

HJR

17

<TARGET><BILL>HJR 17</BILL><SUBJECT>HJR
17</SUBJECT><COMM>HSTA28</COMM></TARGET>

Heard & Held

Public testimony
remains open

Rick Halford had been
online but had to leave
(per Les Gara)

HOUSE JOINT RESOLUTION NO. 17

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES GARA, Tarr, Josephson, Drummond, Kreiss-Tomkins, Guttenberg, Tuck, Kerttula, Kawasaki

Introduced: 4/3/13

Referred: State Affairs, Judiciary, Finance

A RESOLUTION

1 **Proposing amendments to the Constitution of the State of Alaska relating to the Alaska**
2 **permanent fund, establishing the earnings reserve account, relating to the permanent**
3 **fund dividend, and requiring the permanent fund dividend be at least equal to the**
4 **amount that would be calculated under current law.**

5 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 *** Section 1.** Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

7 **Section 15. Alaska Permanent Fund. (a)** At least twenty-five percent of all
8 mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing
9 payments and bonuses received by the State shall be placed in a permanent fund, the
10 principal of which shall be used only for those income-producing investments
11 specifically designated by law as eligible for permanent fund investments. **The**
12 **earnings reserve account is established as a separate account in the fund. Income**
13 **from the fund shall be deposited into the earnings reserve account as soon as it is**
14 **received and may be invested as authorized for investments of the principal.**
15 **Money in the earnings reserve account may be appropriated only as provided in**

1 (b) of this section [ALL INCOME FROM THE PERMANENT FUND SHALL BE
2 DEPOSITED IN THE GENERAL FUND UNLESS OTHERWISE PROVIDED BY
3 LAW].

4 * **Sec. 2.** Article IX, sec. 15, Constitution of the State of Alaska, is amended by adding new
5 subsections to read:

6 (b) Net income of the permanent fund shall be computed annually as of the
7 last day of the fiscal year in accordance with generally accepted accounting principles,
8 excluding any unrealized gains or losses. Income available for distribution under this
9 subsection equals twenty-one percent of the net income of the fund for the last five
10 fiscal years, including the fiscal year just ended, but may not exceed net income of the
11 fund for the fiscal year just ended plus the balance in the earning reserve account. On
12 the last day of each fiscal year, fifty percent of the income available for distribution,
13 calculated under this subsection, or the balance in the account, whichever is less, shall
14 be transferred from the earnings reserve account for use in a program of dividend
15 payments to State residents as provided in (c) of this section. Money remaining in the
16 earnings reserve account after the transfer may be deposited in the general fund unless
17 otherwise provided by law.

18 (c) The dividend shall be calculated in the same manner as it was under
19 Alaska law in calendar year 2013. The legislature may provide for a larger dividend.
20 The amount of the dividend shall be calculated each year by determining the total
21 amount available for dividends and dividing it by the number of recipients eligible for
22 a dividend payment for the current year as designated by law. The total amount
23 available for dividends equals the amount of income of the Alaska permanent fund
24 transferred to the earnings reserve account as provided by law, plus the unexpended
25 and unobligated balances of prior appropriations that lapse into the earnings reserve
26 account, less the amount necessary to pay prior year dividends from the earnings
27 reserve account in the current year, less the amount necessary to pay individuals who
28 filed for a previous year's dividend by the filing deadline but were not included in the
29 previous year's dividend computation, and less appropriations from the earnings
30 reserve account in the current year, including administrative costs.

31 * **Sec. 3.** Article XV, Constitution of the State of Alaska, is amended by adding a new

1 section to read:

2 **Section 30. Permanent Fund Dividend Amendments: Transition.** The
3 earnings reserve account established in the 2014 amendments to the Alaska permanent
4 fund (art. IX, sec. 15) replaces the earnings reserve account established in AS
5 37.13.145. Money in the account established in AS 37.13.145 on the effective date of
6 the 2014 amendments to the Alaska permanent fund (art. IX, sec. 15) shall be
7 deposited into the earnings reserve account established by those amendments.

8 * **Sec. 4.** The amendments proposed by this resolution shall be placed before the voters of
9 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
10 State of Alaska, and the election laws of the State.

ALASKA STATE LEGISLATURE



REPRESENTATIVE GARA
REPRESENTATIVE TARR
REPRESENTATIVE JOSEPHSON
REPRESENTATIVE DRUMMOND
REPRESENTATIVE KREISS-TOMKINS
REPRESENTATIVE GUTTENBERG
REPRESENTATIVE TUCK
REPRESENTATIVE KERTTULA
REPRESENTATIVE KAWASAKI

House Joint Resolution 17 Sponsor Statement

HJR 17: Permanent Fund Dividend

When Alaska became a state it adopted a constitution that required management of public resources for the maximum benefit of its people. Since production at the largest oil field in North America began at Prudhoe Bay in 1977, about 25% of direct petroleum revenues have been deposited into two savings accounts – the Alaska Permanent Fund and the smaller Constitutional Budget Reserve. Deposits to the Alaska Permanent Fund are constitutionally prohibited from being spent, but all fund earnings are available for appropriation by the state legislature for any purpose. In addition, the Fund's unrealized gains are available for appropriation or withdrawal if the assets are sold, which in some years has left more than 20% of the Fund unprotected.

Over the years the legislature has decided not to exercise the option of withdrawing the leftover funds in the realized earnings account, and this restraint has significantly contributed to the Fund's growth.

In 1982 the legislature passed a plan that paid each Alaskan resident regardless of age an equal amount out of the appropriable earnings of the Permanent Fund. The state has paid an annual dividend each year since then. The dividend has become an important aspect of Alaska's economy. Many recipients rely upon the Fund for the purchase of durable goods such as appliances and snow machines, while many save their dividend and reduce their level of debt.

It is important to ensure that the Fund will remain protected in the future as the legislature faces potential deficits and looks towards available money to fund the state's budgets. However, there is no language within the Constitution which calculates how the dividend shall be calculated, nor does the Constitution protect funds eligible for distribution from being spent by the legislature for other purposes. HJR 17 would amend the Constitution to ensure that dividends from the Fund that Alaskans rely upon are permanently protected in perpetuity.

How do current Alaska Permanent Fund appropriations work?

- The principal balance of the Alaska Permanent Fund may not be spent. The expenditure of Fund income, however, is up to the Legislature. The resolution sponsors do not recommend any additional spending of Permanent Fund income; however, the Constitution has left that decision to the Legislature. That provision is not altered by this resolution.
- Income from the Permanent Fund is deposited into the Earnings Reserve Account, a separate account within the Permanent Fund.
- Each year, the Fund's realized earnings are divided by appropriation between the annual Permanent Fund Dividend and inflation-proofing (a transfer of funds from the Earnings Reserve Account to the principal).
 - Realized earnings are income from the sale of an investment.
 - Unrealized earnings represent the increase in value of an asset that has not been sold.
- Operating expenses and management fees incurred by the Alaska Permanent Fund Corporation, and certain expenses incurred by the Departments of Law and Natural Resources, are paid from Permanent Gross Receipts (revenues generated by Permanent Fund investments). The attached "Multi-year Allocation Summary" shows allocations made to these entities since FY06.
- Funds in the Earnings Reserve Account remaining after appropriation to the dividend and inflation-proofing are available for any purpose. The attached "Alaska Permanent Fund Financial History & Projections" spreadsheet shows funds available to be appropriated by the Legislature:
 - In the Assigned Fund Balance portion, the Statutory Net Income less Dividends less Inflation-Proofing/Other is the amount of the Fund that the Legislature would be permitted to appropriate.
 - In FY13 the amount available to be spent by the Legislature was:
 - $\$2,928,000,000 - \$604,000,000 - \$743,000,000 = \$1,581,000,000$
 - In addition, the General Fund/Other (a transfer of funding for Amerda Hess from the Earnings Reserve Account to the Alaska Capital Income Fund) and the Net Assigned plus the Prior Year Assigned Balance are also available for appropriation.

