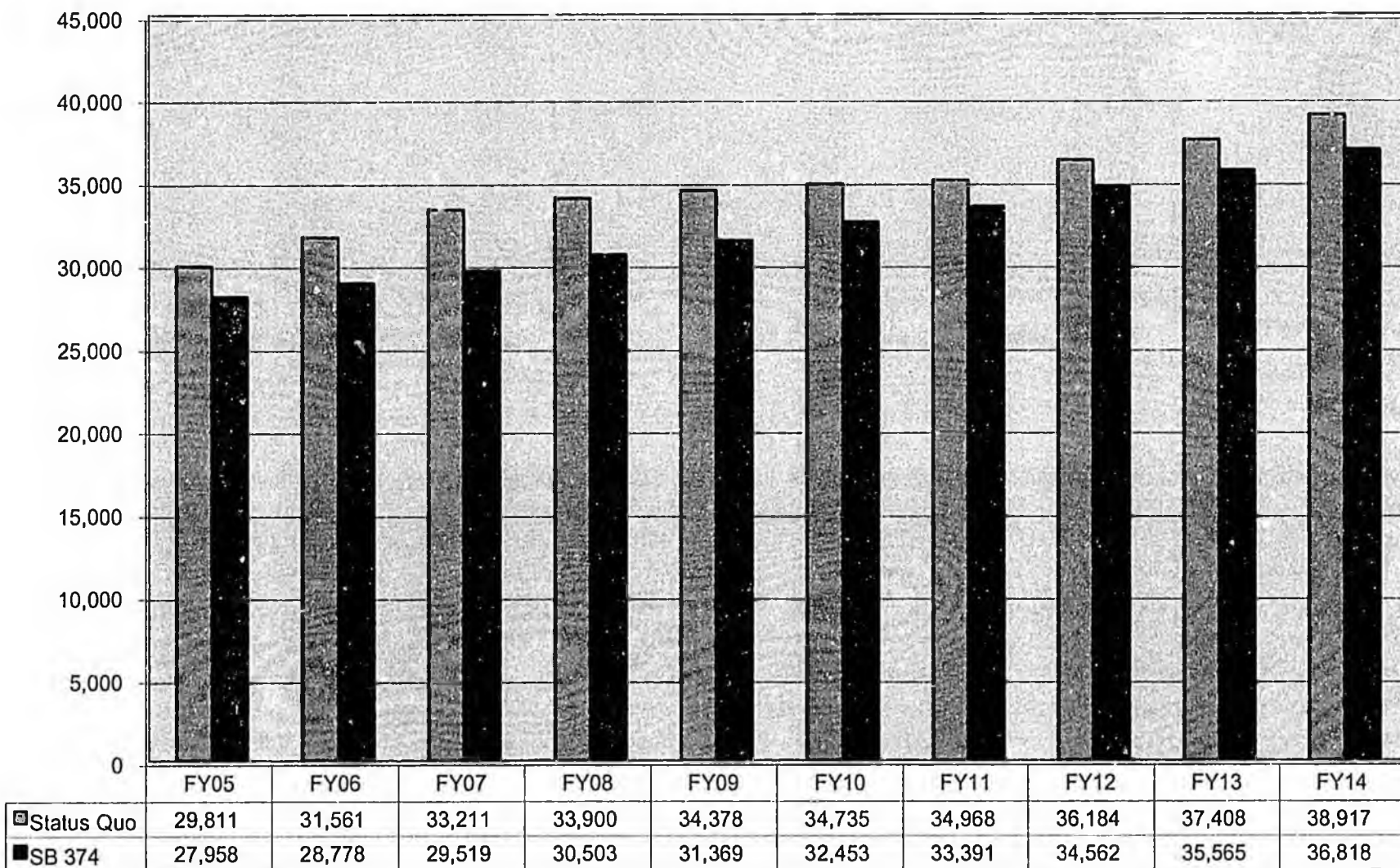
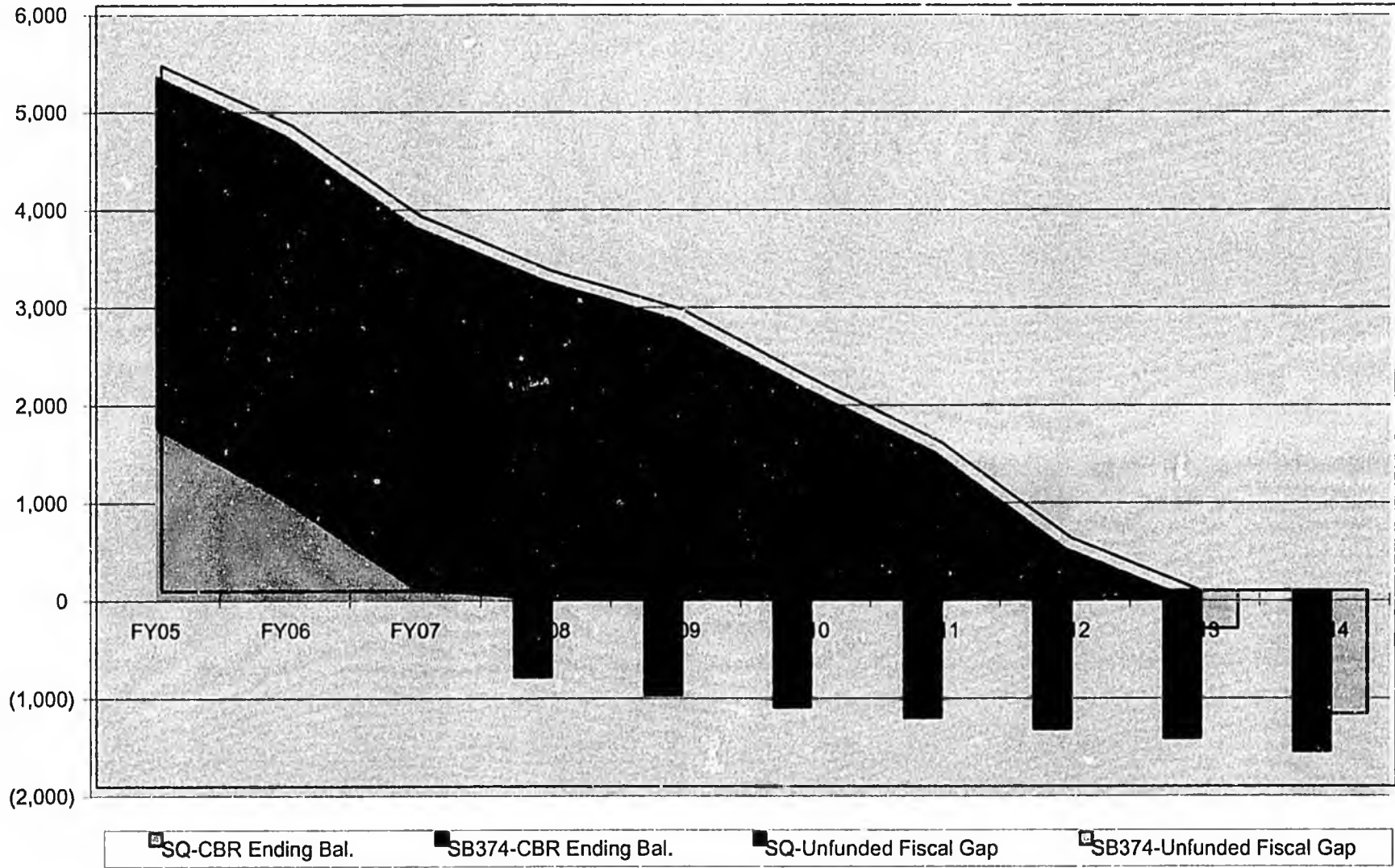
