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SENATE FINANCE COMMITTEE REPORT

REPORTED OUT

APR 15 2005

SENATE FINANCE
COMMITTEE

DATE: 3/16/05

FURTHER:

DATE TURNED
IN TO OFFICE: 4/15/05

Finance Committee considered SENATE BILL NO. 88

SB 88 POLICY ON GENERAL FUND REVENUE SHORTFALL

"An Act relating to the policy of the state regarding the source of funding used to cover a shortfall in general fund revenue."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:
 Same Title
 New Title

House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
Revenue	2/15/05			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓		✓	
<i>[Signature]</i>			✓	
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

APR 15 2005

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 88
(S) Publish Date: 3/16/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title Policy on General Fund Revenue Shortfall RDU ALL
Component _____
Sponsor Senator Wilken Component No. _____
Requester Senate State Affairs

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 (FY2005) cost: 00

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There are no additional administrative costs associated with this bill.

Prepared by: Jerry Burnett Phone 465-2302
Division: Special Assistant to the Commissioner Date/Time 2/15/05 10:59 AM
Approved by: Tomas Boutin Deputy Commissioner Date 2/15/2005
Agency: Department of Revenue

SENATE FINANCE COMMITTEE
4 / 15 / 2005 COMMITTEE ACTION

Bill Number	SR 82		
Amendment	_____		
Motion	to Report from Committee		
Motion by	WILKEN		
Objection by	Dyson		
Removed			
Second Objection by			
Committee Member	Y	Vote	N
Senator Olson	✓		
Senator Stedman			✓
Senator Bunde	—		—
Senator Dyson			✓
Senator Hoffman	✓		
Co-Chair Wilken	✓		
Co-Chair Green	✓		
Tally			
Yea	4		
Nay	2		
Absent	1		
MOTION	0		

to Report from Committee

GARY WILKEN

SENATOR
Fairbanks

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Fairbanks, Alaska 99701
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Tel: (907) 465-3709 (outside FBks)
Fax: (907) 465-4714

Alaska State Legislature

Senate

During Session:
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Juneau, Alaska 99801-1182
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Tel: (907) 465-3709 (outside FBks)
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Web-site: www.garywilken.com
E-Mail: Senator.Gary.Wilken@legis.state.ak.us

SPONSOR STATEMENT

Senate Bill 88

A Policy on General Fund Revenue Shortfall

Senate Bill 88 reads as follows: *It is the policy of the State of Alaska that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account.* These few words adopt a course of action that balances the state budget when a shortfall in general fund revenue exists.

Senate Bill 88

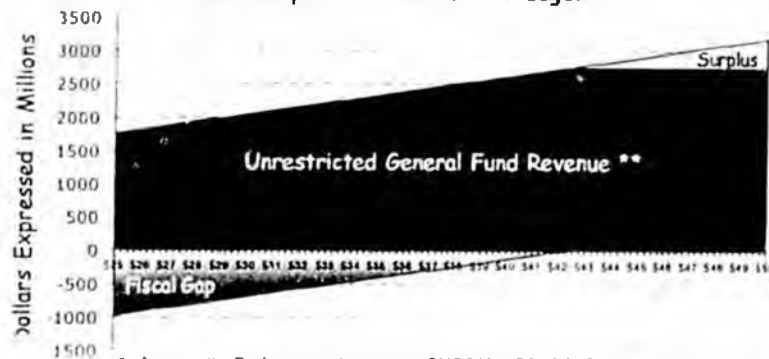
- When needed, fills the potential fiscal gap in a way that minimizes the financial impact on Alaska families.
- When needed, provides a bridge over the gap between general fund expenditures and general fund revenues until our state's natural resources can be further developed.
- Doubles the life expectancy of the Constitutional Budget Reserve fund.
- May strengthen the State of Alaska bond rating and save millions of dollars on future bond offerings.

Senate Bill 88 affirms a policy of the state that provides fiscal certainty when the general fund revenue is insufficient to fully fund the state budget. Please join me in support of this legislation.

Things Can Change Quickly

"For the Good of the State"

FY06 Proposed General Fund Budget *



* Assumes the Gov's proposed budget plus \$117.5 M for PERS/TRS & \$00 M supplemental
 ** Assumes DOR Fall 2004 production projection of 932 million barrels per day

Provided by Gary Wilken

Effect on Alaska's Permanent Fund Dividends

How much less would PFID of \$250/ARS drawn from the PFD if a gap occurs?

Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$2	\$4	\$7	\$12	\$18	\$25	\$31	\$38	\$44
300	150	\$0	\$2	\$5	\$11	\$18	\$27	\$37	\$47	\$56	\$66
400	200	\$0	\$3	\$7	\$14	\$24	\$36	\$49	\$62	\$75	\$88
500	250	\$0	\$3	\$9	\$18	\$30	\$45	\$61	\$77	\$93	\$110
600	300	\$0	\$4	\$11	\$21	\$36	\$54	\$73	\$93	\$112	\$132
700	350	\$0	\$4	\$12	\$25	\$42	\$63	\$85	\$108	\$131	\$154
800	400	\$0	\$5	\$14	\$28	\$48	\$72	\$98	\$123	\$149	\$176
900	450	\$0	\$5	\$16	\$32	\$54	\$81	\$110	\$139	\$168	\$199
1,000	500	\$0	\$6	\$18	\$35	\$60	\$90	\$122	\$154	\$187	\$221

Differences shown are for each fiscal year, total of each row would be the cumulative effect per person

Senate Bill 88

A Bridge to Development

*A Policy on General Fund
Revenue Shortfall*

April 5, 2005

www.akrepublicans.org/wilken

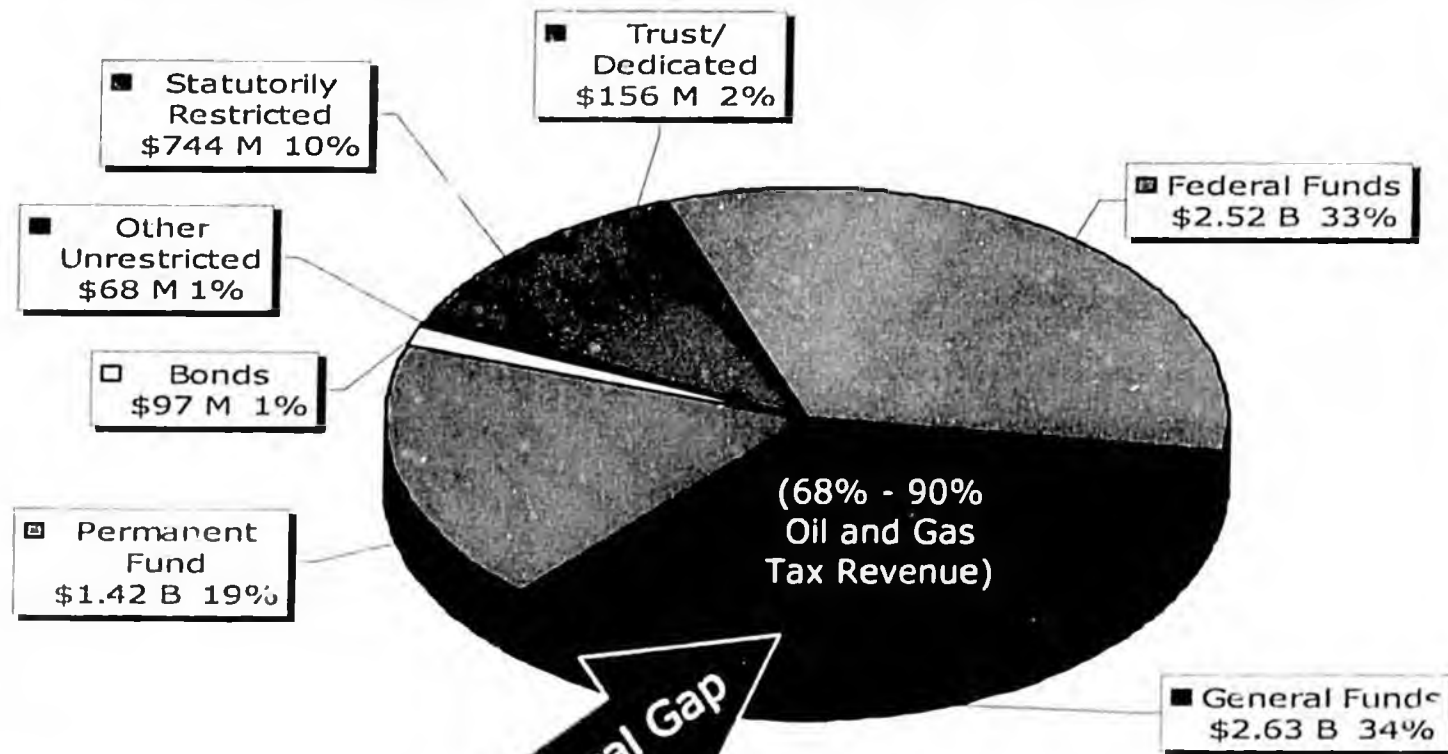
"It is the policy of the State of Alaska that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account."

