

HB

137



Alaska Permanent Fund Corporation


P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

MEMORANDUM

DATE: February 2, 2000

TO: Chris Phillips,
Director of Finance

FROM: Jim Kelly 
Director of Communications

SUBJECT: House Bill 137

This is to provide commentary on the impacts of HB 137. If enacted, this bill would authorize a new, third statutory use for Fund income. Specifically, it would direct the Alaska Permanent Fund Corporation (APFC) to transfer, after the transfers required for dividends and inflation-proofing, "the balance of the earnings reserve account" to the newly created municipal dividend fund.

In terms of fiscal note, the impact would be zero. There would be no additional operational costs associated with this new transfer.

In terms of Fund balances, there are two important issues. First, it is unclear what is meant by "the balance of the earnings reserve account." In previous bills enacted by the legislature relating to the earnings reserve – such as the special appropriations to principal in 1986, 1996 and 1997 – what was transferred was only the realized portion of the earnings reserve.

Since 1998, however, the APFC has been required by a ruling of the Governmental Accounting Standards Board, (GASB 31), to expand the definition of the earnings reserve account in the financial statements to include unrealized income as well. As of June 30, 2001, the realized

portion is projected to total \$3.307 billion and the unrealized portion of the earnings reserve account is projected to total \$4.347 billion.

Second, it is important to note that drawing down the balance of the earnings reserve to zero is potentially detrimental to any and all future annual statutory transfers of Fund income. As reported to the Senate and House Finance Committees last year, in periods of poorly performing markets, the earnings reserve account acts as a reserve for future payments of dividends and inflation-proofing, and now with this legislation, the annual transfer to the municipal dividend fund.

In the view of the Corporation, it is prudent to maintain a healthy balance in the earnings reserve account in order to increase the stability and predictability of future distributions of Fund income for legislatively determined purposes.

The APFC would be pleased to provide additional analysis of the bill's impacts assuming transfer to the municipal divided fund in the first year of only the residual net income earned in that year after payment of dividends and inflation-proofing.



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907)586-1325, Fax (907)-463-5480

January 31, 2000

Representative Carl Moses
Alaska State Legislature Room 500
Juneau, AK 99811

Dear Representative Moses:


On behalf of the members of the AML and Alaska Conference of Mayors, we support **HB 137 - Municipal Dividend Program**. It is no surprise we agree with your position that many Alaskans have been hurt by state revenue sharing cuts, and communities desperately need a stable source of income. Critical public safety services have been slashed in the small communities, damage due to deferred maintenance is growing, and many communities have been forced to increase taxes just to maintain services. We believe that rising property taxes due to state cuts have strengthened support for the proposed property tax cap initiative. If the initiative passes it would add \$200 million to Alaska's budget deficit the first year.

While there is not yet broad public support use of some of the earnings of the Permanent Fund, this is an option that must be considered in any long-range fiscal planning effort. The *FY 2000 AML Policy Statement* says, "**Evaluate the Community Dividend concept as part of an overall fiscal plan to help develop Alaska's communities for citizens.**"

The number one legislative priority of the AML and Conference of Mayors is to assist the state in developing a long-range financial plan that considers both state and local impacts, because they are interdependent. HB 137 provides a means to support government closest to the people without further increasing local taxes or adding to the state budget deficit.

Thank you for introducing HB 137 and for your continued interest in the municipalities of Alaska. If we can provide you with any assistance, please let me know.

Sincerely,



Kevin C. Ritchie
Executive Director

cc: AML Revenue & Finance Subcommittee

c:/jk/leg00/11gb137.doc

Alaska State Legislature
Representative Carl E. Moses



Member
House Finance Committee



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SPONSOR STATEMENT / SECTIONAL ANALYSIS

HB 137 - Municipal Dividend Program

I recommend establishment of a Municipal Dividend Program to provide Alaskan municipalities with a predictable and reliable source of income with which to address community needs not being met by the State of Alaska under current financing methods.

Given our inability to substantially cut the state operating budget, and given our unwillingness to raise new revenues, we will need to look at using the earnings reserve of the Permanent Fund in some effective way despite these two political realities.

The current rate of withdrawal from our cash reserves will not endure for many more years. Yet public service demands do not relent. Ask any municipal official around the state, and you'll be told that basic community needs are going unmet.

The idea which several experienced leaders have given some credence is a Municipal Dividend program, which would direct funds from the undistributed earnings reserve of the Permanent Fund through a setup much like the current individual dividend program, and into cities and towns around the state. A formula for distribution would be based upon strict useage criteria and population figures, and would come into play after inflation-proofing the Permanent Fund, and accounting for annual individual dividends.

In the space of the few years we have left to rely upon cash reserves, we need to develop and put into place a program like this which will serve needs and relieve demands upon the state. The value of a predictable and reliable income stream for our state's municipalities in the face of elimination of revenue sharing and municipal assistance from General Fund appropriations, is obvious.

