



HB 306: A PATH FORWARD

For the House Finance Committee

"Members agree that the Permanent Fund must be protected [...] so that future generations of Alaskans may benefit from it."

PERMANENT FUND
WORKING GROUP REPORT
JANUARY 2020

GOALS FOR ALASKA

*HOW CAN WE HELP
ALASKANS SUCCEED?*



Safe, Healthy
Communities




Thriving
Private Sector



Lean, Efficient
Government



Strong, Growing
Permanent Fund



WHY PROTECT THE PERMANENT FUND?

PAST

Historic investments in the fund have allowed it to grow from the initial royalty deposit of \$734,000 in 1977 to over \$68 Billion as of February 2020.

PRESENT

Through the Percent of Market Value formula, a sustainable draw of fund's earnings provide funding for essential services and the dividend.

FUTURE

Along with providing for the dividend program to continue, the fund will maintain the state's creditworthiness and fiscal solvency as it grows to over \$85 Billion by 2030.

GOALS FOR ALASKA

**HOW DOES A STRONG
PERMANENT FUND
SUPPORT THESE
GOALS?**



Safe, Healthy
Communities

**Permanent Fund
earnings help fund
essential state
services**



Thriving
Private Sector

**Use of earnings
keeps the tax burden
low for Alaskans and
demonstrates fiscal
stability to investors**



Lean, Efficient
Government

**POMV spending cap
creates downward
pressure on the
budget and constrains
government growth**



Strong, Growing
Permanent Fund





HOW HAVE WE BEEN FUNDING SERVICES?

1912 THROUGH BEGINNING OF STATEHOOD

No oil money yet, most funding came from industry taxes and an income tax which funded a very small government structure

1977 THROUGH 2013

Oil revenues flow into Alaska after TAPS comes online, and state services are funded by oil revenue and other industry revenues. The income tax was repealed in 1980.

