

SENATE FINANCE COMMITTEE
THIRD SPECIAL SESSION
September 8, 2021
1:01 p.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 1:01 p.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson [via teleconference]
Senator Bill Wielechowski [via teleconference]
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division;
Conor Bell, Fiscal Analyst/Economist, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Emily Nauman, Deputy Director, Legislative Legal Services, Alaska State Legislature.

SUMMARY

PRESENTATION: LEGISLATIVE LEGAL SERVICES - PERMANENT FUND LAW

PRESENTATION: LEGISLATIVE FINANCE DIVISION - PERMANENT FUND "WHAT IF" SCENARIOS

Co-Chair Stedman discussed the agenda.

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AT EASE

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RECONVENED

^PRESENTATION: LEGISLATIVE LEGAL SERVICES - PERMANENT FUND
LAW

[1:03:49 PM](#)

EMILY NAUMAN, DEPUTY DIRECTOR, LEGISLATIVE LEGAL SERVICES, ALASKA STATE LEGISLATURE (via teleconference), discussed the presentation "Permanent Fund Law" (copy on file). She reminded that the Division of Legal Services provided bill drafting services, legal advice, and opinions to the Alaska State Legislature, and was a non-partisan division of the Legislative Affairs Agency. She relayed that the material being presented was a shortened version of a presentation she given to the Permanent Fund Working Group in 2019. The original presentation had contained more history as well as more information regarding eligibility requirements. She encouraged anyone interested in the original material to access the presentation through the legislative archives.

Ms. Nauman showed slide 2, "Permanent Fund Law":

- Constitution of the State of Alaska
- AS 37.13
 - Summary of Statutes
 - AS 37.13: A Visual Guide
- AS 43.23
- Wielechowski v. State
- Questions

Ms. Nauman noted that Permanent Fund statutes were broken into two areas of law. There had been changes to the statutes and she looked forward to preparing a new document with all the relevant statutes.

Ms. Nauman looked at slide 3, "Constitution of the State of Alaska":

Article IX, Section 15

Section 15. Alaska Permanent Fund. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

Ms. Nauman noted that Article IX, Section 15 created the Permanent Fund and set out the constraints for the use of the principal and income.

Ms. Nauman turned to slide 4, "Constitution of the State of Alaska":

Article IX, Section 15: Principal Concepts:

At least twenty-five percent of all [mineral revenue] received by the State shall be placed in a permanent fund

the principal [of the fund] shall be used only for ... income-producing investments

All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

Ms. Nauman displayed slide 5, "AS 37.13: Alaska Permanent Fund and Corporation."

Ms. Nauman reviewed slide 6, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.010. Alaska permanent fund.(a) Under art. IX, sec. 15, of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of (1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS

38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980; (2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980; and (3) any other money appropriated to or otherwise allocated by law or former law to the Alaska permanent fund. (b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund within three banking days after the day the amount due to the fund reaches at least \$3,000,000 and at least once each month. (c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter. (§5 ch18 SLA 1980; am §2 ch134 SLA 1992; am §§1 -4 ch22 SLA 2003)

Ms. Nauman referenced slide 7, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.010(a): Principal Concepts:

The Alaska permanent fund consists of

- (1) 25 percent of all mineral revenue and bonuses from mineral leases issued on or before December 1, 1979/February 15, 1980;
- (2) 50 percent of all mineral revenue and bonuses mineral leases issued after December 1, 1979/February 15, 1980; and
- (3) any other money appropriated to or otherwise allocated by law or former law to the Alaska permanent fund.

Article IX, Section 15, Constitution of the State of Alaska: At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund. . .

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Ms. Nauman spoke to slide 8, "Alaska Permanent Fund and Corporation

Sec. 37.13.020. Findings. Principle Concepts: The legislature finds with respect to the fund that

- (1) the fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;
- (2) the fund's goal should be to maintain safety of principal while maximizing total return;
- (3) the fund should be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law.

(§5 ch18 SLA 1980; am §3 ch134 SLA 1992)

This statute remains substantially the same as enacted in 1980.

Ms. Nauman discussed slide 9, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.030. Purpose. It is the purpose of AS 37.13.010 -37.13.190 to provide a mechanism for the management and investment of those fund assets by the Alaska Permanent Fund Corporation in a manner consistent with the findings in AS 37.13.020.

