

SJR

8

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SJR8
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: OOG
 Title: Const. Amend. relating to and limiting RDU: Elections
appropriations from and inflation-proofing the AK Perm. Fund Component: Elections
 Sponsor: Rules at Request of LB&A
 Requester: Senate State Affairs Committee Component No: 21

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		1.5				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	1.5	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

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)						
TOTAL	0.0	1.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

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)

If this amendment appears on the 2006 ballot, the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58 is \$15. Should the addition of this question require printing an 8 1/2 by 18 inch ballot the cost will increase to \$22.0.

Prepared by: Lauri Allred, Admin. Assistant Supervisor Phone: 465-4611
 Division: Division of Elections Date/Time: 3/11/05 3:54 PM
 Approved by: Laura A. Glaiser, Director Date: 3/11/2005
 Agency: Office of the Lt. Governor, Division of Elections

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SJR 8
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Const. Am: Permanent Fund P.O.M.V RDU AK Permanent Fund Corporation
 Component AK Permanent Fund Corporation
 Sponsor Rules by Request of LBA Committee
 Requester Senate State Affairs Component No. 109

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 ()						
-------------------------------	--	--	--	--	--	--

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: 0.0
 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)

SJR 8 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.

SJR 8 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: Michael Burns, Executive Director/CEO Phone 907-465-2047
 Division Alaska Permanent Fund Corporation Date/Time 03/11/05
 Approved by: _____ Date 3/11/2005
 Agency _____



Alaska Permanent Fund Corporation

Financial projection comparison of the Alaska Permanent Fund (median case) under status quo versus POMV spending limit beginning in FY05. Under each scenario only the dividend (under current statutory calculation) is paid out.

All \$ values in millions except the per person dividend

Current Statutes	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05 - FY15 Totals
Contributions & appropriations (after payouts)	24,654	25,680	26,690	27,658	28,640	29,647	30,684	31,742	32,821	33,921	35,040	
Unrealized gains (losses) on invested assets	2,548	2,717	2,895	3,084	3,282	3,489	3,707	3,934	4,173	4,423	4,685	
Realized earnings account (after payouts)	2,113	2,772	3,337	3,799	4,258	4,806	5,387	6,006	6,664	7,366	8,111	
Total market value end of year (after payouts)	29,316	31,169	32,923	34,541	36,180	37,942	39,777	41,682	43,659	45,710	47,836	47,836
Total lump sum dividend appropriation	607	691	886	1,082	1,170	1,168	1,229	1,290	1,352	1,417	1,484	12,378
Per person dividend under current statute	\$950	\$1,080	\$1,380	\$1,680	\$1,800	\$1,780	\$1,860	\$1,930	\$2,000	\$2,070	\$2,150	\$18,680
Transfer status quo inflation proofing (realized earnings to Principal)	624	650	676	700	725	751	777	804	831	859	887	8,283
POMV spending limit information												
POMV 5% spending limit	1,309	1,332	1,384	1,464	1,551	1,620	1,682	1,743	1,805	1,867	1,930	17,689
less AFPC management costs	48	50	51	53	55	56	58	60	61	63	65	620
Net 5% POMV limit available for appropriation	1,261	1,282	1,333	1,411	1,497	1,564	1,624	1,684	1,744	1,804	1,865	17,068
Total lump sum dividend payout (current formula)	607	691	886	1,082	1,170	1,168	1,229	1,290	1,352	1,417	1,484	12,378
% of dividend to the POMV payout limit	46%	52%	64%	74%	75%	72%	73%	74%	75%	76%	77%	69%
Per person dividend under current statute	\$950	\$1,080	\$1,380	\$1,680	\$1,800	\$1,780	\$1,860	\$1,930	\$2,000	\$2,070	\$2,150	\$18,680

Assumptions:

- 1 POMV assumes a 5% payout limit, which is first used to fund APF administrative costs; and then only the dividend (current statutory calculation) is paid out.
- 2 Additional POMV monies above the dividend to the 5% limit is not spent, but left in the Fund to earn additional income.
- 3 POMV payout assumes calculation methodology is 5% of the ending market value (pre payout) for the first five of the last six fiscal years.
- 4 Callan Associates 2004 Capital Market Assumptions, APFC 2004 asset allocation, Fall 2004 revenue forecast and APF financial statements through 6/30/04. All payouts are assumed to happen at fiscal year end, all dollar values in millions except the per person dividend.



Alaska Permanent Fund Corporation

“The need for change”

1969: The boom begins



September 1969—Alaska receives \$900 million from the Prudhoe Bay oil lease sale.

