

ALASKA LEGISLATURE COMMITTEE FILES 1900-1900 00/2

3870 SCRA SB 244 (FILE 2) 246

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.

§ 37.13.145

ALASKA STATUTES SUPPLEMENT

§ 37.13.170

Sec. 37.13.145. Disposition of income. At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index, shall be transferred from net income as defined in AS 37.13.140, excluding income on the undistributed income account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment. 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. Money in the undistributed income account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the undistributed income account shall be treated as an addition to that account. (§ 9 ch 81 SLA 1982)

Effective dates. — Section 16, ch. 81, SLA 1982, makes this section effective July 1, 1982.

Editor's notes. — Section 15, ch. 81, SLA 1982, provides: "TRANSITION. (a) All income earned by the Alaska permanent fund before the effective date of this Act [July 1, 1982] that is not income available for disbursement shall be transferred to the undistributed income account established in AS 37.13.145 added by sec. 9 of this Act. However, the amount transferred

under this section shall be reduced by an amount equal to one-half of the income available for disbursement for fiscal year 1983.

"(b) The amount equal to the reduction in income under (a) of this section shall be transferred to the general fund.

"(c) In this section 'income available for disbursement' shall be determined as set out in AS 37.13.140 before amendment by this Act."

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TELECON RECORD

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* DATE: Aug 27 1985

* CALL PLACED BY: -21-

* PHONE NUMBER: 465-4700

* CALL RECEIVED BY: Jeff - Smith

* PHONE NUMBER: _____

* SUBJECT: 5B244 Hearings

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NOTES: _____

Will have witness

*Will put together info for years
Muni Assistance under-funded
and amt of underfunding.
Asked for this info for past 5 yrs*

phone call
9/12/85

Mun Ass't Title 4, 42

AS 37:05.317

Doug Griffin

RDA grants

Non profit corp. (Hastarus)
unincorporated community 25 filing fee

If in unorganized borough: can receive
revenue sharing

PT Graham, English Bay

somewhere between . . . \$25,000/yr
sp

RDA grants, bulk fuel storage tanks

Fire Service Area - Contact Fire Marshall

\$10/cap. for each person served
outside organized borough

Packet on unincorporated community
IRA or non profit

Jennifer Fate - grants, revenue sharing -
2 yrs apply for revenue-sharing
Cantwell -

Alciachuk - - debts extinguishment through
Muni assistance
circle -

(Klukwan) Contracting agent -- is what IRA's are



Official Business

Alaska State Legislature

Senate

Committee on Community and Regional Affairs

Senator Edna DeVries, Chairman

Members:

Senator Ferguson, Vice Chairman

Senator Coghill

Senator Sturgulewski

Senator V. Fischer

Pouch V

Juneau, Alaska 99811

September 12, 1985

Senator Frank Ferguson
Alaska State Senate
Box 131
Kotzebue, AK 99752

Dear Senator Ferguson:

SUBJECT: Senate C&RA Committee Meetings, September 24 through 26, 1985

As follow-up to earlier correspondence concerning committee hearings scheduled during September, Senator DeVries has asked me to advise you of the logistical details of the meetings schedule.

Airline tickets were previously mailed to you in order to give your staff adequate time to arrange reservations best suited to your personal schedule.

Hearings are scheduled as follows:

September 24 - Anchorage Legislative Information Office, 2-6 P.M.

September 25 - Mat-Su Legislative Information Office, 2-6 P.M.

September 26 - Kenai Peninsula Legislative Information Office, 2-6 P.M.

At the present time, only Senator Sturgulewski has indicated a possible conflict to attending the September 26th hearing.

Some of the available airline flights from Anchorage to Kenai and return Anchorage are:

Southcentral Airlines Flight #16 -- DEPARTS ANCHORAGE at 11:00 A.M. and ARRIVES KENAI at 11:30 A.M.

Alaska Airlines Flight #832 (ERA Airlines Counter) -- DEPARTS ANCHORAGE at 11:30 A.M. and ARRIVES KENAI at 12:00 Noon.

AAI (Alaska Aeronautical Industries) Flight #154 -- DEPARTS KENAI 6:30 P.M. and ARRIVES ANCHORAGE at 7:00 P.M.

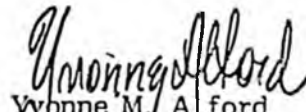
Southcentral Airlines Flight #43 -- DEPARTS KENAI at 7:00 P.M. and ARRIVES ANCHORAGE at 7:30 P.M.

Senator DeVries and the committee staff will arrive in Kenai at 11:30 A.M. on September 26th.

A map of the route to the Kenai Peninsula Legislative Information Office on Tyee Street in Soldotna is enclosed.

If you require additional information, please contact me at 745-3281.

Sincerely,


Yvonne M. Alford
Committee Aide

Enclosure

P.S. Information on the October meetings will be sent to you next week.

ALASKA PERMANENT FUND
CORPORATION
MONTHLY FINANCIAL REPORT
FEBRUARY 1985

The Honorable
Edna Armstrong-De Vries
Alaska State Senate
Pouch V
Juneau, AK 99811

1 8992



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

MEMORANDUM

DATE: March 18, 1985

TO: Recipients of February 1985 Financial Statements

FROM: David A. Rose
Executive Director

SUBJECT: Report Highlights

Attached please find the Corporation's financial statements for February 1985 and the fiscal year to date (July 1, 1984 - February 28, 1985).

Total assets amounted to \$6,365,445,000, representing an increase of approximately \$830,000,000 from the fiscal year beginning balance of \$5,530,799,000. The increase during the month of February amounted to \$84,777,000.

Net income fiscal-year-to-date amounted to \$421,826,000 and for February amounted to \$57,596,000. These earnings include an unrealized gain on the investment in real estate equity pools of \$3,898,000 which cannot be used in the computation of distributable income. Net income fiscal-year-to-date without this unrealized gain amounted to \$417,928,000 and \$53,698,000 for the month of February.

As of this report, an analysis of portfolio composition and investment yield is as follows:

	<u>Percent of Portfolio</u>	<u>Current Interest and Dividend Yield</u>
Cash	----	6.30
Repurchase agreements	.8	8.66
Money markets	.4	9.09
Treasury bills	1.3	9.11
Certificates of deposit	.4	10.25
U.S. notes and bonds	79.9	11.62
Corporate bonds	.4	10.95
Common stock	10.1	4.20
Mortgages	.7	13.71
Alaskan certificates of deposit	1.6	10.63
Real estate equity	1.7	7.18
Interest receivable	2.7	----
	<u>100.0</u>	<u>10.70</u>

for the past eight months of this fiscal year has been added in the amount of \$421,826,000. An amount to be utilized for dividend payments is set aside each month and for the eight months of this fiscal year that amount equals \$142,916,000. Similarly, amounts are set aside each month for inflation-proofing. The eight month amount is \$156,267,000. Graphically, funds can be traced through the account as follows:

Opening Balance, July 1, 1984	\$ 557,347,000	+ * # 731,247,000
Plus: Eight months net income	421,826,000	
Gross amount in account	<u>979,174,000</u>	
Less: Eight month set-aside for dividends	(142,916,000)	
Less: Eight month set-aside for inflation-proofing	(156,267,000)	
Less: Unrealized gain on real estate	(3,898,000)	
Net balance	<u>\$ 676,092,000</u>	

↓
 Est. balance in undistributed income acct as of 6/30/85

Updated projections for the period July 1, 1984 through June 30, 1985 based upon eight months operations are as follows:

- Realized net income	\$ 622,100,000
- Transfer to State for payment of dividends	<u>214,100,000</u>
- Transfer to corpus for inflation-proofing	234,100,000-
- Addition to reserves	173,900,000*

In making these projections, we estimate a 10.87 percent realized nominal return. The inflation rate has been established at 4.26 percent. This is the calendar year 1984 average increase over calendar year 1983 in the U.S. Consumer Price Index For All Urban Consumers. The projected realized real rate of return is 6.61 percent which is substantially above the long range average target rate of 3.0 percent.

DAR:aef/bn

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

1. 8. 85



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

M E M O R A N D U M

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SCRA I

The average life-to-maturity of fixed income marketable securities is six years.

Common stock dividend yield is estimated at 4.2 percent. The combination of dividend yield, realized gains on the sale of stock and unrealized gains on the stock portfolio indicates a total return of approximately 18 percent during the first eight months of this fiscal year.

The realized cash yield reflected on real estate equity investment is 7.18 percent. The addition of the unrealized gain on the investment in real estate equity pools indicates a total return of 13.85 percent during the first eight months of this fiscal year.

Commitments on Alaska mortgages are currently being made by the Corporation at 12.375 percent. Commitment rates are adjusted monthly.

✓ The following table sets forth the balance of commitments and net disbursements on Alaskan investments at February 28, 1985:

	<u>Committed</u>	<u>Net Disbursed</u>
Alaska home mortgages	\$ 80,000,000	\$ 46,113,000
Alaska bank certificates of deposit	200,000,000	102,500,000
Corporate bonds (AHFC)	23,500,000	23,500,000
	<u>\$323,500,000</u>	<u>\$172,113,000</u>
As a percent of Fund assets	5.08%	2.70%

Last month's analysis discussed the Statement of Changes in Fund Equity and the relationships between the corpus of the Fund and undistributed income (designated Reserve For Inflation And Dividends by the Trustees). Several individuals have suggested that this analysis be repeated each month, utilizing current month figures, to insure that there is a better understanding of these accounts. Therefore, it is important to note the following:

- ° The corpus of the Fund is \$5,385,867,000
- ° The Reserve For Inflation And Dividends is 979,174,000

The reserve account is very large because it serves several purposes. It contains reserves from prior years, it is a deposit account for all income received during the current year to date, and it is a holding account from which dividend payments and inflation-proofing disbursements are made. At the beginning of the fiscal year (July 1, 1984) the reserves amounted to \$557,347,000. To that amount, net income

for the past eight months of this fiscal year has been added in the amount of \$421,826,000. An amount to be utilized for dividend payments is set aside each month and for the eight months of this fiscal year that amount equals \$142,916,000. Similarly, amounts are set aside each month for inflation-proofing. The eight month amount is \$156,267,000. Graphically, funds can be traced through the account as follows:

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- Addition to reserves	173,900,000*

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DAR:aef/bn

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF PORTFOLIO ASSETS, LIABILITIES AND FUND EQUITY

FEBRUARY 28, 1985

<u>ASSETS</u>	<u>¢</u>	<u>AMOUNT</u>
Cash		\$ 359,000
Receivables and prepaid expense	3	170,435,000
Investments:		
Marketable debt securities -		
Repurchase agreements	1	48,800,000
Short-term issues	2	137,446,000
Intermediate and long-term issues	<u>81</u>	<u>5,166,428,000</u>
Total marketable debt securities	84	5,352,674,000
Real Estate -		
Equity pools	1	69,118,000
Participating mortgages		8,000,000
General partnership	<u>---</u>	<u>28,097,000</u>
Total real estate	1	105,215,000
Preferred & common stock	9	587,984,000
Conventional mortgages	1	46,113,000
Alaska certificates of deposit	<u>2</u>	<u>102,500,000</u>
Total investments	12	<u>6,194,486,000</u>
Property and equipment, net of accumulated depreciation	<u>---</u>	<u>165,000</u>
Total assets	<u>100</u>	<u>\$ 6,365,445,000</u>
<u>LIABILITIES</u>		
Accounts payable		\$ 404,000
<u>EQUITY</u>		
Contributed equity	85	5,385,867,000
Reserve for inflation and dividends	<u>15</u>	<u>979,174,000</u>
Total equity	<u>100</u>	<u>6,365,041,000</u>
Total liabilities & equity	<u>100</u>	<u>\$ 6,365,445,000</u>

ALASKA PERMANENT FUND CORPORATION
 STATEMENT OF REVENUES AND OPERATING EXPENSES
 FEBRUARY 28, 1985

	<u>CURRENT MONTH</u>	<u>YEAR-TO-DATE</u>
<u>REVENUES</u>		
Interest	\$ 48,501,000	\$398,376,000
Dividends	4,166,000	15,742,000
Realized gain on the sale of:		
Marketable debt securities	236,000	3,017,000
Common stock	<u>1,215,000</u>	<u>2,344,000</u>
Net gain	1,451,000	5,361,000
Unrealized gain on real estate	3,898,000	3,898,000
Reimbursement of consulting fees	-----	-----100,000
Gross Revenues	<u>58,016,000</u>	<u>423,477,000</u>
<u>OPERATING EXPENSES</u>		
Salaries and benefits	66,000	450,000
Travel	2,000	39,000
Trustee Honoraria	5,000	24,000
Communications	15,000	101,000
Consulting and studies, advisors	13,000	123,000
Printing and advertising		13,000
Office rent	8,000	61,000
Custody and safekeeping fees	52,000	111,000
Common stock and real estate management fees	239,000	498,000
Conventional mortgage service fees	13,000	82,000
Public Information Program		66,000
Depreciation	4,000	53,000
Other	<u>3,000</u>	<u>30,000</u>
Total Operating Expenses	<u>420,000</u>	<u>1,651,000</u>
Net Income	<u>\$ 57,596,000</u>	<u>\$421,826,000</u>

ALASKA PERMANENT FUND CORPORATION

STATEMENT OF CHANGES IN FUND EQUITY
FEBRUARY 28, 1985

<u>Current Month</u>	<u>Total</u>	<u>Contributed Equity</u>	<u>Reserve for Inflation and Dividends</u>	<u>Unrealized Loss on Stock</u>	<u>Undistributed Income</u>
Balance, January 31, 1985	\$ 6,280,275,000	\$ 5,358,697,000	\$921,578,000		
Net income from operations	57,596,000				\$ 57,596,000
Dedicated state revenues	27,170,000	27,170,000			
Provision for 1985 dividends			18,033,000		(18,033,000)
Provision for 1985 inflation proofing			19,533,000		(19,533,000)
Provision for future inflation and dividends			20,030,000		(20,030,000)
Balance, February 28, 1985	<u>\$ 6,365,041,000</u>	<u>\$ 5,385,867,000</u>	<u>\$979,174,000</u>	<u>\$</u>	<u>\$</u>
<u>Year-to-Date</u>					
Balance, June 30, 1984	\$ 5,374,820,000	\$ 4,838,344,000	\$557,347,000	\$(20,871,000)	
Net income from operations	421,826,000				\$421,826,000
Dedicated state revenues	547,522,000	547,522,000			
Citizen Contribution	1,000	1,000			
Provision for 1985 dividends			142,916,000		(142,916,000)
Provision for 1985 inflation proofing			156,267,000		(156,267,000)
Allowance for unrealized loss on preferred & common stock	20,871,000			20,871,000	
Provision for future inflation and dividends			122,644,000		(122,644,000)
Balance, February 28, 1985	<u>\$ 6,365,041,000</u>	<u>\$ 5,385,867,000</u>	<u>\$979,174,000</u>	<u>\$</u>	<u>\$</u>

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF CHANGES IN CONDITION
FEBRUARY 28, 1985

FUNDS WERE PROVIDED BY:	CURRENT MONTH	YEAR-TO-DATE
Investment operations:		
Net income	\$ 57,596,000	\$ 421,826,000
Items not affecting funds-		
Amortization	(282,000)	(1,375,000)
Depreciation	4,000	53,000
Decrease in receivables & prepaid expenses	19,900,000	816,000
Increase/(Decrease) in accounts payable	11,000	(444,000)
Unrealized gain on real estate	<u>(3,898,000)</u>	<u>(3,898,000)</u>
Total provided by operations	73,331,000	416,978,000
Sale of:		
Marketable securities	71,681,000	1,845,308,000
Common stock	<u>13,269,000</u>	<u>59,491,000</u>
Total sales	84,950,000	1,904,799,000
Maturity of debt obligations		612,504,000
Conventional mortgage repayments	406,000	2,610,000
Recovery of value of common stock		20,871,000
Citizen Contribution		1,000
Contributions from the State of Alaska	<u>27,170,000</u>	<u>547,522,000</u>
Total funds provided	<u>185,857,000</u>	<u>3,505,285,000</u>
 FUNDS WERE USED FOR:		
Purchases of:		
Marketable securities	226,022,000	2,866,626,000
Conventional mortgages	1,851,000	14,174,000
Common stock	55,548,000	335,769,000
Real estate equity	6,576,000	85,817,000
Property & equipment	13,000	97,000
Alaska certificates of deposit		<u>102,500,000</u>
Total purchases	290,010,000	3,404,983,000
Increase in value of preferred & common stock		20,871,000
Payments to the State of Alaska		<u>155,130,000</u>
Total funds used	<u>290,010,000</u>	<u>3,580,984,000</u>
Net change in funds	<u>\$ (104,153,000)</u>	<u>\$ (75,699,000)</u>

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF CHANGES IN CONDITION

(continued)

	<u>CURRENT MONTH</u>	<u>YEAR-TO-DATE</u>
<u>SUMMARY OF CHANGES</u>		
Increase in cash	\$ 47,000	\$ 101,000
Decrease in repurchase agreements	<u>(104,200,000)</u>	<u>(75,800,000)</u>
Net Change in Funds	<u>\$ (104,153,000)</u>	<u>\$ (75,699,000)</u>

ALASKA PERMANENT FUND CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FEBRUARY 28, 1985

1. ENTITY

The Constitution of the State of Alaska was amended by public referendum in 1976 to provide for the dedication of certain natural resource revenues to the Permanent Fund. The principal of the Permanent Fund is invested in perpetuity. In 1980, the State Legislature created the Alaska Permanent Fund Corporation (the "Corporation"), a public corporation separate from the agencies of State government and governed by a Board of Trustees, (the "Trustees"), to manage the investments of the Permanent Fund. In 1982, the Legislature amended the law to provide that a portion of the annual earnings would be made available to the State for the payment of dividends and that a portion would be contributed to the principal of the Permanent Fund sufficient to offset the impact of inflation. The balance was to be retained by the Corporation in an undistributed income account.

