

SJR

1

<TARGET><BILL>SJR 1</BILL><SUBJECT>SJR
1</SUBJECT><COMM>SSTA29</COMM></TARGET>

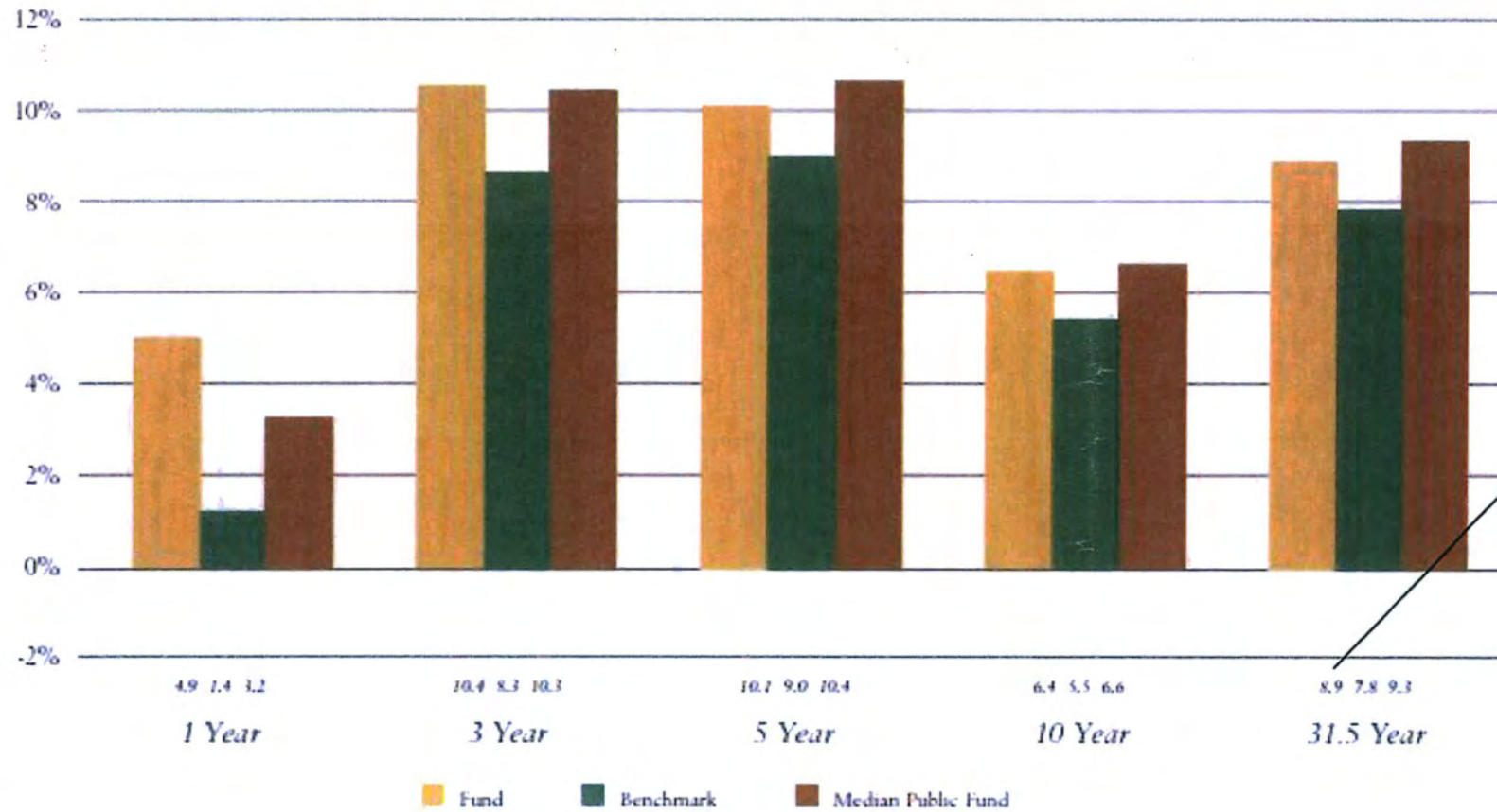
SJR 1 – *“Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, establishing the earnings reserve account, relating to the permanent fund dividend, and requiring the permanent fund dividend to be at least equal to the amount that would be calculated under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

Sectional Analysis

- ▶ Section 1: Establishes the Earnings Reserve Account in the constitution
- ▶ Section 2: (b) Transfer of monies from the Earnings Reserve Account to the dividend account and 5-year average dividend calculation
(c) Establishes the calculation for dividing up the amount available for dividends
- ▶ Section 3: Replaces current statutory ERA with constitutional ERA
- ▶ Section 4: Places the resolution before the voters in the next general election

Permanent Fund Returns

Fund's Long-Term Investment Performance
Annualized Returns for Periods Ending June 30



The Fund's long-term investment performance sees a 31.5 year annualized return of 8.9%

Permanent Fund Dividends

ANNUAL DIVIDEND PAYOUTS

		1990	\$952.63	2000	\$1,963.86	2010	\$1,281.00
		1991	\$931.34	2001	\$1,850.28	2011	\$1,174.00
1982	\$1,000.00	1992	\$915.84	2002	\$1,540.76	2012	\$878.00
1983	\$386.15	1993	\$949.46	2003	\$1,107.56	2013	\$900.00
1984	\$331.29	1994	\$983.90	2004	\$919.84	2014	\$1,884.00
1985	\$404.00	1995	\$990.30	2005	\$845.76	2015	\$2,072.00
1986	\$556.26	1996	\$1,130.68	2006	\$1,106.96		
1987	\$708.19	1997	\$1,296.54	2007	\$1,654.00		
1988	\$826.93	1998	\$1,540.88	2008	\$2,069.00		
1989	\$873.16	1999	\$1,769.84	2009	\$1,305.00		

Calculating the Dividend

Alaska Department of Revenue Permanent Fund Dividend Division

Overview of the 2014 Dividend Calculation

To help smooth out year-to-year volatility in dividend amounts, the amount of each year's dividend is calculated using a formula that averages the Permanent Fund's realized earnings over the previous five years. Here is how it works:

1. Add the Fund's statutory net income* from the previous five years.

(in millions/rounded)

FY 2010	1,590
FY 2011	2,143
FY 2012	1,568
FY 2013	2,928
FY 2014	3,531
Total	11,760

2. Multiply by statutory 21% for an average of the five year earnings

11,760
21%
\$2,470

3. Divide in half for the statutory percentage of earnings allocated for dividends

\$2,470
2
\$1,234.8

4. Add FY 2013 Permanent Fund Dividend Fund beginning balance

\$1,234.8
10.6
\$1,245.4

5. Subtract prior year obligations, designated state expenses and cost of operating the Permanent Fund Dividend Division

\$1,245.4
(36.0)
\$1,209.4

6. Subtract reserves for payment of prior year dividends

\$1,209.4
(0.8)
\$1,208.6

7. Divide by the estimated number of eligible dividend applicants

\$1,208,600,000/641,489=\$1884.00 (rounded to nearest whole dollar)

*More information is available at www.apfc.org or www.pfd.alaska.gov

Permanent Fund Dividends

Total appropriation

DIVIDEND SUMMARY

DIVIDEND CALCULATION

Annually the dividend amount is calculated and announced mid-September, based on an estimated number of applicants. An estimate is used because, as of the dividend calculation date, eligibility determinations have not been completed for all applications. A number of these applications will be determined as payable after continued processing. Also, some applicants have extended filing due dates until March 31, 2015, such as the estate and disabled applications.

Amount Available for Dividends

FY 15 PFD Fund Beginning Balance	\$10,649,064.79	
Expenditures to date	\$(103,243.35)	
PFD Fund Balance as of September 5, 2014		\$10,545,821.44
Transfer from Permanent Fund Corporation		
Permanent Fund Earnings (5-year average)	\$1,234,833,864.35	
Less Appropriations (see below)	\$(36,048,800.00)	
Net Transfer from Permanent Fund Corporation		\$1,198,785,064.35
Reductions (see below)		\$(766,480.03)
Total Amount Available for Dividends		\$1,208,564,405.76
Total estimated number of eligible applicants:	641,489	

The Earnings Reserve Account

ALASKA PERMANENT FUND

Balance Sheets

Unaudited
(millions of dollars)

December 31,
2015

June 30,
2015

Assigned for future appropriations:

Realized earnings

5,963.9

6,146.5

Unrealized appreciation on invested assets

807.9

1,015.9

Total assigned

6,771.8

7,162.4

TOTAL FUND BALANCES

51,793.0

52,800.5

TOTAL LIABILITIES AND FUND BALANCES

\$ 52,295.0

55,003.5

- Even if SJR1 was approved by voters, the legislature would still have access to other income in the Earnings Reserve Account

Dividend Impact (cont'd)

- ▶ Dividend is uniquely Alaskan:
 - ▶ “the dividend is a particular feature of the Alaska situation”
 - ▶ Malan Rietveld
 - ▶ Senate State Affairs Committee
 - ▶ January 26th, 2016
- ▶ Goldsmith has found, over years, that the dividend has enormous economic impact:
 - ▶ “Most of the cash from dividends will ultimately find its way into the Alaska economy to increase employment, population, and income. A rough estimate of the total (direct and indirect) macroeconomic effects of this increase in purchasing power is 10,000 additional jobs, 15 to 20 thousand additional residents, and \$1.5 billion in personal income.”

Dividend Impacts

Alaska's Economy

Historical Trends and Future Outlook

BY MOUHCINE GUETTABI AND GUNNAR KNAPP

Unless oil prices rise dramatically and unexpectedly, within a few years the state will have to reduce the deficit by either reducing spending or finding new ways to pay for spending. The only "fiscal options" which could significantly reduce the deficit are some combination of:

- Further cuts in state spending
- Broad-based taxes such as income or sales taxes
- Reallocating spending of Permanent Fund earnings from dividends to state government
- Spending other Permanent Fund earnings

The Alaska Legislature faces difficult choices between these options, none of which are popular.

The table above shows estimates of the potential short-run economic impacts of selected options for reducing the deficit by \$100 million. The estimates are based on input-output analysis, which tracks how the "direct" impacts of a cut in state spending or a reduction in household income are "multiplied" in the economy. The short-run economic impacts of larger spending cuts or new revenues would be proportional: the impacts of cuts or new revenues of \$1 billion would be ten times as large.

The estimated employment and income impacts include both "direct" and "multiplier" employment and income. Direct impacts are changes in employment and income of employees of state government and state contractors. Multiplier impacts are changes in employment and income in other industries due to ripple effects in the rest of the economy as households, which lose income, and businesses, which lose sales, spend less.

The estimated impacts are based on generic assumptions about how state spending cuts would be made and how income taxes or lower Permanent Fund Dividends would affect household spending. They should be considered approximate estimates of the initial short-run impacts of these fiscal options, as well as indicators of how the relative economic impacts of fiscal options may differ. They do not show potentially important indirect or longer-term impacts of fiscal options, such as how they might affect state services on which the economy depends, economic confidence, investment, and real estate prices. They also don't show how the relative effects of different options may vary by region, or their relative impacts on different income groups. (We are currently studying these other potential economic impacts.)

Here are some approximate rules of thumb about potential short-run employment impacts of state fiscal options:

Cutting state spending by \$1 billion by cutting the state workforce could cause a loss of about 17,000 Alaska jobs, or about 5 percent of total employment; each lost job would reduce the deficit by about \$60,000.

Cutting state spending in other ways would have smaller employment and income impacts. For example, across the board cuts of \$1 billion might cause a loss of about 13,000 jobs, or 4 percent of employment; each lost job would reduce the deficit by about \$80,000.

Reducing the deficit by collecting income taxes or reallocating Permanent Fund Dividend payments to pay for state government would have smaller total impacts on employment and income than cutting state government—because there would be no direct cuts to jobs or income of state employees or contractors. There would be "multiplier" impacts due to impacts on household disposable income and spending. Collecting \$1 billion in income taxes or Permanent Fund Dividend reallocations could cause a loss of about 10,000 jobs or 7,000 jobs, respectively.

Reducing the deficit by spending other Permanent Fund earnings would not have any short-run impacts on the economy; it would not reduce payments to state workers or contractors or reduce household disposable income.

Note that the relative economic impacts of different fiscal options would vary significantly by region. The relative economic impacts of cutting the state workforce would be highest in regions where state government accounts for a relatively higher share of employment, such as Juneau and Fairbanks, and where state-funded local government (particularly K-12 education) accounts for a relatively high share of employment, such as rural western Alaska. In contrast, the relative economic impacts of an income tax would be highest in wealthier urban areas such as Anchorage.

“Collecting \$1 billion in... Permanent Fund Dividend reallocations could cause a loss of about...7,000 jobs.”

State General Fund Budgets, FY07-FY16
(\$Millions)

Dividend Impact (cont'd)

Goldsmith's 2010 study reinforced many of his previous findings:

- ▶ What do people do with their checks?
 - ▶ A study done in 1984 shortly after the first distribution also found that savings out of dividend checks was significant. Net of federal income taxes, about one third of dividend income went to saving and debt reduction. The majority went to day-to-day expenses, and about 10 to 15 percent went to special large purchases.
- ▶ “The 1982 and 1983 dividends have been significant factors in rapid economic growth of the early 1980s. As the dividends entered the Alaska economy, they created about five thousand jobs, primarily in support industries, and added about \$360 million to consumer purchasing power in 1983”
- ▶ “At \$1,305 in 2009, the dividend added 3% to average per capita income of \$42,603. At the same time, it represents a significant aggregate infusion of cash into the economy. The 2009 dividend added about \$900 million in purchasing power to the economy, roughly equivalent to the total wages of state government or the retail trade sector.”

Dividend Effects

- ▶ Created a constituency to watch over government expenditures of the Fund
- ▶ Allowed for individual Alaskans to invest their oil wealth any way they choose, though often back into the Alaskan economy.
- ▶ Reduced the gap between income levels in Alaska

Dividend Effects (cont'd)

By ALYSSA SHANKS

Employment Scene

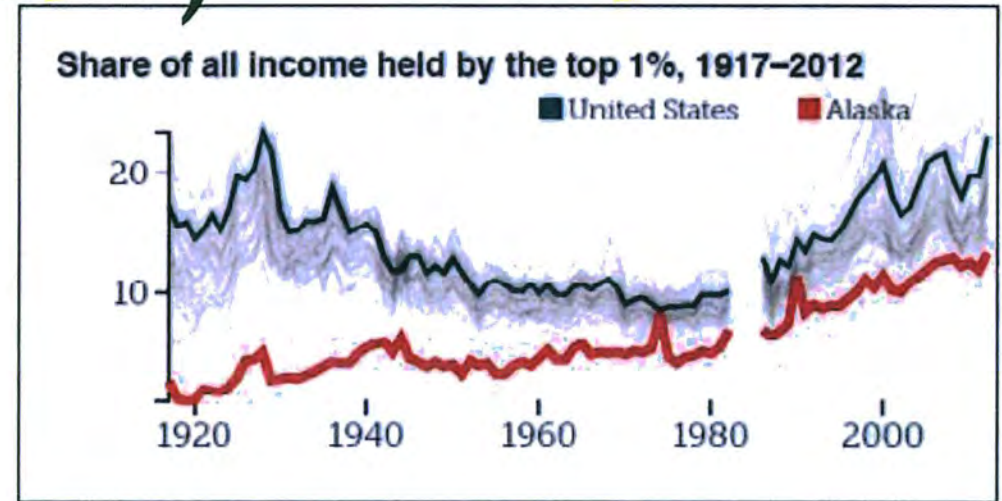
Alaska's income inequality the second lowest in the U.S.

1 Income Inequality By State 2011

Area	Median Income	Gini Coefficient
Wyoming	\$56,322	0.408
Alaska	\$67,825	0.410
Utah	\$55,869	0.425
Hawaii	\$61,821	0.430
Vermont	\$52,776	0.431
Idaho	\$43,341	0.432
South Dakota	\$48,321	0.432
Iowa	\$49,427	0.434
Montana	\$44,222	0.435
New Hampshire	\$62,647	0.435
Wisconsin	\$50,395	0.437
Delaware	\$58,814	0.440
Kansas	\$48,964	0.444
Minnesota	\$56,954	0.444
North Dakota	\$51,704	0.445
Washington	\$56,835	0.445
Indiana	\$46,438	0.446
Maryland	\$70,004	0.447
Maine	\$46,000	0.454

↑
More
equal

↓
Less
equal



In 2012 the average income of the top 1 percent of taxpayers in Alaska, \$939,000, was 15 times that of the average of the bottom 99 percent, \$61,000.

The US average ratio was twice as high at 30 times. By this definition, Alaska was essentially tied with Hawaii as the most equitable state. (This is based on a recent study by the Economic Policy Institute.)

Dividend Effects (cont'd)

- ▶ Goldsmith notes that the fund has contributed to the state's remarkable income equality. His study points out that in 38 states, the income of the richest 20 percent grew faster than the poorest 20 percent between the early 1980s and the early 2000.
 - In 11 states, the growth rates were about the same. "Alaska was the only state in which the income of the bottom 20 percent grew at a faster rate (25 percent) than the income of the top 20 percent (10 percent)," the paper explains.
- ▶ "The dividend has been one factor in the decline in the official poverty rate since Alaska attained statehood, particularly among Native Americans. The dividend is particularly important in rural parts of the state where the economy is largely a mixture cash-based transfers and subsistence activities where wage paying employment is scarce.

