

**S B**

**8 8**

**GARY WILKEN**

SENATOR  
Fairbanks

Office  
1851 Fox Ave.  
Fairbanks, Alaska 99701  
Tel: 451-5501 (from FBE's)  
Tel: 907-465-4700 (outside FBE's)  
Fax: 907-465-4711

Alaska State Legislature

Senate

During Session:  
State Capital Building  
Juneau, Alaska 99801-1182  
Tel: 451-5501 (from FBE's)  
Tel: 907-465-4700 (outside FBE's)  
Fax: 907-465-4711  
Website: [www.garywilken.com](http://www.garywilken.com)  
E-Mail: Senator.Gary.Wilken@legis.state.ak.us

## MEMORANDUM

TO: Senator Gene Therriault, Chair  
Senate State Affairs Committee

FROM: Senator Gary Wilken

DATE: February 9, 2005

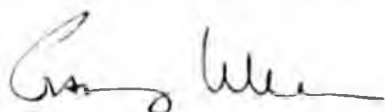
RE: Senate Bill 88 – A Policy on General Fund Revenue Shortfall

I respectfully request that Senate Bill 88, *A Policy on General Fund Revenue Shortfall*, be scheduled for a hearing before the Senate State Affairs Committee.

Senate Bill 88 states that "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."

This legislation provides, when needed, a bridge over the gap between general fund expenditures and general fund revenues until our state's natural resources can be further developed.

Thank you for your cooperation and assistance in scheduling a hearing.



**GARY WILKEN**

SENATOR  
Fairbanks

Home:  
907-451-5501  
Fairbanks, Alaska 99701  
Cell: 907-465-0099 (outside Alaska)  
Fax: 907-465-4711

Alaska State Legislature

Senate

During Session:  
State Capitol Building  
Juneau, Alaska 99801-1187  
Tel: 451-3501 (Juneau office)  
Cell: 907-465-3709 (outside Alaska)  
Fax: 907-465-1114  
Website: [www.garywilken.com](http://www.garywilken.com)  
E-Mail: [SenatorGary.Wilken@legis.state.ak.us](mailto:SenatorGary.Wilken@legis.state.ak.us)

## SPONSOR STATEMENT

### Senate Bill 88 A Policy on General Fund Revenue Shortfall

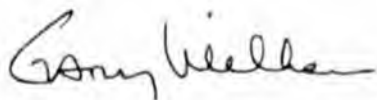
---

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.



Proudly Representing the Golden Heart of Alaska



## Alaska State Legislature

Senate Majority Web: [www.akrepublicans.org](http://www.akrepublicans.org)

---

Sponsor: Senator Gary Wilken  
Current Version: SB 88  
Contact: Sheila Peterson, 465-3709

### Fact Sheet for: Senate Bill 88

**Short Title:** POLICY ON GENERAL FUND REVENUE SHORTFALL

**Summary:**

- Affirms in the Executive Budget Act section of our state's statute that "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."

**Benefits:**

- 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.
- May strengthen the State of Alaska bond rating and save millions of dollars on future bond offerings.
- Doubles the life expectancy of the Constitutional Budget Reserve fund.

**Background:**

- The annual revenue generated from taxes and royalties levied on and collected from the petroleum industry varies directly with the price of oil and the amount of oil produced in the state. Because of this uncertainty, the state will face recurring shortfalls in general fund revenue. Senate Bill 88 adopts a state policy that sets in motion a method to balance the state budget when a shortfall in general fund revenue exists.

# Senate Bill 88

*A Bridge to Development*

*A Policy on General Fund  
Revenue Shortfall*

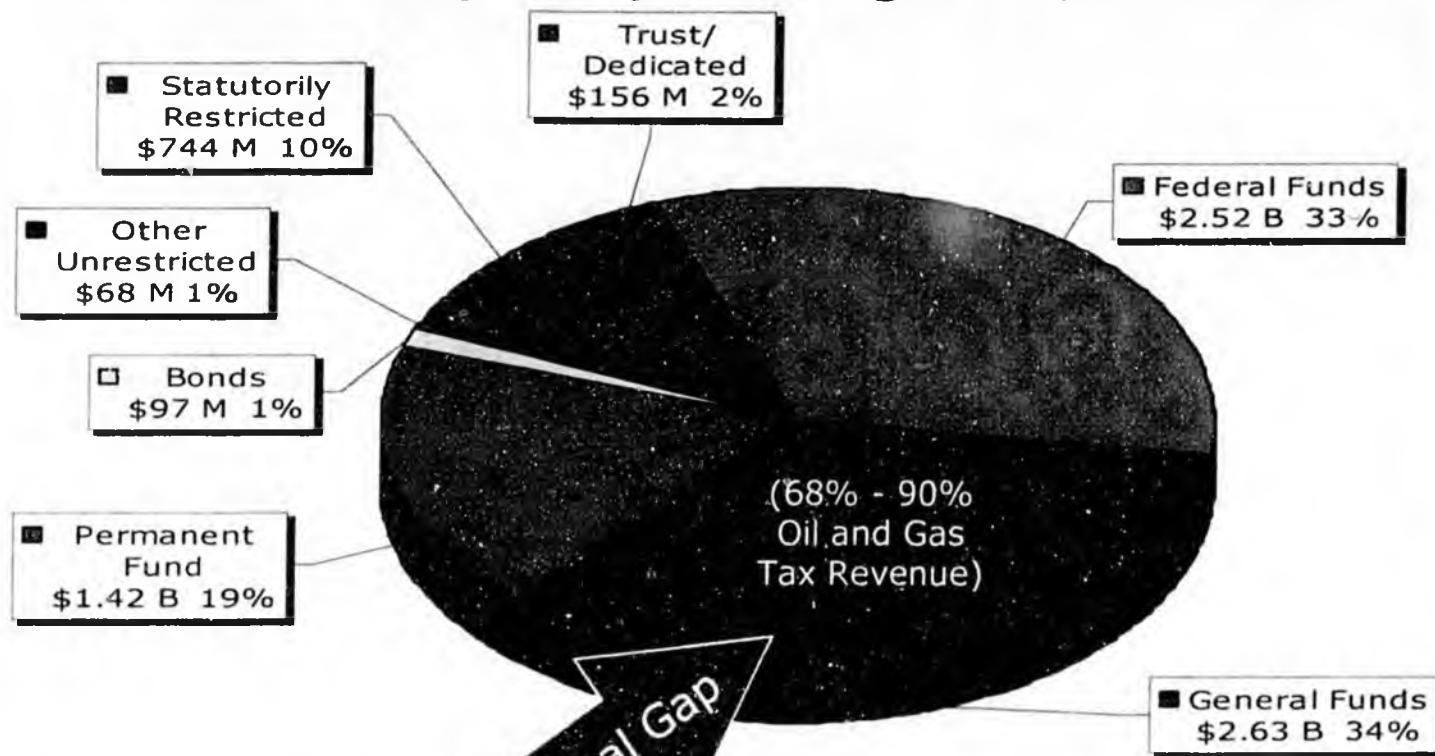
"It is the policy of the State of Alaska that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account."

