

HB

298

SFIN

FILE

HB 298

was referred to the
Senate Finance
Committee

No hearing was held
on this bill

Alaska State Legislature
House Special Committee on Ways and Means
Representative Mike Hawker, Chairman

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Sectional Analysis
CSHB 298(FIN) am

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. Sections 1 and 2 of the bill are considered to be housekeeping measures and would take effect immediately.

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 how the annual appropriation from the Permanent Fund under the POMV management structure may be divided among individual dividends, public education and communities.

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.

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

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(c): Provides how the annual appropriation from the Permanent Fund may be divided among individual dividends, public education and communities.

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.

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 superceded 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.

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



Alaska Permanent Fund Corporation

Financial projection of the Alaska Permanent Fund under a POMV spending limit and payouts designated in House Bill 298, beginning in FY05.

\$ millions (except per person dividend)

	<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>
POMV - 5% (beginning in FY05)											
Contributions & appropriations (principal)	23,844	24,135	24,370	24,595	24,819	25,042	25,263	25,475	25,683	25,878	26,066
Unrealized appreciation/depreciation on assets	3,467	3,515	3,437	3,595	3,590	3,801	3,814	4,057	4,072	4,333	4,567
Realized earnings account (after payouts)	1,864	2,677	3,641	4,371	5,254	5,941	6,846	7,550	8,504	9,242	10,034
Total market value end of year (after payouts)	29,175	30,327	31,447	32,561	33,633	34,784	35,923	37,082	38,258	39,452	40,666
5 year average market value lagged one	26,323	26,875	28,015	29,684	31,507	32,814	33,999	35,188	36,385	37,590	38,807
Total available for appropriation	1,316	1,344	1,401	1,484	1,575	1,641	1,700	1,759	1,819	1,879	1,940
APFC management costs	43	44	45	47	48	50	51	53	54	56	57
Payout after APFC costs:											
payout 50% lump sum dividend	637	650	678	719	764	796	824	853	883	912	941
payout 45% for public education	573	585	610	647	688	716	742	768	795	821	847
payout 5% for municipal dividend	64	65	68	72	76	80	82	85	88	91	94
Per person dividend	\$ 1,010	\$ 1,030	\$ 1,070	\$ 1,130	\$ 1,200	\$ 1,240	\$ 1,280	\$ 1,320	\$ 1,360	\$ 1,400	\$ 1,440