

Alaska State Legislature

Permanent Fund Working Group



A Surplus Permanent Fund Dividend for 2019

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Introduction

We were tasked with analyzing the impacts of a “surplus dividend.” A “surplus dividend” is a permanent fund dividend amount calculated annually after appropriations have been made for the next fiscal year’s operating and capital budgets. Using the amount of “surplus” funds to set an annual dividend would also be guided by statutory principles in SB 26 (2018). Funds not spent in the earnings reserve continue to be invested. This approach makes appropriations for state government the highest priority in budgeting.

In this brief analysis, we have attempted to avoid a general discussion on the Permanent Fund Dividend, and focus on the outcomes for a “surplus dividend” in 2019, with acknowledgment of future impacts were this policy to be set in statute.

A Surplus Dividend

Unlike our colleagues in the working group, our proposal did not come with a specified dollar amount for a dividend. If this policy were long term, the “surplus dividend” amount would change depending on the volatility of the oil and gas industry that provides revenue to the state, annual appropriation amounts by the Legislature, and vetoes by the Governor.

Effects on the dividend year currently under discussion are highlighted by several scenarios and estimates from Legislative Finance, based on budget expenditures. Legislative Finance estimates the present “surplus” amount at roughly \$800 million. Depending on vetoes and the final capital budget funding, the “surplus” scenario provides a dividend of between \$865 and \$2,977¹, with a 50/50 POMV model estimated at \$2,220. Other possible dividend numbers could result, based on revenue, appropriation levels, and vetoes.

Fund Source, Budget consequences, and Sustainability

The Legislature has authority over all fund sources, including the permanent fund Earnings Reserve Account, the Constitutional Budget Reserve and the General Fund. Under the given scenario, the fund source for the dividend would be the General Fund and would use the amount of funds available after appropriations for the FY 20 operating and capital budgets, use of the statutory POMV draw, and other revenues.

Because the amount of the “surplus dividend” is calculated after appropriations for operating and capital expenses, there are no budgetary consequences. Funds expended on dividends come after all other budget considerations have been funded, thus there is no effect on agency budgets. This makes a “surplus dividend” an extraordinarily sustainable option, if such a plan were to be adopted moving forward, as only funds not otherwise used for state agency spending would be distributed to Alaskans as a dividend.

Economic impacts

The economic impact of the Permanent Fund Dividend comes from a personal choice to save, invest, or spend by every Alaskan. The private sector is where economic value is created, as mentioned by Ed King in the House Finance Committee. There is no question that the dividend is an important source of disposable income for many Alaskans. A recent report on the economic effects of any dividend by ISER’s Mouhcine Guettabi, Ph.D and his presentation to the Senate Finance Committee are attached. This report indicates the dividend has a limited, short-lived impact on employment and shows an increase for purchases

¹ We left off discussion of this dividend amount in our study, as the impacts and consequences of a near-\$3000 dividend are under consideration by our colleagues from Sitka and Palmer.

of goods and services between 22 and 24 cents for every dividend dollar during the three months post distribution. However, King Economics speculates that “more than 90% of PFD distributions don’t enter Alaska’s economy at all.” He speculates that the money gets put in college savings accounts, is used for vacations, gets spent online, pays federal taxes, or on “other things.”

Social impacts

Please see the report by Dr. Guettabi mentioned above. How Alaskans choose to spend their dividends and the social effects of that spending is not scrutinized. Dr. Guettabi’s report does detail that the dividend does have an impact on crime, and while property crime rates decrease around the time of the payout and don’t vary with the amount of the dividend, the increase in substance abuse related crimes does vary with the size of the PFD. We can surmise, then, that the lower end of the surplus PFD spectrum would result in a lower uptick in the substance abuse crime rate than the amounts under consideration by our colleagues in the working group. His report also indicates that the PFD may have a positive impact on birth weight and childhood obesity, poverty reduction, particularly for rural Alaska Natives and the elderly, but worsens income inequality (possibly because higher-income individuals can afford to save the PFD).

Opportunity costs and/or gains

As the “surplus dividend” does come directly from the earnings of the Permanent Fund, the opportunity gain is the retention and investment earnings on the difference between a surplus dividend and a statutory dividend payment from the ERA. Retained earnings would remain invested and generate additional earnings at an average rate of 8.9% a year. This decreases current economic activity but sustains and grows the balance of the earnings reserve for future investment and use.

In terms of opportunity loss, higher permanent fund dividends result in higher dollar amounts leaving the state as federal taxes. Federal taxes will be deducted, however, from any dividend amount, regardless of size.

Historic Comparison

Legislative Finance has estimated the average dividend payout over the last 36 years, given inflation, at roughly \$1,660. This leaves the low end of the surplus spectrum near the inflation adjusted amounts for the early 1980s PFDs. The largest possibility would be the highest dividend ever distributed².

Conclusion

As mentioned in our introduction, the “surplus dividend” concept puts a higher priority on funding state government and saving funds to generate future returns than providing currently eligible Alaskans and Alaskan families with a full statutorily calculated dividend.

In addition to the conclusions about the dividend itself, further research may be warranted in relations to the impact of the dividend on Alaskans, to better understand the state’s largest expenditure.

² While lower than the \$2,390 statutory 2017 dividend, the amount distributed for that year was \$1,100.