

SB

114

<TARGET><BILL>SB 114</BILL><SUBJECT>SB
114</SUBJECT><COMM>SFIN29</COMM></TARGET>

29th Alaska State Legislature

Session:
State Capitol, Room 121
Juneau, AK 99801
Phone: (907) 465-2995
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Interim:
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Anchorage, AK 99501
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Senator Lesil McGuire

Sponsor Statement

CS for SS for Senate Bill 114 (STA)

“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 duties of the commissioner of revenue; and providing for an effective date.”

The legislature is often confronted with the hardest decisions to make, and as leaders, this cannot be avoided. In tough budget times, we must ensure that the state is on solid financial footing. That is why I am proposing a long-term solution to the state’s vulnerability to volatile oil prices, Senate Bill 114.

SB 114 will not, by itself, solve the entire budget deficit, but it will get us at least half of the way there and provide for a degree of stability, all while maintaining downward pressure on spending. This bill changes where the funds for the Dividend come from and what funds are available for government services. It is not a raid on the Permanent Fund, and it would reduce the need for new taxes.

Currently, 30% of all royalties and rents from oil and gas go into the Permanent Fund, and 0.5% goes into the School Trust Fund. This leaves 69.5% of all royalties to go into the General Fund. SB 114 proposes to revert to the constitutionally mandated 25% of royalties to deposit into the Permanent Fund. Of the remainder, 59.5% would be deposited to the General Fund.

The Dividend would then be comprised of the remainin15% of the Royalties, and from the Earnings Reserve Account 2% of the value of the Constitutional Budget Reserve (CBR) and 15% of the 5 year average of the Statutory Net Income (SNI) of the Permanent Fund. There is also a minimum Dividend payment of \$1,000, and for 2016 the Dividend would be unaffected and remain above \$2,000.

This method of calculating the dividend would tie the payout to 3 things: 1) The long term health of the market (15% of the SNI of the Permanent Fund), 2) The long term fiscal health of the state (2% of the CBR), and 3) The short term fiscal health of the state (15% of royalties). This is a way of spreading the risks and rewards of Alaska’s fiscal climate between its residents and its government.

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The General Fund would utilize a portion of the Permanent Fund: 4.5% of the total value of the fund would be deposited into the General Fund from the Earnings Reserve Account. This would result in a net increase of nearly \$2 Billion to the General Fund, significantly closing the fiscal gap.

This bill does three things that are important: it protects the Permanent Fund, ensures a Dividend, and cuts the deficit in half. This model provides stability to the budget, and allows Alaska's vast endowment to work in smart ways for us.

It is for these reasons that I have introduced SB114, and I humbly ask for your support.

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SS for SB 114

“Permeant Fund: Earnings, Deposits and Accounts.” Sectional Analysis 29-LS0883\T

Section 1. AS 37.13.010(a)

- This section amends AS 37.13.010(a) to reduce the share of mineral lease rentals, royalties, royalty shale proceeds, net profit shares, federal mineral revenue sharing payments, and bonuses received by the state from certain mineral leases contributed to the permanent fund from 50 percent to 25 percent.
 - Previously, the contribution rate had been set at 50 percent of mineral lease bonuses (except from the Beaufort Sea, which had been left at 25 percent) and 50 percent of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay had been at 25 percent.
 - The dates listed in sub-sections (1) and (2) carve out the different geographical lease sales at the time of the Free Conference Committee Report of the Eleventh Alaska State Legislature for the HCS for SB 161, which chose to apply different percentages to mineral lease rents, royalties, etc., from each area.
 - The distinction is that AS 37.13.010(a)(1) addresses the Prudhoe Bay leases, and (a)(2) addresses the Beaufort Sea leases.

Section 2. AS 37.13.010(a)

- Repealing Section 1. This section reverts to the current statute and is effective July 1, 2019.

Section 3. 37.13.015

- This section creates a new way to calculate the dividend. Under this section the dividend calculation is as follows:
 - Drawn from the earnings reserve- 15% of the five year average of the net income of the permanent fund
 - Drawn from the earnings reserve- 2% of the market value of the constitutional budget reserve
 - From the general fund- 15% of the money deposited to the general fund from all mineral lease rents, royalties, sales and bonuses.

Section 4. AS 37.13.140

- This section does two things.
 - First, it directs the Alaska Permanent Fund Corporation (AFPC) to determine the amount available from the permanent funds earnings reserve that is available for distribution.
 - It shall be calculated is 4.5% of the average market value (POMV) of the permanent fund, including the earnings reserve, for the last 5 fiscal years immediately preceding the fiscal year just ended.
 - Second, it places a revenue limitation on the amount of the POMV draw based on the amount of production taxes and mineral lease rents, royalties and bonuses.
 - If the income from these sources is more than \$1 Billion then the POMV draw will be reduced on a dollar per dollar bases- less the 15% of rents, royalties, and bonuses that are attributed to the dividend under Section 3.

Section 5. AS 37.13.140

- Repealing Section 4. This section reverts to the current statute and is effective July 1, 2019.

Section 6. AS 37.13.145(a)

- Directs the APPC to deposit into the earnings reserve income as it is realized and received except for the income for deposit into the general fund under Section 12 of this act.

Section 7. AS 37.13.145(a)

- Repealing Section 7. This section reverts to the current statute and is effective July 1, 2019.

Section 8. AS 37.13.145(c)

- This section changes the statutorily defined mechanism for inflation proofing the principle of the permanent fund.
 - Under this section the AFPC can transfer to the principle of the fund the difference between 4 times the previous fiscal years amount for distribution, determined in Section 4, and the balance of the earnings reserve.
 - If the earnings reserve has 4 times the previous years' distribution, the excess can be used for inflation proofing. This ensures that before inflation proofing occurs, there is a 4:1 coverage spread for the POMV draw.
- The amount transferred shall not be applied to increase the value of the fund attributed to the settlement of State v. Amerada Hess.

Section 9. AS 37.13.145(c)

- Repealing Section 8. This section reverts to the current statute and is effective July 1, 2019.

Section 10. AS 37.13.145(d)

- Holds the settlement of State v. Amerada Hess harmless from the general fund deposits.

Section 11. AS 37.13.145(d)

- Repealing Section 10. This section reverts to the current statute and is effective July 1, 2019.

Section 12. AS 37.13.145

- (e) Subject to legislative appropriation, this section directs the AFPC to deposit the amount available for distribution, under Section 4 of this act, into the general fund.
- (f) The commissioner of revenue may recommend adjustments to the percentage of money appropriated to the dividend fund.
- (g) The commissioner of revenue shall deliver an annual report to the legislature evaluating the sufficiency of assets in the earnings reserve and the amount projected for distribution to the general fund.
- (h) is assumed to be a drafting error, and would only apply on or after July 1, 2019 when Section 3 is repealed under Section 27 of this act.

Section 13. AS 37.13.300(c)

- Makes a conforming amendment to clarify that net income from the Mental Health Trust Fund is not included in the computation of income available for distribution under Sec. 4 of the bill.

Section 14. AS 37.13.300(c)

- Repealing Section 13. This section reverts to the current statute and is effective July 1, 2019.

Section 15. AS 37.13.031 (c)

- Conforms to Sec 4, so that the net income of the Permanent Fund continues to be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

Section 16. AS 37.14.031 (c)

- Repealing Section 15. This section reverts to the current statute and is effective July 1, 2019.

Section 17. AS 43.23.025(a)

- Makes conforming amendments for determining the value of the dividend under Sec. 3 of the bill.

Section 18. AS 43.23.025(a)

- Repealing Section 17. This section reverts to the current statute and is effective July 1, 2019.

Section 19. AS 43.23.025

- Allows the legislature to appropriate from the earnings reserve account an necessary funding to maintain a dividend amount of at \$1,000 in the event that the calculation determined by Sec. 3 of this act falls below that amount.

Section 20. AS 43.23.045(d)

- States that unexpended appropriations to implement this act lapses into the dividend fund at the end of a fiscal year and *may* be used in determining the amount of and paying the subsequent year's dividend.

Section 21. AS 43.23.045(d)

- Repealing Section 20. This section reverts to the current statute and is effective July 1, 2019.

Section 22

Repeals AS 37.13.145(b)

Section 23. (Sunset Clause)

On July 1, 2019, the following are repealed:

AS 37.13.015- New Dividend Calculation

AS 37.13.145(e) - Deposits of available funds from ERA to general funds

AS 37.13.145(f) – Commissioner of revenue can recommend changes of percentages to dividend fund

AS 37.13.145(g) – Commissioner of revenue will deliver a report to the legislature on assets of PF

AS 43.23.025(c) – minimum dividend of \$1,000

Section 24. Transition:

- Hold the 2016 Dividend harmless and will be calculated by status quo formula
- Commissioner of revenue and APFC may adopt regulations

Section 25. Transition:

- The 2019 Dividend will be determined by the new formula of this act, regardless of the repeal language of Section 23.
- Commissioner of revenue and APFC may adopt regulations

Section 26. Retroactivity

- If the changes made to the calculation of the dividend and the POMV draw from the earnings reserve account are not signed into law by July 1, 2016, the act is retroactive to that date.
 - Sec. 1- All royalties, rents, bonuses etc... changed from 25 and 50% deposited to permanent fund principle, to 25%.
 - Sec. 3- New dividend calculation
 - Sec. 4- POMV draw and revenue limiter

- Sec. 6- Deposits from the earnings reserve account to general fund
- Sec. 8- new inflation proofing mechanism
- Sec 10- Holding earnings from Amerada Hess settlement harmless from general fund
- Sec. 12(e)-(g)- deposits from earnings reserve account to general fund and commissioner of revenue's new duties
- Sec. 13 – Holding mental health trust fund earnings harmless from the calculation for distribution
- Sec. 15 – Net income calculation for APFC
- Sec 17 – appropriation language to dividend fund
- Sec 19 – minimum \$1,000 dividend
- Sec 20 - unexpended appropriation for dividend fund lapse
- Sec 24 – Transition language holding 2016 dividend harmless

Section 27.

- Effective date of July 1, 2019- repeals this act

Section 28

Section 24 (2016 dividend held harmless) and Section 26 (retroactivity) immediate effective date

Section 29

Effective date of this act is July 1, 2016

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CS for SS for SB 114 Version F to Version T Summary of Changes

Title Change

Page 1, Lines 3-4

Insert "relating to the duties of the commissioner of revenue"

Section 2. AS 37.13.010(a)

Page 2, Lines 9-23

Repeals Section 1. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 3. AS 37.13.140

Page 2, Line 24 thru Page 3, Line 8

Renumbered from Section 2

Adds a new section for the calculation of the dividend. Under this section the dividend is calculated as follows:

- Drawn from the earnings reserve account- 15% of the five year average of the net income of the permanent fund.
- Drawn from the earnings reserve- 2% of the market value of the constitutional budget reserve.
- Drawn from the general fund- 15% of the money deposited to the general fund from all mineral lease rents, royalties, sales and bonuses.

Section 4. AS 37.13.140

Page 3, Lines 10-29

Renumbered from Section 3

Line 9

Insert “*Sec 4.”

Delete “Sec. 37.13.140”

Insert “AS 37.13.140 is amended to read”

Line 10

Insert: “Sec. 37.13.140”

Line 14

Delete “as the income is realized and received”

Insert “excluding unrealized gains or losses”

Line 16-17

Delete “on July 1 of each year”

Insert “under this subsection, computed annually for each fiscal year, following the conclusion of the fiscal year.”

