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July 8, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Permanent Fund and the funding structure for State government.

This bill would establish a new financial model to enable sustainable funding of State services and the protection of the Permanent Fund. The bill would provide for an annual sustainable draw from the Permanent Fund earnings reserve account to the general fund to support State government services. Additionally, the bill would change the manner in which Permanent Fund Dividends are calculated – basing the calculation on the value of the entire Permanent Fund and the value of mineral royalties. Further, the bill includes measures to ensure the value of the Permanent Fund is maintained by saving money into the earnings reserve and the corpus in high revenue years. As a result of the changes in this bill, the Permanent Fund earnings reserve account would generate a predictable and solid return of revenues for State government, and the dividend would continue, but on a more sustainable and predictable basis.

In detail, the bill would make the following changes to allow for sustainable withdrawals from the Permanent Fund to the general fund:

- Amend AS 37.13.145 to provide for an annual appropriation from the earnings reserve account to the general fund to pay for State government services, calculated based on five and one-quarter percent of the average market value of the Permanent Fund for the first five of the preceding six fiscal years (hereafter, “POMV draw”).
- Add a new section, AS 37.13.146, to provide for the payment of dividends from the general fund based on an amount equal to 20 percent of the POMV draw and 20 percent of the mineral royalties received by the State. For the next three years, the dividend would be set at \$1,000. Thereafter, the new formula would go into effect, resulting in a dividend of approximately \$1,000 into the future.

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- Repeal the annual inflation-proofing transfer from the Permanent Fund earnings reserve account to the principal in AS 37.13.145.
- Add a new section requiring a transfer from the earnings reserve account to the Permanent Fund principal if the balance of the earnings reserve account exceeds the annual draw amount multiplied by four.
- Add a new section reducing the annual draw from the earnings reserve account to the general fund if the State receives more than \$1.2 billion in mineral royalties and oil and gas production taxes in a fiscal year.

The bill also proposes to amend AS 36.30 to exempt the Alaska Permanent Fund Corporation from the State procurement code. The corporation still would be required to adopt regulations to govern procurement and comply with the five percent preference under the code. Additionally, contracts for legal services would continue to require the approval of the Attorney General. The bill also would amend AS 37.10.430 to transfer the management and investment of assets of the constitutional budget reserve fund from the Department of Revenue to the Alaska Permanent Fund Corporation and to modify the investment directives for the budget reserve fund.

Finally, the bill seeks to amend the uncodified law to express the intent of the Legislature that the Legislature reevaluate the use of Permanent Fund earnings as provided for in this bill in three years.

I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker
Governor

Enclosure