

ALASKA LEGISLATURE COMMITTEE FILES 1993-1994 8672

8481 SENATE STATE AFFAIRS

**SJR**

**11**

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

January 25, 1993

Hon. Loren Leman  
Alaska State Senate  
State Capitol, Room 113  
Juneau, AK 99801-1182

Dear Senator Leman:

SJR 11 appears on this week's schedule for a hearing before your committee on Wednesday, January 27, 1993. This letter is to express the Department of Law's opposition to that resolution.

SJR 11 is a resolution to place before the voters for the fourth time in 13 years an amendment to the Constitution of the State of Alaska to allow repeal or annulment of regulations by resolution of the legislature. If passed by the voters, the amendment would create a new section 22 in Article II of our state constitution to allow the legislature, by joint resolution, to repeal a regulation adopted by a state department or agency. The resolution would not be subject to the review, and possible veto, of the governor.

The Department of Law opposes the resolution for the following reasons:

1. Under existing law, the legislature has substantial power to guide or limit the adoption of regulations. Initially, the legislature can pass tight statutes that clearly define the executive branch's rule-making authority. The Administrative Procedure Act requires that a regulation must be consistent with the statute. See AS 44.62.030. The Department of Law makes a legal review for consistency before a regulation is filed by the Office of the Lieutenant Governor. After an executive-branch regulation is adopted, if the legislature believes that the regulation is not consistent with the enabling statute, the legislature can amend the statute to clarify its intent. The current system provides the legislature with the power to guide regulation formation.

2. Allowing the legislature to repeal a regulation by resolution would mean a major change in the way law is developed in this state. Regulations have the force of law. Repealing regulations changes law. Our constitution presently grants the power to the legislature to change law by passing a bill, which is then subject to the governor's review and

WALTER J. HICKEL, GOVERNOR

REPLY TO:

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PHONE: (907) 276-3550  
FAX: (907) 276-3677

KEY BANK BUILDING  
100 CUSHMAN ST. SUITE 400  
FAIRBANKS, ALASKA 99701-4679  
PHONE: (907) 452-1568  
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P.O. BOX K— STATE CAPITOL  
JUNEAU, ALASKA 99811-0300  
PHONE: (907) 465-3600  
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DEPARTMENT OF LAW POSITION PAPER

possible veto. Because the governor cannot veto a resolution, allowing repeal of regulations by resolution would allow the legislature to change law without that action being subject to the governor's review. This is an important change in our constitution's system of checks and balances between the legislative and executive branches.

3. By repealing a regulation by resolution, the legislature would not be providing policy guidance or direction that is appropriate to the legislature's law-making function. In other words, the resolution would tell the executive branch that the regulation was unacceptable, but not what is acceptable. The state agency would have to guess again and spend state money to develop a new regulation, which might not be on the "right track." By using a bill, the legislature could change statutes to give clearer policy direction to the executive branch.

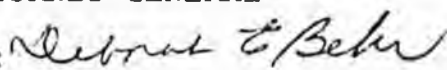
4. The Administrative Procedure Act allows legislators, as well as the general public, to comment on any new regulation proposed. The executive branch considers comments in the development of regulations. In this way, the legislature and the public have input into the regulation-adoption process.

5. Finally, the voters of Alaska have voted down this type of constitutional amendment three times in the last 13 years. We assume that the public means what its votes have indicated, and that the public prefers the status quo on checks and balances in the development and enforcement of regulations.

If you have additional questions, please let me know.

Sincerely,

CHARLES E. COLE  
ATTORNEY GENERAL

By:   
Deborah E. Behr  
Assistant Attorney General

DEB:cl

cc: Sen. Drue Pearce

Charles Cole  
Bruce Botelho

Kris Lethin

# BALLOT PROPOSITION NO. 1

## LEGISLATIVE ANNULMENT OF REGULATIONS Constitutional Amendment

(Committee Substitute for House Joint Resolution No. 82 Amended)

### SUMMARY

(As it will appear on the November 4, 1980 General Election Ballot)

This proposal would permit the legislature to annul, by adopting a resolution; regulations adopted by state agencies. Annulment of regulations by resolution was authorized by the First State Legislature in 1959; however, in 1980 the Alaska Supreme Court held that the constitution permits the legislature to annul a regulation only by passing a bill, which requires three readings of the bill and a roll call vote which is recorded. The procedures for adopting resolutions are governed by legislative rules and require only the approval of the resolution by voice vote of a majority of both houses. A bill passed by the legislature annulling a regulation could be vetoed by the governor or repealed by referendum. A resolution annulling a regulation could not.

### BALLOT FORM:

A vote "FOR" adopts the amendment.

A vote "AGAINST" rejects the amendment.

FOR   
AGAINST

### VOTE CAST BY MEMBERS OF 11TH STATE LEGISLATURE ON FINAL PASSAGE

Senate	(20 members):	Yeas <u>18</u>	Nays <u>0</u>	Absent or Not Voting <u>2</u>
House	(40 members):	Yeas <u>36</u>	Nays <u>0</u>	Absent or Not Voting <u>4</u>

### LEGISLATIVE AFFAIRS AGENCY SUMMARY

(As required by law)

This proposal would add a new section, section 22, to Article II of the state constitution. If adopted, the proposal would authorize the legislature to annul or set aside a regulation which has been adopted by a state department or agency. In order to annul a regulation, the legislature could adopt a concurrent resolution by approval of the resolution by majority vote of the membership of each house of the legislature. The resolution specifies the date on which the annulment of a regulation would take effect.

### FULL TEXT OF PROPOSED CONSTITUTIONAL AMENDMENT

**SECTION 22. ANNULMENT OF REGULATIONS.** The legislature by a concurrent resolution approved by a majority vote of the membership of each house may annul a regulation adopted by a state department or agency. The annulment of the regulation is effective on the date the concurrent resolution is approved by both houses unless the concurrent resolution specifies a different date.

SAMPLE INITIATIVES

## STATEMENT IN FAVOR OF BALLOT PROPOSITION NO. 1

The legislature, when it writes a law, cannot foresee all of the possible details involved in carrying it out. The appropriate administrative agency is therefore allowed to write regulations which spell out who does what, when, where, and how. If the agency does no more than this no problem is created.

Unfortunately agency regulations are not always consistent with the intent the legislature had in passing the law. Sometimes an agency will get carried away and put out regulations that cause an unnecessary burden for the citizens. The First State Legislature realized this and provided a simple solution. The legislature could, by a concurrent resolution passed by a majority in each house, annul an administrative regulation. Such a resolution is not subject to the governor's veto.

The Alaska Supreme Court recently held, in a 3-2 decision, that the legislature must use a bill rather than a resolution to annul administrative regulations. But a bill is subject to

the governor's veto. The governor can hardly be expected to approve a bill overruling his subordinates, who put out the regulation in the first place. The present governor has already vetoed one such bill.

The court ruling gives agency regulations equal standing with laws, even though no single person elected by the voters has approved them.

Our government is wisely based on dividing power among the three branches: legislative, executive and judicial. The current situation gives entirely too much power to the executive branch. Your approval of this constitutional amendment will restore the better balance under which the state operated from 1961 to 1980.

— Charles H. Parr  
Chairman, House Judiciary Committee  
Alaska State Legislature

## STATEMENT AGAINST BALLOT PROPOSITION NO. 1

This is still another proposal by the legislature to free itself from the checks and balances of our constitution. Under the constitution, the legislature has all the power it needs to make laws and annul administrative regulations. This proposal does not aid the public in any way. What it does is allow the legislature to exercise its power to annul regulations in disregard of the constitutional requirements that each bill have a single subject and that each bill have three readings in each house, and that there be a recorded vote of the ayes and nays on final passage. It would also free the legislature from the executive veto and it would allow it to ignore the prohibition against special and local legislation.

The Alaska Supreme Court has recently ruled that the legislature must abide by the constitution's checks and balances on its power whenever it exercises that power, including when it acts to annul regulations. This amendment is intended to overrule the court's decision and erode the constitution's safeguards. It aids legislators, not the public, and it should be rejected.

— Katherine D. Nordale  
Delegate to the Alaska  
Constitutional Convention,  
1955-1956

# MEASURE NO. 1

## Constitutional Amendment

### LEGISLATIVE ANNULMENT OF ADMINISTRATIVE REGULATIONS (1983 Legislative Resolve No. 15 (SCS HJR 5(Jud)))

#### SUMMARY

*(As it will appear on the November 6, 1984 General Election Ballot)*

This amendment of the Alaska Constitution would permit the legislature to annul executive-branch regulations by passing a resolution. The annulment would become effective 30 days after passage by the legislature, unless the resolution sets a different date. The resolution must have three readings in each house on separate days, except that it may be advanced from second to third reading on the same day by a three-fourths vote of the house considering it. The resolution must receive approval of a majority of the membership of each house. The yeas and nays on final passage must be entered in the legislative journals. The resolution is not subject to veto by the governor, and it is not subject to repeal by referendum.

#### BALLOT FORM:

A vote "FOR" adopts the amendment.

A vote "AGAINST" rejects the amendment.

FOR   
AGAINST

#### VOTES CAST BY MEMBERS OF THE 13TH STATE LEGISLATURE ON FINAL PASSAGE

Senate	(20 members):	Yeas 19	Nays 0	Absent or Not Voting 1
House	(40 members):	Yeas 34	Nays 2	Absent or Not Voting 4

#### LEGISLATIVE AFFAIRS AGENCY SUMMARY

*(As required by law)*

This proposal for a constitutional amendment would allow the legislature to annul a regulation adopted by a state department or agency by concurrent resolution. The annulment is effective thirty days after the date the concurrent resolution is approved by both houses unless the resolution specifies a different date. Adoption requires three readings in each house on three separate days except it may be advanced from second to third reading on the same day by concurrence of three fourths of the membership of the house considering it. Adoption requires approval by a majority vote of the membership of each house. The vote on final passage must be entered into the journal.

#### FULL TEXT OF PROPOSED CONSTITUTIONAL AMENDMENT - -

*(This amendment would add the following section to article II of the Alaska Constitution.)*

**SECTION 22. ANNULMENT OF REGULATIONS.** The legislature by concurrent resolution may annul a regulation adopted by a state department or agency. The annulment of the regulation is effective thirty days after the date the concurrent resolution is approved by both houses unless the concurrent resolution specifies a different date. The concurrent resolution requires three readings in each house on three separate days, except that it may be advanced from second to third reading on the same day by concurrence of three-fourths of the house considering it, and approval by a majority vote of the membership of each house. The yeas and nays on final passage shall be entered into the journal.

## STATEMENT IN FAVOR OF BALLOT MEASURE NO. 1

Voters who have ever experienced irritation or anger as a result of a problem they have had with state regulations should vote in favor of Ballot Measure No. 1. While many regulations do conform to and support state laws, there are occasionally regulations which are imposed that go beyond the intent of the law and cause undue hardship on our citizens. These regulations often make no sense at all, state agency people are often at a loss to explain the meaning or sense of the regulations, and yet the state agencies involved continue to enforce them, and voters are powerless to change them.

The Alaska Constitution, patterned essentially upon the Constitution of the United States and the experience of the other states, provides a system of checks and balances among the three branches of government, and further entitles the people to their own checks and balances through the voting booth, the initiative process, and final authority over amendments to the constitution. The one major area of government that is currently not directly accessible to the people's checks and balances is the very considerable volume of administrative regulations which are written by the state agencies in the executive branch of government.

These regulations deal with every aspect of government and our lives: fish and game, education, health and social services, traffic, land development, utilities, taxes; the list is endless. And once the regulations go into effect, they have all the force of law. The problem is, that unlike the situation that occurs with laws, the agency people who make and enforce regulations are not subject to voter approval at election time; they are either appointed by the governor or by his commissioners.

While the legislature is often made aware of foolish bureaucratic requirements by unhappy constituents, it is almost powerless to do anything about them. Currently, to annul a regulation, the legislature must pass a new bill which is then subject to veto by the governor. This puts the governor in the powerful position of being able to stop a bill that would overturn a regulation made by his own subordinates.

It was never intended by the framers of our State Constitution that any governmental body except the legislature have the power to make laws. Yet, bad regulations have been written, on occasion by state agencies, which go beyond the letter and intent of the law as passed by the legislature and in effect create law on their own.

This measure would provide a reasonable avenue for annulment of bad regulations. It would allow your elected representatives in the legislature, through a majority vote of both houses, to annul regulations in the same way they pass any legislative bill, except it would not be subject to veto by the governor, who clearly has a biased position in the matter.

The House Joint Resolution which created the ballot measure had bi-partisan sponsorship during the last legislative session, and was passed with near-unanimous support by both houses of the legislature.

—Mike Szymanski,  
State Representative

## STATEMENT OPPOSING BALLOT MEASURE NO. 1

This proposed amendment to the Alaska Constitution is very similar to the one proposed in 1980 and rejected by the voters 82,010 to 58,808. Although the present version includes some improvements over the 1980 version, it is another attempt by the legislature to concentrate governmental power in its own hands.

Under the current constitution and statutes, the legislature has all the power it needs to make laws and to limit or guide the adoption of administrative regulations. The regulations are adopted to implement statutes. This proposal would enable legislators to use a law-making procedure that is not subject to veto by the governor or repeal by referendum, and that could be used to ignore the prohibition against special and local legislation.

The constitution now provides for a balance of power among the legislative, executive, and judicial branches of the government. This balance requires a blending or sharing, as well as a dividing, of governmental responsibilities. If this constitutional amendment were to be approved by the voters, it would enable the legislature not only to write the laws, as has traditionally been the legislature's function, but it would also enable the legislature to act in place of the courts in deciding whether the executive has lawfully executed the laws when adopting a regulation; and it would empower the legislature to act in place of the executive by nullifying a specific executive-branch decision.

The annulment is like a repeal. In using this expedited procedure to annul a regulation, the legislature would act only in a negative way. It would not be providing the sort of policy guidance and direction that is appropriate to its law-making function. And it would not be providing the thoughtful analysis necessary to solve a problem. The legislature would be saying to the agency "your decision to adopt that regulation is wrong". But it would not be telling the agency what would be right. This is especially troublesome when dealing with a complex subject. Without any guidance beyond the statute that the executive branch agency was trying to implement in the first place, the agency is left with only the option to guess again. That is neither an efficient nor an appropriate way to run the government.

The Alaska Supreme Court has ruled that the legislature must abide by the Constitution's checks and balances on its power when it exercises that power, including when it acts to annul regulations. The present proposal is intended to overrule the court's decision. As argued four years ago, when the voters rejected the 1980 proposal, this amendment would aid legislators, not the public, and it should be rejected.

—Katherine D. Nordale,  
Delegato to the Alaska Constitutional Convention, 1955-1956

# BALLOT MEASURE NO. 2

## Constitutional Amendment Legislative Annulment of Administrative Regulations (1986 Legislative Resolve No. 60 HCS SJR 40 [Jud] am H)

### BALLOT LANGUAGE

(As it will appear on the November 4, 1986, General Election Ballot)

This amendment of the Alaska Constitution would permit the legislature to annul executive branch regulations by passing a resolution that is not subject to veto by the governor or repeal by referendum. The annulment would become effective 30 days after passage by the legislature, unless the resolution sets a different date. The resolution must have three readings in each house on separate days, except that it may be advanced from second to third reading on the same day by a three-fourths vote of the house considering it. The resolution must receive approval of a majority of the membership of each house. The yeas and nays on final passage must be entered in the legislative journals.

A vote "FOR" adopts  
the amendment.

FOR

A vote "AGAINST"  
rejects the amendment.

AGAINST

### VOTES CAST BY MEMBERS OF THE 14TH ALASKA LEGISLATURE ON FINAL PASSAGE

House:	Yeas	31
	Nays	4
	Absent or Not Voting	5
Senate:	Yeas	17
	Nays	0
	Absent or Not Voting	3

### LEGISLATIVE AFFAIRS AGENCY SUMMARY

(HCS SJR 40 [Jud] am H)

This proposal for a constitutional amendment would allow the legislature to annul a regulation adopted by a state department or agency by its adoption of a concurrent resolution. Under the present provision of the constitution, the legislature may annul a regulation only by the enactment of a bill that is subject to the veto of the governor; if the governor vetoes the bill, the constitution now requires a two-thirds affirmative vote of the legislature assembled in joint session to override the veto.

If the legislature adopts a concurrent resolution to annul a regulation under the authority proposed here, the annulment would be effective thirty days after the date the concurrent resolution is approved by both houses unless the resolution specified a different date. The concurrent resolution would not be subject to the veto of the governor. Adoption would require three readings in each house on three separate days except that it may be advanced from second to third reading on the same day by the concurrence of three-fourths of the membership of the house considering it. Adoption would require approval by a majority vote of each membership of each house. The vote on final passage must be entered into the journal.

### FULL TEXT OF PROPOSED CONSTITUTIONAL AMENDMENT

(This amendment would add the following section to article II of the Alaska Constitution.) - -

**SECTION 22. ANNULMENT OF REGULATIONS.** The legislature by concurrent resolution may annul a regulation adopted by a state department or agency. The annulment of the regulation is effective thirty days after the date the concurrent resolution is approved by both houses unless the concurrent resolution specifies a different date. The concurrent resolution requires three readings in each house on three separate days, except that it may be advanced from second to third reading on the same day by concurrence of three-fourths of the house considering it, and approval by a majority vote of the membership of each house. The yeas and nays on final passage shall be entered into the journal.

## BALLOT MEASURE NO. 2

### STATEMENT IN SUPPORT OF BALLOT MEASURE NO. 2

The issue is basically simpler: should bureaucrats or the Legislature be the ultimate lawmaking authority?

All 60 members of the Legislature (40 House and 20 Senate) are elected by the people. They are all voted in to, and out of, office by individual voters. The Alaska Constitution says, "The legislative (i.e., lawmaking) power of the State is vested in a Legislature consisting of a Senate... and a House of Representatives..." The Legislature proposes, considers, and enacts laws, known collectively as the Alaska Statutes (if general and permanent) or as the Session Laws of Alaska (if specific and temporary).

All bureaucrats who promulgate (i.e., enact and enforce) regulations (theoretically, to put laws into effect) are in the Executive Branch, headed by the Governor. Bureaucrats are not voted into office and thus cannot be removed by the people. Instead, bureaucrats are hired by the Governor or by his/her appointees, and thus can only be removed from office by the Governor or by somebody answerable to him/her. However, the regulations promulgated by the bureaucrats, known collectively as the Alaska Administrative Code, have the force of law and affect all of us, sometimes adversely.

What can be done about a law that's bad? It can be repealed by the Legislature or, in some cases, by the people directly via an initiative petition.

What about a regulation that's bad? It can only be repealed by the bureaucrats who promulgated it, up to and including the Governor. If the Legislature tries to repeal a regulation by passing a bill, the Governor will almost certainly (and always has, in the past) veto the bill so that the bad regulation stays in full force and effect.

Now, if the Legislature had the power to repeal regulations by passing a concurrent resolution (instead of a bill), then the resolution could not be vetoed by the Governor. Thus, the Legislature would be able to get rid of bad regulations, which in effect it cannot do now.

Would this give the Legislature too much power? Not hardly. Since the Legislature already has full power to enact laws, why shouldn't it have full power to repeal all laws, including regulations?

Why do Governors and bureaucrats oppose giving the Legislature such regulatory repeal power? Because Governors and their handpicked bureaucrats, which are answerable only to the Governor (and cannot be removed by the people, which can remove Legislators), don't want to lose the power they now have to promulgate and enforce any regulation they want. It's that simple.

If you feel that the Legislature should have the power to repeal regulations via concurrent resolution (not vetoable by the Governor), vote FOR the ballot measure. If you feel that bureaucrats should be the ultimate lawmaking authority, vote otherwise.

I recommend that you vote FOR. Only in this way will we realistically be able to get rid of bad regulations.

Andre Marrou  
State Representative

### STATEMENT OPPOSING BALLOT MEASURE NO. 2

For the third time in six years, the legislature insists on confronting the voters with a proposed constitutional amendment giving the legislature a short-cut to law-making—another attempt by the legislature to concentrate governmental power in its own hands. The voters rejected a similar proposal in 1980 and the identical proposal in 1984. It should be rejected again.

Under the current constitution and statutes, the legislature has all the power it needs to make laws and to limit or guide the adoption of administrative regulations. Regulations are adopted to implement statutes. They have the force of law. Annuling them changes the law. This proposal would enable legislators to use a law-making procedure that is not subject to veto by the governor or repeal by referendum, and that would be used to ignore the prohibition against special and local legislation.

The constitution now provides for a balance of power between the legislative, executive, and judicial branches of the government. This balance requires a blending or sharing, as well as a dividing, of governmental responsibilities. If this constitutional amendment were to be approved by the voters, it would enable the legislature not only to write the laws, as has traditionally been the legislature's function, but it would also enable the legislature to act in place of the courts in deciding whether the executive has lawfully executed the laws when adopting a regulation, and it would empower the legislature to act in place of the executive by reversing a specific executive-branch decision.

