

STATE OF ALASKA

DEPARTMENT OF REVENUE

JAY S. HAMMOND, GOVERNOR

POUCH SA - JUNEAU 99811

April 2, 1976

The Honorable Kathryn Poland
Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol Building
Juneau, AK 99801

Dear Senator Poland:

re CSS HJR No. 39 am

Committee Substitute for Sponsor Substitute for House Joint Resolution No. 39 am, proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent fund for certain proceeds derived from non-renewable resources, was introduced in the Senate on March 26, 1976 and was referred to the Senate Resource and Finance Committees.

For the consideration of the Senate Resources Committee, I am enclosing a copy of a Fiscal Note and accompanying memorandums and schedules prepared by Lawrence C. Eppenbach, Deputy Commissioner, Treasury, Department of Revenue advising of impact on the General Fund and costs of administration.

If you or any members of the Senate Resources Committee have any questions on the material submitted, please telephone the writer at 465-2397 and I will contact Mr. Eppenbach for further information or testimony at a hearing.

Very truly yours,

R.D. Stevenson
Special Assistant

RDS:ib

cc The Honorable Bill Ray
Chairman
Senate Finance Committee

Lawrence C. Eppenbach
Deputy Commissioner, Treasury
Department of Revenue

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
 Second Session - Ninth Legislature

I. REQUEST

Bill No. CSSS HJR No. 39 am
 Title: Permanent Fund Resolution
 Requested by: Senate Resources Date: March 30, 1976
 Return Date Requested: _____
 Agency: Department of Revenue Program: State Investment Advisory
Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES		75.0				
200 TRAVEL		10.0				
300 CONTRACTUAL		100.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	185.0	-0-	-0-	-0-	-0-

The sum of \$185.0 is to be effective on the day after passage of this resolution.

B. FUNDING: (Thousands of dollars)

GENERAL FUND	-0-	185.0	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT / TEMPORARY	/	2 / 1	/	/	/	/
MAN MONTHS (P / T)	/	100 / 100	/	/	/	/

THE LEGISLATURE OF THE STATE OF ALASKA

FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. CSSS AIR No. 39 am
 Title: Permanent Fund Resolution
 Requested by: Senate Resources Date: March 30, 1976
 Return Date Requested: _____
 Agency: Department of Revenue Program: State Investment Advisory
 Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES		75.0				
200 TRAVEL		10.0				
300 CONTRACTUAL		100.0				
400 COMMODITIES						
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GENERAL FUND	-0-	185.0	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	2/ 1	/	/	/	/
MAN MONTHS (P./T.)	/	12/ 6	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attached

IV. ATTACHMENTS

Fiscal Note Comments; Department of Revenue Permanent and General Fund Projections; Prior Fiscal Notes

V. DATE: 2 April 76 PREPARED BY: William C. Greenback

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

III. FISCAL NOTE ANALYSIS

This Fiscal Note displays the personal services and contractual research expenses to prepare bills for introduction to the next legislature that would implement the permanent fund. It incorporates the improvements contained in prior fiscal notes. It does not describe the longer term revenue impact of a permanent fund.

Personal services are for the two full-time research assistants and one part-time secretary to be selected by the legislative members of the State Investment Advisory Committee. The anticipated travel is chiefly between Juneau and Anchorage and for a planned meeting with officials of the Alberta Heritage Fund.

The contractual sum is to retain consultants, to be selected by the full Committee, for specialized information and analysis of alternative goals and structuring for the Alaska Permanent Fund. Areas for research are described in an attached memorandum.

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

<u>FISCAL YEAR</u>	<u>TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE CONTRIBUTION</u>	<u>TOTAL REVENUE SUBJECT TO PERMANENT FUND CONTRIBUTION</u>	<u>25% CONTRIBUTION TO PERMANENT FUND PER YEAR</u>	<u>PERMANENT FUND BALANCE</u>	<u>TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION</u>	<u>TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC</u>	<u>GENERAL FUND SURPLUS (DEFICIT)</u>	<u>GENERAL FUND BALANCE</u>
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	68.5	17.2	17.2	632.8	626.4	6.4	385.7
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FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.6	2875.7	2315.2	1500.0	815.2	3381.5

ASSUMPTIONS

NATIVE CLAIMS
(millions)

FY76 - \$ 6.4	FY77 - \$ 5.9	FY78 - \$ 71.6
FY79 - \$90.8	FY80 - \$124.6	FY81 - \$140.9
FY82 - \$59.8		

This is the payment schedule which is included in State Expenditures.

PROPERTY TAX
(millions)

FY76 - \$16.3 + \$70.1 = \$86.4	FY77 - \$70.1 + \$58.1 = \$128.2
FY78 - \$128.2 + \$23.9 = \$152.1	FY79 - \$152.1 + \$2.3 = \$154.4
FY 1980 = \$154.4	FY 1981 = \$154.4
	FY 1982 = \$148.2

The Petroleum industry property is depreciated at 4% per year from FY81 on.

The aforementioned assumes a move up in the effective payment date from Sept. to June. This is why the additional (+) revenues appear from FY76 to FY79.

BONUS SALES

No Anticipated Bonus Sale Receipts Included

RESERVE TAX CREDIT
(millions)

The Permanent Fund is calculated on the total reserve tax before the companies receive credits. This is in conformity with the intent of the bill.

Receipts \$220 in FY76	\$269 in FY77	for a total of \$489
Paybacks \$109.2 in FY78	\$142 in FY79	\$198.4 FY80
\$ 39.4 in FY81		

INTEREST RATES

The Permanent Fund earns 6% on the previous year's balance which is deposited in the General Fund.

The General Fund earns 6% on the previous year's balance which is deposited into the General Fund.

TARIFF RATES

(per barrel)

FY 78 - \$4.88	FY 79 - \$4.83	FY 80 - \$4.05
FY 81 - \$3.80	FY 82 - \$3.55	FY 83 - \$3.34
FY 84 - \$3.22	FY 85 - \$3.18	

WELLHEAD VALUES

(per barrel)

FY 78 - \$9.43	FY 79 - \$8.59	FY 80 - \$10.14
FY 81 - \$10.91	FY 82 - \$11.76	FY 83 - \$12.56
FY 84 - \$13.30	FY 85 - \$14.00	

THRUPUT FORECAST

(000)

FY 78 - 960	FY 79 - 1,360	FY 80 - 1,610
FY 81 - 1,700	FY 82 - 1,800	FY 83 - 1,900
FY 84 - 1,950	FY 85 - 1,950	

COST FACTORS

Capital	\$7.8 billion
Interest	\$1.55 billion
Working Capital	\$100 million

INFLATION

6% per annum during	FY 76 - FY 78
5% per annum during	FY 79 - FY 80
4% per annum during	FY 81 - FY 90

Original sponsor: Rules Committee by
request of the Governor

Offered: 3/24/76
Referred: Rules

1 IN THE HOUSE

BY THE JUDICIARY COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Alaska Con-
6 stitution, establishing an Alaska Permanent
7 Fund for certain proceeds derived from non-
8 renewable resources.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Section 7, Constitution of the State of Alaska,
11 is amended to read:

12 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
13 license shall not be dedicated to any special purpose, except as pro-
14 vided in section 15 of this article or when required by the federal
15 government for state participation in federal programs. This provision
16 shall not prohibit the continuance of any dedication for special pur-
17 poses existing upon the date of ratification of this constitution by the
18 people of Alaska.

