

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2793

Table C 12: Logistic Regression Results—Vision

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-1.656	0.026	3989.635	0.000
Male Indicator	-0.255	0.010	632.8	0.000
Native Indicator	-0.236	0.012	413.8	0.000
Age	-0.030	0.001	495.4	0.000
Northern Region Indicator	0.079	0.010	66.8	0.000
Western Region Indicator	-0.656	0.013	276.9	0.000
South Central Region Indicator	0.118	0.009	156.8	0.000
South East Region Indicator	0.024	0.011	4.5	0.034
Time	0.106	0.001	5199.6	0.000
Kids Eligibility	-1.157	0.025	2189.6	0.000
Pregnancy Eligibility	-1.121	0.088	161.6	0.000
LTC Eligibility	-0.462	0.057	65.3	0.000
Low Income/Disabled Eligibility	-0.105	0.031	11.8	0.001
Interaction: Age & Male Indicator	0.000	0.000	0.2	0.661
Interaction: Age & Native Indicator	0.002	0.000	33.2	0.000
Interaction: Age & Kids Eligibility	0.060	0.001	1971.2	0.000
Interaction: Age & Pregnancy Eligibility	0.014	0.004	15.4	0.000
Interaction: Age & LTC Eligibility	0.029	0.002	342.8	0.000
Interaction: Age & Low Income/Disabled Eligibility	0.034	0.001	628.7	0.000
Hosmer-Lemeshow Test ( $X^2$ ) df=8	961	Significance	0.00	

Source: Lewin Group & ECNorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 13: Logistic Regression Results—Residential Psychology

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-3.629	0.068	2815.726	0.000
Male Indicator	0.203	0.045	20.5	0.000
Native Indicator	-0.220	0.049	19.9	0.000
Age	-0.027	0.003	106.8	0.000
Northern Region Indicator	-0.512	0.050	103.7	0.000
Western Region Indicator	-1.313	0.074	311.3	0.000
South Central Region Indicator	-0.369	0.048	58.6	0.000
South East Region Indicator	-0.315	0.055	32.7	0.000
Time	0.176	0.007	585.3	0.000
Kids Eligibility	-2.642	0.051	2735.1	0.000
Pregnancy Eligibility	3.003	1.145	6.9	0.009
LTC Eligibility	-2.296	0.307	56.0	0.000
Low Income/Disabled Eligibility	0.174	0.097	3.2	0.073
Interaction: Age & Male Indicator	0.010	0.002	18.4	0.000
Interaction: Age & Native Indicator	0.018	0.002	54.2	0.000
Interaction: Age & Kids Eligibility	0.027	0.003	116.0	0.000
Interaction: Age & Pregnancy Eligibility	-0.393	0.064	38.0	0.000
Interaction: Age & LTC Eligibility	-0.028	0.013	4.3	0.038
Interaction: Age & Low Income/Disabled Eligibility	-0.095	0.005	352.0	0.000
Hosmer-Lemeshow Test ( $X^2$ ) df=8	128	Significance	0.00	

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 14: Logistic Regression Results—HCB Waiver

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-6.550	0.090	5321.400	0.000
Male Indicator	0.383	0.039	97.3	0.000
Native Indicator	0.413	0.048	74.2	0.000
Age	0.078	0.002	2342.8	0.000
Northern Region Indicator	-0.635	0.026	608.8	0.000
Western Region Indicator	-1.366	0.041	1099.2	0.000
South Central Region Indicator	-0.067	0.022	9.7	0.002
South East Region Indicator	-0.217	0.025	75.8	0.000
Time	0.135	0.003	1552.9	0.000
Kids Eligibility	-2.218	0.114	378.6	0.000
Pregnancy Eligibility	-0.306	0.272	1.3	0.261
LTC Eligibility	7.054	0.093	5693.5	0.000
Low Income/Disabled Eligibility	3.561	0.086	1700.8	0.000
Interaction: Age & Male Indicator	-0.011	0.001	248.8	0.000
Interaction: Age & Native Indicator	-0.012	0.001	193.7	0.000
Interaction: Age & Kids Eligibility	-0.029	0.003	69.1	0.000
Interaction: Age & Pregnancy Eligibility	-0.030	0.009	10.2	0.001
Interaction: Age & LTC Eligibility	-0.094	0.002	3109.8	0.000
Interaction: Age & Low Income/Disabled Eligibility	-0.064	0.002	1612.6	0.000
Hosmer-Lemeshow Test ( $X^2$ ) df=8	65	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 15: Logistic Regression Results—Personal Care

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-8.344	0.256	1066.107	0.000
Male Indicator	-0.332	0.061	29.3	0.000
Native Indicator	0.000	0.082	0.0	0.999
Age	0.045	0.005	90.2	0.000
Northern Region Indicator	0.050	0.029	3.0	0.083
Western Region Indicator	0.304	0.031	95.1	0.000
South Central Region Indicator	0.346	0.026	177.2	0.000
South East Region Indicator	-0.017	0.032	0.3	0.598
Time	0.170	0.004	1630.8	0.000
Kids Eligibility	-2.085	0.282	54.5	0.000
Pregnancy Eligibility	-3.882	2.402	2.6	0.106
LTC Eligibility	5.309	0.259	421.4	0.000
Low Income/Disabled Eligibility	3.285	0.254	167.1	0.000
Interaction: Age & Male Indicator	-0.002	0.001	2.4	0.118
Interaction: Age & Native Indicator	-0.008	0.001	41.6	0.000
Interaction: Age & Kids Eligibility	0.039	0.006	44.1	0.000
Interaction: Age & Pregnancy Eligibility	0.017	0.083	0.0	0.833
Interaction: Age & LTC Eligibility	-0.036	0.005	54.7	0.000
Interaction: Age & Low Income/Disabled Eligibility	-0.009	0.005	3.7	0.054
<b>Hosmer-Lemeshow Test (<math>\chi^2</math>) df=8</b>	<b>47</b>	<b>Significance</b>	<b>0.00</b>	

Source: Lewin Group & ECNorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 16: Logistic Regression Results—Outpatient Mental Health

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-0.396	0.023	300.754	0.000
Male Indicator	0.179	0.013	199.8	0.000
Native Indicator	-0.078	0.014	29.5	0.000
Age	-0.028	0.001	807.4	0.000
Northern Region Indicator	-0.438	0.013	1156.4	0.000
Western Region Indicator	-0.914	0.017	2940.9	0.000
South Central Region Indicator	-0.004	0.011	0.1	0.754
South East Region Indicator	-0.012	0.013	0.9	0.344
Time	0.016	0.002	84.4	0.000
Kids Eligibility	-2.774	0.021	18280.1	0.000
Pregnancy Eligibility	-2.888	0.120	579.0	0.000
LTC Eligibility	-1.777	0.064	765.6	0.000
Low Income/Disabled Eligibility	0.702	0.026	708.6	0.000
Interaction: Age & Male Indicator	-0.008	0.000	432.6	0.000
Interaction: Age & Native Indicator	-0.001	0.000	7.6	0.006
Interaction: Age & Kids Eligibility	0.067	0.001	4293.7	0.000
Interaction: Age & Pregnancy Eligibility	0.026	0.005	30.0	0.000
Interaction: Age & LTC Eligibility	0.023	0.001	254.1	0.000
Interaction: Age & Low Income/Disabled Eligibility	-0.005	0.001	23.4	0.000
Hosmer-Lemeshow Test ( $X^2$ ) df=8	5.013	Significance	0.00	

Source: Lewin Group & ECOnorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 17: Logistic Regression Results—Pharmacy

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	0.571	0.019	896.924	0.000
Male Indicator	-0.031	0.006	23.6	0.000
Native Indicator	-0.231	0.007	1011.5	0.000
Age	-0.033	0.001	1530.4	0.000
Northern Region Indicator	-0.332	0.007	2267.3	0.000
Western Region Indicator	-1.054	0.008	17203.1	0.000
South Central Region Indicator	-0.199	0.007	846.4	0.000
South East Region Indicator	-0.308	0.008	1475.9	0.000
Time	0.081	0.001	6394.9	0.000
Kids Eligibility	-0.885	0.018	2385.4	0.000
Pregnancy Eligibility	0.034	0.046	0.5	0.459
LTC Eligibility	-0.052	0.046	1.3	0.258
Low Income/Disabled Eligibility	0.607	0.026	524.7	0.000
Interaction: Age & Male Indicator	-0.018	0.000	4598.7	0.000
Interaction: Age & Native Indicator	-0.003	0.000	124.1	0.000
Interaction: Age & Kids Eligibility	0.058	0.001	4741.6	0.000
Interaction: Age & Pregnancy Eligibility	0.024	0.002	172.8	0.000
Interaction: Age & LTC Eligibility	0.067	0.001	2906.3	0.000
Interaction: Age & Low Income/Disabled Eligibility	0.046	0.001	2675.1	0.000
Hosmer-Lemeshow Test ( $X^2$ df=8)	1.672	Significance	0.00	

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 18: Logistic Regression Results—Transportation

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-3.871	0.031	15891.745	0.000
Male Indicator	-0.074	0.010	54.1	0.000
Native Indicator	1.186	0.012	10018.0	0.000
Age	0.007	0.001	29.9	0.000
Northern Region Indicator	0.965	0.011	7379.3	0.000
Western Region Indicator	2.331	0.010	49568.9	0.000
South Central Region Indicator	1.161	0.011	11457.3	0.000
South East Region Indicator	1.071	0.012	7907.8	0.000
Time	0.058	0.001	1553.1	0.000
Kids Eligibility	-0.296	0.028	109.6	0.000
Pregnancy Eligibility	0.921	0.061	230.8	0.000
LTC Eligibility	1.896	0.052	1331.1	0.000
Low Income/Disabled Eligibility	1.173	0.034	1157.5	0.000
Interaction: Age & Male Indicator	-0.005	0.000	242.1	0.000
Interaction: Age & Native Indicator	-0.013	0.000	1674.8	0.000
Interaction: Age & Kids Eligibility	0.015	0.001	119.1	0.000
Interaction: Age & Pregnancy Eligibility	-0.001	0.002	0.1	0.791
Interaction: Age & LTC Eligibility	-0.001	0.001	0.2	0.619
Interaction: Age & Low Income/Disabled Eligibility	0.005	0.001	11.4	0.001
Hosmer-Lemeshow Test ( $\chi^2$ ) df=8	1.446	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 19: Logistic Regression Results—Therapy/Rehabilitation

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	-1.495	0.031	2266.387	0.000
Male Indicator	0.226	0.015	229.0	0.000
Native Indicator	0.079	0.017	21.3	0.000
Age	-0.061	0.002	803.9	0.000
Northern Region Indicator	-0.331	0.016	418.7	0.000
Western Region Indicator	-1.174	0.025	2246.5	0.000
South Central Region Indicator	0.262	0.013	384.3	0.000
South East Region Indicator	-0.174	0.018	97.5	0.000
Time	0.098	0.002	1855.5	0.000
Kids Eligibility	-2.396	0.028	7146.2	0.000
Pregnancy Eligibility	-1.626	0.160	102.7	0.000
LTC Eligibility	0.812	0.048	286.4	0.000
Low Income/Disabled Eligibility	-0.806	0.036	496.1	0.000
Interaction: Age & Male Indicator	-0.010	0.000	510.1	0.000
Interaction: Age & Native Indicator	-0.008	0.001	210.2	0.000
Interaction: Age & Kids Eligibility	0.076	0.002	1210.8	0.000
Interaction: Age & Pregnancy Eligibility	0.013	0.007	3.4	0.064
Interaction: Age & LTC Eligibility	0.033	0.002	205.0	0.000
Interaction: Age & Low Income/Disabled Eligibility	0.060	0.002	752.2	0.000
Hosmer-Lemeshow Test ( $X^2$ ) df=8	19.6	Significance		0.01

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table C 20: Logistic Regression Results—DME/Supplies

Variable	Coefficient	Std. Error	t Stat	P-Value
Constant	-2.787	0.039	5160.592	0.000
Male Indicator	0.201	0.015	175.3	0.000
Native Indicator	-0.102	0.018	33.0	0.000
Age	-0.011	0.002	40.2	0.000
Northern Region Indicator	-0.239	0.013	316.1	0.000
Western Region Indicator	-0.779	0.019	1762.9	0.000
South Central Region Indicator	-0.190	0.013	207.9	0.000
South East Region Indicator	-0.266	0.015	298.6	0.000
Time	0.058	0.002	901.9	0.000
Kids Eligibility	-0.949	0.037	655.6	0.000
Pregnancy Eligibility	-1.409	0.098	208.8	0.000
LTC Eligibility	2.917	0.052	3158.9	0.000
Low Income/Disabled Eligibility	1.240	0.040	954.8	0.000
Interaction: Age & Male Indicator	-0.010	0.000	844.0	0.000
Interaction: Age & Native Indicator	-0.009	0.000	423.6	0.000
Interaction: Age & Kids Eligibility	0.031	0.002	306.7	0.000
Interaction: Age & Pregnancy Eligibility	0.058	0.004	250.3	0.000
Interaction: Age & LTC Eligibility	0.005	0.002	8.0	0.005
Interaction: Age & Low Income/Disabled Eligibility	0.024	0.002	196.0	0.000
Hosmer-Lemeshow Test ( $\chi^2$ ) df=3	207	Significance	0.00	

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

**APPENDIX D: REGRESSION RESULTS FROM AVERAGE-PER-RECIPIENT SPENDING MODELS**

Table D 1 through Table D 20 contain the estimated coefficients, associated statistical information, and goodness of fit measures for the Medicaid average-per-recipient spending models, which were estimated for each of the 20 service categories. These models were estimated using ordinary least squares regression methods, however they differ in a fundamental way from those models presented in Appendix B. Unlike the enrollment rate models, the spending models have an auto-regressive specification, which simply means that the average-per-recipient spending in period  $t$  is assumed to be a function of, among other explanatory variables, average-per-recipient spending in period  $t-1$ .<sup>72</sup> This is generally referred to as an "AR1" ("auto-regressive one-period") model. The purpose for specifying these models as AR1 is to take advantage of the information contained in the dependent variable during the prior period. That is, it is reasonable to assume that average spending per recipient in the current period is closely related to average spending in the prior period. Further, there are statistical tests designed specifically to measure the degree to which this is the case. For each of the 20 average-per-recipient spending models, either the Durbin-Watson (DW) or Durbin H statistic is provided, depending on whether the final model was specified as an auto-regressive or traditional OLS model.<sup>73</sup>

---

<sup>72</sup> In fact, as the reader can verify, most of the 20 regression models in Appendix D are specified as AR1. There are, however, several models that are specified as either AR2 (i.e., contain average spending information on periods  $t-1$  and  $t-2$ ) or are not specified as auto-regressive models.

<sup>73</sup> For more information on the appropriate use of the DW and Durbin H statistic, please reference any basic econometric textbook.

