

ALASKA PERMANENT FUND PROTECTION ACT

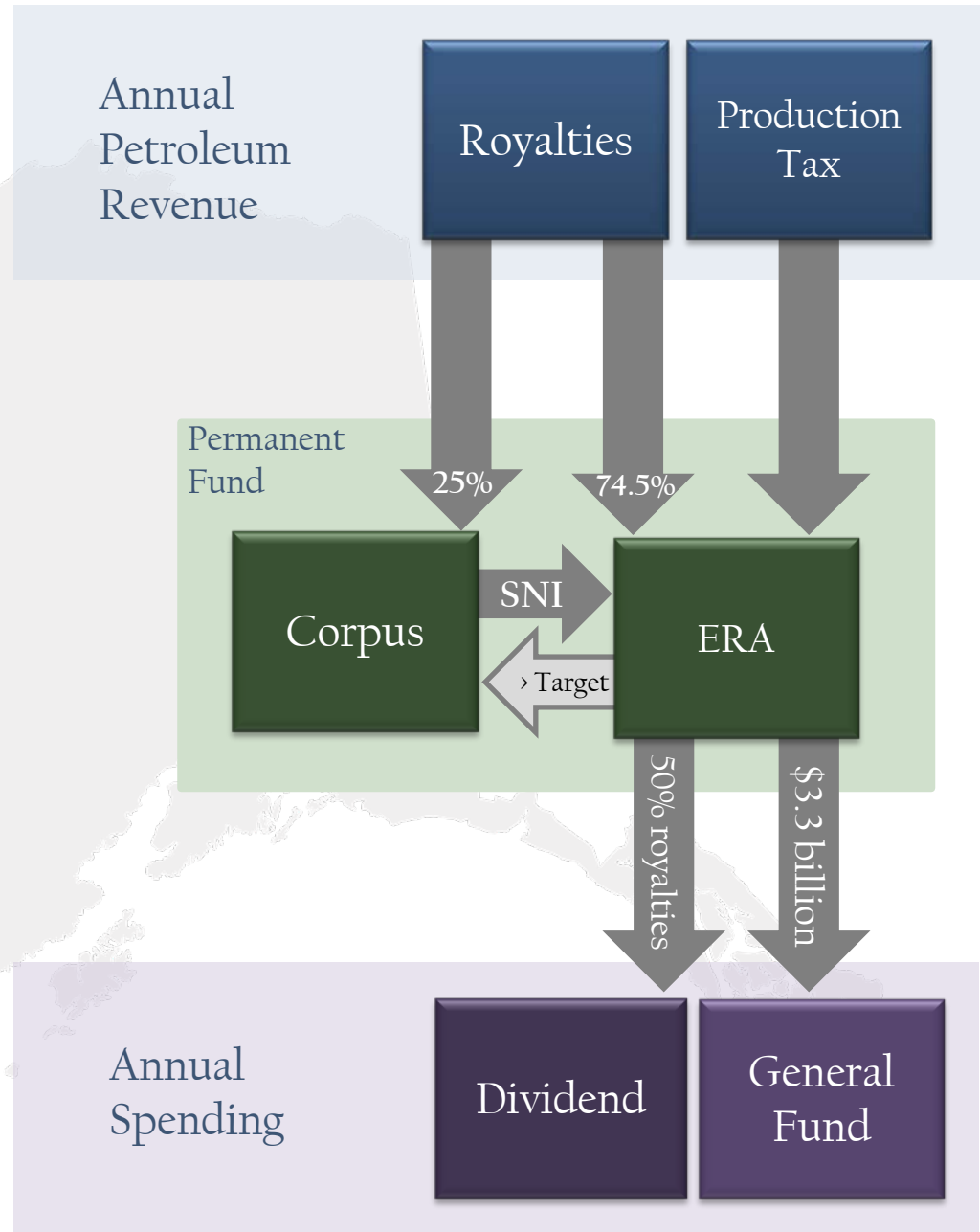
Randall Hoffbeck, *Commissioner of Revenue*