19 . * Sec. 2. Article IX, Constitution of the State of Alaska, is amended by
20 adding a new section to read:

21 SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent
22 of all mineral lease rentals, royalties, ryalty sale proceeds, federal
23 mineral revenue sharing payments, bonuses, and all mineral production
24 taxes received by the state shall be placed in a permanent fund, the
25 principal of which shall be used only for these income producing invest-
26 ments specifically designated by law as eligible for permanent fund
27 investments. The legislature may appropriate additional amounts to the
28 permanent fund which shall become a part of the principal of the fund.
29 All income from the permanent fund shall be deposited in the general

1 fund unless otherwise provided by law.

2 * Sec. 3. The amendments proposed by this resolution shall be placed
3 before the voters at the next general election in conformity with art. XIII,
4 sec. 1, Constitution of the State of Alaska, and the election laws of the
5 state.

6 * Sec. 4. The amendments proposed by this resolution if adopted by the
7 voters at the next general election shall become effective 90 days after the
8 certification of the election returns by the lieutenant governor.

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH S - JUNEAU 99811

JAY S. HAMMOND, GOVERNOR

April 13, 1976

Honorable Kathryn Poland
Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol Building
Juneau, Alaska

Re: SCS CS SS HJR No. 39

Dear Senator Poland:

Senate CS for CS for Sponsor Substitute for House Joint Resolution No. 39, proposing an amendment to the Alaska Constitution, establishing an Alaska Permanent Fund for certain proceeds derived from nonrenewable resources, was referred to the Senate Resources Committee on April 7, 1976.

For the consideration of the Senate Resources Committee, I am enclosing a copy of a memorandum prepared by Lawrence C. Eppenbach, Deputy Commissioner, Treasury, Department of Revenue advising of effect on Treasury as well as a copy of an earlier Fiscal Note advising of costs of administration.

If you or any members of the Senate Resources Committee have any questions on the material submitted, please telephone the writer and I will contact Mr. Eppenbach for further information or testimony at a hearing.

Very truly yours,



R. D. Stevenson
Special Assistant

Enclosure

cc: The Honorable Bill Ray
Chairman
Senate Finance Committee

Lawrence C. Eppenbach
Deputy Commissioner, Treasury
Department of Revenue

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Special Assistant
Department of Revenue

DATE: April 13, 1976

FILE NO:

TELEPHONE NO:

FROM: Lawrence C. Eppenbach *LCE*
Deputy Commissioner, Treasury
Department of Revenue

SUBJECT: SCS CS SS HJR 39

I have reviewed the Senate State Affairs amendments to the Permanent Fund Resolution. This amendment adopts the House format but changes the percentage sharing formula from 25% of petroleum revenue to 50% of royalties, bonuses, and rentals. In other words, the severance tax is deleted from the sharing. The following table displays the dollar impact of this change using assumptions consistent with the petroleum revenue estimates attached to the original Fiscal Note:

	Millions of Dollars		
	25% Sharing Rate (includes Severance Tax)	50% Sharing of Royalty	Difference
FY 77	\$ 15.9	\$ 19.4	\$ 3.5
FY 78	172.2	224.1	51.9
FY 79	218.6	284.1	65.5
FY 80	299.8	390.0	90.2
FY 81	343.7	440.7	97.0
FY 82	381.6	500.5	118.9
FY 83	439.3	586.0	146.7
FY 84	482.8	634.7	151.9
FY 85	504.6	667.1	162.5
FY 86	529.4	705.0	175.6
Total 10 Years	<u>\$2,858.5</u>	<u>\$4,451.6</u>	<u>\$1,063.7</u>

A second major change is the provision for required reinvestment of 10% of the earnings of the fund. To illustrate the impact of this reinvestment requirement, we have calculated that beginning with a \$5 billion fund, then 20 years reinvestment of a tenth of a 6% return would increase the fund to \$5.64 billion. If the investment yield were to average 10% then the fund would grow to \$6.10 billion.

The amounts become more significant as the term of reinvestment increases. For example, the same conditions for 50 years would increase the fund to \$6.74 billion at 6% and \$8.22 billion at 10%.

Lastly, the State Affairs version of the Permanent Fund Resolution provides for additional legislative "dedication" of revenue without limitation. This is a massive change in the degree of authority to dedicate funds from that being sought in the original HJR 39. It may not even be what its author had intended. In any case, its effect cannot be measured.

LCE:ge

THE LEGISLATURE OF THE STATE OF ALASKA

FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. CSSS HJR No. 39 am
 Title: Permanent Fund Resolution
 Requested by: Senate Resources Date: March 30, 1976
 Return Date Requested: _____
 Agency: Department of Revenue Program: State Investment Advisory
 Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES		75.0				
200 TRAVEL		10.0				
300 CONTRACTUAL		100.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	185.0	-0-	-0-	-0-	-0-

The sum of \$185.0 is to be effective on the day after passage of this resolution.

B. FUNDING: (Thousands of dollars)

GENERAL FUND	-0-	185.0	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	2/ 1	/	/	/	/
MAN MONTHS (P./T.)	/	12/ 6	/	/	/	/

III ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attached

IV. ATTACHMENTS

Fiscal Note Comments; Department of Revenue Permanent and General Fund Projections; Prior Fiscal Notes

V. DATE: 2 April 76 PREPARED BY: William C. Gjenlach

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

III. FISCAL NOTE ANALYSIS

This Fiscal Note displays the personal services and contractual research expenses to prepare bills for introduction to the next legislature that would implement the permanent fund. It incorporates the improvements contained in prior fiscal notes. It does not describe the longer term revenue impact of a permanent fund.

Personal services are for the two full-time research assistants and one part-time secretary to be selected by the legislative members of the State Investment Advisory Committee. The anticipated travel is chiefly between Juneau and Anchorage and for a planned meeting with officials of the Alberta Heritage Fund.

The contractual sum is to retain consultants, to be selected by the full Committee, for specialized information and analysis of alternative goals and structuring for the Alaska Permanent Fund. Areas for research are described in an attached memorandum.

1 ture, but revocation may not make the principal amount in the permanent
2 fund subject to appropriation. Other income from the permanent fund
3 shall be deposited in the general fund.

4 * Sec. 3. The amendments proposed by this resolution shall be placed
5 before the voters at the next general election in conformity with art. XIII,
6 sec. 1, Constitution of the State of Alaska, and the election laws of the
7 state.

