

HB

298

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 298(W&M)
 (H) Publish Date: 3/18/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Dist. Of Approps from Perm Fund RDU AK Permanent Fund Corporation
 Component AK Permanent Fund Corporation
 Sponsor Ways and Means Committee
 Requester Ways and Means Committee 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)

HB 298 would change the amount available to distribute from the Permanent Fund to conform to a Percent of Market Value payout limit. HB 298 would not change the management or the cost of operations of the Fund.

Prepared by: Robert D. Storer, Executive Director Phone 465-2047
 Division Alaska Permanent Fund Corporation Date/Time 3/16/04 8:12 AM
 Approved by: Steve Porter, Deputy Commissioner Date 3/16/2004
 Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 298(FIN)
 (H) Publish Date: 4/7/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Distribution of Appropriations RDU Revenue Programs & Services
from the Permanent Fund Component Commissioner's Office
 Sponsor House Ways and Means
 Requester House Finance Committee Component No. 123

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 legislation would allocate the funds from an annual 5% percent-of-market-value distribution (POMV) of the Permanent Fund. The distribution would be 50% of the funds to the state General Fund for public services, and 50% to the dividend fund for per-capita distribution to eligible Alaskans. This legislation would replace the current dividend calculation formula in statute. For purposes of this fiscal note, the Department of Revenue assumed this new distribution formula would take effect with the FY 2006 budget and the October 2005 dividend. Under this legislation, the amount of money available to the General Fund and for per-capita dividends is projected at:

	FY2006	FY2007	FY2008	FY2009	FY 2010	FY2011
Public Services	\$641.5 million	\$667.0 million	\$705.0 million	\$746.0 million	\$776.5 million	\$803.5 million
	Oct. 2005	Oct. 2006	Oct. 2007	Oct. 2008	Oct. 2009	Oct. 2010
Per-capita Dividend	\$641.5 million	\$667.0 million	\$705.0 million	\$746.0 million	\$776.5 million	\$803.5 million

Prepared by: Steve Porter, Deputy Commissioner
 Division: Department of Revenue
 Approved by: Steve Porter, Deputy Commissioner
 Agency: Department of Revenue

Phone 465-2302
 Date/Time 3/22/04 12:30 PM
 Date 3/22/2004

Alaska State Legislature

House Special Committee on Ways and Means

Representative Mike Hawker, Chairman

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Sponsor Statement and Sectional Analysis CSHB 298 (W&M) - Version \S

HB 298 is effective only if a Percent of Market Value (POMV) constitutional amendment is approved by the voters during the 2004 general election and takes effect. HB 298 provides conforming language to existing statute to accommodate changing the constitutional requirement that all income of the Permanent Fund be deposited into the general fund to the more limiting appropriation mechanism of "up to 5%" of market value in the proposed POMV constitutional amendment and to recognize the merger of the Earnings Reserve Fund into the Permanent Fund.

HB 298 also provides that the annual appropriation from the Permanent Fund under the POMV management structure be divided equally between paying individual dividends and public services.

Section 1: Amends the basis for the Alaska jury list to people applying for a Permanent Fund Dividend. Former language referenced applicants for a "distribution of Alaska Income."

Section 2: Changes Legislative Budget and Audit Committee duties from making annual recommendations for investment policy for the "income" of the Permanent Fund to making annual recommendation for investment policy for the Permanent Fund. This change is consistent with the merger of the Earnings Reserve (income) Account into the Permanent Fund itself and with the general oversight responsibilities of the LB&A committee for the Permanent Fund and its operations.

Section 3(a): Provides that no appropriation shall be made from the Permanent Fund in excess of the average 10-year real rate of return. If the fund does not make a 5% real return over 10 years, the amount available for appropriation is reduced to that real return. This provision provides a statutory framework for implementing the "up to 5%" provision in the proposed POMV constitutional amendment.

Committee Members:

Representative Ralph Samuels • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson • Representative Dan Ogg
Representative Max Gruenberg • Representative Carl Moses

Section 3(b): Provides that annual appropriations from the Permanent Fund be divided equally between paying individual dividends and public services.

Section 4: The proposed POMV constitutional amendment allows appropriations based on the "market value" of the fund. This section provides a statutory mandate that "market value" be determined in accordance with generally accepted accounting principles.

