

# **SJR 6**

## **Constitutional Amendment: Permanent Fund & Permanent Fund Dividends**

**Presentation to the Senate Finance Committee**

Department of Revenue  
Lucinda Mahoney, Commissioner  
6/11/2021



Governor  
**MIKE DUNLEAVY**

# Goals

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- 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**

# **Comprehensive Fiscal Plan Steps**

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## **Step One - First Special Session**

- **Permanent Fund Structural Fix – Permanent Fund, ERA, PCE Protected**
- **Establish Strong Reserves w/Bridge Funding**
- **Consensus on Deficit Size – Required Spending/Revenue Targets**

## **Step Two - Second Special Session**

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

# **Permanent Fund: Endowment Structure**

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- **It's time for a true Permanent Fund endowment.**
- **Endowment approach is an internationally accepted best practice.**
- **Stabilizes both revenues and the PFD with a smoothed five-year average.**
- **Limits government spending at 50% of the 5% POMV draw.**
- **Protects Power Cost Equalization (PCE) by depositing the PCE endowment (~\$1.1B) into the Permanent Fund.**
- **Constitutionally protects Permanent Fund & PCE for future generations.**

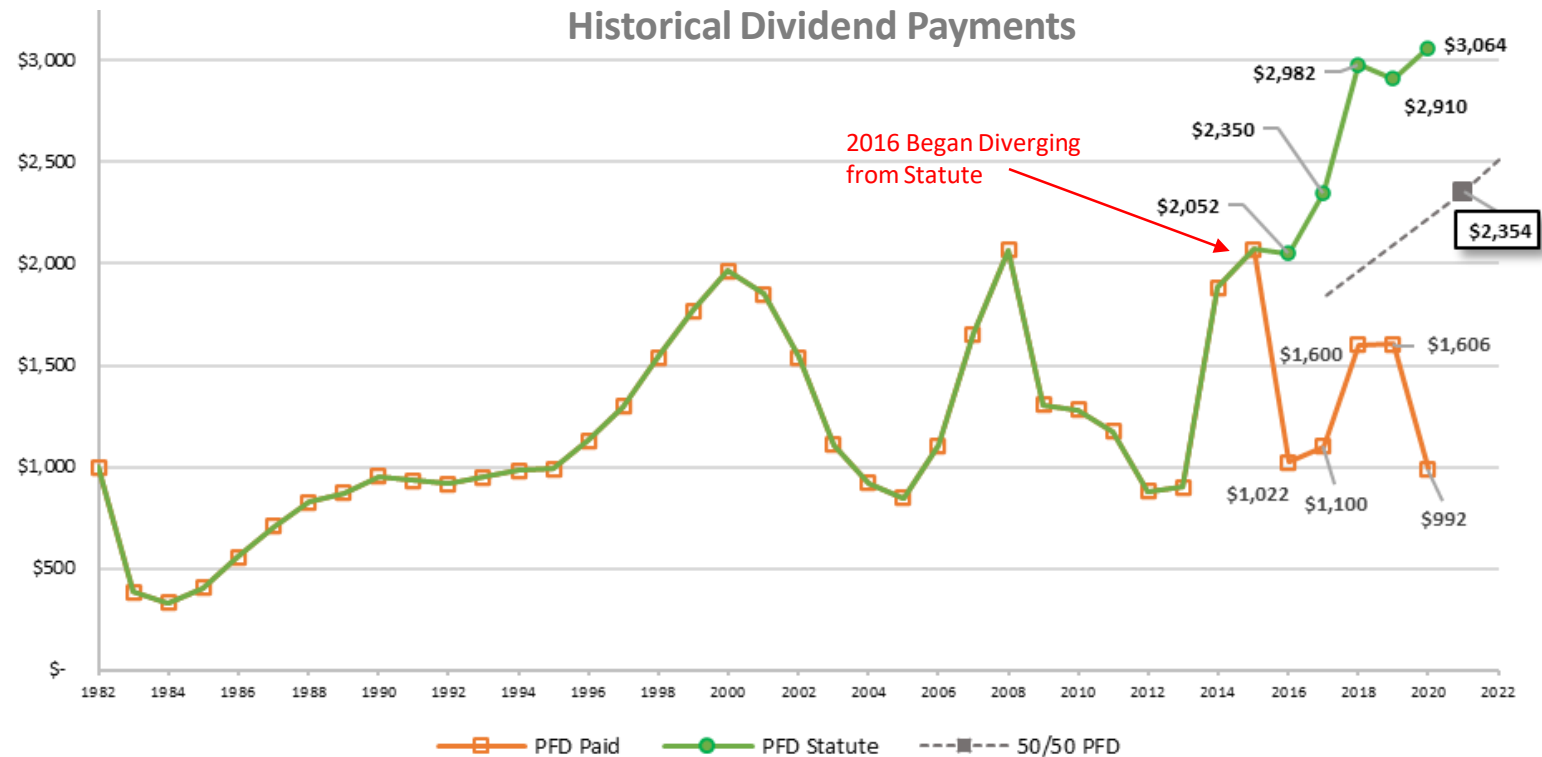
# Permanent Fund Dividend: Consistency

## Current Challenge:

- Public Mistrust: Too much spending on Government
- 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**

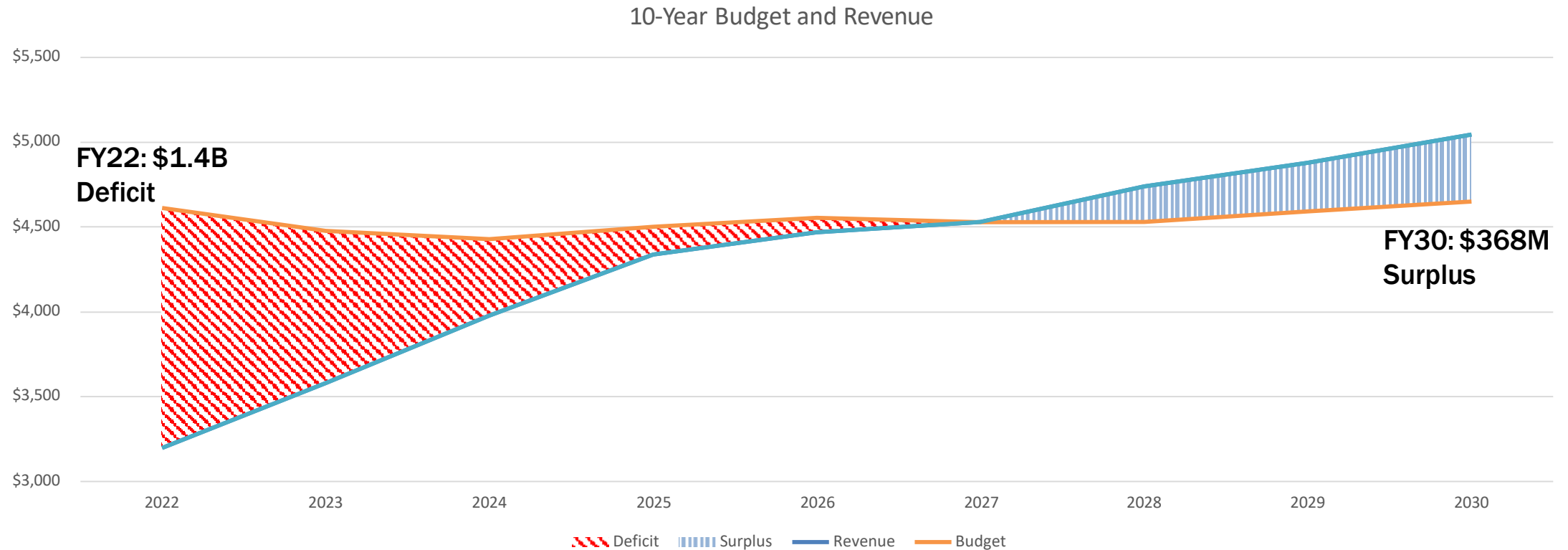
- **Alaskans deserve certainty concerning annual PFD payment.**
- **State needs PFD consistency to attain budget stability and sustainability.**
- **Absent certainty, determining future achievable revenues/reductions is difficult and may result in over/under collecting/taxing.**
- **50% POMV dividend 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 (Fall Special Session)**
- **Redirects the legislative conversation to growing Alaska vs. debating PFD.**

