Alaska State Legislature

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House Ways and Means

HOUSE BILL 160

POMV Calculation Adjustment

"An act relating to the calculation of the amount available for appropriation from the Alaska permanent fund."

Sponsor Statement

The 28th legislature passed SB 26, which limits the draw from the earnings reserve account to a percent of market value (POMV). In setting the POMV rate, the legislature considered the earnings target of the corporation, which is 5% plus inflation. The legislature also wanted to reduce volatility stemming from a changing market value. The solution in the bill was to use a five-year rolling average.

Since its passage, observers of the budget process have identified two potential problems with the current approach. First, the spending rule in place is based on a target rather than actual performance. Consequently, the rate may be set too high or too low. If actual performance is below the target, the spending rule does not allow the fund to keep up with inflation. If actual performance is above the target, the spending rule forces those sustainable additional revenues into savings rather than allowing them to balance the budget.

Second, the fund is designed to grow as mineral deposits and inflation proofing transfers are made. Therefore, the five-year average value is almost always less than the current market value. By applying the 5% POMV to the smaller value, the resulting draw is less than the 5% target. This designed "under-draw" requires the fund to grow by more than inflation if the fund hits its target or better.

A spending rule that does not account for actual performance exposes the state to risk if performance is bad and forces savings at the expense of greater needs for those funds if performance is good. The legislature has the power of appropriation and oversees how to manage its revenues. This includes all earnings from the Permanent Fund. This bill corrects the narrative around a sustainable, structured draw from the earnings reserve account. It moves the state's spending rule to be adaptive to changing market conditions in real time.