

SJR

32

February 12, 2004

Fellow Alaskans,

The 55 of us have spent the past three days in Fairbanks at the Conference of Alaskans called by Governor Murkowski to consider the fiscal future of our state and the proper role of the Permanent Fund in that future. We believe there are five basic facts that Alaskans must and do acknowledge.

- The Permanent Fund must remain precisely that – permanent – and must be protected.
- Permanent Fund Dividends provide the crucial link between the Permanent Fund and its true owners, the People of Alaska, and so they too must continue.
- The fiscal crisis facing Alaska is a clear and present danger to the adequate protection of necessary public services.
- Alaska must not impose self-inflicted harm. The delegates now believe that Alaska's state spending is inadequate to meet current needs for public education, public protection, and many other necessary state services. Too many communities around Alaska, large and small, are already facing desperate decisions.
- Alaska needs some kind of standby cash reserve so state and local government services won't have to come to a catastrophic halt if oil prices crash.

With these facts in mind, we have considered and discussed the four questions that Governor Murkowski specifically asked us, and here are what we believe are the best answers to them.

1. Should the use of income from the Permanent Fund be limited by the Constitution to 5% of the Fund's value, as the Permanent Fund Trustees have proposed?

Yes. We must inflation-proof the Permanent Fund in order to keep it and the Permanent Fund Dividends (PFDs) from evaporating away in the future. The "percent of market value" (POMV), as suggested by the trustees will put inflation-proofing into the Constitution, instead of leaving it to the Legislature's discretion. POMV is a technical change in determining how much money from the Fund is available, but it has nothing directly to do with the choice of using it for Dividends or spending it on anything else. That's the next question.

2. Should a portion of the income of the Permanent Fund be used for essential state services, such as education?

Our answer here is "yes, but..." There are two conditions to our endorsement. One, dividends must be paid out first under POMV. Only what's left over could be used for essential state services. Two, the delegates to the Conference of Alaskans recommend that the governor and legislature take action to balance the state's revenues and

expenditures, including but not limited to, consideration of a personal income tax, other broad-based taxes and other alternative sources of income.

3. *Should the use of the income of the Permanent Fund for dividends and possibly for other purposes be determined annually by the Legislature, as is currently the case? Or should it be dedicated in the Constitution?*

A reasonable percentage of the Permanent Fund money available under POMV should be constitutionally dedicated to PFDs in order to make them "permanent" like the Fund itself. All other uses of the remaining Permanent Fund money should be left for the Legislature to appropriate, since it is impossible for this generation to predict what the needs will be for the next.

4. *Should the state maintain a minimum balance in the Constitutional Budget Reserve to stabilize state finances against fluctuations in oil production or prices?*

Yes, a prudent amount should be in reserve at all times, for two reasons. We can't afford to send home all the police, firefighters, teachers or other critical personnel because the state treasury is empty due to something unforeseen. It is critical that a prudent amount be retained in a Constitutional Budget Reserve (CBR) to stabilize state finances against fluctuations in oil production or prices. This is necessary to maintain the state's very good credit-rating which will save millions of dollars in the future. Therefore, if oil production is interrupted or prices fall, so that we need to draw the CBR below the prudent balance, the state needs a plan to refill it back to that level as soon as possible.

We have been honored by the presence and words of former Governor Jay Hammond during the Conference of Alaskans, and we applaud his continuing passionate dedication to protecting the Alaska Permanent Fund and building a strong fiscal future for Alaska. We have been honored by hearing from hundreds of Alaskans during the course of the Conference of Alaskans, and we thank them for their contributions.

It has been an honor to answer the call of Governor Murkowski in his quest to address issues critical to Alaska. We commend his willingness to bring together this diverse group of Alaskans and join him as we look toward the future of Alaska together. We acknowledge the tremendous staff time put in by both the Administration and the different departments within the Administration, and by the University of Alaska and its staff.

These were challenging discussions with no easy answers. We sincerely believe they are the best answers available for all Alaskans as a whole, and we know they are superior to the "easy" answers. We have tried our best to represent the interests of all Alaskans, and we hope each of you will take up where we have had to leave off. It is time to act. Thank you for the honor of representing you.

As adopted by the Conference of Alaskans Feb. 12, 2004

A RESOLUTION

Expressing the sense of the conference that distributions from the Alaska Permanent Fund for permanent fund dividends be dedicated in the constitution and that distributions from the Alaska Permanent Fund for other public purposes should be determined annually by the legislature.

