

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10462 HOUSE STATE AFFAIRS

HJR

3

# Lawmakers attempt to trim session

## Reps seek two-year budgets

By BILL McALLISTER  
THE JUNEAU EMPIRE

A group of freshman and sophomore representatives is investigating whether legislative sessions and state budgeting can be reformed through regular laws, rather than constitutional amendments.

The lawmakers are still working hard at 90-day and 60-day sessions and a biennial state budget, which they believe would result in a more efficient legislative process.

A House State Affairs subcommittee this morning discussed four proposed constitutional amend-

ments.

All of them would shorten the period in which the Legislature is in session. One, authored by Anchorage Republican Rep. Lisa Murkowski, also would call for the state budget to be set on a two-year cycle.

While House Majority Leader Jeannette James, a North Pole Republican, sat in for part of the discussion, the seven lawmakers who participated throughout the two-hour hearing all have been elected since 1998.

"I think the risk is, the longer you're here, the more comfortable

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8 JUNEAU EMPIRE, TUESDAY, MARCH 27, 2001

## Reforms...

Continued from Page 1

you get with the status quo," said Rep. Andrew Halcro, an Anchorage Republican who is in his second term.

Proposed amendments by Halcro, Anchorage Republican Norm Rokeberg and Soldotna Republican Ken Lancaster would establish 90-day sessions every year. Now the annual regular session is limited by the constitution to 121 days.

Halcro's amendment also calls for legislators to begin their terms in December, rather than January, allowing a month of preparatory work in their districts before the Legislature convenes. He also would allow interim meetings of committees.

Murkowski would limit sessions

in even-numbered years to 60 days, although she said she's not firm on the length. The heart of her proposal is setting a two-year budget during odd-numbered years, when sessions would remain 120 days.

The premise is that legislators don't really need all the time they take to do their business.

"There's a lot of stirring around and not a lot of motion forward in that first month," Murkowski said.

In discussion, the sponsors of the legislation and subcommittee members gained "a different awareness" about alternatives to constitutional amendments, said subcommittee chairman Hugh Fate, a Fairbanks Republican.

Legislative staffer Tam Cook said that in going to a biennial budget, "you can get 95 percent of the way there" without amending the constitution. The constitution

prohibits the appropriation of revenues not yet received, Cook said. So the Legislature could do all of the calculations necessary for a two-year budget but could not officially adopt the second half of it until the next regular session, she said.

A statutory limit on session length would have little if any legal force, Cook said. If lawmakers acted on bills after the statutory deadline, the courts probably would reject any challenges to the validity of the new laws on the grounds that the Legislature "by implication" had suspended the deadline, she said.

But she didn't rule out a statutory deadline as an effective political tool for self-discipline.

James, the majority leader, said she thinks that putting a long-range fiscal plan in place is necessary before doing any of the other

structural reforms, although she said a biennial budget is "a super idea."

"We should never take up a constitutional amendment lightly," Murkowski said. But she said the biennial budget could go "hand in hand" with a long-range fiscal plan and could be implemented gradually. Halcro said support for new taxes in a long-range plan could be gained by showing the public "we're willing to change the way we do business now."

Murkowski broached the idea of selecting an agency - say, the state Department of Education and Early Development - and trying to draft a biennial budget "just to see how possible it is to do this before we move forward with a constitutional amendment."

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# ALASKA STATE LEGISLATURE

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## Sponsor Statement

### HJR 3

#### Constitutional Amendment to Limit Legislative Session to 90 Days

HJR 3 would constitutionally limit the length of the legislative session to 90 days. This change will have direct positive effects of reducing the cost of government, it will actively help foster a citizen legislature, and directly increase governmental efficiencies.

Legislative members, having been elected the previous fall, would be sworn-in in December. Legislative sessions would then begin on the second Monday in February. The legislative session would have a scheduled end in mid-May. Committees would be specifically authorized to meet during the interim and review pre-filed legislation before convening in February.

HJR 3 is a hybrid approach that addresses many of the concerns that have arisen during review of other proposals regarding altering the legislative session. Annual revenue forecasts come out in March; thereby this schedule would allow the Finance Committees to begin hearings on the Governor's budget immediately upon convening. The approach taken in HJR 3 would not affect the amount of time available to analyze the revenue forecasts and adopt a budget.

Implementation of this proposal would have a direct affect on the fostering of a citizen's legislature. Many people, who otherwise would take an active role in government, do not do so due to the sacrifices of uprooting their family and careers to move to Juneau for at least 120 days of the year. Decreasing session by 30 days would lessen this impact significantly, making legislative service much more attractive to a greater number of Alaskans.

Additionally, having committee meetings outside of session will allow legislators to more closely interact with their constituents by holding hearings in their districts as well as in the areas impacted by various legislation. This would also make great strides in the goal of giving direct access to the legislature for the multitude of citizens who currently feel alienated from the legislative process because of geographic and economic constraints of visiting the capitol during a legislative session.

Preliminary estimates show passage of HJR 3 would result in \$1.5 million annual savings. The legislature must show its leadership in decreasing the cost of state government. Reducing the legislative session to 90 days is one way to achieve this goal, bringing to reality the 'lead by example' mantra as all departments of state government are experiencing downward pressure on their budgets. The activity of the legislature can be accomplished in 90 days, as many state legislatures around the country have little problem conducting the business of their states in much shorter periods, while serving far greater populations with much larger budgets.

I urge your support of HJR 3 to increase efficiencies in government operations, to decrease the cost of state government, and to help foster a citizen legislature for the benefit of all Alaskans.

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HJR3  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: OOG  
Title: Constitutional Amendment relating to the BRU: Elective Operations  
terms of legislators, legislative meetings, session length Component: Elections  
Sponsor: Representative Halcro  
Requester: House State Affairs Committee Component Number: 21

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual		1.5				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		1.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. If this measure requires the printing an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Gail Fenunici Phone 465-3935  
Division: Division of Elections Date/Time 3/16/01 9:25 AM  
Approved by: Lieutenant Governor Fran Ulmer Date 03/16/2001  
Agency: Office of the Lieutenant Governor

For distribution information, call the Governor's Legislative Office

**ALASKA STATE LEGISLATURE**  
**SESSION LENGTH AND PERCENTAGE OF DAYS WITH FLOOR SESSIONS, 1981-1996**

LEGISLATURE	YEAR	HOUSE				SENATE			
		SPEAKER	SESSION LENGTH(1)	NOT IN SESSION(2)	PERCENTAGE OF DAYS IN SESSION	PRESIDENT	SESSION LENGTH(1)	NOT IN SESSION(2)	PERCENTAGE OF DAYS IN SESSION
Twelfth	1981(4) 1982	J. Duncan	165	45	68%	J. Kerttula	164	46	73%
		J. Duncan	143	54		J. Kerttula	144	38	
Thirteenth	1983 1984	J. Hayes	161	62	64%	J. Kerttula	162	45	71%
		J. Hayes	152	53		J. Kerttula	152	46	
Fourteenth (First legislature under 120-day session limit)	1985(4) 1986	B. Grussendorf	119	50	57%	D. Bennett	119	33	73%
		B. Grussendorf	120	52		D. Bennett	120	33	
Fifteenth	1987(4) 1988	B. Grussendorf	122	54	58%	J. Faiks	121	33	72%
		B. Grussendorf	121	49		J. Faiks	121	36	
Sixteenth	1989 1990(4)	S. Colten	121	50	61%	T. Kelly	121	32	74%
		S. Colten	122(3)	46		T. Kelly	121	33	
Seventeenth	1991 1992(4)	B. Grussendorf	122(3)	54	57%	R. Eliason	121	55	55%
		B. Grussendorf	122(3)	53		R. Eliason	121	56	
Eighteenth	1993 1994(4)	R. Barnes	121	54	57%	R. Halford	121	44	60%
		R. Barnes	121	51		R. Halford	121	54	
Nineteenth	1995 1996(4)	G. Phillips	121	47	58%	D. Pearce	121	41	62%
		G. Phillips	121	54		D. Pearce	121	52	

**Notes:**

- (1)Session lengths as published in "Summary of Alaska Legislation," Legislative Affairs Agency, Alaska State Legislature.
- (2)Information obtained from Alaska State Legislature's printed House and Senate Journals, and Legislative Affairs Agency Folioviews Database.
- (3)House adjourned after midnight on the 121st day.
- (4)Legislature went into special session.

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## Limits on Regular Session Length

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All state legislatures except the seven that are highlighted meet annually. Six of the seven biennial legislatures hold their regular sessions in the odd year; the seventh--Kentucky--holds its regular session in the even year.

Currently, only 11 states do not place a limit on the length of regular session. The remaining 39 set limits through a variety of ways. Constitutional provisions establish the limits in 29 states. Indirect limits on legislator compensation, per diem or mileage reimbursement are in effect in 4 states. Statutory provisions set the restrictions in 3, and another 3 use chamber rules.

State	Session Limit	Limit set by	Cite
Alabama	30 L in 105 C	Constitution	Constitutional Amendment 339
Alaska	120 C	Constitution	Article II, Section 8
Arizona	Sat of week in which 100 <sup>th</sup> C falls	Chamber rule	Senate Rule 27 and House Rule 2
Arkansas	60 C	Constitution	Article V, Section 17
California	Odd-Sept 12 Even-Aug 31	Chamber rule	Joint Rules 51 and 61
Colorado	120 C	Constitution	Article V, Section 7
Connecticut	Odd-Wed after 1 <sup>st</sup> Mon in June Even- Wed after 1 <sup>st</sup> Mon in May	Constitution	Article III, Section 2
Delaware	June 30	Constitution	Article II, Section 4
Florida	60 C	Constitution	Article III, Section 3 (d)
Georgia	40 L	Constitution	Article III, Section IV, Para. I (a)

Hawaii	60 L	Constitution	Article III, Section 10
Idaho	None	NA	
Illinois	None	NA	
Indiana	Odd-Apr 29 Even-Mar 14	Statute	Statutes 2-2.1-1-2 and 2-2.1-1-3
Iowa	Odd-110 C Even-100 C	Indirect	Statute 2.10- limits the number of days for which legislators may receive per diem
Kansas	Odd-None Even-90 C	Constitution	Article II, Section 8
Kentucky	60 L or Apr 15	Constitution	Section 42
Louisiana	Odd-60 L in 85 C Even-30 L in 45 C	Constitution	Article III, Section 2
Maine	Odd-3 <sup>rd</sup> Wed in June Even-3 <sup>rd</sup> Wed in Apr	Statute	Statute 3-2
Maryland	90 C	Constitution	Article III, Sections 15
Massachusetts	Formal sessions: Odd-3 <sup>rd</sup> Wed in November Even-July 31 Informal sessions: None	Chamber rule	Joint Rules 12, 12 (a) and 12 (b)
<b>State</b>	<b>Session Limit</b>	<b>Limit set by</b>	<b>Cite</b>
Michigan	None	NA	
Minnesota	120 L or 1 <sup>st</sup> Mon after 3 <sup>rd</sup> Sat in May	Constitution	Article IV, Section 12
Mississippi	90 C except year after gub elect, then 125 C	Constitution	Article IV, Section 36
Missouri	May 30	Constitution	Article III, Sections 20 and 20(a)
Montana	90 L	Constitution	Article V, Section 6
Nebraska	Odd-90 L Even-60 L	Constitution	Article III, Section 10
Nevada	120 C	Constitution	Constitutional amendment adopted

			November 1998
New Hampshire	45 L. or July 1	Indirect	Part 2, Article 15-- limits the number of days for which legislators may receive mileage
New Jersey	None	NA	
New Mexico	Odd-60 C Even-30 C	Constitution	Article IV, Section 5
New York	None	NA	
North Carolina	None	NA	
North Dakota	80 L	Constitution	Article IV, Section 7
Ohio	None	NA	
Oklahoma	Last Fri in May	Constitution	Article V, Section 26
Oregon	None	NA	
Pennsylvania	None	NA	
Rhode Island	60 L	Indirect	Article VI, Section 3-- limits the number of days for which legislators may receive compensation and mileage
South Carolina	1 <sup>st</sup> Thurs in June	Statute	Statute 2-1-180
South Dakota	Odd-40 L Even-35 L	Constitution	Article III, Sections 6
Tennessee	90 L	Indirect	Article II, Section 23-- limits the number of days for which legislators may receive expenses and travel expenses
Texas	140 C	Constitution	Article 3, Section 24 (b)
Utah	45 C	Constitution	Article VI, Section 16
Vermont	None	NA	
Virginia	Odd-30 C Even-60 C	Constitution	Article IV, Section 6
Washington	Odd-105 C Even-60 C	Constitution	Article II, Section 12
West Virginia	60 C	Constitution	Article VI, Sections 22

Wisconsin	None	NA	
Wyoming	Odd-40 L Even-20 L	Constitution	Article III, Sections 6

**Key:****C = calendar day****L = legislative day****As of November 4, 1998****Contact for More Information**Brenda Erickson ([brenda.erickson@ncsl.org](mailto:brenda.erickson@ncsl.org))National Conference of State Legislatures  
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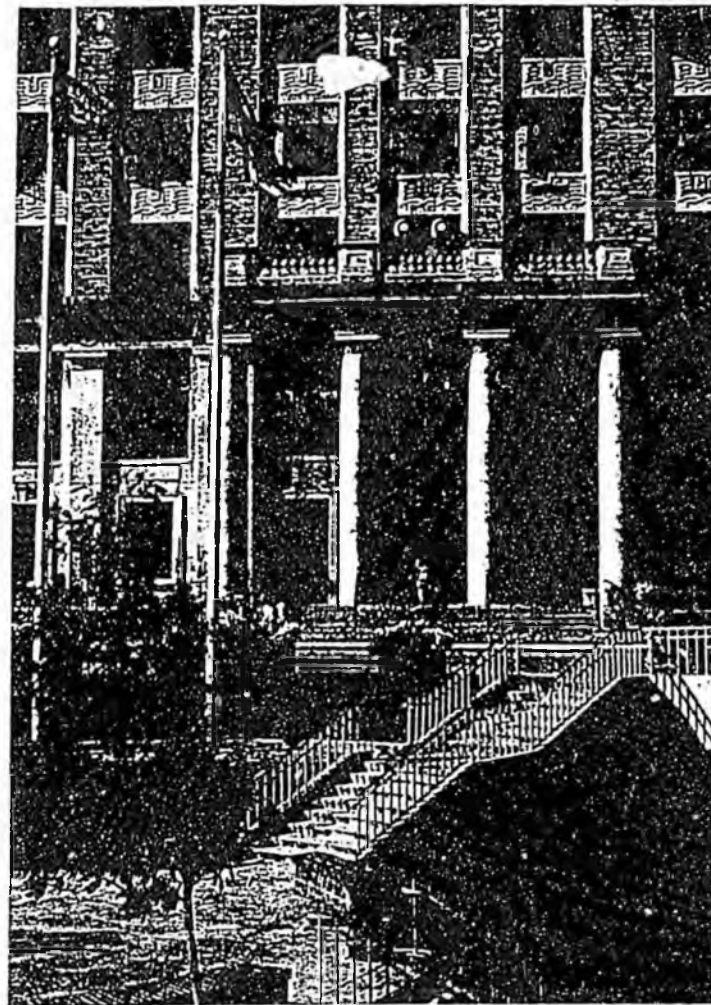
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# Alaska's Constitution

A CITIZEN'S GUIDE

Third Edition

*Alaska Legislative Research Agency • Gordon S. Harrison*



**Section 8. Regular Sessions**

The legislature shall convene in regular session each year on the fourth Monday in January, but the month and day may be changed by law. The legislature shall adjourn from regular session no later than one hundred twenty consecutive calendar days from the date it convenes except that a regular session may be extended once for up to ten consecutive calendar days. An extension of the regular session requires the affirmative vote of at least two-thirds of the membership of each house of the legislature. The legislature shall adopt as part of the uniform rules of procedure deadlines for scheduling session work not inconsistent with provisions controlling the length of the session.

The first sentence of this section provides for annual sessions of the legislature. The majority of states have annual sessions, and in those where the constitution provides for biennial sessions (a session every two years), a special session during the "off" year is common. The ability to meet annually, in order to keep abreast of current developments and administrative activity, is generally considered necessary for a legislature to be an effective policy-making body and to avoid being dominated by the executive branch.

The legislature has changed the beginning of the regular session to the second Monday in January at 10:00 a.m., except following a gubernatorial election year, when it is the third Monday in January at 10:00 a.m. (AS 24.25.090). The later date following a gubernatorial election gives a new governor an extra week to prepare for the opening of the session.