Craig W. Richards, *Attorney General*

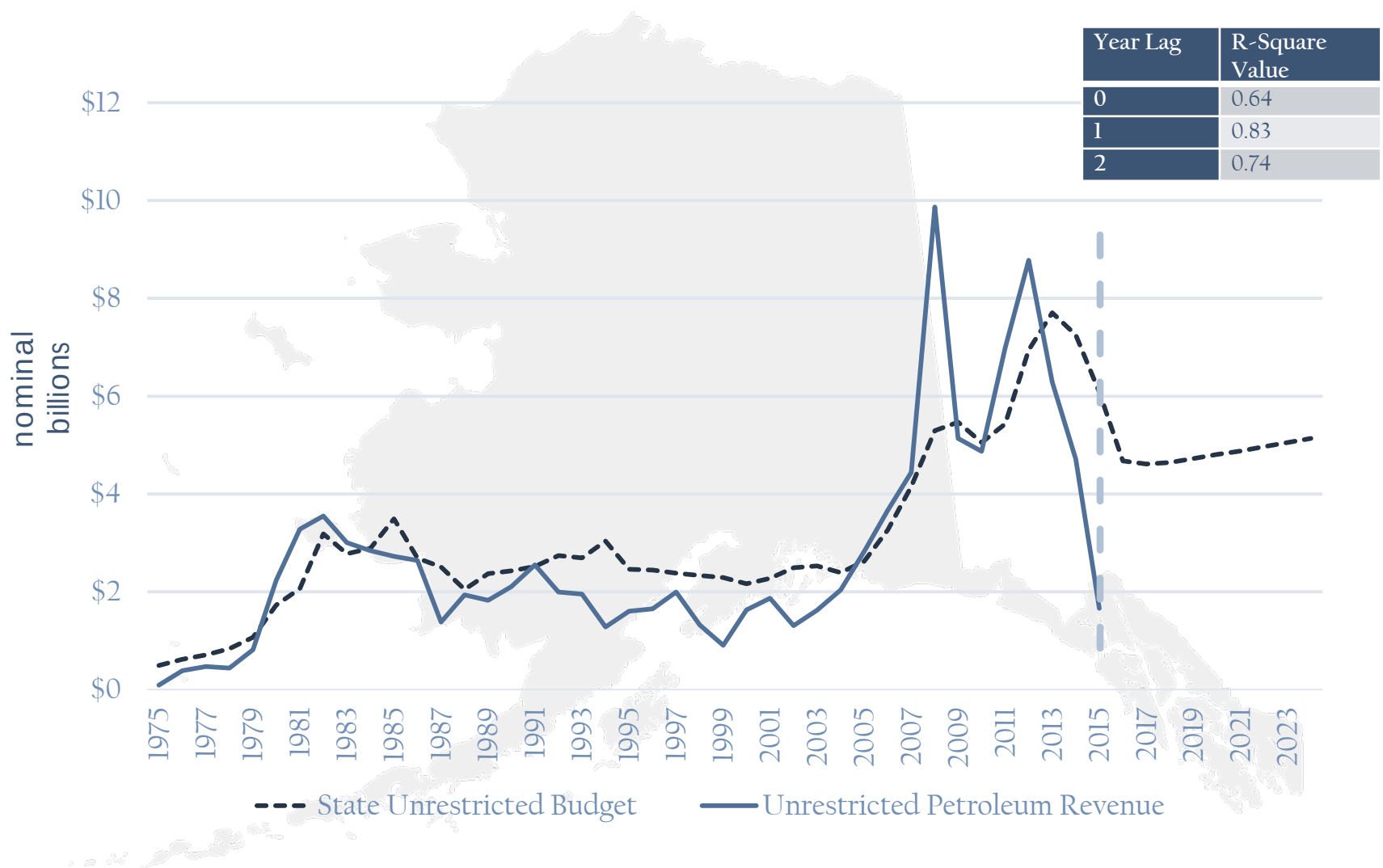


APFPA

1. Volatile petroleum revenues to the Permanent Fund
2. \$3.3 billion draw to the General Fund
3. Dividends
50% royalties



LONG-TERM PROBLEM



FISCAL POLICY FOR OIL ECONOMIES

- Government spending in commodity-based economies tends to move up and down with commodity revenue
- Pro-cyclical government spending stunts economic growth
- Stabilizing fiscal policy has the inverse effect, increasing GDP growth by 0.3% annually



HOW TO HANDLE THE DRAW

Defining “sustainable”

- Protect the Corpus
- Earnings Reserve Durability
- Inflation Proofing
 - Maintain the real value of the Permanent Fund
 - Transfers to the Corpus



