

HB

187

<TARGET><BILL>HB 187</BILL><SUBJECT>HB
187</SUBJECT><COMM>HSTA30</COMM></TARGET>

Alaska State Legislature
House of Representatives
Representative Tammie Wilson

Interim
301 Santa Claus Lane 3B
North Pole, Alaska 99705
Phone - (907) 451-2723

Session
State Capitol Rm 422
Juneau, AK 99801
Phone - (907) 465-4797



Rep.Tammie.Wilson@akleg.gov

To: The Honorable Kreiss-Tomkins

Fr: Representative Tammie Wilson

Re: Hearing Request HB 187

Date: March 24, 2017

Dear Chair Kreiss-Tomkins,

I respectfully request HB 187 be heard in the House State Affairs Committee at your earliest convenience. My staff on this piece of legislation is Barbara Barnes. She can be reached at (907) 465-4797.

Sincerely,

Tammie

Rep. Tammie Wilson

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SPONSOR STATEMENT
HB 187

“An Act relating to the Alaska permanent fund; relating to the earnings of the permanent fund; and providing for an effective date.”

HB 187 protects the Permanent Fund and uses the Earnings Reserve Account. Fifty percent of the utilized amount goes **first** for payment of the dividend, then fifty percent for essential state services. The Alaska Permanent Fund Corporation has provided data showing that the PFD transfer amount and the ERA both grow over 10 years using this approach.

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

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

HB 187 achieves the goal of implementing Governor Hammond’s original 50/50 plan. As Governor Hammond said, “Once the ‘money wells’ were pumping, each year one-half of the account’s earnings would be dispersed among Alaska residents . . . The other half of the earnings could be used for essential government services”. I ask for your support on HB 187.

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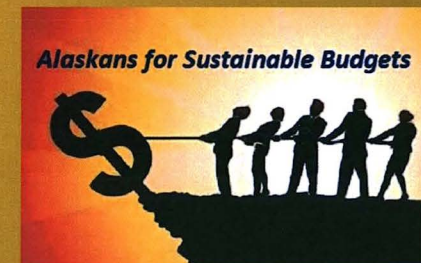
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I ask for your support on HB 187.

Implementing Governor Hammond's "50/50" Plan

Alliance Fairbanks Chapter
December 7, 2016

Brad Keithley (bgkeithley.com)
Founder, Alaskans for Sustainable Budgets



Agenda

- *What is the objective of the Permanent Fund*
- *How does the Permanent Fund work*
- *How would 50/50 work*
- *Why maintaining the PFD at 50% of earnings is important*

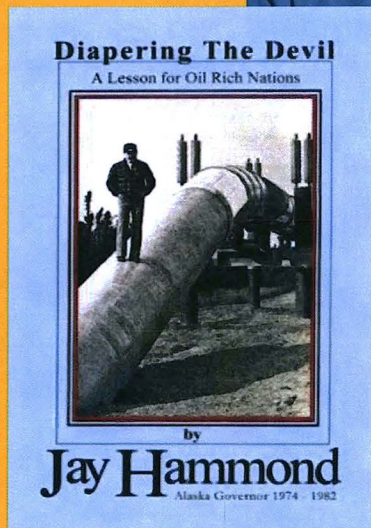
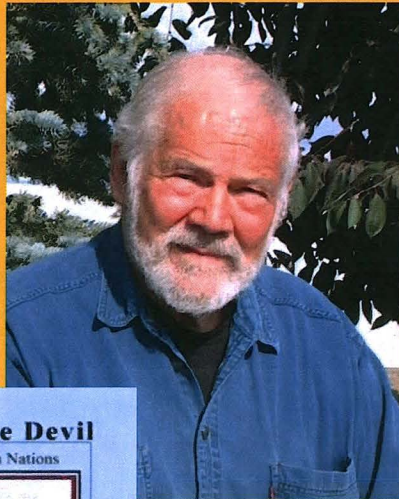
Available at:

