

SB

178

<TARGET><BILL>SB 178</BILL><SUBJECT>SB
178</SUBJECT><COMM>SSTA27</COMM></TARGET>

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/27/12

FURTHER: Finance

Date of 5-Day Notice: 2/16/12
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3-15-12

State Affairs Committee considered SENATE BILL NO. 178

SB 178-ALASKA OPERATING ENDOWMENT FUND

"An Act relating to the Alaska operating endowment fund; and providing for an effective date."

and recommends:

- be replaced with CS SB 178 (STA) Same Title New Title
- adopt previous CS SCS/CS- Forthcoming) Same Title New Title
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

| Dept Abbr. | |
|------------|-----|
| ADM | LEG |
| CED | LAW |
| COR | LWF |
| CRT | MVA |
| EED | DNR |
| DEC | DPS |
| DFG | REV |
| GOV | DOT |
| DHS | UA |

| NEW FISCAL NOTE(S) | | | | |
|--------------------|--------|--------|------|------|
| Dept. | Fiscal | Indet. | Zero | FN # |
| REV | ✓ | | | |
| | | | | |
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| | | | | |
| | | | | |

| PREVIOUS FISCAL NOTE(S) | | | | |
|-------------------------|--------|--------|------|------|
| Dept. | Fiscal | Indet. | Zero | FN # |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS: | PRINTED LAST NAME | DO PASS | DO NOT PASS | No REC | AMEND |
|---------------------------------|-------------------|---------|-------------|--------|-------|
| | Giesel | | | X | |
| | Meyer | | | X | |
| | | | | | |
| | | | | | |
| | | | | | |
| CHAIR: | Wielechowski | | | X | |

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Bert Stedman, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
(907) 465- 3873 - Phone
(907) 465-3922 - Fax
Senator_Bert_Stedman@legis.state.ak.us



Official Business

Senator Lyman Hoffman, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 4453
Fax - (907) 465- 4523
Senator_Lyman_Hoffman@legis.state.ak.us

SPONSOR STATEMENT

SB 178 – Alaska Operating Endowment Fund “A Plan for Funding the Future”

Recently, the credit rating agency Standard & Poor’s upgraded the State of Alaska’s bond rating to AAA, the highest credit rating in state history. This is a result of prudent financial management of state finances. The Legislature has taken the lead on this issue by instituting strong fiscal practices and placing upwards of \$16 billion in savings.

While high oil prices have provided the state a healthy budget surplus, it’s important to ensure Alaska’s finances stay strong by enhancing state savings, avoiding wasteful spending, and providing the public works infrastructure that will help grow our economy. At the same time, the Legislature needs to seriously consider options for creating a fiscal framework that will protect our substantial savings from irresponsible spending in the future.

SB 178 will create the Alaska Operating Endowment Fund as a depository for the state’s savings in order to generate revenue for the benefit of future generations of Alaskans. It is the intent of the Senate Finance Committee that approximately \$15 billion will be used to capitalize the Fund. This number was calculated by combining the current balance of the Constitutional Budget Reserve Fund, the Constitutional Budget Reserve Fund – Special Subaccount, the Statutory Budget Reserve Fund and the estimated FY12 revenue surplus.

Once the Fund has been capitalized, the Department of Revenue shall manage and invest the fund subject to the same investment criteria established for the Alaska Permanent Fund Corporation. At the end of each fiscal year, the Department of Revenue will determine the average market value of the Fund for the preceding three fiscal years. Once that is determined, an amount not to exceed four and one half percent may be available for General Fund appropriations by the Legislature. This will provide a steady stream of funding for the state far into the future that is not subject to the volatility of oil prices. It will also aim to protect the Legislature from overspending in years of surplus revenue and provide a cushion for years when the state is facing deficits.

If you assume the same asset allocation utilized by the Alaska Permanent Fund Corporation and their projected annual rate of return of 7.5%, in FY16 the Fund would generate \$781 million in revenue. By FY23 there would be a little over \$1 billion available for General Fund appropriations with an end of year balance of \$23.9 billion in the Fund.

27-LS1255M
Kirsch
3/14/12

CS FOR SENATE BILL NO. 178(STA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the Alaska operating endowment fund; and providing for an**
2 **effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 *** Section 1.** AS 37.14 is amended by adding new sections to read:

5 **Article 10. Alaska Operating Endowment Fund.**

6 **Sec. 37.14.850. Alaska operating endowment fund established.** (a) The
7 Alaska operating endowment fund is established as a separate endowment fund of the
8 state. Appropriations may be made to the Alaska operating endowment fund.

9 (b) Money in the fund does not lapse under AS 37.25.010. Nothing in this
10 section exempts money transferred to the fund from the requirements of AS 37.07
11 (Executive Budget Act).

12 **Sec. 37.14.860. Fund management.** The Alaska operating endowment fund
13 shall be managed and invested by the Department of Revenue, subject to the same
14 powers and duties established for the Alaska Permanent Fund Corporation in

1 AS 37.13.120 and the regulations adopted by the Board of Trustees of the Alaska
2 Permanent Fund Corporation. The department shall retain income in the fund. The
3 department shall, not less frequently than annually, prepare, publish, and distribute a
4 financial report showing fund investment revenue and expenditures.