AS 37.07.010 *Executive Budget Act*

SB 88
says

Why? Where's the problem?

FY06 Operating & Capital Budgets - \$7.6 Billion

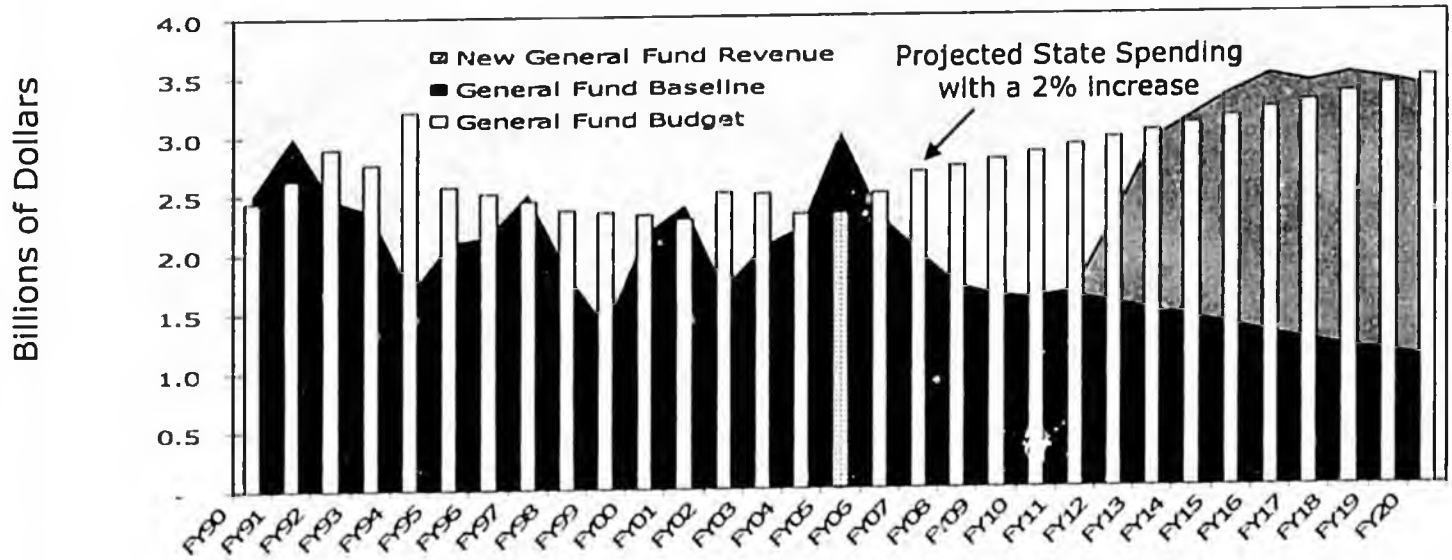


Home of the Fiscal Gap

FY06 Budget as proposed by Governor Murkowski

Source: Legislative Finance

... What's the problem?



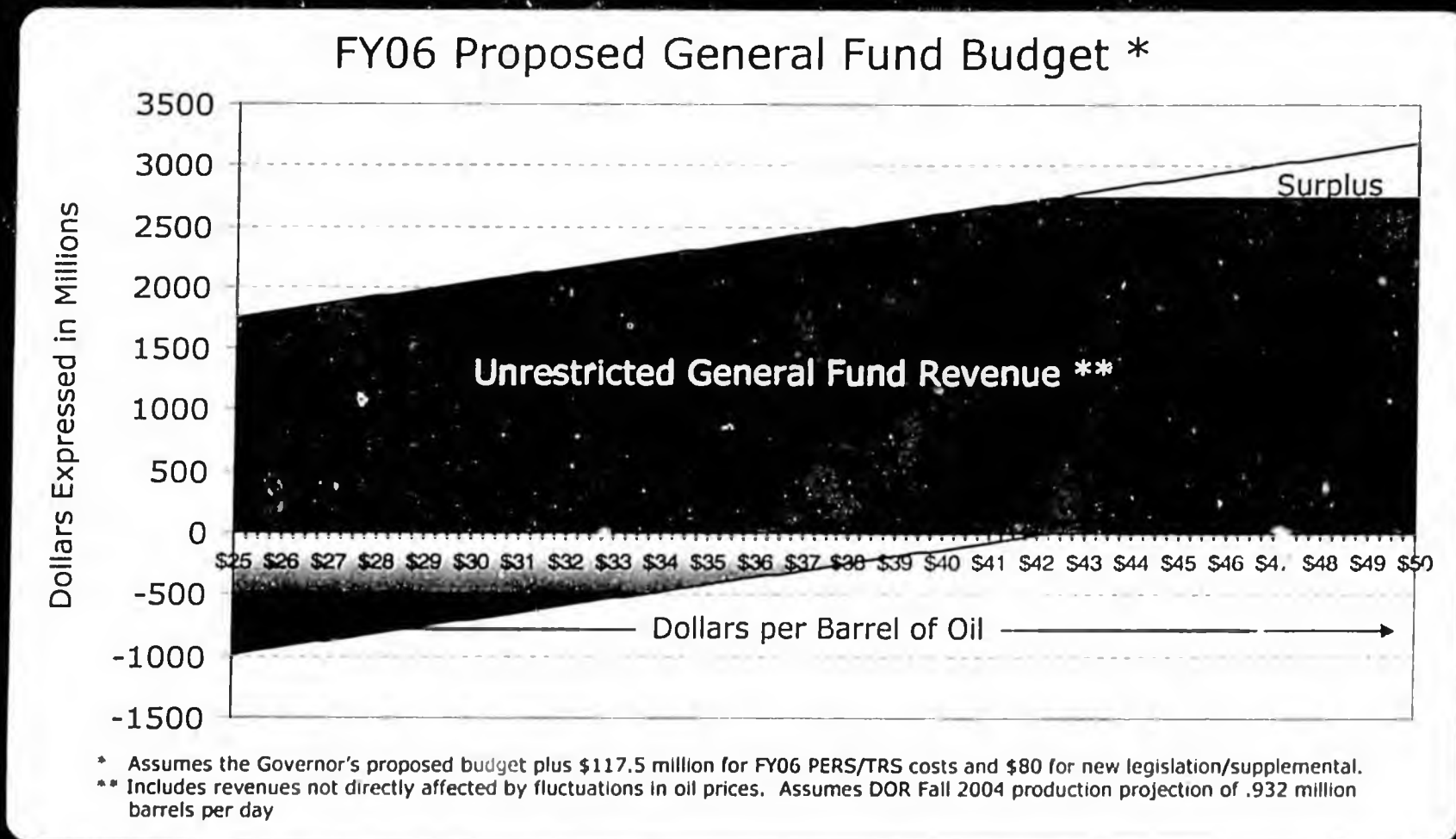
\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments.

Source: Legislative Finance

General Fund revenue can be less than General Fund expenditures.

