

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	HCS CSSB 26 (FIN)
Fiscal Note Number:	12
(H) Publish Date:	4/12/2017

Identifier: SB026CS(FIN)-PF-ERA-04-10-17  
 Title: APPROP LIMIT & PER  
 FUND:DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: HOUSE FINANCE

Department: Permanent Fund ERA Appropriations  
 Appropriation: PF ERA Appropriations  
 Allocation: To General Fund (Revenue)  
 OMB Component Number: 3121

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>OPERATING EXPENDITURES</b>	<b>FY 2018</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous		1,693,000.0	1,788,000.0	1,775,000.0	1,816,000.0	1,853,000.0	1,898,000.0
<b>Total Operating</b>	<b>0.0</b>	<b>1,693,000.0</b>	<b>1,788,000.0</b>	<b>1,775,000.0</b>	<b>1,816,000.0</b>	<b>1,853,000.0</b>	<b>1,898,000.0</b>

## Fund Source (Operating Only)

1041 PF ERA (UGF)		1,693,000.0	1,788,000.0	1,775,000.0	1,816,000.0	1,853,000.0	1,898,000.0
<b>Total</b>	<b>0.0</b>	<b>1,693,000.0</b>	<b>1,788,000.0</b>	<b>1,775,000.0</b>	<b>1,816,000.0</b>	<b>1,853,000.0</b>	<b>1,898,000.0</b>

## Positions

Full-time							
Part-time							
Temporary							

## Change in Revenues

1250 UGF Rev (UGF)		1,693,000.0	1,788,000.0	1,775,000.0	1,816,000.0	1,853,000.0	1,898,000.0
<b>Total</b>	<b>0.0</b>	<b>1,693,000.0</b>	<b>1,788,000.0</b>	<b>1,775,000.0</b>	<b>1,816,000.0</b>	<b>1,853,000.0</b>	<b>1,898,000.0</b>

**Estimated SUPPLEMENTAL (FY2017) cost:** 0.0 (separate supplemental appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2018) cost:** 0.0 (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version:

Updated to HFIN CS - This revised fiscal note reflects the gross payout of \$2,526,000.0 to the general fund. Of this amount, \$833,000.0 would be paid for dividends (included in a separate fiscal note for the Permanent Fund Dividend agency/appropriation). Therefore, the net revenue to the general fund is \$1,693,000.0.

Prepared By: Jerry Burnett, Deputy Commissioner  
 Division: Commissioner's Office  
 Approved By: Randall Hoffbeck, Commissioner  
 Agency: Department of Revenue

Phone: (907)465-3669  
 Date: 04/10/2017 11:00 AM  
 Date: 04/10/17

**REPORTED OUT OF  
HFC 04/11/2017**

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

Analysis

This legislation makes several changes to various aspects of the Permanent Fund program, including changes to the dividend calculation, changes to how Fund earnings are used, and changes to how royalty revenue is shared among various governmental funds. All amounts shown are based on a combination of the Department of Revenue's Fall 2016 revenue forecast and assumptions used by the Office of Management and Budget for development of the FY 2018 budget proposal. For purposes of this fiscal note the impacts are shown beginning with FY 2018.

One provision of this legislation is to reduce the share of minerals bonuses, rents, and royalties that are deposited to the Permanent Fund from 50% to 25% for certain leases. The Alaska Constitution mandates that 25% of all minerals bonuses, rents, and royalties be deposited into the Permanent Fund. However, for leases issued after February 15, 1980, a higher 50% of bonuses, rents, and royalties are deposited into the Permanent Fund. This legislation would reduce the contribution rate to the Permanent Fund for those leases to the constitutionally mandated 25%. Based on the Department of Revenue's Fall 2016 production and price assumptions, this provision of the bill would increase deposits to the General Fund by approximately \$55 million to \$77 million annually, while reducing royalty deposits to the Permanent Fund principal by the same amount.

From July 1, 2018 to July 1, 2020 the bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25 percent of the average market value of the fund, including the earnings reserve, for the first five of the preceding six fiscal years. This POMV amount changes to 5 percent on July 1, 2020. This draw would be allocated between the Dividend Fund and the General Fund. Based on the Fall 2016 revenue forecast for royalty deposits (only the constitutionally mandated 25%), this provision of the bill would increase deposits to the General Fund by approximately \$2,526 million to \$2,940 million annually. This legislation would reduce the balance of the Permanent Fund Earnings Reserve Account by the same amount each year. But is expected to preserve the overall inflation adjusted value of the Permanent Fund.

This legislation would also modify how dividends are calculated and funded. The annual Permanent Fund Dividend to eligible Alaskans would be funded by appropriation from the Earnings Reserve Account. The appropriation for dividends would be based on a 33% of the calculated maximum transfer from the Permanent Fund ERA.

CS SB 26 version U Fiscal Note (\$ millions): Median output from probabilistic model run 9:30 AM 4/10/17

FY	Market value (first 5 of previous 6 years average)	Percentage used	Total POMV payout	Dividend funds	Dividend calculation	Royalties beyond 25% dedication*
2018	\$48,109	5.25%	\$2,526	\$833	33% of previous year's POMV or \$1250 * number of recipients	54.9
2019	\$50,844	5.25%	\$2,669	\$881	33% of previous year's POMV or \$1250 * number of recipients	62.2
2020	\$53,002	5.00%	\$2,650	\$875	33% of previous year's POMV	70.3
2021	\$54,204	5.00%	\$2,710	\$894	33% of previous year's POMV	77.0
2022	\$55,321	5.00%	\$2,766	\$913	33% of previous year's POMV	75.9
2023	\$56,632	5.00%	\$2,832	\$934	33% of previous year's POMV	75.3

For dividends, FY 2019 number reflects dividends paid in CY 2018, and so on.

FY 2018 dividend funds are assumed to be the same as FY 2019.

\*Source: 2016 Fall RSB table 1-1

These numbers represent DOR's projection of royalties (petroleum and non-petroleum) that would be deposited into the Permanent Fund above the 33% constitutional requirement under the status quo. SB 26 reduces the royalty deposits to the constitutional requirement.