

SJR 1 – *“Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, establishing the earnings reserve account, relating to the permanent fund dividend, and requiring the permanent fund dividend to be at least equal to the amount that would be calculated under current law”*

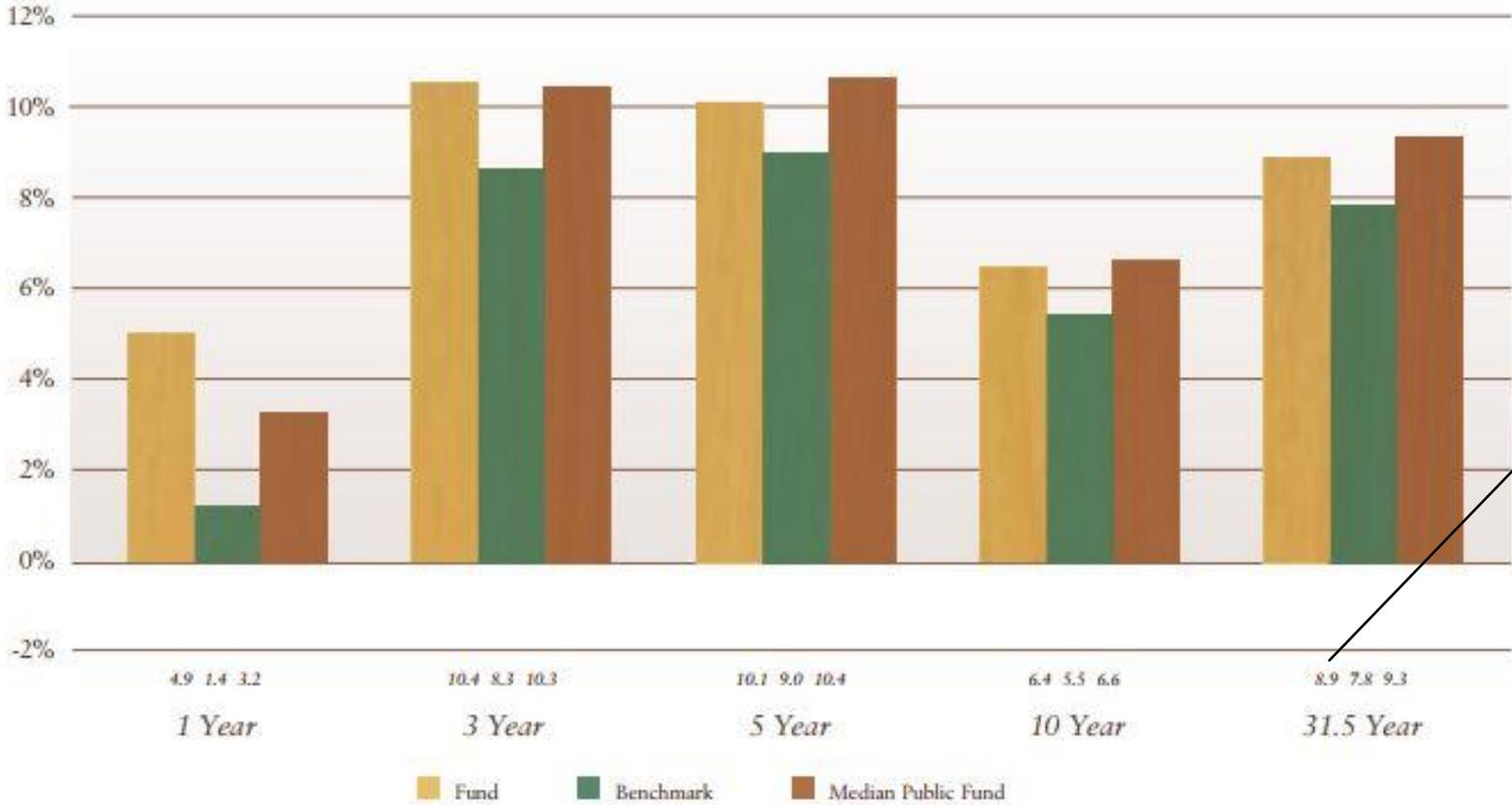
Sectional Analysis

- ▶ Section 1: Establishes the Earnings Reserve Account in the constitution
- ▶ Section 2: (b) Transfer of monies from the Earnings Reserve Account to the dividend account and 5-year average dividend calculation
(c) Establishes the calculation for dividing up the amount available for dividends
- ▶ Section 3: Replaces current statutory ERA with constitutional ERA
- ▶ Section 4: Places the resolution before the voters in the next general election