2. SIGNIFICANT ACCOUNTING POLICIES

Contributions -

Contributions by operation of statute are recorded when they become due from the State, i.e., when certain revenues are received by the State Department of Natural Resources.

Contributions by appropriation are recorded when they are received.

Depreciation -

Furniture and equipment are depreciated on a straight-line basis over a three year useful life. Other property is depreciated on a straight-line basis over a five year useful life.

Dividend appropriations -

Current law directs that one-half of a five year moving average of the net income of the Corporation be made available for the payment of dividends each year.

Funds -

For purposes of the Statement of Changes in Financial Position, the term "Funds" has been defined as cash and repurchase agreements.

Inflation Impact -

The impact of inflation is measured by the United States Consumer Price Index previous calendar year average for all urban consumers applied against the balance of contributed equity at the end of the fiscal year.

Interest Income -

Interest income on all securities is accrued monthly as earned.

Interest income is shown net of amortization of premiums and accretion of discounts.

Investments -

In accordance with Statement of Position of the Accounting Standards Division No. 78-10, investments in the aggregate are valued as follows:

<u>Type</u>	<u>Basis</u>
Marketable debt securities	Cost adjusted for amortization of premiums and accretion of discounts
Common stock	Lower of cost or market value
Real estate	Market value
Conventional mortgages	Cost
Alaska certificates of deposit	Cost

Realized gains or losses on the sale of investments are determined by specific identification.

Undistributed Income -

Net earnings are credited to the undistributed income account at the end of the fiscal year. Earnings attributed to the investment of undistributed income are based upon the balance at the beginning of the fiscal year.

3. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses consisted of the following as of February 28, 1985:

State of Alaska dedicated revenues	\$ 10,825,000
Purchased interest receivable	2,188,000
Accrued interest receivable	152,763,000
Dividends receivable	4,631,000
Prepaid expenses	<u>28,000</u>
	<u>\$170,435,000</u>

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4. MARKETABLE DEBT SECURITIES

The estimated market values of debt securities at February 28, 1985 are as follows:

	<u>AMOUNT</u>	<u>YIELD</u>
Repurchase Agreements	\$ 48,800,000	8.66%
Short Term Issues	138,234,000	9.31%
Intermediate and Long Term Issues	<u>5,123,723,000</u>	<u>11.62%</u>
	<u>\$5,310,757,000</u>	<u>11.53%</u>

All of the Corporation's investment securities are held by commercial lending institutions pursuant to custodial agreements.

5. COMMON STOCK

At February 28, 1985, the investment in preferred and common stock was valued at cost, which was less than the aggregate market value of \$644,327,000 on that date. The dividend yield on preferred and common stock amounted to 4.20 percent.

6. REAL ESTATE

Equity Pools

At February 28, 1985, the investment in real estate equity pools was valued at market, which approximates cost in all cases save one. On December 31, 1984, Corporate Property Investors completed an independent appraisal of the properties which underlie the investment of the Corporation. The appraisal reported a 15.6% increase in net asset value or \$11.69 per common share, for a total unrealized gain of \$3,898,000 to the Corporation. Future adjustments to market value will be based upon independent appraisals of the properties which constitute the pools.

Participating Mortgages

The investment in participating real estate mortgages conveys an undivided interest in real property acquired in connection with a loan made on and collateralized by certain real estate. At February 28, 1985 the investment was valued at market, which approximates cost. Future adjustments to market value will be determined by the combined total of (i) an annual appraisal of the real property, and (ii) the difference between the present value of the mortgage and the outstanding principal balance of the note. Terms of the mortgage note provide for interest at 10.5 percent per annum. In addition, the Corporation will participate to the extent of its percentage of ownership in future net cash flow derived from leasing the property. The total amount of interest and net cash flow each year is limited to the maximum rate for interest allowed under applicable State of Texas or federal law.

General Partnership

At February 28, 1985, the investment in real estate general partnerships was valued at market, which approximates cost. Future adjustments to market value will be based upon independent appraisals of the properties. The Corporation will participate to the extent of its percentage of ownership in future net cash flow derived from leasing the properties.

7. CONTRIBUTED EQUITY

The principal balance of the Alaska Permanent Fund at February 28, 1985 was composed of the following elements:

Dedicated state revenues	\$ 2,303,740,000
Appropriations from the State	2,700,000,000
Provision for inflation	<u>382,127,000</u>
	<u>\$ 5,385,867,000</u>



RESERVE FOR INFLATION AND DIVIDENDS

The Trustees of the Permanent Fund have designated the balance of the undistributed income account to be continuously reserved for future inflation impact and dividend payments. Although the State Legislature could legally appropriate this amount for other purposes, in the opinion of the Trustees, this designation is in accordance with the stated purpose of undistributed income, i.e., to provide a reserve for the current statutory uses of Corporation income against the possibility of future declines in that income. Such a reserve is intended to enable the Corporation to fully offset the impact of inflation and still maintain a constant level of dividends in years when Permanent Fund earnings are not enough to do both.

The Board of Trustees
Alaska Permanent Fund Corporation

Gentlemen:

The financial report and statements presented herein were prepared from the books of account without audit, and no independent opinion on the fairness of these statements has been rendered.

Sincerely,

Peter A. Bushre
Comptroller

ALASKA PERMANENT FUND CORPORATION

FINANCIAL PROJECTIONS AS OF 3/15/85

-----PRINCIPAL: ACTUAL & PROJECTED----- (in millions)					-----INCOME: ACTUAL & PROJECTED----- (in millions)					Distributions		Reserves		Total	FY
Beginning FY Balance	Appro- priations	Dedicated State Revenues*	Inflation Proofing	Ending Balance	Inflation Proofing Shortfall	Adjusted Ending Balance	Net Income	Dividends	Inflation Proofing	State General Fund	Trans. Adj.**	Add (Delete)	Balance	Assets	FY
78		54.4		54.4		54.4	1.8			1.3	.5			55.0	78
79	54.4	84.1		138.5		138.5	8.0			6.6	1.4			140.5	79
80	138.5	344.4	.3	483.2		483.2	32.4	11.8	.3	11.8	8.5			502.9	80
81	483.2	900.0	.2	1,768.5		1,768.5	149.9	27.5	.2	27.5	36.0	58.7	58.7	1,874.6	81
82	1,768.5	800.0		2,969.0		2,969.0	368.4	71.1		71.1	41.1	185.1	243.8	3,301.7	82
83	2,969.0	400.0	231.2	4,021.2		4,021.2	471.1	107.9	231.2	109.5	(87.5)	110.0	353.8	4,593.0	83
84	4,021.2	300.0	150.9	4,838.3		4,838.3	529.5	175.0	150.9			203.6	557.4	5,530.8	84
85	4,838.3	300.0	234.1	5,730.5		5,730.5	622.1	214.1	234.1			173.9	731.3	6,675.9	85
86	5,730.5	359.9	365.4	6,455.8		6,455.8	597.8	258.9	365.4			(26.5)	704.8	7,419.5	86
87	6,455.8	345.3	408.1	7,209.2		7,209.2	660.0	288.1	408.1			(36.2)	668.6	8,165.9	87
88	7,209.2	356.6	453.9	8,019.7		8,019.7	725.1	313.5	453.9			(42.3)	626.3	8,959.5	88
89	8,019.7	361.7	502.9	8,884.3		8,884.3	794.4	339.9	502.9			(48.4)	577.9	9,802.1	89
90	8,884.3	353.8	554.3	9,792.4		9,792.4	867.5	364.5	554.3			(51.3)	526.6	10,683.5	90
91	9,792.4	342.6	608.1	10,743.1		10,743.1	944.1	399.1	608.1			(63.1)	463.5	11,605.7	91
92	10,743.1	342.8	665.2	11,751.1		11,751.1	1,024.0	435.5	665.2			(76.7)	386.8	12,573.4	92
93	11,751.1	338.9	725.4	12,815.4		12,815.4	1,107.7	473.8	725.4			(91.5)	295.3	13,584.5	93
94	12,815.4	319.6	788.1	13,923.1		13,923.1	1,194.3	513.8	788.1			(107.6)	187.7	14,624.6	94
95	13,923.1	241.1	854.8	15,102.0		15,102.0	1,284.6	555.5	854.8			(125.7)	62.0	15,719.5	95
96	15,102.0	306.9	841.7	16,250.6	82.8	16,333.4	1,378.6	598.9	841.7			(62.0)		16,849.5	96
97	16,250.6	290.2	831.5	17,372.3	160.9	17,533.2	1,475.6	644.1	831.5					18,016.4	97
98	17,372.3	282.2	885.3	18,539.8	174.0	18,713.8	1,576.2	690.9	885.3					19,230.7	98
99	18,539.8	265.8	940.9	19,746.5	187.4	19,933.9	1,680.5	739.6	940.9					20,486.1	99
0	19,746.5	253.2	998.6	20,998.3	201.4	21,199.7	1,788.6	790.0	998.6					21,788.3	0

* Source: Alaska Department of Revenue

** Chapter 81, SLA 1982, Sec. 15(b)

ASSUMPTIONS: 30% CASE FORECAST - 2nd Qt: FY85

- 25% Pre-1980 Contribution Rate
- 50% Post-1979 Contribution Rate
- 4.26% Inflation FY85
- 10.87% Return FY85
- 6% Average Inflation FY86-FY00
- 9% Average Return FY86-FY00



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

September 23, 1985

To: C&RA Committee

From: C&RA Staff *gja*

Subj: Contents of SB 244 Folder

Contents of the folder are as follows:

- 1) Statement by Senator Coghill on the purpose of bill
- 2) Sectional analysis of SB 244 by Division of Legal Services
- 3) Graphic explanation of the relationship of the permanent fund to the undistributed income account
- 4) Earnings on undistributed income account projected through 2003
- 5) Memorandum from Dept of C&RA on municipal assistance funding from FY 82 through FY 86
- 6) Memorandum from Legislative Finance stating their Mean case and Risk Adjusted case projections for the undistributed income account from 1985 through 1990. Attachments to the memo give detailed information through 1995.
- 7) A statement of changes in undistributed income over the period July 1, 1980 through June 30, 1985
- 8) Memoranda: From Senator Ferguson to Dave Rose and Dave Rose answer to the Senator on questions concerning the availability for appropriation of the undistributed income account
- 9) Memo from Jim Kelly, Perm Fund staff, to Perm Fund Trustees attaching certain resolutions passed by the Trustees, pertaining specifically to the undistributed income account.
- 10) Miscellaneous financial/fiscal information on the Permanent Fund

ALASKA
STATE LEGISLATURE
MEMORANDUM

SEP 16 1985

To: Senator Edna DeVries
From: Frank R. Ferguson *FRF*
Alaska State Senator
Date: September 11, 1985
Subject: Interim Hearings (Senate Bill 244)

This memo is to inform you that I will be unable to attend the hearings set for September 24,25 and October 22,23 regarding Senate Bill 244. I understand the Sheffield Administration has a task force addressing both municipal assistance and revenue sharing and believe the committee efforts are a duplication of efforts and cost.

Enclosed please find the airline tickets provided by you to attend these meetings.

If you should have any questions, please contact my office.

Enclosures

FRF/cc

Senator John B. (Jack) Coghill
Alaska State Legislature

Branch V
Juneau, Alaska 99811
(907) 465-1715

Box 158
Nenana, Alaska 99760
(907) 852-5171

TO: All members of the Committee on Community and Regional Affairs
FROM: Senator John B. Coghill
RE: SB 244, two-year funding of municipal programs

The main purpose of this bill lies with the commitment the state has made to the municipalities and subdivisions of the state under the Shared Revenue and Municipal Assistance programs. These programs can best be managed in declining revenues with a two-year funding cycle.

We are obligated legally, politically and morally to fund the two assistance programs. Using a two-year funding cycle will allow the local officials to manage their budgetary programs in times of declining revenue. This is very essential to assure proper services and stability. This is not a raid on the permanent fund or the interest account known as the undistributed income account.

The reason why I choose that conduit is the constitutional ability to bind one legislative process to the next legislative process i.e. from one two year cycle to another. This ability stems from Sect. 15, Article 9 of the constitutional amendment setting up the permanent fund allowing that "All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

In our forward funding proposal we would guarantee that the amount we are allocating is the amount we are appropriating. Therefore, it is necessary to say that if we find our treasury unable to meet that commitment the balance would be taken from the undistributed income account to make up that commitment.

If we appropriate the fund into the undistributed income account it would be in a holding position in that fund for distribution to the municipalities, then it would not be necessary to implement the clause I have in the bill establishing the shortfall provisions.

Regardless of the formula the program uses and regardless of requirements of statutes, the Legislature can shortfall appropriations because of lack of funds. When the Legislature allocates the forward funding under the bill, they will, by necessity, have to make it clear by legislative intent what the allocation is for the same as they do in a general appropriations bill.

Senator John B. (Jack) Coghill
Alaska State Legislature

Pouch V
Juneau, Alaska 99811
(907) 165-1715

Box 458
Nenana, Alaska 99760
(907) 852-5171

Some questions and answers regarding SB 244

1. Would SB 244 change the current shared revenue and municipal assistance formulae used by the state?

No. We are not addressing the issue of the calculation method of the formula. The Governor's Task Force on Shared Revenue is working on that.

2. When would the local governments receive their payments?

They would get their payments in one lump sum in June. They would receive notice of the amount they would receive the following June at the same time.