Scott Goldsmith

ISER - The Alaska Dividend Program

July 2010

Key Points

- ▶ SJR1 is only a resolution to put the question before the people of whether the current dividend program should be enshrined in the constitution.
- ▶ The resolution does not bar the legislature from appropriating excess income from the fund for other purposes.
- ▶ The Dividend has become a significant economic force in Alaska.
- ▶ If approved by the voters, SJR1 would be a promise to every Alaskan that their constitutionally protected mineral rights will be protected from government in perpetuity.

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 1/21/15

FURTHER: Judiciary
 Finance

Date of 5-Day Notice: 2/18/16
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 3/15/16

State Affairs Committee considered SENATE JOINT RESOLUTION NO. 1

SJR 1 CONST AM: GUARANTEE PERM FUND DIVIDEND

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

and recommends:

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

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
GOV			✓	1

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	No REC	AMEND
	COGHILL		✓		
	HUGGINS			✓	
	MCGUIRE			✓	
	WIELECHOWSKI	✓			
CHAIR:	STOLTZE			✓	

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

Senator Bill Stoltze, Chair
State Capitol, Room 125
Juneau, AK 99801-1182
Phone (907) 465-4958
Fax (907) 465-4928



Official Business

Members:
Sen. John Coghill, Vice Chair
Sen. Charlie Huggins
Sen. Lesil McGuire
Sen. Bill Wielechowski

February 23, 2016
Bill Packet Information

SB 128 PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS

- SB 128 "New Sustainable Alaska Plan" - from Governor's Website, posted as of 2-22-2016
- SB 128 PFD calculations, excerpt taken from deterministic modeling by Department of Law posted on BASIS and Governor's website.
- SB 128 Probabilistic Modeling - from Governor's Website, posted as of 2-22-2016 (*Document is an interactive Excel spreadsheet, and is not in the packet. Note: This document requires special software to use, in addition to Excel*)
- SB 128 Deterministic Modeling - from Governor's Website, posted as of 2-22-2016 (*Document is an interactive excel spreadsheet, and is not in the packet*)
- Consolidated Correspondence
 - Consolidated Public Testimony - 265 POMs to date
 - First Batch (150 POMs) - *Previously distributed / on BASIS*
 - Second Batch (25 POMs) - *Previously distributed / on BASIS*
 - Third Batch (25 POMs) - *Previously distributed / on BASIS*
 - Fourth Batch (50 POMs) - *Previously distributed / on BASIS*
 - Fifth Batch (15 POMs) - *Included*

SB 114 PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

- Consolidated Correspondence
 - Consolidated Public Testimony - 90 POMs to date
 - First Batch (20 POMs) - *Previously distributed / on BASIS*
 - Second Batch (40 POMs) - *Previously distributed / on BASIS*
 - Third Batch (15 POMs) - *Previously distributed / on BASIS*
 - Fourth Batch (15 POMs) - *Included*

SJR 1 CONST AM: GUARANTEE PERM FUND DIVIDEND

- Sponsor Statement
- SJR 1 - Version A
- Supporting Documents:
 - Article - Alaska Dispatch: Lawmaker's Bill Aims to Guard Alaska Permanent Fund 1-10-2015
 - Article - Alaska Dispatch: Panelists Suggest Cuts 10-6-2014
 - Article - Alaska Dispatch: 3rd Highest PFD Payment 9-18-2014
- Fiscal Note(s):
 - OOG-DOE 2-22-16 (Zero)

<Bills Previously Heard/Scheduled>

2015

ALASKA STATE LEGISLATURE

Session

State Capitol, Rm. 419
Juneau, AK 99801
(907) 465-2435
Fax: (907) 465-6615

Interim

716 W. 4th Ave, Ste. 409
Anchorage, AK 99501
(907) 269-0120
Fax: (907) 269-0122

Senator.Bill.Wielechowski@akleg.gov



Resources Committee

State Affairs Committee

Joint Armed Services Committee

Judiciary Committee

SENATOR BILL WIELECHOWSKI

Sponsor Statement

Senate Joint Resolution 1- Const. AM: Protecting our Permanent Fund

When Alaska's Constitution was adopted, it required management of public resources for the benefit of all Alaskans. The Permanent Fund was created in 1976 after oil in the North Slope began flowing in order to provide for future generations of Alaskans. 25% of petroleum and resource revenues were to be deposited into the Permanent Fund, and they are constitutionally prohibited from being spent. However, the earnings are to be appropriated by our legislature for any purpose.

In 1982, the Alaska State Legislature approved a measure that would appropriate to each and every Alaskan an equal amount from earnings in the Permanent Fund. This dividend has become an extremely vital part of our state's economy. Many Alaskans count on their dividend to make simple ends meet, provide for their family, reduce debt and pay for their education. Making sure each and every Alaskan receives a share of our state's resources is important. It is also important that the Fund remains a central part of Alaska's economy and that it is protected into the future.

There is no language in our state Constitution that protects the funds eligible for distribution from being spent by the legislature for other purposes. As our state faces potential deficits, it is the duty of the legislature to ensure that future generations benefit from our oil wealth. This Resolution would amend the Constitution to ensure that dividends from the fund that Alaskans rely upon are protected in perpetuity.

2016 / Revised

ALASKA STATE LEGISLATURE

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Resources Committee

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Joint Armed Services Committee

Judiciary Committee

Senator.Bill.Wielechowski@akleg.gov

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Senate Joint Resolution 1- Const. AM: Protecting our Permanent Fund

When Alaska's Constitution was adopted, it required management of public resources for the maximum benefit of all Alaskans. The Permanent Fund was created in 1976 after oil on the North Slope began flowing in order to provide future generations of Alaskans a share in the great wealth.

25% of petroleum and resource revenues were to be deposited into the Permanent Fund, and they are constitutionally prohibited from being spent. However, the earnings may be appropriated by the legislature for any purpose.

In 1982, the Alaska State Legislature approved the Dividend, a measure that appropriated to each and every Alaskan a check that reflected some of the earnings in the Permanent Fund. This dividend has become an extremely vital part of our state's economy.

Many Alaskans count on their dividend to make simple ends meet, provide for their family, reduce debt and pay for their education. Making sure each and every Alaskan receives a share of our state's resources creates a vital connection between the people and the government.

Creating a safeguard against legislative spending of the dividend ensures that this valuable economic stimulus money stays in the hands of the people most able to spend it appropriately: individual Alaskans.

There is no language in our state Constitution that protects the funds eligible for distribution from being spent by the legislature for other purposes. As our state faces massive deficits, it is the duty of the legislature to protect future generations' benefits from our oil wealth.

This resolution would put forward a vote to the people and ask them to amend the Constitution to enshrine dividends in our highest law.

SENATE JOINT RESOLUTION NO. 1

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-NINTH LEGISLATURE - FIRST SESSION

BY SENATOR WIELECHOWSKI

Introduced: 1/9/15
Referred: Prefiled

A RESOLUTION

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

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

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

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

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

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

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

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

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

1 section to read:

2 **Section 30. Permanent Fund Amendments: Transition.** The earnings
3 reserve account established in the 2016 amendments to the Alaska permanent fund
4 (art. IX, sec. 15) replaces the existing earnings reserve account established by law.
5 Money in the existing earnings reserve account on the effective date of the 2016
6 amendments to the Alaska permanent fund (art. IX, sec. 15) shall be deposited into the
7 earnings reserve account established by those amendments.

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

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SJR 1
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SJR1-OOG-DOE-2-22-2016
Title: CONST AM: GUARANTEE PERM FUND
DIVIDEND
Sponsor: WIELECHOWSKI
Requester: Senate State Affairs

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

Expenditures/Revenues

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

	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							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

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

Estimated CAPITAL (FY2017) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

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

Why this fiscal note differs from previous version:

Initial version.

Prepared By: Josie Bahnke, Director
Division: Division of Elections
Approved By: Guy Bell, Administrative Director
Agency: Office of the Governor

Phone: (907)465-2644
Date: 02/22/2016 01:00 PM
Date: 02/22/16

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SJR1

Analysis

Passage of this resolution would require the constitutional amendment to appear on the 2016 general election ballot. The cost of providing information about the constitutional amendment in the Official Election Pamphlet, as required by AS 15.58, would be absorbed into the operating budget for the Division of Elections.

DIVIDEND SUMMARY

DIVIDEND CALCULATION

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Reductions (see below)		\$(766,480.03)
Total Amount Available for Dividends		\$1,208,564,405.76
Total estimated number of eligible applicants:	641,489	

Appropriations and Reductions Detail

Appropriations

Department of Health and Social Services		
Hold-Harmless Provision for Public Assistance		\$17,724,700.00
Department of Corrections		
Physical Health Care		\$8,445,900.00
Department of Revenue, PFD Division		
Administrative Cost	\$8,245,500.00	
SB 119 PFD Computer Replacement	\$130,000.00	
Total Department of Revenue, PFD Division		\$8,375,500.00
Department of Administration		
Violent Crimes Compensation Board		\$1,502,700.00
Total Appropriations		\$36,048,800.00

Reductions

Reserve for Prior Year Dividend Liabilities	\$227,426.85	
Reserve for 18-Year-Old Applications for Prior Years	\$471,053.18	
Reserve for Resource Rebate Payments	\$68,000.00	
Total Reductions		\$766,480.03
Total Appropriations and Reductions Detail		\$36,815,280.03

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

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by

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I. Introduction: Some Background on Alaska

The Alaska Permanent Fund Dividend program has attracted considerable interest because it is a unique example of a BASIC INCOME GUARANTEE. In this paper, I describe the structure of the dividend program, its economic effects, some of its unintended consequences; and I close with a number of observations about how the dividend might be structured differently. My objective is to give the reader insights into the factors to consider in implementing a BASIC INCOME GUARANTEE in other places.

However, before beginning it is important to present a short description of Alaska because the structure of any BASIC INCOME program and its impacts are contingent upon the particular institutional, economic, political, and social environment in which it is located.

Alaska is the largest of the 50 United States measured by land area—but among the smallest measured by population. Its 700 thousand residents comprise only about two-tenths of one percent of the total U.S. population. As a state within the United States, its border is open to the rest of the nation for the free movement of goods and services, people, capital, and information. Furthermore, it is subject to the laws, regulations, and policies established by the federal government. As I will discuss below, these connections create some challenges for the dividend program because the state cannot totally control its own economic and political environment.

The state economy is driven by natural resource production and federal government spending. Petroleum is the dominant natural resource and accounts for one-third of all jobs, directly and indirectly. Furthermore, most of the growth in the economy since Alaska became a state in 1959 can be attributed to the development of its Arctic oil resources. Because of its small population, Northern location astride the Arctic Circle, and distance from markets, Alaska is sometimes characterized as having a frontier or island economy in the sense that its economic development prospects are limited to exploitation of its natural resources.

Prior to becoming a state in 1959 the federal government exerted considerable control over the economy. The economic history of the territory was one of periodic booms associated with exploitation of a particular natural resource—including furs, gold, copper, timber, and fish—followed by busts when the resource became depleted or market conditions turned against continued production. These economic booms generated

considerable wealth, but most of it went to nonresidents and little was left behind to benefit the permanent residents or to build a stable and permanent economic base. The economic structure could be described as colonialism and the economic development pattern as "rape and pillage."

Much of the natural wealth of the state is still owned by the federal government and little is in private ownership. But as a condition of statehood, the Alaska state government took title to about 24 percent of the land; and the Native American community, that makes up about 20 percent of the state population, communally holds about 10 percent. State ownership of the land where the oil is produced has meant that a large share of the value added from production, and most importantly a large portion of the economic rent from that production, could be captured by state government through taxes and royalties. This has given rise to the notion espoused by former Governor Wally Hickel, that Alaska is the "Owner State." This is the idea that the residents own the resources and actually have the obligation, spelled out in the state constitution, to develop those resources for the benefit of all Alaskans.

The cumulative value of the 16 billion barrels of oil that have been produced from state land since 1959 has been about \$500 billion, and the state has collected about \$150 billion (2009 \$) of that total. This has allowed the state to eliminate most taxes except those on petroleum, to expand public services, and to create a savings account known as the Alaska Permanent Fund.

Largely because of its dependence on petroleum, the state economy—measured by per-capita income and the unemployment rate—has been strong since the 1970s and has weathered the current recession quite well. However, these statewide average economic indicators mask important regional differences in economic performance. In particular, the remote rural part of the state off the road system, which is home to about half of the Native American population, is burdened with high costs and few employment opportunities in the cash economy. The small villages in that region have low cash incomes and are reliant on government assistance and subsistence harvesting of fish and game for their existence.

The federal government continues to be an important force in the economy, just as it was before statehood. Furthermore, resource production—particularly that of petroleum—is dominated by large, international companies perceived to have little or no interest in the

economic well being of the state and its residents. Both of these contribute to the popularity of the notion that Alaska is in a struggle to take control of its own economic future and that shared ownership of its natural resources is a vehicle to accomplish that goal.

II. The Alaska Permanent Fund Dividend (PFD) Program

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

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

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

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

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

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

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

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

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

and new programs, rose commensurately⁴. It was easy for Alaskan citizens to see that the direct beneficiaries of much of this spending were particular interest groups including government workers, the construction industry, and constituents benefiting from low-interest loans like fishermen, senior citizens, and students. The governor at the time, Jay Hammond, was a commercial fisherman who lived in a small village in rural Alaska. He had seen how the benefits from harvesting a publicly owned resource—fish from the sea—were inequitably distributed and went mostly to nonresidents of the state. He proposed an annual cash distribution to all citizens as a means of ensuring that everyone benefited from oil production on state-owned lands.⁵

His original plan, known as "Alaska, Inc.," was to allocate shares to each adult Alaskan—one share for each year of residence up to a total of twenty-five shares. A cash distribution of \$50 per share was then to be made annually to all shareholders who would also be credited with an additional share each year. Thus, those with a longer residency would receive a larger distribution. This reward for length of residence was designed to reduce the annual turnover in the population and to increase its stability.

That plan passed the legislature but died when it was ruled unconstitutional because it did not conform to the equal treatment clause of the U.S. Constitution (because a different number of shares was distributed based on length of residence in the state). In response, the legislature in 1982 quickly passed a plan that paid each Alaska resident regardless of age an equal amount out of the appropriable earnings of the Permanent Fund. The state has paid a dividend each year since then; in the fall of 2010, Alaskans will receive the 29th dividend.⁶

⁴ The elimination of the state personal income tax was one of the first laws passed by the legislature after the dramatic increase in petroleum revenues.

⁵ For more detail on the creation of the PFD, see Cliff Groh "The Permanent Fund Dividend Story," prepared for Principles and Interest: The Permanent Fund and Alaska's Future, a conference sponsored by the Alaska Humanities Forum, Anchorage, 1997.

⁶ It is interesting to note that when the dividend program began, the state already had a cash distribution program for seniors—the Longevity Bonus Program. That program was established in 1972 to provide monthly cash payments of \$100 to each person over 65 who had lived in Alaska at least 25 years and was a resident at the time that Alaska became a state. The purpose of the program was to reward older residents who had helped to establish the state and to help them offset the high cost of living so they could continue to live in Alaska after retirement. After a court challenge, the program was expanded to include all Alaska seniors over 65 and the later the monthly payment was increased to \$250. The program was phased out in the late 1990s. The fact that the PFD was not structured as a monthly stipend like the Longevity Bonus underscores the fact that the dividend was not envisioned to be an income supplement, but rather a wealth distribution.

The size of the PFD is calculated as half of the earnings of the Permanent Fund averaged over the preceding five years divided by the number of eligible residents.⁷ An eligible resident is a person of any age who has lived in the state for at least one year who intends to continue to reside in Alaska in the future.⁸ About 95 percent of the population receives the dividend each year.

The PFD did not initially have broad support in the legislature. Many lawmakers felt that the money distributed as dividends could be more beneficially spent on public programs and, particularly, on capital projects which would increase the physical infrastructure of roads, harbors, airports, power generation, etc. in the state—investments considered to be a necessary pre-requisite for economic development. There was also fear that much of the PFD would be spent unwisely—on everything from alcohol to trips to Hawaii—and that it would be an inducement for people to drop out of the labor market and become an economic burden. But supporters argued that if the objective was to provide benefits for all Alaskans, there was no better way than to give them cash so they could decide for themselves what to spend it on rather than leaving that decision to the government.

The annual distribution soon became the most popular program of state government. Although the Permanent Fund balance, which ultimately determines the size of the PFD, is constitutionally protected, there is no such guarantee for the annual distribution. The legislature has the authority to change the formula at any time and could, by law, eliminate it entirely. Its only guarantee is its political popularity. No legislator would suggest a change in the formula that would reduce its amount or the share of Permanent Fund earnings allocated to the dividend for fear of losing the next and all subsequent elections.⁹

The dividend also instantaneously created a constituency for the Permanent Fund itself. Without a group defending the fund against attack, it could have easily fallen prey to special interests. Such interests might spend the earnings inappropriately, invest the fund balance in capital projects with no financial return, or eliminate the fund altogether. If that happened,

⁷ The 5-year average serves two purposes: it reduces year-to-year variation in the size of the dividend due to fluctuations in earnings, and it reduces the incentive to manipulate the fund portfolio to report high earnings in the current year rather than to invest to maximize the long-run rate of earnings.