Lines 18-19

Insert “may not be less than zero and”

Delete “five”

Insert “four and one half”

Line 20

Delete “balance of the”

Line 20-21

Following “reserve account established”

Delete “under”

Insert “in”

Preceding “five fiscal years”

Delete “preceding”

Following “five fiscal years”

Delete “including”

Insert “immediately preceding”

Line 22

Delete “computed annually for each fiscal year in accordance with generally accepted accounting principles”

Lines 22-26

Following “year just ended”

Insert “reduced by an amount equal to 85% of the production taxes and mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments, and bonuses received by the state from mineral leases and deposited into the general fund in the fiscal year just ended that exceeds \$1,000,000,000”

Section 5. AS 37.13.140

Page 3, Line 30 thru page 4, Line 21

Repeals Section 4. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 6. AS 37.13.145(a)

Page 4, Lines 22-27

Renumbered from Section 4.

Section 7. AS 37.13.145(a)

Page 4, Line 28 thru page 5, Line 2

Repeals Section 6. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 8 AS 37.13.145(c)

Page 5, Lines 3-24

A new section that deletes current statutory inflation proofing calculation tied to the Consumer Price Index, and establishes a new option for calculating the amount for inflation proofing.

Lines 20-23

Following “On July 1, the corporation shall calculate the amount to transfer to the principle under this subsection by”

Insert “multiplying the amount available for distribution for the previous fiscal year under AS 37.13.140(b) by four and subtracting the product of that calculation from the balance of the earnings reserve account on June 30 of the previous fiscal year.”

Section 9. AS 37.13.145(c)

Page 5, Line 25 thru Page 6, Line 14

Repeals Section 8. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 10. AS 37.13.145(d)

Page 6, Lines 15-24

Renumbered from Section 5

Section 11. AS 37.13.145(d)

Page 6, Line 25 thru Page 7, Line 3

Repeals Section 10. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 12. AS 37.13.145

Page 7, Line 4-25

Line 4

Insert “*Sec. 12. AS 37.13.145 is amended by adding new subsections to read:”

Line 5-6

Following “Alaska”

Delete “income”

Insert “subject to legislative appropriation, the corporation shall deposit funds”

Line 6

Following “deposit funds from the”

Delete “fund; including the”

Line 7

Following “account”

Delete “established under AS 37.13.145, shall be deposited by the corporation”

Following “general fund”

Delete “within 30 days after it is received”

Line 7-8

Following “distribution”

Delete “determined by the corporation”

Insert “for that fiscal year”

Lines 8-9

Following “general fund”

Delete “for that.”

Insert “.On the last day of a”

Following “year”

Delete “. If”

Insert “, if”

Following “fund for” and preceding “fiscal year”

Delete “a”

Insert “that”

Line 10

Following “that” and preceding “fiscal year”

Delete “fiscal year, on the last day of the”

Lines 14-22

New subsections

Insert

“(f) Each year, on or before January 30, the commissioner of revenue may, after consultation with the board, recommend an adjustment to the percentages of money appropriated under AS37.13.015, based on a review of the assets of the fund”

(g) Each year, on or before January 30, the commissioner of revenue shall provide to the legislature a report evaluating the sufficiency of the assets in the earnings reserve account

and the amount the commissioner projects to be distributed under AS 37.13.140(b). The commissioner shall deliver the report to the senate secretary and the chief clerk of the house or representatives and notify the legislature that the report is available.

(h) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140.”

Section 13. AS 37.13.300(c)

Page 7, Lines 26-29

Renumbered from Section 7

Line 28

Following “computation of”

Insert “the amount”

Delete “income”

Section 14. AS 37.13.300(c)

Page 7, Line 30 thru Page 8, Line 2

Repeals Section 13. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 15. AS 37.14.031(c)

Page 8, Lines 3-9

Renumbered from Section 8

Section 16. AS 37.14.031(c)

Page 8, Lines 10-16

Repeals Section 15. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 17. AS 43.23.025(a)

Page 8, Line 17 thru Page 9, Line 11

Renumbered from Section 9

Section 18. AS 43.23.025(a)

Page 9, Line 12 thru Page 10, Line 6

Repeals Section 17. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 19. AS 43.23.025

Page 10, Lines 7-12

Renumbered from Section 10

Section 20. AS 43.23.045(d)

Page 10, Lines 13-18

Renumbered from Section 11.

Section 21. AS 43.23.045(d)

Page 10, Lines 19-24

Repeals Section 20. This section reverts to the current statute and is effective July 1, 2019, as per Sec. 27 of this bill.

Section 22.

Page 10, Line 25

Following “*Sec.”

Insert “22. AS 37.”

Following “13.”

Insert “145(b) is repealed”

Section 23.

Page 10, Lines 26-27

A new section repealing the following statutes (Sections of this bill) on July 1, 2019:

AS 37.13.015 – (Section 3)

AS 37.13.145(e) – (Section 12)

AS 37.13.145(f) – (Section 12)

AS 37.13.145(g) – (Section 12)

AS 37.23.025(c) – (Section 19)

Section 24. Transition

Conforming Changes

Page 10, Line 30 thru Page 11, Line 7

Page 10, Line 30

Delete “9”

Insert “17”

Page 10, Line 31

Delete “10”

Insert “19”

Page 11, Line 1

Delete “11”

Insert “20”

Page 11, Line 3

Delete “9 - 11”

Insert “17, 19, 20”

Section 25. Transition

Page 11, Lines 8- 20

A new section that allows the 2019 dividend to be paid under the new formula as determined in Sections 3, 17, 19, and 20 of this bill, regardless of the repealing provisions that take effect on July 1, 2019.

Section 26. Retroactivity

Page 11, Lines 21-25

All sections that are not repealing sections are retroactive to July 1, 2016.

Section 26.

Page 12, Lines 11-12

All sections that are repealing sections take effect on July 1, 2019.

Section 28.

Page 12, Line 13

Renumbered from Section 15

Insert: “*Sec. 28. Sections 24 and 26”

Section 29

Page 12, Line 14-15

Renumbered from 16

Following “*Sec”

Delete “16”

Insert “29”

Following “provided in”

Delete “sec. 15”

Insert “secs. 27 and 28”

ALASKA PERMANENT FUND CORPORATION

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA
PERMANENT FUND CORPORATION RE-AFFIRMING THE BOARD'S
COMMITMENT TO A CONSTITUTIONAL AMENDMENT ESTABLISHING A
PERCENT OF MARKET VALUE ("POMV") SPENDING LIMIT
METHODOLOGY FOR THE ALASKA PERMANENT FUND**

RESOLUTION 04-09

In December 2000 and again in April 2003, the Board of Trustees ("Board") expressed by resolution its view, as the body with fiduciary responsibility for the management of the Alaska Permanent Fund ("Fund"), that adoption of a constitutional amendment to limit spending from the Fund by use of a "percent of market value" ("POMV") formula was in the long-term best interest of both the Fund and the people of the State of Alaska. In both resolutions (Resolutions 00-13 and 03-05), the Board encouraged the Legislature to consider and approve a POMV amendment that would permit an annual payout from the Fund of no more than five percent of the average market value of the Fund over a prior five year period.

Such a proposal was introduced during the now-concluded 23rd Legislature, but was not approved for presentation to the voters at the upcoming general election. The Board appreciates the support given this POMV proposal by Governor Murkowski and the support by the Legislature.

Despite the failure of the Board's POMV proposal to be placed on the 2004 general election ballot, implementation of a constitutional POMV spending limit for the Fund, with the accompanying benefit of assuring permanent inflation proofing of the Fund, continues to be a high priority policy goal for the Board.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees that the Board reaffirms its commitment to a constitutional amendment that provides for protection of the Fund by application of a POMV payout mechanism.

BE IT FURTHER RESOLVED that the 24th Legislature of the State of Alaska, in consultation with the governor and the Board, is again urged to consider and approve a proposal for a POMV spending limit.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 21st day of September, 2004.

*/s/ Carl Brady, Chair
Board of Trustees*

ATTEST:

*/s/ Michael J. Burns
Corporate Secretary*

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Commentary on SB 114 and the Concept of a Sustainable Budget:

Submitted by Frank McQueary, February 26, 2016

Senate State Affairs Committee

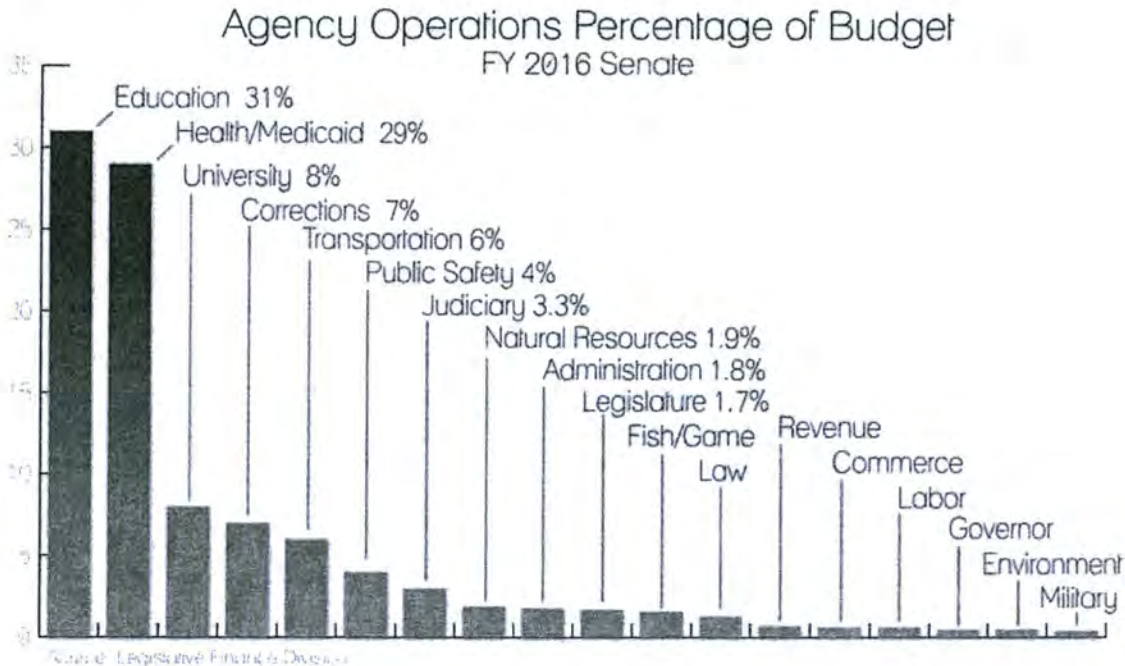
Senator Stoltze, members of the State Affairs Committee, my name is Frank McQueary. Most of you know me, but for those who don't let me briefly summarize my experience and qualifications. Currently I am an owner of a small technology company, the Vice Chair of the Alaska Republican Party and my curriculum vitae includes managing a transportation company multiple times since 1972, working as a VP of Commercial lending in 2 different Alaska banks, a stint with AIDEA in 1981 setting up the small business lending program, a number of years working for a telecommunications company as well as being in the horse boarding and training business simultaneously for 20 of those years. In my younger days, while attending college, I worked summers as a grade checker out of Laborer's Local 341.

