Allocation of Royalty Proceeds to Principal and Income

Presented by: Eugene F. Hickey

Senior Assistant Attorney General

October 15, 2026

Audit & Risk Committee

Applicable Statutes

AS 37.14.031(b)(2) - Cash principal consists of the proceeds of sale or other disposals of mental health trust land, and the fees, charges, income earned, *royalty proceeds*, and other money received from the management of mental health trust land *attributable to principal.*

AS 37.14.031(d) - directs the Authority to adopt regulations "providing for the determination of amounts attributable to principal under (b)(2) of this section.

Regulations

20 AAC 40.610(a)(1) - Current Version

Allocations to Principal

(A) net proceeds from land sales transactions;

(B) net proceeds from royalties from resource transactions; and

(C) net proceeds from permanent easements;

20 AAC 40.610(a)(1)(B) - Current Version

Allocations to Income

(A) interest and transaction costs; (B) recovery of development costs from

(i) land sales; (ii) royalties or other resource transactions; and (iii) perpetual easements;

(C) bonus bids; and (D) rents and other revenues from the temporary use of land, regardless of whether the use is exclusive or non-exclusive, or is short- or long-term.

APFC INFLATION PROOFING REQUIREMENT AS 37.13.145

(c) After the transfer under (b) and an appropriation under (e) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund an amount sufficient to offset the effect of inflation on the principal of the fund during that fiscal year. However, none of the amount transferred shall be applied to increase the value of that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on July 1, 2004. The corporation shall calculate the amount to transfer to the principal under this subsection by

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

(2) computing the percentage change between the first and second calendar year average; and

(3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended, including that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District).

AMHTA INFLATION PROOFING STATUTE AS 37.14.041

(a) Money in the mental health trust settlement income account may only be used for the following purposes:

(1) the awarding of grants and contracts in fulfillment of the authority's purpose to ensure an integrated comprehensive mental health program for the state;

(2) obtaining private and federal grants for a purpose described in (1) of this subsection;

(3) soliciting gifts, bequests, and contributions for a purpose described in (1) of this subsection;

(4) reimbursement to

(A) the Alaska Permanent Fund Corporation for the costs of managing the principal of the mental health trust fund; and

(B) the Department of Natural Resources for the cost of managing mental health trust land;

(5) offsetting the effect of inflation on the value of the principal of the mental health trust fund; and

(6) subject to AS 37.07 (Executive Budget Act), meeting the necessary administrative expenses of the authority that are required for it to properly discharge its responsibilities.

Balancing Principal and Income Allocations

- Trustees Fiduciary Obligations

- Competing Interests of current v. future beneficiaries

- Inflation Proofing Considerations

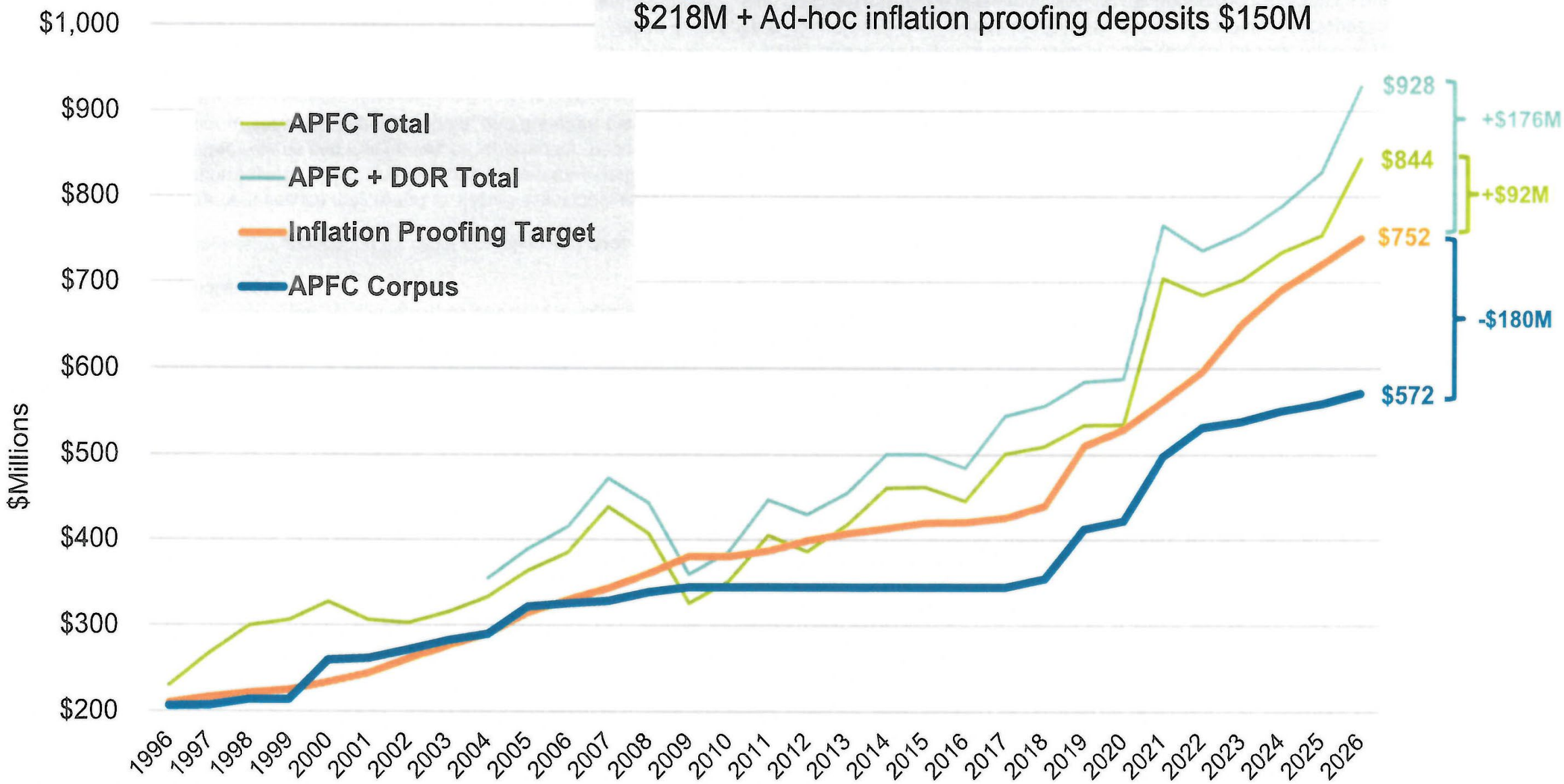
Historical Inflation Proofing

Through June 30, 2026

Inflation Proofing Target = Beg. deposit $204M + TLO principal inflows $218M + Inflation $330M

Corpus = Beg. deposit $204M + TLO principal inflows $218M + Ad-hoc inflation proofing deposits $150M

Fiscal Year Values



TO REALLOCATE OR NOT THAT IS THE QUESTION

- First decide policy on inflation proofing
  - APFC Model
  - Endowment Model
- Does it matter
  - What policy Trustees adopt will have impact on whether to reallocate percentages of resource revenue between principal and income

QUESTIONS?