March 5, 2020

House Rules Committee
31st Alaska State Legislature
State Capitol, Juneau, AK

House Bill 306
Sponsor Statement

The Alaska Permanent Fund was created by a vote of the people in 1976 with the intent to save and sustain the state's oil wealth for future generations. By the early 1980's, the Alaska State Legislature and Governor created two important facets of the newly enacted Permanent Fund: the Alaska Permanent Fund Corporation and the dividend program.

The Alaska Permanent Fund Corporation's prudent fiscal stewardship has allowed the value of the fund to grow from the initial royalty deposit of $734,000 in 1977 to over $68 billion as of February 2020. The dividend program has allowed Alaskans to experience social and economic benefits of dividends ranging from $331.29 to $2,070.00.

In late 2014, the dramatic decline in oil prices led to a significant drop in state revenues. Faced with a fiscal gap and economic recession, in 2018, the state instituted a Percent of Market Value (POMV) approach to drawing a sustainable amount from the Permanent Fund's Earnings Reserve Account to fund services and pay dividends.

As the Legislature and Governor work through the Fiscal Year 2021 operating budget, it has never been clearer that there exists a mathematical tension between the historic dividend formula and the spending cap on the Earnings Reserve Account. To pay for both the dividend and state services in FY21, it would require the state drain its savings, and ultimately violate the spending cap on the Earnings Reserve Account when savings are no longer available. No elimination of a state agency nor new revenue option could make up for the structural deficit Alaska is experiencing in FY21.

House Bill 306 presents a path forward. By reinforcing the spending cap on the Earnings Reserve Account and proposing a sustainable dividend calculation, HB 306 provides the fiscal stability that Alaska has been moving towards since the drop in oil prices and institution of the POMV draw. Under this bill the amount of revenue the state receives from the Earnings Reserve Account would be split, with 20% of the revenue going to pay for dividends, and the remaining 80% funding state services and obligations.

Until Alaska's statute is changed, the dividend will continue to dictate the structure of the budget and drive confusion regarding the existence of a budget deficit. Our communities, private sector, and future generations deserve fiscal stability.