AS 37.07.010 *Executive Budget Act*

SB 88  
says

# Why? Where's the problem?

## FY06 Operating & Capital Budgets - \$7.6 Billion

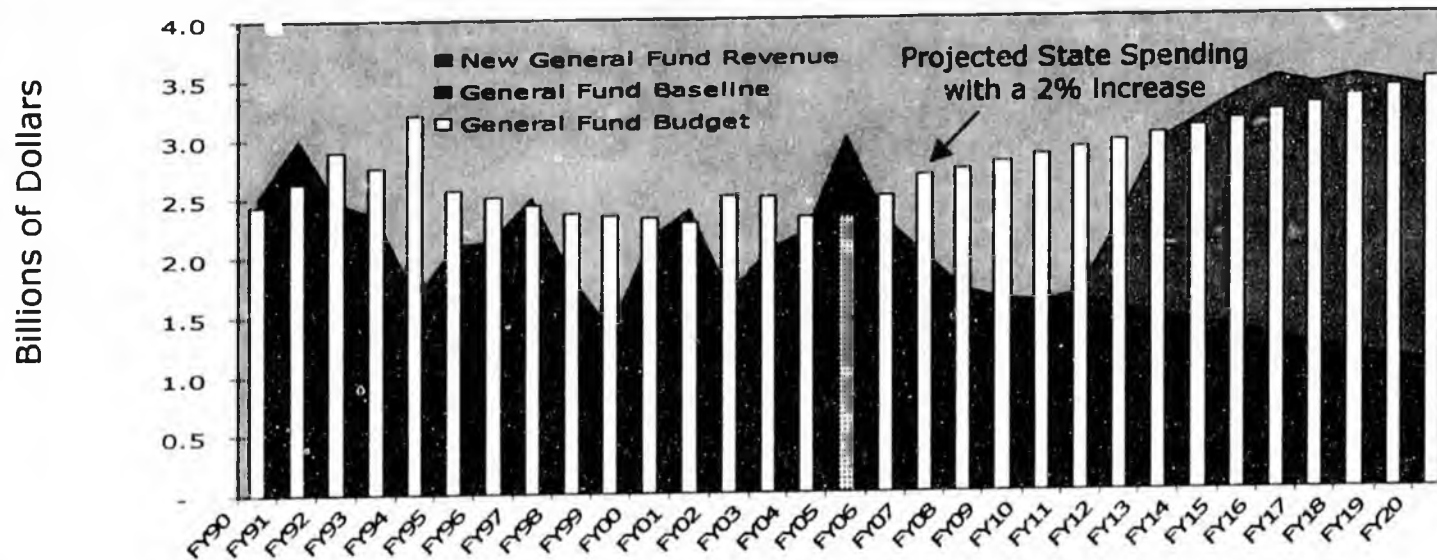


Home of the Fiscal Gap

FY06 Budget as proposed by Governor Murkowski

Source: Legislative Finance

... and what's the problem?



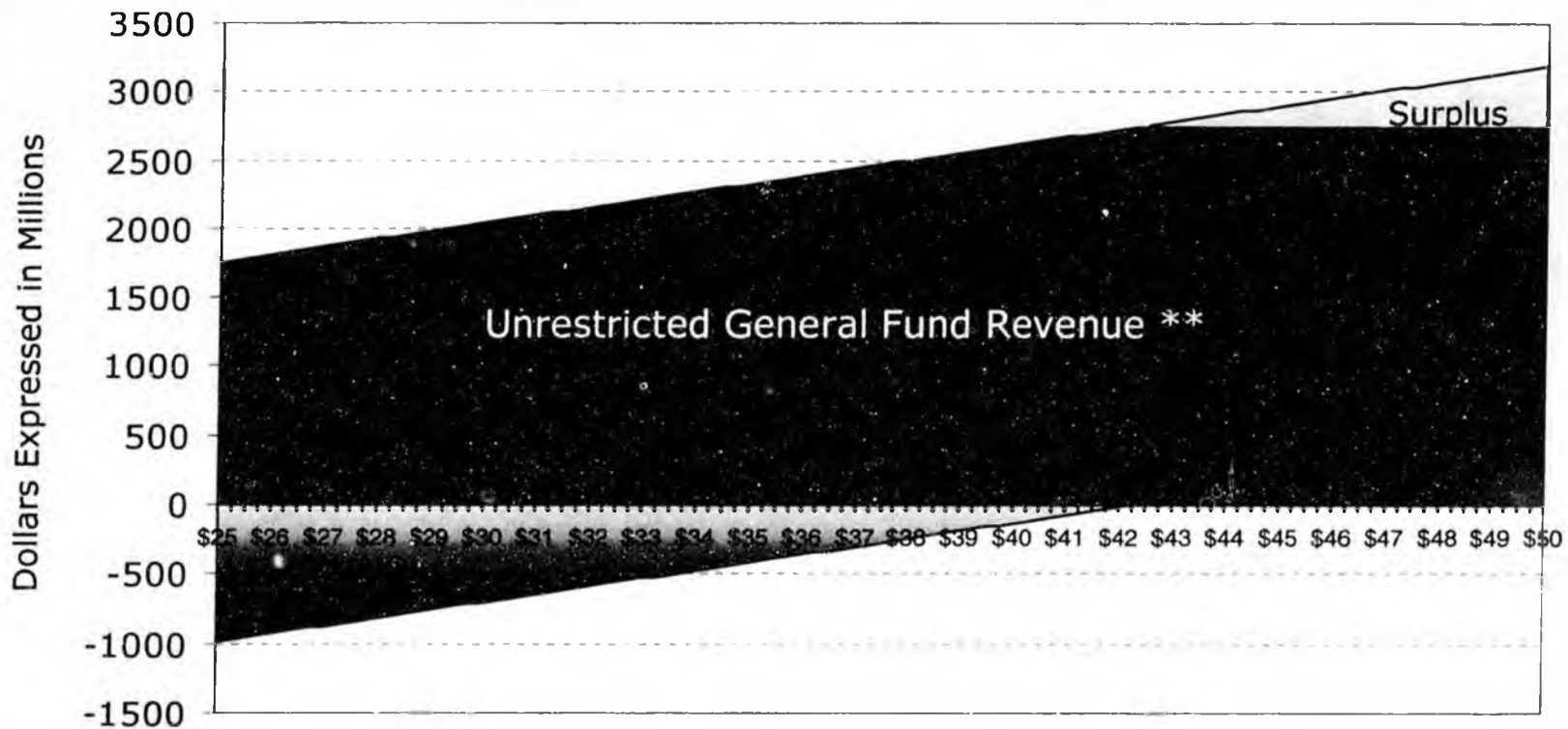
\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments.

Source: Legislative Finance

General Fund revenue can be less than  
General Fund expenditures.

... but things can change quickly  
*"For the Good or for the Bad"*

FY06 Proposed General Fund Budget \*



\* Assumes the Governor's proposed budget plus \$117.5 million for FY06 PERS/TRS costs and \$80 for new legislation/supplemental.  
 \*\* Includes revenues not directly affected by fluctuations in oil prices. Assumes DOR Fall 2004 production projection of .932 million barrels per day

. . . and they have

**ALASKA CONSTITUTION  
ARTICLE IX**

**Section 17. Budget Reserve Fund (a)**

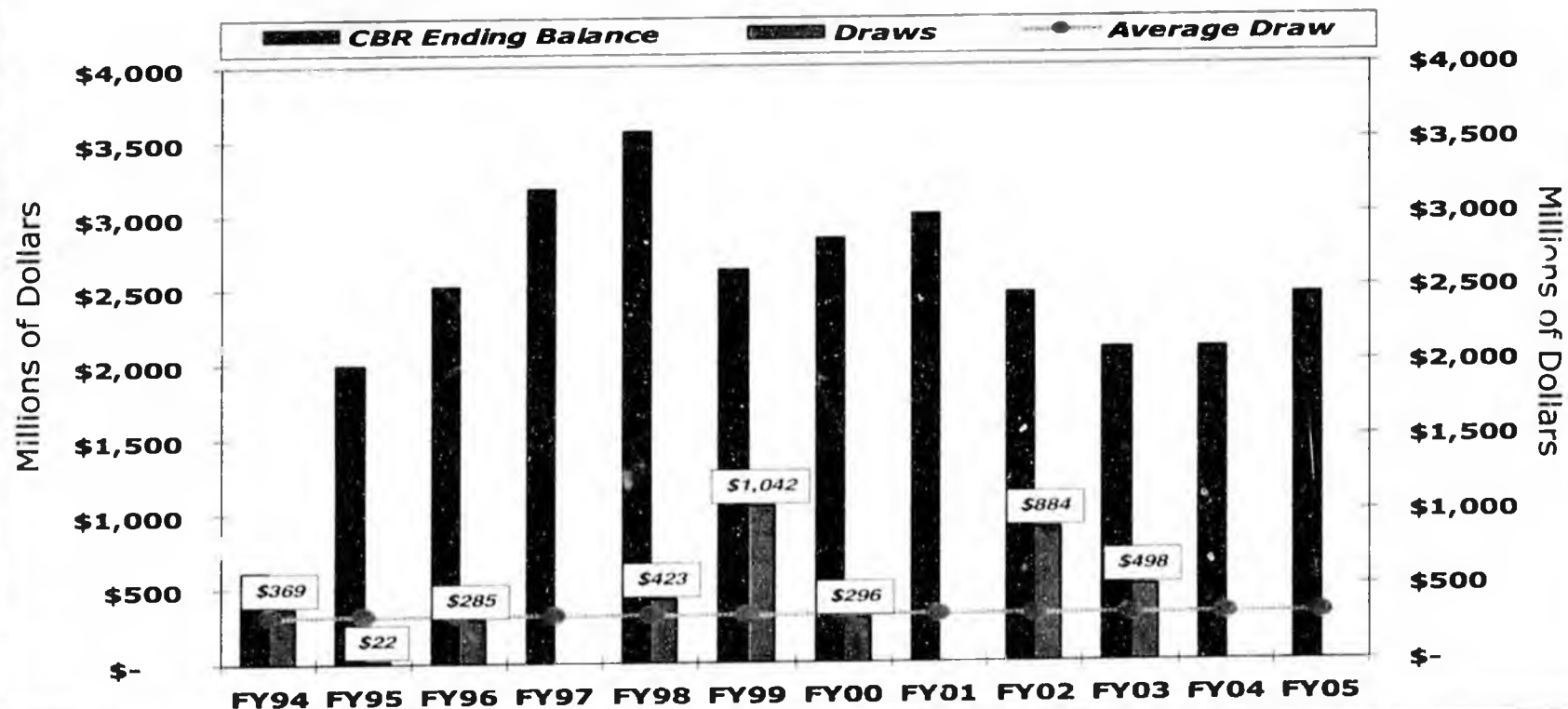
There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the state after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative 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

