

ALASKA LEGISLATURE COMMITTEE FILES 1983-1984

2949

HSA HB 161 - HB 164

884

DEBT

The large amount of general revenue appropriated for capital expenditures in Alaska has been additional to conventional capital financing through bond issuance.

Since Statehood was achieved in 1957, Alaska has issued \$1.13 billion in General Obligation bonds.* Of the \$810 million issued during the past ten years, 42% has been for transportation projects and 29% for schools (including the University of Alaska).

Table 8. Functional Distribution of General Obligation Bonds Issued Since 1972^a
(Thousands of Dollars)

Transportation ^b	\$343,211
Schools (incl. Univ. of Alaska)	235,835
Natural Resource Management & Parks	77,965
Water & Sewer	70,890
Health & Housing	43,515
Fire Protection & Correctional Facilities	<u>38,214</u>
Total	\$809,630

^aIncluding \$200,000,000 issue dated April 1, 1982.

^bIncludes airports, highways, roads, ferries, flood control structures, port facilities and small boat landings.

Sources: State of Alaska, Annual Financial Report (Fiscal 1981) and Official Statement, February 26, 1982.

State agency issues outstanding during the past three years are itemized in Table 9.** All of the agency issues are self-supporting except for the State Housing Authority Lease Revenue Bonds, for which debt service is paid entirely from State rental appropriations, and the University of Alaska Revenue Bonds, some of which are nominally serviced from student fees and charges but which are also supported by State appropriations for general operations of the University.

*Including the most recent \$200 million G.O. bond dated April 1, 1982.

**"Stand-alone" issues of the Alaska Industrial Development Authority, bonds issued by the Alaska State Housing Authority for housing and urban renewal projects, and certain other agency bond issues are not included in Table 9. See Table 9 footnotes for details.

Table 9. State of Alaska State-Related Bonds Outstanding FY 1980-FY 1982^a
(Thousands of Dollars)

	June 30, 1980	June 30, 1981	April 30, 1982	Projected June 30, 1982
General Obligation	\$631,723	\$701,178	\$846,783 ^b	\$842,413
International Airports Revenue Bonds ^c	29,460	28,270	27,059	26,985
Alaska State Housing Authority Lease Revenue Bonds ^d	78,550	73,015	67,125	67,125
University of Alaska Revenue Bonds ^e	22,251	21,363	20,360	20,305 ^a
Alaska Housing Finance Corp.	618,065	1,220,240	1,763,570	1,902,975
Alaska Municipal Bond Bank Authority	48,478	63,832	124,804 ^g	122,189
Alaska Industrial Development Authority ^h	-	17,640	74,900	74,900
Alaska Medical Facility Authority	12,000	11,715	11,410	11,410 ⁱ
Alaska Power Authority	35,000	35,000	85,000	85,000 ^j
Total	\$1,475,527	\$2,172,253	\$3,021,011	\$3,153,302

^aState of Alaska fiscal year ends June 30.

^bIncludes \$200,000,000 issue dated April 1, 1982. No further G.O. issues are expected during FY 1982.

^cPayable solely from gross revenues of the Anchorage and Fairbanks International Airports. Of the amount currently outstanding, \$8.7 million remains in escrow exclusively for the benefit of the Series E Revenue Bonds.

^dLease Revenue Bonds of the Alaska State Housing Authority are serviced through annual lease rental appropriations by the State. Proceeds of these bonds are used to construct or purchase public buildings which are operated and maintained by the State as tenant. Title to the properties passes to the State as the bonds mature. Legal authority for the issuance of additional State lease rental debt, however, has been repealed and further issuance is dependent upon subsequent enabling legislation. In addition to Lease Revenue Bonds, ASHA issues revenue bonds for low and middle income housing and urban renewal projects, none of which are obligations of the State.

^eAs of June 30, 1982, University of Alaska Revenue Bonds will be distributed among specific programs as follows:

Anchorage Campus Student Center	\$4,680,000
Anchorage Energy Utility System	665,000
Fairbanks Campus Housing	8,010,000
University of Alaska Heating Corporation	6,950,000

Debt service on these bonds may be paid from appropriations by the State to the University for general operating purposes. In addition to the above issues, the University also has outstanding \$2,077,632 in FHA-insured notes, the proceeds of which were used to construct faculty/student housing that is self-supporting.

^fState appropriations to the AHFC totalled \$828 million in FY81 and 82. These appropriations included pledged coverage of two special mandatory redemptions necessitated by withdrawal of Federal tax-exempt status of the bond issues consequent to passage of the Mortgage Guaranty Bond Tax Act of 1980 (the "Ullman Bill") by the U.S. Congress. The remainder of the appropriated amount was authorized for overcollateralization of certain AHFC bond issues in order to allow the purchase of residential mortgages at below market interest rates. In addition to this assistance, the State has debt service reserve and insurance fund deficiency make-up arrangements for several AHFC issues. These arrangements, however, have never been utilized. The AHFC is authorized to issue up to \$592 million additional bonds during FY 1982 and a like amount each year thereafter until superceded by further legislation.

^gIncludes \$26.4 million Coastal Energy Impact Program Bonds sold to the U.S. Department of Commerce, proceeds of which are loaned to Alaskan municipalities in conformity with the Federal Coastal Zone Management Act of 1972. (The entire amount has been committed, but only \$19.2 million has thus far been disbursed by the U.S. Treasury.) Total outstanding indebtedness of the Alaska Municipal Bond Bank may not exceed \$150 million, as prescribed by the bank's original authorizing legislation.

^hOnly includes general obligations of AIDA ("Umbrella Program" bond issues). In addition, since its inception in 1967, AIDA has financed 15 "stand-alone" projects under its Revenue Bond Program, aggregating \$120.5 million in low-cost loans to private Alaskan companies. As of August 31, 1981, AIDA's loan portfolio had a total unamortized principal balance of \$142.1 million. In FY 1981, the State legislature appropriated to AIDA an additional portfolio of \$166 million in small business loans previously held by the State Treasury. AIDA is authorized to issue up to \$400 million additional bonds each year until superceded by further legislation. The Medical Facility Authority may issue up to \$52 million additional bonds or bond anticipation notes during the remainder of FY 1982 or during FY 1983, but as of the date of this report issuance plans are not yet firm. Legislation in July, 1981, appropriated this sum to the Alaska Department of Revenue to form a special bond guarantee account to secure such bonds and any unused portion of the appropriation lapses back to the General Fund after June 30, 1983.

^jThe Power Authority issued \$35 million G.O. bonds to finance the Swan Lake hydroelectric project and \$50 million variable rate demand notes towards financing the Lake Iyee hydroelectric project. A further bond issue of up to \$120 million may possibly be forthcoming before the end of FY 1982, for completion of the Terror Lake project on Kodiak Island.

Sources: State of Alaska, Annual Financial Report, various dates; State and agency official statements, various dates; and private communication with State and agency officials.

Compared to other states, Alaskan debt per capita is extremely high. Combined State and local debt is equal to almost four-fifths of the personal income of Alaskan residents; tax-supported State debt alone is close to one-fifth of personal income. However, these measures of ability to pay are irrelevant for Alaska, at least at present, since almost all State revenues are derived directly from minerals production and processing.

Table 10. Long-Term Debt Comparisons, FY 1980

	Alaska		U.S. State Average	
	Per Capita	Percent of Personal Income	Per Capita	Percent of Personal Income
Total State Debt ^a	\$3,844	30.1%	\$ 529	5.6%
Total State & Local Debt:	20,090	78.6	1,424	15.0
State G.O. Debt:	1,372	12.3	218	2.3
Net Tax-Supported State Debt (1982) ^b	2,314	18.1	203 ^c	2.5

^aG.O. and agency debt.

^bState G.O. bonds, Alaska State Housing Authority lease revenue bonds and University of Alaska revenue bonds.

^cMoody's state median.

Sources: U.S. Bureau of the Census, Governmental Finances 1979-80 (1981) and Table 8, above.

As a proportion of total State revenue, debt service requirements in Fiscal 1981 dropped to an all-time low of 2.3% (Table 11). Prior to 1980 the relationship of debt service to revenue ranged between 4% and 10%. Oil price decontrol coupled with the enormous rise in production that accompanied the commissioning of the Trans Alaska Pipeline greatly enhanced revenues relative to debt, but recent weakening of petroleum prices -- not a slack in Alaskan oil output -- may cause this debt ratio to rise.

Table 11. Debt Service As Percent of Total Revenues, FY 1979 - FY 1983

	FY 79	FY 80	FY 81	FY 82 ^a	FY 83 ^a
Debt Service (\$Millions)	\$ 58.9	\$ 76.2	\$ 97.7	\$102.4	\$141.7
Total Revenues (\$Millions)	1497	2929	4232	4336	4134
Debt Service as % of Revenue	3.9%	2.6%	2.3%	2.4%	3.4%

^aEstimates provided in the Alaska Executive Budget Fiscal 1983.

Sources: State of Alaska Annual Financial Report (Fiscal Years 1980 and 1981) and Alaska Executive Budget Fiscal 1983.

With continued prudent investment of Permanent Fund assets, constitutional constraints on State expenditures, and the established pattern of transferring money from the General Fund to the Permanent Fund when oil prices are high, prospects for prolonged Alaskan fiscal stability appear to be good. General Obligation bond maturities are timed to match projected depletion of current petroleum sources, and by that time new petroleum and non-petroleum mineral resources are likely to have been developed. The only small cloud on the horizon is the possibility that both interest rates and oil prices might fall in the near term -- both events devoutly hoped for in the Lower 48 -- in which case Alaskan Permanent Fund earnings* and General Fund Revenues would be simultaneously depressed.

*The Permanent Fund is heavily invested in short term securities, which minimizes the potential for capital gains as interest rates fall.

Bache
Bache Halsey Stuart Shields Incorporated

IF WE DON'T BEGIN TO ADDRESS THE ISSUES OF OUR LONG-TERM NEEDS AND OUR EVER-INCREASING BONDED INDEBTEDNESS, WE WILL NOT NEED TO WORRY ABOUT CONTROLLING CRIME ; PROVIDING BETTER ROADS OR MANY OTHER ISSUES AND SOCIAL PROGRAMS WE SPEAK ABOUT TODAY. WE WILL NOT HAVE TO WORRY ABOUT IT, BECAUSE WE WILL HAVE LOST THE ABILITY AND THE REVENUES TO DO SOMETHING ABOUT IT. THE LEGACY WE ARE PROVIDING OUR CHILDREN ^{IS} ~~WILL BE~~ A RE-INSTALEMENT OF STATE TAXES TO AN EXTENT THAT OUR OWN PAST TAXES WILL BE INSIGNIFICANT IN COMPARISON.

THE TOTAL BONDED DEBT OF THE STATE OF ALASKA AND ITS AGENCIES IN 1981, WAS OVER 2 BILLION DOLLARS. THE INTEREST WE WILL ULTIMATELY PAY ON THE MATURITY OF THIS DEBT WILL AMOUNT TO ANOTHER 2.5 BILLION DOLLARS. AND YET WE CONTINUE TO INVEST IN PROJECTS AND FACILITIES WHICH SERVE THE IMMEDIATE NEEDS OF ^{OUR} CONSTITUENTS WITHOUT PROVIDING A FIRM BASE FOR SUSTAINED GROWTH. WE HAVE GRABBED FOR THE IMMEDIATE GRATIFICATION WHILE PLUNGING OURSELVES AND OUR CHILDREN INTO LONG-TERM DEBT.

SOMEONE WILL HAVE TO PAY THE PIPER.

- more -

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section.

(m) Certificates of deposit or the equivalent instruments which 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 investments authorized for the Alaska permanent fund under (g)(1), (2), (8), or (12) — (17) of this section, which investments have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in this subsection. (§ 5 ch 18 SLA 1980; am §§ 5 — 7 ch 81 SLA 1982)

Effect of amendments. — The 1982 amendment, effective July 1, 1982, in subsection (g), substituted "contained in this section" for "in (h) and (i) of this section" and inserted "at such competitive national market rates or prices as are applicable to each investment only" in the introductory language, rewrote paragraphs (3) — (11) and (16), substituted "Federal Veterans Administration" for "Federal Veterans Association" in paragraph (13), and added paragraphs (17) — (20). The amendment also rewrote subsection (i) and added subsection (m).

Editor's notes. — Section 9, ch. 18, SLA 1980 provides: "TRANSITION. The commissioner of revenue shall transfer the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this act after request for transfer is made by the board of trustees of the corporation. Notwithstanding AS 37.10.065(a) [now repealed], the commissioner of revenue may invest the money in the Alaska permanent fund in the investments described in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and (i)."

Sec. 37.13.130. Gains and losses.

Repealed by § 13 ch 81 SLA 1982, effective July 1, 1982.

Editor's notes. — The repealed section derived from § 5, ch. 18, SLA 1980.

Sec. 37.13.140. Income. Net income of the corporation must 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 the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145. (§ 5 ch 18 SLA 1980; am § 8 ch 81 SLA 1982)

Effect of amendments. — The 1982 amendment, effective July 1, 1982, rewrote this section.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 19, 1982

MEMORANDUM

TO: Representative Mitch Ahoon

FROM: David Teal
Research Staff

RE: Bonded Indebtedness
Research Request Number 82-17

This memorandum addresses your questions pertaining to the extent of Alaska's bonded indebtedness and ways of reducing that debt. We have requested additional information on this topic and will update this preliminary response when the information is received.

Outstanding Debt

Total State bonds outstanding as of June 30, 1981 were \$2.128 billion. This total includes general obligation bonds, revenue bonds, and agency obligations. The Annual Financial Report for fiscal year 1981 contains a detailed account (reproduced in part as an attachment to this memorandum) of outstanding debt. Another recent publication of the Department of Administration, Bonded Debt and Debt Service, also contains much information on this subject. Carol Horos has both of these publications so this memorandum presents only a brief summary of State debt.

General Obligation Bonds. As of June 30, 1981, the State of Alaska had \$701.1 million in general obligation bonds outstanding. No new bonds have been authorized or issued since that date, but \$200 million in bond anticipation notes were issued on December 16, 1981. Notes are generally issued prior to a bond issue and proceeds from the bond issue are used to repurchase the notes. The notes in question are due April 16, 1982. Bonds are expected to be issued on April 1.

Revenue Bonds. In addition to general obligation bonds, the State has issued bonds secured by a pledge of gross revenues derived from the operation of the international airports at Anchorage and Fairbanks. The interest and principal on these bonds is to be paid from airport operating revenues. Current outstanding balance of revenue bonds is \$19 million.

Agency Obligations. A number of agencies have a legal existence independent of the State and have the authority to issue bonds of their own. The Alaska Housing Finance Corporation had issued \$1.22 billion (87 percent) of the total \$1.408 billion in agency bonds outstanding on June 30, 1981. Other agencies with bonded debt are listed in an attachment to this memorandum. Bonds of these agencies are self-liquidating. That is, both principal and interest are payable from earnings derived from user charges.

Both the Alaska Housing Finance Corporation (AHFC) and the Alaska Industrial Development Authority (AIDA) have issued bonds since June 30, 1981 and both agencies have plans for future bond issues. The AHFC now has \$1.722 million outstanding and recently postponed a \$60 million issue due to market conditions. The AHFC has a specialist on contract to determine bonding policy. The AIDA has issued an additional \$57 million of debt and now has \$74 million outstanding. The AIDA is beginning the process for an additional issue, but the amount and date have not been set.

Both agencies said that there is no formal coordination of bond issues, but stated that informal communication and coordination does occur. To the best of my knowledge, other agencies have not issued additional debt since June 30, 1981 and have no plans to issue debt in the near future.

Reduction of Debt.

As discussed with Carol Horos, the National Conference of State Legislatures (NCSL) recently held a conference on bonding. Ken Kirkland, of the NCSL, will send us a copy of the proceedings of that conference as soon as the report is printed. We will forward the report to you when it is received.

Mr. Kirkland mentioned that most states appear to be attempting to increase, not reduce, bonded indebtedness. He provided the names of four states which he felt might aid our research on ways to reduce debt. Deb Pomeroy contacted those states to determine what actions had been taken. Her summary of discussions with personnel in the four states follows.

Oregon. A law passed in 1981 requires the Governor to recommend biennial maximum general obligation bonding levels and requires the Legislature to determine maximum bonding levels for each program for each fiscal year. According to a report prepared by the the Governor's Bonded Debt Advisory Panel, the law was proposed primarily in response to a market saturation problem which was increasing the cost of borrowing. A copy of the Oregon law is attached to this memorandum and the report of the advisory panel is enclosed.

New Jersey. The State Constitution requires that 1) all bond issues be approved by voters; 2) bonds be authorized for a single project with specific objectives delineated; and 3) the ways and means of repaying the bonded debt be specified. The third requirement is usually met by designating certain tax revenues as the means of repayment. Because the State limits the amount of increase in both state and local income taxes, the level of bonded indebtedness is limited in an indirect manner. As an aside, the State also controls the bonding powers of municipalities and state agencies. Additional detail is being sent to this agency and will be forwarded to you when it is received.

Maryland. The Maryland Legislature created a Capital Debt Affordability Committee consisting of personnel from various state agencies. The Committee considers revenue projections and current debt levels and recommends a limit on bond issues for the upcoming year. The legislature has so far followed the recommendations of the Committee.

Maryland is considering two other options which are briefly described below. The report by the Capital Debt Affordability Committee discusses these options in detail. A copy has been requested and will be forwarded to you upon receipt.

- 1) Surplus funds will be used to reduce debt by cancelling bond issues and paying cash for capital projects or by depositing surplus cash in the annuity fund to pay off outstanding debt.
- 2) Bonded debt will be eliminated by gradually shifting to a "pay as you go" basis over the next 15 years. (Fifteen years is the maturity of Maryland bonds.) Currently, appropriations to retire debt are roughly equivalent to authorization for new debt. By appropriating an additional 1/15 of this amount each year, bonded debt would be eliminated in 15 years.

Massachusetts. Massachusetts has not imposed limits on bonded debt nor do they intend to take specific action to limit future bond issues. The State is simply attempting to remove authorized but unissued bonds from the books.

The options discussed above appear to be feasible means of reducing bonded indebtedness in Alaska. If you have any questions about the material in this memorandum, please feel free to call.

Attachments
Enclosure

STATE OF ALASKA

At the general election held on November 4, 1980, the people authorized \$289.7 million of new bond issues. The total of \$289.7 million was the largest amount authorized in any year since Alaska became a State in 1959.

On July 1, 1980 the State issued \$125.0 million of general obligation bonds. This was, by far, the largest single issue of general obligation bonds in the history of Alaska. The bonds bear an effective interest rate of 5.76% and, in keeping with current policy on the life of new issues, mature serially from July 1, 1981 to July 1, 1990 with an average life of 5.5 years. The practical effect of current policy on the life of new issues is that when proven reserves of oil are exhausted, the State will be debt-free.

