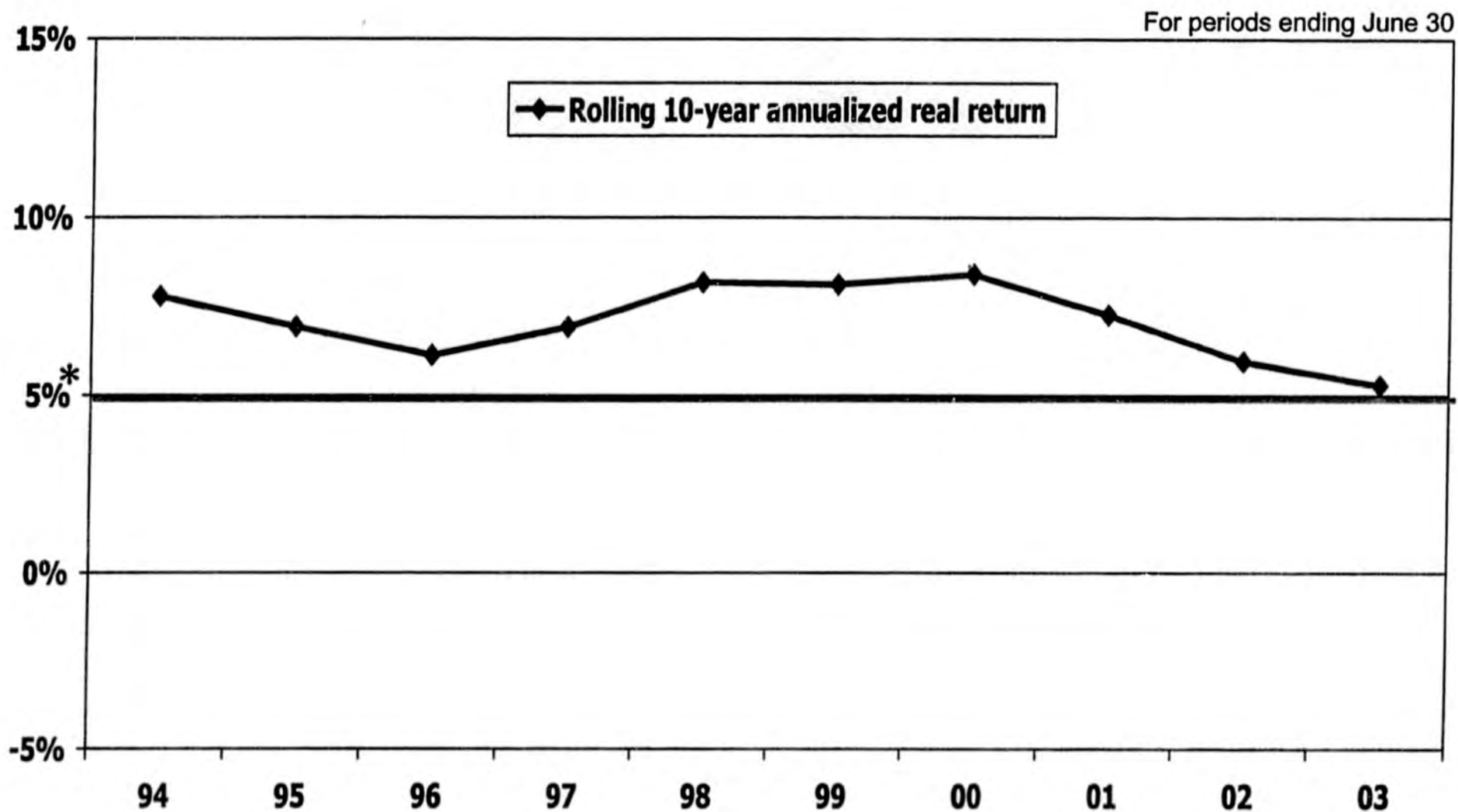


SCOMM

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Rolling 10-year real return – Fiscal year



ACCOUNTABILITY

TO ALASKANS, FOR ALASKANS

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Permanent Fund Income Distributable to the State of Alaska

Stated in Thousands

Prepared March 2, 2004 by Representative Dan Ogg's staff ⁽¹⁾

The Legislature appropriated a portion of the Fund's statutory net income for various purposes, including the payment of dividends to qualified residents of the State of Alaska. In addition, the Legislature appropriated a portion of the Fund's realized earnings to fund various other agency activities.

