

HB

1003

HOUSE BILL NO. 1003

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SPECIAL SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 6/22/04

Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the income of and appropriations from the Alaska permanent fund
2 under art. IX, sec. 15(b), Constitution of the State of Alaska, and making conforming
3 amendments; relating to permanent fund dividend payments of at least \$1,000; relating
4 to the determination of net income of the mental health trust fund; and providing for an
5 effective date."

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

7 * **Section 1.** AS 09.20.050(b) is amended to read:

8 (b) The jury list shall be based on a list prepared by the Department of
9 Revenue of all persons who filed an application for a [DISTRIBUTION OF
10 ALASKA] permanent fund dividend [INCOME] under AS 43.23 during the current
11 calendar year that shows an Alaska [ALASKAN] address, and of all persons who
12 volunteer for jury duty under (d) of this section. If considered necessary by the
13 administrative director of the Alaska Court System, the jury list shall incorporate a list

1 prepared by the Department of Administration of all persons who hold a valid Alaska
 2 driver's license. The departments shall submit their respective lists to the Alaska
 3 Court System not later than September 30 of each year. To the extent that it is
 4 available, the departments shall include on the lists they submit the following
 5 information for each person: first name, middle initial, and last name; mailing address,
 6 including the zip code; and birth date. The lists shall be recorded on magnetic tape
 7 compatible with Alaska Court System data processing equipment.

8 * **Sec. 2.** AS 24.20.206 is amended to read:

9 **Sec. 24.20.206. Duties.** The Legislative Budget and Audit Committee shall

10 (1) [REPEALED

11 (2)] annually review the long-range operating plans of all agencies of
 12 the state that perform lending or investment functions;

13 (2) [(3)] review periodic reports from all agencies of the state that
 14 perform lending or investment functions;

15 (3) [(4)] prepare a complete report of investment programs, plans,
 16 performance, and policies of all agencies of the state that perform lending or
 17 investment functions and notify the legislature within 30 days after the convening of
 18 each regular session that the report is available;

19 (4) [(5)] in conjunction with the finance committee of each house,
 20 recommend annually to the legislature the investment policy for the general fund
 21 surplus and for the [INCOME FROM THE] permanent fund;

22 (5) [(6)] provide for an annual post audit and annual operational and
 23 performance evaluation of the Alaska Permanent Fund Corporation investments and
 24 investment programs;

25 (6) [(7)] provide for an annual operational and performance evaluation
 26 of the Alaska Housing Finance Corporation and the Alaska Industrial Development
 27 and Export Authority; the performance evaluation must include, but is not limited to, a
 28 comparison of the effect on various sectors of the economy by public and private
 29 lending, the effect on resident and nonresident employment, the effect on real wages,
 30 and the effect on state and local operating and capital budgets of the programs of the
 31 Alaska Housing Finance Corporation and the Alaska Industrial Development and

1 Export Authority;

2 (7) [(8)] provide assistance to the trustees of the trust established in
3 AS 37.14.400 - 37.14.450 in carrying out their duties under AS 37.14.415.

4 * Sec. 3. AS 37.13 is amended by adding a new section to read:

5 **Sec. 37.13.143. Appropriations from the fund.** (a) The total amount
6 available for appropriation from the fund for a specific fiscal year is determined under
7 art. IX, sec. 15(b), Constitution of the State of Alaska. However, if the annualized real
8 rate of return of the fund during the first 10 of the 11 fiscal years immediately
9 preceding the specific fiscal year was less than five percent, the amount available for
10 appropriation for that specific fiscal year may not exceed that 10-year annualized real
11 rate of return multiplied by the average of the fiscal year-end market values of the
12 fund for the first five of the six fiscal years immediately preceding that specific fiscal
13 year. For purposes of this subsection, "real rate of return" means the total rate of
14 return of the fund's investments for the period measured, minus the rate of inflation for
15 that period, stated on an annualized basis.

16 (b) The legislature may appropriate from the fund for each fiscal year the
17 amount for costs of the corporation associated with operating and investing the fund.

18 (c) After the appropriation under (b) of this section, appropriations by the
19 legislature for a specific fiscal year are limited as follows, based on the total amount
20 remaining available for appropriation under (a) of this section:

21 (1) not more than five percent may be appropriated for municipalities
22 and other communities;

23 (2) not more than 45 percent may be appropriated for public education;

24 (3) not more than 50 percent may be appropriated to the dividend fund
25 established under AS 43.23.045.

26 (d) Notwithstanding (c) of this section, the amount of a dividend payment for
27 residents of the state shall be no less than \$1,000 each year. If the appropriation made
28 under (c)(3) of this section would be insufficient to pay that amount, the percentages
29 specified in (c)(1) and (2) of this section are decreased for the applicable year, and the
30 percentage specified in (c)(3) of this section is increased, by the amount necessary to
31 fund the shortfall.