5 **Sec. 37.14.870. Use of the fund.** (a) As soon as practicable after June 30 of
6 each fiscal year, the Department of Revenue shall determine the average month-end
7 market value of the Alaska operating endowment fund for the immediately preceding
8 three fiscal years. The department shall identify four percent of that amount as
9 available for appropriation by the legislature for the purpose described in (b) of this
10 section.

11 (b) Each fiscal year, the legislature may appropriate the amount identified
12 under (a) of this section from the Alaska operating endowment fund for any public
13 purpose.

14 **Sec. 37.14.880. No dedicated fund.** Nothing in AS 37.14.850 - 37.14.870
15 creates a dedicated fund or dedicates state revenue.

16 * **Sec. 2.** This Act takes effect July 1, 2012.

FISCAL NOTE

STATE OF ALASKA cost # codes
2012 LEGISLATIVE SESSION

Bill Version SB178
Fiscal Note Number _____
Publish Date _____

Identifier (file name) SB178-DOR-TRS-2-21-12 Dept. Affected Revenue _____
Title _____ Appropriation Treasury And Taxation
Alaska Operating Endowment Fund Allocation Treasury Division
Sponsor _____ (S) FIN _____
Requester _____ (S) STA _____ OMB Component Number 121

Expenditures/Revenues (Thousands of Dollars)

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

| | FY13 Appropriation Requested | Included in Governor's FY13 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|------------------------------------|--|-------------------------|----------------|----------------|----------------|----------------|------|
| | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | 645.0 | | 870.0 | 1,110.0 | 1,155.0 | 1,195.0 | 1,230.0 | |
| Travel | | | | | | | | |
| Services | 1,115.0 | | 1,500.0 | 1,920.0 | 1,995.0 | 2,065.0 | 2,130.0 | |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants, Benefits | | | | | | | | |
| Miscellaneous | | | | | | | | |
| TOTAL OPERATING | 1,760.0 | 0.0 | 2,370.0 | 3,030.0 | 3,150.0 | 3,260.0 | 3,360.0 | |

| FUND SOURCE | | (Thousands of Dollars) | | | | | | |
|--------------|------------------|------------------------|------------|----------------|----------------|----------------|----------------|----------------|
| 1002 | Federal Receipts | | | | | | | |
| 1003 | GF Match | | | | | | | |
| 1004 | GF | | | | | | | |
| 1005 | GF/Prgm (DGF) | | | | | | | |
| 1037 | GF/MH (UGF) | | | | | | | |
| 1178 | temp code (UGF) | 1,760.0 | 0.0 | 2,370.0 | 3,030.0 | 3,150.0 | 3,260.0 | 3,360.0 |
| TOTAL | | 1,760.0 | 0.0 | 2,370.0 | 3,030.0 | 3,150.0 | 3,260.0 | 3,360.0 |

| POSITIONS | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

| CHANGE IN REVENUES | | | | | | | | |
|--------------------|--|--|--|--|--|--|--|--|
| | | | | | | | | |

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial fiscal note.

Prepared by Pamela Leary, Comptroller
Division Treasury Division
Approved by Angela Rodell
Deputy Commissioner

Phone 465-2350
Date/Time 2/21/12 12:00 AM
Date 2/21/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB178

Analysis

The bill provides for the Alaska Operating Endowment Fund to be managed by the Commissioner of Revenue. This fiscal note assumes a fund balance of \$15 billion in order to estimate costs. It is anticipated that the balance of \$15 billion in the fund will be achieved by moving \$5.3 billion in investments from the Constitutional Budget Reserve Main Fund, \$5.1 billion in investments from the CBRF Sub Account Fund, \$2.6 billion in investments from the Statutory Budget Reserve Fund and an estimated \$2 billion in FY2012 revenue surplus. The operating expenditures include the costs associated with investment management fees, audit, accounting and custody fees and other costs incurred by Treasury to manage the funds based on the fund moving towards an asset allocation of 41% fixed income, 27% domestic equity, and 32% international equity. It is anticipated that the investments moved from other funds will be transitioned to the new asset allocation in such a manner, as to minimize losses.

Note that this fiscal note includes all costs associated with managing this fund which is assumed to be sourced from the fund itself. However, the incremental budget request by Treasury would only be for the additional services needed to manage the new fund. Personal services costs would not be a budget increase request as it relates to finite internal costs that are spread amongst all funds managed by Treasury.

