

SB

21

<TARGET><BILL>SB 21</BILL><SUBJECT>SB
21</SUBJECT><COMM></COMM></TARGET>

ALASKA STATE LEGISLATURE

SESSION

State Capitol, Rm. 30
Juneau, Alaska 99801-1182
(907) 465-3873 Phone
(877) 463-3873 Toll Free
Sen.Bert.Stedman@akleg.gov



INTERIM

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SENATOR BERT K. STEDMAN

TO: Senator Mike Dunleavy, Chair
Senate State Affairs Committee

FROM: Senator Bert Stedman *B.S.*


DATE: January 31, 2017

RE: SB 21 (2017) Hearing Request

I respectfully request the scheduling of Senate Bill 21 (2017) in the Senate State Affairs Committee at your earliest convenience.

This legislation would create a percent of market value structure for the Alaska permanent fund.

Attached to this memorandum please find:

- SB 21 (2017) Sponsor Statement
- SB 21 (2017) Sectional Analysis
- SB 21 (2017) Version 
- SB 21 (2017) PowerPoint Presentation

If you have any questions, please contact my staff Randy Ruaro at 465-3873.

District R

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Ketchikan • Klavock • Klukwan • Kupreanof • Metlakatla • Meyers Chuck • Naukati • Pelican • Petersburg
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SPONSOR STATEMENT

SB 21 (2017)

SB 21 (2017) would establish a percent of market value (POMV) approach that “guards and grows” the Permanent Fund. It guards the Permanent Fund from legislative appropriations in several ways.

First, it limits a draw or annual payout to a sustainable 4.5% of the average annual market value of the fund for the first five of the last six fiscal years. At 4.5% the fund can continue to invest and perform at a similar level as it is now for future generations. Also, at no more than 4.5% the fund will continue to grow and generate greater returns and dividends in the future.

Second, by allocating a *minimum* of 2.25% for dividends (and possibly more), it provides Alaskans a fair dividend.

Third, it provides flexibility for the remaining 2.25%. SB 21 (2017) gives the Legislature the option to allocate the remaining 2.25% to increase dividends, to the permanent fund for investment, to public services, or a combination of purposes, depending on the fiscal circumstances present.

Critically, the maximum amount of the draw available to pay for public services would be 2.25%. This “cap” on funding acts as an effective spending limit – it simply limits the money available for appropriation by the legislature. This keeps downward pressure on the operating budget while ring fencing the permanent fund for current and future generations.

SB 21 (2017) and its new framework for the permanent fund is the essential foundation of a fiscal plan. Additional budget solutions can and should be considered by the legislature and “bolted on” to the framework.

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SB 21 (2017)

Sectional Analysis

"An Act relating to appropriations from the income of the Alaska permanent fund; relating to the calculation of permanent fund dividends; and providing for an effective date."

- SECTION 1** Deletes language from AS 37.13.140 related to income available for distribution.
- SECTION 2** Deletes references in AS 37.13.145(d) to AS 37.13.145(b) and (c), which are repealed by section 5.
- SECTION 3** Adds a new subsection to AS 37.13.145 that authorizes the legislature use 4.5% of the average fiscal-year-end market value of the balance of the fund for the first five of the last six fiscal years, including any unrealized gains and losses. The legislature must allocate a minimum of 2.25% for dividends. The other 2.25% of the payout can be appropriated towards increased dividends, reinvested into the Permanent Fund, or to the General Fund for public services. A maximum of 2.25% can be used for public services.
- SECTION 4** Makes conforming amendment to AS 43.23.025(a) to change a reference from AS 37.13.145(b) to AS 37.13.145(e)(1).
- SECTION 5** Repeals AS 37.13.145(b) and AS 37.13.145(c).
- SECTION 6** Provides an effective date of July 1, 2017.

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SB 21 (2017)

“GUARD AND GROW” THE ALASKA PERMANENT FUND

Sponsored by Senator Bert Stedman

Senate State Affairs

February 2, 2017

Issue:

**How To Structure
The Permanent
Fund To Guard It
From Being Raided.**



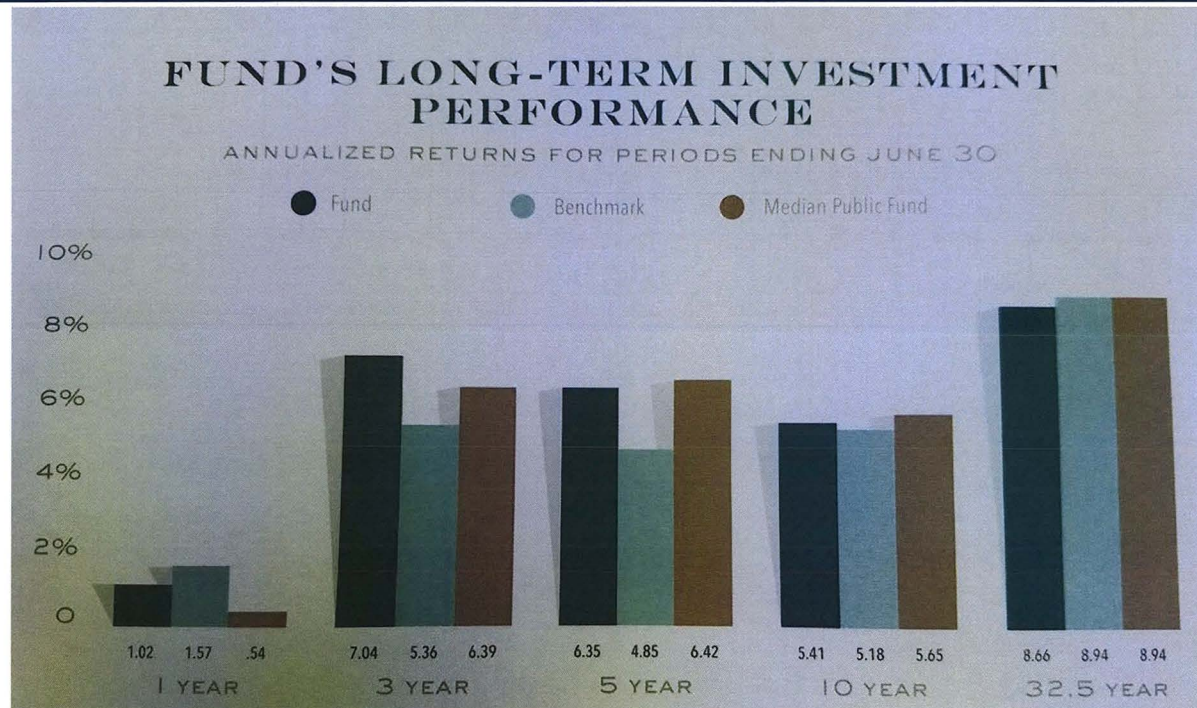
Opportunity:

**Build A New Fiscal
Framework That
Provides A Fair
Dividend,
Continues The
Proper Management
Of The Fund, And
Limits Use For
Public Services.**

CURRENT PRINCIPLES FOR THE PERMANENT FUND

- **A “Permanent” Savings Account:** The fund should conserve part of the state’s revenue from resources to benefit all generations. AS 37.13.020(1)
- **The Fund’s Principle Should Be Protected While Prudently Invested** The fund should be managed to protect the principal while maximizing total return. AS 37.13.020(2)
- **The Fund’s Purchasing Power Over Time Should Be Preserved While Maximizing Return** AS 37.13.120(a)

CURRENT PRINCIPLES WORK – 8.66% ANNUALIZED RETURNS FOR LAST 32.5 YEARS (\$734,000 IN 1977 TO \$56,305,500,000 LAST WEEK)



SENATE STATE AFFAIRS - FEBRUARY 2, 2017. PREPARED BY OFFICE OF SENATOR STEDMAN

SB 21 (2017) PROTECTS THE PERMANENT FUND UNDER CURRENT PRINCIPLES: INVEST PRUDENTLY, PROVIDES A FAIR DIVIDEND, ALLOWS FOR REINVESTMENT, AND **LIMITS THE AMOUNT FOR GOVERNMENT!**

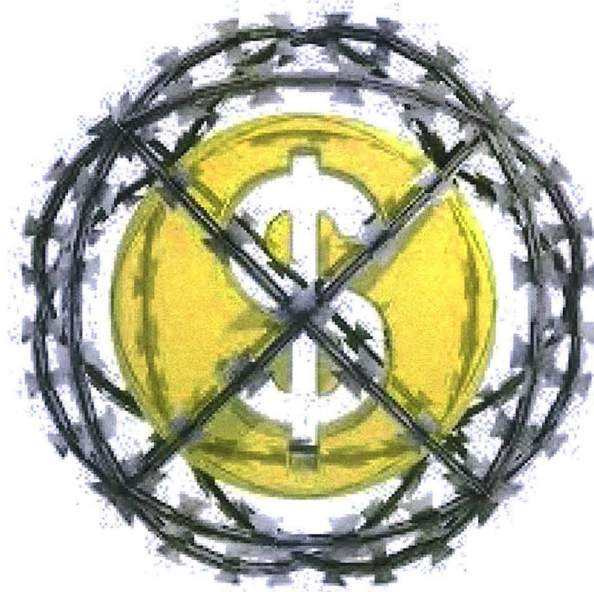
- Sets up a 4.5% payout based on a rolling 5 year average. (Uses first 5 of the last 6 fiscal years)
- Splits the 4.5% payout and sets a minimum 2.25% allocation for dividends
- The remaining 2.25% of the payout can be allocated towards increased dividends, returned to the permanent fund for investment, or to the general fund for state services.
- Sets a maximum of 2.25% on the amount of the payout that can be used for government services.