Section 5: Eliminates the current statutory provision that any unexpended operating budget of the Permanent Fund Corporation be included in the determination of "income" of the fund for the calculation of income available for distribution. The determination of income available for distribution will no longer be required under the proposed POMV constitutional amendment that bases the amount that can be distributed on market value. Accordingly, this provision is no longer relevant.

Section 6: The Permanent Fund Corporation manages the investment portfolio of the Mental Health Trust Authority. Current statute provides that the income from those funds be determined "in the same manner the corporation determines the net income of the Alaska Permanent Fund..." The Mental Health Trust Authority has previously adopted a POMV style management. This section provides a statutory mandate that the net income of the Mental Health Trust fund be determined in accordance with generally accepted accounting principles. This is the same language that is being adopted for the Permanent Fund itself in Section 4.

Section 7: This section changes language in the existing Permanent Fund Dividend payment statutes to language that conforms to the proposed POMV methodology. This change has no substantive consequence on the current dividend payment statutes.

Section 8: This section changes language in the disclosures required on the payment stub for Permanent Fund Dividends to language that conforms to the proposed POMV methodology. This change has no substantive consequence on the disclosures required.

Section 9: Repeals statute that will be superseded by operation of the proposed POMV constitutional amendment. AS 37.13.140 defined income and net income of the Permanent Fund for purposes of making distributions. Under the proposed POMV constitutional amendment, distributions are based on Market Value not on income. AS 37.13.145 defined the disposition of the income of the permanent fund including inflation proofing and transfers to the dividend account. Inflation proofing is inherent in the proposed POMV constitutional amendment and Section 3 of this legislation provides for transfers to the dividend account.

Section 10: Provides that this Act takes effect only if a POMV amendment is approved by the voters during the 2004 general election and takes effect.

Section 11: Provides that. Subject to Section 10, the effective date of this act will be January 1, 2005.

Alaska State Legislature

House Special Committee on Ways and Means

Representative Mike Hawker, Chairman

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Sectional Analysis CSHB 298(FIN)

HB 298 is effective only if a Percent of Market Value (POMV) constitutional amendment is approved by the voters during the 2004 general election and takes effect. HB 298 provides conforming language to existing statute to accommodate changing the constitutional requirement that all income of the Permanent Fund be deposited into the general fund to the more limiting appropriation mechanism of "up to 5%" of market value in the proposed POMV constitutional amendment and to recognize the merger of the Earnings Reserve Fund into the Permanent Fund.

HB 298 also provides that the annual appropriation from the Permanent Fund under the POMV management structure be divided equally between paying individual dividends and public services.

Section 1: Amends the basis for the Alaska jury list to people applying for a Permanent Fund Dividend. Former language referenced applicants for a "distribution of Alaska Income."

Section 2: Changes Legislative Budget and Audit Committee duties from making annual recommendations for investment policy for the "income" of the Permanent Fund to making annual recommendation for investment policy for the Permanent Fund. This change is consistent with the merger of the Earnings Reserve (income) Account into the Permanent Fund itself and with the general oversight responsibilities of the LB&A committee for the Permanent Fund and its operations.

Section 3(a): Provides that no appropriation shall be made from the Permanent Fund in excess of the average 10-year real rate of return. If the fund does not make a 5% real return over 10 years, the amount available for appropriation is reduced to that real return. This provision provides a statutory framework for implementing the "up to 5%" provision in the proposed POMV constitutional amendment.

Committee Members:

Representative Ralph Samuels • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson • Representative Dan Ogg
Representative Max Gruenberg • Representative Carl Moses

Section 3(b): Provides authorization for appropriations from the fund to cover corporation costs associated with operating and investing the fund.

Section 3(c): Provides that annual appropriations from the Permanent Fund be divided equally between paying individual dividends and funding public education.

Section 3(d): Provides timeframe for transfer of money appropriated from the fund.

Section 3(e): Defines the Index to be used in determining the Rate of Inflation.

Section 4: The proposed POMV constitutional amendment allows appropriations based on the "market value" of the fund. This section provides a statutory mandate that "market value" be determined in accordance with generally accepted accounting principles.

