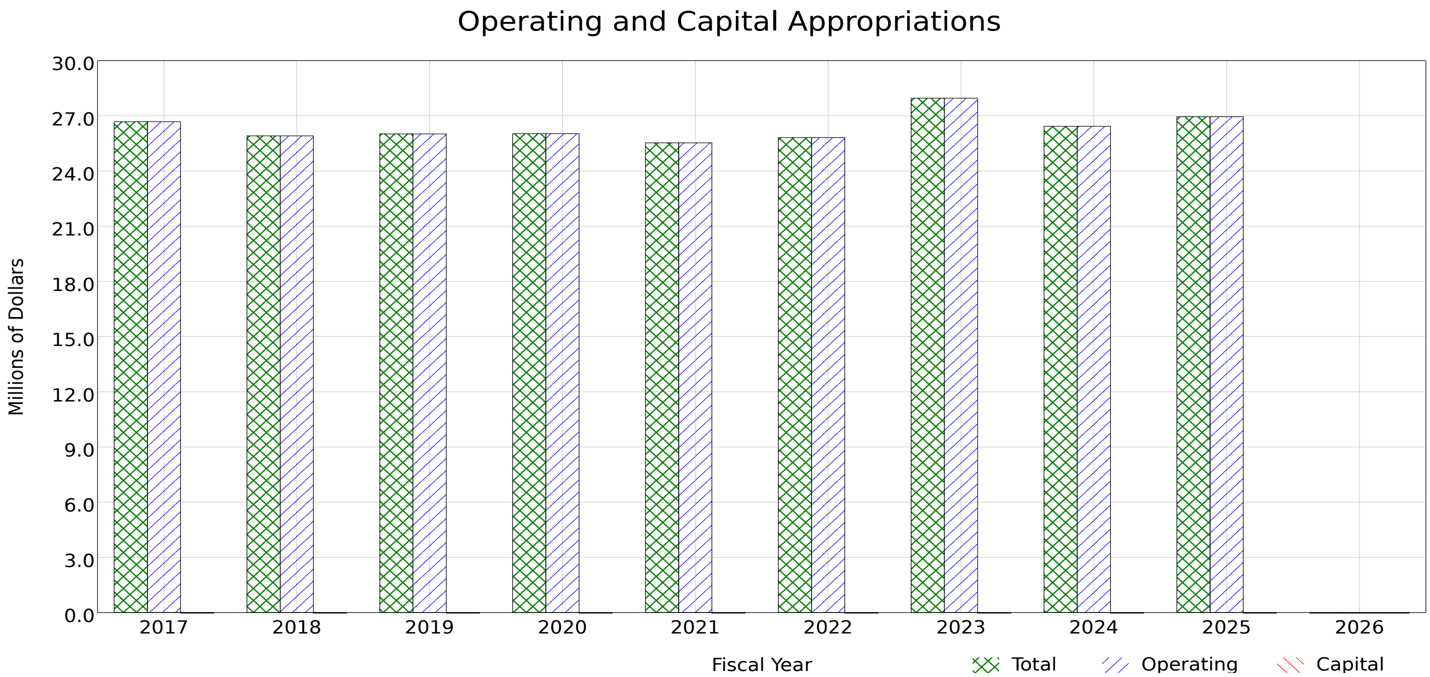
Fund Source Report

1050 PFD Fund Permanent Fund Dividend Fund

Year Authorized	Year Repealed	Active?	Mental Health?	Duplicated?	Fund Group
1982		Yes	No	Yes	Other Designated



Legal Authority
AS 43.23.045

Source of Revenue
The Dividend Fund is capitalized with an appropriation from the Permanent Fund Earnings Reserve Account.

Beginning in FY19, a percent of market value (POMV) is appropriated from the earnings reserve account to the general fund. An amount for dividends is then appropriated from the general fund to the dividend fund.

Restrictions on Use
The fund is intended to pay dividends, including hold-harmless costs, and costs of administering the dividend program.

Description and History
The Permanent Fund was established by Constitutional amendment in 1977. The amendment directed that at least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state be placed in the Permanent Fund. The principal of the Permanent Fund may be used only for income producing investments; it is not available for appropriation.

The amendment also directed that all income from the Permanent Fund be deposited in the general fund unless otherwise provided by law. AS 37.13.145 established the Earnings Reserve Account (ERA) as a separate account in the Permanent Fund and directs that all income from the Permanent Fund shall be deposited in the ERA as soon as it is received.

Money in the ERA is commingled with money in the Permanent Fund for investment purposes; the account is tracked separately in order to comply with the Constitutional prohibition of appropriation of Permanent Fund principal.

Although the ERA is in the Permanent Fund for investment purposes, the ERA can be appropriated for any purpose. The situation indicates that the ERA could/should be classified as unrestricted general funds. Historically, the legislature has avoided appropriations from the ERA for purposes other than deposits to the corpus and for appropriations associated with dividends. Both inflation proofing and PFDs are uses designated by AS 37.13.145.