SB 21 (2017) - PROJECTED 4.5% DRAW, DIVIDEND AMOUNTS, AND OTHER FUNDS

FISCAL YEAR	DRAW - 4.5% PAYOUT	MINIMUM DIVIDEND - 2.25%	REINVEST, INCREASE DIVIDEND, PUBLIC SERVICES - 2.25%	ENDING TOTAL FUND VALUE
FY 2018	\$2,178,000,000	\$1,089,000,000 / \$1,700	\$1,089,000,000	\$56,616,000,000
FY 2019	\$2,308,000,000	\$1,154,000,000 / \$1,790	\$1,154,000,000	\$58,333,000,000
FY 2020	\$2,414,000,000	\$1,207,000,000 / \$1,850	\$1,207,000,000	\$60,281,000,000
FY 2021	\$2,478,000,000	\$1,239,000,000 / \$1,880	\$1,239,000,000	\$62,204,000,000
FY 2022	\$2,546,000,000	\$1,273,000,000 / \$1,910	\$1,273,000,000	\$64,195,000,000

SB 21 (2017) – SAFEGUARDS THE FUND SO IT CAN GROW AND LAST FOR GENERATIONS

- SB 21 (2017) is not intended to fill the entire fiscal gap. It's primary focus is guarding the permanent fund so it can grow for future generations while keeping downward pressure on government spending.
- Other pieces that address the fiscal gap, like budget reductions, efficiencies, and revenue enhancements may be bolted onto the fiscal framework in the near future.



QUESTIONS?



(\$ in millions)

Status Quo

	Starting Balance Earnings Res	Dividends	GF	Inflation Proofing	Balance	Statutory Net Income	Projected Residual	Ending Corpus Balance	Ending Total Fund Value
FY17	\$ 8,345.0	\$ 696.0	\$ -	\$ -	\$ 7,649.0	\$ 2,733.0	\$ 10,382.0	\$ 39,726.0	\$ 55,756.0
FY18	\$ 10,382.0	\$ 1,545.0	\$ -	\$ 901.0	\$ 7,936.0	\$ 3,342.0	\$ 11,278.0	\$ 40,926.0	\$ 58,249.0
FY19	\$ 11,278.0	\$ 1,541.0	\$ -	\$ 928.0	\$ 8,809.0	\$ 3,495.0	\$ 12,304.0	\$ 42,182.0	\$ 60,946.0
FY20	\$ 12,304.0	\$ 1,620.0	\$ -	\$ 957.0	\$ 9,727.0	\$ 3,661.0	\$ 13,388.0	\$ 43,482.0	\$ 63,763.0
FY21	\$ 13,388.0	\$ 1,792.0	\$ -	\$ 986.0	\$ 10,610.0	\$ 3,833.0	\$ 14,443.0	\$ 44,825.0	\$ 66,616.0
FY22	\$ 14,443.0	\$ 1,926.0	\$ -	\$ 1,017.0	\$ 11,500.0	\$ 4,008.0	\$ 15,508.0	\$ 46,203.0	\$ 69,533.0

(\$ in millions)

SB21 with lag in MV

	Starting Balance Earnings Res	Dividends (2.25%)	GF (2.25%)	Inflation Proofing	Balance	Statutory Net Income	Projected Residual	Ending Corpus Balance	Ending Total Fund Value
FY17	\$ 8,345.0	\$ 696.0	\$ -	\$ -	\$ 7,649.0	\$ 2,733.0	\$ 10,382.0	\$ 39,726.0	\$ 54,821.0
FY18	\$ 10,382.0	\$ 1,089.0	\$ 1,089.0	\$ -	\$ 8,204.0	\$ 3,284.0	\$ 11,488.0	\$ 40,025.0	\$ 56,616.0
FY19	\$ 11,488.0	\$ 1,154.0	\$ 1,154.0	\$ -	\$ 9,180.0	\$ 3,393.0	\$ 12,573.0	\$ 40,354.0	\$ 58,333.0
FY20	\$ 12,573.0	\$ 1,207.0	\$ 1,207.0	\$ -	\$ 10,159.0	\$ 3,504.0	\$ 13,663.0	\$ 40,696.0	\$ 60,281.0
FY21	\$ 13,663.0	\$ 1,239.5	\$ 1,239.5	\$ -	\$ 11,184.0	\$ 3,616.0	\$ 14,800.0	\$ 41,053.0	\$ 62,204.0
FY22	\$ 14,800.0	\$ 1,273.0	\$ 1,273.0	\$ -	\$ 12,254.0	\$ 3,732.0	\$ 15,986.0	\$ 41,414.0	\$ 64,195.0

Assumptions:

- * Return and inflation projections provided by Callan based upon current asset allocation and 2016 capital markets assumptions.
- * Total transfer amount is 4.5% of the five-year average of total fund market value
- * Projected residual earnings reserve and ending corpus balances do not include allocation of the Fund's unrealized gains.

Attempts to project how markets will perform in the future involves a great degree of speculation. Past performance can provide no assurance as to future performance.

SB 21 (2017)

“GUARD AND GROW” THE ALASKA PERMANENT FUND

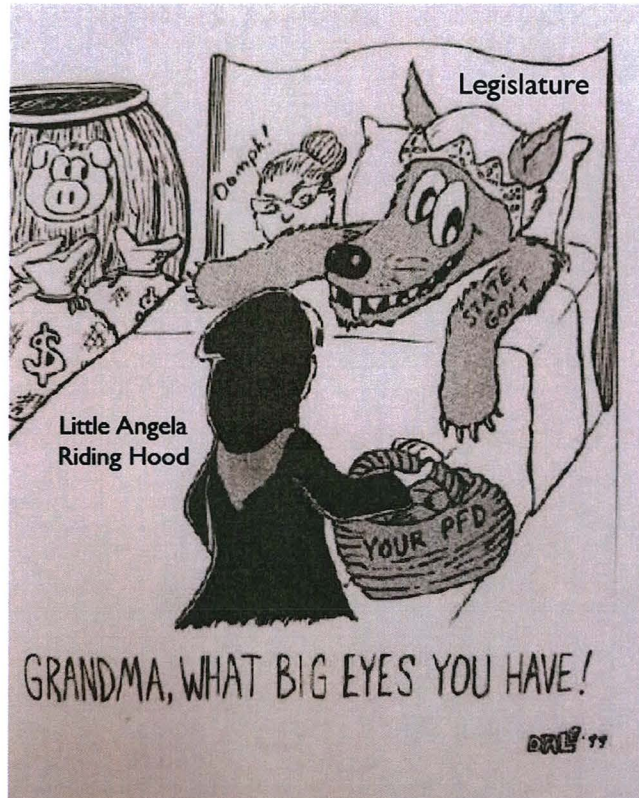
Sponsored by Senator Bert Stedman

Senate State Affairs

February 2, 2017

Issue:

