Statutory Permanent Fund Dividend
PERMANENT FUND WORKING GROUP ASSIGNMENT
by Senator Shelley Hughes, Senate District F
June 27, 2019

Economic Impacts of Statutory $3000 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
- Reducing PFDs to pay for government operations and to maintain state employees adds to total additional income and state job numbers, however, it does not have a material impact on raising Alaskan incomes above poverty.[2]
- Reducing PFDs to pay for government operations and capital spending adds minimally to additional income and job numbers but does not raise Alaskan incomes above poverty.[3]
- Arbitrary reductions in the PFD has the largest adverse impact on Alaska's economy of all revenue generating considerations. Taxing via a reduction to Alaskans' PFD falls solely on the backs of Alaskans. Non-residents do not contribute revenue like they would with a sales or income tax.[4]
- Examining Alaska's fiscal gap and its impacts on Alaska families, of all the options for revenue generation, PFD cuts are "by far the costliest measure to Alaska families."[5]
- Of the options for revenue generation, "[c]uts to the PFD payout are the most regressive option…. A PFD cut would impact the bottom 20 percent of earners nearly 10 times as heavily as the top 20 percent, when measured relative to family income."[6]

---

[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] *Id*. at III-9 (Table III-6); Mathew Berman, Resource Rents, *Universal Basic Income, and Poverty Among Alaska's Indigenous Peoples*, WORLD DEVELOPMENT 106, 162-72 (2018). [Appendix A (On File with Office of Senator Shelley Hughes) & Appendix B]
[3] *Id*. at III-9 (Table III-6); Mathew Berman, Resource Rents, *Universal Basic Income, and Poverty Among Alaska's Indigenous Peoples*, World Development 106, 162-72 (2018). [Appendix A (On File with Office of Senator Shelley Hughes) & Appendix B]
[4] Knapp, *supra* note 1, at A-15. [Appendix A] (On File with Office of Senator Shelley Hughes)
[5] 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]
[6] Carl Davis & Aidan Russell Davis, Comparing the Distributional Impact of Revenue Options in Alaska, INSTITUTE ON TAXATION AND ECONOMIC POLICY, at 3 (April 2017). [Appendix D]

Social Impacts of Statutory $3000 Dividend

- Employment: It is estimated that a $1000 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, by choice.[7] By extrapolation, $3000 would increase the probability of employment by Alaskan males by 5.4% and the reduction in the workplace, by choice, of women by 2.7% fewer hours.

- Consumption: "On average, the marginal propensity to consume non-durable goods out of the PFD is 25 cents out of each dollar."[8] By that calculation, a $3000 dividend would result in approximately $750 per dividend spent on non-durable goods, or approximately $480 million total (based on 640,000 qualified recipients), serving to provide a boost to Alaska's economy, particularly noticeable in rural, cash-based economies.

- Health: Two major studies have focused on the effect of the PFD on health. The first concentrated on birth weight and concluded that "an additional $1,000 [through a PFD] increases birth weight by 17.7g and substantially decreases the likelihood of a low birth weight (a decrease of around 14% of the sample mean)."[9] The second study examined impacts on childhood obesity, particularly in toddlers, and found "the effect of the PFD on obesity and overweight status is negative and statistically significant."[10] According to the research, "an additional $1000 [by the PFD] reduces the probability of being obese by 4.5 percentage points."[11] The report continued, "extrapolating these estimated effects to the Alaska three-year old population, they find that 500 cases of obesity were averted from an additional $1000 in PFD payments, which is equivalent to a 22.4% reduction in the number of obese three-year-olds."[12]

- Poverty: "The PFD provides an income floor and therefore, perhaps, one of its most important contributions is in eliminating poverty."[13] According to the cited report, in 2000 roughly 12.4% of rural Alaskan Natives were lifted out of poverty due to the PFD. We believe that the current statutory formula PFD of $3000 would have a net positive impact on poverty, particularly among rural Alaskans and the elderly.