In its intent statement accompanying this proposal, the legislature admitted that the "difficulty in achieving [the two-thirds] majority [to override a veto] in opposition to the governor and the governor's administration has led the legislature to propose this amendment." In other words, the fear that the governor might veto a bill and that not enough legislators would agree to override that veto prompted this short-cut approach to law-making. That fear overlooks the governor's accountability to the voters throughout the state.

The annulment is like a repeal. The legislature would act only in a negative way. It would not be providing the sort of policy guidance and direction that is appropriate to its law-making function. The legislature would be saying to the agency "your decision to adopt that regulation is wrong." But it would not be telling the agency what would be right. This is especially troublesome when dealing with a complex subject. Without any guidance beyond the statute that the executive-branch agency was trying to implement in the first place, the agency is left with only the option to guess again. That is neither an efficient nor appropriate way to run the government.

The Alaska Supreme Court has ruled that the legislature must abide by the constitution's checks and balances on its power, including when it acts to annul regulations. The present proposal is intended to overrule the court's decision. As mentioned when the voters rejected the 1980 and 1984 proposals, this amendment would aid legislators, not the public, and it should be rejected.

Katherine D. Nordale  
Delegate to the Alaska  
Constitutional Convention, 1955-1956

FISCAL NOTE

STATE OF ALASKA  
1993 LEGISLATIVE SESSION

BILL NO. SJR 11

Revision Date: \_\_\_\_\_  
Title: Amendment to the Constitution; RE: repeal of regulations by the legislature  
Sponsor: Senators Pearce, Kelly, Frank, Phillips  
Requestor: \_\_\_\_\_

Department Affected: Office of the Governor  
BRU: Division of Elections  
Component: General and Primary Elections  
COMPONENT SERIAL NO. 22

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	2.2*	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	2.2*	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	2.2*	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	2.2*	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 figure covers cost of inclusion of information about this issue in the Official Elections Pamphlet as required by AS 15.58, and programming for DataVote counting of votes cast on the measure. However, only 4 measures can be printed on a single ballot card. Should this measure require printing an additional ballot card, the fiscal impact would be 53.4.

Prepared by: Charlot E. Thickstun, Director Phone: 465-4611  
Division: Division of Elections Date: 1/15/93

Approved by Commissioner: Lt. Governor John B. Coghill  
Agency: Office of the Lt. Governor Date: 1/15/93

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Sponsor Statement for SJR-11  
Senate State Affairs  
1-27-93

Repeal of Regulations by the Legislature

Mr. Chairman, and members of the Committee, this resolution is a proposal to place a constitutional amendment before the voters of the State of Alaska at the next general election.

This measure, if passed, would permit the annulment of regulations by joint resolution. This would allow the legislature to take action on poorly considered regulations promulgated by state agencies. Adoption of a resolution annulling a regulation would require approval by majority vote of each body of the legislature.

Mr. Chairman, in your files you will find samples of the ballot propositions from the 1980, 1984, and 1986 general elections. You will also find the Pro and Con statements that were included in the voter pamphlets from those years.

This resolution carries a small fiscal note, \$2,200 from the Division of Elections, to cover the cost of placing this question on the election ballot.

While most regulations do conform to and support the laws passed by the legislature, there are some instances where regulations have been imposed on the citizens of the state which have gone far beyond the intent of laws passed by the legislature. Once regulations are promulgated they have the force of law, even though no single person elected by the voters has approved them. I firmly believe that the framers of our state constitution never intended any governmental body, except the legislature, to have the power to write laws.

The annulment of regulations by resolution was authorized by the First State Legislature in 1959. However, in 1980 the Alaska Supreme Court ruled, in a 3-2 decision, that the constitution permits the legislature to annul a regulation by passing a bill. A bill passed by the legislature annulling a regulation can be vetoed by the governor or repealed by referendum. A resolution annulling a regulation can not.

The Alaska Constitution provides a system of checks and balances among the three branches of government and further provides the people of Alaska their own checks and balances through the voting booth, the initiative process, and final authority over amendments to the constitution.

SPONSOR STATEMENT

The one area that is not currently balanced is the administrative regulations written by state agencies. Regulations affect every aspect of Alaskan's lives, yet they are powerless to change them.

Mr. Chairman, and members of the committee, this measure would provide a reasonable avenue for annulment of improper regulations.

**SJR**

**23**

Sen. Randy Phillips  
Chairman  
Rep. Terry Martin  
Vice Chairman  
Sen. Al Adams  
Sen. Steve Frank  
Sen. Steve Rieger  
Sen. Bert Sharp  
Rep. John Davies  
Rep. Mark Hanley  
Rep. Ron Larson  
Rep. Eileen MacLean

# 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

March 22, 1993

### Sectional Analysis

#### CS SJR 23

##### Section 1:

Amends Article IX, Sec 14 of the Alaska Constitution. This section changes the word "he" to "The Legislative Auditor" thus making this section of the Constitution gender neutral. In addition, section 1 specifies in the Constitution that the auditor conducts "special audits" as well as post audits.

##### Section 2:

Amends Article IX, Sec 14 of the Alaska Constitution. (b) This section provides that the Legislative Auditor has the power to order the impoundment of money appropriated to an agency that has made expenditures or obligated funds contrary to law, or has failed to properly account for expenditures or revenues, *upon approval of a majority of the members of a committee of the legislature designated by law.*

(c) Provides for the release of an impounded appropriation, either by the auditor, or by *a majority vote of the committee that approved the impoundment order.*

##### Section 3:

Provides that the proposed amendment will be placed before the voters at the next general election.

8-LS0581V  
Cook  
3/17/93

CS FOR SENATE JOINT RESOLUTION NO. 23( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
EIGHTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:  
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND  
AUDIT COMMITTEE

A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to the  
2 powers and duties of the legislative auditor.

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

4 \* Section 1. Article IX, sec. 14, Constitution of the State of Alaska, is amended to read:

5 SECTION 14. LEGISLATIVE POST-AUDIT. (a) The legislature shall  
6 appoint an auditor to serve at its pleasure. The legislative auditor [HE] shall be a  
7 certified public accountant. The auditor shall conduct post-audits and special audits  
8 as prescribed by law and shall report to the legislature and to the governor.

9 \* Sec. 2. Article IX, sec. 14, Constitution of the State of Alaska, is amended by adding  
10 new subsections to read:

11 (b) If the legislative auditor finds that an office, department, public  
12 corporation, the University of Alaska, or other agency of the executive or judicial  
13 branches of State government has made expenditures or obligated funds contrary to  
14 law or has failed to account properly for expenditures or revenues, the auditor may,  
15 upon approval by a majority of the members of a committee of the legislature  
16 designated by law, order the governor to impound money appropriated to that agency.

1       The order must state the reason for the impoundment and must specifically identify the  
2       money to be impounded. Within five days after receipt of the order the governor shall  
3       impound the money identified by the legislative auditor and ensure that it is not  
4       expended, encumbered, or otherwise obligated.

5               (c) If the legislative auditor determines that the situation that led to the  
6       impoundment order has been corrected or that impoundment is not in the best interests  
7       of the State, the auditor may order the governor to release money impounded under  
8       (b) of this section. The committee that approves an impoundment order under (b) of  
9       this section may reverse the order if reversal is approved by a majority of the  
10      committee members.

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

SENATE JOINT RESOLUTION NO. 23

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND  
AUDIT COMMITTEE

Introduced: 2/22/93  
Referred: STA, JUD, FIN

A RESOLUTION

1 Proposing amendments to the Constitution of the State of Alaska relating to the  
2 powers and duties of the legislative auditor.

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

4 \* Section 1. Article IX, sec. 14, Constitution of the State of Alaska, is amended to read:

5 SECTION 14. LEGISLATIVE POST-AUDIT. (a) The legislature shall  
6 appoint an auditor to serve at its pleasure. The legislative auditor [HE] shall be a  
7 certified public accountant. The auditor shall conduct post-audits and special audits  
8 as prescribed by law and shall report to the legislature and to the governor.

9 \* Sec. 2. Article IX, sec. 14, Constitution of the State of Alaska, is amended by adding  
10 new subsections to read:

11 (b) If the legislative auditor finds that an office, department, public  
12 corporation, the University of Alaska, or other agency of the executive or judicial  
13 branches of State government has made expenditures or obligated funds contrary to  
14 law or has failed to properly account for expenditures or revenues, the auditor may  
15 order the governor to impound money appropriated to that agency. The order shall  
16 state the reason for the impoundment and shall specifically identify the money to be

1 impounded. Within five days after receipt of the order the governor shall impound the  
2 money identified by the legislative auditor and ensure that it is not expended,  
3 encumbered, or otherwise obligated.

4 (c) If the legislative auditor determines that the situation that led to the  
5 impoundment order has been corrected or that impoundment is not in the best interests  
6 of the State, the auditor may order the governor to release money impounded under  
7 (b) of this section. The legislature may reverse an impoundment order of the auditor  
8 by a resolution concurred in by a majority of the members of each house. ] \*

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

Sen. Randy Phillips  
Chairman  
Rep. Terry Martin  
Vice Chairman  
Sen. Al Adams  
Sen. Steve Frank  
Sen. Steve Rieger  
Sen. Bert Sharp  
Rep. John Davies  
Rep. Mark Hanley  
Rep. Ron Larson  
Rep. Eileen MacLean

# State of Alaska



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

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

## Legislative Budget and Audit Committee

### Memorandum

TO: Senator Loren Leman, Chair  
State Affairs Committee

FROM: Senator Randy Phillips, Chair *REP*  
Legislative Budget and Audit Committee

DATE: March 16, 1993

RE: Sponsor Statement in Support of:  
Senate Joint Resolution No. 23  
Proposing Amendments to the Constitution of the State of  
Alaska relating to the powers and duties of the legislative  
auditor.

Each year the Legislative Auditor performs a statewide single audit of the state's financial statements as well as a number of special audits of individual agencies and programs. In the course of these audits, the Auditor may find material violations of accounting standards or even state statutes. These violations, along with recommendations on how to cure the violations, are reported to the Legislative Budget and Audit Committee and released to the public in a report. Regardless of the gravity of the violations, the Legislative Auditor, and thus the Legislature has no power to enforce any recommendations.

Senate Joint Resolution 23 was introduced to provide an enforcement mechanism for the Legislative Branch of government. The Constitutional Amendment proposed by SJR 23 would allow the Legislative Auditor to impound appropriations in the case where an agency is found to have made expenditures contrary to law or has failed to properly account for

expenditures or revenues. It is expected and hoped that this power would never be used. However, I feel that it is appropriate and necessary that this power be available.

On the surface, placing the power to impound appropriations in the hands of one person, the Legislative Auditor, would appear to be an invitation to abuse of that power. The Auditor serves at the pleasure of the Legislature and can be removed by a majority of the Legislative Budget and Audit Committee. Any abuse of the impound powers would be subject to a check by that Committee and by the full Legislature.

**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

**MEMORANDUM**

**TO:** The Honorable Randy Phillips  
Chairman, Legislative Budget  
and Audit Committee

**FROM:** Randy S. Welker *Randy*  
Legislative Auditor

**DATE:** March 16, 1993

**RE:** Senate Joint Resolution No. 23

At your request, we have looked at the authority and processes that exist in other states for the enforcement of audit recommendations. There are no two states the same. Additionally, many states acknowledge that they are in the same position that we find ourselves in - no authority to require implementation of recommendations. The following are examples of four states with some degree of enforcement language. The authority is vested in a variety of positions or committees.

State of Nevada

The U.S. General Accounting Office has recognized the Legislative Auditor's monitoring and followup system in a publication titled: *How to Get Action on Audit Recommendations* issued in July 1991. Not by coincidence, our proposed system in SB 128 closely follows their system. The Nevada system provides that the Director of the Department of Administration (similar to our Office of Management and Budget) may withhold money appropriated to the agency for failure to submit a corrective action plan. Our proposal as embodied in SB 128 and SJR 23 place that authority with the Legislative Auditor, a position independent of the executive branch; free from the political influences of the affected agency.

Senator Randy Phillips

-2-

March 16, 1993

State of Georgia

The State of Georgia is currently considering a resolution amending the constitution to create the office of inspector general. The position would be responsible for the prevention and detection of fraud, waste, and abuse in the expenditure of public funds. The inspector general would have the authority to institute civil or criminal action necessary for the enforcement of the provisions of the office.

State of South Carolina

The oversight committee for the State Auditor is the State Budget and Control Board. State law provides that the Board shall withhold a portion of the funds appropriated to any state agency (including but not limited to the agency head salary) which fails to satisfactorily correct material weaknesses in its internal accounting system as cited in a management letter issued by the State Auditor or which fails to immediately take sufficient action to prevent recurrence of any cited violation of state laws or regulations.

State of Oregon

The Director of Audits in Oregon is employed by the elected Secretary of State. Information we have reviewed shows that the salary of public officials may be withheld if they fail to correct deficiencies disclosed in two successive audits.

I hope this gives you a general idea of the various means states have chosen to encourage audit recommendation implementation. If I can be of further help, please call.

Sen. Randy Phillips  
Chairman  
Rep. Terry Martin  
Vice Chairman  
Sen. Al Adams  
Sen. Steve Frank  
Sen. Steve Rieger  
Sen. Bert Sharp  
Rep. John Davies  
Rep. Mark Hanley  
Rep. Ron Larson  
Rep. Eileen MacLean

# State of Alaska



## Legislative Budget and Audit Committee

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

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

March 16, 1993

### Sectional Analysis

#### SJR 23

##### Section 1:

Amends Article IX, Sec 14 of the Alaska Constitution. This section changes the word "he" to "The Legislative Auditor" thus making this section of the Constitution gender neutral. In addition, section 1 specifies in the Constituion that the auditor conducts "special audits" as well as post audits.

##### Section 2:

Amends Article IX, Sec 14 of the Alaska Constitution. (b)This section provides that the Legislative Auditor has the power to order the impoundment of money appropriated to an agency upon written findings that the agency has made expenditures or obligated funds contrary to law, or has failed to properly account for expenditures or revenues.

(c) Provides for the release of an impounded appropriation.

##### Section 3:

Provides that the proposed amendment will be placed before the voters at the next general election.

**SJR**

**38**

**BOB STOKES**  
4111 VISCOUNT CIRCLE  
ANCHORAGE, ALASKA 99502

Jan. 10, 1994

Sen. Johnny Ellis  
State Capitol  
Juneau, AK 99801-1182

Dear Senator Ellis:

How would this be for a practice sentence in high school typing:  
"Now is the time for all good people to come to the aid of our  
beloved state"? I refer of course to the price of oil, the decline  
in North Slope production and the absolute necessity of getting  
back on a sound financial track.

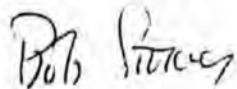
There seems to be a tsunami swelling up in support of the idea put  
forth by Roger Cremo which incorporates the Permanent Fund into  
long range financial planning for the state. On the back of this  
letter is a copy of a column by Fritz Pettyjohn which gives a good  
outline of the Cremo plan and I hope you will take the time to read  
it.\*

The initial role of the Legislature would be to get the proposed  
constitutional amendment in front of the people in the 1994  
election this November. If the electorate rejects it, so be it.  
If it passes I sincerely believe the future of our children and  
their children in Alaska will be secured as far as we can make it  
so.

It is of the utmost importance that this not become a partisan  
issue. It is my hope that both sides of the aisle will appreciate  
the importance of this amendment and support it accordingly. This  
seems to be the opportunity of a lifetime to literally save our  
state by sponsoring or co-sponsoring the Cremo amendment.

Thank you for your time.

Sincerely,



Bob Stokes

\*There is a typo in the column. \$35 billion was reversed and should  
actually read \$53 billion.

**BEAM: BUSINESS, EDUCATION AND MANAGEMENT CONSULTANT**

Phone: (907) 277-8295, Fax: (907) 277-8354 540 L St., Suite #101 Anchorage, Alaska 99501-1945

**KAREN ELIZABETH DEMPSTER B.A., M.ED., ED.S.**

Specialist in:

Labor Relations, Contract Interpretation, Management &amp; Budget Analysis

July 12, 1993

LETTERS TO THE DAILY NEWS

258-2157

Anchorage Daily News

P.O. Box 149001

Anchorage, Alaska 99514-9001

Dear Editor,

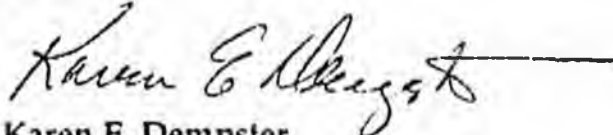
In response to Roger Cremo's Saturday, July 10, 1993 Compass piece, and its headline "We can indeed stabilize Alaska's economy, starting in '94", I thought of the line from a song: "There is nothing to it but to do it!"

The only cogent, comprehensive and systemic plan available to deal with the curse of the Alaska boom/bust economy is the one proposed by Roger Cremo. We have a unique economy in that our vast natural resources are locked up and owned by either the state or federal government. Our largest and most significant employer is the state and federal government. And, the words of the statehood act leave us no immediate way to change this ownership situation. Our only controllable capital asset is the Permanent Fund. If, as Mr. Cremo demonstrates, we can strengthen the Permanent Fund by placing all natural resource revenues into this reservoir, then metering out the earnings for dividends and the running of state government at a sustainable and predictable rate, we can achieve stability.

Stability means no more destructive boom/bust. It means we can forward fund for education and municipal government. Because we can predict state funding levels, we can achieve long term budgeting. Instead of politicians promising us reform, then excusing the lack of reform by citing the unpredictability of funding, we can hold our representatives responsible for planning and executing a budget as promised in their campaigns.

There is nothing to it, but to do it!

Sincerely,



Karen E. Dempster

NIB  
Pg 2

KENAI PENINSULA CAUCUS  
AN ORGANIZATION REPRESENTING  
MUNICIPAL GOVERNMENTS AND CHAMBERS OF COMMERCE  
OF THE KENAI PENINSULA BOROUGH  
177 North Birch Street, Soldotna, AK 99669  
Phone: 262-9107

Board of Directors

Municipal Governments

Don Gilman, Kenai Peninsula Borough  
Betty Glick, Kenai Peninsula Borough  
Ken Lancaster, City of Soldotna  
Michael O'Link, Kachemak City  
Ivan Widom, City of Seldovia  
Dave Crane, City of Seward  
John Williams, City of Kenai

Chambers of Commerce

Joanne Collins, Anchor Point  
Gloria Wisecarver, Funny River  
Todd Greimann, Homer  
Vicki Steik, Ninilchik  
Jack Brown, North Peninsula  
Darlene Crawford, Seldovia  
Elaine Nelson, Seward  
John Torgerson, Soldotna

To: Senator John Ellis c/o Nina  
Fax: 465-2529 - - Five (5) Pages  
From: Richard Underkofler, Secretary, Kenai Peninsula Caucus  
Date: January 13, 1994

---

I am forwarding copies of Resolutions from the Kenai Peninsula Borough and the cities of Soldotna, Homer and Seward petitioning the Alaska Legislature to place a constitutional amendment on the ballot for the next general election that would enable a state wide vote on Roger Cremo's proposal to enable a percentage of the market value of the permanent fund to be withdrawn and appropriated for financing state government.

It is my understanding that you have already received the City of Kenai's Resolution endorsing this proposition. A similar Resolution will be considered by the Kenai Peninsula Caucus at a meeting to be held January 28, 1994.

Roger Cremo's proposal appears to have broad, non-partisan support on the Kenai.

Thanks for introducing a Senate Resolution that would enable this proposition to be considered by the legislature.





**First National Bank**  
of Anchorage

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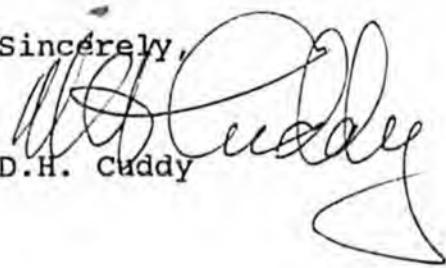
January 13, 1994

Senator Johnny Ellis  
Room 9  
Juneau, Alaska 99801

Dear Senator Ellis:

I endorse the Rodger Cremo Plan for the management of the Permanent Fund. You can't beat the magic of compounding.

Sincerely,

  
D.H. Cuddy

LETTER OF SUPPORT

# DIVISION OF LEGAL SERVICES

## LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

### MEMORANDUM

January 14, 1994

**SUBJECT:** Constitutional amendment relating to revenues from natural resources (SJR 38)

**TO:** Senator Johnny Ellis

**FROM:** Tamara Brandt Cook  
Director *TBC*

Here is the sectional summary you requested.

