

**SJR**

**101**

**SFIN**

**FILE**

SJR 101

was referred to the  
Senate Finance  
Committee

Hearing(s) were held

The bill did not move  
from Committee

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SJR 101  
(S) 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						
<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 (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

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

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

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						
<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>

CAPITAL EXPENDITURES						
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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)						
<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: 00  
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 preceding 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 FN #2 SJR 101 current statutes versus POMV 5% lump sum payout, median case. All dollars in millions except per person dividend.

Current Statutes	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05-FY15 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	3,524	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)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05-FY15 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.



Alaska Permanent Fund Corporation  
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## Sectional Analysis of V. 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.

## **Examples of community dividend distribution:**

Based on a proposed scenario by DCED to distribute 5%

- \$25,000 to each unincorporated community
- \$50,000 to each city plus \$85.00 per resident
- \$250,000 to each borough plus \$85.00 per resident living outside of city boundaries

### Southeast

- Ketchikan city and borough - \$1.4 million
- Wrangell - \$230,000
- Coffman Cove - \$63,889
- Cordova - \$252,100
- Tenakee Springs - \$59,000

### Interior

Fort Yukon - \$98,900  
Galena - \$115,000  
McGrath - \$85,300  
Holy Cross - \$67,800  
Delta Junction - \$133,800

### Fairban'ks

Fairbanks NS Borough - \$4.6 million  
City of Fairbanks - \$2.6 million  
Denali Borough - \$362,640  
North Pole - \$190,250

### Mat-Su

Mat-Su Borough - \$4.8 million  
Palmer - \$516,000  
Wasilla - \$622,160  
Houston - \$164,100

Anchorage - \$23.6 million

### Kenai Peninsula

Kenai Peninsula Borough - \$2.9 million  
Whittier - \$65,170  
City of Kenai - \$657,100  
Soldotna - \$395,900  
Homer - \$466,910  
Kachemak - \$90,300  
Seward - \$282,900  
Seldovia - \$75,600