Section 5: Provides that the corporation's operating budget be included in the state's operating budget. Eliminates the current statutory provision that any unexpended operating budget of the Permanent Fund Corporation be included in the determination of "income" of the fund for the calculation of income available for distribution. The determination of income available for distribution will no longer be required under the proposed POMV constitutional amendment that bases the amount that can be distributed on market value.

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Section 3(b): Provides that annual appropriations from the Permanent Fund be divided equally between paying individual dividends and public services.

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Section 10: Provides that Sections 3, 4 and 6-9 of this Act take effect only if a POMV amendment is approved by the voters during the 2004 general election and takes effect.

Section 11: Provides that subject to Section 10, the effective date of this act will be January 1, 2005.

Section 12: Provides that subject to Section 1, 2, and 5 of this take effective immediately.

ALASKA PERMANENT FUND CORPORATION

ANALYSIS OF HB 298(W&M) "D" VERSION

CURRENT STATUTES

Section 11 of the proposed bill includes the repeal of the two statutory sections detailed below.

1) Fund Income Available for Appropriation

AS 37.13.140. Net income of the fund includes income of the earnings reserve account established under AS 37.13.145. Net income of the fund shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent of the net income of the fund for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the fund for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145.

(2) Distribution of Income

AS 37.13.145. (a) The earnings reserve account is established as a separate account in the fund. Income from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120.

- (b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140.
- (c) after the transfer under (b) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund

PROPOSED STATUTES/CONSTITUTION

To replace the repealed statutes HB 298 proposes two new statutory provisions (items 1 & 3 below) and one new subsection in the constitution (item 2 below).

(1) Fund Value Determination (Section 4)

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

2) Fund value available for appropriation

HJR 26 would amend the Permanent Fund provision in the Constitution (Article IX sec. 15) by adding subsection (b) – annual appropriations from the fund are limited to 5% of 5 year-end averaged market value.

3) Distribution of Value (Section 3)

Sec. 37.13.143. **Appropriation from the fund.** Appropriations by the legislature from the fund for a specific fiscal year are limited as follows:

- (1) not more than 60 percent of the total amount available for appropriation for that year under art. IX, sec. 15(b), Constitution of the State of Alaska, to the general fund;
- (2) not more than 40 percent of the total amount available for appropriation for that year under art. IX, sec. 15(b), Constitution of the State of Alaska, to the dividend fund established under AS 43.23.045.

ALASKA PERMANENT FUND CORPORATION

ANALYSIS OF HB 298(W&M) "D" VERSION

CURRENT STATUTES

an amount sufficient to offset the effect of inflation on principal of the fund during that fiscal year. The corporation shall calculate the amount to transfer to the principal under this subsection, by

- (1) computing the average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years;
- (2) computing the percentage change between the first and second calendar year average; and
- (3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended.
- (d) Notwithstanding (b) of this section, income earned on money awarded in or received as a result of State v. Amerada Hess, et al., 1JU-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.

PROPOSED STATUTES/CONSTITUTION

Note: Statutory inflation proofing [AS 37.13.145(c) 1 - 3] is repealed. Inflation proofing under POMV (HJR 26) would be implicit by limiting annual expenditures to no more than 5% of the fund value. To inflation proof the Fund no action would be necessary by the APFC or the Legislature.



