

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672

6293 SENATE HEALTH, EDUCATION AND SOCIAL SERVICES

87

Cowper's educational endowment an 'act of theft'

In his major policy address last month, Gov. Steve Cowper announced a new "educational endowment" to direct part of the Permanent Fund's earnings toward "supporting education" in Alaska.

The scheme is embodied in HJR 13, introduced by the governor. This constitutional amendment would transfer 40 percent of the fund's investment earnings to a new "educational endowment" within the principal of the permanent fund.

All the annual earnings of this "endowment" would also be plowed back into the endowment's principal.

The governor and his staff have



Fred Pratt

repeatedly claimed this will not affect our permanent fund dividends or the fund itself. But anybody with the most basic understanding of how the fund operates can tell that this endowment is no thing more than a ruse to transfer most of the current earnings and dividends to a slush fund that would free local school districts from hav-

ing to ask local taxpayers or the Legislature for money.

One who views HJR 13 suspiciously is Senate Majority Leader Buck Hallford, R-Chugiach, a most staunch defender of the permanent fund.

Hallford asked the permanent fund managers for a projection of the effects of the governor's plan. The package being discussed in the Legislature would also pay the existing earnings reserve of the fund of \$521 million as the initial principal of the endowment, and 50 percent of the total fund's earnings would be transferred each year to the general fund where they could pay other state government costs.

The very startling results are shown in the chart that accompanies this column.

The governor's scheme would take \$7.3 billion from the permanent fund principal between now and the year 2005. By the year 2005, the principal will be \$12.1 billion.

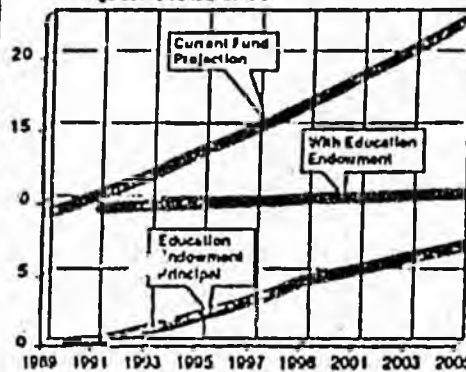
Your permanent fund dividend checks will be essentially capped at no higher than \$40 a year, about \$200 less than what we get now. Over the next decade this would cost you \$1,500.95 each. Over the next 15 years it would cost you \$7,454.53. At that time, in the year 2005, you would be getting only \$612.17 a year for a dividend check instead of the \$1,500.75 projected under existing law.

Putting it another way, by the year 2000 every school age child would be paying a "tuition" of about \$600 a year to support his local public school. So would each of his parents, adding up to at least \$1,800 a family.

The annual addition of earnings to the fund's principal to protect it from inflation would be 1 in 1991. There simply wouldn't be enough earnings left to pay it. Under HJR 13 the non-education part of the permanent fund principal, the part that really is the permanent fund,

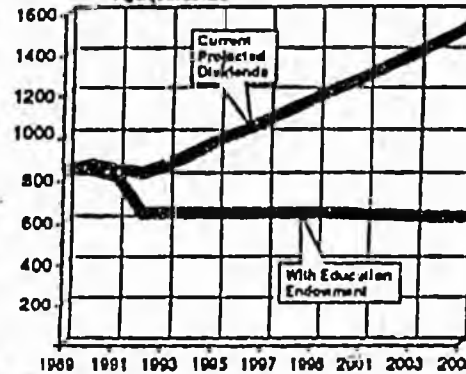
Permanent Fund Principal

Figures in billions of dollars



Permanent Fund Dividend

Figures in dollars



GROWTH AND IMPACT—The effects of Gov. Steve Cowper's "education endowment" proposal on the permanent fund over the next 15 years are shown in these two graphs. The left graph compares, in billions of dollars, the projected growth in the permanent fund's principal with and without Cowper's plan to divert 40 percent of future earnings to an "education endowment," a separate investment fund that would help pay the state's annual grants to local school districts. The right graph shows the impact of Cowper's proposal on the annual permanent fund dividend checks over the same time period.

would essentially stop growing. In real terms, corrected for inflation, it would dwindle to less than half its present value by 2005.

HJR 13 is cleverly crafted to divert virtually all the permanent fund's investment earnings to the education endowment, and all of the "endowment's" earnings would automatically go to school district grants.

Not that this would really pay for education to the extent that the governor implies. The permanent fund projections show that it would provide only \$389 million a year in earnings by the end of the century, which is little more than half what the state government sends local school districts in basic education support now.

By the time the school districts start receiving any substantial

amount of money from the education endowment, it would be paying only about one-quarter of what's needed.

This is a curious proposal. Instead of paying state school support from oil revenues, as is now the case, it would be paid out of the permanent fund principal and our yearly dividend checks. Why would we want to do this?

If we want to pay hundreds of dollars a year more to support our schools, we have the authority now to have our local governments raise our taxes to do so. We don't need to give up our dividend checks, and there are even some federal income tax advantages to supporting schools with taxes rather than taking the money from our share of the permanent fund earnings.

Also, local tax support of school districts helps keep the school administration and faculty more attuned to the desires of the people paying the bills. The governor's plan might not provide any more money, but would just change it from a tax structure which the citizens control every year to an automatic tithe from our permanent fund dividends in which we have no voice.

Would this improve education? There's not a hint anywhere in the governor's proposal that the money would be spent any more effectively than it is now. The governor touts his program as a boon for education, but there's nothing in it but a change in the source of a portion of our state's education funds.

The governor's proposal is not an "endowment." It's an act of theft.

Business failures down 6.6%—57,098 died in '88

NEW YORK (AP)—U.S. business failures declined 6.6 percent in 1988, the biggest drop in a decade, Dun & Bradstreet Corp. reported Thursday.

The business information company said \$7,098 businesses went under last year, compared with 61,111 in 1987.

"The significant decline in failures underscores the continued strength of the economy, now in its seventh year of expansion," said Joseph W. Duncan, chief economist for Dun & Bradstreet. "The nation's weakest regions are showing improvements, while those areas that led the expansion are holding their own."

The survey said failures were down in six of the nation's nine census regions, with only the Middle Atlantic states reporting a significant increase.

The decline in failures was especially notable in states with agriculture and oil-based economies,

according to the survey.

Among oil businesses, failures were down or flat in seven of the nine major sectors. Agriculture failures dropped 51.6 percent to 1,823 from 3,766, and failures in the mining sector, which includes oil and gas extraction, were down 21.2 percent to 494 from 627.

"The dramatic decrease in agricultural failures in 1988 is attributable to the surge in failures in early 1987, as farmers took advantage of the new Chapter 12 bankruptcy code," Duncan said.

The report also found that retail failures decreased 6.1 percent to 11,488 from 12,240, and services bankruptcies were down 4.7 percent to 22,646 from 23,802.

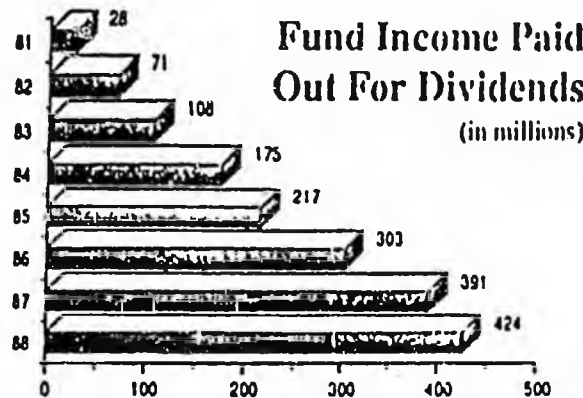
Manufacturing failures were down 1.6 percent to 4,204, while wholesale trade failures increased 2.7 percent to 4,455. Construction failures were essentially unchanged at 6,791.

The Future of Our Fund

The Dividend Program

Dividends are decided by a formula: (1) add together the Fund's net income for the last five years; (2) multiply that number by 21%; and (3) divide the resulting number by half.

Under current law, dividends will take roughly half of all future earnings, and inflation-proofing will take the rest.

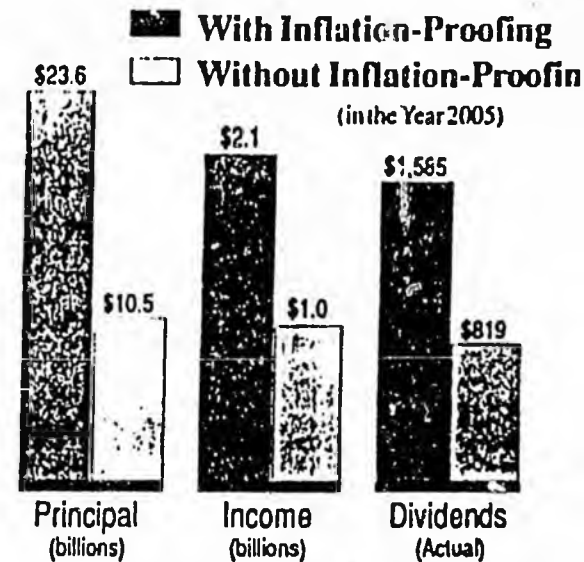


Under current law, dividends will take roughly half of all future earnings and inflation-proofing will take the rest. It's not expected that there will be any money left over for other uses. If the Permanent Fund is ever to produce an income for some other purpose, it will have to come from either dividends or inflation-proofing.

Inflation-Proofing

The Fund's future growth will depend most heavily on the contribution made by inflation-proofing...

Inflation-proofing protects the real value of the Fund requiring an automatic reinvestment of income each year to offset the effect of inflation.



The amount to be used for inflation-proofing is determined by multiplying the Fund's June 30 principal balance by the average annual inflation rate. If there is to be future growth of the Fund's principal, it will depend most heavily on the contribution made by inflation-proofing, due to the future decline in revenues.

*How should we use it?
What should it become?*

NEWS RELEASE

STATE OF ALASKA

OFFICE OF THE GOVERNOR
P.O. BOX A
JUNEAU, ALASKA 99811

STEVE COWPER,
GOVERNOR



FOR INFORMATION CONTACT:

DAVID RAMSEUR
PRESS SECRETARY

TERENCE O'MALLEY
DEPUTY PRESS SECRETARY

(907) 465-3500

FOR IMMEDIATE RELEASE
May 10, 1989
No. 89-86

COWPER PRAISES HOUSE PASSAGE OF EDUCATION AMENDMENT

JUNEAU--Gov. Steve Cowper today issued the following statement after Monday night's 30-8 House vote approving the Governor's education amendment proposal:

"The House's overwhelming vote reflects the increasing sentiment around the state that Alaskans want the best education possible for their children and a stable means to pay for it." Cowper said. "This amendment guarantees that our children won't be subject to the whims of oil sheiks or the politics of the legislature.

"Approval by the House is exactly what we wanted this year. Next year we'll pursue a Senate vote. Alaskans deserve to know everything they can about this proposal and I want a long and thorough public debate on it."

Under the proposed constitutional amendment, not less than 40 percent of the annual earnings of the Permanent Fund would be reinvested back into the fund in a special education account. Those deposits would continue for 10-15 years, with the money invested like the rest of the Permanent Fund.

-MORE-

The education account would continue to grow enough to fund the cost of the public education in Alaska each year. For example, by the year 2005, the account would be generating \$900 million to \$1 billion annually for elementary and secondary education.

The measure next must be approved by two-thirds of the state Senate and placed on the 1990 general election ballot.

Cowper said the amendment would give future Alaskans considerable flexibility well into the next century. Annual deposits could be extended by a vote of the legislature. The Permanent Fund earnings reserve account would remain intact and could be used in an emergency if the legislature approves.

Permanent Fund dividends also would continue to grow with the education fund in place, although their growth would be slightly less than without it.

Dozens of local school boards, municipal groups and other organizations have endorsed the proposal.

M.E.H.S STUDENT PRESENTORS

Steve Hoogendorn

Little Diomedede

Nina Haynes

Anchorage

Mitch Chocknok

New Stuyahok

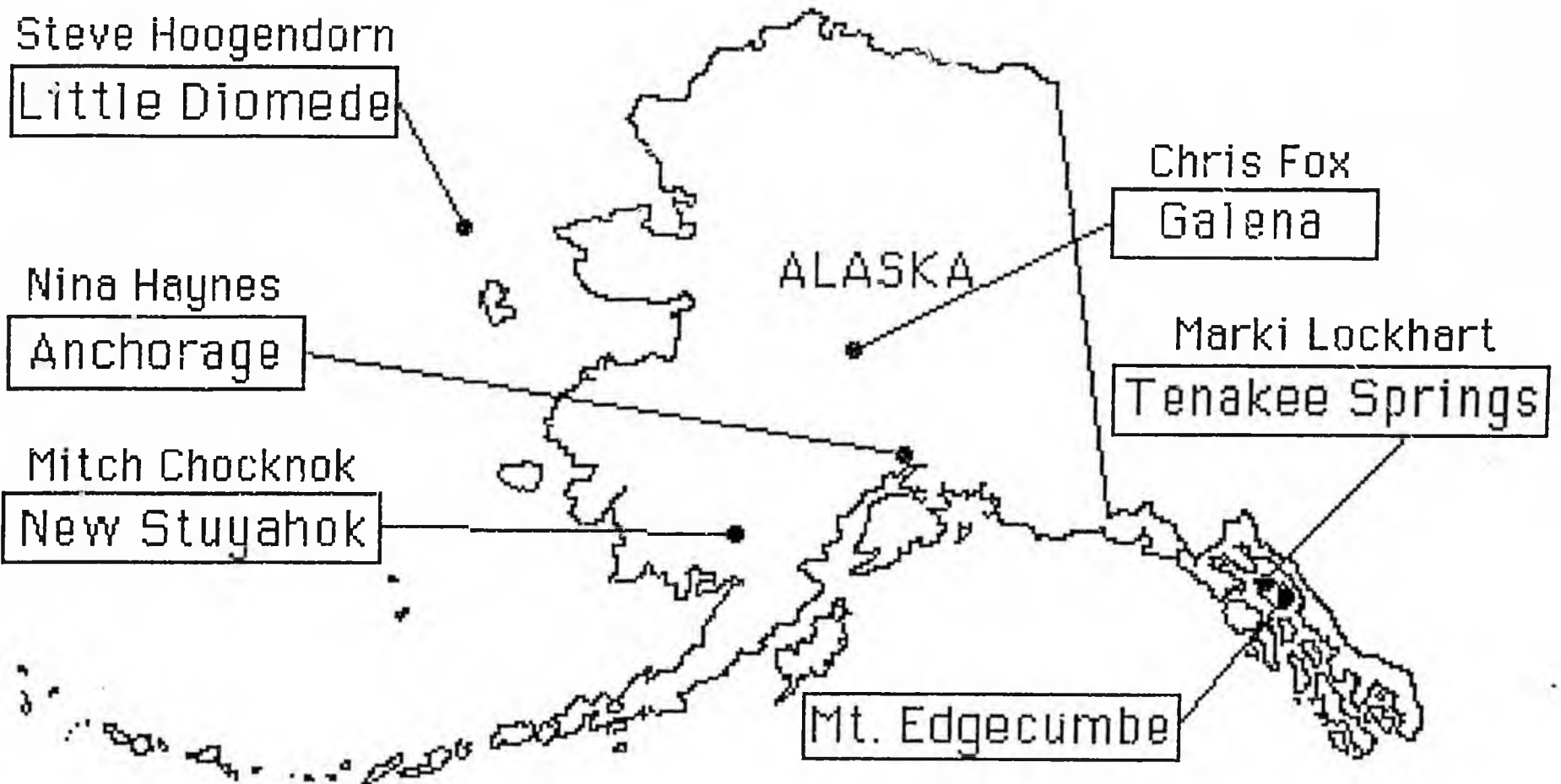
Chris Fox

Galena

Marki Lockhart

Tenakee Springs

Mt. Edgecumbe



Mt. Edgecumbe H.S. Family Projections

Year

- 1990 1. Average Student Age At MEHS is 16.
- 1998 2. Average Age of Marriage for Student at MEHS is 24.
- 2000 3. First Child will be born two years after marriage.
- 2005 4. First child will enter kindergarten five years later.

My Sacrifice

\$.70 a day

X

365 days a year

X

15 years

= \$3,882.50 given up

My Investment

2 kids

X

13 years of school

X

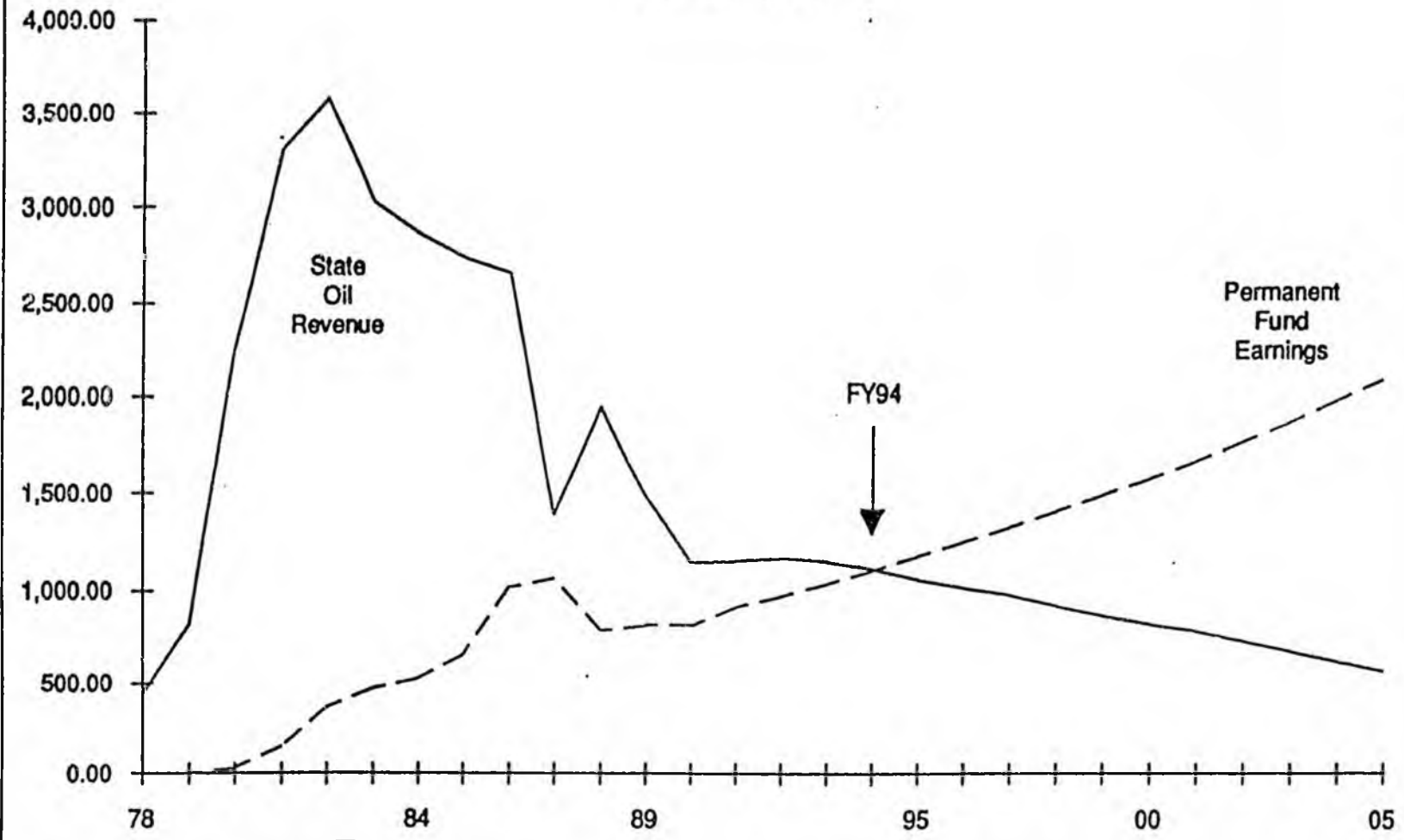
\$8,800 per year

= \$228,800 for K-12
Education for my kids

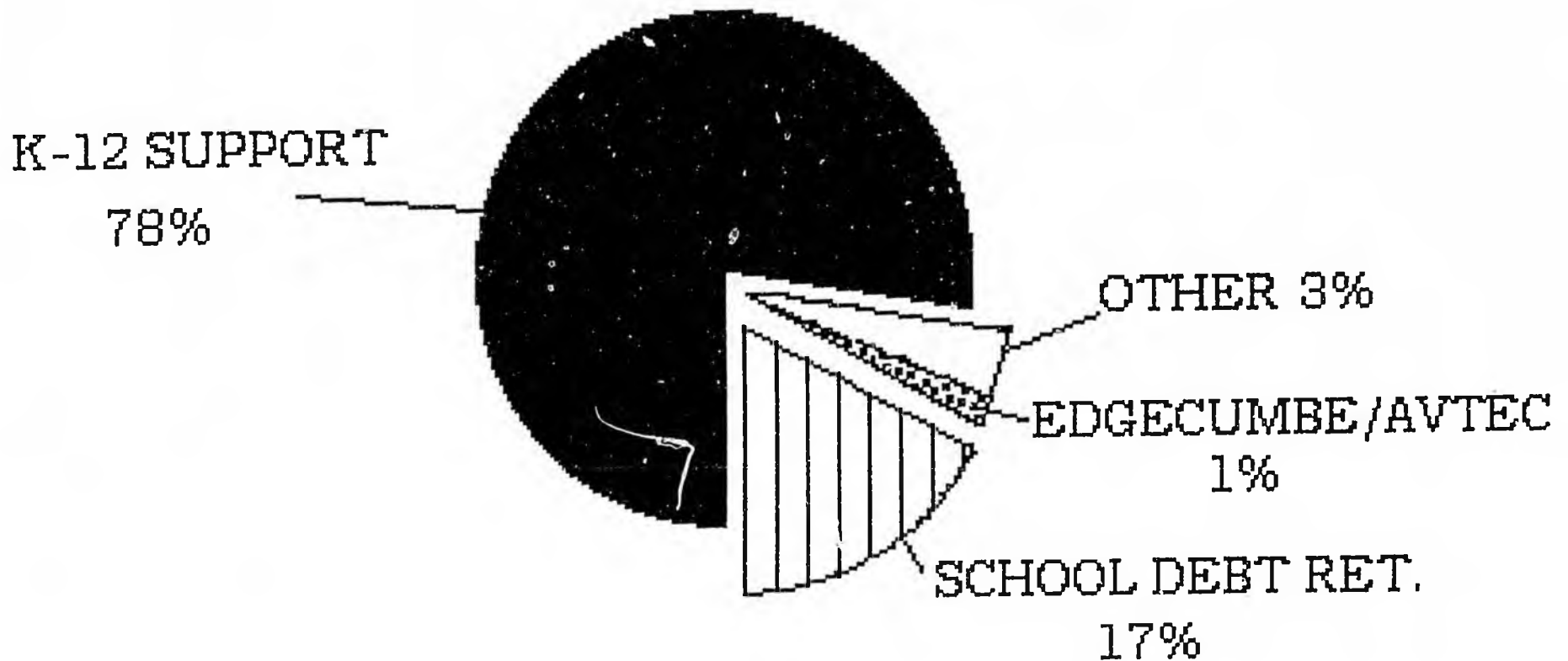
**TOTAL STATE OIL REVENUES VERSUS
PERMANENT FUND EARNINGS
FY 1978 - FY 2005**

(Actual and Projected)

\$Millions



DEPARTMENT OF EDUCATION
FY 1990 GENERAL FUND BUDGET



THE EDUCATION FUND

As oil money begins to run out, there is no firm funding base to meet a major constitutional responsibility - The education of Alaska's youth.