The second sentence establishes a limit of 120 days after convening for each regular session (with one ten-day extension if agreed to by two-thirds of each house). This limit was imposed by a constitutional amendment ratified by the voters in 1984. Until that time, the constitution did not limit the length of sessions. The framers of the constitution adopted the progressive view that the legislature should not be rushed in its deliberations, as the business of modern state government is too complex to be transacted in hurried,

## Article II

in frequent sessions. (About two-thirds of state constitutions impose some limit on the length of sessions.) Delegates feared that constraints on the length (and frequency) of sessions might result in ill-conceived or imprudent measures as well as a legislative disadvantage *vis-a-vis* the executive.

Over the years, sessions lasted progressively longer. Initially, they ran about 70 days; by the early 1980s, sessions over twice that length were common. Alaskans both inside and outside the legislature grew increasingly skeptical that all of this time was spent wisely and productively. In 1978, the legislature (stopping short of adopting an amendment) asked Alaskans to cast an advisory vote on limiting the length of regular sessions to 120 days. The proposition asked voters whether a constitutional amendment to that effect should be placed before them in the 1980 election. The voters responded strongly in the affirmative. Three years later the legislature acted to put an amendment before the electorate in the 1984 general election that would limit the session to 120 days. It was ratified by a large majority (150,999 to 46,099).

In May 1986, at the end of the 120th day of the second regular session of the fourteenth legislature, legislative leaders stopped the clock in order to complete business before the adjournment deadline. A suit was filed challenging the legality of the 29 laws passed after midnight. The Alaska Supreme Court rejected the challenge, holding that the day the legislature convenes should not be counted against the 120-day limit, so the legislature has, in effect, a total of 121 days in which to transact business (*Alaska Christian Bible Institute v. State*, 772 P.2d 1079, 1989).

The call for deadlines for scheduling session work, found in the last sentence of this section, is an effort to mitigate the perennial problem of the "logjam" of legislation at the end of the session (most of the bills that pass the legislature are enacted in the closing days of the session, often in long, wearisome meetings which are not conducive to the studious deliberation of each item).

At the end of the second regular session of the seventeenth legislature (1991 - 1992), both houses adjourned before work was completed on several appropriation bills. In this case it was too late to extend the regular session according to the provision in this section, so the legislature called a special session to finish its business.

**Section 11. Interim Committees**

**There shall be a legislative council, and the legislature may establish other interim committees. The council and other interim committees may meet between legislative sessions. They may perform duties and employ personnel as provided by the legislature. Their members may receive an allowance for expenses while performing their duties.**

This section authorizes the legislature to carry on business with the help of staff between sessions. These powers were considered essential for the legislature to become an efficient and effective body, fully the equipoise of a strong governor. At the time of the constitutional convention, the concept of the legislative council was becoming popular nationwide as a means of strengthening the legislative branch by giving it organizational continuity between sessions, leadership in the area of policy making, and professional research and bill-drafting services. The Alaska territorial legislature had created a legislative council in 1953, and the delegates considered it such a successful innovation that they did not want to leave to chance its continuation under statehood. (The general import of the council at that time is revealed in the fact that the *Model State Constitution* devoted four separate sections to it in the otherwise terse legislative article.)

Today the Alaska legislative council oversees the work of the Legislative Affairs Agency, which performs day-to-day administrative functions for the legislature such as accounting, property management, data processing, public information, teleconferencing, printing, bill drafting and maintaining a reference library. The council does not play a role in policy development as it did in the early years. It is composed of fourteen legislators, seven from each house, including the president of the senate and the speaker of the house. The council is now one of four permanent interim committees of the legislature. The others

## Article II

are the legislative budget and audit committee (which oversees the legislative auditor and the legislative finance division), the administrative regulation review committee, and the ethics committee.

The second sentence of this section allows interim committees to meet between sessions. Does this suggest that special committees and the regular standing committees (finance, state affairs, judiciary, and others) must confine their activity to the session? The legislature has not read this section to restrict the activities of standing or special committees, which routinely work between sessions.

A major political controversy over budgetary matters developed during the 1970s between the legislative and executive branches, the solution to which was sought in amendments to this section. The controversy concerned the ability of the legislative budget and audit committee to jointly review and approve with the governor budget revisions when the legislature was not in session. This had been a common practice in Alaska and elsewhere until questions about its constitutionality were raised around the country. State courts elsewhere ruled that it violated the separation of powers doctrine and constituted an improper delegation of legislative power. In 1977, the Alaska legislature amended the executive budget act to authorize the legislative budget and audit committee to review and authorize budget revisions jointly with the governor between sessions (ch 74 SLA 1977). The governor vetoed the bill as being "clearly unconstitutional." The legislature overrode the veto and shortly thereafter took the administration to court over the matter (*Kelly v. Hammond*, Civil Action No 77-4, Juneau Superior Court). The lower court sided with the governor, who then prevailed on the legislature to put the matter before the voters as a constitutional amendment, and the suit was dismissed.

Voters defeated the proposed amendment at the general election in 1978. A second attempt was made in 1980, when the voters rejected essentially the same amendment by an even wider margin. Consequently, the entire legislature must act on all appropriations and any subsequent modifications of them.

# The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The Anchorage Times Commentary in this segment of the Anchorage Daily News does not represent the views of the Daily News. It is written and published under an agreement with former owners of The Times, in the interests of preserving a diversity of viewpoints in the community.

## Where to cut?

**O**NE OF THE questions on the table now, in the wake of last month's election, is simply this: Where does the Legislature make some of the cuts necessary to help reduce the cost of government?

The answer is equally simple: It should start right in the Legislature's own backyard by cutting the enormous fat that has crept into the legislative process.

Basically, there is far too much lawmaking going on, for far too many weeks every year, by far too many people, doing far too little to justify the cost.

The first thing to be done is make big — make that very big — reductions in the number of legislative employees, including staff aides, deputies, secretaries and clerks, part-time and full-time, who have turned the Legislature's operation into a mini-Congress.

The next thing to be done is to cut the length of the annual legislative sessions. Meeting for one-third of the year, every year, year in and year out, to serve a population of 600,000 is ludicrous.

The Alaska Constitution is framed to provide this state with a strong executive branch. The governor is in charge. Unfortunately, in the last decade or two, those who serve and have served in the legislative branch have developed delusions that they are mini-governors, micro-managing state government operations.

There is no reason that legislative sessions could not be cut back routinely to two months every year — or, at the very outside, three months — instead of dragging out for four months. The savings would be enormous.

As proof that this easily could be done, consider this: In any given year, hardly any real lawmaking business happens in the first three or four or five weeks, anyway. That time is spent jousting for positions, political posturing, and other non-productive fun and games in which legislators love to engage, all at public expense.

Further, the Legislature could decide — if statesmanship were a real part of the operations in Juneau — to divide its duties, restricting one session to an intensive budget-setting process to cover a two-year period, in a session lasting no more than 30 or 40 days, and then devote the next session to general lawmaking.

It can be done, and done easily, if there were a will to do so. States many times bigger than Alaska, with populations much greater than ours, have biennial legislative sessions or limit one of their annual sessions to budget-making only.

There is too much time wasted in Juneau. There is too much money wasted in Juneau.

Cut government? That was one of the powerful messages heard in the recent election.

The job should begin within the Legislature itself.

# Shorter session, better government

**A**mong the more pertinent pieces of legislation filed this session is a proposed amendment to the state Constitution that would limit the 120-day session to 90 days. If passed, House Joint Resolution No. 1 would require a vote of the people.

It's a worthy concept that keeps surfacing, especially with legislators who live elsewhere, and we think it merits discussion.

Here's why: Every year, Christmas and New Year holidays are very nearly ruined for people preparing to return to Juneau for the session. First, they must wind down their duties and close up their offices before Christmas. Then, they must pack up their belongings and hit the road around the New Year to make it to Juneau in time to settle in for the session. New legislators must be in Juneau by about Jan. 4 so they can take part in orientations. Some legislators and staff members must catch a ferry. Many of them arrive in the capital exhausted, having had their family time over the holidays completely disrupted.

This has spawned an annual sense of dread among many involved in the Legislature, a dread that isn't easily dissolved by the friendliness of Juneau. As one staff member put it, they feel as though they are gerbils on a treadmill: "We get here (Juneau) with a bad attitude."

Rep. Norm Rokeberg and Rep. Jerry Sanders are putting their efforts behind the resolution, the very one that died of neglect last session. Rokeberg argues the Legislature could start later, perhaps in February or early March. So much of what the Legislature does must wait until the March budget forecast from the Department of Revenue, so why not wait to get started until some of the real nuts-and-bolts work can be done?

Years ago, the people of Alaska became frustrated with the Legislature when sessions without limits dragged on until June or July. Thus, the 120-day limit was passed by voters. We think an even shorter session would be just as responsive, more cost-effective for the people of Alaska, and possibly even more productive. Other states do it.

Although Juneau would feel an economic impact, the perceived need to move the capital to Anchorage or elsewhere would become far less important.

The idea of a shorter session is also in line with the concept of a citizen-statesman government, one that has legislators spending more time in their districts, working in their own professions and being available to listen to their constituents. And that's a capital idea that would benefit the state as a whole.

JUNEAU EMPIRE  
1/26/97



Web posted **Thursday, November 11, 1999**

## New brand of capital move

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Privatization panel wants to relocate legislative session

By **CATHY BROWN**  
THE JUNEAU EMPIRE

Privatizing pioneers' homes and moving legislative sessions from Juneau are among the latest suggestions being made to a state privatization commission.

Subcommittees made up of volunteers are looking at each department in state government and making recommendations to the Legislature's Commission on Privatization and Delivery of Government Services.

The group examining the Legislature presented a report Wednesday recommending moving legislative sessions, said Kip Knudson, a former legislative aide who chairs that subcommittee.

"Just a real rough cursory look at moving legislative sessions to either Anchorage or Fairbanks showed some savings based on legislators' per diem and moving costs," he said.

The group also recommended cutting session lengths from 120 to 90 days and looking at whether money could be saved by contracting out services, such as janitorial work and meals in the legislative lounge.

State Rep. Bill Hudson, a Juneau Republican, said talk of moving legislative sessions has been around for years. It's "tantamount to a back-door capital move," he said, and wouldn't save money.

While there would be savings in per-diem expenses for Anchorage or Fairbanks legislators, there would be increased per-diem costs associated with moving executive branch employees out of Juneau for the session, he said.

He agreed with the committee, however, that sessions probably could be shortened.

The group looking at the Department of Administration suggested the state consider turning pioneers' homes over to the private sector.

Subcommittee Chairman Joe Henri said the panel didn't have enough information to say for certain the idea is good, but members want the state to have an independent consultant analyze the option.

“They're nursing homes and usually states don't run nursing homes,” Henri said.

Department of Administration Deputy Commissioner Alison Elgee cited several problems with the idea.

The pioneers' homes have about a \$20 million deferred maintenance backlog, which wouldn't make them very attractive to buyers, she said.

In addition, Alaska doesn't include Alzheimers disease among conditions covered by Medicaid, so there is no public financing mechanism for private nursing homes to fund care for poor Alzheimers patients. The state now subsidizes their care in pioneers' homes.

The subcommittee, however, said the problem could be solved by having the state start including Alzheimers among conditions covered by Medicaid, a program funded 60 percent by the federal government and 40 percent by the state.

Elgee said it isn't clear how much that change would cost the state.

She also said there's no reason to assume pioneers' home residents, the majority of whom are suffering from dementia, would receive better care in the private sector.

“We right now have a program that is recognized statewide and nationally as a leader in dementia care,” she said. “The folks running the Pioneers Homes are very good at it.”

Henri said the subcommittee isn't certain privatizing pioneers' homes would be a great idea.

“None of the conclusions we have are based on thorough research, careful study of the budget, careful study of other things in the economy,” he said. Members did believe, however, that the idea is worth studying.

The committee also recommended the Department of Administration focus only on providing administrative service to the rest of state government and turn all “direct-line” public service over to other departments.

It mentioned the Alaska Public Offices Commission, Office of Public Advocacy and Alaska Oil and Gas Conservation Commission as programs that could be moved to other departments.

Elgee said the reason some of those programs wound up in the Department of Administration is because having them in other departments creates conflicts of interest.

Others, such as Senior Services are there because senior citizens didn't want them to be in the Department of Health and Social Services because they

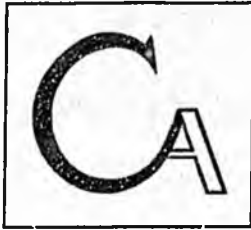
didn't want their programs to be perceived as welfare programs.

Although some of the subcommittee recommendations don't deal with privatization, Knudson said that wasn't the groups' only charge.

"I think the name of the commission is a bit misleading. Their real goal is to find out how to better provide services. .f.f. The commission did ask us to look at ways to do things better or cheaper, as well as look at services that could be privatized."

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## COLLINS & ASSOCIATES, INC.

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236 West 10th Avenue, Suite 2  
Anchorage, Alaska 99501  
Office: (907) 522-3100  
Fax: (907) 274-5595

October 25, 1999

Representative Andrew Halcro  
716 West 4<sup>th</sup>, Suite 620  
Anchorage, AK 99501


Dear Representative Halcro:

Thank you for forwarding a copy of HJR 40, a constitutional amendment limiting the legislative session to 90 days.

On review, I would concur that HJR 40 seems to address concerns articulated in the past. Hopefully, HJR 40 will be well received by your colleagues and you will succeed in passing the legislation. Please let me know if I can be of any help in getting HJR 40 passed.

Keep up the good work!

Sincerely,



Virginia M. Collins

NOTE: HJR 40 FROM THE 21<sup>ST</sup> LEGISLATURE  
HJR 3 IS A DIRECT COPY FOR  
THE 22<sup>ND</sup> LEGISLATURE.

**HJR**

**14**

# ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:  
119 N. Cushman, Suite 211  
Fairbanks, AK 99701  
(907)-456-5081  
Fax# (907)-456-8245



Session Contact:  
(907)-465-3719  
FAX# (907)-465-3258  
State Capitol  
Room 102

## REPRESENTATIVE JOHN COGHILL

---

### Memorandum

---

Date: April 11, 2002  
To: Tam Cook, Legal Counsel  
From: Rynnieva Moss, Legislative Aide  
Re: LS0526\O.1 Amendment

---

I need a final Committee Substitute on SSHJR 14, Version O, with the attached amendment that you drafted.

Thanks for your help.

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE CROFT

TO: SSHJR 14

1 Page 2, lines 5 - 8

2 Delete all material and insert:

3 "Section 30. Suspension and Repeal of Subsection. (a) Notwithstanding  
4 Section 1 of Article XIII, Section 15(c) of Article IX is suspended on the date of an  
5 initial determination by the Internal Revenue Service that all or a portion of the  
6 permanent fund is subject to federal taxation. The suspension is terminated on the  
7 date Section 15(c) of Article IX is repealed under (b) of this section or 180 days after  
8 the date of a final, nonappealable judgment or order by a federal court deciding that no  
9 portion of the permanent fund would be subject to federal taxation as a result of the  
10 application of Section 15(c) of Article IX.

11 (b) Notwithstanding Section 1 of Article XIII, Section 15(c) of Article IX is  
12 repealed 180 days after the date of a final, nonappealable judgment or order by a  
13 federal court deciding that all or a portion of the permanent fund is subject to federal  
14 taxation.

15 (c) In this section, "final, nonappealable judgment or"



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

March 29, 2002

The Honorable President of the Senate Rick Halford  
The Honorable Speaker of the House Brian Porter  
Alaska State Legislature, The Capitol  
Juneau, Alaska 99811

Dear President Halford and Speaker Porter:

The Board of Trustees of the Alaska Permanent Fund Corporation (APFC) just completed a two-day Board meeting at which, among other things, we discussed legislation pending in both bodies which relates to the Permanent Fund. This letter is to express to you the Board's position on two items.

First, the Board continues to feel strongly that the best way to ensure complete and protected inflation-proofing is for the Legislature to enact either SJR 13 or HJR 15 in their original form. Based on our meetings with the public over the past couple of years, we are convinced that this measure would be approved by a large majority of Alaska voters in the 2002 General Election.

We understand that the House State Affairs Committee will be holding a hearing next week on SS HJR 14, which includes the Board's proposal, but adds language which would put Permanent Fund dividend payments in the Alaska State Constitution. We also understand that the Senate State Affairs Committee is considering a similar proposal as a committee substitute to SJR 13. We respectfully ask you to consider our long-standing advice on this issue which is excerpted here from a legal opinion written for the APFC in April of 1998:

"To the extent that the Fund, or some portion of it, becomes irreversibly dedicated to the benefit of private beneficiaries, or to the extent that the dividend program becomes an entitlement that is beyond the reach of government, then it is more like the prepaid tuition programs and is subject to potential challenge by the IRS as a private, rather than a public, investment activity."

