

# HB

# 245

<TARGET><BILL>HB 245</BILL><SUBJECT>HB  
245</SUBJECT><COMM>HFIN29</COMM></TARGET>

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adopted  
6-6-16

29-GH2859\L  
Wallace/Martin  
6/6/16

**CS FOR HOUSE BILL NO. 245(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FOURTH SPECIAL SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska  
2 permanent fund, and the earnings reserve account; relating to management of the  
3 budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) by the Alaska  
4 Permanent Fund Corporation; relating to procurement by the Alaska Permanent Fund  
5 Corporation; relating to the mental health trust fund; relating to deposits into the  
6 dividend fund; relating to the calculation of permanent fund dividends; relating to  
7 unrestricted state revenue available for appropriation; and providing for an effective  
8 date."

9 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

10 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
11 to read:

12 LEGISLATIVE INTENT. It is the intent of the legislature that the legislature

1 reevaluate the use of earnings of the Alaska permanent fund, as prescribed under this Act, in  
2 three years.

3 \* **Sec. 2.** AS 36.30.015 is amended by adding a new subsection to read:

4 (f) The board of trustees of the Alaska Permanent Fund Corporation shall  
5 adopt regulations to govern the procurement of supplies, services, and professional  
6 services. The regulations must be similar to the procedures described in this chapter  
7 and in regulations adopted under this chapter. Notwithstanding any other provisions of  
8 this subsection, the Alaska Permanent Fund Corporation shall comply with the five  
9 percent preference under AS 36.30.321(a) and the requirement that contracts for legal  
10 services be approved by the attorney general under (d) of this section.

11 \* **Sec. 3.** AS 36.30.990(1) is amended to read:

12 (1) "agency"

13 (A) means a department, institution, board, commission,  
14 division, authority, public corporation, the Alaska Pioneers' Home, the Alaska  
15 Veterans' Home, or other administrative unit of the executive branch of state  
16 government;

17 (B) does not include

18 (i) the University of Alaska;  
19 (ii) the Alaska Railroad Corporation;  
20 (iii) the Alaska Housing Finance Corporation;  
21 (iv) a regional Native housing authority created under  
22 AS 18.55.996 or a regional electrical authority created under  
23 AS 18.57.020;

24 (v) the Department of Transportation and Public  
25 Facilities, in regard to the repair, maintenance, and reconstruction of  
26 vessels, docking facilities, and passenger and vehicle transfer facilities  
27 of the Alaska marine highway system;

28 (vi) the Alaska Aerospace Corporation;  
29 (vii) the Alaska Retirement Management Board;  
30 (viii) the Alaska Seafood Marketing Institute;  
31 (ix) the Alaska children's trust and the Alaska

1 Children's Trust Board;

2 (x) the Alaska Industrial Development and Export  
3 Authority;

4 **(xi) the Alaska Permanent Fund Corporation;**

5 \* **Sec. 4.** AS 37.10.430(a) is amended to read:

6 (a) The **Alaska Permanent Fund Corporation shall manage and invest the**  
7 **assets of** [DEPARTMENT OF REVENUE MAY TRANSFER MANAGEMENT  
8 RESPONSIBILITY OVER ALL OR A PORTION OF] the budget reserve fund (art.  
9 IX, sec. 17, Constitution of the State of Alaska) **in the manner set out for the**  
10 **management and investment of the assets of the Alaska permanent fund under**  
11 **AS 37.13.120** [TO THE ALASKA PERMANENT FUND CORPORATION].

12 \* **Sec. 5.** AS 37.10.430(b) is amended to read:

13 (b) By March 15 of each year, the **Alaska Permanent Fund Corporation**  
14 [DEPARTMENT OF REVENUE] shall [, AFTER CONSULTING WITH THE  
15 ALASKA PERMANENT FUND CORPORATION,] prepare a report setting out the  
16 balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of  
17 Alaska) on **July 1** [JANUARY 1] and on **June 30** [DECEMBER 31] of the previous  
18 **fiscal** [CALENDAR] year. The report shall state the nominal, real, and realized return  
19 on the budget reserve fund compared to the nominal, real, and realized return on the  
20 permanent fund and the general fund during the previous **fiscal** [CALENDAR] year.

21 \* **Sec. 6.** AS 37.13.010(a) is amended to read:

22 (a) Under art. IX, sec. 15, of the state constitution, there is established as a  
23 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

24 (1) 25 percent of all mineral lease rentals, royalties, royalty sale  
25 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue  
26 sharing payments received by the state from mineral leases [ISSUED ON OR  
27 BEFORE DECEMBER 1, 1979,] and 25 percent of all bonuses received by the state  
28 from mineral leases [ISSUED ON OR BEFORE FEBRUARY 15, 1980;

29 (2) 50 PERCENT OF ALL MINERAL LEASE RENTALS,  
30 ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER  
31 AS 38.05.180(f) AND (g), AND FEDERAL MINERAL REVENUE SHARING

1 PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED  
 2 AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED  
 3 BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15,  
 4 1980]; and

5 (2) [(3)] any other money appropriated to or otherwise allocated by  
 6 law or former law to the Alaska permanent fund.

7 \* **Sec. 7.** AS 37.13.140 is amended to read:

8 **Sec. 37.13.140. Income.** Net income of the fund includes income of the  
 9 earnings reserve account established under AS 37.13.145. The corporation shall  
 10 determine the net [NET] income of the fund [SHALL BE COMPUTED  
 11 ANNUALLY AS OF THE LAST DAY OF THE FISCAL YEAR] in accordance with  
 12 generally accepted accounting principles, excluding any unrealized gains or losses.  
 13 [INCOME AVAILABLE FOR DISTRIBUTION EQUALS 21 PERCENT OF THE  
 14 NET INCOME OF THE FUND FOR THE LAST FIVE FISCAL YEARS,  
 15 INCLUDING THE FISCAL YEAR JUST ENDED, BUT MAY NOT EXCEED NET  
 16 INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS THE  
 17 BALANCE IN THE EARNINGS RESERVE ACCOUNT DESCRIBED IN  
 18 AS 37.13.145.]

19 \* **Sec. 8.** AS 37.13.140 is amended by adding new subsections to read:

20 (b) The corporation shall determine the amount available for distribution each  
 21 year. The amount available for distribution equals five and one-quarter percent of the  
 22 average market value of the fund for the first five of the preceding six fiscal years,  
 23 including the fiscal year just ended, computed annually for each fiscal year in  
 24 accordance with generally accepted accounting principles. In this subsection, "the  
 25 average market value of the fund" includes the balance of the earnings reserve account  
 26 established under AS 37.13.145, but does not include that portion of the principal  
 27 attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ.  
 28 (Superior Court, First Judicial District).

29 (c) In accordance with AS 37.13.146(a)(1), 20 percent of the amount available  
 30 for distribution under (b) of this section shall be reserved for dividends. The remainder  
 31 of the amount available for distribution under (b) of this section shall be reduced by

1 the difference between the amount calculated under (1) of this subsection and the  
2 amount under (2) of this subsection if the amount calculated under (1) of this  
3 subsection exceeds the amount under (2) of this subsection:

4 (1) the total amount of oil and gas production taxes under  
5 AS 43.55.011 - 43.55.180, mineral lease rentals, royalties, royalty sale proceeds, net  
6 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing  
7 payments and bonuses received by the state from mineral leases that are deposited into  
8 the general fund in the current fiscal year, less the amount under AS 37.13.146(a)(2);

9 (2) the sum of \$1,200,000,000.

10 \* **Sec. 9.** AS 37.13.145(d) is amended to read:

11 (d) **Income** [NOTWITHSTANDING (b) OF THIS SECTION, INCOME]  
12 earned on money awarded in or received as a result of State v. Amerada Hess, et al.,  
13 1JU-77-847 Civ. (Superior Court, First Judicial District), including settlement,  
14 summary judgment, or adjustment to a royalty-in-kind contract that is tied to the  
15 outcome of this case, or interest earned on the money, or on the earnings of the money  
16 shall be treated in the same manner as other income of the Alaska permanent fund,  
17 except that it is not available for distribution [TO THE DIVIDEND FUND OR FOR  
18 TRANSFERS TO THE PRINCIPAL] under **AS 37.13.140(b) and** (c) [OF THIS  
19 SECTION], and shall be annually deposited into the Alaska capital income fund  
20 (AS 37.05.565).

21 \* **Sec. 10.** AS 37.13.145 is amended by adding new subsections to read:

22 (e) Each year the legislature may appropriate from the earnings reserve  
23 account to the general fund an amount that does not exceed the amount available for  
24 distribution under AS 37.13.140(b) and (c).

25 (f) Each year the legislature may appropriate from the earnings reserve  
26 account to the principal of the fund an amount by which the balance of the earnings  
27 reserve account exceeds the amount available for distribution under AS 37.13.140(b)  
28 multiplied by four, less the amount appropriated under (e) of this section.

29 \* **Sec. 11.** AS 37.13 is amended by adding new sections to read:

30 **Sec. 37.13.146. Appropriations to the dividend fund.** (a) The legislature may  
31 appropriate to the dividend fund established in AS 43.23.045 the following amounts

1 from the general fund:

2 (1) 20 percent of the amount calculated under AS 37.13.140(b); and

3 (2) an amount equal to 20 percent of the money deposited in the  
4 general fund during the fiscal year just ended from all mineral lease rentals, royalties,  
5 royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral  
6 revenue sharing payments, and bonuses received by the state from mineral leases.

7 (b) Nothing in this section creates a dedicated fund.

8 **Sec. 37.13.148. Appropriation of revenue.** (a) If the unrestricted state  
9 revenue available for appropriation in the preceding fiscal year exceeds the  
10 unrestricted general fund appropriations made for the same fiscal year, the legislature  
11 may appropriate the amount of unrestricted state revenue in excess of unrestricted  
12 general fund appropriations as follows:

13 (1) 50 percent to the Alaska permanent fund (art. IX, sec. 15,  
14 Constitution of the State of Alaska); and

15 (2) 50 percent to the budget reserve fund (art. IX, sec. 17, Constitution  
16 of the State of Alaska).

17 (b) In this section, "unrestricted state revenue" does not include the balance or  
18 earnings of the earnings reserve account established under AS 37.13.145(a).

19 \* **Sec. 12.** AS 37.13.206(a) is amended to read:

20 (a) The board may adopt regulations to carry out the purposes of this chapter  
21 and shall adopt regulations under AS 36.30.015(D) and AS 37.13.120(a). The  
22 provisions of AS 44.62 (Administrative Procedure Act) regarding the adoption of  
23 regulations do not apply to regulations of the corporation.

24 \* **Sec. 13.** AS 37.13.300(c) is amended to read:

25 (c) Net income from the mental health trust fund may not be included in the  
26 computation of [NET] income available for distribution under AS 37.13.140(b)  
27 [AS 37.13.140].

28 \* **Sec. 14.** AS 43.23.025(a) is amended to read:

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

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

1 which equals

2 (A) the amount appropriated [OF INCOME OF THE  
3 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund  
4 under AS 37.13.146 [AS 37.13.145(b)] during the current year;

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

8 (C) less the amount necessary to pay prior year dividends from  
9 the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and  
10 43.23.055(3) and (7);

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

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

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

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

23 \* **Sec. 15.** AS 43.23.025 is amended by adding a new subsection to read:

24 (c) Notwithstanding (a) of this section, the amount of each permanent fund  
25 dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000.

26 \* **Sec. 16.** AS 43.23.045(a) is amended to read:

27 (a) The dividend fund is established as a separate fund in the state treasury.  
28 The fund consists of money appropriated to it under AS 37.13.146. The dividend  
29 fund shall be administered by the commissioner and shall be invested by the  
30 commissioner in the same manner as provided in AS 37.10.070.

31 \* **Sec. 17.** AS 43.23.055 is amended to read:

1                   **Sec. 43.23.055. Duties of the department.** The department shall

2                   (1) annually pay permanent fund dividends from the dividend fund,  
3                   without further appropriation;

4                   (2) subject to AS 43.23.011 and paragraph (8) of this section, adopt  
5 regulations under AS 44.62 (Administrative Procedure Act) that establish procedures  
6 and time limits for claiming a permanent fund dividend; the department shall  
7 determine the number of eligible applicants by October 1 of the year for which the  
8 dividend is declared and pay the dividends by December 31 of that year;

9                   (3) adopt regulations under AS 44.62 (Administrative Procedure Act)  
10 that establish procedures and time limits for an individual upon emancipation or upon  
11 reaching majority to apply for permanent fund dividends not received during minority  
12 because the parent, guardian, or other authorized representative did not apply on  
13 behalf of the individual;

14                   (4) assist residents of the state, particularly in rural areas, who because  
15 of language, disability, or inaccessibility to public transportation need assistance to  
16 establish eligibility and to apply for permanent fund dividends;

17                   (5) use a list of individuals ineligible for a dividend under  
18 AS 43.23.005(d) provided annually by the Department of Corrections and the  
19 Department of Public Safety to determine the number and identity of those  
20 individuals;

21                   (6) adopt regulations that are necessary to implement AS 43.23.005(d);

22                   (7) adopt regulations that establish procedures for the parent, guardian,  
23 or other authorized representative of a disabled individual to apply for prior year  
24 permanent fund dividends not received by the disabled individual because no  
25 application was submitted on behalf of the individual;

26                   (8) adopt regulations that establish procedures for an individual to  
27 apply to have a dividend disbursement under AS 37.25.050(a)(2) reissued if it is not  
28 collected within two years after the date of its issuance; however, the department may  
29 not establish a time limit within which an application to have a disbursement reissued  
30 must be filed;

31                   (9) provide any information, upon request, contained in permanent

1 fund dividend records to the child support services agency created in AS 25.27.010, or  
2 the child support enforcement agency of another state, for child support purposes  
3 authorized under law; if the information is contained in an electronic data base, the  
4 department shall provide the requesting agency with either

- 5 (A) access to the data base; or
- 6 (B) a copy of the information in the data base and a statement  
7 certifying its contents;

8 (10) establish a fraud investigation unit for the purpose of assisting the

- 9 (A) Department of Law in the prosecution of individuals who  
10 apply for or obtain a permanent fund dividend in violation of a provision in  
11 AS 11, by detecting and investigating those crimes; and

- 12 (B) commissioner to detect and investigate the claiming or  
13 paying of permanent fund dividends that should not have been claimed by or  
14 paid to an individual and to impose the penalties and enforcement provisions  
15 under AS 43.23.035.

16 \* **Sec. 18.** AS 37.10.430(c); AS 37.13.145(b), and 37.13.145(c) are repealed.

17 \* **Sec. 19.** AS 43.23.025(c) is repealed June 30, 2020.

18 \* **Sec. 20.** The uncodified law of the State of Alaska is amended by adding a new section to  
19 read:

20 TRANSITION. The commissioner of revenue and the Alaska Permanent Fund  
21 Corporation may adopt regulations, policies, and procedures necessary to implement this Act.  
22 The regulations, policies, or procedures may not take effect before the effective date of the  
23 law implemented by the regulation, policy, or procedure.

24 \* **Sec. 21.** The uncodified law of the State of Alaska is amended by adding a new section to  
25 read:

26 RETROACTIVITY. If secs. 6 - 11 and 13 - 18 of this Act take effect after July 1,  
27 2016, secs. 6 - 11 and 13 - 18 of this Act are retroactive to July 1, 2016.

28 \* **Sec. 22.** Sections 2, 3, 12, 20, and 21 of this Act take effect immediately under  
29 AS 01.10.070(c).

30 \* **Sec. 23.** Except as provided in sec. 22 of this Act, this Act takes effect July 1, 2016.

*Adopted  
4/19/16*

29-GH2859I  
Wallace/Martin  
4/17/16

**CS FOR HOUSE BILL NO. 245(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska  
2 permanent fund, and the earnings reserve account; relating to management of the  
3 budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) by the Alaska  
4 Permanent Fund Corporation; relating to procurement by the Alaska Permanent Fund  
5 Corporation; relating to the mental health trust fund; relating to deposits into the  
6 dividend fund; relating to the calculation of permanent fund dividends; and providing  
7 for an effective date."

8 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

9 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
10 to read:

11 LEGISLATIVE INTENT. It is the intent of the legislature that the legislature  
12 reevaluate the use of earnings of the Alaska permanent fund, as prescribed under this Act, in  
13 three years.

1 \* **Sec. 2.** AS 36.30.015 is amended by adding a new subsection to read:

2 (d) The board of trustees of the Alaska Permanent Fund Corporation shall  
3 adopt regulations to govern the procurement of supplies, services, and professional  
4 services. The regulations must be similar to the procedures described in this chapter  
5 and in regulations adopted under this chapter. Notwithstanding any other provisions of  
6 this subsection, the Alaska Permanent Fund Corporation shall comply with the five  
7 percent preference under AS 36.30.321(a) and the requirement that contracts for legal  
8 services be approved by the attorney general under (d) of this section.

9 \* **Sec. 3.** AS 36.30.990(1) is amended to read:

10 (1) "agency"

11 (A) means a department, institution, board, commission,  
12 division, authority, public corporation, the Alaska Pioneers' Home, the Alaska  
13 Veterans' Home, or other administrative unit of the executive branch of state  
14 government;

15 (B) does not include

16 (i) the University of Alaska;

17 (ii) the Alaska Railroad Corporation;

18 (iii) the Alaska Housing Finance Corporation;

19 (iv) a regional Native housing authority created under  
20 AS 18.55.996 or a regional electrical authority created under  
21 AS 18.57.020;

22 (v) the Department of Transportation and Public  
23 Facilities, in regard to the repair, maintenance, and reconstruction of  
24 vessels, docking facilities, and passenger and vehicle transfer facilities  
25 of the Alaska marine highway system;

26 (vi) the Alaska Aerospace Corporation;

27 (vii) the Alaska Retirement Management Board;

28 (viii) the Alaska Seafood Marketing Institute;

29 (ix) the Alaska children's trust and the Alaska  
30 Children's Trust Board;

31 (x) the Alaska Industrial Development and Export

1 Authority;

2 **(xi) the Alaska Permanent Fund Corporation;**

3 \* **Sec. 4.** AS 37.05.565(a) is amended to read:

4 (a) There is established in the general fund the Alaska capital income fund  
5 consisting of [MONEY DEPOSITED TO THE FUND UNDER AS 37.13.145(d)  
6 AND OF] appropriations to the fund. The fund shall be invested by the Department of  
7 Revenue to yield competitive market rates as provided in AS 37.10.071. Income  
8 earned on money in the fund may be appropriated to the fund.

9 \* **Sec. 5.** AS 37.10.430(a) is amended to read:

10 (a) The **Alaska Permanent Fund Corporation shall manage and invest the**  
11 **assets of** [DEPARTMENT OF REVENUE MAY TRANSFER MANAGEMENT  
12 RESPONSIBILITY OVER ALL OR A PORTION OF] the budget reserve fund (art.  
13 IX, sec. 17, Constitution of the State of Alaska) **in the manner set out for the**  
14 **management and investment of the assets of the Alaska permanent fund under**  
15 **AS 37.13.120** [TO THE ALASKA PERMANENT FUND CORPORATION].

16 \* **Sec. 6.** AS 37.10.430(b) is amended to read:

17 (b) By March 15 of each year, the **Alaska Permanent Fund Corporation**  
18 [DEPARTMENT OF REVENUE] shall [, AFTER CONSULTING WITH THE  
19 ALASKA PERMANENT FUND CORPORATION,] prepare a report setting out the  
20 balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of  
21 Alaska) on **July 1** [JANUARY 1] and on **June 30** [DECEMBER 31] of the previous  
22 **fiscal** [CALENDAR] year. The report shall state the nominal, real, and realized return  
23 on the budget reserve fund compared to the nominal, real, and realized return on the  
24 permanent fund and the general fund during the previous **fiscal** [CALENDAR] year.

25 \* **Sec. 7.** AS 37.13.010(a) is amended to read:

26 (a) Under art. IX, sec. 15, of the state constitution, there is established as a  
27 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

28 (1) 25 percent of all mineral lease rentals, royalties, royalty sale  
29 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue  
30 sharing payments received by the state from mineral leases [ISSUED ON OR  
31 BEFORE DECEMBER 1, 1979,] and 25 percent of all bonuses received by the state

1 from mineral leases [ISSUED ON OR BEFORE FEBRUARY 15, 1980;

2 (2) 50 PERCENT OF ALL MINERAL LEASE RENTALS,  
3 ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER  
4 AS 38.05.180(f) AND (g), AND FEDERAL MINERAL REVENUE SHARING  
5 PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED  
6 AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED  
7 BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15,  
8 1980]; and

9 (2) [(3)] any other money appropriated to or otherwise allocated by  
10 law or former law to the Alaska permanent fund.

11 \* Sec. 8. AS 37.13.140 is amended to read:

12 **Sec. 37.13.140. Income.** Net income of the fund includes income of the  
13 earnings reserve account established under AS 37.13.145. **The corporation shall**  
14 **determine the net** [NET] income of the fund [SHALL BE COMPUTED  
15 ANNUALLY AS OF THE LAST DAY OF THE FISCAL YEAR] in accordance with  
16 generally accepted accounting principles, excluding any unrealized gains or losses.  
17 [INCOME AVAILABLE FOR DISTRIBUTION EQUALS 21 PERCENT OF THE  
18 NET INCOME OF THE FUND FOR THE LAST FIVE FISCAL YEARS,  
19 INCLUDING THE FISCAL YEAR JUST ENDED, BUT MAY NOT EXCEED NET  
20 INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS THE  
21 BALANCE IN THE EARNINGS RESERVE ACCOUNT DESCRIBED IN  
22 AS 37.13.145.]

23 \* Sec. 9. AS 37.13.140 is amended by adding new subsections to read:

24 (b) The corporation shall determine the amount available for distribution each  
25 year. The amount available for distribution equals five and one-quarter percent of the  
26 average market value of the fund, including the balance of the earnings reserve  
27 account established under AS 37.13.145, for the first five of the preceding six fiscal  
28 years, including the fiscal year just ended, computed annually for each fiscal year in  
29 accordance with generally accepted accounting principles.

30 (c) In accordance with AS 37.13.146(a)(1), 20 percent of the amount available  
31 for distribution under (b) of this section shall be reserved for dividends. The remainder

1 of the amount available for distribution under (b) of this section shall be reduced by  
2 the difference between the amount calculated under (1) of this subsection and the  
3 amount calculated under (2) of this subsection if the amount calculated under (1) of  
4 this subsection exceeds the amount calculated under (2) of this subsection:

5 (1) the total amount of oil and gas production taxes under  
6 AS 43.55.011 - 43.55.180, mineral lease rentals, royalties, royalty sale proceeds, net  
7 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing  
8 payments received by the state from mineral leases that are deposited into the general  
9 fund in the current fiscal year, less the amount under AS 37.13.146(a)(2);

10 (2) \$1,200,000,000, adjusted for inflation from calendar year 2016  
11 using the United States Consumer Price Index for all urban consumers.

12 \* **Sec. 10.** AS 37.13.145 is amended by adding new subsections to read:

13 (e) Each year the legislature may appropriate from the earnings reserve  
14 account to the general fund the amount available for distribution under  
15 AS 37.13.140(b) and (c).

16 (f) Each year the legislature may appropriate from the earnings reserve  
17 account to the principal of the fund an amount by which the balance of the earnings  
18 reserve account exceeds the amount available for distribution under AS 37.13.140(b)  
19 multiplied by four, less the amount appropriated under (e) of this section.

20 \* **Sec. 11.** AS 37.13 is amended by adding a new section to read:

21 **Sec. 37.13.146. Appropriations to the dividend fund.** (a) The legislature may  
22 appropriate to the dividend fund established in AS 43.23.045 the following amounts  
23 from the general fund:

24 (1) 20 percent of the amount calculated under AS 37.13.140(b); and

25 (2) an amount equal to 20 percent of the money deposited in the  
26 general fund during the fiscal year just ended from all mineral lease rentals, royalties,  
27 royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral  
28 revenue sharing payments, and bonuses received by the state from mineral leases.

29 (b) Nothing in this section creates a dedicated fund.

30 \* **Sec. 12.** AS 37.13.206(a) is amended to read:

31 (a) The board may adopt regulations to carry out the purposes of this chapter

1 and shall adopt regulations under AS 36.30.015(l) and AS 37.13.120(a). The  
2 provisions of AS 44.62 (Administrative Procedure Act) regarding the adoption of  
3 regulations do not apply to regulations of the corporation.

4 \* **Sec. 13.** AS 37.13.300(c) is amended to read:

5 (c) Net income from the mental health trust fund may not be included in the  
6 computation of [NET] income available for distribution under AS 37.13.140(b)  
7 [AS 37.13.140].

8 \* **Sec. 14.** AS 43.23.025(a) is amended to read:

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

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

13 (A) the amount appropriated [OF INCOME OF THE  
14 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund  
15 under AS 37.13.146 [AS 37.13.145(b)] during the current year;

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

19 (C) less the amount necessary to pay prior year dividends from  
20 the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and  
21 43.23.055(3) and (7);

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

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

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

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

3 \* **Sec. 15.** AS 43.23.025 is amended by adding a new subsection to read:

4 (c) Notwithstanding (a) of this section, the amount of each permanent fund  
5 dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000.

6 \* **Sec. 16.** AS 43.23.045(a) is amended to read:

7 (a) The dividend fund is established as a separate fund in the state treasury.  
8 **The fund consists of money appropriated to it under AS 37.13.146.** The dividend  
9 fund shall be administered by the commissioner and shall be invested by the  
10 commissioner in the same manner as provided in AS 37.10.070.

11 \* **Sec. 17.** AS 43.23.055 is amended to read:

12 **Sec. 43.23.055. Duties of the department.** The department shall

13 (1) annually pay permanent fund dividends from the dividend fund,  
14 **without further appropriation;**

15 (2) subject to AS 43.23.011 and paragraph (8) of this section, adopt  
16 regulations under AS 44.62 (Administrative Procedure Act) that establish procedures  
17 and time limits for claiming a permanent fund dividend; the department shall  
18 determine the number of eligible applicants by October 1 of the year for which the  
19 dividend is declared and pay the dividends by December 31 of that year;

20 (3) adopt regulations under AS 44.62 (Administrative Procedure Act)  
21 that establish procedures and time limits for an individual upon emancipation or upon  
22 reaching majority to apply for permanent fund dividends not received during minority  
23 because the parent, guardian, or other authorized representative did not apply on  
24 behalf of the individual;

25 (4) assist residents of the state, particularly in rural areas, who because  
26 of language, disability, or inaccessibility to public transportation need assistance to  
27 establish eligibility and to apply for permanent fund dividends;

28 (5) use a list of individuals ineligible for a dividend under  
29 AS 43.23.005(d) provided annually by the Department of Corrections and the  
30 Department of Public Safety to determine the number and identity of those  
31 individuals;

1 (6) adopt regulations that are necessary to implement AS 43.23.005(d);

2 (7) adopt regulations that establish procedures for the parent, guardian,  
3 or other authorized representative of a disabled individual to apply for prior year  
4 permanent fund dividends not received by the disabled individual because no  
5 application was submitted on behalf of the individual;

6 (8) adopt regulations that establish procedures for an individual to  
7 apply to have a dividend disbursement under AS 37.25.050(a)(2) reissued if it is not  
8 collected within two years after the date of its issuance; however, the department may  
9 not establish a time limit within which an application to have a disbursement reissued  
10 must be filed;

11 (9) provide any information, upon request, contained in permanent  
12 fund dividend records to the child support services agency created in AS 25.27.010, or  
13 the child support enforcement agency of another state, for child support purposes  
14 authorized under law; if the information is contained in an electronic data base, the  
15 department shall provide the requesting agency with either

16 (A) access to the data base; or

17 (B) a copy of the information in the data base and a statement  
18 certifying its contents;

19 (10) establish a fraud investigation unit for the purpose of assisting the

20 (A) Department of Law in the prosecution of individuals who  
21 apply for or obtain a permanent fund dividend in violation of a provision in  
22 AS 11, by detecting and investigating those crimes; and

23 (B) commissioner to detect and investigate the claiming or  
24 paying of permanent fund dividends that should not have been claimed by or  
25 paid to an individual and to impose the penalties and enforcement provisions  
26 under AS 43.23.035.

27 \* **Sec. 18.** AS 37.10.430(c); AS 37.13.145(b), 37.13.145(c), and 37.13.145(d) are repealed.

28 \* **Sec. 19.** Section 28, ch. 134, SLA 1992, is repealed.

29 \* **Sec. 20.** AS 43.23.025(c) is repealed June 30, 2020.

30 \* **Sec. 21.** The uncodified law of the State of Alaska is amended by adding a new section to  
31 read:

1           TRANSITION. The commissioner of revenue and the Alaska Permanent Fund  
2 Corporation may adopt regulations, policies, and procedures necessary to implement this Act.  
3 The regulations, policies, or procedures may not take effect before the effective date of the  
4 law implemented by the regulation, policy, or procedure.

5       \* **Sec. 22.** The uncodified law of the State of Alaska is amended by adding a new section to  
6 read:

7           RETROACTIVITY. If secs. 4, 7 - 11, and 13 - 20 of this Act take effect after July 1,  
8 2016, secs. 4, 7 - 11, and 13 - 20 of this Act are retroactive to July 1, 2016.

9       \* **Sec. 23.** Sections 2, 3, 12, 21, and 22 of this Act take effect immediately under  
10 AS 01.10.070(c).

11       \* **Sec. 24.** Sections 5 and 6 of this Act take effect July 1, 2017.

12       \* **Sec. 25.** Except as provided in secs. 23 and 24 of this Act, this Act takes effect July 1,  
13 2016.

29-GH2859N  
Wallace/Martin  
4/16/16

**ADOPTED**  
4-17-16

**CS FOR HOUSE BILL NO. 245(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska**  
2 **permanent fund, and the earnings reserve account; relating to management of the**  
3 **budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) by the Alaska**  
4 **Permanent Fund Corporation; relating to procurement by the Alaska Permanent Fund**  
5 **Corporation; relating to the mental health trust fund; relating to deposits into the**  
6 **dividend fund; relating to the calculation of permanent fund dividends; and providing**  
7 **for an effective date."**

8 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

9 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
10 to read:

11 LEGISLATIVE INTENT. It is the intent of the legislature that the legislature  
12 reevaluate the use of earnings of the Alaska permanent fund, as prescribed under this Act, in  
13 three years.

1 \* **Sec. 2.** AS 36.30.015 is amended by adding a new subsection to read:

2 (l) The board of trustees of the Alaska Permanent Fund Corporation shall  
3 adopt regulations to govern the procurement of supplies, services, and professional  
4 services. The regulations must be similar to the procedures described in this chapter  
5 and in regulations adopted under this chapter. Notwithstanding any other provisions of  
6 this subsection, the Alaska Permanent Fund Corporation shall comply with the five  
7 percent preference under AS 36.30.321(a) and the requirement that contracts for legal  
8 services be approved by the attorney general under (d) of this section.

9 \* **Sec. 3.** AS 36.30.990(1) is amended to read:

10 (1) "agency"

11 (A) means a department, institution, board, commission,  
12 division, authority, public corporation, the Alaska Pioneers' Home, the Alaska  
13 Veterans' Home, or other administrative unit of the executive branch of state  
14 government;

15 (B) does not include

16 (i) the University of Alaska;

17 (ii) the Alaska Railroad Corporation;

18 (iii) the Alaska Housing Finance Corporation;

19 (iv) a regional Native housing authority created under  
20 AS 18.55.996 or a regional electrical authority created under  
21 AS 18.57.020;

22 (v) the Department of Transportation and Public  
23 Facilities, in regard to the repair, maintenance, and reconstruction of  
24 vessels, docking facilities, and passenger and vehicle transfer facilities  
25 of the Alaska marine highway system;

26 (vi) the Alaska Aerospace Corporation;

27 (vii) the Alaska Retirement Management Board;

28 (viii) the Alaska Seafood Marketing Institute;

29 (ix) the Alaska children's trust and the Alaska  
30 Children's Trust Board;

31 (x) the Alaska Industrial Development and Export

1 Authority;

2 **(xi) the Alaska Permanent Fund Corporation;**

3 \* **Sec. 4.** AS 37.05.540(d) is amended to read:

4 (d) The **Alaska Permanent Fund Corporation** [DEPARTMENT OF  
5 REVENUE] shall manage and invest assets of the budget reserve fund in the manner  
6 set out for the management and investment of the assets of the **Alaska permanent**  
7 **fund** [GENERAL FUND] under **AS 37.13.120** [AS 37.10.070]. Income from  
8 investment of the budget reserve fund may be appropriated to the fund each year by  
9 law.

10 \* **Sec. 5.** AS 37.05.565(a) is amended to read:

11 (a) There is established in the general fund the Alaska capital income fund  
12 consisting of [MONEY DEPOSITED TO THE FUND UNDER AS 37.13.145(d)  
13 AND OF] appropriations to the fund. The fund shall be invested by the Department of  
14 Revenue to yield competitive market rates as provided in AS 37.10.071. Income  
15 earned on money in the fund may be appropriated to the fund.

16 \* **Sec. 6.** AS 37.10.430(a) is amended to read:

17 (a) The **Alaska Permanent Fund Corporation shall manage**  
18 [DEPARTMENT OF REVENUE MAY TRANSFER MANAGEMENT  
19 RESPONSIBILITY OVER ALL OR A PORTION OF] the budget reserve fund (art.  
20 IX, sec. 17, Constitution of the State of Alaska) [TO THE ALASKA PERMANENT  
21 FUND CORPORATION].

22 \* **Sec. 7.** AS 37.10.430(b) is amended to read:

23 (b) By March 15 of each year, the **Alaska Permanent Fund Corporation**  
24 [DEPARTMENT OF REVENUE] shall [, AFTER CONSULTING WITH THE  
25 ALASKA PERMANENT FUND CORPORATION,] prepare a report setting out the  
26 balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of  
27 Alaska) on January 1 and on December 31 of the previous calendar year. The report  
28 shall state the nominal, real, and realized return on the budget reserve fund compared  
29 to the nominal, real, and realized return on the permanent fund and the general fund  
30 during the previous calendar year.

31 \* **Sec. 8.** AS 37.13.010(a) is amended to read:

1 (a) Under art. IX, sec. 15, of the state constitution, there is established as a  
2 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

3 (1) 25 percent of all mineral lease rentals, royalties, royalty sale  
4 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue  
5 sharing payments received by the state from mineral leases [ISSUED ON OR  
6 BEFORE DECEMBER 1, 1979,] and 25 percent of all bonuses received by the state  
7 from mineral leases [ISSUED ON OR BEFORE FEBRUARY 15, 1980;

8 (2) 50 PERCENT OF ALL MINERAL LEASE RENTALS,  
9 ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER  
10 AS 38.05.180(f) AND (g), AND FEDERAL MINERAL REVENUE SHARING  
11 PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED  
12 AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED  
13 BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15,  
14 1980]; and

15 (2) [(3)] any other money appropriated to or otherwise allocated by  
16 law or former law to the Alaska permanent fund.

17 \* **Sec. 9.** AS 37.13.140 is amended to read:

18 **Sec. 37.13.140. Income.** Net income of the fund includes income of the  
19 earnings reserve account established under AS 37.13.145. **The corporation shall**  
20 **determine the net** [NET] income of the fund [SHALL BE COMPUTED  
21 ANNUALLY AS OF THE LAST DAY OF THE FISCAL YEAR] in accordance with  
22 generally accepted accounting principles, excluding any unrealized gains or losses.  
23 [INCOME AVAILABLE FOR DISTRIBUTION EQUALS 21 PERCENT OF THE  
24 NET INCOME OF THE FUND FOR THE LAST FIVE FISCAL YEARS,  
25 INCLUDING THE FISCAL YEAR JUST ENDED, BUT MAY NOT EXCEED NET  
26 INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS THE  
27 BALANCE IN THE EARNINGS RESERVE ACCOUNT DESCRIBED IN  
28 AS 37.13.145.]

29 \* **Sec. 10.** AS 37.13.140 is amended by adding new subsections to read:

30 (b) The corporation shall determine the amount available for distribution on  
31 July 1 of each year. Subject to (c) of this section, the amount available for distribution

1 equals five and one-quarter percent of the average market value of the fund, including  
2 the balance of the earnings reserve account established under AS 37.13.145, for the  
3 first five of the preceding six fiscal years, including the fiscal year just ended,  
4 computed annually for each fiscal year in accordance with generally accepted  
5 accounting principles.

6 (c) The amount available for distribution under (b) of this section shall be  
7 reduced by 80 percent of the difference between the amount calculated under (1) of  
8 this subsection and the amount calculated under (2) of this subsection if the amount  
9 calculated under (1) of this subsection exceeds the amount calculated under (2) of this  
10 subsection:

11 (1) the total amount of oil and gas production taxes under  
12 AS 43.55.011 - 43.55.180, mineral lease rentals, royalties, royalty sale proceeds, net  
13 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing  
14 payments received by the state from mineral leases that are deposited into the general  
15 fund in the current fiscal year, less the amount under AS 37.13.146(a)(2);

16 (2) \$1,200,000,000, adjusted for inflation from calendar year 2016  
17 using the United States Consumer Price Index for all urban consumers.

18 \* **Sec. 11.** AS 37.13.145 is amended by adding new subsections to read:

19 (e) Each year the legislature may appropriate to the general fund the amount  
20 available for distribution under AS 37.13.140(b) and (c) from the earnings reserve  
21 account.

22 (f) Each year, the legislature may appropriate from the earnings reserve  
23 account to the principal of the fund an amount by which the balance of the earnings  
24 reserve account on July 1 exceeds the amount available for distribution under  
25 AS 37.13.140(b) and (c) multiplied by four, less the amount appropriated under (e) of  
26 this section.

27 \* **Sec. 12.** AS 37.13 is amended by adding a new section to read:

28 **Sec. 37.13.146. Appropriations to the dividend fund.** (a) The legislature may  
29 appropriate to the dividend fund established in AS 43.23.045 the following amounts  
30 from the general fund:

31 (1) 20 percent of the amount calculated under AS 37.13.140(b); and

1 (2) an amount equal to 20 percent of the money deposited in the  
2 general fund during the fiscal year just ended from all mineral lease rentals, royalties,  
3 royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral  
4 revenue sharing payments, and bonuses received by the state from mineral leases.

5 (b) Nothing in this section creates a dedicated fund.

6 \* **Sec. 13.** AS 37.13.206(a) is amended to read:

7 (a) The board may adopt regulations to carry out the purposes of this chapter  
8 and shall adopt regulations under AS 36.30.015(l) and AS 37.13.120(a). The  
9 provisions of AS 44.62 (Administrative Procedure Act) regarding the adoption of  
10 regulations do not apply to regulations of the corporation.

11 \* **Sec. 14.** AS 37.13.300(c) is amended to read:

12 (c) Net income from the mental health trust fund may not be included in the  
13 computation of [NET] income available for distribution under AS 37.13.140(b)  
14 [AS 37.13.140].

15 \* **Sec. 15.** AS 37.14.031(c) is amended to read:

16 (c) The net income of the fund shall be computed annually [DETERMINED]  
17 by the Alaska Permanent Fund Corporation as of the last day of the fiscal year in  
18 accordance with generally accepted accounting principles, excluding any  
19 unrealized gains or losses [IN THE SAME MANNER THE CORPORATION  
20 DETERMINES THE NET INCOME OF THE ALASKA PERMANENT FUND  
21 UNDER AS 37.13.140].

22 \* **Sec. 16.** AS 43.23.025(a) is amended to read:

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

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

27 (A) the amount appropriated [OF INCOME OF THE  
28 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund  
29 under AS 37.13.146 [AS 37.13.145(b)] during the current year;

30 (B) plus the unexpended and unobligated balances of prior  
31 fiscal year appropriations that lapse into the dividend fund under

1 AS 43.23.045(d);

2 (C) less the amount necessary to pay prior year dividends from  
3 the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and  
4 43.23.055(3) and (7);

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

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

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

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

17 \* **Sec. 17.** AS 43.23.025 is amended by adding a new subsection to read:

18 (c) Notwithstanding (a) of this section, the amount of each permanent fund  
19 dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000.

20 \* **Sec. 18.** AS 43.23.045(a) is amended to read:

21 (a) The dividend fund is established as a separate fund in the state treasury.

22 **The fund consists of money appropriated to it under AS 37.13.146.** The dividend  
23 fund shall be administered by the commissioner and shall be invested by the  
24 commissioner in the same manner as provided in AS 37.10.070.

25 \* **Sec. 19.** AS 43.23.055 is amended to read:

26 **Sec. 43.23.055. Duties of the department.** The department shall

27 (1) annually pay permanent fund dividends from the dividend fund,  
28 **without further appropriation;**

29 (2) subject to AS 43.23.011 and paragraph (8) of this section, adopt  
30 regulations under AS 44.62 (Administrative Procedure Act) that establish procedures  
31 and time limits for claiming a permanent fund dividend; the department shall

1 determine the number of eligible applicants by October 1 of the year for which the  
2 dividend is declared and pay the dividends by December 31 of that year;

3 (3) adopt regulations under AS 44.62 (Administrative Procedure Act)  
4 that establish procedures and time limits for an individual upon emancipation or upon  
5 reaching majority to apply for permanent fund dividends not received during minority  
6 because the parent, guardian, or other authorized representative did not apply on  
7 behalf of the individual;

8 (4) assist residents of the state, particularly in rural areas, who because  
9 of language, disability, or inaccessibility to public transportation need assistance to  
10 establish eligibility and to apply for permanent fund dividends;

11 (5) use a list of individuals ineligible for a dividend under  
12 AS 43.23.005(d) provided annually by the Department of Corrections and the  
13 Department of Public Safety to determine the number and identity of those  
14 individuals;

15 (6) adopt regulations that are necessary to implement AS 43.23.005(d);

16 (7) adopt regulations that establish procedures for the parent, guardian,  
17 or other authorized representative of a disabled individual to apply for prior year  
18 permanent fund dividends not received by the disabled individual because no  
19 application was submitted on behalf of the individual;

20 (8) adopt regulations that establish procedures for an individual to  
21 apply to have a dividend disbursement under AS 37.25.050(a)(2) reissued if it is not  
22 collected within two years after the date of its issuance; however, the department may  
23 not establish a time limit within which an application to have a disbursement reissued  
24 must be filed;

25 (9) provide any information, upon request, contained in permanent  
26 fund dividend records to the child support services agency created in AS 25.27.010, or  
27 the child support enforcement agency of another state, for child support purposes  
28 authorized under law; if the information is contained in an electronic data base, the  
29 department shall provide the requesting agency with either

30 (A) access to the data base; or

31 (B) a copy of the information in the data base and a statement

1 certifying its contents;

2 (10) establish a fraud investigation unit for the purpose of assisting the

3 (A) Department of Law in the prosecution of individuals who  
4 apply for or obtain a permanent fund dividend in violation of a provision in  
5 AS 11, by detecting and investigating those crimes; and

6 (B) commissioner to detect and investigate the claiming or  
7 paying of permanent fund dividends that should not have been claimed by or  
8 paid to an individual and to impose the penalties and enforcement provisions  
9 under AS 43.23.035.

10 \* **Sec. 20.** AS 37.10.430(c); AS 37.13.145(b), 37.13.145(c), and 37.13.145(d) are repealed.

11 \* **Sec. 21.** Section 28, ch. 134, SLA 1992, is repealed.

12 \* **Sec. 22.** AS 43.23.025(c) is repealed June 30, 2020.

13 \* **Sec. 23.** The uncodified law of the State of Alaska is amended by adding a new section to  
14 read:

15 TRANSITION. The commissioner of revenue and the Alaska Permanent Fund  
16 Corporation may adopt regulations, policies, and procedures necessary to implement this Act.  
17 The regulations, policies, or procedures may not take effect before the effective date of the  
18 law implemented by the regulation, policy, or procedure.

19 \* **Sec. 24.** The uncodified law of the State of Alaska is amended by adding a new section to  
20 read:

21 RETROACTIVITY. If secs. 5, 8 - 12, and 14 - 22 of this Act take effect after July 1,  
22 2016, secs. 5, 8 - 12, and 14 - 22 of this Act are retroactive to July 1, 2016.

23 \* **Sec. 25.** Sections 2, 3, 13, 23, and 24 of this Act take effect immediately under  
24 AS 01.10.070(c).

25 \* **Sec. 26.** Sections 4 and 6 - 7 of this Act take effect July 1, 2017.

26 \* **Sec. 27.** Except as provided in secs. 25 and 26 of this Act, this Act takes effect July 1,  
27 2016.

Adopted 4-12-16

29-GH2859\E  
Wallace/Martin  
4/12/16

**CS FOR HOUSE BILL NO. 245(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:**

**Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska**  
2 **permanent fund, and the earnings reserve account; relating to the mental health trust**  
3 **fund; relating to deposits into the dividend fund; relating to the calculation of**  
4 **permanent fund dividends; and providing for an effective date."**

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

6 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
7 to read:

8 LEGISLATIVE INTENT. It is the intent of the legislature that the legislature  
9 reevaluate the use of earnings of the Alaska permanent fund, as prescribed under this Act, in  
10 three years.

11 \* **Sec. 2.** AS 37.05.565(a) is amended to read:

12 (a) There is established in the general fund the Alaska capital income fund  
13 consisting of [MONEY DEPOSITED TO THE FUND UNDER AS 37.13.145(d)  
14 AND OF] appropriations to the fund. The fund shall be invested by the Department of

1 Revenue to yield competitive market rates as provided in AS 37.10.071. Income  
2 earned on money in the fund may be appropriated to the fund.

3 \* **Sec. 3.** AS 37.13.010(a) is amended to read:

4 (a) Under art. IX, sec. 15, of the state constitution, there is established as a  
5 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

6 (1) 25 percent of all mineral lease rentals, royalties, royalty sale  
7 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue  
8 sharing payments received by the state from mineral leases [ISSUED ON OR  
9 BEFORE DECEMBER 1, 1979,] and 25 percent of all bonuses received by the state  
10 from mineral leases [ISSUED ON OR BEFORE FEBRUARY 15, 1980;

11 (2) 50 PERCENT OF ALL MINERAL LEASE RENTALS,  
12 ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER  
13 AS 38.05.180(f) AND (g), AND FEDERAL MINERAL REVENUE SHARING  
14 PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED  
15 AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED  
16 BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15,  
17 1980]; and

18 (2) [(3)] any other money appropriated to or otherwise allocated by  
19 law or former law to the Alaska permanent fund.

