

ALASKA LEGISLATURE

1978

HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000

1 NET] income of the Alaska permanent fund [AVAILABLE FOR DISTRIBUTION]
2 under AS 37.13.140.

3 * **Sec. 8.** 1999 PERMANENT FUND DIVIDENDS. Notwithstanding AS 37.13.145(b) and
4 AS 43.23.025, the amount of each permanent fund dividend for 1999 is \$1,000.

5 * **Sec. 9.** TRANSITION. (a) The Alaska Income Account established in AS 37.13.145(a),
6 as repealed and reenacted in sec. 4 of this Act, is the successor to the earnings reserve
7 account, and the balance in the earnings reserve account on the effective date of this section
8 shall be retained in the Alaska Income Account until distributed in accordance with
9 AS 37.13.145, as repealed and reenacted in sec. 4 of this Act.

10 (b) Notwithstanding AS 37.13.145(b), as repealed and reenacted in sec. 4 of this Act,
11 and AS 43.23.025, the amount of each permanent fund dividend for 2000 and each permanent
12 fund dividend for 2001 is \$1,000.

13 (c) Notwithstanding AS 37.13.145(a), as repealed and reenacted in sec. 4 of this Act,
14 a transfer from the Alaska Income Account to the general fund is not required following the
15 end of fiscal year 1999 and the amount transferred from the Alaska Income Account to the
16 general fund following the end of

17 (1) fiscal year 2000 is equal to 5.25 percent of the average of the quarter-end
18 market value for the last eight fiscal year quarters before the fiscal year just ended of

19 (A) the Alaska permanent fund (art. IX, sec. 15, Constitution of the
20 State of Alaska), including the Alaska Income Account; and

21 (B) the budget reserve fund (art. IX, sec. 17, Constitution of the State
22 of Alaska);

23 (2) fiscal year 2001 is equal to 5.25 percent of the average of the quarter-end
24 market value for the last 12 fiscal year quarters before the fiscal year just ended of

25 (A) the Alaska permanent fund (art. IX, sec. 15, Constitution of the
26 State of Alaska), including the Alaska Income Account; and

27 (B) the budget reserve fund (art IX, sec. 17, Constitution of the State
28 of Alaska);

29 (3) fiscal year 2002 is equal to 5.25 percent of the average of the quarter-end
30 market value for the last 16 quarters before the fiscal year just ended of

31 (A) the Alaska permanent fund (art. IX, sec. 15, Constitution of the

1 State of Alaska), including the Alaska Income Account; and
 2 (B) the budget reserve fund (art. IX, sec. 17, Constitution of the State
 3 of Alaska).

4 * **Sec. 10.** At a special election to be held on September 14, 1999, in substantial
 5 compliance with the election laws of the state including absentee voting, the lieutenant
 6 governor shall place before the qualified voters of the state a question advisory to the
 7 legislature and the governor. The question shall appear on the ballot in the following form:

8 QUESTION

9 ~~Summary of the Healthy Alaska Plan: This long-range plan requires further~~
 10 ~~reductions: limitations~~ ~~limitations~~ ~~state spending reductions and a state spending limit.~~ In addition, dividends will
 11 be guaranteed at a particular rate. The plan also has no personal income tax
 12 or sales tax. In more detail, the plan would provide as follows:

13 (1) Spending Reductions: State general fund spending would be reduced
 14 at least \$100,000,000 over fiscal years 2000 and 2001;

15 #4 (2) Spending Limit: A spending limit for the State of Alaska would be
 16 enacted;

17 (3) Alaska Income Account: The constitutional budget reserve and the
 18 permanent fund earnings reserve will be transferred to the Alaska
 19 Income Account;

20 (4) Permanent Fund: The corpus of the permanent fund remains
 21 untouched; the entire Alaska permanent fund is inflation-proofed to
 22 protect the value of the fund for all Alaskans, including future
 23 generations;

24 (5) Permanent Fund Dividends: A guaranteed dividend is paid to qualified
 25 Alaska residents of \$1,000 ~~annual distribution in~~ ^{FOR DISTRIBUTION} in 1999, 2000, and 2001, and thereafter at
 26 a rate not lower than 42 percent of the ~~revenue~~ ^{annual payment amount transferred} from the fund's
 27 investments after inflation-proofing;

28 (6) Operations of State Government: After inflation-proofing the
 29 permanent fund and paying dividends, additional earnings of the Alaska
 30 Income Account would be used to fund education, public safety, and
 31 transportation functions of state government; other functions of state

1 government would be funded at a flat level unless changed by the
2 legislature;

3 (7) New Revenues: No new statewide taxes are enacted as part of this
4 plan.

5 SHOULD THE STATE IMPLEMENT THE HEALTHY ALASKA PLAN?

6 Yes [] No []

7 * Sec. 11. Sections 3 - 7 and 9 of this Act take effect July 2, 1999.

8 * Sec. 12. Sections 1, 2, 8, and 10 of this Act take effect immediately under
9 AS 01.10.070(c).

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

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

May 8, 1999

SUBJECT: Alaska Income Account - sectional summary
(Work Order No. 21-LS0960\A)

TO: Representative Eldon Mulder
Co-chair, House Finance Committee
Attn: Denny DeWitt

FROM: Tamara Brandt Cook
Director

TBC

Sec. 1. Requires all income of the permanent fund to be deposited in the Alaska Income Account.

Sec. 2. Establishes the Alaska Income Account in the permanent fund. Requires transfers to the general fund from the account each fiscal year based on the average market values of both the permanent fund and the constitutional budget reserve fund. The commissioner of revenue is to transfer 42 percent of the amount transferred to the general fund each year to the dividend fund.

Sec. 3 - 5. Technical conforming amendments to reflect changes made in AS 37.13.140, dealing with permanent fund income.

Sec. 6. Establishes the amount of the 1999 permanent fund dividend at \$1,000.

Sec. 7. Provides that the Alaska Income Account created in this bill is the successor to the earning reserve account. Establishes the amount of permanent fund dividends for the year 2000 and for 2001 at \$1,000. Contains special calculations to base the transfers from the account to the general fund for fiscal years 2000, 2001, 2002.

Sec. 8. Most of the bill takes effect on July 2, 1999, but the provision setting 1999 dividends at \$1,000 takes effect immediately.

TBC:lmb
99-070.lmb

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

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

May 8, 1999

SUBJECT: Special appropriation - sectional summary
(Work Order No. 21-LS0961\A)

TO: Representative Eldon Mulder
Co-chair, House Finance Committee
Attn: Denny DeWitt

FROM: Tamara Brandt Cook
Director *TBC*

Sec. 1. Appropriates the unappropriated balance of the constitutional budget reserve fund to the Alaska Income Account. The appropriation requires approval by three-fourths of the members of each house.

Sec. 2. This Act takes effect only if a substantive bill is enacted establishing the Alaska Income Account in the permanent fund.

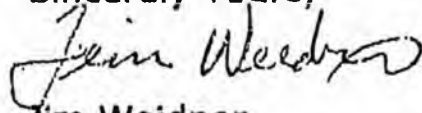
Sec. 3. If it takes effect, this Act takes effect on the effective date of the substantive bill establishing the Alaska Income Account.

TBC:lmb
99-071.lmb

(7) To reduce the cost of living for all state residents by promoting large and small scale business growth in a competitive economic environment.

Because the political process can not be trusted and we are continuously harassed by nitwit schemes, I support a Constitutional Amendment guaranteeing Permanent fund Earnings will be used for inflation proofing and dividends only (approximately 50/50 with exact amount set by law), and another use would require a 2/3 vote of registered votes.

Sincerely Yours,



Jim Weidner

907-488-6366



ALASKA STATE LEGISLATURE

Please enter into the record my testimony to the Finance
(committee name)
 committee on #231 #232 dated 5-13-99
(bill/subject)

Dear Finance Committee I support Bills #232 & #231. I want the maximum amount of Permanent Fund transfer to the Alaska Income Account & support the House in using a portion of the Fund.

Also I want the state to pass an income tax. When I came to AK 32 years ago I paid an income tax & a school tax. We need to have a \$200/taxpayer school tax.

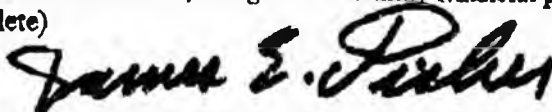
Signed: [Signature]
(Testifier)
Terry S. Dixon
(Representing / Optional)
Box 1058 Seward, AK 99664
(Address)
(907) 224-5844
(Phone No.)

I agree with Karl from Fairbanks! I waited 45 min. to talk. Thanks Gail & Gary!

5/13/99

TO: House Finance Committee

Re: HB 231 & 232, designated a healthy financial plan (which I question as incomplete)



From: James E. Fisher, 171 Farnsworth, Soldotna, 99699
Fax: 262-9641 ph: 262-9601

The debate over HB 231 and 232, leaves, me as a most concerned Alaskan, with a feeling of great apprehension that they project only a patchwork for a "healthy Alaska plan".

While the Legislature deserves credit for courage in proposed use of earnings of the Permanent Fund, it seems an apparent wimp-out in its failure to consider other revenues, i.e. the reasonable gasoline tax proposed or state income tax reinstatement. Time remains for enactment of both, or either, measure since such bills are presently before the Legislature.

Until the Legislature asks we residents of Alaska to assume more direct financial responsibility for the many essential state services benefiting our daily lives, the state's financial condition will remain precarious. For example, if a gas pipeline were to be authorized tomorrow, Alaska would have no way to recover the very heavy costs resulting from the wave of job seekers and their families.

In closing, I strongly urge the Committee, and the Legislature, to do a complete job of structuring a complete financial plan for Alaska, that should include new, or enhanced revenues, as recommended above.



Alaska State Legislature

Please enter into the record my testimony to the House Finance committee name

Committee on HB 231 & HB 232, dated May 13, 1999
bill # / subject

HB 231 & HB 232 is not the problem or solution. Bad management & too many staff employees at the top are the problem, as well as wages being too high. The ~~legislators~~ legislators do not need \$18⁰⁰ per diem.

Signed:

Howard Hughes

Testifier

Self

Representing (optional)

Po Box 8365 NIKISKI, AK 99635

Address

907 776 5500

Phone number



Alaska State Legislature

Please enter into the record my testimony to the House Finance committee name

Committee on HB 231 & HB 232, dated May 13, 1999
bill # / subject

Law dead set against HB 231 and HB 232. I believe this whole action is just another attempt to expand state Government at the expense of the people. any action on the PFD must require a vote of the State Residents

Signed: Erl F Capeland 13 May 99
Testifier

Self
Representing (optional)

1503 Stellar Dr Kenai AK 99611
Address

907 283 8168
Phone number

STRUCK LINE

Dear Legation:

I would like to speak to the Ministry
 of Finance (Dear Sir) in regard to the
 Finance Committee. I would like to
 appear before the Government
 first. I would like to know if
 that I am so opposed to the fact
 that I will continue work to make
 sure that any legislation which is
 put in is not rejected again.

The accident is the most significant
 distribution of funds that exists.
 Greater is an example to the world
 in how the government can actually
 give the people an overview in
 their state. Do you mean with this
 in to go contrary to the will of the
 people and in essence a document
 sign in the year you would
 implement the kind of work
 with during a time when the
 have a discrepancy in the position of the
 case of being in order and during
 a time when our government is

Post-It® Fax Note	7671	Date	5-13-99	# of pages	2
To	H. M. F. LIO	From	Dillingham LIO	Co.	
Co/Dept.	IC 96755	Phone #	842-5319	Fax #	842-5105

DILLINGHAM AK 99576

PO Box 234

Handwritten signature

Handwritten signature

Handwritten message:
 I hope you find this helpful
 please call me if you need
 more information
 Thank you

May 12, 1999
5479 C.H.S.R
Fairbanks, Alaska
99712

Chairman and Members of the House Finance committee.
Juneau, Alaska

Subject: HB 231 Raiding the Permanent Fund and Increasing the Dividend tax from 50 dollars per person to 750 dollars per person or 3,000 dollars for hold of 4.

Dear Members.

1) The PFD is our money and it is the only way **each** Alaska Resident benefits fairly and equally from our public wealth.

2) Anyone who wants to cap their dividends can send THEIR portion to the state government. I would suggest a check off box be placed the dividend application form.

3) We have 14,508 state workers costing us 750 million dollars! Because we have triple staffing and double wages compared to comparable states such as Montana and Wyoming!

4) We pay 650 million to employees in the education business. And, we have 2 1/2 times the number of people working in the education business at more than double wages of comparable states such as Montana and Wyoming.

Here in Fairbanks a private sector school teacher makes 20-25 thousand per year, including benefits. A public school teacher makes 35-70 per year including benefits and the average is around 55 thousand per year!!

In some cases we spend more than 480 thousand dollars on one child's education. It would take him 240 working years to pay us back at the rate of 2,000 per year.

5) If you take the '69 Alaska State budget and adjust it for inflation the state's operating budget should be around 900 million NOT 2 billion

plus!

6) When oil jack pot started, we were warned DO NOT bloat the economy by hiring un-need employees, expanding wages, starting useless programs because the oil money would run out ----just like the gold in Nome!

The last crash was caused by over spending and economic miss management by the Legislature and Governor when the economy was bloated. Our current problem is simple: cut the oil induced waste. This means a Reduction In Force including wages and benefits. We can no longer afford 3 times the needed state work force at double wages. Nor can we afford 2 1/2 times the number employees in the education business at double wages.

7) Greedy self-seving interest groups have helped themselves to 10s of billions of oil dollars; and, what do we have to show for the oil wealth.. bicycle paths, a space port, radio/tv entertainment, 12 copies of the lowest ranked university in the United States, and Matinuska Milk Maid milking!

8) Although, the money is running dry, there is enough to run this state for many years to come at a reasonable level ---- but, not at boom level.

Raiding the PF is not good for our developing state economy because it under mines ~~economic~~ real economic development, increases poverty for no other purpose than to maintain oil bloat!

Here are some reasons why the Permanent Fund was established and it's objectives.

What is the Purpose of The Permanent Fund?

The Permanent Fund is a device to convert temporary income from the sale of state property (such as oil gas, timber, coal) into a renewable and sustainable source of income for the purpose of paying cash dividends, resulting from it's successful management, to eligible residents of Alaska.

The dividend program is established for the public purpose:
of implementing, in a known and measurable way, our state's constitutional (Article VIII Sec. 2) requirement to maximize the benefits of Alaska's natural resources for all the people.

The Permanent Dividend achieves the following public purposes:

- (1) To equally distribute our public wealth, without regard to age, sex, race, creed, color, economic status, geographic location or political power affiliation.
- (2) To establish a stable state wide economic floor which would not otherwise exist in all areas of the state.
- (3) To minimize the historic boom/bust economic cycle resulting in economic "poverty", welfare dependency, related economic stress causing multiple social problems, such as violence, alcoholism, child abuse, and criminal behavior.
- (4) To maximize individual responsibility for the management of each person's own portion of their public wealth and that of their dependents. By allowing each individual the personal freedom to invest their money in their education, their housing, their medical care and their other needs as each individual sees fit based upon that person's attitudes, values and cultural heritage.
- (5) To reduce government paternalism, uneven wealth distribution, and government waste inherent in the political system.
- (6) To promote conversion of the Alaskan economy from a self serving paternalistic system benefiting a very few, into an economy where each individual directly benefits in a known and measurable way from their public wealth.

MARGARET DOWLING
Attorney at Law

PO BOX 210427 ANCHORAGE, ALASKA 99521 (907) 789-7491

May 13, 1999
Sent by Facsimile only

Honorable Eldon Mulder
Chair - House Finance
State Capitol
Juneau, AK 99801-1182

RE: Healthy Alaska Plan

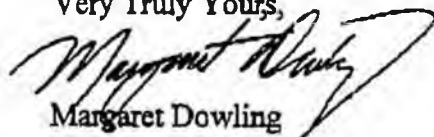
Dear Representative Mulder:

I am writing in support of the House Majority's Healthy Alaska Plan. While no one likes to see budget cuts, the proposal affords Alaskans a sustainable budget, wisely financed by utilizing some of the investment earnings (not the corpus) of the Permanent Fund. Best of all, it accomplishes this task without imposing a state income tax or burdening any Alaskan resident. The Permanent Fund was expressly designed to sustain state functioning when oil resources, production, or revenue declined. We are facing such a time.

Undoubtedly you are hearing from citizens who treat their Permanent Fund dividend as a public entitlement and therefore object to the Healthy Alaska Plan. They call the temporary cap on the dividend a "tax". Calculating this "tax" on last year's dividend of \$1,500, they say the Healthy Alaska Plan imposes a \$2,000 "tax" on a family of four, regardless of family income. This demonstrates that they have forgotten the reason for which the Permanent Fund was created and reveals that they see the gift of the dividend as a right. Furthermore, their calculation is off. The average Permanent Fund dividend over the last 15 years has been \$985. Capping the dividend at \$1,000 for three years should cause no undue hardship on any family.

I hope you can ignore these and other criticisms and move forward with this fiscal plan.

Very Truly Yours,


Margaret Dowling


FACSIMILE TRANSMITTAL

Telephone No.: 1-907-249-8224

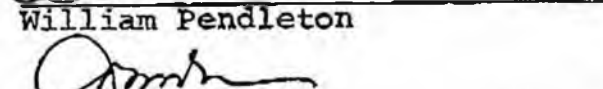
DATE: 5/13/99	DESTINATION: Ak State House of Rep.
FROM: Ak Rent A Car Inc.	TO: Rep Eldon Mulder/House Finance Committee Chair
FAX NO: 1 907 249 8247	FAX NO: 1 907 465 3518
If any page of this facsimile is not readable please call:	No. of pages (including this page): One

TO WHOM IT MAY CONCERN:

Our company is very supportive of the Healthy Alaska Plan and applaud the legislature for devising a sane, responsible budget plan.