Senate President Halford and House Speaker Porter

March 29, 2002

Page 2

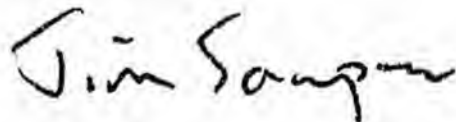
In simple words, the Board is concerned that putting the dividend program into the constitution would put the Fund at risk by jeopardizing its current tax-exempt status. We understand that some legislative members may believe it is possible to draft constitutional language which would mitigate the risk. In our view, the risk/reward benefits are not there.

On a different issue, HB 304 which passed recently from House Finance, the Board has mixed feelings. Clearly, the Board thinks that limiting annual payouts of Fund income to no more than 5 percent of the Fund's five-year average market value is a more desirable approach than the status quo. On the issue of how that payout should be divided up between government and dividends, the Board, of course, has no position; that is completely your prerogative. In recognition of that fact, you will note that the Board's proposed constitutional amendment does not affect the dividend.

However, the Board is concerned about the repeal of statutory inflation-proofing as part of this statutory implementation of the Board's proposal. Although the Legislature has an excellent record in support of inflation-proofing up to this date, as the state enters a period of much tighter revenue constraints, there is no certainty that future Legislatures will stay on the same disciplined path. A constitutional POMV provides a much greater assurance that the Fund will be inflation-proofed for all generations than does a statutory scheme which could be changed by any future Legislature.

Consequently, the Board asks that the Legislature not repeal statutory inflation-proofing, at least not until the constitutional change requested by the Board which would provide complete and protected inflation-proofing is approved by the Legislature and the voters. We commend you for your courageous efforts to construct a viable long-range financial plan for the state, and we thank you for your consideration of our views.

Yours truly,



Jim Sampson  
Chair, Board of Trustees

c: All members, 22<sup>nd</sup> Alaska State Legislature  
All members, APFC Board of Trustees  
Governor's Chief of Staff and Legislative Liaison

Alaska State Legislature  
House of Representatives

Alaska State Capitol  
Juneau, Alaska 99801-1182  
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(fax) 1-907-269-0105

Representative Harry Crawford  
District 22

**REPRESENTATIVE HARRY CRAWFORD  
SPONSOR STATEMENT FOR HJR 14**

The State of Alaska has a fiscal crisis looming, although there is a great deal of talk about creating a long range fiscal plan, there has been little substantive action in that direction. HJR 14 Proposes to amend the Alaska State Constitution and convert the Constitutional Budget Reserve into the Alaska Heritage Fund. The Alaska Heritage Fund would convert the balance of the ailing CBRF into a permanent endowment. The principal advantage of this approach would be to create a renewable and sustainable fund which will grow at a rate greater than inflation, and provide a steady source of revenue long after the Prudoe Bay fields have run dry.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

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Mail Stop 3101

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

February 21, 2001

**SUBJECT:** Alaska Heritage Fund (HJR 14)

**TO:** Representative Harry Crawford  
Attn: David D'Amato

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

Here is the sectional summary you requested.

**Sec. 1.** Amends the state constitution to change the budget reserve fund to the Alaska heritage fund. Money in the fund is to be used for income-producing investments designated by law.

**Sec. 2.** Appropriations from the Alaska heritage fund for a fiscal year may not exceed five percent of the average of the year-end market values of the fund for the preceding five fiscal years.

**Sec. 3.** Permits appropriations to the Alaska heritage fund at any time.

**Sec. 4.** Requires the prudent investor rule to be applied in the management of the Alaska heritage fund.

**Sec. 5.** Provides an effective date for these constitutional amendments of July 1, 2003. The balance in the budget reserve fund shall be transferred to the Alaska heritage fund.

**Sec. 6.** The proposed amendments are submitted to the voters at the 2002 general election.

TBC:glc  
01-184.glc

Alaska State Legislature  
House of Representatives

Alaska State Capitol  
Juneau, Alaska 99801-1182  
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1-888-478-3438 (toll free)  
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(fax) 1-907-269-0105

Representative Harry Crawford  
District 22

Memorandum

To: Representative John Coghill, Chairman House Committee on State Affairs

From: Representative Harry Crawford

RE: HJR14: Proposing amendments to the Constitution of the State of Alaska relating to the budget reserve fund and to the Alaska heritage fund; and providing for an effective date for the amendments.

I respectfully request that this bill be scheduled for a hearing in your committee. Attached are all the pertinent background materials.

## Alaska Heritage Fund

Earnings Rate	Inflation Rate
8.5%	3.25%

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<b>Beginning Balance</b>				\$ 2,282.2	\$ 2,407.4	\$ 2,540.4	\$ 2,681.9	\$ 2,832.3	\$ 2,992.5
<b>Earnings</b>				\$ 199.3	\$ 210.3	\$ 221.9	\$ 234.4	\$ 247.6	\$ 261.5
<b>Oil &amp; Gas Tax Dispute Resolutions</b>				\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
<b>* Withdrawals @ 5%</b>				\$ (114.1)	\$ (117.2)	\$ (120.5)	\$ (123.9)	\$ (127.4)	\$ (134.5)
<b>Ending Balance</b>	<u>\$ 3,112.8</u>	<u>\$ 2,810.0</u>	<u>\$ 2,282.2</u>	<u>\$ 2,407.4</u>	<u>\$ 2,540.4</u>	<u>\$ 2,681.9</u>	<u>\$ 2,832.3</u>	<u>\$ 2,992.5</u>	<u>\$ 3,159.4</u>
<b>Oil Price **</b>	<b>\$30.17</b>	<b>\$24.20</b>	<b>\$22.06</b>	<b>\$21.06</b>	<b>\$20.38</b>	<b>\$17.25</b>	<b>\$17.25</b>	<b>\$17.25</b>	<b>\$17.25</b>
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Beginning Balance</b>	\$ 3,159.4	\$ 3,333.2	\$ 3,514.3	\$ 3,702.7	\$ 3,898.7	\$ 4,102.7	\$ 4,314.9	\$ 4,535.7	\$ 4,765.5
<b>Earnings</b>	\$ 275.9	\$ 291.0	\$ 306.7	\$ 323.1	\$ 340.1	\$ 357.7	\$ 376.2	\$ 395.3	\$ 415.2
<b>Oil &amp; Gas Tax Dispute Resolutions</b>	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
<b>* Withdrawals @ 5%</b>	\$ (142.1)	\$ (150.0)	\$ (158.3)	\$ (167.0)	\$ (176.1)	\$ (185.5)	\$ (195.3)	\$ (205.5)	\$ (216.2)
<b>Ending Balance</b>	<u>\$ 3,333.2</u>	<u>\$ 3,514.3</u>	<u>\$ 3,702.7</u>	<u>\$ 3,898.7</u>	<u>\$ 4,102.7</u>	<u>\$ 4,314.9</u>	<u>\$ 4,535.7</u>	<u>\$ 4,765.5</u>	<u>\$ 5,004.5</u>

\* Withdrawals are computed in FY04 by the previous fiscal years' ending balance multiplied by 5%. In FY05, withdrawals are computed by average ending balance of the two previous fiscal years multiplied by 5%, etc.

\*\* Official DOR Fall Forecast

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# Permanent Fund Basics: Income, Distributions and Percent of Market Value (POMV)

**Robert D. Storer, Executive Director**  
**Jim Kelly, Director of Communications**  
**Alaska Permanent Fund Corporation**

**Fiscal Policy Caucus**  
**April 6, 2001**

[www.apfc.org](http://www.apfc.org)

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**Top stories**  
April 05, 2001

- Mayors learn more about Fund**  
MAY 04 29 - A group of Alaska mayors attending the Alaska Municipal League meeting in Juneau today learned what might be ahead for Alaska's future if inflation-proofing is enacted constitutionally to prevent erosion of the Fund's purchasing power. [EXERCISE](#)
- Board to hold videoconference work session**  
MAY 04 29 - Legislation pertaining to the Permanent Fund will be the topic of discussion for a Board of Trustees work session to be held via videoconference on Thursday, April 5 from 9:00 a.m. to 1:00 p.m. The public is invited to attend. Teleconference access information and a full agenda follow. [CONTINUE](#)
- Intern opportunities continue**  
MAY 04 28 - Alaska students

**Daily unaudited position**  
As at April 04, 2001

U.S. Government	35%	\$2,679,000,000
Top 25 U.S. Stocks	2%	\$602,200,000
U.S. Bonds	31%	\$7,509,000,000
Foreign Bonds	16%	\$2,965,400,000
Real Estate	11%	\$2,640,000,000
Assets	1%	\$142,700,000
<b>TOTAL</b>	<b>100%</b>	<b>\$14,538,300,000</b>

**Quarterly report**  
The Alaska Permanent Fund's loss for the quarter of 3.4 percent illustrates the benefit of diversification.

**Chart of the day**

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# Permanent Fund Basics:

## A primer on income and distributions

[www.apfc.org](http://www.apfc.org)

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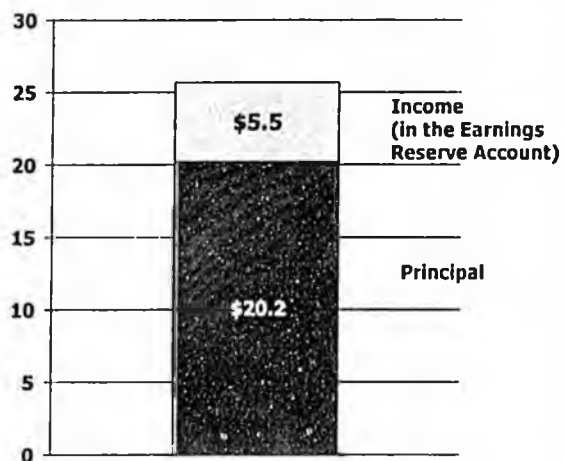


### How the Fund works

## Permanent Fund market value

The market value of the Permanent Fund is currently \$25.7 billion

It consists of two parts: principal and income



Total Fund as of 2/28/01

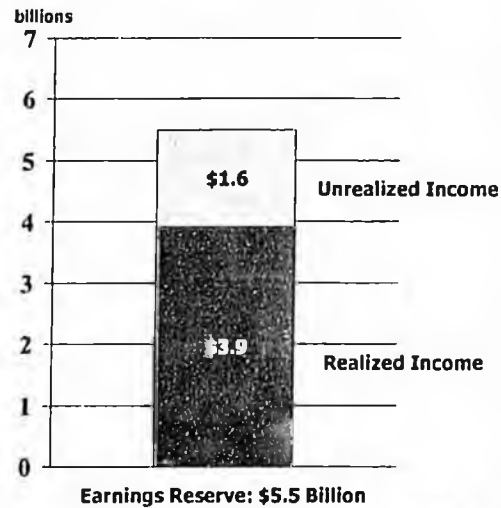
Alaska Permanent Fund Corporation



How the Fund works

## Permanent Fund income

- As provided by law, all income from the Permanent Fund's investments is deposited into the Earnings Reserve Account in the Permanent Fund
- It is retained there until appropriated by the legislature



Earnings Reserve: \$5.5 Billion

Alaska Permanent Fund Corporation



How the Fund works

## Statutory use of Fund income

- Alaska Statutes (AS 37.13.140 and 145) provide the following priority for the payment of dividends and inflation-proofing:
- First, dividends are calculated and paid; then
- Second, an amount of income sufficient to offset the effect of inflation is transferred to principal.

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**How the Fund works**

## 2000 PFD calculation: \$1.172 billion

Statutory net income -- excludes unrealized gains (in millions)

FY96	\$1,769		
FY97	\$2,036		
FY98	\$2,595		
FY99	\$2,544		
FY00	<u>\$2,220</u>		
	\$11,164		
x 0.21	=	<u>\$2,344</u>	= Income available for distribution ...unless it is less than the balance in the earnings reserve account

**1/2 of the lesser amount is transferred to the dividend fund,  
and paid out to qualified applicants.**

**Since the beginning of the dividend program,  
the amount transferred has always been the lesser amount.**

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**How the Fund works**

## 2000 inflation-proofing calculation

- 2.19% = change from average CPI for calendar 1998 to average CPI for calendar 1999;
- Principal on June 30, 2000 was \$19.597 billion;
- Fund principal \$19.597 billion x .0219 CPI = \$423 million

**CPI inflation rate for 2001 will be 3.37%  
x estimated principal balance of \$20.373 billion  
= estimated 2001 inflation-proofing of \$687 million**

Alaska Permanent Fund Corporation



## Basic principles of the Trustees' investment policy

- Diversify to protect the Fund
- Do the utmost due diligence, apply best judgment and accept the consequences
- Invest for the long-term, be disciplined and be prepared for extended periods of short-term volatility
- Balance the income benefits between current and future generations

Alaska Permanent Fund Corporation



### APFC'S 2000-2003 ASSET ALLOCATION

Domestic Equities	37%	+/-7%
International Equities	16%	+/-5%*
<b>Total Equities</b>	<b>53%</b>	<b>+/-5%</b>
Domestic Bonds	35%	+/-7%**
Non-Dollar Bonds	2%	+/-2%
<b>Total Bonds</b>	<b>37%</b>	<b>+/-5%</b>
<b>Total Real Estate</b>	<b>10%</b>	<b>+/-2%</b>

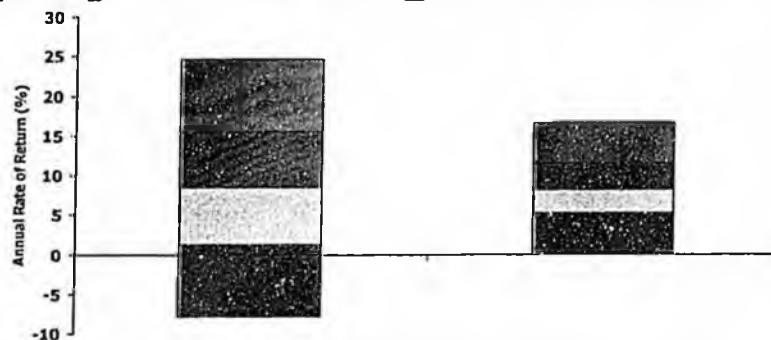
\*Includes an allocation of 3% of the total Fund to Emerging Markets.

\*\*Includes an allocation of \$300,000,000 for Alaska Financial Institutions' Certificates of Deposit.

Alaska Permanent Fund Corporation



## Permanent Fund's projected range of returns



	1-Year Returns	5-Year Returns
5th	27.00	16.20
25 <sup>th</sup>	15.50	11.40
50th	8.25	8.25
75th	1.30	5.10
95th	-7.80	0.70

Alaska Permanent Fund Corporation



## Permanent Fund Basics:

### A primer on POMV

[www.apfc.org](http://www.apfc.org)

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## What is POMV?

Percent Of Market Value = Payout of Fund income

5% x \$28 billion = \$1.4 billion

PF Total return – Payout = Inflation-Proofing

8.25% – 5% = 3.25%

Alaska Permanent Fund Corporation



## Benefits of POMV

1. Preserves the Fund's purchasing power
2. Maximizes distributions over the long-term
3. Minimizes fluctuations in annual payouts

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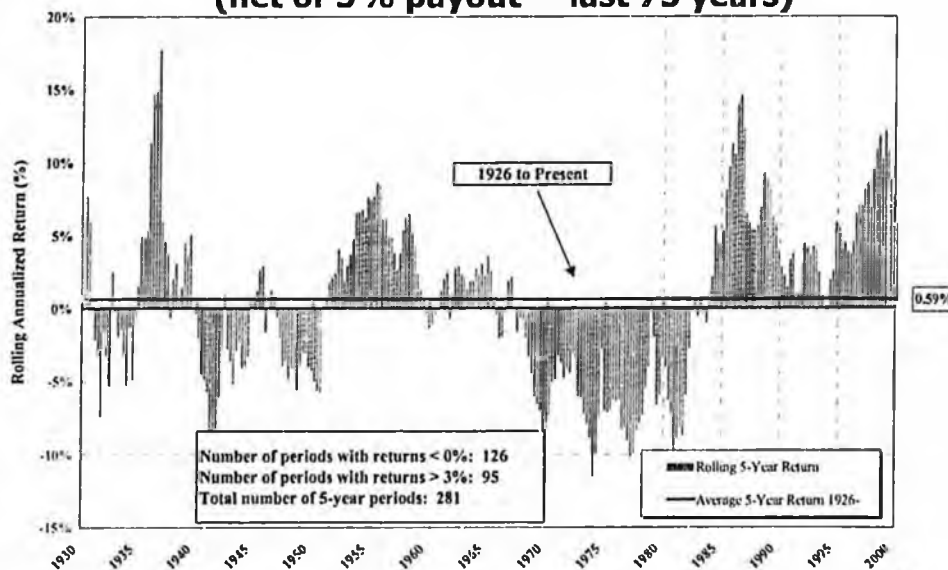
## Why limit the payout to 5%?

