

SB

128

(FILE 1)

<TARGET><BILL>SB 128</BILL><SUBJECT>SB 128 (FILE
1)</SUBJECT><COMM>SFIN29</COMM></TARGET>

29-GS2859U
Wallace/Martin
6/6/16

adopted ~~to~~ 6/6/16

CS FOR SENATE BILL NO. 128(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FOURTH SPECIAL SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE 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 (I) 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(l) 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.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 128
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB128CS(FIN)-DOR-TRS-6-6-16
Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: GOVERNOR

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Treasury Division
OMB Component Number: 121

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 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017					
Personal Services							
Travel							
Services		(130.0)	(130.0)	(130.0)	(130.0)	(130.0)	(130.0)
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	(130.0)	(130.0)	(130.0)	(130.0)	(130.0)	(130.0)

Fund Source (Operating Only)

1004 Gen Fund		(130.0)	(130.0)	(130.0)	(130.0)	(130.0)	(130.0)
Total	0.0	(130.0)	(130.0)	(130.0)	(130.0)	(130.0)	(130.0)

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?
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>Pamela Leary - Director</u>	Phone: <u>(907)465-3751</u>
Division: <u>Treasury</u>	Date: <u>06/06/2016 03:00 PM</u>
Approved By: <u>Jerry Burnett-Deputy Commissioner</u>	Date: <u>06/06/16</u>
Agency: <u>Department of Revenue</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SB 128

Analysis

HB245 and SB 138 contemplate that the Constitutional Budget Reserve Fund (CBRF) would be managed by the APFC. The cost of managing the CBRF at Treasury in FY16 was approximately \$1.4 million. The Treasury division allocates all of its costs for managing investments based upon a federally approved cost allocation plan such that all costs are charged to funds based on the relative asset value of each fund managed to all funds managed at the Treasury. Therefore, with the exception of approximately \$130 thousand in external management fees which would go away, all other costs associated with managing the CBRF would be allocated to the other funds in the Treasury. This fiscal note reflects the approximate costs that would be required to be allocated to the other funds

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 128
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB128CS(FIN)-DOR-APFC-6-6-16
Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Finance

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
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services	14,800.0		14,800.0	14,800.0	14,800.0	14,800.0	14,800.0	14,800.0
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	14,800.0	0.0	14,800.0	14,800.0	14,800.0	14,800.0	14,800.0	14,800.0

Fund Source (Operating Only)

1105 PF Gross	14,800.0		14,800.0	14,800.0	14,800.0	14,800.0	14,800.0	14,800.0
Total	14,800.0	0.0	14,800.0	14,800.0	14,800.0	14,800.0	14,800.0	14,800.0

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:

CS would transfer management of the Constitutional Budget Reserve to APFC.
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Prepared By: <u>Pauly Swanson</u>	Phone: <u>(907)796-1520</u>
Division: <u>Alaska Permanent Fund Corporation</u>	Date: <u>06/06/2016 12:00 AM</u>
Approved By: <u>Angela Rodell</u>	Date: <u>06/06/16</u>
Agency: <u>Alaska Permanent Fund Corporation</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SB 128

Analysis

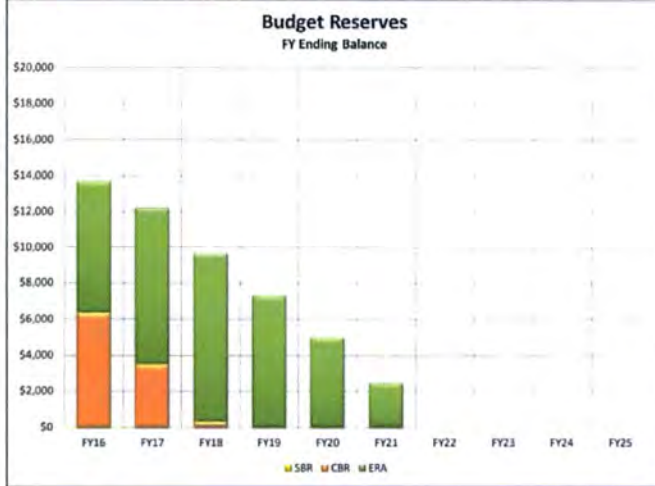
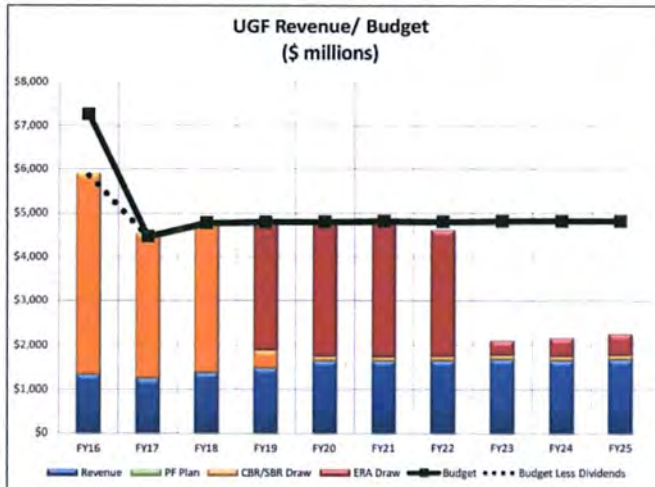
This bill transfers management of the Constitutional Budget Reserve to APFC.

This fiscal note assumes that this transfer would result in a net increase of assets under management of approximately \$5 billion, or approximately 10% of the total fund. The projected increase in management fees is reflected above. It is assumed that earnings are being spent and there would be no change to the CBR principal balance.

In addition, the bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25% of the average market value of the fund, including earnings reserve, for the first five of the preceding six fiscal years. This draw would be allocated between the Dividend Fund and the General Fund. Managing toward this liability 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.

It is assumed that the CBR is invested in the same asset allocation as the Fund.

LFD Fiscal Model



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	12,193	9,654	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

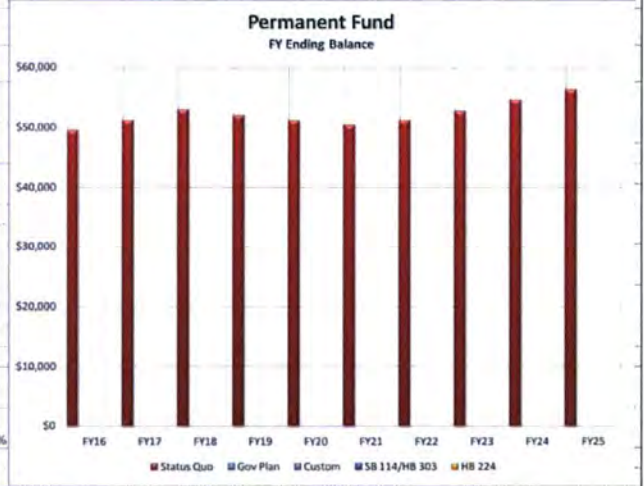
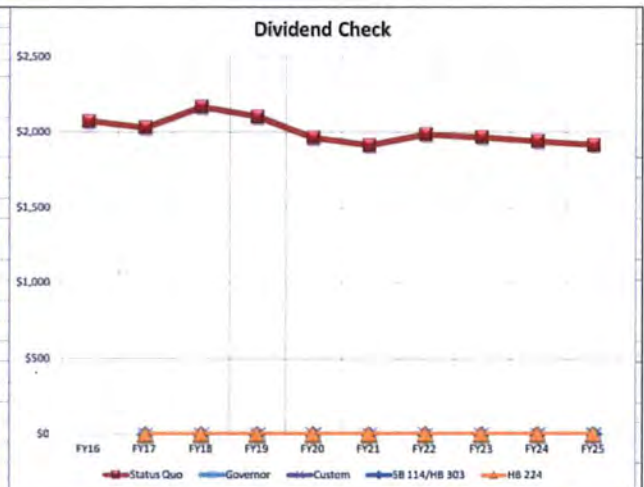
Price Scenario Spring 2016

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

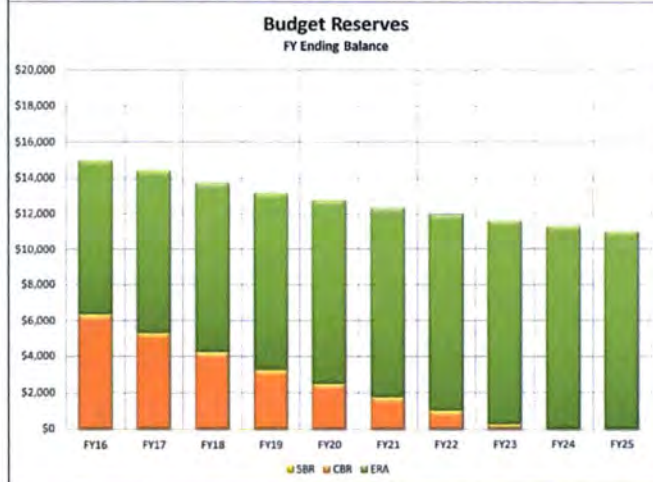
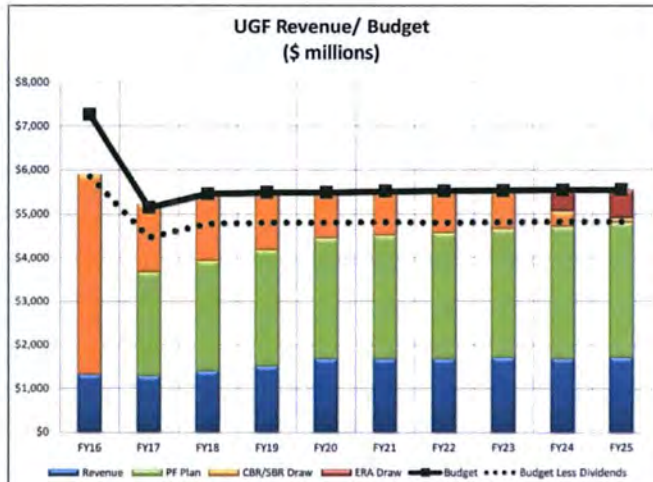
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Tax Bill Package	None
Tax Credit Reform	CC
Perm Fund Plans	
Governor	n
	\$ 3,300
Custom	n
Perm Fund Variables	
IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	7.25%
Percent Realized	76.38%
Custom Plan Specifications	
POMV Payout	5.25%
POMV to 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.

LFD Fiscal Model



	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	2,118	2,158	2,221	2,285	2,348

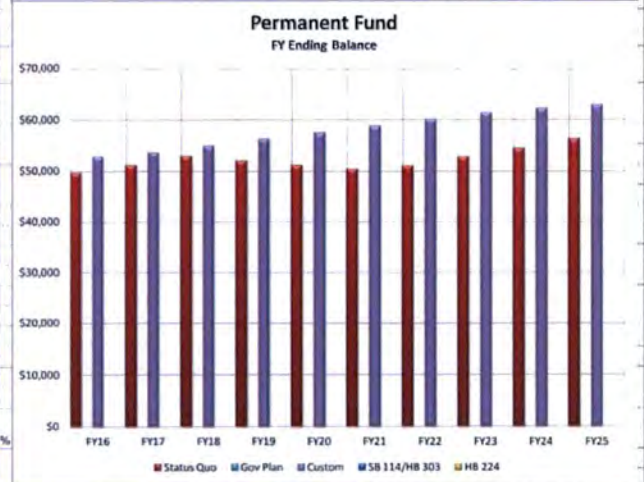
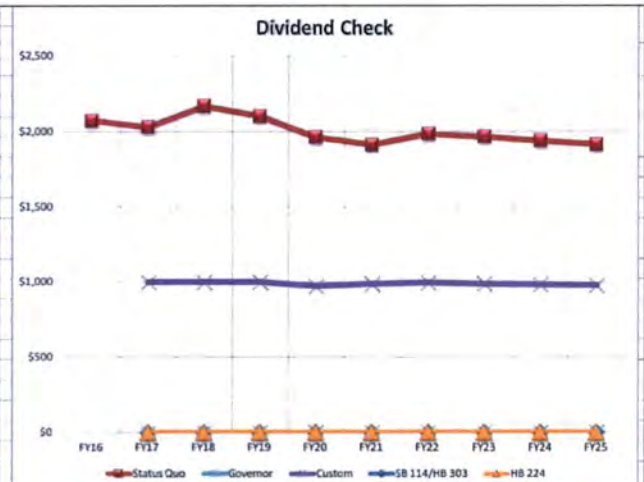
Price Scenario Spring 2016

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

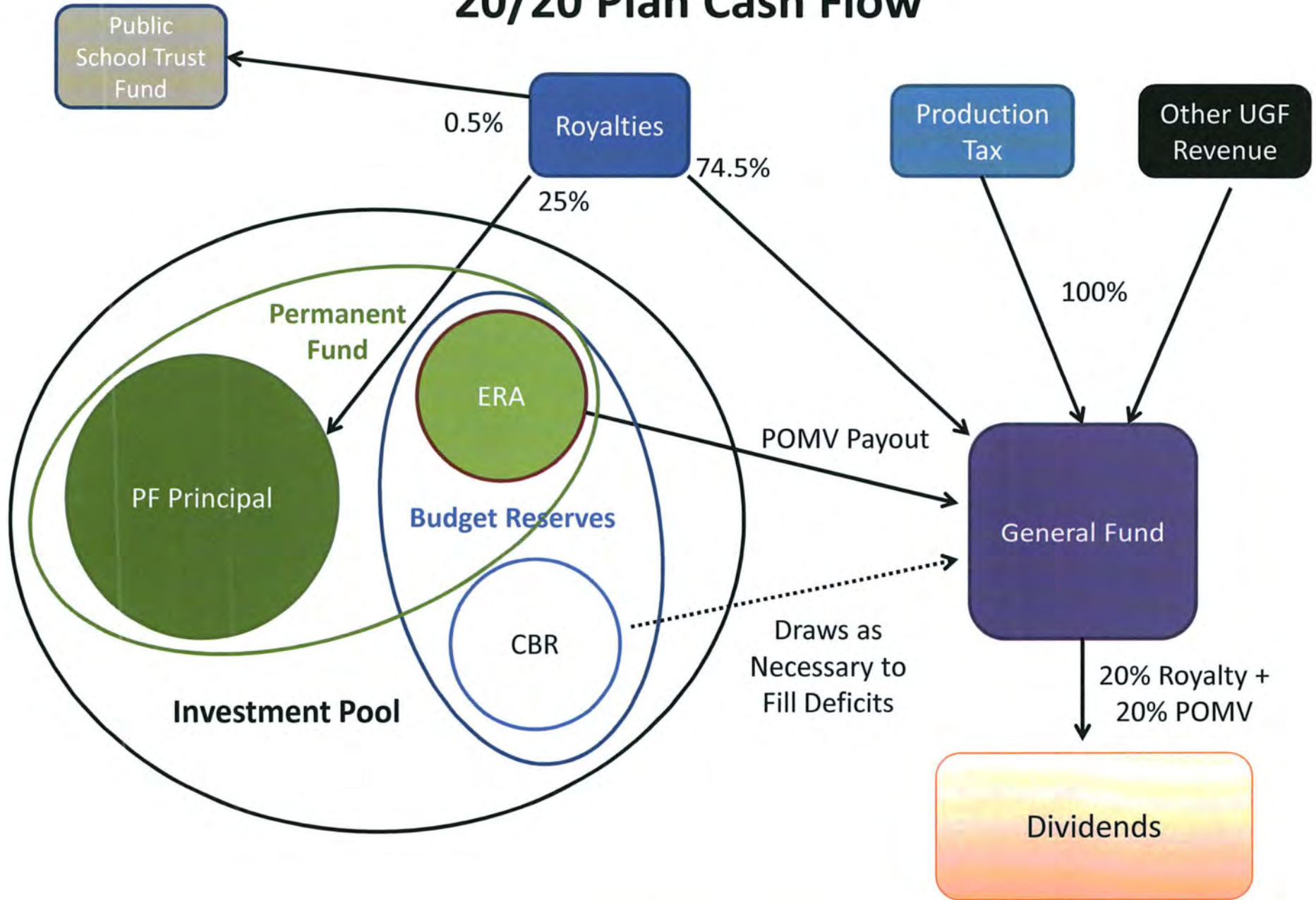
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Tax Bill Package	None
Tax Credit Reform	CC
Perm Fund Plans	
Governor	n
	\$ 3,300
Custom	y
Perm Fund Variables	
IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	7.25%
Percent Realized	
Custom Plan Specifications	
POMV Payout	5.25%
POMV to Dividend	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	\$ -
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%



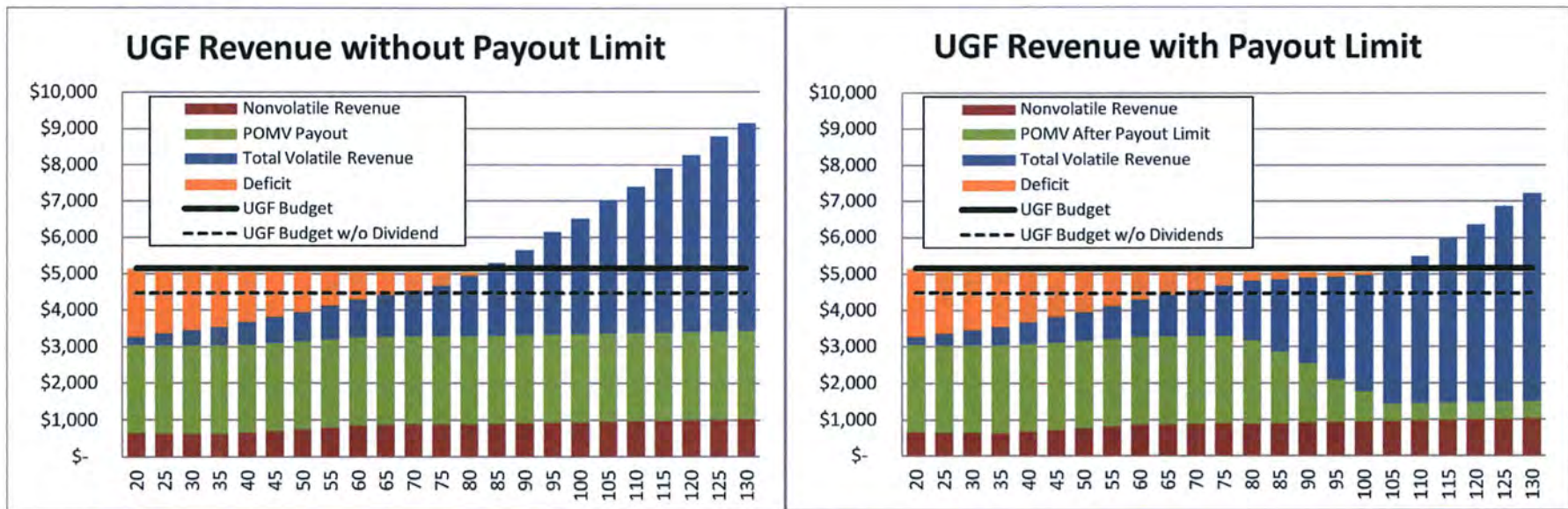
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF	53,452	54,655	55,885	57,142	58,428	59,742	61,087	62,461	63,866
Target PF	53,621	54,943	56,233	57,512	58,827	60,162	61,504	62,343	62,989
PF Value	53,621	54,943	56,233	57,512	58,827	60,162	61,504	62,343	62,989
% Value	100%	101%	101%	101%	101%	101%	101%	100%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

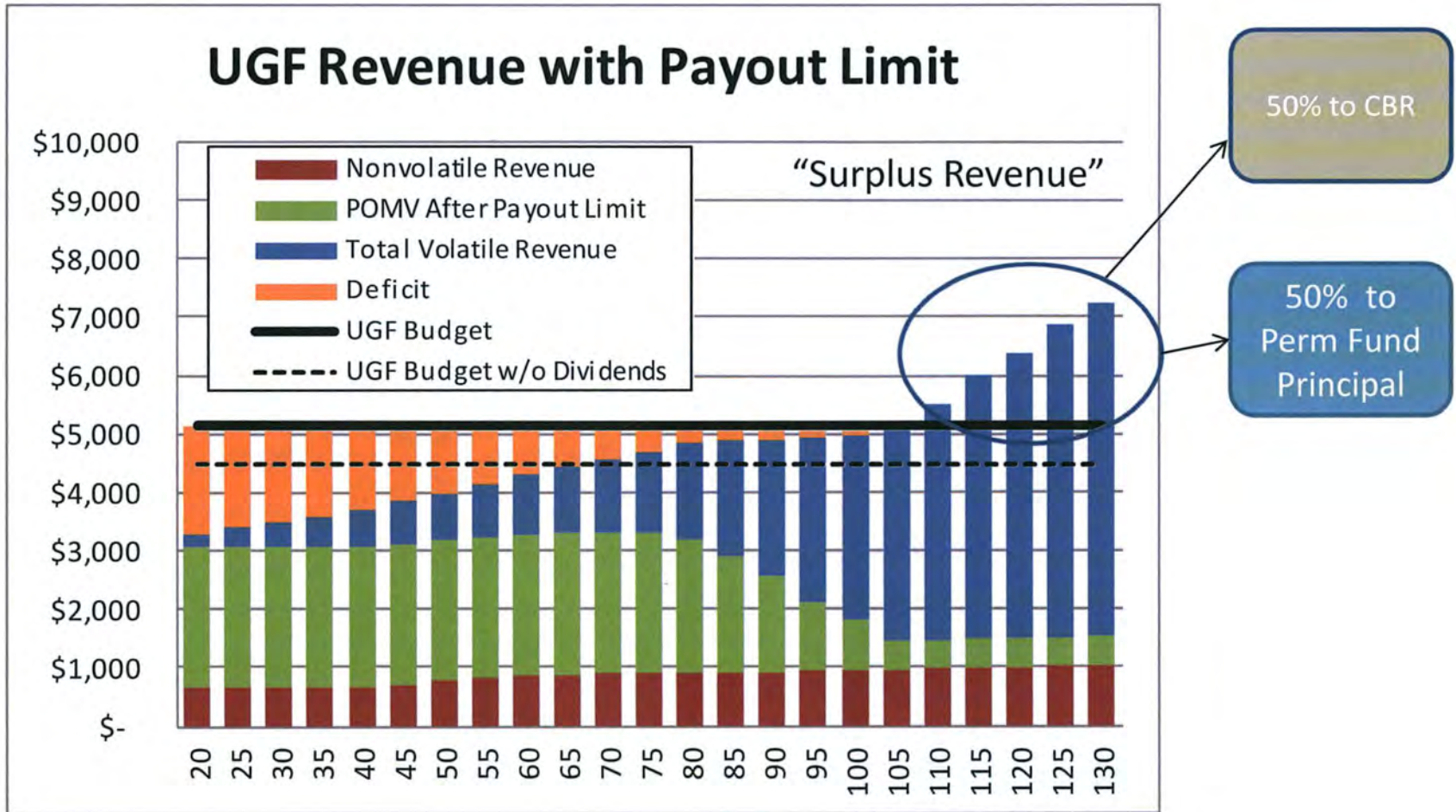


PFPA Payout/Revenue Limit



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



ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

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Summary of Changes from S to U
CS Senate Bill 128(FIN)
29-GS2859\U

"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; relating to unrestricted state revenues available for appropriation; and providing for an effective date."