# Bridge Funding

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- 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 billion 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

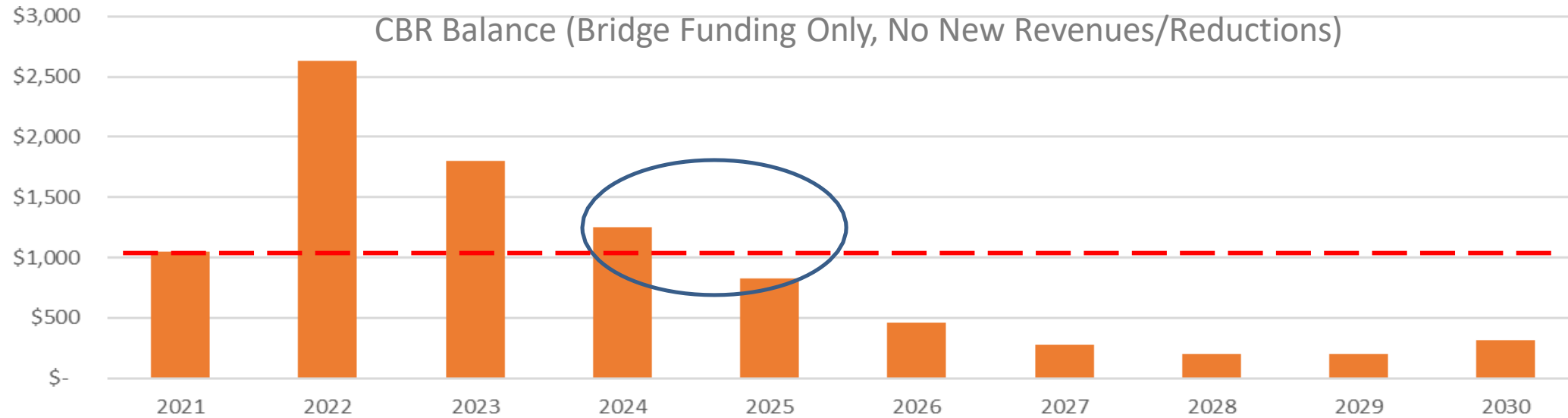
# Bridge Funding



- As the Permanent Fund grows, so does the POMV which closes the deficit organically.
  - 2022 POMV: \$3,069.3
  - 2030 POMV: \$4,171.8
- The gap closes significantly due to increased POMV revenues