- 5% real rate of return is at the high end of what is achievable for the Permanent Fund
- 5% is the maximum sustainable payout rate that still maintains the Fund's real value
- 5% allows greater distributions over time than a higher payout
- 5% is what the majority of endowments payout

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### Rolling 5-year real return for 60% stock/40% bond mix (net of 5% payout -- last 75 years)



SOURCE: Callan Associates, Inc.

CPI 1926-2000: 3.3%

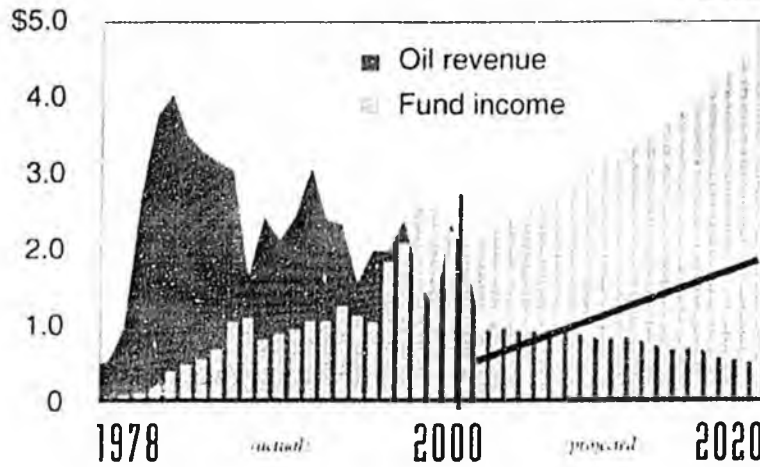
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# Fund statutory net income vs. state oil revenue

(Dollars in billions)

**5% POMV**



**\$57 billion total investment return**

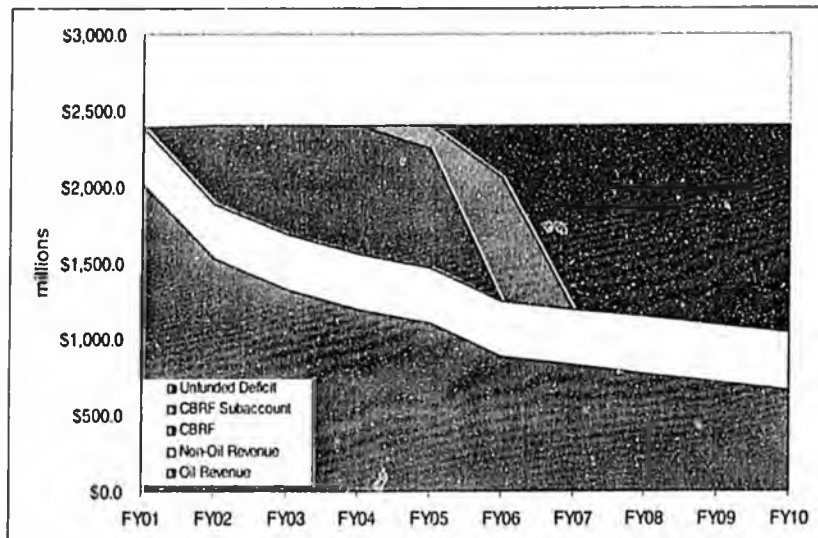
**\$37 billion available**

**\$20 billion inflation-proofing**

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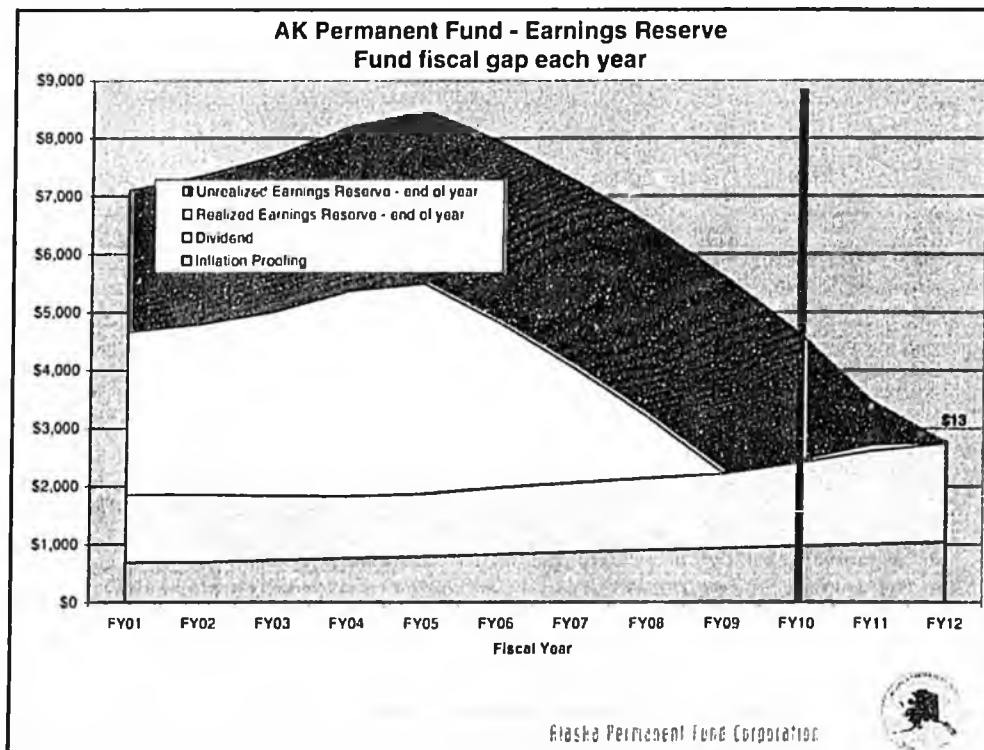
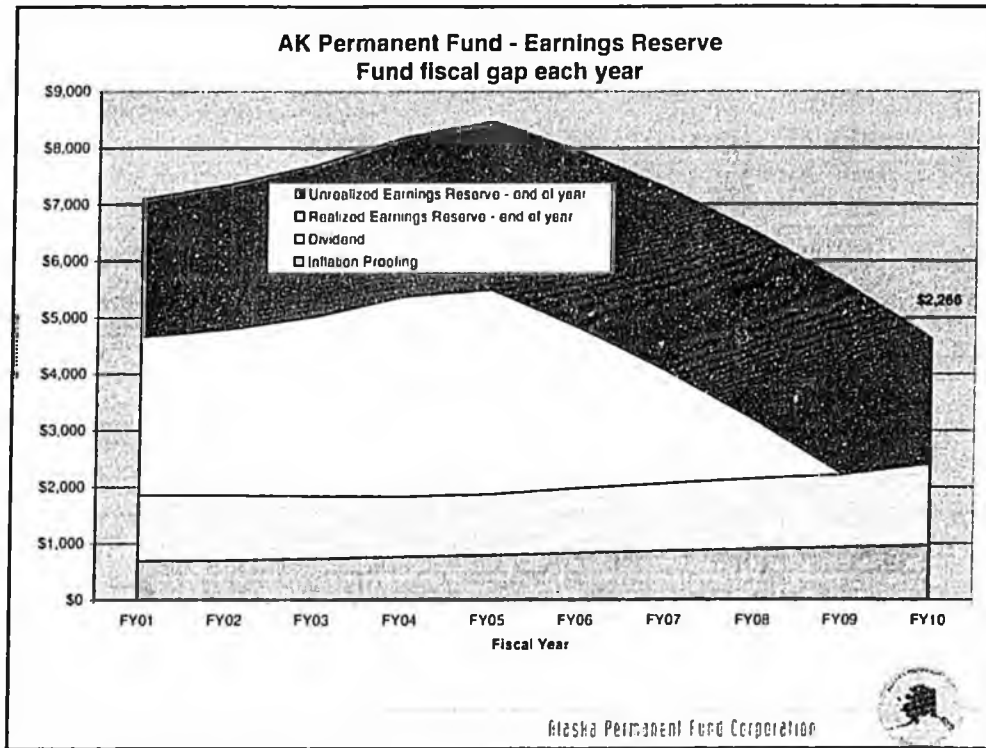


# State of Alaska Revenue Sources

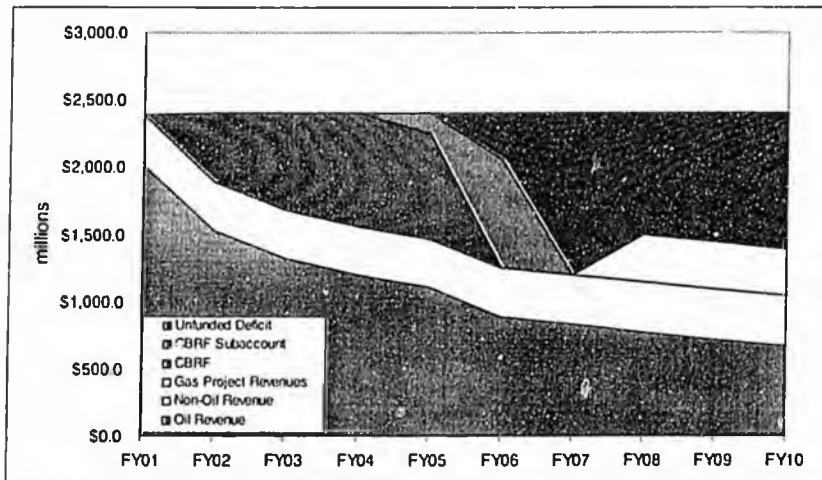


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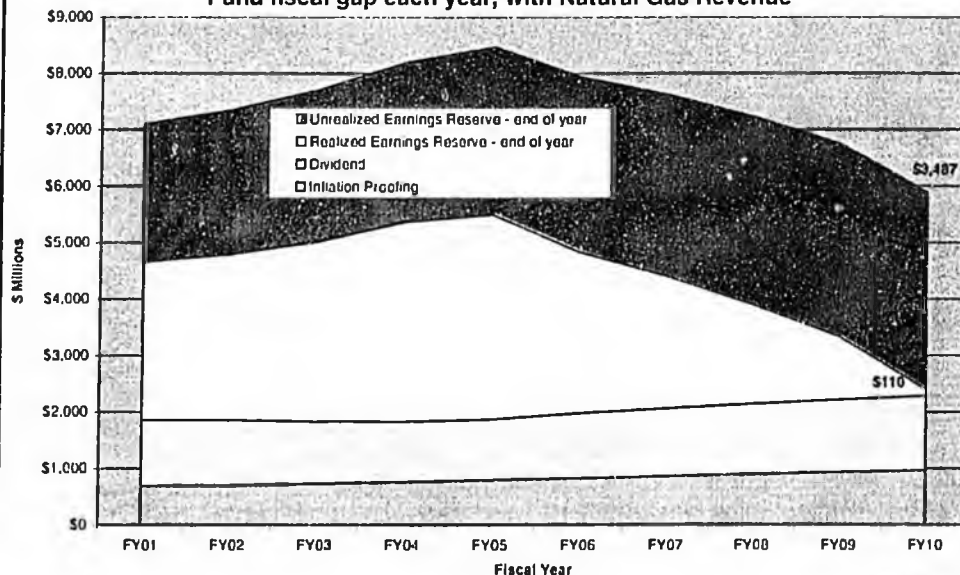
### State of Alaska Revenue Sources with \$350 Million Revenue from North Slope Natural Gas Project Starting in FY 2008



Alaska Permanent Fund Corporation



### AK Permanent Fund - Earnings Reserve Fund fiscal gap each year, with Natural Gas Revenue



Alaska Permanent Fund Corporation



## **Five myths about how the Permanent Fund works**

1. It is possible to be precise about how much total investment return the Fund will produce in the future.
2. The distribution policy which has worked well for the last 20 years will work well for the next 20 years.
3. Any change can be made to the current use of Fund income without affecting the the PFD.
4. The Permanent Fund is big enough to be all things for all people.
5. Permanent Fund dividends always go up.

Alaska Permanent Fund Corporation



Post-It® Fax Note	7671	Date	1/29/01	# of pages	12
To	Dave D'Amato		From	T. Navegant	
Dept	Rep. Crawford		Co.	Treasury	
Phone #	0		Phone #	465-3751	
Fax #	465-4565		Fax #		

**Constitutional Budget Reserve Fund - Investment Policy Statement**

**1. Overview**

The state must deposit in a Constitutional Budget Reserve Fund (CBRF) all money received by the state after July 1, 1990 as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes.

The Legislature may appropriate funds from the CBRF to fund the operations of state government only under certain conditions. If, at any time, the amount of funds from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated to fund state government for the previous fiscal year, then the Legislature may appropriate from the CBRF on a simple majority vote. When the amount of funds from other sources exceeds the amount appropriated for the previous fiscal year, the Legislature may appropriate from the Fund for any public purpose with a three-fourths vote of the members of each house.

The Alaska state constitutional provision governing the operation of the CBRF requires the state's general fund to repay the money that has been appropriated from the CBRF if and when there is a surplus in the general fund at the end of any fiscal year. The general fund does not pay interest on the money it has "borrowed" from the CBRF.

Treasury's investment policies for the CBRF have changed over the years as balance and the expected uses of the CBRF have changed. A significant change occurred this year when the 21<sup>st</sup> Legislature created a special subaccount in the CBRF in order to "yield higher returns than might be feasible to obtain with other money in the budget reserve fund." The legislature directed that "In establishing or modifying the investment policy for the subaccount in the constitutional budget reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years. Income earned on money in the subaccount shall be retained in the subaccount by the department." AS 37.10.430(c).

Treasury, according to the constitution, credits to the CBRF the amount earned by the investment of the money in the CBRF. That is, the main account of the CBRF retains its investment earnings and the subaccount of the CBRF retains its investment earnings.

Appendix V contains the constitutional and statutory provisions applicable to the CBRF.

## 2. History

- November 1990. Voters of Alaska adopt an amendment to the Alaska State Constitution creating the CBRF. Article IX, 17 - See Appendix V.
- 1992-1994. Litigation over meaning of key terms in the constitutional provision.
- 1994. Legislature attempts to define "administrative proceedings involving taxes" and "money available for appropriation." 1 Ch. 5 SLA 1994. AS 37.10.410-420.
- April 1994. Alaska Supreme Court decision in *Hickel v. Halford* 872 P.2d 171 defining scope of "dispute" and "administrative proceedings."
- May 1994. Alaska Supreme Court decision in *Hickel v. Cowper* 874 P.2d 922 defining meaning of "amount available for appropriation."
- 1996. Legislature modifies definition of "administrative proceedings involving taxes." 5 Ch. 108 SLA 1996. See Appendix V.
- 1996. Legislature grants commissioner discretion to transfer management of all or a portion of CBRF to Alaska Permanent Fund Corporation. 1 Ch. 41 SLA 1996. AS 37.10.430. See Appendix V.
- 1997. Commissioner of Revenue decides to manage and invest all of CBRF through the Treasury Division, and Commissioner adopts Reserves Policy for the state.
- 1997. Commissioner adopts investment policy for CBRF based on three separate purposes of CBRF:
  - Fund to implement the state's Reserves Policy to cover anticipated and unanticipated shortfalls in the next two fiscal years' budgets;
  - Fund to provide a transition to a long-term fiscal plan; and
  - Fund to act as long-term reserve account to cover unanticipated budget shortfalls well into the future.
- June 1997. Legislature appropriates money from the CBRF for the first time from the CBRF to pay for CBRF equity investment management fees.
- July 1998. Because of anticipated heavy use of CBRF in short to medium term to balance state budgets, Commissioner modifies investment policy and eliminates consideration of using a portion of the CBRF to act as long-term reserve account.
- December 1998. Treasury reviews the Department of Revenue's Fall oil revenue forecast and the Office of Management and Budget's updated expenditure forecast. Treasury determines that the CBRF will be exhausted within five years to meet revenue shortfalls. Commissioner modifies investment policies and eliminates all equity investments.
- July 1999-September 1999. Treasury recommends and Commissioner accepts an investment policy recognizing a two-year investment horizon for the entire balance of the CBRF. Very large draws on CBRF to balance FY 98 and FY 99 budgets, together with a projected \$600 million to \$1.0 billion draw to balance FY 00 budget, reduces the anticipated time horizon for the balance of fund.