- *Title: Added the language: relating to unrestricted state revenues available for appropriation – this relates to the savings rule found in Sec. 11
- *Section 4: Removed the repeal of the Capital Income Fund
- *Section 8: Excludes the Amerada Hess funds from the POMV calculation
Removed inflation adjustment on the \$1,200,000,000 revenue limit
- *Section 9: The Amerada Hess funds which are deposited into the capital income fund are not available for distribution under the POMV calculation
- *Section 11: Added a Savings Rule:
Sec. 37.13.148 Appropriation of Revenue: Creates a savings rule that the legislature may annually appropriate unrestricted general fund revenue in excess of the unrestricted general fund appropriations. Fifty percent would be deposited into the Permanent Fund and the remaining 50% would be deposited into the constitutional budget reserve fund
- *Section 23: Management of the CBR is transferred to the Permanent Fund Corporation effective July 1, 2016

ALASKA STATE LEGISLATURE
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Highlights
CS Senate Bill 128(FIN)
29-GS2859\U

“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; relating to unrestricted state revenues available for appropriation; and providing for an effective date.”

- Establishes a Percent of Market Value formula of up to 5.25%
- Dividend is paid \$1,000 for FY 17-19, and is calculated based on 20% of royalties and 20% of the up to 5.25% POMV after the first three fiscal years
- Sets a revenue limit of \$1,200,000,000
- Creates a Savings Rule setting aside surplus revenues: 50% to the Permanent Fund and 50% to the Constitutional Budget Reserve Fund
- Transfers the management of the CBR to the Alaska Permanent Fund Corporation

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Sectional Analysis
CS Senate Bill 128(FIN)
29-GS2859U

"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; **relating to unrestricted state revenues 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. **Excludes the Amerada Hess funds from this calculation**

(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

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

***Section 9: The Amerada Hess funds which are deposited into the capital income fund are not available for distribution under the POMV calculation**

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

(e) Each year the legislature may appropriate to the General Fund the amount available for distribution from the Earnings Reserve Account. The allowable appropriation is reduced by the payout limit at high oil prices

(f) Each year the legislature may appropriate from the Earnings Reserve Account to the principal of the fund an amount by which the balance of the ERA exceeds the amount available for distribution under the POMV and dividend payout multiplied by four, less the amount in (e)

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

Sec. 37.13.148 Appropriation of Revenue: Creates a savings rule that the legislature may annually appropriate unrestricted general fund revenue in excess of the unrestricted general fund appropriations. Fifty percent would be deposited into the Permanent Fund and the remaining 50% would be deposited into the constitutional budget reserve fund

*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. 11, 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, and the 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

*adopted
4/19/16*

29-GS2859\S
Wallace/Martin
4/17/16

CS FOR SENATE BILL NO. 128(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE 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.

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* **Sec. 2.** 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 regulations to govern the procurement of supplies, services, and professional services. The regulations must be similar to the procedures described in this chapter and in regulations adopted under this chapter. Notwithstanding any 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. 3.** AS 36.30.990(1) is amended to read:

(1) "agency"

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

(B) does not include

- (i) the University of Alaska;
- (ii) the Alaska Railroad Corporation;
- (iii) the Alaska Housing Finance Corporation;
- (iv) a regional Native housing authority created under AS 18.55.996 or a regional electrical authority created under AS 18.57.020;
- (v) the Department of Transportation and Public Facilities, in regard to the repair, maintenance, and reconstruction of vessels, docking facilities, and passenger and vehicle transfer facilities of the Alaska marine highway system;
- (vi) the Alaska Aerospace Corporation;
- (vii) the Alaska Retirement Management Board;
- (viii) the Alaska Seafood Marketing Institute;
- (ix) the Alaska children's trust and the Alaska Children's Trust Board;
- (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.

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

Senator Anna MacKinnon, Co-Chair
State Capitol, Room 516
Juneau, Alaska 99801-1182
Phone: (907) 465-3777
Sen.Anna.MacKinnon@akleg.gov



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Sectional Analysis
CS Senate Bill 128(FIN)
29-GS2859\S

“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**

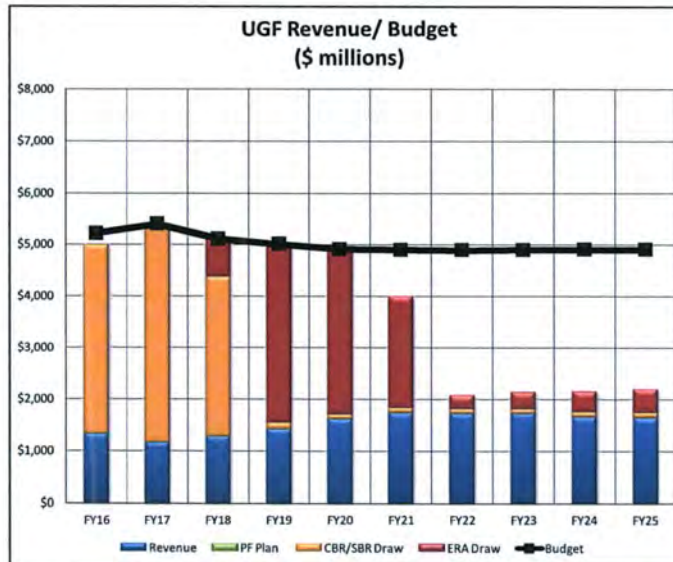
*Section 11: Dividends are comprised of 20% of the 5.25% POMV outlined in Sec. 4(b), and 20% of prior year royalties, excludes those dedicated to the Permanent Fund or School Fund (25.5% are dedicated)

***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

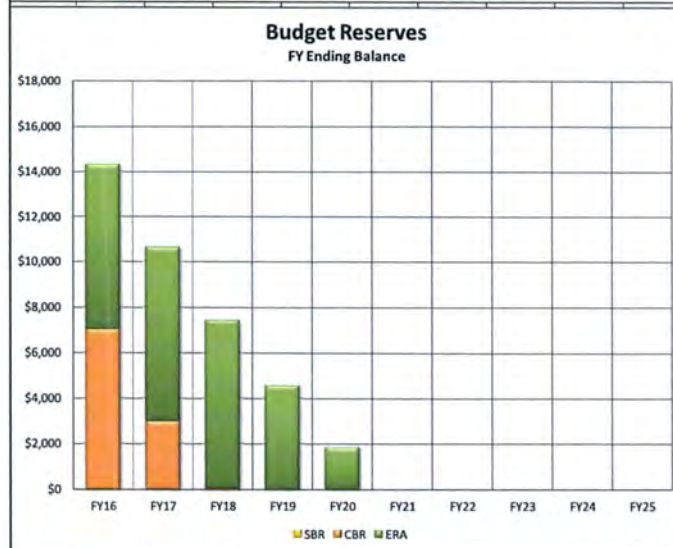
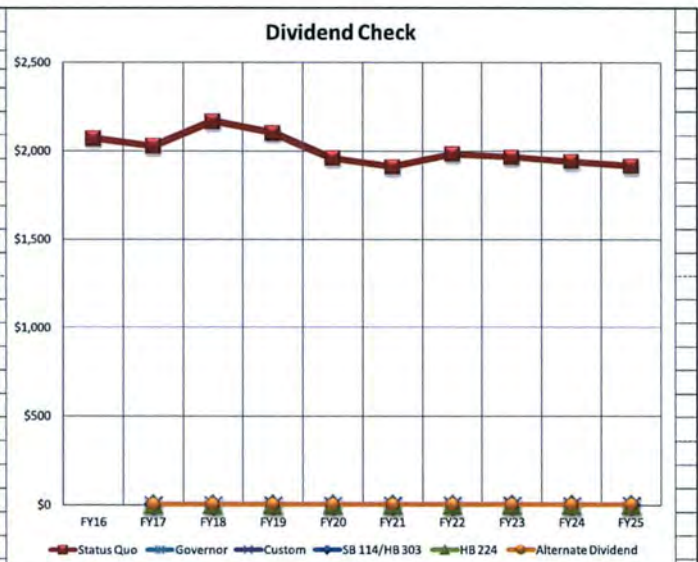
*Section 14: Transfer of money to the Dividend Fund requires an appropriation

- *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

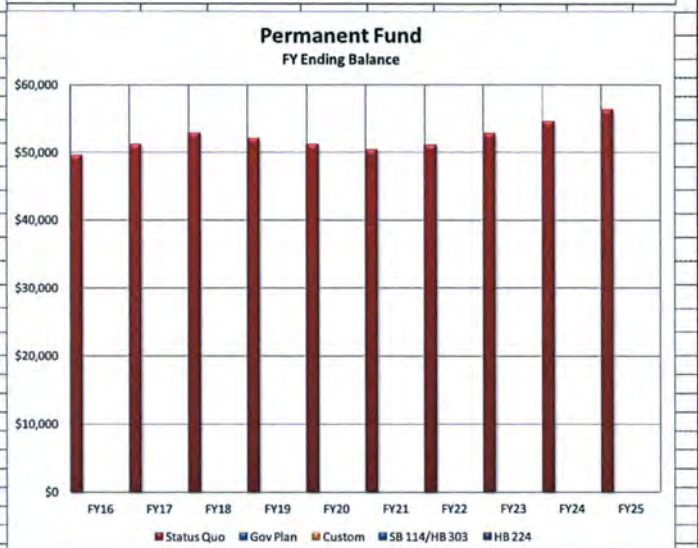


Price Scenario: Spring 2016

COST VARIABLES	
Operating Budget	
Non-Formula	0.0%
K-12 Formula	0.0%
Medicaid Formula	0.0%
Other Formula	0.0%
Target cut	\$ -
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	None



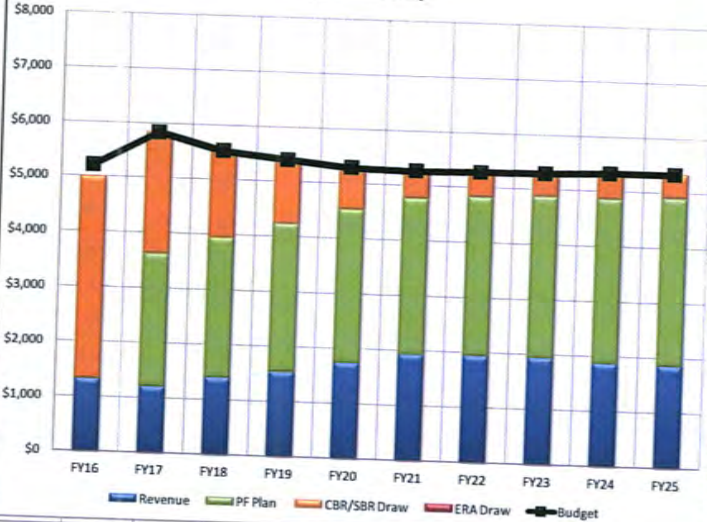
Perm Fund Plans	
Governor	n
	\$ 3,300
SB 114/HB 303	n
HB 224	n
Custom	n
Perm Fund Variables	
IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	6.90%
Percent Realized	76.38%
Custom Plan Specifications	
POMV Payout	5.25%
POMV to Dividend	20.0%
Dividend % of royalties	20.0%
Dividend % of 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	2.00%



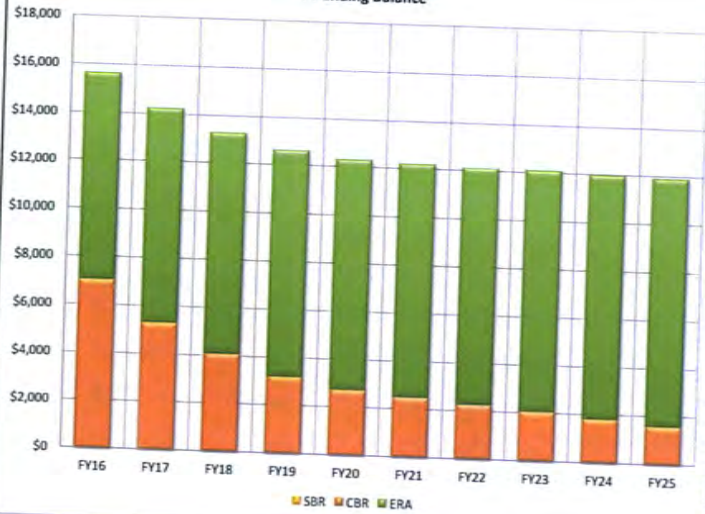
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	10,632	7,414	4,537	1,841	0	0	0	0	0
Deficit	-4,230	-3,834	-3,590	-3,300	-3,162	-3,173	-3,185	-3,250	-3,263
Years to Exhaust	3	2	1	1	0	0	0	0	0

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF Value	53,792	54,130	51,549	48,965	48,476	51,316	52,356	53,262	54,178
Target Value	53,839	55,050	56,289	57,555	58,850	60,174	61,528	62,913	64,328
Real Value	100%	98%	92%	85%	82%	85%	85%	85%	84%
Effective Payout	4.48%	4.69%	5.20%	5.67%	5.74%	5.34%	5.15%	5.02%	4.90%

UGF Revenue/ Budget (\$ millions)



Budget Reserves FY Ending Balance



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	HFIN

Perm Fund Plans

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

Perm Fund Variables

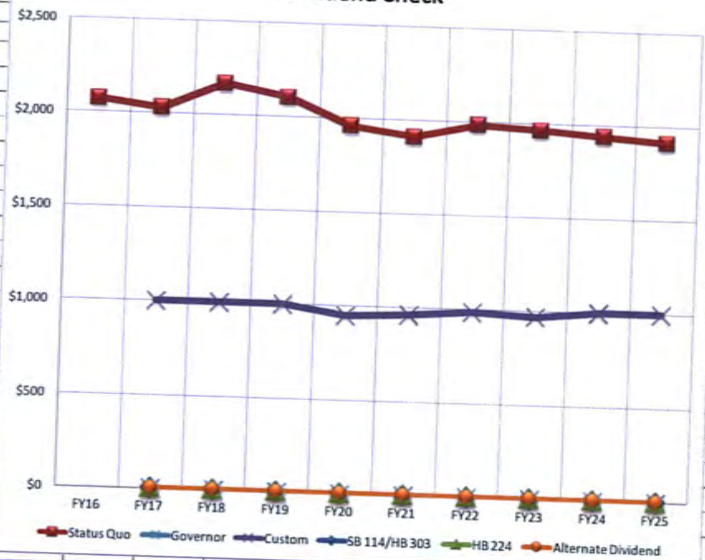
IP	1
SQ Stop PFD if 0	1
Inflation Rate	2.25%
PF Investment Return	6.90%
Percent Realized	76.38%

Custom Plan Specifications

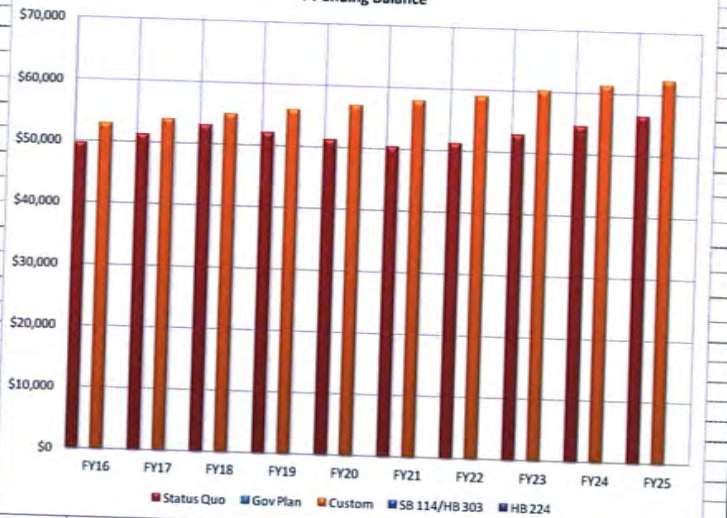
POMV Payout	5.25%
POMV to Dividend:	20.0%
Dividend % of royalties:	20.0%
Dividend % of CBR balance:	0.0%
Dividend % of SNI	0.0%
Dividend Floor:	\$ 1,000
Floor Ends	19
Dividend Cap:	n
Fixed Dollar Dividend:	\$ -
POMV limit (of prior year approps):	n
POMV Limit (reduce if rev exceeds):	n
Closed Applications: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

Fill FY17 w/ ERA	n
Reserve Priority	CBR
CBR Earnings	6.00%

Dividend Check



Permanent Fund FY Ending Balance



	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%

Cash Flow under SB128/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

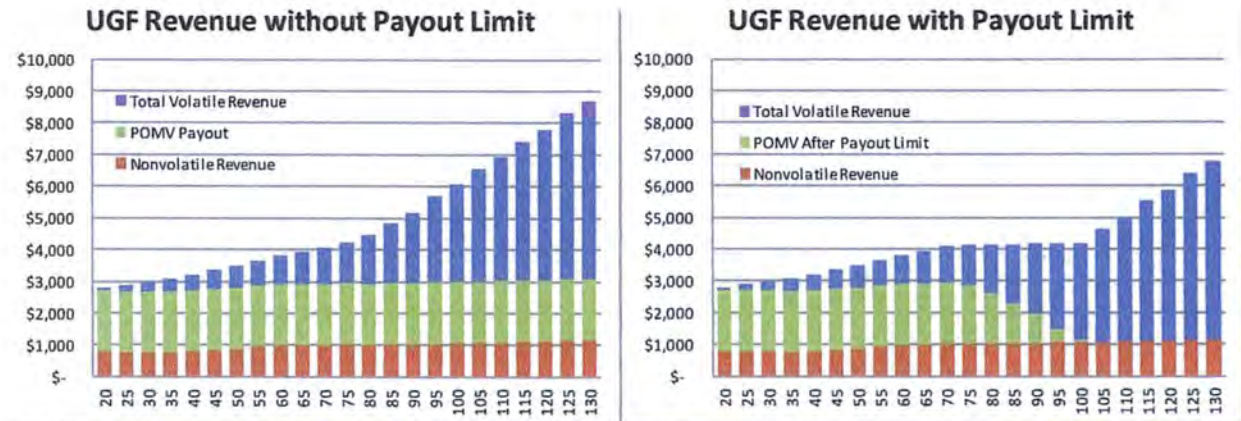
Fiscal Year	Year End Balance (Dec 2015 PF Forecast)	Average Balance in First 5 of Preceding 6 Years	5.25% Payout Based on Average Balance	Effective Payout Based on FY16 Balance
FY10	33,255			
FY11	40,140			
FY12	40,333			
FY13	44,853			
FY14	51,214			
FY15	52,800			
FY16	52,081			
FY17	54,388	45,868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

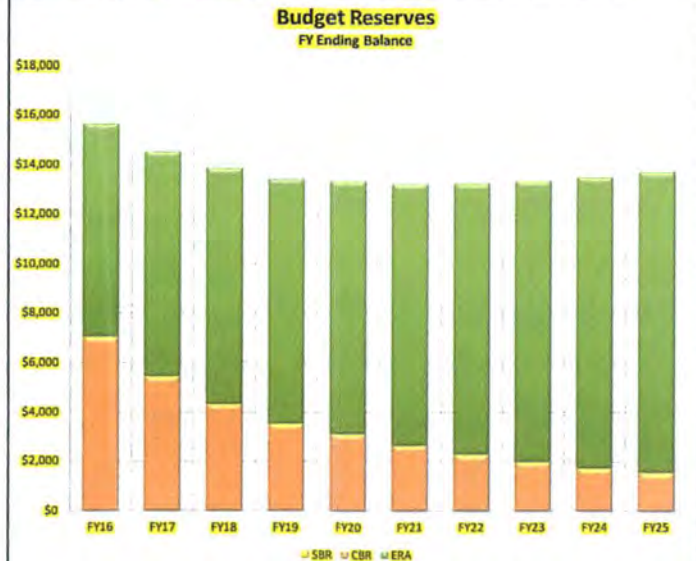
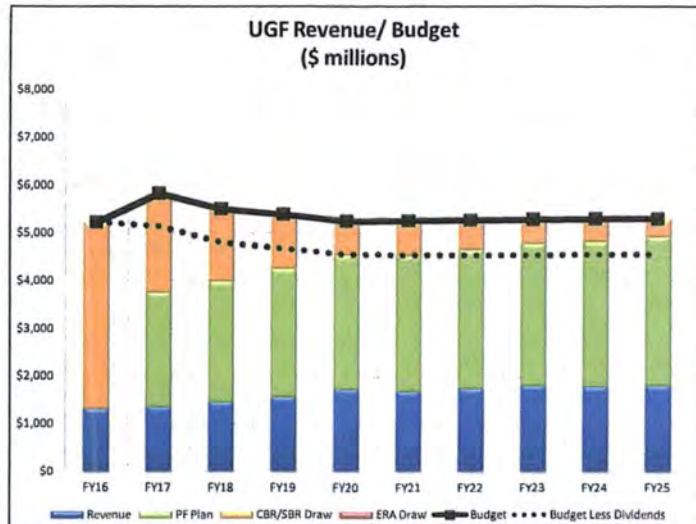
Sec 11