⁸ There are some complicating side calculations for determining the size of the dividend when current-year earnings fall below the historical five-year average, making it impossible to fully fund the dividend from current year earnings.

⁹ Most recently, the legislature passed a law increasing the number of residents eligible to receive the dividend by a small amount. Although this reduced the size of the dividend, it did not catch the attention of the general public.

there would be no future flow of public revenue to replace that of petroleum when production ended.¹⁰

Administration of the dividend program has created a small bureaucracy within the state's Alaska Department of Revenue, primarily to interpret the rules for and verify eligibility for the dividend based on a set of residency requirements. Cases such as students who go to school in other states and members of the armed forces who are required to be physically absent from the state for extended periods must be dealt with. This requires that everyone apply for a dividend each year by filling out a form with residency and other information. As one might imagine, these rules can be somewhat arbitrary and quite controversial, and they have increased in complexity over time.

The dividend amount is calculated and announced after the applications have been processed and the fiscal year has ended (June 30). The Permanent Fund Corporation, the independent state agency that manages the fund assets, transfers the legislatively authorized appropriation into a separate Dividend Account. It is from this account that the Department of Revenue makes the actual distribution beginning in October. Today most dividends are paid electronically at the same time by direct deposit into recipient bank accounts; however, some people continue to receive their dividend in the form of a check delivered through the mail.

The size of the dividend has varied from a low of \$331 in 1984 to a high of \$3,269 in 2008.¹¹ The 2010 dividend is expected to be about \$1,200. The size of the dividend is driven by the realized earnings of the Permanent Fund which, because it is invested in stocks, real estate, and other assets to maximize the long-term rate of return, can fluctuate dramatically from year to year. Even with the 5 year average formula, the size of the dividend has varied considerably from year to year, particularly in recent times. In 2007 it jumped 49 percent over the preceding year, and in 2009 it fell 37 percent. If there were no significant cyclical fluctuation in annual earnings, the dividend would be about \$1,800

¹⁰ The early experience of the Alberta Heritage Savings Trust Fund, also established as a savings account for petroleum revenues, demonstrates the effects of an investment policy controlled by special interests. For example see Peter J. Smith, "The Politics of Plenty: Investing Natural Resource Revenues in Alberta and Alaska," *Canadian Public Policy*, 17:2 1991, p. 139-154.

¹¹ The dividend in 2008 included a special, one-time \$1,200 appropriation from the state general fund to offset the high cost of fuel in Alaska resulting from the high world oil price at the time.

today, based on the \$34 billion balance in the Permanent Fund and an annual return on investment of 8 percent.

The annual fluctuations in the size of the dividend has not been an issue of concern for recipients. It is understood that the dividend will fluctuate with earnings, and people have confidence that the fund itself is well managed.

The dividend today is larger than most people anticipated when the program was first established, and its growth has led to several unsuccessful attempts over the years to "cap" its size at different levels like \$500 or \$1,000.

As a share of total personal income, the dividend remains small. At \$1,305 in 2009, the dividend added 3% to average per capita income of \$42,603.¹² At the same time, it represents a significant aggregate infusion of cash into the economy. The 2009 dividend added about \$900 million in purchasing power to the economy (before taxes), roughly equivalent to the total wages of state government or the retail trade sector. From this perspective it represents a diversification of income sources for the economy similar to adding an entire new industry. This diversification is also a stabilizing force on the economy.

Over the years, policies have been established for numerous complications arising from the dividend distribution. For example, children who are wards of the state are eligible for the dividend. As trustee the state retains those dividends until the child reaches adulthood, at which time he or she receives the accumulated amount. Another example is that certain federal aid programs for low-income families are contingent on monthly income. Those families lose their federal aid in the month that the dividends are distributed and, consequently, the state has instituted a "hold harmless" provision. This is a payment to those families in compensation for their temporary loss of federal assistance.

Today, after 29 years, the dividend has proved to be one of the most enduring institutions of the young state of Alaska. Over time it has evolved in the eyes of the public from a simple and temporary cash distribution in a time of plenty into a personal and permanent entitlement.

¹² The official estimate of per capita personal income in the U.S. contains a number of non-cash components like the rental value of owner-occupied housing as well as payments that benefit individuals but are made directly to service providers like some medical payments. And although it excludes capital gains, a comparison of the dividend to total personal income underestimates the relative size of the cash infusion directly to households from the dividend.

III. Possible Economic and Other Effects of the PFD

There are several reasons why there have been very few studies of the effects of the dividend.¹³ First, Alaskans tend to view the disposition of dividend income as a private matter that is not the business of government to be investigating. Second, even if it were viewed as a public program rather than a distribution of earnings, there is little tradition in Alaska for funding the studies necessary to evaluate whether a program has been performing as anticipated. Third, because almost everyone in the state receives the dividend, it is difficult to construct statistical analyses that allow researchers to isolate the effects of the dividend from all the other factors simultaneously impacting behavior. And finally, the quality of much of the data that could be used for this type of study is generally not of high enough quality to support rigorous statistical analyses.

As an economist, the question I am asked most often about the dividend is "What do people do with their checks?" A simple answer relies on the economic theory known as the permanent income hypothesis. Assuming that people expect the dividend program to continue indefinitely into the future, they will treat the dividend as a permanent increase in their annual income. They will spread the additional consumption made possible by the dividend income over their entire lifetime, probably on more of the same types of goods and services they would have consumed without the dividend income. Consequently, consumption will not increase at the time when dividends are distributed.¹⁴

However, the anecdotal evidence, responses of people when directly asked, and a study of the pattern of receipts at retail outlets in communities across the state¹⁵ all suggest that consumer purchases, as distinct from consumption, do tend to concentrate around the

¹³ There have been numerous papers describing aspects of the dividend. These include William Brown and Clive Thomas, "The Alaska Permanent Fund: Good Sense or Political Expediency?" *Challenge* Sept-October 1994, p. 38-44. Scott Goldsmith, "The Alaska Permanent Fund Dividend Program," in *Alberta's Volatile Government Revenues*, ed. L. S. Wilson, Institute for Public Economics, University of Alberta Press, Edmonton, 2002, p. 123-127. Scott Goldsmith, "The Alaska Permanent Fund: An Experiment in Wealth Distribution," in *Promoting Income Security as a Right*, ed. Guy Standing, Anthem Press, London, 2005, p. 553-556. J Patrick O'Brien and Dennis O. Olson, "The Alaska Permanent Fund and the Dividend Distribution Program," *Public Finance Review*, 18, 1990, p. 139-156. Dennis O. Olson and J. Patrick O'Brien, "The Great Alaskan Money Give Away Program," *Economic Inquiry*, 28 1990, p. 604-615.

¹⁴ One study concluded that consumption did not change at the time of the dividend distribution, thus lending support to the permanent income hypothesis. Chang-Tai Hsieh, "Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund," *American Economic Review* 93(1) (March 2003), p. 397-405.

¹⁵ Gunnar Knapp, et al. "The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes," Institute of Social and Economic Research, University of Alaska, 1984.

time that the dividend checks arrive. One reason for this is that a large dividend or the combination of several dividends together provides some recipients with the “liquidity” necessary to buy an expensive consumer durable that provides consumption benefits lasting a long time—appliances, snow machines, etc. The concentration of these consumer-durable purchases however is not inconsistent with the permanent income hypothesis of smoothed consumption.

A second reason for purchases to be concentrated during the dividend distribution season is that businesses compete for a share of the dividend dollars through advertising campaigns, sales, and other types of special offers. Timing the purchase of a new boat motor or a trip to Hawaii with the dividend distribution season can be a smart consumer decision. It also is a happy coincidence for retailers that the distribution comes at the beginning of the Christmas shopping season when people are in a consuming mood.

A popular method for determining what people have done with the dividend checks is to ask them directly when they have them in hand. An informal survey conducted by the Permanent Fund Corporation in 1994 reported that three-quarters of respondents planned to save half or more of their dividend (including reducing their level of debt).¹⁶ Although this is an indication of what people did with their checks when they got them, it does not tell us how their consumption behavior changed over time.

We need to distinguish between what might be termed the proximate vs. the ultimate use of the funds. The easiest way to understand the difference is to consider the person who reports that they used their dividend to buy winter clothes for their children. While it may be true that the dividend check was used in that way, it is unlikely that most parents, had they not received a dividend, would have deprived their children of winter coats in the harsh Alaskan environment.

A study done in 1984 shortly after the first distribution also found that saving out of dividend checks was significant. Net of federal income taxes, about one-third of dividend income went to saving and debt reduction. The majority went to day-to-day expenses, and about 10 to 15 percent went to special large purchases.¹⁷ However, when asked what was

¹⁶ Gordon Harrison, “The Economics and Politics of the Alaska Permanent Fund Dividend Program,” in *Alaska Public Policy Issues*, ed. Clive Thomas (The Denali Press, 1999) p. 81-91.

¹⁷ Knapp, *op. cit.* After the initial distribution, 1/3 of Alaskans thought it very likely that the program would continue but 1/3 thought it not likely. Consequently, many PFD recipients were probably more likely to save what

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic theory suggests that, other things being equal, an unconditional payment like the dividend would reduce the supply of labor and increase the wage rate. In the 1984 study of the early dividend program, only one percent of survey respondents reported they worked less because of the dividend.²³ This is to be expected since many lower-income Alaskans, those most sensitive to an unconditional increase of income, would prefer more work but are constrained in their opportunity to obtain employment in the cash economy.²⁴

There have been no studies that have tried to link the dividend to aspects of economic or social behavior such as health, education status, or general welfare (like the crime rate).²⁵ This is partly because Alaskans do not think of the dividend as a tool to address these problems and also, as mentioned before, because of the difficulty of identifying the effect of the dividend on these measures independent of all the other programs and influences. For the same reasons, no one has investigated how the dividend might have influenced personal empowerment, feelings of self-worth, sense of community, volunteerism, or other psychological factors.

Of course, it is wrong to conclude that because these potential relationships have not been studied that they do not exist. Furthermore, as we will discuss in the next section, there may also be some effects from unanticipated and unintended consequences of the dividend.

²³ Knapp et al. *op.cit.* A concern motivating this study was that people would become unemployed and create a cost for government.

²⁴ A complete picture of labor market behavior would require that one also look at whether the PFD accelerates the timing of future retirement.

²⁵ One exception is a study that found that the death rate increased when the PFD was distributed and subsequently fell below the trend reflecting a phenomenon described as “harvesting.” The study suggested that increased consumption activity led to more strokes and heart attacks among the frail as well as traffic accidents. There was no suggestion the increase was the result of substance abuse. William N. Evans and Timothy J. Moore, “The Short Term Mortality Consequences of Income Receipt,” National Bureau of Economic Research Working Paper 15311, 2009.

IV. Unanticipated / Unintended Consequences of the PFD

Policy actions have unintended consequences for a variety of reasons including poor design, forethought, inadequate application, and myopia. Some might be pleasant surprises while others disappoint. In this section we explore some of effects of the dividend that were not expected at the time of its creation. Most have occurred because the dividend has grown much larger than anticipated.

The most important effects result because the dividend is a "population magnet." It creates an obvious incentive to move into and remain in Alaska. When the dividend program began, it was small and its future was uncertain. The idea that the dividend might encourage people to move into the state only surfaced after it grew in size and became a permanent program. In addition, the program has gained some notoriety in the media in other states, and there are periodic articles describing the "free money" being given away in Alaska.

The magnet effect should be concentrated among lower-income people who are not closely connected to the labor market. The over-65 population is increasing at a rate faster than any other state, and demand for public as well as non-profit programs providing services for lower-income individuals and families has also been growing rapidly. But it is difficult to sort out the causes for these increases among various public programs for seniors and lower-income individuals to be able to attribute any of it to the dividend.²⁶ No one responding to the 1984 survey indicated that they had moved to Alaska to get the dividend, and almost no one said they had decided not to move out of the state because of the dividend.²⁷

²⁶ The Case of "Papa Pilgrim" garnered considerable media attention early this decade after it was reported that he had moved to Alaska and settled in a remote location with his wife and 15 children. It seemed clear to most Alaskans that his primary motive was to collect the dividend checks and live off the land and state government services, since the family lived totally cut off in the wilderness.

²⁷ Knapp et al. *op. cit.* One would expect this response at a time when no one knew whether the program would continue beyond its first year. In addition, in-migrants drawn by the dividend would have had a hard time meeting the 6-month residency requirement. Those who decided not to move because of the dividend could very well only have been temporarily postponing it. Or they may have remained not only in the state but also in the work force. In the case of these individuals, the dividend slowed the rate of population turnover, but did not impact its size.

If the size of the dividend continues to increase and grow relative to personal income, eventually it will become large enough to attract some people to the state. The increase in population will have a number of obvious and not-so-obvious effects. First, the larger population will reduce the size of the dividend. Second, the larger the population the greater the demand for public services. Since the fixed natural resource base is the source for most revenues to pay for these services, the larger population will dilute the ability of the economy to support those public services through taxation.²⁸ Third, demand for resources in fixed supply, like land and popular fishing streams, will increase in price.

The dividend could also attract people who are in the labor market. Absent the dividend, relative wages in Alaska and elsewhere reflect differences in the cost of living and private and public amenities. In general, a high wage in Alaska compensates workers for the high cost of living and the severe climate. When the dividend is added to Alaskan wages, Alaska becomes relatively more attractive to some workers because they can now get both their wage income and the dividend. This creates an incentive for workers to migrate to Alaska, which increases the labor supply as well as the unemployment rate, which would depress the wage rate. Eventually a new equilibrium would be reached where the Alaskan population and labor supply were larger—and the wage rate was lower—than before the introduction of the dividend.²⁹

This can be characterized as the "Hawaii Effect." In that state the warm, sunny beaches create a strong population magnet that operates just like the PFD. Both are freely available to anyone who chooses to become a resident. The relatively low wage rates in Hawaii are probably due at least in part to their form of the population magnet.

If the dividend reduces the Alaska wage rate, then part of the benefit of the dividend goes not to recipients, but rather to those businesses that are able to hire dividend-receiving workers at the lower wage rate. Since workers are unlikely to realize that their wage rate is lower due to the dividend, they would not see this benefit transfer.³⁰

²⁸ Also because of the remoteness and small size of the Alaska economy, the cost of delivery of those services is higher in Alaska than elsewhere in the US. Thus there is a net loss to the nation as a whole when people move from a low cost region into Alaska where public service delivery is more expensive.

²⁹ This effect on the labor market has not been studied empirically, and there is no evidence that it has yet happened.

³⁰ It becomes difficult to trace who ultimately benefits from the increased profits of businesses. Competition may force them to lower prices.

The second way that the dividend could be a “population magnet” is through its effect on the birth rate since it appears to reduce the cost of children. An unpublished study has suggested the birth rate in Alaska has increased 18 percent because of the dividend.³¹

This seems unlikely for a number of reasons. First there is no indication of such a large effect in a simple comparison of the trend in the Alaska birth rate to the rest of nation. Second, studies of direct child subsidies in other countries, designed to stimulate the birth rate, fail to report such dramatic impacts. And third, the effect of the dividend on the birth rate is complicated because, in addition to its price effect, it also has an income effect on the household. Although children are a “normal” consumption good such that demand increases with income, the value of time also increases with income. Since raising children is a time-consuming activity, the cost of children can also increase with income.³² Consequently, it is possible that the birth rate could fall because of the dividend.

The point of this discussion of the “population magnet” is not to argue that it exists today in Alaska, but rather to illustrate the necessity of considering what economists call “general equilibrium” effects of cash transfers. When a policy like the dividend program is large enough to cause changes in relative prices that influence the allocation of resources and behavior, then looking only at the direct effects will not capture all the important effects and may lead to incorrect conclusions about its benefits.

In addition, in order to measure the effects of the dividend, it is necessary to know how that cash would have been used in the absence of the dividend and what the effects of that alternative use would have been. The true economic effect of the dividend is the DIFFERENCE between how the money has been used and how it would have otherwise been used. The most likely alternative use of the PFD would probably have been to increase capital spending by state government. There has always been a group interested in using the Permanent Fund principal to make loans for physical infrastructure construction, and proposals to spend general fund revenues on capital projects are always greeted more favorably than those that increase the state operating budget.

If the money appropriated for dividends had instead gone to capital projects, economic activity would have been generated, just as has been the case with the dividend; but both

³¹ See Yereth Rosen, “In Alaska, a Push to Curb Perks for Citizens,” *Christian Science Monitor*, May 10 2006.

³² As family income goes up, the parents might substitute more “quality” for “quantity” in their decision about the number of children to have.

the macro- and microeconomic effects would have been different. Capital spending would have generated less employment and increased income inequality.

One could also envision a case where all Permanent Fund earnings were reinvested, which would have resulted in the Fund today being about twice its \$34 billion balance. The annual earnings from a fund of this size would be sufficient to pay a large share of the cost of government on a sustainable basis. However, it is difficult to imagine that the fiscal discipline necessary to accomplish that savings would be politically feasible.