The diversity of my experience qualifies me to share some observations with you today.

I wish to speak in favor of SB114 as part of a strategy which will help you ameliorate the economic damage which we will suffer over the next few years as a direct result of the collapse of oil prices and the slowing global economy and I will tell you why it is inherently superior to both the Governor's and Representative Hawker's bills.

The premise of what I wish to propose is that SB 114 alone will help but not solve our current crisis and without additional measures to curb the growth of government we will soon be facing additional crises.

If you will look at the graph below, prepared by your own Legislative Finance Department, you will graphically see what I propose to call "The Little Shop of Horrors: Feed me Seymour" model of government. On the left side of the graph, two of three major impediments to successfully coping with and minimizing the current crisis are very obvious. For as long as I can remember in my 25 year history of pilgrimages to Juneau, Education and Health/Medicaid expenses have been growing and compounding. A third major component of controlling the budget is buried in **all** of the departments: programmatic increases in labor costs.



With each of these three components historically growing and compounding at from 5-15 percent a year the static 2 dimensional budget analyses seen thus far are very deceptive. If your model continues the 5-15 % annual growth in these three components over a short 5 year period it becomes obvious that you will never achieve a "sustainable" budget given current revenue expectations.

Only the combination of targetted cuts in the areas of education, medicaid and state labor costs combined with an SB114 type of conversion of the permanent fund will both assure the continuation of permanent fund dividends and give you enough control of the budget to begin to call it sustainable.

As you grapple with these issues constantly remind yourselves that Government does not create wealth. Only the private sector and free market investments do that successfully. The easy cuts were made last year, and unfortunately virtually all capital investment was curtailed. That is the part of government spending which flows into the private sector, ideally providing jobs and the infrastructure necessary to grow our economy.

A government centric bias is inherent in the very Juneau air that you breath. The fact that in your jobs today you are totally focussed on the State budget, rather than the State's broader economy is a testament to that bias.

When I met with the Governor last week he said he wanted to get outside of the closed loop of government and get other opinions as to how to solve our current dilemma.

What I told him, and what I will tell you, is that an opportunity has been missed. The messaging of what is happening should have been something like this: "Lifeboat Alaska, we are in this together and we will

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get through it together. We will ration our resources wisely and with scrupulous fairness. No one of us will prosper at the expense of the rest." I told the Governor that he thinks he is captaining a cruise ship rather than a lifeboat and that he had simply moved the crew into the first class cabins and asked the rest of us to move into steerage.

Without any labor contract increases the programatic raises for merit and longevity average between 3-4% per annum. Continued wage inflation in state labor costs, continued exponential growth in Education and Health and Human Services budgets will guarantee the failure of any budget plan.

There is an old adage that "in adversity there is opportunity".

Your opportunity now is to choose the one plan that converts the Permanent Fund into an endowment while still guaranteeing a significant flow of dividends into the private sector, shoring up the larger economy of the state, while still contributing significantly to closing the state government budget gap. That bill is SB 114.

Why is SB 114 superior to both the Governor's plan and Representative Hawker's bill? It is simple two step logic:

1. It guarantees that more dollars are dedicated to dividends, hence leaving a larger gap to close in the budget. What I am proposing is that you do not take the easy way out by taking most of the dividend to fill the gap. This means that you will have to attack the real structural budgetary issue of unrestrained growth in education, health and labor costs. Both the Governor and Hawker's approaches open the door to eventually taking all of the earnings without solving the problem.
2. SB 114 is more palatable to the public. It signals that you are not trying to solve the gap at their expense while protecting the vested interests of the bureaucracy.

Your real mission is to harness the cancerous growth of Education, Health and Labor costs within state government. As long as you ignore this rapidly growing segment of the budget you will never resolve the budget issue or "right size" government.

IF our education was improving commensurately with its increasing costs and IF access to health care was better and less costly, we would have no room to complain. But neither education nor health care access has improved with ever more costly programs. In fact the opposite has happened. When I graduated from East Anchorage High School in 1963, Alaska schools were considered to be among the best in the nation. Now we rank near the bottom. When Governor Walker pushed Medicaid expansion the premise was that more Alaskans would have better access to more affordable health care. Our Medicaid plan has 17 optional "Cadillac" services which are provided at no cost to the very poor. Meanwhile the not so poor have been saddled with large monthly premiums for insurance and have seen their deductibles rise to the point where for all practical purposes they only have major medical coverage. Deductibles of \$5000 to \$9000 are becoming common as more and more people are forced into the world of Obamacare.

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Governor Walker has been aiding and abetting this economically and socially destructive transition and it is time for you as our elected representatives to show courage in correcting the course of government.

1. Cut and Reform Education
2. Cut and Reform Health Systems
3. Remove automatic increases from state employee contracts and ask them to share the pain
4. Pass SB 114.

And remember that unallocated cuts will simply allow bureaucracy to punish both you and the public.

While it is not my intent to get too far into the weeds, I cannot resist making two points: The immediate fiscal problem may not be as critical as alarmists make it out to be: e.g., correcting the overprovisioning for inflation in the permanent fund would free up an additional \$900,000,000 towards this years deficit...

And there are pockets of privilege in State government that need to be rooted out now. One of the more egregious examples being the highly compensated and underworked line haul ferries. Transportation subsidies for highways are calculated in the range of cents per vehicle mile travelled. The subsidy for Alaska Marine Highway line haul ferries is in excess of \$10.00 per vehicle mile travelled. Five years ago the overall subsidy was over \$120,000,000.00 (yes that is millions). That level of subsidy is indefensible and is nothing more than an invincible barrier to competition from the private sector handling the longer runs.

Thank you Mr. Chairman and Members, if you have any additional questions or want more detail or documentation please feel free to contact me at : fmcqueary@gci.net or call me at 907-223-7528.

3. It guarantees that more dollars are dedicated to dividends, hence leaving a larger gap to close in the budget. What I am proposing is that you not try to take the easy way out by taking most of the dividend to fill the gap. This means that you will have to attack the real structural budgetary issue of unrestrained growth in education, health and labor costs. Both the Governor and Hawker's approaches open the door to eventually taking all of the earnings without solving the problem.
4. SB 114 is more palatable to the public. It signals that you are not trying to solve the gap at their expense while protecting the vested interests of the bureaucracy.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 114
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB114CSSS(STA)-Fund Cap-Dup-CVCF
Title: PERM FUND: EARNINGS, DEPOSITS,
ACCOUNTS
Sponsor: MCGUIRE
Requester: Senate Finance

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 2017	FY 2018	FY 2019	FY 2020	FY 2021
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (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. CSSSB 114

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.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 114
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB114C555(STA)-DOA-VCCB-03-22-16
Title: PERM FUND: EARNINGS, DEPOSITS,
ACCOUNTS
Sponsor: MCGUIRE
Requester: Senate Finance

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

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (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: Kate Hudson	Phone: (907)465-5525
Division: Violent Crimes Compensation Board	Date: 03/22/2016 01:30 PM
Approved By: Sheldon Fisher, Commissioner	Date: 03/22/16
Agency: Department of Administration	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SB 114

Analysis

Bill Analysis

The proposed legislation will alter the method in which funds are made available to calculate the annual dividend. Instead of a transfer of income from the Alaska Permanent Fund Corporation the dividend fund will be replenished by an amount appropriated by the legislature in the newly added section 37.13.015.

Although the way in which funds become available to disburse dividends is important, the proposed changes that will directly impact the calculation process are; (1) having additional funds available if the annual estimated dividend amount were to fall short of a \$1000.00 and (2) the potential of an unobligated balance on June 30 of the fiscal year being appropriated rather than carried forward to the subsequent fiscal year.

Annually, the dividend amount is calculated in mid-September for the first payment distribution, which gets paid near the beginning of October. If an additional amount was necessary to reach a \$1000.00 per dividend threshold, the additional appropriated funds would need to be accessible as needed to pay eligible Alaskans.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	CSSSSB 114(STA)
Fiscal Note Number:	3
(S) Publish Date:	3/16/2016

Identifier: SB114-DOR-APFC-01-29-15
 Title: PERM FUND: EARNINGS, DEPOSITS,
 ACCOUNTS
 Sponsor: MCGUIRE
 Requester: Senate State Affairs Committee

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

Expenditures/Revenues

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

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

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (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:

Prepared By:	Laura Achee	Phone:	(907)796-1522
Division:	Alaska Permanent Fund Corporation	Date:	01/29/2016 12:00 AM
Approved By:	Angela Rodell	Date:	01/29/16
Agency:	Alaska Permanent Fund Corporation		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

SB 114 would lower the amount of mineral royalties deposited into the Permanent Fund to the Constitutionally mandated 25 percent, and would remove the dividend calculation and transfer from the earnings reserve account. The bill would also require that the lesser of a five percent of the trailing five year average of the Permanent Funds value or the balance of the earnings reserve account be transferred to the general fund. These changes would not affect the operations of the Alaska Permanent Fund Corporation.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	CSSSSB 114(STA)
Fiscal Note Number:	2
(S) Publish Date:	3/16/2016

Identifier: SB114-DOR-PFD-01-28-16
 Title: PERM FUND: EARNINGS, DEPOSITS,
 ACCOUNTS
 Sponsor: MCGUIRE
 Requester: Senate State Affairs

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Permanent Fund Dividend Division
 OMB Component Number: 981

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
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
---------------------------	--	--	--	--	--	--	--

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(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:

Prepared By:	Sara Race, Director	Phone:	(907)465-4785
Division:	Permanent Fund Dividend	Date:	01/29/2016 03:30 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	01/29/16
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