Sec. 1. The existing constitutional provision relating to the permanent fund is repealed and replaced with an entirely new section related to the Alaska permanent fund. Revenue from certain listed natural resource sources received by the state are not appropriable. These revenues constitute the Alaska permanent fund and are to be invested. Income is retained in the fund. Each fiscal year, money is withdrawn in an amount equal to six percent of the average of the market value of the fund at the end of each of the quarters of the three calendar years immediately preceding that fiscal year. The money withdrawn may be appropriated. A public corporation manages the fund. Revenues dedicated by this section do not include revenues that are the subject of other dedications permitted by the constitution.

Sec. 2. The percentage to be withdrawn from the fund in sec. 1 does not apply in fiscal years 1996-2005. In FY 1996 the percentage is twenty and it decreases each fiscal year geometrically until FY 2006, when the six percent level is reached. The assets of the constitutional budget reserve fund, the earnings reserve account of the permanent fund, the Railbelt energy fund, and the statutory budget reserve fund are added to the Alaska permanent fund. The assets of the permanent fund on July 1, 1995 are retained in the fund. The provisions of the first two sections of this resolution are effective July 1, 1995. The following constitutional sections are repealed effective July 1, 1995: sec. 16, art. IX-appropriation limit; sec. 17, art. IX-budget reserve fund; sec. 27, art. XV-reconsideration of amendment limiting increases in appropriations; sec. 28, art. XV-application of appropriation limit amendment.

Sectional Analysis

Senator Johnny Ellis  
January 14, 1994  
Page 2

Sec. 3. Requires the proposed amendments to be placed before the voters at the next general election (November, 1994 if this resolution is passed by the legislature this session).

TBC:pl  
94-039.plm



**Alaska Permanent Fund Corporation**

P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

**MEMORANDUM**

DATE: January 18, 1994

TO: Board of Trustees

FROM: Jim Kelly *JK*  
Research & Liaison Officer

SUBJECT: **20 Questions (and Answers) on the Cremo Plan**

**1) What is the plan's purpose?**

To stabilize state resource revenues at a sustainable level, to increase the size of the Permanent Fund, and to minimize the negative consequences of the fiscal gap.

**1) How does the plan work?**

The plan requires this session's legislature to propose – and the voters in the fall election to approve – an amendment to the State Constitution to provide that beginning July 1, 1995 and henceforth, all natural resource revenues be deposited in the Permanent Fund along with the assets of the state's two budget reserve accounts and the Railbelt Energy Fund. All future income earned by the Fund would be retained in the Fund, but there would be an annual withdrawal from the Fund based on its average market value over the past 12 quarters. The first year, the withdrawal would equal 20 percent, but then would be reduced geometrically each year until the permanent withdrawal rate of 6 percent is reached in the year 2006.

**Research**

**3) Will the plan stabilize state resource-derived revenues at a sustainable level?**

Yes. However, that level would be insufficient, for at least the next 15 years, to fund the entire costs of state government. Matching projected state revenues with projected state spending would still require reductions in the state budget and increases in other non-resource-derived state revenues.

**4) Will the plan increase the size of the Permanent Fund?**

Yes, given the assumptions upon which the plan is based.

**5) What are the assumptions?**

The plan is based on the Department of Revenue's fall 1993 mid-case revenue projections, and assumes an annual total rate of return for the Permanent Fund of 10 percent and an annual inflation rate of 4 percent. The Alaska Permanent Fund Corporation's projections are based on the low-case revenue projections, and assume a long-term average rate of return for the Permanent Fund of 9 percent and a long-term average rate of inflation of 6 percent.

**6) What happens if the more conservative estimates prove to be true?**

If the Corporation's estimates prove accurate, the Fund would still grow larger than under the status quo, but the money provided each year to the treasury from the Permanent Fund would be significantly less than the plan projects.

**7) Why is there a transition period before implementation of the permanent withdrawal rate?**

The plan provides for a higher but gradually reduced withdrawal rate during a 10-year transition period in order to minimize the negative consequences of the fiscal gap. The economy depends to a significant extent on state spending and too sharp a reduction would directly and indirectly eliminate many jobs and sink the state into a serious recession.

**8) What is the rationale for the 6 percent withdrawal rate?**

Given the plan's assumptions, a 6 percent withdrawal rate provides the maximum amount of money to the state treasury while still protecting the Fund against inflation. Arguments can be made that the number should be higher or lower: the higher the rate of withdrawal, the more money is made available for state spending; the lower the number, the greater the protection to the Fund from inflation. From the Fund's perspective, it would be more prudent to base the annual withdrawals on the real growth of the Fund, not on an arbitrary number.

**9) Does the plan provide the Permanent Fund with protection against inflation?**

Only if the annual amount withdrawn by the treasury plus the amount "withdrawn" by inflation is less than the total earnings of the Fund for that year plus the new deposits. Using conservative estimates of all four variables – a 4 percent withdrawal rate, new deposits according to the DOR low-case revenue forecast, a 9 percent earnings rate, and a 6 percent rate of inflation – the Fund experiences a net inflation-proofing surplus in the first 15 years of the plan.

**10) What has been the historic rate of inflation, and what does the Corporation project for the future?**

Since 1926, inflation has averaged just over 3 percent. Since the Fund started in 1977, inflation has averaged just under 6 percent. The Corporation projects a 4 percent average rate of inflation for the next four years, and a 6 percent average rate of inflation over the long-term.

**11) What have been the Fund's historic rate of return, and what does the Corporation project for the future?**

Since the Permanent Fund started in 1977, the realized rate of return has averaged 11 percent. The Fund's total return for the past 9 and 3/4 years has been just over 12 percent. The Corporation projects a 8.37 percent rate of return for the next four years, and a 9 percent rate of return over the long term.

**12) Does the plan provide for the payment of full dividends?**

Technically, the plan would increase dividends because the current statutory dividend formula is based on the Fund's annual income, which would increase. However, using that current statutory dividend formula, the plan would produce significantly less resource revenue for state spending than would be produced under the status quo.

**13) What if the dividends were capped at \$1,000 per capita?**

Then, dividends would be reduced from the status quo, but the revenues made available for state spending would be increased.

**14) How does the plan address the fiscal gap?**

As mentioned above, the plan assumes some combination of state spending cuts and revenue increases. Given the plan's assumptions, a 12% annual increase in conventional revenues and a \$30 million cut in annual state spending would eliminate the fiscal gap.

**15) Are the Cremo Plan's assumptions realistic?**

The assumptions may be realistic, but they are not conservative.

**16) What other effects would adoption of this proposal have on the Permanent Fund?**

The plan would certainly create a need for more staffing and a higher operating budget for the Permanent Fund Corporation. Additionally, and more importantly, the plan might also affect public perceptions. It might blur the distinction between the Permanent Fund as a savings account and the General Fund as the state's spending account, and it might destroy the link which exists currently between the citizens and their savings account. Finally, if state government comes to rely on the Permanent Fund as its primary source of operating revenues, pressure would likely build on the Board of Trustees to take more risks with the investment policy in order to attempt to earn greater rates of return.

**17) Does the plan have advantages over the current situation?**

As the Commission on the Future of the Permanent Fund said about it in 1990, "A successful transition to this concept would remove substantial elements of doubt and uncertainty regarding future state revenues and the health of Alaska's economy."

**18) Does it have disadvantages over the current system?**

The plan forces the legislature to make a number of difficult decisions over the next several years. Based on the Corporation's estimates, it is likely that taxes would have to go up, state spending would have to go down, the dividend formula would have to be adjusted downward, and inflation-proofing would have to be curtailed.

**19) What is the bottom line? Is this a good plan or not?**

The plan is based on sound principles and could work, but there are significant risks involved. If the Fund's growth is significantly hindered, particularly in the early years, either by lower-than-expected oil deposits or deposits of other state reserves, low earnings or high inflation, this plan will not necessarily be an improvement over other alternatives.

**20) What obstacles have to be overcome?**

Before the legislature and the citizens of this state will approve this plan, they need to be convinced that it is clearly an improvement over the status quo. Unfortunately, there are a number of undesirable outcomes which might occur should actual conditions in the future vary significantly from the assumptions upon which the plan is based. Against these uncertainties, one thing is known for sure: the Permanent Fund as currently structured is not broken.



## Alaska Permanent Fund Corporation

### FINANCIAL PROJECTIONS

(In millions)

as of October 31, 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	388	235	6,741	
86	5,741		323	218	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	228	377	12,995	
95	12,995	5	247	530	13,777	
96	13,777	5	257	562	14,601	
97	14,601	5	284	596	15,488	
98	15,488	6	308	632	16,432	
99	16,432	4	310	1,005	17,751	
00	17,751	4	292	1,083	19,130	
01	19,130	4	276	1,165	20,575	
02	20,575	4	266	1,251	22,098	
03	22,096	5	255	1,341	23,696	
04	23,696	5	243	1,437	25,380	
05	25,380	5	228	1,537	27,150	
06	27,150	5	211	1,642	29,008	
07	29,008	5	195	1,752	30,960	
08	30,960	5	181	1,784	32,930	85
09	32,930	5	169	1,838	34,743	349
10	34,743	8	150	1,725	36,632	389
<b>Cumulative Totals Projected for FY 1994 - 2010:</b>						
		5	3,949	20,055		803

#### USE OF FUND INCOME

FY	Net Income	Distributions			Reserves		FY
		Dividends	Inflation-Proofing	General Fund	Add (Delete)	FY End Balance	
78	2			1			78
79	8			7			79
80	32	12		12			80
81	150	28		28	59	59	81
82	368	71		71	185	244	82
83	471	108	231	110	110	354	83
84	530	175	151		203	557	84
85	658	217	235		206	763	85
86	1,021	303	216		501	1,264 **	86
87	1,069	391	148		529	529	87
88	789	424	303		82	581	88
89	668	460	360	4	44	635	89
90	916	487	454	4	(30)	605	90
91	1,030	489	659	4	(24)	581	91
92	1,036	488	477	5	64	645	92
93	1,228	532	362	5	320	865	93
94	1,028	550	377	5	90	1,055	94
95	1,238	584	530		120	1,176	95
96	1,318	614	562		137	1,312	96
97	1,403	652	596		149	1,462	97
98	1,494	681	632		176	1,638	98
99	1,718	753	1,005		(44)	1,594	99
00	1,837	818	1,063		(66)	1,528	00
01	1,960	883	1,166		(82)	1,438	01
02	2,087	955	1,251		(123)	1,313	02
03	2,218	1,031	1,341		(159)	1,154	03
04	2,354	1,098	1,437		(186)	968	04
05	2,494	1,167	1,537		(214)	754	05
06	2,640	1,238	1,642		(245)	508	06
07	2,791	1,312	1,752		(279)	230	07
08	2,948	1,389	1,784		(290)		08
09	3,112	1,468	1,838				09
10	3,282	1,531	1,725				10
	<b>35,920</b>	<b>16,741</b>	<b>20,055</b>	<b>5</b>			

#### REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
94:	7.47%	2.99%	4.48%
95 - 98: ***	8.37%	4.00%	4.37%
99 - 2010:	9.00%	6.00%	3.00%

\* Department of Revenue Fall Mid-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.

MLC CASE 000 10/11/93

Research

Table 23

**Mid Scenario Detailed Revenue Projections**  
(Millions on Dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
FY	SEVERANCE TAX	PROPERTY TAX	OIL & GAS INC. TAX	GROSS ROYALTIES	MINERAL RENTS	BONUS SALES	INCOME FROM PRIOR YEARS	TOTAL PETROLEUM REVENUES	NON-PETR NON-INTR REVENUES	GEN FUND INTEREST REVENUES	TOTAL REVS W/ PERM FND DEDICATION
1981	1170.20	143.00	860.10	1501.60	7.90	14.10	0.00	3696.90	186.10	227.80	4110.80
1982	1581.70	142.70	668.90	1553.20	26.40	10.30	0.00	3983.20	209.00	324.70	4516.90
1983	1493.70	152.60	236.00	1447.40	54.20	73.10	0.00	3457.00	228.60	375.80	4061.40
1984	1393.10	131.00	265.10	1409.00	21.90	16.70	0.00	3236.80	245.80	282.70	3765.30
1985	1389.40	128.40	168.60	1390.30	23.70	23.60	0.00	3124.00	283.00	233.50	3640.50
1986	1107.90	113.50	133.90	1098.20	44.50	70.10	460.70	3028.80	222.40	195.20	3446.40
1987	648.50	102.50	120.40	591.60	29.10	1.00	85.20	1578.30	243.00	161.90	1983.20
1988	818.70	96.20	158.00	953.50	24.20	11.30	329.00	2390.90	223.60	132.60	2747.10
1989	698.80	89.70	166.00	818.70	18.00	23.00	259.70	2073.90	245.10	100.70	2419.70
1990	1001.60	89.80	117.20	1004.43	21.00	0.00	156.80	2390.83	271.33	117.90	2780.06
1991	1284.80	85.00	185.10	1292.83	21.30	38.30	398.59	3305.92	291.04	125.00	3721.96
1992	1053.20	69.00	165.50	1021.32	17.10	5.25	447.61	2693.44	353.40	101.80	3148.64
1993	1017.60	66.90	834.70	982.62	20.30	76.60	75.82	3074.54	325.58	70.90	3471.02
1994	942.80	63.20	189.90	851.20	21.85	1.10	9.40	2079.45	275.69	36.30	2391.44
1995	921.70	60.20	139.00	926.40	20.76	0.00	9.40	2077.46	280.11	27.20	2384.77
1996	924.90	56.70	139.00	967.40	19.72	0.00	9.40	2117.12	280.86	27.20	2425.18
1997	1011.70	53.10	127.00	1071.40	18.73	0.00	13.40	2295.33	289.29	32.20	2616.82
1998	1052.10	49.90	119.00	1164.20	17.80	0.00	13.40	2416.40	297.96	34.55	2748.91
1999	994.80	46.00	111.00	1172.60	16.91	0.00	13.40	2354.71	306.90	36.15	2697.76
2000	888.20	42.80	109.00	1105.60	16.06	0.00	13.40	2175.06	316.11	35.33	2526.50
2001	793.20	39.80	105.00	1042.20	15.26	0.00	13.40	2008.86	325.59	33.02	2367.47
2002	726.50	36.80	99.00	1006.20	14.50	0.00	0.00	1883.00	335.36	30.91	2249.26
2003	649.10	34.10	94.00	963.40	13.77	0.00	0.00	1754.37	345.42	29.50	2129.30
2004	574.20	31.50	89.00	918.40	13.08	0.00	0.00	1626.18	355.79	27.88	2009.85
2005	498.60	29.60	84.00	862.20	12.43	0.00	0.00	1486.83	366.46	26.29	1879.57
2006	406.60	27.70	79.00	796.70	11.81	0.00	0.00	1321.81	377.45	24.57	1723.83
2007	326.90	26.10	76.00	735.70	11.22	0.00	0.00	1175.92	388.78	22.50	1587.19
2008	265.60	24.70	71.00	685.20	10.66	0.00	0.00	1057.16	400.44	20.71	1478.31
2009	226.20	23.30	67.00	639.30	10.12	0.00	0.00	965.92	412.45	19.29	1397.67
2010	200.90	21.80	62.00	597.90	9.62	0.00	0.00	892.22	424.83	18.28	1335.32

(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
	TOTAL REVS W/ PERM FND	PUB SCH	NPR-A	OTHER	PERM FUND	BUDGET RESERVE	NET GEN FUND UNRESTRD REVENUES	
FY	DEDICATION	FUND	FUND	FUNDS	DEDICATN	FUND	NCMS	REAL 1992\$
1981	4110.80	7.50	0.00	74.30	385.10	0.00	3718.20	
1982	4516.90	8.00	0.00	0.00	400.50	0.00	4108.40	
1983	4061.40	9.40	0.00	0.00	421.00	0.00	3631.00	
1984	3765.30	9.00	0.00	0.00	366.20	0.00	3390.10	
1985	3640.50	7.10	5.40	0.00	368.00	0.00	3260.00	
1986	3446.40	6.50	41.00	0.00	323.40	0.00	3075.50	
1987	1983.20	3.30	9.90	0.00	170.60	0.00	1799.40	
1988	2747.10	6.60	1.00	15.80	417.90	0.00	2305.80	
1989	2419.70	4.30	0.80	0.00	228.40	0.00	2186.20	
1990	2780.06	5.13	0.60	0.00	267.10	0.00	2507.23	
1991	3721.96	8.83	0.37	0.00	435.00	291.20	2986.56	
1992	3148.64	15.04	0.13	0.00	337.80	333.07	2462.60	2462.60
1993	3471.02	6.80	0.19	0.00	315.30	67.13	3081.60	2991.84
1994	2391.44	4.37	0.40	0.00	228.07	0.00	2158.60	2032.71
1995	2384.77	4.74	0.30	7.00	246.83	0.00	2125.90	1941.73
1996	2425.18	4.94	0.10	7.00	257.24	0.00	2155.90	1895.76
1997	2616.82	5.45	0.00	7.00	284.09	0.00	2320.28	1964.35
1998	2748.91	5.91	0.00	10.00	308.03	0.00	2424.97	1976.56
1999	2697.76	5.95	0.00	10.00	309.99	0.00	2371.82	1861.27
2000	2526.50	5.61	0.00	10.00	292.31	0.00	2218.58	1676.20
2001	2367.47	5.29	0.00	10.00	275.57	0.00	2076.61	1509.86
2002	2249.26	5.10	0.00	10.00	265.99	0.00	1968.17	1377.14
2003	2129.30	4.89	0.00	0.00	254.65	0.00	1869.76	1259.02
2004	2009.85	4.66	0.00	0.00	242.74	0.00	1762.45	1142.08
2005	1879.57	4.37	0.00	0.00	227.93	0.00	1647.27	1027.25
2006	1723.83	4.04	0.00	0.00	210.70	0.00	1509.09	905.65
2007	1587.19	3.73	0.00	0.00	194.65	0.00	1388.81	802.08
2008	1478.31	3.48	0.00	0.00	181.34	0.00	1293.49	718.90
2009	1397.67	3.25	0.00	0.00	169.24	0.00	1225.18	655.30
2010	1335.32	3.04	0.00	0.00	158.32	0.00	1173.96	604.26

← error  
REAL 1992\$

### Historical Petroleum Revenues (Millions of Dollars)

Table 34

FY	Corporate		Oil/Gas		Reserve Tax	Fed. Min. Rents & Royalties (1)	Bonus Sales	Rents (1)	Royalties (1)	Oil/Gas <sup>(2)</sup> Special Settlements	Total Petroleum Revenues	Total G.P. Unrestricted Revenues	% of Total Unrestricted Revenues
	Non-Petroleum	Petroleum	Severance Tax	Property Tax									
59	1.4					3.1					3.1	25.4	12
60	1.7					5.8	4.0	0.1			9.9	48.0	21
61	1.4					2.4	1.6	0.2			4.2	40.5	10
62	1.8		0.2			4.5	20.3	1.0			26.0	68.9	38
63	2.2		0.3			8.6	17.9	1.0			27.8	71.6	39
64	1.8		0.3			8.7	4.7	1.2			14.9	67.0	22
65	1.9		0.3			8.3	5.9	1.9	0.1		16.5	83.0	20
66	4.1		0.3			7.7	10.8	2.5	0.3		21.6	86.5	25
67	3.5		0.5			7.7	8.6	2.8	1.9		21.5	86.6	25
68	3.8	0.1	10.2			7.5	21.8	2.9	9.5		43.0	112.7	38
69	4.2	0.1	5.6			7.8	0.8	3.3	16.9		34.5	112.4	31
70	4.9	0.4	7.9			8.2	900.0	3.1	19.3		938.9	1067.3	88
71	5.2	0.9	10.5			8.6	0.2	2.9	23.9		47.0	220.4	21
72	5.3	1.2	11.4			7.9	0.3	3.0	24.6		48.4	219.2	22
73	5.9	0.9	12.0			6.7	3.8	3.4	23.5		50.3	208.2	24
74	7.0	1.2	14.8			7.1	24.8	3.6	28.7		80.2	254.9	31
75	14.8	2.5	26.6	6.6		9.8	1.0	3.9	40.0		90.4	333.4	27
76	26.2	4.9	28.0	83.4	223.1	5.1		3.7	43.3		391.5	709.8	55
77	30.8	5.0	23.8	139.1	270.6	2.0*		2.8*	34.3*		477.6*	874.3	55
78	25.1	8.4	107.7	173.0		1.0*		1.8*	149.6*		441.5*	764.9	58
79	24.8	232.6	173.8	163.4		1.0*		1.6*	249.2*		821.6*	1133.0	73
80	17.9	547.5	506.5	168.9		1.2*	342.4*	1.8*	688.2*		2256.5*	2501.2	90
81	34.8	860.1	1170.2	143.0		1.2*	7.6*	3.7*	1118.5*		3304.3*	3718.2	89
82	34.8	668.9	1581.7	142.7		17.1*	5.0*	2.1*	1157.3*		3574.8*	4108.4	87
83	30.1	236.0	1493.7	152.6		27.2*	36.2*	2.5*	1078.4*		3026.6*	3631.0	83
84	39.5	265.1	1393.1	131.0		11.0*	10.1*	3.8*	1047.5*		2861.6*	3390.1	84
85	36.0	168.6	1389.4	128.4		8.2*	11.5*	3.4*	1034.0*		2743.5*	3260.0	84
86	11.2	133.9	1108.4	113.5		14.3*	34.7*	4.2*	830.7*	418.2*	2657.9*	3075.5	86
87	20.5	120.4	648.5	102.5		9.0*	0.5*	3.8*	439.3*	70.5*	1394.5*	1799.4	77
88	23.4	158.0	818.7	96.2		6.7*	5.6*	5.7*	694.8*	163.9*	1949.6*	2305.8	85
89	38.0	166.0	698.8	89.7		5.6*	11.4*	5.3*	605.9*	257.7*	1840.4*	2186.2	84
90	45.3	117.2	1001.6	89.8	0.0	6.3*	0.0*	4.2*	747.4*	154.8*	2121.4*	2507.2	85
91	37.9	185.1	1284.8	85.0	0.0	7.1*	18.9*	5.8*	951.6*	33.5*	2571.8*	2986.6	86
92	33.7	165.5	1053.2	69.0	0.0	5.8*	2.6*	4.2*	702.4*	4.7*	2007.4*	2462.6	82

\* Net of Permanent Fund contribution and constitutional Budget Reserve Fund deposits.

