

# ALASKA PERMANENT FUND PROTECTION ACT

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Randall Hoffbeck, *Commissioner of Revenue*

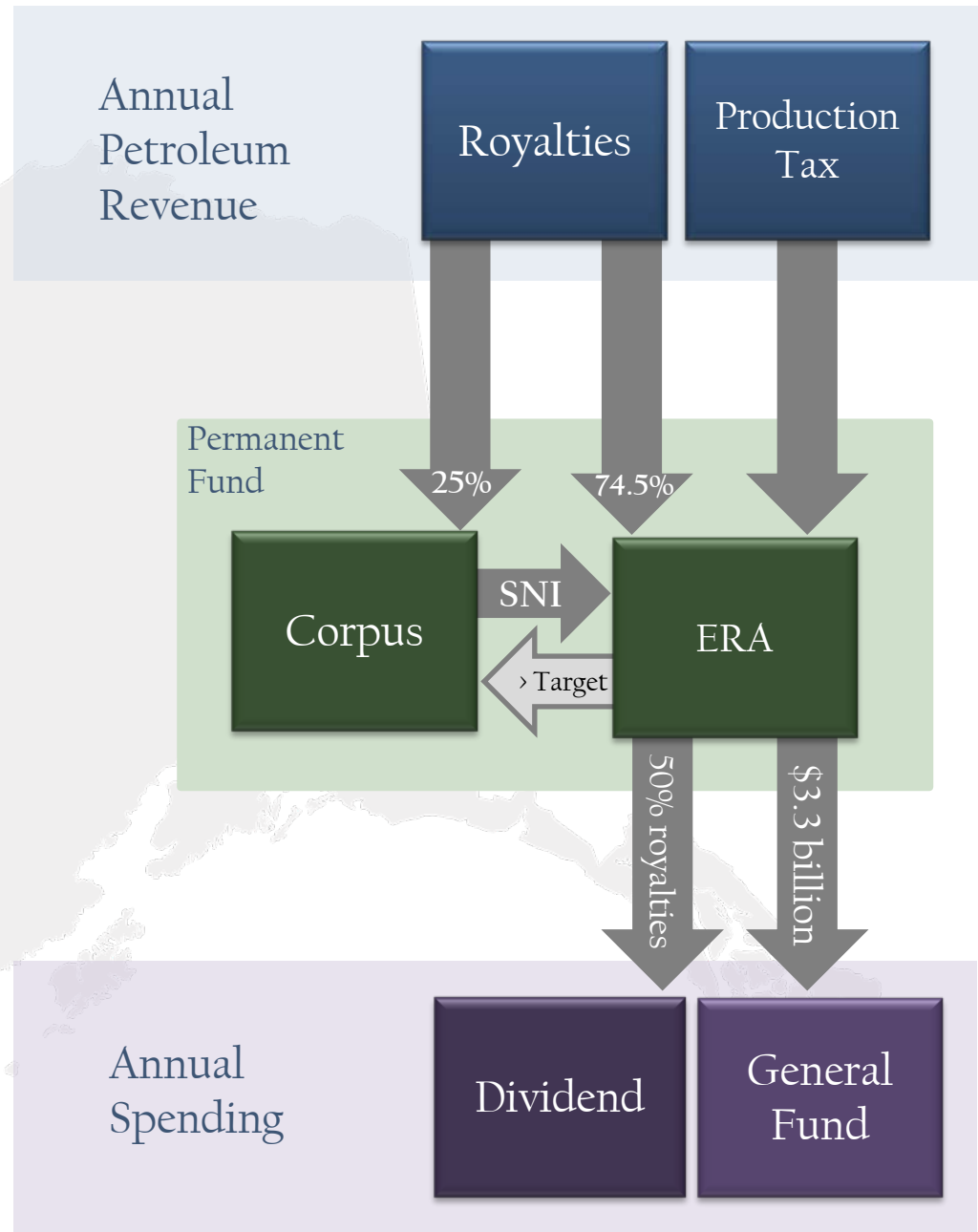
Craig W. Richards, *Attorney General*



