

**HB**

**304**

# ALASKA STATE LEGISLATURE

Representative Pete Kott, Chair  
Representative Brian Porter  
Representative Vic Kohring  
Representative Carl Morgan  
Representative Lesil McGuire  
Representative Ethan Berkowitz  
Representative Reggie Joule



Alaska State Capitol  
Juneau, AK 99801-1182  
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## House of Representatives Rules Committee

### Agenda

Butrovich Room 205, Alaska State Capitol

April 15, 2002 (9:00 A.M.)

Call to Order

Roll Call

- + HB 304 PERMANENT FUND INCOME
- + HB 506 LEGISLATIVE IMMUNITY
- + HB 508 DIVE FISHERY ASSOCIATIONS/PSP REPORTS
- + SB 176 DISTRIBUTORSHIPS
- + SB 269 BONDSTEEL BRIDGE OF HONOR
- + HJR 47 LOW SULFUR DIESEL FUEL REQUIREMENTS

Other Business

Adjournment

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## House of Representatives Rules Committee

### Notice

- Awaiting Rules Committee Substitutes on the following legislation:
  - 1) House Bill 506 (Legislative Immunity)
  - 2) Senate Bill 176 (Distributorships)

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 304  
 (H) Publish Date: 3/19/02

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Permanent Fund Income BRU Permanent Fund Corp.  
 Component Permanent Fund Corp.  
 Sponsor Representative Whitaker  
 Requester House State Affairs Component No. 109

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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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--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2002) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The proposed legislation would not increase the cost of operations for the Alaska Permanent Fund Corporation.

Prepared by: Robert D. Storer, Executive Director Phone (907)465-2047  
 Division Alaska Permanent Fund Corporation Date/Time 2/22/02 2:58 PM  
 Approved by: Larry Persily, Deputy Commission Date 02/22/2002  
 Agency Department of Revenue

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: CSHB 304(FIN)  
 (H) Publish Date: 3/27/02

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Permanent Fund Income BRU Permanent Fund Corp.  
 Component Permanent Fund Corp.  
 Sponsor Representative Whitaker  
 Requester House Finance Committee Component No. 109

**Expenditures/Revenues (Thousands of Dollars)**

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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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--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2002) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

Page 2 outlines our understanding of how the distributions of Permanent Fund earnings would work after the adoption of HB 304.

Page 3 is a schedule estimating the financial effects of HB 304.

As an explanation, the model on Page 3 shows dividend amounts under the fiscal year in which the liability to the Permanent Fund accrues -- not the fiscal year in which the individual dividends are paid to Alaskans. For example, the model shows an estimated \$1,540 dividend under the Fiscal 2002 column, although the actual dividend would be paid in October 2002, which is Fiscal 2003. The same one-year "shift" applies to all of the fiscal years listed.

Prepared by: Robert D. Storer, Executive Director Phone 465-2047  
 Division Alaska Permanent Fund Corporation Date/Time 3/26/2002 04:00: PM  
 Approved by: Larry Persily, Deputy Commissioner Date 3/26/2002  
 Agency Department of Revenue

## Alaska Permanent Fund Corporation

Analysis for CSHB 304(FIN) - FN#2  
March 26, 2002 - Page 2 of 3

### OVERVIEW

CSHB 304(FIN) contains the following provisions:

1. Leaves existing statutory distributions (dividends and inflation-proofing) in place for June 30, 2002, but after those transfers are accounted for, appropriates the next day, July 1, 2002, \$300 million from the earnings reserve account to the General Fund.
2. For Fiscal 2004, appropriates 7 percent of the Fund's market value for the five fiscal years ended June 30, 2003 for payouts as follows: 45% to the dividend fund, 35% to the education fund and 20% to the infrastructure and economic development fund. (Note: All payouts under this bill are established as liabilities on the preceding June 30 and paid out in the next fiscal year.)
3. For Fiscal 2005, appropriates 6 percent of the Fund's market value for the five fiscal years ended June 30, 2004 for payouts per the same 45/35/20 division.
4. For all subsequent years, appropriates 5 percent of the Fund's market value for the five fiscal years just ended for payouts per the same 45/35/20 division.
5. Statutory inflation-proofing is repealed effective June 30, 2003.
6. The bill includes a new subsection, AS 37.13.145(g), which states that if the amount in the earnings reserve account is not sufficient to fully fund the three payouts - the 45% to the dividend fund, 35% to the education fund and 20% to the infrastructure and economic development fund - then "the amount of each transfer shall be reduced on a pro rata basis so that the total amount transferred equals the balance in the earnings reserve account."
7. The bill infers that the distributions referred to in HB 304 will be made in the beginning of the fiscal year. Currently the large dividend distribution is not paid out of the fund until late September, after completion of our annual audit. To assure accuracy we would recommend all major distributions being made in late September of each fiscal year.
8. The APFC's Operating and Investment Manger Fees BRUs FY03 budget request totals \$49 million. It is our understanding that the appropriations for these budgets are separate and in addition to distributions under HB 304.

Assumptions: Callan 2002 CMA, APFC 2001 asset allocation, Fall 2001 revenue forecast, financial statements through 2/28/02, POMV begins in FY03. All payouts are liabilities at year end, to be paid out in the next fiscal year.

CSHB 304(FIN) - FN#2

	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	Totals
<u>POMV (7%, 6%, 5%)</u>		7%	6%	5%	5%	5%	5%	5%	5%	5%	5%	
Total Return	1.29%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	7.95%	FY02-FY12
Principal - end of year (after payouts)	21,873	22,114	22,385	22,637	22,869	23,097	23,322	23,544	23,759	23,939	24,123	
ER - end of year (after payouts)	2,204	2,228	2,527	3,135	3,786	4,464	5,172	5,906	6,663	7,442	8,242	
Total Assets End of Year (after payouts)	24,077	24,342	24,912	25,772	26,655	27,561	28,494	29,450	30,422	31,381	32,365	
Total Annual Return in million \$	281	1,883	1,905	1,949	2,016	2,085	2,156	2,229	2,304	2,379	2,455	\$21,643
Total Payout in million \$	1,241	1,834	1,576	1,307	1,327	1,367	1,404	1,448	1,496	1,546	1,596	\$16,141
Education Fund - 35% of POMV - FY03	0	642	551	457	465	478	491	507	524	541	559	\$5,215
Infrastructure - 20% of POMV - FY03	0	367	315	261	265	273	281	290	299	309	319	\$2,980
Dividend - 45% of POMV (lump sum) - FY03	941	825	709	588	597	615	632	652	673	696	718	\$7,646
Transfer to General Fund	300	0	0	0	0	0	0	0	0	0	0	\$300
Dividend Per Person	\$1,540	\$1,330	\$1,120	\$910	\$910	\$930	\$950	\$970	\$990	\$1,010	\$1,030	\$11,690
Transfer Inflation-proofing (to principal)	602	0	0	0	0	0	0	0	0	0	0	\$602
5 year average market value		26,199	26,260	26,138	26,549	27,330	28,075	28,957	29,925	30,914	31,920	

22-LS1207\G

Cook

5/1/02

**CS FOR HOUSE BILL NO. 304(2d RLS)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES WHITAKER, Fate, Mulder

**A BILL****FOR AN ACT ENTITLED**

1 "An Act relating to the education fund and the infrastructure and economic  
2 development fund, to the market value of the permanent fund, to distribution of the  
3 income of the permanent fund, and to the determination of net income of the mental  
4 health trust fund."

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

6 \* Section 1. AS 37.05 is amended by adding new sections to article 6 to read:

7 **Sec. 37.05.590. Education fund.** (a) There is created as a special account in  
8 the general fund the education fund consisting of transfers to the fund under  
9 AS 37.13.145(e). Money may be appropriated from the fund for public schools,  
10 including the University of Alaska.