(1) These categories are primarily composed of oil/gas revenues; however, includes some additional revenues from other minerals (mostly coal).

(2) Not subject to budget reserve fund.

RAY KREIG

201 Barrow #1  
Anchorage, Alaska 99501-2429  
(907) 276-2025 • fax 258-9614

January 23, 1994

JAN 25 1993

Senator Loren Leman  
Alaska State Senate  
PO Box V  
Juneau Alaska 99811

Dear Loren:

I (admittedly along with many others) have been very concerned about the volatility of our state revenues and the effect on our economy that this causes. I was hurt by the crash of 1986 and I fear that I will be hurt again by the continuing spending of all available reserves by the state government. Soon the money will all be gone and we will be facing the edge of a cliff.

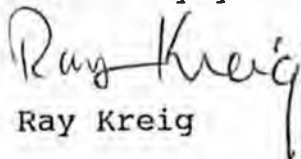
Recent months have yielded much discussion of the "Cremo Plan" which would even out our unpredictable resource revenue stream. I have studied the proposed plan and followed the debates in the newspapers.

I support the Cremo Plan. It will have the added benefit of forward funding our budget and ending the spectacle and disruption of oil price forecasts that aren't very accurate anyway.

Please write me with your views and comments on the companion resolutions that have been introduced into the legislature (SJR 38 and HJR 48).

Thank you.

Sincerely yours,

  
Ray Kreig



# SENATOR LOREN LEMAN

Northwest Anchorage

716 W 4th Ave, Ste 540, Anchorage AK 99501 258-8189 Session: State Capitol, Juneau AK 99801 465-2095

February 8, 1994

Mr. Ray Kreig  
201 Barrow St #1  
Anchorage AK 99501-2429

Dear Ray,

Thank you for writing to me about SJR38, the Cremo Plan.

During the past two weeks we held several hearings on this resolution in the State Affairs Committee, which I chair. Mr. Cremo's plan has a lot of appeal. Although it is not a panacea for all of our budgeting ills, it is a better approach than the Legislature's spending program during the past decade.

Its major downside is that it creates a permanent fund for government rather than a permanent fund for the people. I want to ensure that government competes for dollars through the budgeting process like it does today. The Cremo plan could remove some of the incentive for close scrutiny.

I supported reporting this resolution from the State Affairs Committee on February 4. However, it still needs some work on the details.

Sincerely,

A handwritten signature in cursive script that reads "Loren Lemman".

Loren Lemman  
Senator

LL/dl

**JOHNNY ELLIS**  
SENATOR



STATE CAPITOL, ROOM 9  
JUNEAU, ALASKA 99801-1182  
(907) 465-3704  
FAX: (907) 465-2529

ALASKA STATE LEGISLATURE  
**SENATE**

Sponsor Statement for  
SJR 38  
"The Cremo Plan"

SJR 38 would allow the people of Alaska to vote on a constitutional amendment which would change the way we finance our state government.

Essentially, the amendment would remove all natural resource revenues from the appropriation process and put them into the Permanent Fund. Money systematically withdrawn from the fund would be used for the operation of state government, aid to local governments, dividends and other purposes. The object of the amendment is to get the state off the financial roller coaster that has caused fiscal and economic problems. State spending cannot be sustained at the current level. The end of our reserves is in sight, and oil revenues are falling as North Slope production slows.

It's apparent that we have to make some changes in order to get through the difficult period ahead and to prevent this from happening again in the future. The proposed constitutional provision in SJR 38 is designed to do that. It will force spending to a sustainable level by removing reserves from the table and by gradually reducing the amount of money available for appropriation. Also, by revoking the legislature's ability to go on spending sprees, it will prevent a return to unsustainable spending when oil revenues are high again.

All of us in the legislature have participated, to one degree or another, in spending as if there were no tomorrow. It's appropriate that we give the people the opportunity to change the system under which we operate. I encourage you to vote favorably on SJR 38.

**Sponsor Statement**

From the office of Senator Ellis  
**The State's Revenues and the Economy**

**Premises**

- a substantial part of the state's revenues will continue to be derived from natural resources <sup>1</sup>
- revenues from natural resources fluctuate <sup>2</sup>
- Alaska's economy will continue to be dependent on state spending

**Existing system**

- the state spends the natural resource revenues <sup>3</sup>

**Problem caused by existing system**

- when natural resource revenues are plentiful, state spending creates a great demand in the private sector for goods and services
- if the revenues then decrease substantially, spending is cut and the demand evaporates
- the consequences of economic busts are well-known

**Theory**

- for a stable economy, the state must spend at a sustainable level
- but it can't do that, because of the fluctuation of natural resource revenues
- therefore, the state should not spend the natural resource revenues
- it should try to convert them into revenues that don't fluctuate, so that it can spend at a sustainable level

**Proposed system**

- natural resource revenues are not appropriable and are deposited into the Alaska Permanent Fund
- the fund is invested, and income is reinvested
- a fixed percentage of the fund (at its average market value over a period) is withdrawn annually for appropriation<sup>4</sup>
- the withdrawal feature is designed to provide revenues that continually increase (and thus are not fluctuating)<sup>5</sup>

**Advantage of Proposed System**

- state spending no longer causes economic busts

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<sup>1</sup> In Alaska the chief source of wealth is natural resources. The state owns and can tax them or otherwise is entitled to the revenues from them.

<sup>2</sup> Because they are governed by discovery, production and world price.

<sup>3</sup> Except about 10% of them, which goes into the Alaska Permanent Fund.

<sup>4</sup> The fixed percentage is 6, which is the real annual rate of total return on investment if the nominal rate is 10% and the rate of inflation is 4%

<sup>5</sup> If the actual rate of return or the actual rate of inflation differs adversely from the assumed rate, the amount withdrawn can decrease, depending on the extent of the difference and the amount of natural resource revenues deposited.

### **Some other advantages of proposed system**

- since state spending is not only brought to a sustainable level but to the maximum sustainable level, the economy is supported to the greatest extent possible
- periodic curtailment of desirable state programs, for lack of funding, is avoided
- budgeting becomes feasible, because income for the subject year is known
- the state's assets are further diversified
- public works projects are no longer crammed into periods of high revenues, with inadequate planning and incomplete accounting
- the state's credit is reestablished
- long-range planning becomes feasible

### **Conversion to proposed system**

- requires (1) the transfer of reserves to the fund, (2) a higher but gradually reduced withdrawal percentage factor during a transitional period and (3) the same spending cuts and new revenues that the coming "fiscal gap" would require under the present system<sup>6</sup>

### **Obstacles to change**

- the legislature's reluctance to allow the people to vote on a constitutional amendment that would revoke its authority to spend natural resource revenues
- the misconception that the proposed system eliminates "dividends"
- a fear that the fund will be depleted if there is less investment return or more inflation than anticipated or, during transition, there is a greater decrease in oil revenues than forecasted
- a fear that if great wealth results,
  - the bureaucracy will expand
  - the state will lose its incentive to develop natural resources
  - Alaskans will become dependent, disinterested in government, lethargic and immoral

### **Schedule**

- spring, 1994 - legislature passes resolution proposing constitutional amendment
- fall, 1994 - people vote in favor of proposed constitutional amendment
- July 1, 1995 - conversion to new system begins

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<sup>6</sup> Under the present system it is likely that the reductions in spending would be abrupt. Under the proposed system they would be gradual.

# FISCAL NOTE

**STATE OF ALASKA  
1994 LEGISLATIVE SESSION**

**BILL NO.** SJR 38

Revision Date: \_\_\_\_\_

Dept. Affected: Department of Revenue

Title: "Proposing amendments to the Constitution of the St. of AK relating to revenues from natural resources, the Alaska permanent

BRU: APFC

fund, the appropriation limit and the budget reserve fund; and providing for an effective date for the amendments."

Component: APFC

Sponsor: Senator Ellis

Requestor: \_\_\_\_\_

**COMPONENT SERIAL NO.** 109

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES	-0-	70.0	208.0	271.5	271.5	271.5
TRAVEL	-0-	22.5	30.5	30.5	30.5	30.5
CONTRACTUAL	-0-	1605.5	1645.5	2849.6	4053.8	5257.9
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	6.0	12.0	6.0	-0-	-0-
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

<b>CAPITAL</b>	-0-	-0-	-0-	-0-	-0-	-0-
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<b>REVENUE FUND SOURCE:</b>	-0-	1704.0	1896.0	3157.6	4355.8	5559.9
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**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Corporation Receipts)	-0-	1704.0	1896.0	3157.6	4355.8	5559.9
<b>TOTAL</b>	-0-	1704.0	1896.0	3157.6	4355.8	5559.9

**POSITIONS:**

FULL-TIME	-0-	1	2	1	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY94) Impact: \$ -0-

**ANALYSIS:** (Attach a separate page if necessary)

(See Attached.)

Prepared by: William H. Scott, Executive Director *William H. Scott* Phone: 465-2047  
 Division: Alaska Permanent Fund Corporation Date: 1/14/94  
 Approved by: Darrel J. Rexwinkel, Commissioner *Darrel J. Rexwinkel* Date: 1/10/94  
 Agency: Department of Revenue

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## Fiscal Analysis: SJR No. 38

*Proposing amendments to the Constitution of the State of Alaska relating to revenues from natural resources, the Alaska permanent fund, the appropriation limit and the budget reserve fund; and providing for an effective date for the amendments.*

The Alaska Permanent Fund Corporation's operations are program-driven and program-financed. Operating cost levels are proportional to the actual and anticipated growth of the Fund and reflects the Corporation's ability to generate income. As funds under management increase, Fund custody and investment management fees increase; and the need for additional accounting and investment staff with associated support costs are also needed as portfolios grow.

### Personal Services - Salary & Benefits for 4 new positions:

- FY 96: Data Processing Analyst/Programmer \$70.0
- FY 97: Investment Officer \$100.0; Accounting Clerk \$38.0
- FY 98: Portfolio Accountant \$63.5

### Travel - Transportation, Per Diem, Honorarium:

- (a) 7th Trustee added to Board: Board meeting travel \$16.9; asset allocation/investment management related travel \$5.6
- (b) Investment officer travel: Board meeting and investment management travel \$8.0

### Contractual Services:

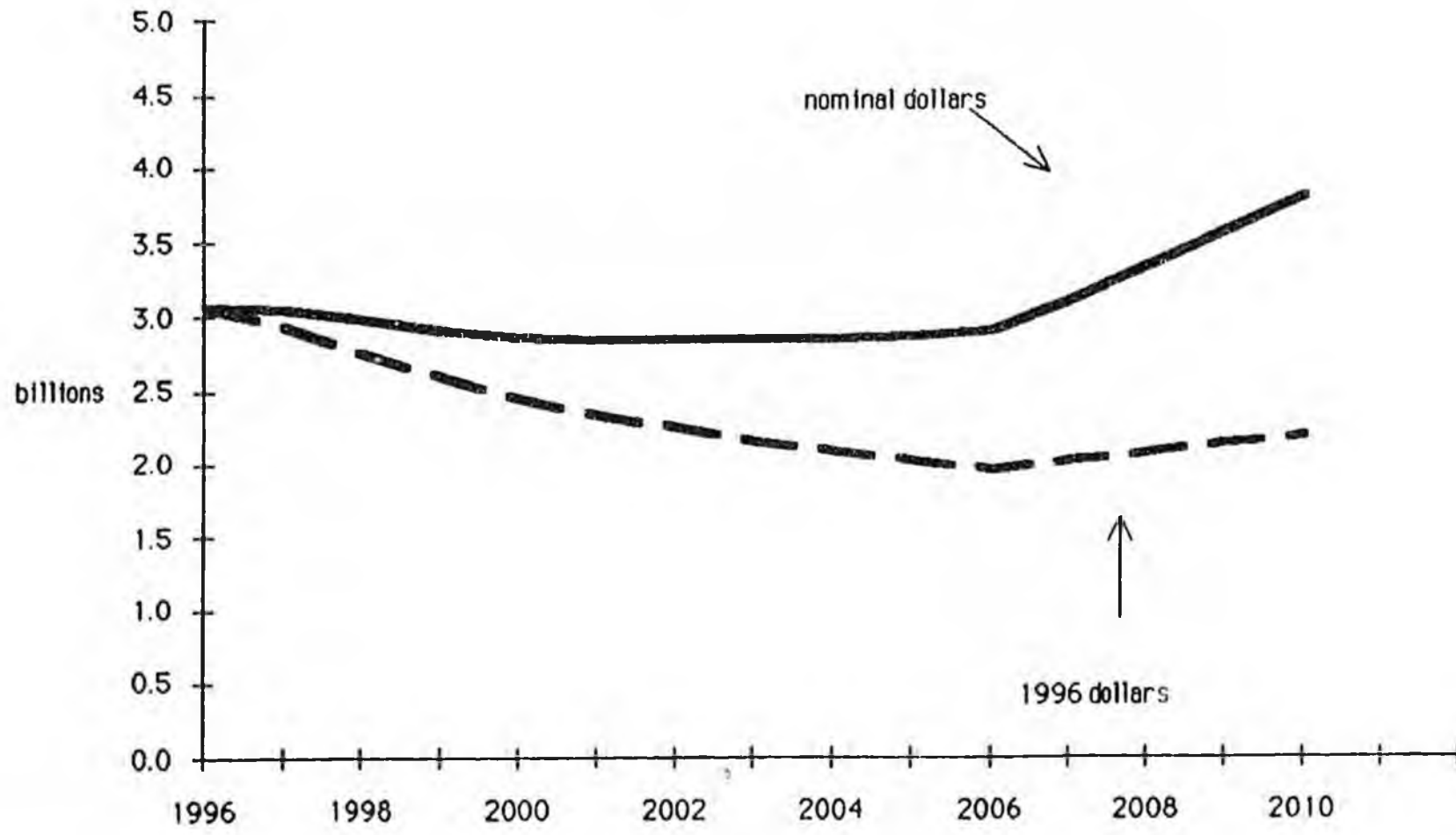
- (a) Equity management fees: This increment is due to increased funds under management.
- (b) Custody fees: This increase is due to the increase in the amount of assets requiring safekeeping.
- (c) Financial network fees: Cost for additional financial data, networks, and associated terminals for new Investment Officer.

	<u>Equity Mgmt</u>	<u>Custody Mgmt</u>	<u>Financial Data</u>
FY 96	1,423.4	182.1	0.0
FY 97	1,423.4	182.1	40.0
FY 98	2,491.0	318.6	40.0
FY 99	3,558.6	455.2	40.0
FY 00	4,626.2	591.7	40.0

### Equipment - one-time associated costs of new positions: workstation furniture (desk, credenza, chair, telephone, file, computer)

- (a) FY 96: Analyst Programmer \$6.0
- (b) FY 97: Investment Officer \$6.0; Accounting Clerk \$6.0
- (c) FY 98: Portfolio Accountant \$6.0

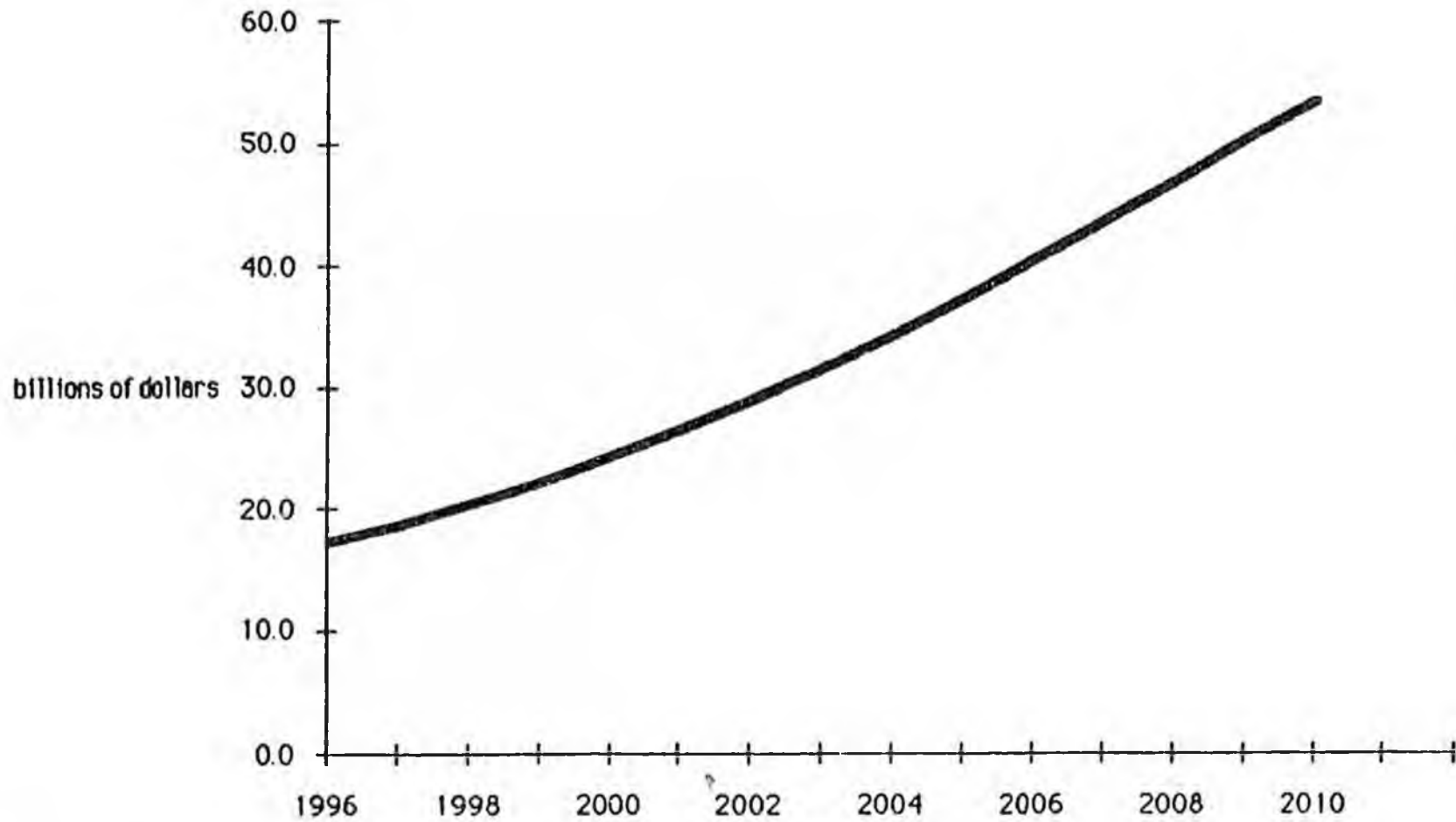
# Proposed State Financial System



Research

fall, 1993  
20% in initial year to permanent % in 2006

# Proposed State Financial System



fall, 1993

20% in initial year to permanent % in 2006

Permanent Fund

Data: Dept. of Revenue (projections: fall, 1993, mid case)

\*Permanent Fund Corp. (projections: October 31, 1993, mid case)

Transitional withdrawal: 20% in initial year to permanent % in 2006

Permanent withdrawal: 6%

Total return: 10%

Inflation: 4%

Reserves: 2,500

Conventional revenue enhancement: 12%

Proposed State Financial System  
(millions of dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Fiscal Year	Perm Fund Beginning Balance	Natural Resource Revenues	Withdrawal from Perm Fund	Perm Fund Ending Balance	Conventional Revenues	Income Budget	Income Budget (1996 \$)	Fiscal Year
1996	16,277	2,117	2,779	17,262	300	3,079	3,079	1996
1997	17,262	2,295	2,714	18,608	336	3,050	2,933	1997
1998	18,608	2,416	2,609	20,335	376	2,985	2,760	1998
1999	20,335	2,355	2,492	22,300	421	2,913	2,590	1999
2000	22,300	2,175	2,391	24,385	472	2,863	2,447	2000
2001	24,385	2,009	2,314	26,592	529	2,842	2,336	2001
2002	26,592	1,883	2,244	28,969	592	2,836	2,241	2002
2003	28,969	1,754	2,173	31,530	663	2,837	2,156	2003
2004	31,530	1,626	2,101	34,298	743	2,844	2,078	2004
2005	34,298	1,487	2,029	37,282	832	2,860	2,010	2005
2006	37,282	1,322	1,957	40,477	932	2,889	1,952	2006
2007	40,477	1,176	2,128	43,666	969	3,097	2,012	2007
2008	43,666	1,057	2,310	46,866	1008	3,318	2,072	2008
2009	46,866	966	2,499	50,100	1048	3,547	2,130	2009
2010	50,100	892	2,691	53,387	1090	3,761	2,183	2010

2 Market value (book in initial year \*). Includes reserves (treated as added in twelve quarters preceding initial year).