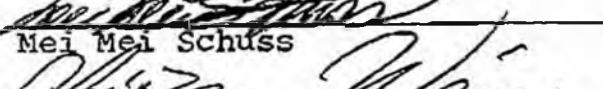
Gary Zimmerman



William Pendleton



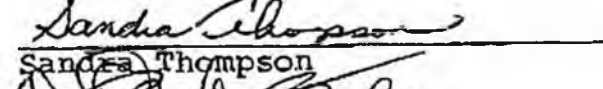
Carol Bondoc



Mei Mei Schuss



Chizen Weiss



Sandra Thompson



B. M. Brady

Don Burford

CONCRETE PRODUCTS

MEMO

P.O. BOX 210189 • ANCHORAGE, ALASKA 99521
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TO Representative Eldon Mulder

DATE May 13 1999 4:10PM

SUBJECT Healthy Alaska Plan

MESSAGE Rep Mulder - You are on the right track it needs some modification - but you are the only group to come up with a plan - Refine it & keep the public informed take the publicity away from the other groups. Get the spin working for you -

SIGNED

JOHN E. HAVELOCK
608 W. 4TH AVENUE, SUITE 27
ANCHORAGE, AK 99501
PHONE (907) 276-1916
FAX (907) 258-9053

May 13, 1999

Hon. Eldon Mulder
House of Representatives
Juneau, Alaska 99801
fax: 465-3518

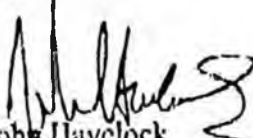
RE: State Budget Plan

Dear Representative Mulder,

I think it is a terrible idea to attempt to balance the budget out of funds taken largely from the Permanent Fund. Whatever the legislature calls it, the budget plan establishes a heavy tax on every Alaskan, falling disproportionately on families with children, by cutting income without regard to ability to pay. At the least, this is an anti-family policy.

I appreciate that you have cut the government operating budgets to the bone. Now that you are down to the bone, like other members of my family, I am prepared to pay taxes to keep the government going. In the negotiations to come, please leave the permanent fund dividend level alone. If we must pay more to sustain our government, we should pay it in taxes.

Sincerely,


John Havelock

5/11/99 pm

To: Jim Kelly
From: Michael J. O'Leary CFA
Re: Legislation
Date: May 10, 1999

As you know, I have asked Greg Allen to model the proposed statute so that we can have a concrete understanding of the financial implications under a variety of financial market conditions. Greg was traveling today so I have yet to speak with him although I have left voice and e-mail messages. He, of course, will respond as quickly as possible.

Pending this analysis, I want to provide my initial impressions of the proposal.

- 1) Moving to a percentage of market value distribution approach is a sound approach to meeting long term objectives of achieving consistency in distributions and long term preservation of purchasing power.
- 2) Shifting to a GAAP from a statutory income approach appears to be an appropriate action.
- 3) Using a five-year averaging approach should reduce the volatility of distributions.
- 4) The transition approach appears to be very reasonable (phasing in the five-year period).
- * 5) Incorporating a one-year lag improves planning flexibility and also will tend, over the long term, to reduce the magnitude of the 5.25% distribution when related to current market value. This should make the distribution level more consistent with preservation of fund purchasing power than would otherwise be the case.
- 6) Limiting fiscal 1999 distributions to the \$1,000 dividend will definitely enhance the probability of maintaining sufficient future balances to fund operations in accordance with constitutional requirements.
- 7) Including the CBRF balance in the new Alaska Income Fund will similarly improve the probability of the program working within Constitutional limits.
- 8) The future dividend mechanism appears workable.
- 9) Clearly, liberalization of the maximum equity limitation is essential to the attainment of the return objectives that are essential for achievement of both distribution and purchasing power objectives.
- 10) It is clearly possible, although hopefully improbable, that a protracted period of weak financial market returns would undermine the plan or any alternative plan based on distributed earnings.
- 11) The distribution percentage (5.25%) initially appears aggressive and warrants careful analysis. As noted earlier, the averaging and lagging features incorporated in the proposal moderate the magnitude of the distribution percentage. However, it leaves little if any margin for error.

Naturally, I want to emphasize that these views reflect our preliminary reactions. I also want to stress that our comments pertain to the investment aspects of the proposal and should not be interpreted as opinions regarding either the appropriateness of the magnitude of fund distributions or the use of fund earnings. We separate the public policy questions from the investment issues implicit in the proposal.

I hope that this is helpful to you and will inform you as soon as I succeed in reaching Greg.

What do others do?

Endowment Long Term Spending Goals

Endowments (194) (205) (229) (243)

Percent of Assets	Endowments			
	1995	1996	1997	1998
None	1%	2%	0%	0%
1%	0	0	0	1
2%	1	1	0	0
3%	0	2	4	9
4.0-4.3%	31	27	13	17
4.4-4.7%	0	0	21	23
4.8-5.0%	61	59	44	42
5.1-5.3%	0	0	6	6
5.4-5.7%	0	0	7	7
5.8-5.9%	0	0	0	0
6%	6	9	2	1
7%	0	0	2	0
8%	0	0	1	0
9%	0	0	0	0
10%	0	0	0	0
Over 10%	0	1	0	0
Mean	4.7	4.8	4.8	4.7
Median	5.0	5.0	4.9	4.9

Note: Means and medians exclude "None."

*Alaska Permanent Fund Simulation Model
(Mother of Models, All - or MOMA)*

HB 231 Analysis

May 11, 1999

Gregory C. Allen
EVP, Callan Associates Inc.

Asset Allocation Assumptions

Percent Equity	48%	53%	58%
Large Cap Equity	26%	31%	36%
Small Cap Equity	8%	8%	8%
International Equity	14%	14%	14%
Domestic Fixed	40%	35%	30%
International Fixed	2%	2%	2%
Real Estate	10%	10%	10%
Expected Gross Return	7.75%	7.96%	8.13%
Expected Net Rtn	7.59%	7.80%	7.97%

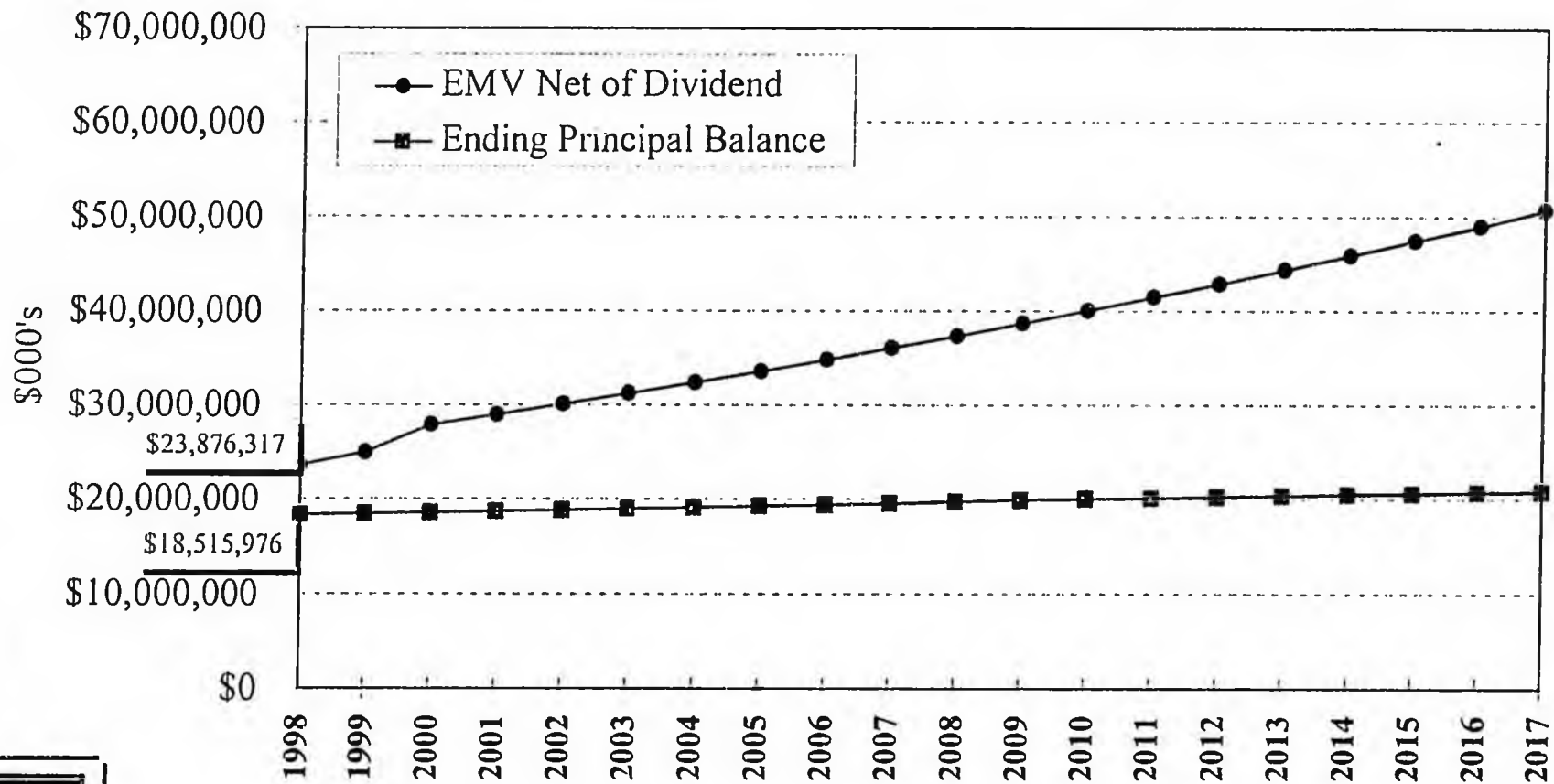
HB 231, 5.25% Distribution

- Actual results through March 1999.
- 1999 Callan capital market assumptions.
- Asset Allocation: 48% equity moving to 58% equity by end of FY 2000.
- \$1.873B Contribution to ER in FY 2000.
- Distributed Income: 5.25% of graduated 5 year average market value, starting in FY 2000.
- Dividend: \$1,000 per applicant in 1999, 2000, and 2001. 42% of distributed income thereafter.
- Earnings Reserve limitation: GAAP.
- Oil Revenues: HB96 passes for FY00 - FY03.

Fund Value vs Principal Balance

HB 231, 5.25% Distribution

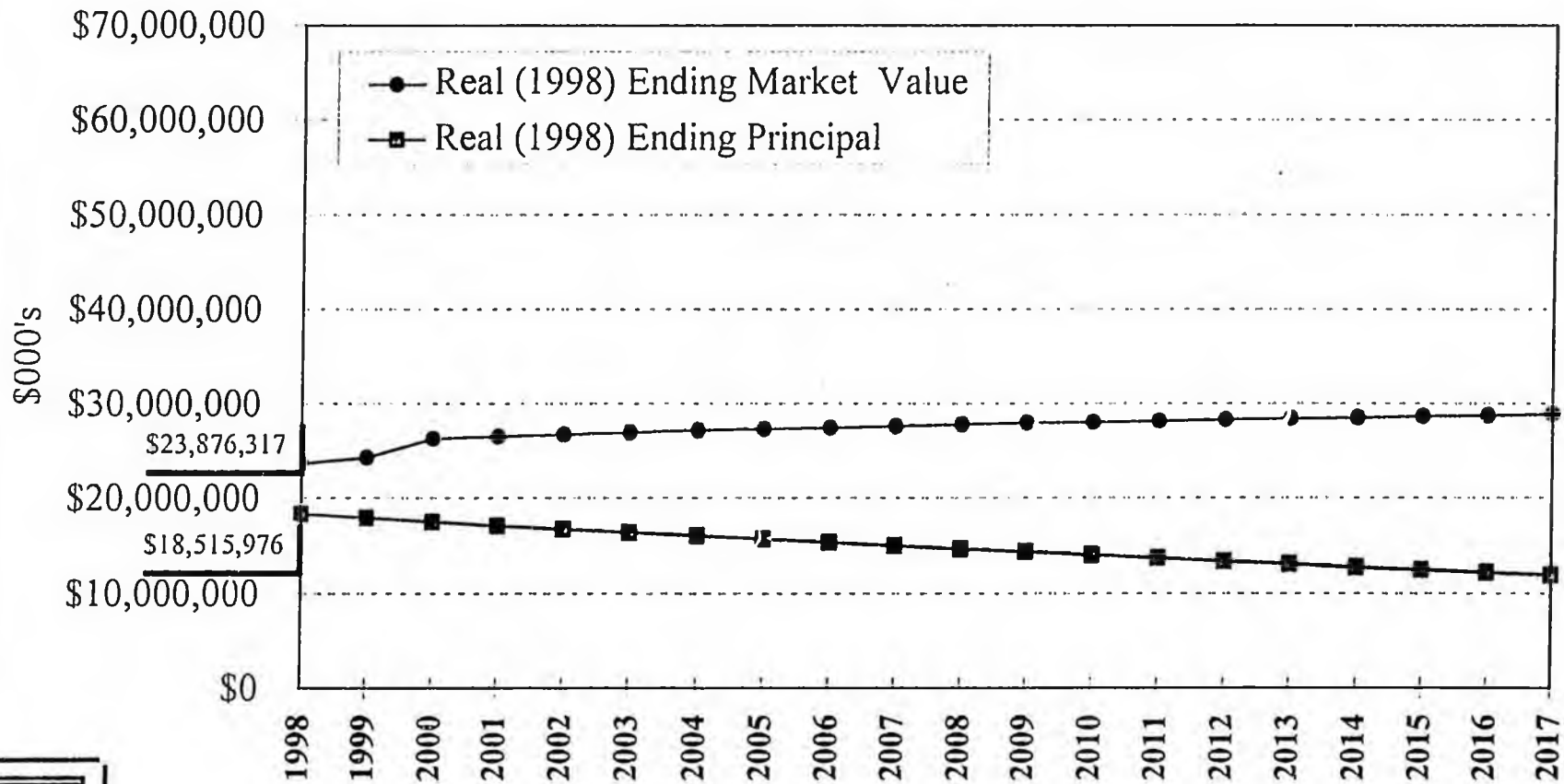
Ending Market Value vs Ending Principal Balance



Real Fund Value and Principal

HB 231, 5.25% Distribution

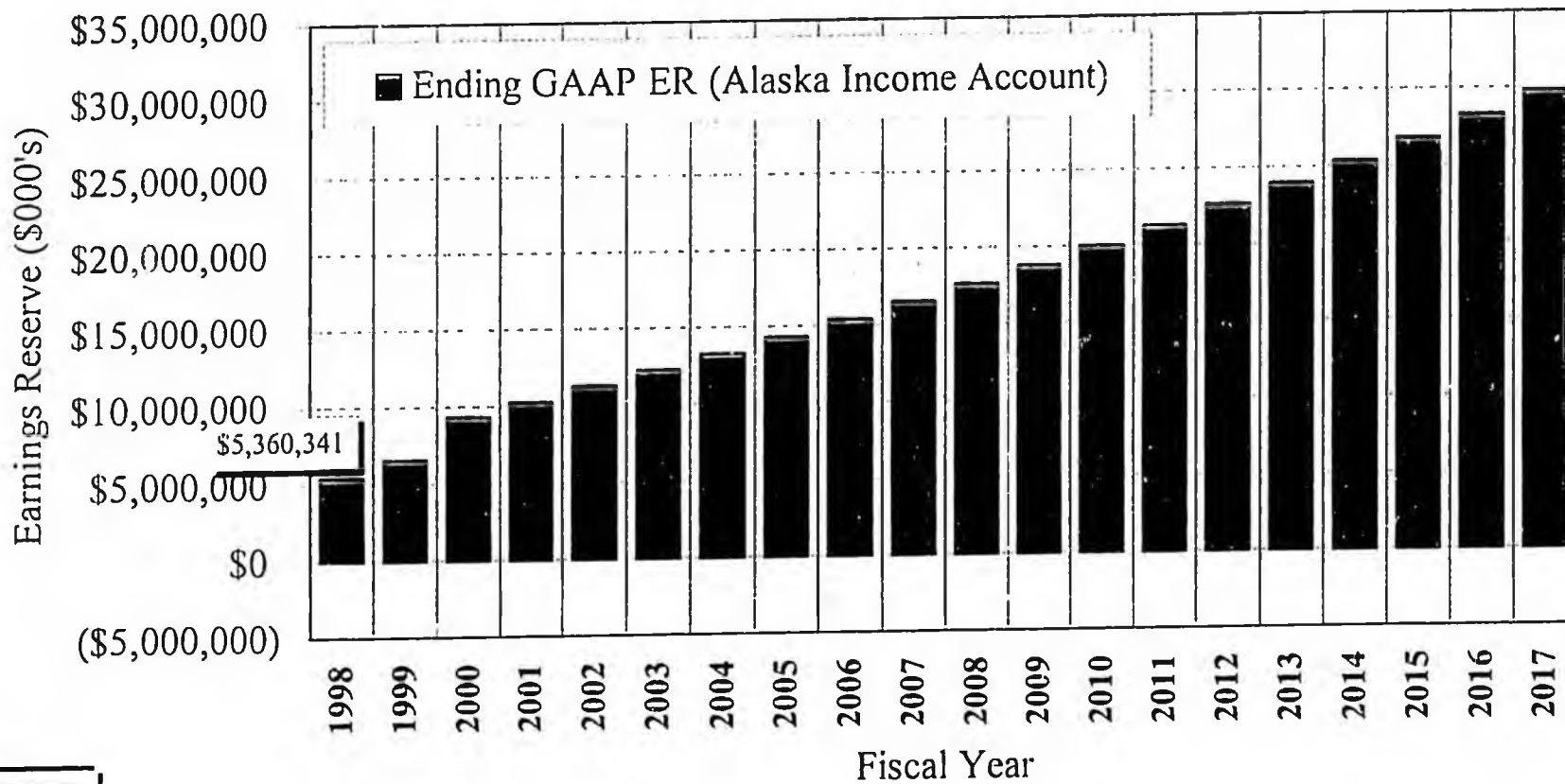
Real Ending Market Value vs Real Ending Principal Balance



