ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

8465 SENATE STATE AFFAIRS

#2

ALASKA PERMANENT FUND
Established 1976

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of February 28, 1993

	GROWTH OF FUND PRINCIPAL						USE OF FUND INCOME							
								Distributions				Reserves		
FY	FY Begin Balance	Appro-priations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall	Net Income	Inflation-Proofing	Dividends	Per Capita Dividends	General Fund	Add (Delete)	FY End Balance	FY
78	0		54		54		2				1			78
79	54		84		139		8				7			79
80	139		344		483		32		12		12			80
81	483	900	385		1,769		150		28		28	59	59	81
82	1,769	800	400		2,969		368		71	$1,000.00	71	185	244	82
83	2,969	400	421	231	4,021		471	231	108	$386.15	110	110	354	83
84	4,021	300	366	151	4,838		530	151	175	$331.29		203	557	84
85	4,838	300	368	235	5,741		658	235	217	$404.00		206	763	85
	5741		323	216	6,281		1,021	216	303	$556.26		501	1,264 **	86
	6,281	1,264 **	170	148	7,864		1,069	148	391	$708.19		529	529	87
	7,864		418	303	8,585		789	303	424	$826.93		62	591	88
89	8,585		228	360	9,173		868	360	480	$873.16	4	44	635	89
90	9,173		267	454	9,894		916	454	487	$952.63	4	(30)	605	90
91	9,894		435	559	10,888		1,030	559	489	$931.34	4	(24)	581	91
92	10,888		338	477	11,703		1,036	477	488	$915.84	5	64	645	92
93	11,703		300	361	12,365		1,129	361	485	$861.00	5	278	923	93
94	12,365		252	568	13,184		1,132	568	491	$850.00		74	996	94
95	13,184		257	605	14,046		1,208	605	458	$771.00		145	1,141	95
96	14,046		272	644	14,963		1,294	644	418	$681.00		231	1,372	96
97	14,963		260	685	15,908		1,390	685	383	$604.00		322	1,694	97
98	15,908		250	970	17,128		1,671	970	338	$514.00		363	2,057	98
99	17,128		237	1,042	18,407		1,819	1,042	361	$537.00		417	2,473	99
0	18,407		219	1,118	19,744		1,978	1,118	388	$566.00		473	2,946	0
1	19,744		203	1,197	21,144		2,148	1,197	420	$601.00		532	3,478	1
2	21,144		192	1,280	22,616		2,329	1,280	456	$641.00		594	4,071	2
3	22,616		178	1,368	24,161		2,523	1,368	503	$697.00		652	4,724	3
4	24,161		165	1,460	25,785		2,730	1,460	555	$755.00		715	5,439	4
5	25,785		149	1,556	27,490		2,950	1,556	611	$816.00		782	6,221	5
6	27,490		132	1,657	29,279		3,183	1,657	672	$886.00		854	7,076	6
7	29,279		117	1,764	31,160		3,432	1,764	736	$957.00		931	8,007	7
8	31,160		107	1,876	33,143		3,696	1,876	806	$1,032.00		1,014	9,021	8
9	33,143		97	1,994	35,234		3,978	1,994	881	$1,111.00		1,103	10,124	9
10	35,234		89	2,119	37,443		4,279	2,119	962	$1,198.00		1,198	11,322	10
Cumulative Totals Projected For FY 1993 - 2010:			3,477	22,263			42,869	22,263	9,924	$14,079	5			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 93:	8.79%	3.01%	5.78%
FY 94 - 97: ***	8.10%	4.50%	3.60%
FY 98 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Spring 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Based on capital market assumptions adopted by the Trustees in March 1992.

SENATE BILL NO. 170

SB170

#3

ALASKA PERMANENT FUND
Established 1976

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of February 28, 1993

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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703		300	361	12,365	
94	12,365		252	505	13,121	
95	13,121		257	535	13,913	
96	13,913		272	567	14,753	
97	14,753		260	601	15,614	
98	15,614		250	635	16,498	
99	16,498		237	669	17,405	
0	17,405		219	705	18,329	
1	18,329		203	741	19,274	
2	19,274		192	779	20,244	
3	20,244		178	817	21,239	
4	21,239		165	856	22,260	
5	22,260		149	896	23,305	
6	23,305		132	938	24,374	
7	24,374		117	980	25,471	
8	25,471		107	1,023	26,601	
9	26,601		97	1,068	27,766	
10	27,766		89	1,114	28,969	
Cumulative Totals Projected For FY 1993 - 2010:			3,477	13,789		

USE OF FUND INCOME

FY	Net Income	Distributions: Dividends	Distributions: Inflation-Proofing	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance
78	2			1		
79	8			7		
80	32	12		12		
81	150	28		28	59	59
82	368	71		71	185	244
83	471	108	231	110	110	354
84	530	175	151		203	557
85	658	217	235		206	763
86	1,021	303	216		501	1,264 **
87	1,069	391	148		529	529
88	789	424	303		62	591
89	868	460	360	4	44	635
90	916	487	454	4	(30)	605
91	1,030	489	559	4	(24)	581
92	1,036	489	477	5	64	645
93	1,129	523	361	5	240	885
94	1,115	549	505		61	946
95	1,183	577	535		71	1,017
96	1,256	600	567		88	1,105
97	1,332	632	601		100	1,205
98	1,412	661	635		116	1,321
99	1,495	701	669		124	1,446
0	1,580	743	705		132	1,578
1	1,667	786	741		140	1,718
2	1,757	831	779		148	1,866
3	1,850	877	817		156	2,022
4	1,945	924	856		165	2,187
5	2,044	973	896		175	2,362
6	2,144	1,023	938		184	2,546
7	2,248	1,074	980		194	2,740
8	2,355	1,127	1,023		205	2,945
9	2,466	1,182	1,068		216	3,161
10	2,581	1,239	1,114		228	3,390
Cumulative	31,560	15,021	13,789	5		

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 93:	8.79%	3.01%	5.78%
FY 94 - 97:	8.00%	4.00%	4.00%
FY 98 - 2010:	8.00%	4.00%	4.00%

* Department of Revenue Spring 1993 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

STATUS QUO BUT ASSUMES AN 8% RATE OF RETURN AND A 4% RATE OF INFLATION FOR ALL FISCAL YEARS AFTER FY 93.

#4

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of February 28, 1993

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	
78	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	368	151	4,838	
85	4,838	300	368	235	5,741	
	5741		323	216	6,281	
	6,281	1,264 **	170	148	7,864	
[illegible]	7,864		418	303	8,585	
89	8,585		226	360	9,173	
90	9,173		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703		300	361	12,365	
94	12,365		252	505	13,121	
95	13,121		257	535	13,913	
96	13,913		272	567	14,753	
97	14,753		260	601	15,614	
98	15,614		250	635	16,498	
99	16,498		237	669	17,405	
0	17,405		219	705	18,329	
1	18,329		203	741	19,274	
2	19,274		192	779	20,244	
3	20,244		178	817	21,239	
4	21,239		165	856	22,260	
5	22,260		149	896	23,305	
6	23,305		132	938	24,374	
7	24,374		117	960	25,471	
8	25,471		107	1,023	26,601	
9	26,601		97	1,068	27,766	
10	27,765		89	1,114	28,969	
Cumulative Totals Projected For FY 1993 - 2010:			3,477	13,789		

USE OF FUND INCOME

Net Income	Distributions: Inflation-Proofing	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance	FY
2				1			78
6				7			79
32		12		12			80
150		28		28	59	59	81
368		71	$1,000.00	71	185	244	82
471	231	108	$386.15	110	110	354	83
530	151	175	$331.29		203	557	84
658	235	217	$404.00		206	763	85
1,021	216	303	$556.26		501	1,264 **	86
1,069	148	391	$708.19		529	529	87
789	303	424	$826.93		62	591	88
858	360	460	$873.16	4	44	635	89
916	454	487	$952.63	4	(30)	605	90
1,030	559	489	$931.34	4	(24)	581	91
1,036	477	488	$915.84	5	64	645	92
1,129	361	485	$861.00	5	278	923	93
1,118	505	496	$859.00		117	1,040	94
1,191	535	469	$790.00		187	1,227	95
1,273	567	435	$710.00		271	1,498	96
1,365	601	406	$643.00		359	1,856	97
1,466	635	375	$575.00		457	2,313	98
1,578	669	406	$611.00		502	2,615	99
1,694	705	441	$651.00		548	3,363	0
1,816	741	480	$694.00		595	3,959	1
1,944	779	522	$741.00		644	4,602	2
2,078	617	567	$791.00		694	5,296	3
2,218	856	615	$842.00		748	6,044	4
2,365	896	665	$895.00		804	6,848	5
2,518	838	718	$951.00		863	7,710	6
2,679	980	774	$1,008.00		925	8,635	7
2,847	1,023	833	$1,068.00		991	9,626	8
3,023	1,068	895	$1,130.00		1,060	10,688	9
3,208	1,114	961	$1,195.00		1,133	11,818	10
35,509	13,789	10,541	$15,015	5			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 93:	8.79%	3.01%	5.78%
FY 94 - 97:	8.00%	4.00%	4.00%
FY 98 - 2010:	8.00%	4.00%	4.00%

* Department of Revenue Spring 1993 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

SENATE BILL NO. 170, BUT ASSUMES AN 8% RATE OF RETURN AND A 4% RATE OF INFLATION FOR ALL FISCAL YEARS AFTER FY 93.

SB170

11

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	**12,385**	**5**	**209**	**376**	**12,975**	
95	12,975	6	209	528	13,720	
96	13,720	9	214	558	14,500	
97	14,500	10	221	589	15,320	
98	15,320	10	230	622	16,183	
99	16,183	11	222	657	17,073	
0	17,073	12	204	692	17,980	
1	17,980	13	189	727	18,909	
2	18,909	14	177	764	18,864	
3	19,664	15	165	802	20,846	
4	20,846	16	153	841	21,855	
5	21,855	17	139	881	22,892	
6	22,892	18	126	922	23,958	
7	23,958	20	115	964	25,056	
8	25,056	21	106	1,007	26,191	
9	26,191	23	96	1,052	27,363	
10	27,363	24	90	1,099	23,577	
Cumulative Totals Projected For FY 1994 - 2010:			2,777	13,079		

USE OF FUND INCOME

Net Income	Distributions: Inflation-Proofing	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance	FY
2				1			78
8				7			79
32		12		12			80
150		28		28	69	59	81
368		71	$1,000.00	71	185	244	82
471	231	108	$386.15	110	110	354	83
530	151	175	$331.29		203	557	84
658	235	217	$404.00		206	763	85
1,021	216	303	$556.26		501	1,264 **	86
1,059	148	391	$708.19		529	529	87
789	303	424	$826.93		62	591	88
868	360	450	$873.16	4	44	635	89
916	454	487	$952.63	4	(30)	605	90
1,030	559	489	$931.34	4	(24)	581	91
1,036	477	488	$915.84	5	64	645	92
1,226	362	532	$949.46	5	320	965	93
1,051	**376**	**553**	**$964.00**	**5**	**122**	**1,087**	**94**
1,702	528	581	$989.00	585		1,087	95
1,792	558	602	$1,002.00	623		1,087	96
1,866	589	629	$1,022.00	658		1,067	97
1,985	622	644	$1,022.00	709		1,087	98
2,088	657	683	$1,060.00	738		1,087	99
2,194	692	717	$1,083.00	774		1,087	0
2,302	727	753	$1,117.00	809		1,087	1
2,413	764	790	$1,147.00	846		1,087	2
2,527	802	828	$1,178.00	883		1,067	3
2,644	841	867	$1,208.00	921		1,067	4
2,765	881	807	$1,239.00	960		1,087	5
2,989	922	948	$1,272.00	1,001		1,087	6
3,016	964	991	$1,305.00	1,042		1,067	7
3,149	1,007	1,034	$1,338.00	1,085		1,087	8
3,283	1,052	1,079	$1,372.00	1,129		1,087	9
3,424	1,099	1,125	$1,408.00	1,175		1,087	10
41,120	13,078	13,726	$19,732	13,944			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98: ****	11.33%	4.00%	7.33%
FY 96 - 2010:	11.33%	4.00%	7.33%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987
*** Transferred to principal from earnings reserve account per AS 37.13.145(d)
**** Based on capital market assumptions adopted by the Trustees in April 1993

SENATE BILL 170, BUT ASSUMES A 11.33% RATE OF RETURN AND 4% INFLATION AFTER FY 1994, AND ALL REMAINING EARNINGS TO GENERAL FUND

Alaska Permanent Fund Corporation
P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

January 13, 1994

Senator Randy Phillips
Legislative Budget & Audit Committee, Chairman
State Capitol Building, Room 103
Juneau, AK 99801-1182

Dear Senator Phillips:

Thank you for providing us with Ibbotson's report on the asset allocation of the Alaska Permanent Fund Corporation (APFC). We are pleased to provide this initial response to the report. Communication on this issue will continue as the board commences its annual review of APFC's asset allocation at the February 3 meeting in Juneau.

Since April 1993, the APFC has been involved with a significant portfolio restructuring program under the direction of the Board of Trustees. Upon completion, the APFC will place significantly less emphasis on passive investment and more on active management of the equity securities portfolio. This program has been undertaken with our investment consultant, Callan Associates, Inc. (Callan), providing recommendations and advice at each step of the program. Once completed, a number of the issues mentioned in the Ibbotson Associates Asset Allocation study will have been addressed.

After reading the Ibbotson report, Callan made the following observations:

1. Recent performance has been good because the board and staff have done a good job of adopting sound strategic allocation policies and employing good managers.

2. Movement toward current strategic targets at an accelerated pace may be particularly important since much of the strong performance over the past several years is attributable to extraordinary bond returns which are unlikely to continue given the current low level of interest rates. Obviously, we all agree with this

assessment and you, through significant funding of global portfolios in recent months, have already essentially reached the strategic target allocations.

3. Diversification within the domestic equity portfolio could be improved with a greater commitment to the small and mid-cap sector. Callan shares this view and your staff recognizes the under-representation in this area and plans to address it through the hiring of two small/mid-cap domestic equity managers in the first half of 1994.

4. Diversification within the fixed-income portfolio could be improved with explicit allocations to major segments such as mortgages. As discussed at length at our recent meeting, the effects of statutory limitations on fixed-income management must be carefully considered. The use of derivative securities, lower-rated bonds and non-US$ denominated bonds are all influenced by current (statutory) restrictions. In addition, managing liquidity to meet annual dividend requirements is increasingly affecting the fixed-income portfolio. Nonetheless, broader diversification of the fixed-income effort warrants further discussion and already has been scheduled for the upcoming board meeting. As an aside, I was pleased to see that Ibbotson recognized the fee savings and good performance that has been achieved to date. It also is important to note that at least over the past several years an allocation to mortgages would have hindered performance.

5. Ibbotson's expected equity returns are extraordinarily high relative to the firm's expected bond returns. While I sincerely hope that they are correct, the very large premiums and the high absolute levels may result in an underestimation of near-term risk associated with more aggressive strategies. Relatedly, we, staff and the board have all acknowledged that heavier equity commitment would result in greater expected returns over the long run but we all also recognize that shorter-term consistency in returns is particularly important to the Fund since the annual dividend is potentially at issue. Finally, it is important to note that the "aggressive" alternative suggested results in full utilization of the statutory equity maximum of 50%.