(§5 ch18 SLA 1980; am §7 ch66 SLA 1991; am §4 ch134 SLA 1992)

This statute remains substantially the same as enacted in 1980.

Ms. Nauman turned to slide 10, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.030. Purpose of the Alaska Permanent Fund Corporation (APFC)

Sec. 37.13.040. Establishes APFC.

Sec. 37.13.050. Composition, qualifications of the Board of Trustees, APFC.

Sec. 37.13.060. Terms of office for the Board of Trustees of APFC.

Sec. 37.13.070. Removal of APFC board members; vacancy provisions.

Sec. 37.13.080. Quorum and voting of the APFC.
Sec. 37.13.090. Compensation of board members.
Sec. 37.13.100. Staff authorization.
Sec. 37.13.110. Conflicts of interest, APFC.
Sec. 37.13.120. Investment responsibilities.

Ms. Nauman thought the committee would not address the details of the statutes listed on slide 10, and offered to provide more detail at a later time if necessary.

Ms. Nauman spoke to slide 11, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.140. Income.(a) Net income of the fund includes income of the earnings reserve account established under AS 37.13.145. Net income of the fund shall be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals 21 percent of the net income of the fund for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the fund for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145.

(b) The corporation shall determine the amount available for appropriation each year. The amount available for appropriation is 5.25 percent of the average market value of the fund for the first five of the preceding six fiscal years, including the fiscal year just ended, computed annually for each fiscal year in accordance with generally accepted accounting principles. In this subsection, "average market value of the fund" includes the balance of the earnings reserve account established under AS 37.13.145, but does not include that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District). (§5 ch18 SLA 1980; am §8 ch81 SLA 1982; am §1 ch28 SLA 1986; am §18 ch134 SLA 1992; am §1 ch16 SLA 2018)

Ms. Nauman emphasized that AS 37.13.140 was extremely important to consider.

Ms. Nauman showed slide 12, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.140(a): Principal Concepts:

- Income of the fund includes income of the earnings reserve account (ERA).
- Net income of the fund is computed annually as of the last day of the fiscal year
 - in accordance with generally accepted accounting principles
 - excluding any unrealized gains or losses.
- Income available for distribution equals 21% of the net income of the fund for the last five fiscal years, including the fiscal year just ended
 - but may not exceed the net income of the fund for the fiscal year just ended plus the balance in the ERA.

Ms. Nauman noted that AS 37.13.140 (a) set out how to calculate net income. The statute helped the Alaska Permanent Fund Corporation (APFC) and the Department of Revenue (DOR) determine what was net income and available for appropriation by the legislature. Secondly, the statute set out the income available for distribution, which was the first important calculation made for the purpose of determining the Permanent Fund Dividend (PFD) and the amount that could be drawn statutorily from the Earnings Reserve Account (ERA) every year. The calculation was the basis of the "historical dividend calculation," which she would address in greater detail on another slide.

Ms. Nauman looked at slide 13, "Putting it Together," which showed a flow chart of the Permanent Fund statutes. She cited that the blue bubble represented the minimum constitutional requirements of the fund. She discussed the basic structure set up by the constitution, which included AS 37.13.140(a), the calculation for the income available for distribution. The formula was 21 percent of the Permanent Fund average from the last five fiscal years.

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Ms. Nauman turned to slide 14, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.140(b): Principal Concepts:

- The corporation shall determine the amount available for appropriation each year.
- The amount available for appropriation is 5%* of the average market value of the fund for the first five of the preceding six fiscal years, including the fiscal year just ended
 - computed annually for each fiscal year in accordance with generally accepted accounting principles. In this subsection
 - "average market value of the fund" includes the balance of the earnings reserve account established under AS 37.13.145, but does not include that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District).
- *Under 2, ch. 16, SLA 2018, eff. July 1, 2021, this was changed from 5.25% to 5%.

(§5 ch18 SLA 1980; am §8 ch81 SLA 1982; am §1 ch28 SLA 1986; am §18 ch134 SLA 1992; am §1 ch16 SLA 2018)

Ms. Nauman explained that AS 37.13.140(b) was the result of SB 26 [legislation passed in 2018] that introduced another calculation into the amount of money the legislature would consider available for appropriation from the Permanent Fund. She thought it was important to note that for the first three years that 140 (b) was in effect, the percent of market value (POMV) draw was 5.25 percent and on July 1, 2021, the amount had changed to 5 percent.