. . . and things can change quickly

"For the Good or for the Bad"



Source: Legislative Finance

... and they have

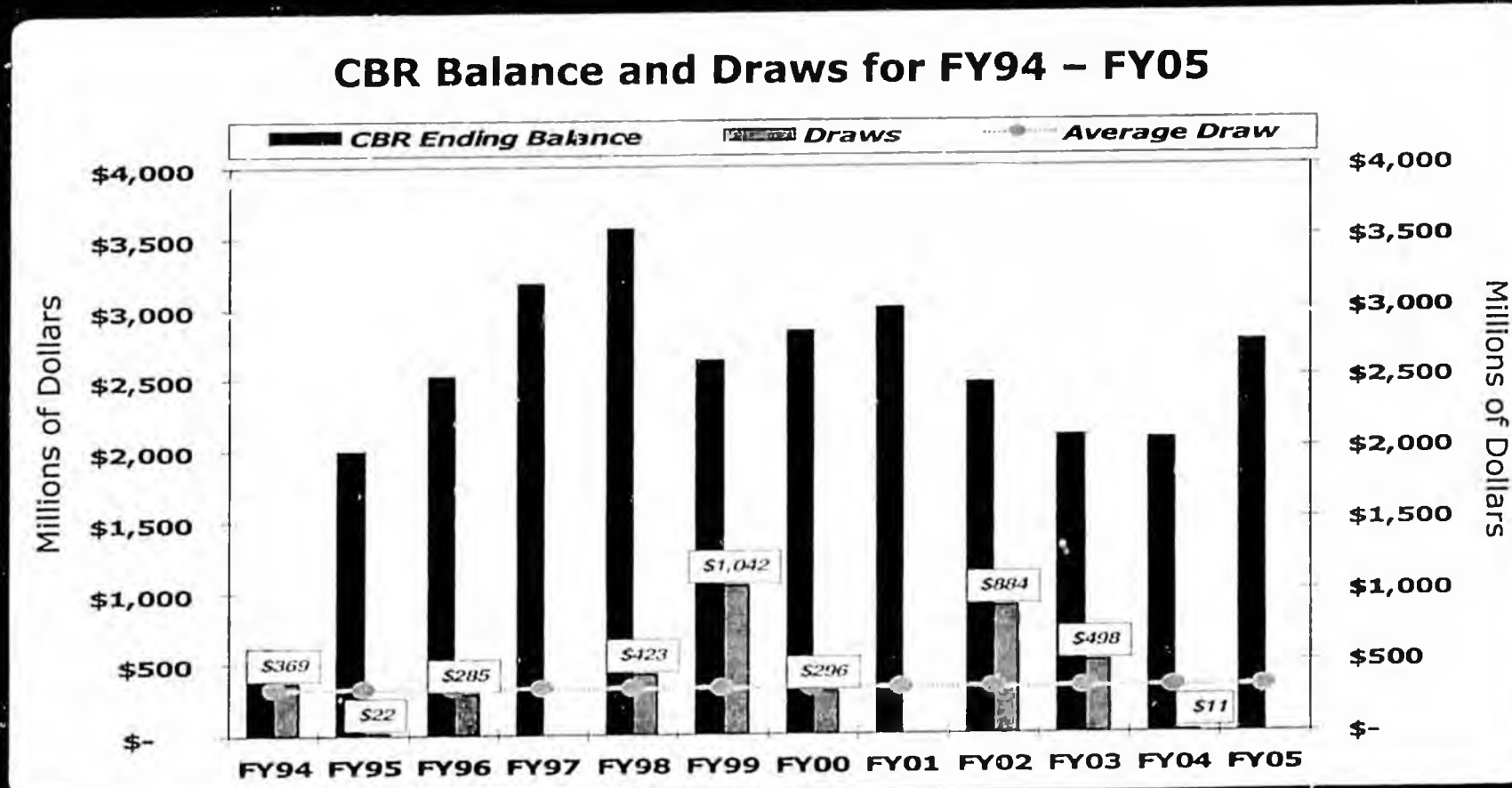
**ALASKA CONSTITUTION
ARTICLE IX**

Section 17. Budget Reserve Fund (a)
There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the state after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments of bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. . . . Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

Voters approved amendment in 1990.

- The CBR has been used to fill the fiscal gap 8 out of 12 years.
- Approximately \$5.5 billion has been withdrawn.
- The state has deposited into the CBR \$5.6 billion and earned \$1.6 billion in interest.

... for example



Source: Legislative Finance

- Draw 9 out of 12 years
- Average draw \$318 M
- Current balance \$2.1 B

. . . Alaska is a resource state

"Alaska has about 22 percent of the nation's "known" oil reserves and 19 percent of the country's known natural gas."
Governor Murkowski, 12/14/2003

"\$53.9 million in NPR-A bids offered"
Fairbanks Daily News-Miner, 6/3/04

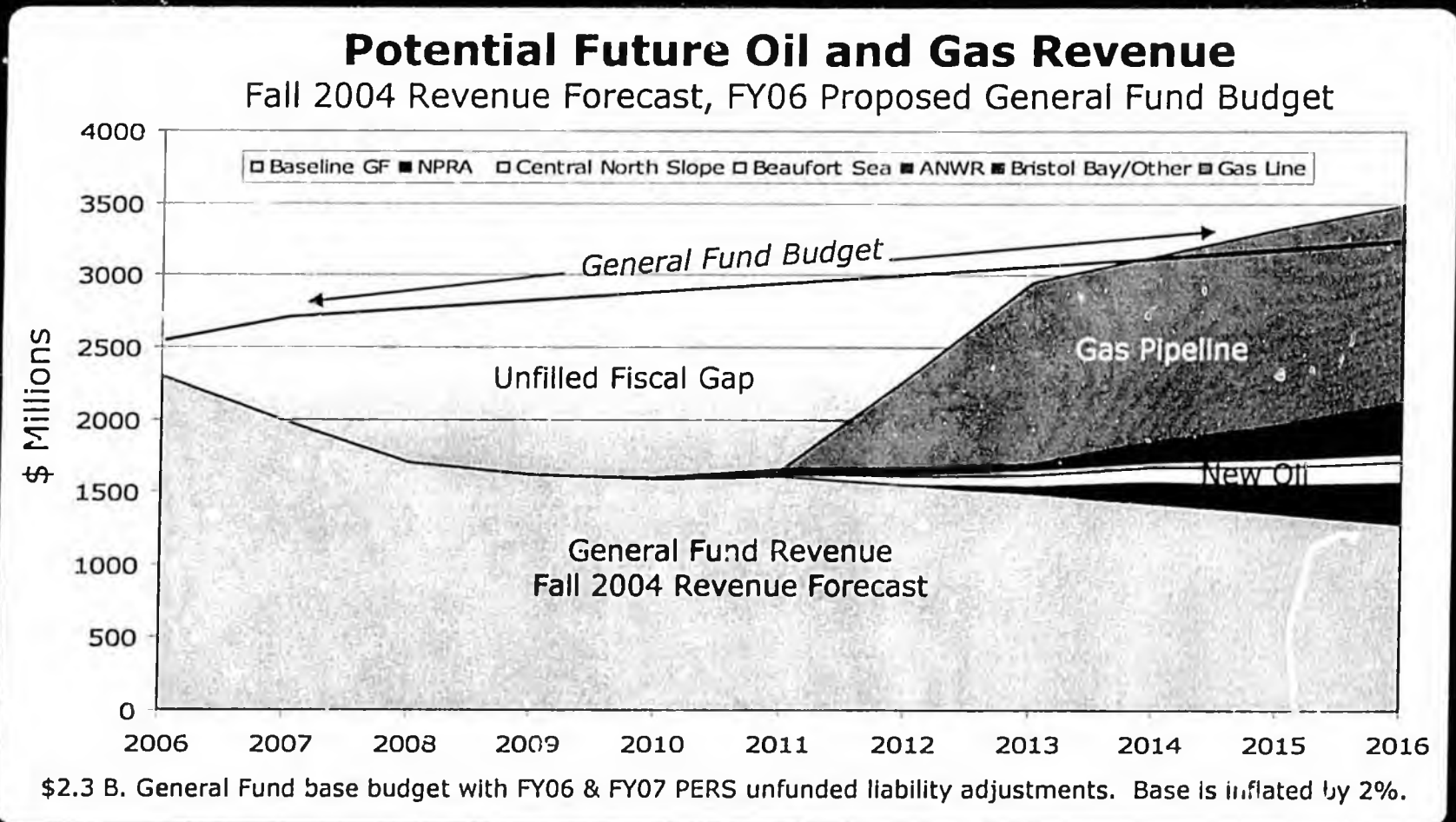
"TransCanada submits application to state, says 2012 start-up possible"
Petroleum News, 6/6/04

"Federal land managers proposed giving oil drillers access to a forbidden chunk of the North Slope national petroleum reserve."
Anchorage Daily News, 6/10/04

"Alaska officials consult bankers on gas pipeline"
Bond News, May 27, 2004

... a bridge is needed

From Today to Development



Source: Office of Management and Budget

Several Pots of Money



Reduce State Spending
(Save a \$, Earn a \$)

Income Tax
(\$600 M)



Corporation Tax
(\$50-\$100 M)



Other Revenue
(Tobacco Tax, Alcohol Tax,
Fisheries Tax, Car Rental
Tax, Studded Tire Fee, etc.)