In short, the entire Earnings Reserve Account (FY-End Assigned Balance on the attached "Alaska Permanent Fund Financial History & Projections" spreadsheet) is available for appropriation, though the resolution sponsors do not recommend that this occur. At the end of FY13, this equaled just over \$4 billion. Note that some of those funds are unrealized, but could be spent.

The attached "Multi-Year Appropriation Summary" spreadsheet shows that in FY13, \$1,230,000,000 was appropriated by the Legislature for the dividend and inflation-proofing.

Multi-year Allocation Summary - Operating Budget - FY 2015 Governor Structure

Numbers
Fund Codes: 1105 PF Gross

Allocation	ID=> Session=> Column=>	[1] 2006 06Fn1Bud	[2] 2007 07Fn1Bud	[3] 2008 08Fn1Bud	[4] 2009 09Fn1Bud	[5] 2010 10Fn1Bud	[6] 2011 11Fn1Bud	[7] 2012 12Fn1Bud	[8] 2013 13Fn1Bud	[9] 2014 14MgtP1n	[10] 2014 Gov
Administration											
Centralized Admin. Services											
Personnel		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriation Total		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Technology Services											
Enterprise Technology Services		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriation Total		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agency Total		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Law											
Civil Division											
Oil, Gas and Mining		1,477.0	1,477.0	1,477.0	1,477.0	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6
Appropriation Total		1,477.0	1,477.0	1,477.0	1,477.0	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6
Agency Total		1,477.0	1,477.0	1,477.0	1,477.0	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6	1,477.6
Natural Resources											
Oil & Gas											
Oil & Gas		2,930.9	3,067.5	3,423.2	3,472.6	3,491.2	3,596.4	3,709.9	3,797.6	3,840.4	3,860.6
Appropriation Total		2,930.9	3,067.5	3,423.2	3,472.6	3,491.2	3,596.4	3,709.9	3,797.6	3,840.4	3,860.6
Land & Water Resources											
Mining, Land & Water		0.0	0.0	0.0	0.0	0.0	0.0	1,750.7	1,787.6	1,803.5	1,811.8
Appropriation Total		0.0	0.0	0.0	0.0	0.0	0.0	1,750.7	1,787.6	1,803.5	1,811.8
Resource Development											
Mining & Land Development		1,321.4	1,394.2	1,599.4	1,635.5	1,661.7	1,709.4	0.0	0.0	0.0	0.0
Appropriation Total		1,321.4	1,394.2	1,599.4	1,635.5	1,661.7	1,709.4	0.0	0.0	0.0	0.0
Agency Total		4,252.3	4,461.7	5,022.6	5,108.1	5,152.9	5,305.8	5,460.6	5,585.2	5,643.9	5,672.4

Multi-year Allocation Summary - Operating Budget - FY 2015 Governor Structure

Numbers
Fund Codes: 1105 PF Gross

Allocation	ID=> Session=> Column=>	[1] 2006 06Fn1Bud	[2] 2007 07Fn1Bud	[3] 2008 08Fn1Bud	[4] 2009 09Fn1Bud	[5] 2010 10Fn1Bud	[6] 2011 11Fn1Bud	[7] 2012 12Fn1Bud	[8] 2013 13Fn1Bud	[9] 2014 14MgtP1n	[10] 2014 Gov
Revenue											
Taxation and Treasury											
Tax Division		70.7	74.1	77.1	79.2	82.1	84.5	87.6	90.3	91.2	91.7
Appropriation Total		70.7	74.1	77.1	79.2	82.1	84.5	87.6	90.3	91.2	91.7
Permanent Fund Corporation											
APFC Operations		8,071.4	8,427.0	9,020.0	9,648.1	9,707.1	10,307.7	10,639.0	11,486.1	12,194.2	12,231.9
Appropriation Total		8,071.4	8,427.0	9,020.0	9,648.1	9,707.1	10,307.7	10,639.0	11,486.1	12,194.2	12,231.9
APFC Custody & Management Fees											
APFC Custody and Mgt Fees		54,430.0	63,200.0	79,800.0	92,415.0	82,415.0	94,675.0	0.0	106,600.0	114,800.0	138,575.0
Appropriation Total		54,430.0	63,200.0	79,800.0	92,415.0	82,415.0	94,675.0	0.0	106,600.0	114,800.0	138,575.0
Agency Total		62,572.1	71,701.1	88,897.1	102,142.3	92,204.2	105,067.2	10,726.6	118,176.4	127,085.4	150,898.6
Statewide Total		68,301.4	77,639.8	95,396.7	108,727.4	98,834.7	111,850.6	17,664.8	125,239.2	134,206.9	158,048.6
Funding Summary											
Other State Funds (Other)		68,301.4	77,639.8	95,396.7	108,727.4	98,834.7	111,850.6	17,664.8	125,239.2	134,206.9	158,048.6



ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of December 31, 2013

Projections extend ten years, and are based on best available information (\$ in millions)