<http://www.slideshare.net/bgkeithley>

and <http://bgkeithley.com>

What is the objective of the Permanent Fund

Governor Jay Hammond



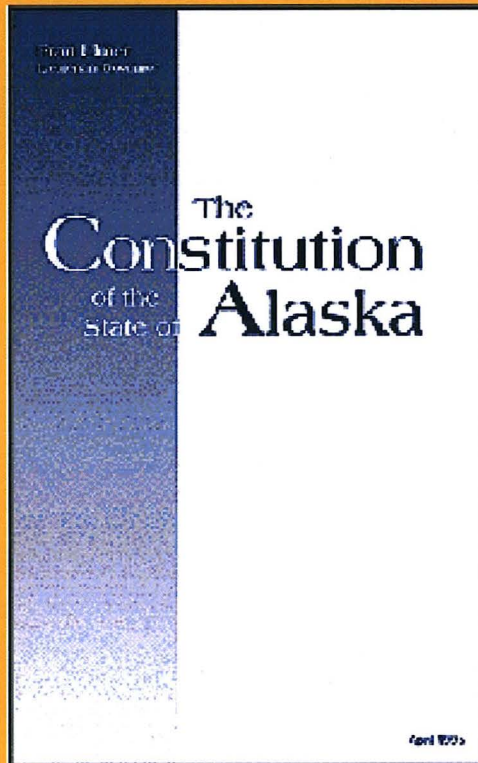
"I wanted to transform oil wells pumping oil for a finite period into money wells pumping money for infinity.

... [Once the "money wells" were pumping,] each year one-half of the account's earnings would be dispersed among Alaska residents ... The other half of the earnings could be used for essential government services."

-- Diapering the Devil, at 15, 19

How does the Permanent Fund work

Alaska Constitution, Art 9 §15



“At least twenty-five percent of all mineral lease rentals ... received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.”

A One Stop Information Shop

APFC
ALASKA PERMANENT FUND CORPORATION

about the fund | about the apfc | investments | publications | careers | dividend | contact us | search

fund news >> news archive

fund market value
unaudited, as of Oct 31, 2016

US Bonds	\$7,155,000,000
US Stocks	\$6,370,700,000
Non US Stocks	\$9,368,800,000
Global Stocks	\$6,731,800,000
Non-US Bonds	\$1,184,400,000
Real Estate	\$6,200,000,000
Cash	\$3,151,100,000
Alternatives	\$14,298,800,000
TOTAL	\$54,460,600,000

target asset allocation
by risk factor, 2013

Cash and interest rates 6%
Company exposure 66%
Real assets 16%
Special opportunities 20%

current reports

- Monthly financial statement
- Monthly performance
- Annual report
- History & projections**
- Historical returns
- Newspaper insert

board meetings

Dec	06-07, 2016	Anchorage
Feb	22-23, 2017	Juneau

40 years of Fortitude

APFC Board Approves Strategic 5 Year Plan and Investment Policy Updates

investments/assetAllocation2009.cfm

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of July 31, 2016

(Projections called for years, and are based on best available information as of 7/31/16)