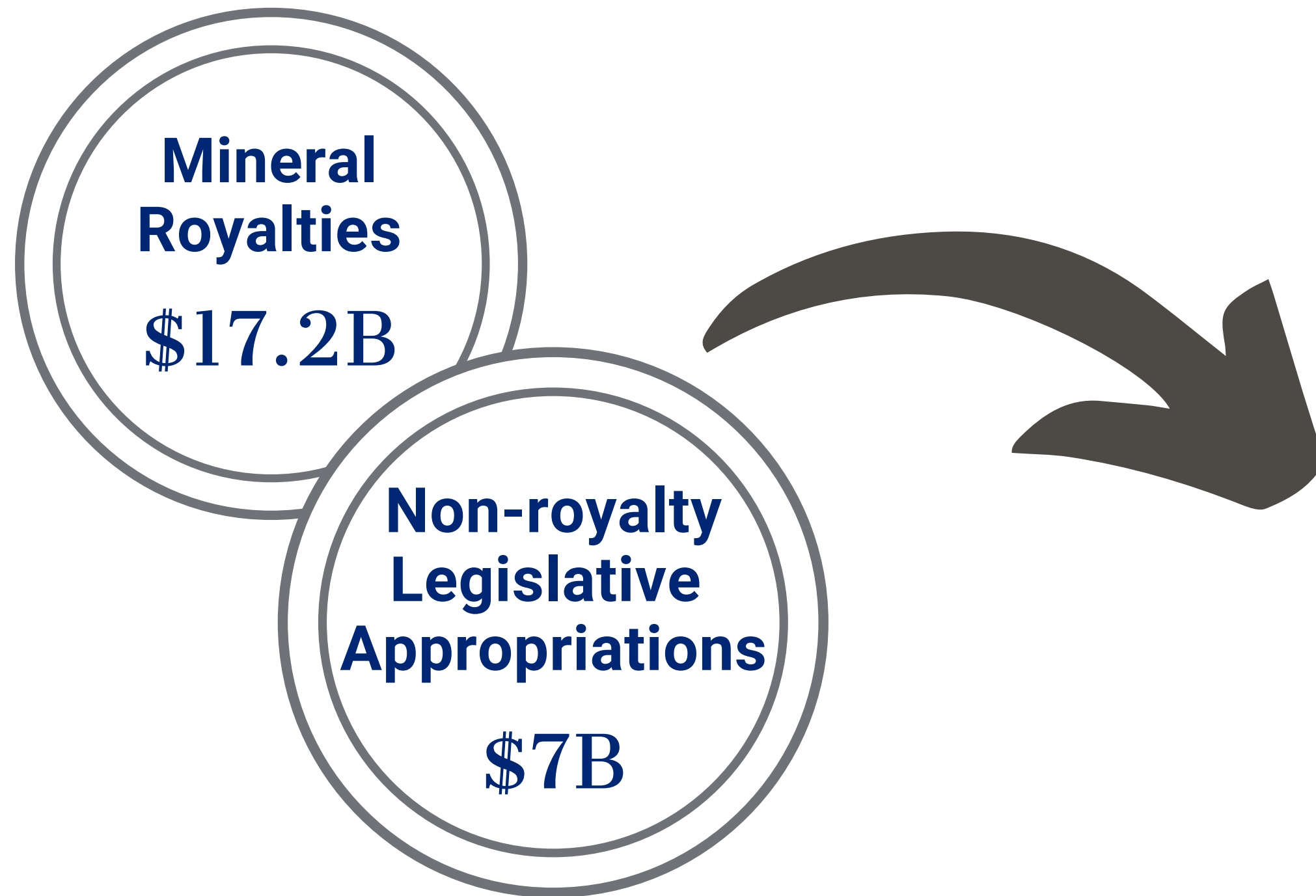
2013 THROUGH 2017

Oil prices drop dramatically, and Alaska spends over \$14 Billion from savings while making significant budget cuts

2018 THROUGH TODAY

Permanent Fund earnings are used to supplement revenues from oil taxes and other revenue sources, and budget cuts continue

Deposits into the Permanent Fund have allowed it to grow:



\$66.7 Billion

Earnings Reserve
Account

Principal

Deposits into
the Fund

Permanent Fund

HOW DOES THE POMV WORK?

APFC calculates the total value of the Permanent Fund - principal & earnings

APFC calculates 5.25% of the Fund's value over the first 5 of the last 6 years

That amount becomes the maximum amount the state can spend from the ERA

The Legislature appropriates that amount to pay for PFDs and state services

Note: the POMV is set at 5.25% for FY19-FY21 and 5% thereafter

HOW CAN WE KEEP THE PERMANENT FUND STRONG?

SPENDING CAP

Prevent the Fund's erosion by enforcing the spending cap established in Senate Bill 26

SUSTAINABLE PFD

Pay out a dividend amount that does not require overdrawing the Earnings Reserve Account

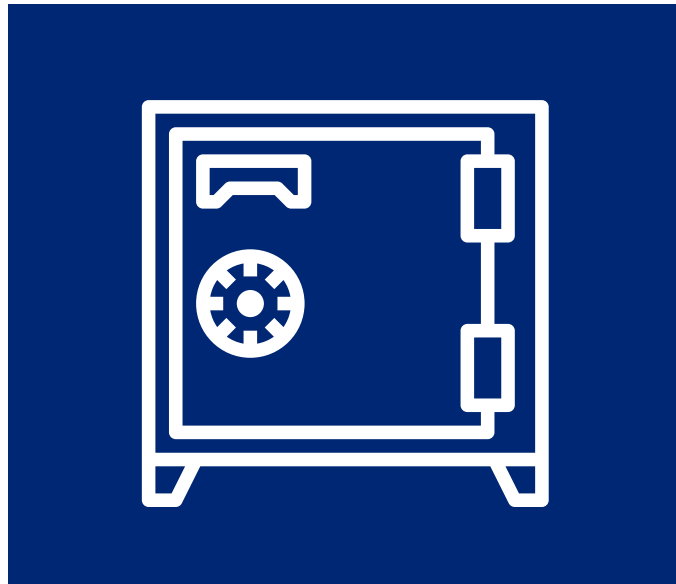
APFC SUPPORT

Support the efforts of our AK Permanent Fund Corp. team to make the investments needed to grow the Fund

FUND GROWTH

Inflation-proof the Fund to prevent its value from diminishing

WHY ACT NOW?

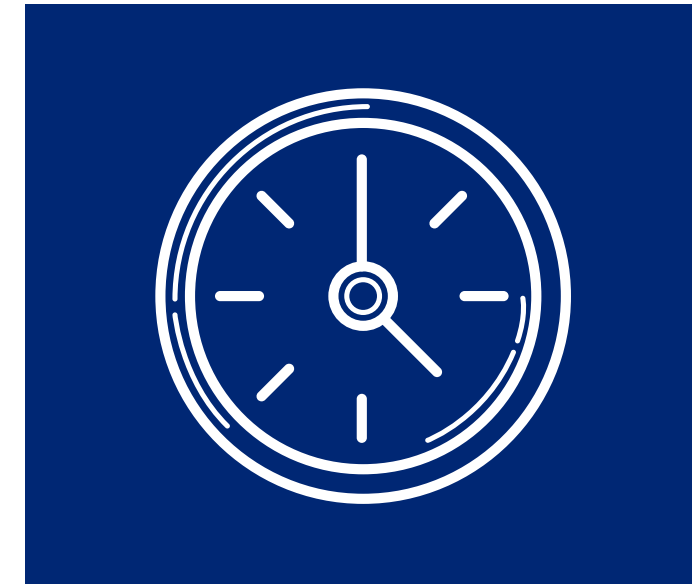


The SBR was drained in FY 20 and the remaining CBR balance is insufficient for even short-term reliance



