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Governor Bill Walker
STATE OF ALASKA

January 15, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

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 and stable funding of state services and the protection of the permanent fund. To accomplish these goals, additional resource revenues would be directed to the permanent fund and the earnings reserve account. This would enable greater permanent fund earnings to be generated and remove the damaging volatility from the general fund. In turn, a sustainable and stable annual draw from the earnings reserve account to the general fund would support state government. Additionally, the bill would change the manner in which permanent fund dividends are calculated from the current practice of calculating the dividend based on investment returns to a process in which the dividend is calculated based on the state's receipt of natural resource royalties. Further, the bill would establish a process to assure sustainability of state revenues in which the Commissioner of Revenue, in consultation with the Alaska Permanent Fund Corporation, would periodically review state financial resources in order to recommend whether adjustments should be made to the sustainable draw from the earnings reserve account to the general fund. Additionally, the bill provides for inflationary adjustments to the sustainable draw beginning in fiscal year 2020. As a result of these changes, the permanent fund earnings reserve account would generate predictable and stable revenues for state government. The permanent fund dividend would continue, but would reflect the state's success in natural resource development rather than investment performance.

In detail, the bill proposes to amend AS 37.13.010, the Alaska permanent fund, to require that 49.5 percent, rather than the current approximately 30 percent, of resource royalties would be deposited into the permanent fund principal. This would be subject to the condition that the earnings reserve account had reached a target balance necessary to provide for a sustainable annual draw of \$3,300,000,000 billion dollars from that account to the general fund. If the target had not been reached, 24.5 percent of the resource royalties would go to the earnings reserve account (0.5 percent of mineral lease royalties would continue to go to the school fund). Additionally, the bill provides that up to 100 percent of oil and gas production taxes may be appropriated to the permanent fund

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or the earnings reserve account. The bill would amend AS 37.13.145(b) to provide that the annual transfer from the earnings reserve account to the dividend fund for the payment of dividends would be the amount necessary to equal 50 percent of the resource royalties received by the state. In order to support this dividend payment, the bill provides that the Legislature may appropriate 50 percent of the resource royalties received by the state to the earnings reserve account. Based on these changes, income of the permanent fund would no longer be used to calculate the amount available for payment of dividends, but instead the dividend would be calculated based on resource royalties received by the state.

To further stabilize the income stream available for state budgets, the bill would amend AS 37.13.145 in order to eliminate an annual inflation transfer from the permanent fund earnings reserve account to the principal. Instead of this transfer, the bill provides for a transfer from the earnings reserve account to the permanent fund principal that will occur if the earnings reserve account contains more money than needed for a four-year sustainable draw from that account to the general fund. If the earnings reserve account has not reached this target balance, the bill provides that 100 percent of oil and gas production taxes and up to 24.5 percent of resource royalties may be appropriated to the earnings reserve account.

The bill further amends AS 37.13.145 to establish a process for review by the Commissioner of Revenue to determine whether the sustainable draw sum should be adjusted based on an assessment of state financial resources. This review would result in a report being submitted to the President of the Senate and the Speaker of the House of Representatives. To ensure transparency, the bill would require that the information and analysis supporting the report be made available to the public, including the Legislature. Additionally, the bill provides for inflation adjustment to the sustainable draw beginning in fiscal year 2020. The bill would establish a dividend amount of \$1,000 for each eligible individual for calendar year 2016.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker
Governor

Enclosure

SENATE BILL NO. 128

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

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/19/16

Referred: State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the Alaska permanent fund; relating to appropriations to the
2 dividend fund; relating to income of the Alaska permanent fund; relating to the
3 earnings reserve account; relating to the Alaska permanent fund dividend; making
4 conforming amendments; and providing for an effective date."

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

6 * **Section 1.** AS 37.13.010(a) is amended to read:

7 (a) Under art. IX, sec. 15, of the state constitution, there is established as a
8 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

9 (1) 25 percent of all mineral lease bonuses, rentals, royalties, royalty
10 sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral
11 revenue sharing payments received by the state [FROM MINERAL LEASES ISSUED
12 ON OR BEFORE DECEMBER 1, 1979, AND 25 PERCENT OF ALL BONUSES
13 RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED ON OR
14 BEFORE FEBRUARY 15, 1980];

1 (2) unless required to maintain the target balance of the earnings
 2 reserve account under AS 37.13.145, an additional 24.5 [50] percent of all mineral
 3 lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under
 4 AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by
 5 the state;