In addition to general obligation bonds, the State has issued bonds secured by a pledge of gross revenues derived from the operations of the international airports at Anchorage and Fairbanks. Also, a number of agencies that have a legal existence independent of the State have issued their own obligations. Bonds of these agencies are self-liquidating — principal and interest are payable from earnings derived from user charges.

The following schedule is a summary of outstanding State and agency obligations as of June 30, 1981.

<u>Type of Bonds</u>	<u>Bonds Outstanding (Millions)</u>	<u>Interest to Maturity on O/S Bonds (Millions)</u>	<u>Total Debt Service to Maturity (Millions)</u>
State General Obligation Bonds	\$ 701.1	\$ 268.5	\$ 969.6
State International Airports Revenue Bonds	19.0	11.7	30.7
Bonds of State Agencies			
Alaska Housing Finance Corporation	\$1,220.2	\$2,102.9	\$3,323.1
Municipal Bond Book Authority	63.8	52.3	116.1
Alaska State Housing Authority	73.0	26.1	99.1
Alaska Industrial Development Authority	17.6	26.4	44.0
University of Alaska	21.4	14.4	35.8
Other	11.8	11.8	23.6
Total, State Agencies	\$1,407.8	\$2,233.9	\$3,641.7
Total, All Bonds	\$2,128.0	\$2,514.0	\$4,642.0

Source: Alaska Annual Financial Report for fiscal year 1981

B-Engrossed

House Bill 3146

Ordered by the Senate July 3
(Including Amendments by House May 19
and by Senate June 24 and July 3)

Sponsored by COMMITTEE ON HOUSING AND URBAN DEVELOPMENT (at the request of Governor's Bonded Debt Advisory Panel)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure.

Requires Governor to recommend biennial maximum general obligation bonding level. Requires Governor to allocate maximum bonding level among programs financed by bonds. Requires Governor to submit recommendation and Governor's allocation to Legislative Assembly with Governor's budget. Requires Legislative Assembly to determine maximum bonding level for each program for each fiscal year.

Requires state agency authorized to issue general obligation bonds to report to Governor biennially on agency plans for issuing bonded indebtedness.

Sets amounts allocated for general obligation bonds that may be issued during the 1981-1983 biennium. Sets total maximum for all state agencies at \$1,898,200,000.

Allows Emergency Board to modify authorized bond issuance amounts within program designation, between program designation or as to the total amount of general obligation bonds authorized by Legislative Assembly for the biennium.

Exempts refunding bonds from provisions of Act.

Prohibits interest rate increase above 6.9 percent for veterans' loans granted on or after May 27, 1971, with interest rate originally set at 5.9 percent. Prohibits interest rate increase above 8.2 percent for veterans' loans granted after January 1, 1981, with original rate of 7.2 percent. Prohibits interest rate increase above 8.9 percent for veterans' loans, for acquisition of a mobile home or house boat, granted after May 27, 1971, with original rate of 7.9 percent. Allows Director of Veterans' Affairs to fix variable interest rates at rate greater than specified limits to extent necessary to avoid invoking certain constitutional provisions.

Requires director to reserve amount of requested loan in Oregon War Veterans' Fund [*before notifying applicant of loan approval and*] before making a loan commitment.

Declares emergency, effective July 1, 1981.

A BILL FOR AN ACT

1
2 Relating to bonds; creating new provisions; amending ORS 407.012; and declaring an emergency.

3 Be It Enacted by the People of the State of Oregon:

4 SECTION 1. The Legislative Assembly finds that incurring of state debt by sale of bonds should be
5 subjected to the same process of executive recommendations and legislative approval as the process by which
6 the state biennial budget is recommended and approved.

7 SECTION 2. (1) The Governor shall recommend to the Legislative Assembly for each biennium, beginning
8 July 1, 1983, by fiscal year, the total maximum bonding level for all state programs for which general obligation
9 bonds are authorized. In making the recommendations, the Governor shall seek the advice of the Oregon
10 Investment Council on the total maximum bonding level for each biennium by fiscal year. The council's advice
11 shall be given at a time requested by the Governor and shall be based on the council's review of available
12 economic and financial data for the state. After reviewing the council's advice, the Governor shall present the
13 total maximum bonding level for each program to the Legislative Assembly as part of the Governor's budget
14 along with the figures advised by the council. The Legislative Assembly shall then determine the maximum
15 bonding level for each program for each fiscal year.

NOTE: Matter in bold face in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted; complete new sections begin with SECTION.

(2) For biennia beginning on and after July 1, 1983, each state agency authorized to issue general obligation bonds shall report to the Governor biennially on a date determined by the Governor on agency plans for issuing bonded indebtedness during the coming biennium. The agency shall include any knowledge it has on refunding outstanding indebtedness during the following biennium or thereafter.

SECTION 3. For the 1981-1983 biennium, the following amounts are allocated for general obligation bonds of this state that may be issued during the biennium as follows:

Program Designation	<u>1981-82</u>	<u>1982-83</u>	<u>1981-83</u>
<u>GENERAL OBLIGATION BONDS</u>			
<u>General Fund Obligations</u>			
Forestry Dept. (Art. XI-E)	\$ 0	\$ 0	\$ 0
Dept. of Higher Education			
(Art. XI-G)	0	0	0
Dept. of Education (Art. XI-G)	0	0	0
Power Development Bonds			
(Art. XI-D)	0	0	0
Dept. of Environmental Quality			
(Art. XI-H)	20,000,000	30,000,000	50,000,000
Correctional Facilities	--	75,000,000	75,000,000
<u>Dedicated Fund Obligations</u>			
Dept. of Veterans' Affairs			
(Art. XI-E)	750,000,000	800,000,000	1,550,000,000
Dept. of Higher Education			
(Art. XI-F(1))	28,610,000	28,610,000	57,220,000
Highway Division (Art. XI(7))	--	--	--
Dept. of Commerce, Housing			
Division (Art. XI-I)	30,000,000	30,000,000	60,000,000
Water Resources Dept.			
(Art. XI-I)	12,000,000	14,000,000	26,000,000
Dept. of Energy (Art. XI-J)	<u>35,000,000</u>	<u>45,000,000</u>	<u>80,000,000</u>
Total General			
Obligation Bonds	\$875,610,000	\$1,022,610,000	\$1,898,220,000

SECTION 4. (1) The bond issuance amounts authorized by this Act may be modified by the Emergency Board within program designation, between program designation or as to the total amount of general obligation bonds authorized by the Legislative Assembly for the biennium.

(2) Nothing in this Act applies to refunding bonds authorized or required under any state general obligation bond program.

1 (3) The provisions of section 3 of this Act relating to bonds issued under Article XI-G of the Oregon
2 Constitution are controlling over any greater amount that may be appropriated therefor except as the amount
3 set forth in section 3 of this Act is subject to modification under this section.

4 Section 5. ORS 407.072 is amended to read:

5 407.072. (1) The director, with the advice of the committee, will periodically, during the term of the loan,
6 fix the variable interest rates to be paid by the applicant, taking into consideration the current value of the
7 money, the solvency of the loan program, and the rates' effect on veterans. If the director, after considering
8 the factors specified in this section, determines that there is an economic need for a higher rate of interest on
9 loans made for the acquisition of mobile homes and houseboats, the director shall fix the rate of interest for the
10 acquisition of a mobile home or houseboat at not higher than two percent more per annum than the basic rate
11 established by this section.

12 (2) Except as provided in subsection (3) of this section:

13 (a) The rate of interest on loans granted on or after May 27, 1971, and originally set at five and nine-tenths
14 percent per annum shall not be increased to more than six and nine-tenths percent per annum.

15 (b) The rate of interest on loans granted on or after January 1, 1981, and originally set at seven and two-tenths
16 percent per annum shall not be increased to more than eight and two-tenths percent per annum.

17 (c) The rate of interest on a loan granted on or after May 27, 1971, for the acquisition of a mobile home or
18 houseboat originally set at seven and nine-tenths percent per annum shall not be increased to more than eight and
19 nine-tenths percent per annum.

20 (3) The director may fix the variable interest rates to be paid by the applicant at a rate greater than the rates
21 described in subsection (2) of this section, but only to the extent necessary to avoid invoking the provisions of
22 section 4, Article XI-A of the Oregon Constitution.

23 SECTION 6. Section 7 of this Act is added to and made a part of ORS 407.010 to 407.210.

24 SECTION 7. (1) When the director determines that an applicant's loan may be approved in accordance with
25 ORS 407.010 to 407.210, the director, before making a loan commitment, shall reserve an amount of money in
26 the Oregon War Veterans' Fund equal to the amount requested by the applicant to be used only for payment to
27 the applicant which shall be set aside in the Direct Commitment Reserve Account.

28 (2) Moneys in the Oregon War Veterans' Fund Direct Commitment Reserve Account shall be reserved as
29 loan proceeds for an applicant under subsection (1) of this section and shall not be used for any other purpose
30 unless the applicant cancels the application for the loan prior to receipt of the loan proceeds.

31 SECTION 8. This Act being necessary for the immediate preservation of the public peace, health and
32 safety, an emergency is declared to exist, and this Act takes effect July 1, 1981.

LAST YEAR, THE COST OF OUR DEBT SERVICE, WHICH IS THE PAYMENTS FOR PRINCIPAL AND INTEREST, AMOUNTED TO 97.6 MILLION DOLLARS. THIS IS THE SUM WE PAY TO REDUCE OUR BONDED DEBT. EVERY YEAR, A PERCENTAGE OF OUR GENERAL UNRESTRICTED REVENUE GOES TO HELP PAY OFF OUR DEBT SERVICE. AND EVERY YEAR THAT PERCENTAGE GETS SMALLER. IN 1975, 9% OF OUR REVENUES WENT TOWARDS RETIRING OUR BONDED INDEBTEDNESS. LAST YEAR, WE ONLY TARGETED 2.6% OF OUR WEALTH TO PAY OFF OUR DEBT.

WE SPENT 97.6 MILLION TO HELP RETIRE OUR DEBT, WHILE ^{selling} ~~SPENDING~~ 289 MILLION IN NEW BONDS IN THE SAME YEAR, TO BRING US INTO EVEN GREATER DEBT.

THE QUESTION IS -- DO WE STOP IT, BEFORE IT STOPS US?



ALASKA STATE LEGISLATURE
 HOUSE OF REPRESENTATIVES
 RESEARCH AGENCY

Pouch Y, State Capitol
 Juneau, Alaska 99811
 (907) 465-3991

March 23, 1982

MEMORANDUM

TO: Representative Terry Gardiner
 FROM: David Teal *Teal*
 Research Staff
 RE: General Obligation Bonds
 Research Request Number 82-74

Clifford Groh submitted a request on your behalf for a graph showing real per capita growth in general obligation bonds issued by the state of Alaska. After a brief discussion with Cliff, the request was expanded to include several graphs.

All five of the enclosed graphs are on a per capita basis and show money values in 1970 dollars. The Anchorage consumer price index (CPI) was used to convert nominal dollar values to 1970 dollars. The CPI and statewide population for each year are shown in the table below. A brief explanation of each graph follows the table.

<u>Fiscal Year</u>	<u>Anchorage CPI</u>	<u>Statewide Population</u>
1970	107.3	302,580
1971	111.5	311,200
1972	114.4	324,000
1973	116.9	330,000
1974	123.8	344,000
1975	140.0	383,100
1976	157.4	410,700
1977	167.6	413,100
1978	177.3	403,100
1979	194.8	400,600
1980	211.8	401,850
1981	232.0	422,200

Source: Alaska Department of Labor, Research and Analysis 3/82

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Representative Gardiner
March 23, 1982
Page 3

Graph 4: General Obligation Bonds Outstanding. Real per capita bonded indebtedness increased steadily (except for slight declines in 1974 and 1976) throughout the 1970's. A decline in population during 1978 and 1979 was part of the reason for the per capita increase in the 1970 dollar value of bonds outstanding during those years. Population increases during 1980 and 1981 are partially responsible for the decline in real per capita bonded debt during the past two years. The 1970 dollar value of bonded debt was \$768 per capita in 1981.

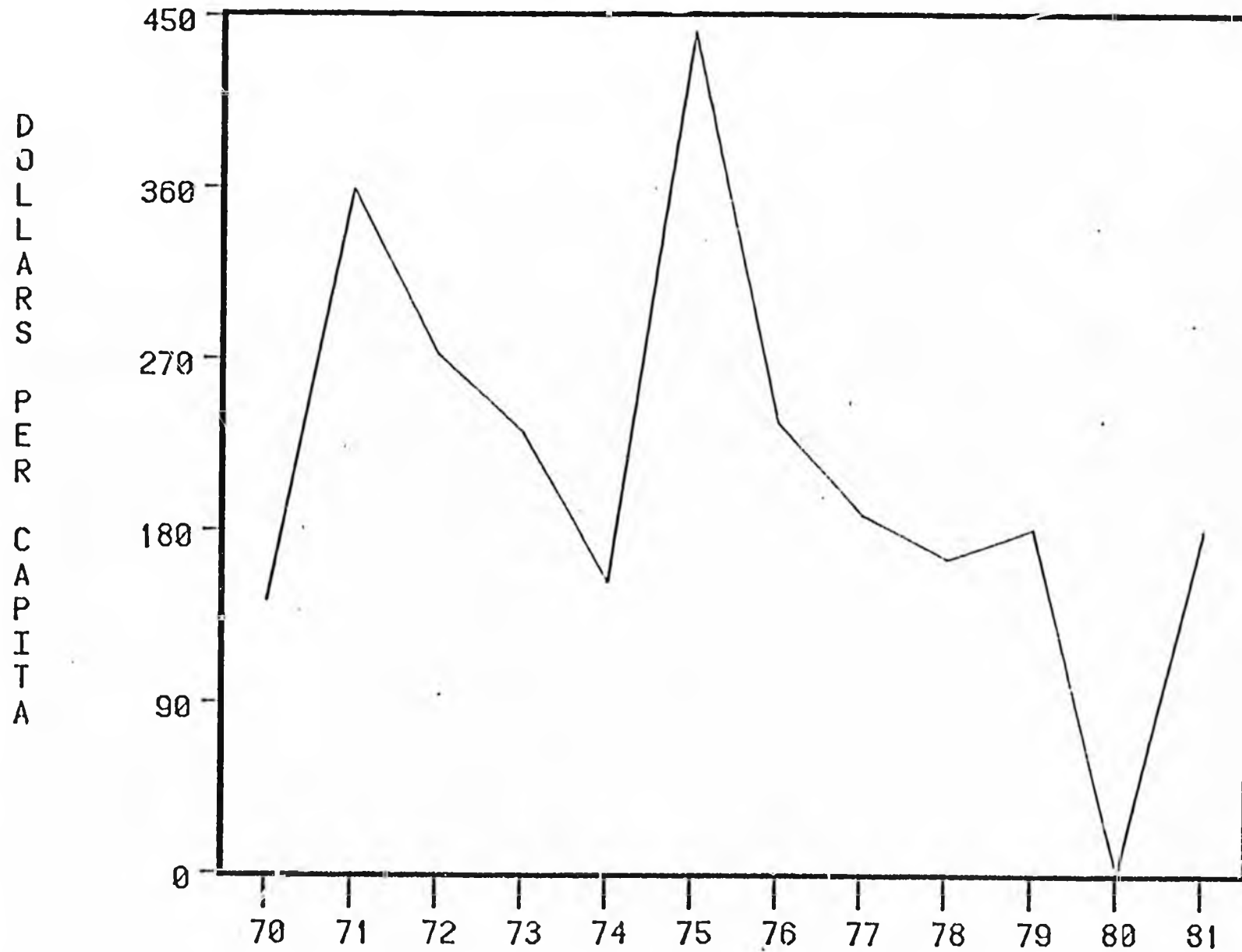
Graph 5: Debt Servicing Costs of Outstanding General Obligation Bonds Issued by the State of Alaska. Graph 5 shows the amount each Alaskan would have paid (in 1970 dollars) in order to retire all general obligation bonds outstanding in each year. As noted in the description of graph 2, all coupon payments are attributed to the year of bond issue so the amount is somewhat overstated.

* * *

As discussed with Cliff, the most useful presentation of a set of numbers depends to a large extent on the intended use of the data. I would be happy to discuss the above data or its presentation at your convenience.

