

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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March 2, 2004

President of the Senate/Speaker of the House
House and Senate Finance Committee Members
Alaska State Capitol
Juneau, AK 99801

Dear State Legislator:

AS 37.10.430(b) requires that:

[b]y March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.

The required report is enclosed.

Page 1 sets forth the fund balances for the Constitutional Budget Reserve Fund (CBRF).

Page 2 provides comparative annual rates of return. The difference in performance reflected on page 2 of the report results primarily from the differences in asset allocation among the funds and the relative performance between the comparable asset classes.

Page 3 provides comparisons of these fund asset allocations at December 31, 2003. Since the General Fund has a moderate risk tolerance and high liquidity requirements, that fund is invested in fixed income securities (e.g., bonds and other debt obligations), with no investment in equities (e.g., stocks).

In 2001, the legislature established a special subaccount of the budget reserve fund to be invested to yield a higher return than might be feasible in the main budget reserve fund. The subaccount was funded with a \$400 million transfer from the main budget reserve fund. The legislature instructed the Commissioner of Revenue to assume that the funds in the subaccount would not be needed for at least five years. Therefore, the subaccount was invested with a long-term time horizon. Given the draw on the main budget reserve account in the last several years and the anticipated draw in fiscal year 2004, it no longer seems reasonable to assume that the subaccount

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will not be needed in the next five years. The target asset allocation is shown on page 3. Footnote 1 on page 2 discloses return and market value information for the subaccount.

I would be happy to answer any questions you have on the investment of the CBRF.

Sincerely,

A handwritten signature in cursive script that reads "William A. Corbus".

William A Corbus
Commissioner

Enclosure

Department of Revenue
Treasury Division

Annual Report on the Constitutional Budget Reserve Fund

March 2, 2004

Sec. 37.10.430(b): *By March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.*

Constitutional Budget Reserve Fund Balances