Commissioner concludes this change is appropriate no matter how the public votes in the September 14, 1999 special election relating to the state's long-range finances. Similarly, the Commissioner concludes that the higher oil prices experienced in the late spring and summer of 1999 should not alter this proposed policy.

- April 2000. Treasury recommends and Commissioner accepts an investment policy that recognizes a balance in the CBRF in excess of the state's two year reserve requirement and the state's cash flow needs. Higher than anticipated oil prices and a significant settlement increased the balance of the CBRF enough to cause the change in the investment policy
- July 2000. A significant change in the legislation relating to the fund caused Treasury to recommend significant changes to the investment policy of the fund. Treasury recommended and the commissioner accepted an investment policy that recognized a distinction for the newly created subaccount of the fund, the likely life of the fund, and the role of the balance of the fund in filling the reserve requirements of the State. (Related decision document in Appendix Y.) (Earlier versions of these decision documents are maintained in permanent files in Treasury's Asset Accounting Section. Revised documents relating to those policy decisions may be found in Appendices W and X.)

### 3. Facts and Figures

#### Fund Cash Flow History by Fiscal Year

#### Alaska's Public Finances Constitutional Budget Reserve Fund, Main Account (\$millions)

	Settlement Contributions <sup>(a)</sup>	Investment Income <sup>(b)</sup>	Net Loans to General Fund	Balance Available to Loan GF at Year End <sup>(c)</sup>
FY 91	291	6	-	297
FY 92	247	19	-	563
FY 93	914	57	(849)	685
FY 94 <sup>(d)</sup>	437	61	(569)	614
FY 95	1,543	122	(285)	1,994
FY 96	586	111	(173)	2,518
FY 97	570	167	(83)	3,172
FY 98	343	369	(325)	3,559
FY 99	56	114	(1,101)	2,628
FY 00	448	115	<sup>(c)</sup> (357)	<sup>(f)</sup> 2,734
FY 01 (Proj.)	100	128	117	<sup>(e)</sup> 2,679
FY 02 (Proj.)	45	133	(515)	2,342
FY 03 (Proj.)	45	107	(717)	1,777
<b>Total</b>	<b>5,625</b>	<b>1509</b>	<b>(\$4,857)</b>	

Data sources:

- (a) Department of Revenue, Income and Excise Audit Division, Mineral Payments Report (ties in total through FY99).
- (b) Derived (by formula).
- (c) State of Alaska Comprehensive Annual Financial Report (ending balance less the outstanding receivable from the state's general fund).
- (d) Although the table above is based on cash flows, it does not reflect the timing of the \$1,006,038,474 legislative appropriation (Ch 14, SLA 1994) resulting from an Alaska Supreme Court order to restore the CBRF for certain settlement payments deposited to the state's general fund from FY 1990-1994.
- (e) FY00 includes draw to finalize FY99 budget (42mm).
- (f) Reflects \$100 million transfer to Power Cost Equalization Endowment Fund.
- (g) Reflects \$400 million transfer to CBRF subaccount on July 1, 2000.

**Alaska's Public Finances**  
**Constitutional Budget Reserve Fund, Subaccount**  
**(\$millions)**

	Settlement Contributions <sup>(a)</sup>	Investment Income <sup>(b)</sup>	Net Loans to General Fund	Balance Available to Loan GF at Year End <sup>(c)</sup>
FY 00	0	0	0	0
FY 01 (Proj.)	400	34	0	434
FY 02 (Proj.)	0	37	0	471
FY 03 (Proj.)	0	40	0	511
<b>Total</b>	<b>400</b>	<b>111</b>	<b>0</b>	

**4. Investment Policy**

For the main account of the CBRF (excluding the subaccount that has a five-year time horizon), Treasury recognizes the State's current two-year reserve requirement, General Fund cash flow borrowing needs, money in excess of that which might be needed within two years and the Investment policy of the GcFONSI. At this time, the current high oil prices and the balance in the CBRF support a somewhat more aggressive policy for the money in the main account of the CBRF than had been the case in recent years.

Treasury would invest the main account of the CBRF with the following in mind:

Risk Tolerance	Moderately high. Fund should not be needed for several years.
Investment Objectives	Moderately high exposure of principal to loss in return for higher expected longer-term returns. Limited current income requirement. Moderate inflation protection needed. Moderate liquidity requirement.
Time Horizon	Intermediate.

Effective July 1, 2000, Treasury's investment policy for the main account of the CBRF would be:

- 25% Board Market Fixed Income Investment Pool
- 65% Intermediate-term Fixed Income Investment Pool
- 10% Short-term Fixed Income Investment Pool

Treasury's performance benchmark for the main account of the CBRF is:

- 25% Lehman Brothers Aggregate Bond Index
- 65% Merrill Lynch 1-5 year Government Index
- 10% Three-month U.S. Treasury Bill

Treasury would invest the subaccount of the CBRF with the following in mind:

- Risk Tolerance** High. The legislature has expressly provided guidance by instructing the Commissioner to use at least a five year time horizon in establishing an investment policy for the subaccount.
- Investment Objectives** High exposure of principal to loss in return for higher expected longer-term returns.  
Limited current income requirement.  
Inflation protection needed.  
Moderate liquidity requirement.
- Time Horizon** Long.

Effective July 1, 2000, Treasury's investment policy for the subaccount of the CBRF would be:

- 42% Board Market Fixed Income Investment Pool
- 41% Domestic Equity Investment Pool
- 17% International Equity Investment Pool

Treasury's performance benchmark for the main account of the CBRF is:

- 42% Lehman Brothers Aggregate Bond Index
- 41% Russell 3000 Stock Index
- 17% Morgan Stanley Capital International Europe, Australia, and Far East Stock Index

## 5. Control and Reporting Requirements

On or before March 15 each year, AS 37.10.430 requires Treasury to prepare a report to the Legislature comparing beginning and ending balances in the CBRF for the immediately preceding calendar year together with comparative nominal, real and realized returns for the CBRF, the Permanent Fund and the

general fund. The State Comptroller in the Treasury Division is responsible for compiling this information and preparing and distributing the required report.

The Alaska Legislature made AS 37.10.071 directly applicable to the CBRF. Accordingly, the Commissioner, through the State Comptroller, maintains accounting records for the Fund in accordance with generally accepted accounting principles (as would be required by AS 37.10.071(a)(8)) and engages an independent certified public accountant to perform an annual audit of the financial condition of the Fund and the pertinent investment transactions (as would be required by AS 37.10.071(a)(9)).

#### Version Control

Revision Date	Effective Date	Summary of Changes	Find it in Version
8/19/99	9/1/99	CBRF - elimination of Transition Fund and Long-term Reserve Fund, modification to investment policy of Two-year Shortfall Fund including asset allocation.	1.2
3/7/00	4/1/00	Treasury updates 2000 capital market assumptions and changes asset allocation policy accordingly. Target policy was 15% Short-term Fixed Income Investment Pool, 85% Intermediate-term Fixed Income Investment Pool.	1.3
4/7/00	4/10/00	Treasury revises asset allocation after receiving a \$416.3 million settlement from an oil tax dispute in early April 2000. Asset allocation was 25% Short-term Investment Pool, 75% Intermediate-term Investment Pool.	1.4
1/29/01	7/1/00	Treasury revises asset allocation when the 21st Legislature creates a special \$400 million "subaccount" in the CBRF effective July 1, 2000 and establishes a new \$100 million Power Cost Equalization Endowment Fund.	1.7

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SSHJR 14  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: OOG  
 Title Constitutional amendment relating BRU Elections  
the Alaska permanent fund Component Elections  
 Sponsor Representative Crawford  
 Requester House State Affairs Component No. 21

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual	1.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1.5					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2002) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 This figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. If this measure requires the printing of an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Gail Fenumiai, Election Administrative Supervisor Phone 465-3935  
 Division Division of Elections Date/Time 3/27/02 10:07 AM  
 Approved by: Lieutenant Governor Fran Ulmer Date 03/27/2002  
 Agency Office of the Lieutenant Governor



Alaska State Legislature  
House of Representatives

Alaska State Capitol  
Juneau, Alaska 99801-1182  
1-907-465-3438 (phone)  
1-888-478-3438 (toll free)  
1-907-465-4565 (fax)



Interim Address  
716 West Fourth Avenue  
Anchorage, Alaska 99501-2133  
(phone) 1-907-269-0100  
(fax) 1-907-269-0105

Representative Harry Crawford  
District 22

**REPRESENTATIVE HARRY CRAWFORD  
SPONSOR STATEMENT FOR HJR 14**

The State of Alaska has a fiscal crisis looming, although there is a great deal of talk about creating a long range fiscal plan, there has been little substantive action in that direction. HJR 14 Proposes to amend the Alaska State Constitution and convert the Constitutional Budget Reserve into the Alaska Heritage Fund. The Alaska Heritage Fund would convert the balance of the ailing CBRF into a permanent endowment. The principal advantage of this approach would be to create a renewable and sustainable fund which will grow at a rate greater than inflation, and provide a steady source of revenue long after the Prudoe Bay fields have run dry.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

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

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

February 21, 2001

**SUBJECT:** Alaska Heritage Fund (HJR 14)

**TO:** Representative Harry Crawford  
Attn: David D'Amato

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

Here is the sectional summary you requested.

**Sec. 1.** Amends the state constitution to change the budget reserve fund to the Alaska heritage fund. Money in the fund is to be used for income-producing investments designated by law.

**Sec. 2.** Appropriations from the Alaska heritage fund for a fiscal year may not exceed five percent of the average of the year-end market values of the fund for the preceding five fiscal years.

**Sec. 3.** Permits appropriations to the Alaska heritage fund at any time.

**Sec. 4.** Requires the prudent investor rule to be applied in the management of the Alaska heritage fund.

**Sec. 5.** Provides an effective date for these constitutional amendments of July 1, 2003. The balance in the budget reserve fund shall be transferred to the Alaska heritage fund.

**Sec. 6.** The proposed amendments are submitted to the voters at the 2002 general election.

TBC:glc  
01-184.glc

Alaska State Legislature  
House of Representatives

Alaska State Capitol  
Juneau, Alaska 99801-1182  
1-907-465-3438 (phone)  
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(fax) 1-907-269-0105

Representative Harry Crawford  
District 22

Memorandum

To: Representative John Coghill, Chairman House Committee on State Affairs

From: Representative Harry Crawford

RE: HJR14: Proposing amendments to the Constitution of the State of Alaska relating to the budget reserve fund and to the Alaska heritage fund; and providing for an effective date for the amendments.

I respectfully request that this bill be scheduled for a hearing in your committee. Attached are all the pertinent background materials.

## Alaska Heritage Fund

Earnings Rate	Inflation Rate
8.5%	3.25%

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<b>Beginning Balance</b>				\$ 2,282.2	\$ 2,407.4	\$ 2,540.4	\$ 2,681.9	\$ 2,832.3	\$ 2,992.5
<b>Earnings</b>				\$ 199.3	\$ 210.3	\$ 221.9	\$ 234.4	\$ 247.6	\$ 261.5
<b>Oil &amp; Gas Tax Dispute Resolutions</b>				\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
<b>* Withdrawals @ 5%</b>				\$ (114.1)	\$ (117.2)	\$ (120.5)	\$ (123.9)	\$ (127.4)	\$ (134.5)
<b>Ending Balance</b>	<u>\$ 3,112.8</u>	<u>\$ 2,810.0</u>	<u>\$ 2,282.2</u>	<u>\$ 2,407.4</u>	<u>\$ 2,540.4</u>	<u>\$ 2,681.9</u>	<u>\$ 2,832.3</u>	<u>\$ 2,992.5</u>	<u>\$ 3,159.4</u>
<b>Oil Price **</b>	<b>\$30.17</b>	<b>\$24.28</b>	<b>\$22.06</b>	<b>\$21.06</b>	<b>\$20.38</b>	<b>\$17.25</b>	<b>\$17.25</b>	<b>\$17.25</b>	<b>\$17.25</b>
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Beginning Balance</b>	\$ 3,159.4	\$ 3,333.2	\$ 3,514.3	\$ 3,702.7	\$ 3,898.7	\$ 4,102.7	\$ 4,314.9	\$ 4,535.7	\$ 4,765.5
<b>Earnings</b>	\$ 275.9	\$ 291.0	\$ 306.7	\$ 323.1	\$ 340.1	\$ 357.7	\$ 376.2	\$ 395.3	\$ 415.2
<b>Oil &amp; Gas Tax Dispute Resolutions</b>	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
<b>* Withdrawals @ 5%</b>	\$ (142.1)	\$ (150.0)	\$ (158.3)	\$ (167.0)	\$ (176.1)	\$ (185.5)	\$ (195.3)	\$ (205.5)	\$ (216.2)
<b>Ending Balance</b>	<u>\$ 3,333.2</u>	<u>\$ 3,514.3</u>	<u>\$ 3,702.7</u>	<u>\$ 3,898.7</u>	<u>\$ 4,102.7</u>	<u>\$ 4,314.9</u>	<u>\$ 4,535.7</u>	<u>\$ 4,765.5</u>	<u>\$ 5,004.5</u>

\* Withdrawals are computed in FY04 by the previous fiscal years' ending balance multiplied by 5%. In FY05, withdrawals are computed by average ending balance of the two previous fiscal years multiplied by 5%, etc.

\*\* Official DOR Fall Forecast

# Permanent Fund Basics: Income, Distributions and Percent of Market Value (POMV)

**Robert D. Storer, Executive Director**  
**Jim Kelly, Director of Communications**  
Alaska Permanent Fund Corporation

Fiscal Policy Caucus  
April 6, 2001

[www.apfc.org](http://www.apfc.org)

Alaska Permanent Fund Corporation



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April 05, 2001

**Top stories**

- Mayors learn more about Fund**  
MAYOR 23 - A group of Alaska mayors attending the Alaska Municipal League meeting in Juneau today, is armed with thought to ahead for Alaska's future - and understanding is another contribution to the present structure of the Fund's purchasing power.
- Board to hold videoconference work session**  
MAYOR 23 - Legislation pertaining to the Permanent Fund will be the topic of a discussion by a Board of Trustees with session to be held via videoconference on Monday, April 9 from 9:00 a.m. to 3:00 p.m. The public's interest in the work session is high and a full agenda follows.
- Intern opportunities continue**  
MAYOR 23 - Alaska students

**Daily unaudited position**  
as of April 04, 2001

Net Assets	37%	\$1,653,000,000
Net Distributions	2%	\$679,200,000
Net Assets	7%	\$7,589,600,000
Net Distributions	16%	\$3,264,600,000
Net Assets	11%	\$2,846,600,000
Net Distributions	1%	\$142,700,000
<b>TOTAL</b>	<b>100%</b>	<b>\$26,714,600,000</b>

**Quarterly report**  
The Alaska Permanent Fund's loss for the quarter of 3.8 percent illustrates the benefit of diversification.

**Chart of the day**

Alaska Permanent Fund Corporation



# Permanent Fund Basics:

## A primer on income and distributions

[www.apfc.org](http://www.apfc.org)

Alaska Permanent Fund Corporation

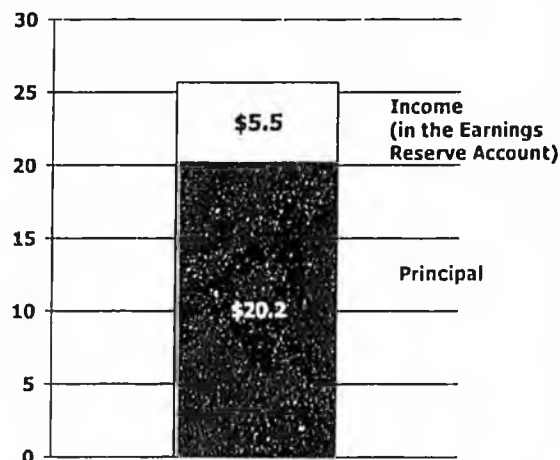


### How the Fund works

## Permanent Fund market value

The market value of the Permanent Fund is currently \$25.7 billion

It consists of two parts: principal and income



Total Fund as of 2/28/01

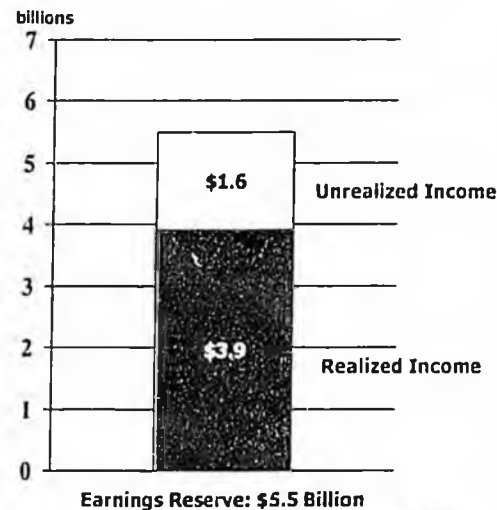
Alaska Permanent Fund Corporation



#### How the Fund works

### Permanent Fund income

- As provided by law, all income from the Permanent Fund's investments is deposited into the Earnings Reserve Account in the Permanent Fund
- It is retained there until appropriated by the legislature



Alaska Permanent Fund Corporation



#### How the Fund works

### Statutory use of Fund income

- Alaska Statutes (AS 37.13.140 and 145) provide the following priority for the payment of dividends and inflation-proofing:
- First, dividends are calculated and paid; then
- Second, an amount of income sufficient to offset the effect of inflation is transferred to principal.

