

**SB**

**26**

<TARGET><BILL>SB 26</BILL><SUBJECT>SB  
26</SUBJECT><COMM></COMM></TARGET>



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

**Department of Revenue**

COMMISSIONER'S OFFICE

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

January 18, 2017

The Honorable Senator Dunleavy, Chair  
Senate State Affairs Committee  
State Capitol Building  
Juneau, AK 99801

Dear Chair Dunleavy:

The Department of Revenue (DOR) respectfully requests that SB 26, "An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation of permanent fund dividends; relating to unrestricted state revenue available for appropriation; and providing for an effective date," be scheduled in the Senate State Affairs Committee at your earliest convenience.

This bill would establish a new financial model to enable sustainable funding of State services and the protection of the Permanent Fund. The bill would provide for an annual sustainable draw, subject to appropriation, from the Permanent Fund earnings reserve account to the general fund to support State government services. Additionally, the bill would provide that the Legislature may make appropriations for Permanent Fund dividends based on the value of the entire Permanent Fund and the values of mineral royalties. As a result of the changes in this bill, the Permanent Fund earnings reserve account would generate a predictable and solid return of revenues for State government, and the dividend would continue, but on a more sustainable and predictable basis.

Your favorable consideration of this request is appreciated. If you need any additional information, please contact Jerry Burnett, Deputy Commissioner for the Department of Revenue at 907-465-3669.

Sincerely,

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

Randall J. Hoffbeck, Commissioner

Cc: Darwin Peterson, Legislative Director, Office of the Governor  
Jerry Burnett, Deputy Commissioner, Department of Revenue

STATE CAPITOL  
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Juneau, AK 99811-0001  
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**Governor Bill Walker**  
STATE OF ALASKA

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January 17, 2017

The Honorable Pete Kelly  
President of the Senate  
Alaska State Legislature  
State Capitol Room 111  
Juneau, AK 99801

Dear President Kelly:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska permanent fund and the funding structure for State government.

This bill would establish a new financial model to enable sustainable funding of State services and the protection of the Permanent Fund. The bill would provide for an annual sustainable draw, subject to appropriation, from the Permanent Fund earnings reserve account to the general fund to support State government services. Additionally, the bill would provide that the Legislature may make appropriations for Permanent Fund dividends based on the value of the entire Permanent Fund and the value of mineral royalties. As a result of the changes in this bill, the Permanent Fund earnings reserve account would generate a predictable and solid return of revenues for State government, and the dividend would continue, but on a more sustainable and predictable basis.

In detail, the bill would make the following changes to allow for sustainable withdrawals from the Permanent Fund to the general fund:

- Amend AS 37.13.145 to provide for an annual appropriation from the earnings reserve account to the general fund to pay for State government services, calculated based on five and one-quarter percent of the average market value of the Permanent Fund for the first five of the preceding six fiscal years (hereafter, "POMV draw").
- Add a new section, AS 37.13.146, to provide that the Legislature may appropriate for the payment of dividends from the general fund based on an amount equal to 20 percent of the POMV draw and 20 percent of the mineral royalties received by the State. For the next two years, the dividend would be set at \$1,000. Thereafter, the new formula would go into effect, resulting in a dividend of approximately \$1,000 into the future.
- Change the inflation-proofing mechanism by providing that the Legislature may appropriate any amount in the earnings reserve that exceeds the annual POMV draw multiplied by four to Permanent Fund principal. This will ensure that a sufficient amount of funds remains in

The Honorable Pete Kelly  
Transmittal Alaska Permanent Fund Protection Act  
January 17, 2017  
Page 2

the earnings reserve account for the POMV draw, while also continuing to build up the principal of the Permanent Fund over time.

- Add a new section reducing the annual draw from the earnings reserve account to the general fund if the State receives more than \$1.2 billion in mineral royalties and oil and gas production taxes in a fiscal year.

Finally, the bill seeks to amend the uncodified law to express the intent of the Legislature that the Legislature reevaluate the use of Permanent Fund earnings as provided for in this bill in three years. Upon becoming law, the bill would become effective immediately.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink that reads "Bill Walker". The signature is written in a cursive, flowing style.

Bill Walker  
Governor

Enclosure

# PERMANENT FUND PROTECTION ACT

February 1, 2017

The Permanent Fund Protection Act (PFPA) proposes a long-term plan for how we use fund earnings. The purpose of the plan is to protect the fund and the dividend by ensuring withdrawals are sustainable and that the fund maintains its inflation-adjusted value over time. In addition, the plan will help avoid future year-to-year swings in general fund revenue. By tempering that revenue volatility, the plan will also reduce associated fiscal inefficiencies and negative long-term impacts on the state economy.

The plan consists of a series of formulas: a draw formula, a dividend formula, and two formulas for deposits to the corpus.

**Draw Formula:** the amount to transfer from the ERA to the general fund

1. POMV Draw:
  - 5.25% of the average value of the fund in the first 5 of the last 6 years
2. Draw Limit:
  - Reduce the POMV draw by one dollar for every dollar that general fund production taxes and royalties exceed \$1.2 billion

**Dividend Formula:** how much to appropriate from the general fund to the dividend fund

1. \$1,000 per person for first 2 years
2. Then, 20% of general fund royalties plus 20% of the POMV draw

The 20/20 formula is expected to produce dividends around \$1,000 per person.

**Corpus Deposits:** how much to put into the constitutionally protected corpus each year

1. Inflation Proofing Mechanism
  - Any balance of the ERA that is over 4 times the full POMV draw (currently annual transfers are made based on the rate of inflation in the prior year)
2. Royalty Deposits
  - Reduce to 25% (currently at about 30%)

Questions? Contact Emma Pokon at [emma.pokon@alaska.gov](mailto:emma.pokon@alaska.gov) or (907) 269-5215 for more information.

# MODELING

## FOR THE PERMANENT FUND PROTECTION ACT

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Randall Hoffbeck, *Commissioner of Revenue*



Senate State Affairs Committee  
Tuesday, February 7, 2017

# SCENARIOS MODELED

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1. **Status Quo:** ad hoc use of permanent fund earnings to fill budget deficit
2. **Permanent Fund Protection Act (PFPA) with \$2.4 billion transfer to the Constitutional Budget Reserve (CBR)**
  - With Full Fiscal Solution
  - With No Fiscal Solution for remaining budget deficit.
3. **PFPA without transfer to the CBR**
  - With Full Fiscal Solution
  - With No Fiscal Solution for remaining budget deficit.



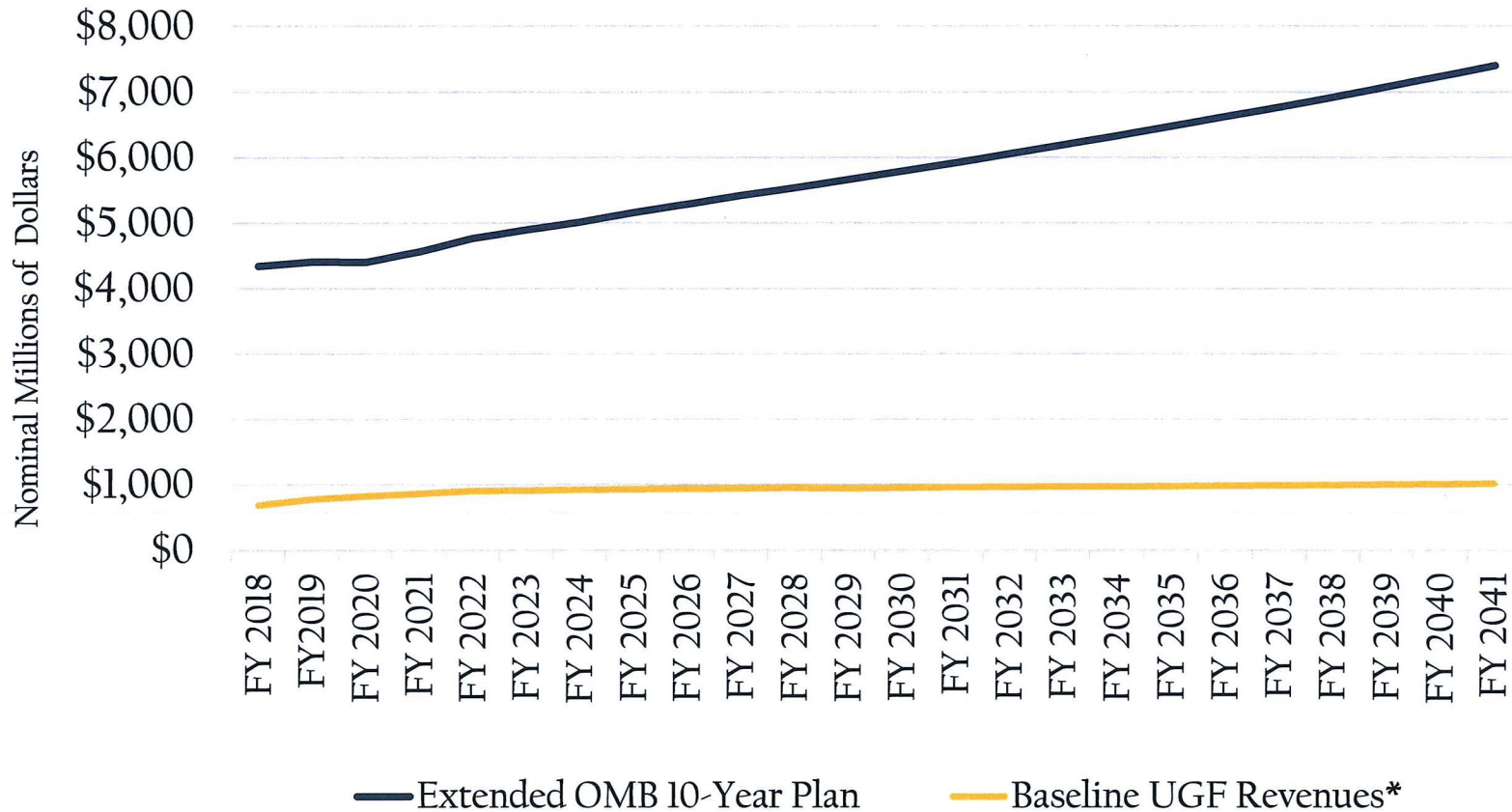
# MODEL SOPHISTICATION AND VETTING

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- Key aspects of the model
  - Probabilistic treatment of oil prices, oil production, investment returns
  - Focus on detail of how money flows between permanent fund, general fund, and dividends
  - Assumptions from objective sources
  - Monte Carlo simulations
  
- Vetted by McKinsey last year
  - Found no major mechanical errors, reasonable assumptions
  - Approved of Monte Carlo probabilistic method
  - Suggested improvements, some of which the Department of Revenue (DOR) has incorporated
    - Example: probabilistic oil production, autocorrelation



# BUDGET ASSUMPTIONS



- Baseline UGF revenues are the DOR's Fall 2016 total UGF forecast less unrestricted royalties and production tax forecasts. Production and royalty UGF figures are estimated in the model.



# STATUS QUO: METHOD, INPUTS, AND ASSUMPTIONS

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- **Permanent Fund Starting Value: \$54.9 billion**
  - Realized portion of corpus: \$40.7 billion
  - Realized portion of earnings reserve account (ERA): \$7.9 billion
  - Unrealized earnings held by the fund: \$6.3 billion
  - Starting value was estimated based on the following:
    - \$54.9 billion estimated end of year (EOY) 2017 balance of permanent fund (PF) under status quo from Alaska Permanent Fund Corporation (APFC)
  
- **Investment Return: Callan Associate's 10-year forecast**
  - Total return: 6.95% geometric, 12.32% standard deviation
  - Statutory return: P10 = 3.70%, P50 = 6.24%, P90 = 8.14%
  - Inflation rate: 2.25%



# STATUS QUO: METHOD, INPUTS, AND ASSUMPTIONS

---

- **Petroleum Revenues:**
  - **Oil price:** Probabilistic analysis of ANS oil prices using a PERT distribution from the fall 2016 price forecasting session.
  - **Production:** Probabilistic analysis of ANS oil prices using a PERT distribution from the DNR provided Fall 2016 RSB
- **Deposits:** 31% of royalties deposited into the permanent fund.
- **Payout Calculation:** No planned payout to the general fund.
- **Unplanned Payouts:** After the constitutional budget reserve (CBR) is depleted, budget deficits are filled from the earnings reserve account (ERA)
- **CBR:** \$4.4 billion beginning of year (BOY) 2018 balance with a 2.25% rate of return.



# STATUS QUO: METHOD, INPUTS, AND ASSUMPTIONS

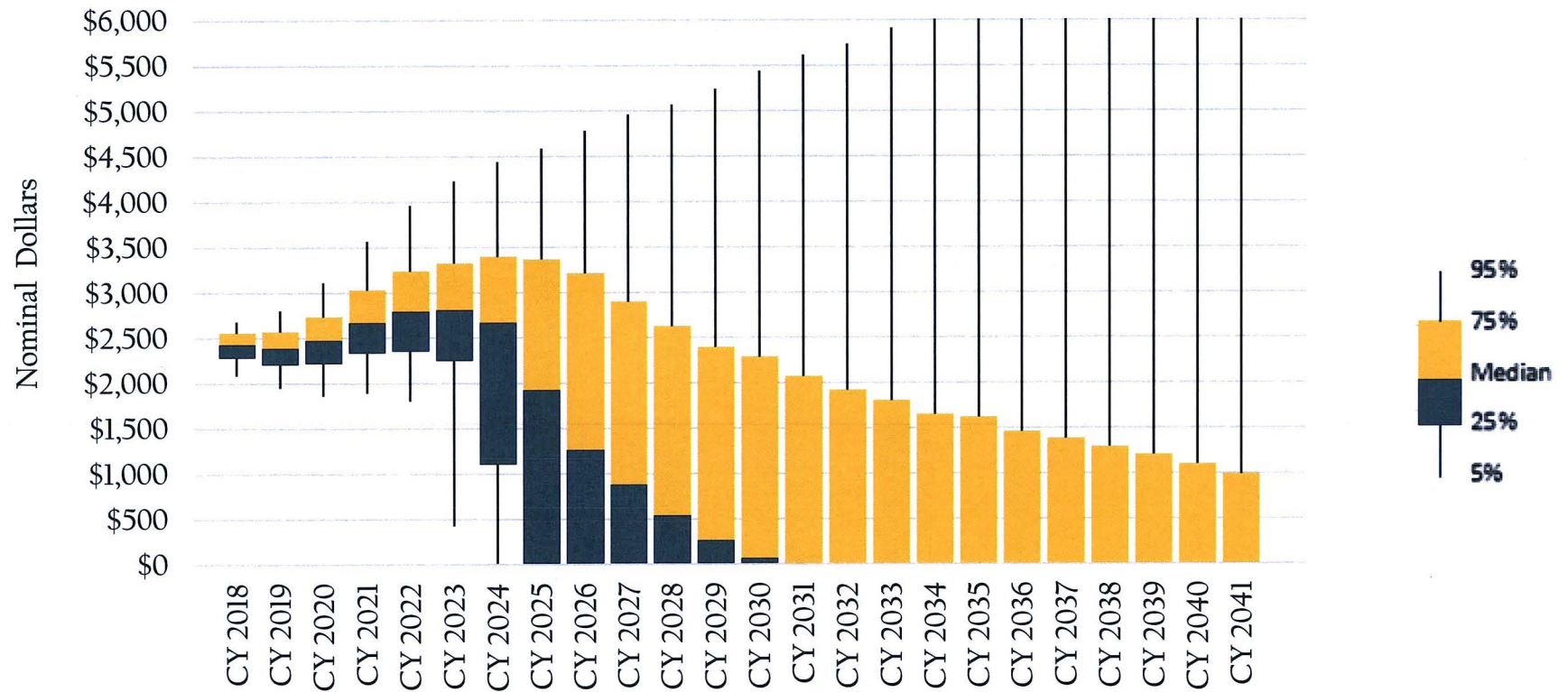
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- **Dividend Calculation:**
  - Total distributed is equal to half of the sum of the last 5 years' statutory net income multiplied by 0.21 or half of the ERA, whichever is less
- **Inflation Proofing:**
  - The fund's principal is inflation proofed at the predicted inflation rate.



# STATUS QUO, NO FISCAL PLAN

## Dividend paid per Person



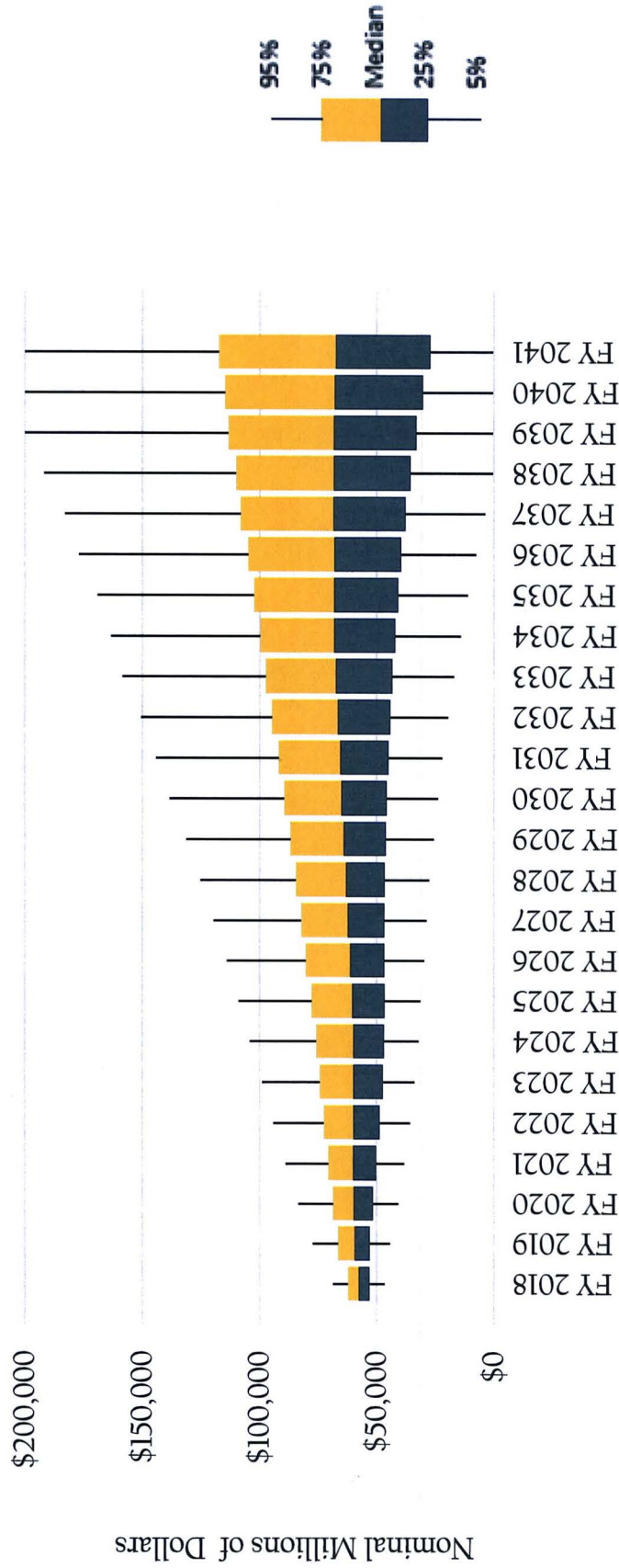
2018 median value: \$2,432

2041 median value: \$0



# STATUS QUO, NO FISCAL PLAN

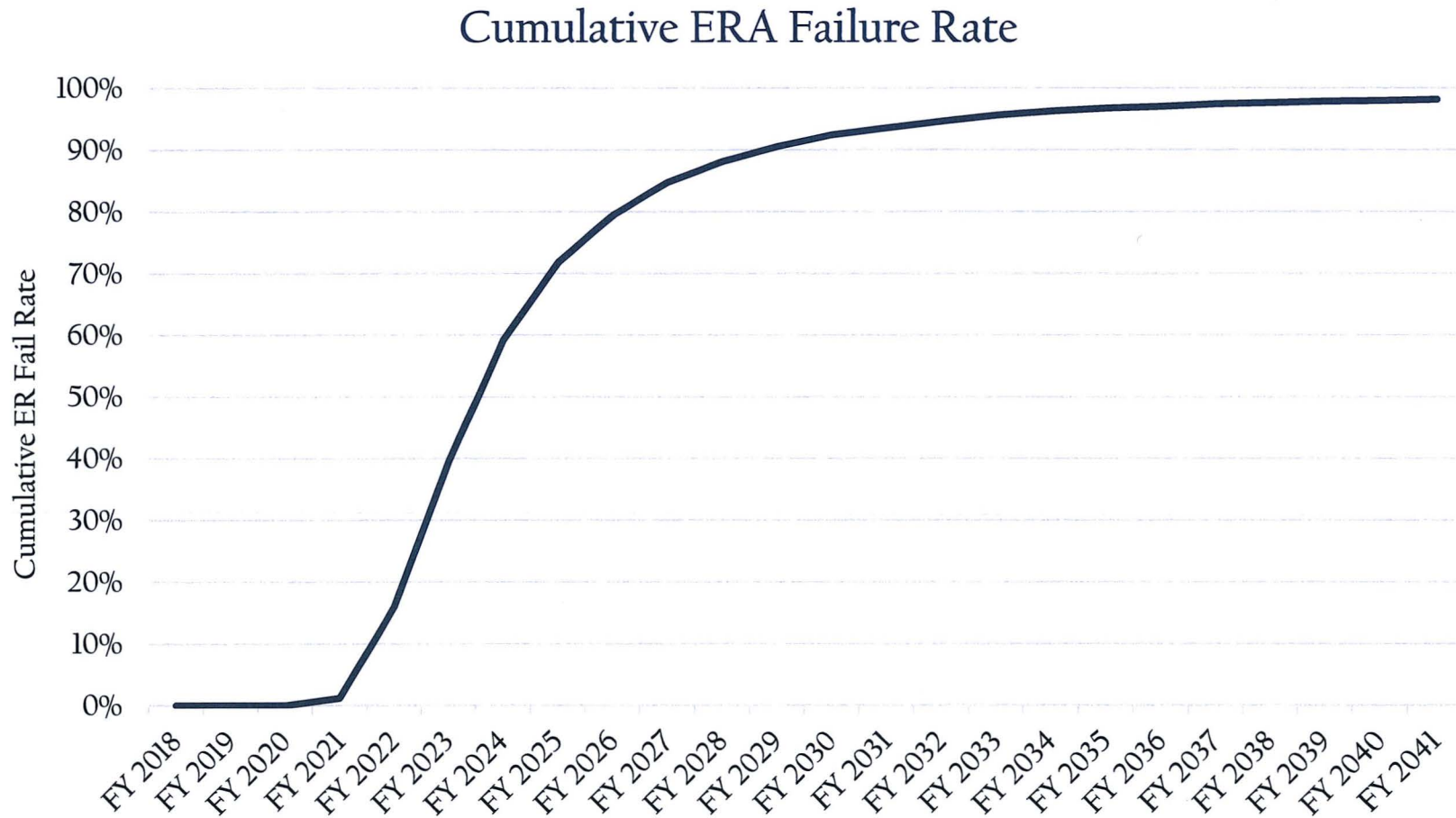
Nominal Fund Size



2041 median value: \$67,484 nominal (\$39,563 real) million      ER Fail Rate over 24 Years: 98.14%



# STATUS QUO, NO FISCAL PLAN



# APFPA WITH CBR TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

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- **Permanent Fund Starting Value: \$53.4 billion**
  - Realized portion of corpus: \$40.7 billion
  - Realized portion of ERA: \$6.3 billion
  - Unrealized earnings held by the fund: \$6.3 billion
  - Starting value was estimated based on the following:
    - \$54.9 billion estimated EOY 2017 balance of PF under status quo
    - Plus \$0.8 billion from the difference in the calendar year (CY) 2017 dividend calculation
    - Less \$2.4 billion transfer to CBR (repaying for last years withdrawal as if we started PFPA a year earlier)
- **Investment Return: Callan Associate's 10-year forecast**
  - Total return: 6.95% geometric, 12.32% standard deviation
  - Statutory return: P10 = 3.70%, P50 = 6.24%, P90 = 8.14%
  - Inflation rate: 2.25%



# APFPA WITH CBRF TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

---

- **Petroleum Revenues:**
  - **Oil price:** Probabilistic analysis of ANS oil prices using a PERT distribution from the fall 2016 price forecasting session.
  - **Production:** Probabilistic analysis of ANS oil prices using a PERT distribution from the DNR provided Fall 2016 RSB
- **Deposits:** 25% of royalties deposited into the permanent fund.
- **Payout Calculation:** 5.25% of the average of first 5 of the last 6 years' total fund size. This value can then be decreased if the combined royalty and production tax revenues for the year are above \$1.2 billion, by the amount over \$1.2 billion. This can not reduce the payout amount by more than 80%.
- **Unplanned Payouts:** After depleting the CBR, budget deficits are filled from the ERA.
- **CBR:** \$6.8 billion BOY 2018 balance with Rate of Return of 2.25%
  - Initial Balance of \$6.8 billion is estimated based on a forecasted balance of \$4.4 billion and a \$2.4 billion transfer from the ERA



# APFPA WITH CBRF TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

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## ■ Dividend Calculation:

### ■ The sum of:

- 20% of the POMV payout before any reduction, and
- 20% of the unrestricted royalties (about 15% of total royalties) from the most recent FY ended
- Overwriting the above calculation there is a fixed dividend of \$1,000 per person for CY 2018.

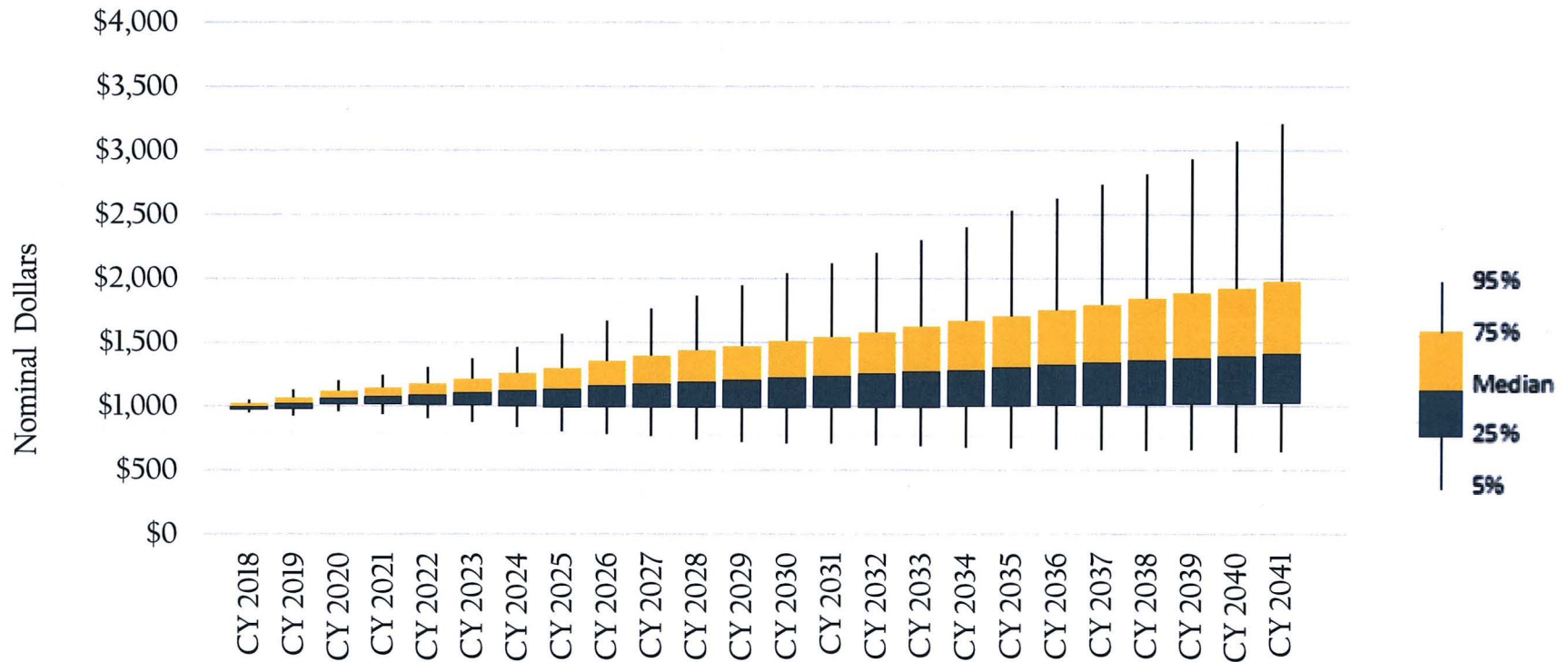
## ■ Inflation Proofing:

- If four times the 5.25% POMV payout (21% of the total fund value) remains in the ERA after the POMV transfer, the amount over the four times the POMV is transferred into the corpus.