Alaska Income Account

HB 231, 5.25% Distribution

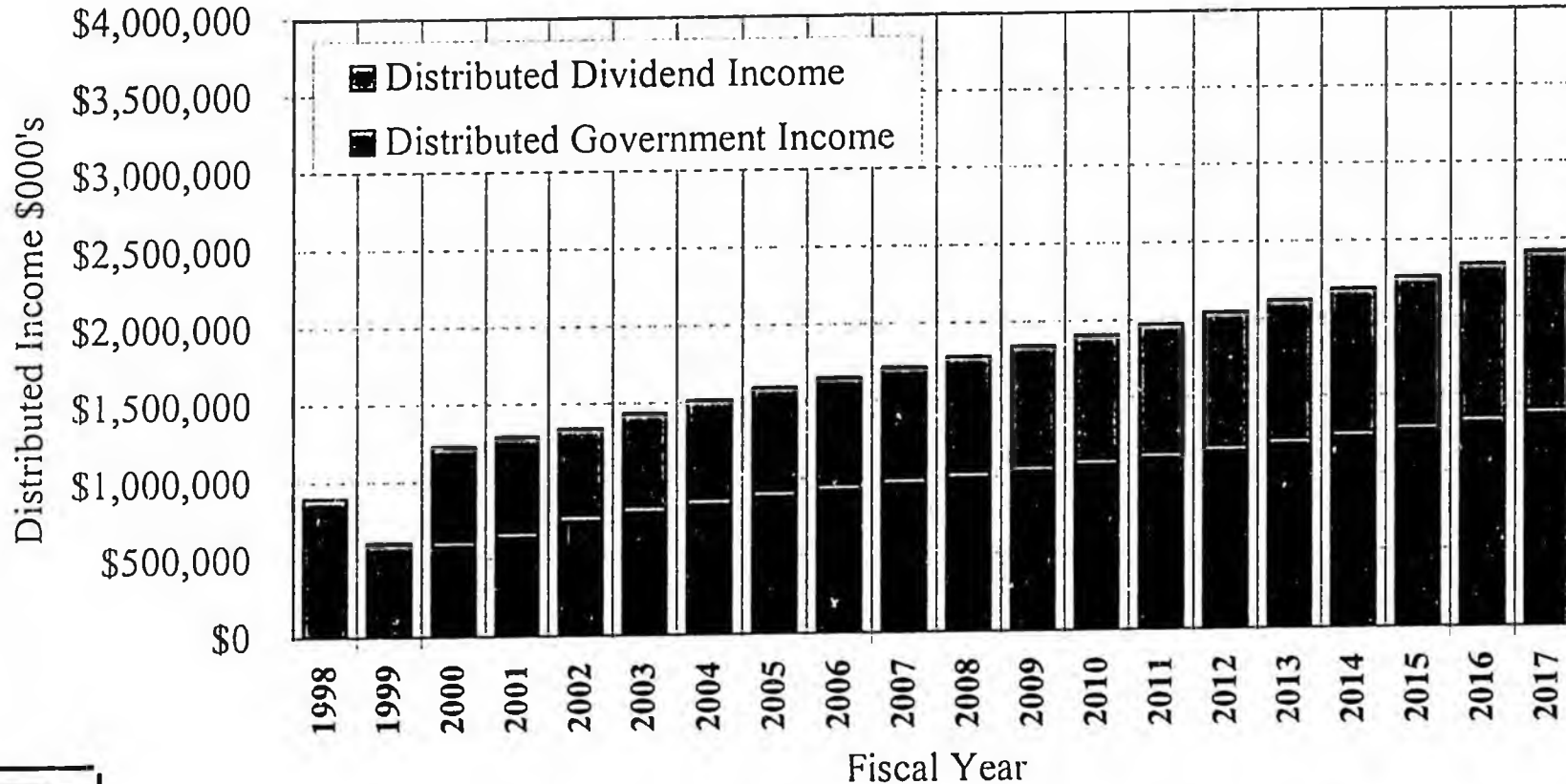
Alaska Income Account - Ending Balance



Distributed Income

HB 231, 5.25% Distribution

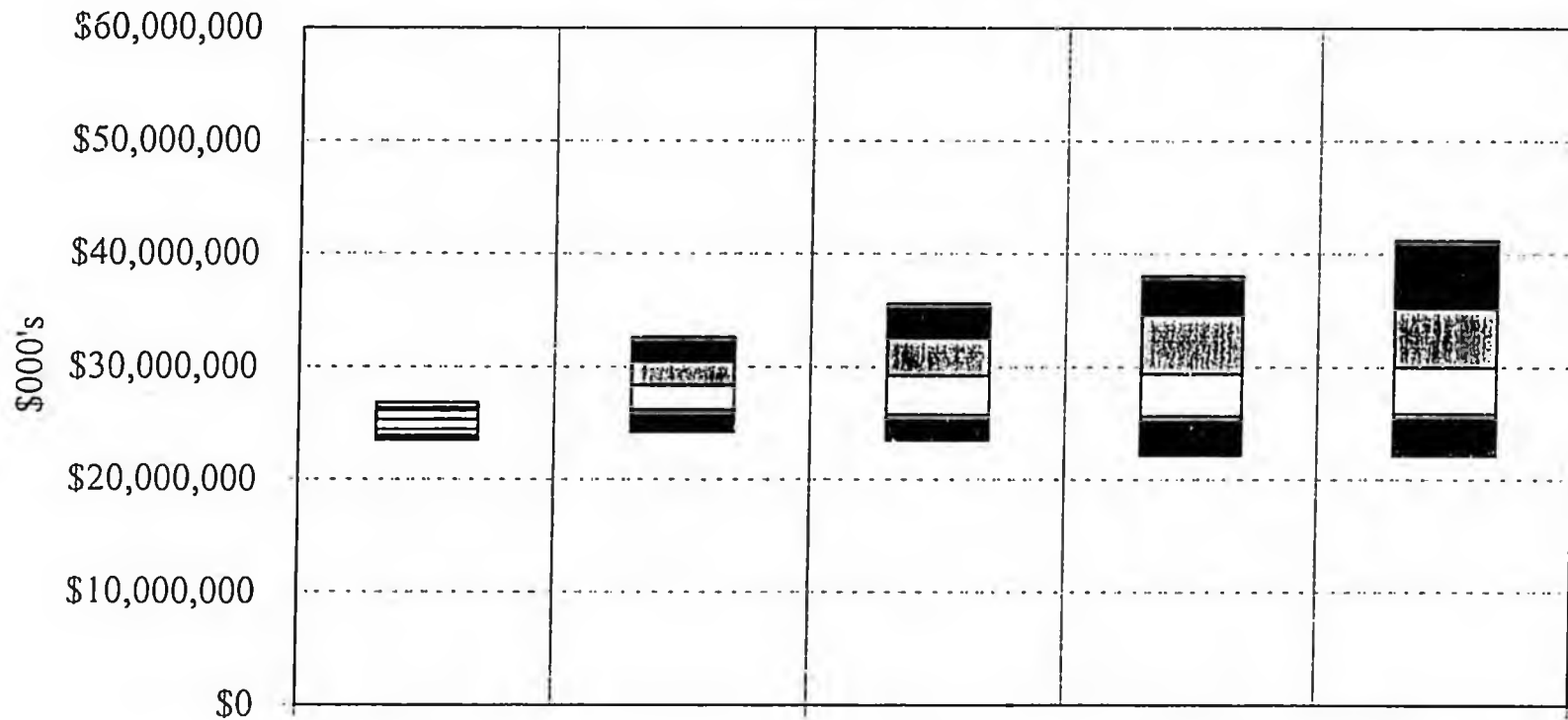
Distributed Income



Range of Fund Value

HB 231, 5.25% Distribution

Range of Ending Market Value



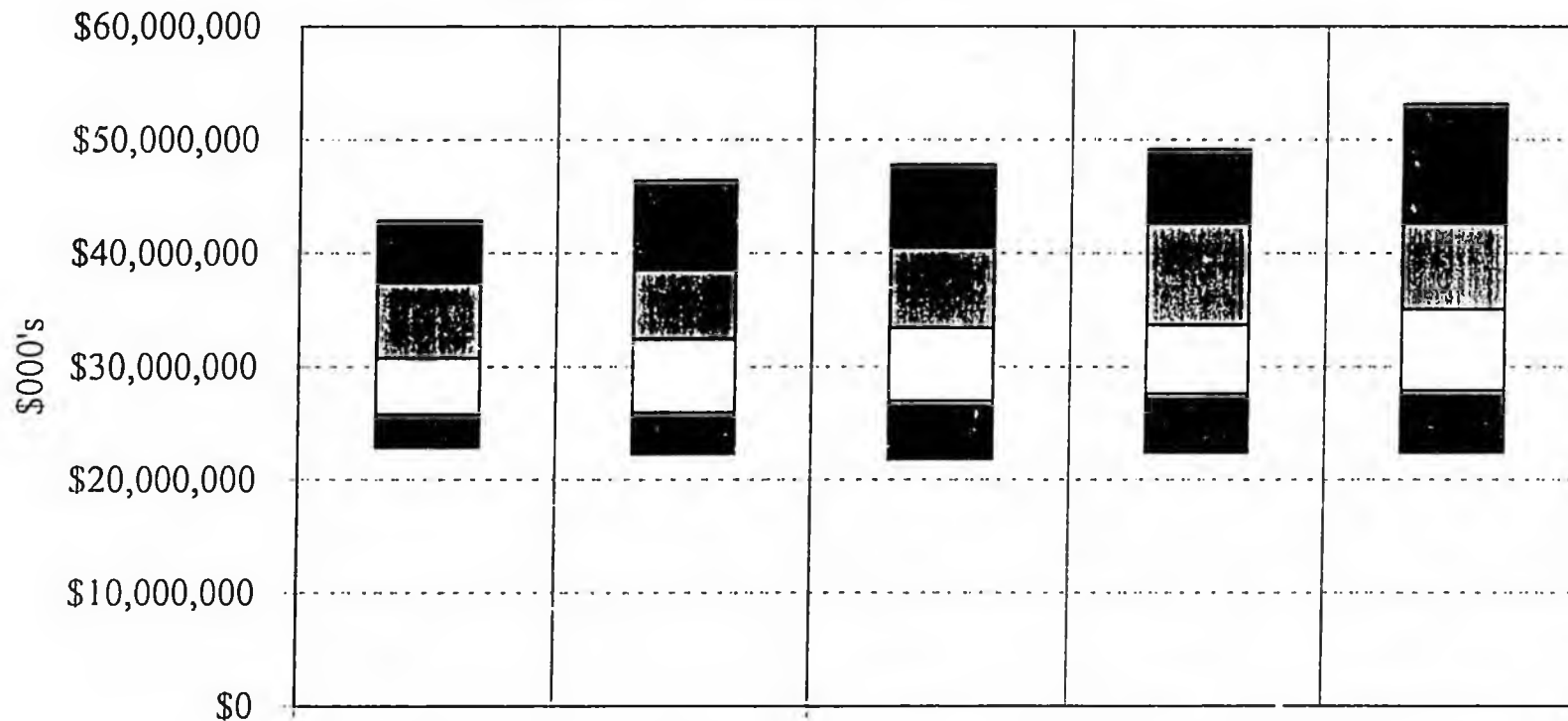
	1999	2000	2001	2002	2003
10%	\$26,822,757	\$32,559,778	\$35,597,569	\$38,036,096	\$41,192,190
25%	\$26,098,057	\$30,427,095	\$32,501,739	\$34,575,149	\$35,213,936
50%	\$25,321,911	\$28,360,083	\$29,223,807	\$29,417,960	\$29,949,742
75%	\$24,416,707	\$26,150,637	\$25,759,764	\$25,628,764	\$25,863,897
90%	\$23,501,150	\$24,250,585	\$23,525,549	\$22,153,295	\$22,148,427



Range of Fund Value

HB 231, 5.25% Distribution

Range of Ending Market Value



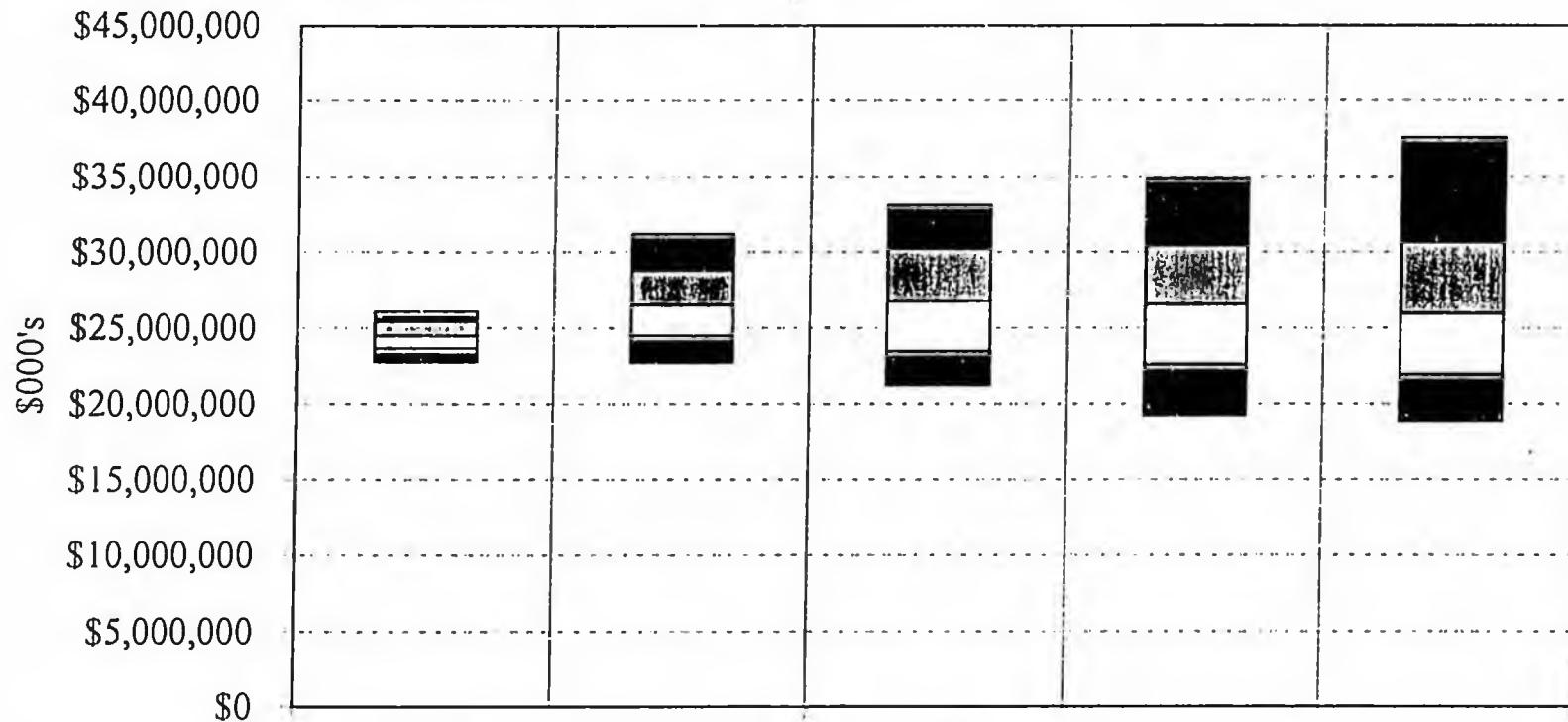
	2004	2005	2006	2007	2008
10%	\$42,827,340	\$46,354,713	\$47,782,057	\$49,141,594	\$53,120,089
25%	\$37,362,396	\$38,514,490	\$40,454,795	\$42,606,987	\$42,590,500
50%	\$30,721,152	\$32,370,993	\$33,384,438	\$33,693,963	\$35,081,176
75%	\$25,759,272	\$25,952,404	\$26,981,920	\$27,621,596	\$27,886,257
90%	\$22,850,529	\$22,315,908	\$21,847,278	\$22,402,071	\$22,379,345



Range of Real Fund Value

HB 231, 5.25% Distribution

Range of Real Ending Market Value (1998 Dollars)



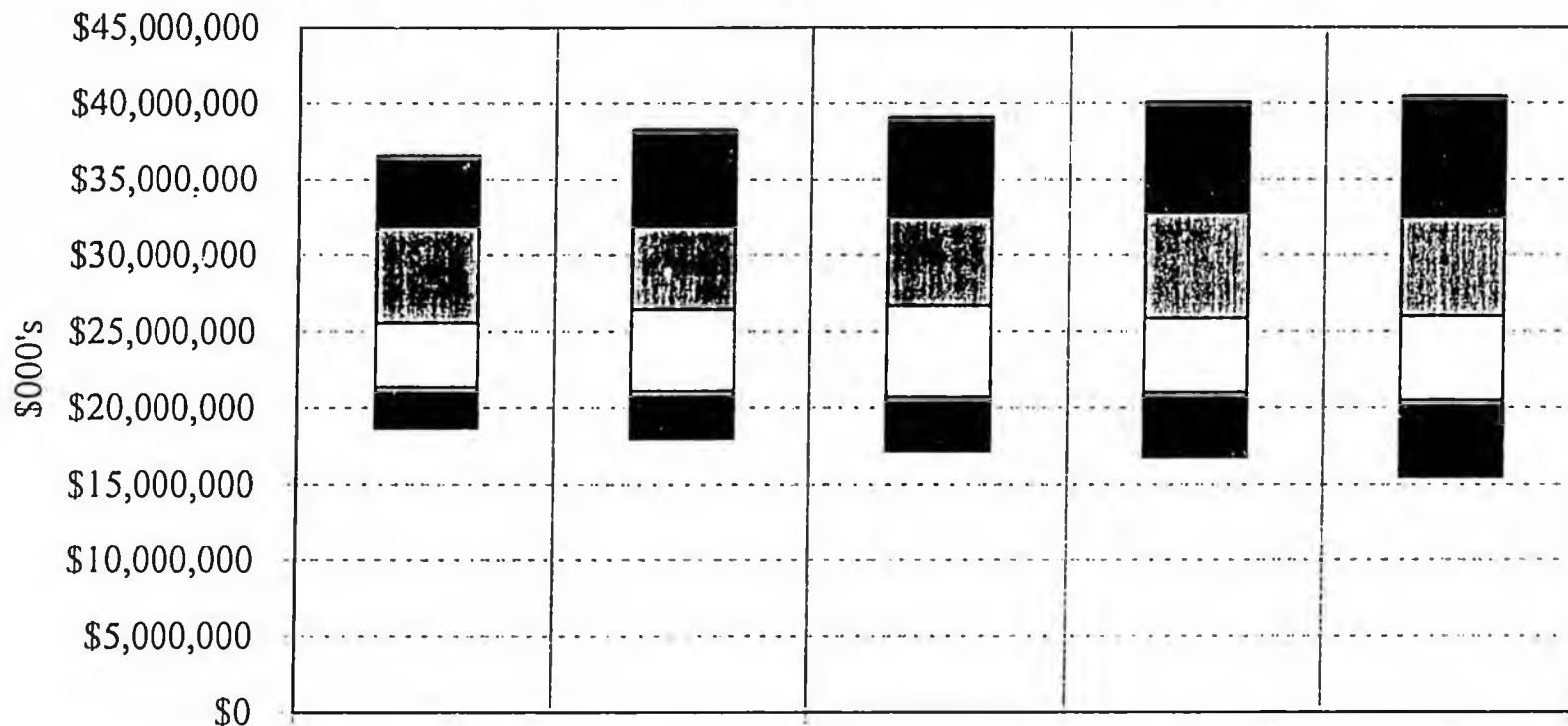
	1999	2000	2001	2002	2003
10%	\$26,069,830	\$31,188,617	\$33,073,537	\$34,879,455	\$37,537,577
25%	\$25,415,543	\$28,821,642	\$30,249,240	\$30,449,990	\$30,671,036
50%	\$24,486,089	\$26,524,847	\$26,778,087	\$26,568,092	\$25,952,459
75%	\$23,644,632	\$24,475,507	\$23,432,178	\$22,562,954	\$21,910,528
90%	\$22,778,704	\$22,725,464	\$21,263,065	\$19,290,538	\$18,846,748



