

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS & MEANS

April 15, 2003

7:02 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Jim Whitaker, Co-Chair
Representative Norman Rokeberg
Representative Bruce Weyhrauch
Representative Peggy Wilson
Representative Max Gruenberg
Representative Carl Moses

MEMBERS ABSENT

Representative Cheryll Heinze
Representative Vic Kohring

OTHER LEGISLATORS PRESENT

Representative Dan Ogg
Representative Paul Seaton
Representative Reggie Joule

COMMITTEE CALENDAR

PERMANENT FUND: POMV METHODOLOGY

TAPES

03-5, SIDES(S) A & B
03-6, SIDE A

CO-CHAIR MIKE HAWKER convened the meeting of the House Special Committee on Ways & Means at 7:02 a.m. Representatives Hawker, Whitaker, Rokeberg, Weyhrauch, Wilson, Gruenberg, and Moses were present at the call to order. Also in attendance were Representatives Ogg, Seaton, and Joule.

SUMMARY OF INFORMATION

BOB STORER, Executive Director, and BOB BARTHOLOMEW, Chief Operating Officer, Alaska Permanent Fund Corporation (APFC), introduced themselves and described the APFC's resolution for a

proposed constitutional amendment to inflation-proof the permanent fund.

MR. STORER and MR. BARTHOLOMEW explained the POMV (percentage of market value) methodology. They described how the formula approach was based on taking a five-year average of the total fund value to determine the size of payouts from large investment funds while still providing protection against inflation. The proposed amendment limits the amount to be appropriated to 5 percent. A 5 percent payout is at the high end of what is achievable for the fund, is the maximum sustainable payout rate that still maintains the fund's real value and allows greater distributions over time than a higher payout. The APFC expects an average annual return to be 8 percent. If 3 percent is retained for inflation, then 5 percent would be available for distribution.

MR. STORER and MR. BARTHOLOMEW discussed the reasons why a POMV formula is the most effective way to inflation-proof the fund. They stated that setting a POMV distribution percentage (5 percent) assists the fund's investment policy by establishing a specific return goal. It also implements a spending rule similar to other large mature investment/endowment funds. The POMV method more effectively smoothes the year-to-year payout volatility and simplifies the inflation-proofing procedure. This is very important to the economy and in budget planning. There are other advantages to the POMV method. It preserves the fund's purchasing power, maximizes distributions over the long-term, minimizes fluctuations in annual payouts, and allows an opportunity to update existing income and distribution statutes.

MR. STORER noted that the POMV methodology refers to the way in which the APFC calculates the annual amount of monies available to the legislature for appropriation. POMV includes unrealized gains and losses in calculating net income. The current method does not. The POMV method raises a few questions. Does the APRC operating and investment expenses come out of the 5 percent distribution? Is it necessary to maintain the principal and earnings reserve distinction or convert the fund into a single pool of money?

ANNOUNCEMENTS

There were no announcements.

COMMITTEE ACTION

The committee took no action.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways & Means was adjourned at 9:00 a.m.

NOTE: The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the House Records Office at State Capitol, Room 3, Juneau, Alaska 99801 (mailing address), (907) 465-2214, and after adjournment of the second session of the Twenty-Third Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.