# APFPA WITH TRANSFER, FULL FISCAL PLAN

## Dividend paid per Person



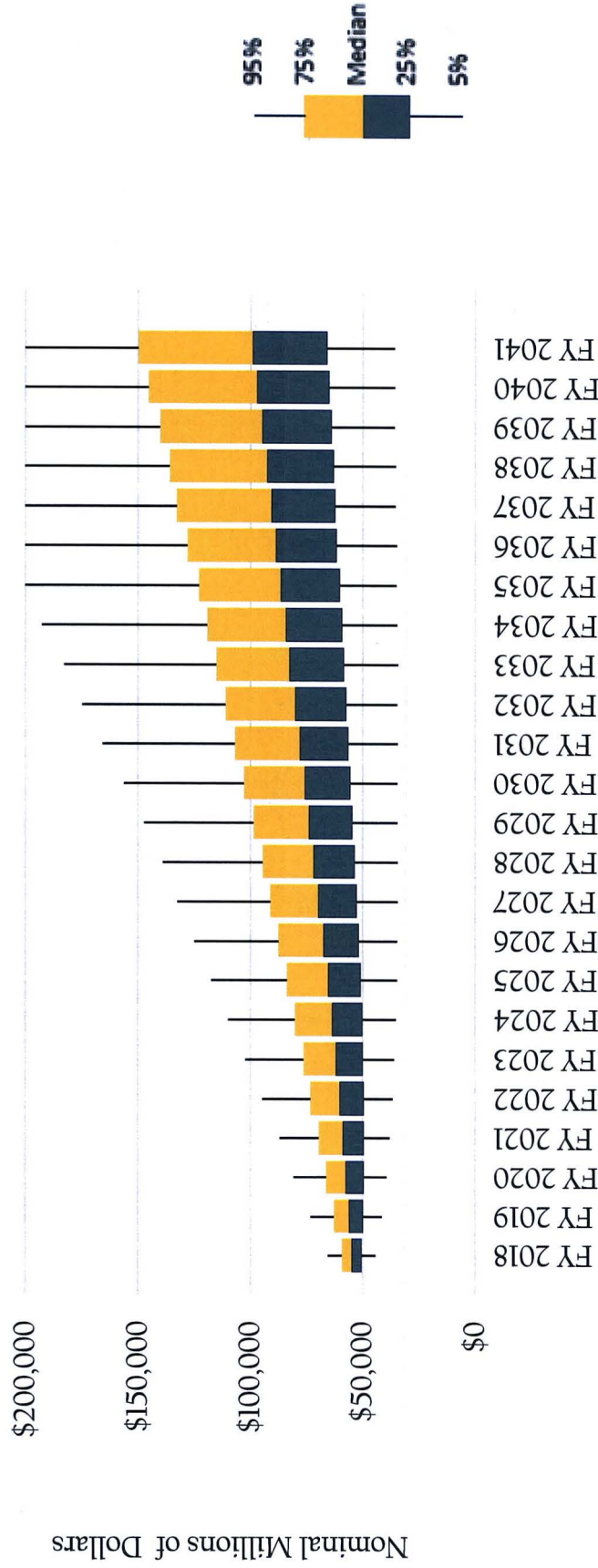
2018 median value: \$1,000

2041 median value: \$1,416 nominal (\$830 real)



# APFPA WITH TRANSFER, FULL FISCAL PLAN

Nominal Fund Size

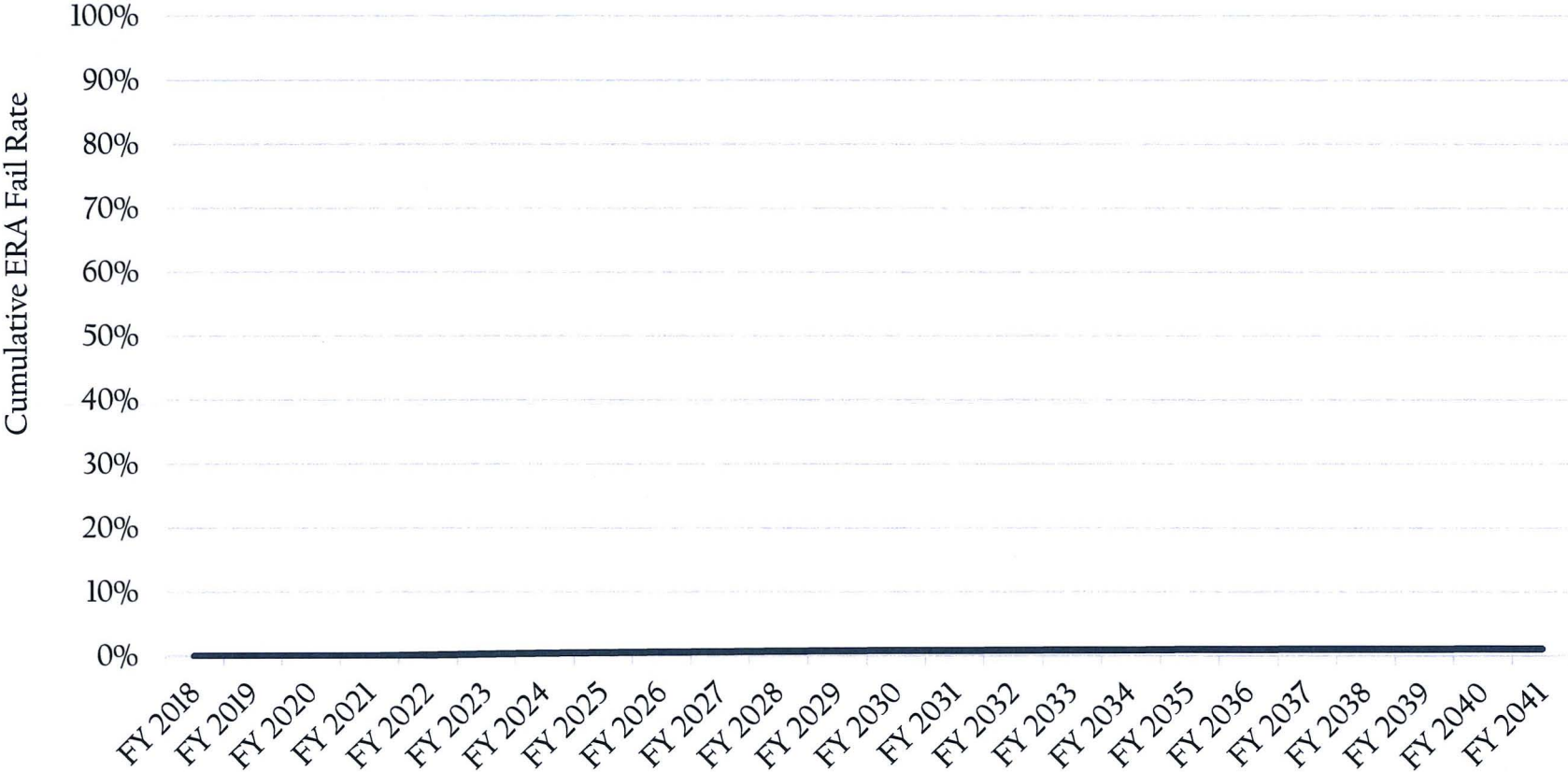


2041 median value: \$99,254 nominal (\$58,188 real) million      ER Fail Rate over 24 Years: 1.12%

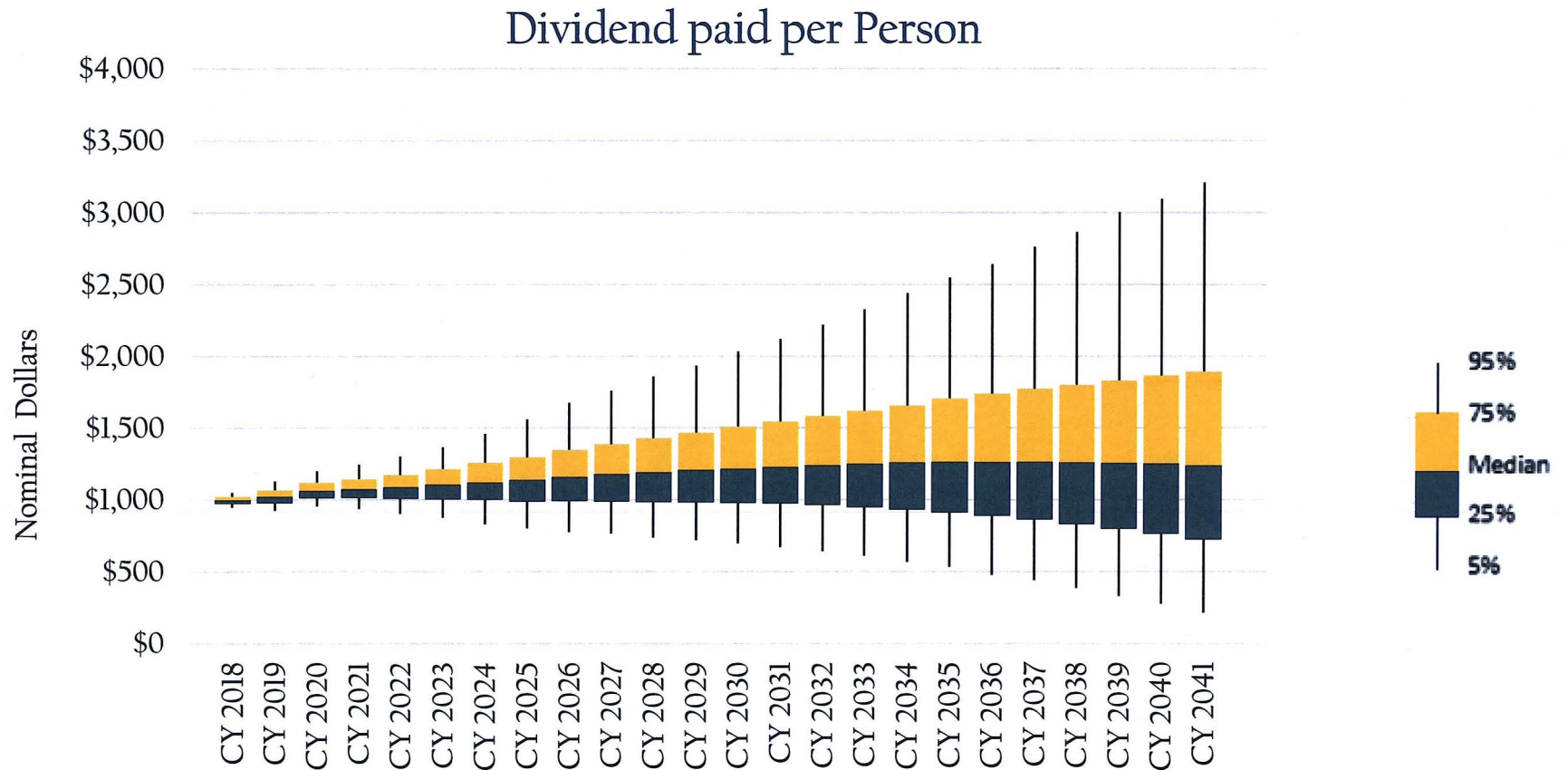


# APFPA WITH TRANSFER, FULL FISCAL PLAN

Cumulative ERA Failure Rate



# APFPA WITH TRANSFER, NO FISCAL PLAN



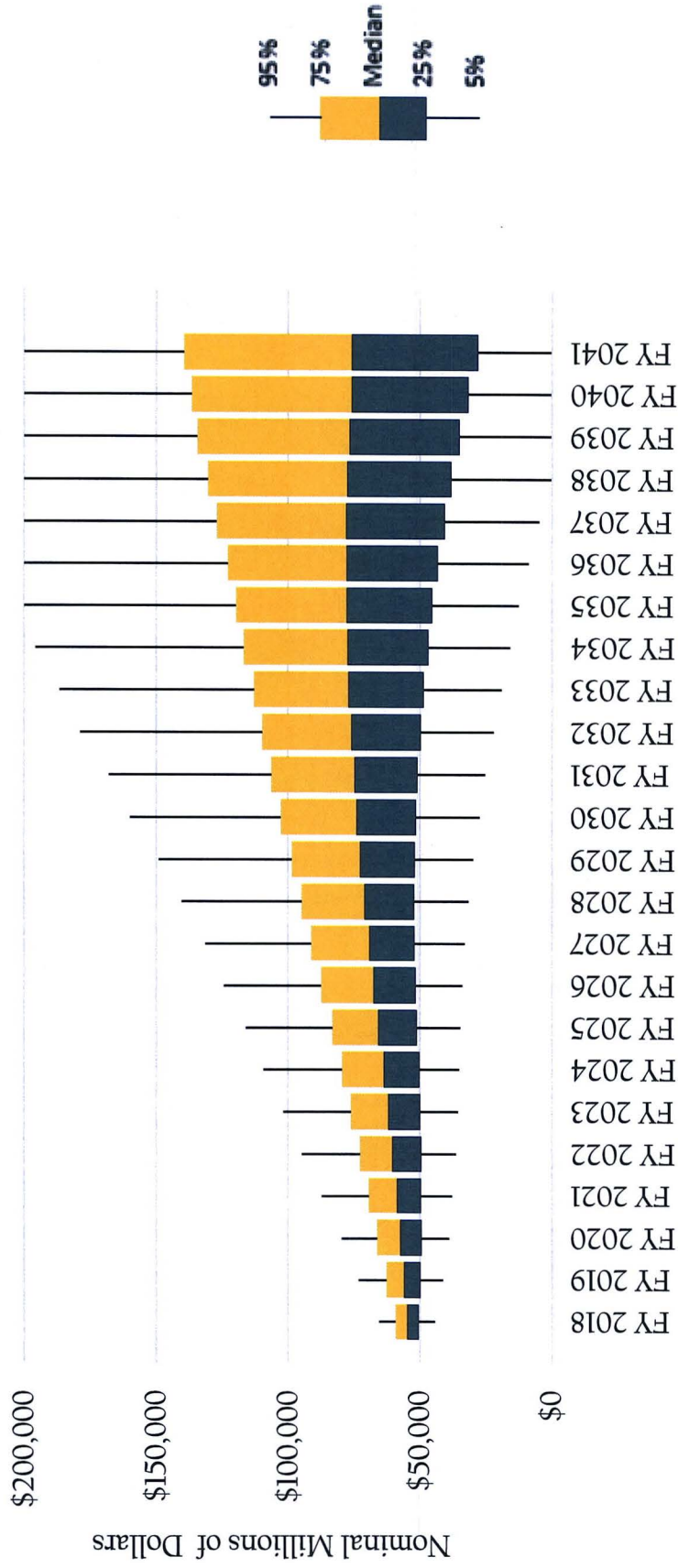
2018 median value: \$1,000

2041 median value: \$1,239 nominal (\$727 real)



# APFPA WITH TRANSFER, NO FISCAL PLAN

Nominal Fund Size

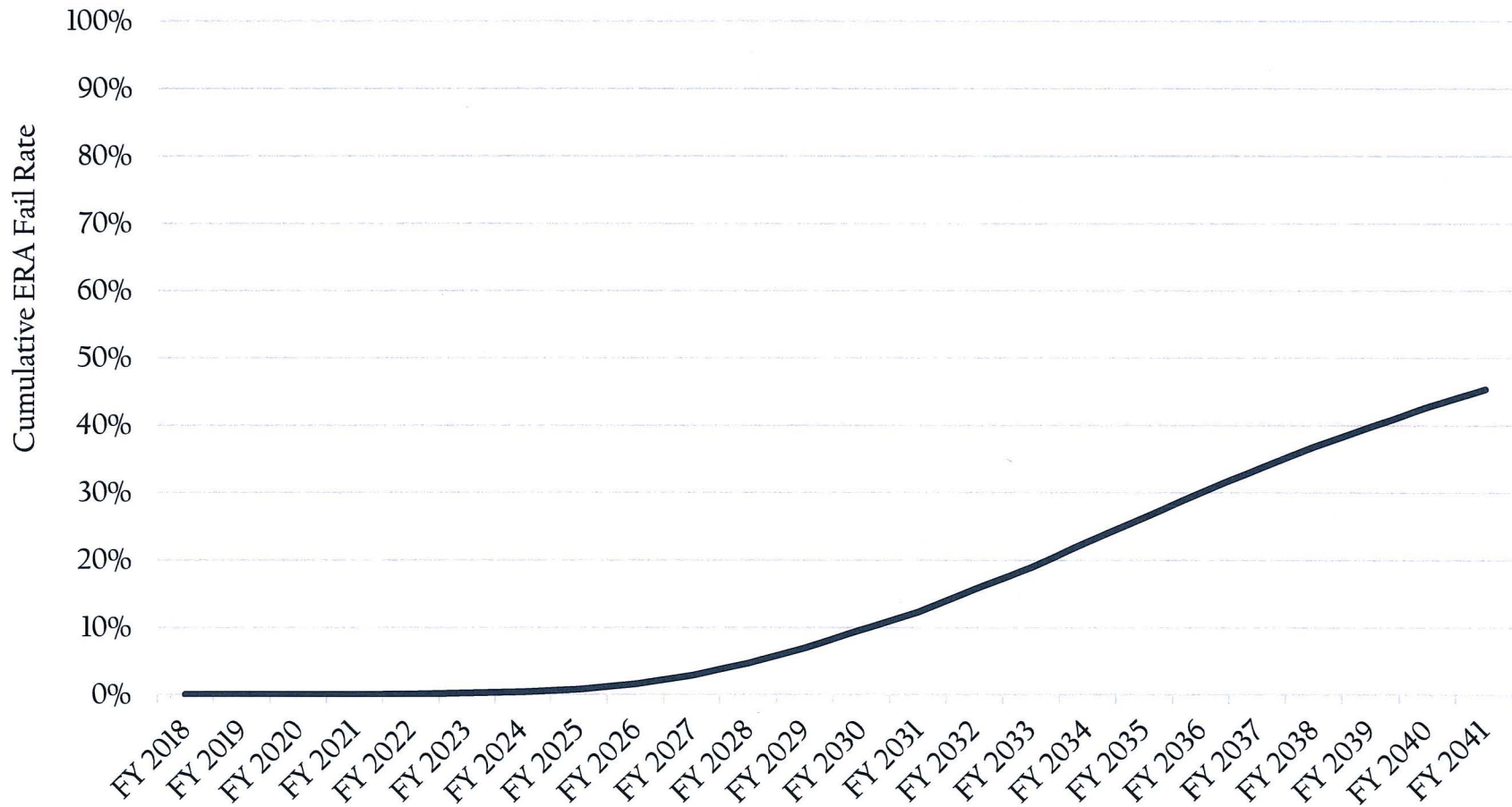


2041 median value: \$76,047 nominal (\$44,582 real) million      ER Fail Rate over 24 Years: 45.38%



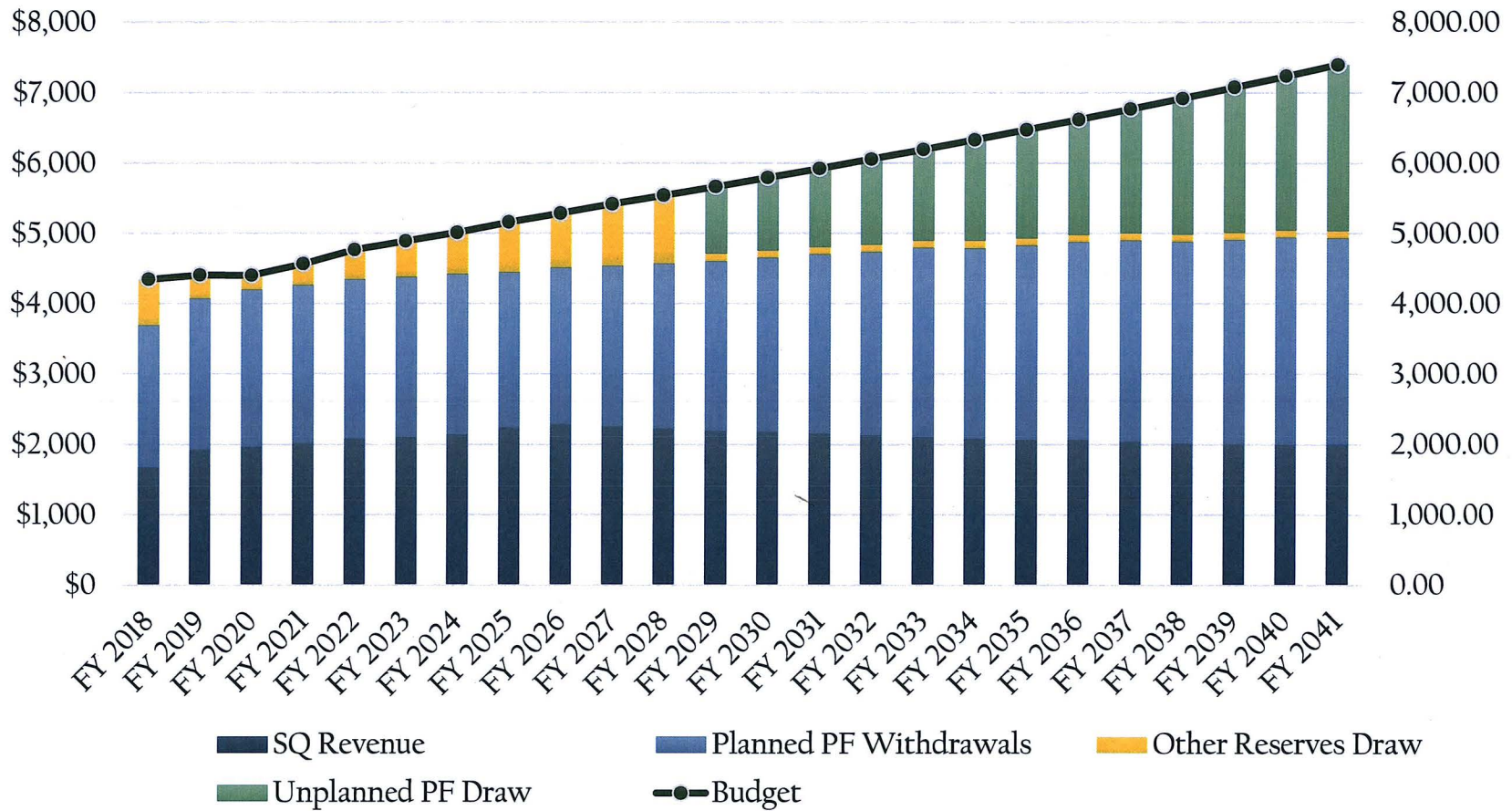
# APFPA WITH TRANSFER, NO FISCAL PLAN

## Cumulative ERA Failure Rate



# APFPA WITH TRANSFER, NO FISCAL PLAN

## Median UGF Revenue/Budget



# APFPA WITHOUT CBRF TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

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- **Permanent Fund Starting Value: \$55.8 billion (See estimate below)**
  - Realized portion of corpus: \$40.7 billion
  - Realized portion of ERA: \$8.7 billion
  - Unrealized earnings held by the fund: \$6.3 billion
  - Starting value was estimated based on the following:
    - \$54.9 billion estimated EOY 2017 balance of PF under status quo
    - Plus \$0.8 billion from the difference in the CY 2017 dividend calculation
- **Investment Return: Callan Associate's 10-year forecast**
  - Total return: 6.95% geometric, 12.32% standard deviation
  - Statutory return: P10 = 3.70%, P50 = 6.24%, P90 = 8.14%
  - Inflation rate: 2.25%



# APFPA WITHOUT CBRF TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

---

- **Petroleum Revenues:**
  - **Oil price:** Probabilistic analysis of ANS oil prices using a PERT distribution from the fall 2016 price forecasting session.
  - **Production:** Probabilistic analysis of ANS oil prices using a PERT distribution from the DNR provided Fall 2016 RSB
- **Deposits:** 25% of royalties deposited into the permanent fund.
- **Payout Calculation:** 5.25% of the average of first 5 of the last 6 years' total fund size. This value can then be decreased if the combined royalty and production tax revenues for the year are above \$1.2 billion, by the amount over \$1.2 billion. This can not reduce the payout amount by more than 80%.
- **Unplanned Payouts:** After the CBR is depleted, budget deficits are filled using the ERA.
- **CBR:** \$4.4 billion BOY 2018 balance with Rate of Return of 2.25%



# APFPA WITHOUT CBRF TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

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## ■ Dividend Calculation:

### ■ The sum of:

- 20% of the POMV payout before reductions, and
- 20% of the unrestricted royalties (about 15% of total royalties) from the most recent FY ended

- Overwriting the above calculation, the dividend for CY2018 is \$1,000/person.

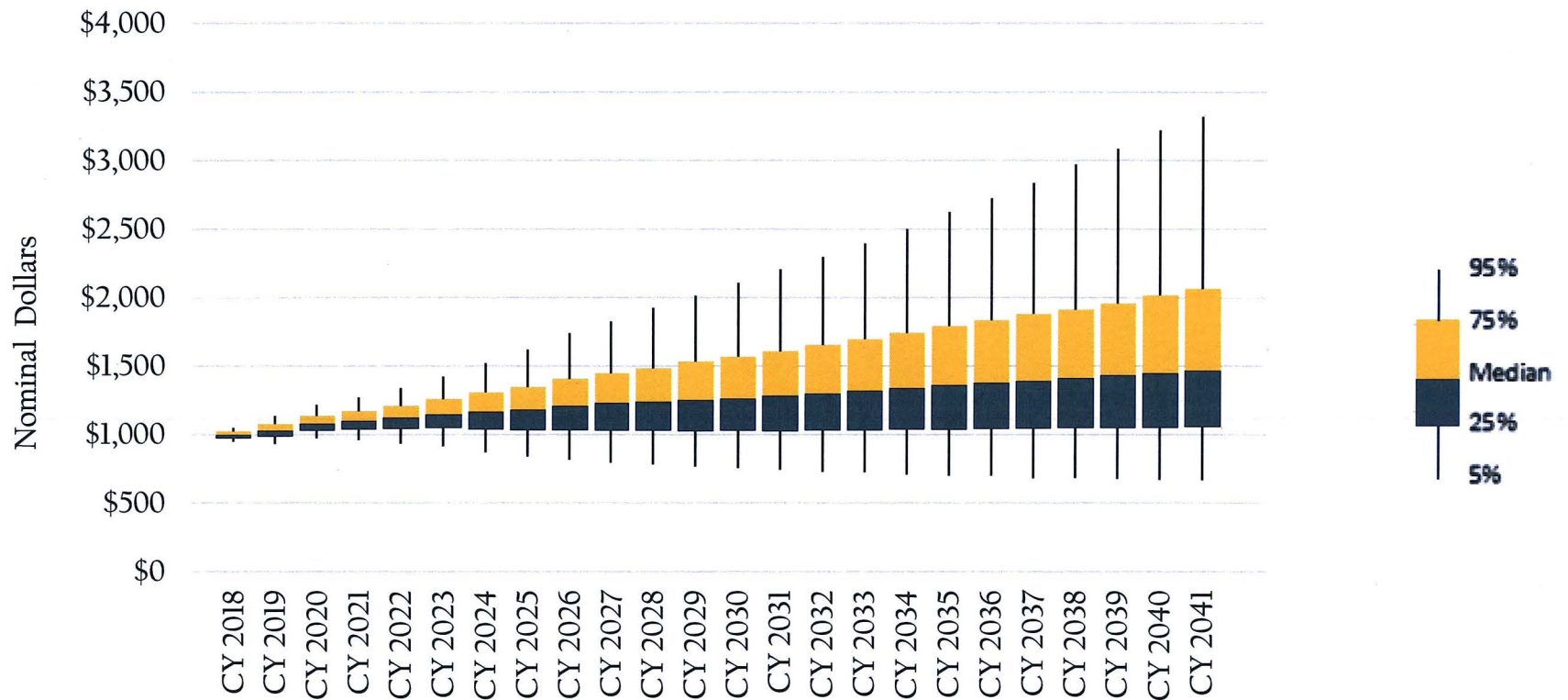
## ■ Inflation Proofing:

- If four times the 5.25% POMV payout remains in the ERA after the POMV transfer, the amount over the four times the POMV is transferred into the corpus.