Table D 1: Average Spending Regression Results—Inpatient Hospital

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	1.835	0.283	6.488	0.000
Time	0.006	0.009	0.673	0.502
Native Indicator	0.072	0.037	1.965	0.050
Male Indicator	0.035	0.038	0.923	0.357
Age	-0.003	0.001	-3.750	0.000
1-Period Lag of Dependent Variable	0.802	0.031	25.997	0.000
R-Square	0.72	Durbin H		1.27
F-Statistic	153.6	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 2: Average Spending Regression Results—Outpatient Hospital

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	0.578	0.145	3.979	0.000
Time	-0.008	0.005	-1.648	0.100
Native Indicator	0.054	0.018	2.981	0.003
Male Indicator	-0.009	0.018	-0.483	0.630
Age	0.000	0.000	1.343	0.180
1-Period Lag of Dependent Variable	0.924	0.023	40.186	0.000
R-Square	0.87	Durbin H		2.97
F-Statistic	393.4	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 3: Average Spending Regression Results—Nursing Home

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	10.052	0.156	64.541	0.000
Time	-0.003	0.022	-0.137	0.891
Native Indicator	-0.046	0.103	-0.446	0.656
Male Indicator	0.016	0.103	0.156	0.876
Age	0.014	0.002	6.335	0.000
R-Square	0.15	Durbin Watson		1.86
F-Statistic	10.1	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.  
Note: Based on Durbin Watson statistic, fail to reject the null hypothesis of nonautocorrelated error.

Table D 4: Average Spending Regression Results—Clinic

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	1.923	0.182	10.571	0.000
Time	-0.036	0.008	-4.515	0.000
Native Indicator	0.219	0.029	7.624	0.000
Male Indicator	-0.059	0.028	-2.080	0.038
Age	-0.001	0.001	-1.320	0.188
1-Period Lag of Dependent Variable	0.732	0.030	24.460	0.000
R-Square	0.76	Durbin H	1.13	
F-Statistic	190.1	Significance	0.00	

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 5: Average Spending Regression Results—Dental

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	4.316	0.279	15.474	0.000
Time	0.002	0.006	0.249	0.804
Native Indicator	-0.208	0.028	-7.403	0.000
Male Indicator	0.054	0.025	2.128	0.034
Age	-0.005	0.001	-8.238	0.000
1-Period Lag of Dependent Variable	0.314	0.043	7.288	0.000
R-Square	0.59	Durbin H	3.11	
F-Statistic	82.3	Significance	0.00	

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 6: Average Spending Regression Results—Lab/X-ray

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	0.665	0.156	4.271	0.000
Time	0.028	0.008	3.696	0.000
Native Indicator	-0.025	0.030	-0.832	0.406
Male Indicator	0.001	0.030	0.018	0.985
Age	0.000	0.001	0.704	0.482
1-Period Lag of Dependent Variable	0.820	0.034	24.162	0.000
R-Square	0.67	Durbin H	0.13	
F-Statistic	122.8	Significance	0.00	

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 7: Average Spending Regression Results—Other Services

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	2.827	0.781	3.619	0.001
Time	0.070	0.045	1.559	0.124
Native Indicator	0.461	0.193	2.392	0.020
Male Indicator	-0.538	0.289	-1.866	0.067
Age	0.004	0.007	0.553	0.582
1-Period Lag of Dependent Variable	0.159	0.121	1.313	0.194
2-Period Lag of Dependent Variable	2.827	0.781	3.619	0.001
R-Square	0.43	Durbin H		NA
F-Statistic	8.1	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 8: Average Spending Regression Results—EPSDT

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	2.428	0.406	5.976	0.000
Time	-0.028	0.008	-3.389	0.001
Native Indicator	-0.007	0.030	-0.248	0.805
Male Indicator	0.013	0.030	0.441	0.660
Age	-0.006	0.003	-2.428	0.017
1-Period Lag of Dependent Variable	0.527	0.087	6.028	0.000
R-Square	0.31	Durbin H		0.04
F-Statistic	9.6	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 9: Average Spending Regression Results—Practitioner Services

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	0.550	0.150	3.665	0.000
Time	0.004	0.005	0.856	0.392
Native Indicator	-0.040	0.021	-1.920	0.056
Male Indicator	-0.022	0.021	-1.088	0.278
Age	0.001	0.000	1.556	0.121
1-Period Lag of Dependent Variable	0.911	0.022	42.352	0.000
R-Square	0.87	Durbin H		1.52
F-Statistic	400.6	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

**Table D 10: Average Spending Regression Results—Home Health/Hospice**

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	4.063	0.429	9.468	0.000
Time	0.016	0.032	0.507	0.613
Native Indicator	-0.104	0.132	-0.791	0.430
Male Indicator	0.067	0.130	0.513	0.608
Age	-0.003	0.003	-1.076	0.283
1-Period Lag of Dependent Variable	0.447	0.054	8.344	0.000
R-Square	0.23	Durbin H		-1.78
F-Statistic	15.8	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

**Table D 11: Average Spending Regression Results—Inpatient Psychology**

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	9.580	0.146	65.502	0.000
Time	0.007	0.026	0.290	0.772
Native Indicator	0.363	0.118	3.085	0.002
Male Indicator	0.047	0.118	0.397	0.692
Age	-0.019	0.003	-6.549	0.000
R-Square	0.27	Durbin Watson		1.39
F-Statistic	15.2	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Note: Based on Durbin Watson statistic, reject the null hypothesis of nonautocorrelated error. The Durbin H statistic, however, indicates that ARI is not appropriate specification.

**Table D 12: Average Spending Regression Results—Vision**

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	4.615	0.186	24.855	0.000
Time	-0.051	0.006	-8.120	0.000
Native Indicator	-0.145	0.023	-6.421	0.000
Male Indicator	0.025	0.023	1.104	0.271
Age	-0.002	0.000	-5.288	0.000
1-Period Lag of Dependent Variable	0.144	0.038	3.804	0.000
R-Square	0.36	Durbin H		2.162
F-Statistic	33.0	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 13: Average Spending Regression Results—Residential Psychology

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	10.240	0.119	86.147	5.16E-89
Time	0.112	0.014	7.898	6.22E-12
Native Indicator	0.016	0.064	0.253	0.801004
Male Indicator	0.046	0.064	0.720	0.473524
Age	-0.017	0.007	-2.273	0.025367
R-Square	0.42	Durbin H		1.79
F-Statistic	16.8	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.  
Note: Based on Durbin Watson statistic, fail to reject the null hypothesis of nonautocorrelated error.

Table D 14: Average Spending Regression Results—HCB Waiver

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	2.360	0.299	7.887	0.000
Time	0.022	0.010	2.224	0.027
Native Indicator	0.029	0.039	0.758	0.449
Male Indicator	0.059	0.039	1.503	0.134
Age	-0.002	0.001	-2.469	0.014
1-Period Lag of Dependent Variable	0.758	0.030	25.103	0.000
R-Square	0.73	Durbin H		-0.44
F-Statistic	162.6	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 15: Average Spending Regression Results—Personal Care

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	4.162	0.509	8.181	0.000
Time	0.089	0.020	4.323	0.000
Native Indicator	-0.104	0.083	-1.256	0.210
Male Indicator	0.007	0.078	0.096	0.924
Age	-0.001	0.002	-0.633	0.527
1-Period Lag of Dependent Variable	0.514	0.058	8.920	0.000
R-Square	0.38	Durbin H		3.62
F-Statistic	35.2	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 16: Average Spending Regression Results—Outpatient Mental Health

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	1.677	0.312	5.377	0.000
Time	0.025	0.014	1.757	0.080
Native Indicator	0.013	0.056	0.235	0.814
Male Indicator	0.100	0.057	1.735	0.084
Age	-0.003	0.001	-2.237	0.026
1-Period Lag of Dependent Variable	0.782	0.035	22.585	0.000
R-Square	0.75	Durbin H		0.54
F-Statistic	181.7	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 17: Average Spending Regression Results—Pharmacy

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	0.450	0.117	3.844	0.000
Time	0.028	0.006	4.384	0.000
Native Indicator	-0.059	0.026	-2.274	0.024
Male Indicator	0.020	0.027	0.747	0.456
Age	0.003	0.001	3.784	0.000
1-Period Lag of Dependent Variable	0.915	0.021	43.082	0.000
R-Square	0.95	Durbin H		0.69
F-Statistic	1280	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 18: Average Spending Regression Results—Transportation

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	2.293	0.294	7.798	0.000
Time	0.016	0.005	2.993	0.003
Native Indicator	0.030	0.018	1.632	0.104
Male Indicator	0.003	0.018	0.148	0.882
Age	0.000	0.000	0.433	0.666
1-Period Lag of Dependent Variable	0.677	0.043	15.787	0.000
R-Square	0.62	Durbin H		-0.57
F-Statistic	97.4	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 19: Average Spending Regression Results—Therapy/Rehabilitation

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	3.016	0.312	9.676	0.000
Time	0.030	0.016	1.952	0.052
Native Indicator	-0.059	0.060	-0.974	0.331
Male Indicator	0.100	0.059	1.702	0.090
Age	-0.004	0.001	-3.276	0.001
1-Period Lag of Dependent Variable	0.568	0.045	12.632	0.000
R-Square	0.51	Durbin H		1.36
F-Statistic	63.1	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

Table D 20: Average Spending Regression Results—DME/Supplies

Variable	Coefficient	Std. Error	t-Stat	P-Value
Constant	1.603	0.255	6.284	0.000
Time	0.019	0.010	1.981	0.048
Native Indicator	0.001	0.039	0.020	0.984
Male Indicator	0.070	0.042	1.662	0.098
Age	-0.002	0.001	-2.405	0.017
1-Period Lag of Dependent Variable	0.759	0.035	21.780	0.000
R-Square	0.72	Durbin H		1.34
F-Statistic	153.6	Significance		0.00

Source: Lewin Group & ECONorthwest analysis of the of Alaska Department of Health and Social Services data.

---

**APPENDIX E: GLOSSARY**

ADHSS .....	Alaska Department of Health and Social Services
ADLWD.....	Alaska Department of Labor and Workforce Development
AFDC .....	Aid to Families with Dependent Children
ALTPP .....	Alaska Long Term Population Projection
APA.....	Adult Public Assistance
BCC.....	Breast and Cervical Cancer
BEA.....	Bureau of Economic Analysis
BRS.....	Behavioral Rehabilitation Services
CMS .....	Center for Medicare and Medicaid Services
CPI .....	Consumer Price Index
CY .....	Calendar Year
DME.....	Durable Medical equipment
DSH.....	Disproportionate Share Hospital
EPSDT .....	Early & Periodic Screening, Diagnosis and Treatment
FFP .....	Federal Financial Participation
FFY .....	Federal Fiscal Year
FMAP.....	Federal Medical Assistance Program
FTE .....	Full Time Equivalent
FY .....	Fiscal Year
GDP.....	Gross Domestic Product
GSP .....	Gross State Product
HCB.....	Home and Community Based
IHS.....	Indian Health Services
ISER.....	Institute for Social and Economic Research
JUCE .....	Juneau Claims and Eligibility System
LTC .....	Long Term Care
MMIS.....	Medicaid Management Information System
PCPI.....	Per Capita Personal Income
PDL.....	Preferred Drug List
SCHIP .....	State Children's Health Insurance Program/Denali KidCare
SFY .....	State Fiscal Year
SHP .....	Supplemental Hospital Payments
SSI.....	Supplemental Security Income
SURS.....	Surveillance and Utilization Review System
Title XIX.....	Medicaid
Title XXI.....	SCHIP/Denali KidCare
TPI.....	Total Personal Income
TPL .....	Third Party Liability



## Index of Figures and Tables

Figure 1: Spending on Elderly will Surpass Spending on Other Age Groups by 2018.....	ii
Figure 2: State Matching Fund Spending on Medicaid to Grow 8.9% Annually.....	iii
Table 1: Forecast of the 5 Fastest Growing Service Categories by Utilization, 2005-2025.....	iv
Table 2: Forecast of the 5 Fastest Growing Service Categories by State Matching Funds (In Millions of Dollars), 2005-2025 .....	iv
Figure 3: Alaska Long-Term Medicaid Forecast Regions.....	12
Figure 4: Alaska Statewide Population Forecast, 2005-2025.....	15
Figure 5: Projected Annual Growth Rates in Alaska Statewide Population Forecast, 2005-2025	15
Figure 6: Alaska Population Forecast by Region, Selected Years.....	16
Figure 7: Alaska Population Forecast by Age Cohort, Selective Years .....	17
Figure 8: Alaska Population Forecast by Gender, Selective Years .....	18
Figure 9: Alaska Population Forecast by Native Non-Native, Selective Years .....	19
Figure 10: Alaska Medicaid FTE Enrollment Rates, Fiscal Years 1997-2004.....	20
Figure 11: Medicaid FTE Enrollment Rates by Age Cohort, 1997-2004.....	21
Figure 12: Medicaid Enrollment Rates by Region, 1997-2004 .....	22
Figure 13: Medicaid FTE Enrollment Rates by Native Non-Native Status, 1997-2004.....	23
Figure 14: Medicaid FTE Enrollment Rates by Gender, 1997-2004.....	24
Table 3: Medicaid FTE Enrollment, Population, and Medicaid Enrollment Rates for Alaska, 1997-2004 .....	26
Table 4: Alaska Medicaid Eligibility Classes.....	28
Table 5: Proportion of Medicaid FTE Enrollment by Eligibility Class.....	29
Figure 15: Projected Alaskan Population and Medicaid FTE Enrollment, Selected Years.....	33
Figure 16: Projected Medicaid FTE Enrollment by Age Cohort, Selected Years.....	34
Figure 17: Projected Medicaid FTE Enrollment by Region, Selected Years .....	35
Figure 18: Projected Medicaid FTE Enrollment by Native Non-Native Status, Selected Years .	36
Figure 19: Projected Medicaid FTE Enrollment Rates by Gender, Selected Years.....	37
Table 6: Proportion of Demographic and Regional Groups Projected to be Enrolled in Medicaid on a FTE Basis, Selected Years .....	38
Table 7: Medicaid FTE Enrollment by Demographic and Regional Groupings, Selected Years	39
Table 8: Projected FTE Enrollment in Alaska Medicaid Program by Eligibility Category, Selected Years.....	40
Table 9: Medicaid Service Codes and Descriptions .....	41
Table 10: Utilization of Medicaid Services, Alaska Medicaid Program 1998-2004.....	43
Figure 20: Service Utilization by Fiscal Year.....	44

Table 11: Average Number of Alaskan Medicaid Service Categories Utilized and Total Number of Medicaid Recipients and Enrollees, Fiscal Years 1997-2004 .....	45
Table 12: Eligibility Groups Used in <i>Probability-of-Service</i> Logistic Regression Models .....	46
Table 13: Forecast of Utilization of Medicaid Services, Selected Calendar Years .....	51
Table 14: Average Historical Spending Per Recipient on Medicaid Claims.....	53
Table 15: Total Historical Spending on Medicaid Claims, Fiscal Years 1998-2004 (in Millions of Dollars) .....	54
Table 16: CMS Personal Health Care Price Deflator for Fiscal Years 1997-2004 .....	56
Table 17: Total Historical <i>Real</i> Spending <sub>2</sub> on Medicaid Claims in Millions of Dollars, Fiscal Years 1998-2004.....	57
Table 18: Forecast of Total <i>Real</i> Spending on Medicaid Claims in Millions of Dollars, Selected Calendar Years (in 2004 Dollars) .....	60
Table 19: Forecast of Total <i>Real</i> Spending On Alaska's Medicaid Program by Demographic Group and Region in Millions of Dollars, Selected Calendar Years (in 2004 dollars) .....	62
Table 20: Forecast of Total <i>Nominal (Actual)</i> Spending by Medicaid Service Category in Millions of Dollars, Selected Calendar Years.....	63
Table 21: Forecast of Total <i>Nominal (Actual)</i> Spending On Alaska's Medicaid Program by Demographic Group and Region in Millions of Dollars, Selected Calendar Years .....	64
Figure 21: Forecasted Proportion of Total Spending on Medicaid Claims by Age Cohort, 2005-2025.....	65
Figure 22: Forecasted Actual (Nominal) Spending by Age Cohort, Calendar Years 2005-2025	66
Table 22: Comparison of Actual ( <i>Nominal</i> ) Spending on U.S. and Alaska Medicaid Services, in Millions of Dollars, Selected Years.....	68
Table 23: Federal Financial Participation Rate by Type, 1998-2004 .....	69
Table 24: Historical Alaska State-Matching Fund Spending on Medicaid Claims—by Service Category (in Millions of Nominal Dollars), 1998-2004 .....	71
Table 25: State of Alaska's Historical Share of Total Spending on Medicaid Claims—by Service Category, 1998-2004.....	72
Table 26: Projected Federal Match Rate by Medicaid FFP Type, Calendar Years 2005-2025....	73
Table 27: Forecast of Nominal (Actual) State Matching Funds of Medicaid Claims (In Millions of Dollars), Selected Years .....	75
Figure 23: Projected Per Capita State Matching Fund Spending on Medicaid Claims (in Nominal Dollars and in 2004 Dollars), Calendar Years 2005-2025.....	76
Figure 24: Projected State Matching Fund Spending on Medicaid Claims as a Percent of Alaska's Total Personal Income and Gross State Product.....	77
Table 28: Historical Offsetting Recoveries, Medicare Premiums, and Supplemental Hospital Payments, 1998-2004, (in Millions) .....	79
Table 29: Historical Medicare Monthly Premiums per Person .....	80
Table 30: Projected Offsetting Recoveries (Credits), Medicare Premiums, and Supplemental Hospital Payments, Various Years (in Millions) .....	82

**2/23/06**

**AK PERM.**

**FUND**

**FY 2005**

**SUMMARY**

SFIN

FILE

# **Economic & Capital Market Update**

Michael J. O'Leary CFA  
Executive Vice President  
Callan Associates Inc.  
February 2006



# Callan's Capital Market Projection Process

## *Economic Outlook Drives Our Projections*

- Evaluate the current environment and economic outlook for the U.S. and other major industrial countries:
  - Business cycles, relative growth, inflation.
- Examine the relationships between the economy and asset class performance patterns.
- Examine recent and long-run trends in asset class performance.
- Apply market insight:
  - Consultant experience - Plan Sponsor, Manager Search, Specialty
  - Industry consensus
  - Client Policy Review Committee
- Test the projections for reasonable results.