FISCAL NOTE

STATE OF ALASKA cost # codes
 2012 LEGISLATIVE SESSION

Bill Version SB 178
 Fiscal Note Number _____
 Publish Date _____

Identifier (file name) SB178-DOR-TRS-2-22-12 Dept. Affected Revenue
 Title _____ Appropriation Treasury And Taxation
 _____ Allocation Treasury Division
 Sponsor _____ (S) Finance _____
 Requester _____ (S) STA _____ OMB Component Number 121

Expenditures/Revenues (Thousands of Dollars)

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

| | FY13 Appropriation Requested | Included in Governor's FY13 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|------------------------------------|--|-------------------------|----------------|----------------|----------------|----------------|------|
| | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | 1,155.0 | | 1,415.0 | 1,700.0 | 1,765.0 | 1,820.0 | 1,880.0 | |
| Travel | | | | | | | | |
| Services | 1,995.0 | | 2,450.0 | 2,935.0 | 3,045.0 | 3,150.0 | 3,245.0 | |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants, Benefits | | | | | | | | |
| Miscellaneous | | | | | | | | |
| TOTAL OPERATING | 3,150.0 | 0.0 | 3,865.0 | 4,635.0 | 4,810.0 | 4,970.0 | 5,125.0 | |

| FUND SOURCE | | (Thousands of Dollars) | | | | | | |
|--------------|------------------|------------------------|------------|----------------|----------------|----------------|----------------|----------------|
| 1002 | Federal Receipts | | | | | | | |
| 1003 | GF Match | | | | | | | |
| 1004 | GF | | | | | | | |
| 1005 | GF/Prgm (DGF) | | | | | | | |
| 1037 | GF/MH (UGF) | | | | | | | |
| 1178 | temp code (UGF) | 3,150.0 | 0.0 | 3,865.0 | 4,635.0 | 4,810.0 | 4,970.0 | 5,125.0 |
| TOTAL | | 3,150.0 | 0.0 | 3,865.0 | 4,635.0 | 4,810.0 | 4,970.0 | 5,125.0 |

| POSITIONS | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

| CHANGE IN REVENUES | | | | | | | | |
|--------------------|--|--|--|--|--|--|--|--|
| | | | | | | | | |

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial fiscal note.

Prepared by Pamela Leary, Comptroller
 Division Treasury Division
 Approved by Angela Rodell
Deputy Commissioner

Phone 465-2350
 Date/Time 2/22/12 3:00 PM
 Date 2/22/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. SB 178

Analysis

The bill provides for the Alaska Operating Endowment Fund to be managed by the Commissioner of Revenue. This fiscal note assumes a fund balance of \$15 billion in order to estimate costs. It is anticipated that the balance of \$15 billion in the fund will be achieved by moving \$5.3 billion in investments from the Constitutional Budget Reserve Main Fund, \$5.1 billion in investments from the CBRF Sub Account Fund, \$2.6 billion in investments from the Statutory Budget Reserve Fund and an estimated \$2 billion in FY2012 revenue surplus. The operating expenditures include the costs associated with investment management fees, audit, accounting and custody fees and other costs incurred by Treasury to manage the funds based on the fund moving towards an asset allocation of 41% fixed income, 27% domestic equity, and 32% international equity. It is anticipated that the investments moved from other funds will be transitioned to the new asset allocation in such a manner as to minimize losses.

Note that this fiscal note includes all costs associated with managing this fund which is assumed to be sourced from the fund itself. However, the incremental budget request by Treasury would only be for the additional services needed to manage the new fund. Personal services costs would not be a budget increase request as it relates to finite internal costs that are spread amongst all funds managed by Treasury.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

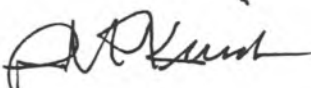
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 24, 2012

SUBJECT: Dedicated funds (SB 178, Work Order No. 27-LS1255A)

TO: Senator Bert Stedman
Attn: Darwin Peterson

FROM: Lisa Moritz Kirsch
Legislative Counsel 

You have asked whether SB 178 creates a dedicated fund in violation of article IX, sec. 7 of the Constitution of the State of Alaska. I believe it does not because the money in the proposed endowment fund would be subject to appropriation by the legislature for any public purpose.

State funds may be appropriated into and out of the fund.¹ New subsection AS 37.14.870(b) provides:

(b) Each fiscal year, the legislature may appropriate the amount identified under (a) of this section, *or any other amount*, from the Alaska operating endowment fund *for any public purpose*. (emphasis added)

Therefore the use of the fund is not limited to any specific purpose, and the amount the legislature may appropriate is not limited. The Department of Revenue will calculate an amount it determines "available for appropriation" under AS 37.14.870(a), but under the subsection quoted above the legislature is free to appropriate that amount or some other amount.

The Alaska Supreme Court has held that similar language creating the Alaska marine highway system fund (AS 19.65.060) did not create a dedicated fund. According to the court, "the expectations created by the act are merely a 'talking point' because they impose no legal restraint on the appropriation power of the legislature."² Here the act explicitly states that the legislature may appropriate money in the fund for any public purpose. Please let me know if you have additional questions.

LMK:plm
12-129.plm

¹ AS 37.14.850; AS 37.14.870(b).

² *Sonneman v. Hickel*, 836 P.2d 936, 940 (Alaska 1992).