The dividend may create unintended distortions in the allocation of resources which can undercut other public programs with competing objectives. In Alaska a large share of the Native American population lives in small villages in remote parts of the state, off the road system where employment opportunities in the cash economy are very limited, and where most jobs are funded by the state or federal government providing education, health, and other services to local residents. Although there is considerable migration out of these villages to locations with greater employment opportunities and better social services, most of these villages continue to exist, partly in the hope that economic development will someday bring in jobs. But while waiting for those jobs to materialize, the economic and social conditions in many of these villages are stagnating or deteriorating. Although the dividend provides much needed cash to the residents of these villages, it also enables some to remain who would otherwise move to places where jobs are more readily available and public services less expensive. Although it is difficult to weigh and compare the supportive and enabling effects of the dividend for residents of these communities, both effects need to be recognized.

When the annual dividend payment is distributed, retailers compete to lure recipients to consume as much of their checks as possible. The local media attention concentrated on the story about how people spend their dividends also contributes to a "consumption-frenzy" atmosphere. This competition and the potential misallocation of personal income that results were not anticipated.

At the time of its creation, one of the rationales for the dividend was that it would create a constituency for the Permanent Fund to defend it against attack from special interests wanting to crack it open to spend its assets. Were that to happen, it was argued, Permanent

Fund earnings would not be available to pay for needed public services when oil revenues were gone—the original purpose for which the Permanent Fund was established.

Some would argue that the dividend has become too successful in creating a constituency to protect the Permanent Fund. That constituency has co-opted the Permanent Fund and turned it, de facto, into a fund that exists for the sole purpose of paying the Permanent Fund dividend. It has been converted from a saving account into an income distribution fund. This is evident from the fact that many people mistakenly refer to the Alaska Permanent Fund as the *Alaska Permanent Dividend Fund*.

Following state law, the legislature appropriates roughly half of the Permanent Fund earnings to the dividend each year, leaving the other half available for appropriation for other purposes. By law, the legislature now appropriates a large share of the remainder into the constitutionally protected fund balance in order to "inflation proof" the balance of the fund. "Inflation proofing" is the amount required to maintain the purchasing power of the royalties that have been deposited into the fund,³³ and it incidentally also serves to maintain the purchasing power of the dividend. After payment of the dividend and inflation proofing, there are usually some earnings left which go into an earnings reserve account.

Although this earnings reserve account is available for appropriation for any purpose, its close association with the Permanent Fund and the dividend makes it politically difficult for the legislature to access it for general government purposes—either current spending or saving for future spending.³⁴ Instead, they have chosen to periodically "sweep" the funds in this sub account into the Permanent Fund itself. When the fund balance increases in this way, earnings will increase, and future dividend payments will be larger.

The problem with identifying the earnings of the Permanent Fund solely with payment of the dividend is that oil production has been declining in Alaska since 1989 and now stands at only one-third of the peak flow. Although high oil prices have temporarily cushioned the state treasury from the fiscal consequences of that decline, it is only a matter of time

³³ Occasionally, the legislature has made special appropriations into the Permanent Fund that are constitutionally protected, as are the royalties. Thus the constitutionally protected fund balance includes the royalties, the cumulative inflation proofing, and these special appropriations. Each year this entire balance is inflation proofed.

³⁴ The dividend has clearly instilled fiscal discipline in the budgetary process. Most Alaskans argue that they would

before current oil revenues will be insufficient to pay for public services and a new revenue source will need to be found to replace that of oil.

Unfortunately, the only significant alternative sources of revenue available to the state to fund public programs are use of the earnings of the Permanent Fund or taxes on individuals; neither alone can generate enough revenue to substitute for declining petroleum revenues. The inability to include the earnings of the Permanent Fund—even that portion not currently dedicated to the dividend or inflation proofing—in discussions of state fiscal policy delays resolution of this problem.³⁵

After 29 years the dividend has become an integral part of the Alaska experience. Many, if not most, Alaskans view it as an entitlement—a distribution from their share of the natural resource wealth of the state. An entire generation of Alaskans has been raised having received a dividend annually since birth without necessarily understanding the purpose for which it was created.³⁶ This generation has also never experienced paying for the state services they have received because petroleum revenues have covered all costs. This has fostered a distorted sense that the role of the state is to provide public services at no cost and also to hand out cash to all citizens. Some would compare this generation of Alaskans to trust fund babies. Furthermore, because there are no personal taxes and receipt of the dividend carries no public responsibilities, the two together undermine the sense of community that comes from the need to collectively choose and fund public services. They also foster a disconnection between government and residents, leading to a deterioration of the quality of government.

prefer a larger dividend to an increase in the state government budget.

³⁵ A common argument that confounds the impasse is that it does not make sense to distribute a dividend to all residents and at the same time collect an income tax from them.

³⁶ When asked, many high school students say the purpose of the dividend is to compensate them and their families for the high cost of living in Alaska.

V. Looking Back and Thinking Ahead

After nearly 30 years, it is useful to reflect on options for how the dividend program for distribution of a share of the rents from oil production could be different. This is not to suggest that changes should be made, but rather simply to recognize that there are different ways that a dividend program providing payments to individuals could be structured as well as different ways that resource revenues could be shared among the population.³⁷

One area that has attracted attention is the notion of "framing" which simply means that people make decisions based on how alternatives are presented to them. Historically, the dividend was simply distributed as a check in the mail with no suggestion to recipients about how they might think about using it. (This apparent absence of framing, of course, is actually a form of framing.) In more recent years, the dividend application has included two options that people could choose for allocating a portion of their dividend—a savings account for higher education (University of Alaska College Savings Plan) or a charitable donation (pick-click-give). The availability of both of these options has not been based on any active consideration by the legislature but rather by pressure from the beneficiary organizations. In fact there are many possible suggestions that could be considered. One would be a savings account for minor children that they would gain control of upon reaching 18 years of age. This would be a "grubstake" that could be used for higher education, to purchase a home, to start a business, or for some other purpose.

Related to this is the issue of how dividends for children should be handled in general. With the exception of wards of the state, whose dividends are held in trust until they turn 18, children's dividends go to the parents who decide what to do with them. In the survey in the 1984 study, about half of the households that included children reported that the decision about how the children's dividends would be spent was shared between the child and the parent. In the other half of households, the parents alone made the decision about how to allocate that money.³⁸ While parents certainly should be responsible for the well-being of their children, one must wonder if children spending dividend checks is a sensible public policy either in terms of the benefits the children get from those expenditures or from the

³⁷ For a more systematic discussion of potential alternative structures for the Permanent Fund, see Scott Goldsmith, "Permanent Fund Policy Questions and An Informal Review of Proposals for Change," prepared for the Principles and Interests: The Permanent Fund and Alaska's Future conference sponsored by the Alaska Humanities Forum, Anchorage, 1997.

³⁸ Knapp, *op. cit.*

lessons the children learn about responsible financial management from the experience. Although changing the eligibility criteria for the dividend would not be possible, incorporating personal finance curricula in the school at the time of the dividend could be done.

The current distribution schedule is driven by the requirements of calculating Permanent Fund earnings and verifying residency on the applications. The method of electronic deposit or check is designed to be cost effective and as painless as possible for the recipient. Other procedures are possible that would produce different results. One would be to convert to a monthly dividend which would eliminate the "consumption frenzy" but reduce the dividend use for the purchase of consumer durables. Another would be to allow people to leave their dividend in a special account in the Permanent Fund where it could be managed like a mutual fund. Studies of framing decisions about saving options suggests this would increase the rate of savings out dividends.

Receipt of the dividend is not contingent on income or any other economic characteristic; it is only necessary to apply by filling out a two-page form. Likewise, recipients are not required to participate in any public functions like voting, or attending community meetings, or even to be knowledgeable about the source of the funds they are receiving. The application process could be expanded to provide an education function so that people would have a better understanding of why the dividend was established and what it means. It could also be used to informally engage the public to think about important public policy issues.

A significant share of the dividend payment goes to the federal government because the dividend income is subject to the federal income tax. Furthermore, because the Alaska population is still quite transient, a share of the benefit of an individual dividend goes to people who will no longer be residents in a year or two because they will move to another state. One way to keep more of the money in Alaska and more of the benefits for permanent residents, and at the same time increase the incentive for community action, would be to have a "community dividend" that would be distributed to each community based on the number of residents. Residents would be free to spend the community dividend any way they wanted, but they would have to jointly determine how it would be

used. Under such an arrangement it might be more likely that the money would purchase physical facilities that would produce continuing benefits for residents—current and future.

The size of the annual dividend is based on Permanent Fund earnings which fluctuate considerably from year to year.³⁹ Alternatively, the payout could be managed like an endowment where a fixed percent of the value of fund assets is withdrawn each year for use. This would result in a more stable annual payout from the fund and reduce the annual fluctuations in the size of the dividend.

The funding source for the dividend—Permanent Fund earnings—is not dedicated to the dividend by constitution or statute. In theory, the dividend needs to compete each year against other potential public uses of fund earnings. This brings discipline to the public budgeting process because any spending for a public purpose competes against using the money to expand the size of the dividend. On the other hand, it is often argued that the public budgeting process would be more balanced if there were a special account dedicated only to payment of the annual dividend so that deliberations and decisions regarding the regular operating and capital budgets did not have to take into account their impact on the size of the dividend.

The dividend is ultimately funded by the royalties on oil production, but flows through the Permanent Fund. In this way the beneficiaries are not only those Alaskans who are residents at the time the royalties are being earned, but also later generations of Alaska residents. However, the Permanent Fund makes the connection between petroleum royalties and the dividend less transparent than if it were a direct payment from royalties. A number of different ways of structuring a direct payment out of royalties have been suggested, such as having a separate distribution from the royalties from each producing oil field. Only residents of the state when the field was discovered would be eligible to receive the distribution of royalties from that field. This would eliminate the migration element of the "population magnet", but be much more costly to administer.

Receipt of the dividend is not contingent on income. For high-income households and individuals, the benefit is modest because it represents a small marginal increase in income, and that increase is taxed by the federal government at the marginal tax rate. In

³⁹ The annual earnings of the fund, as it is currently structured, consists of interest and dividends paid and the realized gains from the sale of assets.

this way some of the benefit of the royalty distribution are ultimately passed to others outside the state by the federal government. It can be argued that such a program does not target well the group it is trying to serve. However, in its present form it is relatively easy to administer, and although the federal benefits do not accrue directly to Alaska residents, they should not be ignored.

Finally, although Alaskans would unanimously agree that Alaska has a right to the appropriation of resource rents from petroleum production on state land, there is disagreement about whether ownership of those rents rests with the people communally or individually. If communally, then decisions about how to spend those royalties should be made by the legislature representing the citizens of the state. If individually, then the citizens as individuals should make those decisions. Those who consider the ownership to be communal are more likely to view the dividend as a government program which distributes income, and to view the program as a government redistribution of income. Those who consider the ownership to be individual are more likely to view the dividend as a distribution of their ownership share of the petroleum wealth and to view it as a right independent of government. Thus, it is possible for some Alaskans, as well as many non-Alaskans, to view the program as a form of socialism while at the same time many other Alaskans take an opposite view. For those Alaskans, the government is merely the vehicle for facilitating the annual distribution of ownership shares to the shareholders in the "owner state." This difference of opinion about whether the dividend is a public program or an entitlement will never be resolved and will be a continuing source of debate and disagreement among Alaskans.

VI. Conclusion

The dividend has been an enduring part of Alaska for generations, and because of its popularity it will continue to influence the state economy, fiscal structure, and society for the foreseeable future. However, it remains a controversial program because it challenges traditional economic and social relationships. If asked, many Alaskans would choose to eliminate the program; but just as many would probably vote to enshrine it in the state constitution.

Alaska's Economy

Historical Trends and Future Outlook

BY MOUHCINE GUETTABI AND GUNNAR KNAPP

In this article we review recent trends in Alaska's economy and the economic outlook for the near-term and longer-term future. We begin with a brief description of the structure of Alaska's economy and key factors that drive it. Next we review historical trends in the economy. We then discuss factors likely to affect the economy in the near-term future, including the dramatic decline in oil prices and state oil revenues and the state's response to the resulting very large deficits. Finally, we discuss the longer-term outlook for the Alaska economy, including the potential economic impacts of an LNG (liquefied natural gas) export project.

Alaska's economy is complicated. In this brief article we have to omit important details due to lack of space. In particular, we do not address regional variation in the economy, which is significant, or the significant changes occurring in many industries.

Basic or Support	Sectors	Major Industries	Selected Important Economic Drivers
Basic	Resource industries	<ul style="list-style-type: none"> ▶ Oil ▶ Seafood ▶ Mining 	<ul style="list-style-type: none"> ▶ Oil prices ▶ Other resource prices ▶ Federal and state regulations ▶ Resource technology
	Federal government	<ul style="list-style-type: none"> ▶ Federal civilian ▶ Federal military 	<ul style="list-style-type: none"> ▶ Federal politics
Support	State and local government	<ul style="list-style-type: none"> ▶ State government ▶ Local government (including K-12 education) 	<ul style="list-style-type: none"> ▶ State oil revenues ▶ State investment revenues ▶ State politics
	Trade, service, transportation, and infrastructure industries*	<ul style="list-style-type: none"> ▶ Retail trade ▶ Wholesale trade ▶ Healthcare ▶ Services ▶ Transportation ▶ Construction 	<ul style="list-style-type: none"> ▶ Basic sectors' output, employment and income ▶ Extent to which households and businesses spend money in Alaska ▶ State and local government spending ▶ Government transfer payments (including Permanent Fund dividends) ▶ Rate of and expectations for future economic growth

* Some of these industries are partially "basic" to the extent that they sell services outside Alaska. For example, the shares of the retail trade and accommodation and food service industries supported by sales to tourists are "basic." However, in practice it is difficult to estimate the "basic" components of these industries.

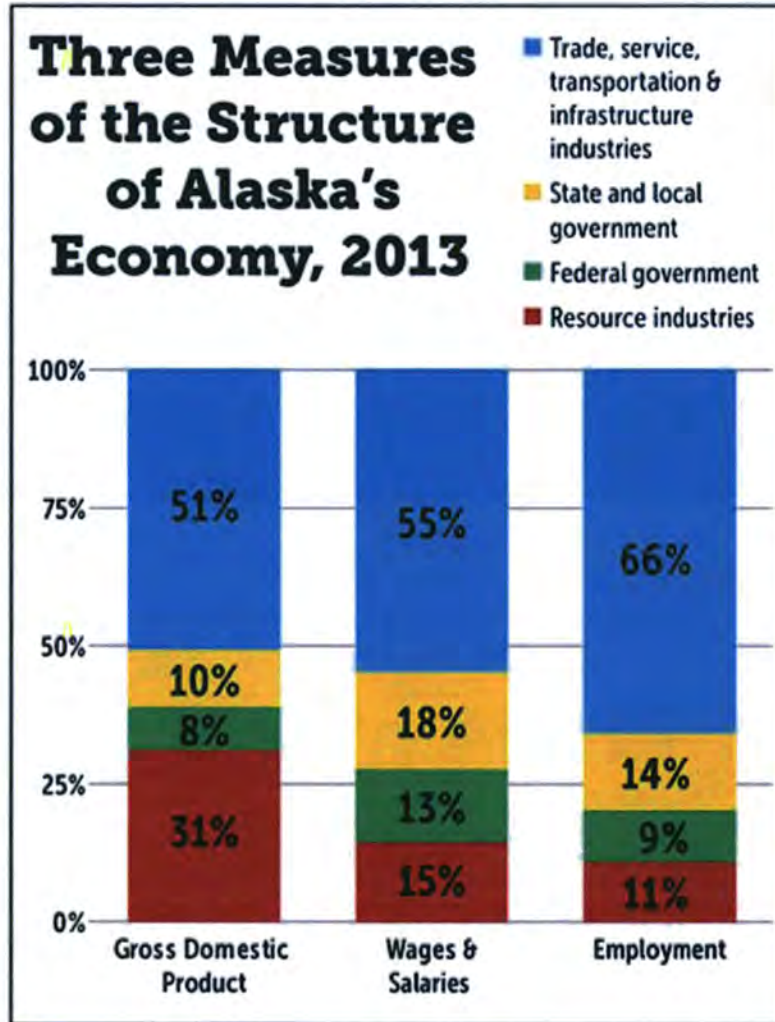
Alaska's future economic outlook is uncertain. We can't predict with certainty the combined effects of the many factors which may affect it. Our primary goal is to describe potential implications of factors which we know will affect it.

Alaska Economic Structure and Trends

It is useful to group Alaska industries as "basic" or "support" and further into the four major "sectors" shown in the table below—which vary in what drives them, how they have changed in the past, how they are likely to change in the future, and in their relative importance for different regions of Alaska. Basic sectors and industries sell goods and services primarily to markets outside Alaska and thus bring money into the economy (the federal government is "basic" because federal spending in Alaska is paid for from outside Alaska). Support sectors and industries sell goods and services primarily to markets inside Alaska and thus recirculate money in the economy.