Oil prices are predicted to be below \$65 through 2025, and are currently \$44

(March 6, 2020)

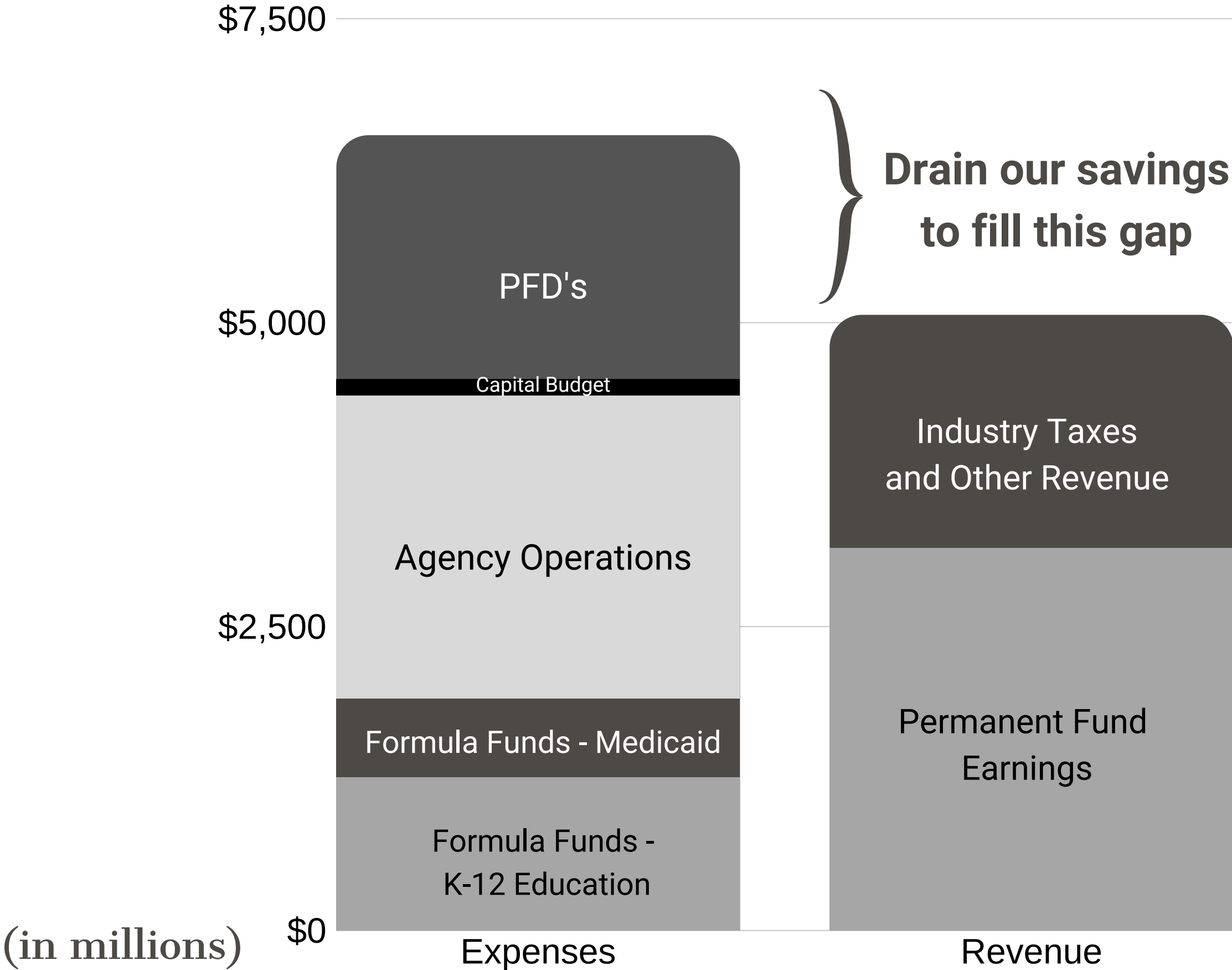


New revenue measures could take two or more years to implement

WHY CHANGE OUR STATUTES?

