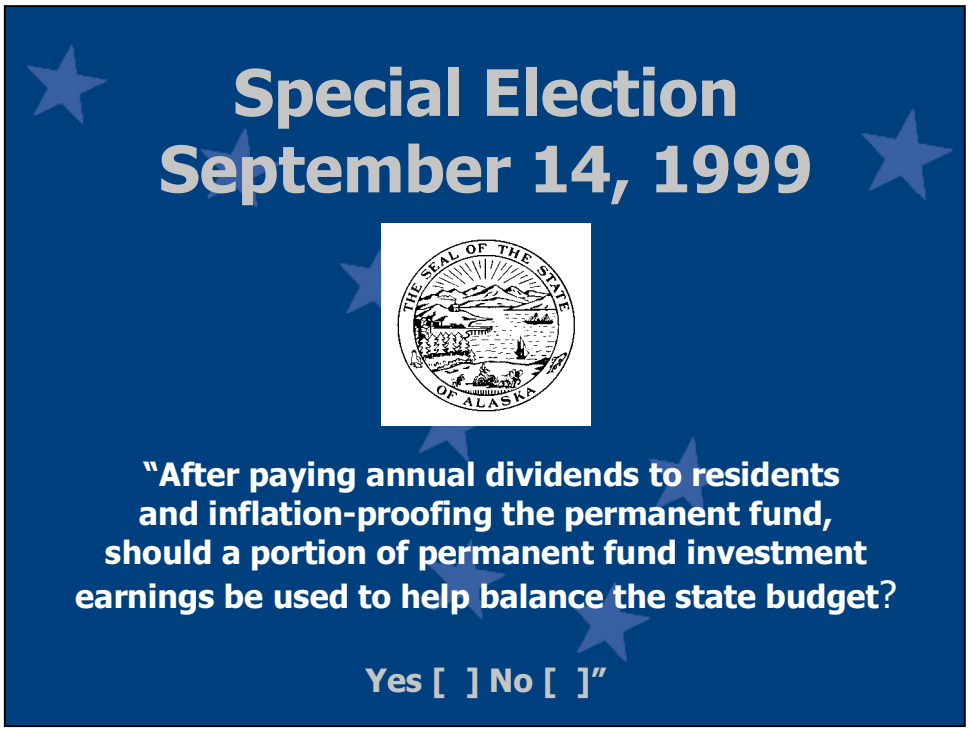
QUESTIONS AND ANSWERS ABOUT THE SEPTEMBER 14 BALLOT PROPOSITION



#1. What are the reasons for holding the advisory vote?

Lawmakers provided seven reasons in Senate Concurrent Resolution 102, a companion measure to House Bill 1001, the bill authorizing the vote:

1. Declining oil production, low oil prices, inflation and an increasing population create continuing annual budget deficits of approximately $1 billion; and

2. The original intent and purpose of Alaska's Permanent Fund was to save a portion of Alaska's revenues from its petroleum resources, invest that revenue, and use the earnings from those investments to help provide essential public services in the future when Alaska's revenue from its petroleum resources declined; and

3. The Constitutional Budget Reserve account that has filled the budget gap in recent years is projected to be depleted by 2003; and

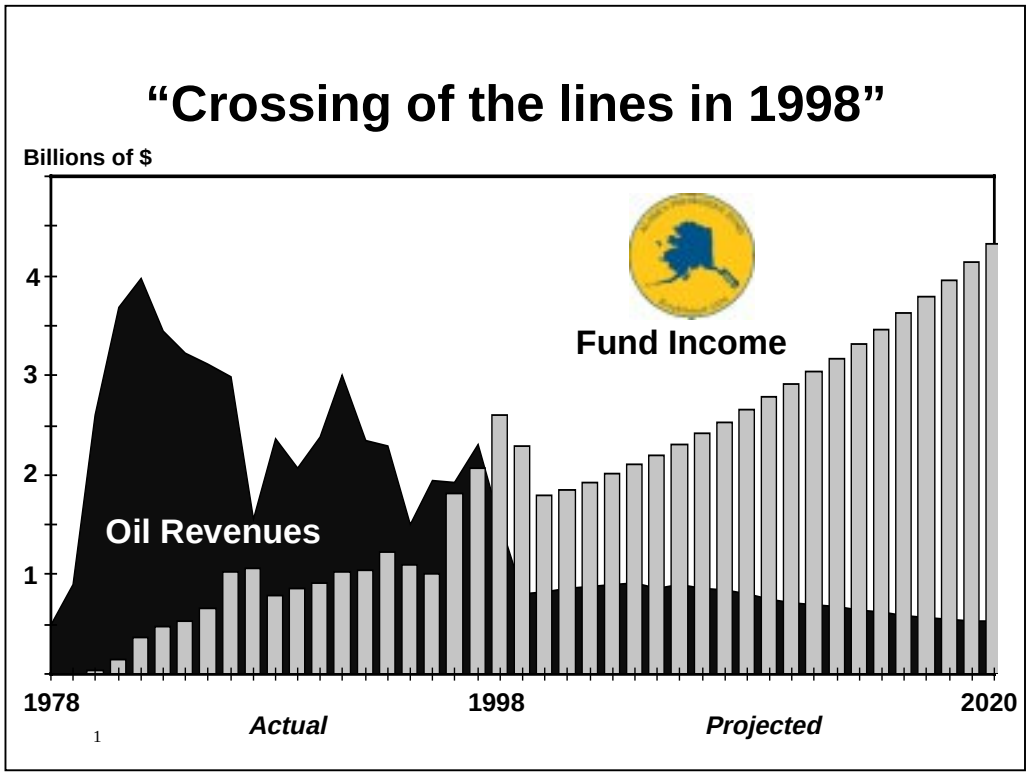
4. Financial projections predict the depletion of this savings account will jeopardize the continuation of the dividend program; and

5. In 1976, Alaskans foresaw the inevitable decline in Alaska's oil production and created the Permanent Fund; and

6. The legislature and the governor recognize that Alaskans place a high value on preserving and protecting the Permanent Fund; and

7. The legislature and the governor recognize the public's desire to be involved in any decisions involving the Permanent Fund's direction.

The preamble to the ballot question states that oil revenues have now declined substantially and are forecast to continue to decline. This is illustrated in the chart below prepared by the Alaska Permanent Fund Corporation (APFC).



The preamble further states, "Our reliance upon declining oil production and volatile oil prices constitutes an unsustainable state budget system. The governor and the state legislature seek the public's judgment regarding a stable and sustainable long-term balanced budget plan."