6. Ibbotson very clearly advises that the board control asset allocation at a more micro level than it has in the past. Specially, the study advises that the board set specific allocations within the fixed-income and domestic equity areas and make extensive use of specialists in the international area. The directions suggested are contrary to the board's movement toward providing less restrictive guidelines to its managers, particularly the global managers. I think that this is an important issue that already has been discussed at length during 1993 and warrants continued close monitoring

> and review as we gain experience with the current structure. My current view is that the board's basic asset allocation plan, while theoretically vulnerable to the actions of the managers, will not be adversely affected. Each manager has indicated that it is highly unlikely that they would make sudden dramatic shifts from domestic to international portfolios. We, therefore, will be able to identify any potential problem before it undermines the program. You are continuing to use some specialists internationally and are planning to add specialists in domestic mid-cap securities. In sum, Ibbotson's management structure comments are important and I agree that the structure, particularly the domestic structure, should be on the board's agenda for 1994.

The staff of the APFC agree with Callan's remarks. Should the Legislative Budget & Audit Committee (LB&A) like to discuss in greater detail these conclusions, we recommend that myself and a representative of Callan Associates, Inc. be invited to appear before the Committee. The APFC would be pleased to make the necessary arrangements.

We would like to express our appreciation for LB&A's efforts and those of Ibbotson in conducting this review. It is always helpful to receive more than one independent view of this most important subject of asset allocation. In addition, we would be pleased to have Ibbotson present their report to the Board of Trustees at its meeting on February 3, 1994 at the APFC offices in Juneau.

Sincerely,

William H. Scott

William H. Scott
Executive Director

Alaska State Senate

SENATOR STEVE RIEGER
District I

Senate Finance Committee
Chair, Senate Health, Education and Social Services Committee
Vice Chair, Senate Rules Committee
Vice Chair, Senate Labor and Commerce Committee

State Capitol
Room 516
Juneau, Alaska 99801
(907) 465-3879

PERMANENT FUND PROJECTIONS:

The attached projections from the Alaska Permanent Fund Corporation show the effect of different earnings assumptions on the size of the Permanent Fund, as well as the amount of each year's earnings and transfers to the dividend fund, through the Year 2000. It should be pointed out that these forecasts are still in a nominal-earnings format, even though they are correctly calculated as if SB 170 is in effect.

Most of the forecasts provided by the Permanent Fund Corporation are based on recent investment performance and long-standing assumptions which the Corporation has used regarding nominal earnings and inflation. The forecasts were also done under two different assumptions: in one case the amount of real earnings which are not paid out in dividends is invested in the PFER; in the other case the amount not paid out is transferred to the general fund.

At my request, the Permanent Fund Corporation also did three additional runs, which reflect the higher earnings assumptions suggested in the Ibbotson Associates' report (enclosed). The Ibbotson report was commissioned by the Legislative Budget & Audit Committee late last year and received in January 1994. This report shows the expected average annual return (9.33%) on the Permanent Fund once the Permanent Fund reaches its target portfolio, which is higher-yielding than its present portfolio because of a greater amount of assets invested in higher-yielding securities. The report also suggests two different asset allocations, which yield higher returns of 10.31% and 11.33% respectively. It should be pointed out that these returns are from Ibbotson, and not necessarily agreed to by the Permanent Fund Corporation.

Alaska Permanent Fund Corporation
P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: January 20, 1994

TO: Senator Steve Reiger

FROM: Jim Kelly JK
Research & Liaison Officer

SUBJECT: **Analysis of Senate Bill No. 170**

Per your request, the Alaska Permanent Fund Corporation has updated our previous analysis of Senate Bill No. 170. Please note, however, that there are eight financial projections attached as part of this analysis as well as a copy of the population projections used to calculate per capita dividends. **Note**: The model takes the July 1 population numbers (with a one-year lag to allow for the one-year residency requirement)—then multiplies by 90 percent (based on 1992 actual experience) to arrive at an approximation of future eligible Permanent Fund dividend applicants.

The additional financial projections are included to provide a more complete perspective on the possible outcomes of passage of SB 170.

Four Variations on the Status Quo

Financial Projection #1: This is the status quo case (with per capita dividends) as of November 30, 1993. It provides the benchmark against which to compare and contrast any changes to current law.

Financial Projection #2: This is the same as the status quo case except this projection assumes for all years after fiscal 1994 that all income remaining after dividends and inflation-proofing is appropriated to the General Fund.

Financial Projection #3: This is the same as the status quo case (Financial Projection #1) except the rate of return for all years after fiscal 1994 is 8.37 percent and the inflation rate is 4 percent.

Financial Projection #4: This is the same as Financial Projection #3, that is, the rate of return for all years after fiscal 1994 is 8.37 percent and the inflation rate is 4 percent, but it also assumes that all income remaining after dividends and inflation-proofing is appropriated to the General Fund.

Four Variations on Senate Bill No. 170

Financial Projection #5: This is the projection based on SB 170 as written (assuming an effective date of July 1, 1994), which makes the following changes to the status quo: (1) inflation-proofing is treated as a return of capital to Fund principal and is given first priority over any other use of what has historically been called net income; (2) a new accounting treatment for Fund income is established: "real income", which equals net income minus inflation-proofing; and (3) real income is used to compute each year's dividend distribution – except during a transitional period in fiscal years 95-99 in which net income is used instead of real income for the years in which real income was not calculated.

Financial Projection #6: This is the same as Financial Projection #5, except that like Financial Projection #2, this projection assumes for all years after fiscal 1994 that all income remaining after dividends and inflation-proofing is appropriated to the General Fund.

Financial Projection #7: This is the same as Financial Projection #5, except that like Financial Projection #3, this projection assumes that the rate of return for all years after fiscal 1994 is 8.37 percent and the inflation rate is 4 percent.

Financial Projection #8: This is the same as Financial Projection #6, that is, SB 170 with a rate of return for all years after fiscal 1994 of 8.37 percent and an inflation rate of 4 percent, but it also assumes that all income remaining after dividends and inflation-proofing is appropriated to the General Fund.

For Your Information: These projections are based on 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 listed at the bottom of each projection sheet, and 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 three percent per year after inflation; long-term inflation is projected to average six percent per year; and the assumptions for future dedicated State oil revenues are taken from the Department of Revenue's most recent "low-case" forecast. The population assumptions used in the computation of future per capita dividend payments are derived from the Middle Series of the Department of Labor's "Population Projections" dated November 1991.

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.

#1

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	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	5741		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		267	454	9,894	
91	9,894		435	559	10.888	
92	10,888		338	477	11,703	
93	11.703	5 ***	315	362	12.385	
94	**12,385**	**5**	**209**	**376**	**12,975**	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	4	222	984	17,375	
0	17,375	4	204	1,055	18,638	
1	18,638	4	189	1,130	19,961	
2	19,961	4	177	1,209	21,351	
3	21,351	5	165	1,291	22,812	
4	22,812	5	153	1,378	24,348	
5	24,348	5	139	1,470	25,962	
6	25,962	5	126	1,566	27,658	
7	27,658	5	115	1,667	29,445	
8	29,445	5	106	1,763	31,320	10
9	31,320	5	98	1,549	32,972	336
10	32,972	6	90	1,629	34.696	355
Cumulative Totals Projected For FY1994-2010		[illegible]	2,772	19,360		702

USE OF FUND INCOME

		Distributions				Reserves		
FY	Net Income	Dividends	Per Capita Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	FY
78	2				1			78
79	8				7			79
80	32	12			12			80
81	150	28			28	59	59	81
82	368	71	$1,000.00		71	185	244	82
83	471	108	$386.15	231	110	110	354	83
84	530	175	$331.29	151		203	557	84
85	658	217	$404.00	235		206	763	85
86	1,021	303	$556.26	216		501	1,264 **	86
87	1,069	391	$708.19	148		529	529	87
88	789	424	$826.93	303		62	591	88
89	868	460	$873.16	360	4	44	635	89
90	916	487	$952.63	454	4	(30)	605	90
91	1,030	489	$931.34	559	4	(24)	581	91
92	1,036	488	$915.84	477	5	64	645	92
93	1.226	532	$949.46	362	5	320	965	93
94	**1,061**	**553**	**$964.00**	**376**	**—**	**127**	**1,092**	**94**
95	1,238	587	$1,001.00	528		118	1,211	95
96	1,314	617	$1,028.00	557		134	1,345	96
97	1,393	654	$1,065.00	589		145	1,489	97
98	1,478	681	$1,084.00	622		169	1,659	98
99	1,690	747	$1,165.00	984		(44)	1,615	99
0	1,799	806	$1,230.00	1,055		(66)	1,549	0
1	1,912	869	$1,297.00	1,130		(91)	1,458	1
2	2,027	935	$1,368.00	1,209		(121)	1,337	2
3	2,146	1,005	$1,441.00	1,291		(155)	1,182	3
4	2,269	1,066	$1,498.00	1,378		(180)	1,002	4
5	2,396	1,129	$1,555.00	1,470		(207)	794	5
6	2,528	1,193	$1,614.00	1,566		(236)	558	6
7	2,665	1,260	$1,675.00	1,667		(267)	291	7
8	2,808	1,330	$1,736.00	1,763		(291)		8
9	2,956	1,402	$1,799.00	1,549				9
10	3.112	1,477	$1,866.00	1,629				10
	34,792	16,312	$23,386	19,360				

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98: ****	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Transferred to principal from earnings reserve account per AS 37.13.145(d).
**** Based on capital market assumptions adopted by the Trustees in April 1993.

STATUS QUO WITH PER CAPITA DIVIDENDS

#2

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	**12,385**	**5**	**209**	**376**	**12,975**	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	4	222	984	17,375	
0	17,375	4	204	1,055	18,638	
1	18,638	4	189	1,130	19,961	
2	19,961	4	177	1,209	21,351	
3	21,351	5	165	1,291	22,812	
4	22,812	5	153	1,378	24,348	
5	24,348	5	139	1,433	25,925	37
6	25,925	5	126	1,288	27,344	275
7	27,344	5	115	1,356	28,821	291
8	28,821	5	106	1,427	30,360	308
9	30,360	5	98	1,502	31,965	326
10	31,965	6	90	1,579	33,640	344
Cumulative Totals Projected For FY 1994-2010			2,777	18,304		1,582

USE OF FUND INCOME

FY	Net Income	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: Inflation-Proofing	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance	FY
78	2				1			78
79	8				7			79
80	32	12			12			80
81	150	28			28	59	59	81
82	368	71	$1,000.00		71	185	244	82
83	471	108	$386.15	231	110	110	354	83
84	530	175	$331.29	151		203	557	84
85	658	217	$404.00	235		206	763	85
86	1,021	303	$556.26	216		501	1,264 **	86
87	1,069	391	$708.19	148		529	529	87
88	789	424	$826.93	303		62	591	88
89	868	460	$873.16	360	4	44	635	89
90	916	487	$952.63	454	4	(30)	605	90
91	1,030	489	$931.34	559	4	(24)	581	91
92	1,036	488	$915.84	477	5	64	645	92
93	1,226	532	$949.46	362	5	320	965	93
94	**1,061**	**553**	**$964.00**	**376**	**—**	**127**	**1,092**	**94**
95	1,238	587	$1,001.00	528	118		1,092	95
96	1,303	616	$1,026.00	557	125		1,092	96
97	1,371	651	$1,060.00	589	126		1,092	97
98	1,443	674	$1,072.00	622	142		1,092	98
99	1,637	734	$1,144.00	984		(85)	1,008	99
0	1,742	787	$1,200.00	1,055		(104)	903	0
1	1,851	845	$1,260.00	1,130		(128)	775	1
2	1,963	907	$1,325.00	1,209		(157)	618	2
3	2,078	974	$1,394.00	1,291		(191)	427	3
4	2,198	1,032	$1,449.00	1,378		(218)	210	4
5	2,321	1,093	$1,504.00	1,433		(210)		5
6	2,449	1,156	$1,562.00	1,288				6
7	2,583	1,221	$1,621.00	1,356				7
8	2,721	1,289	$1,681.00	1,427				8
9	2,866	1,359	$1,742.00	1,502				9
10	3,017	1,432	$1,807.00	1,579				10
	33,843	15,909	$22,812	18,304	511			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98: ****	8.37%	4.00%	4.37%
FY 99 - 2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1993.

STATUS QUO WITH PER CAPITA DIVIDENDS,
EXCEPT ALL REMAINING INCOME TO GENERAL FUND

#3

Alaska Permanent Fund — Established 1976

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11.703	5 ***	315	362	12.385	
94	12,385	5	209	376	12,975	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	6	222	656	17,049	
0	17,049	6	204	690	17,950	
1	17,950	6	189	726	18,871	
2	18,871	7	177	762	19,816	
3	19,816	7	165	800	20,788	
4	20,788	7	153	838	21,787	
5	21,787	8	139	877	22,811	
6	22,811	8	126	918	23,863	
7	23,863	8	115	960	24,946	
8	24,946	9	106	1,002	26,063	
9	26,063	9	98	1,047	27,217	
10	27.217	10	90	1.093	28.409	
Cumulative Totals Projected For FY 1994 - 2010		[illegible]	2,777	13,039		

USE OF FUND INCOME

Net Income	Distributions: Dividends	Per Capita Dividends	Inflation-Proofing	General Fund	Reserves: Add (Delete)	FY End Balance	FY
2				1			78
8				7			79
32	12			12			80
150	28			28	59	59	81
368	71	$1,000.00		71	185	244	82
471	108	$386.15	231	110	110	354	83
530	175	$331.29	151		203	557	84
658	217	$404.00	235		206	763	85
1,021	303	$556.26	216		501	1,264 **	86
1,069	391	$708.19	148		529	529	87
789	424	$826.93	303		62	591	88
868	460	$873.16	360	4	44	635	89
916	487	$952.63	454	4	(30)	605	90
1,030	489	$931.34	559	4	(24)	581	91
1,036	488	$915.84	477	5	64	645	92
1.226	532	$949.46	362	5	320	965	93
1,061	553	$964.00	376	~~5~~	122	1,087	94
1,238	587	$1,001.00	528		118	1,205	95
1,313	617	$1,028.00	557		134	1,339	96
1,393	654	$1,065.00	589		144	1,483	97
1,477	681	$1,084.00	622		169	1,652	98
1,567	734	$1,143.00	656		171	1,824	99
1,658	778	$1,186.00	690		183	2,007	0
1,752	824	$1,227.00	726		196	2,203	1
1,849	872	$1,272.00	762		208	2,411	2
1,949	921	$1,317.00	800		221	2,632	3
2,053	972	$1,362.00	838		235	2,867	4
2,160	1,025	$1,407.00	877		250	3,117	5
2,271	1,080	$1,455.00	918		265	3,383	6
2,386	1,136	$1,504.00	960		282	3,664	7
2,504	1,194	$1,554.00	1,002		299	3,963	8
2,628	1,255	$1,604.00	1,047		317	4,280	9
2.756	1,317	$1,658.00	1.093		336	4.617	10
32,014	15,199	$21,831	13,039	5			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94	7.71%	2.98%	4.73%
FY 95 - 98 ****	8.37%	4.00%	4.37%
FY 99 - 2010	8.37%	4.00%	4.37%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Transferred to principal from earnings reserve account per AS 37.13.145(c).
**** Based on capital market assumptions adopted by the Trustees in April 1993.
STATUS QUO BUT ASSUMES AN 8.37% RATE OF RETURN AND 4% INFLATION, FOR ALL YEARS AFTER FISCAL 1994

#4

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	**12,385**	**5**	**209**	**376**	**12,975**	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	6	222	656	17,049	
0	17,049	6	204	690	17,950	
1	17,950	6	189	726	18,871	
2	18,871	7	177	762	19,816	
3	19,816	7	165	800	20,788	
4	20,788	7	153	838	21,787	
5	21,787	8	139	877	22,811	
6	22,811	8	126	918	23,863	
7	23,863	8	115	960	24,946	
8	24,946	9	106	1,002	26,063	
9	26,063	9	98	1,047	27,217	
10	27,217	10	90	1,093	28,409	
Cumulative Totals Projected: For FY 1994-2010			2,777	13,039		

USE OF FUND INCOME

		Distributions				Reserves		
FY	Net Income	Dividends	Per Capita Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	FY
78	2				1			78
79	8				7			79
80	32	12			12			80
81	150	28			28	59	59	81
82	368	71	$1,000.00		71	185	244	82
83	471	108	$386.15	231	110	110	354	83
84	530	175	$331.29	151		203	557	84
85	658	217	$404.00	235		206	763	85
86	1,021	303	$556.26	216		501	1,264 **	86
87	1,069	391	$708.19	148		529	529	87
88	789	424	$826.93	303		62	591	88
89	868	460	$873.16	360	4	44	635	89
90	916	487	$952.63	454	4	(30)	605	90
91	1,030	489	$931.34	559	4	(24)	581	91
92	1,036	488	$915.84	477	5	64	645	92
93	1,226	532	$949.46	362	5	320	965	93
94	**1,061**	**553**	**$964.00**	**376**	**5**	**122**	**1,087**	**94**
95	1,238	587	$1,001.00	528	118		1,087	95
96	1,303	616	$1,026.00	557	124		1,087	96
97	1,371	651	$1,059.00	589	126		1,087	97
98	1,443	674	$1,072.00	622	141		1,087	98
99	1,517	722	$1,123.00	656	134		1,087	99
0	1,594	759	$1,155.00	690	138		1,087	0
1	1,672	798	$1,187.00	726	142		1,087	1
2	1,752	838	$1,220.00	762	145		1,087	2
3	1,834	879	$1,253.00	800	148		1,087	3
4	1,918	921	$1,287.00	838	152		1,087	4
5	2,005	964	$1,320.00	877	156		1,087	5
6	2,094	1,008	$1,356.00	918	160		1,087	6
7	2,185	1,054	$1,391.00	960	164		1,087	7
8	2,279	1,100	$1,428.00	1,002	168		1,087	8
9	2,376	1,149	$1,464.00	1,047	172		1,087	9
10	2,477	1,198	$1,503.00	1,093	176		1,087	10
	30,116	14,468	$20,809	13,039	2,368			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98: ****	8.37%	4.00%	4.37%
FY 99 - 2010:	8.37%	4.00%	4.37%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1993.

