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January 15, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the Alaska permanent fund and the funding structure for state government.

This bill would establish a new financial model to enable sustainable and stable funding of state services and the protection of the permanent fund. To accomplish these goals, additional resource revenues would be directed to the permanent fund and the earnings reserve account. This would enable greater permanent fund earnings to be generated and remove the damaging volatility from the general fund. In turn, a sustainable and stable annual draw from the earnings reserve account to the general fund would support state government. Additionally, the bill would change the manner in which permanent fund dividends are calculated from the current practice of calculating the dividend based on investment returns to a process in which the dividend is calculated based on the state's receipt of natural resource royalties. Further, the bill would establish a process to assure sustainability of state revenues in which the Commissioner of Revenue, in consultation with the Alaska Permanent Fund Corporation, would periodically review state financial resources in order to recommend whether adjustments should be made to the sustainable draw from the earnings reserve account to the general fund. Additionally, the bill provides for inflationary adjustments to the sustainable draw beginning in fiscal year 2020. As a result of these changes, the permanent fund earnings reserve account would generate predictable and stable revenues for state government. The permanent fund dividend would continue, but would reflect the state's success in natural resource development rather than investment performance.

In detail, the bill proposes to amend AS 37.13.010, the Alaska permanent fund, to require that 49.5 percent, rather than the current approximately 30 percent, of resource royalties would be deposited into the permanent fund principal. This would be subject to the condition that the earnings reserve account had reached a target balance necessary to provide for a sustainable annual draw of $3,300,000,000 billion dollars from that account to the general fund. If the target had not been reached, 24.5 percent of the resource royalties would go to the earnings reserve account (0.5 percent of mineral lease royalties would continue to go to the school fund). Additionally, the bill provides that up to 100 percent of oil and gas production taxes may be appropriated to the permanent fund

or the earnings reserve account. The bill would amend AS 37.13.145(b) to provide that the annual transfer from the earnings reserve account to the dividend fund for the payment of dividends would be the amount necessary to equal 50 percent of the resource royalties received by the state. In order to support this dividend payment, the bill provides that the Legislature may appropriate 50 percent of the resource royalties received by the state to the earnings reserve account. Based on these changes, income of the permanent fund would no longer be used to calculate the amount available for payment of dividends, but instead the dividend would be calculated based on resource royalties received by the state.

To further stabilize the income stream available for state budgets, the bill would amend AS 37.13.145 in order to eliminate an annual inflation transfer from the permanent fund earnings reserve account to the principal. Instead of this transfer, the bill provides for a transfer from the earnings reserve account to the permanent fund principal that will occur if the earnings reserve account contains more money than needed for a four-year sustainable draw from that account to the general fund. If the earnings reserve account has not reached this target balance, the bill provides that 100 percent of oil and gas production taxes and up to 24.5 percent of resource royalties may be appropriated to the earnings reserve account.

The bill further amends AS 37.13.145 to establish a process for review by the Commissioner of Revenue to determine whether the sustainable draw sum should be adjusted based on an assessment of state financial resources. This review would result in a report being submitted to the President of the Senate and the Speaker of the House of Representatives. To ensure transparency, the bill would require that the information and analysis supporting the report be made available to the public, including the Legislature. Additionally, the bill provides for inflation adjustment to the sustainable draw beginning in fiscal year 2020. The bill would establish a dividend amount of $1,000 for each eligible individual for calendar year 2016.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,

Bill Walker

Bill Walker
Governor

Enclosure