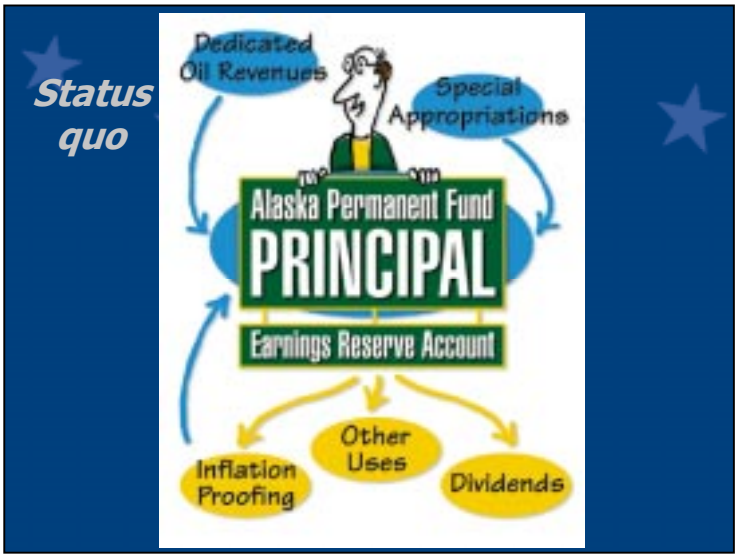
#2. How does the Plan affect the Permanent Fund?

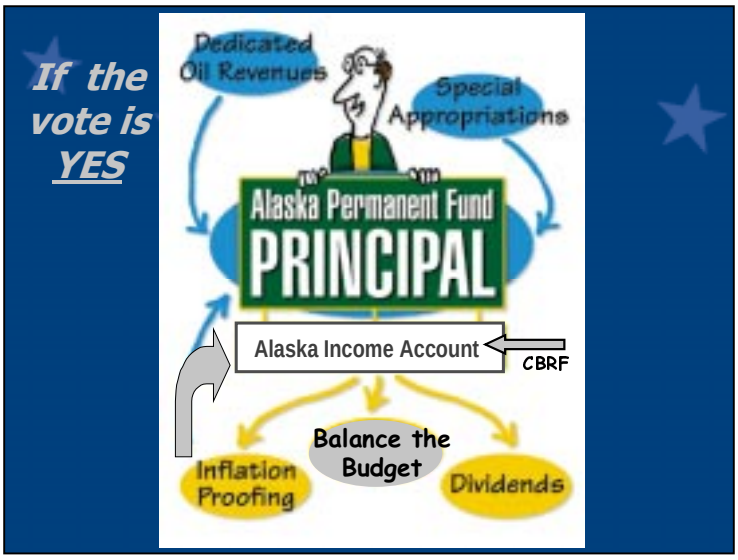
HB 1001 and SCR 102 set out the elements of a Plan which after a favorable vote would presumably be enacted into law. The Plan affects the Fund in the following ways:

1. It creates a new Alaska Income Account (AIA) which combines the current balances of the Earnings Reserve Account and the Constitutional Budget Reserve Fund (CBRF).

2. It provides that the AIA be invested along with the principal of the Permanent Fund in a manner designed to maintain safety of principal while maximizing total return.

3. It provides that all future earnings from the investment of Fund principal and the AIA be deposited into the AIA and, except for the two uses described below, all income be retained in the AIA to offset the effect of inflation on Fund principal.





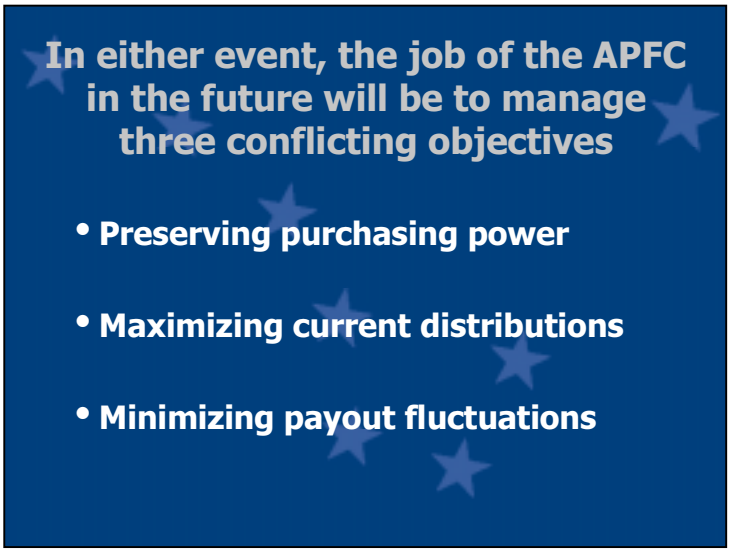
4. It provides for an annual draw from the AIA equal to 5.88 percent of a five-year moving-average market value of the combined assets of the Permanent Fund principal, the AIA and the CBRF.

5. It provides that whenever the balance in the AIA exceeds 40 percent of the combined total of the principal and the AIA, that the excess be deposited into the principal to return it to 60 percent of the total.

6. It provides that the annual 5.88 percent draw be earmarked one-half to PFDs and one-half to the state budget.

7. It provides that the 1999 PFD be based on the current formula (estimated to total at least $1700), that the 2000 PFD be equal to the 1999 PFD, and that all future PFDs be based on 50 percent of the AIA draw (estimated to begin at about $1,300).

#3. What is the position of the Board of Trustees on the Plan?



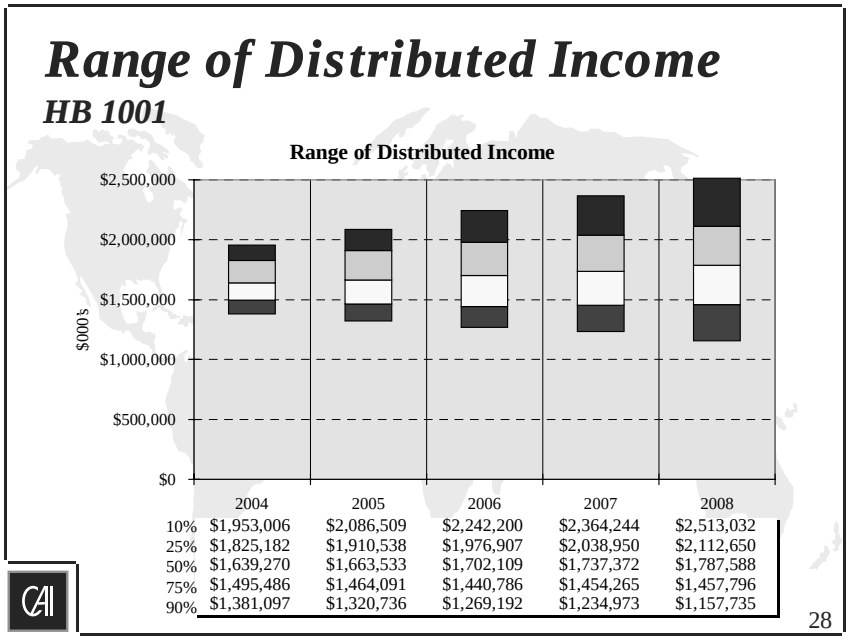
On the question of how best to use Fund earnings, the APFC Board of Trustees, as has always been the case, takes no position. That decision is the responsibility of the people of Alaska through their elected representatives.