# Capital Market Expectations as a Set

- Relationships between asset class assumptions are as important, or more important, than the individual asset class level of assumptions, with the following relationships being most important:
  - Inflation versus cash equivalents.
  - Fixed income returns versus inflation.
  - Stock returns versus bonds - the equity premium.
  - Large capitalization versus small capitalization equities.
  - U.S. equity versus international equity.
- These relationships will have a strong effect on the generation of efficient asset mixes using the optimizer.

# The Capital Markets - Context

## *Wild Ride for Investors Over the Last Six Years*

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Average Ann Return		
							<u>Five Years 2001-05</u>	<u>Ten Years 1996-05</u>	<u>Fifteen Years 1991-05</u>
Russell 3000	-7.46	-11.46	-21.54	31.06	11.95	6.12	1.58	9.20	11.86
S&P Super Composite 1500	-6.98	-10.64	-21.31	29.59	11.78	5.66	1.48	9.47	11.97
Russell 1000	-7.79	-12.45	-21.65	29.89	11.40	6.27	1.07	9.29	11.85
S&P 500	-9.10	-11.88	-22.10	28.80	10.88	4.91	0.54	9.07	11.52
Russell 2000	-3.02	2.49	-20.48	47.25	18.33	4.55	8.22	9.26	13.04
S&P 600 Small Cap	11.80	6.54	-14.63	38.79	22.65	7.68	10.76	12.16	15.17
EAFE (\$US)	-14.17	-21.44	-15.94	38.59	20.25	13.54	4.55	5.84	7.00
LB Aggregate	11.63	8.43	10.26	4.10	4.33	2.43	5.87	6.16	7.26
SB Non-US Bonds	-2.63	-3.54	1.09	18.52	12.14	-9.21	7.27	4.42	6.94
90-day T-bill	6.18	4.41	1.78	1.15	1.33	3.07	2.34	3.84	4.06
CPI-U	3.39	1.55	2.38	1.88	3.26	3.42	2.49	2.51	2.61



# Brief Overview

- Economy
  - Recovery
    - Consumer
    - Investment spending
    - Housing
    - Energy
    - Dollar
  - Inflation
- Capital Markets
  - Bonds
  - Stocks
  - Projections
  - Efficient Frontier



# Consumer Spending: Slowdown or Retreat?

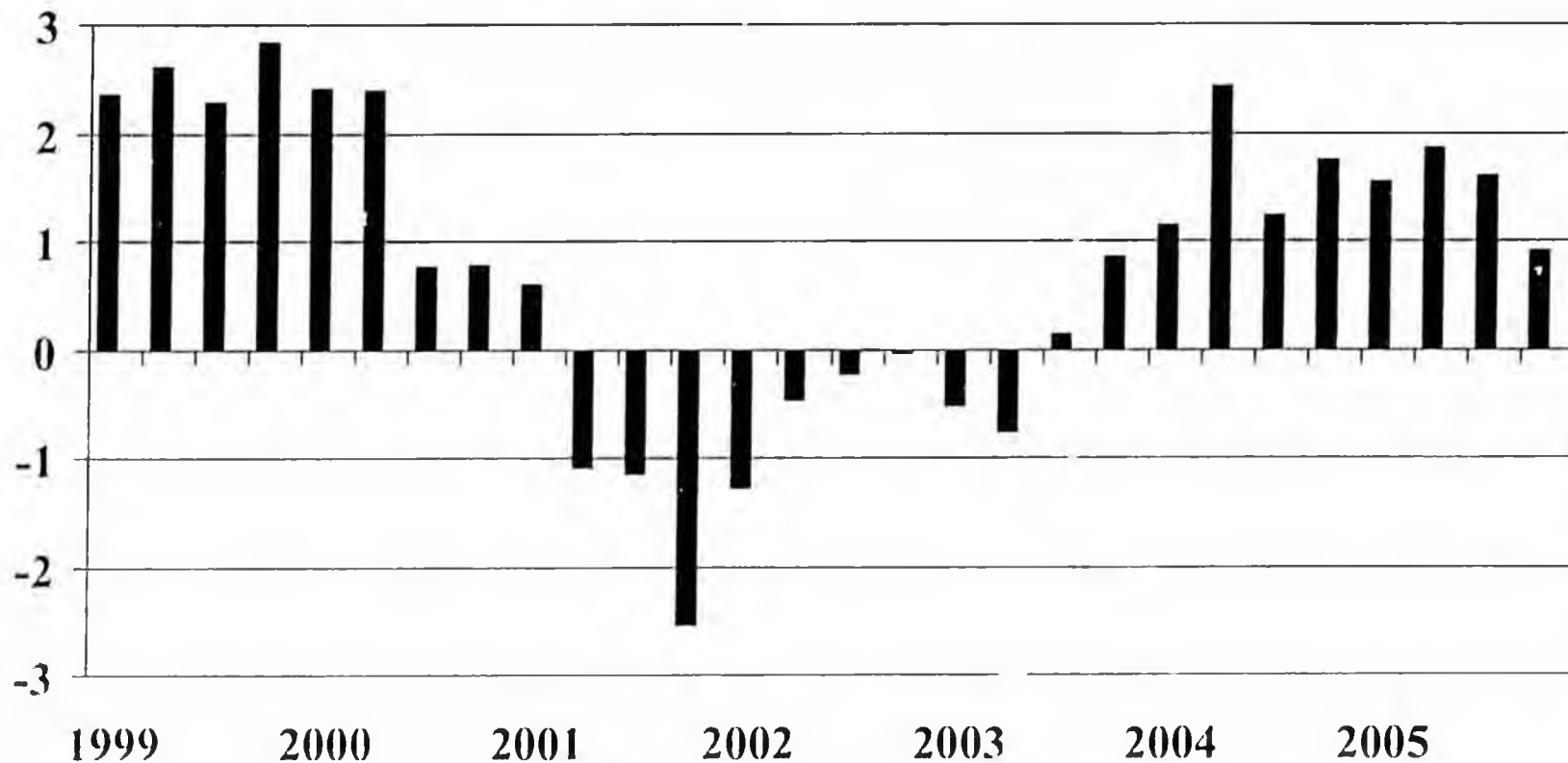
- Consumer spending carried the economy since 2000, fueled by low interest rates, tax cuts, and a housing boom.
- The housing boom triggered a “wealth effect” on confidence and spending, and encouraged the extraction of home equity.
- However:
  - Savings rate is low,
  - Tax cuts are over,
  - Interest rates are rising,
  - The housing market shows signs of cooling, and
  - Energy costs are substantially higher.
- Most observers expect the housing bubble to fizzle rather than pop.
- The bursting of the housing bubble has replaced deflation as the next disaster sure to strike.



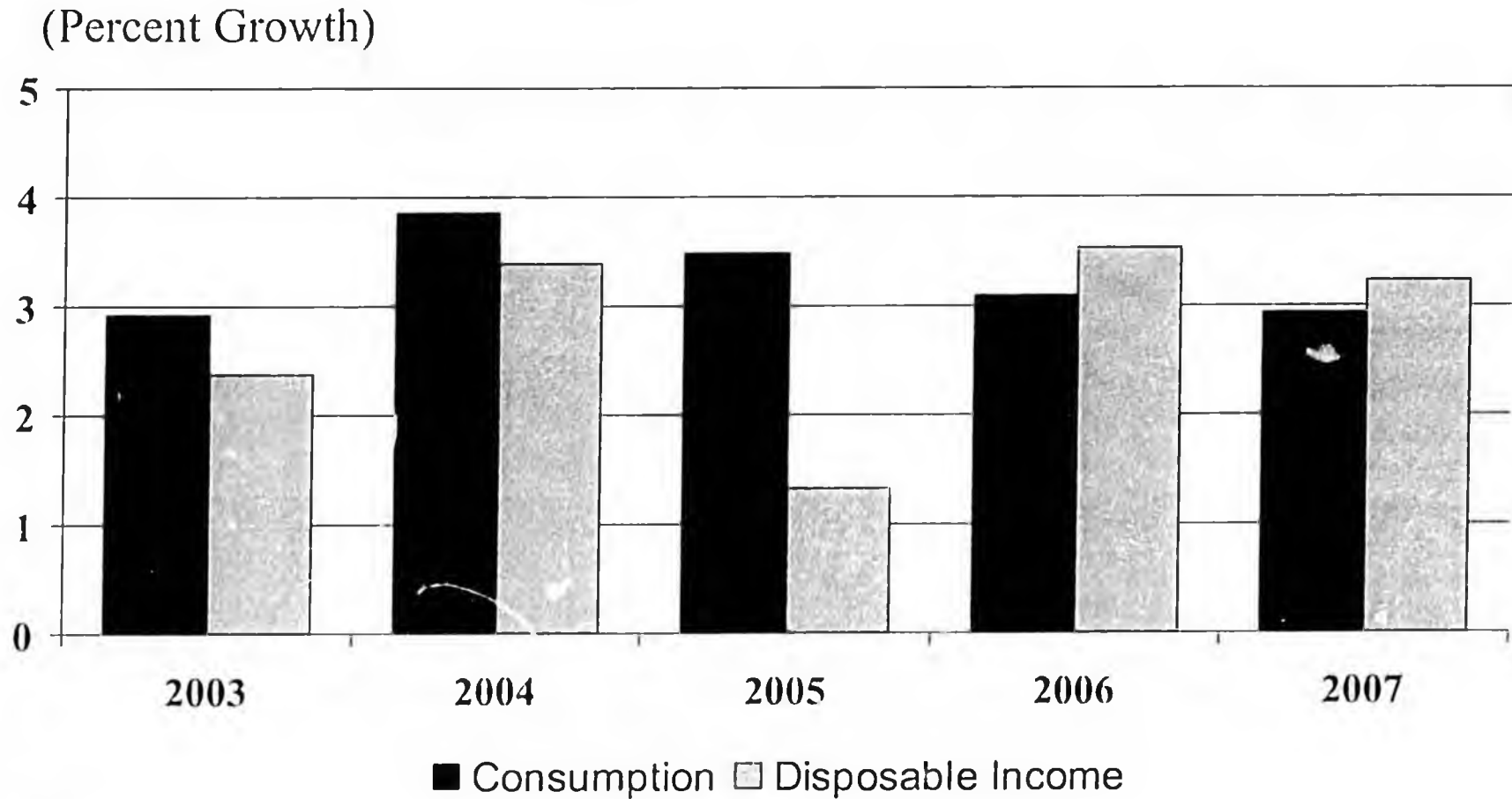
# 2005 Best Year for Job Growth Since 2000

Employment finally surpassed the February 2001 peak in January 2005.

(Employment - percent change, annual rate)



# Real Consumer Spending Has Outpaced Real Income Growth



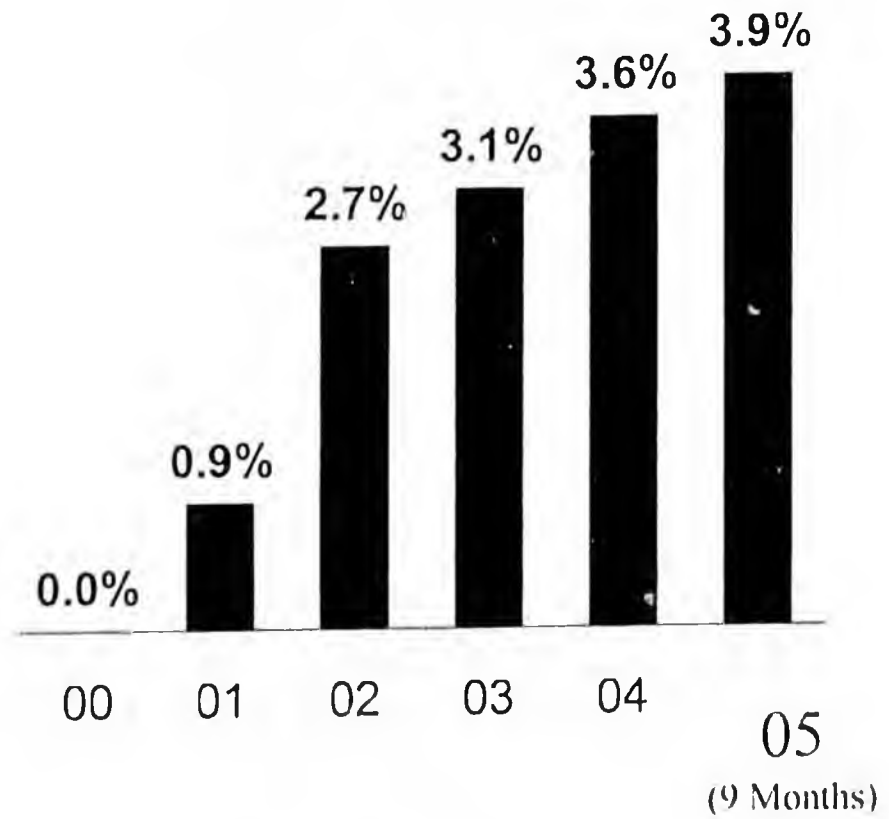
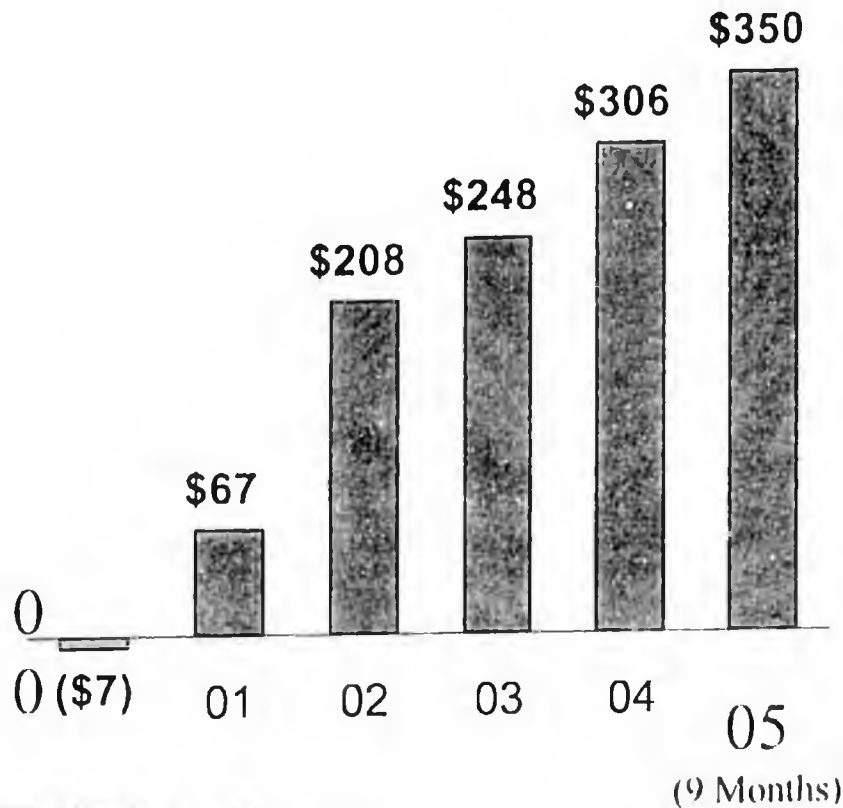
Source: Global Insight

