

Senate Bill 107

Percent of Market Value Split / Permanent Fund Dividend



House Ways & Means Committee
May 8, 2023

What Does SB107 Do?

Establishes a split for the annual “Percent of Market Value” draw

- The split would be 75% for the General Fund, and 25% to pay Permanent Fund Dividends
- It allows for a 50/50 split option if certain conditions are met.

When SB26 passed in 2018, establishing the POMV formula for using Permanent Fund earnings, the bill did not update the 1980s dividend formula. SB107 would replace that formula.

The Senate Finance Committee has addressed this topic several times:

- The version of SB26 that passed the Senate in 2017 included a “75/25” split. The split was removed by the bill’s Conference Committee.
- SB103, from 2019, included a “50/50” split
- SB199, from 2022, included a “75/25” split
- SB53, from 2022, included a smaller dividend that increased to a “50/50” split once a certain amount of new revenue was received

Why is this necessary?

- The Permanent Fund was initially set aside for when oil would no longer be able to cover all budgetary needs.
- Not having a PFD formula creates uncertainty in the budgeting process.
 - The POMV was passed in part to stabilize the state's revenue.
 - If the dividend amount is unknown until late in session, the remaining POMV draw going to the General Fund is also unknown.
 - Without knowing how much revenue is available, it is difficult to make budget decisions.

Why is this necessary? *(continued)*

- A PFD based on a percentage of the POMV adds stability to both the budget and the dividend
 - The POMV is based on the overall value of the Permanent Fund, which is relatively stable and predictable.
 - In contrast, the current statutory dividend formula is based on Permanent Fund earnings, which are much more volatile.
 - If the general fund portion of the annual POMV payout is “whatever is left” after funding a volatile dividend, all that revenue volatility is transferred to the general fund- compounding fiscal uncertainty.

Why 75 / 25?

It is fiscally prudent

This table is from OMB on February 20th

- Next year's "Governor's amended" budget is \$433 million in deficit.
- That's before:
 - Fixing Community Assistance
 - Basic deferred maintenance
 - Any legislative additions to the capital budget
 - Any adjustment to education funding
 - Any bills that pass with fiscal notes
- There are no available savings pools to draw from. A CBRF draw requires a supermajority vote which hasn't occurred since 2020

Uses Of Funds	UGF	FY2024 Total
Expenditures:		
Total Operating	4,592.0	9,424.8
Total Capital	303.6	2,569.1
Supplementals and RPLs	-	-
Subtotal - Expenditures	4,895.6	11,994.0
ERA Draw Used For PFD	2,470.9	2,470.9
K-12 Forward Funding Deposit	-	-
Total Uses of Funds	7,366.5	14,464.9

Sources Of Funds	UGF	FY2024 Total
Unrestricted Revenue	3,410.1	3,410.1
POMV ERA Draw	3,526.1	3,526.1
Restricted Revenue	-	7,098.4
Draws, Deposits, and Adjustments	(3.2)	(3.2)
Total Sources of Funds	6,933.0	14,031.4
Surplus/(Deficit) To/From Reserves	(433.5)	(433.5)

Other Unmet Budget Needs

Slide is from Legislative Finance.

It details over \$13 billion in current state obligations

To summarize:

- Pension obligations \$7.1b
- Capital and maintenance needs \$4.4b
- Debt service \$1.6b

Obligations and Funding Needs of the State of Alaska

- This is not an exhaustive list. The total for these items is about **\$13.1 billion**
- PERS/TRS Unfunded Liability: **\$7.1 billion**
 - Payment plan: annual payments through FY39. FY24 payment is \$140.3 million
- General Obligation Bonds and State Supported Debt: **\$1.1 billion**
 - Payment plan: annual payments through FY41. FY24 Governor's Budget includes \$90.9 million UGF
- State Share of Municipal School Debt Service: **\$457.0 million**
 - Payment plan: annual payments through FY39. FY24 Governor's Budget includes \$67.2 million GF
- Oil and Gas Tax Credits: **\$42.7 million**
 - Payment plan: remaining payment in full is in FY24 Governor's Budget.
- Deferred Maintenance: **\$2.2 billion**
 - Payment plan: annual appropriations using Alaska Capital Income Fund (\$32.3 million in FY24).
- State Share of School Major Maintenance and Construction Lists: **\$413.5 million**
 - Payment plan: FY24 Governor's Budget does not include an appropriation for this. REAA fund can also be used for some projects
- Rural Alaska Sanitation Funding Need (per DEC FY21 list): **\$1.8 billion**
 - Payment plan: Village Safe Water capital program. FY24 Governor's Budget includes \$25.0 million UGF, \$247.7 million all funds

What CSSB107(FIN)\P Does

- Establishes the 75/25 Split (25% of POMV to dividends)
- Sets a “trigger” by which the split increases to 50/50 (50% of the POMV to dividends):
 - If, in any year starting in 2026, the legislature passes at least \$1.3 billion in new revenue, and a CBR balance of at least \$3.5 billion, the POMV split increases to 50/50
 - Must be new, annually recurring revenue, versus what was in statute as the law read on January 1, 2023
 - The condition must be agreed to by both the Commissioner of Revenue and the Director of Legislative Finance
 - If this doesn't happen by 2030, the condition expires and the 75/25 remains

The 75 / 25 Scenario Was the Most Stable and Balanced

- Under current Revenue projections and status quo base budgets, the 25/75 split does not require a draw from savings for a balanced budget.