Range of Real Fund Value

HB 231, 5.25% Distribution

Range of Real Ending Market Value (1998 Dollars)



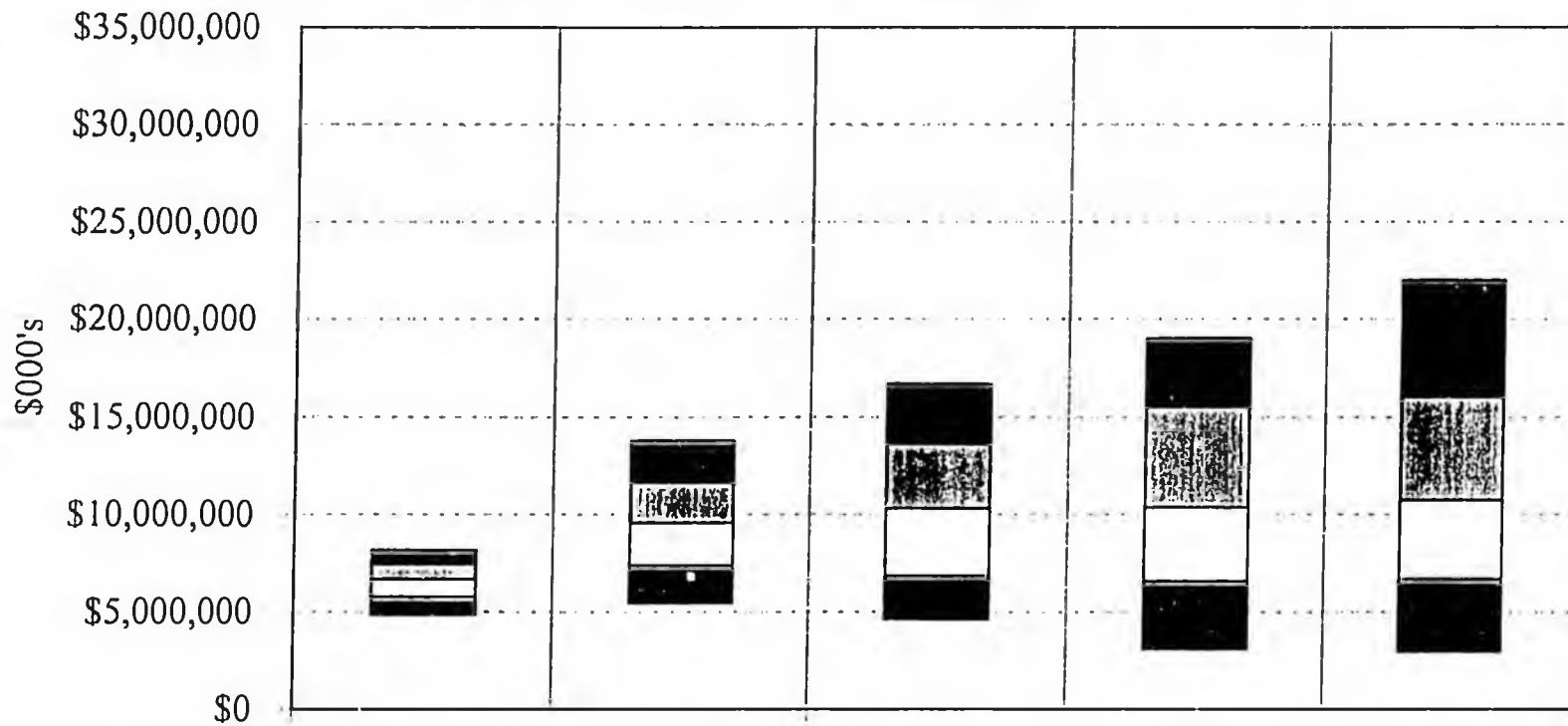
	2004	2005	2006	2007	2008
10%	\$36,554,091	\$38,231,656	\$39,061,328	\$40,064,778	\$40,439,785
25%	\$31,857,604	\$31,867,948	\$32,477,952	\$32,796,818	\$32,473,906
50%	\$25,554,157	\$26,437,121	\$26,661,038	\$25,843,566	\$26,005,945
75%	\$21,373,666	\$21,104,088	\$20,723,046	\$21,024,458	\$20,478,263
90%	\$18,729,372	\$18,025,630	\$17,201,231	\$16,796,786	\$15,499,149



Range of Ending AIA Balance

HB 231, 5.25% Distribution

Range of Ending Alaska Income Account Balance



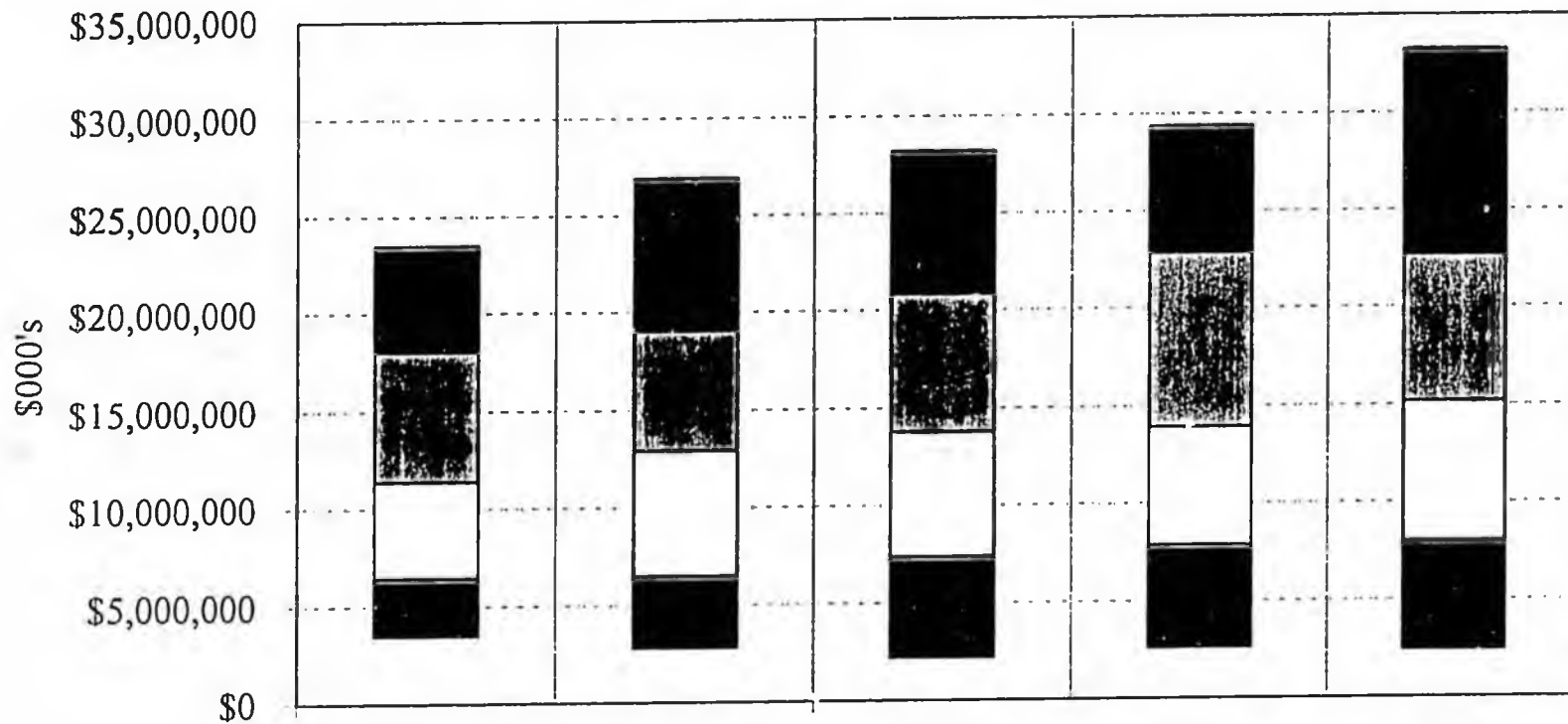
	1999	2000	2001	2002	2003
10%	\$8,168,681	\$13,782,662	\$16,688,412	\$18,990,371	\$22,001,173
25%	\$7,443,981	\$11,649,979	\$13,592,582	\$15,529,425	\$16,022,919
50%	\$6,667,836	\$9,582,968	\$10,314,650	\$10,372,236	\$10,758,725
75%	\$5,762,631	\$7,373,521	\$6,850,607	\$6,583,040	\$6,672,880
90%	\$4,847,075	\$5,473,470	\$4,616,392	\$3,107,571	\$2,957,410



Range of Ending AIA Balance

HB 231, 5.25% Distribution

Range of Ending Alaska Income Account Balance



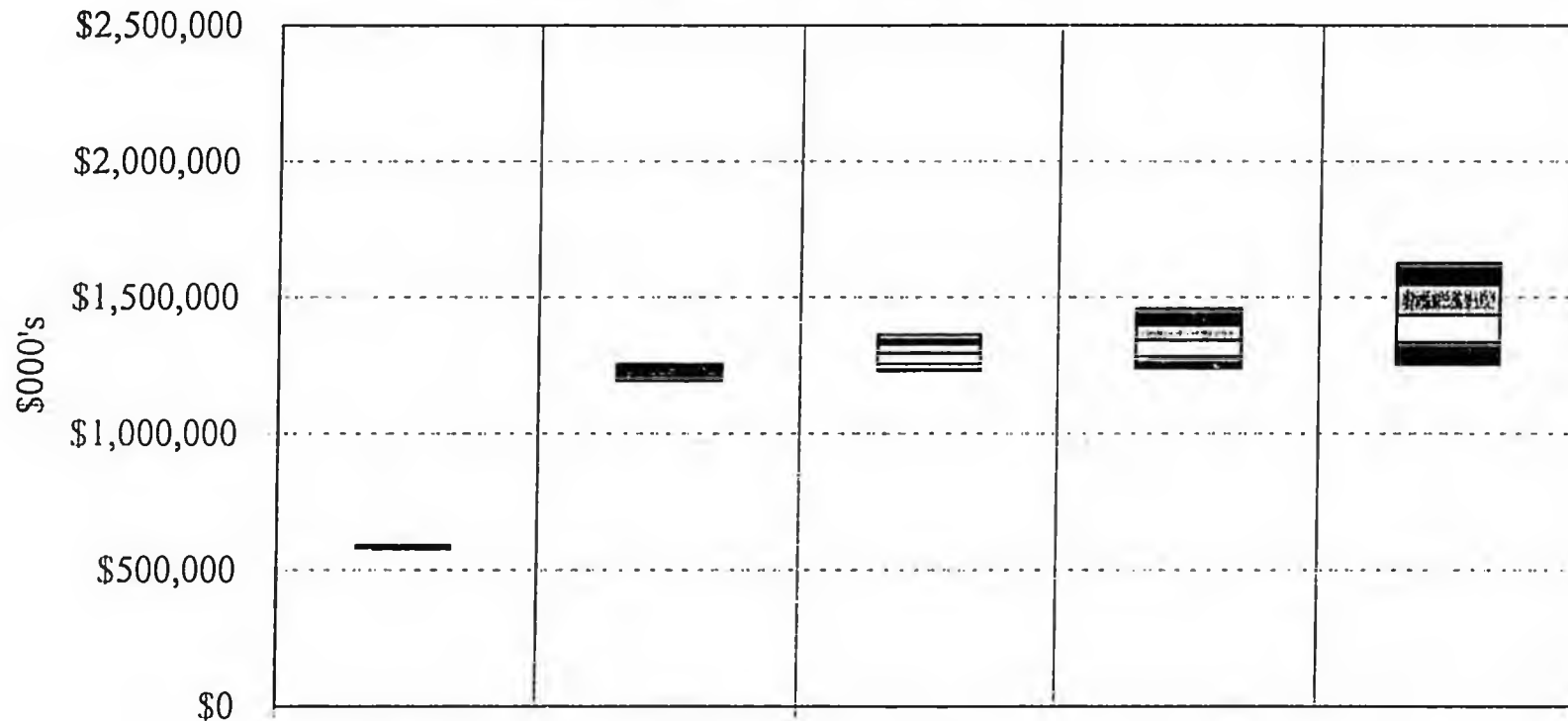
	2004	2005	2006	2007	2008
10%	\$23,485,947	\$26,871,778	\$28,148,295	\$29,360,665	\$33,192,465
25%	\$18,021,003	\$19,031,555	\$20,821,032	\$22,826,057	\$22,662,876
50%	\$11,379,758	\$12,888,058	\$13,750,676	\$13,913,034	\$15,153,552
75%	\$6,417,879	\$6,469,468	\$7,348,157	\$7,840,667	\$7,958,632
90%	\$3,509,136	\$2,832,972	\$2,213,516	\$2,621,142	\$2,451,721



Range Distributed Income

HB 231, 5.25% Distribution

Range of Distributed Income



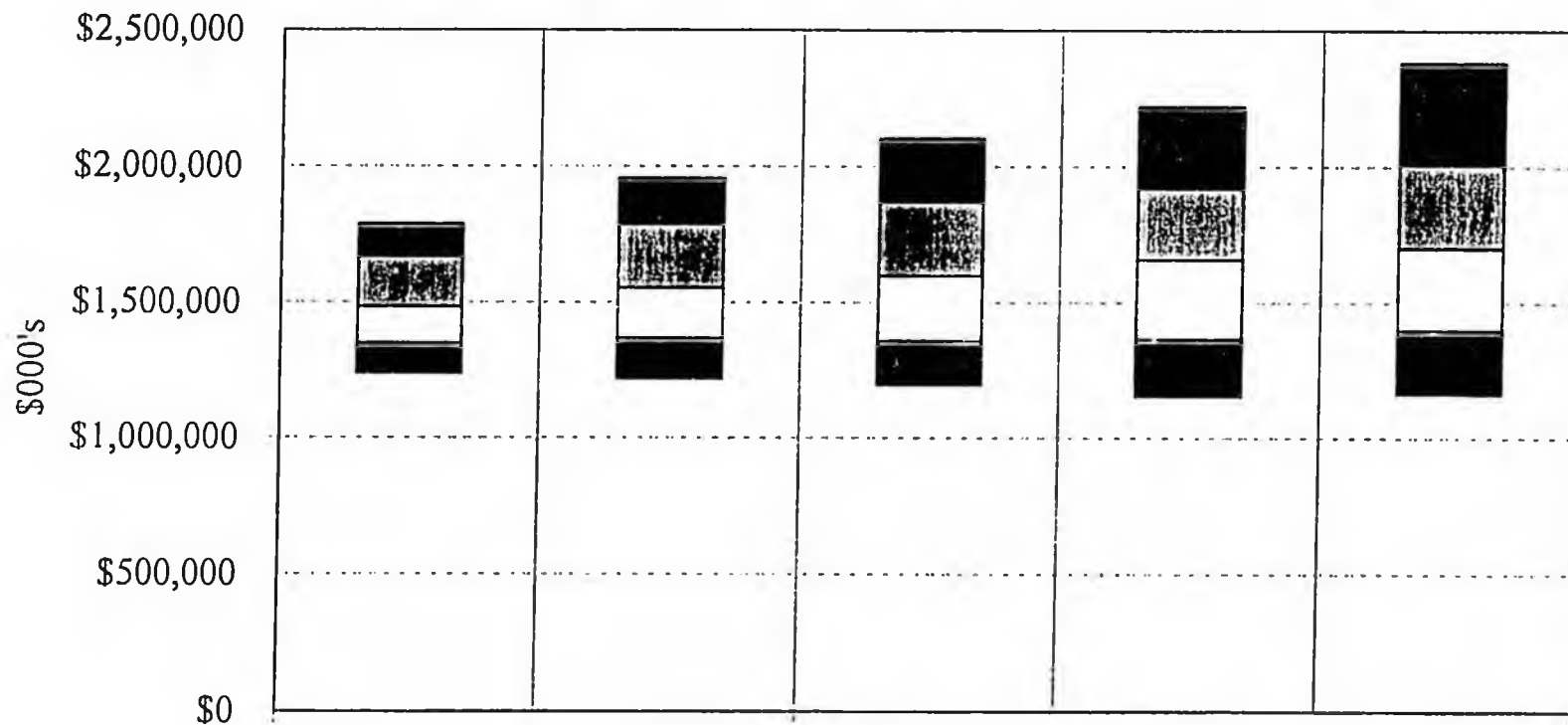
	1999	2000	2001	2002	2003
10%	\$599,922	\$1,254,325	\$1,360,510	\$1,455,546	\$1,625,330
25%	\$599,922	\$1,241,643	\$1,324,975	\$1,396,377	\$1,544,543
50%	\$599,922	\$1,227,745	\$1,291,336	\$1,340,755	\$1,434,436
75%	\$599,922	\$1,212,062	\$1,256,971	\$1,279,805	\$1,333,339
90%	\$599,922	\$1,195,322	\$1,231,769	\$1,241,014	\$1,255,598