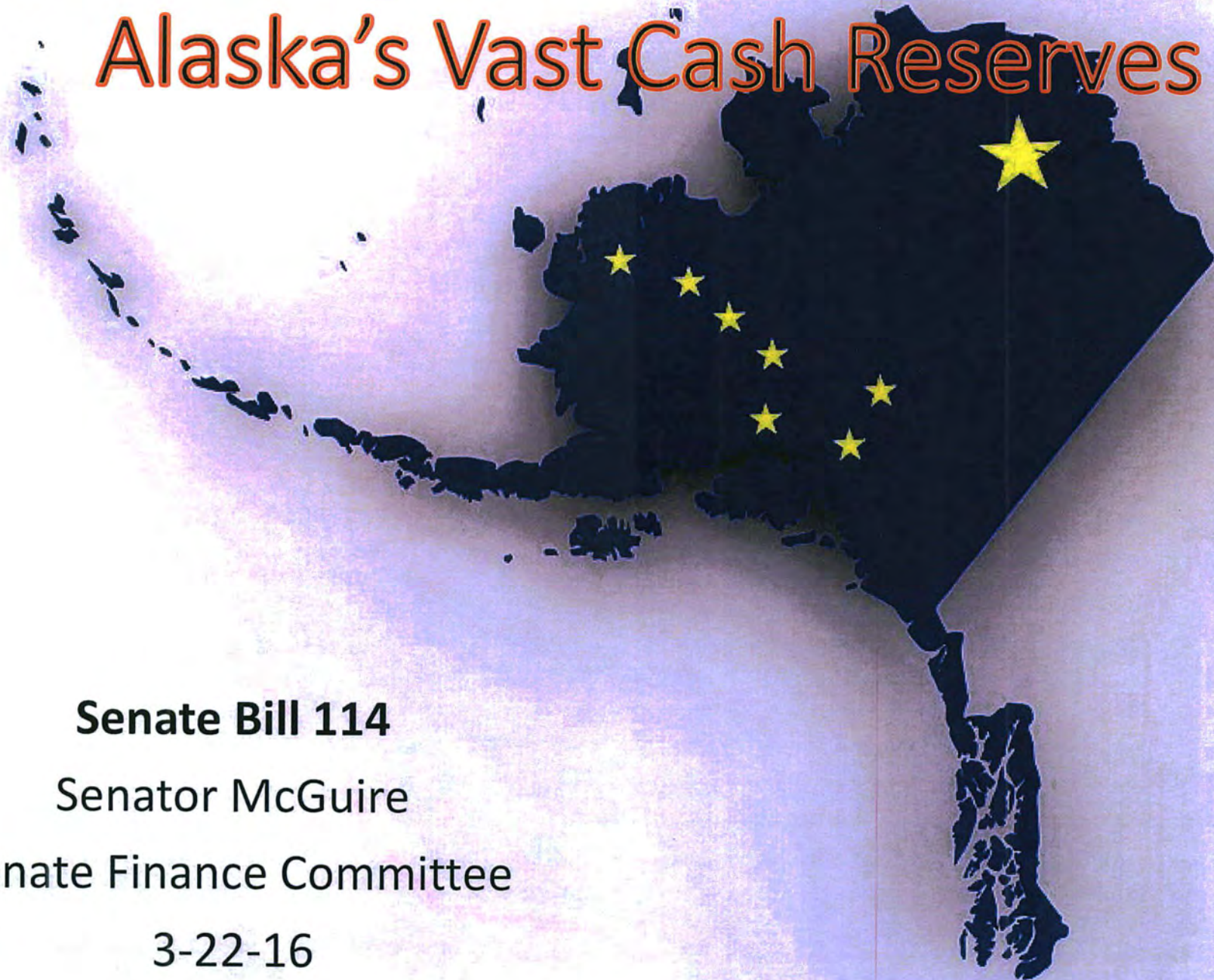
Analysis**Bill Analysis**

The proposed legislation will alter the method in which funds are made available to calculate the annual dividend. Instead of a transfer of income from the Alaska Permanent Fund Corporation the dividend fund will be replenished by an amount appropriated by the legislature in the newly added section 37.13.015.

Although the way in which funds become available to disburse dividends is important, the proposed changes that will directly impact the calculation process are; (1) having additional funds available if the annual estimated dividend amount were to fall short of a \$1000.00 and (2) the potential of an unobligated balance on June 30 of the fiscal year being appropriated rather than carried forward to the subsequent fiscal year.

Annually, the dividend amount is calculated in mid-September for the first payment distribution, which gets paid near the beginning of October. If an additional amount was necessary to reach a \$1000.00 per dividend threshold, the additional appropriated funds would need to be accessible as needed to pay eligible Alaskans.

Reducing the Deficit: Investing Alaska's Vast Cash Reserves



Senate Bill 114

Senator McGuire

Senate Finance Committee

3-22-16



Is there Fiscal Problem?

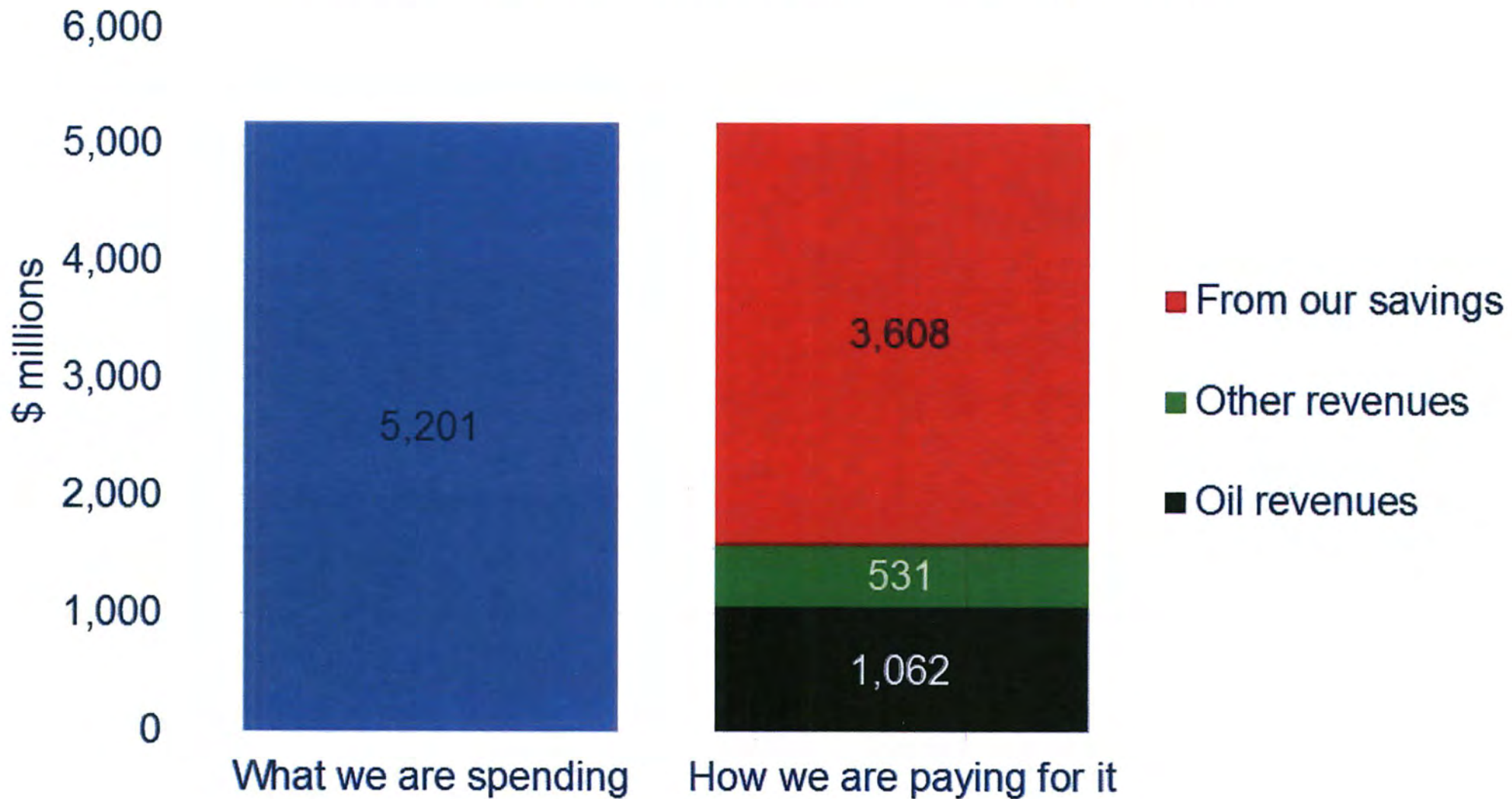
We have a \$3.5 to \$4Billion Deficit

- The legislature has enacted heavy spending cuts over the last 2 years
- The state has several savings accounts, but

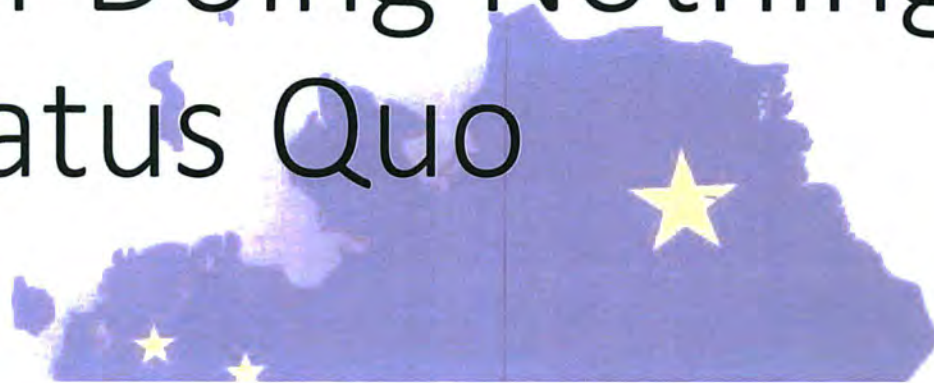
Revenue models show that if oil prices do not rebound, those savings will be gone in about 2 years

- We cannot wait and hope for high oil prices
- The price of inaction now could be disastrous for the state's future

Alaska's Fiscal Situation This Year (FY16)