3. How will this assist in local government budget preparation?

This will be a revelation. Local government will be able to account on the amount of state funds available and will be able to plan with that in mind.

Get AG's opinions

Sept 25, 1985

Present: John Musgrove, Assembly
Walt Harris, Assembly
Vern Roberts, Boro Finance Director
Dorothy Jones, Mayor
Elsie O'Brien, City of Houston
Jim Hoag, Assembly
Dave Soulak, City of Palmer
Willett Bushnell

City of Fairbanks going to lose much money when "hold harmless" goes into effect →

<5-yr phase-in>

Most other governments will gain some money

Plan to increase pre-payments

Revenue Sharing

Municipal Assistance - put into effect when gross business tax repealed

A base amount (what city got under gross bus. Tax act)

Excess of appropriation based on per capita
10% of prior year's oil & gas tax
now 30% of income tax (corporate income tax)

Population figures are those used by C&RA
C&RA → pop. figures by Dec
DOL has their figure in the Spring

rely basically on what municipalities say is their population

Muni Ass't totally unrestricted as to use prog. being transferred from Dept Rev to C&RA

Distribution of funding checks different for calendar year, and for gov. that have a June-July fiscal year.

Vern Roberts Task Force deal w/ when money pd. out use of prior yr. data necessary

Alie O'Bryan

Can one Legislature bind another one?
AG's opinion — GET

Saulak

Muni League does want forward funding. If you use undist. income for Rev. Sharing & Muni Ass't -- what do you do with that money that was formally being used for this purpose out of the general fund. No official opinion - will discuss at FHL

Jones

Have not taken a stand, but would like to know how much money we are going to get ahead of budget time

Bushnell

For equalizing payments in terms of gov's fiscal years - want to know money amt. early, but am against a "raid on permanent fund". Since we're in hi growth period, prior yr figures penalize us

THE SENATE
COMMUNITY & REGIONAL AFFAIRS COMMITTEE
Will Hold Public Hearings

on

SB 244, "Two-Year Cycle for Municipal Aid"

OCTOBER 22, 1985, - 9:30 A.M.

Fairbanks Legislative Information Office
315 Barnette Street
Fairbanks, Alaska (452-4448)

OCTOBER 22, 1985 - 2:00 P.M.
North Pole City Council Chambers
Second and Cary Avenue
North Pole, Alaska

OCTOBER 23, 1985, - 10:00 A.M.
Nenana City Council Chambers
City Hall, "A" Street
Nenana, Alaska

Please publicize the hearing scheduled in
in your area.

Edna DeVries, Chair

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Edna DeVries, Chair



ISER RESEARCH SUMMARY

Institute of Social and Economic Research, University of Alaska

October 1984, R.S. No. 22

The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes

How do Alaskans feel about the Permanent Fund Dividend Program and what have been its economic effects? Researchers at the University's Institute of Social and Economic Research recently addressed these questions in a new report for the Alaska Permanent Fund Corporation. They found that:

- About 60 percent of Alaskans think the dividend program is a good idea, 29 percent have mixed feelings, and 10 percent think it a bad idea.
- The "average" recipient saved \$200 of his 1982 dividend, paid \$200 in federal taxes, paid off \$50 in debt, and spent \$550 (\$450 for day-to-day expenses such as food, heat, clothing and \$100 for special items such as airline tickets and video recorders).
- Dividends create more spending money and jobs—and result in more population growth—than other ways of spending the same amount of public money, including bigger operating and capital budgets, tax reductions, and subsidizing economic activity.

Alaskans' Attitudes Toward the Dividend Program

Based on a telephone survey of 1,016 households, most Alaskans prefer the dividend program over such alternatives as local construction projects, reduced property taxes, subsidized loan programs, or saving the dividend money in the Permanent Fund. Given the choice, however, 71 percent would now choose to end the dividend program rather than bring back the personal income tax, and a majority would support using part of the dividend money to pay for the state's longevity bonus program.

Most persons interviewed thought they were entitled to a share of the earnings of the Permanent Fund and had no problem with receiving money directly from the state. Most emphatically believed that how they used the money should not determine whether or not the program continued. Most respondents also thought that the dividend program helped to protect the principal of the Permanent Fund and was

a better use of the money than legislative appropriations. In addition, they thought that the dividend program had made them pay closer attention to how the state spent the money it received.

Respondents widely supported the dividend program, particularly those from lower income groups, rural residents, recent immigrants, persons with relatively less education, and younger and older Alaskans. However, even 45 percent of those from high-income households (receiving over \$60,000 income in 1983) supported the program.

Respondents were much more likely to favor dividends if they felt that: (1) residents were entitled to a share in the state's wealth; (2) Alaska residents were better able to decide how to spend the state's money than the legislature; and (3) dividends were an important source of income in their communities.

Attitudes toward Alaska's fiscal future also influenced respondents' views. Those who expected state revenues to decline in the next 10 years were likely to oppose the dividend program in favor of increased state savings, while the reverse was true for those who firmly believed revenues would not decline.

Impact of the Dividends on Income

More than 456 thousand 1982 dividend checks of \$1,000 and more than 430 thousand 1983 dividend checks of \$386.15 were distributed to Alaskans under the Alaska Permanent Fund Dividend Program. The impact of these dividends on income varied widely among Alaskan households. For 35 percent of Alaskans, 1982 Permanent Fund dividend income represented less than a 5-percent increase in their families' after-tax incomes. For another 47 percent, the dividends represented an increase in after-tax incomes of 5 to 20 percent.* For the remaining 17

*Adults paid 28.4 percent of their 1982 dividends as federal income taxes. Since 31 percent of the dividend income went to children, most of which was not taxed, the average tax rate for all dividend income was about 20.2 percent. Total federal income taxes were \$88 million on 1982 dividends and \$32 million on 1983 dividends.

percent of Alaskans, the dividends represented more than a 20-percent increase in family incomes. The contribution of dividends to family income was relatively greater in rural Alaska, and especially so for rural Alaska Natives. Nineteen eighty-two dividends represented more than a 20-percent increase in family income for over half of rural Alaska Natives. Since the 1983 dividends were smaller than those of 1982, their contribution to after-tax income was also smaller.

How Alaskans Used Their Dividend Income

Based on the survey, Alaskans spent about 10 percent of their dividend income on special purchases, the most common of which were airline tickets (one-fifth of all special purchases), furniture, houses, home additions, televisions, appliances, bicycles, snow machines, and three-wheelers. They spent 45 percent for day-to-day purchases such as food, heat, clothing, and rent. Based on the survey, they saved about 20 percent of their dividend income and used about 5 percent to reduce debt. They paid the remaining 20 percent to the federal government in taxes.

Lower-income and rural households used less of their dividend income for taxes or savings and more for debt reduction and special purchases.

Parents decided how their children's dividends would be used in over one-half of all households, while children made the decisions in less than one-tenth. In the remainder of households, the decisions were made jointly. The greater the children's say in the use of the dividends, the more was spent, while the greater the parents' say, the more was saved or used to reduce debt.

Economic Effects of the Dividend Program

The dividends have provided one of the most important sources of growth in disposable (after-tax) personal income in Alaska since the current economic boom began in 1980. The dividends directly accounted for 17 percent of the increase in disposable income for the years 1981-1983. They also created 5,000 new jobs by 1983. People moving to Alaska to fill these new jobs increased the state's population by 4,000 by 1983, resulting in higher government expenditures and private investment. In addition, earnings from the new jobs further increased disposable income by 23 percent in 1983 over and above the direct amount of the dividend.

The dividend program has not noticeably affected inflation. Few, if any, people have left the labor force as a result of dividend income. There is no evidence of substantial migration to Alaska by people hoping to receive dividends,

although some people may have postponed their departure from Alaska for that reason. The secondary economic effects of dividends were felt most in the support industries of trade, services, and finance, which are concentrated in the urban parts of the state. Private holdings of wealth increased modestly and tended to be concentrated among the higher-income groups. The availability of funds resulted in a small amount of capital investment for business purposes.

The dividends produce larger increases in before- and after-tax income than spending an equivalent amount for other public purposes. In the long run, the dividends also cause larger increases in employment and population. While the employment growth from dividends takes place in the support sector, other public expenditures produce more jobs in government or construction-related industries.

Because nearly all state revenues come from the production of finite petroleum reserves, total public spending—in the form of dividends or for other uses—cannot be sustained at its current level. If current public spending patterns—including paying of dividends—continue, significant and continuing reductions in government expenditures will become inevitable early in the next decade, cutting per capita real public spending to half its current level by the turn of the century. Thus, any use of public funds involves a trade-off not only between different uses but also the timing of use. Permanent Fund earnings spent as dividends produce the largest effect on economic growth in the present but reduce the level of future public assets in the same way as other public spending.

In contrast, saving Permanent Fund earnings has no effect on the economy in the present but increases future opportunities for public or private spending by enlarging state fund balances in the future—augmenting future public revenues that are projected to be much smaller than those of today.

The report summarized here, The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes, was prepared for the Alaska Permanent Fund Corporation by Gunnar Knapp, Scott Goldsmith, and Jack Kruse of the Institute of Social and Economic Research and Gregg Erickson of Erickson and Associates, Juneau. It is available through the Alaska Permanent Fund Corporation, 601 W. Fifth Avenue, Suite 435, Anchorage, Alaska 99501 • Telephone 277-1496.

RESEARCH SUMMARY (No. 22)

Institute of Social and Economic Research
Lee Gorsuch, Director
707 "A" Street, Suite 206
Anchorage, Alaska 99501

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Mayor
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TELECON RECORD

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NOTES: Asked for Corb Nordale - wanted to

discuss hearings - Royce said he

would have her call



Official Business

Alaska State Legislature

House of Representatives

Committee on State Affairs

Pouch V
State Capitol
Juneau, Alaska 99811

(907) 465-4963

TO: Members
Fourteenth Alaska Legislature

FROM: Representative Katie Hurley
House State Affairs Chair *KH*

DATE: 2/4/85

RE: Overview Regarding Alaska Permanent Fund
Transcript and additional information

Attached is the transcript of an extensive overview of the Alaska Permanent Fund presented on January 24, 1985 to the House State Affairs Committee by Dave Rose, Executive Director. Mr. Rose also provided commentary on specific proposed legislation.

Also included in this packet:

- °Brief description and analysis of bills concerned with the Permanent Fund to date
- °Calculations used in determining dividend payments and undistributed income
- °Graphic illustrations of assets and investments
- °Monthly Financial Report, Permanent Fund Corporation, December 1984

HOUSE STATE AFFAIRS COMMITTEE

Regarding an Overview of the Alaska Permanent Fund

Juneau, Alaska
January 24, 1985

P R O C E E D I N G S

CHAIRMAN HURLEY:

House State Affairs Committee will come to order on January 24 at 3:00 PM. Present, in addition to the Chair, Vice Chair Representative Navarre, Representative Jenkins, Representative Cato, and Representative Boucher. I have a message from Representative Miller that he won't be able to be here today and I know that Representative Collins will be here shortly.

Our agenda today is an overview of the Permanent Fund Program; a briefing by Dave Rose, Executive Director of the Alaska Permanent Fund Corporation. And we have four bills that so far have been assigned to the committee under the five-day notice. And we would be happy to have discussion on these but we are not going to take any action today after we hear from Dave Rose. Could you come forward, please? Please, everyone who is here, would you register so we will have a record of those in attendance. And if I'm missing someone, a VIP around here, I hope that you will stand up so I can see you so I can introduce for the record. I know there are several staffers here and I appreciate your attendance. Dave?

DAVE ROSE:

Madam Chairman, members of the Committee. For the record, I'm David Rose, Executive Director of the Alaska Permanent Fund. I also serve as an officer as secretary and treasurer of the Alaska Permanent Fund Corporation.

My presentation today is structured in six parts. First a description of the magnitude of the Fund in the context of major endowment, foundation, and pension funds with n our country today. Next, a brief history of the Fund, why it was created and how it was created. Next, the organization and operation of the Fund and how investment strategy is formulated. Some current numbers that may be of interest to all of you in terms of projections, earnings, what-have-you. Certainly a point for questions by members of the committee, and finally, commentary on specific proposed legislation to whatever degree you wish to explore the various bills and wish any impact analysis that we may be able to offer. In that regard, while we don't, as a Fund, take an advocacy position one way or the other on the Fund, on these bills we do feel it is our responsibility to give you the dollar impact of each bill so that you have a feeling for what you may be getting yourself into with the adoption of any one of them.

First just let's examine, based on latest available numbers, where our Fund ranks among the major trust funds established within the United States today, because I think that context is important. If the Permanent Fund were considered an endowment fund, we would be the largest endowment fund in the United States. Second to us would come the Texas Permanent Fund, next the University of Texas, and third, the Harvard University Trust. If the Permanent Fund were considered a foundation, we would be the largest foundation in the United States today. Ranking next to us would be the Ford Foundation, followed by the PEW Trusts and the J. Paul Getty Trust. If we were to wear the hat of a union pension fund, which of course we're not, but that's another large type of trust, we would again rank the largest in the United States. We would be followed by the Teamster Central States, Southeast and Southwest Areas, by the Teamsters Western Conference third, and probably by the United Mine Workers fourth. If we were ranked as a corporation trust fund, pension fund, which of course are some of the largest in the country, your Permanent Fund would rank about seventh. We would be smaller than U.S. Steel, A.T. & T., General Electric, G.M., and Dupont. But we would be larger than I.B.M., larger than Exxon, larger than Ford, and larger than Sears. If the Permanent Fund were a Fortune 500 company, and it is a big business organization, and we were to be measured on a net income basis, we would be ranked about 24th on the Fortune 500 index. If we were measured on a stockholder equity basis, we would place about 16th on the Fortune 500 list.

In short, your Fund is one of the largest in the country and perhaps one of the fastest growing institutions in the country. It should be interesting to note that in Alaska, the Alaska Permanent Fund is the largest producer of net income in our state, other than the petroleum industry itself. And what has happened, in a sense, is that the citizens of Alaska have created an industry, a business if you will, a money making institution, which is now the largest in the state other than the petroleum industry itself.

Let's examine why the Permanent Fund was created and the shape it took because I think that gives you a feel for why we are what we are today. Some of you, I'm sure, remember the fateful day of September 10, 1969, which was the date the state received \$900,041,605.34 as a result of the Prudhoe Bay sale. And there was an awful lot of debate at the time as to what we should do with this \$900 million. We had the Brookings Institution come into the state and conduct seminars throughout the state, and we had a lot of testimony, a lot of public hearings. And the conclusion reached by, I think, an overwhelming consensus of Alaskans at that time was that the money should be spent. It should be spent on physical plants, basically I guess some people call it infrastructure today, but we are talking water,

sewer, schools, and access. Access being roads, ports and airports. And, of course, to meet a lot of the human needs of Alaska in terms of health and education.

The money was spent, as you all know. And it was momentarily appreciated. But a few years, really shortly thereafter, the spending consensus of Alaskans was forgotten and there was statewide negative reaction to the "wasting" of the \$900 million. This reached its height in 1975 when people sort of looked back at money having been spent and there was no new money available and certainly no investment or income stream coming from it. And there were several proposals which resulted in the Alaska Permanent Fund.

In November of 1976, the people of Alaska passed Section 15 of Article 9, which was an amendment to the State Constitution which created the Fund and it dedicated 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the state to the Fund. It further provided that investments must be income producing and that the income would flow to the General Fund unless provided otherwise by law. Well, during the next four years, from 1976 until 1980, debate raged as to whether the Fund should take the form of a development bank on the one hand, and an old fashioned trust on the other. And the concept of the trust eventually prevailed in the 1980 legislation which is known as the Permanent Fund Act.