Fiscal Year	FY End Balance	FY 4th Non-spendable Balance	ACF Net Income	Statutory Net Income	Distributions of Statutory Net Income				Gen Fund	Assigned Fund Balance		Unrealized Gain (Loss)	Net Change	FY 4th Assigned Balance	FY 4th Total Balance
					Dividends	Ret Profund	Other	Retained		Net	FY End				
07	6,197	33,604	38,096	34,613	15,359	14,596	338	0	4,132	0	(1,194)	4,132	4,132	77,071	32,027
08	2,064	31,213	(1,121)	2,985	1,291	590	0	15	4,969	352	652	1,189	5,373	68	86,544
09	(1,449)	29,496	(6,194)	(2,589)	878	1,144	0	0	461	(177)	(27)	(6,165)	426	69	26,917
10	421	32,045	5,517	1,306	550	0	0	0	1,104	37	116	790	1,210	19	14,255
11	4,720	32,837	6,817	2,145	807	583	13	13	2,016	776	297	1,090	2,360	11	48,140
12	3,220	30,253	(160)	1,568	605	1,078	17	1,905	(113)	115	(277)	2,051	17	2	48,333
13	4,124	40,900	4,114	2,920	604	743	30	3,407	362	567	1,973	4,054	13	11	44,955
14	7,062	45,902	5,503	1,531	1,235	586	12	5,217	688	975	2,150	6,211	18	18	51,214
15	4,473	45,430	2,104	2,907	1,373	624	24	5,117	41	1,016	951	2,142	15	15	52,060
16	4,730	44,109	592	2,746	1,096	0	18	7,529	(83)	1,405	5,720	36	36	52,269	
17	1,847	41,982	856	460	2,752	891	22	4,181	(108)	223	(2,264)	4,972	17	17	52,515
18	2,569	41,729	2,014	993	1,310	893	22	4,390	(86)	929	(1,314)	5,045	17	17	53,229
19	5,487	48,027	3,532	2,648	1,492	893	22	7,913	148	1,067	409	8,928	17	17	55,007
20	5,139	50,000	3,475	4,127	1,568	894	22	7,659	165	1,413	1,187	8,469	17	17	55,243
21	4,996	50,913	3,604	2,763	1,735	910	22	8,203	165	1,231	533	9,514	17	17	55,437
22	6,311	51,117	4,400	3,100	1,595	1,401	22	8,219	195	1,426	721	10,245	18	18	60,156
23	16,110	58,795	4,619	3,429	1,671	1,650	22	9,414	222	1,640	857	11,140	20	20	64,024
24	11,014	60,490	4,056	3,853	1,793	1,026	22	10,106	239	1,887	891	11,893	21	21	66,007
25	11,981	62,121	5,007	3,024	1,835	1,110	22	10,811	263	2,159	968	12,963	22	22	68,000
26	12,812	64,892	5,314	4,093	1,921	1,140	22	14,105	379	3,483	1,132	12,646	26	26	69,018
27			56,454	43,226	20,079	11,960	282		3,491		14,678				

Notes related to financial history and projections FY1977 - FY2026:

- Appropriations include special general fund, realized earnings, and other miscellaneous appropriation transfers into principal.
- Dedicated State Revenues in current and future fiscal years are based on the Spring 2016 Department of Revenue forecast.
- Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP). Statutory net income is accounting net income, excluding any unrealized gains and losses on investments, and excluding earnings of the Alaska Capital Income Fund (ACIF) (see Note 4, et al. principal).
- FY05 and forward, Annette Hess, et al. annual net positive settlement earnings are transferred to Alaska Capital Income Fund (ACIF) per AS 37.13.1456(d).
- Beginning in FY08, based on legal opinion, unrealized gains and losses were allocated between the non-spendable fund balance (principal) and the assigned fund balance (earnings reserve). Prior to FY08, all unrealized gains and losses were included with principal.
- Current year returns and inflation are based on 2016 Collin capital market assumptions.
- Future returns are based on 2016 Collin capital market assumptions and median expected returns (the mid case). Actual results will vary.
- During FY 2008, the ACIF realized losses of \$33.3 million, which are excluded from statutory net income, and are included in the ending unreserved balance as a deficit account. During FY 2016 and FY 2011, the ACIF had realized income of \$20.8 and \$25.3 million, which is excluded from statutory net income, and used to reduce the FY 2008 deficit.
- The statutory inflation calculation for FY 2010 was -35%, therefore, there was no inflation proofing transfer during FY 2010.
- FY17-07 includes special appropriations to principal of \$3.7 million.

Income year-to-date as of July 31, 2016

	FY16 Statutory net income
Interest, dividends, real estate & other income	\$ 88.5
Realized gains (losses) on the sale of invested assets	66.2
Less operating exp / Legal Appropriations	(21.0)
Less AK Capital Inc. Fund committed realized earnings	(32.9)
Statutory net income (loss)	\$ 100.8

	FY16 Accounting (GAAP) net income
Statutory net income (loss)	\$ 100.8
Unrealized gains (losses) on invested assets	1,083.8
AK Capital Income Fund committed realized earnings	0.0
Accounting (GAAP) net income (loss)	\$ 1,184.6