- Income: The PFD is "the most equitable way to distribute the benefits from oil development" to Alaskans.[14]

- 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.[15] The possibility that "undesirable outcomes are increasing in payment size but socially beneficial outcomes—property crime decrease—is not" might tend to "suggest that there may be implied

---

[7] 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]
[8] *Id.* at 7 (citing Kueng, L., *Excess Sensitivity of High-Income Consumers*, QUARTERLY JOURNAL OF ECONOMICS 133 (4), at 1693-1751 (2018)). [Appendix E]
[9] *Id.* at 4 (citing Chung, W., H. Ha, and B. Kim, *Money Transfer and Birth Weight: Evidence From the Alaska Permanent Fund Dividend*, ECONOMIC INQUIRY 54 (1), 576-90 (2016)). [Appendix E]
[10] *Id.* at 4 (citing Watson, B., M. Guettabi, and M. Reimer, *Universal Cash Transfers Reduce Childhood Obesity Rates* (2019) (working paper)). [Appendix E]
[11] *Id.* (citing Watson, et al., *supra* note 10). [Appendix E]
[12] *Id.* at 4-5 (citing Watson, et al., *supra* note 10). [Appendix E]
[13] *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]
[14] *Id.* at 8 (citing Goldsmith, S., *The Alaska Permanent Fund Dividend Program*, THE 13TH BASIC INCOME EARTH NETWORK CONGRESS, University of Sao Paulo, Sao Paulo, Brazil (2001)). [Appendix E]
[15] *Id.* at 8 (citing Watson, B., M. Guettabi, and M. Reimer, *Universal Cash and Crime*, REVIEW OF ECONOMICS AND STATISTICS ACCEPTED (2019)). [Appendix E]

gains from spreading the payments out over the year."[16] However, with ever increasing PFD payment amounts per statutory formula, it our opinion that spreading those payments out over the year may not have the positive effects on substance abuse incidents.

Context of Historical Dividend Payments

The average dividend payment since the inception of the PFD program, adjusted for inflation, is $1,700.[17] The largest dividend Alaskans received, adjusted for inflation, was $2864 in 2000.[18] The smallest, adjusted for inflation, was $801 in 1984.[19]

Statutory PFD under Current FY2020 Budget

Distribution of $3000 PFD and FY2020 Budget Consequences

- POMV revenue (drawn from ERA): $2.93 billion[20]
- Amount required for PFDs, if funded at statutory $3,000 payout: $1.94 billion[21]
  - ➔ POMV remaining for government: $990 million
- Unrestricted revenue (derived primarily from oil): $2.30 billion[22]
  - ➔ Total funds available for government: $3.29 billion
- Amount needed for operating and capital budgets, absent any vetoes and assuming capital budget fund source changes occur: $4.65 billion[23]
  - ➔ Additional funds needed to fill budget gap: $1.36 billion

Options to Fill FY2020 Budget Gap

1. $700 million (approximate) in budget reductions still obtainable this year through vetoes

2. Available Fund Sources[24]
   - 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*

---

[16] *Id.* (citing Watson, et al., *supra* note 15). [Appendix E]
[17] *See* Legislative Research Services, Alaska Permanent Fund Dividend Amounts Adjusted for Inflation to 2018 Dollars (June 2019). [Appendix F]
[18] *Id.* [Appendix F]
[19] *Id.* [Appendix F]
[20] *See* Department of Revenue, Tax Division, Spring 2019 Revenue Forecast, at 7. (On File with Office of Senator Shelley Hughes)
[21] *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]
[22] *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)
[23] *See* Legislative Finance Division, LFD Fiscal Model, Full Statutory PFD – Current FY20 Budget, at page 2 (FY20 "UGF Budget") (June 25, 2019). [Appendix L]
[24] Account balances confirmed by Legislative Finance Division on 6/27/19. (On File with Office of Senator Shelley Hughes)

The $1.36 billion budget shortfall could be funded from with the SBR ($172 million) and/or the CBR ($2.27 billion) or potentially with a portion taken from the Higher Ed Fund ($340 million). A $1.36 billion draw from one or a combination of these sources would leave a combined balance of $1.42 billion of these three fund sources.