3 Deposited into fund quarterly.

4 Function of withdrawal percentage and average of balance in twelve preceding quarters (in proposal, quarters of three preceding calendar years). Transitional withdrawal percentage decreases geometrically. Withdrawn quarterly.

5 Function of deposit, withdrawal and total return on investment.

6 In initial year, assumed. Transitionally, function of amount in previous year and enhancement percentage. Thereafter, increases at inflation rate.

7 & 8 Sum of amounts in columns 4 and 6.

Data: Dept. of Revenue (projections: fall, 1993, mid case)

\* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Transitional withdrawal: 20% In initial year to permanent % in 2006

Permanent withdrawal: 6%

Total return: 10%

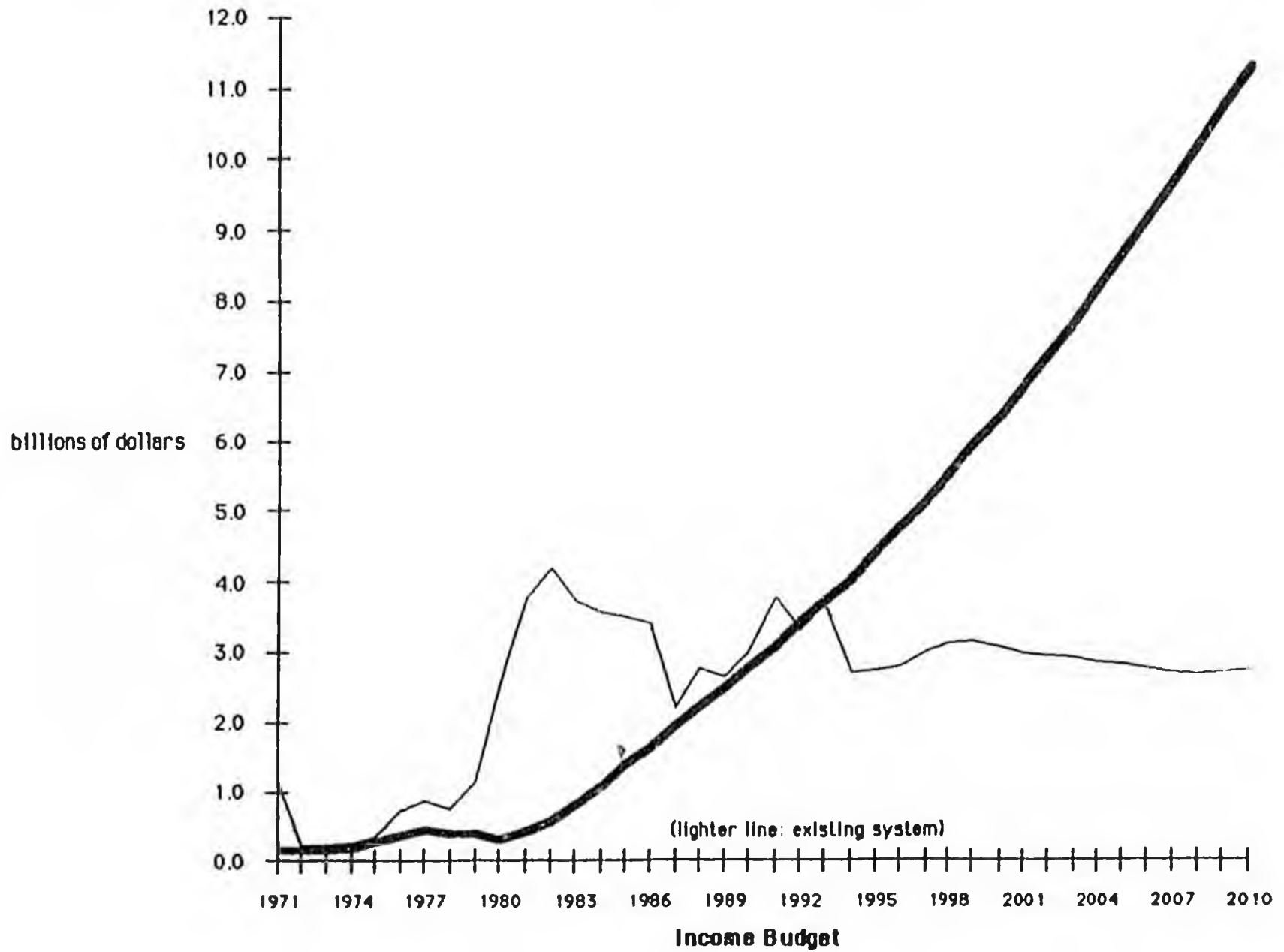
Reserves: 2,500

Proposed State Financial System  
(millions of dollars)

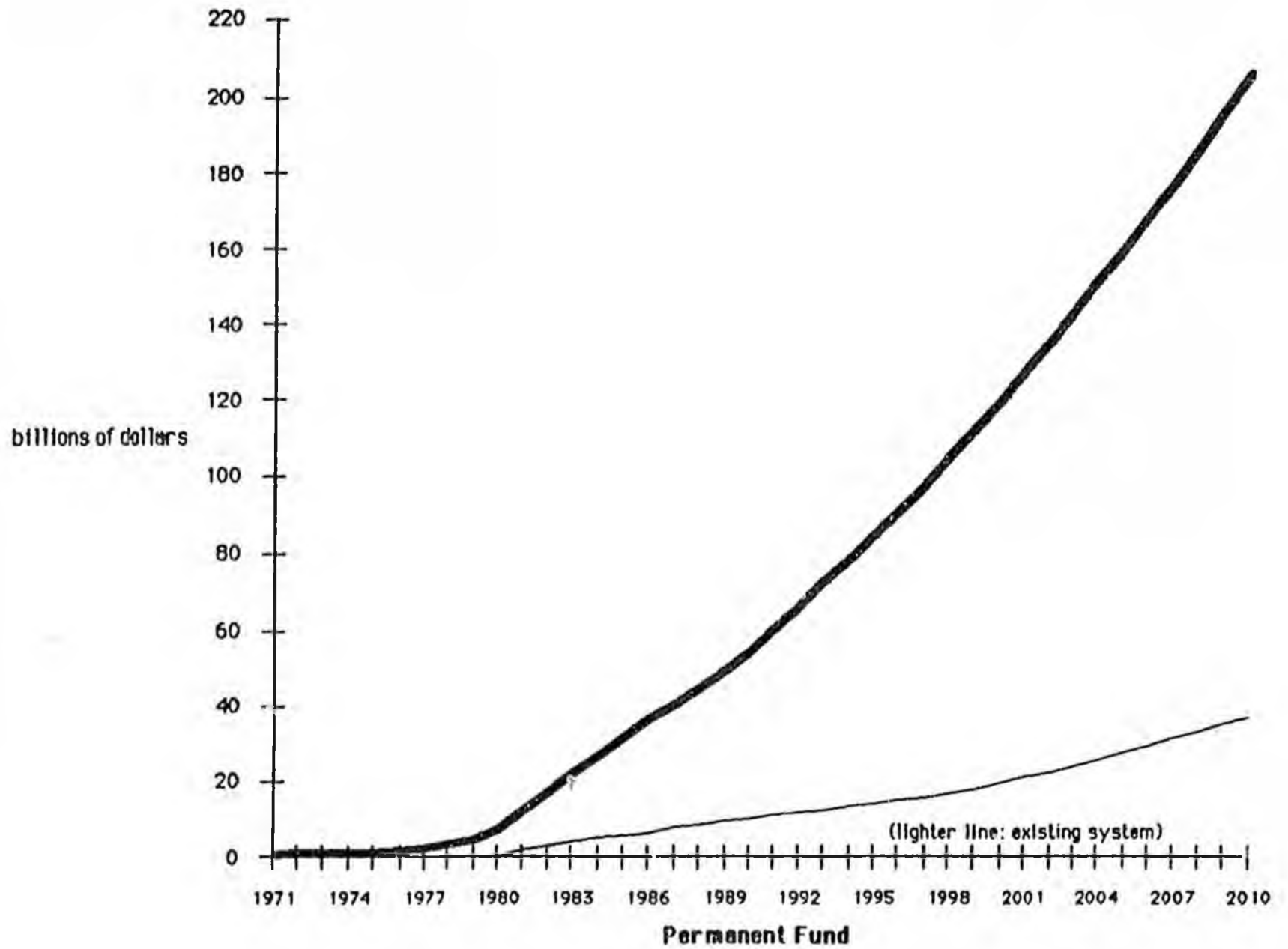
Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Wdrl %	Withdrawal
1993 *		11,911.33	12,238.08	12,564.83	12,891.58	13,218.33			
1994*		13,426.67	13,735.42	14,044.17	14,352.92	14,661.67			
1995*		14,870.00	15,221.75	15,573.50	15,925.25	16,277.00			
1996	2,117.12	16,277.00	16,514.25	16,757.44	17,006.70	17,262.19	13,896.29	20.00	2,779.26
1997	2,295.33	17,262.19	17,586.35	17,918.61	18,259.17	18,608.25	15,308.75	17.73	2,714.45
1998	2,416.40	18,608.25	19,024.06	19,450.27	19,887.13	20,334.91	16,597.68	15.72	2,609.17
1999	2,354.71	20,334.91	20,808.15	21,293.22	21,790.41	22,300.04	17,879.28	13.94	2,491.82
2000	2,175.06	22,300.04	22,802.17	23,316.86	23,844.42	24,385.16	19,351.89	12.36	2,391.12
2001	2,008.86	24,385.16	24,916.66	25,461.45	26,019.85	26,592.22	21,121.66	10.95	2,313.76
2002	1,883.00	26,592.22	27,164.51	27,751.10	28,352.37	28,968.66	23,106.11	9.71	2,244.03
2003	1,754.37	28,968.66	29,585.50	30,217.75	30,865.82	31,530.08	25,242.23	8.61	2,173.42
2004	1,626.18	31,530.08	32,196.66	32,879.90	33,580.22	34,298.05	27,523.42	7.63	2,101.02
2005	1,486.83	34,298.05	35,016.69	35,753.30	36,508.32	37,282.22	29,973.73	6.77	2,028.52
2006	1,321.81	37,282.22	38,051.51	38,840.03	39,648.26	40,476.70	32,616.75	6.00	1,957.00
2007	1,175.92	40,476.70	41,244.66	42,031.83	42,838.67	43,665.69	35,465.44	6.00	2,127.93
2008	1,057.16	43,665.69	44,436.30	45,226.18	46,035.81	46,865.67	38,499.19	6.00	2,309.95
2009	965.92	46,865.67	47,644.49	48,442.78	49,261.03	50,099.73	41,648.15	6.00	2,498.89
2010	892.22	50,099.73	50,891.33	51,702.71	52,534.38	53,386.84	44,847.48	6.00	2,690.85

fall, 1993, mid case

### Proposed State Financial System - Retrospective



### Proposed State Financial System - Retrospective



Data: Dept. of Revenue (projections: fall, 1993, mid case)

\* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective

(millions of dollars)

(1) Fiscal Year	(2) Perm Fund Beginning Balance	(3) Petroleum Revenues	(4) Withdrawal from Perm Fund	(5) Perm Fund Ending Balance	(6) Non-Petrol Revenues	(7) Income Budget	(9) Existing System		
							(8) Income Budget	(9) Perm Fund Ending Balance*	(10) Earnings Res Ending Balance*
1971	900	47	54	986	95	149	1,138		
1972	986	48	56	1,080	104	159	219		
1973	1,080	50	59	1,184	115	173	208		
1974	1,184	80	61	1,327	134	195	255		
1975	1,327	90	68	1,489	205	272	333		
1976	1,489	392	75	1,980	287	361	710		
1977	1,980	482	86	2,607	362	448	874		
1978	2,607	492	105	3,289	279	385	765	54	
1979	3,289	906	135	4,451	252	387	1,133	139	
1980	4,451	2,601	176	7,494	125	300	2,501	483	
1981	7,494	3,697	243	11,947	186	429	3,754	1,769	59
1982	11,947	3,983	368	17,034	209	577	4,187	2,969	244
1983	17,034	3,457	570	21,874	229	799	3,748	4,021	354
1984	21,874	3,237	835	26,700	246	1,081	3,574	4,838	557
1985	26,700	3,124	1,125	31,599	283	1,408	3,490	5,741	763
1986	31,599	3,029	1,419	36,592	222	1,642	3,426	6,281	1,264
1987	36,592	1,578	1,712	40,249	243	1,955	2,204	7,864	529
1988	40,249	2,391	1,997	44,846	224	2,221	2,753	8,585	591
1989	44,846	2,074	2,266	49,297	245	2,511	2,651	9,173	635
1990	49,297	2,391	2,527	54,270	271	2,798	3,000	9,894	605
1991	54,270	3,306	2,791	60,452	291	3,082	3,776	10,888	581
1992	60,452	2,693	3,083	66,313	353	3,436	3,299	11,703	645
1993	66,313	3,075	3,405	72,845	326	3,731	3,688	12,385	965
1994	72,845	2,079	3,757	78,622	276	4,033	2,713	12,995	1,055
1995	78,622	2,077	4,126	84,605	280	4,406	2,722	13,777	1,175
1996	84,605	2,117	4,490	90,863	281	4,771	2,782	14,601	1,312
1997	90,863	2,295	4,854	97,573	289	5,143	2,985	15,486	1,462
1998	97,573	2,416	5,221	104,718	298	5,519	3,122	16,732	1,638
1999	104,718	2,355	5,609	112,127	307	5,915	3,141	17,751	1,594
2000	112,127	2,175	6,019	119,677	316	6,335	3,050	19,130	1,528
2001	119,677	2,009	6,451	127,374	326	6,776	2,975	20,575	1,436
2002	127,374	1,883	6,897	135,262	335	7,252	2,938	22,096	1,313
2003	135,262	1,754	7,353	143,346	345	7,699	2,906	23,696	1,154
2004	143,346	1,626	7,820	151,636	356	8,176	2,865	25,380	968
2005	151,636	1,487	8,298	160,131	366	8,664	2,819	27,150	754
2006	160,131	1,322	8,788	168,810	377	9,165	2,751	29,008	508
2007	168,810	1,176	9,289	177,701	389	9,678	2,705	30,960	230
2008	177,701	1,057	9,803	186,843	400	10,203	2,686	32,930	0
2009	186,843	966	10,329	196,276	412	10,742	2,696	34,743	0
2010	196,276	892	10,869	206,036	425	11,294	2,728	36,632	0

[2] At market value. In 1971, equal to bonuses from petroleum leasing in 1970.

[3] In proposal, various natural resource revenues. Deposited into fund quarterly.

[4] Function of withdrawal percentage and average of balance at beginning of twelve preceding quarters. Withdrawn quarterly.

[5] Function of deposit, withdrawal and total return on investment.

[6] Not including general fund interest.

[7] Sum of amounts in columns 4 and 6.

[8] Sum of appropriable petroleum revenues, non-petroleum revenues and "dividends" portion of fund income. In 1971, includes surplus from 1970.

Date: Dept. of Revenue (projections: fall, 1993, mid case)

\* Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective  
(millions of dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Withdrawal
1971	47.00	900.00	920.71	941.93	963.68	985.98	900.00	54.00
1972	48.40	985.98	1,008.71	1,032.01	1,055.89	1,080.37	931.58	55.89
1973	50.30	1,080.37	1,105.26	1,130.77	1,156.92	1,183.72	976.11	58.57
1974	80.20	1,183.72	1,218.13	1,253.40	1,289.55	1,326.60	1,023.52	61.41
1975	90.40	1,326.60	1,365.64	1,405.64	1,446.65	1,488.69	1,125.06	67.50
1976	391.50	1,488.69	1,607.05	1,728.38	1,852.74	1,980.21	1,246.89	74.81
1977	481.60	1,980.21	2,131.13	2,285.83	2,444.39	2,606.91	1,430.52	85.83
1978	492.00	2,606.91	2,771.17	2,939.54	3,112.12	3,289.01	1,755.25	105.31
1979	905.50	3,289.01	3,568.74	3,855.47	4,149.36	4,450.60	2,245.68	134.74
1980	2,601.30	4,450.60	5,183.44	5,934.59	6,704.52	7,493.70	2,927.82	175.67
1981	3,696.90	7,493.70	8,566.15	9,665.41	10,792.15	11,947.06	4,047.12	242.83
1982	3,983.20	11,947.06	13,172.07	14,427.69	15,714.71	17,033.91	6,137.76	368.27
1983	3,457.00	17,033.91	18,199.48	19,394.20	20,618.78	21,873.98	9,504.34	570.26
1984	3,236.60	21,873.98	23,036.25	24,227.59	25,448.71	26,700.35	13,918.78	835.13
1985	3,124.00	26,700.35	27,879.99	29,089.11	30,328.46	31,598.79	18,757.87	1,125.47
1986	3,028.80	31,598.79	32,801.23	34,033.74	35,297.05	36,591.95	23,652.57	1,419.15
1987	1,578.30	36,591.95	37,472.60	38,375.26	39,300.49	40,248.85	28,526.27	1,711.58
1988	2,390.90	40,248.85	41,355.92	42,490.87	43,653.78	44,845.97	33,289.03	1,997.35
1989	2,073.90	44,845.97	45,917.87	47,016.57	48,142.73	49,297.05	37,768.36	2,266.10
1990	2,390.83	49,297.05	50,494.56	51,722.02	52,980.16	54,269.75	42,117.72	2,527.06
1991	3,305.92	54,269.75	55,758.49	57,284.44	58,848.54	60,451.75	46,513.84	2,790.83
1992	2,693.44	60,451.75	61,863.24	63,310.03	64,792.98	66,313.01	51,381.51	3,082.89
1993	3,074.54	66,313.01	67,886.06	69,498.44	71,151.13	72,845.13	56,756.08	3,405.37
1994	2,079.45	72,845.13	74,236.35	75,662.35	77,124.00	78,622.20	62,618.99	3,757.14
1995	2,077.46	78,622.20	80,062.90	81,539.61	83,053.25	84,604.73	68,761.21	4,125.67
1996	2,117.12	84,604.73	86,111.80	87,656.55	89,239.92	90,862.88	74,832.87	4,489.97
1997	2,295.33	90,862.88	92,478.84	94,135.21	95,832.98	97,573.20	80,896.57	4,853.79
1998	2,416.40	97,573.20	99,293.85	101,057.52	102,865.28	104,718.23	87,016.74	5,221.00
1999	2,354.71	104,718.23	106,502.38	108,331.14	110,205.62	112,126.96	93,476.06	5,608.56
2000	2,175.06	112,126.96	113,945.05	115,808.60	117,718.73	119,676.61	100,321.43	6,019.29
2001	2,008.86	119,676.61	121,530.30	123,430.33	125,377.85	127,374.07	107,512.21	6,450.73
2002	1,883.00	127,374.07	129,273.62	131,220.66	133,216.38	135,261.98	114,947.65	6,896.86
2003	1,754.37	135,261.98	137,208.76	139,204.20	141,249.53	143,345.99	122,558.26	7,353.50
2004	1,626.18	143,345.99	145,342.44	147,388.81	149,486.33	151,636.29	130,335.36	7,820.12
2005	1,486.83	151,636.29	153,681.87	155,778.59	157,927.73	160,130.59	138,297.73	8,297.86
2006	1,321.81	160,130.59	162,220.76	164,363.18	166,559.16	168,810.04	146,459.38	8,787.56
2007	1,175.92	168,810.04	170,951.23	173,145.96	175,395.55	177,701.39	154,821.81	9,289.31
2008	1,057.16	177,701.39	179,902.80	182,159.24	184,472.10	186,842.78	163,383.41	9,803.00
2009	965.92	186,842.78	189,114.55	191,443.11	193,829.88	196,276.32	172,151.00	10,329.06
2010	892.22	196,276.32	198,626.72	201,035.88	203,505.27	206,036.39	181,147.39	10,868.84

Date: Dept. of Revenue (projections: fall, 1993, mid case)