The funds would be used for locally determined needs. Likely, most use of the funds would be for services being shorted or deferred currently by the state agencies. Local decision makers would prioritize from among transportation infrastructure, education and community facilities, and the like. In the ultimate, state programs could be cut commensurately after responsibility and funding are passed to communities.

This plan would integrate well into a scheme of operating budget cuts, new or increased taxation, or both, if given a chance. The individual dividend payout would remain intact, although it might be somewhat impacted over time. But the reality is that any plan advanced to address our budget shortfall will cost individuals in one way or another. Last fall's advisory vote told us what wasn't desired, but unfortunately, it didn't tell us what remedy to institute. I submit that the Municipal Dividend program will contribute greatly to creating a solution which can improve the future of state financing.

BILL SECTION 1: Adds a new section to Title 29 establishing the fund in the Department of Commerce and Community Development, and authorizes fund transfers from the earnings reserve account. It makes transfers subject to legislative appropriations, and also provides for full distribution to municipalities of the amount of transfers.

In addition, Section 1 provides for dividend calculation based upon population figures, and cites the U.S. Census Bureau as the chief source, but not the only source, of population information. This section also states that the population of cities within a borough will be deducted from the borough's overall population base, since cities may independently apply for distribution under this program.

BILL SECTION 2: Calls for transferring the balance of the earnings reserve account into the municipal dividend account after inflation-proofing the permanent fund, and after transferring the appropriate amount to pay individual dividends.

BILL SECTION 3: Establishes an effective date of July 1, 2000.

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Cook
1/25/00



CS FOR HOUSE BILL NO. 137()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - SECOND SESSION**

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE MOSES

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the municipal dividend program; and providing for an
2 effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 * Section 1. AS 29.60 is amended by adding new sections to read:

5 **Article 9. Municipal Dividend Program.**

6 **Sec. 29.60.660. Municipal dividend fund.** There is established in the
7 department the municipal dividend fund consisting of money transferred to the fund
8 under AS 37.13.145(e). Subject to appropriations for the purpose, the amount
9 transferred to the fund shall be fully distributed by the department each year as
10 dividends to municipalities.

11 **Sec. 29.60.670. Amount of dividends.** The department shall calculate the
12 amount of a dividend for a municipality based on the population of the municipality.
13 The population of each municipality shall be determined annually by the latest figures
14 of the United States Bureau of the Census or other population data that in the

1 judgment of the department is reliable. In determining the population of a borough,
2 the population of all cities in the borough shall be deducted from the total population
3 of the borough.

4 * Sec. 2. AS 37.13.145 is amended by adding a new subsection to read:

5 (e) After the transfers under (b) and (c) of this section, the corporation shall
6 transfer the balance of the earnings reserve account to the municipal dividend fund
7 established under AS 29.60.660.

8 * Sec. 3. This Act takes effect July 1, 2000.

HOUSE BILL NO. 137

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE MOSES

Introduced: 3/15/99

Referred: Community and Regional Affairs, State Affairs, Finance

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6 transfer the balance of the earnings reserve account to the municipal dividend fund
7 established under AS 29.60.670. *should be AS 29.60.660.*

8 * Sec. 3. This Act takes effect July 1, 1999. *should be July 1, 2000.*

Dividend plan could solve state money woes

By REP. CARL MOSES

The current state budget situation presents us with yet another chance to collectively review in detail the structure of our governmental financing customs and hopefully make some needed and beneficial changes.

Because we do not forward-fund our state budget, that is, basing next year's expenditures on this year's revenues, I see no alternative but to make substantial changes in the way we currently plan expenditures, given current low oil prices and the likelihood of continued declining production.



Moses

If we accept the fact that there is a genuine budget shortfall this year of approximately \$1.2 billion

(with likely more of the same in the foreseeable future), and if we acknowledge the fact that there exist several possible recommendations to solve the problem, then we can focus on solutions.

No potential solution or combination of remedies identified to date will suit everyone. However, it is incumbent upon interested parties to participate in the public discussion and ultimate legislative action to keep Alaska on a sound, fair and practical fiscal path into the new millennium.

Recognizing a budget shortfall and yet little public enthusiasm for taxes or changes in the Permanent Fund structure, but also rec-



ognizing the difficulty in making large and substantial cuts to the state operating budget, what are we to do?

There is at least one idea with merit that has not received its due attention in the debate over the past few years, and that idea is the concept of a Municipal Dividend program. It is a proposal that can address as many or as few of the budget problems as may be desired. The key characteristics of this program are equity and fiscal responsibility, because it confines itself to passing from the state to local government units, responsibility and funding for services we in the Legislature continually hear are not being adequately met by the state.

If you are familiar with the individual Permanent Fund Dividend program, then you have an idea of how the Municipal Dividend program would work. Based upon strict criteria and local population figures, undistributed earnings from the Alaska Permanent Fund would be available for appropriation to Alaska municipalities, large and small, after providing for inflation proofing the fund and for calculating individual Permanent Fund dividends.