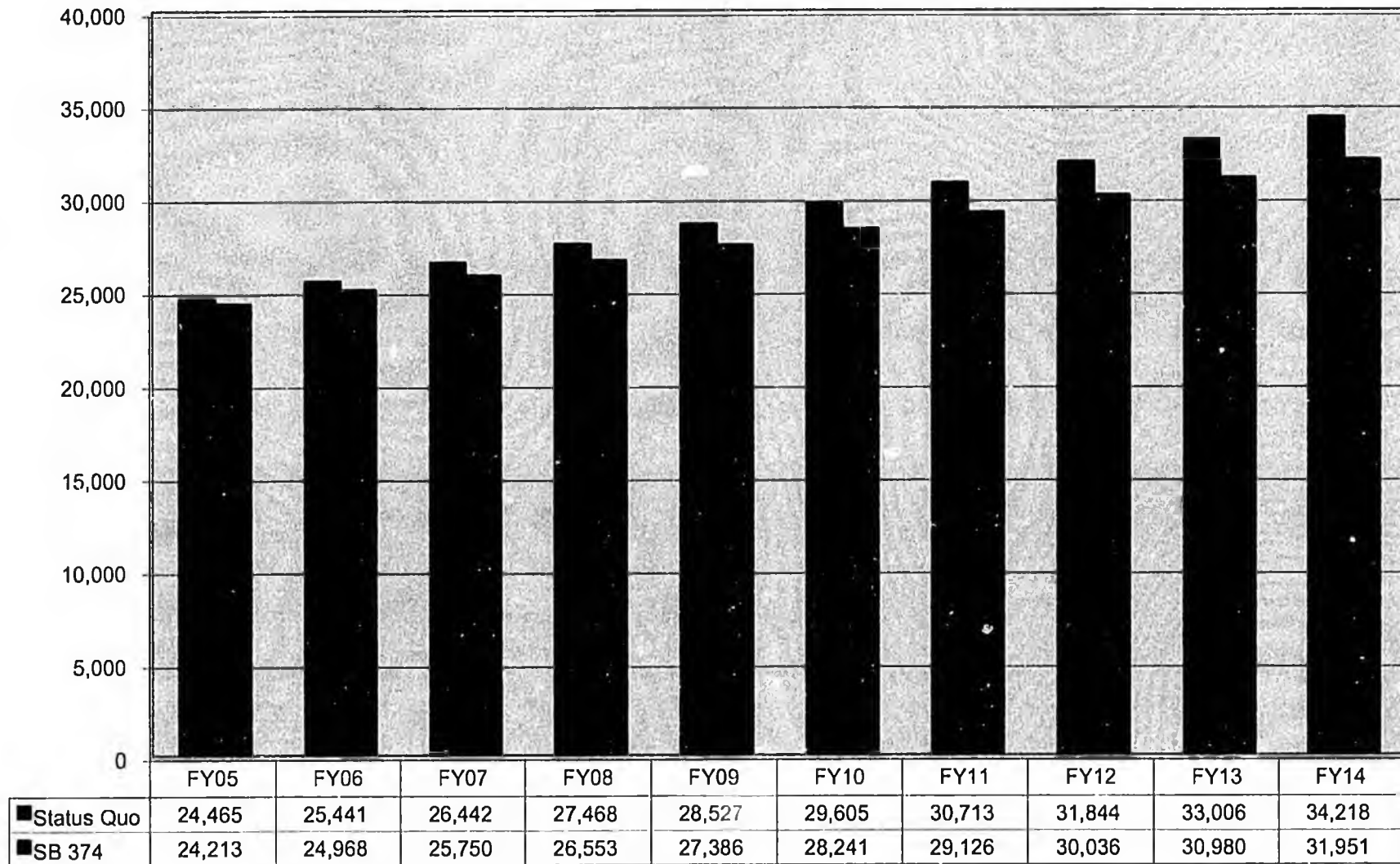