Alaska Permanent Fund Corporation

**How the Fund works**

## 2000 PFD calculation: \$1.172 billion

Statutory net income -- excludes unrealized gains (in millions)

FY96	\$1,769		
FY97	\$2,036		
FY98	\$2,595		
FY99	\$2,544		
FY00	<u>\$2,220</u>		
	\$11,164		
x 0.21	=	<u>\$2,344</u>	= Income available for distribution ...unless it is less than the balance in the earnings reserve account

**1/2 of the lesser amount is transferred to the dividend fund,  
and paid out to qualified applicants.**

**Since the beginning of the dividend program,  
the amount transferred has always been the lesser amount.**

Alaska Permanent Fund Corporation



**How the Fund works**

## 2000 inflation-proofing calculation

- 2.19% = change from average CPI for calendar 1998 to average CPI for calendar 1999;
- Principal on June 30, 2000 was \$19.597 billion;
- Fund principal \$19.597 billion x .0219 CPI = \$423 million

**CPI inflation rate for 2001 will be 3.37%  
x estimated principal balance of \$20.373 billion  
= estimated 2001 inflation-proofing of \$687 million**

Alaska Permanent Fund Corporation



## Basic principles of the Trustees' investment policy

- Diversify to protect the Fund
- Do the utmost due diligence, apply best judgment and accept the consequences
- Invest for the long-term. be disciplined and be prepared for extended periods of short-term volatility
- Balance the income benefits between current and future generations

Alaska Permanent Fund Corporation



### APFC'S 2000-2003 ASSET ALLOCATION

Domestic Equities	37%	+/-7%
International Equities	16%	+/-5%*
<b>Total Equities</b>	<b>53%</b>	<b>+/-5%</b>
Domestic Bonds	35%	+/-7%**
Non-Dollar Bonds	2%	+/-2%
<b>Total Bonds</b>	<b>37%</b>	<b>+/-5%</b>
<b>Total Real Estate</b>	<b>10%</b>	<b>+/-2%</b>

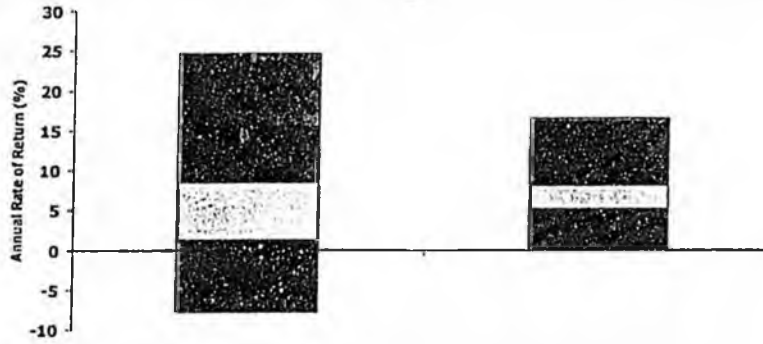
\*Includes an allocation of 3% of the total Fund to Emerging Markets.

\*\*Includes an allocation of \$300,000,000 for Alaska Financial Institutions' Certificates of Deposit.

Alaska Permanent Fund Corporation



## Permanent Fund's projected range of returns



	1-Year Returns	5-Year Returns
5th	27.00	16.20
25th	15.50	11.40
50th	8.25	8.25
75th	1.30	5.10
95th	-7.80	0.70

Alaska Permanent Fund Corporation



## Permanent Fund Basics:

### A primer on POMV

[www.apfc.org](http://www.apfc.org)

Alaska Permanent Fund Corporation



## What is POMV?

Percent Of Market Value = Payout of Fund income

5% x \$28 billion = \$1.4 billion

PF Total return – Payout = Inflation-Proofing

8.25% – 5% = 3.25%

Alaska Permanent Fund Corporation



## Benefits of POMV

1. Preserves the Fund's purchasing power
2. Maximizes distributions over the long-term
3. Minimizes fluctuations in annual payouts

Alaska Permanent Fund Corporation



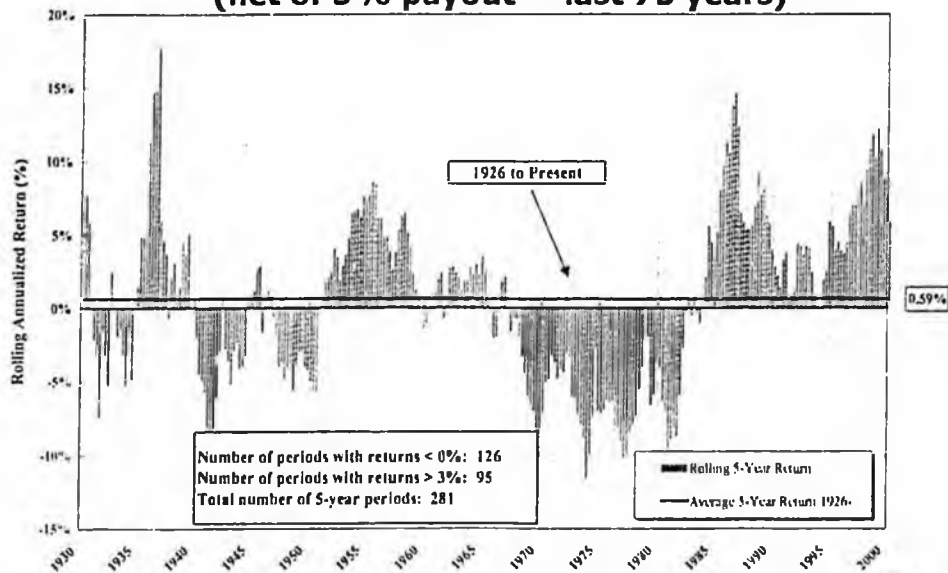
## Why limit the payout to 5%?

- 5% real rate of return is at the high end of what is achievable for the Permanent Fund
- 5% is the maximum sustainable payout rate that still maintains the Fund's real value
- 5% allows greater distributions over time than a higher payout
- 5% is what the majority of endowments payout

Alaska Permanent Fund Corporation



### Rolling 5-year real return for 60% stock/40% bond mix (net of 5% payout -- last 75 years)



SOURCE: Callan Associates, Inc.

CPI 1926-2000: 3.3%

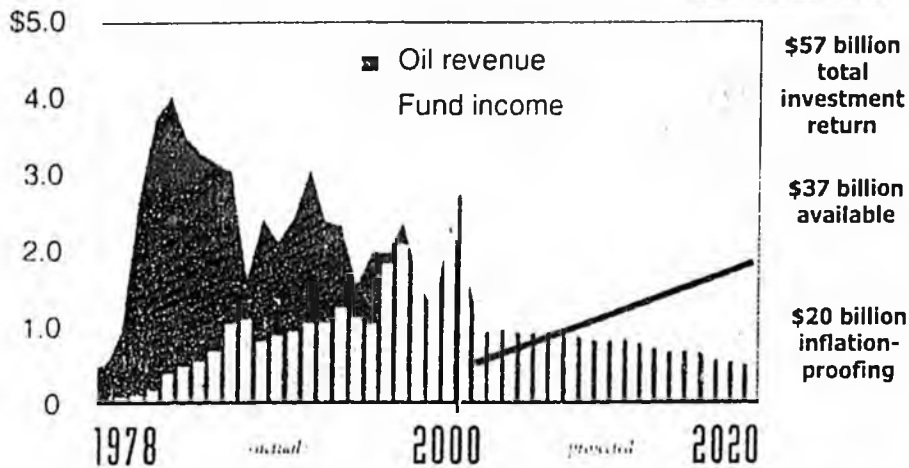
Alaska Permanent Fund Corporation



# Fund statutory net income vs. state oil revenue

(Dollars in billions)

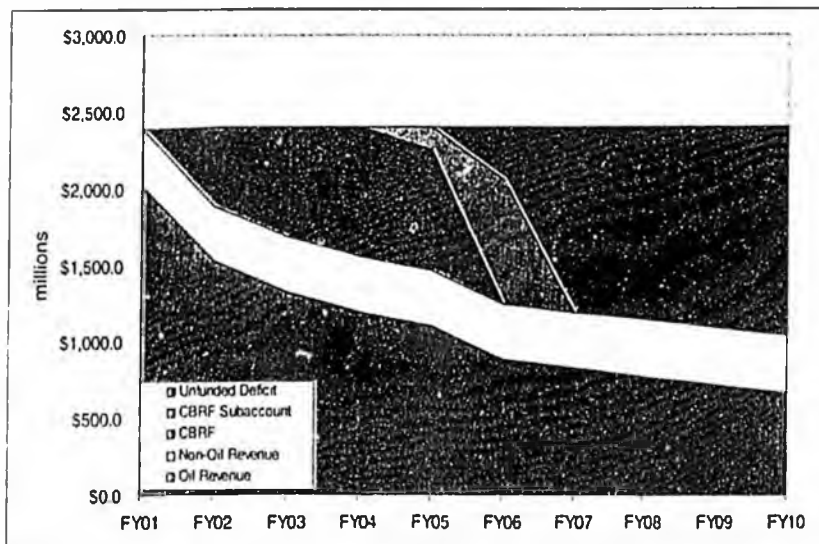
**5% POMV**



Alaska Permanent Fund Corporation

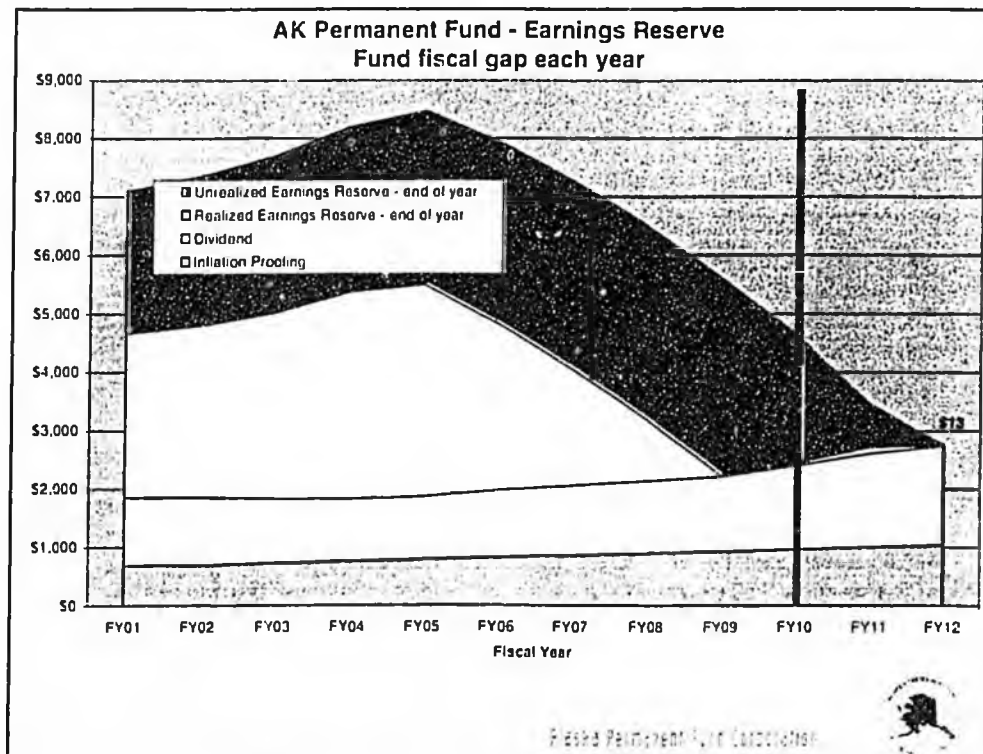
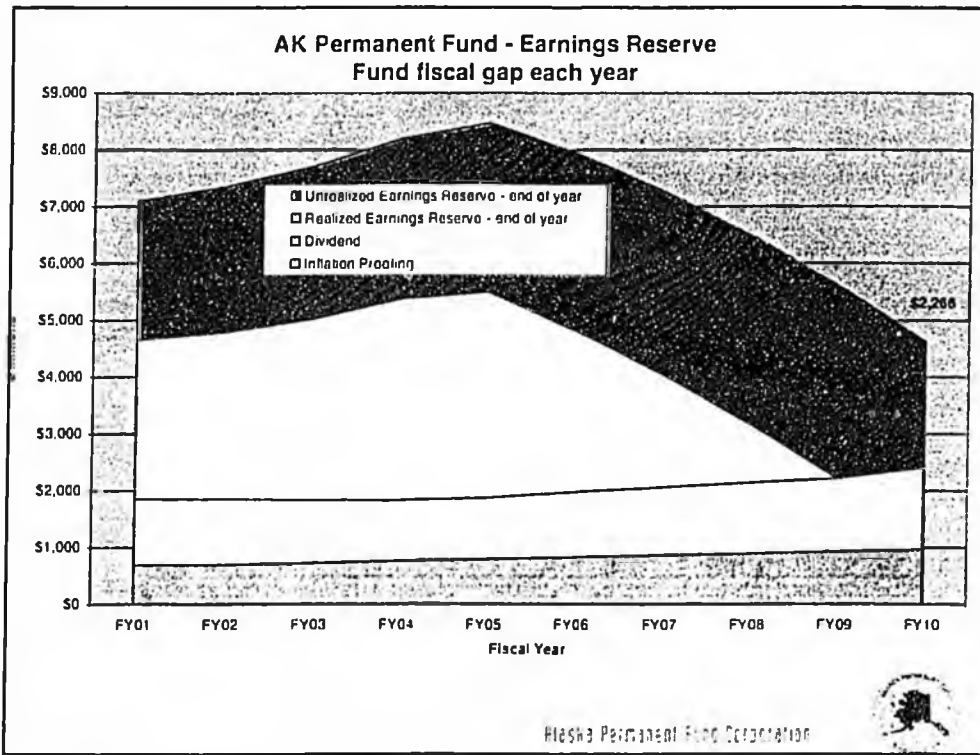


# State of Alaska Revenue Sources

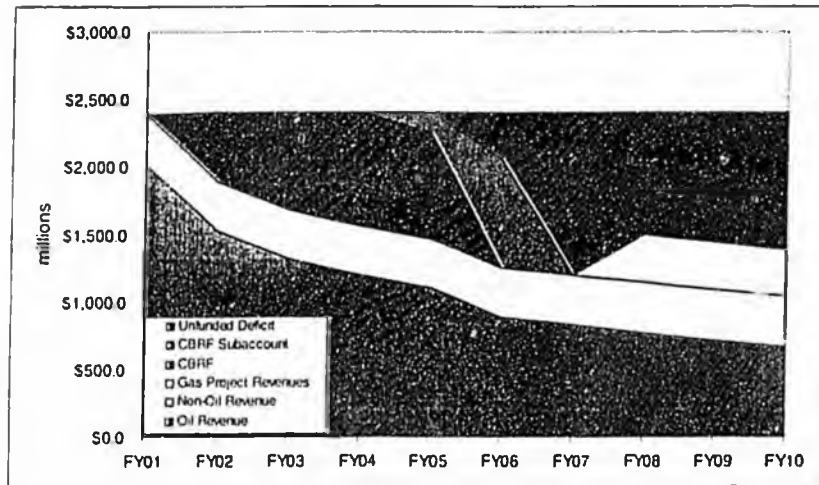


Alaska Permanent Fund Corporation





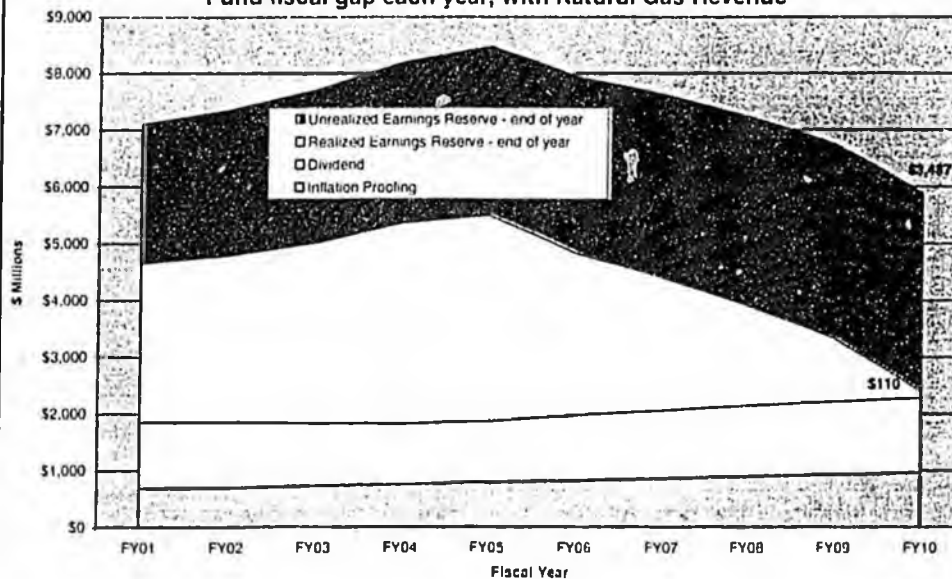
### State of Alaska Revenue Sources with \$350 Million Revenue from North Slope Natural Gas Project Starting in FY 2008



Alaska Permanent Fund Corporation



### AK Permanent Fund - Earnings Reserve Fund fiscal gap each year, with Natural Gas Revenue



Alaska Permanent Fund Corporation



## **Five myths about how the Permanent Fund works**

1. It is possible to be precise about how much total investment return the Fund will produce in the future.
2. The distribution policy which has worked well for the last 20 years will work well for the next 20 years.
3. Any change can be made to the current use of Fund income without affecting the the PFD.
4. The Permanent Fund is big enough to be all things for all people.
5. Permanent Fund dividends always go up.

