

# **Senate Joint Resolution 9 Permanent Fund Protection**

**Sponsored by Senator Bert Stedman  
Senate State Affairs Committee  
April 12, 2018**

# The Permanent Fund Can Be a Budget Stabilization Fund with a Limited Payout Method that Allows the Fund to Continue to Save and Grow

## Budget Stabilization

Alaska has two Rainy Day Accounts:

- Constitutional Budget Reserve (CBR)
- Statutory Budget Reserve (SBR)

## Permanent Fund

The Permanent Fund has two purposes:

- Save
- Grow

The Permanent Fund consists of the Principal & the Earnings Reserve Account (ERA). If the ERA is used to balance the budget on an ad hoc basis, the Permanent Fund's value will decrease, which conflicts with its purpose.

The permanent fund was established in 1976 by a vote of the people to save a portion of Alaska's oil wealth for future generations & limit overspending by the legislature.

**BALLOT PROPOSITION NO. 2**  
**PERMANENT FUND FROM NON-RENEWABLE RESOURCES REVENUE**  
**Constitutional Amendment**

(SCS CSSS House Joint Resolution No. 39 [Resources] am S)

**BALLOT FORM:**

A vote "FOR" adopts the amendment.

A vote "AGAINST" rejects the amendment.

FOR { }  
AGAINST { }

**VOTE CAST BY MEMBERS OF 9TH STATE LEGISLATURE ON FINAL PASSAGE**

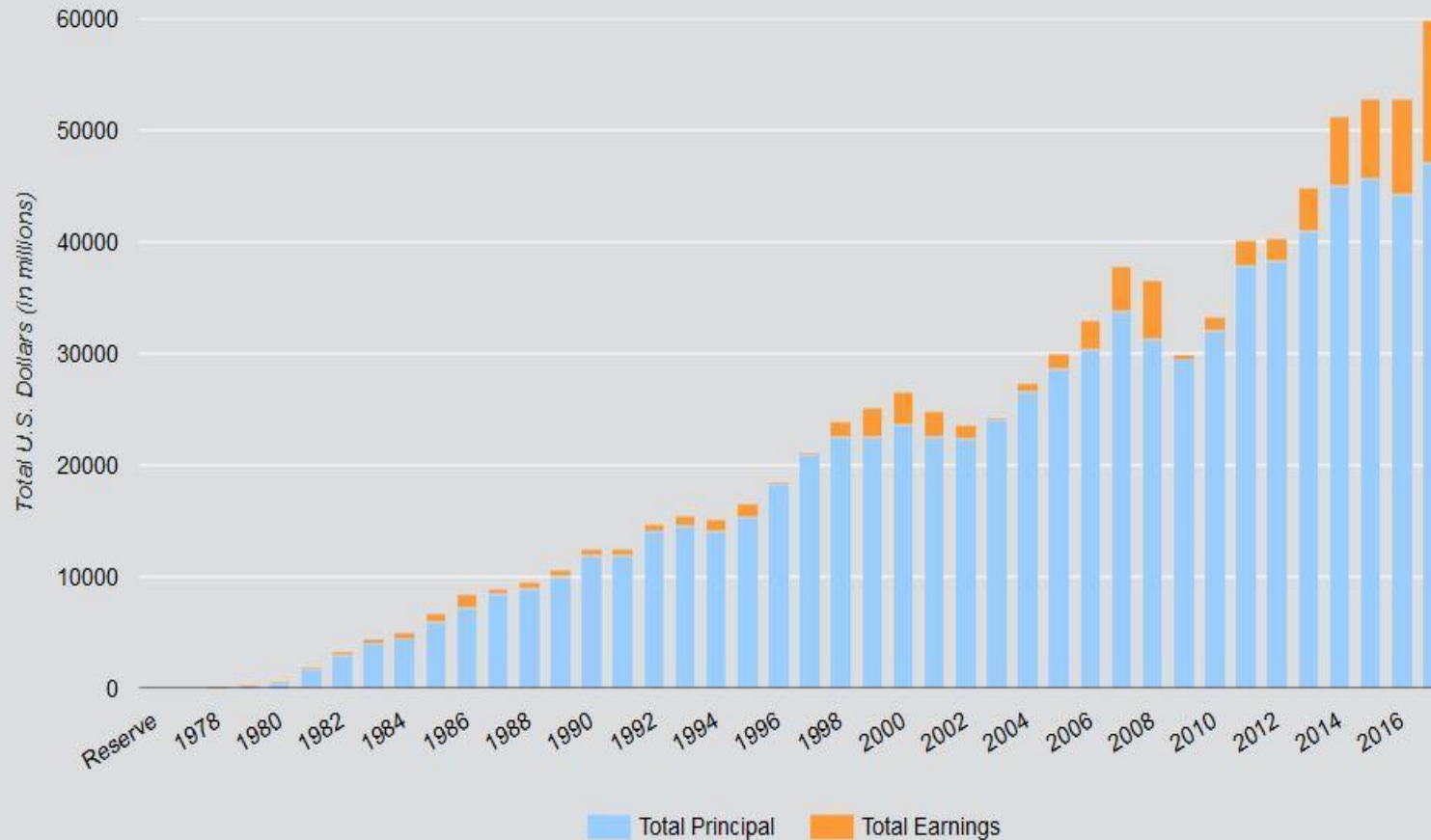
|        |               |                |               |                               |
|--------|---------------|----------------|---------------|-------------------------------|
| Senate | (20 members): | Yeas <u>18</u> | Nays <u>1</u> | Absent or Not Voting <u>1</u> |
| House  | (40 members): | Yeas <u>36</u> | Nays <u>1</u> | Absent or Not Voting <u>3</u> |