The ups and downs of oil prices which created such uncertainty over the past several years will continue in the future. But the most important variable in the revenue formula for the 1990's is not price but production. Production will be two-thirds of what it is today by 1995 and will drop to about one-third by the year 2000. To match today's oil revenues at the year 2000's rate of production, oil would have to sell for \$42 a barrel—an unrealistic assumption.

Public education is the largest single component of the state's operating budget, requiring about a quarter of every dollar spent. The FY91 base request for public school funding—the level which holds appropriations at this year's level—is over \$600 million. Another \$35 million is

needed to serve additional students. By 2000, inflation and increases in the number of students will swell education funding needs to over \$900 million. Revenue projections for that year

using the same inflation assumptions, and with no new revenue sources, yield only \$1.6 billion in unrestricted General Fund revenues. Without a stable, alternative funding source for education, the future choices will be simple but devastating: either cut education expenditures drastically or eliminate most other government programs and services.

Cuts in the education budget of the magnitude required would gut our educational system. If education's share of the total revenue pie is held constant, state support for public schools in the year 2000 would be little more than \$400 million—less than half the amount needed and less even

than the amount authorized for education in FY83. Local taxes, even at exorbitant rates, could not make up the difference between state support and school funding needs. The resulting decline in the quality of education programs would not only penalize generations of children but would cut deeply into Alaska's ability to compete economically with other states and nations.

If education is funded at the expense of other services, many

"All Alaskans—including our children—will share in building the Education Fund. While Permanent Fund dividend checks will continue to grow to nearly \$1000 by the year 2000..."

programs will suffer massive cuts or disappear—programs which currently assist senior citizens, the handicapped, businesses, minority Alaskans, and communities.

No single action can protect us from the harsh realities of declining future revenues, but we can soften the impact by creating

Offered: 5/6/89
Referred: Rules

go0199hM

Original sponsor: Rules/Governor

*Long. B. Snow
Printer House*

Vote - Job Employees

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 13 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 Proposing amendments to the Constitution
6 of the State of Alaska creating a perma-
7 nent endowment for education.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. Article IX, sec. 7, Constitution of the State of Alaska,
10 is amended to read:

11 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
12 license shall not be dedicated to any special purpose, except as pro-
13 vided in Sections 15, 17, and 18 [SECTION 15] of this article or when
14 required by the federal government for state participation in federal
15 programs. This provision shall not prohibit the continuance of any
16 dedication for special purposes existing upon the date of ratification
17 of this section by the people of Alaska.

18 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
19 by adding new sections to read:

20 SECTION 17. EDUCATION ENDOWMENT. There is established an educa-
21 tion endowment to finance public education. The education endowment
22 is part of the principal of the Alaska permanent fund. The education
23 endowment shall be placed in a separate account within the principal
24 of the permanent fund, and shall be invested as required by law for
25 permanent fund investments. Income from the education endowment may
26 only be appropriated to fund public elementary and secondary education
27 in Alaska. Income that is not appropriated shall be placed annually
28 in the principal of the education endowment.

29 SECTION 18. EDUCATION ENDOWMENT FUNDING. After January 1, 1991,

CORRECTION

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

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Cuts in the education budget of the magnitude required would gut our educational system. If education's share of the total revenue pie is held constant, state support for public schools in the year 2000 would be little more than \$400 million—less than half the amount needed and less even

than the amount authorized for education in FY83. Local taxes, even at exorbitant rates, could not make up the difference between state support and school funding needs. The resulting decline in the quality of education programs would not only penalize generations of children but would cut deeply into Alaska's ability to compete economically with other states and nations.

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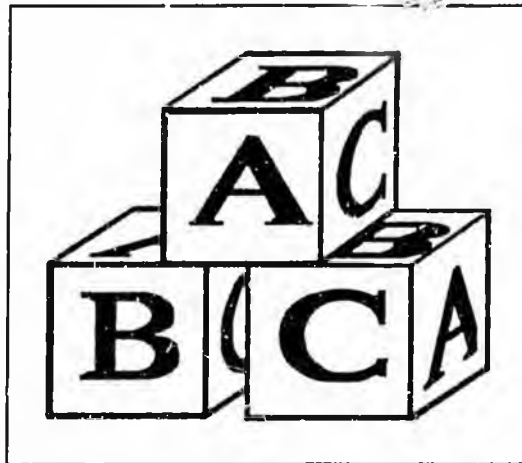
an Education Fund within the Permanent Fund. Re-investing 40 percent of the annual Permanent Fund earnings back into the Permanent Fund principal for 15 years would provide reliable funding for Alaska's number one responsibility: educating our children.

The Education Fund's earnings will help replace lost oil revenues in the future. Eventually, the Education Fund will generate enough revenue to put our schools on a stable, ongoing funding basis despite falling production at Prudhoe Bay. And, it will allow the state to direct its dwindling unrestricted General Fund revenues to other essential services.

All Alaskans—including our children—will share in building the Education Fund. While Permanent Fund dividend checks will continue to grow to nearly \$1000 by the year 2000, growth will be slightly less than without the Education Fund. Such a broad based contribution makes good sense. Quality education benefits everyone. Well educated citizens not only achieve personal success; they also power a sophisticated economy, reduce social service costs and contribute significantly to pension and as-

sistance programs for other Alaskans. No other revenue source so evenly equates costs and benefits.

The proposed constitutional amendment creating the Educa-



"For the Fund to be established, the resolution must

be adopted by the ... Alaska's voters on the November 1990 general election ballot."

tion Fund has been approved by the House of Representatives. For the Fund to be established, the resolution must be adopted by the state Senate and then by Alaska's voters on the November 1990 general election ballot.

As the Prudhoe Bay revenues begin to decline, Alaska has an obligation to share the bounty with the Alaskans of tomorrow. The Education Fund could guarantee to future generations something much more useful than cash. It could guarantee a society's full support for the development of thoughtful, creative minds that are ready to meet challenges undreamed of today.

*Long. Beers
Pioneer Home*

Original sponsor: Rules/Governor

Vote -

Pub Employees

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2

CS FOR HOUSE JOINT RESOLUTION NO. 13 (Finance)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

Proposing amendments to the Constitution

6

of the State of Alaska creating a perma-

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in Alaska. Income that is not appropriated shall be placed annually

28

in the principal of the education endowment.

29

SECTION 18. EDUCATION ENDOWMENT FUNDING. After January 1, 1991,

1 at least forty percent of the income of the permanent fund, not in-
2 cluding the income of the education endowment, shall be placed annual-
3 ly in the education endowment. The revenue allocated to the permanent
4 fund under Section 15 of this article ~~from~~ settlement or final adju-
5 dication of the Dinkum Sands case (United States v. Alaska) and the
6 North Slope Royalty Oil case (State v. Amerada Hess, et al.) shall be
7 placed in the education endowment under Section 17 of this article.

*Delete.
Doc
Thompson*

8 SECTION 19. REPEAL. Section 18 of this article is repealed
9 July 1, 2005, unless the legislature, by the affirmative vote of a
10 majority of the membership assembled in joint session, extends Section
11 18 for a period not beyond June 30, 2010.

12 * Sec. 3. The amendments proposed by this resolution shall be placed
13 before the voters at the next general election in conformity with art.
14 XIII, sec. 1, Constitution of the State of Alaska, and the election laws of
15 the state.

Majority of each body

46

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Education Endowment - House
Joint Resolution
Sponsor: Rules Committee
Requestor: Governor Steve Cowper

Agency Affected: Alaska Permanent Fund Corp.
BRU: _____
Components: Alaska Permanent Fund Corp.

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Expenses for managing the education endowment will be minimal and will be covered in the normal accounting for Permanent Fund principal.

Prepared by: David A. Rose, Executive Director Phone: (907) 465-2047
Division: Alaska Permanent Fund Corporation Date: January 6, 1989

Approved by Commissioner: _____ Date: _____
Agency: DOR

- Distribution (by preparer):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)

FISCAL NOTE FOR EDUCATION ENDOWMENT

The attached fiscal note dated January 6, 1989 was prepared by the Executive Director of the Alaska Permanent Fund Corporation.

The investments of the endowment will incur costs. These costs would normally be appropriated from the earnings of the endowment itself.

If this is done, no costs would be paid by the general fund or by the Alaska Permanent Fund.



go0199hP
Ford
3/28/90

Original sponsor(s): Rules/Governor

1 IN THE HOUSE

BY THE HESS COMMITTEE

2 SENATE CS FOR CS FOR HOUSE JOINT RESOLUTION NO. 13 (HESS)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

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25 permanent fund investments. Income from the education endowment may
26 only be appropriated to fund public education in Alaska in grades
27 K - 12. Income that is not appropriated shall be placed annually in
28 the principal of the education endowment.

29 SECTION 18. EDUCATION ENDOWMENT FUNDING. After January 1, 1991,

1 the legislature may appropriate money into the education endowment
2 created under Section 17 of this article, and gifts, bequests, and
3 contributions of cash or other assets from a person may be placed in
4 the education endowment created under Section 17 of this article.

5 * Sec. 3. The amendments proposed by this resolution shall be placed
6 before the voters at the next general election in conformity with art.
7 XIII, sec. 1, Constitution of the State of Alaska, and the election laws of
8 the state.
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Open Forum

Education Endowment: Why we need it

By Governor Steve Cowper

Ever since the oil began flowing from the North Slope, Alaskans in public life have alternately ruminated, fulminated or pontificated on the need for us to "do something" about the day in the distant future that oilfield revenues dropped off.

Of course, Alaskans themselves "did something" in 1976 when the voters approved creation of the Alaska Permanent Fund. In the decade since, we've had plenty of time to pat ourselves on the back for our collective foresight. It was a bold and remarkably prudent move.

After we got smart, we got lucky: Soaring interest rates and low levels of inflation, combined with high oil prices that created record revenues, helped the Permanent Fund grow more quickly than anyone ever imagined. Funds at more than \$10 billion. It through nearly \$1 billion in earnings ever paid Alaskans \$430 million in dividends this year, and earned enough to keep ahead of inflation. In the meantime, it's generated about \$600 million in unspent earnings. Not bad, all the way around.

Set this aside, the Permanent Fund was the best, last and only answer to the following question: What do we do when oil revenues fall to a third or a half of what they are today. We advanced an idea that will provide the first part -- a major part -- of the answer: An education fund, built with earnings from the Permanent Fund, that will provide a continuous source of support for Alaska's public schools. This proposal has been developed with a variety of arguments in mind: political and fiscal reality, economic development, constitutional responsibility, and moral responsibility to succeeding generations of Alaskans.

"IF OUR SCHOOLS ARE GEARED TO PRODUCING YOUNG PEOPLE WHOSE SKILLS CONSIST OF AN ABILITY TO BANG NAILS OR FLIP HAMBURGERS, WE'RE NOT PREPARING ALASKA FOR THE FUTURE."



Perhaps many in 1976 saw the Permanent Fund as the primary answer on how to finance future costs of state services. Circumstances surrounding the question have changed, which makes the answer in 1990 more complex and politically difficult to reach.

Here are some of the major changes, as I see them:

- Since 1976, Alaskans have built an ambitious system of public services and benefits. For the purposes of this article, I'm not going to single them out; in government, wisdom to one is waste to another.

- As public investments and programs have grown, the political formula required to radically reduce services or alter the system has defied conventional political chemistry.

- The Permanent Fund Dividend -- by both its very existence and its current size of \$873 per Alaskan in 1989 -- has changed the popular vision of the Permanent Fund. It has gone from a simple stroke of fiscal prudence to an article of populist and political veneration: big, benevolent, holy and inscrutable.

- Prudhoe Bay production has started to drop and we haven't made much progress towards solving the riddle of how to provide \$2 billion in services with \$1 billion in revenues.

Politicians have advanced several theories about how this impending gap can be filled. There are those who think government and its services should be cut in half; I find that neither rational nor plausible. Some people say that new industry development is really what we need. While we do, in fact, need new business development, there are no businesses that can raise the kind of revenue we currently get from oil development. Other people, including me, think that Alaskans should return to a system in which citizens contribute to the cost of government services, which is a fancy way of saying that Alaskans should pay an income tax.

Pro Endowment: Gov. Cowper
Con Endowment: Rep. Reiger
(See Inside)

All those proposals have some merit, but none stands alone as a realistic solution. In the next ten years, it's likely that Alaskans will develop a system that includes some taxes, some cuts, some new business development -- and probably, some use of the Permanent Fund earnings.

The public and the politicians carefully have tracked the world price of our valuable commodity -- crude oil -- but price is no longer the best guide to future revenues. The most important variable in the 1990s is not price, but production. By 1995, production will be two-thirds of what it is today; by the year 2000 one-third. To match today's oil revenues at 2000's rate of production, oil would have to sell for \$42 a barrel. Our best estimates of revenue are based on more realistic prices for oil -- certainly less than \$42 -- and the well-known bends in what has been always called the Prudhoe Bay curve.

It's logical for us, then, to consider our likely major sources of income. The Permanent Fund is one. Those of us who were involved in the political and policy debates

about creating the Permanent Fund assumed that the fund would in some way, some day, offset the loss in oil revenue due to Prudhoe Bay production declines. Using some of the earnings is the most logical alternative for making the fund work for us, in terms of funding services and benefits.

Under the current law, the earnings of the fund can be spent right now. Of course, under the current political conditions, the funds are not on the table.

There is an unwritten but generally accepted notion that a "vote of the people" is needed before we start spending Fund earnings. This idea is, on one level, an expression of the sense of ownership Alaskans have about the Permanent Fund. The Fund belongs to everyone, and everyone wants a chance to say "yea" or "nay" about its future. On another, baser level, it's the expression of a pure political survival instinct: Spending Permanent Fund earnings is an issue politicians are afraid of. They only speak about it in hermetically sealed rooms.

Since there is going to be a lag -- perhaps a long lag -- between proposal and popular vote, any proposal to spend earn-

ings must be based on a long-term plan. We can't decide to use earnings in March and expect to gain the necessary public approval by the time the Legislature adjourns in May.

Since a popular vote is subject to all the vagaries of electioneering rhetoric, there must be some compelling reason to use the earnings -- compelling, that is, in the voters' eyes. Given the current popular view of the Permanent Fund, I don't think voters would approve a general, undesignated use of Fund earnings. This means the proposal to spend earnings must have a specific focus, a purpose Alaskans can understand and support.

We chose education for fairly simple reasons, the most fundamental is contained in the Alaska Constitution. The framers of our constitution clearly stated that every Alaskan had a right to a basic, public education. There are other mandates in the Constitution (such as the obligation to manage state-owned natural resources), but none touches every Alaskan so directly.

Please turn to page 28

Why the endowment is a bad idea

By Representative Steve Rieger



Education has long been a top priority of our state government. However, the Governor's proposal (HJR 13) to amend our constitution to create an Education Endowment would not serve

the state, nor education, well.

The constitutional amendment would take 40% of the Permanent Fund's annual earnings, invest them in a separate account

Opposing Viewpoint

under the management of the Permanent Fund Corporation, and dedicate to education the earnings of this separate fund. (The Endowment would also receive certain one-time proceeds from litigation.) The amendment would take effect in 1991 and last from 14.5 to 19.5 years.

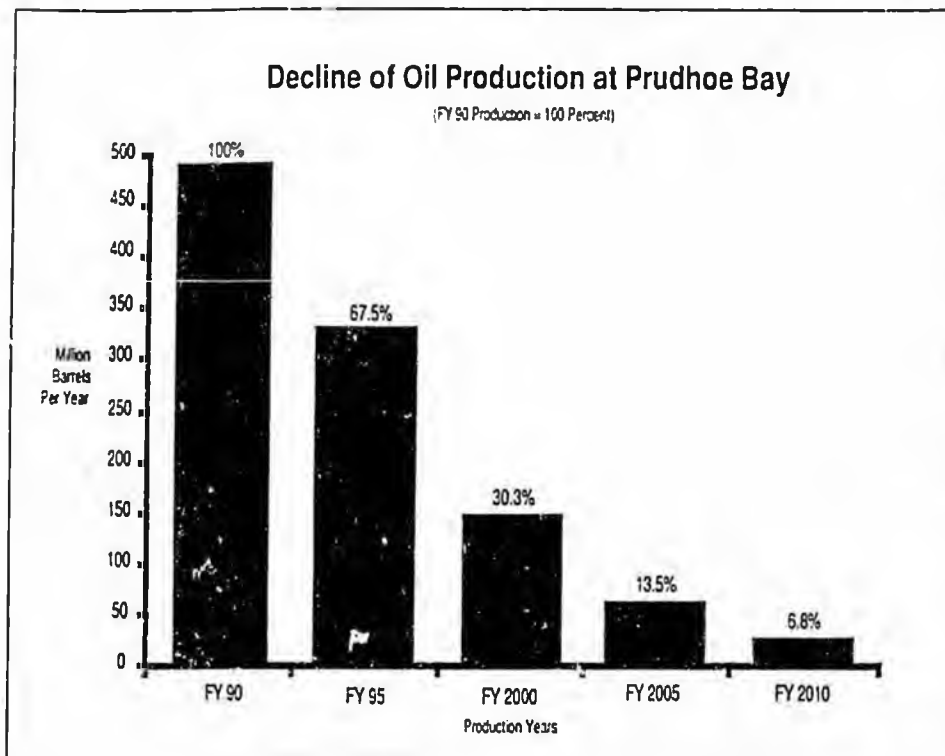
The proposal raises a number of issues which are at the heart of our state's money problems. These include the effect of dedicated funds, the overall level of state spend-

ing, the link between higher funding and performance, and the use of the Alaska Permanent Fund. I will provide a number of arguments against the proposed endowment. As some of these are matters of opinion, people may differ on them, but any one of these arguments alone should be sufficient to justify not amending our constitution as proposed.

The Education Endowment removes our highest budget priority from scrutiny. There is a real value in the budget process as it is a chief form of accountability of administrators to elected officials (who in turn are accountable to the public through election).

I have observed that in our annual budget deliberations in Juneau, the goal of balancing the budget cen-

Education is largest part of the state budget



Continued from previous page

Public education is (and has been) the largest single component in the state's operating budget, requiring about a quarter of every dollar. This year, that comes to a lot of quarters -- about \$600 million. It makes sense, from a fiscal standpoint, to focus a plan on the biggest expenditures. If we're guaranteeing future funding of the

single largest component in the budget, we've gone a long way towards answering the riddle of paying for services and benefits when we have less oilfield revenue.

Considering the widespread sense of "ownership" of the Permanent Fund, any plan to spend the earnings must appeal to most, if not all the "stockholders" in the Fund. Public education is the most obvious,

since the benefits of a good educational system touch every aspect of life in Alaska. It makes sense to focus the plan on the government obligation and service that directly touches the most Alaskans.

From the mid-1970s and through the middle of this decade, Alaska experienced what was probably the largest sustained construction boom the world has seen in one place since the Cold War. There was, of course, the \$8-\$10 billion in pipeline and associated construction. Since the pipeline was completed in 1977, Alaska has financed another \$5.1 billion in public construction. On top of all that, construction at Prudhoe Bay produced another several billion dollars of activity. I haven't even mentioned military construction and the myriad malls, office buildings and subdivisions that burgeoned all over Alaska in the early 1980s.

Then, construction accounted for 17% of Alaska employment -- more than double the national average at that time. A student could drift through high school with poor grades and still wind up to find a nine-month-a-year job that required little more than a strong back, and paid \$50,000 annually. That strategy (such as it was) won't work anymore -- not in Alaska, and not in the rest of America.

Endowment reduces accountability of educators

Continued from previous page

ters almost exclusively on "general fund" dollars. This is what we mean when we say we appropriated, for example, a \$2.3 billion dollar budget, even though the total size of the budget is larger. State-dedicated funds, program receipts from dedicated-user fees, federal funds dedicated to a particular purpose, and various trust funds that are not part of the general fund, are excluded from the spending targets or "caps", and pass through with much less scrutiny. If anything, we need *more* debate in the budget process, not less. Placing education funding into the dedicated fund category will tend to reduce budget oversight to an unhealthy level.

As long as public support is there, the funding will be there. Budgeting in the

legislature is an advocacy process in which cases are made for various priorities and the highest are funded. While the system is far from perfect, I do not believe the Alaskan public will cut off funding for education in the coming tighter money years. Alaska is far from broke. With over \$2 billion in annual revenue, I see no reason why we cannot find the approximately \$500 million which goes into state support of education. It is unnecessary to take the major step of amending the constitution in order to ensure funding for education.