Income distributable to the state as of June 30 each year is summarized as follows:

	2003	2002	2001	2000	1999	1998	1997	1996	Total
Dividends	\$ 657,064	\$ 897,453	\$ 1,082,300	\$ 1,142,148	\$ 1,016,113	\$ 863,982	\$ 717,635	\$ 613,343	\$ 6,990,038
Appropriations to the Department of:									
Corrections ⁽²⁾	\$ 6,895	\$ 4,258	\$ 3,615	\$ 2,929	\$ 2,147	\$ 1,047	\$ 1,047	\$ 803	\$ 22,741
Health and Social Services ⁽³⁾	15,406	13,008	16,147	17,518	18,689	19,101	21,493	21,717	143,079
Revenue ⁽⁴⁾	5,444	5,245	5,099	4,985	4,793	5,677	4,486	5,317	41,046
Public Safety ⁽⁵⁾	4,209	5,380	5,376	4,871	3,234	2,904	2,119	1,633	29,726
Legislature ⁽⁶⁾	462	462	64						988
Administration ⁽⁶⁾	1,178								1,178
Sub-Total to Departments	\$ 33,594	\$ 28,353	\$ 30,301	\$ 30,303	\$ 28,863	\$ 28,729	\$ 29,145	\$ 29,470	\$ 238,758
Total to dividend fund	\$ 690,658	\$ 925,806	\$ 1,112,601	\$ 1,172,451	\$ 1,044,976	\$ 892,711	\$ 746,780	\$ 642,813	\$ 7,228,796
Other Agencies ⁽⁷⁾	-	4,547	3,843	2,780	3,015	494	1,748	3,414	19,841
Total	\$ 690,658	\$ 930,353	\$ 1,116,444	\$ 1,175,231	\$ 1,047,991	\$ 893,205	\$ 748,528	\$ 646,227	\$ 7,248,637

Notes:

(1) Source of data is the Permanent Fund's Annual Reports

(2) These departments receive and expend the dividends of incarcerated individuals as PF "felon funds" to help offset their cost of incarceration

(3) The PFD "Hold Harmless" payments replace public assistance program benefits when receiving the PFD causes individuals to lose eligibility or to have benefits reduced

(4) The PFD Division utilizes a portion of the total amount available for dividends for their operating costs

(5) "Felon funds" are appropriated to the legislature to support the Office of Victims' Rights