Today's Situation

Permanent Fund Balance

\$26 billion



POMV of 5%

\$1.3 billion



\$1,000 Dividend Check

\$650 million



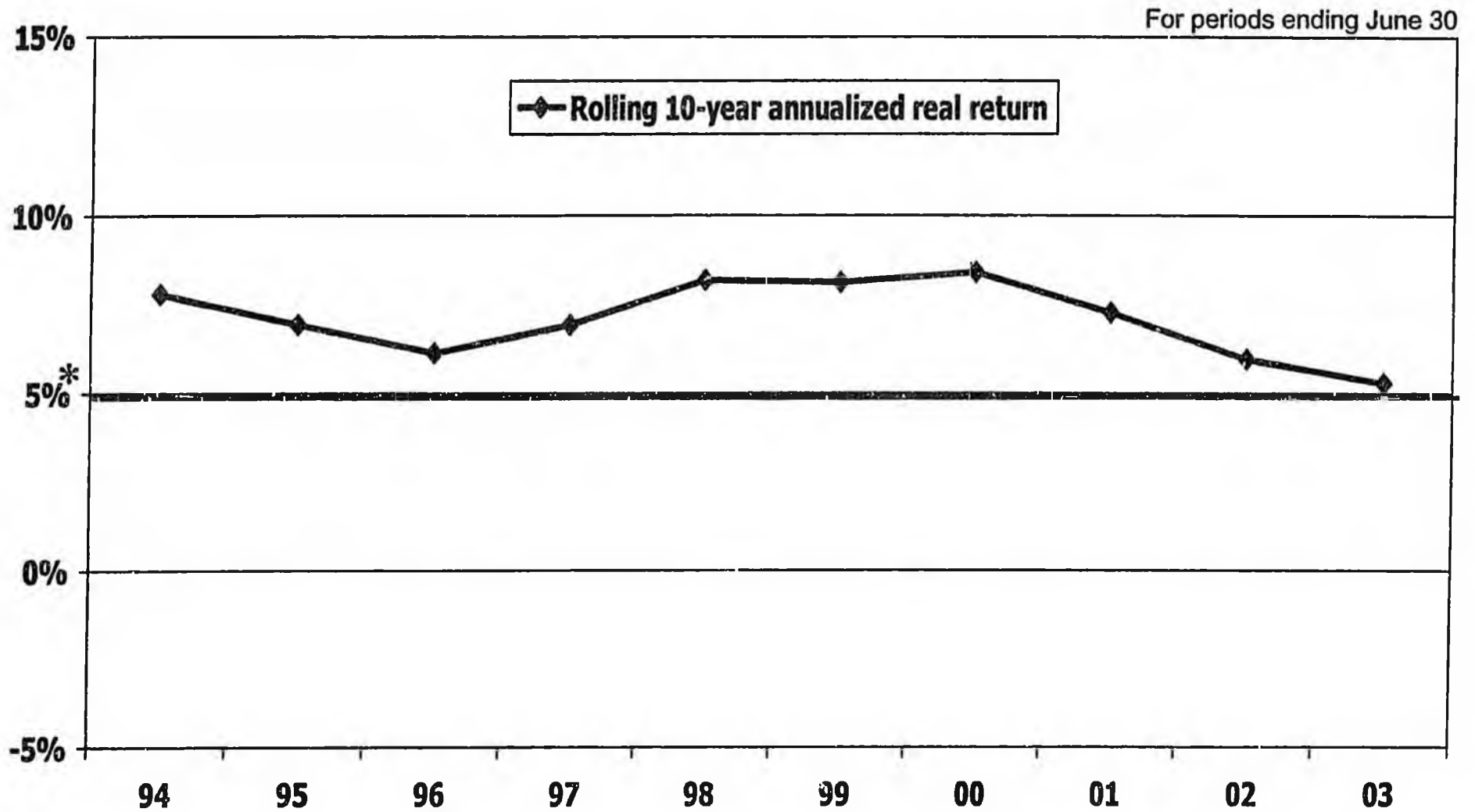
General Government

\$650 million






Rolling 10-year real return – Fiscal year




ACCOUNTABILITY

TO ALASKANS, FOR ALASKANS

Looking Back at 1976




**Excerpt from the 1976 Official Election Pamphlet
Statement in Favor of Proposition No. 2
Alaskans Should Strongly Support the Establishment of a
Permanent Fund**



"Just as a wise and prudent family sets aside money in a savings account for the future, so should Alaska's state government set aside a rainy day fund to benefit this and future generations of Alaskans. In a "Permanent Fund" you—the voter—can prevent a major source of income from being doled out for day-to-day needs or desires of state government by placing up to 25% of all revenue generated from non-renewable resources such as mineral leases, rentals, royalties and federal mineral revenue sharing payments and bonuses into such a fund.


In recent years the state legislature has been spending \$2.00 for every \$1.00 taken in. Authorities estimate that if the present rate of spending continues, Alaska will require a budget in excess of one billion dollars by or before 1980. Establishment of this "Permanent Fund" will provide for the use of the principal for the *income-producing investments only* and provide a businesslike approach of permitting the State to meet countless community needs.