# APFPA WITHOUT TRANSFER, FULL FISCAL PLAN

## Dividend paid per Person



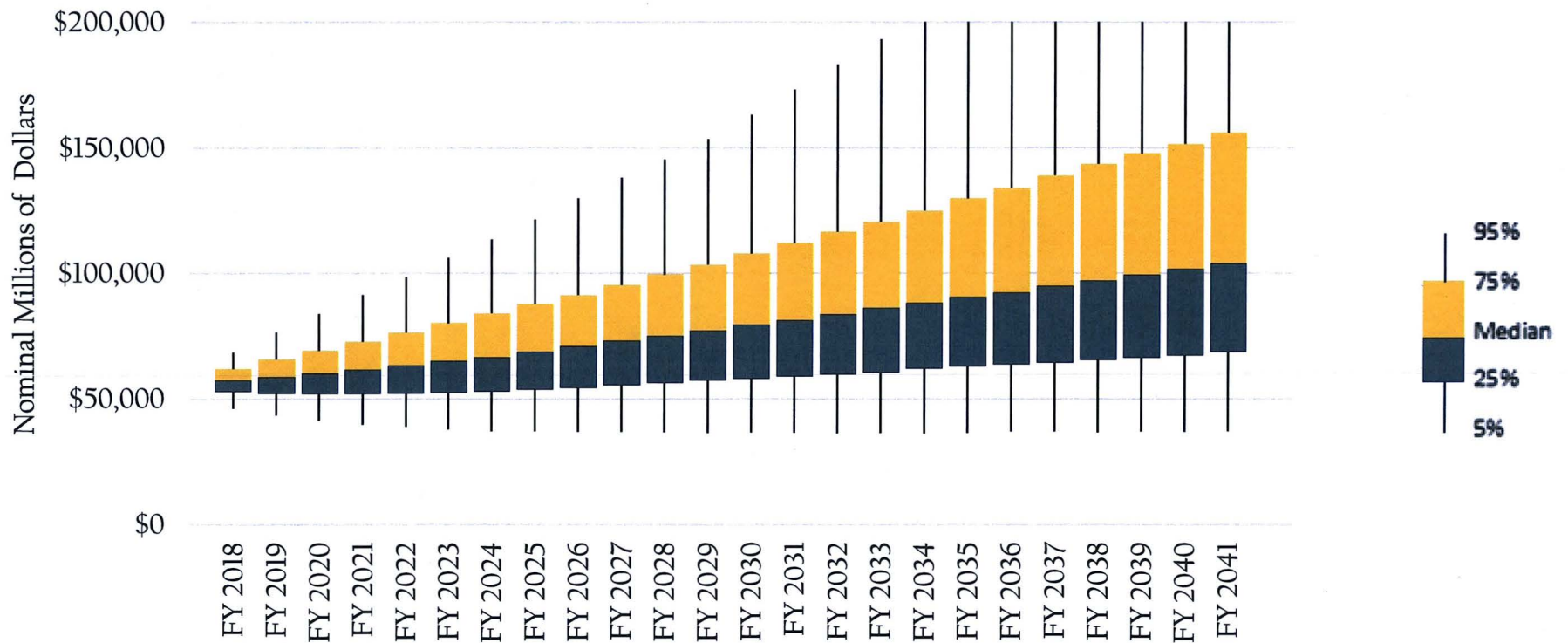
2018 median value: \$1,000

2041 median value: \$1,468 nominal (\$861 real)



# APFPA WITHOUT TRANSFER, FULL FISCAL PLAN

## Nominal Fund Size



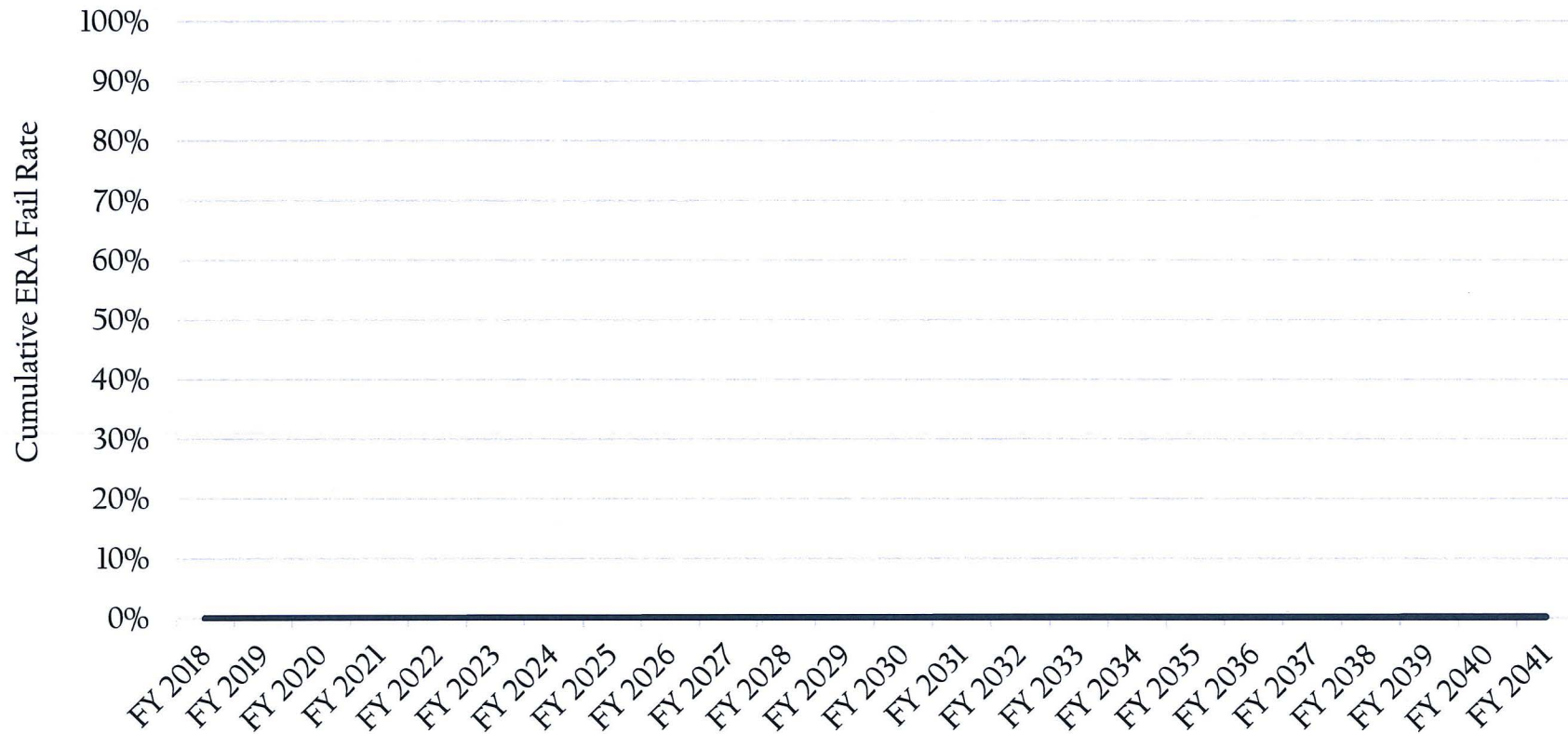
2041 median value: \$104,079 nominal (\$61,016 real) million

ER Fail Rate over 24 Years: 0.18%



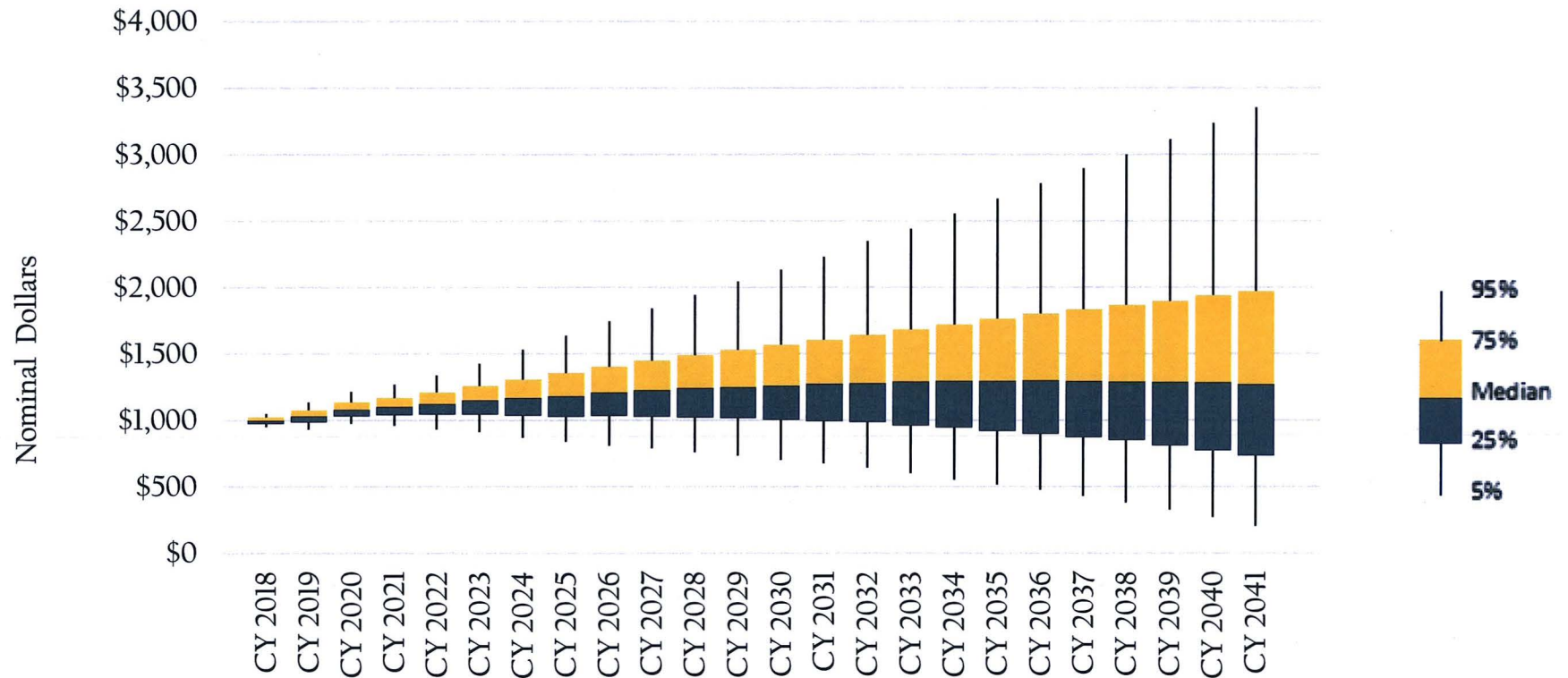
# APFPA WITHOUT TRANSFER, FULL FISCAL PLAN

## Cumulative ERA Failure Rate



# APFPA WITHOUT TRANSFER, NO FISCAL PLAN

## Dividend paid per Person



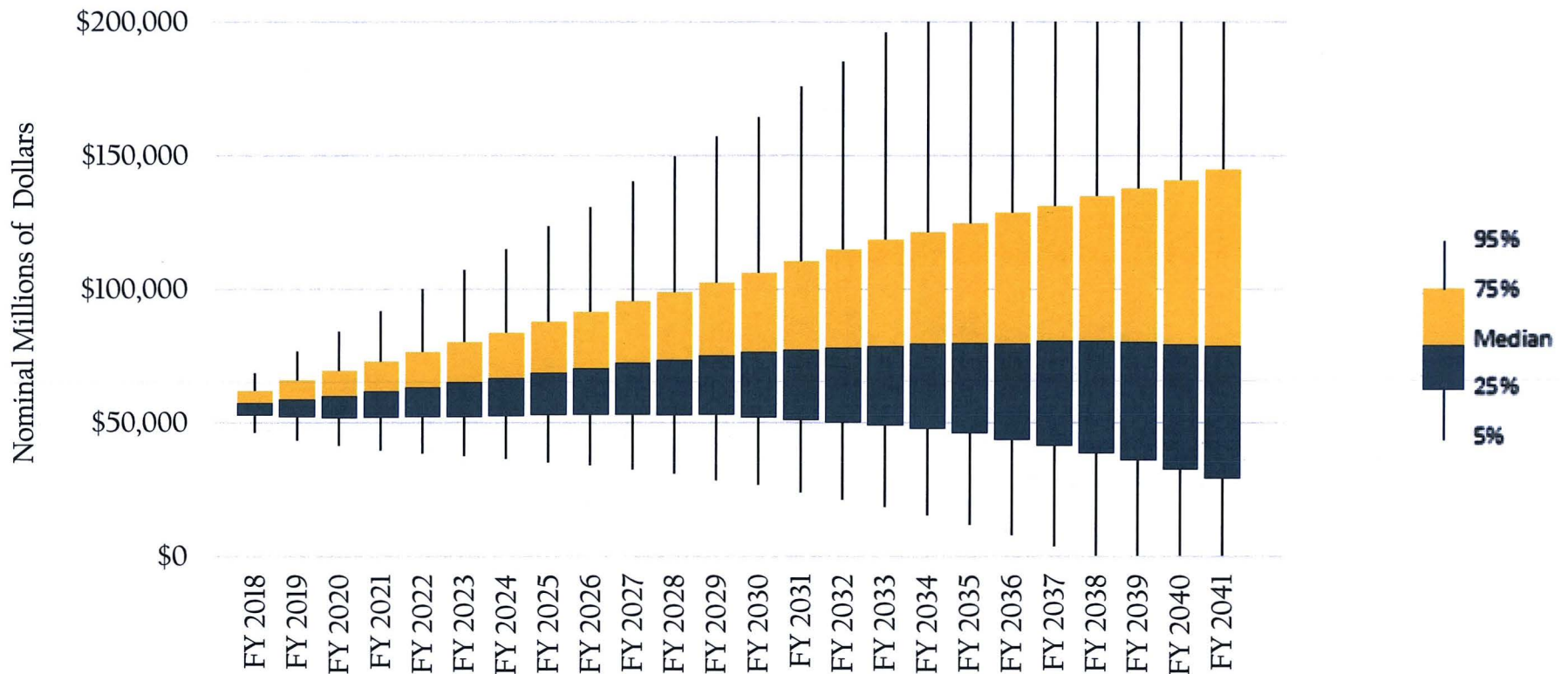
2018 median value: \$1,000

2041 median value: \$1,271 nominal (\$745 real)



# APFPA WITHOUT TRANSFER, NO FISCAL PLAN

## Nominal Fund Size



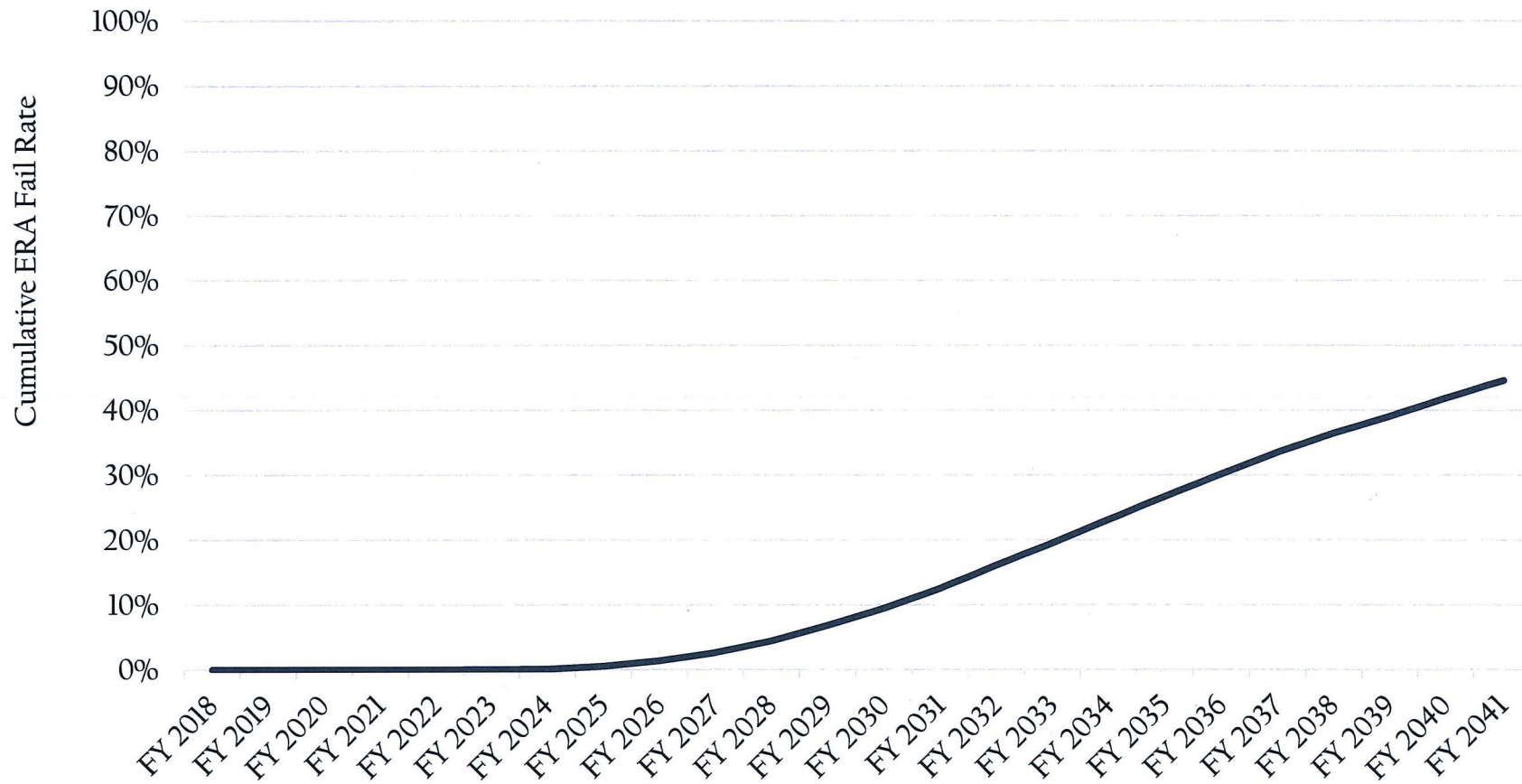
2041 median value: \$78,926 nominal (\$46,270 real) million

ER Fail Rate over 24 Years: 44.61%



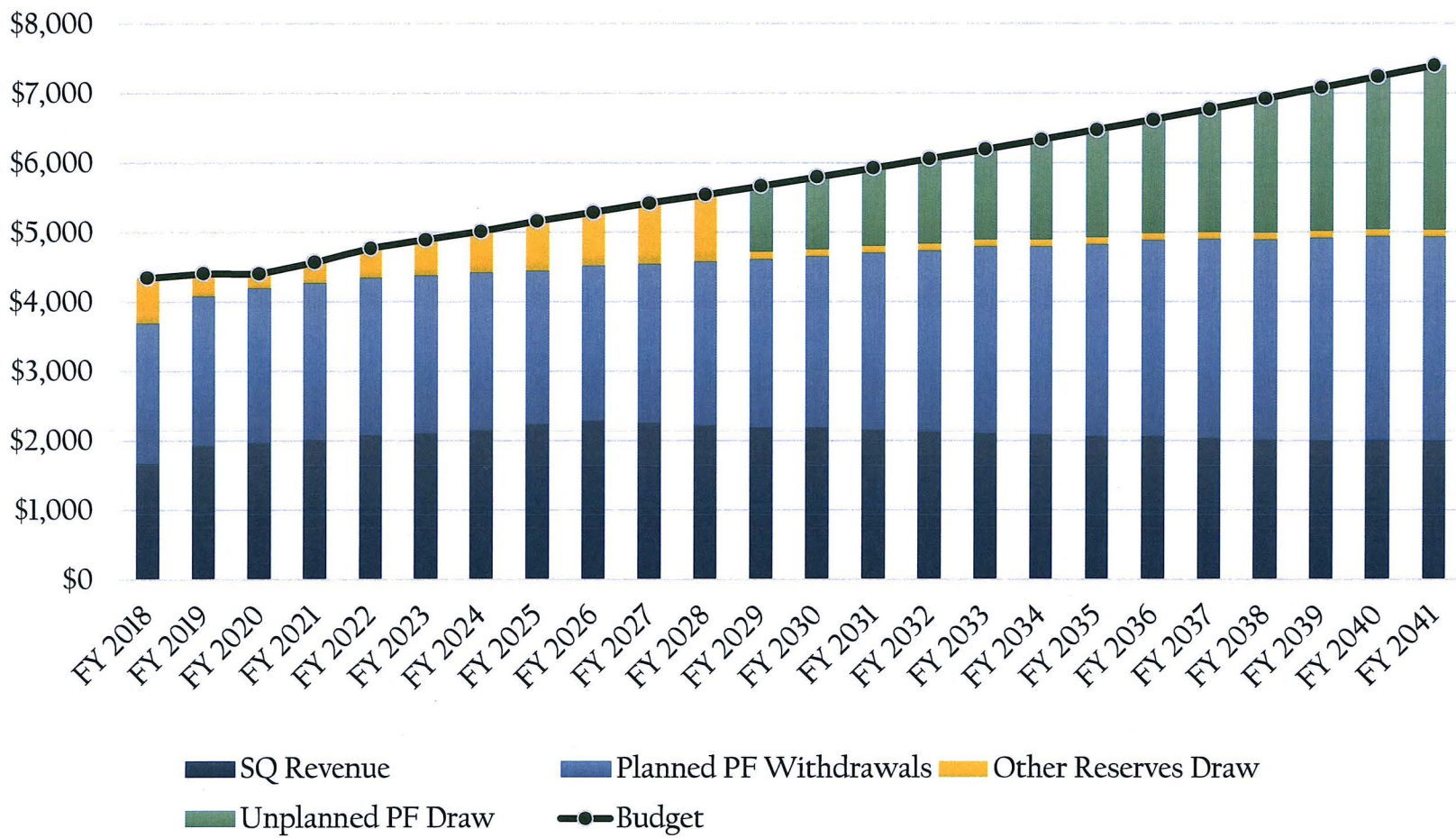
# APFPA WITHOUT TRANSFER, NO FISCAL PLAN

## Cumulative ERA Failure Rate



# APFPA WITHOUT TRANSFER, NO FISCAL PLAN

## Median UGF Revenue/Budget



# CONCLUSIONS

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- Status quo situation:
  - Dividend will collapse
  - Permanent Fund will be used to fill budget deficits, depleting value
  
- Permanent Fund Protection Act:
  - Stabilizes the dividend and budget with or without CBR transfer
  - However, additional revenue measures or budget cuts are required to protect the fund. Otherwise, the remaining budget gap will lead to unplanned withdrawals from the permanent fund that will degrade its value.



# MODELING

## FOR THE PERMANENT FUND PROTECTION ACT

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Randall Hoffbeck, *Commissioner of Revenue*



Senate State Affairs Committee  
Thursday, February 15, 2017

# SCENARIOS MODELED

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1. **Status Quo:** ad hoc use of permanent fund earnings to fill budget deficit
  
2. **Permanent Fund Protection Act (PFPA)**
  - With Full Fiscal Solution
  - With No Fiscal Solution for remaining budget deficit
  
3. **SB21**
  - With Full Fiscal Solution
  - With No Fiscal Solution for remaining budget deficit



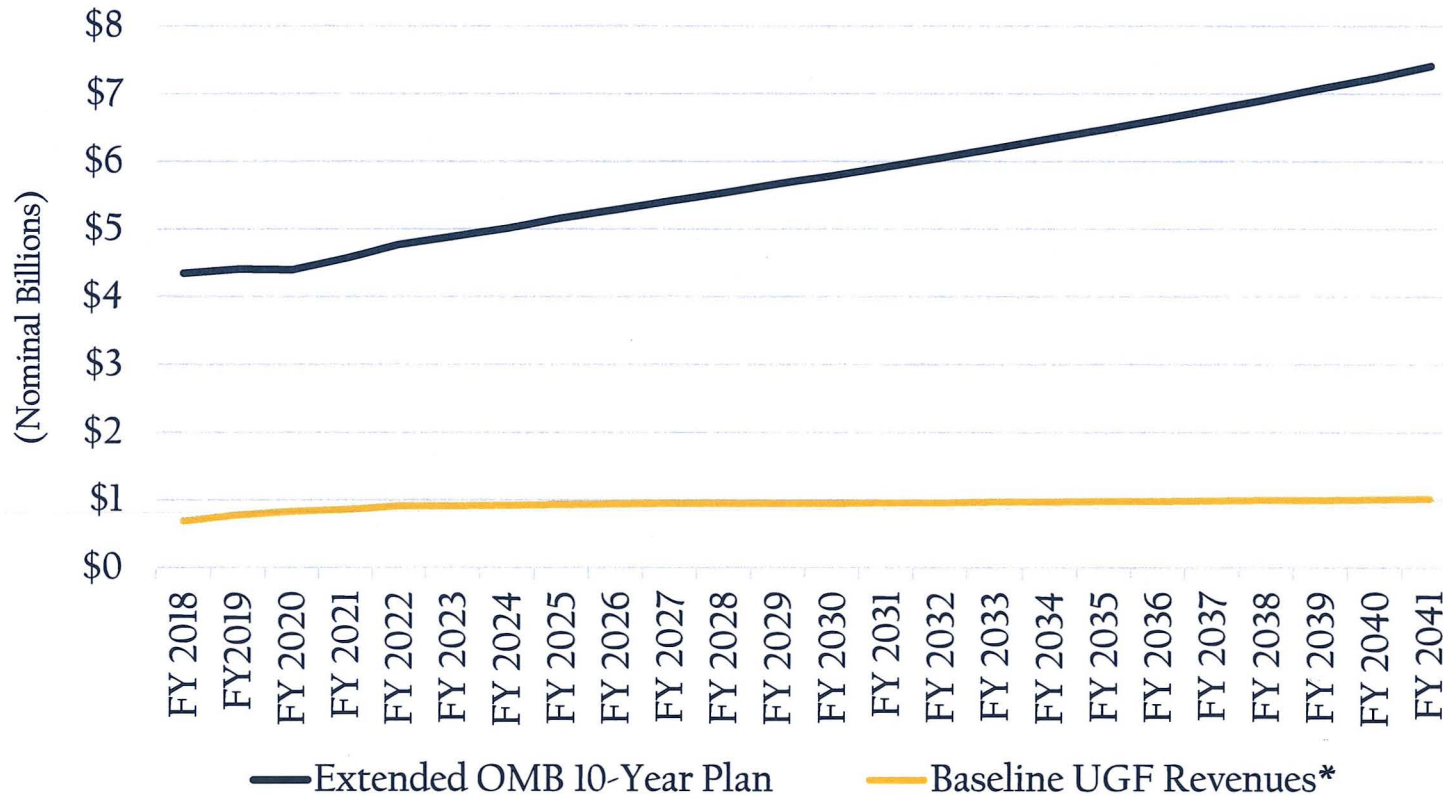
# MODEL SOPHISTICATION AND VETTING

---

- Key aspects of the model
  - Probabilistic treatment of oil prices, oil production, investment returns
  - Focus on detail of how money flows between permanent fund, general fund, and dividends
  - Assumptions from objective sources
  - Monte Carlo simulations
  
- Vetted by McKinsey last year
  - Found no major mechanical errors, reasonable assumptions
  - Approved of Monte Carlo probabilistic method
  - Suggested improvements, some of which the Department of Revenue (DOR) has incorporated (for example, probabilistic oil production, autocorrelation)



# BUDGET ASSUMPTIONS



- Baseline UGF revenues are the DOR's Fall 2016 total UGF forecast less unrestricted royalties and production tax forecasts. Production and royalty UGF figures are estimated in the model.