SB178-- Alaska Operating Endowment Fund
Sample--\$15 billion initial appropriation to the endowment in FY13

| | | 7.50% | 4.50% | |
|------|-------------|----------|--------|-------------|
| | BoY Balance | Earnings | Payout | EoY Balance |
| FY13 | 15,000 | 1,125 | | 16,125 |
| FY14 | 16,125 | 1,209 | | 17,334 |
| FY15 | 17,334 | 1,300 | | 18,634 |
| FY16 | 18,634 | 1,398 | 781 | 19,251 |
| FY17 | 19,251 | 1,444 | 828 | 19,866 |
| FY18 | 19,866 | 1,490 | 866 | 20,490 |
| FY19 | 20,490 | 1,537 | 894 | 21,132 |
| FY20 | 21,132 | 1,585 | 922 | 21,795 |
| FY21 | 21,795 | 1,635 | 951 | 22,478 |
| FY22 | 22,478 | 1,686 | 981 | 23,183 |
| FY23 | 23,183 | 1,739 | 1,012 | 23,910 |

Notes:

- 1) Assumes payout begins in FY16.
- 2) Appropriating money from the CBRF to the endowment leaves a liability to repay the CBRF.
- 3) Earnings on the CBRF remain in the CBRF; they are currently available for use only with a supermajority vote.
- 4) Earnings on other funds are currently available for appropriation as UGF.
- 5) Future returns are based on 2011 Callan capital market assumptions and median expected returns. Actual results will vary.

3 Anchorage vs. U.S. City Averages, Part 1

Select CPI components, 1983 to 2010 annual averages

| Year | ALL ITEMS | | | | ALL ITEMS LESS SHELTER* | | | |
|------|-------------------|-----------------------|--------------|-----------------------|-------------------------|-----------------------|--------------|-----------------------|
| | Anchorage average | % chg. from prev. yr. | U.S. average | % chg. from prev. yr. | Anchorage average | % chg. from prev. yr. | U.S. average | % chg. from prev. yr. |
| 1983 | 99.2 | 1.8% | 99.6 | 3.2% | 99.9 | 3.7% | 99.8 | 3.7% |
| 1984 | 103.3 | 4.1% | 10.4 | 4.3% | 103.8 | 3.9% | 103.9 | 4.1% |
| 1985 | 105.8 | 2.4% | 107.6 | 3.6% | 107.5 | 3.6% | 107.0 | 3.0% |
| 1986 | 107.8 | 1.9% | 109.6 | 1.9% | 111.2 | 3.4% | 108.0 | 0.9% |
| 1987 | 108.2 | 0.4% | 113.6 | 3.6% | 115.1 | 3.5% | 111.6 | 3.3% |
| 1988 | 108.6 | 0.4% | 118.3 | 4.1% | 117.8 | 2.3% | 115.9 | 3.9% |
| 1989 | 111.7 | 2.9% | 124.0 | 4.8% | 122.3 | 3.8% | 121.6 | 4.9% |
| 1990 | 118.6 | 6.2% | 130.7 | 5.4% | 128.0 | 4.7% | 128.2 | 5.4% |
| 1991 | 124.0 | 4.6% | 136.2 | 4.2% | 131.9 | 3.0% | 133.5 | 4.1% |
| 1992 | 128.2 | 3.4% | 140.3 | 3.0% | 134.6 | 2.0% | 137.3 | 2.8% |
| 1993 | 132.2 | 3.1% | 144.5 | 3.0% | 137.9 | 2.5% | 141.4 | 3.0% |
| 1994 | 135.0 | 2.1% | 148.2 | 2.6% | 140.3 | 1.7% | 144.8 | 2.4% |
| 1995 | 138.9 | 2.9% | 152.4 | 2.8% | 144.6 | 3.1% | 148.6 | 2.6% |
| 1996 | 142.7 | 2.7% | 156.9 | 3.0% | 148.4 | 2.6% | 152.8 | 2.8% |
| 1997 | 144.8 | 1.5% | 160.5 | 2.3% | 150.6 | 1.5% | 155.9 | 2.0% |
| 1998 | 146.9 | 1.5% | 163.0 | 1.6% | 152.6 | 1.3% | 157.2 | 0.8% |
| 1999 | 148.4 | 1.0% | 166.6 | 2.2% | 153.5 | 0.6% | 160.2 | 1.9% |
| 2000 | 150.9 | 1.7% | 172.2 | 3.4% | 156.1 | 1.7% | 165.7 | 3.4% |
| 2001 | 155.2 | 2.8% | 177.1 | 2.8% | 160.6 | 2.9% | 169.7 | 2.4% |
| 2002 | 158.2 | 1.9% | 179.9 | 1.6% | 162.2 | 1.0% | 170.8 | 0.6% |
| 2003 | 162.5 | 2.7% | 184.0 | 2.3% | 166.5 | 2.7% | 174.6 | 2.2% |
| 2004 | 166.7 | 2.6% | 188.9 | 2.7% | 171.7 | 3.1% | 179.3 | 2.7% |
| 2005 | 171.8 | 3.1% | 195.3 | 3.4% | 177.5 | 3.4% | 186.1 | 3.8% |
| 2006 | 177.3 | 3.2% | 201.6 | 3.2% | 182.9 | 3.0% | 191.9 | 3.1% |
| 2007 | 181.2 | 2.2% | 207.3 | 2.8% | 187.7 | 2.6% | 196.6 | 2.5% |
| 2008 | 189.5 | 4.6% | 215.3 | 3.8% | 198.0 | 5.5% | 205.5 | 4.5% |
| 2009 | 191.7 | 1.2% | 214.5 | -0.4% | 199.2 | 0.6% | 203.3 | -1.0% |
| 2010 | 195.1 | 1.8% | 218.1 | 1.6% | 202.2 | 1.5% | 208.6 | 2.6% |