Range of Distributed Income

HB 231, 5.25% Distribution

Range of Distributed Income



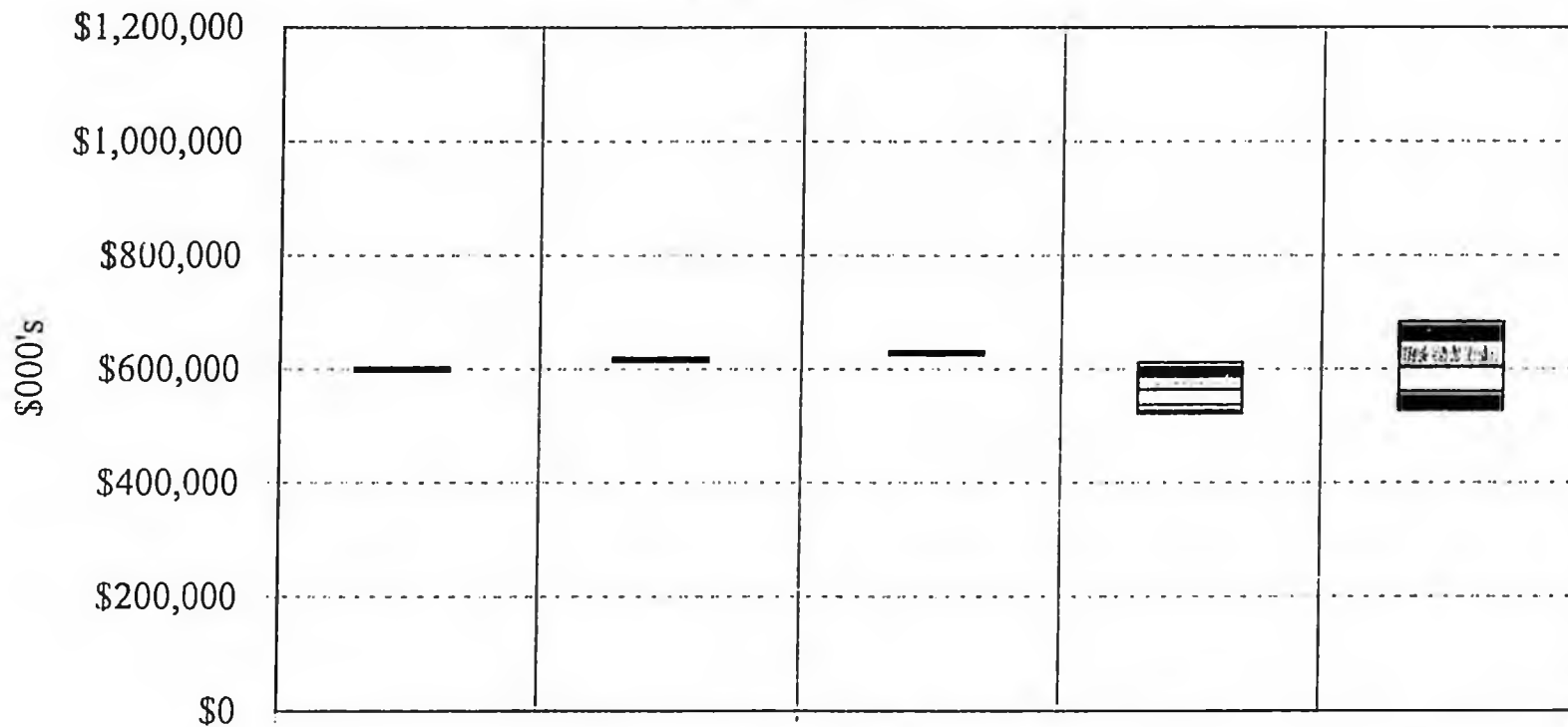
	2004	2005	2006	2007	2008
10%	\$1,784,666	\$1,953,528	\$2,101,278	\$2,217,414	\$2,379,361
25%	\$1,667,438	\$1,785,314	\$1,868,387	\$1,920,447	\$2,009,558
50%	\$1,483,141	\$1,552,167	\$1,598,810	\$1,658,938	\$1,701,345
75%	\$1,348,576	\$1,366,201	\$1,356,246	\$1,364,704	\$1,397,871
90%	\$1,239,856	\$1,219,609	\$1,197,388	\$1,156,444	\$1,166,251



Range Distributed Income - Div

HB 231, 5.25% Distribution

Range of Distributed Income For Dividend



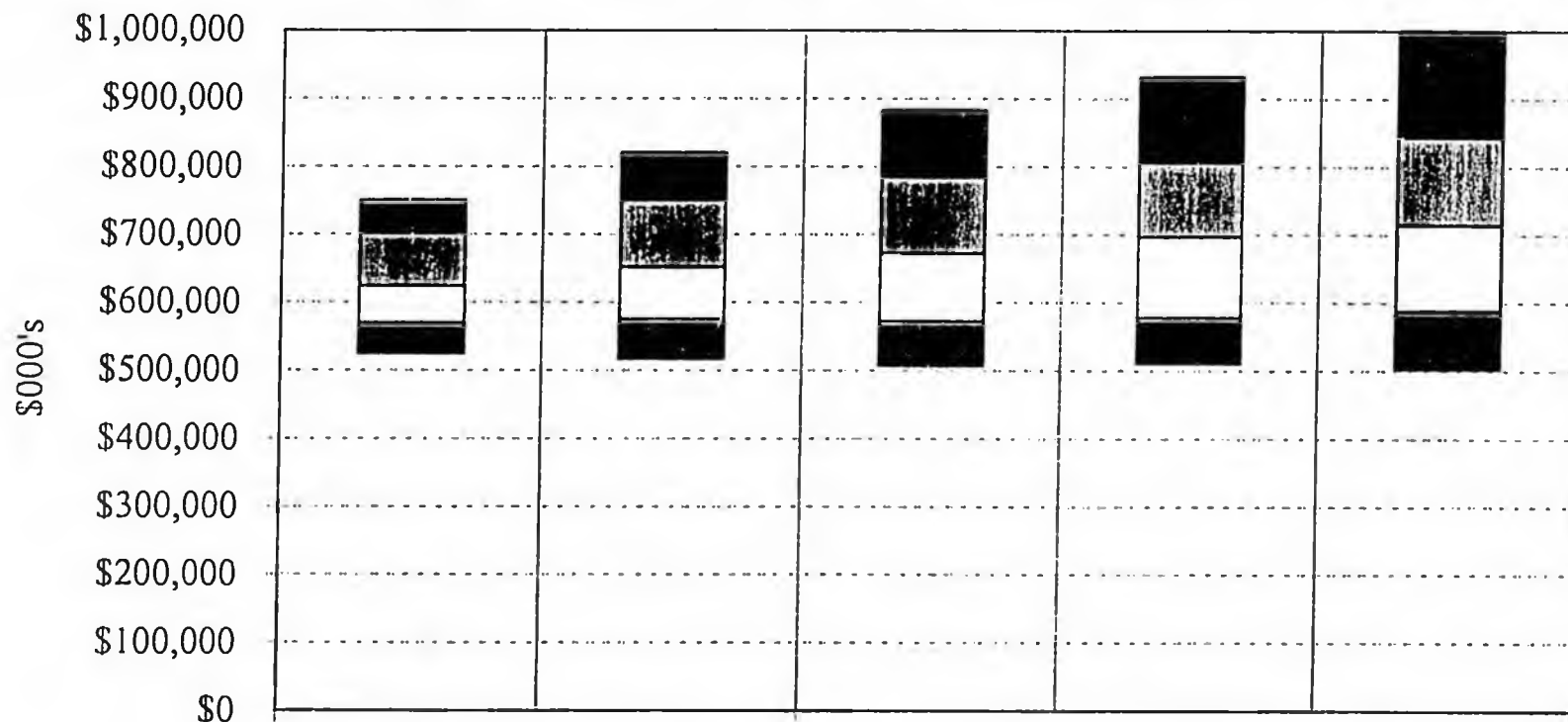
	1999	2000	2001	2002	2003
10%	\$599,922	\$606,795	\$613,748	\$611,329	\$682,638
25%	\$599,922	\$606,795	\$613,748	\$586,478	\$648,708
50%	\$599,922	\$606,795	\$613,748	\$563,117	\$602,463
75%	\$599,922	\$606,795	\$613,748	\$537,518	\$560,003
90%	\$599,922	\$606,795	\$613,748	\$521,788	\$527,376



Range Distributed Income - Div

HB 231, 5.25% Distribution

Range of Distributed Income for Dividend



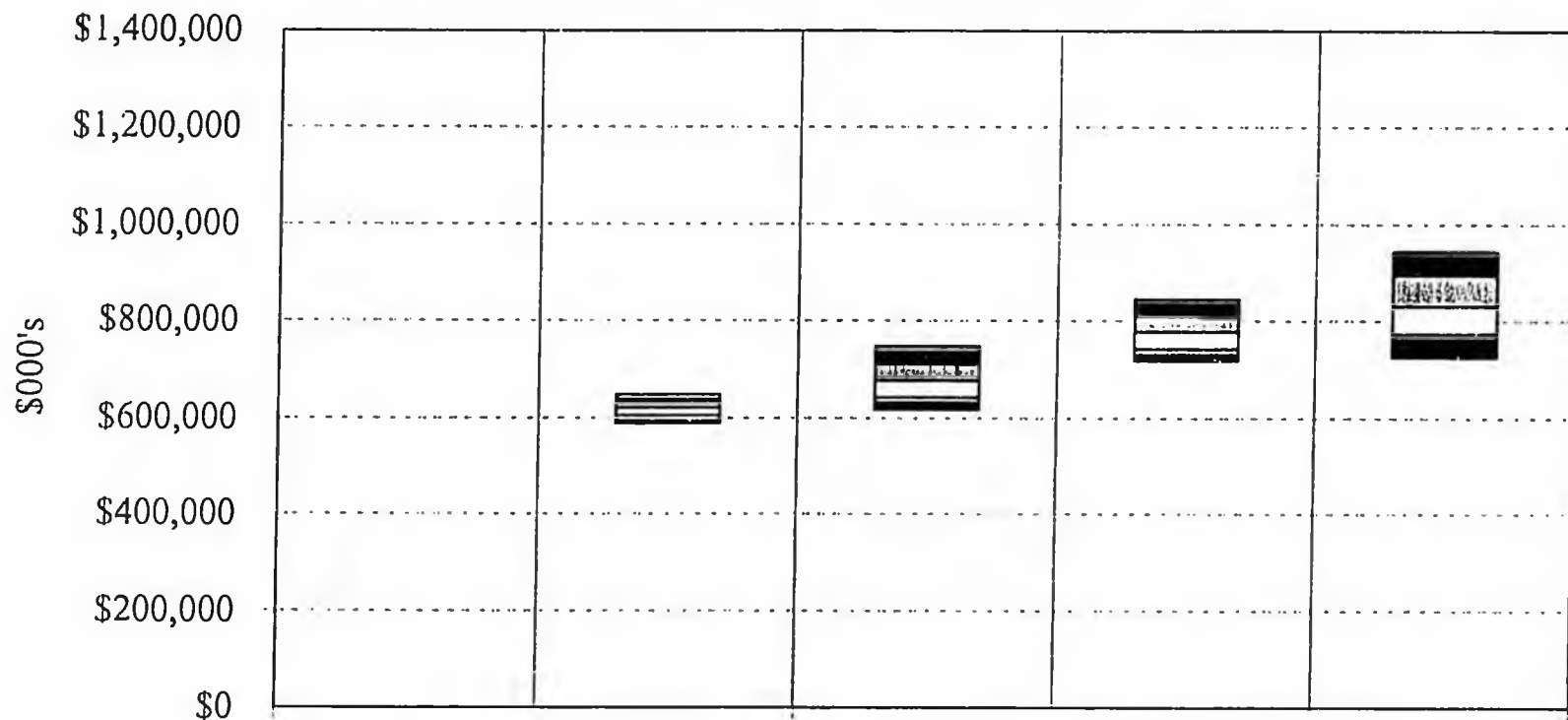
	2004	2005	2006	2007	2008
10%	\$749,560	\$820,482	\$882,537	\$931,314	\$999,332
25%	\$700,324	\$749,832	\$784,723	\$806,588	\$844,014
50%	\$623,615	\$651,910	\$671,586	\$696,754	\$714,565
75%	\$569,216	\$574,786	\$571,648	\$577,249	\$587,106
90%	\$525,638	\$517,687	\$507,738	\$512,253	\$504,034



Range Distributed Income - Gov

HB 231, 5.25% Distribution

Range of Distributed Income For Government



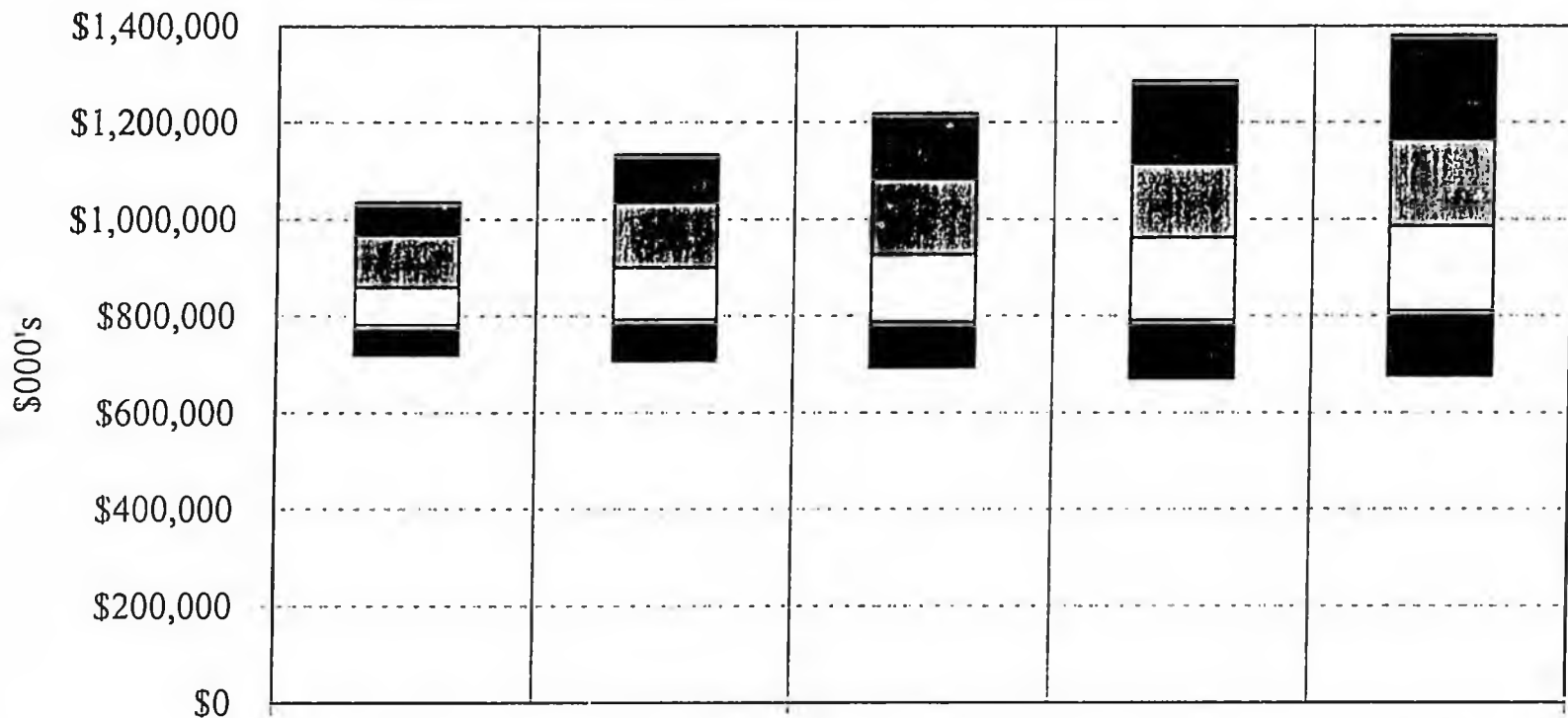
	1999	2000	2001	2002	2003
10%	\$0	\$647,530	\$746,762	\$844,217	\$942,691
25%	\$0	\$634,848	\$711,227	\$809,899	\$895,835
50%	\$0	\$620,951	\$677,588	\$777,638	\$831,973
75%	\$0	\$605,268	\$643,223	\$742,287	\$773,337
90%	\$0	\$588,528	\$618,021	\$719,788	\$728,247



Range Distributed Income - Gov

HB 231, 5.25% Distribution

Range of Distributed Income for Government



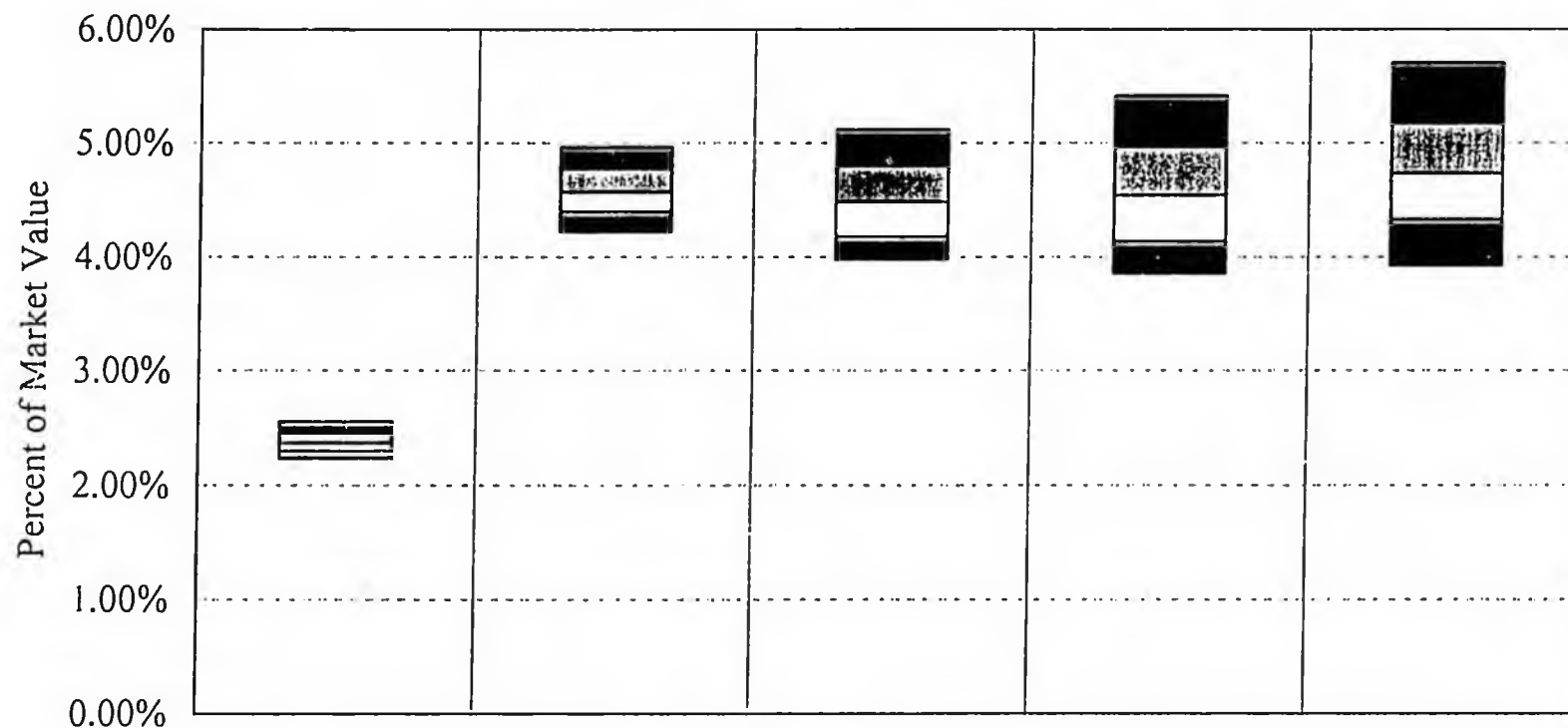
	2004	2005	2006	2007	2008
10%	\$1,035,106	\$1,133,046	\$1,218,741	\$1,286,100	\$1,380,030
25%	\$967,114	\$1,035,482	\$1,083,664	\$1,113,859	\$1,165,544
50%	\$860,222	\$900,257	\$927,310	\$962,184	\$986,780
75%	\$782,174	\$792,397	\$786,623	\$791,528	\$810,765
90%	\$719,116	\$707,264	\$693,575	\$670,737	\$676,426