Nonspendable Fund Balance - Principal									Assigned Fund Balance										TOTAL FUND						
FY	FY-Begin Contrib. Balance	Appro- ⁽¹⁾ priations	Dedicated ⁽²⁾		FY-End Balance Contributions	Unrealized Gain (Loss)		FY-End Nonspendable Balance	Acct. Net Income ⁽³⁾	Statutory Net Income ⁽³⁾	Distributions of Statutory Net Income			FY-End Balance Realized	Unrealized Gain (Loss)		Net Assigned Change	Net Assigned Balance	FY	FY-End Balance					
			State Revenues	Inflation Proofing		Net Change	FY-End Balance				Dividends	Inf-Proofing / Other ⁽⁴⁾	Gen. Fund / Other ⁽⁴⁾		Net Change	FY-End Balance ⁽⁵⁾									
77-04	0	7,039	8,079	8,408	23,526	3,015	3,015	26,541	27,936	26,746	13,116	12,149	282	859	0	0	759	859	77-04	27,400					
05	23,526	0	480	641	24,647	859	3,874	28,522	2,640	1,754	532	641	27 ⁽⁶⁾	1,440	0	0	581	1,440	05	29,962					
06	24,647	0	601	856	26,104	347	4,221	30,325	3,072	2,689	689	856	37	2,585	0	0	1,145	2,585	06	32,910					
07	26,104	0	532	860	27,497	1,977	6,198	33,694	5,448	3,429	1,022	860	42	4,132	0	0	(1,505)	4,132	07	37,826					
08	27,497	0	844	808	29,149	(3,886)	2,064	31,213	(1,372)	2,938	1,293	808	33	4,969	352	352	1,189	5,321	08	36,534					
09	29,149	0	651	1,144	30,944	(3,513)	(1,448)	29,496	(6,394)	(2,509) ⁽⁸⁾	875	1,144	0 ⁽⁸⁾	441	(373)	(21)	(4,901)	420	09	29,916					
10	30,944	0	679	0 ⁽⁹⁾	31,624	1,869	421	32,045	3,517	1,590 ⁽⁸⁾	858	0 ⁽⁹⁾	0 ⁽⁸⁾	1,194	37	16	790	1,210	10	33,255					
11	31,624	0	887	533	33,044	4,367	4,788	37,832	6,812	2,143 ⁽⁸⁾	801	533	13 ⁽⁸⁾	2,016	276	292	1,098	2,308	11	40,140					
12	33,044	0	915	1,073	35,033	(1,568)	3,220	38,253	(100)	1,568	605	1,073	17	1,905	(117)	175	(227)	2,081	12	40,333					
13	35,033 ⁽⁸⁾	0	840	743	36,615	964	4,184	40,800	4,314 ⁽⁸⁾	2,928	604	743	30	3,487	392	567	1,973	4,054	13	44,853					
10% 14	36,615	0	733	545	37,893	(4,506)	(322)	37,571	(3,828)	1,260	986	545	13	3,205	(594)	(27)	(876)	3,178	14	40,749					
25% 14	36,615	0	733	545	37,893	(1,925)	2,259	40,152	(676)	1,591	1,031	545	16	3,502	(358)	209	(343)	3,710	14	43,863					
Mid 14	36,615	0	733	545	37,893	969	5,153	43,046	2,901	1,959	1,070	545	20	3,830	(46)	521	297	4,351	14	47,397					
25% 14	36,615	0	733	545	37,893	4,195	8,379	46,272	6,907	2,335	1,109	545	23	4,167	354	921	1,035	5,089	14	51,361					
10% 14	36,615	0	733	545	37,893	7,072	11,256	49,149	10,661	2,774	1,155	545	28	4,560	787	1,355	1,861	5,915	14	55,064					
15	37,893	0	714	965	39,573	620	5,773	45,346	3,067	2,352	1,150	965	22	4,067	73	593	310	4,661	15	50,006					
16	39,573	0	711	1,007	41,291	658	6,431	47,722	3,238	2,486	1,271	1,007	22	4,275	72	666	280	4,940	16	52,662					
17	41,291	0	715	1,050	43,056	696	7,127	50,183	3,412	2,621	1,382	1,050	22	4,464	73	739	262	5,202	17	55,385					
18	43,056	0	711	1,094	44,862	714	7,841	52,702	3,591	2,760	1,364	1,094	22	4,766	94	833	396	5,598	18	58,301					
19	44,862	0	697	1,139	46,698	736	8,577	55,275	3,781	2,909	1,378	1,139	22	5,157	114	947	506	6,104	19	61,379					
20	46,698	0	641	1,183	48,522	766	9,343	57,865	3,981	3,065	1,453	1,183	22	5,585	128	1,076	556	6,661	20	64,526					
21	48,522	0	593	1,228	50,343	797	10,140	60,483	4,186	3,224	1,531	1,228	22	6,051	143	1,219	608	7,269	21	67,752					
22	50,343	0	592	1,273	52,208	828	10,968	63,176	4,398	3,389	1,611	1,273	22	6,555	158	1,377	663	7,932	22	71,109					
23	52,208	0	538	1,319	54,065	859	11,827	65,892	4,616	3,559	1,695	1,319	22	7,101	176	1,553	722	8,654	23	74,546					
24	54,065	0	501	1,364	55,930	890	12,717	68,646	4,841	3,734	1,782	1,364	22	7,689	195	1,748	783	9,437	24	78,083					
Cumulative Totals																									
Proj. for 2014-2024									0	7,146	12,168	8,532	42,013	32,057	15,687	12,168	243	1,181		5,383					

Assumptions:	Total Return - Inflation = Total Real Return	Statutory Return			
10% FY 2014	-8.18%	1.46%	-9.64%	10%	3.10%
25% FY 2014	-1.21%	1.46%	-2.67%	25%	3.84%
Mid FY 2014 ⁽⁶⁾	6.70%	1.46%	5.24%	Mid	4.66%
25% FY 2014	15.56%	1.46%	14.10%	25%	5.50%
10% FY 2014	23.86%	1.46%	22.40%	10%	6.48%
FY 2015-2024 ⁽⁷⁾	6.70%	2.50%	4.20%		5.25%

Notes related to financial history and projections FY1977 - FY2024:

- ⁽¹⁾ Appropriations include special general fund, realized earnings, and other miscellaneous appropriation transfers into principal.
- ⁽²⁾ Dedicated State Revenues in current and future fiscal years are based on the Fall 2013 Department of Revenue forecast.
- ⁽³⁾ Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP). Statutory net income is accounting net income, excluding any unrealized gains and losses on investments, and excluding earnings of the Alaska Capital Income Fund (AM Hess, et al principal).
- ⁽⁴⁾ FY05 and forward, Amerada Hess, et al. annual net positive settlement earnings are transferred to Alaska Capital Income Fund (ACIF) per AS 37.13.145(d).
- ⁽⁵⁾ Beginning in FY08, based on legal opinion, unrealized gains and losses were allocated between the nonspendable fund balance (principal) and the assigned fund balance (earnings reserve). Prior to FY08, all unrealized gains and losses were included with principal.
- ⁽⁶⁾ Current year returns and inflation are based on 2013 Callan capital market assumptions.
- ⁽⁷⁾ Future returns are based on 2013 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.
- ⁽⁸⁾ During FY 2009, the ACIF realized losses of \$33.3 million, which are excluded from statutory net income, and are included in the ending unreserved balance as a deficit account. During FY 2010 and FY 2011, the ACIF had realized income of \$20.8 and \$25.3 million, which is excluded from statutory net income, and served to reduce the FY 2009 deficit.
- ⁽⁹⁾ The statutory inflation calculation for FY 2010 was -36% ; therefore, there was no inflation proofing transfer during FY 2010.
- ⁽¹⁰⁾ FY77-04 includes special appropriations to principal of \$4 billion.