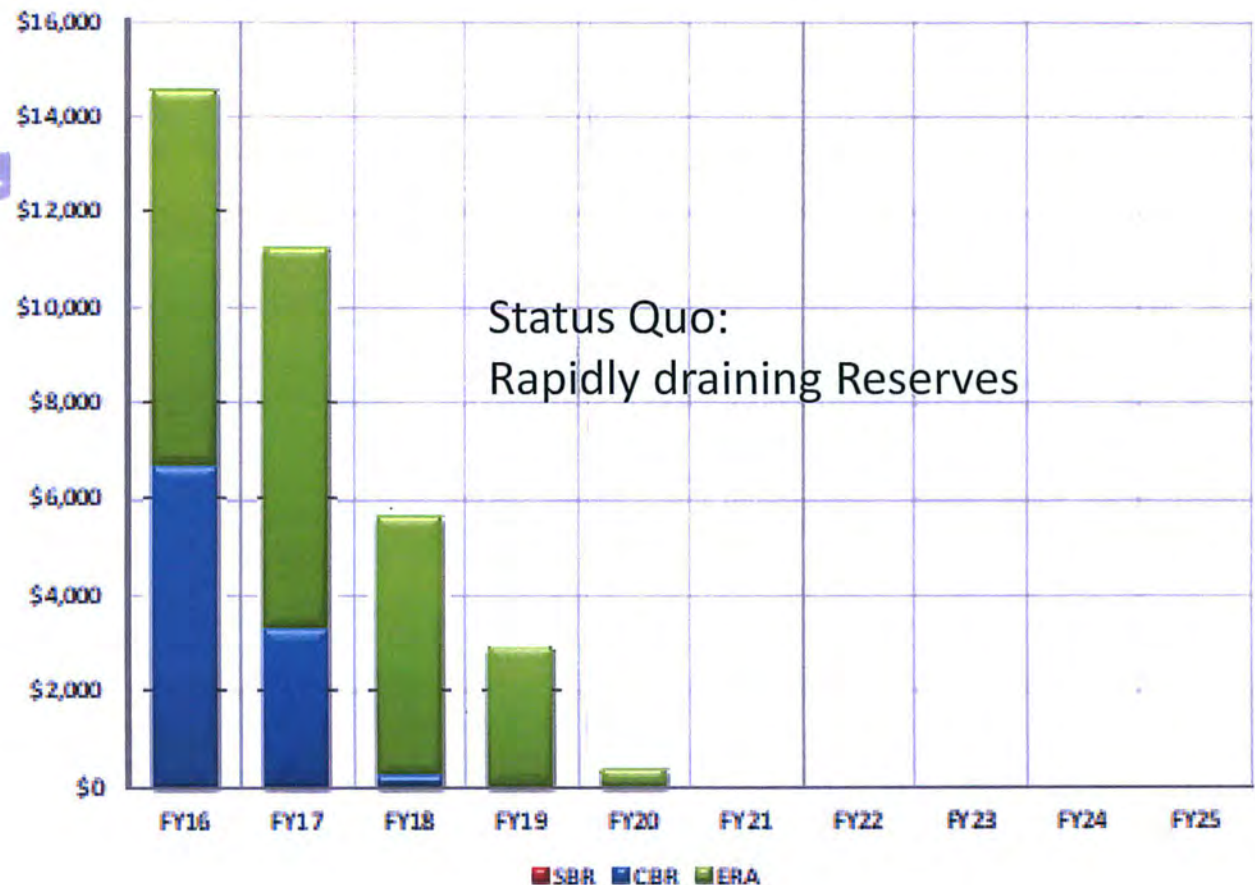


The Cost of Doing Nothing/ Status Quo



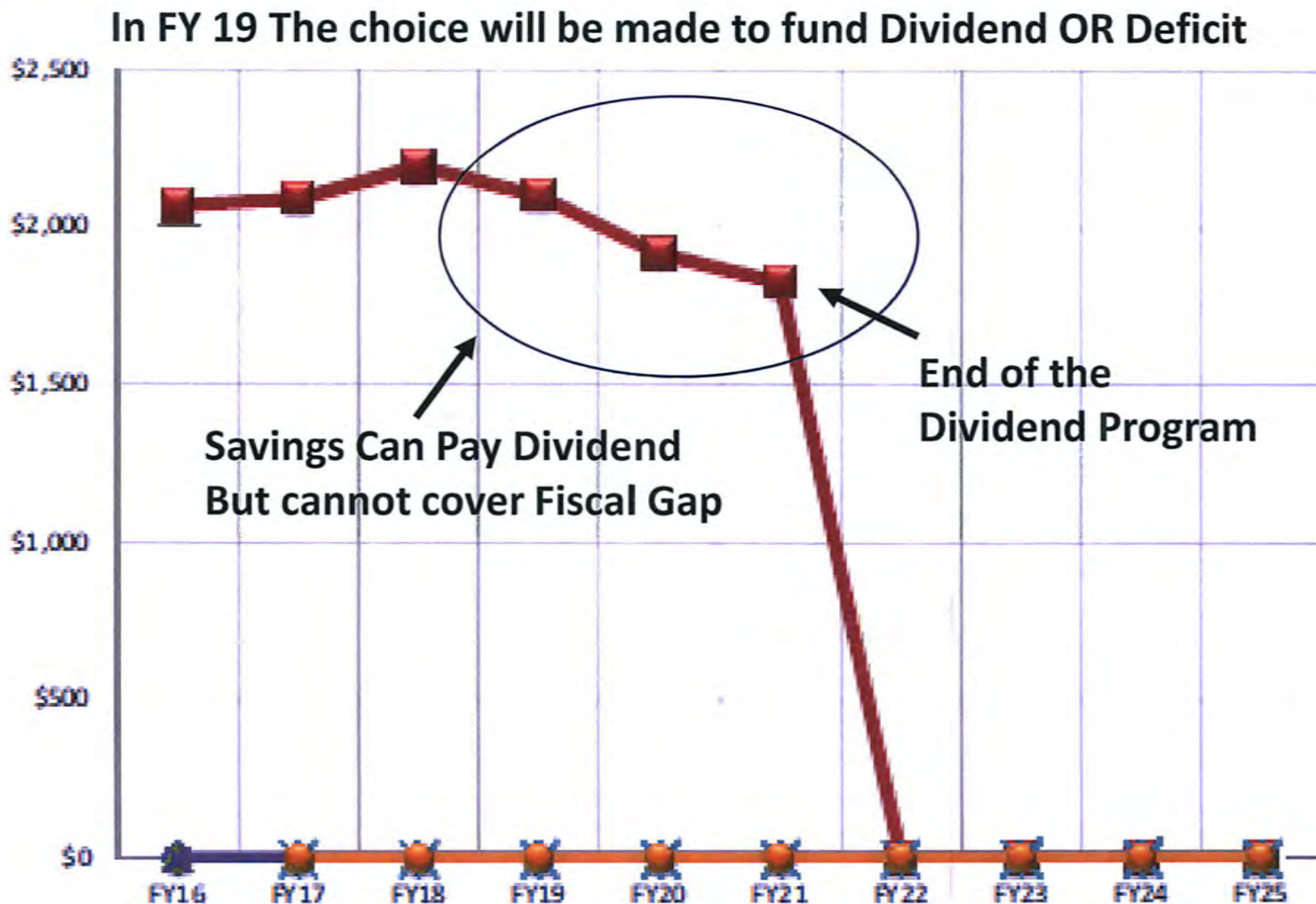
- The longer we wait to act
 - The lower are our reserves
 - The higher the risk of Failure
- A lower reserve balance
 - Simply takes away choices we have to fill the deficit

Budget Reserves



The Cost of Doing Nothing/ Status Quo

Dividend Check



A Path Forward

We need a plan to address the problem

In crafting SB114 I had these principles in mind:

The solution needed to:

- 1) Retain a dividend
 - a) Without making the dividend dependent on the size of state spending
- 2) Reduce the volatility in the state budget
- 3) To clearly expose the size and cost of government
 - so that downward pressure would ensure that Alaskans could begin an honest assessment of needs vs. wants
- 4) Be enduring to allow maximum use of our wealth over generations so that benefits and burdens are shared
- 5) Be Simple and Easy to implement

The Five Stages of Grief

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

Other Options?

3 Proposals have been introduced to the Legislature

- **SB128 - Annuity Model**
- **SB114 – 5% POMV**
- **HB224 – 4.5% POMV**

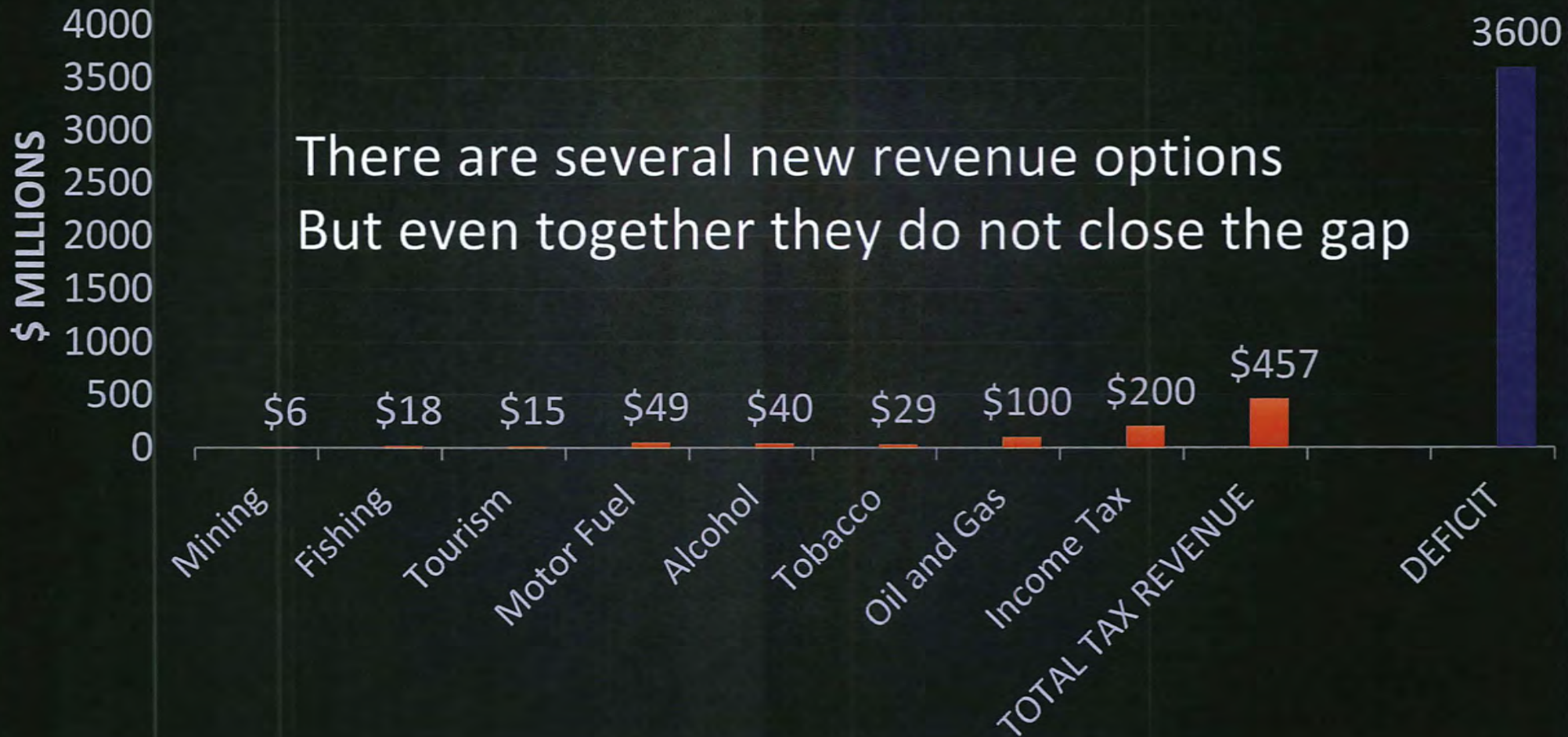
All Use the Permanent Fund Earnings

What else could we do?

- **Constitutional Amendment to access the Corpus of the Permanent Fund?**
 - **Requires vote on next General Election**
- **New Taxes?**

