SCOMM

#9:2

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

BUDGET FORECASTING MODEL

The Budget Forecasting Model is an on-line interactive computer program that enables one to project, up to thirty years in the future, the end of year balances in the General Fund and Permanent Fund given a projection of State revenues and various assumptions about the growth of budget appropriations.

General Fund amounts are those available for appropriation. Federal funds and program receipts may be included in the General Fund totals if desired. However, in practice, Legislative Finance only enters unrestricted state revenues into the model, since federal and other restricted revenues are offset by equivalent appropriations. This is usually reinforced by language in the appropriations act that if federal or other program receipts fall short of the amount appropriated, the appropriation is reduced.

Under the Permanent Fund heading, a model user could include not only the 25% of mineral royalties, rentals, and bonuses mandated by the Constitution, but possibly as well the 5% of the same revenues allocated to the Renewable Resources Development Fund, the 5% allocated to the Reserve for Energy Facilities account and the 25% allocated to the Reserve for Capital Outlay account. However, the amounts in these two latter accounts and current year allocations for the Renewable Resources Fund may be appropriated rather than only invested as with the Permanent Fund. Thus, it is more realistic to leave a portion or all of these latter funds under the General Fund heading possibly adjusting the projected appropriations depending on how much the dedication of these funds generates additional expenditure as opposed to merely replacing General Fund.

Attached is a sample of the model's output. The "Assumptions" are automatically printed, identifying the value of certain parameters one inputs into the model. The "Comments" are input by the operator himself to describe the assumptions he uses about certain other inputs, mostly revenues.

Currently, up to five different categories of noninvestment revenues can be input to the model which sums these under

the heading Noninvestment Revenue. One such category is mineral royalties, lease rentals, and lease bonuses, of which a percentage is dedicated to the above-mentioned funds. The annual contributions appear under the heading Payments to Funds and the end of year balance appears under Permanent Fund. The percentage dedicated is a parameter identified under the "Assumptions."

Investment Interest is calculated on the average General and Permanent Fund balances during the fiscal year and on 20% (or whatever percentage one estimates) of the current year's Total Expenditure because all the year's appropriations are not actually spent in that year. The rate of interest specified is spelled out in the "Assumptions." Investment Interest plus Noninvestment Revenue equals Total Revenue. However, any or all of the interest earned on the Permanent Fund balance may be retained in the Permanent Fund or paid to citizens under the Alaska, Inc. concept rather than added into Total Revenue.

The Budget Appropriation may be projected in any of four ways:

(a) input the appropriation expected for each year

(b) an annual percentage increase beginning with the current year's expected budget

(c) an annual percentage increase beginning with the prior year's budget appropriation

(d) various percentage increases for various years beginning with the prior year's budget

In case of (b) and (c), the annual percentage is displayed in the "Assumptions."

Supplemental or capital appropriations must be input for each year if one wishes to project them. Existing debt service that is scheduled may be input to the model as well as new debt authorized by the voters. The model assumes bonds are sold at a rate of 25%, 37.5%, and 37.5% of the amount of debt authorized in the three years following their authorization. The period and interest rate input to the model are specified in the "Assumptions."

The model computes state payments to the Alaska Native Claims fund which are also calculated as a per cent (16%) of royalties, rentals, and bonuses until a total of $500 million has been paid. The annual payments are included under Payments to Funds.

Total expenditure is the sum of the previous four columns. When compared to total revenue, it yields the Surplus or Deficit which increases or decreases the General Fund balance.

Since the General Fund technically cannot be less than zero, the last column of the report displays the additional revenue required to maintain the General Fund Balance at any selected level.

