

State of Alaska

HJR 7

Permanent Fund Constitutional Amendment

First Step to a Comprehensive Fiscal Plan for Alaska

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HJR 7: Goals

- 1. Protect the Permanent Fund and Permanent Fund Dividend (PFD)**
- 2. Determine Consistent PFD for Alaskans**
- 3. Establish Strong Reserves**
- 4. Achieve a Sustainable Balanced Budget**

Next Steps

Step One - First Special Session

- **Permanent Fund Structural Fix – Permanent Fund & ERA**
- **Establish Strong Reserves w/Bridge Appropriation**
- **Consensus on Deficit Size – Required Spending/Revenue Targets**

Step Two - Second Special Session

- **Revenue/Reduction Initiatives to Achieve Balanced Budget**

HJR 7 Permanent Fund Endowment Structure

- **It's time for a true Permanent Fund endowment.**
- **Endowment approach is an internationally accepted best practice.**
- **Limits annual government draw to fixed Percent of Market Value (POMV).**
- **Stabilizes revenues with a smoothed five-year average.**

HJR 7 Permanent Fund Endowment Structure

- POMV set at 5% of the lagging 5-Yr average market value
 - Current statutory POMV is also 5%
- Limits spending while allowing the fund to grow to keep up with inflation
- Spend only the real return over time.
 - Example:
 - Average Return since Inception: 7%
 - Inflation: 2%
 - Real return: 5%
- Limiting spending to 5% inflation-proofs the Permanent Fund

HJR 7 Mechanics

- **Permanent Fund transitions into one, constitutionally protected account (FY24)**
- **Percent of Market Value (POMV) distribution method put into the constitution**
- **Permanent Fund Dividend (PFD) established in the constitution**
- **POMV set at 5%**
 - **Governor is proposing an equitable 50/50 distribution**
 - **50% Dividends**
 - **50% Government Services**
- **Any change to PFD must be approved by a vote of the people**

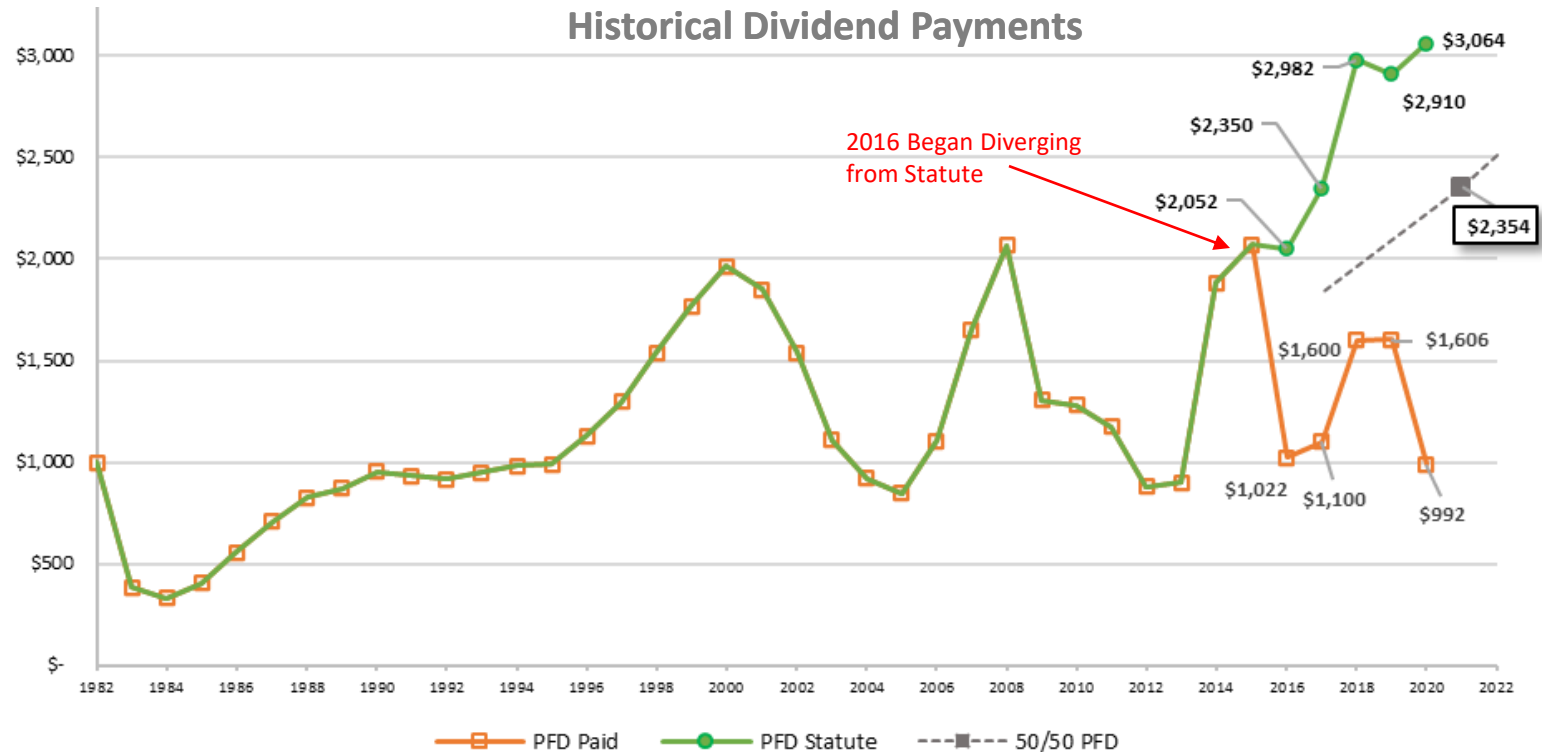
Permanent Fund Dividend: Consistency

Current Challenge:

- Public Mistrust: Too much Government spending
- Political Impasse: Results in a PFD Based on Politics – Not Laws

Solution:

- Restore Public Trust: Consistent PFDs and Spending Limits
- Establish a Fair Resolution: 50/50 Split
- Constitutionalize PFD



Permanent Fund Dividend: Consistency

- **Alaskans deserve certainty concerning annual PFD payment.**
- **State needs PFD consistency to attain budget stability and sustainability.**
- **Absent certainty, determining future achievable revenues/reductions is difficult and may result in over/under collecting/taxing.**
- **50% POMV dividend is an equitable distribution of Alaska's wealth between its citizens and government.**
- **Resolving the PFD allows a discussion of required revenues/reductions to close the remaining budget gap (August Special Session)**
- **Redirects the legislative conversation to growing Alaska vs. debating PFD.**

HJR 7 with 50/50 and Bridge Funding

- One-time use of our strong financial asset – the Permanent Fund - positions Alaska for long term fiscal sustainability
- With \$3.0 billion in bridge funding from the ERA, a forecasted FY25 fiscal gap of ~\$300M can be managed with a combination of revenue measures and spending reductions
- Other endowments are considering one-time increases in draws to capitalize on exceptional market performance
 - Harvard's \$42 Bill endowment increased from 5% to 7.5% on one-time basis
 - <https://www.thecrimson.com/article/2021/5/3/draw-further-endowment-fy22/>
 - <https://www.nytimes.com/2020/06/02/arts/endowments-coronavirus.html>
- This plan avoids the need for a new broad-based tax.
- Constitutionalizing a 5% POMV prevents overdrafts in the future

Comprehensive Fiscal Plan: Details

Fiscal Year 2022 Ten Year Outlook - Governor's Amended Budget, Spring 2021 Price Forecast, Updated DOR Permanent Fund Outlook										
(Amounts in millions)								Surplus FY27-30		
Unrestricted Revenues	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Traditional UGF Revenue	1,668.0	1,662.2	1,921.0	2,085.1	2,223.9	2,282.8	2,346.9	2,436.5	2,531.5	2,658.5
Permanent Fund POMV Draw	3,091.5	1,534.6	1,658.7	1,742.1	1,813.3	1,885.4	1,970.5	2,002.0	2,046.7	2,085.9
New Revenues/Reductions	0.0	0.0	0.0	150.0	300.0	300.0	300.0	300.0	300.0	300.0
Total Revenue	4,759.5	3,196.9	3,579.7	3,977.2	4,337.2	4,468.2	4,617.4	4,738.5	4,878.2	5,044.4
Total General Fund Appropriations	4,508.1	4,612.6	4,477.8	4,428.9	4,502.4	4,555.0	4,529.2	4,531.0	4,592.6	4,651.2
Draw From CBR Bridge Fund	0.0	1,415.8	898.0	451.8	165.1	86.7	0.0	0.0	0.0	0.0
Budget Surplus	0.0	0.0	0.0	0.0	0.0	0.0	88.5	207.9	286.2	393.6
Constitutional Budget Reserve End B	1,048.4	2,632.6	1,802.2	1,401.5	1,274.4	1,223.2	1,346.2	1,591.0	1,919.0	2,360.9
Unrestricted Revenues	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
50% POMV For PFD (\$millions)	0.0	1,534.6	1,658.7	1,742.1	1,813.3	1,885.4	1,970.5	2,002.0	2,046.7	2,085.9
PFDs (\$/Alaskan)	992.0	2,354.0	2,512.0	2,624.0	2,718.0	2,813.0	2,927.0	2,959.0	3,011.0	3,055.0
Total Spending	4,508.1	6,147.3	6,136.5	6,170.9	6,315.7	6,440.5	6,499.7	6,533.0	6,639.3	6,737.1
Permanent Fund End Balance	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Updated 5/18/21	77,586.1	76,456.4	79,139.8	80,730.8	82,320.9	83,885.3	85,399.6	86,972.1	88,579.2	90,218.8

- \$3.0 billion in bridge funding provides time to establish achievable revenues/reductions.
- Beginning in FY24, \$150 million to \$300 million in revenues/reductions balances the budget and begins to grow reserves.

HJR 7 Summary

- **Protects Alaska's primary source of state general fund revenue**
- **Preserves long-term value of the fund by limiting annual draw**
- **Reestablishes the critical link between the people and their government by providing every Alaskan a share of the state's natural resource wealth**
- **Ensures that Alaskans have a voice in future decisions regarding the permanent fund**