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)

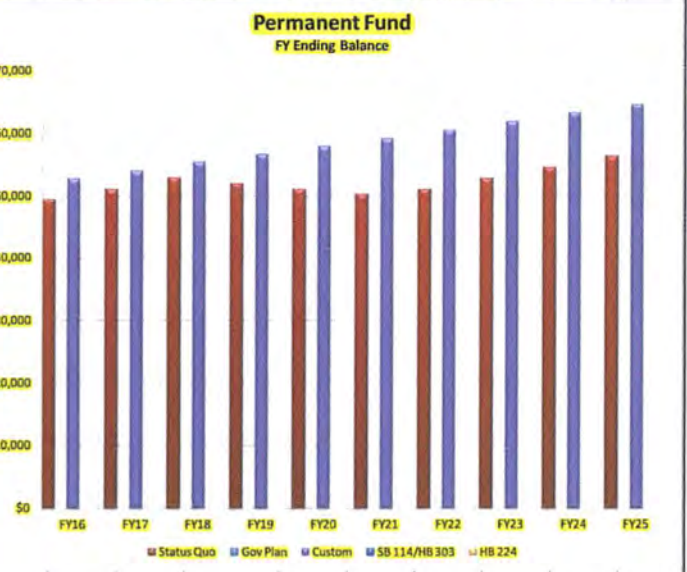
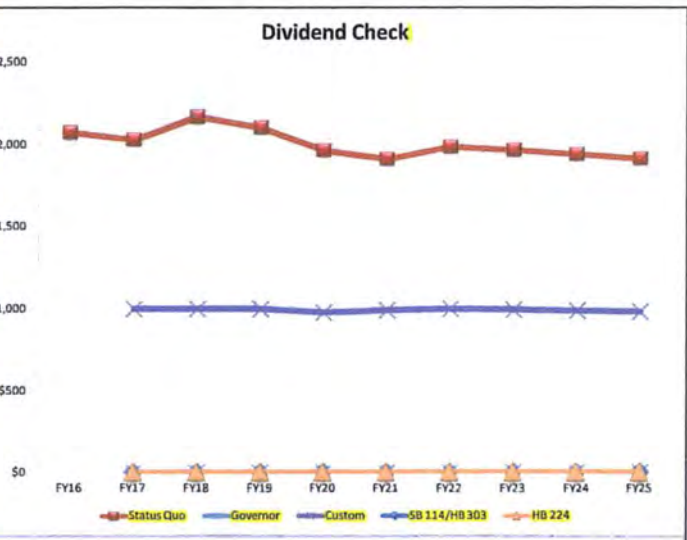
plus

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



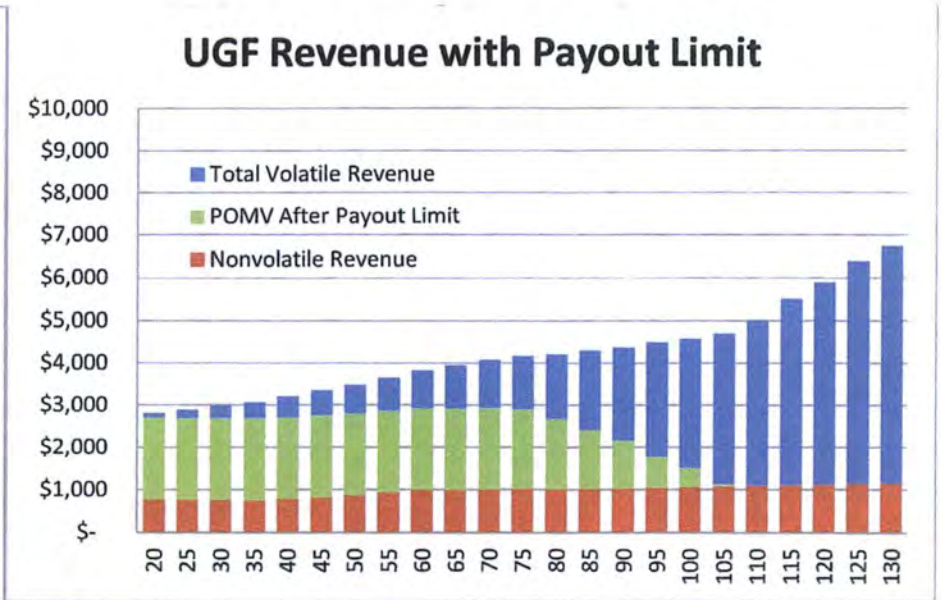
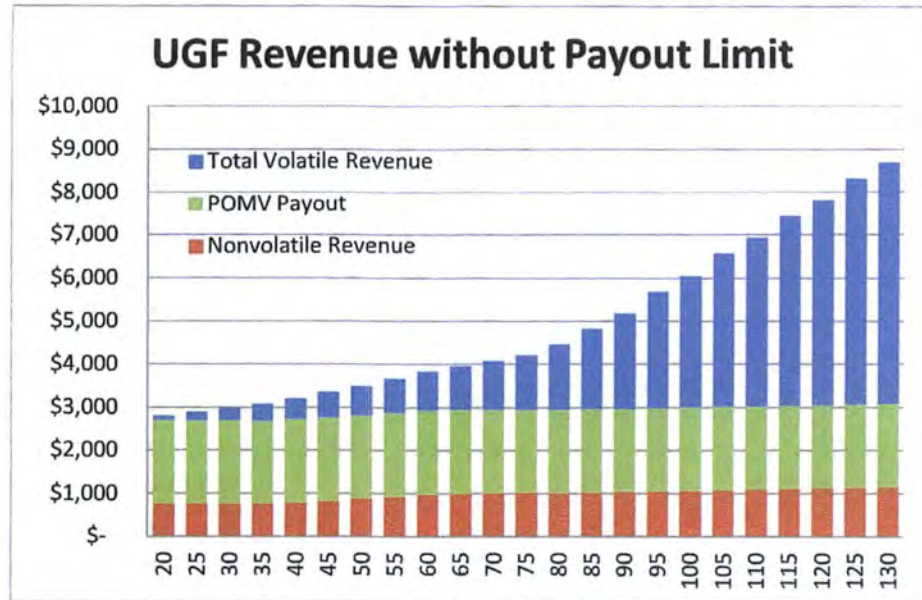
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Reserves	14,519	13,839	13,417	13,338	13,237	13,245	13,357	13,498	13,718
Deficit	-2,061	-1,506	-1,126	-712	-725	-613	-499	-462	-378
Years to Exhaust	7	9	12	19	18	22	27	29	36

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	\$	(247)
Statewide Budget		
Community Assistance	30.0	
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	
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:	\$	-
POMV limit (of prior year approps):	n	%
POMV Limit (reduce if rev exceeds):	\$	1,200
Reduce by x%:	100.0%	
Closed Applications:		
Fill FY17 w/ ERA	n	
Reserve Priority	CBR	
CBR Earnings	6.00%	



	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
PF Value	54,003	55,330	56,626	57,912	59,235	60,578	61,929	63,289	64,658
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%

DOC: C.



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.

29-GS2859N
Wallace/Martin
4/12/16

adopted 9/12/16

CS FOR SENATE BILL NO. 128(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATE 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.

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

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Sectional Analysis
CS Senate Bill 128(FIN)
29-GS2859\N

“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.”

- *Section 1: Legislative intent that the legislature reevaluate the use of the earnings of the Permanent Fund in three years
- *Section 2: Amerada Hess income no longer flows to the Capital Income Fund. Segregation of these funds is no longer legally required
- *Section 3: 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 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
- *Section 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 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. 4 (b)

*Section 6: 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 7: Mental Health Trust Fund may not be included in the computation of income available for distribution under the POMV

*Section 8: Makes computation of Mental Health Trust Fund income consistent with computation of other Permanent Fund Income

*Section 9: Transfer of money to the Dividend Fund requires an appropriation

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

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

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

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

*Section 14: Repeals Sec. 10 - \$1,000 dividend for three years

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

*Section 16: Retroactivity clause

*Section 17: Effective Date for sections 15 and 16, immediate

Section 18: Effective Date, July 1, 2016



ISER FISCAL POLICY PAPERS

No. 7, July 1992

Institute of Social and Economic Research

University of Alaska Anchorage

Safe Landing: A Fiscal Strategy for the 1990s

by Scott Goldsmith

Alaska is poised for either a safe landing or a nose dive. Whether we land safely or crash depends on how Alaskans deal with declining oil revenue.

Since oil began flowing from the Prudhoe Bay field 15 years ago, Alaska's government and economy have come to depend on state taxes and royalties from oil production. Oil revenue makes up 85 percent of the state's general revenue, and it creates 30 percent of Alaskans' personal income.

State Spending Today: \$3 billion

But North Slope production is now declining as the giant Prudhoe Bay field ages. Alaska oil production has dropped 11 percent since 1988. It is projected to decline slowly over the next few years and then more rapidly.

As production drops, so does state oil revenue—creating shortfalls in the state budget. The state has had deficits the past two fiscal years, and one is projected for fiscal 1993. The price of oil also of course influences oil revenue. Low world oil prices magnified the deficit for fiscal 1992. Recently oil prices have been closer to their historical average of \$19 per barrel, and if they stay at that level the deficit for fiscal 1993 would be smaller than originally anticipated but still around \$500 million.

The heart of the problem, however, is the continuing decline in production. The exact size and timing of future deficits is impossible to predict, but we know that maintaining current spending as existing revenues decline will worsen deficits.

The easy-to-produce oil and unusual profit margins that fueled fiscal and economic growth are gone. Alaska has to adjust to less oil money and to broaden its economic base. State officials have made some adjustments—but we have to do more soon. A great deal is at stake: after 15 years

of big oil revenues, the state budget is triple what it was; the population is 40 percent larger; and state spending supports 50,000 private jobs as well as more than 30,000 public jobs.

Luckily, Alaska has the resources it needs to make the difficult transition. This paper outlines a comprehensive but flexible strategy for moving Alaska through the 1990s with a minimum of economic damage and into the next century with a government that's smaller but still able to provide essential services and support a healthy economy.

This "Safe Landing" strategy would result in one-third less real (inflation-adjusted) spending by 2010. The Permanent Fund and basic services would remain intact, we would avoid a major recession and we would be less vulnerable to booms and busts.

The catch is Alaskans have to give up something *now* in exchange for fiscal and economic health *later*. The State of Alaska has to start restructuring and eliminating some programs and requiring residents—for the first time since 1979—to help pay government operating costs. This will be difficult to do. Not only are we used to having services without paying state taxes, we're used to the government paying us under special programs.

Will we and our elected officials have the political discipline and tolerance to impose some economic hardship on ourselves over the next few years to avert a tumultuous crash early in the next century? It's tempting to wait and hope that somehow we'll be able to go on as we have been. But the "Worst Case" shows that spending our savings and reserves without a



1992

2000

2010

long-term, comprehensive fiscal strategy risks fiscal and economic catastrophe. ISER is not forecasting that the worst will happen. But the "Worst Case" graphic on page 1 makes it clear just how low the bottom could be—and while the worst case is extreme, we can avoid it only by making some tough decisions, starting now.

Alaska has enough budget reserves to go on for a while without reducing the state budget or asking Alaskans to give up anything. But if the state tries to keep the budget at its current level or even to increase it, using just oil revenues and budget reserves, we virtually assure that when the reserves run out there will be a huge, sudden drop in the budget, likely precipitating a recession. That point is marked by the first explosion on the "Worst Case" flight path.

The only way to forestall that crisis would be a choice with disastrous implications—a raid on the principal of the Permanent Fund to keep spending up after we use the budget reserves. (Using the principal would require amending the Alaska constitution.) Even as large as the Permanent Fund is, it and dwindling oil revenues together could sustain the present level of spending for only several more years. Spending the Permanent Fund would delay the crisis but make it worse, as shown on the "Worst Case" flight path by the second explosion and the nose dive.

The longer we go without a strategy, and the bigger the fiscal gap becomes, the greater the pressure will grow to tap the Permanent Fund. The earning power of the fund is Alaska's main fiscal legacy from the years of big oil revenues and a key part of our strategy to escape the cycle of dependence on oil revenues. Dissipating the principal of the Permanent Fund would be the costliest mistake Alaska could make.

Along the way to the nose dive, as the state government used up the Permanent Fund at a rate approaching \$2 billion per year, we would become more vulnerable to shocks from sudden drops in oil prices and less flexible in dealing with any other unexpected events. Once the budget reserves and the Permanent Fund were gone, state revenues would fall by two-thirds and the state would face a growing deficit of more than \$2 billion (in 1992 dollars)

a year. A drastic, precipitous drop like that would leave the state government by 2010 with less than it spends today just for schools, let alone road maintenance and Pioneers Homes and all other state programs and services. Whatever decisions state officials made about balancing the budget at that time, tens of thousands of public and private jobs would disappear in the process.

The big state spending in the 1980s ensnared us in a trap. We know that in the long run Alaska's economy will be healthier if we don't rely so much on state spending—but we have to get through the short term, and in the short term the health of the economy depends on state spending. This paper suggests a way of breaking out of that trap.

Fiscal Strategy

Alaska must take five major steps in the transition to less oil money:

- **Cut spending**
- **Use Permanent Fund earnings**
- **Encourage economic development**
- **Levy taxes**
- **Conserve and invest windfalls**

Alaskans have choices about when to take those steps and how heavily to rely on each, but we have to take all five. This paper shows how these steps together can bring us to a safe landing.

The state can't continue to balance its budget in the 1990s just through spending cuts. Spending cuts should come first—but as oil revenues shrink more and more, the spending cuts required to balance the budget would be so large that the government would cease to function. Alaska can't afford a government as large as we have now, but we can afford an adequate level of public services. We have to decide how much is adequate, and how to preserve necessities while reducing non-essentials.

Making the transition to less oil money without major fiscal and economic disruption will require widespread public support. To gain such support will require (1) an understanding of the fiscal problem and its possible ramifications; (2) a public commitment to take the steps

This is the final in a series of papers analyzing Alaska state government revenues and spending. For three years this series has reported on the fiscal crisis the state would face as oil revenues decline. That crisis has now arrived, and this last paper offers a strategy for getting through the crisis and into the next century with a healthy government and economy. The principal series author, Scott Goldsmith, is an ISER economist with 17 years experience analyzing state finances. Lee Gorsuch, ISER director, guided the design and presentation of the series. Other contributors include Alexandra Hill and Teresa Hull, ISER research associates, Matthew Berman, ISER economist, and Jay Hogan, former director of the Alaska Division of Budget Review. Linda Leask edited the series and Monette Dalsfoist did layout and graphics.

necessary for a safe landing; (3) a tough and open analysis of state spending to determine how to make cuts and control entitlement costs without sacrificing essential services; and (4) a strategy for taking the necessary steps.

Adopting the strategy will obviously involve getting less and paying more in the near term, but the reward will be fiscal and economic stability in the long run and a better quality of life as Alaska moves into the next century. Those of us who went through the recession of the late 1980s should be eager to avoid future recessions. Table 1 shows some of the effects of the 1986-1988 recession—as a reminder of what failure to undertake a fiscal strategy could mean in future years.

Alaska faces many economic uncertainties. The aging of the huge Prudhoe Bay field means a new game for the petroleum industry in Alaska, which must now turn to enhanced recovery at Prudhoe Bay and to smaller fields with higher production costs. We don't know how much new production to expect from the North Slope; whether development will occur in the Arctic National Wildlife Refuge; or whether oil prices will rise or fall. Still, despite declining production, and increased uncertainty about petroleum's future impact on the economy, the petroleum industry will continue to be the largest cash contributor to the Alaska economy for the foreseeable future. Compounding those uncertainties about petroleum development are questions about how Alaska's other basic industries like seafood, tourism, logging, and mining will fare in the future, or if military cutbacks will affect Alaska.

The state government can't remove those uncertainties, but it can act decisively to minimize anxiety and apprehension about the economic effects of less state spending and move Alaska toward a more stable future. Unless Alaska takes concrete steps to responsibly manage its loss of oil revenues, few new businesses will choose to invest or lend in the state, and existing businesses may reconsider their commitment to Alaska. A clear fiscal strategy is a key to Alaska's future. The discussions in this paper can help chart the course for fiscal policy—but like a good navigator, Alaska will need to adjust its course as conditions change in ways we can't foresee.

What Has the State Done So Far?

Inflation Adjustment

Unless otherwise noted, the figures in this paper are adjusted to 1992 dollars (today's buying power) to remove the effects of inflation and thereby show real changes over time.

Table 1. Effects of 1986-88 Recession

- State job loss: 22,000 (10%)
- Anchorage population loss: 29,000 (9%)
- State wage income loss: \$1.07 billion (13%)
- Decline in Anchorage assessed property value: \$7.2 billion (46%)
- Residential properties foreclosed on, January 1985-March 1988: 10,429 (7% of total)
- Anchorage bankruptcies: 93 per month

Even as the budget crisis looms, Alaskans can take heart because of important steps we've already taken.

• **Creating the Permanent Fund.** Alaska voters in 1976 approved a constitutional amendment creating a savings account called the Alaska Permanent Fund. The amendment requires that a portion of oil and other resource revenues go into that fund rather than into the general fund. The Alaska constitution prohibits spending the principal of the Permanent Fund, but allows appropriation of the earnings. During the 1980s, anticipating harder times to come, the Alaska Legislature made voluntary contributions of several billion dollars to the Permanent Fund, in addition to the required contributions. Today it has a balance of about \$13 billion (including the earnings reserve). After inflation, the fund produces \$500 million in annual earnings—which goes into the Alaska economy via annual dividend payments.

The economic value of the fund is impressive. We can think of it as a basic industry—one with a payroll of \$500 million per year. But unlike Alaska's other basic industries (fishing, mining, logging, tourism, petroleum, and the federal government), it is not subject to the ups and downs of resource prices, national policies, and other factors beyond our control. It has been an invaluable economic stabilizer for Alaska and can continue to be, much like the military has been in years past. It can generate earnings to help pay for basic services and prevent the economic disruptions that go along with unpredictable state spending. Keeping the Permanent Fund intact has to be the cornerstone of Alaska's fiscal policy.

• **Controlling state spending.** Despite all the talk about out-of-control spending, state officials have made progress toward controlling state spending. Legislators cut the budget by several hundred million dollars between 1986 and 1987, after oil prices crashed and brought

Alaska a glimpse of things to come. Budget growth has since resumed, but at a much slower rate than in the early 1980s. Nonetheless, inflation, population growth, and increased eligibility for benefits all exert upward pressure on the budget. Just holding spending constant, let alone reducing it, requires substantial political determination.

So it's not really surprising that in 1992 the state operating budget (not adjusted for inflation) has returned to about the level where it was in 1986. Between 1986 and 1992 some departments grew, but several—Labor, Natural Resources, Fish and Game, Transportation and Public Facilities, and Community and Regional Affairs—spend less today than they did in 1986. And if we adjust for inflation, spending in most government agencies is still below 1986 levels. Within departments whose budgets have grown fastest in recent years, most growth is in a handful of programs tied to increasing population or rising prices. Subsidies to public corporations like AHFC have been eliminated or are much smaller now than in the early 1980s. Budget requests of agencies are routinely trimmed.

In 1987 state officials made the relatively easy budget cuts—cuts that did not affect services and popular programs. To cut the budget more while retaining essential services, state officials will have to eliminate some programs and improve the efficiency of others.

The difficulty of cutting the budget was clear during the 1992 legislative session, when legislators tried unsuccessfully to cut \$200 million from the budget. Although they were unable to cut that amount, legislators did make some cuts. If there are no large supplementals enacted later, inflation will translate those cuts into even bigger real cuts in future years. But the piecemeal approach to holding the line on spending is increasingly perverting allocation of funds among programs, and stopgap measures to control spending make it more difficult to cut the budget in future years.

• **Attempting to broaden the economic base.** Over the years the state government has often used oil money to encourage other kinds of development. The results have sometimes been impressive, but many attempts at a wide variety of ventures failed—demonstrating that neither subsidies nor outright grants can guarantee success or overcome market forces. One of the more successful ventures is the Red Dog mine in northwest Alaska, where the state (through the Alaska Industrial Development and Export Authority) loaned a private corporation money to build a road and port needed for mining a large zinc deposit. In general, when the state has succeeded it has been in support of industries that already have strong economic foundations in the state.

Elements of Strategy

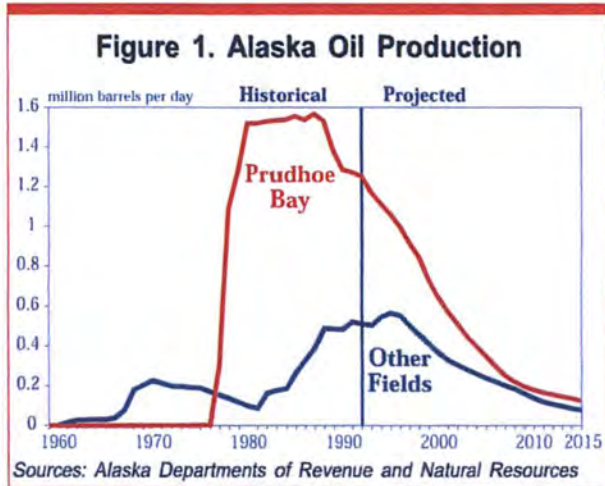
There's much the state has left undone. Most important is adopting a comprehensive fiscal strategy. We can not hope to make up for dwindling oil revenues with piecemeal budget cuts and budget reserves, unless we want to confront major fiscal and economic problems later. We need to adopt a multi-year spending plan that includes examining the structure of state spending to determine how the government can deliver services for less and then setting real targets for reducing state spending over the next several years. At the same time, the plan should integrate optimal use of all available resources and the resumed collection of personal income taxes when existing taxes can no longer support essential services.