The tenants of that involved several things--first, the principles should remain inviolate. Secondly, the safety of principal was paramount. Investments have to be conservative and have to be made at market rates. There are two or three ways that a major fund can be wasted. One is a direct attack on its principal. Second is through the investments it makes, if it makes them at less than market, you can erode the fund until you don't have what it was originally worth. And the third, of course, is wasted in terms of purchasing power because inflation has an impact on a fund when it remains stable, it's purchasing power is reduced.

The third tenant was that the prudent investor rule would be adhered to. And I will say a few words about the prudent investor rule in a few minutes. And lastly, the Fund would be managed independently from the state, to separate the saving from the spending function. In 1980 and in 1981, in remembrance of the famous quote, "wasting of the \$900 million," the state legislature passed special appropriations of so-called surplus funds. In 1980 the amount was, symbolically, \$900 million. And in 1981 the amount appropriated was, also symbolically, twice \$900 million, or \$1.8 billion. So the thread of the special appropriations, the appropriations of surplus to the

Fund, has always been in remembrance, if you will, of the original \$900 million, which was spent in accordance with the general consensus of what Alaskans wanted, but quite apparently a few years later they decided that that really wasn't what they wanted. They didn't want to spend, they wanted to save.

In 1982, which is the only amendment we have to the Permanent Fund Act, the Act was amended and there were several provisions but the central provision was a requirement that a sufficient amount of income be reinvested after operating expenses were taken care of and after dividend payments were taken care of, to protect the Fund's principal from inflation. And this procedure is widely referred to today as inflation-proofing. So much for the history. It took a lot of years and just a few minutes to talk about, and probably I've slighted a few events and people, but I think those are the basic highlights.

The Fund today is operated in accordance with Chapter 13 of Title 37 of Alaska Statutes. We call it the Permanent Fund Act. And that is, Title 37, Chapter 13, is the basic structure for the Fund. I believe that the organization is one of the strongest points of the Permanent Fund Corporation. The Fund is established with an entity called the Alaska Permanent Fund Corporation. We've been created in the corporate form, separate from the State of Alaska, although we are clearly an instrumentality of the state. And it was intended that this isolation from the state itself would serve to clearly separate the saving from the spending function. Governments which have gracious spending appetites generally do not mix well with institutions dedicated to save. And clearly the establishment of the Fund within an independent corporation serves to buffer and defuse efforts to turn a savings account into a spending account.

The Corporation is directed by a six-person board of trustees. Four members are citizens from the private sector appointed by the Governor for a four-year term. They serve these terms on a staggered basis. A fifth trustee is, by law, the State Commissioner of the Department of Revenue, and the sixth is a Cabinet Member of the free choice of the Governor. The Board of Directors serve on a part-time, unpaid basis. Four are, obviously, fully employed with other jobs in the private sector. And the two Cabinet Members have major public responsibilities and are engaged in operating large departments of the State government. The private sector trustees so receive an honorarium for their attendance at meetings and their participation in the Fund. Obviously, the two Cabinet Members are on the State payroll and they do not receive any honorarium for their service. Currently the Board of Trustees is composed of the following six people: the Chairman is Arnold Espe. Arnold is a banker and accountant by background. He practices

banking. Clyde Sherwood, who is a principal in Arthur Young and Company, a CPA. Byron Mallott, corporate executive. Byron is, of course, with Sealaska. Hugh Malone, recently appointed. A land surveyor and a former legislator. I'm sure you all know Hugh. Mary Nordale as the Commissioner of Revenue. And Norman Gorsuch as the Attorney General.

The Trustees convene regular and special meetings for the purpose of policy making. They also convene work sessions to discuss investment strategy, to review certain investments and to formulate policy proposals for formal action. The Trustees employ an Executive Director--in this case, myself--to conduct the daily operations of the Fund. The Executive Director in turn hires his staff and together they execute the policy as promulgated by the Trustees.

The Fund is administered by a very lean and very professional staff of eleven people. Eleven people is an extraordinarily small amount. Ten of whom operate from the Corporation's Offices located here in Juneau, and one is in Anchorage. In addition to the Executive Director, the breakdown of the organization is, very simply, three people responsible for making investments, we call them Investment Officers. These three people open up our shop a little bit before six each morning because we operate the Permanent Fund on New York time basically. The administrative staff and people such as myself come in at 8 or a few minutes before and generally we close the doors of our shop somewhere between 4:30 and 5 o'clock. It is one of the few organizations that is open almost twelve hours a day.

In addition to the three Investment Officers, we have three charged with all accounting, custody, and clearing functions. These are the important functions of making sure that securities are properly safeguarded, that we account for every cent that we are responsible for. We don't round to the nearest million dollars, we round to the nearest penny. I recall last year, as an aside, being off 36 cents because we had 36 cents of the State's money and it was physically necessary to issue a check for 36 cents to balance. But that's only illustrative of the case that this Fund is balanced to the penny; we don't deal in gross numbers.

We also have three people involved in the office management function which really sort of makes the organization work. They keep track of everybody else. One other staff person divides his time between Anchorage and Juneau. He serves as research and liaison officer responsible for researching the issues, for answering questions of the Executive and Legislative branches, answering an awful lot of public mail making inquiries about the Fund, how it works, why it was established, and what have you.

And in that regard I have behind me Pete Bushre, our controller. Pete is a senior member of our staff and is the fellow who worries about those pennies. And to his left is Jim Kelly who is our research and liaison officer, who is the person charged with response to Legislative and Executive Branch requests. Our rule in our shop is that any request that comes in will be handled within 72 hours, and if there is a reason why we can't handle it within 72 hours, you'll get a note from us telling you what the problem is.

In addition to the small staff of eleven, the Fund employs some specialty contractors. And these include bank custodians to help with the safekeeping of securities, to collect funds when due, whether it is interest or dividends, to make payments and transfer of funds when securities are purchased and sold. Additionally, we have under contract some equity managers. These are professionals in the stock area. We do not pretend to be experts in common stock, living in Alaska some 5,000 miles away from the markets. We employ, by contract, professionals to do the research and to handle a lot of the stock transactions that we become engaged in. And lastly, we retain real estate advisors who assist in the purchase and sale of real estate, and ensure that these assets are properly leased, that rents are collected, that properties are properly maintained, and that it appreciates in value, as, of course, is the reason we have it.

I mentioned before that the Fund operates under the prudent man rule. And the prudent man rule means very simply that it will invest using the same standards as other sophisticated, institutional investors. It is a high degree of reliance and importance placed on receipt of one, market yields; two, engendering as low a risk as possible; three, broad diversification; and four, adequate liquidity. These are the major tenants of the prudent investor rule. Also, the Fund serves as a fiduciary. That is, it acts in a trust capacity, adhering to very high standards of investment and safekeeping. Certainly not the kind of standards you and I would adhere to in the management of our own particular personal wealth. It involves itself with some functions associated with the very hard economics of investing for gain. And it does not engage in political or social investing. It is a hard guts, bottom line corporate entity involved in investing for gain. And the concept, basically, is that there are other elements without our state which should be responsible, primarily, for political or social investments, and this basically is your state General Fund.

The Fund has the normal trust responsibilities of first protecting and preserving its corpus or principal, and second, earning a yield commensurate with risk. If we have a choice, we would rather enjoy less yield in favor of reduced risk. We

are a very, very risk [indisc.] We take our responsibilities of accountability very seriously. Your Fund is very public. Not only do legislators have questions, but the public has a tremendous amount of inquiry as to what the Fund does. Any time you distribute 400,000 or more dividend checks, people have a vested interest in the Fund and how it operates. We do get a steady stream of inquiry as to how we invest, and what our yields are, and how well we are doing, and have we lost any money. There is an awful lot of public awareness of the Fund.

With respect to accountability, we do subject the Funds to audits. These are outside audits by an independent Big-8 firm. Last year we not only had a financial audit, we had an audit of internal controls, we also had an audit on funds that had been transferred from the state to the Permanent Fund to make sure that there wasn't a drop that leaked out in the transfer of funds between the state and the Fund itself.

We have an extensive system of internal controls. After all, we don't want you or me or anyone to wake up one morning that a few million dollars has disappeared to, say, Venezuela. The internal control system within our organization is very, very stringent and you would probably have to collude more than half of the organization if there was to be any kind of leakage of money. And that is done by design, not by default.

We do publish an annual report. We publish our financials throughout the state in every judicial district. We advertise and conduct open meetings and speak before groups throughout the state to answer questions and to provide information. And we are also accountable to the Legislature. Specifically, in this regard, we report to the Legislative Budget and Audit Committee, which is responsible for Fund oversight. We do advise Budget and Audit Committee of major shifts in investment strategy prior to meetings being conducted. While we do not request or require assent from the Committee, we make sure the Committee is notified of what the planned actions are and, of course, there is always a space on Permanent Fund agenda for any Legislator to attend at any time. There is a special portion of the agenda in addition to the availability to the public testimony, which is also welcomed at any meeting.

You also all receive or should receive, you new folks, meeting notices so you know when our meetings are conducted. We generally try to conduct meetings in Juneau during the session rather than someplace else in the state.

The Fund operates on its receipts. We don't get a General Fund appropriation for operation. Expenditures currently run at less than one-half of one percent of the net income figure. The Corporation's annual budget is, if course, approved by the

Legislature. So there is Legislative oversight and control within the budget process. Obviously, you don't want to create a situation where a fund like this has a blank check, can earn \$528 million a year and spend anything it wants. So the budget is very closely regulated and must be justified on the same basis as all other budgets before the Legislative Committee.

Allow me to spend a few minutes on investment philosophy, and if I see you start to glaze over or doze off, I'll know you probably know more than you want to know about investment philosophy. But it is important. First of all, the Trustees have established an earnings goal of three percent after inflation. We have several terms that we use, we use nominal. Nominal means simply the raw amount of earnings. We subtract from that the inflation rate and you have something called the real rate of return. The real rate of return is the return of the earnings after the rate of inflation. The Trustees have established a three percent real rate of return. The amount earned after inflation. And this goal is to be achieved over time, realizing that there will be years when we will be substantially above three percent, and other years we will be substantially below three percent. The three percent real rate of return is better than most trusts have attained during the past 15 years. In this day and age, three percent in current market is relatively easy to attain with a relatively small degree of risk. But over time, a three percent real rate of return is a handsome return, if you look at it in the historical perspective. You must recognize, of course, that whatever real rate of return you have as your target, in order to earn that, you must engender risk, because the only way you earn great sums of money is to risk a great deal. So it is very important that when we set our target of what we want to earn, that we set it as a reasonable target lest we throw the Fund into a very risky situation.

Now, when we take a look at how we will invest, we take a look at the whole spectrum of instruments or types of investments that we can put our money into. On the very top of the scale is something called U.S. Treasury Bills, almost like cash. Obligations of the United States government, very short term. I was going to say sound as a dollar, but that's probably not the way to put it. Very, very sound, but a very, very small return, but very safe. The next on the spectrum is U.S. Treasury Notes and Bonds. And these Treasury Bonds, again, are direct obligations of the United States, but they are of longer term. And, obviously, the longer the term, the more risk you become involved in, because if you have a 30-year U.S. Treasury Bond, lots of things can happen in 30 years. It is obviously not as safe as a two-year Treasury Bond. The next thing on the rung is Certificates of Deposit. These are obligations of banks, it's private sector. And private sector has a little bit more risk to it than the United States government. Things

seem to be able to happen a little bit more, volatily, if you will, in the private sector. The next instrument is something called bankers' acceptance, which is a combination of bank and private sector debt. Bankers' acceptances give you a higher yield than the other instruments, but they also have a great deal more risk. Following that is corporate debt. These are the instruments of corporation's bonds, generally, but lots of things can happen to corporations and they are subject to a lot of forces, both internally and externally. So again, corporate debt gives you a better return, but there is a little bit more risk. And going down the line, you have real estate next with more volatility. Then you have common stock of large corporations, the IBM's, the AT&T's, the Exxon's. A great deal of risk in common stock, but very healthy returns on an historical basis. And then perhaps the largest risk factor, other than venture capital which we cannot invest in by law, is the common stock of small corporations. Small corporations have tremendous volatile swings, some do extremely well--hit home runs, and others are pure stike outs. So again, you can make lots of money on common stock of small corporations, but you can also lose everything as well.

What the Trustees do is they try to blend all of these kinds of instruments, and we use some linear programmings and regression and correlation. We use standard deviation and one of these days when you have some free time and you want to sit in on an a mass allocation meeting, you are more than welcome. But basically what we do is try to mesh all of these, given the different risk factors, into a blended portfolio which gives you the highest possible potential return with the lowest possible coefficient of risk. And it is a rather technical type operation. And it isn't always right. We do it on two bases. One on a historical basis of what has happened in the past fifty years. And then we do it on a second basis which adjusts for the current market that we know, because we know that this is not necessarily a mirror of the past fifty years. We take that blend and then we choose the different types of investments we want; fixed income, bonds, real estate and equities, which are stocks. But we have more than those three categories because in those categories, which all of these other instrument fall into, is the necessity to balance and blend within each of them. For example, in fixed income bonds, we may and do balance our portfolio so that bonds are balanced between very short maturities, immediate maturities, and very long maturities. Because I indicated before that there is a very great deal of risk. Little risk for short maturities and little return. Greater risk with long maturities but a greater return. And intermediates are just that, intermediate. Within equities, we balance them between what we call passive index investments and active investments. Passive investment is no more than a computer model of the market as a whole. We do the

computer model and we say, okay, we are going to invest a portion of our common stock in the market. Whatever the market does--and the market is measured by the Standard and Poors 500--whatever the market does we will suffer the same fortune. We will take roughly two-thirds of our stock allocation and put it in our statistical mirror of the S&P 500. The other one-third is placed in the hands of specialty managers who have different disciplines, balanced again, and their charge is to do better than the S&P 500. Or, if the S&P 500 does miserably, to still do better. Not lose as much money. And so you have that balance within the common stock area.

And lastly, in real estate, you have several regimens of balance. We have pools, and that is where we join with many other investors and go into a pool where we all chip in money and we buy major shopping centers and industrial parks and residential housing, multiple family, and office buildings. We are in a rather large pool now. Some of our partners, for interest, Carnegie Corporation, Cornell, Yale, Stanford, Notre Dame, United Methodist Church, University of Southern California, Vanderbilt, many of the educational institutions happen to be in that pool. All of these folks, our partners, give these investments the same kind of scrutiny that we give it, and there is a lot of police in knowing that very established, long-term institutions are making the same kind of investments that we are making. And it is not uncommon for us to pick up a phone and--well, maybe it is uncommon, we don't do it that often, but we do do it--pick up a phone and reach a counterpart and say, what are some of the analysis points, why do you think this is good or why do you think it is bad.

Our present portfolio target established by the Trustees to produce that three percent rate of return with least risk is 75 percent fixed income, 15 percent equities, common stock, and 10 percent real estate. And that is their target. That is, you may not invest in less than 75 percent fixed income, and you may not invest in more than 10 percent real estate or 15 percent in stock. Those are caps. The actual investment profile as of December 31, was 90 percent of the Fund was actually invested in fixed income, 2 percent in real estate, and 8 percent in stock. Fixed income gives us a very, very high real rate of return in today's economy. It offers the least risk. And so this is just a portrayal of some of the risk aversity that we have.