\*Permanent Fund Corp. (projections: October 31, 1993, mid case)

Withdrawal: 6%

Total return: 10%

Proposed State Financial System - Retrospective  
(millions of dollars)

Fiscal Year	Perm Fund Beginning Balance	Petroleum Revenues	Withdrawal from Perm Fund	Perm Fund Ending Balance	Non-Petrol Revenues	Income Budget	Existing System						
							Income Budget	Perm Fund Ending Balance*	Earnings Res Ending Balance*	Dividends*	Total Revenues	Perm Fund Dedication	
1971	900	47	54	986	95	149	1,138						
1972	986	48	56	1,080	104	159	219						
1973	1,080	50	59	1,184	115	173	208						
1974	1,184	80	61	1,327	134	195	255						
1975	1,327	90	68	1,489	205	272	333						
1976	1,489	392	75	1,980	287	361	710						
1977	1,980	482	86	2,607	362	448	874						
1978	2,607	492	105	3,289	279	385	765	54					
1979	3,289	906	135	4,451	252	387	1,133	139					
1980	4,451	2,601	176	7,494	125	300	2,501	483					
1981	7,494	3,697	243	11,947	186	429	3,754	1,769	59	28	4,111	385.10	
1982	11,947	3,983	368	17,034	209	577	4,187	2,969	244	71	4,517	400.50	
1983	17,034	3,457	570	21,874	229	799	3,748	4,021	354	108	4,061	421.00	
1984	21,874	3,237	835	26,700	246	1,081	3,574	4,838	557	175	3,765	366.20	
1985	26,700	3,124	1,125	31,599	283	1,408	3,490	5,741	763	217	3,641	368.00	
1986	31,599	3,029	1,419	36,592	222	1,642	3,426	6,281	1,264	303	3,446	323.40	
1987	36,592	1,578	1,712	40,249	243	1,955	2,204	7,864	529	391	1,983	170.60	
1988	40,249	2,391	1,997	44,846	224	2,221	2,753	8,585	591	424	2,747	417.90	
1989	44,846	2,074	2,266	49,297	245	2,511	2,651	9,173	635	460	2,420	228.40	
1990	49,297	2,391	2,527	54,270	271	2,798	3,000	9,894	605	487	2,780	267.10	
1991	54,270	3,306	2,791	60,452	291	3,082	3,776	10,888	581	489	3,722	435.00	
1992	60,452	2,693	3,083	66,313	353	3,436	3,299	11,703	645	488	3,149	337.80	
1993	66,313	3,075	3,405	72,845	326	3,731	3,688	12,385	965	532	3,471	315	
1994	72,845	2,079	3,757	78,622	276	4,033	2,713	12,995	1,055	550	2,391	228	
1995	78,622	2,077	4,126	84,605	280	4,406	2,722	13,777	1,175	584	2,385	247	
1996	84,605	2,117	4,490	90,863	281	4,771	2,782	14,601	1,312	614	2,425	257	
1997	90,863	2,295	4,854	97,573	289	5,143	2,985	15,486	1,462	652	2,617	284	
1998	97,573	2,416	5,221	104,718	298	5,519	3,122	16,732	1,638	681	2,749	308	
1999	104,718	2,355	5,609	112,127	307	5,915	3,141	17,751	1,594	753	2,698	310	
2000	112,127	2,175	6,019	119,677	316	6,335	3,050	19,130	1,528	816	2,527	292	
2001	119,677	2,009	6,451	127,374	326	6,776	2,975	20,575	1,436	883	2,367	276	
2002	127,374	1,883	6,897	135,262	335	7,232	2,938	22,096	1,313	955	2,249	266	
2003	135,262	1,754	7,353	143,346	345	7,699	2,906	23,696	1,154	1,031	2,129	255	
2004	143,346	1,626	7,820	151,636	356	8,176	2,865	25,380	968	1,098	2,010	243	
2005	151,636	1,487	8,298	160,131	366	8,664	2,819	27,150	754	1,167	1,880	228	
2006	160,131	1,322	8,788	168,810	377	9,165	2,751	29,008	508	1,238	1,724	211	
2007	168,810	1,176	9,289	177,701	389	9,678	2,705	30,960	230	1,312	1,587	195	
2008	177,701	1,057	9,803	186,843	400	10,203	2,686	32,930	0	1,389	1,478	181	
2009	186,843	966	10,329	196,276	412	10,742	2,696	34,743	0	1,468	1,398	169	
2010	196,276	892	10,869	206,036	425	11,294	2,728	36,632	0	1,551	1,335	158	

CITY OF SOLDOTNA

RESOLUTION 93-20

(Requested by Mayor Bill Reeder for a Public Hearing)

A RESOLUTION URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

---

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposai was made for changing the State's system of finance to achieve sustained spending, which has attracted state wide interest; and,

WHEREAS, a hearing held by the Soldotna City Council concluded that residents of Soldotna desire an opportunity to vote on this proposition.

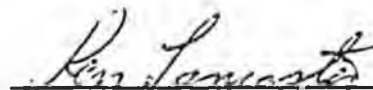
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SOLDOTNA, ALASKA:

Section 1. The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

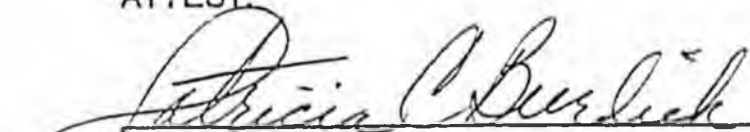
- A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and,
- C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

Section 2. The Clerk is hereby authorized and directed to forward a copy of this Resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gary Davis.

ADOPTED this 27<sup>th</sup> day of October, 1993.

  
\_\_\_\_\_  
Mayor

ATTEST:

  
\_\_\_\_\_  
City Clerk

**RESOLUTION NO. 94-1 (Substitute)**  
**Alaska Conference of Mayors**

WHEREAS, the State of Alaska, due to current oil pricing, faces a budget shortfall; and

WHEREAS, municipalities receive substantial revenues through municipal revenue sharing, municipal assistance and other municipal aid programs; and

WHEREAS, there are numerous recommendations, including Governor Hickel's budget proposal and The Roger Cremo Plan, to resolve the budget problems; and

WHEREAS, the Alaska Conference of Mayors wants to provide positive recommendations to the Legislature and Governor on the fiscal gap problems; and

WHEREAS, the Alaska Conference of Mayors represents over \_\_\_\_\_ cities and boroughs comprising \_\_\_\_\_% of the population of the State;

NOW THEREFORE, be it resolved by the Alaska Conference of Mayors that:

- I. The Alaska Conference of Mayors supports a financial program which provides for:
  - A. Expenditure reductions which are:
    1. Meaningful
    2. Not crippling to necessary services of public safety
    3. Not destructive to the constitutional intent to provide for a statewide educational program
    4. Reasonable in providing for a balance of commonwealth needs such as health and welfare.
  - B. Tax and fee increases only after budget reductions.
  - C. Budget and budget mechanism changes which do not drastically threaten the State's private economic health.
  - D. Budget mechanism changes that will produce:
    1. A reduction in volatility of revenue availability over a long time period

2. An improvement in the State's credit reality and perception
  3. A provision for safety and growth of the Permanent Fund principal
  4. Public understanding and acceptance of the program.
- II. Copies of this Resolution shall be sent to all legislators and the Governor of the State of Alaska.
- III. This Resolution takes effect immediately.

CITY OF HOMER  
HOMER, ALASKA

RESOLUTION 93-99

A RESOLUTION OF THE HOMER CITY COUNCIL URGING  
THE ALASKA LEGISLATURE TO PLACE A  
CONSTITUTIONAL AMENDMENT RELATED TO THE  
ALASKA PERMANENT FUND ON THE BALLOT FOR THE  
NEXT GENERAL ELECTION.

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993  
Economic Summit, a proposal was made for changing the State's  
system of finance to achieve sustained spending, which has  
attracted state wide interest; and

WHEREAS, a hearing held by the Homer City Council on  
November 22, 1993 at the Regular City Council meeting concluded  
that the residents of Homer desire an opportunity to vote on this  
proposition.

NOW, THEREFORE, BE IT RESOLVED by the Homer City Council  
that the Alaska State Legislature is urged to place a  
constitutional amendment on the ballot for the next general  
election which would generally dedicate all of the State of  
Alaska's future natural resource revenues to the Alaska Permanent  
Fund, transfer assets of various state reserve funds to the  
Alaska Permanent Fund and enable a percentage of the market value  
of the Alaska Permanent Fund to be withdrawn and appropriated by  
the legislature for financing state government; and

BE IT FURTHER RESOLVED that the City Manager is hereby  
authorized and directed to forward a copy of this Resolution to  
the Kenai Peninsula Caucus, Senator Suzanne Little and  
Representative Gail Phillips.

PASSED and ADOPTED by the Homer City Council this 22<sup>nd</sup> day  
of November, 1993.

CITY OF HOMER

  
HARRY E. GREGOIRE, MAYOR

ATTEST:

  
MARY J. CALHOUN, CITY CLERK

Sponsored by: Crane

CITY OF SEWARD, ALASKA  
RESOLUTION NO. 93-172

A RESOLUTION OF THE CITY COUNCIL OF THE CITY  
OF SEWARD, ALASKA, URGING THE ALASKA STATE  
LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT  
RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT  
FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and

WHEREAS, the city of Seward desires an opportunity to vote on this proposition;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEWARD, ALASKA, that:

Section 1. The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

- A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and
- C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

Section 2. The City Clerk is hereby authorized and directed to forward a copy of this resolution to the Kenai Peninsula Caucus, Senator Suzanne Little and Representative Gary Davis.

Section 3. This resolution shall take effect immediately upon its adoption.

PASSED AND APPROVED by the City Council of the city of Seward, Alaska, this 10th day of January, 1994.

Introduced by: Glick, Torgerson  
 Date: 11/16/93  
 Action: Adopted  
 Vote: Unanimous

KENAI PENINSULA BOROUGH  
 RESOLUTION 93-129

A RESOLUTION URGING THE ALASKA STATE LEGISLATURE  
 TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA  
 PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted statewide interest; and

WHEREAS, a hearing held by the Kenai Peninsula Caucus concluded that residents of the Kenai Peninsula Borough desire an opportunity to vote on this proposition;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

- A. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- B. Transfer assets of various state reserve funds to the Alaska Permanent Fund; and;
- C. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the legislature for financing state government.

SECTION 2. That copies of this resolution be sent to Senators Suzanne Little and Judy Salo and Representatives Gail Phillips, Mike Navarre and Gary Davis.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 16th DAY OF NOVEMBER, 1993.

*Betty J. Glick*  
 Betty J. Glick, Assembly President

ATTEST:

*Gaye J. Vaughan*  
 Gaye J. Vaughan, Borough Clerk

Kenai Peninsula Borough, Alaska

Post-It™ brand fax transmittal memo 76/1		# of pages	1
To	Pat Bender	From	Bev-
Co.		Co.	
Dept.		Phone #	2-8608
Fax #		Fax #	

SUGGESTED BY: Mayor Williams

City of Kenai

RESOLUTION NO. 93-87

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA, URGING THE ALASKA LEGISLATURE TO PLACE A CONSTITUTIONAL AMENDMENT RELATED TO THE ALASKA PERMANENT FUND ON THE BALLOT FOR THE NEXT GENERAL ELECTION.

WHEREAS, at the Kenai Peninsula Borough Mayor's 1993 Economic Summit, a proposal was made for changing the State's system of finance to achieve sustained spending, which has attracted state-wide interest; and,

WHEREAS, hearings held by the Kenai Peninsula Borough, the City of Soldotna and the Kenai Peninsula Caucus, concluded residents desire an opportunity to vote on this proposition.

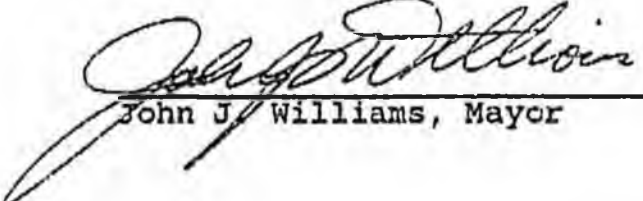
NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, as follows:

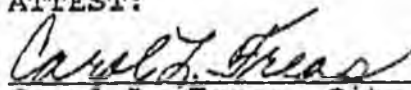
Section 1: The Alaska State Legislature is petitioned to place a constitutional amendment on the ballot for the next general election which would generally:

- a. Dedicate all of the State of Alaska's future natural resource revenues to the Alaska Permanent Fund;
- b. Transfer assets of various state reserve fund to the Alaska Permanent Fund; and,
- c. Enable a percentage of the market value of the Alaska Permanent Fund to be withdrawn and appropriated by the Legislature for financing state government.

Section 2: The Kenai City Clerk is hereby authorized and directed to forward a copy of this resolution to each member of the Alaska State Legislature and Governor Walter J. Hickel.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this 17th day of November, 1993.

  
 \_\_\_\_\_  
 John J. Williams, Mayor

ATTEST:  
  
 \_\_\_\_\_  
 Carol L. Freas, City Clerk

**Traditional vs. Cremo Budgeting**  
Notes and Assumptions for Spreadsheet

Column 1

These figures are taken from the Department of Revenue Fall 1993 Revenue Sources Book (hereafter DoR Forecast), pages 40 and 41. In particular, the non-dedicated petroleum and interest revenues are determined by subtracting Non-petroleum, Non-interest Revenues on page 40, column 10, from Total Net G.F. Unrestricted Revenues on page 41, column 20.

Column 2

These figures are taken from DoR Forecast, page 40, column 10.

Column 3

These figures are determined by adding non-dedicated petroleum and interest revenues to non-petroleum revenues (columns 1 and 2), and are also found in DoR's Forecast, page 41, column 20.

Column 4

The dividend amounts are taken from the Alaska Permanent Fund Corporation financial projections as of October 31, 1993 (hereafter PFC projections). Rate of return assumptions call for a nominal return of 8.37% from FY96 - 98, and 9.00% from FY99 - 2010. All numbers in the worksheet are nominal, therefore inflation projections need not be considered.

Column 5

Combining columns 3 and 4 produces the amount available to the Legislature for appropriation under our traditional system. Dividends must be appropriated from this amount.

Column 6

Combining columns 7 and 8 produces the amount available to the Legislature for appropriation under the Cremo plan. Dividends must be appropriated from this amount.

**Traditional vs. Cremo Budgeting**  
Notes and Assumptions for Spreadsheet

Column 7

These figures are determined by taking a percentage of the 12 quarter average balance of the Permanent Fund. The Cremo plan assumes a transition period beginning in FY96 and ending in FY06 when a permanent 6% withdrawal rate is achieved. Percentages during the transition are determined by a geometric progression. They are as follows:

FY96 20%	FY97 17.73%
FY98 15.72%	FY99 13.94%
FY00 12.36%	FY01 10.95%
FY02 9.71%	FY03 8.61%
FY04 7.63%	FY05 6.77%
FY06 6.00%	

After FY06, a 6% withdrawal rate is continued.

The withdrawal amount, relative to the Cremo plan's Permanent Fund year-end balance, is a lower withdrawal percentage. For example, the withdrawal amount in FY96 is actually 16.9% of the year-end balance of the Permanent Fund.

The Cremo plan assumes the identical rate of return assumptions for the Permanent Fund as contained in the PFC projections (i.e. 8.37% from FY96 - 98 and 9.0% from FY99 - 2010).

Column 8

These figures are identical to figures in column 2.

Column 9

Figures in this column are from PFC projections.

Column 10

To achieve financial parity with the traditional model, \$1.175 billion was added to the Permanent Fund in the Cremo plan, distributing this amount evenly through the 12 quarters prior to FY96. This number was taken from the PFC projections as the Earnings Reserve balance available at the end of FY95.

SUPPLEMENT

Testimony on SJR 38 "The Cremo Plan"

before the  
Alaska Senate State Affairs Committee

by  
Scott Goldsmith  
Professor of Economics  
University of Alaska Anchorage

February 1, 1994

The attached spreadsheet and graphs demonstrate the implications for the annual amount that can be withdrawn from the fund during the transition period of 1.) changing the withdrawal percentage and 2.) unexpected resource revenues.

**Figure 1.** is the annual withdrawal (in 1993 billion \$) if the assumptions used in the demonstration of the plan (attached) prove correct. These include a 10% nominal return on the fund with 4% inflation, initial balance of \$16.3 billion, and Alaska Department of Revenue Fall 1993 Midcase petroleum revenue projections. After falling to 2006 the purchasing power of the annual withdrawal begins to grow in 2007.

**Figure 2.** shows how a different transitional withdrawal rate changes the annual withdrawal. There is a tradeoff between how low the annual withdrawal goes before "bottoming out", and the subsequent withdrawal that can be maintained. The case in Figure 2. "bottoms out" about \$150 million higher, preventing a squeeze in the mid years of the next decade. The cost of this a slightly lower withdrawal amount in all subsequent years (about \$25 million lower in 2010).

This suggests the transitional withdrawal rates should be chosen with explicit recognition of this tradeoff.

**Figure 3.** repeats the annual withdrawal from Figure 1. and contrasts it with what would happen if the Department of Revenue high case scenario for petroleum revenues proved to be correct. (Neither analysis includes future petroleum settlement money.) This shows that with higher petroleum revenues the geometrical transitional withdrawal rates result in higher annual withdrawals. However the "bottoming out" becomes more pronounced, and a smoother transition might be preferable.

**Figure 4.** shows the transitional rates adjusted for a smoother transition, again at the price of slightly lower annual withdrawals in subsequent years. Furthermore the transitional rates used to create the smoother transition in Figure 4, are not the same as those used in Figure 2.

This suggests that the transitional plan, because its withdrawal rates are based upon one set of revenue assumptions which may turn out to be wrong, may not prevent an unnecessary squeeze on state spending and the economy. Furthermore it may not be possible to establish a prospective set of withdrawal rates that works under a broad range of potential future revenue scenarios.