Chart-CBRFisgap

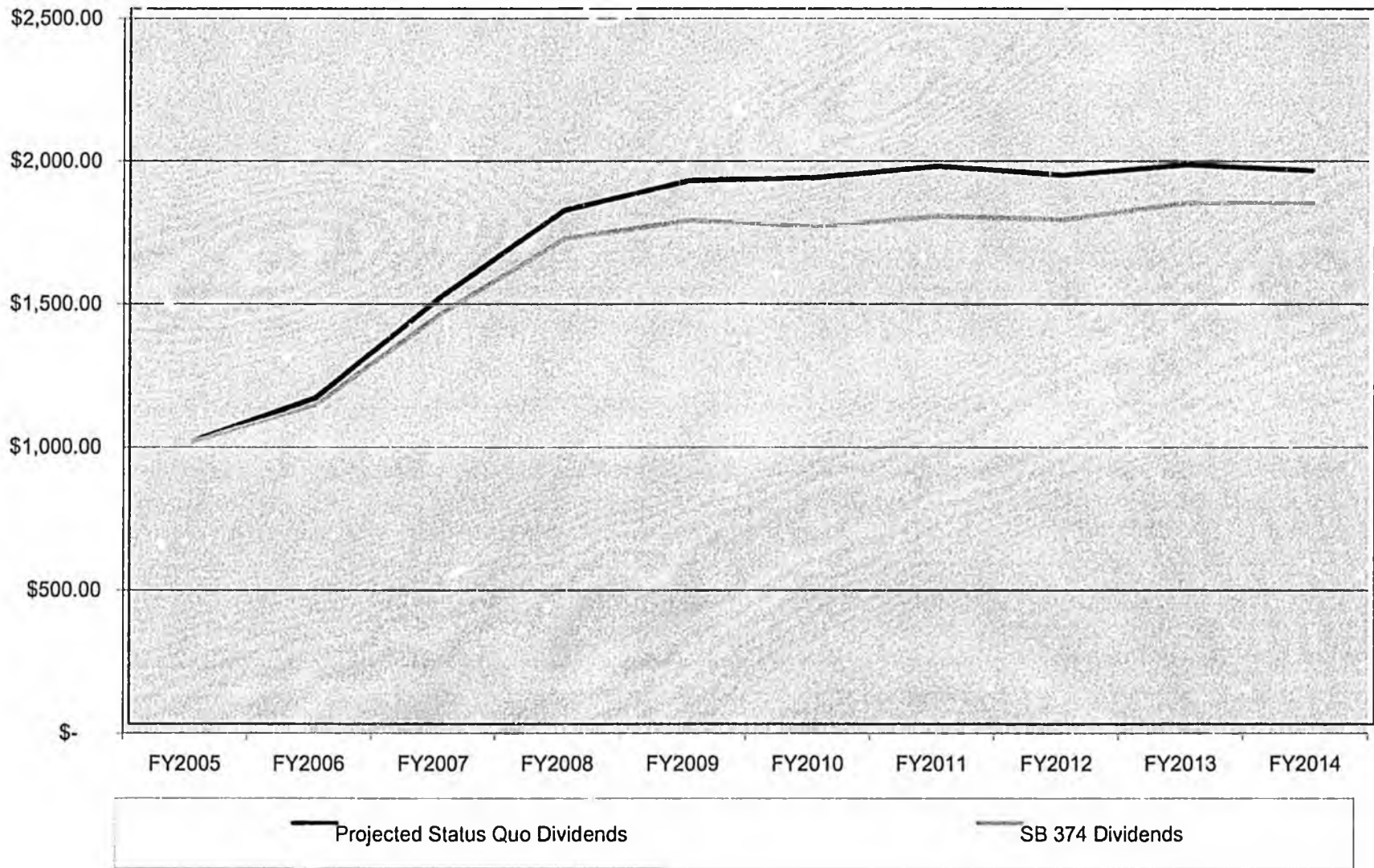
### CBR Balance and the Fiscal Gap



### Permanent Fund Principal



### Dividend Checks

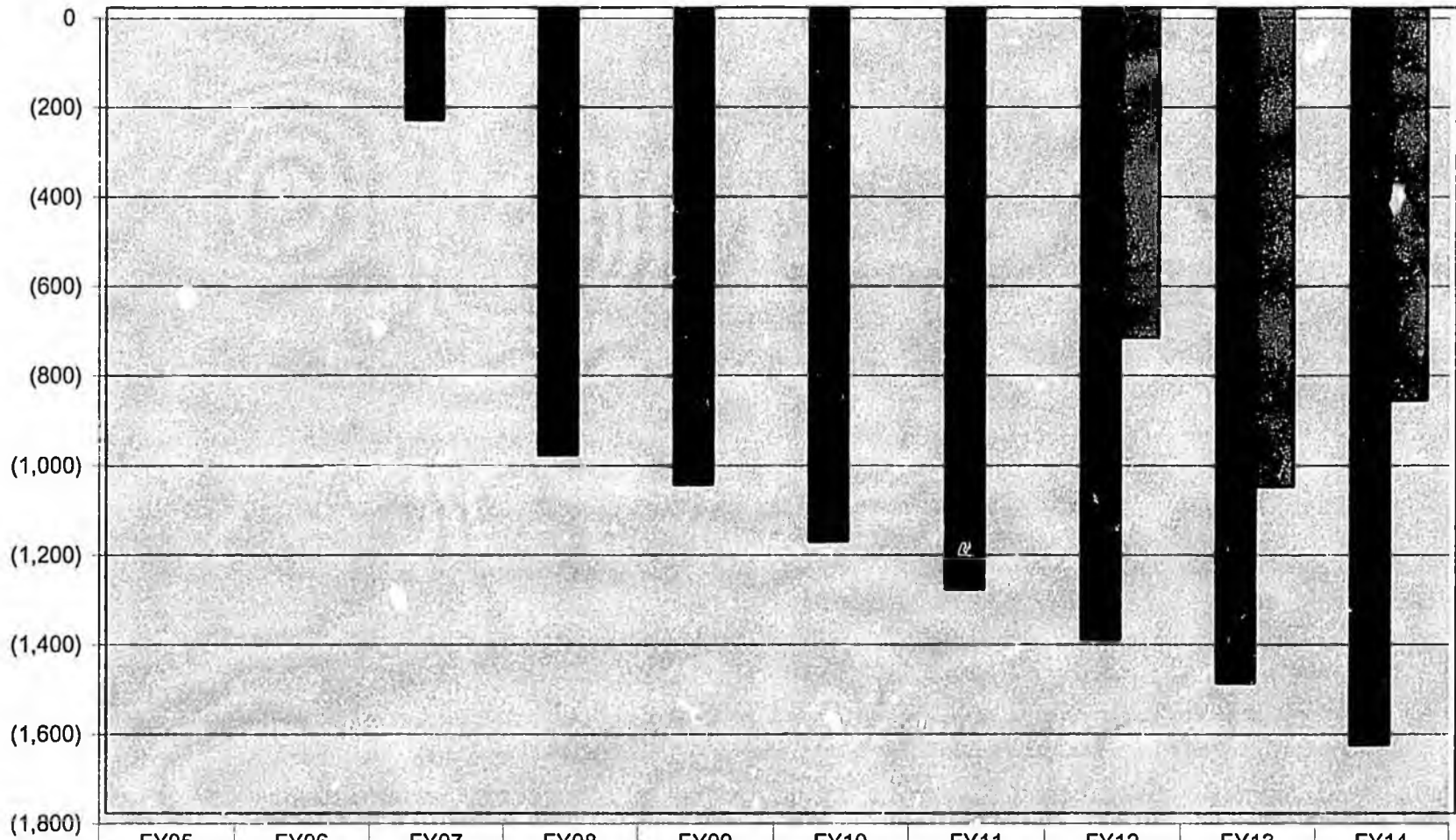


### Savings - Model



	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
■ CBR	2,097	1,899	2,534	2,473	2,221	1,825	1,344	775	251	0	0	0
□ ERA	100	706	250	250	250	250	250	250	250	250	250	250
□ Accum. Unrealized	1,106	3,451	3,898	4,270	4,601	4,902	5,178	5,441	5,421	5,717	5,994	5,939
■ Principal	22,988	23,469	24,196	24,947	25,722	26,522	27,349	28,202	29,087	29,995	30,933	31,909