### CBR Balance and Draws for FY94 – FY05



Source: Legislative Finance

- Draw 8 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

"TransCanada submits application to state, says 2012 start-up possible"

Petroleum News, 6/6/04

"Alaska officials consult bankers on gas pipeline"

Bond News, May 27, 2004

"\$53.9 million in NPR-A bids offered"

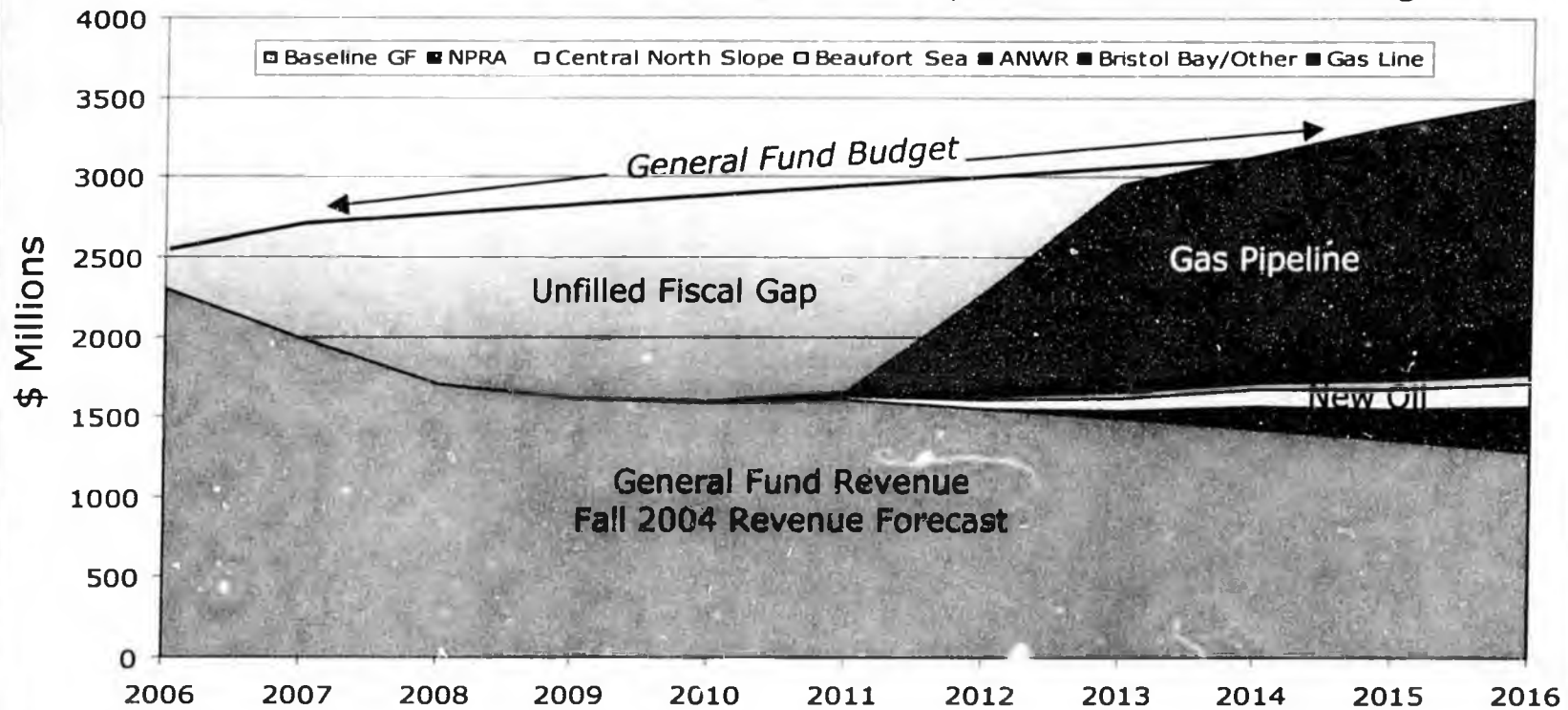
Fairbanks Daily News-Miner, 6/3/04

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

... a bridge is needed  
*From Today to Development*

**Potential Future Oil and Gas Revenue**  
 Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

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

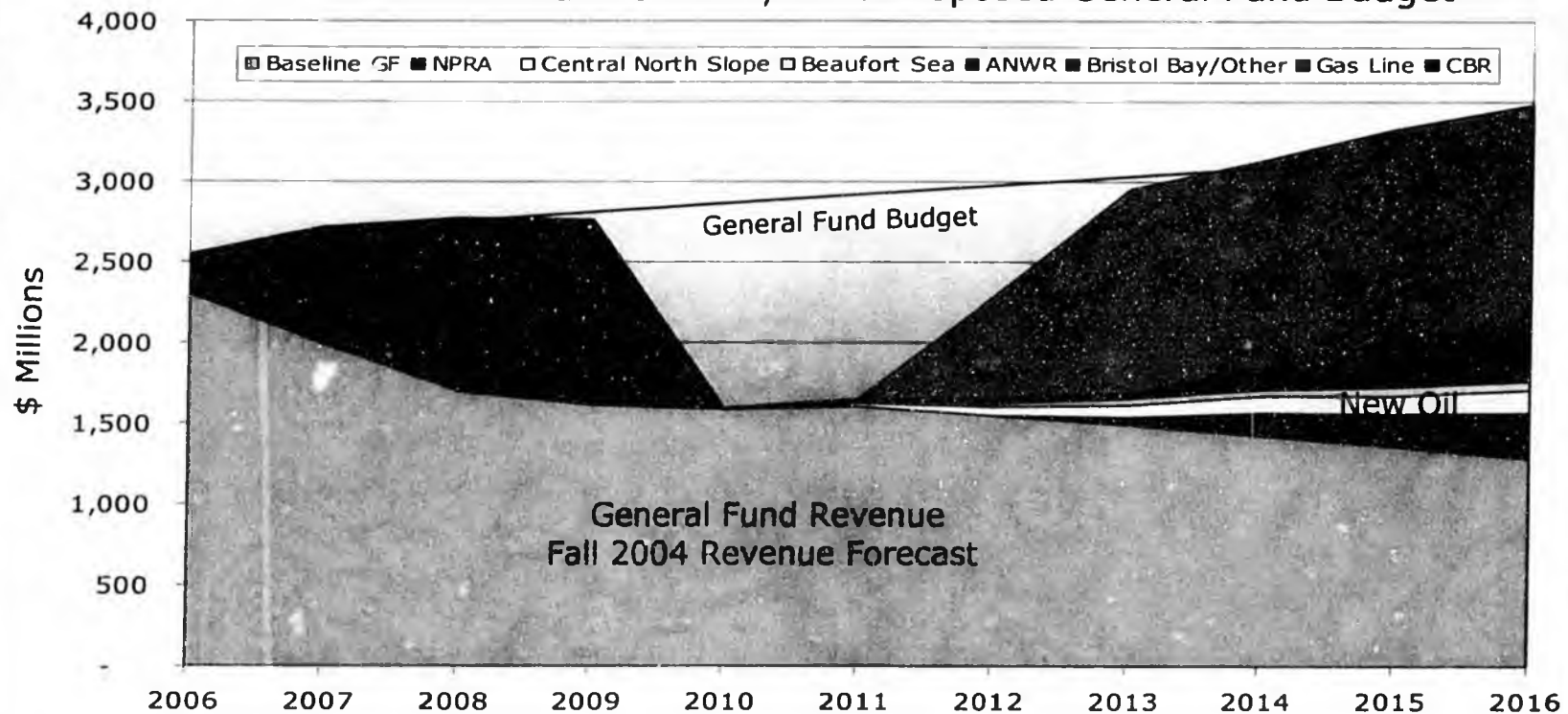
CBR  
(\$2.1 B)  
(Constitutional Budget Reserve)



... why not just the CBR?

### Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

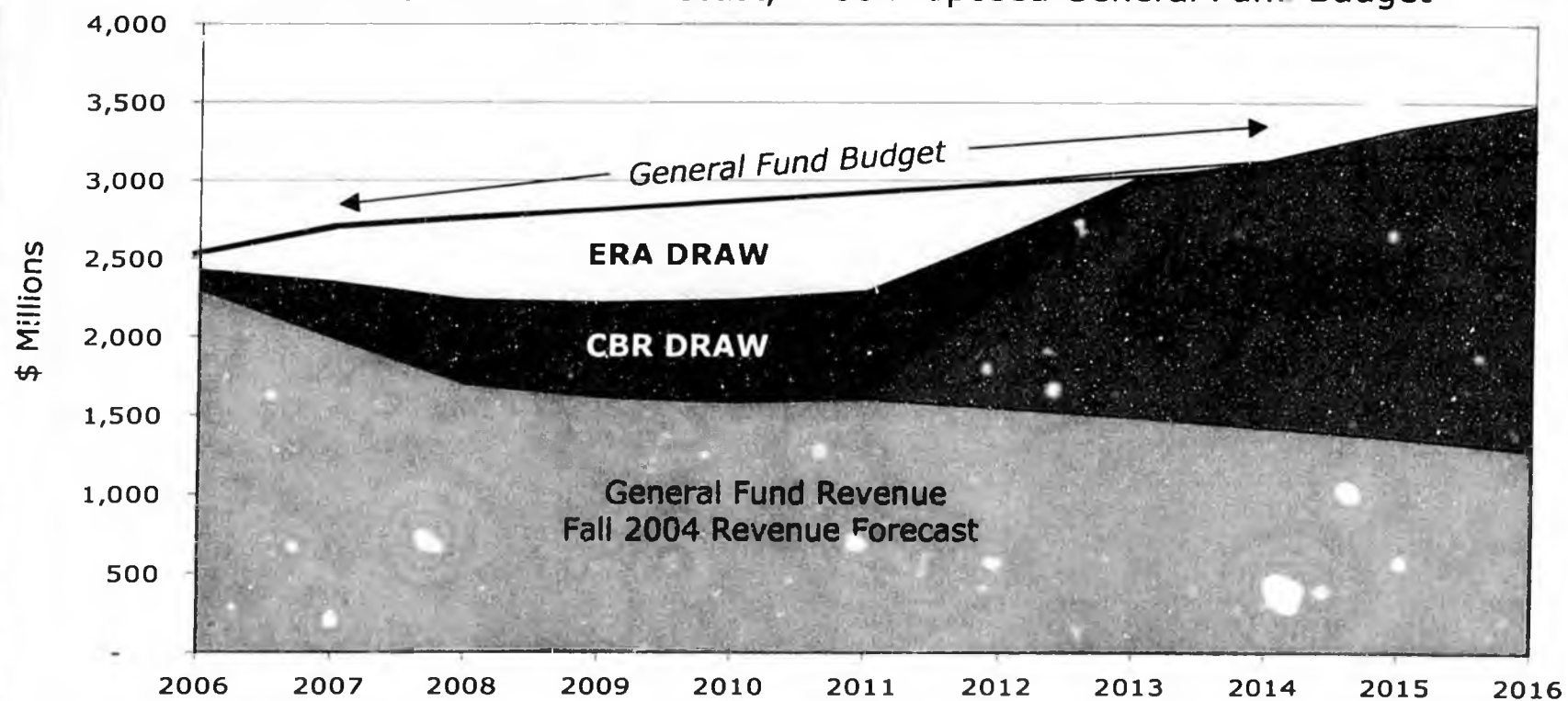
Source: Legislative Finance and OMB (Based on Fall 2004 Revenue Forecast)

... 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

### Potential Future Oil and Gas Revenue Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

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.

*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.

Projections will extend ten years, and are based on best available information (\$ in millions)

FY	Reserved Fund Balance - Principal					Unrealized Gain (Loss)		FY-End Reserved Balance	Unreserved Fund Balance					TOTAL FUND BALANCE	
	Begin Contrib. Balance	Appro- priations <sup>(1)</sup>	Dedicated State Revenues	Inflation Proofing	FY-End Contributions	Net Change	FY-End Balance		Acct. Net Income <sup>(2)</sup>	Statutory Net Income <sup>(3)</sup>	Dividends	Inflation Proofing	General Fund		Realized Earnings Account
77-98	0	8,734	6,250	5,533	18,517	1,971	3,971	22,488	20,883	18,687	7,589	5,533	22,488	1,389	77-98
99	18,517	41	155	288	18,901	(430)	3,541	22,542	2,148	2,544	1,045	288	3	1,201	99
00	19,001	264	326	423	20,014	(12)	3,529	23,543	2,249	2,222	1,172	423	4	382	00
01	20,014	8	339	484	21,047	(2,146)	1,383	22,430	1,921	1,199	1,113	885	5	(588)	01
02	21,047	(23)	258	602	21,884	(878)	503	22,389	(617)	257	926	602	5	(1,248)	02
03	21,884	354 <sup>(4)</sup>	398	352	22,988	601	1,108	24,094	963	355	691	352	0	(1,035)	03
04	22,884	(339) <sup>(4)</sup>	353	524 <sup>(5)</sup>	23,526	1,909	3,019	26,541	3,434	1,502	581	170 <sup>(6)</sup>	0	759	04
10% 05	23,526	19	476	624	24,645	(2,096)	19	24,664	(1,509)	1,468	502	624	0	342	10% 05
28% 05	23,526	21	476	624	24,647	(2,022)	993	25,640	(94)	1,907	548	624	0	735	28% 05
Mid 05	23,526	27	476	624	24,653	(453)	2,562	27,215	2,048	2,474	608	624	0	1,242	Mid 05
28% 05	23,526	28	476	624	24,654	1,069	4,084	28,738	4,187	3,090	672	624	0	1,794	28% 05
10% 05	23,526	31	476	624	24,657	2,125	5,140	29,796	5,765	3,609	727	624	0	2,259	10% 05
06	24,651	21	356	650	25,681	180	2,742	28,423	2,190	1,988	690	650	0	648	06
07	25,881	23	312	676	26,691	191	2,934	29,625	2,328	2,114	885	676	0	551	07
08	26,881	24	243	700	27,860	202	3,136	30,996	2,457	2,231	1,082	700	0	448	08
09	27,860	26	231	725	28,843	212	3,348	31,991	2,578	2,340	1,170	725	0	445	09
10	28,843	28	230	751	29,851	223	3,571	33,222	2,701	2,451	1,168	751	0	532	10
11	29,851	30	231	777	30,889	234	3,805	34,694	2,834	2,570	1,229	777	0	564	11
12	30,889	32	224	804	31,748	246	4,051	35,799	2,972	2,694	1,290	804	0	600	12
13	31,748	34	215	831	32,629	258	4,308	37,137	3,114	2,822	1,352	831	0	639	13
14	32,629	36	208	859	33,530	270	4,579	38,506	3,263	2,958	1,417	859	0	680	14
15	33,530	39	195	887	35,051	284	4,862	39,914	3,417	3,094	1,484	887	0	727	15
Projections		321	2,919	8,284		1,847			29,901	27,732	12,375	8,284	0	7,074	

ERA \$2,101 M

Return 7.61%

Assumptions	Total Return	Inflation	Total Real Return	Statutory Return
10%	-5.26%	2.60%	-7.86%	10%
28%	0.14%	2.60%	2.74%	28%
Mid FY 2005	7.61%	2.60%	5.01%	Mid
28% FY 2005	15.35%	2.60%	12.75%	28%
10% FY 2005	20.58%	2.60%	17.98%	10%
FY 2006-2015	7.61%	2.60%	5.01%	7.04%

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

FY06 Statutory net income	
Interest, dividends, real estate & other income	\$ 419.4
Realized gains on the sale of invested assets	404.6
Less operating expenses	(22.9)
Statutory net income	\$ 801.6