New
language
to HB 298

1 (c) The corporation shall transfer money appropriated under this section from
2 the fund within 14 days after the effective date of the appropriation.

3 (f) For purposes of (a) of this section, the corporation shall calculate the rate
4 of inflation using the annual year over year change in the Consumer Price Index for all
5 urban consumers for the time period specified.

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

7 (d) Income [NOTWITHSTANDING (b) OF THIS SECTION, INCOME]
8 earned on money awarded in or received as a result of State v. Amerada Hess, et al.
9 1JU-77-847 Civ. (Superior Court, First Judicial District), including settlement,
10 summary judgment, or adjustment to a royalty-in-kind contract that is tied to the
11 outcome of this case, or interest earned on the money, or on the earnings of the money
12 shall be treated in the same manner as other income of the Alaska permanent fund,
13 except that it is not available for distribution to the dividend fund [, AND SHALL BE
14 ANNUALLY DEPOSITED INTO THE PRINCIPAL OF THE ALASKA
15 PERMANENT FUND].

New
language to
HB 298

16 * **Sec. 5.** AS 37.13 is amended by adding a new section to read:

17 **Sec. 37.13.148. Market value of the fund.** For the purposes of art. IX, sec.
18 15(b), Constitution of the State of Alaska, the corporation shall determine the market
19 value of the fund annually as of the close of business on June 30 in accordance with
20 generally accepted accounting principles for the determination of fair value.

21 * **Sec. 6.** AS 37.13.150 is amended to read:

22 **Sec. 37.13.150. Corporation budget.** The [REVENUE GENERATED BY
23 THE FUND'S INVESTMENTS MUST BE IDENTIFIED AS THE SOURCE OF
24 THE] operating budget of the corporation shall be included in the state's operating
25 budget under AS 37.07 (Executive Budget Act). [THE UNEXPENDED BALANCE
26 OF THE CORPORATION'S ANNUAL OPERATING BUDGET DOES NOT LAPSE
27 AT THE END OF THE FISCAL YEAR BUT SHALL BE TREATED AS INCOME
28 UNDER AS 37.13.140.]

29 * **Sec. 7.** AS 37.14.031(c) is amended to read:

30 (c) The net income of the fund shall be determined by the Alaska Permanent
31 Fund Corporation annually as of the last day of the fiscal year in accordance with

1 generally accepted accounting principles [IN THE SAME MANNER THE
2 CORPORATION DETERMINES THE NET INCOME OF THE ALASKA
3 PERMANENT FUND UNDER AS 37.13.140].

4 * Sec. 8. AS 43.23.025(a) is amended to read:

5 (a) By October 1 of each year, the commissioner shall determine the value of
6 each permanent fund dividend for that year by

7 (1) determining the total amount available for dividend payments,
8 which equals

9 (A) the amount of money appropriated from [INCOME OF]
10 the Alaska permanent fund [TRANSFERRED] to the dividend fund under
11 AS 37.13.143 [AS 37.13.145(b)] during the current year;

12 (B) plus the unexpended and unobligated balances of prior
13 fiscal year appropriations that lapse into the dividend fund under
14 AS 43.23.045(d);

15 (C) less the amount necessary to pay prior year dividends from
16 the dividend fund in the current year under AS 43.23.005(h) and under
17 AS 43.23.055(3) and (7);

18 (D) less the amount necessary to pay dividends from the
19 dividend fund due to eligible applicants who, as determined by the department,
20 filed for a previous year's dividend by the filing deadline but who were not
21 included in a previous year's dividend computation;

22 (E) less appropriations from the dividend fund during the
23 current year, including amounts to pay costs of administering the dividend
24 program and the hold harmless provisions of AS 43.23.075;

25 (2) determining the number of individuals eligible to receive a
26 dividend payment for the current year and the number of estates and successors
27 eligible to receive a dividend payment for the current year under AS 43.23.005(h); and

28 (3) dividing the amount determined under (1) of this subsection by the
29 amount determined under (2) of this subsection.