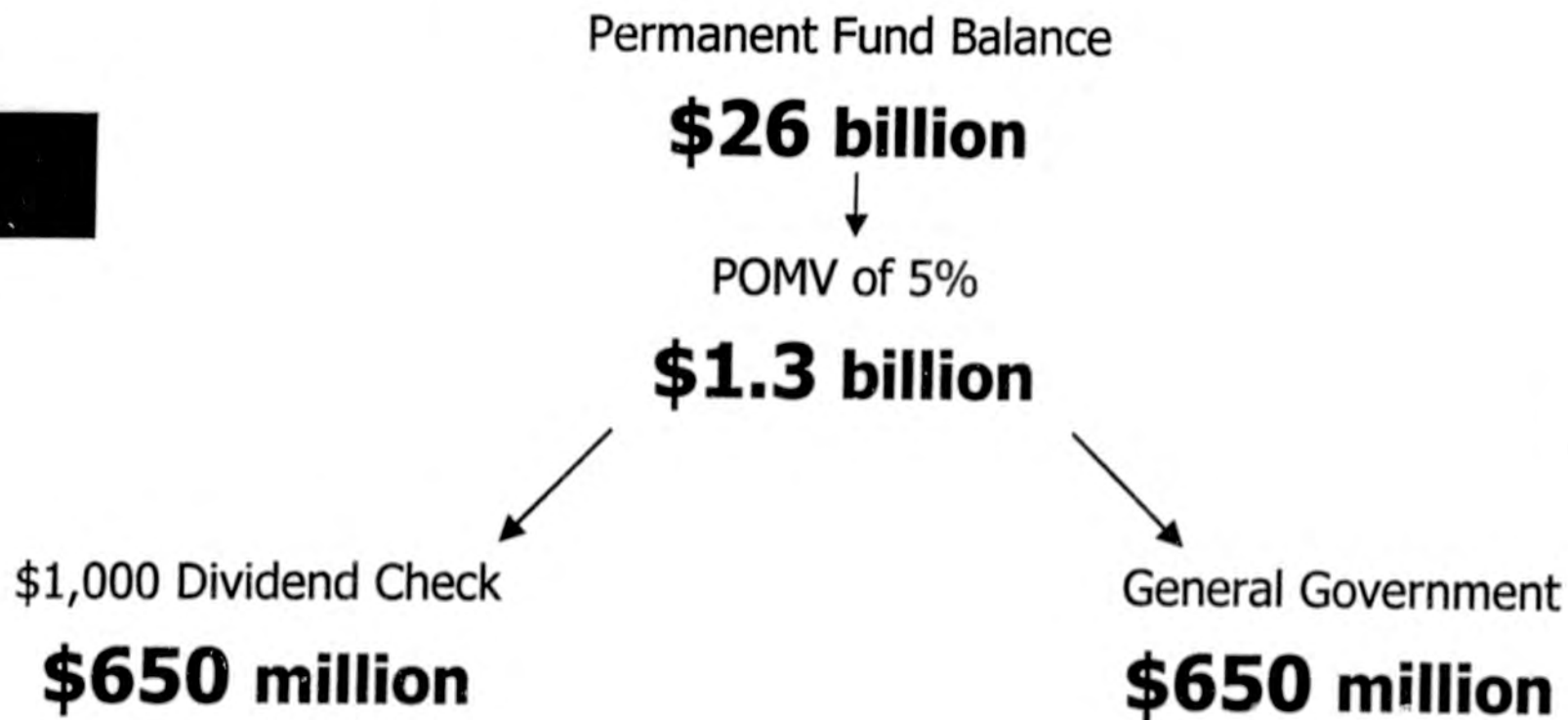
(6) "Felon funds" are appropriated to the department to support the Violent Crimes Compensation Board

(7) Amounts paid to other State of Alaska agencies for support of APFC operations, including Dept. of Revenue, Dept. of Natural Resources, and Dept. of Law

- Beginning in FY03, appropriations for other state agencies using APFC's budget code will be reported with total APFC operating expenses, as a reduction of APF revenues



Today's Situation



Looking Back at 1976

Excerpt from the 1976 Official Election Pamphlet **Statement in Favor of Proposition No. 2** **Alaskans Should Strongly Support the Establishment of a Permanent Fund**

"Just as a wise and prudent family sets aside money in a savings account for the future, so should Alaska's state government set aside a rainy day fund to benefit this and future generations of Alaskans. In a "Permanent Fund" you—the voter—can prevent a major source of income from being doled out for day-to-day needs or desires of state government by placing up to 25% of all revenue generated from non-renewable resources such as mineral leases, rentals, royalties and federal mineral revenue sharing payments and bonuses into such a fund.

In recent years the state legislature has been spending \$2.00 for every \$1.00 taken in. Authorities estimate that if the present rate of spending continues, Alaska will require a budget in excess of one billion dollars by or before 1980. Establishment of this "Permanent Fund" will provide for the use of the principal for the *income-producing investments only* and **provide a businesslike approach of permitting the State to meet countless community needs.**

Today, as the result of anticipated oil and gas revenues, Alaska stands on the brink of unprecedented propriety. No one, but no one, argues that these non-renewable resources will last but for a few decades. Similarly, no one should fail to recognize that in those years ahead the cost state government will continue to spiral upwards. Now is the time to ask ourselves the question: **"When the oil and gas is depleted, where will the funds to feed our giant government come from?"** The answer is: **"The Permanent Fund".**

While it is to be hoped that such a fund may contribute to cutting cost or, at least, holding the line on state spending, **its major value would be that it would require our elected officials to pause, reflect and research, any proposal before blindly authorizing expenditure of taxpayers monies.** This would provide needed time for the press and the public to also be aware of the pending project and its merit, instead of being out of public view and hidden in the spending pattern of normal day-to-day operations. Projects invested in with sources from the "Permanent Fund" could help broaden Alaska's narrow based economy and bring more stability to our State.