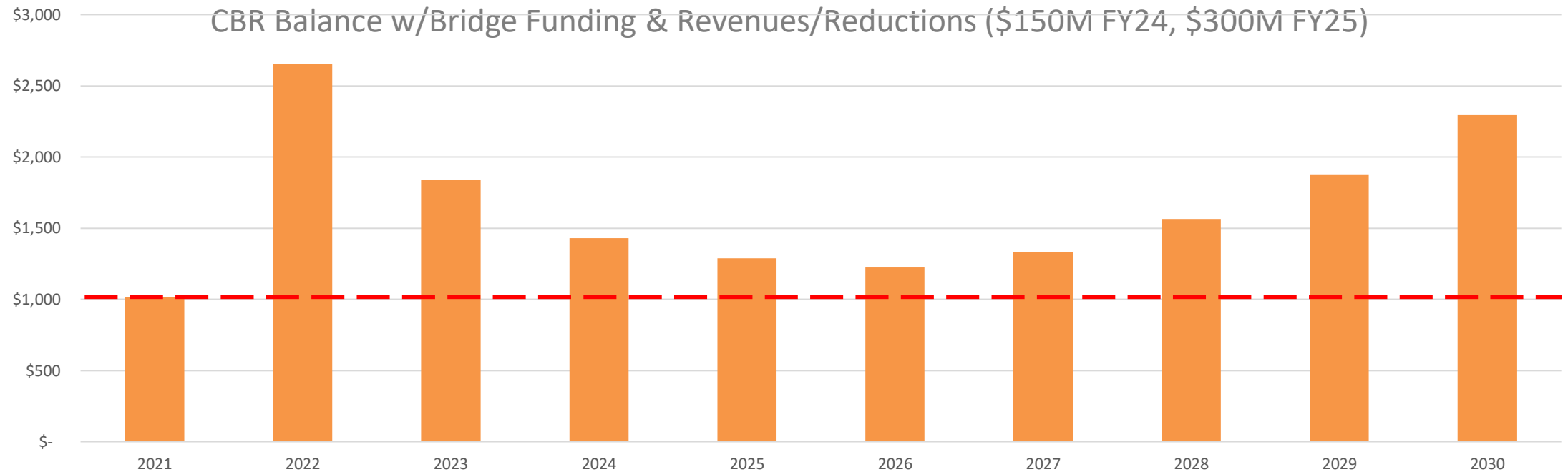


# Establish Strong Reserves



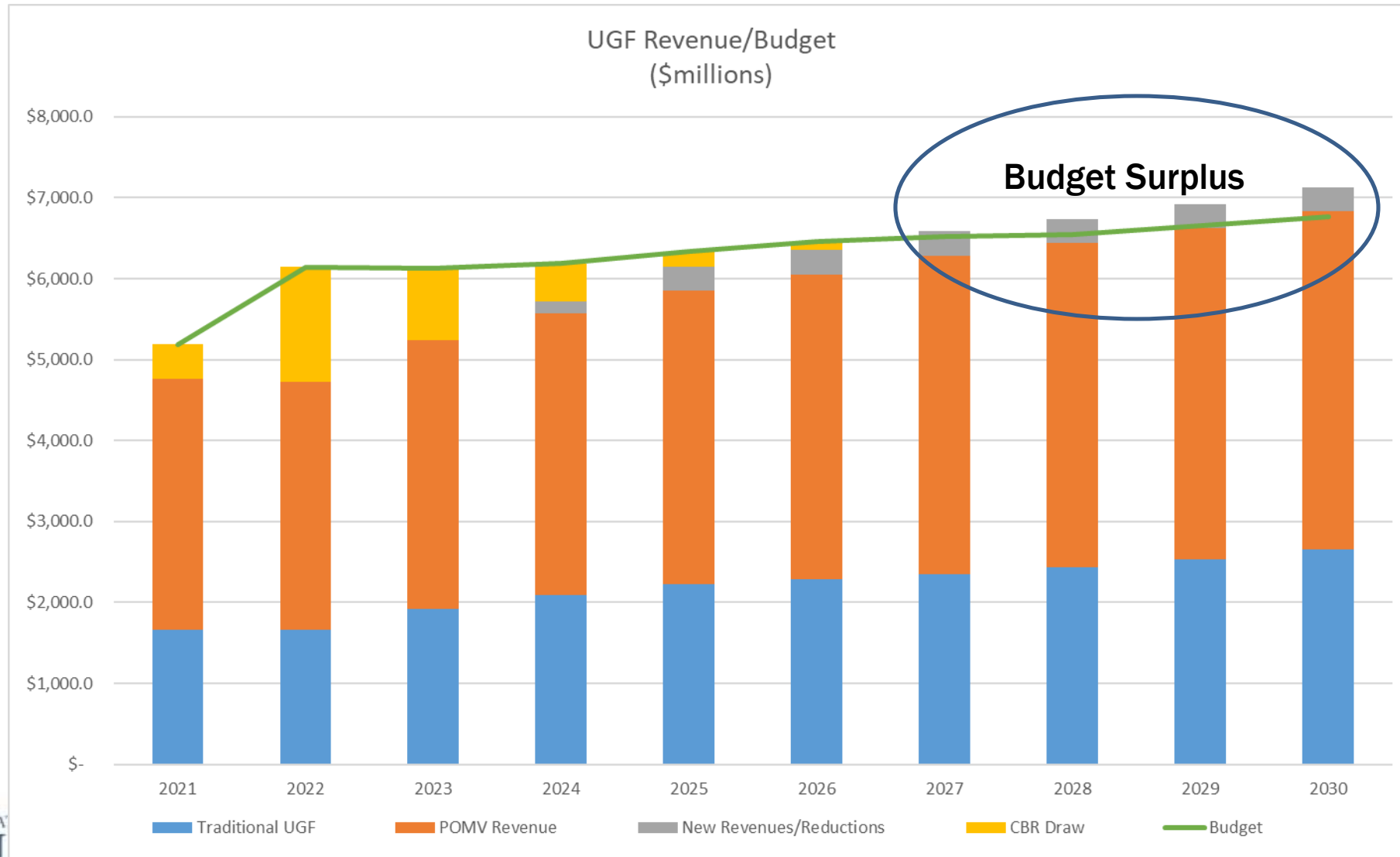
- **Reserves are essential to manage State's revenue volatility**
  - ~66% of UGF is POMV – Lagged five-year smoothing reduces market risks
  - ~27% of UGF is Oil – Price volatility presents near term risk. This 27% will decrease over time as the Permanent Fund and POMV grow.
- **\$1.0 billion in reserves can assist near term volatility over two fiscal years.**