It is the Trustees' job to manage the investments of the Fund prudently to keep the principal safe and to maximize earnings for the benefit of current and future generations. The Trustees do, however, have a responsibility to comment on issues relating to inflation-proofing, preservation of principal and the impact of income distribution policies on investment management. The Plan raises issues in each of these areas.

#4. How does the Plan account for inflation-proofing?

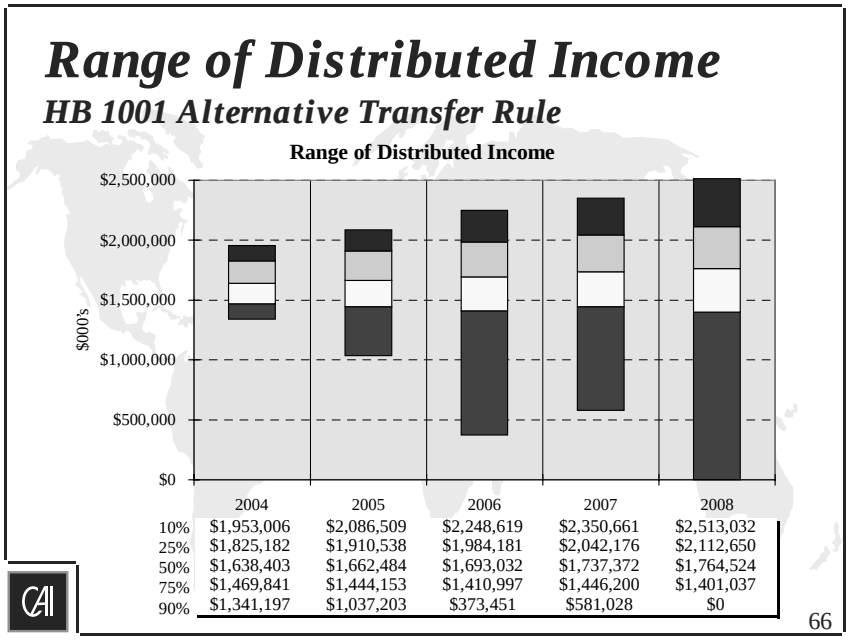
The Plan adopts a new payout methodology based on a percentage of market value distribution of Fund income. This methodology, which is used by most endowments and foundations – and which is supported in principle by the Board of Trustees – is designed to preserve the purchasing power of the corpus by limiting the annual distributions to a rate lower than the expected long-term rate of return minus the rate of inflation. The income not distributed remains in the fund to offset the effect of inflation.

In the case of the Permanent Fund (which has two parts – an inviolate principal and an appropriable income account), the Plan retains the



income in the Alaska Income Account – rather than depositing it into principal as has been done in the past – in order to increase the probability that in periods of declining financial markets, there would be sufficient Fund income available for reliable and predictable annual distributions for dividends and to help balance the state budget. The two charts on this page demonstrate this point.

The chart on the top shows the likely range of income expected to be distributed according to the Plan in the years 2004-08 for example, given realistic annual volatility in market returns and inflation rates.

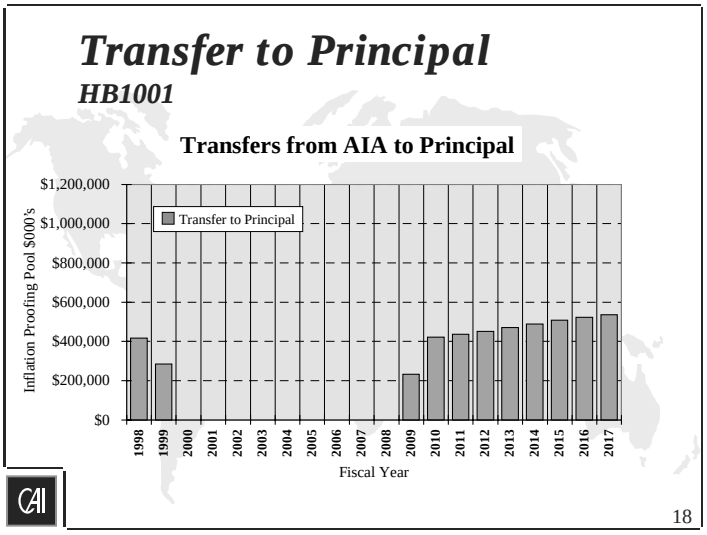


In both these charts, the bottom line shows the 1 in 10 worst case, the second line shows the 1 in 4 worst case, the middle line is the median expected case, the fourth line shows the 1 in 4 best case, and the top line shows the 1 in 10 best case.

The lower chart on the preceding page shows the Plan, but modified to continue depositing the inflation-proofing into the principal. What the comparison of the two charts shows is that retention of the inflation-

proofing in the income account provides greater stability and predictability in distribution. (Note, in the lower chart for example, in the 1 in 10 worst case, there would be no distribution in the year 2008.) On the other hand, under the status quo, the annual deposit of the inflation-proofing amount into principal gives greater assurance that that money would in fact be saved.

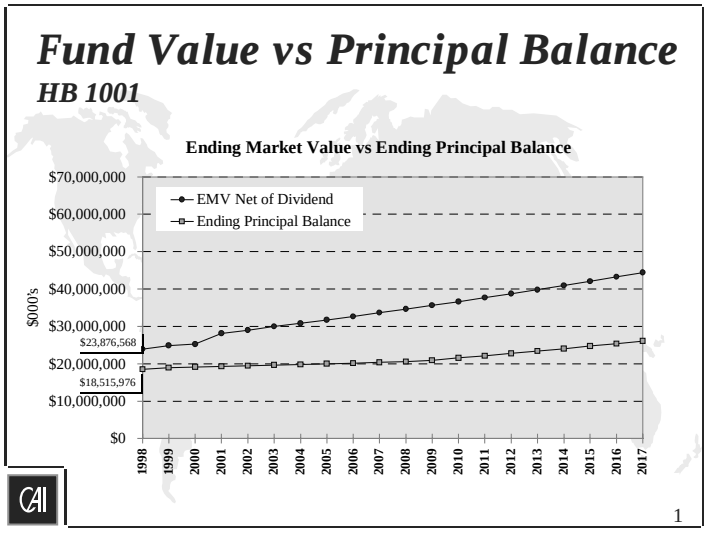
The Plan also has a second inflation-proofing feature which provides that whenever the Alaska Income Account balance grows larger than 40 percent of the market value of the total Fund, then the excess would be transferred to principal and thus become Constitutionally protected from expenditure. This chart shows when this would happen in the median expected case.