**How To Structure
The Permanent
Fund To Guard It
From Being Raided.**



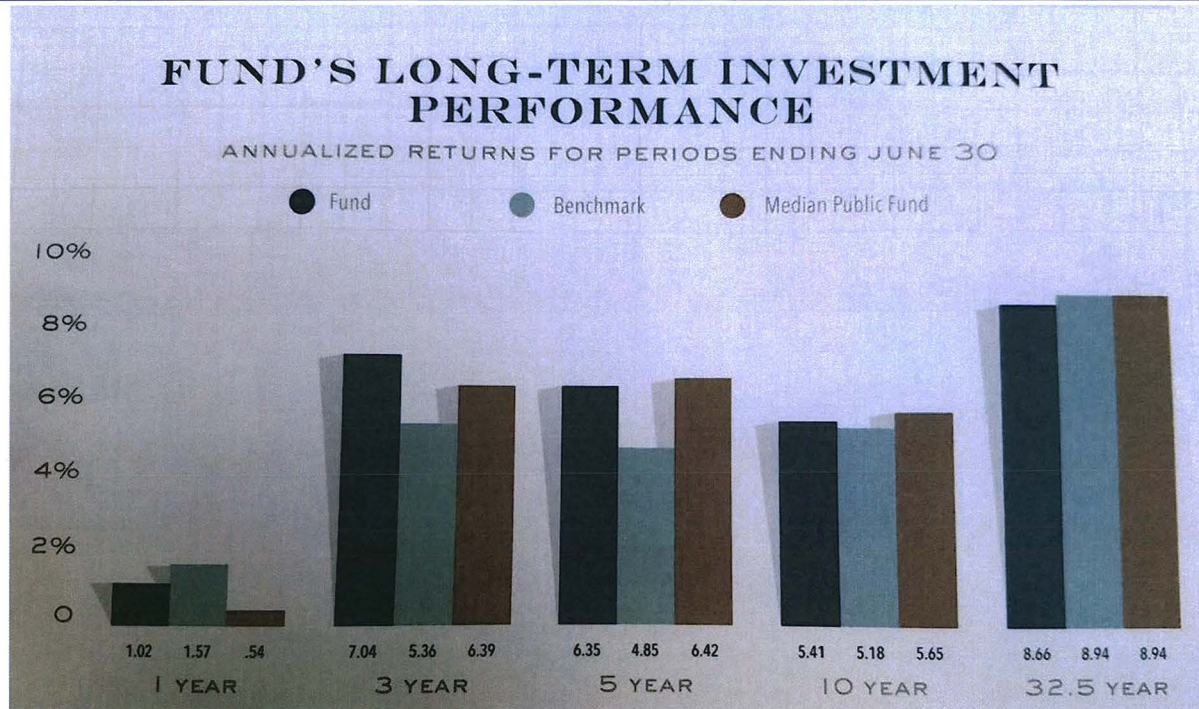
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Provides A Fair
Dividend,
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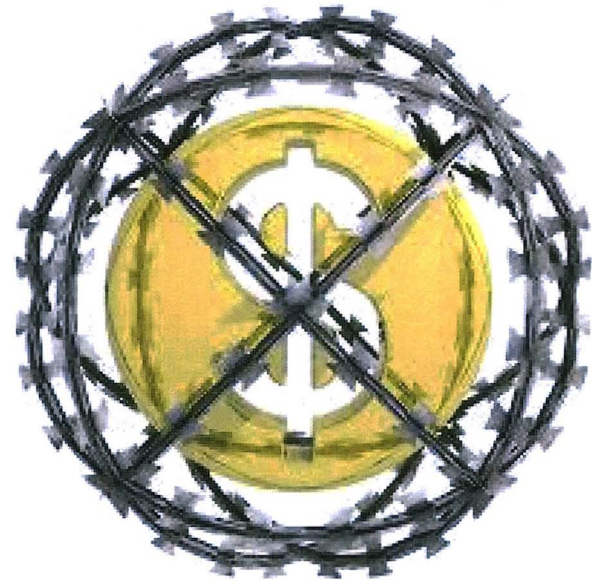
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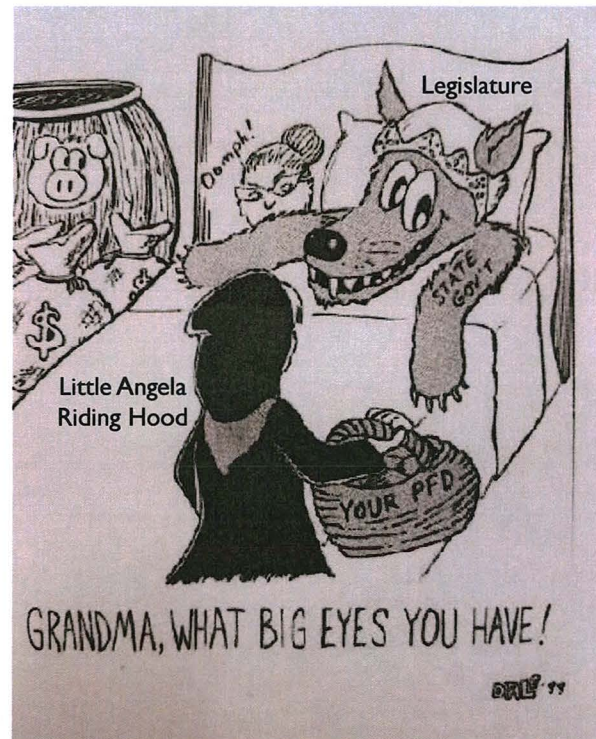
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QUESTIONS?



ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS COMMITTEE



Official Business

Letter of Intent
Senate Bill 21

It is the intent of the Senate State Affairs Committee that when subsequent committees of referral in both bodies of the Alaska Legislature consider Senate Bill 21 (*Permanent Fund: Income; POMV; Dividends*), or any related legislation dealing with the use of the earnings of the Permanent Fund, that those committees strongly consider including the following elements.

1. Protection of the corpus of the Permanent Fund against the erosive effect of inflation over time.
2. A draw limit on the portion of earnings of the Permanent Fund drawn for use by state government.
3. A savings rule which captures and saves at least some peak revenue, and places these savings into the corpus of the Permanent Fund.

Adopted by the Senate State Affairs Committee
February 28, 2017

A handwritten signature in black ink, appearing to be "Mike Dunleavy", written over a horizontal line.

Senator Mike Dunleavy
Chair, Senate State Affairs Committee

AMENDMENT

OFFERED IN THE SENATE

TO: SB 21

1 Page 1, line 2, following "**dividends**";:

2 Insert "**authorizing an advisory vote on legislative action that changes the**
3 **calculation of the permanent fund dividend and the amount available for distribution**
4 **from the earnings reserve account and making the legislative action contingent on the**
5 **advisory vote receiving an affirmative majority vote;**"

6

7 Page 3, line 19:

8 Delete all material and insert:

9 "*** Sec. 6.** The uncodified law of the State of Alaska is amended by adding a new section to
10 read:

11 **ADVISORY VOTE.** At a special election to be held on September 26, 2017, in
12 substantial compliance with the election laws of the state, including absentee voting and the
13 preparation, publication, and mailing of an election pamphlet under AS 15.58, the lieutenant
14 governor shall place before the qualified voters of the state a question advisory to the
15 legislature and the governor. The election pamphlet for the special election must comply with
16 AS 15.58.020(a)(6), including the requirement that it contain statements that advocate voter
17 approval or rejection of the question. Notwithstanding AS 15.80.005 and other laws relating
18 to preparation of the ballot proposition, the question shall appear on the ballot in the following
19 form:

20

QUESTION

21

22

23

Do you approve of the passage by the Alaska State Legislature of a bill
that changes the calculation of the permanent fund dividend and the amount
available for distribution from the earnings reserve account established under

1 AS 37.13.145?

2 Yes [] No []

3 * **Sec. 7.** The uncodified law of the State of Alaska is amended by adding a new section to
4 read:

5 NOTICE TO THE REVISOR OF STATUTES. The director of elections shall notify
6 the revisor of statutes when the results of the election have been certified under AS 15.15.450
7 if the advisory vote authorized in sec. 6 of this Act receives an affirmative majority vote.

8 * **Sec. 8.** The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 CONDITIONAL EFFECT. Sections 1 - 5 of this Act take effect only if the director of
11 elections notifies the revisor of statutes under sec. 7 of this Act that the question in the
12 advisory vote under sec. 6 of this Act received an affirmative majority vote.

13 * **Sec. 9.** If, under sec. 8 of this Act, secs. 1 - 5 of this Act take effect, they take effect on
14 July 1 in the year following the year in which the notice is given under sec. 7 of this Act.

15 * **Sec. 10.** Section 6 of this Act takes effect immediately under AS 01.10.070(c).

16 * **Sec. 11.** Except as provided in secs. 9 and 10 of this Act, this Act takes effect July 1,
17 2017."

From: [Rodell, Angela](#)
To: [Sen. Mike Dunleavy](#)
Cc: [Swanson, Paulyn](#); [Christa McDonald](#); [Daniel George](#)
Subject: RE: Senate State Affairs Follow-Up Questions from 2/2/2017 - Inflation Proofing of the PF Corpus
Date: Friday, February 03, 2017 8:47:39 AM

Good morning Senator.