| Year | HOUSING | | | | TRANSPORTATION | | | |
|------|-------------------|-----------------------|--------------|-----------------------|-------------------|-----------------------|--------------|-----------------------|
| | Anchorage average | % chg. from prev. yr. | U.S. average | % chg. from prev. yr. | Anchorage average | % chg. from prev. yr. | U.S. average | % chg. from prev. yr. |
| 1983 | 99.0 | 0.8% | 99.5 | 2.7% | 98.5 | 1.8% | 99.3 | 2.4% |
| 1984 | 102.7 | 3.7% | 103.6 | 4.1% | 104.6 | 6.2% | 103.7 | 4.4% |
| 1985 | 103.0 | 0.3% | 107.7 | 4.0% | 108.2 | 3.4% | 106.4 | 2.6% |
| 1986 | 102.6 | -0.4% | 110.9 | 3.0% | 107.8 | -0.4% | 102.3 | -3.9% |
| 1987 | 97.5 | -5.0% | 114.2 | 3.0% | 111.3 | 3.2% | 105.4 | 3.0% |
| 1988 | 95.4 | -2.2% | 118.5 | 3.8% | 113.0 | 1.5% | 108.7 | 3.1% |
| 1989 | 96.3 | 0.9% | 123.0 | 3.8% | 116.7 | 3.3% | 114.1 | 5.0% |
| 1990 | 103.9 | 7.9% | 128.5 | 4.5% | 120.7 | 3.4% | 120.5 | 5.6% |
| 1991 | 111.2 | 7.0% | 133.6 | 4.0% | 121.7 | 0.8% | 123.8 | 2.7% |
| 1992 | 116.6 | 4.9% | 137.5 | 2.9% | 123.3 | 1.3% | 126.5 | 2.2% |
| 1993 | 121.1 | 3.9% | 141.2 | 2.7% | 128.8 | 4.5% | 130.4 | 3.1% |
| 1994 | 122.9 | 1.5% | 144.8 | 2.5% | 136.9 | 6.3% | 134.3 | 3.0% |
| 1995 | 124.9 | 1.6% | 148.5 | 2.6% | 143.8 | 5.0% | 139.1 | 3.6% |
| 1996 | 127.9 | 2.4% | 152.8 | 2.9% | 147.2 | 2.4% | 143.0 | 2.8% |
| 1997 | 129.4 | 1.2% | 156.8 | 2.6% | 147.0 | -0.1% | 144.3 | 0.9% |
| 1998 | 131.0 | 1.2% | 160.4 | 2.3% | 144.9 | -1.4% | 141.6 | -1.9% |
| 1999 | 132.7 | 1.3% | 163.9 | 2.2% | 143.7 | -0.8% | 144.4 | 2.0% |
| 2000 | 134.2 | 1.1% | 169.6 | 3.5% | 150.5 | 4.7% | 153.3 | 6.2% |
| 2001 | 139.0 | 3.6% | 176.4 | 4.0% | 153.0 | 1.7% | 154.3 | 0.7% |
| 2002 | 143.5 | 3.2% | 180.3 | 2.2% | 151.5 | -1.0% | 152.9 | -1.0% |
| 2003 | 146.8 | 2.3% | 184.8 | 2.5% | 158.3 | 4.5% | 157.6 | 3.1% |
| 2004 | 149.1 | 1.6% | 189.5 | 2.5% | 162.7 | 2.8% | 163.1 | 3.5% |
| 2005 | 153.1 | 2.7% | 195.7 | 3.3% | 171.7 | 5.5% | 173.9 | 6.6% |
| 2006 | 159.2 | 4.0% | 203.2 | 3.8% | 178.6 | 4.0% | 180.9 | 4.0% |
| 2007 | 163.5 | 2.7% | 209.6 | 3.1% | 180.7 | 1.2% | 184.7 | 2.1% |
| 2008 | 167.6 | 2.5% | 216.3 | 2.2% | 199.7 | 10.5% | 195.5 | 5.9% |
| 2009 | 173.7 | 3.7% | 217.1 | 0.4% | 190.2 | -4.8% | 179.3 | -8.3% |
| 2010 | 175.2 | 0.9% | 216.3 | -0.4% | 198.6 | 4.4% | 193.4 | 7.9% |

All Items Less Shelter includes everything except housing.
Source: U.S. Department of Labor, Bureau of Labor Statistics

Anchorage CPI used for Alaska

The Anchorage CPI is probably the most important cost-of-living index in Alaska. Anchorage is the only community in the state where the U.S. Department of Labor's Bureau of Labor Statistics produces such an index, and it is often treated as the de facto statewide inflation measure.

Anchorage is one of 27 urban areas in the country where the BLS tracks changes in consumer prices, and among cities with their own CPIs, Anchorage is the smallest. For the nation and some of the largest metro areas, the index is produced monthly. Others come out every other month, and for the rest — like Anchorage — it's twice yearly.

In most cases, price changes in Anchorage do not differ radically from Alaska's other urban areas, so the Anchorage CPI is probably a decent proxy. However, in the smaller and more remote communities — particularly those off the road system — spending habits may differ greatly from Anchorage. Despite this shortcoming, no good substitute exists.

