**Slide #1**

Just about everyone has heard of the Permanent Fund, but how many people really know much about it besides the fact that they can get a PFD every year?

The Permanent Fund is an important aspect of Alaska’s past, present and future. Since you are the decision makers of tomorrow, it’s important that you understand the Permanent Fund.

So we’re going to learn more about it!

**Slide #2**

We’ll focus on three important questions

Let’s start with the first one.

To understand how Alaska got a Permanent Fund, we really need to look back in our state’s history.

Let’s take a look at this next photo.

**Slide #3**

**DISCUSSION OPPORTUNITY**:

* About when do you think this picture was taken?  **Early 20th century**
* What was going on back then in Alaska? **Resource extraction: list different kinds such as fur, fish, gold, timber, oil.**
* What is that structure in the lower left corner? **Oil derrick**
* Why did people want oil? **Cars & planes just invented, gas-powered ships replacing sail power…**
* What happened to the money they made? **Have students speculate**
* What happened to the oil? **Oil is a finite resource, they burned it up and either found more elsewhere or not.** What does “finite resource” mean? What are other examples? What is the opposite of a finite resource? What are examples of renewable resources?   
    
  People looked for oil in Alaska as early as the early 1900’s. But the methods of extraction and distribution couldn’t compete with other places that oil was also being found in the US and abroad. Back then, the world was transitioning to an oil-fueled economy.

**Slide #4**

**DISCUSSION OPPORTUNITY**:

Use these images to talk about what changed between the early part of the century and the 1960’s…

Mention:

* Henry Ford – affordable mass produced cars
* Wright brothers and air travel
* Combustion engine power replacing horsepower
* US in 4 major wars
* Cars led to suburban living and highways
* All these relied on oil and gas

Because of these changes, after WW2 there was renewed interest in finding more large reserves of oil…so oil companies came to Alaska with new determination.

**Slide #5**

In 1968, oil exploration conducted by Atlantic Richfield (ARCO today) struck a major oil field in Prudhoe Bay, on land belonging to the state of Alaska.

What would have to happen next? **Determine…**

* **who gets to drill there**
* **how the money from the oil gets split between the State and the oil companies**

**how to get the oil to market…**

**Slide #6**

Alaska allowed oil companies to search for oil deposits in state lands. When the companies found enough evidence of oil to be interested in drilling, like they did in Prudhoe Bay, Alaska held an oil lease sale.

In 1969, Alaska divided the map of Prudhoe Bay into about 164 little section, or “tracts” – which you can make out in the picture above from 1969. The state used that map to auction off the 164 tracts to the highest bidding oil companies.

**DISCUSSION OPPORTUNITY:**

What is a lease?

**A contract granting the use of real estate, equipment or other fixed assets for a specified period of time in exchange for payment, usually in the form of rent.**

**Slide #7**

Those people in the top corner photo were the oil company representatives who came to the auction to bid for the right to hold long term leases on different tracts of land in Prudhoe Bay.

That big auction or “lease sale” in 1969 netted $900 million for Alaska’s state treasury - in one day. And this happened in a time when the state budget was just over $100 million per year. That was a **budget surplus** on an enormous scale.

**DISCUSSION OPPORTUNITY:**

What happens when we have a budget surplus?

* **You have more money than you planned to spend**
* **you have to decide what to do with the extra money**

**Slide #8**

Alaska’s leaders decided to hold a series of meetings around the state to discuss what was the best way to use the windfall.

You can see by this list that the idea of a permanent fund was floated even back in 1969. In fact, in 1970, Governor Keith Miller introduced a bill to create a “resources permanent fund.” The bill passed in the Senate. But it died in the House of Representatives.

**DISCUSSION OPPORTUNITIES:**

How does a bill become law?  
   
What do you think Alaskans decided to do with the money?