In response to your questions below:

1. You are correct that when a Permanent Fund asset gains are realized the entirety of the gain is deposited into the ERA.
2. No, SB 21 repeals the inflation proofing statute.
3. Incorrect. Inflation proofing was zeroed out for FY16 and FY17.
4. If the legislature never appropriates additional money to the corpus, we do not believe the fund will inflation-proof itself. Given the ERA is legally available to be appropriated in its entirety and the fact that all gains move to the ERA, we believe appropriations to the corpus are necessary if the Legislature wants to retain the investment power of the Fund for future generations.

Regards,

Angela

From: Sen. Mike Dunleavy [mailto:Sen.Mike.Dunleavy@akleg.gov]
Sent: Thursday, February 02, 2017 6:01 PM
To: Rodell, Angela <arodell@apfc.org>
Cc: Swanson, Paulyn <pswanson@apfc.org>; Christa McDonald <Christa.McDonald@akleg.gov>; Daniel George <Daniel.George@akleg.gov>
Subject: Senate State Affairs Follow-Up Questions from 2/2/2017 - Inflation Proofing of the PF Corpus

Good afternoon,

During the presentation today in Senate State Affairs which you attended on behalf of the

APFC, Senator Steadman characterized the Permanent Fund as inflation-proofing itself due to its assets which grow in value beyond the rate of inflation. Please provide answers to the following four questions regarding this topic.

- 1) It is my understanding that when Permanent Fund asset gains are realized, that the entirety of this growth/gain is realized in the earnings reserve account (ERA), and NOT in the corpus. Please affirm this understanding, or correct if it is mistaken in any way.
- 2) Specifically, to Senator Steadman's bill, does this bill (SB 21) inflation-proof the fund?
- 3) Please correct if the following is not 100% accurate: Under the inflation-proofing mechanism in law at AS 37.13.145, the legislature and has appropriated and the governor has assented to provide the statutorily calculated inflation-adjustment amount every year since the fund began, except for last year, FY17.
- 4) If the legislature *does not appropriate any money, ever again* (aside from the constitutionally dedicated/directed amounts) to the principal of the fund to offset inflation as proscribed under AS 37.13.145, does the APFC believe that the fund will inflation-proof itself?

There have been a great variety of statements to this effect from members of the media, the public, as well as some legislators. It is imperative that the record on this point be crystal clear, and there is no source better suited to speak to this subject and remove any confusion than the APFC.

Sincerely,

Mike Dunleavy

From: [Daniel George](#)
To: [Christa McDonald](#)
Subject: FW: Questions for SSTA for SB 21, SB 26, & SJR 1
Date: Thursday, February 16, 2017 9:15:29 AM

From: Swanson, Paulyn [mailto:pswanson@apfc.org]
Sent: Wednesday, February 15, 2017 12:17 PM
To: Daniel George <Daniel.George@akleg.gov>
Cc: Sen. Mike Dunleavy <Sen.Mike.Dunleavy@akleg.gov>; Christa McDonald <Christa.McDonald@akleg.gov>; Rodell, Angela <arodell@apfc.org>; Mertz, Valerie <vmertz@apfc.org>
Subject: RE: Questions for SSTA for SB 21, SB 26, & SJR 1

Daniel George,

Many of the questions posed require a comparative analysis of the bills you have outlined. APFC is not in the position to be able to offer such analysis as it hasn't been done and requires considerable resources. This may fall more within the purview of the Legislative Finance Division and/or a third party consultant.

Following are answers to your questions that APFC can offer.

Do any of the bills provide for protection of the corpus of the fund, through mandatory inflation-proofing?

- SB 21 repeals AS 37.13.145 (c), which is the statutory inflation proofing provision for the Alaska Permanent Fund.
- SB 26 repeals AS 37.13.145 (c), which is the statutory inflation proofing provision for the Alaska Permanent Fund and replaces the annual CPI statutory inflation proofing with an inflation proofing transfer contingent upon the balance of the ERA having surplus funds that exceeds four years' worth of POMV draws in it.
- SJR 1 notes that the legislature shall provide for a transfer from the earnings reserve to offset the effect of inflation on the principal.

Is this inflation-proofing tied to a statutory, or any other recognized index of the value of inflation?

- No.

Are there any technical problems with how inflation-proofing is proposed, if included?

- Not that we have currently identified.

Follow-up: What would be the impact on the fund, of not providing for inflation-proofing of the corpus of the fund in statute/constitution in any legislation enacted?

- While the decision to appropriate investment earnings back to the corpus to inflation proof the principal of the Fund is a policy call that rests with the Legislature, if maintaining the purchasing power of the Fund for future generations is to be achieved, then inflation proofing the corpus must occur.

What are the long-term impacts on the value of the fund corpus under each bill? Please contrast.

- Comparative analysis – unable to provide.

Which bill draws more from the fund over time?

- Comparative analysis – unable to provide.

Which bill, under the APFC's projections, results in a larger fund value over time?

- Comparative analysis – unable to provide.

Best Regards,
~Paulyn

From: Daniel George [<mailto:Daniel.George@akleg.gov>]
Sent: Monday, February 13, 2017 2:35 PM
To: Rodell, Angela <arodell@apfc.org>
Cc: Swanson, Paulyn <pswanson@apfc.org>; Sen. Mike Dunleavy <Sen.Mike.Dunleavy@akleg.gov>; Christa McDonald <Christa.McDonald@akleg.gov>
Subject: Questions for SSTA for SB 21, SB 26, & SJR 1

Good afternoon Ms. Rodell,

As you know, SB 21, SB 26, and SJR 1 are currently before the Senate State Affairs Committee. Each of these bills would significantly impact aspects of the Alaska Permanent Fund. Would you, or perhaps APFC CFO Valerie Mertz, please provide the following information regarding these bills in their present form?

Do any of the bills provide for protection of the corpus of the fund, through mandatory inflation-proofing? Is this inflation-proofing tied to a statutory, or any other recognized index of the value of inflation? Are there any technical problems with how inflation-proofing is

proposed, if included?

Follow-up: What would be the impact on the fund, of not providing for inflation-proofing of the corpus of the fund in statute/constitution in any legislation enacted?

What are the long-term impacts on the value of the fund corpus under each bill? Please contrast.

Which bill draws more from the fund over time?

Which bill, under the APFC's projections, results in a larger fund value over time?

If these questions have failed to address any potential significant concerns which the APFC might have with these bills, please include any discussion of these concerns.

Thank you in advance for your assistance. Best regards,

Daniel George

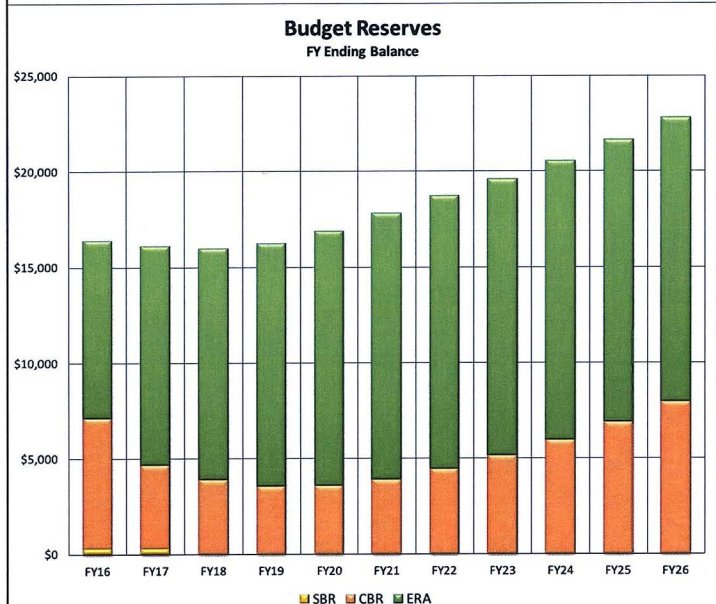
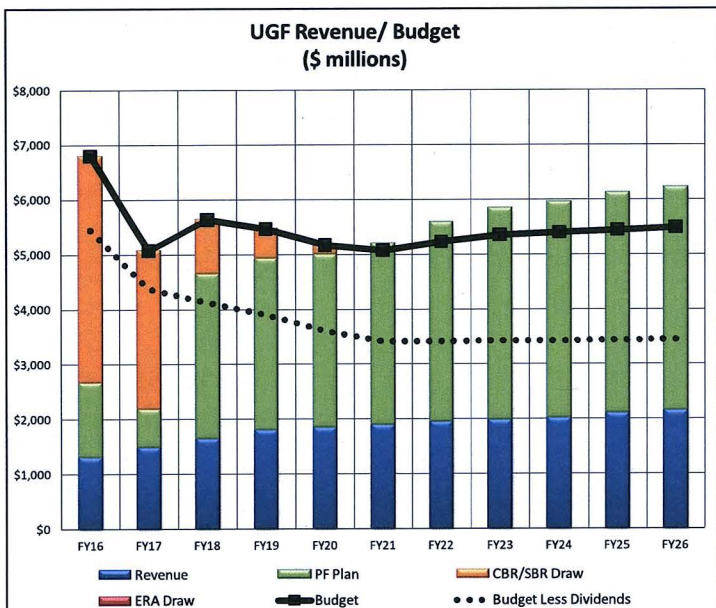
Staff to Sen. Mike Dunleavy

