

# Time and money

---

PRESENTATION TO HOUSE FINANCE COMMITTEE - JAN. 6, 2021

Former Department of Revenue Deputy Commissioner Larry Persily



# Time is short for Alaska, as is money

---

- Permanent Fund Corp. Nov. 30, 2020, balance sheet shows \$9.45 billion uncommitted and available in earnings reserve
- That accounts for anticipated FY22 POMV 5% draw \$3.069 billion
- Governor proposes a special \$1.2 billion spring 2021 draw on earnings reserve to pay additional \$1,900 PFD to Alaskans
- Proposes additional \$2 billion FY22 draw on earnings reserve by the 2021 Legislature to pay 'full' \$3,000 dividend in the fall

# Will the savings last?

---

- POMV 5% draws for FY21 and FY22 and the two additional draws for spring and fall dividends will total more than \$9.3 billion
- Permanent Fund Board of Trustees recommends keeping 4X annual 5% POMV draw in the earnings reserve to protect against market downturn and ensure viability — about \$12 billion
- Before Alaska started drawing on fund earnings in FY19 to help pay for public services, it relied on Constitutional Budget Reserve for 30 years, but CBRF will be down to \$600 million at FY21 end

# Longer-term solutions

---

- Governor proposes Alaskans vote in a spring special election on an advisory question to share annual Permanent Fund draw 50-50 between dividends and state budget public services
- And then three November 2022 constitutional amendments:
  - ❑ Eliminating the line between Permanent Fund principal and earnings and turning the state's oil-wealth fund into a true endowment model
  - ❑ State spending limit
  - ❑ A prohibition on any new taxes without a vote of the people

# Matching spending with revenues

---

- Governor proposes \$450 million more in budget cuts FY22, 23, 24
- And then 'Alaska's economy will rebound from pandemic-induced recession as soon as FY23 and may be healthy enough to bear additional revenue measures' — sounds like new state taxes
- Governor's 10-year budget counts on 'other revenue sources' of \$1.2 billion in FY23 and about \$1 billion each year thereafter
- No specifics of 'other revenues' or how they could appear so fast

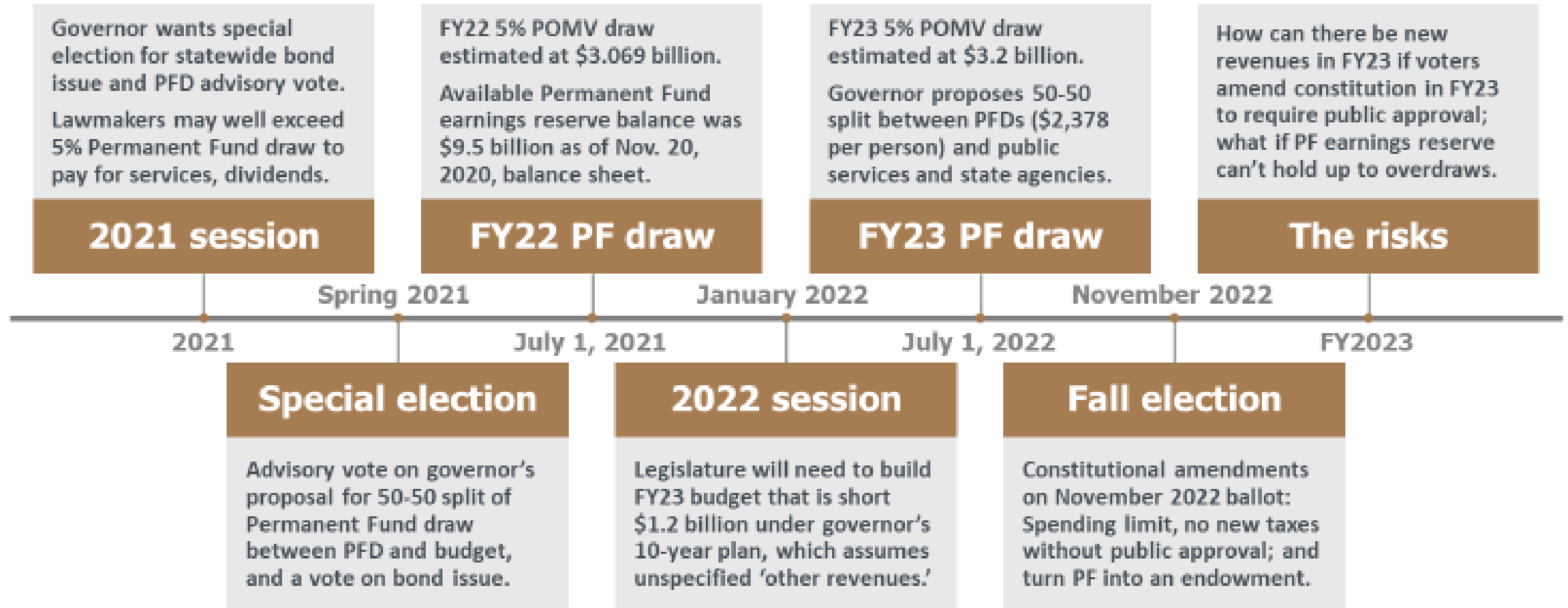
# Repair and rebuild Alaska economy

---

- Governor asks \$300 million to \$350 million bond issue of 'shovel-ready projects,' with a special election this spring
- No specifics: 'Roads to resources, renewable energy projects, ports, harbors, runways, bridges and other essential projects'
- Vote of the public required for general obligation state debt
- If not approved by voters until spring, can the work and jobs really start to help rebuild the Alaska economy in 2021?

# Is this a realistic calendar?

*It poses a risk of draining the Permanent Fund earnings*



# Support for constitutional amendment

---

- Permanent Fund Corp. Board of Trustees has adopted resolutions 3 times in support of constitutionally protected endowment that eliminates distinction between principal and earnings
- The Board of Trustees has not weighed in on dividend formula
- Until a constitutional amendment converts the fund into an endowment, Trustees recommend maintaining a balance in earnings reserve equal to 4 times the annual 5% POMV draw — without buffer, the risk of reserve shortfalls is ‘meaningful’



# Permanent Fund grows

---

- Permanent Fund Corp. projection of Nov. 30, 2020, shows an estimated year-end market value of \$80 billion in FY30
- That assumes state adheres to 5% annual POMV withdrawal
- Projection assumes average 6.75% annual return on investments
- FY2030 5% POMV draw projected at \$3.66 billion, that is about \$200 million more than if \$3.2 billion additional is withdrawn from account to pay spring 2021 and larger fall 2021 PFDs

# Almost forgot — what about oil

---

- Fall 2020 state Revenue Forecast book projects \$48 oil FY22
- Alaska North Slope crude closed Monday a few dollars higher
- If North Slope oil averages \$60 a barrel in FY22, the state would earn about \$270 million additional revenue for general fund
- Enough to maybe close the budget gap for FY22, but without PFD
- Dreams of \$100 oil hard to find, much like 90-pound Kenai kings