

COMMITTEE REPORT

3/21/75

SENATE

Mr. President:

Date _____

The Committee on FINANCE has had SB 297 establishing the Alaska mineral lease bonus permanent fund under consideration. A Majority of the members of the Committee:

- recommends it DO PASS
- recommends it DO NOT PASS
- 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:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:
 _____ recommends:
 _____ recommends:
 _____ recommends:
 _____ recon. ends:

_____ Chairman

Introduced: 3/21/75
Referred: Finance

1 IN THE SENATE

BY CROFT, BUTROVICH,
TILLION AND KERTTULA

2 SENATE BILL NO. 297

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

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COMMITTEE COPY

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25 cipal shall be reimbursed in full from fund income before additional
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27 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
28 070(e).

ALASKA STATE LEGISLATURE

NINTH... Legislature FIRST... Session

SENATE BILL NO. 297

By CROFT, BUTROVICH, TILLION, AND KERTTULA

"An Act establishing the Alaska mineral lease bonus permanent fund; and providing for an effective date."

Alk. mineral lease bonus permanent fund

Introduced in the Senate 3/21, 19... 75

HISTORY IN THE SENATE

19	75	Read first time and referred to Committee on Finance										
2	21	Reported back with recommendation that										
		Read second time and										
		Read third time and										
		<table border="0"> <tr> <td>PASS</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> </table>	PASS	Effective Date	Yeas	Yeas	Nays	Nays	Absent	Absent	Excused	Excused
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Excused	Excused											
		Reported correctly engrossed										
		Signed by President										
		Sent to House										
SECRETARY OF THE SENATE												

HISTORY IN THE HOUSE

19		Read first time and referred to Committee on										
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		Reported correctly engrossed										
		Signed by Speaker										
		Returned to Senate										
CHIEF CLERK OF THE HOUSE												

HISTORY IN THE SENATE

19		Received from House
		Reported correctly enrolled
		Sent to Governor
	 By Governor
		Filed with Lt. Governor
		Chapter No.

Introduced: 3/21/75
Referred: Finance

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STATE OF ALASKA

DEPARTMENT OF REVENUE

JAY S. HAMMOND, GOVERNOR

POUCH S A - JUNEAU 99811

April 2, 1975

The Honorable Bill Ray
Chairman
Senate Finance Committee
Alaska State Legislature
State Capitol
Juneau, AK 99811

Dear Senator Ray:

Senate Bill No. 297, an Act establishing the Alaska mineral lease bonus permanent fund was introduced on March 21, 1975 and was referred to the Senate Finance Committee.

At the request of Jim Fennel, I am transmitting a copy of a memorandum dated March 27, 1975 from Lawrence C. Eppenbach, Deputy Commissioner, Department of Revenue to Sterling Gallagher, Commissioner of Revenue concerning Senate Bill No. 297 and House Bill No. 324 which though not identical is similar to Senate Bill No. 297.

For your information the House Finance Committee in submitting a Committee Substitute for House Bill No. 324 changed what would appear in Sec. 37.11.120 FUND PRINCIPAL of Senate Bill No. 297 to read NINETY per cent of the receipts rather than the Ninety-five per cent and gave a broader spectrum of investments with the exception of investments in common or preferred stocks.

If you have any questions on the material submitted please call the writer and I will contact Mr. Eppenbach for further material or testimony before the Senate Finance Committee.

Very truly yours,




R. D. Stevenson
Special Assistant

RDS:sp
Enclosure

cc Lawrence Eppenbach
Deputy Commissioner
Department of Revenue

Sterling Galagher
Commissioner
Department of Revenue

March 27, 1975

Lawrence C. Eppenbach 
Deputy Commissioner
Department of Revenue

Treasury Comments on
HB 324 and SB 297

This memorandum summarizes preliminary Treasury comments on HB 324 and SB 297, Acts establishing an Alaska mineral lease bonus permanent fund. In general the Treasury Division supports measures which set aside a portion of revenue from petroleum discovery to better plan for the day when Alaska's nonrenewable wealth will be gone. We are also deeply involved in the financial planning required for the state to meet the crunch coming in Fiscal Years 1976-1978 which both bills may directly effect. Our comments, will be limited to those of a technical nature and will not include an assessment of the revenue effect of setting aside bonus payments.

General

HB 324 and SB 297 proposes to create a permanent fund by an act of legislation morally obligating future legislatures to leave it intact. Once begun, such a fund may acquire a long term character.

Contributions

The deposit of 95% of mineral lease bonus into a permanent fund would cause a total of 102% to be dedicated (5% Renewable Resource, 2% Claims Act). In addition, the sharing of cash bonus as distinct from royalty payments, rentals, etc. would add a new dimension to the question of whether the state should adopt royalty bid lease contracts.

The most critical aspect of a 95% bonus sharing is the previously mentioned impact on planning the state's financial response to our temporary crunch. A smaller percentage, or a staggered increasing percentage over time, or a delayed effective date would all improve the chances for a bonus sale this year to help the State meet its pending financial obligations.

Investment

A long term fund should have broad investment authority exercised at the discretion of professional investment managers held responsible for their actions under a prudent man rule. Such investment authority would allow the fund to take maximum advantage of imperfect markets (made so because of constraints placed on other funds) to achieve a high return.

Ideally a permanent fund has its portfolio balanced between instruments achieving a high "economic" total return; such as certain Alaskan investments, and those achieving a high cash return to provide a hedge against inflation.

AS 37.10.070 provides a comprehensive list of desirable investment instruments including a full range of short and long term fixed income investments, Alaskan residential and commercial mortgages and common stock. The Treasury division recommends that this list be adopted intact. Should there be an absolute need to eliminate a particular form of investment, such as common stock, then it should be specifically deleted. The approach taken by HB 324 imposes unnecessary and undesirable limitations on the range of legal investments.

Use of Fund Income

There is some concern expressed in Treasury as to the legality of (a) (3) regarding the limitations on appropriations of fund income. The approach taken in SB 297 (otherwise identical) of deleting this portion obviously removes this issue. However, we are not attorneys and suggest a review of this provision by the Department of Law.

Additional Points

The proceeds of cash bonus bids add to the state's total stock of wealth. It would be desirable to continue to have claim to this total wealth to secure State GO bonds. Rating agencies have expressed concern that any diversion of our resource development proceeds may injure our ability to secure debt. Of course, any legislature could appropriate these funds to meet the debt service requirements of state bonds. However, a bond buyer would be more assured and hence require less interest if such a pledge was made specifically.

Cost of Administration

The Treasury Division does not anticipate any cost of administration requiring a fiscal note at this time with acceptance of Treasury's proposed 1976 budget. Future expenses, not expected to be large, would be displayed in future annual budgets.