Fiscal Gap After CBR Draw - Status Quo vs. Model



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Status Quo	0	0	(252)	(999)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,647)
Model	0	0	0	0	0	0	0	(738)	(1,071)	(878)

1	<b>Model Concept/Parameters:</b>	1) Consider Dedicated Revenue to the Permanent Fund Principal as inflation proofing. Appropriate any additional amount necessary to meet												
2		inflation in full from the ERA if the dedicated revenue is insufficient.												
3		2) Pay dividends according to current formula.												
4		3) Transfer any remaining balance in the ERA, less \$250 million, to the CBR.												
5														
6	<b>Assumptions:</b>	1) FY05 GF budget is at the FY04 Enacted level												
7		2) GF Revenue comes from the Dept. of Revenue's Fall 2003 Forecast												
8		3) Formulas built into the Permanent Fund are based on APFC Financial Projections												
9														
10		(millions)	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>
11	<b>General Inputs:</b>	Budget Growth Rate		-8.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
12		Inflation Rate	1.5%	2.21%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
13		Projected population (thousands)	648	655	662	669	677	685	692	700	708	716	724	732
14		CBR Earnings Rate	6.9%	2.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
15														
16	<b>APFC Projection Inputs:</b>	Statutory Net Income	na	1,336	1,615	1,810	1,984	2,145	2,297	2,447	2,889	2,662	2,821	3,358
17	(update with APFC monthly financials)	Projected MV Ending Balance	na	27,839	29,671	31,538	33,355	35,118	35,911	38,740	40,586	42,490	44,458	46,482
18	Latest update - Jan 31, 2004	Accumulated Unrealized	na	3,667	4,117	4,507	4,861	5,189	5,496	5,784	5,761	6,107	6,434	6,368
19		Dedicated Revenue	na	300	252	213	205	202	199	189	182	173	164	180
20		Other/Special	na	12	15	18	20	22	24	26	33	29	32	42
21		Dividend Transfer	na	564	500	564	746	933	1,034	1,122	1,235	1,306	1,377	1,489
22														
23	<b>Calculated Variables:</b>													
24		Realized as % of Prior Year Ending MV	na	5.5%	5.8%	6.1%	6.3%	6.4%	6.5%	6.8%	7.5%	6.6%	6.6%	7.6%
25		Accumulated Unrealized as % of Prior Year Ending MV	na	9.69%	1.62%	1.31%	1.12%	0.98%	0.87%	0.80%	-0.06%	0.85%	0.77%	-0.15%
26		Total as % of Prior Year Ending MV	na	15.21%	7.42%	7.41%	7.41%	7.41%	7.42%	7.62%	7.40%	7.41%	7.41%	7.40%

3/20/04  
Sen. B Stevens overviewed

	(millions)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
1	<b>Status Quo</b>												
2	<b>General Fund</b>												
3	Unrestricted GF Revenue	2,046	2,023	1,736	1,492	1,435	1,442	1,424	1,347	1,291	1,231	1,187	1,103
4	GF Budget	(2,496)	(2,301)	(2,301)	(2,347)	(2,394)	(2,441)	(2,490)	(2,540)	(2,591)	(2,643)	(2,696)	(2,749)
5	Fiscal (Gap)/Surplus	(449)	(278)	(565)	(855)	(959)	(999)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,647)
6	Draw from CBR	449	278	565	855	707	0	0	0	0	0	0	0
7	Fiscal Gap After CBR Draw	0	0	0	0	(252)	(999)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,647)
8	<b>CBR Fund</b>												
9	Beginning CBR balance	2,380	2,097	1,899	1,434	667	0	0	0	0	0	0	0
10	Settlements	22	20	20	19	9	0	0	0	0	0	0	0
11	Earnings	144	59	80	68	32	0	0	0	0	0	0	0
12	CBR (Draw)/Payback	(449)	(278)	(565)	(855)	(707)	0	0	0	0	0	0	0
13	Ending CBR balance	2,037	1,899	1,434	667	0	0	0	0	0	0	0	0
14	<b>Permanent Fund</b>												
15	Market Value - Begin Bal	23,525	24,194	27,626	29,443	31,296	32,848	33,883	34,214	35,093	36,180	37,617	39,062
16	Principal - Begin Bal	21,884	22,988	23,469	24,448	25,419	26,414	27,437	28,490	29,566	30,674	31,803	32,959
17	Dedicated Revenue	398	300	252	213	205	202	199	189	182	173	164	150
18	Other/Special Appropriations	354	12	15	18	20	22	24	26	23	29	32	42
19	Inflation Proofing	352	169	712	740	769	799	830	861	893	926	960	995
20	Principal - Ending Bal	22,988	23,469	24,448	25,419	26,414	27,437	28,490	29,566	30,674	31,803	32,959	34,176
21	Accumulated Unrealized Gain(Loss)	1,537	3,451	3,898	4,285	4,636	4,959	5,252	5,527	5,506	5,814	6,104	6,046
22	Reserved - Ending Bal	24,094	26,920	28,346	29,704	31,050	32,396	33,742	35,093	36,180	37,617	39,062	40,222
23	ERA Begin Bal	1,136	100	706	1,098	1,592	1,799	1,187	472	0	0	0	0
24	Realized Gain(Loss)	355	1,336	1,603	1,796	1,969	2,112	2,197	2,331	2,617	2,373	2,497	2,950
25	Informational only Income Available for Distribution			997	1,123	1,482	1,851	2,032	2,185	2,357	2,442	2,523	2,682
26	Transfer to Dividend Fund	(691)	(561)	(499)	(561)	(741)	(926)	(1,016)	(1,093)	(1,179)	(1,221)	(1,262)	(1,341)
27	Inflation Proofing/Special/Other	(700)	(169)	(712)	(740)	(769)	(799)	(830)	(861)	(893)	(926)	(960)	(995)
28	subtotal	100	706	1,098	1,592	2,050	2,186	1,538	849	545	226	276	614
29	Draw for Fiscal Gap	0	0	0	0	(252)	(999)	(1,066)	(849)	(545)	(226)	(276)	(614)
30	ERA - Ending Bal	100	706	1,098	1,592	1,799	1,187	472	0	0	0	0	0
31	Market Value - Ending Bal	24,194	27,626	29,443	31,296	32,848	33,583	34,214	35,093	36,180	37,617	39,062	40,222
32	Fiscal Gap After ERA Draw	0	0	0	0	0	0	0	(314)	(755)	(1,186)	(1,233)	(1,032)

