

SB

282

ALASKA STATE LEGISLATURE

Session
State Capitol, Rm. 115
Juneau, AK 99801
(907) 465-2435
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Interim
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Senator_Bill_Wielechowski@legis.state.ak.us



Co-chair
Joint Armed Services Committee
Resources Committee

Member
Energy Committee
Judiciary Committee
World Trade Committee

SENATOR BILL WIELECHOWSKI

TO: Senator Linda Menard, Chair
Senate State Affairs Committee

FROM: Senator Bill Wielechowski *hi*

DATE: March 18, 2010

RE: Hearing Request for SB 282

Dear Senator Menard,

I respectfully ask that you schedule a hearing for **SB 282 – 2010 Permanent Fund Earnings Reserve Account**, in the Senate State Affairs Committee.

I intend to request that representatives from the appropriate state agencies and from legislative legal services be present to respond to any questions that may arise. Further, I would like to allow public testimony to be taken statewide by electronic means.

Please feel free to contact my aide Shelly Morgan at 465-3723 with any questions or concerns.

Thank you for your consideration of this request.

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SENATOR BILL WIELECHOWSKI

Sponsor Statement: SB 282 2010 Permanent Fund Earnings Reserve Account

The intent of SB 282 is to ensure that Alaskans receive a full dividend from the Permanent Fund in 2010.

The Permanent Fund Dividend is calculated according to a complicated formula that takes into account the average amount the fund's investments have earned over the past five years. Current statute prevents the Permanent Fund Division from paying out more than 50 percent of the fund's earning reserve in any given year.

Because of the downturn in the markets over the past few years, there is a possibility that this year, the statutory limit of 50 percent could be invoked for the first time ever, reducing the dividend by as much as several hundred dollars for each eligible Alaskan. This would mean that the full amount of the calculation could not legally be appropriated from the earnings reserve even though sufficient funds exist.

SB 282 will ensure that Alaskans receive a full dividend this year, in the event that earnings fall below the threshold required for a full payout.

Please join me in supporting SB 282 to ensure Alaskans get the full amount of benefit of our state's oil revenue during these tough economic times.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 282
 () Publish Date: _____

Identifier (file name): SB282-REV-APFC-03-19-10
 Title: Permanent Fund Dividend Amount for 2010
 Sponsor: Senator Wielechowski
 Requester: Senate State Affairs Committee
 Dept. Affected: Revenue
 RDU: AK Permanent Fund Corporation
 Component: APFC Operations
 Component Number: 109

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
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	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								
1105 APFC Receipts								
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: 0.0

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

SB 282 would override the direction in AS 37.13.140-145 that limits dividend payouts to no more than 50 percent of the balance of the Permanent Fund earnings reserve for the FY10 dividend payment. This bill would not not impact the operations of the Permanent Fund.

Prepared by: Laura Achee
 Division: Alaska Permanent Fund Corporation
 Approved by: Ginger Blaisdell, Director
Administrative Services Division

Phone 796-1522
 Date/Time 03-19-10; 2:50pm
 Date 03-20-10; 10:55am

Politics, economy fuel Permanent Fund debate

Rena Delbridge

Jan 19, 2010



The Permanent Fund, that \$35 billion piggy bank that pays Alaskans an annual dividend, could undergo two historical firsts this year.



* ~~For the first time ever the balance of the fund's earnings account might not cover this year's full dividend, currently estimated by the fund~~ corporation's projections at \$950. That could change with an upswing in financial markets over the next five months, but the prospect still has fund managers concerned. And second, 2010 will mark the first time in the fund's 34-year history that it won't require inflation-proofing.

The recent shakiness of financial markets, coupled with the chance that the earnings reserve may fall short of fully covering the 2010 dividend, might rejuvenate discussion in Juneau about shifting to a percent-of-market-value plan for limiting the fund's annual payouts. At the same time, the merits of the Permanent Fund dividend -- a controversial concept for some Alaskans to accept -- are playing out in an election year.