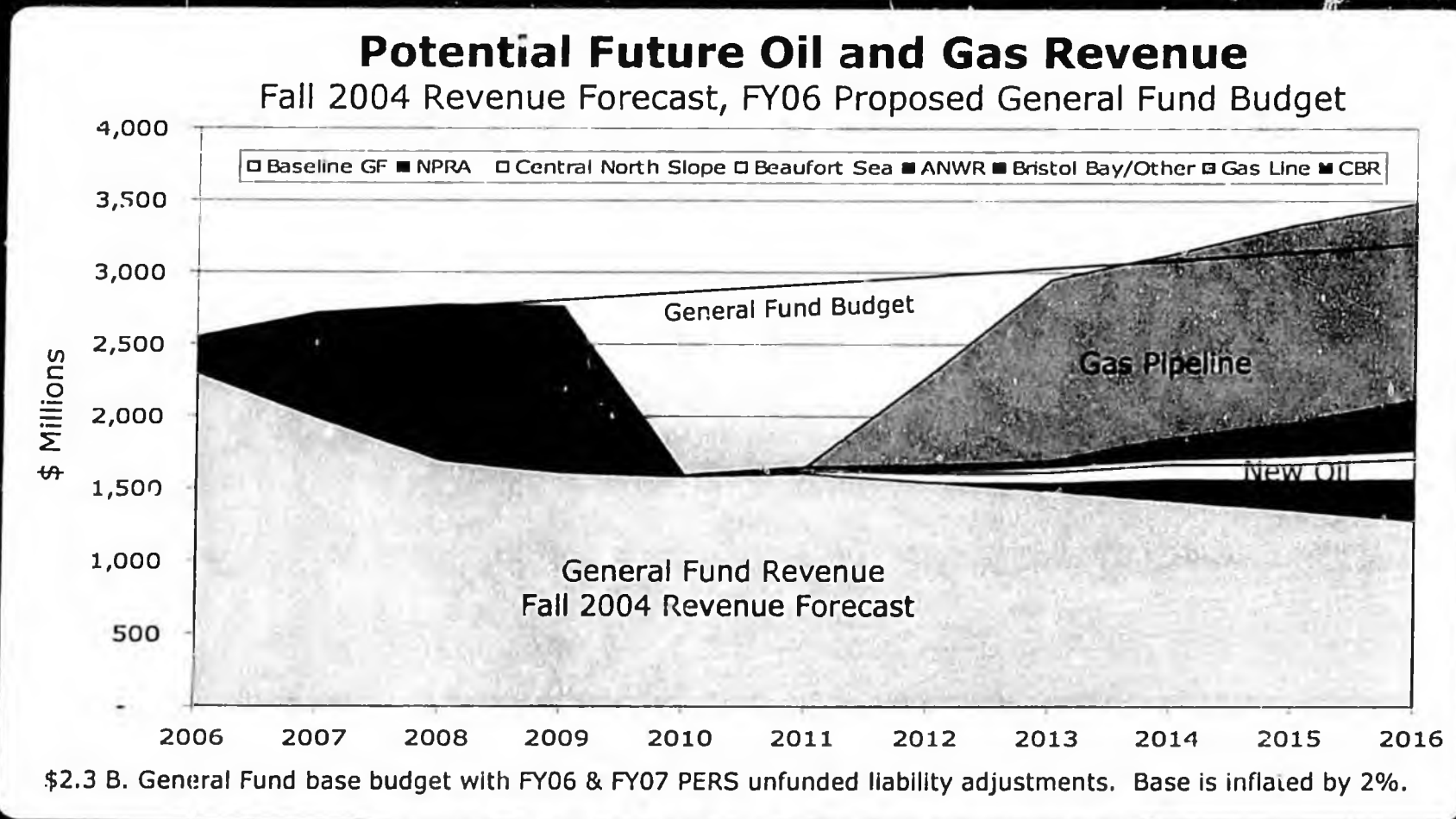
Sales Tax
(\$200-\$300 M)

Alaska Perm Fund Financial Projections
December, 2004

CBR
(\$2.1 B)
(Constitutional Budget Reserve)



... why not just the CBR?



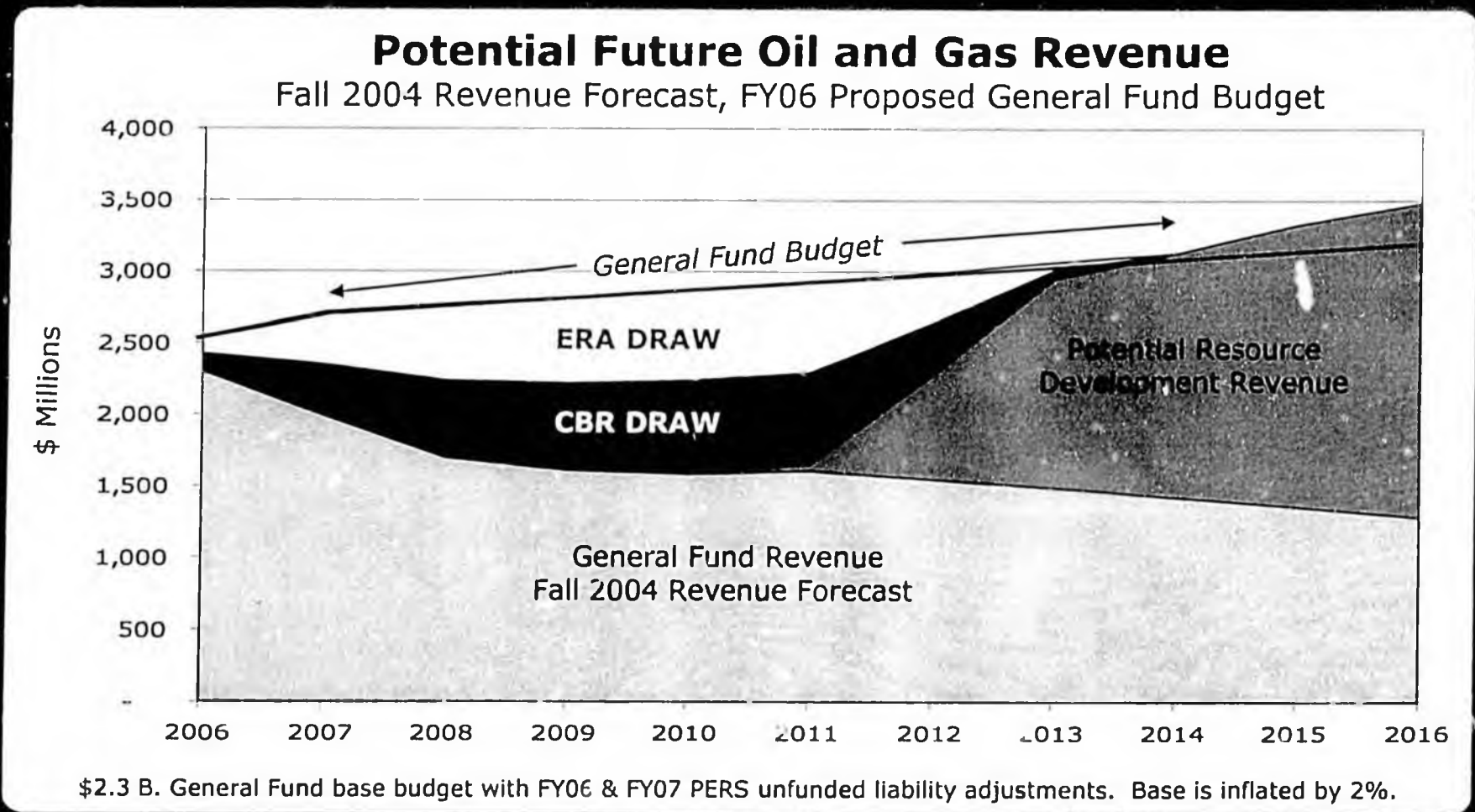
Source: Legislative Finance and OMB (Based on Fall 2004 Revenue Forecast)

. . . so what if . . .