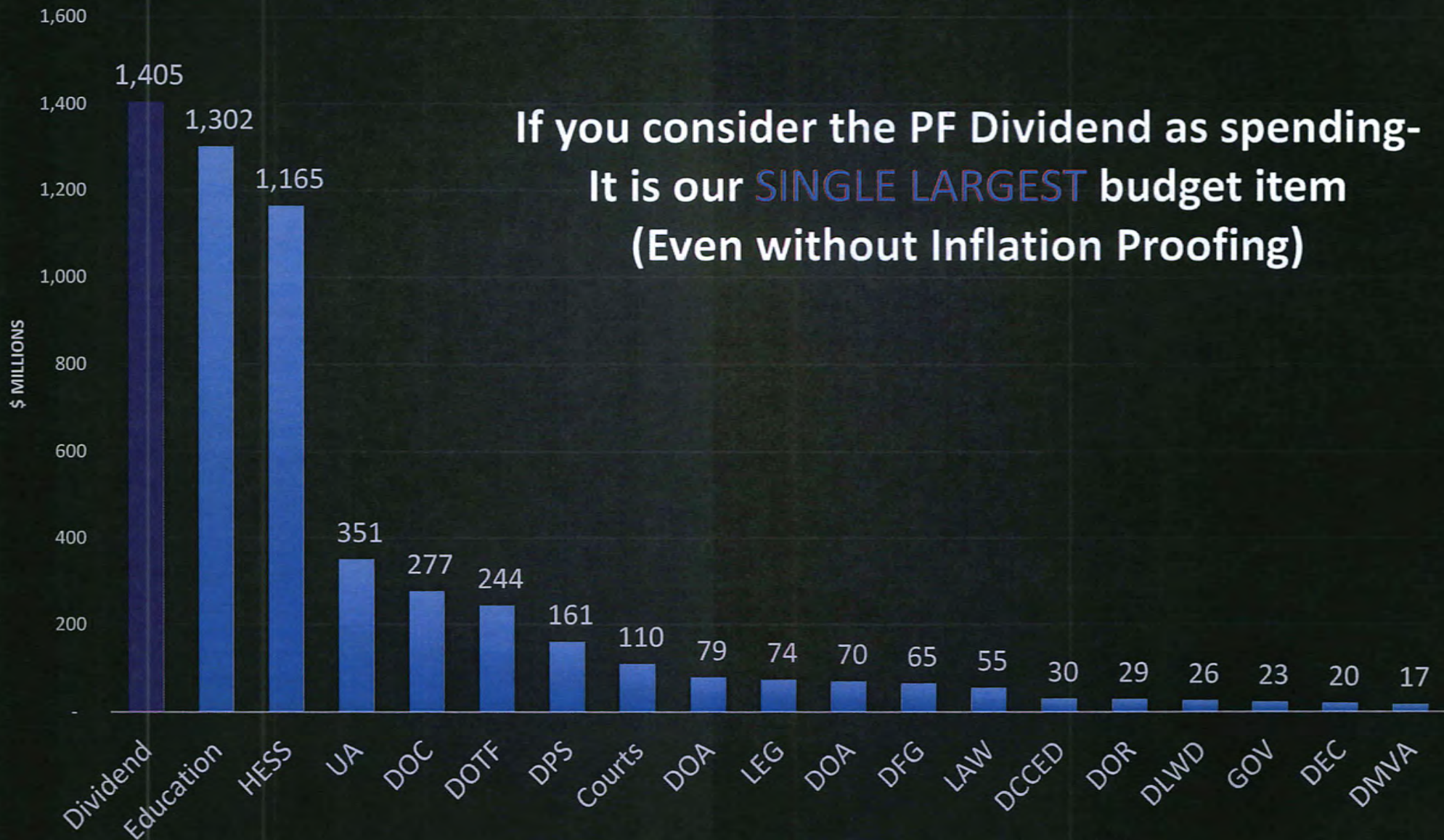
**Continue with Strategic Cuts to the budget
But we cannot cut our way out of this**

Potential New Revenue From Sustainable Alaska Plan



FY16 Agency Share of Total Agency Operations and the Appropriation for Permanent Fund Dividends (UGF Only)

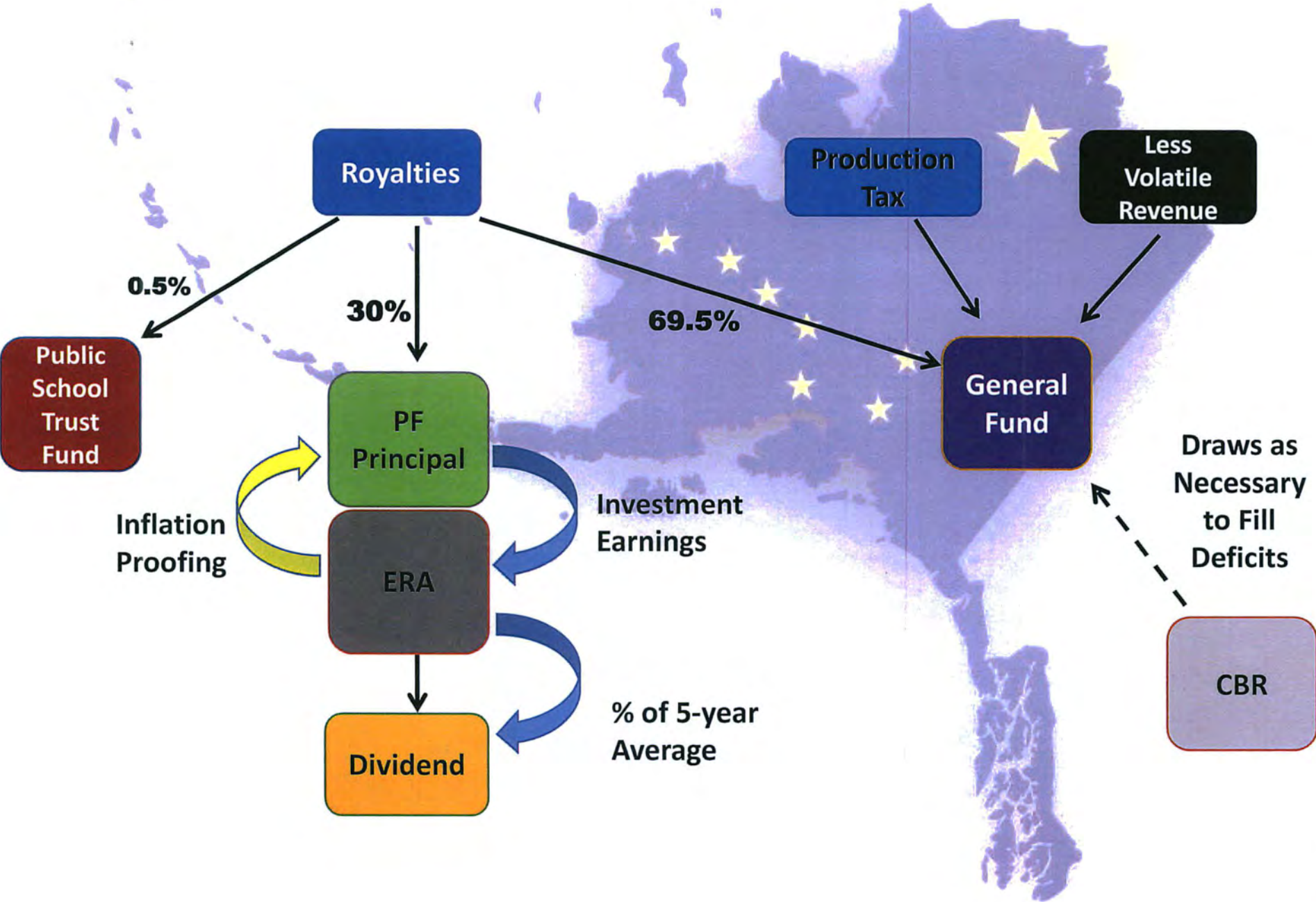
If you consider the PF Dividend as spending- It is our **SINGLE LARGEST** budget item (Even without Inflation Proofing)