There exists a
mathematical
tension between:

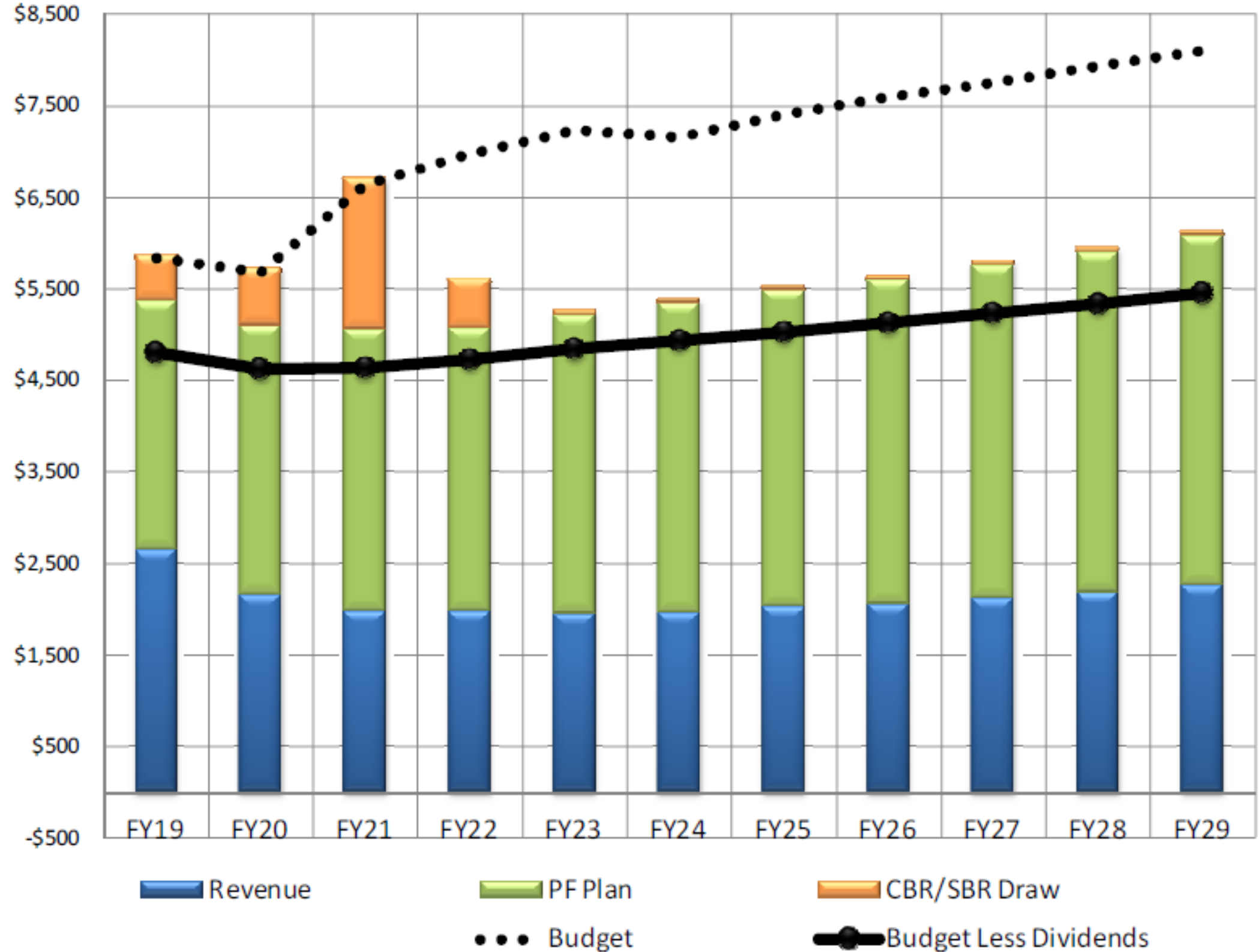
REVENUES & COSTS



Governor's FY21 Budget

STATUS QUO:

UGF Revenue/ Budget
(\$ millions)



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HOUSE BILL 306

ELEMENTS OF THE PLAN

POMV SPLIT

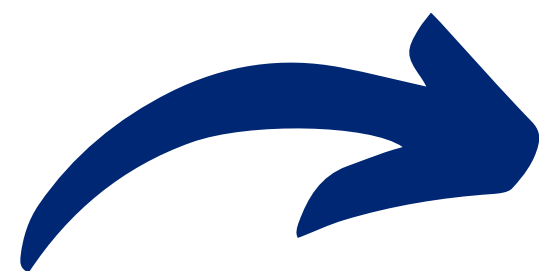
80/20 SPLIT OF THE
REVENUE FROM THE
EARNINGS RESERVE