### Kodiak

Kodiak Island Borough - \$837,400  
Kodiak City - \$573,000

### Northwest

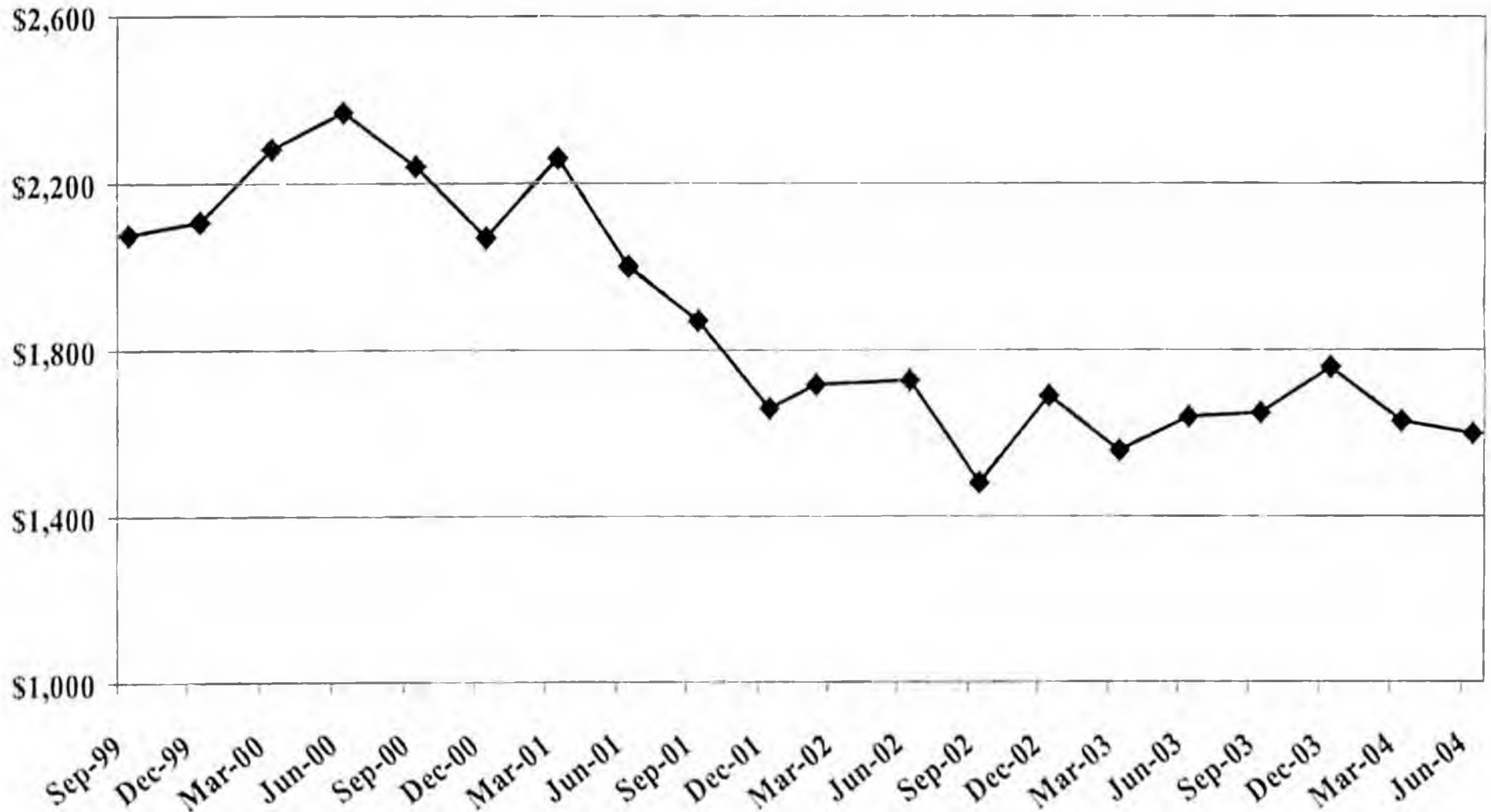
Kaktovik - \$75,136  
Nome - \$343,790  
Kotzebue - \$312,090  
Buckland - \$84,930  
Saint Mary's - \$99,850  
NW Arctic Borough - \$312,890  
NorthSlope Borough - \$273,940