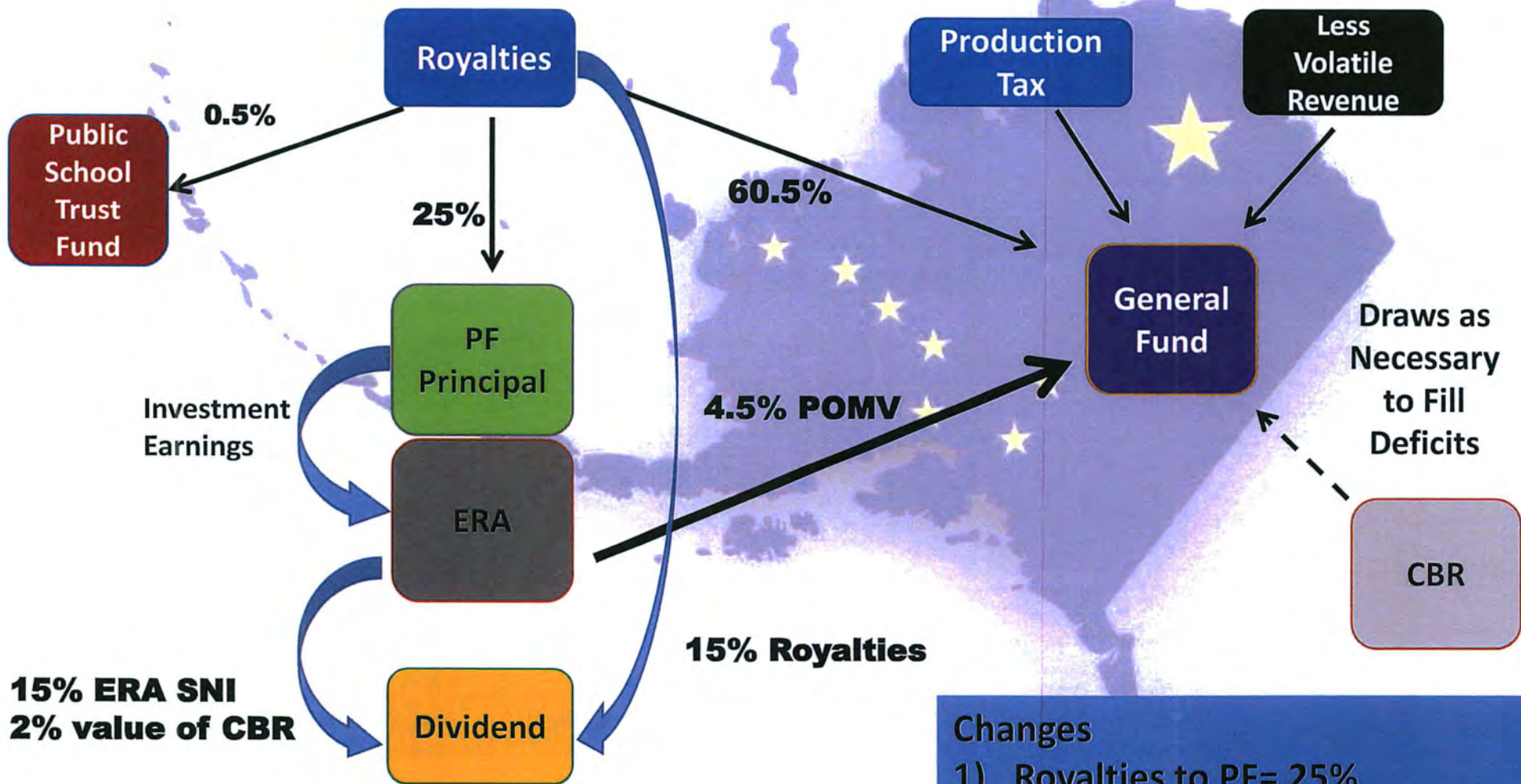


Structure of SB 114

Current Cash Flow



Proposed SB 114 Cash Flow

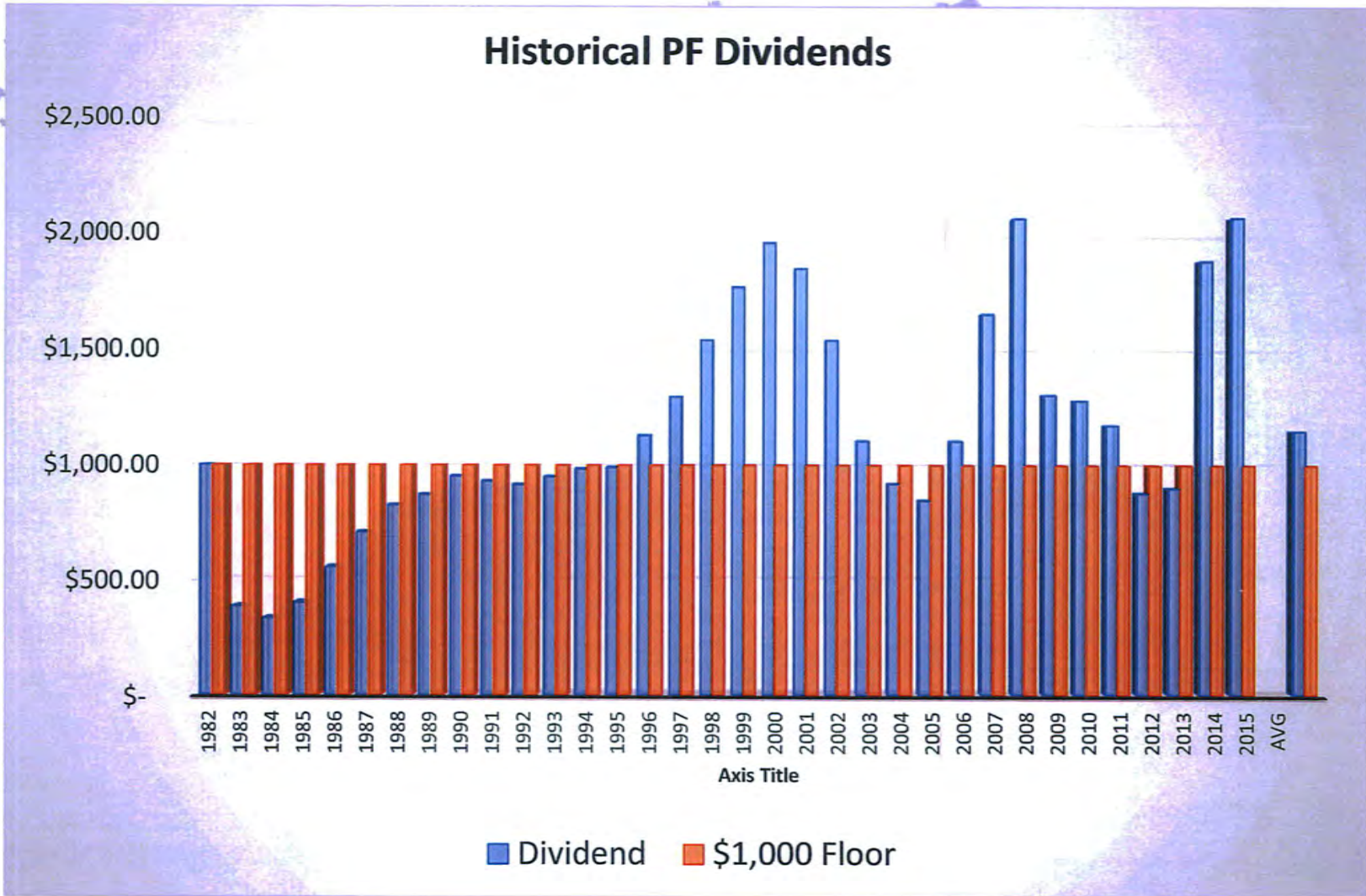


- Changes**
- 1) Royalties to PF= 25%
 - 2) 4.5% POMV from ERA to GF
 - 3) Dividend Calculation:
 - 1) 15% of Royalties
 - 2) 15% of ERA funds (from ERA)
 - 3) 2% of CBR (from ERA)

The Overall Effect

- **Reduces the Deficit by \$2 Billion**
- Reduces volatility in budget
- Grows the Permanent Fund
 - Maintains buying power of the corpus of the fund
- Preserves the Dividend
 - With a minimum of \$1,000
- Reduces the CBR draw to cover deficit
- Helps maintain good state credit rating
- Maintains downward pressure on state Spending