* Remind students how young Alaska was as a state in 1969
* Talk about what Alaska was like back then
* Tell them about “honey buckets” and living conditions
* Ask what ideas they would have suggested

**Slide #9**

**DISCUSSION OPPORTUNITIES:**

How does the State of Alaska get money?  **Federal government – from income tax payments of US citizens, by taxing business income, it can also tax personal income, by charging license fees for using state services like cabins and state resources like hunting and fishing and mining…)**

When Alaska receives money, where to does it go initially? **Per the Constitution it goes into the General Fund**

What is the General Fund? **The unrestricted money used to run the state**.  
Who gets to decide how to spend the General Fund? **The Legislature**   
What are some of the things that Alaska spends money on? (Use the photo above to generate discussion on this….)

What does “infrastructure” mean? – what infrastructure might be in this photo of Fairbanks**? (roads, schools, airport, bridges, sewer, water…)**

What are government “programs”? **Planned activities designed to achieve a desired outcome…such as a student loan program designed to achieve an educated Alaska workforce (which can ultimately lead to a stronger economy and quality of life)**

Can you think of any other programs and what their goals are? Discussion….

**Slide #10**

Alaskans waited for the winning oil companies to drill their wells and for the pipeline to be finished. Alaskans knew that in addition to the money from the oil lease sale, more money was on the way. Why? **Because the oil companies also had to pay Alaska for every barrel of oil extracted from the under their leased land.**

Alaskans thought about how the Legislature had spent all of the $900 million surplus from the big Prudhoe Bay lease sale. Some Alaskans remembered that idea from the statewide meetings of 1969 – the idea about saving some of the money.  
  
Do you remember what happened to that idea? **Governor Miller proposed a bill to save some of the money, but the bill didn’t make it all the way through the Legislature.**

**Slide #11**

The idea of saving some of the new oil money in a special fund sounded smart this time around. In 1975, Representative Hugh Malone proposed a bill to create a “permanent fund” to save some of the oil money coming to Alaska. The bill passed both the House of Representative and the Senate.

But Governor Hammond vetoed the bill. He cited the section of Alaska’s constitution that prohibited “dedicated revenues.” The Constitution said that all money coming into the state had to go into the General Fund. The constitution needed to be changed to divert income to Alaska into a special fund.

**DISCUSSION OPPORTUNITY:**

How do we change the state constitution?

**(Hint – it’s on the slide! Constitutional amendment.)**

**Slide #12**

Here is the exact constitutional language that tells us what the Fund is and how it’s supposed to work.  
How much of the State’s oil money must go into the Permanent Fund? **25%**

What happens to the rest of the State’s share of the oil money? **The remaining 75% of the state’s oil money goes into the General Fund.**

What happens to the money from oil that goes into the Permanent Fund? **It is designated as “principal” and it must be invested.**

What does principal mean? The basic amount invested, not including earnings.

What happens to the earnings from the investments? **They go into the General Fund unless the Legislature decides otherwise. The Legislature decided in the Fund’s early days to keep Fund earnings invested in the Permanent Fund so the Fund could grow faster.**

So how many parts are there to the Permanent Fund? **2: principal + earnings**

Who can spend the principal? **No one – the Constitution says it may only be invested, so it can produce income.**

Who can spend the income (investment earnings)? **The Legislature. Even though the Legislature holds the earnings in Fund investments, the Legislature can access them any time.**

**Slide #13**

Now that the Fund was created, Alaskans again had to decide how

the Legislature would use Fund earnings.

The Legislature formed a special committee to hold hearings around

the state to see how Alaskans wanted Fund earnings used.

There were two schools of thought:

1. Make it a development bank to stimulate the economy by loaning money to Alaskans for businesses, homes, etc. Alberta, Canada chose this model for their Heritage Fund (like the Permanent Fund.) The projects – and the Fund – lost money.
2. Make it like a savings account and don’t lend it out.

What did Alaska’s Legislature decide to do with Fund earnings?

**Discuss, more on next slide**

**Slide #14**

The Legislature decided to use the Permanent Fund as in investment account, not a lending bank.

However, the Legislature did create a program called the Permanent Fund Dividend Program, to directly share some of the oil wealth with Alaskans. The PFD idea was in a large part the work of Governor Jay Hammond, with solid support from Representative Hugh Malone and others.

You can see that even after giving out billions of dollars in dividends since 1982 when the first dividend checks went out, the Fund is still a healthy size!  
  