Voters created the Alaska Permanent Fund in 1976 to preserve a chunk of the state's new wealth from development of the North Slope's oil fields. A portion of the state's take on oil and gas leases and royalties goes into the principal, and the fund is invested in stocks, bonds and real estate worldwide. In October 2007, the fund hit a record value of \$40 billion, with every eligible Alaskan receiving a dividend of \$1,654 in 2007 and \$2,069 in 2008. The downturn in the markets in 2008-09 sent the fund plummeting to \$26 billion, which corrected during 2009, leveling out today at about \$35.1 billion.

After those rough hits, the Permanent Fund's value is rebounding and investment markets are experiencing upward momentum. A saving grace for the dividend is that 2009's drop in the national cost of living will keep lawmakers this year from having to shift money from the earnings reserve to the main account to protect the fund from inflation. And that could help rescue the 2010 dividend.

The dividend - seen by some as a trade-off for hacking out a living in the 49th state, by others as their due share of the oil wealth, and by low-income Alaskans as essential to making ends meet -- isn't guaranteed by anything other than tradition and the certain knowledge that to suggest an alternative use for the money is considered political death. If denying Alaskans the dividend could end a political career, then protecting the dividend could be seen as political savvy.

Enter Anchorage Democrats Sen. Hollis French and Rep. Harry Crawford. They recently proposed resolutions that would let Alaskans vote on whether to secure the dividend payout in the state's constitution, protecting that money from lawmakers tapping it for other uses, such as to plug future budget gaps. A constitutional amendment, as proposed by French and Crawford, would need the approval of two-thirds of each legislative body. Alaskans would then vote on it in the 2010 election. Crawford is running for Alaska's U.S. House seat this year and French is hoping to oust Gov. Sean Parnell.

Dividend payouts are currently calculated by a formula set in state statute. The dividend is based on a five-year average of fund earnings to even out severe ups and downs. (This actually ensured a dividend in 2009 when the fund suffered a major loss.) Second, the state can't pay out more than half the money in the earnings reserve account in any year, said Michael Burns, chief executive of the Permanent Fund Corp., who was talking with lawmakers in Juneau earlier this week.

That brings us back to why Alaskans could see their dividend come up short this year. "If the dividend was calculated today, the 50 percent limit would play into the amount," Burns said. "Whether it would by June (the end of the fiscal year) is a very open-ended issue."

As of Nov. 30, the earnings reserve account totaled \$779 million, a figure fund managers estimate is now about \$800 million today. Still, for Alaskans to receive this year's estimated \$950 dividend, for example, would require a \$600 million draw, so the earnings reserve would have to hold around \$1.2 billion at the end of the fiscal year.

Last year, as the fund's investments took a beating, legislators reignited talk about shifting to a percent-of-market-value management style. This tactic would meld the earnings reserve into the principal and cap withdrawals to no more than five percent of the fund's total market value, averaged over five years, under current proposals. That withdrawal would cover dividends, inflation and other spending by lawmakers. The move is seen by some as a way to boost the fund's stability, especially after Alaskans watched its value plummet in 2008-09.

Opponents say such a shift is akin to opening the sacrosanct fund to potential raids by big-spending politicians. But a key advocate for the shift -- Sen. Bert Stedman, R-Sitka and co-chairman of the Senate Finance Committee -- said it would actually protect the fund; lawmakers currently have the power to appropriate the earnings reserve for purposes other than dividends. By shifting the reserve to the principal and capping annual withdrawals at five percent, the state's oil endowment might be safer from future lawmakers, Stedman said.

"At some point we're going to run out of resource revenue - it's just a matter of when. The public is very concerned and watches that Permanent Fund," Stedman said. "Clearly, when you look at the amount of resource pumped out of Prudhoe Bay in the last two generations, we owe something to the generation that's coming in the future."

Contact Rena Delbridge at [rena\(at\)alaskadispatch.com](mailto:rena(at)alaskadispatch.com)

Related Articles

- [Why an over-the-top gas pipeline is off the table](#)
- [Economic recovery, Hawaiian style](#)
- [Slide show: 2010 Yukon Quest](#)
- [The Fortress on Fifth](#)
- [Colony Christmas](#)

Alaska Statutes.