Instead, hard questions need to be asked about the entire \$2-plus billion per year, and why it's so much more than per-capita state spending in other states. If we accept the premise that spending for education is closely related to public support of educa-

tion, we have to ask ourselves where the incremental money released by the Education Endowment will go. To answer that, I refer to the experience of our state spending through most of the 1980s: All money on the table gets spent, leading to my third point.

The incremental effect of providing new money for education will be to release money for programs elsewhere in state government. Providing money for education through the Educational Endowment will relieve pressure on the state's general fund. Under the advocacy process mentioned above, this means that more projects or activities can be funded before the money runs out. We do not -- at least at present -- have the leadership, legislative collective willpower, or any other mecha-

The changing nature of the American workplace requires students to come into the workforce with strong writing and analytical skills, and technical literacy, particularly in mathematics and science. These rapid changes, especially the sharp drop in low-wage construction work, require the sharp skills developed through education.

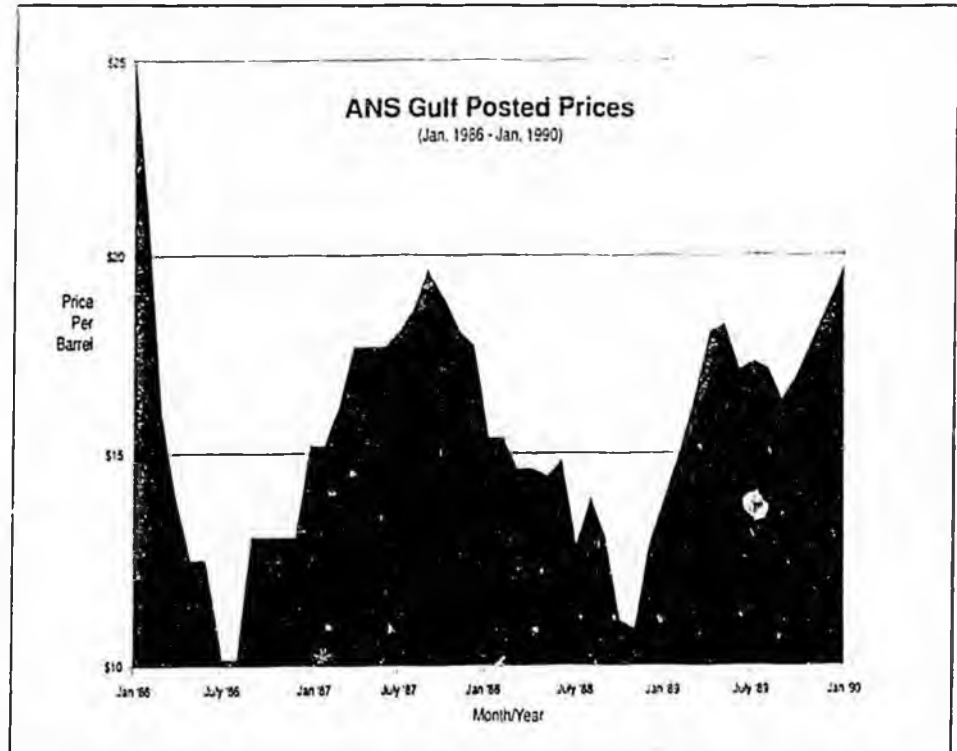
In the states, Alaska's employment is dependent on jobs connected to international trade. This is partly because our businesses target overseas markets, and because many of our jobs are in fisheries. However, if you think fish plants in Dutch Harbor and Kodiak are strictly low-tech operations, you haven't been to a processing plant. Fish processing operations are now run by sophisticated computer technology, requiring a solid knowledge of science and mathematics. The same is true of mining and other resource-based industries.

In a broader sense, if our schools are focused on producing young people whose skills consist of an ability to bang nails or flip burgers, we're not preparing Alaska for the future. It's not enough to prepare students for specific industries. It's more important to prepare them to think critically, to analyze and use numbers, to read slowly and carefully, to grasp changes and respond to them creatively. Those skills come only from a good public school system, which can be good only if its source of funding is dependable and stable.

Some people won't like this proposal simply because they oppose any use of Permanent Fund earnings, other than paying dividends. That's a fundamental view some people hold, but I don't think it's widely held. Others have raised questions for which I think we have good answers.

money available for the Legislature to spend on all the other programs.

The answer is simple: There isn't any "bigger pot." Regardless of the existence of the Education Fund, general fund revenues (remember, we're talking primarily about Prudhoe Bay oilfields) will probably drop



The "off-budget" question. I've been asked if the education fund proposal, by reaching outside the general fund for operating revenue, simply makes a bigger pot of

by half in 10 years. That will put intense pressure on funding for all programs, including education. By setting up the Education Fund, we take most of the pressure off

to leave money on the table at the end of each appropriation cycle. All general fund money freed up, which would have gone into education, will instead go into some other form of spending.

In the context of its net effect, the Education Endowment proposal is mislabeled. Instead, there are some other, lower-priority functions of government which would benefit from the endowment. Put differently: If general funds are not used for education, for what should they be used?

The proposal is damaging to the principal of the Alaska Permanent Fund. Let us say that none of the above arguments has persuaded you that the constitutional amendment is unjustified. I would then propose that if there were to be a dedicated fund from new revenues, that it should be from some portion of the *real earnings*, or those annual earnings in excess of inflation,

rather than the total "nominal" earnings of the Fund.

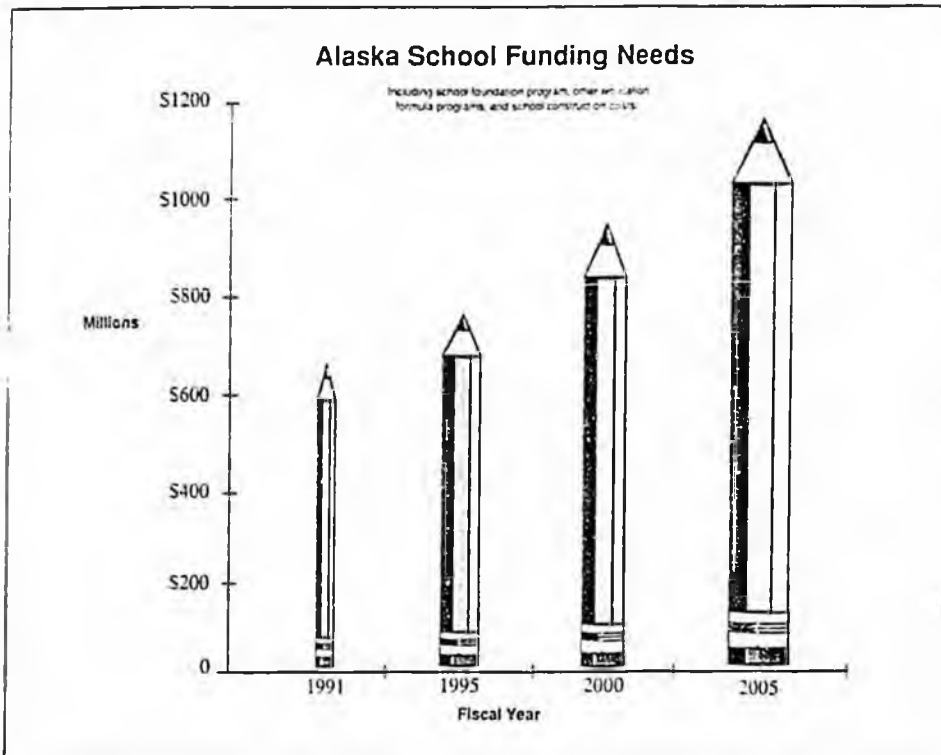
Our state has gone to great lengths since the inception of the Permanent Fund to protect the value of the principal. We have set up a Board of Trustees and have mandated that its investments be in accordance with well established, prudent investment principles. We have legislatively provided a conservative investment list and have provided for annual inflation-proofing to be paid for out of a portion of annual earnings. The result of these actions is that the Permanent Fund is reasonably well insulated from loss -- either a capital loss on investments or a loss of purchasing power due to inflation.

The endowment proposal jeopardizes this, because it jeopardizes inflation-proofing. In terms of purchasing power, there is no difference between spending \$100 of

annual earnings, which represents compensation for inflation, and spending \$100 of the principal itself. If we are to continue to maintain the purchasing (and earning) power of the Fund, it is essential that only earnings in excess of inflation -- or "real earnings" -- be used, and the inflation component of earnings be retained in the Fund.

The proposed Education Endowment ignores the concept of real earnings. It proposes using a fraction of nominal, or total earnings, rather than a fraction of real earnings. It would result in annual calls on Permanent Fund earnings in excess of actual earnings. Dividends average close to 50% of nominal earnings (there is a lag because of five-year averaging), the Endowment would take another 40%, and inflation-proofing will require approximately another 50%. The total exceeds

Endowment takes pressure off state budget



Continued from previous page
the public schools and some of the pressure off everything else, from troopers to fisheries management. The Education Fund is only part of the answer, but it's an important part.

The dividend question. If the Permanent Fund remained nothing more than a printing press for annual checks, by 2005

the dividend would be well over \$1,000, perhaps as high as \$1,500.

With the Education Fund in place, dividends will continue to grow, but not as quickly; by 2005, individual dividends would probably range from \$900 to \$1,000. Meanwhile, the Education Fund would be generating about \$700 million. Bear in mind, those are funds raised from a trust fund, not

from income tax, local property or sales taxes, or increased corporate taxes.

In exchange for a future consideration (larger growth in the dividend) the public schools get secure funding and the public is insulated from some pressure to raise revenues through taxation. And you still get a substantial dividend. You never get something for nothing, but this is a pretty good trade-off, by my accounting.

Inflation-proofing. Permanent Fund earnings currently serve only two purposes: After the dividends have been paid, part of the leftover earnings goes back into the Fund to protect the principal from inflation.

There is a problem emerging with this set-up: As the Fund grows larger, more of the earnings are required to "inflation-proof" the principal. But as earnings rise, so do dividends, leaving less money for "inflation-proofing." The inflation-proofing problem is tied directly to the dividend program. With or without the Education Fund, as dividends grow, it becomes increasingly difficult to adequately protect the Permanent Fund's principal from inflation.

The Education Fund deposits would help solve the inflation-proofing dilemma for the first six or seven years, but exacerbate the problem after that. So again, there is something of a trade-off.

Money not answer to school system improvement

Continued from previous page
100%. If there are not enough funds to go around, the loser will be inflation-proofing, and the real value of the Fund will decline over time.

This decline could be dramatic. For example, in an extreme case where there is no inflation-proofing, even 5% annual inflation would erode over 60% of the Fund's value in 20 years. If the Fund is only partially protected against inflation, such as reinvesting only 2% each year for inflation-proofing in the same 5% inflation environment, it would lose 44% of its real value in 20 years. Partial inflation-proofing, rather than none at all, is more likely under the Endowment proposal. (Note: The loss in aggregate purchasing power of the Permanent Fund might be less because of addi-

tional future royalty contributions to the Fund, but also could be greater if inflation were higher.)

Alaskans may in the future wish to use Fund earnings for purposes other than, or in addition to, dividends. That debate is separate from the issue at hand. My point is that any uses of Fund earnings are not sustainable unless they are based upon real earnings rather than nominal earnings. A loss in real value for the Fund will mean a loss in the real value of annual earnings, and less will be available for dividends or any other use.

One additional point: In the debate over the effect of the Endowment on inflation-proofing, there has been some con-

fusion because the dedicated slice of Permanent Fund earnings makes one extra loop before paying out. First, the slice of earnings is reinvested, then the earnings off the reinvested funds are paid out without regard for inflation. If the latter pay-out were to be inflation-proofed, a simpler way would have been to dedicate a portion of real earnings in the first place.

Is more money the answer? What if we assume that the purpose of the Endowment is not to protect existing funding, but to provide *more* money for education? In our system, a quality education demands money. However, I am not convinced that additional money is the primary answer to improvement in our school system. In 1987 our state's expenditure per pupil in average daily attendance in public elementary and

However, dividend recipients will be making a trade-off regardless of the existence of the Education Fund. As your check gets bigger, the generator of the check becomes more vulnerable to inflation. It's as simple as that. So, those concerned about inflation-proofing must look to the dividend program before pointing the finger at something else.

The question of dedicated funds. The framers of the Alaska Constitution, acting on the most recent scholarship about state constitutions, prohibited the creation of dedicated funds. The voters amended the Constitution in 1976 to allow one dedicated fund -- the Permanent Fund. And in statute, the Alaska Legislature dedicates (by annual appropriation, although not by constitutional mandate) a specific portion of the earnings to a single program -- the dividend. Clearly, there are reasonable and prudent exceptions to the generally wise rule concerning dedicated funds.

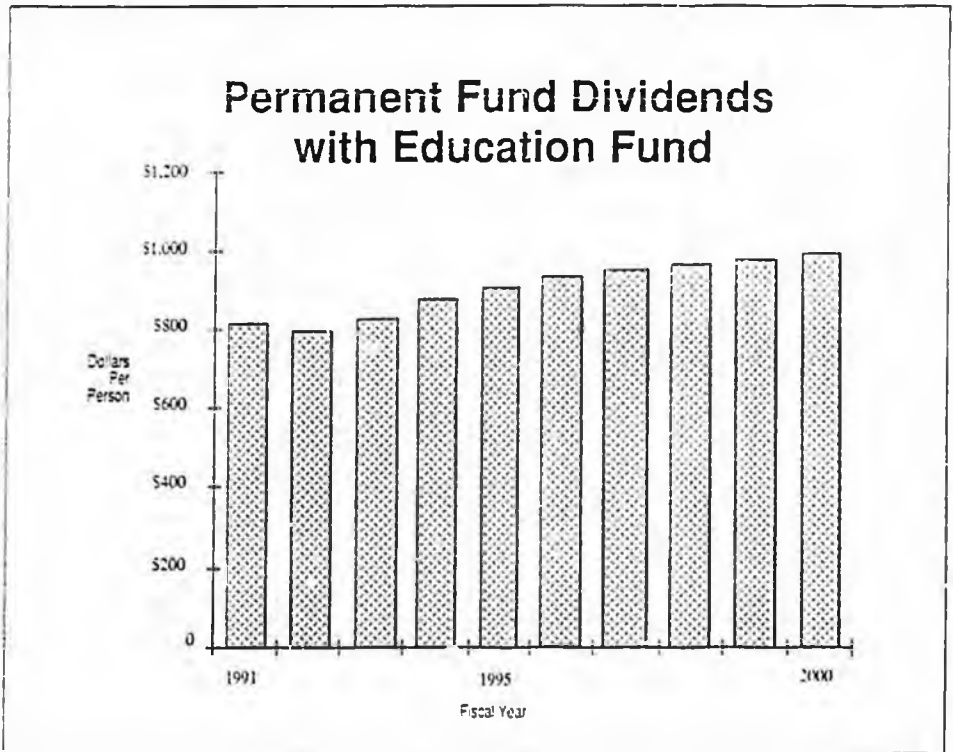
Other questions. The constitutional amendment creating the Education Fund states that the fund will support elementary and secondary public education. When writing a constitutional amendment, one must keep it simple and leave future legislatures the options they need to meet as-yet-unknown needs.

The amendment does not dictate how money is allocated among districts; it does not dictate which specific programs are included; it cannot ensure quality of educa-

tion. Those are matters for future lawmakers, local school boards, school administrators, teachers, parents and children. That's as it should be.

I usually leave this argument for last. For one thing, I think Alaskans are practical and demand some kind of practical analysis

All of us -- and I'm writing here about individual citizens, not politicians and public figures -- have a responsibility to make the world better for the generations to come. With the creation of the Education Fund, we would be fulfilling at least part of that obligation we have to the Alaskans who



before the moralizing can begin. I also believe it's the best and most persuasive argument.

follow. Why should we -- this single generation -- be the only ones to realize the most significant benefits of North Slope oil development? Can we simply be thankful we were here when oil sold for \$32 a barrel, when Prudhoe Bay was at its peak, when a one-time windfall made life good for us? Can we tell future generations they just happened to have been born too late?

We have an obligation to share the bounty and the benefits of Prudhoe Bay with Alaskans who don't even yet exist. We must provide to future generations more than the promise of an annual blue-and-gold check. The Education Fund could guarantee something much more useful than cash -- a society's full support for the development of thoughtful and creative minds that are ready to meet challenges you and I don't even know about.

--APAJ

secondary schools was \$8,010, while the national average was \$3,977. (Source: U.S. Department of Education, National Center For Education Studies, *Statistics of State School Systems*; and Common Core of Data Survey, special tabulations.) However, our state's average SAT or ACT scores have not shown a correlation with this high spending. Our state sometimes averages higher test scores than the national average, and sometimes lower. In contrast, we consistently spend more than the national average, so it's fair to wonder if the answer is more money. Still, if we find that we need more money, and improved performance justifies it, I believe the money will be forthcoming.

Nationally, there is growing interest in quality education. (A good example of this is the special insert on education of the

March 31, 1989 edition of *The Wall Street Journal*.)

I have read exciting proposals, which include greater teacher autonomy, new career paths for teachers, and changes in administration. I believe that continuing improvement in educational quality, along with high community and parental involvement and active scrutiny, is the best long-term answer to education's funding worries.

--APAJ

Mr. Rieger is a three-term member of the Alaska State Legislature serving House District 8-B (Anchorage), and has also worked as a special assistant to the legislature in 1981-82, developing the legislation establishing the Alaska Permanent Fund Corporation.



Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047

M E M O R A N D U M

DATE: February 12, 1990

TO: John Kelsey, Chairman
Board of Trustees

FROM: Jim Kelly *[Signature]*
Research & Liaison Officer

SUBJECT: Analysis of HJR 13(Finance), "Proposing amendments to the Constitution of the State of Alaska creating a permanent endowment for education in Alaska."

Attached are eight financial projections prepared by the Alaska Permanent Fund Corporation at your request.

Financial Projection #1: This is the status quo case as of December 31, 1989 using the Department of Revenue's Fall 1989 low-case revenue forecast. It provides the benchmark against which to compare and contrast any changes to the current law.

Financial Projection #2: This is the same as Financial Projection #1 except it is presented in inflation-adjusted, real 1990 dollars.

Financial Projection #3: This is the status quo case using the Department of Revenue's Fall 1989 mid-case revenue forecast.

Financial Projection #4: This is the same as Financial Projection #3 except it is presented in inflation-adjusted, real 1990 dollars.

Financial Projection #5: This is HJR 13(Fin) using the Department of Revenue's Fall 1989 low-case revenue forecast. It is based upon the following set of assumptions:

* 40% of the Permanent Fund's annual net income is dedicated to the Education Endowment, an account within the

principal of the Permanent Fund, each June 30 from 1992 through 2005. (Note: 20% of the Fund's net income is dedicated to the Endowment on June 30, 1991.)

* 100% of the Education Endowment's income is appropriated to fund elementary and secondary education in Alaska beginning June 30, 1992.

* Annual inflation-proofing is shared on a pro rata basis between the Education Endowment and the non-Education Endowment portion of Permanent Fund principal.

* Annual income from the Education Endowment is excluded from each year's dividend calculations.

Financial Projection #6: This is the same as Financial Projection #5 except it is presented in inflation-adjusted, real 1990 dollars.

Financial Projection #7: This is HJR 13(Fin) using the Department of Revenue's Fall 1989 mid-case revenue forecast. All other assumptions are the same as Financial Projection #5.

Financial Projection #8: This is the same as Financial Projection except it is presented in inflation-adjusted, real 1990 dollars.

For Your Information: These projections are based upon a certain set of basic assumptions; the numbers shown on these sheets would change if different assumptions were used. The assumptions used in the preparation of each projection are either listed at the bottom of each projection sheet or explained herein.

It is the Corporation's policy to use conservative assumptions wherever possible. Thus, the Fund's long-term rate of return is projected to average 3% per year after inflation; long-term inflation is projected to average 6% per year; and the assumptions for numbers of future dividend recipients and amounts of future dedicated State oil revenues are taken from the Department of Revenue's most recent "low-case" forecast.

PLEASE NOTE THAT THE CORPORATION NEITHER SUPPORTS NOR OPPOSES ANY PROPOSED CHANGES TO THE CURRENT USE OF FUND EARNINGS EXCEPT AS THEY MAY RELATE TO THE PROPER EXERCISE OF THE TRUSTEES' FIDUCIARY RESPONSIBILITIES AS REQUIRED UNDER THE PRUDENT INVESTOR RULE.