8 * Sec. 4. The amendments proposed by this resolution if adopted by the
9 voters at the next general election shall become effective 90 days after the
10 certification of the election returns by the lieutenant governor.

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE
Second Session - Ninth Legislature

I. REQUEST

~~*****~~ Joint Resolution - Permanent Fund

Title: _____

Requested by: Governor

Date: January 12, 1976

Return Date Requested: _____

Agency: Revenue

Program: State Investment Advisory
Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		150,000				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		150,000				

B. FUNDING: (Thousands of dollars)

GENERAL FUND		150,000				
FEDERAL FUNDS						
OTHER						

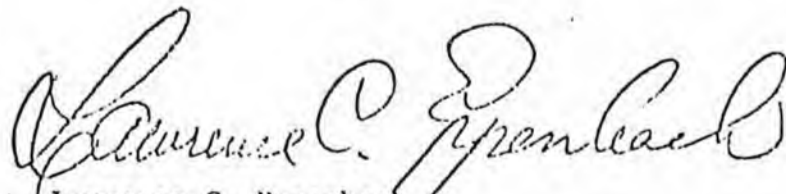
C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This fiscal note displays the reasonable minimum in research expenses to draft bills for introduction in the 1977 legislative session to implement the permanent fund. It does not describe the longer term revenue impact of such a fund.

IV. ATTACHMENTS



V. DATE: January 12, 1976 PREPARED BY: Lawrence C. Eppenbach

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

MEMORANDUM

TO: [

Sterling Gallagher
Commissioner
Department of Revenue

DATE : January 12, 1976

FROM:

Lawrence C. Eppenbach
Lawrence C. Eppenbach
Deputy Commissioner, Treasury
Department of Revenue

SUBJECT: Fiscal Note Comments -
Permanent Fund Concept

The proposed Constitutional initiative would establish a permanent fund composed of 10 percent of all mineral lease revenue and production taxes received by the State. The amendment calls for the fund to be invested in income yielding projects and investments, with the income transferred to the general fund.

The amendment language is broad in nature and a comprehensive piece of enabling legislation will be required to make the concept work. Many topics will have to be addressed by this enabling legislation such as the investment objectives, the creation of development financing institutions, new loan programs, and even the organizational framework. To study these questions and to have draft legislation ready for introduction at the beginning of the 1977 session will require research to commence right away. In addition, since the success of this fund will hinge on the quality of management personnel work must also proceed in identifying and recruiting qualified managers.

This fiscal note assumes that the present State Investment Advisory Committee will research and draft this legislation and that it will be completed by January 15, 1977. This Committee is presently responsible for advising the Commissioner of Revenue with respect to investments and its membership (legislative, executive, and public) is broadly representative of Alaskan interests.

The State Investment Advisory Committee does not have a permanent staff; this fiscal note would provide funds for securing the necessary research capability. In addition, new members may be appointed to the Committee to enhance its ability to undertake this responsibility. Even though the approach taken ultimately will be up to the Committee, the following outline might represent a typical plan. It divides the work into four phases:

1. Preliminary/Conceptual Research: Typical assignments would include a study of the experience of similar funds in other states; a thorough cataloging of Alaska's renewable and non-renewable resources; an examination of the need for credit expansion in Alaska; the evaluation of present loan programs; the identification of alternative administrative frameworks for the fund; and background data gathering on the State's financial position.

2. Economic Research: Work in this area might consist of the classification of present and potential revenue sources into recurring and non-recurring components; the identification of possible recurring revenue increments related to development activity, and the identification of environmental costs associated with that activity. This should provide a ranking of potential economic projects with respect to long term net economic benefit to Alaskans. Careful coordination with the development plans of Native Regional and Village Corporations, State authorities, municipal, and private sector corporations will be required.

3. Financial Research: Here the detail work begins in identifying alternative investments that may qualify for permanent fund participation. Each project would have to be ranked according to its ability to stimulate net recurring revenue benefits to the entire State. Measurements of the impact of fund operation on State budget expenditures would also have to be made.

4. Legal Research: Reviews of legal investments, the legal status of investing in quasi-public institutions, and the actual writing of proposed legislation would logically fall into this category.

LCF je
Enclosure

Proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources.

COMMITTEE REPORT

1/15/76

HOUSE

JUDICIARY

Mr. Speaker:

Date _____

The Committee on FINANCE has had SSHJR 39

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

(x) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

() recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>	_____	_____
<u>[Signature]</u>	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

HJR 31

I. REQUEST

~~*****~~ Joint Resolution - Permanent Fund

Title: _____

Requested by: Governor _____

Date: January 12, 1976

Return Date Requested: _____

Agency: Revenue _____

Program: State Investment Advisory
Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

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TOTAL		150,000				

B. FUNDING: (Thousands of dollars)

GENERAL FUND		150,000				
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

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IV. ATTACHMENTS

Lawrence G. Spennack

V. DATE: January 12, 1976 PREPARED BY: Lawrence G. Spennack

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

TO:

Sterling Gallagher
Commissioner
Department of Revenue

DATE January 12, 1976

FROM:

Lawrence C. Eppenbach
Lawrence C. Eppenbach
Deputy Commissioner, Treasury
Department of Revenue

SUBJECT: Fiscal Note Comments -
Permanent Fund Concept

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4. Legal Research: Reviews of legal investments, the legal status of investing in quasi-public institutions, and the actual writing of proposed legislation would logically fall into this category.

LCE:ge
Enclosure

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

ISCAL YEAR	TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE CONTRIBUTION	TOTAL REVENUE SUBJECT TO PERMANENT FUND CONTRIBUTION	25% CONTRIBUTION TO PERMANENT FUND PER YEAR	PERMANENT FUND BALANCE	TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION	TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC	GENERAL FUND SURPLUS (DEFICIT)	GENERAL FUND BALANCE
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	68.6	17.2	17.2	632.8	626.4	6.4	385.7
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FY79	1181.5	874.3	218.6	423.9	962.9	990.8	(27.9)	307.3
FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.5	2875.7	2315.2	1500.0	815.2	3381.5

ASSUMPTIONS

NATIVE CLAIMS (millions)

FY76 - \$ 6.4	FY77 - \$ 5.9	FY78 - \$ 71.6
FY79 - \$90.8	FY80 - \$124.6	FY81 - \$140.9
FY82 - \$59.8		

This is the payment schedule which is included in State Expenditures.

PROPERTY TAX (millions)

FY76 - \$16.3 + \$70.1 = \$86.4	FY77 - \$70.1 + \$58.1 = \$128.2	
FY78 - \$128.2 + \$23.9 = \$152.1	FY79 - \$152.1 + \$2.3 = \$154.4	
FY 1980 = \$154.4	FY 1981 = \$154.4	FY 1982 = \$148.2

The Petroleum industry property is depreciated at 4% per year from FY81 on.

The aforementioned assumes a move up in the effective payment date from Sept. to June. This is why the additional (+) revenues appear from FY76 to FY79.

