HOUSE BILL NO. 245

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/19/16
Referred: Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to the Alaska permanent fund; relating to appropriations to the dividend fund; relating to income of the Alaska permanent fund; relating to the earnings reserve account; relating to the Alaska permanent fund dividend; making conforming amendments; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*** Section 1.** AS 37.13.010(a) is amended to read:

(a) Under art. IX, sec. 15, of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease **<u>bonuses,</u>** rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state [FROM MINERAL LEASES ISSUED ON OR BEFORE DECEMBER 1, 1979, AND 25 PERCENT OF ALL BONUSES RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED ON OR BEFORE FEBRUARY 15, 1980];

(2) **<u>unless required to maintain the target balance of the earnings reserve account under AS 37.13.145, an additional 24.5</u>** [50] percent of all mineral lease **<u>bonuses,</u>** rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state**<u>;</u>**

<u>(3) except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska and unless required to maintain the target balance of the earnings reserve account under AS 37.13.145, 100 percent of oil and gas production taxes collected by the Department of Revenue under AS 43.55.011 - 43.55.180 may be appropriated to the Alaska permanent fund</u> [FROM MINERAL LEASES ISSUED AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15, 1980]; and

<u>(4)</u> [(3)] any other money appropriated to or otherwise allocated by law or former law to the Alaska permanent fund.

*** Sec. 2.** AS 37.13.010 is amended by adding a new subsection to read:

(d) In this section "target balance" is calculated under AS 37.13.145(*l*).

*** Sec. 3.** AS 37.13.140 is amended to read:

Sec. 37.13.140. Income. Net income of the fund includes income of the earnings reserve account established under AS 37.13.145. Net income of the fund shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. [INCOME AVAILABLE FOR DISTRIBUTION EQUALS 21 PERCENT OF THE NET INCOME OF THE FUND FOR THE LAST FIVE FISCAL YEARS, INCLUDING THE FISCAL YEAR JUST ENDED, BUT MAY NOT EXCEED NET INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS THE BALANCE IN THE EARNINGS RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

*** Sec. 4.** AS 37.13.145(b) is amended to read:

(b) At the **<u>beginning</u>** [END] of each fiscal year, **<u>and subject to appropriation,</u>** the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, **<u>an amount equal to</u>** 50 percent of **<u>all</u>**

<u>mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state during the prior fiscal year</u> [THE INCOME AVAILABLE FOR DISTRIBUTION UNDER AS 37.13.140].

*** Sec. 5.** AS 37.13.145(c) is amended to read:

(c) **<u>If, following</u>** the transfer under (b) of this section**<u>, the balance of the earnings reserve account exceeds the target balance</u>**, [AFTER] the corporation**<u>, subject to appropriation,</u>** shall transfer from the earnings reserve account to the principal of the fund an amount **<u>equal to the difference between the balance of the earnings reserve account and the target balance</u>** [SUFFICIENT TO OFFSET THE EFFECT OF INFLATION ON THE PRINCIPAL OF THE FUND DURING THAT FISCAL YEAR]. However, none of the amount transferred shall be applied to increase the value of that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on July 1, 2004. [THE CORPORATION SHALL CALCULATE THE AMOUNT TO TRANSFER TO THE PRINCIPAL UNDER THIS SUBSECTION BY

(1) COMPUTING THE AVERAGE OF THE MONTHLY UNITED STATES CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS FOR EACH OF THE TWO PREVIOUS CALENDAR YEARS;

(2) COMPUTING THE PERCENTAGE CHANGE BETWEEN THE FIRST AND SECOND CALENDAR YEAR AVERAGE; AND

(3) APPLYING THAT RATE TO THE VALUE OF THE PRINCIPAL OF THE FUND ON THE LAST DAY OF THE FISCAL YEAR JUST ENDED, INCLUDING THAT PORTION OF THE PRINCIPAL ATTRIBUTED TO THE SETTLEMENT OF STATE V. AMERADA HESS, ET AL., 1JU-77-847 CIV. (SUPERIOR COURT, FIRST JUDICIAL DISTRICT).]