WORKING TOGETHER

A family or a business faced with the prospect of reduced income will cut costs, eliminate unnecessary expenses, and make the most of its remaining resources—to put itself in the best economic position to survive and to try to minimize the pain of shifting to a smaller income. It's much more difficult for a government to behave that way, and especially difficult for Alaska's state government—because of uncertainty, lack of concern, and ignorance; because we have become accustomed to receiving services without paying for them ourselves; and because we all own our oil revenues in common.

The magnitude and timing of future deficits is uncertain. We have been lucky several times in the past when unexpected increases in oil prices wiped out projected deficits—so many Alaskans tend to discount predictions of fiscal crisis and to hope for another bailout. Some residents are not worried about potential deficits—either because they think the fiscal concerns of the state government don't affect them, or because they don't intend to stay in Alaska very long. Also, many people don't understand how much the state budget depends on oil production and what a vulnerable and precarious position that puts Alaska in. They don't yet acknowledge that the state can no longer undertake new functions without dramatically reducing what it currently does.

The biggest obstacle to solving the budget crisis is persuading Alaskans that the time has come when they have to give up some of the benefits of oil money. State oil revenues are common property resources, belonging to all Alaskans. So no one is willing to be the first to give up his share today for the benefit of the future, because it's likely special interests would simply cancel out that altruism by taking the savings and spending them for their own

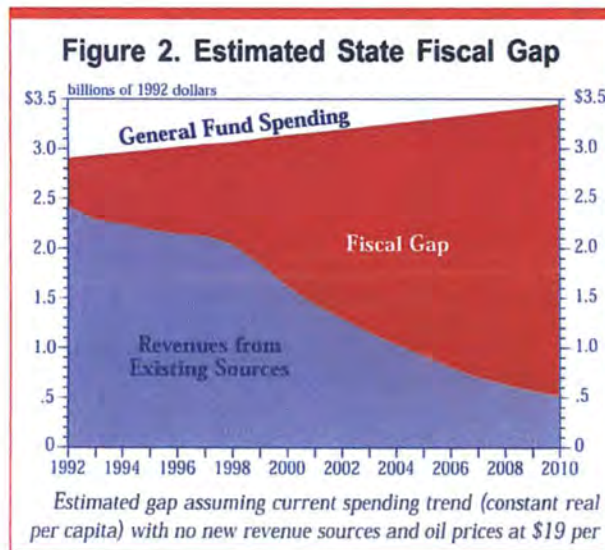


benefit. What Alaskan is willing to voluntarily give up any of the benefits of oil revenues, only to see someone else come forward to take them?

One way we can deal with this problem is to reach a broad agreement that *everyone* give up something for the benefit of future generations of Alaskans: that we all restrain our short-term special interests to achieve our long-term self-interests. Fairness and public purpose should guide us. Alaskans have to acknowledge that we face a serious problem—one that we can solve only by working together.

FACING THE FACTS

Even though many Alaskans agree that we need to constrain or reduce spending as oil revenues shrink, some still think that (1) *higher oil production or prices will erase the problem*, or (2) *the economy can quickly grow out of the problem*, or (3) *the state government can deal with any deficit*



by cutting the budget but still leaving all popular programs (in particular the Permanent Fund dividend program) intact and the economy unaffected.

These beliefs are false and dangerous. Production will drop sharply in the 1990s because the huge Prudhoe Bay oil field is producing less oil now than a few years ago, and the production decline will accelerate as time goes on. (See Figure 1.) Although other fields continue to produce, new fields will come into production, and improved technology and higher prices could enhance the recovery of Prudhoe Bay oil, those factors together over the next 10 years can't replace the enormous loss of production from Prudhoe Bay. At its peak production in 1987, Prudhoe Bay alone was responsible for more than 80 percent of Alaska production and 20 percent of all the oil produced in the U.S. Fields of that size are rare in the world, and none other as large has been discovered in North America.

Higher oil prices would alleviate but not erase the budget deficits created by falling production. Since oil production will decline on average about 7 percent annually through this decade, the price of oil would have to increase 7 percent every year—after inflation—to offset that decline and maintain state oil revenues at their current level. A sustained price increase of that magnitude would be unprecedented.

Figure 2 estimates the gap, with current spending and existing revenues, assuming an oil price of \$19 per barrel, which has been the average for the past six years. Higher or lower oil prices and more or less new production would change the gap figures, but the pattern is clear: declining production will sharply cut oil revenues, which supply 85 percent of state government income. Since the gap will grow slowly over the next few years, attention will continue to focus on higher oil prices as a solution to the problem. But later in the decade, the production decline will overwhelm price fluctuations. Current price and production forecasts put the gap between current spending and existing revenues at \$1.5 billion by 2000.

Alaska can not quickly grow out of the fiscal and economic problems posed by declining oil revenues. We do expect growth in Alaska's basic industries over the next decade, but under even optimistic assumptions, the tax base represented by that growth can't come even close to replacing billions of dollars in lost oil revenues. And although the state can encourage responsible economic development, Alaska's past attempts to use oil money to foster other kinds of economic development have shown that economic diversification will be a gradual process, and that some kinds of development are not feasible in Alaska.

The state government can't make sudden, enormous budget cuts without affecting essential government operations or hurting the Alaska economy. On page 8 we show how the state spends its money. It's clear that attempting to cut something in the range of \$1 billion or more out of the budget in a short time would leave the government crippled.

And as for the effect on private industry of big, sudden budget cuts, remember that state government money supports 50,000 private jobs in Alaska. The construction, transportation, utilities, services, finance, and trade industries all depend heavily on state spending.

There is no single, painless solution to the fiscal crisis. Big resource projects, surges in oil prices, economic diversification, or spending cuts by themselves can't erase the problem—but fortunately they can all be part of the solution. How can we combine all the elements of a successful fiscal strategy and get a commitment to action?

PLANNING, EDUCATING, AND ANALYZING

To get Alaska moving toward a fiscal strategy, we also need (1) broad public acknowledgment of the problem and agreement on the need to solve it; (2) a plan for balancing the budget in the 1990s and creating a legacy of stability for the next generation of Alaskans; (3) a detailed analysis of state spending.

One way of informing the public and developing a plan would be through an appointed fact-finding commission. The commission should represent a broad spectrum of Alaska leadership—heads of industries, public and private organizations, profit and non-profit groups. We hope the broad membership of such a commission would win the public's trust and confidence.

A public information campaign under the auspices of the commission would include workshops throughout the state, explaining the causes of the fiscal crisis and asking the public for its preferred choices for solving it. It would be an opportunity for all Alaskans to get involved.

The plan developed by the commission would start with a picture of what government should look like after Prudhoe Bay. It would propose a broad strategy for reaching the target and specific tactics to begin moving us toward the target now. These tactics would be based on a review of our institutions and processes for making budget decisions.

State officials also need to look carefully at existing spending. Why does the State of Alaska spend so much, and how can it spend less? The answers are not as obvious as some people think. Certainly the state needs to cut spending, but many things have combined to push up spending in ways that need to be understood. Otherwise,

Table 2. Why State Spending Grew in the 1980s

- More people (40% larger population)
- Higher prices (45% increase)
- Broader eligibility for programs
- More infrastructure to maintain
- Federal cost-shifting to state
- Generosity to individuals and local governments
- More expensive service delivery
- Permanent Fund dividend and other special programs

we risk harming traditional programs through piecemeal, incremental cuts as oil revenues dwindle.

Table 2 shows the major factors that have contributed to higher state spending over the past decade, including everything from more people and higher prices to creation of new programs. These factors are in addition to the ones that have historically made Alaska's government large—special needs related to state ownership of resources, underdevelopment of local governments, and high costs.

All those factors don't mean that the state can't cut spending more: it will have no choice. But it cannot continue to cut traditional programs incrementally without analyzing how to maintain—with less money—the quality of services Alaskans regard as essential. The government needs to become more efficient and more discriminating in its spending. It needs to analyze and re-structure its spending after assessing many questions: Which subsidized programs and loans can Alaska still afford? Where can we narrow program eligibility? Are there ways we can provide quality education for our children for less? Can we afford to operate all the facilities we added in the 1980s? Answers to these and many more spending questions are critical to reducing spending but continuing to provide for the public good.

Putting It All Together

Alaska has some choices about how to deal with the budget crisis, but those choices come down to how and when the state will use available resources and for what purposes. The state can (1) cut spending; (2) use Permanent Fund earnings; (3) expand the economy and tax base by fostering development; (4) reimpose taxes on households; and (5) conserve windfalls, which include budget reserves, anticipated settlement payments, and any unex-

pected revenues. The "Safe Landing" strategy outlines one way of putting all those steps together in a comprehensive fiscal plan. What would be the advantages of a broadly accepted, comprehensive plan? It would:

- **Reduce uncertainty**, thereby increasing economic stability and instilling confidence in the general public and the business community that the state government recognizes and is addressing the problem.

- **Enable Alaskans to plan** their own futures with more certainty about government's role and what to expect from government in future years.

- **Provide a framework for downsizing** government in a way that retains essential programs.

- **Establish a means to minimize** the adverse economic effects of balancing the budget.

A comprehensive plan would be based on several presumptions—the presumptions that:

- **Current state spending exceeds** what we can afford or are willing to pay for.

- **We need to decide what level of spending** is appropriate, given our income and willingness to pay.

- **We can't count on economic diversification** or the serendipitous arrival of megaprojects to forestall the need to reduce state spending or the need for new taxes.

- **A healthy and robust economy is possible** in the era after Prudhoe Bay, and having state fiscal affairs in order greatly enhances its likelihood.

- **Current Alaskans must take into account** the needs of future generations, because our current wealth is temporary.

- **The proper functions of state government** are to provide basic public services, to assist the needy, to manage public resources for the benefit of all, and to promote a healthy economic climate.

With those presumptions as a base, Table 3 suggests a number of principles to guide a budget plan. Pages 8 through 14 outline the five essential steps for balancing the budget, and one potential method for implementing each of the steps. We look at how much each of the five could contribute, under reasonable assumptions. Taken together, these steps show that by 2000 we could have in place the foundation for a healthy and stable public sector

Table 3. Principles for Comprehensive Budget Plan

- Think ahead
- Consider needs and resources of future generations
- Base all payment programs on need
- Do more with less, and re-consider unique programs
- Promote public welfare
- Minimize economic hardships caused by reduced state spending
- Tax according to ability to pay
- Equalize local tax effort
- Demand returns on state investments
- Use willingness to pay as criteria to determine benefits of public programs
- Monitor progress and be flexible

that would contribute to Alaska's economic health and benefit Alaskans. We are not suggesting that this is the only way the state could put together the available resources. But it is one reasonable way that can provide a useful guideline for state officials. At the end of the paper we discuss why we are optimistic that Alaska can, despite the political obstacles, adopt a fiscal policy that will bring us safely into the next century.

Assumptions in Safe Landing Strategy

Oil Production: As projected by Alaska Department of Revenue, Fall 1991

Oil Price: \$19 per barrel, in 1992 dollars

Permanent Fund: 4 percent real rate of return, net of inflation

State Spending: 1 percent real annual growth (same as projected population growth)

Existing Revenues: As projected by the Alaska Department of Revenue, Fall 1991

Transition Fund: Initial balance (in 1992) of \$2 billion

Oil Windfalls: \$1.7 billion collected

Step 1: Budget Cuts

The State of Alaska spends three times the national average per resident, even after we adjust for Alaska's higher living costs. We can no longer afford it, and have to (1) re-structure programs to provide more services for less; and (2) reduce or eliminate programs, based on a detailed analysis of which programs best provide for the public good.

WHAT DID THE STATE PAY FOR IN FY 1992?

(State General Fund Budget^a, in millions of dollars)

Total General Fund Budget **\$2,920**

Operating Budget **\$2,125**

Formula Transfers to Local Govt. \$691

School Foundation	514
Rev Sharing and Muni Assist	85
Pupil Transportation	29
Other	63

Formula Transfers to Individuals 262

Medicaid	93
Longevity Bonus	62
AFDC	39
Adult Public Assistance	23
Power Cost Equalization	15
Other	30

Grants 133

Health & Social Service Grants	65
Child Assistance	23
Other	45

Direct Service Delivery 820

University of Alaska	158
Health and Social Services	91
Highways	85
Prisons	80
Public Safety	77
Resource Management	76
Marine Highway	64
Courts	52
Pioneers' Homes	30
Legislature and Governor	27
Business Regulation	24
Business Development	21
Environmental Conservation	17
Other	19

Support and Administration 219

Debt Service **\$209**

Local School Debt	129
Other	80

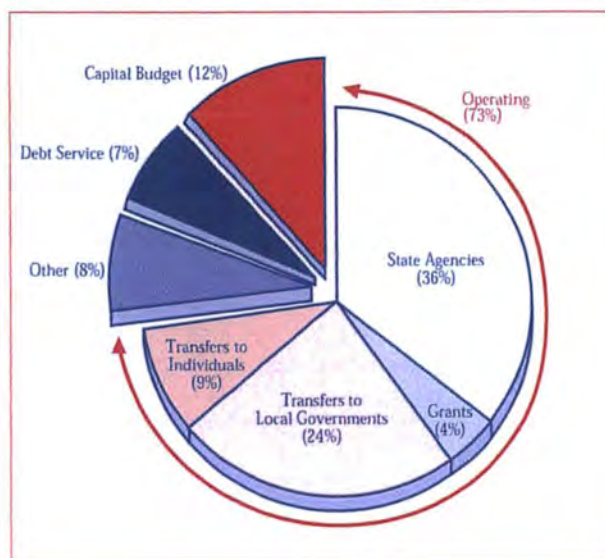
Capital Budget **\$352**

Other^b **\$234**

^aExcludes Permanent Fund dividends and various restricted accounts.

^bSupplementals of \$100 million, loans of \$12 million, oil and hazardous waste fund of \$29 million, and employee retirement fund indemnification of \$93 million.

HOW WAS IT DISTRIBUTED?



Operating Budget: Largest part of general fund spending. About half is transfers to individuals and local governments—mostly entitlements, which are automatic payments to qualifying individuals or communities. The other half is what state agencies spend for direct service delivery and support and administration.

Capital Budget and Debt Service: Includes money for new capital projects and re-payment for projects financed by bonds in previous years.

Other: Funding for special one-time items and supplemental appropriations for ongoing programs.

WHAT KINDS OF SPENDING ARE THERE?

Some spending is required by federal mandate (Medicaid) or by law (debt on bonds). Some spending is required by the constitution (the court system, for instance) although the level of funding is discretionary. A large share of the budget consists of entitlements; the allocation for these items is automatically determined by the number of eligible persons or communities. Only a small part of spending is truly discretionary.

HOW HAS THE BUDGET CHANGED?

In the early 1980s the budget contained many discretionary items such as municipal capital grants and transfers to public corporations. Such expenditures have been

Step 1: Budget Cuts

reduced or eliminated. In fiscal 1987, when state revenues fell by \$1.3 billion, the operating budget was significantly cut for the first time—resulting in reduced transfers, program cutbacks, and layoffs.

WHAT ARE THE BUDGET BUSTERS, 1986-1992?

Most recent budget growth has been in transfer payments that are tied to inflation or population growth. Real budgets of many state agencies have declined. Budgets have become increasingly skewed—compared to earlier years—as some programs have continued to grow and others have been squeezed. For example, between 1986 and 1992 the Longevity Bonus program increased 39 percent while Municipal Assistance declined 43 percent (in nominal dollars). Programs that grew the most are:

Department of Health and Social Services: Grew \$150 million. AFDC and Medicaid federally required; courts ordered more mental health spending.

Education: School foundation grew \$40 million, driven by growing enrollment. School aid is so large that small percentage increases cost millions of dollars.

Corrections: Spending for prisons increased \$22 million. The prison population increased about 20 percent, and per prisoner spending increased slightly due to court decisions mandating better conditions.

Longevity Bonus: Increased \$17.5 million. The number of Alaskans over 65 doubled in the 1980s.

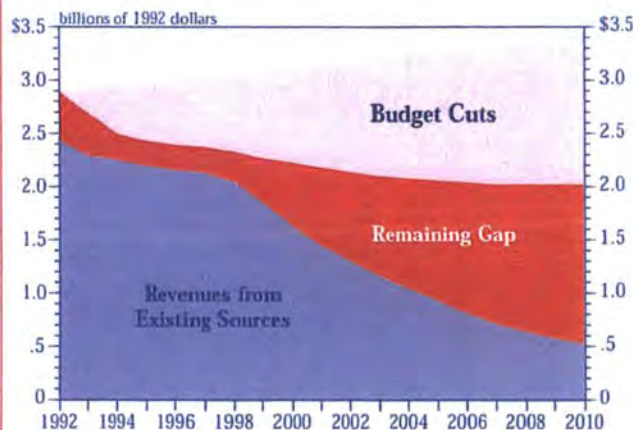
HOW COULD WE CUT \$1 BILLION?

One billion dollars is an estimate of the magnitude of required budget cuts, if we assume that the state will also take the other steps in the Safe Landing strategy. The so-called “easy” solutions—eliminating redundant bureaucrats, reducing excess regulation, delivering services more efficiently, reducing employee compensation—can’t possibly save \$1 billion. We’ll have to review and possibly reduce all state programs.

WHAT’S THE ALTERNATIVE?

In 1987 the cuts came all in one year. This time we can estimate needed cuts in advance and implement them gradually, limiting their economic effects. Everyone will know what to expect. The sense of stability will promote a positive economic environment, even as public spending shrinks. Gradual cuts will also allow time to improve efficiency and reach consensus on service cuts. This time, however, the cuts will more directly affect individuals, local governments, and non-profits as well as state agencies. But ignoring the need to make cuts, or making token adjustments, creates a worse situation. And making very deep cuts in just a single year could throw the economy into a recession. Misguided state policy (together with other factors) helped create the 1986 recession.

Step 1. Budget Cuts



- Initially freeze budget growth and then constrain the increase at less than the rate of inflation throughout the 1990s, effectively shrinking real state purchasing power 20 percent—to \$2.2 billion—by 2000. Because of continued population growth, that implies a reduction of 25 percent in state per capita spending by 2000—but per capita spending would remain considerably above the current national average.

- Develop a set of criteria for choosing where to reduce or eliminate programs—based on which are not necessities, which could pay for themselves but don't, and which we're paying more for than we should.

- Re-structure inefficient programs to provide services with less money. Program managers should be given the flexibility to re-shape their own programs.

- Re-structure payment programs based on need.

Step 2: Earnings of Permanent Fund

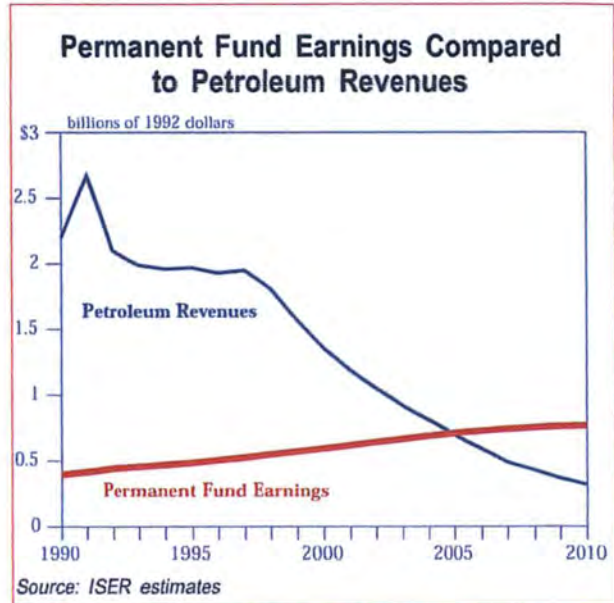
Keeping the Permanent Fund intact and managed as an investment fund should be Alaska's priority. Ideas for using the fund will become commonplace as the budget crisis deepens, but we must stick with sound investment principles.

The fund's real sustainable earnings (earnings after adjusting for inflation) of \$500 million per year exceed the payrolls of each of Alaska's commodity-producing industries except petroleum and seafood. The larger the fund grows, the greater this flow of earnings becomes.

The state should develop a plan to phase out Permanent Fund dividends and schedule the use of earnings to help pay for basic services—which was one of the rationales for creation of the fund in 1976. We do not suggest eliminating dividends to prop up current levels of spending. But budget cuts alone, with no new revenue sources, would leave the government unable to provide a reasonable level of services in the future.

We suggest using the earnings as one of three new revenue sources (the others are taxes and economic development) to help pay for basic government necessities. The adjacent figure shows that earnings can't replace oil dollars, but can fill part of the gap left as oil revenues decline. However, fund earnings can only support basic services if the dividend program is reduced or eliminated. Permanent Fund earnings should replace oil dollars only after oil production has fallen below some floor—perhaps 1 million barrels per day. Before that, earnings should be reinvested to build up the fund's earning power.

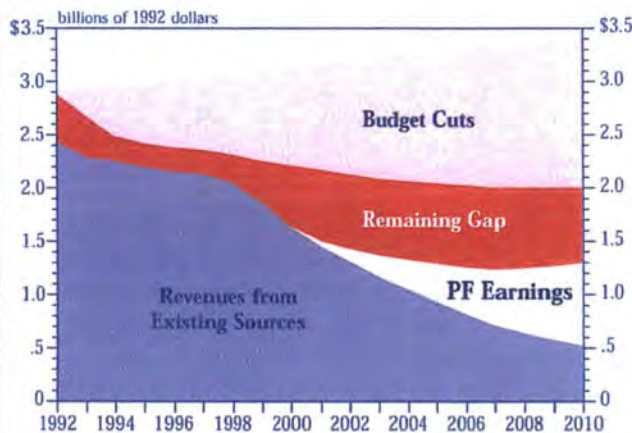
The danger in any plan that eliminates dividends is that Alaskans will have less incentive to protect the fund's principal, once the dividends are gone. However, an effective public education campaign could make it clear that the fund still provides enormous although different



benefits—by helping to stabilize the government and the economy, and helping to pay for basic services that would otherwise have to be eliminated or paid for through taxes.