	(millions)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
1	<b>MODEL</b>												
2	<b>General Fund</b>												
3	Unrestricted GF Revenue	2,046	2,023	1,736	1,492	1,435	1,442	1,424	1,347	1,291	1,231	1,187	1,103
4	GF Budget	(2,196)	(2,301)	(2,301)	(2,347)	(2,394)	(2,441)	(2,490)	(2,540)	(2,591)	(2,643)	(2,696)	(2,749)
5	Fiscal (Gap)/Surplus	(449)	(278)	(565)	(855)	(959)	(989)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,647)
6	Draw from CBR	449	278	565	855	959	999	1,066	1,193	1,300	673	438	769
6	Fiscal Gap After CBR Draw	0	0	0	0	0	0	0	0	0	(738)	(1,071)	(878)
7	<b>CBR Fund</b>												
8	Beginning CBR balance	2,380	2,097	1,899	2,534	2,473	2,221	1,825	1,344	775	251	0	0
9	Settlements	22	20	20	19	9	0	0	0	0	0	0	0
10	Earnings	144	59	80	120	116	104	86	63	36	12	0	0
11	Transfer from ERA	0	0	1,100	655	582	499	500	561	739	411	438	769
12	CBR (Draw)/Payback	(449)	(278)	(565)	(855)	(959)	(999)	(1,066)	(1,193)	(1,300)	(673)	(438)	(769)
13	Ending CBR balance	2,097	1,899	2,534	2,473	2,221	1,825	1,344	775	251	0	0	0
14	<b>Permanent Fund</b>												
15	Market Value - Begin Bal	23,525	24,194	27,626	28,344	29,467	30,573	31,674	32,777	33,893	34,758	35,962	37,177
16	Principal - Begin Bal	21,884	22,988	23,469	24,196	24,947	25,722	26,522	27,349	28,202	29,087	29,995	30,933
17	Dedicated Revenue	398	300	252	213	205	202	199	189	182	173	164	180
18	Other/Special Appropriations	354	12	15	18	20	22	24	26	33	29	32	42
19	Inflation Proofing	352	169	460	520	550	576	603	638	671	706	742	755
20	Principal - Ending Bal	22,988	23,469	24,196	24,947	25,722	26,522	27,349	28,202	29,087	29,995	30,933	31,909
21	Accumulated Unrealized Gain(Loss)	1,106	3,451	3,898	4,270	4,601	4,902	5,178	5,441	5,421	5,717	5,994	5,939
22	Reserved - Ending Bal	24,094	26,920	28,094	29,217	30,323	31,424	32,527	33,643	34,508	35,712	36,927	37,848
23													
24	ERA Begin Bal	1,136	100	706	250	250	250	250	250	250	250	250	250
25	Realized Gain(Loss)	355	1,336	1,603	1,729	1,854	1,966	2,072	2,233	2,528	2,280	2,388	2,808
26	Transfer to Dividend Fund	(691)	(561)	(499)	(554)	(722)	(891)	(968)	(1,035)	(1,119)	(1,163)	(1,209)	(1,285)
27	<i>Informational only</i> Inflation proofing calculation	na	na	712	733	755	778	802	827	853	879	906	935
28	Inflation Proofing Transfer	(700)	(169)	(460)	(520)	(550)	(576)	(603)	(638)	(671)	(706)	(742)	(755)
29	subtotal	100	706	1,350	905	832	749	750	811	989	661	688	1,019
30	Transfer to CBR	na	na	(1,100)	(655)	(582)	(499)	(500)	(561)	(739)	(411)	(438)	(769)
31	ERA - Ending Bal	100	706	250	250	250	250	250	250	250	250	250	250
32	Market Value - Ending Bal	24,194	27,626	28,344	29,467	30,573	31,674	32,777	33,893	34,758	35,962	37,177	38,098