Enclosures

DEBT SERVICING COSTS FOR G.O. BONDS, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS

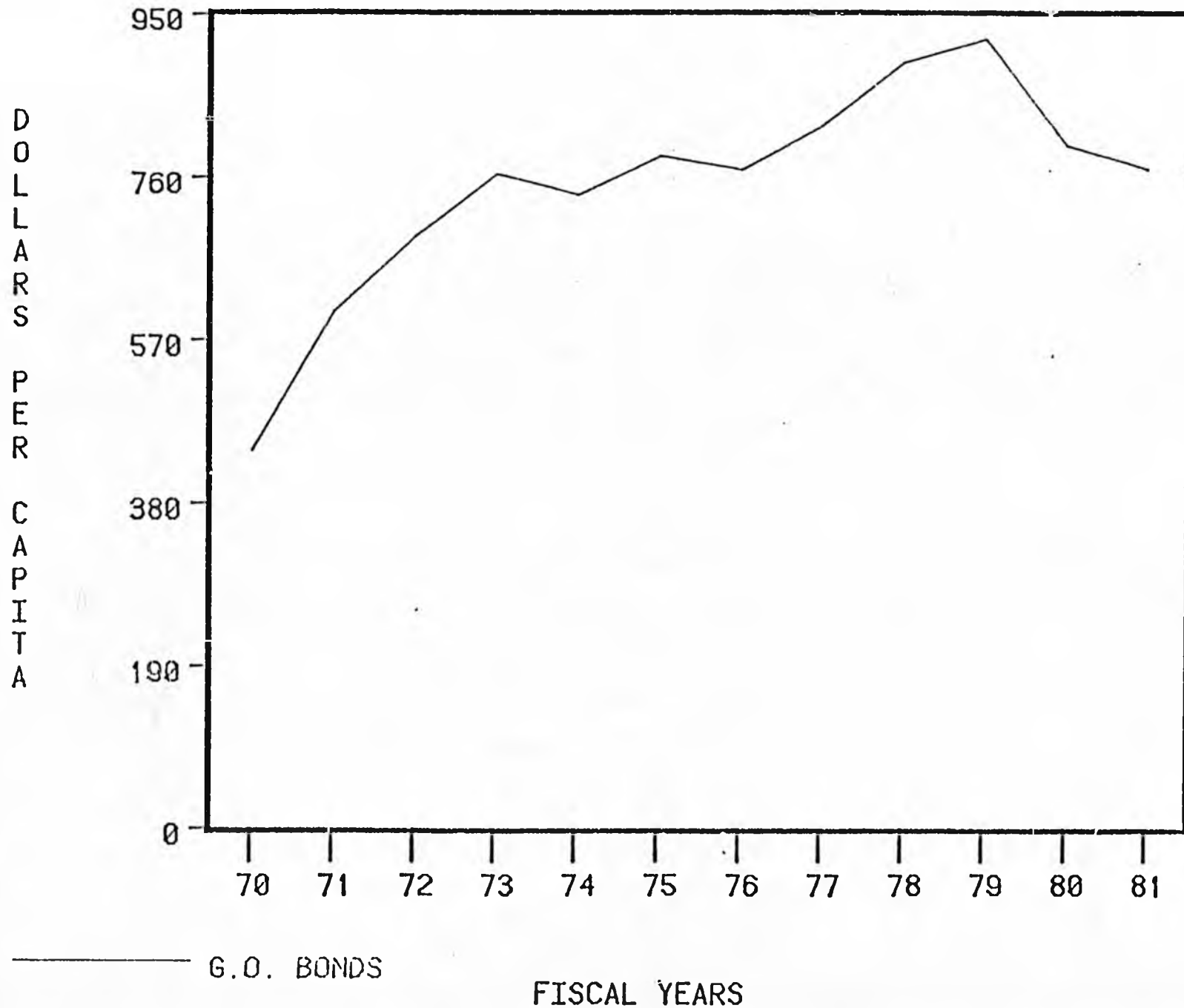


DEBT SERVICE
Interest payments are converted
to 1970 dollars at the discount factor
applicable in the year of bond issue

FISCAL YEARS

GRAPH 4

G.O. BONDS OUTSTANDING, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS

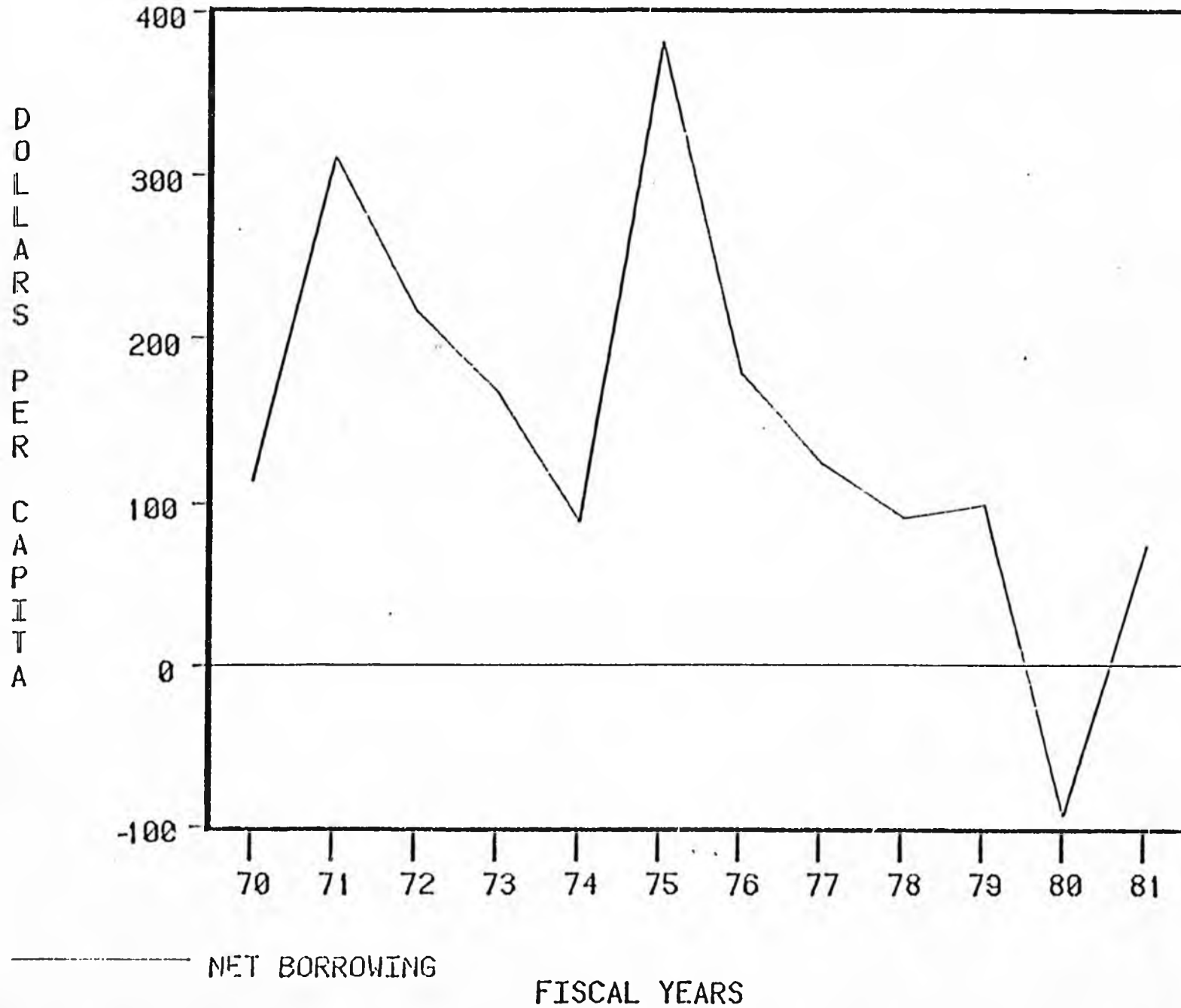


CORRECTION

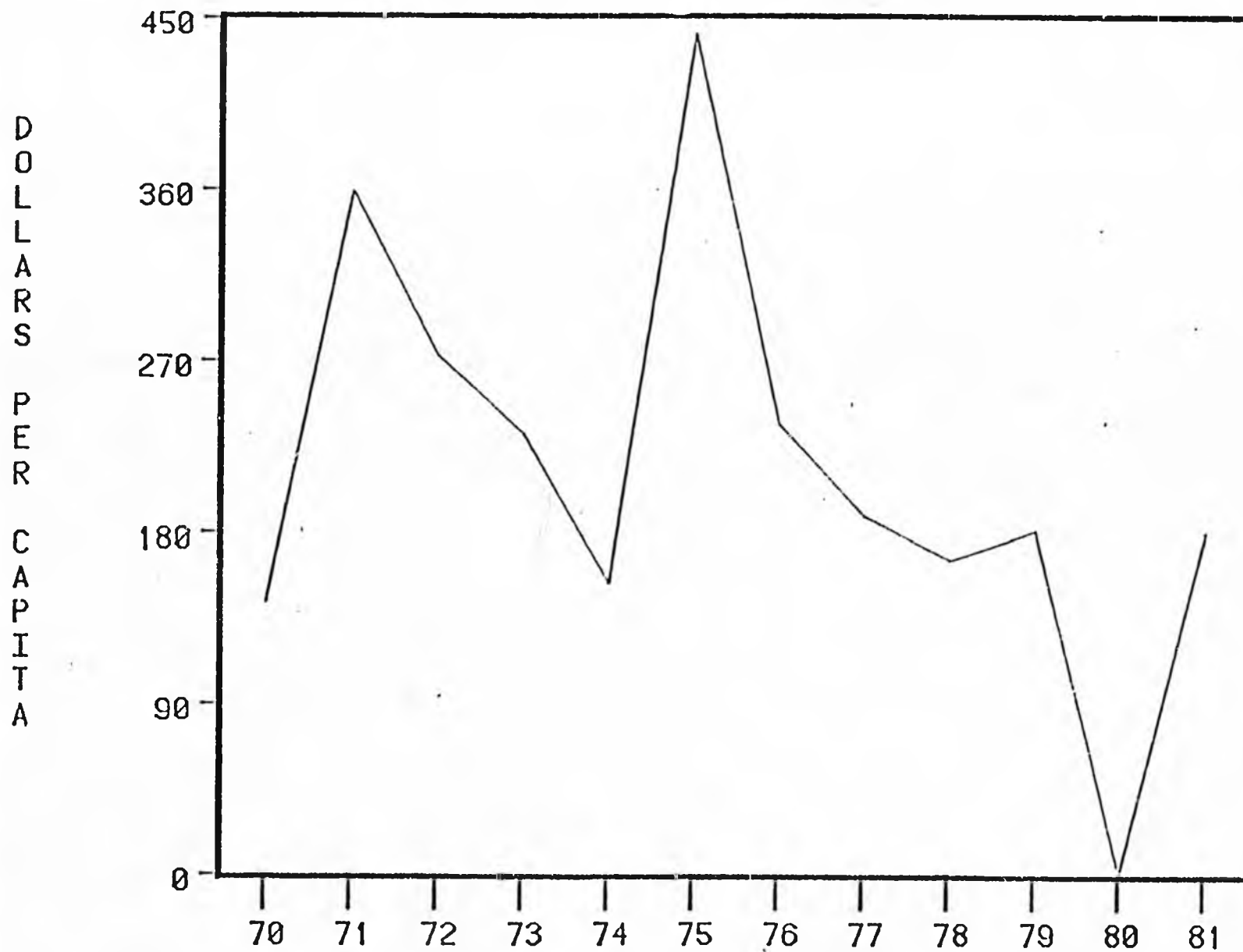
CORRECTION

GRAPH 3

DEBT SERVICE ON G.O. BONDS ISSUED LESS REPAYMENTS OF MATURE ISSUES
PER CAPITA IN 1970 DOLLARS



DEBT SERVICING COSTS FOR G.O. BONDS, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS

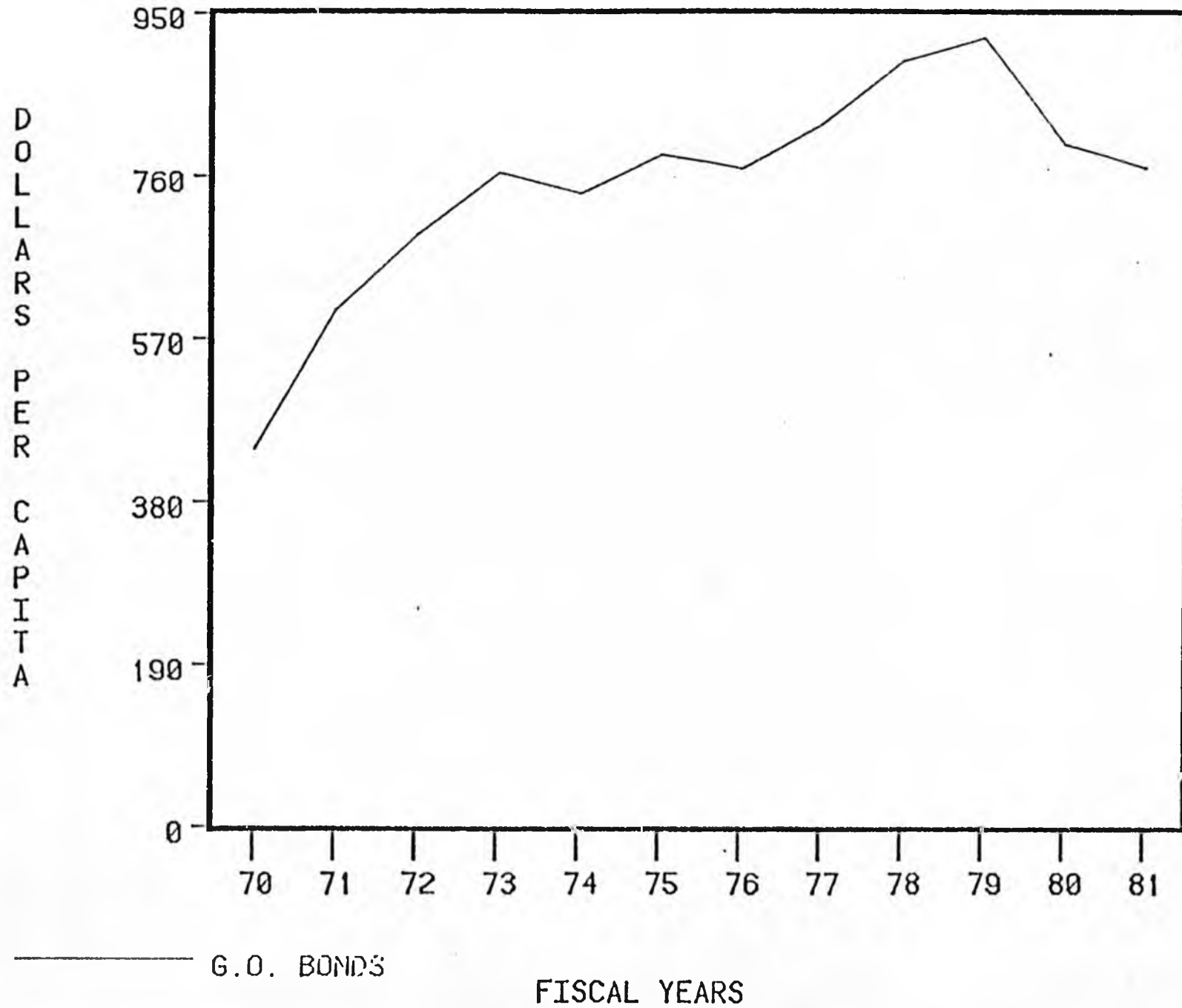


————— DEBT SERVICE
Interest payments are converted
to 1970 dollars at the discount factor
applicable in the year of bond issue

FISCAL YEARS

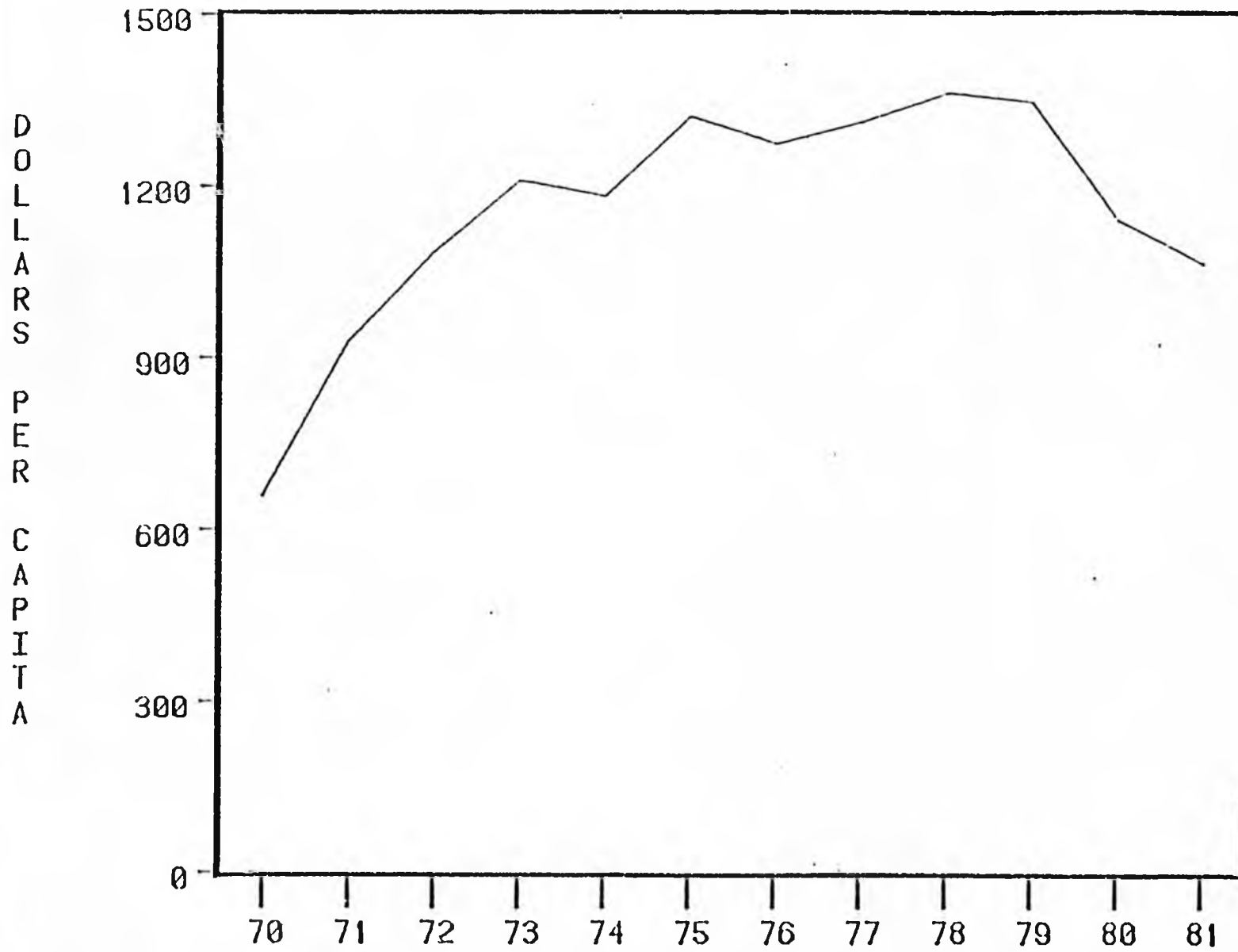
GRAPH 4

G.O. BONDS OUTSTANDING, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS



GRAPH 5

DEBT SERVICE ON OUTSTANDING G.O. BONDS, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS



DEBT SERVICE
Interest payments are converted to 1970 dollars FISCAL YEARS



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y. State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 22, 1982

MEMORANDUM

TO: Representative Gardiner

FROM: David Teal Research Staff
Deb Pomeroy, Research Aide

RE: Bonded Debt
Research Request Number 82-109

You requested graphs showing the per capita debt servicing costs (in 1982 dollars) of outstanding bonds issued by the State of Alaska and by municipalities within the state. Three types of State bonds were considered in this analysis.

General Obligation Bonds are backed by the full faith, credit, and resources of the State. General obligation bonds must be authorized by legislation for capital improvements and be ratified by the electorate.

International Airports Revenue Bonds are special obligations of the State. They are payable from and secured by a first lien on gross revenues derived from operations of the Anchorage and Fairbanks International Airports.

Agency Bonds are issued by a number of agencies that have a legal existence independent of the State. The Alaska Housing Finance Corporation is responsible for about 90 percent of bonded debt held by State agencies. Agency debt is self-liquidating; principal and interest are payable from earnings derived from user fees.

Although municipalities may issue both general obligation and revenue bonds, I was unable to find a source which could provide aggregate information on 1) the debt servicing costs for municipal general obligation bonds; 2) the amount of municipal revenue bonds outstanding; or 3) debt servicing costs for municipal revenue bonds. This information could probably be obtained from the municipalities, but Gregg Erickson--speaking for Cliff Groh, of your staff--suggested that the effort would not be worthwhile at this time.

Representative Gardiner
April 22, 1982
Page 2

There were similar data-gathering problems with bonds issued by State agencies. Gregg Erickson suggested graphing data only for years after 1971, which is when reports on agency bonds were incorporated into the State's annual financial report. Due to data problems and as a result of my conversation with Gregg Erickson, your request for graphs was modified slightly. The attached graphs are described briefly below.

Graph 1 shows the aggregate amount of State general obligation bonds, airport revenue bonds, and State agency bonds outstanding in the years 1972 through 1981. Nominal values were converted to 1982 dollars by applying a factor based the Anchorage consumer price index (CPI). The per capita values shown in the graph were obtained by dividing the 1982 dollar values by statewide population in each year. All values in graph 1 (and in the other attached graphs) appear in tables attached to this memorandum.