Let me at this point move on to a few numbers. As of December 31, 1984, which was our last reporting period--and, incidentally, we do not have long gaps between our reports. Generally our reports for the month just ended are issued within 20 to 25 days after the month just ended, so that you don't wait two and three months for a report. The December 31 report

indicated that we had some \$6,193,000,000 in the Fund, rounded to \$6.2 billion. Income last year was some \$529 million. This fiscal year we expect it to exceed \$618 million. The assets of the Fund last year increased by about a billion dollars and we expect a greater increase this fiscal year. The rate of return last year was a record-breaking 7.67 percent. This is measured after inflation. This year after inflation it will be about 6.6 percent, which is lower, but still more than double the long term target of three percent. And here we are speaking of realized returns. We are talking about hard money. We are not talking about paper profits or paper losses. When I talk to you in terms of real return, I'm talking in terms of realized real return.

It is important, I think, to note a couple of complexities of a fund dealing with the distribution of its earnings. Because I think your legislation is going to involve many of the questions of distribution of earnings as well as the Fund itself. And there are three items that I would like to cover. These are dividends, inflation proofing, and the undistributed income account which the Trustees have designated as reserve.

First, let's talk about the dividend program. You should be aware that the Corporation does not administer this program. That's handled by the Departments of Revenue and Administration. Each have respective functions with respect to the Permanent Fund dividends. We, the Corporation, simply earn money and we send it to the Department of Revenue in response to an annual legislative appropriation made in accordance with the statutory formula. The formula provides that we average the last five years of realized, again not paper but realized, net income. You take that average for five years and we multiply it by 50 percent. And this amount is forwarded to the Department of Revenue. The Department of Revenue, in turn, deducts its costs of administering the dividend program, and divides the balance available to distribute by the number of applicants that file for the dividends, and that of course gives you the per capita dividend. So, we give a lump sum payment to Revenue. From it they deduct the expenses of running the dividend program, they take the balance of that and divide into it the number of applicants and that is the per capita that you get. A rule of thumb, for example, last year we paid over \$175 million to the Department. This year we project payment of \$213.8 million. If you were to take \$213.8 million, deduct a couple of million dollars for expenses and divide into it the population of whatever you think the applicants will be, maybe 500,000, you'd see that this year's dividend might approximate \$400, up substantially from last year. That's the easiest rule of thumb way to get there.

The second item is inflation proofing. Inflation proofing, we think, is inherent in any well managed trust. And inflation proofing, perhaps more than any other item, is of major concern to the Trustees as fiduciaries. You must recognize that the Trustees are concerned with their fiduciary relationship. They want to protect the Fund and they are extremely parochial when it comes to protection of the Fund in a fiduciary capacity. Simply stated, inflation proofing means that the purchasing power of the fund which is decreased by the effects of inflation each year must be replaced. And it is restored by a contribution equal to that rate of inflation. So if you have the fund at a given rate, you have three percent inflation, the purchasing power of the fund is eroded by three percent, it must be replaced. And what happens then is the Fund, by replacing it, retains its purchasing power continuously over time. How this works is simply that the Trustees, in accordance with law, have selected a nationally recognized inflation index in order to make this annual computation and contribution. They use the United States Consumer Price Index for Urban Consumers on an average year to average year basis. So for this year we will take the average of the last full calendar year, 1984, the average, and we will take the average for 1983, and we will measure the year-to-year average and that will be the inflation rate. We won't know that rate until about February sometime when it is published by the U.S. Department of Commerce. We then take that rate, we multiply it by the principal balance at the end of each year, a figure is arrived at then which is retained from earnings and put into the corpus of the fund. So, you have earnings from it, a check to the Department of Revenue for dividends, another use of earnings for inflation proofing, and then you may have something left over. And that leads me to the next element.

The most understood element, perhaps, of the Fund, which is called the undistributed income account. In years when the Fund earns enough money to meet its dual obligation of paying dividends first, and second, transferring funds for inflation proofing, and it still has money left over, the surplus is held as undistributed income. Conversely, in years when there is not sufficient earnings to meet dividends and inflation proofing, funds are withdrawn from the undistributed income account, if there is a balance in that account. So in a sense, the undistributed income account is a reserve account of retained earnings which will increase or decrease as we have good and bad earnings years, and in direct relation to inflation. Now whether you call this account a buffer, a reserve, retained earnings, or undistributed income, it is extremely important to those of us who manage the Fund. And this importance stems from the fact that the priority distribution of earnings is first for dividends and second for inflation proofing. Now, if we have a poor income year or a year marked by very high inflation, we almost

certainly will have adequate funds to meet the dividend obligation, but not enough to inflation proof. The shortfall for inflation proofing has to come from this reserve. Our analysis shows over time using an earnings rate of 9 percent, which we consider reasonable over time, an inflation rate of 6 percent, that we will not be able to cover our inflation proofing needs over the long run. We will for about 10 or 12 years. And it is this concern and our desire to protect the integrity of the Fund over time, which makes us protective of this reserve account. And it stems from the fiduciary concern about inflation proofing the Fund. Of course, we have had three outstanding years in a row when earnings hit an all-time record and inflation rate has really plummeted. Thus, this reserve is abnormally high. The undistributed income account or the reserve account at the end of last year was in excess of \$550 million. It will grow again this year. But a sense of reality and history clearly indicates that this will not always be the case. Your Fund managers, while I like to think my staff is extremely professional and very, very good, and in fact, they are some of the best in the nation; the fact of the matter is that we are very market reactive. And if markets and inflation are such, we are not going to be able to maintain the kind of equilibrium that we have for the last three years. We have been extremely fortunate and we have built up huge reserves. But, of course, those huge reserves create some problems in the sense that they now loom so large that they may be susceptible to use, to a detriment. And there is a question then, if you have a reserve, how large a reserve must you have; what is the proper amount? Our projections indicate that over time, you will use every bit of the huge reserve you build up now, if we return to some kind of normalcy. One of the judgments and decisions of the Legislature is the adequacy of that reserve and how large should it be for future needs. And I think there will probably be questions about that later on.

Let me conclude by saying that there is an awful lot of question and discussion about the Fund. What it is going to be used for. The Trustees have not really enunciated any particular use for the Fund. The Trustees generally feel very strongly that their function is to earn money for the Fund and to protect the Fund. But the disposition of earnings of the Fund are legislative prerogative, and not the prerogative of the Trustees of the Permanent Fund to dictate or necessarily interfere with. And they have enunciated that on many occasions. But I think more people each day are realizing that income can be used in the future to offset the predicted fall in state revenues, to assist in the operations of state government. The major question facing us all is if the Fund is going to be used for that purpose, to make up the shortfall in revenues, how large does the Fund have to be in future years to provide the income that we will all need. It boils down to some simple questions of do

you save today so you can spend tomorrow, or do you spend today and not have anything available for tomorrow, or very little. The shortfall between revenue and expenditure in future years will either have to come from the Fund or it may have to come from reimposition of taxation or some other source. We haven't quite figured out what it will be yet. And perhaps then the overall legacy of the Fund may be to forestall new taxation and preserve some tax rate stability which business can depend on and thrive on in the future. In short, the legacy could be the creation of a climate for the long term business expansion and development that we all hope to achieve. Enough philosophy on that realm.

We do have some charts. I think I have covered most of the figures but if you certainly have questions we can graphically display them. And I am prepared at this point, Madam Chairman, to respond to any question that you have.

REPRESENTATIVE BOUCHER:

I want to compliment you. I've probably got more information in this one half-hour than I've gotten the rest of the time. The first thing we hear so much about this undistributed income over there and I finally understand what it is all about. There's one thing in watching, there appears to be a balancing affect in national and world economics. In other words, our Fund seems to be healthy when our oil prices are going down. The United States seems to have an economic recovery where we're having the down side. And obviously you folks are into what is the major resource--money. I mean, money is produced by oil, and money is produced by money.

One thing that concerns me, we met this morning and we've met, and does this magic day of March when somebody is going to fly in here and tell us, "what is the down side of the dollars," and I've heard figures from \$300 to \$500 million. Is it not possible, since you are dealing in the world money markets and oil has been the generator in this world money market that we might not be asking you what is the reality of the down side of world oil prices. Or is that a far-fetched question?

DAVE ROSE:

Well, I think in response to that, we are general economists and we don't have any great sagacity when it comes to oil. But there are a couple things that we know. Number one, we know that we have a conflict within the Fund in the sense that as oil prices decline, it has a tremendous downward affect on the inflation factor, and therefore our investment returns are great. Of course, the down side is we get dedicated state revenues which are oil derived, so we want those revenues to be as high

as possible. So we do have to look at it. You are quite correct. I think the thing that strikes us more than anything else is with respect to OPEC, when OPEC controlled 70 percent of the supply of petroleum in the world and they were raising prices, it was easy to maintain very solid discipline. If you control 70 percent and everything is going up and you're making a bundle of money, great discipline for OPEC. But because of conservation, OPEC now controls less than 50 percent of the world market of petroleum and they are having to cut prices. And you do not have discipline under that kind of scenario. So I think from our meager economist viewpoint, we really don't give much credence to much discipline within the OPEC structure. We think that oil prices are going to fall and, indeed, right now while we do invest in common stock of major oil companies, we will probably be reviewing that strategy to see whether or not, because Alaska is so attuned to oil, whether it makes any sense at all for us to have any large degree of investment in oil companies at all. Because as their fortunes decline, ours decline, and that's obviously not where Alaska ought to be. That kind of discussion will go on within the Fund in the next thirty days. Not to infer that we would sell all our oil stocks. But we may change our strategy [indiscernible].

REPRESENTATIVE BOUCHER:

My second part of that question--do you and the Department of Revenue, who we are receiving projections from, and you operate on information and we are trying to operate on information, talk to each other about this subject? I see a lot of brain power in this room. Before we were focusing on one man, Vince Wright, saying what's the magic number. And it appears that we have got to wait for somebody to come in. I, somehow or other, feel that within the investments and knowing you as I do, there's a lot more knowledge in how these world prices are going to fluctuate. So my question is, are you talking to each other? Do we have the best information to make decisions on? Because these are mind boggling numbers.

DAVE ROSE:

Number one, we do talk. Number two, I don't know whether we have the best information. Number three, we depend and accept the Department of Revenue numbers. All of our projections for our number structuring relies on the Department of Revenue. We don't replicate or duplicate that. Now, for our investment decisions, that's just general research and market feel. But that is nowhere near as stylized or as finite as Vince Wright's. So, for example, all the numbers we will ever present, for example, to Legislators in our projections are Vince Wright's figures, the 30 percent case. Now, we also maintain full data on the 50 percent projections which we don't

generally use because we like to conserve them as 30 percent. But I think that is the best answer. We're not sure we have all the answers collectively, and we do talk, but we do depend heavily on the Department of Revenue.

REPRESENTATIVE BOUCHER:

Are we getting the best information?

DAVE ROSE:

I can't give a value judgment. Because what I haven't done is, I haven't tracked, for example, the 30 percent case against reality over a period of years. I think it would be interesting to see just how close that 30 percent case turns out in reality. You know, the interesting thing is that the 30 percent case, it almost is a... let's say they do track, I assume that they may. That means that 70 percent chance exists that you will do better than the 30 percent case and history would indicate that that is not happening, that 30 percent case is indeed the most probable case. So there should be some intuition there that maybe the 30 percent case is really the medium, or whatever you're normally going to find. I have never seen the 70 percent case, you know, the other 70 percent which says that you are going to do much better. If I understand the 30 percent case, it means that 30 percent probability you will earn at least that amount of money. And if it is the same, but you have to use your own intuition.

REPRESENTATIVE BOUCHER:

Thank you.

CHAIRMAN HURLEY:

Does any other committee member have a question? Representative Pignalberi is here and I see him waiting to ask a question.

REPRESENTATIVE PIGNALBERI:

Thank you for entertaining a question from a non-committee member, Madam Chairman.

Dave, first I want to echo Representative Boucher's comments. You deal with a complex topic and no one has ever said, through the whole time that you've been there, that the Permanent Fund is anything but excellently managed. I think that's a real tribute to you and your staff. You don't need Legislators, especially freshmen, to come in and muck things up for you. And I'm going to ask you a couple of questions now and hopefully I won't do that.

I've always been curious about what to me is an apparent contradiction in the fact that inflation proofing, from the standpoint of public policy, is the first priority. And yet, in the distribution of the earnings of the Fund, it really comes number two because we take the dividends out first. And I'm wondering what you would think, or what the board would think if we were to go ahead and inflation proof first and then do away with the five year average and pay dividends only out of the money that is left over after inflation proofing, because that, to get back to a basic Hammond concept, lets the people know how the Fund did that particular year, and it's not distorted by the earnings or losses from the over five years. I know you must have considered that before and I wondered if you would share your thoughts with us.

DAVE ROSE:

Yes. There are a couple of questions within that question. First is the question of priority. Certainly from the parochial viewpoint of the Fund the change in priority would probably be desirable in the sense that we would meet our obligations of protecting the Fund through inflation proofing. And what that also does, you see, is meets the needs of the Fund and the Trustees and so that from the Trustees consideration, beyond the point of inflation proofing, i.e., the expenditure of earnings, is really none of their concern. They only are concerned about earnings as long as inflation proofing is involved.

Now, with respect to the elimination of the five year income averaging, that is in there for a particular reason and the reason that it is there--well there are several. Number one, for whatever the earnings are used, whether it is dividends or sometime down the road for the operation of state government, or whatever, if those earnings each year are sensitive to market, in other words, if we earn a lot of money and we can meet inflation proofing and there is some left over we will have money to pay out. If we have little money, there is nothing left. What happens is, you have a market like this, and in good years everybody gets a payroll and in bad years everybody is in the pits. The purpose of the five year income averaging set up was so that even if in one year you had zero earnings, you would still not affect the amount of money being paid out any more than 20 percent, because you would then have four years of positive earnings divided by the five year average. And even if the fifth year was zero, it's only 20 percent different. So the idea was whatever that income is used for, whether it's for state government or dividends or whatever, rather than have a market fluctuation like this, because it's not only good performance or bad performance, it's also market performance. That what you would attempt to do is have a modular rather than a peak and valley. That's the first thing

it does. So the income averaging is important if you want a steady stream of payments at roughly the same amount of money, it's important for that purpose. It's probably also important from a managerial standpoint because there are managers, people in my position, who may wish to hit homeruns and who may wish to look very, very good on a short range basis--gee, this guy gets continually high earnings. But what happens is, you find a manager making short term decisions to look good, as most corporate industry does today, and then three or four or five years down the road because nobody has done the wise long planning that's needed, these corporations fall apart. So you don't want to have somebody reacting or having the ability to react to hitting home runs in any one year or two, to make themselves look good, to the detriment of the Fund. For example, today we have substantial earnings on paper. Now, I could say, boy, would you give me a pay increase if I go out and I sell this and I return a huge increase and look good. Well, that might be good for the manager of the day, but it might not be good for the Fund because if I sell off things that are very well invested today, they might even increase in value and be better tomorrow. So I think those are the two important ingredients in answer to your second question.

I think from an economic standpoint and a managerial standpoint, you probably want to keep the income averaging.

REPRESENTATIVE PIGNALBERI:

Maybe not the dividend but the income averaging. Thank you, Madam Chairman.

CHAIRMAN HURLEY:

Does anyone else have a question? I have one. Do you have any real estate in Alaska?

DAVE ROSE:

At this point we have a commitment to involve ourselves in the long term financing for Cottonwood Mall at Wasilla. That transaction has not yet closed. We had expected that it would close by now, it has not yet. That is the only commercial real estate we have in Alaska. We do have a home mortgage program where we make loans from single family to four-plex. It must be owner-occupied. It's at floating rates. We have an \$80 million availability commitment; \$40 million of that has been taken. But again, that's a market rate program which competes with Alaska Housing Finance Corporation, which is a subsidized rate program. So generally, we do not have too many people taking that program unless they are buying very expensive homes or they like and find attractive the floating rate as opposed

to the fixed rate. Also, AHFC has about a 16-year term, roughly, and we allow a 30-year term. So we have a little bit more flexibility. But anytime you have a market program as opposed to a subsidized program, obviously we, as financiers and anyone else would take the subsidized program.