FY06 GAAP (accounting) net income	
Statutory net income	\$ 801.6
Adjustment for unrealized gains (losses) on invested assets	1,971.9
Accounting net income (loss)	\$ 2,373.2

For more information see [www.apfc.org](http://www.apfc.org)

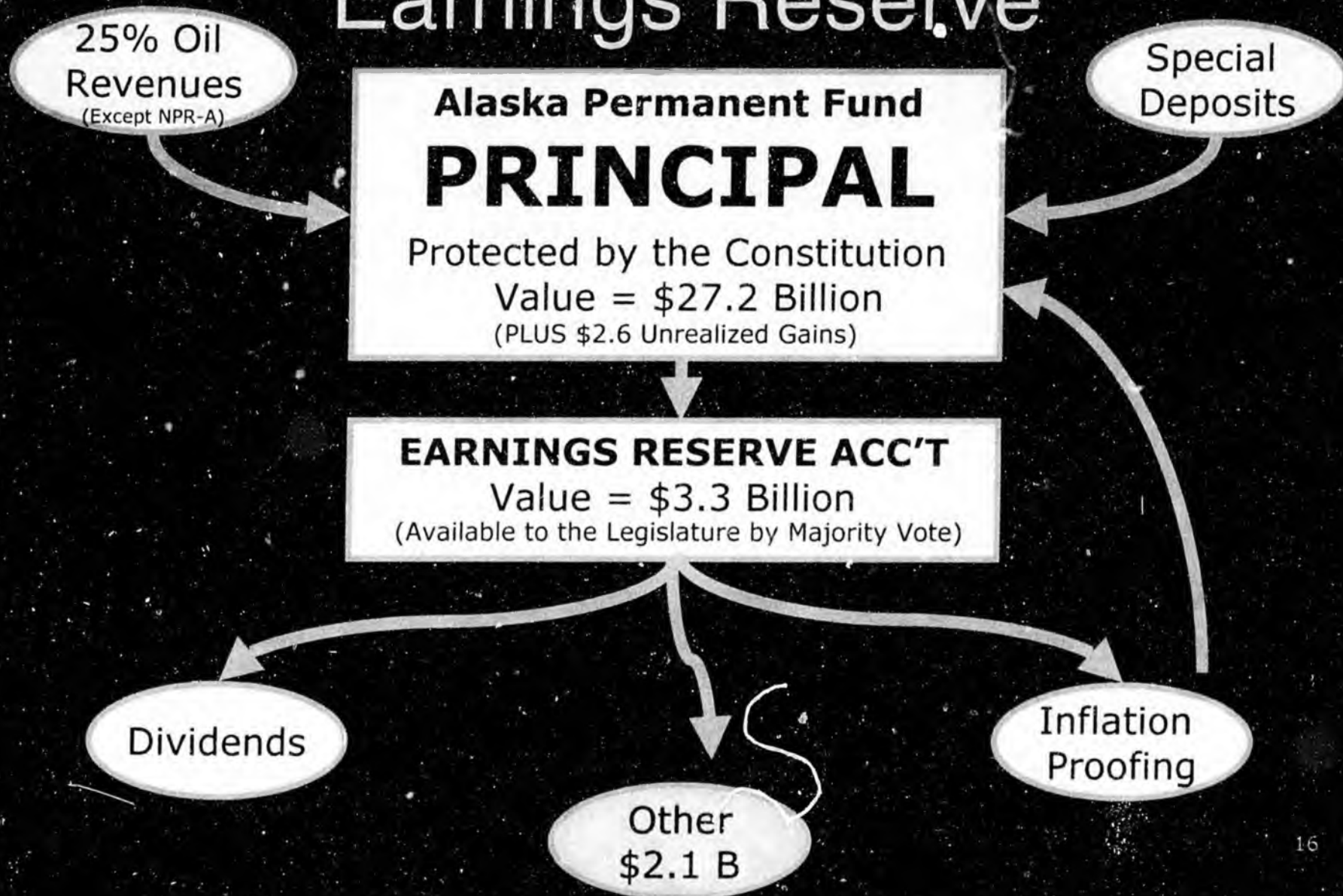
### Notes to financial results and projections FY77 - FY15:

- 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 reconciliation of State of AK v. American Hess et al royalty case.
- FY03 Senate Bill 100 transferred \$354 million from realized earnings account to principal.
- Senate Bill 283 defines the FY03 special appropriation of \$354 as pre FY04 inflation proofing and appropriates 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 tranche.
- Total Fund equals reserved fund balance plus the realized earnings account.
- Based on 2004 Cullen capital market assumptions and a range of expected returns based on the probability of the return outcomes.
- Based on 2004 Cullen capital market assumptions and median expected returns (the mid case). Actual results will vary from projections.

PERFORMANCE SUMMARY (preliminary 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 Cde	0.18%	0.40%	0.88%	1.88%	1.88%	1.87%
Domestic Fixed Income	0.94%	1.01%	-1.13%	4.27%	4.27%	6.11%	7.68%
Non-Domestic Fixed Income	1.23%	0.74%	10.69%	8.99%	8.99%	12.66%	8.09%
Domestic Equities	3.67%	10.60%	7.67%	12.12%	12.12%	6.18%	-0.88%
Non-Domestic Equities	4.26%	14.84%	18.22%	17.81%	17.81%	11.88%	-0.74%
Real Estate	3.03%	8.82%	14.12%	20.74%	20.74%	16.87%	14.47%
Absolute Return	N/A	1.90%					
Total Fund	2.77%	8.08%	8.76%	11.38%	11.38%	8.32%	4.66%
Total Fund Return Benchmark	2.67%	7.90%	8.76%	11.64%	11.64%	8.16%	3.91%

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

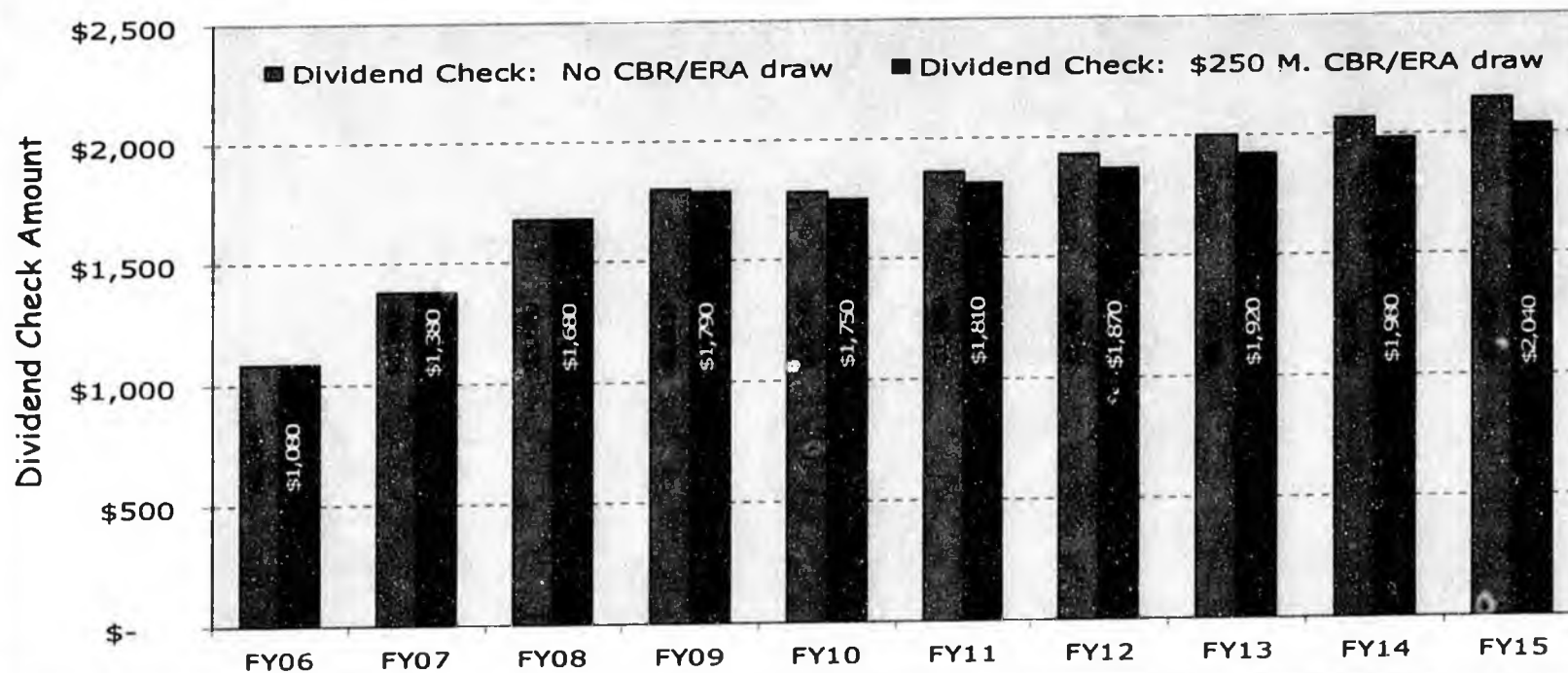
... but what about my check  
 if you use the Earnings Reserve?