We would caution the public that while a "Permanent Fund" could provide a tool for accomplishing real needs for community improvements, it will, in the final analysis, not replace our collective responsibility to elect state administrators and legislators who will use the same reason and restraint in spending the public money as they would their own funds.

Establishment of a "Permanent Fund" is an exciting concept and when approved and properly used can serve long and well the best public interest of Alaskans."

Alaska State Chamber of Commerce

Alaska State Legislature

House Special Committee on Ways and Means

Representative Mike Hawker, Chairman

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716 W. 4th Ave Room 620
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Sponsor Statement and Sectional Analysis

CSHB 298 (W&M) - Version \S

HB 298 is effective only if a Percent of Market Value (POMV) constitutional amendment is approved by the voters during the 2004 general election and takes effect. HB 298 provides conforming language to existing statute to accommodate changing the constitutional requirement that all income of the Permanent Fund be deposited into the general fund to the more limiting appropriation mechanism of "up to 5%" of market value in the proposed POMV constitutional amendment and to recognize the merger of the Earnings Reserve Fund into the Permanent Fund.

HB 298 also provides that the annual appropriation from the Permanent Fund under the POMV management structure be divided equally between paying individual dividends and public services.

Section 1: Amends the basis for the Alaska jury list to people applying for a Permanent Fund Dividend. Former language referenced applicants for a "distribution of Alaska Income."

Section 2: Changes Legislative Budget and Audit Committee duties from making annual recommendations for investment policy for the "income" of the Permanent Fund to making annual recommendation for investment policy for the Permanent Fund. This change is consistent with the merger of the Earnings Reserve (income) Account into the Permanent Fund itself and with the general oversight responsibilities of the LB&A committee for the Permanent Fund and its operations.

Section 3(a): Provides that no appropriation shall be made from the Permanent Fund in excess of the average 10-year real rate of return. If the fund does not make a 5% real return over 10 years, the amount available for appropriation is reduced to that real return. This provision provides a statutory framework for implementing the "up to 5%" provision in the proposed POMV constitutional amendment.

Committee Members:

Representative Ralph Samuels • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson • Representative Dan Ogg
Representative Max Gruenberg • Representative Carl Moses

Section 3(b): Provides that annual appropriations from the Permanent Fund be divided equally between paying individual dividends and public services.

Section 4: The proposed POMV constitutional amendment allows appropriations based on the "market value" of the fund. This section provides a statutory mandate that "market value" be determined in accordance with generally accepted accounting principles.

Section 5: Eliminates the current statutory provision that any unexpended operating budget of the Permanent Fund Corporation be included in the determination of "income" of the fund for the calculation of income available for distribution. The determination of income available for distribution will no longer be required under the proposed POMV constitutional amendment that bases the amount that can be distributed on market value. Accordingly, this provision is no longer relevant.

Section 6: The Permanent Fund Corporation manages the investment portfolio of the Mental Health Trust Authority. Current statute provides that the income from those funds be determined "in the same manner the corporation determines the net income of the Alaska Permanent Fund..." The Mental Health Trust Authority has previously adopted a POMV style management. This section provides a statutory mandate that the net income of the Mental Health Trust fund be determined in accordance with generally accepted accounting principles. This is the same language that is being adopted for the Permanent Fund itself in Section 4.

Section 7: This section changes language in the existing Permanent Fund Dividend payment statutes to language that conforms to the proposed POMV methodology. This change has no substantive consequence on the current dividend payment statutes.

Section 8: This section changes language in the disclosures required on the payment stub for Permanent Fund Dividends to language that conforms to the proposed POMV methodology. This change has no substantive consequence on the disclosures required.

Section 9: Repeals statute that will be superceded by operation of the proposed POMV constitutional amendment. AS 37.13.140 defined income and net income of the Permanent Fund for purposes of making distributions. Under the proposed POMV constitutional amendment, distributions are based on Market Value not on income. AS 37.13.145 defined the disposition of the income of the permanent fund including inflation proofing and transfers to the dividend account. Inflation proofing is inherent in the proposed POMV constitutional amendment and Section 3 of this legislation provides for transfers to the dividend account.