Getting the highest return on the fund means moving prudently toward an investment policy with higher but variable returns from stocks. Investing more in stocks would also reduce the need for the current method of inflation-proofing, since the value of stocks increases over time with inflation. Below we see how fund earnings could help reduce the budget gap.

Step. 2. Use Permanent Fund Earnings



- Phase out the dividend program, by reducing the portion of earnings used to fund dividends 10 percent each year, beginning in 1994 and continuing until dividends are eliminated in 2003.

- Add the earnings not paid out in dividends to the principal of the fund until 2001, to build up its future earning power. These retained earnings would add over \$2.5 billion to the value of the fund.

- Use a portion of earnings to pay for general government, beginning in 2002, and increase proportion as petroleum production falls.

- Maximize the long-term rate of return on the fund's investments by shifting the investment portfolio into stocks.

Step 3: Economic Development

The most important contribution the state government can make to the continued health of the Alaska economy is to begin actively managing the fiscal crisis now.

Alaska Tax Base Commodity Producing Industries: Alaska Gross Product in 1989 (In Million Dollars)

Oil and Gas	\$11,118
Seafood	789
Forest Products	477
Tourism	319
Mining*	82

*Prior to first full year of operation of Red Dog and Greens Creek Mines.
Source: ISER estimates

Acting now will help create confidence in industry that the state government is dealing with the economic instability created by dependence on state spending and by budgeting based on unpredictable oil prices.

Growth in mining, tourism, and other industries will increase the Alaska tax base in the 1990s. But even though production will be declining, petroleum will continue to provide the largest tax base for the foreseeable future. The higher costs of development and production for new fields and enhanced recovery mean Alaska, as a resource owner, must develop flexible policies to assure the state a fair share of the value of production without jeopardizing development.

Megaprojects like the proposed gas pipeline or oil development in ANWR are uncertain and in any case can contribute little to the tax base in the 1990s. If completed, they could make substantial but unpredictable contributions somewhere in the range of \$100 to \$400 million annually by around 2005.

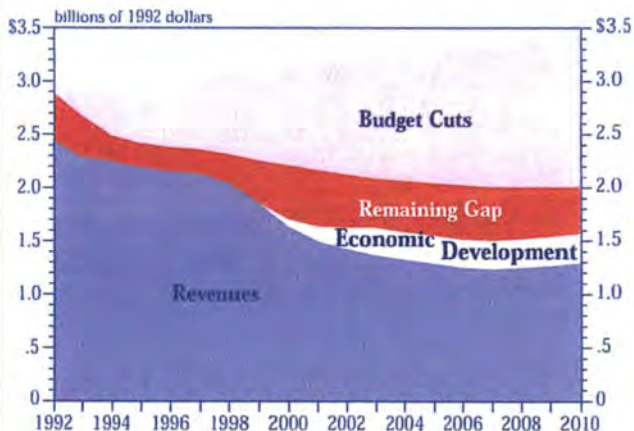
The state government should develop well-defined criteria for fostering economic development. The state should give priority to projects yielding real long-run returns. In the past, much of what was called investment in fact yielded only temporary employment gains.

Reducing the size of state government will not necessarily stimulate the private economy. Some people argue that reducing government automatically frees up money for the private economy to grow. But that isn't entirely true in Alaska, because state spending comes largely from petroleum revenues and not from taxes on other industries and individuals. If the state government did not collect petroleum revenues, the oil industry would re-invest part in Alaska but part would bypass Alaska.

Low taxes are not the only criterion for creating a favorable business climate. The tax burden on non-petroleum commodities is relatively light now, but that burden needs to be periodically reviewed in light of the need for public services. Taxes help pay for education and productive workers, provide infrastructure, and maintain the amenities that make Alaska an attractive place to live and work—amenities that ultimately reduce business costs.

The example below shows one way economic development could contribute to balancing the budget.

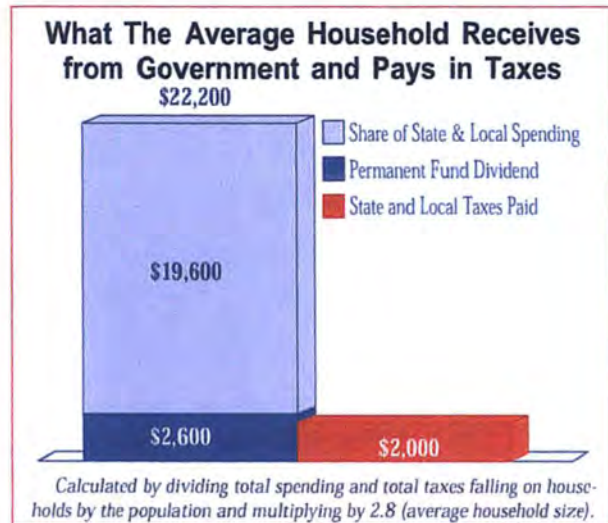
Step 3. Economic Development



- Foster positive economic environment by adopting a Safe Landing strategy.
- Adopt stable yet flexible tax and royalty policies that assure fair share for state without inhibiting development of resources.
- Coordinate all investment policy—through an agency like AIDEA—to foster long-term, sustainable development.
- Don't compromise the Permanent Fund by re-directing its investment policy to subsidize in-state development schemes.

Step 4: Taxes

The state government can no longer afford to pay Alaskans more than they pay in taxes. Alaska households pay virtually no state taxes, and the typical household receives more in Permanent Fund dividends than it pays in combined state and local taxes.



The figure above shows that the average household receives more in dividends than it pays in state and local taxes, and that the estimated value of state and local services households receive is more than 10 times larger than the average tax bill. It is clear that individual taxes do not support government spending in Alaska.

Cuts should be the first means of balancing the budget, but taxes should be introduced as early as is feasible because:

(1) The longer we delay paying any taxes, the longer we continue depleting our savings accounts to pay ongoing costs of government and the lower our sustainable revenue flow in future years will be. We'll need the cushion our savings can provide more urgently in the future.

(2) Paying taxes will help us set priorities for budget cutting: if we are paying the costs ourselves, it will be easier to identify what we're willing to pay for. Under the current system, we take whatever is provided, regardless of cost.

State personal taxes are not intended to allow government spending to grow, but rather to help pay for necessities, in conjunction with budget cuts. Taxes can fill just part of the gap left behind by falling petroleum revenues.

New taxes will increase the cost of doing business—but we have to weigh that increase against the value of having a stable government able to provide services that individuals and businesses need. Failure to impose taxes, if it leads to the deterioration of necessary public services, will just as surely increase the cost of doing business. Taxes on households will reduce their buying power and hurt businesses that depend on household spending but support businesses that depend on public spending.

The income tax is preferable to a sales tax because:

(1) Taxpayers nationwide believe that state income taxes are more fair than property or sales taxes.

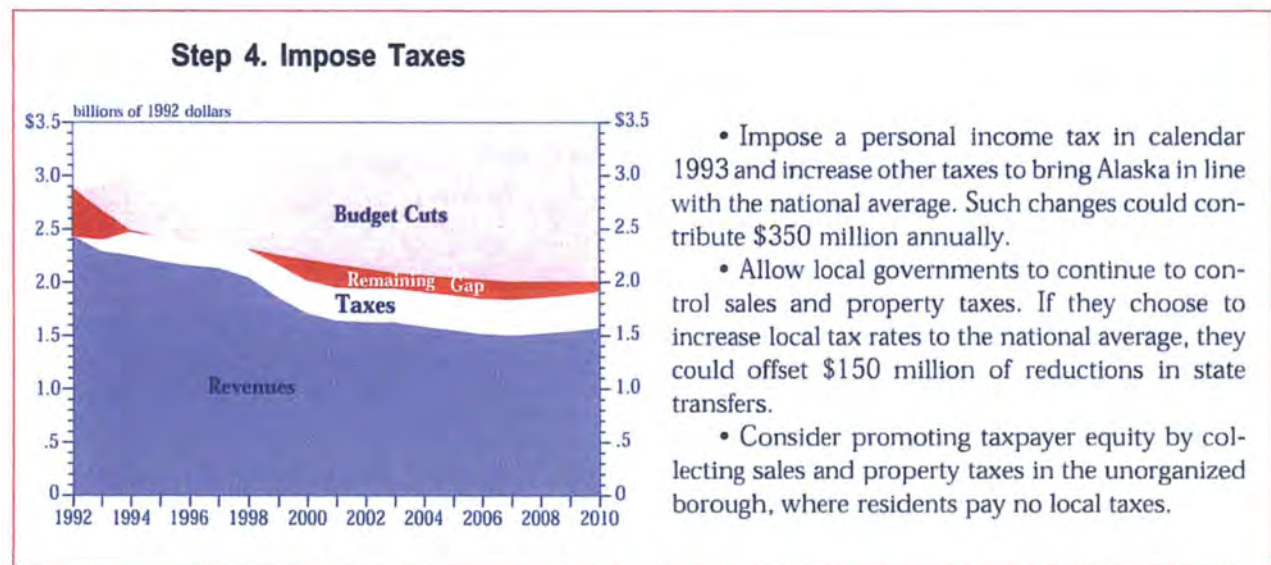
(2) Non-residents who work here would pay part.

(3) It would be deductible on federal tax returns.

(3) Unlike sales taxes, income taxes do not fall most heavily on the poor but rather can be designed to allocate the burden among income groups in a number of ways.

(4) Reinstating the state income tax would leave administration of sales taxes to local governments.

The example below shows how a personal income tax could help fill the fiscal gap.



Step 5: Transition Funds

The state government's reserve accounts and anticipated settlement payments should serve two functions in a fiscal strategy: (1) help cushion the long-term transition to a smaller government, and (2) act as a shock absorber when normal, year-to-year fluctuations in the price of oil affect state revenues.

The State of Alaska now has about \$2 billion in various reserve accounts and will also likely collect an undetermined but substantial sum this decade in settlement of tax and royalty disputes with the oil companies. Using these assets only as needed and in conjunction with an overall strategy—including budget cuts, use of Permanent Fund earnings, and taxes—is crucial. We should plan to use these assets only to cushion an otherwise too sudden decline in the budget, but never simply to prop up the budget.

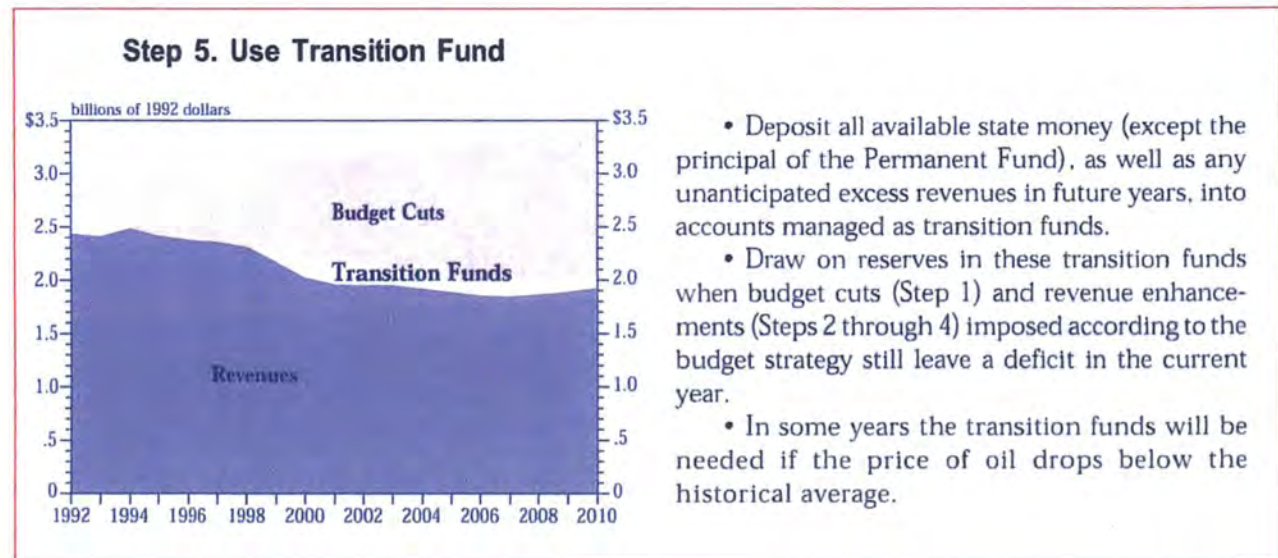
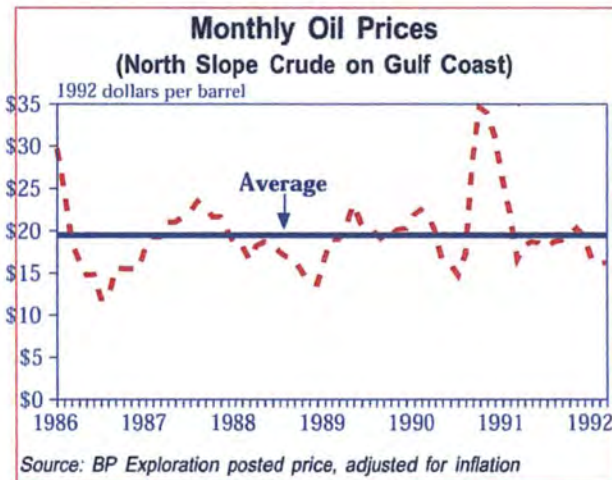
It is tempting to rely on the reserves before we take other measures to deal with the fiscal gap. But by doing so we would be using funds that we'll need more urgently when

oil revenues are smaller, and we would be needlessly exposing ourselves to budget gyrations caused by fluctuating oil prices.

The state's reserve assets could serve as a buffer in the coming years for oil price fluctuations. Oil revenues fluctuate because of both price and production changes. Declining production in the coming years will steadily reduce oil revenues. But prices will continue to fluctuate, causing oil revenues to jump up or down and confounding attempts to accurately predict revenues from year to year.

State officials try to guess the price of oil when budgeting for the coming year—but as the adjacent figure shows, the only thing constant about oil prices is change. Budgetmakers react to every change in oil prices with budget revisions—with the result that we are held hostage to oil price changes. We could save ourselves from the ups and downs associated with volatile oil prices by basing budgets on average oil prices from recent years—drawing on the transition funds when prices fall below the average and replenishing the fund when prices exceed the average. The fiscal year oil price has been within the range of \$17 to \$20 per barrel in five of the last six years. A \$300 million buffer account would have countervailed all the price fluctuations over the past six years.

The example below shows one way reserves and settlements could cushion the transition to a smaller government while also absorbing shocks from fluctuating prices.



Putting It All Together

Together the five steps of the Safe Landing strategy can move state government spending to a balanced and sustainable level by 2000 and simultaneously bring Alaska substantial benefits: keep essential state programs and services intact, avert a major recession, and preserve the principal of the Permanent Fund so it can continue to generate earnings far into the future.

- **Budget cuts are by far the biggest contributor** to the strategy over the next two decades. As the figure below shows, cutting real spending by 20 percent from the current level over the next decade could eliminate half the projected fiscal gap in 2000.

- **Permanent Fund earnings can contribute more** to the state budget than petroleum revenues, personal income taxes, or new economic development by 2010. Because fund earnings could contribute so much toward filling the fiscal gap after the turn of the century, conserving the Permanent Fund is critical to the future of the state.

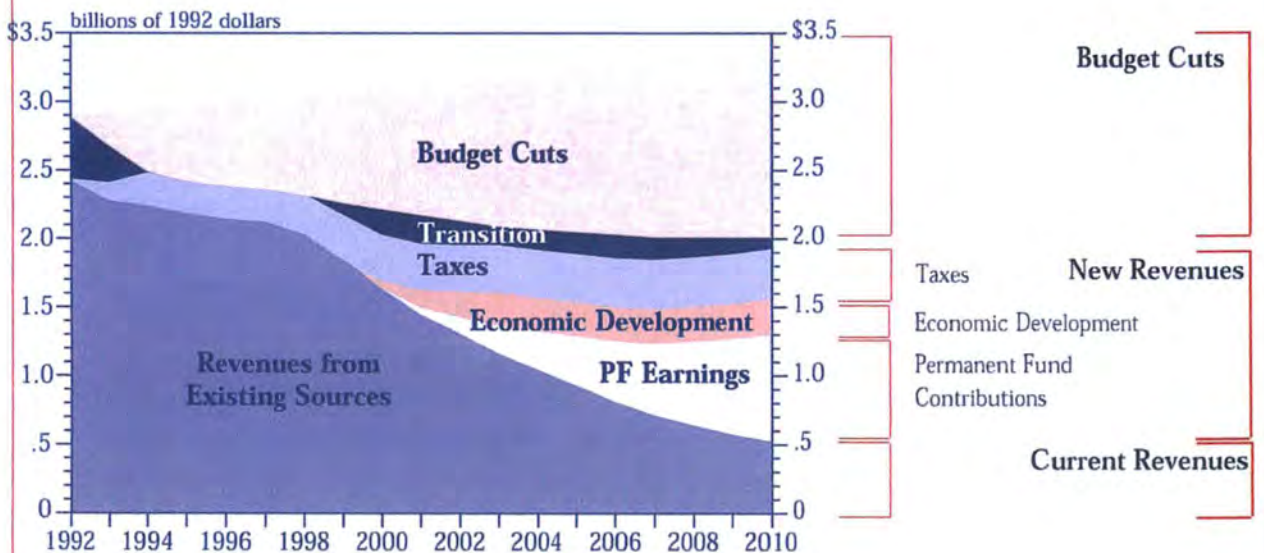
- **New economic development could contribute** as much as several hundred million dollars annually to the state treasury by 2010, but relatively little within the next decade. This source of revenues is the most uncertain.

- **Personal income taxes could begin** to contribute immediately to reducing the fiscal gap. Not only would a tax permit the state to save reserves that will be needed more later, the tax would also instill discipline in spending by putting a price on it.

- **Transition funds would cushion the move** to a smaller state government by controlling the decline in spending. Such funds would also eliminate fluctuations caused by variations in oil prices.



Summary: Safe Landing Strategy



Conclusions

Many political obstacles stand in the way of a fiscal strategy for Alaska, but for several reasons we believe those obstacles can be overcome.

First, we've done it before. Alaska and its elected officials have, within the past two decades, taken extraordinary measures to preserve the state's financial future. In 1976 Alaska voters enacted a constitutional provision to set aside a percentage of oil revenues in a permanent investment fund. This constitutional provision demonstrated considerable public foresight as well as a commitment to the future of the state.

Similarly, in the early 1980s—when state spending began to run amuck—state lawmakers recognized the need to curtail spending and made the difficult political decision to voluntarily place an additional \$4 billion in the Permanent Fund. Lawmakers made those special deposits, despite enormous pressure to continue spending all the available revenues.

This year state lawmakers passed a budget that was not only lower than the rate of inflation but less than last year's budget. Barring any large supplemental appropriations later, and if similar but not even as stringent budgetary discipline can be exercised over the next several years, we could achieve the budget cutting goals suggested here.

So we have reason to believe that when confronted with difficult choices, both the Alaska public and its elected leaders have demonstrated their willingness and commitment to do what needs to be done. What has been lacking is the persevering, year-to-year commitment to specific fiscal goals over a longer period.

Second, we have what we need to make a Safe Landing. Alaska has a reasonably robust economy with promise for continued growth in many of its economic sectors. The issue is how we can wean ourselves from overdependence on oil revenues. The Alaska economy need not go into a deep recession as we go about implementing the Safe Landing fiscal strategy. Yes, we will all experience some economic hardships as we return to paying personal incomes taxes, receiving less or giving up state dividend payments, and paying more for the state and local services we receive. But these are all burdens common in most other states.

If Alaska implemented this fiscal strategy, it would finance services more the way other states do. We would no longer pay ourselves \$500 million each year in dividends—which no other state does. We wouldn't give ourselves a tax break equivalent to another \$500 million. We would cut about \$800 million in public goods and services we can no longer afford.

Third, enacting a strategy is in our self-interest. For those Alaskans who want to stay in the state, and want the state to provide opportunities for their children and future generations, adopting the Safe Landing fiscal strategy is in both our individual and collective self-interest—even though in the short run it will impose economic hardships.

Alaskans who expect to move out within the next five to ten years may prefer to see the state liquidate its savings to prop up the economy until they leave. However, that segment of the population is a minority, and many who leave will have friends and family members who remain.

Overall then, we have reason to be optimistic that Alaska will take responsibility for its financial future and enact measures to bring us to a safe landing. We have an opportunity to join together to do something about the looming fiscal crisis. But we all need to accept that there is a problem, and be willing to give up some of the very generous programs and payments oil revenues have made possible. And if we make some sacrifices now, we will enjoy the benefits in the years to come. If we adopt the Safe Landing or a similar fiscal strategy:

- **We can look forward to a healthy economy based on our traditional export industries.** Economic growth will come from private industry rather than from government. We can't expect a continuation of the rapid economic expansion fueled by government spending in the past. There may be times when less state spending will result in a stagnant economy, but the Safe Landing strategy can minimize the possibility of a recession and attendant loss of jobs and property values.

- **Alaskans will still enjoy good incomes in the future**—but not as much above the national average as they have been when we take into account the low taxes, Permanent Fund dividends, and high government spending we have enjoyed in the past 15 years.

- **Alaska and Alaskans will still be in an enviable situation a decade from now.** The Safe Landing strategy will mean less government and higher taxes than in the past 15 years, but we will still have a great deal as compared with the period before Prudhoe Bay and with other states. Not only will we have the Permanent Fund offsetting a large share of government costs, we will have all the physical improvements oil wealth allowed us to create. These improvements not only enhance the quality of life, they also reduce the relative cost of living and thereby make Alaska more attractive for economic development.