20 \* **Sec. 4.** AS 37.13.140 is amended to read:

21 **Sec. 37.13.140. Income.** (a) Net income of the fund includes income of the  
22 earnings reserve account established under AS 37.13.145. **The corporation shall**  
23 **determine the net** [NET] income of the fund [SHALL BE COMPUTED  
24 ANNUALLY AS OF THE LAST DAY OF THE FISCAL YEAR] in accordance with  
25 generally accepted accounting principles **as the income is realized and received.**

26 **(b) The corporation shall determine the amount available for distribution**  
27 **on July 1 of each year. The amount** [, EXCLUDING ANY UNREALIZED GAINS  
28 OR LOSSES. INCOME] available for distribution equals **five and one-quarter** [21]  
29 percent of the **average market value** [NET INCOME] of the fund, **including the**  
30 **balance of the earnings reserve account established under AS 37.13.145,** for the  
31 **first five of the preceding six** [LAST FIVE] fiscal years, including the fiscal year just

1 ended, computed annually for each fiscal year in accordance with generally  
2 accepted accounting principles but may not exceed the year-end balance of the  
3 earnings reserve account [NET INCOME OF THE FUND] for the fiscal year just  
4 ended [PLUS THE BALANCE IN THE EARNINGS RESERVE ACCOUNT  
5 DESCRIBED IN AS 37.13.145].

6 \* **Sec. 5.** AS 37.13.145 is amended by adding a new subsection to read:

7 (e) Each year the legislature may appropriate to the general fund the amount  
8 available for distribution under AS 37.13.140(b) from the earnings reserve account.

9 \* **Sec. 6.** AS 37.13 is amended by adding a new section to read:

10 **Sec. 37.13.146. Appropriations to the dividend fund.** (a) The legislature may  
11 appropriate to the dividend fund established in AS 43.23.045 the following amounts  
12 from the general fund:

13 (1) 20 percent of the amount calculated under AS 37.13.140(b); and

14 (2) an amount equal to 20 percent of the money deposited in the  
15 general fund during the fiscal year just ended from all mineral lease rentals, royalties,  
16 royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral  
17 revenue sharing payments, and bonuses received by the state from mineral leases.

18 (b) Nothing in this section creates a dedicated fund.

19 \* **Sec. 7.** AS 37.13.300(c) is amended to read:

20 (c) Net income from the mental health trust fund may not be included in the  
21 computation of [NET] income available for distribution under AS 37.13.140(b)  
22 [AS 37.13.140].

23 \* **Sec. 8.** AS 37.14.031(c) is amended to read:

24 (c) The net income of the fund shall be computed annually [DETERMINED]  
25 by the Alaska Permanent Fund Corporation as of the last day of the fiscal year in  
26 accordance with generally accepted accounting principles, excluding any  
27 unrealized gains or losses [IN THE SAME MANNER THE CORPORATION  
28 DETERMINES THE NET INCOME OF THE ALASKA PERMANENT FUND  
29 UNDER AS 37.13.140].

30 \* **Sec. 9.** AS 43.23.025(a) is amended to read:

31 (a) By October 1 of each year, the commissioner shall determine the value of

1 each permanent fund dividend for that year by

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

4 (A) the amount **appropriated** [OF INCOME OF THE  
5 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund  
6 under **AS 37.13.146** [AS 37.13.145(b)] during the current year;

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

10 (C) less the amount necessary to pay prior year dividends from  
11 the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and  
12 43.23.055(3) and (7);

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

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

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

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

25 \* **Sec. 10.** AS 43.23.025 is amended by adding a new subsection to read:

26 (c) Notwithstanding (a) of this section, the amount of each permanent fund  
27 dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000.

28 \* **Sec. 11.** AS 43.23.045(a) is amended to read:

29 (a) The dividend fund is established as a separate fund in the state treasury.

30 **The fund consists of money appropriated to it under AS 37.13.146.** The dividend  
31 fund shall be administered by the commissioner and shall be invested by the

1 commissioner in the same manner as provided in AS 37.10.070.

2 \* **Sec. 12.** AS 43.23.055 is amended to read:

3 **Sec. 43.23.055. Duties of the department.** The department shall

4 (1) annually pay permanent fund dividends from the dividend fund,  
5 without further appropriation;

6 (2) subject to AS 43.23.011 and paragraph (8) of this section, adopt  
7 regulations under AS 44.62 (Administrative Procedure Act) that establish procedures  
8 and time limits for claiming a permanent fund dividend; the department shall  
9 determine the number of eligible applicants by October 1 of the year for which the  
10 dividend is declared and pay the dividends by December 31 of that year;

11 (3) adopt regulations under AS 44.62 (Administrative Procedure Act)  
12 that establish procedures and time limits for an individual upon emancipation or upon  
13 reaching majority to apply for permanent fund dividends not received during minority  
14 because the parent, guardian, or other authorized representative did not apply on  
15 behalf of the individual;

16 (4) assist residents of the state, particularly in rural areas, who because  
17 of language, disability, or inaccessibility to public transportation need assistance to  
18 establish eligibility and to apply for permanent fund dividends;

19 (5) use a list of individuals ineligible for a dividend under  
20 AS 43.23.005(d) provided annually by the Department of Corrections and the  
21 Department of Public Safety to determine the number and identity of those  
22 individuals;

23 (6) adopt regulations that are necessary to implement AS 43.23.005(d);

24 (7) adopt regulations that establish procedures for the parent, guardian,  
25 or other authorized representative of a disabled individual to apply for prior year  
26 permanent fund dividends not received by the disabled individual because no  
27 application was submitted on behalf of the individual;

28 (8) adopt regulations that establish procedures for an individual to  
29 apply to have a dividend disbursement under AS 37.25.050(a)(2) reissued if it is not  
30 collected within two years after the date of its issuance; however, the department may  
31 not establish a time limit within which an application to have a disbursement reissued

1 must be filed;

2 (9) provide any information, upon request, contained in permanent  
3 fund dividend records to the child support services agency created in AS 25.27.010, or  
4 the child support enforcement agency of another state, for child support purposes  
5 authorized under law; if the information is contained in an electronic data base, the  
6 department shall provide the requesting agency with either

7 (A) access to the data base; or

8 (B) a copy of the information in the data base and a statement  
9 certifying its contents;

10 (10) establish a fraud investigation unit for the purpose of assisting the

11 (A) Department of Law in the prosecution of individuals who  
12 apply for or obtain a permanent fund dividend in violation of a provision in  
13 AS 11, by detecting and investigating those crimes; and

14 (B) commissioner to detect and investigate the claiming or  
15 paying of permanent fund dividends that should not have been claimed by or  
16 paid to an individual and to impose the penalties and enforcement provisions  
17 under AS 43.23.035.

18 \* **Sec. 13.** AS 37.13.145(b), 37.13.145(c), 37.13.145(d); and sec. 28, ch. 134, SLA 1992, are  
19 repealed.

20 \* **Sec. 14.** AS 43.23.025(c) is repealed June 30, 2020.

21 \* **Sec. 15.** The uncodified law of the State of Alaska is amended by adding a new section to  
22 read:

23 **TRANSITION.** The commissioner of revenue and the Alaska Permanent Fund  
24 Corporation may adopt regulations, policies, and procedures necessary to implement this Act.  
25 The regulations, policies, or procedures may not take effect before the effective date of the  
26 law implemented by the regulation, policy, or procedure.

27 \* **Sec. 16.** The uncodified law of the State of Alaska is amended by adding a new section to  
28 read:

29 **RETROACTIVITY.** If secs. 2 - 9 and 11 - 15 of this Act take effect after July 1, 2016,  
30 secs. 2 - 9 and 11 - 15 of this Act are retroactive to July 1, 2016.

31 \* **Sec. 17.** Sections 15 and 16 of this Act take effect immediately under AS 01.10.070(c).

1

\* **Sec. 18.** Except as provided in sec. 17 of this Act, this Act takes effect July 1, 2016.

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version: HB 245  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB245-DOA-VCCB-03-22-16  
Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Governor

Department: Department of Administration  
Appropriation: Violent Crimes Compensation Board  
Allocation: Violent Crimes Compensation Board  
OMB Component Number: 2694

**Expenditures/Revenues**

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

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>	<b>FY 2017</b>	<b>FY 2017</b>					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

--	--	--	--	--	--	--	--

**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) 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? Not known  
If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Updated from indeterminate to zero.

Prepared By: <u>Kate Hudson</u>	Phone: <u>(907)465-5525</u>
Division: <u>Violent Crimes Compensation Board</u>	Date: <u>03/22/2016 01:30 PM</u>
Approved By: <u>Sheldon Fisher, Commissioner</u>	Date: <u>03/22/16</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

BILL NO. HB 245

**Analysis**

There will be zero financial impact of this bill on the Violent Crimes Compensation Board because it is assumed that any reductions in the permanent fund dividend will be absorbed by the Department of Corrections.

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version:	HB 245
Fiscal Note Number:	1
(H) Publish Date:	1/19/2016

Identifier: DOR-APFC-1-15-16  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Governor

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)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

<b>Change in Revenues</b>							
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**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) 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:**

Not applicable, initial version.
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Prepared By: Laura Achee  
 Division: Alaska Permanent Fund Corporation  
 Approved By: Angela Rodell  
 Agency: Alaska Permanent Fund Corporation

Phone: (907)796-1522  
 Date: 01/15/2016 12:00 AM  
 Date: 01/15/16

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

## Analysis

This bill would allow for up to 99.5 percent of the mineral royalty deposits received by the State of Alaska to be deposited into the principal and earnings reserve of the Permanent Fund. The annual allocation of deposits between the principal and the earnings reserve of the 74.5 percent of royalties not allocated by the Constitution would be determined by the balance of the earnings reserve. Similar provisions are provided to deposit all of the unrestricted petroleum tax revenue received by the State into the Permanent Fund principal and earnings. Using the Fall 2015 Revenue Sources Book, AFPC anticipates this would add about \$900 million to the assets under management each year. The cost of managing these funds can be absorbed within the APFC's current budget request for FY17.

In addition, the bill would mandate a \$3.3 billion annual draw from the Permanent Fund earnings reserve and would provide for a transfer of an amount equal to 50 percent of the mineral royalties collected by the State to the Permanent Fund Dividend Fund. Managing toward these fixed liabilities may change the asset allocation of the Permanent Fund, however at this time it is difficult to forecast if it would impact the asset allocation to a degree that would require additional investment staff, accounting staff or related resources.

# ALASKA STATE LEGISLATURE

## HOUSE FINANCE COMMITTEE

Representative Mark Neuman  
Co-Chairman  
(907) 465-2679  
Rep.Mark.Neuman@akleg.gov



Representative Steve Thompson  
Co-Chairman  
(907) 465-3004  
Rep.Steve.Thompson@akleg.gov

Alaska State Capitol Building- Rm 505

Alaska State Capitol Building- Rm 511

### HB 245 Explanation of Changes version I to version L

Page 1, Lines 6-7 TITLE CHANGE regarding unrestricted state revenues available for appropriation.

Deleted Section 4 from version I. This section conforms to not getting rid of the Amerada Hess case settlement money being directed to the Alaska capital income fund.

Page 4, Lines 25-28. States that the Amerada Hess money will not be accounted for in the amount of money available for distribution.

Page 4, Line 30 and line 31 the word "calculated" was removed, since this is an amount in the fund, not a calculation.

Page 5, Line 7 removes "adjusted for inflation" from the revenue limit threshold. Automatic inflationary increases will certainly reduce the impact of the limit and might make the limit as irrelevant as the existing constitutional spending limit.

Page 5, Line 14 removes language regarding inflation proofing.

Page 6, Line 5 – 15 A new section is added AS 37.13.148 - Appropriation of Revenue. This new section creates a spending rule that states, if the amount available for appropriation in the preceding fiscal year is greater than the amount appropriated, the legislature may appropriate the excess as follows:

- (1) 50% to the Permanent Fund
- (2) 50% to the CBR

Page 9, Line 13 - AS 37.14.145(d) is eliminated from the repealers. This has to do with the Amerada Hess settlement money.

Page 9 – Section 24 was removed in version L. This allows for transfer of the management of the CBR from DOR to the Permanent Fund to happen this year and not in 2017.

# ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

Representative Mark Neuman  
Co-Chairman  
(907) 465-2679  
Rep.Mark.Neuman@akleg.gov



Representative Steve Thompson  
Co-Chairman  
(907) 465-3004  
Rep.Steve.Thompson@akleg.gov

Alaska State Capitol Building- Rm 505

Alaska State Capitol Building- Rm 511

## Sectional Analysis CS House Bill 245 (FIN) 29-GH2859L

**“An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to management of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) by the Alaska Permanent Fund Corporation; relating to procurement by the Alaska Permanent Fund Corporation; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the unrestricted state revenue available for appropriation; and providing for an effective date.”**

- \*Section 1:** Legislative intent that the legislature reevaluate the use of the earnings of the Permanent Fund in three years
- \*Section 2:** Language requiring the Alaska Permanent Fund Corporation to adopt regulations similar to the State’s procurement code
- \*Section 3:** Adds the Alaska Permanent Fund Corporation to the list of those state agencies that are exempt from the State’s procurement code
- \*Section 4:** Transfers the management and investment of the Constitutional Budget Reserve from the Department of Revenue to the Alaska Permanent Fund Corporation
- \*Section 5:** Requires the Alaska Permanent Fund Corporation to prepare an annual report on the balance and returns of the Constitutional Budget Reserve fund
- \*Section 6:** Dedicated deposits of royalties to the Permanent Fund are reduced from the current 25/50 split on old/new leases to the constitutional minimum of 25%
- \*Section 7:** Requires the Alaska Permanent Fund Corporation to determine the net income of the earnings reserve account excluding the unrealized gains or losses

**\*Section 8:** (b) Defines the Percent of Market Value payout as 5.25% of the average year-end market value of the Permanent Fund and Earnings Reserve Account for the first five of the most recently completed six fiscal years. The payout may not exceed the year-end balance of the earnings reserve account for the fiscal year just ended

**(c)** Reserves 20% of the POMV payout for dividends. The remaining 80% of the payout is subject to a dollar for dollar reduction as oil and gas revenue rises above \$1.2 billion (adjusted for inflation).

**(1)** Oil and gas Unrestricted General Fund revenue excluding the amount to be paid as 20% of the prior year royalties to the dividend

**(2)** \$1,200,000 revenue limit

**\*Section 9:** Deals with distribution of the money awarded in the Amerada Hess case

**\*Section 10:** AS 37.13.145 is the Disposition of Income of the Permanent Fund statute

(a) Unchanged – Establishes the ERA and identifies the ERA as holding earnings of the Permanent Fund and ERA

(b) Repealed in this bill – dividends based on statutory net income

(c) Repealed in this bill – inflation proofing

(d) Repealed in this bill – segregation of Amerada Hess

(e) Added in this section – each year the legislature may appropriate to the General Fund the amount available for distribution from the Earnings Reserve Account under the POMV in Sec. 10 (b) **and the limit calculation in AS 37.13.140(b) & (c)**

**(f) Inflation proofing mechanism (when the balance of the ERA reaches 4x the maximum amount available for distribution)**

**\*Section 11: Appropriations to the dividend fund** Dividends are comprised of 20% of the 5.25% POMV outlined in Sec. 4(b), and 20% of prior year royalties, excludes those dedicated to the Permanent Fund or School Fund (25.5% are dedicated)

**Appropriation of revenue.** If the amount available for appropriation in the preceding fiscal year is greater than the amount appropriated, the legislature may appropriate the excess as follows:

(1) 50% to the Permanent Fund

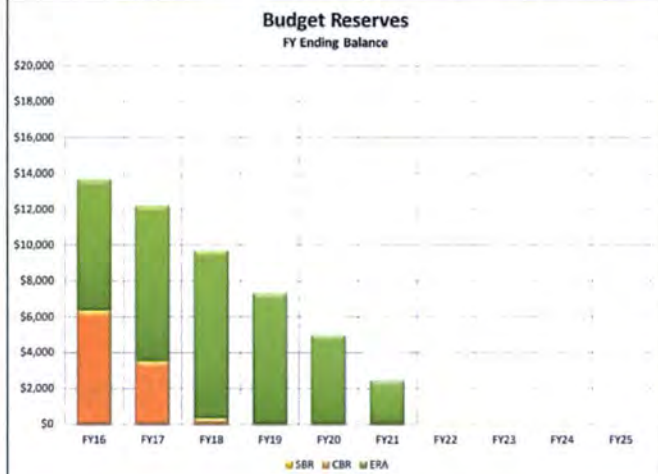
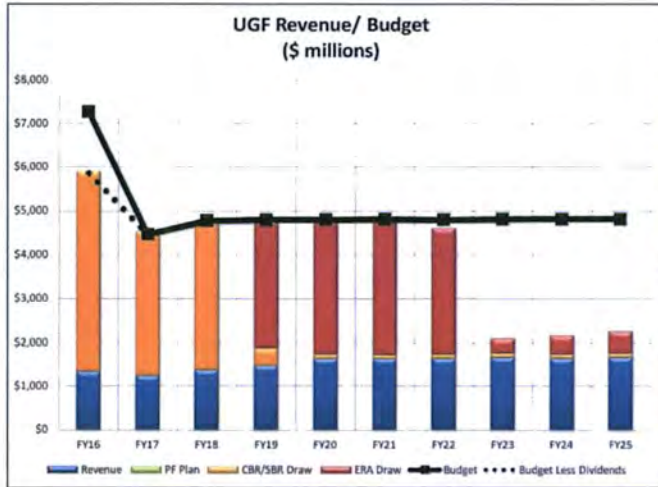
(2) 50% to the CBR

**\*Section 12:** Conforming language relating to procurement

**\*Section 13:** Mental Health Trust Fund and Amerada Hess monies may not be included in the computation of income available for distribution under the POMV

- \***Section 14**: Transfer of money to the Dividend Fund requires an appropriation
- \***Section 15**: The amount of each Permanent Fund Dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000
- \***Section 16**: Conforms to Sec. 12, which moves money to the Dividend Fund by appropriation
- \***Section 17**: Once the money is in the Dividend Fund, the Department of Revenue shall annually pay dividends without further appropriation
- \***Section 18**: Repeals language relating to the **subaccount of the Constitutional Budget Reserve**, the former dividend calculation, inflation proofing calculation
- \***Section 19**: Repeals Sec. 15 - \$1,000 dividend for three years
- \***Section 20**: Transition Language: The Commissioner of Revenue and the Alaska Permanent Fund Corporation may adopt regulations, policies and procedures to implement this Act
- \***Section 21**: Retroactivity clause
- \***Section 22**: Effective date for sections 2, 3, 12, 20 and 21, immediate
- \***Section 23**: Effective Date, July 1, 2016

LFD Fiscal Model



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	12,193	9,664	7,280	4,952	2,430	0	0	0	0
Deficit	-3,295	-3,412	-3,322	-3,172	-3,180	-3,161	-3,146	-3,175	-3,152
Years to Exhaust	4	3	2	2	1	0	0	0	0
POMVS	2,386	2,518	2,662	2,772	2,798	2,784	2,748	2,696	2,664
Dividends	(685)	(694)	(702)	(692)	(705)	(705)	(690)	(671)	(657)
Net POMVS	1,701	1,824	1,959	2,080	2,093	2,079	2,058	2,025	2,007

Price Scenario **Spring 2016**

**COST VARIABLES**

**Operating Budget**

Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -

**Statewide Budget**

Community Assistance	15.0
PRS/TRS/CA Bills	n

**Capital Budget (FY18-25)** 185.0

**REVENUE VARIABLES**

Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Tax Bill Package	None
Tax Credit Reform	CC

**Perm Fund Plans**

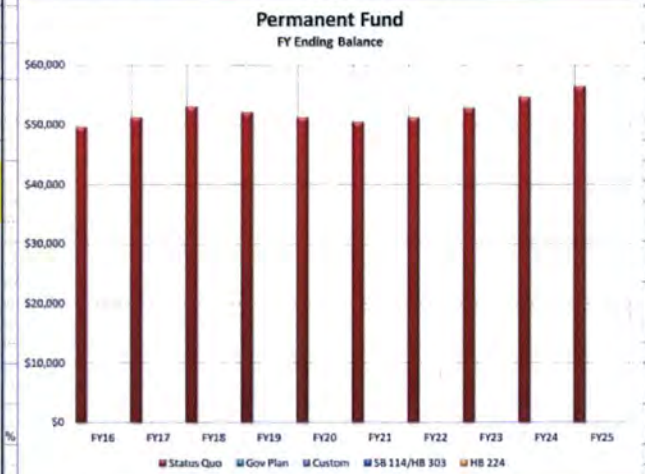
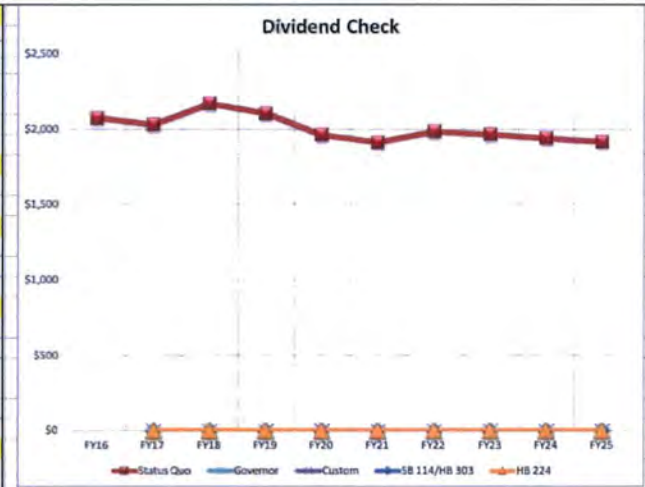
Governor	n
Custom	\$ 3,300

**Perm Fund Variables**

IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	7.25%
Percent Realized	76.38%

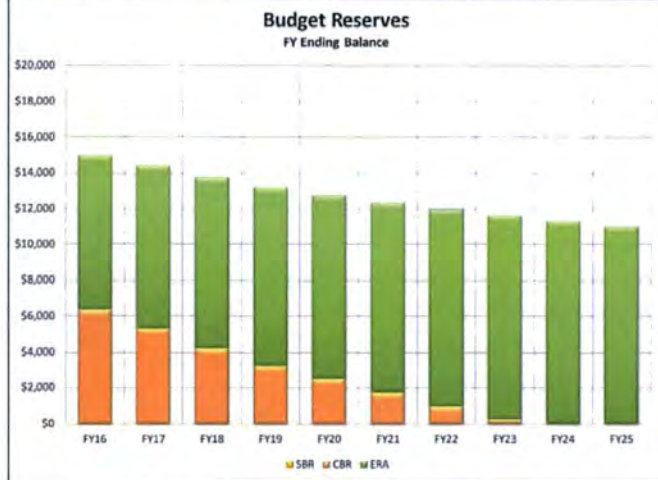
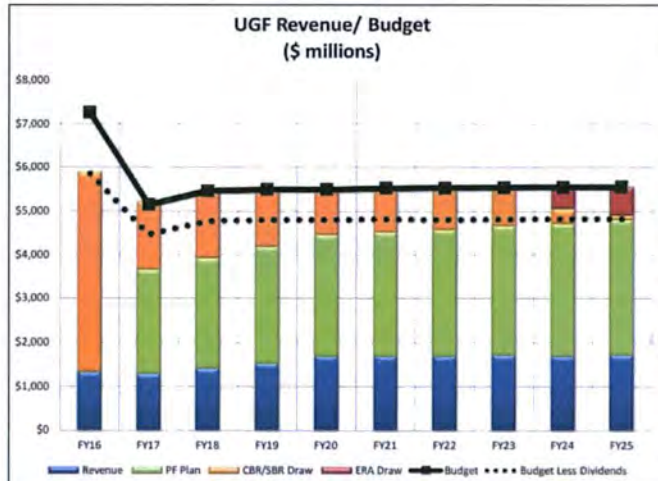
**Custom Plan Specifications**

POMV Payout	5.25%
POMV to Dividend	20.0%
Dividend % of royalties	20.0%
Dividend % of CBR balance	0.0%
Dividend % of SNI	0.0%
Dividend Floor	\$ 1,000
Floor Ends	19
Dividend Cap	n
Fixed Dollar Dividend	\$ -
POMV limit (% of prior yr approps)	n
POMV Limit (reduce if rev exceeds)	\$ 1,200
Reduce by x%	100.0%
Closed Applications	n
Fill FY17 w/ ERA	n
Reserve Priority	CBR
CBR Earnings	7.25%



PF	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Target PF	53,452	54,655	55,885	57,142	58,428	59,742	61,087	62,461	63,866
PF Value	53,621	54,943	53,220	51,109	48,801	48,666	51,883	53,328	54,310
% Value	100%	101%	95%	89%	84%	81%	85%	85%	85%
Effective %	4.56%	4.70%	4.84%	5.21%	5.47%	5.71%	5.65%	5.20%	4.99%

Note: Assumes \$250 million annual appropriation for O&G Tax Credits given the uncertainty of the timing of payments. \$250 million is the average from FY18-25 of the \$2 billion in projected credits earned over that span.

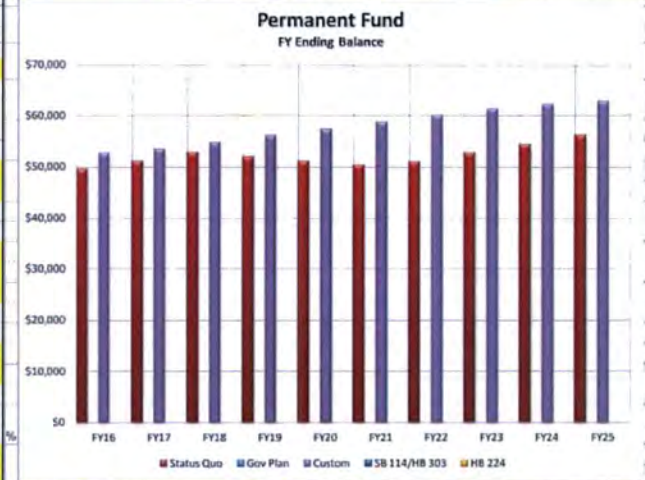
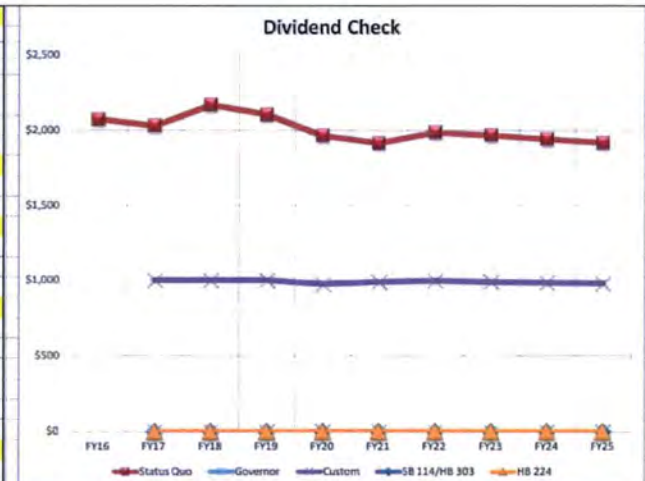


	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	14,390	13,723	13,146	12,749	12,346	11,967	11,619	11,277	10,980
Deficit	-1,553	-1,542	-1,312	-1,038	-1,007	-951	-875	-844	-761
Years to Exhaust	9	9	10	12	12	13	13	13	14
POMVS	2,386	2,518	2,662	2,772	2,829	2,883	2,952	3,021	3,090
Dividends	(685)	(694)	(702)	(692)	(711)	(725)	(730)	(736)	(742)
Net POMVS	1,701	1,824	1,959	2,080	2,116	2,158	2,221	2,285	2,348

**Price Scenario** Spring 2016

**COST VARIABLES**

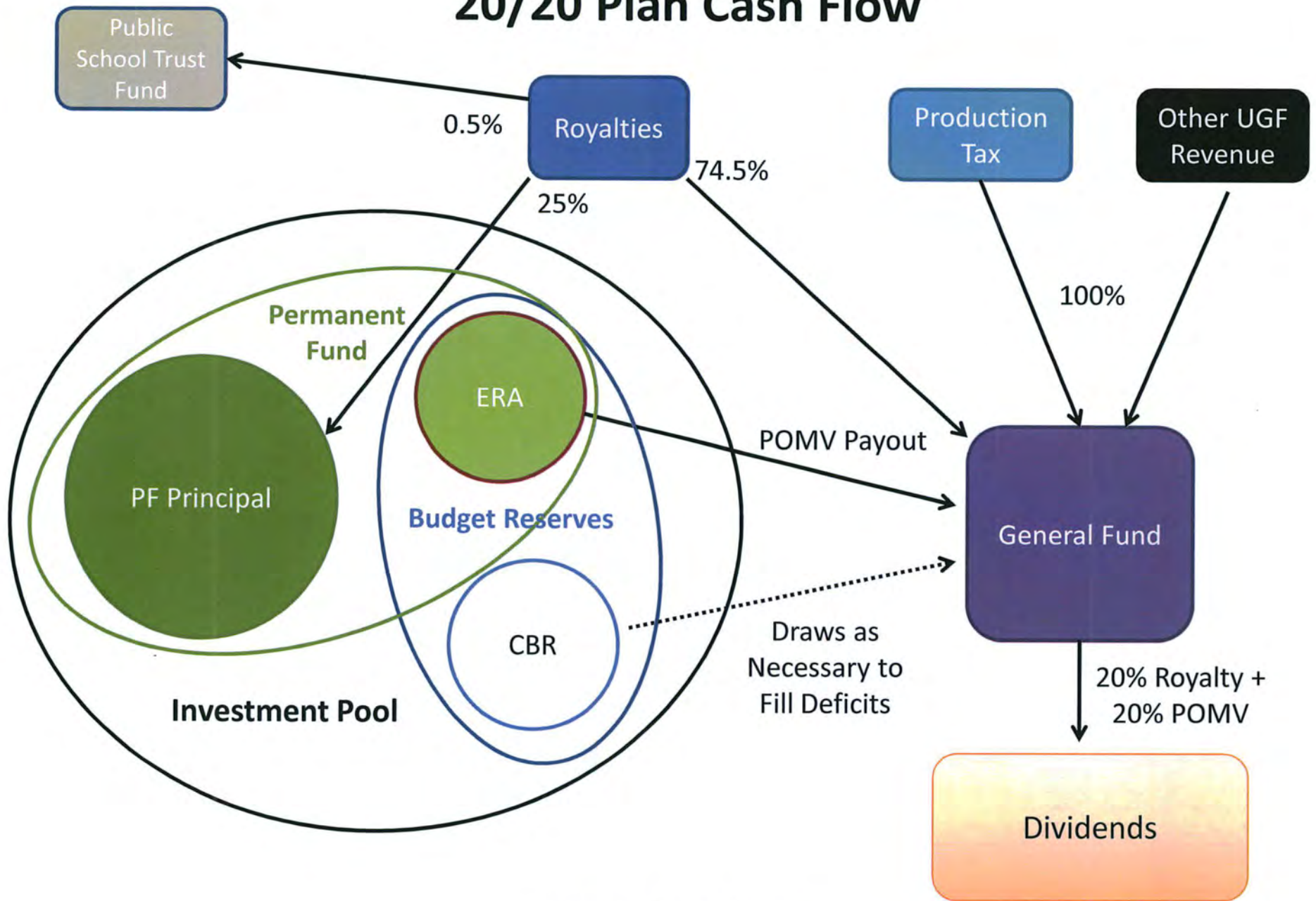
<b>Operating Budget</b>	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -
<b>Statewide Budget</b>	
Community Assistance	15.0
PRS/TRS/CA Bills	n
<b>Capital Budget (FY18-25)</b>	<b>185.0</b>
<b>REVENUE VARIABLES</b>	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Tax Bill Package	None
Tax Credit Reform	CC
<b>Perm Fund Plans</b>	
Governor	n
	\$ 3,300
Custom	y
<b>Perm Fund Variables</b>	
IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	7.25%
Percent Realized	
<b>Custom Plan Specifications</b>	
POMV Payout	5.25%
POMV to Dividend:	20.0%
Dividend % of royalties:	20.0%
Dividend % of CBR balance:	0.0%
Dividend % of SNI	0.0%
Dividend Floor:	\$ 1,000
Floor Ends	19
Dividend Cap:	n
Fixed Dollar Dividend:	\$ -
POMV limit (%of prior yr approps):	n
POMV Limit (reduce if rev exceeds):	\$ 1,200
Reduce by x%:	100.0%
Closed Applications:	n
Fill FY17 w/ ERA	n
Reserve Priority	CBR
CBR Earnings	7.25%



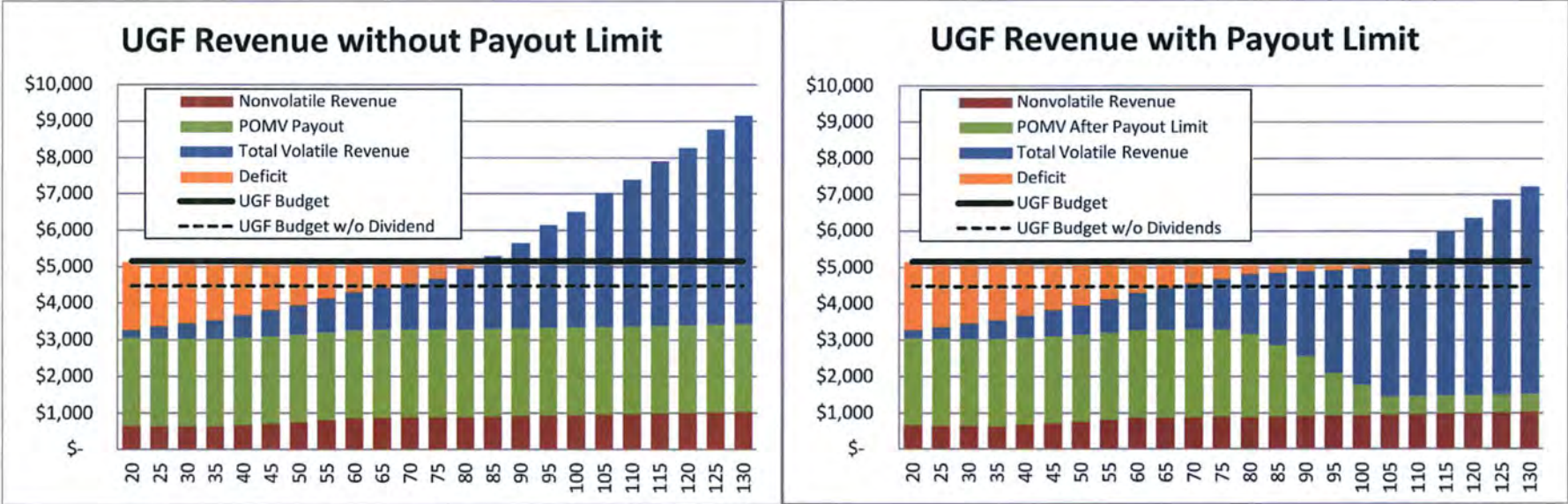
PF	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Target PF	53,452	54,655	55,885	57,142	58,428	59,742	61,087	62,461	63,866
PF Value	53,621	54,943	56,233	57,512	58,827	60,162	61,504	62,343	62,989
% Value	100%	101%	101%	101%	101%	101%	101%	100%	99%
Effective %	4.56%	4.70%	4.84%	4.93%	4.92%	4.90%	4.91%	4.91%	4.96%

Note: Assumes \$250 million annual appropriation for O&G Tax Credits given the uncertainty of the timing of payments. \$250 million is the average from FY18-25 of the \$2 billion in projected credits earned over that span.

# 20/20 Plan Cash Flow

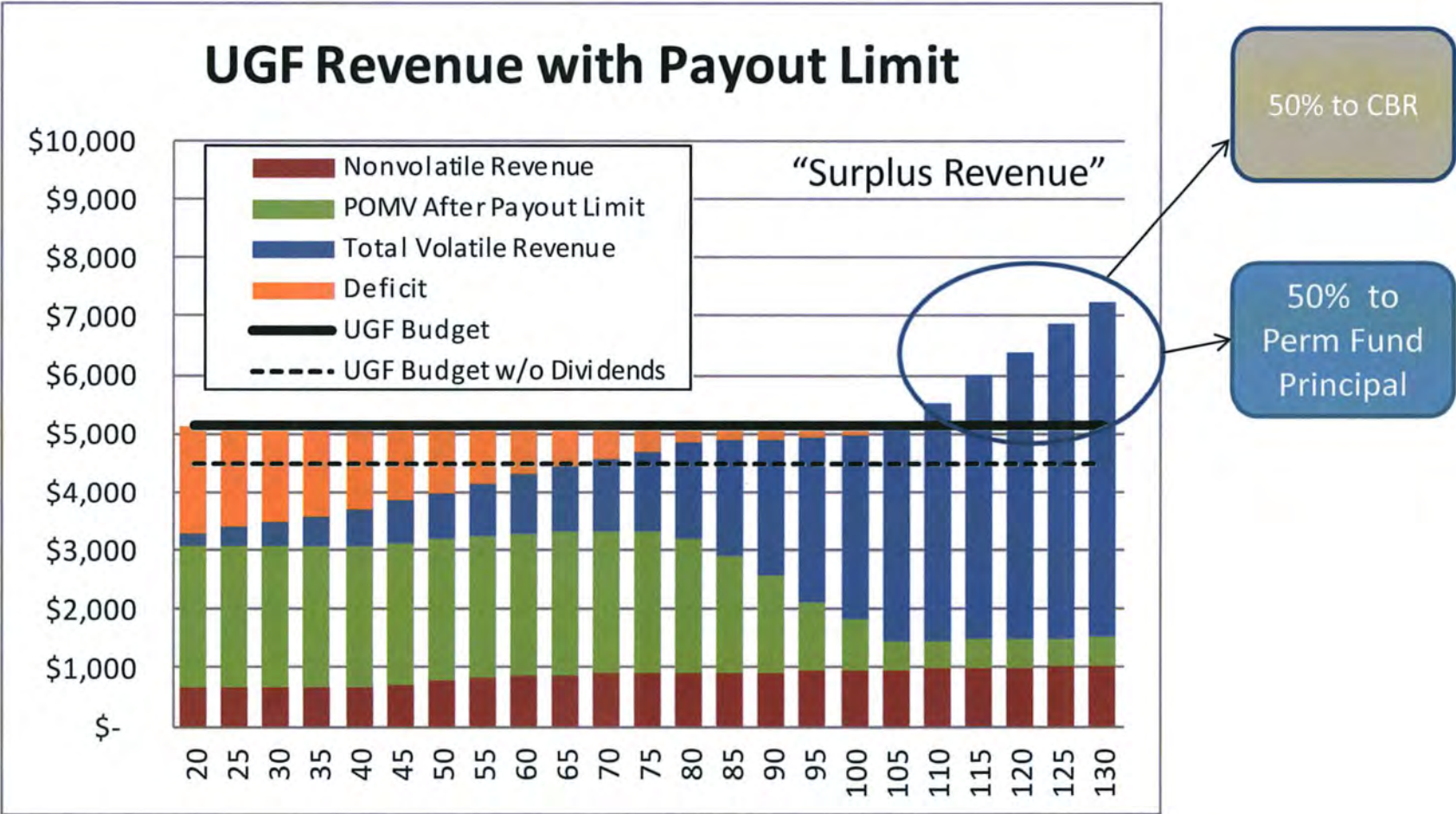


# PFPA Payout/Revenue Limit



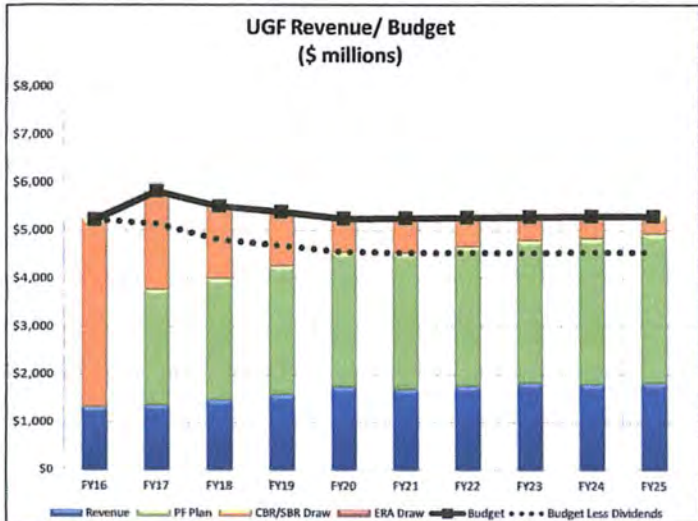
Notes: POMV payout limited dollar for dollar beyond revenue of \$1.2 billion.  
 Using FY17 revenue under Spring Forecast.  
 FY17 Dividend is fixed at \$685 million (\$1,000 per capita).

# Savings Rule



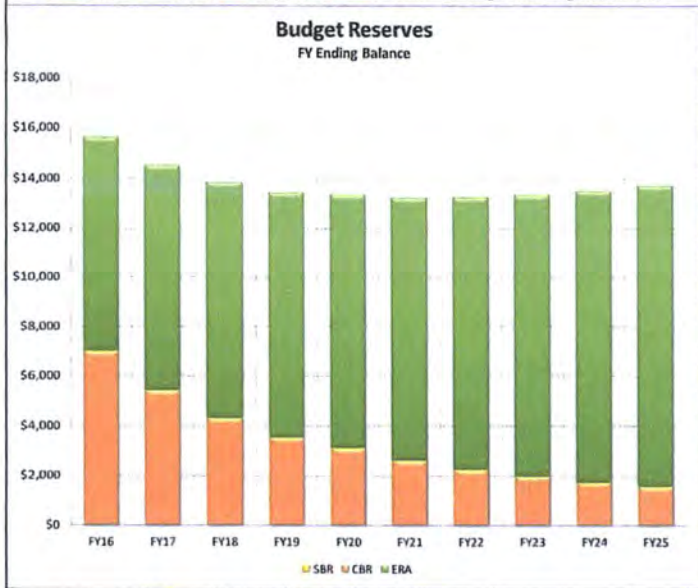
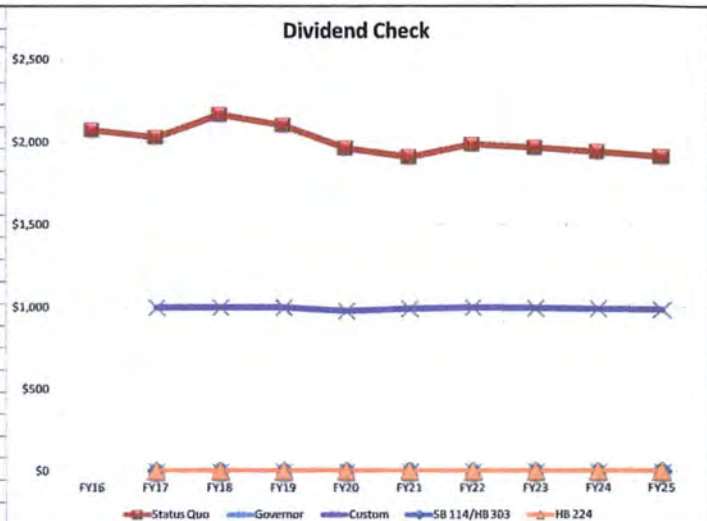
4/19/16

LFD Fiscal Model



### Price Scenario Spring 2016

COST VARIABLES		
<b>Operating Budget</b>		
Non-Formula	0.00%	
K-12 Formula	0.00%	
Medicaid Formula	0.00%	
Other Formula	0.00%	
Target cut	\$ (247)	
<b>Statewide Budget</b>		
Community Assistance	30.0	
PRS/TRS/CA Bills	n	
<b>Capital Budget 185.0</b>		
REVENUE VARIABLES		
Sales Tax	n	
Income Tax	n	
Motor Fuel Tax	n	
Indirect Exp. Adjustments	n	
Tax Bill Package	None	
Tax Credit Reform	SRES	



### Perm Fund Plans

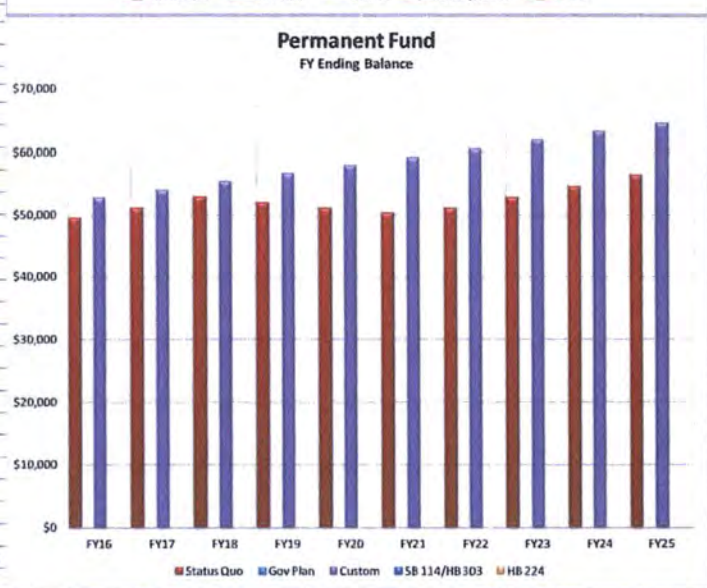
Governor	n
	\$ 3,300
SB 114/HB 303	n
HB 224	n
Custom	y

### Perm Fund Variables

IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	7.25%
Percent Realized	

### Custom Plan Specifications

POMV Payout	5.25%
POMV to Dividend:	20.0%
Dividend % of royalties:	20.0%
Dividend % of CBR balance:	0.0%
Dividend % of SNI	0.0%
Dividend Floor:	\$ 1,000
Floor Ends	19
Dividend Cap:	n
Fixed Dollar Dividend:	\$ -



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	14,519	13,839	13,417	13,338	13,237	13,245	13,357	13,498	13,718
Deficit	-2,061	-1,506	-1,126	-712	-725	-613	-499	-462	-378
Years to Exhaust	7	9	12	19	18	22	27	29	36

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
POMV limit (of prior year approps):	n	%							
POMV Limit (reduce if rev exceeds):	\$ 1,200								
Reduce by x%:	100.0%								
Closed Applications:	n								
Fill FY17 w/ ERA:	n								
Reserve Priority	CBR								
CBR Earnings	6.00%								
PF Value	54,003	55,330	56,626	57,912	59,235	60,578	61,929	63,289	64,656
Target Value	53,839	55,050	56,289	57,555	58,850	60,174	61,528	62,913	64,328
Real Value	100%	101%	101%	101%	101%	101%	101%	101%	101%
Effective Payout	4.46%	4.59%	4.74%	4.82%	4.81%	4.79%	4.80%	4.81%	4.81%
	4.46%								

4/19/16

**Cash Flow under HB245**  
Legislative Finance Division

Sec 7

Reduces royalties dedicated to the permanent fund from new oil fields (post 1980) from 50% to the constitutional minimum of 25%. That increases general fund revenue by about \$50m annually depending on the price of oil.

Sec 8

Deletes the definition of income available for distribution. That formula was based on earnings during the preceding 5 years.

Sec 9

- (b) Replaces the earnings-based "available for distribution" formula in section 8 with a POMV calculation. The nominal payout to the general fund is 5.25%, but the effective payout will be about 4.8% (in the long-term) if the permanent fund corporation's projections regarding real earnings of 5% and inflation of 2.25% are realized. The effective payout is lower than the nominal 5.25% payout because the payout is based on the average balance during the past 6 years.