CPI shows what we buy

The U.S. Department of Labor goes to great lengths and expense to produce the consumer price index. Intermittently, BLS conducts elaborate surveys of consumers' spending habits to examine the market basket of goods and their location-specific weights. The



State of Alaska
An Update on the State's Savings Accounts

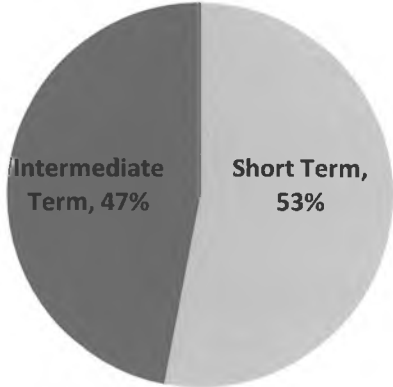
February 2, 2012

Department of Revenue
Treasury Division

1: Comparative Analysis of State Operating and Savings Funds

General Fund and other non segregated investments

Fiduciary oversight: Commissioner of Revenue

| | | General Fund (and other nonsegregated investments) | |
|---------------------------|-----------------|--|------------|
| Investment Objective | | Moderate Risk, Short to Intermediate investment horizon | |
| Target Asset Allocation | | <p style="text-align: center;">100% Fixed Income</p>  <p style="text-align: center;">Intermediate Term, 47% Short Term, 53%</p> | |
| | | Actuals | Benchmark* |
| Market Value (in 000s) | 12/31/2009 | \$6,184,600 | - |
| | 12/31/2010 | \$6,589,600 | - |
| | 12/31/2011 | \$9,207,700 | - |
| Returns (6/30/11) | FY11 | 1.72% | 1.25% |
| Returns (12/31/11) | YTD | 1.94% | 1.67% |
| | FYTD | 0.89% | 0.81% |
| | 3 Year Actuals | 2.46% | 1.42% |
| | 5 Year Actuals | 3.68% | 3.42% |
| | FORECAST | 3.20% | |

*Short-term: 3-month U.S. Treasury Bill; Intermediate-term: 1-5 Year Bank of America Govt. Bond Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

Constitutional Budget Reserve Fund (main & sub)

Fiduciary oversight: Commissioner of Revenue

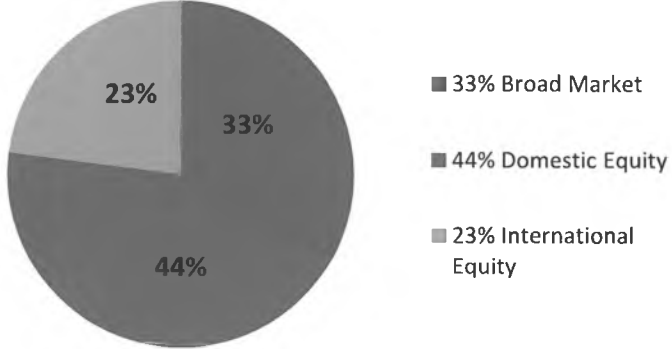
| | | Constitutional Budget Reserve (main fund) | | Constitutional Budget Reserve (sub fund) | |
|---------------------------|-----------------|---|------------|--|------------|
| Investment Objective | | Moderate Risk, Intermediate investment horizon | | High Risk, Moderately Long investment horizon | |
| Target Asset Allocation | | <p>100% Fixed Income</p> | | | |
| | | Actuals | Benchmark* | Actuals | Benchmark* |
| Market Value (in 000s) | 12/31/2009 | \$4,231,100 | - | \$4,427,300 | - |
| | 12/31/2010 | \$5,029,000 | - | \$4,928,400 | - |
| | 12/31/2011 | \$5,290,600 | - | \$4,955,400 | - |
| Returns (6/30/11) | FY11 | 2.64% | 2.29% | 21.13% | 20.64% |
| Returns (12/31/11) | YTD | 3.73% | 3.65% | 0.55% | 0.02% |
| | FYTD | 2.08% | 2.03% | -4.07% | -4.58% |
| | 3 Year Actuals | 4.06% | 3.08% | 11.34% | 10.34% |
| | 5 Year Actuals | 4.93% | 4.84% | 1.80% | 1.79% |
| | FORECAST | 3.40% | | 6.85% | |

*Short-term: 3-month U.S. Treasury Bill; Intermediate-term: 1-5 Year Bank of America Govt. Bond Index; Broad Market: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI EAFE

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

Power Cost Equalization Fund

Fiduciary oversight: Commissioner of Revenue

| | | Power Cost Equalization Fund | |
|---------------------------|-----------------|--|------------|
| Investment Objective | | High Risk, Moderately Long investment horizon | |
| Target Asset Allocation | |  <p> 33% Broad Market 44% Domestic Equity 23% International Equity </p> | |
| | | Actuals | Benchmark* |
| Market Value (in 000s) | 12/31/2009 | \$329,400 | - |
| | 12/31/2010 | \$352,600 | - |
| | 12/31/2011 | \$716,300 | - |
| Returns (6/30/11) | FY11 | 21.80% | 21.17% |
| Returns (12/31/11) | YTD | 0.87% | 0.37% |
| | FYTD | -3.98% | -4.30% |
| | 3 Year Actuals | 11.48% | 10.52% |
| | 5 Year Actuals | 2.60% | 2.10% |
| | FORECAST | 7.00% | |