BONUS SALES

No Anticipated Bonus Sale Receipts Included

RESERVE TAX CREDIT (millions)

The Permanent Fund is calculated on the total reserve tax before the companies receive credits. This is in conformity with the intent of the bill.

Receipts \$220 in FY76	\$269 in FY77	for a total of \$489
Paybacks \$109.2 in FY78	\$142 in FY79	\$198.4 FY80
\$ 39.4 in FY81		

INTEREST RATES

The Permanent Fund earns 6% on the previous year's balance which is deposited in the General Fund.

The General Fund earns 6% on the previous year's balance which is deposited into the General Fund.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

Hugh Malone

JAY S. HAMMOND, GOVERNOR

POUCH K - STATE CAPITOL
JUNEAU 99511

January 3, 1976

M E M O R A N D U M

TO: The Honorable Jay S. Hammond
Governor

FROM: Avrum M. Gross *by LMG*
Attorney General

RE: Proposed joint resolution calling for a
constitutional amendment establishing a
permanent fund.

Attached is the proposed joint resolution calling for a constitutional amendment to establish a permanent fund to which mineral leasing revenues would be dedicated.

In contrast to HJR 39 which you introduced last year, the attached resolution would establish a constitutional permanent fund into which 10 percent of all mineral leasing revenue and mineral production taxes would automatically be dedicated without further legislative action. Last year's resolution would simply have given the legislature the authority to establish a permanent fund by law which could be changed or repealed by subsequent legislatures.

The revenues that would be dedicated include mineral leasing rentals, royalties and bonuses. Questions do arise, however, as to some special circumstances. For example, what is to occur when the state takes its royalty in kind? Should 10 percent of the proceeds from the sale of royalties taken in kind be dedicated to the fund? I have assumed that this would be the case and have included language in the draft transmittal letter to clarify our intent in this respect.

Also, what is to occur if the state changes its leasing policy from the traditional bonus bidding with a 1/8 or 1/6 royalty to a royalty bidding arrangement with a nominal cash bonus with the state instead receiving a larger royalty share such as 50 percent? Again I have assumed that you have intended that a full 10% of this larger royalty

The Honorable Jay S. Hammond
Governor

January 3, 1976

- 2 -

share would be dedicated to the fund, and I have included language in the transmittal letter to state your position on this.

Also, what is to occur with respect to the revenue sharing which the state receives from federal mineral leasing? If this revenue is to be included, we should add some appropriate language in the resolution and in the transmittal letter to accomplish it.

Other revenue that would be dedicated to the fund would include mineral production taxes. I have assumed that this would only include the state's oil and gas properties production tax ("severance tax"), the oil and gas conservation tax (conservation tax), and the mining license tax regardless what form they may take in the future. Taxes that have not been included are the oil and gas exploration, production and pipeline property tax (20-mil property tax) and the oil and gas reserves ad valorem tax (reserve tax). If it is intended that these taxes should also be dedicated then the resolution and draft transmittal letter should be changed accordingly.

A question can be raised as to what amount of tax should be dedicated. For example, what is to occur with respect to any production taxes which the state must transmit to the Native Fund? Should 10 percent of taxes which the state receives and then transmits to the Native Fund be dedicated? I have assumed not and have so stated in the draft transmittal letter.

Also, what is to occur with respect to the production taxes which the state does not receive in cash but in effect receives through the application of accumulated "reserve tax" credits? For example, a taxpayer having a production tax liability of \$100,000 may credit his accumulated reserve tax against the production tax up to \$50,000 and only pay the remaining amount. Again, I have assumed that the production tax paid by the reserve tax credit would not be dedicated. If it is intended that more than just the net amount of cash tax revenue received by the state should be dedicated, then some additional changes should be made to the transmittal letter.

The resolution specifies that the fund will be used for investment only, with the legislature specifying the types of investment. A question has arisen whether the

The Honorable Jay S. Hammond
Governor

January 3, 1976

- 3 -

fund should be used to purchase obligations financing capital expenditures. For example, may the fund be used to purchase bonds issued to finance relocation of the capital? I have assumed this was not intended and have so stated in the transmittal letter.

If you wish to acknowledge, or go to the extent of withdrawing, the currently pending HJR 39, you may wish to add a comment on it in the transmittal letter to the legislature.

AMG:md:JRM

HOUSE JOURNAL

Tom Phelan

JOINT CHAIRMANS' REPORT ON
CS SSHJR 39

The Finance and Judiciary Committees of the House have each considered individually SS HJR 39, transmitted to the House by the Governor on January 15, 1976. The House Judiciary Committee, in unanimously adopting and reporting out a Judiciary Committee Substitute, incorporated amendments adopted by both the Finance and Judiciary Committees. CS SSHJR 39 is addressed in this joint report so that the intent of the constitutional amendment proposed by the resolution is clear.

The proposed constitutional amendment, which both committees view as of vital importance to the state, would establish an Alaska Permanent Fund into which 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses and all mineral production taxes would automatically be placed.

The committee substitute raises from 15 to 25 the percentage of nonrenewable resource revenue to be dedicated. This change was made after the committees' concurrence with the Governor that the 25 percent level of funding would allow flexibility in future budgeting of state expenditures even if the most conservative case for future state revenue projections proves true. On the other hand, sufficient income would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources.

The word "all" has been added before the words "mineral production taxes" in sec. 15 of the proposed constitutional amendment so that it is clear that all future taxes measured by mineral production or severance are included in this provision of the Constitution. The addition of the word "all" does not include property taxes. Examples of taxes included under sec. 15 include Oil and Gas Property Production Tax, AS 43.55 and the Oil and Gas Regulation and Conservation Tax, AS 43.57. Taxes which are not included are Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes, AS 43.56 and Oil and Gas Reserves Ad Valorem Tax, AS 43.58.

In regard to both mineral leasing and mineral production taxes, the amount to be placed in the Fund would be based upon the gross amount to be received by the state. Accordingly, twenty-five percent of the gross amount of these revenues would be paid into the fund even though a portion of these revenues will be paid into the Alaska Native Fund as required by law.

HOUSE JOURNAL

Joint Chairmans' Report on CS SSHJR 39

Page 2

In the event royalties are taken in kind, 25 percent of the proceeds from their sale would be placed in the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would be dedicated.

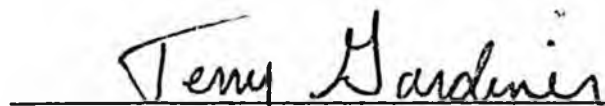
The principal of the Fund would be used only for investment in income-producing investments which the legislative would establish and change from time to time to meet the needs of the state. The Fund would come into existence and accumulate 25 percent of all nonrenewable source revenues received by the state 90 days after the certification of the 1976 election returns by the lieutenant governor. It is the purpose of the delayed effective date to allow the legislature to provide by law for an investment structure for the Alaska Permanent Fund.

The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the Fund's earnings -- ranging from adding to Fund principal to paying out a dividend to resident Alaskans.