**SUMMARY OF PROPOSITION**

This proposal, if approved, would amend the Constitution of the State of Alaska by amending Article IX, Section 7 (Dedicated Funds) and adding a new Section to Article IX (Section 15, Alaska Permanent Fund). It would establish a constitutional permanent fund into which at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State would be paid. The principal of the fund would be used only for income-producing investments permitted by law and the income from the fund would be deposited in the general fund of the State and be available to be appropriated for expenditure by the State unless otherwise provided by law.

-- Summary prepared by Legislative Affairs Agency  
as required by law

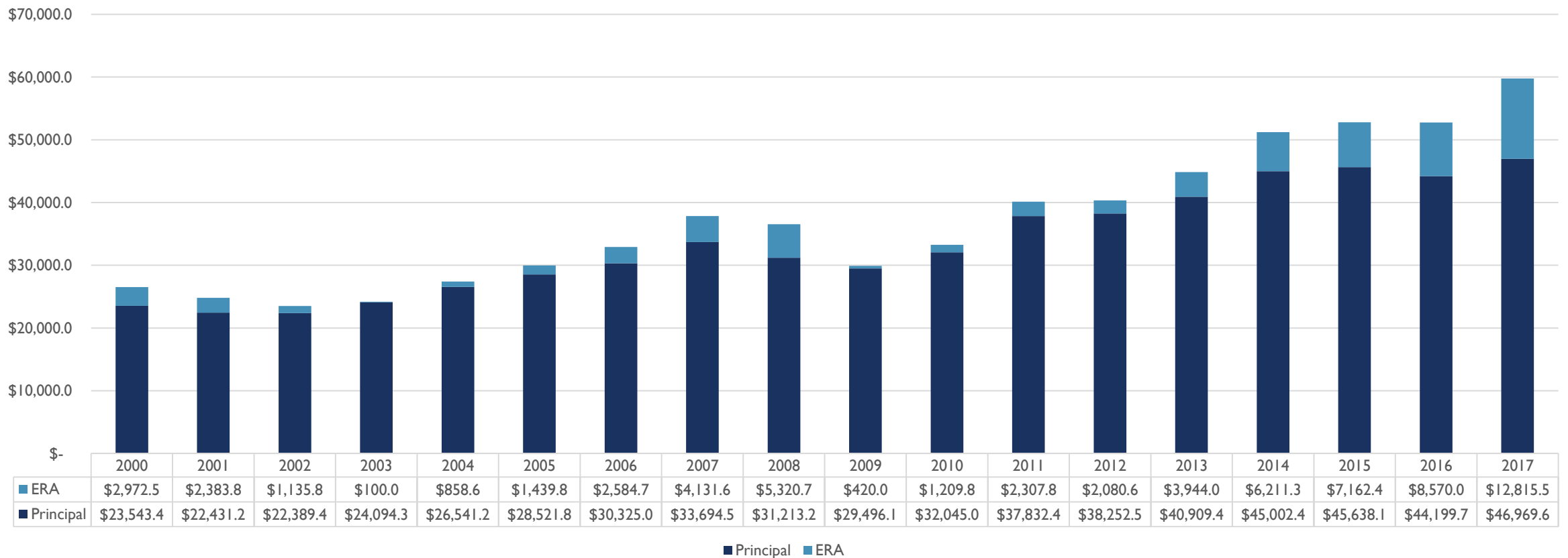
## HISTORICAL VALUES OF PRINCIPAL & EARNINGS RESERVE



The Permanent Fund  
Is An Alaska Success:

Current Value Of  
\$65 Billion From A  
Total Contribution  
Of \$39.8 Billion.

# ERA Is Variable & Uncertain. By Its Nature It Lacks The Stability To Be Relied Upon For Budget Stabilization



## Current Principles For The Permanent Fund: Save & Grow

- **A “Permanent” Savings Account:** The fund should conserve part of the state’s revenue from mineral resources to benefit all generations of Alaskans. AS 37.13.020(1)
- **The Fund’s Principle Should Be Protected While Prudently Invested** The fund should be managed to protect the principal while maximizing total return. AS 37.13.020(2)
- **The Fund’s Purchasing Power Over Time Should Be Preserved While Maximizing Return** AS 37.13.120(a)

## SJR 9 Does Not Alter The Fund's Principles: Save & Grow

SJR 9 merges the ERA into the principal, which constitutionally protects the whole Fund from legislative appropriation.

- Current Alaskans shouldn't take ad hoc draws from the Fund that will significantly affect its value to future Alaskans.
- Overspending will decrease the Fund's benefit to future generations – this is the opposite of saving.