The Operating Budget for that fiscal year (FY70) was \$173 million.

Using the information and testimony gathered during meetings held across the state, the Legislature decided to invest in Alaska, through capital projects and state programs.

By 1975 people were asking, “What happened to the \$900 million?” The implication was that the money had been wasted, and Alaskans began to accept the idea of saving for the future.

1974: Start of pipeline construction

With the promise of more oil money on the horizon, Alaska’s leaders brought a plan before the people of Alaska to save a portion of the State’s oil wealth.

“Just as a wise and prudent family sets aside money in a savings account for the future, so should Alaska’s state government set aside a rainy day fund to benefit this and future generations of Alaskans.”



*1976 Voter’s Guide
Statement in favor of the proposed constitutional amendment*

1976—1980: What should we do with the Fund?

~~Development
Bank~~

or

Investment
Fund

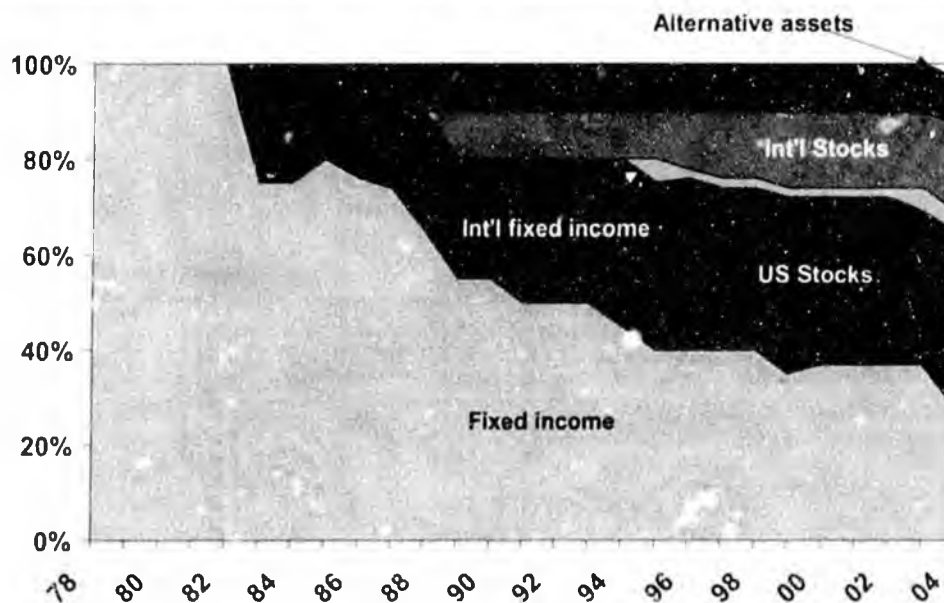
“... to benefit all generations...”

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.

As the Trustees manage the Fund, they must balance the rights of current generations against those of future generations. Neither the protection of the Fund for the future nor the payouts to current generations should take precedence.

The Fund, then and now



	1980	2005
Investments:	Bonds	Bonds, stocks, real estate, and alternative investments
Payout method:	Based on realized income	Still based on realized income
Inflation proofing:	Statutory calculation and transfer to principal	Still use statutory calculation and bookkeeping transfer

Return and income calculations

Recognized method

Total return
- Inflation

Real return

Alaska method

Total Return
- Unrealized gains/losses

Realized income
- Amerada Hess income

Statutory income

The need for change

As the markets have changed over the last 25 years, so have the Fund's investments. As a result, the payout structure that worked in 1980 no longer fits with how the Fund is managed today.

It made sense to base payouts on realized income when the fund was invested entirely in bonds. But now that a significant portion of the Fund's assets accumulate unrealized gains, this current payout structure does not allow current generations of Alaskans to take full advantage of the Fund's growth.

At the same time, the Legislature may expend all of the Fund's accumulated earnings. In some years this has left the Fund vulnerable to overspending. As the Legislature contemplates the use of earnings for government services, the Fund's Board of Trustees believe that it is important to limit spending within sustainable yield to preserve the Fund's value over time.

What is POMV?