# METHOD, INPUTS, AND ASSUMPTIONS

---

- **Permanent Fund Starting Value: \$54.9 billion**
  - Realized portion of corpus: \$40.7 billion
  - Realized portion of earnings reserve account (ERA): \$7.9 billion
  - Unrealized earnings held by the fund: \$6.3 billion
  - Starting value was estimated based on the following:
    - \$54.9 billion estimated end of year (EOY) 2017 balance of permanent fund (PF) under status quo from Alaska Permanent Fund Corporation (APFC)
- **Investment Return: Callan Associates' 10-year forecast**
  - Total return: 6.95% geometric, 12.32% standard deviation
  - Statutory return: 6.24% mean, 2.24% standard deviation
  - Inflation rate: 2.25%



# METHOD, INPUTS, AND ASSUMPTIONS

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- **Petroleum Revenues:**
  - **Oil price:** Probabilistic analysis of ANS oil prices using a PERT distribution from the fall 2016 price forecasting session.
  - **Production:** Probabilistic analysis of ANS oil prices using a PERT distribution from the DNR provided Fall 2016 RSB
- **CBR:** \$4.4 billion beginning of year 2018 balance & a 2.25% rate of return.



# STATUS QUO: SCENARIO

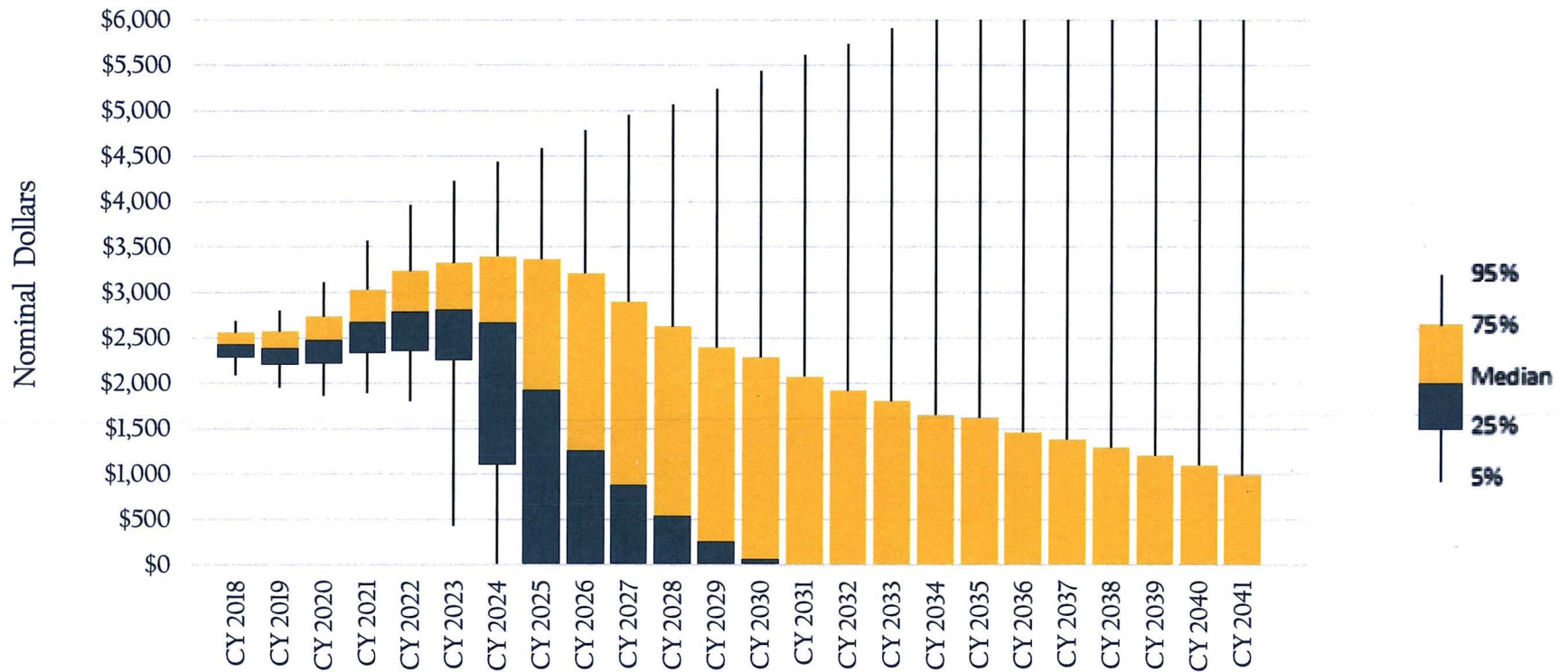
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- **Deposits:** 31% of royalties deposited into the permanent fund.
- **Payout Calculation:** No planned payout to the general fund.
- **Unplanned Payouts:** After the CBR is depleted, budget deficits are filled from the ERA.
- **Dividend Calculation:** Total appropriated = half of the sum of the last 5 years' statutory net income multiplied by 0.21 or half of the ERA, whichever is less
- **Inflation Proofing:** The fund's principal is inflation proofed at the forecasted inflation rate.



# STATUS QUO, NO FISCAL PLAN

Dividend paid per Person



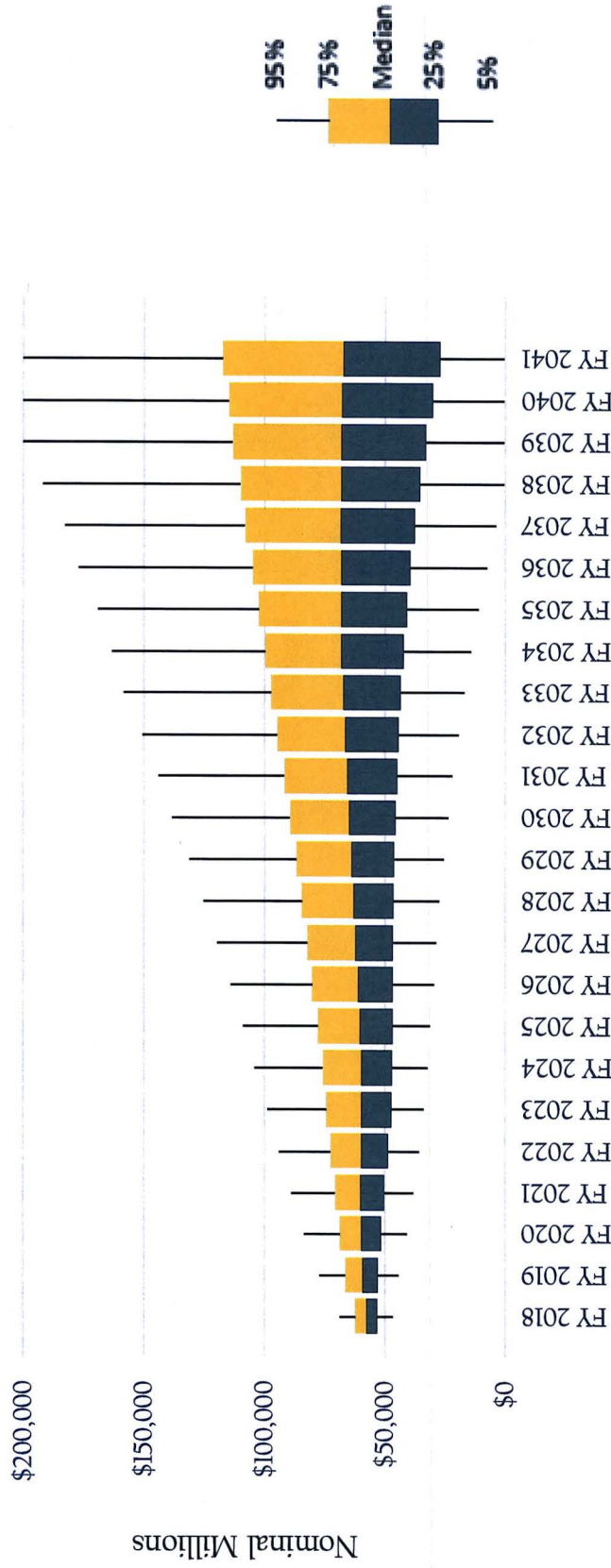
2018 median value: \$2,432

2041 median value: \$0



# STATUS QUO, NO FISCAL PLAN

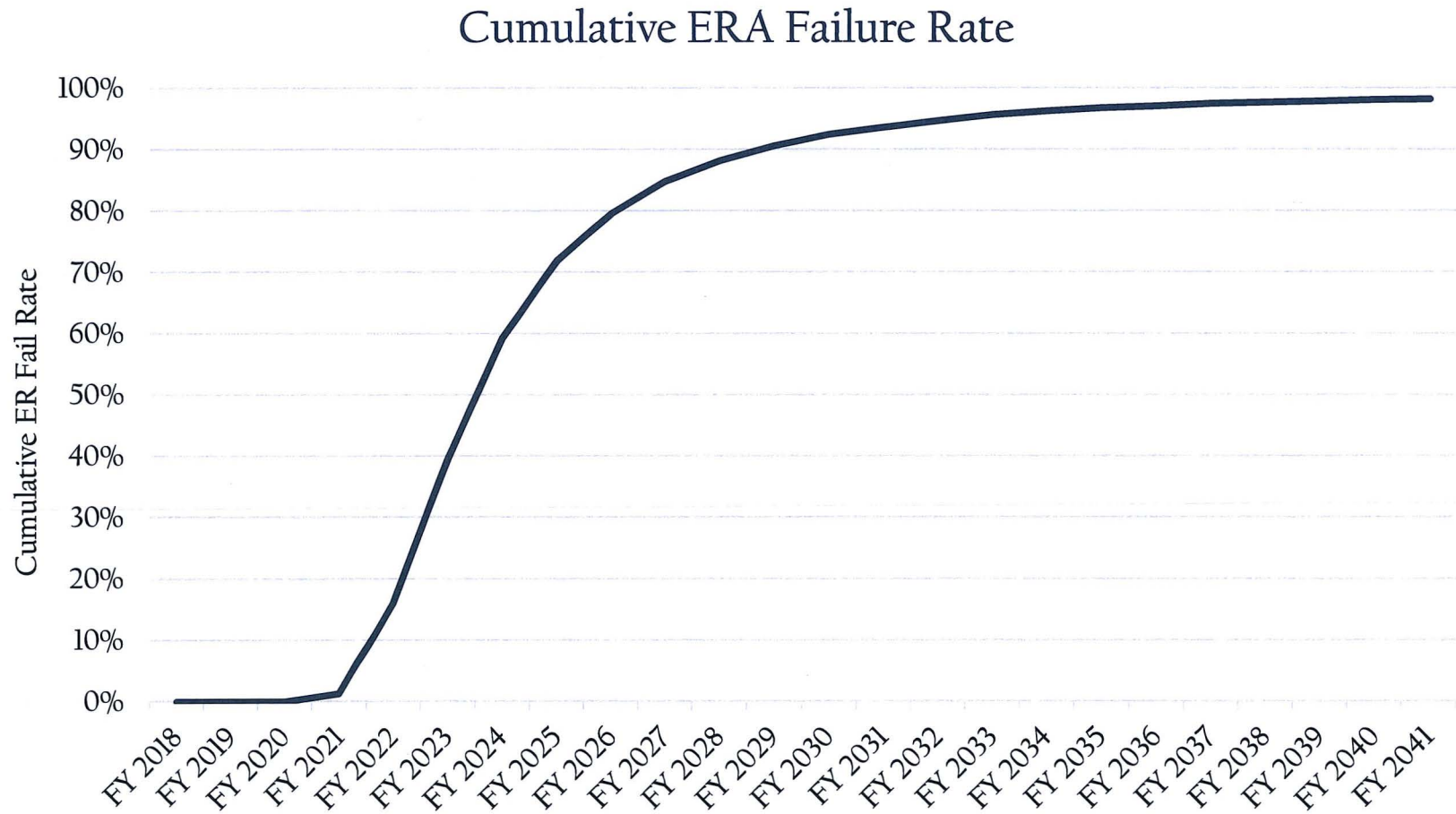
Nominal Fund Size



2041 median value: \$ 62,061 nominal (\$36,383 real) million      ER Fail Rate over 24 Years: 98.11%



# STATUS QUO, NO FISCAL PLAN



# PFPA: SCENARIO

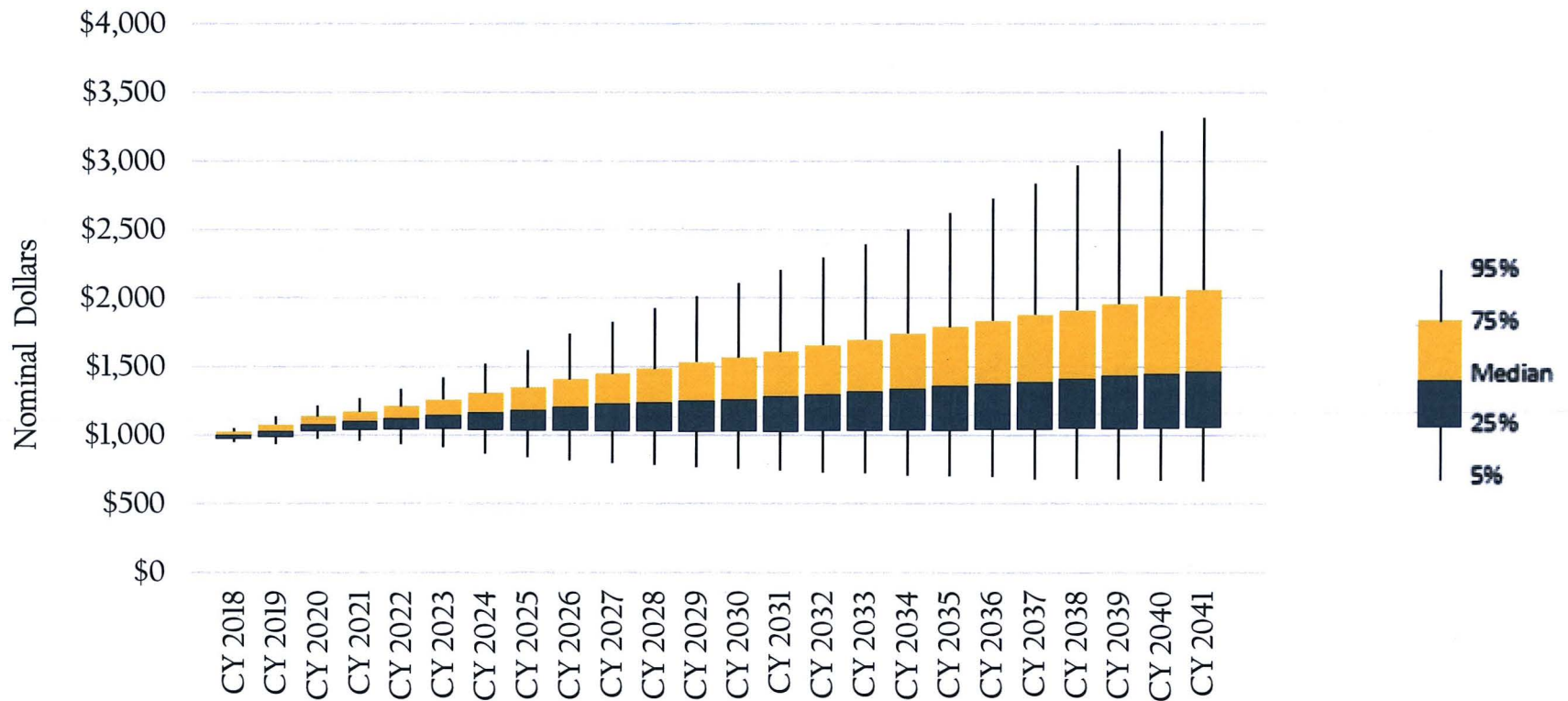
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- **Deposits:** 25% of royalties deposited into the permanent fund.
- **Payout Calculation**
  - Maximum POMV: 5.25% of the average of first 5 of the last 6 years' total fund size.
  - Draw Limit: If the combined UGF royalty and production tax revenues for the year are above \$1.2 billion, the maximum POMV amount is reduced by the amount of those revenues over \$1.2 billion.
- **Unplanned Payouts (no full fiscal plan scenario):** After the CBR is depleted, budget deficits are filled using the ERA.
- **Dividend Calculation:**
  - 20% of the maximum POMV payout before reductions, plus 20% of UGF royalties
  - Overwriting the above calculation, the dividend for CY2018 is \$1,000/person.
- **Inflation Proofing:** If four times the 5.25% POMV payout remains in the ERA after the POMV transfer, the amount over the four times the POMV is transferred into the corpus.



# PFPA, FULL FISCAL PLAN

## Dividend paid per Person



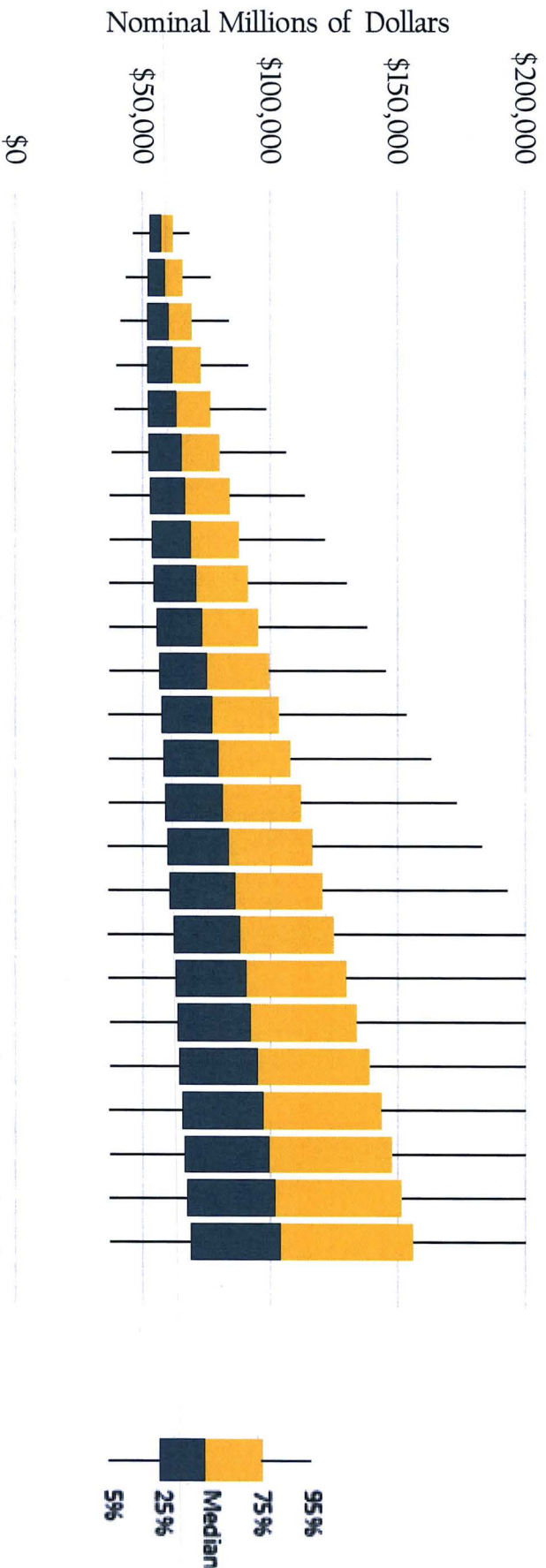
2018 median value: \$1,000

2041 median value: \$1,468 nominal (\$861 real)



# PFPA, FULL FISCAL PLAN

Nominal Fund Size



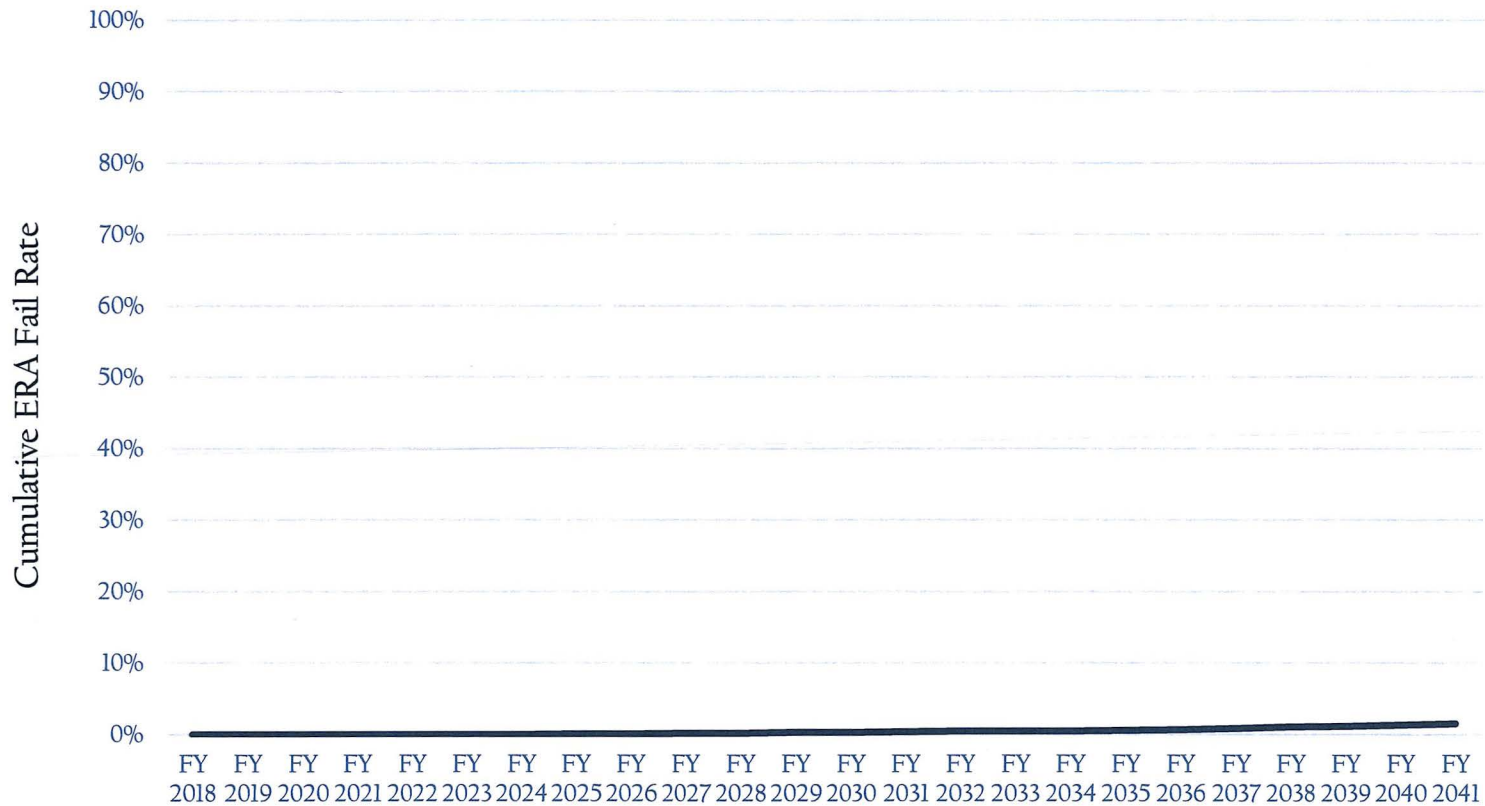
2041 median value: \$104,079 nominal (\$61,016 real) million      ER Fail Rate over 24 Years: 1.52%



PERMANENT FUND PROTECTION ACT  
MODELING

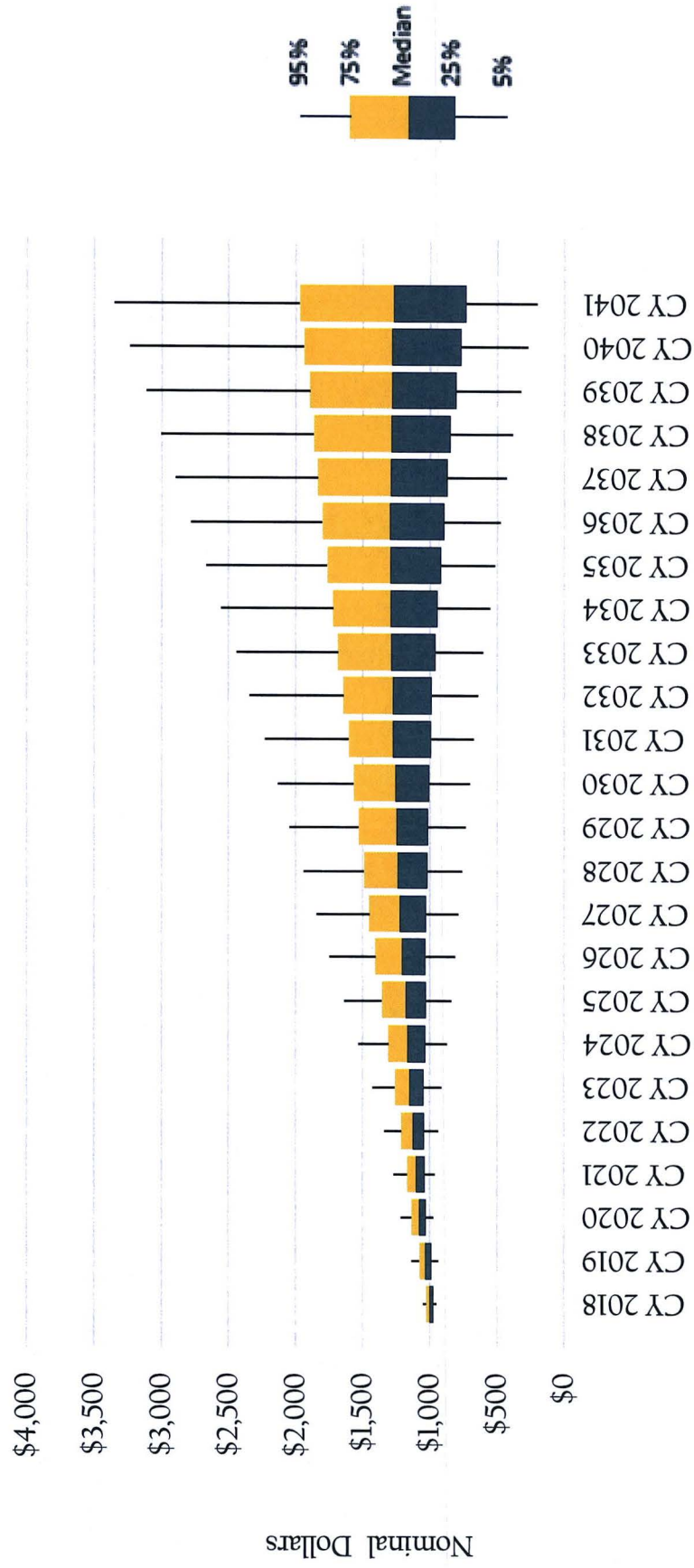
# PFPA, FULL FISCAL PLAN

Cumulative ERA Failure Rate



# PFPA, NO FISCAL PLAN

## Dividend paid per Person



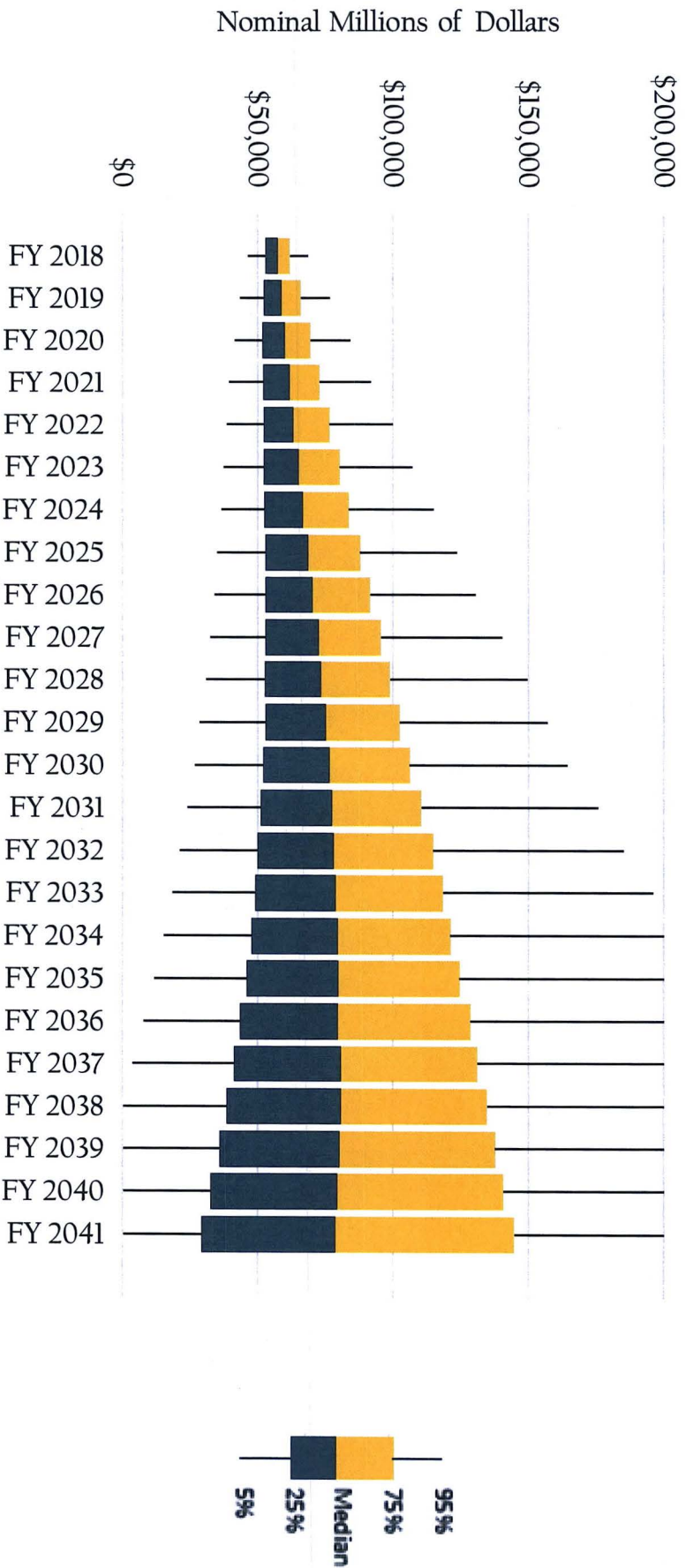
2018 median value: \$1,000

2041 median value: \$1,271 nominal (\$745 real)



