PERMANENT FUND PROTECTION ACT

February 6, 2017

The Permanent Fund Protection Act (PFPA) ensures that, as we begin to use permanent fund earnings to support the state budget, we only take an amount that is sustainable. Working with the legislature last session, we developed a plan that fulfills five “must haves” for using fund earnings:

(1) **A Rule-Based Framework**: The PFPA outlines a long-term plan for the sustainable use of the fund through a collection of “rules” for how to use the earnings each year, including formulas for: (1) withdrawals from the ERA (draw formula), (2) transfers back to the corpus (inflation proofing mechanism), and (3) the dividend (dividend formula).

(2) **Stabilize the Budget**: To mitigate the dramatic swings in general fund revenue, the bill proposes that as oil revenues go up the amount withdrawn from the permanent fund would go down. The PFPA does this with a two-part draw formula: First, a POMV formula establishes a maximum annual withdrawal; Then, a “draw limit” reduces that amount (except for the part that goes to dividends) by one dollar for every dollar of oil and gas revenues over $1.2 billion.

(3) **Protect the Dividend**: To ensure the dividends are sustainable, the PFPA proposes:
(1) a $1,000 dividend for the next two years and (2) thereafter, appropriating 20% of the full POMV draw plus 20% of oil and gas royalties to the dividend each year. This formula is expected to produce dividends around $1,000 going forward.

(4) **Protect the Permanent Fund**: To ensure the use of the fund is sustainable, the rules are designed to allow the fund (both the corpus and the fund as a whole) to grow in pace with inflation over the long term. Protecting and growing the purchasing power of the fund ensures that it can provide the same value to future Alaskans as it does today.

(5) **Maximize use of Earnings Reserve**: The permanent fund cannot sustainably close the gap on its own; other measures are needed (new revenues or budget cuts). Withdrawing less than the maximum sustainable amount from the ERA reduces the options for achieving a fully funded fiscal solution. Absent a full fiscal solution the durability of any plan is put in jeopardy from unplanned, unsustainable withdrawals.

The PFPA plays a central role in correcting the structural imbalance in our fiscal framework. But, more than helping to resolve this year’s fiscal challenge, it would end four decades of boom-and-bust budgeting (and the damaging impact of those cycles on the broader state economy) setting Alaska on a path to greater economic prosperity.