Range of Effective Payout Rate

HB 231, 5.25% Distribution

Range of Effective Payout Rate



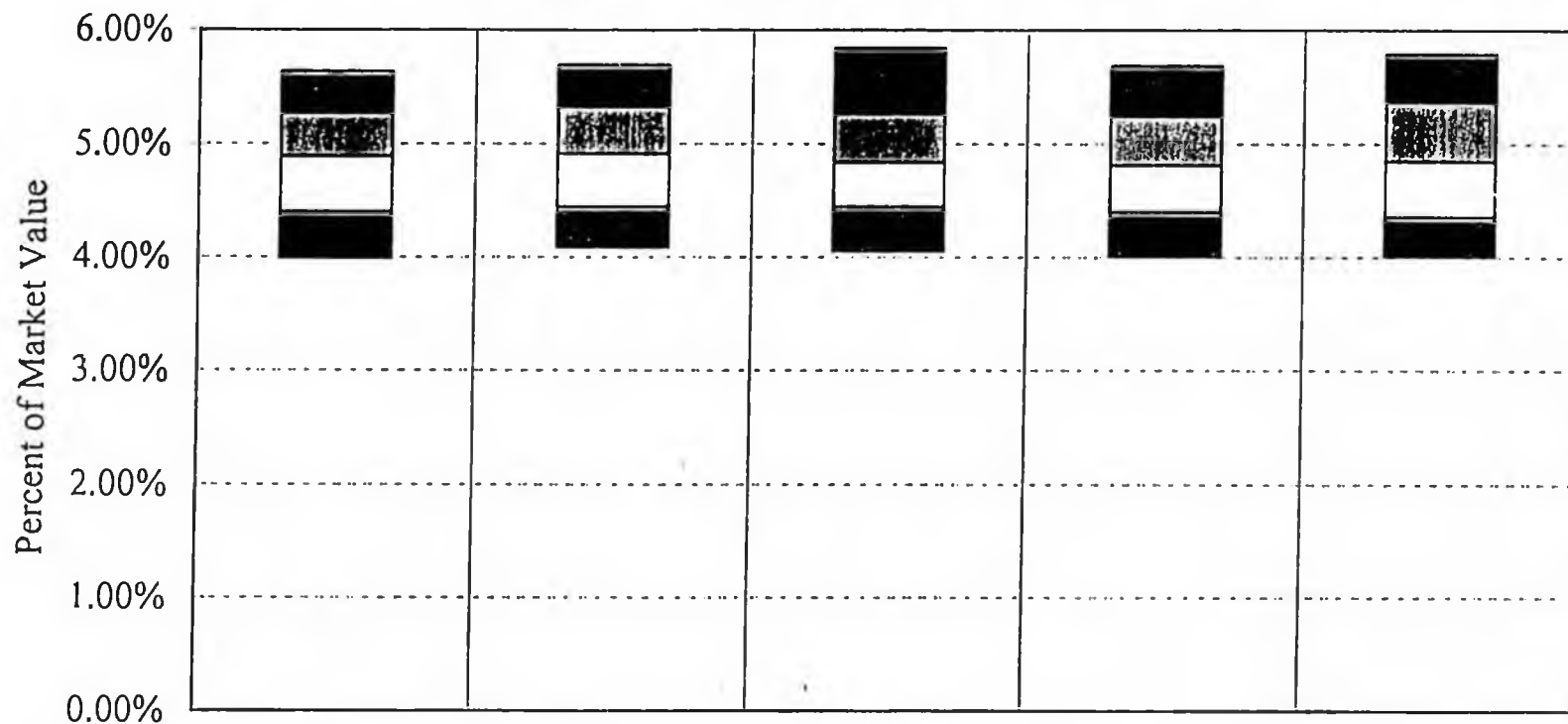
	1999	2000	2001	2002	2003
10%	2.55%	4.96%	5.12%	5.41%	5.70%
25%	2.46%	4.77%	4.80%	4.97%	5.18%
50%	2.37%	4.57%	4.49%	4.55%	4.74%
75%	2.30%	4.40%	4.18%	4.14%	4.33%
90%	2.23%	4.23%	3.98%	3.86%	3.94%



Range of Effective Payout Rate

HB 231, 5.25% Distribution

Range of Effective Payout Rate



	2004	2005	2006	2007	2008
10%	5.63%	5.69%	5.84%	5.69%	5.79%
25%	5.27%	5.32%	5.26%	5.24%	5.37%
50%	4.89%	4.92%	4.84%	4.81%	4.85%
75%	4.40%	4.45%	4.45%	4.40%	4.36%
90%	4.00%	4.10%	4.06%	4.01%	4.02%





ALASKA PERMANENT FUND FINANCIAL PROJECTIONS 1999 - 2020

as of March 31, 1999

(In millions)

PRINCIPAL (AT COST)						INCOME						UNREALIZED GAINS		TOTAL FUND At Market	
FY	FY Begin Balance	Appropriations	Dedicated		FY End Balance	GASB Net Income ⁽¹⁾	Statutory Net Income	Distributions of Statutory Income		Earnings Reserve		Net Change	FY End Balance	⁽⁶⁾	FY
			State Revenues ⁽²⁾	Inflation-Proofing				Dividends	Inflation-Proofing	General Fund	Add (Delete)				
77-96	0	5,854	5,727	4,624	16,205	16,153	14,034	5,993	4,624	223	104	2,084	2,084	18,393	77-96
97	16,205	829 ⁽³⁾	308	486	17,828	3,149	2,036	747	486	1	3	1,085	3,169	21,104	97
98	17,828	35	230	423	18,516	3,435	2,595	893	423		1,282	802	3,971	23,876	98
99	18,516	41 ⁽⁴⁾	138	288	18,984	2,281	2,294	1,019	288		987	(54)	3,917	25,276	99
00	18,984	27	135	574	19,720	1,922	1,789	1,101	574		113	106	4,023	26,233	00
01	19,720	29	146	597	20,492	1,996	1,857	1,110	597		150	110	4,134	27,264	01
02	20,492	31	151	620	21,294	2,076	1,930	1,099	620		210	115	4,249	28,392	02
03	21,294	33	166	645	22,138	2,163	2,010	1,037	645		328	120	4,368	29,684	03
04	22,138	36	177	671	23,021	2,263	2,102	1,017	671		414	125	4,493	31,106	04
05	23,021	38	165	697	23,922	2,372	2,203	1,061	697		445	131	4,624	32,583	05
06	23,922	41	176	724	24,863	2,486	2,308	1,108	724		475	137	4,761	34,137	06
07	24,863	44	170	752	25,830	2,606	2,418	1,159	752		506	144	4,905	35,753	07
08	25,830	47	169	781	26,827	2,730	2,532	1,214	781		537	151	5,056	37,438	08
09	26,827	51	167	811	27,856	2,860	2,651	1,272	811		568	158	5,213	39,193	09
10	27,856	55	156	842	28,909	2,995	2,775	1,332	842		601	165	5,378	41,011	10
11	28,909	59	150	874	29,991	3,135	2,903	1,394	874		636	173	5,551	42,902	11
12	29,991	63	149	906	31,109	3,280	3,037	1,459	906		672	181	5,731	44,873	12
13	31,109	68	143	940	32,260	3,432	3,176	1,527	940		709	189	5,920	46,921	13
14	32,260	73	138	974	33,444	3,590	3,320	1,597	974		749	197	6,117	49,051	14
15	33,444	78	133	1,010	34,665	3,754	3,470	1,670	1,010		790	206	6,324	51,269	15
16	34,665	84	128	1,046	35,923	3,925	3,626	1,746	1,046		834	216	6,539	53,576	16
17	35,923	90	124	1,084	37,220	4,103	3,788	1,825	1,084		879	225	6,765	55,978	17
18	37,220	96	120	1,123	38,560	4,288	3,956	1,907	1,123		926	235	7,000	58,479	18
19	38,560	103	117	1,163	39,944	4,481	4,132	1,992	1,163		976	246	7,246	61,085	19
20	39,944	111	113	1,205	41,373	4,682	4,314	2,081	1,205		1,028	257	7,503	63,799	20
Cumulative Totals															
Projected for 1999 - 2020:			3,231	18,328	41,373	67,419	62,589	30,727	18,328		14,923	3,532	7,503	63,799	

Rate of Return Assumptions				
	Total	- Inflation	= Real	Realized
FY 99	9.51%	1.54%	7.97%	11.03%
FY 2000-20 ⁽⁵⁾	7.75%	3.00%	4.75%	7.33%

⁽¹⁾ GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.

⁽²⁾ Per Department of Revenue's Spring 1999 Forecast.

⁽³⁾ Earnings reserve appropriated to principal.

⁽⁴⁾ Settlement earnings transferred to principal per AS 37.13.145(d).

⁽⁵⁾ Based on 1999 Callan capital market and inflation assumptions.

⁽⁶⁾ Total Fund (at market) equals Principal (at cost) plus the Earnings Reserve plus Unrealized Gains.

STATUS QUO



ALASKA PERMANENT FUND FINANCIAL PROJECTIONS 1999 - 2020

as of March 31, 1999

(in millions)

PRINCIPAL (AT COST)						INCOME						TOTAL FUND At Market	
FY	FY Begin Balance	Appro- riations	Dedicated		FY End Balance	GASB Net Income ⁽¹⁾	Distributions of Income			Alaska Income Account		(6)	FY
			State Revenues ⁽²⁾	Inflation- Proofing			Dividends	Inflation- Proofing	General Fund	Add (Delete)	FY End Balance		
77-96	0	5,854	5,727	4,624	16,205	16,153	5,993	4,624	223	2,188	2,188	18,393	77-96
97	16,205	829 ⁽³⁾	308	486	17,828	3,149	747	486	1	1,088	3,276	21,104	97
98	17,828	35	230	423	18,516	3,435	893	423		2,084	5,360	23,876	98
99	18,516	41 ⁽⁴⁾	130	288	18,975	2281	613	288		3,212 ⁽⁷⁾	8,572	27,547	99
00	18,975		123		19,098	2150	630		719	800	9,372	28,471	00
01	19,098		132		19,230	2277	649		750	879	10,251	29,482	01
02	19,230		137		19,367	2359	603		833	924	11,175	30,542	02
03	19,367		145		19,512	2445	617		852	976	12,151	31,663	03
04	19,512		150		19,663	2536	651		900	985	13,136	32,798	04
05	19,663		142		19,804	2627	675		932	1,021	14,157	33,961	05
06	19,804		151		19,955	2721	699		965	1,058	15,214	35,169	06
07	19,955		147		20,102	2819	724		1,000	1,095	16,310	36,412	07
08	20,102		147		20,249	2919	750		1,035	1,134	17,443	37,692	08
09	20,249		145		20,394	3022	776		1,072	1,174	18,617	39,011	09
10	20,394		136		20,529	3128	804		1,110	1,215	19,832	40,361	10
11	20,529		131		20,660	3237	832		1,149	1,256	21,089	41,749	11
12	20,660		131		20,791	3349	861		1,189	1,299	22,388	43,179	12
13	20,791		125		20,916	3465	891		1,230	1,344	23,732	44,648	13
14	20,916		121		21,037	3583	921		1,272	1,389	25,121	46,158	14
15	21,037		117		21,154	3705	953		1,316	1,436	26,557	47,711	15
16	21,154		113		21,267	3830	985		1,361	1,484	28,041	49,308	16
17	21,267		109		21,376	3959	1,019		1,407	1,534	29,574	50,951	17
18	21,376		106		21,483	4092	1,053		1,454	1,585	31,159	52,641	18
19	21,483		103		21,586	4228	1,088		1,503	1,637	32,796	54,382	19
20	21,585		101		21,687	4369	1,125		1,553	1,691	34,487	56,174	20
Cumulative Totals													
Projected for 1999 - 2020:						2,841	288	23,600	34,487	56,174			

Rate of Return Assumptions			
	Total	Inflation	Real
FY 1999	9.51%	1.54%	7.97%
FY 2000	7.94%	3.00%	4.94%
FY 2001-20 ⁽⁵⁾	8.13%	3.00%	5.13%

⁽¹⁾ GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings;

⁽²⁾ Per Department of Revenue's Spring 1999 Forecast and passage of HB 96.

⁽³⁾ Earnings reserve appropriated to principal.

⁽⁴⁾ Settlement earnings transferred to principal per AS 37.13.145(d).

per HB 231

⁽⁵⁾ Based on 1999 Callan capital market and inflation assumptions.

⁽⁶⁾ Total Fund (at market) equals Principal (at cost) plus the Earnings Reserve plus Unrealized Gains.

⁽⁷⁾ Includes \$1,873 million transferred from the Constitutional Budget Reserve transferred on July 2, 1999

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MEMORANDUM

To: Jim Kelly, APFC

From: Ron Lorensen, STS&L 

Date: May 11, 1999

Re: HB 231 and HB 232, relating to the Alaska Income Account
Our File No.: 846.6

At your request, I have reviewed HB 231 and HB 232. If passed, these bills would implement a percent of market value (POMV) distribution mechanism for the income of the Alaska Permanent Fund (the Fund) very similar to that proposed by the Board's Investment Policy Options Committee. This memo describes these two bills.

I. HB 232.

In order to understand how HB 231 works, HB 232 needs to be described first. HB 232 is an appropriations bill that would deposit the entire unappropriated balance of the constitutional budget reserve fund (CBRF) as of July 2, 1999 into the Fund's income account. This account is presently known as the "earnings reserve account," but under HB 231, it is renamed the "Alaska Income Account." HB 232 will only take effect, however, if a bill like HB 231, establishing the Alaska Income Account, is passed.

II. HB 231.

Section 1. In addition to renaming the Fund's income account the "Alaska Income Account," section 1 of the bill addresses the statutory issues recently identified by Morrison & Foerster relating to determination of the Fund's income according to generally accepted accounting principles and GASB 31, in particular. Under this provision, all income of the Fund is deposited into the Alaska Income Account, with the Fund's balance determined according to generally accepted accounting principles. Former distinctions between "realized" and "unrealized" income are eliminated.

Jim Kelly, APFC
May 11, 1999
Page 2

Section 2. Section 2 is the heart of the bill. It establishes the Alaska Income Account ("Account") as a separate account of the Fund. It then sets out the POMV distribution rule. Under the bill, the distribution is determined based on the average of the quarter-end market value of the Fund and the CBRF, combined, over the last 20 fiscal year quarters, not counting the fiscal year just ended. The amount to be transferred from the Account to the general fund in a fiscal year is set at 5.25 percent of that 20 quarter average. The method for determining quarter-end market value looks to the combined value of the Fund and the CBRF in preceding years because of the transfer of the CBRF into the Fund made by HB 232.

In addition to setting the POMV distribution rule, Section 2 also establishes the mechanism for determining how much of each annual distribution amount is to be used for the Permanent Fund Dividend program ("PFD's"). As drafted, the bill calls for 42 percent of each distribution to be paid into the special dividend fund established by AS 43.23.045.

Section 3, 4, and 5. These sections amend statutes relating to the Mental Health Trust Fund, the Alaska Science and Technology Foundation, and the International Trade and Business Endowment, respectively, to make it clear that the income earned by the Alaska Permanent Fund Corporation that is attributable to each of these funds is not included in the Alaska Income Account.

Sections 6 and 7. These temporary sections provide for a phasing-in of the permanent provisions of the bill--both the computation of the payout from the Alaska Income Account and the amount to be paid as PFD's. Under these provisions, for the years 1999, 2000, and 2001, the PFD is fixed at \$1,000. With respect to the calculation of the POMV distribution, the applicable period over which the quarter-end market value of the Fund and the CBRF, combined, will be determined is phased in for FY 2001, FY 2002, and FY 2003 rather than using a full 20 quarter period for those years. As written, the quarter-end market value applicable to the FY 2001 payout will be based on eight quarters, the value applicable to the FY 2002 payout will be averaged over 12 quarters, and the value applicable to the FY 2003 payout will be averaged over 16 quarters. This means that the first fiscal year for which a full 20 quarter average will be used will be the payout determined for FY 2004.

Sections 8 and 9. These are effective date provisions. Except for Section 6, which establishes the PFD amount for 1999 at \$1,000, all provisions of the bill take effect on July 2, 1999. Section 6 takes effect immediately.

Attachment

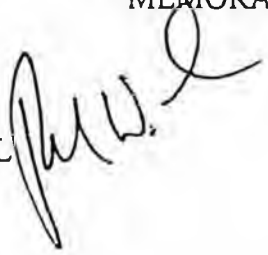
cc: Board of Trustees, APFC
Byron I. Mallott, Executive Director, APFC
Peter Bushre, Chief Financial Officer, APFC

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MEMORANDUM

To: Jim Kelly, APFC
From: Ron Lorensen, STS&L 
Date: May 11, 1999
Re: Proposed amendments to HB 231
Our File No.: 846.6

At your request I have drafted the attached amendments to HB 231. The purpose of the eight proposed amendments is as follows:

1. Amendments 1 and 2.

As you have pointed out, HB 231 does not specifically address what would happen if the amount calculated for distribution to the general fund in a fiscal year under the bill's percent of market value ("POMV") approach exceeds the amount available in the Alaska Income Account ("the Account") during that fiscal year. Presumably, in the absence of specific direction, at any time that the Account balance is insufficient to cover a planned transfer, the transfer would be limited to the amount of the Account's balance. However, because of the underlying constitutional limitation that the principal of the Fund is not subject to appropriation, it would probably be prudent to add a provision to the bill that expressly states how a shortfall in the Account will be handled.

Also, as drafted, the bill does not set a time limit for making the required transfer for a fiscal year. Without a time limit--and if the aggregate balance in the Account is insufficient to pay the computed transfer for that fiscal year--it could happen that any shortfall in the amount transferred that fiscal year would be carried over for payment in the next fiscal year and essentially "compete" for payment with the POMV transfer calculated for that following year.

Proposed amendments 1 and 2 to HB 231 would address these issues.