Graph 2 shows per capita debt servicing costs (in 1982 dollars) associated with the bonded debt shown in graph 1. Debt service includes both principal and interest payments. As emphasized in my memorandum of March 23, 1982 (research request number 82-74) on the subject of bonded debt, this treatment of debt servicing costs implicitly assumes that all principal and interest payments are made in the year shown rather than spread into the future. In an economy characterized by inflation, this treatment overstates constant (1982) dollar obligation because payments will be made in the future when the dollars are worth less. In addition, population growth would decrease the per capita repayment required to retire the debt.

The effect of attributing future payments to current time periods is to increase debt servicing costs in early years relative to debt servicing costs in later years. That is, the true trend is steeper than is indicated by graph 2. This effect is accentuated by the recent trend toward shorter maturity issues. The problem could be corrected by considering the timing of payments as well as the amount of payments, but some assumptions would be required to complete an analysis. If you wish, I would be happy to discuss the complexities of this issue with you or your staff.

Graph 3 shows the per capita amount (in 1982 dollars) of municipal general obligation bonds outstanding in the years 1972 through 1981. Note that municipal revenue bonds are not included in the figures and that statewide population is used to obtain per capita values.

You may be interested in the attached table which shows that municipal general obligation debt has increased faster in recent years than has general obligation debt issued by the State. Municipalities had \$1.09

Representative Gardiner
April 22, 1982
Page 3.

billion outstanding on July 1, 1981, compared to \$701.2 million in general obligation debt issued by the State.

The State has adopted a policy of short-term issues in response to current market conditions, but without further study of the terms of sale, it is impossible to determine whether municipalities have adopted the same approach. The potential risk for municipalities is substantial, and to the extent that municipal debt issues are school bonds (which are partially paid by the State), there is some cause for concern by the State.

Graph 4 shows the sum of municipal general obligation bonds and all State bonds outstanding, and graph 5 shows separate curves for municipal general obligation bonds, State general obligation bonds, and all State bonds outstanding in each year from 1972 through 1981. As in the graphs discussed previously, all lines depict per capita amounts in 1982 dollars.

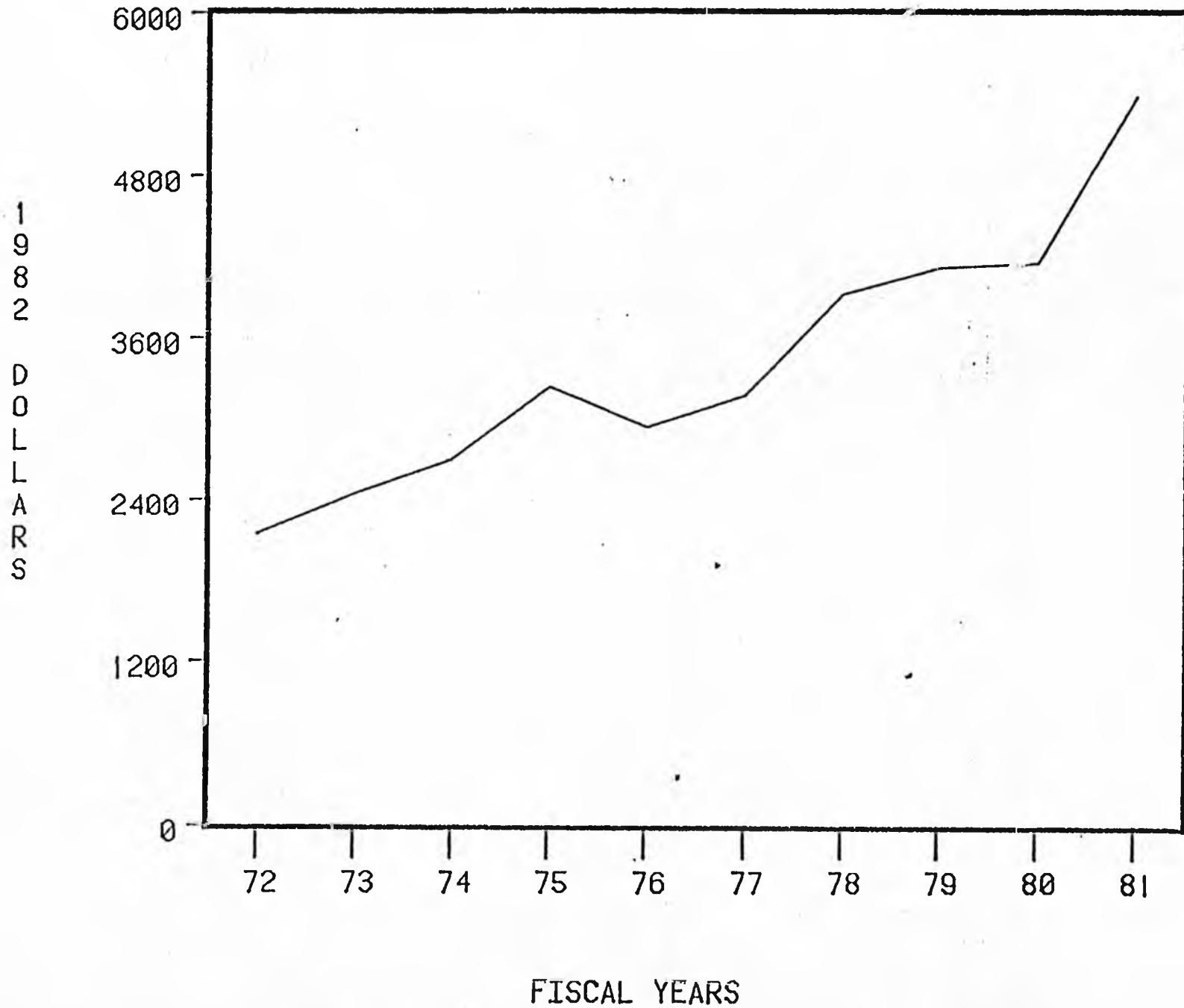
* * *

As always, the agency extends an offer to perform additional work or to discuss the material presented with you or your staff.