**POMV Payout Calculation for FY17**

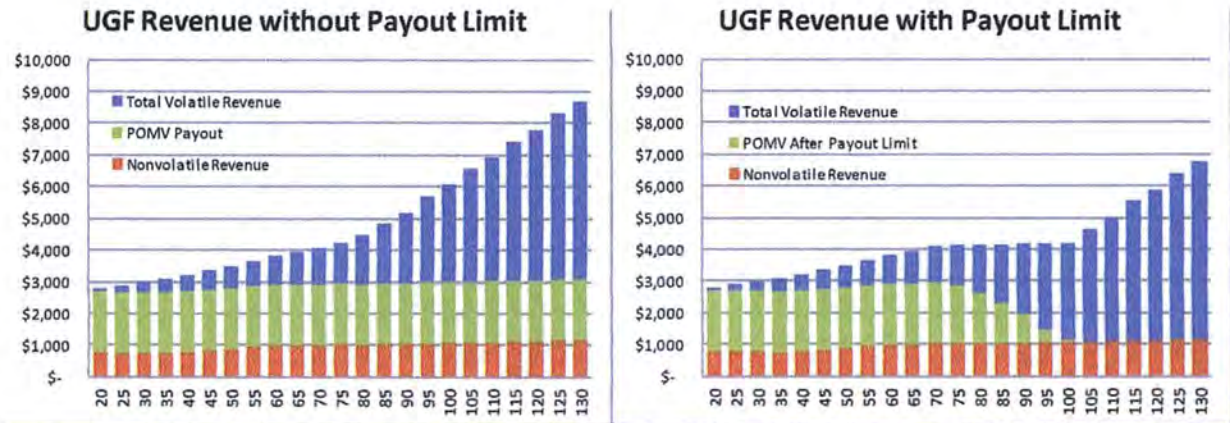
Fiscal Year	Year End Balance (Dec 2015 PF Forecast)	Average Balance in First 5 of Preceding 6 Years	5.25% Payout Based on Average Balance	Effective Payout Based on FY16 Balance
FY10	33,255			
FY11	40,140			
FY12	40,333			
FY13	44,853			
FY14	51,214			
FY15	52,800			
FY16	52,081			
FY17	54,388	45,868	2,408	4.62%

- (c) Ensures that 20% of the payout goes to dividends. Under the Spring forecast, that will be about \$500 to \$600 million annually. The remaining 80% of the payout is subject to a dollar for dollar reduction as oil revenue rises above \$1.2 billion (adjusted for inflation). The impact of the payout limit is:

1. Zero when oil is below about \$75/bbl. (\$75 oil generates about \$1.2 billion in production taxes and royalties (after reserving 20% of royalties for dividends).

2. The payout is reduced by a dollar for every dollar of oil revenue (less the 20% portion of royalties that goes to dividends) between \$1.2 billion and about \$3.1 billion. The reduction occurs at oil prices between about \$75/bbl and \$100/bbl as shown in the graph below.
3. When oil prices are above about \$100/bbl, the POMV payout is reduced to zero and additional oil revenue is spendable. General fund revenue available to spend will be lower (relative to revenue without a limit) by about \$2 billion.

The limit will change over time depending on inflation and oil production.



Note: POMV payout limited dollar for dollar beyond revenue of \$1.2 billion.

Note: Using FY17 revenue under Spring Forecast. Excludes dividends of \$685 million.

## Sec 10

- (e) Allows an appropriation from the earnings reserve account (ERA)—where permanent fund earnings accumulate—to the general fund. The allowable appropriation is reduced by the payout limit if oil prices are sufficiently high. The amount of this appropriation that is reserved for dividends is unaffected by the payout limit.
- (f) Outlines an inflation proofing methodology. If the ERA balance is “comfortably high”—defined as four times the maximum allowable payout—then the excess balance may be appropriated to the permanent fund principal.

## Sec 11

Provides for dividends comprised of

1. 20% of the POMV payout described in section 8 (AS 37.13.140(b)). This amount is not reduced by the payout limit in AS 37.13.140(c)

plus

2. An amount equal to 20% of prior year royalties deposited in the general fund.

## HB 245 Version I

### Explanation of Changes from version N

Section 4. (Page 3, Lines 3-9 in version N were deleted from version I) This sub-section dealt with the SBR.

Section 6. (Page 3, Line 24) calendar year was changed to fiscal year.

Section 9. (Page 4, Line 24) Deleted a "July 1<sup>st</sup> deadline to an "annual deadline".

Section 9. (Page 4, Lines 30 – 31 – Page 5, and Lines 1-11) Clarifies volatility formula.

Section 10. (Page 5, Lines 16 – 19) Removed on July 1 and AS 37.13.140(c) – Uses the end of the fiscal year and not July 1. Removes AS 37.13.140(c), the volatility provision.

(Page 6, Line 8) Section 15 was removed. The section had to do with investing the Mental Health Trust fund. The Mental Health Trust fund is already invested as part of the Permanent Fund.

# ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

Representative Mark Neuman  
Co-Chairman  
(907) 465-2679  
Rep.Mark.Neuman@akleg.gov



Representative Steve Thompson  
Co-Chairman  
(907) 465-3004  
Rep.Steve.Thompson@akleg.gov

Alaska State Capitol Building- Rm 505

Alaska State Capitol Building- Rm 511

## Sectional Analysis CS House Bill 245 (FIN) 29-GH2859\I

**“An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to management of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) by the Alaska Permanent Fund Corporation; relating to procurement by the Alaska Permanent Fund Corporation; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation of permanent fund dividends; and providing for an effective date.”**

- \*Section 1: Legislative intent that the legislature reevaluate the use of the earnings of the Permanent Fund in three years
- \***Section 2:** Language requiring the Alaska Permanent Fund Corporation to adopt regulations similar to the State’s procurement code
- \***Section 3:** Adds the Alaska Permanent Fund Corporation to the list of those state agencies that are exempt from the State’s procurement code
- \*Section 4: Amerada Hess income no longer flows to the Capital Income Fund. Segregation of these funds is no longer legally required
- \***Section 5:** Transfers the management and investment of the Constitutional Budget Reserve from the Department of Revenue to the Alaska Permanent Fund Corporation
- \***Section 6:** Requires the Alaska Permanent Fund Corporation to prepare an annual report on the balance and returns of the Constitutional Budget Reserve fund
- \*Section 7: Dedicated deposits of royalties to the Permanent Fund are reduced from the current 25/50 split on old/new leases to the constitutional minimum of 25%

\*Section 8: Requires the Alaska Permanent Fund Corporation to determine the net income of the earnings reserve account excluding the unrealized gains or losses

**Section 9:** (b) Defines the Percent of Market Value payout as 5.25% of the average year-end market value of the Permanent Fund and Earnings Reserve Account for the first five of the most recently completed six fiscal years. The payout may not exceed the year-end balance of the earnings reserve account for the fiscal year just ended

**(c)** Reserves 20% of the POMV payout for dividends. The remaining 80% of the payout is subject to a dollar for dollar reduction as oil and gas revenue rises above \$1.2 billion (adjusted for inflation).

**(1)** Oil and gas Unrestricted General Fund revenue excluding the amount to be paid as 20% of the prior year royalties to the dividend

**(2)** \$1,200,000 revenue limit adjusted for inflation

**Section 10:** AS 37.13.145 is the Disposition of Income of the Permanent Fund statute

(a) Unchanged – Establishes the ERA and identifies the ERA as holding earnings of the Permanent Fund and ERA

(b) Repealed in this bill – dividends based on statutory net income

(c) Repealed in this bill – inflation proofing

(d) Repealed in this bill – segregation of Amerada Hess

(e) Added in this section – each year the legislature may appropriate to the General Fund the amount available for distribution from the Earnings Reserve Account under the POMV in Sec. 10 (b) **and the limit calculation Sec. 10 (c)**

(f) **Inflation proofing mechanism**

\*Section 11: Dividends are comprised of 20% of the 5.25% POMV outlined in Sec. 4(b), and 20% of prior year royalties, excludes those dedicated to the Permanent Fund or School Fund (25.5% are dedicated)

**Section 12:** Conforming language relating to procurement

\*Section 13: Mental Health Trust Fund may not be included in the computation of income available for distribution under the POMV

\*Section 14: Transfer of money to the Dividend Fund requires an appropriation

- \*Section 15: The amount of each Permanent Fund Dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000
- \*Section 16: Conforms to Sec. 12, which moves money to the Dividend Fund by appropriation
- \*Section 17: Once the money is in the Dividend Fund, the Department of Revenue shall annually pay dividends without further appropriation
- \***Section 18:** Repeals language relating to the **subaccount of the Constitutional Budget Reserve**, the former dividend calculation, inflation proofing calculation, and Amerada Hess language
- \*Section 19: Repeals session law for Amerada Hess
- \*Section 20: Repeals Sec. 16 - \$1,000 dividend for three years
- \*Section 21: Transition Language: The Commissioner of Revenue and the Alaska Permanent Fund Corporation may adopt regulations, policies and procedures to implement this Act
- \*Section 22: Retroactivity clause
- \*Section 23: Effective date for sections 2, 3, 13, 23 and 24, immediate
- \*Section 24: Effective Date for sections 4, 6 – 7, July 1, 2017
- \*Section 25: Effective Date, July 1, 2016

**Cash Flow under HB245**  
Legislative Finance Division

Sec 7

Reduces royalties dedicated to the permanent fund from new oil fields (post 1980) from 50% to the constitutional minimum of 25%. That increases general fund revenue by about \$50m annually depending on the price of oil.

Sec 8

Deletes the definition of income available for distribution. That formula was based on earnings during the preceding 5 years.

Sec 9

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**POMV Payout Calculation for FY17**

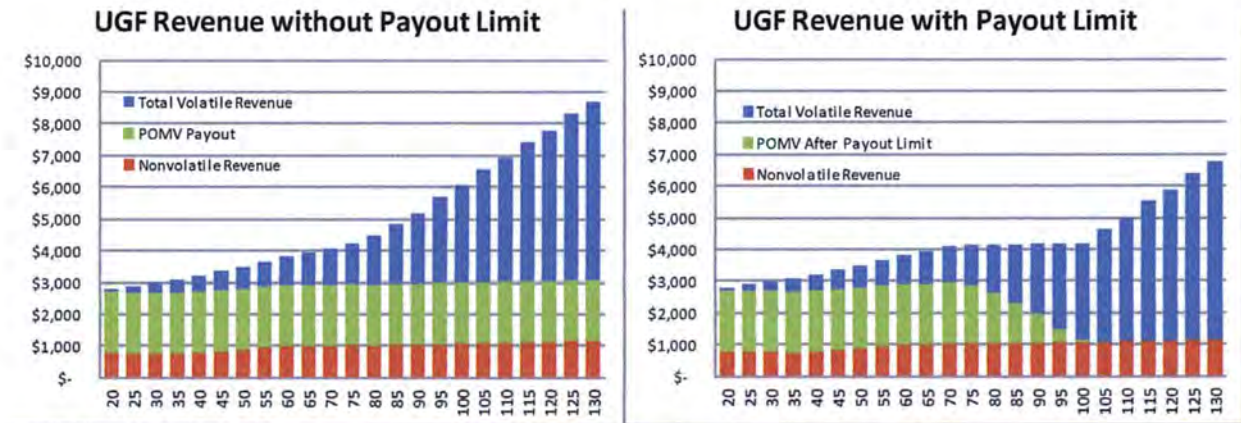
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FY11	40,140			
FY12	40,333			
FY13	44,853			
FY14	51,214			
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FY16	52,081			
FY17	54,388	45,868	2,408	4.62%

- (c) Ensures that 20% of the payout goes to dividends. Under the Spring forecast, that will be about \$500 to \$600 million annually. The remaining 80% of the payout is subject to a dollar for dollar reduction as oil revenue rises above \$1.2 billion (adjusted for inflation). The impact of the payout limit is:

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2. The payout is reduced by a dollar for every dollar of oil revenue (less the 20% portion of royalties that goes to dividends) between \$1.2 billion and about \$3.1 billion. The reduction occurs at oil prices between about \$75/bbl and \$100/bbl as shown in the graph below.
3. When oil prices are above about \$100/bbl, the POMV payout is reduced to zero and additional oil revenue is spendable. General fund revenue available to spend will be lower (relative to revenue without a limit) by about \$2 billion.

The limit will change over time depending on inflation and oil production.



Note: POMV payout limited dollar for dollar beyond revenue of \$1.2 billion.

Note: Using FY17 revenue under Spring Forecast. Excludes dividends of \$685 million.

## Sec 10

- (e) Allows an appropriation from the earnings reserve account (ERA)—where permanent fund earnings accumulate—to the general fund. The allowable appropriation is reduced by the payout limit if oil prices are sufficiently high. The amount of this appropriation that is reserved for dividends is unaffected by the payout limit.
- (f) Outlines an inflation proofing methodology. If the ERA balance is “comfortably high”—defined as four times the maximum allowable payout—then the excess balance may be appropriated to the permanent fund principal.

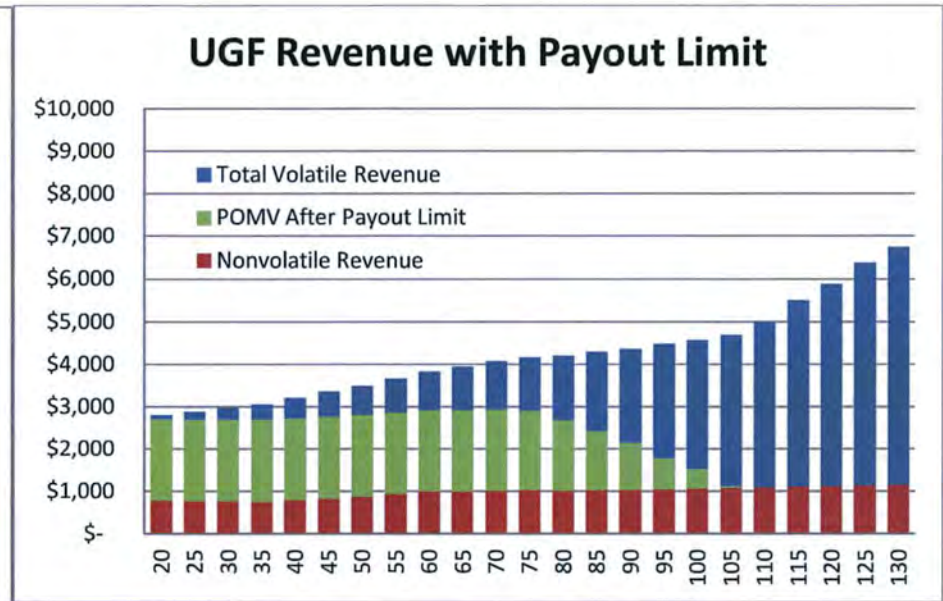
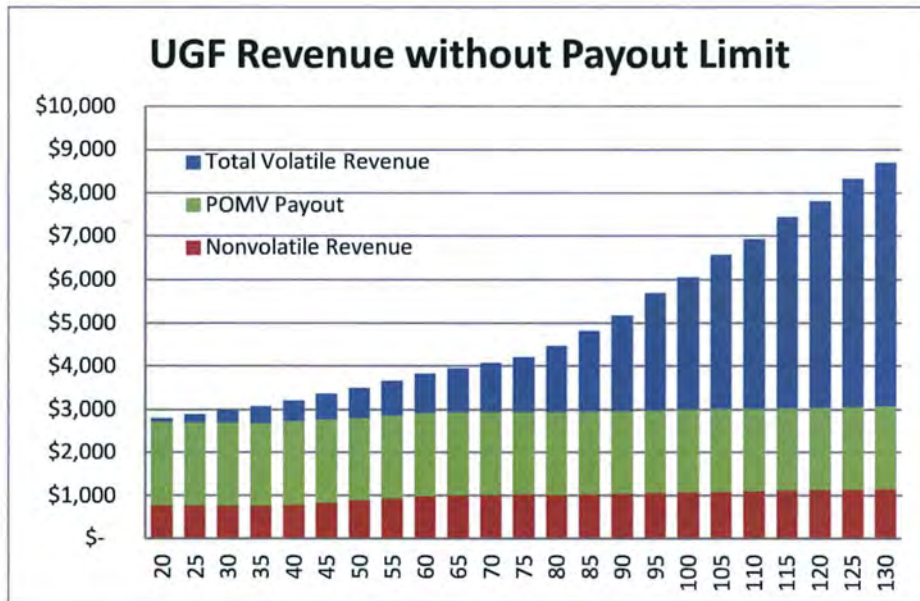
## Sec 11

Provides for dividends comprised of

1. 20% of the POMV payout described in section 8 (AS 37.13.140(b)). This amount is not reduced by the payout limit in AS 37.13.140(c)

plus

2. An amount equal to 20% of prior year royalties deposited in the general fund.



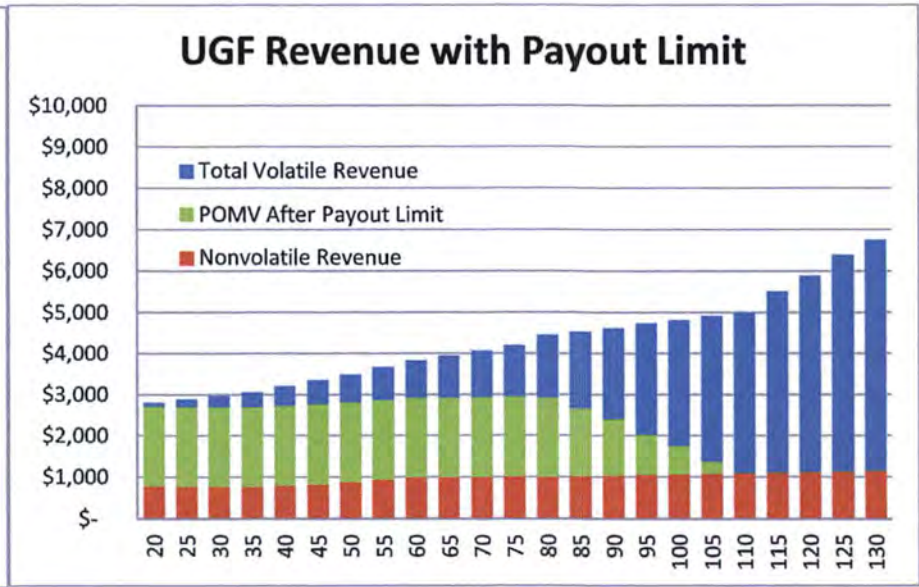
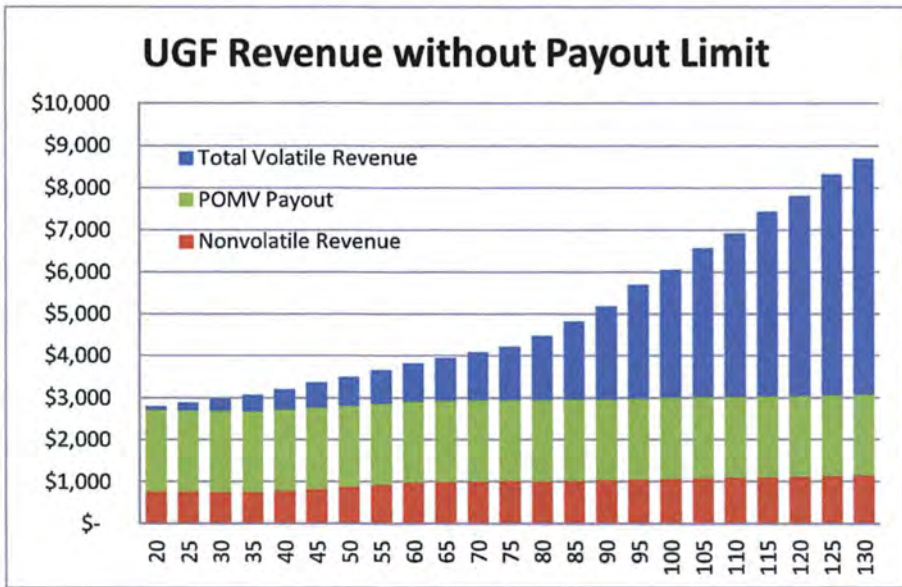
Note: POMV payout limited dollar for dollar beyond revenue of \$1.2 billion.

Note: Using FY17 revenue under Spring Forecast. Excludes dividends of \$685 million.

### Sectional Analysis

Sec	Statute	Summary
Sec. 1		3 year Reevaluation
Sec. 2	AS 36.30.015	Alaska Permanent Fund Corporation procurement. Alaska Permanent Fund Corporation can adopt it's own procurement procedures, as long as they are similar to State procurement codes
Sec. 3	AS 36.30.990(l)	Adds Alaska Permanent Fund Corporation to the list of those exempt from State of Alaska procurement requirements.
Sec. 4	AS 37.05.540(d)	Tells the Alaska Permanent Fund Corporation to manage and invest assets of the Constitutional Budget Reserve
Sec. 5	AS 37.05.565(a)	Amarada Hess money no longer flows into the Capital Income Fund
Sec. 6	AS 37.10.430(a)	Alaska Permanent Fund Corporation shall manage Constitutional Budget Reserve funds by the effective date 7/1/17
Sec. 7	AS 37.10.430(b)	Report by Alaska Permanent Fund Corporation to legislature re: Constitutional Budget Reserve
Sec. 8	AS 37.13.010	Dedicated deposits of royalties to the Permanent Fund are reduced from the current 25/50 split in old/ new leases to the constitutional minimum of 25%
Sec. 9	AS 37.13.140	(a) Requires the Alaska Permanent Fund Corporation to determine the net income of the Earnings Reserve Account and excludes unrealized gains or losses
Sec. 10	AS 37.13.140	Defines Percent of Market Value payout at 5.25% of the average year-end market value of the ERA for the first 5 of the most recent 6 years of the payout may not exceed the year-end balance of the Earnings Reserve Account (c) volatility provision
Sec. 11		Inflation Proofing

Sec. 12	AS 37.13.446	Dividends are compromised of 20% of the 5.25% Percent of Market Value , and 20% of the prior year's royalties, excludes those dedicated to the Permanent Fund or School Fund (25.5% are dedicated)
Sec. 13	37.13.206(a)	Conforming to new procurement
Sec. 14	37.13.300( c)	Mental Health Trust Fund may not be included in the computation of the available income available for distribution under the Percent of Market Value
Sec. 15	AS 37.14.031 ( c)	Makes computation of the AK Mental Health Trust Fund income consistent with computation of other PF income
Sec. 16	AS 43.23.025 (a)	Transfer of money to the Dividend Fund requires an appropriation
Sec. 17	AS 43.23.025 (a)	The amount of each Permanent Fund Dividend for fiscal years 2017, 2018, and 2019 shall be \$1,000
Sec. 18	AS 43.23.045 (a)	Conforms to Sec. 12 which moves dollars to dividend by appropriation.
Sec. 19		Once the money is in the Dividend Fund, the Department of Revenue shall annually pay dividends without further appropriation.
Sec. 20		Repealers, AS 37.10.430 ( c ) Subaccount of CBR,
		AS 37.13.145 (b) Dividend based on statutory net income,
		AS 37.13.145 (c ) Inflation proofing,
		AS 37.13.145 (d) Amerada Hess
Sec. 21		Repeals corresponding Session Law
Sec. 22		Repeals \$1000 dividend; Dividend goes to formula
Sec. 23		Transition language RE: Regulations and policies adopted by Commissioner of the Dept. of Revenue and Permanent Fund Corporation
Sec. 24		Retroactivity clause
Sec. 25		Immediate effective date
Sec. 26		Effective date July 1, 2017
Sec. 27		effective date of July 1 2016



Note: POMV payout limited dollar for dollar beyond revenue of \$1.2 billion.

Note: Using FY17 revenue under Spring Forecast. Excludes dividends of \$685 million.

## ALASKA PERMANENT FUND CORPORATION

SUBJECT: Procurement Delegation/Regulations

ACTION: XX

DATE: December 14, 2015

INFORMATION: \_\_\_\_\_

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Staff recommends pursuing legislation to add the Alaska Permanent Fund Corporation to the list of public corporations authorized to adopt customized procurement procedures, so long as such procedures are similar to the State Procurement Code. If such legislation is enacted and signed into law, the Board would then be required to adopt regulations to govern the procurement of supplies, services, and professional services which meet the intent of the State Procurement Code, while still allowing the Corporation to tailor these procurement procedures to enhance its ability to achieve the statutory mission of prudently investing and managing assets of the Alaska Permanent Fund. Importantly, this proposed change would bring the procurement of all supplies and services within the control of the Board rather than an external agency.

### **Background and Grounds for Recommendation:**

Under existing law (AS 36.30.850(a)(13) and (15)), the APFC is fully exempt from the application of the State Procurement Code when it acquires income-producing assets, or delegates, in whole or in part, its investment authority. When procuring all other supplies and services, the Corporation is considered an "agency" that is required to comply with the State Procurement Code (AS 36.30.005 – AS 36.30.995), including the regulations and administrative manuals adopted pursuant to this state law.

The procedures of the State Procurement Code are designed around the concept of providing a framework for fair competition and obtaining an acceptable product or service at the lowest price. These procedures include specific timeframes, noticing requirements, amendment dollar thresholds, and evaluation criteria with a cost emphasis that often hinders Corporation's ability to secure the desired resources quickly enough to meet the Fund's needs. While there is a mechanism for obtaining approval from the Chief Procurement Officer to deviate from the State Procurement process, this in itself creates delays and difficulties, and can leave decisions that impact Fund investments in the hands of another agency.

More specifically, the APFC's procurement staff has found it administratively difficult to secure the investment-related goods and services in a timeframe that meets the deadlines for investments. As the Corporation moves into more internally managed investments, it is imperative to have the flexibility (i.e. nimbleness) to secure specialized consultants and subject matter experts necessary for conducting the required due diligence needed to make timely and sound investment decisions.

Additionally, financial information and system tools for assessing, tracking, and monitoring investments are extremely challenging to procure in a timeframe that meets the Corporation's business needs.

In addition to time delays, the State Procurement Code regulations require the use of evaluation criteria that, at times, places too much emphasis on cost at the expense of quality or experience. While the Corporation has been successful in requesting approval to reduce the weight of the cost factor from 40 percent to 20 percent, this simply highlights another instance in which adoption of customized procurement procedures would allow APFC to tailor the procurement process to provide the product or services that best meets the Fund's needs.

Other State public corporations (including the Alaska Railroad Corporation, the Alaska Aerospace Corporation, The Alaska Housing Finance Corporation, The Alaska Industrial Development and Export Authority, and the Alaska Retirement Management Board) have identified similar administrative difficulties in complying with all of the requirements of the State Procurement Code. In response, these State public corporations have been excluded from the definition of an "agency" (AS 36.30.9901(1)(B)) subject to the State Procurement Code, but this exclusion was made contingent upon: (1) the adoption of regulations to govern the procurement of supplies and services; and (2) the adopted regulations must be similar to the procedures contained in the State Procurement Code.

For demonstrative purposes, attached is a copy of the procurement regulations adopted by the Alaska Retirement Management Board. Because of the similarity in mission between the ARMB and the Corporation, these regulations could serve as a good starting point for the Board to consider should the Board decide in support of this legislative proposal.

The next step should this legislative proposal get approved by the Board, would be for staff to find a bill sponsor to guide the bill through the legislative review and approval process. If approved by the Legislature, and signed into law by the Governor, the Board would then be required to put forth regulations. These proposed regulations would be subject to a fifteen day public notice and comment period before they could be adopted.

Regulations would be drafted to maintain the competitive and transparent objectives of the State's procurement practices, but in a manner that enhances the Corporation's ability to achieve its statutory mission. At this juncture, the following areas have been highlighted as goals for the regulations to better tailor procurement practices to meet the needs of the APFC's mission:

1. Reducing the time delays inherent in the existing procurement process, which hinder business operations;
2. Structuring the evaluation criteria based on the specific procurement needs, with the ability to weight the cost component appropriately when the service or expertise is critical to the procurement;
3. Structuring a limited competition procurement process to allow the Corporation to secure essential and specialized expertise or services when only a handful of qualified vendors are available to provide such services or supplies.
4. Structuring an emergency procurement process that will allow the Corporation to respond quickly to fast moving investment opportunities that would otherwise be forgone using a standard procurement solicitation, assuming such an expedited process is in the Fund's best interest;
5. The attainment of simplified procedures to gain efficiencies and cost-savings where appropriate.

### **Attachments**

Draft legislation and the ARMB's current procurement regulations are attached for consideration.

### **Proposed Motion:**

"I move that that staff be authorized to pursue and find support for legislation to authorize the Corporation to adopt its own procurement procedures, so long as such procedures are similar to the State Procurement Code, but are tailored to enhance the Corporation's ability to achieve its statutory mission."

**"An Act relating to the State Procurement Code and its application to the the Alaska Permanent Fund Corporation; relating to the adoption of procurement regulations by the Alaska Permanent Fund Corporation; and providing for an effective date."**

\* **Section 1.** AS 36.30.015 is amended by adding a new subsection to read:

(l) The board of trustees of the Alaska Permanent Fund Corporation shall adopt procedures to govern the procurement of supplies, services, and professional services. The procedures must be similar to the procedures described in this chapter and in regulations adopted under this chapter. Notwithstanding the other provisions of this subsection, The Alaska Permanent Fund Corporation shall comply with the five percent preference under AS 36.30.321(a) and the requirement that contracts for legal services be approved by the Attorney General under (d) of this section.

\* **Sec. 2.** AS 36.30.990(1)(B) is amended by adding a new subparagraph to read:

(xi) the Alaska Permanent Fund Corporation;

\* **Sec. 3.** AS 37.13.206 is amended to read:

(a) The board may adopt regulations to carry out the purposes of this chapter and shall adopt regulations under AS 37.13.120(a) **and AS 36.30.015(l)**. The provisions of AS 44.62 (Administrative Procedure Act) regarding the adoption of regulations do not apply to the regulations of the corporation.

\* **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).

## Summary of Proposed Legislation re:

### Procurement by APFC

There are four parts to the proposed legislation:

- **1. Excluded from the Definition of “Agency”**-Section 2 of the bill would add the Alaska Permanent Fund Corporation (APFC) to the list of state entities that are not included in the definition of an “agency”, which has the effect of removing APFC from direct application of the State Procurement Code.
  
- **2. Required to Adopt Procurement Procedures**-Section 1 of the bill would then obligate the APFC to adopt its own procedures to govern the procurement of supplies and services. Section 1 of the bill would also set some sideboards on these procedures:
  - Procedures must be similar to those that currently exist under the State Procurement Code and regulations.
  - Procedures must apply five percent preference to Alaska bidders under AS 36.30.321
  - Procurement of legal services must be approved by the Attorney General under AS 36.30.015(d)
  
- **3. Required to Adopt Procedures by Regulation**- Section 3 of the bill amends an existing APFC statute regarding regulations of the Board to require the Board to adopt regulations to implement the procurement procedures required by section 1 of the bill. There are no changes proposed to the process by which the Board adopts regulations, only a requirement that regulations be adopted to implement these changes.
  
- **4. Immediate Effective Date**-Section 4 of the bill provides for an immediate effective date, which would have this change in law take effect the day after it is signed into law by the Governor. This could shorten by a number of months the period of time it would take for the Board to replace the existing procurement procedures with its own procedures.

**House Finance Committee**  
**April 14, 2016**  
**Testimony of Drue Pearce, Anchorage, Alaska**

Thank you, Mr. Chairman.

My name is Drue Pearce. I am a former member of this Body and am presently a constituent of Mr. Gara. *I'm here to testify on HB 245. in favor of*

I would first like to commend each of you and all your colleagues for your willingness to stand for election and serve in the Legislature.

I do not envy you your service this session; the fiscal crisis facing the State is dire. I voted to make real budget cuts when oil prices were at \$9.50. But we did not face the lack of reserves that produced today's unsustainable status quo.

Frankly, we cannot afford the government we have. I commend your actions to make major cuts to the budget but the problem we face is only partly due to overspending.

The CS before you represents a major step toward sustainability to protect our future. You aren't just protecting the future of government spending but also the economic future for the private sector.

I support structured, sustainable use of permanent fund earnings to help close the deficit and this bill does that.

HOUSE FINANCE

I support action this session to extend the life of the CBR by also using a portion of permanent fund earnings to fill the budget hole.

This is not the time to push the decision to the next legislature, ~~in the hope that we will be saved by another Exxon Valdez or war in the Middle East and the resultant economic crisis.~~ The time to act is now.

I am one of the owners of a small Anchorage based business with just a few employees. I am concerned that my investment and hard work in this business will be lost if you don't restructure the State's spending. A deep recession would likely force us to close our doors.

Support this session for the action taken in this bill will provide some certainty to the private sector that the legislature will steadily manage the state fiscal challenge. That will protect private sector jobs and support continued private sector investment.

I am sure that the enormity of the budget gap facing you is overwhelming. But, to borrow a word being used by <sup>at least one</sup> candidates ~~in~~ this year, the price of not taking action is HUGE.

Please act now. Thank you.

RON FUHRER - NEA

Thank you for working late to hear my testimony today.

For the record, my name is Ron Fuhrer and I am the president of NEA-Alaska, representing 13,000 education support professionals and teachers statewide.

I am also a teacher, with over 30 years of experience teaching Social Studies at Clark Middle School and the McLaughlin Youth Center.

It is because of the students I taught over those 30 years that I am testifying in support of HB 245 and HB 250 today. With Alaska facing a \$4.1 billion budget deficit, what future will we leave for them, and for their children?

The deficit is simply too big to address without restructuring how we use Permanent Fund earnings, with a sustainable draw that will preserve the dividend for future generations and help pay for the essential services like public safety and public schools that make Alaska a great place to live, work, and raise a family.

Passing a broad-based tax ~~like an income tax~~ will help to spread the burden of the budget deficit, and allow our state to collect taxes from out-of-state workers that utilize our state services.

I chose Alaska as the place I wanted to spend my career and raise my children. This is where my daughter is raising my grandson. If we act this year to address the budget deficit with a long-term fiscal plan, we can ensure that we leave the next generation with great public schools, safe streets, and a growing economy.

Thank you for your time. Please pass HB 245 and HB 250.



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Law

Office of the Attorney General  
1031 West 4th Avenue, Suite 200  
Anchorage, Alaska 99501-5903  
Main: 907-269-5100  
Fax: 907-269-5110

## Department of Revenue

Office of the Commissioner  
PO Box 110400  
Juneau, AK 99811-0400  
Main: (907) 465-2300  
Fax: (907) 465-2389

April 13, 2016

Honorable Representative Steve Thompson  
Alaska State House of Representatives  
State Capitol, Room 515  
Juneau, AK 99801

Re: Permanent Fund Proposal

Dear Representative Thompson:

Thank you for the opportunity to review and comment on the committee substitute for House Bill No. 245(FIN). This letter addresses the Administration's view on the committee substitute.

As an initial matter, the Administration appreciates that the Senate, House, and Administration are considering plans to use Permanent Fund earnings, and adjust the method of paying dividends, that are increasingly similar. There are several aspects of the committee substitute that are similar or different from the original version of the Alaska Permanent Fund Protection Act (APFPA) that the Administration can support, including:

- A sustainability target of maintaining the real value of the Permanent Fund based upon an assumption of 6.9 percent Permanent Fund total returns and an inflation rate of 2.25 percent;
- A percent of market value (POMV) draw from the Earnings Reserve Account (ERA), as opposed to a fixed draw, that is based on a five or six multiyear average of the Permanent Fund value;
- A yearly dividend to Alaskans calculated as an average of 20 percent of royalties going to the General Fund and 20 percent of the POMV payout, also to be paid from the General Fund. This provides for an approximately \$1,000 dividend with upside if oil prices or production rise;

- A fixed initial dividend of \$1,000. The Administration is concerned that a fixed dividend for more than one year risks diluting the connection to the new dividend payout formula, so would prefer a fixed \$1,000 dividend for just the first year, but will not oppose a longer fixed dividend period;
- Repeal of the "Amerada Hess" provisions in current AS 37.13.145(c) and (d); and
- Statutory changes that result in managing the Constitutional Budget Reserve for higher returns.

However, there are parts of the committee substitute that the Administration believes can be enhanced. Those include:

- Ensuring a POMV draw that does not exceed what is sustainable under the above definition. The Department of Revenue (DOR) calculates a POMV draw of approximately 4.9 percent is the maximum sustainable amount under the committee substitute where additional revenues are not directed to the Permanent Fund (e.g., as originally provided in the APFPA), assuming the POMV is calculated based on the average of the first five of the last six years. The Administration is flexible in considering the sustainability conclusion based on non-DOR models, so long as such models are subject to peer review and accurately constructed;
- Having a mechanism to grow the corpus of the Permanent Fund with inflation. The committee substitute as drafted removes the inflation proofing transfer rule under current AS 37.13.145(c). As with the original version of APFPA, the need to maintain a robust ERA that can support increased draws to the general fund warrants revisiting the existing inflation proofing rule. However, leaving all realized gains in the ERA does not adequately grow the corpus. The APFPA as originally drafted provided that amounts in the ERA in excess of four times the current year draw would be transferred to the corpus. The Administration felt that was a reasonable balance between ensuring a durable ERA and the laudable goal of growing the corpus so it retains its relative value across generations. The Administration believes some version of a similar rule to transfer funds from the ERA to the corpus is appropriate; and
- Meaningfully addressing the impact of oil price volatility on the State budget and the private sector economy. As you are aware, the APFPA originally placed all royalties and production taxes into the ERA and drew out a fixed amount. The Governor has also indicated a willingness to have those revenues placed in the ERA, with an increased POMV draw percentage. Alternatively, if the Legislature does not wish to place additional petroleum revenues into the Permanent Fund, a system should be adopted that reduces the POMV draw to reflect rising oil revenues. The revenue limit proposal adopted by Senate State Affairs to reduce the POMV draw for each dollar royalties plus production taxes to the General Fund exceed \$1 billion is a sound approach. The attached memorandum addresses these two options in more detail.

Thank you again for the opportunity to comment on the committee substitute and your willingness to work collaboratively to arrive at a balanced, long-term fiscal plan for the State. If we can answer any additional questions, please do not hesitate to let us know.

Sincerely,

Handwritten signatures of Randall Hoffbeck and Craig Richards. The signature of Randall Hoffbeck is on the left, and the signature of Craig Richards is on the right.

Randall Hoffbeck  
Commissioner of Revenue

Craig Richards  
Attorney General

## Protecting the Permanent Fund under a POMV Plan: OPTIONS FOR REVENUE LIMITS

By Department of Revenue and Department of Law (April 13, 2016)

The current low oil price environment, in conjunction with declining oil production, has necessitated the transition to using permanent fund earnings to support the State budget. But Alaska still has ample resources to develop, and oil prices are unpredictable. A plan that would continue to draw from the permanent fund even after oil prices (and petroleum revenues directed to the general fund) recover would be equivalent to drawing from a retirement fund after returning to full-time employment.

We have examined two frameworks that address the uncertainty of oil price and investment revenues: an endowment framework paired with a revenue limit and the sovereign wealth framework. Both of these frameworks may be paired with a percent of market value (POMV) formula to calculate the annual draw.

### **Option 1: Reducing ERA Draw When Oil and Gas Revenues are High**

The revenue limit proposed by the Senate State Affairs committee addresses the variability of oil price with a traditional endowment approach. It reduces the POMV draw from the fund by \$1 for every \$1 over \$1 billion of production taxes and royalties deposited in the general fund. Compared to a simple POMV draw, this approach would improve the sustainability of payouts from the permanent fund, reduce the risk of increasing spending expectations in years of high petroleum revenues, and reduce the variability of UGF expenditures.

The table illustrates this revenue limit with various levels of production tax and royalty receipts and a hypothetical POMV draw of \$2.5 billion. In addition to improving the sustainability of a POMV draw, this approach ensures that in earnings from the permanent fund are not used to grow government spending in periods of high petroleum revenues. The revenue limit has three phases:

- As oil price and UGF production taxes and royalties increase, between current revenue expectations and \$1 billion, this framework provides flexibility for the legislature to undertake additional priority expenditures.
- Between approximately \$1 billion and \$3.5 billion of UGF production taxes and royalties, the framework smooths UGF revenue volatility and ensures our financial savings in the permanent fund are not spent when they are not necessary to support a sustainable budget.
- When production tax and royalty revenues exceed approximately \$3.5 billion the framework avoids spending from our financial savings at all while making all of UGF petroleum revenues available for expenditure. This allows flexibility for appropriations to other various priorities, such as capital projects or replenishing the CBR. Essentially, when petroleum revenues are sufficient, the state's finances revert to the current system.

SSTA Revenue Limit (all values in billions\$)		
UGF Petroleum Revenue	POMV Draw	Total <sup>1</sup>
\$0.5	\$2.5	\$3.0
\$1.0	\$2.5	\$3.5
\$2.0	\$1.5	\$3.5
\$3.0	\$0.5	\$3.5
\$3.5	\$0	\$3.5
\$4.0	\$0	\$4.0
\$5.0	\$0	\$5.0

<sup>1</sup> This total does not include approximately \$850 million of stable, existing general fund revenues of that are unaffected by the proposed fiscal plan.

**Option 2: Including Oil and Gas Revenue in POMV Draw**

Alternatively, to account for the variability in revenues, the committee substitute could be amended to (1) place all annual production taxes and royalties in the ERA and (2) increase the POMV draw to 6.5% to reflect the higher sustainable draw permitted by increased revenue inflows to the ERA. Draft language that may accomplish this approach is included in the attachment.

The greater stability provided by this option has several advantages and is the favored approach of the administration. A revenue limit paired with a POMV draw, as described above, is a middle ground that handles a good share of oil price volatility and prevents the permanent fund from being spent when petroleum revenues are large enough to support a sustainable budget.

**Proposed Language for a POMV Draw Paired with a Revenue Limit**

\* **Sec.4.** AS 37.13.140 is amended by adding new subsections to read:

(c) In the event that the sum of oil and gas production taxes under AS 43.55.011 - 43.55.180, mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state and deposited into the general fund in the current fiscal year exceeds \$1,000,000,000, the amount available for distribution under (b) of this section shall be reduced by one dollar for each dollar in excess of \$1,000,000,000.

**Proposed Language for a POMV Draw with  
Variable Petroleum Revenues Deposited in the Permanent Fund**

\* **Sec.4.** AS 37.13.140 is amended by adding new subsections to read:

(b) The corporation shall determine the amount available for distribution on July 1 of each year. The amount available for distribution equals six and one-half percent of the average market value of the fund, including the earnings reserve account established in AS 37.13.145, for the first five of the preceding six fiscal years, including the fiscal year just ended, computed annually for each fiscal year in accordance with generally accepted accounting principles but may not exceed the year-end balance of the earnings reserve account for the fiscal year just ended.

\* **Sec. 5.** AS 37.13.145 is amended by adding new subsections to read:

(f) Except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska, 100 percent of the money collected by the Department of Revenue, within the fiscal year, under the oil and gas production tax, AS 43.55.011 - 43.55.180, may be appropriated to the earnings reserve account.

(g) 54.5 percent of all mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state may be appropriated to the earnings reserve account.

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# Analysis for House Finance CS for HB 245

By Department of Revenue's Economic Research Group

4/12/2016

# Method, Inputs, and Assumptions

- Forecast produced from the Alaska Permanent Fund Protection Act model, *available at* <http://gov.alaska.gov/Walker/priorities/new-sustainable-alaska-plan.html>
- **Permanent Fund Starting Value:** \$52 billion
  - Realized portion of corpus: \$40 billion
  - Realized portion of earnings reserve account(ERA): \$6.5 billion
  - Unrealized earnings held by the fund: \$5.5 billion
- **Investment Return:** Callan Associate's 10-year forecast
  - Total return: 6.9% geometric, 13.90% standard deviation
  - Statutory return: P10 = 3.70%, P50 = 6.01%, P90 = 8.14%
  - Inflation rate: 2.25%

# Method, Inputs, and Assumptions

- **Petroleum Revenues:**

- **Oil price:** mean outcomes from probabilistic analysis of ANS oil prices using a PERT distribution from the fall price forecasting session. *See* Fall 2015 RSB (pages 33 and 104); *also see* note on slide 4 of this document
- **Production:** Fall 2015 RSB (page 39)
- **2016 royalty revenue:** Total royalty revenue for FY 2016 used for ratio estimations is approximated to ~\$850

- **Dividend Recipients:** Department of Labor population forecast with dividend participation rate from historic data
- **Dividend Program Costs:** Department of Revenue estimate of \$8 million, increasing with inflation. The forecast does not include any other transfers from the dividend fund.

# Method, Inputs, and Assumptions

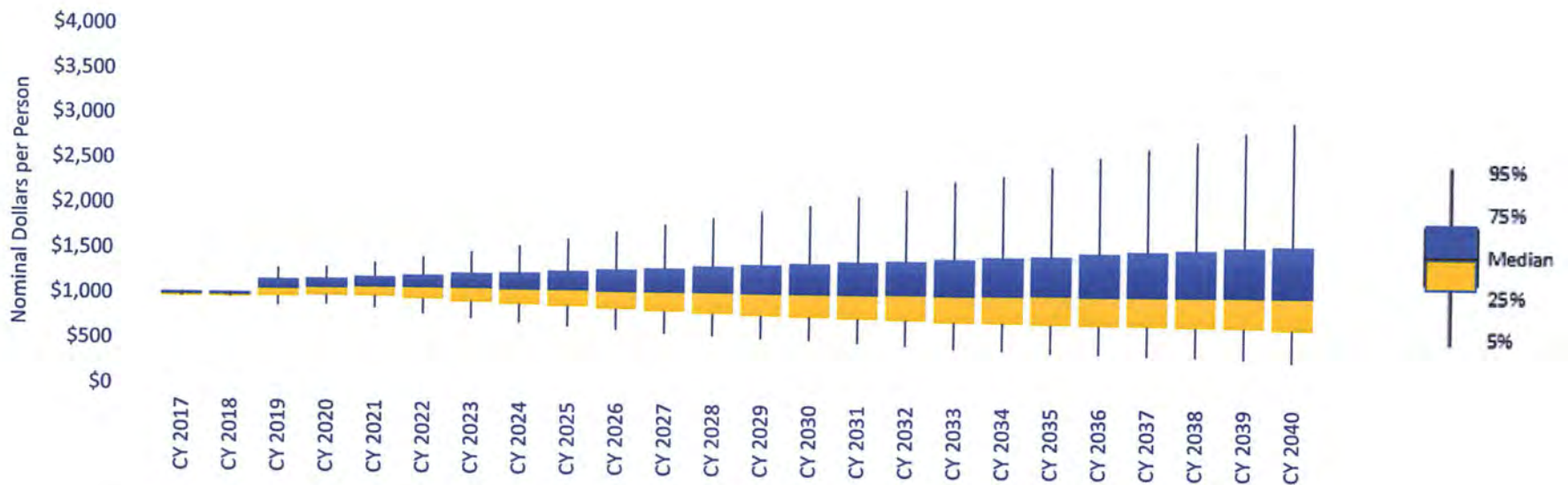
- **Payout Calculation:** Payout is calculated by taking a POMV of the first 5 of the last 6 total fund balance incorporating the earnings reserve and any unrealized gains the fund may have. A POMV percentage of 5.25% was used for this analysis
- **Deposits into the Permanent Fund:** 25% of royalties deposited into the permanent fund corpus.
- **Deposits into the General Fund:** 100% of production tax is deposited into the General Fund and ~59.6% ( $74.5\% \times 80\%$ ) of royalty deposits are placed in the General Fund

# Method, Inputs, and Assumptions

- **Dividend Calculation: The sum of :**
  - 20% of the POMV payout from the most recent FY ended, and
  - 20% of the unrestricted royalties (~15% of total royalties) from the most recent FY ended
- Overwriting the above calculation there is a fixed dividend of \$1,000 per person for CY 2017 and CY 2018.