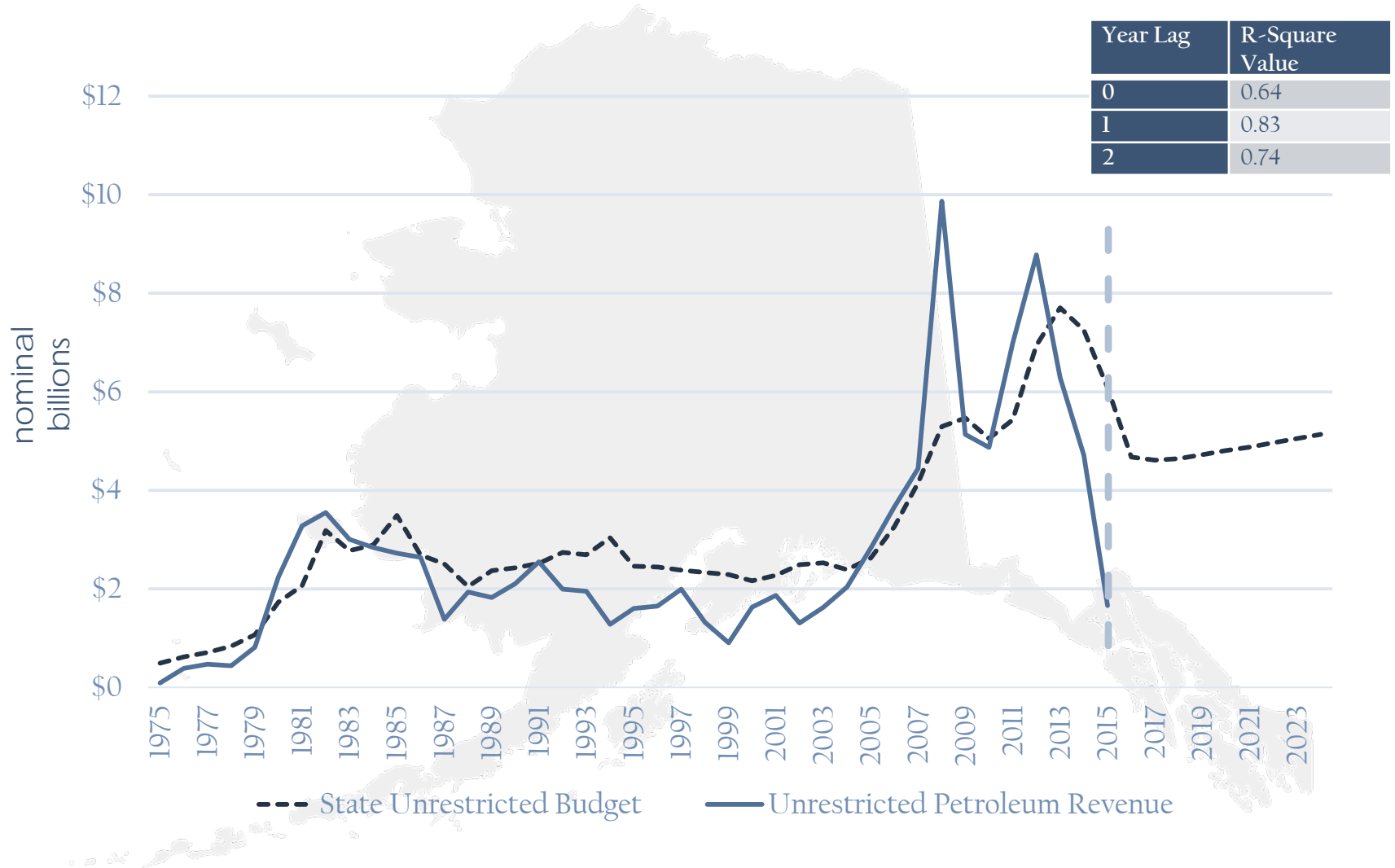
Senate State Affairs Committee  
March 15, 2016

# APFPA

1. Volatile petroleum revenues to the Permanent Fund
2. \$3.3 billion draw to the General Fund
3. Dividends  
50% royalties