The fiscal note provides for an interim study and development of alternative investment goals and structures for the Fund to be performed jointly by executive and legislative staff under the direction of the State Investment Advisory Committee.



HUGH MALONE
Chairman House Finance Committee



TERRY GARDINER
Chairman House Judiciary Committee

AMENDMENT

OFFERED IN THE HOUSE:

By: FINANCE COMMITTEE

To: _____ HOUSE BILL No. SSLR 39
SENATE BILL No. _____

1) PAGE: 1

LINE: Title

after "establishing" insert:

an ALASKA PERMANENT FUND *11-11*

2) 1

22

before PERMANENT FUND insert:

ALASKA

before "per cent" delete:

Ten

insert:

Twenty-five *11-11*

3) 1

23

before "revenue" insert:

federal mineral *11-11*

4) 1

26

after "investments" insert:

which shall be established
by law *11-11*

5) 1

29

after "fund" add:

unless otherwise provided
by law *11-11*

6) 3

5

add another section:

* Sec. 4. The amendments
proposed by this resolution
if adopted by the voters at
the next general election
shall become effective 90 days
after the certification of
the election returns by the
lieutenant governor. *11-11*

AMENDMENT

OFFERED IN THE HOUSE:

BY: FINNEN COMMITTEE

To: _____ HOUSE BILL No. 3323

SENATE BILL No. _____

PAGE: 1

LINE: 1010

after "established" insert:

the clause "..."

Section 1 of the Act shall read:

...

and the word "..."

...

Section 2 of the Act shall read:

...

Section 3 of the Act shall read:

...

Section 4 of the Act shall read:

...

Section 5 of the Act shall read:

...

Section 6 of the Act shall read:

...

Section 7 of the Act shall read: ...

Introduced: 1/15/76
Referred: Finance and
Judiciary

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the
6 Alaska Constitution, establishing
7 a permanent fund for certain pro-
8 ceeds derived from non-renewable
resources.

10 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. Article IX, Section 7, Constitution of the State of Alaska,
12 is amended to read:

13 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
14 license shall not be dedicated to any special purpose, except as pro-
15 vided in section 15 and except when required by the federal government
16 for state participation in federal programs. This provision shall not
17 prohibit the continuance of any dedication for special purposes exist-
18 ing upon the date of ratification of this constitution by the people
19 of Alaska.

20 * Sec. 2. Article IX, Constitution of the State of Alaska, is amended
21 by adding a new section to read:

22 SECTION 15. PERMANENT FUND. Ten per cent of all mineral lease
23 rentals, royalties, royalty sale proceeds, revenue sharing payments,
24 bonuses, and mineral production taxes received by the state shall be
25 placed in a permanent fund, the principal of which shall be used only
26 for income investments. The legislature may appropriate additional
27 amounts to the permanent fund which shall become a part of the principal
28 of the fund. All income from the permanent fund shall be deposited in
29 the general fund.

1 * Sec. 3. The amendments proposed by this resolution shall be placed
2 before the voters at the next general election in conformity with art.
3 XIII, sec. 1, Constitution of the State of Alaska, and the election laws of
4 the state.

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MAR 09 1976

JAY S. HAMMOND
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 8, 1976

The Honorable Hugh Malone
Chairman
House Finance Committee
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Chairman:

I recently evaluated information which enables me to make a recommendation on a percentage amount I consider appropriate to devote to the Permanent Fund. The figure I suggest is 25 per cent of nonrenewable resource revenues as described in Section 15 of the Sponsor Substitute for House Joint Resolution Number 39. At this juncture it should be noted that this figure is based on the most conservative case for revenue projections. This excludes future development of new oil, gas, and mineral discoveries.

I recommend this figure for the following reasons:

1. It allows flexibility in terms of State expenditure levels for the years ahead. The budget can be varied to adequately take care of the needs of Alaska.
2. It provides sufficient funding for major projects the State might wish to undertake.
3. It promotes the goal of economic diversification. The diversification of the economy would foster a broader tax base. The State's financial viability would be much improved.
4. It insures that future generations would benefit from the expected revenue situation.

My analysis is enclosed for your review.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jay S. Hammond".

Jay S. Hammond
Governor

Enclosure

cc: The Honorable Chancy Croft
President of the Senate

The Honorable Mike Bradner
Speaker of the House

AMENDMENT

#4

OFFERED IN THE HOUSE:

By: Smith

To: SSS H.R. 39 HOUSE BILL No. _____

SENATE BILL No. _____

PAGE: 1

LINE: 21

Delete "Twenty-five" & substitute "Seventy-five"

Line 23 insert "and" before "bonuses" & delete
all after "bonuses,"



AMENDMENT ~~117~~

OFFERED IN THE HOUSE:

By: Specking

To: CS SS HOUSE BM/L/No/ JR 39

SENATE BILL No. _____

PAGE: 1

LINE: 21

After "FUND." insert the words, "At least" and change "T" to "t".

Adopted

AMENDMENT

#3

OFFERED IN THE HOUSE:

By: URION

To: CSSS HJR 39 HOUSE BILL No. _____

SENATE BILL No. _____

PAGE: 1

LINE: 25

after "income producing investments" insert

which have a guaranteed rate of return and are

Urion

AMENDMENT #3

OFFERED IN THE HOUSE:

BY: URION

TO: CSSS HJR 39 HOUSE BILL No. _____

SENATE BILL No. _____

PAGE: _____

LINE: _____

page 1, line 29

after "general fund" insert a period (.) and
delete unless otherwise provided by law. on

page 2, line 1

Urion

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. CSSS HJR No. 39 am
 Title: Permanent Fund Resolution
 Requested by: Senate Resources Date: March 30, 1976
 Return Date Requested: _____
 Agency: Department of Revenue Program: State Investment Advisory
Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES		75.0				
200 TRAVEL		10.0				
300 CONTRACTUAL		100.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	185.0	-0-	-0-	-0-	-0-

The sum of \$185.0 is to be effective on the day after passage of this resolution.

B. FUNDING: (Thousands of dollars)

GENERAL FUND	-0-	185.0	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	2/ 1	/	/	/	/
MAN MONTHS (P./T.)	/	12/ 6	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attached

IV. ATTACHMENTS

Fiscal Note Comments; Department of Revenue Permanent and General Fund Projections; Prior Fiscal Notes

V. DATE: 20 April 76 PREPARED BY: Lawrence C. Greenback

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

III. FISCAL NOTE ANALYSIS

This Fiscal-Note displays the personal services and contractual research expenses to prepare bills for introduction to the next legislature that would implement the permanent fund. It incorporates the improvements contained in prior fiscal notes. It does not describe the longer term revenue impact of a permanent fund.

Personal services are for the two full-time research assistants and one part-time secretary to be selected by the legislative members of the State Investment Advisory Committee. The anticipated travel is chiefly between Juneau and Anchorage and for a planned meeting with officials of the Alberta Heritage Fund.