STATUS QUO BUT ASSUMES AN 8.37% RATE OF RETURN AND 4% INFLATION, AND ALL REMAINING INCOME TO GENERAL FUND

#5

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	209	376	12,975	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	4	222	984	17,375	
0	17,375	4	204	1,055	18,638	
1	18,638	4	189	1,130	19,961	
2	19,961	4	177	1,209	21,351	
3	21,351	5	165	1,291	22,812	
4	22,812	5	153	1,378	24,348	
5	24,348	5	139	1,470	25,962	
6	25,962	5	126	1,566	27,658	
7	27,658	5	115	1,667	29,445	
8	29,445	5	106	1,773	31,330	
9	31,330	5	98	1,886	33,319	
10	33,319	6	90	2,005	35,420	
Cumulative Totals Projected For FY 1994–2010		[illegible]	2,777	20,084		

USE OF FUND INCOME

FY	Net Income	Distributions: Inflation-Proofing	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance	FY
78	2				1			78
79	8				7			79
80	32		12		12			80
81	150		28		28	59	59	81
82	368		71	$1,000.00	71	185	244	82
83	471	231	108	$386.15	110	110	354	83
84	530	151	175	$331.29		203	557	84
85	658	235	217	$404.00		206	763	85
86	1,021	216	303	$556.26		501	1,264 **	86
87	1,069	148	391	$708.19		529	529	87
88	789	303	424	$826.93		62	591	88
89	868	360	460	$873.16	4	44	635	89
90	916	454	487	$952.63	4	(30)	605	90
91	1,030	559	489	$931.34	4	(24)	581	91
92	1,036	477	488	$915.84	5	64	645	92
93	1,225	362	532	$949.46	5	320	965	93
94	1,061	376	553	$964.00	5	122	1,007	94
95	1,238	528	532	$902.00		173	1,261	95
96	1,318	557	503	$830.00		252	1,513	96
97	1,408	589	481	$770.00		333	1,846	97
98	1,509	622	445	$692.00		436	2,282	98
99	1,749	984	414	$624.00		348	2,630	99
0	1,895	1,055	428	$630.00		408	3,038	0
1	2,052	1,130	445	$640.00		473	3,511	1
2	2,221	1,209	465	$655.00		543	4,054	2
3	2,402	1,291	488	$674.00		618	4,672	3
4	2,598	1,378	536	$728.00		679	5,351	4
5	2,806	1,470	588	$786.00		743	6,094	5
6	3,027	1,566	645	$848.00		812	6,906	6
7	3,263	1,667	706	$915.00		885	7,791	7
8	3,514	1,773	772	$986.00		963	8,754	8
9	3,782	1,886	843	$1,061.00		1,048	9,802	9
10	4,068	2,005	920	$1,141.00		1,138	10,940	10
Totals FY 1994–2010	39,918	20,084	9,763	$13,846	5[illegible]	[illegible]		

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95–98: ****	8.37%	4.00%	4.37%
FY 99–2010:	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Transferred to principal from earnings reserve account per AS 37.13.145(d).
**** Based on capital market assumptions adopted by the Trustees in April 1993.

SENATE BILL 170

#6

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

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	5741		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		267	454	9,394	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	209	376	12,975	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	4	222	984	17,375	
0	17,375	4	204	1,055	18,638	
1	18,638	4	189	1,130	19,961	
2	19,961	4	177	1,209	21,351	
3	21,351	5	165	1,291	22,812	
4	22,812	5	153	1,378	24,348	
5	24,348	5	139	1,470	25,962	
6	25,962	5	126	1,566	27,658	
7	27,658	5	115	1,667	29,445	
8	29,445	5	106	1,773	31,330	
9	31,330	5	98	1,886	33,319	
10	33,319	6	90	2,005	35,420	
Cumulative Totals Projected For FY 1994 - 2010			2,777	20,084		

USE OF FUND INCOME

FY	Net Income	Distributions: Inflation-Proofing	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance
78	2				1		
79	8				7		
80	32		12		12		
81	150		28		28	59	59
82	368		71	$1,000.00	71	185	244
83	471	231	108	$386.15	110	110	354
84	530	151	175	$331.29		203	557
85	658	235	217	$404.00		206	763
86	1,021	216	303	$556.26		501	1,264 **
87	1,069	148	391	$708.19		529	529
88	789	303	424	$826.93		62	591
89	868	360	460	$873.16	4	44	635
90	916	454	487	$952.63	4	(30)	605
91	1,030	559	489	$931.34	4	(24)	581
92	1,030	477	488	$915.84	5	64	645
93	1,226	362	532	$949.46	5	320	965
94	1,061	376	553	$964.00	5	122	1,087
95	1,238	528	532	$902.00	173		1,087
96	1,303	557	502	$827.00	238		1,087
97	1,371	589	475	$760.00	302		1,087
98	1,443	622	433	$671.00	382		1,087
99	1,637	984	390	$584.00	259		1,087
0	1,750	1,055	388	$567.00	302		1,087
1	1,868	1,130	387	$551.00	346		1,087
2	1,992	1,209	388	$538.00	392		1,087
3	2,123	1,291	389	$526.00	438		1,087
4	2,260	1,378	413	$549.00	464		1,087
5	2,404	1,470	438	$572.00	492		1,087
6	2,555	1,566	464	$596.00	520		1,087
7	2,715	1,667	492	$622.00	551		1,087
8	2,883	1,773	521	$648.00	583		1,087
9	3,060	1,886	552	$676.00	617		1,087
10	3,247	2,005	584	$705.00	652		1,087
Cumulative Totals Projected For FY 1994 - 2010	34,908	20,084	7,899	$11,258	6,718		

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94	7.71%	2.98%	4.73%
FY 95 - 98 ****	8.37%	4.00%	4.37%
FY 99 - 2010	9.00%	6.00%	3.00%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Transferred to principal from earnings reserve account per AS 37.13.145(d).
**** Based on capital market assumptions adopted by the Trustees in April 1993.

SENATE BILL 170 EXCEPT ALL REMAINING EARNINGS TO GENERAL FUND

#7

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	209	376	12,975	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	6	222	656	17,049	
0	17,049	6	204	690	17,950	
1	17,950	6	189	726	18,871	
2	18,871	7	177	762	19,816	
3	19,816	7	165	800	20,788	
4	20,788	7	153	838	21,787	
5	21,787	8	139	877	22,811	
6	22,811	8	126	918	23,863	
7	23,863	8	115	960	24,946	
8	24,946	9	106	1,002	26,063	
9	26,063	9	98	1,047	27,217	
10	27,217	10	90	1,093	28,409	
Cumulative Totals Projected For FYs 1994-2010			2,777	13,039		

USE OF FUND INCOME

		Distributions				Reserves		
	Net Income	Inflation-Proofing	Dividends	Per Capita Dividends	General Fund	Add (Delete)	FY End Balance	FY
	2				1			78
	8				7			79
	32		12		12			80
	150		28		28	59	59	81
	368		71	$1,000.00	71	185	244	82
	471	231	108	$386.15	110	110	354	83
	530	151	175	$331.29		203	557	84
	658	235	217	$404.00		206	763	85
	1,021	216	303	$556.26		501	1,264 **	86
	1,069	148	391	$708.19		529	529	87
	789	303	424	$826.93		62	591	88
	868	360	460	$873.16	4	44	635	89
	916	454	487	$952.63	4	(30)	605	90
	1,030	559	489	$931.34	4	(24)	581	91
	1,036	477	488	$915.84	5	64	645	92
	1,226	362	532	$949.46	5	320	965	93
	1,061	376	553	$964.00	5	122	1,087	94
	1,238	528	532	$902.00		173	1,261	95
	1,318	557	503	$830.00		252	1,513	96
	1,408	589	481	$770.00		333	1,846	97
	1,509	622	445	$692.00		436	2,282	98
	1,622	656	435	$658.00		525	2,807	99
	1,744	690	471	$[illegible]99.00		576	3,383	0
	1,872	726	512	$7[illegible]3.00		628	4,012	1
	2,007	762	556	$793.00		682	4,693	2
	2,149	800	605	$847.00		737	5,430	3
	2,297	838	657	$903.00		796	6,226	4
	2,454	877	711	$961.00		857	7,083	5
	2,617	918	770	$1,023.00		922	8,005	6
	2,789	960	831	$1,086.00		990	8,995	7
	2,970	1,002	896	$1,152.00		1,063	10,058	8
	3,160	1,047	965	$1,221.00		1,140	11,198	9
	3,360	1,093	1,037	$1,294.00		1,221	12,419	10
	35,574	13,039	10,958	$15,538	5			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95-98: ****	8.37%	4.00%	4.37%
FY 99-2010:	8.37%	4.00%	4.37%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1993.

SENATE BILL 170, BUT ASSUMES AN 8.37% RATE OF RETURN AND A 4% RATE OF INFLATION FOR ALL FISCAL YEARS AFTER FY 1994

#3

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

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	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	209	376	12,975	
95	12,975	5	209	528	13,717	
96	13,717	5	214	557	14,493	
97	14,493	5	221	589	15,308	
98	15,308	6	230	622	16,166	
99	16,166	6	222	656	17,049	
0	17,049	6	204	690	17,950	
1	17,950	6	189	726	18,871	
2	18,871	7	177	762	19,816	
3	19,816	7	165	800	20,788	
4	20,788	7	153	838	21,787	
5	21,787	8	139	877	22,811	
6	22,811	8	126	918	23,863	
7	23,863	8	115	960	24,946	
8	24,946	9	106	1,002	26,063	
9	26,063	0	98	1,047	27,217	
10	27,217	10	90	1,093	28,409	
Cumulative Totals Projected For FY 1994-2010		[illegible]	2,777	13,039		

USE OF FUND INCOME

		Distributions				Reserves		
Net Income	Inflation-Proofing	Dividends	Per Capita Dividends	General Fund	Add (Delete)	FY End Balance	FY
2				1			78
8				7			79
32		12		12			80
150		28		28	59	59	81
368		71	$1,000.00	71	185	244	82
471	231	108	$386.15	110	110	354	83
530	151	175	$331.29		203	557	84
658	235	217	$404.00		206	763	85
1,021	216	303	$556.26		501	1,264 **	86
1,069	148	391	$708.19		529	529	87
789	303	424	$826.93		62	591	88
868	360	460	$873.16	4	44	635	89
916	454	487	$952.63	4	(30)	605	90
1,030	559	489	$931.34	4	(24)	581	91
1,036	477	488	$915.84	5	64	645	92
1,226	362	532	$949.46	5	320	965	93
1,061	376	553	$964.00	5	122	1,087	94
1,238	528	532	$902.00	173		1,087	95
1,303	557	502	$827.00	238		1,087	96
1,371	589	475	$760.00	302		1,087	97
1,443	622	433	$671.00	382		1,087	98
1,517	656	412	$620.00	444		1,087	99
1,594	690	432	$636.00	465		1,087	0
1,672	726	453	$653.00	486		1,087	1
1,752	762	475	$670.00	508		1,087	2
1,834	800	497	$687.00	530		1,087	3
1,918	838	520	$705.00	553		1,087	4
2,005	877	544	$722.00	576		1,087	5
2,094	918	568	$741.00	600		1,087	6
2,185	960	593	$760.00	625		1,087	7
2,279	1,002	618	$779.00	650		1,087	8
2,376	1,047	644	$798.00	676		1,087	9
2,477	1,093	671	$818.00	704		1,087	10
30,116	13,039	8,919	$12,713	7,917			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98 ****	8.37%	4.00%	4.37%
FY 99 - 2010	8.37%	4.00%	4.37%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Transferred to principal from earnings reserve account per AS 37.13.145(d).
**** Based on capital market assumptions adopted by the Trustees in April 1993.
SENATE BILL 170, BUT ASSUMES AN 8.37% RATE OF RETURN AND 4% INFLATION AFTER FY 1994, AND ALL REMAINING EARNINGS TO GENERAL FUND

#9

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

GROWTH OF FUND PRINCIPAL

FY	FY Begin Balance	Appropriations	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	5741		323	216	6,281	
87	6,281	1,264 **	170	149	7,864	
88	7,864		418	303	8,585	
89	8,585		228	360	9,173	
90	9,173		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	209	376	12,975	
95	12,975	7	209	526	13,718	
96	13,718	7	214	558	14,497	
97	14,497	8	221	589	15,314	
98	15,314	8	230	622	16,175	
99	16,175	8	222	656	17,060	
0	17,060	8	204	691	17,963	
1	17,963	9	189	726	18,887	
2	18,887	9	177	763	19,836	
3	19,836	9	165	800	20,811	
4	20,811	10	153	839	21,813	
5	21,813	11	139	879	22,841	
6	22,841	11	126	919	23,898	
7	23,898	12	115	961	24,985	
8	24,985	12	105	1,004	26,108	
9	26,108	13	96	1,049	27,257	
10	27,267	14	90	1,095	28,466	
Cumulative Totals Projected For FY 1994 - 2010:			2,777	13,054		