Fiscal Gap (millions)	ERA Draw (millions)	<i>Fiscal Years Ahead</i>									
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
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	\$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 7.6% rate of return, Perm Fund Financial Projections, Dec. 31, 2004)

... 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

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

# ... let's compare alternative revenue sources.



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

Married, Two Children



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

Married, Two Children



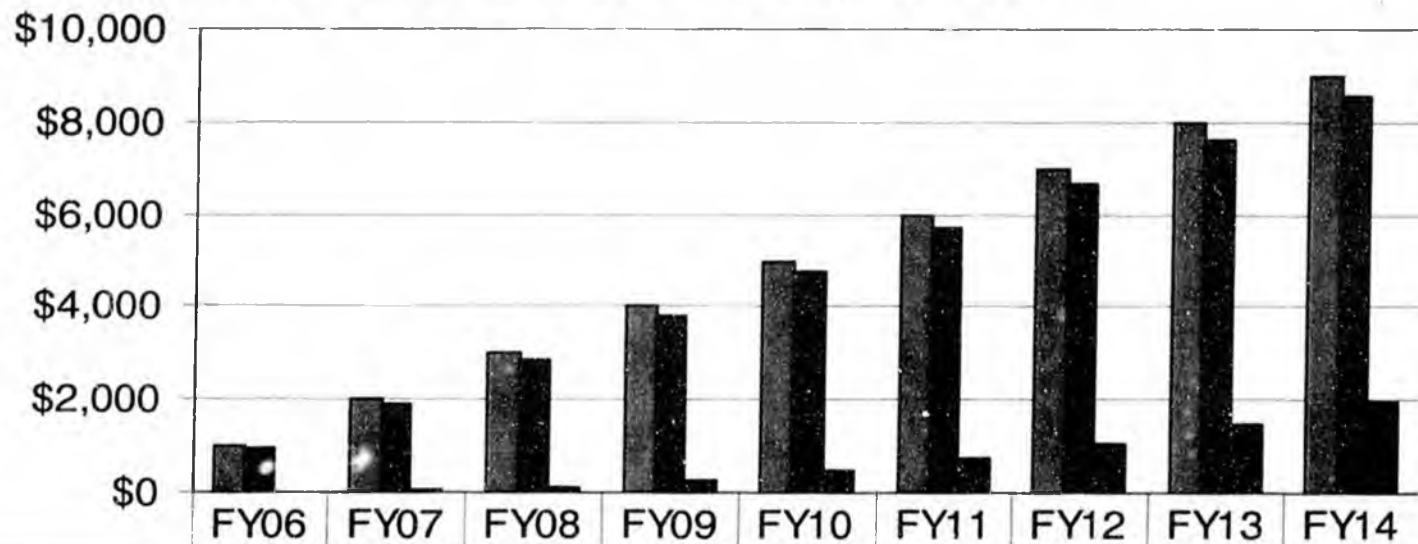
Earnings Reserve  
Raise \$250 Million  
Cost \$12  
(Slide 18)  
Source: Legislative Finance

Married, Two Children

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

... and what about over time?

Cumulative Cost to a Family of Four

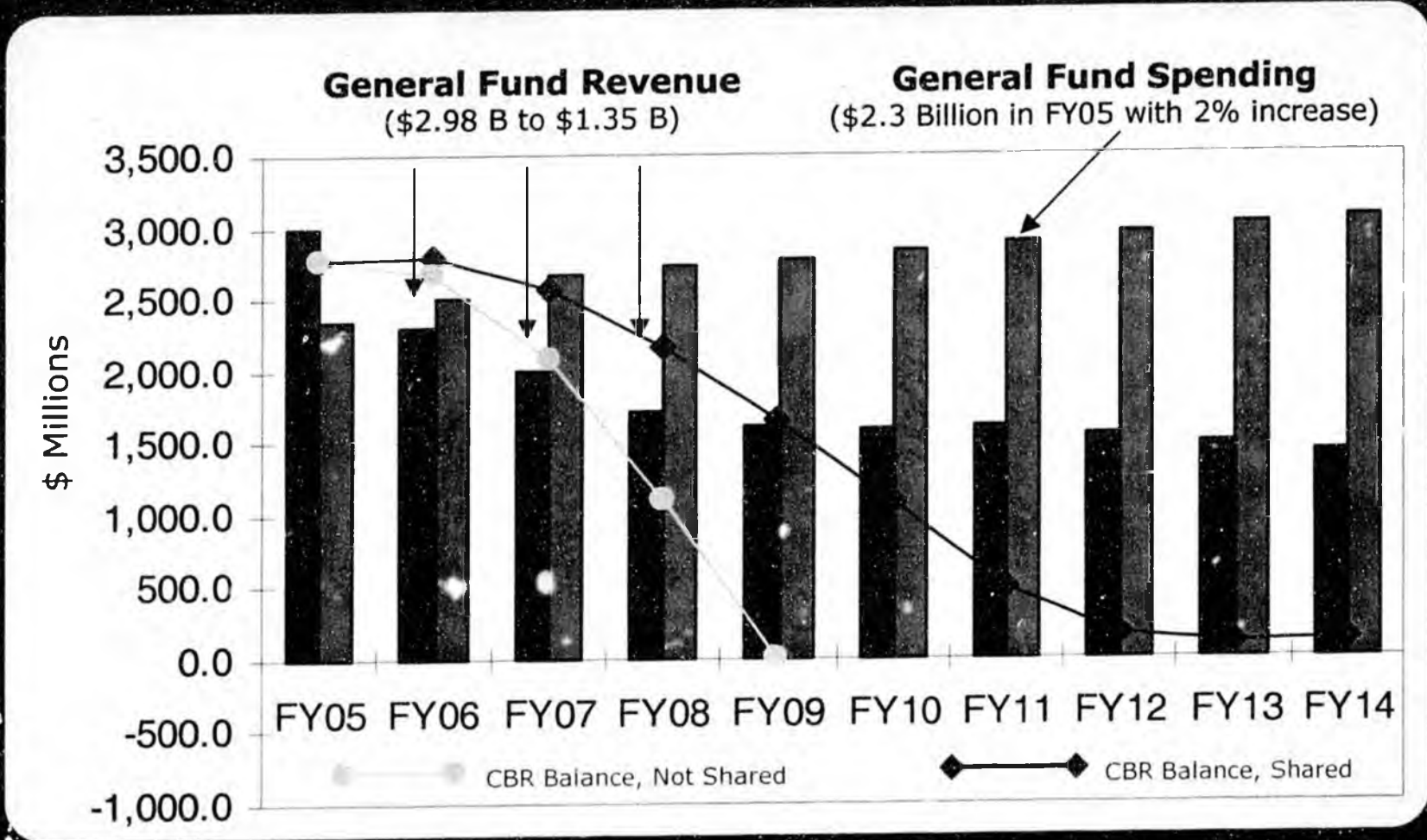


■ Income Tax	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,000	\$8,000	\$9,000
■ Sales Tax	\$950	\$1,900	\$2,850	\$3,800	\$4,750	\$5,700	\$6,650	\$7,600	\$8,550
■ Earnings Reserve	\$12	\$52	\$128	\$256	\$452	\$716	\$1,052	\$1,460	\$1,940

Source: Department of Revenue and Legislative Finance

*Cost to fill \$500 fiscal gap: \$250 M from CBR and \$250 M from one of three options.*

# ... 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

-  Recognizes Alaska's natural resource potential and opportunity for jobs
-  Recognizes the power of the Earnings Reserve – *the crown jewel of a fiscal plan*
-  Bridges the State of Alaska revenue needs until development can occur
-  Establishes accountability by forming a spending 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