Meanwhile, the state’s share of oil revenue has been enough to run state services.

Will that always be the case? **No**

Why or why not? **Oil is a finite resource.**

**Slide #15**

This chart illustrates the idea behind the Permanent Fund: replacing REVENUE FROM FINITE RESOURCE (oil) with an ONGOING SOURCE OF REVENUE (Fund earnings)

The dark blue is the amount of money that the state of Alaska receives into the General Fund from it’s share of the oil revenue. Who remembers what portion the General Fund receives? **75%**

The gold bars are the investment earnings that the Legislature keeps in the Permanent Fund, but has had available for spending. Mostly they have gotten bigger over time, except when the stock market sunk down a few years ago.

The pale yellow bars represent the Fund’s expected investment earnings that will be available to spend in the future.

**DISCUSSION OPPORTUNITY:**   
What does this chart suggest? **…the Fund may someday replace oil as a source of income for Alaska**

**Slide #16**

In 1982, the Legislature created a special state-owned corporation called the Alaska Permanent Fund Corporation to manage the Fund’s investments.

The Governor appoints 6 Trustees to provide guidance for the staff who work there.

The APFC is located in Juneau.

The web site is **www.apfc.org**

**Slide #17**

The basic idea of investing:

1. Save some money.
2. Then use that money to create more money!
3. “Investing” it means you won’t have access to the money while it is invested. This means your money is not as “liquid” as when you have cash in your pocket or a savings or checking account at the bank. Some investments take a little more effort to cash out of than others.
4. The longer it remains invested, the more likely your investment will be able to grow in value.
5. The initial amount of money you put into the investment – the “principal” – should grow larger, not smaller, through investing over time.
6. Also, the principal should grow faster than the rate of inflation to maintain the same buying power that it had before.

**Slide #18**

The Permanent Fund’s investments are spread out among three basic kinds

of “assets” – or things you can own.

1. Stocks 2) Bonds 3) Real estate

DISCUSSION OPPORTUNITY

What are stocks? **Ownership share in a company**

What are bonds? **Lending money to a company or a government**

What is real estate? **Buildings or property**

**Slide #19**

DISCUSSION OPPORTUNITY

Investing sounds great! Is there any downside to it?

Generate a discussion about risk:

* Risk of losing your money because a company (like Enron) goes out of business
* Risk that a company (or an industry) gets wiped out in a natural disaster
* Risk that an investment class becomes obsolete from new technology
* Risk that a company or government you loaned money to (which means you bought their bond) does not pay you back
* Risk that someone in the company is cheating or lying – such as not representing the truth about the company’s worth or earnings, or embezzling.
* Risk that you might suddenly need your money and you can’t get it out of your investment fast enough, or your investment might be “down” temporarily when you need the money…

THERE ARE LOTS OF RISKS TO INVESTING!

**Slide #20**

Some investments have higher ups & lower downs in their value from day to day. The term for that is “volatility.” Generally speaking, stock values fluctuate more from day to day than bond or real estate values do.

But in the long run (about a 10-year period), stock values have always grown more than bonds or real estate. So stocks have higher risk in the short run, but they tend to pay higher returns in the long run.

**DISCUSSION OPPORTUNITY:**

If you had some extra money to invest but thought you might be needing it in the near future, what kind of investment would be best?

* Bonds would be best. Lenders (who buy the bonds) can buy bonds for specific periods of time: short, medium or long terms. If necessary, a bond holder can sell a bond before it’s maturity, when the borrower pays back in full. Also, bonds are rated AAA, AA, A, through C-. These ratings are based on the borrower’s (a company or government) likelihood of being able to pay back in full and on schedule.
* Real estate can be difficult to sell quickly, it’s less “liquid.”
* Stocks are most likely to drop or rise in value precipitously…you can’t count on your money to be there when you need it, especially in the short run.

**Slide #21**

Here’s how the Permanent Fund has divided up – or “diversified” - it’s investments. It has:

* Some high risk / high return or loss

Stocks and alternative investments

* Some medium risk / medium return or loss  
  US investments are less risky than non-US investments (in part due to the fluctuation in the values of foreign currency, in part due to the stability of governments & economies we know less about.)
* Some low risk / low return or loss

US bonds are perhaps the least risky investments to make. The US government can always print money to pay you back!