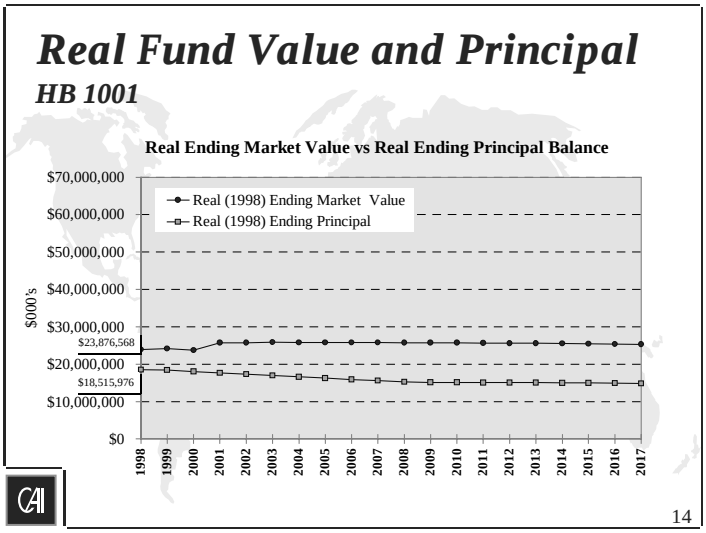
#5. Does the Plan allow for the Fund to grow in the future?

As the chart below indicates, both the principal of the Fund and the total Fund are estimated to grow larger in the median expected case, in nominal, non-inflation-adjusted dollars.

Of course, the actual growth will depend on what actually happens in the future, both in the financial markets and in the Alaska public policy arena.



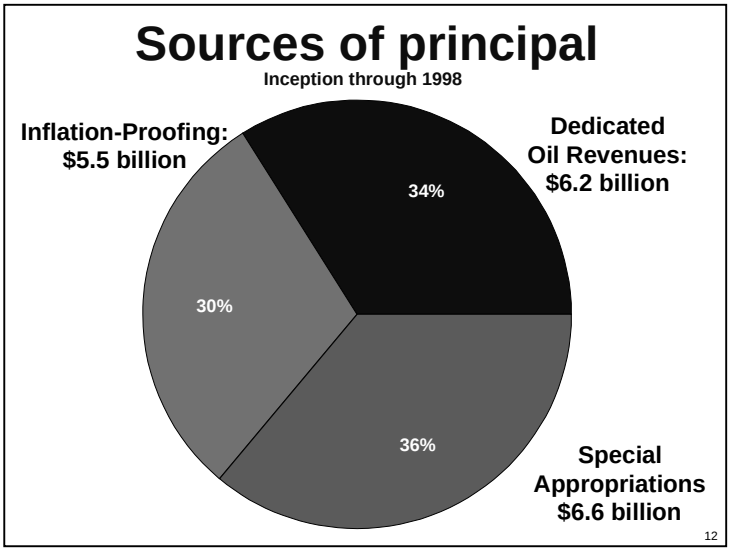
This chart shows what happens to those balances when inflation is taken into account. In real 1999 dollars, the Plan doesn't quite preserve the total Fund's purchasing power in the median expected case, and the principal of the Fund goes down in real value.



#6. What is the Fund's growth in real 1999 dollars?

The Plan does, in the median expected case preserve the purchasing power of a portion of the Fund larger than the principal, but it does it primarily by retaining income in the Alaska Income Account where it remains subject to appropriation by the legislature rather than by annually transferring it to principal as is currently the case.

Because the money remains available for appropriation, some would argue that the current level of protection is not maintained. However, the new methodology, because of its long-term oriented payout mechanism, saves up income during periods of low inflation and/or market outperformance. Thus, it smoothes out the negative impacts of periods of high inflation and/or low market underperformance. This assumes that sufficient discipline is maintained limiting the annual distributions to a rate lower than the expected long-term rate of return minus the rate of inflation.



Clearly, the legislature's record on inflation-proofing to date has been excellent, even including special appropriations above and beyond what was required on six occasions. As this chart indicates, fully two-thirds of the money in the Fund as of June 30, 1998 is there by legislative and gubernatorial action.

#7. Is the 5.88 percent payout rate too high?

The answer to this is yes and no. While the Plan's payout methodology provides an increased likelihood that income will be available for inflation-proofing in the future, a payout rate set too high poses the risk that there

will be insufficient income retained to fully protect either the principal or the total Fund including the AIA during extended periods of market underperformance and/or high inflation.

For the real value of the principal to be maintained over time, the payout rate must be set low enough to ensure that over the long term, the annual distributions do not exceed the actual long-term rate of return minus the actual rate of inflation.

What do others do?

Endowment Long Term Spending Goals

Endowments (194) (205) (229) (243)

	Endowments			
Percent of Assets	1995	1996	1997	1998
None	1%	2%	0%	0%
1%	0	0	0	1
2%	1	1	0	0
3%	0	2	4	2
4.0-4.3%	31	27	13	17
4.4-4.7%	0	0	21	23
4.8-5.0%	61	59	44	42
5.1-5.3%	0	0	6	6
5.4-5.7%	0	0	7	7
5.8-5.9%	0	0	0	0
6%	6	9	2	1
7%	0	0	2	0
8%	0	0	1	0
9%	0	0	0	0
10%	0	0	0	0
Over 10%	0	1	0	0
Mean	4.7	4.8	4.8	4.7
Median	5.0	5.0	4.9	4.9

Note: Means and medians exclude "None."