Attachments

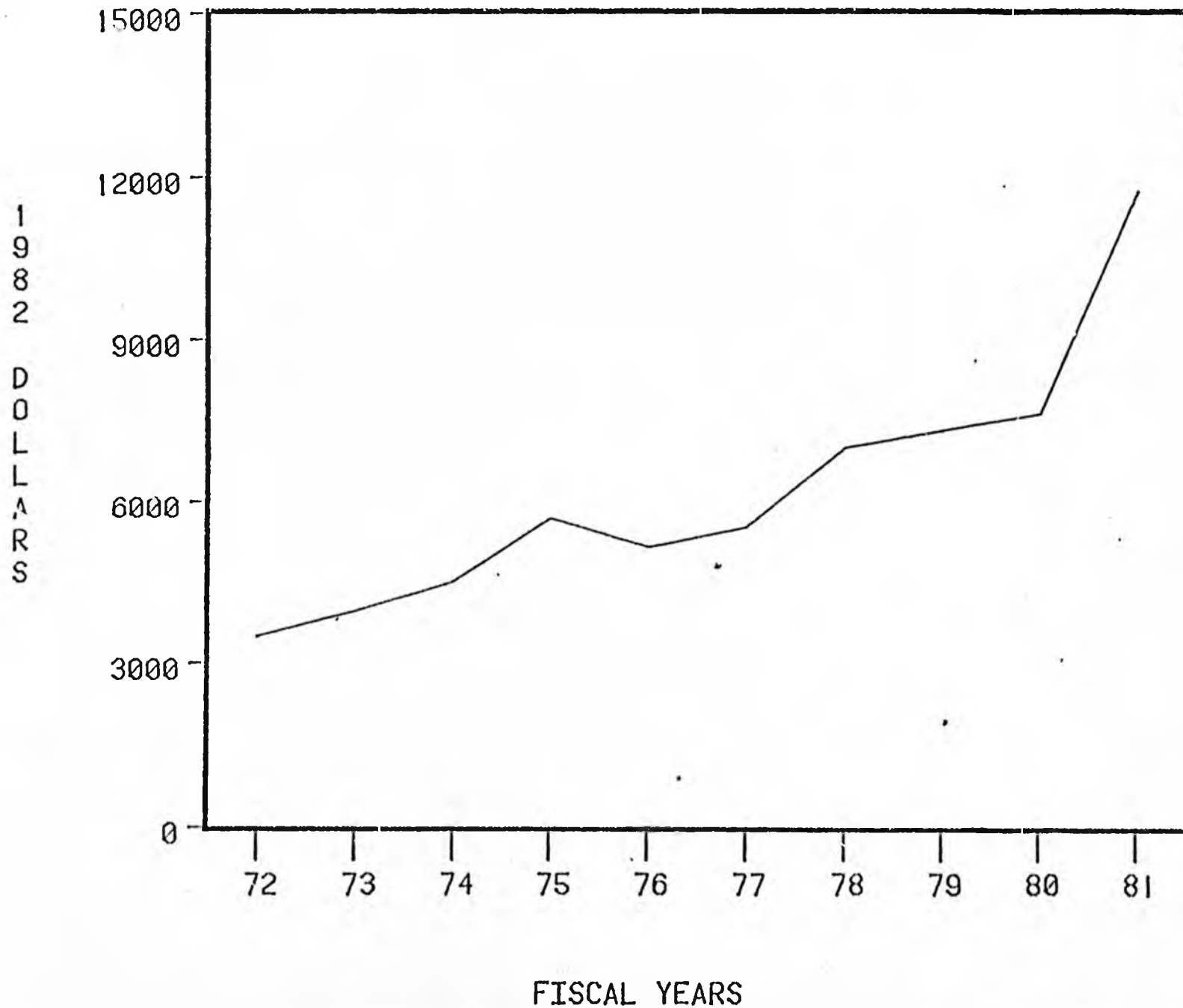
GRAPH 1

BONDS OUTSTANDING--STATE OF ALASKA
1982 DOLLARS PER CAPITA



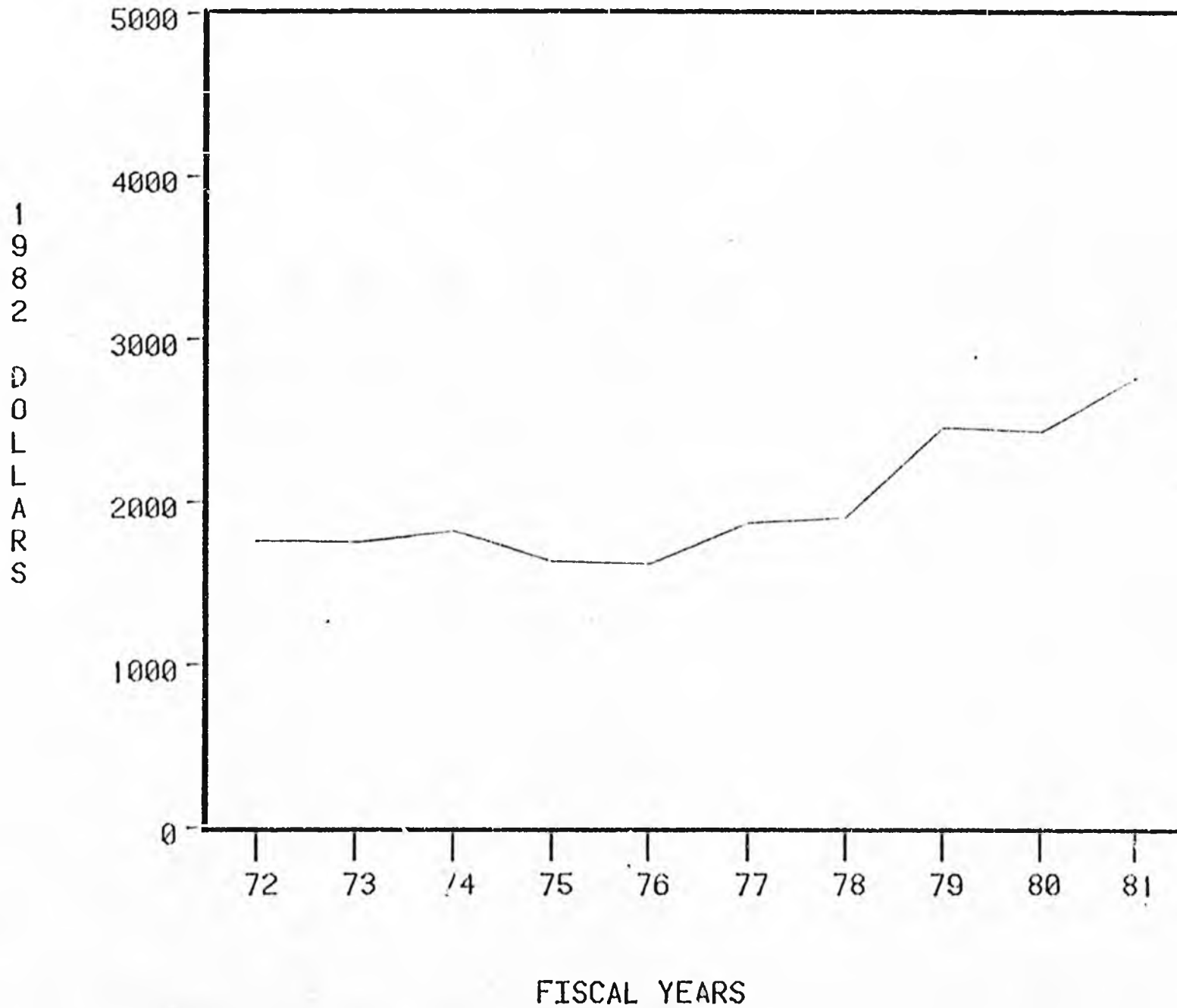
GRAPH 2

DEBT SERVICE ON OUTSTANDING BONDS--STATE OF ALASKA
1982 DOLLARS PER CAPITA

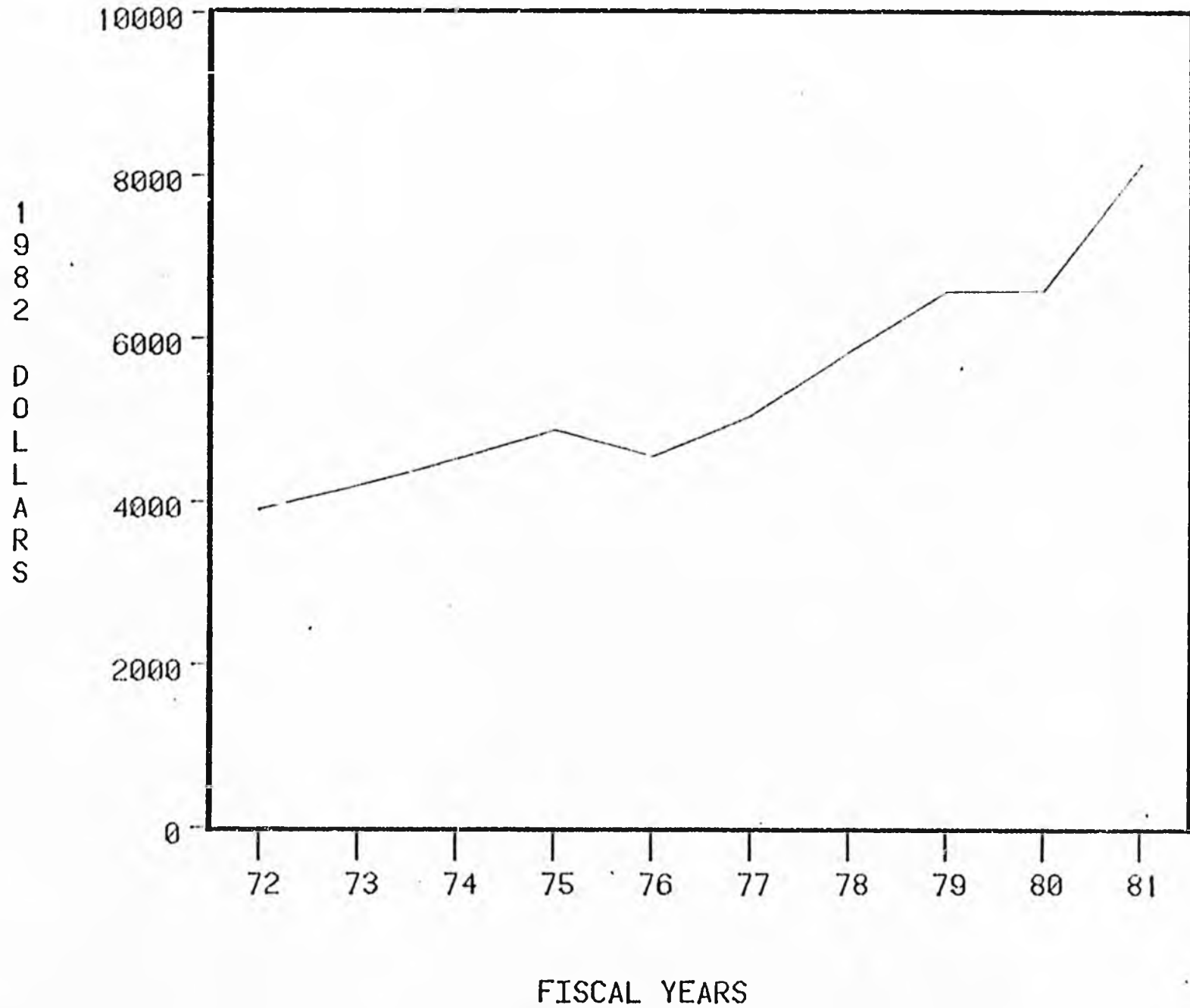


GRAPH 3

MUNICIPAL BONDS OUTSTANDING--STATE OF ALASKA
1982 DOLLARS PER CAPITA

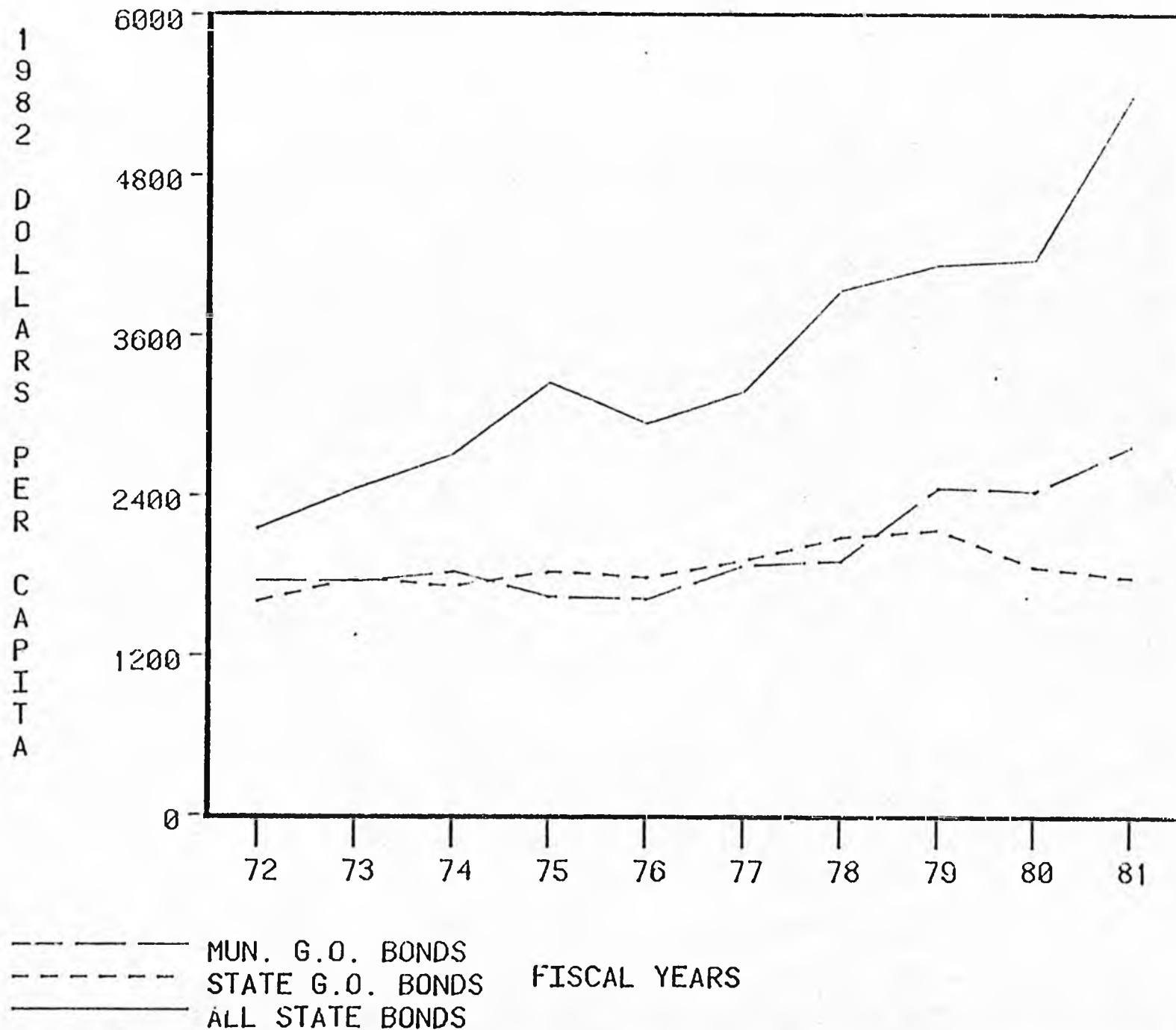


MUNICIPAL AND STATE BONDS OUTSTANDING--STATE OF ALASKA
1982 DOLLARS PER CAPITA



GRAPH 5

BONDS OUTSTANDING--STATE OF ALASKA
MUNICIPAL & STATE G.O. BONDS AND ALL STATE BONDS



BONDS OUTSTANDING AND DEBT SERVICE REQUIREMENTS
State of Alaska 1972 - 1981
(\$ in millions unless otherwise noted)

Fiscal Year	GEN OBLIGATION		STATE AGENCY		AIRPORT REVENUE		ALL BONDS		CPI Adj.	Popu- lation ¹	PER CAP. 1982 ²	
	Outs.	Debt Service	Outs.	Debt Service	Outs.	Debt Service	Outs.	Debt Service			Outs.	Debt Service
72	\$238.9	\$375.0	\$ 66.0	\$ 115.8	\$ 15.2	\$ 29.4	\$ 320.1	\$ 520.3	2.18	324.0	\$2,154	\$3,501
73	274.6	434.6	81.6	138.4	23.4	44.0	379.6	616.9	2.13	330.0	2,450	3,982
74	293.1	469.0	147.0	262.8	23.0	42.2	463.1	774.0	2.01	344.0	2,706	4,522
75	392.5	660.0	272.2	504.1*	33.2	62.2	697.7	1,226.4	1.78	383.1	3,242	5,698
76	462.9	767.0	267.5	514.4*	32.7	59.5	763.1	1,340.9	1.58	410.7	2,936	5,158
77	530.0	846.4	319.7	633.5	32.1	56.7	881.8	1,536.8	1.49	413.1	3,178	5,543
78	596.2	906.3	508.2	1,063.7	20.9	36.5	1,125.4	2,006.4	1.41	403.1	3,937	7,018
79	670.5	977.7	602.1	1,283.3	20.3	34.5	1,292.9	2,295.5	1.28	400.6	4,131	7,335
80	631.7	902.6	767.4	1,666.3	19.7	32.6	1,418.8	2,601.5	1.18	401.8	4,166	7,639
81	701.2	969.6	1,407.8	3,641.7	19.0	30.7	2,128.0	4,642.0	1.07	422.2	5,393	11,764

*estimated.

¹Population is in thousands.

²Per Capita figures are not in millions.

Source: House Research Agency 4/82

MUNICIPAL AND STATE BONDS OUTSTANDING
State of Alaska 1972 - 1981

<u>Fiscal Year</u>	<u>Mun. Bonds Outstanding (\$ Millions)</u>	<u>Per Capita (in 1982 dollars)</u>	<u>Municipal & State Bonds Outstanding (\$ Millions)</u>	<u>Per Capita (in 1982 dollars)</u>
72	\$ 262.2	\$ 1,764	\$ 582.3	\$ 3,918
73	271.5	1,752	651.1	4,203
74	312.2	1,824	775.3	4,530
75	351.4	1,633	1,049.1	4,875
76	420.8	1,619	1,183.9	4,555
77	519.6	1,874	1,401.4	5,055
78	545.2	1,907	1,670.6	5,844
79	768.5	2,456	2,061.4	6,587
80	827.1	2,429	2,245.9	6,595
81	1,091.0	2,765	3,219.0	8,158

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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

RECEIVED
MAR 30 1983

March 29, 1983

MEMORANDUM

To: Representative Barbara Lacher
From: Leonard Steinberg, Research Staff *L.S.*
Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 83-23 -- Final Report

Bob Harris of your staff requested a summary of findings regarding our analysis of the fiscal impacts of HB 164. The analysis, describing how much money would be distributed to municipalities and unincorporated communities, was delivered to your office on March 8. The discussion below briefly describes the analysis and highlights its major findings.

Description of Analysis

HB 164 would distribute the real earnings of the Permanent Fund to every municipality and unincorporated community of greater than 25 on a per capita basis. According to HB 164, the distributed Permanent Fund earnings could only be used to create local permanent funds; i.e., localities could only invest and not spend the Permanent Fund earnings they receive. However, each year, municipalities and unincorporated communities could spend 75 percent of their funds' interest income.

The analysis we performed answered three questions: first, how much money would be distributed to municipalities and unincorporated communities; second, what would be the size of each local permanent fund; and third, how much money would be available for spending from the earnings of the community permanent funds.

These questions were addressed for every fiscal year 1984-1990. However, the answers to these questions are highly dependent on estimates of future interest and inflation rates. Therefore, in addition to a most likely scenario that projects a future interest rate of 10 percent and a future inflation rate of 6 percent, we also analyzed two other interest and inflation rate combinations. One alternative contained the fairly high interest and inflation rate levels of 13 and 10 percent respectively, and the second alternative contained relatively low interest and inflation rate levels of 6 and 4 percent respectively. It is worth noting, however, that the real rate of return (the difference between the interest and inflation rate) varies from 4 percent

under the most likely scenario to 3 percent under the high interest and inflation rate scenario to 2 percent under the low interest and inflation rate scenario.

Summary of Findings

The amount of money each community receives is based on its population. Communities receive their largest share of Permanent Fund earnings, have their largest fund balances, and have the most money available for spending under the most likely scenario of a 10 percent interest rate and 6 percent inflation rate.

Increasing the interest and inflation rates to 13 and 10 percent respectively actually decreases the Permanent Fund earnings distributed to communities and decreases the size of local fund balances. These phenomena occurs because the Permanent Fund's inflation-proofing mechanism retains more money to compensate for lost purchasing power as the real rate of return falls from 4 to 3 percent. However, because the amount of money available for spending from the local permanent funds is affected solely by interest rates, the amount of money available for spending under the higher interest and inflation rates remains almost the same as under the more likely rates of 10 and 6 percent interest and inflation.

Under the low interest and inflation rates of 6 and 4 percent respectively, the amount of money available for spending in future years, future fund balances, and the distributions from the Permanent Fund are all substantially less than under the other interest and inflation rate scenarios.

Examples

Under the scenario of 10 percent interest and 6 percent inflation, Anchorage would receive \$36 million in FY84, increasing every year to \$99 million in FY 90. At the end of FY90, Anchorage's permanent fund would be approximately \$500 million and Anchorage would have approximately \$28 million dollars available for spending in FY90.

Under the high interest and inflation rate scenario, Anchorage's fund balance at the end of FY90 would fall to \$369 million though it would still have approximately \$28 million dollars to spend in that fiscal year. Under the low interest rate scenario, Anchorage's fund balance would fall to \$286 million and have only \$10.5 million to spend.

The pattern of declining funds repeats itself in the same proportions for communities of all sizes. For example, the Matanuska-Susitna Borough (population 13,746), would have a fund balance of \$39 million

in FY90 and have \$2.2 million available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario, the fund balance would fall to \$29 million but the amount available to spend would remain at about \$2.2 million. Under the lower interest and inflation rate scenarios, the FY90 fund balance would fall to \$22.5 million and the amount available to spend would drop to \$833,000.

Similarly, in FY90 the City of Palmer (population 2,141), would have a fund balance of \$6 million and have \$349,000 available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario the fund balance would fall to \$4.5 million but the amount available for spending would remain nearly the same at \$345,000. Under the lower interest and inflation rate scenario the fund balance would fall to \$3.5 million and the amount available to spend would fall to \$130,000.

Finally, even very small communities, such as Tenakee Springs (population 138) would experience the same trends. In FY90, Tenakee Springs would have a fund balance of \$396,000 and have \$22,500 available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario, Tenakee Springs would have a fund balance of \$292,000 and have about \$22,000 available for spending in FY90. Under the lower interest and inflation rate scenario, Tenakee Springs would have a fund balance of \$225,000 in FY90 and have \$8,000 available to spend in that year.

* * * *

We hope this summary is helpful. Please let us know if you have any additional questions.

LS

- Longevity Bonus
- All interest into Permanent Fund
- Equal Benefit Retirement Program

(245) Municipal Advisory Vote

(201) Charter - 5% interest

(164) Teacher - Municipal Assistance
Permanent Fund

Alaska State Legislature



Barbara Lacher, Chairman
 Mac Fischer, Vice-Chairman
 Randy Phillips
 Milo Fritz
 Don Clocksin
 Jack McBride
 Mike Szymanski

Room 104
 State Capitol
 Juneau, Alaska 99811

 Pouch V
 Juneau, Alaska 99811

House of Representatives Committee on Community & Regional Affairs

TO: Representative Lacher
 FROM: Staff
 DATE: March 9, 1983
 RE: HB164

The following data pertaining to the Alaska Permanent Fund was provided by the Department of Revenue/Research to the House Research Agency. The information is dated 1-6-83.

The following assumptions apply to the forecast indicated below:

- use 30th percentile of probabilities of income
- 6% inflation
- .1024% earnings
- 4% real rate of return

Fiscal Year	Perm Fund	Total Interest	Inflation Proofing	Available for Appropriation	
1984	<u>3,943.75</u>				(mid-year)
	4,203.06	403.84	252.2	151.66	(end-year)
1985	<u>4,481.66</u>				
	4,769.25	458.92	285.6	173.30	(end-year)
1986	<u>5,072.55</u>				
	5,384.84	519.43	23.1	196.34	(end-year)
1987	<u>6,058.34</u>				
	6,436.59	586.89	363.5	222.39	(end-year)
1988	<u>6,814.83</u>				
	7,236.93	659.11	408.9	250.22	(end-year)
1989	<u>7,659.03</u>				
	8,090.78	741.06	459.5	281.52	(end-year)
1990	<u>8,522.52</u>	828.50	511.40	317.15	

The following data from the previous mentioned source, again uses the 30th percentile of probabilities, 10% interest return, and 6% inflation. The first column is State population estimates developed from Bureau of Census data. The second column is the projected dividend payment per person, in current dollars, under existing law. The third column is the individual dividend payment in 1981 dollars.

	I	II	III
1983	444.33	\$1000.00	\$881.68
1984	464.33	365.51	304.02
1985	484.68	251.06	197.00
1986	505.38	333.51	246.89
1987	526.44	409.06	285.67
1988	547.85	448.55	295.52
1989	569.61	489.82	304.45
1090	591.72 (thousands)	530.34	310.98



Good answer to file

Box 1210 602 Railroad Avenue
Cordova, Alaska 99574
Phone: (907) 424-3237
or 424-3238

"The Friendly City"

March 23, 1983

James A. Poor
Mayor

Perry D. Lovett,
Manager

Donna M. Sherby,
Clerk / Treasurer

Council Members
Richard Groff
R. J. Kopchak
Garry Purvis
Joe Gunderson
Phyllis Day
Oliver Osborn

Representative Barbara Locher
Pouch V
Juneau, Alaska 99811

MAR 29 1983

Dear Representative ^{BARBARA} Locher:

I received your letter regarding HB 164 which you introduced to distribute Alaska permanent fund income to municipalities and unincorporated communities and repealing the permanent fund dividend program.

I took your letter to the City Council meeting held last Monday, and they unanimously voted to support your bill.

The general comments were that these funds would then stay within the community and benefit everyone, plus supporting the State revenue and municipal assistance programs.

Sincerely,

Perry D. Lovett
City Manager

cc: Representative Peter Goll
Representative Richard Eliason

Box 53
Willow, Alaska
March 11, 1983

MAR 13 1983

Answer

Hon. Barbara Lacher
House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Mrs. Lacher:

I understand the House is presently considering various bills on the Dividend Program, and if not too late, my husband and I would like to be numbered among those favoring its repeal. Letters to the Anchorage News seem to be predominantly for the program, but most of the people we've been talking to favor repeal, as we do. I must admit they are over 40, and some of our younger friends are the ones who want to keep the checks coming, and I believe a vote of the people would favor keeping the program, but that doesn't mean it's the best answer to the problem. Few people are going to refuse a handout, and as a former president once said, the average voter is incapable of considering the public good above his own. I believe this money belongs to the state as a whole and not to the people individually.

Second subject: Other benefits for Alaska such as the Pioneer Home and the Longevity Program, now mentioned in the News as under scrutiny by the Legislature also. These programs benefit older people with reduced incomes when they most need help, and I know several people who stay in Alaska because of them. I think they are far more important than the Dividend Program and I hope the Legislature will find a way to continue them that satisfies the law.

Third: I hope if and when the matter arises you will all remember that poor old Willow still needs a new community building. The present one is a fire-trap, and we have no fire department either. If any place could use a little help in this regard, Willow sure could.

Sincerely,

Mary Lee Mayfield

Mary Lee Mayfield

STATE OF ALASKA
THE LEGISLATURE

FEB 9 1983

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 9, 1983

SUBJECT: Distributions to municipalities and
unincorporated communities
(Work Order No. 13-0609)

TO: Representative Barbara Lacher

FROM: *EHC* Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of your Work Order No. 13-0609, relating to distributions of Alaska permanent fund income to municipalities and unincorporated communities.

* Section 1 amends AS 37.13.145 to delete references to the reinvestment of the undistributed income account in the fund, because your proposal calls for all of the undistributed income to be distributed to municipalities and unincorporated communities. Some may be retained for the benefit of individual municipalities or unincorporated communities, but the income from such retained money will be credited to the named communities rather than to the undistributed income account.

* Section 2 contains amendments to AS 37.13 that are necessary to provide a distribution mechanism for the Alaska permanent fund income. Proposed AS 37.13.147 requires distribution of part of the permanent fund income to municipalities. Determination of the amount of the annual distribution to a municipality is made by multiplying the total amount to be distributed by a fraction representing the ratio of the population of the municipality to the total population of entities that are eligible for distributions. Population is calculated on the same basis set out in AS 29.88.015. The population of a city that is eligible for its own distribution and that is within a borough is excluded in calculating the population of the borough. A municipality that receives a distribution from the Alaska permanent fund must invest the money and then reinvest

25 percent of the earnings, using the remaining 75 percent for municipal purposes. A municipality may choose to leave its money in the Alaska permanent fund so that the commissioner of revenue can invest it for the municipality and distribute 75 percent of the income as if the municipality were investing the money itself. A municipality may reclaim its money upon proper notice. A municipality is defined as a general law or home rule city or borough, or a unified municipality.

Proposed AS 37.13.148 provides for distributions to unincorporated communities. Unincorporated communities are treated somewhat differently from municipalities in this legislation. An unincorporated community is a group of 25 or more people living as a social unit in the unorganized borough. This is the definition used in a previous distribution of state money in 1981 (Chapter 60, SLA 1981). An unincorporated community may only receive and invest its money if it is an entity that has the legal capacity to do so, as determined by the attorney general. If the unincorporated community does not have the legal capacity to invest the money, or if it does have the capacity, but chooses to leave its money in the Alaska permanent fund, the commissioner of revenue invests the money for the community and distributes 75 percent of the income from that investment to the community. Population and amounts to be distributed are determined in a manner similar to that established for municipalities.

* Section 3 repeals the permanent fund dividend distribution program in order to make Alaska permanent fund income available for the distributions to municipalities and unincorporated communities.

* Section 4 is a technical amendment to terminate the dividend fund now used to pay permanent fund dividends. Provisions are made in this section and in * Sec. 5 to insure that persons eligible for 1982 permanent fund dividends will receive those dividends.

* Section 6 deletes a cross-reference in Title 09 of the Alaska Statutes to the permanent fund dividend distribution program.

* Section 7 provides for an immediate effective date.

LHA:ljb

Alaska State Legislature



Barbara Lacher, Chairman
 Mac Tischer, Vice-Chairman
 Randy Phillips
 Milo Fritz
 Don Clocksin
 Jack McBride
 Mike Szymanski

Room 104
 State Capitol
 Juneau, Alaska 99811

 Pouch V
 Juneau, Alaska 99811

House of Representatives Committee on Community & Regional Affairs

TO: Representative Lacher
 FROM: Staff
 DATE: March 9, 1983
 RE: HB164

The following data pertaining to the Alaska Permanent Fund was provided by the Department of Revenue/Research to the House Research Agency. The information is dated 1-6-83.