## SJR 9 Does Not Alter The Fund's Principles: Save & Grow

SJR 9 limits any draw from the Fund to an annual 4.5% of its 5 year average value.

- This draw limit is conservative & sustainable.
- 4.5% is well under the Fund's growth performance.

|                    | Total Growth | Objective<br>(CPI + 5%) |
|--------------------|--------------|-------------------------|
| 1 year<br>(FY17)   | 12.89%       | 6.63%                   |
| 3 years            | 6.21%        | 5.92%                   |
| 5 years            | 8.85%        | 6.32%                   |
| Since<br>Inception | 8.79%        | 7.67%                   |

# SJR 9 Protects The Fund: Mechanics Of The Draw & The Split

\$65b

4.5%  
draw

2.0% to dividends

2.5% to remain n  
the PF, augment  
the dividend, or for  
state services

## SJR 9 Protects The Permanent Fund - Let's Talk Dividends

The dividend (est. 1982) has disbursed \$22 billion to Alaskans.

- It is an equitable distribution of resource wealth to those who own the resources.
- SJR 9 provides a predictable & transparent dividend via constitutional formula.
- Dividends will once again be reliable & linked to the investment success of the fund.

## SJR 9 - Projected 4.5% Draw & Dividend Amounts

| Fiscal Year | 4.5% Draw       | 2% For Dividends          | 2.5% For General Fund | Total Ending Fund Value |
|-------------|-----------------|---------------------------|-----------------------|-------------------------|
| FY 2020     | \$2,513,000,000 | \$1,116,900,000   \$1,816 | \$1,396,100,000       | \$67,017,000,000        |
| FY 2021     | \$2,638,000,000 | \$1,172,400,000   \$1,906 | \$1,369,100,000       | \$68,984,000,000        |
| FY 2022     | \$2,766,000,000 | \$1,229,300,000   \$1,998 | \$1,536,700,000       | \$70,882,000,000        |
| FY 2023     | \$2,911,000,000 | \$1,293,800,000   \$2,103 | \$1,617,200,000       | \$72,792,000,000        |

# **Senate Joint Resolution 9**

## **Permanent Fund Protection**

# **Questions?**