# HB 245 CS @ 5.25% POMV

## Per Person Dividend Size

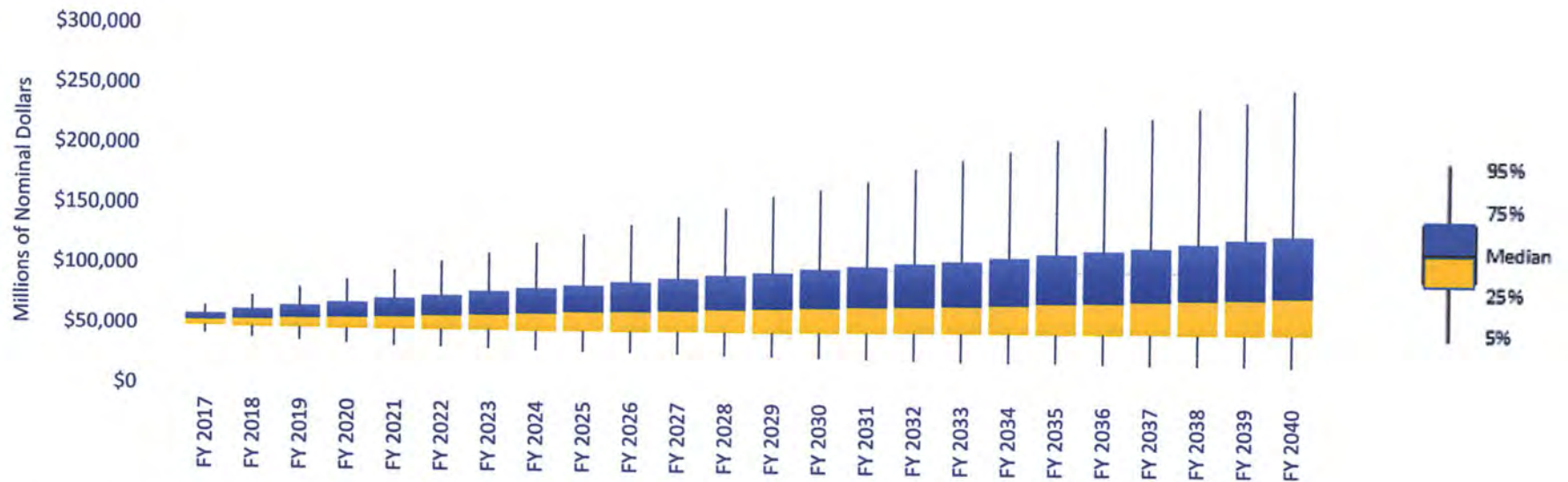


2017 median value: \$1000

2040 median value: \$1091 (\$649 real)

# HB 245 CS @ 5.25% POMV

## Total EOY Fund Balance

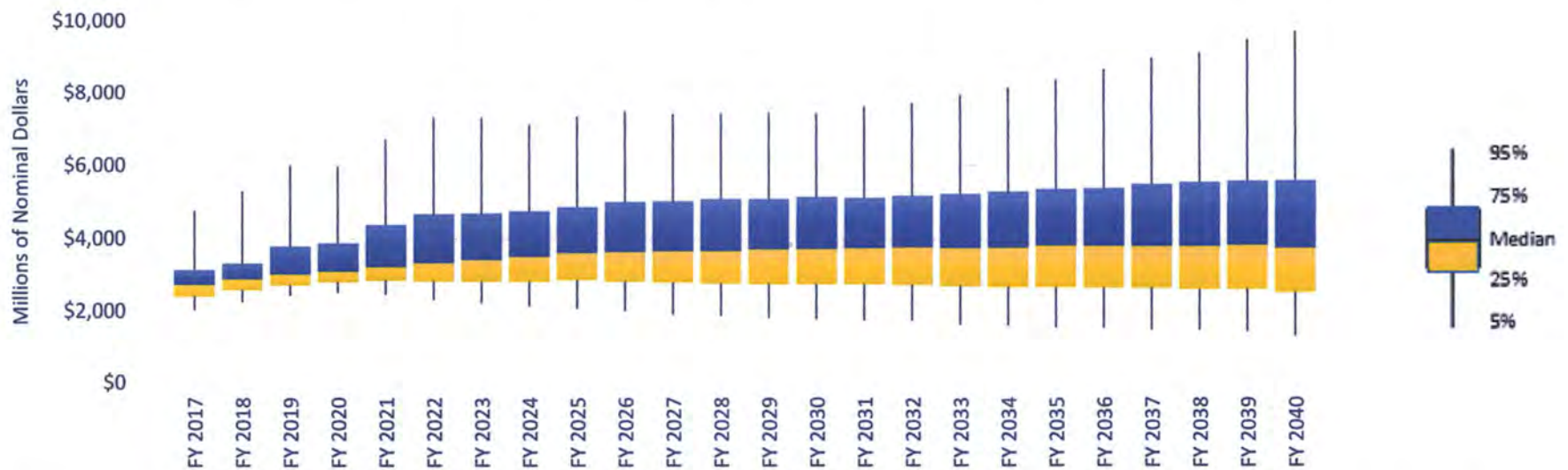


2040 median value: \$80,951 nominal (\$47,457 real) million

ER Depletion Chance: 9.1%

# HB 245 CS @ 5.25% POMV

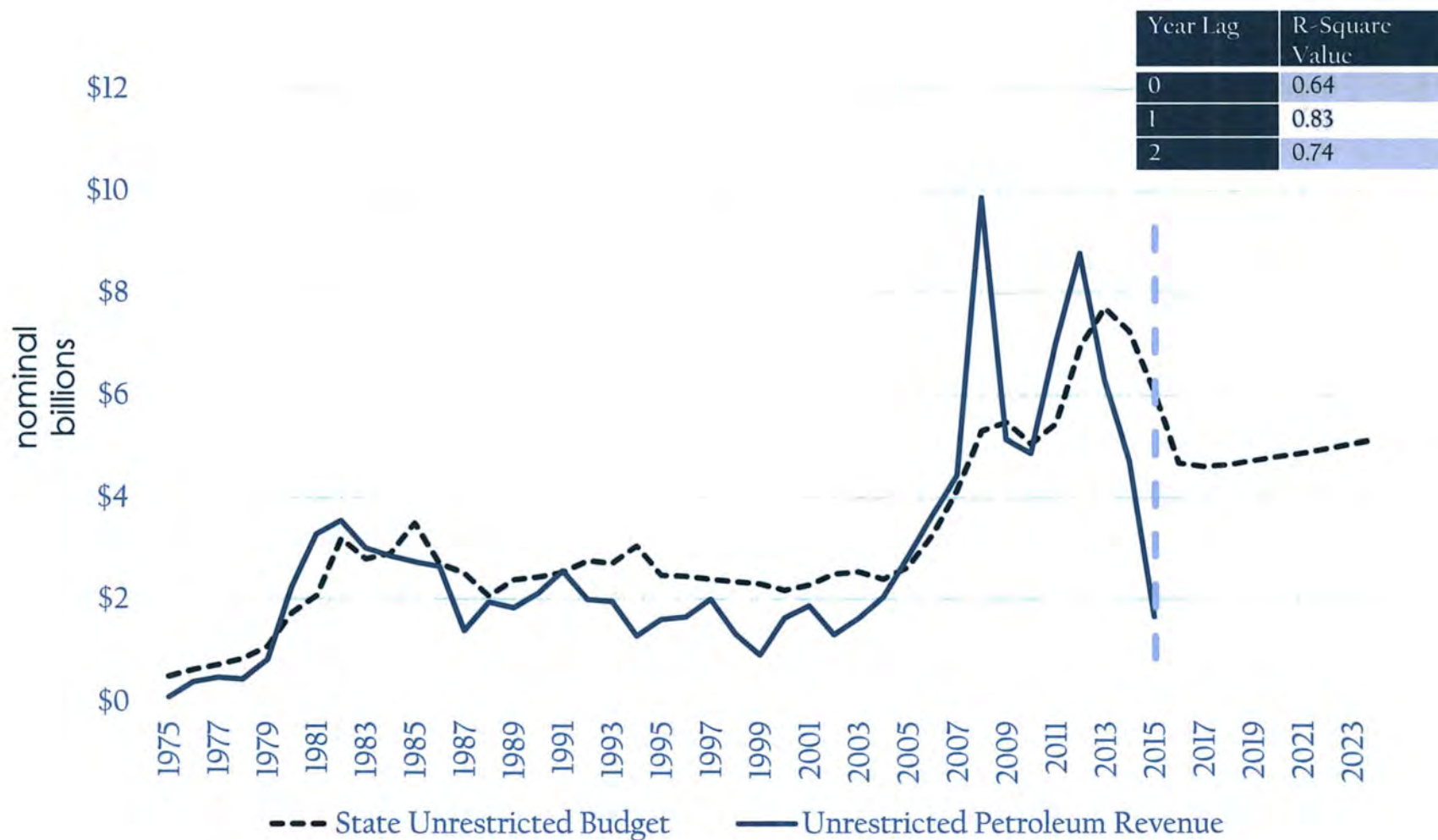
## Net Payout To GF plus Production Taxes and Royalties not dedicated to the PF or Dividend

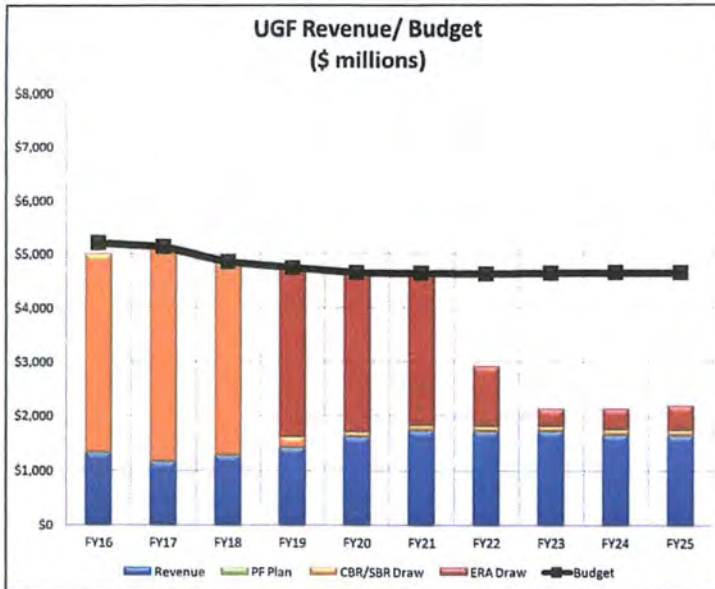


2017 median value: \$2,740 million

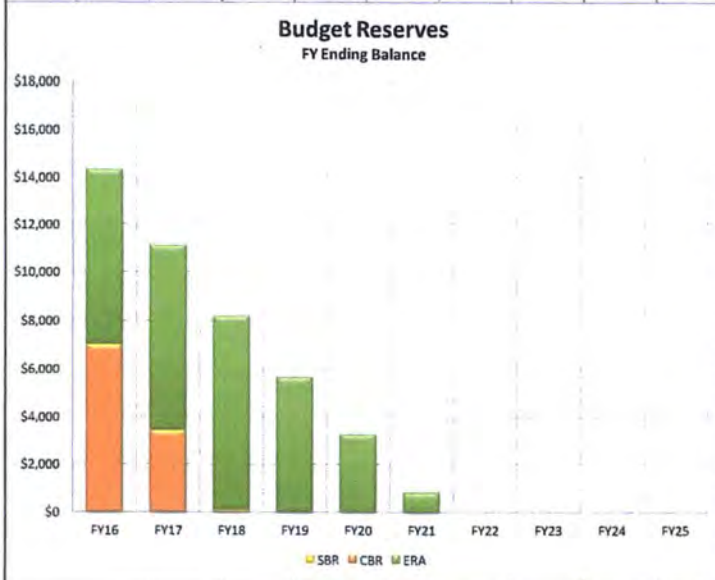
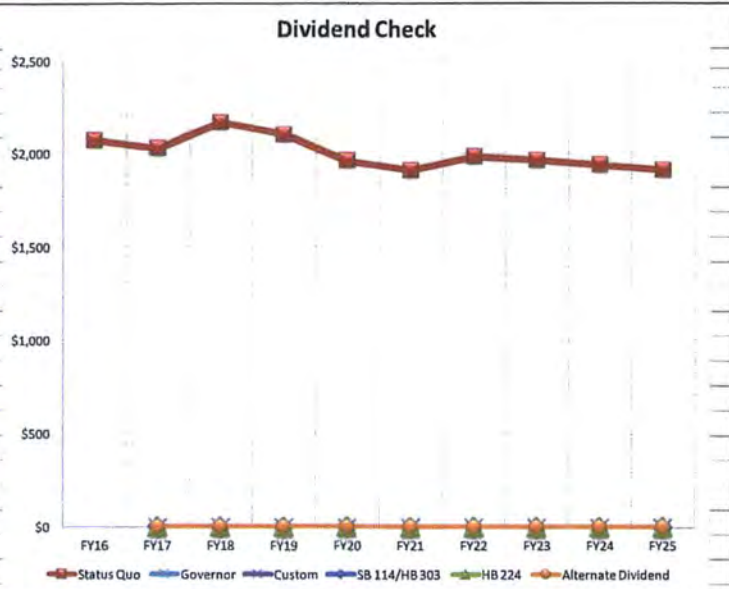
2040 median value: \$3,750 (\$2,198 real) million

# LONG-TERM PROBLEM

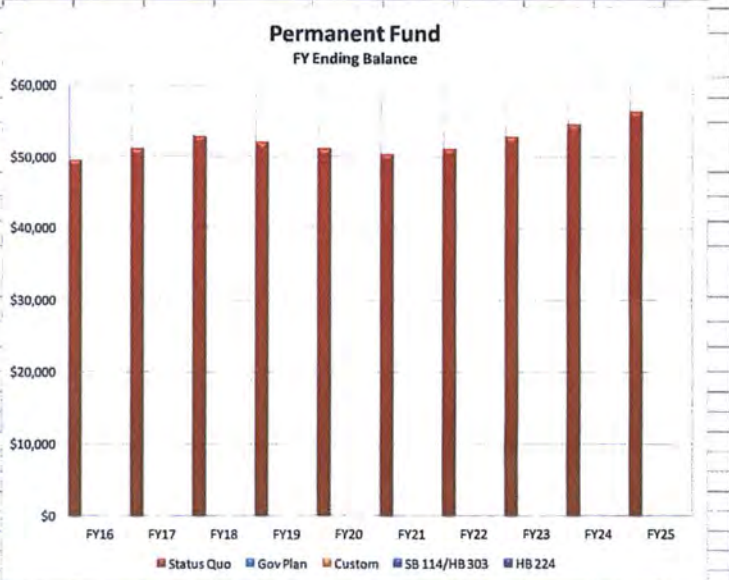




<b>Price Scenario</b>	Spring 2016
<b>COST VARIABLES</b>	
<b>Operating Budget</b>	
Non-Formula	0.0%
K-12 Formula	0.0%
Medicaid Formula	0.0%
Other Formula	0.0%
Target cut	\$ (247)
<b>Statewide Budget</b>	
Community Assistance	30.0
Debt Service	Existing
PRS/TRS/CA Bills	n
<b>Capital Budget</b>	185.0
<b>REVENUE VARIABLES</b>	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Indirect Exp. Adjustments	n
Gov's Tax Bills Package	n
Tax Credit Reform	None

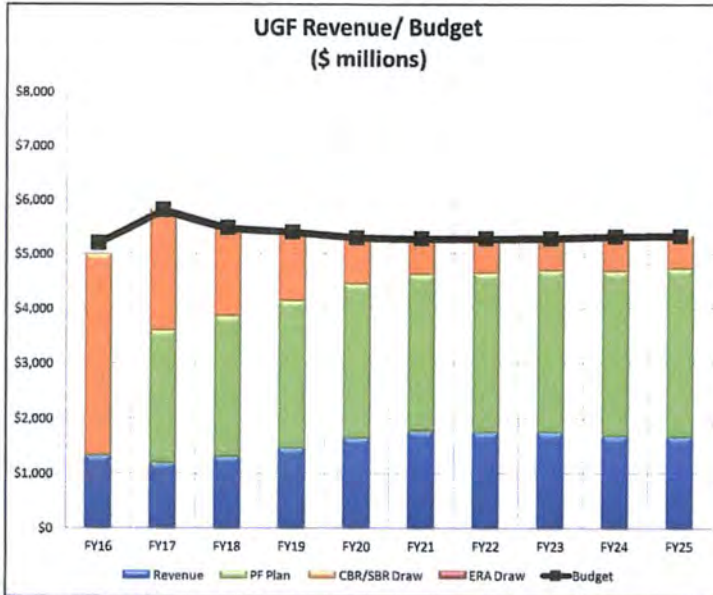


<b>Perm Fund Plans</b>	
Governor	n
SB 114/HB 303	\$ 3,300
HB 224	n
Custom	n
<b>Perm Fund Variables</b>	
IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	6.90%
Percent Realized	76.38%
<b>Custom Plan Specifications</b>	
POMV Payout	5.25%
POMV to Dividend:	20.0%
Dividend % of royalties:	20.0%
Dividend % of CBR balance:	0.0%
Dividend % of SNI	0.0%
Dividend Floor:	\$ 1,000
Floor Ends	19
Dividend Cap:	n
Fixed Dollar Dividend:	\$ -
POMV limit (of prior year approps):	n
POMV Limit (reduce if rev exceeds):	n
Closed Applications:	n
Fill FY17 w/ ERA	n
Reserve Priority	CBR
CBR Earnings	6.00%



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	11,085	8,187	5,604	3,220	804	0	0	0	0
Deficit	-3,984	-3,587	-3,343	-3,053	-2,915	-2,926	-2,938	-3,003	-3,016
Years to Exhaust	3	2	2	1	0	0	0	0	0

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF Value	53,792	54,854	52,654	50,397	48,132	50,420	52,311	53,274	54,187
Target Value	53,839	55,050	56,289	57,555	58,850	60,174	61,528	62,913	64,328
Real Value	100%	100%	94%	88%	82%	84%	85%	85%	84%
Effective Payout	4.48%	4.03%	5.09%	5.53%	5.82%	5.51%	5.22%	5.05%	4.92%



**Price Scenario** Spring 2016

**COST VARIABLES**

Operating Budget	
Non-Formula	0.0%
K-12 Formula	0.0%
Medicaid Formula	0.0%
Other Formula	0.0%
Target cut	\$ (247)

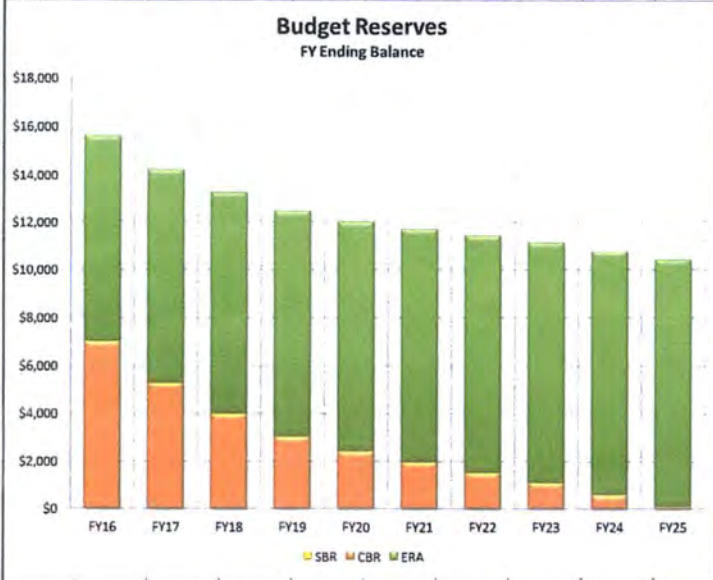
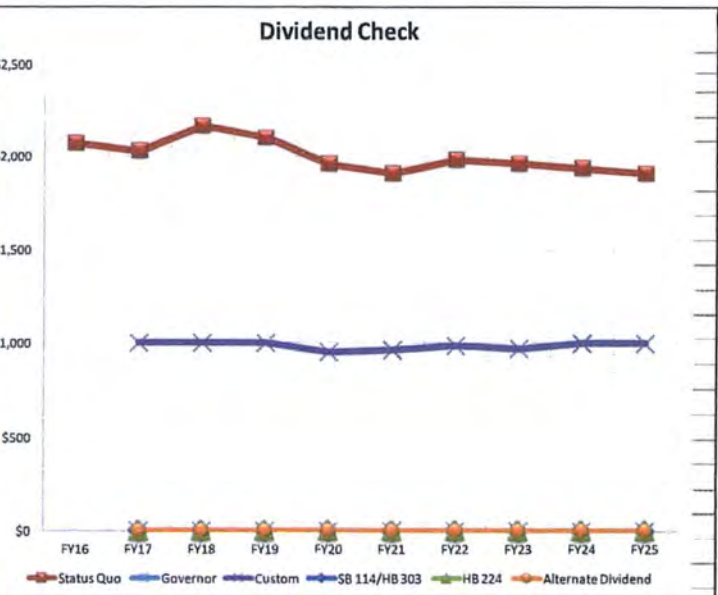
**Statewide Budget**

Community Assistance	30.0
Debt Service	Existing
PRS/TRS/CA Bills	n

**Capital Budget** 185.0

**REVENUE VARIABLES**

Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Indirect Exp. Adjustments	n
Gov's Tax Bills Package	n
Tax Credit Reform	HRES



**Perm Fund Plans**

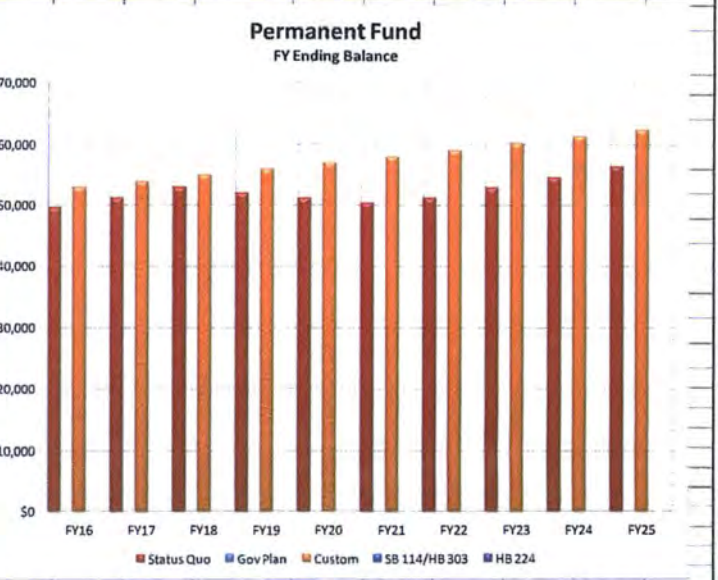
Governor	n
SB 114/HB 303	n
HB 224	n
Custom	y

**Perm Fund Variables**

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Inflation Rate	2.25%
PF Investment Return	6.90%
Percent Realized	76.38%

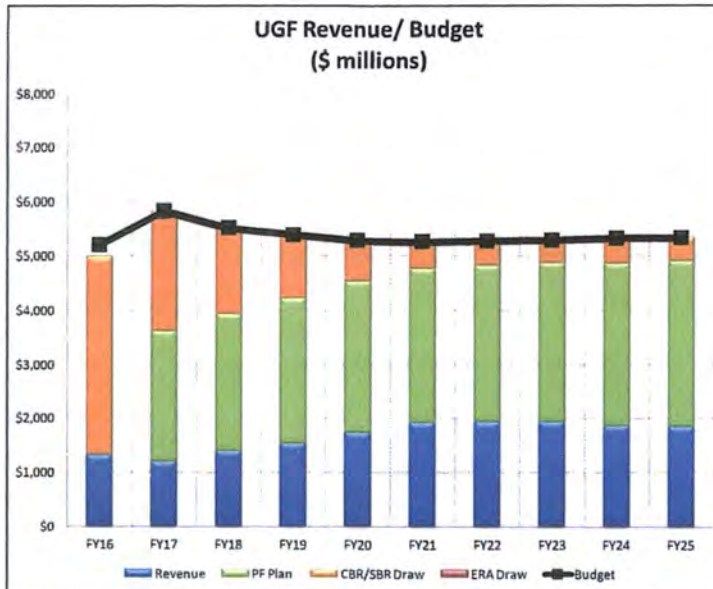
**Custom Plan Specifications**

POMV Payout	5.25%
POMV to Dividend:	20.0%
Dividend % of royalties:	20.0%
Dividend % of CBR balance:	0.0%
Dividend % of SNI	0.0%
Dividend Floor:	\$ 1,000
Floor Ends	19
Dividend Cap:	n
Fixed Dollar Dividend:	\$ -
POMV limit (of prior year approps):	n
POMV Limit (reduce if rev exceeds):	n
Closed Applications:	n
Fill FY17 w/ ERA	n
Reserve Priority	CBR
CBR Earnings	6.00%



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	14,214	13,226	12,451	11,989	11,691	11,399	11,121	10,771	10,421
Deficit	-2,213	-1,636	-1,275	-866	-673	-653	-611	-654	-624
Years to Exhaust	6	8	10	14	17	17	18	16	17

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF Value	53,792	54,895	55,945	56,966	58,030	59,098	60,169	61,232	62,297
Target Value	53,839	55,050	56,289	57,555	58,850	60,174	61,528	62,913	64,328
Real Value	100%	100%	99%	99%	99%	98%	98%	97%	97%
Effective Payout	4.48%	4.63%	4.79%	4.89%	4.90%	4.87%	4.88%	4.89%	4.89%



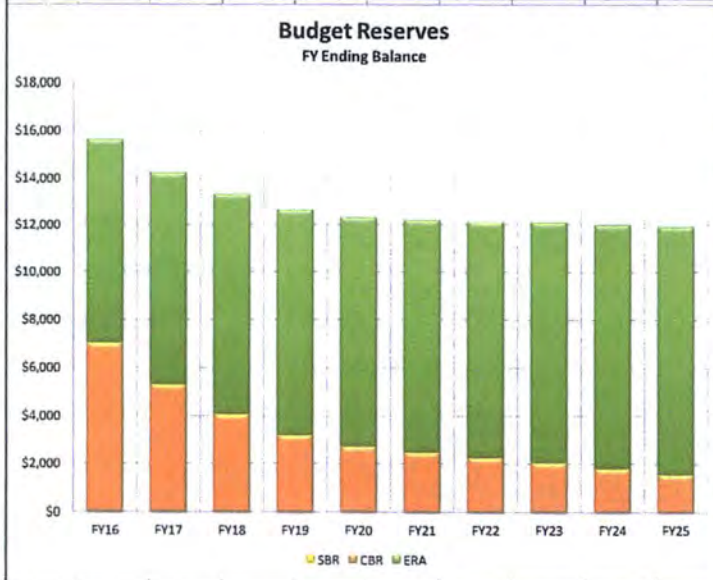
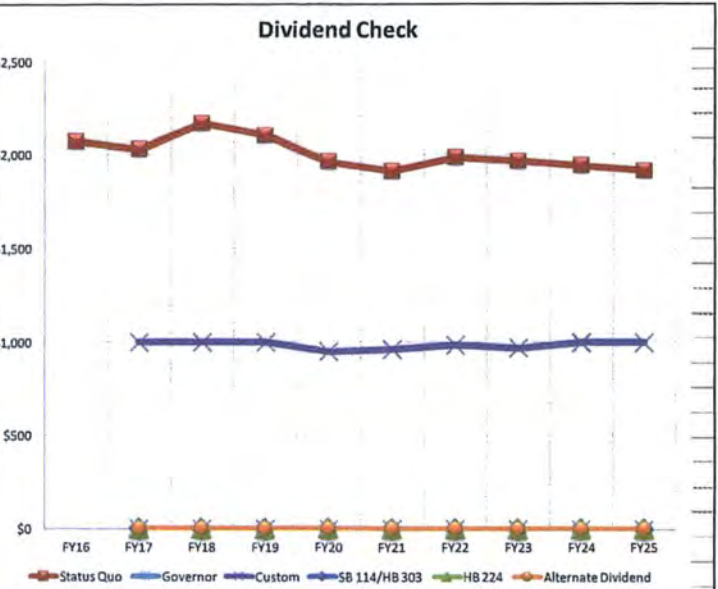
**Price Scenario** Spring 2016

**COST VARIABLES**

<b>Operating Budget</b>	
Non-Formula	0.0%
K-12 Formula	0.0%
Medicaid Formula	0.0%
Other Formula	0.0%
Target cut	\$ (247)
<b>Statewide Budget</b>	
Community Assistance	30.0
Debt Service	Existing
PRS/TRS/CA Bills	n
<b>Capital Budget</b> 185.0	

**REVENUE VARIABLES**

Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Indirect Exp. Adjustments	n
Gov's Tax Bills Package	n
Tax Credit Reform	HFIN



**Perm Fund Plans**

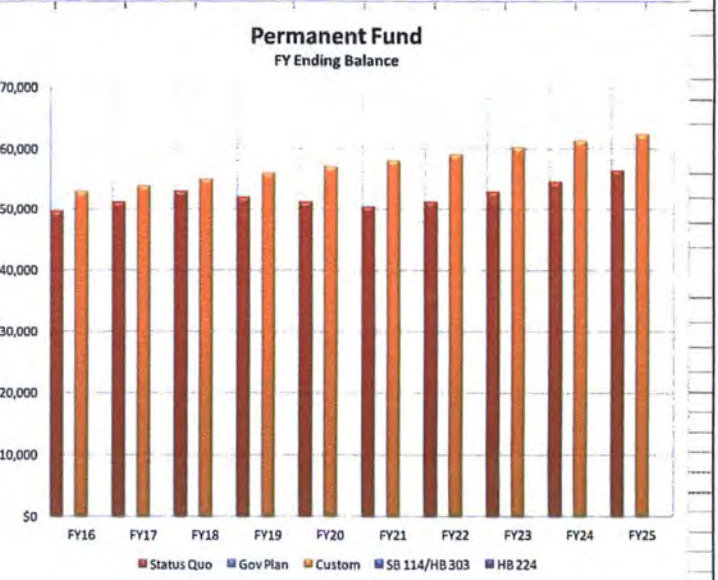
Governor	n
SB 114/HB 303	n
HB 224	n
Custom	y

**Perm Fund Variables**

IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	6.90%
Percent Realized	76.38%

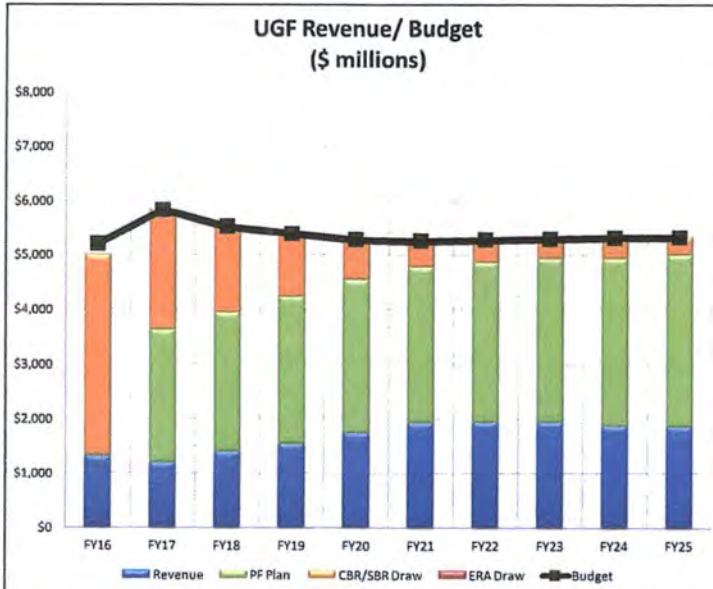
**Custom Plan Specifications**

POMV Payout	5.25%
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Dividend % of royalties	20.0%
Dividend % of CBR balance	0.0%
Dividend % of SNI	0.0%
Dividend Floor	\$ 1,000
Floor Ends	19
Dividend Cap	n
Fixed Dollar Dividend	\$ -
POMV limit (of prior year approps)	n
POMV Limit (reduce if rev exceeds)	n
Closed Applications	n
Fill FY17 w/ ERA	n
Reserve Priority	CBR
CBR Earnings	6.00%

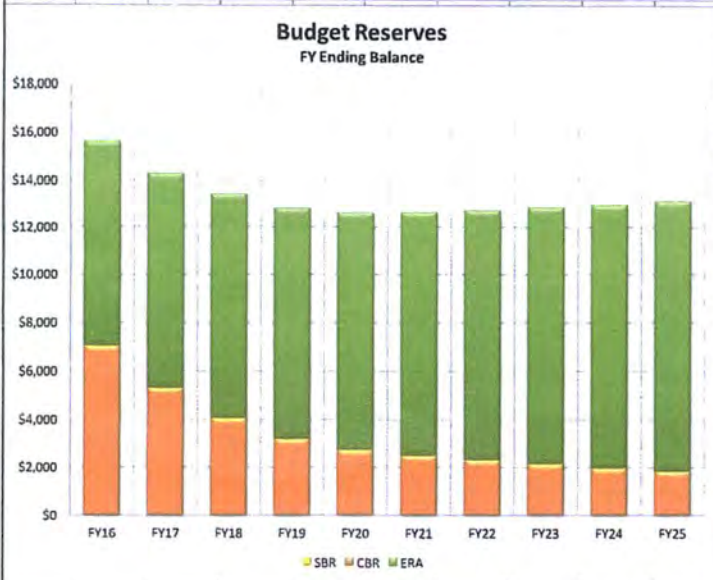
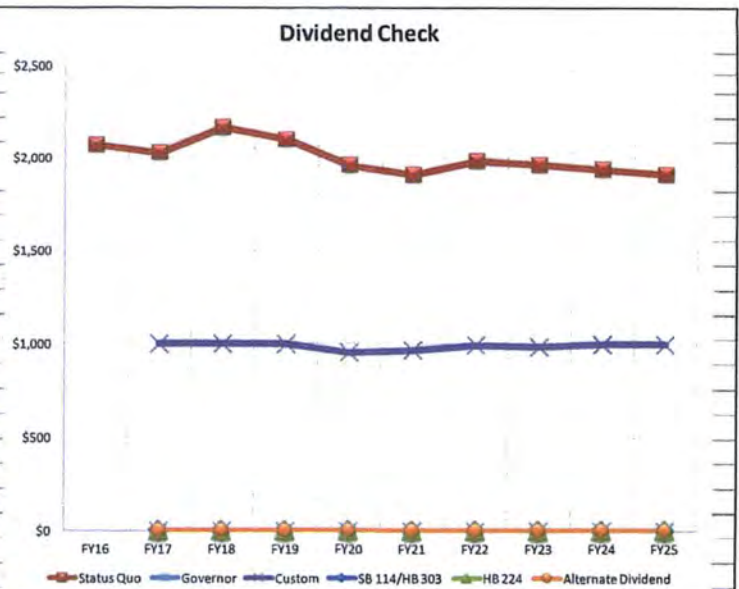


	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	14,214	13,280	12,614	12,280	12,177	12,113	12,075	11,981	11,902
Deficit	-2,213	-1,583	-1,172	-751	-501	-460	-419	-462	-432
Years to Exhaust	6	8	11	16	24	26	29	26	28

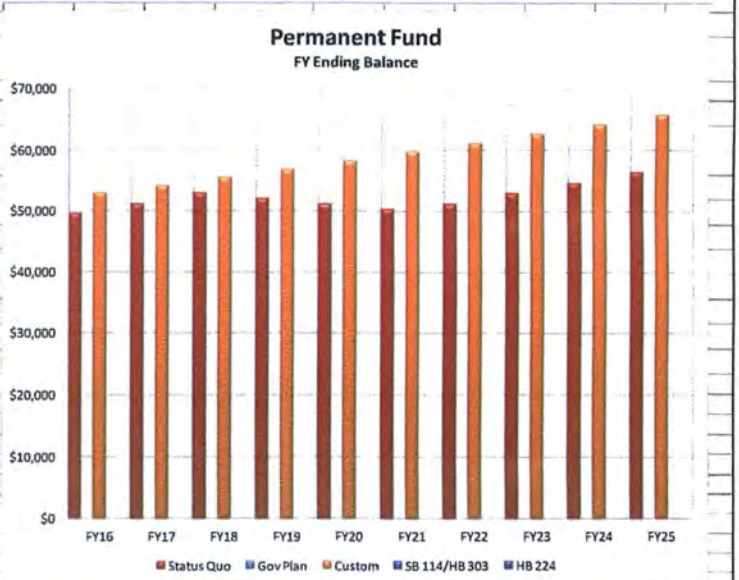
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF Value	53,792	54,895	55,945	56,966	58,030	59,098	60,169	61,232	62,297
Target Value	53,839	55,050	56,289	57,555	58,850	60,174	61,528	62,913	64,328
Real Value	100%	100%	99%	99%	99%	98%	98%	97%	97%
Effective Payout	4.48%	4.63%	4.79%	4.89%	4.89%	4.87%	4.88%	4.89%	4.89%



Price Scenario		Spring 2016
<b>COST VARIABLES</b>		
<b>Operating Budget</b>		
Non-Formula		0.0%
K-12 Formula		0.0%
Medicaid Formula		0.0%
Other Formula		0.0%
Target cut		\$ (247)
<b>Statewide Budget</b>		
Community Assistance		30.0
Debt Service		Existing
PRS/TRS/CA Bills		n
<b>Capital Budget</b>		
		185.0
<b>REVENUE VARIABLES</b>		
Sales Tax		n
Income Tax		n
Motor Fuel Tax		n
Indirect Exp. Adjustments		n
Gov's Tax Bills Package		n
Tax Credit Reform		HFIN



<b>Perm Fund Plans</b>		
Governor		n
		\$ 3,300
SB 114/HB 303		n
HB 224		n
Custom		y
<b>Perm Fund Variables</b>		
IP		1
SQ Stop PFD if 0		1
Inflation Rate		2.25%
PF Investment Return		7.45%
Percent Realized		76.38%
<b>Custom Plan Specifications</b>		
POMV Payout		5.25%
POMV to Dividend:		20.0%
Dividend % of royalties:		20.0%
Dividend % of CBR balance:		0.0%
Dividend % of SNI		0.0%
Dividend Floor:		\$ 1,000
Floor Ends		19
Dividend Cap:		n
Fixed Dollar Dividend:		\$ -
POMV limit (of prior year approps):		n
POMV Limit (reduce if rev exceeds):		n
Closed Applications:		n
Fill FY17 w/ ERA		n
Reserve Priority		CBR
CBR Earnings		6.00%



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	14,262	13,393	12,811	12,581	12,602	12,683	12,815	12,930	13,091
Deficit	-2,213	-1,583	-1,169	-743	-486	-434	-379	-393	-343
Years to Exhaust	8	8	11	17	26	29	34	33	38

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF Value	54,075	55,488	56,873	58,254	59,701	61,171	62,661	64,162	65,680
Target Value	53,839	55,050	56,289	57,555	58,850	60,174	61,528	62,913	64,328
Real Value	100%	101%	101%	101%	101%	102%	102%	102%	102%
Effective Payout	4.45%	4.58%	4.72%	4.80%	4.78%	4.76%	4.77%	4.77%	4.77%

ALASKA STATE LEGISLATURE  
HOUSE FINANCE COMMITTEE

Representative Mark Neuman  
Co-Chairman  
(907) 465-2679  
Rep.Mark.Neuman@akleg.gov



Representative Steve Thompson  
Co-Chairman  
(907) 465-3004  
Rep.Steve.Thompson@akleg.gov

Alaska State Capitol Building- Rm 505

Alaska State Capitol Building- Rm 511

**Sectional Analysis**  
**CS for House Bill No. 245 (FIN)**  
**29-GH2859\E**

**“An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska Permanent Fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation of permanent fund dividends; and providing for an effective date.”**

**Sec. 1.** Provides for a three year reevaluation of the use of the earnings of the Alaska permanent fund.

**Sec. 2.** Amerada Hess income no longer flows to the Capital Income Fund. Segregation of Amerada Hess is no longer legally required; associated language is repealed in sec 13.

**Sec. 3.** Dedicated deposits of royalties to the Permanent Fund are reduced from the current 25/50 split in old/new leases to the constitutional minimum 25%

**Sec. 4.**

(a) Requires the Alaska Permanent Fund Corporation to determine the net income of the earnings reserve account as the income is realized and received.

(b) Defines the Percent of Market Value payout as 5.25% of the average year-end market value of the Permanent Fund and Earnings Reserve Account for the first five of the most recently completed six fiscal years. The payout may not exceed the year-end balance of the earnings reserve account for the fiscal year just ended.

**Sec. 5** AS 37.13.145 is the Disposition of Income of the Permanent Fund statute

- a. (Unchanged) Establishes the ERA and identifies the ERA as holding earnings of the PF and ERA.
- b. (Repealed) dividends based on statutory net income.
- c. (Repealed) inflation proofing.
- d. (Repealed) segregation of Amerada Hess.
- e. (New) The legislature may annually appropriate the POMV payout from the ERA to the general fund.

**Sec. 6.** Dividends are comprised of 20% of the 5.25% PMOV outlined in Sec. 4(b), and 20% of the prior year's royalties, excludes those dedicated to the Permanent Fund or School Fund (25.5% are dedicated)

**Sec. 7.** Mental Health Trust Fund may not be included in the computation of the available income available for distribution under the PMOV.

**Sec. 8.** Makes computation of the Mental Health Trust Fund income consistent with computation of other Permanent Fund Income.

**Sec. 9.** Transfer of money to the Dividend Fund requires an appropriation

**Sec. 10.** The amount of each Permanent Fund Dividend for fiscal years 2017, 2018 and 2019 shall be \$1,000.

**Sec. 11.** Conforms to Sec. 9, which moves money to the Dividend Fund by appropriation

**Sec. 12.** Once the money is in the Dividend Fund, the Department of Revenue shall annually pay dividends without further appropriation

**Sec. 13.** Repeals language relating to the former dividend calculation, inflation proofing calculation, and Amerada Hess language

**Sec. 14.** Repeals Sec. 10 - \$1,000 dividend in three years

**Sec. 15.** The Commissioner of Revenue and the Alaska Permanent Fund Corporation may adopt regulations, policies and procedures to implement this Act.

**Sec. 16.** Retroactivity clause.

**Sec. 17.** Immediate effective date for sections 15 and 16

**Sec. 18.** Effective date of July 1, 2016

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version: HB 245  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB245-DOC-PHC-03-23-16  
Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: (H) Finance

Department: Department of Corrections  
Appropriation: Health and Rehabilitation Services  
Allocation: Physical Health Care  
OMB Component Number: 2952

### Expenditures/Revenues

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

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services		8,117.4	8,117.4	8,117.4	8,117.4	8,117.4	8,117.4	8,117.4
Travel								
Services		12,119.5	12,119.5	12,119.5	12,119.5	12,119.5	12,119.5	12,119.5
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>

### Fund Source (Operating Only)

1004 Gen Fund			11,200.3	15,766.1	15,954.1	15,348.2	14,585.5
1171 PFD Crim		20,236.9	9,036.6	4,470.8	4,282.8	4,888.7	5,651.4
<b>Total</b>	<b>0.0</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>	<b>20,236.9</b>

### Positions

Full-time							
Part-time							
Temporary							

<b>Change in Revenues</b>							
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**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) 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:

Prepared By: <u>April Wilkerson</u>	Phone: <u>(907)465-3460</u>
Division: <u>Administrative Services - Department of Corrections</u>	Date: <u>03/23/2016 05:00 PM</u>
Approved By: <u>Dean Williams</u>	Date: <u>03/23/16</u>
Agency: <u>Department of Corrections</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

BILL NO. HB 245

**Analysis**

Passage of this legislation will change the way permanent fund dividends are calculated having an impact on the amount of Permanent Fund Dividend criminal funds allocated to the Department of Corrections Physical Health Care component.

The Department of Corrections Physical Health Care component receives permanent fund dividend criminal funds which are based on a fluctuating annual PFD amount and the number of persons deemed ineligible during the appropriate year. The amount of PFD Criminal Funds appropriated to corrections for FY2017 was \$20,236,900.00 based on the CY2015 annual PFD amount of \$2,072.00 and an estimated 10,448 individuals deemed ineligible under AS 43.23.005(d).