Title 37. Public Finance

Chapter 13. Alaska Permanent Fund and Corporation

Section 140. Income.

previous: Section 130. Gains and Losses. [Repealed, Sec. 13 Ch 81 SLA 1982].

next: Section 145. Disposition of Income.

AS 37.13.140. Income.

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 .

Alaska Statutes.

Title 37. Public Finance

Chapter 13. Alaska Permanent Fund and Corporation

Section 145. Disposition of Income.

previous: Section 140. Income.

next: Section 150. Corporation Budget.

AS 37.13.145. Disposition of Income.

(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 an amount sufficient to offset the effect of inflation on principal of the fund during that fiscal year. However, none of the amount transferred shall be applied to increase the value of that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on July 1, 2004.

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, including that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District).

(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 or for transfers to the principal under (c) of this section, and shall be annually deposited into the Alaska capital income fund (AS 37.05.565).

Alaska Statutes.

Title 43. Revenue and Taxation

Chapter 23. Permanent Fund Dividends

Section 45. Dividend Fund.

previous: Section 40. Penalties and Enforcement. [Repealed, Sec. 22 Ch 102 SLA 1982].

next: Section 50. Dividend Fund Established. [Repealed, Sec. 22 Ch 102 SLA 1982].

AS 43.23.045. Dividend Fund.

(a) The dividend fund is established as a separate fund in the state treasury. The dividend fund shall be administered by the commissioner and shall be invested by the commissioner in the same manner as provided in AS 37.10.070 .

(b) [Repealed, Sec. 29 ch 134 SLA 1992].

(c) [Repealed, Sec. 24 ch 99 SLA 1985].

(d) Unless specified otherwise in an appropriation act, the unexpended and unobligated balance of an appropriation to implement this chapter lapses into the dividend fund on June 30 of the fiscal year for which the appropriation was made and shall be used in determining the amount of and paying the subsequent year's dividend as provided in AS 43.23.025(a)(1)(B).

(e) [Repealed, Sec. 29 ch 134 SLA 1992].

Alaska Statutes.

Title 43. Revenue and Taxation

Chapter 23. Permanent Fund Dividends

Section 25. Amount of Dividend.

previous: Section 20. Proof of Eligibility. [Repealed, Sec. 22 Ch 102 SLA 1982].

next: Section 28. Public Notice.

AS 43.23.025. Amount of Dividend.

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

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

(A) the amount of income of the Alaska permanent fund transferred to the dividend fund under AS 37.13.145 (b) during the current year;

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

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

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

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

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

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

(b) [Repealed, Sec. 5 ch 68 SLA 1991].

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 2/17/10

FURTHER: Finance

Date of 5-Day Notice: _____
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 03/23/10

State Affairs Committee considered SENATE BILL NO. 282

SB 282 PERMANENT FUND DIVIDEND AMOUNT FOR 2010

"An Act relating to the amount of the transfer from the earnings reserve account of the Alaska permanent fund for 2010 permanent fund dividends; and providing for an effective date."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

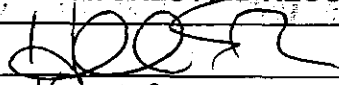
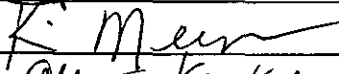
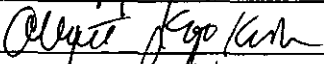
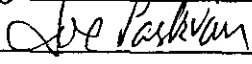
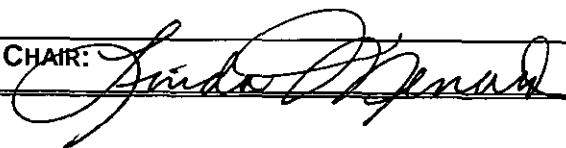
NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet	Zero	FN#
Rev	03/19/10			X	

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	French	✓			
	Meyer	✓		✓	
	Kooker	✓			
	PARKMAN	X			
CHAIR: 	MENARD	X			