

HJR

10



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

STATE AFFAIRS COMMITTEE

HOUSE JOINT RESOLUTION 10

FILE CONTENTS

1. HJR 10: PROPOSING AN AMENDMENT TO THE CONSTITUTION OF THE STATE OF ALASKA RELATING TO INCOME FROM THE PERMANENT FUND
2. FISCAL NOTE, DEPARTMENT OF REVENUE: --0--
3. MEMORANDUM FROM JAY MOOR TO REPRESENTATIVE MIKE MILLER, DATED 2/17/87

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

2

REQUEST _____

Bill Version: HJR 10
Publish Date: _____

Revision Date: _____
Title: Proposing and Amendment to the Constitution of the SOA relating to income from the Permanent Fund
Sponsor: Miller, et. al.
Requestor: State Affairs

Agency Affected: Revenue
BRU: Research
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Millions of Dollars)

PF-EDUC. FUND	0	0	388.1	374.4	360.5	367.8
PF-PRIN.	0	(338.5)	(388.4)	(464.0)	(440.4)	(458.2)
PF-EPA	0	(40.4)	0	0	0	0
GF-PFD	0	0	(9.2)	(51.9)	(81.6)	(57.0)

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

See attached.

Prepared By: Mary Ellen Frank *MEF* Phone: 465-2174
Division: Revenue/Research Date: 2/18/87

Approved by Commissioner: Hugh Malone *H Malone* Date: 2/19/87
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

Continuation of Fiscal Note/Bill Analysis

HJR 10

1. Assumed effective by end of FY88 and therefore affects distribution of PF earnings for FY88.
2. Effect on the PF - "Education Fund" and PFD transfer is lagged one fiscal year behind effect on fund balance in the PF to reflect when the change in available income would occur.
3. PF principal falls because there is no more inflation proofing.
4. Effect on the Earnings Reserve Account of the PF is reflected in one year only, FY88. There is an estimated balance in this account at the end of FY87 of \$239.5 million that is also available for appropriation but is not referred to in this resolution.
5. PFD account falls because:
 - A. PF principal falls and therefore PF earnings fall;
 - B. ERA earnings also used to enter calculation of PFD amount and no longer would.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

3

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

February 17, 1987

MEMORANDUM

TO: Representative Mike Miller

ATTN: Gene Therriault

FROM: Jay Moor *JM*
Legislative Analyst

RE: The Permanent Fund and the Effects of House Joint Resolution 10
Research Request 87.119

You requested a fiscal analysis of the Permanent Fund as it would be affected by a constitutional amendment (House Joint Resolution 10). The amendment would split the annual income earned on the principal of the Permanent Fund: half would be distributed as dividends to state residents, and the rest would be available for funding primary and secondary education.

Assuming the proposal would be put to the voters in November of 1988, the earliest possible application would allow earnings during FY 89 to be deposited in the education fund for appropriation during FY 90. Table 1 summarizes the impact of the amendment on the Permanent Fund balance, inflation proofing, earnings, and education and dividend accounts.¹ The table allows comparison of permanent fund dividend checks, with and without the amendment.

Interpretation of Table 1

With the proposed amendment, the balance in the Permanent Fund at the beginning of each fiscal year (Column A) is projected to increase much slower than the balance as projected with no changes in the disposition of earnings (compare Column A with the column to its left). The major reason for the lesser balance is that, from FY 90 onward, there would be no inflation-proofing deposits (Column C); all earnings would go either to the

¹ Data projections as presented in Table 1 were derived from Revenue Sources FY 86-89, Alaska Department of Revenue, January 1987, and from information provided by the staff of the Alaska Permanent Fund Corporation.

education account (Column F) or dividend program (Column G).² Annual contributions to the Permanent Fund principal (Column B) are assumed to be identical, with or without the amendment.

Earnings on the Permanent Fund principal (Column E) are calculated by applying a nine percent rate of return to one-half the annual contribution added to the starting balance (Column A).³ As would be required by the constitutional amendment, earnings are evenly split between the education fund (Column F) and the dividend program (Column G) for appropriation or distribution in the next fiscal year.⁴ After subtracting the cost of dividend program administration (Column H), earnings distributable as dividends are divided equally among qualified applicants (Column J). The amount of Permanent Fund dividend checks with the amendment in place is shown in Column K. Dividend projections with the Permanent Fund system left unchanged appear in the column to the right of Column K.