Based on the Office of Management and Budget projections and using the same number of individuals identified as ineligible, this legislation would adjust the amount of PFD Criminal Funds available for allocation to the department requiring fund source changes as follows:

FY2018 reduce PFD Criminal Funds (\$11,200.3) increasing General Funds \$11,200.3

FY2019 reduce PFD Criminal Funds (\$4,565.8) increasing General Funds \$4,565.8 for a continued change of (\$15,766.1) PFD Criminal Funds / \$15,766.1 General Funds

FY2020 reduce PFD Criminal Funds (\$188.1) increasing General Funds \$188.1 for a continued change of (\$15,954.1) PFD Criminal Funds / \$15,954.1 General Funds

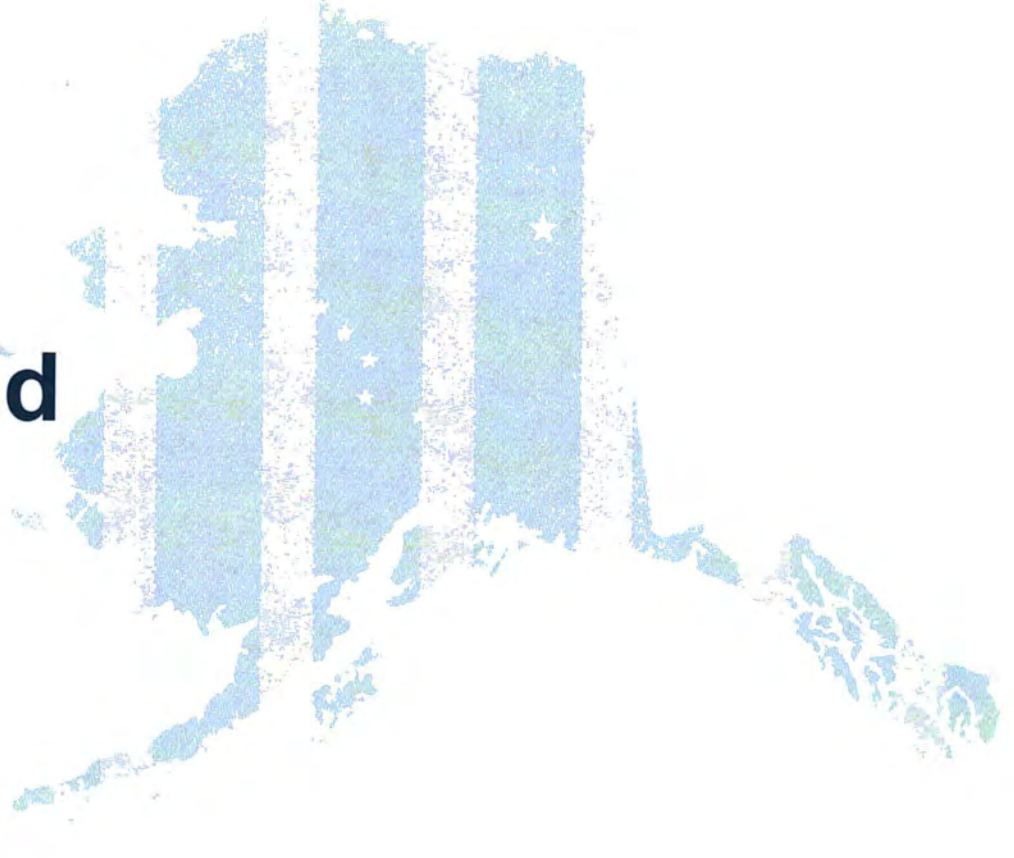
FY2020 increase PFD Criminal Funds \$606.0 reducing General Funds (\$606.0) for a continued change of (\$15,348.2) PFD Criminal Funds / \$15,348.2 General Funds

FY2022 increase PFD Criminal Funds \$762.7 reducing General Funds (\$762.7) for a continued change of (\$14,585.5) PFD Criminal Funds / \$14,585.5 General Funds

4/5/16




# Ensuring a sound fiscal future



Presenter: Martin Baily

Prepared for House Finance – HB 245  
April 5, 2016



**The Alaska Department of Revenue has sought an objective assessment of the financial model it built to evaluate an annual draw from the Earnings Reserve of the Permanent Fund, as outlined in the Alaska Permanent Fund Protection Act. The fact-based assessment of the financial model included in this document was conducted by McKinsey & Company, Inc. with support from expert Martin Baily.**

## Context for this effort



**The APFPA proposal would re-route oil revenues to the APFC to help stabilize State spending**

- The Alaska Permanent Fund Protection Act (APFPA) calls for directing a steady annual amount to the General Fund to mitigate the impact of oil price volatility on year-to-year budgeting. Specifically, the proposal recommends that:
  - 50% of oil royalty revenues and 100% of production tax revenues flow to the Alaska Permanent Fund Corporation (APFC) for investment
  - A fixed annual draw of \$3.3B (adjusted for inflation beginning in 2020) from the APFC to the General Fund to fund State expenditures; the amount would be methodically revisited every 4 years to ensure continued Fund sustainability
  - Dividend payments be paid out of the remaining 50% of oil royalties



**The APFPA seeks to improve budget stability**

- Given a rising budget deficit and declining oil production revenues, the APFPA seeks to:
  - Protect and grow the State's sovereign wealth to maximize long-term returns, acknowledging the rising importance of investment income in funding its budget
  - Delink public spending from volatile commodity prices and stabilize the budget by establishing a disciplined, formulaic approach to drawing from the State's wealth



**State modeling proposes that a \$3.3B draw should be sustainable**

- The Department of Revenue (DOR) has undertaken an extensive exercise to assess in a financial model what amount of annual draw will be sustainable (i.e., what draw amount can the State expect with greater than 50% confidence to maintain the starting asset's real value over time without depleting the Earnings Reserve)
- Given the Earnings Reserve's current size and the \$3B proposed transfer from the Constitutional Budget Reserve, the State can plan with 100% confidence to draw \$3.3B annually for at least 4 years (at which point the draw amount will be reviewed)
- The cumulative confidence level of being able to draw \$3.3B annually falls to 95% over 10 years and to 69% through 2040. Revisiting the draw on a 4-year cadence will lend additional confidence (e.g., this safeguard has not been factored in to modeling)



**The State sought an independent review of this model's rigor**

- The State sought an independent evaluation of (i) the soundness of the model's methodology and (ii) critical assumptions underlying the model (most notably those related to expected oil revenues and investment returns)

## Overview of conclusions



**The DOR model is sound in its methodology**

- The model tests whether a \$3.3B annual draw will be sustainable
- The DOR used probabilistic analysis, including Monte Carlo simulations, to estimate confidence levels for (i) future oil prices and (ii) investment returns, as well as deterministic analysis to establish a base case scenario for oil production
- The approach taken is reasonable and the model's logic is generally robust in testing the likely impact of a \$3.3B draw, based on a review of the model's structure, logic, conceptual soundness, and process for future updates



**The assumptions that underlie the model are reasonable**

- Key assumptions on future crude oil selling price, oil production, and investment returns (total and statutory) were obtained from credible, objective sources
- These assumptions are all within the range of reasonableness
  - Assumptions on oil production and price are reasonable and, taken together, somewhat more conservative than most
  - Investment returns assumptions are reasonable, though were considered optimistic for the near-term by some members of the APFC investment staff and were higher than those projected by APFC's strategic partners (third-party asset managers)



**Certain institutional investor best practices could help improve this plan's long-term sustainability**

- The State of Alaska could further strengthen the long-term viability of the APFC and the sustainability of its contributions to the General Fund by leveraging best practice learnings from other SWFs and investors, e.g.:
  - Clear savings-and-spending rules and capital planning
  - Regular communication between investor and sponsor
  - Formal and informal investment education opportunities for government officials and board members
  - Board governance processes with appropriate composition, appointment expertise and roles
  - Well-designed strategy tied to Fund obligations and long-term investing

# Contents

- **Scope of the review**
- Summary of the APFPA proposal
- Review of DOR model

## The scope of this assessment



### Overview

The Department of Revenue is seeking an objective assessment of its financial model which analyzes a \$3.3B fixed annual draw from the Earnings Reserve of the Permanent Fund to finance General Fund spending

#### In scope

- ✓ Detailed review and vetting of the DOR financial model's **methodology** and construction, including appropriateness of use of Monte Carlo analysis
- ✓ Assessment of the reasonableness of key baseline **assumptions** (oil price, oil production, investment returns) affecting the sustainable draw
- ✓ Perspective on **best practices** of other SWFs which inform consideration of the proposed model

#### Not in scope

- ✗ Holistic evaluation of the proposed budget or budget deficit
- ✗ Perspectives relating to current or future tax regimes (e.g., Petroleum Value model)
- ✗ Assessment of the Permanent Fund's mandate or its investment management processes
- ✗ Macroeconomic study of future market fundamentals
- ✗ Recommendations for alternative funding models

## SWFs benefit from establishing a clear set of disciplined saving and spending rules to invest for the long-term

Establishes a clear set of disciplined saving and spending rules as well as a predefined capital plan



- Singapore's SWF, GIC, has developed a **proprietary internal model** projecting 20-year sub-asset class level returns
- Government of Singapore is **allowed to spend 50% of the annualized 20-year expected returns** giving Government flexibility on a year-by-year basis on how much to draw, but capping outflows at a low enough level to grow the corpus

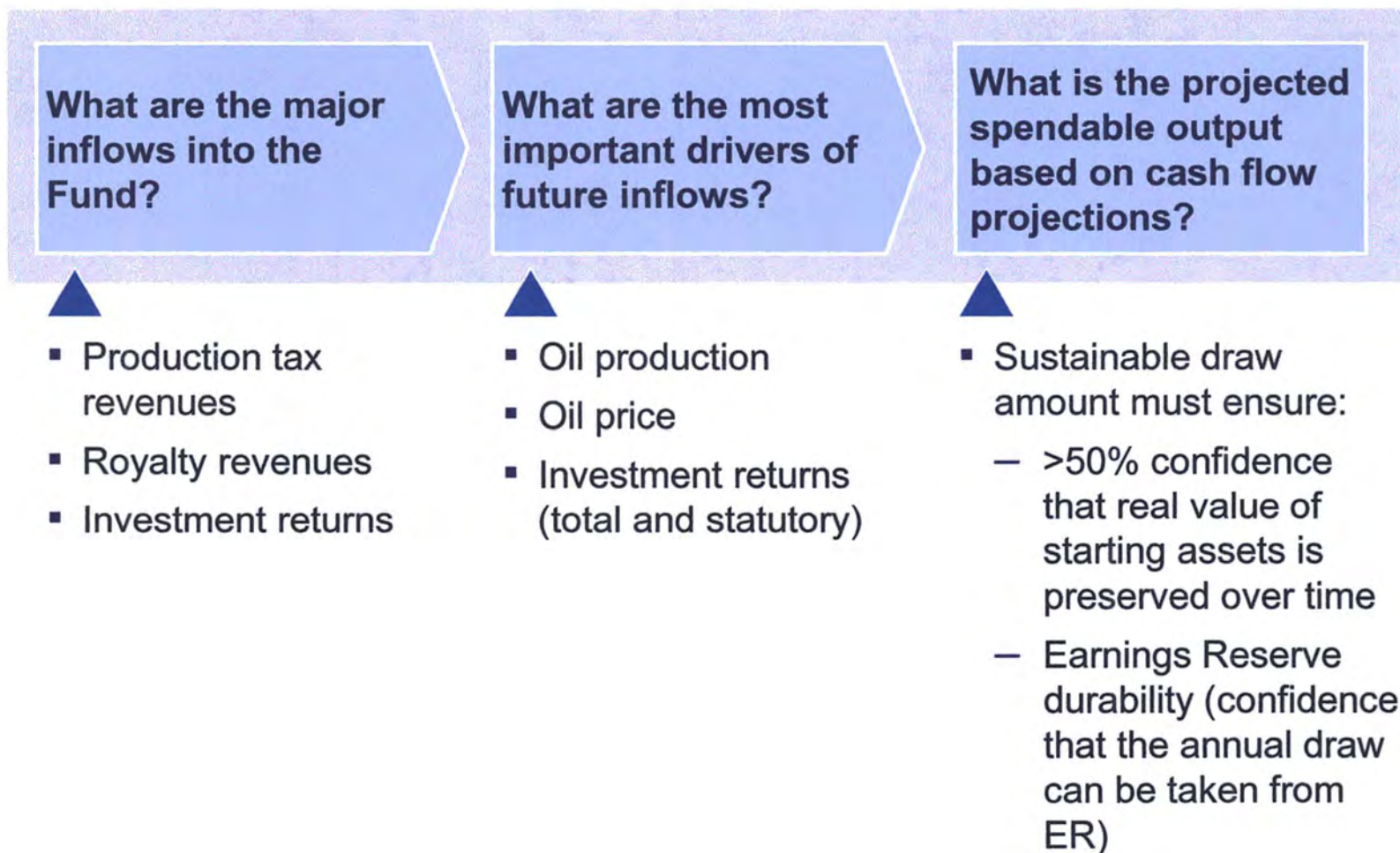


- The National Fund of Kazakhstan had previously suffered from discretionary draws from the corpus. Under 2010 reforms **annual draw is fixed at \$8 billion** for use both to reduce budget deficits and for economic development. Government can adjust the annual draw by 15% (as it did in 2013)
- If the balance of the National Fund **falls below 20% of Kazakh GDP** in a given fiscal year the Government must reduce the annual draw until the balance has returned to 20% of GDP



- Norway has a bipartisan balanced budget consensus which **limits government non-oil deficits to 4 percentage points**. This prevents the government from drawing down the corpus of Norway's Government Pension Fund Global unless Norges Bank Investment Management beats the long-run expected investment returns of 4%
- Temporary increases in withdrawals are allowed under only limited circumstances, but **requires a specific parliamentary resolution**

## The DOR model was built to establish and test the sustainability of a fixed annual draw from the Earnings Reserve

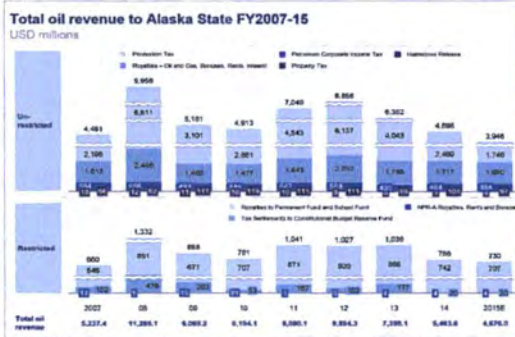


# The DOR conducted advanced probabilistic (“Monte Carlo”) modeling to better understand the Fund’s ability to sustain the draw

## High-level description of the DOR modeling process

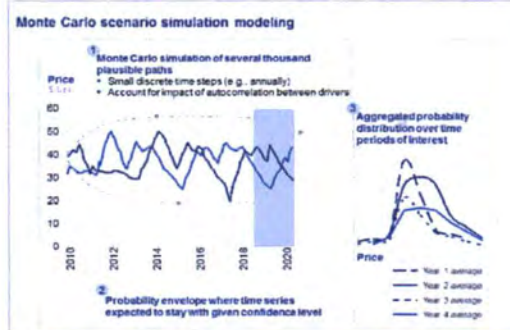
### Step 1

Understand the critical revenue drivers of the model – in terms of restricted and unrestricted revenue sources



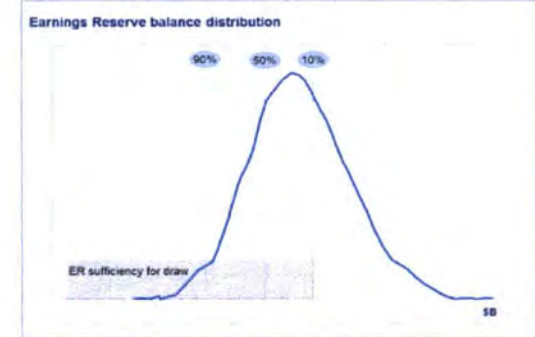
### Step 2

Build a probabilistic model of expected oil price and investment returns fluctuations

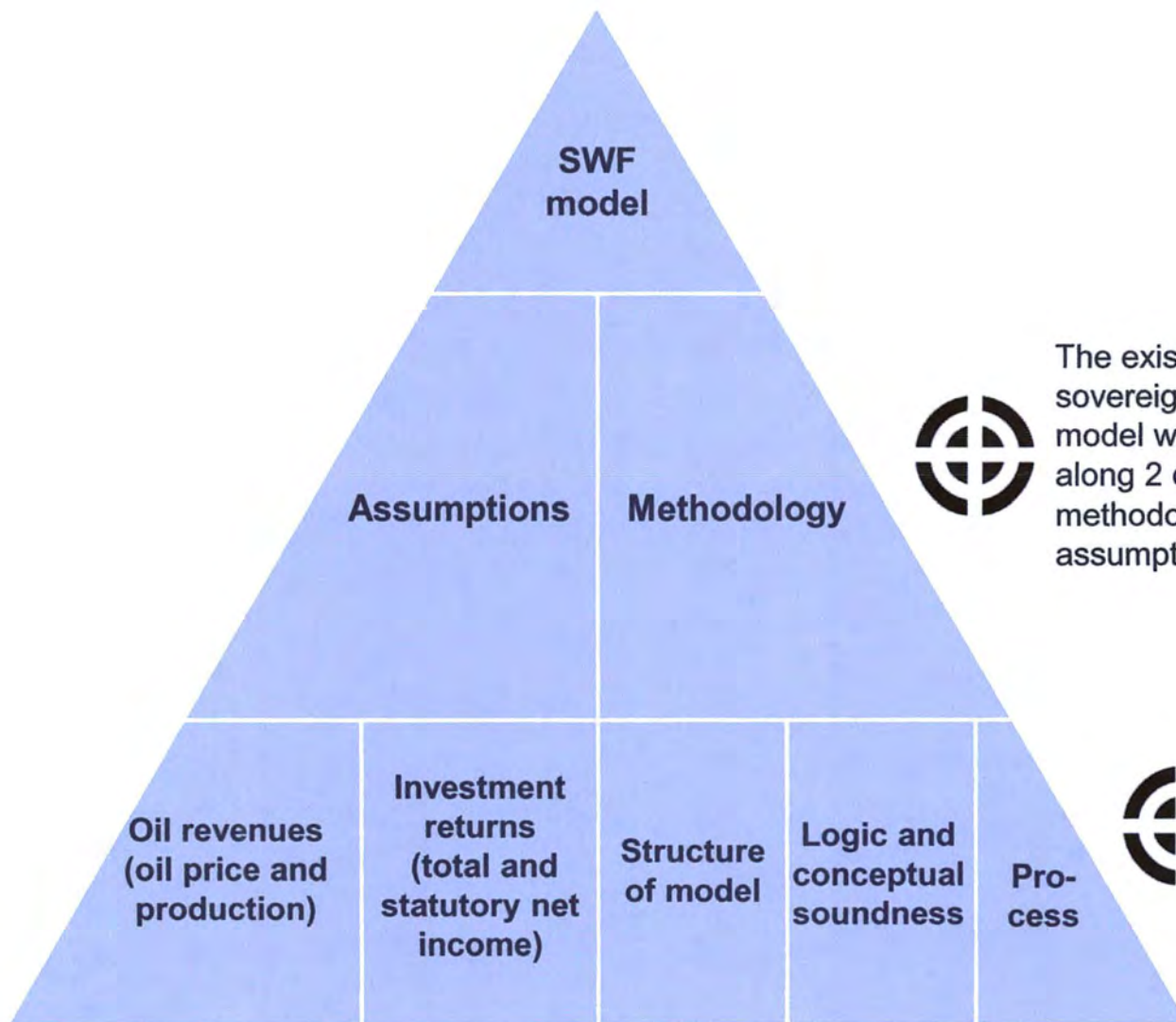


### Step 3

Understand impact on revenue flows into the Fund and Earnings Reserve available for the annual draw



Over 4 weeks, a detailed review of the most critical elements of the DOR's modeling methodology and assumptions was conducted



The existing DOR sovereign wealth fund model was reviewed along 2 dimensions: methodology and assumptions



Key elements of the model were prioritized and pressure-tested using industry experts, third-party projections and proprietary modelling assessment framework

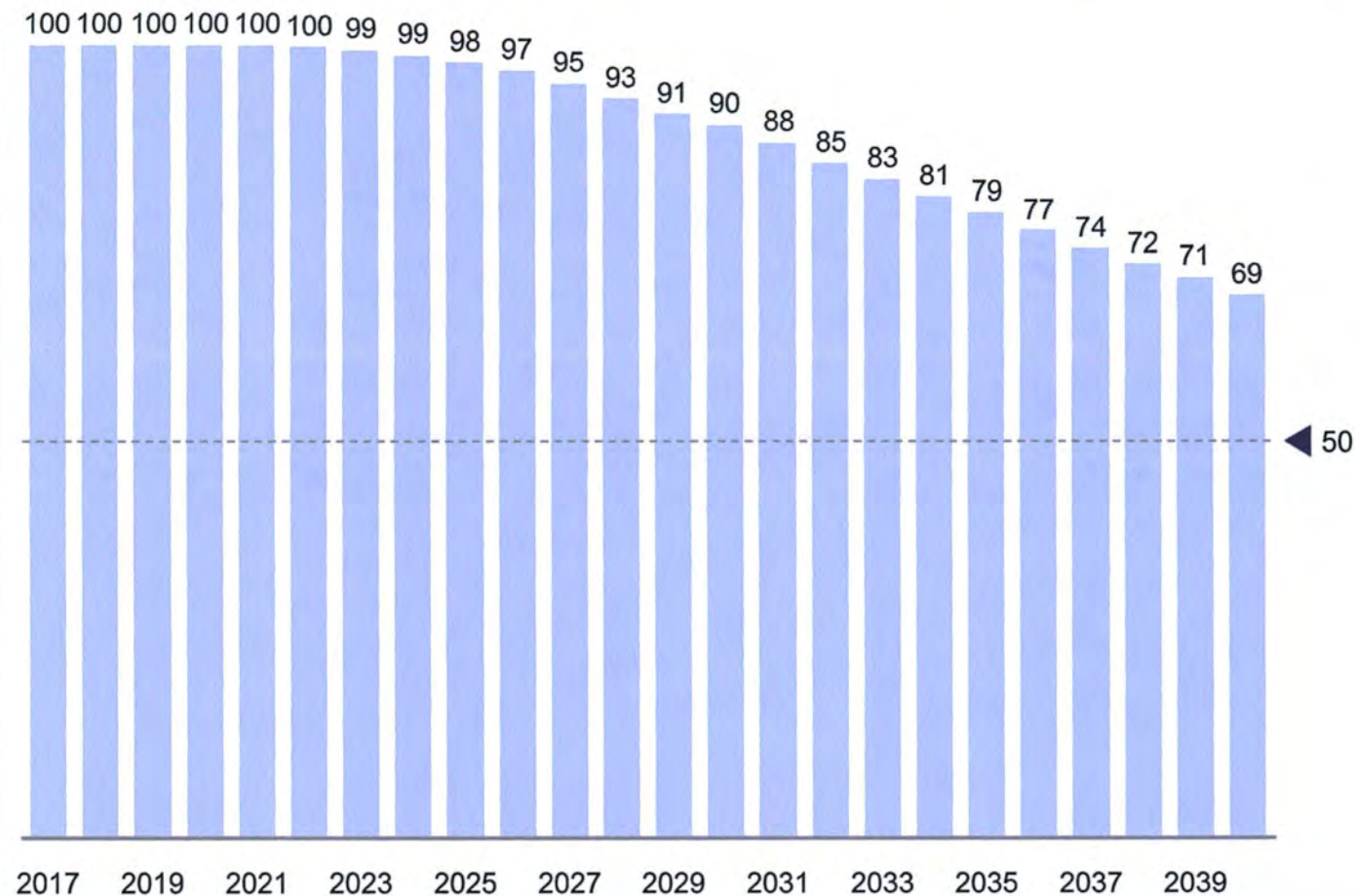
# Contents

- Scope of the review
- **Summary of the APFPA proposal**
- Review of DOR model

# The DOR model implies a 69% cumulative confidence that a \$3.3B annual draw can be made from the Earnings Reserve each year through 2040

Cumulative confidence of making an annual \$3.3B draw from Earnings Reserve

% likelihood



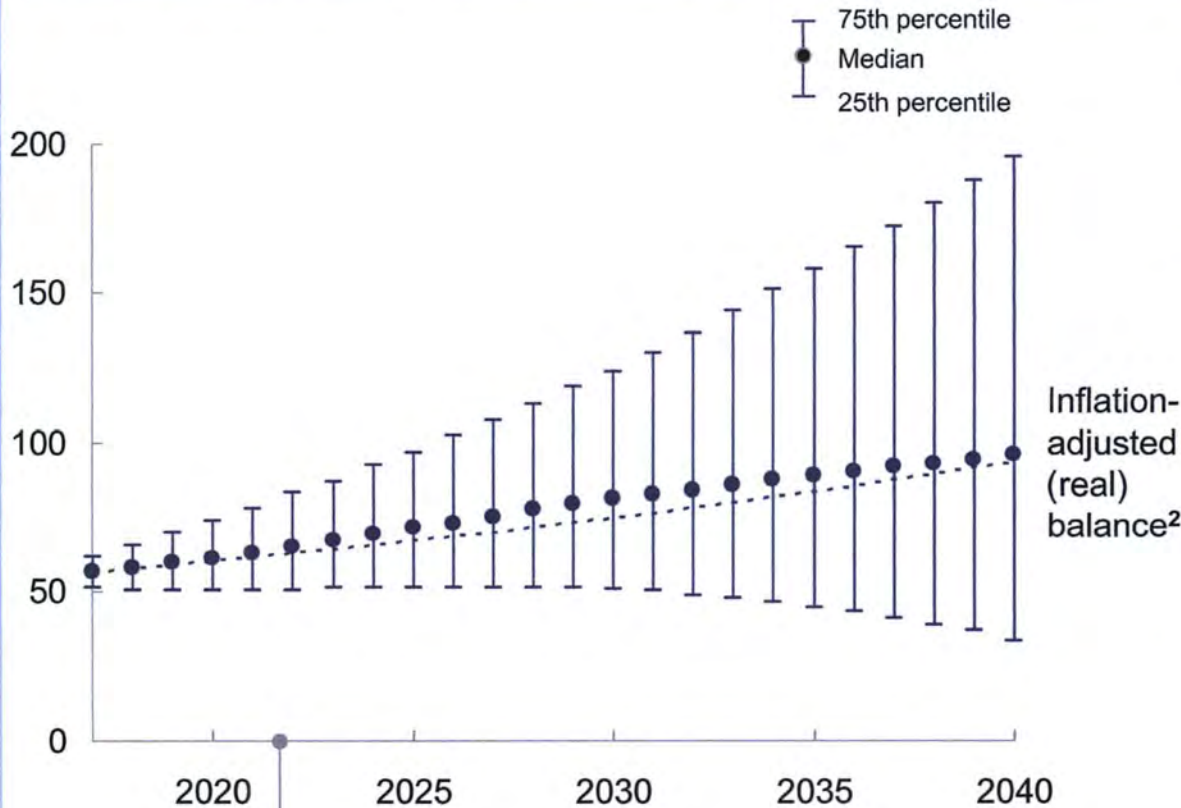
- Earnings Reserve acts as a buffer to short-term investment return and oil revenue volatility
- \$10B starting balance means near 100% confidence of being able to draw \$3.3B per year for first four years even with negative investment returns
- APFC has only had negative total investment returns four times in the past 30 years
- Effects of cumulative volatility and declining oil production reduce confidence over time – but even in 2040 cumulative confidence that a \$3.3B annual draw can be made from Earnings Reserve is 69% (confidence would be even higher if adjusted for periodic review)

# The DOR model predicts that the Permanent Fund will be \$96B in 2040 with an interquartile range of \$34B and \$196B



## Expected total balance of Permanent Fund<sup>1</sup> in given year

\$ billion (est. 2017 values)



- Permanent Fund balance will grow or shrink in any given year because of volatility in investment returns and oil revenues
- DOR goal is to maintain the real value of starting assets by seeing the median balance grow with inflation of 2.25%
- Modelled output meets this threshold, predicting median balances rising to ~\$96B in 2040 (nominal value)
- Given expected volatility, 2040 ending balance is predicted to be between \$34B and \$196B with a 50% confidence level (the threshold set by DOR)

*Over time, the ability to revisit the draw on a 4-year cadence will lend additional confidence in the ability to preserve the Fund's balance (e.g., this additional safeguard has not been factored in to modeling)*

<sup>1</sup> Includes Earnings Reserve <sup>2</sup>. Draw amount is adjusted for inflation beginning in 2020

# Contents

- Scope of the review
- Summary of the APFPA proposal
- Review of DOR model

# Review of the DOR model indicates that the assumptions and methodology underlying Fund projections are sound

## Conclusions from the review

- **The DOR modeling assumptions and methodology are reasonable**
  - Key assumptions on future oil price, oil production, and investment returns (total and statutory) were obtained from objective sources and are within the range of reasonableness
  - The methodological approach taken, including use of Monte Carlo simulations, is reasonable, and the model logic is generally robust in testing the likely impact of a \$3.3B draw
- **Future iterations of the model could benefit from the following changes:**
  - Build functionality to account for second-order relationships (e.g., year-on-year correlation between variables<sup>1</sup> and the impact on production of reaching certain breakeven prices for crude<sup>2</sup>)
  - Establish consistent process and ownership for model construction and sources
  - Assumptions may be periodically revisited based on changes to Fund strategy and investment management, or changes to the tax regime affecting Fund inflows

1. Analysis of historic year-on-year correlations of oil prices and investment returns from 1985-2015 returned statistically insignificant relationships (e.g., adding this complexity would have minimal impact on the model outcome)

2. The relationship between production levels and the theoretical break-even price of crude is unlikely to have material impact on the model outcome because the marginal price varies considerably across producers and production does not tend to vary with short-term oil price volatility

## The review considered the modeling methodology and assumptions behind critical drivers of inflows to the Fund

Driver	Explanation of DOR approach	How approach was assessed
Crude selling price	<ul style="list-style-type: none"> <li>DOR has employed a Monte Carlo analysis using ERG crude oil price projections to determine the likelihood of price evolution in the future based on a survey of expert forecasts<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Comparison of projections with multiple third-party objective sources (e.g., Woodmac, Rystad)</li> </ul>
Production volume	<ul style="list-style-type: none"> <li>DOR has employed a deterministic analysis using ERG oil production projections – this approach takes a fairly conservative approach (e.g., approach reflects the uncertainty of future production projects)</li> </ul>	<ul style="list-style-type: none"> <li>Comparison of projections with multiple third-party sources</li> </ul>
Total return rate	<ul style="list-style-type: none"> <li>DOR has relied on Monte Carlo analysis based on projections from Callan Associates (the third-party financial consultant that the Permanent Fund has used for 20+ years) to estimate the likelihood of future Fund performance based on current Fund strategy</li> </ul>	<ul style="list-style-type: none"> <li>Comparison of projections with historic performance and third-party projections</li> <li>Interviews with Permanent Fund investors to understand view of projections and potential for change to future fund performance</li> </ul>
Statutory net income rate		

<sup>1</sup> DOR Probabilistic Model oil revenue inputs based on probabilistic PERT analysis of oil price (use of estimates for P10, P50 and P90 estimated values as per DOR sampling methodology and proprietary company specific data); may differ slightly from publically published DOR RSB estimates.

## Two types of analysis are used in the DOR model: “probabilistic” and “deterministic” analysis

### Type of analysis methodology

### Explanation

### When is it best used?

#### Deterministic

- **Describes the outcome of some scenario given appropriate inputs** (in this case, based on the average or median value and the degree to which that value varies over time)

- **When projections are based on an assumed trend** given variance from that trend within certain standard deviation (e.g., use of a conservative baseline case for oil production)

#### Probabilistic “Monte Carlo”

- Monte Carlo analysis is a modeling technique **that runs multiple trials and gives a distribution of potential outcomes**. Running a Monte Carlo model creates a probability distribution that **indicates the likelihood that an outcome will occur**

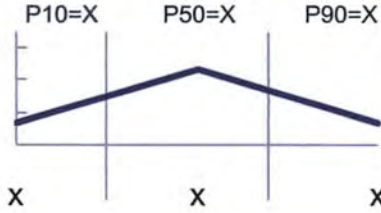
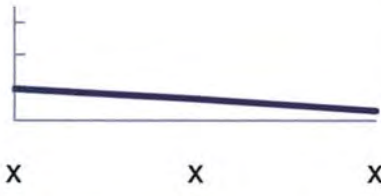
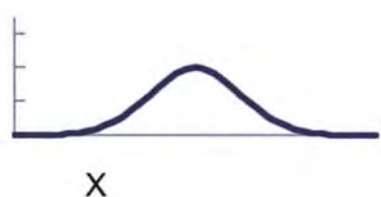
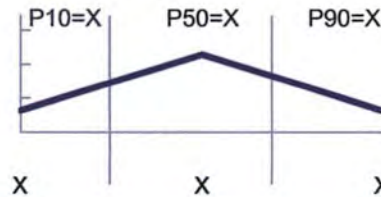
- **When attempting to project highly volatile and less predictable drivers** where the impact of “randomness” is important to understanding risk (e.g., oil price, investment returns)

# Model methodology is robust, with some potential opportunities for future improvement

- Requires review
- Requires no substantial review

Element of methodology assessment		Assessment	Explanation	Potential steps to improve model
Structure	Check for errors	<span style="color: #003366;">●</span>	<ul style="list-style-type: none"> <li>▪ No major mechanical errors found</li> </ul>	<ul style="list-style-type: none"> <li>▪ None</li> </ul>
	Dependencies on other models	<span style="color: #4F81BD;">◐</span>	<ul style="list-style-type: none"> <li>▪ Petroleum Model model sub-optimally structured</li> <li>▪ Oil production projections are not linked to price projections</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consider full audit of Petroleum Model (particularly in light of tax / royalty regime)</li> <li>▪ Wire model to account for price/production relationship in future model iterations</li> </ul>
	Single use of source	<span style="color: #4F81BD;">◐</span>	<ul style="list-style-type: none"> <li>▪ Sources consistently used with exception of some oil price inputs (e.g., median used in Petroleum Model vs. probabilistic price used in SWF model)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Validate Petroleum Model for consistency in oil pricing (e.g., using probabilistic model vs. median)</li> </ul>
Logic and conceptual soundness	Calculation of inputs	<span style="color: #4F81BD;">◐</span>	<ul style="list-style-type: none"> <li>▪ Underlying data sources are objective (e.g., Callan)</li> <li>▪ Does not account for impact of unrealized returns on Earnings Reserve balance)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consider impact unrealized returns that are apportioned to Earnings Reserve on the funds available for spend</li> </ul>
	Deterministic vs. probabilistic	<span style="color: #003366;">●</span>	<ul style="list-style-type: none"> <li>▪ Current use of Monte Carlo methods is defensible given behavior of oil price and investment returns</li> </ul>	<ul style="list-style-type: none"> <li>▪ None</li> </ul>
	Probabilistic methodology	<span style="color: #4F81BD;">◐</span>	<ul style="list-style-type: none"> <li>▪ Pert distribution of oil price (i.e., 3 points) is sufficient but highly sensitive to accuracy of underlying inputs to the distribution (P10, P50, P90)</li> <li>▪ Does not account for year-on-year correlations in oil prices (e.g., "gamblers dilemma")</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consider exploring more sophisticated probabilistic methodology (e.g., revisit accuracy of Delphi-style method used in PERT distribution)</li> <li>▪ Account for year-on-year correlations in probabilistic analysis</li> </ul>
Process	Repeatable and consistent process	<span style="color: #4F81BD;">◐</span>	<ul style="list-style-type: none"> <li>▪ Informal construction process (partly driven by ongoing iterative policy process)</li> <li>▪ Governance procedures to ensure systematic auditing/updating not yet developed</li> </ul>	<ul style="list-style-type: none"> <li>▪ For future sustainable draw re-visitations, create set of rules / guidelines for timeline / triggers of update and develop design principles to guide construction</li> </ul>
	Ownership	<span style="color: #4F81BD;">◐</span>	<ul style="list-style-type: none"> <li>▪ Unclear future ownership (partly driven by unclear end use of model)</li> </ul>	<ul style="list-style-type: none"> <li>▪ For future sustainable draw re-visitations, articulate clear owner(s) with auditing / updating rights</li> </ul>

# Each of the modeling methodology used by the DOR model to project critical fund inflow drivers is technically sound

Fund inflow driver projections	Description of DOR model methodology	Rationale for methodology
<p><b>Crude selling price</b></p> 	<p>Use of <b>probabilistic</b> analysis (PERT distribution) based on P10=\$31/bbl, P50=\$56/bbl, P90=\$87/bbl</p>	<ul style="list-style-type: none"> <li>▪ Probabilistic analysis accounts for volatility</li> <li>▪ Distribution method leverages preexisting DOR/ERG crude oil price projections</li> </ul>
<p><b>Production volume</b></p> 	<p>Use of <b>deterministic</b> analysis based on conservative base case (e.g., assuming no new project-driven increase in production)</p>	<ul style="list-style-type: none"> <li>▪ Not much volatility in the projections and hence no need for probabilistic analysis</li> </ul>
<p><b>Total return rate</b></p> 	<p>Use of <b>probabilistic</b> analysis (normal distribution) based on 6.9% mean rate of return and 13.9% standard deviation</p>	<ul style="list-style-type: none"> <li>▪ Objective and transparent methodology</li> <li>▪ Distribution method based on mean reversion methodology used by Callan</li> </ul>
<p><b>Statutory net income rate</b></p> 	<p>Use of <b>probabilistic</b> analysis (PERT distribution) based on based on P10=3.7%, P50=6.01%, P90=8.14%</p>	<ul style="list-style-type: none"> <li>▪ Probabilistic analysis accounts for volatility</li> <li>▪ Distribution based on data available from Callan statutory model (P10/50/90 distribution)</li> </ul>



## Based on the recommendations that came out of the model review, a series of actions were executed

Improvement identified	Changes made to model
<ul style="list-style-type: none"><li>▪ Build Earnings Reserve sufficiency test into the master model (versus using separate models to test Fund balance and ER sufficiency)</li></ul>	<ul style="list-style-type: none"><li>▪ Expanded model to include ER sufficiency analysis</li></ul>
<ul style="list-style-type: none"><li>▪ Adapt fully objective, repeatable source for investment returns (versus prior use of blended projected and historic returns rates)</li></ul>	<ul style="list-style-type: none"><li>▪ Changed source from a 50% historic/50% projected return to a 10 year deterministic projection from 3<sup>rd</sup> party (Callan)</li></ul>
<ul style="list-style-type: none"><li>▪ Update standard deviation of returns assumption to match Fund returns projections</li></ul>	<ul style="list-style-type: none"><li>▪ Changed standard deviation from use of Power Cost Equalization Fund deviation to deviation matched to returns source (Callan)</li></ul>
<ul style="list-style-type: none"><li>▪ Use most technically correct formulas and @Risk functions (e.g., calculation for geometric mean, @Risk and risk target function cross check)</li></ul>	<ul style="list-style-type: none"><li>▪ Executed tactical improvements (e.g., updated the formula to calculate geometric mean, revised at risk function to calculate cumulative confidence)</li></ul>

## Assumptions appear generally reasonable; returns projections are perhaps aggressive in the near term

- Requires no substantial review
- Need for review

	Assumption	Source <sup>2</sup>	Assessment of viability	Explanation
<b>Crude oil price</b>	<ul style="list-style-type: none"> <li>▪ 10<sup>th</sup> percentile @ \$31/bbl</li> <li>▪ Median @ \$56/bbl</li> <li>▪ 90<sup>th</sup> percentile @ \$87/bbl</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual expert conference held by DOR/ERG<sup>1</sup></li> </ul>		<ul style="list-style-type: none"> <li>▪ Roughly in-line with third-party estimates, albeit conservative</li> <li>▪ Objective use of DOR/ERG projections</li> </ul>
<b>Crude production</b>	<ul style="list-style-type: none"> <li>▪ Declining from 500k bbl/day in 2017 to 112k in 2040</li> </ul>	<ul style="list-style-type: none"> <li>▪ Survey of O&amp;G companies (with likelihood adjustments)</li> </ul>		<ul style="list-style-type: none"> <li>▪ In line with or below third-party estimates in short term; below 3<sup>rd</sup> parties in long-term due to AK LNG exclusion</li> <li>▪ Objective use of DOR/ERG projections</li> </ul>
<b>Total returns</b>	<ul style="list-style-type: none"> <li>▪ Mean 6.9%</li> <li>▪ Standard deviation 13.9%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Callan deterministic model (Dec 2015)</li> </ul>		<ul style="list-style-type: none"> <li>▪ In line with other available projections (e.g., 6.4% historic returns, 7.45% alternative probabilistic projection)</li> </ul>
<b>Statutory net returns</b>	<ul style="list-style-type: none"> <li>▪ 10<sup>th</sup> percentile at 3.7%</li> <li>▪ Median @ 6.01%</li> <li>▪ 90<sup>th</sup> percentile @ 8.14%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Callan probabilistic model (Dec 2015)</li> </ul>		<ul style="list-style-type: none"> <li>▪ Only viable estimate available (e.g., no other multi-year projections available)</li> </ul>

<sup>1</sup> Conference conducts Delphi-style methodology to arrive at PERT distribution

<sup>2</sup> DOR Probabilistic Model oil revenue inputs based on probabilistic PERT analysis of oil price (use of estimates for P10, P50 and P90 estimated values as per DOR sampling methodology and proprietary company specific data); may differ slightly from publically published DOR RSB estimates.

## Future iterations of the model could account more rigorously for future trends and second-order relationships

Potential model update	Description	Observations on impact
Future shifts in fund target or mandate	<ul style="list-style-type: none"> <li>SWF proposal requires Permanent Fund to <b>manage toward fixed stream of liabilities</b> (i.e. like a pension fund)</li> <li>Likely to entails <b>shift in strategy and potentially returns projections</b></li> </ul>	<ul style="list-style-type: none"> <li>Investment earnings are <b>single largest driver of success of SWF</b> (vs. O&amp;G taxes and royalties)</li> <li>Even small % changes in earnings therefore imply significant changes to fund value and sustainability</li> </ul>
Future shifts in fund allocation strategies	<ul style="list-style-type: none"> <li>Permanent Fund will <b>likely change investment strategies</b> in due course</li> <li>SWF proposal considers possibility of <b>bringing more investment in-house</b></li> </ul>	<ul style="list-style-type: none"> <li>Changes in investment strategy for a given asset class will alter <b>risk/return distributions</b></li> <li>Investing in-house will <b>reduce fees</b></li> </ul>
Liquidity constraints	<ul style="list-style-type: none"> <li><b>Clearer liability stream</b> will allow for more appropriate level of liquidity</li> <li><b>Liability driven investing</b> may introduce greater leverage to portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Reduced levels of liquidity and/or higher leverage may <b>exacerbate risk on extremes of market return distribution</b></li> </ul>
New tax proposals	<ul style="list-style-type: none"> <li>Current proposal would amend the tax credit system and <b>directly impact O&amp;G revenues going to the State</b></li> </ul>	<ul style="list-style-type: none"> <li>O&amp;G revenues are a <b>relatively small percent of revenue</b> in SWF model</li> <li>Short-term impact, however, could be significant to ensure stability of fund</li> </ul>

## The Cost of Delay

Waiting until next year to enact legislation correcting Alaska's fiscal imbalance will:

1. Forever reduce the amount that can be sustainably drawn from our financial assets;
2. Compromise the sustainability of any endowment plan;
3. Risk a downgrade of the state's credit rating; and
4. Damage Alaska's economy.

Some of these impacts can be quantified now; the magnitude of others is uncertain. They are all significant. More importantly, by providing a comprehensive solution to our fiscal challenge this year, these costs can be avoided.

The centerpiece of the New Sustainable Alaska Plan, the Alaska Permanent Fund Protection Act (APFPA) establishes a new fiscal framework to address the bulk of this year's budget gap. This new framework redirects volatile petroleum revenues to the permanent fund and then provides a sustainable and consistent \$3.3 billion endowment draw from the permanent fund as the primary funding source for unrestricted general fund expenditures. More than helping to resolve this year's fiscal challenge, the APFPA provides the foundation for a sustainable and balanced fiscal future. But, delay compromises our ability to execute this, or any other, plan to correct the fiscal imbalance.

1. Delay permanently reduces the amount of the sustainable draw, a reduction that must be offset by additional cuts or higher taxes.

Without fiscal reform this year, we will continue to spend from our savings to fill the fiscal gap. But, drawing more than a sustainable amount from our savings in the near-term reduces the amount that the fund can sustainably produce going forward. The shortfall resulting from a lower sustainable draw will have to be addressed through additional cuts or additional new revenues.

A one year delay reduces the how much our savings can generate by \$150 million – annually. Compensating for that loss would require measures equivalent to doubling the proposed mining, fishing, tobacco, alcohol, and motor fuel tax increases. Four years of delay would require measures equivalent to more than doubling the proposed income tax or eliminating the dividend program.

Years of Delay	Draw Reduction
1	\$150 million
2	\$325 million
3	\$400 million
4	\$500 million

2. Delay will compromise the sustainability of any endowment plan as the risk of depleting the limited funds available for appropriation increases.

The availability of funds to maintain a steady level of spending through years of low revenue is essential to any plan for an endowment draw from the Permanent Fund. Endowment draws are calculated on the value of the entire endowment base. But, in the case of the Permanent Fund, spending from the corpus is constitutionally prohibited. Consequently, there is a risk that over several years of low annual revenues a draw that is “sustainable” with respect to the value of the entire fund could deplete the funds available for spending.

To mitigate this risk, the APFPA proposes maintaining a target balance of four times the sustainable draw in the earnings reserve account (ERA), including a transfer of \$3 billion from the Constitutional Budget Reserve (CBR) in FY17.<sup>1</sup> But, under current levels of spending and expected revenues,<sup>2</sup> the CBR will likely be depleted by the end of FY19 and the ERA will follow by the end of FY22.<sup>3</sup> Delay and status quo spending (exceeding sustainable levels by \$2 billion) compromise the availability of the \$3 billion from the CBR and increases the risk of depleting the ERA –leaving the state with few options other than spending from the Permanent Fund corpus.

3. Delay risks a downgrade of the state’s credit rating.

Both Standard and Poor’s and Moody’s credit rating agencies have downgraded Alaska’s credit rating and cautioned that further downgrades may follow if lawmakers fail to address the structural imbalance between state spending and revenues this year. The nation’s third major rating agency, Fitch Ratings issued a clear caution that failure to address the state’s fiscal imbalance will result in a credit downgrade. The consequences of a downgrade are real.

While a downgrade would not wholly undermine the good reasons for bonding, it would increase the cost. For example, if a downgrade to A2 represents a 52-basis-point increase in the cost of borrowing, Alaska will pay an additional \$100 to \$150 million for just the \$1.2 billion of general obligation bonds anticipated as potentially issuable in the next two years.<sup>4</sup> If interest rates rise, direct cost impacts will be amplified.

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<sup>1</sup> The remaining CBR balance is allocated to other purposes under the New Sustainable Alaska Plan (NSAP).

<sup>2</sup> Current levels of spending include: UGF expenditures of \$5.2 billion per year, status quo annual inflation proofing of the Permanent Fund corpus, and dividends distributed under the current formula. Annual revenues include: petroleum revenues as set out in the APFPA model and around \$800 million of other stable UGF revenues.

<sup>3</sup> Perhaps more worrisome, there is a substantial chance of depleting Alaska’s savings even sooner. Even if the Alaska Permanent Fund Corporation (APFC) achieves the average long-term statutory return of 6.01% over the next few years (the assumption used for the expected case), there is a 17% probability that the CBR may be depleted by FY18 and a 21% probability that the ERA may be depleted by FY21.

<sup>4</sup> This \$1.2 billion includes \$423 million of approved general obligation bonds, \$300 million in state supported bonds, and \$500 million in general obligation bonds for the state’s capital budget.