There is no single measure which fully describes the structure of Alaska's economy and the relative economic importance of different sectors and industries. Three useful measures are employment, wage and salary income, and contribution to gross domestic product. The relative significance of different sectors varies across these measures, reflecting the fact they measure different things. Employment measures how many people work in a sector, wages and salaries measure how much they earn, and GDP measures how much value they create.

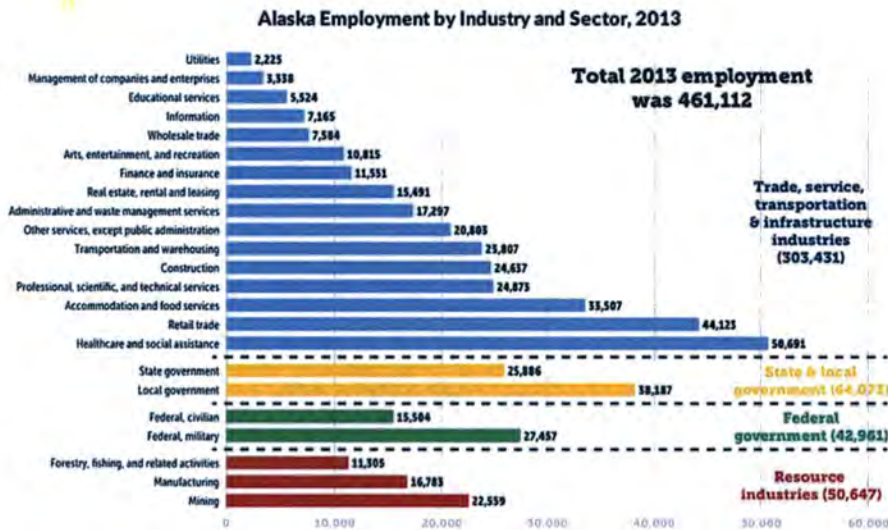
As shown in the graph below, in 2013 (the most recent year for which detailed GDP estimates are available) resource industries accounted for 31 percent of gross domestic product but only 11 percent of total employment. In contrast, trade, service, transportation, and infrastructure industries accounted for 51 percent of GDP but 66 percent of employment. State and local government accounted for 14 percent of employment but 18 percent of wages and salaries. The federal government accounted for 9 percent of employment but 13 percent of wages and salaries.



Total Alaska employment in 2013, as estimated by the Bureau of Economic Analysis and including non-wage and salary employment, was 461,112. Employment for 2015, for which data are not yet available, would be slightly higher. A useful rule of thumb to remember is that 4,600 jobs would be about 1 percent of Alaska employment and 46,000 jobs would be about 10 percent of Alaska employment. The six largest Alaska industries in 2013, as measured by employment, were healthcare and social assistance, retail trade, local government, accommodation and food services, federal military, and state government.

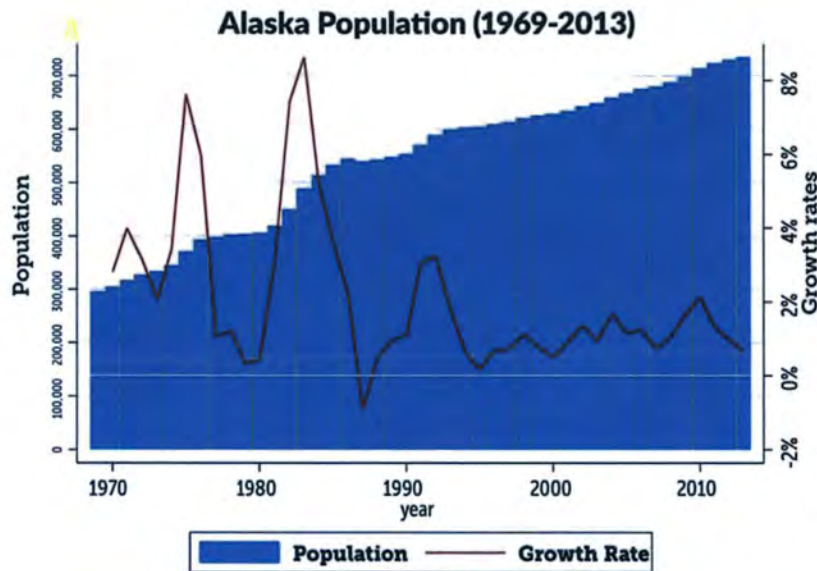
Long-time Alaskans may remember Alaska as a state with rapidly rising employment and population, characterized by periods of boom and bust such as the construction of the trans-Alaska oil pipeline in the mid-1970s, the recession following completion of the pipeline in the late 1970s, the government-spending and construction-driven boom of the early 1980s, and the oil price-crash-driven deep recession of the late 1980s. While true once—as shown in the graphs below—that picture is no longer true. For the past quarter-century, Alaska's economy has been characterized by relatively slow and steady growth in population and employment—driven by growth across many sectors such as the federal government, mining, tourism, air cargo, healthcare, and retail trade, and with significant regional variation.

More recent data suggest that this long period of gradual growth may be ending. From July 2013 through June 2015, year-over-year growth in monthly employment averaged 0.93 percent for private sector employment, 0.46 percent for total employment, 0.18 percent for state government, -0.79 percent for local government, and -3.64 percent for federal government employment. This suggests that declining government employment—which accounts for 23 percent of Alaska employment and 31 percent of total wage and salary income—may end or reverse a long period of growth in Alaska employment.



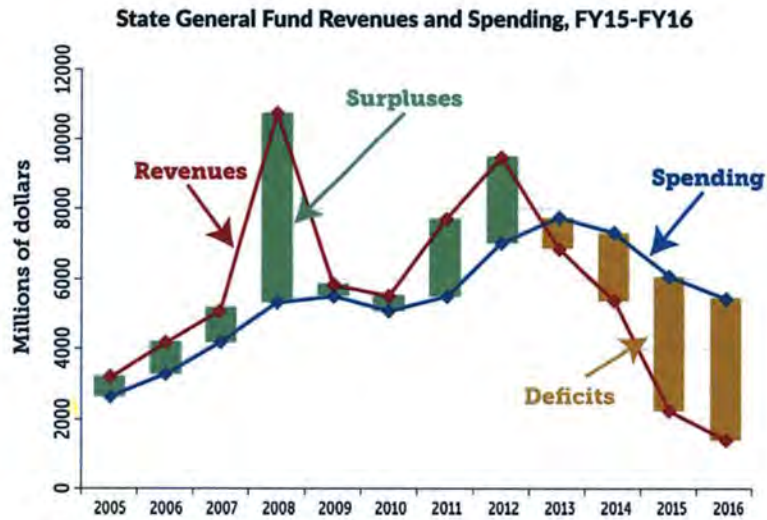
Factors Affecting Alaska's Near-Term Economic Outlook

In the near term—over the next few years—three factors appear most likely to drive change in Alaska's economy, all of which are uncertain and difficult to project. First, the decline in federal spending and employment of recent years appears likely to continue, although we don't know what specific cuts may occur, and particularly whether or not significant reductions will occur to military units based in Alaska. National politics, including the outcomes of next year's presidential and congressional elections, will likely influence how much money the federal government spends in Alaska and what it spends it on.



A second important factor will be the response of Alaska's oil industry to likely continued low oil prices and to potential reductions in state oil and gas tax credits. To date, Alaska has not yet experienced the dramatic decline in oil industry employment that has occurred in most other US oil-producing states. This reflects in part the larger scale of Alaska oil fields and investments and the increased difficulty of oil extraction from aged fields which requires more labor. However, Shell's recent decision to stop further offshore oil exploration on its Chukchi Sea leases—in which low oil prices were almost certainly a contributing factor—was a reminder that oil prices affect profitability and investment in remote, high-cost areas such as Alaska. Moreover, the recent further slide in oil prices to below \$40/barrel (as of early December) will further test the oil industry's ability and willingness to invest in Alaska exploration and development.

A third important factor—and likely the largest driver of near-term economic changes—will be how the state adjusts to dramatically lower oil revenues. After rising for many years, state revenues have fallen dramatically since 2012, the combined result of declining oil production, increasing tax-deductible costs of oil production, and a drastic fall in oil prices from more than \$100/barrel in August 2014 to below \$40/barrel in early December 2015. State spending has also fallen since 2013, but not as far or as fast as revenues, resulting in large deficits which the state has funded by drawing down savings reserves. Current deficit levels—likely to exceed \$3.5 billion in FY16—cannot be sustained as they would drain available state savings in the state's Constitutional Budget Reserve Fund (projected to be about \$7.7 billion at the end of FY16) within a few years.



Estimated Short-Run Economic Impacts of Selected Options for Reducing the Deficit by \$100 Million

How the \$100 million is cut	Employment Impacts (full-time equivalent jobs in Alaska)			Income Impacts (millions of \$ of income earned in Alaska)			Impacts as % of Alaska total		Deficit reduction per lost job
	Direct	Multiplier	Total	Direct	Multiplier	Total	Employment	income	
Spending cut: state workers	962	715	1677	95.0	42.8	137.8	0.50%	0.81%	\$59,622
Spending cut: across the board	505	755	1260	67.5	47.7	115.2	0.38%	0.67%	\$79,346
Spending cut: capital projects	506	425	931	41.7	22.3	63.9	0.28%	0.37%	\$107,449
Income tax	0	971	971	0.0	53.9	53.9	0.29%	0.32%	\$103,033
Permanent Fund Dividend reallocation	0	727	727	0.0	43.3	43.3	0.22%	0.25%	\$137,476
Spend other Permanent Fund earnings	0	0	0	0.0	0.0	0.0	0.00%	0.00%	NA

Source: Preliminary calculations for an ongoing ISER study of economic impacts of state fiscal options, using IMPLAN economic impact model, December 2015. Note that economic impacts of fiscal options may vary substantially depending on what kinds of spending are cut (payments to workers of different income levels, utilities, contracts, capital spending, etc.) or how taxes are structured.

Unless oil prices rise dramatically and unexpectedly, within a few years the state will have to reduce the deficit by either reducing spending or finding new ways to pay for spending. The only "fiscal options" which could significantly reduce the deficit are some combination of:

- Further cuts in state spending
- Broad-based taxes such as income or sales taxes
- Reallocating spending of Permanent Fund earnings from dividends to state government
- Spending other Permanent Fund earnings

The Alaska Legislature faces difficult choices between these options, none of which are popular.

The table above shows estimates of the potential short-run economic impacts of selected options for reducing the deficit by \$100 million. The estimates are based on input-output analysis, which tracks how the "direct" impacts of a cut in state spending or a reduction in household income are "multiplied" in the economy. The short-run economic impacts of larger spending cuts or new revenues would be proportional: the impacts of cuts or new revenues of \$1 billion would be ten times as large.

The estimated employment and income impacts include both "direct" and "multiplier" employment and income. Direct impacts are changes in employment and income of employees of state government and state contractors. Multiplier impacts are changes in employment and income in other industries due to ripple effects in the rest of the economy as households, which lose income, and businesses, which lose sales, spend less.

The estimated impacts are based on generic assumptions about how state spending cuts would be made and how income taxes or lower Permanent Fund Dividends would affect household spending. They should be considered approximate estimates of the initial short-run impacts of these fiscal options, as well as indicators of how the relative economic impacts of fiscal options may differ. They do not show potentially important indirect or longer-term impacts of fiscal options, such as how they might affect state services on which the economy depends, economic confidence, investment, and real estate prices. They also don't show how the relative effects of different options may vary by region, or their relative impacts on different income groups. (We are currently studying these other potential economic impacts.)

Here are some approximate rules of thumb about potential short-run employment impacts of state fiscal options:

Cutting state spending by \$1 billion by cutting the state workforce could cause a loss of about 17,000 Alaska jobs, or about 5 percent of total employment: each lost job would reduce the deficit by about \$60,000.

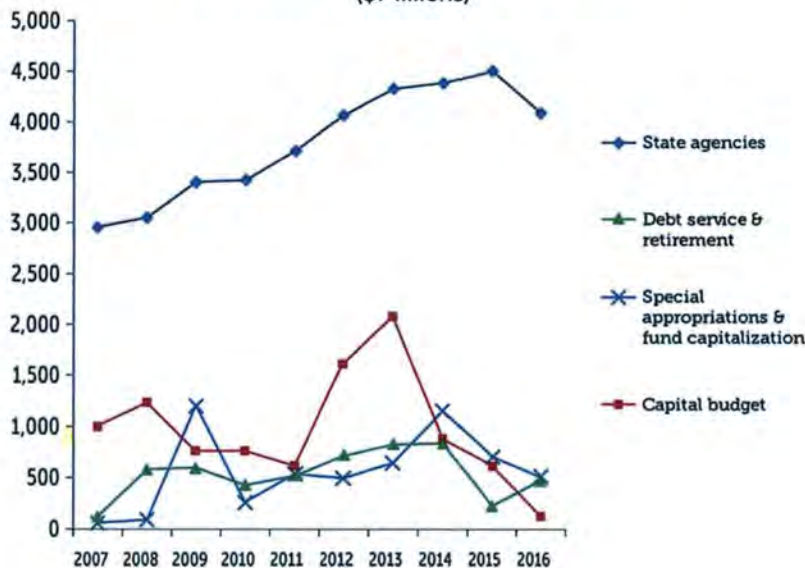
Cutting state spending in other ways would have smaller employment and income impacts. For example, across the board cuts of \$1 billion might cause a loss of about 13,000 jobs, or 4 percent of employment: each lost job would reduce the deficit by about \$80,000.

Reducing the deficit by collecting income taxes or reallocating Permanent Fund Dividend payments to pay for state government would have smaller total impacts on employment and income than cutting state government—because there would be no direct cuts to jobs or income of state employees or contractors. There would be “multiplier” impacts due to impacts on household disposable income and spending. Collecting \$1 billion in income taxes or Permanent Fund Dividend reallocations could cause a loss of about 10,000 jobs or 7,000 jobs, respectively.

Reducing the deficit by spending other Permanent Fund earnings would not have any short-run impacts on the economy: it would not reduce payments to state workers or contractors or reduce household disposable income.

Note that the relative economic impacts of different fiscal options would vary significantly by region. The relative economic impacts of cutting the state workforce would be highest in regions where state government accounts for a relatively higher share of employment, such as Juneau and Fairbanks, and where state-funded local government (particularly K-12 education) accounts for a relatively high share of employment, such as rural western Alaska. In contrast, the relative economic impacts of an income tax would be highest in wealthier urban areas such as Anchorage.

State General Fund Budgets, FY07-FY16
(\$Millions)



Clearly the short-term economic impacts of significantly reducing the state deficit—which will exceed \$3.5 billion this year—could be significant. How large they will be, and how and when they will be felt, will depend on how and when the state reduces the deficit. It will not be possible to avoid significant impacts: Permanent Fund earnings over and above those used to fund dividends are insufficient to close the deficit. While the economic impacts of different fiscal options will surely play a role in the political debate over how to close the deficit, significant economic impacts of the decline in state revenues since 2012 are already inevitable—because of the effects of budget cuts that have already been made but not yet reflected in lower state spending. Since 2013, the state budget has been cut by \$2.7 billion, or by 34 percent. Of this cut, \$1.9 billion, or 73 percent, was in cuts to the capital budget. Because capital projects take time—often several years—to plan and build, the full impacts of the large cuts that have already been made to the capital budget have not yet been felt as cuts to state spending. When they are felt, they will have significant economic impacts. If, for example, the impacts of \$1 billion in capital spending cuts remain to be felt, the estimates shown in the table above suggest that they could cause a total loss of about 9,000 Alaska jobs, or about 3 percent of total employment.

The state faces a difficult economic tradeoff in how rapidly it reduces the deficit. Clearly the impacts would be very large if the entire deficit of more than \$3.5 billion were to be closed in one year—regardless of how it is closed. For this and other reasons, it is likely that the deficit will be reduced more gradually, spreading the economic impacts out over time.

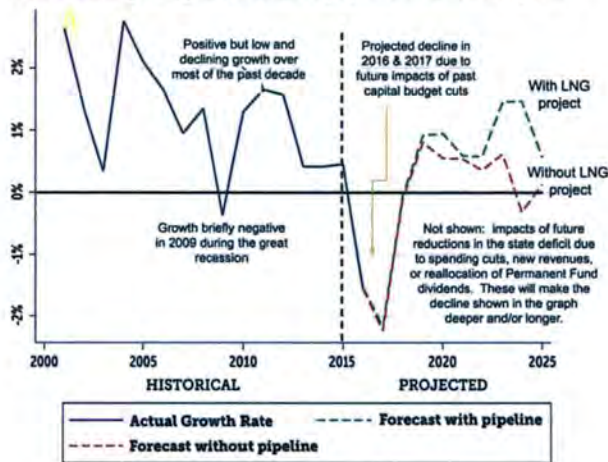
However, there are also significant potential negative economic consequences to delay in significantly reducing the deficit. Continued deficits of more than \$3.5 billion could drain state savings in as little as two years—forcing major adjustments with major economic impacts all at once. Delay in reducing the deficit could harm business confidence, reducing business investment and availability of credit to home-buyers and businesses.