*** Sec. 6.** AS 37.13.145 is amended by adding new subsections to read:

(e) Except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska, if, following the transfer in (b) of this section, the balance of the earnings reserve account is less than the target balance, up to 100 percent of the money collected by the Department of Revenue, within the fiscal year, under the oil and gas production tax, AS 43.55.011 - 43.55.180, may be appropriated to the earnings reserve account. Any portion of these funds not required to bring the earnings reserve account balance to the target balance may be appropriated to the principal of the fund.

(f) If, following the transfer under (b) of this section, the balance of the earnings reserve account is less than the target balance, up to 24.5 percent of all mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state may be appropriated to the earnings reserve account. Any portion of these funds not required to bring the earnings reserve account balance to the target balance may be transferred to the principal of the fund.

(g) In addition to the funds appropriated under (f) of this section, 50 percent of all mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral resource sharing payments received by the state may be appropriated to the earnings reserve account.

(h) Each fiscal year and subject to appropriation, the corporation shall transfer from the earnings reserve account to the general fund the sustainable draw amount under (i) of this section.

(i) The sustainable draw amount may not exceed $3,300,000,000 for a fiscal year. Except that, beginning in fiscal year 2020, the sustainable draw amount may be adjusted for inflation. The commissioner of revenue shall calculate the inflation rate by computing the

(1) average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years; and

(2) percentage change between the first and second calendar year average.

(j) The commissioner of revenue may recommend that the sustainable draw under (i) of this section be adjusted based on a sufficiency of assets review conducted in calendar year 2017, in calendar year 2020, and every four years thereafter. The commissioner of revenue shall consult with the board in conducting the review. The commissioner shall issue a report evaluating the sufficiency of assets in the earning reserve account and anticipated revenue to meet the draw for the following four years and whether it is more likely than not that the real value of the permanent fund assets will be less in 20 years than at the beginning of fiscal year 2017. To calculate the sufficiency of assets, the report shall use

(1) as adopted by the board, a 10-year forecast of net income of the fund including income of the earnings reserve account, as defined in AS 37.13.140, and a 10-year forecast of total income of the fund including the earnings reserve account that includes unrealized gains or losses;

(2) a forecast of natural resource revenues by the Department of Revenue;

(3) the balance of the earnings reserve of the Alaska permanent fund, including unrealized gains and losses;

(4) the balance of the principal of the Alaska permanent fund, including unrealized gains and losses;

(5) historical and forecasted inflation; and

(6) any additional factors the commissioner of revenue determines are relevant.

(k) The commissioner of revenue shall submit the sufficiency of assets report to the president of the senate and the speaker of the house of representatives. The report, supporting modeling and calculations and data input, including the information relied on by the board for the return forecasts, shall be made available to the public. The supporting modeling shall be provided in its native file format, except that any confidential tax information may be provided in aggregate form.

(*l*) In this section,

(1) "sustainable draw amount" means an amount of money to be appropriated in a fiscal year from the earnings reserve account to the general fund;

(2) "target balance" is equal to four times the prior year's sustainable draw from the earnings reserve account.

*** Sec. 7.** AS 37.13.300(c) is amended to read:

(c) Net income from the mental health trust fund may not be included in the computation of net income [AVAILABLE FOR DISTRIBUTION] under AS 37.13.140.

*** Sec. 8.** AS 43.55.080 is amended to read:

Sec. 43.55.080. Collection and deposit of revenue. (a) Except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska, the **<u>money collected by the</u>** department [SHALL DEPOSIT IN THE GENERAL FUND THE MONEY COLLECTED BY IT] under AS 43.55.011 - 43.55.180 **<u>may be appropriated to the permanent fund under AS 37.13.010 and 37.13.145</u>**.

*** Sec. 9.** The uncodified law of the State of Alaska is amended by adding a new section to read:

2016 PERMANENT FUND DIVIDEND. Notwithstanding any other provision in this Act or other applicable law, the permanent fund dividend for each eligible individual for calendar year 2016 shall be $1,000.

*** Sec. 10.** This Act takes effect July 1, 2016.