The contractual sum is to retain consultants, to be selected by the full Committee, for specialized information and analysis of alternative goals and structuring for the Alaska Permanent Fund. Areas for research are described in an attached memorandum.

10. [

Sterling Gallagher
Commissioner
Department of Revenue

DATE January 12, 1976

FROM:

Lawrence C. Eppenbach
Lawrence C. Eppenbach
Deputy Commissioner, Treasury
Department of Revenue

SUBJECT: Fiscal Note Comments -
Permanent Fund Concept

The proposed Constitutional initiative would establish a permanent fund composed of 10 percent of all mineral lease revenue and production taxes received by the State. The amendment calls for the fund to be invested in income yielding projects and investments, with the income transferred to the general fund.

The amendment language is broad in nature and a comprehensive piece of enabling legislation will be required to make the concept work. Many topics will have to be addressed by this enabling legislation such as the investment objectives, the creation of development financing institutions, new loan programs, and even the organizational framework. To study these questions and to have draft legislation ready for introduction at the beginning of the 1977 session will require research to commence right away. In addition, since the success of this fund will hinge on the quality of management personnel work must also proceed in identifying and recruiting qualified managers.

This fiscal note assumes that the present State Investment Advisory Committee will research and draft this legislation and that it will be completed by January 15, 1977. This Committee is presently responsible for advising the Commissioner of Revenue with respect to investments and its membership (legislative, executive, and public) is broadly representative of Alaskan interests.

The State Investment Advisory Committee does not have a permanent staff; this fiscal note would provide funds for securing the necessary research capability. In addition, new members may be appointed to the Committee to enhance its ability to undertake this responsibility. Even though the approach taken ultimately will be up to the Committee, the following outline might represent a typical plan. It divides the work into four phases:

1. Preliminary/Conceptual Research: Typical assignments would include a study of the experience of similar funds in other states; a thorough cataloging of Alaska's renewable and non-renewable resources; an examination of the need for credit expansion in Alaska; the evaluation of present loan programs; the identification of alternative administrative frameworks for the fund; and background data gathering on the State's financial position.

2. Economic Research: Work in this area might consist of the classification of present and potential revenue sources into recurring and non-recurring components; the identification of possible recurring revenue increments related to development activity, and the identification of environmental costs associated with that activity. This should provide a ranking of potential economic projects with respect to long term net economic benefit to Alaskans. Careful coordination with the development plans of Native Regional and Village Corporations, State authorities, municipal, and private sector corporations will be required.

3. Financial Research: Here the detail work begins in identifying alternative investments that may qualify for permanent fund participation. Each project would have to be ranked according to its ability to stimulate net recurring revenue benefits to the entire State. Measurements of the impact of fund operation on State budget expenditures would also have to be made.

4. Legal Research: Reviews of legal investments, the legal status of investing in quasi-public institutions, and the actual writing of proposed legislation would logically fall into this category.

Enclosure

ASSUMPTIONS

NATIVE CLAIMS (millions)

FY76 - \$ 6.4	FY77 - \$ 5.9	FY78 - \$ 71.6
FY79 - \$90.8	FY80 - \$124.6	FY81 - \$140.9
FY82 - \$59.8		

This is the payment schedule which is included in State Expenditures.

PROPERTY TAX (millions)

FY76 - \$16.3 + \$70.1 = \$86.4	FY77 - \$70.1 + \$58.1 = \$128.2	
FY78 - \$128.2 + \$23.9 = \$152.1	FY79 - \$152.1 + \$2.3 = \$154.4	
FY 1980 = \$154.4	FY 1981 = \$154.4	FY 1982 = \$148.2

The Petroleum industry property is depreciated at 4% per year from FY81 on.

The aforementioned assumes a move up in the effective payment date from Sept. to June. This is why the additional (+) revenues appear from FY76 to FY79.

BONUS SALES

No Anticipated Bonus Sale Receipts Included

RESERVE TAX CREDIT (millions)

The Permanent Fund is calculated on the total reserve tax before the companies receive credits. This is in conformity with the intent of the bill.

Receipts \$220 in FY76	\$269 in FY77	for a total of \$489
Paybacks \$109.2 in FY78	\$142 in FY79	\$198.4 FY80
\$ 39.4 in FY81		

INTEREST RATES

The Permanent Fund earns 6% on the previous year's balance which is deposited in the General Fund.

The General Fund earns 6% on the previous year's balance which is deposited into the General Fund.

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE
(in millions of current dollars)

<u>ISCAL YEAR</u>	<u>TOTAL UNRESTRICTED GENERAL FUND REVENUE BEFORE CONTRIBUTION</u>	<u>TOTAL REVENUE SUBJECT TO PERMANENT FUND CONTRIBUTION</u>	<u>25% CONTRIBUTION TO PERMANENT FUND PER YEAR</u>	<u>PERMANENT FUND BALANCE</u>	<u>TOTAL UNRESTRICTED GENERAL FUND REVENUE AFTER CONTRIBUTION</u>	<u>TOTAL UNRESTRICTED GENERAL FUND EXPENDITURES + ALASKA NLC</u>	<u>GENERAL FUND SURPLUS (DEFICIT)</u>	<u>GENERAL FUND BALANCE</u>
FY75	333.4	---	---	---	333.4	490.0	(156.6)	379.3
FY76	650.0	68.6	17.2	17.2	632.8	626.4	6.4	385.7
FY77	728.7	63.5	15.9	33.1	712.8	705.9	6.9	392.6
FY78	986.4	688.7	172.2	205.3	814.2	871.6	(57.4)	335.2
FY79	1181.5	874.3	218.6	423.9	962.9	990.8	(27.9)	307.3
FY80	1493.0	1198.9	299.8	723.7	1193.2	1124.6	68.6	375.9
FY81	1871.3	1374.9	343.7	1067.4	1527.6	1240.9	286.7	662.6
FY82	2111.7	1526.4	381.6	1449.0	1730.1	1259.8	470.3	1132.9
FY83	2403.8	1757.1	439.3	1888.3	1964.5	1300.0	664.5	1797.4
FY84	2651.7	1931.0	482.8	2371.1	2168.9	1400.0	768.9	2566.3
FY85	2819.8	2018.5	504.6	2875.7	2315.2	1500.0	815.2	3381.5

Original sponsor: Rules Committee by
request of the Governor

Offered: 3/24/76
Referred: Rules

1 IN THE HOUSE

BY THE JUDICIARY COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Alaska Con-
6 stitution, establishing an Alaska Permanent
7 Fund for certain proceeds derived from non-
8 renewable resources.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, Section 7, Constitution of the State of Alaska,
11 is amended to read:

12 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
13 license shall not be dedicated to any special purpose, except as pro-
14 vided in section 15 of this article or when required by the federal
15 government for state participation in federal programs. This provision
16 shall not prohibit the continuance of any dedication for special pur-
17 poses existing upon the date of ratification of this constitution by the
18 people of Alaska.