It could also harm the state's credit rating. In August, Standard & Poor's Ratings Services affirmed its "AAA" rating for state bonds but revised its outlook from stable to negative, stating that "the negative outlook reflects that the large structural deficit in the state's unrestricted general fund could render its overall fiscal position inconsistent with our 'AAA' rating. We expect that if lawmakers do not enact significant fiscal reforms to reduce the imbalance within the next year, the state's rating could begin transitioning downward. The rating migration lower would likely persist and accelerate if lawmakers continued to fail to act as the state's budget reserves (not including the Permanent Fund) approached depletion."

Longer-Term Economic Outlook

Over the longer term, once the state has adjusted to significantly lower average oil revenues, the most important factor potentially driving change in Alaska's economy would be the development of an Alaska LNG export project—combining a North Slope gas conditioning plant, a natural gas pipeline, and a Southcentral Alaska liquefaction plant. If built, these would be huge projects, with a combined total cost currently estimated at between \$45 billion and \$65 billion. If the project proceeds on the currently envisioned schedule, construction employment might peak in 2024 and 2025 at about 6,500 jobs. Subsequent revenues to the state from its project ownership share and LNG sales could approach \$2 billion, further stimulating the economy over the longer term.

Annual Percentage Change in Total Alaska Employment: Historical and Projected



However, whether or when an LNG project will be built remains far from certain. The project is still in the pre-front-end engineering and design (pre-FEED) phase, with the decision about whether to proceed to the much more expensive front-end engineering and design (FEED) phase still at least a year away. Many issues remain to be resolved between the state and the three multinational oil companies participating in the project, and many uncertainties remain about the project cost, markets, and potential economic returns. Given the scale of the project, the fact that hundreds of millions of dollars have already been spent and are planned on pre-FEED studies does not necessarily mean that the project will be built as currently scheduled or built at all. Thus the LNG export project remains a very large economic opportunity, but also an uncertainty, over the coming decade.

Beyond the potential LNG project, other important drivers of change in the Alaska economy will continue to be the federal government, the oil industry, the seafood and mining industries, the tourism industry, air cargo, and (over time) newer service industries such as engineering and environmental consulting. It is very difficult to predict how these industries will change over time, given their dependence on highly variable international market conditions as well as federal and state political and regulatory decisions. What is most certain is that there will be changes and surprises—but there is no obvious reason to expect either dramatic long-term growth or decline.

Conclusions

The graph at left shows historical annual growth rates of Alaska employment over the period 2000-2015 as well as our projections for 2016-2025. We calculated our projections using ISER's econometric model of Alaska's economy, population, and finances. The projections are based on two economic scenarios which consist of numerous assumptions about levels of future basic industry activity (both generic and project specific), national economic variables, and state fiscal policy variables. Both scenarios assume constant oil prices of \$55/barrel. The difference between the scenarios is that one assumes that no LNG export project occurs, while the other assumes that a project occurs with the schedule and impacts described above.

As discussed earlier, growth in total Alaska employment was positive but low and declining over most of the past decade, with a small decline in employment in 2009 during the great recession. As shown in the graph, we project a decline in total employment of about 2 percent during 2016 and 2017 as a result of cuts to the state capital budget which have already occurred but have not yet been reflected in actual capital spending.

What the graph does not show is the economic impacts of the inevitable further state adjustments to the budget deficit over the next few years, which will have to include some significant combination of spending cuts, new revenues, and/or reallocation of Permanent Fund dividends. These adjustments will make future employment declines either deeper or longer-lasting than shown in the graph. However, when the deficit has been significantly

reduced, employment rates should rebound to continue the low but positive historical trend—with significantly higher growth rates if an LNG project occurs.

Our projections are of course speculative. There are many reasons for which they could appear foolish within a few years or even months from now, in response to events we cannot foresee, ranging from major oil discoveries to natural disasters to global economic or political crises which might drive prices for oil and other Alaska resources unexpectedly higher or lower. However, our goal is not to argue that the projections will necessarily come true. Rather our goal is to suggest a way of thinking about the factors that may drive Alaska's near and longer-term economic future—which may be a useful starting point for thinking about the implications of alternative assumptions about these factors.

Mouhcine Guettabi is an assistant professor of economics at the University of Alaska Anchorage Institute of Social and Economic Research (ISER). He holds a PhD in economics from Oklahoma State University, where he specialized in regional and urban economics, health economics, and applied microeconomics. Before coming to ISER in 2013, he was a research economist at the Center for Applied Economic Research (CAER) at Oklahoma State University where he conducted public policy analysis, regional economic development, and economic forecasting. At ISER he has undertaken a wide range of research including updating ISER's economic forecasting model for Alaska, assessing needs of Alaska veterans, conducting a survey of employer provided health insurance, and studying economic costs to Alaska of higher fuel prices and the economic importance of the Bristol Bay salmon fishery.

Gunnar Knapp is director and professor of economics at the University of Alaska Anchorage Institute of Social and Economic Research (ISER), where he has worked since receiving his PhD in Economics from Yale University in 1981. For much of his career his research has focused on markets for and management of Alaska fisheries. Currently he is engaged in extensive research and outreach about Alaska's fiscal situation and options. For many years he has taught a University of Alaska Anchorage course on the economy of Alaska.

This article first appeared in the January 2016 print edition of Alaska Business Monthly.

**Alaska Department of Revenue
Permanent Fund Dividend Division**

Overview of the 2014 Dividend Calculation

To help smooth out year-to-year volatility in dividend amounts, the amount of each year's dividend is calculated using a formula that averages the Permanent Fund's realized earnings over the previous five years. Here is how it works:

1. **Add** the Fund's statutory net income* from the previous five years.

	<i>(in millions/rounded)</i>
FY 2010	1,590
FY 2011	2,143
FY 2012	1,568
FY 2013	2,928
FY 2014	3,531
Total	<u>11,760</u>

2. **Multiply** by statutory 21% for an average of the five year earnings

11,760
<u>21%</u>
\$2,470

3. **Divide** in half for the statutory percentage of earnings allocated for dividends

\$2,470
<u>2</u>
\$1,234.8

4. **Add** FY 2013 Permanent Fund Dividend Fund beginning balance

\$1,234.8
<u>10.6</u>
\$1,245.4

5. **Subtract** prior year obligations, designated state expenses and cost of operating the Permanent Fund Dividend Division

\$1,245.4
<u>(36.0)</u>
\$1,209.4

6. **Subtract** reserves for payment of prior year dividends

\$1,209.4
<u>(0.8)</u>
\$1,208.6

7. **Divide** by the estimated number of eligible dividend applicants

\$1,208,600,000/641,489=\$1884.00 (rounded to nearest whole dollar)

*More information is available at www.apfc.org or www.pfd.alaska.gov

THE ALASKA PERMANENT FUND DIVIDEND PROGRAM:
ECONOMIC EFFECTS AND PUBLIC ATTITUDES

by

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September 1984

Prepared for the Alaska Permanent Fund Corporation

The views expressed in this report are entirely those of its authors and do not necessarily reflect the position of the Alaska Permanent Fund Corporation.

EXECUTIVE SUMMARY

This study for the Alaska Permanent Fund Corporation examines public attitudes toward the Permanent Fund Dividend Program, the impacts of dividends on recipients, and the effects of dividends on the Alaska economy. The key findings are:

Attitudes - About 60 percent of Alaskans think the Permanent Fund Dividend Program is a good idea. Twenty-nine percent have mixed feelings. Ten percent think it is a bad idea.

Impacts - The "average" recipient saved \$200 of his 1982 dividend, paid \$200 in federal taxes, paid off \$50 in debt, and spent \$550. Of that \$550, \$450 went to day-to-day expenses (e.g., food, heat, clothing) and \$100 went to "special" items (e.g., airline tickets, VCRs).

Effects - Dividends create more spending money and jobs--and result in more population growth--than other ways of spending the same amount of public money, including bigger operating and capital budgets, tax reductions, and subsidizing economic activity.

Other major findings include:

Attitudes

- A majority of Alaskans prefer the dividend program over more state and local construction projects, reduced property taxes, subsidized loan programs, or putting the money for dividends back into the Permanent Fund.
- Seventy-one percent of Alaskans would now choose to end the dividend rather than bring back the personal income tax. Fifty-five percent would be willing to give up some part of their dividends to pay for the longevity bonus for senior citizens. However, eighty-seven percent would not halt the "inflation-proofing" of the Permanent Fund so that the State could use the earnings for other purposes.

Impacts

- The 1982 dividend distribution of \$450 million directly increased personal income in Alaska by 6.3 percent, about the same amount as the payroll of the Petroleum Industry.
- The relative benefits of the Permanent Fund Dividend Program to Alaskans vary widely. For one-third of all Alaskans, the 1982 dividends increased family income by less than five percent after taxes. But for one-eighth of all Alaskans, the dividends increased family income by more than twenty percent.
- Dividends substantially raised the incomes of many rural Alaskans. The 1982 dividends increased family income by more than twenty percent for over one-half of rural Alaska Natives.
- How Alaskans used their dividends varied with income. Lower-income Alaskans used more of the money to reduce their debt and for day-to-day expenses while higher-income Alaskans used more of the money for taxes and savings.

Effects

- The 1982 and 1983 dividends have been significant factors in the rapid economic growth of the early 1980s. As the dividends entered the Alaska economy, they created about five thousand jobs, primarily in support industries, and added about \$360 million to consumer purchasing power in 1983. Although the direct program effects impacted every corner of the state, the secondary effects have concentrated in the urban areas, which are the centers for economic support activities.
- Inflation and the desire to work were little affected by the dividends, and few people moved to Alaska solely to receive a dividend. However, because the dividend program stimulates employment more than other uses of public funds, it does have the effect of bringing more people to Alaska.
- No use of Permanent Fund earnings, including retaining dividends in the Fund, is able to arrest the projected decline in state revenues due to depletion of petroleum reserves if contributions to the Permanent Fund continue at the current rate.
- The use of current Permanent Fund earnings for dividends or public expenditures reduces the level of public wealth available in future years. Accumulation of dividends in the Permanent Fund increases future wealth but reduces current levels of economic activity.

Purpose and Design of the Study

The purpose of this study was to examine economic effects of the Permanent Fund dividend program and public attitudes toward the program. The study was carried out by the Institute of Social and Economic Research of the University of Alaska.

In order to study dividend uses and public attitudes, we conducted a survey of 1,016 Alaska households. The limited budget restricted this survey to telephone interviews, which excluded some families from the sample but not sufficient numbers to significantly affect the reliability of the results. To ensure equal reliability of the results for all areas of the state, we conducted equal numbers of interviews in three different geographic classifications of the state: Anchorage, other urban areas, and rural areas. The overall results of the survey were then weighted to reflect the relative share of the total population represented by each geographic area. The results reported for the entire state are accurate within plus or minus three percentage points.

A second major source of information for the study was the Institute of Social and Economic Research's Man-in-the-Arctic Program (MAP) econometric model of the Alaska economy. We used the model to project changes in the Alaska economy resulting from the Permanent Fund Dividend Program.

Other major sources of information for the study included data on dividend distributions provided by the Alaska Department of Revenue, census data on the distribution of income in Alaska, sales data for rural stores provided by Alaska Commercial Company, banking data from a large number of sources, small community sales tax data, and public assistance payments data from the Alaska Department of Health and Social Services.

Alaskans' Attitudes Towards the Dividend Program

We asked survey respondents three types of questions concerning their views on the dividend program: first whether they favored or opposed the program; second, whether they preferred the dividend program over a number of alternative uses for the dividend money; and, third, the extent to which they agreed or disagreed with various perceptions about the dividend program. Several well-known supporters and opponents of the dividend program reviewed the survey before it was conducted to assure maximum objectivity in the attitudinal questions. Our results reflect the attitudes of household members most responsible for household finances, whom we selected as our survey respondents.

A majority of those surveyed think the Permanent Fund dividend program is a good idea and favor it over such other public uses as reinvestment of Fund earnings, large state construction projects,

local construction projects, property tax reductions, or loans. Almost three-quarters would prefer that the state stop the dividend program, if necessary, to avoid reinstating a state personal income tax. Only one in ten respondents favored limiting the dividend program to low-income households, but just over one of every two persons support the idea of using a portion of the money now spent on dividends to pay for longevity bonus checks.

A substantial majority of persons interviewed think that they are entitled to a share in the earnings of the Permanent Fund and have no problem with receiving money directly from the state. Most respondents emphatically believe that how residents use the money is of no concern to the state. In addition to viewing dividends as an entitlement, most respondents see the dividend program as a means of protecting the principal of the Permanent Fund and as a more effective vehicle for using public funds to benefit Alaska residents than legislative appropriations. They also think that the dividend program has made them pay closer attention to how the state spends the money it receives.

Survey respondents were mixed in their perceptions about whether dividends had been wasted on liquor or drugs, whether loss of dividend money in taxes to the Federal government is a problem with the dividend program, whether the dividends harm Alaska's image, and whether dividends are important sources of income in their communities. Rural residents were much more likely to see dividends as an important source of income.

Support for the dividend program is widespread among survey respondents, particularly among groups which tend to have lower incomes: rural residents, recent immigrants, persons with relatively less education, and younger and older Alaskans. Income itself is strongly related to attitudes toward the Permanent Fund dividend program, but even 45 percent of those living in households which received more than \$60,000 in income in 1983 supported the dividend program.

Three perceptions appear to be particularly important to those favoring the dividend program. Respondents were much more likely to favor dividends if they felt that (1) residents are entitled to a share in the state's wealth; (2) Alaska residents are better able to decide how to spend the state's money than the legislature; and (3) dividends are an important source of income. Household income did not explain any additional variation in public attitudes toward the dividends but accounts for much of the difference in perceptions about the importance of dividends as a source of income.

The importance of income and income-related perceptions in explaining support for dividends and the view that dividends are an entitlement suggest that much of the support for the dividend program will not diminish over time. Since support for the dividend program is apparently also a function of trust in the legislature's

motivations and abilities, public attitudes may shift in response to future state spending patterns, generally, and in response to specific proposals concerning the Permanent Fund in particular.

Finally, we observed that respondents who firmly expect that state revenues will decline in ten years were likely to oppose the dividend program in favor of increased savings while the reverse was true for those who firmly expect that state revenues will not decline. Less than half the persons we interviewed had either of these firm perceptions, however, and perceptions about future state revenues overall did not explain a substantial variation in attitude toward the dividend fund. This suggests that public expectations concerning future state revenues are not likely to substantially influence public attitudes toward the Permanent Fund dividend program, unless firmer public consensus on state revenue prospects should develop.

Effects of the Dividends on Income

The Alaska Permanent Fund Dividend Program has distributed more than 458 thousand 1982 dividend checks of \$1,000 and more than 430 thousand 1983 dividend checks of \$386.15 to Alaskans. More than \$15 million in 1982 dividend checks were distributed each month between June of 1982 and February of 1983, reaching a peak in December of 1982 at \$122 million. Almost all of the 1983 dividends were distributed between September and November of 1983.

About 31 percent of dividend recipients were children. Of all recipients, one-half had resided in Alaska for eleven or more years; one-fifth had resided in Alaska since 1959; and eight percent claimed only one year of residency. Two percent of the dividend checks were mailed to addresses outside Alaska.

Adults paid 28.4 percent of their 1982 dividends as federal income taxes. Since most children's dividend income was not taxed, the average tax rate for all dividend income was about 20.2 percent. Total federal income taxes were \$88 million on 1982 dividends and \$32 million on 1983 dividends.

The 1982 dividends directly increased Alaskans' after-tax income by about \$362 million, or by about 6.2 percent. However, the relative effects of dividends on after-tax income were much higher for large, low-income families. We prepared the estimates shown on the following table for the relative effects of 1982 Permanent Fund Dividends on after-tax income.

EFFECTS OF 1982 PERMANENT FUND DIVIDENDS
ON AFTER-TAX INCOME OF ALASKANS

Percent Increase in After-tax Income of Individual's Family	Percent of All Alaskans	Percent of Rural Alaskans	Percent of Rural Alaska Natives
0 - 5%	35	29	12
6 - 10	26	23	11
11 - 15	15	15	15
16 - 20	6	7	11
21 - 25	4	5	11
26 - 30	4	5	8
31 - 35	3	4	7
36 - 40	2	4	8
41 - 45	1	1	3
46 - 50	-	-	1
> 50	<u>3</u>	<u>6</u>	<u>14</u>
Total	100	100	100

- Less than 0.5 percent.

NOTE: Totals may not add to 100 due to rounding.

As shown in the table above, the relative effects of dividends varied widely among Alaskan households. For 61 percent of Alaskans, 1982 Permanent Fund Dividend income represented less than a 10 percent increase in their families' after-tax incomes. For another 26 percent, the dividends represented an increase in after-tax income of between 10 and 25 percent. For the remaining 13 percent of Alaskans, the dividends represented more than a 25 percent increase in family income.

The contribution of dividends to family income was relatively greater in rural Alaska, and especially so for rural Alaska Natives. Our estimates suggest that dividends represented in 1982 more than a 25 percent increase in family income for 41 percent of rural Alaska Natives.

In sum, the 1982 dividends represented a substantial increase in family income for many Alaskans, especially in rural areas. However, for a majority of Alaskans, the dividends represented a relatively small increase in family income, especially after federal income taxes were paid. Since the 1983 dividends were about one-third the size of the 1982 dividends, their contribution to after-tax income was also smaller.