OUTPUT - Status Quo vs Model													
	(millions)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
1	Total Paid Applicants (thousands)	587	593	600	607	613	620	628	635	642	649	656	663
2	Per Capita Dividends												
3	Status Quo	na	na	\$ 831.28	\$ 925.52	\$ 1,208.24	\$ 1,492.03	\$ 1,619.07	\$ 1,721.01	\$ 1,836.58	\$ 1,882.01	\$ 1,923.16	\$ 2,021.59
4	Model	na	na	\$ 831.28	\$ 913.91	\$ 1,177.06	\$ 1,436.44	\$ 1,543.22	\$ 1,629.83	\$ 1,742.74	\$ 1,792.72	\$ 1,840.68	\$ 1,937.22
5	diff			\$ -	\$ (11.61)	\$ (31.18)	\$ (55.60)	\$ (75.85)	\$ (91.17)	\$ (93.84)	\$ (89.29)	\$ (82.48)	\$ (84.37)
6													
7	Permanent Fund Ending Market Value												
8	Status Quo	na	na	29,443	31,296	32,848	33,583	34,214	35,093	36,180	37,617	39,062	40,222
9	Model	na	na	28,344	29,467	30,573	31,674	32,777	33,893	34,758	35,962	37,177	38,098
10	diff			(1,100)	(1,829)	(2,275)	(1,909)	(1,437)	(1,200)	(1,422)	(1,655)	(1,886)	(2,124)
11													
12	Permanent Fund Principal												
13	Status Quo	na	na	24,448	25,419	26,414	27,437	28,490	29,566	30,674	31,803	32,959	34,176
14	Model	na	na	24,196	24,947	25,722	26,522	27,349	28,202	29,087	29,395	30,933	31,909
15	diff			(252)	(473)	(692)	(914)	(1,141)	(1,364)	(1,587)	(1,808)	(2,026)	(2,267)
16													
17	Permanent Fund ERA												
18	Status Quo	na	na	1,098	1,592	1,799	1,187	472	0	0	0	0	0
19	Model	na	na	250	250	250	250	250	250	250	250	250	250
20	diff			(848)	(1,342)	(1,549)	(937)	(222)	250	250	250	250	250
21													
22	Accumulated Unrealized Gain												
23	Status Quo	na	na	3,898	4,285	4,636	4,959	5,252	5,527	5,506	5,814	6,104	6,046
24	Model	na	na	3,898	4,270	4,601	4,902	5,178	5,441	5,421	5,717	5,994	5,939
25	diff			0	(14)	(35)	(57)	(74)	(86)	(85)	(97)	(110)	(107)
26													
27	"Effective Inflation Proofing"												
28	Status Quo	na	na	4.2%	4.0%	3.9%	3.9%	3.8%	3.8%	3.7%	3.7%	3.6%	3.7%
29	Model	na	na	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
30	diff			-1.1%	-0.9%	-0.9%	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.6%	-0.7%
31													
32	Fiscal Gap "After CBR Draw"												
33	Status Quo	na	na	0	0	(252)	(999)	(1,066)	(1,193)	(1,300)	(1,412)	(1,509)	(1,647)
34	Model	na	na	0	0	0	0	0	0	0	(738)	(1,071)	(878)
35				0	0	252	999	1,066	1,193	1,300	673	438	769



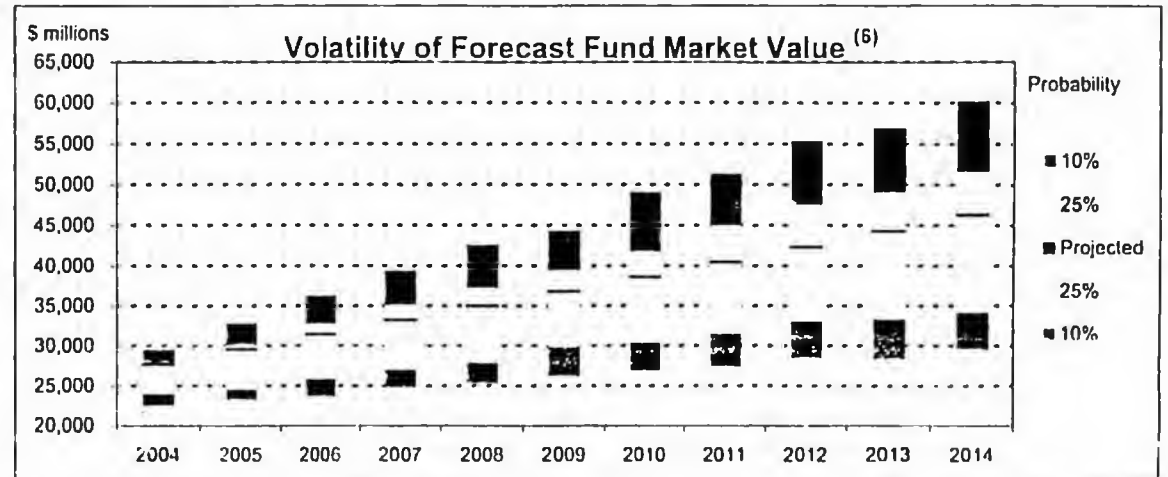
# ALASKA PERMANENT FUND FINANCIAL PROJECTIONS 2004 - 2014 as of December 31, 2003