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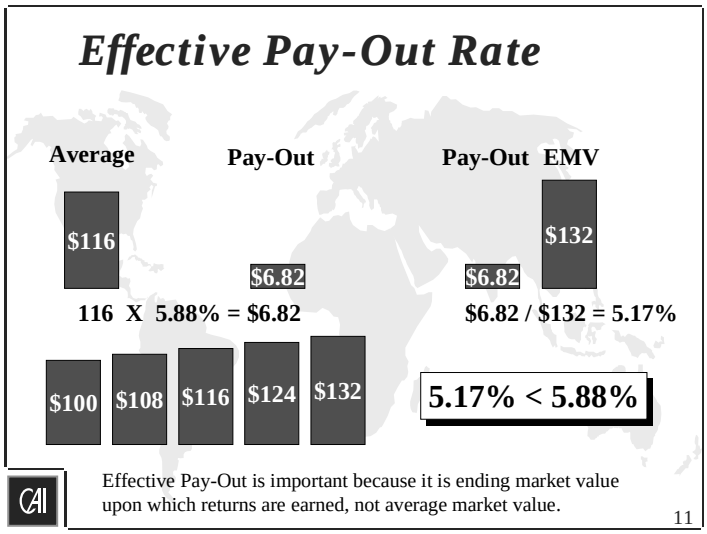
Source: Greenwich Associates 2/99

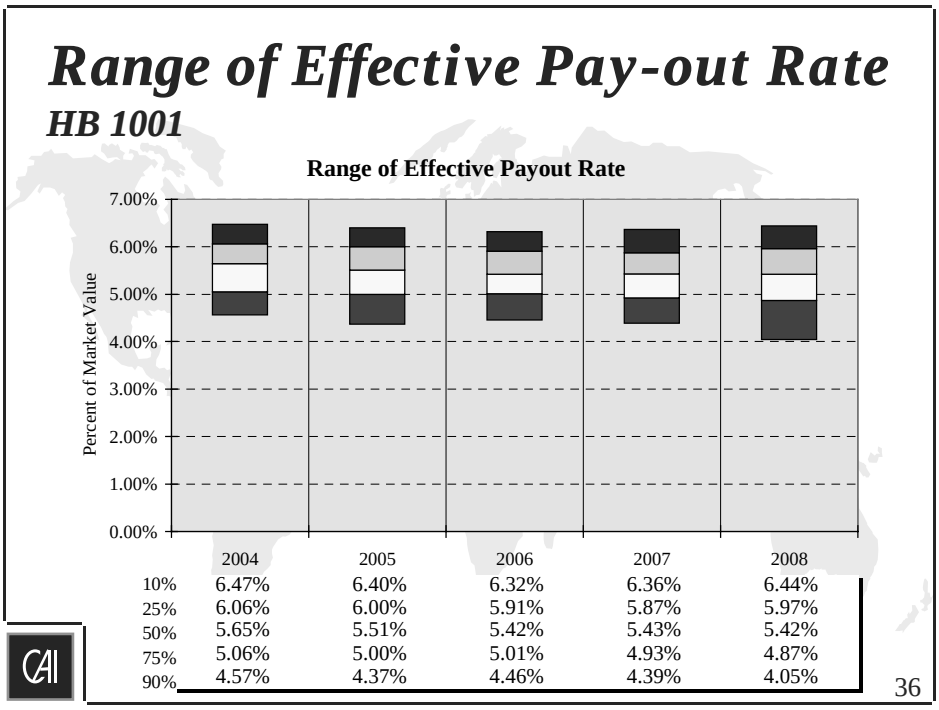
The proposed 5.88 percent payout rate is high, one of the highest in the nation, but as noted previously, the APFC's median-case analysis indicates that the real value of a portion of the Permanent Fund larger than the principal is maintained over the long term – assuming that future legislatures do not appropriate from the Alaska Income Account any income in excess of the annual 5.88 percent payout.

It is set too high, however, to maintain the real value of the entire Fund – the principal, the current earnings reserve and the new monies added from the Constitutional Budget Reserve. This is primarily due to the fact that, given the Fund's expected rate of return of 7.97 percent net of expenses, an assumed 3 percent annual rate of inflation and a 5.42 percent effective long-term payout rate, the Fund is expected to payout annually over the long term some 45 basis points of income that would have to be retained in order to fully preserve its purchasing power.

#8. The Plan says the payout rate is 5.88 percent; what is meant by saying the effective rate is 5.42 percent?



The Plan would distribute 5.88 percent of the average of the quarter-end market value of the Permanent Fund and the CBRF for the 20 quarters before the fiscal year just ended. This 5-year averaging of market values and the one-year lag is what causes the effective rate to be lower than the stated rate, assuming rising Fund values. These features also serve to smooth the payouts over time and increase the reliability and predictability of the distributions.

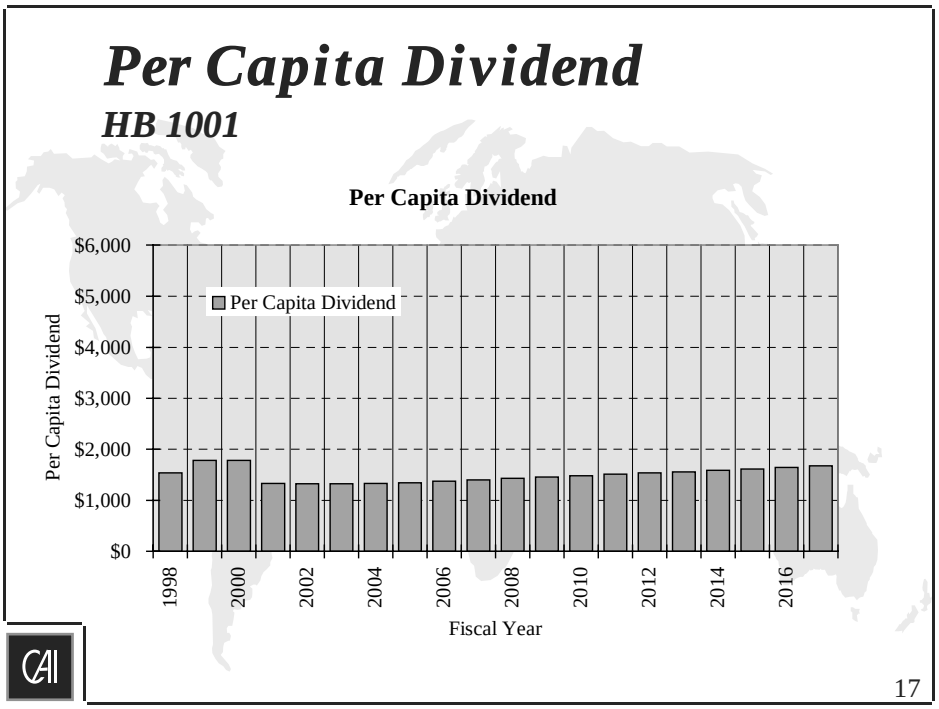


It should also be noted, however, that the Plan phases in the averaging. This phase-in, combined with the large quarter-end values of the CBRF in the early years causes the effective payout in the first five years of the Plan to be higher than 5.42. Thus, even less income is available for the preservation of purchasing power objective. Partially offsetting this is the

$2.07 billion appropriation of the CBRF to the Alaska Income Account on July 1, 2001.

#9. What does The Plan do to the PFD compared to the status quo? (PLEASE SEE THE APPENDIX FOR A SERIES OF GRAPHS WHICH SHOW HOW THE PERMANENT FUND WORKS UNDER THE STATUS QUO.)