# Cash Generated from Mortgages Stimulating Consumer Spending

source AllianceBernstein/CII 1/30/06

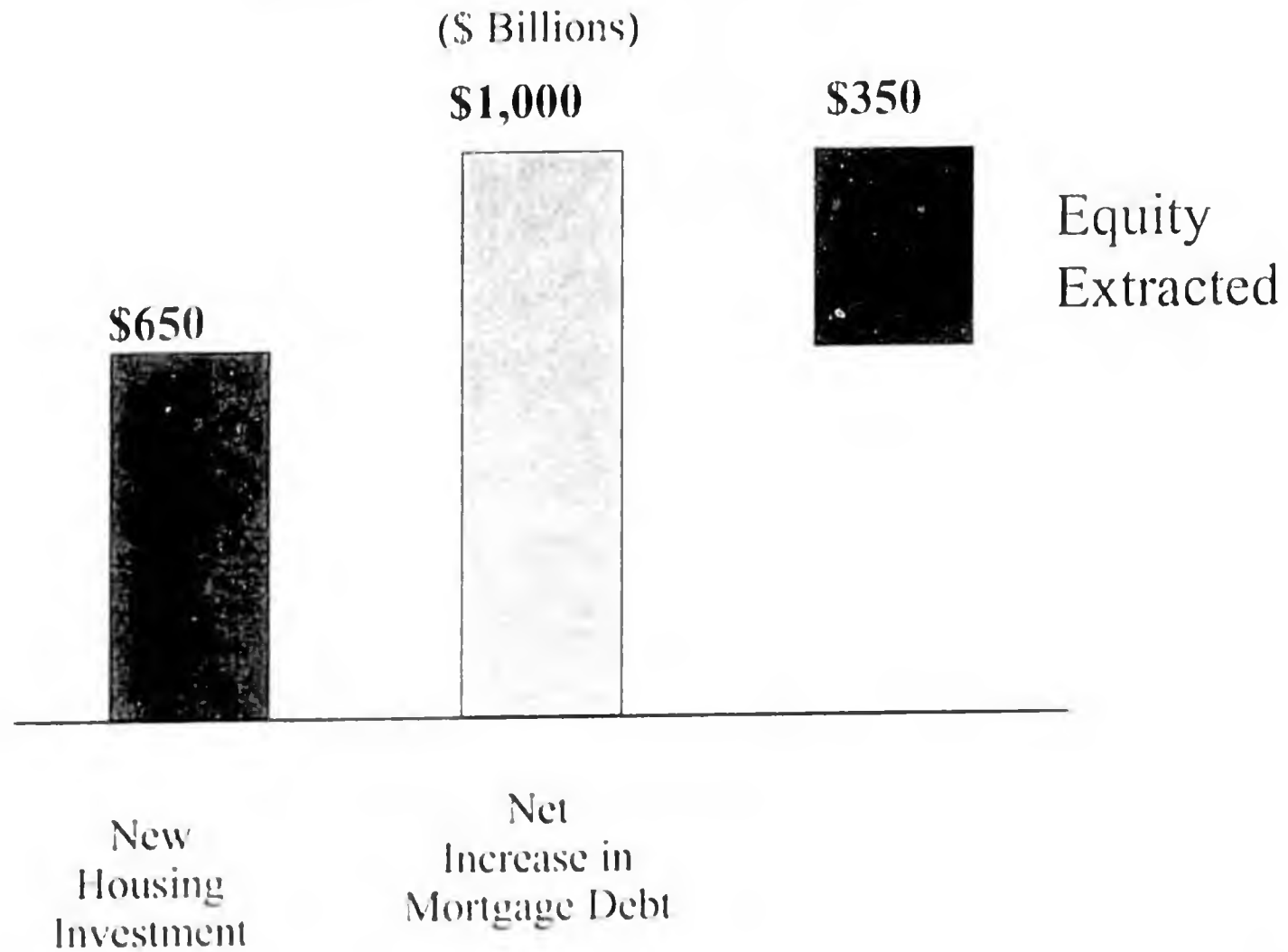
Mortgage Growth in Excess of  
New Housing Investment  
(\$ Billions)

% of Personal Consumption  
Expenditures



# Equity Extraction from Housing Was Huge in 2005

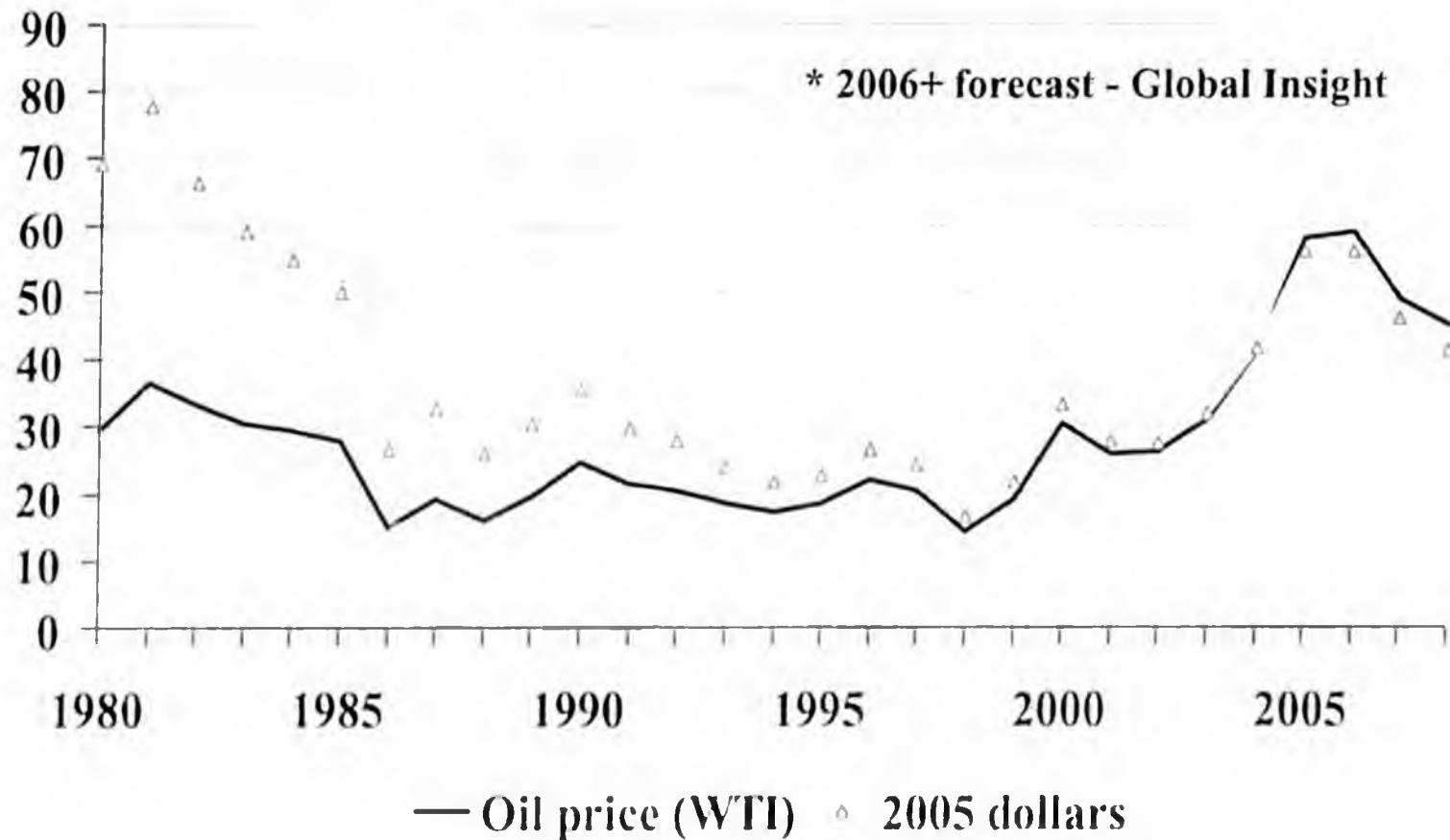
source: Alliance Bernstein/CII 1/31/06



Source: AllianceBernstein estimates

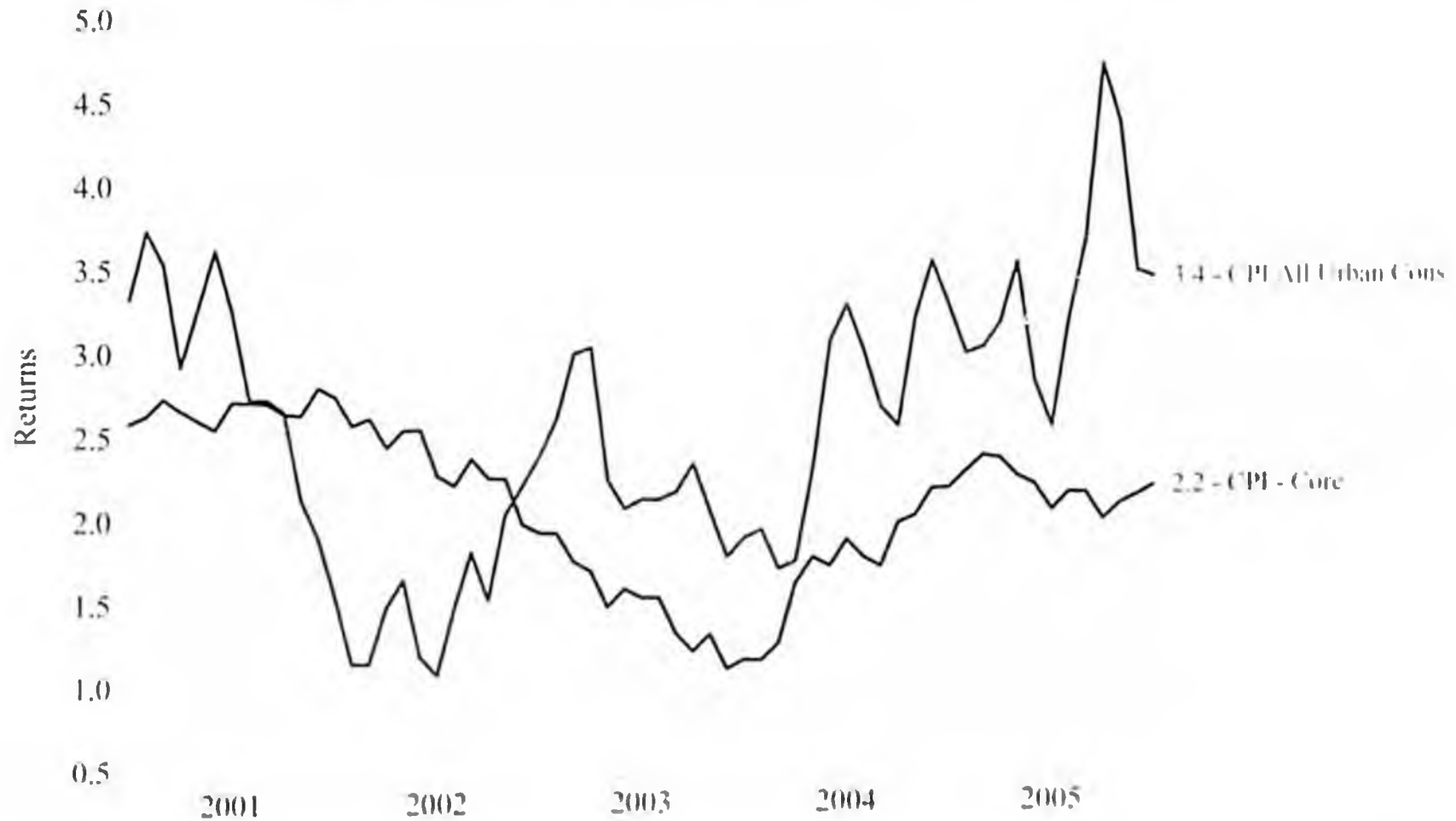
# Oil Prices Are Hitting New Highs...