PERFORMANCE SUMMARY

	Current Month	Last 3 Months	Fiscal Y-T-D	Calendar Y-T-D	Last 12 Months	Last 3 Years	Last 6 Years
Domestic Fixed Income	1.68%	2.47%	1.90%	1.64%	5.64%	3.88%	3.88%
Non-Domestic Fixed Income	0.44%	0.44%	0.44%	0.44%	7.31%	4.04%	3.81%
Public and Private Equity	1.95%	N/A	N/A	3.15%	2.57%	5.82%	7.15%
Domestic Equities	4.88%	0.66%	4.88%	7.02%	3.15%	10.31%	12.75%
Non-Domestic Equities	3.40%	2.99%	3.40%	6.82%	-2.00%	1.05%	1.10%
Global Equities	4.27%	4.27%	4.27%	4.27%	-1.11%	6.25%	7.89%
Real Estate	2.54%	0.34%	2.54%	15.39%	17.09%	13.49%	12.19%
Private Equity	N/A	N/A	N/A	6.40%	10.80%	17.35%	15.84%
Absolute Return	N/A	0.84%	N/A	-0.57%	-2.58%	2.84%	3.51%
Infrastructure	N/A	1.81%	N/A	0.79%	14.29%	13.71%	8.47%
Private CIOs/Real Return Mandate	N/A	-0.15%	N/A	-1.83%	1.78%	N/A	N/A
True Special Opportunity	N/A	-0.25%	N/A	-11.09%	-17.69%	N/A	N/A
Total Fund	2.25%	3.88%	2.25%	3.88%	3.15%	7.04%	6.80%
Total Fund Return Objective	0.20%	1.70%	0.20%	0.60%	8.64%	6.27%	

Dec 7, 2016

Alaskans for Sustainable Budgets

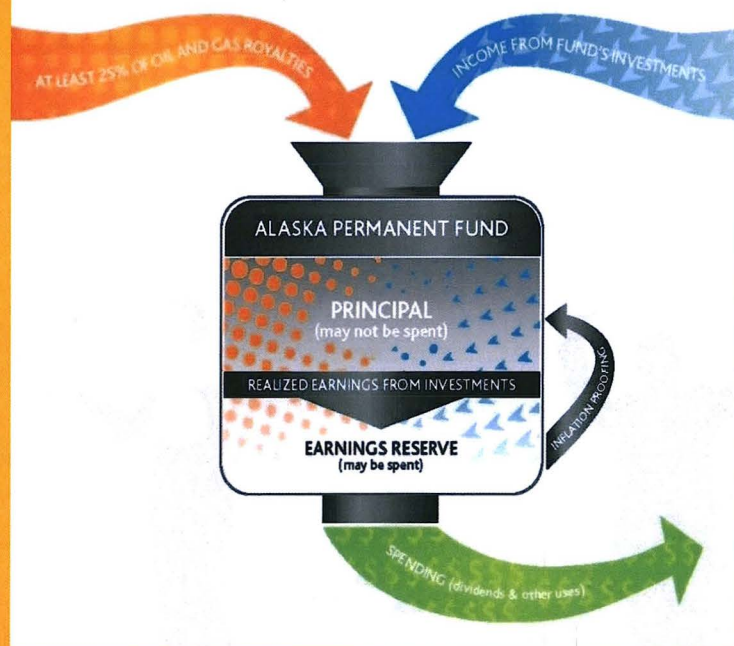
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A little easier on the eyes

How the Permanent Fund Works

The Permanent Fund has two parts: principal and income. The principal is the permanent part of the Permanent Fund. It can be invested, but it cannot be spent without a vote of the people.

Income is money received from the investment of the principal and from the reinvestment of undistributed earnings. Income can be spent by the



- Permanent Fund principal (corpus)
 - 25% of mineral revenues
 - Unrealized gains (retained in fund)
- Earnings
 - Statutory net income (SNI) (i.e., realized cash)

Where do the earnings (SNI) go

Once the “money wells” are pumping, each year:

“... **one-half** of the account’s earnings would be dispersed among Alaska residents”

- Done: PFD

“.... **The other half** of the earnings ...”