Income year-to-date as of December 31, 2013

FY14 Statutory net income	
Interest, dividends, real estate & other income	\$ 549.9
Realized gains (losses) on the sale of invested assets	850.7
Less operating exp / Legis. Appropriations	(57.7)
Less AK Capital Inc. Fund committed realized earnings	(12.1)
Statutory net income (loss)	\$ 1,330.8

FY14 Accounting (GAAP) net income	
Statutory net income (loss)	\$ 1,330.8
Unrealized gains (losses) on invested assets	2,671.6
AK Capital Income Fund committed realized earnings	12.1
Accounting (GAAP) net income (loss)	\$ 4,014.5

PERFORMANCE SUMMARY

	Current Month	Last 3 Months	Fiscal Y-T-D	Calendar Y-T-D	Last 12 Months	Last 3 Years	Last 5 Years
<i>(preliminary as of December 31, 2013)</i>							
Domestic Fixed Income	-0.38%	0.38%	1.03%	-1.87%	-1.87%	4.09%	6.16%
Non-Domestic Fixed Income	-0.52%	0.39%	1.17%	0.01%	0.01%	3.32%	3.49%
Domestic Equities	3.08%	10.59%	19.78%	37.04%	37.04%	16.85%	19.76%
Non-Domestic Equities	0.80%	4.60%	13.78%	12.41%	12.41%	4.08%	12.43%
Global Equities	2.02%	8.32%	17.00%	26.24%	26.24%	12.29%	15.52%
Real Estate	0.17%	1.93%	3.97%	9.42%	9.42%	10.88%	6.41%
Private Equity	N/M	N/M	4.57%	14.71%	14.71%	14.52%	10.32%
Absolute Return	0.52%	2.32%	3.78%	8.49%	8.49%	5.20%	7.84%
Infrastructure	N/M	N/M	4.33%	6.55%	6.55%	4.81%	4.25%
External CIO/Real Return Mandate	0.03%	2.35%	4.33%	1.89%	1.89%	6.57%	
American Homes 4 Rent	-0.91%	0.62%	0.57%	18.00%			
AKRC Investments	-0.64%						
Total Fund	0.88%	4.00%	8.86%	12.27%	12.27%	8.25%	11.09%
Total Fund Benchmark Return	0.40%	0.77%	2.28%	6.50%	6.50%	7.07%	7.09%

Multi-year Appropriation Summary - Operating Budget - FY 2015 Governor Structure

Numbers and Language Fund Codes: 1041 PF ERA

ID=> Session=> Column=>	[1] 2006 06MgtP1n	[2] 2007 07MgtP1n	[3] 2008 08MgtP1n	[4] 2009 09MgtP1n	[5] 2010 10MgtP1n	[6] 2011 11MgtP1n	[7] 2012 12MgtP1n	[8] 2013 13MgtP1n	[9] 2014 14MgtP1n	[10] 2014 Gov
Fund Transfers										
Permanent Fund Transfers	1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0
Agency Total	1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0
Statewide Total	1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0
 Funding Summary										
Designated General (DGF)	1,544,536.5	1,882,000.0	2,101,000.0	2,019,000.0	858,000.0	1,200,000.0	1,748,000.0	1,230,000.0	2,024,000.0	2,147,000.0

Fund Source Report

1041

PF ERA

Permanent Fund Earnings Reserve Account

Year Authorized	Year Repealed	Active?	Mental Health?	Duplicated?	Fund Group
1982		Yes	No	No	Designated General

No Expenditures during last 10 years

Legal Authority

AS 37.13.145

Source of Revenue

Income of the Permanent Fund.

Restrictions on Use

AS 37.13.145 states that the Permanent Fund Corporation shall transfer earnings from the Earnings Reserve Account to the dividend fund and to principal (for inflation proofing). These annual transfers have not occurred without appropriations, implying that the transfers are designations of use rather than a Constitutionally dedicated use of money. The balance of the earnings reserve account remaining after the transfers is available for any purpose.

Description and History

The Permanent Fund was established by Constitutional amendment in 1977. The amendment directed that at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state be placed in the Permanent Fund. The principal of the Permanent Fund may be used only for income producing investments; it is not available for appropriation.

The amendment also directed that all income from the Permanent Fund be deposited in the general fund unless otherwise provided by law. AS 37.13.145 establishes the Earnings Reserve Account (ERA) as a separate account in the Permanent Fund and directs that all income from the Permanent Fund shall be deposited in the ERA as soon as it is received.

Money in the ERA is commingled with money in the Permanent Fund for investment purposes; the account is tracked separately in order to comply with the Constitutional prohibition of appropriation of Permanent Fund principal.

Although the ERA is in the Permanent Fund for investment purposes, it can be appropriated for any purpose. The situation indicates that the ERA could be classified as unrestricted general funds. Historically, the legislature has avoided appropriations from the ERA for purposes other than deposits to the corpus and for appropriations associated with dividends. Both inflation proofing and PFDs are uses designated by AS 37.13.145.

Because PF earnings--and the ERA balance--are excluded from revenue as reported in the fiscal summary and because of historical reluctance to use the ERA for purposes other than inflation proofing and PFDs, the ERA is classified as designated GF.

Fund Source Report

Money leaves the ERA via code 1041 to:

- a. transfer money from the ERA to the Permanent Fund Dividend Fund. (Dividends and associated costs are then paid from the Dividend Fund using codes 1050 and 1171.) Appropriations to the Dividend Fund appear in the transfers (non-add) section of budget reports. When money from the Dividend Fund is spent via codes 1050 and 1171, it appears as designated GF appropriations.
- b. transfer money from the ERA to the principal of the Permanent Fund. (Annual appropriations to "inflation proof" the Fund are routine, but special appropriations may occur as well.) Because appropriations to the Permanent Fund are not expenditures (in the sense that the money remains in the hands of the State), appropriations to the Fund appear as deposits in the transfers (non-add) section of budget reports. Once money is in the Permanent Fund, there is no fund code to remove it.
- c. transfer money to the Alaska Capital Income Fund (beginning in FY05). Because the Capital Income Fund is a savings account, appropriations to it appear in the transfers (non-add) section of budget reports. When money from the Capital Income Fund is spent, it appears as designated GF appropriations in order to match the classification of the original source of funds (i.e., the ERA).

Appropriations for dividends are conditional; transfers (code 1041) are subject to earnings and ERA balance requirements described in AS 37.13.140 and .145. An appropriation for inflation proofing is effective only if a transfer for dividends occurs. Code 1041 would also be used for any appropriation from the ERA to the general fund or to any project or program.

Code 1105 is gross receipts of the fund (rather than net earnings) and can be considered as corporate receipts. The code is used for the management fees and operational costs of the Permanent Fund Corporation. Although use of corporate receipts outside the corporation may be prohibited by AS 37.05.144, some expenses of the Department of Law, Department of Revenue and Department of Natural Resources that are related to oil and gas litigation and permitting have been funded with code 1105 for a number of years.

By tradition, typical uses of the ERA appear in a separate section of the fiscal summary; earnings are not counted as general fund revenue, and dividend payments, inflation-proofing and transfers to the Capital Income Fund appear as non-additive transfers.

