PERMANENT FUND PROTECTION ACT
CSSB 26 (FIN)
SECTIONAL ANALYSIS

FOR THE HOUSE FINANCE COMMITTEE

Section 1 – Legislative Intent

The legislature intends to reevaluate the use of permanent fund earnings in 3 years.

Section 2 – Deposits to the Statutory Budget Reserve

Section 2 removes language in AS 37.05.540(a) that directs general fund revenues that exceed the appropriation limit to the statutory budget reserve (SBR).

Section 3 – Statutory Appropriation Limit

Section 3 limits unrestricted general fund appropriations to $4.1 billion, adjusted for inflation, per fiscal year. The limit does not apply to capital projects, debt obligations, program receipts, re-appropriations, the permanent fund, or dividends.

Section 4 – Governor's Budget Report

Section 4 requires the Governor to calculate and apply the appropriation limit to the budget submitted to the Legislature every December 15.

Section 5 – Dedicated Mineral Royalties

Section 5 reduces the percentage of mineral royalties directed to the principal of the permanent fund from about 30% to 25%.

Section 6 – Conforming Amendment

Section 6 deletes the definition of "income available for distribution" in AS 37.13.140. An amended definition of this term appears in the next section.

Section 7 – Draw Formula (amount to appropriate from the ERA to the general fund)

Section 7 defines the amount available for distribution each year from the earnings reserve account (ERA) with a 2-part formula consisting of (1) a percent of market value (POMV) calculation and (2) a "draw limit."

Contained in new subsection (b), the POMV calculation is 5.25% of the average value of the fund for the first 5 of the last 6 years. This is the maximum amount that would be taken from the ERA under the plan.

New subsection (c) contains the draw limit, which reduces the amount calculated under the POMV formula by one dollar for every dollar by which unrestricted (*i.e.*, non-dedicated) production taxes and mineral royalties exceed $1.2 billion. In short, when oil revenues go up withdrawals from the permanent fund go down.

Section 8 – POMV Step-Down

Section 8 amends section 7 to reduce the POMV calculation to 5% of the average market value of the fund for the first 5 of the last 6 years. Section 8 has an effective date of July 1, 2020 (see section 21).

Section 9 – Conforming Amendment

This amendment updates a cross-reference to the calculation of the "amount available for distribution" in AS 37.13.145(d), which exempts income from the *Amerada Hess* funds from that calculation.

Section 10 – Appropriations out of the ERA

New subsection (e) contemplates an appropriation from the ERA to the general fund up to the amount determined by the draw formula in section 7.

New subsection (f) provides for appropriations to the principal of any ERA balance that exceeds four times the maximum POMV draw (after the transfer to the general fund). This section effectively amends the inflation proofing mechanism in AS 37.13.145(c) (repealed by section 17).

Section 11 – Appropriations from the General Fund to the Dividend Fund

Section 11 calls for appropriations from the general fund to the dividend fund of an amount equal to 25% of the POMV calculation.

Section 12 – Conforming Amendment

This provision updates cross-reference to the "amount available for distribution" in AS 37.13.300(c), which exempts mental health trust fund income from that calculation.

Section 13 – Conforming Amendment

Section 13 updates a cross-reference to the formula for dividend appropriations.

Section 14 – FY2018 to FY2020 Dividends

Section 14 specifies that, notwithstanding the new dividend formula, dividend checks for fiscal years 2018, 2019, and 2020 will be $1,000 per person.

Section 15 – Conforming Amendment

Section 15 updates AS 43.23.045(a), specifying that the dividend fund consists of money appropriated to it under the new section AS 37.13.146 (section 11).

Section 16 – Conforming Amendment

Section 16 clarifies that, once funds are appropriated to the dividend fund, the Department of Revenue may pay dividends without another appropriation.

Section 17 – Repeals

Section 17 repeals:

- The current statutory appropriation limit (AS 37.05.540(b));
- Limits on withdrawals from the SBR (AS 37.05/540(c));
- The disaster relief exception for SBR withdrawals (AS 37.05.540(e));
- The current dividend appropriation formula (AS 37.13.145(b)); and
- The current inflation proofing formula (AS 37.13.145(c)).

Section 18 – Repeal

Section 18 sets a repeal date of June 30, 2021 for AS 42.23.025(c) (section 14).

Section 19 – Transition Language

Section 19 authorizes the Commissioner of Revenue and the Alaska Permanent Fund Corporation to adopt regulations to implement the new framework.

Section 20 – Section 19 has an immediate effective date.

Section 21 – Section 8 takes effect July 1, 2020 (FY21).

Section 22 – General effective date of July 1, 2017 (FY18).