Ms. Nauman displayed slide 15, "Putting it Together," which showed the same flow chart as slide 13, with the addition of the calculation of the amount available for appropriation. The legislature had the option to appropriate five percent of the average market value of the fund for the last five fiscal years.

Ms. Nauman reviewed slide 16, "AS 37.13: Alaska Permanent Fund and Corporation":

Sec. 37.13.145. Disposition of income: Principle Concepts: (a) The earnings reserve account is established. (b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve

account to the dividend fund, 50 percent of the income available for distribution under AS 37.13.140.

Ms. Nauman referenced slide 17, "Putting it Together," which showed the flow chart with the addition of the amount transferred to the Dividend Fund as shown in AS 37.13.145(b).

Ms. Nauman spoke to slide 18, "AS 37.13: Alaska Permanent Fund and Corporation":

(c) After the transfer under (b) and an appropriation under (e) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund an amount sufficient to offset the effect of inflation on the principal of the fund during that fiscal year. The corporation shall calculate the amount to transfer to the principal under this subsection by

- (1) computing the average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years;
- (2) computing the percentage change between the first and second calendar year average; and
- (3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended, including that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District).

Ms. Nauman noted that the legislative appropriation was not constitutionally mandatory. She understood that the legislature had not made the appropriation in the past.

Ms. Nauman showed slide 19, "Putting it Together," which showed the previous flow chart with the addition of inflation proofing, which took funds from the ERA and put it back into the Permanent Fund, based on the structure proposed by AS 37.13.145(c).

Ms. Nauman turned to slide 20, "AS 37.13: Alaska Permanent Fund and Corporation":

(e) The legislature may not appropriate from the ERA to the general fund a total amount that exceeds the

amount available for appropriation under AS 37.13.140(b) in a fiscal year.*

(e) authorizes money to go from the ERA to the general fund

(f) The combined total of the transfer under (b) of this section and an appropriation under (e) of this section may not exceed the amount available for appropriation under AS 37.13.140(b).

(§9 ch81 SLA 1982; am §2 ch28 SLA 1986; am §19 ch134 SLA 1992; am §§2, 3 ch49 SLA 2005; am §§3 -5 ch16 SLA 2018)

Ms. Nauman explained that subsection (e) authorized money to go from the ERA to the General Fund "in general." Subsection (f) hypothetically capped the amount that the legislature could expend from the ERA to go to the General Fund and dividends.

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Ms. Nauman displayed slide 21, "AS 37.13: Alaska Permanent Fund and Corporation":

- Sec. 37.13.150. APFC budget.
- Sec. 37.13.160. Audits of APFC.
- Sec. 37.13.170. Reports and publications of APFC.
- Sec. 37.13.180. State tax exemption for APFC and fund.
- Sec. 37.13.190. Political activity prohibition.
- Sec. 37.13.200. Public records of APFC.
- Sec. 37.13.206. Promulgation of regulations by APFC.
- Sec. 37.13.300. Authorization for APFC to manage other state assets.
- Sec. 37.13.900. AS 37.13 definitions.

Ms. Nauman showed slide 22, "Putting it Together," which showed same flow chart as previous slides, with the addition of the amount that was potentially able to go into the Dividend Fund under the statutory formula. She emphasized that constitutional language specified that "all income from the Permanent Fund shall be deposited into the General Fund unless otherwise provided by law," which was the minimum constitutional requirement and the only appropriation requirement binding to the legislature.

Ms. Nauman looked at slide 23, "Putting it Together," which showed the same flow chart. She noted that there was a typo

on the top of the flow chart where "1992" should be corrected to read "1982." The top line of the structure was the original dividend structure set out in the 1980s. The general structure of the Permanent Fund draw structure was set out in 1980 and amended after the United States Supreme Court declared that the original structure of the Permanent Fund was unconstitutional because it favored residents that had stayed in the state longer. The initial payout of the Permanent Fund had a structure whereby dividends increased the longer a person stayed in the state. As a result of the finding, the legislature tweaked some of the original statutes to accommodate the new payout structure.

Ms. Nauman continued to address the flow chart on slide 23 and considered the income available for distribution and the 50 percent multiplication of the amount as the statutory dividend program that was initially envisioned. The bottom line represented the new regime from passage of SB 26 that included a new cap on the amount that could be drawn from the ERA and authorizing appropriations to go to the General Fund.