# PFPFA, NO FISCAL PLAN

Nominal Fund Size

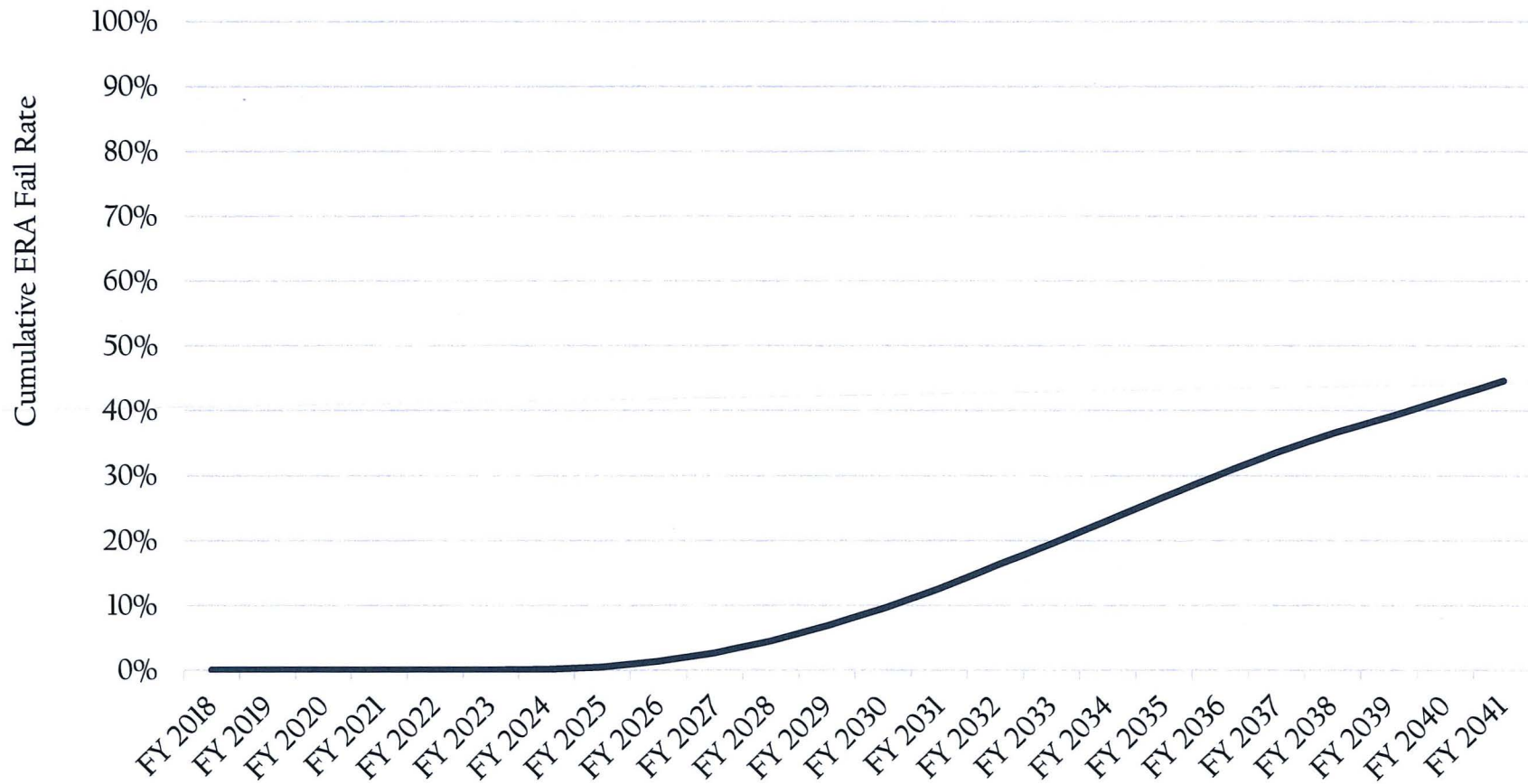


2041 median value: \$78,926 nominal (\$46,270 real) million      ER Fail Rate over 24 Years: 45.61%



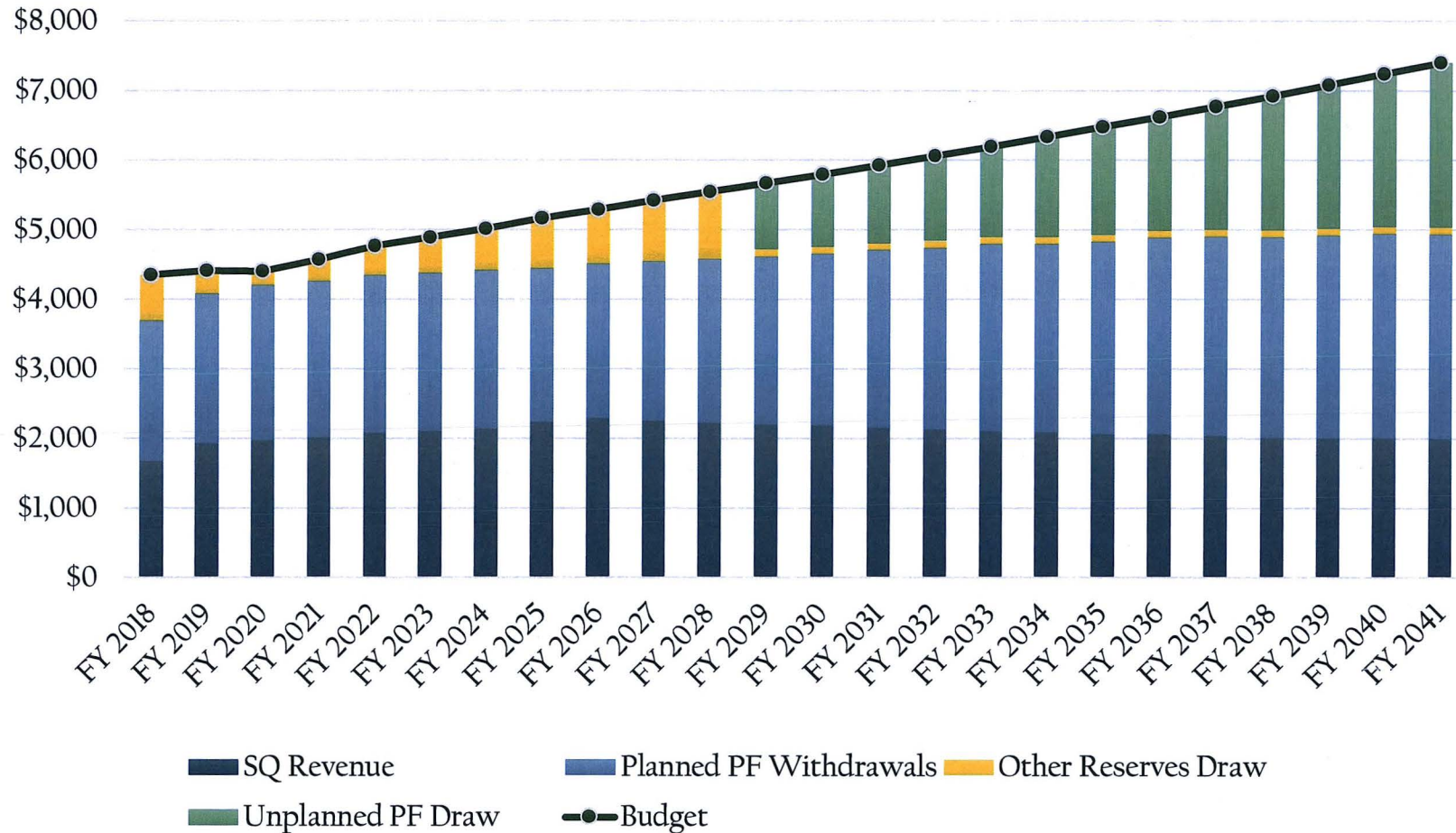
# PFPA, NO FISCAL PLAN

Cumulative ERA Failure Rate



# PFPA, NO FISCAL PLAN

Median UGF Revenue/Budget



# SB21: SCENARIO

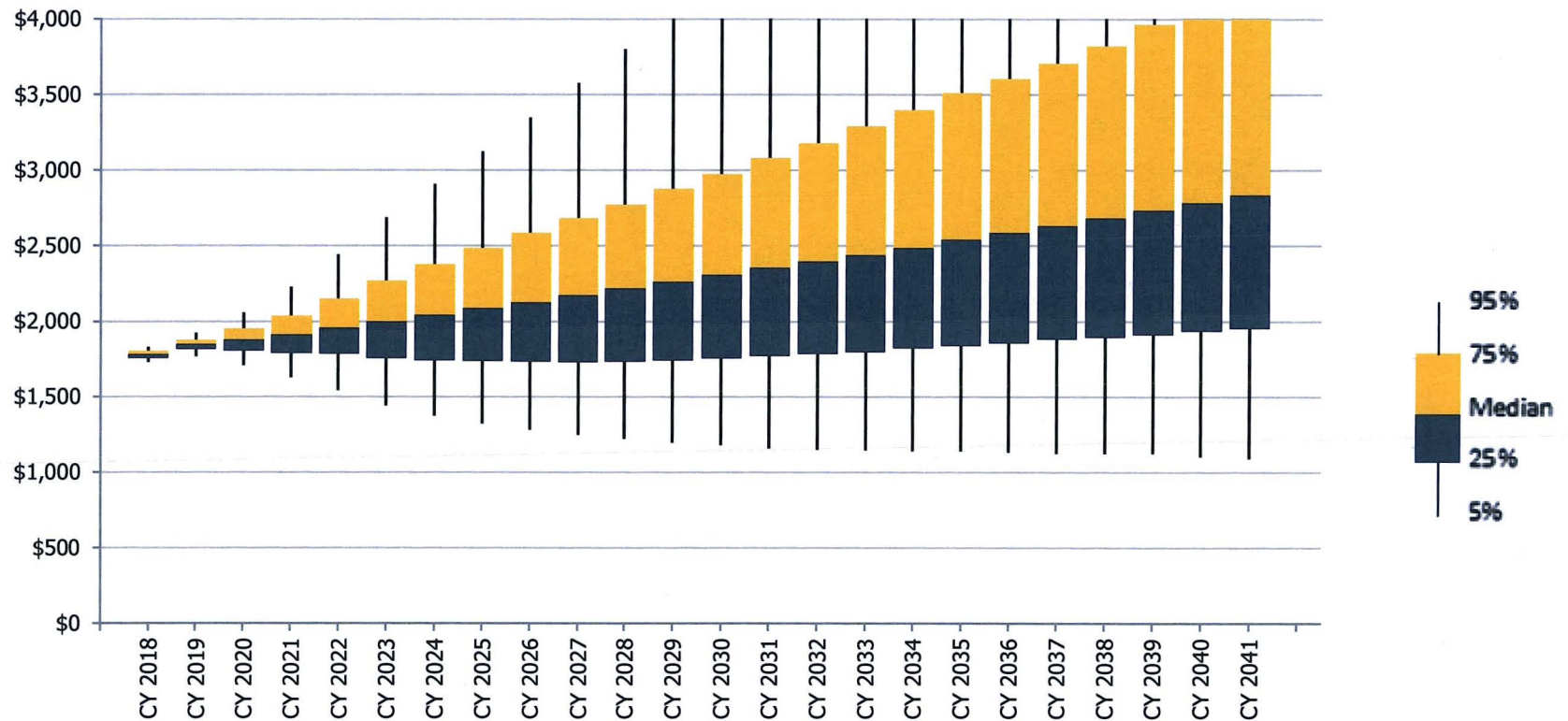
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- **Deposits:** 31% of royalties deposited into the permanent fund.
- **Payout and Dividend Calculation:**
  - 4.5% of the average market value of the fund over the last 5 fiscal years. At least half of that payout goes to dividends and up to half can go to the general fund.
  - The model assumed
    - Half of the 4.5 POMV goes to dividends and
    - The other half goes to the general fund.
- **Unplanned Payouts (no full fiscal plan scenario):** After the CBR is depleted, budget deficits are filled using the ERA.
- **Inflation Proofing:** No inflation proofing transfers to the corpus



# SB21, FULL FISCAL PLAN

Dividend paid per Person



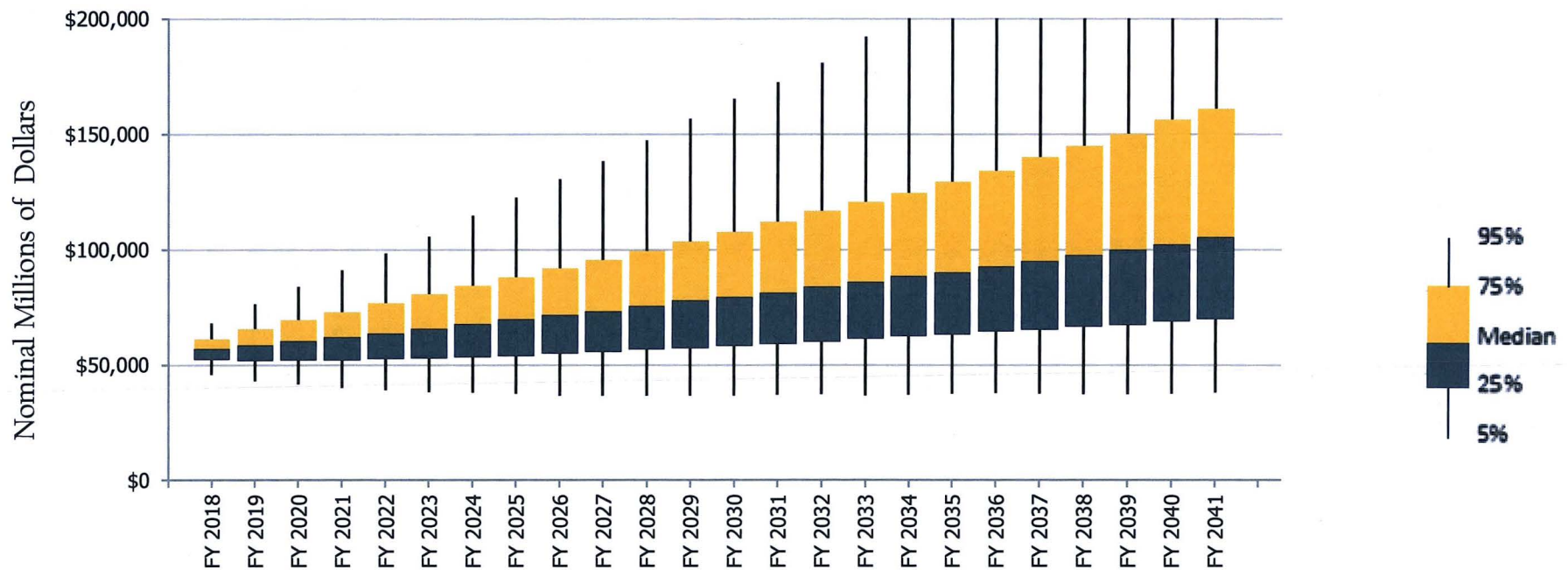
2018 median value: \$1,781

2041 median value: \$2,837 nominal (\$1,663 real)



# SB21, FULL FISCAL PLAN

Nominal Fund Size



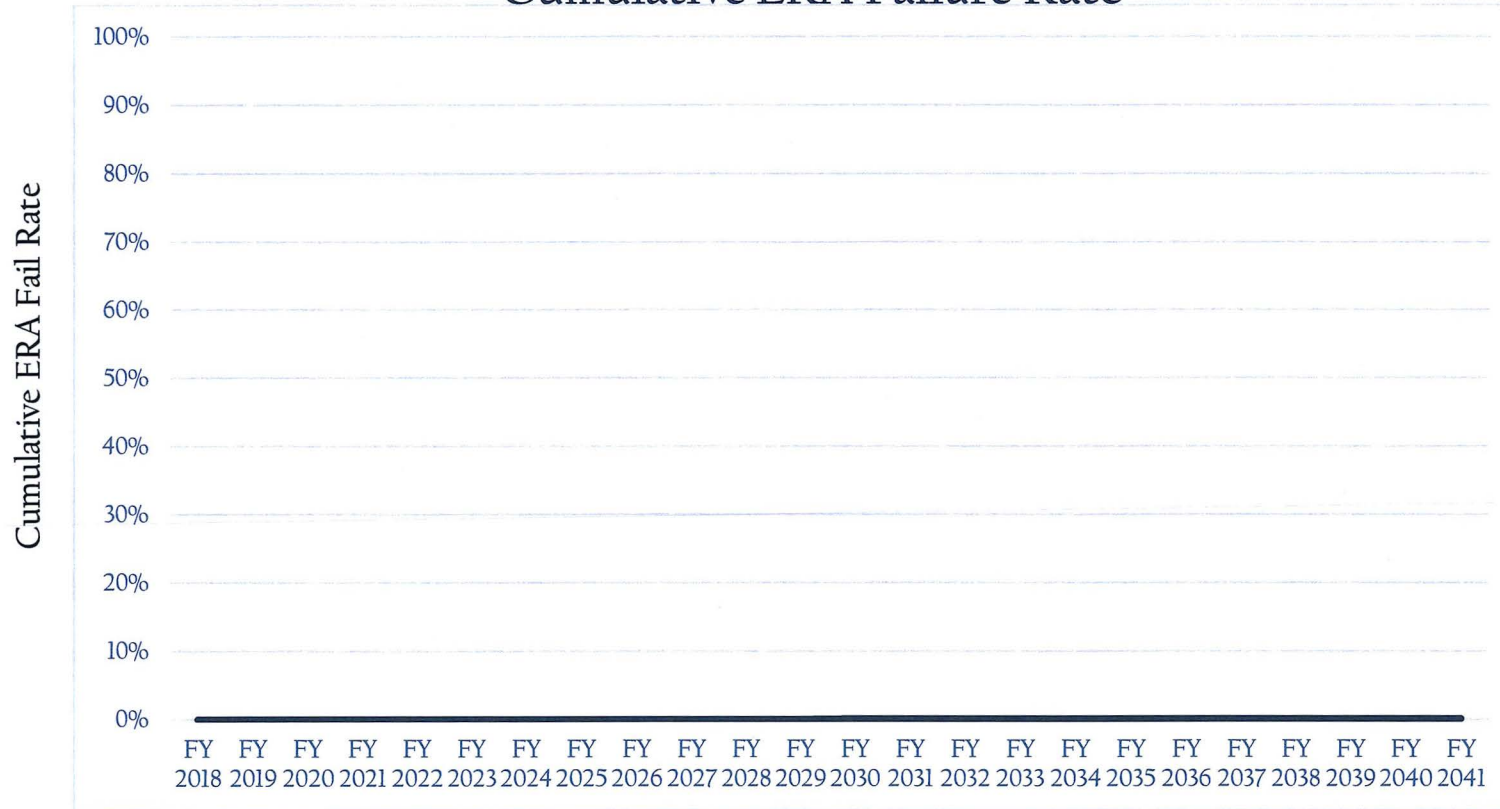
2041 median value: \$105,372 nominal (\$61,774 real) million

ER Fail Rate over 24 Years: 0.03%



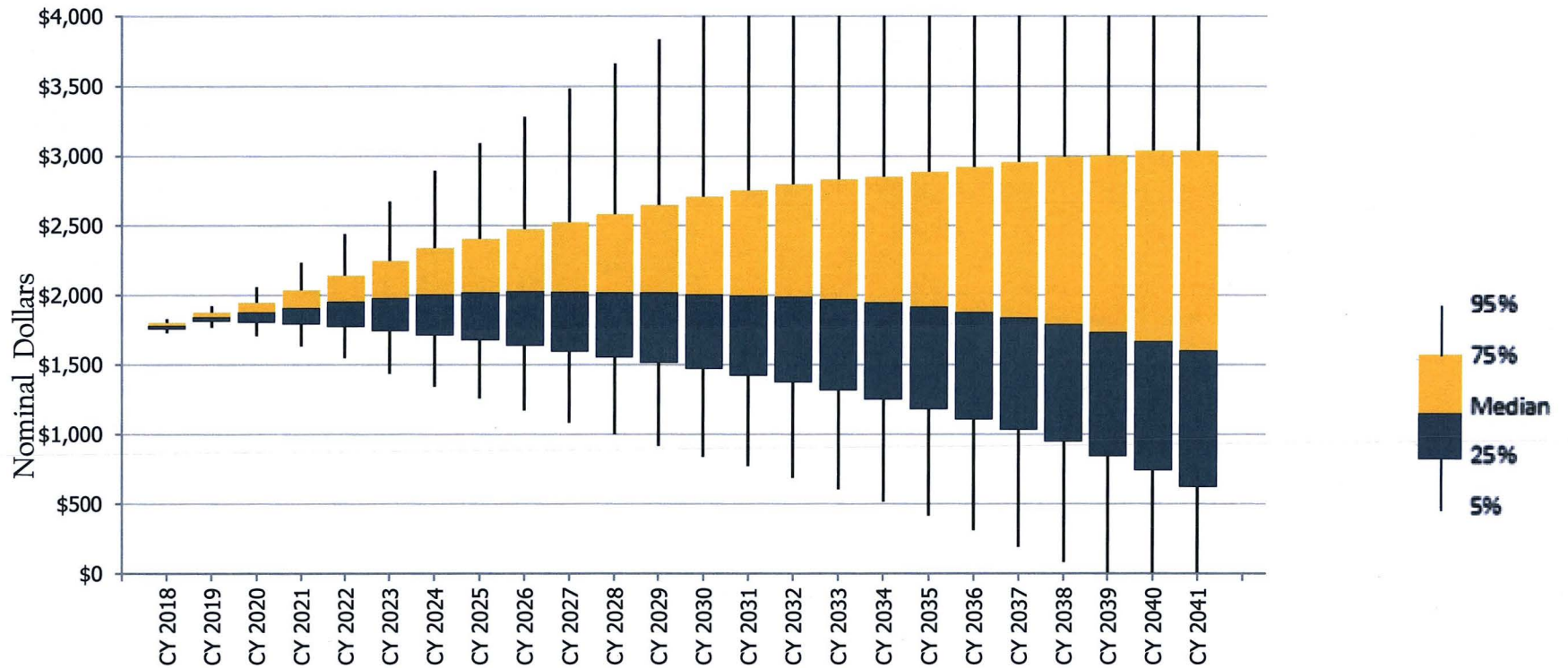
# SB21, FULL FISCAL PLAN

Cumulative ERA Failure Rate



# SB21, NO FISCAL PLAN

Dividend paid per Person

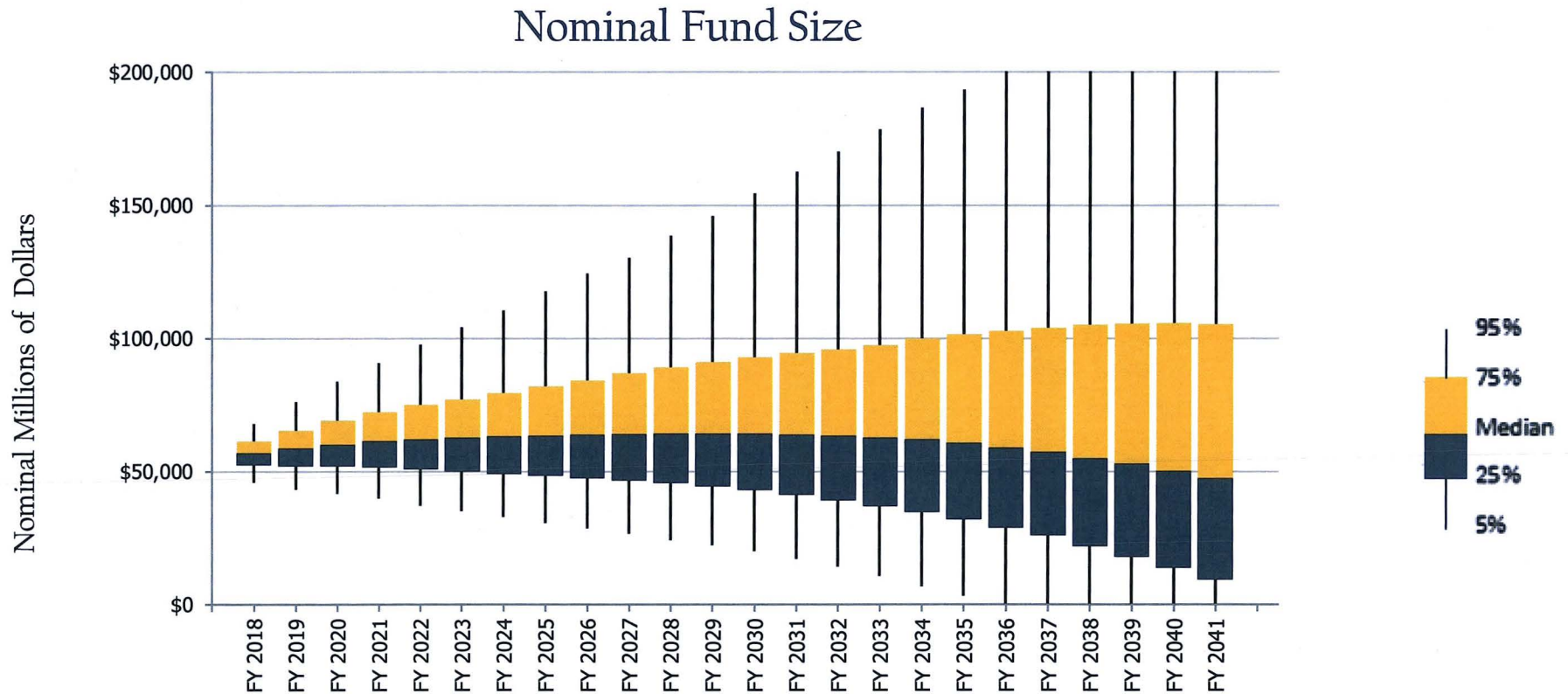


2018 median value: \$1,781

2041 median value: \$1,603 nominal (\$940 real)