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1989

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appro- priations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall
78	0		54		54	
79	54		84		139	
80	139		344		483	
81	483	900	385		1,769	
82	1,769	800	400		2,969	
83	2,969	400	421	231	4,021	
84	4,021	300	366	151	4,838	
85	4,838	300	368	235	5,741	
86	5,741		323	216	6,281	
87	6,281	1,264 **	170	148	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		212	450	9,835	
91	9,835		189	501	10,525	
92	10,525		216	645	11,385	
93	11,385		212	696	12,293	
94	12,293		217	751	13,260	
95	13,260		211	808	14,279	
96	14,279		190	868	15,337	
97	15,337		173	878	16,388	53
98	16,388		160	829	17,376	164
99	17,376		140	875	18,390	176
0	18,390		122	923	19,434	188
1	19,434		111	972	20,518	200
2	20,518		100	1,024	21,642	213
3	21,642		83	1,077	22,803	228
4	22,803		74	1,133	24,009	240
5	24,009		61	1,191	25,261	254
Cumulative Totals Projected For FY 1990 - 2005:			2,469	13,619		1,715

USE OF FUND INCOME						
Net Income	Distributions			Reserves		FY
	Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Dedate) Balance	
2				1		78
8				7		79
32	12			12		80
150	28			20	59	81
368	71	\$1,000.00		71	185	82
471	108	\$386.15	231	110	110	83
530	175	\$331.29	151		203	84
658	217	\$404.00	235		206	85
1,021	303	\$556.26	216		501	86
1,069	391	\$700.19	140		529	87
789	424	\$826.93	303		62	88
868	460	\$873.16	350	4	44	89
935	492	\$898.00	450		(8)	90
937	484	\$814.00	501		(48)	91
1,057	484	\$797.00	645		(72)	92
1,131	518	\$837.00	696		(82)	93
1,209	553	\$879.00	751		(95)	94
1,291	591	\$921.00	808		(108)	95
1,376	637	\$976.00	868		(129)	96
1,462	679	\$1,022.00	978		(94)	97
1,552	723	\$1,069.00	829			98
1,644	769	\$1,116.00	875			99
1,739	816	\$1,162.00	923			0
1,837	865	\$1,208.00	972			1
1,938	915	\$1,255.00	1,024			2
2,044	966	\$1,301.00	1,077			3
2,152	1,020	\$1,347.00	1,133			4
2,266	1,075	\$1,393.00	1,191			5
24,570	11,586	\$16,995	13,619			

ASSUMPTIONS:

	Nominal Returns	Inflation	Real Rates of Return
FY 90:	9.21%	4.79%	4.42%
FY 91:	8.50%	5.00%	3.50%
FY 92-05:	9.00%	6.00%	3.00%

* SOURCE: Dedicated oil revenue estimates are from the Department of Revenue Fall '89 Low-Case Forecast; population estimates used to calculate per capita dividends are from the Department of Revenue Spring '89 Low-Case Forecast, except FY 90 estimate of 530,000 PFD qualified applicants by DOR Dividend Division. NOTE: The FY 90 per capita PFD calculation assumes (per HB 500) that the following amounts are deducted (in millions): \$3.6 admin costs, \$12.3 hold harmless, \$ 763 to Corrections, and \$ 736 to Public Safety; in addition, it assumes that \$1.5 million is added to the PFD fund from the General Fund (per HB 428).

** The FY 85 Earnings Reserve Account end balance was appropriated by the legislature to the principal of the Permanent Fund effective July 1, 1986.



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1989

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appro- priations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall
79	54		84		139	
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81	483	900	385		1,769	
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83	2,969	400	421	231	4,021	
84	4,021	300	366	151	4,838	
85	4,838	300	368	235	5,741	
86	5,741		323	216	6,281	
87	6,281	1,264 **	170	148	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		212	450	9,835	
91	9,366		180	477	10,023	
92	9,456		194	579	10,229	
93	9,650		180	590	10,420	
94	9,830		173	600	10,604	
95	10,003		159	610	10,772	
96	10,162		135	618	10,915	
97	10,297		116	589	11,002	36
98	10,380		101	525	11,005	104
99	10,383		83	523	10,989	105
0	10,367		68	520	10,955	106
1	10,335		59	517	10,912	107
2	10,294		50	514	10,858	107
3	10,243		39	510	10,793	107
4	10,182		33	506	10,720	107
5	10,113		26	502	10,641	197
Cumulative Totals Projected						
For FY 1990 - 2005:			1,810	8,628		885

USE OF FUND INCOME						
FY	Net Income	Distributions			Reserves	
		Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add FY End (Delete) Balance
78	2				1	
79	8				7	
80	32	12			12	
81	150	28			28	59
82	368	71	\$1,000.00		71	185
83	471	108	\$386.15	231	110	110
84	530	175	\$331.29	151		203
85	658	217	\$404.00	235		206
86	1,021	303	\$556.26	216		501
87	1,069	391	\$708.19	148		529
88	789	424	\$826.93	303		62
89	868	460	\$873.16	360	4	44
90	935	492	\$898.00	450		(8)
91	893	461	\$775.00	477		(46)
92	950	435	\$716.00	579		(65)
93	959	439	\$709.00	590		(70)
94	967	442	\$703.00	600		(76)
95	974	446	\$695.00	610		(82)
96	979	453	\$695.00	618		(92)
97	982	456	\$686.00	589		(63)
98	983	458	\$677.00	525		
99	982	460	\$667.00	523		
0	980	460	\$655.00	520		
1	977	460	\$642.00	517		
2	972	459	\$630.00	514		
3	967	457	\$616.00	510		
4	961	455	\$601.00	506		
5	954	453	\$587.00	502		
15,415		7,286	\$10,952	8,628		

ASSUMPTIONS:

	Nominal Returns	Inflation	Real Rates of Return
FY 90:	9.21%	4.79%	4.42%
FY 91:	8.50%	5.00%	3.50%
FY 92-05:	9.00%	6.00%	3.00%

STATUS QUO IN REAL 1990 DOLLARS

* SOURCE: Dedicated oil revenue estimates are from the Department of Revenue Fall '89 Low-Case Forecast; population estimates used to calculate per capita dividends are from the Department of Revenue Spring '89 Low-Case Forecast, except FY 90 estimate of 530,000 PFD qualified applicants by DOR Dividend Division. NOTE: The FY 90 per capita PFD calculation assumes (per HB 500) that the following amounts are deducted (in millions): \$3.6 admin costs, \$12.3 hold harmless, \$.763 to Corrections and \$.736 to Public Safety; in addition, it assumes that \$1.5 million is added to the PFD fund from the General Fund (per HB 428).

** The FY 86 Earnings Reserve Account end balance was appropriated by the legislature to the principal of the Permanent Fund effective July 1, 1986.



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1989

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appropriations	Dedicated		FY End Balance	Inflation Proofing Shortfall
			State Revenues*	Inflation Proofing		
78	0		54		54	
79	54		84		139	
80	139		344		483	
81	483	900	385		1,769	
82	1,769	800	400		2,969	
83	2,969	400	421	231	4,021	
84	4,021	300	366	151	4,838	
85	4,838	300	368	235	5,741	
86	5,741		323	216	6,281	
87	6,281	1,263 **	170	148	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		253	452	9,877	
91	9,877		260	507	10,644	
92	10,644		290	656	11,591	
93	11,591		304	714	12,608	
94	12,608		319	776	13,703	
95	13,703		317	841	14,861	
96	14,861		300	910	16,071	
97	16,071		284	930	17,284	52
98	17,284		266	886	18,437	167
99	18,437		244	940	19,621	181
0	19,621		220	996	20,837	194
1	20,837		202	1,053	22,093	209
2	22,093		176	1,112	23,381	224
3	23,381		158	1,173	24,712	239
4	24,712		143	1,236	26,092	255
5	26,092		130	1,302	27,524	271
Cumulative Totals Projected For FY 1990 - 2005:			3,866	14,474		1,792

USE OF FUND INCOME							
FY	Not Income	Distributions			Reserves		FY
		Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Delete)	
78	2					1	78
79	8					7	79
80	32					12	80
81	150	12				28	81
82	368	71	\$1,000.00			71	82
83	471	108	\$386.15	231	110	110	83
84	530	175	\$331.29	151		203	84
85	658	217	\$404.00	235		206	85
86	1,021	303	\$556.26	216		501	86
87	1,069	391	\$708.19	148		529	87
88	789	424	\$826.93	303		62	88
89	868	460	\$873.16	360	4	44	89
90	936	492	\$898.00	452		(7)	90
91	944	485	\$815.00	507		(48)	91
92	1,072	487	\$801.00	656		(71)	92
93	1,155	522	\$845.00	714		(82)	93
94	1,244	562	\$893.00	776		(94)	94
95	1,338	604	\$943.00	841		(107)	95
96	1,436	656	\$1,006.00	910		(129)	96
97	1,537	705	\$1,061.00	930		(97)	97
98	1,642	756	\$1,118.00	886			98
99	1,749	809	\$1,175.00	940			99
0	1,860	863	\$1,232.00	996			0
1	1,973	920	\$1,288.00	1,053			1
2	2,090	978	\$1,344.00	1,112			2
3	2,211	1,038	\$1,400.00	1,173			3
4	2,336	1,099	\$1,456.00	1,236			4
5	2,465	1,163	\$1,512.00	1,302			5
25,986	12,137	\$17,787	14,484				

ASSUMPTIONS:

	Nominal Returns	Inflation	Real Rates of Return
FY 90:	9.21%	4.79%	4.42%
FY 91:	8.50%	5.00%	3.50%
FY 92-05:	9.00%	6.00%	3.00%

STATUS QUO WITH MID-CASE REVENUE PROJECTIONS

* SOURCE: Dedicated oil revenue estimates are from the Department of Revenue Fall '89 Mid-Case Forecast; population estimates used to calculate per capita dividends are from the Department of Revenue Spring '89 Low-Case Forecast, except FY 90 estimate of 530,000 PFD qualified applicants by DOR Dividend Division. NOTE: The FY 90 per capita PFD calculation assumes (per HB 500) that the following amounts are deducted (in millions): \$3.6 admin costs, \$12.3 hold harmless, \$.763 to Corrections, and \$.735 to Public Safety; in addition, it assumes that \$1.5 million is added to the PFD fund from the General Fund (per HB 428).

** The FY 86 Earnings Reserve Account end balance was appropriated by the legislature to the principal of the Permanent Fund effective July 1, 1986.



Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS (in millions)

as of December 31, 1989

GROWTH OF FUND PRINCIPAL						
FY	FY Begin Balance	Appro- prations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall
79	54		84		139	
80	139		344		483	
81	483	900	385		1,769	
82	1,769	800	400		2,969	
83	2,969	400	421	231	4,021	
84	4,021	300	366	151	4,838	
85	4,838	300	368	235	5,741	
86	5,741		323	216	6,281	
87	6,281	1,264 **	170	148	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		253	452	9,877	
91	9,407		248	483	10,138	
92	9,564		261	589	10,414	
93	9,824		258	605	10,687	
94	10,082		255	620	10,958	
95	10,338		239	635	11,211	
96	10,576		214	647	11,437	
97	10,790		190	624	11,605	35
98	10,948		169	561	11,678	106
99	11,017		146	562	11,724	108
0	11,061		124	562	11,746	110
1	11,081		107	560	11,749	111
2	11,084		88	558	11,730	112
3	11,066		75	555	11,696	113
4	11,034		64	552	11,650	114
5	10,991		55	548	11,594	114
Cumulative Totals Projected						
For FY 1990 - 2005:			2,745	9,114		923

USE OF FUND INCOME						
FY	Net Income	Distributions			Reserves	
		Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Delete)
78	2				1	
79	8				7	
80	32	12			12	
81	150	28			28	59
82	368	71	\$1,000.00		71	185
83	471	108	\$386.15	231	110	244
84	530	175	\$331.29	151		110
85	658	217	\$404.00	235		203
86	1,021	303	\$556.26	216		208
87	1,069	391	\$708.19	148		501
88	789	424	\$826.93	303		1,264 **
89	868	460	\$873.16	360	4	529
90	938	492	\$898.00	452		62
91	899	462	\$776.00	483		591
92	963	437	\$720.00	589		552
93	979	443	\$716.00	605		(46)
94	994	449	\$714.00	620		(64)
95	1,009	456	\$711.00	635		(89)
96	1,022	467	\$716.00	647		(81)
97	1,032	473	\$712.00	624		(92)
98	1,040	479	\$700.00	561		69
99	1,045	483	\$702.00	562		(65)
0	1,048	487	\$694.00	562		
1	1,049	489	\$685.00	560		
2	1,049	491	\$674.00	558		
3	1,046	491	\$663.00	555		
4	1,043	491	\$650.00	552		
5	1,038	490	\$637.00	548		
16,193 7,578 \$11,378 9,114						

ASSUMPTIONS:

	Nominal Returns	Inflation	Real Rates of Return
FY 90:	9.21%	4.79%	4.42%
FY 91:	8.50%	5.00%	3.50%
FY 92-05:	9.00%	6.00%	3.00%

STATUS QUO (MID-CASE) IN REAL 1990 DOLLARS

* SOURCE: Dedicated oil revenue estimates are from the Department of Revenue Fall '89 Mid-Case Forecast; population estimates used to calculate per capita dividends are from the Department of Revenue Spring '89 Low-Case Forecast, except FY 90 estimate of 530,000 PFD qualified applicants by DOR Dividend Division. NOTE: The FY 90 per capita PFD calculation assumes (per HB 500) that the following amounts are deducted (in millions): \$3.6 admin costs, \$12.3 hold harmless, \$.763 to Corrections, and \$.736 to Public Safety; in addition, it assumes that \$1.5 million is added to the PFD fund from the General Fund (per HB 428).

** The FY 86 Earnings Reserve Account end balance was appropriated by the legislature to the principal of the Permanent Fund effective July 1, 1986.

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FINANCIAL PROJECTIONS
(In millions)
as of December 31, 1989

PRINCIPAL											INCOME																	
FY	FY Begin Balance PF Non-Ed Endowment	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance PF Non-Ed Endowment	Inflation Proofing Shortfall	Education Endowment				Combined FY End Balance	Net Income		Distributions				Reserves										
							FY Begin Balance	Dedicated Revenues	Inflation Proofing	Inflation Shortfall		Endowment Only	PF Total	Endowment Principal	To Fund Education	Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Date's)	FY End Balance							
78	0		54		54							2					1											
79	54		84		139							8					7											
80	139		344		483							32					12											
81	483	900	385		1,769							150			12		28	59	59									
82	1,769	800	400		2,969							368			71	\$1,000.00	71	185	244									
83	2,969	400	421	231	4,021							471			108	\$386.15	231	110	354									
84	4,021	300	368	151	4,838							530			175	\$331.29	151		203									
85	4,838	300	368	235	5,741							658			217	\$404.00	235		206									
86	5,741		323	216	6,281							1,021			303	\$556.26	216		501									
87	6,281	1,264 **	170	148	7,864							1,069			391	\$708.19	148		529									
88	7,864		418	303	8,585							789			424	\$826.93	303		62									
89	8,585		228	360	9,173							868			460	\$873.16	360	4	44									
90	9,173		212	460	9,835							935			482	\$898.00	450	(6)	629									
91	9,835		189	501	10,525		9	187	188		10,712		937	187	484	\$814.00	501	(236)	383									
92	10,525		216	508	11,249	110	188	418	27	631	11,879	17	1,057	416	482	\$794.00	535	(393)										
93	11,249		212	123	11,583	554	631	429	11	1,671	12,654	57	1,130	429	57	510	\$824.00	134										
94	11,583		217	115	11,915	579	1,671	443	18	1,958	13,443	85	1,203	443	86	535	\$849.00	129										
95	11,915		211	110	12,235	600	1,828	486	18	2,078	14,236	136	1,277	456	138	556	\$865.00	128										
96	12,235		189	102	12,526	624	2,022	488	26	2,480	15,016	189	1,351	468	180	581	\$887.00	122										
97	12,526		173	99	12,799	640	2,498	480	25	2,882	15,791	223	1,423	480	224	597	\$894.00	122										
98	12,799		160	97	13,055	655	2,882	481	28	3,308	16,564	269	1,486	491	269	613	\$901.00	122										
99	13,055		140	94	13,289	669	3,308	501	28	4,038	17,326	316	1,568	501	316	629	\$905.00	122										
00	13,289		122	92	13,502	682	4,036	500	31	4,579	18,080	363	1,638	510	363	643	\$907.00	122										
01	13,502		111	88	13,702	695	4,579	519	32	5,130	18,832	412	1,709	519	412	656	\$907.00	122										
02	13,702		100	87	13,889	706	5,130	517	35	5,683	19,582	462	1,780	527	462	669	\$905.00	122										
03	13,889		83	85	14,057	716	5,683	516	37	6,265	20,322	512	1,849	535	512	680	\$902.00	122										
04	14,057		74	82	14,213	726	6,265	512	38	6,846	21,059	564	1,919	542	564	691	\$897.00	122										
05	14,213		61	80	14,354	735	6,846	540	41	7,336	21,791	618	1,988	548	618	701	\$891.00	122										
Cumulative Totals Projected For FY 1990 - 2005:																												
											2,469	2,712		8,690		7,051	386		2,845	4,228	23,258	7,051	4,226	9,519	\$14,039	3,097		

ANALYSIS OF HJR 13 (Finance): Prepared by the Alaska Permanent Fund Corporation

ASSUMPTIONS: (In Nominal Dollars)

- * Based on Department of Revenue's Fall 1989 Low-Case Revenue Forecast
- * 20% of PF Net Income to Education Endowment in FY 91
- * 40% of Non-Education Endowment PF Net Income to Education Endowment from FY 1992-2005

- * 100% of Education Endowment Income Appropriated to Fund Education FY 1992-2005
- * Inflation-Proofing Shared Pro-Rata Between Education Endowment and PF Non-Endowment Principal
- * Education Endowment Income Excluded from PFD Calculations

FINANCIAL PROJECTIONS
(In millions)
as of October 31, 1989

PRINCIPAL											INCOME								
FY	FY Begin Balance PF Non-Ed Endowment	Appro- priations	Dedicated State Revenues*	Inflation Proofing	FY End Balance PF Non-Ed Endowment	Inflation Proofing Shortfall	Education Endowment				Combined FY End Balance	Net Income		Distributions				Reserves	
							FY Begin Balance	Dedicated Revenues	Inflation Proofing	Inflation Proofing Shortfall		Endowment Only	PF Total	Endowment Principal	To Fund Education	Dividends	Per Capita Dividends*	Inflation Proofing	General Fund
78	0		54		54							2						1	
79	54		84		139							8						7	
80	139		344		483							32						12	
81	483	900	385		1,769							150						28	59
82	1,769	800	500		2,969							368			12			71	185
83	2,969	400	421	231	4,021							471			71	\$1,000.00		110	244
84	4,021	300	366	151	4,838							530			108	\$386.15	231		354
85	4,838	300	368	235	5,741							658			175	\$331.29	151		557
86	5,741		323	216	6,281							1,021			217	\$404.00	235		763
87	6,281	1,264 **	170	148	7,864							1,069			303	\$556.26	216		1,264 **
88	7,864		418	303	8,585							789			391	\$709.19	148		529
89	8,585		228	360	9,173							868			424	\$816.93	303		591
90	9,173		212	450	9,835							935			460	\$973.16	360	4	635
91	9,366		180	477	10,023		0	179		179		0	893	179	0	461	\$775.00	477	-224
92	9,456		194	456	10,106	99	168	374	24	587	0	15	950	374	15	433	\$713.00	481	-353
93	9,534		180	104	9,818	469	4	384	9	908	44	48	957	384	48	432	\$698.00	114	
94	9,262		173	92	9,527	463	6	254	12	1,222	61	77	962	354	77	427	\$678.00	103	
95	8,988		159	83	9,230	453	10	344	13	1,510	76	104	963	344	104	419	\$653.00	95	
96	8,707		135	72	8,915	444	15	333	14	1,772	91	128	961	333	128	413	\$631.00	87	
97	8,410		116	67	8,593	429	21	322	15	2,088	104	150	956	322	150	401	\$600.00	82	
98	8,107		101	61	8,269	415	30	311	16	2,228	116	171	947	311	171	389	\$571.00	78	
99	7,801		83	56	7,940	400	39	299	17	2,413	127	189	937	299	189	376	\$541.00	73	
00	7,491		68	52	7,611	385	49	288	17	2,581	137	205	924	288	205	362	\$511.00	69	
01	7,180		58	47	7,287	369	77	276	18	2,726	145	218	909	276	218	349	\$482.00	65	
02	6,874		50	44	6,968	354	102	264	18	2,866	153	232	893	264	232	335	\$454.00	61	
03	6,574		39	40	6,653	339	146	253	18	2,985	159	242	875	253	242	322	\$427.00	58	
04	6,277		33	37	6,348	324	191	242	18	3,057	165	252	857	242	252	309	\$401.00	54	
05	5,987		28	34	6,047	310	265	231	17	3,132	170	260	837	231	260	295	\$375.00	51	
Cumulative Totals Projected For FY 1990 - 2005:			1,810	2,171		5,253		4,433	227	1,556		2,211	14,755	4,433	2,291	6,217	\$9,408	2,338	

ANALYSIS OF HJR 13 (Finance): Prepared by the Alaska Permanent Fund Corporation

ASSUMPTIONS: (In Real, Inflation-Adjusted 1990 Dollars)

- * Based on Department of Revenue's Fall 1989 Low-Case Revenue Forecast
- * 20% of PF Net Income to Education Endowment in FY 91
- * 40% of Non-Education Endowment PF Net Income to Education Endowment from FY 1992-2005

- * 100% of Education Endowment Income Appropriated to Fund Education FY 1992-2005
- * Inflation-Proofing Shared Pro-Rata Between Education Endowment and PF Non-Endowment Principal
- * Education Endowment Income Excluded from PFD Calculations

FINANCIAL PROJECTIONS
(In millions)
as of December 31, 1989

PRINCIPAL											INCOME												
FY Begin Balance	PF Non-Ed Endowment	Appropriations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing	Education Endowment				Combined FY End Balance	Net Income		Distributions				Reserves		FY			
							FY Begin Balance	Dedicated Revenues	Inflation Proofing	Inflation Shortfall		Endowment Only	PF Total	Endowment Principal	To Fund Education	Dividends	Per Capita Dividends*	Inflation Proofing	General Fund		Add (Delete)	FY End Balance	
0			54		54								2					1			79		
54			84		139								8					7			79		
139			344		483								32					12			80		
483	900		385		1,769								150					28		59	81		
1,769	800		400		2,969								368					71	\$1,000.00	185	244	82	
2,969	400		421	231	4,021								471					108	\$386.15	231	110	83	
4,021	300		366	151	4,838								530					175	\$331.29	151		84	
4,838	300		368	235	5,741								658					217	\$404.00	235		85	
5,741			323	216	6,281								1,021					303	\$556.26	216		86	
6,281	1,264 **		170	148	7,864								1,069					391	\$708.19	148		87	
7,864			418	303	8,585								789					424	\$826.93	303		88	
8,585			228	360	9,173								868					460	\$873.16	360	4	89	
90			253	462	9,877								936					492	\$901.80	452	(7)	90	
91			260	507	10,644								944					485	\$815.00	507	(237)	91	
10,644			290	512	11,447	117							17	1,072				422	\$798.00	539	(391)	92	
11,447			304	131	11,882	562							57	1,153				438	\$832.00	143		93	
11,882			319	125	12,326	591							98	1,237				456	\$862.00	141		94	
12,326			317	122	12,765	617							140	1,324				473	\$886.00	141		95	
12,765			300	115	13,180	647							185	1,411				490	\$915.00	137		96	
13,180			284	114	13,577	669							231	1,497				507	\$931.00	139		97	
13,577			268	112	13,955	690							279	1,584				522	\$945.00	141		98	
13,955			244	110	14,309	711							328	1,670				537	\$958.00	141		99	
14,309			220	107	14,636	730							380	1,758				551	\$968.00	142		00	
14,636			202	105	14,942	748							432	1,841				564	\$975.00	142		01	
14,942			178	102	15,220	765							488	1,926				578	\$980.00	142		02	
15,220			158	100	15,478	781							542	2,009				587	\$983.00	142		03	
15,478			143	97	15,718	796							598	2,092				597	\$984.00	142		04	
15,718			130	95	15,943	809							656	2,174				607	\$982.00	142		05	
Cumulative Totals Projected For FY 1990 - 2005:			3,866	2,903		9,233							4,429	24,626				7,515	4,429	9,985	\$14,715	3,332	