USE OF FUND INCOME

Net Income	Distributions: Inflation-Proofing	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance	FY
2				1			78
8				7			79
32		12		12			80
150		28		28	59	59	81
368		71	$1,000.00	71	185	244	82
471	231	108	$386.15	110	110	354	83
530	151	175	$331.29		203	557	84
656	235	217	$404.00		206	763	85
1,021	216	303	$556.26		501	1,264 **	86
1,069	148	391	$708.19		529	529	87
789	303	424	$826.93		62	591	88
868	360	460	$873.16	4	44	635	89
916	454	487	$952.63	4	(30)	605	90
1,030	559	489	$931.34	4	(24)	581	91
1,036	477	488	$915.84	5	64	645	92
1,226	362	532	$949.46	5	320	965	93
1,061	376	553	$964.00	5	122	1,087	94
1,431	528	557	$948.00	383		1,087	95
1,559	558	554	$919.00	440		1,087	96
1,640	589	556	$897.00	488		1,087	97
1,726	622	543	$855.00	553		1,087	98
1,701	658	541	$830.00	436		1,087	99
1,786	691	556	$834.00	531		1,087	0
1,874	726	572	$836.00	566		1,087	1
1,964	763	587	$840.00	605		1,087	2
2,045	800	603	$845.00	643		1,087	3
2,151	839	631	$866.00	671		1,087	4
2,248	879	660	$888.00	699		1,087	5
2,348	919	690	$911.00	729		1,087	6
2,451	961	720	$934.00	759		1,087	7
2,557	1,004	751	$958.00	790		1,087	8
2,667	1,049	783	$982.00	822		1,087	9
2,780	1,095	817	$1,007.00	855		1,087	10
34,052	13,054	10,675	$15,314	10,041			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.93%	[illegible]
FY 95 - 98: ****	9.93%	4.00%	5.93%
FY 99 - 2010:	9.93%	4.00%	5.93%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987

*** Transferred to principal from earnings reserve account per AS 37 13 145(d)

**** Based on capital market assumptions adopted by the Trustees in April 1993

SENATE BILL 170, BUT ASSUMES A 9.93% RATE OF RETURN AND 4% INFLATION AFTER FY 1994, AND ALL REMAINING EARNINGS TO GENERAL FUND

10

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

	GROWTH OF FUND PRINCIPAL						USE OF FUND INCOME	Distributions				Reserves		
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall	Net Income	Inflation-Proofing	Dividends	Per Capita Dividends	General Fund	Add (Delete)	FY End Balance	FY
78	0		54		54		2				1			78
79	54		84		139		8				7			79
80	139		344		483		32		12		12			80
81	483	900	385		1,769		150		28		28	59	59	81
82	1,769	800	400		2,969		368		71	$1,000.00	71	185	244	82
83	2,969	400	421	231	4,021		471	231	108	$386.15	110	110	354	83
84	4,021	300	366	151	4,838		530	151	175	$331.29		203	557	84
85	4,838	300	368	235	5,741		656	235	217	$404.00		206	763	85
86	5741		323	216	6,281		1,021	216	303	$556.26		501	1,264 **	86
87	6,281	1,264 **	170	148	7,864		1,069	148	391	$708.19		529	529	87
88	7,864		418	303	8,585		789	303	424	$826.93		62	591	88
89	8,585		228	360	9,173		868	360	460	$873.16	4	44	635	89
90	9,173		267	454	9,894		916	454	487	$952.63	4	(30)	605	90
91	9,894		435	559	10,888		1,030	559	489	$931.34	4	(24)	581	91
92	10,888		338	477	11,703		1,038	477	488	$915.84	5	64	645	92
93	11,703	5 ***	315	362	12,385		1,226	362	532	$949.46	5	320	965	93
94	12,335	5	209	376	12,975		1,061	376	553	$964.00	5	122	1,087	94
95	12,975	7	209	528	13,719		1,540	528	564	$959.00	442		1,087	95
96	13,716	8	214	558	14,498		1,622	558	567	$941.00	489		1,087	96
97	14,498	6	221	589	15,318		1,707	589	576	$931.00	534		1,087	97
98	15,316	9	230	622	16,177		1,795	622	570	$900.00	595		1,087	98
99	16,177	9	222	655	17,064		1,889	658	588	$907.00	636		1,087	99
0	17,064	10	204	691	17,969		1,985	691	618	$931.00	666		1,087	0
1	17,969	10	189	727	18,895		2,082	727	648	$955.00	697		1,087	1
2	18,895	11	177	763	19,846		2,182	763	680	$981.00	729		1,087	2
3	19,846	12	165	801	20,824		2,285	801	713	$1,007.00	760		1,087	3
4	20,824	13	153	840	21,830		2,381	840	746	$1,[illegible]3.00	793		1,087	4
5	21,830	13	139	878	22,862		2,500	879	780	$1,059.00	827		1,087	5
6	22,862	14	126	920	23,922		2,611	920	815	$1,087.00	861		1,087	6
7	23,922	15	115	962	25,014		2,726	962	852	$1,115.00	897		1,087	7
8	25,014	16	106	1,005	26,142		2,844	1,005	889	$1,143.00	934		1,087	8
9	26,142	17	98	1,050	27,307		2,986	1,050	927	$1,172.00	972		1,087	9
10	27,307	18	90	1,097	28,512		3,092	1,097	967	$1,202.00	1,011		1,087	10
Cumulative Totals Projected For FY 1994 - 2010:			2,777	13,064			37,280	13,064	12,051	$17,287	11,846			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.96%	4.75%
FY 95 - 98 ****	10.31%	4.00%	6.31%
FY 99 - 2010:	10.31%	4.00%	6.31%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.
*** Transferred to principal from earnings reserve account per AS 37.13.145(d).
**** Based on capital market assumptions adopted by the Trustees in April 1992.
SENATE BILL 170, BUT ASSUMES A 10.31% RATE OF RETURN AND 4% INFLATION AFTER FY 1994, AND ALL REMAINING EARNINGS TO GENERAL FUND

#11

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of November 30, 1993

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	358	235	5,741	
86	5741		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		267	454	9,894	
91	9,894		435	559	10,888	
92	10,888		338	477	11,703	
93	11,703	5 ***	315	362	12,385	
94	12,385	5	209	378	12,975	
95	12,975	8	209	528	13,720	
96	13,720	9	214	558	14,500	
97	14,500	10	221	589	15,320	
98	15,320	10	230	622	16,183	
99	16,183	11	222	657	17,073	
0	17,073	12	204	692	17,980	
1	17,980	13	189	727	18,909	
2	18,909	14	177	764	19,864	
3	19,864	15	165	802	20,846	
4	20,846	16	153	841	21,855	
5	21,855	17	139	881	22,892	
6	22,892	18	126	922	23,958	
7	23,958	20	115	964	25,056	
8	25,056	21	106	1,007	26,191	
9	26,191	23	96	1,052	27,363	
10	27,363	24	90	1,099	28,577	
Cumulative Totals Projected For FY 1994 - 2010:		2,777		13,079		

USE OF FUND INCOME

Net Income	Distributions: Inflation-Proofing	Distributions: Dividends	Distributions: Per Capita Dividends	Distributions: General Fund	Reserves: Add (Delete)	Reserves: FY End Balance	FY
2				1			78
8				7			79
32		12		12			80
150		28		28	59	59	81
368		71	$1,000.00	71	185	244	82
471	231	108	$386.15	110	110	354	83
530	151	175	$331.29		203	557	84
658	235	217	$404.00		206	763	85
1,021	216	303	$556.26		501	1,264 **	86
1,068	148	391	$708.19		529	529	87
789	303	424	$826.93		62	591	88
868	360	460	$873.16	4	44	635	89
916	454	487	$952.63	4	(30)	605	90
1,030	559	489	$931.34	4	(24)	581	91
1,030	477	488	$915.84	5	64	645	92
1,226	362	532	$949.46	5	320	965	93
1,061	376	553	$964.00	5	122	1,087	94
1,702	528	581	$989.00	585		1,087	95
1,792	558	602	$1,002.00	623		1,087	96
1,886	589	629	$1,022.00	658		1,087	97
1,985	622	644	$1,022.00	709		1,087	98
2,088	657	683	$1,060.00	738		1,087	99
2,194	692	717	$1,089.00	774		1,087	0
2,302	727	753	$1,117.00	809		1,087	1
2,413	764	790	$1,147.00	846		1,087	2
2,527	802	828	$1,178.00	883		1,087	3
2,644	841	867	$1,208.00	921		1,087	4
2,765	881	907	$1,239.00	960		1,087	5
2,889	922	948	$1,272.00	1,001		1,087	6
3,016	964	991	$1,305.00	1,042		1,087	7
3,148	1,007	1,034	$1,338.00	1,085		1,087	8
3,283	1,052	1,079	$1,372.00	1,129		1,087	9
3,424	1,099	1,125	$1,408.00	1,175		1,087	10
41,120	13,079	13,728	$19,732	13,944			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 94:	7.71%	2.98%	4.73%
FY 95 - 98: ****	11.33%	4.00%	7.33%
FY 99 - 2010:	11.33%	4.00%	7.33%

* Department of Revenue Fall 1993 Low-Case Revenue Forecast.
** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987
*** Transferred to principal from earnings reserve account per AS 37.13.145(d)
**** Based on capital market assumptions adopted by the Trustees in April 1993.

SENATE BILL 170, BUT ASSUMES A 11.33% RATE OF RETURN AND 4% INFLATION AFTER FY 1994, AND ALL REMAINING EARNINGS TO GENERAL FUND

ASSET ALLOCATION STUDY

FOR

THE ALASKA PERMANENT FUND

Prepared by Ibbotson Associates, Inc.
January, 1994

Summary of Recommendations

Currently, the Alaska Permanent Fund is a well diversified portfolio that has enjoyed tremendous success in recent years. This success is mainly due to the Board's knowledge of the importance of asset allocation and its commitment to diversification. This has resulted in the Fund earning high rates of return at relatively conservative levels of risk. The Fund is well positioned to reap the benefits of diversification, having made investments in many different asset classes, both domestic and international. Also, the Fund appears to be efficiently managed, employing reputable and capable managers for both its equity and fixed income assets. The Fund has the been able to manage its substantial fixed income portfolio entirely in-house, keeping administrative costs and outside management fees to a minimum. Several important issues must be addressed, however, in order to ensure the Fund's continued success.

Our analysis suggests the Permanent Fund should alter its asset allocation policy in order for the Fund to enjoy returns similar to those it has earned in recent years. Specifically, the Board should consider the following actions:

- Revise its current three-year target asset mix to include a larger allocation to domestic mid and small capitalization equities, European, Pacific Rim and emerging market equities, and mortgage-backed securities.
- Adopt a more aggressive investment style by allocating a larger percentage of Fund assets to equity assets and real estate.
- Revise its equity management plan by setting specific allocations for international and domestic mid and small capitalization equity managers.
- Set specific target allocations across fixed income sectors.

By implementing these changes, the Board can help ensure that the Permanent Fund will achieve the highest expected return for its chosen risk level. This will help the Board achieve its statutory goals of maximizing total Fund return and providing the maximum amount of disposable income to Alaska's citizens.

This report presents recommendations concerning the Alaska Permanent Fund. The first section provides background information on the procedures we used to perform the asset allocation study. The second section suggests improvements for those portfolios, and outlines a third portfolio suited to a more aggressive investment philosophy. The final section provides guidance on several important implementation issues.

I. Analyzing an Investment Portfolio

A first step in analyzing an investment portfolio is determining whether the portfolio adequately compensates the investor for taking risk. Ideally, the portfolio is *efficient* in providing return to the investor; i.e., the portfolio provides the most return possible for the amount of risk taken. In reality, however, few portfolios accomplish this objective.

Defining Asset Classes

In order to analyze the Fund's portfolio, we had to decide which assets to include in the Fund's investment universe. Currently, the Fund invests in 12 different asset classes that comprise six main categories. The benchmarks used to represent each asset class in our analysis are listed in Appendix A at the end of this report. The asset classes used in our study are as follows:

U.S. Equity Assets

Large Capitalization
Mid/Small Capitalization

Non-U.S. Equity Assets

Canada
Europe
Pacific
Emerging Markets

Other Assets

Real Estate

Non-U.S. Fixed Income Assets

Intermediate-Term Government/Corporate Bonds
Long-Term Government/Corporate Bonds
Mortgage-Backed Securities

Non-U.S. Fixed Income Assets

Non-U.S. Government Bonds

Cash

U.S. Treasury Bills

Forecasting Return

We also had to forecast three estimates for each asset class: expected return, expected risk (as measured by standard deviation), and expected return correlation between assets. Summary tables of our forecasts are provided in Appendix B. It is important to note that our return, risk, and correlation forecasts are *long-term* -- they apply to an investment horizon of 10 years or more. Our forecasts are passive in nature and, therefore, would not change dramatically if we were to recalculate them a year from now. Consequently, the portfolio allocations we recommend will remain stable over a very long time period, and will require few changes over a long-term investment horizon.

The basis for our equity return forecasts is the risk-free rate of return and the historical premium, called an equity risk premium, that is demanded by investors for holding risky assets. We use the historical premium because the amount by which common stocks have outperformed risk-free government bonds has been consistent over time. The long-term equity risk premium for large capitalization domestic equities over the period January 1926 to September 1993 was 7.25 percent. Also, many researchers have found that, as the risk of an investment increases, so does its expected return. For this reason, we forecast the expected return of other equity asset classes, such as domestic small capitalization equities and international equities, to have greater expected returns.

The basis of our fixed income return forecasts is the current risk-free rate of return, as proxied by the current yield on a risk-free government bond with a maturity matching the investment time horizon. Currently, this rate is 6.31 percent, the current yield on 20-year U.S. Treasury bond. To this rate, we add the appropriate maturity premium (additional return required by investors for relinquishing the use of their money for long time periods) and default premium (additional return that compensates investors for buying bonds that have default risk, such as corporate bonds) for each class of bonds for which we are forecasting returns.

For international fixed income assets, we forecast returns as if the assets were denominated in U.S. dollars. Since currency fluctuations are expected to average to zero over time, any short-term currency gains or losses will not affect the long-term return on international assets. Currency fluctuations do increase risk, however, and are accounted for in our risk forecasts of non-U.S. fixed income assets.

Forecasting Risk

When forecasting the risk of an asset, we typically assume that the future will equal the past. Therefore, we forecast risk by calculating the historical standard deviation using a long time period over which we have reliable data, and data that is representative of possible future scenarios. Although investment risk can be quantified in a number of ways for asset allocation purposes, we believe that risk is best modeled as the annual volatility of returns, and standard deviation provides an estimate of how much actual returns may deviate from the average, expected return over time. We use shorter time periods only when we can identify a permanent and dramatic process shift in the behavior of an asset class, such as the late 1960s when bond market volatility increased noticeably from its observed volatility during the previous 40 years.

Forecasting Return Correlation

Return and risk are not the only factors that determine how a portfolio performs. The correlation between the returns of two assets also plays an important role in portfolio performance. Correlation measures how much the returns of two assets tend to move together or move separately. If the returns move together, the assets are positively correlated. If they move in opposite directions, the assets are negatively correlated. If no pattern can be detected in the way the assets' returns move, the assets have a return correlation of zero.

Portfolios comprised only of assets that have high, positive correlations with each other are not well diversified. This tends to exaggerate both upside and downside volatility, and the risk of the portfolio. On the other hand, portfolios with assets that have low or negative return correlations will provide more stable returns because, even though some assets may perform poorly, other portfolio assets will perform better, serving to reduce portfolio volatility. The benefits of diversification, therefore, are a direct result of relatively low return correlations among portfolio assets.

When forecasting return correlation, we again typically assume that the future will equal the past. The basis for our forecast of return correlation is, therefore, the historical correlation between assets, observed over the longest time period for which reliable data is available.