PERMANENT FUND TASK FORCE

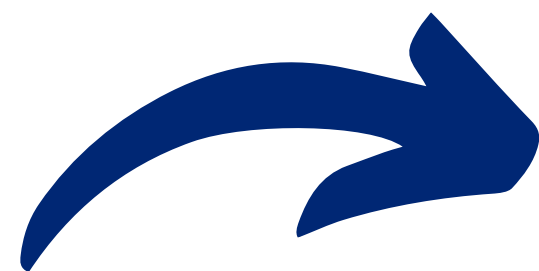
REVIEW OF THE
EFFECTIVENESS OF
THE PLAN

FOCUS ON: 80/20 POMV SPLIT

POMV
Draw=
\$3.1 B
in FY21



80% goes to fund state obligations, like education, public safety, and transportation



20% goes to fund PFDs

FOCUS ON: PERMANENT FUND TASK FORCE

By September 30, 2026 the Task Force will provide a report including:

- Review & evaluation of the Permanent Fund & PFD
- Recommendations for a future sustainable PFD calculation

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Appointees from the House

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Appointees from the Senate

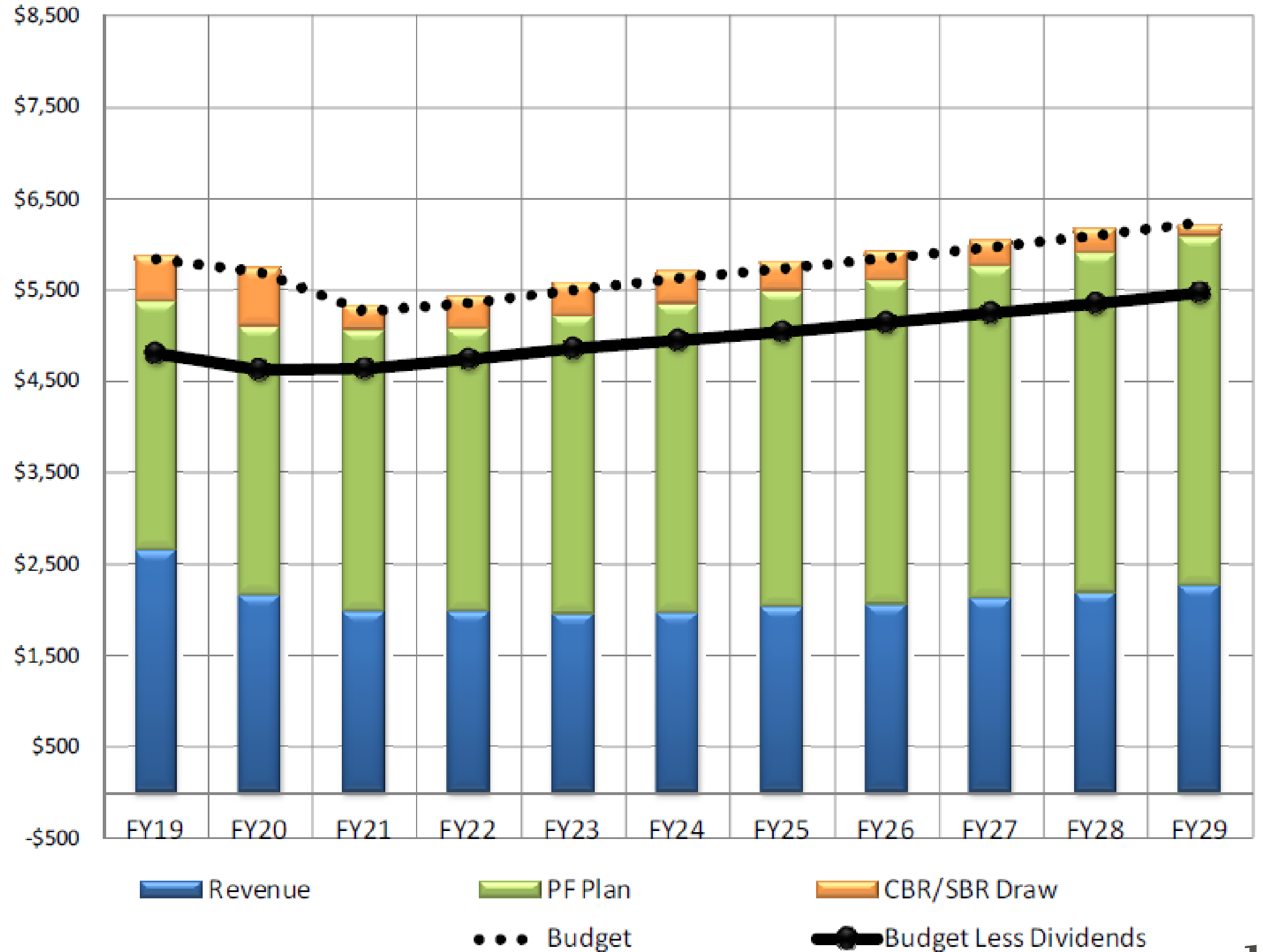
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Appointee from the Governor

STATE BUDGET IMPACTS

HOW DOES THIS PLAN PERFORM?