*Broad Market: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index; International Equity: MSCI EAFE

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

Public School Trust Fund (Principle and Income accounts)

Fiduciary oversight: Commissioner of Revenue

| | | Public School Trust Fund (Principle) | | Public School Trust Fund (Income) | |
|---------------------------|-----------------|---|------------|---------------------------------------|------------|
| Investment Objective | | Moderate Risk, Long Term investment horizon | | Low Risk, Short investment horizon | |
| Target Asset Allocation | | <p>■ 54% Broad Market ■ 46% Domestic Equity</p> | | <p>■ 100% Short-Term Fixed Income</p> | |
| | | Actuals | Benchmark* | Actuals | Benchmark* |
| Market Value (in 000s) | 12/31/2009 | \$365,100 | - | \$15,200 | - |
| | 12/31/2010 | \$407,600 | - | \$15,700 | - |
| | 12/31/2011 | \$433,600 | - | \$14,100 | - |
| Returns (6/30/11) | FY11 | 16.98% | 16.71% | 0.48% | 0.16% |
| Returns (12/31/11) | YTD | 4.77% | 5.04% | 0.35% | 0.10% |
| | FYTD | 0.32% | 0.60% | 0.10% | 0.02% |
| | 3 Year Actuals | 11.45% | 10.77% | 1.19% | 0.14% |
| | 5 Year Actuals | 4.16% | 4.04% | 1.75% | 1.48% |
| | FORECAST | 6.07% | | 3.00% | |

*Short-term: 3-month U.S. Treasury Bill; Broad Market: Barclays U.S. Aggregate; Domestic Equity: Russell 3000 Stock Index

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

PERS & TRS

Fiduciary oversight: Alaska Retirement Management Board

| Investment Objective | | PERS Retirement Defined Benefit Pension | | TRS Retirement Defined Benefit Pension | |
|---------------------------|-----------------|---|------------|---|------------|
| | | Moderate Risk, Long Term investment horizon | | Moderate Risk, Long Term investment horizon | |
| Target Asset Allocation | | <ul style="list-style-type: none"> ■ 18% Fixed Income ■ 27% Domestic Equity ■ 23% International / Global Equity ■ 16% Real Assets ■ 14% Alternatives / Infrastructure ■ 2% Cash | | <ul style="list-style-type: none"> ■ 18% Fixed Income ■ 27% Domestic Equity ■ 23% International / Global Equity ■ 16% Real Assets ■ 14% Alternatives / Infrastructure ■ 2% Cash | |
| | | Actuals | Benchmark* | Actuals | Benchmark* |
| Market Value (in 000s) | 12/31/2009 | \$9,551,100 | - | \$4,194,600 | - |
| | 12/31/2010 | \$10,901,800 | - | \$4,603,700 | - |
| | 12/31/2011 | \$10,873,100 | - | \$4,545,200 | - |
| Returns (6/30/11) | FY11 | 21.07% | 22.52% | 21.23% | 22.52% |
| Returns (12/31/11) | YTD | 0.73% | 0.91% | 0.87% | 0.91% |
| | FYTD | -5.09% | -4.25% | -5.02% | -4.25% |
| | 3 Year Actuals | 7.97% | 10.23% | 8.00% | 10.23% |
| | 5 Year Actuals | 1.28% | 2.08% | 1.28% | 2.08% |
| | FORECAST | 8.00% | | 8.00% | |

*The ARMB Benchmark is a diversified weighted composite comprised of the following indexes by weight: 29.0% Russell 3000; 23.0% MSCI ACWI ex-US; 15.0% Barclays Intermediate Treasury; 9.6% NCREIF Total; 5.0% 3-Month U.S. Treasury Bill+5.0%; 3.2% Barclays U.S. TIPS; 2.3% MSCI EAFE; 2.3% S&P 500; 2.3% Russell 2000; 2.0% Citi WGBI Non-U.S.; 2.0% HiYld II; 1.6% NCREIF Farmland; 1.6% NCREIF Timberland; 1.0% 3-month U.S. Treasury Bill

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

APFC

Fiduciary oversight: Alaska Permanent Fund Corporation Board

| | | Alaska Permanent Fund Corporation | |
|---------------------------|-----------------|--|------------|
| Investment Objective | | Long term Investment Goal is to achieve a real rate of return of 5% per year | |
| Target Asset Allocation | | <p>A pie chart illustrating the target asset allocation for the Alaska Permanent Fund Corporation. The chart is divided into five segments: 24% Fixed Income (darkest grey), 37% Global Equity (medium-dark grey), 12% Real Estate (medium-light grey), 25% Alternatives / Infrastructure (light grey), and 2% Cash (white). A legend to the right of the chart lists these categories with their corresponding percentages.</p> | |
| | | Actuals | Benchmark* |
| Market Value (in 000s) | 12/31/2009 | \$34,617,900 | - |
| | 12/31/2010 | \$38,425,100 | - |
| | 12/31/2011 | \$38,646,700 | - |
| Returns (6/30/11) | FY11 | 20.56% | 22.63% |
| Returns (12/31/11) | YTD | 0.33% | -0.35% |
| | FYTD | -4.54% | -4.60% |
| | 3 Year Actuals | 10.20% | 8.70% |
| | 5 Year Actuals | 1.61% | 0.90% |
| | FORECAST | 7.50% | |