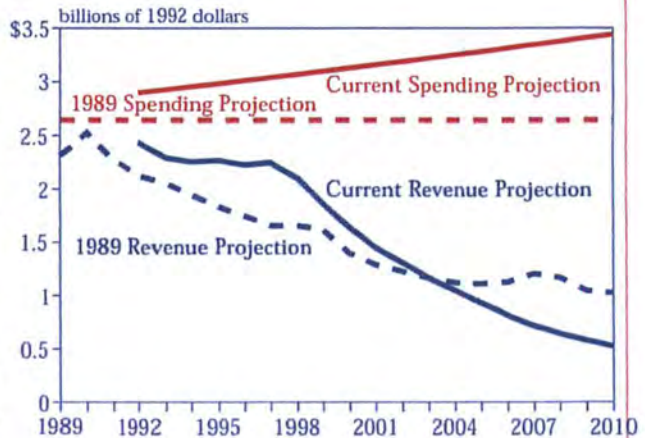
Estimating the Fiscal Gap, 1989 and 1992

In *Fiscal Policy Paper No. 1* (August 1989), we projected a fiscal gap of \$400 million in 1992, under a scenario in which the state government tried to maintain current spending for as long as possible by using available fund balances. The actual 1992 shortfall, which the state covered by using a reserve and through other means, was about \$600 million. The assumptions we made in 1989 were not accurate, but our forecast still proved a good one.

Revenues have been higher than we anticipated, because both oil prices and oil production have been higher. Oil prices have averaged \$19.43 per barrel since January 1986 (or \$18.61 per barrel, if we net out the period of the Iraqi war), compared with our estimate of \$15 per barrel in 1989 dollars (\$17.30 in 1992 dollars). But more significant for oil revenues than price fluctuations has been the upward revision in the Department of Revenue's estimate of oil production—an increase of about 150,000 barrels per day for the rest of the decade. Assuming the increase reflects more ultimate recovery rather than just faster depletion of North Slope oil, higher production gives the state more resources and time to deal with the transition to the post-Prudhoe Bay world.

It's fortunate that we underestimated revenues, because we also underestimated expenditure growth—driven not only by inflation and population increases but also by the dynamics of entitlement programs and by newly identified needs. Those factors added \$200 million to the budget by 1992.

Note: If no significant supplemental appropriations are enacted later, fiscal year 1993 spending will fall below the current projection.



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Doniece Gott

From: George Nagel <ggnagel@alaska.edu>
Sent: Wednesday, April 06, 2016 7:37 PM
To: Senate Finance Committee
Subject: citizen feedback re PFD restructure

Using Permanent Fund earnings to pay for State government services is a great idea. And I wouldn't mind if that reduced the size of the PFD (nor would I mind a sales or an income tax).

George G. Nagel
citizen of Alaska since 1989

Doniece Gott

From: Sen. Pete Kelly
Sent: Saturday, April 02, 2016 3:06 PM
To: Doniece Gott
Subject: FW: SB 114/SB 128

-----Original Message-----

From: Michael O'Meara [mailto:mikeo@horizonsatellite.com]
Sent: Thursday, March 31, 2016 4:38 PM
To: Sen. Pete Kelly <Sen.Pete.Kelly@akleg.gov>; Sen. Anna MacKinnon <Sen.Anna.MacKinnon@akleg.gov>
Cc: Sen. Peter Micciche <Sen.Peter.Micciche@akleg.gov>; Sen. Click Bishop <Sen.Click.Bishop@akleg.gov>; Sen. Mike Dunleavy <Sen.Mike.Dunleavy@akleg.gov>; Sen. Lyman Hoffman <Sen.Lyman.Hoffman@akleg.gov>; Sen. Donny Olson <Sen.Donny.Olson@akleg.gov>
Subject: SB 114/SB 128

Dear Finance Committee Chairs Kelly and MacKinnon and members,

I live off the road system and, unfortunately, couldn't get to a computer early enough this morning for your committee meeting on SB 114 and SB 128. I have been following the the proposals and issues involved however. Let me share my thoughts here.

I agree with the Governor's basic idea of working toward a sustainable state government through a combination of carefully crafted budget reductions and new revenue sources aimed at spreading the burden evenly among individual Alaskans and various business interests.

Let's use the Permanent Fund as an endowment. Using some of the fund's earnings to fuel government is sensible but I don't support making complicated changes in the way the fund works. To me the so-called "Goldsmith Plan" seems superior to both SB 114 and SB 128 because it is straightforward, strengthens the fund by depositing all O&G revenues into it, and doesn't modify the dividend program. Please consider adopting it or something very similar.

In my opinion the Permanent Fund dividend should continue to be paid out of fund earnings and not directly from oil revenues or royalties.

Linking the dividend to oil and gas revenues, or to any single industry for that matter, would increase the likelihood it would decline in value. More importantly, it would probably diminish citizen appreciation of the fund's importance to their well being.

If changes are made to the way in which the annual dividend is calculated, the amount should be based on a sensible, predetermined percentage of the annual revenues. This would be superior to placing some arbitrary cap on the dividend amount. For one thing, experiencing fluctuations based upon market changes helps reinforce citizen interest in seeing the fund managed well. For another, it is fair. As I'm sure you appreciate, the annual dividend has become more than a welcome perk for all of us. It is an important source of income for rural families and others who lack high paying jobs. With the "pick, click, give" program it is a boon to Alaska's many non profit organizations. And, of course, the dividend now nurtures the wider Alaskan economy to a significant degree.

Please consider these things as you continue to discuss these bills.

Sincerely,

Mike O'Meara
Anchor Point/Homer

Doniece Gott

From: Bert Bell <bert@ghemm.com>
Sent: Monday, April 04, 2016 11:12 AM
To: Senate Finance Committee
Subject: Revenue

Finance Committee

I encourage the use of the Permanent Fund as a partial solution to the budget deficit. I value living within our means, which will require further cuts and additional revenue, whether income taxation, sales tax or other means. The end result should provide a sustainable budget that does not take from future generations. I do not think savings should be spent as a temporary solution without a total fiscal plan of sustainability.

Sincerely,

Bert Bell

Doniece Gott

From: Dennis Gall <gall_dennis@yahoo.com>
Sent: Saturday, April 09, 2016 7:19 PM
To: Senate Finance Committee
Subject: long-term budget plan

Hello,

I really can't express how truly disappointed that I am in your work and the work, or lack thereof, of the legislature this session. It seems like you are just dinking around the edges of the budgetary situation in an attempt to run out the clock on the session without having taken any steps toward establishing a long-term and stable source of funding for our state and our communities.

Rather than facing the reality of the current situation, as expressed by an overwhelming majority of the public and the business community who are asking for a POMV plan for the permanent fund, along with modest budget cuts and new revenue, you and your committees seem to be want to put your head in the sand, ignore reality, and play budget cut games in the hopes that hard decisions may not have to be made. The uncertainty caused by this lack of action just increases the difficulties for our economy and willingness for businesses to invest...

Please wake up and face reality. Hard decisions need to be made. We need a long-term financial plan that will put our economy on a stable footing, now and in the future. Putting this decision off will only draw down reserves that could be invested to create revenue long into the future, and made future decisions harder not easier. Please act now.

Sincerely,
Dennis Gall

I support

Representatives need to work TOGETHER. Not everyone gets it all their way but the fighting and non-compromising is sacrificing our states future for our children and generations to follow!!!!

CUT STATE WASTE FIRST then look at means of revenue. First state waste (and there is waste. No more yearly MERIT raises and colas. Really merit raises in the public sector? No one gets a raise without working for it and it is NOT every year) .

UAF needs to also cut spending on projects non-essential, look at better ways to manage. See how we can provide education with less per student. Look at other universities in country that educate for less \$ per student.

An income tax

PFD only go to full time residents tighten the time allowed to be out of state

PFD commercial to pick click and give says it can generate millions for non-profits. Why not take just \$100 of everyone's PFD's. The money from PFD's puts money back into the economy and helps support people like me, working poor. I need all the \$ that was created to give to the residence of Alaska. Just tighten up who gets. Why do able bodied welfare recipients get? They receive tens of thousands of dollars in benefits and we pay too? If they won't work, if they won't do community service or take drug test, then no PFD.

It's time for communities and churches to help take up slack for people that need help

If any able bodies person on welfare they need to do 20 hours community service for the benefits they receive

ALL welfare recipients have drug tests

Need tax for tourists

Figure our marijuana issue so taxes can bring in revenue

What about a lottery

What about building a casino instead of people leaving the state to hit Las Vegas

Debbie Ramer

376-3860



April 8, 2016

Representative Mike Chenault, Speaker of the House
Senator Kevin Meyer, President of the Senate
Alaska State Legislature
Alaska State Capitol
Juneau, AK 99801

Dear President Meyer and Speaker Chenault,

The Greater Fairbanks Chamber of Commerce has taken a very thoughtful and deliberate approach in engaging our membership in important issues facing this state. Our number one priority this year is supporting a comprehensive, long-term sustainable fiscal plan for the state of Alaska.

We shared this with members of the legislature during our annual legislative fly-in last month. To reiterate, *we encourage the Alaska State Legislature, the administration and state leaders to ensure the effective use of state resources by delivering essential programs as efficiently as possible, and to make strategic investments that promote long-term economic growth. We encourage government leaders to build a fiscally responsible budget that aligns revenues with expenses. While reductions have already been made to state budgets, we believe additional reductions are necessary. A consistent and predictable fiscal policy is integral to an overall plan and vision for business development and job growth in Alaska.*

Likewise, *Alaska's Future* encourages government leaders to build a fiscally responsible budget. They believe that the cornerstone of any plan this legislative session should incorporate the use of Permanent Fund earnings to significantly reduce the deficit, support essential public services and maintain a sustainable dividend and healthy Permanent Fund.

We believe the mission of *Alaska's Future* aligns with the Fairbanks Chambers' position in this regard. The Chamber recognizes that a long-term, sustainable fiscal plan cannot be accomplished without considering other revenue sources, such as the use of permanent fund earnings reserve. While we do not endorse any particular plan, we encourage you to forge ahead with deliberations to come up with a sustainable budget structure to address our long-term fiscal stability. The Chamber board agrees that the state's fiscal issues are urgent and that action must be taken this session.

On Monday, March 28, the Chamber board officially joined the *Alaska's Future* coalition to encourage legislators to do something this year to address the growing state budget deficit. The vote was unanimous. We all agree we need a comprehensive solution to fix Alaska's budget challenges now. The Chamber is now taking its advocacy one step further in supporting the *Alaska's Future* mission to utilize the Permanent Fund Earnings Reserve, support essential services and maintain a sustainable dividend and healthy Permanent Fund to address the fiscal gap.

The Fairbanks Chamber does not take this action lightly. The Chamber has been very engaged in bringing important issues in front of our membership at every opportunity - from a special meeting with the Governor last week to multiple presentations by ISER's Gunnar Knapp, to the board of directors' actions last fall and carrying through the

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GOLD

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Henry Orthodontics
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JL Properties, Inc.
Key Bank
Lynden
Northrim Bank
PDC Inc. Engineers
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Seekins Ford Lincoln
Sourdough Fuel
Spirit of Alaska Federal Credit Union
State Farm Insurance
Tammy Randolph, Agent
Ed Randolph, Agent
Tanana Valley Clinic
TDL Staffing
Teamsters Local 959
Tower Hill Mines-Livengood Gold Project
UA College Savings Plan
University of Alaska Fairbanks
Verizon Wireless
Yukon Title Company

legislative session, Chamber members have been exposed to the gravity of the current budget deficit. While it is unrealistic to expect the legislature to solve a \$4 billion deficit and settle on a practical long-term fiscal plan in ninety days, moving forward now with using the earnings reserve of the Permanent Fund will be a large step in the direction of long-term fiscal stability.

We respectfully ask for your action this session to address the growing budget deficit with a long-term plan to utilize the Permanent Fund Earnings Reserve as one of the key components. Please do something now to address this issue before it is too late.

Respectfully,

GREATER FAIRBANKS CHAMBER OF COMMERCE

Lisa Herbert
President and CEO

Bill Bailey
Board of Directors, Chair

Doniece Gott

From: J. Cassellius <jcassellius@gmail.com>
Sent: Monday, April 04, 2016 12:40 PM
To: Sen. Anna MacKinnon; Rep. Lora Reinbold; Senate Finance Committee
Subject: Comments on Alaska's budget plan and SB114, SB128, HB224

Comments on the Budget Plan - SB114, SB128, HB224

From:
Juanita Cassellius
17606 N. Eagle River Lp.
Eagle River, Ak 99577
Ph. 441-3683

To:
Sen. Anna MacKinnon
Rep. Lora Reinbold
Senate Finance Committee

Date: April 4, 2016

I'm a long-time Alaska resident in Eagle River who is aware of our State Constitution and residents' rights to share in resource wealth as shareholders in the Owner State. The bills in the Legislature that change the Permanent Fund and PFD undermine our rights as Alaskans and there are other, better solutions needed.

We have a budget deficit that needs to be reduced. Efficiencies need to be found and oil tax credits reduced before you ask for Alaskans to pay. STOP THE SECRECY ABOUT OIL TAX CREDITS. Transparency in government is critical to our democracy. The Legislators actions do not inspire confidence regarding the LIO illegal contract, refusing the Governor's call to adjust oil tax credits, and refusal to make information about the oil patch more transparent. Whose interest is the Legislative majority serving?

STOP THESE BILLS TO CHANGE THE PERMANENT FUND AND PFD. Use earnings in the short term. This panic and pressure to change the Fund, endorsed by Alaska's Future group, is not in the public interest. Educating Alaskans about policy by a PR campaign run by big business is a really bad idea and disservice to Alaskans.

DO NOT CAP THE PFD. This is an unfair, regressive tax. ISER has a study that shows cutting the dividend is worse for the economy than instituting income tax.

DO NOT CONVERT THE FUND TO A POMV before we have a Constitutional guarantee for the PFD. Alaskans need to be educated on the POMV and agree on the payout calculations proposed. The calculations for the PFD in SB114 for not acceptable.

The Legislature needs to go back to the drawing board and come up with a more fair, efficient budget plan. We have the reserves to do this. The urgency in this matter is getting it right not rushing to make hasty cuts and changes to the Permanent Fund that the public does not understand.

Please take a look at this Facebook page to see the Alaskans who support protecting the PFD without a cap or paying it out of a royalty Fund. We can pay fair taxes and fees. Even low income folks can contribute with sales tax. Take time to make more deliberate, careful cuts and ways for everyone to contribute. Do not pass these bills to restructure the Permanent Fund and cut the PFD. There are other options for a workable budget plan.

<https://www.facebook.com/Save-Our-Permanent-Fund-2016-Act-Now-1577980452527975/>

Thanks,
Juanita Cassellius

Key Coalition
of
Alaska



540 West International Airport Road
Anchorage, AK 99518

April 15, 2016

Senator Kelly and Senator MacKinnon, Co-Chairs
Senate Finance Committee
Juneau, Alaska

Re: SB 128

Dear Co-Chairs Kelly and MacKinnon,

Key Coalition of Alaska (Key Coalition), through unified statewide advocacy, promotes the dignity, status and equality of all Alaskans who experience disabilities as valued, contributing participants in a shared community. Key Coalition of Alaska recognizes the fiscal situation Alaska faces, the implications for state agency budgets and the need to find cost savings and efficiencies.

Key Coalition supports the adoption of an "Alaska Fiscal Plan" that looks at a combination of cuts, cost-savings recommendations, maximizing the economic return of the land and non-cash assets of the Alaska Mental Health Trust Authority and use of the Permanent Fund.

In keeping with the adoption of an "Alaska Fiscal Plan," Key Coalition supports SB 128, which will help move us from the ups and downs of fluctuating oil prices and ensure services remain in place for Alaskans who need them the most.

Thanks for the opportunity to provide input.

A handwritten signature in black ink, appearing to read "Millie Ryan".

Millie Ryan, President

"Unity, Advocacy, Community for All..."



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

March 29, 2016

The Honorable Anna MacKinnon
Alaska State Legislature
State Capitol, Room 516
Juneau, AK 99801-1182

Re: SB 128 – Options

Dear Senator MacKinnon:

We appreciate the opportunity to present this bill to Senate Finance and work with you on creating a sustainable fiscal plan for withdrawing money from the earnings reserve account (ERA) in the permanent fund. This letter and attachments provide options for your consideration on how to structure a plan. The cornerstones of a workable plan from our perspective are:

- a. It must be rule-based; we should only spend from the ERA pursuant to a clear set of rules.
- b. To preserve wealth equitably across generations and provide stability in budgeting the plan needs to be sustainable, including at least preserving the real value of the fund and allowing for a durable ERA balance.
- c. It should address year-to-year volatility in government revenues.

These objectives can be achieved under a few different approaches, some of which are outlined below. We have also attached draft language that accomplishes these options.

1. Options to address volatility

The State's solution to the current fiscal challenge should aim to soften the blow caused by the swings in oil prices and the amount earned by the permanent fund in any given year. To accomplish this, the rule-based framework needs to establish a formula to draw money from the earnings reserve account in a sustainable manner that ensures the draw will be there in low earnings years because the State saved in the high earnings years. Similarly, we want to address the wide year-to-year swings in petroleum revenues, which have led to the current fiscal gap. It is critical we establish a rule-based framework that will stabilize spending and saving in the long-term and provide certainty for the budget, individual Alaskans, and private sector in the future.

Frameworks that address the long-term volatility problem include:

A. Alaska Permanent Fund Protection Act model (current version of SB 128)

The approach taken in the Alaska Permanent Fund Protection Act (APFPA) consolidates the products of the state's resource development that can be highly variable—production taxes, royalty revenues, and income on the investment of previously accumulated resource revenues—in the ERA in the permanent fund and draws a steady, sustainable amount from the ERA for annual general fund expenditures. The proposal also incorporates a periodic review of the draw to ensure the value of the financial asset is not degraded over time. This approach protects the financial asset, the corpus and ERA of the permanent fund, while preserving and distributing resource wealth equitably across generations.

B. Endowment model with revenue limit

Because it has a greater stabilizing effect on state spending, the APFPA model is preferred, but an endowment model may be modified to mitigate some of the volatility otherwise inherent in the finances of a commodity dependent state in such a way as to at least not spend financial savings in times of high revenues. In this framework, production taxes and royalty revenues are deposited in the general fund; investment revenue continues to flow to the earnings reserve account. A formulaic draw from the ERA contributes to the funds available for annual general fund expenditures. However, it would be advantageous if there was a revenue limit to stabilize year-to-year spending. For example, the draw from the earnings reserve could be reduced by \$1 for every \$1 of production taxes and unrestricted royalties over \$1 billion.¹ The exact revenue limit and

¹ An endowment framework with a limit based on prior year's appropriations is disfavored because it would not provide clear rules for ensuring savings and restraint in

how its calculated would depend on other factors, such as how the dividend is paid. For this reason, we have not provided specific draft language, but we would be happy to discuss this further if the committee decides to head in this direction.

This approach uses the fund to support the state in low revenue years and reduces volatility in spending that would result from a simple endowment payout. Without a revenue limit, a simple endowment payout adds money into the system, even in times of peak revenues when the additional money is not needed. Because the revenue limit can only smooth a limited range of petroleum revenue volatility, this approach is less effective in stabilizing state spending and providing certainty to the business community and the market than that proposed in the APFPA. Consequently, we would like to see a revenue limit combined with a savings mechanism in very high oil price environments that sets aside all or a portion of those revenue spikes beyond when the revenue limit would reduce payments from the ERA to the general fund to zero.

2. Options for a draw formula

Spending from the ERA must be sustainable (allow for the permanent fund to grow at least with inflation) and should provide stability to the general fund. The draw formula may require adjustment to accommodate a dividend formula or a strategy for reducing volatility. For both the APFPA and endowment models above, options for the annual draw include:

A. Fixed draw (current version of SB 128)

Based on the fund's current value and reasonable assumptions about future revenue inflows, a sustainable fixed draw is the amount that may be withdrawn every year without degrading the value of the fund. A fixed draw formula should incorporate a periodic review to adjust the draw if necessary. A fixed draw with delayed adjustments for inflation is the preferred approach because it provides the greatest degree of stability and therefore the greatest certainty to the private sector economy.

the peak revenue times in order to provide stability in the low revenue times. This can be seen in both the constitutional spending limit and the spending limit in the statutory budget reserve fund. Neither of these spending limits has worked to stabilize the budget. Without meaningful rules addressing revenue volatility, the system would have the same disadvantages as the simple endowment.

B. POMV draw with a smoothing rule (alternative; see attached amendment language)

The percent of market value (POMV) formula withdraws an amount equal to a percentage of the fund's value based on assumptions regarding the revenue inflows and inflation. Because all of the revenue inflows potentially going into the permanent fund are highly variable, the value of the fund and therefore the amount of a POMV draw are also variable. A smoothing rule, such as using a percent of the fund's average value over five years, can mitigate the volatility but not eliminate it. While the POMV formula does not provide the same certainty offered by a fixed draw, a well-designed fiscal framework could integrate a smoothed POMV draw and sustainably provide stability to the general fund. The POMV alternative for APFPA as currently drafted—e.g., a 50% royalty dividend and production taxes and royalties into the ERA—is six percent. If APFPA were to be modified, the POMV payout from the ERA that is sustainable would change, just as the sustainable POMV payout for other models would change based upon how the legislation configures the rule-based system.

3. Options for the dividend formula

A. Percent of royalties dividend (current version of SB 128)

A royalty dividend has the benefit of connecting Alaskans to the state's economy. A royalty dividend also allocates an independent incoming revenue stream to dividends and avoids introducing yet more volatility into the general fund. The current production forecast declines over time because it only includes projects that are currently producing and prospective projects that have funding approval, an annual cash flow schedule, and a drilling plan. But, there's great potential for additional resource development in Alaska beyond the projects included in the production forecast. An optimistic view of Alaska's future favors a royalty dividend for Alaskans.

