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Governor Bill Walker
STATE OF ALASKA

January 17, 2017

The Honorable Pete Kelly
President of the Senate
Alaska State Legislature
State Capitol Room 111
Juneau, AK 99801

Dear President Kelly:

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, subject to appropriation, from the Permanent Fund earnings reserve account to the general fund to support State government services. Additionally, the bill would provide that the Legislature may make appropriations for Permanent Fund dividends based on the value of the entire Permanent Fund and the value of mineral royalties. 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 that the Legislature may appropriate 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 two 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.
- Change the inflation-proofing mechanism by providing that the Legislature may appropriate any amount in the earnings reserve that exceeds the annual POMV draw multiplied by four to Permanent Fund principal. This will ensure that a sufficient amount of funds remains in

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the earnings reserve account for the POMV draw, while also continuing to build up the principal of the Permanent Fund over time.

- 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.

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. Upon becoming law, the bill would become effective immediately.

I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker
Governor

Enclosure