Section 10: Provides that this Act takes effect only if a POMV amendment is approved by the voters during the 2004 general election and takes effect.

Section 11: Provides that. Subject to Section 10, the effective date of this act will be January 1, 2005.

23-LS1075\S
Cook
3/15/04

CS FOR HOUSE BILL NO. 298(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered:
Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the income of and appropriations from the Alaska permanent fund
2 under art. IX, sec. 15(b), Constitution of the State of Alaska, and making conforming
3 amendments; relating to the determination of net income of the mental health trust
4 fund; and providing for an effective date."

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

6 * **Section 1.** AS 09.20.050(b) is amended to read:

7 (b) The jury list shall be based on a list prepared by the Department of
8 Revenue of all persons who filed an application for a [DISTRIBUTION OF
9 ALASKA] permanent fund dividend [INCOME] under AS 43.23 during the current
10 calendar year that shows an Alaska [ALASKAN] address, and of all persons who
11 volunteer for jury duty under (d) of this section. If considered necessary by the
12 administrative director of the Alaska Court System, the jury list shall incorporate a list
13 prepared by the Department of Administration of all persons who hold a valid Alaska
14 driver's license. The departments shall submit their respective lists to the Alaska

1 Court System not later than September 30 of each year. To the extent that it is
2 available, the departments shall include on the lists they submit the following
3 information for each person: first name, middle initial, and last name; mailing address,
4 including the zip code; and birth date. The lists shall be recorded on magnetic tape
5 compatible with Alaska Court System data processing equipment.

6 * **Sec. 2.** AS 24.20.206 is amended to read:

7 **Sec. 24.20.206. Duties.** The Legislative Budget and Audit Committee shall

8 (1) [REPEALED

9 (2)] annually review the long-range operating plans of all agencies of
10 the state that perform lending or investment functions;

11 (2) [(3)] review periodic reports from all agencies of the state that
12 perform lending or investment functions;

13 (3) [(4)] prepare a complete report of investment programs, plans,
14 performance, and policies of all agencies of the state that perform lending or
15 investment functions and notify the legislature within 30 days after the convening of
16 each regular session that the report is available;

17 (4) [(5)] in conjunction with the finance committee of each house,
18 recommend annually to the legislature the investment policy for the general fund
19 surplus and for the [INCOME FROM THE] permanent fund;

20 (5) [(6)] provide for an annual post audit and annual operational and
21 performance evaluation of the Alaska Permanent Fund Corporation investments and
22 investment programs;

23 (6) [(7)] provide for an annual operational and performance evaluation
24 of the Alaska Housing Finance Corporation and the Alaska Industrial Development
25 and Export Authority; the performance evaluation must include, but is not limited to, a
26 comparison of the effect on various sectors of the economy by public and private
27 lending, the effect on resident and nonresident employment, the effect on real wages,
28 and the effect on state and local operating and capital budgets of the programs of the
29 Alaska Housing Finance Corporation and the Alaska Industrial Development and
30 Export Authority;

31 (7) [(8)] provide assistance to the trustees of the trust established in

AS 37.14.400 - 37.14.450 in carrying out their duties under AS 37.14.415.

* **Sec. 3.** AS 37.13 is amended by adding a new section to read:

Sec. 37.13.143. Appropriations from the fund. (a) The total amount available for appropriation from the fund for a specific fiscal year is determined under art. IX, sec. 15(b), Constitution of the State of Alaska. However, if the average real rate of return of the fund during the 10 calendar years immediately preceding the specific fiscal year was less than five percent, the amount available for appropriation for that specific fiscal year may not exceed that 10-year average real rate of return multiplied by the average of the fiscal year-end market values of the fund for the first five of the six fiscal years immediately preceding that specific fiscal year. For purposes of this subsection, "real rate of return" means the total rate of return of the fund's investments for the period measured, minus the rate of inflation for that period, stated on an annualized basis.