CHAIRMAN HURLEY:

Anyone else? I sure do appreciate your... I hope that you will give us a copy of your testimony if you have it.

DAVE ROSE:

I do have some charts and illustrations that you may find interesting. Certainly when you get to questions about specifics in any of the legislation, Jim Kelly or myself are prepared to give you the dollar impacts, both on the Fund and on an annual basis.

CHAIRMAN HURLEY:

We would like to have you here when we get it. We do have four bills but we do not... Representative Boucher?

REPRESENTATIVE BOUCHER:

I have a question. You have seen all of the bills that have been introduced, have you not?

DAVE ROSE:

Oh, yes.

REPRESENTATIVE BOUCHER:

That relate to the Permanent Fund.

DAVE ROSE:

Many times.

REPRESENTATIVE BOUCHER:

What do you think of them? [Laughter] That's really what this is all about. Maybe I asked pointed questions, and if you don't want to answer that, fine, don't.

CHAIRMAN HURLEY:

Why don't you ask specifically instead of all of them. Why don't you say...

REPRESENTATIVE BOUCHER:

Well, is there a good one? I'm looking through there to see which one is good, you know.

DAVE ROSE:

Well, what we would, I think, prefer to do on the bills is to tell you the advantages and disadvantages of the bills and let you draw your own conclusions. We are prepared, whenever you want to get into that, to very dispassionately tell you these are the very plus parts of the bill and the very negative sides. We see plus things in all bills, incidentally. There are also some negatives.

Madam Chairman, we are at your disposal at any time.

CHAIRMAN HURLEY:

We don't want you to leave yet. We need to have a look at these bills in order to comply with the five-day rule. That doesn't mean that we are going to be discussing them necessarily in depth, but I think we should ask some questions about this or else we are going to have to reassign them and not discuss them for five days. So I thought that since they are... Am I not correct?

REPRESENTATIVE CATO:

We can make mention of them without actually discussing them in detail, merely that we have brought bill 71 before the committee on this date and we will take it up at a later time. Then you will not have to republish.

CHAIRMAN HURLEY:

Okay. Mr. Miller told me otherwise so I bow to you. You are more experienced.

REPRESENTATIVE CATO:

Oh. He may be correct.

REPRESENTATIVE JENKINS:

Madam Chairman? Mr. Rose, a follow-up from Mr. Boucher, but a little more important in terms of timing. These bills that we have in front of us were indeed prefiled and drafted prior to the last two or three weeks. The information of the last two or three weeks, I assure you from a responsible, hopefully, member of this committee and member of this legislature,

give us some very sobering viewpoints of the world and the way our revenue projection is. And obviously, as you indicate, there are some good things, there are some pluses in each of these and some minuses in others. In view of the last two or three weeks and the possible projections and information, obviously, we are going to know better, can you reflect on that?

DAVE ROSE:

Well, one of the major questions that you have with all of these bills is whether or not you want to create a system whereby you dedicate additional monies, i.e., take the money off the table so that it is never considered by the legislature and it flows automatically into the fund on one hand. Or, the option of not changing the dedicated stream of money but making flat appropriations as was done in 1980 and 1981. One obviously takes money off the table so there is no competition for it, it is gone before anyone sees it in the Legislature. The other is to have to compete and compare with priorities. That makes it very difficult. So that's clearly one of the options. The overall question, of course, is still spending versus saving. And the hard decision, ultimately, which the Legislature has to make is if you want to pay for the programs that you are going to have in the future, where are you going to get the resources to do it, and should we take steps now to preserve the ability to pay in the future. But regardless of the substance of the vote, the hard decision is do you want to save now or spend now. It is really no more complex than that. It really isn't.

CHAIRMAN HURLEY:

Since we do have about a half an hour left, would it be possible for you to just look at each bill and give us a little of the advantages and disadvantages, and that would take care of any kind of notice about having had the bills on the table, and maybe save you from having to come over. And we will have Mr. Kelly come in next time.

DAVE ROSE:

We would be pleased to. Let me ask Jim if he would pull his chair up because Jim has the license to interrupt and grab me by the throat anytime I make a misstatement here.

CHAIRMAN HURLEY:

Well, the first bill that we had is House Bill 9. One of our committee members is a co-sponsor: Szymanski, Clocksin, Pourchot, and Navarre.

REPRESENTATIVE CATO:

Madam Chairman?

CHAIRMAN HURLEY:

Yes?

REPRESENTATIVE CATO:

In noticing House Bill 9 and House Bill 32 and reading them over, they seem to have a great deal of similarity. I was wondering if we could combine the two bills for their discussion and our discussion and very possibly looking at them in the situation of possibly combining the two bills and the best and pertinent points of each -- taking them both up at the same time is what I am saying.

CHAIRMAN HURLEY:

Yes. When I read them through, what Marrou's bill does is take the law and amend it with specific amendments. And what the other bill is, is they have repealed it and reenacted it. So they are very similar, but not altogether. Let's look at 9 first and then 32.

DAVE ROSE:

Okay. House Bill 9, under section 2, has the effect of increasing the dedicated amount of revenues that flow into the Fund. Currently, 25 percent of the described revenues for fields before 1980... I'm sorry. The percentage is 25 percent for all fields before 1980 and 50 percent for all fields after 1979. What this bill would do would make it 50 percent across the board. That doesn't mean then, of course, that you have a doubling of the contribution rate since we already receive 50 percent of development after 1979. So the first thing that should be clear in your minds is that while you would increase the dedicated amount, you don't double it, but you do increase it substantially. Because we are already entitled under the statute to receive 50 percent for everything after Prudhoe Bay and Kuparuk. What this would do basically is include Prudhoe Bay and Kuparuk. This has the effect then of increasing the income flow to the Fund automatically, from Department of Natural Resources to the Permanent Fund. The impact, and I will give you a few years numbers. Starting with fiscal year 76 is \$360 million more; the next year \$345.4 million; three years hence is \$328.0 million; the fourth year \$313.8 million; and in the fifth year \$296.9 million. Now this, then, is additional money not now received by the Fund that would automatically flow without appropriation or anything else. It is a

pure dedication. The effective costs over time, if you compare the Fund by the year 2000 under this scheme as to what you would have under the status quo, I think the figure is about \$6 billion more, \$7... \$6.8 billion more in the Fund. So over the next fifteen years until the year 2000, the Fund would grow more, at a larger rate, by that figure.

Let's take a look at what the bill will do. It will make the Fund larger, therefore it will increase the dividend payments. It will increase the amount of money withheld for inflation proofing each year. And it will, based on our projections, affect the undistributed income account in the inflation proofing area where the availability of that money would be drawn down a year earlier. The most immediate impact of this bill in terms of your budget deliberations this year--remember I said in '86 you would take \$360.0 million into the Fund--that is \$360 million off the table for the fiscal year, the budget year that you are now considering. So that if you have an effective date immediately it means that you are short \$360 million in addition to other shortages for this fiscal year. And you must be aware.., and I'm not making a value judgment on that but you should be very clear that that's what you are doing to yourselves. If the effective date were not immediately and it was a year hence, beyond your budget consideration, that might be an alternative that you might wish to consider. But it will take \$360 million off of the table. And that is not intended to be negative, just dispassionately direct.

Jim, is there any other impact on 9 that I haven't covered?

JIM KELLY:

No, but there was one alternative also that you didn't mention and that was the... not increasing the contribution to 50 percent. If the numbers, the revenue that you have to take off the table seem too large, you could consider reducing the contribution from 50 percent to something higher than 25 percent, but less than 50.

DAVE ROSE:

One thing we would urge there, is that since everything post 1979 is currently 50 percent and everything pre 1980 is 25 percent, that if there is any consideration of adjusting the rates, you don't adjust the post 1979, you only deal with Prudhoe and Kuparuk.

CHAIRMAN HURLEY:

Representative Cato?

REPRESENTATIVE CATO:

Madam Chairman, in other words what we would be doing in this bill is going back and picking up past monies spent. We have spent the revenue from Kugaruk and Prudhoe. I don't think you get what I want. I'm not saying it as well as I probably could. What I am saying is that inasmuch as we already get 50 percent from everything since Kugaruk and Prudhoe, so what we would be doing is backtracking and picking up what could have been picked up at that time, had it been at 50 percent.

DAVE ROSE:

Well, except that it would not be a retroactive bill, so it would kick in immediately.

REPRESENTATIVE CATO:

In other words, just exactly what you said. It would be taking current... Well, to me it would be paying... currently out of our pocket for something we have already spent.

DAVE ROSE:

No, I'm not sure that's a correct interpretation. What it is really saying is now you depend on getting 75 percent of the money from Kugaruk and Prudhoe. And what this bill would do, it would only give you 50 percent. So you would have to adjust this year's revenue this direction.

REPRESENTATIVE BOUCHER:

Madam Chairman?

CHAIRMAN HURLEY:

Yes, Mr. Boucher.

REPRESENTATIVE BOUCHER:

As you invest in this, when we are downsiding on the oil and inflation is down, does not the Permanent Fund begin to produce more for us. We're taking... to a small degree, turning lemon into lemonade, so to speak? In other words, if we put this in and the oil prices continued to slide, would there be one point in time that we were actually hoping that the oil prices flattened out?

DAVID ROSE:

Oh, I would think so. But we would look.., for example, under this bill, were it to go in at the level proposed, the

projected net income, for example, in the year 2000, is some \$2.3 billion per year in the Fund. Jim, I don't have the current projection, do you...

REPRESENTATIVE BOUCHER:

The net.

DAVID ROSE:

This is net income after expenses, but that is not very much. The income is \$1.7 billion. See, you go from \$1.7 or \$1.8 billion projected now, to \$2.35 billion then. So it does begin to pay very heavy dividends down the line. But it is a long range decision. The problem is, how much does that hurt to make that decision for the immediate year in exchange for the long run.

REPRESENTATIVE BOUCHER:

Excuse me, I'm really stimulated. Finally I've got some questions and I'm a little excited about it. At what point do we arrive where our money becomes a greater resource than Prudhoe Bay? Is there such a point? You said it's the largest net income producer now. Would there not be a point if we arrived at that we would be assured of that future? Have I asked the right question there?

DAVE ROSE:

Well, you've asked the right question, but I don't know the answer. Do you have it?

JIM KELLY:

Page 37 of the Revenue Source book, there are some numbers. Again, I think they are from Vince Wright. They are long-range revenue projections and they break out the Permanent Fund, the contributions from the royalties, Prudhoe Bay money essentially, and it breaks out how much comes from there off into the future. And if you compare that with our net income, probably somewhere about ten years from now we'll end up having more net income from the Permanent Fund than what the oil is producing.

REPRESENTATIVE BOUCHER:

And that becomes an infinite resource, huh? Off of a finite resource.

CHAIRMAN HURLEY:

Go ahead Representative Jenkins.

REPRESENTATIVE JENKINS:

Is the [indiscernible] in total or just the Prudhoe Bay/
Kuparuk share?

JIM KELLY:

That's that share, that's right.

DAVE ROSE:

I think on House Bill 9, that's probably the gist of our comments. Now, we do have, not a written analysis, but we do have projection runs that show the impact of the bill and would certainly make that available for the record. Maybe not today but will get it over tomorrow. Do you want to go on to House Bill 28?

CHAIRMAN HURLEY:

Well, 32, since it is similar. Similar subject.

DAVE ROSE:

House Bill 32 does a couple of things. It does front load the Fund in the same manner as House Bill 9 does. That is similar. The construction of the verbage is different but the effect is the same. It front loads the Fund to the same degree. It does, however, in section 2, have a greater payoff of dividends. So what it does is, while it front loads the Fund, it also pays out a great deal of money for dividends. The net effect of this bill by the year 2000 is that it increases the overall value of the Fund by some \$1 billion, but it also, of course, increases the payout over time of dividends which I have not calculated in terms of the sum. So what it means is the Fund grows under House Bill 32, but also the money in the pocket of Alaskans grow to the same degree.

Some of the other impacts of the bill is that it does effect inflation proofing negatively because it does retain the priority payment of dividends first and inflation proofing second. Which means that there is less money available for inflation proofing, so while there is a definite positive effect on dividends, there is a negative effect with respect to inflation proofing. And our printouts available on this indicate some very substantial shortfalls in the inflation proofing arena. But the net effect of the bill over time is a positive, from a parochial sense of the Fund of some \$1 billion.

CHAIRMAN HURLEY:

Thank you. I think that we will just go on to 28 then, and we will be able to cover these.

DAVE ROSE:

Okay. House Bill 28 does several things. First of all, it changes the priority of the payout of earnings. That's the first thing it does. It switches it from dividends first and inflation proofing second to inflation proofing first and dividends second. The second thing it does is it indicates that the undistributed income account ought to be maintained to the degree possible at a five percent reserve. So that you have in your undistributed income account five percent as the buffer to meet the needs of the future rather than eradicate that account entirely, for example. The third thing it does is it strikes a computation immediately and says of your undistributed income account, take five percent, leave that in your account, and everything else in the undistributed income account move immediately into the coffers of the principal. And the fourth thing it does is it says that in any succeeding year, if you exceed five percent in the undistributed income account, that amount of money can flow automatically into the principal. So what that account basically does is takes a hard look at the undistributed income account, makes the determination that five percent for retained earnings is probably realistic on a corporate basis, and says absorb everything over that five percent into the coffers of the Fund.

This bill is interesting by way of subjective analysis in juxtaposition to the other bills we talked about. Because House Bill 28 does move money into the Permanent Fund immediately and directly into the coffers, without taking money off the table. In other words, it is a point for this year where money can be moved into the Permanent Fund without having to go through the appropriation process in terms of competing monies. When you take this into juxtaposition with House Bill 32, for example, or even House Bill 9, it may be possible to consider a different effective date on those bills so that what happens is you use House Bill 28 immediately to achieve movement of money into the Fund for this year, but you adopt these other bills prospectively with an effective date that doesn't take money off the table immediately because you achieve that with 28, and in some succeeding year when it may be less odious to do it, you adopt it now. In other words, 9, 32 may be more palatable in some succeeding year if you have a forward effective date, whereas 28 might be the thing to do this year in terms of some immediate action to do something from a parochial viewpoint. That's why I said it is difficult to look at these bills because it is a question of timing. There is certainly nothing wrong

with House Bill 9. Perspectively, there's nothing wrong with 28. Immediately, and put together, they work very well and they complement each other. That's the subjectivity... and that's Dave Rose talking, not his Trustees.

CHAIRMAN HURLEY:

Representative Jenkins?

REPRESENTATIVE JENKINS:

I'll accept Dave Rose talking. This act is retroactive to June 30, 1984. Does that mean money that would already...

DAVE ROSE:

Yes. The retroactivity on 32 works sort of interesting on the numbers. If you took House bill 32 and you have the retroactivity, it has the effect of us making an immediate computation on the effective date and transferring... what was that, Jim... \$315.5 million immediately, and approximately \$99.4 million at the end of this fiscal year. If you didn't have the retroactivity, strangely enough you would have a transfer of a greater amount of money. That's the way the numbers work. The retroactivity actually is less by about \$30 million, at least on our raw calculations. But in any event, if you struck the five percent balance and you transferred all of undistributed income account, that's what you would be adding to the Fund, about \$415 million.

CHAIRMAN HURLEY:

The other bill is 71 that we had before us. We have since then received some other bills but we haven't had the five day rule so we will have to talk about those later. If you want to comment briefly.

