

# 29<sup>th</sup> Alaska State Legislature

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## Senator Lesil McGuire

### SS for SB 114

“Permeant Fund: Earnings, Deposits and Accounts.”

Sectional Analysis

29-LS0883\F

#### **Section 1.** AS 37.13.010(a)

- This section amends AS 37.13.010(a) to reduce the share of mineral lease rentals, royalties, royalty shale proceeds, net profit shares, federal mineral revenue sharing payments, and bonuses received by the state from certain mineral leases contributed to the permanent fund from 50 percent to 25 percent.
  - Previously, the contribution rate had been set at 50 percent of mineral lease bonuses (except from the Beaufort Sea, which had been left at 25 percent) and 50 percent of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay had been at 25 percent.
  - The dates listed in sub-sections (1) and (2) carve out the different geographical lease sales at the time of the Free Conference Committee Report of the Eleventh Alaska State Legislature for the HCS for SB 161, which chose to apply different percentages to mineral lease rents, royalties, etc., from each area.
  - The distinction is that AS 37.13.010(a)(1) addresses the Prudhoe Bay leases, and (a)(2) addresses the Beaufort Sea leases.

#### **Section 2.** AS 37.13.015

- This section adds a new section that allows the legislature to appropriate 74.5 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares, federal mineral revenue sharing payments, and bonuses received by the state from mineral leases to the dividend fund.

**Section 3. AS 37.13.140**

- This section deletes references to income available for distribution from the earnings reserve account for the purpose of the dividend.
  - Under this proposed bill, the dividend would be decoupled from the permanent fund and issued from the dividend fund (section 2) which consists of 74.5 percent of royalties etc..
  - The dividend would no longer come from the earnings reserve account.
- Paragraph (a) defines “income” within the Earnings Reserve Account as “net income” and is determined as the income is realized and received.
- Paragraph (b) modifies the method for determining the funds (amount) available for distribution. Under this proposed legislation, five (5) percent of the average market value of the Permanent Fund (including the Earnings Reserve Account) for the preceding five (5) fiscal years would be available for distribution to the General Fund.

**Section 4. AS 37.13.145(a)**

- This section excludes from the Earnings Reserve Account income deposited to the general fund under Section 6.

**Section 5. AS 37.13.145 (d)**

- This section conforms to Sec. 6 and maintains the exception that money received under the *State v. Amerada Hess* case is not available for distribution or transfer to the general fund, as provided in Sec. 6 of the bill.

**Section 6. 37.13.145 (e)**

- Adds a new subsection to require the Alaska Permanent Fund Corporation transfer from the Earnings Reserve Account to the General Fund the amount available for distribution, five (5) percent of the average market value of the permanent fund during the preceding five (5) fiscal years within thirty (30) days after it is received. If the amount available for transfer is less than the amount, the corporation is required to transfer the lesser of the amount needed for distribution or the balance of the Earnings Reserve account to the general fund.

**Section 7. AS 37.13.300 (c)**

- Makes a conforming amendment to clarify that net income from the Mental Health Trust Fund is not included in the computation of income available for distribution under Sec. 3 of the bill, AS 37.13.140(b).

**Section 8. AS 37.14.031 (c)**

- Conforms to Sec 3, so that the net income of the Permanent Fund continues to be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

**Section 9. AS 43.23.025(a)**

- Makes conforming amendments for determining the value of the dividend under Sec. 2 of the bill.

**Section 10.** AS43.23.025 (c)

- Adds a new subsection that specifies that if the value of each dividend is below (less than) \$1,000 then the legislature *may* appropriate from the earnings reserve account an amount necessary to pay each eligible applicant a dividend of \$1,000.
  - This effectively allows the legislature to guarantee a \$1,000 floor to the amount of the dividend, subject to appropriation.

**Section 11.** AS 43.23.045(d)

- Changes “shall” to “may”, related to the use of lapsed funds for dividend payments.

**Section 12.** Repeals AS 37.13.145(b) and AS 37.13.145(c)

- AS 37.13.145(b) relates to transfers from the Earnings Reserve Account to the dividend fund
- AS 37.13.145(c) relates to transfers from the Earnings Reserve Account into the Principle of the Permanent Fund for inflation proofing.

**Section 13.**

- Provides a transitional section directing the commissioner of revenue to calculate the value of the 2016 permanent fund dividend under AS 43.23.025 and 43.23.045(d) as they read on the day before the effective dates of sections 9-11 of this act.
  - This would allow the 2016 Dividend to remain status quo.
  - New calculations for the amount of the dividend would affect the 2017 Dividend.
- Authorizes the Permanent Fund Corporation to adopt regulations necessary to implement the Act.

**Section 14.**

- Provides that if secs. 1-13 of this Act take effect after July 1, 2016, that secs. 1-13 of this Act are retroactive to July 1, 2016.

**Section 15.**

- Provides for an immediate effective date of secs 13 and 14.

**Section 16.**

- Provides an effective date of July 1, 2016, except for the immediate effective date provided for secs. 13 and 14 in sec. 15 of the Act.