(\$/barrel, WTI and deflated by CPI)



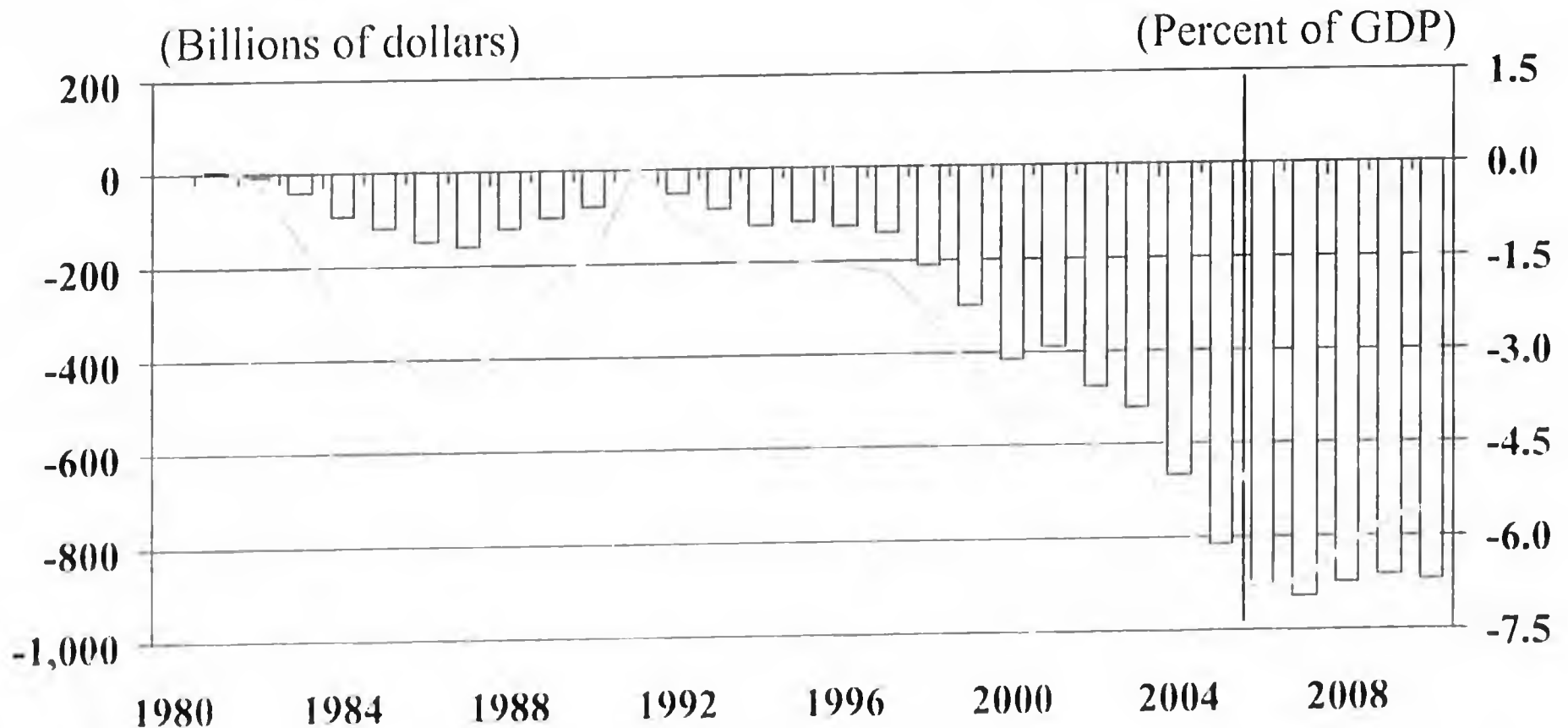
# Inflation Has Ticked Up...

Year-Over-Year Change in Consumer Prices



# The U.S. Current Account Deficit Heading to \$900 Billion in 2006

\* 2006+ forecast - Global Insight

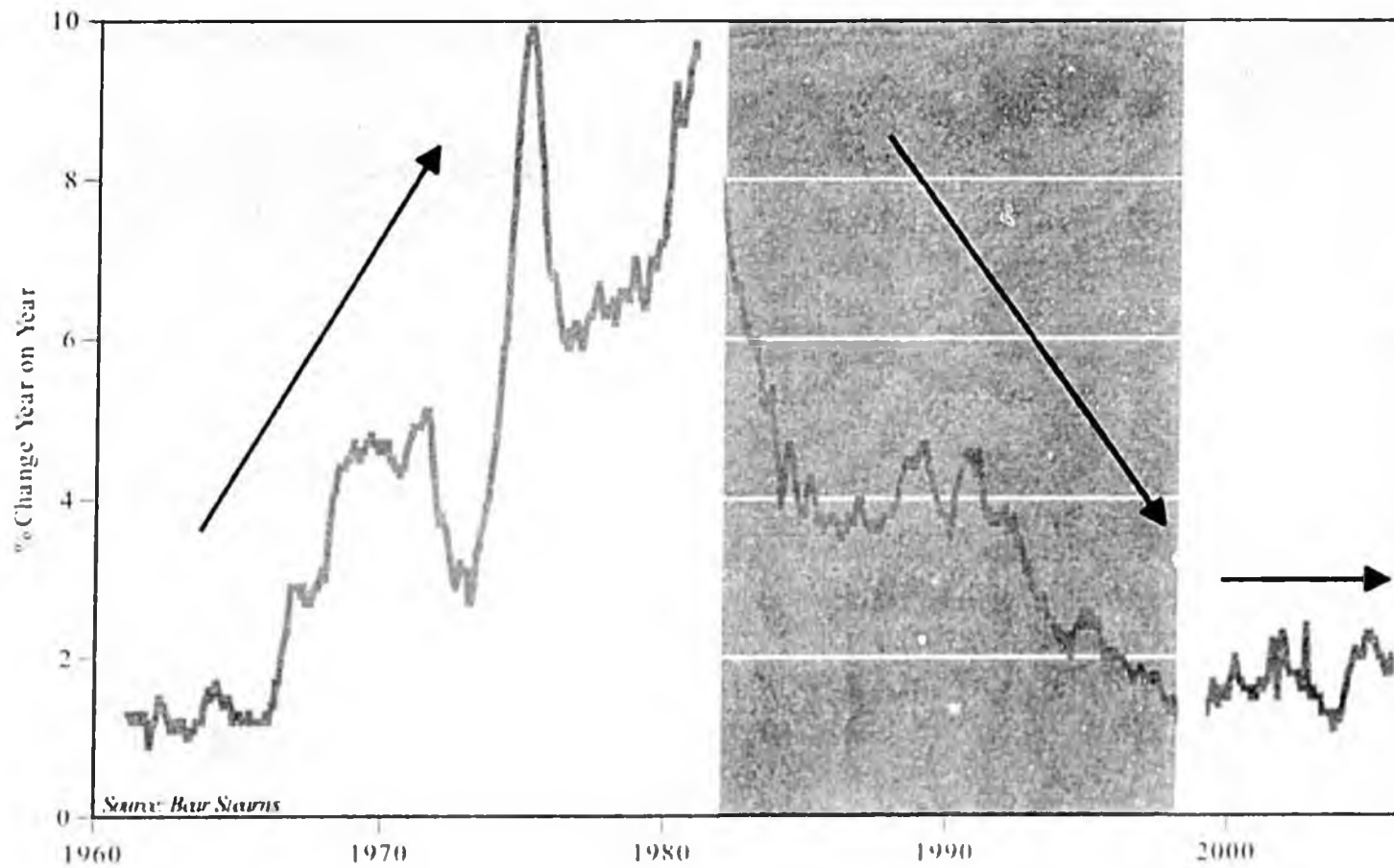


□ Current Account Deficit      Deficit as % of GDP



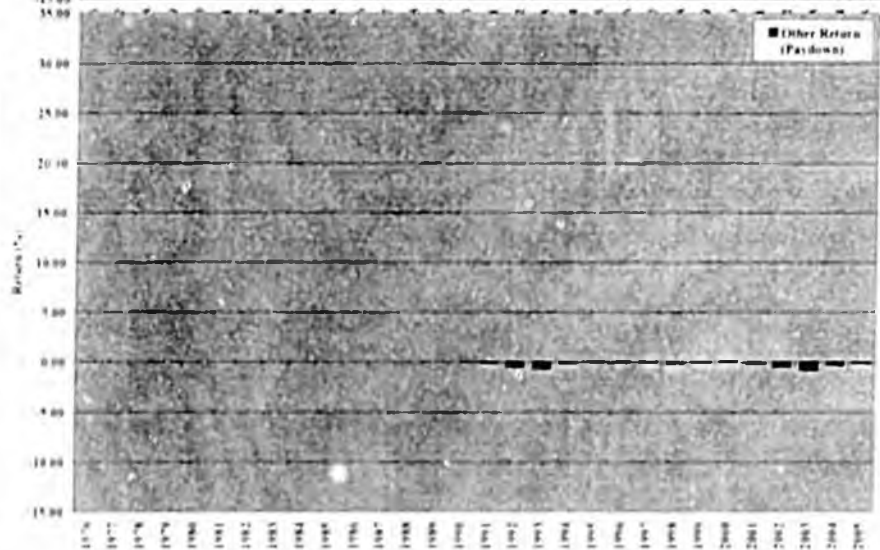
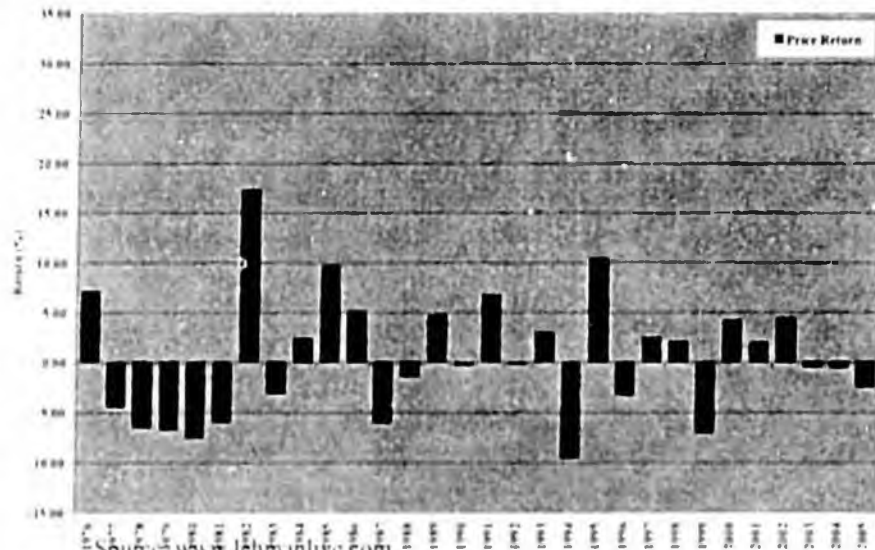
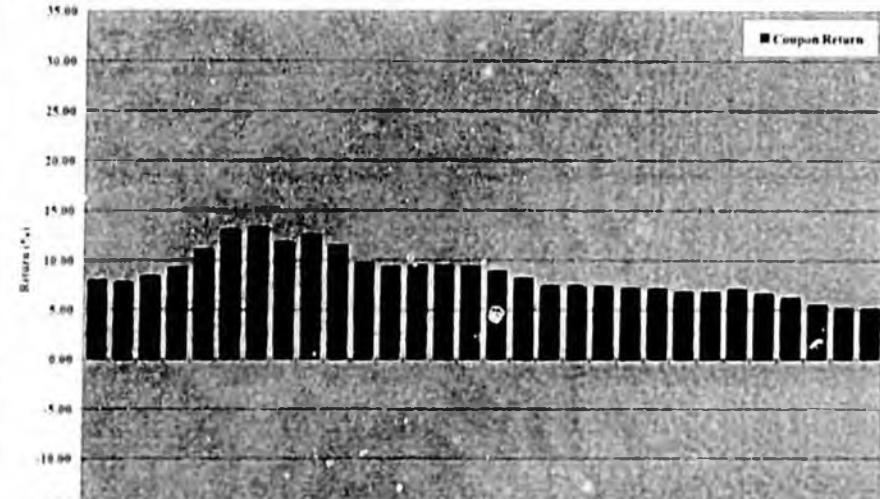
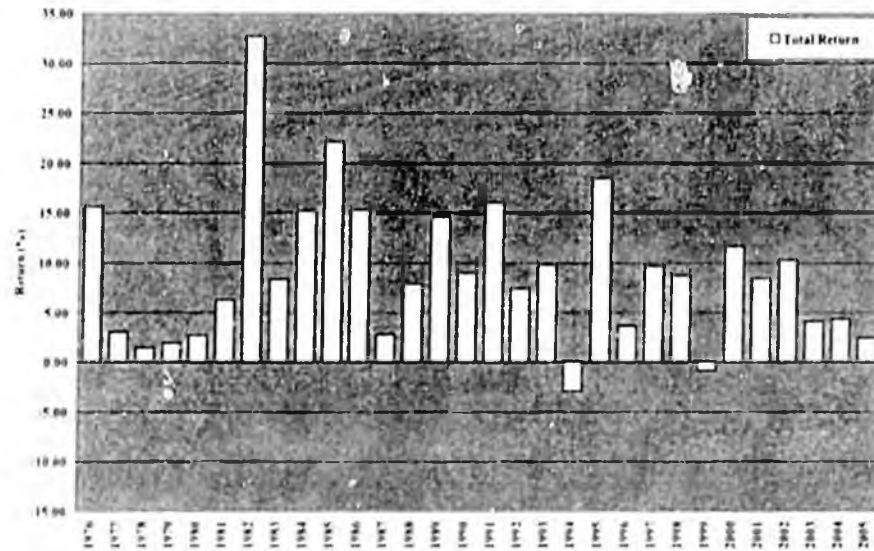
# INFLATION HISTORY

Source Western Asset Management/CII 1/31/06



# Composition of Bond Returns

LB Aggregate Index - Annual Return Breakdown



Source: www.fehmanlive.com



# Domestic Fixed Income

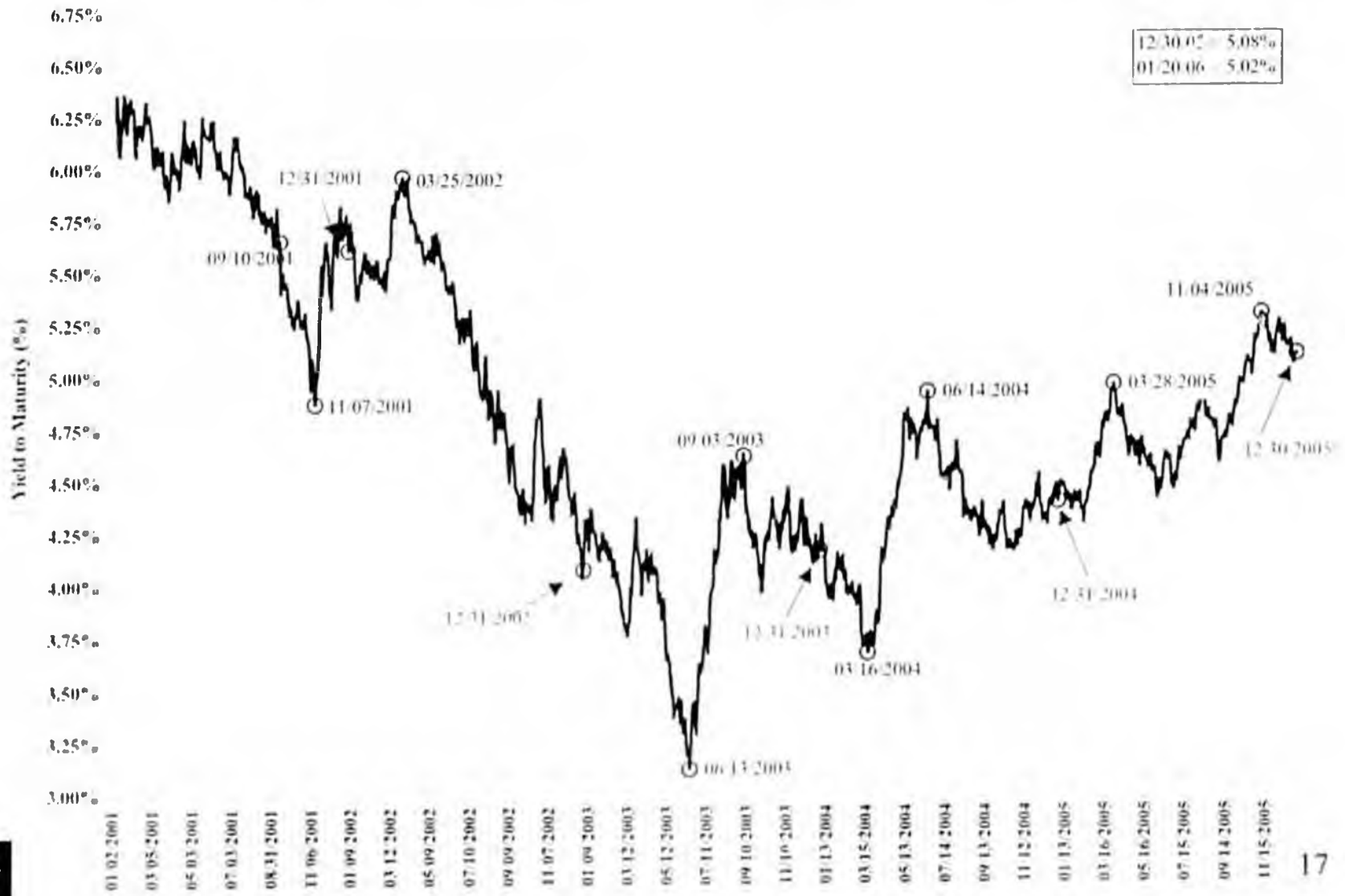
*Current Yield Is A Strong Predictor of Returns*