The Legislature splits the
future fiscal gaps with
equal contributions from
the Constitutional Budget
Reserve and the Earnings
Reserve Account?

(SB 88)

... and we build a bridge



Source: Legislative Finance and OMB (Based on Fall 2004 Revenue Forecast)

... but can we?

***An Alaskan's
Guide to the Permanent Fund***

The Fund would help create an investment base to continually generate future income. When oil ran out, Alaska would still have a major source of state revenues. Alaskans could use these revenues to pay the costs of basic government services, or for whatever purposes future generations of Alaskans decided.

Each year, the Fund would channel a significant portion of the oil revenues away from the legislature. Less state income reduces the opportunity for excessive state spending.

The Fund would transform non-renewable oil wealth into a renewable source of wealth for future generations of Alaskans.

Alaska Permanent Fund Corporation
9th Edition, 1998, Pages 1 & 2

Yes, We Can!!!!

The Earnings Reserve Account, a result of wise investment of our Permanent Fund, has been and still is available to the legislature by a simple majority vote of 21-11.

PF financial projections say . . .

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of December 31, 2004

* As of Dec. 2004, statutory net income is trending to end the fiscal year more than 25% below the mid case.

FY	Reserved Fund Balance - Principal					Unrealized Gain (Loss)		FY-End Reserved Balance	Unreserved Fund Balance				Realized Earnings Account		FY	TOTAL FUND BALANCE
	FY-Begin Contrib. Balance	Appro- pations	Dedicated State Revenues	Inflation Proofing	FY-End Contributions	Net Change	FY-End Balance		Acct. Net Income	Statutory Net Income	Dividends	Inflation Proofing	General Fund	Net Change		
77-98	0	6,734	6,250	5,333	18,317	3,571	22,488	20,683	18,667	7,589	5,531	268	1,389	1,389	77-98	
99	18,517	41	155	288	19,001	(430)	22,547	2,148	2,544	1,045	288	3	1,301	2,960	99	
00	19,001	264	316	423	20,014	(17)	23,543	2,249	2,222	1,172	423	3	382	2,872	00	
01	20,014	8	339	686	21,047	(2,146)	22,430	(924)	1,199	1,113	686	4	(588)	2,384	01	
02	21,047	(23)	258	802	21,884	(678)	22,389	(617)	257	926	802	5	(1,248)	1,136	02	
03	21,884	354	398	352	22,938	601	24,094	963	355	691	352	0	(1,035)	100	03	
04	22,938	(130)	353	524	23,526	1,969	26,541	3,434	1,502	581	176	0	759	856	04	
10% 05	23,526	19	476	624	24,645	(2,996)	24,644	(1,509)	1,468	502	624	0	342	1,201	05	
25% 05	23,526	21	476	624	24,647	(2,022)	25,640	(94)	1,717	548	624	0	735	1,994	05	
Mid 05	23,526	27	476	624	24,653	(453)	27,215	2,048	2,174	606	624	0	1,242	2,101	05	
25% 05	23,526	28	476	624	24,654	1,069	4,084	4,187	3,090	672	624	0	1,794	2,653	05	
10% 05	23,526	31	476	624	24,657	2,125	5,140	5,785	3,609	777	624	0	2,259	3,118	05	
06	24,653	21	356	650	25,681	180	2,742	2,190	1,988	690	650	0	648	2,749	06	
07	25,681	23	212	876	26,891	191	2,934	2,328	2,114	865	876	0	553	3,302	07	
08	26,891	24	700	777	27,660	202	3,136	2,457	2,231	1,082	700	0	448	3,750	08	
09	27,660	26	725	751	28,643	212	3,348	2,578	2,340	1,170	725	0	445	4,195	09	
10	28,643	28	751	777	29,651	223	3,571	2,701	2,451	1,168	777	0	532	4,727	10	
11	29,651	30	777	751	30,889	234	3,805	2,834	2,570	1,229	777	0	564	5,291	11	
12	30,889	32	794	777	32,349	246	4,051	2,972	2,694	1,290	804	0	600	5,891	12	
13	31,749	34	777	751	32,829	258	4,308	3,114	2,822	1,352	831	0	639	6,531	13	
14	32,829	37	751	725	33,930	270	4,579	3,263	2,956	1,417	859	0	680	7,210	14	
15	33,930	39	725	700	35,051	284	4,862	3,417	3,094	1,484	887	0	727	7,937	15	
Cumulative Totals																
Proj. for 2005-2015																
321 2,919 1,847 29,901 27,732 12,375 8,284 0 7,074																

ERA \$2,101 M

Return 7.04%

Assumptions:	Total Return - Inflation	Total Real	Statutory Return
10% FY 2005	5.20%	2.60%	7.86%
25% FY 2005	-0.14%	2.60%	2.74%
Mid FY 2005	7.61%	2.60%	5.01%
25% FY 2005	15.35%	2.60%	12.75%
10% FY 2005	20.58%	2.60%	17.98%
FY 2006-2015	7.61%	2.60%	5.01%

Notes to financial results and projections FY77 - FY15:

- Special general fund and earnings reserve appropriations to principal royalty settlement earnings transferred to principal per AS 37.13.145(d) and other miscellaneous appropriations to principal.
- Final adjustment to principal based on recalculation of State of Alaska America Note at royalty rate.
- FY01 Senate Bill 100 transferred \$354 million from realized earnings account to principal.
- Senate Bill 2011 defines the FY03 special appropriation of \$354 as per FY04 inflation proofing and appropriate the remaining \$170 million needed to fully inflation proof contributions and appropriations in FY04. An additional \$15 million in settlement earnings (earnings above inflation) is appropriated to principal per AS 37.13.145(d).
- Statutory inflation proofing for FY04 is based on the inflation rate of 2.28% or \$524 million (\$354 million pre-inflation proofing plus \$170 million FY04 appropriation).
- Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings. Statutory net income is realized earnings less settlement earnings and is used to calculate the annual dividend transfer.
- Total Fund equals reserved fund balance plus the realized earnings account.
- Based on 2004 Calan capital market assumptions and a range of expected returns based on the probability of the return outcomes.
- Based on 2004 Calan capital market assumptions and median expected returns (the mid case). Actual results will vary from projections.

PERFORMANCE SUMMARY (tentative as of December 31, 2004)	Current Month	Last 3 Months	Fiscal 0 Y-T-D #	Calendar 0 Y-T-D #	Last 12 Months	Last 3 Years	Last 8 Years
Alaska CDs	0.18%	0.48%	0.88% #	1.85% #	1.85%	1.87%	3.12%
Domestic Fixed Income	0.94%	1.01%	4.16% #	4.27% #	4.27%	6.11%	7.86%
Non-Domestic Fixed Income	1.73%	6.74%	10.89% #	9.99% #	9.99%	12.88%	8.09%
Domestic Equities	3.67%	10.60%	7.87% #	12.12% #	12.12%	8.18%	-0.58%
Non-Domestic Equities	4.26%	14.54%	15.22% #	17.81% #	17.81%	11.66%	-0.74%
Real Estate	3.03%	8.82%	14.12% #	20.74% #	20.74%	16.87%	14.42%
Absolute Return	N/A	1.90%					
Total Fund	2.71%	8.08%	8.70% #	11.38% #	11.38%	8.32%	4.44%
Total Fund Return Benchmark	2.67%	7.90%	8.74%	11.64%	11.64%	8.75%	3.91%