See also

- 1105 Permanent Fund Corporation Receipts
- 1050 Permanent Fund Dividend Fund
- 1171 PFD Appropriations in lieu of Dividends to Criminals
- 1197 Capital Income Fund

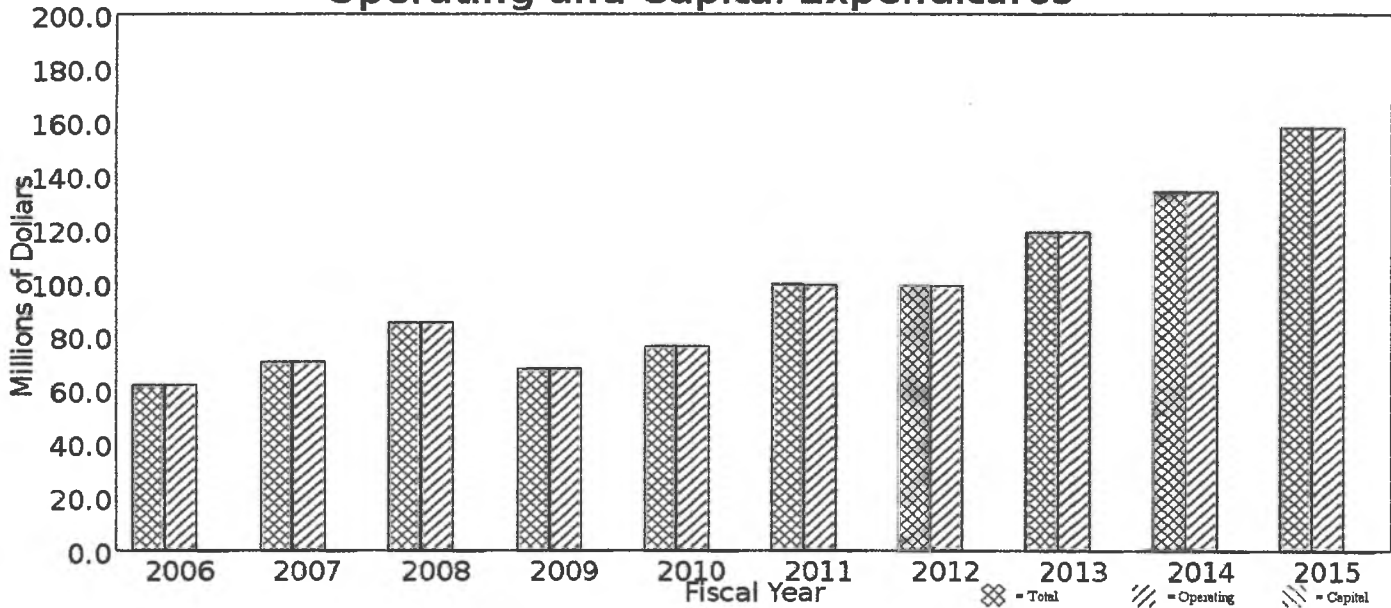
Fund Source Report

1105 PF Gross

Permanent Fund Gross Receipts

Year Authorized 1997 Year Repealed Active? Yes Mental Health? No Duplicated? No Fund Group Corporate Receipts

Operating and Capital Expenditures



Legal Authority

Article IX Section 15 AS 37.05.146(b)(4)(E), AS 37.13.150

Source of Revenue

Revenue generated by Permanent Fund investments

Restrictions on Use

Permanent Fund revenue, as opposed to income, is the source of the Permanent Fund Corporation's budget

Description and History

The Permanent Fund was established by Constitutional amendment in 1977. The amendment directed that at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in the Permanent Fund. The principal of the Permanent Fund may be used only for income producing investments; it is not available for appropriation.

Code 1105 is used for the management fees and operational costs of the Permanent Fund Corporation. These costs are broadly interpreted to include some expenses of the Department of Law and Department of Natural Resources that are related to oil and gas litigation and permitting. Although arguments can be advanced for use of an alternative fund source code for activities outside the corporation itself, DNR and Law costs have been funded directly with code 1105 for many years.

Appropriations for Permanent Fund Corporation (and associated) operations are not conditioned on the balance of the ERA; they depend upon realized cash flow rather than the market value of the ERA. Per AS 37.13.145, income of the Permanent Fund goes through the Corporation into the ERA as soon as it is received. However, AS 37.13.150 states that the corporation's operating budget shall come from revenue generated by investments. Appropriations not used for costs of operations become income and flow to the ERA at year-end. This differentiation of "income" and "revenue generated" provides the Corporation with a source of operating funds even if the ERA market value is negative and the Corporation experiences negative net realized income. In effect, appropriations to the Corporation (and for associated costs) occur before the revenue reaches the ERA; the costs reduce the amount of Permanent Fund earnings deposited in the ERA.

State corporation receipts were budgeted in one fund code called "corporate receipts" until 1998 when a budget fund was created for each states corporation in order to clarify the budget process.

See also 1041 Permanent Fund Earnings Reserve Account

2002 Initiative Petition

02PERM - "An initiative protecting the permanent fund dividend distribution formula and protecting earnings of the permanent fund."

AG's File Number: 663-03-0045

Primary Sponsors: Jay S. Hammond, Uwe Kalenka, and James P. Jacobson

Ballot Language - Not on ballot

The petition application (a revision of 02FUND) was received in the Lieutenant Governor's Office on September 12, 2002. A copy of the application and signatures were sent to the Department of Law and Division of Elections on September 13, 2002. The Division of Elections determined that there were a sufficient number of signatures on September 23, 2002. The proposed initiative was rejected by the Lieutenant Governor on January 28, 2003 as containing subject matter that may not be enacted by initiative."

Click here for the 02PERM proposed bill language as provided by the sponsors.

INITIATIVE PETITION BILL LANGUAGE
by Petition Sponsors

Petition ID: 02PERM
AN INITIATIVE PROTECTING THE PERMANENT
FUND DIVIDEND DISTRIBUTION FORMULA AND
PROTECTING EARNINGS OF THE PERMANENT FUND

Posted 09/05/02

Proposed Bill:

AN INITIATIVE PROTECTING THE PERMANENT FUND DIVIDEND
DISTRIBUTION FORMULA AND PROTECTING EARNINGS OF THE PERMANENT
FUND

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ALASKA:

Section 1. The method of calculation of the permanent fund dividend as set forth in AS 37.13.140, AS 37.13.145, and AS 43.23.025, and any other related statutes and regulations, shall not be changed, nor may these statutes or regulations be changed, amended, or repealed, either directly or indirectly, without an affirmative vote of a majority of those voters of the State of Alaska voting on this question at a regular or special election.

Section 2. The statutes and regulations referenced in Section 1 above shall continue in full force and effect in the form that these statutes and regulations existed on July 1, 2002, unless they are amended or changed by a vote of the people as required in Section 1 above.

Section 3. No earnings of the permanent fund shall be used for general governmental purposes without an affirmative vote authorizing this use of a majority of those voters of the State of Alaska voting on this question at a regular or special election.

Section 4. The provisions of this Act are independent and severable, and if any provision of this Act, or the applicability of any provision to any person or circumstance, shall be held to be invalid by a court of competent jurisdiction, the remainder of this Act shall not be affected and shall be given effect to the fullest extent practicable.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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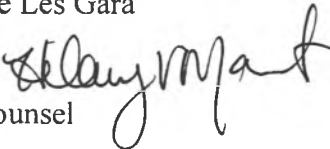
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 22, 2013

SUBJECT: Constitutional amendment to include permanent fund dividend
(Work Order No. 28-LS0691\A)

TO: Representative Les Gara

FROM: Hilary Martin 
Legislative Counsel

Enclosed is the resolution your requested, proposing an amendment to the Alaska constitution that moves the formula for the calculation of the dividend to the constitution.