Ms. Nauman displayed slide 24, "AS 43.23: Permanent Fund Dividends - Department of Revenue."

Ms. Nauman displayed slide 25, "AS 43.23: Alaska Permanent Fund":

- Sec. 43.23.005. Eligibility.
- Sec. 43.23.008. Allowable absences.
- Sec. 43.23.011. Application period.
- Sec. 43.23.015. Application and proof of eligibility.
- Sec. 43.23.021. Delayed payment of certain dividends.

Ms. Nauman noted that the statutes listed on the slide were not particularly noteworthy.

Ms. Nauman reviewed slide 26, "AS 43.23: Permanent Fund Dividends":

Sec. 43.23.025. Amount of dividend: Principal Concepts:

By October 1 of each year, the commissioner shall determine the value of each permanent fund dividend for that year by

- (1) determining the total amount available for dividend payments, which equals
 - (A) the amount transferred to the dividend fund during the current year;
 - (B) plus the balances of prior fiscal year appropriations that lapse into the dividend fund;
 - (C) & (D) less the amount necessary to pay prior year dividends;
 - (E) less costs of administering the dividend program and the hold harmless provisions;
- (2) determining the number of individuals eligible to receive a dividend payment for the current year;
- (3) dividing the amount under paragraph (1) by the amount under paragraph (2).

(§ 1 ch 102 SLA 1982; am § 1 ch 55 SLA 1983; am § 2 ch 43 SLA 1984; am § 2 ch 57 SLA 1987; am § 2 ch 54 SLA 1988; am § 4 ch 68 SLA 1990; am § 1 ch 198 SLA 1990; am § 5 ch 68 SLA 1991; am § 27 ch 134 SLA 1992; am § 2 ch 91 SLA 1998; am § 33 ch 75 SLA 2008)

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Ms. Nauman referenced slide 27, "AS 43.23: Permanent Fund Dividends":

Sec. 43.23.028. Public notice: Principal Concepts: By October 1 of each year, the commissioner shall give public notice of the value of each permanent fund dividend and notice certain other information.

(§ 2 ch 198 SLA 1990; am § 3 ch 68 SLA 1991; am § 1 ch 82 SLA 1993; am § 4 ch 46 SLA 1996; am § 6 ch 44 SLA 1998; am § 26 ch 92 SLA 2001; am § 22 ch 175 SLA 2004; am § 34 ch 75 SLA 2008; am § 1 ch 79 SLA 2008; am § 5 ch 21 SLA 2018)

Sec. 43.23.045. Dividend fund: Principal Concepts. The dividend fund is established as a separate fund, administered by the commissioner and shall be invested in the same manner as provided in AS 37.10.070.

(§ 1 ch 102 SLA 1982; am § 24 ch 99 SLA 1985; am § 3 ch 57 SLA 1987; am § 1 ch 38 SLA 1989; am §§ 2, 3 ch 18 SLA 1991; am § 29 ch 134 SLA 1992)

Ms. Nauman spoke to slide 28, "Putting it Together," which showed the same flow chart.

Ms. Nauman discussed slide 29, "Putting it Together," which showed the same flow chart, with the addition of the calculation of the PFD for each individual. She thought a common misconception was that money from individuals that did not apply went to the state, while in truth the money was spread across eligible applicants.

Ms. Nauman turned to slide 30, "AS 43.23: Alaska Permanent Fund":

- Sec. 43.23.048. Restorative justice account.
- Sec. 43.23.055. Duties of the department.
- Sec. 43.23.101. Voter registration.
- Sec. 43.23.110. Applicant information confidential.
- Sec. 43.23.130. Contributions from dividends.
- Sec. 43.23.140. Exemptions of and levy on permanent fund dividends.
- Sec. 43.23.150 - .210. Claims on and assignment of dividends.
- Sec. 43.23.220 - .230. Dividend raffle.
- Sec. 43.23.240 - .250. Public assistance eligibility.
- Sec. 43.23.260 - .270. Enforcement; penalties.

Ms. Nauman showed slide 31, "Wielechowski v. State":

"The plain language of the 1976 constitutional amendment creating the Permanent Fund does not exempt Permanent Fund income from the constraints of the anti-dedication clause. ... [T]he conclusion that a revenue transfer from the earnings reserve to the dividend fund requires an appropriation and must survive a gubernatorial veto flows naturally from our decision. Absent another constitutional amendment, the Permanent Fund dividend program must compete for annual legislative funding just as other state programs."