But, those increased direct costs are minor compared to the broader significance of the credit ratings for the state's economy. The ratings provide a market-based metric for the state's economic health and investor confidence. As our rating falls, as a result of a failure to address the state's revenue imbalance, it will impact consumer and investor confidence as discussed below

4. Delay will damage Alaska's economy.

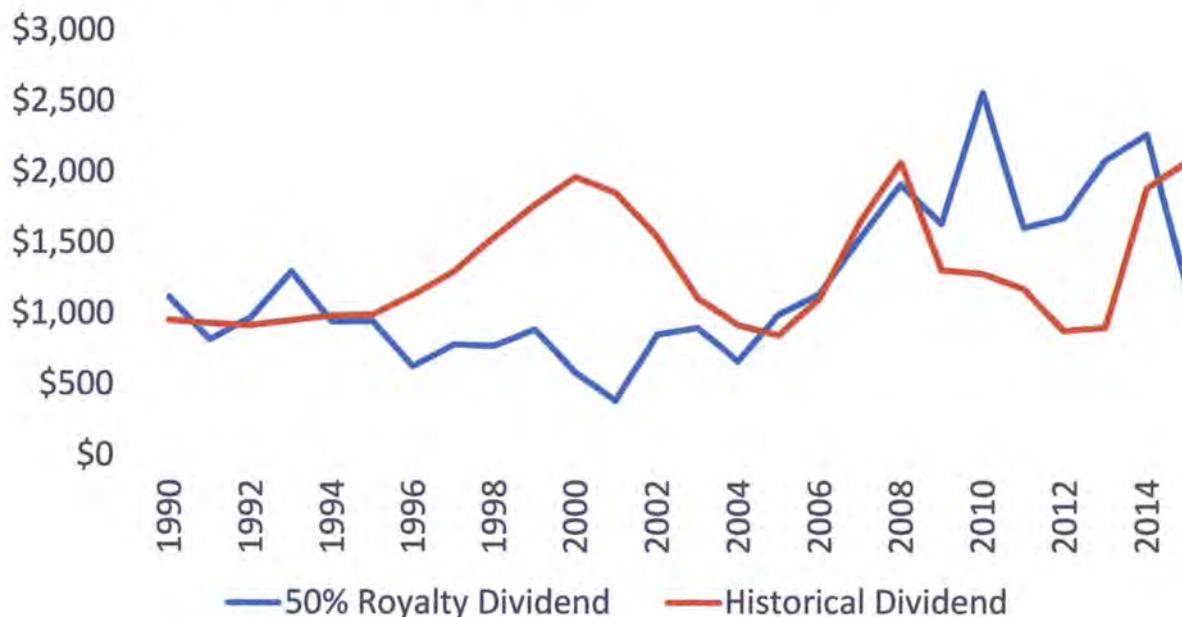
Failing to articulate a pathway for the sustainable use of our financial assets and a plan to stabilize the state budget will degrade investor and consumer confidence, increasing the chance of a statewide economic downturn. A measureable contraction in Alaska's economy would mean a shrinking job market, outmigration, and reduced home values. The longer it takes for the state to correct our current fiscal imbalance, the more investor confidence will erode and the greater the damage to the broader state economy.

HB 245 (Alaska Permanent Fund Protection Act)  
February 25, 2016

## Dividend Comparison

Created by Department of Revenue, Economic Research Group

The accompanying chart reflects a comparison of the historic dividends and a hypothetical dividend reflecting the formula proposed in the Alaska Permanent Fund Protection Act, beginning in 1990. The historic dividends distributed approximately 50% of the Permanent Fund's realized earnings. The APFPA proposes a dividend formula that distributes 50% of mineral royalties.



The comparison shows:

1. Year-to-year, the two formulas would have produced different dividend amounts.
2. Both formulas reflect the significant volatility of the respective underlying revenue sources – investment income and mineral royalties.
3. Overall, the formulas would have distributed approximately the same amount to dividend recipients:
  - a. Since 1990, under the current formula (which distributes approximately half of 21% of the last 5 years of the realized earnings) the Permanent Fund has distributed \$19.9 billion to dividend recipients.
  - b. If, over the same period, the Permanent Fund had calculated dividends based on 50% of mineral royalties the dividend would have distributed \$19.2 billion.

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# ALASKA PERMANENT FUND PROTECTION ACT

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Randall Hoffbeck, *Commissioner of Revenue*

Craig W. Richards, *Attorney General*



House Finance Committee  
February 15, 2016

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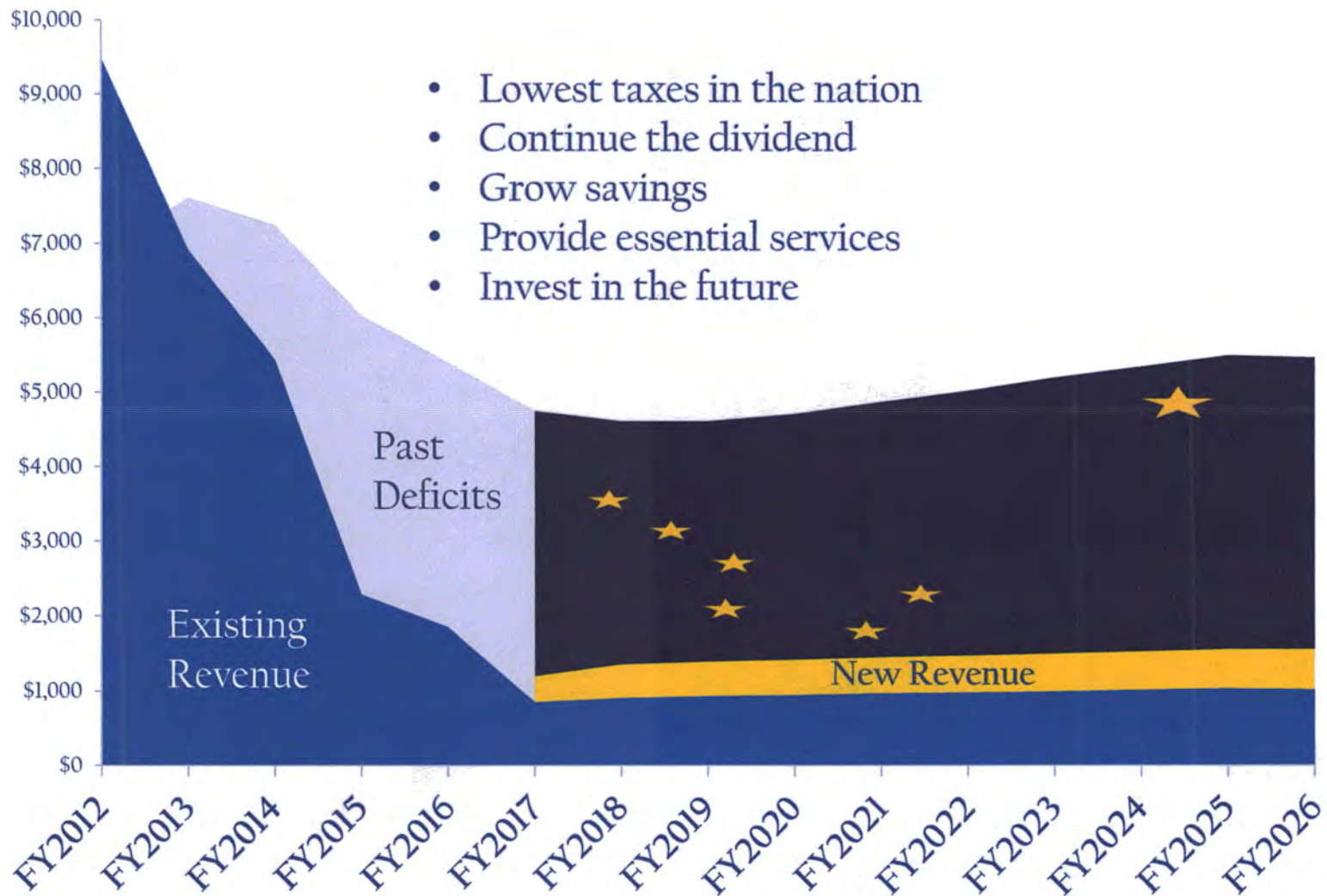
# INTRODUCTION

# THE NEW SUSTAINABLE ALASKA PLAN

FY16 Budget	\$5.2 billion
Alaska Permanent Fund Protection Act	\$3.3
Revenue from existing taxes and fees	\$0.85
Earnings on savings	<u>\$0.135</u>
	<b>\$4.285</b>
<b>Spending reductions (est.)</b>	
Net cuts in FY17 (additional cuts of \$0.1 through FY19)	(\$0.1)
Reform O&G Tax Credits	<u>(\$0.4)</u>
	<b>(\$0.5)</b>
<b>New Revenue Components (est.)</b>	
Mining	\$0.006
Fishing	\$0.018
Tourism	\$0.015
Motor Fuel	\$0.049
Alcohol	\$0.040
Tobacco	\$0.029
Oil and Gas	\$0.1
Individual Alaskans (Income Tax)	<u>\$0.2</u>
	<b>\$0.457</b>



# THE NEW SUSTAINABLE ALASKA PLAN



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# ALASKA PERMANENT FUND PROTECTION ACT

1. Sustainably draw from the Earnings Reserve
2. Minimize oil price volatility in the General Fund
3. Adjust the dividend





The Fiscal Challenge

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## DEFINING THE PROBLEM

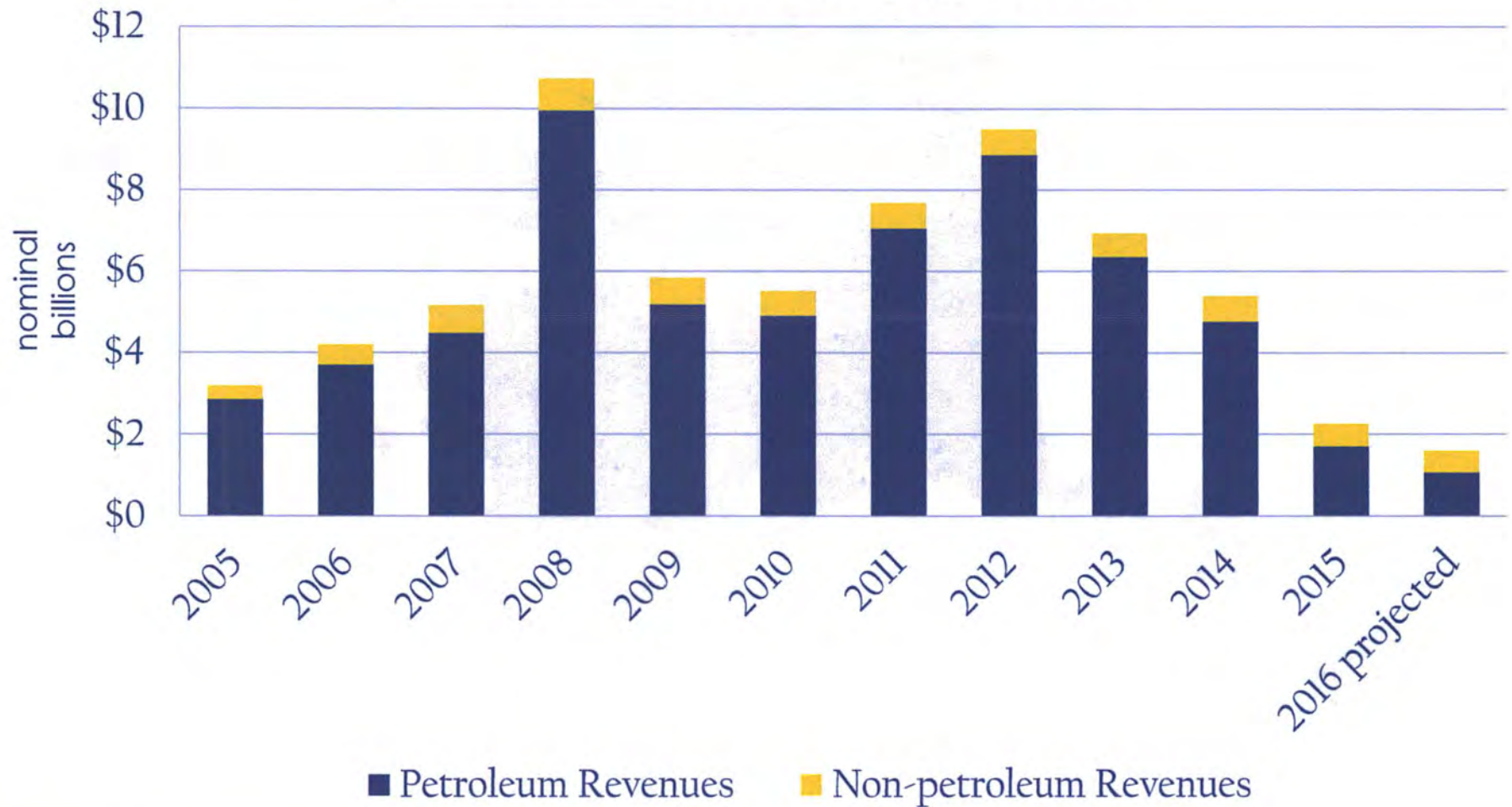
# DEFINING THE PROBLEM

- Short-Term:
  - Drop in oil prices has resulted in large budget gaps
  
- Medium-Term:
  - State savings will be spent in about 4 years
  - Uncorrected, state budget hole will damage Alaska's economy
  - Dividend payments are unsustainable under the status quo
  
- Long-Term:
  - State's undiversified budget is highly dependent on petroleum revenues
  - There has been a declining trend in North Slope petroleum production
  - Cyclicalities in petroleum prices creates an unstable state budget and economy

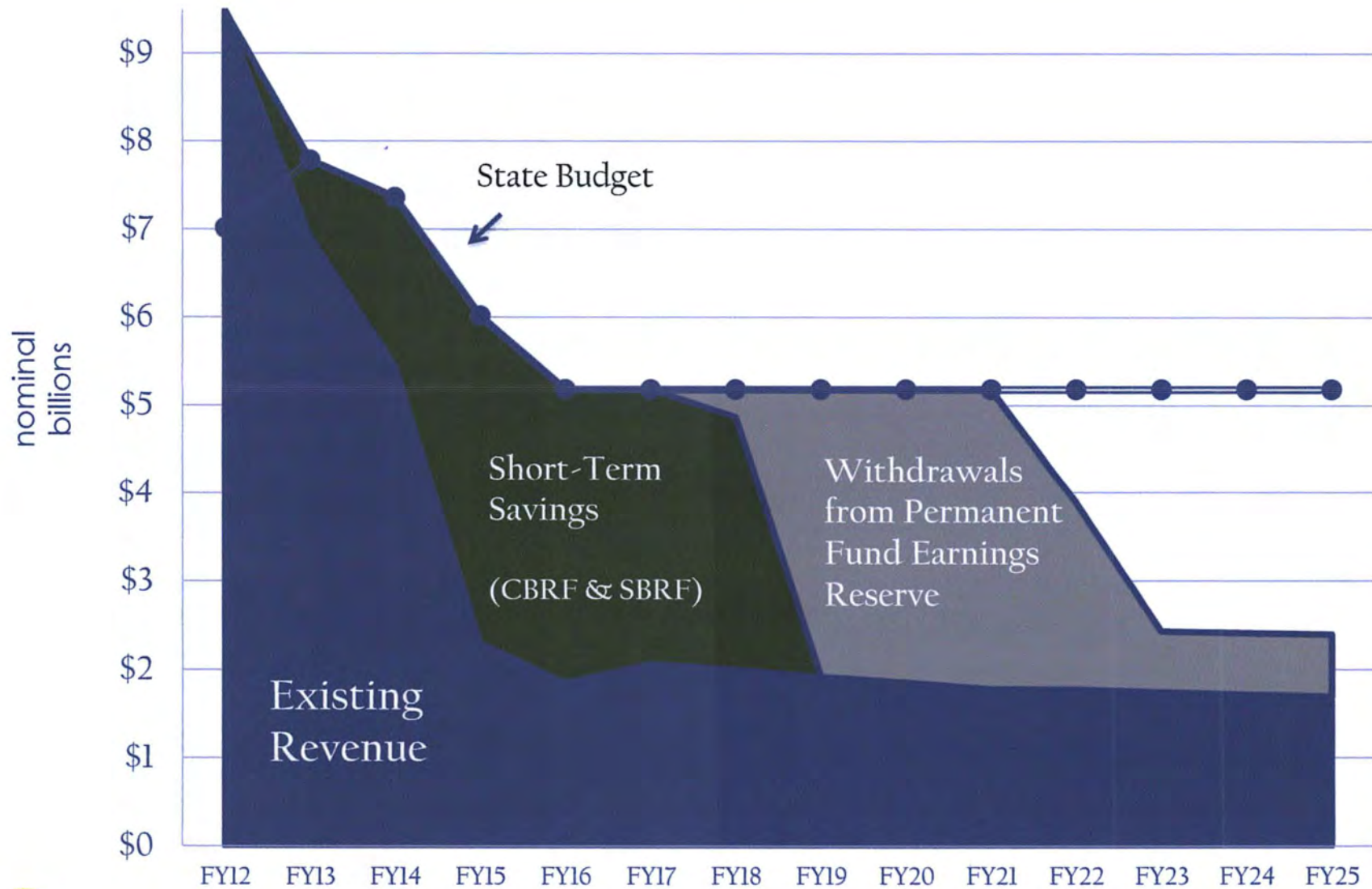


# SHORT-TERM PROBLEM

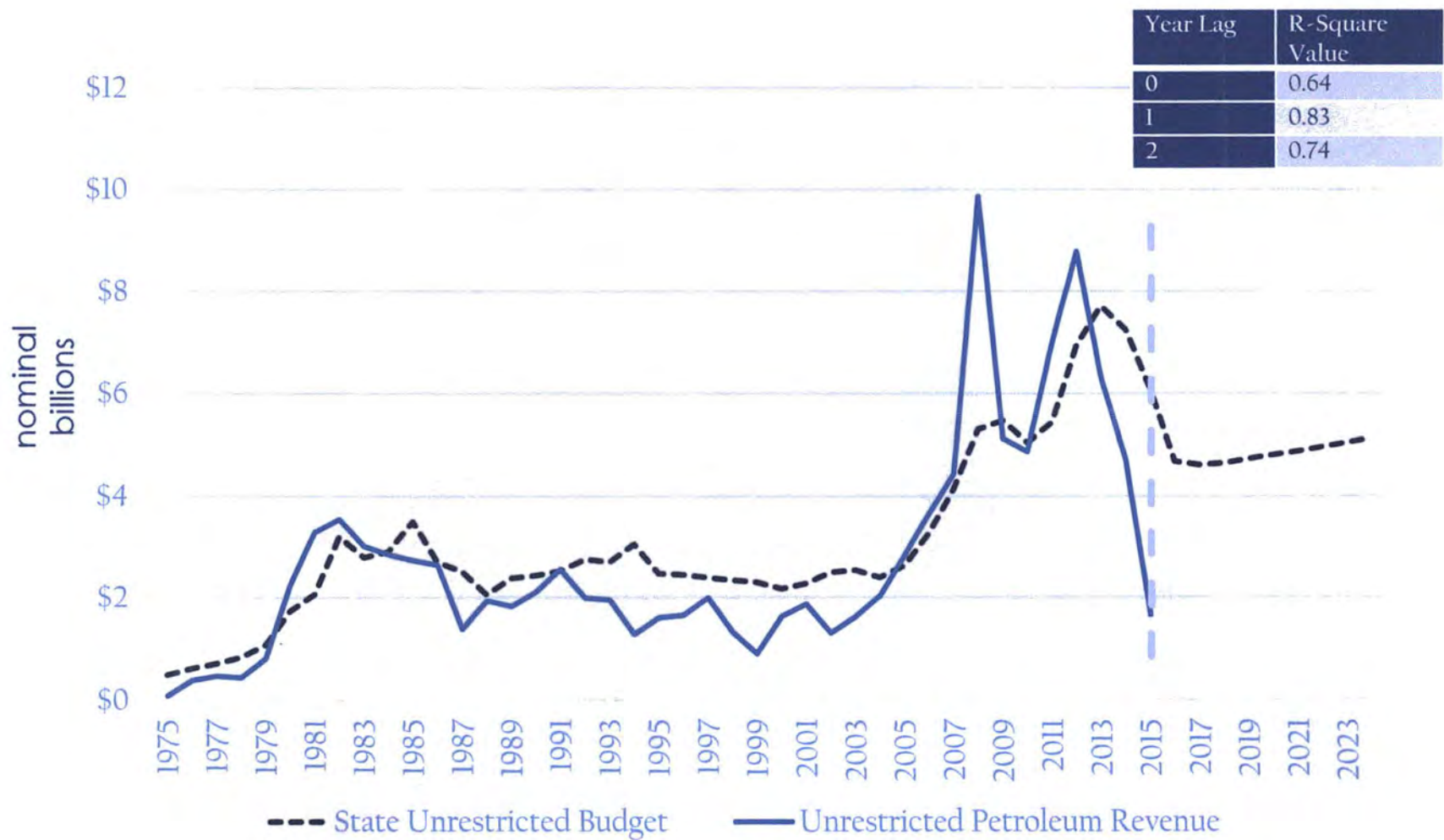
Alaska's Unrestricted General Fund Revenue



# MEDIUM-TERM PROBLEM



# LONG-TERM PROBLEM





A Solution: the Alaska Permanent Fund Protection Act

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## **BILL OVERVIEW**

# OVERVIEW

1. **\$3.3 billion endowment draw for the General Fund**
  - Rising by inflation starting in 2020
  - Sustainable
2. **100% of production taxes and royalties go into the Permanent Fund**
  - 25% of royalties always go the Corpus
  - Remainder allocated to maintain target balance
3. **Dividends equal to 50% of prior year's royalties paid from Earnings Reserve**



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# ALASKA PERMANENT FUND PROTECTION ACT

1. Protect the corpus
2. Protect the dividend
3. Grow the fund
4. Stabilize the budget
5. Stabilize the economy





Fiscal Policy for Alaska

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# ANALYSIS OF OPTIONS

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# THE PERMANENT FUND

*“I wanted to transform  
oil wells pumping oil for a finite period into  
money wells pumping money for infinity.”*

~ Governor Hammond (1976)



# RULE-BASED FISCAL POLICY

- **Volatility Rule**
  - In the Permanent Fund
  - Some in the dividend
- **Spending Rule**
  - Draw: fixed \$3.3 billion with periodic review
  - Dividend: 50% of annual mineral royalties to Alaskans
- **Savings Rule**
  - 25% of mineral royalties to corpus
  - Presumption of savings when revenues peak
  - Appealed royalties and production taxes continue to flow to CBR
- **Growth Rule**
  - Assets grow with inflation
  - Opportunities for additional growth assigned to the corpus and dividend
- **Protection Rule**
  - Preserve constitutional protection of the corpus
  - Transfers funds in excess of earnings reserve target balance to the corpus
  - Earnings reserve durability tested

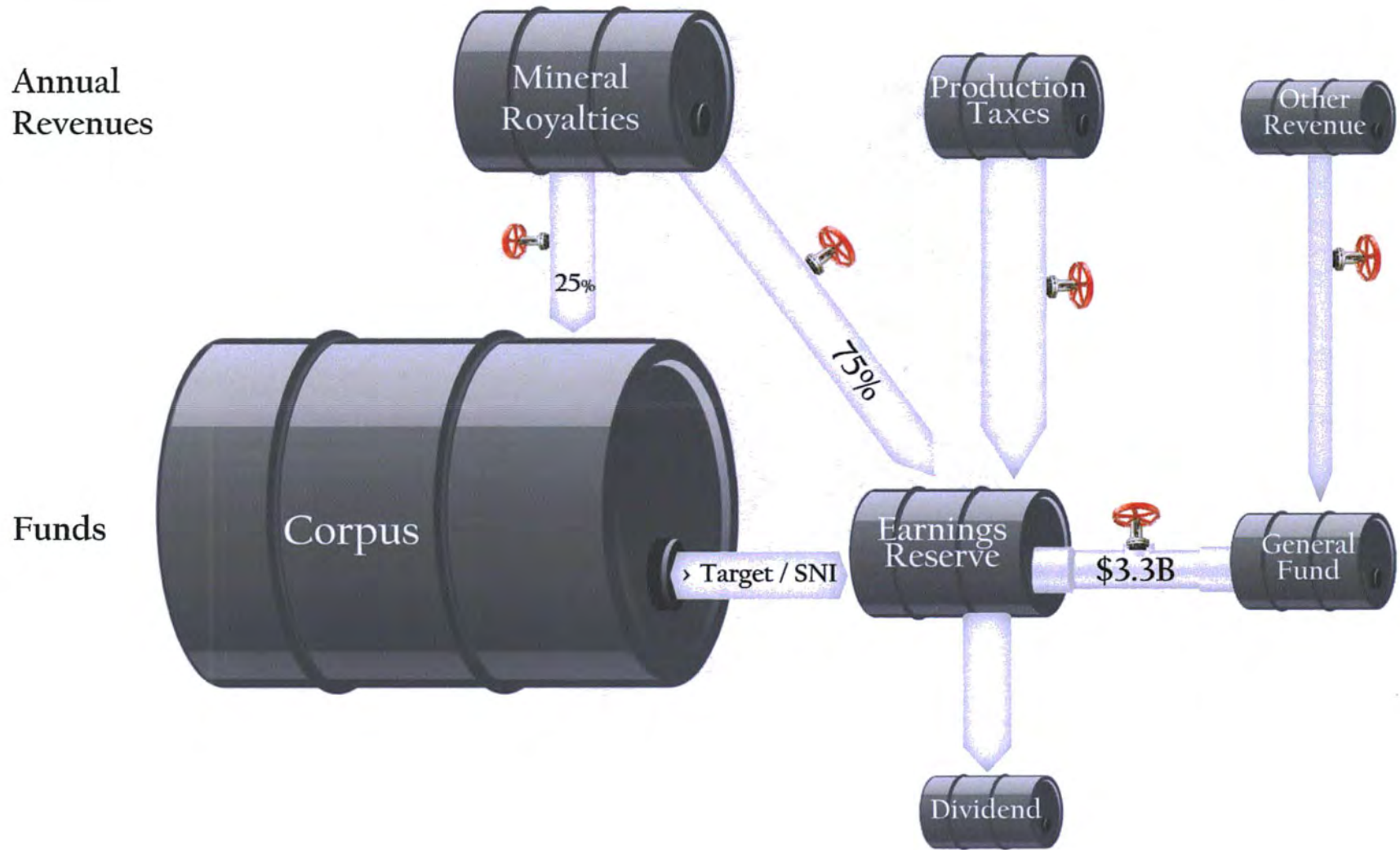


# DEFINING “SUSTAINABLE”

- Protect the Corpus
- Earnings Reserve Durability
- Inflation Proofing
  - Maintain the real value of the Permanent Fund
  - Transfers to the Corpus



# APFPA CASH FLOWS



# HOW TO HANDLE THE DRAW

Status quo sustainable draw = \$2.4 billion

Funds to the general fund = \$2.4 billion – dividend payout (\$1.4 billion in FY16)

## POMV:

- Draw self-adjusts
  - Lower chance of depletion
  - Less fund growth potential
  - No periodic review
- Year-to-year budget volatility
- Rule incorporating petroleum revenue is complex
- Must be on net value of assets

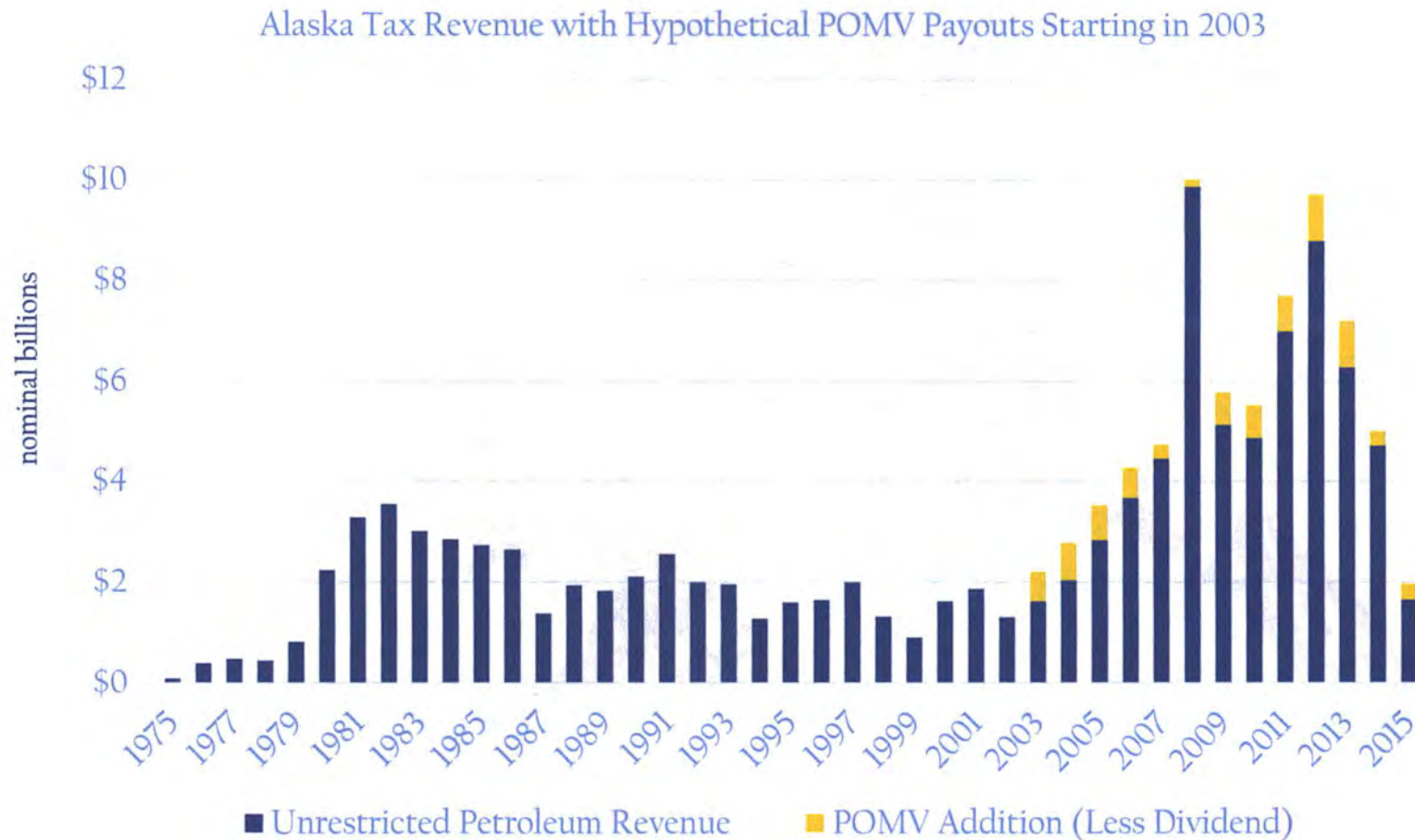
## FIXED:

- Draw does not self-adjust
  - Greater chance of depletion
  - Greater fund growth potential
  - Requires periodic review
- Stability for the budget
- Incorporating petroleum revenue not complex



# HOW TO HANDLE THE DRAW

A simple endowment draw adds revenue, but does not address volatility



# CALCULATING THE DRAW

## The Financial Model

- Probabilistic: provides range of potential outcomes
- Starting Assets = \$55B
  - \$45B in Corpus
  - \$7B in Earnings Reserve
  - \$3B from CBR
- Inflation = 2.25%
- Investment Returns
  - Total Return = 6.90%
  - Statutory Net Income = 6.01%



# CALCULATING THE DRAW

## The Petroleum Model

- Oil price
  - Mean value from probabilistic distribution
  - Inputs – a range of prices for each year – from revenue forecasting session
  - Same underlying data used for the Revenue Sources Book, but the RSB uses only a single price (the median) from the forecasting session
- Production volumes and costs
  - Same forecast as Revenue Sources Book (Fall 2015)
  - Conservative
- Shortcut Model
  - Input the above oil price, production volume, and costs
  - Deterministic calculation of annual production tax and royalty revenues



# CALCULATING THE DRAW

## Annuity-Like Fixed Payment to the General Fund

Starting Balance = \$55 billion

+ Inflows =

- Investment income
- 100% production taxes
- 100% royalties

- Outflows =

- Expenses
- Dividend
- Draw (inflation increase delayed until 2020)

= End-of-Year Balance

... **\$3.3 billion** annuity from financial and petroleum wealth  
(2040 Balance = 2016 Balance + Inflation)



# EARNINGS RESERVE DURABILITY

- Target balance: 4 times the prior year draw
  - If Earnings Reserve at target balance:
    - 100% of production taxes and 50% of royalties deposited in Corpus
    - 50% of royalties deposited in Earnings Reserve
  - If Earnings Reserve under target balance:
    - Up to 100% of taxes & 75% of royalties deposited in Earnings Reserve
    - Minimum of 25% of royalties deposited in Corpus
  - If Earnings Reserve over target balance:
    - Excess transferred to the Corpus
- **\$3 billion transfer from the CBR**



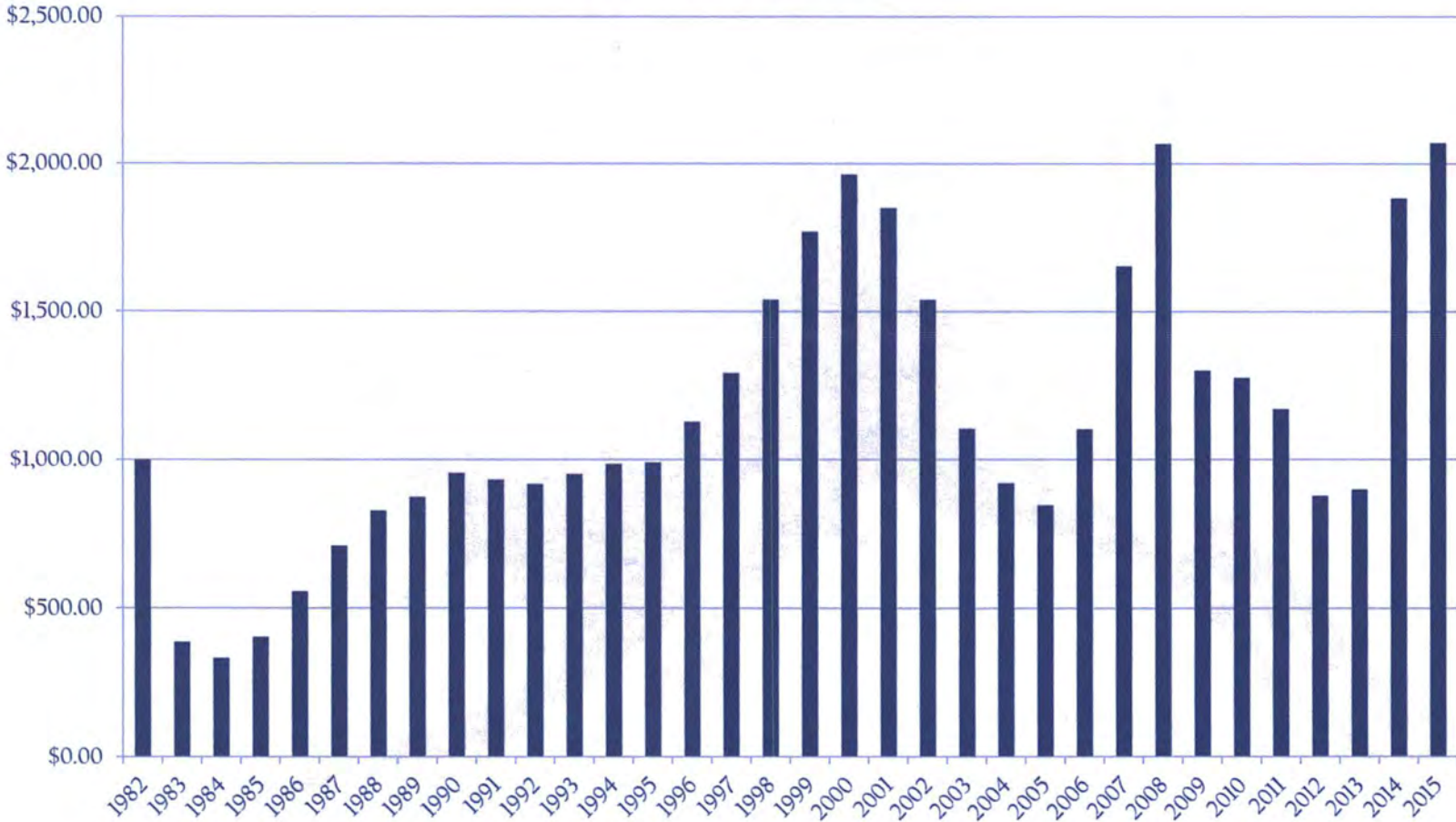
# EARNINGS RESERVE DURABILITY

- Robust Earning Reserve Cash Inflows
  - \$3B transfer from the CBR
  - Statutory Net Income
  - Petroleum revenue
- Long-Lead Adjustment Opportunities
  - 4:1 coverage ratio
  - Periodic review
  - Robust modeling
  - Sufficient time to react



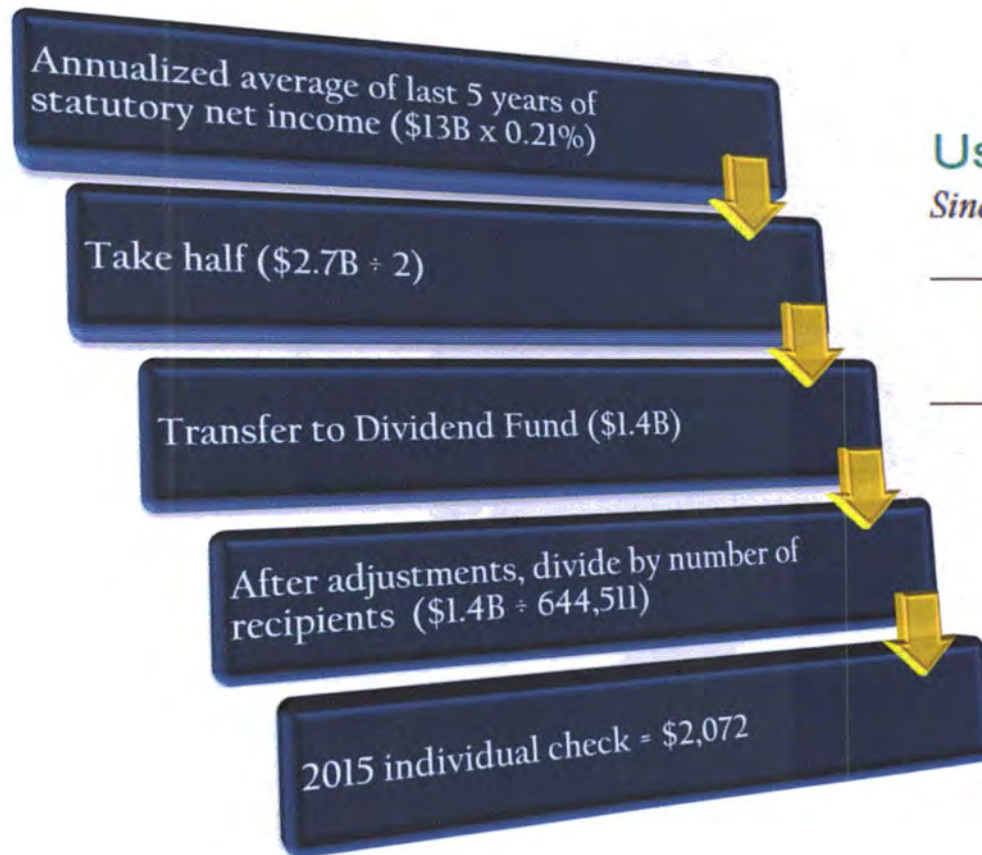
# HOW TO HANDLE THE DIVIDEND

Historic Dividends



# HOW TO HANDLE THE DIVIDEND

The current formula distributes 50% of realized gains



## Use of Fund Income *Since inception (in billions)*



<span style="color: orange;">■</span> 46% Paid out to Current Generations	23.5
<span style="color: green;">■</span> 54% Saved for Future Generations	27.7



*“the Board recognizes that ... a POMV  
spending limit methodology ... may  
necessitate changes to ... the  
Permanent Fund Dividends”*

APFC Board Resolution 03-05



# HOW TO HANDLE THE DIVIDEND

## \$1,000 Flat Dividend

- Costs about \$650 million per year
- Compared to 50% royalty dividend, reduces the sustainable draw by about \$200 million per year

## Royalty Dividend


- 50% of Alaska's ownership share of oil revenue
- Reflects our success as a state and connects Alaskans to the economy
- Increases or decreases according to what we can afford



# PERIODIC REVIEW

- Flexibility to adjust the draw downward
- Schedule: 2017, 2020, then every 4 years
- Consistent methodology
  - Variables
  - Sustainability metric
- Report, supporting data, and analysis publically available





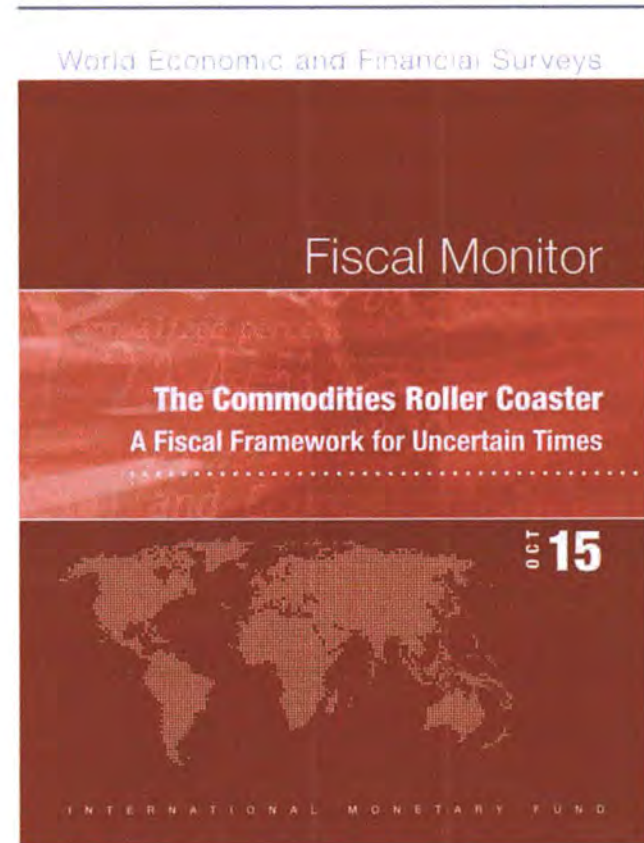
Solving the Long-Term Challenge

---

# FISCAL POLICY FOR OIL ECONOMIES

# GOVERNMENT SPENDING & THE ECONOMY

- *The Commodities Roller Coaster* – the International Monetary Fund studied 85 economies over 3 decades
- Government spending in commodity-based economies tends to move up and down with commodity revenue
- Pro-cyclical government spending stunts economic growth
- Stabilizing fiscal policy has the inverse effect, increasing GDP growth by 0.3% annually



# BREAK-EVEN OIL PRICE

- A widely used rule-of-thumb measure of the oil price required to balance the government budget in any given year
- Options for petroleum states to bring down break-even oil prices are generally
  - Diversify revenues through other types of taxation
  - Use sovereign wealth assets
- Alaska: \$109

Country	Break-Even Oil Price (2015)
Norway	\$40
Kuwait	\$54
Abu Dhabi	\$55
Russia	\$105
Saudi Arabia	\$106
Nigeria	\$122
Iran	\$131
Algeria	\$131
Venezuela	\$160



# ALASKA: IN THE MIDDLE

Alaska lacks

- Revenue diversity
- Fiscal rules to address pro-cyclical spending

But, like Norway, Kuwait, and Abu Dhabi, Alaska has

- A large sovereign wealth fund
- Proven experience with rule-based fiscal policy
- An independent investment authority

Alaska has a cash flow problem, not a wealth problem.