ANALYSIS OF HJR 13 (Finance): Prepared by the Alaska Permanent Fund Corporation

ASSUMPTIONS: (In Nominal Dollars)

- * Based on Department of Revenue's Fall 1989 Mid-Case Revenue Forecast
- * 20% of PF Net Income to Education Endowment in FY 91
- * 40% of Non-Education Endowment PF Net Income to Education Endowment from FY 1992-2005

- * 100% of Education Endowment Income Appropriated to Fund Education FY 1992-2005
- * Inflation-Proofing Shared Pro-Rata Between Education Endowment and PF Non-Endowment Principal
- * Education Endowment Income Excluded from PFD Calculations

FINANCIAL PROJECTIONS
(In millions)

as of October 31, 1989

PRINCIPAL										INCOME										
Year	Dedicated State Revenues*	Inflation Proofing	FY End Balance PF Non-Ed Endowment	Inflation Proofing Shortfall	Education Endowment				Combined FY End Balance	Net Income		Distributions			Reserves					
					FY Begin Balance	Dedicated Revenues	Inflation Proofing	Net Income		Endowment Only	PF Total	Endowment Principal	To Fund Education	Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Delete)	FY End Balance	
1990	54		54						54		2					1				
1991	84		139						139		8					7				
1992	344		483						483		32				12	12				
1993	385		1,789						1,789		150			28	28	59	59			
1994	400		2,969						2,969		368			71	\$1,000.00	71	185	244		
1995	421	231	4,021						4,021		471			108	\$386.15	231	110	110	354	
1996	366	151	4,838						4,838		530			175	\$331.29	151		203	557	
1997	368	235	5,741						5,741		658			217	\$404.00	235		206	763	
1998	323	216	6,281						6,281		1,021			303	\$556.26	216		501	1,264**	
1999	170	148	7,864						7,864		1,069			391	\$708.19	148		529	529	
2000	418	303	8,585						8,585		788			424	\$828.93	303		62	591	
2001	228	360	9,173						9,173		868			460	\$873.16	360	4	44	635	
2002	253	452	9,877						9,877		936			482	\$901.00	452		-7	628	
2003	248	483	10,138		0	188		188	10,317		6	899	180	0	452	\$776.00	483	-225	373	
2004	261	460	10,284	105	170	378	24	578	10,858		15	963	378	15	435	\$717.00	485	-352		
2005	258	111	10,071	478	2	372	36	822	10,993		46	977	372	46	436	\$705.00	121			
2006	255	100	9,857	473	4	284	12	1,347	11,104		78	989	364	78	434	\$689.00	113			
2007	239	92	9,629	466	7	367	15	1,548	11,177		106	998	357	106	429	\$668.00	106			
2008	214	82	9,380	460	10	349	16	1,825	11,205		131	1,004	349	131	426	\$651.00	98			
2009	190	76	9,116	449	13	340	17	2,078	11,195		158	1,005	340	158	417	\$625.00	93			
2010	169	71	8,839	437	18	331	18	2,318	11,149		177	1,003	331	177	407	\$599.00	89			
2011	148	65	8,550	425	25	321	19	2,518	11,069		196	998	321	196	397	\$572.00	84			
2012	124	60	8,250	411	34	318	20	2,707	10,957		214	990	310	214	386	\$546.00	80			
2013	107	56	7,946	398	43	308	20	2,873	10,820		230	979	300	230	374	\$518.00	78			
2014	88	51	7,636	384	51	298	20	3,030	10,655		244	966	280	244	362	\$492.00	71			
2015	75	47	7,326	370	60	278	20	3,148	10,472		254	951	278	254	350	\$465.00	67			
2016	64	43	7,018	355	69	267	20	3,233	10,273		267	934	267	267	337	\$439.00	63			
2017	55	40	6,718	341	73	256	20	3,246	10,062		278	916	256	278	324	\$414.00	60			
2018																				
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ANALYSIS OF HJR 13 (Finance):

EDUCATION FUND QUESTIONS & ANSWERS

1. Won't the Education Fund just provide more money for politicians to spend?

Prudhoe Bay oil production has begun to drop. By 1995 Prudhoe Bay is expected to produce only about two-thirds of today's oil; in ten years, only about one-third of today's oil will be produced. Unless oil sells for the extremely unlikely price of more than \$42 a barrel, Alaska's oil revenues are going to drop by about half over the next ten years. Income from the Education Fund won't replace all lost oil revenues. Alaska will face about a gap of several hundred million dollars between today's spending and tomorrow's revenues. But the Education Fund will help protect our schools from declining oil revenues.

2. What's the impact on the Permanent Fund dividend?

The dividend grows more slowly. Over the 15 years of the Education Fund deposits, the difference in the dividend averages about \$200 to \$250 annually, or about \$20 a month or less. So, for about as much as it costs for a couple to go to the movies every month, we get a school system with a secure future, not one dependent on decisions made in Iran or Saudi Arabia or Texas.

*\$2000 - \$2250
over
4000/person*

3. What's the impact on the Permanent Fund principal?

The Education Fund assures that 40 percent of the annual earnings of the Permanent Fund will be reinvested into the principal for 15 years. For the first six or seven years, the principal grows more quickly than it would otherwise. But the amount of earnings spent on dividends grows larger each year also. So, as dividends continue to grow and more income from the Education Fund is spent, the principal is slightly affected. By the year 2000, the principal is about 5 percent less than it would be otherwise.

But even without the Education Fund, the Permanent Fund Corporation estimates the principal of the Permanent Fund will erode in the future because the law requires the first use of earnings is dividends. As dividends grow larger every year, there won't be sufficient earnings to provide for both dividends and inflation-proofing. The legislature can avoid this outcome by passing legislation making inflation-proofing the first priority.

Furthermore, without the constitutional requirement to make the 40 percent deposits, the earnings are at risk of being all appropriated, not reinvested, as oil revenues decline sharply. Use of all the earnings, without any reinvestment into the principal, will accelerate the potential erosion of the Permanent Fund principal. So, the Education Fund serves as added protection for the principal for several years.

4. What happens to Inflation-proofing?

The Education Fund makes re-investment of Permanent Fund earnings into the principal the first priority. The Education Fund, in fact, serves as a form of constitutionally-guaranteed inflation-proofing. The Education Fund gives inflation-proofing a purpose -- to provide for Alaska's public education. Instead of just saving for saving's sake, we are saving for our children's future.

5. Why is education a priority?

Education is the foundation of our democracy. Unlike many nations, America has pledged to educate all its children, not just the children of wealthy parents. Public education is open to all, and is mandated by Alaska's constitution. But we have no constitutional guarantee that money will be available to provide for public education. Establishing the Education Fund guarantees that we will have money for our schools. By supporting the Education Fund, we adults can protect our children's interests and their future. In turn, educated kids mean a more productive and economically-sound society.

6. Aren't dedicated funds a bad idea?

The Permanent Fund itself is a dedicated fund, established by the voters of Alaska in 1976. The only way we can guarantee stable, secure funding for education is to establish a dedicated fund. Otherwise, our schools are at the mercy of each year's revenue ups and downs. In 1986, for example, school funding was cut ten percent across-the-board, resulting in programs being reduced or stopped altogether. One district even declared bankruptcy.

7. Does this proposal change the way the legislature allocates the money among school districts?

No, the division of education dollars will continue to be by legislative appropriation through the public school foundation formula and the other education programs, such as pupil transportation and school debt retirement.

8. Can the Education Fund assure the quality of education?

Assuring quality education takes active parents, capable administrators and dedicated teachers. The Education Fund by itself cannot assure quality education, but it can contribute to fiscal stability. Without stable funding, school boards and administrators will have to spend more and more time and energy balancing school checkbooks and looking to local property taxes for support. Stable funding means we can focus on school programs and performance.

9. Does the proposal include the University?

No, the Education Fund does not include the University.

*El/Sec Extension
i.e. - 14 yr of ed.*

10. Will the Education Fund provide for preschool and early childhood education programs? Will it provide for school construction and repair?

Education Fund earnings will be available for public elementary and secondary education. Through legislative appropriation, the Education Fund can provide for preschool and early childhood education programs, school construction and repair and other future needs. *Sample list*

11. What happens if the legislature approves the resolution calling for the Education Fund?

The resolution does not establish the Education Fund. It simply permits Alaskans to vote on the issue in the 1990 general election. If the public approves of the Education Fund, the Constitution will be changed to allow Education Fund earnings to be dedicated to education.

The Education Fund

Q&A.

Where did this idea come from?

A couple years ago a group of parents, teachers, school board members and administrators formed the Alaska Coalition for Education to work on common goals. The Coalition realized then that a serious threat could overshadow all other education issues: a dramatic drop in state revenue due to the decline of the amount of oil coming out of Prudhoe Bay. They proposed a funding mechanism, using the earnings of the Permanent Fund, that could help close the future education funding gap.

In early 1989 Governor Cowper submitted to the Legislature House Joint Resolution 13 that sets up such a plan and calls for a public vote on it on the 1990 general ballot. The House of Representatives approved the resolution last year. It is before the Senate this session.

How will the Education Fund work?

For 15 to 20 years, 40 percent of Permanent Fund earnings will be reinvested back into the principal to be managed and protected with the rest of the fund. As oil production declines, interest from those special deposits, called the Education Fund, will be used to help pay for elementary, junior and senior high school education. Deposits to the Education Fund will stop after 15 years or could continue for another five years if the legislature thought additional savings were needed. By then, earnings from the Education Fund will be providing a reliable and perpetual source of revenue for education.

It sounds complicated, but it's easy to envision if you compare it to parents saving for their kids' education: they don't know exactly how much they'll need, but they know they'll be a lot better off with it than without it.

Why is the public voting on the Education Fund?

Right now the law says that politicians can use Permanent Fund earnings any way they want, as long as half go to dividends. This proposal will protect the earnings by guaranteeing that 40 percent be reinvested in the principal to create a permanent account to help pay for education.

Who will control the money?

That won't change. The Education Fund is a mechanism to provide support to schools. Its earnings will be controlled the way education dollars are controlled today: the legislature passes out the money to local communities based on a formula. Local school boards make final spending decisions and set educational standards and goals.

The Education Fund provides a guaranteed level of financing for schools. If the legislature doesn't need the entire available amount in a certain year, leftover dollars will be put back into the savings account. Or, if policy makers decide education needs more money, they are free to increase the level of support using regular state dollars.

Won't this just provide more money for a growing bureaucracy?

No. It will help replace dollars that won't be there anymore because of the decline in the amount of oil coming from Prudhoe Bay. Even with the Education Fund in place, there will be tight competition for public spending.

Right now, more than 8 of every 10 dollars in the state treasury comes from oil revenues. That adds up to about \$2.2 billion this year. In 10 years that amount drops by two-thirds which translates into a cut of about \$700 million in oil revenues. (Oil would have to sell for the unlikely price of \$42 a barrel to make up the difference in number of barrels.) In the year 2010, it's estimated we'll bring in a mere \$346 million from petroleum sources. The state's share for education today is more than \$600 million. How do we close the gap?

Some other budget facts help put perspective on state spending. Nearly half the current \$2.3 billion budget goes directly to communities and individuals in the form of aid and benefits (longevity bonus, public assistance, revenue sharing to offset local property taxes, school funding, and program grants). The state simply cuts the check.

State spending is down considerably from an all-time high of about \$4 billion in 1985. It now equals about what we spent per person in 1979, if you account for inflation.

Formula programs tied to population (like public assistance, school funding and the longevity bonus), federal requirements, and inflation add major increases to the budget. Many of the spending limit proposals on the table also build in inflation and population growth.

Can the Education Fund make a difference in the quality of schools?

Educational standards and goals will always be up to local communities through their school boards. The Education Fund alone cannot assure quality, but it can contribute a great measure toward stability. Teachers and administrators will be able to tend to the business of providing a decent education, instead of worrying about decaying facilities, outdated materials, and overcrowded classrooms. Stable funding means educators can focus on performance instead of the checkbook.

How soon can Education Fund earnings be used and how much will be available?

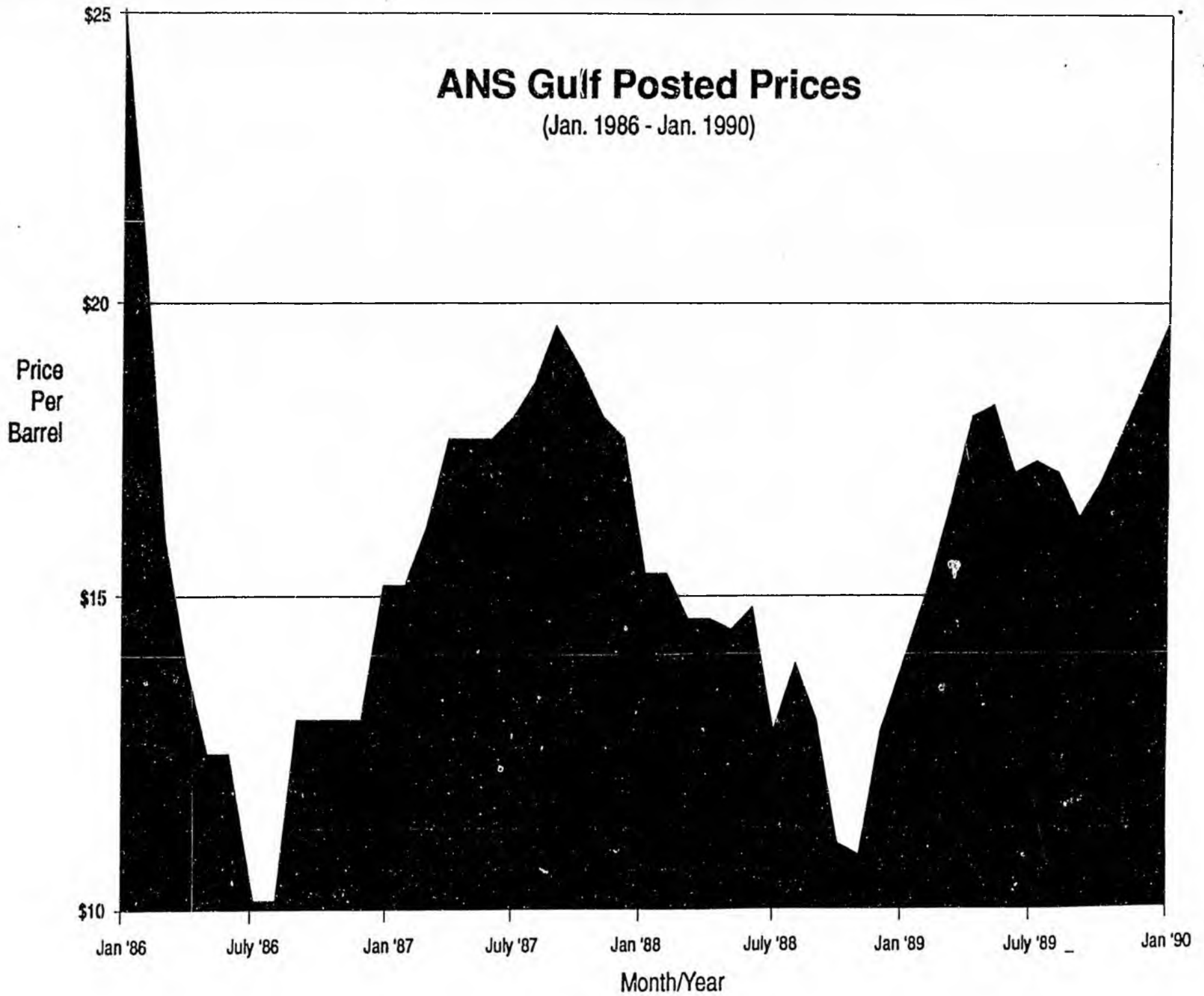
The current resolution says the money could be used right away, but many lawmakers think it's a better idea to let the Education Fund gather savings for at least 10 years in order to increase its value. It's likely the legislation could change in the next few weeks. In 10 years about \$700 million will be available from the Education Fund - about enough to cover the anticipated revenue gap. That money could be used without touching the principal of either the Education Fund or the Permanent Fund.

Would the Education Fund be the most - or the least - that could be spent on Education in any year?

It's possible that earnings from the Education Fund may exceed or not completely cover all costs each year. That depends on the number of students enrolled at the time and other factors. However, the legislature can appropriate additional money if necessary. Conversely, if not all the Education Fund earnings are needed at the time, they will be placed back into the savings account. They cannot be spent for any other purpose. The Education Fund simply provides a stream of income for a specific purpose. Undoubtedly, constituencies that advocate for education and other programs will continue to compete for available dollars and keep the issue in the public eye.

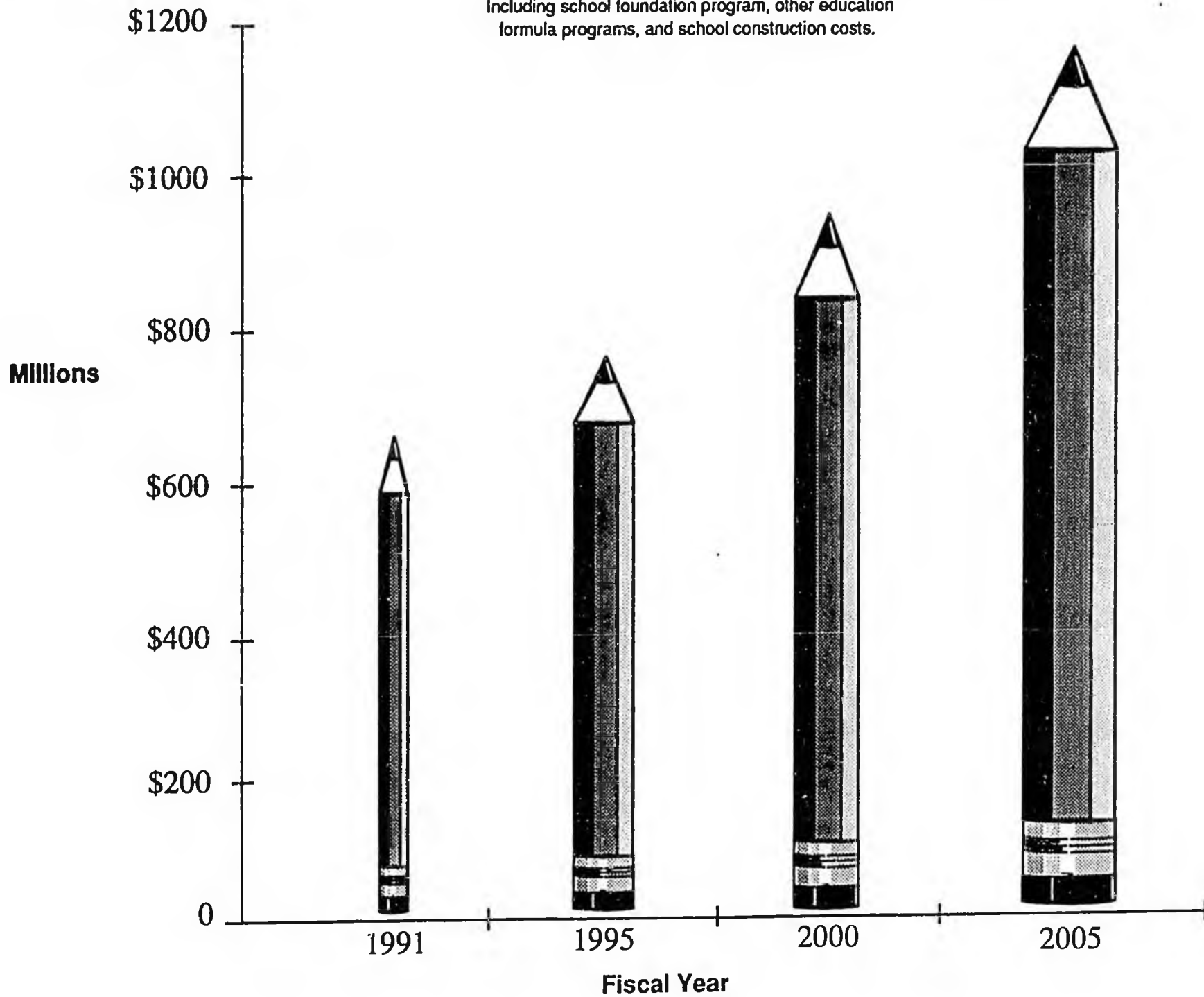
ANS Gulf Posted Prices

(Jan. 1986 - Jan. 1990)



Alaska School Funding Needs

Including school foundation program, other education formula programs, and school construction costs.