6 (3) except as otherwise provided under art. IX, sec. 17,
 7 Constitution of the State of Alaska and unless required to maintain the target
 8 balance of the earnings reserve account under AS 37.13.145, 100 percent of oil
 9 and gas production taxes collected by the Department of Revenue under
 10 AS 43.55.011 - 43.55.180 may be appropriated to the Alaska permanent fund
 11 [FROM MINERAL LEASES ISSUED AFTER DECEMBER 1, 1979, AND 50
 12 PERCENT OF ALL BONUSES RECEIVED BY THE STATE FROM MINERAL
 13 LEASES ISSUED AFTER FEBRUARY 15, 1980]; and

14 (4) [(3)] any other money appropriated to or otherwise allocated by
 15 law or former law to the Alaska permanent fund.

16 * **Sec. 2.** AS 37.13.010 is amended by adding a new subsection to read:

17 (d) In this section "target balance" is calculated under AS 37.13.145(l).

18 * **Sec. 3.** AS 37.13.140 is amended to read:

19 **Sec. 37.13.140. Income.** Net income of the fund includes income of the
 20 earnings reserve account established under AS 37.13.145. Net income of the fund shall
 21 be computed annually as of the last day of the fiscal year in accordance with generally
 22 accepted accounting principles, excluding any unrealized gains or losses. [INCOME
 23 AVAILABLE FOR DISTRIBUTION EQUALS 21 PERCENT OF THE NET
 24 INCOME OF THE FUND FOR THE LAST FIVE FISCAL YEARS, INCLUDING
 25 THE FISCAL YEAR JUST ENDED, BUT MAY NOT EXCEED NET INCOME OF
 26 THE FUND FOR THE FISCAL YEAR JUST ENDED PLUS THE BALANCE IN
 27 THE EARNINGS RESERVE ACCOUNT DESCRIBED IN AS 37.13.145.]

28 * **Sec. 4.** AS 37.13.145(b) is amended to read:

29 (b) At the beginning [END] of each fiscal year, and subject to
 30 appropriation, the corporation shall transfer from the earnings reserve account to the
 31 dividend fund established under AS 43.23.045, an amount equal to 50 percent of all

1 mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares
 2 under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments
 3 received by the state during the prior fiscal year [THE INCOME AVAILABLE
 4 FOR DISTRIBUTION UNDER AS 37.13.140].

5 * **Sec. 5.** AS 37.13.145(c) is amended to read:

6 (c) **If, following** the transfer under (b) of this section, **the balance of the**
 7 **earnings reserve account exceeds the target balance**, [AFTER] the corporation,
 8 **subject to appropriation**, shall transfer from the earnings reserve account to the
 9 principal of the fund an amount **equal to the difference between the balance of the**
 10 **earnings reserve account and the target balance** [SUFFICIENT TO OFFSET THE
 11 EFFECT OF INFLATION ON THE PRINCIPAL OF THE FUND DURING THAT
 12 FISCAL YEAR]. However, none of the amount transferred shall be applied to
 13 increase the value of that portion of the principal attributed to the settlement of State v.
 14 Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on
 15 July 1, 2004. [THE CORPORATION SHALL CALCULATE THE AMOUNT TO
 16 TRANSFER TO THE PRINCIPAL UNDER THIS SUBSECTION BY

17 (1) COMPUTING THE AVERAGE OF THE MONTHLY UNITED
 18 STATES CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS FOR
 19 EACH OF THE TWO PREVIOUS CALENDAR YEARS;

20 (2) COMPUTING THE PERCENTAGE CHANGE BETWEEN THE
 21 FIRST AND SECOND CALENDAR YEAR AVERAGE; AND

22 (3) APPLYING THAT RATE TO THE VALUE OF THE
 23 PRINCIPAL OF THE FUND ON THE LAST DAY OF THE FISCAL YEAR JUST
 24 ENDED, INCLUDING THAT PORTION OF THE PRINCIPAL ATTRIBUTED TO
 25 THE SETTLEMENT OF STATE V. AMERADA HESS, ET AL., 1JU-77-847 CIV.
 26 (SUPERIOR COURT, FIRST JUDICIAL DISTRICT).]

27 * **Sec. 6.** AS 37.13.145 is amended by adding new subsections to read:

28 (e) Except as otherwise provided under art. IX, sec. 17, Constitution of the
 29 State of Alaska, if, following the transfer in (b) of this section, the balance of the
 30 earnings reserve account is less than the target balance, up to 100 percent of the
 31 money collected by the Department of Revenue, within the fiscal year, under the oil

1 and gas production tax, AS 43.55.011 - 43.55.180, may be appropriated to the earnings
2 reserve account. Any portion of these funds not required to bring the earnings reserve
3 account balance to the target balance may be appropriated to the principal of the fund.

