

Fiscal Note

State of Alaska
2023 Legislative Session

Bill Version: HB 160
 Fiscal Note Number: _____
 () Publish Date: _____

Identifier: HB160-DOR-APFC-04-17-23
 Title: PERMANENT FUND CALCULATION
 Sponsor: WAYS & MEANS
 Requester: (H) W&M

Department: Department of Revenue
 Appropriation: Alaska Permanent Fund Corporation
 Allocation: APFC Operations
 OMB Component Number: 109

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2024	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2024 Request	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
OPERATING EXPENDITURES	FY 2024	FY 2024					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2023) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2024) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version/comments:

Initial version, not applicable.

Prepared By:	Michael Barnhill, Chief Operations Officer	Phone:	(907)796-1540
Division:	Alaska Permanent Fund Corporation	Date:	04/17/2023
Approved By:	Deven Mitchell, Executive Director and Chief Executive Officer	Date:	04/17/23
Agency:	Alaska Permanent Fund Corporation		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2023 LEGISLATIVE SESSION

BILL NO. HB160

Analysis

HB 160 amends the statutory percent of market value (POMV) distribution formula that was enacted by SB 26 (2018). The original POMV distribution formula provided for an annual distribution from the Permanent Fund of 5% of the lagging five year average market value of the Permanent Fund. HB 160 proposes to replace the static 5% distribution factor with a formula that calculates the distribution factor based on the lagging 20 year average real rate of return. The real rate of return is calculated by taking the annual nominal rate of return and subtracting the average inflation for that fiscal year.

The benefit of the HB 160 modification to the POMV formula is that in periods of inflation where the real return does not exceed five percent, the distribution factor may reduce below five percent, thus protecting the permanent fund from inflation through smaller distributions. Conversely, in periods of low inflation where the real return exceeds five percent, the distribution factor may go above five percent potentially without impairing the purchasing power of the permanent fund. Averaging over a rolling 20 year period serves to make such reductions or increases gradual because of the long period of smoothing.

Note that current law requires that inflation for purposes of inflation proofing the permanent fund be computed on an average calendar year basis (AS 37.13.145(c)). The APFC has kept track of the Permanent Fund's real rate of return by applying the previous calendar year average inflation to the fiscal year nominal return. This results in a modestly lagged (6 months) real rate of return.

If HB 160 were enacted into law, the geometric average real rate of return (FY2003-FY2022) for purposes of calculating the FY2024 POMV distribution would be 5.32%, assuming the APFC were to continue to use calendar year inflation. If fiscal year inflation is used as specified by HB 160, the distribution factor reduces to 5.18%, primarily because of the high rate of inflation in the first six months of 2022.

Note, APFC will interpret the use of the word "average" when modifying the phrase "real rate of return" to mean "geometric average", which is the mathematically appropriate approach when calculating average rates of return over multiple time periods.

Also note, since the Amerada Hess portion of principal is commingled for purposes of investment, the returns attributable to these funds is identical. The language relating to Amerada Hess funds in AS 37.13.140(b)(1) may simply be deleted. The bill makes clear that the formulaic distribution factor is applied to the balance of the permanent fund, less the Amerada Hess funds.