Alaskans on the Future of the Fund

Final Report
of the Commission
on the Future
of the Permanent Fund

January 31,
1990

The Commission on the Future of the Permanent Fund

Representative H.A. "Red" Boucher, Chair

Representative Terry Martin

Senator Jan Faiks

Senator Steve Frank

Hugh Malone
Commissioner of Revenue

John Kelsey
Chairman, Permanent Fund Corporation

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Editorial oversight and design
Questionnaire analysis
Questionnaire analysis

In 1989 the Legislature established the Commission on the Future of the Permanent Fund to gather public testimony, report its findings and make recommendations to the Governor and the Legislature.

Executive Summary

The Commission held 10 public hearings between September 30 and December 9, 1989, across the state. More than 200 members of the public and expert witnesses testified. The commission also gathered written testimony and reviewed legislation and documents pertaining to the Permanent Fund.

The public clearly stated it:

- wants the Permanent Fund dividend retained,
- wants the principal of the Fund preserved,
- believes current levels of state spending are too high, and
- does not want Fund earnings used to support State programs in the foreseeable future.

Included in this report are the recommendations of the Commission suggesting statute modifications designed to preserve the value of the Fund and assure a stable flow of earnings.

Questions facing us today	Pages 2 - 3
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The dividend formula	Pages 6 - 7
What the public said	Pages 4 - 8
<u>Appendices</u>	<u>Pages</u>
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Stabilizing a resource-based economy	40

Findings and Recommendations

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Plan now for "fiscal gap"	Pages 10-11
Preserving value of the Fund	Page 11
Retain dividend program	Page 12
Stabilize real earnings	Pages 12-13
Educational Endowment	Page 13
Clean up statutory language	Page 13
Disclose all uses of earnings	Page 14
In summary	Page 14

Questions facing us today

Since 1986, when the price of oil dramatically decreased, a number of Alaskans have become concerned about fiscal policy, sources of state revenue and the role of the Permanent Fund in Alaska's future. The Commission on the Future of the Permanent Fund was established by the 1989 Legislature to determine the appropriate response to such concerns. The Commission focused on two central questions:

- 1) What is the purpose of the Fund?
- 2) What role will it play in Alaska's long-term economic future?

The Commission was instructed to gather public testimony concerning the Permanent Fund, to report its findings and to make recommendations to the Governor and the Legislature. The Commission consists of nine members: two state representatives appointed by the Speaker of the House, two state senators appointed by the President of the Senate, three members of the public appointed by the Governor, the Chairman of the Board of Trustees of the Alaska Permanent Fund Corporation and the Commissioner of the Department of Revenue.

As part of its charge to gather public testimony, the Commission conducted ten meetings around the state, including two in each judicial district and two statewide hearings that were held in Anchorage and Juneau. To allow as much public participation as possible, the hearings were held on Saturdays. The Commissioners asked the witnesses questions to determine their opinions on specific issues.

The first years of the Permanent Fund

Alaska's voters approved the creation of the Permanent Fund in 1976. They accepted an amendment to the Alaska State Constitution as proposed by Governor Jay Hammond and passed by the Legislature. That amendment states:

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses re-

ceived by the State shall be placed in a permanent fund, the principal of which shall be used only for 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.
—Alaska State Constitution, Article IX, Section 15

Witnesses asked the Commission questions concerning the Permanent Fund, the dividend program, inflation-proofing, the Educational Endowment, the budget, income tax and long-term fiscal problems facing the state. As a hearing progressed, people commented on the issues presented by previous speakers and thus each hearing became a public forum for discussion of problems facing the state and the Permanent Fund.

As part of its charge to make recommendations, the Commission also heard testimony from the staff of the Permanent Fund Corporation and other expert witnesses, and reviewed documents pertaining to the Permanent Fund.

The Commission also prepared and distributed an eight-page handout about the Permanent Fund and the Commission. The handout contained a three-page, self-addressed questionnaire so that persons who either did not feel comfortable with public speaking or were unable to attend the public hearings could express their opinions. These handouts were used in presentations to high school and college government classes, senior citizen groups, Chambers of Commerce, Rotary Clubs and other civic groups.

(Summary of responses is provided in Appendix A. Copy of handout is provided in Appendix B.)

Since the adoption of this amendment, the Legislature has increased the deposit requirement to 50 percent for all mineral lease rentals, royalties, royalty sale proceeds, net profit shares and federal mineral revenue sharing payments received on leases issued after Dec. 1, 1979, and 50 percent of all bonuses received on leases issued after Feb. 15, 1980. (Alaska Statute 37.13.010 (a)(2))

Additionally, the Legislature provided that a portion of the income of the Fund shall be deposited into the principal to offset the effects of inflation as measured by the change in the calendar year average of the U.S. Consumer Price Index. (Alaska Statute 37.13.145)

The Permanent Fund's principal, estimated to be \$9.3 billion (\$9,267,975,000.00) on Nov. 30, 1989, has come from three sources:

\$3.659 billion had been deposited by that date as a direct result of the constitutional amendment and statutes, \$1.645 billion had been deposited to preserve the principal against inflation and \$3.964 billion had been placed into the Fund by three separate legislative appropriations.

What the public said

Four recurring themes emerged from the testimony of the 223 people who appeared at the Commission's hearings, the 71 people who submitted written testimony and the 1,782 who returned the questionnaires:

- **Retain the Permanent Fund dividend.**
- **Preserve the value of the Fund for future generations.**
- **Reduce state spending.**
- **Do not use Fund earnings in the foreseeable future to support State programs.**

Here is a summary of the testimony on these and related subjects:

Protect the principal of the Permanent Fund

While a few people testified that the Fund's principal should be divided equally among current Alaskans, the large majority supported protecting the principal. There was little support for the use of fund principal for in-state investments, economic development, infrastructure, or other non-income producing projects. The public believes that the current investment scheme and management style have performed well and are appropriate for the future.

The testimony received by the Commission was strongly in favor of preserving the value of the principal for future generations. Few citizens testifying were aware of, or recognized, the possibility that the Fund may not be fully inflation proofed in the future. When asked whether the

The Fund has earned \$6.6 billion

Since its inception, the Fund has earned roughly \$6.6 billion from investments. \$2.2 billion of this has gone toward payment of annual dividends to every qualified Alaskan resident. Of the remaining \$4.4 billion in earnings, \$1.645 billion has been deposited into the principal to offset inflation, \$1.264 billion has been deposited back into the Fund by the Legislature by special appropriation, \$635 million is currently being

held in the Earnings Reserve Account and \$232 million has been used for general governmental services.

While individual voters' opinions may have varied, testimony before the Commission indicates the most often expressed reasons for establishing the fund were:

- 1) to remove money from the income stream of the state,

dividend/inflation proofing priority should be reversed, the response was generally "yes," even if this change causes a reduction in dividend payments.

Keep the dividend program

The dividend program had very strong support from the people who testified. They presented a variety of reasons why this program is valuable. Some favored the dividend program because of the annual injection of capital into the Alaskan economy, others thought that the program is a fair method for the distribution of oil wealth, others thought it is an excellent method of removing funds from legislative overpending, and still others believed it is constitutionally mandated (it is not). They said the bush and rural communities depend heavily on the dividend for infusion of cash into their economies. Many said they would rather see a personal income tax than a reduction in dividends. A limited reduction in dividends is acceptable to fully inflation proof; otherwise, the public expects the dividends to continue. A number of people thought that capping the dividend was an appropriate step in the future.

Reduce government spending

Most people who testified concerning the level of government spending felt that it was excessive. Opposition to the use of the Fund's earnings for additional government spending was widespread. There was strong support for adequate funding for legitimate government services. However, the public believes that the current budgetary

- 2) to preserve a portion of the oil wealth for future generations and
- 3) to develop an income source to support state government when oil revenues decrease.

In 1982 the Legislature enacted the statute that established the Dividend Fund within the General Fund. (Alaska Statute 43.23.015)

The Earnings Reserve Account was established as a separate account managed by the Permanent Fund Corporation. (Alaska Statute 37.13.145)

Each year, about 50 percent of the income from the Fund is divided by the number of qualified applicants and a dividend check is mailed to each person. The amount of this check for the year 1989 was \$876.13.

The remaining income is first reinvested into the principal to offset inflation; the amounts left over are held in the Earnings Reserve Account (ERA). The \$635 million in the ERA as of June 1989 has accumulated over several years.

level of approximately \$2.25 billion is too high. Few citizens were willing to specify which areas of state government should be reduced. Most agreed that it is up to the Legislature to determine the appropriate places to cut.

Opinions differ on educational endowment

The Commission has difficulty in summarizing public testimony about an educational endowment because of confusion surrounding it. While the educational community and some local governments strongly favored the concept of an educational endowment, similar support was not found in the general public's testimony. Opposition to the educational endowment was expressed in a variety of philosophical and political terms.

Many people do not think that the state should tamper with the prohibition against dedication of funds contained in the State Constitution. (Alaska State Constitution, Article IX, Section 7.) These people stressed that all potential uses of the earnings should compete equally with all other government demands or were concerned that dedicated revenue will result in less oversight of educational spending. Some people feared that providing additional funding for education will cause the cost of other government services to rise simply because of the availability of money. Others feared that any change to the constitutional provisions will open a floodgate of other demands on uses of the Fund's earnings.

Many people were critical due to current frustration with the education system. These people stated they were dissatisfied with the quality of education considering the

The Dividend Formula

The actual amount of income which is distributed as dividends is calculated based upon the following language:

Net income of the corporation shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent

of the net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed the net income of the corporation for the fiscal year just ended plus the balance in the earnings reserve account . . .

-- A.S. 37.13.140

Once the income has been determined, the amount that goes to the dividend account is established

amount of money that is currently being spent. They were not convinced that a higher spending level or dedicated funding would improve the quality of education in the state.

Those favoring the educational endowment did so because they felt it was important to have a more stable and predictable state contribution to local education costs. Presentations by the Administration demonstrated that the educational endowment will provide only a portion of the money needed for education in the future. As currently structured, neither the Governor's nor the Legislature's bills will create as much money in real dollars as is currently being spent on education.

Don't alter Fund management

The public is satisfied with the current management of the Permanent Fund Corporation and the Board of Trustees. There was generally no demonstrated support for changing the investment philosophy of the fund. However, outside of those intimately involved with the Permanent Fund, few in Alaska have any in-depth knowledge about the specifics of the Fund's operation. Those who do have that knowledge, including members of the Fund's management team, have concerns that the treatment of unrealized gains and losses, definition of net income, and other accounting and investment-related subjects have a substantial effect on the size of the Fund and the distribution of earnings.

as follows:

... each year the commissioner [of revenue] shall transfer to the dividend fund 50 percent of the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year available for distribution.

--A.S. 43.23.045(b)

the dividend account is accomplished by a legislative appropriation. The amount appropriated is based on a five-year average which is intended to maintain a stable flow of dividends.

The actual transfer of funds to

Don't deduct from dividends

This year, the deductions from the dividend program and the purposes of those deductions were itemized on the dividend checks. All witnesses who mentioned this were upset by the subtraction from their check. While most did not complain about the deduction for the costs of administering the dividend program, the deductions for the hold harmless program, felon gate money, sexual offender programs and the Victims Compensation Fund were highly objectionable in the public's view.

Refine dividend qualifications

Public testimony was clearly in favor of restricting the dividend program to qualified residents. Some favored significantly increased residency requirements. However, a number of people expressed concern that efforts designed to prevent unqualified residents from receiving a dividend had the effect of denying dividends to some Alaskans who should receive them. Others were concerned that the additional reporting procedures imposed substantial burdens on all Alaskans and questioned whether these additional burdens and attendant administrative costs outweighed the benefits.

Hearing Locations	Juneau, September 30, 1989
	Barrow, October 7
	Anchorage, October 14
	Bethel, October 21
	Ketchikan, October 28
	Nome, November 4
	Kenai-Soldotna, November 11
	Fairbanks, November 18

Statewide hearings were:

Juneau, December 2
Anchorage, December 9

Findings and Recommendations

The legislation creating this Commission requires a report containing findings and recommendations. While not all members of the Commission may agree completely with all of the statements below, it is the consensus of the Commission that every recommendation addresses one or more issues critical to the future of the Fund and deserves consideration by the Governor and the Legislature.

What is the purpose of the Fund?

Article IX, Section 15 of the Alaska Constitution contains several key concepts:

- (1) At least 25% of designated mineral revenues shall be placed in a permanent fund,
- (2) The principal of the fund shall be used only for those income-producing investments specifically designated by law, and
- (3) All income from the Fund shall be deposited in the general fund unless otherwise provided by law.

The Commission examined the question of what is the purpose of the Permanent Fund, taking into account the public testimony, laws, past and current uses of Fund earnings, historical information and other relevant factors.

It is the Commission's conclusion that the Permanent Fund should continue to fulfill its constitutional purpose of creating a stable and growing stream of earnings to be appropriated by the Legislature. It is the Commission's unanimous opinion that this flexibility, as provided by the constitutional amendment creating the Permanent Fund, allows the Fund to best serve both current and future generations of Alaskans.

Plan now for the "fiscal gap"

The projected decline in Alaska oil production and the corresponding "fiscal gap" between spending and projected revenues was a major factor in the formation of this Commission.

The Commission received substantial testimony predicting a marked decline in Alaskan oil production within the next five years. There was no testimony or information presented contradicting these projections. While fluctuations in oil prices have and will continue to affect year to year revenues, it is highly unlikely that the revenue drop linked to the projected production decline could be offset by oil price increases. This is the basis of the projected difference between current spending and projected revenue that is often referred to as the "fiscal gap."

Public testimony was consistently strong in supporting a substantial cut in spending as the first and preferred method of dealing with this projected shortfall. Many members of the public suggested that, after spending has been reduced, income taxes should be a source of revenue. Some suggested reduction and a few proposed elimination of the dividend program.

While Alaska's economic future cannot be discussed without consideration of the role of the Fund, it must be noted that all of the Fund's real earnings are less than the current state budget. The Constitution prohibits spending the principal of the Fund for any purpose. Constitutionally the Legislature can appropriate all the earnings of the Fund without consideration for inflation proofing. However, if it is to be "permanent," the Fund must retain the value of the principal over time. To retain its value, the principal must be protected from the effects of inflation. Allowing inflation to erode the Fund would effectively produce the same result as spending the principal.

Unless spending levels are cut and/or additional revenues are raised, pressures may arise in the future to use earnings of the Permanent Fund to support state government, possibly even at the expense of the dividends and inflation proofing. The projected fiscal gap thus raises serious public policy issues that must be addressed by the Governor and the Legislature if the current uses of Permanent Fund earnings are to be maintained.

In the Commission's opinion, long-range planning is the only way to avoid having the resolution of these fiscal policy issues dramatically affect the economy or even precipitate a crisis. Planning combined with judicious changes in public policy should reduce the impact of these projections and avoid the wild

economic fluctuations we have historically endured. Unless the Governor and the Legislature address these issues now, a crisis appears inevitable. If the "fiscal gap" does not appear, it will be far easier to live with having planned for the worst than it would to respond to a fiscal crisis without the benefit of planning.

Recommendation: The Governor and the Legislature should initiate a process of long-term fiscal planning and take the necessary action to implement it.

Preserving the value of the Permanent Fund

The Constitution prohibits spending the principal of the Permanent Fund. The Constitution also specifies all investments of the Fund must be "income producing". State law invokes the "prudent investor rule" to assure reasonable and prudent investment of the funds. This is generally accepted as precluding investments in social or infrastructure programs. Statutes further define the type of investments allowed. All earnings of the Permanent Fund are subject to appropriation by the Legislature. The Legislature has provided through statute for the current dividend and inflation proofing programs.

According to expert testimony received, the method of inflation proofing adopted by the Legislature in 1982 will probably fail to protect the Fund principal at some point in the future. Under current practice, dividends are paid before any earnings are added back into the principal for inflation proofing. Since the dividend program formula requires more than 50% of Fund earnings, if the percentage of income needed to offset inflation exceeds 50%, there will be a shortfall in inflation proofing. The present statutes do not allow a shortfall occurring in one year to be recovered in following years nor do they allow for counting unrealized capital gains or losses toward inflation proofing. Failure to inflation proof the fund results in favoring current Alaskans over the future generations. Public testimony clearly favored the concept that current and future Alaskans should benefit equally from the Fund.

Recommendation: To resolve this issue the Legislature should reverse the priorities to give inflation proofing first call on earnings, recognizing that adjustments in the averaging periods and the definition of earnings must be made at the same time. The Commission considers this a necessary first step, but an incomplete solution. More comprehensive solutions are offered under the section "Stabilize the Real Earnings of the Fund".

Retain the Dividend Program

The public overwhelmingly stated that the current economic and social benefits of the dividend distribution program outweigh the need to use Fund earnings for government expenses. Even those who mentioned or suggested use of the earnings to offset falling revenues wanted government spending cut dramatically before any changes were made in the dividend program.

Recommendation: In retaining the dividend program, the Legislature should amend the statutes to assure it does not appropriate for the dividend program more than the real earnings of the Fund. Real earnings would equal total returns, including capital gains/losses if desired, less an amount sufficient to offset inflation. A payout floor, cumulative inflation proofing, modification of the averaging formulas or some alternative method should allow the payout to be averaged over time, thus producing a relatively predictable stream of funds.

Stabilize the Real Earnings of the Fund

Several individuals proposed changes intended to better define the investment goals and strategies of the Fund. Each proposal contained the consistent objective of creating a stable flow of real earnings from the Fund.

One proposal would change the management philosophy of the Fund to a payout rule similar to those used by a number of large endowment funds. This would establish a clear earnings goal for the long term, removing many of the current pressures to use short-term goals and allow a long-term investment policy.

Recommendation: The Commission urges the Governor and the Legislature to give timely consideration to the "payout rule" concept.

Another proposal advocated placing all resource revenues directly into the principal of the Permanent Fund and using the real earnings of the Fund as a substantial source of state revenues.

Recommendation: This innovative proposal warrants consideration by the Governor and the Legislature.

(A more detailed discussion of the payout rule and resource revenue proposals is contained in Appendices C and D.)

Educational endowment

The Governor's proposed education endowment engendered lengthy comment and healthy debate before the Commission. People discussed the issues of the Permanent Fund's role, government spending in general, and specifically the level and method of funding education. This issue is now before the Legislature and this appears to be the appropriate forum for deciding upon any proposal to be placed before the voters.

Recommendation: The Commission forwards no specific recommendation on the proposed educational endowment.

Clean up the statutory language

The Legislature should re-examine all of the current statutes involving the Permanent Fund for consistency and clarity. A clear and precise definition and method of calculating net income should be adopted (in the absence of the adoption of a payout method). There appears to be less than precise use of the terms "fund", "principal", and "Corporation".

For example, A.S. 37.13.010(a) discusses the Permanent Fund and is generally cited as the statutory definition of the principal of the Fund. It is often stated that the balance in the earnings reserve account (ERA) is not part of the principal. However, a reading of A.S. 37.13.010(a)(3) and 37.13.145 "allocates" the ERA which is "in the Alaska Permanent Fund". If the ERA is not part of the "fund", i.e. principal, why are the earnings from the ERA used to calculate dividends? Also A.S. 37.13.140 addresses "net income of the corporation" and A.S. 37.13.040 discusses the "assets of the corporation", while neither of these phrases is defined.

Recommendation: The ambiguities in the existing statutes regarding the Permanent Fund should be clarified.

Disclose all uses of Fund earnings

The public indicated the dividend program should continue to be an equal distribution to all qualified Alaskans. Testimony was clear that reductions from the dividend checks, other than expenses directly associated with the administration of the dividend program within the Department of Revenue, are not acceptable. There was virtually no support for the "hold harmless", felon gate money, or sexual offender programs being funded from Fund earnings. Many individuals were upset to discover that reductions had been made in the past without being itemized on the check stub. Public testimony strongly suggested that reductions, other than inflation proofing and administrative expenses, should be eliminated.

Recommendation: All uses of the earnings of the Fund should be shown on the dividend check stub by listing the total amount of each use.

In summary

The Permanent Fund is only one element of Alaska's economy. For example, it is not, of itself, the answer to diminishing state revenues. The Fund must be considered and utilized in the context of a total revenue and spending plan. The Commission hopes that this report will help in shaping such a plan and that the public will continue to be recognized as a key participant in the process.

Appendix A

Summary report of the questionnaire

The information provided on the following pages is the record of a conversation between the Commission on the Future of the Permanent Fund and individual Alaskans who returned the questionnaire.

It is not intended to be, nor is it, a scientific survey in any way.

Choices for the Future

What Do You Think?

To gather public testimony, the Commission on the Future of the Permanent Fund conducted 10 meetings around the state between September 30 and December 9, 1989. As part of this information gathering process, a questionnaire, "Choices for the Future: What Do You Think?" was also made available. This report summarizes the 1,782 responses to this questionnaire that the Commission received as of December 27, 1989.

The questionnaire

The questionnaire's 11 questions called for a combination of yes-no, multiple choice and open-ended type responses about people's perceptions of the use and purpose of the Permanent Fund. Also requested was the respondent's name, address, phone number and age. Return postage was provided. Confidentiality was not assured.

The Commission began distributing questionnaires at its Saturday, September 30, 1989, meeting in Juneau, and it continued to distribute them through the last meeting held Saturday, December 9, 1989, in Anchorage. The Commission also provided 40 questionnaires to each Alaska city and borough mayor and to each legislator for distribution. Additionally, members of the Commission distributed and collected the questionnaires at other public presentations such as at high schools and senior centers. The 1,782 responses that were mailed back or hand-delivered are summarized in the following sections:

Who Responded to the Survey?—presents the geographic and age distribution of the survey respondents and also lists all of the communities that responded and how many questionnaires came from each community.

Why Do Anything?—groups those responses dealing with the role of the Permanent Fund and the future Alaskan economy.

How Should We Use the Fund's Income?—these questions address people's opinions on alternative uses of the Permanent Fund earnings.

What Are Some Other Issues?—is an open-ended question in which a variety of other issues and opinions were presented by the respondents.

The summarized responses to the survey questions are presented in the following pages.