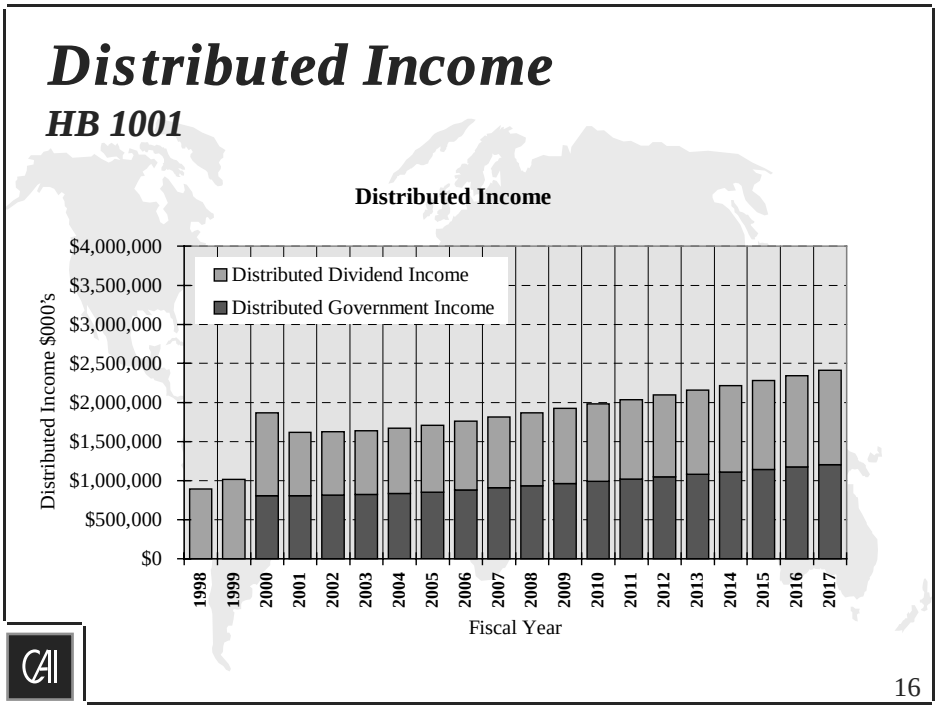
Under the status quo, according to the latest estimates from the state Department of Revenue, dividends will equal $1,738 in 1999, $1,860 in 2000, $1,856 in 2001, $1,816 in 2002 and $1,693 in 2003.



The Plan provides for dividends in 1999 and 2000 of at least $1,700 per capita each year and thereafter the dividend will be approximately $1340 and will continue to grow with the value of the Fund. In addition, the Plan pays out income each year to help balance the state budget. (See the chart on the next page.)

#10. What is the order of priority between dividends, helping to balance the state budget and inflation-proofing?

Beginning in 2001, dividends and transfers to the General Fund to help balance the state budget will each receive 50 percent of the 5.88 percent annual payout of Fund income. Any income earned in excess of the 5.88 percent rate of return will be retained in the Fund for inflation-proofing. In addition, in years in which the balance of the Alaska Income Account grows larger than 40 percent of the market value of the total Fund after the two distributions noted above, then the excess would be transferred to principal and thus become Constitutionally protected from expenditure.



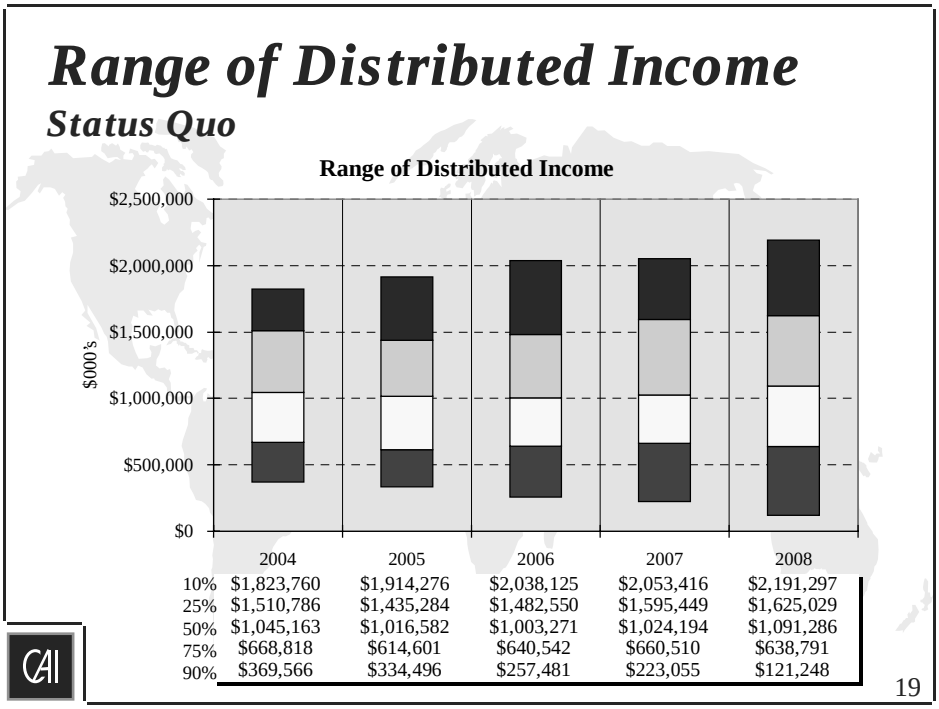
#11. Isn't a payout based on a percentage of market value going to be more volatile than one based on income?

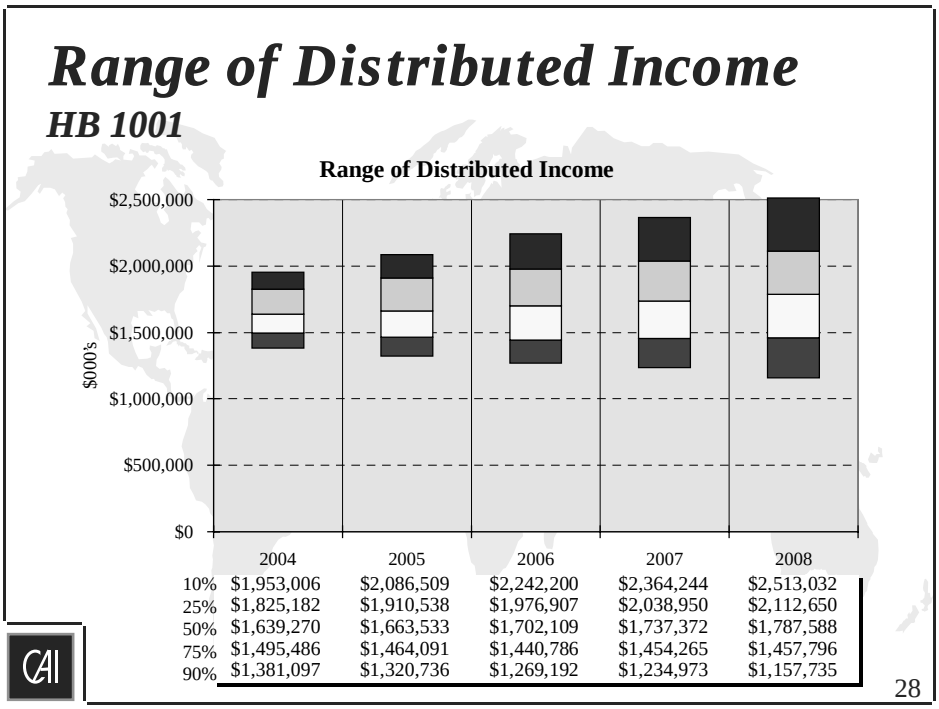
No, distributions under the Plan will be more stable, reliable and predictable than the status quo distribution which is based solely on realized income. This is one of the features of the Plan which is a clear improvement. Calculating annual distributions on market value rather than income means that a dollar of unrealized income will be treated no differently than a dollar of realized income. This will bring the Fund completely into conformity with generally accepted accounting principles.