In order to put the dividend calculation from AS 43.23.025 into the constitution, it was also necessary to establish the earning reserve account in the constitution. This language comes from AS 37.13.145.

Although the resolution would likely be considered an amendment to the constitution, out of an abundance of caution, I wanted to warn you that the proposed changes to the constitution could be viewed as a revision instead of an amendment, and therefore require a constitutional convention.

In *Bess v. Ulmer*, the Alaska Supreme Court analyzed three proposed amendments to the Constitution of the State of Alaska to determine whether the proposed amendments were actually revisions to the constitution, requiring a constitutional convention.¹ The *Bess* court laid out guidelines to follow in order to determine whether a change to the constitution is an amendment or a revision. A court will analyze the quantity and quality of the proposed changes, and whether the proposed changes are "few, simple, independent, and of comparatively small importance" or "whether the changes are so significant as to create a need to consider the constitution as an organic whole."²

The proposed changes in the resolution amend and add two new subsections to an existing section, and add an additional section to the constitution. This is not a large

¹ 985 P.2d 979, 981 (Alaska 1999).

² *Id.* at 987 (quoting Judge John A. Jameson, *A Treatise on Constitutional Conventions; Their History, Powers, and Modes of Proceeding*, § 540 (Chicago, Callaghan and Company, 4th ed. 1887)).

Representative Les Gara

March 22, 2013

Page 2

number of changes, and the changes are discrete, establishing an earnings reserve account and specifying how exactly a dividend is to be calculated.

It is difficult to predict how a court might determine the issue, as there have not been any other Alaska cases on this issue post-*Bess*, however, I suspect the changes proposed in this resolution would be found to constitute an amendment rather than a revision.

HVM:ljw
13-191.ljw

Enclosure

Sec. 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), 43.23.021, and 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].*

Sec. 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).

PFD - Fund is Jay Hammond's legacy to the state

Former governor wanted Alaskans to share in the state's oil and mineral wealth

Posted: Sunday, October 09, 2005

By CHARLES BINGHAM
For the Juneau Empire

When the first 2005 Alaska Permanent Fund dividend checks are distributed on Wednesday, Alaska residents should take a minute to thank former Gov. Jay Hammond for his legacy to the state.

Hammond, who died at age 83 on Aug. 2, is considered the father of the Alaska Permanent Fund. Even though Hammond tried to spread credit to others involved in passage of the amendment to the state's constitution that created the fund, most Alaskans recognized his tireless advocacy in its creation.

When Alaska Magazine editor Andy Hall and Hammond met at an Anchorage restaurant for a 2002 interview, Hall wrote that conversation stopped as diners recognized Hammond and then people came over to greet him.

"Everyone loves Santa Claus," Hammond said in the December 2002 article. "I gave them the permanent fund dividend."

The roots of the Alaska Permanent Fund can be traced to 1969, when the state held its first auction for oil leases on state-owned land on Prudhoe Bay. The state sold the drilling rights to 164 tracts of land, netting \$900 million for the state's treasury.

According to a 25th anniversary edition of "An Alaskan's Guide to the Permanent Fund," one of the biggest issues at the time was whether the \$900 million windfall should be spent or saved.

The state was just 10 years old and the state's annual budget was just \$112 million in 1969. Since the state was so sparsely populated and much less developed than it is now, the Alaskans of the time decided the \$900 million should be spent on basic infrastructure projects such as water and sewer, schools, roads and airports. The oil-lease money also was used to start the state's student loan and longevity bonus programs.

Robert Krantz, an economist and investment banker brought to Alaska by the Brookings Institute for a series of 1969 meetings with Alaskans about what to do with the \$900 million, was the first person to suggest the creation of a "perpetual and permanent capital fund for the continuing development of Alaska." In 1970, then-Gov. Keith Miller introduced legislation for a resources permanent fund that passed in the Senate and died in the House.

But it wasn't until 1975 that the state really looked again at the issue of a permanent fund. The dynamics of the state had changed, and the state was starting to bond itself into debt as with the prospect of more oil wealth on the horizon.

As the Prudhoe Bay oilfields developed, many Alaskans felt remorse for the "wasting of the \$900 million," the fund booklet said. When it came closer for the oil to flow down the pipeline, some Alaskans decided "the state should get some permanent benefits from its great oil bonanza," the booklet said.

Legislation passed in 1975 that would have allocated 50 percent of mineral leases to the permanent fund, but Hammond (who became governor in 1974) vetoed the plan because he felt it "was an unconstitutional dedication of revenues." Hammond said the state's constitution didn't allow money to be dedicated in that way, and he thought the courts would overturn the legislation.

Instead, Hammond introduced a state constitutional amendment in 1976 calling an investment of 10 percent of the money raised by mineral lease rentals, royalties, etc., into a permanent fund. The Legislature changed the amendment to call for at least 25 percent of the money to be invested into a permanent fund. In November 1976 the voters passed the amendment by a vote of 75,588 to 38,518, and on Feb. 28, 1977, the fund received its first deposit of oil revenues.

Now that the fund was established, the state had to decide how to use it. Rep. Clark Gruening led a Special House Permanent Fund Committee that held hearings around the state about how Alaskans wanted the fund to be used, such as what types of investments would be made and what types of projects fund money might be used to build.

In 1977, Hammond introduced a bill that went nowhere but did plant the seeds for the dividend check. Hammond's failed bill called for the creation of "Alaska Inc.," which would make cash payments to registered voters of one share for every five years of residency.

From 1978 to 1980, the Legislature debated whether Alaskans should be paid dividends or if they could get loans from the permanent fund. Hammond backed the dividend program because he thought it would give Alaskans more of an ownership of the fund.

"Benefits from oil wealth which belong to all Alaskans can be distributed in many ways: low-interest loans, tax relief, expanded government services," Hammond wrote in a Feb. 14, 1980, memo to House Speaker Hugh Malone. "While these all have merit, not all Alaskans are beneficiaries. This is why I have proposed a Permanent Fund dividend program."

Hammond said his dividend program would, among other reasons, allow all Alaskans to share in their resource wealth, confine benefits to Alaskans only, would have an equitable impact on both rich and poor, and it would "maximize the favorable impact upon the state's economy by keeping a far larger portion of the money to fund the programs here in Alaska."

Hammond opposed the loan program because he thought it had "hidden dividends" that only some Alaskans would enjoy. He said some Alaskans might be able to borrow \$100,000 from the fund at 9.5 percent interest, while other Alaskans would have to pay 15.5 percent interest to borrow the same amount of money at the market rate. He said the first borrower would enjoy a dividend of \$6,000 in reduced interest payments just in the first year of the loan, and over the course of a 30-year loan the dividend would reach \$94,000.

"That 'dividend' or subsidy is being paid from oil wealth owned by all Alaskans," Hammond wrote to Malone. "We don't confine payment of such loan 'dividends' to taxpayers only or demand that before we provide Alaskans with low-interest loans, we first eliminate the income tax. Why should a system which provides far more equitable benefits to all Alaskans, such as the permanent fund dividend

concept, be subordinate to that consideration? It seems high time that any new means of dispensing oil wealth should provide that all Alaskans, even the non-taxpaying, housewife, student, unemployed or retired couple get a share."