Determining the Fund's Current Allocation

The amount of the Fund currently allocated to each asset class was determined by using information in the Fund's 1993 Annual Report, with supplemental information provided by William L. Means, the Fund's Chief Investment Officer. Market values of all investments came from the Annual Report, while Mr. Means provided clarification regarding the amount currently invested in equities of domestic companies with capitalizations larger than $1 billion (large capitalization equities), the amount currently invested in equities of companies with capitalizations of $1 billion or less (mid and small capitalization equities), and the amount currently invested in domestic government and corporate bonds with maturities ranging from one to seven years (intermediate-term), and more than seven years (long-term). The Fund's current allocation, and its expected return and standard deviation is given on page 5.

Determining the Fund's Three-Year Target Allocation

The Permanent Fund's investment manual provided information regarding the three-year target allocation, although some guidelines were too broad for our purposes. For example, the manual lists a 10 percent target allocation for international equities, but gives no country-specific allocations. In this case, we assumed the Fund would increase its international equity exposure to 10 percent, while maintaining the current proportion invested among sectors. Also, the target allocation constrains the amount invested in non-domestic fixed income assets to 10 percent or less, but provides no specific number. We assumed the amount invested in international debt would decrease in proportion to the total decrease in the amount allocated to all fixed income assets. The Fund's three-year target allocation, and its expected return and risk, is listed on the following page.

Current and Three-Year Target Portfolios

Asset Class	Current Allocation (%)	3-Year Target Allocation (%)
U.S. Large Capitalization Stocks	21.17	24.00
U.S. Mid/Small Capitalization Stocks	0.65	6.00
Canadian Stocks	0.03	0.04
European Stocks	2.54	4.28
Pacific Region Stocks	2.94	4.97
Emerging Market Stocks	0.42	0.72
Real Estate	6.69	10.00
Cash	4.64	0.00
Intermediate Govt/Corp Bonds	30.86	25.32
Long-Term Govt/Corp Bonds	25.27	20.74
Mortgage-Backed Securities	3.94	3.24
Non-U.S. Government Bonds	0.85	0.69
Expected Return (%)	**8.53**	**9.93**
Standard Deviation (%)	**7.57**	**9.91**

II. Asset Allocation Recommendations

The next step in our analysis was to improve the Fund's current and target portfolios by increasing their expected return while keeping expected risk at a constant level.

Allocation with Risk of the Current Portfolio

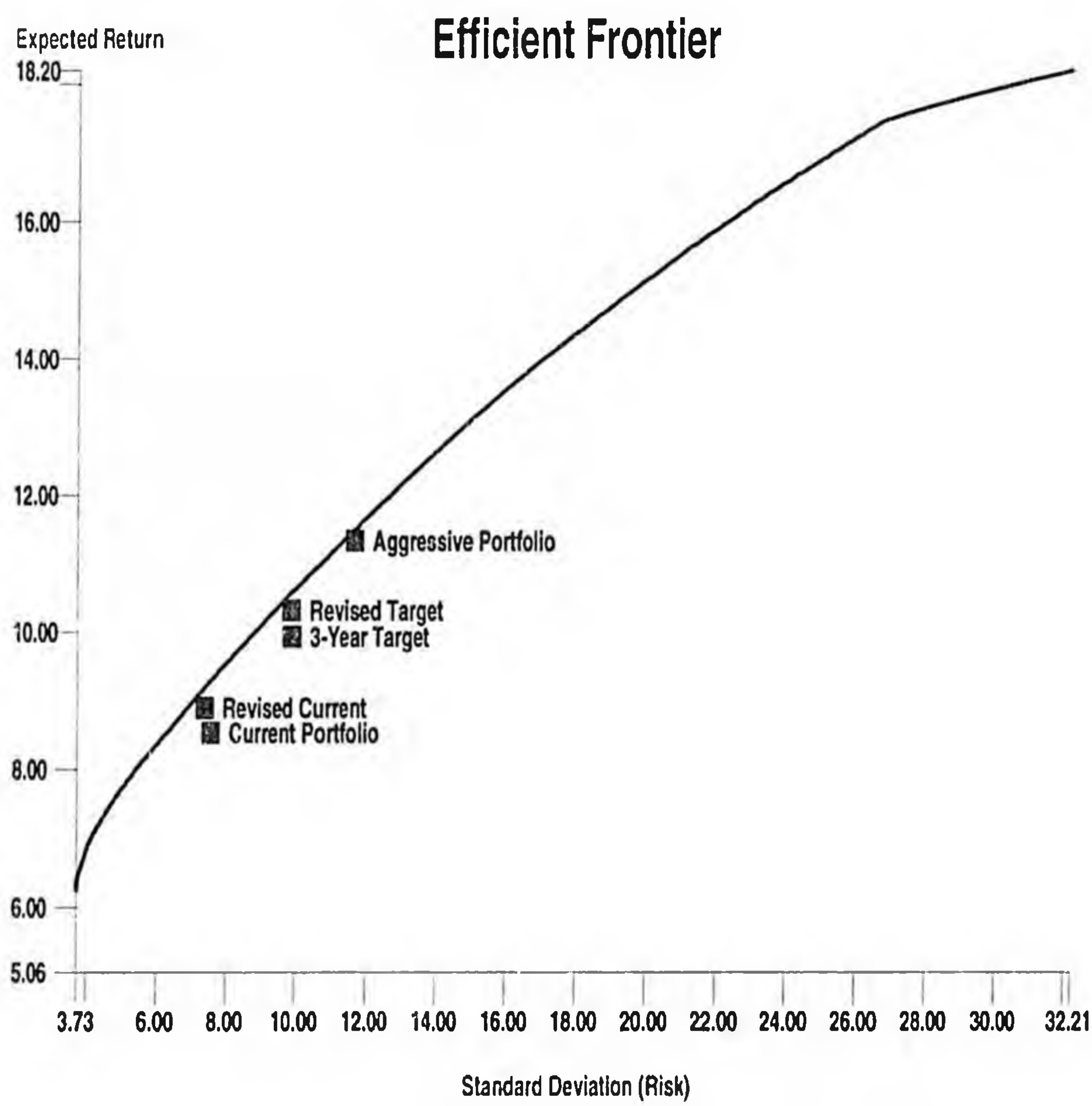
As shown in the graph on page 7, the Fund's current portfolio does not provide the maximum amount of expected return for the amount of risk taken. For example, the portfolio labeled "revised current" provides a higher expected return and slightly less risk than the current portfolio. (The graph is titled "Efficient Frontier" because the line in the graph represents those portfolios which are the most efficient in providing return to the investor, i.e., those portfolios provide the maximum return for a given level of risk.) The allocations for both the current and revised portfolios, as well as their expected returns and standard deviations, are shown on page 8.

The current portfolio need not be drastically changed in order to achieve a higher expected return. In fact, the percent of the portfolio invested in equities (approximately 35 percent, inc[illegible]ng real estate) and in fixed income assets (approximately 65 percent), is th[illegible]h the current and revised portfolios. Rather, the composition of the equity [illegible] income portions need only change. By shifting part of the equity portion from large capitalization stocks to mid and small capitalization and international stocks, and part of the fixed income portion from cash and long-term bonds to intermediate-term bonds and mortgage-backed securities, the Fund can achieve a higher expected return while taking less risk.

Although these changes represent shifts from safer assets to more risky ones, the overall risk of the portfolio actually decreases. This is because domestic mid and small stocks, mortgage-backed securities, and international stocks have low correlations with many of the other portfolio assets.

Allocation with Risk of the Target Portfolio

The graph on page 7 shows that the Fund's target portfolio also does not provide the highest possible expected return for the amount of risk taken. Although both the allocations of the target and revised target portfolios are equally divided between equity and fixed income assets, the revised target portfolio has a significantly higher expected return and less risk. The composition of both portfolios, along with their expected returns and standard deviations, is given on page 8.


Efficient Frontier
Expected Return
18.20
16.00
14.00
12.00
10.00
8.00
6.00
5.06
Aggressive Portfolio
Revised Target
3-Year Target
Revised Current
Current Portfolio
3.73
6.00
8.00
10.00
12.00
14.00
16.00
18.00
20.00
22.00
24.00
26.00
28.00
30.00
32.21
Standard Deviation (Risk)

Current and Recommended Portfolio Allocations

Asset Classes	Allocations				
	Current Portfolio (%)	Revised Current (%)	3-Year Target (%)	Revised Target (%)	Aggressive Portfolio (%)
U.S. Large Cap Stocks	21.17	11.00	24.00	16.00	18.00
U.S. Mid/Small Cap Stocks	0.65	4.00	6.00	8.00	10.00
Canadian Stocks	0.03	0.00	0.04	0.00	0.00
European Stocks	2.54	3.50	4.28	6.00	7.50
Pacific Region Stocks	2.94	4.00	4.97	7.00	10.50
Emerging Market Stocks	0.42	2.50	0.72	3.00	4.00
Real Estate	6.69	10.00	10.00	10.00	10.00
Cash	4.64	1.00	0.00	1.00	1.00
Intermediate-Term Govt/Corp Bonds	30.86	40.00	25.32	30.00	18.00
Long-Term Govt/Corp Bonds	25.27	12.00	20.74	5.00	6.00
Mortgage-Backed Securities	3.94	12.00	3.24	14.00	15.00
Non-U.S. Govt Bonds	0.85	0.00	0.69	0.00	0.00
Expected Return	**8.53**	**8.89**	**9.93**	**10.31**	**11.33**
Standard Deviation	**7.57**	**7.40**	**9.91**	**9.89**	**11.69**

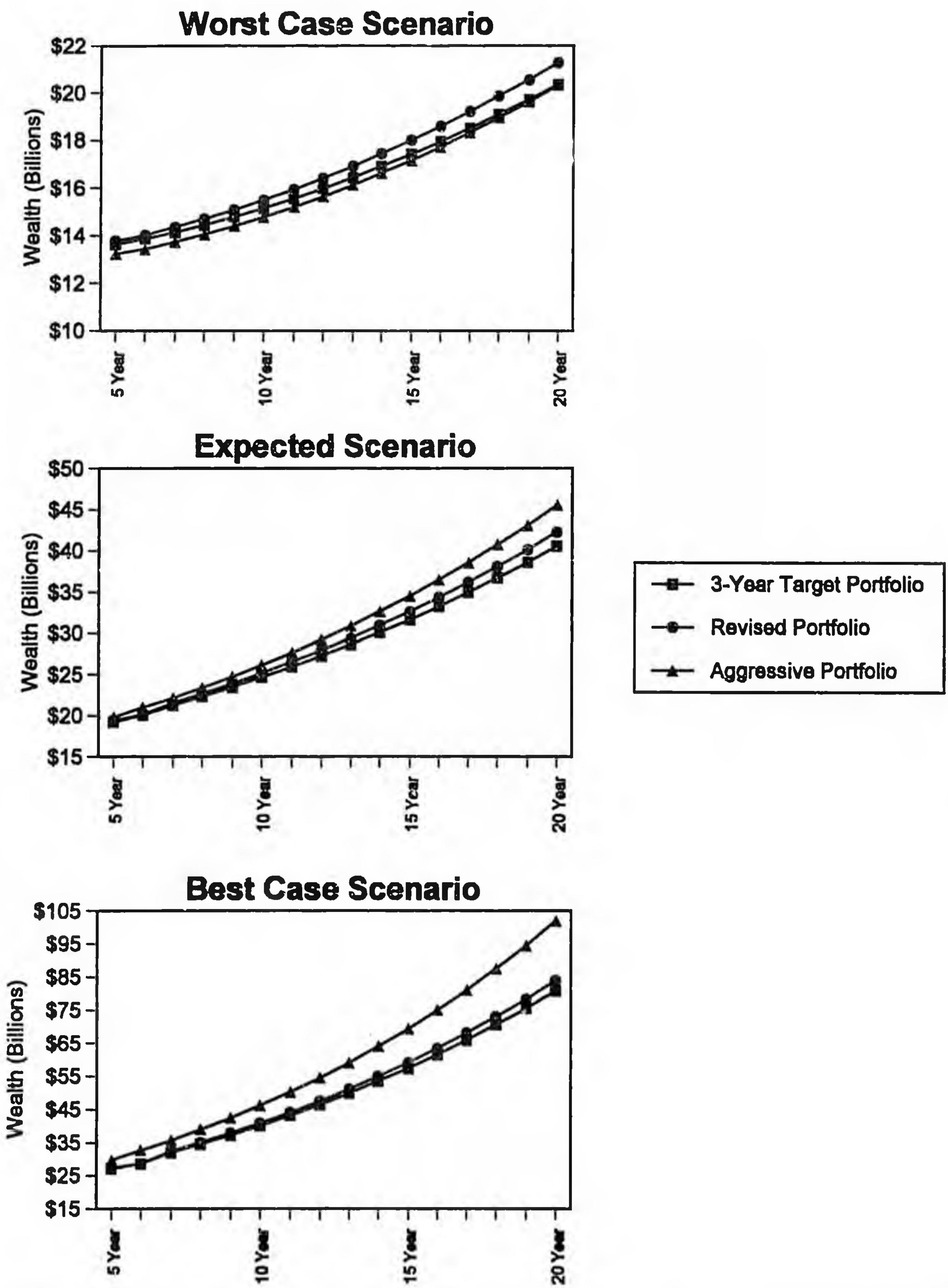
The superior tradeoff between risk and return of the revised target portfolio can be accomplished by shifting a larger portion of Fund assets into domestic mid and small capitalization stocks, international stocks, mortgage securities, and real estate. Again, these riskier assets have low correlations with many other portfolio assets, and therefore provide enhanced diversification benefits.

Allocation of a More Aggressive Portfolio

Although we have analyzed and suggested improvements to both the current and target portfolios, we have not yet commented on whether either portfolio is appropriate for the Fund. Ideally, a portfolio provides enough return to meet the goals of the investor while maintaining a level of risk that is comfortable for the investor. By setting a three-year target portfolio that has an increased allocation to equity assets, the Board has indicated that it is comfortable with a more aggressive investment philosophy. In our opinion, such an aggressive investing strategy is appropriate and necessary for achieving the Fund's statutory goals of maximizing total return and providing the maximum amount of disposable income to the citizens of Alaska. Consequently, we believe the Fund should consider the benefits of investing in the "aggressive portfolio," also shown in the graph on page 7.

In recent years, the Fund has enjoyed relatively high returns, particularly on its fixed income investments. These high returns were due, in part, to rather unique market conditions, such as a dramatic decline in U.S. interest rates. These market conditions, however, are not expected to continue in the future, as evidenced by the returns expected on the current and target Fund portfolios. The potentially lower returns earned by both these portfolios are important factors to consider, because such low returns will inevitably lead to lower dividend payments to Alaskans. Our recommended aggressive portfolio, however, with its significant allocations to international equities and mortgage-backed securities, has an expected return in the range of the Fund's recent returns. The allocation of this aggressive portfolio, along with its expected return and standard deviation, is provided on page 8.

The graphs on the following page can help to compare the expected performance of each portfolio. The graphs show expected wealth values under the target, revised target, and aggressive portfolios for five-, ten-, and twenty-year investment horizons. Although the Board may consider the aggressive portfolio too risky, the graph shows that the majority of this portfolio's volatility is due to its broad range of possible high, *positive* returns, not negative ones. For all investment time horizons, the aggressive portfolio has a higher expected wealth value under the best- and expected-case scenarios. Only under the worst-case scenario does the aggressive portfolio underperform the target portfolio, while the revised target portfolio performs better than the target portfolio in *all* cases.