907-465-5078

Daniel.George@akleg.gov

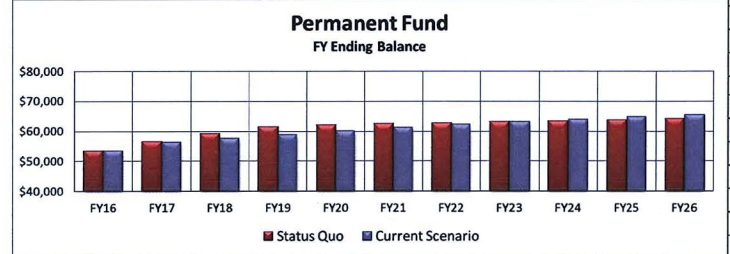
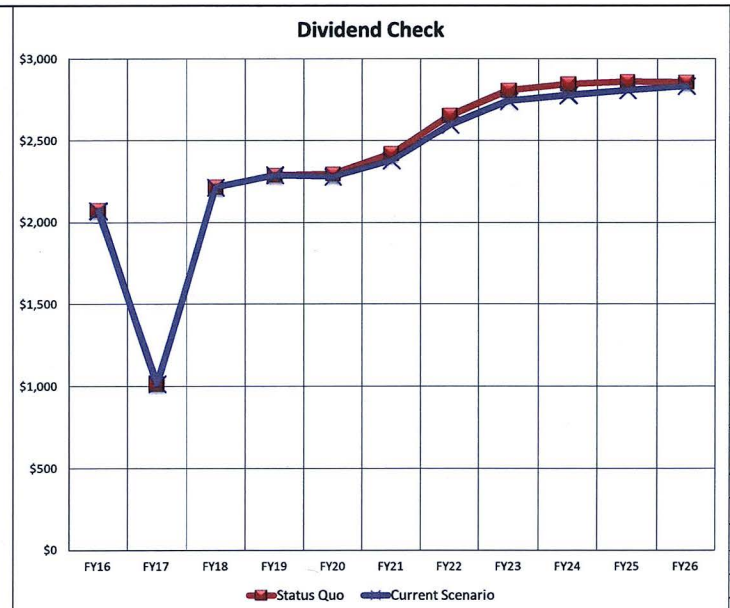
Plan Outline

- 50 / 50 Plan (Dunleavy 2017)
 - This approach contemplates:
 - **A Plan which does not require the imposition of new taxes**
 - **Looking out on a 5 year and 10 year horizon**
 - Balance within 5 years, remain balanced in 10
 - **(SB 1 & SB 2) Paying out the fully budgeted & legislated 2016 PFD amount**
 - Making whole every Alaskan dividend recipient
 - **Full payment of the existing statutorily calculated PFD going forward**
 - This amount would be over \$2,200 today, and would increase with the fund's performance-- to \$2,800 by FY24 under existing conditions.
 - Continues the direct tie of the dividend to the health of the fund, not to the health of the state bureaucracy.
 - Does not tinker with the existing PFD formula – Requires no legislation
 - **Carries out 50/50 PF concept as envisioned by Gov. Hammond**
 - 50% of annual ERA draw is relied upon to reach a balanced, sustainable budget; the same amount goes to the dividend fund to pay PFDs.
 - Government operation relies on a smaller ERA draw than the Governor's plan (17% less)
 - Roughly \$1.54 bn vs. Governor's \$1.87 bn in FY18
 - **Gradual but meaningful level of reductions in the budget (\$1.1bn over 4 years)**
 - Spreading out over four years allows the economy to absorb, and the State to step down, as opposed to steep reductions in one or two years.
 - Reductions equate to 7% per year of UGF, or 3% of All Funds
 - \$300 Million in FY2018
 - \$300 Million in FY2019
 - \$300 Million in FY2020
 - \$200 Million in FY2021
 - **(SJR 2) Constitutional Protection** against runaway government spending again
 - Repairs the existing Constitutional Appropriation limit (Art. IX, Sect. 16)
 - **Judicious use of existing savings to bridge to sustainable budget within 4 years**
 - Maintains at least one year of reserves in the CBR as a cushion
 - **Consider A More Efficient Budgeting Process – Explore Biennial Budgeting**
 - Beginning early in the fiscal year, the Governor and Legislature would begin the budget process in tandem, cooperating to ensure that a well-constructed budget is presented to the next Legislative session, rather than trying to accomplish the entire process in roughly 3 busy months.

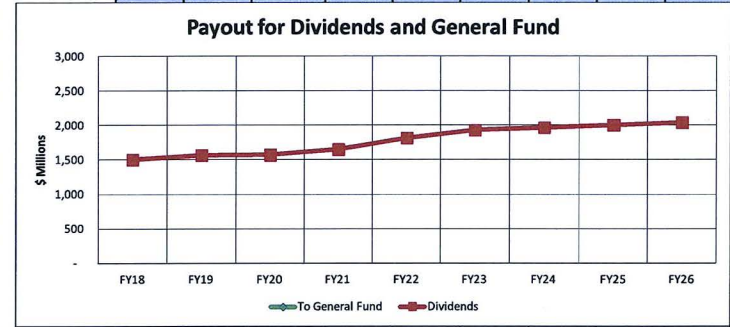


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	15,953	16,210	16,883	17,794	18,697	19,584	20,540	21,625	22,794
Deficit	-991	-545	-193	116	341	470	541	663	734
Years to Exhaust	16	30	88	*	*	*	*	*	*

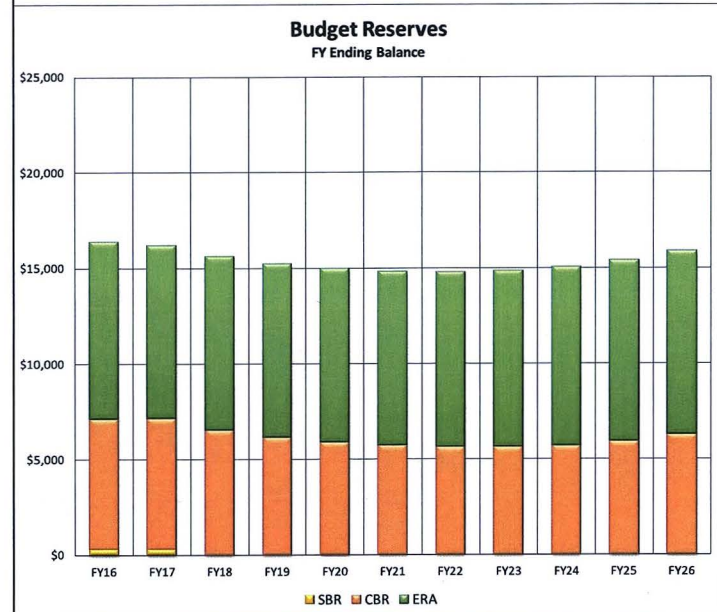
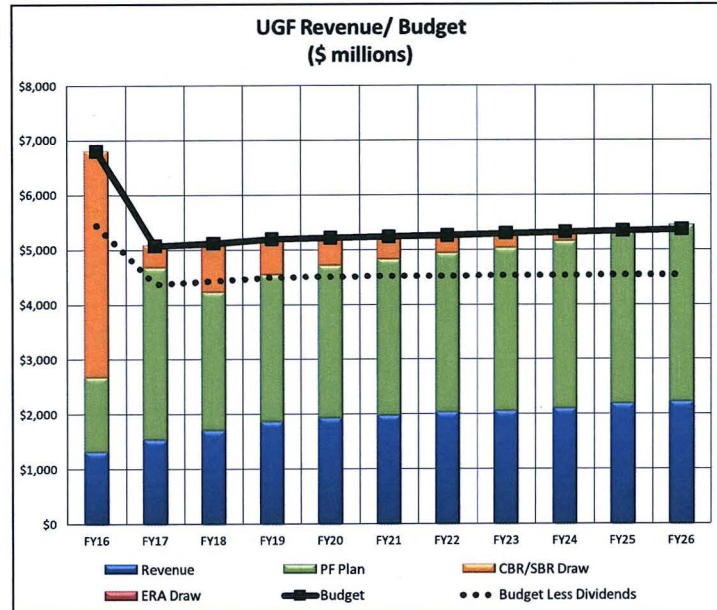
Price Scenario	Fall 2016
Production Scenario	DOR Forecast
COST VARIABLES	
Operating Budget	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	Custom
Statewide Budget	
Tax Credit Payments	Statutory
Capital Budget (FY19-26)	180.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Oil Tax Legislation	n
Permanent Fund Plan	50/50 Plan
Perm Fund Assumptions	
Inflation Rate	2.25%
PF Investment Return	6.95%
% Realized	89.78%
Population Growth Rate	Labor Stats
Plan Specifications	
Status Quo Inflation Proofing	0
POMV Payout	0.00%
% Statutory Net Income	50%
Draw Start Year	18
% of Stat Net Income to Div	50%
% of POMV Draw to Div	0%
% of UGF Royalties to Div	0%
Dividend Floor \$	-
Floor Ends	-
Dividend Cap \$	-
Reduce when oil rev exceeds \$	-
Reduce by x%	0%
Royalties to PF	30%
4x Draw Inflation Proofing	0
Dividend Override	Off
POMV Override	Off
Reserve Variables	
Reserve Priority	CBR
CBR Earnings	2.89%