UGF Revenue/ Budget (\$ millions)

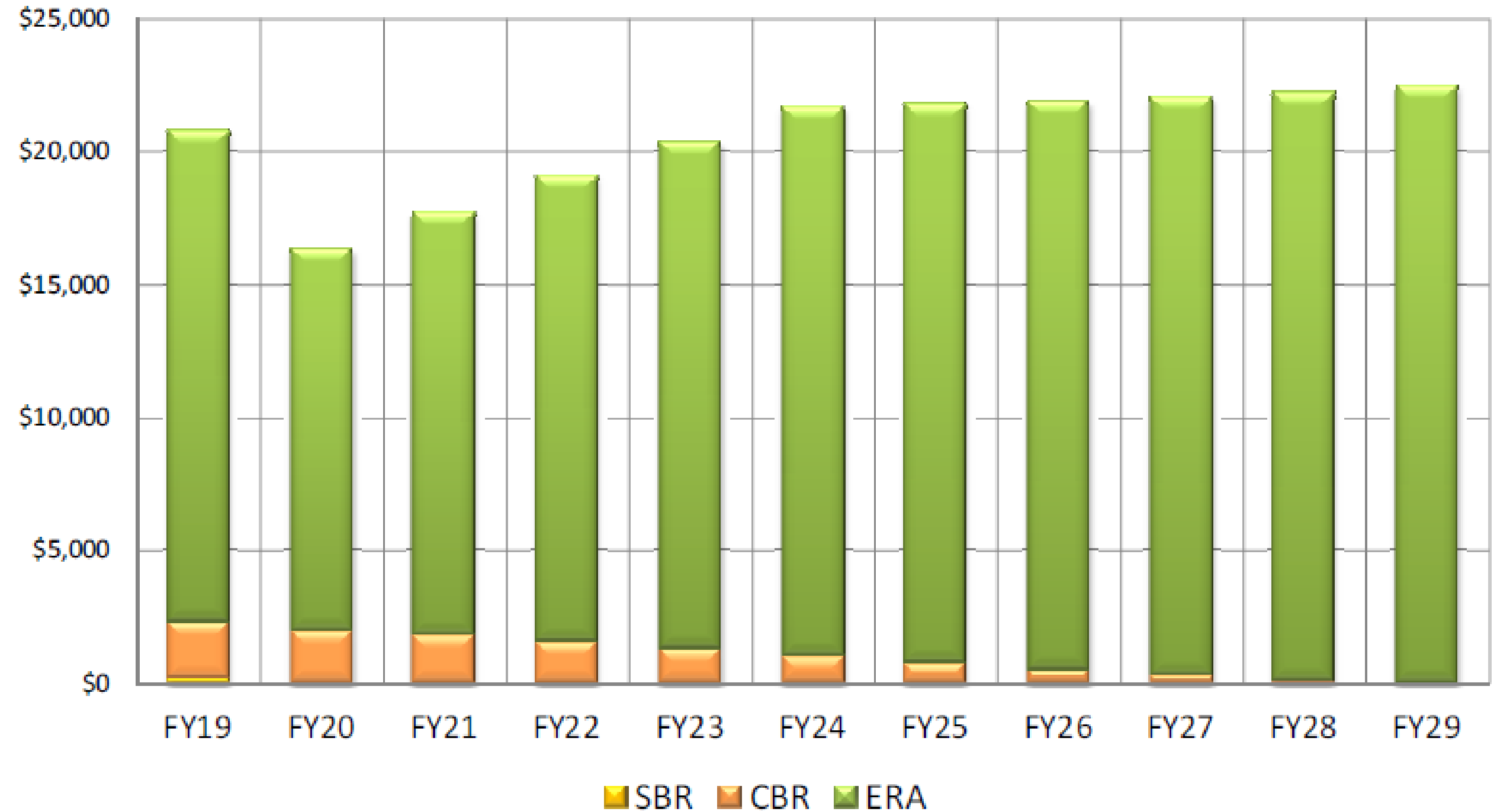


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STATE SAVINGS IMPACTS

HOW DOES THIS PLAN PERFORM?