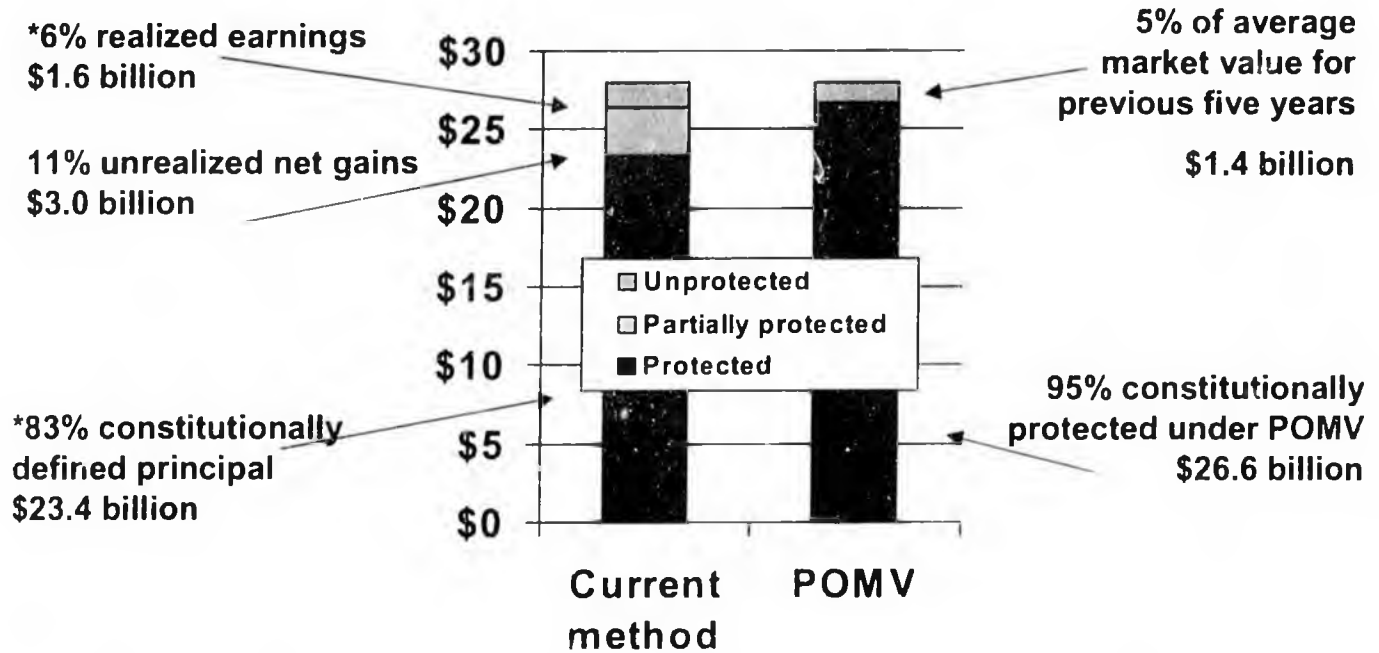
POMV is a spending limit for the Permanent Fund that is compatible with the Fund's investments. It is not a fiscal plan for the state.

Under POMV, no more than 5 percent of the Fund's market value, averaged over five years, may be withdrawn each year.

Under the current system, all realized earnings are available for spending from the Fund.

POMV v Status quo in FY2004

POMV protects more of the Fund from overspending than is protected under the current structure.



* Values as of June 30, 2004 and do not reflect \$581 million PFD payment or \$170 million inflation proofing transfer from realized earnings to principal.

What about inflation proofing?

Currently a transfer is made each year to offset the effect of inflation on the Fund's principal. The earnings of the Fund (17% of the Fund on June 30, 2004) are not inflation-proofed.

	FY94 to FY03 actual	FY05 to FY14 projected
Total return	7.8%	7.6%
Inflation rate	2.5%	2.6%
Real rate of return	5.3%	5.0%

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 inflation proof the entire Fund, and preserve its purchasing power for future generations.

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.

What are Alaskans asking?

- **Will this change leave the principal unprotected?**

If the markets were to perform poorly for several years in a row, it is possible that a small part of what used to be known as principal would be available for appropriation by the Legislature. However, the Legislature is not obligated to withdraw the full 5 percent available under POMV. In addition, POMV would provide better protection when the Fund rises in value, as it has for 25 of the last 28 years.

- **How will POMV affect my dividend?**

It is up to the Legislature to determine whether a new dividend calculation is appropriate under POMV, and if so what that dividend amount would be.

- **Is POMV a raid on the Permanent Fund?**

No. The Legislature already has the authority to spend the Fund's realized earnings, and does spend a portion of the earnings each year when for Permanent Fund Dividends. POMV would change how the amount available for spending is determined.

- **Why fix the Permanent Fund if it isn't broken?**

The Trustees believe that the current structure is broken. Earnings are not inflation-protected, the Fund is vulnerable to overspending and the payout structure is not compatible with the standard asset allocation for an institutional fund. POMV would address all of these issues.