Who responded to the survey?

1,782 Alaskans from more than 125 communities completed and returned the questionnaire. Communities represented ranged from Anchorage, which has about half of the state's population, to Bettles, whose 1989 population was 55 residents. For purposes of this report, "Regional Centers" are those communities listed as having 1989 populations of 1,500 or more; "Bush Alaska" are those communities having 1989 populations of less than 1,500 residents.

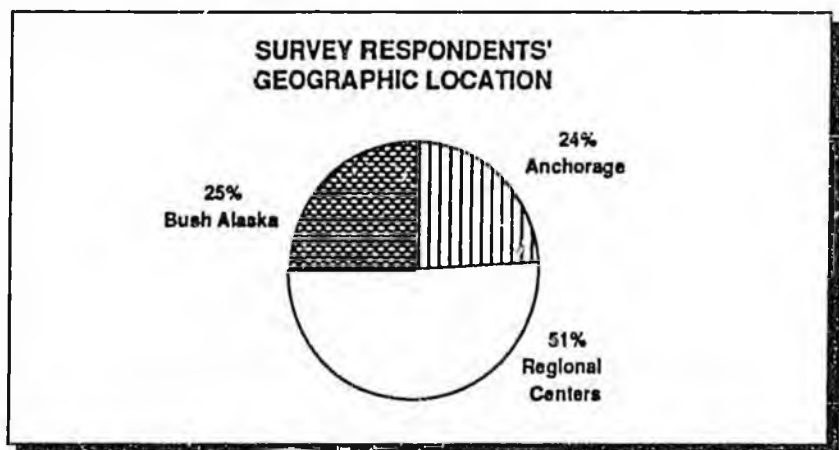
Regarding the age distribution of the respondents, the category "17 and under" was primarily composed of high school age students who completed a survey as a result of their participation in a public presentation about the Permanent Fund. A detailed break-out of the questionnaire responses is available by referring to: Tabulated Survey Results of the Questionnaire "Choices for the Future: What Do You Think?" Parts A and B.

Geographic distribution of respondents

409—Anchorage

896—Regional Centers

440—Bush Alaska

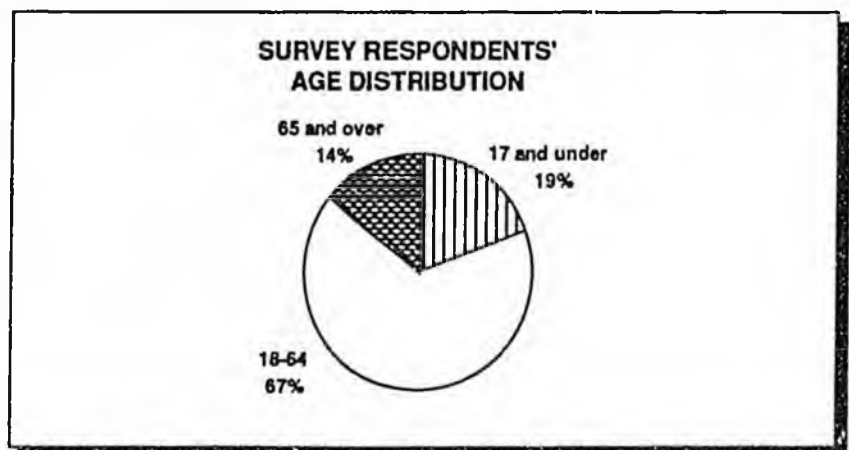


Age distribution of respondents

268—Age 17 and Under

924—18 to 64

191—Age 65 and Above



Responding communities

The following communities participated in the "Choices for the Future: What Do You Think?" survey. The number of questionnaires received from each community is listed in brackets.

Akiachak [1]	Gakona [5]	Port Bailey [2]
Anchor Point [1]	Galena [4]	Port Lions [1]
Anchorage [373]	Girdwood [3]	Quinhagak [1]
Angoon [1]	Glennallen [8]	Rampart [1]
Aniak [1]	Goodnews Bay [1]	Ruby [1]
Auke Bay [10]	Grayling [4]	Russian Mission [1]
Barrow [98]	Gustavus [14]	Salcha [2]
Bethel [31]	Haines [17]	Savoonga [2]
Bettles [5]	Healy [7]	Scammon Bay [2]
Big Lake [1]	Homer [16]	Seldovia [3]
Brevig Mission [1]	Hoonah [1]	Seward [3]
Cantwell [12]	Houston [4]	Shaktolik [3]
Chalkyitsik [3]	Huslia [3]	Sitka [3]
Chefornak [2]	Juneau [119]	Skagway [11]
Chevak [2]	Kasilof [2]	Slana [1]
Chickaloon [3]	Kenai [37]	Soldotna [42]
Chignik [5]	Ketchikan [6]	St. Mary's [1]
Chuglak [7]	Kipnuk [4]	St. Michael [1]
Clear [2]	Kivalina [1]	Stebbins [4]
Cold Bay [3]	Kodiak [16]	Sterling [8]
College [3]	Kotlik [4]	Sutton [2]
Copper Landing [1]	Kotzebue [5]	Takotna [2]
Copper Center [7]	Koyuk [1]	Talkeetna [1]
Cordova [5]	Manley Hot Springs [20]	Tanana [1]
Craig [6]	Marshall [4]	Tatitlek [2]
Deering [1]	McGrath [9]	Tenakee Springs [5]
Delta Junction [9]	Moose Pass [1]	Thorne Bay [1]
Denali Park [8]	Menana [40]	Tok [14]
Dillingham [8]	New Stuyahok [1]	Unalakeet [9]
Dot Lake [3]	Nightmute [1]	Unalaska [4]
Douglas [5]	Nikiski [3]	Valdez [7]
Dutch Harbor [1]	Nome [81]	Wainwright [1]
Eagle [17]	North Pole [29]	Wales [6]
Eagle River [36]	Nutqsut [2]	Ward Cove [1]
Edna Bay [13]	Nulato [2]	Wasilla [34]
Eielson AFB [1]	Nunapituk [5]	Whale Pass [2]
Elfin Cove [4]	Palmer [47]	White Mountain [1]
Emmonak [3]	Paxson [6]	Whittier [9]
Ester [2]	Petersburg [3]	Wrangell [6]
Fairbanks [296]	Point Baker [8]	Unidentified Locations [38]
Fort Richardson [1]	Port Alexander [1]	
Fortuna Lodge [1]	Port Alsworth [5]	

Why do anything?

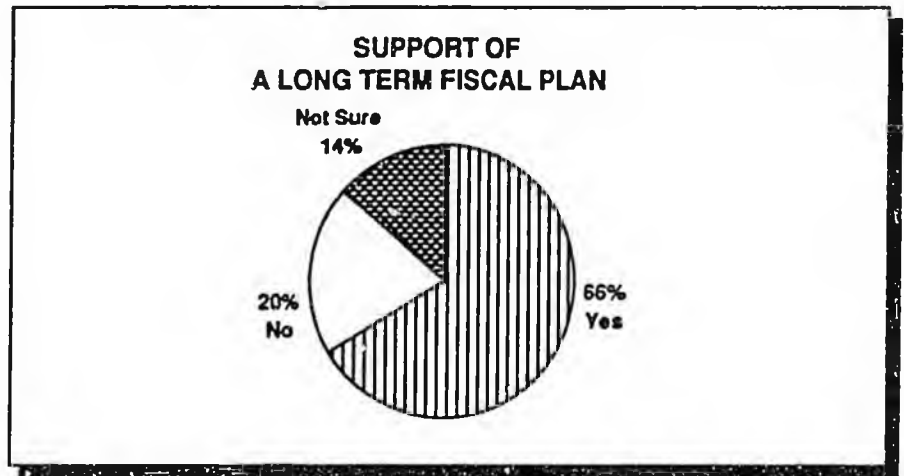
This section groups the responses to the survey questions dealing with the role of the Permanent Fund and the future Alaskan economy.

Q-Do you believe it is necessary to draft a long-term fiscal plan that defines the role of the Permanent Fund in Alaska's economic future?

1103—Yes

338—No

223—Not Sure

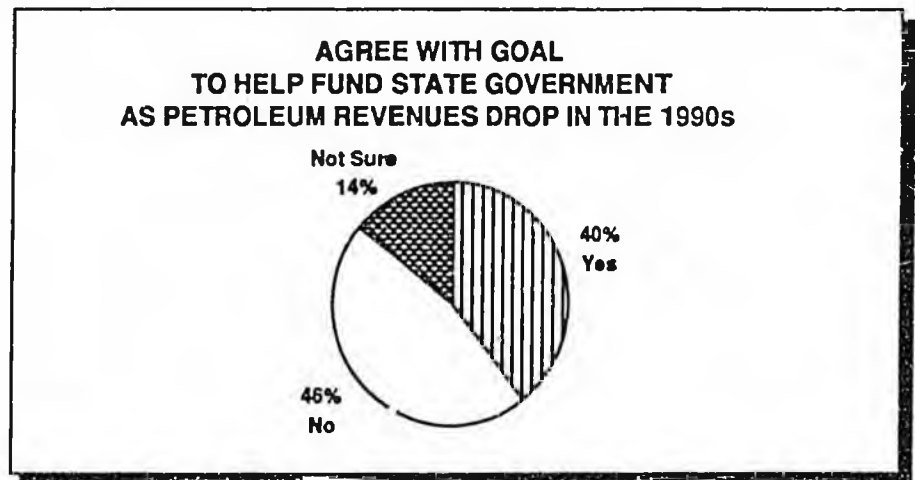


Q-The Permanent Fund was established in 1976. One of its goals was to help state government as petroleum revenues dropped in the 1990s. Do you agree with this goal?

675—Yes

793—No

242—Not Sure



Q-Although there are many variations possible for matching long-term expenditures with long-term revenues, they really boil down to some basic choices. All will require reducing the level of public services and all will require sacrifices. Check the one you prefer.

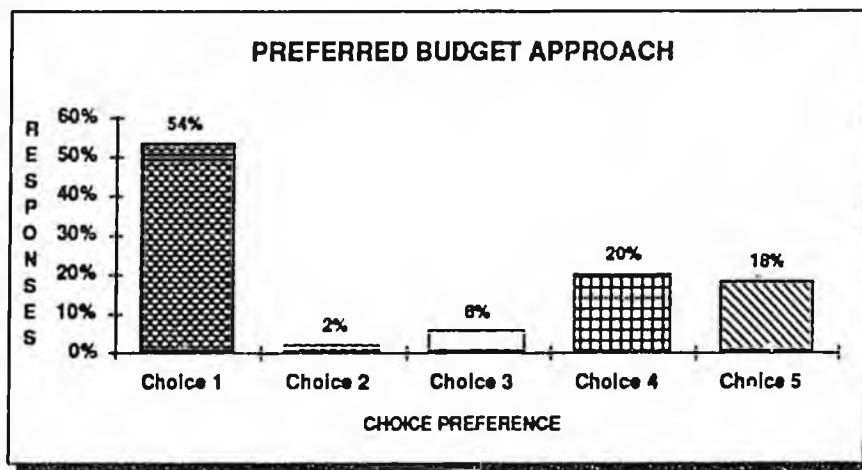
922— Cut spending dramatically, don't raise taxes, don't change the current uses of Fund income. (Choice 1)

36— Maintain current spending, raise taxes, use all of the Fund's income to support governmental services. (Choice 2)

99— Cut the budget gradually, don't raise taxes, use all of the Fund's income and some of its principal to support government services. (Choice 3)

352— Cut the budget gradually, raise taxes, use a portion of Fund income to support government. (Choice 4)

316— Other (Choice 5—the terms "cut the budget" and/or "don't raise taxes" were present in more than 50% of the responses to this choice.)



Q-What role do you think the Permanent Fund should play in Alaska's economic future?

A total of 1,343 responses were submitted to this open-ended question; Anchorage, with 296 responses, and Fairbanks, with 225 responses, being the most numerous. The following is a sampling of those individual comments (as submitted):

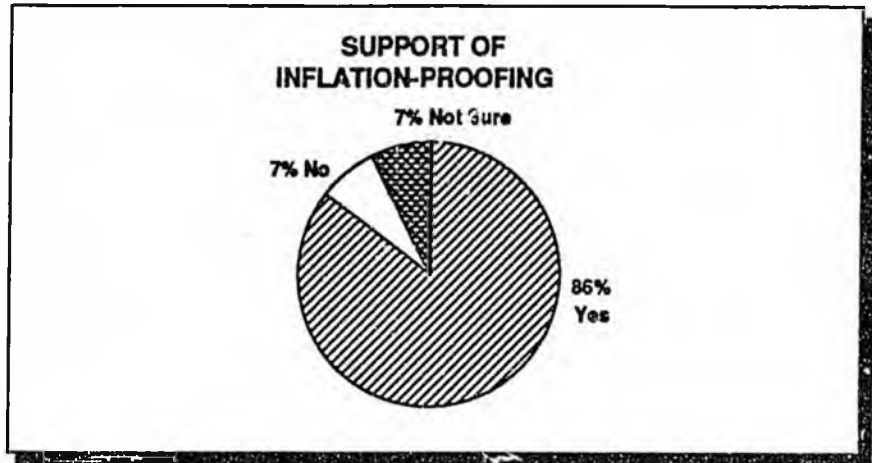
- | | |
|--|--|
| Location Unknown--"a moderate role" | Fairbanks--"let people spend their Perm Fund money as they wish" |
| Anchorage--"as oil revenues decline, help support state government which would have a stabilizing effect on the economy" | Fairbanks--"savings account for the future & as a (goal) for local economy let the people spend not special interest group by legislature" |
| Anchorage--"fill in our budget where we can not meet expenses" | Fairbanks--"we want it ourselves" |
| Anchorage--"Alaskans of all ages, augment affordable adequate health care, continue to pay a modest yearly dividend" | Healy--"continue dividend program as it stands now and government keep their hands out of it" |
| Anchorage--"no (keep it) the way it is" | Juneau -"give out more money" |
| Anchorage--"security for our senior citizens, sustained economic development, insure quality education" | Juneau--"stabilization after Prudhoe Bay, use income for state services" |
| Anchorage--"the same as it is today" | Ketchikan--"pay dividends to individuals" |
| Barrow--"a big one" | McGrath--"continue paying dividends" |
| Big Lake--"it will do more good in the people's hands than anywhere" | Nome--"a very big part" |
| Copper Center--"pay dividends.....build interest" | North Pole--"continue personal dividends/capital improvement projects out of profits only" |
| Eagle--"give money through dividends to the people to help the local economy" | Palmer--"pay dividends" |
| Edna Bay--"the same as currently it does" | Savoonga--"emergencies like as floodings, earthquakes, housings, etc." |
| Fairbanks--"dividend disbursal only" | Soldotna--"it should remain the same as long as it is possible" |
| Fairbanks--"also inflation proof" | Unalakleet--"help support education" |
| | Wasilla--"none" |

Note: The 1,343 responses resulted in 56 pages of computer output. To obtain the above sampling, the first response on every other page was selected. This resulted in the 29 responses listed above. Minor editing of individual responses is contained in parentheses. A detailed break-out of the questionnaire responses, including all submitted survey comments, is available by referring to: Tabulated Survey Results of the Questionnaire "Choices for the Future: What Do You Think?" Parts A and B.

How should we use the Fund's income?

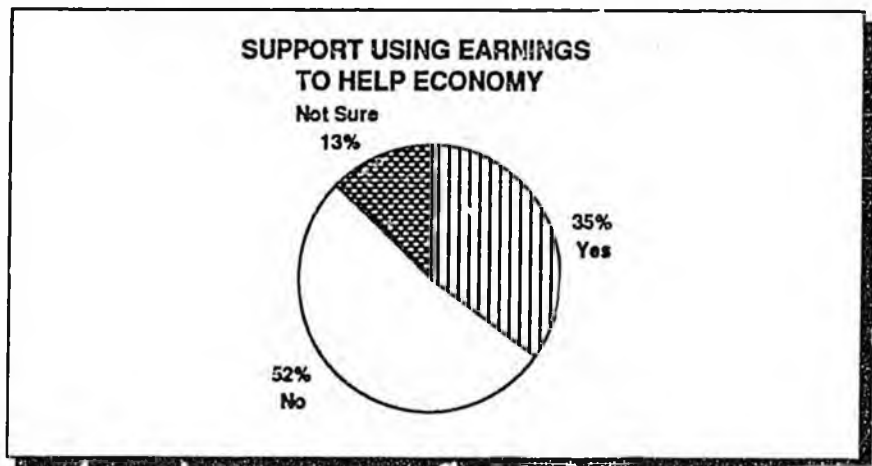
Q-State law requires that enough of the income from the Permanent Fund be put back into the Fund to counteract inflation. Do you support continuing "inflation proofing"?

1,496—Yes
122—No
128—Not Sure



Q-Do you believe that earnings from the Permanent Fund should be used to help the economy during times of economic recession?

599—Yes
891—No
216—Not Sure



Q-What do you think is the principal purpose of the Permanent Fund earnings?

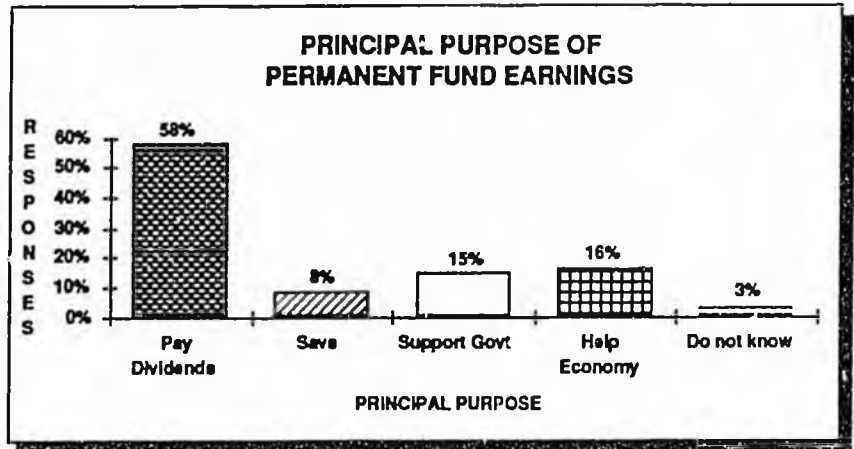
925—Pay Dividends

124—Save for a rainy day

231—Support government when oil revenues decline

260—Help the economy during periods of economic decline

46—Do not know



Q-Would you consider using the Fund's earnings for one or more of the following?

Budget Stabilization Fund

431—Yes

1133—No

Educational Endowment

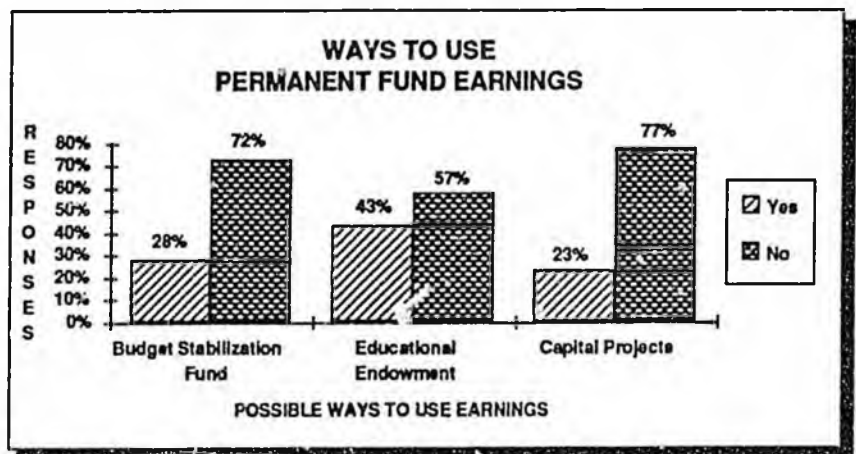
703—Yes

932—No

Capital Projects

363—Yes

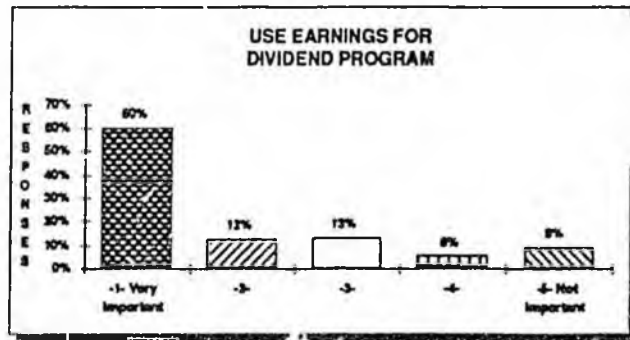
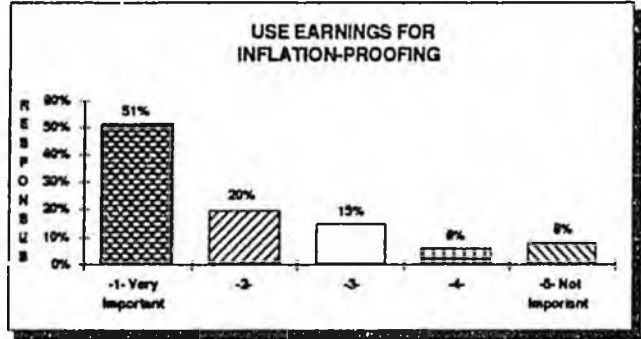
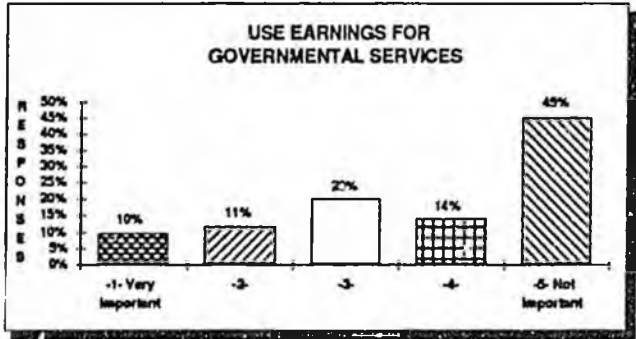
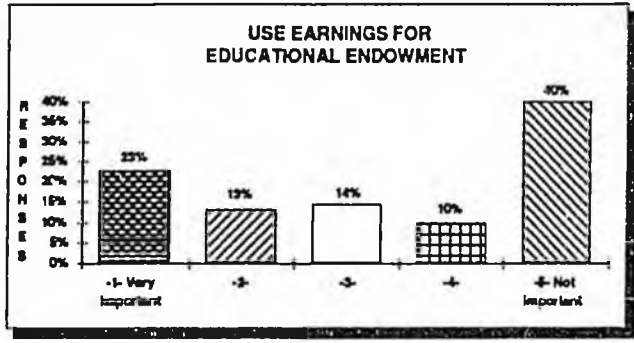
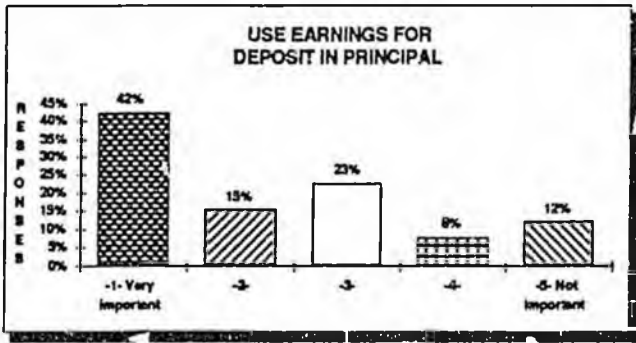
1212—No



Q-On a scale of 1 to 5 how important to you is each of the following uses of the Permanent Fund earnings. For each use circle 1 to indicate very important, 5 for not important.