**Additional Draw from ERA:*
Taking an additional $1.36 billion from the ERA would violate a statutory restriction on the amount of Permanent Fund income that may be withdrawn. Increasing the draw from $2.93 billion to $4.25 billion would equal to a 7.6% POMV draw which is 2.33% above the 5.25% allowed under AS 37.13.140(b) for FY2020, and the size of a draw this large could reduce future earnings. It also would violate the 50/50 split principle under the distribution of income and traditional formula statutes (AS 37.13.140(a) and AS 37.13.145(b)) as it would apply a larger amount of the income to government than to the PFD distribution. Not only is it inadvisable to take an additional draw from the ERA this year, it would be unnecessary in light of the reductions and the account amounts still available for appropriation, noted in the table above.

PLEASE NOTE: In addition to presenting the short-term financials below for a full $3000 statutory PFD based on the current budget, the following in the Appendix:

1. *Short-term financials for a full statutory PFD based on a FY2021 (Barnhill) right-sized budget* [Appendix G]
2. *Short-term financials for a 50/50 POMV PFD based on current FY2020 budget* [Appendix H]
3. *Short-term financials for a 50/50 POMV PFD based on a FY2021 (Barnhill) right-sized budget* [Appendix I]

Sustainability of Statutory PFD FY2021 and Beyond

The PFD amount calculated under the statutory formula is "sustainable." Governor Hammond and the 1982 enacting legislature devised the PFD formula specifically to provide the people with a direct payment of *half* of the calculated Permanent Fund income available for distribution—leaving the other half free for general government purposes.[25] That statutory formula was intended to effect mandatory PFD funding levels,[26] so the PFD would "take priority" over government programs that tend to "convey hidden 'dividends' to a favored few at the collective cost to all Alaskans."[27] Only once when Governor Bill Walker attempted to veto PFD funding levels in 2016 was the fortitude of the formula ever tested, with the Alaska Supreme Court deciding the program "must compete" annually as if any other budget appropriation.[28]

Even if the legislature is now technically permitted to cut dividends, that does not mean that it should. The legislature was always expected to maintain the PFD as statutorily calculated, and to seek cuts or more sensible revenue to *pay for government* when necessary.[29]

---

[25] *See* Ch. 102, § 1, SLA 1982 ("[E]ach year the commissioner shall transfer to the dividend fund *50 percent* of the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year and available for distribution." (emphasis added)).

[26] *See* Jay S. Hammond, Official Election Pamphlet, Statement of Opposition (1999), *available at* https://www.elections.alaska.gov/doc/oep/1999/constmt.htm ("Make no mistake, *the existing law sets your current dividend amount*." (emphasis added)); s*ee also* Jay Hammond, DIAPERING THE DEVIL: A LESSON FOR OIL RICH NATIONS 48, 2d Ed. (2011) (elucidating Hammond's thoughts on a possible POMV draw whereby "the use of no more than 40% of the money appropriated from the fund for government services might be acceptable, *so long as dividends will be no less than under the status quo*" (emphasis added)). (On File with Office of Senator Shelley Hughes)

[27] Jay Hammond, Governor, Letter to Al Adams, House Finance Committee Chairman (Apr. 1, 1982). [Appendix J]

[28] *Wielechowski v. State*, 403 P.3d 1141, 1152 (Alaska 2017). (On File with Office of Senator Shelley Hughes)

[29] *See* House Finance Committee, Committee Letter of Intent HCS CSSB 842, Minutes of House Finance Committee, Senate Bill 842, at 736 (May 14, 1982) (emphasis added) ("[T]he payment of dividends *shall have first call* on 50 percent of the income of the Permanent Fund available for distribution, *regardless of what other uses the income is put to*." (emphasis added)). [Attachment K] *See also* Jay S. Hammond, Official Election Pamphlet,