Lehman Aggregate Index 5 Year Returns vs. Lagged Yield to Worst



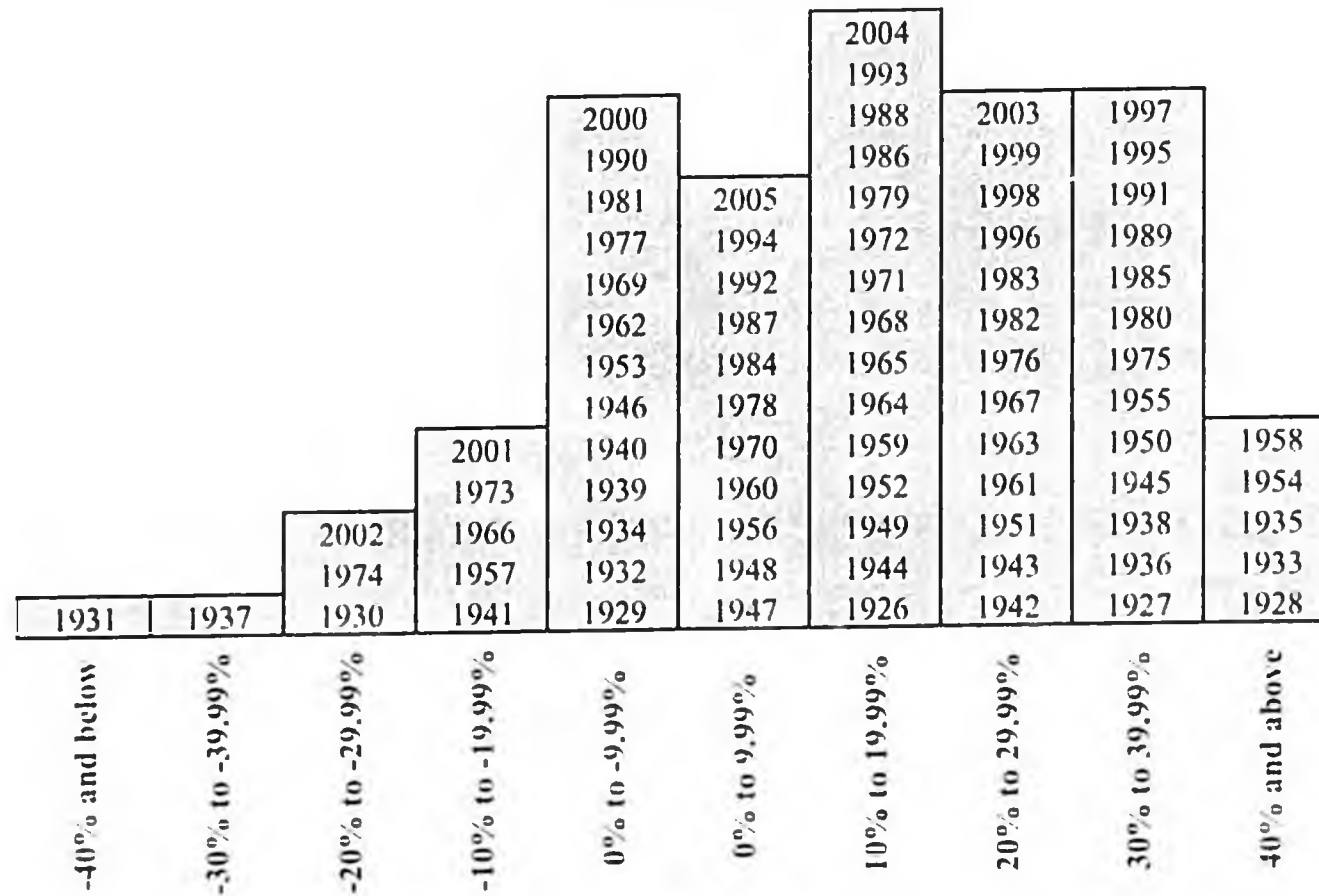
# Domestic Fixed Income

Lehman Aggregate Index - Daily Yield to Worst from 1/1/01 to 12/31/06



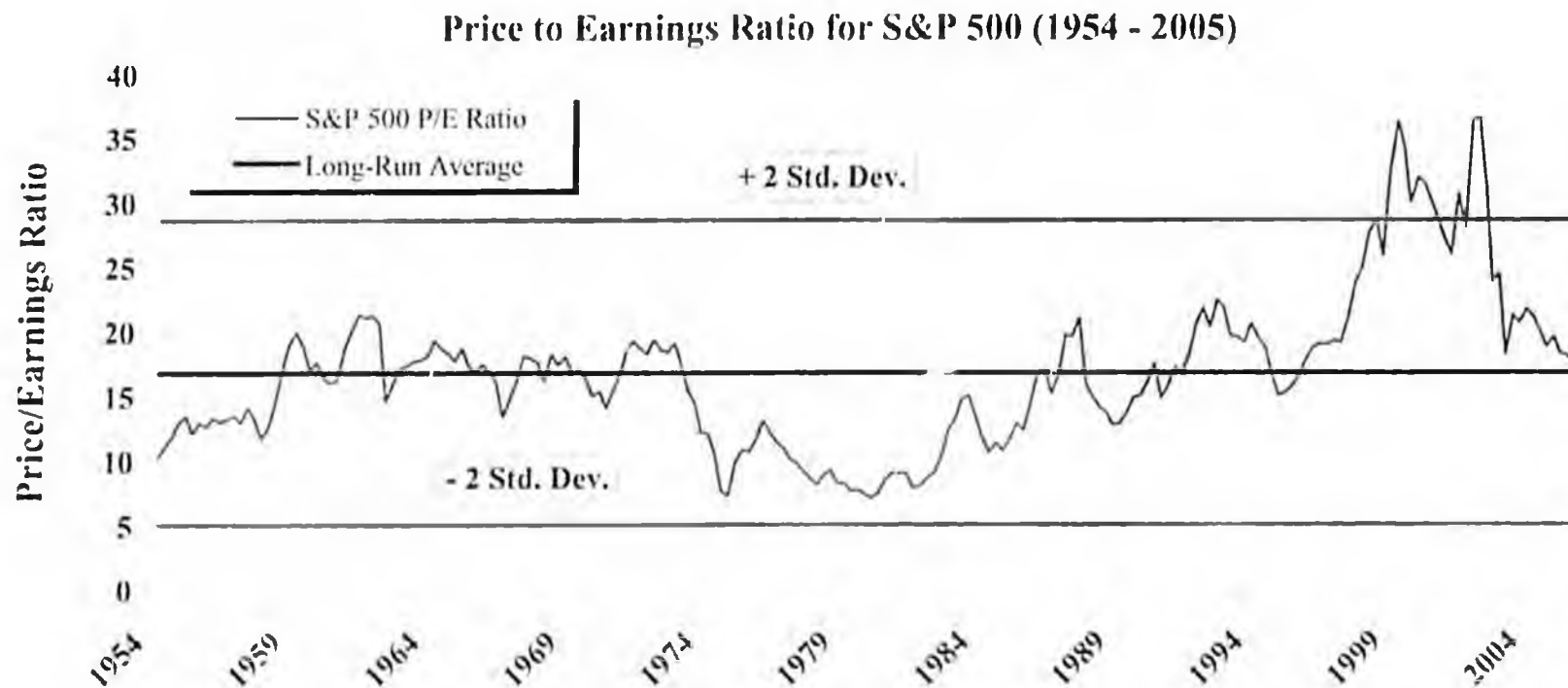
# Annual Return Histogram for S&P 500

Distribution of S&P 500 Annual Returns  
(1926-2005)



# Equity Is Now More Reasonably Priced

## *Trailing P/E Approaching Long-Run Average*



Trailing earnings as reported for the fiscal year; includes negative earnings from 1998 onward



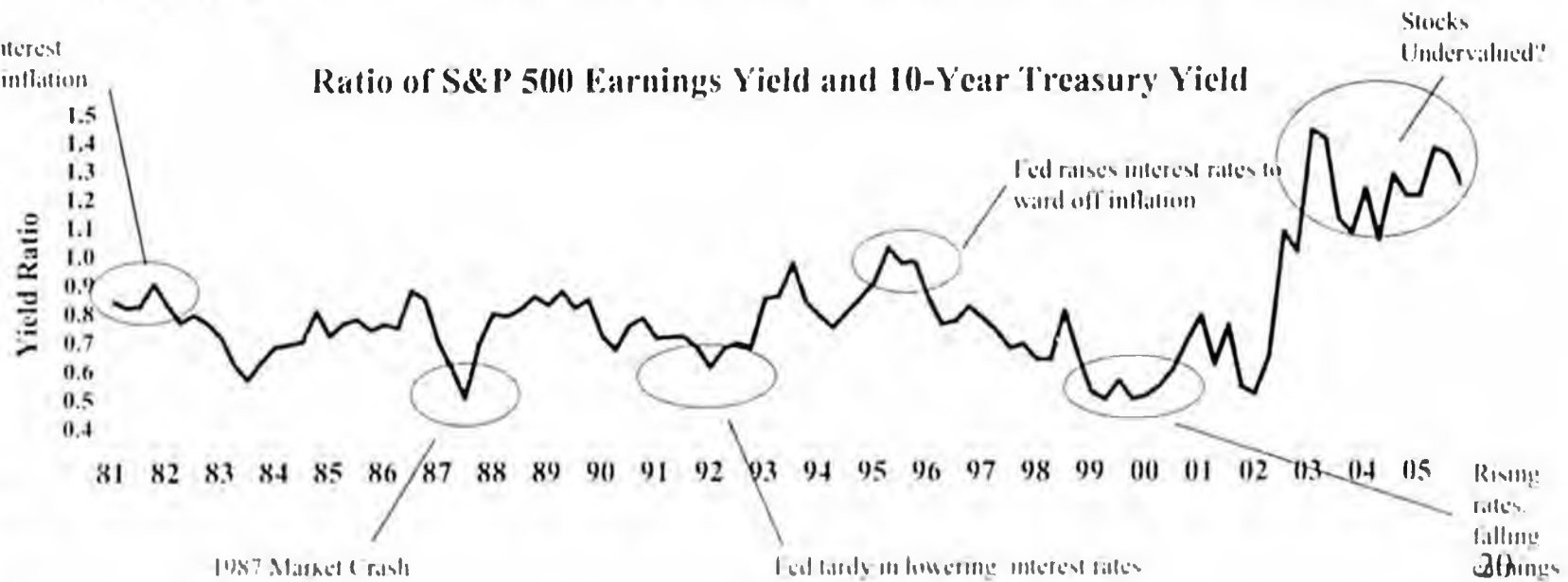
# Domestic Equity vs. Bond Yields

## S&P 500 Earnings Yield vs. 10-Year Treasury Yield



Peak of interest rates and inflation

## Ratio of S&P 500 Earnings Yield and 10-Year Treasury Yield



# 2006 Capital Market Projections

- Modest changes from last year's projections. Not much has changed in the environment except that Fed executed policy exactly as expected.
- Inflation is nudged up to 2.75%, which implies moderation from current levels.
- Cash returns reflect higher short-term yields, a real return of 1.25%, and expectations that interest rates will peak in 2006.
- Bond returns are set at 5.0%:
  - Reflects current yield-to-worst, with no adjustment.
  - Project upward sloping yield curve (if only slightly so), with a very small risk premium for bonds over cash (1.0%).
- Equity returns built from fundamentals: 3-4% real GDP growth which means 5.5%-6.5% nominal earnings growth, 2% dividend yield, 0.5%-1% "buyback" yield.
- Real estate return held at 7.6%, reflecting income expectations as high as 8% but acknowledging rich levels of property valuations.
- Private equity return held at 12%, a 3% premium over public markets.
- Premium of international equity over domestic will continue to be narrowed, reflecting recent performance and relative valuations.



# 2006 Capital Market Projections

## Summary of 5-Year Capital Market Projections (2006-2010)

Asset Class	Index	Projected Annual Return	Projected Standard Deviation (Risk)	Projected Yield	2005 Projections	
<b>Equities</b>						
Broad Domestic Equity	Russell 3000	9.00%	16.90	2.10	9.00%	16.90
Large Cap	S&P 500	8.85%	16.40	2.20	8.85%	16.40
Small/Mid Cap	Russell 2500	9.85%	22.70	1.20	9.85%	22.70
International Equity	MSCIEAFE	9.20%	20.10	2.20	9.25%	20.10
Emerging Markets Equity	MSCIEMF	9.80%	32.90	0.00	9.80%	33.00
<b>Fixed Income</b>						
Domestic Fixed	LB Aggregate	5.00%	4.50	5.00	4.75%	4.50
Defensive	LB Gov't 1-3 Year	4.25%	2.30	4.25	3.75%	2.30
TIPS	LB TIPS	4.65%	6.00	4.65	4.40%	6.00
High Yield	CSFB High Yield	6.75%	12.10	6.75	6.75%	12.10
Non US\$ Fixed	Citi Non-US Gov't	4.90%	9.60	4.65	4.65%	9.60
<b>Other</b>						
Real Estate	Callan Real Estate	7.60%	16.50	7.00	7.60%	16.50
Private Equity	VE Post Venture Cap	12.00%	34.00	0.00	12.00%	34.00
Absolute Return	Callan Hedge FoF	6.50%	0.20	0.00	6.50%	10.50
Cash Equivalents	90-Day T-Bill	4.00%	0.80	4.00	3.25%	0.80
Inflation	CPI-U	2.75%	1.40		2.60%	1.40

- Consider passively invested, broad markets at asset allocation level.
- Active/passive, capitalization and style decisions within the broad markets are made at the structural level.



# APFC Current Policy With 2006-2010 Projections

Component	Portfolio						
	Max	Mix 1	Mix 2	Mix 3	APFC-11-05	Mix 4	Mix 5
Large Cap	100	16	21	27	29	34	40
Small/Mid Cap	100	4	5	6	6	8	9
International Equity	100	7	9	12	16	15	18
Emerging Markets Equity	100	1	1	2	2	2	3
Private Equity	4	2	4	4	4	4	4
Domestic Fixed	100	55	45	33	25	21	10
Non US Fixed	100	5	4	4	4	3	2
Real Estate	100	6	7	8	10	9	10
Absolute Return	4	4	4	4	4	4	4
Cash Equivalents	100	0	0	0	0	0	0
Totals		100	100	100	100	100	100
Expected Return		6.50	7.00	7.50	7.77	8.00	8.50
Standard Deviation		7.30	8.91	10.64	11.61	12.43	14.27
Sharpe Ratio		0.45	0.42	0.40	0.39	0.38	0.37

Note that private equity and absolute return have been constrained to 4% in each area. Also note that high yield bonds & commodities were not explicitly modeled.