19 . * Sec. 2. Article IX, Constitution of the State of Alaska, is amended by
20 adding a new section to read:

21 SECTION 15. ALASKA PERMANENT FUND. At least twenty-five per cent
22 of all mineral lease rentals, royalties, royalty sale proceeds, federal
23 mineral revenue sharing payments, bonuses, and all mineral production
24 taxes received by the state shall be placed in a permanent fund, the
25 principal of which shall be used only for those income producing invest-
26 ments specifically designated by law as eligible for permanent fund
27 investments. The legislature may appropriate additional amounts to the
28 permanent fund which shall become a part of the principal of the fund.
29 All income from the permanent fund shall be deposited in the general

1 fund unless otherwise provided by law.

2 * Sec. 3. The amendments proposed by this resolution shall be placed
3 before the voters at the next general election in conformity with art. XIII,
4 sec. 1, Constitution of the State of Alaska, and the election laws of the
5 state.

6 * Sec. 4. The amendments proposed by this resolution if adopted by the
7 voters at the next general election shall become effective 90 days after the
8 certification of the election returns by the lieutenant governor.

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST
 Bill No. SS House Joint Resolution 39 - Revised Fiscal Note
 Title: Alaska Permanent Fund
 Requested by: House Finance Committee Date: 12 March 1976
 Return Date Requested: 16 March 1976
 Agency: Div. of Legislative Finance Program: State Investment Advisory Committee

II. FISCAL DETAIL
 Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES		75.0	-0-			
200 TRAVEL		10.0	-0-			
300 CONTRACTUAL		100.0	-0-			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		185.0				

B. FUNDING: (Thousands of dollars)

GENERAL FUND		185.0	-0-			
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	2 / 1	/	/	/	/
MAN MONTHS (P./T.)	/	12 / 6	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Personal services are for two full-time research assistants and one part-time secretary, to be selected by the legislative members of the State Investment Advisory Committee. The anticipated travel is chiefly between Juneau and Anchorage and for a planned meeting with officials of the Alberta Heritage Fund. The contractual sum is to retain consultants, to be selected by the full Committee, for specialized information and analysis of alternative goals and structuring for the Alaska Permanent Fund.

IV. ATTACHMENTS - Fiscal Note Comments, Department of Revenue
 Permanent and General Fund Projections, Department of Revenue

V. DATE: 16 March 1976 PREPARED BY: _____

Hugh Malone, Chairman
 House Finance Committee

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

January 15, 1976

HOUSE JOURNAL

January 15, 1976

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a sponsor substitute for House Joint Resolution 39, proposing an amendment to the Constitution of the State of Alaska establishing a permanent fund for mineral leasing revenues.

The resolution proposes a constitutional amendment establishing a constitutional permanent fund into which 10 percent of all mineral lease rentals, royalties, royalty sale proceeds, revenue sharing payments, bonuses, and mineral production taxes would automatically be dedicated. The resolution also provides that the legislature may appropriate additional amounts to the permanent fund.

With respect to mineral leasing, the dedication of revenues would be 10 percent of the amount of money initially received by the State. For example, 10 percent of the amount equivalent to the rentals, royalties, and bonuses which must be paid into the Alaska Native Fund would be dedicated to the permanent fund even though it must be paid into the Alaska Native Fund. Also an amount equivalent to the value of royalties taken in kind would not be deducted, but 10 percent of the proceeds from the sale of royalty taken in kind would be dedicated to the fund. Also, revenue sharing payments which the State receives from federal mineral leasing would be dedicated.

With respect to taxes, 10 percent of all mineral production taxes would be dedicated to the permanent fund. This would include the State's oil and gas properties production tax under AS 43.55 (severance tax), the State's mining license tax under AS 43.65, and the State's oil and gas regulation and conservation tax under AS 43.57 (conservation tax). These taxes would be dedicated to the fund regardless of how they are amended or changed in the future. The fund would not include the oil and gas exploration, production and pipeline transportation property tax under AS 43.56 (20 mil property tax) or the oil and gas reserves ad valorem tax under AS 43.58 (reserve tax).

The amount to be dedicated would be based upon the gross amount of tax to be received by the State. For example, 10 percent of an amount equivalent to the tax revenue required to be paid into the Alaska Native Fund would be dedicated even though it must be paid into the fund. Also 10 percent of the amount of production taxes not received in cash by the State because of the application of reserve tax credit would be dedicated to the fund.

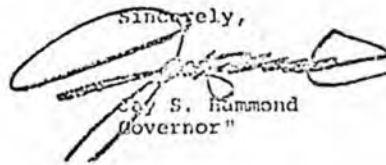
The principal of the fund would be used only for investment in income-producing investments which the legislature would establish and change to meet current investment needs of the State. The fund could not be used to fund the general operating expenditures or capital improvements of the

SS

HJH
39

State. The principal of the fund could not finance capital expenditures either directly or be purchasing State obligations, but the fund could purchase obligations of separate State authorities. The income of the fund would be deposited into the general fund without any permanent fund restrictions.

I have introduced this resolution proposing a constitutional amendment because I believe strongly that the revenues from our non-renewable resources belong to future generations of Alaskans as well as ourselves. A permanent fund as I have proposed will set aside a modest portion of the proceeds from the exploitation of our non-renewable resources for investment in our future while leaving sufficient revenues for our present needs. I urge your immediate and favorable consideration of this proposed constitutional amendment so that it may be placed before the voters at the next general election.

Sincerely,

 Roy S. Hammond
 Governor

HJR HOUSE JOINT RESOLUTION NO. 48 by the Rules Committee by
 48 request of the Governor

Proposing an amendment to the Alaska
 Constitution relating to the right to
 trial by jury

was introduced, read the first time and referred to the
 Judiciary Committee.

HJR The following Governor's letter pertains to the above
 48 resolution as well as HOUSE BILL NOS. 574 and 575.

HB
 574
 HB
 575

January 15, 1976

The Honorable Mike Bradner
 Speaker of the House
 Alaska State Legislature
 Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a package of legislation recommended by the Medical Malpractice Insurance Commission. This package consists of two bills and one joint resolution which proposes a constitutional amendment. The longer of the two bills would take effect immediately, while the shorter (creating the Medical Injury Adjudication Board) would take effect upon the effective date of the constitutional amendment removing the jury trial requirement for medical malpractice cases.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU 99811

JAY S. HAMMOND, GOVERNOR

Jay Malone

January 3, 1976

M E M O R A N D U M

TO: The Honorable Jay S. Hammond
Governor

FROM: Avrum M. Gross *AMG*
Attorney General

RE: Proposed joint resolution calling for a
constitutional amendment establishing a
permanent fund.

Attached is the proposed joint resolution calling for a constitutional amendment to establish a permanent fund to which mineral leasing revenues would be dedicated.

In contrast to HJR 39 which you introduced last year, the attached resolution would establish a constitutional permanent fund into which 10 percent of all mineral leasing revenue and mineral production taxes would automatically be dedicated without further legislative action. Last year's resolution would simply have given the legislature the authority to establish a permanent fund by law which could be changed or repealed by subsequent legislatures.