How Alaskans Used Their Dividend Income

In each household surveyed, we spoke with the adult who knew the most about the use of the household's dividend checks and asked a series of questions about how much dividend income household members had used for the following categories:

- Special purchases
- Savings
- Debt reduction
- Day-to-day purchases
- Taxes

We asked separate questions about the uses of adults' and children's dividends and the uses of 1982 and 1983 dividends. Many interesting questions went unasked because the amount of time available in a telephone interview is limited.

As in any survey, respondents may not recall their households' purchases correctly. They may also avoid mentioning undesirable or illegal uses of income (none of our survey respondents mentioned any such uses). Similarly, many respondents may under- or overstate their total expenditures or have difficulty attributing purchases to special sources of income. To compensate for these limitations, we employed standard survey research techniques to internally check for the consistency of responses and referenced our survey responses to other secondary sources of information. We prepared several estimates of overall uses of dividend income based on different sets of assumptions about how to adjust for any overstated or understated uses.

Based on the survey results, between 5 and 15 percent of dividend income was used for special purchases, about one-fifth of which were airline tickets. Respondents mentioned a wide variety of other special purchases, among the most common of which were cars, furniture, houses, home additions, televisions, appliances, bicycles, snow-machines, and three-wheelers.

Between 15 and 25 percent of dividend income was saved, and about 5 percent was used to reduce debt. About 20 percent went to taxes. The remainder of dividend income--between 35 and 55 percent--was used for day-to-day purchases such as food, heat, clothing, and rent.

Lower-income and rural households used relatively less of their dividend income for taxes or savings and relatively more for debt reduction and special purchases.

Parents decided how their children's dividends would be used in over one-half of all households while children alone made the decisions in less than one-tenth. In the remainder of households, the decisions were made collectively. The greater the children's say in the use of the dividends, the greater the share of the

dividends which was spent, while the greater the parents' say, the greater the share which was saved or used to reduce debt.

In order to summarize the effects of the dividends, we asked each respondent the following question: "Overall, how would you say your household's spending, saving, and debt was changed by your dividend checks?" We categorized the answers in terms of the most significant effect which was mentioned. The following table summarizes the answers for the 1982 adults' and children's dividends, broken down by household income group. There were clear differences in the effects of dividends between income groups. The lower the income group, the greater the share of households which cited "reduced debt," "help with regular expenses," and "help with special purchases" as the most significant effects of dividends and the lower the share of households which cited "savings" or "little or no effect." Less than one-third of the lowest-income households thought that dividends had "little or no effect," compared to over half of the highest income households. The effects of adults' and children's dividends were also viewed differently: "reduced debt" and "help with regular expenses" were mentioned less frequently as effects of children's dividends while "increased savings" was mentioned more frequently.

MOST SIGNIFICANT OVERALL EFFECTS OF PERMANENT FUND
DIVIDEND INCOME, AS SUMMARIZED BY SURVEY RESPONDENTS,
BY HOUSEHOLD AND INCOME GROUP
(Percent of Households)

Most Significant Overall Effect	1982 Adults' Dividends				1982 Children's Dividends			
	Under \$26,000	\$26,000- \$40,000	\$41,000- \$60,000	More Than \$60,000	Under \$26,000	\$26,000- \$40,000	\$41,000- \$60,000	More Than \$60,000
Reduced Debt	18.3	13.8	11.9	4.9	10.7	5.5	1.9	1.7
Increased Savings	9.1	19.3	25.0	15.8	20.1	24.5	28.9	21.7
Help with Regular Expenses	22.1	11.9	14.6	11.9	19.1	9.0	8.6	2.9
Special Purchases	10.8	9.8	4.9	5.1	7.2	5.5	9.4	1.7
Little or No Effect	27.9	36.3	33.5	49.3	31.7	41.1	38.7	52.6
Unaccounted for or No Answer Given	<u>11.8</u>	<u>8.9</u>	<u>10.1</u>	<u>13.0</u>	<u>11.2</u>	<u>14.4</u>	<u>12.5</u>	<u>19.4</u>
TOTAL	100	100	100	100	100	100	100	100

We examined dividend use in rural areas by comparing sales in twelve rural stores to dividend distributions using regression analysis. For eleven of these stores, we found that dividends significantly affected sales in at least some departments. In nine of the stores, total monthly sales increased by between \$83 and \$373 for every thousand dollars of dividends distributed locally during the month. Departments in which the effects on sales were greatest included groceries, soft goods, and hardware. Generally, the 1982 dividends had a greater direct effect on sales per dollar distributed than did the 1983 dividends. These results suggest that a large share of dividend income in rural areas was used to make purchases locally. They also serve to substantiate survey responses on how dividends were used in rural areas.

Economic Effects of the Dividend Program

This part of the study was divided into three sections which analyzed (1) the past and projected economic effects of the current dividend distribution program, (2) the relative economic effects of the program in comparison to other uses of an equivalent amount of Permanent Fund earnings, and (3) the economic effects of variations in the timing of the use of Permanent Fund earnings for dividends or other purposes.

The economic impact of the dividend program results primarily from the personal consumption spending it generates. Alaskans perceive dividend income to be some combination of permanent, transitory, and windfall income; and, consequently, less of it is spent than ordinary income. This is less so for lower-income Alaskans who consume most of their current income, including dividend income.

The dividends have been one of the most important sources of growth in disposable (after-tax) personal income in Alaska since the current economic boom began in 1980. The dividends directly accounted for 17 percent of the increase in disposable income for the years 1981-1983. Because of lags in both the distribution of dividends and personal expenditures, the spending of this income created 3 thousand jobs in 1982 and 5 thousand jobs in 1983. People moving to Alaska to fill these new jobs increased the state's population by 2 thousand in 1982 and another 2 thousand in 1983, resulting in higher government expenditures. In addition, the new jobs further increased disposable income by 9 percent in 1982 and by 23 percent in 1983.

The dividend program has not had any discernible effects on inflation. Few, if any, people have left the labor force as a result of dividend income. There is no evidence of substantial migration to Alaska by people hoping to receive dividends; at most, some people may have postponed their departure from Alaska in order to receive dividends. The secondary effects of dividends were felt

most in the support industries of trade, services, and finance which are concentrated in the urban parts of the state. Private holdings of wealth increased modestly and tended to be concentrated among the higher-income groups. The availability of funds resulted in a small amount of capital investment for business purposes.

Compared to the expenditure of an equivalent amount of public funds for other purposes, including government operations, capital projects, subsidies, local transfers, or nonpetroleum tax reductions, the dividends produce the largest increase in before- and after-tax income, employment, and population. Employment growth from dividends is in the support sector while government expenditures produce more jobs in government or construction-related industries. Our results are generalized for each sector as a whole. Particular government programs may have characteristics considerably different from the average, particularly for subsidies.

Because nearly all state revenues come from the production of finite petroleum reserves, total public spending--whether in the form of dividends or alternatives--is nonsustainable at its current level. Several long-term policies involving (1) different mixes of public and private uses of Permanent Fund earnings and (2) different mixes of current and future spending of Permanent Fund earnings were examined using simulation analysis. No alternatives are able to arrest the decline in public revenues, and none significantly alter the projected structural shift in the economy away from growth dominated by the public sector.

Permanent Fund earnings spent as dividends produce more employment, personal income, and expand the private economy more than public expenditure of the same funds but, as with all other spending alternatives, contribute to the future decline in the level of government services. If current public spending patterns--including paying dividends--continue, significant and continuing reductions in government expenditures will become inevitable in about 1993, cutting per capita real public spending to half its current level by the turn of the century. Saving of Permanent Fund earnings has the least effect on the economy in the present but increases future opportunities for public or private spending by enlarging state fund balances in the future--augmenting future public revenues projected to be much smaller than those of today. Thus, the use of Permanent Fund earnings involves a choice between public versus private and current versus future spending.

Alaska Dispatch News

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[Home](#) > [\\$2,072: 2015 Alaska Permanent Fund dividend amount announced](#)

[Chris Klint](#) [1], [Sean Doogan](#) [2]
September 21, 2015

Most Alaskans will find themselves \$2,072 richer next month when they receive their Permanent Fund dividend checks from the state, an amount unveiled Monday morning at an event hosted by Gov. Bill Walker.

Walker and Lt. Gov. Byron Mallott spoke before the amount was revealed. Walker alluded to this year's dividend being the fund's largest-ever, unadjusted for inflation -- but deferred the final announcement to Mat-Su seventh-grade student Shania Sommer.

Sommer, 12, a student in the Alaska Native Science and Engineering Program, said she has saved every PFD check since fourth grade and plans to use the money for college, where she will study to be an engineer or an Alaska state trooper.

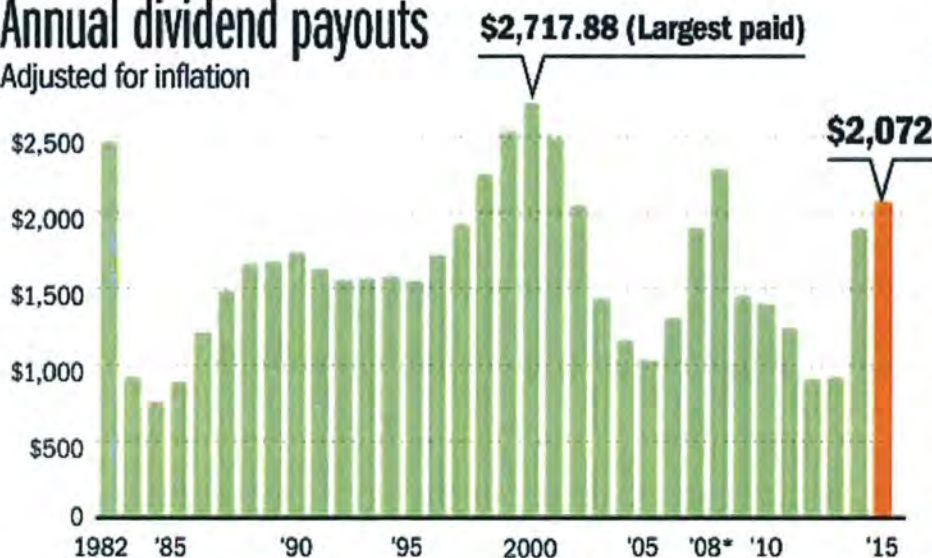
"This is really about the next generation," Walker said. "It's really about her generation."

Walker said he didn't want to continue the politicization of the annual PFD announcement, an occasion that has seen previous governors or revenue commissioners announce the check amount to much fanfare.

"It's (the dividend check), not anything that Byron or I did," Walker said.

Annual dividend payouts

Adjusted for inflation



Source: Alaska Permanent Fund Corp., United States Department of Labor * Does not include the one-time \$1,200 resource rebate
KEVIN POWELL / Alaska Dispatch News

The state will distribute the checks through direct deposit and mail beginning Thursday, Oct. 1.

Walker preceded Sommer's appearance by remembering [late Alaska Permanent Fund Corp. executive director Mike Burns](#). [3] who died in July shortly after retiring from a decade at the corporation's helm. Walker also said the state's earnings from the Permanent Fund exceeded those from oil revenues for the first time ever this year, calling it "a very unique

situation."

However, according to the fund's corporate data., fund earnings [exceeded oil revenue in 1998](#) [4].

The governor's office blamed the error on a "staff miscommunication."

Monday's announcement at the Atwood Building in downtown Anchorage was the Walker administration's first unveiling of the annual dividend. Then-Gov. Sean Parnell did the honors last year, personally announcing 2014's \$1.884 checks [5] during a fiercely contested gubernatorial race that saw Walker narrowly defeat Parnell [6] in November.

Although the dividend is famous as a supposed driver of big-ticket spending by Alaskans [7] on everything from plasma TVs to pickups, more applicants who made this year's March 31 deadline [8] are choosing to send some of their dividend cash to charity. The Pick.Click.Give. program, [9] which lets Alaskans divert any or all of their dividends to a vast array of causes, saw nearly 34,000 PFD recipients donate about \$3.4 million this year -- roughly 7,000 more people than participated in 2014, with \$700,000 more in contributions than last year.

The pool of invested oil revenue that provides for the dividend could soon be a major element on Alaska's political stage, with some lawmakers arguing that tapping the Permanent Fund [10] could help the state survive a \$3 billion budget shortfall. Using money from the fund was a key element of several hypothetical budgets presented during a Saturday forum on the state's fiscal crunch [11] at the University of Alaska Anchorage.

At Monday's announcement, Walker and Mallott said the Permanent Fund may have to be a part of state funding in the future -- meaning there will be less money to pay dividends.

"We need to replace nonrenewable oil wealth with renewable financial wealth," Mallott said. "That time is right now."

As of Sept. 18, the total value of the Permanent Fund was almost \$51.5 billion.

PFDs by the numbers:

--According to the Alaska Permanent Fund Dividend Division, more than \$23 billion has been paid out since dividends began in 1982. The division estimates that 676,379 people applied for a check in 2015. About 644,000 of those Alaskans will actually get one.

--The oldest PFD recipient is 109. The youngest: 25 babies born across the state on Dec. 31, 2014 -- just before the qualifying deadline.

-- If you received every dividend since the state started paying them, you would have collected a total of \$39,099.41, once the 2015 dividend is issued.

Source URL: <http://www.adn.com/article/20150921/2072-2015-alaska-permanent-fund-dividend-amount-announced>

Links:

[1] <http://www.adn.com/authors/874876>

[2] <http://www.adn.com/author/sean-doogan>

[3] <http://www.adn.com/article/20150716/former-alaska-permanent-fund-director-dies>

[4] <http://www.apfc.org/home/Content/aboutFund/fundHistory.cfm>

[5] <http://www.adn.com/article/20140917/years-permanent-fund-dividend-check-1884>

[6] <http://www.adn.com/article/20141115/parnell-concedes-governors-race>

[7] <http://www.adn.com/article/count-ways-alaskans-spend-their-878-permanent-fund-check>

[8] <http://www.adn.com/article/20150329/thousands-expected-rush-beat-permanent-fund-dividend-deadline>

[9] <http://www.adn.com/article/20141231/pickclickgive-program-hopes-continued-growth-pfd-applications-open>

[10] <http://www.adn.com/article/20150520/permanent-fund-solution-alaskas-budget-gridlock>

[11] <http://www.adn.com/article/20150919/alaska-fiscal-forum-marked-urgency-and-options>

Lawmaker's bill aims to guard Alaska Permanent Fund benefit

Posted: January 10, 2015 - 10:04pm

By Becky Bohrer

JUNEAU, Alaska (AP) — An Anchorage lawmaker is proposing a constitutional amendment to further protect the Alaska Permanent Fund and the dividend that most Alaskans receive simply for living here.

The proposal, from Democratic Sen. Bill Wielechowski, was among the first wave of bills and resolutions filed ahead of the upcoming legislative session and released on Friday. The legislative session begins Jan. 20.

Other proposals include another attempt to change the makeup of the Alaska Judicial Council, a bill to bar political parties from having ad space in state election pamphlets and measures that would prohibit discrimination based on an individual's sexual orientation, gender identity or expression.

Two bills would do away with daylight savings time.

Wielechowski said his proposed constitutional amendment, which would go to voters if passed by a two-thirds vote of each the House and Senate, would take a potential source of funds off the table as lawmakers grapple with deep budget deficits. But he said that's the point. There are other sources the state can consider, like setting a gross minimum oil tax to better protect the state at low oil prices, Wielechowski said.

Currently, the constitution prohibits the principal of the Permanent Fund from being spent. Wielechowski's proposal would apply to the earnings reserve account, which lawmakers have available to them and from which the dividend is currently drawn.

"It's a permanent fund. It was intended to be there for future generations, to sock away some of our resource wealth so that our kids and grandkids and great-grandkids could enjoy the resource wealth that we have," he said. "And I think as we go deeper and deeper into deficit spending we need to make sure that is protected."

The dividend also is an important part of many Alaskans' income, he said.

Sen. Pete Kelly, R-Fairbanks, is reviving his push to increase the number of non-attorney members on the Alaska Judicial Council. Kelly withdrew a similar proposal last year, saying he probably didn't have the votes needed. The council's

responsibilities include screening applicants for and nominating to the governor candidates for judicial vacancies. The council also evaluates the performance of judges and recommends to voters whether judges should be retained.

Sen. Peter Micciche, R-Soldotna, proposed SB 9, which would repeal provisions allowing political parties to have space in the state election pamphlet. A bill that would repeal those provisions also was introduced in the House.

State law allows political parties to pay for up to two pages of material to be included in the pamphlet, which includes information from the candidates and on ballot measures in a given election. One of the pages paid for by the state Republican Party in last year's general election pamphlet took aim at then-U.S. Sen. Mark Begich, saying the Democrat's record showed his loyalties were with President Barack Obama.

Begich said he had never seen something like that in the pamphlet before.

Micciche said he's a fairly loyal Republican and this isn't a party issue for him. He said many constituents felt strongly the bombardment of ads, mailings and other materials during the last election cycle was enough and the pamphlet "should be relatively politically pure."