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORCASTING MODEL

3

24-JAN-78

COMMENTS
GAS PRODUCTION BEGINS FY84
TAPS BUILDUP RESUMES MARCH 78
SADLEROCHIT PRODUCTION ONLY
5% ANNUAL INFLATION ASSUMED FOR OIL AND GAS PRICES
ICC PROPOSED TARIFF AND NO FIELD COSTS
NO LEASE BONUS REVENUE
NATIVE CLAIMS INCLUDED

ASSUMPTIONS
ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 8.00%
% OF EARNING RETAINED IN PERMANENT FUND = % 100 %

YEAR END	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE-MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM-ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF $100 MIL
1977										4.0	668.2	
1978	816.9	58.7	875.6	844.3	0.0	0.0	108.6	952.9	-77.3	75.8	590.9	0.0
1979	1042.7	64.3	1107.0	911.8	0.0	0.0	173.6	1085.4	21.5	192.3	612.4	0.0
1980	1365.7	72.7	1438.4	944.9	0.0	0.0	292.0	1276.7	161.6	389.8	774.0	0.0
1981	1691.7	118.9	1810.6	1063.6	0.0	0.0	329.3	1392.8	417.9	616.8	1191.8	0.0
1982	1849.7	169.3	2019.0	1145.7	0.0	0.0	370.0	1518.6	500.3	876.2	1692.2	0.0
1983	1961.6	227.2	2191.8	1240.6	0.0	0.0	387.0	1627.6	564.2	1171.2	2256.4	0.0
1984	2427.1	307.5	2734.6	1339.8	0.0	0.0	388.8	1728.6	1006.1	1560.0	3262.5	0.0
1985	2615.8	413.2	3029.0	1447.0	0.0	0.0	438.2	1885.2	1143.8	1998.2	4406.3	0.0
1986	2784.1	510.8	3294.9	1562.7	0.0	0.0	492.1	2054.8	1240.1	2490.3	5646.4	0.0
1987	2921.6	659.5	3581.1	1687.8	0.0	0.0	551.4	2239.1	1341.9	3041.6	6988.3	0.0
1988	3023.7	790.3	3814.0	1822.8	0.0	0.0	570.5	2393.3	1420.7	3612.2	8209.0	0.0
1989	2667.0	911.4	3578.4	1968.6	0.0	0.0	580.6	2549.2	1029.1	4192.8	9238.1	0.0
1990	2754.7	1027.9	3782.6	2126.1	0.0	0.0	633.3	2759.4	1023.2	4826.2	10261.3	0.0
1991	2775.5	1127.0	3902.5	2296.2	0.0	0.0	591.9	2888.1	514.4	5418.1	10775.7	0.0
1992	1981.1	1192.6	3171.7	2479.9	0.0	0.0	578.8	3058.7	115.0	5996.9	10890.7	0.0
1993	1921.1	1232.8	3054.1	2678.3	0.0	0.0	583.1	3261.4	-207.3	6580.0	10683.4	0.0
1994	1817.2	1256.3	3103.5	2892.5	0.0	0.0	619.4	3511.9	-408.4	7199.4	10275.0	0.0
1995	2120.1	1276.5	3396.9	3123.9	0.0	0.0	715.5	3839.4	-442.5	7914.9	9832.5	0.0
1996	2195.0	1293.6	3488.6	3373.8	0.0	0.0	774.9	4148.7	-660.1	8689.7	9172.3	0.0
1997	2229.3	1297.3	3526.7	3643.7	0.0	0.0	839.3	4483.1	-956.4	9529.1	8215.9	0.0
1998	2050.0	1275.9	3325.9	3935.2	0.0	0.0	842.8	4778.1	-1452.1	10371.9	6761.8	0.0
1999	2068.2	1225.5	3293.7	4250.1	0.0	0.0	898.2	5148.3	-1854.6	11270.1	4909.2	0.0
2000	2076.7	1149.1	3225.8	4590.1	0.0	0.0	955.2	5545.2	-2319.5	12225.3	2589.7	0.0
2001	2105.4	1055.0	3160.4	4957.3	0.0	0.0	1020.1	5977.4	-2817.0	13245.4	100.0	327.3
2002	1949.4	1047.5	2995.9	5353.9	0.0	0.0	1095.2	6449.1	-3553.2	14340.6	100.0	1553.2
2003	1942.8	1111.1	3053.9	5782.2	0.0	0.0	1181.2	6961.4	-3897.5	15521.9	100.0	3897.5
2004	2019.6	1225.5	3245.1	6244.7	0.0	0.0	1273.5	7518.3	-4273.1	16795.4	100.0	4273.1
2005	2111.9	1325.2	3437.1	6744.1	0.0	0.0	1373.0	8117.4	-4680.3	18168.4	100.0	4980.3

#2

DISCUSSION OF MANAGEMENT STRUCTURE
-- John Williams --

An issue separate from either how much money will be dedicated to the permanent fund or how the money will be invested is the issue of the permanent fund organizational structure. As the old adage states, "form" and "function" are closely related. In this case, the organization (or form) of the permanent fund management may have an important bearing on how effective the fund will be in performing the functions it is directed to accomplish.

