

Permanent Fund Statutory Changes CS SB53 (JUD)

Senate Finance Committee September 10, 2021

Department of Revenue
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Governor
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Agenda

- 1. Basic Elements of the Bill**
- 2. Senate Judiciary Intent Language**
- 3. SB53 Mechanics**
- 4. Sectional Analysis**

Basic Elements of the Bill

- **Provides an equitable PFD distribution for Alaskans: 50% of the POMV Draw**
- **Provides for a structured approach to drawing from the Permanent Fund in the constitution – Transition period with one-time fiscal measure (2-year structured draw)**
- **Makes the PFD change conditioned on constitutional protection of the Permanent Fund.**

Legislative Intent Added By Senate Judiciary

- (1) implement the recommendations of the 2021 Comprehensive Fiscal Plan Working Group;**
- (2) Address the conflict between POMV and Statutory PFD calculations**
- (3) One-time fiscal measure, leveraging unprecedented earnings currently available in the ERA**
- (4) Revert back to current law in the event of a failure of a Comprehensive Fiscal Plan.**

Mechanics of CS SB53 (JUD)

- Each year the legislature may appropriate **at least 50%** of the 5% POMV for PFDs
- Each year the legislature may appropriate **up to 50%** of the 5% POMV for Government

POMV Calculation (\$Millions)					
	5% POMV		6.5% POMV		Difference
FY2022 POMV	\$	3,069.3	\$	3,990.1	\$ 920.8
FY2023 POMV	\$	3,360.6	\$	4,368.8	\$ 1,008.2

Effective Draw	5% POMV	6.5% POMV	Difference
PY Market Value	\$ 81,099.0		
FY2022 Effective Draw	3.8%	4.9%	1.1%
FY2023 Effective Draw	4.1%	5.4%	1.2%

- The above transfers shall not exceed the 5% POMV amount
 - Except – For FY2022 & FY2023 the POMV will be 6.5%

Mechanics of CS SB53 (JUD)

	2022 (Enacted)		2022 (With SB53)		FY22 (With SB53 and Current Prices)
Baseline Revenue	\$	1,662	\$	1,662	\$ 1,662
POMV	\$	3,069	\$	3,069	\$ 3,069
Additional 1.5% POMV	\$	-	\$	921	\$ 921
Oil Price Update	\$	-	\$	-	\$ 374
Total Revenue	\$	4,732	\$	5,652	\$ 6,026
Agency Operations	\$	3,903	\$	3,903	\$ 3,903
Statewide	\$	360	\$	360	\$ 360
Capital	\$	240	\$	240	\$ 240
Transfers	\$	(316)	\$	(316)	\$ (316)
PFD	\$	1,535	\$	1,535	\$ 1,535
Total Spend	\$	5,721	\$	5,721	\$ 5,721
Deficit	\$	(990)	\$	(69)	\$ 305

- With a 2-year measure – the budget comes close to being balanced.
- Withdrawn amendment would have reduced the POMV for a period of 5 years to “pay-back” the fund

Mechanics of CS for SB53 (JUD) – Conditional Effects

- The bill is designed to run in tandem with a constitutionally protecting the Permanent Fund and the PFD
- This 50/50 PFD change only effective if the voters approve a **Constitutional** fix at the ballot box **AND** at least \$160 million in revenue measures is enacted into law by the 32th legislature.
- The intent of the conditional effective dates is to ensure a **complete** fiscal plan is enacted per the fiscal working group recommendations

Mechanics of CS for SB53 (JUD) – 1.5% Additional Temporary Draw

- A one time draw from the Permanent fund to ensure the Fund is permanently protected in the Constitution.
- Permanent Fund Earnings ~\$18.6 billion
- Buys valuable time for measures to be implemented
- Dr. Malan Rietveld, Sovereign Wealth Fund Expert: Author of Trustee Paper 9
 - Ensuring the long-term sustainability of an endowment is far more important than an over-draw in any one particular year
- Other endowments are considering one-time increases in draws to capitalize on exceptional market performance:
 - Harvard's \$42 billion endowment increased from 5% to 7.5% on one-time basis
 - <https://www.thecrimson.com/article/2021/5/3/draw-further-endowment-fy22/>
 - <https://www.nytimes.com/2020/06/02/arts/endowments-coronavirus.html>

Dr. Malan Rietveld:

- Alaska enjoys a number of critical structural advantages
- Big reforms have been made: income- and stabilization functions established
- Time to invest in infrastructure, mechanisms and institutions that ensure this transition – which is permanent – enjoys Constitutional certainty
- The ERA created unnecessary political and financial risks under POMV
- No compelling reasons to have the ERA, if one move away from earnings-based spending rule
- Ensure unanticipated future revenue windfalls aren't immediately spent, but rather grow the PF or replenish other fiscal buffers
- For example, spending caps, oil-price trigger, supplementary windfall savings rule
- A bridge period is needed as Alaska transitions to a system with Constitutionally protected savings and spending
- The bridge should be comprehensive, with all available options on the table
- One-time higher draws do happen, Key is having a credible commitment mechanism to sustainability and rule-based constraint

*Malan Rietveld: <http://www.akleg.gov/basis/Meeting/Detail?Meeting=SJUD%202021-08-30%2010:00:00>



Permanent Fund Dividend: Certainty

- **Alaskans and Businesses deserve certainty concerning annual PFD payment.**
- **State needs PFD consistency to attain budget stability and sustainability.**
- **Absent certainty, determining future achievable revenues/reductions are difficult and may result in over/under collecting/taxing.**
- **50% POMV dividend is an equitable distribution of Alaska's wealth between its citizens and government.**
- **Resolving the PFD allows a discussion of required revenues/reductions to close the remaining budget gap.**
- **Redirects the legislative conversation to growing Alaska vs. debating PFD.**

Questions?