Permanent Fund Returns

Fund's Long-Term Investment Performance

Annualized Returns for Periods Ending June 30



The Fund's long-term investment performance sees a 31.5 year annualized return of 8.9%

Permanent Fund Dividends

ANNUAL DIVIDEND PAYOUTS

		1990	\$952.63	2000	\$1,963.86	2010	\$1,281.00
		1991	\$931.34	2001	\$1,850.28	2011	\$1,174.00
1982	\$1,000.00	1992	\$915.84	2002	\$1,540.76	2012	\$878.00
1983	\$386.15	1993	\$949.46	2003	\$1,107.56	2013	\$900.00
1984	\$331.29	1994	\$983.90	2004	\$919.84	2014	\$1,884.00
1985	\$404.00	1995	\$990.30	2005	\$845.76	2015	\$2,072.00
1986	\$556.26	1996	\$1,130.68	2006	\$1,106.96		
1987	\$708.19	1997	\$1,296.54	2007	\$1,654.00		
1988	\$826.93	1998	\$1,540.88	2008	\$2,069.00		
1989	\$873.16	1999	\$1,769.84	2009	\$1,305.00		

Calculating the Dividend

Alaska Department of Revenue Permanent Fund Dividend Division

Overview of the 2014 Dividend Calculation

To help smooth out year-to-year volatility in dividend amounts, the amount of each year's dividend is calculated using a formula that averages the Permanent Fund's realized earnings over the previous five years. Here is how it works:

1. **Add** the Fund's statutory net income* from the previous five years.

	(in millions/rounded)
FY 2010	1,590
FY 2011	2,143
FY 2012	1,568
FY 2013	2,928
FY 2014	3,531
Total	11,760

2. **Multiply** by statutory 21% for an average of the five year earnings

11,760
21%
\$2,470

3. **Divide** in half for the statutory percentage of earnings allocated for dividends

\$2,470
2
\$1,234.8

4. **Add** FY 2013 Permanent Fund Dividend Fund beginning balance

\$1,234.8
10.6
\$1,245.4

5. **Subtract** prior year obligations, designated state expenses and cost of operating the Permanent Fund Dividend Division

\$1,245.4
(36.0)
\$1,209.4

6. **Subtract** reserves for payment of prior year dividends

\$1,209.4
(0.8)
\$1,208.6

7. **Divide** by the estimated number of eligible dividend applicants

\$1,208,600,000/641,489=\$1884.00 (rounded to nearest whole dollar)

*More information is available at www.apfc.org or www.pfd.alaska.gov

Permanent Fund Dividends

Total appropriation

DIVIDEND SUMMARY

DIVIDEND CALCULATION

Annually the dividend amount is calculated and announced mid-September, based on an estimated number of applicants. An estimate is used because, as of the dividend calculation date, eligibility determinations have not been completed for all applications. A number of these applications will be determined as payable after continued processing. Also, some applicants have extended filing due dates until March 31, 2015, such as the estate and disabled applications.

Amount Available for Dividends

FY 15 PFD Fund Beginning Balance	\$10,649,064.79	
Expenditures to date	\$(103,243.35)	
PFD Fund Balance as of September 5, 2014		\$10,545,821.44
Transfer from Permanent Fund Corporation		
Permanent Fund Earnings (5-year average)	\$1,234,833,864.35	
Less Appropriations (see below)	\$(36,048,800.00)	
Net Transfer from Permanent Fund Corporation		\$1,198,785,064.35
Reductions (see below)		\$(766,480.03)
Total Amount Available for Dividends		\$1,208,564,405.76
Total estimated number of eligible applicants:	641,489	

The Earnings Reserve Account

ALASKA PERMANENT FUND

Balance Sheets

Unaudited (millions of dollars)	December 31, 2015	June 30, 2015
Assigned for future appropriations:		
Realized earnings	5,963.9	6,146.5
Unrealized appreciation on invested assets	807.9	1,015.9
Total assigned	6,771.8	7,162.4
TOTAL FUND BALANCES	51,793.0	52,800.5
TOTAL LIABILITIES AND FUND BALANCES	\$ 52,295.0	55,003.5

- Even if SJR1 was approved by voters, the legislature would still have access to other income in the Earnings Reserve Account

Dividend Impact (cont'd)

- ▶ Dividend is uniquely Alaskan:
 - ▶ “the dividend is a particular feature of the Alaska situation”
 - ▶ Malan Rietveld
 - ▶ Senate State Affairs Committee
 - ▶ January 26th, 2016
- ▶ Goldsmith has found, over years, that the dividend has enormous economic impact:
 - ▶ “Most of the cash from dividends will ultimately find its way into the Alaska economy to increase employment, population, and income. A rough estimate of the total (direct and indirect) macroeconomic effects of this increase in purchasing power is 10,000 additional jobs, 15 to 20 thousand additional residents, and \$1.5 billion in personal income.”