Elmer Rasmuson, the first chairman of the Alaska Permanent Fund Corp.'s board, said over time many Alaskans decided to back Hammond's dividend plan.

"Some Alaskans, including then-Gov. Jay Hammond, came to favor direct distribution of a portion of the oil revenues as a check on government growth," Rasmuson told Clifford John Groh and Gregg Erickson for a summer 1983 article in *The Alaska Journal*. "Without such a check, asserted Hammond, government spending and lending would create a dependence which would bring a wrenching dislocation when the oil money ran out. ... Further, argued Hammond, if the distribution was paid in the form of annual dividends from the permanent fund's earnings, Alaskans would be more likely to fight raids on their savings account."

The initial dividend plan to pass the Legislature in 1980 called for each Alaska resident to get a dividend of \$50 per year of residency since statehood (in 1959). But an Anchorage couple, attorneys Ron and Penny Zobel, took the plan to court as being unconstitutional because it discriminated against newer residents to the state. The case wound up going all the way to the U.S. Supreme Court, and dividend payments were held in limbo as the case lingered.

Faced with the realistic possibility that the court would strike down the 1980 dividend plan, Hammond (whose second term as governor ended later that year) introduced a substitute plan in 1982 that called for equal payments to all residents with at least six months residency in the state. While the Legislature on Hammond's plan, Hammond threatened to call a special session and veto the funding for some pet projects if lawmakers didn't vote on it before the session ended.

Under Hammond's back-up plan the first payment would be \$1,000, because of the three years the other dividend plan was tied up in court, and future PFD checks would be tied to the earnings of the fund. The court struck down by an 8-1 decision the 1980 plan on June 14, 1982, and Hammond signed his back-up plan later in the day. Within hours, the first batch of 1,000 oversize blue-and-gold checks were printed and mailed.

The permanent fund was a pioneering development for a state or national government (the only previous fund was one for the Malaysian state of Sabah), and it's grown to be a model for other governments.

Earlier this year, representatives from the country of Azerbaijan visited Juneau and spent several days learning about the operation of the Alaska Permanent Fund Corp. In 2004, a year before his death, Hammond spoke at an international congress in Washington, D.C., that was creating a similar permanent fund program for Iraq.

"And really, it was impressive, the recognition of the potentials of a properly done permanent fund dividend fund program by folk who live outside the state, who see much more clearly what the potentials are," Hammond said in a speech to Commonwealth North a few days after his trip to Washington, D.C. "It's spreading like wildfire all over the world because its potentials are absolutely fantastic."

**The Alaska Permanent Fund Dividend:
A Case Study in Implementation of a
Basic Income Guarantee**

presented at

13th Basic Income Earth Network Congress
University of Sao Paulo
Sao Paulo, Brazil

by

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July 2010

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II. The Alaska Permanent Fund Dividend (PFD) Program

The Alaska Permanent Fund dividend, or PFD as it is commonly called, fits a BASIC INCOME definition quite well.¹ It is essentially universal, individual, non-conditional, uniform, regular, and provided in cash. It falls short in that the size of the annual payment fluctuates from year to year and is small relative to measures of poverty.² In this section, I discuss the creation of the PFD and its main features.³

The state established the Alaska Permanent Fund in 1976 when oil production began from the Prudhoe Bay field, the largest oil field ever discovered in North America. The primary purpose of the fund was to save a share of the public revenues generated from a non-sustainable resource. Fund deposits come from a twenty-five-percent share of royalties (ownership payments based on the wellhead value of the oil) collected by state government. This deposit represents a saving of only about ten percent of total petroleum revenues because the state also collects significant production, property, and income taxes from the industry. The Fund balance is invested in a portfolio of assets to maximize its long-run rate of return.

These fund deposits are constitutionally prohibited from being spent, but fund earnings are available for appropriation by the state legislature for any purpose, similar to other general revenues. By this mechanism, a share of the non-renewable state revenues from petroleum production is transformed into a sustainable flow of revenues from the investment earnings of the Permanent Fund, and future generations of Alaskans will be able to share in the financial benefits from current petroleum production.

A secondary purpose of the fund was to take some of current revenues "off the table"—removing them from the temptation of the current legislature to overspend and thus to waste public funds while overheating the economy.

The fund grew slowly in its early years because royalty deposits, based on the oil price, were small. Thus annual earnings from the fund were small and attracted little attention.

But with the Iranian Revolution and the increase in the price of oil in 1979, Alaska state oil revenues—including royalties—grew dramatically, and public spending, on both pre-existing

¹ One definition of Basic Income can be found in Jurgen de Wispelaere and Lindsay Stirton, "The Many Faces of Universal Basic Income," *The Political Quarterly* 75(3) 2004, p. 266-274.

² In addition, unlike the Permanent Fund, it is not protected by the state constitution.

³ Detailed information about the Alaska Permanent Fund can be found on the Corporation website at <http://www.apfc.org/home>.

the most significant effect of the dividend on their overall consumption behavior, most respondents said it had little or no effect, or that it helped with regular expenses. Roughly 30 percent responded that it was to reduce debt or increase savings.

One reason there may be more savings out of dividend income than other sources is the fact that it comes in a lump sum once a year which might influence some recipients to save it, who would not otherwise do so.¹⁸ However, there is no evidence that the cumulative saving of dividends has resulted in a significant accumulation of wealth or provided a base of assets, or “grubstake” as we say in Alaska, leading to private sector investments generating economic development.

Whatever the pattern of purchases and consumption over time, most of the cash from dividends will ultimately find its way into the Alaska economy to increase employment, population, and income. A rough estimate of the total (direct and indirect) macroeconomic effects of this increase in purchasing power is 10 thousand additional jobs, 15 to 20 thousand additional residents (drawn to the state because of the jobs), and \$1.5 billion in additional personal income.¹⁹

An important macroeconomic feature of the dividend is the stability it adds to the economy, in spite of its variation in size from year to year. The income flow from the dividend is independent of all the other sources of income coming into the economy, and this additional diversity provides stability when other sources fluctuate.

Two features of the dividend—it is an equal distribution to all residents and it is taxable as personal income by the federal government—contribute to a leveling effect on the distribution of income. The dividend adds a larger percentage to after-tax income at the

they viewed as a one-time windfall compared to how they have allocated more recent dividend distributions.

¹⁸ Since 1991 applicants have been able to designate a part of their dividend to a University of Alaska Section 529 College Savings Plan established for the benefit of a child. Plan earnings are tax free under current law, and the proceeds can be used to pay qualified expenses at the University of Alaska or any other eligible institution of higher learning. Since its inception there have been about 80 thousand individual deposits into these accounts via PFD applications. The “pick-click-give” program which started in 2009 allows applicants to direct a portion of their dividend to charitable organizations. About 5 thousand people used the program in its first year, and an estimated 10 thousand will use it in 2010.

