

Statutory Permanent Fund Dividend
PERMANENT FUND WORKING GROUP ASSIGNMENT
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Economic Impacts of Statutory \$3,000 Dividend

- According to an Institute of Social and Economic Research (ISER) Study “Short-Run Economic Impacts of Alaska Fiscal Options” at Table III-6, supplying the multiplier accounting effects due to dollars in the hands of citizens versus government,¹ a transfer of \$1.9 billion from the Earnings Reserve to the Permanent Fund Dividend (PFD) program could result in the following:
 - Between \$2.47 and \$2.83 billion in total Alaska additional income
 - Positive impacts to 10,602 and 16,948 total jobs in Alaska
 - Between 36,000 and 45,000 Alaskan incomes raised above poverty level
- Examining Alaska’s fiscal gap and its impacts on Alaska families, of all the options for revenue generation (PFD cut, sales tax, flat-rate income tax, property tax, graduated income tax), PFD cuts are “by far the costliest measure to Alaska families”² and the only option of those listed born solely by state residents.

(Economic impacts of \$3,000 PFD analyzed independent of other budget decisions.)

Social Impacts of Statutory \$3,000 Dividend

- **Employment:** It is estimated that a \$1,000 increase in the amount of the PFD per person “increases the probability of employment by 1.8 percent among men” and a reduction in hours worked by 0.9 hours per week among women.³ By extrapolation, \$3,000 would increase the probability of employment by Alaskan males by 5.4% and the reduction in the workplace of women by 2.7% fewer hours. (Some women may choose to take on tasks outside of the workplace when PFD provides some income.)
- **Consumption:** “On average, the marginal propensity to consume non-durable goods out of the PFD is 25 cents out of each dollar.”⁴ A \$3,000 dividend would result in \$750 per dividend spent on non-durable goods, or \$480 million total.
- **Poverty:** “The PFD provides an income floor and therefore, perhaps, one of its most important contributions is in eliminating poverty.”⁵ According to the cited report, in 2000 roughly 12.4% of rural Alaskan Natives were lifted out of poverty due to the PFD.
- **Crime:** A study examining criminal reports and the PFD distribution from 2000 to 2016 indicates a 10% increase in substance abuse incidents and an 8% decrease in property crimes in the four weeks following PFD distribution.⁶

Context of Historical Dividend Payments

¹ Gunnar Knapp, Matthew Berman, & Mouhcine Guettabi, Short-Run Economic Impacts of Alaska Fiscal Options, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, at III-9 (Table III-6) (Mar. 30, 2016). [Appendix A] (On File with Office of Senator Shelley Hughes)

² Matthew Berman & Random Reamey, *How Much Might Closing the State Budget Gap Cost Alaska Families?* Research Summary No. 83, at 1 (Feb. 2017). [Appendix C]

³ Mouhcine Guettabi, What Do We Know About the Effects of the Alaska Permanent Fund Dividend?, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, at 2 (May 20, 2019) (citing Bibler, A., M. Guettabi, & M. Reimer, Short-term Labor Responses to Unconditional Cash Transfers (2019) (working paper)). [Appendix E]

⁴ Id. at 7 (citing Kueng, L., Excess Sensitivity of High-Income Consumers, *Quarterly Journal of Economics* 133 (4), at 1693-1751 (2018)). [Appendix E]

⁵ Id. at 7 (citing Berman, M., *Resource Rents, Universal Basic Income, and Poverty Among Alaska's Indigenous Peoples*, *WORLD DEVELOPMENT* 106, 161-172 (2018)). [Appendix E]

⁶ Id. at 8 (citing Watson, B., M. Guettabi, and M. Reimer, *Universal Cash and Crime*, *REVIEW OF ECONOMICS AND STATISTICS* (2019)). [Appendix E]

The average dividend payment since the inception of the PFD program, adjusted for inflation, is \$1,700.⁷ The largest dividend Alaskans received, adjusted for inflation, was \$2,864 in 2000.⁸ The smallest, adjusted for inflation, was \$801 in 1984.⁹ Gov. Hammond's original proposal for a PFD, based one 21 years o was up to \$1,050 in 1980 dollars which is \$3,264 in 2019 dollars; the first PFD paid under the statutory formula in 1983 was \$386, or \$978 in 2019 dollars.