# SB21, NO FISCAL PLAN



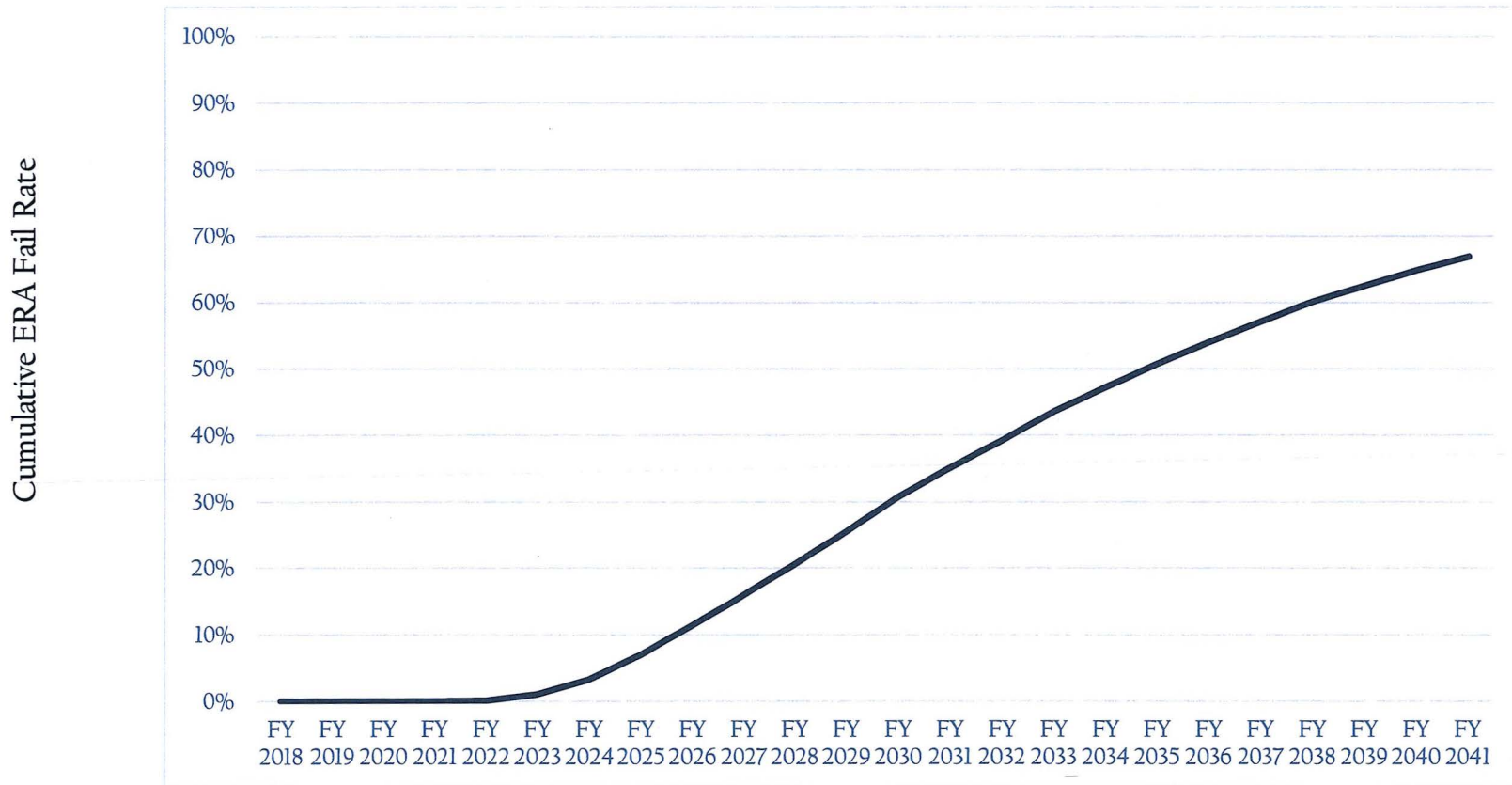
2041 median value: \$47,616 nominal (\$27,915 real) million

ER Fail Rate over 24 Years: 66.90%



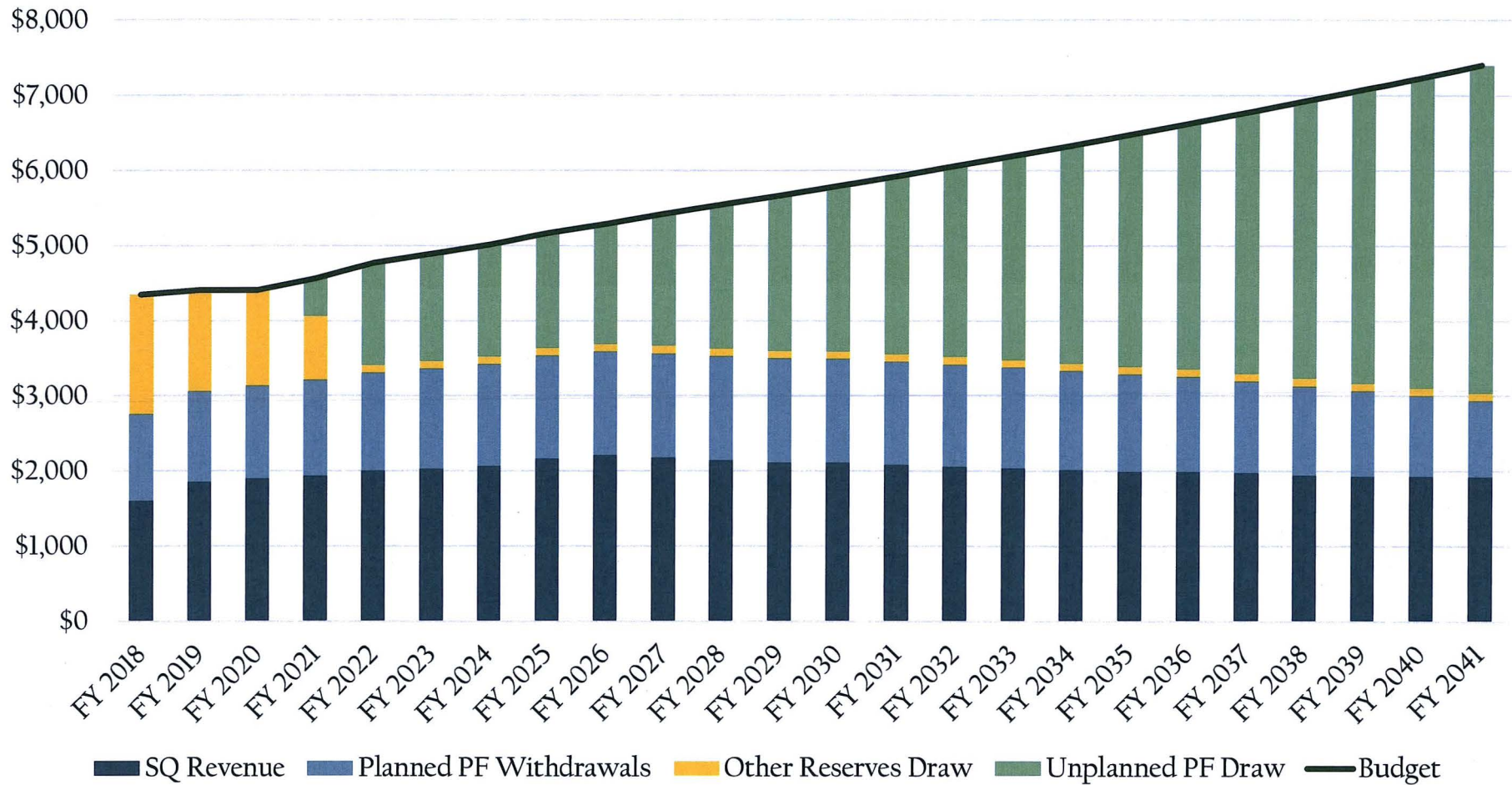
# SB21, NO FISCAL PLAN

Cumulative ERA Failure Rate



# SB21, NO FISCAL PLAN

Median UGF Revenue/Budget



# COMPARISON

	Status Quo	PF Plan Only (any plan)	Full Fiscal Plan	
			with PFPA	with SB21
1. Rule-Based	Only until CBR is depleted.	Only until CBR is depleted.	Yes.	Yes.
2. Stabilizing				
- Investment Income	No, not addressed.	Not after ERA depleted.	Partial, 5-year averaging in POMV	Partial, 5-year averaging in POMV.
- Total Revenue	No, not addressed.	Not after ERA depleted.	Partial, addressed in a mid-range of oil prices.	No defined plan.
3 & 4. Sustainable				
- Protect the Dividend	Dividend at risk when ERA depleted.	Dividend at risk when ERA depleted.	Yes.	Yes.
- Protect the Fund (total & corpus)	No. Value of fund and corpus greatly degraded.	No. Value of fund and corpus eventually degraded.	Yes. Maintains value of the fund and corpus over the long term.	Partial, the total fund value is maintained but the growth is not protected in the corpus.
5. Maximize ERA Use	Over use. High risk of depleting ERA in short-term.	Over use. Substantial risk of depleting ERA in all scenarios.	Yes. Withdrawing less when oil revenues are high allows higher draws when oil revenues are low.	Partial. Withdraws same percent each year regardless of budget need.



# COMPARISON

(\$ in billions)	Status Quo	PFPA	SB21
FY18 UGF Budget	\$4.2 billion		
FY18 Existing UGF Revenues	\$1.4		
Planned ERA Draws for UGF	N/A	\$2.0	\$1.2
Additional Measures required for a Full Fiscal Plan	\$2.8 billion	\$0.8 billion	\$1.6 billion



# PERMANENT FUND PROTECTION ACT

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Randall Hoffbeck, *Commissioner of Revenue*



Senate State Affairs Committee  
Tuesday, February 7, 2017

# BASIC ELEMENTS OF THE BILL

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The Permanent Fund Protection Act proposes:

1. A framework for sustainable withdrawals from the earnings reserve account (ERA) and
2. A sustainable dividend formula.



# PRESENTATION OVERVIEW

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Part I: The Problem

Part II: The Permanent Fund

Part III: The Permanent Fund's Role in a Solution

Part IV: The Bill

Part V: Conclusion & Sectional



Part I

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# DEFINING THE PROBLEM

# THE PROBLEM

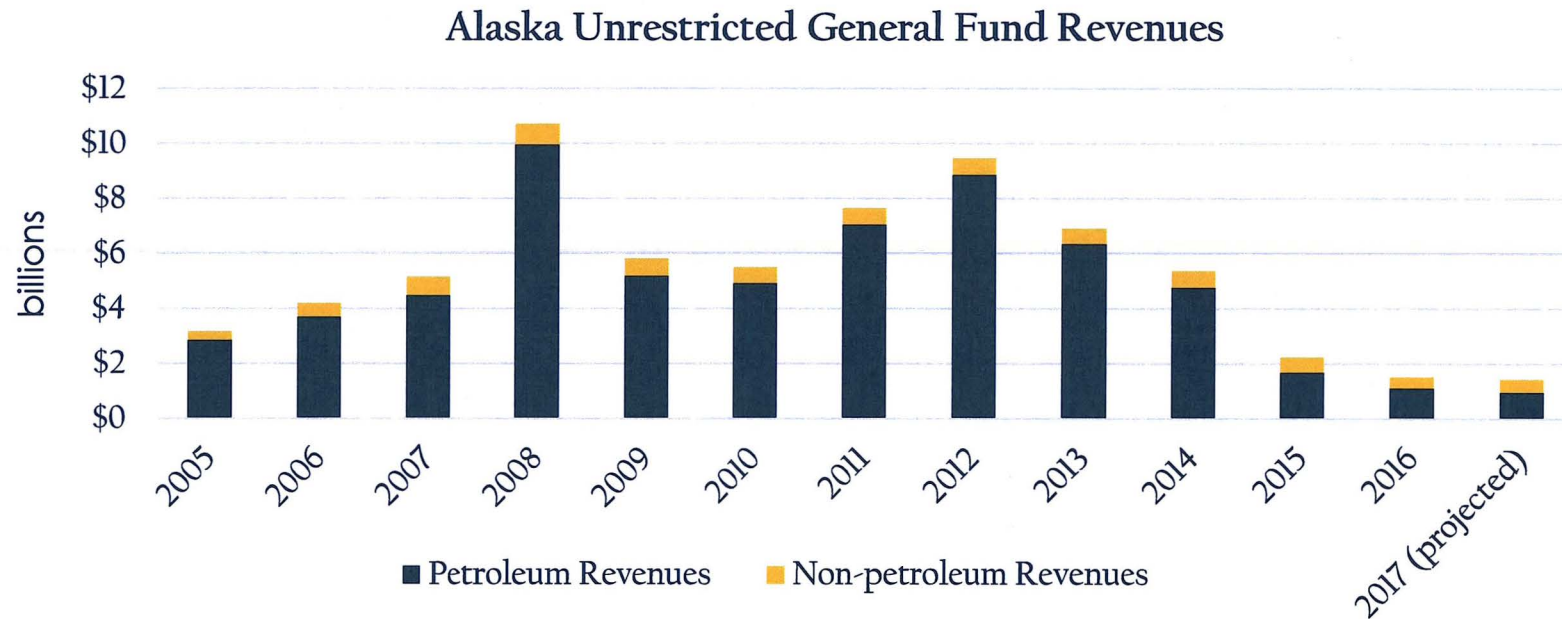
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1. Low oil revenues
2. Persistent deficit
3. Diminished budget reserves



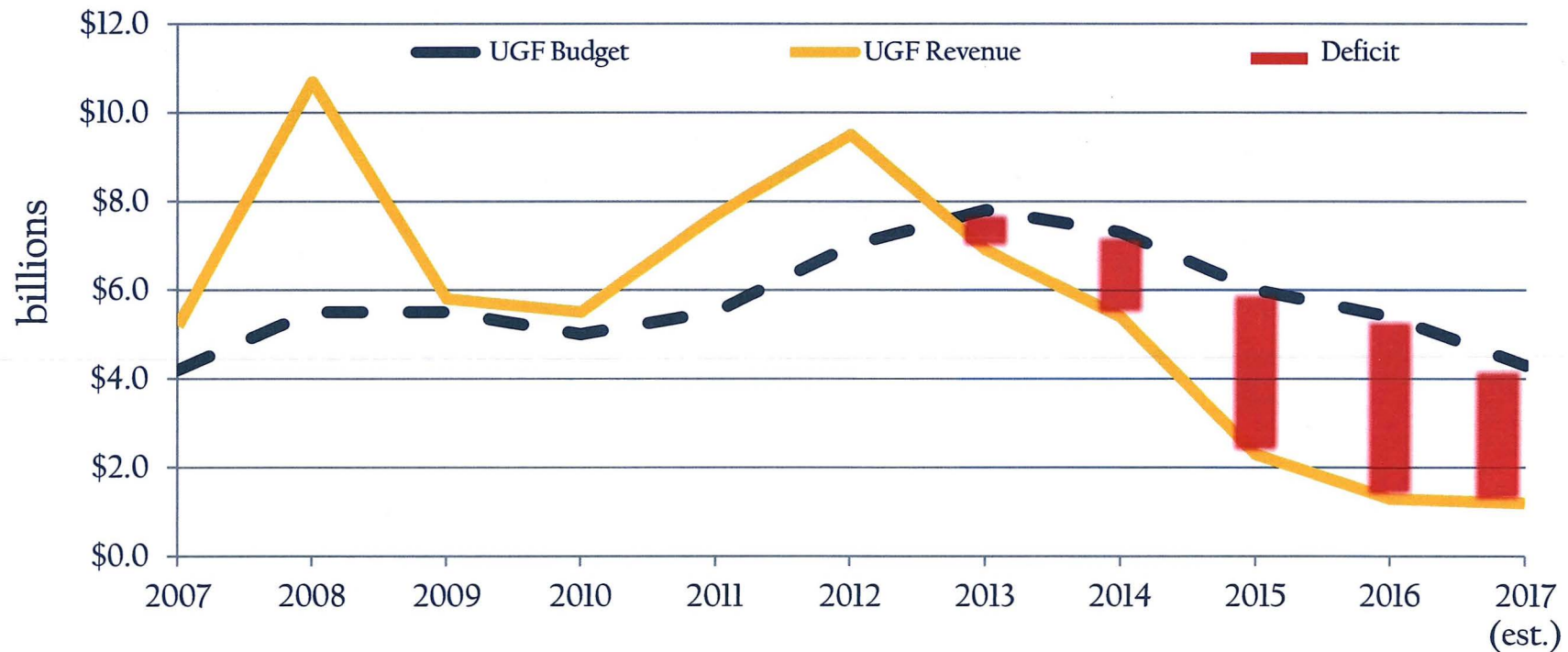
# LOW OIL REVENUE

- From 2005 to 2014, over 90% of UGF revenues came from petroleum.
- Between 2012 and 2015, oil revenue fell by \$7.8 billion – a 88% drop.



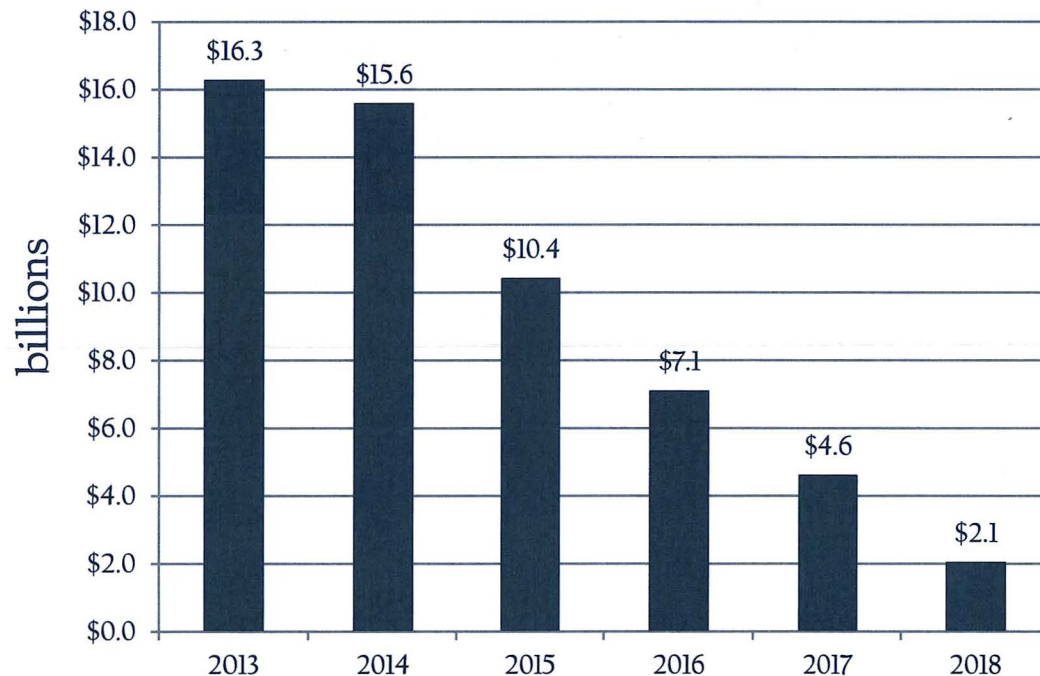
# “DEFICIT” SPENDING

- Although the UGF budget has been cut by 44% since 2013, the deficit remains.



# DIMINISHED BUDGET RESERVES

Combined SBR and CBR Balances



- Since 2013, the state has relied upon its reserves to balance the budget.
- Totalling \$16.3 billion in 2013, the budget reserve funds will hold less than \$5 billion by the end of FY17.
- Without new revenue options, the remaining budget reserves will be gone early in FY19.



# THE PROBLEM

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Once the budget reserves are depleted,  
the only place to turn is the permanent fund.



Part II

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# THE PERMANENT FUND

# THE PERMANENT FUND: STRUCTURE

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## 1. Principal: \$44.2 billion

(\$39.4 billion non-spendable and \$4.7 billion of unrealized gains)

“Alaska Permanent Fund - At least twenty-five per cent of all [mineral royalties] 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.” Alaska Const., Art. 9 Sec. 15

## 2. Earnings Reserve Account: \$8.6 billion

“The earnings reserve account is established as a separate account in the [permanent] fund. Income from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120.” AS 37.13.145(a)

\* Balances as of the end of fiscal year 2016 as listed in APFC “history and projections” report (Nov. 2016).



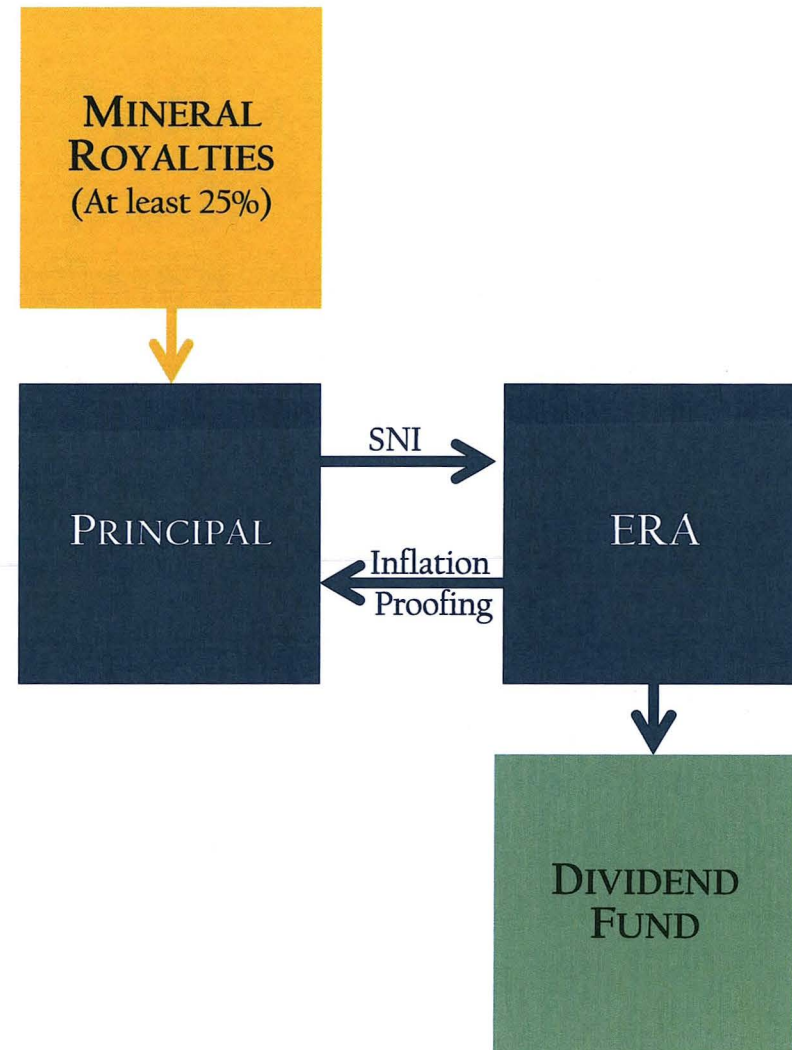
# THE PERMANENT FUND: HOW IT WORKS

## Principal (corpus)

- Money In:
  - Mineral Royalties (currently ~30%)
  - Inflation Proofing
- Money Out:
  - Prohibited

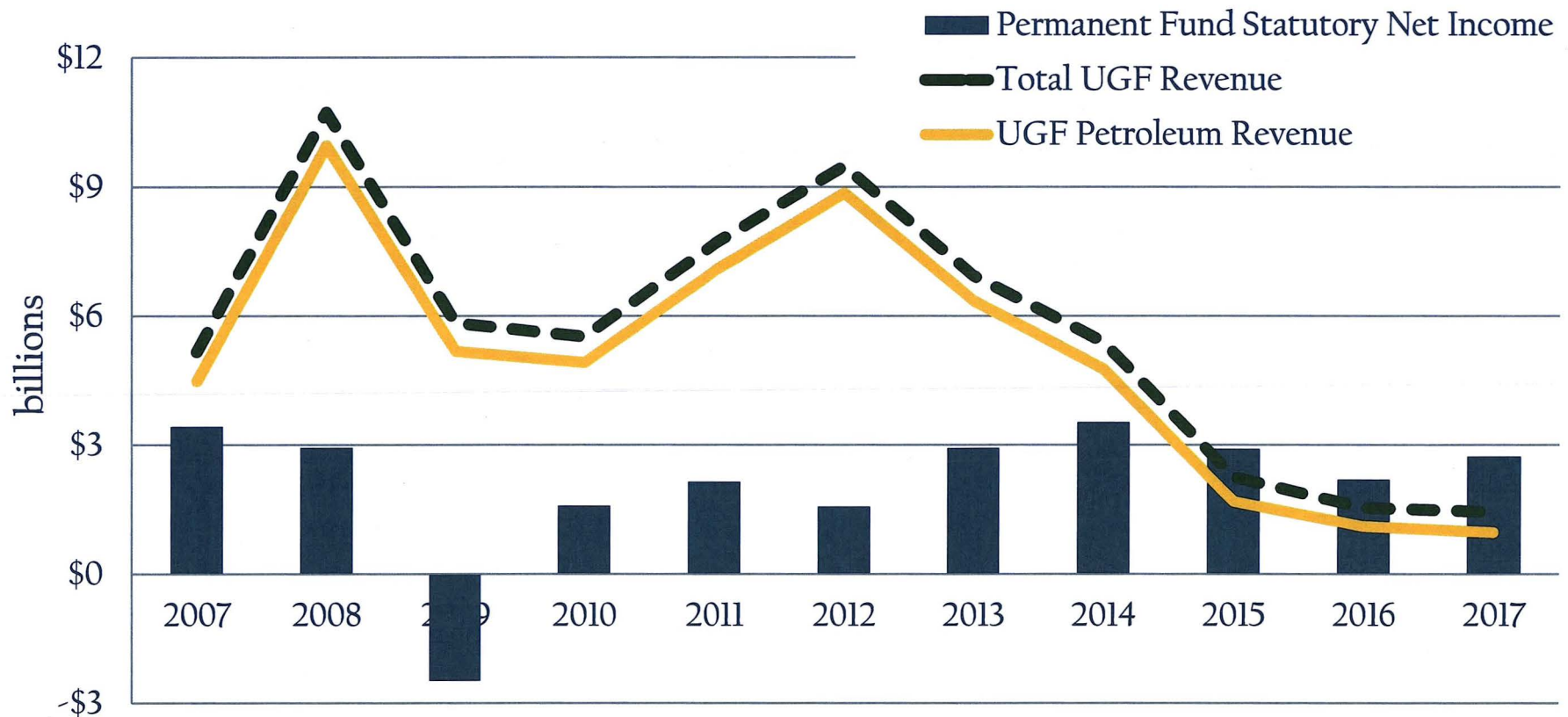
## Earnings Reserve Account

- Money In:
  - Investment Income
- Money Out:
  - Inflation proofing
  - Dividends (approx. 50% SNI)



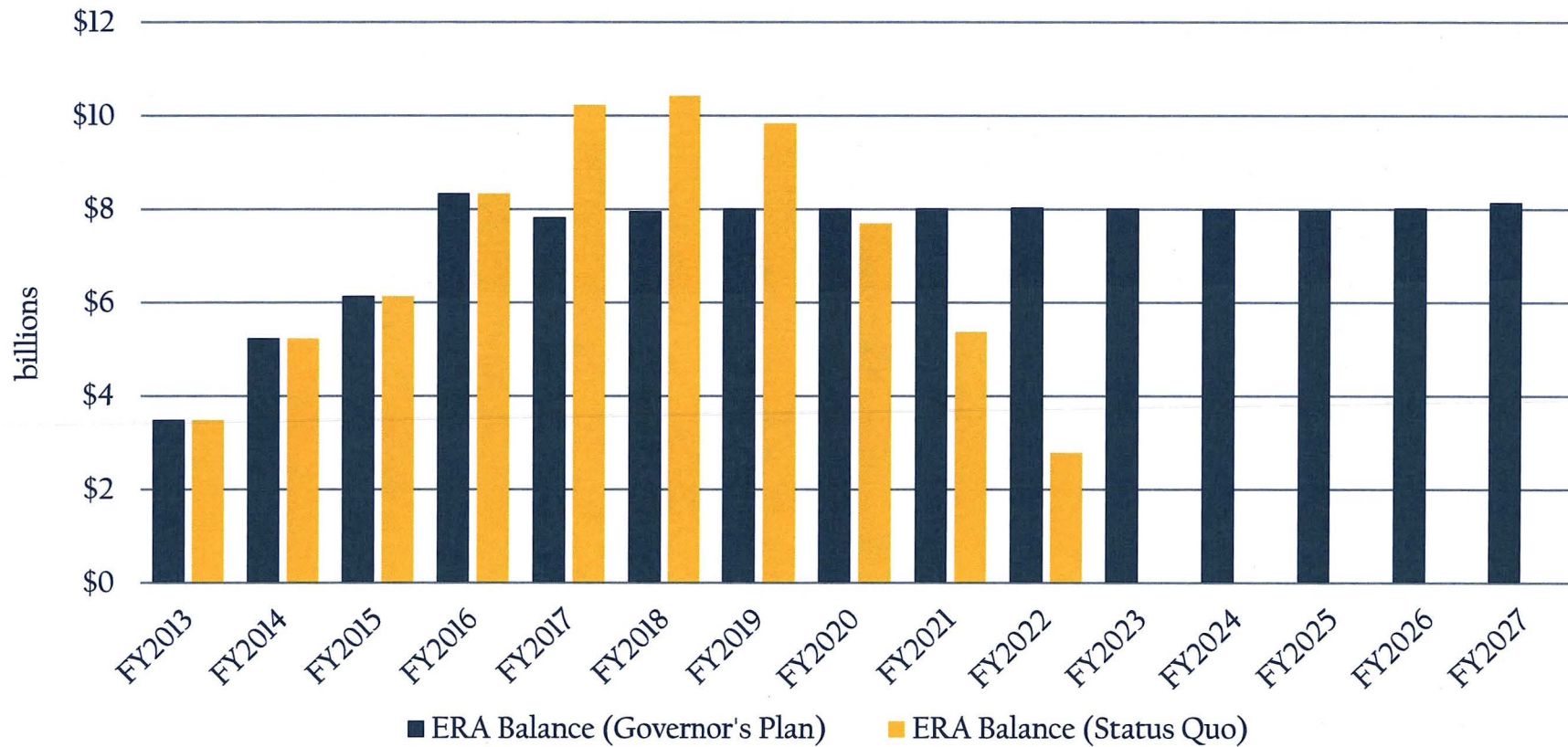
# THE PERMANENT FUND: EARNINGS

The fund is now big enough that annual earnings can exceed all UGF revenues.