# Senate Bill 88

*A Bridge to Development*



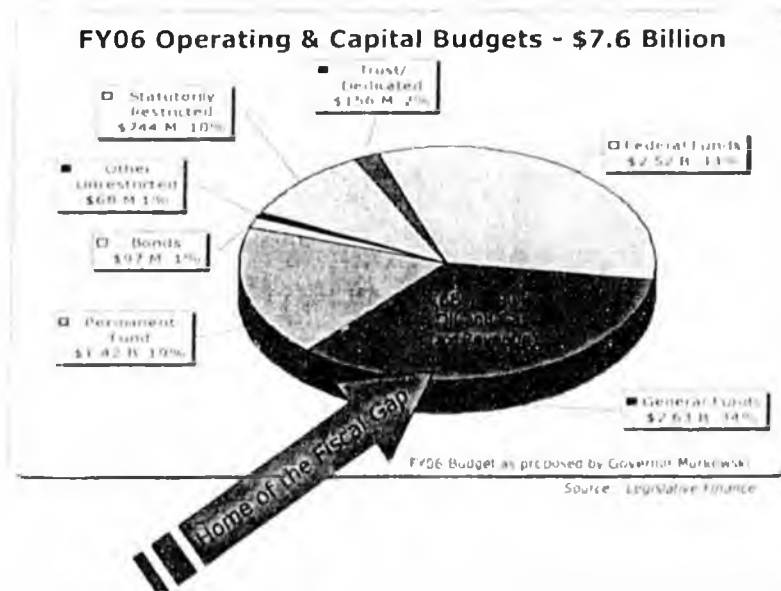
*A Policy on General Fund  
Revenue Shortfall*

"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."

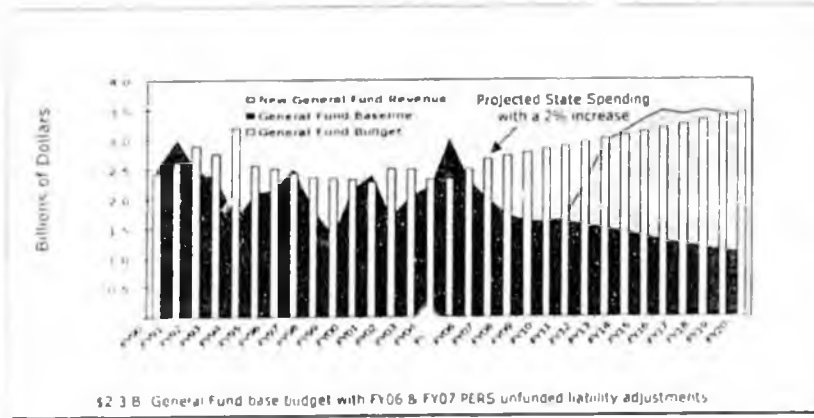
AS 37.07.010 Executive Budget Act

SB 88  
says

## Why? Where's the problem?



... and what's the problem?

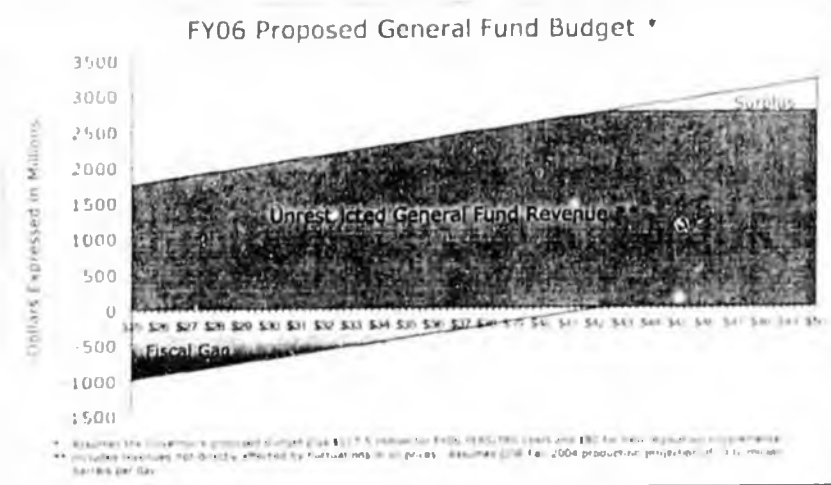


Source: Legislative Finance

General Fund revenue can be less than General Fund expenditures.

... but things can change quickly

*"For the Good or for the Bad"*



... and they have

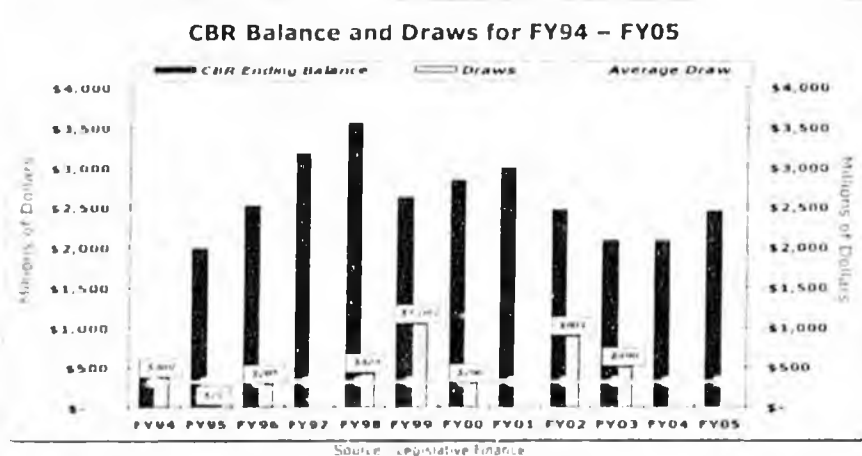
**ALASKA CONSTITUTION  
ARTICLE IX**

**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



- Draw 8 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

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

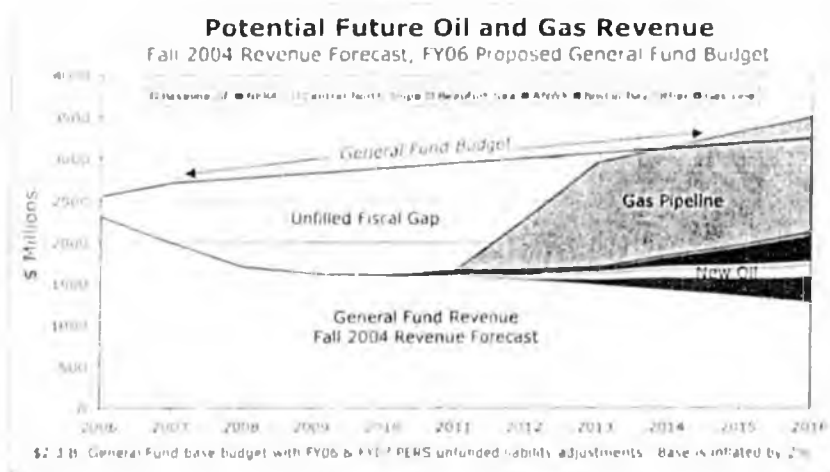
"Alaska officials consult bankers on gas pipeline"  
Bond News, May 27, 2004

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

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

## ... a bridge is needed

*From Today to Development*



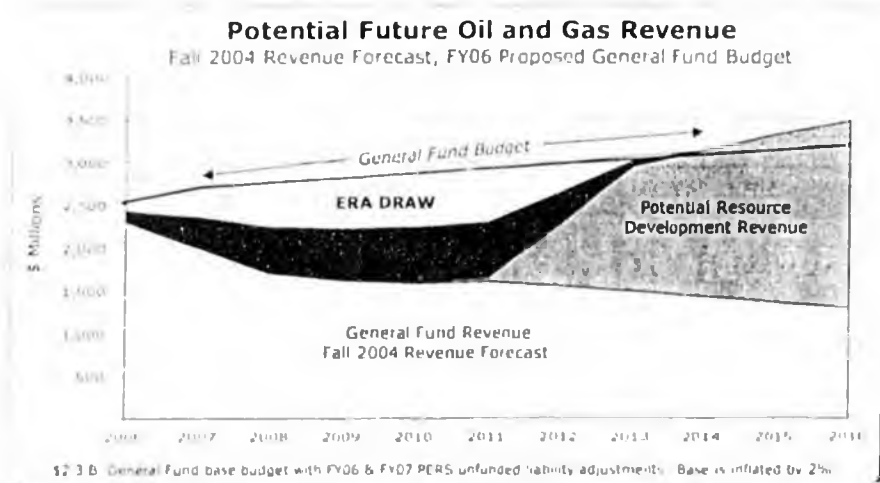


... so what if ...