*Long-term projections will extend ten years, based on best available information (in millions)*

Reserved Fund Balance										Unreserved Fund Balance							TOTAL FUND (5) FY End Balance	
FY	FY Begin Contrib. Balance	Appro- <sup>(2)</sup> priations	Dedicated State Revenues	Inflation Proofing	FY End: Contributions Balance	Unrealized Gain (Loss)		FY End Reserved Balance	Acct. Net Income <sup>(1)</sup>	Statutory Net Income	Distributions of Statutory Net Income			Realized Earnings Acct		FY		
						Change	FY End Balance				Dividends	Inflation Proofing	General Fund	Net Change	FY End Balance			
77-96	0	5,870	5,711	4,624	16,205	2,084	2,084	18,289	14,134	14,054	5,993	4,624	223	104	104	77-96		18,393
97	16,205	829	308	486	17,828	1,085	3,169	20,997	3,149	2,036	747	486	1	3	107	97	21,104	
98	17,828	35	230	423	18,516	802	3,971	22,487	3,435	2,595	893	423	1	1,282	1,389	98	23,876	
99	18,516	41	155	288	19,000	(430)	3,541	22,541	2,148	2,544	1,045	288	3	1,201	2,590	99	25,131	
00	19,000	281	310	423	20,014	(12)	3,529	23,543	2,249	2,222	1,172	423	3	382	2,972	00	26,515	
01	20,014	7	339	686	21,046	(2,146)	1,383	22,429	(924)	1,199	1,113	686	4	(598)	2,384	01	24,813	
02	21,046	(23) <sup>(3)</sup>	258	603	21,884	(878)	505	22,389	(617)	257	926	602	4	(1,248)	1,136	02	23,525	
03	21,884	354 <sup>(7)</sup>	398	352	22,988	601	1,106	24,094	963	355	<del>691</del>	352	0	(1,035)	100	03	24,194	
04	22,988	12	300	0 <sup>(7)</sup>	23,301	<del>343</del>	3,451	26,752	<del>3,668</del>	<del>3,317</del>	<del>3,561</del>	0 <sup>(7)</sup>	0	750	<del>3,602</del>	04	27,602	
05	23,301	15	252	613	24,180	450	3,902	28,082	2,067	1,601	496	613	0	493	1,343	05	29,424	
06	24,180	18	213	635	25,045	391	4,292	29,337	2,203	1,794	558	635	0	602	1,944	06	31,282	
07	25,045	20	205	657	25,927	356	4,648	30,575	2,343	1,967	738	657	0	572	2,516	07	33,091	
08	25,927	22	202	680	26,831	329	4,977	31,808	2,479	2,128	924	680	0	524	3,040	08	34,848	
09	26,831	24	199	703	27,757	308	5,285	33,042	2,611	2,279	1,026	703	0	549	3,589	09	36,632	
10	27,757	26	189	727	28,700	290	5,576	34,275	2,745	2,428	1,113	727	0	588	4,177	10	38,453	
11	28,700	33	182	752	29,667	(13)	5,557	35,223	2,881	2,867	1,225	752	0	890	5,067	11	40,291	
12	29,667	29	173	777	30,646	347	5,904	36,550	3,019	2,643	1,296	777	0	570	5,637	12	42,187	
13	30,646	32	164	802	31,644	329	6,233	37,877	3,161	2,800	1,367	802	0	631	6,268	13	44,146	
14	31,644	42	180	828	32,694	(65)	6,167	38,861	3,309	3,334	1,478	828	0	1,028	7,296	14	46,157	
Cumulative Totals																		
Projected for 2004-2014											2,259	7,174						
									30,486	25,152	10,782	7,174	0					

Assumptions:	Total Return	- Inflation	= Total Real Return
FY 2004	15.16%	2.28%	12.88%
FY 2005-2014 <sup>(4)</sup>	7.60%	2.60%	5.00%

- (1) Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings.
- (2) Earnings reserve appropriated to principal and settlement earnings transferred to principal per AS 37.13.145(d).
- (3) Final reconciliation on State of AK royalty case.
- (4) Based on 2003 Callan capital market assumptions and median expected returns. Actual results will vary from projections.
- (5) Total Fund equals reserved fund balance plus the realized earnings account.
- (6) The MOMA volatility graph shows the range of possible outcomes with the extremes of the bars indicating the less likely probability.
- (7) \$354 of FY04's projected inflation proofing of \$531 was prefunded in FY03. Currently there is no FY04 appropriation for the remaining \$177 balance.



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