See: <http://www.dced.state.ak.us/POMV>

Distributed  
by the Gov.  
6/22/04



# Volatility in change in FY10 per person dividend projection over time



ACCOUNTABILITY

TO ALASKANS, FOR ALASKANS

SSR 101  
Bob Storer  
From Dept of Rev / Perm Fund  
6/22/04



# Alaska Permanent Fund

## A Fund overview and discussion of POMV

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TO ALASKANS, FOR ALASKANS



**"To benefit all generations..."**

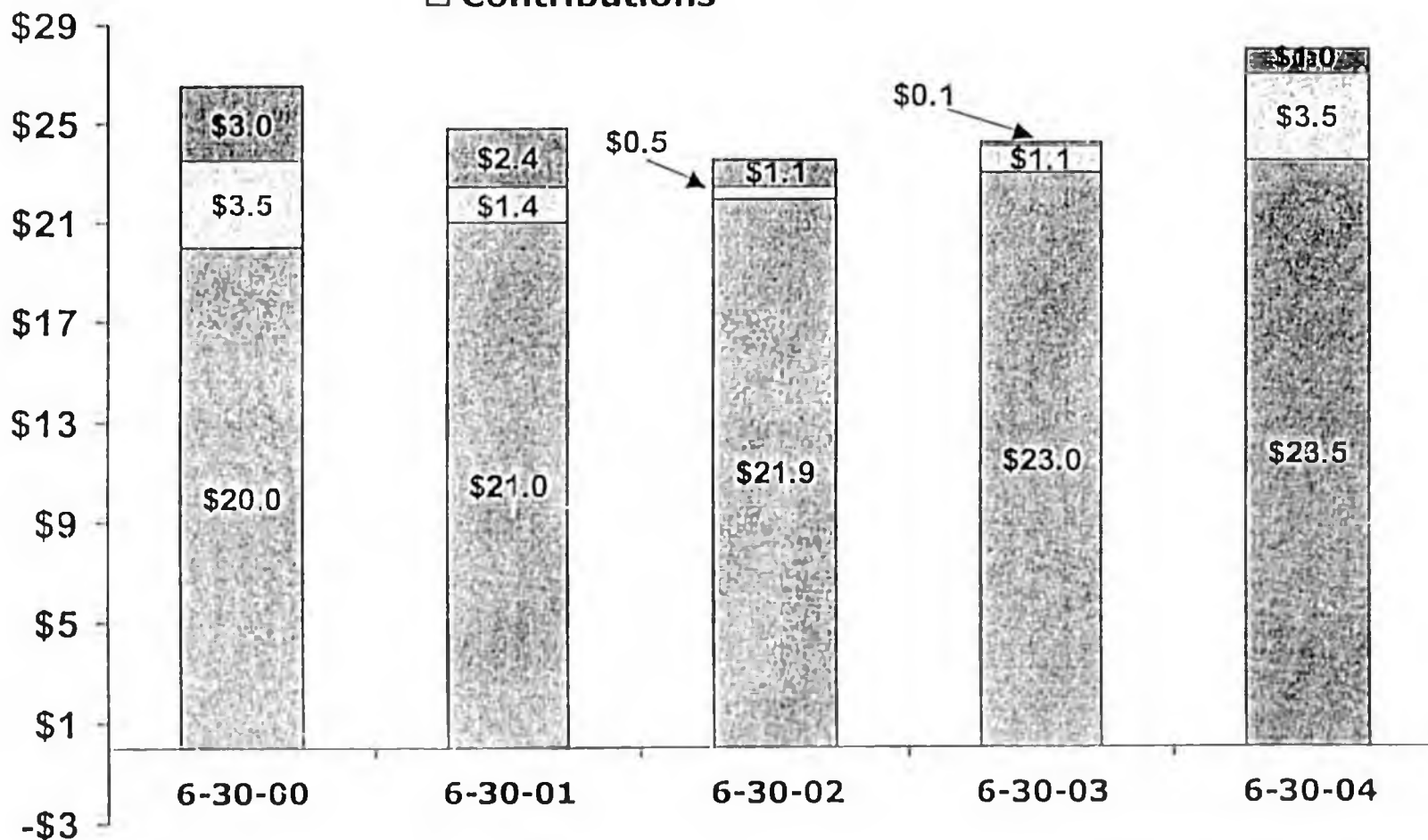
## **AS 37.13.020 (1)**

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



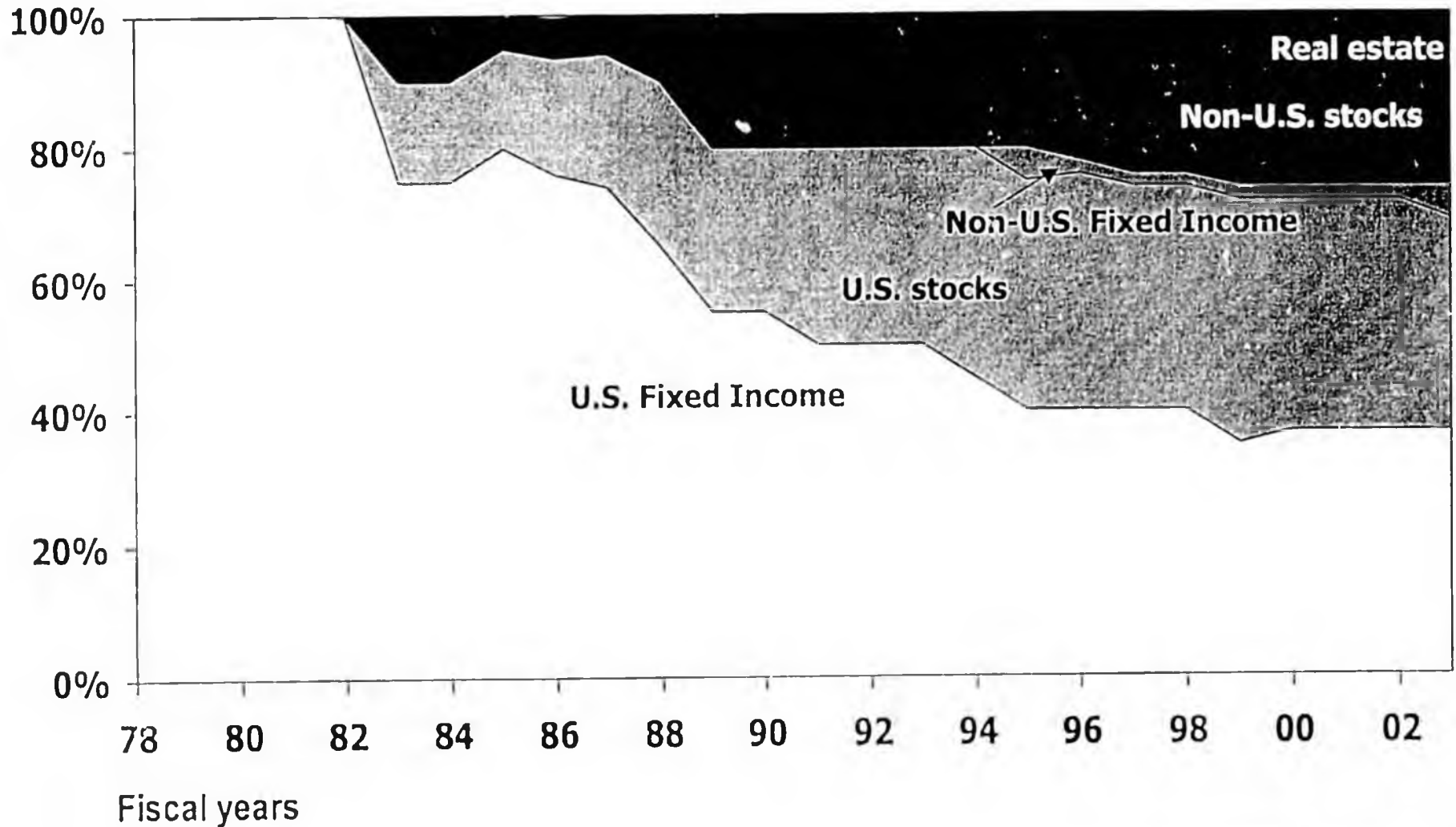
# Permanent Fund market value

- Realized income account
- Unrealized earnings
- Contributions





# 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

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

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)