Wielechowski v. State, 403 P.3d 1141, 1152 (Alaska 2017).

Ms. Nauman summarized that the case held that the revenue of the Permanent Fund was not exempt from the dedicated fund because of the state constitution. The court said the dividend program must compete for annual legislative funding just as other programs.

Ms. Nauman discussed slide 32, "Putting it Together, which showed the flow chart. She thought the chart illustrated the complex statutory structure. It was not required to appropriate any funds according to the statutory structure. She reiterated the importance of returning to the constitution for guidance, which she considered to be very broad. The constitution said that the income of the Permanent Fund shall be deposited in the General Fund, from which it was free to be used for any public purpose.

Ms. Nauman showed slide 33, "Questions?"

Co-Chair Bishop thanked Ms. Nauman for the presentation. He liked the flow chart, which he thought could provide the public with a better understanding of how the calculation worked.

Co-Chair Stedman thanked Ms. Nauman for her presentation.

Ms. Nauman relayed that her office was available for additional questions if necessary.

^PRESENTATION: LEGISLATIVE FINANCE DIVISION - PERMANENT FUND "WHAT IF" SCENARIOS

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Co-Chair Stedman shared that staff from the Legislative Finance Division (LFD) would provide a historical lookback of the Permanent Fund, the dividend flows, and the values following the constitutional structure without the arbitrary contributions and actions taken by the legislature over time.

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation "Permanent Fund 'What If' Scenarios" (copy on file).

Mr. Painter turned to slide 2, "Disclaimers":

Scenarios and adjustments in this presentation were requested by the Finance co-chairs. LFD is policy neutral and does not endorse a particular fiscal plan.

These historical "what if" scenarios do not take secondary impacts into account. They are hypothetical exercises intended as rough illustrations.

Due to historical changes in Permanent Fund accounting practices, this analysis has some margin for error in replicating the Fund's history.

Mr. Painter relayed that the presentation would consider different historical scenarios with assumptions of different policy choices by the legislature in the past. The exercises were hypothetical and assumed everything except the particular change applied was the same. He pointed out that there had been changes in Permanent Fund accounting practices and statute changes that made it difficult to reconstruct the funds' performance over the years. He cautioned that there was a margin of error and encouraged people to view the outcomes as approximations. He wanted to ensure everyone was aware that there was uncertainty about exact numbers.

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Mr. Painter displayed slide 3, "Where did our Current Permanent Fund Balance Come From?" The slide showed a pie chart entitled "Permanent Fund Balance By Source as of 6/30/21 (\$billions)," which showed where the current Permanent Fund balance came from. He explained that each color of the pie chart represented a difference source. The 25 percent dedicated royalties mentioned by Ms. Nauman was \$15.7 billion, or 19 percent of the fund's value. The next category was statutory royalties from the additional 25 percent from new oil fields. He recounted that in 1980s the legislature chose to appropriate \$2.7 billion from the General Fund to the Permanent Fund over a four-year period in addition to the required royalties. The \$2.7 billion represented a large percentage of the funds value because inflation-proofing was layered on to the amount. The appropriation happened early in the life of the fund and had a surprising impact on the size of the fund. The

largest portion was \$18 billion in statutory inflation-proofing.

Mr. Painter continued to address slide 3. The legislature had appropriated amounts from the ERA beyond the statutory inflation proofing. The amount was 10 percent of the fund and did not include the \$4 billion transferred in FY 22. He addressed the portion of the fund that was Unrealized Balance. He discussed unrealized gains and described that based on current accounting rules, the unrealized balance was split proportionally between the principal and the ERA. The funds only existed on paper, until which time the gains were realized, and the funds would go to the ERA.

Mr. Painter referenced the Amerada Hess funds, from a settlement a few years previously. Part of the agreement was that the state would set aside the funds, which would not be used for dividends, and was currently designed for deferred maintenance via the Capital Income Fund. The income on the \$4 million created an average of \$27 million to \$30 million per year for deferred maintenance. He listed the unrealized ERA and the realized ERA balance, which was available for appropriation. He pointed out that only 19 percent of the Permanent Fund actually consisted of the constitutionally dedicated portion, and the rest was there via a series of statutes. If the legislature had solely followed the constitution, there would only be \$15.7 billion in royalties in the fund.

