

Senator Ben Stevens
Senate Majority Leader



Sponsor Statement

SB 374 – Permanent Fund Earnings/Income Distribution

The State of Alaska's revenue structure is heavily dependent on the production and price of oil. The production of oil in Alaska has steadily declined over the years, and with national and local environmentalists' opposition to exploration and development of oil and gas in the Arctic National Wildlife Refuge and the National Petroleum Reserve, experts predict an irreversible decline in production.

Over the last decade, the State of Alaska has closed its budget deficit by borrowing funds from the Constitutional Budget Reserve (CBR). Office of Management and Budget (OMB) forecasts predict that under current budget levels, oil production, and oil prices, the CBR will no longer have funds available to close future budget deficits. OMB's forecast assumes no major rise in state expenditures and predictable oil prices. A major dip in world oil prices or major increases in the cost of education or formula-driven programs will undoubtedly turn a general fund budget deficit into a true fiscal crisis.

Unless our state's savings account - the CBR - is repaid, it is only a matter of time before the Governor and the State Legislature will be forced to enact draconian taxes – which may ravage the state's economy and overburden taxpayers – or will be forced to enact draconian cuts that will devastate Alaska's schools, leave infrastructure to deteriorate, and leave the most vulnerable Alaskans out in the cold.

Recognizing current and future budget realities, SB 374 is proposed as a conservative statutory change that will enable future legislatures and future Alaskans to meet the core services of government: education, public safety, transportation, and public health.

SB 374 outlines the priority use of the realized earnings of the Permanent Fund:

Senator Ben Stevens
State Capitol
Juneau, Alaska 99801
907-465-4993
Fax: 907-465-3872

1. Permanent Fund Dividend

As under current law, the amount available for appropriation from the permanent fund would be based on an average of realized earnings for the past five years, with half going to dividends.

2. Inflation-Proofing

The amount needed to inflation-proof the Permanent Fund remains similar to current law. However, new deposits from natural resources into the corpus of the Permanent Fund will be considered in the calculation of the amount needed from the realized earnings.

3. Baseline Balance of the Earnings Reserve Account

Unlike current law, SB 374 mandates that after Permanent Fund Dividends and inflation proofing, all monies in the Earnings Reserve Account up to \$250,000,000 must remain in the Earnings Reserve Account.

4. Constitutional Budget Reserve

After Permanent Fund Dividends, inflation proofing, and remaining within the baseline balance of the Earnings Reserve Account, excess monies would be transferred to the Constitutional Budget Reserve.

Unlike high tax rates and deep cuts in government services, SB 374 ensures that little to no damage will be inflicted on Alaska citizens and the economy. Based on a recent study by the Institute of Social & Economic Research (ISER), transferring excess earnings of the Permanent Fund after paying Dividends and inflation proofing would do the least harm to Alaskans.

Moreover, transferring excess earnings of the Permanent Fund to the Constitutional Budget Reserve will allow the funds to appreciate over time.

[SB 374](#) would revert to current statutory language once the deposits to the Constitutional Budget Reserve equals the amount appropriated from the CBR to the state's general fund.

I would appreciate your support.

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