4 (f) If, following the transfer under (b) of this section, the balance of the
5 earnings reserve account is less than the target balance, up to 24.5 percent of all
6 mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under
7 AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by
8 the state may be appropriated to the earnings reserve account. Any portion of these
9 funds not required to bring the earnings reserve account balance to the target balance
10 may be transferred to the principal of the fund.

11 (g) In addition to the funds appropriated under (f) of this section, 50 percent of
12 all mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares
13 under AS 38.05.180(f) and (g), and federal mineral resource sharing payments
14 received by the state may be appropriated to the earnings reserve account.

15 (h) Each fiscal year and subject to appropriation, the corporation shall transfer
16 from the earnings reserve account to the general fund the sustainable draw amount
17 under (i) of this section.

18 (i) The sustainable draw amount may not exceed \$3,300,000,000 for a fiscal
19 year. Except that, beginning in fiscal year 2020, the sustainable draw amount may be
20 adjusted for inflation. The commissioner of revenue shall calculate the inflation rate
21 by computing the

22 (1) average of the monthly United States Consumer Price Index for all
23 urban consumers for each of the two previous calendar years; and

24 (2) percentage change between the first and second calendar year
25 average.

26 (j) The commissioner of revenue may recommend that the sustainable draw
27 under (i) of this section be adjusted based on a sufficiency of assets review conducted
28 in calendar year 2017, in calendar year 2020, and every four years thereafter. The
29 commissioner of revenue shall consult with the board in conducting the review. The
30 commissioner shall issue a report evaluating the sufficiency of assets in the earning
31 reserve account and anticipated revenue to meet the draw for the following four years

1 and whether it is more likely than not that the real value of the permanent fund assets
 2 will be less in 20 years than at the beginning of fiscal year 2017. To calculate the
 3 sufficiency of assets, the report shall use

4 (1) as adopted by the board, a 10-year forecast of net income of the
 5 fund including income of the earnings reserve account, as defined in AS 37.13.140,
 6 and a 10-year forecast of total income of the fund including the earnings reserve
 7 account that includes unrealized gains or losses;

8 (2) a forecast of natural resource revenues by the Department of
 9 Revenue;

10 (3) the balance of the earnings reserve of the Alaska permanent fund,
 11 including unrealized gains and losses;

12 (4) the balance of the principal of the Alaska permanent fund,
 13 including unrealized gains and losses;

14 (5) historical and forecasted inflation; and

15 (6) any additional factors the commissioner of revenue determines are
 16 relevant.

17 (k) The commissioner of revenue shall submit the sufficiency of assets report
 18 to the president of the senate and the speaker of the house of representatives. The
 19 report, supporting modeling and calculations and data input, including the information
 20 relied on by the board for the return forecasts, shall be made available to the public.
 21 The supporting modeling shall be provided in its native file format, except that any
 22 confidential tax information may be provided in aggregate form.

23 (l) In this section,

24 (1) "sustainable draw amount" means an amount of money to be
 25 appropriated in a fiscal year from the earnings reserve account to the general fund;

26 (2) "target balance" is equal to four times the prior year's sustainable
 27 draw from the earnings reserve account.

28 * **Sec. 7.** AS 37.13.300(c) is amended to read:

29 (c) Net income from the mental health trust fund may not be included in the
 30 computation of net income [AVAILABLE FOR DISTRIBUTION] under
 31 AS 37.13.140.

1 * **Sec. 8.** AS 43.55.080 is amended to read:

2 **Sec. 43.55.080. Collection and deposit of revenue.** (a) Except as otherwise
3 provided under art. IX, sec. 17, Constitution of the State of Alaska, the **money**
4 **collected by the** department [SHALL DEPOSIT IN THE GENERAL FUND THE
5 MONEY COLLECTED BY IT] under AS 43.55.011 - 43.55.180 **may be**
6 **appropriated to the permanent fund under AS 37.13.010 and 37.13.145.**

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

9 2016 PERMANENT FUND DIVIDEND. Notwithstanding any other provision in this
10 Act or other applicable law, the permanent fund dividend for each eligible individual for
11 calendar year 2016 shall be \$1,000.

12 * **Sec. 10.** This Act takes effect July 1, 2016.