

# PERMANENT FUND PROTECTION ACT

## SECTIONAL ANALYSIS – 3/11/17 CSSB 26 (Work Draft)

### FOR THE SENATE RULES COMMITTEE

#### **Section 1 – Legislative Intent**

Legislative intent that the legislature reevaluate the use of the earnings of the Permanent Fund in three years

#### **Section 2 – Budget Reserve Account**

Removes the reference to the current statutory appropriation limit

#### **Section 3 – Appropriation Limit**

Sets the Unrestricted General Fund Appropriation Limit at \$4,100,000,000 for FY 18 and provides for adjustments based on Anchorage CPI. The limit does not apply to appropriations to the Permanent Fund, for Permanent Fund Dividends, Debt obligations or Capital projects

#### **Section 4 – Reporting for the Appropriation Limit**

Under the responsibilities of the governor, adds language requiring the governor to submit with the release of the December 15th proposed budget a report with a calculation of the statutory appropriation limit and how the budget falls within the limit

#### **Section 5 – Repeals 50% royalty deposit to Permanent Fund for certain fields**

Dedicated deposits of royalties to the Permanent Fund are reduced from the current 25/50 split on old/new leases to the constitutional minimum of 25%

#### **Section 6 – Amends AS 37.13.140 to remove language concerning of income available for distribution**

Requires the Alaska Permanent Fund Corporation to determine the net income of the Earnings Reserve Account (ERA) excluding the unrealized gains or losses. Deletes the existing language for determining income available for distribution from the fund "...21 percent of the net income...for the last 5 fiscal years..."

#### **Section 7 – Percent of Market Value calculation**

(b) Defines the Percent of Market Value (POMV) payout as five and one-quarter percent of the average year-end market value of the Permanent Fund and ERA for the first

five of the most recently completed six fiscal years. The payout may not exceed the year-end balance of the ERA for the fiscal year just ended. Excludes the Amerada Hess funds from this calculation

(c) Reserves 25% of the POMV payout for dividends. The remaining 75% of the payout is subject to a dollar for dollar reduction as oil and gas revenue rises above \$1.2 billion. The reduction takes place if (1) exceeds (2):

(1) Total amount of non-dedicated royalties - oil and gas production taxes, mineral lease rentals, royalties, royalty sale proceeds, net profit shares, and federal mineral revenue sharing payments and bonuses that are deposited into the general fund in the current fiscal years

(2) \$1,200,000,000 revenue limit

### **Section 8 – Reduction of POMV calculation from 5.25% to 5.0% in FY 21**

Changes the POMV payout from five and one-quarter percent to five percent (effective date of July 1, 2020 found in section 20)

### **Section 9 – Amerada Hess Settlement Income**

The Amerada Hess funds which are deposited into the capital income fund are not available for distribution under the POMV calculation

### **Section 10 – Appropriations to General Fund and to Principal**

AS 37.13.145 is the Disposition of Income of the Permanent Fund statute

Subsection (e) allows for appropriation from the ERA to the General Fund subject to the provisions outlined in Section 7

Subsection (f) provides an inflation proofing mechanism whereby any amount in the ERA over 4 times the POMV payout (less the payout just made) may be appropriated to the Permanent Fund Principal

### **Section 11 – Amount Appropriated for Dividends**

Allows for appropriation from the ERA to the Dividend Fund 25% of the amount calculated for the POMV (Dividends are comprised of 25% of the 5.25% POMV)

### **Section 12 – Mental Health Trust Fund excluded from balance of Permanent Fund for POMV**

Mental Health Trust Fund may not be included in the computation of income available for distribution under the POMV

### **Section 13 – Appropriation for dividends**

Clarifies that the amount to the Dividend Fund is the amount appropriated (not transferred)

### **Section 14 – Sets Dividend amount at \$1,000 each for FY18-FY20**

The amount of each Permanent Fund Dividend for fiscal years 2018, 2019, and 2020 shall be \$1,000

### **Section 15 – Conforming amendment for Dividend Fund**

Conforms to Section 11, which moves money to the Dividend Fund by appropriation

### **Section 16 – Payment of Dividends from Dividend Fund**

Once the money is in the Dividend Fund, the Department of Revenue shall annually pay dividends without further appropriation

### **Section 17 – Repeal**

Repeals current statutory appropriation limit language and the current dividend calculation

### **Section 18 – Repeal**

Repeals Section 14 - \$1,000 dividend for three years on June 30, 2021

### **Section 19 – Transition**

Transition language giving the Commissioner of Revenue and the Alaska Permanent Fund Corporation the authority to adopt regulations, policies, and procedures to implement this Act

### **Section 20 – Immediate effective date for Transition**

Previous section takes effect immediately

### **Section 21 – Delayed effective date for POMV reduction**

Effective date for Section 8 – changes the POMV payout from five and one-quarter percent to five percent on July 1, 2021

### **Section 22 – Fiscal Year 18 effective date**

Effective date of July 1, 2017