There ultimately would be some impact on the size of the individual dividend. But any plan advanced to address our budget shortfall will cost individuals in one way or another.

That's why I emphasize that the time is upon us to make responsible, major changes in the way we devise our annual budget.

The focus of the idea is to provide municipalities funds with which to perform basic governmental services, some of which have been unfortunately reduced or eliminated in recent years by state government. Anyone who ever grumbled about the poor condition of local streets, lack of maintenance for schools or inadequate recreational facilities, for example, should embrace this plan as a way to address such problems with the focus of local prioritizing. Even the cynics who would frown upon the idea of giving more money to local politicians would not have to look twice to see the potential benefits of this plan for their cities and towns.

Another value of the Municipal Dividend program, and one addressing the immediate state fiscal shortfall, would be the reduction or elimination of some programs within the state operating budget funded with general fund dollars. Shifting responsibility away from state to local government, and shifting funding away from the general fund to the Permanent Fund's undistributed earnings, would reduce the fiscal gap and enhance local government objectives.

In the continual debate over what purpose to finally put earnings of the Alaska Permanent Fund to work, this proposal could give the fund a concrete objective, that of helping provide basic services to citizens of the state, through their local government.

I doubt there is a municipality in this state that would refuse a more stable and pre-

dictable stream of income such as the proposed Municipal Dividend program would provide.

The common perception of the fund was for it to eventually offset the decline of revenue from our oil resources. That time has certainly arrived. In addition, it is well known that the Internal Revenue Service will eventually look to tax the Permanent Fund directly if no clear public purpose is officially determined for the fund. With the individual PFD already being federally taxed via personal income taxes, this Municipal Dividend proposal could likely thwart any such proposal for taxation of the earnings of the fund.

Concerning the current fiscal challenge before us, a Municipal Dividend program could be part of a solution that may include some operating budget cuts, some new or increased taxation or a combination of both. It does offer the chance to reduce general fund spending and provide a more reliable way of funding many essential local government operations in a time when assistance to local governments has been haphazardly diminished.

It will not adversely impact the economy and can be managed in such a way as to avoid dramatic infusions of funding into local governments. I believe the time has come to simultaneously address several statewide fiscal issues in great need of being brought to reality, with a plan which could be a positive component of a long-range fiscal policy.

Rep. Carl Moses, D-Alaska, serves on the House Finance Committee.

Alaska State Legislature
Representative Carl E. Moses



Member
House Finance Committee

MEMORANDUM

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DATE: January 25, 2000

TO: Rps. John Harris and Carl Morgan
Co-Chairmen, House Community and
Regional Affairs Committee

FROM: Rp. Carl E. Moses *CEM*
House District 40

SUBJ: Request For Committee Hearing

Please consider scheduling a hearing for HB 137, the measure to institute a municipal dividend program. This program would be funded from the undistributed income of the permanent fund's earnings reserve account, and would fill a need for adequate and reliable funding for community services, currently going unmet by the state.

Attached is a copy of the bill, a sponsor statement w/sectional analysis, and support material. If there are questions, please call Tim Benintendi of my office at 6591.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 137

Revision Date/Time (Note if correction) 02/02/00 Dept. Affected Revenue
 Title Municipal Dividend Program BRU Revenue Operations
 Component Alaska Permanent Fund Cor
 Sponsor Representative Moses
 Requester House Community and Regional Affairs Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services					
Travel					
Contractual					
Supplies					
Equipment					
Land & Structures					
Grants & Claims					
Miscellaneous					
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES					
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CHANGE IN REVENUES ()					
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts					
1003 GF Match					
1004 GF					
1005 GF/Program Receipts					
1037 GF/Mental Health					
Other (Specify Type)					
TOTAL	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time					
Part-time					
Temporary					

ANALYSIS: (Attach a separate page if necessary)

See attached

Prepared by: Chris Phillips
 Division Alaska Permanent Fund Corp.
 Approved by Commissioner Wilson Condon
 Agency Department of Revenue

Phone _____
 Date/Time 2/2/00 4:32 PM
 Date 2/2/00

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Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: February 2, 2000

TO: Chris Phillips,
Director of Finance

FROM: Jim Kelly 
Director of Communications

SUBJECT: House Bill 137

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FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 137

Revision Date/Time (Note if correction) _____ Dept. Affected DCED
 Title _____ BRU _____
 An Act relating to the municipal dividend program; and ... Component _____
 Sponsor Representative Moses
 Requester HOUSE CRA Committee Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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Land & Structures						
Grants & Claims						
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CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This Legislation would have no fiscal impact on this department.

Prepared by: Jeff Bush, Deputy Commissioner Phone 465-2500
 Division _____ Date/Time 02/01/00
 Approved by Commissioner [Signature] Date 2/2/00
 Agency _____

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