Worst Case Scenario
Wealth (Billions)
$22
$20
$18
$16
$14
$12
$10
5 Year
10 Year
15 Year
20 Year
Expected Scenario
Wealth (Billions)
$50
$45
$40
$35
$30
$25
$20
$15
5 Year
10 Year
15 Year
20 Year
Best Case Scenario
Wealth (Billions)
$105
$95
$85
$75
$65
$55
$45
$35
$25
$15
5 Year
10 Year
15 Year
20 Year
3-Year Target Portfolio
Revised Portfolio
Aggressive Portfolio

Testing Our Recommended Portfolios

To ensure the validity of our recommended portfolios, we tested those portfolios and the Fund's current and target portfolios for *stability.* A stable portfolio is one that performs well under a variety of possible future market conditions; i.e., the portfolio provides adequate return for the amount of risk taken under conditions that differ from our forecasts. We tested the portfolios using "worst-case" scenarios where the return of one or more assets is lower than expected and the risk is higher than expected. The following scenarios were used, both individually and in combination, to test our recommended portfolios:

- U.S. equity risk premium decreases to 5 percent
- Mid and small capitalization equity return decreases to 15 percent
- Europe equity return decreases to 10 percent
- Europe equity standard deviation increases to 26 percent
- Pacific equity return decreases to 10 percent
- Pacific equity standard deviation increases to 34 percent
- Emerging market equity return decreases to 10 percent
- Return between long-term and intermediate-term bonds increases to 1 percent
- Intermediate-term bond standard deviation increases to 6 percent
- Mortgage-backed securities return decreases to 6 percent
- Mortgage-backed securities standard deviation increases to 11 percent
- Real estate standard deviation increases to 25 percent
- Correlation between U.S. stocks and U.S. bonds increases 30 percent
- Correlation between U.S. stocks and non-U.S. stocks increases 30 percent

Under these scenarios, our recommended portfolios provided higher returns with less risk than either the Fund's current or target portfolios. For example, the improved target portfolio had 10 basis points more return and less risk than the current target portfolio when tested under the assumption that all international markets had the lower returns and higher risks outlined above. This indicates that the revised portfolios will perform better over the long run, despite possible extreme underperformance of some markets.

III. Implementation Issues

Whichever portfolio the Board chooses, several issues must be addressed by the Board to ensure maximum Fund performance. The single most important issue is the degree of adherence to the chosen allocation. Research has suggested that the asset allocation decision accounts for over 90 percent of the variability of returns on a portfolio, and is the single largest determinant of portfolio performance.[1] Consequently, individual security selection and active security management, the two factors commonly assumed to contribute the most to the return of a portfolio, actually account for only a small amount of portfolio return variability. Therefore, adherence to the chosen allocation is *crucial* to the future performance of any investment portfolio, including the Permanent Fund. Accordingly, the Board must decide whether the current investment strategy of the Fund accommodates a strict adherence to the chosen allocation. We address this issue separately for equity and fixed income assets in the following two sections.

Equity Assets

As of April 1993, the Board decided to use active managers only for domestic mid/small capitalization stocks and all international equities. Since our recommended portfolios are based on passive benchmarks, we believe that the long-term performance we forecast can be achieved through the use of passive managers, although it is certainly possible for active managers to meet or exceed that performance. For this reason, we believe the Board's decision to retain active mangers is appropriate, *as long as each manager is given only that portion of Fund assets that is recommended in the chosen allocation, and is required to invest those assets in the specific, recommended asset class.*

This stipulation is in direct contrast to the Board's new global investment strategy as outlined in the Fund's 1993 Annual Report. The new strategy allows active international equity managers to decide when and where to invest Fund assets, essentially shifting the asset allocation decision from the Board to the manager. As mentioned earlier, asset allocation, not security selection or active market timing, is the largest determinant of portfolio performance. Under the planned strategy, the Fund's equity allocation will shift continuously, violating the most crucial aspect of strategic asset allocation: maintaining a stable asset mix which was chosen based on long-term forecasts and needs of the fund. For this reason, we suggest a slightly modified strategy where the Board hires managers that have a specific style of investing. For example, under this modified strategy, the European equity allocation would be managed by a manager who specializes in European equities. This type of management strategy would allow the Board to retain control over the equity allocation of the Fund.

---

[1] Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, "Determinants of portfolio performance II: An update," *Financial Analysts Journal*, May-June 1991.

The Fund's domestic equity managers also have similar control over the asset allocation decision. Currently, the performance of each domestic equity manager is evaluated by using a benchmark portfolio that consists of 80 percent large capitalization equities and 20 percent mid and small capitalization equities. The equity managers, however, are not specifically required to invest 80 percent of their Fund allocation in large capitalization stocks and 20 percent in mid and small capitalization stocks. A manager could alternate between large cap and mid and small cap stocks, and still *average* an 80 percent large cap and 20 percent mid and small cap investment. This manager could potentially be 100 percent invested in large cap stocks when the return in the mid and small cap market is high, and vice-versa. Again, this causes the overall equity allocation of the Fund to change continuously, and shifts control of the asset allocation decision to individual managers. Because the asset allocation decision is so important to the overall performance of the Fund, we feel the Board should set specific domestic equity allocations, and select managers who specialize in each asset class. This will ensure the maximum expected return for the Fund's equity investments.

Fixed Income Assets

Currently, the Fund's fixed income assets are passively managed in-house by the Fund's Chief Investment Officer, and are generally treated as a single asset class. Our analysis, however, treats the fixed income category as five distinct asset classes, because each contributes unique benefits to the overall portfolio. Treasury bills, for example, provide more liquidity than the other assets, and are, consequently, the least risky. Also, mortgage-backed securities perform differently from government or corporate bonds. For this reason, each fixed income asset class must be considered separately in the asset allocation decision.

Currently, the Board treats all fixed income assets as a single asset class and provides only a broad allocation directive. This essentially shifts the asset allocation decision to the fixed income manager. While the current allocation across fixed income assets may be appropriate when viewed in isolation, that same allocation may be inappropriate when viewed in the context of the overall portfolio. The Board has a comprehensive perspective on the Fund and, as such, should determine the Fund allocation to each asset class. For this reason, we suggest that the Board set specific target allocations for fixed income asset classes. In this way, the Board maintains control over the Fund's asset allocation and ensures maximum overall Fund performance.

Prior to beginning our study, several Board members and senators voiced concern over the Fund having only one manager for the entire fixed income portfolio. We feel that a single, capable manager, such as the current manager, can manage a large, passive fixed income portfolio with few problems, as long as that portfolio has only a small allocation to mortgage-backed securities. However, if a larger proportion of funds was invested in mortgage-backed securities (as is our recommendation), it may be required to hire additional staff. This is because mortgage-backed securities are more complex to analyze, and the holders of mortgage securities continually receive principal and interest payments which must be accurately recorded. All our recommended portfolios contain substantial allocations to mortgage-backed securities. Consequently, we suggest that the Board hire an outside manager to manage the mortgage portfolio, or, at the very least, hire additional support staff.

Conclusion

Although the Permanent Fund has an excellent performance history, the Fund faces new and uncertain investment challenges in the coming years. The Board, realizing the importance of asset allocation to overall Fund performance, has created a target allocation to meet those challenges. However, as our analysis reveals, the Board can implement a better allocation for the Fund, one that has higher expected return and less risk than the Fund's target portfolio. Also, the Board can implement a new investing policy, one emphasizing an adherence to the chosen allocation. By doing so, the Board will help ensure the maximum expected performance of the Fund over the long-term investment horizon, thereby providing the highest possible income to the State's citizens and fulfilling its obligation to those citizens.

Appendix A: Benchmarks Used in Asset Allocation Study

<u>Asset Class</u>	<u>Benchmark Description</u>
U.S. Large Capitalization Equity	**S&P 500:** A market capitalization-weighted index of 500 of the largest stocks of companies domiciled in the United States.
U.S. Mid/Small Capitalization Equity	**Russell 2000 Index:** A market capitalization-weighted index of the stocks of the bottom two thirds of the largest 3,000 publicly traded companies domiciled in the United States.
Canada Equity	**Morgan Stanley Capital International Canada Total Return Index:** A market capitalization-weighted index of 81 large Canadian stocks.
Europe Equity	**Morgan Stanley Capital International Europe Total Return Index:** A market capitalization-weighted index of large stocks from Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.
Pacific Equity	**Morgan Stanley Capital International Pacific Total Return Index:** A market capitalization-weighted index of large stocks from Australia, Hong Kong, Japan, Malaysia, New Zealand, and Singapore.
Emerging Markets Equity	**IFC Emerging Market Composite Index:** A broad-based, market capitalization-weighted index of stocks listed in countries with a per capita GDP below an annually-disclosed figure. Currently, 20 countries are represented in the Composite index.
Cash	**U.S. 90-Day Treasury Bills:** Published by Salomon Brothers in *International Bond and Money Market Performance.*

IT Govt/Corp Bonds

Lehman Brothers Intermediate-Term Government/Corporate Bond Total Return Index: A portfolio of U.S. government issues (>$100 million par value) and investment grade corporate debt (>$50 million par value) with an average maturity of 4.42 years as of November 29, 1993.

LT Govt/Corp Bonds

Lehman Brothers Government/Corporate Bond Total Return Index: A portfolio of U.S. government issues (>$100 million par value) and investment grade corporate debt (>$50 million par value) with an average maturity of 10.81 years as of November 29, 1993.

Mortgage-Backed Securities

Lehman Brothers Mortgage-Backed Securities Total Return Index: An index of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). The index has an average maturity of 5.39 years.

Non-U.S. Bonds

Salomon Brothers Non-U.S. 1+ Bond Index: A market capitalization-weighted index of bonds from Australia, Canada, Germany, Japan, Netherlands, Switzerland, and the United Kingdom with one year or more to maturity. The average maturity of bonds in the index is 6.95 years.

Real Estate

Wilshire Real Estate Securities Total Return Index: A market capitalization-weighted index of approximately 85 real estate investment trust and real estate operating companies.

Appendix B: Forecasts Used in Asset Allocation Study

Forecasts of Expected Return and Standard Deviation

Asset Class	Expected Return	Standard Deviation
U.S. Large Cap Stocks	13.56	20.61
U.S. Mid/Small Cap Stocks	18.03	32.95
Canada Stocks	13.73	24.64
Europe Stocks	13.98	22.69
Pacific Stocks	15.11	28.24
Emerging Market Stocks	21.38	47.00
Real Estate	9.90	13.63
Cash	4.61	2.73
IT Govt/Corp Bonds	5.89	4.10
LT Govt/Corp Bonds	6.37	7.22
Mortgage-Backed Securities	7.45	9.28
Non-U.S. Govt Bonds	6.01	14.75

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. Senate Bill No. 170

Revision Date:
Title: "An Act relating to income of the permanent fund."
Sponsor: Senator Rieger
Requestor:

Dept. Affected: Department of Revenue
BRU: APFC
Component: APFC
COMPONENT SERIAL NO. 109

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
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 FUND SOURCE:	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1008 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: $0

ANALYSIS: (Attach a separate page if necessary)
This bill has no fiscal impact.

Prepared by: William H. Scott (signature) William H. Scott, Executive Director
Phone: 465-2047
Division: Alaska Permanent Fund Corporation
Date: March 29, 1993
Approved by Commissioner: (signature)
Date: 4/1/93
Agency: Revenue

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SB

186

Alaska State Legislature

STEVE FRANK

119 N. Cushman, Rm. 213
Fairbanks, Alaska 99701
(907) 452-3421

While in Juneau
P.O. Box V
Juneau, Alaska 99811
(907) 465-3709
Capitol Rm. 417

THE SEAL OF THE STATE OF ALASKA

Senate

TO: Senator L. Leman, Chair
State Affairs Committee

FROM: Senator S. Frank, Co-Chair
Senate Finance Committee

RE: SPONSOR STATEMENT for SB 186: State Agency Publications

DATE: 14 April, 1993

AS 44.99.200 currently provides that "the publications of a state agency shall be produced at a state-operated facility" whenever possible. This statutory preference often excludes private-sector printing businesses from consideration for state agency printing jobs.

SB 186 would repeal the section of the statute which mandates state-operated printing facility preference and replace it with language which would instead give high priority to private sector printers in Alaska in securing these contracts.

State print shops (e.g., those at the University of Alaska Fairbanks and at Central Duplicating Services in Juneau) presently receive contracts from state agencies for jobs which may be more efficiently performed by the private sector. It is necessary to shift this preference from state facilities to privately-owned businesses in order to limit the size of government and foster economic growth in the private sector.

Thank you for hearing this bill. I encourage your support so that private sector printers in FY 94 may reap the benefits of its passage.

SPONSOR STATEMENT

the Print Shop

1025 Blair Road
Fairbanks, Alaska 99701
(907) 452-6540

Dear Senator Leman

I thank you for hearing SB 186 and encourage you to support this very important bill as introduced by Senator Frank.

With the passage of HB75 Alaskan businesses suffered. I am not a large printing company but I have noticed the drop from a small amount of printing for the University to NO printing. I used to at least get to bid on projects that needed to be printed, but that has now completly stopped.

I am good friends with some of the people who work at the University Print Shop and they tell me the politics in the plant are just about unreal. I have even had two of the individuals ask me if I had any job openings, even though I could not match the hourly salary and benefits they were ready to leave.

It is my feeling that SB186 will stabilize an already shaky printing economy. I sincerely hope you give all your support to get this bill through your committe and then through the Senate.

Thank You,

Rich Jones

4-13-93

GRAPHICNORTH

Dear Senator Leman

Private sector printers have been hurt by the growth of the state in plant print shops and the tremendous amounts of work that go out of the state. We need your help!

I thank you for hearing this bill and I certainly would encourage you to support SB 186 recently introduced by Senator Frank. We need a speedy passage.

When HB75 was passed under the Cowper administration it hurt Alaskan businesses a lot. The former Lettershop of Fairbanks lost a $72,000 a year contract with the University of Alaska in mid-year because of the passage of HB75. The University pulled the contract saying that with the passage of HB75 they could no longer contract out work. That hurt them and in fact the next year went out of business.

I figure this bill costs Graphic North $25,000 in business a month because we do not get a chance to bid on University work and in fact the UAF print shop does work for other state agencies. What really is sad, is to justify their existence they will do work even if it is not the cheapest way to get the printing done. Case in point - they buy large quantities of blank #10 envelopes to imprint for the University. It would be less expensive to buy the envelopes from the mill already printed, but they elect not to do that so that they can help justify their employees.

The University of Alaska Fairbanks print shop currently spends over $500,000 a year in salaries, benefits and related costs plus occupy prime office or classroom space that could be used for the students and not to expand the state payroll.

Recently the UAF Print shop borrowed $200,000 from a bank to buy pre-press equipment. They did not go through budgeting processes they just went out and borrowed it.

This bill will give the private sector printing businesses a fair shot at all the government printing. We need to keep the work in state and in private businesses. It will help the taxpayers get the best for their dollars and will help the economy to become more stable. SB186 will help correct this and I urge your support and a speedy passage through your committee and the Senate.

Thank You,

Wayne Clark

Wayne L. Clark

157 Old Steese • Fairbanks, Alaska 99701 • (907) 452-1907

TESTIMONY

S NATE COMMITTEE REPO T
FIRST COMMITTEE OF REFERRAL

DATE: 4/7/93

FURTHER:

Date of 5-Day Notice: 4-8-93
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 4.14.93

STATE AFFAIRS Committee considered SB 186

"An Act relating to state agency publications."

and recommends:

[ ] replace with ________ CS ____________________ (____)

[ ] same title
[ ] new title
[ ] technical title change (HB only)

[ ] attaches amendment(s)

[ ] adopts ____________________ Letter of Intent

[ ] further referral to the ____________________

[ ] do pass

[ ] do not pass

[ ] no recommendation

[✓] individual recommendations

FISCAL NOTE INFORMATION

Department	Date	Zero	Fiscal
Dept. of Admin.	4.9.93	✓	

Department	Date	Zero	Fiscal

[ ] Appropriation No Fiscal Note

[ ] Governor's Bill with Previous Fiscal Notes (enter information above)

DO PASS:

Mike Miller Do Pass

OTHER RECOMMENDATIONS:

Adrian . Taylor - Do Pass

Loren Leman DP

Chair: Signature and Recommendation

NFIB Alaska

National Federation of
Independent Business

POSITION PAPER

OF

NATIONAL FEDERATION OF INDEPENDENT BUSINESS
NFIB/ALASKA

IN
SUPPORT
OF

SB 186 - STATE AGENCY PUBLICATIONS

9159 Skywood Lane
Juneau, AK 99801

The Guardian of
Small Business

CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS RESA JERREL, AND I AM THE STATE DIRECTOR FOR THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS - NFIB/ALASKA. I AM HAPPY TO BE HERE TODAY IN SUPPORT OF SB 186.