Dividend Impacts

Alaska's Economy

Historical Trends and Future Outlook

BY MOUHCINE GUETTABI AND GUNNAR KNAPP

Unless oil prices rise dramatically and unexpectedly, within a few years the state will have to reduce the deficit by either reducing spending or finding new ways to pay for spending. The only "fiscal options" which could significantly reduce the deficit are some combination of:

- Further cuts in state spending
- Broad-based taxes such as income or sales taxes
- Reallocating spending of Permanent Fund earnings from dividends to state government
- Spending other Permanent Fund earnings

The Alaska Legislature faces difficult choices between these options, none of which are popular.

The table above shows estimates of the potential short-run economic impacts of selected options for reducing the deficit by \$100 million. The estimates are based on input-output analysis, which tracks how the "direct" impacts of a cut in state spending or a reduction in household income are "multiplied" in the economy. The short-run economic impacts of larger spending cuts or new revenues would be proportional: the impacts of cuts or new revenues of \$1 billion would be ten times as large.

The estimated employment and income impacts include both "direct" and "multiplier" employment and income. Direct impacts are changes in employment and income of employees of state government and state contractors. Multiplier impacts are changes in employment and income in other industries due to ripple effects in the rest of the economy as households, which lose income, and businesses, which lose sales, spend less.

The estimated impacts are based on generic assumptions about how state spending cuts would be made and how income taxes or lower Permanent Fund Dividend payments would affect household spending. They should be considered approximate estimates of the initial short-run impacts of these fiscal options, as well as indicators of how the relative economic impacts of fiscal options may differ. They do not show potentially important indirect or longer-term impacts of fiscal options, such as how they might affect state services on which the economy depends, economic confidence, investment, and real estate prices. They also don't show how the relative effects of different options may vary by region, or their relative impacts on different income groups. (We are currently studying these other potential economic impacts.)

Here are some approximate rules of thumb about potential short-run employment impacts of state fiscal options:

Cutting state spending by \$1 billion by cutting the state workforce could cause a loss of about 17,000 Alaska jobs, or about 5 percent of total employment: each lost job would reduce the deficit by about \$60,000.

Cutting state spending in other ways would have smaller employment and income impacts. For example, across the board cuts of \$1 billion might cause a loss of about 13,000 jobs, or 4 percent of employment: each lost job would reduce the deficit by about \$80,000.

Reducing the deficit by collecting income taxes or reallocating Permanent Fund Dividend payments to pay for state government would have smaller total impacts on employment and income than cutting state government—because there would be no direct cuts to jobs or income of state employees or contractors. There would be "multiplier" impacts due to impacts on household disposable income and spending. Collecting \$1 billion in income taxes or Permanent Fund Dividend reallocations could cause a loss of about 10,000 jobs or 7,000 jobs, respectively.

Reducing the deficit by spending other Permanent Fund earnings would not have any short-run impacts on the economy: it would not reduce payments to state workers or contractors or reduce household disposable income.

Note that the relative economic impacts of different fiscal options would vary significantly by region. The relative economic impacts of cutting the state workforce would be highest in regions where state government accounts for a relatively higher share of employment, such as Juneau and Fairbanks, and where state-funded local government (particularly K-12 education) accounts for a relatively high share of employment, such as rural western Alaska. In contrast, the relative economic impacts of an income tax would be highest in wealthier urban areas such as Anchorage.

“Collecting \$1 billion in... Permanent Fund Dividend reallocations could cause a loss of about...7,000 jobs.”

State General Fund Budgets, FY07-FY16
(\$Millions)

Dividend Impact (cont'd)

Goldsmith's 2010 study reinforced many of his previous findings:

- ▶ What do people do with their checks?
 - ▶ A study done in 1984 shortly after the first distribution also found that savings out of dividend checks was significant. Net of federal income taxes, about one third of dividend income went to saving and debt reduction. The majority went to day-to-day expenses, and about 10 to 15 percent went to special large purchases.
- ▶ “The 1982 and 1983 dividends have been significant factors in rapid economic growth of the early 1980s. As the dividends entered the Alaska economy, they created about five thousand jobs, primarily in support industries, and added about \$360 million to consumer purchasing power in 1983”
- ▶ “At \$1,305 in 2009, the dividend added 3% to average per capita income of \$42,603. At the same time, it represents a significant aggregate infusion of cash into the economy. The 2009 dividend added about \$900 million in purchasing power to the economy, roughly equivalent to the total wages of state government or the retail trade sector.”