The following assumptions apply to the forecast indicated below:

- use 30th percentile of probabilities of income
- 6% inflation
- .1024% earnings
- 4% real rate of return

<u>Fiscal Year</u>	<u>Perm Fund</u>	<u>Total Interest</u>	<u>Inflation Proofing</u>	<u>Available for Appropriation</u>	
1984	<u>3,943.75</u>				(mid-year)
	4,203.06	403.84	252.2	151.66	(end-year)
1985	<u>4,481.66</u>				
	4,769.25	458.92	285.6	173.30	(end-year)
1986	<u>5,072.55</u>				
	5,384.84	519.43	323.1	196.34	(end-year)
1987	<u>6,058.34</u>				
	6,436.59	586.89	363.5	222.39	(end-year)
1988	<u>6,814.83</u>				
	7,236.93	659.11	408.9	250.22	(end-year)
1989	<u>7,659.03</u>				
	8,090.78	741.06	459.5	281.52	(end-year)
1990	<u>8,522.52</u>	<u>828.50</u>	<u>511.40</u>	<u>317.15</u>	

The following data from the previous mentioned source, again uses the 30th percentile of probabilities, 10% interest return, and 6% inflation. The first column is State population estimates developed from Bureau of Census data. The second column is the projected dividend payment per person, in current dollars, under existing law. The third column is the individual dividend payment in 1981 dollars.

	I	II	III
1983	444.33	\$1000.00	\$881.68
1984	464.33	365.51	304.02
1985	484.68	251.06	197.00
1986	505.38	333.51	246.89
1987	526.44	409.06	285.67
1988	547.85	448.55	295.52
1989	569.61	489.82	304.45
1090	591.72	530.34	310.98

(thousands)



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

March 29, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff *L.S.*

Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 83-23 -- Final Report

Bob Harris of your staff requested a summary of findings regarding our analysis of the fiscal impacts of HB 164. The analysis, describing how much money would be distributed to municipalities and unincorporated communities, was delivered to your office on March 8. The discussion below briefly describes the analysis and highlights its major findings.

Description of Analysis

HB 164 would distribute the real earnings of the Permanent Fund to every municipality and unincorporated community of greater than 25 on a per capita basis. According to HB 164, the distributed Permanent Fund earnings could only be used to create local permanent funds; i.e., localities could only invest and not spend the Permanent Fund earnings they receive. However, each year, municipalities and unincorporated communities could spend 75 percent of their funds' interest income.

The analysis we performed answered three questions: first, how much money would be distributed to municipalities and unincorporated communities; second, what would be the size of each local permanent fund; and third, how much money would be available for spending from the earnings of the community permanent funds.

These questions were addressed for every fiscal year 1984-1990. However, the answers to these questions are highly dependent on estimates of future interest and inflation rates. Therefore, in addition to a most likely scenario that projects a future interest rate of 10 percent and a future inflation rate of 6 percent, we also analyzed two other interest and inflation rate combinations. One alternative contained the fairly high interest and inflation rate levels of 13 and 10 percent respectively, and the second alternative contained relatively low interest and inflation rate levels of 6 and 4 percent respectively. It is worth noting, however, that the real rate of return (the difference between the interest and inflation rate) varies from 4 percent

under the most likely scenario to 3 percent under the high interest and inflation rate scenario to 2 percent under the low interest and inflation rate scenario.

Summary of Findings

The amount of money each community receives is based on its population. Communities receive their largest share of Permanent Fund earnings, have their largest fund balances, and have the most money available for spending under the most likely scenario of a 10 percent interest rate and 6 percent inflation rate.

Increasing the interest and inflation rates to 13 and 10 percent respectively actually decreases the Permanent Fund earnings distributed to communities and decreases the size of local fund balances. These phenomena occurs because the Permanent Fund's inflation-proofing mechanism retains more money to compensate for lost purchasing power as the real rate of return falls from 4 to 3 percent. However, because the amount of money available for spending from the local permanent funds is affected solely by interest rates, the amount of money available for spending under the higher interest and inflation rates remains almost the same as under the more likely rates of 10 and 6 percent interest and inflation.

Under the low interest and inflation rates of 6 and 4 percent respectively, the amount of money available for spending in future years, future fund balances, and the distributions from the Permanent Fund are all substantially less than under the other interest and inflation rate scenarios.

Examples

Under the scenario of 10 percent interest and 6 percent inflation, Anchorage would receive \$36 million in FY84, increasing every year to \$99 million in FY 90. At the end of FY90, Anchorage's permanent fund would be approximately \$500 million and Anchorage would have approximately \$28 million dollars available for spending in FY90.

Under the high interest and inflation rate scenario, Anchorage's fund balance at the end of FY90 would fall to \$369 million though it would still have approximately \$28 million dollars to spend in that fiscal year. Under the low interest rate scenario, Anchorage's fund balance would fall to \$286 million and have only \$10.5 million to spend.

The pattern of declining funds repeats itself in the same proportions for communities of all sizes. For example, the Matanuska-Susitna Borough (population 13,746), would have a fund balance of \$39 million

in FY90 and have \$2.2 million available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario, the fund balance would fall to \$29 million but the amount available to spend would remain at about \$2.2 million. Under the lower interest and inflation rate scenarios, the FY90 fund balance would fall to \$22.5 million and the amount available to spend would drop to \$833,000.

Similarly, in FY90 the City of Palmer (population 2,141), would have a fund balance of \$6 million and have \$349,000 available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario the fund balance would fall to \$4.5 million but the amount available for spending would remain nearly the same at \$345,000. Under the lower interest and inflation rate scenario the fund balance would fall to \$3.5 million and the amount available to spend would fall to \$130,000.

Finally, even very small communities, such as Tenakee Springs (population 138) would experience the same trends. In FY90, Tenakee Springs would have a fund balance of \$396,000 and have \$22,500 available for spending under the most likely interest and inflation rate scenario. Under the high interest and inflation rate scenario, Tenakee Springs would have a fund balance of \$292,000 and have about \$22,000 available for spending in FY90. Under the lower interest and inflation rate scenario, Tenakee Springs would have a fund balance of \$226,000 in FY90 and have \$8,000 available to spend in that year.

* * * *

We hope this summary is helpful. Please let us know if you have any additional questions.

LS



CITY OF MC GRATH

P.O. BOX 57 MC GRATH, ALASKA 99627

PHONE (907) 524-3825

March 21, 1983

Head
Hill
Armen

March 21, 1983

The Honorable Barbara Lacher
Alaska House of Representative
Pouch V
Juneau, Alaska 99811

Dear Representative Lacher

I have read your letter and HB-164 with great interest. I believe that the four points covered in your letter are adequately addressed in the bill. Passage of HB-164 would, in my opinion, be a service to the residents of Alaska for several reasons. First, it would approve the image of Alaska in the eyes of rest of the country. The distribution of \$1,000 checks was a major mistake from a practical and political standpoint. Second, it would take the Permanent Fund Program out of the political arena. It is my understanding, that former Gov. Hammond saw one of the uses of the Permanent Fund Program as the beginning of a local tax base. Your approach is very similar but differs in that HB-164 could be used as an in-lieu of tax program. Third, it would allow communities to decide how the Permanent Fund money was going to be used. This is very important. Each community has different needs at different times. Use of the Permanent Fund to meet those needs as established locally is extremely important.

I found HB-164 interesting in another aspect. For the past few months, Tim Troll, City Mgr. of St. Marys, and I have been discussing a similar approach using municipal funds. Surplus municipal funds could be invested to maximize their return with the interest being used to underwrite specific local programs or services. You might want to consider a provision which would allow a municipality to invest additional funds in the Permanent Fund program under the same provisions outlined in HB-164.

Sincerely,

Robert S. Juettner
Robert S. Juettner
City Administrator

cc: Alaska Municipal League



Box 1210 602 Railroad Avenue
Cordova, Alaska 99574
Phone: (907) 424-3237
or 424-3238

"The Friendly City"

*Good
Answer
↓
File*

March 23, 1983

James A. Poor
Mayor

Perry D. Lovett,
Manager

Donna M. Sherb,
Clerk / Treasurer

Council Members
Richard Groff
R. J. Kopchak
Garry Purvis
Joe Gunderson
Phyllis Day
Oliver Osborn

Representative Barbara Locher
Pouch V
Juneau, Alaska 99811

MAR 29 1983

BARBARA

Dear Representative Locher:

I received your letter regarding HB 164 which you introduced to distribute Alaska permanent fund income to municipalities and unincorporated communities and repealing the permanent fund dividend program.

I took your letter to the City Council meeting held last Monday, and they unanimously voted to support your bill.

The general comments were that these funds would then stay within the community and benefit everyone, plus supporting the State revenue and municipal assistance programs.

Sincerely,

Perry D. Lovett
City Manager

cc: Representative Peter Goll
Representative Richard Eliason



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99801
(907) 465-3991

February 9, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff *L.S.*

Re: Distribution of Permanent Fund Dividends to Municipalities
Additional Information -- Research Request 83-23

During our meeting on the afternoon of February 4, you requested additional information on how to clarify the Permanent Fund language in AS 37.13 140 and 145. The information I obtained from Jim Rhode of the Alaska Permanent Fund, Milt Barker of the Division of Legislative Finance, and Lynn Asper of the Division of Legal Services is summarized below.

Jim Rhode

Jim Rhode has been involved in Alaska Permanent Fund legislation since the Fund's inception and is now the Permanent Fund Corporation's Research and Liaison Officer. Mr. Rhode first clarified that the Fund's Board of Trustees has not been and will not be concerned with how to spend the Fund's earnings. According to Mr. Rhode, the Trustees recognize that the existing language is confusing and their intent has been to attempt to clarify the law during the next legislative session. However, because of the legislature's considerable interest in the Fund this legislative session, the Permanent Fund Corporation may support clarifying legislation this year after all.

Mr. Rhode described the Corporation's preference for an entire rewrite of AS 37.13.140 and 145 clearly outlining the uses of Permanent Fund income. Mr. Rhode has suggested that gross income, excluding unrealized gains and losses, be used as the starting point from which is subtracted: (1) the cost of operating the Permanent Fund Corporation, and; (2) the amount to be reinvested necessary to compensate for inflation. According to Mr. Rhode, the funds remaining should be transferred to the undistributed income account and be available for distribution. Mr. Rhode has suggested that these policies be written in clear and nontechnical language and substituted for sections 140 and 145.

Currently there is some debate within the Permanent Fund Corporation as to whether or not the undistributed income account can be used for

Representative Barbara Lacher
February 9, 1983
Page Two

inflation-proofing. Jim Rhode argues that only if these funds are available for inflation-proofing during years when inflation exceeds income will the real value of the Permanent Fund be maintained. Despite Mr. Rhode's arguments, other knowledgeable individuals associated with the Permanent Fund Corporation disagree with his interpretation of existing law. Mr. Rhode supports clarification of the State's policy on this issue.

Jim Rhode also supports the existing law's procedures for determining the amount of money available for distribution on the basis of a five-year average. Mr. Rhode feels that smoothing out the spending of the Fund's real earnings will reduce the danger of dipping into the inflation-proofing mechanism and Fund principal for additional money.

Mr. Rhode did not have specific language to suggest at this time. However, I asked Mr. Rhode to respond to substituting "of the annual transfers and interest income to the undistributed income account" in place of "net income" after the word "average" in the second sentence of section 140. Mr. Rhode stated that this is a less complete rewrite than he would like to see, but that it essentially accomplishes the purpose of clarifying the legislation.

Milt Barker

Milt Barker has been with the Division of Legislative Finance for many years and is a recognized expert in the areas of public finance, budgeting, and revenue forecasting. Mr. Barker commented that repealing AS 43.23 will go a long way toward clarifying the existing law regarding Permanent Fund income. Mr. Barker also recommends a total rewrite of sections 140 and 145 of AS 37.13.

Milt Barker suggests defining the income available for spending from the Fund as the Fund's real income. If possible, Mr. Barker suggested defining real income according to the guidelines established by the FASB, the Financial Accounting Standards Board. (The FASB is the national organization that defines what are generally accepted accounting procedures.) I have asked Mr. Gerald Wilkerson, Director of the Division of Legislative Audit, to look into the FASB's guidelines for defining real income and will report these guidelines to you as soon as they are available.

Mr. Barker also suggested eliminating the undistributed income account and allocating the real income either to a specific program or allowing it to go back into the general fund. I asked Mr. Barker to comment on Jim Rhode's assertion that the undistributed income account should be available for inflation-proofing during years when inflation exceeds real income. Mr. Barker stated that an undistributed income account

Representative Barbara Lacher
February 9, 1983
Page Three

is not necessary to fully inflation-proof the Fund. According to Mr. Barker, his proposal, which defines income only as real income, would carry forward into a subsequent year any real loss, and earnings in subsequent years would be used to erase that loss.

Lynn Asper

I spoke with Mr. Lynn Asper of the Division of Legal Services about the existing law in sections 140 and 145. Mr. Asper agreed that the existing law is very difficult to understand. Mr. Asper declined to offer specific suggestions for clarifying the law because he felt unprepared to do so without additional review.

I asked Mr. Asper to comment on substituting "of the annual transfers and interest income to the undistributed income account" in place of the phrase "net worth" after the word "average" in section 140. Mr. Asper noted that this alteration would clarify the first part of the sentence but the last part of the sentence would remain unclear. After further discussion, I suggested the deletion of the phrase, "net income of the corporation for the fiscal year just ended plus" after the word "exceed" and Mr. Asper said such a deletion, in combination with the previously mentioned substitution, would clarify the sentence and the intent of the section.

* * * *

We hope this information is helpful to you. We plan to prepare the projections of Permanent Fund earnings and the funds available for spending within the next two weeks. Any additional information we obtain on clarifying the law will be passed on to you promptly. Please let us know if we can be of further assistance.

LS



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 4, 1983

MEMORANDUM

To: Representative Barbara Lacher
From: Leonard Steinberg, Research Staff *L.S.*
Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 83-23

Bob Harris of your staff requested a section-by-section analysis of the proposed legislation entitled "An Act providing for the distribution of Alaska permanent fund income to municipalities; and providing for an effective date." Additionally, we have been requested to calculate the earnings which would be available to municipalities under the proposal for the next four years. This memorandum provides the sectional analysis; the earnings calculations will be provided in a subsequent memorandum.

The proposed legislation's interaction with existing law may be unclear in certain sections. Our interpretation of the interaction between the proposed legislation and existing law is discussed below. Additionally, photocopies of the relevant sections of existing law are attached for your review.

We estimate that the earnings calculations can be completed by hand and delivered within one week for no more than 10 to 12 communities. Alternatively, within two weeks we can calculate the earnings for a larger number of communities with the use of a computer. Please let us know which of these alternatives you prefer.

Section 1

Section 1 of the proposed legislation, which amends A.S. 37.13.145, is intended to "inflation-proof" the Alaska Permanent Fund and provides for the disposition of the Fund's income. Under the proposed legislation, the inflation-proofing mechanism in the existing statute is retained; Section 1 requires that a portion of the income sufficient to compensate for inflation be transferred to the principal in order to maintain the Fund's real value or purchasing power.

Under existing law and in the proposed legislation, the income that remains after inflation-proofing is transferred to the Undistributed Income Account (UIA). The effective language is, "The balance of the

net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska permanent fund." The proposed legislation adds to the end of the existing sentence quoted above, "for annual distribution under AS 37.13.147 and 37.13.148.

The proposed legislation's new language may be ambiguous. The language could be interpreted to mean that the total income transferred to the UIA each year is to be distributed annually. Alternatively, the language could be interpreted to mean that only the five-year average of income is annually distributed in conformance with section 140.

Lynn Asper, the Legal Services attorney that drafted the legislation told me that it was his intention to retain the five-year averaging requirement of section 140. This intention can be clarified with the addition of the words "according to the five-year averaging formula of AS 37.13.140 and" between "distribution" and "under" on lines 19 and 20, page 1 of the proposed legislation. 21

22
Though the proposed legislation refers to section 140, the meaning of those references may be ambiguous because sections 140 and 145 do not work well together. For example, section 140 states that the income available for distribution is the five-year average of net income. However, section 145 does not transfer net income to the undistributed income account but transfers net income minus the income necessary to offset inflation. The result is that section 140 makes far more income available for distribution than is ever transferred to the undistributed income account. Mr. David Rose and Mr. Jim Rhode, both with the Alaska Permanent Fund Corporation, agreed that it is difficult to determine the meanings of sections 140 and 145 as they are currently written. However, Mr. Rose pointed out that the averaging of the amount of money available for distribution from the UIA moderates fluctuations that might occur if the amount of money available for distribution is based on annual transfers to the undistributed income account. Section 140 could be clarified with an amendment deleting "net income" after the word "average" and substituting "of the annual transfers and interest income to the undistributed income account."

Section 2

Section 2 of the proposed legislation amends AS 37.13 by adding two new sections 147 and 148 entitled, "Distribution To Municipalities" and "Distribution To Unincorporated Communities."

Sec. 37.13.147 DISTRIBUTION TO MUNICIPALITIES. Subsection (a) states that a portion of the money transferred to the undistributed income account shall be annually distributed to or invested for the municipalities of the state. The word portion may be read in numerous different

ways including: (1) a portion of the amount transferred to the UIA; or (2) a portion of what is available for distribution. Subsection (a) also refers to distributing money that is transferred to the UIA rather than money that is available for distribution from the UIA, casting doubt once again on whether all of the funds transferred to the UIA are to be distributed or only some portion of those funds, presumably the portion available for distribution according to section 140.

Legal Services attorney Lynn Asper indicated to me that "portion" was intended to refer to the dividing up of the funds between municipalities and unincorporated communities. However, this point has already been made in section 145 where it says the funds are to be annually distributed under sections 147 and 148 which includes both municipalities and unincorporated communities. Additionally, Mr. Asper previously indicated that he intended only the five-year average to be available for distribution.

As "portion" may not be necessary and may be interpreted as ambiguous, it may be desirable to delete this term from the proposed legislation. Subsection (a) may be further clarified by deleting the term "transferred" and substituting the term "available for distribution" so that the sentence would read, "The money that is available for distribution in the undistributed income account...."

Subsection (b) outlines a population-based formula for determining how much of the total amount available for distribution is to be made available to each municipality. The formula distributes the funds on a per capita basis. Population figures to be used are predominantly those developed by the U.S. Bureau of the Census. One issue in subsection (b) that may be ambiguous, however, is the meaning of "eligible" in the phrase "A person who is eligible to vote...." This issue is discussed in further detail in Research Request 83-41, "Effect of Population Counting Method in SSH? 42" which you will receive very soon.

Subsection (b) also provides for funds to be distributed to boroughs on a per capita basis. The distribution formula subtracts the population of each city located within the boundaries of the borough from the total population of that borough. The effect of the provision is to avoid double counting of individuals that live in both a city and a borough. The population of unincorporated communities within a borough do not have to be subtracted from the borough population because unincorporated communities as defined in subsection (e) can exist only in the unorganized borough.

Subsection (c) establishes that the funds received by municipalities under this law are to be invested under the same guidelines that apply

to Alaska Permanent Fund investments. Subsection (c) also states that 25 percent of the earnings from those investments shall be re-invested; the remaining 75 percent of the earnings may be used for any municipal purpose.