B. Flat \$1,000 per recipient dividend (alternative; see attached amendment language)

Dividends distributing \$1,000 per recipient would likely be sustainable. Under this formula, the state would budget for a \$650 to \$700 million dividend distribution each year. This approach would ensure certainty in budgeting and achieve the objective of stability.

On the other hand, mandating a \$1,000 floor on dividend payments (regardless of the approach chosen) would be problematic. With a \$1,000 floor with no ceiling, the State would have to make additional payments to the dividend distribution in the low

revenue years while not saving additional sums in the peak revenue years. It is highly desirable to avoid unbalancing the system by either having a flat, stable dividend or one that reflects both high and low revenue years, and not a situation where the permanent fund and the ERA absorb the downside but pay out the upside.

C. POMV dividend

A POMV dividend formula would keep Alaskans connected to the permanent fund. This dynamic contributed to the success of the current rule-based system governing the fund. Particularly when paired with a POMV draw for general fund expenditures, a POMV dividend may be sustained without transferring volatility to the general fund.

An approach that should be avoided is using the statutory net income formula. The variability of statutory net income can pose challenges for financial planning. Particularly when paired with a POMV draw formula, a statutory net income dividend formula can create wider and more unpredictable swings in the amount transferred to the general fund, thereby introducing unnecessary and problematic volatility.

D. Mixed royalty-POMV dividend (alternative; see attached amendment language)

A two-part dividend formula distributing 25% of mineral royalties and a portion of a POMV draw arguably connects Alaskans to both the current economic health of the state and the health of the fund.

We do not recommend the current three-part formula present in the CS to SB 114. This formula includes a calculation based on royalties, statutory net income, and the balance of the constitutional budget reserve (CBR). As discussed above, the statutory net income calculation introduces unpredictable swings into the system that should be avoided. Also, a dividend formula based on the balance of the CBR, but paid from another source, creates the potential for imbalance between income and distributions of the other fund source (e.g., permanent fund or general fund). Such a formula also injects short-term political decision making into dividend calculations thereby unduly politicizing the permanent fund and dividend.

4. Options for revenue placement within the permanent fund

A. Leave all annual revenue in the ERA (other than 25% of royalties)

Transferring only the constitutional minimum of 25% of royalties to the corpus leaves more funds in the earnings reserve and reduces the probability of depleting available funds. But, this approach also leaves a growing fund unprotected and available for appropriation. It is important that the fund grow so that it can continue to produce investment income for future generations.

B. Everything deposited in earnings reserve, funds over the target go to corpus (see attached amendment language)

This approach would place any amounts in the ERA over the target balance (equal to four times the sustainable draw) into the corpus of the permanent fund. This is the approach taken in the current version of SB 128 (APFPA). Modeling suggests there is a reasonable likelihood that transfers would likely begin by 2020, but potentially as soon as 2018. Given that both SB 114 and SB 128 reduce the percentage of royalties deposited in the corpus to provide greater fiscal stability in the near term, planning to deposit excess revenues into the corpus later is a rational tradeoff to protect the fund and ensure a growth for future Alaskans.

Although the current language in SB 128 accomplishes this approach, the language is somewhat cumbersome and could be improved. We have drafted amendment language that would streamline the current version.

C. Place petroleum revenues in a subaccount of the earnings reserve account to avoid comingling (alternative; see attached amendment language)

As you are aware, the Department of Law does not think the ERA would be subject to a sweep if petroleum tax or royalty revenues are deposited in it (see attached letter to House Finance dated January 25, 2016). Nonetheless, if there are concerns over comingling production taxes and/or royalties with the earnings of the permanent fund due to the potential of a sweep, a separate subaccount could be created in the ERA in which petroleum revenues could be deposited. This would purely be an accounting distinction and would not impact asset management. However it would ensure subaccount assets are spent first. This would mean there would not be substantial funds available in the subaccount to be swept, but if a sweep did occur, it would only impact that small amount of funds left in the subaccount.

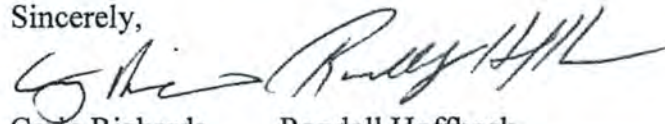
5. Options for the starting fund value

The Governor's proposed budget included a one-time \$3 billion transfer from the CBR to the ERA. Transferring \$3 billion from the CBR to the ERA decreases the chance of depleting the account over the next 24 years and allows a slightly higher sustainable draw (for all plans). However, the transfer is not strictly necessary. Other options include the following:

- Leave the \$3 billion in the CBR and reduce the annual draw by \$150 million (unless offset by the addition of other funds);
- Appropriate the \$3.3 billion sustainable draw from the CBR for FY17, appropriate from the ERA thereafter;
- Instead of transferring \$1.4 billion from the ERA to the dividend fund as is currently scheduled under last year's appropriation bill, only transfer what is needed for the new dividend formula (not as calculated by the existing formula). Alternatively, the legislature could leave in all, or half, of the \$1.4 billion in the ERA and pay the dividend out of the CBR this year.

We look forward to working with you on a new sustainable plan for Alaska's future.

Sincerely,



Craig Richards
Attorney General

Randall Hoffbeck
Commissioner of Revenue

Attachments

**Attachment:
Potential Amendment Language**

Amendment for Option 2.B – POMV draw with a smoothing rule

- Page 4, lines 15 - 17, amend AS 37.13.145(h) (transfer to general fund)
 - (h) Each fiscal year and subject to appropriation, the corporation shall transfer from the earnings reserve account to the general fund **an amount equal to six 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 last six fiscal years** ~~the sustainable draw amount under (i) of this section.~~
- Page 4, lines 18 - 25, delete AS 37.13.145(i) (sustainable draw)
- Page 5, lines 24 - 25, delete AS 37.13.145(l)(1) ("sustainable draw amount" definition)
- Page 4, lines 26 - 27 AS 37.13.145(j): (periodic review and definition of "target balance")
 - Delete "sustainable draw"
 - Insert "amount transferred to the general fund under AS 37.13.145(h)"
- Page 5, lines 26 - 27 AS 37.13.145(l)(2) (periodic review and definition of "target balance")
 - Delete "sustainable draw under (i) of this section"
 - Insert "amount transferred to the general fund under AS 37.13.145(h)"

Amendment for Option 3.B – Flat \$1,000 dividend per recipient

- Page 2, line 28, through page 3, line 4, amend AS 37.13.145(b) (transfer from the ERA to the dividend fund)

AS 37.13.145(b) is amended to read:

 - (b) At the **beginning** [END] of each fiscal year, **and subject to appropriation,** the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, **an amount sufficient equal to distribute \$1,000 to each Alaska resident eligible for a permanent fund dividend under AS 43.23.005** ~~50 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 during the prior fiscal year~~ [THE INCOME

AVAILABLE FOR DISTRIBUTION UNDER AS 37.13.140].

- Page 4, lines 18 - 25, amend AS 37.13.145(i) (sustainable draw)
 - If fixed, sustainable draw, change \$3,300,000,000 to \$3,100,000,000
 - If POMV draw, change “six percent” to “## percent” to ensure the POMV draw is sustainable
- Page 6, lines 7 - 11, delete all material (Sec. 9) (\$1,000 dividend in 2016)
- (also amend Dividend Fund statute, calculation of dividend)

Amendment for Option 3.D – Mixed royalty-POMV dividend

- Page 2, line 28, through page 3, line 4, amend AS 37.13.145(b) (transfer from the ERA to the dividend fund)

AS 37.13.145(b) is amended to read:

(b) At the **beginning** [END] of each fiscal year, **and subject to appropriation,** the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, **an amount equal to the sum of**

(1) ~~25~~ ~~50~~ 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 during the prior fiscal year,**
and

(2) **0.8 percent of the average market value of the fund, including the earnings reserve account established in AS 37.13.145, for the last five fiscal years.**

[THE INCOME AVAILABLE FOR DISTRIBUTION UNDER AS 37.13.140].

- Page 4, lines 18 - 25, amend AS 37.13.145(i) (sustainable draw)
 - If fixed, sustainable draw, change \$3,300,000,000 to \$3,100,000,000
 - If POMV draw, change “six percent” to “5.6 percent”
- Page 6, lines 7 - 11, delete all material (Sec. 9) (\$1,000 dividend in 2016)

Amendment for Option 4.B – Streamlining language for deposit and transfer of funds over target balance

- Remove Sec. 1(a)(2) and (3) of SB 128 [additional petroleum revenues directly to corpus]
- Page 3, line 28, through page 4, line 10, amend AS 37.13.145(e) and(f) (petroleum revenues to the earnings reserve)

(e) Except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska, ~~if, following the transfer in (b) of this section, the balance of the earnings reserve account is less than the target balance, up to 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. Any portion of these funds not required to bring the earnings reserve account balance to the target balance may be appropriated to the principal of the fund.~~

(f) ~~If, following the transfer under (b) of this section, the balance of the earnings reserve account is less than the target balance, up to 24.574.5 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. Any portion of these funds not required to bring the earnings reserve account balance to the target balance may be transferred to the principal of the fund.~~

- Page 4, lines 11 - 14, delete AS 37.13.145(g) (royalties to the earnings reserve)
- Page 3, lines 5 - 12, amend first sentence of AS 37.13.145(c) (transferring funds to corpus)

(c) **If, following** the transfer under (b) of this section, **the balance of the earnings reserve account exceeds four times the amount transferred to the general fund under [Sec. 6(h)] in the prior year the target balance**, [AFTER] the corporation, **subject to appropriation, shall transfer the excess funds** from the earnings reserve account to the principal of the fund an amount **equal to the difference between the balance of the earnings reserve account and the target balance** [SUFFICIENT TO OFFSET THE EFFECT OF INFLATION ON THE PRINCIPAL OF THE FUND DURING THAT FISCAL YEAR].

- Page 5, lines 26 - 27, delete AS 37.13.145(l)(2) ("target balance" definition)
- Page 6, line 6, delete reference to "AS 37.13.010" (deposit petroleum revenues in the permanent fund)

Amendment for Option 4.C – Place petroleum revenues in a subaccount

- Page 2, line 28, through page 3, line 4, amend AS 37.13.145(b) (transfer from the ERA to the dividend fund)

AS 37.13.145(b) is amended to read:

(b) At the **beginning** [END] of each fiscal year, **and subject to appropriation,** the corporation shall transfer from the earnings **mineral revenue** reserve **subaccount** to the dividend fund established under AS 43.23.045, **an amount equal to 50 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 during the prior fiscal year** [THE INCOME AVAILABLE FOR DISTRIBUTION UNDER AS 37.13.140].

- Page 3, line 28, through page 4, line 17, delete AS 37.13.145(e)-(h) and replace with the following language [mineral revenue reserve subaccount]:

(e) The mineral revenue reserve subaccount is established within the earnings reserve account in the fund. The following revenues may be appropriated to this subaccount:

(1) except as otherwise provided under art. IX, sec. 17, Constitution of the State of Alaska, up to 100 percent of the money collected by the Department of Revenue under the oil and gas production tax, AS 43.55.011 - 43.55.180; and

(2) 74.5 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 resource sharing payments received by the state.

(f) Following the transfer under (b) of this section and subject to appropriation, if the total balance of the earnings reserve account exceeds four times the prior year's sustainable draw, the corporation shall transfer excess funds to the principal of the fund.

The mineral revenue reserve subaccount must be depleted before other funds may be transferred from the earnings reserve account under this subsection.

(g) Each fiscal year and subject to appropriation, the corporation shall transfer from the mineral revenue reserve subaccount to the general fund the sustainable draw under (h) of this section. If the balance of the mineral revenue reserve subaccount is insufficient for the transfer to the dividend fund under (b) of this section and the sustainable draw, the corporation shall transfer the remainder of the sustainable draw from other funds in the earnings reserve account.

- Make conforming amendments throughout SB 128 to incorporate the mineral revenue reserve subaccount.



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Law

CIVIL DIVISION

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January 25, 2016

Honorable Representative Mark Neuman
Co-Chair of the House Finance Committee
Alaska State House of Representatives
Alaska State Capitol, Room 505
Juneau, Alaska 99801

Honorable Representative Steve Thompson
Co-Chair of the House Finance Committee
Alaska State House of Representatives
Alaska State Capitol, Room 515
Juneau, Alaska 99801

Re: Issue raised relating to the CBR sweep (HB 245)

Dear Co-Chairs and Members of the House Finance Committee:

We understand an issue has been raised as to whether the permanent fund earnings reserve account ("ERA") must be "swept" into the Constitutional Budget Reserve ("CBR") (art. IX, sec. 17(d) of the Alaska Constitution) in order to repay the CBR for prior appropriations from the budget reserve fund under the new framework set forth in the proposed Alaska Permanent Fund Protection Act ("APFPA"). For the reasons set forth below, it is our opinion that the ERA would not be subject to the CBR sweep.

I. Constitutional Budget Reserve

The CBR was established by constitutional amendment in 1990 at article IX, section 17 of the Alaska Constitution. There are four subsections to this constitutional provision:

(a) There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under section 15 of this article, all money received by the State after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments or bonuses, or involving taxes

imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. Money in the budget reserve fund shall be invested so as to yield competitive market rates to the fund. Income of the fund shall be retained in the fund. Section 7 of this article does not apply to deposits made to the fund under this subsection. Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

(b) If the amount available for appropriation for a fiscal year is less than the amount appropriated for the previous fiscal year, an appropriation may be made from the budget reserve fund. However, the amount appropriated from the fund under this subsection may not exceed the amount necessary, when added to other funds available for appropriation, to provide for total appropriations equal to the amount of appropriations made in the previous calendar year for the previous fiscal year.

(c) An appropriation from the budget reserve fund may be made for any public purpose upon affirmative vote of three-fourths of the members of each house of the legislature.

(d) If an appropriation is made from the budget reserve fund, until the amount appropriated is repaid, the amount of money in the general fund available for appropriation at the end of each succeeding fiscal year shall be deposited in the budget reserve fund. The legislature shall implement this subsection by law.

II. The Permanent Fund Earnings Reserve Account

The earnings reserve account is "established as a separate account in the fund." AS 37.13.145(a). The "fund" is defined in statute as "the Alaska permanent fund established under art. IX, sec. 15 of the Constitution of Alaska." AS 37.13.900(3).

III. *Hickel v. Cowper*, 874 P.2d 922 (Alaska 1994)

Under art. IX, sec. 17(b), an appropriation can be made from the CBR by a majority vote when the "amount available for appropriation" for the upcoming fiscal year is less than the amount "appropriated for the previous fiscal year." The Alaska Supreme Court in *Hickel v. Cowper*, 874 P.2d 922 (Alaska 1994) addressed the definition of monies "available for appropriation" under art. IX, sec. 17(b). The Court held as follows:

"amount available for appropriation" within the meaning of article IX, section 17 of the Alaska Constitution includes all monies over which the legislature has retained the power to appropriate and which require further

appropriation before expenditure. In addition, all amounts actually appropriated, whether or not they would have been considered available prior to appropriation, are available within the meaning of section 17. Illiquid assets, such as land and unexploited natural resources, are not available so long as they remain illiquid. For these reasons, trust receipts are available for appropriation, as are funds like the Railbelt energy fund and the educational facilities maintenance and construction fund, which are not available for expenditure without additional appropriations. In contrast, the oil and hazardous substance release response fund is not counted as available because the entire balance of the fund may be expended at any time without further legislative action.*Finally, the permanent fund earnings reserve account must be counted as available for appropriation, because appropriations may be made from it and it is not subject to expenditure without legislative action.*

Id. at 935 (emphasis added). Significantly, the Court in *Hickel* acknowledged a distinction between the amount available for appropriation under subsection (b), which would include the ERA, and the "payback" provision in subsection (d) which was limited to funds in the general fund and thus would not include the earnings reserve account. The Court stated as follows:

the payback provision in section 17(d) is limited to only those funds which are 'available for appropriation' and 'in the general fund.' Thus, available amounts outside the general fund, such as the earnings reserve account, need not be deposited in the budget reserve.

Id. at 936, n. 32 (emphasis added).

IV. The impact on the earnings reserve account resulting from the proposed Alaska Permanent Fund Protection Act and the fiscal year 2017 operating budget

The proposed APFPA seeks to establish a stable budget framework by adopting a set of rules that would result in a sustainable yearly draw of money from the ERA to the general fund to support state operating expenses. The APFPA also provides for additional revenues in the form of royalties and oil and gas production taxes to be appropriated to the Alaska permanent fund and to the ERA in order to ensure that a sustainable yearly draw can be made from the ERA to the general fund. Additionally, the bill changes the calculation of money to be withdrawn from the ERA to pay permanent fund dividends so that the amount withdrawn is based on an amount equal to fifty percent of the resource royalties received by the state. The proposed fiscal year 2017 operating budget seeks appropriations along the model established under the APFPA. Specifically, the operating

budget bill seeks an appropriation of \$3.3 billion dollars from the ERA to the general fund. It also seeks to appropriate 24.5 percent of resource royalties to the ERA, along with an additional 50 percent of resource royalties to the ERA in order to provide for dividend payments from the ERA. The proposed fiscal year 2017 operating budget also seeks to appropriate one hundred percent of oil and gas production tax revenue to the ERA next fiscal year.

V. Analysis and Conclusion

The issue is whether the ERA would be subject to a sweep to the CBR under art. IX, sec. 17(d). As set forth above, in *Hickel v. Cowper* the Alaska Supreme Court acknowledged a distinction between the definition of monies available for appropriation under art. IX, sec. 17(b) and monies subject to sweep under the payback provision in art. IX, sec. 17(d). As discussed above, the Court noted that amounts outside the general fund were not subject to the sweep and it specifically identified the ERA as an account outside the general fund that would not need to be deposited into the CBR under the sweep provision. *Id.* at 936, n. 32.

Although the question would appear to be settled based on the plain language in the constitution and the Court's decision in *Hickel*, it appears the Division of Legislative Finance is assessing whether the ERA should be considered subject to the CBR sweep under the framework proposed in the Alaska Permanent Fund Protection Act. This consideration appears to be based on the following: the account would no longer be comprised only of income from the permanent fund, and the account would be used to pay state government operating expenses rather than being a fund restricted to the payment of dividends. Although both of these statements are true, this information does not transform the ERA into a fund within the general fund. The proposed legislation does not seek to change the existing statutory provisions¹ that clearly identify the ERA as a fund in the permanent fund. This is important because the sweep provision in art. IX, section 17(d) expressly limits the funds subject to the sweep to those monies that are "in the general fund." As the Court in *Hickel* noted when it was interpreting Section 17: "Our analysis of a constitutional provision begins with, and remains grounded in, the words of the provision itself. We are not vested with the authority to add missing terms or hypothesize differently worded provisions in order to reach a particular result." *Id.* at 927-928. Moreover, although the ERA under the proposed legislation will be used to pay for general government operating expenses through an appropriation to the general fund, the ERA has always been available to pay for government operating expenses even if it has not been traditionally used for that purpose. In fact, the Court in *Hickel* held that the ERA was available for appropriation by the legislature.

¹ AS 37.13.145(a); AS 37.13.900(3).

Consequently, based on the constitutional language in section 17(d), the existing statute establishing the earnings reserve account in the permanent fund, the Court's analysis in *Hickel*, and the other reasons set forth above, it is our opinion that the earnings reserve account "need not be deposited in the budget reserve" under the CBR sweep provision. *Id.* at 936, n. 32.

Sincerely,

CRAIG W. RICHARDS
ATTORNEY GENERAL

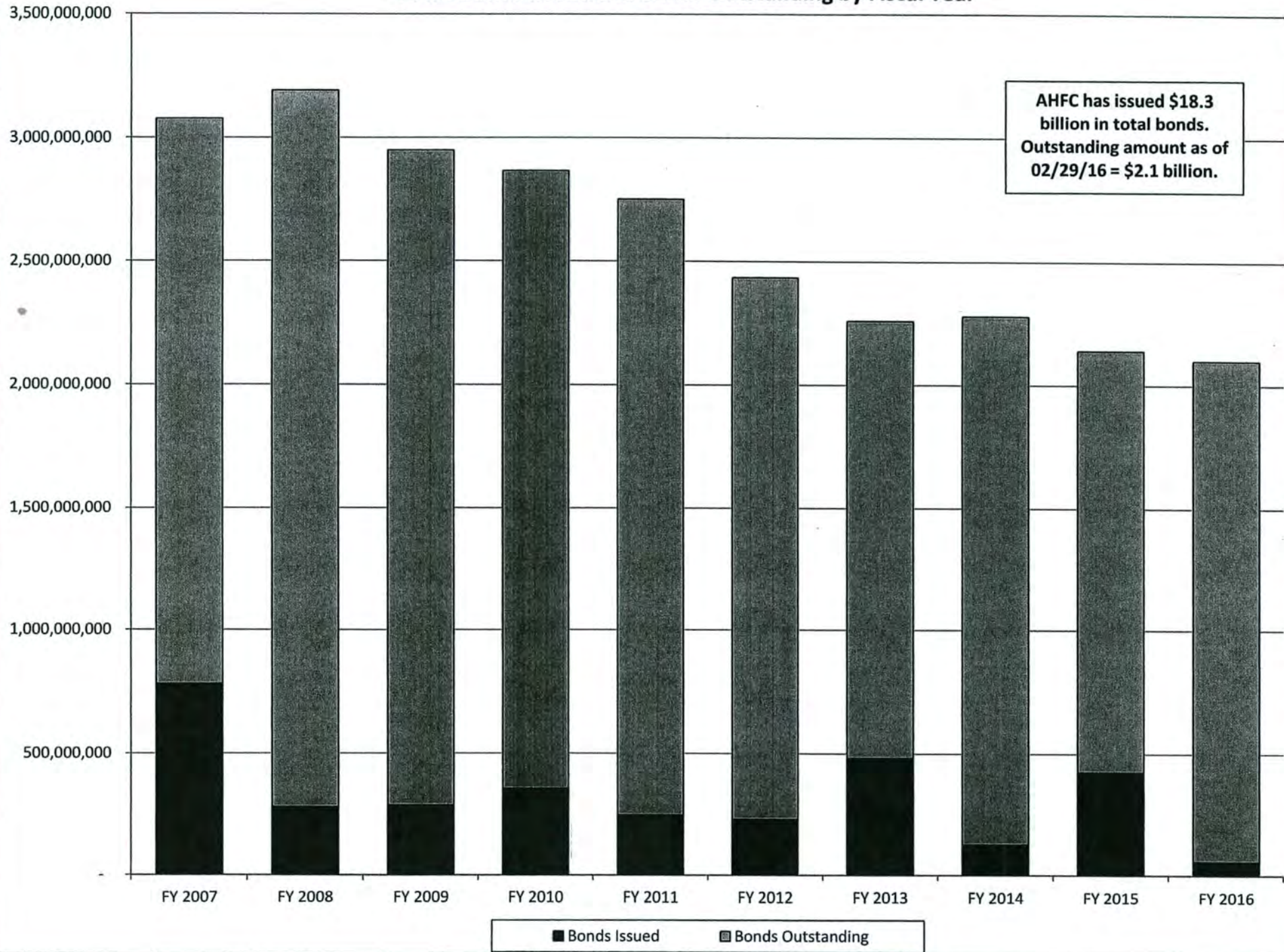


By:

William E. Milks
Senior Assistant Attorney General

WEM/ajh

AHFC Bonds Issued and Bonds Outstanding by Fiscal Year



What is your strategic vision? What value does your Agency provide the state of Alaska?

