

House Finance Committee

Testimony of Angela Rodell, Chief Executive Officer – March 12, 2018

House Joint Resolution 23, Version T

In April 2003, the Alaska Permanent Fund Corporation Board of Trustees adopted a resolution urging adoption of a constitutional amendment to limit appropriations from and inflation proof the Alaska Permanent Fund by establishing a percent of market value spending limit. The resolution was reconfirmed and maintained by a second resolution adopted in 2004.

The Board of Trustees has not amended or rescinded these resolutions and therefore are considered still active in their entirety.

The Board of Trustees identified two goals which they believe are imperative to a constitutional amendment regarding draws on the Permanent Fund. The first is to preserve the real value of the money deposited into the Fund over the long term and constitutionally protect the purchasing power of all the assets of the Fund against inflation. Secondly, it is to improve the rules governing distributions from the Fund. The Board has identified five criteria for inclusion in such an amendment:

1. Annual limit on appropriations from the Fund of up to five percent of the total market value of the fund, averaged over a period of five years;
2. Use of a five year period to provide certainty about the amount available for distribution before the fiscal year commenced;
3. Income of the Fund would become a part of the Fund and would not be subject to separate appropriation, other than as a part of the annual distribution;
4. Current value of the earnings reserve account would be rolled into the principal of the Fund; and
5. The distinction between principal and earnings would be eliminated.

Utilizing a percent of market value limits the distributions in a manner that seeks to assure that only real income of the Fund is spent. Using a 5 year average period allows the Legislature, the Governor and most importantly the people of Alaska to know the exact amount that will be distributed from the Fund.

This approach effectively balances the goal of providing an annual distribution from the Fund that is predictable and limited with the long-term goal of protecting the real value of contributions to the Fund.

Unfortunately HJR23 (Version T) fails to include these criteria. Importantly, HJR23 maintains separate accounts for principal and income and preserves the Legislature's ability to appropriate all of the income in the ERA.

In conclusion, we cannot support HJR23 in its current form, but would be glad to work with the House Finance Committee to craft a resolution that reflects the constitutional criteria needed to protect the Permanent Fund for current and future generations of Alaskans.