Dividend Effects

- ▶ Created a constituency to watch over government expenditures of the Fund
- ▶ Allowed for individual Alaskans to invest their oil wealth any way they choose, though often back into the Alaskan economy.
- ▶ Reduced the gap between income levels in Alaska

Dividend Effects (cont'd)

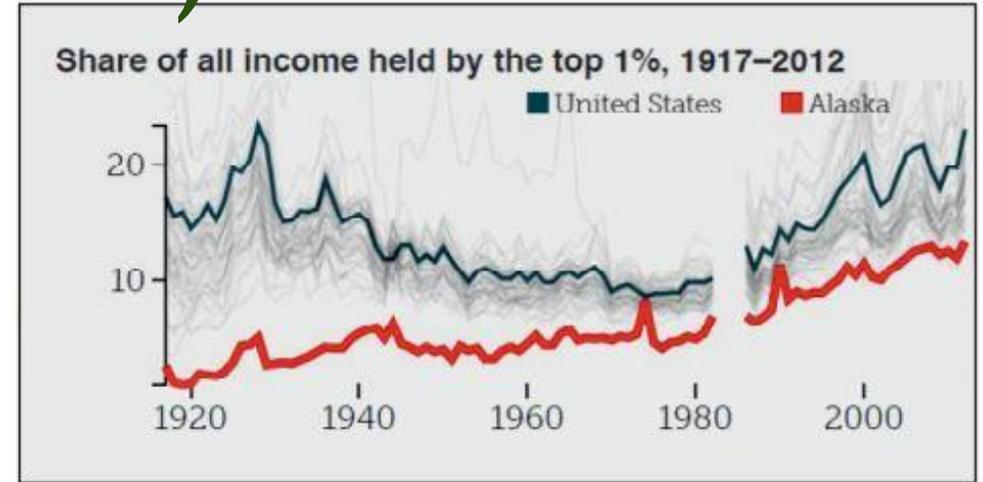
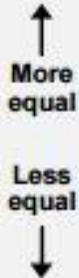
By ALYSSA SHANKS

Employment Scene

Alaska's income inequality the second lowest in the U.S.

1 Income Inequality By State 2011

Area	Median Income	Gini Coefficient
Wyoming	\$56,322	0.408
Alaska	\$67,825	0.410
Utah	\$55,869	0.425
Hawaii	\$61,821	0.430
Vermont	\$52,776	0.431
Idaho	\$43,341	0.432
South Dakota	\$48,321	0.432
Iowa	\$49,427	0.434
Montana	\$44,222	0.435
New Hampshire	\$62,647	0.435
Wisconsin	\$50,395	0.437
Delaware	\$58,814	0.440
Kansas	\$48,964	0.444
Minnesota	\$56,954	0.444
North Dakota	\$51,704	0.445
Washington	\$56,835	0.445
Indiana	\$46,438	0.446
Maryland	\$70,004	0.447
Maine	\$46,000	0.454



In 2012 the average income of the top 1 percent of taxpayers in Alaska, \$939,000, was 15 times that of the average of the bottom 99 percent, \$61,000.

The US average ratio was twice as high at 30 times. By this definition, Alaska was essentially tied with Hawaii as the most equitable state. (This is based on a recent study by the Economic Policy Institute.)

Dividend Effects (cont'd)

- ▶ Goldsmith notes that the fund has contributed to the state's remarkable income equality. His study points out that in 38 states, the income of the richest 20 percent grew faster than the poorest 20 percent between the early 1980s and the early 2000.
 - In 11 states, the growth rates were about the same. "Alaska was the only state in which the income of the bottom 20 percent grew at a faster rate (25 percent) than the income of the top 20 percent (10 percent)," the paper explains.
- ▶ "The dividend has been one factor in the decline in the official poverty rate since Alaska attained statehood, particularly among Native Americans. The dividend is particularly important in rural parts of the state where the economy is largely a mixture cash-based transfers and subsistence activities where wage paying employment is scarce.

Scott Goldsmith

ISER - The Alaska Dividend Program

July 2010

Key Points

- ▶ SJR1 is only a resolution to put the question before the people of whether the current dividend program should be enshrined in the constitution.
- ▶ The resolution does not bar the legislature from appropriating excess income from the fund for other purposes.
- ▶ The Dividend has become a significant economic force in Alaska.
- ▶ If approved by the voters, SJR1 would be a promise to every Alaskan that their constitutionally protected mineral rights will be protected from government in perpetuity.