Solving the Problem this Year

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# THE COST OF DELAY

---

## DELAY WILL . . .

- Risk the sustainability of an endowment plan
- Reduce the sustainable draw
- Risk a downgrade of Alaska's credit rating
- Damage Alaska's economy





Alaska Permanent Fund Protection Act

---

# THE BILL

# ALASKA PERMANENT FUND PROTECTION ACT

- **Section 1: Revenue to the Corpus**
- Section 2: ERA “target balance”
- Section 3: Conforming Amendment
- **Section 4: ERA transfer to Dividend Fund**
- **Section 5: ERA transfer to Corpus**
- **Section 6: Revenue to the ERA, Draw, and Periodic Review**
- Section 7: Conforming Amendment
- Section 8: Conforming Amendment
- Section 9: \$1,000/person dividend in 2016
- Section 10: Effective July 1, 2016



# ALASKA PERMANENT FUND PROTECTION ACT

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1. Volatile petroleum revenue to the Permanent Fund
2. Stable endowment draw to the General Fund
3. Continued dividend for Alaskans





ALASKA STATE LEGISLATURE  
HOUSE FINANCE COMMITTEE

State Capitol, Room 519

Rep. Mark Neuman, Co-Chair

Rep. Steve Thompson, Co-Chair

Monday, February 15, 2016  
1:30 PM

Agenda:

HB 245-PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

Governor - Department of Revenue

*Invitation Only - Testimony*

Presentation Testifying in Person:

Randall Hoffbeck, Commissioner, Department of Revenue

Craig Richards, Attorney General, Department of Law



ALASKA STATE LEGISLATURE  
**HOUSE FINANCE COMMITTEE**

State Capitol, Room 519

Rep. Mark Neuman, Co-Chair

Rep. Steve Thompson, Co-Chair

Tuesday, February 2, 2016

1:30 PM

Agenda:

**HB 245-PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS**

Presenting and Testifying in Person:

Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue -  
Brief Introduction

John Tichotsky, Chief Economist, Tax Division, Department of Revenue - 1st  
PowerPoint - Alaska's Economic Story

Randall Hoffbeck, Commissioner, Department of Revenue - 2nd PowerPoint

Craig Richards, Attorney General, Department of Law - 2nd PowerPoint

NO ONLINE TESTIFIERS

*✓* Statement from JT

*JT*

# ALASKA PERMANENT FUND PROTECTION ACT

---

Randall Hoffbeck, *Commissioner of Revenue*

Craig W. Richards, *Attorney General*



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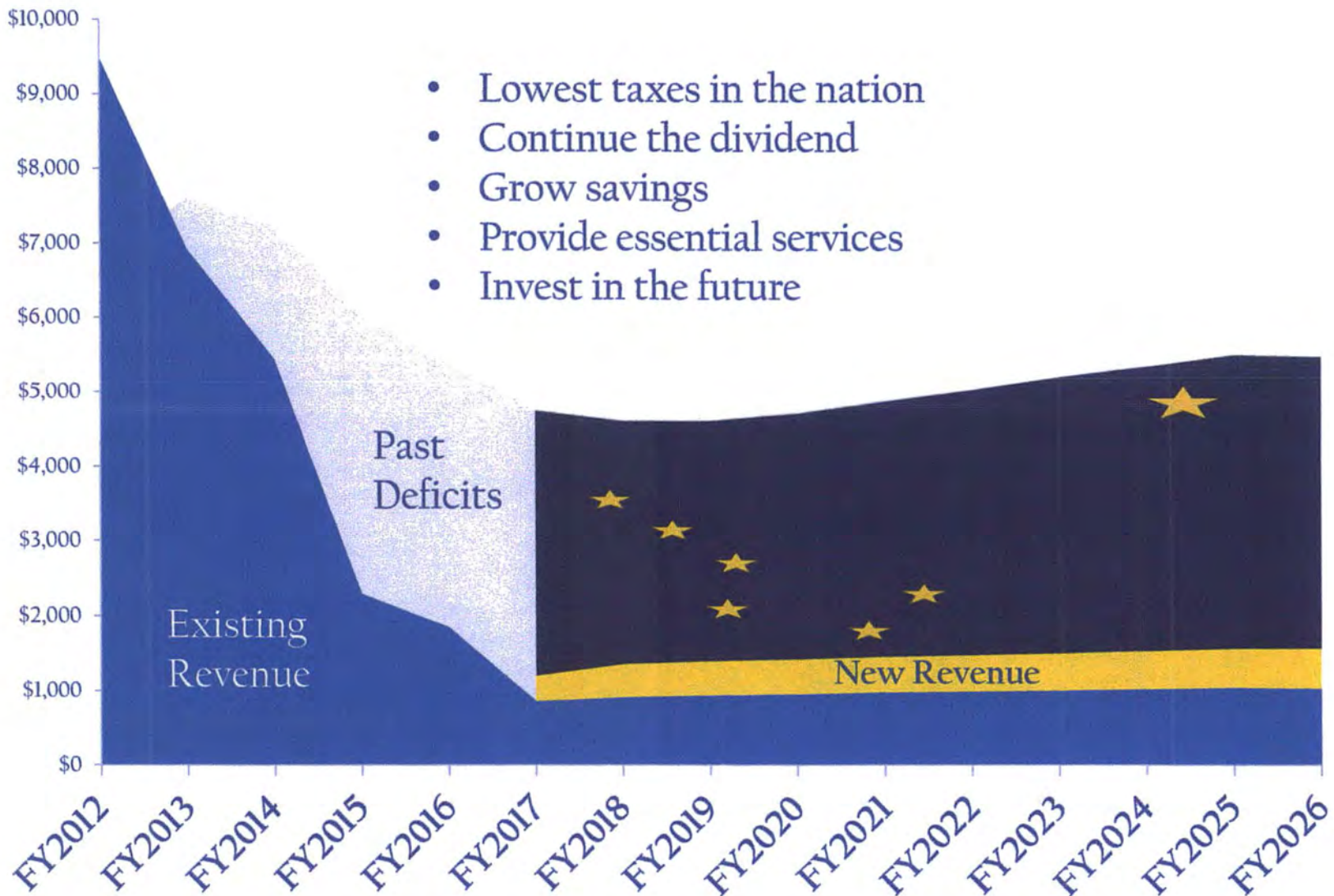
# INTRODUCTION

# THE NEW SUSTAINABLE ALASKA PLAN

FY16 Budget	\$5.2 billion
Alaska Permanent Fund Protection Act	\$3.3
Revenue from existing taxes and fees	\$0.85
Earnings on savings	<u>\$0.135</u>
	<b>\$4.285</b>
Spending reductions (est.)	
Net cuts in FY17 (additional cuts of \$0.1 through FY19)	(\$0.1)
Reform O&G Tax Credits	<u>(\$0.4)</u>
	<b>(\$0.5)</b>
New Revenue Components (est.)	
Mining	\$0.006
Fishing	\$0.018
Tourism	\$0.015
Motor Fuel	\$0.049
Alcohol	\$0.040
Tobacco	\$0.029
Oil and Gas	\$0.1
Individual Alaskans (Income Tax)	<u>\$0.2</u>
	<b>\$0.457</b>



# THE NEW SUSTAINABLE ALASKA PLAN



# ALASKA PERMANENT FUND PROTECTION ACT

1. Sustainably draw from the Earnings Reserve
2. Minimize oil price volatility on the General Fund
3. Adjust the dividend





The Fiscal Challenge

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## DEFINING THE PROBLEM

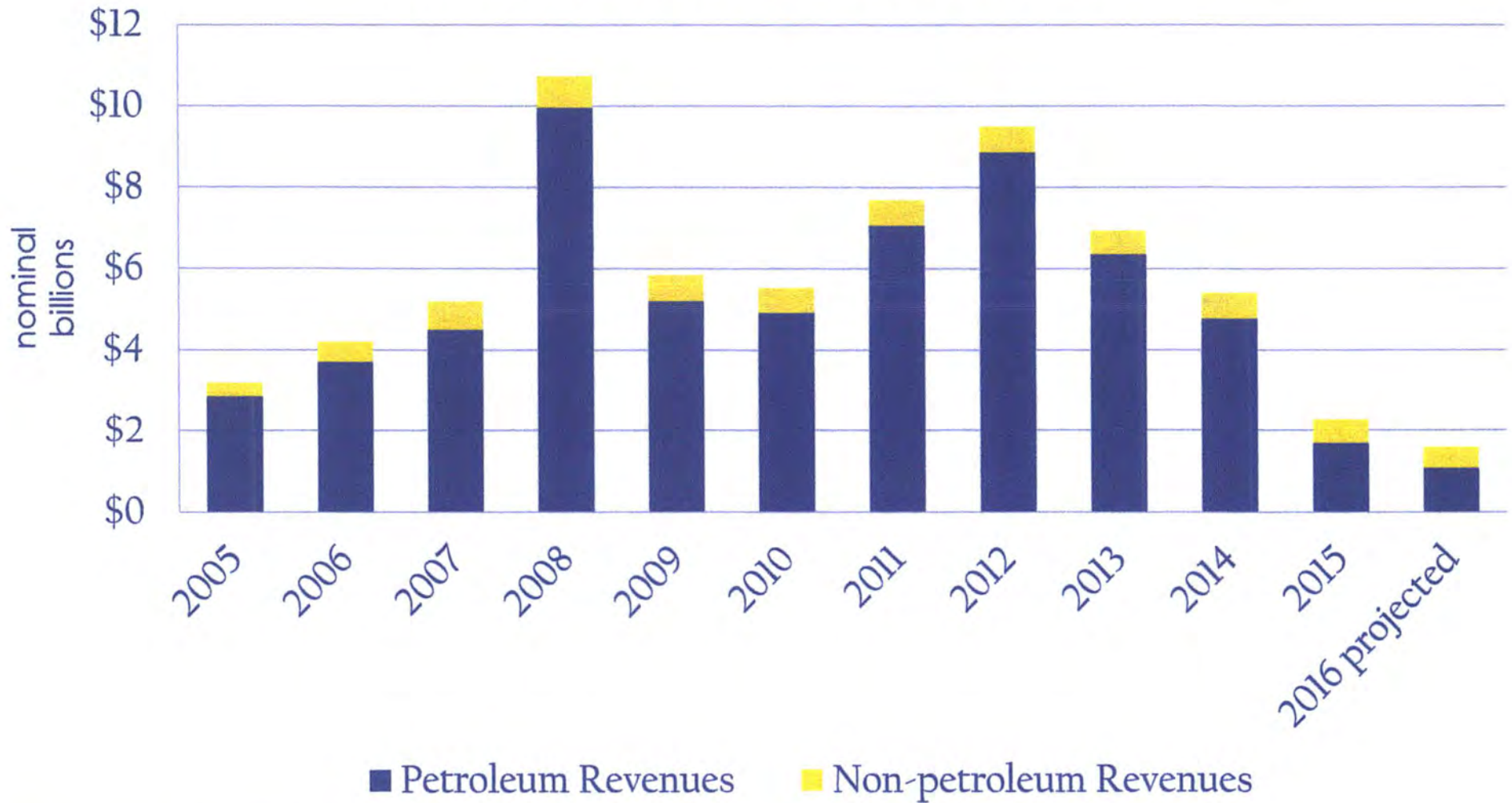
# DEFINING THE PROBLEM

- Short-Term:
  - Drop in oil prices has resulted in large budget gaps
  
- Medium-Term:
  - State savings will be spent in about 4 years
  - Uncorrected, state budget hole will damage Alaska's economy
  - Dividend payments are unsustainable under the status quo
  
- Long-Term:
  - State's undiversified budget is highly dependent on petroleum revenues
  - There has been a declining trend in North Slope petroleum production
  - Cyclicity in petroleum prices creates an unstable state budget and economy

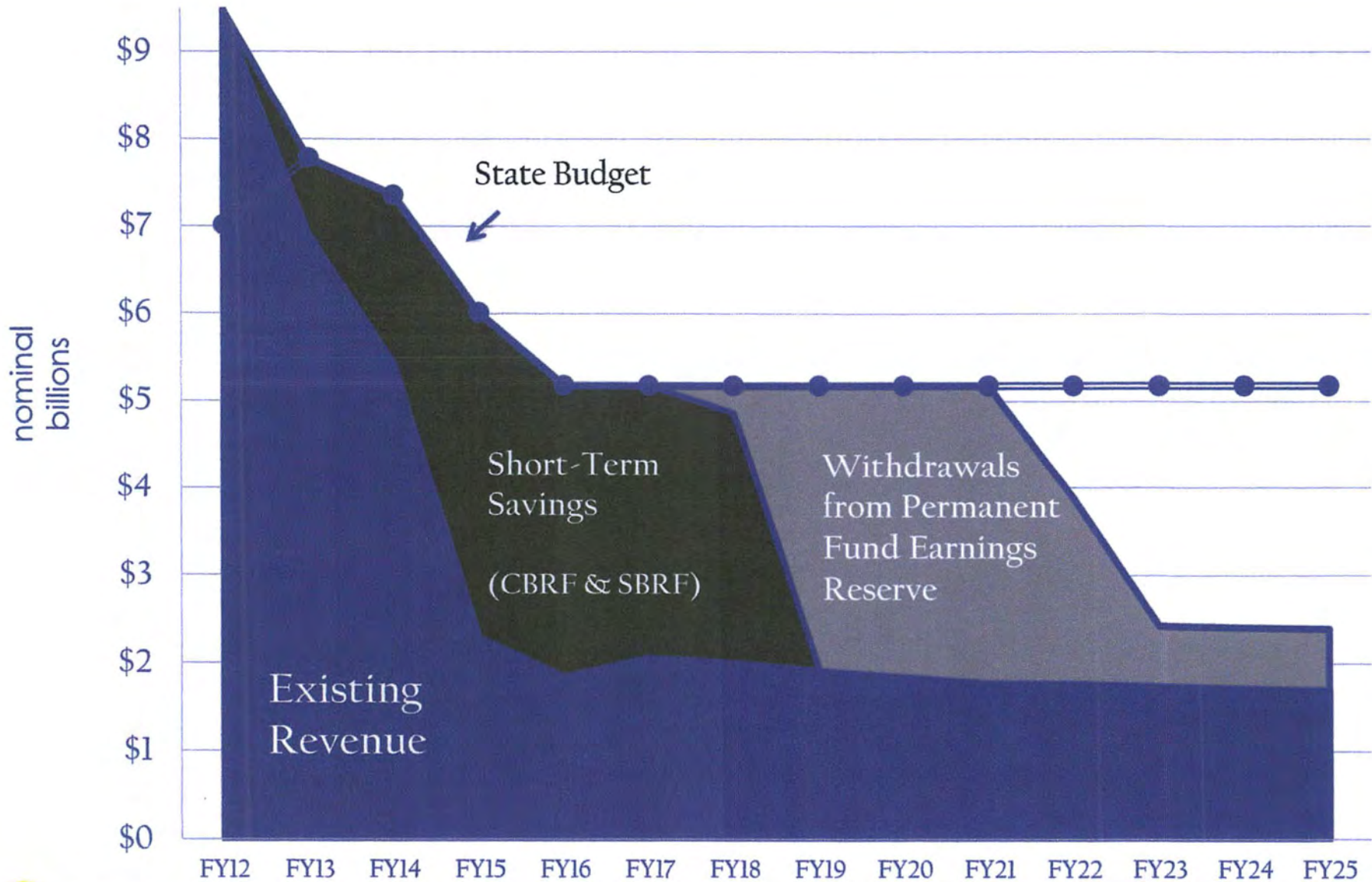


# SHORT-TERM PROBLEM

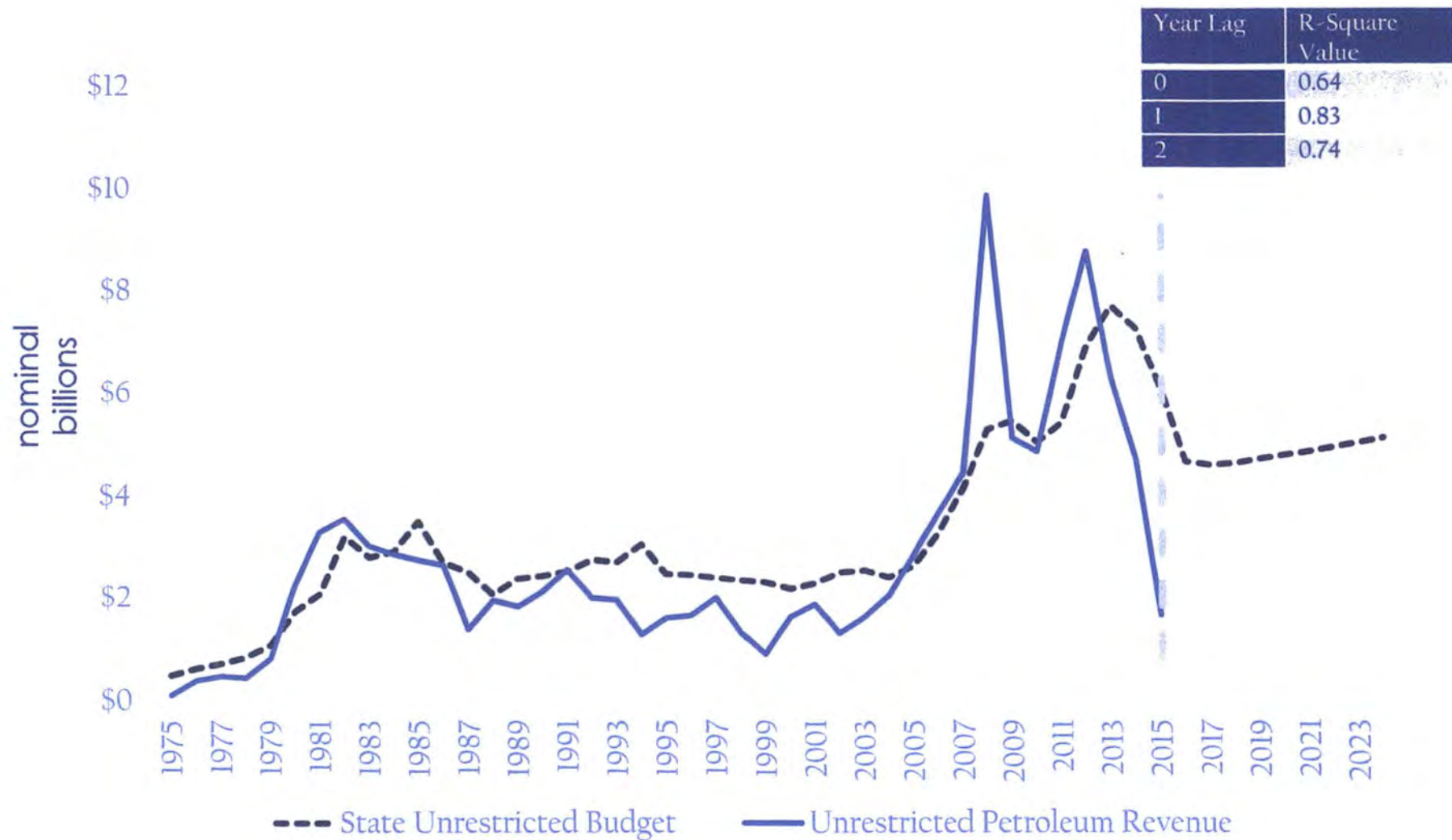
Alaska's Unrestricted General Fund Revenue



# MEDIUM-TERM PROBLEM



# LONG-TERM PROBLEM



Solving the Long-Term Challenge

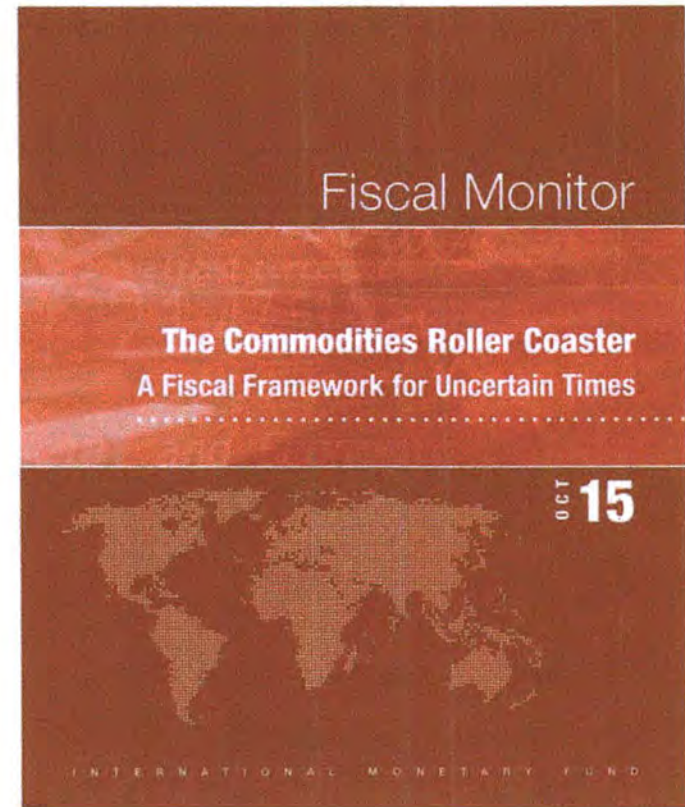
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# FISCAL POLICY FOR OIL ECONOMIES

# THE COMMODITIES ROLLER COASTER

*For better or worse, state spending impacts the broader economy*

- Study of 85 economies over 3 decades
- Government spending in commodity-based economies tends to move up and down with commodity revenue
- Pro-cyclical government spending stunts economic growth
- Stabilizing fiscal policy has the inverse effect, increasing GDP growth by 0.3% annually



# BREAK-EVEN OIL PRICE

- A widely used rule-of-thumb measure of the oil price required to balance the government budget in any given year
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But, like Norway, Kuwait, and Abu Dhabi, Alaska has

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- An independent investment authority

Alaska has a cash flow problem, not a wealth problem.



2/2/16

# ALASKA PERMANENT FUND PROTECTION ACT

## Alaska's Economic Story

February 2016



John Tichotsky, Ph.D. (*Cantab.*),  
Chief Economist and Audit Master  
Alaska Department of Revenue

# ALASKA ECONOMIC STORY

- Alaskans have had an economic view
  - Based on other regions' development
  - Based on its own development
- Alaskans need a current economic view
  - Based on how resource economies work
  - Based on Alaska's resource experience
  - Based on future needs
- An economic view provides a framework for policy solutions



---

# ALASKA HISTORICAL ECONOMIC VIEW

# FRAMEWORK FOR ECONOMIC ANALYSIS

- Harold Innis- Canada and the export of primary products (“staples”)
  - Export finances modernization, economic growth, and diversification
- “New Economic History” - Douglass C. North, C.M. Tiebout, Robert Fogel, Simon Kuznets
  - Quantification
  - Multiplier mechanism
  - Economic-base analysis, regional forecasting, impact analysis
- Standard approach for development agencies, chambers of commerce, regional planning, governments



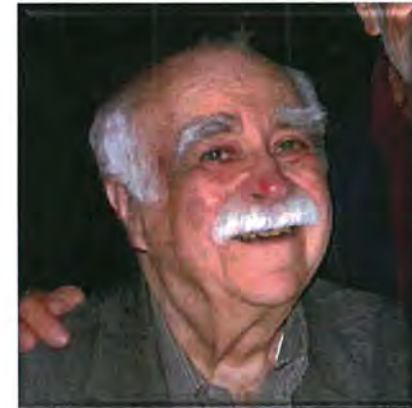
# FRAMEWORK FOR ALASKA DEVELOPMENT

- 19th Century economic success of Canada, US, Australia, Argentina
  - Resource wealth
  - Rejection of “colonial control”
  - Suitable, market-based development policy to optimize wealth
- Export-led economy
  - Larger, growing, and more diversified economy
  - Economic, political, and social well-being
    - More productive population
    - Wealthier population



# MAJOR STRANDS OF ALASKA DEVELOPMENT

- Native Alaska economy (10,000 B.C.-present)
- Russian-American fur (1786-1867)
  - Yankee whaling (1847-1880s)
- Colonial Alaska – federal territory
  - US fur (1867-1911)
  - Gold and copper (Kennecott 1915-1928)
  - Canned salmon (1878-1940s)
  - Military Alaska (1942 – 1960s)
- Alaska oil era (1950-present)
  - Cook Inlet (1950-present)
  - Prudhoe Bay (1969-present)

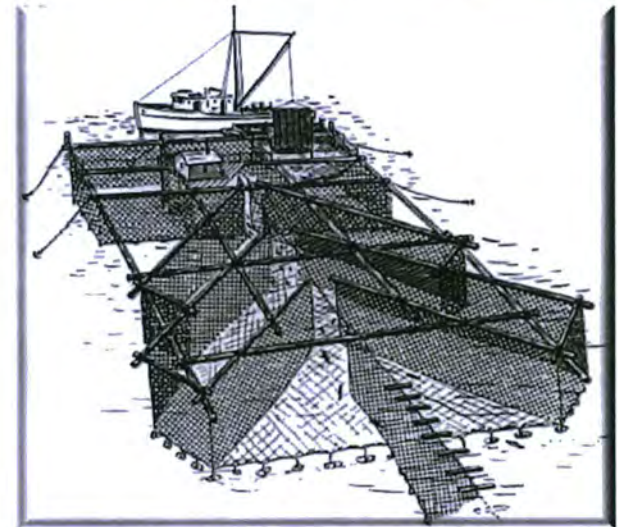


George Rogers &  
Arlon Tussing,  
University of Alaska,  
Institute of Social &  
Economic Research



# DEVELOPMENT ALONE IS NOT ENOUGH FOR ECONOMIC GROWTH

- Prior to Statehood few benefits stayed within Alaska
  - Kennecott Mine
    - No lasting growth
  - Fish traps
    - Controlled by Outside owners



# POLICY & GOVERNANCE

- Comparative advantage in oil and gas
  - Export-led growth
  - Engine of economic growth
- Market-based economy
- Rule-based, democratic government
- Capture economic rents and revenue
  - Taxation as sovereign
  - Royalty as owner

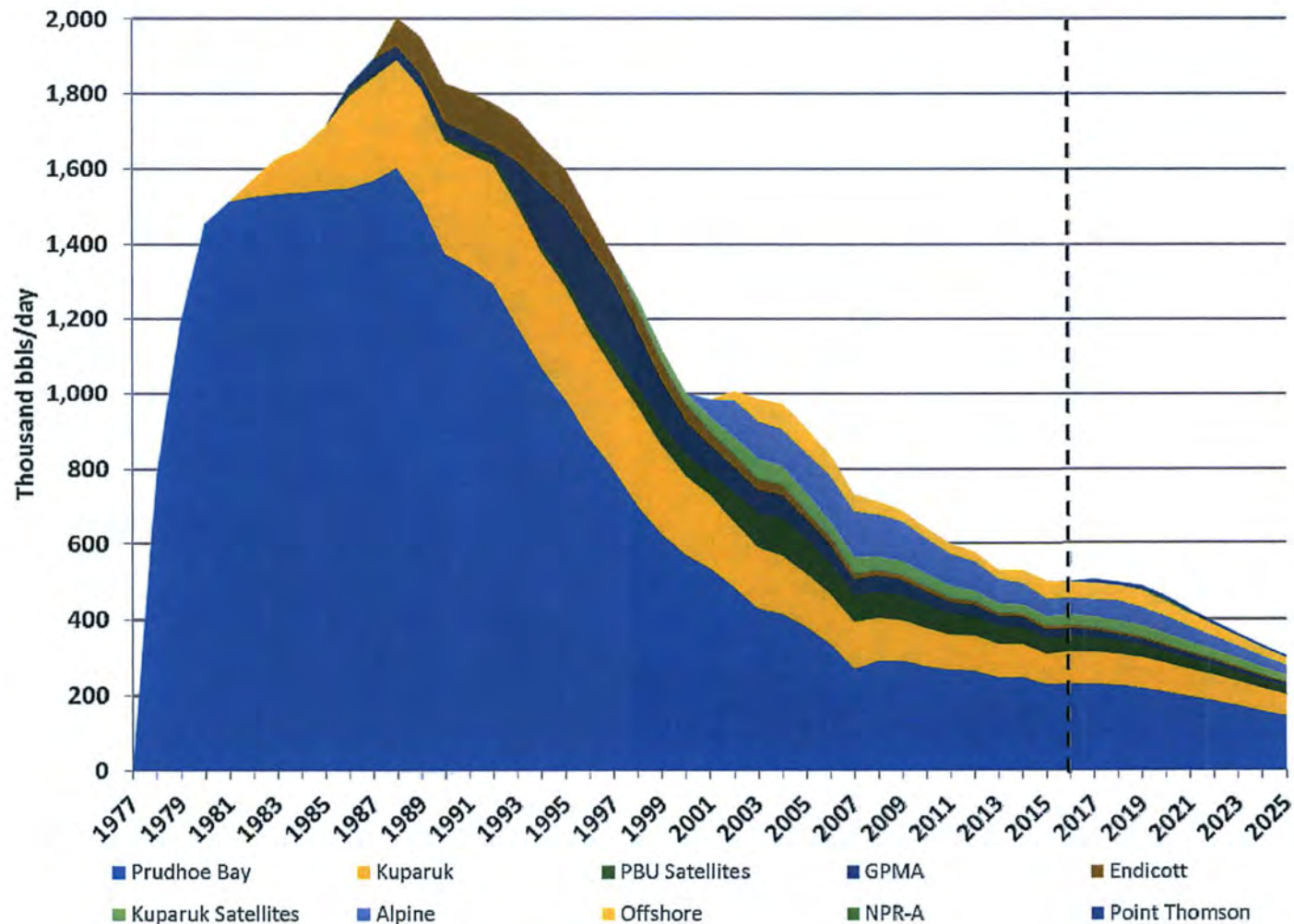


## POLICY & GOVERNANCE CONTINUED...

- Strategies to deal with “white elephants” and opportunity costs
  - “*Don’t plant dollars to harvest nickels...*” Governor Hammond
- Save surplus revenue
  - Permanent Fund and other funds
- Alaska developed independent agencies to address economic change
- Realized we couldn’t buy a “balanced economy” or “self- sufficiency”
- Distribute part of resource wealth to population as dividends



# PRODUCTION HISTORY AND FORECAST



SOURCE: Department of Revenue - Revenue Sources Book Fall 2015

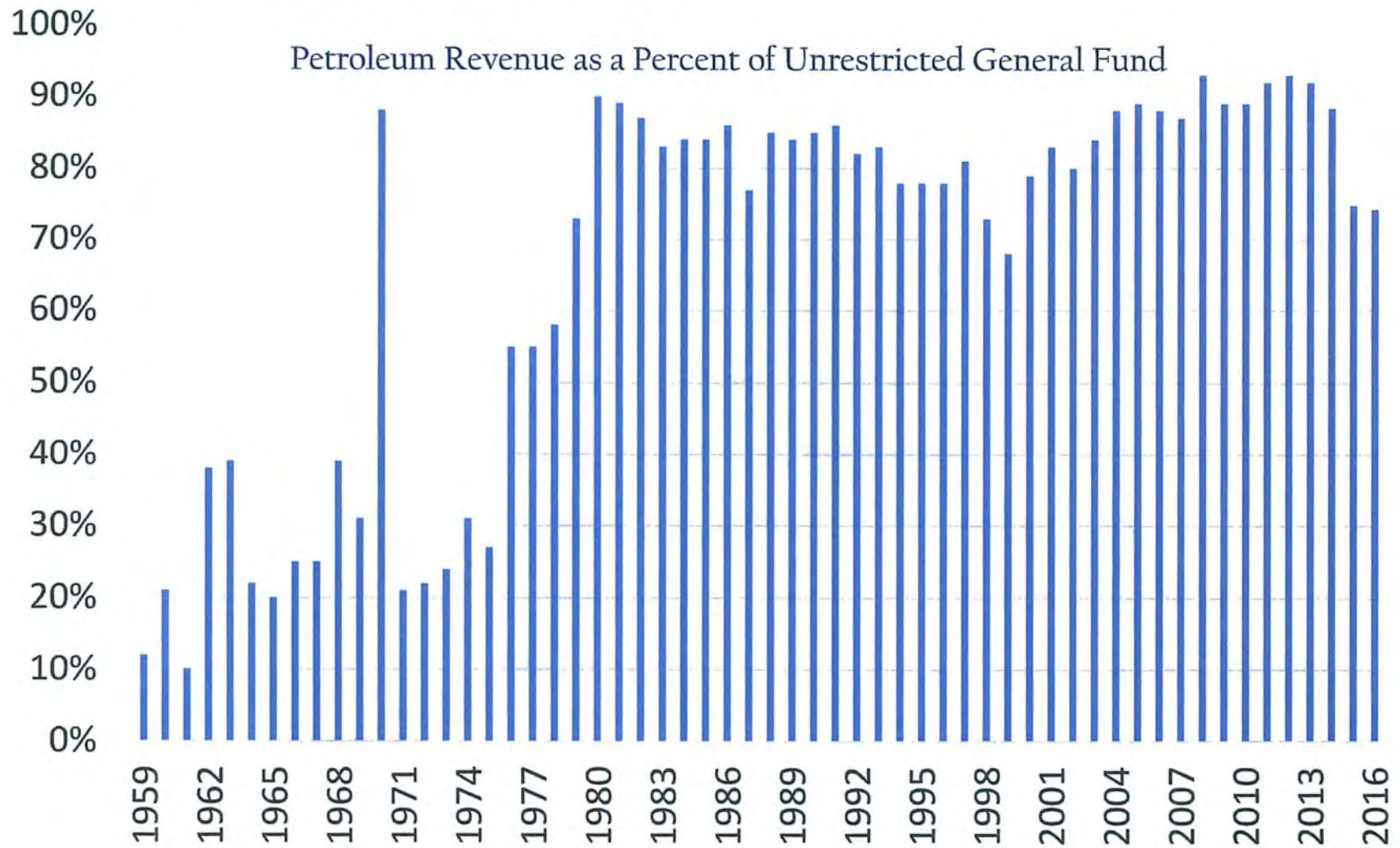


# ECONOMIC AND POLICY PATTERNS

- Before 1960 - Statehood and resource control
- 1960s and 1970s - State establishes basic system over oil revenues and creates Alaska Permanent Fund in 1976
  - Rapid economic growth
- 1980s - increasing oil production, changes in oil price
  - Economic expansion followed by contraction
- 1990s - oil production begins to decline, changes in oil price
  - Economic expansion, some diversification, contraction
- 2000s - production declines, but commodity prices increase
  - Slow, steady economic growth
- 2015 - Production continues decline, commodity prices collapse between 2014 and 2015



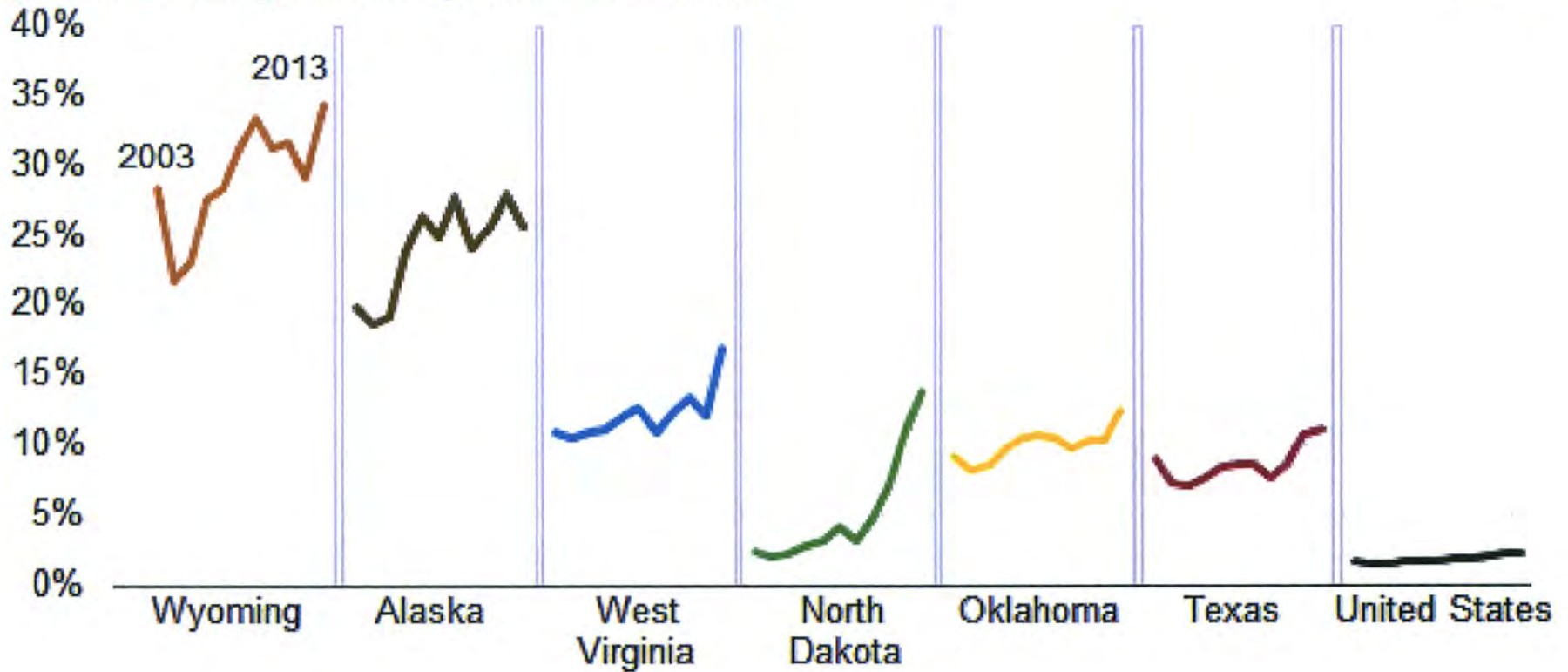
# ALASKA BUDGET IS HEAVILY RELIANT ON PETROLEUM REVENUE



# US RESOURCE-RICH STATES

percent of real gross state product, 2009 dollars

EIA



Oil and gas production and mining as a share of the economy, 2003 -2013

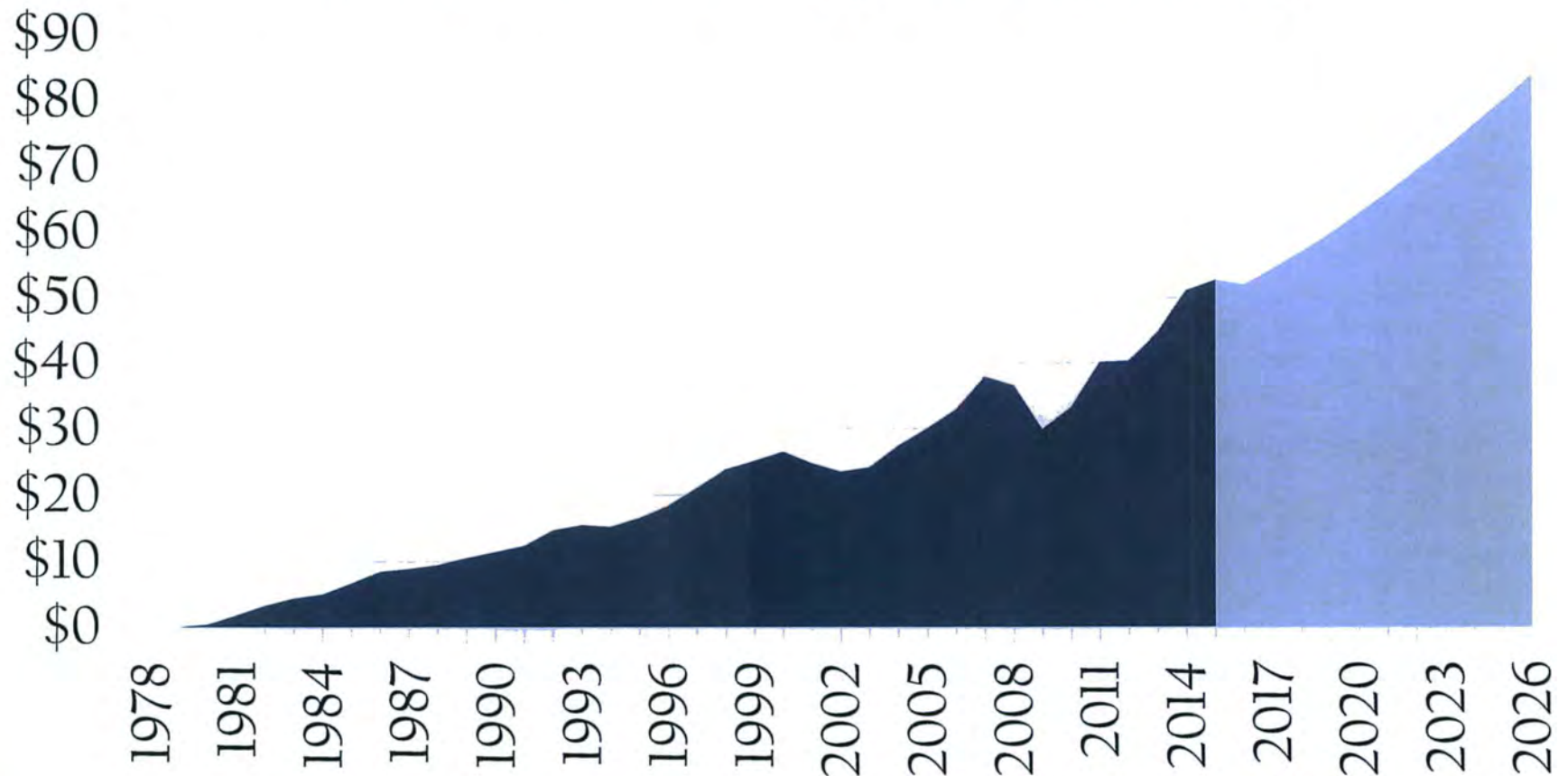
SOURCE: US Energy Information Agency



ALASKA PERMANENT FUND PROTECTION ACT

# ALASKA'S FINANCIAL ASSETS

Permanent Fund balance (\$ billions, nominal)

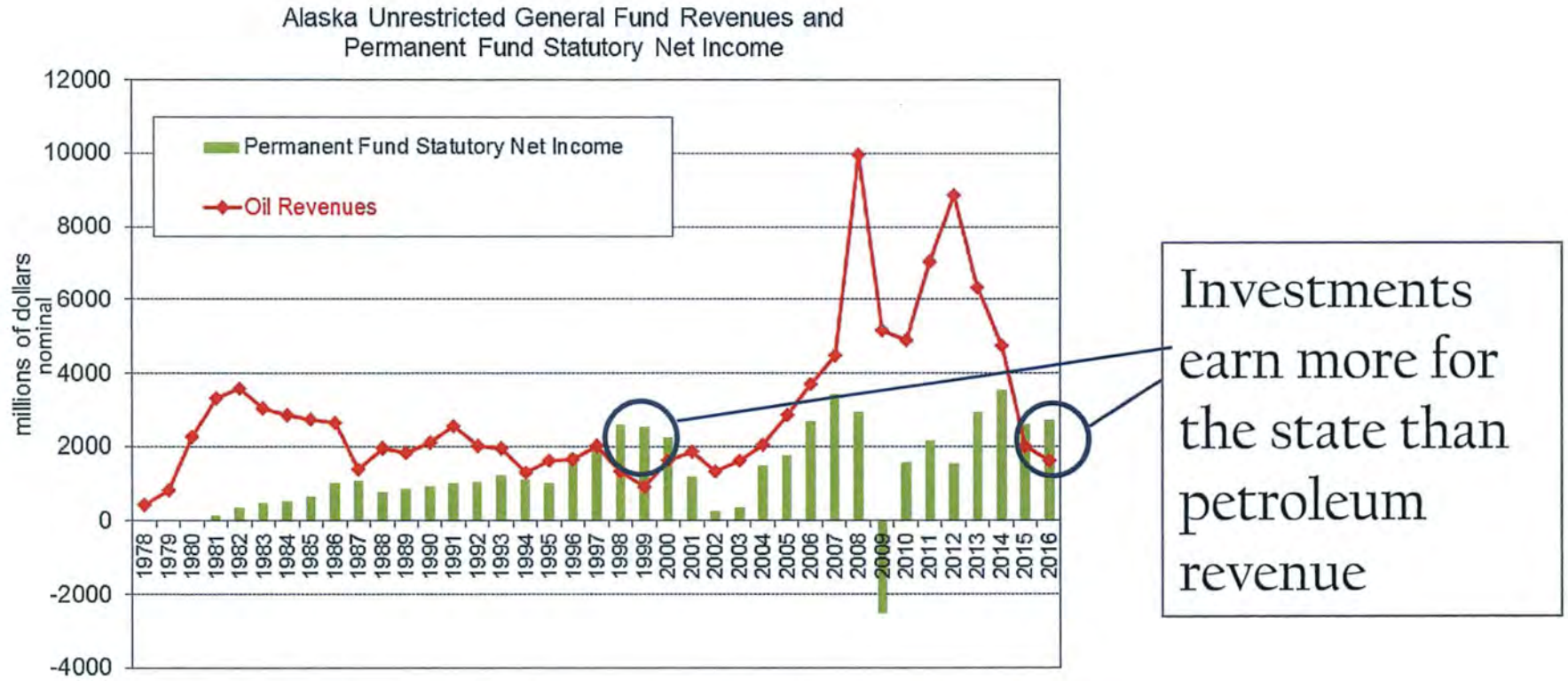


Source: Alaska Permanent Fund Corporation



# INVESTMENT - SECOND COMPARATIVE ADVANTAGE

The management of financial assets is probably the state's greatest economic competitive advantage in the 21<sup>st</sup> Century



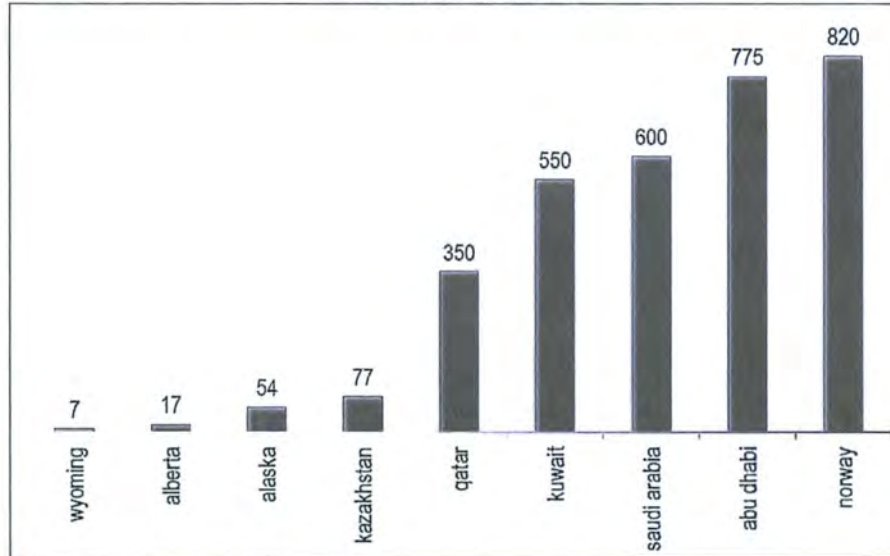
Source: Alaska Permanent Fund Corporation and Alaska Department of Revenue