Statutory PFD under Current FY2020 Budget

Distribution of \$3,000 PFD and FY2020 Budget Consequences

- 5.25% POMV revenue (drawn from ERA): \$2.93 billion¹⁰
- Amount required for PFDs, if funded at statutory \$3,000 level: \$1.94 billion¹¹
 - POMV remaining: \$990 million
- Unrestricted revenue (derived primarily from oil): \$2.30 billion¹²
 - Total funds available: \$3.29 billion
- Amount needed for operating and capital budgets, absent any vetoes and assuming capital budget fund source changes occur: \$4.65 billion¹³
 - Additional funds needed to fill budget gap: \$1.36 billion

Options to Fill FY2020 Budget Gap

1. \$460 million (approximate) in budget reductions through gubernatorial vetoes, assuming no override
2. Available fund sources¹⁴ (assuming funds are not swept into the CBR)
 - Constitutional Budget Reserve (CBR): \$2,268.5 million
 - Statutory Budget Reserve (SBR): \$172.4 million
 - Alaska Higher Education Investment Fund: \$340.7 million
 - Community Assistance Fund \$90 million
 - Power Cost Equalization Endowment (PCE): \$989.4 million
 - Alaska Housing Capital Corporation Fund: \$0.2 million
 - Alaska Capital Income Fund: \$11 million
 - Permanent Fund Earnings Reserve Account (ERA): \$19 billion*
3. Revenues (the PFD Working Group co-authors disagree on the advisability of revenues at this time)
 - Only existing revenue sources can be increased in FY2020

****Additional Draw from ERA:***

The PFD Working Group co-authors agree that drawing an unsustainable amount (in excess of 5.25% POMV) from the Permanent Fund's ERA is the worst of all the available options. Increasing the draw from \$2.93 billion to \$4.25 billion would equal a 7.6% POMV draw which is 2.325% above the 5.25% allowed under AS 37.13.140 (b), which is already on the outer bounds of sustainably managing the Permanent Fund.

PLEASE NOTE: In addition to presenting the short-term financials above for a full \$3,000 statutory PFD based on the current budget, the following short-term financials are included in the Appendix:

⁷ See Legislative Research Services, Alaska Permanent Fund Dividend Amounts Adjusted for Inflation to 2018 Dollars (June 2019). [Appendix F]

⁸ /d. [Appendix F]

⁹ /d. [Appendix F]

¹⁰ See Department of Revenue, Tax Division, Spring 2019 Revenue Forecast, at 7. (On file with Office of Senator Shelley Hughes)

¹¹ See Legislative Finance Division, LFD Fiscal Model, Full Statutory PFD – Current FY20 Budget, at page 2 (FY20 “POMV Amount for PFDs”) (June 25, 2019). [Appendix L]

¹² See Department of Revenue, Tax Division, Spring 2019 Revenue Forecast, at 7 (reflecting Total Unrestricted Revenue of \$5,237 million and Alaska Permanent Fund Investment revenue of \$2,933 million, for a difference of \$2,203 million). (On File with Office of Senator Shelley Hughes)

¹³ See Legislative Finance Division, LFD Fiscal Model, Full Statutory PFD – Current FY20 Budget, at page 2 (FY20 “UGF Budget”) (June 25, 2019). [Appendix L]

¹⁴ Account balances confirmed by Legislative Finance Division on 6/27/19. (On file with Office of Senator Shelley Hughes)

1. Short-term financials for a full statutory PFD based on a FY21 (Barnhill) right-sized budget [Appendix G]
2. Short-term financials for a 50/50 POMV PFD based on current FY20 budget [Appendix H]
3. Short-term financials for a 50/50 POMV PFD based on a FY21 (Barnhill) right-sized budget [Appendix I]

Sustainability of Statutory PFD FY2021 and Beyond

Without exceeding the POMV draw,¹⁵ the legislature should make wise decisions on other fiscal options like additional budget reductions or sensible revenue measures.¹⁶

PLEASE NOTE: The following are included in the Appendix

1. Long-term projections for full statutory PFD based on current FY20 budget [Appendix L]
2. Long-term projections for full statutory PFD based on FY21 (Barnhill) right-sized budget [Appendix M]
3. Long-term projections for 50/50 POMV PFD based on current FY20 budget [Appendix N]
4. Long-term projections for 50/50 POMV PFD based on FY21 (Barnhill) right-sized budget [Appendix O]

Potential Revenue Sources

The PFD Working Group co-authors disagree on the advisability of revenue at this time, and have diverging opinions on the need, timing, and type of options most suitable. In the future, if the budget is not reduced and/or oil revenues drop for a sustained period, the legislature may wish to explore the following:

