

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

Sponsor Statement

CS for SS for Senate Bill 114 (STA)

“An act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the duties of the commissioner of revenue; and providing for an effective date.”

The legislature is often confronted with the hardest decisions to make, and as leaders, this cannot be avoided. In tough budget times, we must ensure that the state is on solid financial footing. That is why I am proposing a long-term solution to the state’s vulnerability to volatile oil prices, Senate Bill 114.

SB 114 will not, by itself, solve the entire budget deficit, but it will get us at least half of the way there and provide for a degree of stability, all while maintaining downward pressure on spending. This bill changes where the funds for the Dividend come from and what funds are available for government services. It is not a raid on the Permanent Fund, and it would reduce the need for new taxes.

Currently, 30% of all royalties and rents from oil and gas go into the Permanent Fund, and 0.5% goes into the School Trust Fund. This leaves 69.5% of all royalties to go into the General Fund. SB 114 proposes to revert to the constitutionally mandated 25% of royalties to deposit into the Permanent Fund. Of the remainder, 59.5% would be deposited to the General Fund.

The Dividend would then be comprised of the remainin15% of the Royalties, and from the Earnings Reserve Account 2% of the value of the Constitutional Budget Reserve (CBR) and 15% of the 5 year average of the Statutory Net Income (SNI) of the Permanent Fund. There is also a minimum Dividend payment of \$1,000, and for 2016 the Dividend would be unaffected and remain above \$2,000.

This method of calculating the dividend would tie the payout to 3 things: 1) The long term health of the market (15% of the SNI of the Permanent Fund), 2) The long term fiscal health of the state (2% of the CBR), and 3) The short term fiscal health of the state (15% of royalties). This is a way of spreading the risks and rewards of Alaska’s fiscal climate between its residents and its government.

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

The General Fund would utilize a portion of the Permanent Fund: 4.5% of the total value of the fund would be deposited into the General Fund from the Earnings Reserve Account. This would result in a net increase of nearly \$2 Billion to the General Fund, significantly closing the fiscal gap.

This bill does three things that are important: it protects the Permanent Fund, ensures a Dividend, and cuts the deficit in half. This model provides stability to the budget, and allows Alaska's vast endowment to work in smart ways for us.

It is for these reasons that I have introduced SB114, and I humbly ask for your support.