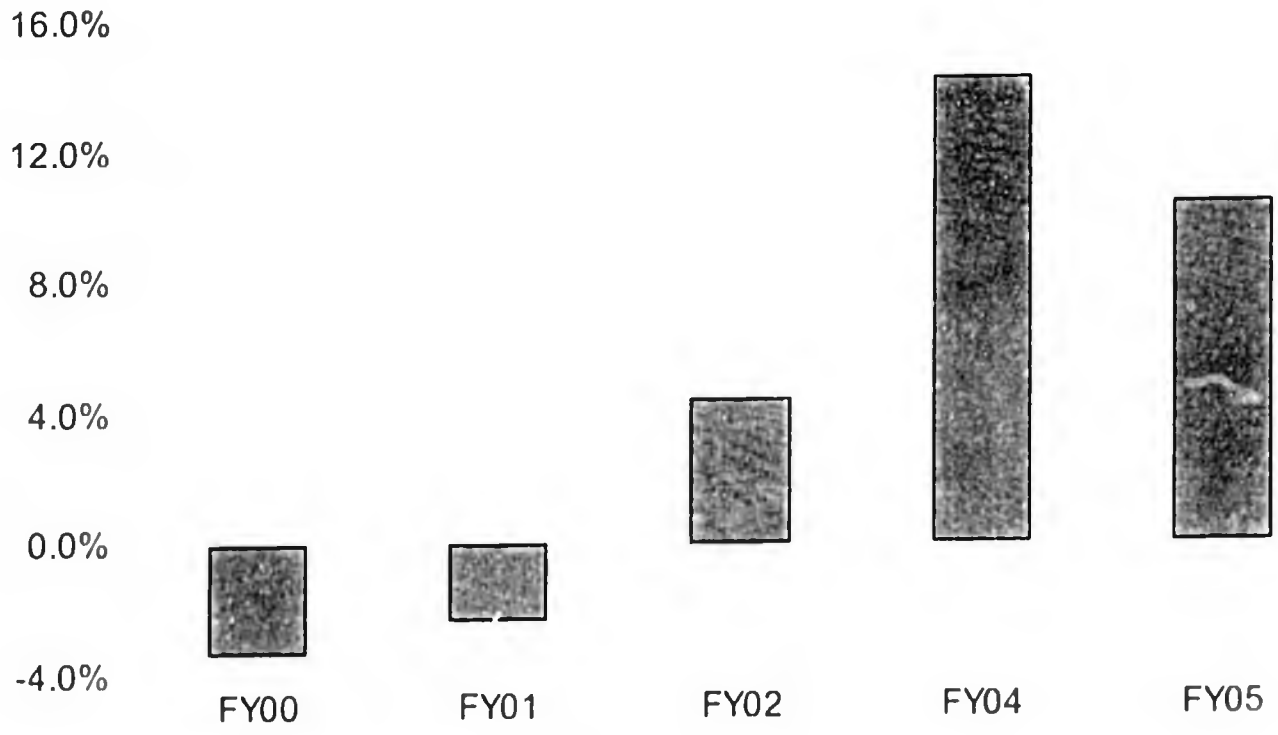


# Alaska Permanent Fund Fiscal 2005 summary

- Total fund return: 10.4%
- Real rate of return after inflation: 7.7%
- Fund balance on June 30 (after dividends):  
29.96 billion
- Increase over FY04 ending balance: \$2.56  
billion



# Fund total return FY00 – FY05





## FY 2006 performance as of December 31, 2005

- Total return: 6.7% (annualized 13.4%)
- Ending value on December 31: \$32.2
- Gain from FY05 ending balance: \$2.3 billion
- Realized income: \$1.3 billion





# New regulatory authority: Investment regulations

- Staff worked with Callan Associates, Board advisors, outside managers and our legal counsel to draft new investment regulations.
- The determination of counsel was that the regulations would need to define the Prudent Investor Rule, and cover all possible investments, including those that the Trustees may not be considering at this time.
- This level of detail will prevent APFC from being out of compliance with our regulations.



## New regulations:

# Confidential records regulations

- APFC has been required by statute since 1980 to keep confidential information regarding the business or affairs of a private enterprise or investor.
- Counsel advised APFC to draft regulations that would make clear the determination process used in releasing or withholding information.
- No documents are confidential today that were not confidential a year ago.
- This statute primarily affects information relating to our real estate, private equity and absolute return investments.

9

9

.

..



# ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of January 31, 2006

\* Fiscal year end results for FY06 are trending to be greater than the mid case.

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

FY	Reserved Fund Balance - Principal					Unreserved Fund Balance					TOTAL FUND FY-End Balance <sup>(7)</sup>		
	FY-Begin Contrib. Balance	Appropriations	Dedicated Revenues	Inflation Proofing	FY-End Balance	Accr. Net Income <sup>(8)</sup>	Statutory Net Income <sup>(9)</sup>	Dividends <sup>(10)</sup>	Statutory Net Income <sup>(11)</sup>	Distributions of Statutory Net Income		Realized Earnings	
77-98	0	6,734	6,250	5,533	18,517	22,488	18,667	7,569	5,533	268	1,389	77-98	23,877
99	18,517	41	155	288	19,001	22,542	2,544	1,045	288	3	1,201	99	25,132
00	19,001	264	326	423	20,014	23,543	2,249	1,172	423	3	382	00	26,515
01	20,014	8	339	686	21,047	24,330	1,199	1,113	686	4	(588)	01	24,814
02	21,047	(23)	258	602	21,884	22,389	257	926	602	5	(1,248)	02	23,525
03	21,884	354	398	352	22,988	24,094	963	691	352	0	(1,035)	03	24,190
04	22,988	(339)	353	524	23,526	26,541	1,502	581	524	0	759	04	27,400
05	23,526	0	480	859	24,647	28,522	1,754	532	641	27	581	05	29,982
10%	0	0	579	855	26,081	26,975	1,229	538	855	18	(135)	06	28,281
25%	0	0	579	855	26,081	28,205	1,545	568	855	22	121	06	29,767
Mid	0	0	579	855	26,081	30,232	2,243	610	855	28	474	06	32,146
25%	0	0	579	855	26,081	31,704	4,178	2,395	855	34	882	06	34,027
10%	0	0	579	855	26,081	32,877	5,765	2,804	855	40	1,248	06	35,565
07	26,081	0	466	690	27,238	31,748	2,408	795	690	28	536	07	34,198
08	27,238	0	366	718	28,322	33,214	2,559	983	718	28	449	08	36,113
09	28,322	0	202	742	29,265	34,559	2,687	1,064	742	28	462	09	37,921
10	29,265	0	198	766	30,229	35,945	2,833	1,130	766	28	487	10	39,794
11	30,229	0	187	791	31,207	37,365	2,973	1,189	791	26	523	11	41,738
12	31,207	0	179	816	32,202	38,825	3,119	1,253	816	26	558	12	43,756
13	32,202	0	169	842	33,212	40,322	3,271	1,316	842	28	599	13	45,851
14	33,212	0	160	868	34,240	41,859	3,428	1,382	868	28	641	14	48,030
15	34,240	0	152	894	35,286	43,440	3,592	1,450	894	28	686	15	50,296
16	35,286	0	160	922	36,367	45,050	3,763	1,520	922	28	734	16	52,671
<b>Cumulative Totals</b>													
Prof. for 2006-2016	0	2,817	8,903	4,838	32,887	27,745	12,692	8,303	303	6,150			

**Assumptions: Total Return - Inflation = Total Real Return**

10%	FY 2006	-5.95%	3.39%	-9.34%	10%	4.22%
25%	FY 2006	-0.46%	3.39%	-3.85%	25%	5.18%
Mid	FY 2006	7.60%	4.21%	3.39%	Mid	6.50%
25%	FY 2006	15.25%	3.39%	11.90%	25%	8.03%
10%	FY 2006	21.71%	3.39%	18.32%	10%	9.40%

FY 2007-2016: 7.61% 2.60% 5.01% 6.50%

**Notes to financial history and projections FY77 - FY16:**

(1) Appropriators include special general fund and earnings reserve appropriations to principal - royalty settlement earnings transferred to principal through FY04 per AS 37.13.145(d), and other miscellaneous appropriations to principal

(2) Represents a final adjustment to principal based on reconciliation of State of AK v. Amerada Hess et al. royalty case

(3) FY03 Senate Bill 100 transferred \$354 million from realized earnings account to principal

(4) Senate Bill 283 defers the FY03 special appropriation of \$354 as the FY04 inflation proofing and appropriates the remaining \$170 million needed to fully inflation proof contributors and appropriate in FY04. An additional \$15 million in settlement earnings (earnings above inflation) is appropriated to principal per AS 37.13.145(d)

(5) Statutory inflation proofing for FY04 is based on the inflation rate of 2.46% or \$534 million (\$354 million pre inflation proofing plus \$170 million FY04 appropriation)

(6) Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings. Statutory net income is realized earnings less settlement earnings and is used to calculate the annual dividend transfer

(7) Total Fund returns received fund balance plus the realized earnings balance

(8) Based on 2005 Calmar capital market assumptions and a range of expected returns based on the probability of the return outcomes

(9) Based on 2005 Calmar capital market assumptions and a range of expected returns (the mid case). Actual results will vary from projections

(10) Am Hess settlement earnings transferred to Alaska Capital Income Fund as per HB # 187 & SB # 46

**Income year-to-date as of January 31, 2006**

FY06 Statutory net income	\$ 657.8
Interest, dividends, real estate & other income	928.6
Realized gains on the sale of invested assets	(32.4)
Less operating exp / Legis. appropriations	(21.8)
Less AK Capital Inc. Fund committed realized earnings	1,042.2
Statutory net income	\$ 1,562.2
Adjustment for unrealized gains (losses)	1,422.1
AK Capital Income Fund committed realized earnings	21.8
GAAP (accounting) net income	\$ 3,026.1

**PERFORMANCE SUMMARY**  
(preliminary as of January 31, 2006)

Alaska CDs	Domestic Fixed Income	Non-Domestic Fixed Income	Domestic Equities	Non-Domestic Equities	Real Estate	Absolute Return	Total Fund
0.35%	0.04%	0.97%	6.78%	2.99%	2.20%	3.24%	2.90%
0.98%	1.36%	1.15%	8.25%	15.62%	5.58%	7.31%	6.76%
0.21%	-0.22%	11.60%	24.02%	13.82%	7.96%	10.37%	9.17%
0.35%	0.04%	0.97%	6.78%	2.99%	2.20%	3.24%	2.90%
3.29%	2.07%	0.18%	13.99%	26.40%	27.01%	13.62%	12.03%
2.12%	3.84%	6.65%	18.47%	28.10%	22.82%	15.27%	14.92%
2.72%	5.59%	7.16%	2.24%	6.75%	16.36%	6.58%	5.78%

Total Fund Return Benchmark

15 AAC 137 is amended by adding new sections to read:

**ARTICLE 3. ALASKA PERMANENT FUND CORPORATION  
INVESTMENT ACTIVITIES**

**Section**

- 410. Purpose of 15 AAC 137.410 – 15 AAC 137.530
- 420. Permanent fund investments; institutional quality
- 430. Fixed-income investments
- 440. Publicly traded equity investments
- 450. Real estate investments
- 460. Alternative investments; other investment types and strategies
- 470. Interests in collective or commingled investment funds
- 480. Foreign currency transactions
- 490. Short-selling
- 500. Leverage
- 510. Lending of permanent fund-owned securities
- 520. Form of asset holdings
- 530. Investments not otherwise permitted

**15 AAC 137.410. Purpose of 15 AAC 137.410 – 15 AAC 137.530.** The purpose of 15 AAC 137.410 – 15 AAC 137.530 is to implement the authority granted the APEC Board of Trustees under AS 37.13.120(a) to specifically designate the income-producing investments eligible for permanent fund investments. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

**Authority:** AS 37.13.120      AS 37.13.206      Sec. 4, ch. 46, SLA 2005

**15 AAC 137.420. Permanent fund investments; institutional quality.**

All permanent fund investments must be of a quality considered acceptable by other prudent institutional investors, including endowments. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

**Authority:** AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.430. Fixed-income investments.** (a) The assets of the permanent fund may be invested in the following fixed-income investments:

- (1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;
- (2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
- (3) certificates of deposit and term deposits of United States domestic banks that are members of the Federal Deposit Insurance Corporation and that may be readily sold in a secondary market at prices reflecting fair value or that are fully secured at all times as to payment of principal and interest as described in (b) of this section;
- (4) certificates of deposit and term deposits of federally chartered savings and loan associations in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section;

(5) certificates of deposit and term deposits of mutual savings banks in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section:

(6) fixed-term certificates of indebtedness of federally insured credit unions in Alaska that are fully secured at all times as to payments of principal and interest as described in (b) of this section:

(7) debt instruments that have been issued by domestic entities and that are rated investment grade, or debt instruments of comparable quality issued by nondomestic entities:

(8) subject to (d) of this section, debt instruments that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated:

(9) short-term

(A) promissory notes that have been issued by domestic entities and that are rated investment grade; or

(B) promissory notes of comparable quality issued by nondomestic entities:

(10) subject to (d) of this section, short-term promissory notes that have been issued by domestic or nondomestic entities that are rated below investment grade or are unrated:

(11) bankers' acceptances drawn on and accepted by United States banks each of which has a combined capital and surplus aggregating at least \$200,000,000;

(12) repurchase agreements and reverse repurchase agreements, the securities underlying the agreements being any of the items listed in (1) - (6) of this subsection;

(13) the portions of business and industrial loans made under the Rural Development Act of 1972 that are guaranteed by the Farmers Home Administration;

(14) the guaranteed portion of Farmers Home Administration loans;

(15) certificates of deposit, term deposits, or bankers' acceptances, that are issued by a United States or nondomestic bank or trust company located outside of the United States and are denominated in United States or nondomestic currency if either

(A) those instruments may be readily sold in a secondary market at prices reflecting fair value; or

(B) the issuing bank or trust company has capital, surplus, and retained earnings at the date of issue equaling at least \$500,000,000;

(16) securities of nondomestic governments and nondomestic government agencies, the principal of, or interest on, which is payable in either United States dollars or nondomestic currencies;

(17) taxable or tax-exempt municipal or state debt instruments whether supported by revenues, general obligations, or guarantees;

(18) shares in a money market or short-term investment fund that has either collateral securities of a type authorized elsewhere in this section as acceptable collateral or securities of similar quality to those authorized elsewhere in this section as acceptable collateral;

(19) fixed-income derivatives, including forwards, futures, options, collateralized securities, structured notes, and swaps, including credit default swaps;

(20) debt instruments issued by an entity described in 15 AAC 137.450(a)(3).

(b) Except for investments made under (a)(15) of this section, certificates of deposit or the equivalent instruments that are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of

(1) investments authorized for the permanent fund under (a)(1), (2), or (4) of this section;

(2) obligations of the State of Alaska or instrumentalities of the state that are rated at least "A" by a major bond rating service and have a demonstrated secondary market; or

(3) letters of credit issued by an agency of or enterprise sponsored by the United States Government, including the Government National Mortgage

Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

(c) Investments or obligations pledged as collateral under (b) of this section must have value at least equal to the face value of the certificates of deposit being secured. The APFC may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in (b) of this section.