Several important questions must be addressed in deciding the structure. For example:

(1) How much latitude will the fund managers have in making investments? Will general or specific guidelines be spelled out in the enabling legislation or will the managers have substantial freedom to choose the "best" of competing investment opportunities?

(2) Who should hire and, if necessary, fire the managers? Will the managers be insulated from political pressures (including the public, the Legislature, and the Governor) and allowed to conduct their jobs without fear of recourse should their decisions prove to be unfavorable; or should they be made to be completely responsive to the wishes of either the politicians or the public?

(3) Will the management be highly centralized and monolithic or regionalized by geography and/or subject area, with the decision-making power spread throughout several persons or levels of approval? Should different tasks of management be handled by

STATE OF ALASKA
THE LEGISLATURE

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LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

SUBJECT: Underlying Data for Revenue and Permanent Fund Forecasts

TO: The Honorable Clark Gruening, Chairman
House Permanent Fund Committee

FROM: Richard G. Haggart
Research Analyst

This memorandum contains the supplemental material outlining the assumptions and data which were used to calculate the revenue and Permanent Fund forecasts contained in our memorandum of July 7, 1977.

The information is set forward in four tables with accompanying footnotes. Table I contains that information and data which is common to all three cases studied. Tables II-IV contain information and data which are unique to Cases I-III respectively.

As you may have noted, the revenue and Permanent Fund estimates transmitted to you on July 7, 1977 contained no specific references to the Renewable Resources Development Fund. This was intentional and reflects considerable uncertainty regarding legal and management prospects for the Fund. In Cases II and III, the existance of the Fund is subsumed in the large General Fund balances which exist. In Case I, in instances where revenue demands deplete the General Fund balance to the $100 million minimum limit established in the model, further reductions in state expenditures would be necessary if contributions to the Renewable Resources Development Fund were to be maintained. In all other Case I instances, the effects of payments to the Fund would also be subsumed in large General Fund balances.

DH;dh
Attachments

Table I

Variable Inputs Common to Cases I-III

	1978	1979	1980	1981	1982	1983	1984	1985
Floor Price for Oil Severance Taxes[1] ($/Bbl.)	$6.53	$6.53	$7.18	$7.18	$7.90	$7.90	$8.69	$8.69
Oil & Gas Property Tax[2] ($MM)	$168.3	$170.6	$193.2	$226.7	$251.8	$257.0	$261.4	$295.5
Other Revenue[3] ($MM)	$225.8	$260.2	$302.4	$322.0	$315.2	$324.5	$349.4	$379.3
Natural Gas Sales[4] (MM/Mcf)	17.0	20.4	26.4	34.0	37.6	111.6	117.4	122.0
Weighted Average Price[5] (¢/Mcf)	39.8	39.8	41.6	44.2	46.8	50.9	73.1	77.1
Cook Inlet Oil Royalties[6] ($MM)	$33.1	$31.3	$29.5	$27.9	$26.4	$24.6	$22.9	$21.2
Cook Inlet Oil Severance Taxes[7] ($MM)	$16.3	$14.4	$12.7	$10.9	$ 9.1	$ 7.3	$ 5.5	$ 3.7