Subsection (d) allows municipalities to leave their funds with the Permanent Fund Corporation to be invested in the name of the municipality. Under this option, the Permanent Fund Corporation is required to distribute to the municipalities choosing this option 75 percent of the income earned on the funds invested in the name of the municipality involved, which can then be spent for any municipal purpose. Twenty-five percent of the income earned must be reinvested by the Permanent Fund Corporation in the funds managed in the name of municipalities. Municipalities are also allowed to withdraw their funds from the Permanent Fund's management with 90 days notice.

Subsection (e) defines municipality as a general law or home rule city, a general law or home rule borough, or a unified municipality organized under the laws of Alaska. An unincorporated community is defined as an unincorporated place in the unorganized borough in which 25 or more persons reside as a social unit.

Sec. 37.13.148 DISTRIBUTION TO UNINCORPORATED COMMUNITIES. Subsection (a) establishes that a portion of the money transferred to the undistributed income account shall be annually distributed to or invested for unincorporated communities of the state. The comments made earlier on section 147 (a) also apply to subsection (a) of section 148.

Subsection (b) outlines a population-based formula for determining how much of the total amount available for distribution is to be made available to each unincorporated community. The formula distributes the funds on a per capita basis. The population of unincorporated communities is to be determined by the latest figures of the U.S. Bureau of the Census.

Subsection (c) provides for the distribution of funds to unincorporated communities if the attorney general determines that communities have the legal capacity to invest the money received. If the attorney general determines that an unincorporated community does not have the legal capacity to invest the funds to which it is entitled, then the funds are to be invested in the name of that community by the Permanent Fund Corporation. Those communities entitled to receive their funds may opt to have their funds invested for them by the Permanent Fund Corporation. In all cases, the investments must follow the guidelines established for Permanent Fund investments; 25 percent of the earnings must be reinvested and 75 percent of the earnings are available to be spent for any municipal purpose.

Representative Barbara Lacher
February 4, 1983
Page Five

Subsection (d) provides the same definitions of municipality and unincorporated community as in subsection (e) of section 147.

Section 3

Section 3 of the proposed legislation repeals AS 43.23, the Alaska Permanent Fund Dividend program.

Section 4

Section 4 of the proposed legislation transfers money and other assets held in the dividend fund, except for what is needed to pay 1982 dividends, to the undistributed income account of the Alaska permanent fund.

Section 5

Section 5 of the proposed legislation makes the repeal of the dividend program retroactive to January 1, 1983.

Section 6

Section 6 of the proposed legislation deletes references to lists of persons who filed for Alaska permanent fund dividends from the existing law describing how to develop a list of potential jurors for trials.

Section 7

Section 7 of the proposed legislation provides for the new law to take effect immediately in accordance with AS 01.10.070(c).

* * * *

We hope this information is helpful to you. Please let us know if we can be of further assistance.

LS

Attachment



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y. State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 9, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff *L. S.*

Re: Distribution of Permanent Fund Dividends to Municipalities
Additional Information -- Research Request 83-23

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Representative Barbara Lacher

February 9, 1983

Page Three

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Representative Barbara Lacher
February 9, 1983
Page Two

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STATE OF ALASKA
THE LEGISLATURE

FEB 9 1983

POUCH - STATE CAPITOL
JUNEAU, ALASKA 99801
507-466-2810

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 9, 1983

SUBJECT: Distributions to municipalities and
unincorporated communities
(Work Order No. 13-0609)

TO: Representative Barbara Lacher

FROM: *ELH* Linn H. Asper
Legislative Counsel

You have asked for a sectional analysis of your Work Order No. 13-0609, relating to distributions of Alaska permanent fund income to municipalities and unincorporated communities.

* Section 1 amends AS 37.13.145 to delete references to the reinvestment of the undistributed income account in the fund, because your proposal calls for all of the undistributed income to be distributed to municipalities and unincorporated communities. Some may be retained for the benefit of individual municipalities or unincorporated communities, but the income from such retained money will be credited to the named communities rather than to the undistributed income account.

* Section 2 contains amendments to AS 37.13 that are necessary to provide a distribution mechanism for the Alaska permanent fund income. Proposed AS 37.13.147 requires distribution of part of the permanent fund income to municipalities. Determination of the amount of the annual distribution to a municipality is made by multiplying the total amount to be distributed by a fraction representing the ratio of the population of the municipality to the total population of entities that are eligible for distributions. Population is calculated on the same basis set out in AS 29.88.015. The population of a city that is eligible for its own distribution and that is within a borough is excluded in calculating the population of the borough. A municipality that receives a distribution from the Alaska permanent fund must invest the money and then reinvest

February 9, 1983

25 percent of the earnings, using the remaining 75 percent for municipal purposes. A municipality may choose to leave its money in the Alaska permanent fund so that the commissioner of revenue can invest it for the municipality and distribute 75 percent of the income as if the municipality were investing the money itself. A municipality may reclaim its money upon proper notice. A municipality is defined as a general law or home rule city or borough, or a unified municipality.

Proposed AS 37.13.148 provides for distributions to unincorporated communities. Unincorporated communities are treated somewhat differently from municipalities in this legislation. An unincorporated community is a group of 25 or more people living as a social unit in the unorganized borough. This is the definition used in a previous distribution of state money in 1981 (Chapter 60, SLA 1981). An unincorporated community may only receive and invest its money if it is an entity that has the legal capacity to do so, as determined by the attorney general. If the unincorporated community does not have the legal capacity to invest the money, or if it does have the capacity, but chooses to leave its money in the Alaska permanent fund, the commissioner of revenue invests the money for the community and distributes 75 percent of the income from that investment to the community. Population and amounts to be distributed are determined in a manner similar to that established for municipalities.

* Section 3 repeals the permanent fund dividend distribution program in order to make Alaska permanent fund income available for the distributions to municipalities and unincorporated communities.

* Section 4 is a technical amendment to terminate the dividend fund now used to pay permanent fund dividends. Provisions are made in this section and in * Sec. 5 to insure that persons eligible for 1982 permanent fund dividends will receive those dividends.

* Section 6 deletes a cross-reference in Title 09 of the Alaska Statutes to the permanent fund dividend distribution program.

* Section 7 provides for an immediate effective date.

LHA:ljb

STATE OF ALASKA

Bill Sheffield, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

February 16, 1983

FEB 18 1983

The Honorable Barbara Lacher
Representative
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: House Bill 164

Dear Representative Lacher:

This is in response to your memorandum dated February 9 which asked the question whether the Metlakatla Indian Community and Alaska Native villages would be eligible for distribution of money under H.B. 164.

Section 37.13.148(a) of H.B. 164 provides for distribution of money to "unincorporated communities". Section 37.13.148(d) defines "unincorporated community" to mean "a place in the unorganized borough, not incorporated as a municipality, in which 25 or more persons reside as a social unit".

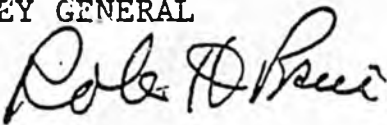
This is to advise you that the Metlakatla Indian Community and Alaska Native villages in which 25 or more persons reside as a social unit are within the definition of "unincorporated community" of section 37.13.148(d). Further, there is no reason under state law for excluding the Metlakatla Indian Community or Alaska Native villages from benefits under the statute. It has been the consistent position of this office that the state may provide grants to Alaska Native villages so long as the grant recipients do not discriminate on the basis of race in the administration of the grant. See 1981 Inf. Op. Att'y Gen. (April 27, J-66-335-81. You may also wish to consider a waiver of sovereign immunity by the Alaska Native village and the Metlakatla Indian

Community as a condition of the distribution of money in order to avoid any problem with enforcement of the grant of money. See Native Village of Eyak v. GC Contractors, Alaska Supreme Court, No. 2601 (January 14, 1983).

Very truly yours,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By:



Robert E. Price
Assistant Attorney General

REP/jb



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouli Y. State Capitol
Juneau, Alaska 99811
(907) 465-3991

March 3, 1983

MEMORANDUM

To: Representative Barbara Lacher

From: Leonard Steinberg, Research Staff

Re: Distribution of Permanent Fund Dividends to Municipalities
Research Request 82-23 -- Additional Information

On February 9 you requested additional information on how to clarify the statutory provisions for retaining and distributing Permanent Fund earnings. Additional discussions I have had with Dave Rose and Jim Rhode of the Permanent Fund, and Gerald Wilkerson of the Division of Legislative Audit, are summarized below.

Comments by Dave Rose

Alaska Statute 37.13.145 requires the use of a "nationally recognized index" in determining the inflation-proofing requirements of the Permanent Fund. However, Mr. Rose pointed out that there is considerable variation between indexes and the law does not specify which index is to be used. Last year, for example, the consumer price index for Anchorage, as calculated by the U.S. government, was about one-half the national consumer price index. Mr. Rose recommends requiring that the same index be used for inflation-proofing that the State chooses to use for its index-based spending; in particular he suggested that the Permanent Fund use the same index that is used for Alaska's new spending limit which is similarly required to use a federal index to determine the inflation rate.

Mr. Rose also discussed the advisability of retaining the five-year averaging mechanism to smooth out the spending of Permanent Fund earnings. He noted that Fund managers are more comfortable with smooth as opposed to erratic spending because they fear that erratic spending will threaten the integrity of the Fund.

Last, Mr. Rose commented on the vagueness of the law concerning the use of the undistributed income account (UIA) for inflation-proofing. Currently there are two schools of thought on this issue; one group interprets the law so as to allow use of UIA for inflation-proofing and the other school reaches the opposite conclusion. Dave Rose would prefer to be able to use the UIA for inflation-proofing but, regardless of the policy decision, supports new legislation to clarify this issue.

Representative Barbara Lacher
March 3, 1983
Page Two

Comments by Jim Rhode

Mr. Rhode expressed concern that HB 164 could result in substantial economic inefficiencies. He raised three issues related to small-scale versions of the Permanent Fund. First, the set-up and transaction costs associated with any investment are relatively more costly for small investments than for large investments. Second, the small funds would lack the ability of larger funds to diversify and maximize the balance of risk and return. Last, investor inexperience could result in poor fund performance. Jim Rhode would be happy to discuss HB 164 with you at any time; he can be contacted at 465-2350.

Comments by Gerald Wilkerson

As mentioned in my memorandum to you of February 9, Gerald Wilkerson, Director of the Division of Legislative Audit, has prepared excerpts from Accounting Standards by the Financial Accounting Standards Board (FASB) related to the definition of real income. A copy of this material is enclosed with this memorandum.

The FASB material indicates that there are accounting methods which reflect the real value of monetary assets in terms of purchasing power. Though additional analysis may be necessary, it appears that the Permanent Fund's financial statements could reflect both the impact of inflation and distinguish between nominal and real income with the use of the FASB accounting guidelines.

Additional Observations

I spoke with Rob Harris of your office regarding the fact that HB 164 does not specify the timing of payments to municipalities or when the municipalities can use their interest income. The amount of money available for municipal spending in future years is affected by whether payments occur during the fiscal year in which they are earned or only at the conclusion of the fiscal year. HB 164 as it is currently written could be interpreted either way. In accordance with Bob Harris' suggestion, our projections of the amount of money that will be available for distribution and spending will be based on the conservative assumptions that Permanent Fund earnings are distributed soon after the beginning of the State's fiscal year, and that communities will spend 75 percent of the earnings from the prior fiscal year.

* * * *

We hope this information is useful to you. The remaining portion of this research request, projecting the distributions and earnings of funds in various municipalities and communities, will be sent to you as soon as the project is completed.

LS

Attachments

CHANGING PRICES: REPORTING THEIR EFFECTS IN FINANCIAL REPORTS

SECTION C27

Sources: FASB Statement 33; FASB Statement 39; FASB Statement 40; FASB Statement 41; FASB Statement 46; FASB Statement 54; FASB Technical Bulletin 79-8; FASB Technical Bulletin 81-4

Summary

This section ~~requires certain large publicly held business enterprises~~ to provide information about effects of changing prices as ~~supplementary disclosures~~ in their published annual reports.

The information to be provided for the current fiscal year includes:

- a. Income from continuing operations adjusted both for effects of general inflation and for effects of specific price changes
- b. The purchasing power gain or loss on net monetary items; the current cost of inventory and property, plant, and equipment at the end of the fiscal year and changes in those current costs, and measures of net assets based on adjustments for general inflation and for specific price changes

This section also requires presentation of selected financial information for each of the last five years expressed in constant dollars. Information to be presented in the summary includes net sales, dividends and market price per share of common stock, the excess of increases in specific prices over increases in the general price level, the gain from the decline in purchasing power of net amounts owed, and income from continuing operations (in the aggregate and per share) and net assets adjusted for general inflation and for specific price changes.

The information to be provided is to be accompanied by explanations of its significance in the circumstances of the reporting enterprise.

[Note: Enterprises that elect to apply Section F60, "Foreign Currency Translation," before its effective date should refer to paragraph F60.153.]

Applicability and Scope

.101 The requirements of this section apply to public enterprises [FAS33, ¶23] except for investment companies as defined in Section 3 of the Investment Company Act of 1940, as amended, [FAS54, ¶3] that prepare their primary financial

C27.101*General Standards*

statements in U.S. dollars and in accordance with U.S. generally accepted accounting principles and that have, at the beginning of the fiscal year for which financial statements are being presented, either:

- a. Inventories and property, plant, and equipment¹ (before deducting accumulated depreciation, depletion, and amortization) amounting in aggregate to more than \$125 million
- b. Total assets amounting to more than \$1 billion (after deducting accumulated depreciation)

Both amounts shall be measured in accordance with generally accepted accounting principles as reported in the primary financial statements (consolidated if applicable) of the enterprise. [FAS33, ¶23] [(Refer to paragraphs .501 through .504 as to the applicability of this section to certain brokers and dealers in securities.)]

.102 The requirements of this section do not apply, during the year of a business combination accounted for as a pooling of interests, to an enterprise created by the pooling of two or more enterprises, none of which individually satisfies the size test described in paragraph .101. [FAS33, ¶24]

.103 Nonpublic enterprises and enterprises that do not meet the size test in paragraph .101 [are encouraged] to present the information called for by this section. [FAS33, ¶25]

.104 This section does not change the standards of financial accounting and reporting used for the preparation of the primary financial statements of the enterprise. [FAS33, ¶26]

.105 The information required by this section shall be presented as ~~supplemental~~ ~~information~~ in any published annual report that contains the primary financial statements of the enterprise except that the information need not be presented in an interim financial report. The information required by this section need not be presented for segments of a business enterprise although such presentations are encouraged. [FAS33, ¶27]

.106 An enterprise that presents consolidated financial statements shall present the information required by this section on the same consolidated basis. The information required by this section need not be presented separately for a parent company, an investee enterprise, or other enterprise in any financial report that includes the results for that enterprise in consolidated financial statements. [FAS33, ¶28]

¹For the purposes of this section, except where otherwise provided, inventory and property, plant, and equipment shall include land and other natural resources and capitalized leasehold interests but *not* goodwill or other intangible assets. [FAS33, ¶23, fn1]

Requirements for Supplementary Information

.107 An enterprise is required to disclose:

~~Information on income from continuing operations on a historical cost/constant dollar basis~~ (refer to paragraphs .117 through .124)

~~The purchasing power gain or loss on assets and liabilities for the current fiscal year~~ (refer to paragraphs .125 through .128)

~~The purchasing power gain or loss on net assets and liabilities for the current fiscal year~~ [FAS33, ¶29]

.108 An enterprise is required to disclose:

- a. Information on income from continuing operations for the current fiscal year on a ~~current cost~~ basis (refer to paragraphs .129 through .145)
- b. The current cost amounts of inventory and property, plant, and equipment at the end of the current fiscal year (refer to paragraph .129)
- c. ~~Increases or decreases for the current fiscal year in the current cost amounts~~ of inventory and property, plant, and equipment, net of inflation (refer to paragraphs .134 and .135)

The increases or decreases in current cost amounts shall *not* be included in income from continuing operations. [FAS33, ¶30]

.109 In some circumstances, there may be no material difference between the amount of income from continuing operations on a historical cost/constant dollar basis and the amount of income from continuing operations on a current cost basis. In those circumstances, the current cost information listed in paragraph .108 need not be disclosed for the fiscal year concerned, but the enterprise is required to state, in a note to the supplementary disclosures, the reason for the omission of the information. [FAS33, ¶31]

.110 Information on income from continuing operations (on a historical cost/constant dollar basis or on a current cost basis) may be presented either in a *statement format* (disclosing revenues, expenses, gains, and losses) or in a *reconciliation format* (disclosing adjustments to the income from continuing operations that is shown in the primary income statement). Whichever format is used, such information shall disclose, unless they are immaterial, the amounts of or adjustments to cost of goods sold, depreciation, depletion, and amortization expense and (in the case of historical cost/constant dollar income from continuing operations) reductions of the historical cost amounts of inventory, property, plant, and equipment to lower recoverable amounts as required by paragraph .122. Formats for the presentation of the supplementary information are illustrated in Exhibits 149A through 149C. [FAS33, ¶32]

.111 If depreciation expense has been allocated among various expense categories in the supplementary computations of income from continuing operations (for example, among cost of goods sold and other functional expenses), the aggregate amount of depreciation expense, on both a historical cost/constant dollar basis and a current cost basis, shall be disclosed in a note to the supplementary information. [FAS33, ¶33]

.112 An enterprise shall disclose, in notes to the supplementary information:

- a. The principal types of information used to calculate the current cost of inventory, property, plant, and equipment, [FAS33, ¶34] mineral resource assets, [FAS39, ¶7] cost of goods sold, and depreciation, depletion, and amortization expense (refer to paragraph .140)
- b. Any differences between (1) the depreciation methods, estimates of useful lives, and salvage values of assets used for calculations of historical cost/constant dollar depreciation and current cost depreciation and (2) the methods and estimates used for calculations of depreciation in the primary financial statements (refer to paragraph .142)
- c. The exclusion from the computations of supplementary information of any adjustments to or allocations of the amount of income tax expense in the primary financial statements (refer to paragraph .133) [FAS33, ¶34]

.113 An enterprise is required to disclose the following information for each of its ~~five most recent fiscal years~~ (refer to paragraphs .146 and .147):

~~a. Net Sales and Other Operating Revenues~~

~~b. Historical Cost/Constant Dollar Information~~

- ~~(1) Income from continuing operations~~
- (2) Income per common share from continuing operations
- ~~(3) Net assets at fiscal year-end~~

~~c. Current Cost Information~~ (except for individual years in which the information was excluded from the current year disclosures in accordance with paragraph .109)

- ~~(1) Income from continuing operations~~
- (2) Income per common share from continuing operations
- ~~(3) Net assets at fiscal year-end~~
- (4) Increases or decreases in the current cost amounts of inventory and property, plant, and equipment, net of inflation

~~d. Other Information~~

- ~~(1) Purchasing power gain or loss on net monetary items~~
- (2) Cash dividends declared per common share
- (3) Market price per common share at fiscal year-end

~~All enterprises shall report, in a note to the financial statements, the average level of the end-of-year level (which was reported for the year) was maintained for the year.~~

~~mining operations) of the Consumer Price Index for each year included in the~~
~~summary~~ (refer to paragraphs .118 and .119). [FAS33, ¶35] If an enterprise chooses to state net assets, in the five-year summary, at amounts computed from comprehensive financial statements prepared on a historical cost/constant dollar basis or on a current cost/constant dollar basis, that fact shall be disclosed in a note to the five-year summary (refer to paragraph .147). [FAS33, ¶36]

114. Enterprises that own mineral reserves other than oil and gas² shall disclose the following information³ for each of their five most recent fiscal years:

- a. Estimates of significant quantities of proved, or proved and probable (whichever is used for cost amortization purposes) mineral reserves, other than oil and gas, at the end of the year, or at the most recent date during the year for which estimates can be made. If estimates are not made as of the end of the year, the disclosures shall indicate the dates for which they apply.
- b. The estimated quantity, expressed in physical units or in percentages of reserves, of each mineral product that is recoverable in significant commercial quantities if the mineral reserves included under paragraph .114(a) include deposits containing one or more significant mineral products.
- c. The quantities of each significant mineral produced during the year. If the mineral reserves included under paragraph .114(a) are ores that are milled or similarly processed, the quantity of each significant mineral product produced by the milling or similar process also shall be disclosed.
- d. The quantity of significant proved, or proved and probable, mineral reserves purchased or sold in place during the year.
- e. For each significant mineral product, the average market price, or for mineral products transferred within an enterprise, the equivalent market price prior to use in a manufacturing process. [FAS39, ¶13]

.115 Enterprises shall provide, in their financial reports, explanations of the information disclosed in accordance with this section and discussions of its significance in the circumstances of the enterprise. [FAS33, ¶37]

²Quantity disclosures for oil and gas reserves are required by Section 015, "Oil and Gas Industry," [FAS39, ¶13, fn5]

³In determining the quantities to be reported in conformity with paragraph .114:

- a. If the enterprise issues consolidated financial statements, 100 percent of the quantities attributable to the parent company and 100 percent of the quantities attributable to its consolidated subsidiaries (whether or not wholly owned) shall be included.
- b. If the enterprise's financial statements include investments that are proportionately consolidated, the enterprise's quantities shall include its proportionate share of the investee's quantities.
- c. If the enterprise's financial statements include investments that are accounted for by the equity method, the investee's quantities shall not be included in the disclosures of the enterprise's quantities. However, the enterprise's (investor's) share of the investee's quantities of reserves shall be reported separately, if significant. [FAS39, ¶14]

[A format that may be used for this presentation is illustrated in paragraph .150.]