Without exceeding the POMV draw,[30] the legislature should adhere to the statutory dividend formula and re-prioritize the PFD—deducting it from the POMV—then make wise decisions on other fiscal options like additional budget cuts or more sensible revenue to address government's needs. As discussed, as the budget stands today at $4.61 billion UGF with PFDs left unfunded, for statutory $3,000 PFDs, the state could depend on the SBR and the CBR through this year to cover a shortfall.[31]

Next year, the legislature must plan to "right-size" government with new cuts without harming essential services. The Office of Management and Budget (OMB) has provided a target total UGF budget number of $3.6 billion[32]—representing nearly $1.3 billion in cuts to the operating budget, but maintaining the approximately $200 capital budget. With these appropriate cuts, the state would likely not need to depend on new revenue until FY2024, and even then only in relatively modest sums of hundreds of millions instead of billions as under the current budget.[33]

PLEASE NOTE: The following are included in the Appendix

1. *Long-term Projections for a full statutory PFD based on current FY2020 budget* [Appendix L]
2. *Long-term Projections for a full statutory PFD based on a FY2021 (Barnhill) right-sized budget* [Appendix M]
3. *Long-term Projections for a 50/50 POMV PFD based on current FY2020 budget* [Appendix N]
4. *Long-term Projections for a 50/50 POMV PFD based on a FY2021 (Barnhill) right-sized budget* [Appendix O]

Other Potential Revenue Ideas

The following are not recommended by this paper or the author, but in the future, to continue to pay the statutory dividend, if the budget is not adequately reduced and/or oil revenues stay at low levels or drop, the following could be explored:

- *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*
- *A 2% flat income tax of adjusted gross income for $500 million*
- *$1/gallon added to motor fuel tax for $500 million*

Closing Remarks

The following are additional observations, based on the breadth of research conducted while working on this assignment, concerning present and historic policy rationales for providing for full PFDs as statutorily calculated, and protecting those payments into the future.

Statement of Opposition (1999), *available at* https://www.elections.alaska.gov/doc/oep/1999/constmt.htm (stating in 1999, when considering whether to use the Permanent Fund earnings to pay for government, that: "Liberals realize once Fund earnings are accessed, pressure to extract new sources of wealth to offset even more regressive future dividend 'taxes' will evaporate. Conservatives, on the other hand, know pressure to cut spending will disappear. Certainly most legislators won't support new income, spending cuts or more innovative approaches to balancing the budget if allowed to use fund earnings instead."). (On File with Office of Senator Shelley Hughes)

[30] 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)]."

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

[32] (On File with Office of Senator Shelley Hughes)

[33] *See* Legislative Finance, LFD Fiscal Model, Full Statutory PFD – (Barnhill) Right-sized Budget ($1.3 Billion Cut), at page 2 (June 25, 2019). [Appendix M]

As discussed, the PFD provides social and economic benefits to Alaskans, particularly Alaskan families. Research clearly shows that reducing or ending the PFD would have negative consequences. Accordingly, preserving the full statutory PFD will result in higher overall Alaska income, greater rates of reduced poverty, growth of small businesses, healthier families, and would lower costs for Alaskan families than if those same dollars were used to fund government. The PFD was designed as Alaskans' direct, equitable "shareholder" benefit of their resource wealth—unlike dollars spent on government projects and programs which frequently benefit special interests.[34]

Economically, a PFD dollar funneled through government diminishes in value and falls short of the maximum benefit of those resources. A PFD dollar in the hands of a private citizen multiplies in value to grow our state's economy.

Probably the most significant economic impact of all is that the PFD, and the priority and steadiness of the annual payments, have caused Alaskan shareholders to become watchdogs over the Permanent Fund, successfully protecting it from politician's spending over the years.[35]

As demonstrated in this paper, the budget gap can be reasonably closed by a combination of reductions and other funds available for appropriation, without expanding the draw on the Earnings Reserve, without jeopardizing the Permanent Fund's growth, and without reducing the PFD. As shown in out years, a right-sized budget can pay a full statutory PFD, with a need to seek only modest increases in revenue.[36]

Additionally, the erosion of the public's trust in elected leaders, due to the recent disregard for the historic statutory PFD formula, calls for the legislature this year to proactively change the dynamic by adhering to the PFD law as written. It is recommended that the legislature follow the PFD statutory law, pay the dividend, and fund operating and capital budgets for FY2020.