Perm. Fund	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
% Real Value	100%	100%	100%	99%	99%	98%	97%	96%	95%
Effective %	5.21%	5.31%	5.22%	5.38%	5.82%	6.11%	6.15%	6.19%	6.22%

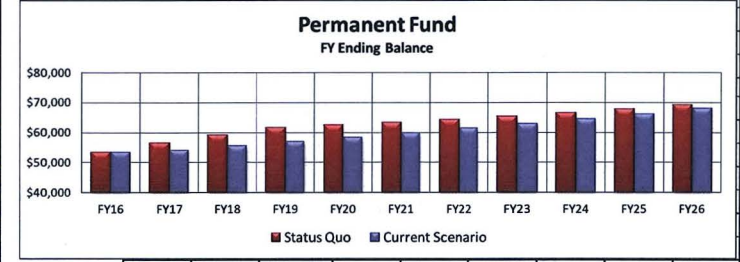
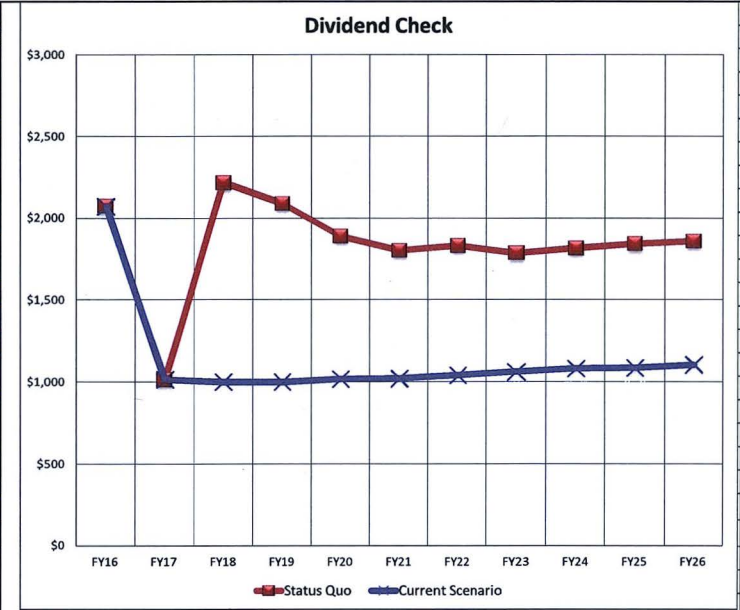


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
To General Fund	1,501	1,564	1,571	1,651	1,814	1,929	1,968	2,004	2,037
Dividends	1,501	1,564	1,571	1,651	1,814	1,929	1,968	2,004	2,037

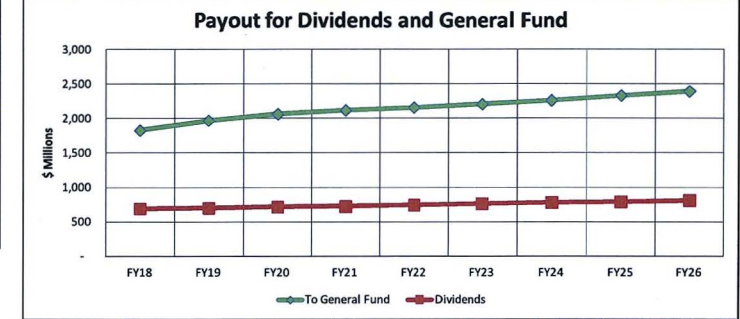


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	15,629	15,237	14,964	14,805	14,779	14,844	15,025	15,389	15,884
Deficit	-904	-676	-528	-440	-340	-278	-188	-33	63
Years to Exhaust	17	23	28	34	43	53	80	463	*

Price Scenario	Fall 2016
Production Scenario	DOP Forecast
COST VARIABLES	
Operating Budget	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -
Statewide Budget	
Tax Credit Payments	Statutory
Capital Budget (FY19-26)	180.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Oil Tax Legislation	n
Permanent Fund Plan HB61/SB26	
Perm Fund Assumptions	
Inflation Rate	2.25%
PF Investment Return	6.95%
% Realized	57.25%
Population Growth Rate	Labor Stats
Plan Specifications	
Status Quo Inflation Proofing	0
POMV Payout	5.25%
% Statutory Net Income	0%
Draw Start Year	17
% of Stat Net Income to Div	0%
% of POMV Draw to Div	20%
% of UGF Royalties to Div	20%
Dividend Floor	\$ 1,000
Floor Ends	19
Dividend Cap	\$ 2,000
Reduce when oil rev exceeds	\$ 1,200
Reduce by x%	100%
Royalties to PF	25%
4x Draw Inflation Proofing	1
Dividend Override	Off
POMV Override	Off
Reserve Variables	
Reserve Priority	CBR
CBR Earnings	2.89%

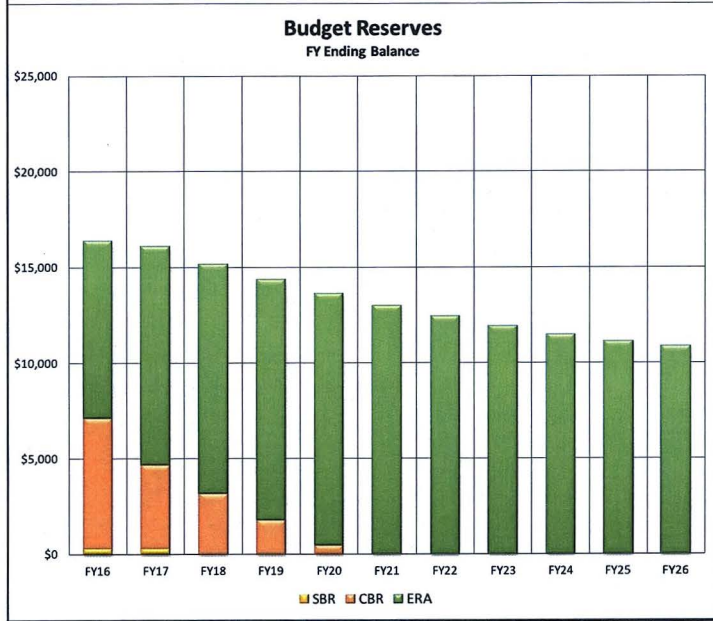
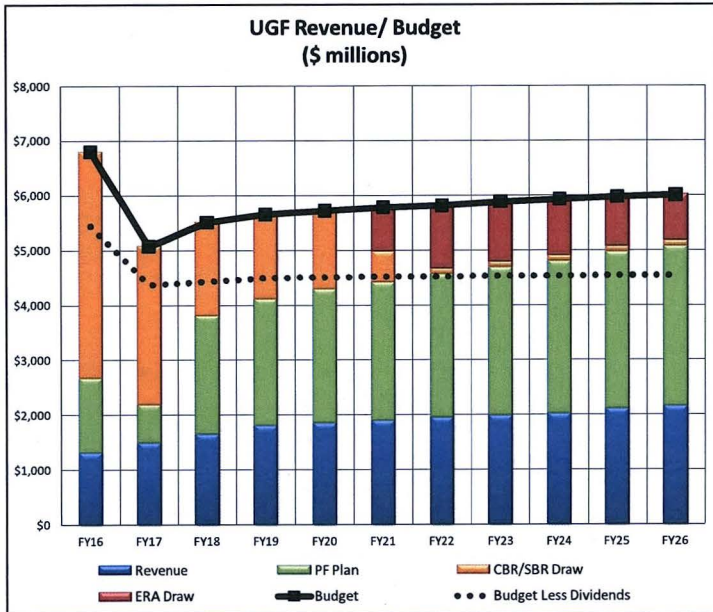