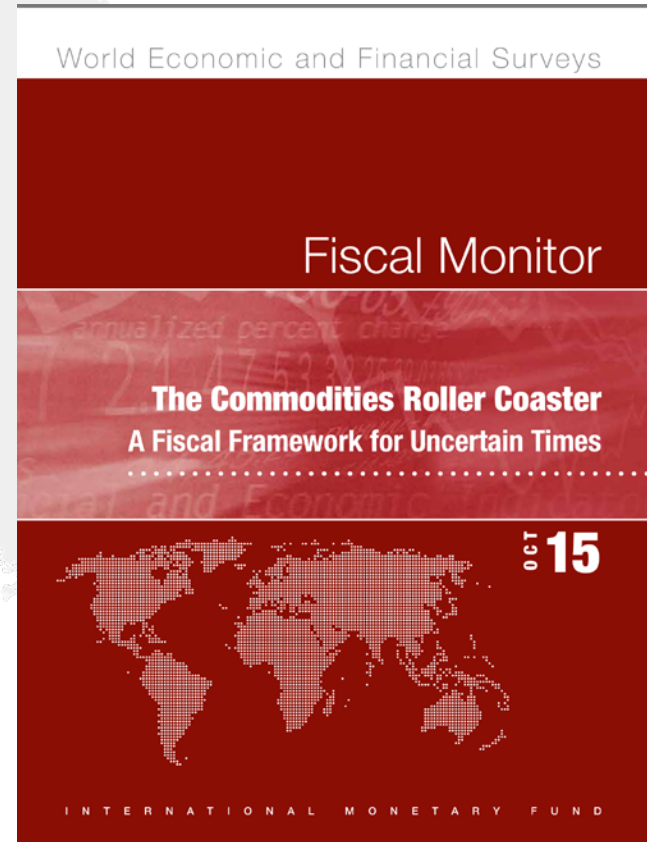


# LONG-TERM PROBLEM



# FISCAL POLICY FOR OIL ECONOMIES

- Government spending in commodity-based economies tends to move up and down with commodity revenue
- Pro-cyclical government spending stunts economic growth
- Stabilizing fiscal policy has the inverse effect, increasing GDP growth by 0.3% annually



# HOW TO HANDLE THE DRAW

## Defining “sustainable”

- Protect the Corpus
- Earnings Reserve Durability
- Inflation Proofing
  - Maintain the real value of the Permanent Fund
  - Transfers to the Corpus