11 (b) Nothing in this section dedicates money for a specific purpose.

12 **Sec. 37.05.600. Infrastructure and economic development fund.** (a) There  
13 is created as a special account in the general fund the infrastructure and economic  
14 development fund consisting of transfers to the fund under AS 37.13.145(f). Money

1 may be appropriated from the fund for capital projects, economic development  
2 projects, or payments of principal and interest on general obligation or revenue bonds  
3 issued by the state or an instrumentality of the state.

4 (b) Nothing in this section dedicates money for a specific purpose.

5 \* Sec. 2. AS 37.13.140 is amended to read:

6 **Sec. 37.13.140. Income available for distribution. The market value [NET**  
7 **INCOME] of the fund includes the market value [INCOME] of the earnings reserve**  
8 **account established under AS 37.13.145. The market value [NET INCOME] of the**  
9 **fund shall be computed annually as of the last day of the fiscal year in accordance with**  
10 **generally accepted accounting principles [, EXCLUDING ANY UNREALIZED**  
11 **GAINS OR LOSSES]. Income available for distribution on July 1 equals five [21]**  
12 **percent of the average year-end market value [NET INCOME] of the fund for the**  
13 **last five fiscal years, including the fiscal year just ended, but may not exceed [NET**  
14 **INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS] the**  
15 **balance in the earnings reserve account described in AS 37.13.145.**

16 \* Sec. 3. AS 37.13.145(b) is amended to read:

17 (b) At the beginning [END] of each fiscal year, the corporation shall transfer  
18 from the earnings reserve account to the dividend fund established under  
19 AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140.

20 \* Sec. 4. AS 37.13.145(d) is amended to read:

21 (d) Notwithstanding (b), (c), and (f) of this section, income earned on money  
22 awarded in or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ.  
23 (Superior Court, First Judicial District), including settlement, summary judgment, or  
24 adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or  
25 interest earned on the money, or on the earnings of the money shall be treated in the  
26 same manner as other income of the Alaska permanent fund, except that it is not  
27 available for distribution [TO THE DIVIDEND FUND], and shall be annually  
28 deposited into the principal of the Alaska permanent fund.

29 \* Sec. 5. AS 37.13.145 is amended by adding new subsections to read:

30 (e) At the beginning of each fiscal year, the corporation shall transfer from the  
31 earnings reserve account to the education fund (AS 37.05.590) 30 percent of the

1 income available for distribution under AS 37.13.140.

2 (f) At the beginning of each fiscal year, the corporation shall transfer from the  
3 earnings reserve account to the infrastructure and economic development fund  
4 (AS 37.05.600) 20 percent of the income available for distribution under  
5 AS 37.13.140.

6 (g) If the amount in the earnings reserve account is not sufficient to fully fund  
7 all transfers under (b), (e), and (f) of this section, the amount of each transfer shall be  
8 reduced on a pro rata basis so that the total amount transferred equals the balance in  
9 the earnings reserve account.

10 \* Sec. 6. AS 37.13.150 is amended to read:

11 **Sec. 37.13.150. Corporation budget.** The revenue generated by the fund's  
12 investments must be identified as the source of the operating budget of the corporation  
13 in the state's operating budget under AS 37.07 (Executive Budget Act). The  
14 unexpended balance of the corporation's annual operating budget does not lapse at the  
15 end of the fiscal year but shall be treated as income from the fund under  
16 AS 37.13.145(a) [AS 37.13.140].

17 \* Sec. 7. AS 37.13.300(c) is amended to read:

18 (c) Income or other money [NET INCOME] from the mental health trust  
19 fund may not be included in the computation of [NET] income available for  
20 distribution under AS 37.13.140.