Perm. Fund	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
% Real Value	100%	101%	101%	101%	102%	102%	102%	103%	103%
Effective %	4.55%	4.68%	4.76%	4.74%	4.72%	4.71%	4.71%	4.71%	4.71%



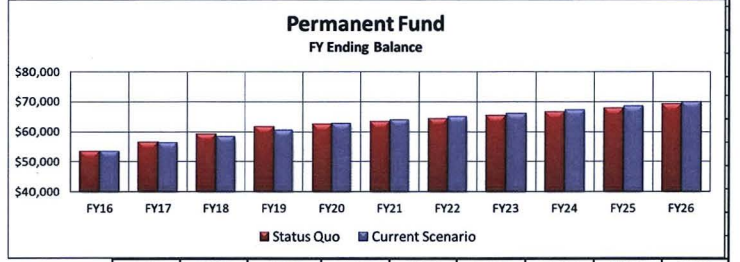
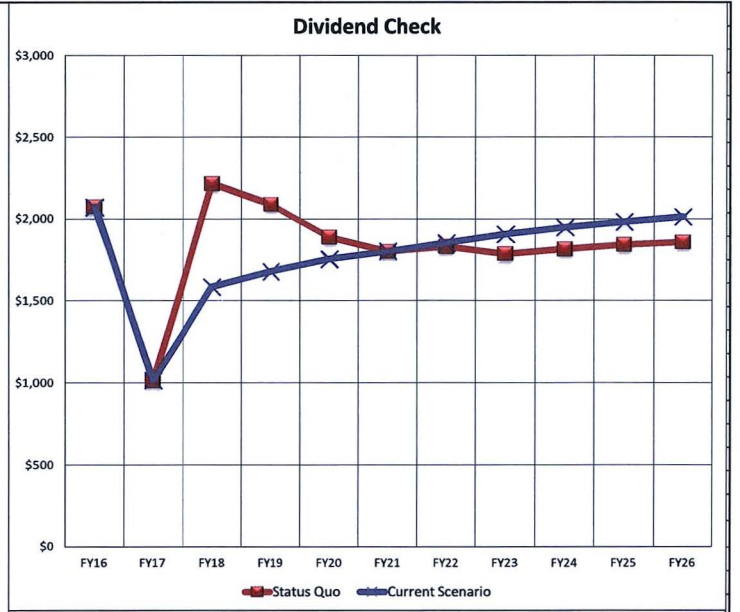
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
To General Fund	1,833	1,971	2,065	2,118	2,158	2,206	2,264	2,334	2,396
Dividends	693	699	717	724	744	764	784	793	812

SB 21, no reductions, flat budget

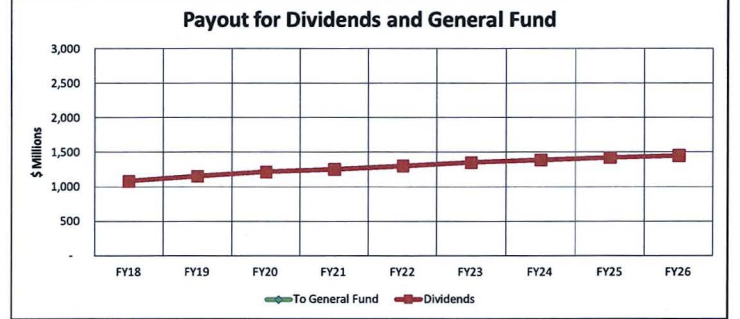


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	15,163	14,347	13,611	12,972	12,428	11,913	11,454	11,115	10,860
Deficit	-1,709	-1,554	-1,447	-1,377	-1,271	-1,209	-1,137	-1,017	-949
Years to Exhaust	9	9	9	9	10	10	10	11	11

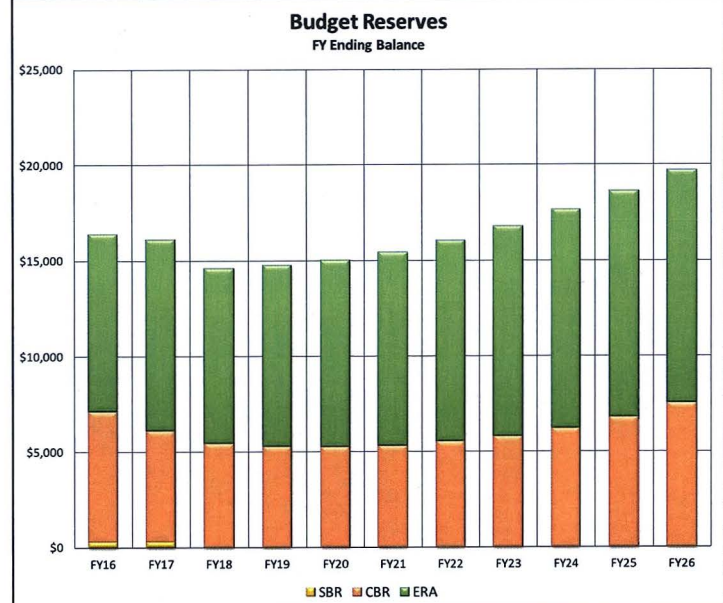
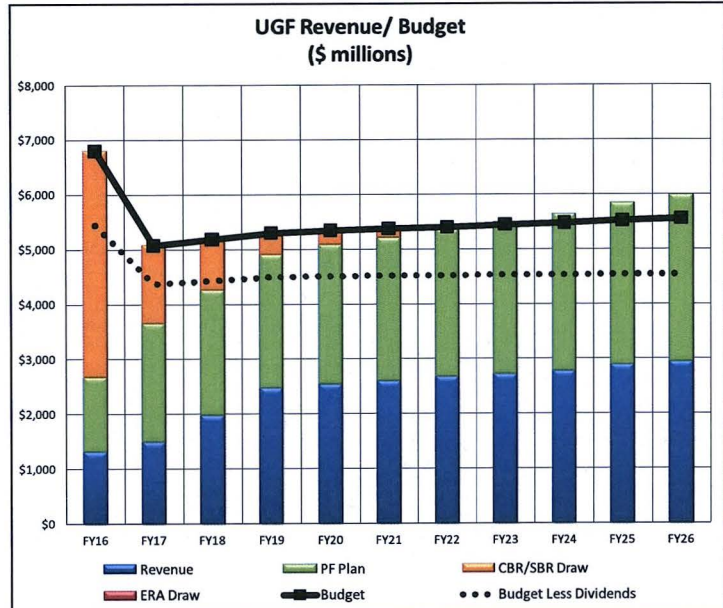
Price Scenario	Fall 2016
Production Scenario	DOR Forecast
COST VARIABLES	
Operating Budget	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -
Statewide Budget	
Tax Credit Payments	Statutory
Capital Budget (FY19-26)	180.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Oil Tax Legislation	n
Permanent Fund Plan	SB 21
Perm Fund Assumptions	
Inflation Rate	2.25%
PF Investment Return	6.95%
% Realized	57.25%
Population Growth Rate	Labor Stats
Plan Specifications	
Status Quo Inflation Proofing	0
POMV Payout	4.50%
% Statutory Net Income	0%
Draw Start Year	18
% of Stat Net Income to Div	0%
% of POMV Draw to Div	50%
% of UGF Royalties to Div	0%
Dividend Floor \$	-
Floor Ends	-
Dividend Cap \$	-
Reduce when oil rev exceeds \$	-
Reduce by x%	0%
Royalties to PF	30%
4x Draw Inflation Proofing	0
Dividend Override	Off
POMV Override	Off
Reserve Variables	
Reserve Priority	CBR
CBR Earnings	2.89%



Perm. Fund	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
% Real Value	101%	103%	104%	104%	103%	103%	102%	102%	101%
Effective %	3.70%	3.81%	3.88%	5.19%	5.79%	5.76%	5.67%	5.49%	5.38%

