

29th Alaska State Legislature

Session:
State Capitol, Room 121
Juneau, AK 99801
Phone: (907) 465-2995
Fax: (907) 465-6592



Interim:
716 W 4th Avenue, Room 515
Anchorage, AK 99501
Phone: (907) 269-0250
Fax: (907) 269-0249

Senator Lesil McGuire

SS for SB 114

“Permeant Fund: Earnings, Deposits and Accounts.”

Sectional Analysis

29-LS0883\T

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 37.13.010(a)

- Repealing Section 1. This section reverts to the current statute and is effective July 1, 2019.

Section 3. 37.13.015

- This section creates a new way to calculate the dividend. Under this section the dividend calculation is as follows:
 - Drawn from the earnings reserve- 15% of the five year average of the net income of the permanent fund
 - Drawn from the earnings reserve- 2% of the market value of the constitutional budget reserve
 - From the general fund- 15% of the money deposited to the general fund from all mineral lease rents, royalties, sales and bonuses.

Section 4. AS 37.13.140

- This section does two things.
 - First, it directs the Alaska Permanent Fund Corporation (AFPC) to determine the amount available from the permanent funds earnings reserve that is available for distribution.
 - It shall be calculated is 4.5% of the average market value (POMV) of the permanent fund, including the earnings reserve, for the last 5 fiscal years immediately preceding the fiscal year just ended.
 - Second, it places a revenue limitation on the amount of the POMV draw based on the amount of production taxes and mineral lease rents, royalties and bonuses.
 - If the income from these sources is more than \$1 Billion then the POMV draw will be reduced on a dollar per dollar bases- less the 15% of rents, royalties, and bonuses that are attributed to the dividend under Section 3.

Section 5. AS 37.13.140

- Repealing Section 4. This section reverts to the current statute and is effective July 1, 2019.

Section 6. AS 37.13.145(a)

- Directs the APPC to deposit into the earnings reserve income as it is realized and received except for the income for deposit into the general fund under Section 12 of this act.

Section 7. AS 37.13.145(a)

- Repealing Section 7. This section reverts to the current statute and is effective July 1, 2019.

Section 8. AS 37.13.145(c)

- This section changes the statutorily defined mechanism for inflation proofing the principle of the permanent fund.
 - Under this section the AFPC can transfer to the principle of the fund the difference between 4 times the previous fiscal years amount for distribution, determined in Section 4, and the balance of the earnings reserve.
 - If the earnings reserve has 4 times the previous years' distribution, the excess can be used for inflation proofing. This ensures that before inflation proofing occurs, there is a 4:1 coverage spread for the POMV draw.
- The amount transferred shall not be applied to increase the value of the fund attributed to the settlement of State v. Amerada Hess.

Section 9. AS 37.13.145(c)

- Repealing Section 8. This section reverts to the current statute and is effective July 1, 2019.

Section 10. AS 37.13.145(d)

- Holds the settlement of State v. Amerada Hess harmless from the general fund deposits.

Section 11. AS 37.13.145(d)

- Repealing Section 10. This section reverts to the current statute and is effective July 1, 2019.

Section 12. AS 37.13.145

- (e) Subject to legislative appropriation, this section directs the AFPC to deposit the amount available for distribution, under Section 4 of this act, into the general fund.
- (f) The commissioner of revenue may recommend adjustments to the percentage of money appropriated to the dividend fund.
- (g) The commissioner of revenue shall deliver an annual report to the legislature evaluating the sufficiency of assets in the earnings reserve and the amount projected for distribution to the general fund.
- (h) is assumed to be a drafting error, and would only apply on or after July 1, 2019 when Section 3 is repealed under Section 27 of this act.

Section 13. 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. 4 of the bill.

Section 14. AS 37.13.300(c)

- Repealing Section 13. This section reverts to the current statute and is effective July 1, 2019.

Section 15. AS 37.13.031 (c)

- Conforms to Sec 4, 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 16. AS 37.14.031 (c)

- Repealing Section 15. This section reverts to the current statute and is effective July 1, 2019.

Section 17. AS 43.23.025(a)

- Makes conforming amendments for determining the value of the dividend under Sec. 3 of the bill.

Section 18. AS 43.23.025(a)

- Repealing Section 17. This section reverts to the current statute and is effective July 1, 2019.

Section 19. AS 43.23.025

- Allows the legislature to appropriate from the earnings reserve account an necessary funding to maintain a dividend amount of at \$1,000 in the event that the calculation determined by Sec. 3 of this act falls below that amount.

Section 20. AS 43.23.045(d)

- States that unexpended appropriations to implement this act lapses into the dividend fund at the end of a fiscal year and *may* be used in determining the amount of and paying the subsequent year's dividend.

Section 21. AS 43.23.045(d)

- Repealing Section 20. This section reverts to the current statute and is effective July 1, 2019.

Section 22

Repeals AS 37.13.145(b)

Section 23. (Sunset Clause)

On July 1, 2019, the following are repealed:

AS 37.13.015- New Dividend Calculation

AS 37.13.145(e) - Deposits of available funds from ERA to general funds

AS 37.13.145(f) – Commissioner of revenue can recommend changes of percentages to dividend fund

AS 37.13.145(g) – Commissioner of revenue will deliver a report to the legislature on assets of PF

AS 43.23.025(c) – minimum dividend of \$1,000

Section 24. Transition:

- (a) Holds the 2016 Dividend harmless and will be calculated by status quo formula
- (b) Commissioner of revenue and APFC may adopt regulations

Section 25. Transition:

- (a) The 2019 Dividend will be determined by the new formula of this act, regardless of the repeal language of Section 23.
- (b) Commissioner of revenue and APFC may adopt regulations

Section 26. Retroactivity

- If the changes made to the calculation of the dividend and the POMV draw from the earnings reserve account are not signed into law by July 1, 2016, the act is retroactive to that date.
 - Sec. 1- All royalties, rents, bonuses etc... changed from 25 and 50% deposited to permanent fund principle, to 25%.
 - Sec. 3- New dividend calculation
 - Sec. 4- POMV draw and revenue limiter

- Sec. 6- Deposits from the earnings reserve account to general fund
- Sec. 8- new inflation proofing mechanism
- Sec 10- Holding earnings from Amerada Hess settlement harmless from general fund
- Sec. 12(e)-(g)- deposits from earnings reserve account to general fund and commissioner of revenue's new duties
- Sec. 13 – Holding mental health trust fund earnings harmless from the calculation for distribution
- Sec. 15 – Net income calculation for APFC
- Sec 17 – appropriation language to dividend fund
- Sec 19 – minimum \$1,000 dividend
- Sec 20 - unexpended appropriation for dividend fund lapse
- Sec 24 – Transition language holding 2016 dividend harmless

Section 27.

- Effective date of July 1, 2019- repeals this act

Section 28

Section 24 (2016 dividend held harmless) and Section 26 (retroactivity) immediate effective date

Section 29

Effective date of this act is July 1, 2016