

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version:	CSSB 26(FIN)
Fiscal Note Number:	8
(S) Publish Date:	3/13/2017

Identifier: SB26CS(FIN)-DOR-TAX-03-10-17
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Senate Finance

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

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
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

1250 UGF Rev (UGF)		2,573,300.0	2,742,500.0	2,884,100.0	2,835,800.0	2,916,700.0	3,015,000.0
1251 Non-UGF (Other)		(2,573,300.0)	(2,742,500.0)	(2,884,100.0)	(2,835,800.0)	(2,916,700.0)	(3,015,000.0)
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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 If yes, by what date are the regulations to be adopted, amended or repealed?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:

Senate Finance Committee Substitute made changes to the draw amount starting in FY18. Updated note to reflect changes.

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

Phone: (907)465-3669
 Date: 02/24/2017 12:00 PM
 Date: 02/24/17

**REPORTED OUT OF
SFC 03/12/2017**

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. These changes do not directly impact revenue received by the Tax Division, but this fiscal note has been prepared in an attempt to represent all changes as a result of this legislation in a single fiscal note. 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 mineral 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 \$2,518.4 million to \$2,939.7 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.

In total, revenues to the General Fund would be increased by \$2,573 to \$3,015 million annually based on the stated assumptions. Additional FY2018 UGF revenue is broken out as follows:

5.25% POMV Draw from the ERA: \$2,518 million

Royalties previously deposited into the Permanent Fund: \$54.9 million

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 General Fund, instead of by appropriation from the Earnings Reserve. Therefore, a portion of the additional General Fund revenue described above would be used to pay annual dividends. For FY18, FY19 and FY20 the dividend is set at \$1,000 per person. Starting in FY21 the appropriation for dividends would be based on 25% of the calculated maximum transfer from the Permanent Fund to the General Fund.