Very Important <-----> Not Important

Deposit in Principal	1-701	2-255	3-373	4-127	5-203
Governmental Services	1-159	2-188	3-334	4-229	5-745
Inflation Proofing	1-875	2-336	3-248	4-102	5-137
Dividend Program	1-1037	2-214	3-224	4-94	5-154
Educational Endowment	1-378	2-219	3-238	4-164	5-658



Q-How do you use your dividend check?

A total of 1,606 people responded to this question. The following is a sampling of their responses (as submitted):

Location Unknown--"any way I want to "	Fairbanks--"taxes"
Anchorage--"charity contributions & education fund"	Goodnews Bay--"pay credit"
Anchorage--"gift to charities (local)"	Homer--"the last two bought me a new Maytag washer-dryer"
Anchorage--"living expenses & helping family members who are ill"	Juneau--"now it is in savings and it will be used to pay for my college education"
Anchorage--"reduce family debt"	Kenai--"bills & buying things I need"
Anchorage--"spend on bills & other important things"	Kenai--"basic necessities of life. It helps out our otherwise low income"
Barrow--"airline ticket out of Barrow"	Kodiak--"Xmas, major purchases"
Barrow--"to catch up with my bills"	Moose Pass--"for my education"
Chalkyitsik--"for emergencies, paying bills, rent and food/I thank you!"	Nome--"I save it for college"
Delta Junction--"buy food, gas, oil, heat, electricity"	North Pole--"no comment"
Eagle River--"for vacation"	Palmer--"save it"
Fairbanks--"buy clothing for cold weather"	Scammon Bay--"spend them"
Fairbanks--"I use it for Little Leaguers baseball"	Soldotna--"savings & spending in Alaska"
Fairbanks--"pay property taxes"	Tok--"no comment"
	Wrangell--"pay taxes"

Note: The 1,606 responses resulted in 54 pages of computer output. To obtain the above sampling of responses, the first response on every other page was selected. This resulted in the 29 responses listed above. Minor editing of individual responses is contained in parentheses. A detailed break-out of the questionnaire responses, including all submitted survey comments is available by referring to: Tabulated Survey Results of the questionnaire "Choices for the Future: What Do You Think?" Parts A and B.

What are some other issues?

Q-What other issues, concerning the Permanent Fund, would you like the Commission to consider?

A total of 844 people offered comments to this portion of the questionnaire. The following is a sampling of their responses (as submitted):

Location Unknown--"Natives-good throughout the U.S."

Fairbanks--"what is it doing for the economy?"

Anchorage--"Bonus can be made annually"

Healy--"leave it alone"

Anchorage--"if the state is allowed to dip into the fund it will reduce the drive for the state to find other sources of income"

Juneau--"none"

Kodiak--"do not use it for the longevity fund. Those people get enough income. Drop the longevity"

Anchorage--"oil revenues"

Nenana--"constitutional amendment establishing dividends - inflation proofing"

Anchorage--"where taxes are referred to I would assume you mean a state income tax"

Nome--"the yearly dividend should give applicants choice of accepting their dividend or designating it to another purpose"

Bethel--"will there be other economic sources in the future"

Copper Center--"higher dividends"

Palmer--"protective legislation from governmental spending projects, long-term Alaska residents retirement fund"

Eagle--"none"

Fairbanks--"amount of dividend that goes to federal taxes"

Shaktoolik--"fisheries on Norton Sound, roads connecting to rural villages, as it is cost of airfare is outrageous"

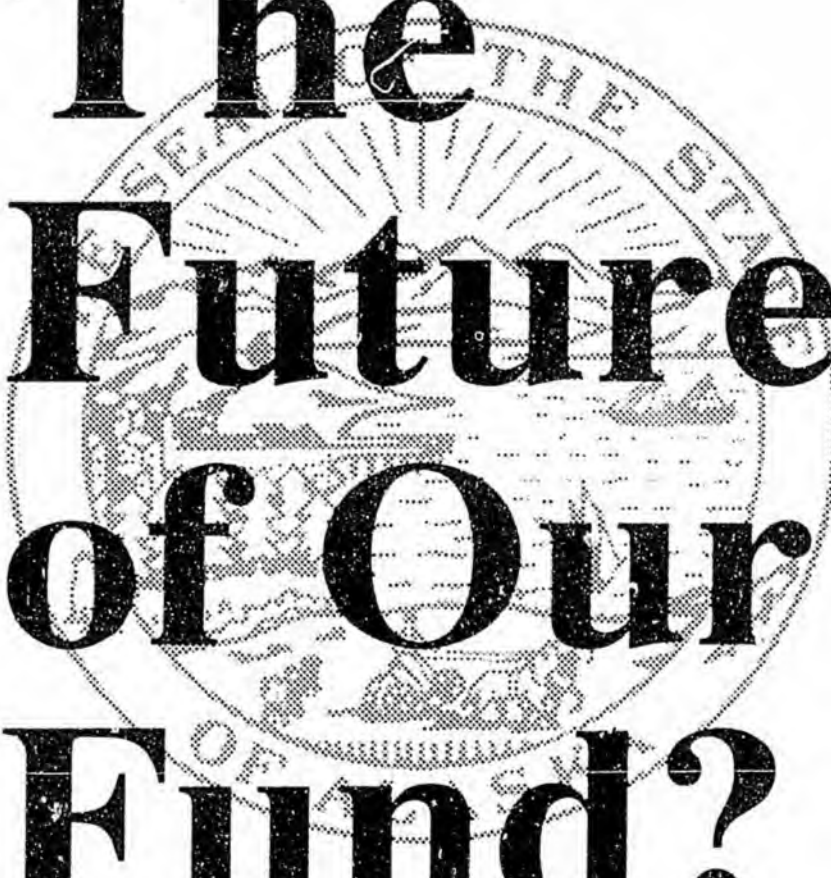
Fairbanks--"increasing our dividend check for each year of fund maturity"

Tenakee Springs--"keep the 'would be' raiders away from the fund"

Fairbanks--"Permanent Fund earnings should benefit all Alaskans not those primarily who have political clout to direct it to Anchorage sectors"

Wasilla--"leave it alone"

Note: The 844 responses resulted in 41 pages of computer output. To obtain the above sampling of responses, the first response on every other page was selected. This resulted in the 21 responses listed above. A detailed break-out of the questionnaire responses, including all submitted survey comments, is available by referring to: Tabulated Survey Results of the Questionnaire "Choices for the Future: What Do You Think?" Parts A and B.

The seal of the Department of the State of New York is visible in the background, featuring a sunburst at the top, a landscape with a river and mountains in the center, and the text "DEPARTMENT OF THE STATE OF NEW YORK" around the perimeter.

The Future of Our Fund?

*How should we use it?
What should it become?*

***We want your opinion!
Survey enclosed***

From the Commission on the Future of the Permanent Fund

The Mission :

Public Involvement

The Commission on the
Future of the Permanent
Fund will listen to Alaskans.

The Commission on the Future of the Permanent Fund was established by the 1989 Legislature "to gather public testimony concerning the Permanent Fund and to report its findings . . . to the Governor and the Legislature."

To gather public testimony, the Commission has scheduled town meetings around the State (see schedule on page 8). In addition to collecting information, the Commission, along with members of the Alaska Permanent Fund Corporation and the administration, will respond to any questions about the Fund.

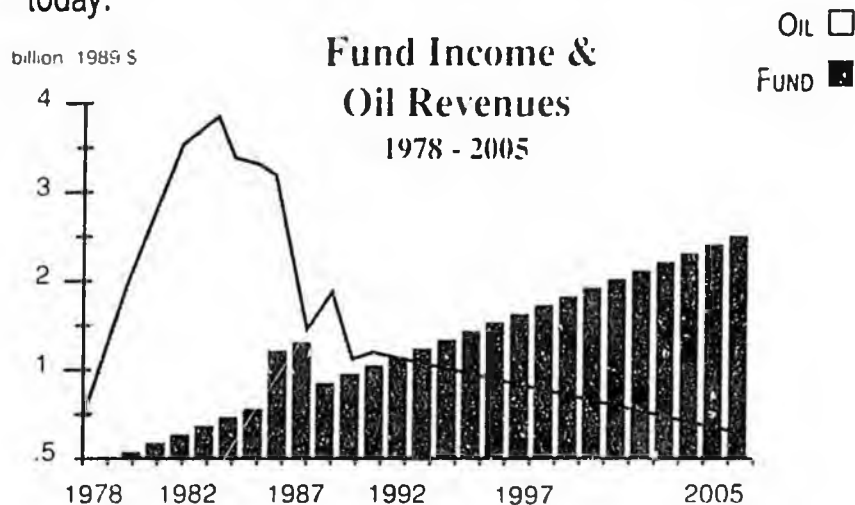
*...the Commission has scheduled
town meetings around the State.*

The Commission must submit its report to the Legislature and the Governor by February 1, 1990.

The Commission consists of nine members - three members of the public, two state senators, two state representatives, the Chairman of the Board of Trustees of the Alaska Permanent Fund Corporation, and the Commissioner of the Department of Revenue.

Why Do Anything?

Oil, the economic engine that built the Permanent Fund, and the Alaska economy, is in a state of decline. The price of oil has dropped sharply and Prudhoe Bay production will begin to fall by the early '90s. Production in 2000 will be only half of what it is today.



If state general fund spending stays at the current level of \$2.25 billion (in 1989 dollars), we face a fiscal gap - the difference between current spending and projected revenues - that could soon grow to \$1 billion annually.

The Commission believes that action is necessary and that this can best be accomplished by involving the citizens of Alaska in drafting a plan that looks at the larger picture of Alaska's economic future, and the role the Permanent Fund can play in the future.

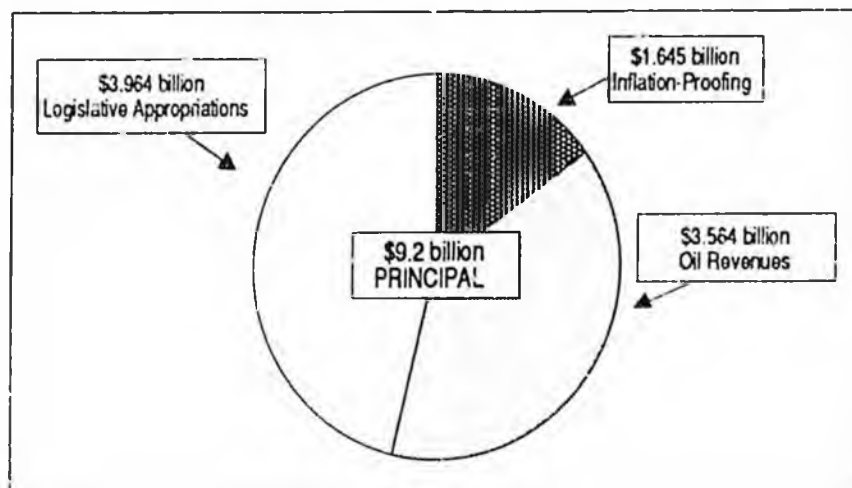
*There are tough choices before us,
doing nothing is not one of them!*

How the Fund Has Worked

ALASKA CONSTITUTION: Article IX. Section 15. ALASKA PERMANENT FUND. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale 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 designed 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.

Sources of Fund Growth

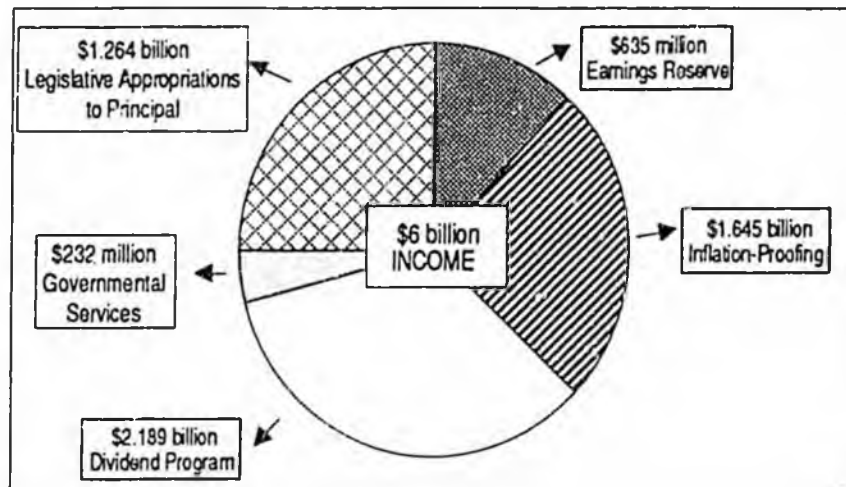
The Permanent Fund's principal – now about \$9.2 billion – comes from three sources: (1) oil revenues (2) money transferred to help inflation-proof the Fund; and (3) special legislative appropriations.



Page 4

Uses of Fund Income

The Fund has earned about \$6 billion since 1977. \$1.6 billion of this has been returned to the principal to keep its real value from shrinking because of inflation.



The largest share of the income has gone into the dividend program, \$2.2 billion to date.

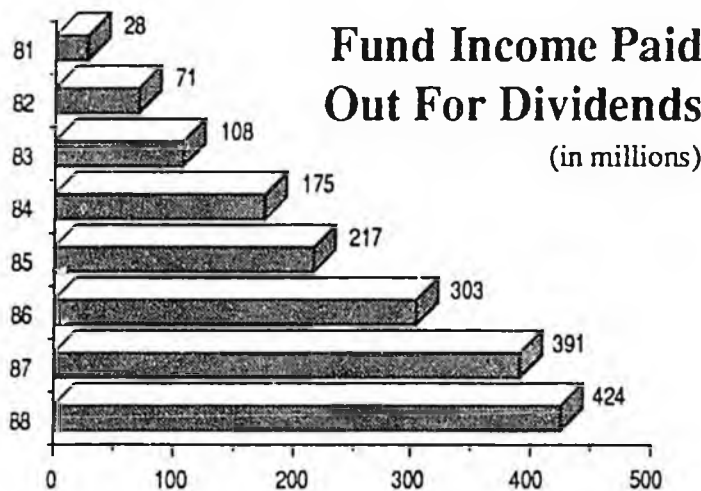
Any income remaining after inflation-proofing and dividends is put in an earnings reserve account and is available for appropriation by the Legislature. Legislatures have appropriated \$232 million into the general fund and have returned \$1.3 billion to the principal. The reserve account now contains \$635 million.

Any income remaining after inflation-proofing and dividends ... is available for appropriation by the Legislature.

The Dividend Program

Dividends are decided by a formula: (1) add together the Fund's net income for the last five years; (2) multiply that number by 21%; and (3) divide the resulting number by half.

Under current law, dividends will take roughly half of all future earnings and inflation-proofing will take the rest.

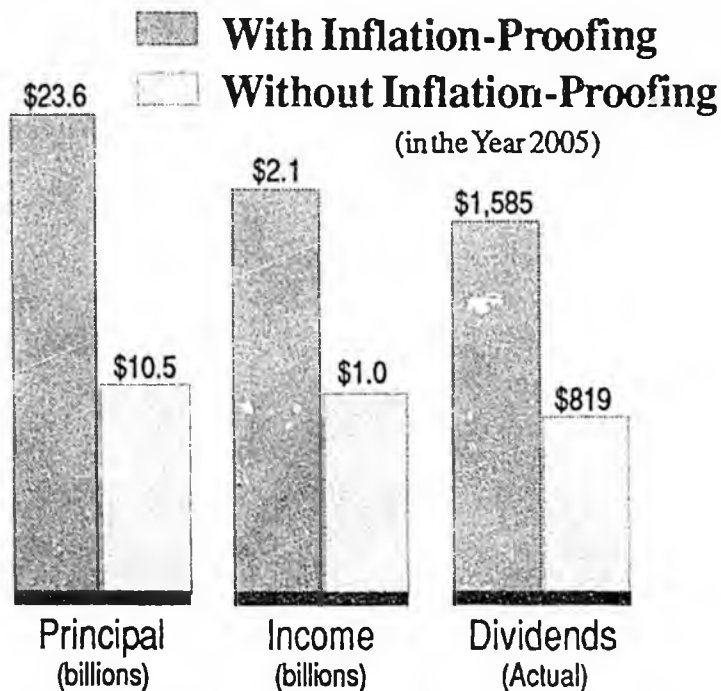


Under current law, dividends will take roughly half of all future earnings and inflation-proofing will take the rest. It's not expected that there will be any money left over for other uses. If the Permanent Fund is ever to produce an income for some other purpose, it will have to come from either dividends or inflation-proofing.

Inflation-Proofing

The Fund's future growth will depend most heavily on the contributions made by inflation-proofing...

Inflation-proofing protects the real value of the Fund by requiring an automatic reinvestment of income each year to offset the effect of inflation.



The amount to be used for inflation-proofing is determined by multiplying the Fund's June 30 principal balance by the average annual inflation rate. If there is to be future growth of the Fund's principal, it will depend most heavily on the contributions made by inflation-proofing, due to the future decline of oil revenues.

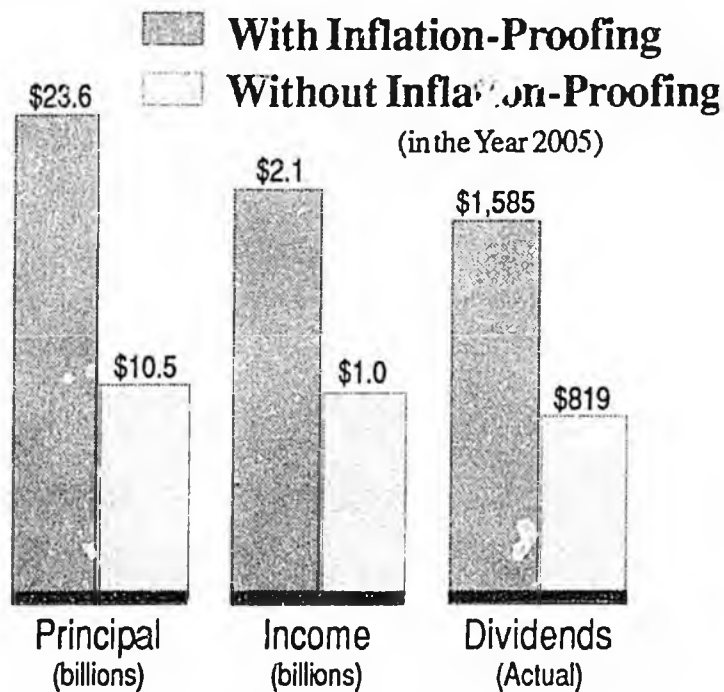
CORRECTION

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

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Town Meetings Scheduled Statewide

The Commission has scheduled town meetings around the state to give as many citizens as possible a chance to express their views.

Anchorage	Saturday, October 14
Anchorage	Saturday, December 9
Barrow	Saturday, October 7
Bethel	Saturday, October 21
Fairbanks	Saturday, November 18
Juneau	Saturday, September 30
Juneau	Saturday, November 25
Kenai	Saturday, November 11
Ketchikan	Saturday, October 28
Nome	Saturday, November 4

Each hearing will be teleconferenced in its region of the state. Members of the public are encouraged to go to their nearest Legislative Information Office.

The Commissioners

*Boucher, "Red"	Representative	561-7624
Burke, Susan	Public Member	586-2777
Faiks, Jan	Senator	561-7610
Frank, Steve	Senator	452-3421
Kelsey, John	Permanent Fund Corp.	835-4337
Malone, Hugh	Commissioner of Revenue	465-2300
Martin, Terry	Representative	561-2035
Parrish, Lance	Public Member	456-4070
Van Amburg, David	Public Member	562-7753
*Chair		

For more information or to send written testimony, write:
Commission on the Future of the Permanent Fund, 3111 C
Street, #445, Anchorage, AK 99503. Or call: 561-3036.



Choices for the Future

What Do You Think?

- Do you believe it is necessary to draft a long term fiscal plan that defines the role of the Permanent Fund in Alaska's economic future?
 Yes No Not Sure

- What role do you think the Permanent Fund should play in Alaska's economic future?

- What do you think is the principal purpose of the Permanent Fund earnings? Please check one.
 Pay Dividends
 Save for a rainy day
 Support government when oil revenues decline
 Help the economy during periods of economic decline
 Do not know
 Other

**We want your opinion!
Survey enclosed**

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