Prepared by:
Legislative Affairs Agency
Research Division
14 July 1977

Table II

Variable Inputs to Case I

	1978	1979	1980	1981	1982	1983	1984	1985
Annual North Slope Oil Production[1] (MM/Bbls.)	339.1	438.0	438.0	438.0	438.0	438.0	438.0	438.0
Los Angeles Refinery Price[2] ($/Bbl.)	$13.75	$13.91	$14.26	$14.61	$14.98	$15.35	$15.74	$16.13
Trans-Alaska Pipeline Tariff[3] ($/Bbl.)	$ 4.90	$ 5.40	$ 5.30	$ 5.20	$ 5.10	$ 5.00	$ 4.90	$ 4.90
Lower-48 Transportation Charges[4] ($/Bbl.)	$ 2.00	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50
Wellhead Value[5] ($/Bbl.)	$ 6.85	$ 6.01	$ 6.46	$ 6.81	$ 7.35	$ 7.95	$ 8.34	$ 8.73
North Slope Related Income Tax Receipts[6] ($MM)	$46.0	$50.0	$51.0	$52.0	$53.0	$54.0	$55.0	$56.0
State Expenditures[7] ($MM)	$853.8	$939.2	$1033.1	$1136.4	$1250.1	$1375.1	$1512.6	$1663.8

Prepared by:
Legislative Affairs Agency
Research Division
14 July 1977

Table III

Variable Inputs to Case II

	1978	1979	1980	1981	1982	1983	1984	1985
Annual North Slope Oil Production[1] (MM/Bbls.)	339.1	474.5	547.5	547.5	547.5	547.5	547.5	547.5
Los Angeles Refinery Price[2] ($$/Bbl.)	$13.75	$14.44	$15.16	$15.92	$16.71	$17.55	$18.43	$19.35
Trans-Alaska Pipeline Tariff[3] ($/Bbl.)	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90
Lower-48 Transportation Charge[4]	$ 1.50	$ 2.00	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50
Wellhead Value[5]	$ 7.35	$ 7.54	$ 7.76	$ 8.52	$ 9.31	$10.45	$11.03	$11.95
North Slope Related Income Tax Receipts[6] ($MM)	$46.0	$51.0	$54.0	$55.0	$56.0	$58.0	$59.0	$60.0
State Expenditures[7] ($MM)	$853.8	$917.8	$986.6	$1060.6	$1140.2	$1225.7	$1317.6	$1416.4

Prepared by:
Legislative Affairs Agency
Research Division
14 July 1977

Table IV

Variable Inputs to Case III

	1978	1979	1980	1981	1982	1983	1984	1985
nnual North Slope il Production[1] MM/Bbls.)	339.1	474.5	584.0	584.0	620.5	657.0	693.5	693.5
os Angeles efinery Price[2] $/Bbl.)	$14.07	$14.97	$15.83	$16.74	$17.70	$18.72	$19.79	$20.94
rans-Alaska ipeline Tariff[3] $/Bbl.)	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90	$ 4.90
ower-48 Transport- tion Charge[4]	$ 1.14	$ 1.43	$ 1.86	$ 1.98	$ 2.14	$ 1.54	$ 1.57	$ 1.61
ellhead Value[5]	$ 8.03	$ 8.64	$ 9.07	$ 9.86	$10.59	$12.28	$13.32	$14.43
North Slope Related Income Tax Receipts[6] ($MM)	$46.0	$51.0	$54.0	$57.0	$60.0	$63.0	$66.0	$69.0
State Expenditures[7] ($MM)	$853.8	$954.1	$1012.5	$1091.2	$1163.7	$1103.7	$1126.4	$1191.4

Prepared by:
Legislative Affairs Agency
Research Division
14 July 1977

Footnotes to Table I

(Variables unique to Cases I-III)

[1]The floor price for oil severance tax purposes is assumed to be raised 10% every two years, by legislative action.

[2]Oil and gas property taxes are taken from the Department of Revenue study, Alaska's Oil and Gas Tax Structure: A Study With Recommendations, assuming construction of the Alcan natural gas pipeline by 1983.

[3]Ibid.

[4]Natural gas production estimates are taken from Department of Revenue data provided to the Legislative Affairs Agency.

[5]Ibid.

[6]Cook Inlet royalties were calculated by the Legislative Affairs Agency's Severance Tax Simulation Model.

[7]Ibid.