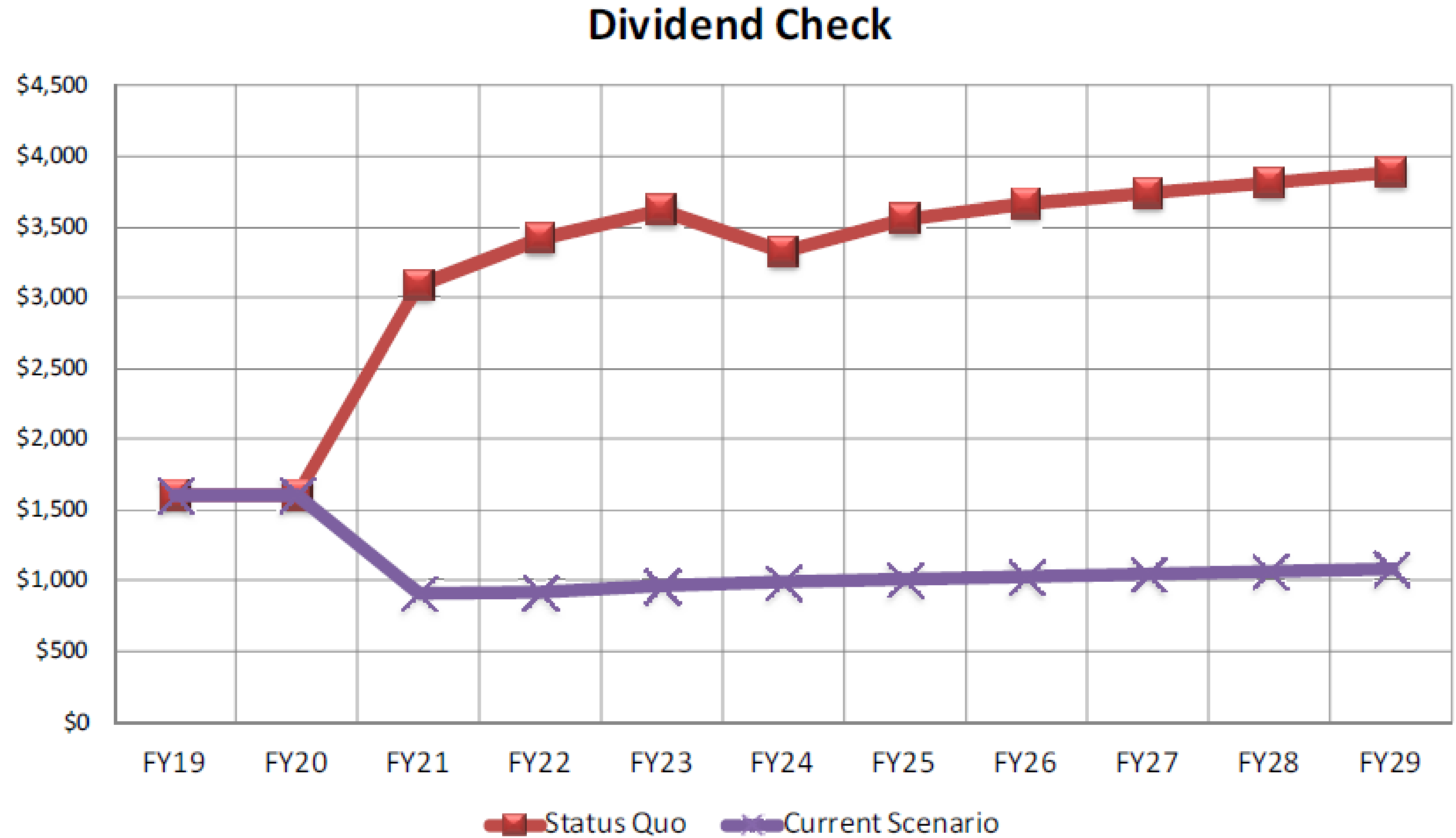
Budget Reserves FY Ending Balance



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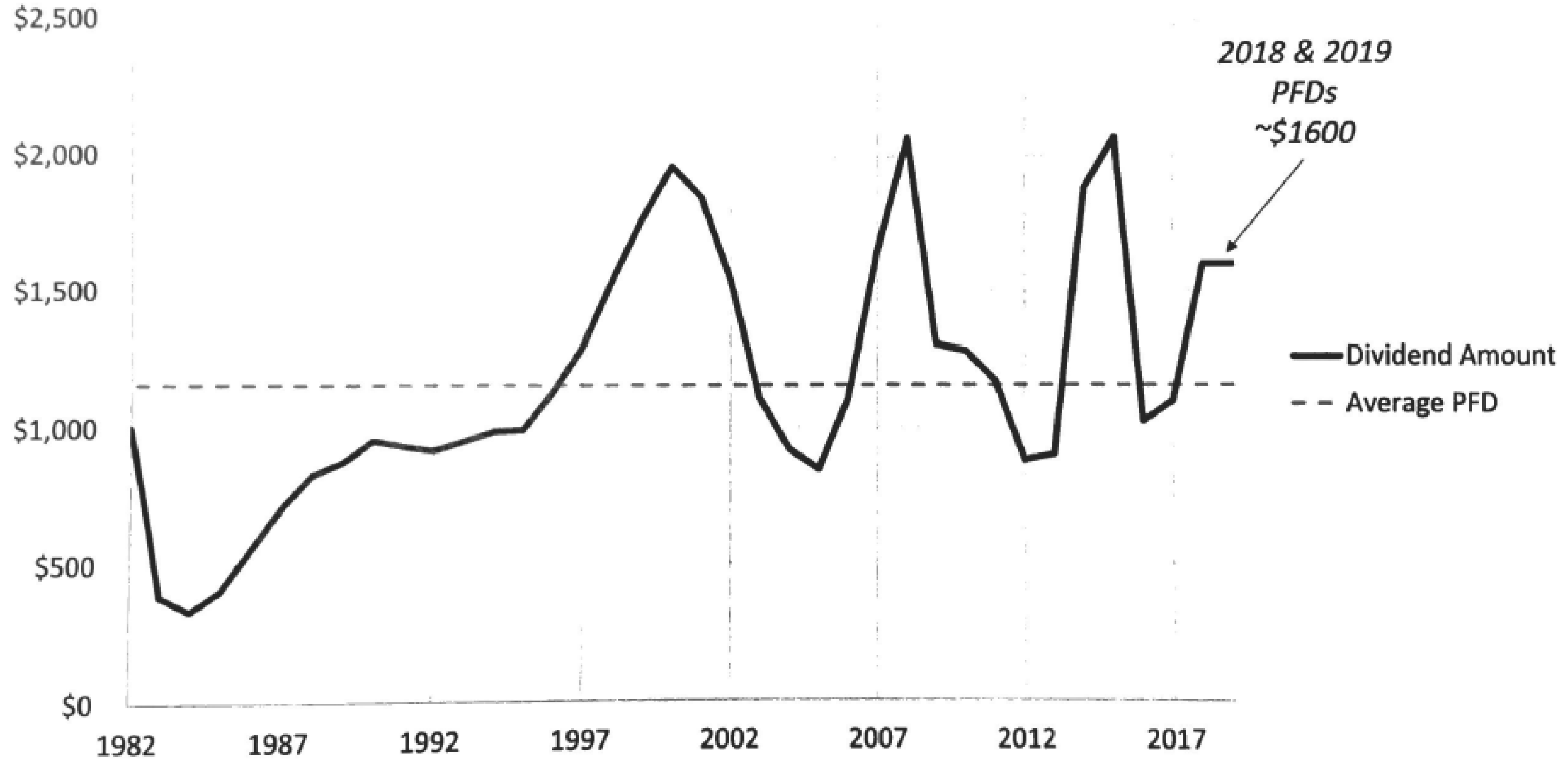
DIVIDEND IMPACTS

WHAT WILL BE THE SIZE OF THE PFD?



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PAST PFD AMOUNTS



\$1,170

AVERAGE PFD AMOUNT
VS.

\$900

2020 PFD AMOUNT ESTIMATED
IN HB 306



HB 306 MOVES US FORWARD

- Currently, every dollar spent on the PFD competes with a dollar spent on state services, and vice versa
- HB 306 creates a baseline from which we can discuss further budget reductions or new revenues, if needed
- HB 306 creates stable, predictable funding for state services and a sustainable, consistent PFD amount, inline with the historical average
- HB 306 requires a 6-year review to ensure the plan is working for Alaskans and the Permanent Fund
- Passage of HB 306 signals to the private sector and credit ratings agencies that Alaska has a stable investment climate

DECISIONS TO BE MADE:

SPENDING PRIORITIES

Should the size of the dividend continue to dictate the structure of the state budget and amount in our savings accounts?

SUSTAINABILITY OF PFD AND PERMANENT FUND

What steps are we willing to make today that will allow future generations to enjoy the benefits of the Permanent Fund and the dividend?

OTHER REVENUE OPTIONS

Are Alaskans interested in paying increased taxes to fund the PFD?

**Thank
You**