.116 The disclosures summarized in paragraphs .107 through .115 are required by this section. Enterprises are encouraged to provide additional information to help users of financial reports understand the effects of changing prices on the activities of the enterprise. [FAS33, ¶38]

Historical Cost/Constant Dollar Measurements

.117 The index used to compute information on a constant dollar basis shall be the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the U.S. Department of Labor.⁴ [FAS33, ¶39]

.118 An enterprise that presents the minimum historical cost/constant dollar information required by this section shall restate inventory, property, plant, and equipment, cost of goods sold, depreciation, depletion, and amortization expense and any reductions of the historical cost amounts of inventory, property, plant, and equipment to lower recoverable amounts (refer to paragraph .122) in constant dollars represented by the average level over the fiscal year of the Consumer Price Index for All Urban Consumers. Other financial statement elements need not be restated. An enterprise that chooses to present comprehensive financial statements on a historical cost/constant dollar basis may measure the components of those statements either in average-for-the-year constant dollars or in end-of-year constant dollars. [FAS33, ¶40]

.119. If the level of the Consumer Price Index at the end of the year and the data required to compute the average level of the index over the year have not been published in time for preparation of the annual report, they may be estimated by referring to published forecasts based on economic statistics or by extrapolation based on recently reported changes in the index. [FAS33, ¶41]

.120 Inventory and property, plant, and equipment (for computation of the amount of net assets at the end of the current fiscal year for inclusion in the five-year summary of selected financial data [refer to paragraph .113(b)(3)]), cost of goods sold, and depreciation, depletion, and amortization expense shall be measured at their historical cost/constant dollar amounts or lower recoverable amounts. Inventories may need to be reclassified as monetary assets at the date of the use on or commitment to a contract (refer to paragraphs .151 and [.505 through .520]). [FAS33, ¶42]

.121 Measurements of historical cost/constant dollar amounts shall be computed by multiplying the components of the historical cost/nominal dollar measurements by the average level of the Consumer Price Index for the current fiscal year

⁴The index is published in *Monthly Labor Review*. Those desiring prompt and direct information may subscribe to the Consumer Price Index (CPI) press release mailing list of the Department of Labor. [FAS33, ¶39, fn2]

(or the level of the index at the end of the year if comprehensive financial statements are presented) and dividing by the level of the index at the date on which the measurement of the associated asset was established (that is, the date of acquisition or the date of any measurement not based on historical cost). Those measurements may be restated in base-year dollars for inclusion in the five-year summary (refer to paragraph .146). [FAS33, ¶43]

.122 If it is necessary to reduce the measurements of inventory and property, plant, and equipment during the current fiscal year from historical cost/constant dollar amounts to lower recoverable amounts, the reduction shall be deducted in the computation of income from continuing operations. [FAS33, ¶44]

.123 Except as provided in paragraphs .120 through .122 and paragraph .142, the accounting principles used in computing historical cost/constant dollar income shall be the same as those used in computing historical cost/nominal dollar income. Only the measuring unit is changed. [FAS33, ¶45]

.124 Inventory, property, plant, and equipment, and related cost of goods sold and depreciation, depletion, and amortization expense that are originally measured in units of a foreign currency shall first be translated into U.S. dollars in accordance with generally accepted accounting principles and then restated in constant dollars in accordance with the provisions of paragraph .121. [FAS33, ¶46]

Purchasing Power Gain or Loss on Net Monetary Items

.125 A monetary asset is money or a claim to receive a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services. A monetary liability is an obligation to pay a sum of money the amount of which is fixed or determinable without reference to future prices of specific goods or services. The economic significance of monetary assets and liabilities (monetary items) depends heavily on the general purchasing power of money, although other factors, such as the credit worthiness of debtors, may affect their significance. [FAS33, ¶47]

.126 All assets and liabilities that are not monetary are nonmonetary. The economic significance of nonmonetary items depends heavily on the value of specific goods and services. Nonmonetary assets include (a) goods held primarily for resale or assets held primarily for direct use in providing services for the business of the enterprise, (b) claims to cash in amounts dependent on future prices of specific goods or services, and (c) residual rights such as goodwill or equity interests. Nonmonetary liabilities include (a) obligations to furnish goods or services in quantities that are fixed or determinable without reference to changes in prices or (b) obligations to pay cash in amounts dependent on future prices of specific goods or services. [FAS33, ¶48]

.127 Guidance on the classification of balance sheet items as monetary or non-monetary is set forth in paragraphs .151 [and .505 through .520]. [FAS33, ¶49]

.128 The purchasing power gain or loss on net monetary items shall be equal to the net gain or loss found by restating in constant dollars the opening and closing balances of, and transactions in, monetary assets and liabilities. An enterprise that presents comprehensive supplementary financial statements on a historical cost/constant dollar basis may measure the purchasing power gain or loss in average-for-the-year constant dollars or in end-of-year constant dollars; other enterprises shall measure the purchasing power gain or loss in average-for-the-year dollars. An acceptable approximate method of calculating the purchasing power gain or loss on net monetary items is illustrated in paragraphs .173 and .174. [FAS33, ¶50]

Current Cost Measurements

.129 The current cost amounts of inventory and property, plant, and equipment shall be measured as follows:

- a. Inventories at current cost or lower recoverable amount (refer to paragraphs .136 through .145) at the measurement date. [FAS33, ¶51]
- b. Property, plant, and equipment [including mineral resource assets] at the current cost or lower recoverable amount (refer to paragraphs .136 through .145) of the assets' remaining service potential at the measurement date. (This provision is qualified by paragraph .131 in respect of [timberlands and growing timber,] income-producing real estate, [and motion picture films].) [FAS39, ¶10]
- c. Resources used on partly completed contracts shall be measured at current cost or lower recoverable amount at the date of use on or commitment to the contracts. [FAS33, ¶51]

.130 An enterprise that presents the minimum information required by this section on current cost income from continuing operations shall measure the amounts of cost of goods sold and depreciation, [FAS33, ¶52] depletion, [FAS39, ¶11] and amortization expense as follows: [FAS33, ¶52]

- a. Cost of goods sold shall be measured at current cost or lower recoverable amount (refer to paragraphs .136 through .145) at the date of sale or at the date on which resources are used on or committed to a specific contract. [FAS33, ¶52a]
- b. Depreciation, depletion, and amortization expense of property, plant, and equipment [including mineral resource assets] shall be measured on the basis of the average current cost or lower recoverable amount (refer to paragraphs

.136 through .145) of the assets' service potential during the period of use. (This provision is qualified by paragraph .131 in respect of [timberlands and growing timber,] income-producing real estate, [and motion picture films].) [FAS39, ¶11]

Other revenues, expenses, gains, and losses may be measured by such an enterprise at the amounts included in the primary income statement. An enterprise that chooses to present comprehensive financial statements on a current cost/constant dollar basis may measure the components of those statements either in average-for-the-year constant dollars or in end-of-year constant dollars. (This paragraph is qualified by paragraph .145 for enterprises that are subject to rate regulation or other form of price control.) [FAS33, ¶52]

.131 When an enterprise presents information on a current cost basis, it shall measure:

- a. *Timberlands and growing timber* and related expenses at either their historical cost/constant dollar amounts or at current cost or lower recoverable amounts. [FAS41, ¶7] This provision, together with the provisions of paragraph .109, means that an enterprise needs to present information on a current cost basis only if it has significant holdings of inventory, property, plant, and equipment apart from timberlands and growing timber. [FAS40, ¶4]
- b. *Income-producing real estate* and related expenses at either their historical cost/constant dollar amounts or at current cost or lower recoverable amounts. [FAS41, ¶7] This provision, together with the provisions of paragraph .109, means that an enterprise needs to present information on a current cost basis only if it has significant holdings of inventory, property, plant, and equipment apart from income-producing real estate and certain other specialized assets. [FAS41, ¶4]
- c. *Motion picture films* and related amortization expense at either their historical cost/constant dollar amounts or at current cost or lower recoverable amounts. [FAS46, ¶8]

.132 If an enterprise estimates the current cost of growing timber and timber harvested by adjusting historical cost for the changes in specific prices, those historical costs may either (a) be limited to the costs that are capitalized in the primary financial statements or (b) include all costs that are directly related to reforestation and forest management, such as planting, fertilization, fire protection, property taxes, and nursery stock, whether or not those costs are capitalized in the primary financial statements. [FAS40, ¶7]

.133 The amount of income tax expense in computations of current cost income from continuing operations shall be the same as the amount of income tax expense charged against income from continuing operations in the primary financial state-

ments. No adjustments shall be made to income tax expense for any timing differences that might be deemed to arise as a result of the use of current cost accounting methods. Income tax expense shall not be allocated between income from continuing operations and the increases or decreases in current cost amounts of inventory and property, plant, and equipment. [FAS33, ¶54]

Increases or Decreases in the Current Cost Amounts of Inventory and Property, Plant, and Equipment

.134 The increases or decreases in the current cost amounts of inventory and property, plant, and equipment represent the differences between the measures of the assets at their *entry dates* for the year and the measures of the assets at their *exit dates* for the year. *Entry dates* means the beginning of the year or the dates of acquisition, whichever is applicable; *exit dates* means the end of the year or the dates of use, sale, or commitment to a specific contract, whichever is applicable. For the purposes of this paragraph, assets are measured in accordance with the provisions of paragraph .129. [FAS33, ¶55]

.135 The increases or decreases in current cost amounts of inventory and property, plant, and equipment shall be reported both before and after eliminating the effects of general inflation. An enterprise that presents comprehensive supplementary statements on a current cost/constant dollar basis may measure increases or decreases in current cost amounts in average-for-the-year constant dollars or in end-of-year constant dollars; other enterprises shall measure those increases or decreases in average-for-the-year constant dollars. An acceptable approximate method of calculating the increases or decreases in current cost amounts and the inflation adjustment is illustrated in paragraphs .175 through .179. [FAS33, ¶56]

Information about Current Costs

.136 The current cost of inventory owned by an enterprise is the current cost of purchasing the goods concerned or the current cost of the resources required to produce the goods concerned (including an allowance for the current overhead costs according to the allocation bases used under generally accepted accounting principles), whichever would be applicable in the circumstances of the enterprise. [FAS33, ¶57]

.137 The current cost of property, plant, and equipment owned by an enterprise is the current cost of acquiring the same service potential (indicated by operating costs and physical output capacity) as embodied by the asset owned; the sources of information used to measure current cost should reflect whatever method of acquisition would currently be appropriate in the circumstances of the enterprise. The current cost of a used asset may be measured:

- a. By measuring the current cost of a new asset that has the same service potential as the used asset had when it was new (the current cost of the asset as if it were new) and deducting an allowance for depreciation
- b. By measuring the current cost of a used asset of the same age and in the same condition as the asset owned
- c. By measuring the current cost of a new asset with a different service potential and adjusting that cost for the value of the differences in service potential due to differences in life, output capacity, nature of service, and operating costs

Current cost may be measured by direct reference to current prices of comparable assets or methods such as functional pricing or unit pricing under which the current cost of a unit of service embodied in the asset owned is measured and the current cost per unit is multiplied by the appropriate number of service units. [FAS33, ¶58]

.138 [Measurements of] the current cost of inventory and property, plant, and equipment located outside the United States should be based on production or purchase of the asset in whatever location or market would minimize total cost including transportation cost. In some cases, the purchase would be made in the United States and current cost would be estimated directly in dollars. In other cases, current cost would be estimated first in an external market, and that cost would be translated into dollars. Such cases may present particular difficulty depending upon the availability of economic information in the country concerned. Experimentation in methods of measurement will be particularly necessary in such cases and approximate methods are acceptable in cases of difficulty. [FAS33, ¶181]

.139 If current cost is measured in a foreign currency, the amount shall be translated into dollars at the current exchange rate, that is, the rate at the date of use, sale, or commitment to a specific contract (in the cases of depreciation expense and cost of goods sold) or the rate at the balance sheet date (in the cases of inventory and property, plant, and equipment). [FAS33, ¶59]

.140 Enterprises may use various types of information to determine the current cost of inventory, property, plant, and equipment, cost of goods sold, and depreciation, depletion, and amortization expense.⁵ The information may be gathered and applied internally or externally and may be applied to single items or broad categories, as appropriate in the circumstances. The following types of information are listed as examples of the information that may be used, but they are *not* listed in any order of preferability. Enterprises are expected to select types of

⁵Cost of goods sold measured on a LIFO basis may provide an acceptable approximation of cost of goods sold, measured at current cost, provided that the effect of any decreases in inventory layers is excluded. [FAS33, ¶n2]

information appropriate to their particular circumstances, giving due consideration to their availability, reliability, and cost:

- a. Indexation
 - (1) Externally generated price indexes for the class of goods or services being measured
 - (2) Internally generated price indexes for the class of goods or services being measured
- b. Direct pricing
 - (1) Current invoice prices
 - (2) Vendors' price lists or other quotations or estimates
 - (3) Standard manufacturing costs that reflect current costs [FAS33, ¶60]

.141 The current cost of mineral resource assets is given by current market buying prices or by the current cost of finding and developing mineral reserves. It is recognized that no generally accepted approach exists for measuring the current finding cost of mineral reserves. To indicate the effects of changes in current costs, it may be impracticable to do more than adjust historical cost by an index of the changes in specific prices of the inputs concerned. That approach may fail to yield a close approximation of the current cost of finding and developing new reserves. In recognition of this difficulty, the requirements of this section are flexible regarding the approach used to measure current cost [of mineral resource assets]. The approach may include use of specific price indexes, direct information about market buying prices, and other statistical evidence of the cost of acquisitions. [FAS39, ¶2]

Depreciation Expense

.142 There is a presumption that depreciation methods, estimates of useful lives, and salvage values of assets should be the same for purposes of current cost, historical cost/constant dollar, and historical cost/nominal dollar depreciation calculations. However, if the methods and estimates used for calculations in the primary financial statements have been chosen partly to allow for expected price changes, different methods and estimates may be used for purposes of current cost and historical cost/constant dollar calculations. [FAS33, ¶61]

Recoverable Amounts

.143 The term *recoverable amount* means the current worth of the net amount of cash expected to be recoverable from the use or sale of an asset. If the recoverable amount for a group of assets is judged to be materially and permanently lower than historical cost in constant dollars or current cost, the recoverable amount shall be used as a measure of the assets and of the expense associated with the use or sale of the assets. Decisions on the measurement of assets at their recoverable

amounts need not be made by considering assets individually unless they are used independently of other assets. [FAS33, ¶62]

.144 Recoverable amounts may be measured by considering the net realizable values or the values in use of the assets concerned:

- a. *Net realizable value* is the amount of cash, or its equivalent, expected to be derived from sale of an asset net of costs required to be incurred as a result of the sale. It shall be considered as a measurement of an asset only when the asset concerned is about to be sold.
- b. *Value in use* is the net present value of future cash flows (including the ultimate proceeds of disposal) expected to be derived from the use of an asset by the enterprise. It shall be considered as a measurement of an asset only when immediate sale of the asset concerned is not intended. Value in use shall be estimated by discounting expected future cash flows at an appropriate discount rate that allows for the risk of the activities concerned. [FAS33, ¶63]

.145 An enterprise that is subject to rate regulation or other form of price control may be limited to a maximum recovery through its selling prices, based on the nominal dollar amount of the historical cost of its assets. In that situation, nominal dollar/historical costs may represent an appropriate basis for the measurement of the recoverable amounts associated with the assets at the end of the fiscal year. Recoverable amounts may also be lower than historical costs. However, cost of goods sold and depreciation, depletion, and amortization expense shall be measured at historical cost/constant dollar amounts (in measurements of historical cost/constant dollar income from continuing operations) or at current cost (in measurements of current cost income from continuing operations) provided that replacement of the service potential provided by the related assets would be undertaken, if necessary, in current economic conditions; if replacement would not be undertaken, expenses shall be measured at recoverable amounts. [FAS33, ¶64]

Five-Year Summary of Selected Financial Data

.146 The information presented in the five-year summary shall be stated either:

- a. In average-for-the-year constant dollars or end-of-year constant dollars (whichever is used for the measurement of income from continuing operations) as measured by the Consumer Price Index for All Urban Consumers for the current fiscal year
- b. In dollars having a purchasing power equal to that of dollars of the base period used by the Bureau of Labor Statistics in calculating the Consumer Price Index (currently 1967) [FAS33, ¶65]