(d) The aggregate value of investments made under (a)(8) and (10) of this section may not exceed 15 percent of the total value of the permanent fund. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

**Authority:** AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.440. Publicly traded equity investments.** The assets of the permanent fund may be invested in the following publicly traded equity investments:

(1) preferred and common stock and other equity interests in entities organized in the United States and elsewhere, including ordinary shares, convertible debt securities, initial public offerings (IPO's), exchange traded funds (ETF's), American depository receipts (ADR's), American depository securities (ADS's), global depository securities (GDS's), and grantor trusts;

(2) equity derivatives, including forwards, futures, options, swaps, collateralized securities, and structured notes. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

**Authority:** AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.450. Real estate investments.** (a) The assets of the permanent fund may be invested in the following real estate investments:

(1) equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located in the United States, is professionally managed, and is

(A) improved by completed and substantially rented buildings;

(B) located within the market area of real property in which the permanent fund holds an existing interest and is acquired

(i) for the purpose of creating or adding to a portfolio of similar properties; or

(ii) to retain or service the needs of existing tenants; or

(C) timberland or other agricultural land;

(2) subject to (b) of this section, equity interests in, debt obligations secured by mortgages granting a lien on, and other structured investment forms to finance, real estate that is located outside the United States, so long as the property otherwise meets the requirements of (1)(A) or (B) of this subsection;

(3) subject to (c) of this section, equity interests in entities formed to develop for commercial purposes vacant or underdeveloped real estate located in the United States that, when completed and occupied, would meet the requirements of (1)(A) of this subsection;

(4) interests in a titleholding entity, real estate investment trust, real estate operating company, or other entity whose assets consist predominantly of

(A) property of a type in which the APFC is otherwise permitted to invest permanent fund assets under (1), (2), or (3) of this subsection; or

(B) interests in other entities in which the APFC is permitted to invest permanent fund assets under (4)(A) of this subsection.

(b) The aggregate value of investments made under (a)(2) of this section may not exceed five percent of the total value of the permanent fund.

(c) The aggregate value of investments made under (a)(3) of this section may not exceed five percent of the total value of the permanent fund. (Eff.

01/01/2006, Reg. \_\_\_\_ )

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 ACC 137.460. Alternative investments; other investment types and strategies.** (a) The assets of the permanent fund may be invested in the following additional investment types and strategies:

(1) limited liability private equity investment entities and funds-of-funds whose investments and investment strategies include one or more of the following approaches:

(A) acquisitions, including buyouts, growth buyouts, platform add-ons, and industry consolidation;

(B) venture capital, including seed, early, middle, late, expansion, and diversified;

(C) debt, including mezzanine/subordinated debt, distressed debt, and venture leasing/debt;

(D) special situations, including industry-focused, turnaround, and diverse;

(E) other, including secondaries;

(2) co-investments with entities and funds of funds described in (1) of this subsection;

(3) limited liability hedge fund investment entities and funds-of-funds whose investments and investment strategies include one or more of the following approaches:

(A) relative value, including equity market neutral, fixed income arbitrage, and convertible arbitrage;

(B) event-driven, including merger arbitrage, distressed securities/discounted bank debt, and special situations;

(C) directional/tactical/opportunistic, including long-short equity, managed futures, and global macro;

(4) commodities and commodity-linked securities and derivatives, including forwards, futures, options, swaps, and structured notes;

(5) hybrid investments and strategies; these investments may include domestic, nondomestic, public and private market equity, or fixed income

securities, financial derivatives, and short positions in publicly traded domestic and international equity and fixed income securities:

(6) managed futures funds.

(b) An investment under (a) of this section may be made only

(1) through an investment manager under contract with the APFC with demonstrated skill and experience investing in the specific investment type or strategy authorized under (a); or

(2) on the recommendation and advice of an independent fiduciary retained by the APFC to evaluate a specific proposed investment or investment strategy. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.470. Interests in collective or commingled investment funds.** The assets of the permanent fund may be invested in shares or other interests in collective and commingled investment funds that invest predominantly in investments otherwise permitted under 15 AAC 137.410 - 15 AAC 137.530. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.480. Foreign currency transactions.** A manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer, utilize foreign exchange transactions. Such transactions

include currency forwards, futures, swaps, and options, as well as currency strategies, including hedging, cross-hedging, and long or short directional strategies. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.490. Short-selling.** In addition to the specific authority for the use of short-selling strategies granted under 15 AAC 137.460, a manager of permanent fund assets may, with the prior approval of the executive director or the chief investment officer and consistent with the limitations on the use of leverage provided under 15 AAC 137.500, utilize short-selling as a part of the manager's overall investment strategy. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.500. Leverage.** (a) A manager of permanent fund assets may, with the prior approval of the executive director or chief investment officer, utilize leverage as part of the investment strategy for the portfolio for which the manager is responsible, so long as the creditor's recourse on the leverage amount is

(1) not a general obligation of the permanent fund or the APFC; and

(2) is limited to either

(A) the permanent fund assets for which the manager acts as manager; or

(B) other specific assets of the permanent fund.

(b) A manager of permanent fund assets shall use leverage, if at all, in a prudent manner that is consistent with leverage applied by professional asset managers using similar investment strategies. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.510. Lending of permanent fund-owned securities.**

Securities purchased by or otherwise held for the permanent fund may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having a market value of at least 102 percent of the market value of securities loaned (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.520. Form of asset holdings.** Unless otherwise provided in 15 AAC 137.410 – 15 AAC 137.530, the APFC may invest permanent fund assets directly in the name of the permanent fund, through a limited liability entity, including a corporation, limited partnership, limited liability partnership, or limited liability company, or through a collective or commingled investment fund, including a fund-of-funds. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

**15 AAC 137.530. Investments not otherwise permitted.** (a) The permanent fund may hold assets not otherwise authorized under 15 AAC 137.410 – 15 AAC 137.520 that

(1) were held by the permanent fund before January 1, 2006;

(2) are distributed to the permanent fund as the result of a liquidation of other assets held by the fund; or

(3) are acquired by a manager of permanent fund assets because the assets are included in an investment index that is applied by the APFC to measure that manager's investment performance.

(b) The permanent fund may hold an asset described in (a) of this section so long as holding the asset satisfies the prudent-investor rule stated in AS 37.13.120(a).

(c) The APFC must liquidate, restructure, or otherwise bring into compliance a permanent fund investment that ceases to satisfy the prudent investor rule stated in AS 37.13.120(a) within six months after the asset first fails to satisfy that rule. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137.990 is repealed and readopted to read:

**15 AAC 137.990. Definitions.** Unless the context requires otherwise, in 15 AAC 137.410 - 15 AAC 137.990

(1) "APFC" means the Alaska Permanent Fund Corporation established at AS 37.13.040;

(2) "chief investment officer" means the chief investment officer of the APFC;

(3) "co-investment" means a direct investment of permanent fund assets in an entity at the same time and on the same economic terms as an investment of permanent fund assets in that entity made through a private equity fund under 15 AAC 137.460(a)(1);

(4) "collective or commingled investment fund" means an entity whose purpose is to direct the collective investment of assets, including a common trust fund, a collective trust fund, a unit investment trust, an open-end or closed-end mutual fund, an open-end or closed-end registered investment company, or any other collective or commingled investment vehicle that is engaged primarily in the purchase and sale of securities or other assets;

(5) "commodities" means

(A) materials, such as gold, copper, silver, and petroleum;

(B) timber and other agricultural crops;

(C) foods;

(D) other natural resources; and

(E) products of the items identified in (A) – (D) of this

paragraph;

(6) "derivative" means an instrument whose value, usefulness, and marketability is dependent upon or derives from an underlying asset; classes of

derivatives include futures contracts, options, forward contracts, including currency forward contracts, swaps, and options on futures:

(7) "derivative based strategy" means an investment strategy used by investors that invest in markets typically dominated by derivative instruments;

(8) "executive director" means the executive director of the APFC;

(9) "hybrid investment or strategy" means a multi-part investment that may include hedge funds, arbitrage funds, derivative-based strategies, strategic block investment funds, or crossover funds where the underlying investments consist of both public and private investments, including both debt and equity instruments;

(10) "includes" or "including" has the same meaning given in AS 01.10.040;

(11) "investment grade" means a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc., rating of Baa or better, including a rating with a "+" or "-" designation or other variations that occur within these ratings, or a comparable rating by another nationally recognized rating organization or by a recognized rating service in the jurisdiction of the issuer;

(12) "leverage" means the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment;

(13) "manager of permanent fund assets" means an individual, firm, or other entity that, either by contract or employment with the APFC, has

responsibility for the investment and management of a portion of the assets of the permanent fund;

(14) "permanent fund" has the meaning given "fund" in AS 37.13.900;

(15) "security" means an instrument that signifies an ownership position in a corporation or other private entity, a creditor relationship with a corporation, other private entity, or governmental body or entity, or rights to ownership such as those represented by an option, future or forward contract, subscription right, or subscription warrant; "security" includes

(A) stocks, bonds, convertible bonds, bills, notes, debentures, bankers acceptances, commercial paper, certificates of deposit, and shares of a real estate investment trust or real estate operating company;

(B) the types of securities identified under (A) of this paragraph purchased on a when issued basis; and

(C) combinations of the types of securities identified under (A) and (B) of this paragraph issued as a single instrument;

(16) "short-selling" means:

(A) the selling of a security that the seller does not own; or

(B) any sale that is completed by the delivery of a security borrowed by the seller. (Eff. 01/01/2006, Reg. \_\_\_\_\_)

Authority: AS 37.13.120 AS 37.13.206 Sec. 4, ch. 46, SLA 2005

15 AAC 137 is amended by adding new sections to read:

**ARTICLE 4. ALASKA PERMANENT FUND CORPORATION  
OPERATIONAL ACTIVITIES**

**Section**

**610. Confidential records**

**15 AAC 137.610. Confidential records.** (a) The APFC may preserve the confidentiality of information that discloses the particulars of the business or the affairs of a private enterprise or investor if the executive director concludes that such disclosure would

(1) unfairly prejudice the ability of the APFC or its investment managers to invest and manage fund assets;

(2) reveal trade secrets or technical data reasonably held as confidential in the finance industry;

(3) reveal matters, the immediate knowledge of which would clearly have an adverse effect upon the finances of the APFC or the permanent fund, including information relating to pending transactions or investments under consideration; or

(4) violate provisions of applicable law.

(b) In taking action under this section to preserve confidentiality, the executive director may declare specific records of the APFC, or appropriate portions of specific records, including documents submitted to the APFC that were

prepared by others, to be confidential and exempt from the public disclosure provisions of AS 40.25.110 and AS 40.25.120 based on

- (1) express determination of the board;
- (2) guidelines of the board;
- (3) confidentiality provisions included in contracts; or
- (4) confidentiality provisions in requests for proposals or invitations

to Lid.

(c) For purposes of AS 37.13.200 and this section, "private enterprise or investor" includes investment managers, advisors, consultants, counsel, issuers of securities, and borrowers. (Eff. \_\_\_/\_\_\_/2005, Register \_\_\_\_\_)

Authority: AS 37.13.200 AS 37.13.206 AS 44.62.310(c)

## ARTICLE 5. GENERAL PROVISIONS

### Section

#### 990. Definitions

**15 AAC 137.990. Definitions.** Unless the context indicates otherwise, in 15 AAC 137.610 – 15 AAC 137.990,

- (1) "APFC" means the Alaska Permanent Fund Corporation established under AS 37.13.040;
- (2) "executive director" means the executive director of the APFC;

Register \_\_\_\_ 200\_\_ REVENUE

(3) "permanent fund" has the meaning given "fund" in

AS 37.13.900. (Eff. \_\_/\_\_/2005, Register \_\_\_\_)

Authority: AS 37.13.200 AS 37.13.206



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### AGENDA

Thursday, February 23, 2006

9:00 a.m.

**Joint Meeting with House Finance Committee**  
Presentation by Callan Associates:  
PFD Five Year Forecast

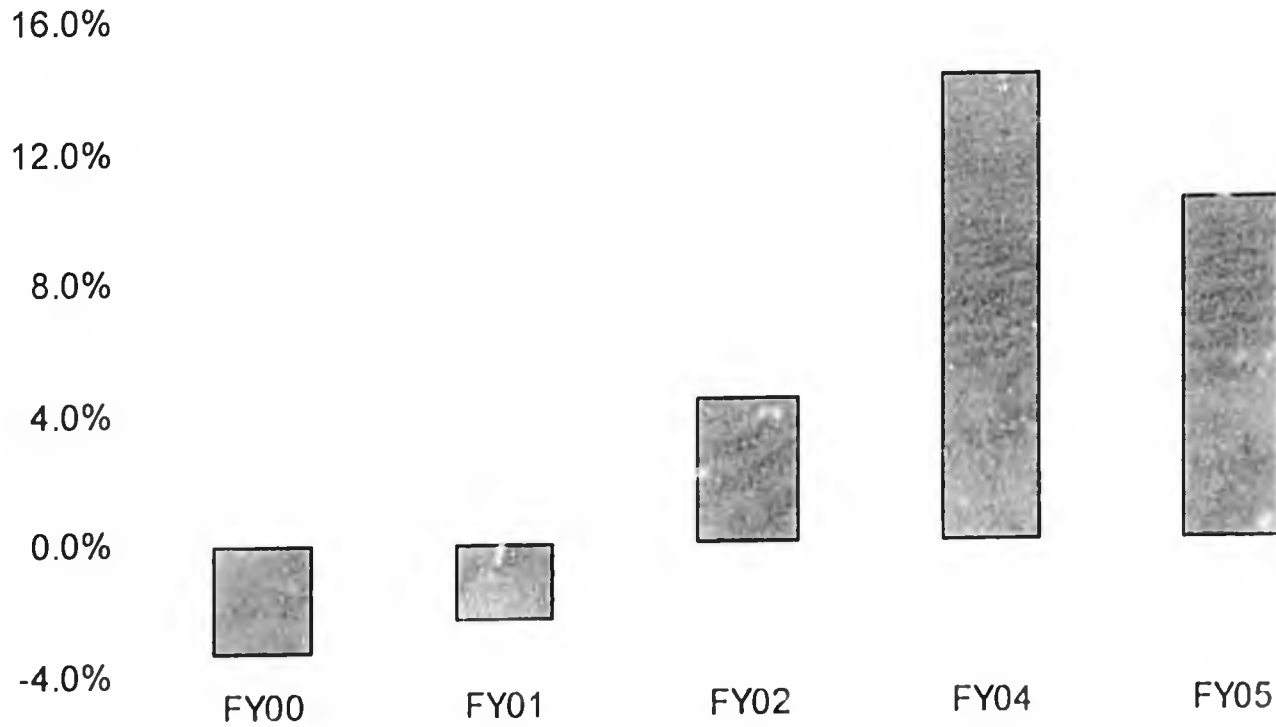
# Alaska Permanent Fund

## Fiscal 2005 summary

- Total fund return: 10.4%
- Real rate of return after inflation: 7.7%
- Fund balance on June 30 (after dividends):  
29.96 billion
- Increase over FY04 ending balance: \$2.56  
billion



# Fund total return FY00 – FY05



# FY 2006 performance as of December 31, 2005

- Total return: 6.7% (annualized 13.4%)
- Ending value on December 31: \$32.2
- Gain from FY05 ending balance: \$2.3 billion
- Realized income: \$1.3 billion



# New regulatory authority: Investment regulations

- Staff worked with Callan Associates, Board advisors, outside managers and our legal counsel to draft new investment regulations.
- The determination of counsel was that the regulations would need to define the Prudent Investor Rule, and cover all possible investments, including those that the Trustees may not be considering at this time.
- This level of detail will prevent APFC from being out of compliance with our regulations.



# New regulations:

## Confidential records regulations

- APFC has been required by statute since 1980 to keep confidential information regarding the business or affairs of a private enterprise or investor.
- Counsel advised APFC to draft regulations that would make clear the determination process used in releasing or withholding information.
- No documents are confidential today that were not confidential a year ago.
- This statute primarily affects information relating to our real estate, private equity and absolute return investments.