# HOW TO HANDLE THE DRAW

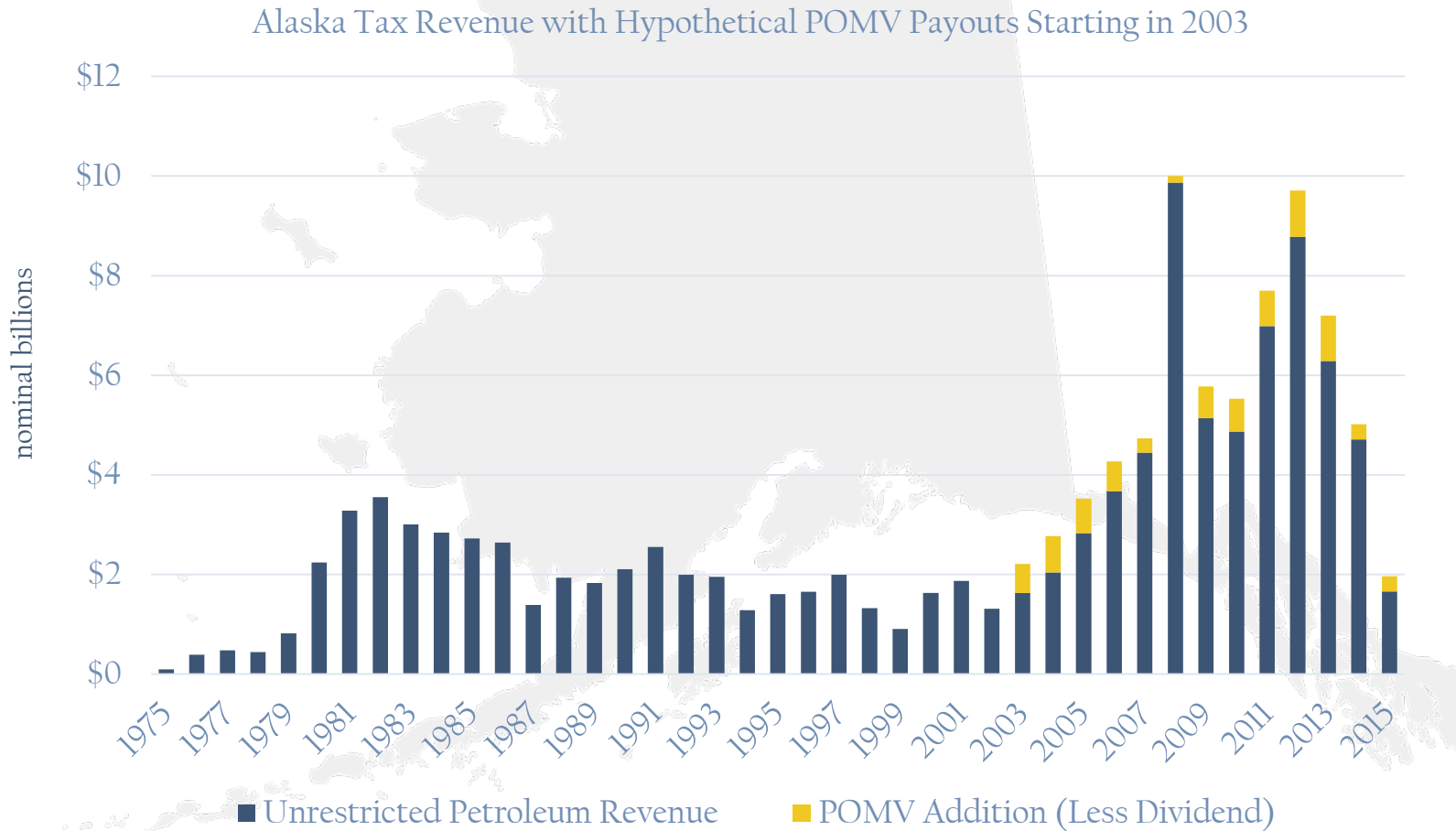
	Sovereign Wealth Model ~ Volatility in the Fund ~	Endowment Model ~ Volatility in the Budget ~
Fixed-Draw	<ul style="list-style-type: none"> <li>Budget Stable</li> <li>Fund Growth                             <ul style="list-style-type: none"> <li>Presumed savings</li> <li>Oil price volatility</li> <li>Investment volatility</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Budget Volatile                             <ul style="list-style-type: none"> <li>Oil price volatility</li> </ul> </li> <li>Fund Stable                             <ul style="list-style-type: none"> <li>Less investment volatility</li> </ul> </li> </ul>
POMV-Draw*	<ul style="list-style-type: none"> <li>Budget Volatile                             <ul style="list-style-type: none"> <li>Investment volatility</li> </ul> </li> <li>Fund Growth Reduced                             <ul style="list-style-type: none"> <li>Spending more (% of high revenue)</li> <li>Oil price volatility</li> <li>Less investment volatility</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Budget Very Volatile                             <ul style="list-style-type: none"> <li>Oil price volatility</li> <li>Investments volatility</li> </ul> </li> <li>Fund Stable</li> </ul>

\*Volatility may be reduced, but not eliminated, with use of smoothing rule such as 5- year averaging.



# HOW TO HANDLE THE DRAW

A simple endowment draw adds revenue, but does not address volatility



# HOW TO HANDLE THE DIVIDEND

Earnings Dividend(current formula): half of statutory net income (SNI)

Royalties Dividend: connects Alaskans to the economy

POMV Dividend: based on Fund market value, not SNI

CBR Dividend: based on CBR balance; rewards Alaskans for Legislature maximizing stabilization account

\$1,000 Flat: ~ \$650 million, reduces the sustainable draw

Mixed Formula: combination of different idea

Warning: certain combinations do not work well

POMV Draw & Earnings Dividend

Royalty Dividend & Floor