Today, as the result of anticipated oil and gas revenues, Alaska stands on the brink of unprecedented propriety. No one, but no one, argues that these non-renewable resources will last but for a few decades. Similarly, no one should fail to recognize that in those years ahead the cost state government will continue to spiral upwards. Now is the time to ask ourselves the question: **"When the oil and gas is depleted, where will the funds to feed our giant government come from?"** The answer is: **"The Permanent Fund"**.



While it is to be hoped that such a fund may contribute to cutting cost or, at least, holding the line on state spending, **its major value would be that it would require our elected officials to pause, reflect and research, any proposal before blindly authorizing expenditure of taxpayers monies.** This would provide needed time for the press and the public to also be aware of the pending project and its merit, instead of being out of public view and hidden in the spending pattern of normal day-to-day operations. Projects invested in with sources from the "Permanent Fund" could help broaden Alaska's narrow based economy and bring more stability to our State.

We would caution the public that while a "Permanent Fund" could provide a tool for accomplishing real needs for community improvements, it will, in the final analysis, not replace our collective responsibility to elect state administrators and legislators who will use the same reason and restraint in spending the public money as they would their own funds.



Establishment of a "Permanent Fund" is an exciting concept and when approved and properly used can serve long and well the best public interest of Alaskans."

Alaska State Chamber of Commerce

Permanent Fund Income Distributable to the State of Alaska
Stated in Thousands

Prepared March 2, 2004 by Representative Dan Ogg's staff ⁽¹⁾

The Legislature appropriated a portion of the Fund's statutory net income for various purposes, including the payment of dividends to qualified residents of the State of Alaska. In addition, the Legislature appropriated a portion of the Fund's realized earnings to fund various other agency activities.

Income distributable to the state as of June 30 each year is summarized as follows:

	2003	2002	2001	2000	1999	1998	1997	1996	Total
Dividends	\$ 657,064	\$ 897,453	\$ 1,082,300	\$ 1,142,148	\$ 1,016,113	\$ 883,982	\$ 717,635	\$ 613,343	\$ 6,990,038
Appropriations to the Department of Corrections ⁽²⁾	\$ 6,895	\$ 4,258	\$ 3,615	\$ 2,929	\$ 2,147	\$ 1,047	\$ 1,047	\$ 803	\$ 22,741
Health and Social Services ⁽²⁾	15,406	13,008	16,147	17,518	18,689	19,101	21,493	21,717	143,079
Revenue ⁽⁴⁾	5,444	5,245	5,098	4,985	4,793	5,677	4,486	5,317	41,046
Public Safety ⁽²⁾	4,209	5,380	5,376	4,871	3,234	2,904	2,119	1,633	29,726
Legislature ⁽⁵⁾	462	462	64						988
Administration ⁽⁶⁾	1,170								1,178
Sub-Total to Departments	\$ 33,594	\$ 28,353	\$ 30,301	\$ 30,303	\$ 28,863	\$ 28,729	\$ 29,145	\$ 29,470	\$ 238,758
Total to dividend fund	\$ 690,658	\$ 925,809	\$ 1,112,801	\$ 1,172,451	\$ 1,044,976	\$ 882,711	\$ 746,780	\$ 642,813	\$ 7,228,796
Other Agencies ⁽⁷⁾		4,547	3,843	2,780	3,015	494	1,748	3,414	19,841
Total	\$ 690,658	\$ 930,353	\$ 1,116,644	\$ 1,175,231	\$ 1,047,991	\$ 883,205	\$ 748,528	\$ 646,227	\$ 7,248,637

Notes:

- (1) Source of data is the Permanent Fund's Annual Reports
- (2) These departments receive and expend the dividends of incarcerated individuals as PF "felon funds" to help offset their cost of incarceration
- (3) The PFD "Hold Harmless" payments replace public assistance program benefits when receiving the PFD causes individuals to lose eligibility or to have benefits reduced
- (4) The PFD Division utilizes a portion of the total amount available for dividends for their operating costs
- (5) "Felon funds" are appropriated to the legislature to support the Office of Victims' Rights
- (6) "Felon funds" are appropriated to the department to support the Violent Crimes Compensation Board
- (7) Amounts paid to other State of Alaska agencies for support of APFC operations, including Dept. of Revenue, Dept. of Natural Resources, and Dept. of Law - Beginning in FY03, appropriations for other state agencies using APFC's budget code will be reported with total APFC operating expenses, as a reduction of APF revenues