Jim Kelly, APFC
May 11, 1999
Page 2

2. Amendments 3 and 4.

In reviewing the provisions of HB 231, it is not clear whether or how a POMV transfer from the Account to the general fund in FY 2000 should be determined. Under the bill's transitional provisions at (c) of Section 7, the phased-in approach for determining the average quarter-end market value on which the transfer is based first applies to the transfer to be made in FY 2001 ("the amount transferred . . . following the end of . . . fiscal year 2000"). Since the POMV distribution provision of the bill takes effect on July 2, 1999, in the absence of a transitional provision indicating otherwise, it appears that the permanent, long-term averaging formula that looks to the last 20 quarters before the fiscal year that just ended would apply in FY 2000. Given the care taken in the bill to phase in the averaging period for POMV distributions in Fiscal Years 2001, 2002, and 2003, it is doubtful that this result was intended. Instead, as I understand it, the legislative plan for Fiscal Year 2000 simply calls for a one-time appropriation of a fixed amount from the Account.

Proposed amendments 3 and 4 would address this question by making it clear that the POMV distribution provision is not to be applied in Fiscal Year 2000.

Attachment

Proposed amendments to HB 231:

1. at page 2, line 4, insert the following:

(b) The transfer to the general fund of the amount required under (a) of this section shall be completed before the end of the fiscal year in which the transfer is to be made. A transfer under (a) may not exceed the balance in the Alaska Income Account at the time of the transfer. Notwithstanding (a), if the aggregate balance in the Alaska Income Account during the fiscal year in which the transfer to the general fund under (a) is to be made is less than the amount required to be transferred under (a), the transfer amount for that fiscal year is limited to the aggregate balance of the Alaska Income Account during the fiscal year.

2. re-letter existing subsec. (b) at page 2, line 4 as (c)

3. at page 3, line 4, insert the following:

(c) Notwithstanding AS 37.13.145(a), as repealed and reenacted in sec. 2 of this Act, AS 37.13.145 does not apply to require a transfer to the general fund in fiscal year 2000.

4. re-letter existing subsec. (c) at page 3, line 4 as (d)

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB 232

Revision Date/Time (Note if correction) _____ Dept. Affect Revenue _____
 Title: An Act making a special appropriation from the BRU Revenue Operations
 budget reserve fund to the Alaska income account Component Alaska Permanent Fund Corporation
 Sponsor House Rules Committee
 Requester House Finance Committee Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,404.8	3,073.6	3,362.5	3,678.6	4,024.4	4,402.7
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,404.8	3,073.6	3,362.5	3,678.6	4,024.4	4,402.7

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	------------	------------	------------	------------	------------	------------

CHANGE IN REVENUES ()	101,693.7	109,820.2	114,095.2	119,001.0	124,347.6	129,888.0
-------------------------------	------------------	------------------	------------------	------------------	------------------	------------------

FUND SOURCE (Thousands of Dollars)


1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Corporate Receipts	1,404.8	3,073.6	3,362.5	3,678.6	4,024.4	4,402.7
TOTAL	1,404.8	3,073.6	3,362.5	3,678.6	4,024.4	4,402.7

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: This fiscal note assumes an increase in costs and revenues associated with a \$1.873 billion increase in public equity investments.

Prepared by Peter A. Bushre  Phone 465-2301
 Division Alaska Permanent Fund Corporation Date/Time _____
 Approved by _____ Date _____
 Commissioner Wilson L. Condon
 Agency Department of Revenue

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HOUSE BILL NO. 231

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST

Introduced: 5/8/99

Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to income of the Alaska permanent fund, to the Alaska Income
2 Account, and to permanent fund dividends; and providing for an effective date."

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

4 * Section 1. AS 37.13.140 is repealed and reenacted to read:

5 Sec. 37.13.140. **Income.** All income of the fund shall be deposited in the
6 Alaska Income Account established under AS 37.13.145. The balance of the Alaska
7 Income Account shall be determined according to generally accepted accounting
8 principles. Income of the fund includes income of the Alaska Income Account.

9 * Sec. 2. AS 37.13.145 is repealed and reenacted to read:

10 Sec. 37.13.145. **Disposition of income.** (a) The Alaska Income Account is
11 established as a separate account in the fund. Following the end of each fiscal year,
12 an amount shall be transferred from the account to the general fund that is equal to
13 5.25 percent of the average of the quarter-end market value of the last 20 fiscal year
14 quarters before the fiscal year just ended of

1 (1) the fund, including the Alaska Income Account; and
2 (2) the budget reserve fund (art. IX, sec. 17, Constitution of the State
3 of Alaska).

4 (b) After the transfer under (a) of this section, the commissioner of revenue
5 shall transfer from the general fund to the dividend fund, (AS 43.23.045) 42 percent
6 of the amount transferred to the general fund under (a) of this section.

7 * Sec. 3. AS 37.13.300(c) is amended to read:

8 (c) Net income from the mental health trust fund may not be included in the
9 [COMPUTATION OF NET] income of the Alaska permanent fund [AVAILABLE
10 FOR DISTRIBUTION] under AS 37.13.140.

11 * Sec. 4. AS 37.17.020(b) is amended to read:

12 (b) The endowment shall be held and invested by the Alaska Permanent Fund
13 Corporation subject to AS 37.13.120; however, net income from the endowment shall
14 be distributed under AS 37.17.010 - 37.17.110 and 37.17.225. Net income from the
15 endowment may not be included in the [COMPUTATION OF NET] income of the
16 Alaska permanent fund [AVAILABLE FOR DISTRIBUTION] under AS 37.13.140.

17 * Sec. 5. AS 37.17.440(b) is amended to read:

18 (b) The principal and income of the endowment shall be held and invested by
19 the Alaska Permanent Fund Corporation subject to AS 37.13.120; however, net income
20 from the endowment and subsequent income earned on net income from the
21 endowment shall be held in a separate account until appropriated by the legislature.
22 Net income from the endowment may not be included in the [COMPUTATION OF
23 NET] income of the Alaska permanent fund [AVAILABLE FOR DISTRIBUTION]
24 under AS 37.13.140.

25 * Sec. 6. 1999 PERMANENT FUND DIVIDENDS. Notwithstanding AS 37.13.145(b) and
26 AS 43.23.025, the amount of each permanent fund dividend for 1999 is \$1,000.

27 * Sec. 7. TRANSITION. (a) The Alaska Income Account established in AS 37.13.145(a),
28 as repealed and reenacted in sec. 2 of this Act, is the successor to the earnings reserve
29 account, and the balance in the earnings reserve account on the effective date of this section
30 shall be retained in the Alaska Income Account until distributed in accordance with
31 AS 37.13.145, as repealed and reenacted in sec. 2 of this Act.

1 (b) Notwithstanding AS 37.13.145(b), as repealed and reenacted in sec. 2 of this Act,
2 and AS 43.23.025, the amount of each permanent fund dividend for 2000 and each permanent
3 fund dividend for 2001 is \$1,000.

4 (c) Notwithstanding AS 37.13.145(a), as repealed and reenacted in sec. 2 of this Act,
5 the amount transferred from the Alaska Income Account to the general fund following the end
6 of

7 (1) fiscal year 2000 is equal to 5.25 percent of the average of the quarter-end
8 market value for the last eight fiscal year quarters before the fiscal year just ended of

9 (A) the Alaska permanent fund (art. IX, sec. 15, Constitution of the
10 State of Alaska), including the Alaska Income Account; and

11 (B) the budget reserve fund (art. IX, sec. 17, Constitution of the State
12 of Alaska);

13 (2) fiscal year 2001 is equal to 5.25 percent of the average of the quarter-end
14 market value for the last 12 fiscal year quarters before the fiscal year just ended of

15 (A) the Alaska permanent fund (art. IX, sec. 15, Constitution of the
16 State of Alaska), including the Alaska Income Account; and

17 (B) the budget reserve fund (art. IX, sec. 17, Constitution of the State
18 of Alaska);

19 (3) fiscal year 2002 is equal to 5.25 percent of the average of the quarter-end
20 market value for the last 16 quarters before the fiscal year just ended of

21 (A) the Alaska permanent fund (art. IX, sec. 15, Constitution of the
22 State of Alaska), including the Alaska Income Account; and

23 (B) the budget reserve fund (art. IX, sec. 17, Constitution of the State
24 of Alaska).

25 * Sec. 8. Sections 1 - 5 and 7 of this Act take effect July 2, 1999.

26 * Sec. 9. Section 6 of this Act takes effect immediately under AS 01.10.070(c).

HOUSE BILL NO. 232

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST

Introduced: 5/8/99

Referred: Finance

A BILL**FOR AN ACT ENTITLED**

1 "An Act making a special appropriation from the budget reserve fund under art.
2 IX, sec. 17(c), Constitution of the State of Alaska, to the Alaska Income Account;
3 and providing for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 * Section 1. The unappropriated balance in the budget reserve fund (art. IX, sec. 17,
6 Constitution of the State of Alaska) on July 2, 1999, is appropriated to the Alaska Income
7 Account (AS 37.13.145). This appropriation is made under art. IX, sec. 17(c), Constitution
8 of the State of Alaska.

9 * Sec. 2. This Act takes effect only if a version of a bill establishing the Alaska Income
10 Account in the Alaska permanent fund is passed by the Twenty-First Alaska State Legislature
11 and becomes law.

12 * Sec. 3. If this Act takes effect, it takes effect on the effective date of the provisions of
13 the bill described in sec. 2 of this Act that establish the Alaska Income Account in the Alaska
14 permanent fund.



WORKING TO PROMOTE
ALASKA'S LONG-TERM
FISCAL CERTAINTY

FISCAL SENSE

AN UPDATE ON CLOSING ALASKA'S FISCAL GAP • ISSUE #7 • WEEK OF MAY 10, 1999

House proposes "Healthy Alaska" Plan

Earlier this legislative session, the Governor proposed a "Balanced Budget" plan as a way to get Alaska's fiscal house in order. While the bad news was that it was pronounced dead on arrival because it reimposed a state income tax, the good news was it broke new ground by proposing to tap Permanent Fund earnings to pay for government services and the Legislature was able to react.

Next came the "All Alaska" plan which was advanced by a cadre of House Majority members. While there was no income tax, it took the bold step and said Permanent Fund (PF) dividends would no longer have "first call" on PF earnings. Instead, money to pay dividends would compete for the same dollars that could pay for traditional state services.

Last Saturday a compromise was introduced in the House. Called the "Healthy Alaska" plan, it proposes to set up an annual stream of Permanent Fund earnings to offset less revenues from decreased oil production and low prices. A major difference from the "All Alaska" plan is that it earmarks some Fund earnings for dividends and then the balance pays for government programs.

How it works

The "Healthy Alaska" plan's key provisions are incorporated in House Bill 231. As proposed, the plan:

- Renames the Permanent Fund's Earnings Reserve Account (ERA) to the "Alaska Income Account" (AIA). (*Currently all PF earnings go into the ERA from which dividends and inflation-proofing are paid. Leftover earnings have*

no specified purpose. Currently the ERA is invested as part of the PF, so in a way it contributes to higher earnings and therefore higher dividends. This is why some suggest that using these leftover earnings is a "raid" on the PF itself, even though it's not.);

- Transfers the Constitutional Budget Reserve balance (about \$2.8 billion) to the AIA;
- Future PF earnings will go into the AIA;
- Each year 5.25% will be withdrawn from the AIA based on a five-year average of the market value of the PF and AIA. Using a prescribed payout automatically inflation-proofs the AIA;
- 42% of this draw will be paid out in dividends; the remainder will go into the state's general fund to pay for government services. During a three-year transition, however, the annual dividend will be \$1,000; and
- Spending is cut by \$70 million over two years.

Testing against the Council's criteria

The Fiscal Policy Council has developed a criteria by which it evaluates proposals to close the gap (past issues of *FISCAL SENSE* describe the criteria and can be found on the Council's web page: www.fiscalak.org). It also uses a model developed by Dr. Scott Goldsmith of UAA's Institute for Social and Economic Research.

The plan's strengths

The most important criteria in evaluating a plan is whether it sustains the value of Alaska's financial assets. Will the value of Alaska's financial assets (Permanent Fund, Earnings Reserve Ac-

"Healthy Alaska" plan proposed (continued . . .)

count, Constitutional Budget Reserve, and the general fund revenues) be at least the same in 10 or 20 years? This is most important because for the foreseeable future, Alaska's financial assets will be the state's primary source of revenues. As a result, protecting their value is the highest priority.

The "Healthy Alaska" plan meets this test and has a number of other strengths, which include:

- A prescribed payout rate enables the Permanent Fund to be managed to maximize its long-run real rate of return;
- A new stable, predictable, and growing stream of financial earnings will be available to help fund state services;
- Curbs the dividend's current inflated growth rate which cannot be sustained;
- Easy to implement because no voter approval is required.

Concerns

The Council suggests, however, that there are some concerns, which include:

- Because the withdrawal rate is set by law and not by a Constitutional amendment, it can be changed by a future Legislature. If a higher rate is withdrawn, it

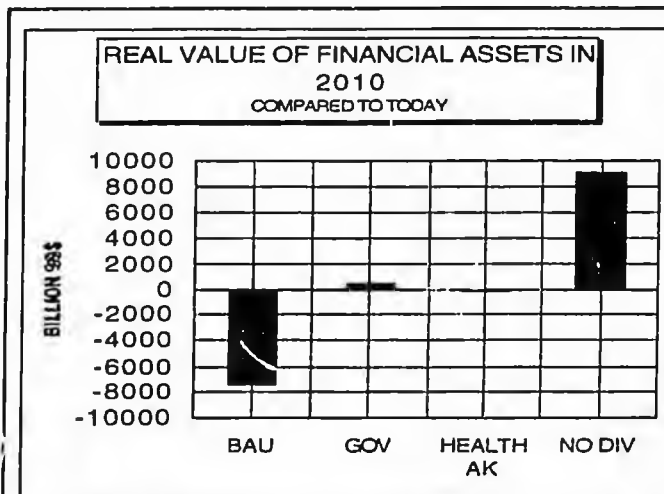
would erode the future value of the state's financial assets;

- Instead of the current practice of putting inflation-proofing dollars into the Permanent Fund, and therefore being constitutionally-protected against being spent, the plan puts these dollars in the AIA

and as a result, they could be spent;

- Unlike the "All Alaska" plan which did not prescribe how much is to be paid in dividends, the new plan earmarks a percentage for dividends. While this may achieve a politically desirable goal, it reduces flexibility in meeting future demands for state services;

- Even though the value of Alaska's financial assets is maintained, revenues from other sources such as oil, will continue to decline. This means that revenues from a broad-based tax may be necessary to sustain the prescribed level of dividends or pay for state services. Under the plan, the capacity to tax is not yet utilized, and remains a future option by which a connection between growth in the economy and revenues to the state treasury could be realized.



The model shows that under the "Healthy Alaska" plan, the value of the state's financial assets would be slightly less (\$768 million) in 2010 than today. Unlike previous graphs that showed a loss in value under the Governor's proposal, the above shows an increase because the House's proposed reduced level of spending is applied. If the Governor's plan spent less as proposed in the "Healthy Alaska" plan, asset value would grow instead of decrease. Unlike the House proposal, the Governor's plan also collects \$350 million through personal income taxes.

About the model's key assumptions:

- Incorporates "Healthy Alaska" plan's proposed \$70 million in cuts; spending is then flat except for K-12 education that grows at 1.5%
- Rate of return

	Real	Nominal
Long:	4.5%	7.6%
Short:	2.5%	5.6%
- Oil revenues ADOR April 1999 forecast
- Non-oil revenues Grow \$10 million/year

Further details about the model can be found in the April 12, 1999 issue of FISCAL SENSE at www.fiscalak.org.

The Fiscal Policy Council of Alaska, Inc. is a nonpartisan, nonprofit, member-supported organization dedicated to promoting the state's long-term fiscal certainty through research and providing objective information about Alaska's finances. "FISCAL SENSE" is written by FPCA board member Cheryl Frasca, a longtime budget-watcher. The Council can be reached by calling (907)258-2331; fax 258-2332; exdir@fiscalak.org; www.fiscalak.org

Incremental Revenue From High Case Forecast of:

- 1) New Discoveries of Oil and Gas, and**
- 2) Development of Discovered Oil and Gas Not
Currently Scheduled for Development**

Table 1- base Line ALASKA
Production from DOR spring 1999
FORECAST

Table 1

Base Line Alaska Production from Department of Revenue Spring 1999 Forecast in Millions of Barrels Per Day

The Table on the following three pages reflects the Department of Revenue's spring oil production forecast for FY2000 through FY2020.