NFIB/ALASKA IS COMPRISED OF 4,400 SMALL AND INDEPENDENT BUSINESS OWNERS. THE LEGISLATIVE AGENDA OF NFIB/ALASKA IS DETERMINED BY OUR BALLOT. THE BALLOT IS OUR ANNUAL POLL OF OUR MEMBERS ON A SERIES OF ISSUES DEEMED CRITICAL TO SMALL BUSINESS. A MAJORITY VOTE, OF THE MEMBERS IN RESPONSE TO THE POLL, SETS OUR POLICY AND POSITION ON LEGISLATIVE ISSUES.

FOR THE RECORD THE FOLLOWING IS THE RESULT OF THE 1990 NFIB/ALASKA BALLOT QUESTION REGARDING GOVERNMENT COMPETITION:

> Should legislation be passed that would restrict government agencies from competing with private business in Alaska?
>
> Yes 83%   No 6%   Undecided 11%

CURRENT LAW REQUIRES PUBLICATIONS OF STATE AGENCIES TO BE PRODUCED AT A STATE OPERATED FACILITY WHENEVER POSSIBLE. THIS PUTS THE STATE IN DIRECT COMPETITION WITH SMALL BUSINESSES. IT ALSO, PUTS SMALL BUSINESSES AT A DISTINCT DISADVANTAGE IF THEY WANT TO DO BUSINESS WITH THE STATE.

SB 186 REPEALS THAT LAW AND SHIFTS THE PREFERENCE FROM STATE OPERATED PRINTING FACILITIES TO PRIVATELY OWNED BUSINESSES. NFIB/ALASKA BELIEVES THAT SB 186 WILL HELP LIMIT THE SIZE AND COST OF STATE GOVERNMENT AND FOSTER ECONOMIC GROWTH IN THE PRIVATE SECTOR.

ALTHOUGH IT DOES NOT ELIMINATE COMPETITION FROM OTHER STATE OR LOCAL AGENCIES WHOSE COMMERCIAL ACTIVITIES RANGE FROM GIFT SHOPS TO

DAY CARE AND VIDEO OUTLETS - IT IS CERTAINLY A BIG STEP IN THE RIGHT DIRECTION.

THANK YOU FOR THE OPPORTUNITY TO BE HERE TODAY AND TO SUPPORT THIS WORTHY LEGISLATION. I WOULD URGE YOU TO MOVE THE BILL OUT OF COMMITTEE SO WE CAN, HOPEFULLY, SEE IT BECOME LAW THIS YEAR. IF YOU HAVE ANY QUESTION, I WOULD BE HAPPY TO TRY AND ANSWER THEM.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 186

Revision Date:
Title: "An Act relating to State agency publications."
Sponsor: Senator Frank
Requestor:

Department Affected: Administration
BRU: General Services
Component: General Services

COMPONENT SERIAL NO. 62

EXPENDITURES/REVENUES:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE FUND SOURCE:	0	0	0	0	0	0

FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: 0

ANALYSIS: (Attach a separate page if necessary.)
This bill will have minimal fiscal impact to the operation of the division

Prepared by: Dugan Petty, Director
Phone 465-2250
Division: General Services
Date

Approved by Commissioner: Nancy Bear Usera
Agency: Administration
Date:

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FISCAL NOTE

SB
199

Alaska Permanent
Capital Management Company

900 West Fifth Avenue, Suite 701
Anchorage, Alaska, 99501

Phone: (907) 272-7575

Fax: (907) 272-7574

April 11, 1994

APR 13 1994

Senator Loren Leman
State Capitol
Juneau, Alaska 99801-1182

Dear Senator ~~Leman~~ Loren:

This letter pertains to HB 375/SB 245 which proposes to authorize the Trustees of the Alaska Permanent Fund to broaden the scope of Fund investments.

I have had several discussions with individual Trustees regarding this legislation. We have discussed several approaches and a new, amended version of the bill(s) will be offered in committee testimony this week.

Throughout our discussions, the goals and aspirations of the Trustees are very clear. There is strong focus on preserving principal and increasing investment yield.

To protect principal, diversification is important. This will be accomplished by the new legislation which will authorize specialized investment in domestic corporations. This expansion of the equities portfolios will enable the Fund to make larger investments in corporations which are undervalued, corporations which may be takeover candidates, corporations whose parts may be worth more than the whole and thus may have spin-off opportunities, and corporations who have strong potential which may not be recognized until or unless major changes are made in its management.

Generally, a well-conceived and well-executed investment program which involves the above should be beneficial to the Fund through the realization of higher investment yields.

As you may have noted, financial markets have become more sophisticated, global in scope and more volatile than ever. As markets change, entities like the Permanent Fund must have the flexibility to meet market challenges. They must have a whole toolbox full of choices in order to get the job done and to do it well. The proposed legislation simply provides another tool.

In Alaska, we treat investments in two ways. One way is to broadly authorize any investment which comports to the Prudent Investor Rule. Another method is to construct a "legal list" of investments which describes each investment instrument which may be held within the portfolio. The PERS/TRS system has the flexibility of the former while the Permanent Fund is constrained by the latter. Since the Permanent Fund is a "legal list" fund, it is essential that those who construct the list keep it current in a fast changing market environment.

It is incumbent upon Trustees of "legal list" funds, in exercising their fiduciary responsibility, to bring proposals for list expansion to the attention of the list makers. That is what they have done in proposing HB 375/SB 245.

The legislation includes some important checks and balances which tend to reduce the risk of moving forward with poor investments. The legislation requires that there be co-investors. This insures that every investment is scrutinized by another fund. If funds have problems, questions or are uneasy with the investment, they discuss it and compare notes. The limit on oil and gas investments in an oil and gas state make sense. Alaska's wealth should be diversified and this stricture is a prudent one.

I commend this legislation to you and recommend its passage. It will take the better part of a year for the Trustees to construct specific policies find managers to help execute that policy and devise a method for reviewing performance. The lead time involved to do the job right argues for passage this session.

If you have questions and concerns regarding this legislation and wish to contact me, I would be pleased to respond.

Best wishes in all your endeavors.

Sincerely,

David A. Rose
Chairman

Barbara Whiting
3006 Foster Avenue
Juneau, Alaska 99801

APR 19 199

April 19, 1993

The Honorable Loren Leman
Alaska State Senator
Room 113, State Capitol
Juneau, Alaska 99801

Dear Senator Leman:

This is a letter in support of the majority of SB 199, with the exception of Sec. 3, and a request that this bill be passed in the current legislative session.

I am currently the Elections Coordinator for the Division of Elections and have been employed by the Division since 1987. However, I have resigned effective April 30, due, in part, to the havoc created by having the Division of Elections employees subject to the hiring and firing policies of exempt status.

As you are well aware, the tasks relating to putting on an election are not merely having candidates names printed on ballots, but are, according to the laws of the State of Alaska, complex. They aren't tasks that you learn in "elections school." They are learned by in-house training, practical elections experience, reading the statutes, understanding the statutes, and being able to put them together to have a successful, ethical, impartial election.

There are only four employees left from the last administration; two in the Director's Office (one when I leave), one in the Anchorage office and one in the Fairbanks office. The lack of institutional knowledge due to the massive firings by the new administration greatly hampered the efficiency of our office. Some may say that an election is an election is an election is an election. However, of all the elections that I have conducted, every one has been different. It's the little bit of institutional knowledge that helps get us through each roadblock.

An election is supposed to be conducted by a nonpartisan group of employees. When longtime employees are fired, not because they were incapable of doing their job, but because they were unknown factions to a newly elected administration, the public perception could well be that this is no longer a nonpartisan group. The public also knows that in a private enterprise company that needs to make a profit, it would be unthinkable for a new owner to summarily dismiss the people who had valuable experience, longevity and dedication to the technicality of their jobs, without first assessing the person's abilities to accomplish the goals of the new owner.

The only part of the bill I would encourage you to change is Sec. 3 which allows all employees that now hold positions at the Division to continue in those positions. This is not consistent with the rest of the bill which disallows hiring for reasons other than the employee's qualifications. If this bill passes, new positions may be developed, and current employees may wish to try out for a different position than the one they are in. I also feel that if a current employee is worth their salt, they will be able to qualify for a position under the new rules. This will also give a greater comfort level to the public and the Legislature, knowing that these employees are not there solely based on their friendship to an administration.

I urge you to try to get this bill passed quickly, in this session. I know the time is short until the end of this session, but to pass a bill this monumental to the workings of the Division of Elections as late as the 1994 session which is an election year, would be devastating. From the beginning of January to December, election tasks are piling up daily, and the employees of the Division are busy preparing for the Primary and General Elections. It is my understanding that if this bill passes, the process to change employees from exempt to classified takes time to get underway and accomplished. Positions need to be reviewed, job descriptions need to be written, and employees hired under the new system. To do this in an election year would create havoc for the employees of the Division of Elections. If the bill is passed in this session, the transition could be taking place in a relatively more quiet time for the employees so that the change could be smooth and orderly.

Thank you for your consideration of my views.

Sincerely,

Barbara Whiting

Barbara Whiting

State of Alaska
Ombudsman
Duncan C. Fowler

Reply to:

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Anchorage, AK 99510-2636
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(800) 478-2624
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April 19, 1993

Senator Loren Leman, Chairman
Senate State Affairs Committee
Alaska State Legislature
Capitol Building
Juneau, Alaska 99801-1182

RE: SB 199, Employment status of elections employees

Dear Senator Leman,

The Office of the Ombudsman supports the passage of SB 199 and offers a suggestion that will strengthen the public policy matter that the bill addresses.

The Division of Legislative Audit and The Office of the Ombudsman both recently completed extensive reviews of separate issues involving the Division of Elections. While I will not speak to the findings of the Division of Legislative Audit, I did find it of interest that we both found fault with the fact that elections employees were in the exempt service of state government. We both recommended that line staff of the agency be placed in the state merit system. SB 199 does just that.

I believe you would strengthen the public policy matters this bill addresses by deleting section 3 of the bill. Section 3 offers unnecessary protections to current employees of the Division of Elections. Theoretically, it has the potential of undermining the merit system principles this bill seeks to implement.

The state Personnel Rules as set out in the Alaska Administrative Code provide protections to employees who are transferred from the exempt to merit system. It provides a one-year transition period for incumbents to meet the requirements of newly established jobs and class specifications. (See 2 AAC 7. 215, attached). Incumbents are allowed to compete for merit appointments based upon their qualifications for the newly established positions. Equal Employment Opportunity requirements placed on the state already prevent the establishment of minimum criteria for positions which do not realistically reflect the job responsibilities and duties. Merit system appointments are made from any of the top five ranks of most qualified applicants. Existing elections employees who are qualified and competently performing needed jobs well should have no problem receiving merit appointments.

For ease of your committees review, I have attached an executive summary of my investigation. I believe it captures the basic issues that we addressed in our report. I have sent copies of the complete report, which includes the lieutenant governor's response to each legislator. Let me know if you need additional copies. I would be happy to answer any questions you or your committee has about our investigation or my position on this bill.

I believe that passage of SB 199 would set in statute that it is the policy of the state is that the division of elections shall function as a nonpartisan agency. It would help ensure that a stable group of experienced, qualified and knowledgeable professionals will be available to manage our state elections in future years.

Sincerely,

Duncan C. Fowler
Ombudsman

Attachment: 2 AAC 7.215
Executive Summary J092-1846

Authority: AS 39.25.050 AS 39.25.140
AS 39.25.070 AS 39.25.150(25)

2 AAC 07.210. TRANSFER APPOINTMENTS. (a) An employee may be transferred within a department or to a different department, with the employee's concurrence.

(b) Any transfer effected for the good of the service without the consent of the employee must be approved by the director.

(c) The intradepartment or interdepartment transfer of an employee does not change the employment status of the transferred employee. (In effect before 6/28/84; am 6/28/84, Register 91)

Authority: AS 39.25.070
AS 39.25.140
AS 39.25.150

2 AAC 07.215. TRANSITION PERIOD FOR EMPLOYEES MOVED TO CLASSIFIED SERVICE. An employer in the exempt or partially exempt service whose position is moved to the classified service may retain the position as an exempt or partially exempt employee for up to 12 months in order to establish entitlement to appointment in the classified service. Upon successful completion of competition for the classified service position, the individual may be appointed and serve a probation period. Range and step placement will be governed by 2 AAC 07.315—2 AAC 07.390. Notwithstanding other provisions of this chapter, the director may authorize limited recruitment in order to facilitate the transition of employees under this section. (Eff. 6/28/84, Register 91)

Authority: AS 39.25.070
AS 39.25.140
AS 39.25.150

2 AAC 07.220. DIRECT APPOINTMENT FROM OTHER MERIT SYSTEMS. With the prior approval of the director, merit system employees of the United States Government or the legislative or judicial branch of the Alaska State Government may, upon transfer to the executive branch of Alaska State Government, be appointed to the classified service, notwithstanding other provisions of this chapter. (In effect before 6/28/84; am 6/28/84, Register 91)

Authority: AS 39.25.070
AS 39.25.140
AS 39.25.150(10)

2 AAC 07.225. REHIRE. An employee who separated in good standing while holding a permanent or probationary appointment may be reemployed in the same job class or in a lower class in the

State of Alaska
Ombudsman

State of Alaska
Office of the Ombudsman

Executive Summary

Division of Elections
Ombudsman Complaint J92-1846

April 8, 1993

Duncan C. Fowler
Ombudsman

OFFICE OF THE OMBUDSMAN
EXECUTIVE SUMMARY - J92-1846
INVESTIGATION OF TELEPHONE USE
AT THE ALASKA DIVISION OF ELECTIONS
April 8, 1993

THE COMPLAINT

The Office of the Ombudsman received a signed, written complaint alleging misconduct by Division of Elections Director Charlot Thickstun and some members of her staff for misuse of the state telephone system. The complaint alleged that Ms. Thickstun made inappropriate and excessive use of the system for personal calls and did not reimburse the state for the cost of those calls.

During the investigation of this complaint, division telephone bills between December 1990 and October 1992 were analyzed and sworn depositions were taken from former and present division employees including Ms. Thickstun. Written responses were received from Ms. Thickstun and Lt. Gov. Jack Coghill.

FINDING

When completed, the ombudsman investigation concluded that Ms. Thickstun had, in fact, engaged in misconduct when she made more than $1,700 in private long-distance phone calls from her Juneau office at state expense.

Ms. Thickstun made no serious effort to reimburse the state for the cost of the more than 600 long-distance calls documented by the ombudsman until *after* she learned of the investigation.

The report found that Ms. Thickstun's intimidating, closed-door management style was in large part responsible for division employees being unwilling to confront the director with their misgivings about the telephone usage.