21 \* Sec. 8. AS 37.14.031(c) is amended to read:

22 (c) The net income of the fund shall be determined by the Alaska Permanent  
23 Fund Corporation annually as of the last day of the fiscal year in accordance with  
24 generally accepted accounting principles [IN THE SAME MANNER THE  
25 CORPORATION DETERMINES THE NET INCOME OF THE ALASKA  
26 PERMANENT FUND UNDER AS 37.13.140].

27 \* Sec. 9. AS 37.17.020(b) is amended to read:

28 (b) The endowment shall be held and invested by the Alaska Permanent Fund  
29 Corporation subject to AS 37.13.120; however, net income from the endowment shall  
30 be distributed under AS 37.17.010 - 37.17.110 and 37.17.225. Income or other  
31 money [NET INCOME] from the endowment may not be included in the computation

1 of [NET] income available for distribution under AS 37.13.140.

2 \* **Sec. 10.** AS 37.17.440(b) is amended to read:

3 (b) The principal and income of the endowment shall be held and invested by  
4 the Alaska Permanent Fund Corporation subject to AS 37.13.120; however, net  
5 income from the endowment and subsequent income earned on net income from the  
6 endowment shall be held in a separate account until appropriated by the legislature.  
7 Income or other money [NET INCOME] from the endowment may not be included  
8 in the computation of [NET] income available for distribution under AS 37.13.140.

9 \* **Sec. 11.** AS 37.13.145(c) is repealed.

10 \* **Sec. 12.** The uncodified law of the State of Alaska is amended by adding a new section to  
11 read:

12 TRANSFER TO GENERAL FUND. At the beginning of fiscal year 2003, after the  
13 transfers under AS 37.13.145 at the end of fiscal year 2002, an amount equal to \$300,000,000  
14 or the balance in the earnings reserve account, whichever is less, is transferred from the  
15 earnings reserve account to the general fund.

**Input Variables**

(thousands)

GF Budget Growth Rate	2%
Perm Fund Earnings Rate	7.95%
CBR Earnings Rate	5%
Tax Rev. Growth Rate	2%

POMV	Total % to GF	50%	calculated
	% to Dividends	50%	calculated
Alaska Fair Tax	250,000	HB 303 - AFT	
Alcohol Tax	23,800	HB 225	
POMV Distribution	→	0.0%	

**Notes:**

- 1) ANS price, ANS production, GF Unrestricted Revenue and Perm Fund FY03 CBR & Permanent Fund figures are taken from the Spring 2002 Revenue Sources book published by DOR.
- 2) All tax revenue except sales taxes roll up under "Additional New Revenue" below.
- 3) Assumes passage of a flat GF budget for FY03.
- 4) Assumes collection of reduced tax revenues for FY03, and full tax collections for FY04 forward.
- 5) Effective Inflation Proofing equates to retained earnings in the ERA in a given year. In other words, the total return less any distributions.

**General Fund**

Spring 2002 Revenue Sources	ANS Average \$/bbl	649	656	663	670	678	685	693	701	709
Assumes Flat 03' budget		FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Unrestricted General Fund Budget	2,417,100	2,417,100	2,465,442	2,514,751	2,565,046	2,616,347	2,668,674	2,722,047	2,776,488	
HB 20 Reductions to GF Budg.	0	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	
Unrestricted GF Revenue	1,623,300	1,559,600	1,509,500	1,439,100	1,332,200	1,216,300	1,177,100	1,139,100	1,095,300	
Fiscal (Gap) Before New Revenue/Transfers	793,800	798,500	896,942	1,016,651	1,173,846	1,341,047	1,432,574	1,523,947	1,622,188	
HB 3 (Change in PF Deposits)	0	33,000	35,000	33,000	27,000	26,000	26,000	25,000	23,000	
ERA Transfer (POMV)	0	300,000	633,286	640,193	645,095	663,633	688,502	713,901	740,243	
Alaska Fair Tax (HB 303)	0	125,000	255,000	260,100	265,302	270,608	276,020	281,541	287,171	
Alcohol Tax Increase	0	19,040	19,421	19,809	20,205	20,610	21,022	21,442	21,871	
CBR Transfer	(793,800)	(321,460)	45,765	(63,548)	(216,244)	(360,196)	(421,030)	(482,064)	(549,903)	