DAVE ROSE:

Yes. On House Bill 71, of course, this was introduced at the request of the Governor and it provides a \$500 million appropriation which is open-ended. This bill is, of course, almost identical, not quite, but it would work the same way. Identical to the 1980 and the 1981 appropriations which basically says that you add money to the Fund when it is determined to be available in an excess of General Fund revenues necessary. The advantage of this bill, I think, from a legislative perspective, is a sense that it gives you a great deal of flexibility. It gives you the flexibility in a sense that... as opposed to dedication, you don't take money off the table and lock yourself in so you never see it. You always have a chance to see all

your revenues. It gives you that flexibility. It gives flexibility to the Governor, obviously because he would call the shots as to when that money would go in. So it probably is the most flexible bill both from the Administration and the Legislative viewpoint. From the parochial Fund viewpoint, it is not hard cash until it is actually received.

REPRESENTATIVE BOUCHER:

Madam Chairman. Might that not be subject to the variable who's governor? You know.

DAVE ROSE:

Well, yes. Except the Permanent Fund would probably hound the incumbent to death until he got his money. When I first came over to set up the Fund as a separate corporation I went through the books and, of course, I found that \$700 million was due the Fund. So I sent a bill to the Department of Revenue. I mean, I didn't know any better. And I laid out an easy payment plan. [Laughter] We did obviously, Governor Sheffield did... while he didn't quite meet the easy payment plan, he did pay it entirely. So I guess if you hound any person enough you can get it. And, of course, he was willing to be hounded. So I think that whatever incumbent you have... Certainly \$500 million is still well within Governor Sheffield's term. If it was appropriated, I'm sure we could get him to pay it one way or the other.

CHAIRMAN HURLEY:

Representative Cato.

REPRESENTATIVE CATO:

This doesn't have anything to do with the Permanent Fund. It has to do with Mr. Rose and his office staff. When I met you in Anchorage sometime not too long ago, or maybe it was a long time ago, you said that you have been relegated to the basement of the capitol building, are your quarters somewhat nicer now?

DAVE ROSE:

No, no. That wasn't quite true. That was in a different context.

REPRESENTATIVE CATO:

Yes. We were... I was just asking where your quarters are.

DAVE ROSE:

We are over in the Goldbelt Building which is a three story modern building on tenth street, which is the same street that the bridge comes off of. Very modern quarters that we rent and we have been allowed to set up the organization with all of the electronic equipment to meet the market needs so that we are pretty current. We have everything from telephones which are supported by batteries so that if the market is hot and the power goes out we are able to react, to Rueters machines which are by satelite which gives us stock market results, to tellury by land lines which give us the bond results. It's a very modern and efficient operation. It's really keen.

REPRESENTATIVE CATO:

Great. I would have hated to find you in the corner of the print shop.

CHAIRMAN HURLEY:

I want to thank you, Mr. Rose, for your very excellent presentation. It's been informative for all of us. And it's been a very good meeting. I can't believe an hour and a half went by so quickly.

DAVE ROSE:

Thank you for asking us and it is our pleasure any time.

CHAIRMAN HURLEY:

We will be calling you because we do need to take up these bills and the issue soon.

DAVE ROSE:

We will submit for the record what little written analysis we have so that you have the benefit of it.

CHAIRMAN HURLEY:

I think we have quite a bit of it in our folders that Tim has taken care of.

The Committee will not meet tomorrow or Monday. Our next meeting will be Tuesday. That's right--Saturday for the public hearing. 2 PM here. I'm sorry, thank you. The meeting is adjourned at 4:30 PM.



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MEMORANDUM

DATE: January 25, 1985
TO: Trustees
FROM: Jim Kelly, Research & Liaison Officer
SUBJECT: 1985 Legislation

This is to inform you of the status of legislation pending in the First Session of the 14th Alaska State Legislature which, if passed, would directly affect the Alaska Permanent Fund. To date, there have been six such bills introduced in the House and two in the Senate. A brief description of the bills follows.

Attached are copies of the bills, as well as financial projections, prepared by Alaska Permanent Fund Corporation staff, which illustrate the impact of the proposed legislation.

- House Bill No. 9 by Rep. Szymanski: This bill would increase the current statute dedication to a 50% contribution rate. It would increase Permanent Fund dedicated State revenues by \$360 million in FY 86, \$345.4 million in FY 87, etc. By the year 2000, the Permanent Fund principal would be \$6.6 billion higher, and the annual net income \$561 million more, than under the status quo. This bill would also have the effect of causing a shortfall in inflation-proofing in FY 95 (one year earlier than under the status quo), increasing the size of the dividends, and increasing the amount of the annual net income. The bill has an immediate effective date.

- House Bill No. 28 by Rep. Duncan: This bill does four things:
 - * Changes the priority of use of Fund earnings. Currently, dividends are paid first and inflation-proofing second. This revises the order and provides for inflation-proofing first.

- * Provides that the Undistributed Income Account shall equal not more than 5% of the corpus.
- * Amounts in the Undistributed Income Account in excess of the 5% reserve are transferred to the corpus each year.
- * The bill is retroactive to FY 84 and transfers all surplus over the 5% level on June 30, 1984 to the corpus. Transfers to the corpus would amount to \$315.5 million for FY 84, and \$99.4 million for FY 85. These are the only two years in which transfers are projected.

The bill would result in an eventual shortfall in the dividend fund, expected in FY 90. Thereafter it would have the effect of decreasing the size of the dividends, and increasing the amount of the annual net income. By the year 2000, the Permanent Fund principal would be \$1.9 billion higher, and the annual net income \$145.5 million more, than under the status quo.

- House Bill No. 32 by Rep. Marrou: This bill would increase the current statute dedication to a 50% contribution rate, like HB 9, but it also would increase the amount of transfer to the dividend fund from 50 to 75%. This would result in an increase in the Fund's size in the year 2000 of \$945.2 million over the status quo, but it also creates an ever-increasing inflation-proofing shortfall each year after FY 88 . It would immediately increase the size of the dividend payments and the amount of the annual net income. The projected payout to the Permanent Fund Dividend program for the next 15 years under this bill would be \$12.1 billion, compared to \$7.4 billion under the status quo.
- House Bill No. 71 by the Rules Committee by Request of the Governor: This bill would make a special appropriation of \$500 million to the Permanent Fund. The timing of the appropriation would be at the Governor's discretion, in a manner virtually identical to that of the \$1.8 billion appropriation made by the 1981 Legislature. The language of this bill is slightly different from the earlier one, but the net effect would be the same.

Assuming deposit of the full amount by June 30, 1987, the Permanent Fund principal, by the year 2000, would be \$1.1 billion higher, and the annual net income \$90.2 million more, than under the status quo.

- House Bill No. 82 by Rep. Martin: This bill would amend the statutory dedication to the Permanent Fund to include 100% of the type of oil revenues normally received by the Fund, if they are received by the State as a result of a court order or an out-of-court settlement. The financial impact of this bill has not yet been determined due to the uncertain nature of the various oil lawsuits still pending.

- House Bill No. 84 by Rep. Pignalberi: This bill would appropriate the entire Undistributed Income Account to the principal of the Permanent Fund on July 1, 1985.

- Senate Bill No. 24 by Sen. Fischer: This bill, like HB 9, would increase the current statute dedication to a 50% contribution rate, and like HB 82, would amend the statutory dedication to include 100% of the type of oil revenues normally received by the Fund, if they are received by the State as a result of a court order or an out-of-court settlement.

- Senate Bill No. 56 by Sen. Ray: This bill amends the longevity bonus program, and establishes a new annuity program. It affects the Permanent Fund only in that a provision is included in the bill which specifically authorizes the Legislature to appropriate funds from the Undistributed Income Account to fund the new annuity program. This represents no change from current law as the Legislature already has the power to appropriate these funds. The Governor, however, in this year's budget address "strongly suggests" that the Undistributed Income Account be left alone as he considers that money to be part of the Permanent Fund.

The House bills all have State Affairs and Finance referrals. SB 24 has referrals to State Affairs, Judiciary and Finance; SB 56, State Affairs and Finance. All bills are still in the committee of first referral.

CONSTITUTIONAL AMENDMENT

Section 15. ALASKA PERMANENT FUND. At least twenty-five per cent of all mineral lease rentals, royalties, royalty share proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

CALCULATIONS USED IN DETERMINING
DIVIDEND PAYMENTS
AND
UNDISTRIBUTED INCOME

UNDISTRIBUTED INCOME ACCOUNT

NET INCOME FOR CURRENT YEAR ON PERMANENT FUND PRINCIPAL

PLUS NET INCOME FOR CURRENT YEAR ON ACCOUNT

EQUALS: CURRENT YEAR ADDITION TO ACCOUNT

PLUS: PRIOR YEAR ACCUMULATION IN ACCOUNT

EQUALS: TOTAL IN ACCOUNT

LESS: DIVIDENDS AS CALCULATED
PAID FIRST FROM INTEREST EARNED ON ACCOUNT
PAID SECOND FROM THE ACCOUNT

LESS: INFLATION PROOFING

EQUALS: BALANCE IN ACCOUNT

DIVIDEND PAYMENT TO STATE

NET INCOME FOR CURRENT YEAR

ADD: NET INCOME PRIOR 4 YEARS

DIVIDE: BY 5

EQUALS: FIVE YEAR INCOME AVERAGE

DIVIDE: BY 2

EQUALS: DIVIDEND PAYMENT TO STATE



ALASKA PERMANENT FUND
MATURITY OF FIXED INCOME HOLDINGS
AS OF NOVEMBER 15, 1984

<u>MATURITY</u>	<u>PERCENT</u>
0 - 4 YEARS	53.1
4 -10 YEARS	38.3
10+ YEARS	8.6

Average life to maturity of portfolio --- 6 years, 2 months

ALASKA PERMANENT FUND CORPORATION

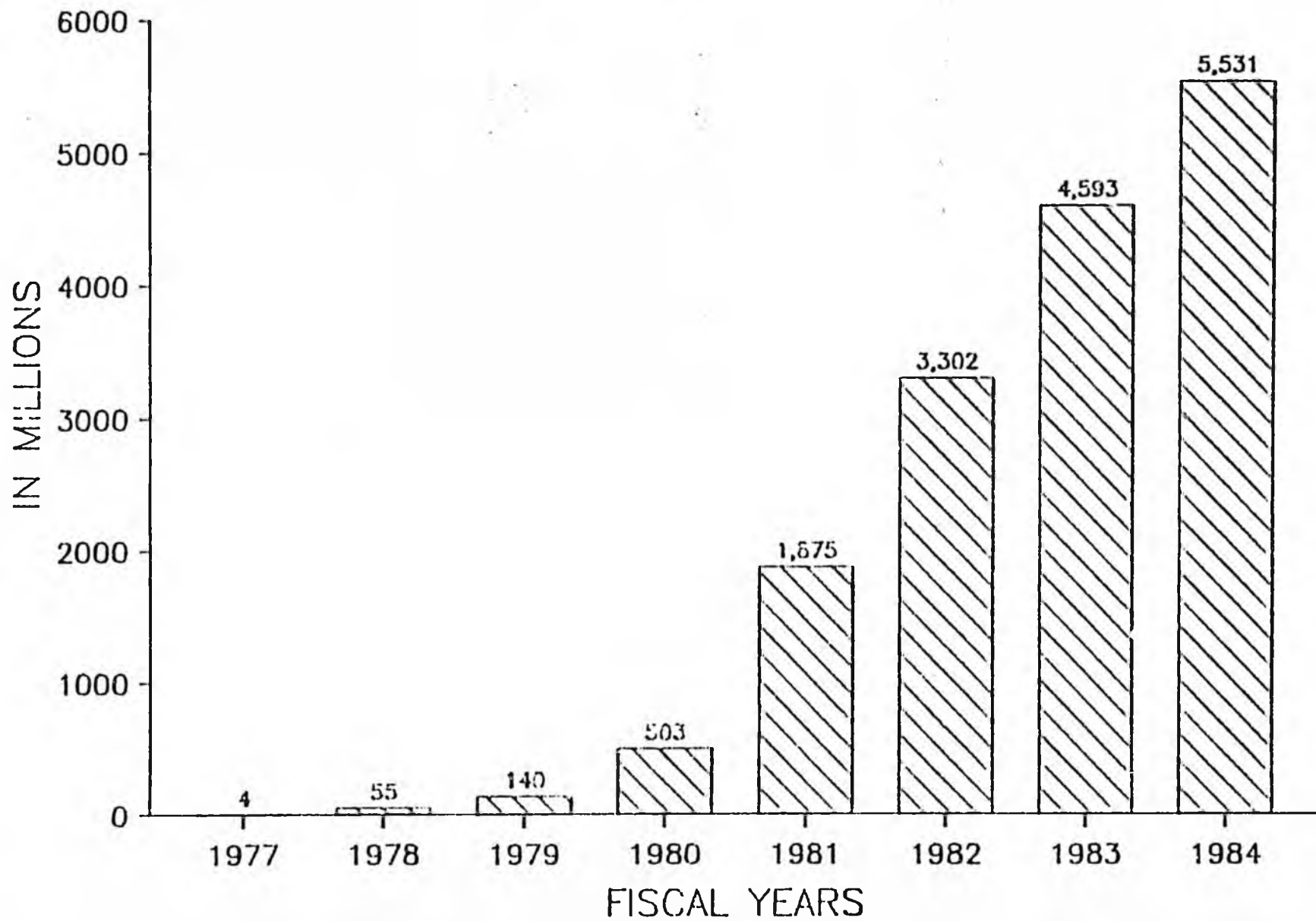
Invested Funds

December 31, 1984

	<u>AMOUNT</u>	<u>%</u>	<u>YIELD</u>
Cash	\$ 350,000		9.72
Marketable Securities, at market:			
Repurchase Agreements	24,100,000	.4	8.46
SFS Treasury Obligations	30,110,000	.5	9.09
UST Bills	92,458,000	1.5	9.21
Certificates of Deposit	25,289,000	.4	10.25
U. S. Notes & Bonds	5,179,318,000	82.9	11.61
Corporate Bonds	27,959,000	.5	10.90
Stock	<u>514,908,000</u>	<u>8.2</u>	<u>4.49</u>
Total Marketable Securities	\$5,894,142,000	94.4	10.92
Contributions/Interest Receivable	151,505,000	2.4	
Other Investments, at cost:			
Loans and Mortgages	43,033,000	.7	14.10
Alaska Certificates of Deposit	102,500,000	1.6	11.09
Real Estate Equity	<u>54,250,000</u>	<u>.9</u>	<u>7.78</u>
	<u>\$6,245,780,000</u>	<u>100.0</u>	<u>10.91</u>