Footnotes to Table II

(Variables unique to Case I)

[1]North Slope oil production is assumed to average 929,000 bbl/d. in 1978 (or 339.1 million barrels annually). This production is taken from Department of Revenue sources. Production beyond 1978 is assumed to rise to 1.2 million bbl/d in 1979 and remain at this level (483.0 million barrels annually) through 1985. This level of production assumes that the North Slope companies choose not to develop additional (and more expensive) reservoir capacity in and around Prudhoe Bay.

[2]The Los Angeles refinery price in 1978 is assumed to be $13.75 per barrel. This price is about $0.25 to $0.50 below the refiner acquisition price for imported crude oil of similar quality, reflecting the assumed necessity of the North Slope companies to offer discounts on Alaskan oil in order to penetrate west coast markets. Beyond 1978, the Los Angeles refinery price is assumed to rise at a rate of 2.5% annually, reflecting the possibility of a low rate of price increase by the Organization of Petroleum Exporting Countries (OPEC).

[3]The Trans-Alaska pipeline tariff in 1978 is set at $4.90 per barrel, based on the recent decision by the Interstate Commerce Commission (ICC). In 1979, however, the tariff rate is increased to $5.40 per barrel, assuming a partial reversal of position by the ICC. In subsequent years, the tariff declines at a rate of $0.10 per barrel annually, until the "long-term" rate of $4.90 per barrel is reached in 1984. The tariff remains at that level through 1985.

[4]Lower-48 transportation charges are assumed to be $2.00 per barrel in 1978, and $2.50 per barrel in subsequent years. These charges represent an aggressive attempt by the North Slope companies to transfer income and profits away from the wellhead (where Alaska taxes are imposed) and into transportation or other areas which are less heavily taxed.

[5]The wellhead values are calculated by subtracting the Trans-Alaska pipeline tariff and the lower-48 transportation charges from the Los Angeles sales price.

[6]North Slope related income tax receipts for 1978 are taken from the Department of Revenue's study, Alaska's Oil and Gas Tax Structure: A Study With Recommendations. Receipts are assumed to increase to $50.0 million in 1979, and increase $1.0 million annually in subsequent years. These rates of increase are below those forecast by the Department of Revenue, and reflect the lower production and wellhead price assumptions contained in Case I.

[7]State expenditures for 1978 are assumed to be $853.8 million and are taken from the Department of Revenue, loc. cit. In subsequent years, expenditures are assumed to increase at 10% annually. However, in instances where such increased expenditure levels would result in either a Permanent Fund contribution less than the specified amount or in a General Fund

Footnotes to Table II cont.

balance of less than $100 million, expenditures are revised downward to meet these criteria. Thus, in Case I, with Permanent Fund contribution levels of 75% and 100%, actual expenditure levels in the model are, in some cases, below those projected in Table II.

Footnotes to Table III

(Variables unique to Case II)

[1]North Slope oil production is assumed to average 929,000 bbl/d in 1978 (or 339.1 million barrels annually), and 1.3 million bbl/d (474.5 million barrels annually) in 1979. These production levels are taken from Department of Revenue sources. Production in 1980 and subsequent years is assumed to be 1.5 million bbl/d (547.5 million barrels annually). This level of production assumes that some additional development of the Prudhoe Bay reservoir occurs, but that very deep and expensive drilling and development does not take place.

[2]The Los Angeles refinery price in 1978 is assumed to be $13.75 per barrel. As in Table II, this price is somewhat below the current price for imported crude oil of similar quality and reflects some discounting of Alaska oil to penetrate U.S. markets. Beyond 1978, Los Angeles sales prices are escalated at 5% annually, reflecting a rate of price increase by OPEC that is approximately equal to the general inflation rate.

[3]The Trans-Alaska pipeline tariff is assumed to be $4.90 per barrel over the entire period, assuming that the I.C.C. does not modify its recent decision.

[4]Lower-48 transportation charges in 1978 are $1.50 per barrel. This level represents a modest attempt by the North Slope companies to transfer profits away from the wellhead. In 1979, the charge is assumed to be $2.00 per barrel, reflecting increased volumes of Alaskan oil moving to U.S. Gulf Coast markets. For 1980 and subsequent years, the tariff is assumed to be $2.50 per barrel as a result both of company attempts to minimize the Alaskan wellhead price, and as a result of long-haul transportation charges to more distant markets.