30 * Sec. 9. AS 43.23.028(a) is amended to read:

31 (a) By October 1 of each year, the commissioner shall give public notice of

1 the value of each permanent fund dividend for that year and notice of the information
 2 required to be disclosed under (3) of this subsection. In addition, the stub attached to
 3 each individual dividend check and direct deposit advice must

4 (1) disclose the amount of each dividend attributable to [INCOME
 5 EARNED BY THE PERMANENT FUND FROM] deposits to that fund required
 6 under art. IX, sec. 15, Constitution of the State of Alaska;

7 (2) disclose the amount of each dividend attributable to all [INCOME
 8 EARNED BY THE PERMANENT FUND FROM] appropriations to that fund plus
 9 [AND FROM] amounts added to that fund before January 1, 2005, to offset the
 10 effects of inflation;

11 (3) disclose the amount by which each dividend has been reduced due
 12 to each appropriation from the dividend fund, including amounts to pay the costs of
 13 administering the dividend program and the hold harmless provisions of
 14 AS 43.23.075;

15 (4) include a statement that an individual is not eligible for a dividend
 16 when

17 (A) during the qualifying year, the individual was convicted of
 18 a felony;

19 (B) during all or part of the qualifying year, the individual was
 20 incarcerated as a result of the conviction of a

21 (i) felony; or

22 (ii) misdemeanor if the individual has been convicted of
 23 a prior felony or two or more prior misdemeanors;

24 (5) include a statement that the legislative purpose for making
 25 individuals listed under (4) of this subsection ineligible is to

26 (A) obtain reimbursement for some of the costs imposed on the
 27 state criminal justice system related to incarceration or probation of those
 28 individuals;

29 (B) provide funds for services for and payments to crime
 30 victims and for grants for the operation of domestic violence and sexual assault
 31 programs;

1 (6) disclose the total amount that would have been paid during the
2 previous fiscal year to individuals who were ineligible to receive dividends under
3 AS 43.23.005(d) if they had been eligible;

4 (7) disclose the total amount appropriated for the current fiscal year
5 under (b) of this section for each of the funds and agencies listed in (b) of this section.

6 * **Sec. 10.** AS 37.13.140, 37.13.145(a), 37.13.145(b), 37.13.145(c), and 37.13.300(c) are
7 repealed.

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

10 **CONDITIONAL EFFECT.** This Act takes effect only if an amendment to art. IX, sec.
11 15, Constitution of the State of Alaska, relating to and limiting appropriations from the Alaska
12 permanent fund based on an averaged percent of the fund market value, is approved by the
13 voters during the 2004 general election and takes effect.

14 * **Sec. 12.** If this Act takes effect under sec. 11 of this Act, it takes effect January 1, 2005,
15 except as provided in sec. 13 of this Act.

16 * **Sec. 13.** Sections 1 and 2 of this Act take effect immediately under AS 01.10.070(c).

COMPARISON OF LANGUAGE FOR HB 298 AND HB 1003
House Rules Committee Worksheet

Page 3, Line 26:

HB 1003 (New language):

(d) Notwithstanding (c) of this section, the amount of a dividend payment for residents of the state shall be no less than \$1,000 each year. If the appropriation made under (c)(3) of this section would be insufficient to pay that amount, the percentages specified in (c)(1) and (2) of this section are decreased for the applicable year, and the percentage specified in (c)(3) of this section is increased, by the amount necessary to fund the shortfall.

Page 4, Line 6:

HB 1003 (New language):

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

(d) **Income** [NOTWITHSTANDING (b) OF THIS SECTION, INCOME] earned on money awarded in or received as a result of State v. Amerada Hess, et al. IJU-77-847 Civ. (Superior Court, First Judicial District), including settlement, summary judgment, or adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or interest earned on the money, or on the earnings of the money shall be treated in the same manner as other income of the Alaska permanent fund, except that it is not available for distribution to the dividend fund [,AND SHALL BE ANNUALLY DEPOSITED INTO THE PRINCIPAL OF THE ALASKA PERMANENT FUND].

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 1003
 (H) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Dist. Of Approps from PermFund RDU AK Permanent Fund Corporation
 Component AK Permanent Fund Corporation
 Sponsor Rules
 Requester Governor Component No. 109

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*
 This bill would change the Alaska statutes that address distributions from the Permanent Fund to conform to a Percent of Market Value payout limit. It would not change the management or the cost of operations of the Fund.

 See the attached schedule for financial projections of the Fund comparing the "Status Quo" to a 5% POMV spending limit.

Prepared by: Robert D. Storer, Executive Director Phone 465-7047
 Division Alaska Permanent Fund Corporation Date/Time 6/19/2004/1:09 PM
 Approved by: Steve Porter, Deputy Commissioner Date 6/19/2004
 Agency Department of Revenue



Alaska Permanent Fund Corporation

Financial projection comparison of the Alaska Permanent Fund under current statutes versus POMV 5% lump sum payout, median case. All dollars in millions except per person dividend.