Numerous division staff members became concerned over the use of the office phones for personal use (including use of the 800 toll-free line) and tried to bring it to the director's attention. However, Ms. Thickstun still did not pay the bills and staff did not want to risk their jobs by making her angry as the director viewed being confronted as lack of support and loyalty. She usually kept her door closed when in the office and staff went so far as to slide paperwork under her door.

RECOMMENDATIONS

Classifying elections staff

To prevent this kind of difficulty from reoccurring, the ombudsman recommended that legislation be introduced to place all employees of the Division of Elections, who do not hold policy-making positions, within the classified service. This means employees of the division would be hired, fired or promoted based on their ability to perform defined jobs within the agency. However, if the status quo is retained and division staff remain exempt, their employment status is totally at the whim of the director.

To be grouped within the classified service would help division employees be more candid with the director without fear of losing their jobs. In addition, it could help minimize the high turnover, wholesale firings and loss of institutional memory that has occurred during Ms. Thickstun's tenure. It could help ensure that a non-partisan, professional staff would always be available to carry out the difficult and important job of organizing statewide elections.

The investigation found that other states are already moving in this direction. Elections staff in Utah and Washington are classified civil service employees and in North Carolina elections employees can only be removed for cause. In Hawaii, most of the elections technical and support staff are already civil service employees. Pending legislation in Hawaii recommends reorganizing elections into a classified state agency outside the lieutenant governor's office where it now resides.

Disciplinary Comparisons

While not making any recommendation on whether disciplinary action should be taken against Ms. Thickstun, the ombudsman report found, by way of comparison, that non-exempt employees in the merit system had been fired or allowed to resign for lesser infractions.

To get a comparison of how matters such as the use of the phones in the Division of Elections office are handled in the classified service, the ombudsman consulted with officials in the Division of Labor Relations without revealing parties or agency involved in the investigation.

Labor relations officials stated if a person in classified service made the volume of calls evident in the complaint over such a lengthy period of time with so little effort towards reimbursement, the state would recommend immediate termination.

Labor relations officials cited several examples of classified employees who have been terminated or allowed to resign for misuse of state resources:

- A high-ranking employee who was hired in Juneau while his spouse remained in another part of the state, left his position when 15 or 20 calls to his spouse during working hours were determined to be excessive personal use of state time and resources.

- A state auditor took several technical books and computer software packages from the office to his home where it remained for several months. When confronted, he maintained he never intended to keep the material and offered immediate return. The state declined to accept that action as sufficient and allowed the employee to resign in lieu of termination.

- An employee who was responsible for approving telephone bills and leave slips for her office was terminated when it was discovered she was failing to submit her own phone reimbursement and leave slips in a timely manner.

MS. THICKSTUN'S RESPONSE

Accompanied by her attorney Edgar Paul Boyko, Ms. Thickstun, in a sworn statement to the ombudsman, said it was never her intention to not pay for the calls and said the problem was she didn't receive the billings so she could go over them and reimburse the state in a timely manner. She also pointed out that she often worked seven days a week and 16-hour workdays were common so she had to conduct some personal business while at the office. She estimated she worked more than 6,400 hours during that two-year period. The record shows she reimbursed the state $131 for her phone calls prior to the ombudsman investigation and more than $1,700 after the investigation began.

"Assuring an honest election process is more important than counting and immediately paying for paper clips," Mr. Coghill said in his written response to the report. The division staff "should not be the center of an attack but rather the recipients of public compliments for their excellent work,." he said.

OMBUDSMAN FOWLER'S RESPONSE

In response to that kind of criticism, the ombudsman report pointed out that Ms. Thickstun ,as a high public official, has a responsibility to set an example of ethical standards for her staff and her continual denial to even recognize any wrongdoing in this matter just perpetuates a double standard of accountability between classified employees and political appointees.

The agency response "clearly does not accept the significant ethical implications discussed by Ombudsman Fowler in the findings and recommendations of this investigation," the report says. The agency response characterizes the misuse of the phones as "technical irregularities" which have now been resolved.

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"Ms. Thickstun has an added responsibility as the director of Elections to set an exemplary standard in all areas but most actively in matters of prudent use of public resources and protection of the public trust, in matters both small and large," the analysis section of the report states. "There are also serious omissions in Ms. Thickstun's behavior which cast doubt on her assertion that she would have, at some time in the future, reimbursed the state for each personal call made. There is no evidence that, absent the ombudsman's investigation, Ms. Thickstun would have initiated the lengthy search and effort which full reimbursement would have required."

In response, Ms. Thickstun has instituted a new phone policy in the elections office. No one is to make long distance calls except in an emergency. Permission must be given by a supervisor and arrangements made for reimbursement.

"No one intentionally set out to hurt anybody or not to pay anything or to be underhanded in some way," Ms.Thickstun said in her statement to the ombudsman. "That is not what has happened here. I think it was simply the fact that we have had too many changes of personnel and the people have been too intimidated to come to me and say 'look at these darn things and get them right back to me, or whatever.'"

Ms. Thickstun termed some of the points in the ombudsman's preliminary report "thinly veiled partisan attacks," against her and pointed to the division's successful elections process in the face of turmoil caused by reapportionment, instituting the closed Republican primary and the recall effort against the governor and lieutenant governor.

In addition to the costs of the actual phone calls, the ombudsman report disagreed with Ms. Thickstun's assertion that requiring elections staff to maintain her personal phone files, highlight calls and take responsibility for eliciting payment from her was a legitimate work assignment.

"In fact, the level of staff attention required by Ms. Thickstun's personal use of the phones would, if all calls were claimed as they occurred, require substantial and ongoing staff time which contributes nothing to the legitimate function of the agency," the report said.

LT. GOV. COGHILL'S RESPONSE

As a matter of policy, the Office of the Ombudsman does not recommend specific personnel actions be taken. Any disciplinary action against Ms. Thickstun was left up to her boss Lt. Gov. Jack Coghill, who oversees the division. It was requested that Mr. Coghill (as Ms. Thickstun's immediate supervisor) review the facts of the investigation and appraise the ombudsman of any action taken as a result.

Ombudsman Duncan Fowler met with Mr. Coghill on three occasions to discuss the facts of the ombudsman investigation, the ethical and fiscal considerations involved and the importance of applying consistent ethical standards in state government.

In response, Mr. Coghill said he will ask for an "independent auditor/investigator" to conduct an investigation that is more "positive and creative" than the ombudsman investigation which " ... at the moment appears to be mostly conclusions from innuendoes."

As to the recommendation that non-policy elections employees be transferred into classified service, Mr. Coghill said he would support changing those employees from "exempt" to "partially exempt." That action would not address the hiring and firing issues addressed in the ombudsman report.

"Assuring an honest election process is more important than counting and immediately paying for paper clips," Mr. Coghill said in his written response to the report. The division staff "should not be the center of an attack but rather the recipients of public compliments for their excellent work,." he said.

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The agency response "clearly does not accept the significant ethical implications discussed by Ombudsman Fowler in the findings and recommendations of this investigation," the report says. The agency response characterizes the misuse of the phones as "technical irregularities" which have now been resolved.

State of Alaska

Legislative Budget and Audit Committee

Session
Rm. 103
State Capitol
Juneau, AK 99801
(907) 465-4949

Interim
P.O. Box 142
Eagle River AK 99577
(907) 694-4949

Sectional Analysis, SB 199

Section 1:

This section amends AS 23.40.200(c) designating the employees in the Division of Elections as class (a)(2) employees for the purpose of collective bargaining. This class of employees may strike, but their right to strike is limited and may enjoined if it threatens the health, safety or welfare of the public.

Section 2:

This section removes the employees of the Division of Elections, except for the director, from the exempt service under AS 39.25.110, but leaves all other employees of the Office of the Lieutenant Governor in the exempt service.

Section 3:

Provides that employees of the Division of Elections shall not be terminated solely because they fail meet the qualifications established for the position that they currently hold.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 199

Revision Date: ______
Dept. Affected: Administration
Title: "An Act relating to employees of the Division of Elections . . . ."
BRU: Personnel/OEEO
Component: Personnel/OEEO
Sponsor: Senate Rules Committee by Request of LBA Com.
Requestor: Senate State Affairs Committee
COMPONENT SERIAL NO. 56

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0

REVENUE FUND SOURCE:	0	0	0	0	0	0

FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: $ none

ANALYSIS: (attach a separate page if necessary.)

Prepared By: Kevin Ritchie, Director
Phone: 465-4429
Division: Personnel/OEEO
Date:

Approved by Commissioner: Nancy Bear Usera
Date: 4/21/93
Agency: Department of Administration

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Amendment

TO: SB 199

Page 4, Lines 12-15, Delete all material

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TO: SB 199

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Page 4, Lines 12-15, Delete all material

Audit Report

OFFICE OF THE
LIEUTENANT GOVERNOR
DIVISION OF ELECTIONS
SELECTED FINANCIAL COMPLIANCE
AND MANAGEMENT ISSUES

February 27, 1993

Audit Control Number:

01-4454-93

Division of Legislative Audit

P.O. Box 113300, Juneau, Alaska 99811-3300

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

DIVISION OF LEGISLATIVE AUDIT

The Legislative Budget and Audit Committee is a permanent interim committee of the Alaska Legislature. The committee is made up of five senators and five representatives, with one alternate from each legislative chamber. The chairmanship of the committee alternates between the two chambers every legislature.

The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than $5 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

As a guide to all their work, the Division of Legislative Audit complies with generally accepted auditing standards established by the American Institute of Certified Public Accountants and with government auditing standards established by the U.S. General Accounting Office.

Audits are performed at the direction of the Legislative Budget and Audit Committee. Individual legislators or committees can submit requests for audits of specific programs or agencies to the committee for consideration. Copies of all completed audits are available from the Division of Legislative Audit's offices in either Anchorage or Juneau.

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Legislative Auditor
Merle R. Jenson, CPA
Deputy Legislative Auditor

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ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit

P. O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347

February 27, 1993

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

OFFICE OF THE LIEUTENANT GOVERNOR
DIVISION OF ELECTIONS
SELECTED FINANCIAL COMPLIANCE AND MANAGEMENT ISSUES

February 27, 1993

Audit Control Number

01-4454-93

The objectives of this audit were to analyze and evaluate selected Division of Elections (Elections) FY 92 and FY 93 expenditures, to determine Elections' efforts to comply with the appropriations act, to review and assess personnel management issues, to review the appropriateness of contracts and Reimbursable Services Agreements, and to review the recently submitted requests for FY 93 supplemental funds. In addition, the audit discusses the effect of reapportionment and other external factors affecting Elections and the election process.

The audit was conducted in accordance with generally accepted government auditing standards. Our audit approach is further discussed in the Objectives, Scope, and Methodology section of this report. Results of our review are presented in the Auditor Conclusions and Recommendations sections of the report.

Randy S. Welker

Randy S. Welker, CPA
Legislative Auditor

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, we conducted a review of selected financial compliance and management issues of the Office of the Lieutenant Governor, Division of Elections (Elections). We reviewed levels of expenditures, personnel issues, and procurement practices.

Objectives

The specific audit objectives were:

1. To analyze and evaluate selected Elections FY 92 and FY 93 expenditures.
2. To determine Elections' efforts to comply with the appropriations act.
3. To review and assess personnel management issues.
4. To review the appropriateness of contracts and Reimbursable Services Agreements.
5. To review the recently submitted requests for FY 93 supplemental funds.

Scope and Methodology

We focused on issues that have occurred since the advent of the current administration in December 1990. To reach conclusions about this administration's decisions and actions, we compared activity in this timeframe to that in prior periods.

There were several limitations on the scope of our work. These limitations impacted the extent of our analyses.

- Elections has been inconsistent in the manner in which financial activity is recorded on the state accounting system. This limited our ability to identify expenditures for comparison between fiscal years and to identify expenditures by function or by project.

- There has been high turnover of personnel in key positions and Elections lacks documentation supporting the basis of various management decisions. Therefore, we were unable to evaluate certain specific management decisions.

- We did not address any area of expenditures that was being investigated by the State Ombudsman.

In addition, we heard many allegations of improprieties and mismanagement. It was not practical for us to pursue each and every complaint. However in instances where we did investigate the issues, we found some with merit and others to be unsubstantiated.

We evaluated the level of expenditures that occurred in FY 92 and FY 93, but also used expenditures reported in prior years to develop trend analyses. We compared the rate at which the appropriations were spent in our targeted years to previous election and non-election years. We used these analyses to isolate increases in expenditures during FY 92 and FY 93. When possible, we identified whether increased expenditures were directly related to external factors or were the results of management decisions.

In order to address our audit objectives, we reviewed the following:

- Internal Elections' memorandums, correspondence, and other documents relating to their operations.
- Budget documents, requests for revised programs and supplemental appropriations, session laws, and other legislative information relating to Elections' operations.
- Internal reports and documents prepared by the Office of the Governor, Division of Administrative Services.
- Financial reports from the state accounting system.
- Articles of the Alaska Constitution related to apportionment and disbursement of funds.
- Alaska statutes related to various aspects of election operations.
- Applicable sections of the Elections' policy and procedures handbook.
- Applicable sections of the State's Administrative Manual.
- Attorney General opinions and memorandums applicable to issues involving the election process and operations of Elections.
- Ombudsman closed case files related to complaints involving the election process and operations of Elections.
- Court documents related to reapportionment and the election process.

In addition, we conducted interviews with the following individuals and groups:

- Elections' management and staff at the director and regional offices.
- Former employees of Elections.

- Administrative staff of the Office of the Governor.

- Staff at the Attorney General's office and Office of Management and Budget.

- Executive Director, Reapportionment Board.

- Employees at other state agencies who interacted with Elections during the reapportionment and election processes.

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ORGANIZATION AND FUNCTION

The Division of Elections (Elections) organizationally falls under the auspices of the Office of the Lieutenant Governor. Alaska Statute 44.19.020 (1) directs the Lieutenant Governor to administer state election laws. Alaska Statute 15.10.105 directs the Lieutenant Governor to control and supervise Elections and to appoint a director of Elections. This statute gives the director of Elections the authority to act for the Lieutenant Governor in the supervision of central and regional election offices; the employment and training of election personnel; and the administration of all state elections, as well as those municipal elections which the State is required to conduct.

There are numerous statutes and regulations related to the election process. The statutes mandate elections and their frequency. Statewide primary and general elections occur every two years. When elections for national offices are held, those candidates are included on the ballots. In addition, statewide special elections, retention elections for the judicial system, and supervision of several local and regional elections occur throughout each year.

Statewide election districts are redrawn following each decennial census. This redistricting is the responsibility of the Governor and the Governor-appointed reapportionment board. The establishment of precincts within district boundaries is the responsibility of Elections. The statutes give them the power to modify the boundary of a precinct and to establish or abolish a precinct.

Eligibility of candidates must be determined by the director of Elections who is also responsible for ensuring all qualified candidates' names are on the ballot. Candidates not representing a political party may file a petition for placement on the ballot. Also, during national election years, limited political parties may petition to have their candidate placed on the ballot. Elections is responsible for ensuring the validity of the signatures on the petition.

Elections is responsible for printing and distributing ballots and other election materials. Statutes mandate publication of an Official Election Pamphlet prior to each general election. In addition, statutes require full public notice be given of each election. Following an election, upon timely receipt of a properly prepared application, Elections is also required to conduct recounts.

Prior to voting in an election, individuals must be registered to do so. Elections is responsible for maintaining records on voter registration. To accomplish this they maintain voter information on the computerized Voter Registration and Election Management System (VREMS). VREMS provides instant statewide, on-line access for the immediate update of voter rolls. Currently there are approximately 324,000 registered voters in the State of Alaska.

A registered voter may vote in person or by absentee ballot. The director of Elections is to provide administrative supervision over the conduct of absentee voting. In areas where