[5]The wellhead values are calculated by subtracting the Trans-Alaska pipeline tariff and the lower-48 transportation charges from the Los Angeles sales price.

[6]North Slope related income tax receipts for the period 1978-1980 are taken from the Department of Revenue study, Alaska's Oil and Gas Tax Structure: A Study With Recommendations. Beyond 1980, receipts are assumed to increase $1 million annually in each year except 1982 when the increase is $2 million (the additional increase represents the beginning of North Slope natural gas sales). These increases are, however, below those contained in the Revenue study, reflecting the lower production and price assumptions contained in Case II.

[7]State expenditures for 1978 are assumed to be $853.8 million and are taken from the Department of Revenue, loc. cit. In subsequent years, expenditures are assumed to increase at 7.5% annually.

Footnotes to Table IV

(Variables unique to Case II)

[1]The annual production estimates contained in Table IV are taken from Department of Revenue sources.

[2]The Los Angeles sales prices contained in Table IV are taken from the Department of Revenue study, Alaska's Oil and Gas Tax Structure: A Study With Recommendations.

[3]The Trans-Alaska pipeline tariff is based on the recent I.C.C. decision.

[4]Lower-48 transportation charges are taken from the Department of Revenue, loc. cit.

[5]The wellhead values are calculated by subtracting the Trans-Alaska pipeline tariff and the lower-48 transportation charges from the Los Angeles sales price.

[6]The Prudhoe Bay related state income tax receipts in Table IV are taken from the Department of Revenue, loc. cit.

[7]Ibid.

#2

An Act

~~A Bill~~ relating to investment of state funds

1. Special account is set up to receive all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses.

2. Commissioner of Revenue shall invest this money in income-producing investments of the following types:
   [this section taken from House Bill 210, interim management of the Alaska Permanent Fund.]
   1. obligations of, or obligations insured 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 deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;
   4. corporate investment-grade securities;
   5. bankers acceptances drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least $100,000,000;
   6. repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;
   7. deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;
   8. fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

3. On the first day of each legislative session, the commissioner of revenue reports to the legislature on:
   1. the amount of money received.
   2. the income generated on interim investment of the funds.
   3. revenue projections for the next 5 and 10 years.

4. Standing committees of the legislature (either the finance committees or new standing committee or statutorily-created joint committee) prepare an appropriation bill for these funds consisting of:
   1. deposit of <u>at least</u> 25 per cent into the Alaska Permanent Fund.
   2. deposit of <u>not less than</u> 5 per cent of mineral lease bonuses and rentals for state land and royalties into the Alaska renewable resources development fund.
   3. appropriations for capital projects for state government.
   4. appropriations to state loan programs.
   5. appropriations to the general fund for operating expenses of state government.