Figure 1  
WITHDRAWAL FROM FUND  
CREWD ASSUMPTIONS



Figure 2  
WITHDRAWAL FROM FUND  
CREWD ASSUMPTIONS CHANGE & WITHDRAWAL

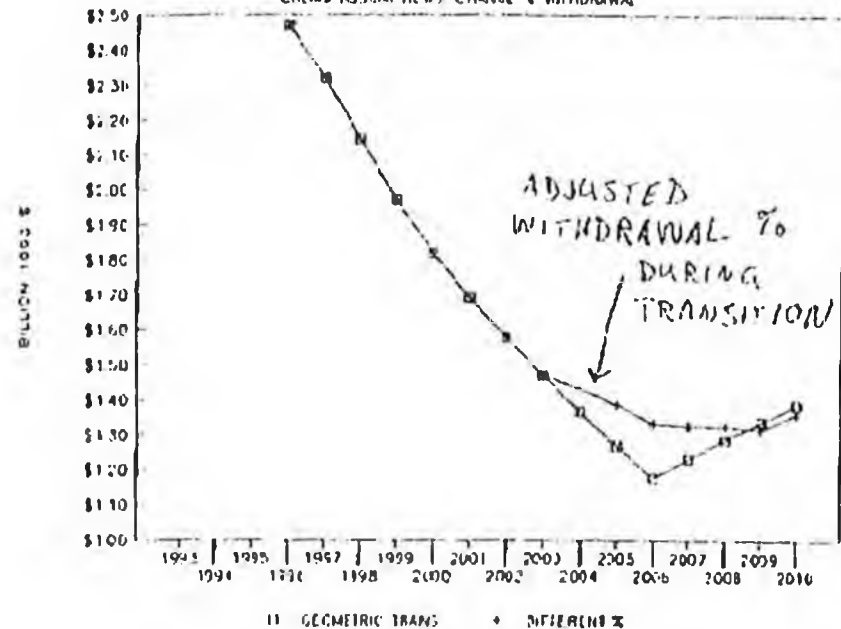


Figure 3.  
WITHDRAWAL FROM FUND UNEXPECTED \$\$\$\$\$\$  
COMPARISON OF WITHDRAWAL AMOUNTS

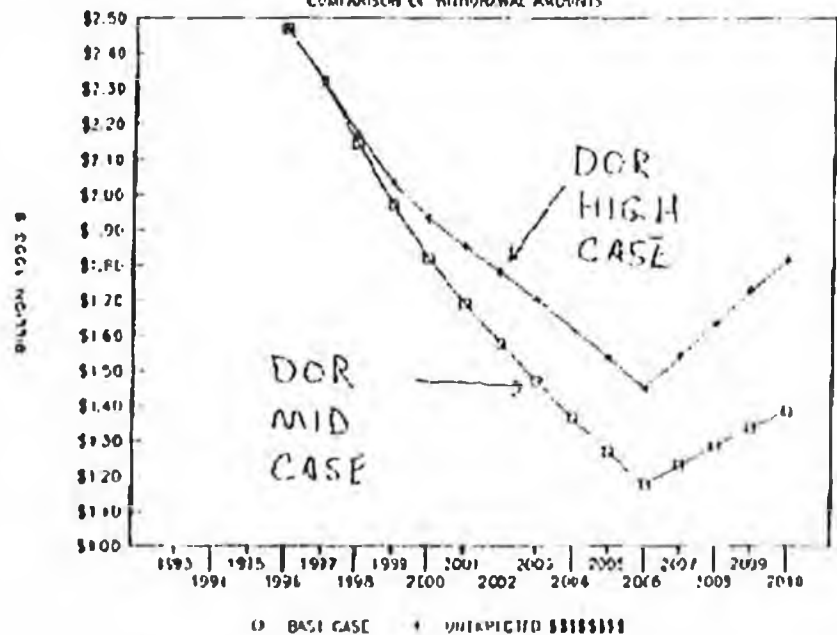
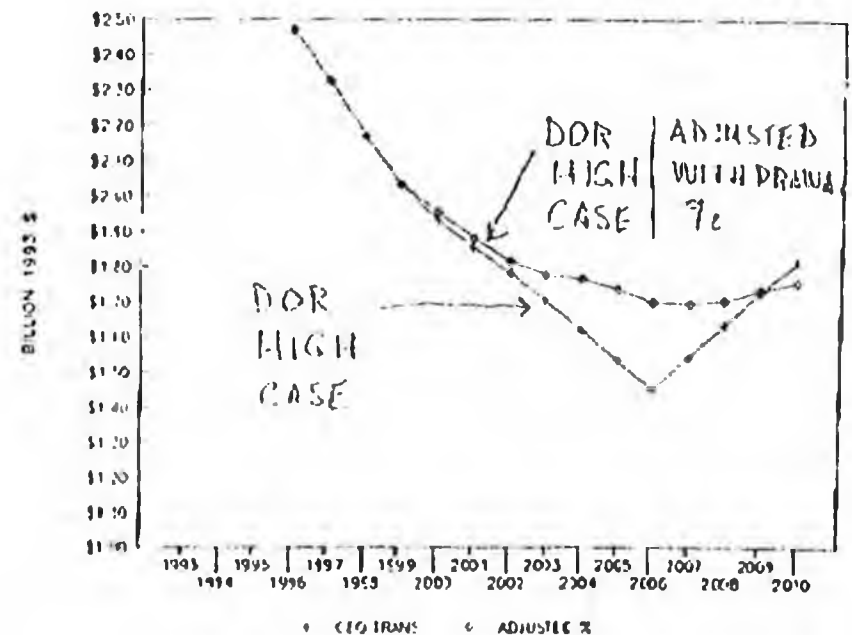


Figure 4.  
WITHDRAWAL FROM FUND UNEXPECTED \$\$\$\$\$\$



CREMO BASE CASE

YEAR	DEPOSIT		PERMANENT FUND				PF AVERAGE 12 PRIOR QUARTERS	WITH WITHDRAWAL %	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES NOM \$ 1993 \$		INCOME BUDGET IN 1993 \$
	EXPECTED	EXPECTED	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q				FUND	WITHDRAWAL	NOM \$	1993 \$	
1993			\$11,911	\$12,236	\$12,564	\$12,891		\$1.00						
1994			\$13,426	\$13,735	\$14,044	\$14,352		\$0.96						
1995			\$16,870	\$15,221	\$15,573	\$15,925		\$0.92						
1996	\$2,117	\$2,117	\$17,279	\$16,518	\$16,766	\$17,019	11,896	\$0.89	\$2,779	\$15,361	\$300	\$2,471	\$2,737	
1997	\$2,295	\$2,295	\$17,279	\$17,606	\$17,942	\$18,285	115,311	\$0.85	\$2,715	\$15,932	\$335	\$2,320	\$2,608	
1998	\$2,416	\$2,416	\$18,638	\$19,055	\$19,483	\$19,921	116,607	\$0.82	\$2,611	\$16,743	\$376	\$2,146	\$2,435	
1999	\$2,354	\$2,354	\$20,370	\$20,844	\$21,310	\$21,828	117,899	\$0.79	\$2,495	\$17,655	\$421	\$1,972	\$2,365	
2000	\$2,175	\$2,175	\$22,339	\$22,842	\$23,350	\$23,887	119,392	\$0.76	\$2,396	\$18,564	\$472	\$1,820	\$2,179	
2001	\$2,008	\$2,008	\$24,429	\$24,962	\$25,509	\$26,070	121,158	\$0.73	\$2,317	\$19,469	\$529	\$1,693	\$2,019	
2002	\$1,883	\$1,883	\$26,644	\$27,219	\$27,808	\$28,412	123,147	\$0.70	\$2,248	\$20,397	\$592	\$1,579	\$1,945	
2003	\$1,754	\$1,754	\$29,032	\$29,652	\$30,287	\$30,938	125,290	\$0.68	\$2,177	\$21,352	\$663	\$1,471	\$1,919	
2004	\$1,626	\$1,626	\$31,606	\$32,276	\$32,964	\$33,668	127,580	\$0.65	\$2,104	\$22,339	\$743	\$1,357	\$1,849	
2005	\$1,486	\$1,486	\$34,390	\$35,113	\$35,854	\$36,613	130,042	\$0.62	\$2,034	\$23,355	\$832	\$1,270	\$1,790	
2006	\$1,321	\$1,321	\$37,392	\$38,166	\$38,960	\$39,774	132,699	\$0.60	\$1,962	\$24,388	\$932	\$1,176	\$1,738	
2007	\$1,175	\$1,175	\$40,608	\$41,384	\$42,178	\$42,993	135,565	\$0.58	\$1,894	\$25,310	\$1,044	\$1,132	\$1,685	
2008	\$1,057	\$1,057	\$43,828	\$44,609	\$45,409	\$46,229	138,619	\$0.56	\$1,826	\$26,136	\$1,169	\$1,087	\$1,636	
2009	\$965	\$965	\$47,070	\$47,861	\$48,672	\$49,503	141,794	\$0.53	\$1,758	\$26,885	\$1,309	\$1,039	\$1,588	
2010	\$892	\$892	\$50,355	\$51,162	\$51,988	\$52,835	145,029	\$0.51	\$1,692	\$27,570	\$1,466	\$983	\$1,540	

FOR FALL 1993 MID CASE PROJECTIONS

IMILATION RATE 4.00%  
 RATE OF RETURN 10.38%  
 CONVENTIONAL REVENUE GROWTH RATE 12.00%

CREMD BASE CASE WITH REVISED TRANSITIONAL WITHDRAWAL RATE

DEPOSIT			PERMANENT FUND					PF AVERAGE 12 PRIOR QUARTERS	WITH % WITHDRAWAL	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET IN 1993 \$	
UN- EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END				FLND	WITHDRAWAL	NOM \$	1993 \$		
1993			\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00						
1994			\$13,426	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96						
1995			\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92						
1996	\$2,117	\$2,117	\$16,277	\$16,518	\$16,766	\$17,019	\$17,279	\$13,896	20.00%	\$2,779	\$0.89	\$15,361	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$2,295	\$17,279	\$17,606	\$17,942	\$18,285	\$18,638	\$15,311	17.73%	\$2,715	\$0.85	\$15,932	\$2,320	\$336	\$287	\$2,608
1998	\$2,416	\$2,416	\$18,638	\$19,055	\$19,483	\$19,921	\$20,370	\$16,607	15.72%	\$2,611	\$0.82	\$16,743	\$2,146	\$376	\$309	\$2,455
1999	\$2,354	\$2,354	\$20,370	\$20,844	\$21,330	\$21,828	\$22,339	\$17,899	13.94%	\$2,495	\$0.79	\$17,655	\$1,972	\$421	\$333	\$2,305
2000	\$2,175	\$2,175	\$22,339	\$22,842	\$23,358	\$23,887	\$24,429	\$19,382	12.36%	\$2,396	\$0.76	\$18,564	\$1,820	\$472	\$359	\$2,179
2001	\$2,008	\$2,008	\$24,429	\$24,962	\$25,509	\$26,070	\$26,644	\$21,158	10.95%	\$2,317	\$0.73	\$19,469	\$1,693	\$529	\$336	\$2,079
2002	\$1,883	\$1,883	\$26,644	\$27,219	\$27,808	\$28,412	\$29,032	\$23,147	9.71%	\$2,248	\$0.70	\$20,397	\$1,579	\$592	\$416	\$1,995
2003	\$1,754	\$1,754	\$29,032	\$29,652	\$30,287	\$30,938	\$31,606	\$25,290	8.61%	\$2,177	\$0.68	\$21,352	\$1,471	\$663	\$448	\$1,919
2004	\$1,626	\$1,626	\$31,606	\$32,251	\$32,912	\$33,590	\$34,284	\$27,580	8.00%	\$2,206	\$0.65	\$22,271	\$1,433	\$743	\$483	\$1,916
2005	\$1,486	\$1,486	\$34,284	\$34,957	\$35,647	\$36,355	\$37,079	\$30,029	7.40%	\$2,222	\$0.62	\$23,160	\$1,398	\$832	\$520	\$1,908
2006	\$1,321	\$1,321	\$37,079	\$37,782	\$38,502	\$39,240	\$39,997	\$32,626	6.80%	\$2,219	\$0.60	\$24,021	\$1,332	\$932	\$560	\$1,892
2007	\$1,175	\$1,175	\$39,997	\$40,716	\$41,453	\$42,209	\$42,983	\$35,351	6.50%	\$2,298	\$0.58	\$24,822	\$1,327	\$1,044	\$603	\$1,930
2008	\$1,057	\$1,057	\$42,983	\$43,726	\$44,486	\$45,266	\$46,065	\$38,185	6.25%	\$2,387	\$0.56	\$25,579	\$1,325	\$1,169	\$649	\$1,974
2009	\$965	\$965	\$46,065	\$46,842	\$47,637	\$48,452	\$49,288	\$41,120	6.00%	\$2,467	\$0.53	\$26,315	\$1,317	\$1,309	\$699	\$2,016
2010	\$892	\$892	\$49,288	\$50,081	\$50,894	\$51,727	\$52,581	\$44,153	6.00%	\$2,649	\$0.51	\$26,994	\$1,360	\$1,466	\$733	\$2,113

DDR FALL 1993 MID CASE PROJECTIONS

INFLATION RATE	4.00%
RATE OF RETURN	10.38%
CONVENTIONAL REVENUE GROWTH RATE	12.00%

CREM) WITH UNEXPECTED REVENUES

	DEPOSIT			PERMANENT FUND					FF AVERAGE 12 PRIOR QUARTERS	WITH %	WITHDRAWAL	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET IN 1993 \$
	UN- EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END					FUND	WITHDRAWAL	MON \$	1995 \$	
1993				\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00						
1994				\$13,426	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96						
1995				\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92						
1996	\$2,117	\$242	\$2,359	\$16,277	\$16,579	\$16,888	\$17,206	\$17,531	\$13,896	20.00%	\$2,779	\$0.89	\$15,585	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$552	\$2,847	\$17,531	\$18,001	\$18,482	\$18,976	\$19,482	\$15,361	17.73%	\$2,720	\$0.85	\$16,654	\$2,325	\$336	\$287	\$2,612
1998	\$2,416	\$708	\$3,124	\$19,482	\$20,090	\$20,714	\$21,352	\$22,007	\$16,794	15.72%	\$2,640	\$0.82	\$18,088	\$2,170	\$376	\$309	\$2,479
1999	\$2,354	\$842	\$3,196	\$22,007	\$22,713	\$23,436	\$24,178	\$24,938	\$18,465	13.94%	\$2,574	\$0.79	\$19,709	\$2,034	\$421	\$333	\$2,367
2000	\$2,175	\$845	\$3,020	\$24,938	\$25,680	\$26,441	\$27,221	\$28,021	\$20,580	12.36%	\$2,544	\$0.76	\$21,294	\$1,933	\$472	\$359	\$2,292
2001	\$2,008	\$875	\$2,883	\$28,021	\$28,807	\$29,614	\$30,440	\$31,287	\$23,188	10.95%	\$2,539	\$0.73	\$22,861	\$1,855	\$529	\$386	\$2,242
2002	\$1,883	\$927	\$2,810	\$31,287	\$32,137	\$33,009	\$33,903	\$34,819	\$26,125	9.71%	\$2,537	\$0.70	\$24,463	\$1,782	\$592	\$416	\$2,198
2003	\$1,754	\$961	\$2,715	\$34,819	\$35,737	\$36,679	\$37,644	\$38,634	\$29,292	8.61%	\$2,522	\$0.68	\$26,099	\$1,704	\$663	\$448	\$2,152
2004	\$1,626	\$939	\$2,615	\$38,634	\$39,630	\$40,651	\$41,698	\$42,771	\$32,675	7.63%	\$2,493	\$0.65	\$27,783	\$1,619	\$743	\$483	\$2,102
2005	\$1,486	\$1,012	\$2,498	\$42,771	\$43,850	\$44,956	\$46,090	\$47,252	\$36,319	6.77%	\$2,459	\$0.62	\$29,513	\$1,536	\$832	\$520	\$2,055
2006	\$1,321	\$1,042	\$2,363	\$47,252	\$48,420	\$49,617	\$50,844	\$52,102	\$40,263	6.00%	\$2,416	\$0.60	\$31,291	\$1,451	\$932	\$560	\$2,010
2007	\$1,175	\$1,074	\$2,249	\$52,102	\$53,299	\$54,526	\$55,783	\$57,072	\$44,534	6.00%	\$2,672	\$0.58	\$32,958	\$1,543	\$1,044	\$603	\$2,146
2008	\$1,057	\$1,066	\$2,123	\$57,072	\$58,293	\$59,544	\$60,826	\$62,141	\$49,126	6.00%	\$2,948	\$0.56	\$34,505	\$1,637	\$1,169	\$649	\$2,286
2009	\$965	\$1,073	\$2,038	\$62,141	\$63,394	\$64,679	\$65,996	\$67,346	\$53,965	6.00%	\$3,238	\$0.53	\$35,957	\$1,729	\$1,309	\$699	\$2,428
2010	\$892	\$1,048	\$1,940	\$67,346	\$68,630	\$69,946	\$71,295	\$72,676	\$58,971	6.00%	\$3,538	\$0.51	\$37,311	\$1,816	\$1,466	\$753	\$2,569

DOR FALL 1993 HIGH CASE PROJECTIONS

INFLATION RATE

4.00%

RATE OF RETURN

10.38%

CONVENTIONAL REVENUE GROWTH RATE

12.00%

CREMO WITH UNEXPECTED REVENUES AND REVISED TRANSITIONAL WITHDRAWAL RATE

DEPOSIT			PERMANENT FUND					FF AVERAGE 12 PRIOR QUARTERS	WITH % WITHDRAWAL	PRESENT VALUE OF \$1 (1993)	PRESENT VALUE IN 1993 \$		CONVENTIONAL REVENUES		INCOME BUDGET IN 1993 \$		
UN- EXPECTED	EXPECTED	TOTAL	BEGIN 1ST Q	BEGIN 2ND Q	BEGIN 3RD Q	BEGIN 4TH Q	YEAR END				FUND	WITHDRAWAL	NON \$	1993 \$			
1993			\$11,911	\$12,236	\$12,564	\$12,891	\$13,218			\$1.00							
1994			\$13,426	\$13,735	\$14,044	\$14,352	\$14,661			\$0.96							
1995			\$14,870	\$15,221	\$15,573	\$15,925	\$16,277			\$0.92							
1996	\$2,117	\$242	\$2,359	\$16,277	\$16,579	\$16,888	\$17,206	\$17,531	\$13,896	20.00%	\$2,779	\$0.89	\$15,585	\$2,471	\$300	\$267	\$2,737
1997	\$2,295	\$552	\$2,847	\$17,531	\$18,001	\$18,482	\$18,976	\$19,482	\$15,341	17.73%	\$2,720	\$0.85	\$16,654	\$2,325	\$335	\$287	\$2,612
1998	\$2,416	\$708	\$3,124	\$19,482	\$20,090	\$20,714	\$21,352	\$22,007	\$16,794	15.72%	\$2,640	\$0.82	\$18,088	\$2,170	\$376	\$309	\$2,479
1999	\$2,354	\$842	\$3,196	\$22,007	\$22,713	\$23,436	\$24,178	\$24,938	\$18,465	13.94%	\$2,574	\$0.79	\$19,709	\$2,034	\$421	\$333	\$2,367
2000	\$2,175	\$845	\$3,020	\$24,938	\$25,673	\$26,427	\$27,199	\$27,991	\$20,580	12.50%	\$2,573	\$0.76	\$21,271	\$1,955	\$472	\$358	\$2,314
2001	\$2,008	\$875	\$2,883	\$27,991	\$28,768	\$29,555	\$30,381	\$31,218	\$23,184	11.10%	\$2,573	\$0.73	\$22,811	\$1,880	\$529	\$386	\$2,267
2002	\$1,883	\$927	\$2,810	\$31,218	\$32,055	\$32,913	\$33,792	\$34,693	\$26,106	9.90%	\$2,565	\$0.70	\$24,375	\$1,816	\$592	\$416	\$2,232
2003	\$1,754	\$961	\$2,715	\$34,693	\$35,581	\$36,492	\$37,425	\$38,381	\$29,243	9.00%	\$2,632	\$0.68	\$25,929	\$1,778	\$663	\$448	\$2,226
2004	\$1,626	\$989	\$2,615	\$38,381	\$39,314	\$40,271	\$41,252	\$42,257	\$32,573	8.35%	\$2,720	\$0.65	\$27,449	\$1,767	\$743	\$483	\$2,249
2005	\$1,486	\$1,012	\$2,498	\$42,257	\$43,242	\$44,253	\$45,288	\$46,350	\$36,116	7.70%	\$2,781	\$0.62	\$28,950	\$1,737	\$832	\$520	\$2,257
2006	\$1,321	\$1,042	\$2,363	\$46,350	\$47,392	\$48,459	\$49,554	\$50,676	\$39,871	7.10%	\$2,831	\$0.60	\$30,435	\$1,700	\$932	\$560	\$2,260
2007	\$1,175	\$1,074	\$2,249	\$50,676	\$51,771	\$52,893	\$54,043	\$55,222	\$43,834	6.70%	\$2,937	\$0.58	\$31,890	\$1,696	\$1,044	\$603	\$2,299
2008	\$1,057	\$1,066	\$2,123	\$55,222	\$56,366	\$57,537	\$58,738	\$59,969	\$48,015	6.40%	\$3,073	\$0.56	\$33,299	\$1,706	\$1,169	\$649	\$2,355
2009	\$965	\$1,073	\$2,038	\$59,969	\$61,165	\$62,392	\$63,648	\$64,937	\$52,417	6.20%	\$3,250	\$0.53	\$34,670	\$1,735	\$1,309	\$699	\$2,434
2010	\$892	\$1,048	\$1,940	\$64,937	\$66,189	\$67,474	\$68,790	\$70,139	\$57,035	6.00%	\$3,422	\$0.51	\$36,008	\$1,757	\$1,466	\$753	\$2,509

FOR FALL 1993 HIGH CASE PROJECTIONS

INFLATION RATE

4.00%

RATE OF RETURN

10.38%

CONVENTIONAL REVENUE GROWTH RATE

12.00%

2.5 billion = 93 budget  
 1.8 new (full 93)  
 \$ 700 shortfall

unrealized gain  
 705 over  
 (37) land  
 782 diff  
 \$ 1450

Date: Dept. of Revenue (projections: fall, 1993, mid case)  
 \* Permanent Fund Corp. (projections: October 31, 1993, mid case)  
 Transitional withdrawal: 20% in initial year to permanent % in 2006  
 Permanent withdrawal: 6%  
 Total return: 10%  
 Reserves: 2,500

\$ 12,385

4% inflation

Proposed State Financial System  
 (millions of dollars)

Fiscal Year	Deposit	Year Begin	2nd Qtr Begin	3rd Qtr Begin	4th Qtr Begin	Year End	Avg Prior Bal	Wdr %	Withdrawal
1993*		11,911.33	12,238.08	12,564.83	12,891.58	13,218.33			
1994*		13,426.67	13,735.42	14,044.17	14,352.92	14,661.67			
1995*		14,870.00	15,221.75	15,573.50	15,925.25	16,277.00			
1996	2,117.12	16,277.00	16,514.25	16,757.44	17,006.70	17,262.19	13,896.29	20.00	2,779.26
1997	2,295.33	17,262.19	17,586.35	17,918.61	18,259.17	18,608.25	15,508.25	17.73	2,714.45
1998	2,416.40	18,608.25	19,024.06	19,450.27	19,887.13	20,334.91	16,597.68	15.72	2,609.17
1999	2,354.71	20,334.91	20,808.15	21,293.22	21,790.41	22,300.04	17,679.20	13.94	2,491.82
2000	2,175.06	22,300.04	22,802.17	23,316.86	23,844.42	24,385.16	19,351.89	12.36	2,391.12
2001	2,008.86	24,385.16	24,916.66	25,461.45	26,019.85	26,592.22	21,121.66	10.95	2,313.76
2002	1,803.00	26,592.22	27,164.51	27,751.10	28,352.37	28,968.66	23,106.11	9.71	2,244.03
2003	1,754.37	28,968.66	29,505.50	30,217.75	30,865.82	31,530.08	25,242.23	8.61	2,173.42
2004	1,626.18	31,530.08	32,196.66	32,879.90	33,580.22	34,298.05	27,525.42	7.63	2,101.02
2005	1,486.83	34,298.05	35,016.69	35,753.30	36,508.32	37,282.22	29,973.73	6.77	2,028.52
2006	1,321.81	37,282.22	38,051.51	38,840.03	39,648.26	40,475.70	32,616.75	6.00	1,957.00
2007	1,175.92	40,475.70	41,244.66	42,031.83	42,838.67	43,665.69	35,465.44	6.00	2,127.93
2008	1,057.16	43,665.69	44,436.30	45,226.18	46,035.81	46,865.67	38,499.19	6.00	2,309.95
2009	965.92	46,865.67	47,644.49	48,442.78	49,261.03	50,099.73	41,648.15	6.00	2,498.89
2010	892.22	50,099.73	50,891.33	51,702.71	52,534.39	53,386.04	44,847.48	6.00	2,690.85

1773  
 1788  
 1812

2536

FF calculated ip

add 2 years of revenue + inflation proofing

16 735 at current value  
 15 285 at cost

94 209 500 = 700  
 95 209 500 = 700

add revenue at end of 1995  
 \$ 1.5 billion

**Testimony on SJR 38 "The Cremo Plan"**

before the  
Alaska Senate State Affairs Committee

by  
Scott Goldsmith  
Professor of Economics  
University of Alaska Anchorage

January 28, 1994

The Cremo proposal would establish, by constitutional amendment, a system under which all natural resource revenues would be deposited into the Alaska Permanent Fund and each year a fixed percentage of the fund assets, equal to the long run average real return on the Fund, would be withdrawn for appropriation by the legislature. During an initial 10 year transition period the fixed percentage withdrawal rate would decline geometrically from 20 to 6 percent.