- **NOT** “for essential government services”
- **Instead** “inflation proofing” and “earnings reserve”

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of July 31, 2016

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

Acct. Net Income (1)	Statutory Net Income (3)	Dividends	Distributions of Statutory Net Income		Assigned Fund Balance Gen. Fund / Other (4)	FY-End Balance Realized
			Inf-Proofing / Other (10)	Statutory Net Income		
39,096	34,618	15,359	14,506	388	4,132	
(1,372)	2,938	1,293	808	33	4,969	
(6,394)	(2,509) (8)	875	1,144	0 (8)	441	
3,517	1,590 (8)	858	0 (9)	0 (8)	1,194	
6,812	2,143 (8)	801	533	13 (8)	2,016	
(100)	1,568	605	1,073	17	1,905	
4,314 (6)	2,928	604	743	30	3,487	
6,848	3,531	1,235	546	32	5,237	
2,384	2,907	1,373	624	24	6,147	
398	2,198	696	0	18	7,649	
465	168	1,232	893	22	4,191	
2,014	993	1,318	893	22	4,930	
3,532	2,648	1,492	893	22	7,913	
5,425	3,372	1,568	893	22	7,059	
6,985	4,853	1,724	893	22	8,384	
3,684	2,763	1,475	918	22	8,283	
3,849	2,889	1,408	945	22	8,819	
4,033	3,028	1,420	973	22	9,454	
4,229	3,177	1,523	1,002	22	10,106	
4,430	3,330	1,595	1,030	22	10,811	
4,639	3,489	1,671	1,059	22	11,569	
4,856	3,653	1,751	1,089	22	12,383	
5,081	3,824	1,835	1,118	22	13,253	
5,314	4,001	1,921	1,148	22	14,185	

FY 2017 Activity & Balances

State of Alaska Fiscal Summary-- FY16 and FY17 (Part 2) (\$ millions)

Approximate Balances of Reserve Accounts

	FY16				FY17			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund Principal -- Market Value (no appropriations allowed)	45,638.0	(3,388.0)	-	42,250.0	42,250.0	915.0	-	43,165.0
Undesignated Reserves	17,625.1	1,615.5	5,310.6	13,930.0	13,930.0	2,730.8	3,886.2	12,774.6
Total Excluding Permanent Fund	10,463.0	85.5	3,920.6	6,627.9	6,627.9	115.8	3,168.5	3,575.2
Constitutional Budget Reserve Fund (cash)	10,153.8	85.5	3,920.6	6,318.7	6,318.7	115.8	3,168.5	3,265.9
Statutory Budget Reserve Fund	288.0	-	-	288.0	288.0	-	-	288.0
Alaska Housing Capital Corporation Fund	21.3	-	-	21.3	21.3	-	-	21.3
Permanent Fund Earnings Reserve Account	7,162.1	1,530.0	1,390.0	7,302.1	7,302.1	2,615.0	717.7	9,199.5
Designated Reserves	1,761.5	1,192.2	1,413.7	1,540.0	1,540.0	1,381.6	1,502.7	1,418.9
Alaska Capital Income Fund	27.1	17.0	43.2	0.8	0.8	37.7	45.5	(7.0)
Alaska Higher Education Investment Fund	458.7	4.0	24.0	438.6	438.6	22.8	113.0	348.4
Public Education Fund	134.5	1,113.0	1,247.5	0.0	0.0	1,249.3	1,249.3	0.0
Community Assistance Fund	172.0	-	57.3	114.7	114.7	13.6	38.2	90.0
Power Cost Equalization Endowment	969.3	58.2	41.7	985.8	985.8	58.2	56.7	987.4
Reserves (Excluding Permanent Fund Principal)	19,386.7	2,807.7	6,724.4	15,470.0	15,470.0	4,112.4	5,388.8	14,193.5
Unrestricted General Fund Appropriations				5,213.4				4,370.7
Years of Reserves (Reserves/UGF Appropriations)				2.97				3.25

The key to unlocking the “Other half”: So-called “Inflation proofing”

*... [Once the “money wells” were pumping,] **The other half** of the earnings could be used for essential government services.”*

The size of the “other half” depends on “Inflation Proofing”		
	<i>Without IP</i>	<i>With IP</i>
FY 2018	\$1.5 B	\$0.4 B
FY 2019	\$1.5 B	\$0.5 B
FY 2020	\$1.6 B	\$0.6 B
FY 2021	\$1.6 B	\$0.6 B
FY 2022	\$1.7 B	\$0.7 B