- The Alaska Housing Capital Corporation (“AHCC”) was formed at the direction of the Legislature for the purpose of funding capital projects, including financing expenses.
- Since inception, AHCC has funded a variety of legislatively appropriated public projects and infrastructure improvements throughout Alaska.

When was the Agency created, and how much state funds were invested?

- Pursuant to Senate Bill No. 232 of the 2006 Alaska Legislature, AHCC was incorporated on May 23, 2006, under the Alaska Nonprofit Corporation Act and provisions of the Alaska Statutes authorizing the Alaska Housing Finance Corporation (“AHFC”), as amended.
- As a subsidiary of AHFC, AHCC is a government instrumentality of the State, but has legal existence independent of and separate from AHFC and the State.
- Also pursuant to SB 232, the sum of \$300 million was appropriated to AHFC for further transfer to AHCC on or after July 1, 2006. Including this initial funding, AHCC has to date received \$935 million of appropriated funds, which, together with interest earnings thereon, have been utilized to finance \$971 million of legislatively authorized capital projects for the State.

What is the current level of funding from the Legislature?

- AHCC's financial inflows consist solely of investment earnings from its participation in the State's General Fund and Other Non-Segregated Investments (GeFONSI) pool and monies appropriated to AHCC by the Legislature. AHCC's outflows consist solely of transfers to fund various capital projects when/as appropriated by the Legislature.
- As of February 29, 2016, AHCC's asset balance is \$43.8 million, of which \$22.5 million has been legislatively appropriated and \$21.3 million remains available for future appropriation.

What is the management structure of the Agency?

- AHCC is governed by a seven-member board of directors comprised of the commissioners of the Alaska Departments of Revenue, Health & Social Services, and Commerce, Community & Economic Development, or their designees, and four members of the public recommended by the Governor and elected to the AHCC board by the AHCC membership.
- The AHCC membership consists of AHFC as Sole Member, represented by the AHFC board of directors.
- AHCC's board chair is Brent LeValley from Fairbanks.

How many employees work for the Agency?
How are they funded?

- AHCC has no direct employees.
- All administrative functions are provided on a subsidy basis by AHFC.

Does the Agency generate revenue?

- AHCC generates investment revenues earned on its holdings within the State of Alaska's GeFONSI investment pool.
- AHCC has no other assets.

Does the Agency return a dividend to the state? How much?

- AHCC does not return a dividend to the State.

Is the Agency able to receive/leverage Federal funds?

- AHCC is not currently configured to receive or leverage federal funds.

What are your Agency's capital assets?

- AHCC holds no capital assets.

Does the Agency have bonding authority? What are bonds issued for? What is the current outstanding debt? What is the bonding capacity?

- AHCC has bonding authority under AS 18.56.086.
- Bonds may be issued for the purpose of financing or facilitating the financing of school construction, facilities for the University of Alaska, facilities for ports and harbors, or any other purpose identified in AS 18.56.06, as amended, at the direction of the Sole Member.
- AHCC bonding capacity is limited to bond issuances when/as authorized by its board of directors.

Can you identify any other state entities or private corporations in Alaska that may provide the same or similar services as your Agency? Is your agency subject to the state procurement code? Explain.

- AHCC was established at the direction of the Legislature for the express purpose of funding State capital projects. It accomplishes this by receiving appropriation funds from the State, investing those funds in GeFONSI, and disbursing those funds and associated earnings thereon in accordance with Legislative intent.
- Various state entities are believed to provide similar services as AHCC.
- AHCC is not subject to the State procurement code.

Does the Agency have any outstanding liabilities the Legislature should be aware of?

- AHCC currently has no outstanding liabilities.

What is your strategic vision? What value does your Agency provide the state of Alaska?

- The Alaska Corporation for Affordable Housing (ACAH) was formed through the actions of the Alaska Legislature as a non-profit 501(c)3 subsidiary of Alaska Housing Finance Corporation (AHFC) for the purpose of accessing financing options for the expansion of public/affordable housing.
- Since inception, ACAH has funded affordable housing projects by joint-venturing with private developers and investors to develop low-to-moderate income housing, and access federal funding including bond financing and the non-competitive Low-Income Housing Tax Credit Program. Traditional Public Housing Authorities are unable to access these funding streams to develop new properties.
- Public housing authorities nationwide are successfully involved in developing affordable housing through subsidiary entities such as the Alaska Corporation for Affordable Housing.

When was the Agency created, and how much state funds were invested?

- Pursuant to House Bill No. 119 of the 2011 Alaska Legislature, ACAH was incorporated on February 2, 2012. It is a nonprofit 501(c)(3) subsidiary of AHFC.
- As a subsidiary of AHFC, ACAH is a government instrumentality of the State, but has legal existence independent of and separate from AHFC and the State.
- In FY2013, \$3.2 million in General Funds, originally from a nationwide mortgage settlement to the State that had a requirement to use on housing projects, was appropriated to the Affordable Housing Development Program for ACAH.

What is the current level of funding from the Legislature?

- Authority to spend up to \$479,000 annually in Federal and CIP operating funds, based on the revenue stream from ACAH assets.
- Affordable Housing Development Program authority of \$22.4 million in Federal Receipts.

What is the management structure of the Agency?

- ACAH is governed by the same seven-member board of directors that governs AHFC comprised of the commissioners of the Alaska Departments of Revenue, Health & Social Services, and Commerce, Community & Economic Development, or their designees; and four members of the public appointed by the Governor.
- ACAH's president is Bryan Butcher. The board chair is Brent LeValley from Fairbanks.

How many employees work for the Agency?
How are they funded?

- ACAH currently has no employees, but is authorized for two positions.
- Administrative functions are currently provided through a shared services agreement with AHFC.

Does the Agency generate revenue?

- ACAH is generating approximately \$250,000 per year in lease revenue from property holdings, primarily ground leases. Revenue must be used for ACAH's charitable purposes in order to remain compliant with terms of the land use restrictive covenants recorded on properties.
- Revenue is used for pre-development expenses on public/affordable housing development projects and AHFC reimbursement under the Shared Services Memorandum of Agreement of January 29, 2013.
- Annual budget is approved as part of AHFC's operating budget request to Governor and Legislature.

Does the Agency return a dividend to the state? How much?

- ACAH does not return a dividend to the State. It was created as a nonprofit entity to address the critical need for public/affordable housing in Alaska.

Is the Agency able to receive/leverage Federal funds?

- ACAH was specifically intended to leverage federal and other funds that become available.
- ACAH is able to obtain mortgage debt and tax credits through partnerships for development that a traditional Public Housing Authority is unable to access.

What are your Agency's capital assets?

- ACAH's capital assets are:
 - Ridgeline Terrace property – Anchorage – 70 units
 - Susitna Square property – Anchorage – 18 units
 - Loussac Place property – Anchorage (Land Only)
 - Mountain View Parcel – Anchorage (Land only)
 - Two 8 –plexes – Fairbanks

Does the Agency have bonding authority? What are bonds issued for? What is the current outstanding debt? What is the bonding capacity?

- ACAH has bonding authority under AS 18.56.086.
- There is no outstanding debt.
- Capacity is limited to bond issuances when/as authorized by its board of directors.

Can you identify any other state entities or private corporations in Alaska that may provide the same or similar services as your Agency? Is your agency subject to the state procurement code? Explain.

- ACAH was established for the express purpose of the expansion of public/affordable housing using underutilized resources.
- Although other entities may build affordable housing developments in specific regions of Alaska, none have the authority to build public housing statewide in Alaska.
- ACAH is not subject to the State procurement code.

Does the Agency have any outstanding liabilities the Legislature should be aware of?

- ACAH is co-general partner in a limited partnership that borrowed money to complete an affordable housing project.
- Debts of ACAH are not the debts of AHFC or the State.

What is your strategic vision? What value does your Agency provide the state of Alaska?

- The Northern Tobacco Securitization Corporation (“NTSC”) was formed at the direction of the Legislature for the sole purpose of issuing bonds, the proceeds of which were used to purchase from the State certain portions of Alaska’s right to receive tobacco settlement revenues under the 1998 Master Settlement Agreement (“MSA”).
- NTSC’s partial securitization of Alaska’s MSA revenue stream allowed the State to immediately access bond proceeds rather than waiting for uncertain future settlement payments to be received over time.
- These bond proceeds were appropriated to fund necessary public projects and infrastructure improvements throughout Alaska.

When was the Agency created, and how much state funds were invested?

- Pursuant to House Bill No. 281 of the 2000 Alaska Legislature, NTSC was incorporated on September 30, 2000, under the Alaska Nonprofit Corporation Act and provisions of the Alaska Statutes authorizing AHFC, as amended.
- As a subsidiary of AHFC, NTSC is a government instrumentality of the State, but has legal existence independent of and separate from AHFC and the State.
- Neither the State nor AHFC is obligated to meet debt service requirements on NTSC bonds.
- No State funds were invested in the creation of NTSC.

What is the current level of funding from the Legislature?

- NTSC's operating budget contains no General Funds of the State.
- Operations are funded by tobacco settlement revenues received and investment earnings thereon.
- Operating funds are limited to a maximum cap calculated annually in accordance with NTSC's 2006 trust indenture.
- NTSC's FY2016 maximum operating cap is \$170,648.04.
- Actual operating expenses (excluding bond interest expense) averaged \$74,227 per year from FY2011 – FY2015.

What is the management structure of the Agency?

- NTSC is governed by a five-member board of directors comprised of the commissioners of the Alaska Departments of Revenue, Health & Social Services, and Commerce, Community & Economic Development, or their designees, and two independent members of the public recommended by the Governor and elected to the NTSC board by the NTSC membership.
- The NTSC membership consists of AHFC as Sole Member, represented by the AHFC board of directors.
- NTSC's board chair is Deputy Commissioner of Revenue Jerry Burnett.

How many employees work for the Agency?
How are they funded?

- NTSC has no direct employees.
- All administrative functions are provided on a contract basis in accordance with a Memorandum of Agreement dated October 1, 2000, between NTSC and AHFC.
- The current cost to NTSC for all administrative functions is \$440 per month.

Does the Agency generate revenue?

- NTSC generates investment revenues earned on tobacco settlement revenues received and held between debt service dates, debt service reserve funds required to be held under the 2006 trust indenture, and operating funds held prior to being expensed.
- NTSC 2006 trust indenture mandates that all revenues received in excess of required annual debt service and operating cap be utilized to “turbo redeem” additional tobacco settlement bonds.
- This is called a “full turbo” bond structure and is designed to pay down NTSC’s outstanding debt as quickly as possible.
- In the current low interest rate environment, paying down relatively high-rate debt as soon as possible represents NTSC’s best use of funds.

Does the Agency return a dividend to the state? How much?

- NTSC does not return a dividend to the State

Is the Agency able to receive/leverage Federal funds?

- NTSC is not currently configured to receive or leverage federal funds.

What are your Agency's capital assets?

- NTSC holds no capital assets.

Does the Agency have bonding authority? What are bonds issued for? What is the current outstanding debt? What is the bonding capacity?

- NTSC has bonding authority under AS 18.56.086.
- Bonds have been issued exclusively for the securitization of 80% of Alaska's tobacco settlement revenue stream.
- Outstanding debt as of December 31, 2015, is approximately \$355.8 million including accreted interest.
- NTSC bonding capacity is limited to bond issuances when/as authorized by its board of directors.

Can you identify any other state entities or private corporations in Alaska that may provide the same or similar services as your Agency? Is your agency subject to the state procurement code? Explain.

- NTSC was established for the specific purpose of securitizing a portion of the State's tobacco settlement revenue stream under the MSA via the issuance of tax-exempt debt.
- No other state or private corporation in Alaska performs this function.
- NTSC is not subject to the State procurement code.
- At its October 31, 2001, annual meeting, the NTSC board of directors passed Resolution #01-06 approving as NTSC policy the application of the procurement regulations of AHFC.

Does the Agency have any outstanding liabilities the Legislature should be aware of?

- Outstanding NTSC debt as of December 31, 2015, is approximately \$355.8 million including accreted interest.
- NTSC currently has no other material outstanding liabilities.

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The growing economic case for 'helicopter money'

Bloomberg

Simon Kennedy

1 hr ago

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After more than 600 interest rate cuts and \$12 trillion of asset purchases failed to move the inflation needle enough, central banks may need to head even deeper into uncharted territory.

The way to get the world out of its disinflationary rut could lie in them directly financing government stimulus -- a strategy known as deploying "helicopter money" after a 1969 proposal from Nobel laureate Milton Friedman.

Economists at Citigroup Inc., HSBC Holdings Plc and Commerzbank AG all published reports to investors on the topic in the past two weeks, while hedge fund titan Ray Dalio sees potential in the idea. European Central Bank officials are already squabbling about what President Mario Draghi calls a "very interesting concept."

"We don't know for certain that 'helicopter money' will be the next attempted silver bullet, however the topic is receiving considerably more attention," said Gabriel Stein, an economist at Oxford Economics Ltd. in London. "The likelihood is reasonably high of some form being implemented somewhere."

The theory -- never attempted by a modern major economy -- is to fuse monetary and fiscal policies now both running out of room. Cash-strapped governments sell short-term debt straight to their central bank for newly printed money that is then injected straight into the economy via tax cuts or spending programs. The usual intermediaries, like banks, are bypassed.

The idea is to spur spending and investment directly rather than influence bond yields or sentiment. Central banks can be saved from permanently underwriting governments by establishing growth or inflation limits.

In a 2002 speech that earned him the nickname "Helicopter Ben," then-Federal Reserve Governor Ben S. Bernanke said taking to the skies would "almost certainly be an effective stimulant to consumption and hence to prices."

Reviving the debate is the failure of inflation to accelerate in much of the world despite Bank of America Corp.'s calculation that as of early February central banks had cut rates 637 times and spent \$12.3 trillion on assets since the financial crisis in 2008. It also estimated 489 million people now live in countries where rates are negative.

Runaway Inflation

To Dalio, the founder of \$154 billion Bridgewater Associates, that means the next step should be to do even more to spark demand.

"If you look around the world, our risk is not inflation and our risk is not overheating economies," he told Bloomberg Television's Erik Schatzker on March 3. "They're going to have to go more directly to spenders."

So what's not to like? Critics say spraying money around would eventually mean Weimar-style runaway inflation and bloated government debt. The independence and credibility of central banks would be potentially damaged. And the policy could backfire if households sit on the money.

Bundesbank President Jens Weidmann has already said "helicopter money" would "rip huge holes in central bank balance sheets" and leave governments and taxpayers to "pay the bill in the end."

'Free Lunch'

Then there's the law. The ECB is prohibited from financing states and lacks a single Treasury to work with, while the Fed is constrained in what assets it can buy.

"The helicopter option is simple, easily implemented and, for some, offers the closest thing to a free lunch," said Stephen King, senior economic adviser to HSBC. "If this sounds too good to be true, that's because it is."

Draghi last week said that while the ECB has not studied the concept "it clearly involves complexities, both accounting-wise and legal-wise." Colleague Peter Praet, nevertheless declined to rule it out as an option when asked.

The debate may remain academic. In the U.S., prices are shifting higher and the International Monetary Fund still forecasts inflation in advanced economies to accelerate next year to 1.7 percent from 1.1 percent.

Revisiting the Unimaginable

"I don't think helicopter money gets rolled out quite yet," said Ewen Cameron-Watt, chief investment strategist at BlackRock Inc. "You need a considerable downturn and further decline in inflation expectations first."

Still, if economies do slide anew, Jonathan Loynes of Capital Economics Ltd. in London, noted central banks have shown willingness to revisit once-rejected ideas.

"The clear lesson of recent years has been that seemingly unimaginable policy measures previously confined to the theory or history books can become reality if extraordinary economic circumstances persist for long enough," he said.

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Rasmuson Foundation

March 22, 2016

Former Alaska Governors and Lt. Governors Issue Statement on State Budget Crisis

ANCHORAGE, AK – As part of its Plan4Alaska education campaign, today Rasmuson Foundation convened a meeting of Alaska's former Governors and Lieutenant Governors to discuss the historic budget crisis and the state's options for solving it.

Governor Tony Knowles, Governor Bill Sheffield, Lt. Governor Mead Treadwell, Lt. Governor Loren Leman, Lt. Governor Fran Ulmer, and Lt. Governor Stephen McAlpine were in attendance at Rasmuson Foundation's office in Anchorage and Governor Frank H. Murkowski participated via videoconference. Pictures of the meeting are attached.

The group agreed unanimously on the following six points:

1. We do not have enough revenue to pay for the government we currently have. We have to do some significant changing in how we do business.
2. We need a combination of cuts and new revenues.
3. The Permanent Fund was created to help pay for essential state services when oil declined.
4. Everybody benefits from state services and everybody should help pay for them. It is important for people to help pay for governments so they are connected to how government funds are spent.
5. We can protect the Permanent Fund dividend for the long term if we commit to use a share of Permanent Fund earnings to make a significant reduction in the deficit.
6. Making decisions today to adopt a sustainable, balanced budget is essential. The longer we wait, the fewer options we have.

"I joined this group because I believe we have to work our way through this situation and we have to do it this year," said former Lieutenant Governor Mead Treadwell.

"We agreed that it is essential that the state act now and not later to address this situation," said former Lieutenant Governor Fran Ulmer. "We don't need a stopgap, one-

year solution, we need structural changes in how we fund our government. That means both cuts and revenues.”

Public opinion research commissioned by Rasmuson Foundation shows that Alaskans are overwhelmingly concerned about the crisis, prefer a comprehensive plan over a cuts-only strategy, and want elected leaders to act this year.

“I’ve been down this road before, and it’s not pretty,” said former Governor Bill Sheffield. “I’ve seen Alaskans lose their jobs and their homes. I’ve watched banks fail. I’ve witnessed Alaska go through a deep recession, and it is not something I would ever wish upon my fellow citizens again. The Governor and the legislature must act, and the Alaska public needs to support them in making the decisions that have to be made.”

With four weeks left in the current legislative session, the Alaska Governors and Lieutenant Governors in attendance at today’s meeting intend on continuing to talk with their fellow Alaskans and advocate for urgent action on the budget this year.



For more information, please contact Cassandra Stalzer by phone at 907-334-0520 or by email at cstalzer@rasmuson.org.

Consensus statement

The current state deficit is the most significant in state history.

1. We do not have enough revenue to pay for the government we currently have. We have to do some significant changing in how we do business.
2. We need a combination of cuts and new revenues.
3. The Permanent Fund was created to help pay for essential state services when oil declined.
4. Everybody benefits from state services and everybody should help pay for them. It is important for people to help pay for governments so they are connected to how government funds are spent.
5. We can protect the permanent fund dividend for the long term if we commit to use a share of Permanent Fund earnings to make a significant reduction in the deficit.
6. Making decisions today to adopt a sustainable, balanced budget is essential. The longer we wait, the fewer options we have.

Thomas Swell
Adrian K...
Srew Leman

Long Hunt
Bill Shappard
Fran Ulmer

Presented by: The Manager
Introduced: 02/08/2016
Drafted by: A. G. Mead

RESOLUTION OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2741

A Resolution Urging the Alaska Legislature to Adopt a Balanced, Sustainable, and Predictable State Budget Plan for FY2017 and Future Years.

WHEREAS, due to the drastic drop in the global oil prices the State of Alaska is facing a \$3.5 billion budget deficit for FY16; and

WHEREAS, production of Alaska North Slope crude oil has steadily decreased over the past 25 years; and

WHEREAS, global oil prices have dropped significantly over the past two years and are projected to remain relatively low for the foreseeable future; and

WHEREAS, the drop in oil prices has resulted in the State funding its budget in large part with its savings; and

WHEREAS, the cash reserves currently being used by the State to cover the existing deficit will be depleted in just a few years, threatening the State's annual dividend program and potentially the State's Permanent Fund itself; and

WHEREAS, the State of Alaska has been duly warned by Standard & Poor's that due to the current fiscal imbalance, the State's credit rating will continue to be downgraded if the Legislature fails to take appropriate action in 2016; and

WHEREAS, while the State enjoys robust savings it is estimated those budget reserves will be drained by the end of FY18 if prices continue to remain low and a sustainable budget is not adopted by the Legislature and Governor; and

WHEREAS, in FY16, due to such low oil prices, the Legislature made considerable cuts to both the State's Operating and Capital budgets and the Governor found efficiencies along with instituting program cuts and reductions in some state services; and

WHEREAS, the Legislature and the Governor are expected to continue to make service cuts and find further operating efficiencies within state government; and