# THE PROBLEM

Absent change, the ERA will also be depleted



Part III

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## THE PERMANENT FUND'S ROLE IN A SOLUTION

# WHY USE PERMANENT FUND EARNINGS?

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FY18 Budget \$4.2 billion

**FY18 Budget Gap \$2.8 billion**

## Potential Tools to Close the Gap

Motor Fuels Tax Increase	\$0.1
Other Broad Based Tax	\$0.6
Corporate Income Tax	\$0.1
Oil Tax Credit Reform	\$0.1
Max. Cuts Proposed (over 3 years)	\$0.75
Permanent Fund Protection Act (net dividend)	\$1.9
Others?	



# HOW SHOULD WE USE THE PERMANENT FUND?

---

“This proposal, if approved, would amend the Constitution of the State of Alaska by ... establish[ing] a constitutional permanent fund into which at least 25 percent of all [mineral royalties] received by the State would be paid. The principal of the fund would be used only for income-producing investments permitted by law and the income from the fund would be deposited in the general fund of the State and be available to be appropriated for expenditure by the State unless otherwise provided by law.”

Ballot Proposition No. 2  
Permanent Fund from Non-Renewable Resource Revenue  
Constitutional Amendment



# HOW SHOULD WE USE THE PERMANENT FUND?

---

A plan to use the fund should be ...

## 1. Long-term

- The fund is meant to provide for all generations of Alaskans.
- As North Slope production declines, the fund's earnings will be increasingly important to sustaining public services.
- Unlike petroleum, our financial reserves can be a renewable resource.
- Like petroleum, investment earnings can be highly variable.



# HOW SHOULD WE USE THE PERMANENT FUND?

---

A plan to use the fund should be ...

## 2. Sustainable

- Maintain or grow the real (inflation-adjusted) value of the permanent fund
- Provide for a dividend
- Ensure the ERA holds enough to bridge years of low earnings (“ERA durability”)



# HOW SHOULD WE USE THE PERMANENT FUND?

---

A plan to use the fund should be ...

## 3. Rule-Based (Saving, Spending, Dividend)

- Withdrawals occur under a set of statutory rules
- Designed to protect the fund and guard against unsustainable uses
- International best practice



# HOW SHOULD WE USE THE PERMANENT FUND?

---

Examples of rule-based frameworks used for other sovereign wealth funds:



- Singapore developed a proprietary model that projects 20-year returns
- The government may spend 50% of the annualized 20-year expected returns



- Kazakhstan uses a fixed annual draw of \$8 billion, which may be adjusted by 15%
- The draw is reduced if the fund balance is less than 20% of the GDP



- Norway limits withdrawals to 4%, funding the budget largely from other revenues
- Withdrawals over 4% are allowed in limited circumstances, but require a parliamentary resolution

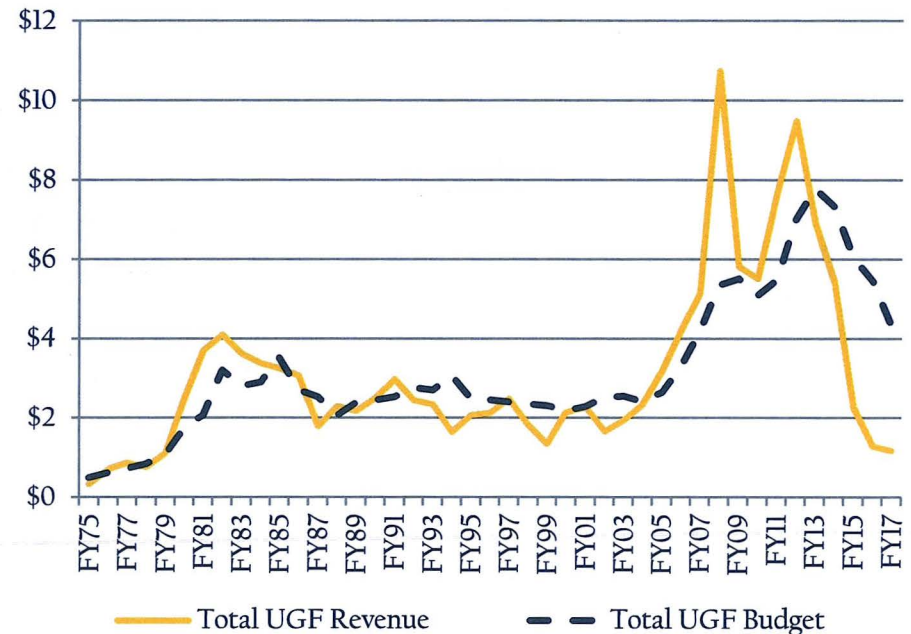


# HOW SHOULD WE USE THE PERMANENT FUND?

A plan to use the fund should be ...

## 4. Stabilizing:

- Over the long term, economies that experience repeated ups and downs grow slower than stable economies.
- Because commodity prices are volatile, economies dominated by a single commodity industry experience more (and more pronounced) cycles.
- Government spending that follows the same cycle amplifies the damaging effect.



# HOW SHOULD WE USE THE PERMANENT FUND?

---

A plan to use the fund should ...

## 5. Maximize the use of the permanent fund earnings:

- Other proposed new revenues and cuts could reduce the deficit by millions, the fund can *sustainably* contribute billions
- Withdrawing too much is unsustainable and risks damaging the fund
- Withdrawing too little limits future options for full fiscal solutions



Part IV

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# THE PERMANENT FUND PROTECTION ACT

# BILL SUMMARY

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HB61 is a slimmed down version of the bill that passed the Senate last year

Last year, the 29<sup>th</sup> Legislature held 39 hearings on the Alaska Permanent Fund Protection Act (SB128, HB245, and SB5001):

- SSTA: 10 hearings, including 2 days of public testimony
- SFIN: 10 hearings, including 1 days of public testimony
- HFIN: 19 hearings, including 4 days of public testimony

Other bills addressing the use of permanent fund earnings were also considered:

- SB114 (Sen. McGuire): 7 hearings in SSTA, 9 hearings in SFIN
- HB303 (Rep. Millet): 4 hearings in HFIN
- HB224 (Rep. Hawker): 4 hearings in HFIN

HB61 is the same as the CS for SB128, but without provisions re.:

- CBR management
- APFC procurement
- Secondary savings rule



# BILL SUMMARY

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The PFPA outlines a long-term plan with 3 formulas:

**1. Sustainable draw formula**

- 5.25% POMV
- Draw limit

**2. Sustainable dividend formula**

- 20% of UGF royalties
- 20% of POMV draw

**3. Adjust deposits to corpus**

- Reduce royalty deposits to 25%
- Change inflation proofing transfers



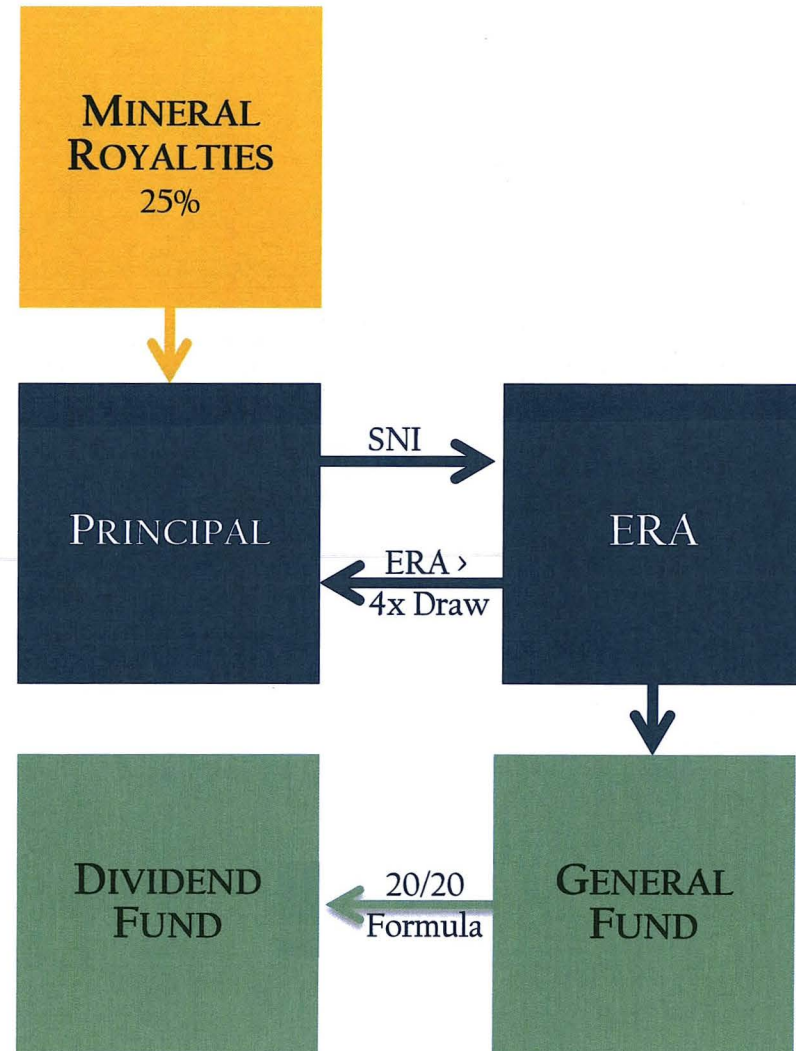
# BILL SUMMARY

## Principal (corpus)

- Money In:
  - Mineral Royalties (25%)
  - Inflation Proofing (4 times rule)
- Money Out:
  - Prohibited

## Earnings Reserve Account

- Money In:
  - Investment Income
- Money Out:
  - Inflation proofing (4 times rule)
  - Withdrawals for UGF & dividend (POMV – draw limit)



# POMV DRAW

- 5.25% of the average fund value in the first 5 of the last 6 years
- Example: draw calculation for fiscal year 2018

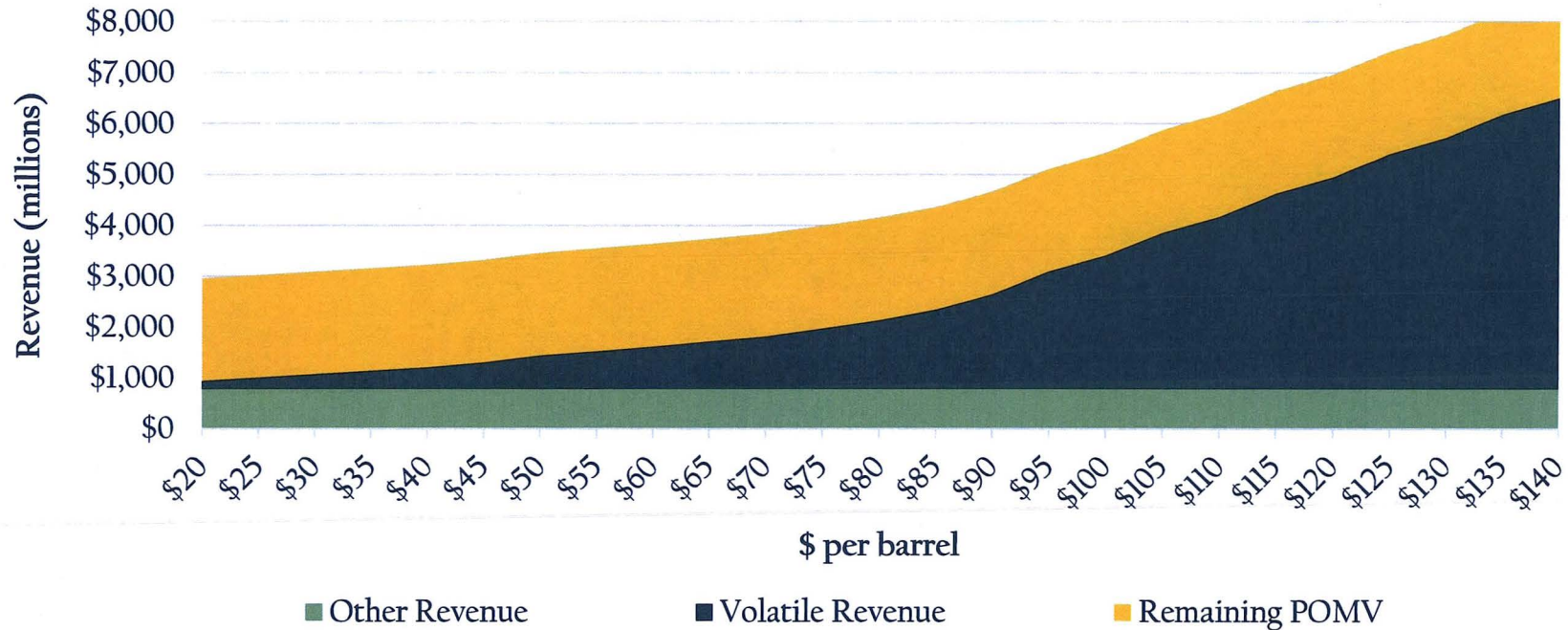
End of FY	Fund Value (billions\$, excludes Am.Hess.)	
2012	\$39.9	Average = \$48.1
2013	\$44.4	
2014	\$50.8	
2015	\$52.4	
2016	\$53.1	
2017	\$53.6	
2018	...	

- Average fund value in the first 5 of the last 6 years = \$48.1 billion
- 5.25% of \$48.1 = \$2.5 billion
- Effective POMV: = 4.7% of 2017 value

- Aggressive, but sustainable ... *if* the draw limit is applied



# UGF REVENUE & OIL PRICE (WITH POMV ONLY)



By itself, a 5.25 % POMV draw formula:

- Does not stabilize UGF revenue (revenue continues to vary with oil price)
- Based on current forecasts, may not be sustainable (long-term, the inflation-adjusted value of the fund may decline).



# DRAW LIMIT

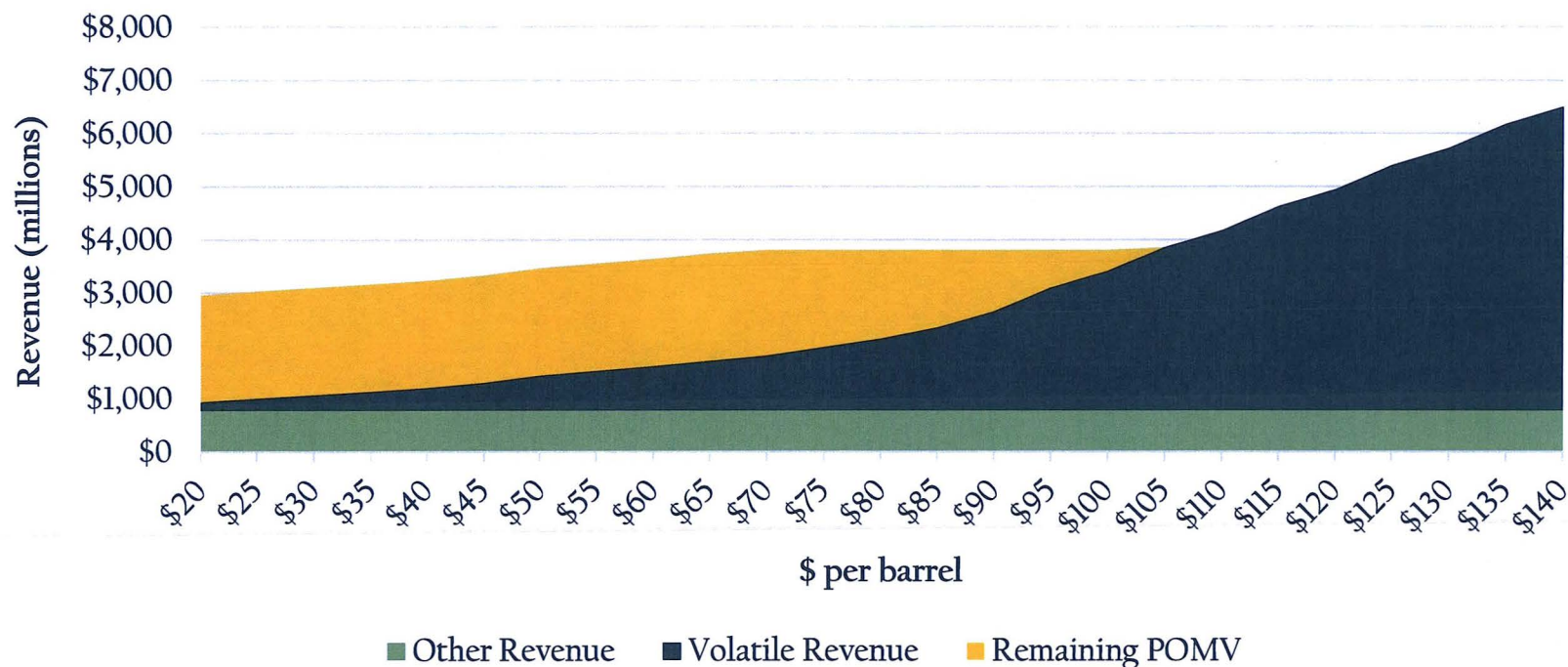
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- Reduces the POMV draw by \$1 for every \$1 that UGF production taxes and royalties exceed \$1.2 billion.
- Does not apply to the portion of the POMV going to dividends.



# UGF REVENUE & OIL PRICE

## (WITH POMV & DRAW LIMIT)



A formula that includes a draw limit:

- Gradually reduces the amount drawn from the ERA as oil revenues increase
- Stabilizes UGF revenue through a range of oil prices
- Grows the fund more, producing larger draws and dividends in the future



# SUSTAINABLE DIVIDEND FORMULA

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- \$1,000 per person for the first 2 years, then
- 20% of UGF royalties (15% of all royalties), plus 20% of the 5.25% POMV draw (about 1% POMV) (expected to be about \$1,000 per person into the future)



# INFLATION PROOFING TRANSFERS

---

- AS 37.13.145(c) currently provides for annual inflation proofing transfers from the ERA to corpus
- The ERA needs a sufficient balance to be able to meet the draw each year (“ERA durability” concern)
- Bill provides that the ERA balance over 4 times the maximum 5.25% draw (after current year draw) is transferred to corpus instead



# TIMING MATTERS

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- Review framework in three years
- Immediate effective date (potentially in FY17)
- Timing of transfers:
  - In the past, appropriations from the ERA occurred in the FY prior to using the money, *i.e.*, the dividend was forward-funded. For example, money for the October 2015 dividend (paid during FY16) was appropriated on June 30, 2015 – the last day of FY15.
  - To accommodate the UGF use, the appropriation from the ERA will now occur in the same FY. In other words, instead of the FY18 ERA appropriation being used in FY19, it will be used for FY18.



Permanent Fund Protection Act

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# CONCLUSION

# PERMANENT FUND PROTECTION ACT

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- Sustainably provides billions to the general fund (when needed)
- Preserves the dividend program
- Stabilizes the budget to give investors confidence in our future



# PFPA SECTIONAL

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- Section 1: Review framework in 3 years
- Section 2: Royalties to the principal
- Section 3: Conforming Amendment (CA)
- Section 4: POMV and draw limit formulas
- Section 5: CA
- Section 6: Appropriations from ERA to general fund and principal
- Section 7: Dividend appropriation (20/20 formula)
- Section 8: CA
- Section 9: CA
- Section 10: \$1,000 dividend per person in October 2017 and October 2018
- Section 11: CA
- Section 12: CA
- Section 13: CA and repeal language re. CBR investment
- Section 14: CA
- Section 15: Immediate effective date



# PERMANENT FUND PROTECTION ACT

## SECTIONAL ANALYSIS

### SB 26

FOR THE SENATE STATE AFFAIRS COMMITTEE

#### **Section 1 – Legislative Intent**

Section 1 expresses legislative intent to reevaluate the use of permanent fund earnings in three years.

#### **Section 2 – Dedicated Mineral Royalties**

Section 2 amends AS 37.13.010(a) to reduce the percentage of mineral royalties directed to the principal (or corpus) of the permanent fund from about 30% of all mineral royalties received by the state (25% from pre-1980 leases and 50% from later leases) to 25% of the total.

#### **Section 3 – Conforming Amendment**

Section 3 deletes the definition of “income available for distribution” in AS 37.13.140. An amended definition of this term will appear in a new subsection, AS 37.13.140(b), created by section 4 of this bill.

#### **Section 4 – Draw formula** (the amount to appropriate from the ERA to the general fund)

Replacing the language removed in section 3, section 4 adds new subsections (b) and (c) to AS 37.13.140. These new subsections contain the new formula for determining “the amount available for distribution each year” from the earnings reserve account (ERA). This “draw formula” has two parts: (1) a percent of market value (POMV) calculation and (2) a “draw limit.”

Contained in new subsection (b), the POMV calculation is 5.25% of the average value of the fund for the first 5 of the last 6 years. The 5.25% POMV is the maximum amount that would be taken from the ERA under the plan. This amount may be reduced by the draw limit contained in new subsection (c).

New subsection (c) provides that after calculating the 5.25% POMV, the draw limit reduces that amount by one dollar for every dollar by which unrestricted (*i.e.*, non-

dedicated) production taxes and mineral royalties exceed \$1.2 billion. Basically, when oil revenues go up the draw from the permanent fund goes down.

Together, the POMV calculation and the draw limit create a draw formula that: (1) stabilizes general fund revenues; (2) avoids using permanent fund earnings when oil revenues are high; (3) allows larger withdrawals (larger than what would be sustainable under a simple POMV) when oil revenues are low; and (4) creates more opportunities for the permanent fund to grow, resulting in larger dividends and more funding available for the general fund when it is most needed.

### **Section 5 – Conforming Amendment**

This conforming amendment updates a cross-reference to the calculation of the “amount available for distribution” or the “draw formula.” The cross-reference is in AS 37.13.145(d) which exempts income from the *Amerada Hess* portion of the fund from the calculation of the amount available for distribution, directing it to the Alaska capital income fund instead.

### **Section 6 – Appropriations out of the ERA**

Defining two types of appropriations out of the ERA, one to the general fund and one to the principal, section 6 adds new subsections (e) and (f) to AS 37.13.145.

To the general fund: New subsection (e) contemplates an appropriation from the ERA to the general fund of the amount determined by the draw formula in section 4. This provision specifies that the appropriation is “up to” the amount determined by the draw formula.

To the principal: New subsection (f) amends the timing and amount of transfers from the ERA to the corpus (the inflation proofing mechanism) currently in AS 37.13.145(c). The current inflation proofing mechanism in AS 37.13.145(c) contemplates an annual appropriation from the ERA to the principal of the amount necessary to offset the effect of inflation in the prior year. AS 37.13.145(c) would be repealed by section 13 of this bill.

To replace AS 37.13.145(c), new subsection (f) instead contemplates appropriating any balance of the ERA that exceeds four times the maximum 5.25% POMV draw (after the transfer to the general fund contemplated in new subsection (e)). In other words, when the ERA reaches 21% of the total value of the fund (5.25% multiplied by four) any money in the account over that amount goes to the principal. Over time, these transfers will inflation proof the principal (grow the principal in pace with inflation). This new formula also means that the timing of inflation proofing transfers changes from a fixed annual event to a more flexible “as we can” schedule.

Inflation proofing transfers to the corpus are, without question, an important element of protecting the permanent fund. However, depleting the ERA would create pressure to realize earnings based on general fund needs rather than on good investment policy. Thus, to ensure investment decisions remain independent of political considerations, the ERA should hold a balance sufficient to bridge several years of low or negative investment returns (and low oil revenues). This more flexible inflation proofing mechanism helps bolster the ERA balance to prepare for that possibility while keeping a mechanism for transfers to the corpus in place.

### **Section 7 – Appropriations from the General Fund to the Dividend Fund**

Adding a new section (AS 37.13.146), section 7 effectively amends AS 37.13.145(b) (which is repealed in section 13) to change the dividend calculation. The new formula has two parts. It contemplates an appropriation from the general fund to the dividend fund of an amount equal to:

- (1) 20% of non-dedicated royalties (which is about 15% of all royalties), plus
- (2) 20% of the POMV calculation (or about 1% of the total value of the fund).

This only relates to the total amount appropriated for dividends. The rest of the formula for per person dividend check is in the dividend fund statute.

### **Section 8 – Conforming Amendment**

Like the conforming amendment in section 5, this provision updates a cross-reference to the “amount available for distribution” or the “draw formula.” The update is in AS 37.13.300(c), which exempts income from the mental health trust fund from the calculation of the amount available for distribution.

### **Section 9 – Conforming Amendment**

This conforming amendment updates a cross-reference to the formula for the amount to appropriate to the dividend fund.

### **Section 10 – 2018 and 2019 Dividends**

Section 10 specifies that, notwithstanding the new dividend formula, dividend checks in 2018 and 2019 will be \$1,000 per person.

### **Section 11 – Conforming Amendment**

Section 11 updates AS 43.23.045(a), specifying that the dividend fund consists of money appropriated to it under the new section AS 37.13.146 (section 7 above).

### **Section 12 – Conforming Amendment**

Amends AS 43.23.055 to clarify that, once funds are appropriated to the dividend fund under AS 37.13.146 (section 7 above) to pay dividends the Department of Revenue may pay dividends without another appropriation.