Because PF earnings--and the ERA balance--are excluded from revenue as reported in the fiscal summary and because of historical reluctance to use the ERA for purposes other than inflation proofing and PFDs, the ERA is classified as designated GF.

Money leaves the ERA via code 1041 to:
a. transfer money from the ERA to the Permanent Fund Dividend Fund. (Dividends and associated costs are then paid from the Dividend Fund using codes 1050 and 1171.) Appropriations to the Dividend Fund appear in the transfers (non-add) section of budget reports. When money from the Dividend Fund is spent via codes 1050 and 1171, it appears as designated GF appropriations.
b. transfer money from the ERA to the principal of the Permanent Fund. (Annual appropriations to "inflation proof" the Fund are routine, but special appropriations may occur as well.) Because appropriations to the Permanent Fund are not expenditures (in the sense that the money remains in the hands of the State), appropriations to the Fund appear as deposits in the transfers (non-add) section of budget reports. Once money is in the Permanent Fund, there is no fund code to remove it.
c. transfer money to the Alaska Capital Income Fund (beginning in FY05). Because the Capital Income Fund is a savings account, appropriations to it appear in the transfers (non-add) section of budget reports. When money from the Capital Income Fund is spent, it appears as designated GF appropriations in order to match the classification of the original source of funds (i.e., the ERA).

Appropriations for dividends are conditional; appropriations using code 1041 are subject to earnings and ERA balance requirements described in AS 37.13.140 and .145. An appropriation for inflation proofing is effective only if a transfer for dividends occurs. Code 1041 would also be used for any appropriation from the ERA to the general fund or to any project or program.

Code 1105 is gross receipts of the fund (rather than net earnings) and can be considered as corporate receipts. The code is used for the management fees and operational costs of the Permanent Fund Corporation. Although use of corporate receipts outside the corporation may be prohibited by AS 37.05.144, some expenses of the Department of Law, Department of Revenue and Department of Natural Resources that are related to oil and gas litigation and permitting have been funded with code 1105 for a number of years.

By tradition, typical uses of the ERA appear in a separate section of the fiscal summary; earnings are not counted as general fund revenue, and dividend payments, inflation-proofing and transfers to the Capital Income Fund appear as non-additive transfers.

See also
1105 Permanent Fund Corporation Receipts
1050 Permanent Fund Dividend Fund
1171 PFD Appropriations in lieu of Dividends to Criminals
1197 Capital Income Fund

December 2016
As noted above, the ERA is available to spend for any purpose at any time. By definition, the ERA is unrestricted general funds. Its classification as DGF was due to (1) tradition limiting use of the ERA to paying dividends and inflation-proofing and (2) potential distortion associated with reporting earnings of the permanent fund as general fund revenue while also classifying the earnings as "not available for spending." Under any statute or plan that envisions payouts to the general fund, the ERA must be classified as UGF.
Implications of this change include:
1. Appropriations from the ERA (other than to the PF corpus) are classified as UGF regardless of whether an appropriation is directly from the ERA or passes through the general fund. This includes appropriations to the capital income fund (1197), which are reported as transfers.
2. Distortion in reporting a surplus/deficit is avoided by reporting an amount equal to ERA appropriations (except to the PF corpus) as UGF revenue. Note that neither the available balance of the ERA nor unappropriated current earnings are to be reported as revenue. Note that Revenue Sources Books include money to the capital income fund as traditional revenue, so it should not be reported separately.
3. Appropriations from the ERA to the corpus are inter-fund transfers and do not appear as revenue or appropriations. Arguably, inflation proofing could be shown as UGF revenue and appropriations, but doing so could distort historical reports regarding available revenue.
4. Codes 1050 (PFDs) and 1171 (PFD appropriations in lieu of dividends to criminals) are secondary appropriations of UGF and must be classified as "other duplicated."
5. Code 1197 (capital income fund) begins as UGF revenue and then shows as a transfer of UGF to the fund. Appropriations from 1197 then show as both DGF expenditures and revenue. Appropriations to the capital income fund equal annual earnings on the Amerada Hess portion of principal, but the amount spent may not equal income for that year.

December 2019
With the adoption of a POMV payout plan during the 2018 legislative session, the ERA was classified as UGF for the reasons described above. The reclassification affects all past years, making all historical data regarding UGF revenue and expenditures out of date. Codes associated with the permanent fund are now classified as follows:
1141 Permanent Fund ERA--UGF, with all appropriations from the ERA also showing as UGF revenue
1050 Permanent Fund Dividend Fund--Other duplicated, as the fund is capitalized with 1141
1171 Restorative Justice--Other duplicated, as the fund is capitalized with 1141
1105 Permanent Fund Corporation Receipts--Nonduplicated Other State Funds of a State corporation
1197 Capital Income Fund--DGF; see fund code description