Fiscal Note #1 - HB 1003

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY05-FY15</u>
Current Statutes												Totals
Contributions & appropriations (principal)	24,452	25,383	26,278	27,189	28,120	29,077	30,053	31,049	32,061	33,090	34,139	
Unrealized appreciation/depreciation on assets	1,683	1,913	2,160	2,425	2,702	2,993	3,304	3,624	3,965	4,317	4,684	
Realized earnings account (REA, after payouts)	1,297	1,879	2,375	2,778	3,185	3,617	4,074	4,568	5,092	5,658	6,263	
Total market value end of year (after payouts)	27,433	29,176	30,814	32,393	34,007	35,688	37,431	39,241	41,118	43,065	45,087	45,087
Total lump sum dividend appropriation	512	576	750	924	1,002	1,058	1,114	1,170	1,228	1,288	1,350	10,972
Per person dividend under current statute	\$ 790	\$ 890	\$ 1,160	\$ 1,420	\$ 1,530	\$ 1,600	\$ 1,670	\$ 1,740	\$ 1,810	\$ 1,880	\$ 1,950	\$ 16,440
Transfer status quo inflation-proofing (REA to Principal)	620	643	666	689	713	737	762	787	812	839	865	8,132
POMV - 5% (beginning in FY05)												Totals
Contributions & appropriations (principal)	23,840	24,128	24,358	24,580	24,800	25,021	25,237	25,447	25,648	25,841	26,026	
Unrealized appreciation/depreciation on assets	1,683	1,892	2,103	2,322	2,548	2,781	3,026	3,274	3,532	3,793	4,059	
Realized earnings account (REA, after payouts)	1,173	1,687	2,243	2,809	3,382	3,965	4,561	5,179	5,811	6,465	7,139	
Total market value end of year (after payouts)	26,695	27,707	28,703	29,712	30,730	31,768	32,824	33,900	34,991	36,099	37,224	37,224
5 year average market value lagged one year	25,851	25,902	26,508	27,614	28,846	30,012	31,066	32,140	33,234	34,344	35,472	
Total 5 % lump sum average market value available for appropriation	1,293	1,295	1,325	1,381	1,442	1,501	1,553	1,607	1,662	1,717	1,774	16,549

Assumptions:

Callan Associates 2004 Capital Market Assumptions, APFC 2004 asset allocation, Spring 2004 revenue forecast, financial statements through 06/30/03. All payouts are assumed to happen at fiscal year end, all dollar values in millions.

POMV payout assumes calculation methodology is 5% of the ending market value (pre payout) for the first five of the last six fiscal years.



Alaska Permanent Fund Corporation

Fiscal Note #1 - HB 1003

POMV payout, split 50% to the Dividend, 45% to public services and 5% to the municipal dividend

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY05-FY15 Totals
POMV - 5% (beginning in FY05)												
Contributions & appropriations (principal)	23,840	24,128	24,358	24,580	24,800	25,021	25,237	25,447	25,648	25,841	26,026	
Unrealized appreciation/depreciation on assets	1,683	1,892	2,103	2,322	2,548	2,781	3,026	3,274	3,532	3,793	4,059	
Realized earnings account (REA, after payouts)	1,173	1,687	2,243	2,809	3,382	3,965	4,561	5,179	5,811	6,465	7,139	
Total market value end of year (after payouts)	26,695	27,707	28,703	29,712	30,730	31,768	32,824	33,900	34,991	36,099	37,224	37,224
5 year average market value lagged one year	25,851	25,902	26,508	27,614	28,846	30,012	31,066	32,140	33,234	34,344	35,472	
Total available for appropriation	1,293	1,295	1,325	1,381	1,442	1,501	1,553	1,607	1,662	1,717	1,774	16,549
AFPC management costs	(43)	(44)	(45)	(47)	(48)	(50)	(51)	(53)	(54)	(56)	(57)	(547)
payout 50% after APFC costs - lump sum dividend	625	626	640	667	697	726	751	777	804	831	858	8,001
payout 45% after APFC costs for government services	562	563	576	600	627	653	676	699	723	748	772	7,201
payout 5% after APFC costs for municipal dividend	62	63	64	67	70	73	75	78	80	83	86	800
Per person dividend	\$990	\$990	\$1,000	\$1,040	\$1,090	\$1,130	\$1,160	\$1,200	\$1,230	\$1,270	\$1,310	\$12,410
Total available for appropriation	1,293	1,295	1,325	1,381	1,442	1,501	1,553	1,607	1,662	1,717	1,774	16,549
AFPC management costs	(43)	(44)	(45)	(47)	(48)	(50)	(51)	(53)	(54)	(56)	(57)	(547)
payout 50% after APFC costs - lump sum dividend	628	631	640	667	697	726	751	777	804	831	858	8,009
payout 45% after APFC costs for government services	559	558	576	600	627	653	676	699	723	748	772	7,193
payout 5% after APFC costs for municipal dividend	62	63	64	67	70	73	75	78	80	83	86	800
Guarantee \$1,000 minimum dividend	\$1,000	\$1,000	\$1,000	\$1,040	\$1,090	\$1,130	\$1,160	\$1,200	\$1,230	\$1,270	\$1,310	\$12,430