The charts on the following page show the increased volatility of the status quo compared to the Plan.

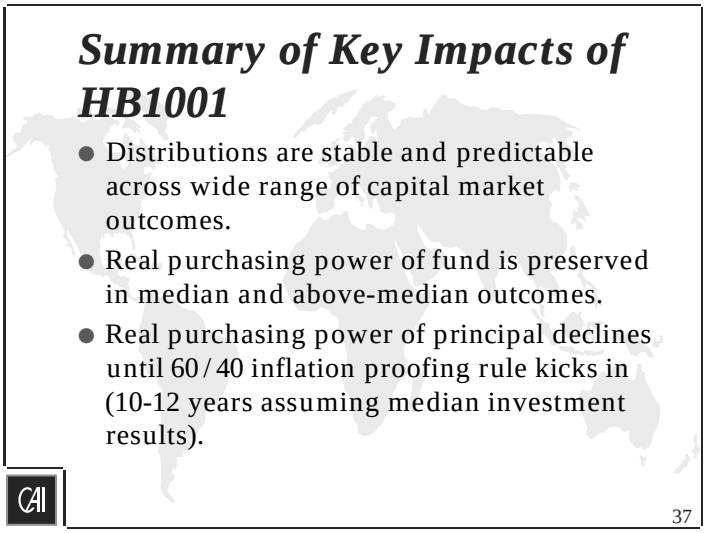
#12. Will the Board of Trustees be forced to take more risk to meet the 5.88 percent payout?

The Board of Trustees has informed the legislature and the Administration that the Fund can be expected to earn an 8.13 percent rate of return given the current statutory limitations on asset allocation. This includes the increased authority granted by the legislature this past session which allows the Trustees to invest as much as 55 percent of the Fund in stocks, plus up to 5 percent in any investment which meets the Prudent Investor Rule. This portion could add an additional 5 percent to the equities allocation or it could be invested in alternative investments to reduce overall portfolio risk and add incremental return.





As the percentage of Fund assets invested in equities is increased, there will be increased short-term volatility (risk) as well as increased long-term returns. One of the reasons why the Trustees favor a percentage of market value distribution methodology is to moderate the effects of that increased volatility. For Alaskans, it highlights the need to very carefully balance the three conflicting objectives of preserving purchasing power, maximizing income, and providing stable, reliable and predictable annual payouts.



The APFC's investment consultant, Michael O'Leary of Callan Associates has stated, "Moving to a percent of market value distribution method, increasing the asset base, using an averaging approach, incorporating the one-year lag and expanding the equity range, all are important and in our view constructive components of the plan."

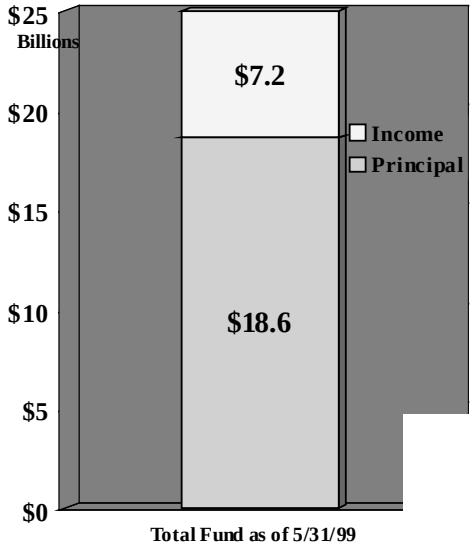
APPENDIX: HOW THE PERMANENT FUND WORKS UNDER THE STATUS QUO

How the Fund works

Alaska Permanent Fund

The market value of the Permanent Fund was $25.8 billion on May 31, 1999.

- **What did it consist of?**



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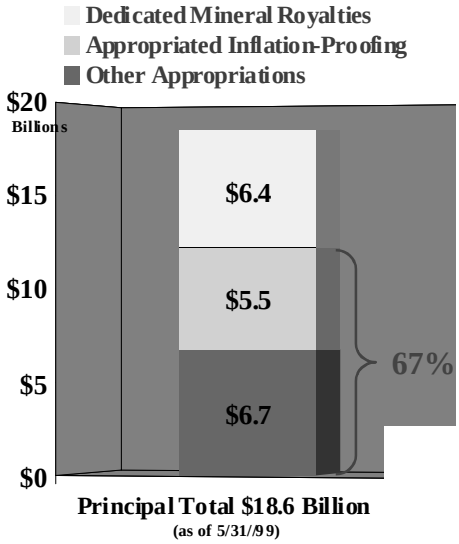
How the Fund works

Alaska Permanent Fund Principal

- **The Alaska Permanent Fund principal is protected by the Alaska Constitution.**
- **The Legislature may not spend it.**



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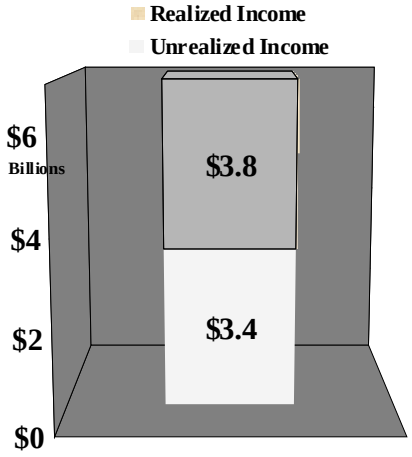
How the Fund works

Permanent Fund Income

- All income from the Permanent Fund's investments is retained by the Fund until appropriated by the Legislature.
- "Realized Income," which includes interest, dividends and profits resulting from the sale of assets, is used to calculate the annual Permanent Fund Dividend.
- "Unrealized Income" is the difference between the market value and the cost value of the assets currently held by the Fund which become realized income only when the asset is sold.