Income year-to-date as of December 31, 2004

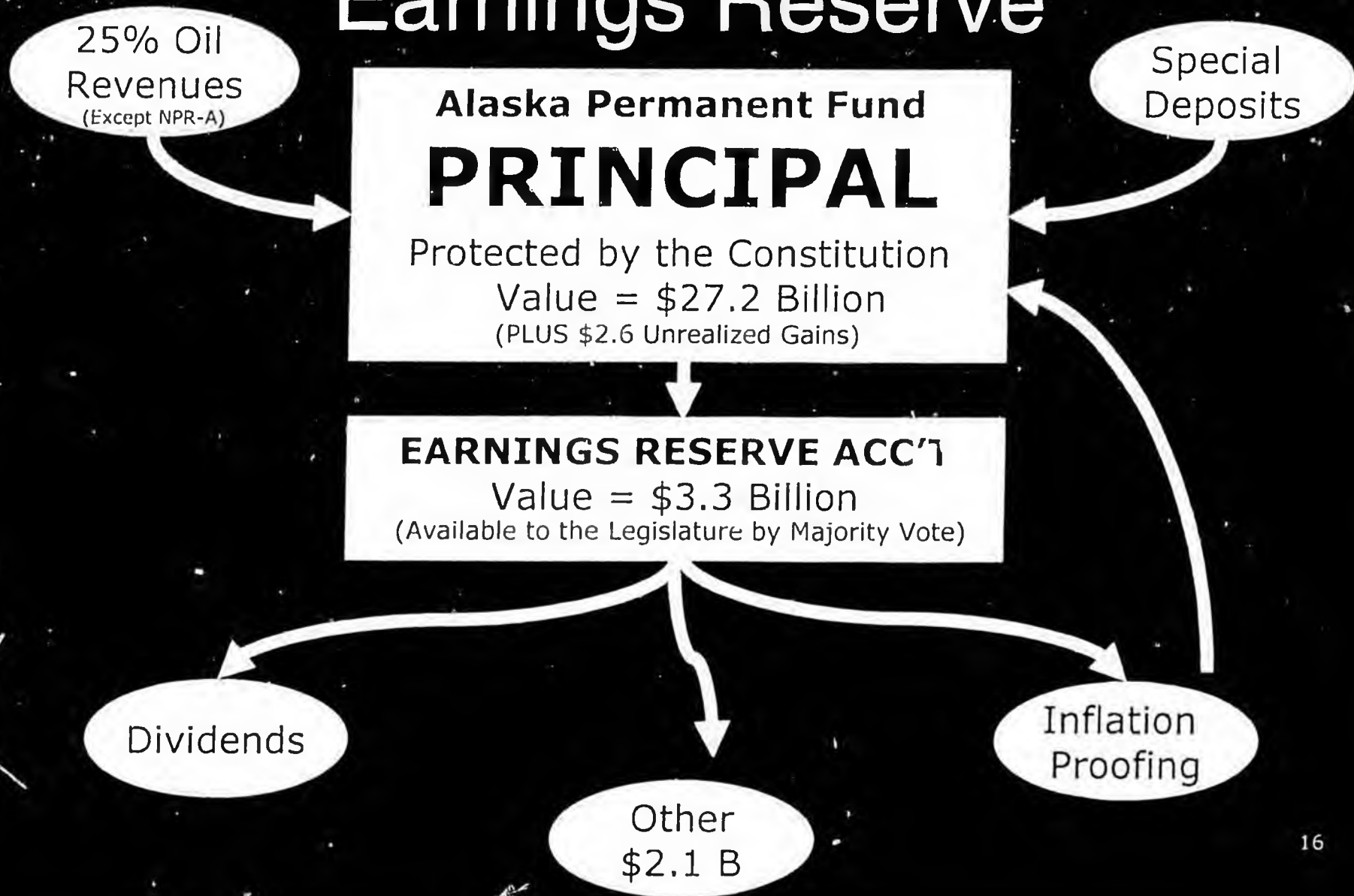
FY04 Statutory net income	
Interest, dividends, real estate & other income	\$ 419.4
Realized gains on the sale of invested assets	404.8
Less operating expenses	(122.8)
Statutory net income	\$ 801.6

FY05 GAAP (accountant) net income	
Statutory net income	\$ 801.6
Adjustment for unrealized gains (losses) on invested assets	1,573.0
Accounting net income (loss)	\$ 2,373.7

For more information see www.apfa.org

December 31, 2004

Our Permanent Fund and our Earnings Reserve



Alaska's Crown Jewels

*... The Constitutional Budget Reserve fund and
the Earnings Reserve Account ...*



- Only legislature in America deciding how to manage \$31 billion for 650,000 people

- Every minute, every hour, every day, the world helps build Alaska by
 - Investing in corporate America
 - Investing in America's society
 - Investing in America's future

- The CBR and the ERA form the abutment to our Bridge to Development

... but what about my check

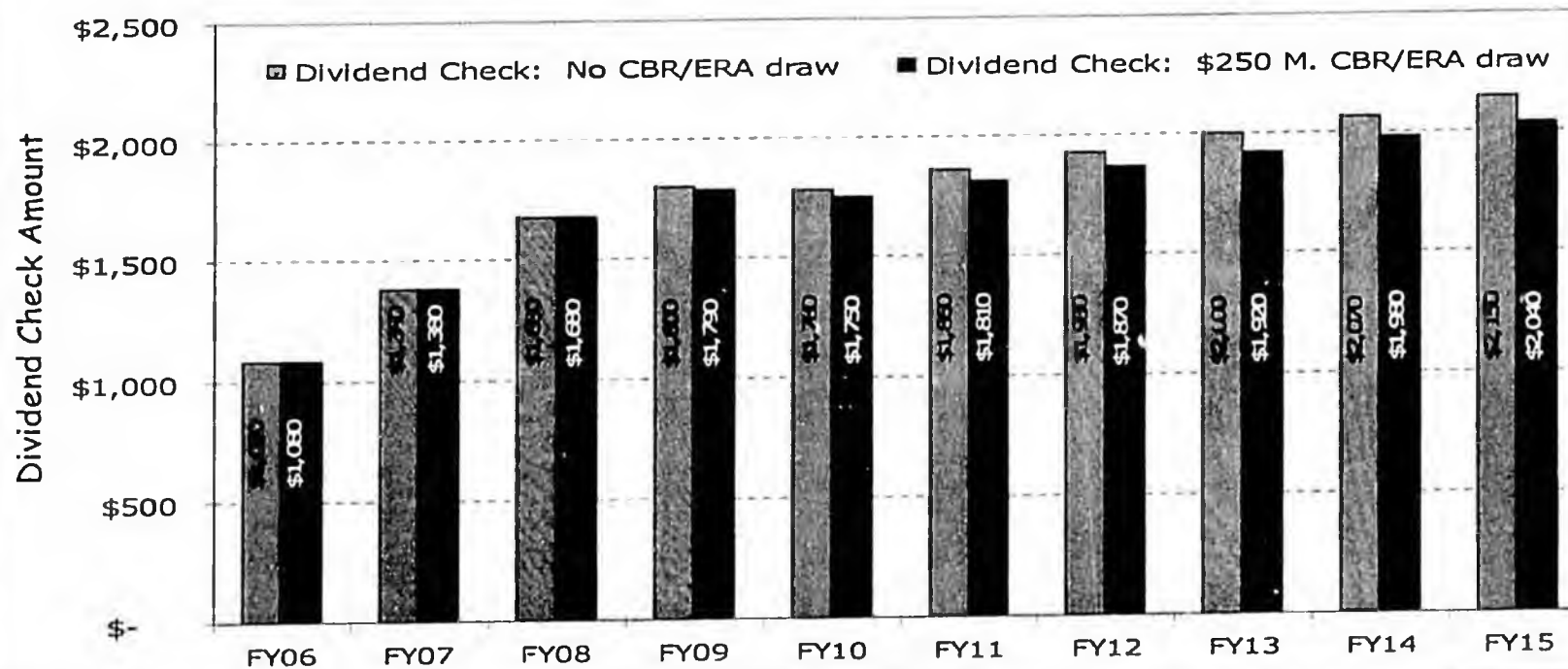
How much less is my PFD if the Legislature draws \$250 M from the ERA each year?

Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$2	\$4	\$7	\$12	\$18	\$25	\$31	\$38	\$44
300	150	\$0	\$2	\$5	\$11	\$18	\$27	\$37	\$47	\$56	\$66
400	200	\$0	\$3	\$7	\$14	\$24	\$36	\$49	\$62	\$75	\$88
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600	300	\$0	\$4	\$11	\$21	\$36	\$54	\$73	\$93	\$112	\$132
700	350	\$0	\$4	\$12	\$25	\$42	\$63	\$85	\$108	\$131	\$154
800	400	\$0	\$5	\$14	\$28	\$48	\$72	\$98	\$123	\$149	\$176
900	450	\$0	\$6	\$16	\$32	\$54	\$81	\$110	\$139	\$168	\$199
1,000	500	\$0	\$6	\$18	\$35	\$60	\$90	\$122	\$154	\$187	\$221

Source: Legislative Finance (Based on 7.0% rate of return, Perm Fund Financial Projections, Dec. 31, 2004)
Differences shown are for each fiscal year; total of each row would be the cumulative effect per person.

... how does this compare to status quo?

How much less is my PFD if the Legislature draws \$250 M from the ERA every year for 10 years?



Source: Legislative Finance (The PFD amounts are rounded to the nearest \$10.00)

Answer: In five years, it's 30 less. In ten years, it's \$110 less. 19

What does this really mean?

What will I give up if the Earnings Reserve Account is reduced by \$250 M each year for ten years?

Year One



Almost Nothing

Year Two



One Latte

Year Three



One Movie

Year Four



A Large Pizza

Year Five




A Woman's Haircut

Year Ten




A Fancy
Dinner for 2

... let's compare alternative revenue sources.



Income Tax
Raise \$250 Million
Cost \$1,000
(\$57,000 Adj. Gross Income)
Source: Department of Revenue



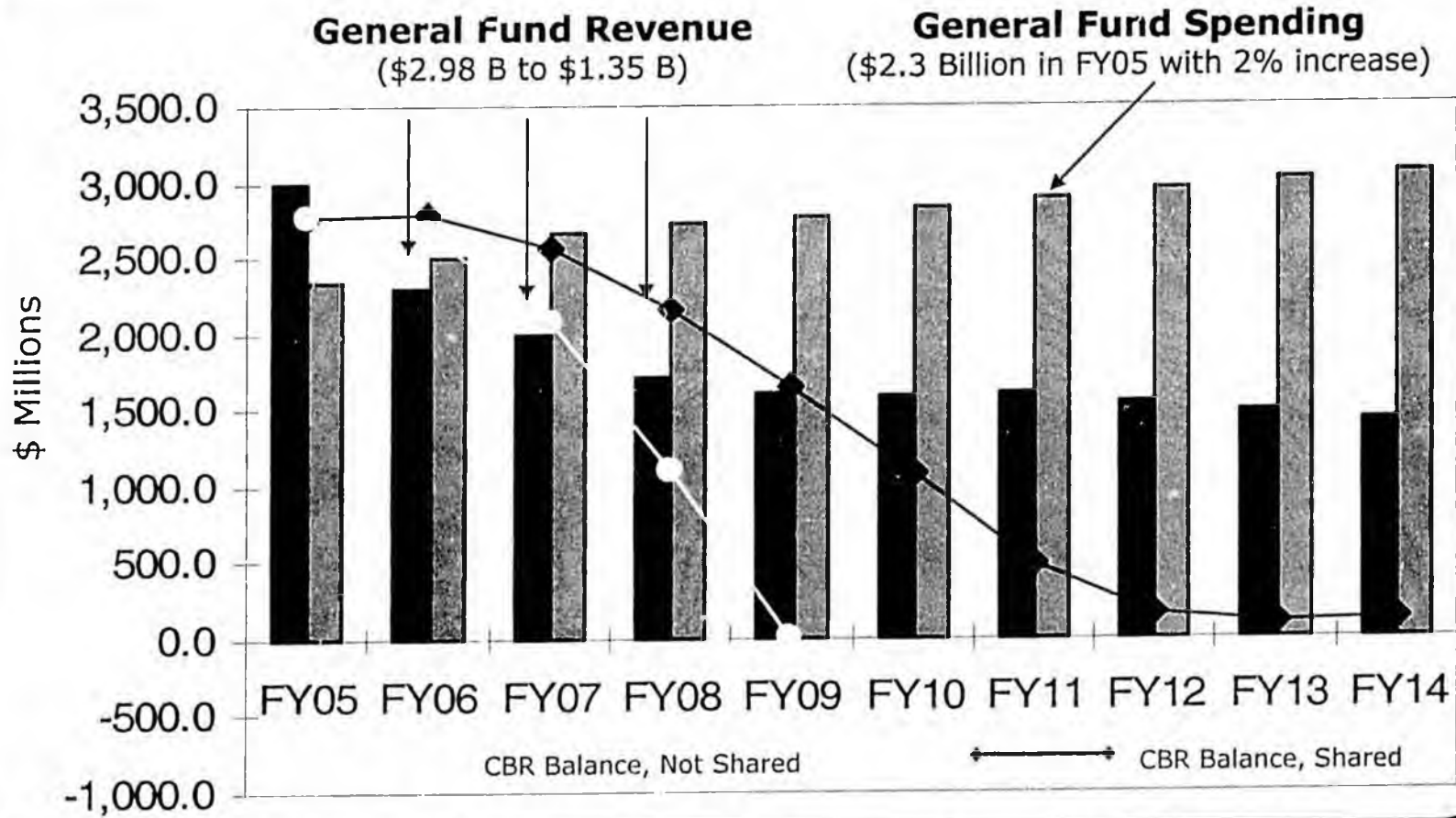
Sales Tax
Raise \$250 Million
Cost \$950
(\$57,000 Adj. Gross Income)
Source: Department of Revenue (2.75% Sales Tax)



Earnings Reserve
Raise \$250 Million
Cost \$12
(Slide 18)
Source: Legislative Finance

Under the Bridge to Development Plan (SB 88), all Alaskans share in the Power of Earnings.

... but does this help the CBR?



Source: Legislative Finance - expected CBR return @ 4.7% plus expected settlements

. . . let's use only when needed

Senate Bill 88 demands spending accountability because . . .

- (1) the Earnings Reserve Account is the people's money and
- (2) each legislator must answer to the public on how much was spent from the Earnings Reserve to fund state services.

. . . and to summarize

The Bridge to Development Plan



Bridges the State of Alaska revenue needs until development can occur



Recognizes Alaska's natural resource potential and opportunity for jobs



Recognizes the power of the Earnings Reserve - *the crown jewel of a fiscal plan*



Establishes accountability by forming an investment partnership with all voters

. . . and . . .



When needed, minimizes the financial impact on Alaska families



Doubles the life of the CBR



Strengthens the Alaska's bond rating and saves millions of dollars



Provides Alaska with a stable and dependable long term fiscal plan

Thank You!