### **Section 13 – Repeals**

Section 13 repeals three provisions in current statute:

1. AS 37.10.430(c), which creates a CBR subaccount and requires that the main account be invested short-term if the Department of Revenue anticipates a need for those funds within 5 years;
2. AS 37.13.145(b), which contains the current formula for appropriations to the dividend fund that would be replaced by the formula in section 7 of this bill;
3. AS 37.13.145(c), which contains the current inflation proofing formula that would be replaced by the new mechanism in section 6 of this bill.

### **Section 14 – Repeal**

Section 14 repeals AS 42.23.025(c) on June 30, 2020. Created by section 10 (above), this provision applies to dividends in 2018 and 2019 and will be superfluous after the October 2019 dividend distribution.

### **Section 15 – Immediate effective date**



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Law

Office of the Attorney General  
1031 West 4th Avenue, Suite 200  
Anchorage, Alaska 99501-5903  
Main: 907 269-5100  
Fax: 907 269-5110

## Department of Revenue

Office of the Commissioner  
PO Box 110400  
Juneau, AK 99811-0400  
Main: (907) 465-2300  
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May 12, 2016

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

Re: CSSB 128 – the proposed revenue limit and an accompanying savings rule

Dear Senator MacKinnon:

Thank you for incorporating a revenue limit in the committee substitute (CS) for the Alaska Permanent Fund Protection Act (APFPA).<sup>1</sup> By reducing the draw when other revenues are high, the revenue limit allows a 5.25% draw in low revenue years; without the limit, a draw this high would likely degrade the real value of the fund over time. The limit will also help smooth unrestricted general fund (UGF) expenditures through a mid-range of oil prices. In doing so, it will help us avoid repeating the state's historic cycle of growing and cutting government and the resulting damage to the economy. Finally, in preserving the value of the fund, the revenue limit also protects the dividend. In short, the revenue limit is a critical addition to the bill.

But, the revenue limit is meaningful only if we find the right balance. Following up on conversations with legislators, we wanted to offer the results of further analysis and the administration's perspective on a few points, including:

1. The level of the revenue limit threshold;
2. Holding that threshold steady over time; and
3. A savings rule to accompany the revenue limit.

The approach taken on each of these points can affect the long-term success of the plan.

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<sup>1</sup> For purposes of this letter, our comments are based on CSSB 128 (FIN) Ver. S.

**I. The revenue limit threshold should be set at \$1.0 billion.**

As initially conceived, the revenue limit would reduce the amount drawn from the permanent fund to support UGF expenditures by one dollar for every dollar that production taxes and unrestricted mineral royalties exceed \$1.0 billion. With a \$1.0 billion threshold, the revenue limit is meaningful within a reasonable range of oil prices (\$65 to \$100 per barrel in FY17<sup>2</sup>). Also, because the Department of Revenue (DOR) forecasts that production taxes and 80 percent of unrestricted royalties will total only about \$520 million in FY17, a \$1.0 billion threshold still leaves room for some additional capital spending or other budgetary growth as oil prices recover.

In conversations with legislative finance, we agreed that increasing this threshold to \$1.2 billion made sense because the allocation of 20 percent of unrestricted royalties to the dividend affected expectations for the amount available for other UGF expenditures. But, in the current CS, all funds allocated to the dividend are disassociated from the revenue limit calculation. Therefore, the administration believes the threshold should be restored to \$1.0 billion.

A \$1.0 billion revenue limit threshold reflects a somewhat optimistic baseline expectation of about \$3.0 billion in annual revenue from investment earnings, production taxes, and unrestricted non-dividend royalties.<sup>3</sup> DOR's probabilistic modeling forecasts an average of about \$2.85 billion each year from these same three revenues over the next 24 years – through a full range of oil prices. Increasing the threshold for the revenue limit to \$1.2 billion will not increase the amount of revenue we actually collect, or can reasonably expect over time. But, because the higher revenue limit will have less of an effect less often, it will only place greater pressure on the permanent fund and fail to capture savings when revenues do increase.

**II. The revenue limit threshold should not increase with inflation.**

We offered the revenue limit with an inflationary growth factor applied to the threshold; however, additional analysis in response to questions from Representatives Gara and Kawasaki revealed that this adjustment is problematic. By 2027, if production declines as predicted by DOR a \$1.0 billion flat threshold would not be triggered until oil is \$95 per barrel; the POMV draw would not be completely offset until well over \$140 per barrel. If the threshold is also increased by inflation, an even higher price will be required to begin offsetting the POMV draw. The revenue limit would become meaningless over time and provide for more spending just as

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<sup>2</sup> Oil prices are expected to eventually even out around \$65 per barrel. Setting the initial revenue limit threshold at that price means that the limit will offset the POMV draw only in “upside” years (when production taxes and royalties are higher than usual).

<sup>3</sup> This \$3 billion baseline expectation includes (1) 80% of the POMV draw (about \$1.92 billion in FY17, increasing as the fund grows) and (2) the \$1.0 billion threshold level of production taxes and unrestricted non-dividend royalties (only expected to total about \$520 million in FY17). It does not include other existing UGF revenues (ranging between \$600 and \$800 million), any new revenues, draws from the CBR or other savings accounts, or production taxes and UGF royalties that exceed the amount needed to fully offset the POMV draw.

our production and revenues are declining. In order to prevent permanent fund draws to the general fund as being a source of budgetary growth, we think the inflation adjustment of starting revenue limit threshold should be removed.

Some have voiced concerns that, without increasing the threshold by inflation, there would be no budgetary growth over time to keep pace with inflation. But, the POMV draw does provide for growth regardless of the revenue limit because the amount of the draw increases as the fund grows (at least in pace with inflation). DOR's modeling shows that unlike the \$1.2 billion inflated threshold, the lower threshold results in an expected outcome of some growth in the permanent fund over the rate of inflation – this means higher dividends and more support for the general fund when production declines and the state becomes more reliant on fund earnings. Since the POMV draw is already calculated to grow with inflation, putting an inflation adjustment in the revenue limit creates an unnecessary distortion.

### **III. A savings rule for peak revenue years would balance the framework.**

While the revenue limit would smooth UGF revenues through a mid-range of oil prices, the initial APFPA proposal would smooth UGF revenues through a full range of oil prices, from low to high. Capturing revenue from high oil price years in the fund offers significantly greater potential for fund growth while allowing for even higher draws in very low revenue years. This dynamic was well illustrated in the historic counterfactual analysis provided in our April 28 letter responding to Senator Micciche's question. If the initial APFPA framework had been put into place in 2005, we would have saved \$24 billion more in the permanent fund compared to actual savings and \$19 billion more than under the CS framework. These greater savings would have also produced higher dividends than the CS – dividends which would continue to grow with the fund. Of course, a larger fund can also sustain larger payouts to the general fund.

Partnered with the revenue limit, a rule to save at least some peak revenues could capture some of the advantages offered by the initial APFPA framework. For example, the bill could include a trigger for increasing the percentage of royalties deposited in the permanent fund principal (after the revenue limit completely offsets the POMV draw). This would create more opportunities for fund growth, produce higher dividends, and compensate for years of reduced royalty contributions, while also improving the fund's capacity to protect against low revenue years. At the same time, peak production taxes would be available for capital projects, constitutional budget reserve (CBR) repayment, or any other legislative priority. Because the dedicated fund prohibition does not apply to royalty contributions to the permanent fund, a statutory trigger could operate automatically. We have attached a potential amendment to the CS that would place additional royalties into the permanent fund once the permanent fund POMV draw has been reduced to zero.

Honorable Senator MacKinnon  
Re: Revenue Limit and Savings Rule

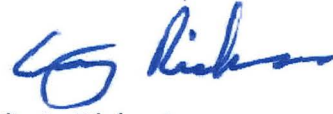
May 12, 2016  
Page 4 of 4

Thank you again for your efforts to develop the best solution for the state's fiscal challenge. We greatly appreciate your work on this important legislation and look forward to continuing this conversation with you and the finance committee members.

Sincerely,



Randall Hoffbeck  
Commissioner of Revenue



Craig Richards  
Attorney General

Cc: Members of the House and Senate Finance Committees

AM-# (savings rule)  
05/12/16  
3:53 pm

**AMENDMENT**

OFFERED IN THE SENATE FINANCE COMMITTEE

BY \_\_\_\_\_

TO: CSSB 128(FIN) ver. S

1 Page 4, following line 8:

2 Insert

3 “(2) If the state receives revenues within the fiscal year sufficient to allow the  
4 maximum reduction under AS 37.13.140(c) to the amount available for distribution under  
5 AS 37.13.140(b), all mineral lease rentals, royalties, royalty sale proceeds, net profit  
6 shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments, and  
7 bonuses received by the state thereafter in the current fiscal year.”

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	CSSB 26(FIN)
Fiscal Note Number:	9
(S) Publish Date:	3/13/2017

Identifier: SB26CS(FIN)-DOR-PFD-03-10-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Senate Finance

Department: Permanent Fund ERA Appropriations  
 Appropriation: PF ERA Appropriations  
 Allocation: To General Fund (Revenue)  
 OMB Component Number: 3121

**Expenditures/Revenues**

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

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

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

1250 UGF Rev (UGF)		693,000.0	699,000.0	705,000.0	703,500.0	689,700.0	710,200.0
1251 Non-UGF (Other)		(693,000.0)	(699,000.0)	(705,000.0)	(703,500.0)	(689,700.0)	(710,200.0)
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Senate Finance Committee Substitute changed dividend calculation to 25% of maximum POMV draw.

Prepared By: Sara Race, Director  
 Division: Permanent Fund Dividend Division  
 Approved By: Jerry Burnett, Deputy Commissioner  
 Agency: Department of Revenue

Phone: (907)465-4785  
 Date: 03/10/2017 12:00 PM  
 Date: 03/10/17

REPORTED OUT OF  
SFC 03/12/2017

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

This legislation makes several changes that directly affect the Permanent Fund Dividend program, however it will have minimal fiscal and operational impacts. Changes include establishing a set dividend amount for the next three years, modifying the dividend calculation, and transitioning to a Percent of Market Value (POMV) model. Additionally, the annual Permanent Fund Dividends to eligible Alaskans would be funded by General Fund appropriation, rather than appropriated from the Earnings Reserve.

First and foremost, the legislation will set the dividend amount at \$1,000 for the next three years with a Percent of Market Value (POMV) set at five and a quarter percent. Although the division will not be using the formula that has been used in prior years to calculate the dividend, there are several factors that still must be considered including the amount required to fund prior year liabilities, reserves, and appropriations (hold-harmless provision for Public Assistance, Physical Health Care, and the Violent Crimes Compensation Board, and the Division's Administrative costs). The expected appropriation for the dividends, assuming an annual population growth, would range from \$689 million up to \$710 million.

On the fourth year, the 2021 dividend, changes to the dividend calculation formula would be implemented. The annual draw would change from 21% of the net income for the last five years to five percent of the average market value of the fund for the first five of the preceding six fiscal years. Additionally, the total available for distribution will be divided by one fourth, 25%, rather than cut in half, 50%. Calculating prior year liabilities, reserves and appropriations will remain consistent.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	CSSB 26(FIN)
Fiscal Note Number:	7
(S) Publish Date:	3/13/2017

Identifier: SB026CS(FIN)-DOC-PHC-03-10-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: (S) FINANCE

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 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>OPERATING EXPENDITURES</b>								
Personal Services							***	***
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	***	***

**Fund Source (Operating Only)**

1171 PFD Crim (Other)		(9,103.6)	(9,375.1)	(9,375.1)	(9,375.1)		
1197 AK Cap Fnd (Other)		9,103.6	9,375.1	9,375.1	9,375.1		
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	***	***

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Updated to reflect the changes in Version D.
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Prepared By: April Wilkerson  
 Division: Administrative Services - Department of Corrections  
 Approved By: Dean Williams, Commissioner  
 Agency: Department of Corrections

Phone: (907)465-3460  
 Date: 03/10/2017 04:30 PM  
 Date: 03/10/17

REPORTED OUT OF  
SFC 03/12/2017

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

Passage of this legislation would amend AS 37.13 and change the way permanent fund dividends are calculated.

The reduction in the CY2016 dividend amount from an estimated \$2,072.00 to \$1,022.00 significantly reduced the amount of PFD Criminal Funds available to the Department of Corrections Physical Health Care component for FY2018.

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 Governor's budget in order to maintain the necessary level of funding for inmate health care.

The Department of Corrections Physical Health Care component receives a portion of the \$12,613,524.00 PFD Criminal Funds available which is based on a fluctuating annual PFD amount and the number of persons deemed ineligible during the appropriate year. For FY2018 the \$12,613,524.00 available is based on the CY2016 annual PFD amount of \$1,022.00 and an estimated 12,342 individuals deemed ineligible under AS 43.23.005(d). The portion of PFD Criminal Funds available to Corrections for FY2018 is \$11,191,000.00 after the \$1,422,500.00 proposed deposit into the Crime Victim Compensation Fund.

This legislation would set a dividend amount of \$1,000.00 for three next three years with a Percent of Market Value (POMV) set at 5.25% of the value of the Permanent Fund. In fiscal year 2021 the POMV would reduce to 5% and the dividend payout would be calculated at 25% of the POMV draw.

Using the Office of Management and Budget projection model and the same number of individuals identified as ineligible this legislation would adjust the amount of future PFD Criminal Funds available to the Department of Corrections for inmate health care requiring fund source changes as follows:

FY2019, FY2020 and FY2021 are projected to be the same based on a dividend amount of \$1,000.00 for CY2018, CY2019 and CY2020 which would reduce the amount of PFD Criminal Funds available by \$271,500.00 each year requiring the continuation of \$9,375,100.00 from another fund source, proposed from the Alaska Capital Income Fund.

Future fund source changes may be necessary for FY2022 and FY2023 based on the fluctuating annual PFD amounts, the number of persons deemed ineligible, and the POMV; therefore, actual amounts cannot be projected at this time and the necessary changes for these fiscal years are indeterminate.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	CSSB 26(FIN)
Fiscal Note Number:	8
(S) Publish Date:	3/13/2017

Identifier: SB26CS(FIN)-DOR-TAX-03-10-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Senate Finance

Department: Department of Revenue  
 Appropriation: Taxation and Treasury  
 Allocation: Tax Division  
 OMB Component Number: 2476

**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 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

1250 UGF Rev (UGF)		2,573,300.0	2,742,500.0	2,884,100.0	2,835,800.0	2,916,700.0	3,015,000.0
1251 Non-UGF (Other)		(2,573,300.0)	(2,742,500.0)	(2,884,100.0)	(2,835,800.0)	(2,916,700.0)	(3,015,000.0)
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Senate Finance Committee Substitute made changes to the draw amount starting in FY18. Updated note to reflect changes.

Prepared By: Jerry Burnett, Deputy Commissioner  
 Division: Commissioner's Office  
 Approved By: Randall Hoffbeck, Commissioner  
 Agency: Department of Revenue

Phone: (907)465-3669  
 Date: 02/24/2017 12:00 PM  
 Date: 02/24/17

REPORTED OUT OF  
SFC 03/12/2017

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

This legislation makes several changes to various aspects of the Permanent Fund program, including changes to the dividend calculation, changes to how Fund earnings are used, and changes to how royalty revenue is shared among various governmental funds. These changes do not directly impact revenue received by the Tax Division, but this fiscal note has been prepared in an attempt to represent all changes as a result of this legislation in a single fiscal note. All amounts shown are based on a combination of the Department of Revenue's Fall 2016 revenue forecast, and assumptions used by the Office of Management and Budget for development of the FY 2018 budget proposal. For purposes of this fiscal note the impacts are shown beginning with FY 2018.

One provision of this legislation is to reduce the share of minerals bonuses, rents, and royalties that are deposited to the Permanent Fund from 50% to 25% for certain leases. The Alaska Constitution mandates that 25% of all mineral bonuses, rents, and royalties be deposited into the Permanent Fund. However, for leases issued after February 15, 1980, a higher 50% of bonuses, rents, and royalties are deposited into the Permanent Fund. This legislation would reduce the contribution rate to the Permanent Fund for those leases to the constitutionally mandated 25%. Based on the Department of Revenue's Fall 2016 production and price assumptions, this provision of the bill would increase deposits to the General Fund by approximately \$55 million to \$77 million annually, while reducing royalty deposits to the Permanent Fund principal by the same amount.

From July 1, 2018 to July 1, 2020 the bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25 percent of the average market value of the fund, including the earnings reserve, for the first five of the preceding six fiscal years. This POMV amount changes to 5 percent on July 1, 2020. This draw would be allocated between the Dividend Fund and the General Fund. Based on the Fall 2016 revenue forecast for royalty deposits (only the constitutionally mandated 25%), this provision of the bill would increase deposits to the General Fund by approximately \$2,518.4 million to \$2,939.7 million annually. This legislation would reduce the balance of the Permanent Fund Earnings Reserve Account by the same amount each year. But is expected to preserve the overall inflation adjusted value of the Permanent Fund.

In total, revenues to the General Fund would be increased by \$2,573 to \$3,015 million annually based on the stated assumptions. Additional FY2018 UGF revenue is broken out as follows:

5.25% POMV Draw from the ERA: \$2,518 million

Royalties previously deposited into the Permanent Fund: \$54.9 million

This legislation would also modify how dividends are calculated and funded. The annual Permanent Fund Dividend to eligible Alaskans would be funded by appropriation from the General Fund, instead of by appropriation from the Earnings Reserve. Therefore, a portion of the additional General Fund revenue described above would be used to pay annual dividends. For FY18, FY19 and FY20 the dividend is set at \$1,000 per person. Starting in FY21 the appropriation for dividends would be based on 25% of the calculated maximum transfer from the Permanent Fund to the General Fund.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 26
Fiscal Note Number:	5
(S) Publish Date:	1/18/2017

Identifier: Fund Cap-Dup-CVCF-12-08-16  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Governor

Department: Fund Capitalization  
 Appropriation: Caps Spent as Duplicated Funds  
 Allocation: Crime Victim Compensation Fund  
 OMB Component Number: 2936

**Expenditures/Revenues**

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

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

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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:	Kate Hudson	Phone:	(907)465-5525
Division:	Violent Crimes Compensation Board	Date:	12/07/2016 10:00 AM
Approved By:	Sheldon Fisher, Commissioner	Date:	12/08/16
Agency:	Department of Administration		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

There will be zero financial impact of this bill on the Violent Crimes Compensation Board because it is assumed that any reductions in the permanent fund dividend will be absorbed by the Department of Corrections. 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. Thus, if less state money is available to spend on grants to victims of crime, federal funding would decrease the following year and forward. Should state spending be reduced to zero, then federal funding would also reduce to zero.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 26
Fiscal Note Number:	6
(S) Publish Date:	1/18/2017

Identifier: DOR-PF Earnings-1-17-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: GOVERNOR

Department: Permanent Fund ERA Appropriations  
 Appropriation: Permanent Fund ERA  
 Allocation: To General Fund  
 OMB Component Number: 3121

**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
<b>OPERATING EXPENDITURES</b>							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

1004 Gen Fund (UGF)	695,650.0	695,650.0	728,800.0	750,400.0	764,200.0	780,100.0
1041 PF ERA (UGF)	(695,650.0)	(695,650.0)	(728,800.0)	(750,400.0)	(764,200.0)	(780,100.0)
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time						
Part-time						
Temporary						

**Change in Revenues**

<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**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? No  
 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: Jerry Burnett, Deputy Commissioner  
 Division: Commissioner's Office  
 Approved By: Randall Hoffbeck, Commissioner  
 Agency: Department of Revenue

Phone: (907)465-3669  
 Date: 01/17/2017 10:45 AM  
 Date: 01/17/17

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

Analysis

This legislation would modify how dividends are calculated and funded. The annual Permanent Fund Dividend to eligible Alaskans would be funded by appropriation from the General Fund, instead of by appropriation from the Earnings Reserve. Therefore, a portion of the additional General Fund revenue would be used to pay annual dividends. The appropriation for dividends would be based on a combination of 20% of the transfer from the Permanent Fund to the General Fund, plus 20% of the value of mineral royalties received during the year. Over the time horizon of this fiscal note, the expected appropriation for dividends under the stated assumptions would range from \$706 million to \$844 million annually.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 26
Fiscal Note Number:	1
(S) Publish Date:	1/18/2017

Identifier: DOA-VCCB-12-08-16  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Governor

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

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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:	Kate Hudson	Phone:	(907)465-5525
Division:	Violent Crimes Compensation Board	Date:	12/07/2016 10:00 AM
Approved By:	Sheldon Fisher, Commissioner	Date:	12/08/16
Agency:	Department of Administration		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

There will be zero financial impact of this bill on the Violent Crimes Compensation Board because it is assumed that any reductions in the permanent fund dividend will be absorbed by the Department of Corrections.

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. Thus, if less state money is available to spend on grants to victims of crime, federal funding would decrease the following year and forward. Should state spending be reduced to zero, then federal funding would also reduce to zero.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 26
Fiscal Note Number:	2
(S) Publish Date:	1/18/2017

Identifier: DOC-PHC-01-13-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: GOVERNOR

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
<b>OPERATING EXPENDITURES</b>	<b>FY 2018</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Personal Services							***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>***</b>

**Fund Source (Operating Only)**

1171 PFD Crim (Other)	(9,103.6)	(9,103.6)	(9,375.1)	(9,375.1)	(8,659.3)	(8,449.5)	
1197 AK Cap Fnd (Other)	9,103.6	9,103.6	9,375.1	9,375.1	8,659.3	8,449.5	
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>***</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**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:**

Initial version.

Prepared By:	April Wilkerson	Phone:	(907)465-3460
Division:	Administrative Services - Department of Corrections	Date:	01/13/2017 03:00 PM
Approved By:	Dean Williams, Commissioner	Date:	01/13/17
Agency:	Department of Corrections		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

Passage of this legislation will change the way permanent fund dividends are calculated having an impact on the amount of Permanent Fund Dividend Criminal Funds allocated to the Department of Corrections Physical Health Care component.

The Department of Corrections Physical Health Care component receives a portion of the \$12,613,524.00 Permanent Fund Dividend Criminal Funds which are based on a fluctuating annual PFD amount and the number of persons deemed ineligible during the appropriate year. The amount of PFD Criminal Funds appropriated to corrections for FY2018 was \$11,191,024.00 based on the CY2016 annual PFD amount of \$1,022.00 and an estimated 12,342 individuals deemed ineligible under AS 43.23.005(d). The Department of Public Safety Crime Victim Compensation Fund was appropriated \$1,422,500.00.

Using the Office of Management and Budget projection model and the same number of individuals identified as ineligible, this legislation would adjust the amount of PFD Criminal Funds available for allocation to the department requiring fund source changes as follows:

FY2019 and FY2020 impacts are projected to be the same with an estimated dividend of \$1,000.00 per eligible recipient. This impact would reduce PFD Criminal Funds (\$271,524.00) increasing Alaska Capital Income Funds \$271,524.00 for these two fiscal years within the Physical Health Care component.

The FY2021 projections could potentially reflect a slight increase to the annual dividend to \$1,058.00 per eligible individual. This impact would increase the PFD Criminal Funds by \$715,836.00 reducing Alaska Capital Income Funds (\$715,836.00) for a continued impact of (\$8,659,264.00) PFD Criminal Funds / \$8,659,264.00 Alaska Capital Income Funds within the Physical Health Care component.

The FY2022 projections reflect another slight increase for an annual dividend of \$1,075.00 per eligible individual. This impact would increase the PFD Criminal Funds by \$209,814.00 reducing Alaska Capital Income Funds (\$209,814.00) for a continued impact of (\$8,449,450.00) PFD Criminal Funds / \$8,449,450.00 Alaska Capital Income Funds within the Physical Health Care component.

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 26
Fiscal Note Number:	3
(S) Publish Date:	1/18/2017

Identifier: DOR-TAX-1-17-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: GOVERNOR

Department: Department of Revenue  
 Appropriation: Taxation and Treasury  
 Allocation: Tax Division  
 OMB Component Number: 2476

**Expenditures/Revenues**

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

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

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

1250 UGF Rev (UGF)		2,587,900.0	2,739,000.0	2,856,500.0	2,918,600.0	2,968,800.0	3,066,500.0
1251 Non-UGF (Other)		(2,587,900.0)	(2,739,000.0)	(2,856,500.0)	(2,918,600.0)	(2,968,800.0)	(3,066,500.0)
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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? No  
 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:	Jerry Burnett, Deputy Commissioner	Phone:	(907)465-3669
Division:	Commissioner's Office	Date:	01/17/2017 10:45 AM
Approved By:	Randall Hoffbeck, Commissioner	Date:	01/17/17
Agency:	Department of Revenue		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

## Analysis

This legislation makes several changes to various aspects of the Permanent Fund program, including changes to the dividend calculation, changes to how Fund earnings are used, and changes to how royalty revenue is shared among various governmental funds. These changes do not directly impact revenue received by the Tax Division, but this fiscal note has been prepared in an attempt to represent all changes as a result of this legislation in a single fiscal note. All amounts shown are based on a combination of the Department of Revenue's Fall 2016 revenue forecast, and assumptions used by the Office of Management and Budget for development of the FY 2018 budget proposal. For purposes of this fiscal note the impacts are shown beginning with FY 2018; however the legislation has an immediate effective date and would also apply to FY 2017 funding if passed during the first session of the 30th Alaska Legislature.

One provision of this legislation is to reduce the share of minerals bonuses, rents, and royalties that are deposited to the Permanent Fund from 50% to 25% for certain leases. The Alaska Constitution mandates that 25% of all minerals bonuses, rents, and royalties be deposited into the Permanent Fund. However, for leases issued after February 15, 1980, a higher 50% of bonuses, rents, and royalties are deposited into the Permanent Fund. This legislation would reduce the contribution rate to the Permanent Fund for those leases to the constitutionally mandated 25%. Based on the Department of Revenue's Fall 2016 production and price assumptions, this provision of the bill would increase deposits to the General Fund by approximately \$55 million to \$77 million annually, while reducing royalty deposits to the Permanent Fund principal by the same amount.

The bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25 percent of the average market value of the fund, including the earnings reserve, for the first five of the preceding six fiscal years. This draw would be allocated between the Dividend Fund and the General Fund. Based on the Fall 2016 revenue forecast for royalty deposits (only the constitutionally mandated 25%), and assuming a 6.5% rate of return on the Permanent Fund (an assumption used for budget development; this may not match the official return forecast from the Permanent Fund Corporation), this provision of the bill would increase deposits to the General Fund by approximately \$2,507 million to \$2,965 million annually. This legislation would reduce the balance of the Permanent Fund Earnings Reserve Account by the same amount.

In total, revenues to the General Fund would be increased by \$2,587 to \$3,067 million annually based on the stated assumptions. Additional FY 2018 UGF revenue is broken out as follows:

5.25% POMV Draw from the ERA: \$2,507.0 million

Reclassification of Amerida Hess revenue: \$26.0 million

Royalties previously deposited into the Permanent Fund: \$54.9 million

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SB 26
Fiscal Note Number:	4
(S) Publish Date:	1/18/2017

Identifier: DOR-APFC-1-12-17  
 Title: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: GOVERNOR

Department: Department of Revenue  
 Appropriation: Alaska Permanent Fund Corporation  
 Allocation: APFC Investment Management Fees  
 OMB Component Number: 2310

**Expenditures/Revenues**

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

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

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**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? 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: <u>Paulyn Swanson</u>	Phone: (907)796-1520
Division: <u>Alaska Permanent Fund Corporation</u>	Date: 01/12/2017 01:00 PM
Approved By: <u>Angela Rodell</u>	Date: 01/12/17
Agency: <u>Alaska Permanent Fund Corporation</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

Analysis

The bill would allow for an annual draw from the Permanent Fund earnings reserve of up to 5.25 percent of the average market value of the fund, including earnings reserve, for the first five of the preceding six fiscal years. This draw would be allocated between the Dividend Fund and the General Fund. Managing toward this liability may change the asset allocation of the Permanent Fund, however at this time it is difficult to forecast if it would impact the asset allocation to a degree that would require additional investment staff, accounting staff or related resources.