BE IT RESOLVED BY THE CONFERENCE OF ALASKANS:

WHEREAS the Alaska Permanent Fund was established as an exception to the dedicated fund prohibition so that enough revenue could be segregated and protected to provide a source of money to benefit present and future generations of Alaskans;

WHEREAS dedication of a part of the distributions from the Alaska Permanent Fund provides a predictable and stable means to finance the permanent fund dividend for the foreseeable future;

NOW THEREFORE LET IT BE RESOLVED: The Legislature should pass a resolution proposing a constitutional amendment and present it to the voters for ratification at the 2004 general election that would protect the permanent fund dividend and ensure that the dividend would continue to be paid to state residents.

SENATOR KIM ELTON

SJR 32
Guaranteeing 80% of POMV money for dividends

Sponsor Statement

Governor Murkowski's Conference of Alaskans carefully examined several questions regarding the Alaska Permanent Fund. The conferees' letter to Alaskans stated, "Permanent Fund Dividends provide the crucial link between the Permanent Fund and its true owners, the People of Alaska, and so they too must continue." They concluded that after paying dividends, Alaska must use some earnings from the fund. They also supported state policy makers supplementing spending from the Permanent Fund earnings stream with income and other taxes. Senate Joint Resolution 32 is a vehicle to allow the legislature to take up the conference's recommendation that a portion of the earnings stream be used for dividends and a portion used for spending on state services.

SJR 32 constitutionally guarantees that 80% of the revenue stream from the permanent fund under a Percent of Market Value (POMV) approach to fund management will go to permanent fund dividends. This constitutional amendment takes effect only if a POMV amendment passes the legislature and is approved by the voters. It leaves the remaining 20% to the legislature's discretion.

Paying dividends at 4% of market value (80% of 5% POMV) would make them significantly larger in the next few years, because of the recent downturn in the investment markets. However, in 2000, payment of the dividend required roughly 4.3% of the fund's year-end market value (combining the principal and earnings reserve.) Permanent Fund Corporation analysis of the revenue stream available under CSSJR 18 (STA) projects the current dividend calculation statutes will require an average of approximately 60% of the POMV revenue stream from FY 2004-2015. If historical data from FY 90 to the present is included in that average, the number approaches 76%. Among the benefits of a higher payout is that it provides Alaska's economy with a significant boost to enhance revenue from any future broad based taxes.

The Conference of Alaskans' conclusion was clear: "A reasonable percentage of the Permanent Fund money available under POMV should be constitutionally dedicated to PFDs in order to make them "permanent" like the Fund itself."

I would appreciate your support.

ALASKA SENATE

STATE CAPITOL • JUNEAU, ALASKA 99801-1182 • (907) 465-4947 • FAX (907) 465-2108
SENATOR_KIM_ELTON@LEGIS.STATE.AK.US

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SJR 32
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: OOG
 Title Constitutional amendment relating to RDU Elections
the Alaska Permanent Fund. Component Elections
 Sponsor Senator Elton
 Requester Senate Judiciary Component No. 21

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	1.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1.5	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1.5					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	1.5	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 figure includes the cost of providing information about this issue in the Official Election Pamphlet, as required by AS 15.58. If this measure requires the printing of an 8-1/2 by 18 inch ballot, the cost will increase by \$22.0.

Prepared by: Leonard G. Jones Phone 465-3051
 Division: Division of Elections Date/Time 2/20/04 12:57 PM
 Approved by: Laura A. Glaiser, Director Date 2/20/2004
 Agency: Office of the Lt. Governor, Division of Elections

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SJR 32
 () Publish Date: _____

Revision Date/Time (Note if correction):
 Title Const Am: Perm Fund
Income For Dividends
 Sponsor Sen. Elton
 Requester Senate Judiciary Committee

Dept. Affected: Revenue
 RDU AK Permanent Fund Corporation
 Component AK Permanent Fund Corporation
 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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

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)

SJR 32 proposes a Constitutional amendment that would require 80% of funds appropriated from the Permanent Fund to be used for dividends. This would not change the operations of the Alaska Permanent Fund Corporation.

Prepared by: Robert D. Storer, Executive Director
 Division Alaska Permanent Fund Corporation
 Approved by: Steve Porter, Deputy Commissioner
 Agency Department of Revenue

Phone 465-2047
 Date/Time 2/23/04 5:42 PM
 Date 2/6/2004