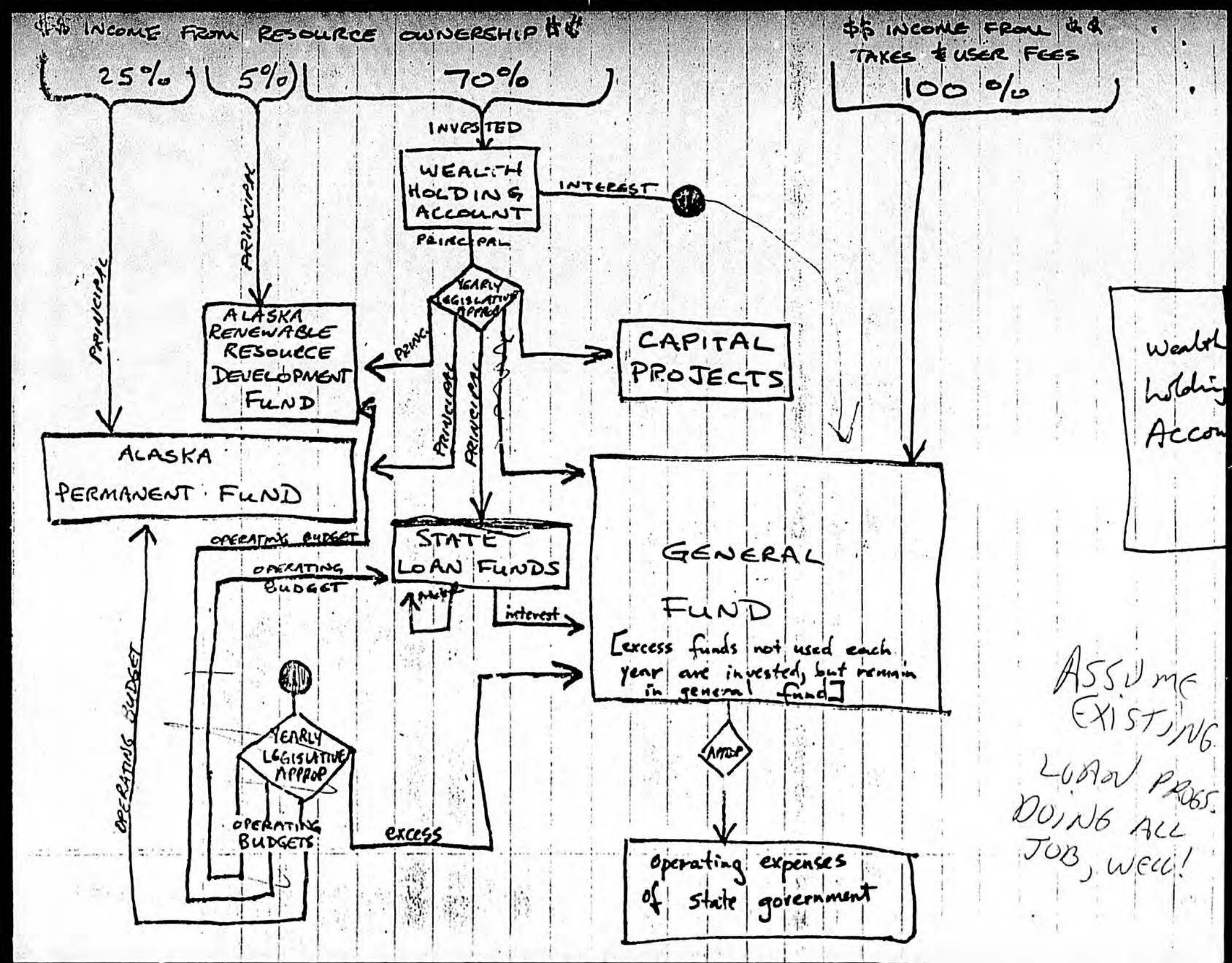
5. Same committees prepare an appropriation bill for the income generated by interim investment:
   1. operating expenses of the Alaska Permanent Fund
   2. operating expenses of the Alaska renewable resources development fund.
   3. operating expenses for other state loan programs
   4. general fund

6. Operation of the Alaska Permanent Fund:

   A "Share of Alaska" is issued to each 5-year resident of Alaska. Additional shares are issued for each additional five years of residency. One share is given to each child born in Alaska on the child's birthdate. Children's shares of Alaska remain in Permanent Fund until fifth share is issued on child's 20th birthday, after which child is eligible to borrow.

   Each year, all Share of Alaska holders receive statement of:
   1. Number of shares held
   2. Value of shares to date
   3. Amount of money appropriated to Alaska Permanent Fund by legislature for that year.
   4. Shareholder's share of #3
   5. "Share of Alaska" holder's options:
      a. invest share in Permanent Fund for dividend
      b. borrow up to one-half of share's value as collateralized loan [dividend on other one-half pays interest on the loan]

   Commissioner of revenue invests permanent fund monies not borrowed by shareholders in highest-yield secure investments [as in interim management bill].


$ & INCOME FROM RESOURCE OWNERSHIP #&
25%
5%
70%
$ INCOME FROM & TAXES & USER FEES
100 %
INVESTED
WEALTH HOLDING ACCOUNT
INTEREST
PRINCIPAL
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YEARLY LEGISLATIVE APPROP
ALASKA RENEWABLE RESOURCE DEVELOPMENT FUND
APPROP
CAPITAL PROJECTS
ALASKA PERMANENT FUND
PRINCIPAL
PRINCIPAL
OPERATING BUDGET
OPERATING BUDGET
STATE LOAN FUNDS
APPROP
interest
GENERAL FUND
[excess funds not used each year are invested, but remain in general fund]
APPROP
YEARLY LEGISLATIVE APPROP
OPERATING BUDGETS
OPERATING BUDGET
excess
Operating expenses of State government
Wealth holding Accou
ASSUME EXISTING LOAN PROGS. DOING ALL JOB, WELL!