(b) Appropriations by the legislature under (a) of this section for a specific fiscal year are limited as follows, based on the total amount available for appropriation:

(1) 50 percent may be appropriated to the general fund;

(2) 50 percent may be appropriated to the dividend fund established under AS 43.23.045.

* **Sec. 4.** AS 37.13 is amended by adding a new section to read:

Sec. 37.13.148. Market value of the fund. For the purposes of art. IX, sec. 15(b), Constitution of the State of Alaska, the corporation shall determine the market value of the fund annually as of the close of business on June 30 in accordance with generally accepted accounting principles for the determination of fair value.

* **Sec. 5.** AS 37.13.150 is amended to read:

Sec. 37.13.150. Corporation budget. The revenue generated by the fund's investments must be identified as the source of the operating budget of the corporation in the state's operating budget under AS 37.07 (Executive Budget Act). [THE UNEXPENDED BALANCE OF THE CORPORATION'S ANNUAL OPERATING BUDGET DOES NOT LAPSE AT THE END OF THE FISCAL YEAR BUT SHALL BE TREATED AS INCOME UNDER AS 37.13.140.]

1 * Sec. 6. AS 37.14.031(c) is amended to read:

2 (c) The net income of the fund shall be determined by the Alaska Permanent
3 Fund Corporation annually as of the last day of the fiscal year in accordance with
4 generally accepted accounting principles [IN THE SAME MANNER THE
5 CORPORATION DETERMINES THE NET INCOME OF THE ALASKA
6 PERMANENT FUND UNDER AS 37.13.140].

7 * Sec. 7. AS 43.23.025(a) is amended to read:

8 (a) By October 1 of each year, the commissioner shall determine the value of
9 each permanent fund dividend for that year by

10 (1) determining the total amount available for dividend payments,
11 which equals

12 (A) the amount of money appropriated from [INCOME OF]
13 the Alaska permanent fund [TRANSFERRED] to the dividend fund under
14 AS 37.13.143 [AS 37.13.145(b)] during the current year;

15 (B) plus the unexpended and unobligated balances of prior
16 fiscal year appropriations that lapse into the dividend fund under
17 AS 43.23.045(d);

18 (C) less the amount necessary to pay prior year dividends from
19 the dividend fund in the current year under AS 43.23.005(h) and under
20 AS 43.23.055(3) and (7);

21 (D) less the amount necessary to pay dividends from the
22 dividend fund due to eligible applicants who, as determined by the department,
23 filed for a previous year's dividend by the filing deadline but who were not
24 included in a previous year's dividend computation;

25 (E) less appropriations from the dividend fund during the
26 current year, including amounts to pay costs of administering the dividend
27 program and the hold harmless provisions of AS 43.23.075;

28 (2) determining the number of individuals eligible to receive a
29 dividend payment for the current year and the number of estates and successors
30 eligible to receive a dividend payment for the current year under AS 43.23.005(h); and

31 (3) dividing the amount determined under (1) of this subsection by the

amount determined under (2) of this subsection.

* Sec. 8. AS 43.23.028(a) is amended to read:

(a) By October 1 of each year, the commissioner shall give public notice of the value of each permanent fund dividend for that year and notice of the information required to be disclosed under (3) of this subsection. In addition, the stub attached to each individual dividend check and direct deposit advice must

(1) disclose the amount of each dividend attributable to [INCOME EARNED BY THE PERMANENT FUND FROM] deposits to that fund required under art. IX, sec. 15, Constitution of the State of Alaska;

(2) disclose the amount of each dividend attributable to [INCOME EARNED BY THE PERMANENT FUND FROM] appropriations to that fund and the amount of each dividend attributable to [FROM] amounts added to that fund before January 1, 2005, to offset the effects of inflation;

(3) disclose the amount by which each dividend has been reduced due to each appropriation from the dividend fund, including amounts to pay the costs of administering the dividend program and the hold harmless provisions of AS 43.23.075;

(4) include a statement that an individual is not eligible for a dividend when

(A) during the qualifying year, the individual was convicted of a felony;

(B) during all or part of the qualifying year, the individual was incarcerated as a result of the conviction of a

(i) felony; or

(ii) misdemeanor if the individual has been convicted of a prior felony or two or more prior misdemeanors;

(5) include a statement that the legislative purpose for making individuals listed under (4) of this subsection ineligible is to

(A) obtain reimbursement for some of the costs imposed on the state criminal justice system related to incarceration or probation of those individuals;

1 (B) provide funds for services for and payments to crime
2 victims and for grants for the operation of domestic violence and sexual assault
3 programs;

4 (6) disclose the total amount that would have been paid during the
5 previous fiscal year to individuals who were ineligible to receive dividends under
6 AS 43.23.005(d) if they had been eligible;

7 (7) disclose the total amount appropriated for the current fiscal year
8 under (b) of this section for each of the funds and agencies listed in (b) of this section.