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CONOR BELL, FISCAL ANALYST/ECONOMIST, LEGISLATIVE FINANCE DIVISION, referenced slide 4, "Follow Constitution/Statute Only "What If" Scenario":

- Assume statutory PFD was paid in all years
- Statutory inflation transfer made annually, with no additional ad-hoc transfers
- Constitutional and statutory royalty deposits made annually
- Assumes \$2.7 billion of FY81-FY85 appropriations from the General Fund to Perm Fund never occurred

Mr. Bell emphasized the significance of the \$2.7 billion in appropriations listed on the last bullet of the slide and mentioned compound returns, which had generated an average

of 11 percent. The appropriations had a market impact on the fund 30 years later.

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Mr. Bell discussed slide 5, "Follow Constitution/Statute Only and other 50% to Government "What If" Scenario":

- Starts with all assumptions from 'Follow Constitution/Statute Only' scenario
- Assumes the other 50% of 'Income Available for Distribution' was drawn annually to pay for government services

Mr. Bell noted that the second "what if" scenario started with all of the assumptions from the previous slide. He clarified that as Ms. Nauman described, statute outlined income available for distribution.

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Mr. Bell showed slide 6, "How Would The Permanent Fund Balance Have Been Different?" The slide showed a line graph that depicted how the fund value would be different under the what-if scenarios. He noted that the blue line showed the status quo, while the red line showed the first scenario, and the green line showed the same with the addition of drawing 50 percent for government. The gap between the blue line and the red line grew over time due to the compounding returns associated with the initial higher balance due to the \$2.7 billion deposit. He observed that the status quo balance grew faster than the constitution-only scenario even consistently paying higher PFDs until 2017. The green line showed the scenario including the 50 percent draw for government. The green line started to fall below the red line because in early years the fund was close to paying twice as much.

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Co-Chair Bishop commented that the additional \$2.7 billion deposit had added \$21 billion to the fund over time.

Mr. Bell answered in the affirmative, and noted that the amount was actually more since it also contributed for a higher PFD. He noted that the amounts were rough

approximations. The estimated ending fund balance was \$20 billion higher without accounting for the higher dividends.

Co-Chair Bishop emphasized the \$21 billion in earnings as a result of a \$2.7 billion deposit.

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Mr. Bell spoke to slide 7, "How Would PFDs Have Been Different?" The slide showed a line graph which depicted how PFDs would have been different under the "what if" scenarios. He commented that the status quo scenario did consistently pay higher PFDs up until FY 17. The dotted blue line showed the statutorily calculated PFD. All of the other calculations for status quo used the actual PFDs paid over time. The lines followed the same trends. He shared that the green line was falling below since while the calculation was the same, the fund balance was smaller resulting in less statutory income.

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Co-Chair Stedman hypothesized that if the legislature had taken the 50 percent out for the state rather than letting it compound interest, the dividend would currently be roughly \$1,100 as shown by the green line.

Mr. Bell agreed.

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Mr. Bell spoke to slide 8, "How Much of the Permanent Fund Would have Been Drawn and Spent on Government Services?" The slide showed a line graph. He explained that the reason why the "other 50 percent to government" scenario showed a lower balance was after drawing funds for government services. He pointed out that the amount to fund government was the same as the statutory PFD draw. The red line assumed the passage of SB 26, which included the structured POMV draw. After accounting for a dividend, the remaining POMV draw would be less than \$1 billion. The other "what if" scenario assumed SB 26 had not passed and the state kept using the 50 percent of income available for distribution as a structured draw from the fund.

Co-Chair Stedman relayed that the committee had been discussing the Permanent Fund scenarios being considered for about a year, including what the fund would resemble if the legislature had taken the 50 percent of income available for distribution. He explained that the basis for the presentation was to give a historical context. He mentioned recent discussions about following the constitution.

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Co-Chair Bishop thanked Mr. Painter and LFD for the presentation. He thought it was obvious that the legislature had been reinvesting the money instead of taking its 50 percent. He commented on the power of investing the \$2.7 billion and how the funds had compounded by prudent investment by former legislators. He hoped that 30 years in the future the members would consider doing the same. He thought the most prudent thing to do was for the state to maximize its assets. He commented that there was only one Prudhoe Bay, and it was important to heed the intent of the creators of the fund.

Co-Chair Stedman hoped that in 30 to 40 years the fund would see the benefits of the investment by current members.

#

ADJOURNMENT

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The meeting was adjourned at 1:45 p.m.