THE ROLE OF THE PERMANENT FUND IN ALASKA'S FUTURE
A PRELIMINARY ANALYSIS

Purpose:

I. A report on the issues to be resolved by the legislature and a solicitation of comments on the issues from the committee members and a list of interested Alaskans.

II. A preliminary statement of background and questions to be used in the committee's presentation at the Alaska Public Forum and in the media.

[Draft to committee on July 15, 1977. Publication finished and printed by August 1, 1977.]

I. Introduction by committee chairman [Statement of committee task] [Clark will draft by June 25]

II. Historical perspective - constitutional and legislative
- 1969 - Brookings Seminar
- 1970 - Early Permanent Fund proposals
- 1975 - Permanent Fund bill passed by legislature (vetoed by Hammond)
- 1976 - Permanent Fund constitutional amendment passed by legislature and public
- 1977 - Permanent Fund temporary implementation bill passed by legislature; State Investment Advisory Committee proposal; Permanent Fund Committees set up

III. Summary of Work to date
- State Investment Advisory Committee proposal - Price, Waterhouse; White, Weld; etc.
- House & Senate Permanent Fund Committee session work
- Alaska, Inc. proposal

IV. Statement of issues to be resolved

A. Alternative objectives for the Permanent Fund

B. Level of funding
1. relation to objectives and other funds
2. revenue projections

C. Investment guidelines
1. constitutional and legal limitations
2. possible statutory requirements

D. Use of Permanent Fund income
1. return to permanent fund
2. Alaska, Inc.
3. deposit in general fund

E. Management structure
1. Accountability to legislature, governor and public
2. Evaluation and audit of permanent fund performance
3. Executive and legislative involvement

V. Solicitation of responses
- A. What other issues should be considered
- B. What alternative uses are there
- C. How should the permanent fund relate to other state funds

DISCUSSION OF MANAGEMENT STRUCTURE
-- John Williams --

An issue separate from either how much money will be dedicated to the permanent fund or how the money will be invested is the issue of the permanent fund organizational structure. As the old adage states, "form" and "function" are closely related. In this case, the organization (or form) of the permanent fund management may have an important bearing on how effective the fund will be in performing the functions it is directed to accomplish.

Several important questions must be addressed in deciding the structure. For example:

(1) How much latitude will the fund managers have in making investments? Will general or specific guidelines be spelled out in the enabling legislation or will the managers have substantial freedom to choose the "best" of competing investment opportunities?

(2) Who should hire and, if necessary, fire the managers? Will the managers be insulated from political pressures (including the public, the Legislature, and the Governor) and allowed to conduct their jobs without fear of recourse should their decisions prove to be unfavorable; or should they be made to be completely responsive to the wishes of either the politicians or the public?

(3) Will the management be highly centralized and monolithic or regionalized by geography and/or subject area, with the decision-making power spread throughout several persons or levels of approval? Should different tasks of management be handled by

separate and independent parts of the management structure or should all tasks be handled by one decision-making entity?

(4) Will the managers be required to coordinate their investment decisions with other agencies of both local and state government? State government has at present several loan programs to specific industries in the state. Will the permanent fund act independently of those funds, or should it try to coordinate its investments with other loan programs and resource management agencies? Will the investments of permanent fund money for developments within the boundaries of local governments be made without the input of that local government?

These questions and many more will play a significant part in determining the success of the permanent fund concept. Alaska must look to other examples of permanent funds, development banks, and other public investment, fiduciary agencies to attempt to learn how various management structures have affected the workings and success of those examples; but in the final analysis, we must decide for ourselves how the Alaska Permanent Fund is to be managed according to the goals and objectives we set for the Fund and the future of Alaska.