9 * **Sec. 9.** AS 37.13.140, 37.13.145; and AS 37.13.300(c) are repealed.

10 * **Sec. 10.** The uncodified law of the State of Alaska is amended by adding a new section to
11 read:

12 **CONDITIONAL EFFECT.** This Act takes effect only if an amendment to art. IX, sec.
13 15, Constitution of the State of Alaska, relating to and limiting appropriations from the Alaska
14 permanent fund based on an averaged percent of the fund market value, is approved by the
15 voters during the 2004 general election and takes effect.

16 * **Sec. 11.** If this Act takes effect under sec. 10 of this Act, it takes effect on January 1,
17 2005.

ALASKA PERMANENT FUND CORPORATION

ANALYSIS OF HB 298(W&M) "D" VERSION

CURRENT STATUTES

Section 11 of the proposed bill includes the repeal of the two statutory sections detailed below.

1) Fund Income Available for Appropriation

AS 37.13.140. Net income of the fund includes income of the earnings reserve account established under AS 37.13.145. Net income of the fund shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent of the net income of the fund for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the fund for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145.

(2) Distribution of Income

AS 37.13.145. (a) The earnings reserve account is established as a separate account in the fund. Income from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120.

- (b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140.
- (c) after the transfer under (b) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund

PROPOSED STATUTES/CONSTITUTION

To replace the repealed statutes HB 298 proposes two new statutory provisions (items 1 & 3 below) and one new subsection in the constitution (item 2 below).

(1) Fund Value Determination (Section 4)

Sec. 37.13.148. For the purposes of art. IX, sec. 15(b), Constitution of the State of Alaska, the corporation shall determine the market value of the fund annually as of the close of business on June 30 in accordance with generally accepted accounting principles for the determination of fair value.

2) Fund value available for appropriation

HJR 26 would amend the Permanent Fund provision in the Constitution (Article IX sec. 15) by adding subsection (b) – annual appropriations from the fund are limited to 5% of 5 year-end averaged market value.

3) Distribution of Value (Section 3)

Sec. 37.13.143. Appropriation from the fund. Appropriations by the legislature from the fund for a specific fiscal year are limited as follows:

- (1) not more than 60 percent of the total amount available for appropriation for that year under art. IX, sec. 15(b), Constitution of the State of Alaska, to the general fund;
- (2) not more than 40 percent of the total amount available for appropriation for that year under art. IX, sec. 15(b), Constitution of the State of Alaska, to the dividend fund established under AS 43.23.045.

ALASKA PERMANENT FUND CORPORATION

ANALYSIS OF HB 298(W&M) "D" VERSION

CURRENT STATUTES

- an amount sufficient to offset the effect of inflation on principal of the fund during that fiscal year. The corporation shall calculate the amount to transfer to the principal under this subsection by
- (1) computing the average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years;
 - (2) computing the percentage change between the first and second calendar year average; and
 - (3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended.
 - (d) Notwithstanding (b) of this section, income earned on money awarded in or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District), including settlement, summary judgment, or adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or interest earned on the money, or on the earnings of the money shall be treated in the same manner as other income of the Alaska permanent fund, except that it is not available for distribution to the dividend fund, and shall be annually deposited into the principal of the Alaska permanent fund.

PROPOSED STATUTES/CONSTITUTION

Note: Statutory inflation proofing [AS 37.13.145(c) 1 - 3] is repealed. Inflation proofing under POMV (HJR 26) would be implicit by limiting annual expenditures to no more than 5% of the fund value. To inflation proof the Fund no action would be necessary by the APFC or the Legislature.