Since its inception, the funding of the dividend was never intended to be part of the operating and capital budget equation and discussion; it was intended to receive "first call" from the Fund earnings and was off-limits to politicians, just like the corpus of the Fund.[37] The recent tug-of-war in the legislature over the amount of the

---

[34] *See* Governor Jay S. Hammond, Statement to Alaskans, Permanent Fund Dividend Application (1980) ("This distribution of resource wealth directly to the people of Alaska who really own it, instead of spending it all for more government, is the fulfillment of a dream for those of us who have worked long and hard to achieve it. My only regret is that it has taken so long for us to permit you to choose how at least of a portion of your resource wealth is spent, rather than having those choices all made for you by government. Spend it wisely as <u>you</u> choose." (emphasis in original)) [Attachment P]; Jay Hammond, DIAPERING THE DEVIL: A LESSON FOR OIL RICH NATIONS 16-17, 2d Ed. (2011) ("In the past [before inception of the PFD program], those who knew how to play the game were able to secure subsidies for their pet projects, many times at the collective expense of all other Alaskans.") (On File with Office of Senator Shelley Hughes); Testimony of Representative Terry Gardiner before the Senate Finance Committee (Apr. 8, 1982) ("State spending does not benefit all residents equally," whereas, "[a] permanent fund dividend would ensure that everyone gets something."). (On File with Office of Senator Shelley Hughes)

[35] 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). (On File with Office of Senator Shelley Hughes)

[36] *See* Legislative Finance, LFD Fiscal Model, Full Statutory PFD – (Barnhill) Right-sized Budget ($1.3 Billion Cut), at page 2 (June 25, 2019). [Appendix O]

[37] "[T]he payment of dividends *shall have first call* on 50 percent of the income of the Permanent Fund available for distribution, *regardless of what other uses the income is put to*." House Finance Committee, Committee Letter of Intent HCS CSSB 842, Minutes of House Finance Committee, Senate Bill 842, at 736 (May 14, 1982) (emphasis added). [Attachment K] The PFD program "should take priority over such programs as subsidized loans, revenue sharing, and any number of existing government programs which now convey hidden 'dividends'

annual dividend is largely attributed to two philosophical perspectives: *(1) the budget itself is unsustainable and needs to be reduced to exist within the current level of revenues; and (2) the PFD is unsustainable and must be changed in order to fund government.*

By design, neither the statutory PFD or the historic statutory draw are unsustainable; the draw for the PFD is from the earnings and can never diminish the corpus, not even by one penny. In addition, a number of lawmakers have forgotten the foundational principles and reasons why the PFD was established which still ring true today,[38] and instead view the PFD as a source of revenue, which it was never intended to be.

To restore public trust, to put focus back where it needs to be (on the budget instead of the PFD), to halt what has become an annual legislative battle, the legislature should work together with the people of Alaska to come to an agreement on a sustainable budget path forward and to settle the matter of the PFD in a constitutional amendment.

Ultimately, Alaskans will have the final say on such an important issue that directly impacts each and every resident. If changes are made with which the people do not agree, a referendum may be pursued by citizens; in addition, discussions around the necessity of calling a Constitutional Convention are underway. It would be foolish not to allow the people of Alaska to weigh in on a Constitutional Amendment on the PFD. Otherwise, we can expect this perennial problem plaguing the state to continue to consume focus and rob our state of important progress in areas of economic development, education, crime reduction, and other issues vital to ensuring Alaska continues to be a great place to live.

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

---

to a favored few at a collective cost to all Alaskans." Jay Hammond, Governor, Letter to Al Adams, House Finance Committee Chairman (Apr. 1, 1982). [Appendix J]

[38] *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. IIIX, § 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)