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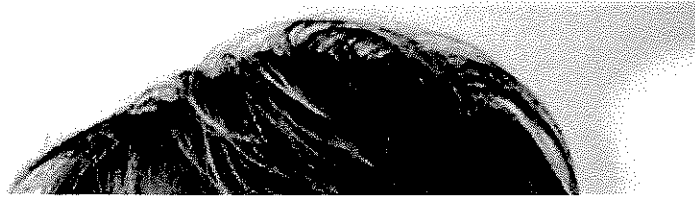
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Looking Back: July 12, 2016

FEATURED

Permanent fund CEO: Dividend bill too optimistic about the market

Matt Buxton, mbuxton@newsminer.com Jun 22, 2016



FAIRBANKS — The bill to restructure the Alaska Permanent Fund to help pay for government could be too optimistic about the market, the head of the corporation that manages the fund told the News-Miner editorial board Tuesday.

Angela Rodell, the CEO of the Alaska Permanent Fund Corp., said an annual draw of 5.25 percent of the market value of the fund could be tough to meet every year. That money would come from the fund's earnings reserve account, not the fund's principal.

Rodell visited Fairbanks to explain the purpose, history and future of the Alaska Permanent Fund just days after the Legislature adjourned without passing a bill that would reduce dividends to help close a multibillion-dollar budget deficit.

Rodell told the Greater Fairbanks Chamber of Commerce, also on Tuesday, that she had hoped to talk about how the legislation was going to change the permanent fund, but the slide in her presentation was replaced with a large question mark.

The Alaska Permanent Fund Corp.'s Board of Trustees has not taken a position on any of the proposals put forward by Gov. Bill Walker or the Legislature. It did, however, endorse the transition of the management of the fund into a percent of market value model in the early 2000s.

Called POMV, the model allows for a certain percentage of the overall value of the fund to be available to spend each year. The method was contained in the most recent version of the restructuring proposed by the Legislature, allowing 5.25 percent of the value to be drawn. That would actually be less than what the Legislature can currently access from the earnings reserve through a majority vote.

The earnings reserve contains about \$7 billion. The entire value of the permanent fund, including both the corpus and the earnings reserve, totals about \$53 billion. A 5.25 percent POMV draw would be about \$2.5 billion.

Still, Rodell told the News-Miner editorial board at a meeting before the chamber presentation that she has concerns about the ability of the permanent fund to keep up with the 5.25 percent draw.

“Ultimately we are subject to the markets,” she said. “I’m concerned about having to see that expectation year in and year out.”

Rodell said the trustees have a target of 5 percent real return with an additional 2.25 percent inflation but said the fund has missed those goals due to the state of the market lately.

“When I look at actual performance and I hear these numbers thrown around that we’re going to make 7.25 percent so we can take 5.25, it makes me stay awake at night to figure out how we are going to thread this needle,” she said.

Rodell said she understands the political need to meet that goal and stressed that it highlighted the need for the corporation to be able to make smart investments, as she explained at the chamber.

“That’s why we’re focused on getting the resources we need to continue to invest in theses sectors,” she said.

Most of her presentation to the chamber was a basic overview of the permanent fund and the corporation’s investment methods.

She cleared a common misconception that the Alaska Permanent Fund Corp. is responsible for the dividend. The Department of Revenue, not the corporation, handles the payouts.

The Alaska Permanent Fund is also broadly invested, she explained. That includes owning a “small piece of Snapchat,” a popular picture-sharing social network, through an investment firm.

The corporation has also begun investing abroad. It owns the Golden Square Shopping Centre in Warrington, England, which Rodell said has put extra attention on this week’s vote for the United Kingdom to exit the European Union.

Special session five

In the chamber audience was Rep. Steve Thompson, the Fairbanks Republican who co-chairs the House Finance Committee. Though Thompson supported Senate Bill 128, the permanent fund bill, the legislation died in the committee. Six of the 11 committee members voted against advancing it to a floor vote.

The Legislature is set to return to Juneau on July 11 for the fifth special session called by Walker. On the agenda, as of now, is the permanent fund bill, an omnibus tax bill and another bill to address oil and gas taxes and tax credits.

Thompson said he’s not holding out much hope for the permanent fund bill during that time, saying all the 20 days will likely do is allow people to become even more dug-in on their positions.

“People are pretty well entrenched as to what they want,” he said. “Maybe some will have a little change of heart from what their constituents say. ... Legislators, I don’t think, are going to change their minds. I think we’re going back down with the same attitude.”

Thompson said, however, that if Democrats could be placated and put their support behind the bill — their main opposition is based on the continuation of hundreds of millions of dollars in tax credits for the oil and gas industry — then it could pass.

Contact staff writer Matt Buxton at 459-7544. Follow him on Twitter: @FDNMpolitics.