Alaska Permanent Fund Corporation



Post-It* Fax Note 7671		Date: 1/29/01	# of pages 12
To: Dave D'Amato	From: T. Davenport		
Dept: Rep. Crawford	Co: Treasury		
Phone #	Phone # 465-3751		
Fax # 465-4565	Fax #		

## Constitutional Budget Reserve Fund - Investment Policy Statement

### 1. Overview

The state must deposit in a Constitutional Budget Reserve Fund (CBRF) all money received by the state after July 1, 1990 as a consequence of the resolution of disputes about the amount of mineral lease bonuses, royalties or taxes.

The Legislature may appropriate funds from the CBRF to fund the operations of state government only under certain conditions. If, at any time, the amount of funds from other sources available to the Alaska Legislature for appropriation is less than the amount appropriated to fund state government for the previous fiscal year, then the Legislature may appropriate from the CBRF on a simple majority vote. When the amount of funds from other sources exceeds the amount appropriated for the previous fiscal year, the Legislature may appropriate from the Fund for any public purpose with a three-fourths vote of the members of each house.

The Alaska state constitutional provision governing the operation of the CBRF requires the state's general fund to repay the money that has been appropriated from the CBRF if and when there is a surplus in the general fund at the end of any fiscal year. The general fund does not pay interest on the money it has "borrowed" from the CBRF.

Treasury's investment policies for the CBRF have changed over the years as balance and the expected uses of the CBRF have changed. A significant change occurred this year when the 21<sup>st</sup> Legislature created a special subaccount in the CBRF in order to "yield higher returns than might be feasible to obtain with other money in the budget reserve fund." The legislature directed that "In establishing or modifying the investment policy for the subaccount in the constitutional budget reserve fund, the commissioner of revenue shall assume that those funds will not be needed for at least five years. Income earned on money in the subaccount shall be retained in the subaccount by the department." AS 37.10.430(c).

Treasury, according to the constitution, credits to the CBRF the amount earned by the investment of the money in the CBRF. That is, the main account of the CBRF retains its investment earnings and the subaccount of the CBRF retains its investment earnings.

Appendix V contains the constitutional and statutory provisions applicable to the CBRF.



Commissioner concludes this change is appropriate no matter how the public votes in the September 14, 1999 special election relating to the state's long-range finances. Similarly, the Commissioner concludes that the higher oil prices experienced in the late spring and summer of 1999 should not alter this proposed policy.

- April 2000. Treasury recommends and Commissioner accepts an investment policy that recognizes a balance in the CBRF in excess of the state's two year reserve requirement and the state's cash flow needs. Higher than anticipated oil prices and a significant settlement increased the balance of the CBRF enough to cause the change in the investment policy
- July 2000. A significant change in the legislation relating to the fund caused Treasury to recommend significant changes to the investment policy of the fund. Treasury recommended and the commissioner accepted an investment policy that recognized a distinction for the newly created subaccount of the fund, the likely life of the fund, and the role of the balance of the fund in filling the reserve requirements of the State. (Related decision document in Appendix Y.) (Earlier versions of these decision documents are maintained in permanent files in Treasury's Asset Accounting Section. Revised documents relating to those policy decisions may be found in Appendices W and X.)

### 3. Facts and Figures

#### Fund Cash Flow History by Fiscal Year

#### Alaska's Public Finances Constitutional Budget Reserve Fund, Main Account (\$millions)

	Settlement Contributions <sup>(a)</sup>	Investment Income <sup>(b)</sup>	Net Loans to General Fund	Balance Available to Loan GF at Year End <sup>(c)</sup>
FY 91	291	6	-	297
FY 92	247	19	-	563
FY 93	914	57	(849)	685
FY 94 <sup>(d)</sup>	437	61	(569)	614
FY 95	1,543	122	(285)	1,994
FY 96	586	111	(173)	2,518
FY 97	570	167	(83)	3,172
FY 98	343	369	(325)	3,559
FY 99	56	114	(1,101)	2,628
FY 00	448	115	<sup>(c)</sup> (357)	<sup>(f)</sup> 2,734
FY 01 (Proj.)	100	128	117	<sup>(e)</sup> 2,679
FY 02 (Proj.)	45	133	(515)	2,342
FY 03 (Proj.)	45	107	(717)	1,777
<b>Total</b>	<b>5,625</b>	<b>1509</b>	<b>(\$4,857)</b>	

Data sources:

- (n) Department of Revenue, Income and Excise Audit Division, Mineral Payments Report (ties in total through FY99).
- (b) Derived (by formula).
- (c) State of Alaska Comprehensive Annual Financial Report (ending balance less the outstanding receivable from the state's general fund).
- (d) Although the table above is based on cash flows, it does not reflect the timing of the \$1,006,038,474 legislative appropriation (Ch 14, SLA 1994) resulting from an Alaska Supreme Court order to restore the CBRF for certain settlement payments deposited to the state's general fund from FY 1990-1994.
- (e) FY00 includes draw to finalize FY99 budget (42mun).
- (f) Reflects \$100 million transfer to Power Cost Equalization Endowment Fund.
- (g) Reflects \$400 million transfer to CBRF subaccount on July 1, 2000.

**Alaska's Public Finances**  
**Constitutional Budget Reserve Fund, Subaccount**  
**(\$millions)**

	Settlement Contributions <sup>(a)</sup>	Investment Income <sup>(b)</sup>	Net Loans to General Fund	Balance Available to Loan GF at Year End <sup>(c)</sup>
FY 00	0	0	0	0
FY 01 (Proj.)	400	34	0	434
FY 02 (Proj.)	0	37	0	471
FY 03 (Proj.)	0	40	0	511
<b>Total</b>	<b>400</b>	<b>111</b>	<b>0</b>	

**4. Investment Policy**

For the main account of the CBRF (excluding the subaccount that has a five-year time horizon), Treasury recognizes the State's current two-year reserve requirement, General Fund cash flow borrowing needs, money in excess of that which might be needed within two years and the Investment policy of the GeFONSI. At this time, the current high oil prices and the balance in the CBRF support a somewhat more aggressive policy for the money in the main account of the CBRF than had been the case in recent years.

Treasury would invest the main account of the CBRF with the following in mind:

Risk Tolerance	Moderately high. Fund should not be needed for several years.
Investment Objectives	Moderately high exposure of principal to loss in return for higher expected longer-term returns. Limited current income requirement. Moderate inflation protection needed. Moderate liquidity requirement.
Time Horizon	Intermediate.

Effective July 1, 2000, Treasury's investment policy for the main account of the CBRF would be:

- 25% Board Market Fixed Income Investment Pool
- 65% Intermediate-term Fixed Income Investment Pool
- 10% Short-term Fixed Income Investment Pool

Treasury's performance benchmark for the main account of the CBRF is:

- 25% Lehman Brothers Aggregate Bond Index
- 65% Merrill Lynch 1-5 year Government Index
- 10% Three-month U.S. Treasury Bill

Treasury would invest the subaccount of the CBRF with the following in mind:

- Risk Tolerance** High. The legislature has expressly provided guidance by instructing the Commissioner to use at least a five year time horizon in establishing an investment policy for the subaccount.
- Investment Objectives** High exposure of principal to loss in return for higher expected longer-term returns.  
Limited current income requirement.  
Inflation protection needed.  
Moderate liquidity requirement.
- Time Horizon** Long.

Effective July 1, 2000, Treasury's investment policy for the subaccount of the CBRF would be:

- 42% Board Market Fixed Income Investment Pool
- 41% Domestic Equity Investment Pool
- 17% International Equity Investment Pool

Treasury's performance benchmark for the main account of the CBRF is:

- 42% Lehman Brothers Aggregate Bond Index
- 41% Russell 3000 Stock Index
- 17% Morgan Stanley Capital International Europe, Australia, and Far East Stock Index

### 5. Control and Reporting Requirements

On or before March 15 each year, AS 37.10.430 requires Treasury to prepare a report to the Legislature comparing beginning and ending balances in the CBRF for the immediately preceding calendar year together with comparative nominal, real and realized returns for the CBRF, the Permanent Fund and the

general fund. The State Comptroller in the Treasury Division is responsible for compiling this information and preparing and distributing the required report.

The Alaska Legislature made AS 37.10.071 directly applicable to the CBRF. Accordingly, the Commissioner, through the State Comptroller, maintains accounting records for the Fund in accordance with generally accepted accounting principles (as would be required by AS 37.10.071(a)(8)) and engages an independent certified public accountant to perform an annual audit of the financial condition of the Fund and the pertinent investment transactions (as would be required by AS 37.10.071(a)(9)).

#### Version Control

Revision Date	Effective Date	Summary of Changes	Find it in Version
8/19/99	9/1/99	CBRF - elimination of Transition Fund and Long-term Reserve Fund, modification to investment policy of Two-year Shortfall Fund including asset allocation.	1.2
3/7/00	4/1/00	Treasury updates 2000 capital market assumptions and changes asset allocation policy accordingly. Target policy was 15% Short-term Fixed Income Investment Pool, 85% Intermediate-term Fixed Income Investment Pool.	1.3
4/7/00	4/10/00	Treasury revises asset allocation after receiving a \$416.3 million settlement from an oil tax dispute in early April 2000. Asset allocation was 25% Short-term Investment Pool, 75% Intermediate-term Investment Pool.	1.4
1/29/01	7/1/00	Treasury revises asset allocation when the 21st Legislature creates a special \$400 million "subaccount" in the CBRF effective July 1, 2000 and establishes a new \$100 million Power Cost Equalization Endowment Fund.	1.7

# BALLOT MEASURE NO. 1

## Budget Reserve Constitutional Amendment [HCS CSSSSJR 5 (Fin) am H]

### BALLOT LANGUAGE

This proposal would create the "Budget Reserve Fund" in the state treasury. Money the state receives from mineral revenue lawsuits or administrative actions would be deposited in the Fund, and invested at competitive rates. The Fund could be used when money available for appropriation in the year is less than the year before, but only to make up the shortfall. The legislature could only appropriate from the Fund for other purposes with a 3/4 vote. At the end of each year, the Fund would have to be paid back from money left in the treasury's general fund.

Should this constitutional amendment be adopted?

Yes  No

### VOTES CAST BY MEMBERS OF THE 16TH ALASKA LEGISLATURE ON FINAL PASSAGE

House: Yeas 38 Nays 2      Senate: Yeas 15 Nays 5

### LEGISLATIVE AFFAIRS AGENCY SUMMARY

This measure will amend the state constitution by creating the budget reserve fund. Money from certain mineral revenue sources received by the state from an administrative proceeding or litigation is placed in the fund. Income of the fund is kept in the fund.

Appropriations may be made from the fund if money available for a fiscal year is less than the amount appropriated for the prior year. When this occurs the amount that may be taken from the fund is limited. Only the money needed to make up the difference may be appropriated.

Money may also be appropriated from the reserve fund by special vote of the legislature. Three-fourths of the members of each house must approve. The amount that may be taken is unlimited when this vote is obtained.

Money that is appropriated from the reserve fund must be repaid. Surplus general fund money must be deposited in the reserve fund at the end of each year until the reserve fund is repaid.

### FULL TEXT OF PROPOSED LAW

\*Section 1. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 17: BUDGET RESERVE FUND. (a) There is

established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the State after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. Money in the budget reserve fund shall be invested so as to yield competitive market rates to the fund. Income of the fund shall be retained in the fund. Section 7 of this article does not apply to deposits made to the fund under this subsection. Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

(b) If the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year, an appropriation may be made from the budget reserve fund. However, the amount appropriated from the fund under this subsection may not exceed the amount necessary, when added to other funds available for appropriation, to provide for total appropriations equal to the amount of appropriations made in the previous calendar year for the previous fiscal year.

(c) An appropriation from the budget reserve fund may be made for any public purpose upon affirmative vote of three-fourths of the members of each house of the legislature.

(d) If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the amount of money in the general fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund. The legislature shall implement this subsection by law.

\*Section 2. The amendment proposed by this resolution shall be placed before the voters of the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

### STATEMENT IN SUPPORT

- Cut the budget.
- Reduce state spending.
- Get state spending under control.

Each year these battle cries are raised by Alaskans. While elected officials say they listen and promise to do all they can, the simple fact is the Legislature's record shows it consistently spends most or all of the money available in the treasury. Alaska is confronted with an impending fiscal crisis of staggering proportions as a result of an inevitable "gap" between general fund revenues and current state spending levels. Present levels

# BALLOT MEASURE NO. 1

of state general fund expenditure simply cannot be sustained over the long term.

Ballot Measure Number 1 is the first step Alaskans can take to *effectively* control state spending.

The measure creates the Budget Reserve Fund in the Constitution. Revenues from mineral or oil and gas legal settlements and administrative proceedings will be deposited into the Budget Reserve. The Legislature will be able to spend money from the Budget Reserve only if:

- revenues are less than the amount appropriated the previous year, in which case money could be appropriated from the Budget Reserve in an amount not to exceed the shortfall; or
- three-fourths of the members of both the House and Senate vote to spend money from the Budget Reserve for a public purpose, such as a disaster.

The Legislature will be required to repay any money it appropriates from the Budget Reserve. If the next year revenues are insufficient the Legislature cannot afford to replenish the Budget Reserve, the "debt" will carry forward until it is repaid.

Legal settlements involving mineral or oil and gas revenues received after July 1, 1990, will be deposited into the Budget Reserve. As an example, if voters approve this ballot measure, \$216 million of the amount the state received in September from ARCO's settlement of royalty litigation will be deposited into this Budget Reserve.

Should voters not approve this measure, these funds will be available to the legislature to spend next year. Approval of Ballot Measure Number 1 is the first step toward a long-term spending plan. With Alaska's revenues subject to the whims of the world oil market, trying to take steps which will provide some stability in Alaska's spending is especially difficult. If approved, the Budget Reserve Fund will help hold down spending by removing from the table the oil and gas revenue "windfalls" that result from pending litigation and tax disputes. At the very least, this ballot measure will establish a savings account that can help minimize the effects of a "boom" one year, and a "bust" the next.

While other major budget decisions will be necessary to close the future's fiscal gap, this Ballot Measure is a major step toward a long-term spending plan for the state. It is a step we urge Alaskans to support.

If approved by the voters, the Budget Reserve Fund will be a significant help in managing the transition to sustainable spending.

Senator Jan. Faiks  
Representative Kay Brown  
Representative Randy Phillips

## STATEMENT IN OPPOSITION

In sharp contrast to what its proponents have been telling us, the proposed budget reserve fund

- will *not* save any windfalls,
- does *not* require a  $\frac{3}{4}$  vote to gain access to it,

- *endorses* the legislature's bloated \$3 billion budget
- will result in *slower growth* of the Permanent Fund, and
- will *reduce the amount* of future PFD checks.