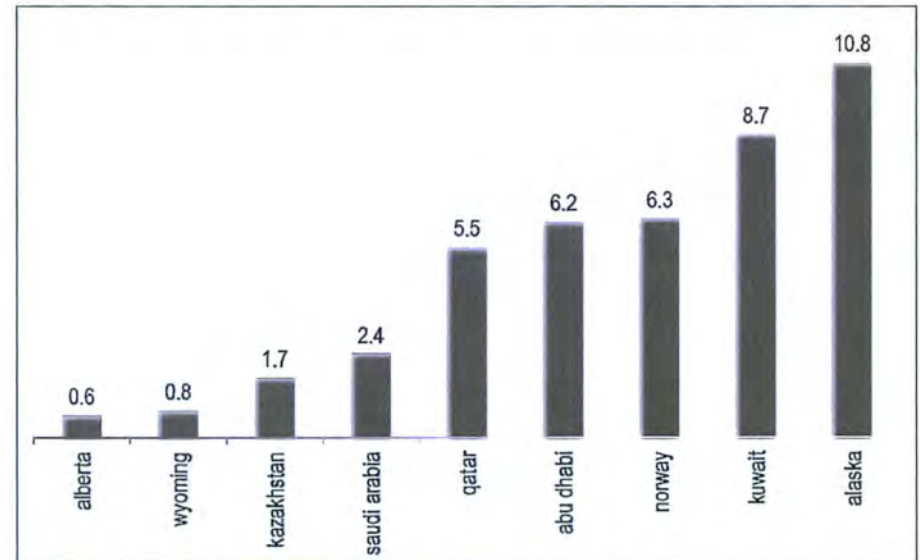
# ALASKA – ONE OF THE WEALTHIEST REGIONS IN THE WORLD

## SWF assets under management

billions of dollars



## Size of assets relative to budget

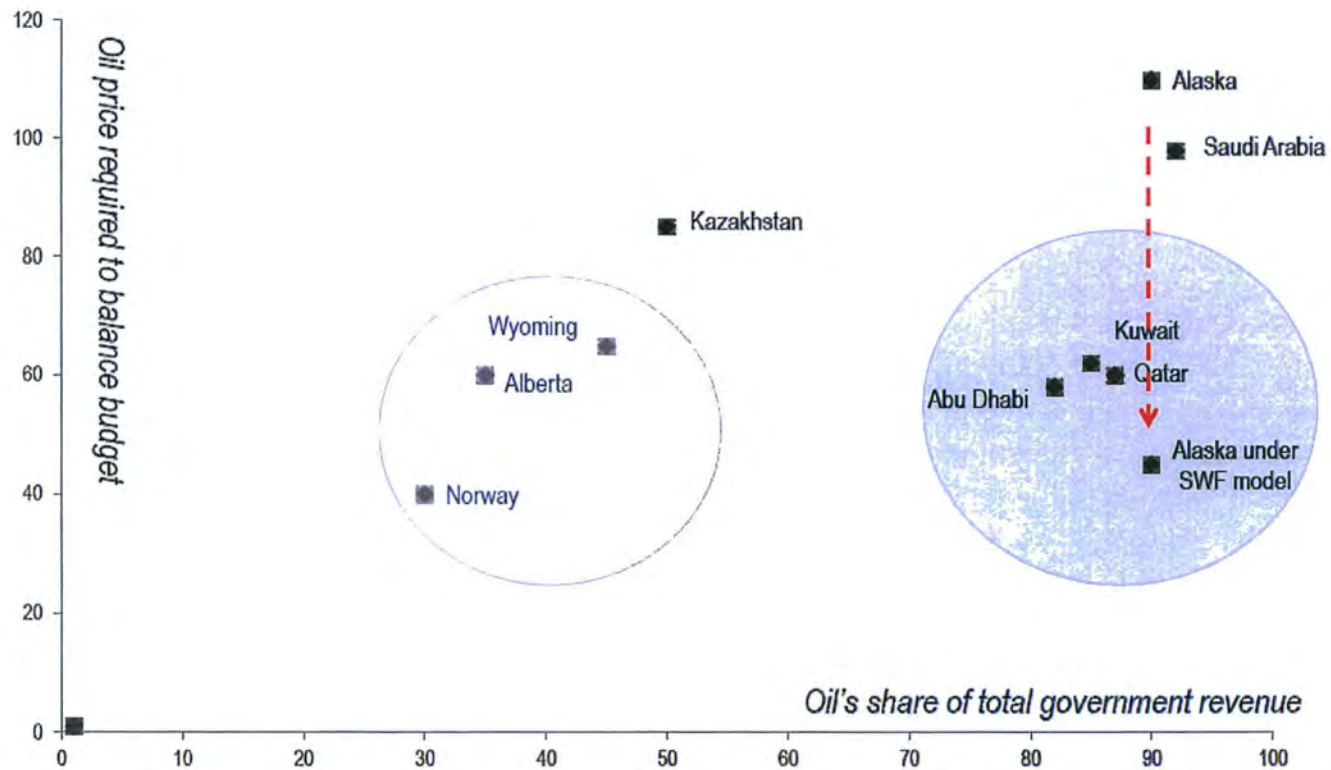


Source: Malan Rietveld



# MOVING ALASKA TO A SAFE HARBOR

## Oil's % of revenue & fiscal break-even price



Source: Malan Rietveld

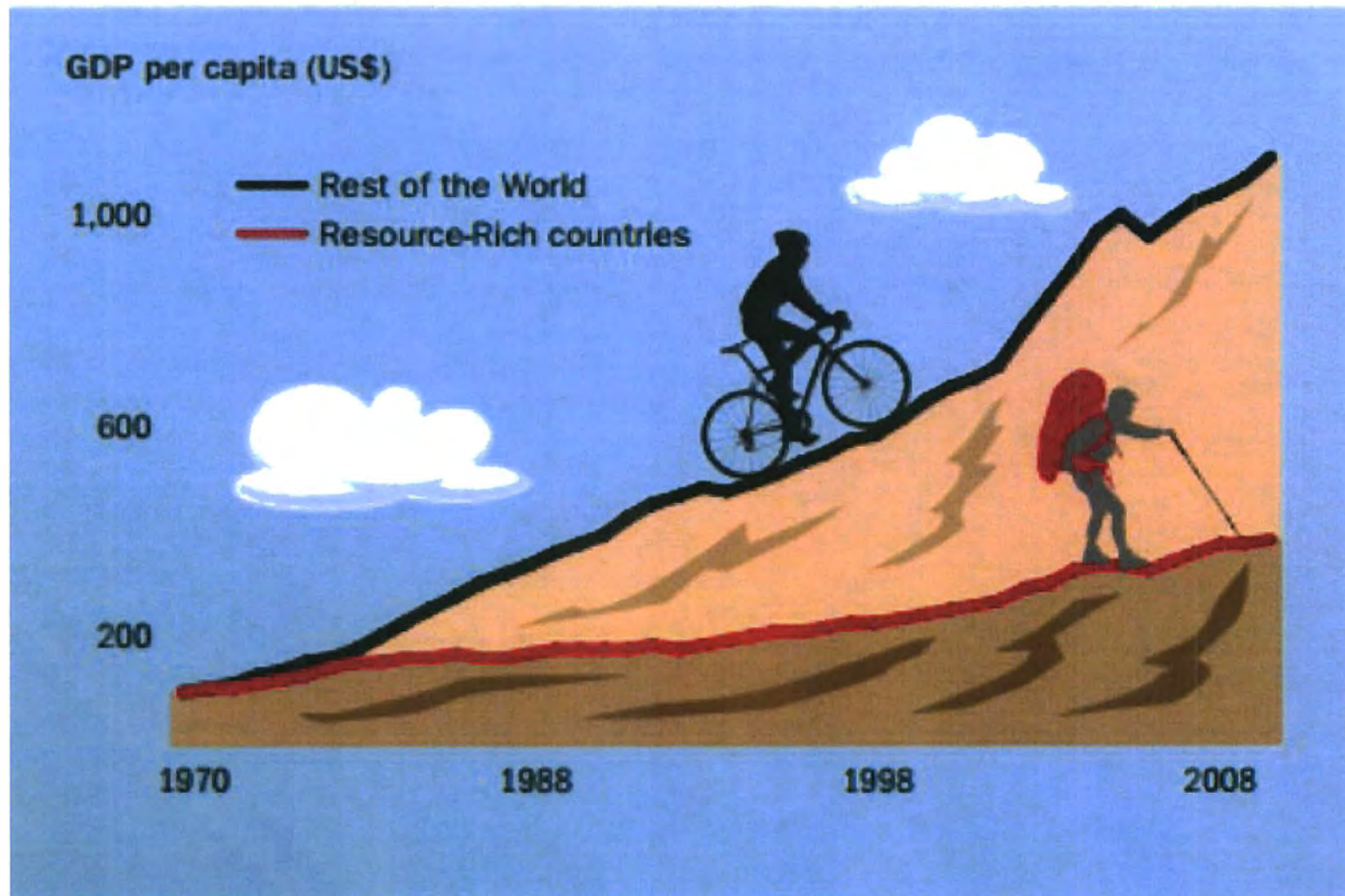


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# CURRENT ECONOMIC THINKING FOR RESOURCE EXPORTING COUNTRIES AND ALASKA

# NATURAL RESOURCE CURSE

Rich in Resources, but slow Economic Growth

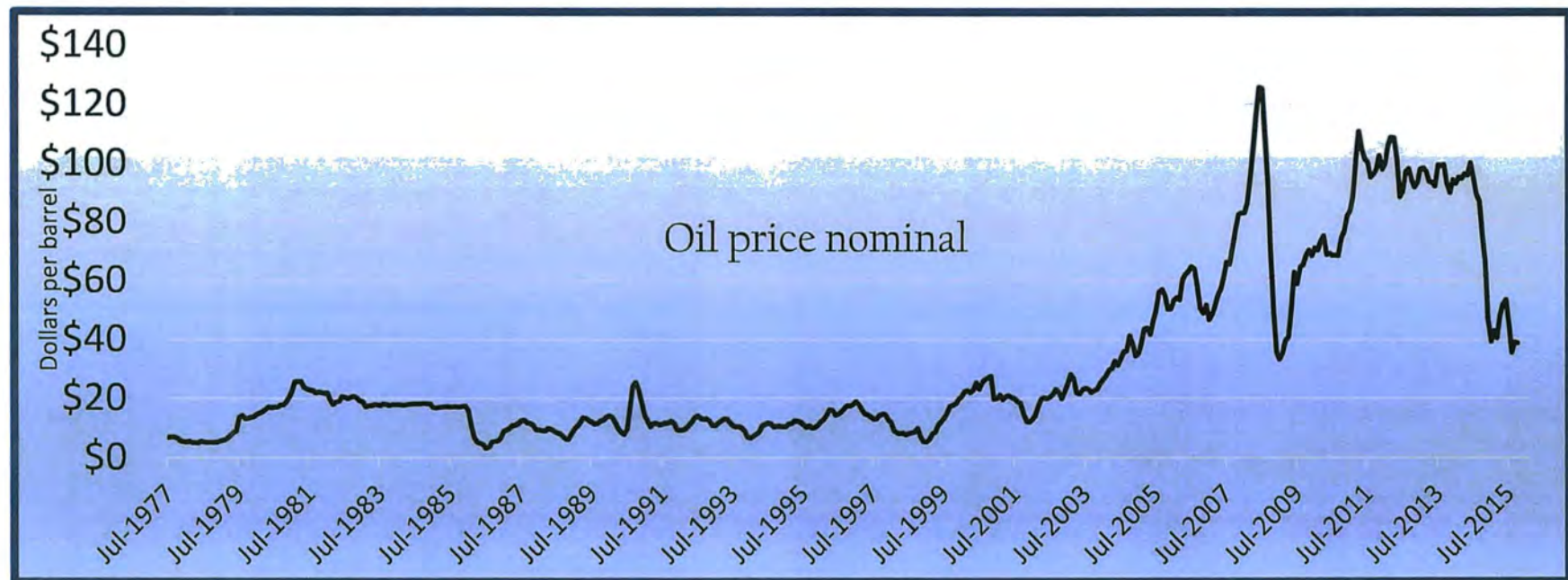


SOURCE: International Monetary Fund



# WHAT IS PRICE VOLATILITY?

- Price volatility is the variation (change) in commodity prices
- Commodity prices are volatile, unpredictable, and subject to long-lasting shocks
- Leads to revenue volatility



Source: Alaska Department of Revenue



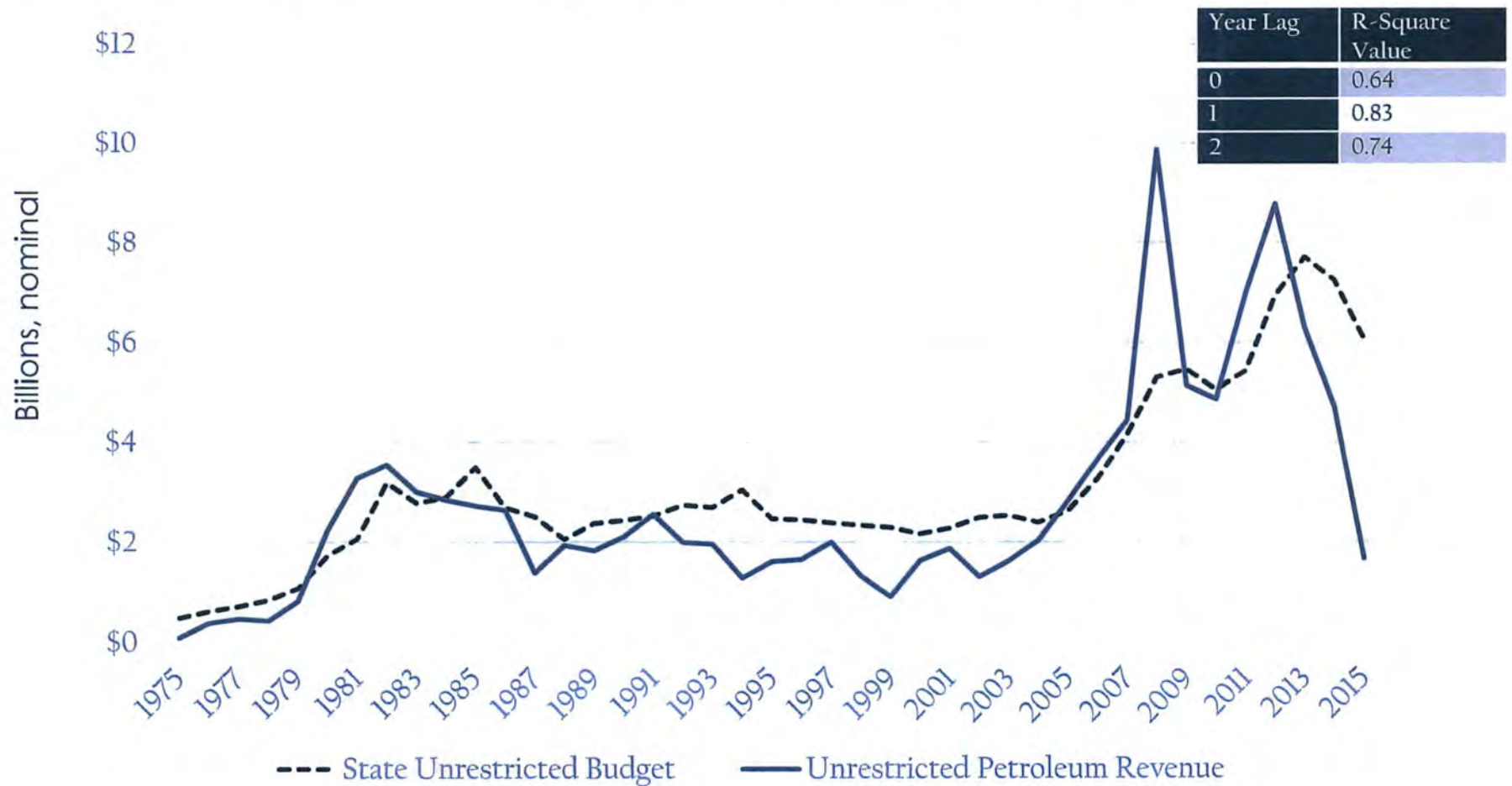
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*“...VOLATILITY IS A QUINTESSENTIAL  
FEATURE OF THE RESOURCE CURSE.”*

- Government planning, budgeting difficult
  - Pro-cyclical spending or roller coaster spending
  - institutional and political instability
- Economic growth difficult
  - planned development, attracting outside investment, and the well-being of population difficult
- Destabilizes savings
  - spending saved principal undermines future investment return
- Can undermine social stability



# Alaska Pro-cyclical Spending



# VOLATILITY — A SYSTEMIC ISSUE

---

- Price volatility leads to....
- Volatile oil revenues lead to...
- Volatile government spending leads to....
- Volatile economy leads to....
- Volatile private investment leads to....
- Volatile labor and real estate markets leads to...
- Overheating or under-heating the economy leads to....
- General economic instability leads to....
- A breakdown in investor confidence leads to ...
- Instability.



# WHERE IS LONG-TERM VOLATILITY GOOD?

- Volatility in government budgeting is destabilizing
- Regions with wealth funds mitigate negative effects of volatility
  - Regions with well-developed financial sectors mitigate the negative effects of volatility
- Volatility can be managed in an investment fund to stimulate long-term growth



# AN EFFECTIVE FISCAL FRAMEWORK MUST INCLUDE:

Macro-stability



Build fiscal buffers; avoid over-spending in the good years

More stable revenues



Improve taxation of resource and non-resource sectors

Better use of resources



Spend more efficiently; reform fuel subsidies

Strong Institutions



Improve medium-term planning and investment institutions

INTERNATIONAL MONETARY FUND / [www.IMF.org](http://www.IMF.org) / #FM

SOURCE: International Monetary Fund



ALASKA PERMANENT FUND PROTECTION ACT

# THANK YOU

**Please find our contact information below:**

John Tichotsky  
Chief Economist & Audit Master  
Economic Research Group  
John.Tichotsky@alaska.gov  
(907) 269-8902

[www.alaska.gov](http://www.alaska.gov)



# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version: HB 245  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB245-Fund Cap-Dup-CVCF-03-22-16  
Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Governor

Department: Fund Capitalization  
Appropriation: Caps Spent as Duplicated Funds  
Allocation: Crime Victim Compensation Fund  
OMB Component Number: 2936

### Expenditures/Revenues

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

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Fund Source (Operating Only)

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Positions

Full-time								
Part-time								
Temporary								

### Change in Revenues

--	--	--	--	--	--	--	--	--

**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) 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? Not known  
If yes, by what date are the regulations to be adopted, amended or repealed?

### Why this fiscal note differs from previous version:

Updated from indeterminate to zero.

Prepared By: <u>Kate Hudson</u>	Phone: <u>(907)465-5525</u>
Division: <u>Violent Crimes Compensation Board</u>	Date: <u>03/22/2016 04:00 PM</u>
Approved By: <u>Sheldon Fisher, Commissioner</u>	Date: <u>03/22/16</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

BILL NO. HB 245

**Analysis**

There will be zero financial impact of this bill on the Crime Victim Compensation Fund because it is assumed that any reductions in the permanent fund dividend will be absorbed by the Department of Corrections.

STATE CAPITOL  
P.O. Box 110001  
Juneau, AK 99811-0001  
907-465-3500  
fax: 907-465-3532



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fax 907-269-7461  
[www.Gov.Alaska.Gov](http://www.Gov.Alaska.Gov)  
[Governor@Alaska.Gov](mailto:Governor@Alaska.Gov)

Governor Bill Walker  
STATE OF ALASKA

January 15, 2016

The Honorable Mike Chenault  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the Alaska permanent fund and the funding structure for state government.

This bill would establish a new financial model to enable sustainable and stable funding of state services and the protection of the permanent fund. To accomplish these goals, additional resource revenues would be directed to the permanent fund and the earnings reserve account. This would enable greater permanent fund earnings to be generated and remove the damaging volatility from the general fund. In turn, a sustainable and stable annual draw from the earnings reserve account to the general fund would support state government. Additionally, the bill would change the manner in which permanent fund dividends are calculated from the current practice of calculating the dividend based on investment returns to a process in which the dividend is calculated based on the state's receipt of natural resource royalties. Further, the bill would establish a process to assure sustainability of state revenues in which the Commissioner of Revenue, in consultation with the Alaska Permanent Fund Corporation, would periodically review state financial resources in order to recommend whether adjustments should be made to the sustainable draw from the earnings reserve account to the general fund. Additionally, the bill provides for inflationary adjustments to the sustainable draw beginning in fiscal year 2020. As a result of these changes, the permanent fund earnings reserve account would generate predictable and stable revenues for state government. The permanent fund dividend would continue, but would reflect the state's success in natural resource development rather than investment performance.

In detail, the bill proposes to amend AS 37.13.010, the Alaska permanent fund, to require that 49.5 percent, rather than the current approximately 30 percent, of resource royalties would be deposited into the permanent fund principal. This would be subject to the condition that the earnings reserve account had reached a target balance necessary to provide for a sustainable annual draw of \$3,300,000,000 billion dollars from that account to the general fund. If the target had not been reached, 24.5 percent of the resource royalties would go to the earnings reserve account (0.5 percent of mineral lease royalties would continue to go to the school fund). Additionally, the bill provides

that up to 100 percent of oil and gas production taxes may be appropriated to the permanent fund or the earnings reserve account. The bill would amend AS 37.13.145(b) to provide that the annual transfer from the earnings reserve account to the dividend fund for the payment of dividends would be the amount necessary to equal 50 percent of the resource royalties received by the state. In order to support this dividend payment, the bill provides that the Legislature may appropriate 50 percent of the resource royalties received by the state to the earnings reserve account. Based on these changes, income of the permanent fund would no longer be used to calculate the amount available for payment of dividends, but instead the dividend would be calculated based on resource royalties received by the state.

To further stabilize the income stream available for state budgets, the bill would amend AS 37.13.145 in order to eliminate an annual inflation transfer from the permanent fund earnings reserve account to the principal. Instead of this transfer, the bill provides for a transfer from the earnings reserve account to the permanent fund principal that will occur if the earnings reserve account contains more money than needed for a four-year sustainable draw from that account to the general fund. If the earnings reserve account has not reached this target balance, the bill provides that 100 percent of oil and gas production taxes and up to 24.5 percent of resource royalties may be appropriated to the earnings reserve account.

The bill further amends AS 37.13.145 to establish a process for review by the Commissioner of Revenue to determine whether the sustainable draw sum should be adjusted based on an assessment of state financial resources. This review would result in a report being submitted to the President of the Senate and the Speaker of the House of Representatives. To ensure transparency, the bill would require that the information and analysis supporting the report be made available to the public, including the Legislature. Additionally, the bill provides for inflation adjustment to the sustainable draw beginning in fiscal year 2020. The bill would establish a dividend amount of \$1,000 for each eligible individual for calendar year 2016.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker  
Governor

Enclosure

# ALASKA PERMANENT FUND PROTECTION ACT

## SECTIONAL ANALYSIS HB 245

### FOR THE HOUSE FINANCE COMMITTEE

#### Section 1 - Revenues to the Corpus

Section 1 amends AS 37.13.010(a) to increase the petroleum revenues directed to the corpus of the permanent fund, subject to a redirection mechanism that ensures the earnings reserve account is not degraded.

- Production Taxes: 100% of production taxes are directed to the corpus
  - Currently, these funds go to the general fund
  - Requires an appropriation
- Mineral Royalties: 49.5% of all mineral royalties are directed to the corpus
  - Constitutionally mandated 25% (no change)
  - An additional 24.5% (an increase from 5%)
- Redirection Mechanism: if needed to maintain the target balance (*see* Sections 2 and 6), some petroleum revenue may be redirected to the earnings reserve account
- Removes distinction between old and new leases

#### Section 2 - Target Balance of the Earnings Reserve Account

Section 2 adds subsection (d) to AS 37.13.010, which cross-references AS 37.13.145(1) (*see* Section 6), setting the target balance at equal to four times the prior year's sustainable draw.

#### Section 3 – Conforming Amendment

Section 3 is a conforming amendment to AS 37.13.140 that removes the calculation of “income available for distribution” because (1) the term relates to the current dividend formula, which would change (*see* Section 4), and (2) other revenues, including production taxes and royalties, may also be available in the earnings reserve account.

#### **Section 4 – Transfers from the Earnings Reserve Account to the Dividend Fund**

Section 4 amends AS 37.13.145(b) to change the calculation of the annual dividend.

- Changes the amount transferred from earnings reserve account to the dividend fund to 50% of the prior year royalties instead of approximately 50% of realized investment earnings
- Changes timing of the transfer from the end of the fiscal year to the beginning

#### **Section 5 – Transfers from the Earnings Reserve Account to the Corpus**

Section 5 amends AS 37.13.145(c) to change the timing and amount of transfers from the earnings reserve account to the corpus.

- Changes amount transferred to the corpus from the amount necessary to inflation proof the corpus to funds in earnings reserve account exceeding the “target balance”
- Changes timing of the transfer from every year to when excess funds are available
- Flexible inflation proofing and a presumption of savings
  - Over time, these transfers inflation proof the corpus
  - Transferred funds may exceed the amount needed for inflation proofing
  - The flexibility in timing improves the durability of the earnings reserve account and protects the corpus

#### **Section 6 – Revenues to the Earnings Reserve Account and the Sustainable Draw to the General Fund**

Section 6 adds subsections (e) to (l) to AS 37.13.145 to direct some petroleum revenues to the earnings reserve account and establish the endowment transfer to the general fund.

- **Redirection Mechanism:** Subsections (e) and (f) mirror the redirection provisions in Section 1. Specifically, if needed to maintain the target balance, up to 100% of production taxes and 24.5% of royalties that are otherwise deposited in the corpus may be redirected to the earnings reserve account.
  - Durability of the earnings reserve account: making these petroleum revenues available to the earnings reserve account helps ensure it is not depleted if there are several consecutive years of low petroleum revenue and low investment income

- Protects the corpus: depleting the earnings reserve account would put the corpus at risk as the state searches for additional funds to pay for government
  - Savings: establishes a presumption of saving excess revenue in the corpus when possible
  
- **Dividend Royalties:** Subsection (g) provides that funds for the dividend (50% of royalties) gather in the earnings reserve account until they are transferred to the dividend fund under Section 4.
  - Retains the connection between the dividend and the permanent fund.
  - Helps with cash flow, particularly in first few years.
  - Establishes the cash flow pathways in the first year and minimizes departures from the permanent framework.
  
- **Sustainable Draw:** Subsections (h) and (i) provide for the annual endowment transfer from the earnings reserve account to the general fund.
  - \$3.3 billion fixed-draw
    - Maximum amount
    - Adjusted for inflation beginning in FY 2020
    - Flexible transfer timing allows the Treasury and the Alaska Permanent Fund Corporation to work out a practical and efficient system based on cash flow needs and investment practices
  
  - Appropriation
    - Framework relies on legislature partnering with the executive
    - The Alaska legislature has a long history of following a rule-based policy for the earnings reserve account
  
- **Periodic Review:** Subsections (j) and (k) provide for a periodic sufficiency of assets review and adjustments to the draw amount.
  - The Commissioner of Revenue, in consultation with the Alaska Permanent Fund Corporation, conducts a review of the state's financial assets and forecasts and may recommend adjusting the draw amount
  
  - Scheduled: 2017, 2020, then every 4 years
  
  - Formulaic: the periodic review uses the same approach and variables used to calculate the initial draw
  
  - Protects the permanent fund: the periodic review ensures that, in light of experience, Alaska remains on a sustainable fiscal course

- Collaborative: the review is provided to the legislature
- Transparent: all supporting material – data, modeling, etc. – must be made available to the public in its native file format (except for confidential taxpayer information which may be provided in aggregated form)
- Subsection (l) defines “sustainable draw amount” and “target balance.”

#### **Section 7 – Conforming Amendment**

Section 7 is a conforming amendment to AS 37.13.300(c) isolating income of the mental health trust fund from net income available for transfer to the general fund.

#### **Section 8 – Conforming Amendment**

Section 8 is a conforming amendment to AS 43.55.080 directing production taxes to the permanent fund.

#### **Section 9 – \$1,000 Dividends in 2016**

Section 9 amends uncodified law to specify that 2016 dividend checks will be \$1,000 per person. This provision eases the transition to the new dividend formula.

#### **Section 10 – July 1, 2016 effective date**

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**From:** Rep. Steve Thompson  
**Sent:** Tuesday, April 19, 2016 8:39 AM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: Oppose PFD cap & new taxes

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**From:** Ric Plate [mailto:ricplate@gmail.com]  
**Sent:** Monday, April 18, 2016 1:40 PM  
**To:** Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>  
**Subject:** Oppose PFD cap & new taxes

Dear Representative Thompson,

I am writing to ask you to oppose any changes or caps to the PFD dividends and adding new state taxes.

I have worked for and with the State and I know there is a lot of state waste. The state has mismanaged spending for many years and the state government has grown way too large in size. Sadly the state has not had the foresight to limit spending and save during years of abundance; instead of being fiscally responsible the state wants to put the burden on the people. Until the state can get its financial house in order you should not punish the people of the State of Alaska by reducing the PFD dividends and/or adding more taxes. To do so is a betrayal of the people.

Many of us are on fixed or low incomes and reducing the PFD or adding taxes is an additional hardship on us.

Please think of the impact capping the PFD and/or adding taxes will have to everyone in Alaska.

Please do not reduce or cap the PFD and please do not add more taxes.

Thank you,

Ric Plate

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**From:** Rep. Steve Thompson  
**Sent:** Tuesday, April 19, 2016 8:49 AM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: POMV

**From:** Ronald Johnson [mailto:rajohnson@alaska.edu]  
**Sent:** Thursday, April 14, 2016 9:50 PM  
**To:** Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>  
**Subject:** POMV

Dear Rep Thompson,

RE the governor's fiscal revenue plan, I so disagree with the unfairness argument re PFD vs 6 % In Tax. The argument for, say, a family of 4 making 40 K/yr, is a PFD reduction from 2K to 1 K = 4K/yr drop = 10 % of income.

Whereas, a 6 % I tax ~ 1 % drop in AGI is a lesser hit for the "wealthy". I think a more honest argument is to take the average PFD ~ 1K over last 20 yrs so Gov's plan would have no decrease in PFD. Hence, one has a 0 % hit for lower incomes vs 1 % hit for better off.

Obviously, life is more complex than this.

--  
Ron Johnson  
Professor Emeritus  
Mechanical and Environmental Engineering  
Univ of Alaska Fairbanks

2113 Jack St  
Fairbanks, AK 99709

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**From:** Rep. Steve Thompson  
**Sent:** Tuesday, April 19, 2016 10:23 AM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 245 (and HB 250)

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**From:** Tom Boutin [mailto:b0utin@alaska.net]  
**Sent:** Tuesday, April 19, 2016 10:15 AM  
**To:** Rep. Cathy Munoz <Rep.Cathy.Munoz@akleg.gov>; Rep. Dan Saddler <Rep.Dan.Saddler@akleg.gov>; Rep. Lance Pruitt <Rep.Lance.Pruitt@akleg.gov>; Rep. Mark Neuman <Rep.Mark.Neuman@akleg.gov>; Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Bryce Edgmon <Rep.Bryce.Edgmon@akleg.gov>; Rep. Lynn Gattis <Rep.Lynn.Gattis@akleg.gov>; Rep. Tammie Wilson <Rep.Tammie.Wilson@akleg.gov>; representative.scott.kawasaki@akleg.gov'; Rep. Les Gara <Rep.Les.Gara@akleg.gov>; Rep. David Guttenberg <Rep.David.Guttenberg@akleg.gov>; Rep. Bob Herron <Rep.Bob.Herron@akleg.gov>  
**Subject:** HB 245 (and HB 250)

Good morning honorable ladies and gentlemen,

Alaskans have to be told that state and municipal government is a measure of our consumption, but it's productivity we need. We need to produce something that replaces lost oil volume and value; otherwise our consumption will dramatically contract no matter what the 29th and 30th Alaska Legislatures do. Many would establish a tension between the private and public sectors, but that is a false choice.

People who propose an income tax have no apparent understanding of basic Economics. We are 700,000 people wearing out Boeings, Subarus, and Iphones. We consume Nabisco cookies and Fred Meyer milk. We produce none of those. We produce less of what we consume than any other state, and we may consume more per capita than any other state.

The people at Boeing and Nabisco need to get paid. We cannot give our suppliers a picture of a state employee and tell them we no longer produce nearly as much state product as we once did but on your behalf we have provided this state employee with a job. An income tax promotes the myth that we can create an economy if I take my laundry and a \$20 bill down to the SOB and exchange it with Jerry Burnett for his laundry and his \$20 bill. That pays no one at Boeing, Subaru or Nabisco, even if Jerry and I exchange laundry every day.

When common sense and Economics teaching intersect we have to pay attention. We cannot support the government that we built with oil by taxing one another. We cannot take in each other's laundry to somehow pay for the goods we consume. Either we increase production of something that we can trade for the Boeings, Subarus and cookies, or we reduce our consumption. State government is a measure of our consumption, not our production. I know you can all see that.

We can of course divert Permanent Fund earnings, including capital gains, to prop up state spending. Objective Alaskans would agree that spending on government could be a better use of PF earnings than is the PFD, and both uses represent consumption. Moreover, diverting PF earnings does not penalize working and productivity as taxes do. Taxing the private sector to prop up consumption will hurt all Alaskans in the mid-term and long term. At the same time, it seems that Alaskans need to see larger operating budget cuts before a consensus on using PF earnings develops.

Fewer than half of Alaskans pay a federal income tax according to what I read. So a state income tax would tax a minority of Alaskans, and only those who work. Taxing workers and job creators would set up an adverse selection as we re-balance aggregate consumption with current gross state product. We will be lucky if our economy can weather this and repay our \$11 billion of public debt, meet the public employee defined benefits obligations and pay for what the courts will tell us the Constitution requires. An income tax would exacerbate the problem, and the workers and job creators who leave will not take a share of the public debt and other obligations with them.

A state income tax is deductible only for those who itemize – forego the standard deduction. So for 2015 the deductibility for a married couple of an Alaska income tax would have begun at the twelve thousand six hundred and first dollar. The first \$12,600 would not have been deductible. Only one quarter of those Alaskans who pay a tax itemize according to what I read, and that is why.

Thank you for your time. Thank you for the hard work you do for all Alaskans.

Tomas Boutin  
Juneau

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**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:24 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: Support of HB 245

**Importance:** High

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**From:** Meg Nordale [mailto:meg@ghemm.com]  
**Sent:** Thursday, April 14, 2016 4:59 PM  
**To:** Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Mark Neuman <Rep.Mark.Neuman@akleg.gov>  
**Subject:** Support of HB 245  
**Importance:** High

Good afternoon,

**I am writing to you this afternoon in support of HB245** and your efforts to provide fiscal stability for the State of Alaska. I am concerned about the fiscal challenges facing our state. I am concerned about the future of Alaska, for the community of Fairbanks, for the longevity of my general contracting firm and for the opportunities I hope my grandchildren are able to seize just like our forefathers used to create the State we all enjoy today.

I believe the time has come to make the hard decisions required to address the fiscal challenges facing Alaska today. A healthy state economy is crucial for a vigorous and healthy private sector economy in our state. The private sector of Alaska needs to know the State – each of you - are addressing our fiscal challenges. The private sector's future, my business' future, depends upon your proactive work during this legislative session.

HB 245 will provide fiscal stability for Alaska's future. It will provide for stability and start the process of reinvigorating the economy of Alaska. This bill combines the most favorable components of other bills into one bill which will stabilize permanent fund dividends for all Alaskans and uses the bulk of the assets in the form of earnings to diversify Alaska's revenues.

The worst decision is no decision at all and poorly timed decisions are no different. Make the decision now so we all know how the fiscal future can and will be for Alaska.

Thank you for considering my comments. Thank you for doing the hard work that you do for Alaska.

Meg Nordale

**GHEMM Company, Inc.**

PO Box 70507

Fairbanks, AK 99707

(907) 452-5191 Ph

(907) 460-1069 Cell

(907) 451-7797 Fax



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**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:24 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 245

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**From:** Bryce Erickson [mailto:BErickson@orionmarinegroup.com]  
**Sent:** Thursday, April 14, 2016 4:34 PM  
**To:** Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Mark Neuman <Rep.Mark.Neuman@akleg.gov>  
**Subject:** HB 245

Representatives,

HB 245 is vital piece of legislation that will provide fiscal stability for Alaska's future. The bill combines the most favorable components of other bills into one bill that stabilizes the dividend for all Alaskans and uses the bulk of the assets in the form of earnings to diversify Alaska's revenues. There is no perfect solution but this is a great compromise and we must pass it now, we can't kick the can down the street or the street will become our home.

I write in support of HB245

Thank you

Bryce Erickson

Vice President

Orion Marine Group, Inc.

740 Bonanza Ave.

Anchorage, AK 99518

Phone 907 561 9811

Fax 907 561-9844

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**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:24 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 245

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**From:** Robby Capps [mailto:rcapps@fwalaska.com]  
**Sent:** Thursday, April 14, 2016 4:20 PM  
**To:** Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>  
**Subject:** HB 245

HB 245 is an important piece of legislation that will provide fiscal stability for Alaska's future. The bill combines the most favorable components of other bills into one bill that stabilizes the dividend for all Alaskans and uses the bulk of the assets in the form of earnings to diversify Alaska's revenues.

I write in support of HB245

Thank you

Robby Capps

F&W Construction

(907) 248-3666

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**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:23 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB245

-----Original Message-----

From: Mark Erickson [mailto:marke@massexcavation.com]  
Sent: Thursday, April 14, 2016 4:19 PM  
To: Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>  
Subject: HB245

HB 245 is an important piece of legislation that will provide fiscal stability for Alaska's future. The bill combines the most favorable components of other bills into one bill that stabilizes the dividend for all Alaskans and uses the bulk of the assets in the form of earnings to diversify Alaska's revenues.

I write in support of HB245

Thank you

Sent from my iPhone

*Cynthia Henry testimony*

I am here to support HB245 and oppose HB250 which would impose a personal income tax

I appreciate all of your hard work this session, and your willingness to provide this opportunity to speak with you.

This is not an easy time to serve in your positions. It is also not an easy time to operate a retail business in Alaska.

Although home for my husband and me is Fairbanks, our family operates retail stores in the malls in Anchorage.

Our Hallmark stores are seeing the impact of our state's fiscal uncertainty

Our fate is at the mercy of a healthy economy and our customers' job confidence. That confidence is precarious at best. We are observing decreased mall traffic and our customers are being cautious and seem financially insecure. The ripple effect of reduced <sup>consumer</sup> spending is accelerating and permeating the Alaska economy.

I am writing to ask that you vote against implementing a personal income tax. As you know, companies in the oil industry are already cutting back and leaving the state. I have grave concerns about the impact of the job losses and uncertainty for Alaska small businesses like mine. Imposing a personal income tax will exacerbate an already weak economy.

After cuts to state government, the best tool we have to address the deficit is to use a portion of the earnings from the permanent fund to pay for government services. The remaining deficit should be funded by the CBR.

Doing this will extend the life of the CBR and maintain a sustainable dividend program. Acting this year saves the dividend, avoids a recession, and maintains the state's bond rating.

~~Additionally~~, enacting legislation utilizing the earnings from the Permanent Fund combined with a draw from the CBR will provide some certainty to the private sector that the legislature is steadily managing the state fiscal challenge. This action will protect private sector jobs and support continued private sector investment.

Thank you for this opportunity to speak to the committee.

## ***Target 4.5... How Do We Get There?***

5.2Billion is the big number in the Governor's Budget Plan...that incorporates a host of new taxes and a change in the PFD structure and formula. Below is how #ProtectThePFD proposes to structure the FY17 budget with cuts and revenues aimed at minimal impact upon Alaskans.

\$5,200,000,000

- 250,000,000 Vacant, but funded Job Positions
  - 220,000,000 Revert Medicaid to basic coverage
  - 200,000,000 Restructuring of the Education System
- = 4.53 Billion...

How to pay for it:

\$4.5 Billion UGF Budget

- \$1.2 Billion Oil revenue
  - \$3.3 Billion from Savings
- = \$0

\$3.3 Billion draw leaves savings of \$12.9 Billion

Unless oil revenues spike dramatically in the next year, in order to get back in-line with inflation... the State of Alaska is going to have to cut another \$500 Million in FY18 and then yet another \$2-300 Million in FY19. The actual with inflation UGF number in Alaska is \$3.8 Billion, but doing it all at once would literally shock the economy and culture of Alaska.



*HB 245  
Public Testimony*

Founded 1975

**Executive Director**  
Marleanna Hall

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# RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

April 13, 2016

The Honorable Steve Thompson  
Alaska State House  
Juneau, AK 99801

Re: Committee Substitutes for SB 128 and HB 245

Dear Representative Thompson:

The Resource Development Council for Alaska, Inc. (RDC) applauds the legislature with putting forward the new versions of SB 128 and HB 245, which represent the important foundation for a much-needed long-term fiscal plan for the State. At the same time, RDC strongly opposes any linkage of this important step forward with the major step backwards contained in the oil tax bills (SB 130/HB 247).

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

For more than 20 years, RDC has advocated for a long-term fiscal plan for the State of Alaska.

RDC appreciates and supports the efforts of the respective House and Senate Finance Committees and the Administration to reach consensus around one of the most important aspects of such a long-range plan; prudent use of our state's savings and investment assets to address the budget deficit and provide a long-term, sustainable revenue source. The Committee Substitutes for SB 128 and HB 245 *are* an important step in this direction.

Unfortunately, the Committee Substitutes for SB 128 and HB 245 are being tied to extracting more revenue from the private sector when they are linked to oil tax credit bills. It is the private sector who has "skin in the game," and which drives our state's resource-based economy. The idea and timing of taking more money from the investors who drive our economy could not be worse as many production, exploration, and service companies have laid off thousands of Alaskans, and as many are in negative cash flow. Yet State government has maintained essentially flat staffing levels during this current downturn in both energy and commodity prices.

Now is the time to stimulate the private sector. The oil tax bills will extract billions of dollars from the private sector, and will send Alaska's revenue generating sector into a steeper tailspin. We continue to hear that increasing government's take from the private sector is politically tied to taking the prudent step of utilizing our State's savings at this time.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503

Phone: 907-276-0700 • Fax: 907-276-3887 • Email: [resources@akrdc.org](mailto:resources@akrdc.org) • Website: [akrdc.org](http://akrdc.org)

Increasing taxes is not a wise course of action in these tough economic times. To protect Alaska's economy, policy makers must restructure Alaska's savings, as the models show, so that plenty of revenue is provided in the future to fund government, and keep up with inflation.

According to the legislative finance analysis of the new versions of SB 128 and HB 245, the government take line from the private economy resulting from changing the investment tax credits simply increases the projected extra cash reserves that state government would have in year 2025 from \$10 billion to as much as \$13 billion. Alternatively, with no increases in state tax take from the private economy, the Legislative Finance models show that state government will continue to have a \$10 billion cash reserve in ten years.

Thus, RDC believes that the new versions of the savings restructuring bills are a vital step in the right direction, and should be considered on their merits without being tied to increasing the tax take from the sector that drives our state's economy. While it may be politically challenging to fix the budget this session, Alaska must realize a path to sustainability.

RDC appreciates your time and efforts this session, and thanks you for your consideration of our perspective. We look forward to working with the Administration and Legislature to find solutions for Alaska's future.

Sincerely,



Marleanna Hall  
Executive Director

---

**From:** Lynette Bergh  
**Sent:** Friday, March 25, 2016 4:41 PM  
**To:** Helen Phillips  
**Subject:** FW: Please forward to appropriate lawmakers

Helen,  
I'm not sure what to do with this testimony...but I'm sure you can figure it out. ;)  
Lynette

---

**From:** Jennie Hafele  
**Sent:** Friday, March 25, 2016 4:34 PM  
**Subject:** FW: Please forward to appropriate lawmakers

Please distribute and enter into the record the emailed testimony below to the bills in your committee:

SB 128 PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS in the Senate Finance Committee  
SB 114 PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS in the Senate Finance Committee

HB 250 INDIV. INCOME TAX: CREDITS; RETURNS in the House Finance Committee  
SB 134 INDIV. INCOME TAX: CREDITS; RETURNS in the Senate Labor and Commerce Committee

Thank you,  
Jennie Hafele  
Fairbanks LIO

CC: Interior Delegation Members

*HB 245*

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**From:** Marin Kuizenga  
**Sent:** Friday, March 25, 2016 12:27 PM  
**To:** LIO Fairbanks  
**Subject:** Please forward to appropriate lawmakers

Dear LIO,

Thank you so much for the information provided via phone. I am a proponent of the role of government, and am happy that you are present to receive my comments and direct them on to the appropriate legislators. Thank you for your assistance in forwarding my note. - Marin

Dear Legislature,

I am an average Alaska citizen of 26 years. I own a house in Fairbanks, my company statewide office is based in Fairbanks, supporting academic research at the University of Alaska Fairbanks. My children attend school

here. I love Alaska and do not plan on leaving however, if you do not deal with our economy, and if you gut our schools and universities, and communities, I will have no choice but to leave, taking my family and discouraging my employer from using this base for our work place. I would like you each to know my views:

1. We need to fundamentally rework Alaska's economy away from its oil-only dependence.
2. We need new revenue. We need a sustainable balanced budget – a visionary plan, not dim-witted cutting
  - a. **I am fine with you taking my PFD, all of it. Take it.**
  - b. **I like government services and am grateful for any number of them. I like my streets plowed, my teachers to be paid, the LIO to exist, and so on. If we must, let's have an income tax.**

I am appalled with the representation the Interior is getting from the likes of Senator Pete Kelly and Representative Tammie Wilson. [And don't even get me started on the guns on college campuses idea. What a nut case.]

I appeal to those who have vision and courage to understand that there are average Alaskans who want what is best for this state, long term. Please work for a better budget that preserves what we have in Alaska, and asks what we can give back to the State.

Thank you,

Marin Kuizenga

1953 Swallow Drive

Fairbanks, AK 99709

[polarmarin@gmail.com](mailto:polarmarin@gmail.com)

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**From:** Lynette Bergh  
**Sent:** Wednesday, March 16, 2016 4:45 PM  
**To:** House Finance Legislation  
**Subject:** FW: Testimony to be entered into the record

Hi Helen,

Both of these bills are in HFIN. HB 245 was already heard and is rescheduled for 3-18. The other bill hasn't been heard yet. This email was addressed to all the Interior Delegation members. I wasn't sure if you already received it...but wanted to make sure it got into the record.

Thank you,  
Lynette

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**From:** Jennie Hafele  
**Sent:** Wednesday, March 16, 2016 4:14 PM  
**Subject:** Testimony

Topic:  
Budget  
PFD  
Income Tax

Please enter into the record the emailed testimony below to the bills in your committee dated 3/16/2016

PFD: HB 245/SB 128

PFD: SB 114/HB 303

Income Tax: HB 250/SB134

Cc: Interior Delegation members

Thanks,  
Jennie  
FBX LIO

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**From:** Don Pendergrast  
**Sent:** Monday, March 14, 2016 10:37 AM  
**To:** LIO Fairbanks  
**Subject:** My budget expectations

Alaska Legislators,

Alaska's budget crisis cannot be solved the way our state revenue stream is structured but it can be soothed by thoughtful actions from our elected officials and it's citizens.

The state needs to increase revenue, reallocate resources, spend frugally and wisely, and foster long term economic growth so we are not so dependent on oil and gas revenues. I want to express my views on the subjects above.

Increase revenues by raising taxes.

- Alaska needs an income tax. This is easily implemented with minimum administrative costs since it would be a percentage of the federal income tax that most Alaskans pay.
- A state sales tax is another fair tax. A sales tax is more cumbersome to collect and administer, but everyone pays something. It may be wise to exempt some things (e.g. prescription medicines, or certain costs for seniors), but these should be judiciously applied.

Reallocation of existing resources: the Permanent Fund.

- Our annual dividend must be repurposed to help pay for our expenses. It is foolish to pay a dividend and not collect taxes. The expressed purpose of the Permanent Fund was to be a "rainy day" account and that "rainy day" is here.
- We also need to cut contributions to the principle of the Permanent Fund. We need to use some of these funds for the near future. However the Permanent Fund must continue to grow and we must add what we can to the principle. I suggest decreasing the individual dividend by two dollars for every one dollar withheld from the principal. I think this two to one ratio is important because we cannot give up on saving even during these tough times.

Long-term growth for economies is positively correlated to a well-educated and trained population. The surest way to "grow the pie" in Alaska is to support education and training.

- We do not need to cut funding for our university system, in fact that should be increased, but increases spent wisely to train our future work force. Restructuring our university system may make it more efficient.
- Public schools are the backbone of education, they continue to need adequate funding. Pay increases should be based on merit not length of service. A good teacher is priceless, a poor teacher is, well poor. Schools are often the center of social life in communities, if we want to foster community and our future work force we need to fund not fetter our schools.

We need to transform our resource extraction economy to a value added economy.

- Resource based industries must pay more for the resources they use. Our state needs to increase its taxes on our timber, fishing, and mining industries as well as capturing more from the oil and gas industry by increasing taxes and eliminating subsidies.
- Our tourism industry grows steadily, but also needs a transformation to provide much more than "industrial scale" tourism driven by the large cruise operators to smaller locally owned operations which keep the dollars closer to home, and provide more local employment.

· We can provide economic boosts to local economies by refunding weatherization projects. Energy conservation, particularly here in Alaska, pays immediate returns that last for many years. The least expensive energy is what you don't use. Most energy conservation work is local, benefits to the community are substantial and long lived. It's the smartest place to stimulate our economy.

In our current budget crisis I cannot support and you should not fund dubious mega-projects of questionable financial return. Halt them, defund them and utilize those funds for more immediate needs. Gone are the days when "the costs are the benefits".

A lot rides on your decisions in the next several months; all industries and constituencies will try to influence you to favor them. This is the time to be a statesman not a politician. Your decisions and actions need to be focused on what is best for our state, not your re-election. It is the time to put Alaska's future first and foremost. I am certain you will.

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Don Pendergrast  
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907-479-2964 h  
907-750-4902 c

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**From:** Daniel Lester <mutt\_76@hotmail.com>  
**Sent:** Monday, March 14, 2016 11:22 AM  
**To:** Senate State Affairs; House Finance Legislation  
**Subject:** re: PFD and tough choices

Although I supported Governor Walker in the election, I DO NOT support taking the PFD for any reason. I also would not support any kind of income tax. I do not want to see an income tax of any kind but would not be totally against a sales tax. A state income tax is again only a few paying for the whole. Why not a state sales tax with a permanent cap. A sales tax on all general products sold in our state, not just alcohol and tobacco. This way everyone, including visitors, would help pay for sustaining this state. I know several people who work on the slope from out of state. A sales tax would also create a way for them to help support the state they work in. By a permanent cap I refer to a stop placed on the tax that can not be changed except by a vote of the people of the state of Alaska. The government already gets a good portion of the PFD. There is even a fund set aside designed to help them in times of need. I for one would rather have a smaller dividend check than give it all to the government. Besides if an income tax is imposed, you are taking the PFD from us anyway. At least with a sales tax we can choose what to spend it on before you get it. Just a thought...

Please, I pray you will take into serious consideration what you about to put vote... This is not about the next election or politics as usual. This is about our children and grandchildren and their children after that.

Thank you,

Robin Lester  
mutt\_76@hotmail.com  
Houston, Alaska