ALASKA STATE LEGISLATURE

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Official Business

Sponsor Statement
Senate Bill 107

Establishing a new formula for the division of the annual Percent of Market Value draw from the Permanent Fund and the Permanent Fund dividend.

Senate Bill 107 was introduced to continue the discussion about a long-term sustainable solution for the State of Alaska, and how the annual Percent of Market Value (POMV) from the Permanent Fund plays a role in our fiscal stability. SB 107 establishes a split for the annual POMV draw, with 75% remaining in the General Fund and 25% appropriated to pay Permanent Fund dividends.

The Permanent Fund was initially set aside for when oil would no longer be able to cover all the state's budgetary needs. When Senate Bill 26 passed in 2018, establishing the POMV formula for using Permanent Fund earnings, the legislature accepted that this time had come. However, SB26 did not update the 1980s dividend formula. SB107 would replace that formula.

Not having a PFD formula creates uncertainty in the budgeting process. The POMV was passed in part to stabilize the state's revenue. But if the dividend amount is unknown until late in session, the remaining POMV draw going to the General Fund is also unknown. Without knowing how much revenue is available, it is difficult to make budget decisions.

Also, a PFD based on a percentage of the POMV adds stability to both the budget and the dividend. The POMV is based on the overall value of the Permanent Fund, which is relatively stable and predictable. In contrast, the current statutory dividend formula is based on Permanent Fund earnings, which are much more volatile. If the general fund portion of the annual POMV payout is "whatever is left" after funding a volatile dividend, all that revenue volatility is transferred to the general fund – compounding fiscal uncertainty.

Over the last six years this lack of consensus on the split of the POMV has put the legislature in a precarious position of formulating the state's Operating and Capital budget without knowing what revenues were available to do so. Based on projections, a 75-25 split balances our budget into the future without needing new revenue sources and is the best starting point for a long term, sustainable state budget and dividend solution.