The revenues that would be dedicated include mineral leasing rentals, royalties and bonuses. Questions do arise, however, as to some special circumstances. For example, what is to occur when the state takes its royalty in kind? Should 10 percent of the proceeds from the sale of royalties taken in kind be dedicated to the fund? I have assumed that this would be the case and have included language in the draft transmittal letter to clarify our intent in this respect.

Also, what is to occur if the state changes its leasing policy from the traditional bonus bidding with a 1/8 or 1/6 royalty to a royalty bidding arrangement with a nominal cash bonus with the state instead receiving a larger royalty share such as 50 percent? Again I have assumed that you have intended that a full 10% of this larger royalty

The Honorable Jay S. Hammond
Governor

January 3, 1976

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share would be dedicated to the fund, and I have included language in the transmittal letter to state your position on this.

Also, what is to occur with respect to the revenue sharing which the state receives from federal mineral leasing? If this revenue is to be included, we should add some appropriate language in the resolution and in the transmittal letter to accomplish it.

Other revenue that would be dedicated to the fund would include mineral production taxes. I have assumed that this would only include the state's oil and gas properties production tax ("severance tax"), the oil and gas conservation tax (conservation tax), and the mining license tax regardless what form they may take in the future. Taxes that have not been included are the oil and gas exploration, production and pipeline property tax (20-mil property tax) and the oil and gas reserves ad valorem tax (reserve tax). If it is intended that these taxes should also be dedicated then the resolution and draft transmittal letter should be changed accordingly.

A question can be raised as to what amount of tax should be dedicated. For example, what is to occur with respect to any production taxes which the state must transmit to the Native Fund? Should 10 percent of taxes which the state receives and then transmits to the Native Fund be dedicated? I have assumed not and have so stated in the draft transmittal letter.

Also, what is to occur with respect to the production taxes which the state does not receive in cash but in effect receives through the application of accumulated "reserve tax" credits? For example, a taxpayer having a production tax liability of \$100,000 may credit his accumulated reserve tax against the production tax up to \$50,000 and only pay the remaining amount. Again, I have assumed that the production tax paid by the reserve tax credit would not be dedicated. If it is intended that more than just the net amount of cash tax revenue received by the state should be dedicated, then some additional changes should be made to the transmittal letter.

The resolution specifies that the fund will be used for investment only, with the legislature specifying the types of investment. A question has arisen whether the

The Honorable Jay S. Hammond
Governor

January 3, 1976

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fund should be used to purchase obligations financing capital expenditures. For example, may the fund be used to purchase bonds issued to finance relocation of the capital? I have assumed this was not intended and have so stated in the transmittal letter.

If you wish to acknowledge, or go to the extent of withdrawing, the currently pending HJR 39, you may wish to add a comment on it in the transmittal letter to the legislature.

AMG:md:JRM

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99801

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 15, 1976

SUBJECT: SSHJR 39 and amendments proposed by the House
Finance Committee

TO: Representative Gardiner, Chairman
House Judiciary Committee

FROM: Randolph Berry *RB*
Revisor of Statutes

I have examined the amendments proposed by the House Finance Committee to SSHJR 39 and do not find any problems or internal inconsistencies created by those amendments. I would, however, recommend that for grammatical clarity and to conform to the cross-citation form used elsewhere in the constitution, the amendment to the constitution made by sec. 1 of the resolution be worded in the following manner:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

RB/sm

Before the House Judiciary Committee
Regarding: HJR 39 Exception for Dedication of Revenues
Constitutional Amendment for a "permanent fund"

Testimony by Norman Bailey of Anchorage, Alaska - March 15, 1976

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

As the permanent fund concept is before you for passage during this Legislature we cannot stress its importance to the State, and to the future of its citizens, enough.

Alaska is to be the recipient of an additional one billion dollars each year (if tax laws remain unchanged). As oil begins to flow in 1978 and continues on for nearly 20 years, we will be awash in "petro-dollars".

Prudence dictates that we begin now to set up a mechanism for the management of these monies we will receive from the sale of one of our non-renewable resources.

The permanent fund, or placement of a certain percentage, is a fund to preserve the money while it waits to be placed in the State economy to help that economy be more self-reliant. In the past we have seen the negative results of economic exploitation.

The gold industry, once the most influential in Alaska, now presents only closed up mines, ghost towns, and old cabins as evidence of the period. The wealth left Alaska to New York, Seattle, San Francisco, Chicago, and elsewhere. It did Alaskans little good and left no economic benefit for Alaskans of today.

The fishing industry, once strong and thriving, has been exploited nearly beyond recovery. For the most part the wealth has left Alaska. The canneries are owned, still today, almost all by outside interests. The wealth from exploiting that resource has been of little benefit to Alaskans.

The story line is almost the same in each industry. The permanent fund can alter that line. It can allow Alaska the ability to exercise a greater degree of control than ever before over its economic and financial destiny.

Through no acts of our own, we are heir to the benefits of this ^{ONCE} ~~once~~ occurring treasure. It is doubtful that another Prudhoe Bay will come Alaska's way. It is the obligation and duty of the members of this Legislature to offer all Alaskans the opportunity to decide - since this time they have a chance - what they think the policy of the State ought to be with regard to the preservation of our oil wealth.

I urge you pass HJR 39 out of Committee and give it early attention on the floor.

Norman Bailey

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

Hugh Malone

JAY S. HAMMOND, GOVERNOR

POUCH K - STATE CAPITOL
JUNEAU 99511

January 3, 1976

M E M O R A N D U M

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Governor

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Attorney General

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The Honorable Jay S. Hammond
Governor

January 3, 1976

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The Honorable Jay S. Hammond
Governor

January 2, 1976

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AMG:md:JRM



MAR 09 1976

HJR-39

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 8, 1976

The Honorable Hugh Malone
Chairman
House Finance Committee
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Chairman:

I recently evaluated information which enables me to make a recommendation on a percentage amount I consider appropriate to devote to the Permanent Fund. The figure I suggest is 25 per cent of nonrenewable resource revenues as described in Section 15 of the Sponsor Substitute for House Joint Resolution Number 39. At this juncture it should be noted that this figure is based on the most conservative case for revenue projections. This excludes future development of new oil, gas, and mineral discoveries.

I recommend this figure for the following reasons:

1. It allows flexibility in terms of State expenditure levels for the years ahead. The budget can be varied to adequately take care of the needs of Alaska.
2. It provides sufficient funding for major projects the State might wish to undertake.
3. It promotes the goal of economic diversification. The diversification of the economy would foster a broader tax base. The State's financial viability would be much improved.
4. It insures that future generations would benefit from the expected revenue situation.

My analysis is enclosed for your review.

Sincerely,

Jay S. Hammond
Governor

Enclosure

cc: The Honorable Chancy Croft
President of the Senate

The Honorable Mike Bradner
Speaker of the House