- Diverting the oil and gas property tax plus the raw fish tax from municipalities (as proposed by the governor this year) for \$450 million
- A 3% sales tax for \$480 million
- 2% flat income tax of adjusted gross income for \$500 million
- \$1/gallon added to motor fuel tax for \$500 million
- Eliminating the \$8 per-barrel oil tax credit for \$1.2 billion
- A progressive income tax for \$700 million
- An expanded tax base through economic diversification

Closing Remarks

The PFD provides social and economic benefits to Alaskans, particularly Alaskan families. While the PFD Working Group co-authors disagree about the *net* impact of a \$3,000 PFD in conjunction with a budget that has been substantially reduced, the co-authors agree that, considered on its own, the full statutory PFD would increase Alaskans' income and reduce poverty. Due to the assurance of the annual payments, one of the most significant impacts of the PFD is that Alaskan shareholders have been watchdogs over the Permanent Fund.¹⁷

The budget gap can be reasonably closed, perhaps through a "grand compromise," by a combination of budget reductions and increased revenue. The PFD Working Group co-authors agree that the PFD issue must be resolved so that the Permanent Fund is truly protected and the 5.25% draw is not exceeded.

The five-year impasse in the legislature over the amount of the annual dividend is largely attributed to three philosophical perspectives: (1) *the budget itself is unsustainable and needs to be reduced to exist within the*

¹⁵ As of 2018, AS 37.13.140(b) limits the amount withdrawn from the Earnings Reserve to the POMV, which is 5.25% for three fiscal years then 5.0% thereafter, providing: "The combined total of the transfer under (b) of this section [(establishing the transfer to the dividend fund)] and an appropriation under (e) of this section [(establishing maximum amount that may be transferred to the general fund)] may not exceed the amount available for appropriation under AS 37.13.140(b) [(establishing the POMV)]."

¹⁶ See Legislative Finance, LFD Fiscal Model, Full Statutory PFD – Current FY20 Budget, at page 2 (June 25, 2019). [Appendix L]

¹⁷ Governor Hammond, urging passage of PFD legislation as an ongoing program, explained that the idea some had of a one-time-only benefit "does nothing to create a constituency which will safeguard against invasion of the Permanent Fund," and "does nothing to recognize that oil wealth is our children's legacy and belongs not just to those here today." Jay Hammond, Governor, Letter to Al Adams, House Finance Committee Chairman (Apr. 1, 1982). [Appendix J] "I wanted to encourage contributions into the investment account and to protect against its invasion by politicians by creating a *militant ring of dividend recipients* who would resist any such usage if it affect their dividends." Jay Hammond, *DIAPERING THE DEVIL: A LESSON FOR OIL RICH NATIONS* 16, 2d Ed. (2011) (emphasis added). (Onfile with Office of Senator Shelley Hughes)

current level of revenues thereby allowing payment of a statutory PFD; (2) the size of the PFD is unsustainable and must be changed in order to fund services; and (3) Alaska needs to enact more revenue to pay a statutory PFD and to fund services.

Based on a review of historic documents dating back to 1975, below are key points considered in establishment of the PFD¹⁸ which legislators today should bear in mind.

- Only 1% of Alaska land is available for private individual ownership.
- Subsurface rights became jointly owned at statehood.
- Annual PFD payouts cause Alaskan shareholders to be watchdogs, protecting the fund and ensuring its growth.
- PFD dollars distributed to Alaskan shareholders benefit Alaskans equitably.

The co-authors of this \$3,000 PFD white paper believe that in order to achieve a lasting agreement on a PFD “grand compromise,” elements of all three viewpoints must be considered to achieve a sustainable budget: budget reductions; revenue measures; and a PFD/government split that does not overdraw the Permanent Fund and that is fair and agreeable not only to legislators but to the people of Alaska. While the co-authors do not concur on how to weight each of these three elements, both agree that it is necessary to settle the PFD matter so it is not a recurring legislative battle each year.

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Appendices cited in this document are attached in the following pages.

¹⁸ See policy statements, *supra* notes 34, 35, & 37. The plan for the Permanent Fund Dividend program was foremost rooted in the constitutional principle that Alaska's natural resources are held collectively in trust for the Alaskans as the beneficiaries. “The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State . . . for the maximum benefit of the people.” ALASKA CONST. art. III, § 2. As Jay Hammond once said, “I believed the best, perhaps the *only* way to meet our constitutional mandate to manage our natural resources for the maximum benefit of all the people was to grant each citizen an ownership share in Alaska's resource wealth to be used as they, not the government, felt was for their maximum benefit.” Jay Hammond, *DIAPERING THE DEVIL: A LESSON FOR OIL RICH NATIONS* 16, 2d Ed. (2011). (On File with Office of Senator Shelley Hughes)