The purpose of the plan is to eliminate the booms and busts associated with state spending driven by periodic fluctuations in natural resource revenues. It accomplishes this through the prohibition of direct appropriation of natural resource revenues.

An additional feature of the plan is that it forces a transition from the present unsustainable high level of state spending and reliance on petroleum revenues to a level which can be maintained using a combination of the annual fund withdrawal and conventional revenues. Each year during the transition phase less revenue is withdrawn from the fund and made available for appropriation. The legislature and administration are forced to fund the operating and capital budgets as well as the Permanent Fund Dividend through a combination of this declining withdrawal and non-resource revenues (the income budget).

Based upon the analysis provided by Mr. Cremo, the amount available for appropriation (income budget) would be \$3.079 billion in 1996, the first year of the transition phase, and \$2.360 in 2005, the last year of the transition phase. (Fall 1993 revenue projections, 12% annual growth rate for non-resource revenues (conventional revenues), 10% rate of return on the fund, and 4% rate of inflation). At a 4% inflation rate the \$2.860 income budget would have the equivalent purchasing power of \$2.00 billion in 1996. In other words, the transition to the level which could be maintained requires a 1/3 reduction in spending. The veracity of this estimate of course depends upon the accuracy of all the assumptions.

This plan is the only systematic proposal to deal with the many problems associated with state financial dependence on both fluctuating and declining natural resource revenues. As such it should get serious consideration. An obvious study which should precede endorsement of this plan is a sensitivity analysis of the projected income budget with different assumptions regarding revenues, rate of return, etc. This would give some idea of whether the plan produces comparable results if the future turns out to be different than currently envisioned. Time has not permitted me to conduct such a study.

In evaluating this plan the potential risks and costs should be identified and the plan should be compared to alternative methods of addressing the problems targeted in the plan. In my testimony I want to discuss the potential problems I see with the plan and suggest some alternative policies for addressing specific problems associated with our dependence on oil revenues.

### **1. There is No Magic and Painless Solution to the Fiscal Gap Problem.**

The critical problem facing the state is how to deal with the decline in petroleum revenues from depletion of the Prudhoe Bay field at the same time that demands for government services continue to expand with population growth. Solution to this problem will require a transition over a number of years involving a reduction in government spending, the imposition of taxes, and restructuring the use of the Permanent Fund including the dividends.

The Cremo plan is one way to implement what we have characterized in the ISER Fiscal Policy Papers as the "Soft Landing". Three points are important in thinking about the plan as a means of accomplishing the "Soft Landing".

#### **a. No increase in revenues results from plan implementation.**

There may be the appearance of more resources under the Cremo proposal for three reasons. First, it assumes an average annual 6% real rate of return on Fund assets is possible compared to more conservative estimates of annual average long term rate of return made by the Permanent Fund Corporation, ISER, and others. However, since the real rate of return depends on the investment portfolio of the fund and not on whether all or a portion of petroleum revenues are deposited in the Fund, it is inappropriate to compare the Cremo proposal and its high real rate of return with other proposals using lower rates of return. All should be compared using the same rate of return.

Second, the Cremo analysis is presented in **Nominal** dollars whereas most other analyses are in **Real** dollars. Since its analysis assumes a 10% nominal return on investment with a real return on investment of 6%, the inflation rate in the analysis is 4% annually. Consequently its projections of available revenues in future years will appear to be higher than other projections simply because inflation is driving up all its variables at the rate of 4% each year. Furthermore its projections of available revenues in any

particular year cannot be compared to any subsequent year because inflation reduces the purchasing power of those later dollars by 4% each year.

Third, the flow of revenues for appropriation each year under the Cremo proposal (income budget) includes the revenues used to fund the Permanent Fund dividend. It is inappropriate to compare this flow with the revenues under alternate proposals which assume funding of the dividend by some alternate means.

b. With the plan in force budget cuts, restructuring of the dividend, and the imposition of new taxes are all necessary. For example using the assumptions in the current version of the plan, in 2000 there will be enough revenues to fund \$2.4 billion of spending at the current price level (a drop of \$700 million from 1996). With the \$100 million in new taxes assumed, we would still be forced to choose between keeping the operating budget and eliminating both the capital budget and the dividend, retaining the dividend while eliminating the capital budget and cutting 20% out of the operating budget, or some compromise plan.

c. The plan does not speak to the questions of how or what taxes will be imposed, how the budget will be reduced, or how the dividend may be restructured.

I am not suggesting that the plan needs to answer all those questions, but I am concerned that the public may be getting the wrong message about what the plan will do and that this misconception may inflate expectations above what the legislature and administration can deliver. Specifically if people approve a plan they think will painlessly eliminate the state budget gap without the need to reduce services, impose taxes and restructure the dividend only to discover otherwise, they may be understandably upset.

## **2. This Proposal Represents a Risk to the Permanent Fund, our Biggest Asset.**

The advantages of the Cremo plan have been clearly identified in the proposal. Among the more important I would highlight the fiscal discipline that results from its implementation, and the forced instant awareness that solving the problem of the budget gap will require a tradeoff among the budget, the Permanent Fund dividend, and taxes. (A cynic would add the fact that its passage would allow the postponement of hard choices among these alternatives until after the next election.)

The potential risks should also be clearly identified. This plan puts the Permanent Fund at risk in exchange for solving two pressing problems--the need to inject fiscal discipline into the budget making process and the need to convince the electorate that the legislature and administration are serious about fiscal responsibility. Other ways exist to accomplish both of these objectives. Caution should be the watchword when considering changes that put the Permanent Fund at risk.

The Permanent Fund works. In its 16 years it has not only survived but grown and

prospered during both boom and bust times so that today its \$14 billion represents our largest and most important financial asset as we move toward the Post-Prudhoe economy. One reason for its success has been the fact that it stands outside the annual budget appropriation cycle. There is no thought that the assets of the Permanent Fund could be available for appropriation when the budget is being built.

Its structure is not perfect. For example it could be producing a higher rate of return, and there is no constitutional guarantee against erosion of the corpus from the effects of inflation. These problems could be addressed without exposure of the corpus to the annual budgetary cycle.

The Cremo plan is a radical departure from the past. It brings the Permanent Fund to the center stage during the annual appropriation cycle, and during the "transition period" establishes a precedent for spending of the corpus. Budgetary attention will immediately focus on the Fund corpus. In politics as in economics INCENTIVES MATTER and a \$14 billion asset in the middle of the budget process is a big temptation for anyone.

To get a sense of the potential risk to the Fund it is useful to run out some scenarios that include political motivations. For example, suppose oil prices linger below the Department of Revenue Fall 1993 projection through 1996 and the first year draw on the Fund at the 20% rate were to come up short of projections by a couple hundred million dollars. The capital budget would be the likely first casualty of the resulting budget squeeze, but the construction lobby would not give up without a fight. A logical line of attack would be for them to remind everyone that a 20% draw on the fund was a mandate to dip into its principal. A painless way to do that would be to fund the capital budget with a loan from the Permanent Fund that would be repaid when the oil price bounced back. Although this may sound far-fetched who would have believed the scenario just played out surrounding the Constitutional Budget Reserve.

### **3. This Proposal has Neither a Safety Valve nor Wiggle Room.**

An impressive argument for this plan is that if we had instituted it in 1969 the Permanent Fund balance would be \$70 billion now and we could draw \$3.8 billion this year. I find it difficult to believe that such a Fund could have survived at all through the 70s and 80s. Consider 1982 when petroleum revenues were \$4 billion and projections were for revenues to grow to between \$8 and \$10 billion by 1992. Under this plan the withdrawal in 1982 would have been a mere \$400 million. It is inconceivable that the political pressure to spend could have been kept in check under those conditions.

In fact one of the things that kept the Permanent Fund healthy and insulated from attack during those boom years was the safety valve we had in the form of the oil money that stayed CUT of the Fund. This money was available to pay for the capital, operating, loan, and other programs that seemed so essential at the time and that some now feel could have so easily been denied. In reality without that safety valve the pressure on the

Fund would have been impossible to contain.

Wiggle room allows us the flexibility to deal with future issues and events that we cannot anticipate. We think we know what the future will bring, but Alaska continues to be the land of surprises.

For example, another scenario, which I personally think has a very low probability, would be that the oil price rebounds and we discover an oil field much larger than Prudhoe Bay. This field has a productive life of 100 years and can generate \$3 billion each year for 100 years. (This would really move us into the Saudi Arabia class.) The sensible course of action in this case would be to allow spending of \$3 billion each year and the population explosion such a discovery would create would demand it. With the Cremo plan in force we would be constrained to spending only 6 percent of the new annual revenues in the first year--\$180 million, 12 percent in the second year--\$360 million, and so on. Without wiggle room this constraint would be difficult to maintain.

#### **4. No Plan Involving \$14 billion is Simple.**

The plan is elegant in its simplicity. Its implementation would surely be as complex as only the lawyers can conceive. The Constitutional Budget Reserve is an all too recent example of a simple idea that got complicated fast partly because the original idea was not subjected to enough review of how it would work once it emerged from the laboratory in the real world of politics.

#### **5. The Benefits and Costs of This Proposal Should be Compared with Less Radical Alternatives.**

The objectives of the Cremo plan can be achieved in other ways without endangering the Permanent Fund through exposure of the corpus during the difficult transition years. None alone is sufficient to deal with the fiscal gap and each individual policy should be evaluated as an element in an overall plan. For example capping the budget would force the tradeoff between spending cuts and taxes only if the cap was low or if the cap squeezed spending down over time. Neither would a budget cap force a decision on reformulation of the Permanent Fund dividend. A sample of alternate solutions to the main problems addressed by the Cremo plan includes the following:

1. Problem: Instability from year to year in government spending. (This is the immediate problem facing the legislature and administration.)

Solution: CAP THE BUDGET AT \$2.5 BILLION FOR 4 YEARS AND FORBID GROWTH TO ACCOMMODATE POPULATION INCREASE AND INFLATION. If instability in spending is the problem, the solution is to force stability directly. Wiggle room is retained by making the solution temporary, but renewable.

2. Problem: Price induced fluctuations in petroleum revenues from year to year.

Solution: RESTRUCTURE THE CONSTITUTIONAL BUDGET RESERVE TO FILL ALL OR A PORTION OF ANY SHORTFALL OF CURRENT REVENUES BELOW THE BUDGET CAP.

3. Problem: Petroleum revenues declining with production.

Solution: CAP THE BUDGET AT \$2.5 BILLION FOR 4 YEARS AND FORBID GROWTH TO ACCOMMODATE POPULATION INCREASE AND INFLATION. Government spending is unsustainable with the gap between spending and recurring revenues growing as oil production declines. Capping appropriations for 4 years uses inflation to cut the budget and yet retains longer term flexibility to deal with the uncertain conditions at the turn of the century.

4. Problem: Minimize long term economic booms and busts associated with the cycles of resource extraction and depletion.

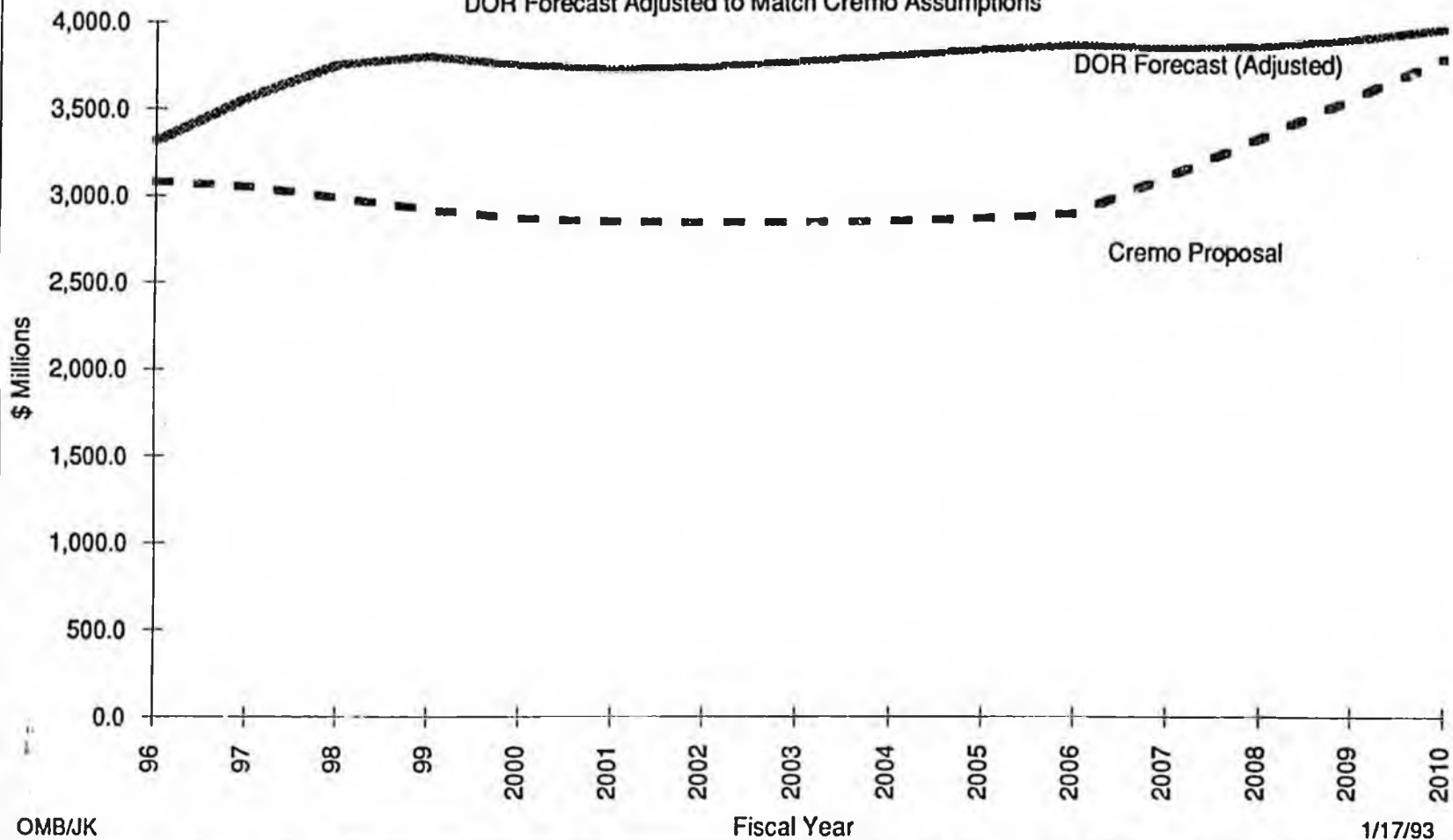
Solution: DOUBLE THE PERMANENT FUND CONTRIBUTION RATE FOR ROYALTIES ON NEWLY DISCOVERED NATURAL RESOURCE PRODUCTION TO 100%. Although the Cremo plan was originally proposed as a solution to this problem, it works only if put in place before the problem arises, not when the bust hits. The likelihood of a Prudhoe Bay sized boom again occurring in Alaska is slight although not impossible. The problem of boom and bust which a new Prudhoe discovery would create could be eliminated if the Permanent Fund contribution rate for royalties (and perhaps taxes) from yet to be discovered natural resources were set at 100% compared to the 50% rate currently in place for new discoveries (and the 25% rate for Prudhoe Bay).

5. Problem: Maximize the return on the Permanent Fund.

Solution: BASE THE DIVIDEND ON THE LONG TERM AVERAGE TOTAL RETURN OF THE FUND INCLUDING UNREALIZED GAINS AND LOSSES. This eliminates the need to hold interest bearing assets to produce cash for the dividends and allows more flexibility in choosing a portfolio to maximize long term rate of return.

### GF Revenues: Cremo Proposal Vs. DOR Forecast (Including Permanent Fund Real Earnings)

Nominal Dollars/Fall 93 Mid-Case Forecast  
DOR Forecast Adjusted to Match Cremo Assumptions



OMB/JK

1/17/93

**Crema/DOR Revenue Comparison - DOR Fall 93 Mid Case Adjusted to Match Crema Assumptions**

<i>Fiscal Year</i>	<u>96</u>	<u>97</u>	<u>98</u>	<u>99</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<b>TOTALS</b>
<b>REVENUES:</b>																
UGF FORECAST	2,155.9	2,320.3	2,425.0	2,371.8	2,218.6	2,076.6	1,968.2	1,869.8	1,762.5	1,647.3	1,509.1	1,388.8	1,293.5	1,225.2	1,173.96	27,406.5
<b>ADJUSTMENTS TO MATCH CREMA</b>																
Additional Conventional Revenues	19.1	46.7	78.4	114.6	155.9	203.1	256.8	317.8	387.0	465.5	554.3	580.2	607.3	635.6	665.2	5,087.6
PF Real Earnings (@6% Real Return)	1,046.6	1,100.4	1,150.1	1,219.6	1,283.4	1,348.5	1,415.4	1,484.2	1,554.9	1,627.8	1,702.5	1,779.1	1,857.7	1,938.7	2,022.1	22,539.0
Interest on \$1.5 billion in reserves	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	1,350.0
<b>Total Adjusted UGF Revenues</b>	<b>3,311.6</b>	<b>3,557.4</b>	<b>3,751.4</b>	<b>3,786.0</b>	<b>3,747.9</b>	<b>3,718.2</b>	<b>3,730.4</b>	<b>3,761.8</b>	<b>3,794.4</b>	<b>3,830.6</b>	<b>3,855.9</b>	<b>3,838.1</b>	<b>3,848.5</b>	<b>3,809.5</b>	<b>3,951.3</b>	<b>56,383.1</b>
Crema Permanent Fund Withdrawal	2,779.3	2,714.5	2,609.2	2,491.8	2,391.1	2,313.8	2,244.0	2,173.4	2,101.0	2,028.5	1,957.0	2,127.9	2,310.0	2,498.9	2,690.9	35,431.2
Crema Conventional Revenues	300.0	336.0	376.3	421.5	472.1	528.7	592.1	663.2	742.8	831.9	931.8	1,069.0	1,007.8	1,048.1	1,090.0	10,311.3
Crema Total	3,079.3	3,050.5	2,985.5	2,913.3	2,863.2	2,842.5	2,836.1	2,836.6	2,843.8	2,860.4	2,888.8	3,096.9	3,317.7	3,547.0	3,780.9	45,742.5
<b>Difference (Forecast less Crema)</b>	<b>232.3</b>	<b>506.9</b>	<b>765.9</b>	<b>882.7</b>	<b>884.8</b>	<b>875.7</b>	<b>894.2</b>	<b>925.2</b>	<b>950.6</b>	<b>970.1</b>	<b>967.2</b>	<b>741.2</b>	<b>530.8</b>	<b>342.6</b>	<b>170.3</b>	<b>10,640.5</b>

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1/27/93