

LEGAL SERVICES

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MEMORANDUM

April 25, 2015

SUBJECT: Impact of Appropriations from the Permanent Fund Earnings Reserve Account on Permanent Fund Dividend

TO: Representative Les Gara

FROM: Doug Gardner
Director

The question you asked is whether a \$4 billion appropriation from the Permanent Fund Earnings Reserve Account in AS 37.14.145 ("ERA") to the general fund will impact the permanent fund dividends calculated under AS 43.23.025.

The brief answer is yes.

The current formula to determine the total amount available for permanent fund dividends is provided for in two statutes. The first statute, AS 37.13.140, tells us how to calculate the "income available for distribution" from the permanent fund. It states:

Net income of the fund **includes income of the earnings reserve account established under AS 37.13.145**. Net income of the fund shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. **Income available for distribution equals 21 percent of the net income of the fund for the last five fiscal years**, including the fiscal year just ended, but may not exceed net income of the fund for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145. [Emphasis added.]

The earnings reserve account of the permanent fund is created under AS 37.13.145(a). Subsection (b) addresses the amount to be transferred to the dividend fund and subsection (c) addresses the amount to be transferred to the permanent fund principal for inflation proofing. Despite the language of the statute suggesting that the transfers are automatic, the money is actually appropriated each year from the earnings reserve account. Subsection (b) states:

(b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, **50 percent of the income available for distribution** under

AS 37.13.140. [Emphasis added.]

The permanent fund division determines what the value of the dividend check will be each year based upon the amount that is appropriated to the dividend fund under AS 37.13.145(b), the number of applicants for that year, the number of past year dividends that must be paid during the current year, and some other factors. *See* AS 43.23.025.

If the legislature appropriates \$4 billion from the ERA to provide for general fund expenditures, there will be less money in the ERA to provide income to contribute to the "net income" of the permanent fund, and thus the "income available for distribution" to calculate permanent fund dividends will be reduced under AS 37.13.140. I note, that funds are appropriated for the FY 16 operating budget, and because those funds would not be withdrawn from the ERA until July 1, 2015, or later, the permanent fund dividend prepared for distribution in October of 2015 should not be impacted since the "income available" for distribution under AS 37.13.140 is calculated at the end of the fiscal year. However, the 2015 dividend could be impacted if funding for the FY 15 supplemental budget is appropriated from the ERA. The FY 16 permanent fund dividend would be impacted for the reasons noted above, but the exact impact is beyond my level of expertise.

With your permission, I contacted Legislative Finance Director David Teal, and he indicated that with some time, he could prepare a model based on earnings assumptions for the permanent fund, and the ERA, and provide you with an analysis of the impact of an appropriation from the ERA on the permanent fund dividends.

Please advise if you want me to contact David Teal and ask him to provide you with a detailed impact on the permanent fund dividends based on an appropriation of \$4 billion from the ERA to the general fund.

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