Conclusions

The projected annual contribution to the education fund would increase from \$390.6 million in FY 90, to \$460.9 million in FY 2000. By FY 2000, with the amendment in place, the balance in the Permanent Fund account is projected to become \$10.3 billion, which is about 62 percent of the projected balance under the current system of inflation proofing. In 2000, PFD checks are projected to be about 64 percent of what they would be if the system were left unchanged.⁵

* * * *

If you have any additional questions, please contact this agency.

Attachment

²It is assumed that the remainder of the Earnings Reserve Account (ERA) at the end of FY 88 (estimated at \$279.61 million) will be transferred to the principal balance of the Permanent Fund, and the ERA will no longer exist.

³This assumes that annual contributions to the Permanent Fund are spread evenly throughout each fiscal year.

⁴The language of the proposed amendment appears to negate the use of a "smoothing" formula for calculating distributable earnings (see Alaska Statute 37.13.140). The assumption on which Table 1 is based is that one-half of the annual Permanent Fund income will be distributed as the next year's dividends, and the rest of the income shall be deposited in the education account.

⁵All dollar amounts in this report are nominal (not adjusted for inflation).

TABLE 1

The Effect of HJR 10 on the Permanent Fund

Fiscal Year	PF as is: Starting Balance [\$ mil]	A Starting Balance [\$ mil]	B Contri- butions [\$ mil]	C Inflation Proofing [\$ mil]	D Final Balance [\$ mil]	E Earnings 9.00% [\$ mil]	F Education Funding [\$ mil]	G Dividend Program [\$ mil]	H PF Dividend Administration [\$ mil]	I Distributed as Dividends [\$ mil]	J PF Dividend Applicants [000's]	K Each PF Dividend [\$'s]	PFD as is: Each PF Dividend [\$'s]
1988	7,844.4	7,844.4	138.0	338.5	8,320.9	797.6	n/a	363.0	8.1	354.9	527.2	673.30	673.30
1989	8,320.9	8,600.5	160.8	0.0	8,761.3	781.3	n/a	397.3	8.4	388.9	525.8	739.52	739.52
1990	8,870.1	8,761.3	168.2	0.0	8,929.5	796.1	390.6	390.6	8.8	381.8	528.1	723.12	790.65
1991	9,452.3	8,929.5	163.5	0.0	9,093.0	811.0	398.0	398.0	9.2	388.8	530.3	733.31	816.42
1992	10,056.2	9,093.0	166.6	0.0	9,259.6	825.9	405.5	405.5	9.6	395.9	532.5	743.52	779.58
1993	10,691.0	9,259.6	167.2	0.0	9,426.8	840.9	412.9	412.9	10.1	402.9	534.6	753.60	801.06
1994	11,391.3	9,426.8	159.0	0.0	9,585.8	855.6	420.4	420.4	10.6	409.9	536.8	763.56	843.73
1995	12,154.4	9,585.8	154.2	0.0	9,740.0	869.7	427.8	427.8	11.1	416.6	538.9	773.08	897.88
1996	12,952.3	9,740.0	147.7	0.0	9,887.7	883.2	434.8	434.8	11.7	423.1	541.1	781.88	965.14
1997	13,785.1	9,887.7	145.7	0.0	10,033.3	896.4	441.6	441.6	12.3	429.3	543.3	790.11	1,037.30
1998	14,659.3	10,033.3	141.5	0.0	10,174.8	909.4	448.2	448.2	13.0	435.2	545.5	797.81	1,113.75
1999	15,570.2	10,174.8	137.0	0.0	10,311.8	921.9	454.7	454.7	13.7	441.0	547.8	805.10	1,185.68
2000	16,506.5	10,311.8	130.2	0.0	10,442.0	933.9	460.9	460.9	14.4	446.5	550.0	811.90	1,260.56

Source: Revenue Sources, FY 86-89, Department of Revenue, January 1987; Information provided by Alaska Permanent Fund Corporation staff.

- Notes:
1. The starting balance for FY 89 includes the estimated Earnings Reserve Account balance of \$279.61 million.
 2. The money required for inflation proofing (Column C) comes from current earnings with any shortfall made up from the EAR account (excess earnings are deposited to the ERA).
 3. Contributions to the Permanent Fund principal and Permanent Fund Dividend administrative costs are unaffected by HJR 10.
 4. Fifty percent of the Permanent Fund distributable earnings goes to the dividend program; the rest goes to the education fund.

Prepared by the House Research Agency, February 1987 (87-119;861217-16).