Table 1

**Base Line Alaska Oil Production from Department of Revenue Spring 1999 Forecast
in Millions of Barrels Per Day**

(Millions of Barrels/Day)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cook Inlet Production	0.026178	0.023666	0.021483	0.019573	0.017890	0.016399	0.015069	0.013879	0.012809
North Slope Production	1.047244	1.064177	1.035166	1.049343	1.075915	1.031404	0.979237	0.919186	0.871074
Total Baseline Production	1.073422	1.087843	1.056650	1.068916	1.093805	1.047803	0.994307	0.933066	0.883883

Table 1

**Base Line Alaska Oil Production from Department of Revenue Spring 1999 Forecast
in Millions of Barrels Per Day**

(Millions of Barrels/Day)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cook Inlet Production	0.011842	0.010966	0.010170	0.009445	0.008782	0.007999	0.007469	0.006978	0.006526
North Slope Production	0.823612	0.768417	0.717556	0.669089	0.620841	0.576938	0.549714	0.503174	0.468908
Total Baseline Production	0.835454	0.779383	0.727726	0.678533	0.629623	0.584937	0.557183	0.510153	0.475433

Table 1

Base Line Alaska Oil Production from Department of Revenue Spring 1999 Forecast
in Millions of Barrels Per Day

(Millions of Barrels/Day)	2018	2019	2020
Cook Inlet Production	0.006107	0.005718	0.005383
North Slope Production	0.437333	0.408164	0.380664
Total Baseline Production	0.443439	0.413882	0.386046

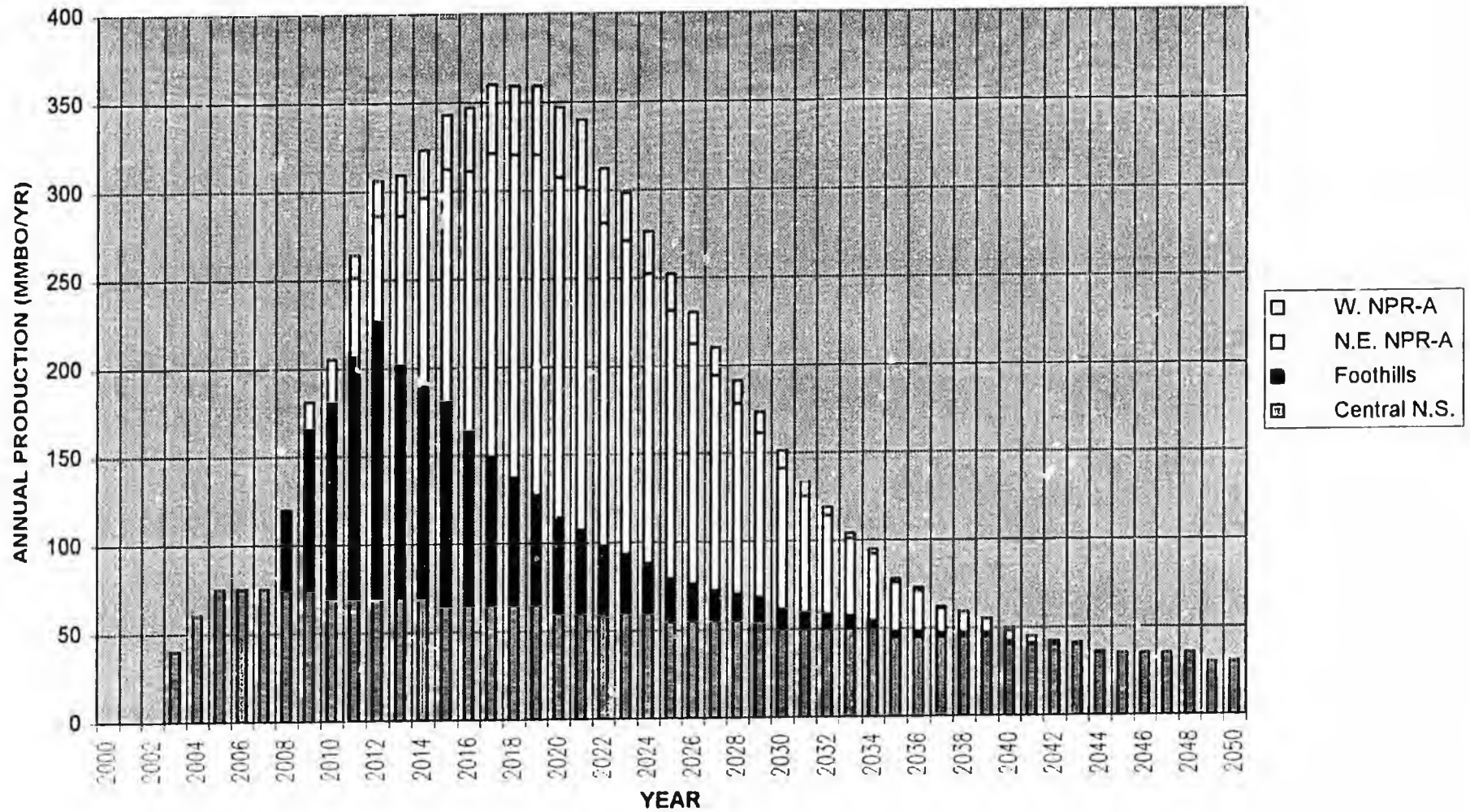
CHART 1 - High CASE Technically
Recoverable oil Production not
Reflected in DOR Spring 1999 Forecast.

Chart 1

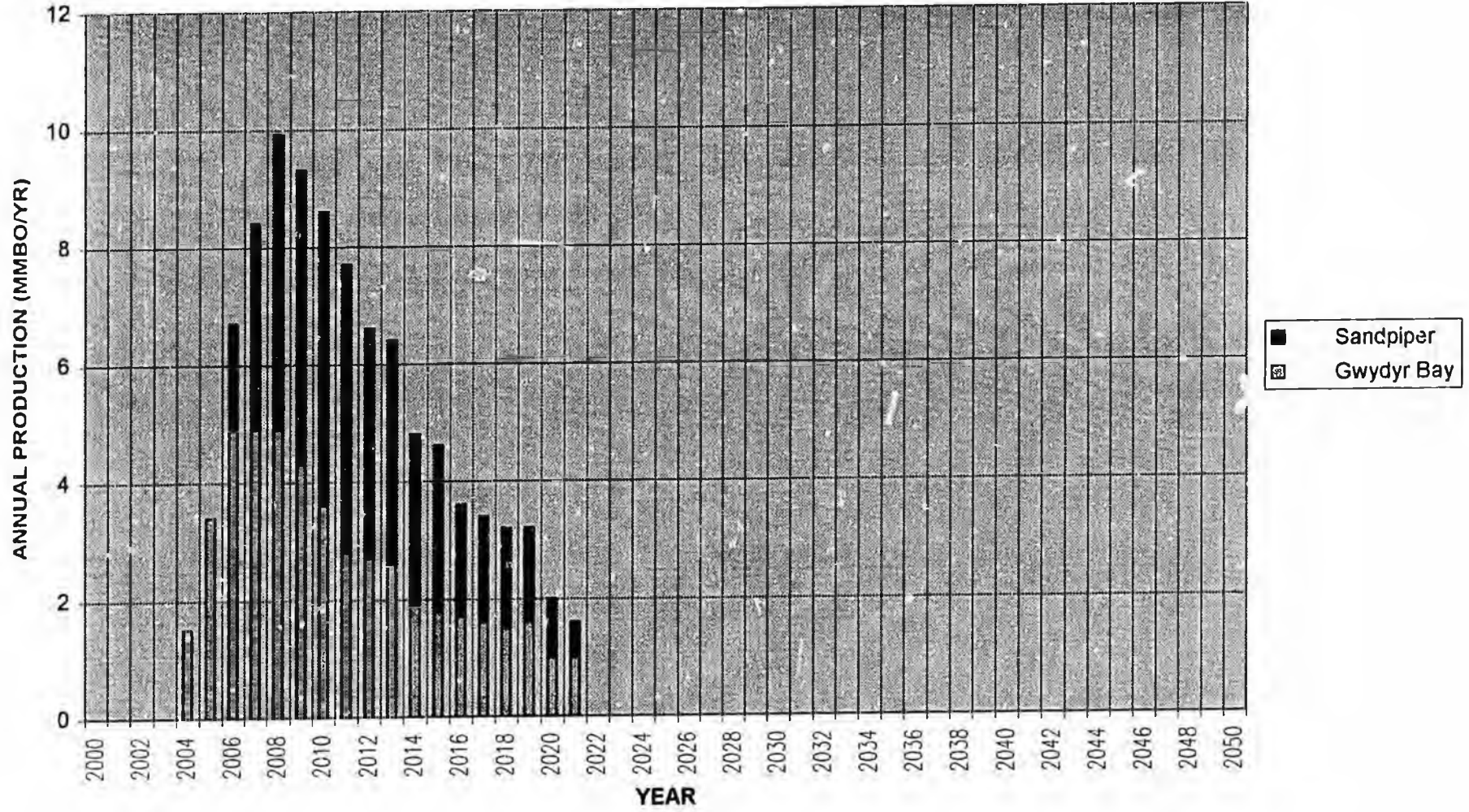
High Case Technically Recoverable Oil Production Not Reflected in the Department of Revenue's Spring Forecast

This chart reflects the production in the Department of Natural Resources "High Case Production Scenario" that is not reflected in the Department of Revenue's Spring Revenue Forecast. The volumes in this chart are expressed in millions of barrels per year. These predicted volumes, if discovered, might be "technically recoverable". That means that if the price was high enough, these volumes, if discovered, could be recovered under currently available technology. An adjustment must be made to these volumes to reflect the amount that might be "economically recoverable" under likely oil prices. That adjustment is reflected in Table 3.

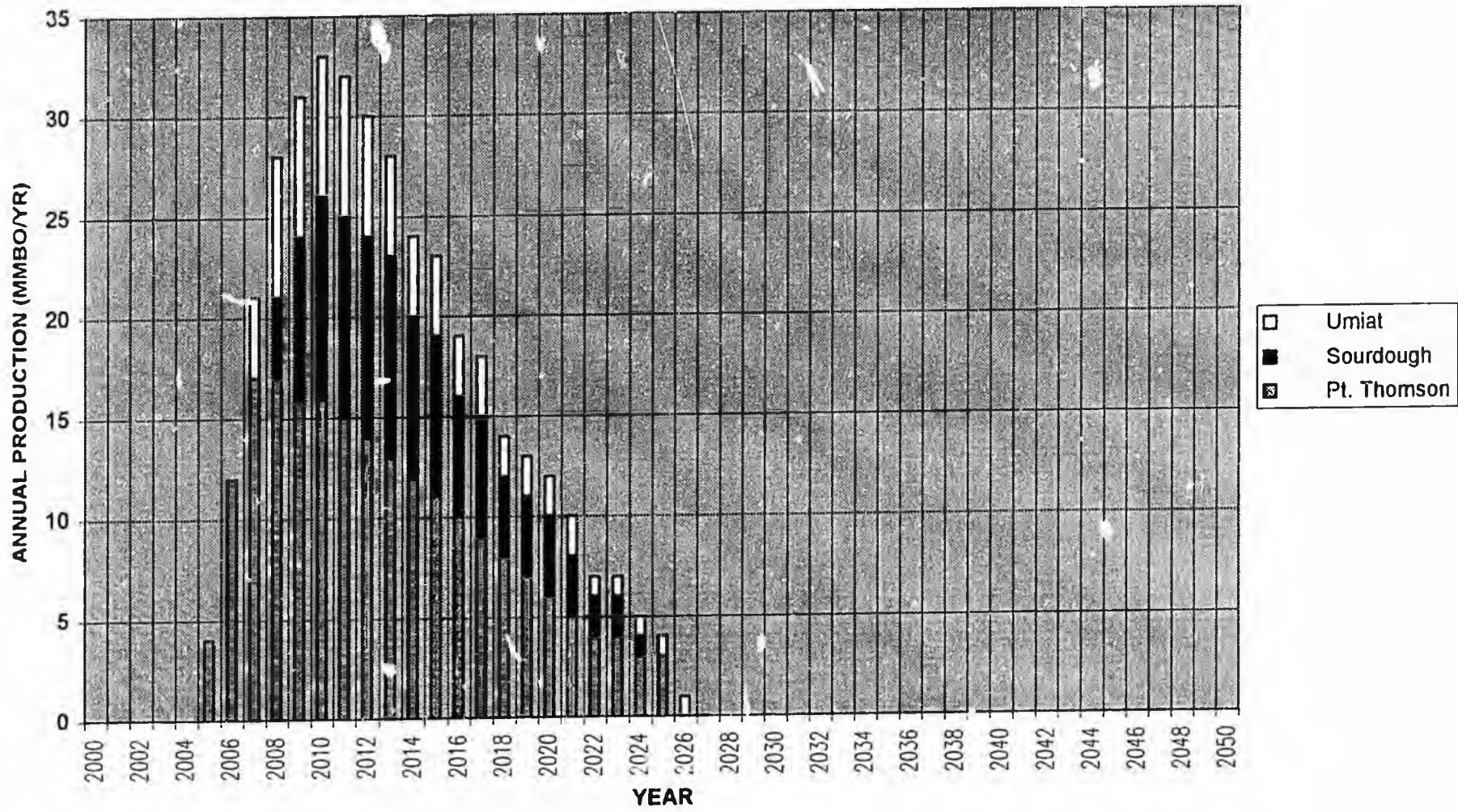
**FUTURE PRODUCTION, 2000-2050
UNDISCOVERED OIL (ONSHORE)
ALASKA NORTH SLOPE**



**FUTURE PRODUCTION 2000-2050
DISCOVERED OIL (OFFSHORE)
ALASKA NORTH SLOPE**



**FUTURE PRODUCTION 2000-2050
DISCOVERED OIL. (ONSHORE)
ALASKA NORTH SLOPE**



**FUTURE PRODUCTION 2000-2050
DISCOVERED OIL
COOK INLET**

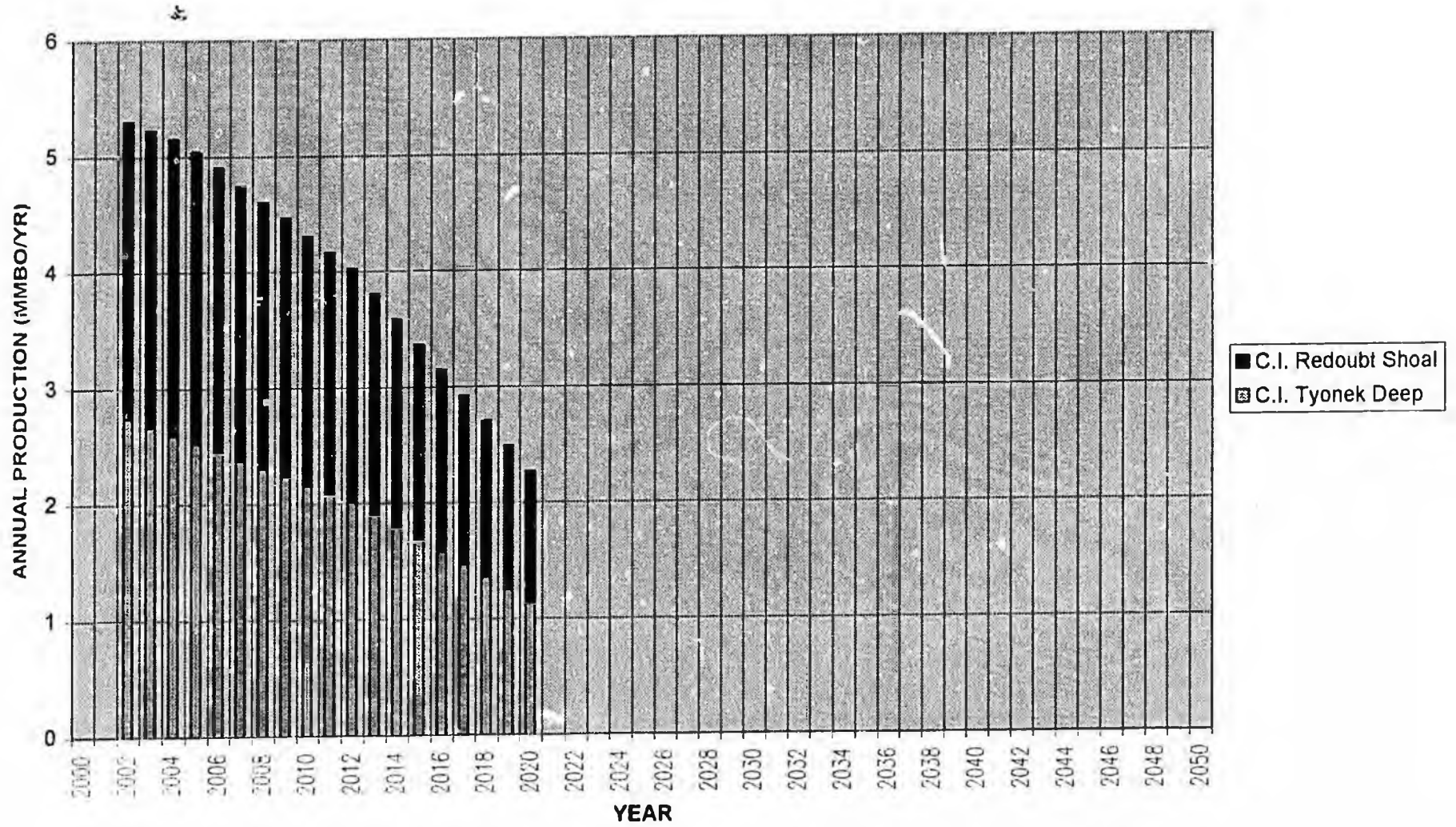


Table 2 - DNR Technically
Recoverable Incremental
Production 2000 - 2020

Table 2
DNR High Case Technically Recoverable Incremental Production
2000 to 2020
in Millions of Barrels or BCF per Year

The table on the following three pages reflects the projected production depicted in Chart 1. This production, if developed, would be above and beyond the production projected in the Department of Revenue's Spring Forecast. The volumes in this table are in millions of barrels per year.

Table 2

**DNR Technically Recoverable Incremental Production
2000 to 2020
in Millions of Barrels or BCF per Year**

FIELD / AREA	STATUS	2000	2001	2002	2003	2004	2005	2006	2007	2008
C.I. Tyonek Deep	Leased			3	3	3	3	2	2	2
C.I. Redoubt Shoal	Leased			3	3	3	3	2	2	2

Discovered Oil

Pt. Thomson	Leased						4	12	17	17
Sourdough	Leased									4

Undiscovered Oil

Central N.S. & Satellites	Leased & Unleased				40	60	75	75	75	75
Foothills	Unleased									45
N.E. NPR-A	Unleased									
W. NPR-A	Unleased									

TOTAL INCREMENTAL MID CASE OIL PRODUCTION (MMBO/YR)		0	0	5	45	65	84	92	97	146
TOTAL INCREMENTAL MID CASE GAS PRODUCTION (BCF/YR)		0	0	0	0	0	0	0	0	0

Table 2

**DNR Technically Recoverable Incremental Production
2000 to 2020
in Millions of Barrels or BCF per Year**

FIELD / AREA	2009	2010	2011	2012	2013	2014	2015	2016	2017
C.I. Tyonek Deep	2	2	2	2	2	2	2	2	1
C.I. Redoubt Shoal	2	2	2	2	2	2	2	2	1

Discovered Oil

Pt. Thomson	16	16	15	14	13	12	11	10	9
Sourdough	8	10	10	10	10	8	8	6	6

Undiscovered Oil

Central N.S. & Satellites	75	70	70	70	70	70	65	65	65
Foothills	90	110	136	156	131	121	115	98	84
N.E. NPR-A	16	25	45	60	85	105	132	148	172
W. NPR-A			13	20	23	27	31	36	39

TOTAL INCREMENTAL MID CASE OIL PRODUCTION (MMBO/YR)	209	235	293	334	336	347	365	366	378
TOTAL INCREMENTAL MID CASE GAS PRODUCTION (BCF/YR)	0	730	730	730	730	730	730	730	730

Table 2

**DNR Technically Recoverable Incremental Production
2000 to 2020
in Millions of Barrels or BCF per Year**

FIELD / AREA	2018	2019	2020
C.I. Tyonek Deep	1	1	1
C.I. Redoubt Shoal	1	1	1

Discovered Oil

Pt. Thomson	8	7	6
Sourdough	4	4	4

Undiscovered Oil

Central N.S. & Satellites	65	65	60
Foothills	72	62	54
N.E. NPR-A	183	193	193
W. NPR-A	39	39	40

TOTAL INCREMENTAL MID CASE OIL PRODUCTION (MMBO/YR)	374	372	359
TOTAL INCREMENTAL MID CASE GAS PRODUCTION (BCF/YR)	730	730	730

TABLE 3 - DNR Economically
Recoverable Incremental
Production 2000 - 2020