The Legislature splits the future fiscal gaps with equal contributions from the Constitutional Budget Reserve and the Earnings Reserve Account?  
(SB 88)

12

... and we build a bridge



13

... 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!!!!

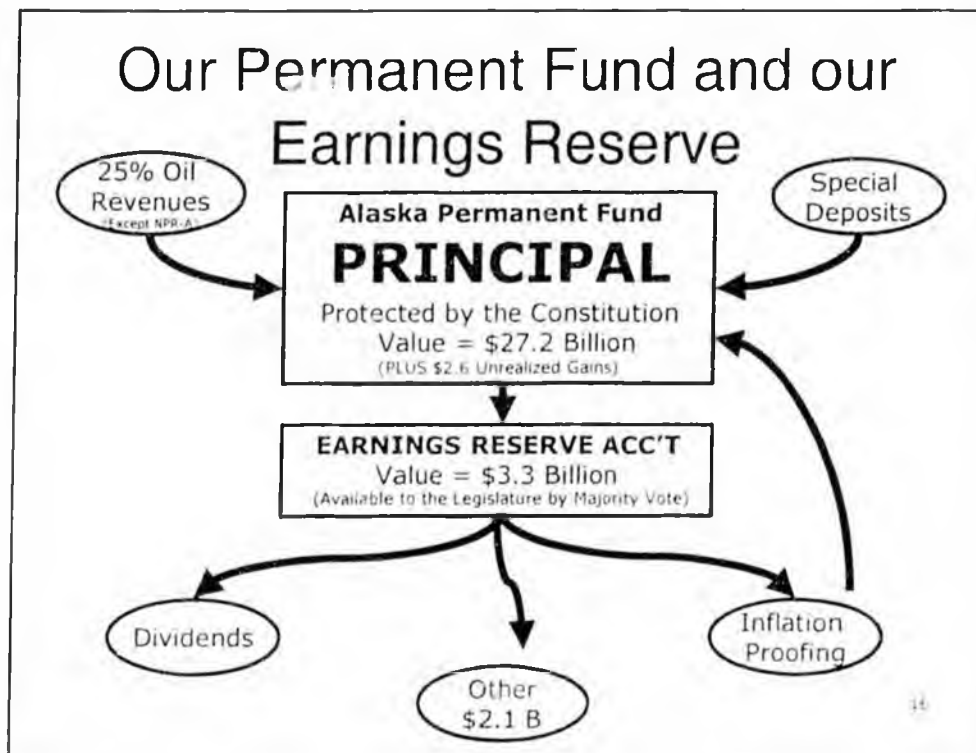
The Earnings Reserve Account, a result of wise investment of our Permanent Fund, has been and still is available to the legislature by a simple majority vote of 21-11.

PF financial projections say . . .

**ALASKA PERMANENT FUND  
FUND FINANCIAL HISTORY & PROJECTIONS  
AS AT DECEMBER 31 2004**

The table displays financial data for the Alaska Permanent Fund from 1976 to 2004, with projections for 2005 through 2010. It includes columns for 'Actual', 'Budget', and 'Projection'. Key sections include 'Revenues', 'Expenditures', and 'Assets'. A 'REVENUE' arrow points to the left side of the table, and a 'PROJECTIONS' arrow points to the right side. Below the main table, there are several smaller tables and footnotes providing additional details and assumptions.

## 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  
*If you use the Earnings Reserve?*

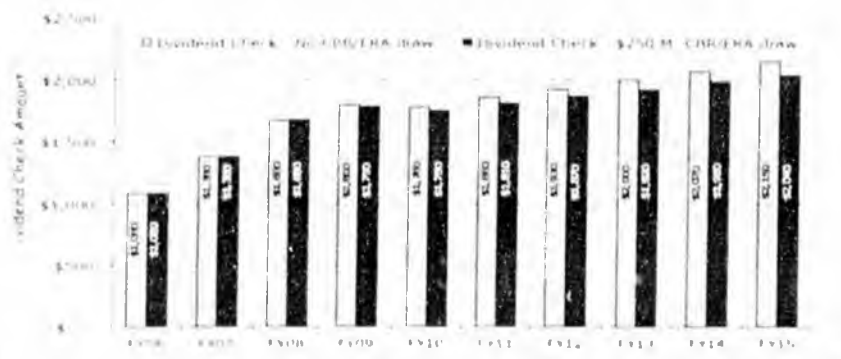
Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$2	\$4	\$7	\$12	\$18	\$25	\$31	\$38	\$44
300	150	\$0	\$2	\$5	\$11	\$18	\$27	\$37	\$47	\$56	\$66
400	200	\$0	\$3	\$7	\$14	\$24	\$36	\$49	\$62	\$75	\$88
500	250	\$0	\$3	\$9	\$18	\$30	\$45	\$61	\$77	\$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	\$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 7.6% rate of return - Perm Fund Financial Projections, Item 31, 2004)

18

... 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

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

... let's compare alternative revenue sources.

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

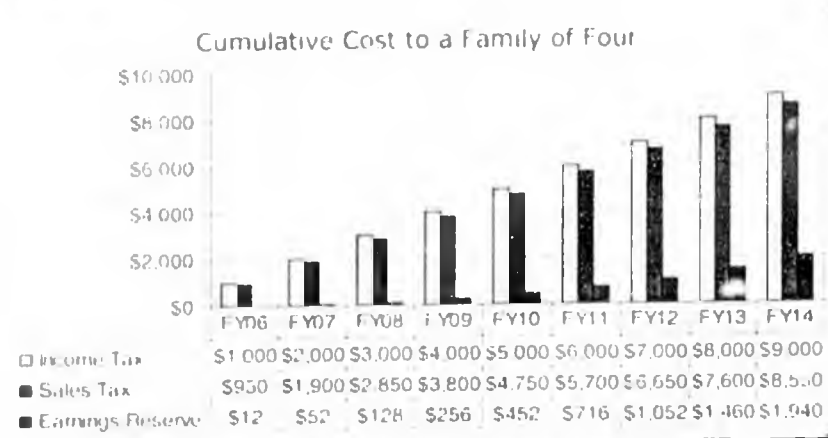
 **Sales Tax**  
 Raise \$250 Million  
 Cost \$950  
 (\$57,000 Adj. Gross Income)  
 Source: Department of Revenue (2.75% Sales Tax)

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

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

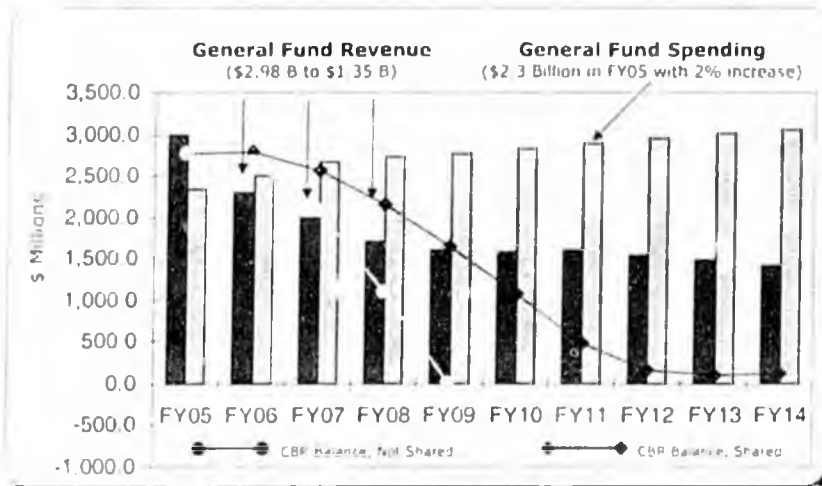
Information is based on the original and 10/1/11 implementation.

... and what about over time?



Cost to fill \$500 fiscal gap: \$250 M from CBR and \$250 M from one of three options.

... but does this help the CBR?



Source: Legislative Finance. Assumes CBR return @ 4.7% plus expected supplements.

... 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*



Recognizes Alaska's natural resource potential and opportunity for jobs



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



Bridges the State of Alaska revenue needs until development can occur



Establishes accountability by forming a spending 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