ACCOUNTABILITY



# The dangers of overspending

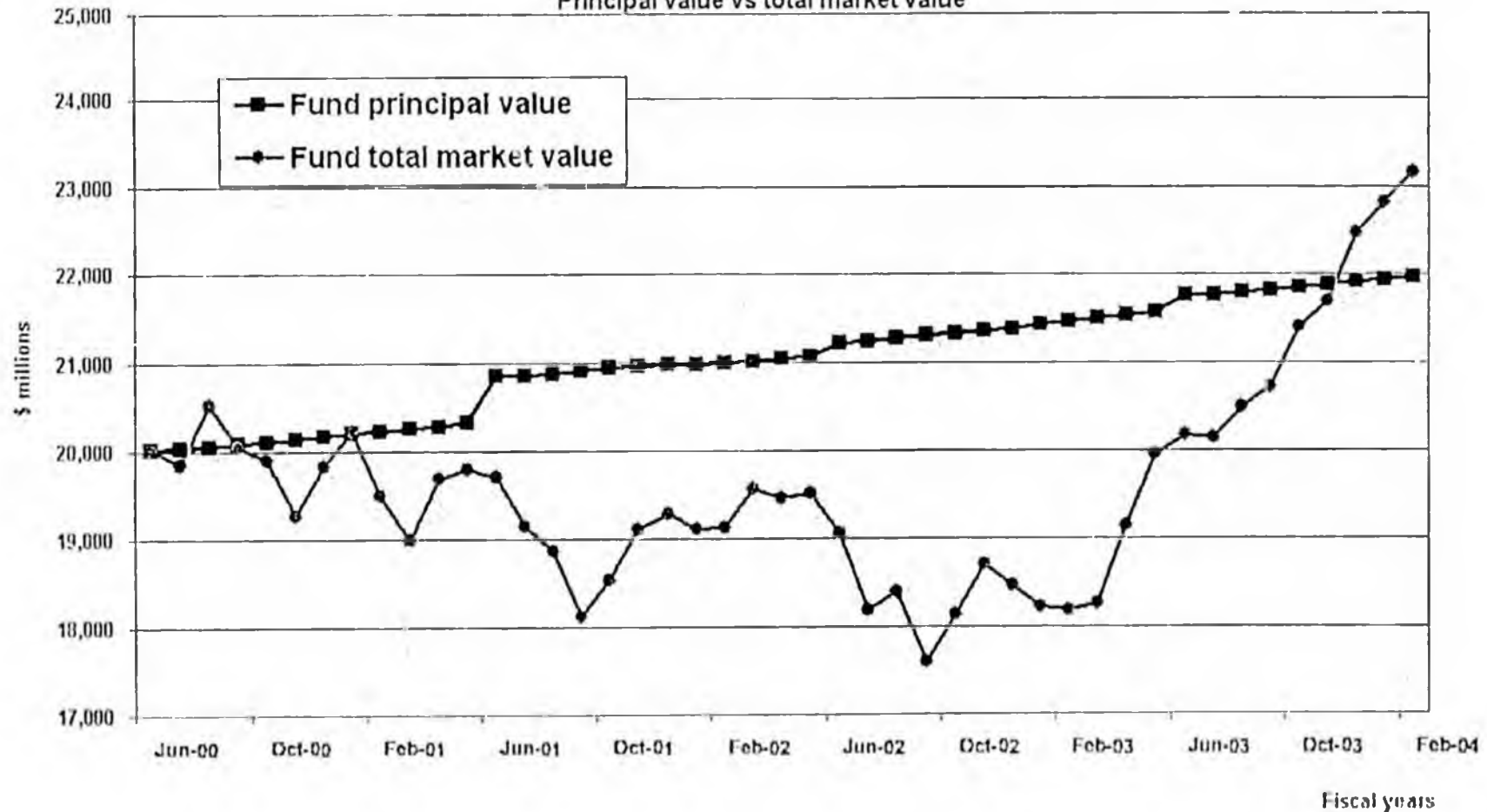
- Overspending in good years means there will be no cushion for down years, and funds may not be available for distribution.
- Overspending in the present decreases a fund's benefit to future generations.
- Overspending can cause recipients to become dependant on an inflated income stream. This will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

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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?**

SJR101



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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

June 21, 2004

The Honorable Gene Therriault  
President of the Senate  
Alaska State Legislature  
State Capitol, Room 111  
Juneau, AK 99801-1182

Dear President Therriault:

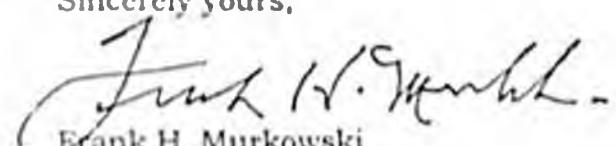
Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a joint resolution proposing amendments to the Alaska Constitution relating to and limiting appropriations from the Alaska Permanent Fund based on an averaged Percent of Market Value (POMV) approach. The question 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 bipartisan solution to the state's fiscal gap.

I urge your prompt and favorable action on this measure.

Sincerely yours,

  
Frank H. Murkowski  
Governor

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