The amount of revenue received for placement of party material was about 1 percent of the cost of producing the pamphlet, Micciche said, and in his view "not worth making voters feel somewhat jaded that even the election pamphlet has the potential to be influenced."

The anti-discrimination bills are among those that lawmakers are reviving after failed previous attempts to get them passed. Several Democrats and at least one Republican are sponsors.

Another example is a bill from Rep. Tammie Wilson, R-North Pole, who introduced a bill, vetoed last year by then-Gov. Sean Parnell, that would make confidential court records in which charges were dismissed by prosecutors, a person was acquitted of all charges filed or a person was acquitted of some charges and others were dismissed.

Parnell, in his veto last August, said a new court rule would help address privacy concerns raised by supporters of the bill, but Wilson said those rules do not go far enough. She said she planned to speak with new Gov. Bill Walker on the issue.

Panelists suggest cuts, tapping Permanent Fund earnings to solve Alaska's fiscal woes

Alaska Dispatch News

October 6, 2014 Monday

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With Alaska's annual budget deficit at more than \$1 billion and growing, and the state's income dwindling, fiscal sages and scholars gathered at an all-day forum Saturday to explore ideas for balancing the budget and staving off a brutal economic crash.

Solutions included ideas that would reduce the annual Permanent Fund dividend to help pay for state services, two days after this year's \$1,884 checks appeared in Alaskans' bank accounts.

Alaska still has plenty of money, thanks to years of healthy oil production, but it's disappearing quickly as oil production continues its recent decline. For the fiscal fix that will one day be needed, the state's \$50 billion Alaska Permanent Fund -- used mainly to cut those annual checks -- presents an obvious income source. Alaska can also count more than \$10 billion in savings accounts beyond the Permanent Fund.

But a big question is how to draw from the constitutionally protected Permanent Fund when families rely on the popular dividend checks to pay the bills.

"We don't have a financial problem, we have a political problem," said Larry Persily, a former deputy commissioner of the state Department of Revenue and one of the panelists at "Alaska's Fiscal Future," a forum organized by Alaska Common Ground and the Institute of Social and Economic Research.

"Nobody wins a campaign by talking about fiscal reality or a fiscal plan," he said. "They win by wrapping themselves in the damn flag of the Permanent Fund dividend."

More than 150 people showed up for the discussion at the Z.J. Loussac Library in Anchorage, which some hope will be a prelude to future talks in Juneau. The Legislature in recent years has had little to worry about, as gobs of cash have flowed into the treasury because oil prices were high and the state substantially taxed production at those high prices.

Past efforts to tap the annual earnings of the Permanent Fund to balance the budget have failed, most notably in 1999 when 83 percent of voters supported fully protecting their Permanent Fund payout and rejected the plan that would have used part of the earnings to pay for state services.

Voters will never agree to take money out of their own pocket and give it to government, some panelists said.

John Havelock, a former attorney general, summed it up simplest: "If you want to take my Permanent Fund dividend, you'll have to pry it from my cold, dead hands."

Better to institute taxes than to consider removing people's dividend, he said. But he suggested capping the payout -- with a formula built in to keep up with inflation -- an idea that would loosen up some funding.

Andrew Halcro, a former state lawmaker and president of the Anchorage Chamber of Commerce, likened the problem to the government feeding a gorilla peanuts for decades -- the gorilla won't be happy when it's time to take those peanuts away.

That day may come soon. With annual deficits of \$2 billion to \$3 billion looming, the discussion in the Legislature needs to happen now, not when the state has just two years of savings left, said Persily, currently the federal pipeline coordinator and a key voice in the state's efforts to build an Alaska LNG project.

The solution will have to be widespread, include reducing spending, implementing broad-based taxes, and using some of the earnings of the Permanent Fund to pay for state services, he said.

Slimming down spending on capital projects also got special attention, with some critics at a midday panel targeting what they said were wasteful projects such as the proposed Knik Arm Crossing. Talking about fiscal solutions in a later panel, Persily addressed the need to cut unnecessary capital projects. "You can't keep pouring money into turkeys and think they will become white swans," he said.

Brad Keithley, a former oil and gas attorney and now a fiscal activist calling for lower spending, said lawmakers need to make heavy cuts to create a sustainable budget that ensures future generations aren't bearing the burden of today's deficits.

The state spent \$7.2 billion in 2014, more than the \$5.5 billion considered sustainable by ISER, he said. Because the state has not met that "sustainable" target and has continued to spend its savings, the new target has fallen to \$5 billion or lower.

ISER economist Scott Goldsmith urged growing the Permanent Fund as much as possible for the day its earnings must be tapped to help pay for services, though he said the portion of the earnings used to inflation-proof the fund should not be spent. His idea includes moving a chunk of money from one of the state's savings accounts, the Constitutional Budget Reserve -- reported to be \$10 billion at the end of August --- into the Permanent Fund.

That also means saving the more than \$10 million that is left over after the Permanent Fund is inflation-proofed and dividends are paid out. According to economist and journalist Gregg Erickson, those extra funds are quietly spent by lawmakers.

Erickson said if any of the earnings must be spent, the best option is using the more than \$1 billion now used for inflation-proofing to help pay for state services.

Pat Galvin, a former Revenue commissioner and currently a vice president for oil explorer Great Bear Petroleum, countered the grim mood and said his solutions are based on the idea that "good days are coming" rather than the "gloomy descent into chaos" some anticipate.

He said very little of the oil on the North Slope and in the offshore Arctic Ocean has been tapped. Also, the North Slope is a "woefully" unexplored basin compared to other oil provinces, so the known reserves might grow. Great Bear plans to drill this winter in an effort to one day produce some of those untapped resources.

Calling for prioritized spending with an emphasis on education, Galvin suggested a proposal similar to one presented by panelist and accountant Dan Dickinson.

Earnings from oil and gas revenue should be plowed into the Constitutional Budget Reserve, creating a fund that lawmakers can draw from, and giving them a limited "allowance" to pay for state services, he said. If needed, some of the earnings of the Permanent Fund could also contribute. The idea could bring stability to spending that in the past has seesawed with income swings and fluctuating oil prices.

Keithley said he agrees the North Slope has huge potential, but he's not willing to reduce today's savings and bet the farm on future discoveries. Any number of things could threaten the oil industry, including lower oil prices, federal regulatory hurdles and who knows what else, said Keithley.

"We have the responsibility to pass on as good a future to our kids as we were given, and we need to act responsibly," he said.

\$1,884 will be third-highest PFD payment

Anchorage Daily News (Alaska)

September 18, 2014 Thursday, FINAL EDITION

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The number is \$1,884. That's the amount of this year's Permanent Fund dividend as announced by Gov. Sean Parnell on Wednesday in downtown Anchorage.

"I'm frankly grateful for the Permanent Fund dividend at whatever amount, and I know Alaskans are too, as they save it or spend it for their own needs," Parnell said.

The governor made the announcement in a small conference room at the Atwood building in front of a crowd of dozens of media and about 100 state employees.

The 2014 dividend will be the third-largest check issued since the yearly distributions to Alaska residents began in 1982. The Alaska Permanent Fund Dividend Division said checks and direct deposits will go out on Oct. 2.

PFD BY THE NUMBERS

More than 641,000 people are expected to receive the PFD check this year, according to the Alaska Department of Revenue. Parnell said 2014 was a record year for the Pick. Click. Give. campaign, which allows PFD recipients to dedicate a portion of their check to charities across the state. For 2014, 26,850 Alaskans donated to 511 organizations through Pick. Click. Give., making a total of 44,693 donations equaling a record \$2.8 million.

The oldest dividend recipient is 109 years old, according to the governor.

The 2014 dividend is much larger than last year's check of \$900. The reason: The 2009 fiscal year -- in which dividend values decreased as the nation's economy continued to stagnate -- dropped off the five-year rolling average of the Permanent Fund's performance used to calculate the dividend. With stock and real estate markets continuing to show strong returns, all indications are that next year's check could be even larger.

Parnell said that the size of the Permanent Fund -- from which earnings are used to pay out annual dividends -- has jumped dramatically since 2009. The Department of Revenue puts the current Permanent Fund value at \$51 billion, a 71 percent increase over its value five years ago.

The 2014 check is \$46 less than the \$1,930 PFD predicted by Alaska Dispatch News in late August.

The PFD program started with a \$1,000 check in 1982, an amount that dropped off in following years before it began climbing steadily, with intervening hiccups, during the course of the next three decades. The largest Alaska Permanent Fund Dividend check came in 2008, the year before the recession began to impact the Permanent Fund, when then-Gov. Sarah Palin announced that Alaskans would receive \$2,069. That year's check also came with a \$1,200 "energy rebate."

The smallest check arrived two years after the PFD program began -- 1984's checks came to \$331.29. In its 33 years of paying qualifying Alaskans, the Permanent Fund dividend program has distributed a total of \$21.9 billion. An Alaskan who has received a check each year since the beginning of the program would have received a total more than \$37,000 in dividends.

"The other governors look at us and look at our reserves -- the Permanent Fund, but our budget reserves too -- and the financial institutions in New York told me, '49 other states would love to have your challenges,' " Parnell said. "So Alaskan finances are on a secure financial foundation, and that's going to continue."

SJR1 Public Testimony to SSTA
3/10/16

Daniel George

Subject: FW: SJR1

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

From: Joel Randrup [mailto:jkrandrup@gci.net]
Sent: Friday, March 04, 2016 6:56 AM
To: Sen. Bill Wielechowski <Sen.Bill.Wielechowski@akleg.gov>
Subject: SJR1

Dear Senator Wielechowski,

Thank you for introducing your bill to protect the dividend portion of the permanent fund earnings. I am concerned about the negative economic effect that reduction of the earnings account will have on the state. I am a commercial fisherman so I understand that trying to balance a budget on a commodity is a very difficult task. If I overspend I have to cut back and I believe that the state has both overspent and not saved enough for the lean times. Unfortunately this will mean more cuts to government and the pain that will go with it. I hope Dr. Goldsmiths idea is looked into more because it seems like the most sustainable concept while the other three bills presented to spend the ERA are not sustainable with regards to the PF itself.

Thank you,
Joel Randrup
Petersburg, AK

Daniel George

From: Jenny Mahlen <jmahlen@fnbalaska.com>
Sent: Thursday, March 03, 2016 8:58 AM
To: Senate State Affairs
Subject: SJR1

I am not in support of guaranteeing a permanent fund dividend when the State of Alaska is out of money. This is our rainy day account – and although I support increased cuts to the budget to get to a sustainable level (which we are not there yet), I do NOT agree with paying dividends to all residents being added to the constitution.

Thank you.

Jenny Mahlen - Vice President

Golden Valley Branch

NMLS #685949



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www.FNBAlaska.com

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Public Comment: Submitted to the FBX LIO

03/04/2016

Subject: SJR 1

I've lived here 44 years and helped establish the Permanent Fund Dividend. The purpose was to establish an economic floor for the entire state and to benefit all residents fairly and equally.

83% voted NO on raiding the PFD once and we still mean NO. The PFD lays an economic floor which helps the people of Alaska ride out the boom and bust cycles of resource development.

The permanent fund dividend is effective. Don't mess with what works. No matter what.

We need to have a vote of the people.

Jim Weidner

HD 6: FBX

488-6366

Daniel George

From: Delice Alexander <whaleislanddrumbeat@yahoo.com>
Sent: Thursday, March 03, 2016 7:11 PM
To: Senate State Affairs
Subject: Fw: Investments of the ALASKA PERMANENT FUND CORPORATION

Comments via teleconference: Thank you Sen. Wielechowski for the plan to protect the Permanent Fund Dividend.

But we can do better, invest in better way of life...

After reading all these pages, seeing only one Real Estate investment in Alaska, in Juneau, the Goldbelt Place. No we can do better...

DUMP ALL HOLDINGS, ALL INVESTMENTS if they do not make at least a 5% profit at the end of the year...

DUMP THE LOOSERS!!!! What is the INVESTMENT SCHEME of the Corporation board/employees? What amount of profit do they have to maintain to be invested in? or do we just give money away... the look of that report means we are philanthropological foundation for the oil industry and their employees and partners...

I'm not sure if you've read my email on this, but please include these comments in the record.

I never thought that our money would be invested like this. I do not consent, I protest.

On Thursday, March 3, 2016 3:18 PM, Delice Alexander <whaleislanddrumbeat@yahoo.com> wrote:

Dear Legislative Representatives for Alaska state,
Upon much reviewing of the Alaska Permanent Fund Corporations reports on:
www.apfc.org/home/content/investments

I was shocked and then very sad to read these many many reports I sent to the printer!

- Stock holdings across the Planet;
- Investments in Oil Companies across the Planet, Oil Service Companies across the Planet
- Real Estate Holdings across the states united and in foreign countries and ONLY ONE building: in Juneau, the Goldbelt Place;
- and the 175 pages of 'HOLDINGS OF PUBLICLY TRADED COMPANIES' across the planet...

I do not like funding terrorism, the terrorist states, the oil companies destroying these other nations, investments in warring against other Indigenous Nations....

I realized this morning that we are funding the terror, the industrial military complex across this planet, companies that are all over the internet on the destruction of the forests, the acidification of the oceans-- we are fish, hunting and gathering society and will protect and promote our rights whenever and wherever possible. The Permanent Fund Corporation activities of investing, creating conditions for species to be placed on the Endangered Species List undercuts our food security and other nations and peoples that rely, live off of foods and animals that need clean water and clean air everyday.

I am not going to fill out an application for the PFD without all proper dissenting phrases. I do not want our resources/investments to be a part of the chaos that those Haliburton companies et al are being paid out of our resource extractions. This is not what the investments of Alaska should look like.

I do not respect, nor appreciate any hands that have been involved in that destruction of lands and territories, investing in weather manipulation, involved in the oil companies that have known since the 70s of what their industry does to the ice, melting the glaciers... NO to GMO and Weather Modification investments!

I am apologetic to all the countries, the nations, the peoples that our resource money has funded to create this chaos we're experiencing. How many companies are tied to the Republican obstructionists and their family businesses?

May the Lord Almighty forgive me for not speaking up,
nor researching, nor objecting or protesting sooner
on this horrible mess that our resources,
the legislatively approved budgets, that include the gross amount of yearly tax incentives to the oil and gas and coal companies, the policy of no taxes on oil and gas production.
Our investments instead have created, promoted crimes against humanity across the planet..

OVER \$44 billion plus all the tax incentives, the tax breaks have done to this world... the fear, the damages, the harms this money has created ...

I do not approve of any funds invested in the PHARMA INDUSTRY, the labs that we know are making toxins that cause health problems. This is not a pretty picture of all the labs, the chemicals that the AK Permanent Fund corporation has paid, supported, promoted into our peoples (pharma meds included) and other peoples of Earth Mother. I do not approve of all these Investments in 'the war machine' or the pharma industry.
How many military employees are included in the distributions of these annual PFD checks, those who enter Alaska from OTHER STATES, and will return to their STATE when their OVERSEAS DUTY is completed??? They're intent is to return home ... right?

I reserve and preserve all my rights.

Delice Calcote
PO Box 248
Sutton, alaska
99674

Daniel George

From: Garry Hutchison <GHutchison@kshcpa.com>
Sent: Friday, March 04, 2016 2:27 PM
To: Senate State Affairs
Subject: Testimony on SJR 1

I would like to have the record reflect my objection to SJR 1, a bill to put in the constitution a guarantee of the P fund dividend.

As a lifelong private sector Alaskan, who has raised a family here, put them through public education and the University of Alaska, I am all too aware of the uncertainty of our economy, and the importance of providing opportunity for the next generation.

Locking up the P fund will serve the retired, and those who have come to Alaska to live in the woods and are generally self-serving and non-productive.

The State of Alaska was built by working men and women who invested their lives in making this a better State, not from those who came her to "take". Alaska's future and the next generation deserves the same opportunity our generation has experienced.

The P fund earnings may be needed to keep the State viable, not one knows the future. So locking it up to serve the interest of the non-working is absurd.

It wasn't established for that.

Garry Hutchison
140 Falcon Drive
Fairbanks, Alaska 99712

Daniel George

From: Miller, Mike <Mike.Miller@gcinc.com>
Sent: Wednesday, March 02, 2016 3:32 PM
To: Senate State Affairs
Subject: SJR1

Senate State Affairs Committee:

I oppose this resolution since the Permanent Fund was originally set up to provide for the costs of State government when the oil ran out. That is now. The PFD is a side benefit.

Mike Miller
9411 Kylie Circle
Anchorage, AK 99502

Sent from my iPad

Daniel George

From: Ronald Johnson <rajohnson@alaska.edu>
Sent: Friday, March 04, 2016 2:57 PM
To: Senate State Affairs
Subject: sjr1

I am opposed to SJR1. The last thing we need now with our ~ \$ 4 B deficit is to further limit our options for closing the gap. Having a \$ 1K dividend, for example, instead of \$ 2 K would free up ~ \$ 700 M that could be used to sustain state services.

I support Walker's plan or McGuire's plan to use some of the PF earnings to fund state services plus reducing the operating budget paid out of general funds.

--

Ron Johnson
Professor Emeritus
Mechanical and Environmental Engineering
Univ of Alaska Fairbanks

2113 Jack St
Fairbanks, AK 99709