*Is separate
"Inflation Proofing" necessary*

Permanent Fund Corporation Executive Dir. Angela Rodell, minutes of Feb. 16, 2016 testimony before Senate State Affairs (<https://goo.gl/AOLwbr>):

*"MS. RODELL explained that ... [t]he current Permanent Fund asset allocation consists of 80 percent self-inflation proofing funds. Their market value already incorporates the concept of inflation. **Inflation proofing as designed forty years ago is not as necessary today.***

*MS. RODELL noted that ... [i]nflation proofing ... **is no longer necessary for preserving the purchasing power [i.e., to protect against inflation].**"*

*Is separate
"Inflation Proofing" necessary*

*Sen. Lesil McGuire, minutes of Feb. 16, 2016
testimony before HFIN (<https://goo.gl/MgpCpa>):*

*"Senator McGuire ... relayed that Angela Rodell,
Executive Director, Alaska Permanent Fund
Corporation reported that ... **roughly 80 percent
of all of the funds' assets self-inflation proof.** ...
She announced that the yearly budget line item
of between \$703 million to \$1 billion to inflation
proof the fund was **'in effect, a direct injection of
new capital into the corpus.'**"*

The goal of “Implementing 50/50”

Achieving Governor Hammond’s original purpose:

*... [Once the “money wells” were pumping,] each year **one-half** of the account’s earnings would be dispersed among Alaska residents **The other half of the earnings could be used for essential government services.**”*

How would 50/50 work

Changes the revenue line ...

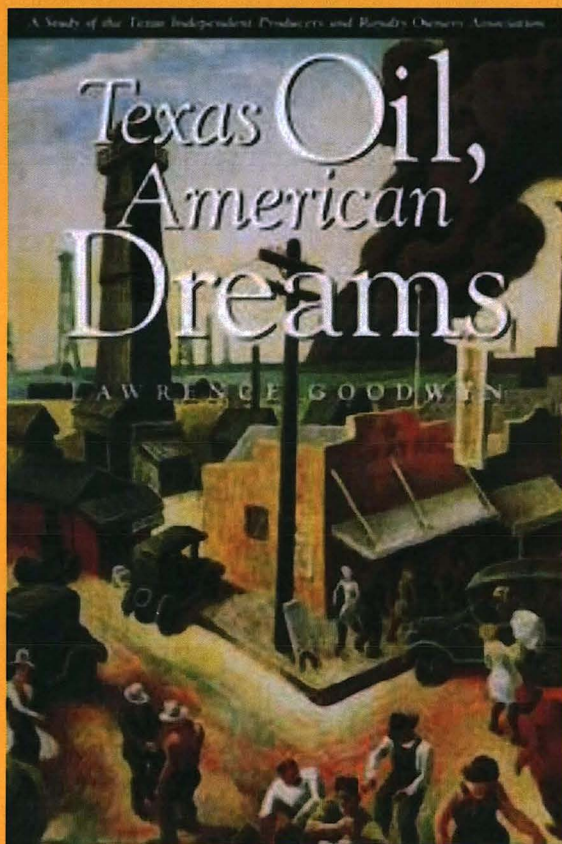
(\$B) (Spring RSB, PFC)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Oil	\$0.787	\$0.872	\$0.938	\$1.007	\$1.042
Other	\$0.559	\$0.573	\$0.584	\$0.598	\$0.609
Total	\$1.346	\$1.445	\$1.522	\$1.605	\$1.651
<i>“Other Half”</i>	\$1.539	\$1.530	\$1.603	\$1.769	\$1.896
<i>Revised Rev Total</i>	\$2.885	\$2.975	\$3.125	\$3.374	\$3.547

... and the deficit

(\$B) (Spring RSB, PFC)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projected deficit	\$(3.311)	\$(3.218)	\$(3.063)	\$(3.067)	\$(3.043)
<i>"Other half"</i>	\$ 1.539	\$ 1.530	\$ 1.603	\$ 1.769	\$ 1.896
Revised Deficit	\$(1.772)	\$(1.688)	\$(1.460)	\$(1.298)	\$(1.147)

*Why is it important to keep the
PFD at 50%*

Economic role of the PFD



Effect: Creates a private Alaska economy more like Texas than Angola

- Under Statehood Act, Alaska can't privatize mineral interest
- Thus, absent PFD, Alaska private economy receives *no* oil & gas royalties – all goes to the government
- Cutting the PFD moves toward Angola, away from Texas