**DISCUSSION OPPORTUNITY:**

What is meant by the old saying, “Don’t put all your eggs in one basket”?

**Slide #22**

This graph tells a story. The black line with the diamonds on it represents the entire Permanent Fund, and how it grew over the last 5 years. The other lines show the growth or loss patterns of the individual “asset classes” – stocks, bonds, real estate, US and non-US.

**DISCUSSION OPPORTUNITY:** What is the story here?

**The overall Fund didn’t earn as much as it could have if it had been invested entirely in real estate. But the managers didn’t have a crystal ball – they couldn’t know what asset class would be the best! So they had to diversify. That way, the downs balance out the ups and overall the Fund was rewarded for taking on risk**.

Reading the graph -

What does “return” on an investment mean? **See note on slide**

What asset classes performed the best during this time frame? **Real estate**

Did any asset classes actually lose money? **Domestic (U.S.) stocks**

**Slide #23**

**DISCUSSION OPPORTUNITY:**

Here’s a picture of the annual rates of inflation from the Fund’s early days

What is inflation? **The rise of prices of goods and services**.

What causes inflation? **When spending (or the volume of money available) increases relative to the amount of goods & services on the market. Inflation has been called “too much money chasing too few goods.”**

With inflation, the same amount of money, buys less from one year to the next. Money loses some if its “purchasing power.” With 5% inflation, for example, something that cost $1.00 to buy last year would cost how much to buy this year? **$1.05**

So last year, say you could buy a 16-ounce coke at McDonalds for $1.00. After 1 year at 5% inflation, you get the identical 16-ounce coke, but you have to pay more for it; $1.05. Alternatively, McDonalds might still sell the Coke for $1.00, but put it in a smaller cup. Those are two ways that McDonalds can deal with inflation. How would you as a spender deal with inflation? **(Spend less $, make more $, become more efficient…)**

**Slide #24**

What do the pale brown bars represent? **Annual total Permanent Fund “performance” in those time frames – the return on investment for all the asset classes taken together as a whole – stocks, bonds, real estate etc.**

How much did the Fund make over the last 10 years? **8.7 cents for every dollar invested, or 8.7%**

What are the blue bars? **The blue bars show the rates of inflation for those 10-year time periods**.

Why does it show the rate of inflation? With the money it makes, the Fund always buys more stocks, bonds and real estate. Those are essentially “goods” - that cost money. Inflation makes them cost a little more from year to year. What the Fund pays $1 to buy one year, depending on the rate of inflation it pays more than $1.00 to buy the next year. Say the Fund earned 8 cents on every dollar, but inflation meant that $1.08 buys less at the end of the year than it bought at the beginning. You can see that the concept of “total return” isn’t very meaningful. Money is only meaningful in terms of what it can buy. **You have to subtract how much inflation has reduced it’s ability to purchase things to get the “real return” – the actual purchasing power of the money the Fund makes.**

**Slide #25**

DISCUSSION OPPORTUNITY -

From this picture from the early 1920’s in Germany, what would you assume about Germany’s rate of inflation at that time?

What was the value of money in Germany in 1923? **It’s ability to heat the house when burned!**

**Slide #26**

Let’s see what we remember from before –

Who can spend money from the Fund?

**The Legislature** (who are elected by the voters)

How much of the Fund can be spent? **Just the earnings part**.

The principal is the part that can only be invested.

What can the Legislature spend Fund money on? **The programs and services that the state of Alaska operates.** So far, what has the Legislature mostly done with Permanent Fund earnings? **It has used some of the earnings for the Dividend Program**. Most of the earnings that it hasn’t used for dividends have stayed invested in the Fund, making it larger.

**DISCUSSION OPPORTUNITY** – What is the Permanent Fund for? Suggestion: look back to slide 12, the constitutional language that created the Fund. Did it say what it is for? According to the constitution, who gets to decide what it is for? What do the students think the Fund should be used for?