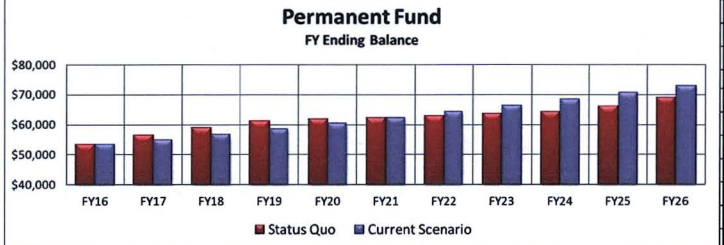
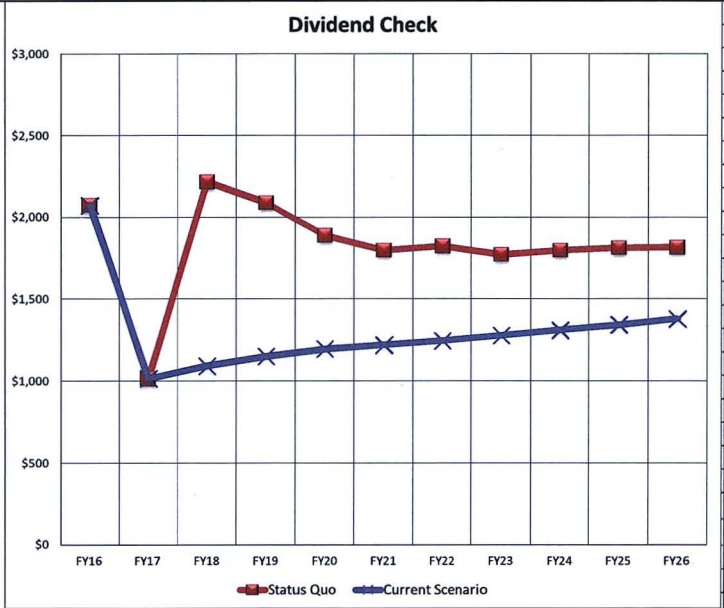


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
To General Fund	1,082	1,155	1,216	1,259	1,303	1,351	1,389	1,424	1,454
Dividends	1,082	1,155	1,216	1,259	1,303	1,351	1,389	1,424	1,454

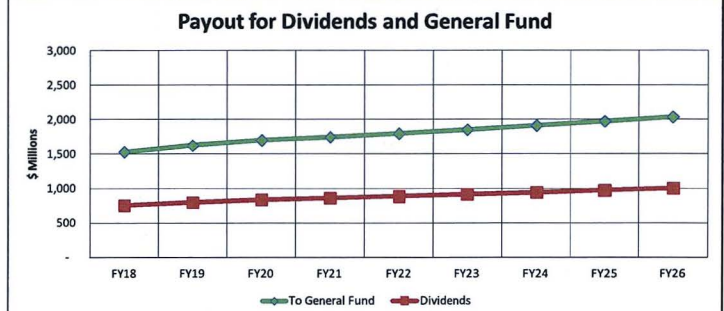


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	14,800	14,740	15,018	15,437	16,037	16,775	17,657	18,612	19,714
Deficit	-933	-415	-278	-187	-61	27	136	301	419
Years to Exhaust	16	36	54	83	264	*	*	*	*

Price Scenario	Fall 2016
Production Scenario	DOR Forecast
COST VARIABLES	
Operating Budget	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -
Statewide Budget	
Tax Credit Payments	Statutory
Capital Budget (FY19-26)	180.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	HB 115
Motor Fuel Tax	n
Oil Tax Legislation	n
Permanent Fund Plan	HB 115
Perm Fund Assumptions	
Inflation Rate	2.25%
PF Investment Return	6.95%
% Realized	57.25%
Population Growth Rate	Labor Stats
Plan Specifications	
Status Quo Inflation Proofing	0
POMV Payout	4.75%
% Statutory Net Income	0%
Draw Start Year	17
% of Stat Net Income to Div	0%
% of POMV Draw to Div	33%
% of UGF Royalties to Div	0%
Dividend Floor	\$ -
Floor Ends	-
Dividend Cap	\$ -
Reduce when oil rev exceeds	\$ -
Reduce by x%	0%
Royalties to PF	30%
4x Draw Inflation Proofing	1
Dividend Override	Off
POMV Override	Off
Reserve Variables	
Reserve Priority	CBR
CBR Earnings	2.89%



Perm. Fund	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
% Real Value	101%	102%	103%	104%	105%	106%	107%	108%	109%
Effective %	4.02%	4.13%	4.19%	4.18%	4.16%	4.16%	4.16%	4.17%	4.17%



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
To General Fund	1,531	1,624	1,701	1,748	1,797	1,854	1,915	1,977	2,040
Dividends	754	800	838	861	885	913	943	974	1,005



THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

State Office Building
333 Willoughby Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

February 16, 2017

The Honorable Mike Dunleavy
Alaska State Senator
Chair, Senate State Affairs Committee
State Capitol Room 11
Juneau, AK 99801

Dear Senator Dunleavy:

The purpose of this letter is to provide you with a response to a question asked of the Department of Revenue (DOR) during our presentation to the Senate State Affairs Committee on February 7, 2017. Please see the question in italics and our response immediately below the question.

- 1. Why does DOR's modeling under the status quo show different results for the timing of earnings reserve depletion than modeling from the Alaska Permanent Fund Corporation (APFC)?*

The APFC modeling does not account for unplanned withdrawals from the Permanent Fund due to budget deficits. It assumes the budget deficit will be filled through unspecified new revenue sources or budget cuts. The DOR model assumes that budget deficits will be filled using Permanent Fund money in the absence of specific budget cuts or new revenue sources. Under the current budget projections from the Office of Management and Budget (OMB), the budget deficit will be large enough to deplete the earnings reserve by FY 2023, assuming status quo inflation proofing transfers to the principal.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Randall Hoffbeck".

Randall Hoffbeck
Commissioner

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021-DOC-PHC-01-28-17
Title: PERMANENT FUND: INCOME; POMV;
DIVIDENDS
Sponsor: STEDMAN
Requester: (S) STA

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

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates				
			FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018					
Personal Services			***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	***	***	***	***	***

Fund Source (Operating Only)

1171 PFD Crim (Other)		(9,103.6)					
1197 AK Cap Fnd (Other)		9,103.6					
Total	0.0	0.0	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Estimated CAPITAL (FY2018) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency?
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	April Wilkerson	Phone:	(907)465-3460
Division:	Administrative Services - Department of Corrections	Date:	01/28/2017 02:30 PM
Approved By:	Dean Williams, Commissioner	Date:	01/28/17
Agency:	Department of Corrections		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. SB 21

Analysis

Passage of this legislation will change the way permanent fund dividends are calculated and will impact the amount of PFD Criminal Funds allocated to the Department of Corrections Physical Health Care component.

The reduction in the CY2016 dividend amount from the estimated \$2,072.00 to \$1,022.00 significantly reduced the amount of PFD Criminal Funds available to the department. The Department of Corrections Physical Health Care component receives a portion of the PFD Criminal Funds available which is based on a fluctuating annual PFD amount and the number of persons deemed ineligible during the appropriate year under AS 43.23.005(d).

For FY2018 the amount of PFD Criminal Funds available was \$12,613,524.00 based on the CY2016 annual PFD amount of \$1,022.00 and an estimated 12,342 individuals deemed ineligible. The portion of PFD Criminal Funds available to Corrections for FY2018 is \$11,191,024.00 after the \$1,422,500.00 proposed deposit into the Crime Victim Compensation Fund. As a result, a fund source change of \$9,103,600.00 from the PFD Criminal Fund to the Alaska Capital Income Fund is requested in the FY2018 budget in order to maintain the necessary level of funding for inmate health care.

Future fund source changes may be necessary based on the fluctuating annual PFD amounts and the number of persons deemed ineligible; although, actual amounts cannot be projected at this time.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: SB 21
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB021-DOA-VCCB-01-30-17
Title: PERMANENT FUND: INCOME; POMV;
DIVIDENDS
Sponsor: STEDMAN
Requester: (S) STA

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

Expenditures/Revenues

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

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates					
			FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 (separate supplemental appropriation required)

(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 (separate capital appropriation required)

(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Not known

If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable; initial version.

Prepared By: <u>Kate Hudson</u>	Phone: <u>(907)465-5525</u>
Division: <u>Violent Crimes Compensation Board</u>	Date: <u>01/31/2017 10:00 AM</u>
Approved By: <u>Sheldon Fisher, Commissioner</u>	Date: <u>02/01/17</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. SB 21

Analysis

The Violent Crimes Compensation Board currently receives an annual appropriation from the dividend fund. This appropriation is calculated by the Office of Management and Budget and is based on (a) the amount of the permanent fund dividend calculated by the Commissioner of Revenue on an annual basis and (b) the number of individuals who are ineligible to receive a permanent fund dividend because they are incarcerated felons. This annual appropriation is used by the Board for operating costs, as well as paying compensation to victims of violent crime.

This appropriation is not the only source of funding for the Violent Crimes Compensation Board. The Board also receives an annual federal grant. However, this is a formula grant, predicated on the prior year's certified state expenditures. Therefore, if less state money is available to spend on grants to victims of crime, federal funding will decrease the following year and forward. Should state spending be reduced to zero, then federal funding would be reduced to zero.

The Violent Crimes Compensation Board has historically received the full amount requested to this allocation (with the remainder going to the Department of Corrections). Therefore, VCCB submits a zero fiscal note.