HOW TO HANDLE THE DRAW

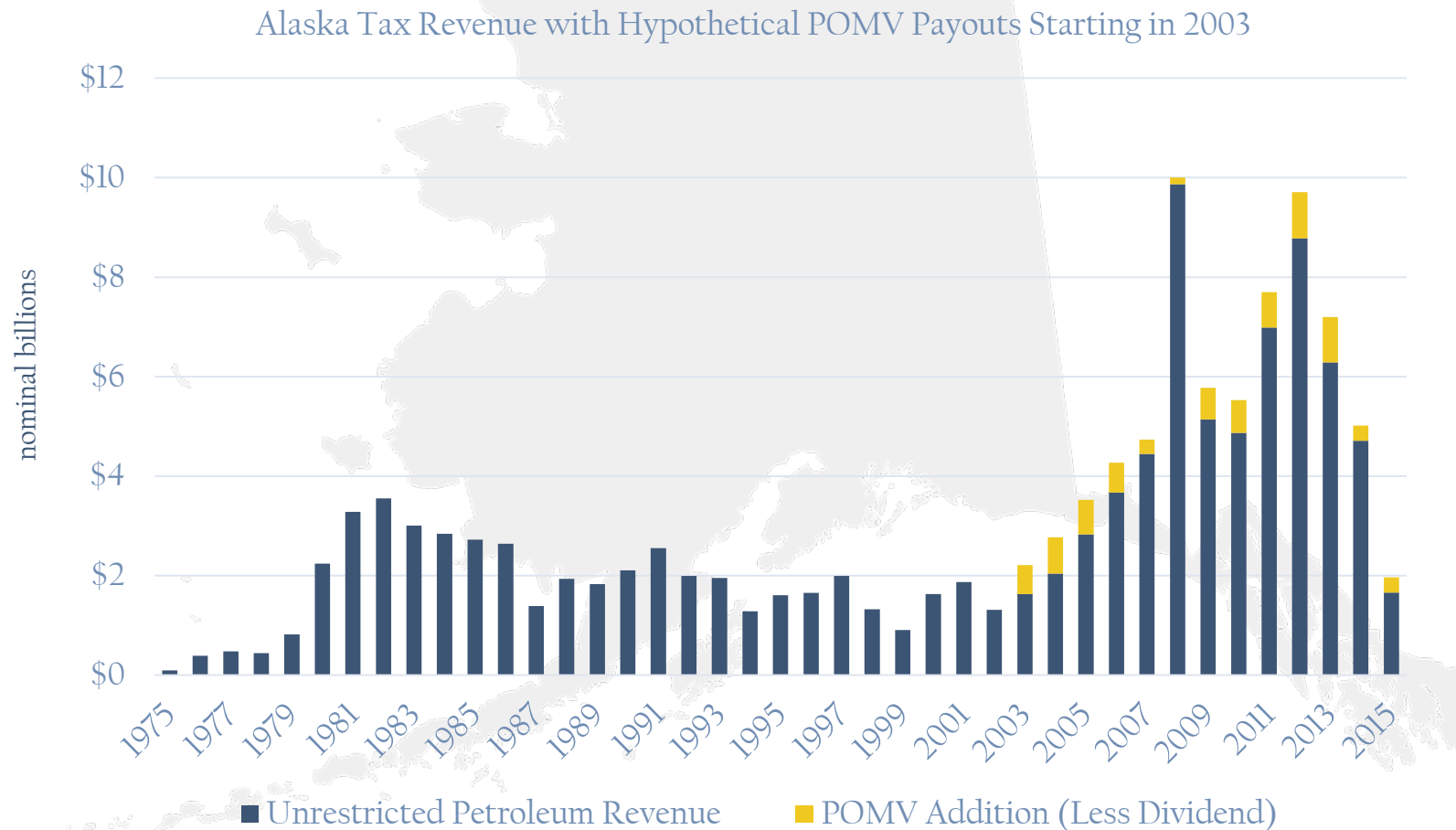
	Sovereign Wealth Model ~ Volatility in the Fund ~	Endowment Model ~ Volatility in the Budget ~
Fixed-Draw	- Budget Stable - Fund Growth - Presumed savings - Oil price volatility - Investment volatility	- Budget Volatile - Oil price volatility - Fund Stable - Less investment volatility
POMV-Draw*	- Budget Volatile - Investment volatility - Fund Growth Reduced - Spending more (% of high revenue) - Oil price volatility - Less investment volatility	- Budget Very Volatile - Oil price volatility - Investments volatility - Fund Stable

*Volatility may be reduced, but not eliminated, with use of smoothing rule such as 5- year averaging.



HOW TO HANDLE THE DRAW

A simple endowment draw adds revenue, but does not address volatility



HOW TO HANDLE THE DIVIDEND

Earnings Dividend(current formula): half of statutory net income (SNI)

Royalties Dividend: connects Alaskans to the economy

POMV Dividend: based on Fund market value, not SNI

CBR Dividend: based on CBR balance; rewards Alaskans for Legislature maximizing stabilization account

\$1,000 Flat: ~ \$650 million, reduces the sustainable draw

Mixed Formula: combination of different idea

Warning: certain combinations do not work well

POMV Draw & Earnings Dividend

Royalty Dividend & Floor