Your vote *against* Ballot Measure #1 will send a signal to the legislature that you do not approve of their excessive spending, and that you want the windfalls deposited into the Permanent Fund.

The most significant danger of this proposal is that it will establish a budget floor at \$3 billion, and allow it to increase every year. Under paragraph (b) of the proposed constitutional change, a simple majority in the legislature could "borrow" funds from the reserve, to make up any shortfall in revenues, *up to the amount appropriated in the previous year*. This year the legislature spent more than \$3 billion. Some of that was vetoed by the governor, but it is expected the legislature will restore the funding and add supplemental appropriations in January. In other words, *the total amount appropriated for FY 91 has not yet been determined*. A "yes" vote on this ballot measure amounts to rubber-stamping a blank check of at least \$3 billion!

How would the budget continue to increase? Legislative leaders can easily get a  $\frac{3}{4}$  vote out of their members by dangling capital project plums in front of them.

The appeal of this ballot measure is to save the "windfalls" of oil tax settlements, variously estimated at between \$2 billion and \$5 billion. This can easily be spent in three years.

Constitutionally, 25% of our oil income is dedicated to the Permanent Fund. And under state law, an additional 25% of income from certain leases is put into the Permanent Fund. In other words, as much as 50% of the windfalls should be deposited in the Permanent Fund, by law. The language in this constitutional amendment is unclear regarding the second 25%, and could be interpreted by big-spending legislators to rationalize putting only the constitutionally-dedicated 25% into the Permanent Fund, and leaving 75% for them to spend.

It would be better to save all of these anticipated windfalls, by putting 100% into the Permanent Fund. There, these funds will help the Permanent Fund produce greater annual income, for use as Permanent Fund Dividends to all Alaskans, or to fund necessary functions of state government. In the Permanent Fund, the windfalls would definitely be saved, and would not be accessible by big spenders in the legislature.

If you are one of the 65% of Alaskans who in opinion polls consistently ask the legislature to cut the budget, or if you believe the windfalls should *truly* be saved, you owe it to yourself not to be taken in by the proponents of Ballot Measure #1. Vote NO on the budget reserve amendment.

Representative Terry Martin



## NOTES TO THE FINANCIAL STATEMENTS

Note 1

The composition of the amount owed to the CBRF is as follows:

Long-term Portion	
Chapter 14, SLA 1994, section 7	\$ 1,006,038,474
Chapter 14, SLA 1994, section 8	49,608,135
Chapter 14, SLA 1994, section 9	368,581,990
Chapter 3, FSSLA 1994, section 39(c)	22,417,886
Chapter 3, FSSLA 1994, section 40	68,738,958
Chapter 3, FSSLA 1994, section 22(a)	11,250,000
Chapter 6, FSSLA 1994, section 1	130,300,000
Article IX, section 17(d) Alaska Constitution (FY 95)	(95,506,853)
Chapter 94, SLA 1995, section 43(a)	95,506,853
Chapter 94, SLA 1995, miscellaneous operating appropriations	16,672,928
Chapter 94, SLA 1995, section 43(b)	284,873,567
Article IX, section 17(d) Alaska Constitution (FY 96)	(74,352,026)
Chapter 5, FSSLA 1996, section 1 (a)	74,352,026
Article IX, section 17(d) Alaska Constitution (FY 97)	(166,019,445)
Chapter 98, SLA 1997, section 35(a)	166,019,445
Chapter 98, SLA 1997, page 47, line 3	529,258
Chapter 98, SLA 1997, section 35(b)	423,319,190
Article IX, section 17(d) Alaska Constitution (FY 98)	(89,264,067)
Chapter 109, SLA 1998, section 42(a)	89,264,067
Chapter 2, SLA 1999, section 16(c)	460,000
Chapter 27, SLA 1999, Y2K appropriations	7,930,475
Chapter 2, FSSLA 1999, section 21(a)	1,042,014,840
Article IX, section 17(d) Alaska Constitution (FY 99)	(94,632,453)
Chapter 84, SLA 1999, section 35(a)	94,632,453
Chapter 2, FSSLA 1999, section 21(b)	295,898,497
Chapter 8, SLA 2000, section 8(a)	3,227,666
Chapter 75 SLA 2000, section 1(b)	100,000,000
Article IX, section 17(d) Alaska Constitution (FY 00)	(111,438,806)
Total Long-term Portion	<u>3,720,423,158</u>
Short-term portion	
Article IX, section 17(d) Alaska Constitution (FY 00)	111,438,806
Excess drawn, chapter 2, FSSLA 1999, section 21(b)	4,101,503
Total Due to the CBRF	<u>\$ 3,835,963,467</u>

The amounts appropriated in chapter 14, SLA 1994, sections 7 and 8 are equal to the amounts appropriated from the general fund to the CBRF to comply with court orders. In FY 91 through FY 94, the State deposited revenue into the general fund that several parties contended should have been deposited into the CBRF. The Alaska Superior Court and Supreme Court agreed that these moneys should have been deposited in the CBRF and the State was ordered to restore the CBRF, including interest earnings, retroactive to July 1, 1990. Chapter 14, SLA 1994, was enacted into law to comply with the courts' orders and sections 2, 3, and 4 of the law appropriated \$1,006,038,474, plus \$49,608,135 in interest which would have been earned on the money after June 30, 1990, from the general fund to the CBRF effective April 15, 1994.

Chapter 14, SLA 1994, section 9, chapter 3, FSSLA 1994, section 39(c), chapter 94, SLA 1995, section 43(b), chapter 98, SLA 1997, section 36(b), and chapter 2, FSSLA 1999, section 21(a) and (b) appropriated additional amounts from the CBRF to the general fund to fund any shortfalls between State revenue and general fund appropriations for fiscal years 1994, 1995, 1996, 1998, 1999, and 2000 respectively.

Chapter 3, FSSLA 1994, section 40, appropriated an amount to cover the share of the State's actual expenditures for oil and gas litigation from July 1, 1990, through February 15, 1994, that is attributable to the CBRF. The appropriation in section 22(a) of chapter 3 was to cover costs related to legal proceedings and audit activity involving oil and gas revenue due or paid to the State or State title to oil and gas land, for the fiscal year ending June 30, 1995.

## II. ALASKA'S FISCAL OPTIONS

### Sources of Government Revenue and the Alaska Economy

The Constitutional Budget Reserve Fund — like the Permanent Fund dividend program — has become a major component of the state's economy. The budget reserve fund contributed almost \$4 billion to Alaska's economic base during the 1990s, and was especially important during the low oil prices of FY 1999 when it added more to the state's total personal income than even the dividend program.

And just as you would weaken the economy if you removed or reduced the annual dividend program, you will cause the same problems if no suitable replacement is found before the CBRF runs out of money.

Alaska's economic base depends on "new" money circulating throughout the economy — money from outside that comes in, increases purchasing power, and moves around. New money that comes into the state generates additional income when it is spent, either by businesses or by workers. It can start out as wages or it can begin as payments for goods that then works its way into personal income as it's paid out as wages.

The important thing about the economic base is that the money comes from outside the state, brought into Alaska to pay for goods and services. It could be money from oil, tourism, seafood or timber sales; military or federal civilian payroll; or oil taxes and royalties paid to the state. A dollar paid to the state in oil taxes or a dollar earned by the state from oil royalties could move around the same as a dollar paid in wages by an oil company. The state treasury is simply a stopover before the tax dollar goes out as public employee wages, as a construction contract, an office supply order or other purchase.

Eventually, most every dollar brought into Alaska will find its way back out of state to purchase goods, raw materials or services. The number of times the money circulates through the state's economy before it leaves is called the multiplier effect.

Presenting the problem is easy. Finding the solution is the hard part.

Assuming Alaska wants to maintain — if not grow — its economic base, it has to find at least some new money to fill the gap the CBRF eventually will leave behind. The options of taxes, cutting the budget or using some of the Permanent Fund dividend cash would not bring any new money into the economic base, although any of the three certainly would be the fastest to implement and easiest to control.

In looking around for sources of new money, there are some options — although they are harder to quantify and not necessarily within Alaska's control.

We could bring new money into the state through new oil discoveries and higher recovery rates at existing oil wells; development of a natural gas project; building a stronger market for seafood sales; attracting more visitors to spend more money in Alaska — anything to bring a dollar from outside into the hands of a business or worker inside Alaska.

Another option is to increase the multiplier effect for the money already here. The more that dollar bounces around the state, the more it benefits Alaskans. It's sort of like a pinball game. The more cushions and bumpers the ball touches, the higher the score. But once that ball falls through the flippers and down the chute, it's gone forever.

The more goods and services that are available in Alaska, the better our medical services, the more competitive our businesses become, the longer a dollar will stay in our economy before slipping through to an out-of-state provider.

In looking at the state's economic base and the new money that builds that base, we see that here, too, the CBRF is similar to the Permanent Fund dividend program. The dividend program is new money because the cash for the annual checks comes mostly from earnings on investments outside Alaska. It's not simply recirculating money already here. The same is true for the CBRF.

The money in that account came from taxes and royalties paid by oil companies — new money to Alaska, not money already in the pockets of Alaskans or the cash registers of local businesses. As the state uses the CBRF to pay for wages, goods and services, the money is added to Alaska's personal income total.

The point is that when oil prices were at their lowest in Fiscal 1999, the CBRF supplied about one-eighth of the state's total economic base. The \$1.1 billion drawn out of the CBRF that year went to wages, goods and services purchased in Alaska. That money then moved through the economy, measured by the multiplier effect. Based on 1995 research by the University of Alaska's Institute for Social and Economic Research, the multiplier effect magnified the CBRF's Fiscal 1999 contribution to Alaska's economic base to \$2 billion — about 12 percent of the state's overall personal income that year.

Although oil prices have recovered, the outlook is for the heavy drain on the CBRF to resume in another year. This report forecasts that the CBRF payment to support the activities of state government — and to help fund Alaska's economic base — will average more than \$910 million a year from FY 2003-2006. That figure represents the CBRF's contribution before the multiplier effect.

The need for the money will not end in Fiscal 2006, but the money will. Even assuming oil prices remain above historic levels for several more years, the Department of Revenue forecasts the CBRF will hit empty in December 2005. The loss of the budget reserve fund will mean a major reduction in the cash flowing through Alaska's economy, which means the economic base, and the economy itself, will shrink.

If Alaska wants to protect its economic base it will need to find another source or sources of new money. That will not be easy. The three options most often mentioned all have the same drawback: They would simply alter the flow of money already in Alaska, doing nothing to fill the hole.

Broad-based taxes, such as a sales tax or a personal income tax, would mostly take money already moving through the economy and redirect it toward government services. Yes, we could add a little new money to Alaska's economic base by collecting sales taxes from visitors or income taxes from out-of-state workers, but both taxes from outside sources combined would likely fall short of even 10 percent of the \$910 million a year average draw from the CBRF.

Reducing the Permanent Fund dividend presents the same problem. Much of that money already is being added to Alaska's economic base. Shifting it from the dividend program to the state treasury to pay for teachers wages or road maintenance contracts or child care assistance would not add to the economic base and would not replace the gaping hole left by the empty CBRF.

It's the same problem with cutting the budget. If you reduce government support for public services to make up for the loss of \$910 million a year in CBRF money, the lower spending on goods and services would weaken the state's economic base.

None of these proposals would replace the contribution of the CBRF to Alaska's economic base. Selecting among these proposals — or a combination — would only determine which Alaskans bear the major burden of the economic retrenchment.

One less-painful option for bringing new money into Alaska's economic base is the annual earnings reserve of the Permanent Fund. That's the money left over from each year's investment earnings after dividends are paid and after money is added back to the fund to protect it from inflation. That amount is likely to average around \$250 million a year and could be directed toward filling part of the gap left behind by the CBRF. Because that money is not currently part of the state's economic base — it isn't being used for goods or services — it would be new money to Alaska.

Another hope is that a North Slope natural gas project could get under way in the next couple of years, generating public revenue of \$200 million to \$400 million a year or more in new money for the economic base by 2007. A gas project also would bring additional new money into the state to pay for wages, goods and services in the gas fields and transportation system. New oil discoveries also could produce additional pockets of new money to help cushion the loss of the CBRF.

One more option for bringing new money into the state is to increase taxes on the oil and gas industry. But that carries the risk of driving new investment to other areas worldwide if the industry believes Alaska is extracting too high a price. To fill the entire budget gap of \$910 million a year from increased oil and gas taxes alone would require almost tripling the state's three primary oil and gas taxes.

There just isn't any easy or painless answer to replacing the CBRF. Still, we need to talk about an eventual answer. And while we look at the options, Alaskans need to think of the budget reserve fund not just as a funding source for government but as a key part of the state's economic base. We need to think about how to replace that source of money without just moving funds between Alaska's limited pockets. If that's all we're thinking about, the economic reality that hits us when the CBRF is gone will be painful.

For more information on Alaska's economic base and the multiplier effect:

"What Makes the Alaska Economy Tick," by the Institute of Social and Economic Research at the University of Alaska, Anchorage; December 1991.

"Structural Analysis of the Alaska Economy," by the Institute of Social and Economic Research at the University of Alaska, Anchorage; January 1994.

"Structural Analysis of the Alaska Economy: A Perspective from 1997," by the Institute of Social and Economic Research at the University of Alaska, Anchorage; August 1997.

"A Long-Term Economic Development Strategy for Alaska," by the Alaska Science & Technology Foundation; April 2000.

Ex 5  
Alaska Heritage Fund

Earnings Rate 8.5%	Inflation Rate 3.25%
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	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<b>Beginning Balance</b>				\$ 2,282.2	\$ 2,407.4	\$ 2,540.4	\$ 2,681.9	\$ 2,832.3	\$ 2,992.5
<b>Earnings</b>				\$ 199.3	\$ 210.3	\$ 221.9	\$ 234.4	\$ 247.6	\$ 261.5
<b>Oil &amp; Gas Tax Dispute Resolutions</b>				\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
<b>* Withdrawals @ 5%</b>				\$ (114.1)	\$ (117.2)	\$ (120.5)	\$ (123.9)	\$ (127.4)	\$ (134.5)
<b>Ending Balance</b>	<u>\$ 3,112.8</u>	<u>\$ 2,810.0</u>	<u>\$ 2,282.2</u>	<u>\$ 2,407.4</u>	<u>\$ 2,540.4</u>	<u>\$ 2,681.9</u>	<u>\$ 2,832.3</u>	<u>\$ 2,992.5</u>	<u>\$ 3,159.4</u>

Oil Price **	\$30.17	\$24.28	\$22.06	\$21.06	\$20.38	\$17.25	\$17.25	\$17.25	\$17.25
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	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Beginning Balance</b>	\$ 3,159.4	\$ 3,333.2	\$ 3,514.3	\$ 3,702.7	\$ 3,898.7	\$ 4,102.7	\$ 4,314.9	\$ 4,535.7	\$ 4,765.5
<b>Earnings</b>	\$ 275.9	\$ 291.0	\$ 306.7	\$ 323.1	\$ 340.1	\$ 357.7	\$ 376.2	\$ 395.3	\$ 415.2
<b>Oil &amp; Gas Tax Dispute Resolutions</b>	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0	\$ 40.0
<b>* Withdrawals @ 5%</b>	\$ (142.1)	\$ (150.0)	\$ (158.3)	\$ (167.0)	\$ (176.1)	\$ (185.5)	\$ (195.3)	\$ (205.5)	\$ (216.2)
<b>Ending Balance</b>	<u>\$ 3,333.2</u>	<u>\$ 3,514.3</u>	<u>\$ 3,702.7</u>	<u>\$ 3,898.7</u>	<u>\$ 4,102.7</u>	<u>\$ 4,314.9</u>	<u>\$ 4,535.7</u>	<u>\$ 4,765.5</u>	<u>\$ 5,004.5</u>

\* Withdrawals are computed in FY04 by the previous fiscal years' ending balance multiplied by 5%. In FY05, withdrawals are computed by average ending balance of the two previous fiscal years multiplied by 5%, etc.

\*\* Official DOR Fall Forecast

## What is POMV?

Percent Of Market Value = Payout of Fund Income

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5% x \$2.2 Billion = \$114 Million (2004)

5% x \$2.9 Billion = \$134 Million (2009)

5% x \$3.8 Billion = \$176 Million (2014)

AKHF Total return – Payout = Inflation proofing

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8.25% - 5% = 3.25%

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## Benefits of POMV

1. Preserves the funds purchasing power
2. Maximizes distributions over the long term
3. Minimizes fluctuations in annual payments