¹⁹ These rough estimates do not take into account potential general equilibrium effects discussed later in the paper. See Scott Goldsmith and Jeff Wanamaker, “The Economic Impact of the Alaska Permanent Fund Dividend,” Institute of Social and Economic Research, University of Alaska, 1989, and Scott Goldsmith, “A Comparative Analysis of the Economic Effects of Re-imposing Personal Income Taxes, Reducing Permanent Fund Dividends, or Reducing State Spending,” Institute of Social and Economic Research, University of Alaska, 1987.

lower end of the distribution than at the upper end. This has been a factor contributing to the leveling of the income distribution in Alaska since the early 1980s.²⁰

The dividend establishes a floor below which the cash income of residents cannot fall, but it is not large enough by itself to provide a BASIC INCOME. For example, the federal poverty guidelines of the U.S. Dept of Health and Human Services defined the poverty level for a two-person household in Alaska in 2009 to be \$18,210.²¹ However, there are a number of federal and state “safety net” programs like social security, the earned income tax credit, unemployment insurance, and food stamps that help to lift people above the poverty income level.

Consequently as an addition to the “safety net” the dividend has been one factor in the decline in the official poverty rate since Alaska attained statehood, particularly among Native Americans. The Native American poverty rate fell from 25 percent to 19 percent between the census years of 1980 and 1990.²²

The dividend is particularly important in rural parts of the state where the economy is largely a mixture of government cash-based transfers and subsistence activities and where wage paying employment is scarce. Households are cash poor and the subsistence harvests can fluctuate dramatically from year to year. Under these circumstances the cash provided by the dividend is particularly important not only because of its size but also its predictability.

²⁰ Between the early 1980s and the early 2000s, the after-tax income of the richest 20 percent of families increased at a faster rate than the poorest 20 percent in 38 states. In 11 states the growth rates were about the same for the two groups. Alaska was the only state in which the income of the bottom 20 percent grew at a faster rate (25%) than the income of the top 20 percent (10%). In the early 1980s, Alaska had the greatest income equality of any state, measured by the ratio of average income of the top 20 percent of families compared to the lowest 20 percent—6.6. By the early 2000s Alaska had fallen to 43rd place at 5.8 while the U.S. average had increased from 5.5 to 7.3. The trend toward greater income equality in Alaska was due both to faster growth in incomes of families at the bottom of the distribution—25% compared to 19% for the total U.S. and to slower growth in incomes of families at the top of the distribution—10% compared to 59% for the total U.S. See Jared Bernstein et al. “Pulling Apart: A State-by-State Analysis of Income Trends,” Center on Budget and Policy Priorities and Economic Policy Institute, Washington D.C., 2006.

²¹ These guidelines are used in the determination of eligibility for many, but not all, federal assistance programs. The guidelines are higher for Alaska than other states because of the high cost of living, but they do not reflect differences in the cost of living across regions within the state.

²² Scott Goldsmith et al. “The Status of Alaska Natives Report”, prepared for the Alaska Federation of Natives, Institute of Social and Economic Research, 2004. The census poverty rate is based on the poverty threshold, a definition that varies with household composition, but does not account for the higher cost of living in Alaska relative to other states. As the relative cost of living has fallen in Alaska since statehood, one would expect the calculated poverty rate to increase if all other variables were held constant. Thus the reported decline in the poverty rate over time is an underestimate of the actual trend in well being of the population.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HJR 17
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HJR017-DOR-APFC-01-31-14
Title: CONST AM: GUARANTEE PERM FUND
DIVIDEND
Sponsor: GARA
Requester: House State Affairs Committee

Department: Department of Revenue
Appropriation: Alaska Permanent Fund Corporation
Allocation: APFC Operations
OMB Component Number: 109

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues

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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial version

Prepared By: <u>Laura Achee</u>	Phone: <u>(907)796-1522</u>
Division: <u>Alaska Permanent Fund Corporation</u>	Date: <u>01/31/2014 12:00 AM</u>
Approved By: <u>Michael J. Burns</u>	Date: <u>01/31/14</u>
Agency: <u>Alaska Permanent Fund Corporation</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HJR 17

Analysis

HJR 17 would place the language establishing the earnings reserve account of the Alaska Permanent Fund in the Constitution. It would also place language that establishes the Permanent Fund Dividend in the Constitution. At present, the language authorizing both of these items is contained in Alaska Statutes. APFC does not anticipate any additional operating costs would be incurred as a result of this proposed change.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HJR 17
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HJR017-OOG-DOE-1-31-14
Title: CONST AM: GUARANTEE PERM FUND
DIVIDEND
Sponsor: GARA
Requester: House State Affairs

Department: Office of the Governor
Appropriation: Elections
Allocation: Elections
OMB Component Number: 21

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services	1.5							
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	1.5							
Total	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial Version

Prepared By:	Gail Fenumiai, Director	Phone:	(907)465-2644
Division:	Division of Elections	Date:	01/31/2014 12:01 PM
Approved By:	Guy Bell, Administrative Director	Date:	01/31/14
Agency:	Division of Administrative Services, Office of the Governor		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HJR17

Analysis

Passage of this resolution would require the constitutional amendment to appear on the 2014 general election ballot. The cost of providing information about the constitutional amendment in the Official Election Pamphlet, as required by AS 15.58, is \$1.5. Should the addition of this resolution require printing an 8-1/2 by 18 inch ballot, the cost will increase to \$22.0.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HJR 17
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HJR17-LEG-SESS-01-31-14
Title: CONST AM: GUARANTEE PERM FUND
DIVIDEND
Sponsor: GARA
Requester: House State Affairs

Department: Alaska Legislature
Appropriation: Legislative Operating Budget
Allocation: Session Expenses
OMB Component Number: 782

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency?
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial Version

Prepared By:	Jessica Geary, Finance Manager	Phone:	(907)465-6626
Division:	Legislative Affairs Agency	Date:	01/31/2014 03:48 PM
Approved By:	Pamela Varni, Executive Director	Date:	01/31/14
Agency:	Legislative Affairs Agency		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HJR 17

Analysis

This Legislative has zero fiscal impact on the Legislative Affairs Agency.

Nancy Manly

From: Toby Smith
Sent: Wednesday, February 05, 2014 3:30 PM
To: Nancy Manly
Subject: RE: Testimony

OK. The only person at this point that I am aware of who might testify is Rick Halford. He would need to call in via offnet (still 855-463-5009 I assume). I understand that there might not be time for any testimony. I'll let you know if I get a final confirmation from him. Hilary Martin in leg legal will be calling in to be available for questions only.

Thanks.

Toby Smith
Legislative Aide for Representative Les Gara
(907) 465-2647

From: Nancy Manly
Sent: Tuesday, February 04, 2014 4:19 PM
To: Toby Smith
Subject: RE: Testimony

It all depends on time so not absolutely certain, but if there is time, then yes.

Nancy Manly, Chief of Staff and
House State Affairs Committee Aide *for*
Representative Bob Lynn
House District 23
907-465-2794 Fax: 907-465-4316

From: Toby Smith
Sent: Tuesday, February 04, 2014 1:12 PM
To: Nancy Manly
Subject: Testimony

Hi Nancy-

I meant to ask: do you think testimony for HJR 17 will be allowed during Thursday's committee hearing?

Thanks.

Toby Smith
Legislative Aide for Representative Les Gara
State Capitol
Juneau, AK 99801
(907) 465-2647