# Achievable Revenue/Reductions



- **\$3.0 billion in bridge funding provides time to transition into a sustainable fiscal plan.**
- **Revenues/Reductions of \$300 million are needed by FY24-25 to balance budget and maintain sufficient reserves**
- **Absent new revenues/reductions the CBR balance will fall below \$1.0 billion**

# Achievable Revenue/Reductions



THE STATE  
of ALASKA

Governor Mike Dunleavy

# Financial Details

Fiscal Year 2022 Ten Year Outlook - Governor's Amended Budget, Spring 2021 Price Forecast, Updated DOR Outlook										
(Amounts in millions)		Surplus FY2027-2030								
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	\$ -	\$ -	\$ -	\$ 150.0	\$ 300.0	\$ 300.0	\$ 300.0	\$ 300.0	\$ 300.0	\$ 300.0
<b>Total Revenue</b>	<b>\$ 4,759.5</b>	<b>\$ 3,196.9</b>	<b>\$ 3,579.7</b>	<b>\$ 3,977.2</b>	<b>\$ 4,337.2</b>	<b>\$ 4,468.2</b>	<b>\$ 4,617.4</b>	<b>\$ 4,738.5</b>	<b>\$ 4,878.2</b>	<b>\$ 5,044.4</b>
<b>Total General Fund Appropriations</b>	<b>\$ 4,508.1</b>	<b>\$ 4,612.4</b>	<b>\$ 4,465.3</b>	<b>\$ 4,446.3</b>	<b>\$ 4,519.7</b>	<b>\$ 4,572.5</b>	<b>\$ 4,546.6</b>	<b>\$ 4,548.4</b>	<b>\$ 4,614.4</b>	<b>\$ 4,676.0</b>
<b>Draw From CBR Bridge Fund</b>	<b>\$ -</b>	<b>\$ 1,415.8</b>	<b>\$ 885.5</b>	<b>\$ 469.1</b>	<b>\$ 182.6</b>	<b>\$ 104.3</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Budget Surplus</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 70.8</b>	<b>\$ 190.1</b>	<b>\$ 263.8</b>	<b>\$ 368.4</b>
<b>Constitutional Budget Reserve End Balance</b>	<b>\$ 1,018.4</b>	<b>\$ 2,653.3</b>	<b>\$ 1,842.4</b>	<b>\$ 1,430.5</b>	<b>\$ 1,290.3</b>	<b>\$ 1,225.3</b>	<b>\$ 1,333.9</b>	<b>\$ 1,564.2</b>	<b>\$ 1,873.5</b>	<b>\$ 2,294.2</b>
Unrestricted Revenues	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
50% POMV For PFD (\$millions)	\$ -	\$ 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	\$ 2,354	\$ 2,512	\$ 2,624	\$ 2,718	\$ 2,813	\$ 2,927	\$ 2,959	\$ 3,011	\$ 3,055
<b>Total Spending</b>	<b>\$ 4,508.1</b>	<b>\$ 6,147.3</b>	<b>\$ 6,136.5</b>	<b>\$ 6,170.9</b>	<b>\$ 6,315.7</b>	<b>\$ 6,440.5</b>	<b>\$ 6,499.7</b>	<b>\$ 6,533.0</b>	<b>\$ 6,639.3</b>	<b>\$ 6,737.1</b>
Permanent Fund End Balance	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
<b>Updated 5/18/21</b>	<b>\$ 77,586.1</b>	<b>\$ 76,456.4</b>	<b>\$ 79,139.8</b>	<b>\$ 80,730.8</b>	<b>\$ 82,320.9</b>	<b>\$ 83,885.3</b>	<b>\$ 85,399.6</b>	<b>\$ 86,972.1</b>	<b>\$ 88,579.2</b>	<b>\$ 90,218.8</b>