Gary Wilken, Prime Sponsor
Senate Bill 88

www.akrepublicans.org/wilken

1													
2	General Fund	Baseline GF Revenue	2,986	2,301	1,987	1,701	1,616	1,589	1,603	1,549	1,475	1,418	1,349
3		New GF Revenue	0	0	0	0	0	7	50	732	1,467	1,710	1,970
4		GF Budget	(2,330)	(2,494)	(2,688)	(2,719)	(2,773)	(2,828)	(2,885)	(2,943)	(3,012)	(3,062)	(3,123)
5		GF Supplemental	(100)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
6		Fiscal Gap/Surplus	556	(244)	(729)	(1,068)	(1,208)	(1,283)	(1,282)	(712)	(110)	14	146
7		Draw from ERA	0	122	364	534	604	641	641	358	55	0	0
8		Draw from CBR	(555)	122	364	534	604	641	641	358	55	(14)	(146)
9		Fiscal Gap After CBR Draw	0	0	0	0	0	0	0	0	0	0	0
10	CBR Fund												
11		Beginning CBR balance	2,084	2,768	2,785	2,660	2,146	1,673	1,079	489	166	108	128
12		Settlements	20	19	9	0	0	0	0	0	0	0	0
13		Earnings	118	130	131	120	101	77	51	23	7	5	6
14		CBR Draw/Payback	555	(122)	(364)	(534)	(604)	(641)	(641)	(358)	(55)	14	146
15		Ending CBR balance	2,768	2,786	2,560	2,146	1,643	1,079	489	166	108	128	280
16	Permanent Fund												
17		Market Value - Begin Bal	27,400	28,316	31,047	32,429	33,481	34,460	35,468	36,522	37,895	39,624	41,487
18		Principal - Begin Bal	23,626	24,670	26,698	28,710	27,681	28,664	29,674	30,713	31,774	32,856	33,960
19		Dedicated Revenue	476	356	312	245	231	230	231	224	215	206	195
20		Other/Special Appropriations	27	21	23	24	26	28	30	32	34	37	39
21		Inflation Proofing	641	651	677	701	728	752	778	805	833	861	889
22		Principal - Ending Bal	24,670	25,698	28,710	27,681	28,664	29,674	30,713	31,774	32,856	33,960	35,083
23		Accumulated Unrealized Gain(Loss)	2,562	2,742	2,933	3,132	3,338	3,550	3,769	3,994	4,229	4,474	4,732
24		Reserved - Ending Bal	27,232	28,440	29,643	30,813	32,002	33,224	34,482	35,769	37,085	38,434	39,814
25													
26		ERA Begin Bal	859	2,084	2,807	2,786	2,669	2,448	2,244	2,040	2,126	2,538	1,053
27		Realized Gain(Loss)	2,474	1,988	2,106	2,187	2,268	2,333	2,402	2,473	2,544	2,615	2,686
28		Income Available for Distribution	1,217	1,383	1,771	2,158	2,317	2,287	2,374	2,451	2,528	2,605	2,715
29		Transfer to Dividend Fund	(608)	(691)	(885)	(1,079)	(1,158)	(1,144)	(1,187)	(1,226)	(1,264)	(1,308)	(1,358)
30		Inflation Proofing/Special/Other	(641)	(651)	(677)	(701)	(726)	(752)	(778)	(805)	(833)	(861)	(889)
31		subtotal	2,084	2,729	3,150	3,203	3,052	2,886	2,681	2,482	2,594	3,053	3,614
32		Draw for Fiscal Gap	0	(122)	(364)	(534)	(604)	(641)	(641)	(358)	(55)	0	0
33		ERA - Ending Bal	2,084	2,607	2,786	2,669	2,448	2,244	2,040	2,126	2,539	3,063	3,614
34		Market Value - Ending Bal	28,316	31,047	32,429	33,481	34,460	35,468	36,522	37,695	39,624	41,487	43,428
35													
36	50-50 Output												
37		Total Paid Applicants (thousands)	603	610	616	623	630	637	644	651	658	665	673
38		Dividend Checks											
39		Status Quo	na	1,080	1,380	1,680	1,800	1,780	1,850	1,930	2,000	2,070	2,150
40		W/ Draw	na	\$ 1,080	\$ 1,380	\$ 1,680	\$ 1,790	\$ 1,740	\$ 1,790	\$ 1,830	\$ 1,870	\$ 1,910	\$ 1,960
41			0	0	0	10	40	60	100	130	160	190	
42													
43		Principal											
44		Status Quo	24,650	25,680	26,690	27,680	28,640	29,650	30,690	31,750	32,830	33,930	35,050
45		W/ Draw	24,670	25,700	26,710	27,680	28,660	29,670	30,710	31,770	32,860	33,960	35,080
46			20	20	20	20	20	20	20	20	30	30	30
47		ERA											
48		Status Quo	2,080	2,730	3,280	3,730	4,180	4,710	5,270	5,870	6,510	7,190	7,910
49		W/ Draw	2,080	2,610	2,790	2,670	2,450	2,240	2,040	2,130	2,540	3,050	3,610
50			-	(120)	(490)	(1,060)	(1,730)	(2,470)	(3,230)	(3,740)	(3,970)	(4,140)	(4,300)
51													
52		Accumulated Unrealized Gains											
53		Status Quo	2,560	2,740	2,930	3,140	3,350	3,570	3,810	4,050	4,310	4,580	4,860
54		W/ Draw	2,560	2,740	2,930	3,130	3,340	3,550	3,770	3,990	4,230	4,470	4,730
55			-	-	-	(10)	(10)	(20)	(40)	(60)	(80)	(110)	(130)
56													
57		Total Market Value											
58		Status Quo	29,320	31,170	32,930	34,550	36,190	37,950	39,750	41,690	43,670	45,720	47,850
59		W/ Draw	29,320	31,050	32,430	33,480	34,450	35,470	36,520	37,690	39,620	41,490	43,430
60			-	(120)	(500)	(1,070)	(1,740)	(2,480)	(3,270)	(3,790)	(4,050)	(4,230)	(4,420)

4/05/05
 Provided by Rob Carpenter

50-50 Model		(millions)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
1	General Inputs:	Budget Growth Rate	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
2		Inflation Rate	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
3		CBR Earnings Rate	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
4	<i>DOR-Fall 2004 Forecast</i>	Baseline GF Revenue	2,986	2,301	1,987	1,701	1,616	1,589	1,603	1,549	1,475	1,416	1,349
5	<i>OMB</i>	Resource Development	0	0	0	0	0	7	50	732	1,467	1,710	1,970
6													
7	APFC Projection Inputs:	Statutory Net Income	2,474	1,998	2,114	2,231	2,340	2,451	2,570	2,694	2,822	2,956	3,094
8	<i>(update with APFC monthly financials)</i>	Principal Ending Balance	24,653	25,681	26,691	27,660	28,643	29,651	30,689	31,749	32,829	33,930	35,051
9	<i>Latest update - January 31, 2005</i>	MV Ending Balance	29,316	31,172	32,927	34,546	36,188	37,949	39,785	41,690	43,668	45,719	47,848
10		ERA Ending Balance	2,084	2,732	3,284	3,732	4,176	4,708	5,271	5,871	6,510	7,189	7,911
11		Accumulated Unrealized	2,562	2,742	2,934	3,136	3,348	3,571	3,805	4,051	4,309	4,579	4,863
12		Dedicated Revenue	476	356	312	245	231	230	231	224	215	206	195
13		Other/Special	27	21	23	24	26	28	30	32	34	37	39
14		Dividend Transfer	608	690	885	1,082	1,170	1,168	1,229	1,290	1,352	1,417	1,484
16		Inflation Proofing	641	651	676	701	726	751	777	804	832	859	888



Alaska Permanent Fund Corporation
801 West 10th Street, Suite 302 Juneau, AK 99801
Tel: (907) 465-2047 Fax: (907) 586-2057

MEMORANDUM

TO: Senator Wilken

FROM: Chris Phillips
Director of Finance
Alaska Permanent Fund Corporation

DATE: March 2, 2005

SUBJECT: SB 88 financial analysis

Per your request, we have reviewed your presentation materials for SB 88, using financial analysis prepared by Legislative Finance. We focused our review on how SB 88 would affect the Alaska Permanent Fund's annual distribution, particularly the annual per person dividend projection.

Specifically, we reviewed several scenarios of constant payouts of between \$100 million and \$500 million annually, which would be drawn from the accumulated realized earnings account each year, after paying the dividend and inflation proofing the principal of the Fund. The projected dividend differences outlined on slides 18 and 19 of your attached presentation are reasonable given the median case realized return assumptions for the Fund. Due to rounding, our numbers may differ slightly from Legislative Finance in any one year; however, we believe these differences are immaterial.

Under SB 88, the resulting difference in the dividend check using an annual draw to fund the fiscal gap is small early on. For example, if \$250 million (less than 1% of the Fund's total value) is removed from the accumulated realized earnings account each year, the dividend is affected only by the lack of earnings power of the amount withdrawn. Given the five year average in the earnings formula for the dividend outlined in statute, it takes several years for the impact of annual draws to noticeably affect the per person dividend check.

If you have a further questions you would like us to address, please feel free to contact us.

Attachment: PowerPoint slides

cc: Rob Carpenter, Legislative Finance
Laura Achee, APFC

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 2/2/05

FURTHER: Finance

Date of 5-Day Notice: 2/10/2005
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 3/16/05

State Affairs Committee considered SENATE BILL NO. 88

SB 88 POLICY ON GENERAL FUND REVENUE SHORTFALL

"An Act relating to the policy of the state regarding the source of funding used to cover a shortfall in general fund revenue."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
Volunteer				✓	1

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Betty Davis</i>			X	
<i>[Signature]</i>		✓	X	
<i>[Signature]</i>			X	
<i>[Signature]</i>			X	
CHAIR: <i>[Signature]</i>			X	

Davis
 Elton
 [Signature]
 Higgins
 Merrill