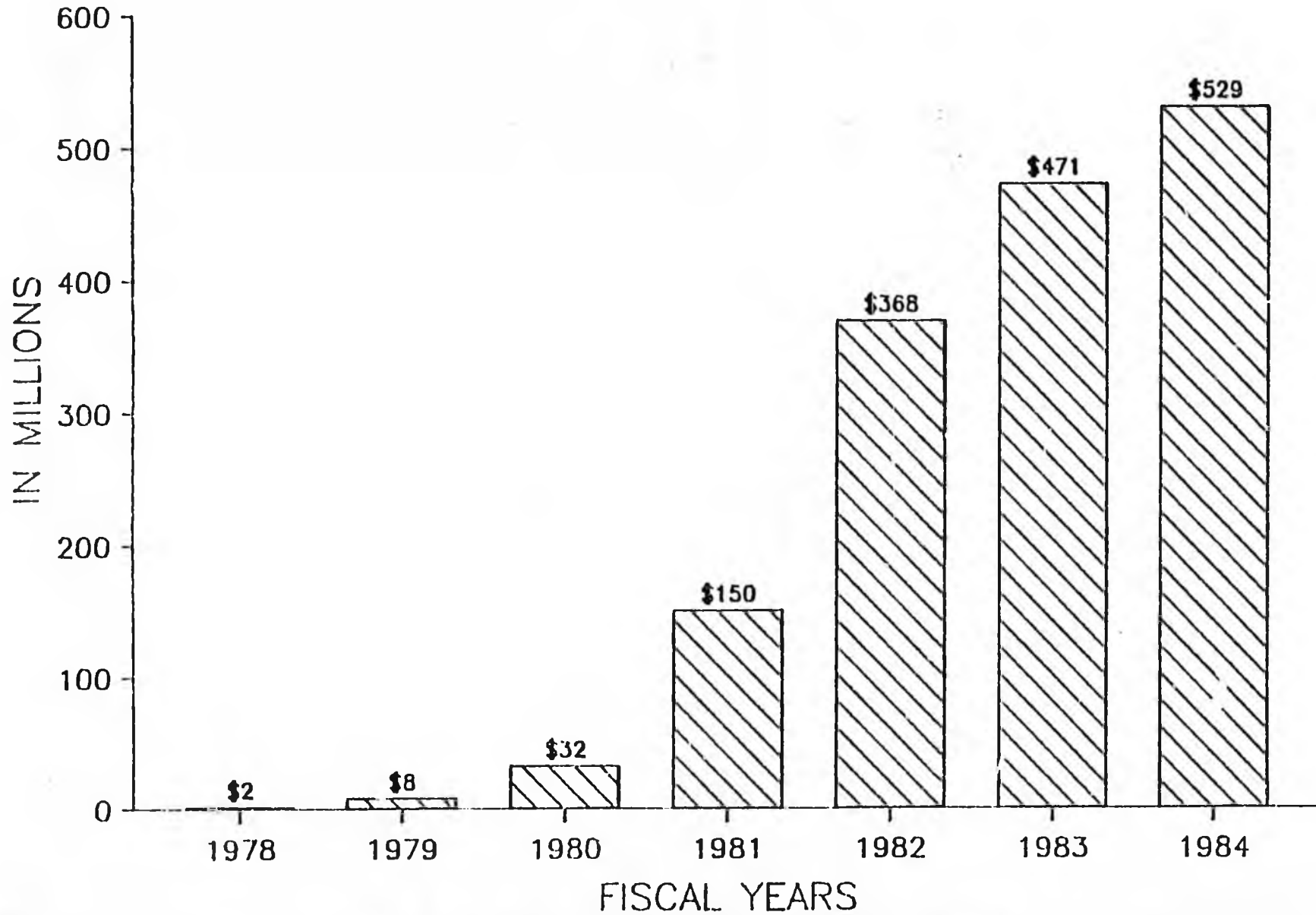
ALASKA PERMANENT FUND CORPORATION

TOTAL ASSETS



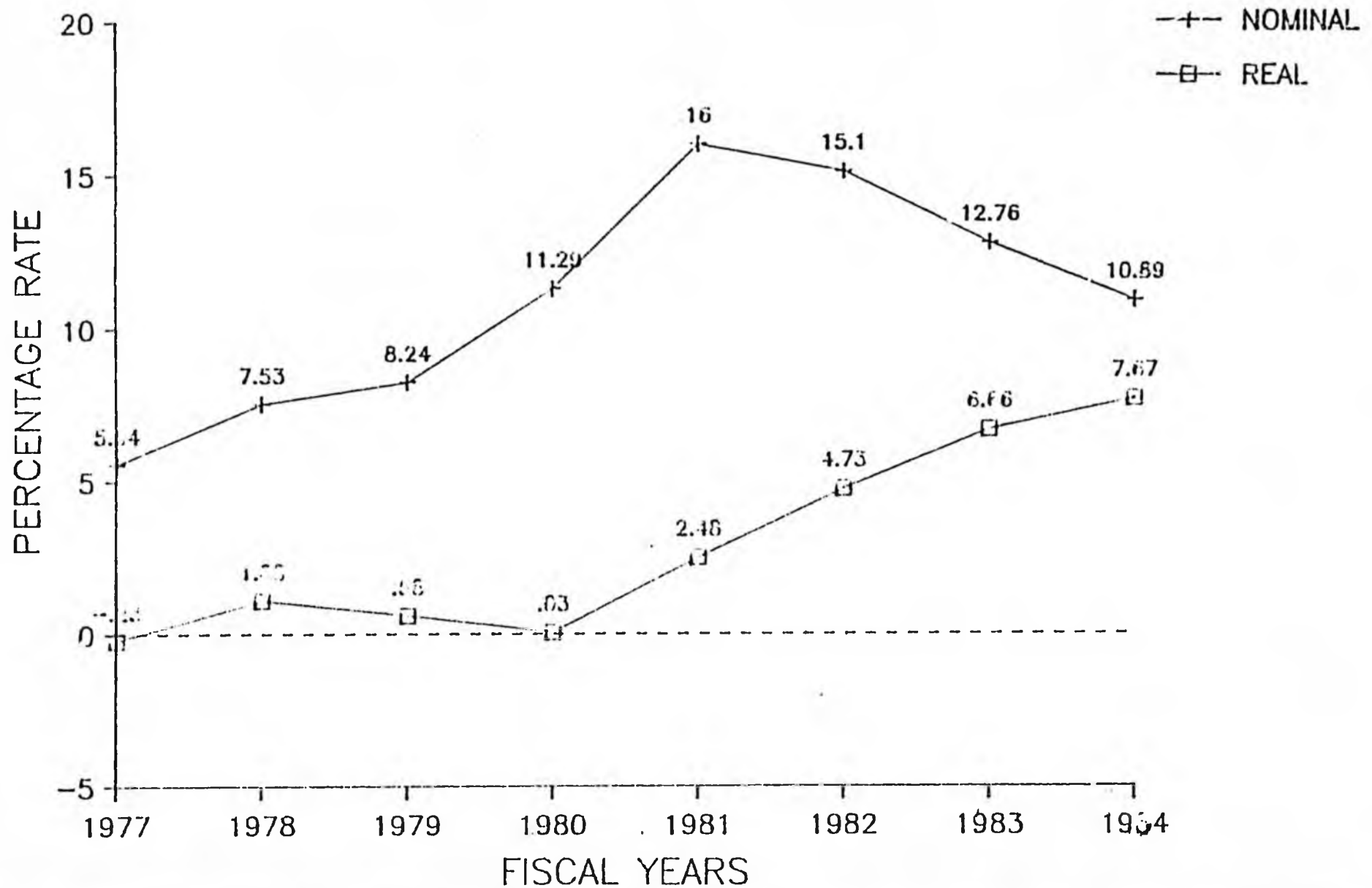
ALASKA PERMANENT FUND CORPORATION

NET INCOME



ALASKA PERMANENT FUND CORPORATION





REALIZED RATES OF RETURN

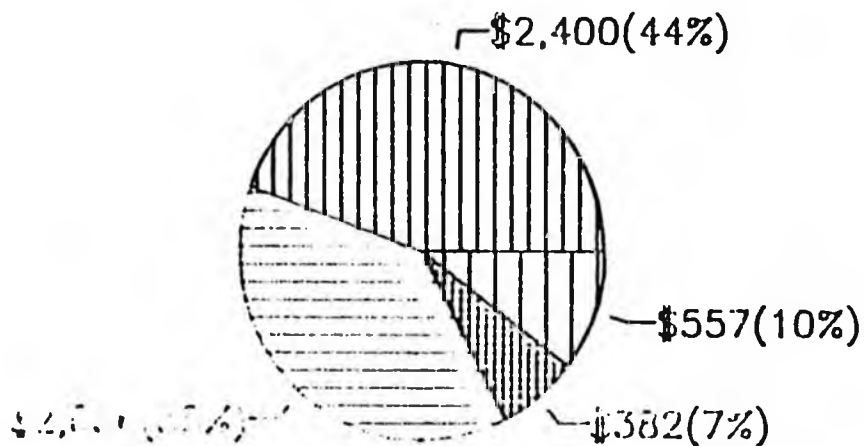


ALASKA PERMANENT FUND CORPORATION

SOURCE OF ASSETS SINCE INCEPTION

IN MILLIONS

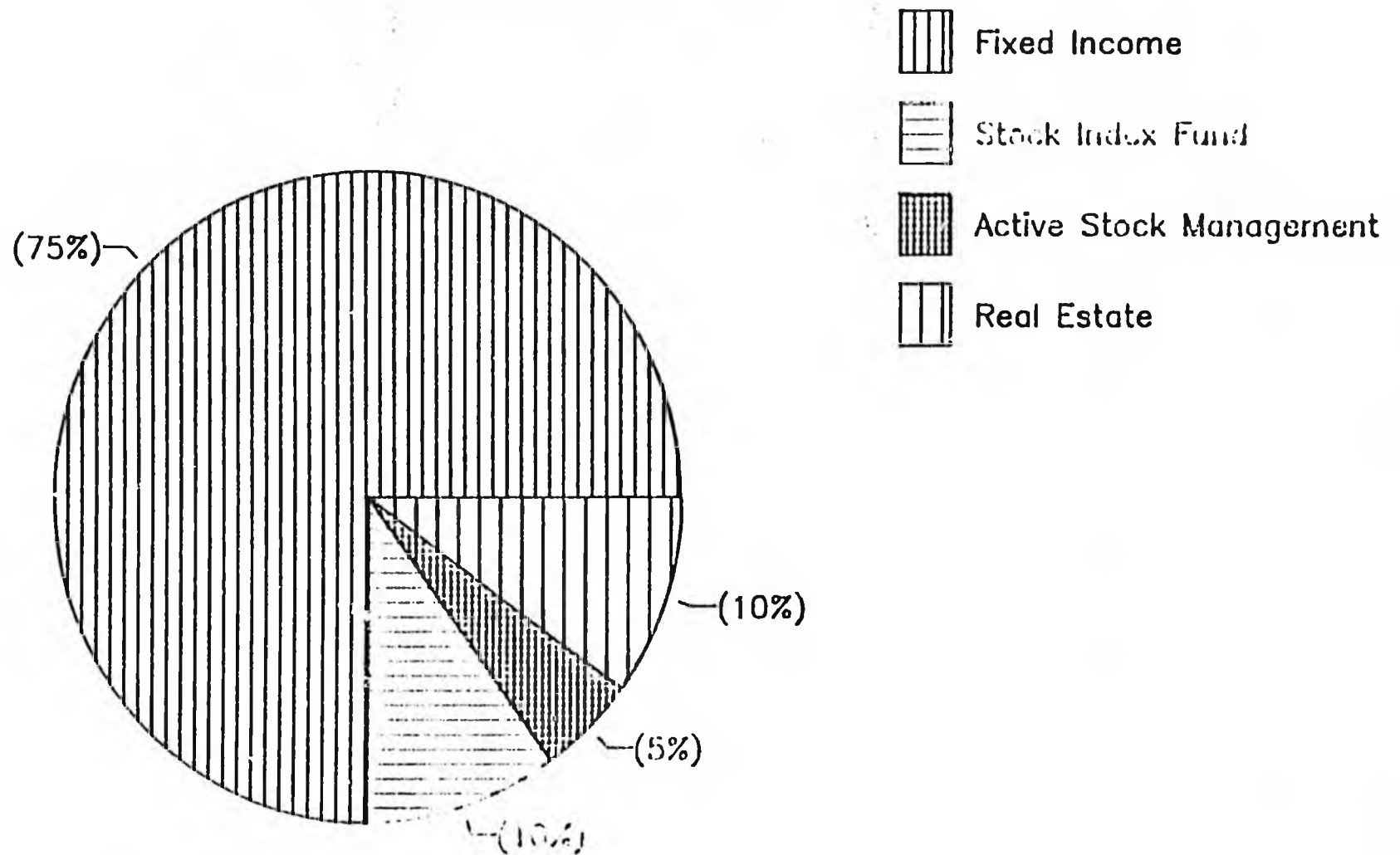
-  Appropriations
-  Dedicated State Revenues
-  Inflation Proofing
-  Reserves



JUNE 30, 1984

ALASKA PERMANENT FUND CORPORATION

INVESTMENT ASSET ALLOCATION



OCTOBER 31, 1984

ALASKAN INVESTMENTS
DECEMBER 31, 1984

	<u>COMMITTED</u>	<u>DISBURSED</u>
Home Mortgages	\$ 80,000,000	\$ 43,033,000
Alaskan Bank Deposits	200,000,000	102,500,000
Corporate Bonds	23,500,000	23,500,000
Real Estate	<u>10,000,000</u>	<u>-0-</u>
	<u>\$ 313,500,000</u>	<u>\$ 169,033,000</u>
As a percentage of the Fund (\$6.2B)	5.06%	2.73%

BANK CERTIFICATES OF DEPOSIT - FULLY COLLATERALIZED

ALASKA MUTUAL	\$ 35,000,000
ALASKA PACIFIC	13,000,000
FIRST FEDERAL BANK OF ALASKA	30,000,000
FIRST INTERSTATE BANK OF ALASKA	4,500,000
FIRST NATIONAL BANK OF FAIRBANKS	14,000,000
UNITED BANK ALASKA	<u>6,000,000</u>
	<u>\$ 102,500,000</u>

ALASKA PERMANENT FUND
CORPORATION
MONTHLY FINANCIAL REPORT
DECEMBER 1984



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

M E M O R A N D U M

DATE: January 17, 1985

TO: Recipients of December 1984 Financial Statements

FROM: *David A. Rose*
David A. Rose
Executive Director

SUBJECT: Report Highlights

This report indicates that the Fund's total assets approximate \$6.2 billion as of the close of the calendar year.

The increase during the month of December is primarily attributable to: a capital contribution in the amount of \$200,000,000, deposited by Governor Sheffield in final satisfaction of the special \$1.9 billion appropriation made by the Legislature in 1981; receipt of dedicated state revenues in the amount of \$29,871,000; and net income from operations of \$54,499,000.

During the first half of the fiscal year, the Fund posted net income of \$306,335,000. Operating expenses totalled less than one-half of one percent of gross revenues.

A comparison of marketable securities held at the end of December, valued in terms of both cost and market, reflects unrealized gains as follows:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gains</u>
Marketable debt securities	\$5,337,261,000	\$5,379,234,000	\$41,973,000
Common stock	503,811,000	514,908,000	11,097,000

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF PORTFOLIO ASSETS, LIABILITIES AND FUND EQUITY

DECEMBER 31, 1984

<u>ASSETS</u>	<u>\$</u>	<u>AMOUNT</u>
Cash	\$	350,000
Receivable and prepaid expense	3	151,797,000
investments:		
Marketable debt securities -		
Repurchase agreements		24,100,000
Short-term issues	2	147,525,000
Intermediate and long-term issues	<u>83</u>	<u>5,165,636,000</u>
Total marketable debt securities	85	5,337,261,000
Preferred & common stock, net of valuation allowance	8	503,811,000
Real estate equity pools	1	46,250,000
Participating real estate mortgages		8,000,000
Conventional mortgages	1	43,033,000
Alaska certificates of deposit	<u>2</u>	<u>102,500,000</u>
Total investments	12	6,040,855,000
Property and equipment, net of accumulated depreciation	<u> </u>	<u>150,000</u>
Total assets	<u>100</u>	<u>\$ 6,193,152,000</u>
<u>LIABILITIES</u>		
Accounts payable		\$ 406,000
<u>EQUITY</u>		
Contributed equity	86	5,329,063,000
Reserve for inflation and dividends	<u>14</u>	<u>863,683,000</u>
Total equity	<u>100</u>	<u>6,192,746,000</u>
Total liabilities & equity	<u>100</u>	<u>\$ 6,193,152,000</u>