Cutting the PFD hurts the overall Alaska economy

SHORT-RUN ECONOMIC IMPACTS OF ALASKA FISCAL OPTIONS

By
Gunnar Knapp, Matthew Berman, and Mouhcine Guettabi
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University of Alaska Anchorage
3211 Providence Drive
Anchorage, Alaska 99508

March 30, 2016

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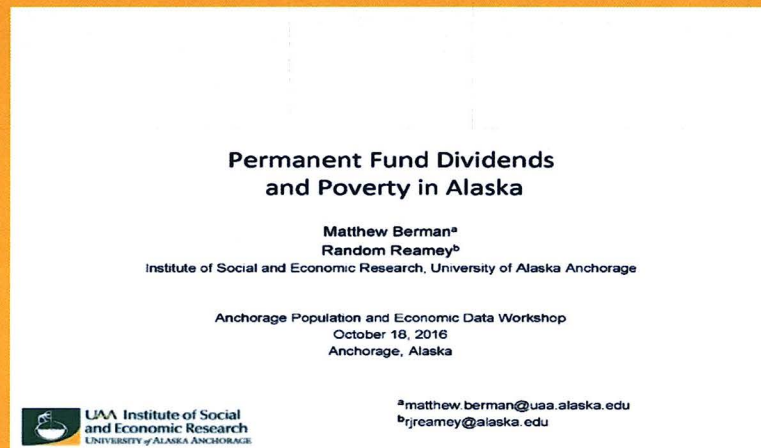
UAA Institute of Social
and Economic Research
UNIVERSITY of ALASKA ANCHORAGE

- Not all fiscal options have the same impact on the overall economy – some worse than others
- Cutting the PFD is the has the **“largest adverse impact on the [overall Alaska] economy”** of all the state’s fiscal options.

*Short-Run Economic Impacts of
Alaska Fiscal Options, at A-12, A-
15 (March 2016)*

... and increases poverty and income disparity

Poverty



“Reducing the PFD by \$1,000 will likely increase the number of Alaskans below the poverty line by 12-15,000 (2% of Alaskans).”

Income Disparity

‘For every \$100 million raised with PFD cuts, the ten percent of Alaskan households with the lowest income lose 3.3 percent of per-capita disposable income, compared with only 0.1 percent among households with the highest incomes.’

Under SB 128 (\$650MM+ PFD cut):

- Lowest ten percent would lose more than a 20% of their annual disposable income immediately,***
- Wealthiest ten percent will lose less than 1% of theirs.***

Conclusion

- The earnings stream from the PF is **not** being used to its maximum potential to help solve the fiscal crisis
 - *Hammond: “The other half of the earnings could be used for essential government services.”*
- **Fully** implementing Governor Hammond’s “50/50” plan helps balance the budget and avoids the significant adverse economic effects of cutting the PFD (or other tax measures)

A few fiscal facts ...

How much is currently in the ER/CBR/SBR and PF Corpus?

Currently projected balances as of the beginning of FY 2018 (July 1, 2017): \$9.2B (ERA), \$3.3B (CBR), \$300M (SBR), \$43B (PF corpus) (LegFinance, <https://goo.gl/u1No6p> at 3).

How much have we accrued in unpaid Oil & Gas tax credits?

According to the Administration's most recent estimate: \$1.175B (FY 2018), with another \$285M in FY 2019 and continuing at \$150-200 thereafter (DOR, <https://goo.gl/J05la1> at 2).

How much are current revenues?

According to most recent projections: Traditional UGF: \$1.25B (FY 2017), \$1.35B (FY 2018) (DOR, <https://goo.gl/uDwqYk> at 8). "Other 50%": \$1.3B (FY 2017), \$1.3B (FY 2018) (PFC, <https://goo.gl/UiBbKh>)

How much revenue would broad based taxes raise?

According to the Administration's estimates: Income tax: \$200M (6% of fed liability; DOR, <https://goo.gl/evnpVB> at 11), Sales tax: \$418M (3%, DOR, <https://goo.gl/GZ223E> at 6).