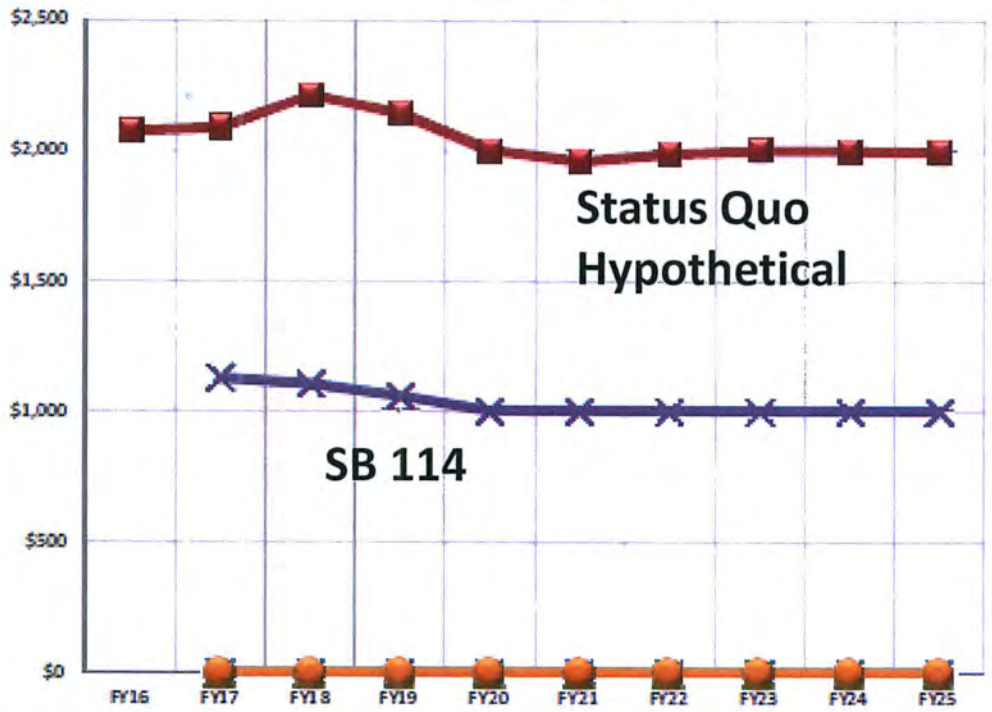
SB 114 Dividend



34 Dividends have been paid
18 Have been \$1,000 or less
16 Have been greater than \$1,000

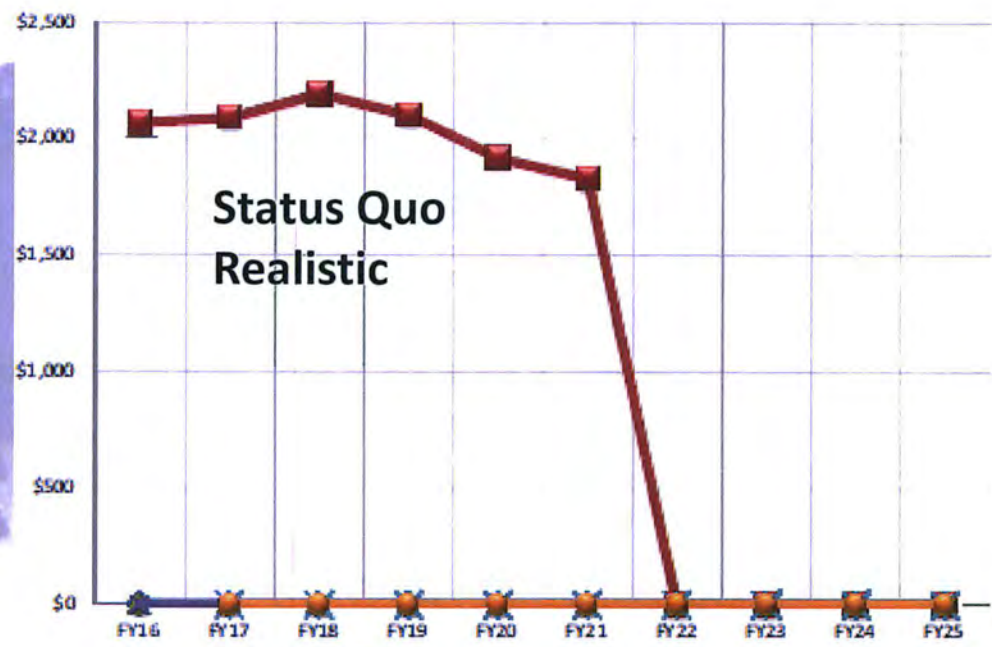
The Size of the Dividend

Dividend Check



SB 114
Has a minimum
\$1,000 Dividend

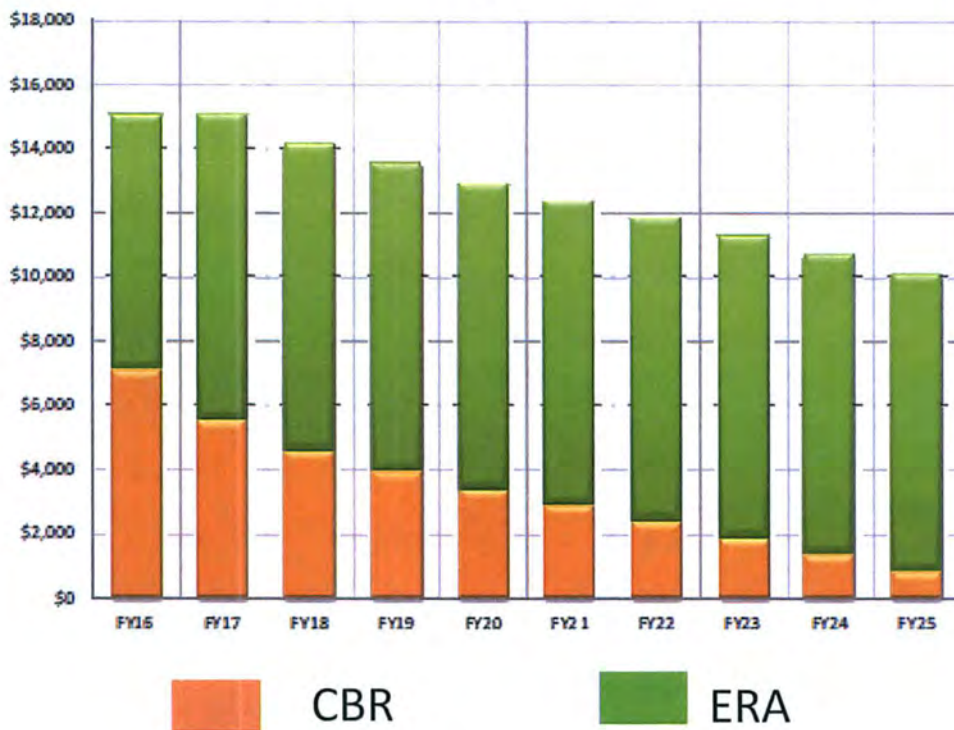
Dividend Check



Status Quo
Dividend Program WILL END

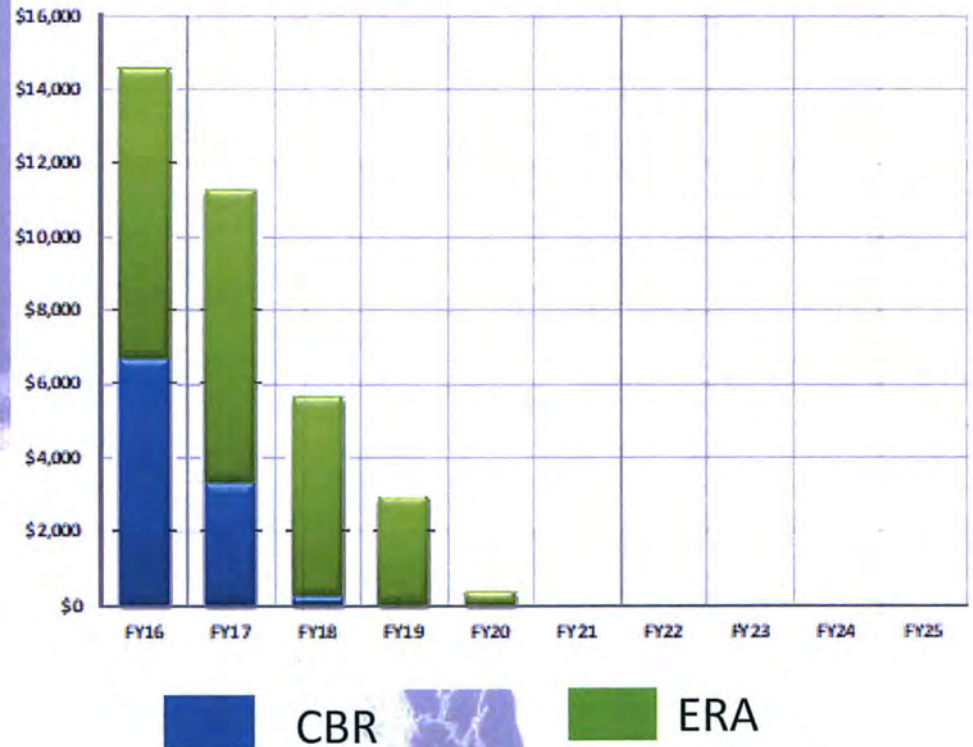
The Reserves SB 114 vs. Status Quo

Budget Reserves



SB114

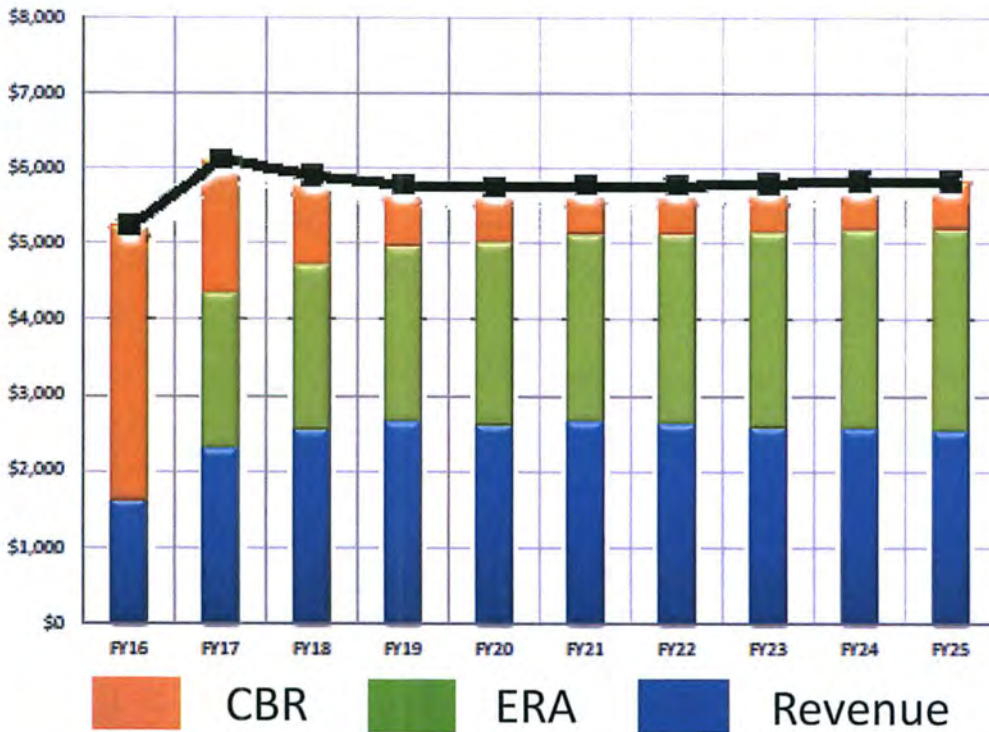
Budget Reserves



Status Quo

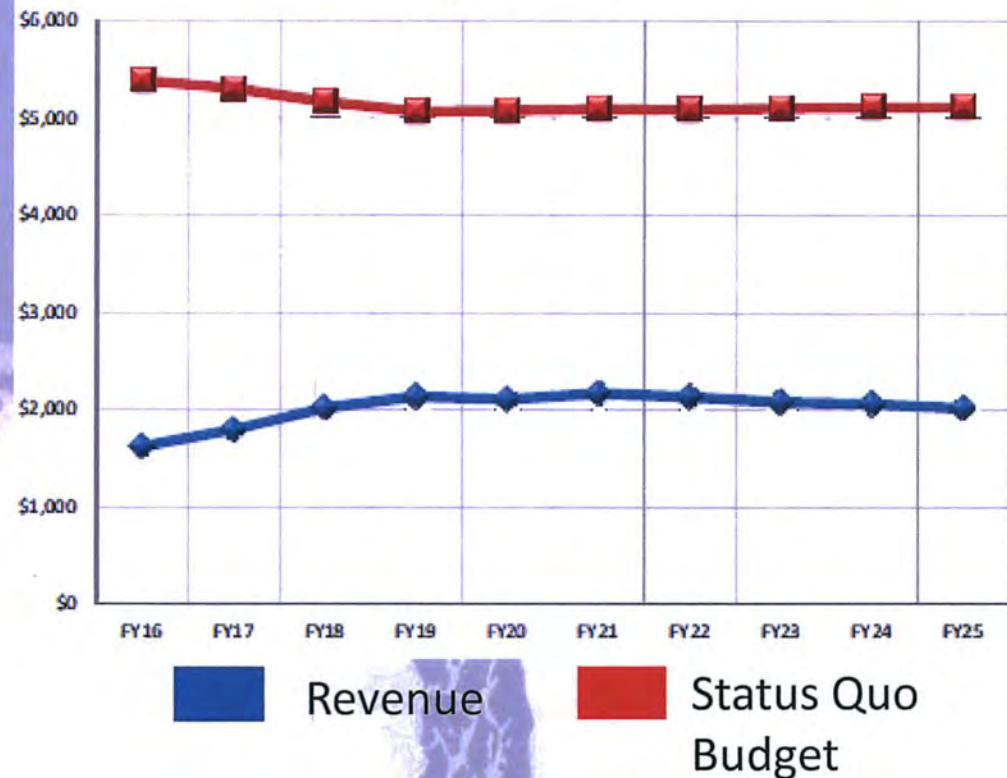
The Reserves SB 114/ Status Quo

UGF Revenue/ Budget
(\$ millions)



SB114

UGF Revenue/ Budget
(\$ millions)



Status Quo

POMV and Inflation Proofing

Callan's Est. Return on Permanent Fund Investments = 6.9%

POMV Draw = 4.5%

To the Earnings Reserve Account = 2.4%

+

To the Corpus of the Permanent Fund = 25% of Royalties

Total Royalties \$690M * 25% = **\$172M**

The Bill also allows inflation proofing to the Principle if the ERA is 4 times the size of the POMV Draw

Review oversight



Each year on or before January 30

The commissioner of revenue may consult with the Permanent Fund board and recommend

- **Adjustments to the percentages of money appropriated to the dividend**

Each year on or before January 30

The commissioner of revenue Shall provide a legislative report that:

- **Evaluates the sufficiency of the assets in the ERA**
- **Evaluates the amount projected to be distributed to the General Fund**



Revenue Limitations From POMV Draw

- For Oil revenue over \$1B there is a corresponding reduction of the POMV draw
- This improves the sustainability of payouts from the ERA
- Reduces the risk of increasing spending in high years of petroleum revenue
- Reduces the volatility in the budgeting process for UGF expenditures

\$ Billions		
Production Taxes (PT)	POMV Draw (4.5%)	PT and POMV Draw
\$0.5	\$2.25	\$2.75
\$1.0	\$2.25	\$3.25
\$2.0	\$1.25	\$3.25
\$3.0	\$0.25	\$3.25
\$3.5	\$0.00	\$3.50
\$4.0	\$0.00	\$4.00
\$5.0	\$0.00	\$5.00

What SB 114 *IS* and *IS NOT*

- SB 114 *is NOT*
 - A raid on the Permanent Fund
 - SB114 would only draw from the Earnings Reserve Account
 - A way for Government to increase spending
 - A dividend Killer
- SB 114 *IS*
 - A way to share the risks and rewards of the states fiscal health
 - A way to protect the dividend into the future
 - A way to ensure that services we enjoy continue to be provided
 - Police
 - Firefighters
 - Roads
 - Education
 - Health and Social Services
 - The Marine Highway
 - Parks and Recreation
 - Fish and Game Management

MAJOR POLICY CALLS



- POMV vs. Sovereign Wealth Model
- Revenue Limitation
- % of POMV Draw
- Dividend Calculation
- CBR Investment

MAJOR POLICY CALLS

POMV vs. Sovereign Wealth Model

- **POMV is a 5 year look back (hindsight)**
- **SWM is a 25 year look forward (foresight)**

Which is better?

MAJOR POLICY CALLS



Revenue Limitation

Dramatically reduces volatility in the budget

However

Current language does not limit revenue when Oil Revenue exceeds \$3.5Billion

Should it?

MAJOR POLICY CALLS

% of the POMV

The Percentage of POMV draw is sustainable around 5%- total draw from ERA

Questions we must ask ourselves:

- *Will* this percentage include a portion for the Dividend?
- The current bill excludes the 15% SNI of the ERA and the 2% from CBR from the 4.5% POMV Draw
 - 4.5% POMV + 15% SNI + 2% CBR is probably closer to 5.2% total draw
 - Is this Sustainable?

MAJOR POLICY CALLS

Dividend Calculation

- **Current bill holds the 2016 Dividend harmless (status quo)**
 - **This will cost the state \$750M vs. implanting a new calculation this year**
- **Current bill guarantee's a \$1,000 Dividend minimum**
 - **This protects Alaskans on the low side, but the state pays out**
 - **This must be drawn from savings and will not be paid back when dividends increase**

MAJOR POLICY CALLS

Dividend Calculation

Consideration

- The current bill draws a 4.5% POMV from the ERA
 - Then bases the dividend, in part, on 15% of a 5yr avg. SNI
 - These two things are counter to each other POMV vs. SNI payouts

This introduces Volatility to the POMV over time

- Could consider a Flat dividend amount, or
 - Better, a formula that
 - Uses a % of Royalties and
 - And % of the POMV

This could spread the risk and reward between residents and the state

MAJOR POLICY CALLS

CBR Investment

Consideration

- **AS 37.10.430**
 - (a) DOR may transfer management of the fund to the APFC
 - (c) The subaccount in the CBR can be invested for higher returns IF
 - The Commissioner of Revenue does not expect them to be needed for the next 5 years.
- A sustainable POMV draw reduces the drain on the CBR
- Some of it could be invested long for a higher yield

Annual CBR- Main Performance

-DOR/Treasury

FY	Return %
2015	0.84%
2014	1.35%
2013	1.45%
2012	3.22%
2011	2.64%

SB 114: Alaska's Glide Path

Right now we have options

The Cost of inaction is to reduce the effectiveness of
those options

SB 114
Senator McGuire
Senate Finance Committee
3-22-16