*The APFC Benchmark is a diversified weighted composite comprised of the following indexes by weight: 59.2% AC WORLD IMI; 13.5% NCREIF Total; 14.8% Global Corporation Holdings; 6.0% Barclays Global Government Holdings; 4.5% Barclays U.S. TIPS; 2.0% 3-month US Treasury Bill

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates

2: FY2011 Investment Revenue Forecast

FY2012 Investment Revenue Forecast

All Amounts in \$ Millions

Prepared January 27, 2012 by the State of Alaska - Department of Revenue

| FY 2011 Actuals | |
|-----------------------------------|-------------------------------|
| | Actual through 06-30-11 |
| UNRESTRICTED | |
| Investments | 93.2 |
| Interest Paid by Others | 3.1 |
| TOTAL UNRESTRICTED | 96.3 |
| RESTRICTED | |
| Investments - Designated GF | 8.6 |
| Investments - Other Restricted | 17.4 |
| <i>CBRF - Main Account</i> | <i>125.9</i> |
| <i>CBRF - Special Sub Account</i> | <i>901.0</i> |
| CBRF - Total | 1,026.9 |
| Other Treasury Managed Funds | 63.8 |
| Alaska Permanent Fund | 6,811.8 |
| TOTAL RESTRICTED | 7,928.5 |
| GRAND TOTAL | 8,024.8 |

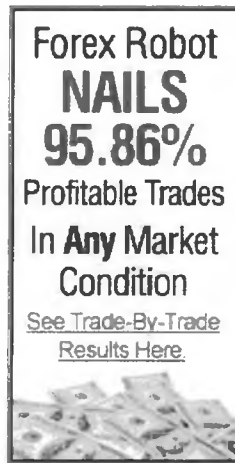
| FY 2012 Forecast - Based on actuals through Dec 31, 2011 | | | |
|---|-------------------------------|---------------------------------|----------------|
| | Actual through 12-31-11 | Forecast through 06-30-12 | Total FY 12 |
| UNRESTRICTED | | | |
| Investments | 62.5 | 88.1 | 150.6 |
| Interest Paid by Others | 1.4 | 1.0 | 2.4 |
| TOTAL UNRESTRICTED | 63.9 | 89.1 | 153.0 |
| RESTRICTED | | | |
| Investments - Designated GF | 4.3 | 7.6 | 11.9 |
| Investments - Other Restricted | 8.7 | 15.3 | 24.0 |
| <i>CBRF - Main Account</i> | <i>107.3</i> | <i>90.7</i> | <i>198.0</i> |
| <i>CBRF - Special Sub Account</i> | <i>(210.5)</i> | <i>172.2</i> | <i>(38.3)</i> |
| CBRF - Total | (103.2) | 262.9 | 159.7 |
| Other Treasury Managed Funds | 1.4 | 13.4 | 14.8 |
| Alaska Permanent Fund | (1,942.8) | 1,449.3 | (493.5) |
| TOTAL RESTRICTED | (2,031.6) | 1,748.5 | (283.1) |
| GRAND TOTAL | (1,967.7) | 1,837.6 | (130.1) |

Notes:

FY2012 investment forecasts include actual data through Dec 31, 2011 and projections for the remainder of FY2012.

Due to financial market volatility, forecasts shown are subject to review and adjustment.

Current Fiscal Year market values and stated returns are unaudited, preliminary, and include some estimates



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Long Term U.S. Inflation

Updated July 2006

Today's 50 Top Trending Stocks

1,929% Inflation!

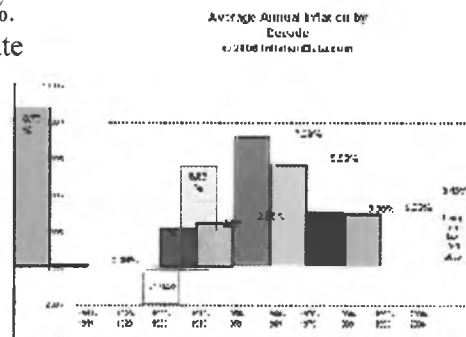
The Chart to the right shows the Annual Inflation Rates for each decade. Each bar represents the average Annual Inflation for the decade (not the total cumulative inflation for that 10 year period).

The final Yellow bar shows the average annual inflation rate since the government began tracking it in 1913.

As we can see the Average annual inflation rate is 3.43%. That doesn't sound too bad until we realize that at that rate prices will double every 20 years.

That means that every two bars on average prices have doubled or about 5 doublings since they began keeping records.

Five Doublings sounds like prices increased by 10 times right? But it gets even worse than that! Because it isn't just a arithmetic doubling it is compounded. So just as compound interest can multiply your savings, compound inflation can multiply the effects of inflation. As you can see from the cumulative Inflation chart since 1913 we have seen 1929% inflation.



(click for larger image)