**CBR Fund**

Beginning CBR balance	2,994,800	2,439,200	2,240,340	2,416,122	2,491,380	2,417,705	2,196,394	1,903,184	1,534,280
CBR earnings	138,200	92,600	112,017	120,806	124,569	120,885	109,820	95,159	76,714
Settlements	100,000	30,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
CBR (Draw)/Payback	(793,800)	(321,460)	45,765	(63,548)	(216,244)	(360,196)	(421,030)	(482,064)	(549,903)
Ending CBR balance	2,439,200	2,240,340	2,416,122	2,491,380	2,417,705	2,196,394	1,903,184	1,534,280	1,079,090

**Permanent Fund**

Principal - Begin Bal	21,051,422	21,893,422	22,125,422	22,350,422	22,670,422	22,771,422	22,951,422	23,130,422	23,307,422
Dedicated Revenue	240,000	220,000	212,000	206,000	186,000	165,000	163,000	160,000	155,000
Am Hess Settlement	0	12,000	13,000	14,000	15,000	15,000	16,000	17,000	18,000
Inflation Proofing	602,000	0	0	0	0	0	0	0	0
Principal - Ending Bal	21,893,422	22,125,422	22,350,422	22,670,422	22,771,422	22,951,422	23,130,422	23,307,422	23,480,422
ERA Begin Bal	3,767,311	2,712,311	3,469,311	4,163,152	4,925,783	5,754,935	6,628,073	7,534,118	8,474,508
Total Return estimated at 7.95%	486,000	1,923,000	2,042,413	2,116,018	2,193,342	2,274,404	2,358,049	2,444,191	2,532,825
Statutory Income	376,000	1,329,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividends - Total Distributed	(939,000)	(805,000)	(633,286)	(640,193)	(645,095)	(663,633)	(688,502)	(713,901)	(740,243)
Inflation Proofing Transfer	(602,000)	0	0	0	0	0	0	0	0
Am Hess/Admin/Special	0	(12,000)	(13,000)	(14,000)	(15,000)	(15,000)	(16,000)	(17,000)	(18,000)
Draw to GF (POMV)	0	(300,000)	(633,286)	(640,193)	(645,095)	(663,633)	(688,502)	(713,901)	(740,243)
HB 20	0	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)	(59,000)
ERA - Ending Bal	2,712,311	3,469,311	4,163,152	4,925,783	5,754,935	6,628,073	7,534,118	8,474,508	9,449,847
Market Value - Ending Bal	24,805,733	25,584,733	26,513,574	27,496,205	28,526,357	29,579,495	30,664,540	31,781,930	32,930,269
5yr.-MV Average	n/a	24,989,761	25,331,444	25,607,737	25,803,796	26,545,320	27,540,073	28,556,034	29,609,705

**POMV Summary**

POMV Total Available	n/a	n/a	1,286,572	1,280,387	1,290,190	1,327,266	1,377,004	1,427,802	1,480,485	
Dividend Fund	939,000	805,000	633,286	640,193	645,095	663,633	688,502	713,901	740,243	
Dividend Check (model)	\$1,850.00	\$1,363.17	\$1,060.93	\$1,061.02	\$1,057.56	\$1,076.00	\$1,103.87	\$1,131.75	\$1,160.19	
Assumes Retained In ERA	Effective Inflation Proofing	602,000	747,000	703,841	762,631	829,152	873,138	906,045	940,389	975,339
	Effective IP rate	2.86%	2.92%	2.65%	2.77%	2.91%	2.95%	2.95%	2.96%	2.96%
	Effective POMV Distribution	n/a	n/a	4.8%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%