THE ALASKA PERMANENT FUND PROTECTION ACT

For a Strong Alaskan Economy and an Enduring Permanent Fund

Frequently Asked Questions

Q: What does the Alaska Permanent Fund Protection Act do?

The APFPA establishes a rule-based framework for the sustainable use of permanent fund earnings to support public services. APFPA adopts rules establishing a sustainable percent-of-market-value (POMV) draw of 5.25% from the earnings reserve to the general fund; and enacts a new inflation-proofing mechanism; a new dividend formula; and a revenue limit to ensure future windfalls are saved.

Q: Why is it called the “Permanent Fund Protection Act”?

The act is meant to ensure that as we begin to use permanent fund earnings for government expenditures, we take only what is sustainable and protect the fund – and dividends – for future Alaskans. Without rules requiring that the earnings are sustainably withdrawn, the value of the permanent fund could be degraded, and we could deplete the earnings reserve account, so that it is not available in the future.

Q: How will the dividend be calculated and what can individuals expect to receive under this plan?

Instead of being calculated solely on permanent fund earnings, the dividend would be determined based on the value of the permanent fund (20% of the POMV draw) and our mineral royalties (20% of royalties deposited into the general fund). Projections show that this will result in a dividend of around $1,000 into the future. To transition from the prior calculation to the new calculation, the dividend would initially be set at $1,000 for the near-term.

Q: What will the dividend be if no action is taken to address the State's fiscal challenge?

Under current projections, the constitutional budget reserve will be drained within two years, at which point lawmakers would need to tap the earning reserve, which is the source of dividends. It's anticipated that there will be no money left to pay a dividend within four years.

Q: Does the APFPA use the principal or corpus of the Permanent Fund?

No, the act does not spend any money from the principal.

Q: Does the APFPA require a constitutional amendment?

No, because it does not call for or allow spending any money from the principal.

Q: Why is the plan needed?

In the last two years, state revenue fell by more than three-quarters. We have a deficit of $4 billion, even after reducing spending by more than $1 billion over the past two fiscal years. It's unsustainable. We're projected to run out of savings in less than two years, and exhaust the earnings reserve less than two years later. Alaska must transition to a stable, sustainable fiscal structure to ensure the State can continue to provide essential public services and avoid a significant recession.

Q: How does the APFPA fit into the larger plan to close the budget gap?

The Alaska Permanent Fund Protection Act is the centerpiece of the plan, but cannot in and of itself close the gap without drawing the reserves down too far. Two other key components of the New Sustainable Alaska Plan are (a) spending cuts and (b) new revenues. Spending cuts this year are a work in progress; the final magnitude depends in large part on the outcome of oil tax credit legislation.

Changes to our tax structure will ensure that everyone contributes to the solution, and that no one group or sector of Alaska carries too heavy a load. The New Sustainable Alaska Plan calls for a modest income tax pegged to the federal income tax, which brings nonresident workers to the solution. The plan also calls for increases to the mining and fisheries taxes, and to consumption taxes on motor fuel, alcohol and tobacco.

Q: Why does this have to occur this year? Can't we just use our savings and institute something next year?

First, continuing to draw down our savings at significant levels means that we will have fewer choices next year for filling the gap. Setting a system in place now for using our permanent fund earnings means we won't deplete our savings. Second, if we do nothing this year, the State's credit rating is at risk of being downgraded again, increasing costs to the State and sending a chilling effect to private investors. Third, the private sector needs certainty. Without fiscal certainty at the state level, investors and private business will lose confidence in the State. Studies show that countries dependent on a volatile revenue stream, such as oil and gas development, have seen 0.3% additional GDP growth annually when they have a plan in place for sustainable spending and revenue.

Q: If the entire plan is subject to appropriation by the legislature, why is the APFPA necessary?

The legislature has shown great discipline in following the rules set out in statute. The Permanent Fund has grown all these years and is now ready to help supply some of the money for the budget because of the legislature's adherence to statutory rules: (1) inflation proofing the fund annually, and (2) only using the earnings reserve account for dividends. Also, creating rules ensures a transparent and public process if future legislators choose a different approach.

Q: How does the revenue limit work?

The revenue limit, as proposed by the administration, would reduce the amount drawn from permanent fund earnings (the 5.25% POMV) dollar-for-dollar for every dollar in excess of $1 billion in oil and gas production taxes and mineral royalties deposited into the general fund. However, the revenue limit excludes the amount for the dividend, so the streams of revenue that go to the dividend would continue regardless of the limit. This will assist in smoothing out the volatility currently experienced by the ups and downs of oil prices.