Total Income $7.2 billion

(as of 5/31/99)

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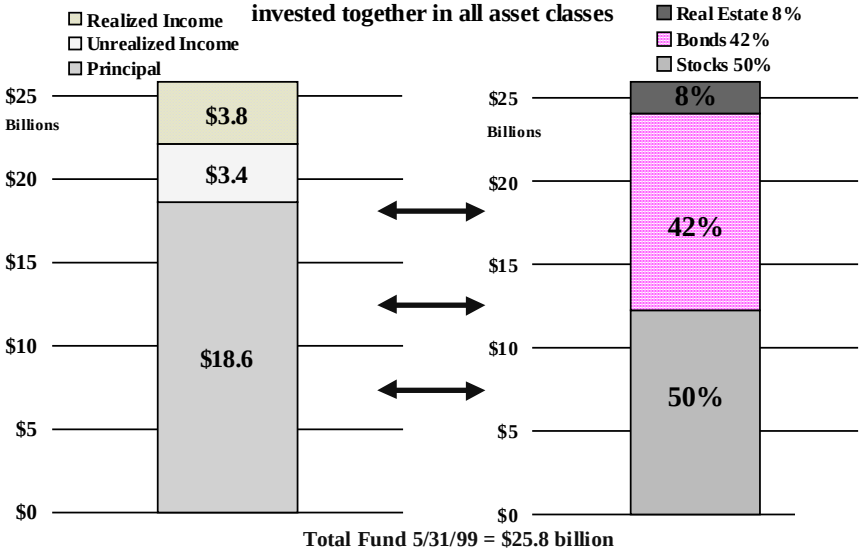
How the Fund works

Permanent Fund Investments

The principal and income of the Fund are invested together in all asset classes



Total Fund 5/31/99 = $25.8 billion

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How the Fund works

Priority for use of Fund Income

Alaska Statutes (AS 37.13.140 and 145) provide the following priority for the payment of dividends and inflation-proofing:

1) **First, dividends are calculated and paid;**

then

2) **Second, an amount of income sufficient to offset the effect of inflation is transferred to principal.**

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How the Fund works

Dividend Calculation

The dividend appropriation is the lesser of:

1) **1/2 of 21% of the sum of the last 5 years' realized earnings,**

Or

2) **1/2 of the earnings reserve account at the end of the current fiscal year.**

Defined in statute AS 37l13.140 and AS27.13.145

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How the Fund works

Income available for distribution

(calculation for the dividend distributed in October 1998)

1st Step

Realized Income

FY94	**$1,088 million**
FY95	**$1,001 million**
FY96	**$1,790 million**
FY97	**$2,035 million**
FY98	**$2,595 million**
	$8,509 million

multiply by 0.21 =

$1,787 million

available for distribution.

2nd Step

- **Earnings reserve account at beginning of fiscal year was $107 million.**
- **Add current year's, in this case FY98, realized earnings of $2,595 million.**
- **Total is $2,702 million available for distribution.**

1/2 of the lesser amount in Step 1or 2 is transferred to the dividend fund and paid out to qualified applicants. Since the beginning of the dividend program, the 1st step calculation has always been the lesser amount.

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How the Fund works

Annual Permanent Fund Dividend

(calculation for dividend distributed in October 1998 continued)

- **Step 1 is less than Step 2;**
- **The dividend pool is 1/2 of Step 1;**
- **$1,787 million divided by 2 = $893 million;**
- **Then, after some minor adjustments,**
  divide by eligible applicants =
  1998 dividend per person;
- **FY98 dividend = $1,540.88 per person.**

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How the Fund works

Hypothetical Calculation of Income available for distribution

(when alternative 2nd step would apply)

1st Step

Realized Income

FY94 $1,088 million
FY95 $1,001 million
FY96 $1,790 million
FY97 $2,035 million
FY98 $793 million
$6,707 million
multiply by 0.21 =
$1,408 million available for distribution.

2nd Step

- **Earnings reserve account at beginning of fiscal year is $107 million.**
- **Add current year's, in this case FY98, hypothetical realized earnings of $793 million.**
- **Total is $900 million available for distribution.**

1/2 of the lesser amount in Step 1 or 2 is transferred to the dividend fund and paid out to qualified applicants. In this hypothetical case, Step 2 is the lesser amount.

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How the Fund works

Annual Permanent Fund Dividend

(hypothetical calculation continued)

- **Step 2 is less than Step 1;**
- **The dividend pool is 1/2 of Step 2;**
- **$900 million divided by 2 = $450 million;**
- **Then, after some minor adjustments,**
  divide by eligible applicants =
  1998 dividend per person;
- **FY98 hypothetical dividend =**
  $756.06 per person.

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How the Fund works

Inflation-Proofing

Specified in statute AS 37.13.145:

- **Compute the average of the monthly U.S Consumer Price Index for urban consumers for each of the two previous calendar years;**
- **Compute the percentage change between the first and second calendar year average; and**
- **Apply that rate to the value of the principal of Fund on the last day of the fiscal year.**

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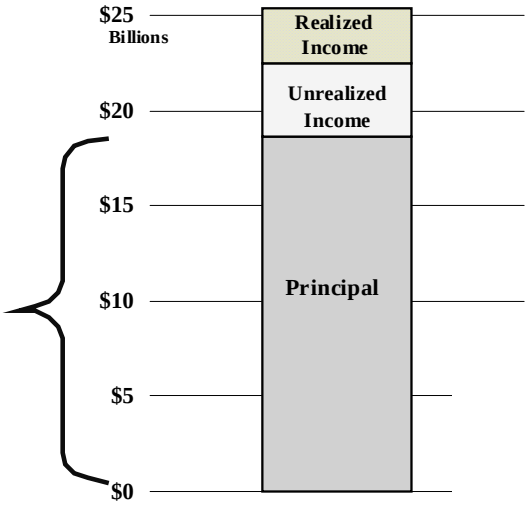
How the Fund works

Inflation-Proofing

- **Only the principal is inflation-proofed.**

Principal amount of the Fund is multiplied times specific historical inflation rate to determine inflation-proofing amount.



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How the Fund works

Inflation-Proofing (example)

- 2.34% = change from average CPI for calendar year 1996 to average CPI for calendar 1997;
- Principal on June 30, 1998 was $18.093 billion;
- Fund principal $18.093 billion x 0.0234 CPI = $423 million;
- $423 million was appropriated and transferred from earnings reserve to principal.

- **Transfer the inflation-proofing amount from earnings reserve to principal via an accounting entry.**
- **Assets do not really move.**

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How the Fund works