- \$3.0 billion in bridge funding provides time to establish achievable revenues/reductions.
- Beginning in FY2024, \$150 million to \$300 million in revenues/reductions balances the budget and begins to grow reserves.

# Financial Considerations

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## Upside Fiscal Benefits:

- Increased PERS & TRS investment earnings of approximately \$5.0 billion may reduce unfunded liabilities (\$6.5 billion) and decrease the State's future assistance payment (FY22 payment = \$336.2 million).
  - Gains will be smoothed over five years per policy
- Potential for decreased state assistance in the future use of Federal stimulus to offset Unrestricted General Fund (UGF).
- Lapsing funds are not taken as savings – the state lapses tens of million of unused funding back into the general fund every year
- Maintaining downward budget pressure to reduce programmatic formulas
- Market returns in excess of 6.25% projection

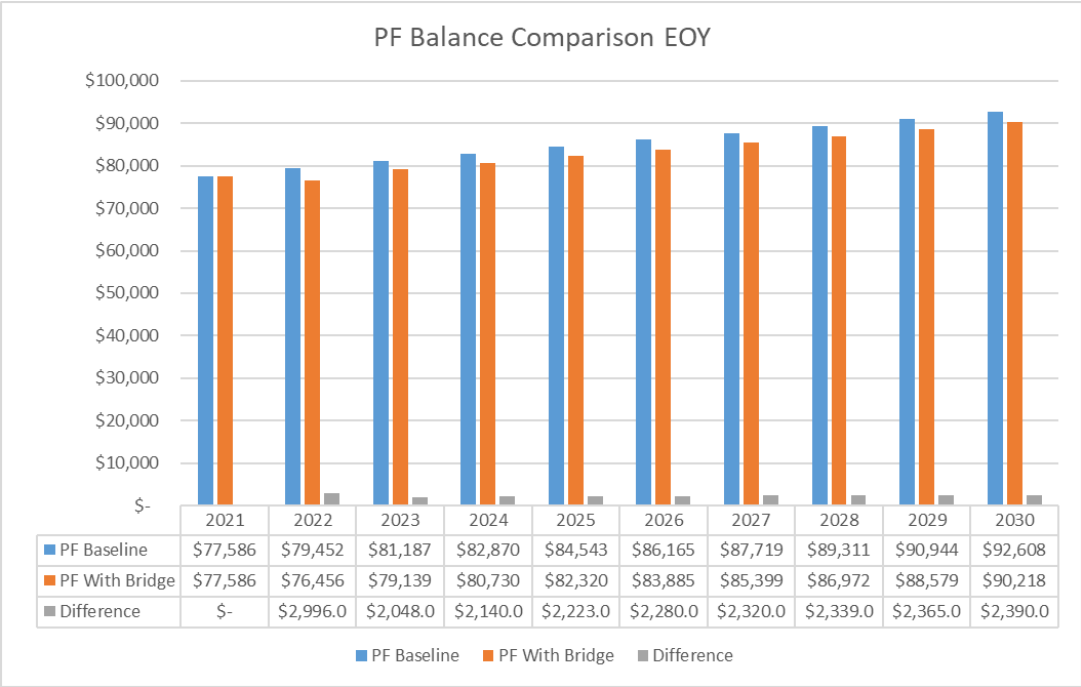
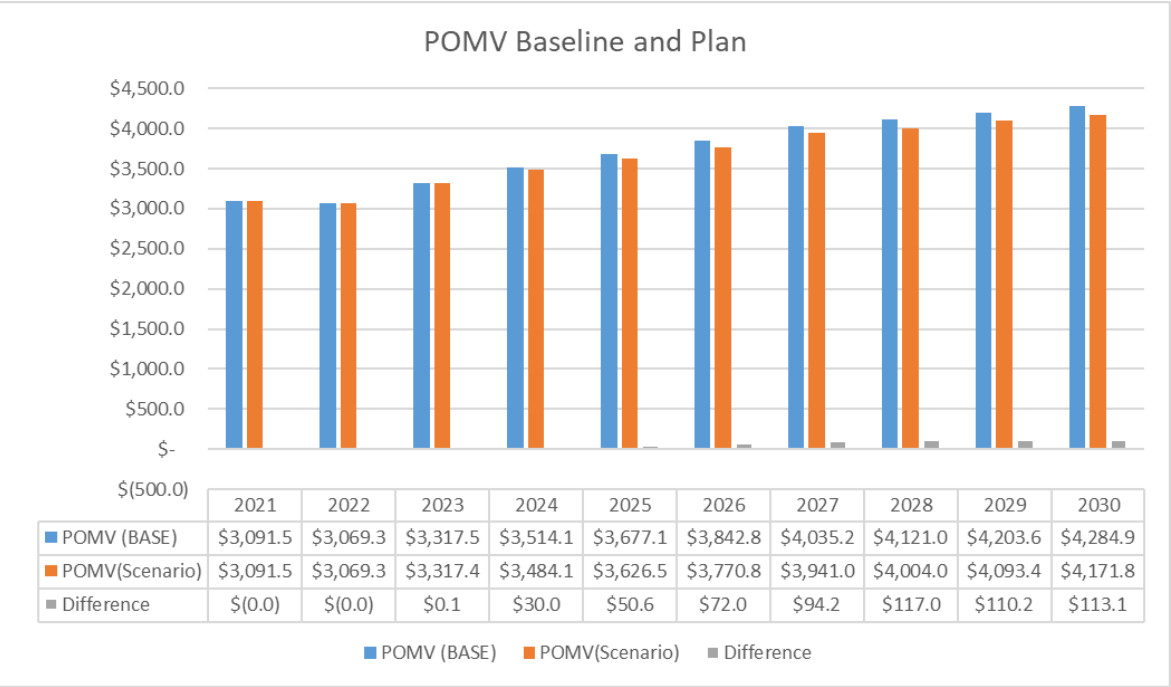
## Downside Risk:

- Inflation increases
- Market correction decreasing Permanent Fund and Retirement Trust values
- Failure to realize downward pressure on budgets
- Oil price and volume volatility

*This presentation presumes a “mid-case” scenario. There are multiple events that are not considered in these numbers that could drive increases or decreases in the state's budget position. For this reason, several hundred millions in expected budget savings have not been included before they are realized.*



# \$3.0 B Bridge Funding, 50/50 PFD



- The above graphs depict the impact of the bridge fund distribution (\$3.0 billion CBR transfer, \$1.1 billion PCE deposit, \$1.9 billion net) on the POMV and the Permanent Fund Balance

# **Summary, Governor's Plan: Financial and Political Solution**

- **Constitutionally protect Permanent Fund and PFD**
  - Limit annual draw to 5% POMV
  - Dedicate 50% of POMV to PFDs
  - Combine Principal and Earnings Reserve Account into one endowment
- **Constitutionally protect Power Cost Equalization**
  - Deposit PCE endowment (\$1.1B) into Permanent Fund
  - Dedicate revenue to equalize power costs in Alaska
- **Provide bridge to balance budgets through FY2025**
  - Transfer \$3 billion from ERA to CBR
- **Discuss achievable revenues/reductions in Second Special Session**